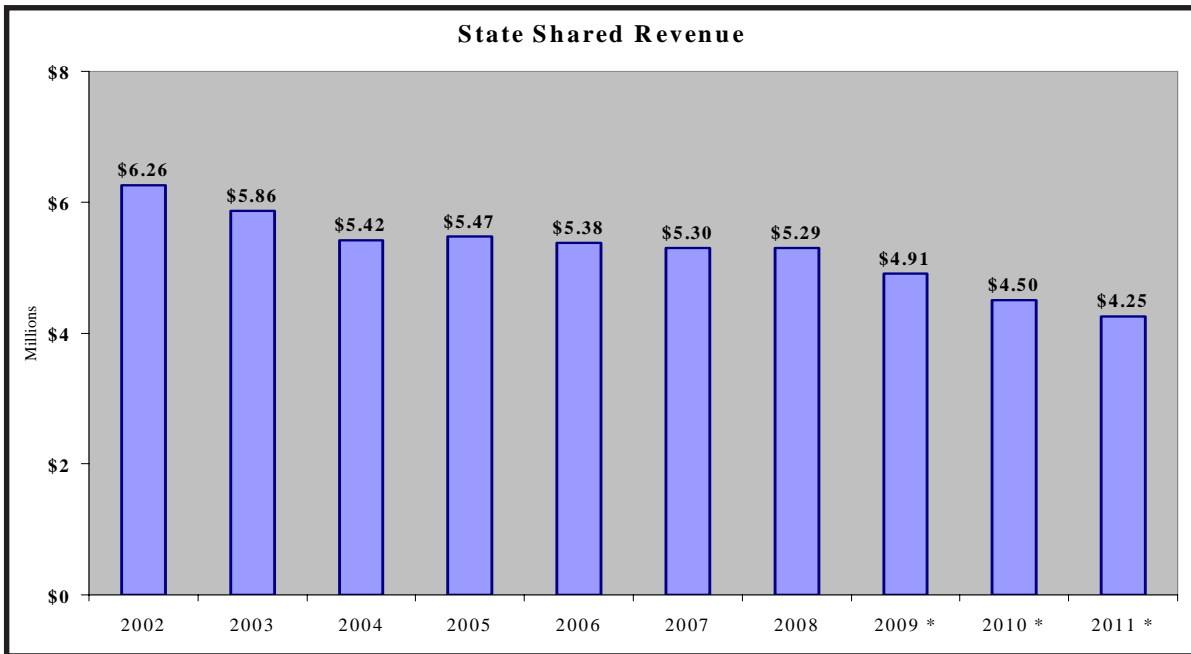


FINANCIAL TRENDS

STATE SHARED REVENUE



Source: City CAFR
* = Estimated / Projected

Indicator Description:

State-shared revenue represents the share of sales tax distributed to the City of Rochester Hills by the State of Michigan. The City depends on this revenue source to reduce the financial burden on our residential taxpayers as well as to provide for general governmental service delivery.

State Shared revenue and its distribution formula continue to be issues of contention in the State legislature. With the passage of Proposal A, protection of this revenue source was reduced.

Trend Analysis:

Before FY 1997 the sources of state shared revenue payments to Michigan cities, villages, and townships were (1) sales tax payments earmarked by the constitution distributed on a per-capita basis; (2) sales tax payments according to a formula based upon relative tax effort (RTE); and (3) sales tax distribution that replaced those previously made from income and single business taxes (SBT).

Public Act 342 of FY 1996 changed the revenue sharing distribution formula. In FY 1997-98, growth in statutory revenue above the previous fiscal year was distributed on a per-capita basis. After FY 1997-98, revenue sharing was based upon a new phased-in formula.

The Act also changed the source of statutory revenue sharing, basing the amount of revenue sharing on the sales tax rather than on the single business tax and income tax. Historically sales tax has grown at a slower rate than these two taxes, although it has been less volatile than either.

The new formula consists of three parts, each of which counts equally in determining the distribution for each city, village, or township. The new formula was phased in over a ten-year period as the entire prior formula sunset on June 30, 2007. The three parts of the formula are:

(1) Local Unit Type/Population Group:

This portion of the formula is based upon two factors: (1) whether a community is a city (highest rating), village (median rating), or a township (lowest rating); and (2) population levels. Since the City of Rochester Hills is recognized by the State of Michigan as a city, it receives a high rating on this portion of the formula.

(2) Inverse Taxable Property Value Per Capita:

This portion of the formula is based upon the statewide taxable property value per capita divided by each local unit's taxable property value per capita. This attempts to indicate which communities have the ability to tax. The higher the value of a city's property, the lower the rating that community will receive for this piece of the formula. Rochester Hills is considered by the State of Michigan as a more wealthy community per this measure; therefore the City receives a low rating.

(3) Equalized Value:

This portion of the formula is based on the yield equalization method. This equalizes the return for each mill levied, up to a maximum of 20 mill, on a per-capita basis. Because the City has a comparatively high taxable value per-capita, the City receives a low rating for this portion of the formula as well. In fact, the City of Rochester Hills receives no payments for this portion of the formula. In summary, the City's low millage rate impacts its ability to generate additional revenue from state-shared revenue.

Fluctuations vary depending on the strength of the state economy, actual sales tax revenue, and annual appropriation bills. This is evidenced by the decrease in state shared revenue by nearly \$1.0 million from FY 2002 to the FY 2008 actual disbursements.

Given the importance of state shared revenue to the City, legislative actions will continue to be closely monitored. The loss of this revenue source could have significant effects upon the fiscal health of all cities within the State.