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DELAY REVENUE SHARING

Senate Bill 509 (Substitute H-3)
First Analysis (5-4-92)

Sponsor: Senator Dick Posthumus
Senate Committee: Appropriations
House Committee: Appropriations

THE APPARENT PROBLEM:

As part of the efforts to remedy a current year budget deficit estimated at $780.7 million, it has been suggested that state revenue sharing payments to local units of government be delayed so as to fall in the next state fiscal year (the revised payment schedules would then become permanent). With Executive Order 1992-10, developed after discussions with legislative leaders and issued April 30, 1992, the governor is proposing to delay $111.3 million in revenue sharing payments. By delaying September's single business tax distribution to October, about $35 million of state revenue sharing payments would be shifted into the next state fiscal year; the House-passed version of Senate Bill 511 would accomplish this change. Another element of the plan is to delay revenue sharing payments based on state income tax collections: to accomplish this, amendments to the Income Tax Act and the State Revenue Sharing Act are needed. The House substitute for Senate Bill 509 represents the necessary amendments to the revenue sharing act (Senate Bill 73 is planned as the vehicle for the necessary amendments to the Income Tax Act).

THE CONTENT OF THE BILL:

The bill would amend the State Revenue Sharing Act to eliminate the August 1992 revenue sharing payments based on income tax and make compensating adjustments to payments made during the next fiscal year and each fiscal year thereafter.

Counties receive quarterly income tax distributions in August, November, February, and May on a per capita basis. Under the bill, the amount that would otherwise be available for distribution in August 1992 would not be distributed but would instead lapse to the general fund. However, starting with the fiscal year beginning October 1, 1992, the November distribution would be increased by $35.9 million, while the August distribution would continue to be reduced by that amount ($35.9 million represents the current estimate for the August 1992 payment).

Cities, villages, and townships receive quarterly income tax distributions in August, November, February, and May based on a tax effort formula. As with counties, the bill would cancel the distribution scheduled for August 1992, and instead direct this money to the general fund. However, the following November, February, and May payments would each be increased by $22.6 million; these increases would continue in succeeding fiscal years. The August distribution for next year and succeeding fiscal years would be decreased by $67.8 million ($67.8 million represents the current estimate for the August 1992 payment).
The bill could not take effect unless both Senate Bill 73 and Senate Bill 511 were enacted.

MCL 141.911 and 141.913

HOUSE COMMITTEE ACTION:

As passed by the Senate, the bill would have eliminated the intangibles tax distribution for the 1991-92 fiscal year.

FISCAL IMPLICATIONS:

The Senate Fiscal Agency reports that revenue sharing payments due in August based on the state income tax are estimated to be $103.7 million. Of this, 65.35 percent, or $67.8 million is allocated to cities, villages, and townships. Under the income tax act, a portion of this total, $27.4 million, is distributed in June as an advance on the August payment; as proposed under Executive Order 1992-10, this advance would be unaffected in the current fiscal year, but would be discontinued after that (this matter is expected to be addressed by Senate Bill 73). Thus, by cancelling the August 1992 payment for cities, villages, and townships, the net amount shifted from the current state fiscal year to the next would be $40.4 million. Counties receive 34.65 percent of income tax distributions under the revenue sharing act; the amount to be delayed from the August 1992 distribution to counties is estimated to be $35.9 million. The total amount saved by delaying the August income tax distributions is expected to be $76.3 million ($40.4 million plus $35.9 million). In conjunction with the $35.0 million in single business tax distributions to be delayed from the current fiscal year to the next under Senate Bill 511, current proposals to delay revenue sharing payments would save $111.3 million in the current fiscal year. (4-30-92 and 5-4-92)

ARGUMENTS:

For:

Together with its companion bills, Senate Bills 73 and 511, the bill would save the state millions in the current fiscal year without appreciably reducing the amount of money that local units of government receive. For the vast majority of local units, the delayed revenue sharing payments would fall within the same fiscal year; thus any "loss" to local units generally would be represented only by any relevant amount of interest (that is, interest paid, if the local unit had to obtain a loan for the period, or interest lost, if the local unit otherwise would have had the revenue sharing payment on deposit during that period). While there are a half-dozen cities (Dowagiac, East Tawas, St. Clair, Sturgis, Wyandotte, and Menominee) whose fiscal years begin October 1 or September 1 instead of the usual July 1, these governments can credit the November payment against the previous fiscal year, thus counteracting any difficulties presented by the August cancellation. Although some local units of government may be inconvenienced by proposals to delay revenue sharing payments, such proposals are for them preferable to the alternative of cutting revenue sharing.

Response:

For many, proposals to delay revenue sharing payments are palatable only if they are indeed delays only. If payment delays are implemented only to be followed by revenue sharing cuts in the following fiscal year, objections undoubtedly will be raised.

Against:

Many are skeptical of the claims made for the proposal; to many, it is unclear how permanently cancelling the August revenue sharing payments need not result in a loss for local units of government. If the state gains the money, then it seems as if the locals must lose. Once the August payment is lost, then it can never really be regained.

Response:

The bill explicitly provides for a restoration of funds over the next fiscal year. The money is not lost; it is merely delayed.

Against:

Some local units of government may have their fiscal problems exacerbated under the bill. The delay of August payments, with the implicit interest costs, could create hardship for some local units struggling with cash flow problems. Elimination of the August payment could prove particularly troublesome for some cities with July-to-June fiscal years who have been using the August payments as a credit for their previous fiscal year. As payments that are received more than 60 days after the end of the fiscal year cannot be accrued back to that year, the delay of the August payment could mean a loss for the half-dozen cities (Detroit, Buchanan, Highland Park, Milford, Muskegon Heights, and Mt. Clemens) that either have been using it for their prior fiscal year or have planned on its use this year.

Against:

The bill would simply postpone into the next fiscal year a cost for the state; it assumes that balancing the budget next year will not be the problem that it has been this year.

Against:

The bill employs figures that are based on what are as yet only estimates of state income tax collections. Those figures may not comport with what actual August payments would be.

POSITIONS:

The Department of Management and Budget supports the bill. (5-1-92)

The Michigan Municipal League does not oppose the bill. (5-4-92)

The Michigan Townships Association has no formal position on the bill at this time, but has concerns about further cuts and delays in revenue sharing payments. (5-4-92)