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Senate Bill 575 (Substitute S-1)
Sponsor: Senator Bob Emerson
Committee: Appropriations

Date Completed: 6-17-03

CONTENT

The bill would amend the Glenn Steil State Revenue Sharing Act of 1971 to alter the distribution of revenue sharing payments in FY 2002-03 and FY 2003-04.

Local units receive a portion of sales tax revenue collected by the State. A portion of the revenue is distributed according to constitutional requirements and the rest is distributed according to statute. Statutory revenue sharing payments are subject to appropriation. In Executive Order 2002-22, the appropriation for statutory State revenue sharing was reduced by \$53.1 million, to \$791.07 million, from the \$844.17 million that had previously been appropriated. Public Act 679 of 2002, legislation recommended to accompany the Executive Order, was enacted to change the distributional effect the reduction would have on local units. Similarly, the Governor's budget recommendation for FY 2003-04, which reduced total revenue sharing by 3% from the FY 2002-03 level, recommended additional legislation to change the distribution of the reduction contained in the FY 2003-04 budget.

The bill would implement the Governor's recommendation to alter the distribution of revenue sharing payments and provide adjustments to those payments should sales tax collections fall below the forecasted levels the appropriation is based upon.

MCL 141.911 & 141.913

FISCAL IMPACT

In both FY 2002-03 and FY 2003-04, the bill would have no effect on State expenditures and total local unit revenues, although the distribution of local unit revenues would be changed.

Local units receive sharing payments under both constitutional requirements and statutory provisions. Under current law, the City of Detroit will receive \$322.2 million in total revenue sharing payments during FY 2002-03. Because the total of combined statutory and constitutional revenue sharing payments to the City of Detroit is fixed, the constitutional/statutory composition of the payment will change as sales tax revenues differ from what is forecasted when statutory revenue sharing payments are appropriated. If sales tax revenues are above-forecast, then the share of the payment consisting of constitutional payments will increase and the statutory portion will decrease. Similarly, if sales tax revenues are below-forecast, the constitutional payment will comprise a smaller portion of the total payment and the statutory payment will be larger.

In fiscal years prior to FY 2002-03, when sales tax revenues were below forecasted levels, the increase in the statutory payment to the City of Detroit reduced the amount of money that was distributed to other cities, villages and townships. In December 2002, Executive Order 2002-22 reduced statutory revenue sharing payments by 3.5% from the level forecasted (given the

appropriation) in November 2002. Public Act 679 of 2002, the legislation accompanying Executive Order 2002-22, altered the way the reduction would be distributed. The language in Public Act 679 does not provide a clear picture of how any payment adjustments are to be made should sales taxes fall below forecasted levels.

The bill specifies how adjustments would be made when sales taxes are below forecasted levels in both FY 2002-03 and FY 2003-04. Based on the May 2003 Consensus forecast, the bill would alter the distribution of revenue sharing payments in FY 2002-03 to all local units, including the City of Detroit, by lowering payments 4.25% relative to the November forecast and prior to the Executive Order. Under the current interpretation of the existing statute and the May 2003 Consensus forecast, the City of Detroit would experience a 3.5% reduction and all other local units would be reduced approximately 4.6%.

The bill also would change the distribution of revenue sharing payments in FY 2003-04 relative to current law. Presently, the revenue sharing appropriation is to be distributed according to the formulas in law, while the bill would reduce revenue sharing payments to all local units by the same percentage amount. Under the bill, the City of Detroit would experience at least a 3% reduction in revenue sharing payments, compared with a 3.6% increase under current law. Similarly, townships would experience a 3% decrease in total revenue sharing payments, compared a slight increase under current law. On the other hand, under the bill counties and cities other than Detroit would receive 3% decreases in revenue sharing payments, compared with decreases of approximately 10% and approximately 6%, respectively, under current law.

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