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**BILL ANALYSIS**

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Senate Bill 561 (as enrolled)  
Sponsor: Senator John Pappageorge  
Senate Committee: Appropriations  
House Committee: Intergovernmental, Urban and Regional Affairs

Date Completed: 6-28-07

**CONTENT**

The bill would amend the Glenn Steil State Revenue Sharing Act to delay the expiration of a particular requirement from June 30, 2007, to September 30, 2007.

Generally, revenue distributed under the Act is unrestricted: Local units have complete control over how the funds are used. However, local units that collect property taxes for eligible authorities are required under Section 912a to remit a portion of any payments received under the Act to the eligible authorities for which they collect taxes. The bill would alter the periods referred to in the section so they would extend through September 30, 2007, rather than June 30, 2007.

MCL 141.912a

**BACKGROUND**

Local units are eligible to 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. Historically, there have been occasions when the State has chosen to compensate local units for various legislative changes by altering revenue sharing payments. As part of the legislation associated with the adoption of the Single Business Tax (SBT), Michigan exempted business inventories from the property tax. To hold local units harmless for this change, a portion of SBT revenue was earmarked for distribution to local units through the revenue sharing process.

When the revenue sharing distribution calculations were overhauled in 1998, the SBT reimbursement payments were changed for all local units. Generally, the reimbursement amounts were fixed at the amounts paid during fiscal year (FY) 1997-98. However, depending upon the type of local unit, the portion of total revenue sharing payments consisting of the reimbursement payment changed over time. For cities, villages, and townships, the portion of the total payment computed using the reimbursement calculations was to be phased out over 10 years as the old distribution formula was phased out.

Also included in the phase-out of the previous distribution formula was a sunset for the new distribution calculations. Some of these sunset provisions corresponded to the end of the 2007 fiscal year for many local units: June 30, 2007. Others corresponded to the end of the State's 2007 fiscal year: September 30, 2007. Over the last five years, legislation has often shifted the June 30, 2007, date to September 30, 2007, to coincide with the end of the State's fiscal year. The only section of the Glenn Steil Revenue Sharing Act of 1971 where a June 30, 2007, sunset remains is MCL 141.912a.

**FISCAL IMPACT**

In FY 1997-98, payments to eligible authorities by cities, villages, and townships totaled \$5.1 million. For individual local units and authorities, the reimbursement payments made under MCL 141.912a generally represent a very small portion of

either total revenue sharing payments to the local unit or total revenue to the eligible authority. For example, in absolute dollars, the City of Detroit pays more to eligible authorities (approximately \$2.0 million) than any other local unit does, and the payments represent 0.7% of the estimated FY 2006-07 revenue sharing payment to Detroit.

The Michigan Department of Treasury, which administers the revenue sharing payments to local units, interprets MCL 141.912a in such a way that the bill should have no fiscal impact on the State or local units. Furthermore, the payments to eligible authorities are often made in March and thus would not be affected by making the sunset conform to other periods in the Act.

Apparently, some local units and/or authorities have interpreted the Act differently than the Department of Treasury. As a result, the bill would clarify current law. If a city, village, or township interpreted the Act to require or allow a proration or elimination of payments that would occur during the 2007 fiscal year, then the bill would have a minimal impact on local units. If payments were thus limited in such a manner, the bill would reduce the portion of the revenue sharing payment retained by a local unit and increase the revenue received by an eligible authority.

Many authorities issue bonds to provide the initial revenue for their activities. The repayment schedules for these bonds are generally based upon projections for revenue that the authority will receive. To the extent a local unit's interpretation of the current statute reduced revenue to an authority, debt repayment could be affected. However, any impact likely would be negligible because most bonds issued by authorities are backed by the local unit(s) involved with the authority.

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