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BILL ANALYSIS

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Senate Bill 778 (Substitute S-1 as passed by the Senate)
Sponsor: Senator John Pappageorge
Committee: Appropriations

Date Completed: 9-24-07

CONTENT

The bill would amend the Glenn Steil State Revenue Sharing Act to specify the distribution of revenue sharing payments to cities, villages, and townships from fiscal year (FY) 2007-08 through May 31, 2011. Currently, the Act specifies that distributions will be made according to law, but contains no language describing a distribution.

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. Beginning in 2002, changes have been made in the statutory distribution of payments to accompany reductions in the appropriation for revenue sharing.

Under the bill, the distribution of revenue sharing payments would depend upon the amount appropriated for revenue sharing under the Act. In years when the appropriation was equal to or less than the amount necessary to ensure that each city, village, and township would receive in combined payments under the Act and under Article IX, Section 10 of the State Constitution at least the same amount received in the previous year, then the distribution would follow the same pattern as has been enacted since FY 2002-03. Under that pattern, cities, villages, and townships would receive some set percentage of the total combined payments received in the prior fiscal year.

In years when the appropriation exceeded this threshold amount, the excess revenue then would be distributed according to Section 13(8), (9), and (10) of Act, without regard to any provision affecting a city with a population of 750,000 or more. Those subsections were adopted in 1998 as part of a complete change in the distribution formula for revenue sharing payments. The subsections establish three types of payments to local units based on the ratio of a unit's taxable value per person to the State's average taxable value per person, the total population of the unit, and the yield from the local unit's property tax levy. In 1998, any city with a population of 750,000 or more was exempted from these provisions. The three types of payments are weighted equally.

Given the recommendation in the Governor's FY 2007-08 budget, the bill would enact the Governor's FY 2007-08 recommendation to alter the distribution of revenue sharing payments to cities, villages, and townships. Under the recommendation, in FY 2007-08 each city, village, and township would receive the same combined total of statutory and constitutional revenue sharing payments that the local unit received during FY 2006-07. The bill also would provide for adjustments to the way payments are calculated should sales tax collections fall below the forecasted levels upon which the appropriation is based. The adjustments would not increase or reduce the appropriation for statutory revenue sharing payments.

MCL 141.913

FISCAL IMPACT

The effect of the bill on State expenditures or total local unit revenue in FY 2007-08 is uncertain, although the distribution of local unit revenue could be changed.

Current law lacks any provision to govern the distribution of payments under the Act. Assuming that the Legislature appropriated payments under the Act, under current law the Executive branch would determine how to distribute payments. The Executive branch could even choose not to distribute all of the appropriation.

The bill would specify the distribution of revenue sharing payments in FY 2007-08, thus controlling how much of the appropriation would be spent and how much would be distributed to each local unit. Under the bill and given the Governor's FY 2007-08 budget recommendation, in FY 2007-08 each city, village, and township would receive the same combined total of statutory and constitutional revenue sharing payments that the local unit received during FY 2006-07. As a result, most cities and villages, and a number of townships, would experience no change in total revenue sharing payments compared with FY 2006-07.

By attempting to limit the percentage change in total revenue sharing payments to the same level for all local units, the bill would eliminate statutory payments for some local units. Some local units received so little in statutory payments during the previous fiscal year that the increase in their constitutional payments in the current fiscal year exceeds the prior-year statutory payment. In these circumstances, the bill would result in the local units' receiving all of the increase in their constitutional payment but no statutory payment. As a result, because of the relative sizes of the changes in the constitutional and statutory portions of their payments, the local units would receive an increase from the prior year, despite the bill's limiting total revenue sharing for each local unit to the total payment received in the prior fiscal year. In FY 2006-07, provisions similar to this bill eliminated the statutory payment to 868 local units; and as a result of the bill, an estimated 954 local units would not receive a statutory payment during FY 2007-08. For those 954 local units, due to the increase in constitutional payments, the increase in total payments compared with FY 2006-07 would vary from 0% to 1.2%.

The bill also specifies how adjustments would be made if sales tax revenue is below forecasted levels. Cities, villages, and townships receive 15.0% of sales taxes collected at a 4.0% rate under the Michigan Constitution. Assuming the Governor's budget recommendation was enacted, because the bill would set a city's, village's, or township's combined constitutional and statutory revenue payments at a fixed total, if revenue is less than forecasted, more money would be required in statutory payments to reach the same total. As a result, without an adjustment mechanism to lower the required payment if sales taxes are below the level upon which the appropriation is based, the proposed statutory payments would exceed the amount appropriated. However, current law requires that statutory payments not exceed the amount appropriated. The bill thus would establish a distributional mechanism to accomplish any reduction necessary to ensure that statutory payments did not exceed the appropriation.

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