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**BILL ANALYSIS**

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House Bill 5217 (Substitute H-2 as passed by the House)
Sponsor: Representative Steve Tobocman
House Committee: Intergovernmental, Urban and Regional Affairs
Senate Committee: Appropriations

Date Completed: 10-17-07

CONTENT

The bill would amend the Glenn Steil State Revenue Sharing Act to establish a distribution formula for revenue sharing payments in fiscal year (FY) 2007-08, relative to how the distribution will change under current law. 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.

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 bill would have no effect on State expenditures or total local unit revenue in FY 2007-08, although the distribution of local unit revenue likely would 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 any or all of the appropriation.

The bill would establish a distribution formula for revenue sharing payments in FY 2007-08 and limit the change in total revenue sharing payments to each city, village, and township to the same percentage change as applied to every other local unit. Under the bill, 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.

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; 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, the increase in 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 in FY 2007-08. Cities, villages, and townships receive 15.0% of sales taxes collected at a 4.0% rate under the Michigan Constitution. 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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