

# Legislative Analysis

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## **PROVIDE FOR REVENUE SHARING DISTRIBUTION OF STATUTORY EARMARKS**

Phone: (517) 373-8080  
<http://www.house.mi.gov/hfa>

**House Bill 5314 (H-1) as reported from committee  
Sponsor: Rep. Rob VerHeulen**

Analysis available at  
<http://www.legislature.mi.gov>

**House Bill 5315 (H-1) as reported from committee  
Sponsor: Rep. Roger Hauck**

**House Bill 5316 (H-1) as reported from committee  
Sponsor: Rep. Ben Frederick**

**Committee: Michigan Competitiveness  
Complete to 12-6-17**

### **SUMMARY:**

Collectively, House Bills 5314 and 5315 would create separate city, village, and township (CVT) Revenue Sharing and County Revenue Sharing trust funds, require the annual deposit of a specified amount sales tax revenue into each trust fund and the Fire Protection Fund, and provide for a method of distributing available funds from each trust fund, subject to appropriation. House Bill 5316 would redirect the amount of the Local Community Stabilization Authority (LCSA) levy remaining after Tier 1 and Tier 2 reimbursements were made to CVT revenue sharing and county revenue sharing. The bills are described in more detail below.

#### **House Bills 5314 and 5315**

House Bill 5314 would amend the Michigan Trust Fund Act (proposed MCL 12.264) to establish the CVT Revenue Sharing Trust Fund and the County Revenue Sharing Trust Fund within the Department of Treasury. The bill also specifies how funds in the CVT Revenue Sharing Trust Fund and the County Revenue Sharing Trust Fund would be distributed (proposed MCL 12.266).

The CVT Revenue Sharing Trust Fund and County Revenue Sharing Trust Fund would consist of the following:

- Funds deposited into the CVT Revenue Sharing Trust Fund and County Revenue Sharing Trust Fund as required by Section 25 of the General Sales Tax Act (Amounts are specified under House Bill 5315 below).
- Donations of money made to the CVT Revenue Sharing Trust Fund or County Revenue Sharing Trust Fund from any source.
- Interest and earnings received from trust fund investments.

House Bill 5315 would amend the General Sales Tax Act to provide new earmarks of sales tax revenue from the portion of the sales tax imposed at a rate of 4%.

Beginning in fiscal year (FY) 2018-19 and in each fiscal year thereafter, \$10.0 million would be earmarked for deposit into the Fire Protection Fund.

Beginning in FY 2018-19 the following amounts would be earmarked for deposit into the CVT Revenue Sharing Trust Fund:

- \$248,840,000 annually (proposed MCL 205.75(6)).
- \$2.5 million, increased by \$2.5 million annually beginning in FY 2019-20; capped at \$50.0 million in any fiscal year (proposed MCL 205.75(7)).

Beginning in FY 2018-19 the following amounts would be earmarked for deposit into the County Revenue Sharing Trust Fund:

- \$220,087,200 annually (proposed MCL 205.75(6)).
- \$2.5 million, increased by \$2.5 million annually beginning in FY 2019-20; capped at \$50.0 million in any fiscal year (proposed MCL 205.75(7)).

The total annual amount earmarked for deposit from the sales tax into the CVT Revenue Sharing Trust Fund and County Revenue Sharing Trust Fund would occur in 6 bi-monthly transfers beginning on October 15 of each fiscal year.

House Bill 5314 would require that funds in the CVT Revenue Sharing Trust Fund be distributed as follows:

- Funds received pursuant to Section 25(6) of the General Sales Tax Act shall be distributed to each CVT in the same proportion that each was eligible to receive under Section 952(1) of Article VIII of 2017 PA 107 (the FY 2017-18 General Government appropriations act).
- Funds received pursuant to Section 25(7) of the General Sales Tax Act shall be distributed to each CVT in the same proportion that each was eligible to receive under Section 957 of Article VIII of 2017 PA 107 (per capita distribution appropriated as supplemental CVT Revenue Sharing in the FY 2017-18 General Government appropriations act).

The bill would also require that all funds appropriated from the County Revenue Sharing Trust Fund be distributed to each county in the same proportion as the payment each county is calculated to receive under Section 11(6) of the Glenn Steil State Revenue Sharing Act, divided by the sum of all payments under Section 11(6) of the Glenn Steil State Revenue Sharing Act. For practical purposes, the distribution of appropriated funds would be in roughly the same proportion as counties were eligible to receive in the FY 2017-18 General Government appropriation act, adjusted slightly in future years as additional counties become eligible for state payments.

Payments would have to be made to CVTs and counties each October, December, February, April, June, and August.

House Bills 5314 and 5315 are tie-barred to one another, meaning that neither could take effect unless both are enacted.

## **House Bill 5316**

House Bill 5316 would change the distribution of the remaining LCSA levy related to Tier 3, nonessential services payments. Current law distributes the LCSA levy related to personal property tax reimbursements as follows:

- Tier 1 – 100% replacement for essential services levied by CVTs and counties; any small taxpayer exemption loss; local school districts (including any operating levy not reimbursed by the School Aid Fund); intermediate school districts (special and vocational education); and tax increment finance authorities.
- Tier 2 – reimbursement (not guaranteed at 100%) for non-essential services levies by CVTs and counties; community colleges; libraries; and other authorities (such as recreation, transit, sewer and water, etc.).
- Tier 3 – if additional funding remains after Tier 1 and Tier 2 losses have been reimbursed at 100%, any remaining amount of the levy is distributed to Tier 2 recipients in the same proportion as Tier 2 payments.

The bill would redirect the amount of the LCSA levy remaining after Tier 1 and Tier 2 reimbursements were made to CVT revenue sharing and county revenue sharing.

Specifically, 65% of the available funds would be distributed to each CVT in the same proportion that each was eligible to receive under Section 952 (1) of Article VIII of 2017 PA 107 (the FY 2017-18 General Government appropriations act).

The remaining 35% of the available funds would be distributed to each county in the same proportion as the payment each county is calculated to receive under Section 11(6) of the Glenn Steil State Revenue Sharing Act divided by the sum of all payments under Section 11(6) of the Glenn Steil State Revenue Sharing Act. For practical purposes, the distribution would be in roughly the same proportion as the FY 2017-18 county revenue sharing distributions adjusted slightly in future years as remaining counties become eligible for state payments.

## **POSITIONS:**

Representatives of the following organizations testified in support of the bill:

- City of Port Huron (12-5-17)
- Michigan Association of Counties (12-5-17)

A representative of the Michigan Restaurant Association supports the bill.

A representative of the Michigan Townships Association testified that support the bill in concept but suggested changes are needed. (12-5-17)

A representative of the Michigan Municipal League testified that they support the bill in concept. (12-5-17)

Representatives of the following organizations oppose the bill:

- AARP (12-5-17)
- County Road Association (12-5-17)
- Farmington Hills Fire Department (12-5-17)

## **FISCAL IMPACT:**

### House Bills 5314 and 5315

In FY 2018-19, the earmarks from the sales tax authorized under HB 5315 for the CVT Revenue Sharing Trust Fund would total \$251,340,000. This would represent a \$3.7 million reduction from FY 2017-18 CVT revenue sharing appropriations. Beginning in FY 2019-20, the amount earmarked from the sales tax would increase by \$2.5 million annually, not to exceed \$50.0 million in any fiscal year.

In FY 2018-19, the earmarks from the sales tax authorized in HB 5315 for the County Revenue Sharing Trust Fund would total \$222,587,200. This would represent a \$2.5 million increase from FY 2017-18 county revenue sharing appropriations. Beginning in FY 2019-20, the amount earmarked from the sales tax would increase by \$2.5 million annually, not to exceed \$50.0 million in any fiscal year.

Together, the earmarks for FY 2018-19 represent a \$1.2 million decrease in sales tax revenues dedicated to CVT and County revenue sharing as compared to FY 2017-18 appropriated amounts. However, the amount of sales tax dedicated to revenue sharing would increase by \$5.0 million annually beginning in FY 2019-20 thereby reducing General Fund revenue by an additional \$5.0 million annually.

The \$10.0 million annual earmark for the Fire Protection Fund would further reduce General Fund revenues by a corresponding amount.

### House Bill 5316

The bill would have no fiscal impact on state government as it would not alter the LCSA levy in any year. Rather, it would redistribute the Tier 3 funds in a way that would impact local units of government. In FY 2016-17, there was \$134.6 million distributed under Tier 3. These distributions went to CVTs, counties, community colleges, and other authorities. Under HB 5316, distributions would be limited to the 587 CVTs that are eligible to receive a CVT Revenue Sharing payment in FY 2017-18 and all 83 counties once the final 5 counties exhausted their revenue sharing reserve fund and became eligible for a state payment.

The amount of the anticipated Tier 3 funds that would be available on an annual basis beginning in FY 2018-19 is unknown. Of the amount available, 65% would be distributed to CVTs in the same proportion as the amount they were eligible to receive under Section 952(1) of Article VIII of 2017 PA 107 (the FY 2017-18 General Government appropriation act). The remaining 35% would be distributed to counties in approximately the same proportion as their total eligible payment under Article VIII of 2017 PA 107 (the FY 2017-

18 General Government appropriations act) adjusted slightly for new counties becoming eligible for payments in future years.

Due to a lack of available data, a unit by unit comparison of Tier 3 distributions under current law and HB 5316 cannot be provided for FY 2018-19.

Based on FY 2017-18 Tier 3 distributions the following table provides a comparison of Tier 3 distributions under current law and proposed changes in HB 5316:

**Estimated FY 2017-18 Tier 3 PPT Payments  
and Proposed Distribution Under HB 5316 (H-1)**

	<b>FY 2017-18 Current Law Tier 3 PPT Payment</b>	<b>HB 5316 (H-1) Distribution</b>	<b>Difference</b>
Counties	\$42,038,389	\$54,986,264	\$12,947,875
Cities	66,670,477	96,291,727	29,621,250
Villages	3,130,849	1,468,564	(1,662,286)
Townships	7,465,553	4,357,058	(3,108,495)
Community Colleges	24,170,837	0	(24,170,837)
Libraries	6,696,543	0	(6,696,543)
Authorities/Misc	6,930,964	0	(6,930,964)
<b>TOTAL</b>	<b>\$157,103,612</b>	<b>\$157,103,612</b>	<b>\$0</b>

Beginning in 2019, 5% of the funds otherwise available for Tier 3 payments are distributed under each taxing unit's share of eligible manufacturing personal property (EMPP) tax loss calculated using the modified acquisition cost of EMPP. This percentage is increased by 5% each year for 20 years, until no funds are distributed under Tier 3. This would result in steadily diminishing funds until no funds are available for distribution under Tier 3.

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■ This analysis was prepared by nonpartisan House Fiscal Agency staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.