

Legislative Analysis



COUNTY REVENUE SHARING RESERVE FUNDS: ELIMINATE ANNUAL INFLATION ADJUSTMENTS

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House Bills 5251 and 5252
Sponsor: Rep. Richard Hammel
Committee: Appropriations

Complete to 8-28-09

A SUMMARY OF HOUSE BILL 5251 AND 5252 AS INTRODUCED 8-19-09

House Bill 5251 would amend Section 11 of the Glenn Steil Revenue Sharing Act of 1071, 1971 PA 140 (MCL 141.911), to require that the State provide county revenue sharing payments equal to what the county received in FY 2003-04 to counties that have depleted their Revenue Sharing Reserve Funds. The bill would eliminate the inflationary increases that counties have received since county revenue sharing payments were suspended after the 2003-04 fiscal year.

House Bill 5252 would amend Section 44a of the General Property Tax Act, 1893 PA 206 (MCL 211.44a), to provide that counties that have not yet exhausted their Revenue Sharing Reserve Funds may withdraw the same amount of funding from their reserve fund as they received from the State in FY 2003-04. The bill would eliminate the inflationary increases to their reserve fund withdrawals that counties have received since state payments were suspended after the 2003-04 fiscal year.

BACKGROUND INFORMATION:

In FY 2005, state constitutional revenue sharing payments to Michigan counties were suspended. PA 357 of 2004 required counties to establish a Revenue Sharing Reserve Fund (RSRF) into which the county deposited a portion of their December property tax levy for 2004, 2005, and 2006. Under current law, each county is allowed to annually withdraw from its RSRF an amount equal to its FY 2004 state revenue sharing payment plus an annual inflationary adjustment through the date of restoration.

Upon exhaustion of each county's RSRF, current law provides that the State will restore the revenue sharing payment to that county in an amount equal to its FY 2004 revenue sharing payment adjusted annually for inflation through the date of restoration. By suspending the county revenue sharing payments, the State of Michigan is no longer obligated to make county revenue sharing payments until counties exhaust their RSRFs. These payments totaled \$182.1 million in FY 2003-04.

FISCAL IMPACT:

House Bills 5251 and 5252 would change current law to eliminate the annual inflationary adjustments to counties. HB 5251 provides that after September 30, 2008, for a county that exhausted its required reserve fund in a prior fiscal year, the State will provide a revenue sharing payment equal to the amount it received in FY 2003-04. If a county exhausts its

reserve fund during a fiscal year, the State will provide a partial revenue sharing payment so that the combined amount is equal to the payment received in the 2003-04 fiscal year. This proposed change will reduce state spending by lowering the required state revenue sharing payments to counties that become eligible.

House Bill 5252 provides that for those counties that have not yet exhausted their RSRFs, instead of being allowed to annually withdraw the amount of FY 2003-04 revenue sharing payments adjusted for inflation, counties may only withdraw the amount they received from the State in FY 2003-04. In effect, the bill removes the inflationary increases to the amount that counties are able to withdraw from their RSRFs.

This will slow the rate at which counties exhaust their RSRF because, without the inflation adjustments, the amount of the withdrawals will be smaller and the RSRF balances will last longer. Thus, this bill will reduce state spending because RSRF depletions will occur farther into the future and the State will not be required to make county revenue sharing payments for those counties as early as under current law.

Under the provisions of these bills, in FY 2008-09, the State would save approximately \$938,900 from the elimination of the annual inflation adjustment for both the RSRF withdrawals and the savings realized from restoring payments at the FY 2004 level to counties once they qualify for payments. Because of the additional counties that are expected to exhaust their RSRF in the following year, the estimated savings for FY 2010 are approximately \$23.1 million.

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