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BILL ANALYSIS

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Senate Bills 559 (Substitute S-1 as reported), 561 (Substitute S-5 as reported), and 912 (as reported)
Sponsor: Senator Jeremy Moss (S.B. 559)
Senator John Cherry (S.B. 561)
Senator Veronica Klinefelt (S.B. 912)
Committee: Appropriations

CONTENT

Senate Bill 559 (S-1) would amend the Michigan Trust Fund Act to do the following:

-- Create the Revenue Sharing Trust Fund in the Department of Treasury to deposit a percentage of sales tax revenue.
-- Require that State Treasurer disburse $299.1 million of the money available in the Fund to each city, village and township (CVT) in the same proportion that each entity was eligible to receive under Section 952 of Article 5 in Public Act (PA) 119 of 2023, regardless of any eligibility criteria or limitation under that section; any additional amount appropriated to CVTs would be distributed according to a three-factor formula, defined by the bill.
-- Require the State Treasurer to disburse $261.1 million from the Fund to each county in the same proportion that each county was eligible to receive under Sections 952 and 955 of Article 5 in PA 119 of 2023; any additional amount appropriated to counties would be distributed according to a formula for a taxable value payment, defined by the bill.
-- Require the Governor and State Budget Director to include an appropriation directing the State Treasurer to disburse money from the Fund beginning with the budget submitted for fiscal year (FY) 2027-2028.

Senate Bill 561 (S-5) would amend the General Sales Tax Act to require the Department of Treasury to deposit, beginning October 1, 2026, 8.9% of the tax imposed at a rate of 4.0% under the Act to the Revenue Sharing Trust Fund and to distribute the revenue to CVTs and counties as specified in Senate Bill 559 (S-1).

Senate Bill 912 would amend the Michigan Trust Fund Act to change the title of the Act, amend the definition of "Medicaid program", and define "Revenue Sharing Trust Fund".

The bills are tie-barred.

Senate Bill 559 (S-1)

Under the bill, the Revenue Sharing Trust Fund would be created in the Department of Treasury. The Fund would receive sales tax revenue deposited as specified in Senate Bill 561 (S-5), donations of money made to the Fund, and interest and earnings from investments. The State Treasurer would direct the investment of the Fund. Money in the Fund at the close of the fiscal year would remain in the Fund and would not lapse to the General Fund.

Under the bill, beginning on October 1, 2026, the State Treasurer would have to disburse money in the Revenue Sharing Trust Fund as follows:

-- $291.1 million, to each city, village, or township in the same proportion that each entity was eligible to receive under Section 952 of Article 5 in PA 119 of 2023, regardless of any eligibility criteria or restriction under that section; any remaining amount appropriated to CVTs would be distributed according to a three-factor formula, defined by the bill.
-- $261.1 million, to each county in the same proportion that each entity was eligible to receive in Sections 952 and 955 of Article 5 in PA 119 of 2023; any remaining amount appropriated to counties would be distributed according to a formula for a taxable value payment formula, defined by the bill.

The three-factor formula for distributions to CVTs would mirror the three-factor formula adopted in Public Act 532 of 1998, MCL 141.913(8), (9), and (10). Distributed revenue would be split equally between each factor. The three factors would consist of a taxable value payment, a unit-type population payment, and a yield equalization payment:

1) The taxable value payment would calculate the ratio of the Statewide average taxable value per person and divided by a unit's taxable value per person. These ratios would create weights that would be multiplied by the unit's population. The sum of these weighted populations would be used to calculate a per-person taxable value payment. Relative to a simple per-person payment, the taxable value payment formula would increase payments to units with a taxable value per person below the State average and would reduce payments to those with a taxable value per person above the State average.

2) The unit-type population payment would assign weights to each local unit based on the type of local unit (city, village or township) and the population size of the local unit. For any given unit type, units with greater population would receive a larger weight. Some local units could receive a greater weight if they met certain criteria, such as providing minimum levels of police, fire, water and sewer services. The sum of these weighted populations would be used to calculate a per person unit type population payment. The unit type population payment would attempt to account for "diseconomies of scale" that result as units with greater populations tend to provide a broader array or coverage of services.

3) The yield equalization payment would attempt to provide a guaranteed "yield" (revenue from a mill levied on the taxable value per person) from a unit's property tax levy, up to a maximum of 20 mills. The yield equalization formula would first distribute revenue to the unit with the lowest yield, until the guaranteed yield reached the level of the unit with the second lowest yield, whereupon revenue then would be distributed to both units until the level of the third lowest unit, and so on. The guaranteed yield would continue to increase until the money available for distribution under the yield equalization portion of the formula was entirely distributed. The yield equalization payment would attempt to address the tax effort a local unit makes to generate its own revenue, adjusted for limitations imposed by the size of the tax base.

The taxable value formula for county distributions would be the same as that applied to CVTs, except that the unit values would reflect the taxable value and populations of counties rather than CVTs. The ratio thus would reflect the statewide average taxable value per person to the taxable value per person for the county.

Other provisions would affect the use or distribution of revenue under the bill. The bill would require money in the Fund not to be transferred, spent, withdrawn, or otherwise disbursed from the Fund except as authorized under the bill. The bill would allow payment distributions to be withheld in accordance with Sections 17a and 21 for the Glenn Steil State Revenue

Sharing Act. Under the bill, local units eligible to receive payments would receive distributions on the last business days of October, December, February, April, June, and August. If the balance in the Fund were less than the amount appropriated, payments to CVTs under the three-factor formula or payments to counties under the taxable payment would have to be prorated to reflect the remaining amounts available for distribution.

The bill also would require the Governor and State Budget Director to include an appropriation directing the State Treasurer to transfer and disburse all money from the Fund beginning for budgets submitted to the Legislature under Article V, Section 18 of the State Constitution for fiscal years beginning with FY 2027-28.

Senate Bill 561

Under Article IX, Section 10 of the State Constitution, 15% of the money received and collected of the tax imposed at a rate of 4.0% must be distributed to CVTs on a per person basis. The Constitution requires 60.0% of the money received and collected under the General Sales Tax Act imposed at a rate of 4.0% to be deposited to the State School Aid Fund. The State Constitution also requires that not more than 25% of the collections imposed at a rate of 4.0% on fuels sold to motor vehicles, on the sale of motor vehicles, and the sale of parts and accessories of motor vehicles be deposited to the Comprehensive Transportation Fund. However, the General Sales Tax Act requires the earmark to be at least 27.9% of 25.0% of the collections imposed at a rate of 4.0% on fuels sold to motor vehicles, on the sale of motor vehicles, and the sale of parts and accessories of motor vehicles.

Under the bill, beginning on October 1, 2026, 8.9% of the collections from the tax imposed at a rate of 4.0% under the General Sales Tax Act would have to be deposited in the Revenue Sharing Trust Fund and distributed to CVTs and counties according Senate Bill 559 (S-1).

Senate Bill 912

The bill would amend the total of the Michigan Trust Fund Act to include the phrase "to provide for the creation and administration of certain grant programs" and modify existing language to incorporate local government officers and entities. The bill also would update a reference to Federal statute for the definition of "Medicaid program" and would add a definition for "Revenue Sharing Trust Fund" consistent with the changes proposed by Senate Bill 559 (S-1).

Proposed MCL 12.261a & 12.261b (S.B. 559)
MCL 205.75 (S.B. 561)
MCL 12.252 (S.B. 912)

FISCAL IMPACT

The bills would reduce General Fund revenue and increase Revenue Sharing Reserve Fund revenue by approximately $626.4 million in FY 2026-27 and $638.3 million in FY 2027-28, based on the January 2026 Consensus Revenue Estimates, with the amount increasing in future years assuming sales tax revenue increased. Nonconstitutional revenue sharing payments to local units totaled $624.7 million in FY 2024-25, and the FY 2025-26 budget also appropriated $624.7 million in sales tax revenue for nonconstitutional revenue sharing payments to local units.

The impact on local units is indeterminate and would depend on several assumptions ranging from the level of payments appropriated, the appropriations that would occur absent the bills, and whether the bills completely replaced nonconstitutional revenue sharing payments made under current law. If nonconstitutional revenue sharing were to continue to be appropriated as under current law and the revenue deposited into the trust fund because of the bills were not appropriated, the bills would have no impact on local unit revenue for FY 2026-27. Similarly, if appropriations from the trust fund were to fully replace current nonconstitutional payments, the bills would have no impact on local unit revenue in FY 2026-27. At the other extreme, if the revenue deposited into the trust fund as a result of the bills were appropriated and no change were made to the existing nonconstitutional revenue sharing appropriation, then local unit revenue would increase by $626.4 million.

Regardless of the issue with respect to aggregate appropriations, the bills would not alter the current distribution and formula used for non-constitutional revenue sharing in FY 2025-26 and would guarantee that formula in future fiscal years. Local units that received a nonconstitutional payment under PA 119 of 2023 would be guaranteed not to fall below that level, assuming the required amount was appropriated. The amount of revenue distributed to each local unit beyond that total would depend on each local unit's taxable value, millages rates, and how the unit's decennial population changed over time.

The actual amount distributed under the bills would depend on the amount appropriated in the budget. While the bills would compel the Executive Branch budget proposal to recommend an appropriation that would fully exhaust the reserve, statute may not compel appropriations, and the ability of the appropriation to support exhausting the Fund would depend on the degree to which actual revenue matched forecasted revenue at the time of the appropriation. If the appropriation were insufficient (i.e. sales tax collections exceeded the expected level), the Fund would not be exhausted; while if sales tax collections were less than expected, the reserve fund would be exhausted but local units would receive less than they would under the current distribution mechanism.

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.