



**House
Legislative
Analysis
Section**

Olds Plaza Building, 10th Floor
Lansing, Michigan 48909
Phone: 517/373-6466

AERONAUTICS FUND EARMARKING

**House Bill 4581 with committee
amendment
First Analysis (3-8-94)**

**Sponsor: Rep. Robert Bender
Committee: Taxation**

THE APPARENT PROBLEM:

The State Aeronautics Fund, created within the Aeronautics Code, receives revenues from aviation gasoline taxes, licensing of aviation schools, airports, landing fields, airport managers, registration of aircraft and airmen, and from the operation of state operated airports, landing fields and other aeronautical facilities. Testimony before the House Taxation Committee indicated that the fund receives about \$8 million from state sources annually, mostly from the aviation fuel tax. The fund receives no general fund support. Money in the fund can be matched 90-10 by federal aviation funds, meaning each \$1 of state money can generate \$9 in federal funds for use in airport improvement projects around the state. (Some projects are said to be funded 90-5-5, with matching contributions from federal, state, and local governments.) It has been proposed that additional revenue be earmarked to the fund, this from a portion of the sales tax collected from sales of aviation fuel and from sales of new and used aircraft. There is precedent for this as a portion of the sales tax imposed on motor vehicle fuel and the sale of motor vehicles and vehicle parts and accessories is dedicated to a fund to benefit surface transportation projects.

THE CONTENT OF THE BILL:

The bill would amend the General Sales Tax Act to earmark to the Aeronautics Fund for use for airport capital improvements 25 percent of the collections of the sales tax imposed directly or indirectly on fuels sold to propel aircraft and on the sale of new and used aircraft. The capital improvements would include, but not be limited to, safety, environmental preservation, infrastructure, and economic development. The earmarking would begin with the fiscal year ending September 30, 1995.

(Currently, 15 percent of sales tax revenue is dedicated to revenue sharing for local governments and 60 percent to schools. The remaining 25

percent of revenue goes to the general fund, with the exception that 27.9 percent of the remaining 25 percent of sales tax collections from the sale of motor vehicle fuel, motor vehicles, and motor vehicle parts and accessories is dedicated to the Comprehensive Transportation Fund.)

MCL 205.75

FISCAL IMPLICATIONS:

Testimony by the bill sponsor before the House Taxation Committee, corroborated by representatives from the Bureau of Aeronautics and the Department of Management and Budget, indicated that the bill would result in an additional \$2 million annually going to the Aeronautics Fund. This would be revenue lost to the general fund. The Department of Treasury believes the revenues to be greater, a spokesperson said. However, representatives of the Departments of Treasury and Management and Budget told the House Taxation Committee they were continuing to review the proposal in order to reconcile revenue estimates and the impact on the general fund. (3-2-94)

ARGUMENTS:

For:

Earmarking an additional \$2 million to the Aeronautics Fund would make available, due to the 90-10 federal match, some \$20 million more for airport improvement projects across the state. Testimony suggests that requests for aid in improving aviation facilities from communities around the state are double the funds available, so the additional funds could be put to good use. Improving aviation facilities is a good economic development tool. The Aeronautics Fund receives no general fund dollars, and currently is funded from revenue from the aviation fuel tax. Proponents say projects would have to be approved

by the legislature as part of the capital outlay budget.

Against:

It would be preferable to decide each year whether to appropriate additional money for this purpose rather than earmark money indefinitely from the sales tax at the expense of the general fund. Earmarking tends to reduce legislative discretion about spending and limit budget options.

POSITIONS:

There are no positions at present.