Legislative Analysis

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EARMARK SALES TAX FOR ROAD FUNDING AND INCREASE REVENUE SHARING EARMARKING

House Joint Resolution V
Sponsor: Rep. Marty Knollenberg

House Bill 5074
Sponsor: Rep. Larry DeShazor

House Bill 5075
Sponsor: Rep. Paul Opsommer

Committee: Transportation
Complete to 3-4-10

A REVISED SUMMARY OF HOUSE BILLS 5074 & 5075 & AND HOUSE JOINT RESOLUTION "V" AS INTRODUCED 6-10-09

Together, these proposals would do the following:

- Constitutionally earmark six percent of the first four percent of the state sales tax exclusively for use in road construction, maintenance, and repair. The revenue would go into a new Priority Now! Fund.

- Increase the constitutional earmark for local revenue sharing from 15 percent to 17 percent of the first four percent of sales taxes. (Specifically, this earmark is for "assistance to townships, cities, and villages, on a population basis.")

- Create a new Priority Now! Fund within the state treasury for road construction, maintenance, and repair.

House Joint Resolution "V" would amend Article IX, Section 10 of the State Constitution. The proposed constitutional amendment would go before the voters at the November 2010 general election. (The resolution refers to the letter V and not the Roman numeral V.)

House Bill 5074 would amend the General Sales Tax Act to put into statute the new earmarking provisions of HJR V. Specifically, the bill would direct 17 percent of the collections of the sales tax at four percent to cities, villages, and townships under the Glenn Steil State Revenue Sharing Act, and direct six percent of the first four percent of the sales tax to the Priority Now! Fund. (MCL 205.75)

House Bill 5075 would amend Public Act 51 of 1951 to create the Priority Now! Fund. The State Transportation Commission would be the administrator of the Fund, and money from the Fund would be directed, upon appropriation, to the state Department of Transportation, county road commissions, cities, and villages. Money in the Fund at the close of a fiscal year would remain in the Fund and not lapse to the General Fund. Under the bill, 60 percent of the money expended would go to MDOT and 40 percent to counties, cities, and villages. Of that 40 percent, 65 percent would go to county road commissions and 35 percent to cities and villages. Privatized roads, toll roads, or roads using congestion pricing would not be eligible for money from the Fund, and any road that received money from the Fund could not be privatized or converted to a toll road or congestion-pricing road for at least 50 years. (MCL247.660f)

The two bills could not take effect unless House Joint Resolution "V" became part of the State Constitution.

FISCAL IMPACT:

House Bill 5074 and House Joint Resolution V would constitutionally earmark 6% of the 4% sales tax to Priority Now! for transportation purposes and would increase the constitutional earmark to revenue sharing from 15% to 17% of the 4% sales tax. These changes would earmark $244.0 million to a new Priority Now! Fund (for road purposes) and would increase constitutional revenue sharing by $80.4 million. This estimate is based on the full year FY 2010-11 January consensus revenue estimate for sales tax collections and represents a total increased constitutional earmark of $324.4 million.

Given the FY 2010-11 estimates, the Priority Now! Fund would be earmarked as follows: State Transportation Department $146.4 million, the county road commissions $63.4 million, and cities and villages $34.2 million.

Since the total sales tax collections would not be affected, the revenue being newly allocated to roads and revenue sharing would have to be diverted from some combination of General Fund/General Purpose revenue and statutory earmarks (Comprehensive Transportation Fund, statutory revenue sharing, and health programs), which are subject to appropriation. With this legislation in place, constitutional and statutory earmarks would total more than 100% of sales tax collections.

In addition to the earmarking of sales tax revenue in the Constitution and the Sales Tax Act, the Revenue Sharing Act currently earmarks 21.3% of the sales tax collected at 4% for local revenue sharing. (This is known as "statutory revenue sharing.") The statutory revenue sharing earmark is subject to appropriation, and the amount actually appropriated for statutory revenue sharing has typically been below the full-funding level specified in the Revenue Sharing Act. For FY 2010-11, the Executive Recommendation for statutory revenue sharing is $429 million, almost $427 million below the statutory full-funding amount.

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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.