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BILL



ANALYSIS

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House Bill 4025 (Substitute H-3 as passed by the House)
Sponsor: Representative Dave Agema
House Committee: Transportation
Senate Committee: Transportation

Date Completed: 6-1-12

CONTENT

The bill would amend the General Sales Tax Act to dedicate revenue from the 4% sales tax imposed on retail sales of aviation fuel and aviation products, at a minimum of \$10.0 million annually, to the Aeronautics Fund.

The Act prescribes a total sales tax of 6%. Of the total tax, 2% must be deposited in the School Aid Fund (SAF) and 4% must be distributed as follows:

- 15% to cities, villages, and townships under the State Revenue Sharing Act.
- 60% to the SAF.

As a rule, the balance of the revenue from the 4% tax must be deposited in the State's General Fund; however, the Act allocates a portion of the tax collected on sales of motor fuel, motor vehicles, and motor vehicle parts and accessories to the Comprehensive Transportation Fund, and a portion of the tax collected on retail sales of computer software to the Michigan Health Initiative Fund.

Under the bill, for the 2012-13 fiscal year and each subsequent fiscal year, after the required local revenue sharing and SAF allocations and distributions were made, an amount equal to the collections of the tax imposed at a rate of 4% from retail sales of aviation fuel and aviation products would have to be deposited in the State Aeronautics Fund. This money could be spent, upon appropriation, only for the purposes authorized in the Aeronautics Code. At least \$10.0 million would have to be deposited in the Fund on an annual basis.

(Money in the Aeronautics Fund must be used to carry out the Code's purposes and provisions and to meet the expenses of the Michigan Department of Transportation's Bureau of Aeronautics.)

MCL 205.75

Legislative Analyst: Julie Cassidy

FISCAL IMPACT

The bill would reduce General Fund revenue and increase revenue to the State Aeronautics Fund by equal amounts. Based on assumptions regarding the average prices of aviation gasoline and jet fuel, as well as the proportion of fuel used in interstate flights and their relative magnitudes, the shift of revenue would total between approximately \$10.0 million and \$12.0 million each year. The bill would require that the shift be not less than \$10.0 million per year.

Based on the January 2012 consensus forecast, revenue to the State Aeronautics Fund under current law is estimated to total \$23.8 million in FY 2012-13.

Of the sales tax levied at a rate of 4% (collections attributed to the sales tax as levied before Proposal A in 1994), the Michigan Constitution requires 15% of collections to be distributed to cities, villages, and townships as revenue sharing, and 60% of collections to be deposited into the School Aid Fund. As a result, for each dollar of aviation fuel sales, the Constitution earmarks 75%.

Under current law, 21.3% of the sales tax collections at a 4% rate from aviation fuel sales are also restricted for statutory revenue sharing. This represents approximately 85.2% of the sales tax collections remaining after constitutional earmarks for the School Aid Fund and revenue sharing. However, appropriations for statutory revenue sharing have generally been less than 21.3% of collections at a 4% rate. (The FY 2011-12 appropriation is approximately 7.3% of estimated collections at a 4% rate.) The bill would earmark 100% of the collections remaining after the constitutionally required earmarks. Combined with the earmark for statutory revenue sharing, the bill would increase the earmark on sales tax collections from sales of aviation fuel (after constitutionally required earmarks were subtracted) to between 107.3% and 185.2%, depending on whether the statutory revenue sharing earmark is viewed from the level required in statute or the level appropriated. As a result, a portion of the money allocated by the bill to the State Aeronautics Fund would effectively need to be derived from collections that would otherwise be directed to statutory revenue sharing and/or sales of items other than aviation fuel.

Fiscal Analyst: David Zin

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