



**House
Legislative
Analysis
Section**

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AERONAUTICS FUND EARMARKING

**House Bill 4513 (Substitute H-1)
Sponsor: Rep. David M. Gubow**

**House Bill 5240 (Substitute H-1)
Sponsor: Rep. Michael Nye**

Committee: Taxation

First Analysis (11-7-95)

THE APPARENT PROBLEM:

The State Aeronautics Fund, created within the Aeronautics Code, receives revenues from aviation gasoline taxes, from the licensing of aviation schools, airports, landing fields, and airport managers, from the registration of aircraft and airmen, and from the operation of state operated airports, landing fields and other aeronautical facilities. The fund receives about \$8 million from state sources annually, mostly from the aviation fuel tax, according to the Bureau of Aeronautics. 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. (This would apply to the first 4 cents of the taxes, since the additional 2 cents added by Proposal A are already earmarked for schools.) 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 BILLS:

House Bill 4513 would amend the General Sales Tax Act (MCL 205.75) to earmark to the Aeronautics Fund 25 percent of the collections of the first 4 cents of the sales tax imposed directly or indirectly on fuels sold to propel aircraft and on the sale of new aircraft. (This would refer to collections remaining after the allocations and distributions for revenue sharing and schools.) The new revenue would have to be used for airport capital improvements House Bill 5240 would amend the Use Tax Act (MCL 205.111) to earmark the first 4 cents of

that tax on the sale of aircraft to the same fund for the same purpose. 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, 1996.

(Currently, of the first 4 cents of the sales tax, 15 percent of 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.)

FISCAL IMPLICATIONS:

According to the Bureau of Aeronautics, House Bill 4513 will result in an additional \$4 million annually going to the Aeronautics Fund, and House Bill 5240 will produce an additional \$800,000. This would be revenue lost to the general fund. (11-6-95)

ARGUMENTS:

For:

Earmarking an additional \$4-5 million to the Aeronautics Fund could make available, due to the 90-10 federal match, about \$40 million more for airport improvement projects across the state. Testimony in past years 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.

House Bills 4513 and 5240 (11-7-95)

Proponents say projects would have to be approved by the legislature as part of the capital outlay budget.

Against:

It would be better policy to decide each year whether to appropriate additional money for this purpose rather than earmarking money indefinitely from the sales and use taxes at the expense of the general fund. Earmarking reduces discretion about spending and limits budget options.

POSITIONS:

The Department of Management and Budget does not support the bill. (11-6-95)

■ 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.