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BILL ANALYSIS

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Senate Bill 351 (Substitute S-1 as reported)
Sponsor: Senator John Proos
Committee: Transportation

CONTENT

The bill would amend the General Sales Tax Act to do the following:

-- Dedicate 18% of the 4% sales tax on motor fuel to the State Trunkline Fund, county road commissions, and cities and villages for highway, road, and street projects and related purposes (as described below).
-- Delete the requirements that the deposit of sales tax revenue from motor fuel and vehicle sales to the Comprehensive Transportation Fund be made after allocations to revenue sharing and the School Aid Fund (SAF).
-- Eliminate local revenue sharing and SAF allocations of the 4% sales tax on computer software, and require all of that revenue to be deposited in the Michigan Health Initiative Fund.

Beginning with fiscal year 2010-11, the bill would require 18% of the collections from the 4% tax on motor fuel sales to be distributed as follows:

-- 39.1% to the State Trunkline Fund for the purposes described of Public Act 51 of 1951, the Michigan Transportation Fund (MTF) law.
-- 39.1% to county road commissions for administration according to the MTF law.
-- 21.8% to cities and villages for administration according to the MTF law.

MCL 205.75 Legislative Analyst: Julie Cassidy

FISCAL IMPACT

The bill would reduce General Fund revenue, and increase State Trunkline Fund (STF) revenue and revenue to local units by an equal and offsetting amount that would largely depend on the price of gasoline. The fiscal impact would range from $101.5 million to $136.6 million annually.

Assuming the bill were effective for all of FY 2011-12, at an average price of $3.00 per gallon for gasoline and $3.40 per gallon for diesel fuel, the bill would reduce General Fund revenue from gasoline sales by approximately $84.8 million and General Fund revenue from diesel fuel sales by $16.7 million. The reductions in General Fund revenue would increase STF revenue by approximately $39.7 million, increase revenue to county road commissions by $39.7 million, and increase revenue to cities and villages by $22.1 million.

If the price were $4.00 per gallon for gasoline and $4.40 per gallon for diesel fuel, the bill would reduce General Fund revenue from gasoline sales by approximately $115.0 million and General Fund revenue from diesel fuel sales by $21.6 million. The reductions in General Fund revenue would increase STF revenue by approximately $53.4 million, increase revenue to county road commissions by $53.4 million, and increase revenue to cities and villages by $29.8 million.

Of the sales tax levied at a rate of 4% (collections attributed to the sales tax as levied prior to 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 motor vehicle-related and motor fuel-related sales, the Constitution earmarks 75%. Under current law, 21.3% of the sales tax collections from these sales is also restricted for statutory revenue sharing. Additionally, current law requires that 27.9% of 25% of the collections from these sales that remain after the constitutional earmarks be directed to the Comprehensive Transportation Fund.

For sales of motor fuels and motor vehicle-related sales, the total of these earmarks equals 103.275%. The requirements of current law are met because appropriations for statutory revenue sharing have generally been less than 21.3% of collections. (The FY 2011-12 appropriation is approximately 7.3% of estimated collections at a 4% rate.)

The bill would increase revenue to the STF, county road commissions, and cities and villages, by adding an 18% earmark to sales tax collections. To avoid making the earmark on motor fuels total 121.275%, the bill would determine only the *amount* of the earmark based on sales tax collections on motor fuels rather than earmarking the actual collections from sales of motor fuels. Furthermore, under the bill the earmark to the STF and local units would be based on total collections rather than the collections remaining after the constitutional earmarks to revenue sharing and the School Aid Fund. As a result, the money distributed by the bill to the STF and local units would need to be derived from collections that would otherwise be directed to statutory revenue sharing and/or sales of items other than motor fuels.

The changes to the earmark for the Michigan Health Initiative Fund are not expected to have a fiscal impact.

Date Completed: 10-27-11 Fiscal Analyst: David Zin