Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

Senate Bill 351 (as introduced 5-3-11)
Sponsor: Senator John Proos
Committee: Transportation

Date Completed: 6-22-11

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 Trunk Line Fund to match available Federal highway funds.**
-- **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.**

Transportation Funding

The Act prescribes a total sales tax of 6%. Of the total tax, 2% must be deposited in the 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 (GF); however, in the case of the tax collected on sales of motor fuel, motor vehicles, and motor vehicle parts and accessories, 27.9% of the remaining balance must be deposited in the Comprehensive Transportation Fund (CTF) first.

The bill would retain these allocations, but would omit the requirement that the deposit to the CTF be made *after* the distributions to the SAF and revenue sharing. Beginning with fiscal year 2010-11, the bill would require 18% of the collections from the 4% tax on motor fuel sales to be deposited in the State Trunkline Fund for the purpose of matching Federal aid highway funds as they were made available to the State.

(The CTF is used for the development of public transportation systems. The State Trunkline Fund is used for the payment of bonds, notes, and other obligations related to highways and transportation purposes other than comprehensive transportation purposes; railgrade crossings; and highway, road, street, and bridge projects.)

Michigan Health Initiative Fund

Under the Act, after the allocations and distributions to local revenue sharing and the SAF, revenue from the 4% tax imposed on computer software sales must be deposited in the Michigan Health Initiative Fund. This deposit must not be less than $9.0 million or more than $12.0 million. The bill would eliminate the reference to the revenue sharing and SAF allocations and distributions. Instead, all of the revenue from the tax on those sales would have to be deposited in the Michigan Health Initiative Fund.

(The Fund is used to support the Michigan Health Initiative Information Clearinghouse, which maintains and provides up-to-date information on major risk factors and preventable diseases and conditions, including the hepatitis C virus (HCV) and acquired immunodeficiency syndrome (AIDS); and risk reduction service providers and HCV and AIDS treatment programs throughout the State.)

MCL 205.75 Legislative Analyst: Julie Cassidy

FISCAL IMPACT

The bill would reduce General Fund revenue by approximately $135.0 million per year, and increase State Trunkline Fund (STF) revenue by $135.0 million per year, beginning with FY 2011-12. The bill would lower FY 2010-11 General Fund revenue by a minimum of $33.6 million, and as much as $134.6 million, depending on whether the bill was effective June 1, 2011.

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% to be deposited into the School Aid Fund. As a result, for each dollar of motor vehicle-related and motor fuel-related sales tax, the Constitution earmarks 75%. Under current law, 21.3% of the remaining sales tax collections from these sales is restricted for statutory revenue sharing. Additionally, current law requires that 27.9% of the collections from these sales that remain after the constitutional earmarks be directed to the CTF.

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 by using collections from sales not related to motor vehicles or motor fuel to provide the excess 3.275%.

The bill also would increase revenue to the STF, although the earmark would require a deposit equal to a percentage of sales tax collections, rather than earmarking the actual collections from sales of only motor fuels. The bill only specifies that the amount would have to come from sales tax revenue; otherwise, the new STF earmark for collections from the sale of motor fuels under the bill would increase to 121.275%. The amount of revenue restricted by the bill to the STF is not based on an amount reduced to reflect the constitutional earmarks. As a result, the money directed to the STF would need to be derived from sales of items other than motor fuels and/or from the collections that otherwise would be directed to statutory revenue sharing if the appropriations met the statutory earmark. Most likely this additional earmarking would be feasible because current funding for statutory revenue sharing is approximately 7.6% of collections, below the statutorily required 21.3%, and will decline to approximately 4.8% under the recently passed FY 2011-12 budget.

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

Fiscal Analyst: David Zin

S1112\s351sa.