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**BILL ANALYSIS**

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Senate Bill 399 (Substitute S-1)
Sponsor: Senator Robert Emerson
Committee: Appropriations

Date Completed: 6-6-03

CONTENT

The bill would amend the General Sales Tax Act to reduce the percentage of the revenue from the 4% sales tax that is deposited in the Comprehensive Transportation Fund (CTF). Section 25 of the Act provides for the distribution of sales tax revenue collected at the 4% rate. (The revenue from one-third of the 6% sales tax rate, is constitutionally earmarked to the School Aid Fund, pursuant to Article IX, Section 8.)

The Act provides that the tax collected on the sale of motor fuels, motor vehicles, and parts and accessories for motor vehicles by new and used car businesses, used car businesses, accessory dealer businesses, and gasoline station businesses must be distributed as follows: 60% to the School Aid Fund; 15% to cities, villages, and townships pursuant to the State Revenue Sharing Act; not less than 27.9% of the remaining 25% (7%) to the CTF; and the balance (18%) to the General Fund.

Under the bill, the amount of the sales tax revenue going to the CTF would be reduced. Beginning with the fiscal year ending September 30, 2004, sales tax collected on motor fuels, motor vehicles, and parts and accessories for motor vehicles would be distributed as follows: 60% to the School Aid Fund; 15% to cities, villages, and townships pursuant to the State Revenue Sharing; not less than 24% of the remaining 25% (6%) to the CTF; and the balance (19%) to the General Fund.

In addition, for the fiscal year ending September 30, 2004, the amount deposited in the CTF would be reduced by \$18,000,000.

MCL 205.75

FISCAL IMPACT

Beginning in fiscal year (FY) 2003-04, the bill would decrease the amount of sales tax revenue dedicated to the CTF and increase, by the same amount, the amount of sales tax revenue dedicated to the General Fund. According to data from the May 2003 Consensus Revenue Estimating Conference, total auto-related sales tax revenue at the 4% rate for FY 2003-04 is estimated at \$1,111,100,000. Based on the current distribution formula in the General Sales Tax Act, the CTF would receive \$77,500,000 of the auto-related sales tax in FY 2003-04.

Under the bill, the CTF would receive not less than 24% of 25% (or 6%) of the sales tax revenue at the 4% rate on auto-related sales. Using the FY 2003-04 revenue estimates, this would decrease total auto-related sales tax revenue deposited in the CTF to \$66,700,000, a reduction of \$10,800,000. The same amount would be directed to the General Fund. The actual FY 2003-04 reduction to the CTF, and accompanying increase to the General Fund, would be contingent upon the total amount of auto-related sales in that year.

In addition, for FY 2003-04 only, the amount of sales tax revenue deposited in the CTF would be further reduced by \$18,000,000. At the same time, the amount of sales tax revenue directed to the General Fund would increase by \$18,000,000.

The Governor's FY 2003-04 budget proposal for the Department of Transportation assumed that the percentage of the sales tax revenue at the 4% rate directed to the CTF would be reduced from 7% to 6%. Therefore, appropriations from the CTF in the Governor's budget recommendation reflected the reduced funding availability. The Senate concurred with the Governor's recommendations (Senate Bill 265 (S-1)).

In addition, the Senate version of the FY 2003-04 Department of Transportation budget reduced, beyond the Governor's recommended levels, appropriations from the CTF to reflect an additional one-time \$16,000,000 transfer to the General Fund. (See Section 726 of S.B. 265 (S-1).)

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