Legislative Analysis

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TRANSPORTATION FUNDING PACKAGE

House Joint Resolution UU as adopted by the Legislature
Sponsor: Rep. Joe Haveman

House Bills 4539 and 5167 as enrolled
Public Acts 467 and 471 of 2014
Sponsor: Rep. Wayne Schmidt

Senate Bill 80 as enrolled
Public Act 476 of 2014
Sponsor: Sen. Goeff Hansen

House Bill 5492 as enrolled
Public Act 474 of 2014
Sponsor: Rep. Earl Poleski

House Bill 4251 as enrolled
Public Act 472 of 2014
Sponsor: Rep. Kevin Cotter

Senate Bill 847 as enrolled
Public Act 469 of 2014
Sponsor: Sen. Gretchen Whitmer

House Bill 4630 as enrolled
Public Act 470 of 2014
Sponsor: Rep. Michael D. McCready

House Bills 5477 & 5493 as enrolled
Public Acts 468 and 475 of 2014
Sponsor: Rep. Rob VerHeulen

House Bill 5460 as enrolled
Public Act 473 of 2014
Sponsor: Rep. Dan Lauwers

Complete to 2-16-15

A SUMMARY OF THE TRANSPORTATION FUNDING PROPOSAL

House Joint Resolution UU would amend the State Constitution to:

- Increase the maximum sales and use tax rates by one percentage point, from 6% to 7%.

- Exempt sales of gasoline and diesel motor fuel from the state general sales tax after October 1, 2015.

- Dedicate 60% of the first 5% of the sales tax and an amount equal to 12.3% of the first 5% of the use tax to the School Aid Fund. (The sales tax earmark currently applies to the first 4% of the tax; the use tax earmark would effectively be an upward adjustment to the existing earmark of one-third of revenue from the tax.)

- Provide for the School Aid Fund to be used exclusively for aid to school districts, public community colleges, public career and technical educations programs, scholarships for students attending either public community colleges or public career and technical educations programs, and school employees' retirement systems, as provided by law. (This effectively removes aid to public universities as an allowable use for the fund; the current language references "higher education" generally.)

- Dedicate 15% of the first 5% of the sales tax to be used for revenue sharing with townships, cities, and villages. (This earmark currently applies to the first 4% of the tax.)

These provisions would only become part of the State Constitution if approved by voters at a special election held at the same time as the May 5, 2015, regular election.

The following bills have been enacted but will not take effect unless voters approve the amendments to the State Constitution.

House Bill 4539 would amend the General Sales Tax Act to exempt gasoline and diesel fuel from the sales tax after October 1, 2015, and provide for a one percentage point increase on the 4% portion of the total rate (increasing the total rate from 6% to 7%).

House Bill 5492 would amend the Use Tax Act to exempt gasoline and diesel fuels from the use tax after October 1, 2015, increase the 4% portion of the rate to 5% (increasing the total rate from 6% to 7%), and alter the distribution of use tax revenue. In the bill, the distribution would change to approximately 62.64% for the General Fund (currently 2/3), and 37.36% for the School Aid Fund (currently 1/3), as a result of earmarking 12.3% of the first 5% of the tax to the School Aid Fund. The remaining changes in the bill simply substitute the 7% rate for the 6% rate where appropriate.

House Bill 5477 would amend the Motor Fuel Tax Act (2000 PA 403). Under the bill, the current fixed tax rates of 19 cents per gallon for gasoline and 15 cents per gallon for diesel motor fuel would be converted into tax rates that would change annually through a process defined in the bill. For the 12-month period beginning October 1, 2015, and for each subsequent 12-month period, the per-gallon tax rates for gasoline and diesel motor fuel would be computed by multiplying the average wholesale gasoline price and the average wholesale diesel fuel price, respectively, by 14.9%, subject to certain limitations. The computed tax rates would be rounded up to the nearest 1/10 of 1 cent.

The bill defines the initial average wholesale prices as the 12-month rolling averages for gasoline and diesel from July 2013 through June 2014, which means the initial tax rates would be 41.7 cents per gallon for gasoline and 46.4 cents for diesel motor fuel. For future years, the 12-month rolling average period ends on the last day of the month that is three months prior to the month the new rates would take effect. The bill contains an inflation adjustment mechanism to limit large swings in the cents-per-gallon levy that may result from volatile gas prices so that the levy cannot increase by more than 5 cents per gallon above the rate of inflation, as defined in the bill. Additionally, the levy could not fall below the initial rate, adjusted for inflation or 5% per year, whichever is less.

The bill would establish tax rates for alternative fuels as defined in the bill.

The bill also would change the distribution of motor fuel tax revenue for two fiscal years (the fiscal years ending September 30, 2016, and September 30, 2017) to direct a portion of revenue raised under the bill to the pay-down of State Trunkline Fund debt.[1]

House Bill 5493 would amend the Motor Fuel Carrier Tax Act to make the motor fuel tax rates in that act consistent with the rates established in House Bill 5477.

House Bill 4630 would amend Section 801 of the Michigan Vehicle Code to eliminate the "depreciation" of ad valorem tax rates for passenger cars, vans, and light trucks, and to create a new registration tax surcharge for electric-powered motor vehicles. These changes would be implemented beginning January 1, 2016. The bill would also amend Section 801 to increase registration taxes for trucks weighing over 26,000 pounds gross vehicle weight (GVW). The change in truck registration taxes would be phased in over a three-year period beginning March 1, 2016.[2]

House Bill 4251 would amend Public Act 283 of 1909 (MCL 220.1 to 239.6), which deals with public highways and private roads. The bill would specify that if a single township contributes 50% or more to the cost of a road project, the project is located entirely within the jurisdiction of the township, and the road project does not disrupt any multiple township contract, then the township board could, by resolution, require that the county road commission contract for the work on that road project through competitive bidding. Under the bill, a county road commission would not be prohibited from submitting a competitive bid.

If a township board requires a county road commission to contract for work on a road project through competitive bidding, the county road commission would be required to use the responsive and reasonable best value bidder process to competitively bid and award the road project contract to a responsive and reasonable best value bidder.[3]

House Bills 5167 would amend Public Act 51 of 1951 (Act 51), the act that governs the distribution of funds for state and local road and bridge programs. Section 11c of the act currently prescribes contracting requirements for certain federal-aid construction contracts. House Bill 5167 would add language requiring the Michigan Department of Transportation and certain local road agencies to: (1) develop and implement a "performance based maintenance system;" (2) develop and implement a "performance rating system" for maintenance services; (3) provide for payment for some maintenance services based on the outputs or outcomes associated with the performance rating system; and (4) add reporting requirements associated with these new contracting requirements.[4]

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[1] For additional information, see http://www.legislature.mi.gov/documents/2013-2014/billanalysis/House/pdf/2013-HLA-5477-0976B041.pdf

[2] For additional information, see: http://www.legislature.mi.gov/documents/2013-2014/billanalysis/House/pdf/2013-HLA-4630-2798B905.pdf

[3] For additional information, see: http://www.legislature.mi.gov/documents/2013-2014/billanalysis/House/pdf/2013-HLA-4251-D636A8DF.pdf

[4] For additional information, see: http://www.legislature.mi.gov/documents/2013-2014/billanalysis/House/pdf/2013-HLA-5167-AECD259D.pdf

House Bill 5460 would also amend Public Act 51 of 1951 (Act 51). Among other things, Act 51 establishes the Michigan Transportation Fund (MTF); directs the distribution of MTF revenue to other state funds and programs, as well as to local road agencies (county road commissions, and cities and villages); prescribes uses of MTF revenue by local road agencies; and establishes the State Trunkline Fund (STF) and prescribes uses of STF revenue. House Bill 5460 would amend the act to: establish new provisions regarding the department's Disadvantaged Business Enterprises (DBE) program; allow the MTF to receive money from any source; reference provisions regarding the distribution of motor fuel tax revenue in Section 143 of the Motor Fuel Tax Act; earmark up to $3.0 million from the MTF for a new railroad grade crossing surface account established within the STF; revise current provisions regarding the department's authority to enter into contracts for the construction and preservation of state trunkline roads and bridges; establish new requirements related to road construction warranties and related reporting requirements for the department and local road agencies; authorize a city that met specific criteria to use a portion of its MTF revenue distribution for public transit purposes.[5]

Senate Bill 847 would amend the Income Tax Act to increase the Earned Income Tax Credit (EITC) from 6% to 20% of the credit allowed under Section 32 of the federal Internal Revenue Code, beginning with the 2016 tax year. Senate Bill 847 would also increase the amount of the homestead property tax credit for senior citizens and disabled taxpayers whose total household resources are between $3,001 and $6,000 by reducing the household income qualifiers.

Senate Bill 80 amended the State School Aid Act (MCL 388.1618) to require districts to make information regarding reimbursement of expenses available to the public on their websites. It would also appropriate an additional $40.0 million in School Aid Fund (SAF) revenues to the At-Risk program in the FY 2014-15 School Aid Budget. The appropriation portion of the bill would only take effect if voters approve House Joint Resolution (HJR) UU.[6]

FISCAL IMPACT:

This document presents revised fiscal estimates from the 12/30/14 HFA analysis of HJR UU and related legislation, which relied on preliminary administration estimates. An attached table provides estimated revenue impacts by state fund for each bill in the package for the three-year period of FY 2015-16 to FY 2017-18. Estimates are based on January 2015 consensus revenue estimates and current projections regarding fuel prices and consumption.

Based on HFA estimates of the full-year impacts of the bills in this package, the total net impact of the package, assuming voter approval of the proposed constitutional amendment, would be an estimated increase in state revenue of $2.1 billion in FY 2015-16. In FY 2016-

[5] For additional information, see: http://www.legislature.mi.gov/documents/2013-2014/billanalysis/House/pdf/2013-HLA-5460-471EFF35.pdf
[6] For additional information, see: http://www.legislature.mi.gov/documents/2013-2014/billanalysis/House/pdf/2013-HLA-0080-69FC7409.pdf

17, the estimated net increase in state revenue would decline to $1.8 billion (see final bullet below) before increasing to $1.9 billion in FY 2017-18.[7]

Estimated net impacts for individual funds would be as follows:

- $367.8 million for distribution to state and local road agencies through the MTF in FY 2015-16, with an additional $865.3 million utilized for pay-down of STF debt.[8] In FY 2016-17, an estimated $763.6 million would be distributed to road agencies, and $467.5 million would be utilized for pay-down of STF debt. In FY 2017-18, $1.3 billion would be distributed to road agencies; the STF and County Road Commissions would each receive an estimated $490.8 million, and cities and villages would receive an estimated $273.6 million.
- Roughly $20 million in increased revenue per year to the Recreation Improvement Account within the Michigan Conservation and Recreation Legacy Fund.
- A net increase of $27.2 million to the Comprehensive Transportation Fund (CTF), for public transportation purposes, in FY 2015-16. This amount would increase to an estimated $64.6 million in FY 2016-17 and $116.1 million in FY 2017-18.
- $89.9 million for constitutional revenue sharing payments to cities, villages, and townships in FY 2015-16. This amount would increase to an estimated $113.8 million in FY 2016-17 and $111.1 million in FY 2017-18.
- $292.4 million to the School Aid Fund (SAF) in FY 2015-16. This amount would decline to an estimated $220.6 million in FY 2016-17 and $200.0 million in FY 2017-18.
- $463.1 million to the state General Fund in FY 2015-16. In subsequent years, the majority of those funds would be offset by the proposed increase in the EITC. Because the EITC is claimed when a taxpayer's return is filed, the increase in the credit under Senate Bill 847 would not be realized until 2016 tax year returns are filed in 2017, meaning FY 2016-17 would be the first year state revenues are impacted by the increase in the credit. It is estimated that the full fiscal year impact in FY 2016-17 would be to reduce income tax revenue by approximately $260 million, all of which would come from General Fund/General Purpose (GF/GP) revenue. This amount would increase to an estimated $269.1 million in FY 2017-18. The remaining estimated increase to state GF/GP revenue under the package would be $171.8 million in FY 2016-17 and $173.0 million in FY 2017-18.

More detailed information on the fiscal impacts of individual bills in the package is provided below.

[7] The revenue impacts associated with the bills considered in this analysis take effect at different times. The analyses of the revenue impacts of bills taking effect on dates other than October 1 do not attempt to allocate revenue impacts between fiscal years; the impact of changes starting in calendar year 2016 were assigned to FY 2015-16, the impacts starting in calendar year 2017 were assigned to FY 2016-17, and so on.

[8] These estimates assume that the provisions added to Section 143 of the Motor Fuel Tax by House Bill 5477 that provide for only the first $400 million of revenue in FY 2015-16 and the first $800 million of revenue in FY 2016-17 to be deposited in the Michigan Transportation Fund, with the remaining revenue allocated to debt-related payments, are interpreted to apply only to the net increase in revenue under the bill, rather than to all revenue raised under the act.

House Bills 4539 and 5492, by exempting motor fuel sales from the sales tax and increasing the sales and use tax rate by 1%, would increase state tax revenue by roughly $700 to $800 million per year on net. The increased revenue would be distributed to the School Aid Fund, General Fund, and constitutional revenue sharing.

House Bills 5477 and 5493, by amending the Motor Fuel Tax Act and the Motor Carrier Fuel Tax Act, respectively, would increase motor fuel tax revenue dedicated to the MTF by approximately $1.3 billion per year.

House Bill 4630 would amend Section 801 of the Michigan Vehicle Code, the section that establishes vehicle registration taxes. Specifically, the bill would eliminate the current "depreciation" of ad valorem tax rates for passenger cars, vans, and light trucks beginning January 1, 2016. However, this change would not apply to 2013 model year and older vehicles. This change would increase MTF revenue by an estimated $14.5 million in the first full year of implementation (effectively, calendar year 2016), an estimated $41.5 million in the second year (2017) and $62.2 million in the third year (2018).

Eliminating the "depreciation" of ad valorem registration tax rates would increase registration tax revenue for a number of years, as compared to current law, as the population of registered vehicles shifted from mostly 2013 model year and older vehicles, taxed at the lowest or "fully depreciated" tax rates, to mostly 2016 model year and newer vehicles that would be taxed at the initial and highest (undepreciated) registration tax rates.

House Bill 4630 would also increase registration taxes for trucks weighing over 26,000 pounds GVW registered under the elected GVW registration category of the Michigan Vehicle Code (Section 801(1)(k)). The change in elected GVW registration taxes would be phased in over a three-year period beginning March 1, 2016. These increased elected GVW registration tax rates would also affect apportioned registration taxes assessed for vehicles in excess of 26,000 pounds GVW engaged in interstate or cross-border commerce under the International Registration Plan (IRP). The increase in elected GVW registration tax rates, and the related increase in revenue from IRP registrations, would increase MTF revenue as follows: $13.2 million in the first year, $26.5 million in the second year, and $39.8 million in the third year.

House Bill 4630 would also create a new registration tax surcharge for electric-powered motor vehicles. This change would be implemented beginning January 1, 2016, and would generate an estimated $600,000 in revenue per year for credit to the MTF**.**

House Bill 4251 would have no impact on state government. The fiscal impact on townships and county road commissions cannot be readily estimated.

House Bill 5167 would have no impact on state or local revenues. The fiscal impact on state and local costs cannot be readily estimated.

House Bill 5460 would modify the distribution of MTF revenue by establishing an earmark up to $3.0 million from the MTF for a new railroad grade crossing surface account. The bill would also make a two-year exception to the current MTF distribution through reference to Section 143 of the Motor Fuel Tax Act (the subject of House Bill 5477); this would effectively direct an estimated $865.3 million of new revenue in FY 2015-16 and $467.5 million of new revenue in FY 2016-17 to the pay-down of STF debt rather than to state and local road agencies.[9] In addition, the bill would authorize a city that met specific criteria to use a portion of its MTF revenue distribution for public transit purposes. The impact on state and local costs of the bill's provisions regarding highway construction warranties cannot be readily estimated.

Senate Bill 847 would reduce state GF/GP revenue by an estimated $260.0 million in FY 2016-17 by expanding the state's EITC. The changes in the bill related to the homestead property tax credit are expected to have a negligible fiscal impact.

Finally, the appropriation of $40.0 million in SAF revenues to the At-Risk program in the FY 2014-15 School Aid Budget under Senate Bill 80 would become effective if the ballot proposal is approved. Since SAF revenues would not increase until FY 2015-16 under this package, the appropriation would be made from existing state revenues.

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[9] See footnote 8 on page 5.

Summary: Transportation Funding Package Fiscal Impacts
Millions of Dollars

FY 2015-16

Proposed Change	GF/GP	SAF	Rev Shar	CTF	# STF Debt	Other MTF	TOTAL
Exempt motor fuel sales from sales tax (HJR UU/HB 4539)	(94.9)	(479.3)	(49.0)	(30.4)			(653.6)
Increase Sales/Use Tax Rate by 1 Percent (HJR UU/HB 4539/HB 5492)	558.0	771.7	138.9	16.7			1,485.3
Increase Motor Fuel Taxes (HB 5477/HB 5493)				38.0	865.3	362.0	1,265.3
Registration taxes: phase out depreciation (HB 4630)*				1.5		13.1	14.5
Increase registration taxes for trucks > 26,000 lbs (HB 4630)**				1.3		11.9	13.2
Impose registration surtax on electric vehicles (HB 4630)***				0.1		0.5	0.6
Expand Earned Income Tax Credit (SB 847)							0.0
TOTAL	**463.1**	**292.4**	**89.9**	**27.2**	**865.3**	**387.4**	**2,125.3**

FY 2016-17

Proposed Change	GF/GP	SAF	Rev Shar	CTF	# STF Debt	Other MTF	TOTAL
Exempt motor fuel sales from sales tax (HJR UU/HB 4539)	(96.2)	(568.5)	(74.5)	(36.0)			(775.2)
Increase Sales/Use Tax Rate by 1 Percent (HJR UU/HB 4539/HB 5492)	528.0	789.1	188.3	15.8			1,521.2
Increase Motor Fuel Taxes (HB 5477/HB 5493)				78.0	467.5	722.0	1,267.5
Registration taxes: phase out depreciation (HB 4630)*				4.2		37.4	41.5
Increase registration taxes for trucks > 26,000 lbs (HB 4630)**				2.7		23.9	26.5
Impose registration surtax on electric vehicles (HB 4630)***				0.1		0.5	0.6
Expand Earned Income Tax Credit (SB 847)	(260.0)						(260.0)
TOTAL	**171.8**	**220.6**	**113.8**	**64.6**	**467.5**	**783.8**	**1,822.1**

FY 2017-18

Proposed Change	GF/GP	SAF	Rev Shar	CTF	# STF Debt	Other MTF	TOTAL
Exempt motor fuel sales from sales tax (HJR UU/HB 4539)	(101.0)	(608.1)	(81.6)	(38.6)			(829.3)
Increase Sales/Use Tax Rate by 1 Percent (HJR UU/HB 4539/HB 5492)	543.1	808.1	192.7	15.2			1,559.1
Increase Motor Fuel Taxes (HB 5477/HB 5493)				129.2		1,183.7	1,312.9
Registration taxes: phase out depreciation (HB 4630)*				6.2		56.0	62.2
Increase registration taxes for trucks > 26,000 lbs (HB 4630)**				4.0		35.8	39.8
Impose registration surtax on electric vehicles (HB 4630)***				0.1		0.5	0.6
Expand Earned Income Tax Credit (SB 847)	(269.1)						(269.1)
TOTAL	**173.0**	**200.0**	**111.1**	**116.1**	**0.0**	**1,276.0**	**1,876.2**

Estimated distribution of new MTF revenue (other than CTF and STF debt pay-down)

	FY 2015-16	FY 2016-17	FY 2017-18
Recreation Improvement Account	19.6	20.2	20.9
Distribution to road agencies	367.8	763.6	1,255.1
State Trunkline Fund (39.1%)	143.8	298.6	490.8
County Road Commissions (39.1%)	143.8	298.6	490.8
Cities and Villages (21.8%)	80.2	166.5	273.6

Notes:

* Phase out of depreciation of vehicle registration tax rates would be effective January 1, 2016. Estimates are presented on calendar-year basis.

** Increase in truck registration taxes would be phased in over three years beginning March 1, 2016. Estimates are presented on calendar-year basis.

*** Surtax on electric vehicle registrations would be effective beginning January 1, 2016. Estimates are presented on calendar-year basis.

Allocation of motor fuel tax revenue to STF debt service assumes the distribution of only the additional revenue generated as a result of the enactment of House Bill 5477.