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TRANSPORTATION FUND MONEY FOR MDOT ONLY

House Bill 4147 as introduced First Analysis (3-4-97)

Sponsor: Rep. Thomas Kelly
Committee: Transportation

THE APPARENT PROBLEM:

Public Act 51 of 1951 governs the state highway system and provides for the distribution of constitutionally restricted transportation funds (see BACKGROUND INFORMATION). The Michigan Transportation Fund (MTF) is the repository for these restricted funds. Its major sources of revenue are the motor fuel tax (almost 59 percent of the fund's revenue) and the vehicle registration tax (about 36 percent), with the remainder coming from vehicle title and transfer fees and other revenues (permits, other fees, and interest earnings). Public Act 51 specifies a funding formula that designates how much money, and in what order, is to be spent from the fund on certain transportation-related areas. The MTF provides funds for state trunkline (i.e. highways) and local road expenditures, to public transportation programs, and for administrative and staff costs. Administrative and staff costs include not only those in the Michigan Department of Transportation (MDOT), but also take the form of interdepartmental grants to other state agencies for services they provide to MDOT (see BACKGROUND INFORMATION). In fiscal year 1996, these interdepartmental grants amounted to \$108 million, with the Department of State receiving by far the greatest amount (\$86 million) for collecting vehicle registration/license fees. Grants to the remaining seven departments in the same fiscal year were roughly as follows: Department of Treasury, \$6 million for collection of motor fuel taxes; Department of State Police, almost \$6.5 million for motor carrier enforcement on state highways, highway safety planning, security at several MDOT field facilities, and management of the Criminal Data Justice Center (which keeps highway safety and accident figures); Department of Management and Budget, \$1 million for central administrative services for accounting, payroll, central audit, fixed asset accounting, space leasing services, mail and freight, purchasing, employee services, budgeting, and Project MAIN computer costs; Department of Civil Service (\$4 million), which assesses a one percent charge of aggregate payroll for civil service administration expenses charged to each state department; Department of Attorney General, almost \$4.5 million for attorney and clerical positions providing exclusive legal services to transportation

programs (such as tort litigation); Department of Auditor General, about \$600,000 for conducting financial audits of transportation funds and programs; and the Departments of Natural Resources/Environmental Quality, about \$750,000 for environmental reviews of road projects and consultation on road and stream crossings, plus about \$25,000 for maintaining M-185 in Mackinac Island State Park. The executive budget bill for fiscal year 1997-98 proposes \$110,995,400 in interdepartmental grants from the Department of Transportation to other state departments and agencies, with \$110,715,100 of that amount to come from the Michigan Transportation Fund, the Comprehensive Transportation Fund, and the State Trunkline Fund.

In light of the funding needs of Michigan's transportation infrastructure, some people believe that the money within the MTF should be strictly dedicated for use by the transportation department and commission, as they are responsible for constructing and maintaining the state's roads and bridges.

THE CONTENT OF THE BILL:

The bill would amend Public Act 51 of 1951 to prohibit the appropriation of Michigan Transportation Fund revenues -- beginning October 1, 1997 -- to any departments or agencies other than the state transportation department or the state transportation commission for services rendered.

The bill also would keep the current funding formula in the act but would delete now-obsolete language referring to dates now past.

MCL 247.660

BACKGROUND INFORMATION:

Constitutional provisions. Article IX of the 1963 state constitution deals with finance and taxation, and has a section (Section 9) that restricts the use of specific taxes on fuels for "transportation purposes." Section 9 says:

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All specific taxes, except general sales and use taxes and regulatory fees, imposed directly or indirectly on fuels sold or used to propel motor vehicles upon highways and to propel aircraft and on registered motor vehicles and aircraft shall, after the payment of necessary collection expenses, be used exclusively for transportation purposes as set forth in this section.

Not less than 90 percent of the specific taxes, except general sales and use taxes and regulatory fees, imposed directly or indirectly on fuels sold or used to propel motor vehicles upon highways and on registered motor vehicles shall, after the payment of necessary collection expenses, be used exclusively for the transportation purposes of planning, administering, constructing, reconstructing, financing, and maintaining state, county, city, and village roads, streets and bridges designed primarily for the use of motor vehicles using tires, and reasonable appurtenances to those state, county, city, and village roads, streets, and bridges.

The balance, if any, of the specific taxes, except general sales and use taxes and regulatory fees, imposed directly or indirectly on fuels sold or used to propel motor vehicles upon highways and on registered motor vehicles, after the payment of necessary collection expenses; 100 percent of the specific taxes, except general sales and use taxes and regulatory fees, imposed directly or indirectly on fuels sold or used to propel aircraft and on registered aircraft, after the payment of necessary collection expenses; and not more than 25 percent of the general sales taxes imposed directly or indirectly on fuels sold to propel motor vehicles upon highways, on the sale of motor vehicles, and on the sale of the parts and accessories of motor vehicles, after the payment of necessary collection expenses; shall be used exclusively for the transportation purposes of comprehensive transportation purposes as defined by law.

The legislature may authorize the incurrence of indebtedness and the issuance of obligations pledging the taxes allocated or authorized to be allocated by this section, which obligations shall not be construed to be evidences of state indebtedness under this constitution.

Interdepartmental grants. The Department of Transportation is not the only state department that makes interdepartmental grants to other state departments or agencies. For example, in Public Act 364 (enrolled House Bill 5586) of 1996, the "general government" budget appropriations for fiscal year 1996-97, there are interdepartmental grants from a number of state departments and agencies to other state departments and agencies. (The general government budget bill deals with appropriations made to the

Departments of Attorney General, Civil Rights, Civil Service, Management and Budget, State, and Treasury, the executive [i.e. governor's] office, the legislative branch, and for "certain other state purposes.") Interdepartmental grants (IDGs) listed in the act include IDGs to the Departments of Attorney General, Management and Budget, State, and Treasury, as well as to the legislative auditor general (in the legislative branch of government) from, variously, the Departments of Commerce (now merged with the former Department of Labor to form the Department of Consumer and Industry Services), State Police, Transportation, Natural Resources, Civil Service, Community Health, Jobs Commission and the Family Independence Agency, as well as from the Office of Services to the Aging (in the Department of Management and Budget), the Single Audit Act, and various charges and fees.

More specifically, the act lists the following IDGs:

**** To the Department of Attorney General:** \$1,603,600 from the former Department of Commerce (from "health services," the liquor purchase revolving fund, and "public utility accessibility assessments"), \$300,00 from the Department of State Police Michigan Justice Training Fund, \$2,482,300 from the Department of Transportation (State Aeronautics Fund, Comprehensive Transportation Fund, and State Trunkline Fund), and \$360,300 from the Department of Natural Resources' Game and Fish Fund.

**** To the Legislative Auditor General:** \$94,000 from the former Department of Commerce, \$631,100 from the Department of Transportation (Comprehensive Transportation Fund, Michigan Transportation Fund, State Aeronautics Fund, and State Trunkline Fund), \$32,500 from the Department of Community Health, \$20,000 from the Department of Natural Resources Game and Fish Protection Fund, \$113,200 from the Department of Civil Service, and \$799,700 from the Single Audit Act.

**** To the Department of Management and Budget:** \$1,115,900 from the Department of Transportation (Michigan Transportation Fund, State Aeronautics Fund, Comprehensive Transportation Fund, and State Trunkline Fund), \$42,999,40 from "building occupancy and parking charges," \$100,000 from the Jobs Commission, \$181,800 from the Department of Natural Resources Game and Fish Protection Fund, \$3,595,700 from "community health" (over \$2 million of which goes to the Office of Services to the Aging in the DMB), and \$1,190,400 from "user fees."

**** To the Department of Treasury:** \$6,320,800 from the Department of Transportation, \$1,545,000 from the Family Independence Agency, \$200,000 from the Department of Community Health, \$433,600 from "state

agency collection fees," \$3,736,300 from "receipt, warrant and cash processing fees," \$1,403,800 from "warrant/lien processing fees," \$498,500 from "user fees," \$451,200 from "DSS title IVD," \$250,000 from data/collection services fees," and \$131,200 from "fiscal agent service fees."

** All of the IDGs listed as going to the Department of State are listed as coming from the Department of Transportation Michigan Transportation Fund (MTF) as follows: \$1,220,100 to "executive direction," \$17,781,800 to "department services," \$2,820,100 to "regulatory services," and \$4,409,200 to "department wide appropriations," \$59,039,400 to "customer delivery services," and \$985,200 to "election regulation and department policy and planning".

In addition to the interdepartmental grants listed in the general government budget for fiscal year 1996-97, the Department of Transportation also made IDGs to the Departments of State Police, Civil Service, and Natural Resources/Environmental Quality.

Legislative history. At the end of the 1995-96 session, a House committee amendment to a Senate bill (Senate Bill 1011) also would have prohibited transfer of Michigan Transportation Fund money to state department and agencies other than the Michigan Department of Transportation (MDOT) and the transportation commission. The House substitute for the Senate bill was reported from the House Committee on Transportation, and amended on the floor of the House on December 12, 1996, where it died after twice being passed temporarily.

FISCAL IMPLICATIONS:

According to the House Fiscal Agency, the bill would have no overall fiscal impact on the state as it simply shifts the source of financing certain activities currently undertaken by state department and agencies in administering the collection of revenue, under various public acts, in administering the collection of revenue into the Michigan Transportation Fund (MTF); at the same time, however, the bill would increase revenues distributed to local units of government.

For fiscal year 1996-97, over \$108.2 million in interdepartmental grants were appropriated within the transportation budget for these activities, with just over \$95 million appropriated directly from MTF funds, \$12.6 million from the State Trunkline Fund (STF), and around \$300,000 coming from the Comprehensive Transportation Fund (CTF). The remaining funds were appropriated from the State Aeronautics Fund, which does not receive an MTF allocation.

Under the bill, activities related to the CTF and STF would likely be financed through other non-MTF revenues within these funds, as Public Act 51 (Sections 10d and 11) lists these administrative and operating expenses as priorities for funding for each fund. However, the allocation which had been made directly from MTF funds would have to be financed using other state revenue sources not currently used for transportation. This could be accomplished through an appropriation of state general fund/general purpose (GF/GP) revenues within the transportation budget, or by transferring these activities into the budgets of the relevant departments and financing the activities through GF/GP or other allowable revenue sources. In either case, the appropriation would draw funds away from other budget areas.

With regard to the increase in revenues distributed to local units of government, the HFA analysis points out that the prohibition on interdepartmental grants in fiscal year 1996-97 would leave an additional \$95 million in the MTF to be distributed according to the statutory formula that gives 39.1 percent of the funds to county road commissions, 39.1 percent to the state trunkline fund, and 21.8 percent to city and/or local road agencies. Thus, under the bill, approximately \$57.9 million (60 percent of the \$95 million) in additional revenue would be distributed to local governments, though some of this increase would be offset by reduced distribution to local units from other budget areas incurring reduced spending. (2-26-97)

ARGUMENTS:

For:

The bill would increase the amount of funds the Department of Transportation and the transportation commission could use for roads and bridges needing repairs or major improvements by deleting from the act language that provides for the appropriation of money from the Michigan Transportation Fund (MTF) to various state departments and agencies for their administrative expenses in carrying out statutory duties under the motor fuel tax act, the Motor Carrier Act, and the Michigan Vehicle Code. This change would free up approximately \$108 million in additional funds to the transportation department/commission, which is approximately equal to the revenue that would be generated by a two-cent per gallon increase in state motor fuel taxes. Of course, the bill represents merely a starting point for raising funds needed to revitalize Michigan's transportation infrastructure; other measures--such as increasing motor fuel taxes, raising vehicle registration and titling fees, and possibly restructuring the MTF distribution formula -- would also be needed to adequately address the huge backlog of road and bridge needs throughout the state.

Against:

The bill would result in serious budget shortfalls for eight state departments and agencies, some of which play a central role in collecting transportation revenue upon which the state relies to support its road and bridge system. For example, the Department of State stands to lose more than \$85 million -- or an estimated 52 percent of its entire budget -- under the bill, even though it collected more than \$1.6 billion in state revenue for the 1994-95 fiscal year, according to a spokeswoman for the department. Other departments or agencies that would face budget shortfalls under the bill include the Departments of Treasury, State Police, Management and Budget, Civil Service, Attorney General, Natural Resources/ Environmental Quality, and the Auditor General. The bill is a radical solution for dealing with the problem of a lack of transportation funding, which can only be solved using a comprehensive approach that includes, among other things, a significant increase in the motor fuel tax rate.

Response:

Any budgetary shortfalls experienced by state departments or agencies due to the bill could be covered by increasing the amounts they receive from the general fund. The bill merely would provide taxpayers assurance that revenue raised from gasoline taxes and motor vehicle registration and titling fees will only be used by the transportation department/commission for maintaining and improving Michigan's roads and bridges.

POSITIONS:

The County Road Association of Michigan supports the bill. (3-3-97)

The Michigan Townships Association supports the bill. (3-3-97)

The Michigan Farm Bureau supports the bill. (3-3-97)

Representatives of the following groups testified in support of the bill on 2-26-97:

- The Michigan Road Builders Association
- The Michigan Association of Counties
- The Associated Petroleum Industries of Michigan
- The Michigan Manufacturers Association
- The Michigan Chamber of Commerce

Representatives of the following state departments testified in opposition to the bill on 2-26-97:

- The Department of Transportation
- The Department of State
- The Department of Attorney General

Analyst: S. Ekstrom

■ 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.