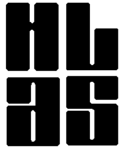

House Legislative Analysis Section
Romney Building, 10th Floor
Lansing, Michigan 48909
Phone: 517/373-6466

TRANSPORTATION PACKAGE

House Bill 4872 as enrolled
Public Act 83 of 1997
Sponsor: Rep. Clark Harder
House Committee: Appropriations
Senate Committee: none

House Bill 4180 as enrolled
Public Act 81 of 1997
Sponsor: Rep. Deborah Cherry
First House Committee: Human Services and Children
Second House Committee: Tax Policy
Senate Committee: Finance (discharged)

House Bill 4191 as enrolled
Public Act 82 of 1997
Sponsor: Rep. A. T. Frank
First House Committee: Colleges and Universities
Second House Committee: Tax Policy
Senate Committee: Finance (discharged)

Senate Bill 208 as enrolled
Public Act 86 of 1997
Sponsor: Sen. Dale Shugars
Senate Committee: Finance
House Committee: Labor and Occupational Safety (discharged)

Senate Bill 225 as enrolled
Public Act 110 of 1997
Sponsor: Sen. Glenn Steil
Senate Committee: Appropriations
House Committee: Appropriations

Senate Bill 302 as enrolled
Public Act 108 of 1997
Sponsor: Sen. Philip Hoffman
Senate Committee: Appropriations
House Committee: Appropriations

Senate Bill 303 as enrolled
Public Act 79 of 1997
Sponsor: Sen. Philip Hoffman
Senate Committee: Appropriations
House Committee: Appropriations
Senate Bill 581 as enrolled
Public Act 80 of 1997
Sponsor: Sen. Philip Hoffman
Senate Committee: Transportation and Tourism
House Committee: Transportation (discharged)

First Analysis (8-19-97)

THE APPARENT PROBLEM:

Michigan was one of the first states to build its road system: by 1937 much of the present-day road network was in place. What's more, Michigan's interstate system was, on average, open seven years before that in other states. However, Michigan no longer claims road construction or road maintenance leadership. Instead, due to the road system's age (trunklines are designed to last 20 years) and to the state's terrain and weather conditions (glacial deposits, wetlands, and high concentrations of clay that are subjected to many freeze-thaw cycles and corrosive snow removal treatments),Michigan's roads are generally recognized as being in bad repair.

As observed in a November 1996 memorandum and a subsequent and more extensive May 1997 report entitled "Michigan Highway Finance and Governance" published by the Citizens Research Council, several proposals to provide increased funding for transportation have been put forth over the past year. The proposals have tended to fall into three broad categories: (1) Closing of "loopholes", e.g., elimination of the discount on dieselfuel for commercial truckers and the evaporation allowance provided to gasoline distributors; (2) Reduction of "leakage" from the system, e.g., reform of tort laws related to transportation; and (3) Increases in the rate of taxation on motor fuel ranging up to 12 cents per gallon. In addition, some have proposed fee increases for certain vehicle registrations and use permits, administrative efficiencies, a tax amnesty program, or a redirection of a portion of the sales tax. The various plans to increase funding acknowledge the need for road repair, and often they call for jurisdictional reorganization in the hopes of achieving greater administrative efficiency in highway construction and maintenance. The total annual revenue that should be generated by the various plans depends upon estimates of need and ranges from $400 million to $1.3 billion. Michigan has about 9,592 miles of state trunkline, 19,679 miles of city/village roads, and 88,384 miles of county roads. The jurisdiction for road repair and maintenance rests with state and local units of government in a historic partnership now strained by lack of resources and competing claims about administrative efficiency. Since 1980, traffic engineers estimate that the number of vehicle miles traveled on Michigan roads has shot up from about 60 billion to more than 80 billion, causing considerably more congestion and damage to roads. When roads are damaged and replacement is necessary, the construction and maintenance work is contracted out. When roads need repair, much of the work is undertaken in local road agencies, and highly technical projects are contracted out.

According to the Citizens Research Council Report, Michigan has higher proportions of roads in both good and poor condition and a relatively lower proportion in fair condition, reflecting disparities in road quality among functional classifications (that is, local access roads, collector routes, arterial routes, and interstates, freeways and expressways) and among regions of the state. One study published in 1993 by the Road Information Program of Washington, D.C. found that 81 percent of Michigan's roads need to be repaired or replaced in this decade. Additionally, the Michigan Department of Transportation (MDOT) estimates that 21 percent of the 10,511 bridges in the state are in fair condition or worse; other studies put the number of obsolete or deficient bridges more than 50 percent higher, 3,395 instead of MDOT's more conservative estimate of 2,209. To improve or replace faulty roads and bridges, expenditures are made from the Michigan Transportation Fund.

The basic structure of highway finance in Michigan, outlined in Public Act 51 of 1951, relies on transfers and appropriations from the Michigan Transportation Fund. The MTF is the primary receiving fund for the tax revenues and user fees dedicated to highway purposes,including motor fuel taxes, motor vehicle weight and ad valorem tax revenues, motor carrier tax revenues, and other revenues. In fiscal year 1994-95, the MTF received $1,359.6 million. Several departments provide transportation-related services for the Department of Transportation, such as collecting revenue (State and Treasury), performing specialized tasks (Environmental Quality and State Police), or providing general government services (Auditor General, Civil Service, Management and Budget). These departments receive transfers from the Michigan Transportation Fund to pay the cost of these services. In fiscal year 1994-95 MTF grants of this kind, distributed to seven state agencies, totaled $84.9 million

Transfers from the MTF also are made to various operating funds: the Recreation Improvement Fund, Critical Bridge Fund, Rail Grade Crossing Fund, and the Transportation and Economic Development Fund; and, to the county road commissions, cities, and villages according to a formula predicated on road mileage, regardless of usage. Some have pointed out that distribution from the MTF would be significantly affected if utilization were factored into the formula. For example, Oakland County claims 2.7 percent of the county primary and local mileage in Michigan but 13.6 percent of the vehicle miles. Wayne County has 1.6 percent of the mileage, but 15.9 percent of the vehicle miles. Kent County has 2.1 percent of the mileage and 5.1 percent of the vehicle miles. In contrast, Houghton County has 1.0 percent of the mileage, but only 0.1 percent of the vehicle miles. Other rural counties show similar relationships.

Highways serve both direct users and those who receive indirect benefits from the economic activity they facilitate. Accordingly, there are reasons to finance highway construction and maintenance from both user taxes and from general taxation. In fact, Michigan employs both user taxation (state motor fuel taxes and motor vehicle registration taxes) and general taxation (local property taxes) in financing its road system. However, motor fuel taxes are Michigan's largest source of transportation revenue.

Since 1984 the gasoline tax has been 15 cents a gallon, following two-cent hikes in 1983 and 1984; these increases were imposed to counter falling gasoline consumption brought on in part by the high prices engendered by the OPEC oil crisis. Since 1984 the legislature has hesitated to further raise the levy. A report published by Public Sector Consultants that examined trends in Michigan transportation revenue between 1982 and 1995 noted that since 1984, when Michigan last raised its gasoline tax, all but five states have hiked their rates. Further, the national median gas tax rate stood at 19 cents in 1993, significantly higherthan Michigan's. According to the trend analysis, real revenues from motor fuel taxation have dropped--from $573 million (in 1983-84) and a peak of $600 million (in 1987-88) to less than $505 million (in 1993-94). In effect, while the nominal gasoline tax rate has remained at 15 cents per gallon, inflation has forced the real tax rate to just over 10 cents a gallon (in 1983 dollars).

Michigan ranks far below the median in transportation spending, as well. The state ranks 38th in maintenance spending per mile of roadway and 34th in capital outlay spending per mile. Again according to 1995 trend analysis, expenditures on capital improvements totaled $4,724 per mile of Michigan road (about $203 per person) in 1993, the least of the five Great Lakes states. At about $203 per person, Michigan's fiscal year 1992-93 state and local direct spending per capita on highways was second lowest in the United States, $84 below the median.

Since the early 1990s, there have been a wide variety of proposals to raise badly-needed revenue for transportation infrastructure needs, including proposals to increase the gas tax, to increase vehicle fees, and to make controversial changes in the structure of jurisdictional responsibility for the state's roads. The package of legislation that was eventually adopted, and which is described in this analysis, represents a compromise among the many interested parties.

THE CONTENT OF THE BILLS:

The transportation package would increase the gas tax by four cents, and provide tax reduction by increasing the personal exemption and adding two new tax credits to the state income tax. It also would increase truck registration fees, direct supplemental funds in the current fiscal year to road and bridge repair, and make management changes aimed at increasing the efficient use of the Michigan Transportation Fund by both the state transportation department and by county road commissions. The allocation formula used to disperse road funds would remain unchanged.

Tax and Fee Revenue:

House Bill 4872 would amend the motor fuel tax act (MCL 207.102 et al) to increase the gasoline tax 4 cents per gallon, from 15 cents to 19 cents per gallon, as of August 1, 1997. The bill would not change the diesel fuel tax rate. Further, under current law, a supplier is permitted a deduction of 2 percent of the quantity of gasoline received to allow for evaporation and loss. Under the bill, this provision would apply to gasoline received by a supplier before October 1, 1997. For gasoline received after September 31, 1997, a supplierwould be allowed a deduction of 1.5 percent to allow for the cost of remitting the tax. The language referring to "evaporation and loss" would be deleted. House Bill 4872 is tie-barred to Senate Bill 303.

Senate Bill 581 would amend the Michigan Vehicle Code (MCL 257.801[k]) to increase by 30 percent the registration taxes on trucks, defined as trucks

weighing up to 8,000 pounds towing a trailer or any other combination of vehicles, and trucks weighing 8,001 or more pounds, road tractors and truck tractors. Currently the fee, based on elected gross weight, ranges from $378 to $2,398 on nineteen-tier fee schedule. Under the bill, the fees would range from $491 to $3,117. Further, Senate Bill 581 would amend the code (MCL 257.725) to increase the cost of special permits that are necessary for vehicles that exceed size, weight, and load limits. Currently, the code allows a jurisdictional authority to issue a written special permit, sometimes annual, that allows an applicant to operate a vehicle or combination of vehicles when they exceed the size, weight, or load limits, or fail to conform in other ways. The special permits are issued upon receipt of a written application and when good cause can be shown. A special permit specifies the trip or trips and the date or dates for which the permit is valid, and it notes the jurisdictional authority granting the special permit, as well as any restrictions or prescriptive conditions that are necessary to protect the safety of the public. A jurisdiction may require a reasonable inspection fee and other security it determines to be necessary in order to compensate for damages caused by the non-conforming vehicle's movement. The bill would require a jurisdictional authority to charge a fee of $50 for an intrastate or an out-of-state vehicle for a single trip, and a fee of $100 for multiple trips or a permit issued on an annual basis. However, the bill specifies that such a special permit fee, or the permit fee required for oversize farm machinery under the code, could not exceed the cost of issuing the permit. Finally, the bill would amend the code (MCL 257.801p) to specify that after October 1, 1997, the registration tax for commercial vans and pickups that weigh less than 5,000 pounds and that are owned by a business, corporation, or person other than an individual would be taxed based on the vehicle's list price, and no longer its weight. The current weight-based registration tax ranges from $39 to $49. (Generally, other small passenger vehicles, and pickups and vans for personal use, are subject to a price-based registration tax schedule.) The registration tax for these commercial vehicles would be determined by following the 26-tier, list price-based fee schedule that is currently in effect for 1984 or subsequent model year vehicles. Under the value-based system, the registration tax ranges from $30 to $148, or, if the vehicle list price exceeds $30,000, the tax would equal 0.5 percent (one-half of one percent, or .005) of the list price. Under the alternate value-based tax schedule, there is a 10 percentreduction in the tax for a second registration, another 10 percent reduction (based on the amount charged for the second) for a third registration, and another 10 percent reduction (based on the amount charged for the third) for fourth and subsequent registrations. Senate Bill 581 is tie-barred to Senate Bill 503.

Senate Bill 302 provides for a $20 million supplemental appropriation for the Department of Transportation and local road authorities for fiscal year 1996-97. The appropriation consists of $20 million from the Michigan Transportation Fund. The bill allocates $7,820,000 to state roads and bridges, and the same amount to county road commissions (according to the distribution formula, 39.1 percent each), and $4,360,000 to cities and villages (21.8 percent).

Senate Bill 225 would amend the Management and Budget Act (MCL 18.1353d) to provide an appropriation from the countercyclical budget and economic stabilization fund (the "rainy day" fund) to the Department of Transportation for fiscal year 1996-97 in the amount of $69 million, which represents the interest earned on the principal of the fund. The bill would require that the funds be distributed to county road commissions ($26.979 million), cities and villages ($15.042 million), and for use on state trunkline roads ($26.979 million). The funds could only be used for resurfacing and repair of existing roads with the appropriate materials based on accepted engineering standards. Funds would be considered supplementary to existing funds, and could not be used for new construction, to supplement or replace funds for road and bridge projects currently in progress, or for administrative costs. Funds not used by September 30, 1997 would be considered a work project and would not be returned to the state, and could be used only for improvements on federal aid roads as approved by the department.

Tax Expenditures and Tax Credits:

Senate Bill 208 would amend the Income Tax Act (MCL 206.30) by raising the personal exemption by $200 for each tax year after the 1997 tax year. In calculating taxable income, a taxpayer currently can subtract $2,500 multiplied by the number of personal or dependency exemptions allowed on the federal income tax return. The act also currently specifies that the personal exemption is to be increased annually for tax years after 1997 based on increases in the U.S. consumer price index, rounded to the nearest $100. Under Senate Bill 208, after the CPI calculation had been made, an additional $200 would be added to the

total. Senate Bill 208 is tie-barred to House Bills 4180, 4191, and 4872, and to Senate Bill 303. House Bill 4191 would amend the Income Tax Act (MCL 206.274) to allow a tuition tax credit for tax years 1998 and thereafter of eight percent of tuition and fees paid, up to $375. The current credit is for four percent of tuition and fees, up to $250. The credit would continue to be available to a taxpayer who is a resident of the state with an adjusted gross income of $200,000 or less. A taxpayer can claim the credit for fees and tuition paid to a qualified institution of higher learning on his or her own behalf or on behalf of any other student. The credit can be claimed for no more than four years per student. A qualified institution would continue to mean, among other things, an institution that promises not to raise fees and tuition rates by more than the average annual percentage increase in the U. S. consumer price index. (Currently, a taxpayer must be paying tuition and fees of $6,250 to receive the maximum credit of $250. Under the bill, from the 1998 tax year on, a taxpayer would receive the maximum $375 when paying tuition and fees of $4,687.50.) House Bill 4191 is tie-barred to House Bill 4872 and Senate Bill 303.

House Bill 4180 would amend the Income Tax Act (MCL 206.30d) to allow a taxpayer to deduct from taxable income, beginning with the 1998 tax year, $600 for each child younger than 7 years old on the last day of the tax year and $300 for each child 7 through 12 years of age on the last day of the tax year. (Technically speaking, the deduction would be for the relevant amount multiplied by the number of exemptions claimed for dependents who are children of the specified ages.) The bill's provisions would be known as the Child Care Act of 1997. House Bill 4180 is tie-barred to House Bill 4872 and Senate Bills 208 and 303.

Management Efficiency:

Senate Bill 303 would amend Public Act 51 of 1951 (MCL 247.660 et al), which provides for the creation, distribution, and uses of the Michigan Transportation Fund, the Comprehensive Transportation Fund, and the State Trunkline Fund. The bill would establish new administrative practices and procedures that aim for greater efficiencies in state and local road construction and maintenance operations. Specifically, the bill would define and limit the administrative costs to and from the Michigan Department of Transportation (MDOT) and local units to 10 percent of all funds received. It would require the department, in conjunction with counties and municipalities, to implement a pavement management system, with the goal of ensuring that a disproportionate share of pavement does not become due for replacement or major repair at the same time. The department would also be required to put in place a life-cycle cost analysis for state-funded projects costing more than $1 million, and the department would be required to award paving projects that use material having the lowest life-cyclecost. The bill would require MDOT to secure, where possible, not less than five-year full replacement warranties for contracted state trunkline construction work, as well as require that all local projects done by contracts exceeding $100,000 be awarded by competitive bid. When extras and overruns occurred requiring approval of the state administration board or the transportation commission, or both, the department would be required to notify the House and Senate appropriations transportation subcommittees. The bill would require that MDOT, the Michigan State Chamber of Commerce, and the Michigan Minority Business Development Council to assist small businesses, including those located in enterprise and empowerment zones, by providing incentives and technical assistance to assist them in competitive bidding. Under Senate Bill 303, MDOT and the County Road Association of Michigan would be required to work to establish incentives for counties to create statewide purchasing pools that save money. Further, the Department of Transportation would be required to conduct both financial compliance and performance audits of its contracted work, following audit standards developed by the Government Accounting Office, the most current copy of which they would be required to share with local road agencies at least six months before any audit would be undertaken. County road commissions and cities and villages would be required to establish, where applicable, intergovernmental highway corridor planning preservation committees for the purpose of developing corridor plans in order to provide a stable economic environment for business, and to eliminate duplication of governmental services. Further, the bill would place certain restrictions on mowing highway rights-of-way.

Currently, eight other agencies or departments of state government provide services for the Department of Transportation: the Departments of State and Treasury collect revenue; the Departments of Environmental Quality, State Police and Attorney General perform specialized tasks; and, the auditor general and the Departments of Civil Service and Management and Budget provide general government services. Senate Bill 303 would phase out appropriations from the

Michigan Transportation Fund for administrative costs to those agencies beginning in fiscal year 1997-98 and ending in fiscal year 1999-2000, excepting MDOT, the transportation commission, the Department of Environmental Quality Expedited Permit Processing Program for Road Agencies, the Department of State, and the attorney general. Funds appropriated for necessary expenses would be based on an established cost allocation methodology that reflects actual costs.

Further, the bill would make several changes with regard to the distribution of funds for public transit purposes, including increasing the cap on local bus operatinggrants, eliminating the growth cap on local transit authorities, providing for minimum funding levels for certain projects, and requiring a state match for transit programs approved for federal funding.

The bill would earmark revenue from the increased gas tax as follows: revenue from three cents of the increased tax would be distributed to the State Trunkline Fund, county road commissions, and cities and villages according to the current distribution formula (39.1 percent each to state and county road agencies and 21.8 percent to cities and villages); and revenue from the remaining one cent would be dedicated for the repair of state bridges. Further, the bill would allocate $43 million from the Michigan Transportation Fund to the State Trunkline Fund for debt service costs of Build Michigan projects.

The state transportation funds distribution formula (the mechanism used to allocate federal and state funds to state highway projects and local road agencies) is scheduled to expire on September 30, 1998. Senate Bill 303 would not alter the distribution formula or the expiration date. The bill specifies that if a distribution formula is not implemented for a time period beginning after September 30, 1998, 80 percent of the revenue distributed from the transportation funds during fiscal year 1997-98 would continue to be distributed in the same proportions as the current formula. Senate Bill 303 is tie-barred to Senate Bill 208 and House Bills 4180 and 4191.

FISCAL IMPLICATIONS:

The House Fiscal Agency estimates that House Bill 4872, the gasoline tax increase, would increase state revenue by an additional $193 million in fiscal year 1997-98 and $31.1 million through the end of fiscal year 1996-97. Further, the agency estimates that Senate Bill 581 would increase state revenue from truck license registration fees, commercial pickup and van registration fees, and special permit fees on overweight and oversized vehicles by $44.9 million in fiscal year 1997-98. The agency reports that Senate Bill 302, a fiscal year 1996-97 supplemental budget bill, would increase state expenditures devoted to road and bridge repairs by $20 million. The agency reports that Senate Bill 225, a bill to direct interest income from the Countercyclical Economic and Budget Stabilization Fund (sometimes called the Rainy Day Fund), would increase state expenditures devoted to road repair and resurfacing projects by $69 million.

Further, House Bill 4191, the tuition tax credit, will reduce state revenue by about $23 million annually. In calculating this estimate, the House Fiscal Agency assumed the credit would be available to students at 10 ofthe 15 public colleges and universities, and 15 of the 28 community colleges. House Bill 4180, the children's tax credit, will reduce state revenue by about $30 million annually. Finally, the HFA estimates that Senate Bill 208, the personal exemption increase, will reduce state revenue by about $60 million annually. (7-21-97 and 7-24-97)

ARGUMENTS:

For:

In April 1995 the Mackinac Center for Public Policy issued a report that called for an offset in any gas tax hike with concurrent and commensurate cuts in other taxes. Additionally, the report call for the enactment of changes to increase the purchasing power of the already substantial sums that Michiganians pay for roads. The 1997 Gas Tax and Transportation Reform package would accomplish both goals.

First, the package would partially offset a four-cent increase in the gas tax, which would raise $193 million in additional state road revenue each year, with three tax expenditures that would reduce state revenue by $113 million each year. (The combination of income tax expenditures and credits would include an increase in the personal exemption, a tuition tax credit, and a child tax credit.) In addition, the package also would increase state revenue by raising fees for trucks and for special use permits, and it would offer two one-time infusions of revenue during fiscal year 1996-97 -- an appropriation from the budget stabilization fund, and an additional appropriation from the general fund. Overall, the package would raise about $214 million (net) in the first year and about $125 million (net) in subsequent years.
Second, the transportation package would enhance the purchasing of existing expenditures by requiring more competitive bidding, imposing a 10 percent cap on administrative costs, and requiring a pavement management system, 5-year construction replacement warrantees, joint purchasing agreements, local road

agency corridor planning efforts, and budget and program audits. Although an increase in the gas tax is necessary in 1997, it is the first gasoline tax increase since 1984. It seems generally agreed that this package of tax credits and management efficiency reforms has succeeded in keeping the tax increase at the lowest possible rate, 4 cents instead of 12 cents, as was originally proposed by some advocates when negotiations got underway several years ago.

Against:
At least one transportation analyst, a professor of transportation and logistics at Wayne State University, has argued that although tax offsets are cruciallyimportant to sound transportation funding policy, it is more important that the legislature consider the reorganization of road responsibilities (together with contracting changes). This package does *not* reorganize road responsibilities, and in that sense the transportation package is unfinished. The jurisdictional reform put forward by the executive branch chiefly is a matter of transferring to state control more than 20,000 road miles for which local road agencies are now responsible. The governor has pointed out that certain local road agency practices are uncompetitive, insular, and duplicative. The governor has asserted that the more than 20,000 miles of local roads that are now eligible for federal funding should be transferred to MDOT, so the state can privatize road construction and repair work. In transferring the money and roads, citizens can be better assured that road work will be undertaken more systematically, and construction standards will be more uniform.

Response:
Most state and local government officials favor strengthening, rather than jettisoning, Michigan's decades-old, cooperative state-local road agency partnership. This intergovernmental partnership stands as a fine tribute to "devolution"--the often lauded move to decentralize power, authority, and control in order to free-up innovation, to stimulate competition, and to better ensure responsiveness to citizen-customers. Until 1995, when MDOT surprised its local road agency partners with an unplanned and suddenly implemented reduction of nearly $50 million in state-shared revenue, Michigan's state-local partnership worked well. The state's unilateral move to take more than its negotiated share of revenue heightened mistrust among the local partners. Likely, road reform talks will continue during the coming year, because the state-local distribution formula sunsets in September 1998. Until the sunset deadline, policy makers will continue to discuss what have come to be called the jurisdictional issues in road reform.

Against:
Michigan citizens do not deserve, nor do road repair programs require, a gasoline tax increase. Many would argue that the executive and legislature have *not* done all that they could do to reprioritize spending in the state budget and to direct more revenue to road construction and maintenance. Some feel that the executive and legislative answer to virtually any spending problem is the same: a tax increase. Instead, the executive and the legislature should think of the state budget like a family budget-- a family whose total income grows little, if at all. As would a family with limited income, little earning potential, and no desire for debt, the legislature should tighten its belt. What's more, neither the legislature nor the executive branch should carry the state "family" intodebt; for example, by taking steps to increase the bonded indebtedness. Already, $43 million of the gas tax increase is annually earmarked to pay off the debt underwritten for Build Michigan Road Projects. In lieu of this gas tax increase, there are many possibilities that would generate, save, or redirect state funds. For example, chief among those options considered but not adopted was the redirection of a portion of the sales tax on gasoline from the school aid fund to the transportation fund, and also a general tax amnesty program. The first option would have redirected an estimated $350 million each year to transportation needs. As to the second option, a focus on tax collections and an amnesty for tax scofflaws was estimated to bring in as much as $110 million that could be dedicated to road improvements. Anyway one looks at this package, it is a $125 million net tax increase.

Against:
Estimates of the amount of revenue necessary to meet adequately the needs of Michigan's transportation system vary: the amount ranges from $400 million annually to as much as $1.3 billion, depending, of course, on the comprehensiveness of the needs assessment. For example, in 1994 the County Road Associations of Michigan offered an $813 million proposal, increasing the gas tax by 12 cents. One year later, newspapers reported the governor's plan to call for a 5 cent to 7 cent increase in the gasoline tax, and for transfer to the state of more than 20,000 road

miles that were eligible for federal funds. When local road agencies balked at turning a higher proportion of road funds to the state, the governor recommended a 4 cent gas tax increase instead, as well as other revenue sources that would have equaled about $500 million annually. The 4 cent increase together with cost savings, tax credits, and fee increases totals $214 million (net) in the first year, and about $125 million (net) in subsequent years. The increase in revenue is about $327 million in the first year, and about $238 million in subsequent years. This package falls far short of everyone's expectations and is woefully inadequate--an unacceptably modest amount of revenue to address nearly a decade of roadway neglect. Should MDOT and local road agencies ever hope to reconstruct and maintain what is, arguably, Michigan's most important lifeline to vital local economies, more transportation revenue will be necessary. This transportation package is inadequate, too, because it fails to increase the diesel fuel taxes.

For:
After the 4 cent gas tax, the single largest source of road repair revenue in the 1997 transportation package is a 30 percent increase in registration fees for trucks (an estimated $44.9 million). Truck registration fees are based on gross vehicle weight--the empty weight of thevehicle, or combination of vehicles, plus the weight of the maximum load the owner has elected to carry. Truck fees raised $197.7 million in fiscal year 1994-95. Truck registration fees in Michigan are low relative to other states. According to the Citizens Research Council, Michigan ranked 9th out of 15 comparison states in registration fees. When motor fuel taxes are factored in, taxes on an 80,000 lb. vehicle in Michigan fell to 14th among the 15 states, 30 percent below the median. According to one cost-allocation study (which try to ascribe proportions of costs of road and bridge repair to various classes of vehicles) published by the American Association of State Highway and Transportation Officials, the average fully loaded truck does as much damage to the road surface as about 9,600 cars. Axle weights, the key determinant of how much stress and deterioration a vehicle imposes upon road pavement, range from 12,000 to 17,000 pounds for the average 80,000 pound truck and from 13,000 to 18,000 pounds for a 154,000 pound truck. Given that truck registration fees are relatively low, and that trucks generally are responsible for much of the wear and tear on Michigan's highways, the transportation package would wisely increase truck user fees.

Against:
According to a report published by the Mackinac Center for Public Policy entitled "Fixing the Roads: A Blue Print for Michigan Transportation Infrastructure Policy," lower truck user taxes offer one of the few competitive advantages Michigan has on the tax front, and overall state taxes on truckers are higher in Michigan than in neighboring states after workers' compensation, corporate taxes, and unemployment taxes are taken into account. The Mackinac Center and the Michigan Trucking Association argue that an increase in truck taxes should not be taken lightly in a state with extensive movements of heavy industrial products and components for the auto industry. What's more, during 1996 the legislature enacted Public Act 584, which increased the diesel fuel tax. The Michigan Trucking Association notes that beginning on March 31, 1997, the diesel fuel tax rate increased by 12 cents per gallon (to 21 cents per gallon from 9 cents per gallon with a diesel sticker), an increase of 133 percent. The registration fee increase proposed in House Bill 4931 would be imposed on approximately 113,600 trucks--the same class of vehicles that experiences the increase in diesel fuel taxes.

Response:
According to the American Trucking Association, truck registration and weight taxes in Michigan are low relative to fourteen comparison states for an 80,000 pound, five-axle tractor-semi-trailer. Michigan does not collect weight-distance taxes, gross receipt taxes, certificate of convenience fees, or any form of property taxes on the trucks. Registration and weight taxes on an 80,000pound vehicle in Michigan were the 9th highest among 15 comparison states and 23rd highest among all 50 states.

Against:
The transportation package would raise auto drivers' gas tax 4 cents a gallon, but the legislature failed to raise truckers' motor carrier fuel by 4 cents. This disparity between the amount of the gasoline tax and the diesel fuel tax means that auto drivers will continue to subsidize truckers.

For:
Now that the legislature has raised gasoline taxes to the median rate among the states (19 cents), the state government's commitment to Michigans's transportation infrastructure will strengthen the case of the Michigan Congressional delegation when its members negotiate Michigan's fair share of federal-shared revenue. That renegotiation will occur in the context of the re-authorization of the Intermodal Surface Transportation Efficiency Act of 1991 (sometimes called ISTEA), set to take place in October of 1997 (since ISTEA expires a month earlier). MDOT argues that Michigan historically has received

back far less than the state sends to Washington in the form of federal highway funds. MDOT claims Michigan ranks 46th in the United States based on the state's rate of return, as Michigan gets back only 78 percent of what the average state received from the federal government. During the ISTEA reauthorization, the executive office and MDOT hope to achieve federal policy changes that will result in an additional $200 million in federal funds being returned to the state for transportation needs.

For:

The increase in the gas tax is offset by targeted reductions in the income tax. The cuts will benefit working people of moderate means, and particularly those with children. One bill would raise the personal exemption that all taxpayers enjoy by $200 for each personal exemption or dependent exemption (which provides greater benefits to those with the most dependents). Another would increase the value of the tuition tax credit to provide more help and greater incentives to hard pressed families sending children to college. Plus, the tax credit maintains the requirement that colleges and universities keep tuition and fees down if their students are to qualify for the credit. A third bill would provide child care credit to parents of young children to help defray the costs of child care, whether provided at professional day care or in the home by a non-working parent. The tax cuts, generally, are aimed at ordinary, hardworking taxpayers struggling to raise and educate their children.

Response:

Rather than targeted tax cuts, with winners and losers designated by the legislature, it would be better to reduce taxes across the board or to reduce the taxes of those who are compelled to pay the higher gas tax. One proposal, for example, would have reduced the sales tax on gasoline (which is levied in addition to the gas tax). This would have allowed a tax increase to produce additional revenue for roads while providing an offsetting tax decrease for drivers. The tax cuts in this proposal typically provide small benefits to taxpayers while significantly reducing state revenue that could be used to provide public services. Critics of the tuition tax credit argue that money would be better spent directly on student aid (based on financial need or academic achievement) or on higher education appropriations rather than on a tax break that rewards parents who would likely send their children to college anyway.

Analysts: J. Hunault/C. Couch

■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.