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ROAD REPAIR PROGRAM

House Bill 4927 as introduced
Sponsor: Rep. Clark Harder

House Bill 4931 with committee amendment
Sponsor: Rep. Burton Leland

House Bill 4941 as introduced
Sponsor: Rep. Keith Stallworth

House Joint Resolution Y as introduced
Sponsor: Rep. Gloria Schermesser

First Analysis: 6-25-97
Committee: Transportation

House Bills 4927, 4931, 4941 and House Joint Resolution Y (6-25-97)

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 diesel fuel 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 and more recently, 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. Most of the construction and maintenance work is contracted out.

Again according to the CRC 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. 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. To improve 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. Whenever departments partner with the Michigan Department of Transportation to collect revenue (State and Treasury), to perform specialized tasks (Environmental Quality and State Police), or to provide general government services to MDOT (Auditor General, Civil Service, Management and Budget), their budgets reflect transfers from the Michigan Transportation Fund. 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 which examined trends in Michigan transportation revenue between 1982 - 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 higher than 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.

There are a wide variety of proposals to raise badly-needed revenue for transportation infrastructure needs, including proposals to increase the gas tax and to make controversial changes in the structure of jurisdictional responsibility for the state's roads. House Democrats have proposed several bills to provide both one-time and continuing revenues that can be viewed as a starting point for discussion. (In addition to the bills covered in this analysis, the package also includes a tax amnesty program. See the House Legislative Analysis Section's analysis of House Bill 4926, dated 6-24-97.)

THE CONTENT OF THE BILLS:

House Bill 4927. Currently, under the Michigan Vehicle Code, the registration tax on 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 are based on a three-tier, weight-based schedule, with the registration tax ranging 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.) House Bill 4927 would amend the code (MCL 257.801) to specify that after October 1, 1997 the registration tax for those 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 would range from \$30 to \$148, or, if the vehicle's list price exceeds \$30,000, the tax would equal 0.5 percent (one-half of one percent) of the list price. Under the alternate value-based tax schedule, there is a 10 percent reduction 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.

House Bill 4931. The bill would amend the Michigan Vehicle Code (MCL 257.801) to increase by 30 percent the registration taxes on trucks weighing up to 8,000 pounds towing a trailer or any other combination of vehicles, and on trucks weighing 8,001 or more pounds, road tractors and truck tractors. Currently, the fees, based on elected gross weight, range from \$378 to \$2,398 on a nineteen-tier fee schedule. Under the bill, the fees would range from \$491 to \$3,117.

House Bill 4941. Currently, the Michigan Vehicle Code (MCL 257.725) 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.

House Bill 4941 would amend this provision to require that a fee of no less than \$50 be charged for an intrastate or an out-of-state vehicle single trip, and a fee of no less than \$100 be charged for multiple trips or a permit issued on an annual basis.

House Joint Resolution Y. Article V, Section 20 of the 1963 Michigan Constitution requires the creation of a transportation commission of six members, and specifies that not more than three of them be members of the same political party. The constitution also specifies that the director of the state transportation department is required to serve as the principal executive officer of the department and is responsible for executing the policy of the commission. The commission is required to establish policy for transportation programs and facilities, and other public works.

House Joint Resolution Y proposes an amendment to the 1963 Michigan Constitution that would eliminate the provisions of Article V, Section 20. This would have the effect of abolishing the transportation commission. The proposal to eliminate the commission would be submitted to the voters at the next general election.

FISCAL IMPLICATIONS:

The House Fiscal Agency estimates that House Bill 4927 will increase state revenue from commercial pickup and van registrations by \$6 million. (6-18-97)

The House Fiscal Agency estimates that House Bill 4941 will raise state fee collections on overweight and oversized vehicles by about \$7 million. (6-18-97)

truck and from 13,000 to 18,000 pounds for a 154,000 pound truck.

Fiscal information on House Bill 4931 and House Joint Resolution Y is not available.

ARGUMENTS:

For:

Taken together, the bills and joint resolution propose fees and cost savings that annually would provide about \$45 million in new revenue for much needed road repair. This is in addition to House Bill 4926, which would create a tax amnesty program to raise \$110 million for road repairs; legislation that has passed both houses to use \$69 million in interest from the budget stabilization fund for that purpose; and increases in the Department of Transportation's budget to fund immediate repair work. These steps, combined with an anticipated increase in federal transportation revenues, constitute a significant effort to address transportation funding needs. Though it may become necessary to increase the gas tax, it is generally agreed that every other possible source of revenue ought to be pursued first.

Response:

Estimates of the amount of revenue necessary to truly meet the needs of the transportation system vary; some sources estimate that as much as a \$1.3 billion is needed. Obviously, the only way to raise the necessary revenue is to increase the gasoline tax, which is low compared to other states and has not been raised since 1984.

For:

Registration fees for trucks are based on gross vehicle weight--the empty weight of the vehicle, or combination of vehicles, plus the weight of the maximum load the owner has elected to carry. These 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

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.

Against:

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 80,000 pound vehicle in Michigan were the 9th highest among 15 comparison states and 23rd highest among all 50 states.

For:

The need to reorganize the state and local intergovernmental partnership that shares jurisdiction for Michigan's roadways is as important as increasing revenue to repair the roads. Two recent and comprehensive reports about the Michigan transportation system address matters of jurisdictional control, taking into consideration the state's population growth overall, the density of population in urban centers, and highway use. One observes that the current system of local jurisdiction has changed very little over the past sixty years. Both reports recommend increased uniformity and coordination of transportation services. House Joint Resolution Y would take an initial step at improved reorganization and accountability by giving voters the opportunity to amend the Michigan Constitution and eliminate the Transportation Commission, giving the governor more direct control of MDOT, and thus

increasing the potential for more standardized and efficient service delivery.

Against:

Critics of centralizing administrative functions in the Office of the Governor which would then oversee a large state bureaucracy argue that Michigan's long experiment with state-local partnerships (what is nowadays often called "devolution" in the context of federal-state relations), has been successful, should continue, and could be enhanced. Those who favor ongoing intergovernmental cooperation often cite the claims of some local county road commissions who point to evidence that road maintenance and repair cost the taxpayers less when they are subjected to conservative local norms that govern bidding and negotiation.

POSITIONS:

The Michigan Farm Bureau supports House Bill 4931, as amended by the Committee on Transportation. (6-23-97)

The Michigan Department of Transportation supports the concept of raising truck fees but prefers the governor's proposal to increase fees 35 percent. (6-24-97)

The Michigan Trucking Association has reviewed House Bill 4931 and has no position at this time; the association intends to develop its position when all aspects of the transportation package are available for analysis. (6-24-97)

The Department of State neither supports nor opposes the fee bills, but has reviewed them and is satisfied the legislation would not adversely affect the department's ability to collect transportation fees. (6-23-97)

Analyst: J. Hunault

■ 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.