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BILL ANALYSIS

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Senate Bill 351 (as enacted) **PUBLIC ACT 255 of 2012**
Sponsor: Senator John Proos
Senate Committee: Transportation
House Committee: Transportation

Date Completed: 7-30-12

RATIONALE

In recent years, funding to fix Michigan's transportation infrastructure has been a topic of considerable discussion. The principal sources of transportation revenue--motor fuel taxes and vehicle registration fees--have fallen significantly. The decline in fuel tax collections has been driven by a combination of high prices, rising efficiency standards, Michigan's weak economy, and a consumer trend toward fuel-efficient vehicles. The weak economy and high fuel costs, as well as low population growth, also have been responsible for falling registration fee revenue. As a result, many critical road maintenance and improvement projects have not been done. Reportedly, there are more than 28,000 miles of State and local roads in poor condition, and more than 40,000 miles of unpaved roads in Michigan.

At the same time, the decline in State transportation funding has made it difficult for Michigan to provide the match needed to leverage Federal aid. According to the Michigan Department of Transportation's (MDOT's) 2012-2016 Five-Year Transportation Program, approved by the State Transportation Commission in January 2012, "For FY 2013-2016 there is a state revenue shortfall of approximately $75-100 million per year. This equates to a possible annual loss of $440-600 million per year in federal revenues."

Some people therefore believe that new mechanisms to increase State transportation funding, and provide matching funds for Federal highway dollars, should be considered. The State Constitution dedicates a portion of the 6% sales tax to various purposes, primarily education and local revenue sharing. The undedicated portion goes to the General Fund for appropriation by the Legislature. It was suggested that a portion of the undedicated revenue from the sales tax on motor fuel should be dedicated to matching Federal funds and allocated to local units of government for roadway projects.

CONTENT

The bill amended the General Sales Tax Act to do the following:

- **For fiscal year (FY) 2012-13, dedicate 18% of the 4% sales tax on motor fuel to the State Trunkline Fund (STF) for Federal highway fund matching purposes, subject to a $100 million limit; and then to county road commissions, cities, and villages for highway, road, and street projects and related purposes.**
- **Delete the requirement that the deposit of sales tax revenue from motor fuel and vehicle sales to the Comprehensive Transportation Fund be made after allocations to revenue sharing and the School Aid Fund (SAF).**
- **Eliminate local revenue sharing and SAF allocations of the 4% sales tax on computer software, and require all of that revenue to be deposited in the Michigan Health Initiative Fund.**

The bill took effect on June 29, 2012.

Transportation Funding

The Act prescribes a total sales tax of 6%. Of the total tax, revenue from 2% must be deposited in the SAF, and revenue from 4% must be distributed as follows:

-- 15% to cities, villages, and townships under the State Revenue Sharing Act.
-- 60% to the SAF.

As a rule, the balance of the revenue from the 4% tax must be deposited in the State's General Fund. Previously, however, in the case of the tax collected on sales of motor fuel, motor vehicles, and motor vehicle parts and accessories, at least 27.9% of the balance remaining after the distributions to the SAF and revenue sharing had to be deposited in the Comprehensive Transportation Fund (CTF) first. (The CTF is used for the development of public transportation systems.)

The bill retained these allocations, but requires a deposit to the CTF of at least 27.9% of the 4% tax on sales of motor fuel, motor vehicles, and vehicle parts and accessories (rather than at least 27.9% of the balance remaining after the distributions to the SAF and revenue sharing).

For FY 2012-13 only, the bill requires 18% of the collections from the 4% tax on motor fuel sales, but not more than $100.0 million, to be distributed as follows:

-- An amount sufficient to match available Federal highway funds to the State Trunkline Fund for the purpose of matching Federal Aid highway funds as they are made available to Michigan, but not less than 39.1% (subject to the $100.0 million cap).
-- After that distribution to the STF, 66% to county road commissions for administration under Section 12 of Public Act 51 of 1951; and 34% to cities and villages for administration under Section 13 of that law.

(Section 12 of Public Act 51, the Michigan Transportation Fund (MTF) law, requires money to be distributed to county road commissions for a number of purposes, including county local and primary road system projects, snow removal, mileage in urban areas, and payment of bonds and notes.

Section 13 requires money to be distributed to cities and villages for purposes that include major and local street system projects, capital outlay projects, highway projects undertaken jointly with MDOT, snow removal, and payment of bonds and loans.)

Michigan Health Initiative Fund

Under the Act, revenue from the 4% tax imposed on computer software sales must be deposited in the Michigan Health Initiative Fund. Previously, this deposit had to be made after the allocations and distributions to local revenue sharing and the SAF. Under the bill, instead, all of the revenue from the tax on those sales must be deposited in the Michigan Health Initiative Fund. As previously required, this deposit must not be less than $9.0 million or more than $12.0 million.

(The Fund is used to support the Michigan Health Initiative Information Clearinghouse, which maintains and provides up-to-date information on major risk factors and preventable diseases and conditions, including the hepatitis C virus (HCV) and acquired immunodeficiency syndrome (AIDS); and risk reduction service providers and HCV and AIDS treatment programs throughout the State.)

MCL 205.75

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

Investment in Michigan's transportation infrastructure can provide numerous benefits economically in terms of business savings, job creation, personal cost savings, and travel time reductions. Conversely, congested highways and deteriorating roads and bridges can cost billions annually due to accidents, vehicle maintenance costs, wasted fuel, and lost time. Given the importance of Michigan's transportation infrastructure to the State and local economies, identifying new revenue sources is critical.

By allocating a portion of the sales tax on motor fuel to the STF and to local units through the Public Act 51 formula, the bill will make badly needed funding available for road and bridge projects in FY 2012-13. The allocation of sales tax revenue to the STF will enable the State to maximize the amount of highway dollars it receives from the Federal government. The dollars allocated to local units also will be particularly helpful in light of the cuts in revenue sharing they continue to experience.

It is appropriate for some of the money consumers pay in motor fuel sales taxes to be used to improve transportation in Michigan.

Response: While the bill provides a tool to enhance funding for road projects in FY 2012-13, there needs to be a comprehensive policy discussion regarding the State's transportation infrastructure, including the appropriate use of sales tax revenue and earmarks. Until a broader examination is undertaken at the State level, piecemeal revisions to the road funding mechanism are ill-advised.

Legislative Analyst: Julie Cassidy

FISCAL IMPACT

The bill will reduce FY 2012-13 General Fund revenue, and increase State Trunkline Fund (STF) revenue and revenue to local units by approximately $100.0 million. Whether the $100.0 million limit specified in the bill will be triggered will depend on the price of gasoline. If the average price per gallon were $3 for gasoline and $3.40 for diesel fuel, the bill would reduce FY 2012-13 General Fund revenue from gasoline sales by approximately $84.8 million and General Fund revenue from diesel fuel sales by $16.7 million, while if the price per gallon were $4 for gasoline and $4.40 per gallon for diesel fuel, the bill would reduce FY 2012-13 General Fund revenue from gasoline sales by approximately $115.0 million and General Fund revenue from diesel fuel sales by $21.6 million. As a result, absent the $100.0 million limit, the fiscal impact would range from $101.5 million to $136.6 million in FY 2012-13.

The reductions in General Fund revenue will increase STF revenue by approximately $100.0 million, given current forecasts of the revenue needed to fully match Federal highway funds. If the required match revenue is less than $100.0 million, the bill will increase revenue to county road commissions by approximately 66.0%, and revenue to cities and villages by 34%, of the difference between the earmarked revenue and the revenue required to meet the Federal match requirements.

Of the sales tax levied at a rate of 4% (collections attributed to the sales tax as levied prior to Proposal A in 1994), the Michigan Constitution requires 15% of collections to be distributed to cities, villages, and townships as revenue sharing, and 60% of collections to be deposited into the School Aid Fund. As a result, for each dollar of motor vehicle-related and motor fuel-related sales, the Constitution earmarks 75%. Under current law, 21.3% of the sales tax collections from these sales is also restricted for statutory revenue sharing. Additionally, 27.9% of 25% of the collections from these sales that remain after the constitutional earmarks must be directed to the Comprehensive Transportation Fund.

For motor fuel and motor vehicle-related sales, the total of these earmarks equals 103.275%. The requirements of current law are met because appropriations for statutory revenue sharing have generally been less than 21.3% of collections. (The FY 2011-12 appropriation was approximately 7.3% of estimated collections at a 4% rate.)

The bill will increase revenue to the STF, county road commissions, and cities and villages, by adding an 18% earmark to sales tax collections in FY 2012-13. To avoid making the earmark on motor fuels total 121.275%, the bill determines only the amount of the earmark based on sales tax collections on motor fuels rather than earmarking the actual collections from sales of motor fuels. Furthermore, under the bill the earmark to the STF and local units will be based on total collections rather than the collections remaining after the constitutional earmarks to revenue sharing and the School Aid Fund. As a result, the money distributed by the bill to the STF and local units will need to be derived from collections that would otherwise be directed to statutory revenue sharing and/or sales of items other than motor fuels.

The changes to the earmark for the Michigan Health Initiative Fund are not expected to have a fiscal impact.

Fiscal Analyst: David Zin

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