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BILL ANALYSIS

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House Bill 4612 (Substitute S-2 as passed by the Senate)
House Bill 4613 (Substitute S-3 as passed by the Senate)
House Bill 4615 (Substitute S-4 as passed by the Senate)
House Bill 4616 (Substitute S-1 as passed by the Senate)
Sponsor: Representative Eric Leutheuser (H.B. 4612)
Representative Dan Lauwers (H.B. 4613)
Representative Rob VerHeulen (H.B. 4615)
Representative Michael McCready (H.B. 4616)
House Committee: Roads and Economic Development
Senate Committee: Government Operations

Date Completed: 7-7-15

CONTENT

House Bill 4615 (S-4) would amend the Motor Fuel Tax Act to do the following:

-- Increase gasoline tax to 23 cents per gallon on October 1, 2015; 27 cents per gallon on January 1, 2016; and 34 cents per gallon on January 1, 2017.
-- Increase the diesel tax to 21 cents per gallon on October 1, 2015; 27 cents per gallon on January 1, 2016; and 34 cents per gallon on January 1, 2017.
-- Beginning January 1, 2018, annually adjust the tax rates on gasoline and diesel fuel based on the lesser of 5.0% or the change in the U.S. Consumer Price Index (CPI), rounding up to the nearest 1/10 of a cent; and provide that the tax could not be negatively adjusted.
-- Set motor fuel taxes for gasoline and diesel at 19 cents per gallon effective January 1, 2033, and eliminate fuel taxes effective January 1, 2034.
-- Beginning January 1, 2017, direct revenue from seven cents of motor fuel taxes into a "50-Year Roads Lock Box Fund", which the bill would create.
-- Require the Michigan Department of Transportation (MDOT) to form a 50-Year Roads Task Force to provide the Senate and House Committees on Transportation with a report that would do the following: evaluate road-building materials that would last longer, focus on materials that might cost more but increase road life and would achieve savings of at least 50%, and focus on maximizing value to taxpayers; and require the report to be provided by December 1, 2015, and updated by July 1, 2016.
-- Establish the 50-Year Roads Lock Box Fund, which the Department of Treasury would administer, from which funds could be appropriated only after approval of a concurrent resolution by both legislative chambers, and used only for certain road projects identified by the 50-Year Roads Task Force report.
-- Apply the motor fuel tax to alternative fuels (based on the per gallon equivalent to motor fuels); this tax rate would be effective for alternative fuel commercial users beginning January 1, 2016, and for a person other than an alternative fuel commercial user or alternative fuel dealer beginning January 1, 2017.
-- Provide for alternative fuel dealer licenses for $500 and alternative fuel commercial user licenses for $50; and repeal a $50 license fee for liquefied petroleum gas dealers.
-- Delete provisions allowing for retail diesel dealers to claim fuel tax refunds on undyed diesel sales of 100 gallons or less for nontaxable purposes.'
-- Increase civil penalties for operators, owners, or drivers of vehicles using dyed diesel fuel.

House Bill 4616 (S-1) would amend the Motor Carrier Fuel Tax Act to provide for fuel tax rates on motor carrier fuel purchases that would correspond with the fuel taxes that House Bill 4615 (S-4) would put into effect.

House Bill 4613 (S-3) would amend Public Act 51 of 1951, the Michigan Transportation Fund law, to do the following:

-- Specify that the State Treasurer could receive money or other assets from any source for deposit into the Michigan Transportation Fund (MTF); and delete language that allows only fuel tax and registration fee revenue to be deposited in the MTF.
-- Direct revenue from Section 51(3) of the Income Tax Act to be distributed as follows: 39.1% to the Michigan Department of Transportation, 39.1% to county road commissions, and 21.8% to cities and villages.
-- Require MDOT, county road commissions, cities, and villages to secure warranties for full replacement or appropriate repair for projects with pavement costs exceeding $1.0 million and construction projects undertaken after the bill took effect, and report on project costs, lifespans, and warranty information.
-- Increase an existing earmark in the MTF distribution formula for debt service payments from $43.0 million to $50.0 million.
-- Establish the Grade Crossing Surface Account within the State Trunkline Fund, specify criteria for use of funds deposited into the Account, and provide for an annual $3.0 million earmark for the Account in the MTF distribution formula.
-- Reduce the maximum amount MDOT may spend per year on administrative expenses from 10% to 7% of the distributions to the State Trunkline Fund.
-- Require MDOT to report on each State-funded road or bridge project within 30 days of beginning construction; and require the report generally to contain information on the project's cost, nature, service life, specifications, the individuals responsible for design, management, quality control, construction, and certification, and the estimated completion date.

(Section 51(3) of the Income Tax Act, under Senate Bill 414 (S-1), would require the following amounts of income tax revenue to be deposited in the MFT: $350.0 million in fiscal year (FY) 2016-17 and $700.0 million in each fiscal year from FY 2017-18 through FY 2032-33.)

House Bill 4612 (S-2) would amend the Michigan Vehicle Code to do the following:

-- Levy an additional vehicle registration fee of $30 for hybrid electric vehicles with four or more tires weighing 8,000 pounds or less and $100 for those weighing more than 8,000 pounds.
-- Levy an additional vehicle registration fee of $100 for nonhybrid electric vehicles with four or more tires weighing 8,000 pounds or less and $200 for those weighing more than 8,000 pounds.
-- Require increases to these hybrid and nonhybrid electric vehicle registration fees if the tax on gasoline were increased above 19 cents per gallon.

All of the bills would take effect on October 1, 2015. The bills are tie-barred to each other and to Senate Bill 414 and House Bills 4613 and 4614.

MCL 257.801 (H.B. 4612)
207.600 et al. (H.B. 4613)
207.1002 et al. (H.B. 4615)
207.211 et al. (H.B. 4616)

FISCAL IMPACT

House Bills 4615 (S-4), 4616 (S-1), and 4613 (S-3) would result in the following increases to the Michigan Transportation Fund:

Table 1

HB 4615 (S-4), 4616 (S-1), & 4613 (S-3) Fiscal Impact (Dollars in Millions)					
Fiscal Year	**Michigan Transportation Fund**	**Comprehensive Transportation Fund (CTF) - Public Transit**	**Rec Improvement Fund**	**50-Year Roads Lock Box Fund**	**Rail Grade Crossing Fund**
2015-16	$347.5	$37.6	$6.0	$0.0	$3.0
2016-17	$397.0	$43.1	$11.4	$266.8	$3.0
2017-18	$423.7	$46.1	$13.3	$351.5	$3.0

Table 2

Estimated MTF Distribution Breakdown of Additional Funding Under HB 4615 (S-4), 4616 (S-1), & 4613 (S-3) (Dollars in Millions)			
Fiscal Year	**State Trunkline Fund - MDOT**	**County Road Agencies**	**Cities and Villages**
2015-16	$140.2	$133.1	$74.2
2016-17	$159.5	$152.4	$85.1
2017-18	$170.0	$162.9	$90.8

House Bills 4615 (S-4) and 4616 (S-1)

House Bills 4615 (S-4) and 4616 (S-1) would result in the following increases to the Michigan Transportation Fund:

- $347.5 million in fiscal year 2015-16
- $397.0 million in fiscal year 2016-17
- $423.7 million in fiscal year 2017-18

The bills also would result in the following distributions to the 50-Year Roads Lockbox Fund from $0.07/gallon of the motor fuel tax:

- $266.8 million in fiscal year 2016-17
- $351.5 million in fiscal year 2017-18

Beginning in fiscal year 2018-19, when motor fuel taxes reached 34 cents per gallon and would be adjusted based on inflation going forward, annual revenue from the motor fuel tax would increase or decrease accordingly each year.

Beginning January 1, 2033, House Bill 4615 (S-4) would reduce motor fuel tax rates to 19 cents per gallon, and beginning January 1, 2034, to $0 per gallon. This would reduce the MTF by a significant but indeterminate amount, likely by over half. It is unknown what share of MTF revenue would be attributable to the motor fuel tax and what fuel tax receipts would be in 2033. Under the increases in the bill, motor fuel taxes likely would comprise a substantial majority of MTF revenue, whereas they currently comprise less than half of MTF revenue.

Levying the motor fuel tax on alternative fuels would increase MTF revenue by an indeterminate but nominal amount in the short term. As alternative fuel vehicles represent a larger market share, fuel tax revenue from alternative fuels would continue to increase.

House Bill 4613 (S-3)

The bill's provisions regarding warranties would have a negative but indeterminate fiscal impact at the State and local levels in the short term in terms of additional costs, and an indeterminate fiscal impact in the long term in terms of additional costs or savings.

The provisions that would create a $3.0 million rail grade crossing surface account subsidy would reduce annual funding for State roads by $1.06 million, local road agencies by $1.64 million, and the Comprehensive Transportation Fund (CTF) for public transit by $300,000.

The State and local road agencies would face increased costs in the short term due to the bill's warranty mandate. Since obtaining a full replacement guarantee or appropriate repair warranty product typically requires a contractor to obtain a warranty bond, and the immediate cost of such a product usually is passed on to the consumer, it is likely that associated costs would be included in a contractor's bid or price.

It is impossible to determine whether mandated warranties would result in overall savings in the long term and offset initial warranty costs. Future maintenance and reconstruction costs could decrease, since these tasks would be covered under a secured warranty. However, the up-front cost of obtaining a warranty could exceed any potential long-term savings and cost more than future repairs. Whether a warranty ultimately served to generate savings or additional costs in the long term would vary from project to project.

The provisions regarding project warranty reporting requirements would result in increased administrative costs at the State and local levels.

Increasing the debt service payment earmark from $43.0 million to $50.0 million likely would not negatively affect MDOT's budget, since MDOT currently pays roughly $250.0 million annually in debt service. As this amount far exceeds the current earmark of $43.0 million, MDOT should see a corresponding decrease in dedication of State Trunkline Fund (STF) revenue toward debt service, effectively freeing up $4.3 million in revenue for MDOT within the STF. This would reduce local road funding by $4.3 million, and CTF funding by $700,000. The increased debt service earmark would not necessarily result in increased debt service payments.

House Bill 4612 (S-2)

The bill would have a positive but nominal and indeterminate impact on transportation revenue, resulting in increased funding to MDOT and local road agencies. It is unclear how many hybrid electric and nonhybrid electric cars are registered in the State, and how many vehicles would be captured by the provisions for increased registration rates. These vehicles occupy a relatively small portion of the market compared to conventional fuel vehicles. As hybrid electric vehicles and nonhybrid electric vehicles represent a larger market share, the provisions for increased registration fees on these vehicles would continue to increase accordingly.

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.