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HOUSE ROAD PACKAGE – *PRELIMINARY ANALYSIS*

House Bill 4370 (H-1) Floor Substitute
Sponsor: Rep. Hughes

House Bill 4614 (H-2) House Substitute to Senate Substitute
Sponsor: Rep. LaFontaine

House Bill 4616 (H-2) House Substitute to Senate Substitute
House Bill 4736 (H-1) Floor Substitute
House Bill 4737 (H-1) Floor Substitute
House Bill 4738 (H-1) Floor Substitute
Sponsor: Rep. McCready

Senate Bill 414 (H-3) Floor Substitute
Sponsor: Sen. Schmidt

Complete to 10-21-15

SUMMARY:

Note: This document describes major changes contained in these bills related to transportation financing and other state revenues. It is not a comprehensive description of the changes made by each bill.

House Bill 4736 would amend the Michigan Vehicle Code to increase vehicle registration tax rates. Rates for passenger cars, vans, light trucks, and large commercial trucks would all be increased by approximately 40% across the board, effective October 1, 2016. The current average registration tax for a passenger vehicle is approximately $100; this bill would increase that average by approximately $40. The bill would also create a new registration tax surcharge for electric-powered motor vehicles.

House Bill 4738 would amend the Motor Fuel Tax Act to increase motor fuel taxes as follows:

- Increase the tax on diesel motor fuel from 15 cents to 19 cents per gallon (to create "diesel parity" with the tax on gasoline) effective October 1, 2017.
- Increase the tax on motor fuels by 3.3 cents per gallon to 22.3 cents per gallon effective October 1, 2018.
- Annually adjust the tax rate for motor fuels based on consumer inflation (using the U.S. Consumer Price Index), with increases capped at 5% per year, effective October 1, 2022.

The bill would also add provisions to the act related to alternative fuels.

House Bill 4370 would amend the Income Tax Act of 1967 to expand the Homestead Property Tax Credit by changing the following parameters:

- Increase the percentage of gross rent paid that can be utilized to calculate the credit from 20% to 21% for tax year 2017 and then to 23% for tax year 2018 and subsequent tax years.
- Move the household income phase-out range for claiming the credit from $41,000-$50,000 to $51,000-$60,000 for tax year 2018 and subsequent tax years.
- Increase the maximum credit that can be claimed from $1,200 to $1,500 for tax year 2018 and subsequent tax years.
- Lower the percentage of household resources utilized as the threshold for calculating the credit amount from 3.5% to 3.4% for tax year 2017 and then to 3.2% for tax year 2018 and subsequent tax years.

The bill would also earmark a portion of income tax revenue currently allocated as General Fund/General Purpose (GF/GP) revenue to the Michigan Transportation Fund. The earmarks would be as follows:

- $150 million for FY 2018-19.
- $325 million for FY 2019-20.
- $600 million for FY 2020-21 and subsequent fiscal years.

Senate Bill 414 would amend the Income Tax Act of 1967 to create a mechanism that would automatically reduce the individual income tax rate from the current 4.25% rate, based on the increase from one year to the next in total General Fund/General Purpose revenues that exceed inflation (as calculated using the U.S. Consumer Price Index). This would begin with tax year 2019. Generally speaking, the rate would be "rolled back" in order to prevent GF/GP revenue increases from exceeding inflation in a particular year.

House Bill 4614 would amend the Streamlined Sales and Use Tax Revenue Equalization Act and House Bill 4616 would amend the Motor Carrier Fuel Tax Act to make complementary amendments to those in House Bill 4738.

House Bill 4737 would amend Public Act 51 of 1951 to add provisions related to road construction warranties.

The bills are all tie-barred to one another except that Senate Bill 414 is not tie-barred to any of the other bills, or vice versa.

FISCAL IMPACT:

House Bills 4370, 4736, and 4738

The attached table presents preliminary estimates for the state fiscal impacts of this package over the period of FY 2016-17 to FY 2020-21. When fully phased in by FY 2020-21, the bills would increase state revenues and expenditures by an estimated net total of $437 million per year.

More specifically, the bills would increase funds dedicated for transportation purpose via the Michigan Transportation Fund by an estimated $1.2 billion per year while reducing available state GF/GP funds by an estimated $806 million per year.

The $1.2 billion in new transportation funds would be distributed from the Michigan Transportation Fund as follows:

- $124 million to the Comprehensive Transportation Fund (CTF) for public transportation purposes (10.0% of total).
- $438 million to the State Trunkline Fund for state highway construction and maintenance (39.1% of remaining funds after the CTF earmark).
- $438 million to county road agencies (39.1% of remaining funds after the CTF earmark).
- $244 million to cities and villages (21.8% of remaining funds after the CTF earmark).

Based on estimates from the May 2015 consensus revenue estimating conference and trend analysis assuming continued moderate economic growth over the next six years, total GF/GP revenues for FY 2020-21 are estimated to be roughly $11.6 billion. The estimated $806 million reduction in GF/GP funds under this package would represent approximately 7% of the total.

<u>Senate Bill 414</u>
The income tax rate reduction trigger created by this bill would reduce state GF/GP revenues in years in which prior-year GF/GP revenue growth exceeds the rate of inflation beginning with FY 2018-19. Reductions would be less likely to be triggered in FYs 2018-19, 2019-20, and 2020-21 due to the phased-in diversion of GF/GP revenue to transportation purposes described above. They would be more likely in subsequent years.

As examples of how the trigger would work based on recent experience:

- Based on FY 2013-14 and FY 2014-15 GF/GP revenue estimates from the May 2015 consensus revenue estimating conference, if these provisions were currently in effect, the income tax rate for tax year 2016 would drop from the current level of 4.25% to approximately 3.92%, resulting in a revenue reduction of almost $680 million.
- Rate reductions could be initiated by events external to Michigan's economy, such as the increase in capital gain and dividend income tax revenue associated with the fiscal cliff in tax year 2011. While this one-time revenue increase was largely offset the following year, the trigger mechanism would have resulted in a permanent reduction in the income tax rate.

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Summary: House Road Package Fiscal Impacts
PRELIMINARY ESTIMATES
Millions of Dollars

	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
Revenue Changes					
Increase vehicle registrations taxes (HB 4736)	393	405	417	429	442
Increase diesel fuel tax (HB 4738)	0	33	61	61	62
Increase gasoline fuel tax (HB 4738)	0	0	141	140	139
Increase Homestead Property Tax Credit (HB 4370)	0	(36)	(206)	(206)	(206)
Total Net Increase/(Decrease) in State Revenues	**393**	**402**	**413**	**424**	**437**
Revenue Diversion					
Divert income tax revenue from GF/GP to transportation (HB 4370)	0	0	150	325	600
Total Increase in Transporation Funds	**393**	**438**	**769**	**955**	**1,243**
Distribution to:					
Comprehensive Transportation Fund	39	44	77	96	124
State Trunkline Fund	138	154	271	336	438
County Road Commissions	138	154	271	336	438
City and Villages	77	86	151	187	244
Total Reduction in GF/GP Funds	**0**	**(36)**	**(356)**	**(531)**	**(806)**

Note: Does not reflect potential fiscal impacts of automatic income tax rate cut trigger (SB 414) beginning in FY 2018-19 and inflationary adjustments to motor fuel tax rate (HB 4738) beginning in FY 2021-22.