The bills amend various statutes to make three principal changes with regard to taxes on motor fuels, taxes on vehicle registrations, and the individual income tax. First, the legislation increases the gasoline tax and diesel fuel tax from 19 cents per gallon and 15 cents per gallon, respectively, to 26.3 cents per gallon effective January 1, 2017. Beginning January 1, 2022, taxes on motor fuels generally will be adjusted by inflation annually. Second, beginning January 1, 2017, the legislation increases registration tax rates on passenger and commercial vehicles by 20.0%. Third, the legislation earmarks individual income tax revenue to the Michigan Transportation Fund. The earmark will begin at $150.0 million in fiscal year (FY) 2018-19, increase to $325.0 million in FY 2019-20, and increase to $600.0 million in FY 2020-21 and beyond.

Other key changes in the legislation include an automatic trigger to reduce the income tax rate if General Fund growth exceeds 1.425 times the rate of inflation, beginning January 1, 2023. The legislation also increases the maximum amount of the homestead property tax credit beginning with the 2018 tax year, and requires the maximum credit to be adjusted annually by inflation beginning in 2021. In addition, beginning in tax year 2018, the legislation makes other changes to the homestead credit designed to increase the amount of the credit or the number of individuals eligible to claim it, or both.

Table 1 numerically lists the bills in the package, indicates the statutes that the bills amend, and provides the subject of each bill.

Following the table, the key points of each bill are listed, and then each bill (except House Bill 4616) is described in detail, beginning with the bills that will generate increased road funding.
Table 1

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**House Bill 4736** amends the Michigan Vehicle Code to do the following, beginning January 1, 2017:

-- Increase registration taxes for passenger vehicles and commercial vehicles by 20.0%.
-- Provide for additional registration taxes for hybrid electric and nonhybrid electric vehicles.

**House Bill 4738** amends the Motor Fuel Tax Act to:

-- Increase the gasoline tax from 19 cents per gallon to 26.3 cents per gallon on January 1, 2017.
-- Increase the diesel fuel tax from 15 cents per gallon to 26.3 cents per gallon on January 1, 2017.
-- Beginning January 1, 2022, annually adjust the fuel 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 rate may not be reduced.
-- Beginning in FY 2016-17, require the first $100.0 million in fuel tax revenue annually to be deposited in the Roads Innovation Fund (which House Bill 4737 establishes), until money is released from the Fund under a concurrent resolution of the Legislature.
-- Apply the motor fuel tax to alternative fuels; and provide that this tax rate will be effective for alternative fuel commercial users beginning January 1, 2017, and for a person other than an alternative fuel commercial user or alternative fuel dealer beginning January 1, 2018.
-- Provide for a $500 alternative fuel dealer license and a $50 alternative fuel commercial user license; and repeal a $50 license fee for liquefied petroleum gas dealers.
-- Increase civil penalties for operators, owners, or drivers of vehicles using dyed diesel fuel.

**House Bill 4616** amends the Motor Carrier Fuel Tax Act to:

-- Apply the per-gallon or per-gallon-equivalent fuel tax rates under House Bill 4738 to motor carrier purchases of alternative fuel, in addition to motor fuel, beginning January 1, 2017.
-- Include gasoline in the definition of "motor fuel" (which currently means diesel fuel), beginning January 1, 2017.
-- Define "alternative fuel" and "alternative fuel dealer" as the terms are defined in House Bill 4738.
**House Bill 4737** amends Public Act 51 of 1951 to:

-- Allow the State Treasurer to receive money or other assets from any source for deposit into the Michigan Transportation Fund (rather than restricting MTF revenue sources to fuel and registration taxes).

-- Require the Michigan Department of Transportation (MDOT) to establish the Roads Innovation Task Force for the purpose of creating a report to evaluate road materials and construction methods that could allow for longer-lasting roads and decreased life-cycle costs.

-- Require the report to be made by March 1, 2016, and updated by June 1, 2016.

-- Establish the "Roads Innovation Fund" and, beginning in FY 2016-17, require that the first $100.0 million in fuel tax revenue to be deposited in the Fund annually until the Legislature approves a concurrent resolution, at which time any money in the Fund will be directed through the MTF funding formula.

-- Increase an existing earmark in the MTF distribution formula for debt service payments from $43.0 million to $50.0 million (effectively shifting funds from local road agencies and public transit to MDOT).

-- Reduce the maximum amount that MDOT may annually spend on administrative expenses from 10.0% to 8.0% of the distributions to the State Trunkline Fund (STF).

-- Require MDOT, county road commissions, cities, and villages to secure warranties for full replacement or appropriate repair for pavement projects with costs exceeding $2.0 million and all construction projects undertaken after the bill takes effect; and to report on project costs, lifespans, and warranty information.

-- Require county road commissions, cities, and villages to submit a proposed warranty program to the Department for approval by April 1, 2016, and implement the program within one year after MDOT gives its approval.

-- Require MDOT, county road commissions, cities, and villages to generate, and make available to the public, an annual report listing all warranties secured and pavement projects whose costs exceeded $2.0 million for which warranties were not secured, as applicable.

-- Establish the Grade Crossing Surface Account within the STF, specify criteria for use of funds deposited into the Account, provide for a permissive annual appropriation of up to $3.0 million for the Account in the MTF distribution formula, and allow the Account to subsidize privately owned rail grade crossing maintenance.

-- Allow a city, with MDOT approval, to use up to 20% of the money it receives for public transit purposes if more than 10.0 million passengers used public transit in the city in the previous fiscal year.

**House Bill 4614** amends the Streamlined Sales and Use Tax Revenue Equalization Act to impose a specific tax on alternative fuel and gasoline used in qualified commercial motor vehicles by interstate carriers, and require the tax on alternative fuel to be based on a per-gallon equivalent to motor fuel.

**House Bill 4370** amends the Income Tax Act to:

-- Allocate to the Michigan Transportation Fund from income tax revenue $150.0 million in FY 2018-19; $325.0 million in FY 2019-20; and $600.0 in FY 2020-21 and each subsequent fiscal year.

-- Require the allocation to be distributed as provided in Public Act 51 of 1951 for distribution of the balance of the MTF after the deduction of specific amounts.

-- Increase the total amount of the homestead property tax credit from $1,200 to $1,500, beginning with the 2018 tax year; and require annual adjustments for inflation, beginning in 2021.
-- Increase the amount of household resources above which the credit is phased out, beginning with the 2018 tax year; and require annual adjustments for inflation, beginning in 2021.
-- Require the credit to be based on property taxes that exceed 3.2% (rather than 3.5%) of total household resources, beginning with the 2018 tax year.
-- Require the credit to be based on 23%, rather than 20%, of gross rent paid, for a person who rents or leases a homestead, beginning with the 2018 tax year.
-- Require annual adjustments in the maximum taxable value of a homestead for which the credit may be claimed, beginning with the 2021 tax year.

**Senate Bill 414** amended the Income Tax Act to reduce the individual income tax rate for a tax year beginning on and after January 1, 2023, if the percentage increase in General Fund/General Purpose revenue from the prior fiscal year exceeded a positive inflation rate for the same period, according to a formula prescribed by the bill.

Senate Bill 414 took effect on November 10, 2015. House Bill 4730 will take effect on the 91st day after the Legislature adjourns for the 2015 year. House Bills 4736 and 4737 will take effect on April 1, 2016. House Bills 4614, 4616, and 4738 will take effect on January 1, 2017.

All of the bills were tie-barred to each other.¹

**House Bill 4736**

Beginning January 1, 2017, the bill increases the base registration tax rates by 20.0% for passenger vehicles under the ad valorem schedule (that is, based on the vehicle’s list price), and for commercial vehicles under the elected gross weight schedule.

In addition, beginning January 1, 2017, the bill provides for additional registration taxes for hybrid electric vehicles and nonhybrid electric vehicles with four or more tires.

Regarding hybrid electric vehicles, the bill increases registration taxes by $30 for vehicles weighing 8,000 pounds or less, and $100 for vehicles over 8,000 pounds. The bill also requires the Secretary of State (SOS) to increase the tax by $2.50 for each one cent the motor fuel tax is above 19 cents per gallon. Combined with the 7.3-cent-per-gallon motor fuel tax increase under House Bill 4738, as of January 1, 2017, this will result in a total additional fee of $47.50 for vehicles weighing 8,000 pounds or less, and $117.50 for vehicles over 8,000 pounds. The bill defines "hybrid electric vehicle" as a vehicle that can be propelled at least in part by electrical energy and uses a battery storage system of at least four kilowatt-hours, but is also capable of using gasoline, diesel fuel, or alternative fuel to propel the vehicle.

Regarding nonhybrid electric vehicles, the bill increases registration taxes by $100 for vehicles weighing 8,000 pounds or less, and $200 for vehicles over 8,000 pounds. The SOS must increase the tax by $5 for each one cent the motor fuel tax is above 19 cents per gallon. Combined with the 7.3-cent-per-gallon motor fuel tax increase under House Bill 4738, as of January 1, 2017, this will result in a total additional tax of $135 for vehicles weighing 8,000 pounds or less, and $235 for vehicles over 8,000 pounds. The bill defines "nonhybrid electric vehicle" as a vehicle that is propelled solely by electrical energy and that is not capable of using gasoline, diesel fuel, or alternative fuel to propel the vehicle.

As the motor fuel tax increases over time due to inflationary indexing, registration taxes on hybrid and nonhybrid electric vehicles will increase according to the above provisions.

House Bill 4738

Gasoline & Diesel Tax Rates

The bill increases the motor fuel tax rate on diesel fuel and gasoline to 26.3 cents per gallon effective January 1, 2017. Currently, the gasoline fuel tax is 19 cents per gallon, and the diesel tax rate is 15 cents per gallon.

Beginning in 2022, the bill requires the Department of Treasury, on January 1, to annually determine the tax rate for motor fuels. The Department must adjust the rate by the lesser of the inflation rate or 5.0%, rounding up to the nearest 1/10 of one cent. The bill does not allow for the tax rate to be reduced.

(The bill defines "inflation rate" as the annual percentage change in the Consumer Price Index (CPI), as determined by the Department, comparing the two most recent October 1 through September 30 periods that are immediately preceding the effective date of the fuel tax rate prescribed by the bill, converted to decimals. If the annual percentage change is negative, the inflation rate is zero. "Consumer price index" means United States CPI for all urban consumers as defined and reported by the U.S. Department of Labor, Bureau of Labor Statistics.)

The Department must publish notice of the motor fuel tax rate at least 30 days before the effective date of the new rate. The Department's determinations regarding the CPI, the inflation rate, and the tax rate will be presumed to be correct and may not be set aside unless an administrative tribunal or court finds the Department's determination to be clearly erroneous.

Alternative Fuel Tax Rates

The Motor Fuel Tax Act provides for a 15-cent-per-gallon tax on liquefied petroleum gas (LPG), specifies the manner in which the tax is to be collected, and designates LPG dealers as responsible for collecting and remitting the tax. Various provisions also deal with reimbursement of LPG taxes.

Under the bill, these provisions refer to alternative fuel instead of LPG. The bill generally sets the tax rate for alternative fuel on a per-gallon or gallon-equivalent basis equal to the tax rate on motor fuels.

(The bill defines "alternative fuel" as a gas, liquid, or other fuel that, with or without adjustment or manipulation such as adjustment or manipulation of pressure or temperature, is capable of being used for the generation of power to propel a motor vehicle, including, but not limited to, natural gas, compressed natural gas, liquefied natural gas, LPG, hydrogen, hydrogen compressed natural gas, and hythane. The term does not include motor fuel, electricity, leaded racing fuel, or an excluded liquid.

"Compressed natural gas" means a mixture of hydrocarbon gases and vapors that consists primarily of methane in gaseous form that has been compressed for use as a fuel to propel a motor vehicle. "Liquefied natural gas" means methane or natural gas in the form of a cryogenic or refrigerated liquid that is suitable for use or used as fuel to propel a motor vehicle.

"Gallon equivalent" means one of the following or its metric equivalent: 1) for compressed natural gas, 5.660 pounds or 126.67 cubic feet at 60 degrees Fahrenheit and one atmosphere of pressure; 2) for hydrogen or hydrogen compressed natural gas, the volume or weight that is equal to 128,450 BTUs; or 3) for liquefied natural gas, 6.060 pounds.)
The tax rate will become effective for alternative fuel commercial users beginning January 1, 2017, and for a person other than an alternative fuel commercial user or alternative fuel dealer beginning January 1, 2018.

For licensure as an alternative fuel dealer or alternative fuel commercial user, the bill requires an applicant to file an application with the Department of Treasury. An alternative fuel dealer license will cost $500, and an alternative fuel commercial user license will cost $50.

By the 20th day of each month, an alternative fuel dealer must file with the Department a report indicating the number of gallons or gallon equivalents, if any, of alternative fuel used by the dealer, and submit to the Department payment of any taxes owed. Beginning January 1, 2017, an alternative fuel commercial user must meet these requirements, and beginning January 1, 2018, a person other than an alternative fuel dealer or commercial user will be required to as well. A person who uses alternative fuel for a taxable purpose but did not pay the tax is required to pay the tax to the Department, along with any applicable penalties or interest.

The bill generally exempts government and schools from the alternative fuel tax. Currently, government and schools are exempt from taxation for LPG use.

The bill defines "alternative fuel commercial user" as a commercial or other business enterprise or entity that is a consumer or end user of alternative fuel to propel a motor vehicle on the public roads and highways of this State. The term does not include a person licensed as an alternative fuel dealer. "Alternative fuel dealer" means a person that is licensed or required to be licensed as such, that is in the business of selling alternative fuel at retail, and that uses alternative fuel.

"Use", "used", or "uses" are currently defined as: 1) selling or delivering LPG by placing it into an attached fuel supply tank of a motor vehicle; 2) delivering LPG into storage for use in motor vehicles; and 3) withdrawing LPG from a cargo tank for use in motor vehicles. The bill refers to alternative fuel rather than LPG. The bill also adds the following to the terms' definition: placing or delivering alternative fuel into the fuel supply tank of a motor vehicle by or through the operation of an alternative fuel filling station or by any other means not involving the delivery, receipt, or purchase of alternative fuel from an alternative fuel dealer or any other means not described in the three current meanings of "use", "used", or "uses".

The bill defines "alternative fuel filling station" as a machine or other device located within the State that is supplied with alternative fuel and that is designed or used for placing or delivering alternative fuel into the fuel supply tank of a motor vehicle. "Located within this state" means, but is not limited to: 1) an alternative fuel dealer's place of business, 2) a commercial or industrial establishment or facility, 3) a residence or residential property, and 4) a landfill licensed or required to be licensed under Part 115 of the Natural Resources and Environmental Protection Act.

Dyed Diesel Penalty

The bill increases civil penalties for operators, owners, or drivers of vehicles using dyed diesel fuel. Dyed diesel fuel generally is restricted to non-roadway use. Currently, the penalties are $200 for each of the first two violations within one year, and $5,000 for each third and subsequent violation within one year. The bill requires a civil penalty of $1,000 for the first violation and $5,000 for each subsequent violation.

House Bill 4737

Michigan Transportation Fund Revenue Sources

Public Act 51 of 1951 establishes the Michigan Transportation Fund as a separate fund within the State Treasury and specifies, among other things, the sources from which money may be
deposited into the MTF. Except as otherwise provided in the Act, no other money from any source may be deposited into the Fund.

Specifically, money collected under the Motor Fuel Tax Act (except the license fee provided in that Act), taxes, fees, and licenses from registration taxes under Sections 801 through 810 of the Michigan Vehicle Code, and money received under the Motor Carrier Act, as well as income or profit derived from the investment of money in the MTF, may be deposited into the Fund. The bill deletes this language.

The bill specifies that the State Treasurer may receive money or other assets from any source for deposit into the Fund. The State Treasurer must direct the investment of the MTF, and credit to the MTF interest and earnings from Fund investments. (This provision will allow General Fund revenue to be deposited into the MTF under House Bill 4370, as described below.)

**Roads Innovation Task Force**

The bill requires the Michigan Department of Transportation to form the Roads Innovation Task Force. The bill states that the purpose of the Task Force is to create a comprehensive public report to do the following:

- -- Evaluate road materials and construction methods that could allow MDOT to build high-quality roads that last longer than those typically constructed, with a goal of roads lasting at least 50 years, higher quality roads, and reduced maintenance costs.
- -- Focus on materials and processes that may cost more up front but that still produce life-cycle construction and maintenance savings.
- -- Focus on longer-term time frames that seek to maximize value to taxpayers on a total cost basis, regardless of funding or financing considerations, but not incorporate or refer to plans or suggestions regarding bonding, refinancing, or financing innovations.

With regard to the second point above, MDOT must strive to achieve at least a 50% reduction in its net present value 50-year life cycle costs as compared to the commensurate net present value 50-year life cycle costs for road construction and maintenance costs from 2015, in a manner that results in no State roads being rated in poor condition and has no net degradation from overall pavement ratings in 2015 within the plan's first 10 years.

By March 1, 2016, MDOT will have to finalize and make the report public. The Task Force must present its findings at a public hearing before a joint committee hearing of the transportation standing committees of the Senate and House of Representatives.

By June 1, 2016, the Task Force will have to update the finalized report to provide suggested boilerplate language that coincides with how MDOT will execute the plan and attempt to achieve the targets in the report. The plan must include sufficient detail to allow the Legislature to monitor and track progress, estimate the time expected to achieve the targets, and project what the inflation-adjusted reduction in annual spending will be once fully implemented as compared to 2015 costs.

**Roads Innovation Fund**

The bill creates the Roads Innovation Fund within the State Treasury. The Department may spend money from the Fund only after the adoption of a concurrent resolution of the Legislature to release money from the Fund. At that time, the money in the Fund will be deposited into the MTF and distributed according to the current MTF formula (10.0% to the Comprehensive Transportation Fund and, of the remainder, 39.1% to the State Trunkline Fund, 39.1% to county road commissions, and 21.8% to cities and villages).
Beginning in fiscal year 2016-17 and continuing every year after, the Roads Innovation Fund will receive the first $100.0 million in revenue collected from motor fuel taxes. Once money is released from the Fund as described above, it may no longer receive this revenue.

The State Treasurer may receive money or assets from any source for deposit into the Fund and must direct the investment of the Fund, credit to the Fund interest and earnings from Fund investments, and be the administrator of the Fund for auditing purposes. Money in the Fund at the close of the fiscal year will not lapse to the General Fund.

**State Pavement Project Warranties & Reporting**

Public Act 51 governs the distribution of revenue collected from various transportation-related taxes and fees. The revenue is directed to several State transportation funds, including the State Trunkline Fund; transportation programs; and local units of governments. Money deposited in the State Trunkline Fund must be appropriated to MDOT to be used for certain purposes in a particular order of priority.

The Act also requires MDOT to spend at least 90% of State revenue appropriated annually to the State Trunkline Fund, less the amounts for the specified priorities, for the preservation of highways, roads, streets, and bridges and for debt service payments on bonds, notes, and other obligations. Of the amount appropriated for State Trunkline projects, the Act requires MDOT, where possible, to secure warranties of not less than five-year full replacement guarantee for contracted construction work. The bill, instead, requires MDOT, where possible, to secure pavement warranties for full replacement or appropriate repair for contracted pavement projects that exceed $2.0 million in cost and projects for new construction or reconstruction that will begin after the bill’s effective date.

The bill also requires MDOT to compile an annual report listing all warranties secured and all pavement projects costing more than $2.0 million where a warranty was not secured, and indicating whether any of the warranties were redeemed. The Department must make the report available to the public upon request and publish the report on its website. The report must include at least all of the following information:

- The type of project.
- The cost or estimated cost of the project.
- The expected lifespan of the project.
- Whether the project met or is currently meeting its expected lifespan.
- If the project failed to meet or is not meeting its expected lifespan, the cause of the failure and the cost to replace or repair the project.

**County, City & Village Warranties & Reporting**

The bill extends the warranty requirement to county road commissions and to cities and villages for amounts appropriated for a county primary or local road system, or a city or village major or local street system, if allowed by the Federal Highway Administration and MDOT.

The bill requires a county road commission or a city or village to submit a proposed warranty program to the Department for approval by April 1, 2016. If the proposed warranty program is approved, the county road commission or the city or village must implement the program within one year after the approval.

The Act requires county road commissions and cities and villages to submit to MDOT an annual report on the receipt and distribution of road and street funds. The bill requires the report to include the same information about warranties as MDOT will have to report. Also, if the county road commission, city, or village has a website, the report must be posted on the website.
Grade Crossing Surface Account

Currently, all money in the Michigan Transportation Fund is apportioned and appropriated as specified by Public Act 51. Under the bill, this will apply except as provided in Section 143 of the Motor Fuel Tax Act. (Under that section, all money collected under that Act, except license fees and expenses of enforcement, and money deposited in the Motor Fuel Tax Evasion Prevention Fund, must be deposited in the MTF.)

In addition to the current allocations, the bill allows up to $3.0 million annually to be appropriated to the State Trunkline Fund for subsequent deposit in the Grade Crossing Surface Account for rail grade crossing surface improvement purposes at private rail grade crossings on public roads and streets under the jurisdiction of counties, cities, or villages.

Once the money is deposited into the Account, projects will have to be selected for funding as follows: a) in prioritizing projects, the Department must consider vehicular traffic volumes, relative crossing surface condition, the ability of the railroad and local road authority to make coordinated improvements, and the availability of funding, b) the Account must fund 60% of the project cost, with the remaining 40% funded by the railroad company, and c) funding under the Account will be limited to items of work that are normally the responsibility of the railroad under Section 309 of the Railroad Code. Maintenance of the roadway approaches to the crossing will continue to be the responsibility of the party with jurisdiction over that roadway.

(Section 309 of the Railroad Code generally requires a railroad owning tracks across a public street or highway to construct and maintain, at its expense, all railroad roadbed, track, and railroad culverts within the confines of the street or highway, as well as the streets or sidewalks lying between the rails and for a distance outside the rails of one foot beyond the end of the ties.)

City Funds for Public Transit Purposes

After revenue from transportation-related taxes and fees is directed to State transportation funds and programs, the remainder of the money is distributed between the State Trunkline Fund, the county road commissions, and cities and villages. Money distributed to cities and villages must be used for certain purposes in a particular order of priority. The bill allows a city, with the approval of the MDOT Director, to use up to 20.0% of the amount it receives from the Michigan Transportation Fund for public transit purposes if more than 10.0 million passengers used public transit within that city during the previous fiscal year.

House Bill 4614

The Streamlined Sales and Use Tax Revenue Equalization Act imposes a specific tax on interstate motor carriers who use diesel fuel in qualified commercial motor vehicles. The tax is imposed at a cents-per-gallon rate equal to 6% of the statewide average retail price of a gallon of self-serve diesel fuel. Under the bill, this tax applies to motor fuel, which includes both diesel fuel and gasoline, and alternative fuel. For motor fuel, the tax will be based on the statewide average retail price of undyed no. 2 ultra-low sulfur diesel fuel or self-serve unleaded regular gasoline, as applicable.

For alternative fuel subject to the tax, it will be imposed at a cents-per-gallon rate, or cents-per-gallon equivalent rate, as applicable, equal to 6% of the average retail price of a gallon or gallon equivalent, as applicable, of the applicable alternative fuel.

As currently required for the tax imposed on diesel fuel used by interstate motor carriers in qualified commercial motor vehicles, the specific tax on motor fuel and alternative fuel must be collected under the International Fuel Tax Agreement.
The bill defines "alternative fuel" and "gallon equivalent" as those terms as defined in Section 151 of the Motor Fuel Tax Act. (House Bill 4738 contains those definitions.)

House Bill 4370

Allocations to the Michigan Transportation Fund

The bill requires the following amounts of income tax revenue collected under Part 1 of the Income Tax Act to be deposited into the State Treasury to the credit of the Michigan Transportation Fund:

-- $150.0 million beginning October 1, 2018, through September 30, 2019.
-- $325.0 million beginning October 1, 2019, through September 30, 2020.
-- $600.0 million beginning October 1, 2020, and each October 1 thereafter.

These amounts must be disbursed as provided in Section 10(1)(k) of Public Act 51 of 1951. (That section prescribes the distribution of the balance of the MTF after the deduction of specific appropriated amounts, i.e., 39.1% to the State Trunkline Fund; 39.1% to county road commissions; and 21.8% to cities and villages.)

Homestead Property Tax Credit

The Income Tax Act allows eligible taxpayers to claim a refundable credit for a portion of the property taxes paid on the homestead they own or rent. The amount of the credit depends on various factors, including the taxpayer's total household resources, whether the taxpayer is a senior citizen or meets other criteria, and the value of the homestead. ("Total household resources" refers to all income received by all members of a household, increased by deductions from Federal gross income for net business, rental, or royalty losses.)

Maximum Credit Amount. The total credit allowed may not exceed $1,200 per year. The bill increases this amount to $1,500 beginning with the 2018 tax year. Beginning with the 2021 tax year, and each subsequent year, the bill requires the maximum amount of the credit to be adjusted by the percentage increase in the U.S. CPI for the previous calendar year, rounded to the nearest $100 increment.

Maximum Household Resources. Currently, the credit must be reduced by 10% for a taxpayer whose total household resources exceed $41,000, and by an additional 10% for each increment of $1,000 of household resources over $41,000. (This phase-out makes the credit unavailable to taxpayers whose total household resources exceed $50,000.)

Under the bill, beginning with the 2018 tax year, the "minimum total household resources amount" will be $51,000, and the credit must be reduced by 10% for a claimant whose total household resources exceed that amount and by an additional 10% for each increment of $1,000 of total household resources for the tax year (making the credit unavailable to taxpayers whose total household resources exceed $60,000). For the 2021 tax year and each subsequent tax year, the minimum total household resources threshold amount established for the prior calendar year must be adjusted by the percentage increase in the U.S. CPI for that year and rounded to the nearest $100 increment.

Credit Calculation. Currently, for a taxpayer who is not a senior citizen, the homestead property tax credit is equal to 60% of the amount by which the property tax on the homestead exceeds 3.5% of the taxpayer's total household resources for the tax year. For a taxpayer who is a senior citizen with total household resources of more than $21,000, the credit is equal to between 60% and 96% (depending on the level of household resources) of the amount by which the property tax on the homestead exceeds 3.5% of the taxpayer's total household resources for the tax year.
Under the bill, the percentage of total household resources used in these calculations will be reduced from 3.5% to 3.2%, for the 2018 tax year and subsequent tax years.

Currently, in the case of a taxpayer who is a senior citizen with total household resources of $21,000 or less, a paraplegic, hemiplegic, or quadruplegic, or totally and permanently disabled, deaf, or blind, the credit is the amount by which the property tax on the homestead exceeds between 0.0% and 3.5% of total household resources, depending on their amount.

For taxpayers to whom the 3.5% applies (those with total household resources over $6,000), the bill reduces the percentage to 3.2% beginning with the 2018 tax year.

Maximum Homestead Value. Currently, the credit is not available if the taxable value of the homestead is more than $135,000 (which equates to a sale value of $270,000 for a new home). Under the bill, beginning with the 2021 tax year and each subsequent tax year, the taxable value cap must be adjusted by the percentage increase in the U.S. CPI for the previous year and rounded to the nearest $100 increment. The Department of Treasury must annualize the amount as necessary.

Renters. The Act allows a person who rents or leases a homestead to claim a credit based upon 20% of the gross rent paid. The bill allows a credit based upon 23% of gross rent paid, beginning with the 2018 tax year.

**Senate Bill 414**

Part 1 of the Income Tax Act levies a tax of 4.35% on the taxable income of every person other than a corporation. Under the bill, this applies except as provided below.

For each tax year beginning on and after January 1, 2023, if the percentage increase in the total General Fund/General Purpose (GF/GP) revenue from the immediately preceding fiscal year is greater than the inflation rate for the same period, and the inflation rate is positive, then the current rate must be reduced by an amount determined as follows: multiplying that rate by a fraction whose numerator is the difference between the total GF/GP revenue from the immediately preceding State fiscal year and the "capped" GF/GP revenue; and whose denominator is the total revenue collected under Part 1 in the immediately preceding State fiscal year.

The bill requires the State Treasurer, the Director of the Senate Fiscal Agency, and the Director of the House Fiscal Agency to determine whether the total revenue distributed to GF/GP revenue has increased as provided in the bill based on the Comprehensive Annual Financial Report prepared and published by the Department of Technology, Management, and Budget. The State Treasurer and the Directors of the Senate and House Fiscal Agencies must make that determination by the date of the January 2023 revenue estimating conference and the date of each subsequent January revenue estimating conference.

The bill defines "total general fund/general purpose revenue" as the total GF/GP revenue and other financing sources as published in the Comprehensive Annual Financial Report schedule of revenue and other financing sources - General Fund for that fiscal year, plus any distribution made pursuant to Section 51d. (House Bill 4370 adds that section to the Act to allocate income tax revenue to the Michigan Transportation Fund, as described above.)

The bill defines "capped general fund/general purpose revenue" as "the total general fund/general purpose revenue from the 2020-2021 state fiscal year, multiplied by the sum of 1 plus the product of 1.425 times the difference between a fraction, the numerator of which is the consumer price index for the state fiscal year ending in the tax year prior to the tax year for which the adjustment is being made and the dominator of which is the consumer price index for the 2020-2021 state fiscal year, and 1".
"Consumer price index" means the U.S. CPI for all urban consumers as defined and reported by the U.S. Department of Labor, Bureau of Labor Statistics. "Inflation rate" means the annual percentage change in the CPI, as determined by the Michigan Department of Treasury, comparing the two most recent completed State fiscal years.

MCL 206.51 (S.B. 414)  
206.51d et al. (H.B. 4370)  
205.173 & 205.175 (H.B. 4614)  
207.211 et al. (H.B. 4616)  
257.801 (H.B. 4736)  
247.651j et al. (H.B. 4737)  
207.1002 et al. (H.B. 4738)

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The legislation's provisions regarding increases to motor fuel and registration taxes combined with the individual income tax earmark and other changes will increase funding to the Michigan Transportation Fund by an estimated $355.4 million in fiscal year 2016-17, and by an estimated $1.15 billion in fiscal year 2021-22 (upon full implementation of the legislation). Of the increases in fiscal year 2021-22, road agencies will receive an estimated $1.1 billion increase in funding, and the Comprehensive Transportation Fund (CTF) will receive an estimated $54.6 million increase.

This estimate assumes that no concurrent resolution to distribute the Roads Innovation Fund is adopted by fiscal year 2021-22. If and when a concurrent resolution is approved, the MTF will receive the amount already deposited into the Roads Innovation Fund, as well as an additional $100.0 million each year thereafter.

In fiscal year 2018-19, the General Fund will experience a decrease of $355.8 million due to the combination of an earmark to the MTF and modifications to the homestead property tax credit. By fiscal year 2021-22, the decrease will reach $814.0 million. Additionally, beginning January 1, 2023, the General Fund may be subject to further decreases due to the income tax rate reduction trigger, depending on both inflation and General Fund growth. For each 1/10 point of income tax rate reduction, the General Fund would decrease by an estimated $230.0 million.

For detailed figures, please see the attached table.

House Bill 4736

The bill's provisions to increase registration taxes for passenger and commercial vehicles by 20.0% will affect road agency and public transit funding as shown below in Table 2.

The bill's provisions regarding electric vehicles will have a positive but nominal and indeterminate impact on transportation revenue, resulting in increased funding to MDOT, local road agencies, and the CTF. It is unclear how many hybrid electric and nonhybrid electric cars are registered in the State, or how many vehicles will be affected by the provisions for increased registration taxes. Currently, these vehicles occupy a relatively small portion of the market compared to vehicles that use conventional fuel. As electric vehicles represent a larger market share, the increased registration fees from these provisions will continue to increase revenue accordingly.
Table 2
(dollars in millions)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>State Trunkline Fund (MDOT)</th>
<th>County Road Agencies</th>
<th>Cities/Villages</th>
<th>CTF (Public Transit)</th>
<th>Total Impact on Michigan Transportation Fund</th>
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<tbody>
<tr>
<td>2016-17</td>
<td>$55.7</td>
<td>$55.7</td>
<td>$31.1</td>
<td>$15.8</td>
<td>$158.4</td>
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<tr>
<td>2017-18</td>
<td>$76.0</td>
<td>$76.0</td>
<td>$42.4</td>
<td>$21.6</td>
<td>$215.9</td>
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<tr>
<td>2018-19</td>
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<td>$77.7</td>
<td>$43.3</td>
<td>$22.1</td>
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<td>2019-20</td>
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<td>$79.5</td>
<td>$44.3</td>
<td>$22.6</td>
<td>$225.8</td>
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<td>2020-21</td>
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<td>$45.3</td>
<td>$23.1</td>
<td>$231.0</td>
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<td>2021-22</td>
<td>$83.2</td>
<td>$83.2</td>
<td>$46.4</td>
<td>$23.6</td>
<td>$236.3</td>
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House Bills 4616 and 4738

The bills will generate increased revenue to the Michigan Transportation Fund, the Recreation Improvement Account (of the Michigan Conservation and Recreation Legacy Fund), and the Roads Innovation Fund. The estimated revenue is shown in Table 3.

Table 3
(dollars in millions)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Michigan Transportation Fund Components</th>
<th>Recreation Improvement Account</th>
<th>Roads Innovation Fund*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>State Trunkline Fund (MDOT)</td>
<td>County Road Agencies</td>
<td>Cities &amp; Villages</td>
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<tr>
<td>2016-17</td>
<td>$70.4</td>
<td>$70.4</td>
<td>$39.2</td>
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<tr>
<td>2019-20</td>
<td>$104.9</td>
<td>$104.9</td>
<td>$58.5</td>
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<tr>
<td>2020-21</td>
<td>$104.7</td>
<td>$104.7</td>
<td>$58.4</td>
</tr>
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</table>

*This analysis assumes no concurrent resolution is adopted to release any money in the Roads Innovation Fund. For more information on the Fund, please see the analysis of House Bill 4737.

Beginning in fiscal year 2021-22, when motor fuel taxes are adjusted according to inflation, annual revenue from fuel taxes will increase accordingly.

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

Upon the adoption of the necessary concurrent resolution of the Legislature, the redirection of $100.0 million to the Roads Innovation Fund will cease, and any money in the Roads Innovation Fund will be distributed to road agencies and the Comprehensive Transportation Fund according to the MTF distribution formula (10% to the CTF, and of the remainder, 39.1% to the STF, 39.1% to county road commissions, and 21.8% to cities and villages). At that point, road agencies and the CTF will receive all money in the Roads Innovation Fund that the CTF would have received but for the redirection in prior fiscal years. (For more information
The fiscal impact of increasing civil fines for using dyed diesel in vehicles on roadways is indeterminate. Currently, fines are assessed according to a 12-month time period, after which the penalty "resets" to the original amount of $200 for the first two offenses. Since House Bill 4738 provides for set fines regardless of the time frame in which multiple offenses occurred, based solely on the offense being either a first or subsequent offense, it is unclear what effect the amendments will have on revenue. As the bill substantially changes the nature of these fines both in the amount assessed and the method of application, in some cases resulting in a $5,000 fine instead of a $200 fine, the resulting effect on motorist behavior is unclear.

**House Bill 4737**

By directing $100.0 million annually to the Roads Innovation Fund, the bill will reduce annual MTF revenue that otherwise would be distributed as follows: $35.2 million to MDOT, $35.2 million to county road commissions, $19.6 million to cities and villages, and $10.0 million to the Comprehensive Transportation Fund. Upon the adoption of a concurrent resolution of the Legislature, this redirection will cease, and any money in the Roads Innovation Fund will be distributed to road agencies and the CTF according to the MTF distribution formula. Road agencies and the CTF then will receive all money in the Roads Innovation Fund they would have received but for the redirection in prior fiscal years.

Beginning in fiscal year 2016-17, the bill's provision to increase the debt service earmark from $43.0 million to $50.0 million will result in an annual $4.5 million increase to MDOT, a $2.5 million reduction to county road commissions, a $1.4 million reduction to cities and villages, and a $0.7 million reduction to the CTF. Since annual debt service payments far exceed $43.0 million (roughly $250 million annually), the earmark will not result in increased debt service payments; it only will shift funds within the transportation budget.

Beginning in FY 2016-17, the bill's provision to establish the Grade Crossing Surface Account may reduce annual MTF distributions to MDOT by up to $1.1 million, to county road commissions by up to $1.1 million, to cities and villages by up to $0.5 million, and to the CTF by up to $0.3 million.

The bill's provision to establish the Roads Innovation Task Force will have an indeterminate impact on MDOT, as it will result in increased administrative burdens and/or costs.

The bill's provision to require warranties on certain projects likely will result in increased costs for road agencies, to the extent that they will have to purchase additional coverage. In the long term, these warranties may produce cost savings or increased costs, depending on warranty performance and project quality in the aggregate. The bill's reporting requirements will result in increased administrative burdens for road agencies.

**House Bill 4614**

The bill will increase Michigan Transportation Fund revenue by an unknown amount that will depend on the consumption of fuels other than diesel by qualified commercial motor vehicles, the number of miles driven in Michigan, and the price of affected fuels. The bill expands fuel tax provisions affecting interstate motor carriers to cover gasoline and alternative fuels, rather than just the diesel fuel currently covered. At present, the fiscal impact of the bill is expected to be minimal, but will likely increase as alternative fuel use by interstate commercial motor carriers increases.

The provisions of the bill will affect both purchases of fuel made out-of-State for vehicles driven in Michigan, as well as purchases of fuel in Michigan for vehicles driven outside the State. The Streamlined Sales and Use Tax Revenue Equalization Act, as well as the
International Fuel Tax Agreement, provides for collecting revenue attributable to miles driven in-State, and provides credits for in-State fuel purchases when a vehicle is driven out of State.

**House Bill 4370**

The bill will reduce General Fund revenue by approximately $355.8 million in FY 2018-19, by $530.8 million in FY 2019-20, and $805.8 million in FY 2020-21 and FY 2021-22. In later fiscal years the revenue loss will increase by a greater, although unknown, amount that will depend on economic factors such as the inflation rate and underlying economic growth, Federal and State tax policy, and property values. The bill also will increase revenue to the Michigan Transportation Fund by $150.0 million in FY 2018-19, by $325.0 million in FY 2019-20, and by $600.0 million per year from FY 2020-21 on.

The bill will reduce General Fund revenue in two principal ways: 1) earmarking money to the Michigan Transportation Fund, and 2) changing a variety of provisions affecting the homestead property tax credit. The provisions regarding the credit will reduce revenue by approximately $205.8 million per year beginning in FY 2018-19.

To the extent that the bill reduces taxpayers' net Michigan income tax or property tax liabilities, the bill also will reduce the deductions that may be claimed on their Federal income tax return, for those taxpayers who itemize deductions. As a result, if all taxpayers affected by the bill were to itemize, the bill would increase Federal tax liabilities by approximately $30.9 million to $51.5 million, depending on the taxpayers' Federal income tax brackets.

**Senate Bill 414**

The bill will reduce General Fund revenue by an unknown and significant amount that will depend on economic factors such as the inflation rate and underlying economic growth, Federal and State tax policy, State spending policy, and taxpayer behavior. The first fiscal year that revenue may be reduced under the bill is FY 2022-23.

Based on current forecasts of revenue through FY 2016-17, if the bill's provisions were effective for FY 2016-17 and used FY 2014-15 as the base year, every 1.0% that General Fund revenue grows more rapidly than 1.425 times the inflation rate would require a rate reduction that would reduce revenue by approximately $100.0 million per year. On a full fiscal year basis, a reduction in the individual income tax rate of 0.1% (for example, from 4.25% to 4.15%) would reduce revenue by approximately $230.0 million. As a result, every $100.0 million by which General Fund revenue growth exceeds 1.425 times the rate of inflation will trigger a rate reduction of approximately 0.04% (for example, from 4.25% to 4.21%).

The potential for the rate reduction to be triggered can be viewed from a historical perspective, considering what would have occurred if the bill had been in effect in prior years. General Fund revenue has grown or is forecasted to grow more rapidly than 1.425 times the rate of inflation, as defined by the bill, in 20 of the 50 years between FY 1967-68, the first year in which Michigan levied the individual income tax, and FY 2016-17, as forecast, and in seven of the 25 years since FY 1992-93. However, had the provisions of the bill been in effect beginning in some prior fiscal year, rate reductions would not have been triggered in all of these years because a rate reduction in an earlier year would potentially result in revenue not growing at a faster rate than inflation in later years. Similarly, in some years, such as FY 1999-2000, the scheduled rate reduction from 4.40% to 4.25% was greater than the rate reduction that would have been required by the provisions in the bill.

(A more detailed discussion of the mechanics of the rate adjustment mechanism in the bill can be seen in the analysis of the S-1 version of the bill passed by the Senate on July 1, 2015,
although that analysis was based on growth in excess of the inflation rate rather than 1.425 times the inflation rate, and was evaluated on a year-to-year basis rather than with respect to a base year of revenue.)

In most fiscal years over the last 25 years, General Fund revenue grew more rapidly than inflation as a result of distinct circumstances. For example, in the late 1990s, General Fund revenue grew more rapidly than inflation primarily as a result of increased capital gain realizations associated with the "tech bubble" in the stock market. Similarly, in FY 2012-13, General Fund revenue grew more rapidly than inflation because of increased capital gains and dividends taken in response to the Federal "fiscal cliff" crisis coupled with delayed filings for credits available under the Michigan Business Tax (MBT). The forecasted growth of General Fund revenue over the rate of inflation in FY 2014-15 primarily reflects the fact that FY 2013-14 revenue was pushed lower than what economic growth would have suggested because of a substantial increase in the number and amount of MBT credits claimed in FY 2013-14. The provisions of the bill would trigger rate reductions whether the growth in General Fund revenue over the 1.425-times-the-rate-of-inflation reflected rapid economic growth or factors unrelated to the underlying economy.

When viewed historically, the likelihood of rate reductions under the bill also would have been affected by both tax and spending policies. As mentioned above, the scheduled rate reduction for FY 1999-2000 was greater than the reduction that would have been calculated by the provisions of the bill. Similarly, in years when the State has deposited revenue into the Budget Stabilization Fund (BSF), it reduced or eliminated rate reductions that would have otherwise been triggered had the bill been effective. Furthermore, during recessions, circumstances such as withdrawals from the BSF or increased Federal aid that has effectively increased General Fund revenue have prevented the base from which General Fund revenue growth would be computed under the bill from declining as rapidly as ongoing revenue, resulting in slower growth in revenue during the initial years of the recovery and decreasing or eliminating any rate reductions that would have been triggered if General Fund revenue grew as rapidly as ongoing revenue.

Regardless of the circumstances resulting in a rate reduction under the bill, based on revenue levels forecasted through FY 2016-17, every 1.0% that General Fund revenue grows more rapidly than 1.425 times the rate of inflation will require a rate reduction that will reduce revenue by approximately $100.0 million per year, as described above. The bill's provisions regarding potential reductions in the tax rate will not affect rates until at least FY 2022-23.

Fiscal Analyst: Glenn Steffens
David Zin

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.
<table>
<thead>
<tr>
<th>Bill</th>
<th>Key Provisions</th>
<th>Impact on General Fund</th>
<th>Fiscal Impact (Dollars in Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Impact</td>
<td>Michigan Transportation Fund Distributions:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>on Public Transit</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Rail Grade Crossing Fund</td>
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<tr>
<td></td>
<td></td>
<td>Recreation Improvement Fund</td>
<td></td>
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<td></td>
<td></td>
<td>Roads Innovation Fund</td>
<td></td>
</tr>
<tr>
<td>4370</td>
<td>Earmarks Income Tax Revenue to Michigan Transportation Fund</td>
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<td>$0.0 in FY 2015-16</td>
</tr>
<tr>
<td></td>
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<td>$0.0 in FY 2016-17</td>
<td>$0.0 in FY 2016-17</td>
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<td>$0.0 in FY 2017-18</td>
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<td></td>
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<td>$0.0 in FY 2018-19</td>
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<td></td>
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<td>$0.0 in FY 2020-21</td>
<td>$0.0 in FY 2020-21</td>
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<tr>
<td></td>
<td></td>
<td>$0.0 in FY 2021-22</td>
<td>$0.0 in FY 2021-22</td>
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<tr>
<td>4370</td>
<td>Modifies Homestead Exemption</td>
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<tr>
<td></td>
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<td></td>
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<tr>
<td>414</td>
<td>Creates Trigger for Income Tax Rate Reduction Beginning January 1, 2023</td>
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<tr>
<td>4738</td>
<td>Increases Gasoline Tax from $0.15/gallon to $0.263/gallon beginning</td>
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<td></td>
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<td>4738</td>
<td>&amp; Increases Diesel Tax from $0.15/gallon to $0.263/gallon beginning</td>
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<td>4736</td>
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<tr>
<td>4737</td>
<td>Increases fuel Service Earmark from $43.0 million to $50.0 million Beginning FY 2016-17</td>
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<tr>
<td>4614</td>
<td>Imposes Specific Tax on Alternative Fuels</td>
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**Total Fiscal Impact:**

Not including potential effects of SB 414:

<table>
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<tr>
<th>Fiscal Impact</th>
<th>$0.0 in FY 2015-16</th>
<th>$0.0 in FY 2016-17</th>
<th>$0.0 in FY 2017-18</th>
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<td>Annually</td>
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<td>$0.0 in FY 2021-22</td>
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Assuming no concurrent resolution