

Fiscal Analysis

ACT 51 – 1-CENT EARMARK OF MTF FUNDS



Bill/Sponsor HOUSE BILL 5319 As introduced, Rep. Tom Casperson

House Committee Transportation

Analysis

Summary

The Motor Fuel Tax Act was amended in 1997 to increase the gasoline excise tax 4 cents, from 15 cents to 19 cents per gallon. At the same time, Public Act 51 of 1951 was amended to earmark the related increase in Michigan Transportation Fund (MTF) revenue. Those 1997 amendments to Act 51 (PA 79 of 1997) earmarked one cent of the increase in the gasoline tax for state trunkline bridges, with the remaining three cent increase earmarked for distribution to counties, cities and villages, and the State Trunkline Fund.¹ This earmarking the entire four-cent gas tax increase effectively excluded the Comprehensive Transportation Fund (CTF) from a share of the increase.

HB 5319 would amend Section 10 of Act 51 (MCL 247.660) to earmark an additional one cent of motor fuel taxes in the MTF distribution formula. The bill would earmark an additional one-half cent for state trunkline bridges, (making the total earmark for state trunkline bridges one and one half cents) and would earmark one-half cent for the Critical Bridge Fund for use only by county road commissions, cities, and villages.

Fiscal Impact

Each one-cent of the Motor Fuel Tax Act's 19-cent per gallon gasoline excise tax equates to approximately \$50.0 million per year. The bill would earmark an additional one cent of the tax in Act 51's MTF distribution formula. However, since this earmark would come from existing MTF revenue, the bill would have the following net effect on recipients of MTF funding:

STF – Net increase of \$7.4 million. The bill would also restrict use of \$25.0 million STF to state trunkline bridges, making total STF funds restricted for state trunkline bridges approximately \$75.0 million.

CTF – Decrease of \$5.0 million. By earmarking an additional one-cent of motor fuel taxes in the MTF distribution, the bill would exclude the CTF from a share of those funds.

Local Road Agencies – Net decrease of \$2.4 million. The bill would take \$27.4 million out of the formula distribution to county road commissions, cities, and villages, of which \$25.0 million would be available to local road agencies through the Critical Bridge Program. Since the Critical Bridge Program is a grant program with awards based on selection criteria, not all

¹ PA 79 of 1997 should have referenced 1927 PA 150, the Motor Fuel Tax Act. But the reference was made in error to "1950 PA 127." The MCL reference in PA 79 was apparently correct.

local road agencies would get awards under the program. It can not be determined in advance what local agencies would get projects awarded under the program.

A table showing the bill's effect on the MTF recipients is found at the end of this analysis.

The fiscal impact discussed above is based on the assumption that the bill would earmark one-half cent of the 19-cent per gallon gasoline excise tax. However, recent amendments to Act 51 would also appear to earmark the 15-cent per gallon diesel fuel excise tax. See discussion of the diesel fuel excise tax below.

Background on Critical Bridge Fund - The Critical Bridge Fund is a state-restricted fund established in Section 11b of Public Act 51 of 1951. Section 11b provides for an annual appropriation of \$5.0 million from the Michigan Transportation Fund (MTF) to the Critical Bridge Fund for a Critical Bridge Program to be administered by the Michigan Department of Transportation. The section describes the purpose of the program as “*to provide financial assistance to highway authorities for the improvement or reconstruction of existing bridges or for the construction of bridges to replace existing bridges in whole or in part.*”

In addition to the \$5.0 million appropriation from the MTF, the Critical Bridge Fund is credited with interest earnings on the fund balance. Interest earnings represent an additional \$750,000 for the fund in FY 2003-04.

Bridge projects are awarded based on established selection criteria as provided in The program rules are provided in the Michigan Administrative Code Rules, 247.151 through 247.156. The bridge selection process is administered by the department in cooperation with a Critical Bridge Advisory Committee comprised of nine members - three members representing counties, three members representing cities and villages, and three members from the department.

The Critical Bridge Program is, effectively, a 100% local program. Funds are used exclusively for county, city, or village bridge projects. Although Act 51 allows the state to receive up to 38.4% of program funds, the department does not compete for Critical Bridge Program funds and has not for several years.

In most cases, funds from the Critical Bridge Program are used to match federal bridge funds for local bridge projects. These federal funds, from the federal Highway Bridge Replacement and Rehabilitation Program (HBRRP) are made available for local bridge projects by the department. The department has elected to allocate 15% of the total federal HBRRP funds available to the state to the local bridge program. This 15% allocation to local bridge programs represents approximately \$18.0 million per year.

Local road agencies have argued that the allocation of federal HBRRP funds for local bridge programs should be increased from the 15% currently

allocated by the department. The County Road Association of Michigan (CRAM) supports legislation to set aside 25% of these federal bridge funds for local bridge programs. For several years the Michigan Legislature has attempted to increase the allocation of federal HBRRP funds for local bridge programs through appropriations boilerplate. These boilerplate directives have been consistently vetoed by both Governors Engler and Granholm.

In addition to advocating for additional federal funds for the local Critical Bridge Program, local road agencies would also like Act 51 amended to increase the distribution of MTF funds earmarked for the Critical Bridge Fund. CRAM specifically endorses “*splitting the 1-cent set aside from the 1997 gas tax increase for state bridges, one-half cent for state bridges and the other half to the Critical Bridge Program for local bridges.*”

Note on Diesel Fuel Excise Tax - The fiscal impact discussed above is based on the assumption that the bill would earmark one cent of the 19-cent per gallon gasoline excise tax. However, recent amendments to Act 51 would also appear to earmark the 15-cent per gallon diesel fuel excise tax. .

When Act 51 was recently amended by PA 151 of 2003 (SB 539), the Section 10 reference to the Motor Fuel Tax Act was changed to reflect the recodified Motor Fuel Tax Act, Public Act 403, of 2000. The specific excise tax reference was also changed to “Section 8” of the Motor Fuel Tax Act. Section 8 includes the 15-cent per gallon diesel excise tax, as well as the 19-cent per gallon gasoline excise tax. It is not clear if the legislature intended to also earmark four cents of the diesel excise tax, but Public Act 151 of 2003 appears to have done so. Each penny of the diesel tax equates to approximately \$8.0 million.

Fiscal Impact of House Bill 5319, As Introduced

<i>HB 5319 Impacts</i>	CTF <i>10.00%</i>	State <i>39.10%</i>	County <i>39.10%</i>	City/Village <i>21.80%</i>	Total <i>Local</i>
Earmark ½ cent from MTF by-pass CTF effect on other MTF recipients	(\$2,500,000)	(\$8,797,500)	<i>earmarked for Critical Bridge</i>		\$25,000,000
			(\$8,797,500)	(\$4,905,000)	(13,702,500)
½ cent increase in earmark from MTF by-pass CTF effect on other MTF recipients	(2,500,000)	25,000,000	<i>earmarked for State Trunkline Bridges</i>		(13,702,500)
		(8,797,500)	(8,797,500)	(4,905,000)	(13,702,500)
Net Impact	<u>(\$5,000,000)</u>	<u>\$7,405,000</u>			<u>(\$2,405,000)</u>
<i>Summary</i>					
Total reduction from MTF formula increased in bridge earmark	(\$5,000,000)	(\$17,595,000)	(\$17,595,000)	(\$9,810,000)	(\$27,405,000)
Net increase/(decrease)	<u>(\$5,000,000)</u>	<u>\$7,405,000</u>			<u>(\$2,405,000)</u>

The above analysis assumes an earmark of 1-cent of the gasoline excise tax - equal to \$50.0 million. It does not consider revenue from the diesel fuel excise tax, although Act 51 appears to earmark this revenue as well.

Analyst(s)
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