Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

Senate Bill 351 (Substitute S-1 as reported)
Sponsor: Senator John Proos
Committee: Transportation

Date Completed: 10-27-11

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) 2011-2015 Five-Year Transportation Program, approved by the State Transportation Commission in April 2011, "[D]ue to state revenue declines in the State Transportation Fund, MDOT estimates that more than half of anticipated available federal funds will not be utilized beginning in 2012."

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 has been suggested that a portion of the undedicated revenue from the sales tax on motor fuel should be allocated to MDOT and local units of government for distribution according to existing transportation funding formulas.

CONTENT

The bill would amend the General Sales Tax Act to do the following:

- **Dedicate 18% of the 4% sales tax on motor fuel to the State Trunkline Fund (STF), county road commissions, and cities and villages for highway, road, and street projects and related purposes.**
- **Delete the requirements 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.**

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; however, in the case of the tax collected on sales of motor fuel, motor vehicles, and motor vehicle parts and accessories, 27.9% of the remaining balance must be deposited in the Comprehensive Transportation Fund (CTF) first. (The CTF is used for the development of public transportation systems.)

The bill would retain these allocations, but would omit the requirement that the deposit to the CTF be made after the distributions to the SAF and revenue sharing. Beginning with fiscal year 2010-11, the bill would require 18% of the collections from the 4% tax on motor fuel sales to be distributed as follows:

-- 39.1% to the State Trunkline Fund for the purposes described in Section 11 of Public Act (PA) 51 of 1951, the Michigan Transportation Fund (MTF) law.
-- 39.1% to county road commissions for administration according to Section 12 of the MTF law.
-- 21.8% to cities and villages for administration according to Section 13 of the MTF law.

(Under Section 11 of the MTF law, money in the State Trunkline Fund is appropriated to MDOT for the payment of bonds, notes, and other obligations related to highways and transportation purposes other than comprehensive transportation purposes; railgrade crossings; and highway, road, street, and bridge projects.

Section 12 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, after the allocations and distributions to local revenue sharing and the SAF, revenue from the 4% tax imposed on computer software sales must be deposited in the Michigan Health Initiative Fund. This deposit must not be less than $9.0 million or more than $12.0 million. The bill would eliminate the reference to the revenue sharing and SAF allocations and distributions. Instead, all of the revenue from the tax on those sales would have to be deposited in the Michigan Health Initiative Fund.

(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 local units through the PA 51 formula, the bill would make badly needed funding available for road and bridge projects. The dollars allocated to local units would be particularly helpful in light of the cuts in revenue sharing they continue to experience. The allocation of sales tax revenue to the STF also would enable the

State to maximize the amount of highway dollars it receives from the Federal government.

In addition, it would be appropriate for some of the money consumers pay in motor fuel sales taxes to be used to improve transportation in Michigan.

Opposing Argument

While the bill would provide a tool to enhance funding for road projects, it should be part of a comprehensive policy discussion regarding the State's transportation infrastructure, including the appropriate use of sales tax revenue and earmarks. Furthermore, the U.S. Congress is considering several highway reauthorization proposals that could affect the amount of Federal funds available to Michigan. Until Federal legislation is enacted and 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 would reduce General Fund revenue, and increase State Trunkline Fund (STF) revenue and revenue to local units by an equal and offsetting amount that would largely depend on the price of gasoline. The fiscal impact would range from $101.5 million to $136.6 million annually.

Assuming the bill were effective for all of FY 2011-12, at an average price of $3.00 per gallon for gasoline and $3.40 per gallon for diesel fuel, the bill would reduce General Fund revenue from gasoline sales by approximately $84.8 million and General Fund revenue from diesel fuel sales by $16.7 million. The reductions in General Fund revenue would increase STF revenue by approximately $39.7 million, increase revenue to county road commissions by $39.7 million, and increase revenue to cities and villages by $22.1 million.

If the price were $4.00 per gallon for gasoline and $4.40 per gallon for diesel fuel, the bill would reduce General Fund revenue from gasoline sales by approximately $115.0 million and General Fund revenue from diesel fuel sales by $21.6 million. The reductions in General Fund revenue would increase STF revenue by approximately $53.4 million, increase revenue to county road commissions by $53.4 million, and increase revenue to cities and villages by $29.8 million.

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, current law requires that 27.9% of 25% of the collections from these sales that remain after the constitutional earmarks be directed to the Comprehensive Transportation Fund.

For sales of motor fuels 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 is approximately 7.3% of estimated collections at a 4% rate.)

The bill would increase revenue to the STF, county road commissions, and cities and villages, by adding an 18% earmark to sales tax collections. To avoid making the earmark on motor fuels total 121.275%, the bill would determine 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 would 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 would 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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