

## **INFORMATION REGARDING STATEWIDE PROPOSAL 1**

### **ON UPCOMING MAY 5, 2015, BALLOT:**

The attached slides are intended to provide information regarding road funding and Proposal 1 on the upcoming, May 5, 2015, statewide ballot. This information is intended to be factual and not intended to advocate for or against the proposal or any political position.

The attached information is intended to answer the following questions and thus is arranged accordingly:

1. Why Michigan's roads are descending into poor condition (Courtesy of County Road Association of Michigan), and Ingham County road revenue decline and cost increases.
2. How state road funding is currently distributed per PA 51 of 1951 as amended. (Courtesy of County Road Association of Michigan)
3. Overview chart and then detail of changes Proposal 1 would make if passed. (Chart courtesy of Michigan Department of Transportation, detail slides courtesy of Road Commission for Oakland County)
4. Comparison of how Michigan's sales tax currently and would compare to that of other states if Proposal 1 passes. (Courtesy of County Road Association of Michigan)
5. The amount of additional road revenue the proposal would generate for Ingham County roads if Proposal 1 passes, not including state highways and city streets in Ingham County, over the 3 year phase in of the additional revenue and beyond. (Excerpt from longer list for all road agencies in Michigan with Ingham County highlighted. Courtesy of County Road Association of Michigan.)
6. How Ingham County Road Department proposes to use the additional revenue if Proposal 1 passes, subject to Ingham County Board of Commissioners approval.
7. More detail per Michigan House Fiscal Agency Analysis about Proposal 1 and related legislation that would take effect if Proposal 1 passes.
8. See also 3 separate Ingham County road maps showing estimated road work highlighted that can be done with current funding, or could be done with proposed funding if Proposal 1 passes. (Road work depicted subject to change per actual future costs, revenues, and project development / approval process.)

## WHY MICHIGAN ROADS ARE CRUMBLING NOW

1

Every year **\$1 billion** that we pay at the pump — the state sales tax on fuel — **doesn't go to roads.**

2

The last gas tax in 1997 was **not adjusted to inflation.** That 4¢ now has the purchasing power of 2¢.

3

Since 2004, the recession and spike in fuel prices have caused **motorists to drive less,** paying **less gas tax.**

4

Today's vehicles are **more fuel efficient,** leading to **less gas tax** paid.

5

The 1960s saw a boom in U.S. road construction. Many of these **roads and bridges** are at the **end of their life span.**



## Ingham County Road Department Revenue Decline and Cost Increases

*Over the past seven to eight years, the Ingham County Road Department has seen significant decline in its revenue, while experiencing a tremendous increase in its costs of operation. This financial squeeze has significantly impacted the Road Department's ability to deliver services and maintain the county roads. The following tables illustrate the factors that have contributed to the Road Commission's budget constraints:*

### MTF Revenue Decline (Michigan State Fuel Tax and Vehicle Registration Fees)

2004 - \$13,930,256	Change from prior year
2005 - \$13,157,391	(\$772,865)
2006 - \$13,043,693	(\$113,698)
2007 - \$12,936,411	(\$107,282)
2008 - \$12,466,354	(\$470,057)
2009 - \$12,155,700	(\$310,654)
2010 - \$12,189,436	\$ 33,736
2011 - \$12,269,174	\$ 79,738
2012 - \$12,236,452*	(\$ 32,722)

\* an overall decline of \$1,693,804 or 12.2% in the past 8 years

### Cost Increases for Various Critical Materials

#### Maintenance Asphalt

<u>Year</u>	<u>Price Per Ton</u>
2004	\$ 26.00
2005	\$ 27.00
2006	\$ 33.00
2007	\$ 38.75
2008	\$ 38.30
2009	\$ 44.00
2010	\$ 45.00
2011	\$ 44.00
2012	\$ 49.50*

\* a 90% increase over 8 years

#### Chip Sealing Oil

<u>Year</u>	<u>Price Per Gallon</u>
2004	\$ .67
2005	\$ .94
2006	\$ 1.10
2007	\$ 1.65
2008	\$ 1.65
2009	\$ 1.82
2010	\$ 2.01
2011	\$ 2.01
2012	\$ 2.16*

\* a 222% increase over 8 years (cost has tripled)

#### Road Salt

<u>Year</u>	<u>Price Per Ton</u>
2004	\$ 24.89
2005	\$ 25.31
2006	\$ 27.09
2007	\$ 32.04
2008	\$ 42.25
2009	\$ 46.25
2010	\$ 49.17
2011	\$ 49.12
2012	\$ 47.65*

\* a 91% increase over 8 years (cost has nearly doubled)

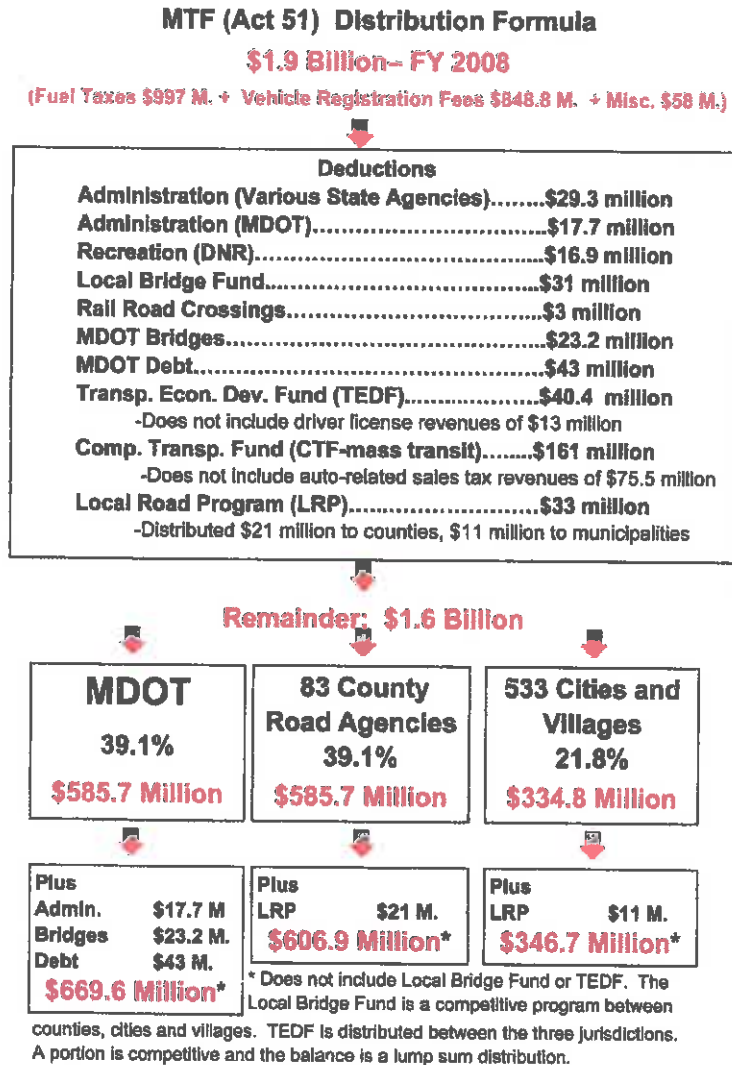
#### Diesel Fuel

<u>Year</u>	<u>Average Unit Price Per Gallon (Weighted)</u>
2004	\$ 1.21
2005	\$ 1.74
2006	\$ 2.08
2007	\$ 2.16
2008	\$ 2.78
2009	\$ 1.70
2010	\$ 2.27
2011 *	\$ 3.02*

\* a 150% increase over 7 years (cost has more than doubled)

## The Distribution of Road Funding

The revenues available from the Michigan Transportation Fund (MTF) are distributed according to a complex formula established in Public Act 51.



The funding available to county road agencies is distributed to the 83 counties using a formula specified by P.A. 51 of 1951. The formula weighs the following characteristics:

- The number of vehicle registrations per county (a measure of traffic volume);
- Population;
- Road mileage in the county;
- Some counties receive an additional allotment based on historical snowfall data; and
- Urban counties are eligible for an additional allotment to aid in relieving congestion.

## TRANSPORTATION REVENUE BALLOT OPTION

### Principles of Reform

- 1) Needed funding for roads and bridges
- 2) Protect schools, communities, public transit, rail
- 3) Transportation taxes go to transportation
- 4) Competitive prices at the pump
- 5) Tax relief for lower-income Michiganders

### Legislature Approves

#### Ballot Proposal

- a. Raise Rates on Sales & Use to 7% total
- b. Eliminate Sales Tax on Motor Fuels
- c. Remove Higher Ed from School Aid Fund
- d. Amend Use Tax Distribution

### Legislature Approves

#### Additional Tie-barred Bills Effective ONLY If Ballot Proposal is Approved by Voters

1. Wholesale Tax on Motor Fuels  
**\$1.2 B**  
Starts October 1, 2015
2. Registration Changes  
**\$95 M**  
\$45 M Vehicle Reg  
\$50 M Heavy Trucks
3. Transportation-related Reforms  
Warranties  
Competitive Bidding
4. Earned Income Tax Credit (EITC) Restoration (tax year 2016)  
**(\$260 M)**

### Ballot Proposal May 2015

1. Increase General Sales/Use Tax by 1%, from 6% to 7%

**\$1.34 B**

2. Eliminate Sales Tax on Motor Fuels  
**(\$752 M)**

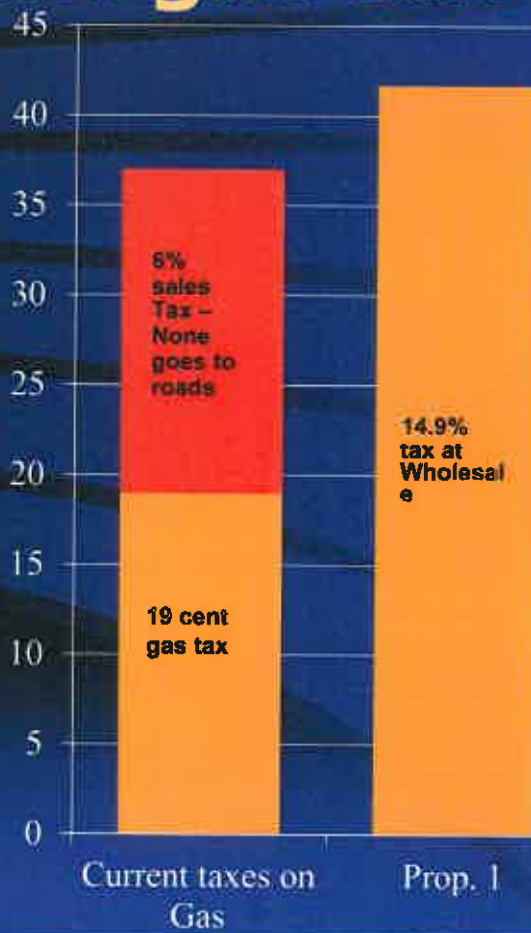
#### Revenue

- Transportation \$1.3 B  
Roads \$1.2 B  
Transit/Rail (CTF) \$112 M
- Schools \$300 M (\$200 pp)
  - Locals \$94 M
  - Tax Relief (\$260 M)

## Prop. 1

- Eliminate sales tax on gas & diesel starting Oct. 1, 2015
- Convert 19-cent gas tax & 15-cent diesel tax to **14.9%** tax on the **wholesale price** of the fuels.
- Initial tax rates would be 41.7 cents/gallon for gas and 46.4 cents/gallon for diesel (based on the 12-month rolling average cost of the fuels)

# Current gas tax vs. Prop. 1



## Prop. 1 cont'd

- Fuel tax revenues cannot rise or fall dramatically under Prop. 1 – there is an annual “floor” & “ceiling”
- Raises sales tax from 6% to 7%.
- Additional revenue goes to schools & municipalities to make up for loss of sales tax revenue from fuel.



# Impact for Transportation Agencies

- \$1.2 billion/year more for MTF
  - 39% to MDOT; 39% to county roads; 22% to city streets
- Grows with consumer prices
- \$112 million/year for CTF (transit) by 2018
- Early payment of MDOT's debt service
- Improved rural railroad crossings

## **Impact for Other Public Agencies**

- \$300 million/year more for K-12 education & community colleges
- \$100 million/year more for cities, villages & townships
- \$20 million/year more for DNR marinas and ORV trails

## Impact for Individual Taxpayers

- Sales tax rises from 6 to 7%
- Gas tax increases; sales tax removed from fuel
  - Tax at pump rises approx. 4 cents/gallon
- Earned-income tax credit increased & eligibility broadened
- Registration fee – 10% annual discount eliminated for first 3 years for new cars starting in 2016
- Registration fee on hybrid-drive cars increased by \$25/year
- Registration fee on electric cars & plug-in hybrids increased by \$75/year

# Trucks will pay more

- Diesel tax rate raised to same level as gas tax.
- Vehicle registration fees raised nearly 34% for heavy trucks.



# IS IT TRUE THAT MICHIGAN WOULD HAVE THE HIGHEST SALES TAX IN THE COUNTRY IF THIS PASSED?

**No** Michigan's sales tax rate would be the same as neighboring Indiana (7 percent) if this proposal passes, according to the nonpartisan Tax Foundation. A 7 percent sales tax would be ranked 21st in the country when it comes to average state and local sales tax rates.

State	State & Average local Sales Tax Rate
Michigan (today)	6%
Michigan (if Proposal 1 passes)	7%
Indiana	7%
Ohio	7.11%
Wisconsin	5.43%
Illinois	8.16%
Pennsylvania	6.34%
New York	8.47%
Minnesota	7.19%

**Distribution Schedule for Michigan Transportation Funding by County**  
**Draft 12/19/2014 - Estimate Fuel Tax Change - \$1.2 Billion MTF Increase**  
**Assumes May 2015 Ballot Proposal Passes**

County	Existing Revenue Actual Fiscal Year 2014	Estimated Year One Fiscal Year 2016	Estimated Year Two Fiscal Year 2017	Estimated Year Three and Beyond Fiscal Year 2018
Alcona	2,446,004	2,997,380	3,548,755	4,100,130
Alger	2,092,099	2,563,698	3,035,296	3,506,894
Allegan	8,617,070	10,559,519	12,501,968	14,444,417
Alpena	3,167,051	3,880,964	4,594,876	5,308,789
Antrim	3,431,166	4,204,615	4,978,065	5,751,514
Arenac	2,411,086	2,954,590	3,498,093	4,041,597
Baraga	2,046,302	2,507,577	2,968,851	3,430,126
Barry	4,723,807	5,788,642	6,853,476	7,918,311
Bay	7,713,726	9,452,544	11,191,362	12,930,180
Benzie	2,584,581	3,167,194	3,749,807	4,332,420
Berrien	10,550,040	12,928,216	15,306,392	17,684,568
Branch	4,169,242	5,109,067	6,048,892	6,988,717
Calhoun	8,205,502	10,055,175	11,904,849	13,754,523
Cass	4,612,920	5,652,758	6,692,597	7,732,435
Charlevoix	3,113,561	3,815,416	4,517,271	5,219,126
Cheboygan	3,739,079	4,581,938	5,424,796	6,267,655
Chippewa	4,662,033	5,712,942	6,763,851	7,814,761
Clare	3,746,694	4,591,269	5,435,843	6,280,418
Clinton	6,238,963	7,645,342	9,051,721	10,458,100
Crawford	2,447,898	2,999,699	3,551,501	4,103,303
Delta	3,876,266	4,750,048	5,623,831	6,497,614
Dickinson	2,870,323	3,517,348	4,164,372	4,811,397
Eaton	7,871,876	9,646,345	11,420,813	13,195,281
Emmet	3,767,280	4,616,496	5,465,711	6,314,927
Genesee	21,235,816	26,022,766	30,809,716	35,596,666
Gladwin	3,146,832	3,856,187	4,565,542	5,274,897
Gogebic	2,480,671	3,039,861	3,599,051	4,158,241
Grand Traverse	7,209,035	8,834,086	10,459,138	12,084,189
Gratiot	4,293,133	5,260,886	6,228,638	7,196,390
Hillsdale	4,399,238	5,390,909	6,382,579	7,374,250
Houghton	4,087,332	5,008,694	5,930,055	6,851,416
Huron	4,938,931	6,052,258	7,165,586	8,278,913
<b>Ingham</b>	<b>12,628,850</b>	<b>15,475,629</b>	<b>18,322,408</b>	<b>21,169,187</b>
Ionia	4,725,264	5,790,427	6,855,590	7,920,753
Iosco	3,539,696	4,337,609	5,135,523	5,933,436
Iron	2,242,125	2,747,542	3,252,959	3,758,376
Isabella	5,180,232	6,347,954	7,515,675	8,683,396
Jackson	10,767,490	13,194,684	15,621,877	18,049,071
Kalamazoo	13,352,233	16,362,076	19,371,918	22,381,761
Kalkaska	3,278,096	4,017,040	4,755,984	5,494,928
Kent	30,607,021	37,506,416	44,405,811	51,305,206

# HOW ICRD WOULD USE ADDITIONAL REVENUE:

Rounded rough estimates provided. Subject to variations in actual revenue received, actual cost of anticipated expenditures, and Ingham County Board of Commissioners budgetary approval.

## 2016                      \$2,846,779 Additional:

Additional road preservation (30 miles of maintenance paving & chip-sealing @ \$50,000/mile).....\$1,500,000

Additional road rehabilitation (1 lane mile).....\$ 200,000

Additional personnel (3 road, 1 mechanic. Includes wages & benefits per labor contract, overtime, employer paid taxes, insurance & related overhead).....\$ 400,000

Additional equipment (Aged truck replacement).....\$ 400,000

Eastern Garage Re-roofing.....\$ 200,000

Remainder for contingency, inflation of existing fixed costs, etc.

**2017                      \$5,693,558 Additional:**

**50% Increase in Local Road Matching Program.....\$ 300,000**

**Additional road preservation (30 miles of maintenance paving & chip-sealing @ \$50,000/mile).....\$1,500,000**

**Additional road rehabilitation (9 lane miles).....\$1,800,000**

**Additional personnel (on-going cost of previously added 3 road & 1 mechanic, plus 4 additional road workers & 3 engineering staff to engineer & administer contracted rehabilitation program. Includes wages & benefits per labor contract, overtime, employer paid taxes, insurance & related overhead).....\$1,250,000**

**Additional equipment (Aged truck replacement).....\$ 400,000**

**Mason yard new salt barn (Existing is structurally failing & undersized. New larger barn, similar to one on Aurelius Road, will hold whole season's salt supply enabling summer purchase typically at roughly 10% savings resulting in 10 -15 year pay-off.).....\$ 300,000**

**Remainder for contingency, inflation of existing fixed costs, etc.**



**2018 & beyond \$8,540,337 Additional (67% increase):**

**67% Increase in Local Road Matching Program.....\$ 400,000**

**Additional Local road maintenance.....\$ 500,000**

**Additional road preservation (30 miles of maintenance paving & chip-sealing @ \$50,000/mile).....\$1,500,000**

**Additional road rehabilitation (13 lane miles).....\$2,600,000**

**Additional personnel (on-going cost of previously added personnel, plus 4 additional road workers. This would complete the staffing increase, but this annual cost is permanently added to existing staff costs).....\$1,650,000**

**Additional equipment (Aged truck replacement).....\$ 400,000**

**Eastern yard new salt barn (Existing is structurally failing & undersized. New larger barn, similar to one on Aurelius Road, will hold whole season's salt supply enabling summer purchase typically at roughly 10% savings resulting in 10 -15 year pay-off)..\$ 300,000**

**Remainder for required fund balance increase, contingency, inflation of existing fixed costs, etc.**

# Legislative Analysis



## TRANSPORTATION FUNDING PACKAGE

Mary Ann Cleary, Director  
Phone: (517) 373-8080  
<http://www.house.mi.gov/hfa>

House Joint Resolution UU as adopted by the Legislature  
Sponsor: Rep. Joe Haveman

House Bill 4539 as enrolled  
Sponsor: Rep. Wayne Schmidt

Senate Bill 847 as enrolled  
Sponsor: Sen. Dave Hildenbrand

House Bill 5492 as enrolled  
Sponsor: Rep. Earl Poleski

House Bills 5477 & 5493 as enrolled  
Sponsor: Rep. Rob VerHeulen

Complete to 12-30-14

## A SUMMARY OF HOUSE JOINT RESOLUTION UU AS ADOPTED, AND SENATE BILL 847, AND HOUSE BILLS 4593, 5492, & 5493 AS ENROLLED

House Joint Resolution UU would amend the State Constitution to:

- Exempt sales of gasoline and diesel motor fuel from the state general sales tax after October 1, 2015.
- Increase the maximum sales and use tax by 1% (from 6% to 7%).
- Dedicate 60% of the first 5% of the sales tax and an amount equal to 12.3% of the first 5% of the use tax to the School Aid Fund. (The sales tax earmark currently applies to the first 4% of the tax; the use tax earmark would effectively be an upward adjustment to the existing earmark of one-third of revenue from the tax.)
- Provide for the School Aid Fund to be used exclusively for aid to school districts, public community colleges, public career and technical educations programs, scholarships for students attending either public community colleges or public career and technical educations programs, and school employees' retirement systems, as provided by law. (This effectively removes aid to public universities as an allowable use for the fund; the current language references "higher education" generically.)
- Dedicate 15% of the first 5% of the sales tax to be used for revenue sharing with townships, cities, and villages. (This earmark currently applies to the first 4% of the tax.)

The resolution would require voter approval at the May 5, 2015, regular election.

The following bills are tie-barred to House Joint Resolution UU, meaning they would not take effect unless voters approve the amendment to the State Constitution.

House Bill 4539 would amend the General Sales Tax Act to exempt gasoline and diesel fuel from the sales tax after October 1, 2015, and provide for a 1% increase on the 4% portion of the total rate.

House Bill 5492 would amend the Use Tax Act to exempt gasoline and diesel fuels from the use tax after October 1, 2015, increase the 4% portion of the rate to 5%, and alter the distribution of use tax revenue. In the bill, the distribution would change to approximately 62.64% for the General Fund (currently 2/3), and 37.36% for the School Aid Fund (currently 1/3), as a result of earmarking 12.3% of the first 5% of the tax to the School Aid Fund. The remaining changes simply substitute the 7% rate for the 6% rate where appropriate.

House Bill 5477 would, among other changes, amend the Motor Fuel Tax Act by converting the current fixed taxes of 19 cents per gallon for gasoline and 15 cents per gallon for diesel into a tax calculated based on 14.9% of the average wholesale prices of gasoline and diesel, effective October 1, 2015. Although the wholesale rate remains fixed at 14.9%, the actual cents-per-gallon levy for gasoline and diesel will vary annually in conjunction with the average wholesale prices, subject to certain limitations.

The bill defines the initial average wholesale prices as the 12-month rolling averages for gasoline and diesel from July 2013 through June 2014, which means the initial tax rates would be 41.7 cents per gallon for gasoline and 46.4 cents for diesel. For future years, the 12-month rolling average period ends on the last day of the month that is three months prior to the month the new rates would take effect. The bill contains an inflation adjustment mechanism to limit large swings in the cents-per-gallon levy that may result from volatile gas prices so that the levy cannot increase by more than 5 cents per gallon above the rate of inflation. Additionally, the levy could not fall below the initial rate, adjusted for inflation or 5% per year, whichever is less.

House Bill 5493 would amend the Motor Fuel Carrier Tax Act such that beginning October 1, 2015, the per-gallon tax rates for motor fuels are the same as specified in Section 8 (1) of the Motor Fuel Tax Act. Alternative fuels (a term defined in the bill) would be subject to the same treatment as in Section 152 of the Motor Fuel Tax Act.

Senate Bill 847 would amend the Income Tax Act to increase the Earned Income Tax Credit (EITC) from 6% to 20% of the credit allowed under Section 32 of the federal Internal Revenue Code, beginning with the 2016 tax year. Senate Bill 847 would also reduce the household income qualifiers for the homestead property tax credit for those seniors or disabled filers with household resources under \$6,000.

Several other enrolled transportation-related bills are contingent on voters approving the proposed amendment to the constitution contained in House Joint Resolution UU but are not described in detail in this document:

- House Bill 4251 and House Bill 5167 would establish requirements related to competitive bidding and performance-based systems for state and local road construction projects.
- House Bill 4630 would implement increases in certain truck registration fees and increase vehicle registration tax revenue through eliminating the "depreciation" of ad valorem tax rates for passenger cars, vans, and light trucks.

- House Bill 5460 would establish requirements related to road construction project warranties.

#### **FISCAL IMPACT:**

Based on administration estimates of the full-year impacts of the bills in this package, the total net impact of the package, assuming voter approval of the proposed constitutional amendment, would be an estimated increase in state revenue of \$1.7 billion. Estimated net impacts for individual funds would be as follows:

- \$1.2 billion per year for distribution to road agencies (39.1% to the State Trunkline Fund, 39.1% to county road commissions, and 21.8% to cities and villages), except that for FY 2015-16 an estimated \$800 million of this revenue would be dedicated for pay-down of transportation-related debt and for FY 2016-17 an estimated \$400 million would be dedicated for that purpose.<sup>1</sup>
- \$300 million to the School Aid Fund (SAF).
- \$130 million to the Comprehensive Transportation Fund (CTF), for public transportation purposes.
- \$95 million for constitutional revenue sharing payments to cities, villages, and townships.

Because the EITC is claimed when a taxpayer's return is filed, the increase in the credit under Senate Bill 847 will not be realized until 2016 tax year returns are filed in 2017, meaning FY 2016-17 would be the first year state revenues are impacted by the increase in the credit. It is estimated that the full fiscal year impact would be to reduce income tax revenue by approximately \$260 million, all of which would come from General Fund/General Purpose (GF/GP) revenue.

For FY 2015-16 only, then, GF/GP revenue would increase by an estimated \$255 million. In subsequent years, the package would be approximately revenue neutral for the General Fund.

An attached table provides estimated impacts by fund for each bill in the package. Legislation related to collection of tax on internet sales (Senate Bills 658 and 659) is included in the table but is not tied to voter approval of the proposed constitutional amendment.

Fiscal Analysts: Jim Stansell  
William Hamilton  
Adam Desrosiers  
Kyle Jen

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■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.

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<sup>1</sup> These estimates assume that the provisions added to Section 143 of the Motor Fuel Tax by House Bill 5477 that provide for only the first \$400 million of revenue in FY 2015-16 and the first \$800 million of revenue in FY 2016-17 to be deposited in the Michigan Transportation Fund, with the remaining revenue allocated to debt-related payments, are interpreted to apply only to the net increase in revenue under the bill, rather than to all revenue raised under the act.

**Summary: Transportation Funding Package**

Millions of Dollars

Proposed Change	Legislation	Revenue Impacts						First Year of Full Phase-In
		GF/GP	SAF	Const Rev Shar	CTF	Roads	TOTAL	
Remove Sales Tax on Fuel	HJR UU/HB 4539	(\$91)	(\$551)	(\$75)	(\$35)		(\$752)	FY 2016
Increase Sales/Use Tax Rate by 1 Percent	HJR UU/HB 4539/ HB 5492	507	656	164	15		1,342	FY 2016
Adjust Use Tax Earmarking (12.3% of 5% to SAF) Supplemental for CTF hold harmless	HJR UU/HB 5492 TBD	(151)	151				0	FY 2016
Internet sales collections	TBD	(20)			20		0	FY 2016
Increase Motor Fuel Taxes (14.9%) (A)	SB 658/SB 659	10	44	6			60	FY 2016
Increase Motor Fuel Taxes (14.9%) (A)	HB 5477/HB 5493				120	1,080	1,200	FY 2016
Registration fees: phase out depreciation (B)	HB 4630				5	40	45	FY 2019
Increase registration fees for heavy trucks	HB 4630				5	45	50	FY 2016
Expand Earned Income Tax Credit (6% to 20%) (C)	SB 847	(260)					(260)	FY 2017
<b>TOTAL NET IMPACT</b>		<b>(\$5)</b>	<b>\$300</b>	<b>\$95</b>	<b>\$130</b>	<b>\$1,165</b>	<b>\$1,685</b>	<b>(D)</b>

**NOTES**

- (A) Estimated \$800 million of revenue for FY 2015-16 and \$400 million of revenue for FY 2016-17 dedicated to debt pay-down; remainder for new road projects.
- (B) Long-run estimated revenue impact of \$210 million in FY 2030.
- (C) Increase in EITC effective January 1, 2016 but does not impact state revenues until FY 2016-17.
- (D) 39.1% to State Trunkline Fund, 39.1% to County Road Commissions, 21.8% to Cities and Villages (excluding debt pay-downs).

**NOTE:** All revenue impacts are based on administration estimates and are contingent on voter approval of May 2015 ballot proposal, with exception of SBs 658 and 629.