

DATE: March 7, 2017
TO: House Appropriations Subcommittee on Transportation
FROM: William E. Hamilton
RE: Impact of the November 2015 Road Funding Package

Background

Specific taxes on motor fuels and vehicle registrations are the primary source of funding for Michigan's transportation programs. These taxes are constitutionally dedicated for transportation. A statute, Public Act 51 of 1951, establishes the Michigan Transportation Fund (MTF) as the primary collection and distribution fund for these dedicated transportation tax revenues. Act 51 directs MTF revenue to other state transportation funds, to special program accounts, and to local units of government. Primary recipients of MTF revenue include the following:

- **State Trunkline Fund (STF)**
For construction and preservation of state trunkline roads and bridges and administration of the Michigan Department of Transportation (MDOT).
- **Local Road Agencies**
For local road and street programs of 83 county road commissions and 533 incorporated cities and villages.
- **Comprehensive Transportation Fund (CTF)**
For public transportation programs including capital and operating assistance to the state's 81 public transit agencies.

MTF revenue is distributed according to provisions of Act 51. After deduction for certain "off-the-top" earmarks, including earmarks for statutory targeted or categorical programs, 10% of the MTF balance is distributed to the CTF. The remaining MTF balance, after the 10% CTF earmark and two other statutory earmarks, is distributed for state and local road programs as follows:

- 39.1% to the STF
- 39.1% to county road commissions
- 21.8% to cities and villages

A flow chart showing the estimated FY 2016-17 MTF distribution is attached.

Road Funding Package

In November 2015, the Michigan Legislature passed, and the Governor signed into law, a package of bills dealing primarily with transportation funding. The Road Funding Package provided additional funding for state transportation programs through increases in state motor fuel taxes and vehicle registration taxes – all for credit to the MTF.

One of the bills in the package, House Bill 4738, increased the motor fuel tax for both gasoline and diesel motor fuel to 26.3 cents per gallon effective January 1, 2017. Prior to January 1, 2017, the tax on gasoline had been 19 cents per gallon and for diesel motor fuel, 15 cents per gallon. [The motor

fuel tax on gasoline had last been increased in August 1997.] In addition, beginning January 1, 2022, motor fuel taxes would be indexed to inflation, with annual increases capped at 5%.

Another bill in the package, House Bill 4736, amended the Michigan Vehicle Code to increase vehicle registration taxes by 20% for most Michigan-registered motor vehicles. This increase was also effective January 1, 2017.

In addition to increases in dedicated transportation taxes, the Road Funding Package also provided for the redirection of state General Fund revenue for transportation purposes. House Bill 4370 amended the Income Tax Act to earmark for the MTF certain revenue which had been credited to the state General Fund. This earmarking is to be phased in, beginning in FY 2018-19, with the redirection of \$150.0 million to the MTF. The earmark increases to \$325.0 million in FY 2019-20 and for FY 2020-21 and each fiscal year thereafter totals \$600.0 million.

For a more complete description of the Road Fund Package, see the House Fiscal Agency Legislative Analysis of the Road Funding Package as enacted, dated November 16, 2015, as well as the detailed analysis of the individual bills in the package. http://www.house.mi.gov/hfa/PDF/Transportation/Road_Package_Enacted_fy15-16_Final_Summary_w_table.pdf

Revenue/Distribution Impacts

As described above, the increases in dedicated transportation tax rates did not take effect until January 1, 2017. As a result, the Road Funding Package does not provide additional revenue to the MTF until FY 2016-17. The estimated increase in MTF revenue from the Road Funding Package for FY 2016-17 is \$477.5 million, reflecting three-quarters of the full-year impact.

FY 2017-18 is the first fiscal year to reflect the full-year impact of increased motor fuel and vehicle registration taxes, which are estimated to bring in an additional \$622.4 million in MTF revenue as compared to the FY 2015-16 baseline.

Also as described above, the redirection of state General Fund revenue to the MTF does not begin until FY 2018-19 and is not fully phased in until FY 2020-21. When fully phased in, in FY 2020-21, the Road Funding Plan is expected to provide approximately \$1.2 billion in additional MTF revenue; \$638.0 million from new revenue from increases in motor fuel and vehicle registration taxes, and \$600.0 million from the redirection of state General Fund revenue.

When the Road Funding Package is fully implemented in FY 2020-21, the anticipated \$1.2 billion increase in MTF revenue would result in an additional \$62.0 million for credit to the CTF for public transportation programs, with the balance distributed to road agencies. Specifically, the STF would receive an additional \$459.0 million in MTF revenue as compared to the FY 2015-16 baseline; County road commissions an additional \$452.0 million; and cities and villages an additional \$252.0 million.

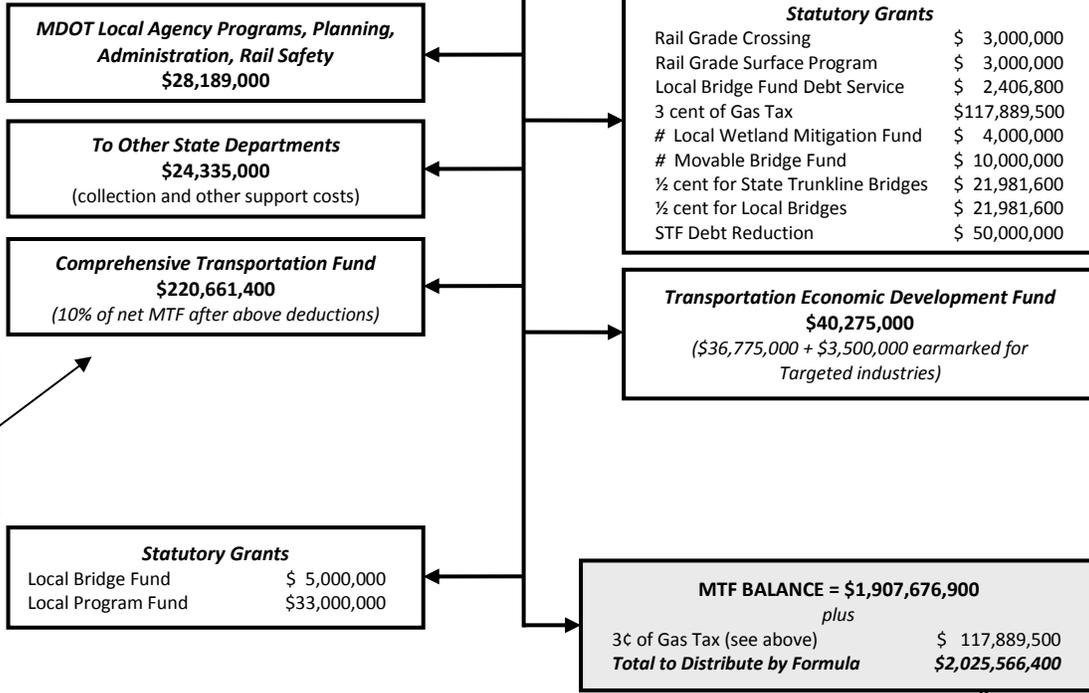
ATTACHMENT

FY 2016-17 MICHIGAN TRANSPORTATION FUND REVENUES AND DISTRIBUTIONS PER Sec. 10, 1951 PA 51

January 2016 ORTA Estimate

MICHIGAN TRANSPORTATION FUND (MTF)

MTF Revenue = **\$2,514,863,000**
 Less \$21,466,200 to DNR Recreation Improvement Fund
 Net MTF Revenue = **\$2,493,396,800**



Sales Tax \$94,800,000
 CTF also receives earmark from motor vehicle related sales tax

TEDF Transfer \$10,400,000
 House Bill 4440 (2016 PA 273) redirected \$10.4 million from TEDF Category A program to the STF

COUNTY ROAD COMMISSIONS
 Total = **\$813,182,500**
 39.1% of MTF Balance \$745,901,700
 39.1% of 3c Gas Tax \$ 46,094,800
 Plus \$21,186,000 from the Local Program Fund

CITIES AND VILLAGES
 Total = **\$453,387,500**
 21.8% of MTF Balance \$415,873,600
 21.8% of 3c Gas Tax \$ 25,699,900
 Plus \$11,814,000 from the Local Program Fund

STATE TRUNKLINE FUND
 Total = **\$863,978,100**
 39.1% of MTF Balance \$745,901,700
 39.1% of 3c Gas Tax \$ 46,094,800
 Plus \$21,981,600 from 1/2 cent of gas tax for STF bridges and \$50,000,000 for STF Debt Reduction

Note: This flowchart represents the distribution of MTF revenue as guided by Section 10 of Public Act 51 of 1951, as amended by Public Act 246 of 2016. Public Act 246 established two new earmarks of MTF revenue: \$2.0 million for a new Local agency wetland mitigation bank fund, and \$5.0 million for a new Movable bridge fund, effective September 22, 2016. For FY 2016-17 the earmarks are twice the fixed statutory amounts because both FY 2015-16 and FY 2016-17 earmarks were appropriated in single year, FY 2016-17, in supplemental appropriation act, Public Act 340 of 2016.