

**SENATE FISCAL AGENCY
 MEMORANDUM**

DATE: July 8, 2015
TO: Members of the Senate
FROM: Glenn Steffens, Fiscal Analyst
RE: Comparison of Senate- and House-Passed Road Funding Packages

As you are aware, the House and Senate each recently have passed road funding packages. The purpose of this memo is to provide concise comparisons regarding the key provisions of each plan, as well as both concise and comprehensive fiscal impacts of each plan once fully phased in.

Provisions under both the Senate and House Plans

Both Chambers generally included the following key provisions:

- Increase in revenue for transportation funding.
- Indexing motor fuel taxes to inflation and including annual adjustments.
- Mandatory bidding requirements for certain projects exceeding \$100,000 in costs; the Senate specified "pavement costs".
- The ability for a township to require competitive bidding on County road projects for which the township contributed 50% or more of the project's cost.
- Mandatory warranties for Department of Transportation (MDOT) and local road agency projects over a certain amount; the House included a \$2.0 million threshold and the Senate included a \$1.0 million threshold.
- Increase in registration fees for hybrid and electric vehicles.
- Creation of a Rail Grade Crossing Fund; \$3.0 million would be appropriated annually from the Michigan Transportation Fund (MTF) to the Rail Grade Crossing Fund for a privately-owned grade crossing repair subsidy.
- Decrease the administrative allowance for MDOT from 10% of State Trunkline Fund Revenue to 7%.

The Senate Plan

The remaining key components of the Senate plan are as follows:

- The plan would be fully phased-in in FY 2017-18.
- Earmark of General Fund from income tax revenue to the MTF (excluding public transit under the Comprehensive Transportation Fund (CTF)), totaling \$700.0 million annually beginning in FY 2017-18.
- Reduce the individual income tax rate for a tax year beginning on and after January 1, 2018, if the percentage increase in General Fund revenue from the prior fiscal year exceeded a positive inflation rate.
- Creation of a 50-Year Roads Special Task Force within MDOT, which would be required to issue a report to the Legislature on new road construction methods designed to improve cost-effectiveness and maximize road life.
- Creation of a 50-Year Roads Lockbox Fund, directing 7 cents/gallon of the proposed motor fuel tax increase to the Fund beginning in FY 2017-18; revenue in the Fund could not be accessed until approval of a concurrent resolution by the Legislature, and would have to be used for projects consistent with the 50-Year Road Special Task Force report.

- An incremental motor fuel tax increase from 19 cents/gallon for gasoline and 15 cents/gallon for diesel fuel totaling 34 cents/gallon for both fuels in FY 2017-18, annually generating roughly \$480.0 million for the MTF and CTF, and \$350.0 million for the 50-Year Roads Lockbox Fund (see below).
- Increase of the MTF formula debt service earmark of \$43.0 million to \$50.0 million, resulting in a loss to CTF and local road agencies, and an increase to MDOT (this increase would not necessarily result in increased debt service payments).

The House Plan

The remaining key components of the House plan are as follows:

- The plan would be fully phased-in in FY 2018-19.
- Increase the diesel fuel tax from \$0.15 to \$0.19/gallon.
- Earmark of General Fund from income tax revenue to road funding within the MTF (excluding the CTF), totaling \$792.0 million in FY 2018-19, after which this earmark would be adjusted annually for inflation.
- Earmark of General Fund from a portion of sales tax revenue on motor fuels to the MTF (excluding the CTF), totaling \$113.5 million in FY 2018-19.
- Elimination of the Earned Income Tax Credit, which would result in a savings to the General Fund of approximately \$127.9 million in FY 2018-19.
- Earmark of \$75.0 million in tobacco settlement revenue to the MTF; this revenue is currently directed to the 21st Century Jobs Trust Fund.
- Earmark an estimated \$60.0 million in General Fund from the Michigan Strategic Fund to the MTF (excluding the CTF); the exact amount of the earmark would equal Indian Gaming Compact receipts.

The attached Table 1 provides the estimated fiscal impact of both road funding packages.

Table 2 provides an overview of each bill in the packages and the key provisions of each bill.

Tables 3 and 4 provide detailed fiscal impacts of the effects of each package.

If you have any questions or concerns, please do not hesitate to contact me or David Zin, SFA Chief Economist.

For the SFA summaries of the bills in the Senate-passed package, please see the links to these documents below.

SB 414 (S-1): <http://www.legislature.mi.gov/documents/2015-2016/billanalysis/Senate/pdf/2015-SFA-0414-S.pdf>

HBs 4610 (S-1) & 4611 (S-1): <http://www.legislature.mi.gov/documents/2015-2016/billanalysis/Senate/pdf/2015-SFA-4610-S.pdf>

HBs 4612 (S-2), 4613 (S-3), 4615 (S-4), and 4616 (S-1): <http://www.legislature.mi.gov/documents/2015-2016/billanalysis/Senate/pdf/2015-SFA-4612-U.pdf>

HB 4614 (S-1): <http://www.legislature.mi.gov/documents/2015-2016/billanalysis/Senate/pdf/2015-SFA-4614-S.pdf>

/lms

Attachments

c: Ellen Jeffries, Director
Bill Bowerman, Associate Director

Table 1
Estimated Fiscal Comparison of House- and Senate-Passed Road Funding Packages as of July 8, 2015
(Dollars in Millions)

Funding Increases		House-Passed Version (as of FY 2018-19 - First Year Fully Phased In)	Senate-Passed Version (as of FY 2017-18 - First Year Fully Phased In)
Michigan Transportation Fund (MTF)	State Trunkline Fund	\$446.0	\$445.0
	County Road Commissions	446.0	438.0
	City/Village Road Funding	250.0	245.0
	Comprehensive Transportation Fund (CTF) (Public Transit)	11.0	46.0
	Total MTF	1,153.0	1,174.0
50-Year Roads Lock Box Fund		Not Included	\$265.0 appropriated in FY 2016-17; \$350.0 appropriated in FY 2017-18; Total in Lock Box in FY 2017-18: \$615.0
Recreation Improvement Fund (RIF)		1.0	13.0
General Fund: Earned Income Tax Credit (EITC) Elimination		125.0	Not Included
Rail Grade Crossing Fund		3.0	3.0
Total Annual Funding Increases upon Full Implementation: House in FY 2018-19 Senate in FY 2017-18		\$1,282.0	\$1,540.0

Funding Increases Generated From:	House-Passed Version (as of FY 2018-19)	Senate-Passed Version (as of FY 2017-18)
Motor Fuel Tax Index to Inflation & Increases (to MTF and Recreation Improvement Fund)	\$106.0	\$480.0
Motor Fuel Tax Increase (to 50-Year Roads Lock Box Fund)	Not Included	\$265.0 appropriated in FY 2016-17; \$350.0 appropriated in FY 2017-18; Total in Lock Box in FY 2017-18: \$615.0
Increased Debt Service Earmark to STF (This revenue previously was directed to the STF, local road agencies, and CTF)	Not Included	7.0
EITC Elimination (Savings to General Fund)	128.0	Not Included
General Fund: MTF Earmarks	970.0	700.0
Michigan Transportation Fund (to Rail Grade Crossing Account)	3.0	3.0
21st Century Jobs Trust Fund (Tobacco Settlement Revenue)	75.0	Not Included
Total Annual Appropriations upon Full Implementation:	\$1,282.0	\$1,540.0

Table 2
Comparison of Key Provisions of House- and Senate-Passed Road Funding Packages as of July 8, 2015

Bill	House-Passed Version	Senate-Passed Version
HB 4605 (House) SB 414 (Senate)	Earmarks Income Tax Revenue to MTF: \$442.0 million in FY 2015-16; Increase to \$792.0 million in FY 2018-19; Index Earmark to Inflation Beginning FY 2019-20 No Sunset for Earmark	Earmarks Income Tax Revenue to MTF: \$350.0 million in FY 2016-17; Increase to \$700.0 million in FY 2018-19; No Index to Inflation Earmark Sunsets January 2033
4606	Earmarks Portion of Sales Tax Revenue on Motor Fuels to MTF: \$89.2 million in FY 2015-16; Increase to \$113.5 million in FY 2018-19	Not Included
4607	Earmarks \$75.0 million of Tobacco Settlement Revenue (Redirected from 21st Century Jobs Trust Fund)	Not Included
4608	Earmarks Portion of the Michigan Strategic Fund of Approximately \$60.0 million to MTF	Not Included
4609	Eliminates EITC	Not Included
4610	Allows for Township-Mandated Bidding on Certain County Projects	Same as House
4611	Mandatory Bidding for Local Road Agency Projects for Construction and Preservation Exceeding \$100,000 in costs	Mandatory Bidding for Local Road Agency Projects for Construction and Preservation Exceeding \$100,000 in pavement costs
4612	Increases Vehicle Registration Fees: \$30 for Hybrids; \$100 for Electric Vehicles	Increases Vehicle Registration Fees: \$30 for Hybrids 8,000 lbs or Less; \$100 for Hybrids More than 8,000 lbs; \$100 for Electrics 8,000 lbs or Less; \$200 for Electrics More than 8,000 lbs; The Senate included a narrower definition than the House regarding Hybrid and Electric Vehicles, which appears to capture less vehicles.
4613	Establishes Rail Grade Crossing Subsidy to Rail Owners	Same as House
	Mandatory Warranties on Certain Pavement Projects Exceeding \$2.0 million	Mandatory Warranties on Certain Pavement Projects Exceeding \$1.0 million
	Decreases MDOT Administrative Allowance from 10% to 7%; Requires MDOT to Distribute Excess Administrative Funds to Local Road Agencies	Same as House
	No Increase to Debt Service Earmark	Increases Debt Service Earmark in MTF Distribution Formula from \$43.0 million to \$50.0 million
4614	Establish New Sales Tax Formula for Alternative Fuels	Same as House
4615 & 4616	Increase Diesel Fuel Tax from \$0.15/gallon to \$0.19/gallon; Index Gasoline and Diesel Taxes to Inflation Beginning FY 2016-17	Increase Gasoline and Diesel Fuel Taxes to \$0.34/gallon by FY 2017-18; Index Gasoline and Diesel Taxes to Inflation Beginning FY 2018-19;
		Creates 50-Year Roads Special Task Force and Requires MDOT to Report on 50-Year Roads to Legislative Transportation Standing Committees
		Creates 50-Year Roads Lockbox Fund
		Earmarks \$0.07/gallon of Motor Fuel Taxes to the 50-Year Roads Lockbox Fund
		Directs \$0.27/gallon of Motor Fuel Taxes to the MTF for Distribution to MDOT, Local Road Agencies, and CTF

Table 3
House-Passed Provisions as of July 8, 2015
Fiscal Impact
(The House Plan would be Fully Phased-in FY 2018-19)
(Dollars in Millions)

Bill	Key Provisions	Impact on General Fund	Michigan Transportation Fund Distributions:					Total Impact on Michigan Transportation Fund:	Rail Grade Crossing Fund	Recreation Improvement Fund	21st Century Jobs Trust Fund/ Tobacco Settlement Revenue
			State Trunkline Fund (MDOT)	County Road Agencies	Cities/Villages	CTF (Public Transit)					
4605	Earmarks Income Tax Revenue to Michigan Transportation Fund; Earmark Indexed to CPI in Future	(\$442.0) in FY 2015-16; (\$492.0) in FY 2016-17; (\$617.0) in FY 2017-18; (\$792.0) in FY 2018-19	\$172.8 in FY 2015-16; \$192.4 in FY 2016-17; \$241.2 in FY 2017-18; \$309.7 in FY 2018-19	\$172.8 in FY 2015-16; \$192.4 in FY 2016-17; \$241.2 in FY 2017-18; \$309.7 in FY 2018-19	\$96.4 in FY 2015-16; \$107.2 in FY 2016-17; \$134.6 in FY 2017-18; \$172.6 in FY 2018-19	None	\$442.0 in FY 2015-16; \$492.0 in FY 2016-17; \$617.0 in FY 2017-18; \$792.0 in FY 2018-19	None	None	None	
4606	Earmarks a Portion of Sales Tax Revenue from Motor Fuels to Michigan Transportation Fund	(\$89.2) in FY 2015-16; (\$96.1) in FY 2016-17; (\$104.0) in FY 2017-18; (\$113.5) in FY 2018-19	\$34.9 in FY 2015-16; \$37.5 in FY 2016-17; \$40.7 in FY 2017-18; \$44.4 in FY 2018-19	\$34.9 in FY 2015-16; \$37.5 in FY 2016-17; \$40.7 in FY 2017-18; \$44.4 in FY 2018-19	\$19.4 in FY 2015-16; \$21.0 in FY 2016-17; \$22.6 in FY 2017-18; \$24.7 in FY 2018-19	None	\$89.2 in FY 2015-16; \$96.0 in FY 2016-17; \$104.0 in FY 2017-18; \$113.5 in FY 2018-19	None	None	None	
4607	Earmarks \$75.0 Million of Tobacco Settlement Revenue to Michigan Transportation Fund Beginning FY 2016-17	None	\$29.3 Beginning FY 2016-17	\$29.3 Beginning FY 2016-17	\$16.4 Beginning FY 2016-17	None	\$75.0 Beginning FY 2016-17	None	None	(\$75.0) Beginning FY 2016-17	
4608	Earmarks a Portion of the Michigan Strategic Fund to Michigan Transportation Fund	(\$60.0) Beginning FY 2016-17	\$23.4 Beginning FY 2016-17	\$23.4 Beginning FY 2016-17	\$13.2 Beginning FY 2016-17	None	\$60.0 Beginning FY 2016-17	None	None	None	
4609	EITC Elimination	\$117.0 in FY 2015-16; \$120.5 in FY 2016-17; \$124.1 in FY 2017-18; \$127.9 in FY 2018-19	None	None	None	None	None	None	None	None	
4610	Township-Mandated Bidding for Certain County Projects	None	None	Indeterminate	Indeterminate	None	None	None	None	None	
4611	Mandatory Bidding for Local Road Agency Projects for Construction & Preservation Projects Exceeding \$100,000	None	None	Indeterminate	Indeterminate	None	None	None	None	None	
4612	Increases Registration Fees for Hybrid Electric (\$30/year) and Battery Electric Vehicles (\$100/year)	None	\$2.1	\$2.1	\$1.2	\$0.6	\$6.0	None	None	None	
4613	Establishes Rail Grade Crossing Subsidy to Rail Crossing Owners	None	(\$1.1)	(\$1.1)	(\$0.5)	(\$0.3)	(\$3.0)	\$3.0	None	None	
	Mandatory Warranties on Pavement Projects Exceeding \$2.0 million; Decrease MDOT Administrative Allowance from 10% to 7%	None	Indeterminate	Indeterminate	Indeterminate	None	Indeterminate	None	None	None	
4614	Establish New Sales Tax Formula for Alternative Fuels	Possible Negative but Nominal Impact	None	None	None	None	None	None	None	None	
4615 & 4616	Increases Diesel Fuel Tax from \$0.15/gallon to \$0.19/gallon (Diesel Fuel Parity); Index Gasoline & Diesel Fuel Taxes to Inflation; Alternative Fuel Tax Parity	None	\$12.1 in FY 2015-16; \$15.7 in FY 2016-17; \$24.8 in FY 2017-18; \$36.8 in FY 2018-19	\$12.1 in FY 2015-16; \$15.7 in FY 2016-17; \$24.8 in FY 2017-18; \$36.8 in FY 2018-19	\$6.8 in FY 2015-16; \$8.7 in FY 2016-17; \$13.8 in FY 2017-18; \$20.7 in FY 2018-19	\$3.4 in FY 2015-16; \$4.5 in FY 2016-17; \$7.0 in FY 2017-18; \$10.5 in FY 2018-19	\$34.4 in FY 2015-16; \$44.6 in FY 2016-17; \$70.4 in FY 2017-18; \$104.8 in FY 2018-19	None	\$0.0 in FY 2015-16; \$0.2 in FY 2016-17; \$0.5 in FY 2017-18; \$1.1 in FY 2018-19	None	
Total Fiscal Impact:		(\$414.2) in FY 2015-16; (\$527.6) in FY 2016-17; (\$656.9) in FY 2017-18; (\$837.6) in FY 2018-19	\$220.8 in FY 2015-16; \$299.3 in FY 2016-17; \$360.4 in FY 2017-18; \$444.6 in FY 2018-19	\$220.8 in FY 2015-16; \$299.3 in FY 2016-17; \$360.4 in FY 2017-18; \$444.6 in FY 2018-19	\$123.3 in FY 2015-16; \$167.2 in FY 2016-17; \$201.3 in FY 2017-18; \$248.3 in FY 2018-19	\$3.7 in FY 2015-16; \$4.8 in FY 2016-17; \$7.3 in FY 2017-18; \$10.8 in FY 2018-19	\$568.6 in FY 2015-16; \$770.6 in FY 2016-17; \$929.4 in FY 2017-18; \$1,148.3 in FY 2018-19	\$3.0	\$0.0 in FY 2015-16; \$0.2 in FY 2016-17; \$0.5 in FY 2017-18; \$1.1 in FY 2018-19	(\$75.0) Beginning FY 2016-17	

Table 4
 Senate-Passed Provisions as of July 8, 2015
 Fiscal Impact
 (The Senate Plan would be Fully Phased-in FY 2017-18)
 (Dollars in Millions)

Bill	Key Provisions	Impact on General Fund	Michigan Transportation Fund:					Total Impact on Michigan Transportation Fund:	Rail Grade Crossing Fund	Recreation Improvement Fund	50-Year Roads Lockbox Fund	Sunset Provisions
			State Trunkline Fund (MDOT)	County Road Agencies	Cities/Villages	CTF (Public Transit)						
414	Earmarks Income Tax Revenue to Michigan Transportation Fund	(\$350.0) in FY 2016-17; (\$700.0) in FY 2017-18	\$136.9 in FY 2016-17; \$273.7 in FY 2017-18	\$136.9 in FY 2016-17; \$273.7 in FY 2017-18	\$76.2 in FY 2016-17; \$152.6 in FY 2017-18	None	\$350.0 in FY 2016-17; \$700.0 in FY 2017-18	None	None	None	Earmark Sunsets January 31, 2033	
	Creates Trigger for Income Tax Rate Reduction Beginning January 1, 2018	Indeterminate	None	None	None	None	None	None	None	None	None	
4610	Township-Mandated Bidding for Certain County Projects	None	None	Indeterminate	Indeterminate	None	None	None	None	None	None	
4611	Mandatory Bidding for Local Road Agency Projects for Construction & Preservation Projects Exceeding \$100,000	None	None	Indeterminate	Indeterminate	None	None	None	None	None	None	
4612	Increases Registration Fees for Hybrid Electric Vehicles and Non-Hybrid Electric Vehicles	None	Indeterminate and Positive but Nominal in Short Term; likely increases over time	Indeterminate and Positive but Nominal in Short Term; likely increases over time	Indeterminate and Positive but Nominal in Short Term; likely increases over time	Indeterminate and Positive but Nominal in Short Term; likely increases over time	Indeterminate and Positive but Nominal in Short Term; likely increases over time	None	Indeterminate and Positive but Nominal in Short Term; likely increases over time	None	None	
4613	Establishes Rail Grade Crossing Subsidy to Rail Crossing Owners;	None	(\$1.1)	(\$1.1)	(\$0.5)	(\$0.3)	(\$3.0)	\$3.0	None	None	None	
	Allows Income Tax Revenue to Bypass CTF Funding; Mandatory Warranties on Pavement Projects Exceeding \$1.0 million; Decreases MDOT Administrative Allowance from 10% to 7%	None	Indeterminate	Indeterminate	Indeterminate	None	Indeterminate	None	None	None	Earmark Sunsets January 31, 2033	
4614	Establishes New Sales Tax Formula for Alternative Fuels	Likely None; Possible Negative but Nominal Impact	None	None	None	None	None	None	None	None	None	
4615 & 4616	Increases Motor Fuel Tax Rates to \$0.34/gallon by FY 2017-18; Establishes "50-Year Roads Lock Box Fund" and Earmarks \$0.07/gallon of Motor Fuel Tax to the Fund; Alternative Fuel Tax Parity; Increase Debt Service Earmark by \$7.0 million	None	\$140.2 in FY 2015-16; \$159.5 in FY 2016-17; \$170.0 in FY 2017-18	\$133.1 in FY 2015-16; \$152.4 in FY 2016-17; \$162.9 in FY 2017-18	\$74.2 in FY 2015-16; \$85.1 in FY 2016-17; \$90.8 in FY 2017-18	\$37.6 in FY 2015-16; \$43.1 in FY 2016-17; \$46.1 in FY 2017-18	\$385.1 in FY 2015-16; \$440.1 in FY 2016-17; \$469.8 in FY 2017-18	\$3.0	\$6.0 in FY 2015-16; \$11.4 in FY 2016-17; \$13.3 in FY 2017-18	\$0.0 in FY 2015-16; \$266.8 in FY 2016-17; \$351.5 in FY 2017-18	Motor Fuel Taxes Sunset January 31, 2033 (Tax Rate Set at \$0.0/gallon)	
Total Fiscal Impact:		(\$350.0) in FY 2016-17; (\$700.0) in FY 2017-18	\$139.1 in FY 2015-16; \$296.4 in FY 2016-17; \$443.7 in FY 2017-18	\$132.0 in FY 2015-16; \$289.3 in FY 2016-17; \$436.6 in FY 2017-18	\$73.7 in FY 2015-16; \$161.3 in FY 2016-17; \$243.4 in FY 2017-18	\$37.3 in FY 2015-16; \$42.8 in FY 2016-17; \$45.8 in FY 2017-18	\$382.1 in FY 2015-16; \$789.8 in FY 2016-17; \$1,169.5 in FY 2017-18	\$3.0	\$6.0 in FY 2015-16; \$11.4 in FY 2016-17; \$13.3 in FY 2017-18	\$0.0 in FY 2015-16; \$266.8 in FY 2016-17; \$351.5 in FY 2017-18	Substantial Reduction in MTF from January 2033 Forward	