Summary of the 2014 Lame Duck Road Funding Agreement

The road funding plan that passed during the last week of session is designed to raise $1.3 billion annually for the state’s transportation network.

The final package consisted of a number of bills that will only go into effect if a state-wide ballot proposal (House Joint Resolution UU) is approved by voters in May of 2015. The ballot proposal would raise the overall sales tax from 6 percent to 7 percent with the extra money going to schools and local governments to make up for revenue they would lose from repealing the current sales tax on motor fuels.

The gasoline tax would be increased by the same amount as the decrease from the repealed sales tax resulting in all of the revenue being dedicated to roads. In theory, this would result in the tax on motor fuels remaining unchanged while revenue for roads is increased. However, the road funding plan also eliminates the gas tax at the pump and changes it to a percentage tax on the wholesale price of fuels. This change could result in an increase of three to nine cents more per gallon depending on future wholesale fuel prices. There is also an additional $95 million in registration fees baked into the proposal.

If voters fail to approve the ballot proposal to increase the sales tax in May of 2015, then all of the aforementioned changes would be null and void and Michigan’s road funding, gas tax and registration fee structure would remain unchanged. In other words, lawmakers and the Governor would have to start over.

The following are the road funding bills tie-barred to House Joint Resolution UU, meaning they would not take effect unless voters approve the amendment to the State Constitution on the May statewide vote:

- **House Bill 4539** would amend the General Sales Tax Act to exempt gasoline and diesel fuel from the sales tax after October 1, 2015.

- **House Bill 5492** would amend the Use Tax Act to exempt gasoline and diesel fuels from the use tax after October 1, 2015.

- **House Bill 5477** would convert the current specific motor fuel taxes of 19 cents per gallon for gasoline and 15 cents per gallon for diesel into a 14.9% ad valorem tax calculated against the average wholesale prices of gasoline and diesel, effective October 1, 2015.

- **House Bill 5493** would amend the Motor Fuel Carrier Tax Act such that beginning October 1, 2015, Diesel fuel would be subject to the same 14.9% wholesale rate as gasoline.

- **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 raise an additional $95 million in vehicle registration fees with $45 million coming from freezing the depreciation schedule on vehicle registration fees and $50 million coming from increases in certain truck registration fees. Electric vehicles would see an increase in registration fees as well.

- **House Bill 5460** would establish requirements related to road construction project warranties. The bill also sets up a process to allow "small businesses" and "disadvantaged business enterprise" to better compete on road projects. The original language set up the process for "minority" businesses but the final language changed the "minority business" description to "small business".

Continued
Summary of the 2014 Lame Duck Road Funding Agreement Page 2 of 2

As part of the bargaining involved in getting the necessary votes to pass the package and get the sales tax increase to the ballot, a number of other bills unrelated to road funding were also passed. One of them, SB 847 - to increase the Earned income Tax Credit - will also become null and void if the May ballot proposal fails:

**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. This change is estimated to reduce income tax collections by $260 million.

Other bills passed as part of the bargaining that will remain in effect even if the May ballot proposal fails are as follows:

**Senate Bill 658 and 659** "Main Street Fairness" bills, which would require businesses with a "nexus" in Michigan to collect the state's sales tax from customers who make Internet purchases. It is estimated that this would raise an additional $60 million annually in sales tax revenue.

**Senate Bill 80** allocates another $40 million for "at-risk schools".

In addition to legislation that was part of the political bargaining for passage of the road funding proposal, there were also other commitments made on behalf of the Governor’s office:

- An executive order that would open up opportunities for small businesses and minority- and female-owned businesses interested in contracting as it relates to transportation-related projects.
- A commitment from Snyder to not sign either a prevailing wage repeal or a change in the Electoral College allocation of votes.
- Include in the ballot proposal language that would prohibit the use of the School Aid Fund to provide funding aid to public universities. This was done early in Governor Snyder’s first term to bring the state budget into balance.

As mentioned previously, this road funding proposal will only go into effect if a state-wide ballot proposal (House Joint Resolution UU) is approved by voters at the May 2015 regular election.

House Joint Resolution UU would amend the State Constitution to:

- Eliminate the sales and use tax on gasoline and diesel fuel used to operate motor vehicles 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 be new.)
- Provide for the School Aid Fund to be used exclusively for aid to school districts, public community colleges, public career and technical education programs, scholarships for students attending either public community colleges or public career and technical education programs, and school employees' retirement systems, as provided by law. (This effectively removes aid to public universities as an allowable use for the fund.)
- 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.)
### Summary: Transportation Funding Agreement

**Millions of Dollars**

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

**TOTAL NET IMPACT**

| | ($5) | $300 | $95 | $130 | $1,165 | $1,685 |  |
| | | | | | | | |

**NOTES**

(A) First $800 million of revenue for FY 2015-16 and $400 million or 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 (after 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.