

**SENATE FISCAL AGENCY  
 MEMORANDUM**

**DATE:** December 10, 2014

**TO:** All Senators

**FROM:** Glenn Steffens, Fiscal Analyst  
 David Zin, Chief Economist

**RE:** House-Passed Road Funding Bills (House Bills 5477 and 4539)

The House-passed versions of House Bills 5477 (H-4) and 4539 (H-1) generally would do the following:

- Eliminate the 6% sales tax on motor fuels, currently levied based on the pump price of fuel, through a staggered decrease of one percent per year until January 1, 2021.
- Replace the current fuel taxes on gasoline (19 cents per gallon) and diesel (15 cents per gallon) with taxes based on the average wholesale price of those fuels. The taxes would increase from 7.5% to 13.5% over a six-year period and be fully phased in by FY 2021-22.
- Include provisions that, if triggered prior to December 31, 2020, would cause the sales tax on fuels to revert to 6% and the wholesale fuel tax to revert to 7.5%.
  - Trigger 1: Total State-funded appropriations in School Aid decrease since the prior year.
  - Trigger 2: Total State-funded appropriations to locals via revenue sharing and road funding decrease since the prior year.
- Freeze Comprehensive Transportation Fund appropriations from the Michigan Transportation Fund at FY 2013-14 levels (approximately \$163.0 million).
- Allow significant year to year swings in revenue due to fuel price volatility, whereas the Senate plan would cap adjustments to wholesale prices at +/-5%.

Key Provisions Comparison

Key Provision	House-Passed Version (H-4)	Senate-Passed Version (S-13)
% Tax Rate on Average Wholesale Price of Fuel	7.5% in FY 2014-15 13.5% in FY 2020-21	9.5% in FY 2014-15 15.5% in FY 2017-18
Diesel / Gasoline Parity	No	Yes
Annual Ceiling/Floor for Wholesale Price Adjustment	None	+/- 5% Max Adjustment from Prior Year Wholesale Price
Tax Rate Floor per Gallon	19 cents	None
Allows for Increases to CTF	No	Yes
Eliminate Sales Tax on Fuels	Yes	No
State Revenue Net Effect in Near Term	Negative	Positive

The attached tables provide comparisons between the House and Senate plans. These tables include a comparison of the key provisions of the plans, as well as projections under each plan as to total affected State revenue, fuel tax revenue, the School Aid Fund, and local revenue sharing and road funding.

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Attachments

**Table A: Total State Revenue**

**Current Law, HB 5477 (S-13) and HB 5477 (H-4) Provisions Compared  
(dollar amounts in millions)**

Fiscal Year	<u>Current Law</u>			<u>HB 5477 (S-13), Senate Plan</u>				<u>HB 5477 (H-4), House Plan</u>			
	Sales Tax	Motor Fuel Taxes	Combined	Sales Tax	Motor Fuel Taxes	Combined	Difference from Current Law	Sales Tax	Motor Fuel Taxes	Combined	Difference from Current Law
2014-15	\$7,549.1	\$948.1	\$8,497.2	\$7,549.1	\$1,259.1	\$8,808.2	\$311.1	\$7,549.1	\$1,012.5	\$8,561.6	\$64.5
2015-16	7,839.0	945.9	8,784.9	7,839.0	1,579.4	9,418.4	633.5	7,722.4	1,183.0	8,905.4	120.5
2016-17	8,066.4	940.8	9,007.2	8,066.4	1,859.2	9,925.6	918.3	7,799.0	1,320.8	9,119.8	112.5
2017-18	8,300.3	930.5	9,230.8	8,300.3	2,124.5	10,424.8	1,194.0	7,872.5	1,453.7	9,326.2	95.4
2018-19	8,540.9	917.4	9,458.3	8,540.9	2,168.0	10,708.9	1,250.6	7,942.1	1,575.9	9,518.0	59.7
2019-20	8,788.6	901.0	9,689.6	8,788.6	2,133.0	10,921.6	1,232.0	7,991.0	1,687.4	9,678.4	(11.2)
2020-21	9,043.5	883.7	9,927.2	9,043.5	2,094.6	11,138.1	1,210.9	8,044.1	1,791.5	9,835.6	(91.6)
2021-22	9,305.8	863.8	10,169.6	9,305.8	2,051.2	11,357.0	1,187.5	8,229.2	1,787.8	10,017.0	(152.6)

**Table B: Distribution of Revenue Changes**

**Current Law, HB 5477 (S-13), and HB 5477 (H-4) Provisions Compared  
In FY 2021-22, When all Changes are Fully Phased-in  
(dollar amounts in millions)**

	Current Law	Senate Plan Revenue	Difference from Current Law	House Plan Revenue	Difference from Current Law	House Plan Difference from Senate Plan
Motor Fuel Taxes	\$863.8	\$2,051.2	\$1,187.5	\$1,787.8	\$924.0	(\$263.5)
Michigan Transportation Fund	846.5	2,010.2	1,163.7	1,752.0	905.5	(258.2)
Comprehensive Transportation Fund	84.7	201.0	116.4	84.7	0.0	(116.4)
Recreation Fund	17.3	41.0	23.7	35.8	18.5	(5.3)
Sales Taxes on Motor Fuels	\$1,076.6	\$1,076.6	\$0.0	\$0.0	(\$1,076.6)	(\$1,076.6)
School Aid Fund	789.5	789.5	0.0	0.0	(789.5)	(789.5)
Constitutional Revenue Sharing	107.7	107.7	0.0	0.0	(107.7)	(107.7)
Comprehensive Transportation Fund	50.1	50.1	0.0	0.0	(50.1)	(50.1)
General Fund	129.4	129.4	0.0	0.0	(129.4)	(129.4)
<b>Total</b>	<b>\$1,940.4</b>	<b>\$3,127.8</b>	<b>\$1,187.5</b>	<b>\$1,787.8</b>	<b>(\$152.6)</b>	<b>(\$1,340.0)</b>

**Table C: Impact on Transportation Revenue**

<b>Gasoline and Diesel Tax Revenue Projection, Assuming Flat Wholesale Prices Current Law, HB 5477 (S-13) and HB 5477 (H-4) Provisions Compared (dollar amounts in millions)</b>						
Fiscal Year	<b>HB5477 (S-13), Senate Plan</b>			<b>HB5477 (H-4), House Plan</b>		
	Estimated Revenue Current Law	Estimated Revenue	Difference From Current Law	Estimated Revenue	Difference from Current Law	House Plan Difference from Senate Plan
2014-15	\$948.1	\$1,259.1	\$311.1	\$1,012.5	\$64.5	(\$246.6)
2015-16	945.9	1,579.4	\$633.5	1,183.0	\$237.1	(\$396.4)
2016-17	940.8	1,859.2	\$918.3	1,320.8	\$379.9	(\$538.4)
2017-18	930.5	2,124.5	\$1,194.0	1,453.7	\$523.2	(\$670.7)
2018-19	917.4	2,168.0	\$1,250.6	1,575.9	\$658.5	(\$592.1)
2019-20	901.0	2,133.0	\$1,232.0	1,687.4	\$786.4	(\$445.6)
2020-21	883.7	2,094.6	\$1,210.9	1,791.5	\$907.8	(\$303.1)
2021-22	863.8	2,051.2	\$1,187.5	1,787.8	\$924.0	(\$263.5)

**Table D: Impact on School Aid Fund Revenue**

<b>School Aid Fund K-12 Appropriation Projection (dollar amounts in millions)</b>						
Fiscal Year	<b>HB 5477 (S-13), Senate Plan</b>			<b>HB 4539 (H-1), House Plan</b>		
	Current Law	K-12 Appropriation	Change from Current Law	K-12 Appropriation	Change from Current Law	Difference from Senate Plan
2013-14	\$11,506.1	\$11,506.1	\$0.0	\$11,506.1	\$0.0	\$0.0
2014-15	12,062.2	12,062.2	0.0	12,062.2	0.0	0.0
2015-16	12,385.3	12,385.3	0.0	12,315.3	(\$70.0)	(\$70.0)
2016-17	12,717.1	12,717.1	0.0	12,556.6	(\$160.4)	(\$160.4)
2017-18	13,057.8	13,057.8	0.0	12,801.1	(\$256.7)	(\$256.7)
2018-19	13,407.6	13,407.6	0.0	13,048.2	(\$359.3)	(\$359.3)
2019-20	13,766.7	13,766.7	0.0	13,237.8	(\$528.9)	(\$528.9)
2020-21	14,135.5	14,135.5	0.0	13,414.2	(\$721.3)	(\$721.3)
2021-22	14,514.2	14,514.2	0.0	13,724.7	(\$789.5)	(\$789.5)
Percent Change FY 2014-15 to FY 2021-22						
State K-12 Funding	20.3%	20.3%		13.8%		
Detroit CPI	16.0%	16.0%		16.0%		

**Note:** After FY 2014-15, current law appropriations are assumed to grow 2.68% annually, equal to the average annual rate of increase over the FY 1995-96 to FY 2012-13 period.

**Table E: Impact on Local Government  
Revenue Sharing and Local Road Revenue Projections  
(dollar amounts in millions)**

<u>Current Law</u>			<u>HB 5477 (S-13), Senate Plan</u>					<u>HB 4539 (H-1) &amp; HB 5477 (H-4), House Plan</u>				
Fiscal Year	Revenue Sharing	Road Revenue	Revenue Sharing	Difference from Current Law	Local Road Revenue	Difference from Current Law	Net Change	Revenue Sharing	Difference from Current Law	Local Road Revenue	Difference from Current Law	Net Change
2014-15	\$1,226.2	\$353.2	\$1,226.2	\$0.0	\$520.3	\$167.1	\$167.1	\$1,226.2	\$0.0	\$387.9	\$34.6	\$34.6
2015-16	1,259.0	352.4	1,259.0	0.0	692.7	340.3	\$340.3	1,241.5	(17.5)	479.7	127.4	\$109.9
2016-17	1,282.2	349.8	1,282.2	0.0	843.1	493.3	\$493.3	1,242.1	(40.1)	553.9	204.1	\$164.0
2017-18	1,306.4	344.7	1,306.4	0.0	986.0	641.3	\$641.3	1,242.2	(64.2)	625.7	281.0	\$216.8
2018-19	1,330.9	338.2	1,330.9	0.0	1,009.9	671.7	\$671.7	1,241.1	(89.8)	691.9	353.7	\$263.9
2019-20	1,356.2	330.2	1,356.2	0.0	991.9	661.8	\$661.8	1,255.5	(100.7)	752.6	422.4	\$321.7
2020-21	1,381.8	321.6	1,381.8	0.0	972.0	650.4	\$650.4	1,277.5	(104.3)	809.2	487.6	\$383.3
2021-22	1,408.4	311.7	1,408.4	0.0	949.5	637.8	\$637.8	1,300.7	(107.7)	808.0	496.3	\$388.6

**Table F: Historical Perspective on Gasoline Tax Revenue**

<b>Revenue Volatility under Current Law and HB 5477 (H-4) (House Plan) Provisions Compared</b>								
	Wholesale Gas Price	Gallons Consumed	Tax Rates		Revenue (dollars in millions)			
			Actual Gas Tax	House Plan	Actual	Pct. Change	House Plan (Max. Rate)	Pct. Change
1998	\$0.717	4,760.5	\$0.19	\$0.097	\$904.5		\$461.8	
1999	\$0.552	4,903.9	\$0.19	\$0.075	931.7	3.0%	367.8	-20.4%
2000	\$0.544	4,857.6	\$0.19	\$0.073	923.0	-0.9%	354.6	-3.6%
2001	\$0.912	4,917.9	\$0.19	\$0.123	934.4	1.2%	604.9	70.6%
2002	\$0.984	4,945.9	\$0.19	\$0.133	939.7	0.6%	657.8	8.7%
2003	\$0.764	4,927.3	\$0.19	\$0.103	936.2	-0.4%	507.5	-22.8%
2004	\$0.987	4,908.9	\$0.19	\$0.133	932.7	-0.4%	652.9	28.6%
2005	\$1.172	4,856.8	\$0.19	\$0.158	922.8	-1.1%	767.4	17.5%
2006	\$1.545	4,772.2	\$0.19	\$0.209	906.7	-1.7%	997.4	30.0%
2007	\$1.931	4,652.6	\$0.19	\$0.261	884.0	-2.5%	1,214.3	21.8%
2008	\$2.010	4,469.7	\$0.19	\$0.271	849.2	-3.9%	1,211.3	-0.3%
2009	\$2.771	4,454.5	\$0.19	\$0.374	846.3	-0.3%	1,666.0	37.5%
2010	\$1.627	4,431.4	\$0.19	\$0.220	842.0	-0.5%	974.9	-41.5%
2011	\$2.065	4,378.9	\$0.19	\$0.279	832.0	-1.2%	1,221.7	25.3%
2012	\$2.760	4,309.5	\$0.19	\$0.373	818.8	-1.6%	1,607.4	31.6%
2013	\$2.890	4,326.1	\$0.19	\$0.390	822.0	0.4%	1,687.2	5.0%
2014	\$2.847	4,305.3	\$0.19	\$0.384	818.0	-0.5%	1,653.2	-2.0%

Note: Data only reflect gasoline. Diesel fuel is not included.