

MEMORANDUM

DATE: March 15, 2017
TO: Interested Parties
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.



TABLE -1

**Michigan Transportation Fund
Revenue Estimates for Budget Compared**

	FY 2015-16 Revenue Est. for Budget Jan-15	FY 2016-17 Revenue Est. for Budget Jan-16	Revenue Increase/ (Decrease)	FY 2017-18 Revenue Est. for Budget 01/12/17	Revenue Increase/ (Decrease)	Total Two-Year Increase (Decrease)
MTF Revenue						
\$.19/gal Gasoline Tax	\$819,000,000	\$835,300,000	\$16,300,000	\$868,600,000	\$33,300,000	49,600,000
Road Package - Gas Tax Increase		240,693,000	240,693,000	333,728,000	93,035,000	\$333,728,000
Diesel Fuel Taxes \$.15/gal	137,000,000	139,500,000	2,500,000	142,500,000	3,000,000	5,500,000
Road Package - Diesel Tax Increase		76,100,000	76,100,000	93,900,000	17,800,000	93,900,000
LP Gas Tax	400,000	400,000	0	900,000	500,000	500,000
Motor Vehicle Title & Registration Taxes	1,017,675,000	1,067,000,000	49,325,000	1,126,000,000	59,000,000	108,325,000
Road Package - Registration Tax Increase		147,700,000	147,700,000	194,800,000	47,100,000	194,800,000
Interest/Other	7,205,000	8,170,000	965,000	3,379,000	(4,791,000)	(3,826,000)
MTF Revenue Total	\$1,981,280,000	\$2,514,863,000	\$533,583,000	\$2,763,807,000	\$248,944,000	\$782,527,000
Increase in baseline revenue			\$69,090,000		\$91,009,000	\$160,099,000
Increase from Road Funding Package			464,493,000		157,935,000	622,428,000
Total MTF Increase (Decrease) from Prior FY			\$533,583,000		\$248,944,000	\$782,527,000
General Fund/General Purpose	\$402,000,000	\$9,750,000	(\$392,250,000)	\$0	(\$9,750,000)	(\$402,000,000)

Source: Michigan Department of Treasury Revenue estimates.



TABLE -2

**Michigan Transportation Fund
Actual Revenue/Updated Estimates Compared**

	FY 2015-16	FY 2016-17		FY 2017-18		Total Two-Year Increase (Decrease)
	Actual Revenue	Revenue Estimate 01/12/17	Revenue Increase/ (Decrease)	FY 2017-18 Estimate 01/12/17	Revenue Increase/ (Decrease)	
MTF Revenue						
\$.19/gal Gasoline Tax	\$872,898,107	\$871,000,000	(\$1,898,107)	\$868,600,000	(\$2,400,000)	(\$4,298,107)
Road Package - Gas Tax Increase		251,050,000	251,050,000	333,728,000	82,678,000	333,728,000
Diesel Fuel Taxes \$.15/gal	137,554,918	140,000,000	2,445,082	142,500,000	2,500,000	4,945,082
Road Package - Diesel Tax Increase		76,900,000	76,900,000	93,900,000	17,000,000	93,900,000
LP Gas Tax	401,498	700,000	298,502	900,000	200,000	498,502
Motor Vehicle Title & Registration Taxes	1,052,949,010	1,091,000,000	38,050,990	1,126,000,000	35,000,000	73,050,990
Road Package - Registration Tax Increase		149,500,000	149,500,000	194,800,000	45,300,000	194,800,000
Interest/Other	8,523,977	3,019,000	(5,504,977)	3,379,000	360,000	(5,144,977)
MTF Revenue Total	\$2,072,327,510	\$2,583,169,000	\$510,841,490	\$2,763,807,000	\$180,638,000	\$691,479,490
Increase in baseline revenue			\$33,391,490		\$35,660,000	\$69,051,490
Increase from Road Funding Package			477,450,000		144,978,000	622,428,000
Total MTF Increase (Decrease) from Prior FY			\$510,841,490		\$180,638,000	\$691,479,490
General Fund/General Purpose	\$402,000,000	\$9,750,000	(\$392,250,000)	\$0	(\$9,750,000)	(\$402,000,000)

Source: Michigan Department of Treasury Revenue estimates.



FY 2017-18 Transportation Budget Reconciliation of STF Revenue/Appropriation

	FY 2016 Enacted	FY 2017		FY 2018	
		Enacted YTD	Difference from FY 2016	Executive	Difference from FY 2017
STF Revenue					
Baseline STF revenue from MTF Distribution	\$680,286,600	\$863,978,063	\$183,691,463	\$953,796,100	\$89,818,037
Misc revenue/to balance	49,560,700	51,829,537	2,268,837	48,069,200	(3,760,337)
TEDF Category A	2,000,000	10,400,000	8,400,000	0	(10,400,000)
STF as Appropriated	\$731,847,300	\$926,207,600	\$194,360,300	\$1,001,865,300	\$75,657,700
Claims on STF Revenue					
Debt service	\$141,876,800	\$141,296,700	(\$580,100)	\$140,321,500	(\$975,200)
IDGs	21,242,800	22,021,200	778,400	22,095,100	73,900
Exec. Dir	4,083,500	4,089,900	6,400	3,926,700	(163,200)
Business support	14,060,300	13,446,300	(614,000)	15,485,500	2,039,200
Info Tech	30,142,900	31,058,900	916,000	32,157,900	1,099,000
Finance	15,942,800	16,156,600	213,800	14,882,600	(1,274,000)
Planning	9,457,700	9,523,000	65,300	9,592,700	69,700
Design/Engineering	123,834,800	134,956,900	11,122,100	131,129,500	(3,827,400)
Maintenance	310,692,000	303,948,000	(6,744,000)	317,593,400	13,645,400
Office of Rail	707,000	718,600	11,600	728,700	10,100
Capital Outlay - Facilities	3,001,500	3,001,500	0	5,501,500	2,500,000
Total	\$675,042,100	\$680,217,600	\$5,175,500	\$693,415,100	\$13,197,500
Available STF for Road and Bridge Construction	\$56,805,200	\$245,990,000	\$189,184,800	\$308,450,200	\$62,460,200
Total STF Appropriation	\$731,847,300	\$926,207,600	\$194,360,300	\$1,001,865,300	\$75,657,700

State Trunkline Road and Bridge Construction

	FY 2016 Enacted	FY 2017		FY 2018	
		YTD	Difference from FY 2016	Executive	Difference from FY 2017
FUND SOURCES					
Federal Revenue	\$742,277,800	\$757,714,800	\$15,437,000	\$783,367,300	\$25,652,500
Local Revenue	30,000,000	30,000,000	0	30,003,500	3,500
Blue Water Bridge Fund	10,580,400	28,998,100	18,417,700	9,800,800	(19,197,300)
State Trunkline Fund (STF)	56,805,200	245,990,000	189,184,800	308,450,200	62,460,200
Total	\$839,663,400	\$1,062,702,900	\$223,039,500	\$1,131,621,800	\$68,918,900
Plus General Fund	\$214,847,250	\$0	(\$214,847,250)	\$0	\$0
Total State Trunkline Capital Program	\$1,054,510,650	\$1,062,702,900	\$8,192,250	\$1,131,621,800	\$68,918,900

The amount of STF revenue available for the state trunkline road and bridge program; i.e. the amount of STF available to match federal funds, is the residual amount of STF revenue after claims on STF revenue from debt service, administration, and maintenance.