

MEMORANDUM



DATE: April 20, 2010
TO: Interested Parties
FROM: William E. Hamilton
RE: Transportation Administration Collection Fund

Summary

The Transportation Administration Collection Fund (TACF) is a state restricted fund created to support, in part, activities of the Michigan Department of State in the administration of sections 801 through 810 of the Michigan Vehicle Code. Public Act 152 of 2003, which created the TACF, also dedicated certain vehicle title and registration service fees to the TACF. However those service fees did not generate enough revenue to support TACF appropriations in General Government appropriation bills. More importantly, the fees did not generate enough revenue to provide for the actual costs of Department of State vehicle registration activities mandated by statute and authorized by those appropriations.

The Legislature has addressed this funding shortfall in several ways, including: dedication of two additional service fees (registration transfer and expedited title) to the TACF, dedication of look-up fee revenue to the TACF, and the appropriation of General Fund/General Purpose (GF/GP) revenue. The Department of State anticipates that under the current fee structure, TACF revenue generated from vehicle title and registration service fees will not be sufficient to cover the costs of the Department of State's vehicle registration program.

Background on Transportation Funding and Collection Costs

Article IX, Section 9 of the Michigan Constitution dedicates motor fuel taxes and vehicle registration taxes for transportation purposes, "*after payment of necessary collection expenses.*"¹ This constitutionally-restricted revenue, estimated to generate approximately \$1.8 billion in FY 2009-10, is first credited to the Michigan Transportation Fund (MTF) and then distributed to the following other funds and local agencies:

- the State Trunkline Fund for preservation/improvement of state trunkline system
- the Comprehensive Transportation Fund for public transportation programs
- County road commissions, cities and villages for local road/street programs

The Michigan Department of Treasury has the statutory authority for the collection of motor fuel taxes; the Department of State has statutory authority for issuing vehicle registrations and the collection of related registration taxes. Historically, the expenses associated with the collection of motor fuel taxes and vehicle registration taxes were reimbursed primarily from interdepartmental grants (IDGs) appropriated from the MTF in the transportation budget.² However; the costs of collecting constitutionally dedicated transportation taxes have also been borne in part by the state General Fund and, starting in FY 2003-04, in part by the TACF.

¹ The actual text of this section is copied at the end of this memo as **Exhibit A**.

² IDGs are a budgetary method for one state fund or department to reimburse another state fund or department for work performed. See HFA memo on interdepartmental grants on the HFA website at http://www.house.mi.gov/hfa/PDFs/IDG_memo.pdf.

The balance of this memo will discuss the Department of State's costs of collecting vehicle registration taxes and the ways those costs have been funded.³

Background on the Department of State's Vehicle Registration Program

Sections 224 and 225 of the Michigan Vehicle Code (1949 PA 300) provide for the registration of motor vehicles and give to the Michigan Secretary of State authority for the state vehicle registration program. Part of the registration program involves the collection of registration taxes under Sections 801 through 810 of the Michigan Vehicle Code. Those registration taxes generate approximately \$900 million per year for credit to the MTF for state and local transportation programs.

Vehicle registration taxes can be considered more of a "retail" tax as compared to the motor fuel taxes. They are collected by the Secretary of State primarily at 141 "retail" branch offices, as well as through on-line and mail-in transactions. Section 205 of the Michigan Vehicle Code requires at least one branch office in each county, as well as branch offices within certain cities, and a branch office in the state capitol complex. According to the most recent cost allocation study (for FY 2007-08), Department of State costs associated with the registration of motor vehicles, i.e. administration of Sections 801 through 810 of the Michigan Vehicle Code, were \$91.3 million.

- Prior to FY 1997-98, Department of State vehicle registration program costs had been funded through IDG appropriated from the MTF. All registration tax and registration service fee⁴ revenue collected by the Department of State was credited to the MTF. The Department of State was then reimbursed from the MTF through the IDG authorization. The appropriation amount represented the upper limit of spending authorization; the amount actually reimbursed was based on actual costs as determined by a cost allocation study – invariably less than the appropriation. In FY 1996-97, the MTF IDG appropriation was \$86.3 million; the amount actually charged to the MTF was only \$80.1 million, as determined by the cost allocation study. The excess spending authority simply lapsed back to the MTF.
- For four fiscal years, FY 1997-98 through FY 2000-01, the IDG appropriation from the MTF was reduced to an average of only \$50.7 million; the amount actually reimbursed from the MTF averaged only \$42.0 million. The state General Fund absorbed a total of \$184.8 million in Department of State vehicle registration program costs, an average of \$46.2 million each year, during the four year period.⁵

³ Although the Constitution refers to the "*necessary collection expenses*" associated with transportation taxes, Section 10(1) of 1951 PA 51 (Act 51) refers to "*necessary expenses incurred by the department of state in administration and enforcement of sections 801 to 810 of the Michigan vehicle code . . .*" Sections 801 to 810 of the Michigan Vehicle Code deal with vehicle registrations and related registration taxes. The Act 51 language is copied as **Exhibit B**. There is similar language in Section 810b of the Michigan Vehicle Code, copied at the end of this memo as **Exhibit C**, in relation to appropriations and expenditures from the TACF.

⁴ Registration service fees became a separate "add-on" to certain vehicle registrations in 1988 after the passage of 1987 PA 238.

⁵ For two fiscal years during this period, FYs 1999-2000, and 2000-01, the state transportation budget did not include an appropriation from the MTF to the Department of Treasury. For this two-year period, the costs of collecting Motor Fuel Act taxes were borne entirely by the state General Fund. The elimination of the MTF IDG to the Department of Treasury, and the reduction in the MTF IDG to the Department of State, provided indirect GF/GP support for state transportation programs at a time when GF/GP revenue averaged approximately \$9 billion per year and the balance in the Budget Stabilization Fund (BSF) was over \$1 billion. This indirect GF/GP support for transportation was eliminated in FY 2001-02 as state GF/GP revenue began to decline. Estimated GF/GP revenue for both FYs 2009-10 and 2010-11 is less than \$7 billion and the BSF balance at the end of the 2008-09 fiscal year is estimated to be \$2.3 million.

▪ In August 2003, the Legislature enacted 2003 PA 152 (SB 554) which created the TACF. The bill also increased certain registration service fees, established a new \$3.00 title application service fee, and directed revenue from the registration service fees (which had previously been credited to the MTF) and the new title service fee to the TACF. At the same time, 2003 PA 151 (SB 539) amended Act 51 to limit the MTF reimbursement of Department of State to \$20.0 million. The intent of these two bills, SB 554 and SB 539, was to provide for the Department of State's registration program costs from two sources: TACF revenue (from the TACF service fees), and an IDG from the MTF not to exceed \$20.0 million.⁶

Starting in FY 2003-04 Department of State's costs associated with administration of the vehicle registration program were provided in part from the new TACF, in part from a \$20 million IDG from the MTF, and in part – because the combined TACF and MTF revenue was not sufficient – from the state General Fund.⁷

The TACF Revenue Problem and Legislative Fixes

The vehicle title and registration service fees earmarked for the TACF in Public Act 152 did not generate sufficient revenue in FY 2003-04 to match the \$74.8 million appropriated in the General Government appropriations act; the fund appeared to be short approximately \$14.0 million at the end of the fiscal year. In order to partially cover the FY 2003-04 TACF shortfall, \$10.0 million in GF/GP revenue was appropriated in a FY 2003-04 supplemental appropriations bill, HB 5527 (2004 PA 360) to support Department of State branch operations. [The actual shortfall, as determined in a subsequent cost allocation study described below, was \$8.3 million. The unused spending authority lapsed back to the General Fund.]

The FY 2004-05 General Government appropriations bill, HB 5517 (enacted as 2004 PA 327), also recognized the anticipated shortfall in TACF revenue by appropriating \$10.0 million GF/GP for Department of State branch operations.

However; because of constraints on the state General Fund, the use of GF/GP revenue to support Department of State vehicle registration activities could not be sustained. In February 2005, the State Budget Office requested supplemental appropriations to replace the \$10.0 million in GF/GP appropriated for Department of State branch operations with \$10.0 million from TACF revenue. The additional TACF revenue was to come from the dedication of two additional service fees to the TACF: the \$8.00 registration transfer fee, and the \$5.00 expedited title application service fee. As with the other registration service fees, these two fees had previously been credited to the MTF, but unlike other service fees, had not been redirected to the TACF at the time Public Act 152 was originally enacted.

The State Budget Office proposal to fix the FY 2004-05 TACF shortfall in was subsequently effected through the following actions:

- Executive Order 2005-7 reduced GF/GP funding for Department of State Branch Operations by \$10.4 million.
- HB 4308 (a supplemental appropriations bill enacted as 2004 PA 11) appropriated \$10.0 million from the TACF for Department of State Branch Operations.
- HB 4082 (2005 PA 141) amended Section 809 of the Michigan Vehicle Code to redirect the \$8.00 registration transfer fee from the MTF to the TACF for two fiscal years (FYs 2004-05 and 2005-06). This action redirected an estimated \$9.4 million each year from the MTF to the TACF.⁸

⁶ It is our understanding that the original intent of SB 554 was to fully fund Department of State vehicle registration program costs from the TACF, as well as the Department of Treasury's Motor Fuel Act collection costs. However, the revenue sources dedicated for the TACF in SB 554 were not sufficient to provide this level of funding. Senate Bill 554, as first passed the Senate, increased registration service fees by \$3.00 with the entire \$3.00 earmarked for the TACF. This section of the bill was amended in the House; only \$.75 of the increase was dedicated to the TACF, with \$2.25 of the increase earmarked for a new Traffic Law Enforcement and Safety Fund (TLESF). This earmark generated \$24.0 million and \$25.3 million for the TLESF in FYs 2003-04 and 2004-05 respectively.

⁷ See the FY 2003-04 General Government appropriations bill, SB 270, enacted as 2003 PA 161.

⁸ HB 4082 had also amended Section 806(1) to redirect expedited service fees from the MTF to the TACF but for a one year period only. The language of HB 4082 may have been drafted in error; soon after enactment of HB 4082, the Legislature passed HB 4858 to make the redirection for a two-year period.

- HB 4858 (2005 PA 179) amended Section 806(1) Michigan Vehicle Code to redirect the \$5.00 expedited title application service fee from the MTF to the TACF for a two year period (FYs 2004-05 and 2005-06). This represented approximately \$933,000 each year.

Together House Bills 4082 and 4858 redirected approximately \$10.3 million – based on the initial revenue estimates – from the MTF to the TACF in FY 2004-05, and a like amount in FY 2005-06.⁹ In effect the two bills provided the TACF revenue appropriated in House Bill 4308.

The earmarking of these two additional service fees to the TACF was not enough to support all Department of State registration program costs. As a result, in FY 2004-05 \$2.0 million in look-up fee revenue was transferred to the TACF through an administrative transfer. [Look up fees are described further below.] In addition, in FY 2005-06 the Legislature appropriated \$6.5 million in GF/GP revenue to offset a shortfall in TACF revenue.

TACF appropriation history for FYs 2003-04, 2004-05, and 2005-06 is shown as **Exhibits D and E**.

Additional Funding Support—Look-up Fees

As noted above, the additional revenue provided to the TACF from the shift of registration transfer fees and the expedited title service fees made up only part of the FY 2004-05 TACF shortfall. In October 28, 2005, an administrative transfer used \$2.0 million in "look-up fee" revenue to replace \$2.0 million in TACF spending authority for which there was no actual TACF revenue support.

In October 2005, the Legislature passed Senate Bills 548, 549, and 550 (enacted as Public Acts 172, 173, and 174 of 2005) which directed all look-up fee revenue to the TACF starting with FY 2005-06.¹⁰ As a result, look-up fee revenue, which had previously lapsed to the state General Fund, became a restricted fund available to offset shortfalls in TACF revenue in support of Department of State vehicle registration program costs.

Look-up fees are charges for the sale of certain types of information by the Department of State to private parties as provided by law. Most of these sales involve look-ups of individual driving records to insurance companies or insurance underwriters. Look-up fees are not related to the department's vehicle registration program and, unlike vehicle registration service fees, had never been credited to the MTF.

Look-up fee revenue had been used as a fund source to support various appropriation line items in the Department of State budget.¹¹ Starting in the FY 2006-07 General Government budget look-up fees were no longer shown as a separate fund source but were simply included as part of with TACF revenue. This made appropriations from the TACF increase by approximately \$40 million as compared to prior years. This increase merely reflected the reclassification of look-up fee revenue. It did not reflect an increase in Department of State costs.

Look-up fee revenue was simply rolled into the TACF and appropriated in various line items in the Department of State's budget. As a result, appropriations from the TACF supported other Department of State activities in addition to administration of the motor vehicle registration program. Or to put it another way, one could no longer break out appropriations strictly related to the motor vehicle registration program from a review of the General Government appropriations bill alone. However, the actual costs of the Department of State's motor

⁹ Senate Bills 210 and 211 of the 2007-2008 legislative session (enacted as 2007 PA 70 and 2007 PA 71, respectively) subsequently extended the dedication of these two fees to the TACF through September 30, 2008. Senate Bills 1464 and 1465 of the 2007-2008 legislative session (enacted as 2008 PA 280 and 2008 PA 281 respectively) extended the dedication of these two fees to the TACF through September 30, 2009. The actual amount generated from these two fees has been declining; together the two fees generated only \$8.6 million in FY 2008-09. See **Exhibit F**.

¹⁰ See the House Fiscal Agency analysis of Senate Bills 548, 549, and 550 on the Michigan Legislature website at [http://www.legislature.mi.gov/\(deo2os45ylbpjprmgftii445\)/mleg.aspx?page=getObject&objectName=2005-SB-0548](http://www.legislature.mi.gov/(deo2os45ylbpjprmgftii445)/mleg.aspx?page=getObject&objectName=2005-SB-0548)

¹¹ In FY 2004-05 look-up fees generated approximately \$38.5 million in revenue, of which only \$33.5 million was appropriated in the General Government appropriations act. The additional revenue lapsed to the state General Fund. In FY 2005-06 look-up fees generated \$40.6 million which was all credited to the TACF.

vehicle registration program, and the amounts reimbursed from transportation funds, continue to be identified through an annual cost allocation study and report, described in additional detail below.

2009 Bill Package to Extend or Create Sunsets

As described above, Public Act 152 of 2003 created the TACF and the TLESF. The act also created a new title service fee, increased certain registration service fees, and earmarked service fees for the TACF and TLESF.

The act established sunsets for some Michigan Vehicle Code title and registration service fees – specifically for the registration service fees of Section 801(3), and the title fees of Section 806.¹² The subsequent designation of the registration transfer fee in Section 809, and expedited title fees in Sec 806(1) to the TACF were also subject to sunset. However, other registration service fees were not originally subject to sunset. Nor was the original designation of look-up fee revenue to the TACF subject to sunset.

SB 494, enacted as 2009 PA 99, amended the Michigan Vehicle Code to extend the existing service fee sunsets for Sections 801(3) and 806 from 10/1/2009 to 10/1/2011. The bill also established a 10/1/2011 sunset for other registration service fees which had not previously been subject to sunset; specifically Sections 802, 803b, 803r, 804, 811e and 811h. Public Act 99 also amended Sections 208b and 232 to establish a new 10/1/2011 sunset for the TACF earmark of look-up fee revenue.

In addition to SB 494, two other bills added new sunset dates to the designation of look-up fee revenue to the TACF. SB 495, enacted as 2009 PA 100, amended the Michigan Natural Resources and Environmental Protection Act to create a new 10/1/2011 sunset on the TACF earmark of look-up fee revenue related to registration of boats, watercraft, off-road vehicles, and snowmobiles. SB 540, enacted as 2009 PA 101 amended 1972 PA 222 (dealing with personal identification cards) to sunset the designation of related look-up fee revenue to the TACF at 10/1/2011.

In some cases the sunset dates clearly apply to the designation of fee revenue to the TACF; after the sunset date the applicable vehicle registration fee revenue would revert back to the MTF, and look up fee revenue to the General Fund. In other cases the sunset appears to apply to the authority to collect the fee itself. Specifically, the sunset dates related to Sections 801(3) and 806(1) appear to apply to the authority to collect the fee, not just the designation to the TACF.

SB 494 also amended Section 810b of the Michigan Vehicle Code to create a new reporting requirement. The amended section requires the Department of State to report to the Legislature by January 1 of each year "an itemized list of deposits into and expenditures from the fund for the preceding fiscal year." The bill also required the Michigan Department of Transportation to "review all funds received [...] from funding sources provided for under this act to determine whether those funds can be used to leverage additional federal funds." See **Exhibit C**.

Future Funding Issues

When the TACF was first created through enactment of Public Act 152, the service fee revenue dedicated to the TACF was estimated at \$68.1 million. However, in its first year of existence, FY 2003-04, TACF service fees only generated \$61.2 million. In FY 2008-09 title and registration service fees generated only \$64.6 million – including \$8.6 million from registration transfer fees and expedited title fees. See **Exhibit F**

¹² The registration service fees in section 803(1) were first established in 1987 through 1987 PA 238 (Senate Bill 152). There was no sunset at that time. The service fee was designated to the MTF "to offset cost of collection". PA 152 of 2003 increased the service fee and designated fee revenue to the TACF, added a new TLESF regulatory fee, and established a sunset date of 10/1/2009 on the authority to collect both the TACF and the TLESF fees.

TACF registration service fee revenue is based on a fixed fee per transaction as provided in the Michigan Vehicle Code. The annual number of registration plate transactions has been trending downward since 2004. The total number of license plate transactions in FY 2008-09 was 8.2 million, approximately the same as the prior fiscal year and lower than any other previous fiscal year since FY 1990-91. Certain transactions, such as plate transfers, have not grown at all over the last 30 years.¹³

While baseline TACF service fee revenue is decreasing, department costs have increased as a result of economic increases (negotiated employee wages, and computed insurance and retirement costs). Employee salary and benefit costs are the largest component of branch operation costs. In budget development, the State Budget Office spreads economic increases to the TACF even there is not actual revenue to support those increases.

Unless registration service fees are increased, TACF revenue derived from title and registration service fees will continue to fall short of baseline costs associated with the Department of State's vehicle registration program.¹⁴

Over the last thirteen years the Department of State's costs related to the collection of vehicle registration taxes have ranged from \$79.5 million (FY 1995-96) to \$97.6 million (FY 2000-01). The costs were \$91.1 million in FY 2007-08, the most recent year for which cost data is available.¹⁵ The \$91.1 million figure represents both the approximate mean and median figure for the thirteen year period.

In every year of the last fifteen years, the amount the Department of State was reimbursed from transportation-related revenue sources, the MTF and the TACF, has been less than the actual cost of the motor vehicle registration program. The amounts not supported by transportation funds are effectively funded from the state General Fund or from other restricted funds. See **Exhibit G**.

Department of State Cost Allocation Study

In September 1996, the State of Michigan contracted with MAXIMUS, a private consulting firm, to develop a cost allocation plan for the Michigan Department of State. The purpose of the cost allocation plan was to determine the department's actual costs of administering Michigan Vehicle Code motor vehicle programs, and *"more specifically to determine the appropriateness of the level of expenditures charged to the Michigan Transportation Fund."* The initial study was based on FY 1995-96 expenditures. MAXIMUS has updated the study for each subsequent fiscal year. The most recent MAXIMUS cost allocation study is of the fiscal year ending September 30, 2008. As noted above, the study found the department's motor vehicle program costs for that fiscal year to be \$91.1 million, of which only \$90.6 million was reimbursed from transportation-related funds, the MTF or TACF.¹⁶

In effect, the state General Fund provides the balance costs not recovered from the MTF or TACF. The study indicated that from FY 1995-96 through 2007-08, costs which were properly allocable to the MTF and TACF, but which were not reimbursed from the MTF or TACF totaled \$219.1 million. See **Exhibit G**.

The MAXIMUS cost allocation is reviewed annually by the Legislative Auditor General as part of a performance audit, *Use of Transportation-Related Funding*. The most recent audit, dated December 2008, for the fiscal years ending September 30, 2006 and September 30, 2007, concluded that the Department of State's charges [to the MTF] were appropriate and the cost allocation methodology reasonable.

¹³ FY 2008-09 plate transfers of 937,458 are the lowest of any period since 1981-82. Source: Summary of Fees Collected and Number of Transactions" report from the Department of State.

¹⁴ See Exhibit E for a summary of TACF appropriations and actual revenue for FYs 2003-04, 2004-05, and 2005-06.

¹⁵ Source: MAXIMUS cost allocation study.

¹⁶ The largest share of the department's total costs of collecting vehicle registration taxes is associated with branch office services. There are currently 141 branch offices (down from 173 in 2004). The total cost of branch operations, based on FY 2007-08 costs, was \$78.5 million, of which \$42.3 million (53.84%) was allocated to transportation funds per the cost allocation study.

County Road Association of Michigan vs. Engler

In November 2001, then-Governor Engler issued Executive Order 2001-9, to bring state appropriations in line with reduced revenue estimates. Among other things, the Executive Order authorized an increase in the MTF grant to the Department of State, from \$55.8 million to \$95.8 million. In 2002, the County Road Association of Michigan filed suit challenging various aspects of Executive Order 2001-9. Among other things, the suit claimed that the MTF grant to the Michigan Department of State was in violation of Article IX, Section 9 of the Michigan Constitution, in that the amount of the grant was in excess of the amount necessary to reimburse the department for the necessary costs of collecting motor vehicle taxes.

In December 2002, the trial court issued a preliminary injunction which found in part for the plaintiffs, and in part for the state. The Michigan Court of Appeals granted leave to appeal and in January 2004, affirmed the decision of the trial court in part, and reversed in part (Court of Appeals Case number COA 245931). The Court of Appeals agreed with the trial court that costs related to processing automobile dealer licenses, driver improvement programs, and drivers' license appeals were not a necessary part of collecting MTF revenue and should not be charged to constitutionally-restricted transportation funds. The Court of Appeals concluded that the plaintiffs were likely to prevail on the merits with respect to \$7.3 million of the \$20.0 million covered by the trial court's preliminary injunction.

Both the plaintiffs and defendants requested leave to appeal to the Michigan Supreme Court (SC 125901). On January 30, 2006, the Michigan Supreme Court denied leave to appeal and remanded the case to the trial court. The Supreme Court also directed to trial court to modify its preliminary injunction so that it only applies to the amount of \$7.3 million. As shown on the **Exhibit G** table below, the costs of collecting motor vehicle taxes per the cost allocation study are not fully recovered from transportation funds; in some years the amount of under-recovery is in excess of the \$7.3 million under dispute.

In August 2008, the trial court ordered that the Department of State transfer \$7.3 million and \$6.5 million from the General Fund to the MTF for two fiscal years – FY 2001-02 and FY 2002-03 respectively. The court also ordered that: "an appropriate cost allocation study be done for use in the future to reflect the current costs associated with the sales tax collection [sic]." ¹⁷ However, the court ruled that revenue generated from the sale of data (i.e. look-up fees) was not restricted for transportation uses.

The state appealed the decision of the trial court and in January 2010, the Michigan Court of Appeals concluded that the plaintiffs lacked standing to sue and dismissed the case (Court of Appeals Case number COA 288653).

In March 2010, the plaintiffs applied for leave to appeal with the Michigan Supreme Court.

¹⁷ Although the court referenced costs associated with sales tax collections, it is understood that the cost allocation is intended to identify the costs of registration tax collections.

EXHIBIT A

ARTICLE IX, SECTION 9 OF THE 1963 MICHIGAN CONSTITUTION

§ 9 Use of specific taxes on fuels for transportation purposes; authorization of indebtedness and issuance of obligations.

Sec. 9.

All specific taxes, except general sales and use taxes and regulatory fees, imposed directly or indirectly on fuels sold or used to propel motor vehicles upon highways and to propel aircraft and on registered motor vehicles and aircraft shall, after the payment of necessary collection expenses, be used exclusively for transportation purposes as set forth in this section.

Not less than 90 percent of the specific taxes, except general sales and use taxes and regulatory fees, imposed directly or indirectly on fuels sold or used to propel motor vehicles upon highways and on registered motor vehicles shall, after the payment of necessary collection expenses, be used exclusively for the transportation purposes of planning, administering, constructing, reconstructing, financing, and maintaining state, county, city, and village roads, streets, and bridges designed primarily for the use of motor vehicles using tires, and reasonable appurtenances to those state, county, city, and village roads, streets, and bridges.

The balance, if any, of the specific taxes, except general sales and use taxes and regulatory fees, imposed directly or indirectly on fuels sold or used to propel motor vehicles upon highways and on registered motor vehicles, after the payment of necessary collection expenses; 100 percent of the specific taxes, except general sales and use taxes and regulatory fees, imposed directly or indirectly on fuels sold or used to propel aircraft and on registered aircraft, after the payment of necessary collection expenses; and not more than 25 percent of the general sales taxes, imposed directly or indirectly on fuels sold to propel motor vehicles upon highways, on the sale of motor vehicles, and on the sale of the parts and accessories of motor vehicles, after the payment of necessary collection expenses; shall be used exclusively for the transportation purposes of comprehensive transportation purposes as defined by law.

The legislature may authorize the incurrence of indebtedness and the issuance of obligations pledging the taxes allocated or authorized to be allocated by this section, which obligations shall not be construed to be evidences of state indebtedness under this constitution.

History: Const. 1963, Art. IX, § 9, Eff. Jan. 1, 1964 ;-- Am. H.J.R. F, approved Nov. 7, 1978, Eff. Dec. 23, 1978

Former Constitution: See Const. 1908, Art. X, § 22.

EXHIBIT B

Public Act 51 of 1951 (EXCERPT)

MCL 247.660 Michigan transportation fund; establishment; use of money appropriated.

Excerpt from Sec. 10(1):

Except as otherwise provided in this section, the legislature shall appropriate funds for the necessary expenses incurred in the administration and enforcement of the motor fuel tax act, 2000 PA 403, MCL 207.1001 to 207.1170, the motor carrier act, 1933 PA 254, MCL 475.1 to 479.43, and sections 801 to 810 of the Michigan vehicle code, 1949 PA 300, MCL 257.801 to 257.810. Funds appropriated for necessary expenses shall be based upon established cost allocation methodology that reflects actual costs. Appropriations for the necessary expenses incurred by the department of state in administration and enforcement of sections 801 to 810 of the Michigan vehicle code, 1949 PA 300, MCL 257.801 to 257.810, shall be made from the Michigan transportation fund and from funds in the transportation administration collection fund created in section 810b of the Michigan vehicle code, 1949 PA 300, MCL 257.810b. Appropriations from the Michigan transportation fund for the necessary expenses incurred by department of state in administration and enforcement of sections 801 to 810 of the Michigan vehicle code, 1949 PA 300, MCL 257.801 to 257.810, shall not exceed \$20,000,000.00 per state fiscal year except for the fiscal year ending September 30, 2006. For the fiscal year ending September 30, 2006, the legislature may appropriate funds in excess of \$20,000,000.00 from the Michigan transportation fund for all incremental additional expenses incurred by the department of state in enforcing sections 801 to 810 of the Michigan vehicle code, 1949 PA 300, MCL 257.801 to 257.810, that arise because of the replacement of standard design registration license plates as provided in section 224 of the Michigan vehicle code, 1949 PA 300, MCL 257.224.

History: 1951, Act 51, Eff. June 1, 1951 ;-- Am. 1954, Act 154, Imd. Eff. Apr. 30, 1954 ;-- Am. 1955, Act 265, Imd. Eff. June 29, 1955 ;-- Am. 1957, Act 262, Eff. July 1, 1957 ;-- Am. 1967, Act 298, Eff. Jan. 1, 1968 ;-- Am. 1967, Ex. Sess., Act 4, Eff. Jan. 1, 1968 ;-- Am. 1972, Act 327, Imd. Eff. Jan. 3, 1973 ;-- Am. 1978, Act 444, Imd. Eff. Oct. 10, 1978 ;-- Am. 1982, Act 438, Eff. Jan. 1, 1983 ;-- Am. 1985, Act 125, Imd. Eff. July 31, 1985 ;-- Am. 1986, Act 254, Imd. Eff. Dec. 9, 1986 ;-- Am. 1987, Act 3, Imd. Eff. Mar. 18, 1987 ;-- Am. 1987, Act 43, Imd. Eff. June 9, 1987 ;-- Am. 1987, Act 103, Imd. Eff. July 7, 1987 ;-- Am. 1987, Act 234, Imd. Eff. Dec. 28, 1987 ;-- Am. 1988, Act 348, Imd. Eff. Oct. 25, 1988 ;-- Am. 1992, Act 223, Imd. Eff. Oct. 15, 1992 ;-- Am. 1993, Act 20, Imd. Eff. Apr. 14, 1993 ;-- Am. 1993, Act 294, Imd. Eff. Dec. 28, 1993 ;-- Am. 1997, Act 79, Eff. July 28, 1997 ;-- Am. 1998, Act 308, Imd. Eff. July 29, 1998 ;-- Am. 2000, Act 188, Imd. Eff. June 20, 2000 ;-- Am. 2003, Act 151, Eff. Oct. 1, 2003 ;-- Am. 2004, Act 384, Eff. Oct. 12, 2004 ;-- Am. 2006, Act 178, Imd. Eff. June 6, 2006 ;-- Am. 2007, Act 210, Imd. Eff. Dec. 27, 2007

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EXHIBIT C

MICHIGAN VEHICLE CODE (EXCERPT)

Act 300 of 1949

257.810b Transportation administration collection fund; creation; investment, disposition, and expenditure of money.

- (1) The transportation administration collection fund is created within the state treasury.
- (2) The state treasurer may receive money from the collections authorized under this act for deposit into the fund. The state treasurer shall direct the investment of the fund. The state treasurer shall credit to the fund interest and earnings from fund investments.
- (3) Money in the fund at the close of the fiscal year shall not lapse into the Michigan transportation fund.
- (4) Except as provided in subsection (6), upon appropriation, the department of state shall expend money from the fund that is credited to the fund from revenue collected under sections 801 to 810 only to pay the necessary collection expenses incurred by the department of state in the administration and enforcement of sections 801 to 810.
- (5) The department of treasury shall expend money in the fund, upon appropriation, only to defray the costs of collecting motor fuel taxes.
- (6) The department of state shall expend money as appropriated from the fund that is credited to the fund on or after October 1, 2005 under each of the following sections of law to pay either the necessary collection of expenses incurred by the department of state in the administration and enforcement of sections 801 to 810 or other necessary expenses:
 - (a) Sections 208b and 232.
 - (b) Section 7 of 1972 PA 222, MCL 28.297.
 - (c) Sections 80130, 80315, 81114, and 82156 of the natural resources and environmental protection act, 1994 PA 451, MCL 324.80130, 324.80315, 324.81114, and 324.82156.
- (7) The department of state shall, by January 1 of each year, file a report with the secretary of the senate and the clerk of the house of representatives providing an itemized list of deposits into and expenditures from the fund for the preceding fiscal year.
- (8) The state transportation department shall review all funds received by the state transportation department from funding sources provided for under this act to determine whether those funds can be used to leverage additional federal funds.

History: Add. 2003, Act 152, Eff. Oct. 1, 2003 ;-- Am. 2004, Act 52, Eff. May 1, 2004 ;-- Am. 2005, Act 141, Imd. Eff. Sept. 29, 2005 ;-- Am. 2006, Act 549, Imd. Eff. Dec. 29, 2006 ;-- Am. 2009, Act 99, Imd. Eff. Sept. 30, 2009

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Note by HFA: 2006 PA 549 (HB 4806) added Subsection 6 after the designation of look-up fee revenue to the TACF to allow for additional uses of TACF revenue. 2009 PA 99 (SB 494) added Subsections 7 and 8.

EXHIBIT D

Department of State Appropriations MTF-Related Collection Activities

Appropriation Line Item	Fund	FY 2003-04			FY 2004-05					FY 2005-06				
		Appropriation	HB 5527	YTD	Appropriation	EO/HB 4308 *	Transfer	Transfer	HB 4436 **	Work Project Lapse	YTD	YTD	HB 5796	YTD
Executive Direction	TACF	1,185,600		1,185,600	1,286,200						1,286,200	1,476,900		1,476,900
Building Occupancy	TACF	4,635,000		4,635,000	4,210,700						4,210,700	4,222,700		4,222,700
Worker's Comp	TACF	260,300		260,300	252,700						252,700	177,600		177,600
Department Services	TACF	10,740,100		10,740,100	12,130,000			(750,000)			11,380,000	12,818,100		12,818,100
Regulatory Services	TACF	5,288,900		5,288,900	7,898,700		(2,000,000)	(750,000)			5,148,700	7,633,000	(6,500,000)	1,133,000
Regulatory Services	Look up fees						2,000,000				2,000,000			
Regulatory Services	GF/GP												6,500,000	6,500,000
Auto Regulation	TACF	2,278,800		2,278,800										
Customer Services	TACF	6,027,300		6,027,300	6,619,400						6,619,400			
Branch Operations	TACF	19,444,100	(10,000,000)	9,444,100	11,665,400	10,000,000		1,500,000	485,000		23,650,400	24,054,000		24,054,000
Branch Operations	MTF	20,000,000		20,000,000	20,000,000						20,000,000	20,000,000		20,000,000
Branch Operations	GF/GP		10,000,000	10,000,000	10,000,000	(10,000,000)								
Central Records	TACF	6,977,000		6,977,000	6,250,600						6,250,600	14,188,700		14,188,700
Commemorative Plates	TACF	2,147,300		2,147,300	2,147,300						2,147,300	2,147,300		2,147,300
Specialty Plates	TACF	1,922,000		1,922,000	1,922,000						1,922,000	1,922,000		1,922,000
Olympic Plates	TACF				75,700						75,700	75,700		75,700
Information Technology	TACF	13,845,900		13,845,900	13,945,600					(1,061,971)	12,883,629	14,246,700		14,246,700
Total		94,752,300	0	94,752,300	98,404,300	0	0	0	485,000	(1,061,971)	97,827,329	102,962,700	0	102,887,000
Summary by fund	TACF	74,752,300	(10,000,000)	64,752,300	68,404,300	10,000,000	(2,000,000)		485,000	(1,061,971)	75,827,329	82,962,700	(6,500,000)	76,462,700
	MTF	20,000,000		20,000,000	20,000,000						20,000,000	20,000,000		20,000,000
	Look-up fees						2,000,000				2,000,000			
	GF/GP	0	10,000,000	10,000,000	10,000,000	(10,000,000)					0		6,500,000	6,500,000
Total		94,752,300		94,752,300	98,404,300	0	0	0	485,000	(1,061,971)	97,827,329	102,962,700	0	102,962,700

0

* EO 2005-7 reduced GF support for branch operations by \$10.4 million, but we only show the \$10 million MTF related.
 ** Boilerplate section 203 of HB 4436 provided additional spending authority for FY 2003-04 costs charged to FY 2004-05 (split pay).

EXHIBIT E**Transportation Administration Collection Fund
Appropriations Compared to Revenue**

	FY 2003-04	FY 2004-05	FY 2005-06
Original Appropriation	\$74,752,300	\$68,404,300	\$82,962,700
Net Adjustments	<u>(10,000,000)</u>	<u>7,423,029</u>	<u>(6,500,000)</u>
Adjusted Appropriation	\$64,752,300	\$75,827,329	\$76,462,700
Revenue	61,455,620	70,859,590	69,764,813
Difference	<u>(\$3,296,680)</u>	<u>(\$4,967,739)</u>	<u>(\$6,697,887)</u>

This table shows original TACF appropriations, net mid-year budgetary adjustments, adjusted appropriations, and actual revenue. The table shows TACF revenue from vehicle registration and title fees only, and does not include look-up fees. FY 2004-05 and FY 2005-06 revenue includes additional revenue from transfer fees and expedited service fees.

EXHIBIT F

TACF Revenue by Agency Object Code

Agency Object	MCL	Fee	SB 554 Revenue							
			Estimate	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
0017/1563 Title Service Fee	257.806(1)	\$3.00	10,225,700	9,540,360	9,250,443	8,830,714	8,722,551	8,758,783	7,892,592	
103/1537 Olympic Plate Service Fee	257.811(c)	\$25.00	8,200	4,771	2,984	3,150	4,109	1,660		
113/1526 Fundraising Plate Service Fee	257.811(h)	\$10.00	400,000	332,825	281,983	240,580	362,385	225,140	163,946	
143/1555 Registration Transaction Fees	257.801(3)	\$5.75	49,915,500	45,248,508	44,814,011	44,349,427	44,791,768	36,196,486	43,031,423	
1346/1558 Watercraft fundraising					9,800	6,590				
303/1513 Commemorative Plate Fees	257.804(1)	\$5.00	1,650,000	1,228,664	1,095,840	995,218	3,395,766	1,644,797	920,706	
433/1548 Special Permits Fees	257.802	var	4,592,800	1,577,985	1,502,334	1,488,864	1,538,486	1,441,497	1,345,193	
583/1504 15 Day Temp Permit Fees				723,330	689,612	620,419	693,577	468,796	421,504	
633/1507 30/60 Day Permits				740,450	656,540	614,990	594,440	593,540	629,310	
643/1545 Replacement Plates	257.804(2)	\$5.00		583,569	703,012	704,629	550,812	536,512	541,092	
653/1540 Personalized Plates - Original	257.801(b)	\$30.00	1,247,400	1,173,903	1,120,861	1,029,782	1,483,235	1,113,413	929,032	
Misc			65,840							
Subtotal Title and Registration Service fees			\$68,039,600	\$61,154,365	\$60,127,419	\$58,884,362	\$62,137,129	\$50,980,624	\$55,874,799	
203 Expedited title fees	257.806(1)	\$5.00			933,553	1,066,592	1,172,933	1,259,186	1,134,240	
222 Transfer registration fees	257.809	\$8.00			9,397,838	8,904,342	8,682,342	8,540,615	7,455,320	
Subtotal Expedited Title and Registration Transfer Service fees				\$0	\$10,331,391	\$9,970,934	\$9,855,275	\$9,799,801	\$8,589,560	0
1250 Common Cash Earnings				61,975	148,734	891,082	379,627	290,967	101,575	
1721 Misc/Correction				239,280	252,046	18,434	123,654	97,420	39,583	
Total TACF excluding Look-up fees				\$61,455,620	\$70,859,590	\$69,764,813	\$72,495,685	\$61,168,812	\$64,605,516	0
Look-up fees						40,575,553	40,045,979	44,194,262	37,725,179	
Total TACF				\$61,455,620	\$70,859,590	\$110,340,366	\$112,541,664	\$105,363,074	\$102,330,695	0

EXHIBIT H

Legislation Affecting the TACF

Bill No.	Public Act	Primary Act	Description
<i>Changes to Statute</i>			
SB 554	152 of 2003	Michigan Vehicle Code	Creates TACF, redirects service fees TACF
SB 539	151 of 2003	Public Act 51 of 1951	Sets \$20 million ceiling for MTF IDG to Department of State
HB 4308	52 of 2004	Michigan Vehicle Code	TACF does not lapse to MTF
HB 4082	141 of 2005	Michigan Vehicle Code	Redirects \$8 transfer fee to TACF for two years
HB 4858	179 of 2005	Michigan Vehicle Code	Redirects \$5 expedited service fee to TACF for two years
SB 548	172 of 2005	Amends PA 222 of 1972	Reclassifies look-up fees as TACF
SB 549	173 of 2005	Michigan Vehicle Code	Reclassifies look-up fees as TACF
SB 550	174 of 2005	Amends PA 451 of 1994	Reclassifies look-up fees as TACF
HB 4806	549 of 2006	Michigan Vehicle Code	Amends Section 810b to allow other uses of TACF revenue.
SB 210	70 of 2007	Michigan Vehicle Code	Redirects \$5 expedited service fee to TACF through 9/30/2008
SB 211	71 of 2007	Michigan Vehicle Code	Redirects \$8 transfer fee to TACF through 9/30/2008
SB 1464	280 of 2008	Michigan Vehicle Code	Redirects \$8 transfer fee to TACF through 9/30/2009
SB 1465	281 of 2008	Michigan Vehicle Code	Redirects \$5 expedited service fee to TACF through 9/30/2009
SB 494	99 of 2009	Michigan Vehicle Code	Extends/adds service fee sunset through 10/1/2011, amends Sec. 810b.
SB 495	100 of 2009	Amends PA 451 of 1994	Creates new sunset for TACF look-up fee earmark, through 10/1/2011
SB 540	101 of 2009	Amends PA 222 of 1972	Creates new sunset for TACF look-up fee earmark, through 10/1/2011
<i>Appropriations</i>			
SB 270	161 of 2003	FY 2003-04 General Gov't	Includes TACF as revenue source.
HB 5527	360 of 2004	FY 2003-04 Supplemental	Fund shift \$10 million TACF for \$10 million GF/GP
HB 5517	327 of 2004	FY 2004-05 General Gov't	Includes \$10 million GF/GP support for branch operations
EO 2005-7		FY 2004-05 Executive Order	Cuts \$10.4 million GF/GP from branch operations
HB 4308	11 of 2005	FY 2004-05 Supplemental	Appropriates \$10 million TACF
Administrative transfer dated 10/28/2005			Fund shift, \$2.0 million look up fee revenue replaces TACF
SB 272	146 of 2005	FY 2005-06 General Gov't	
HB 5796	345 of 2006	FY 2005-06 Supplemental	Replaces \$6.5 million TACF with GF/GP
HB 5796	345 of 2006	FY 2006-07 General Gov't	Assumes continued shift of transfer/service fees to TACF
SB 229	127 of 2007	FY 2007-08 General Gov't	Assumes continued shift of transfer/service fees to TACF
HB 5816	261 of 2008	FY 2008-09 General Gov't	Assumes continued shift of transfer/service fees to TACF
SB 245	128 of 2009	FY 2009-10 General Gov't	Assumes continued shift of transfer/service fees to TACF