



December 12, 2014

## Let's Talk Road Funding...

### Part Two

*Last week we focused on road funding, its history and current levels of tax. I appreciate the calls, comments and emails I received and am glad I was able to make a complex matter easier to understand. The legislature is working through a conference committee to find a permanent solution. So on to part two...*

### **Why Doesn't Sales Tax on Gasoline Fund Our Roads?**

Since 1933 Michigan has levied a sales tax on gasoline and diesel fuel. This was part of the General Sales Tax Act and is based on the price of gasoline and diesel per gallon. It is not part of the 19 cents-per-gallon tax on gasoline or 15 cents levied on diesel and does not go to the Michigan Transportation Fund. It is not distributed according to Act 51 of 1951.

It is important to remember and often confused that there is not a sales tax on gasoline and diesel fuel in Michigan. Rather, the sales tax is a general tax from 1933 that is applied to most products sold in Michigan. Because it is not specific to gas and diesel sales it is not reported or calculated separately.

The Michigan sales tax is earmarked for specific purposes. 73% goes to the Schools Aid Fund; 10% goes to local revenue

sharing for cities, villages and townships; a portion goes to the Comprehensive Transportation Fund to help fund public transit.

Contrary to general perception, the sales tax on gasoline and fuel products is not a specific transportation use tax. It does not fund road maintenance or construction. It is simply a general sales tax which is earmarked for other uses. In fact, in both the 1938 and 1963 Michigan Constitutions, the general sales tax was specifically excluded from highway purposes.

### **Do Gas Price Fluctuations Impact Revenue?**

Obviously, the revenues on gasoline can fluctuate a great deal depending on the price and the purchasing demand of consumers. Not that long ago, we had gas prices of \$4.00 per gallon, sales taxes were almost .22 cents per gallon. At \$3.58 the sales tax is 19 cents per gallon or equal to the mandated 19 cent gas tax.

Increasing fuel costs result in decreased gasoline consumption. This impacts both the 19 cents per gallon gas tax that goes directly to the Michigan Transportation Fund and the sales tax revenues for schools and local governments.

### **How Much Have Gas Taxes Declined in Recent Years?**

The gas tax is a consumption tax. It is based on consumer purchas-

ing at 19 cents per gallon on gas and 15 cents per gallon on diesel. It has a direct correlation to the quantity of fuel purchased at the pump.

Revenue from the tax peaked in 2001 and has declined every year since. In 2001 the MTF revenue was almost \$939 million. Today it is at \$815 million or \$124 million less. Decreases in purchasing, improved auto fuel economy and changes in driving patterns have resulted in less consumption and therefore less revenue.

### **What Are Some of the Other Issues Impacting Our Roads?**

Decreasing revenues and dramatically increased costs are the one/two punch impacting our roads. These of course are magnified by our harsh Michigan winter conditions.

According to Steve Warren, Managing Director of the Kent County Road Commission. "Our MTF revenue peaked in 2004. Diesel prices were 86 cents a gallon, they are \$3.08 now. Salt was \$28 a ton, now its \$67. We could buy asphalt for \$30 a ton in 2004, today its \$57. Grader blades for our plows cost \$28 each in 2004, today they are \$76. We buy 2,500 grader blades per year. During the same time our labor costs have only increased 1.2 % per year but everything else has increased dramatically cutting our buying power".