



December 5, 2014

Let's Talk Road Funding...

As of this morning Michigan has two very different versions of road funding under consideration..

Last night, the House approved a plan to remove the 6% sales tax on fuel (at 1% per year) and converts the 19 cent-per-gallon fuel tax to a percentage rate that that would gradually increase. The House plan does not replace lost sales tax that goes to schools or revenue sharing. (\$75 million per year for local governments alone). Rather, the House anticipates that overall growth in our economy will make up the difference through the sales tax on other items. A complicating factor is that any new money generated for roads is really not new money. It's money that would have been directed toward schools and local government. The House plan also limits future funding for schools and revenue sharing.

The Senate plan is a switch to a wholesale tax on fuel. The switch is a tax increase and would cost the average driver \$10 per month. This plan would generate about \$1.5 billion per year in new revenue. It would not impact current or future revenues for schools and local government. The Senate plan is strongly endorsed by the governor, business groups, the MTA and MML, the County Road Association as well as education groups.

Where are we today?

Gas and diesel fuel are currently subject to several different taxes. Michigan levies a 15 cent per gallon tax on diesel and 19 cents on gasoline. These taxes are dedicated for transportation and go directly to the Michigan Transportation Fund (MTF). They are then distributed to MDOT, cities, villages and road commissions according to Act 51 of 1951. (Yes, that's right, 1951)

Fuels are also subject to our 6% sales tax. The sales tax portion is not for roads but is distributed by both the constitution and state law. 73% goes to the State School Aid Fund. 10% goes to local revenue sharing. A small portion also goes to the Comprehensive Transportation Fund to help fund public transit. The balance that is not mandated somewhere else goes to the General Fund.

In addition to these taxes, Michigan has a 7/8 cent per gallon environmental fee on all petroleum products. It generates \$50 million for environmental clean-up.

Finally, the federal government has an 18.4 cents tax on gas and 24.4 cents per gallon on diesel. This money goes to the Federal Highway Trust Fund. As a side note, revenue from the Federal Highway Trust Fund comprises one-third of the MDOT Budget.

How did this all start?

Michigan first fuel tax was in 1925. The amount was 2 cents per gallon. It was described as a "privilege tax" for the use of public highways. In 1925 it was a "privilege" to use our roads and vehicle owners were required to pay a tax for that privilege.

1997 Changes

The current gas tax rate was established by PA 83 of 1997. It was increased from 15 cents to 19 cents. At current levels the gas tax will generate \$815 million in fiscal 2014-2015. Each penny of tax equates to about \$43 million .

Diesel is taxed at 15 cents per gallon and has been since 1984. The diesel tax generates \$131 million and each penny will generate about \$8.7 million per year.

Another Earmarked Use

Since 1994, the Legislature determined that some of the gasoline purchased in Michigan was for recreational use like boats, snowmobiles or ORVs. PA 451 of 1994 requires that 2% of the gas tax revenue be earmarked for the Conservation and Recreation Trust Fund. That amounts to about \$16 million per year.

Now what ?

Next week work will begin to resolve the dramatic differences in the House and Senate Plans. Stay tuned for updates.