



Proposal 15-1: Sales and Motor Fuel Tax Increases

Citizens Research Council of Michigan

Webinar

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www.crcmich.org



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- Promotes sound policy for state and local governments through factual research – accurate, independent and objective
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The Problem: Michigan's Transportation Infrastructure

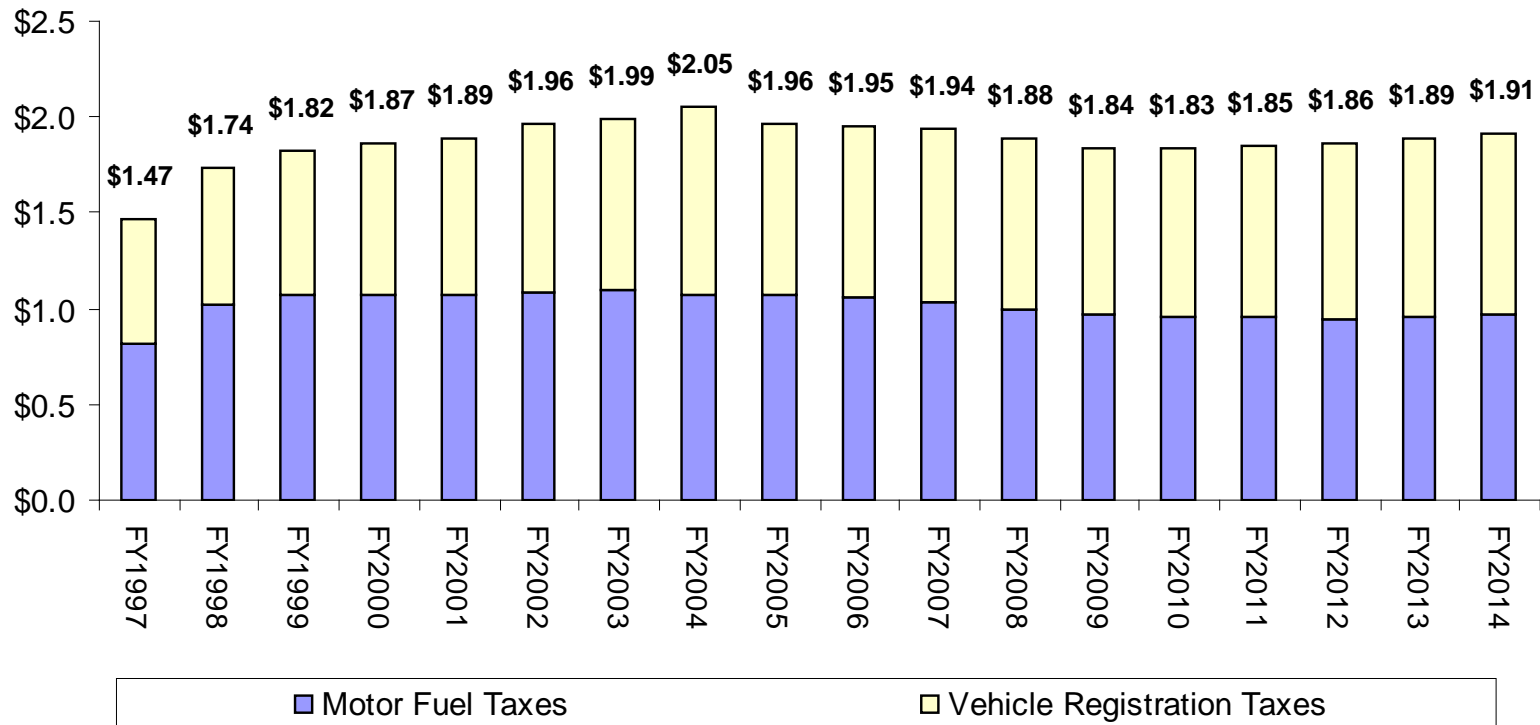


Dedicated Transportation Revenue

Current Revenues Lower than 12 Years Ago

FY1997 - FY2014

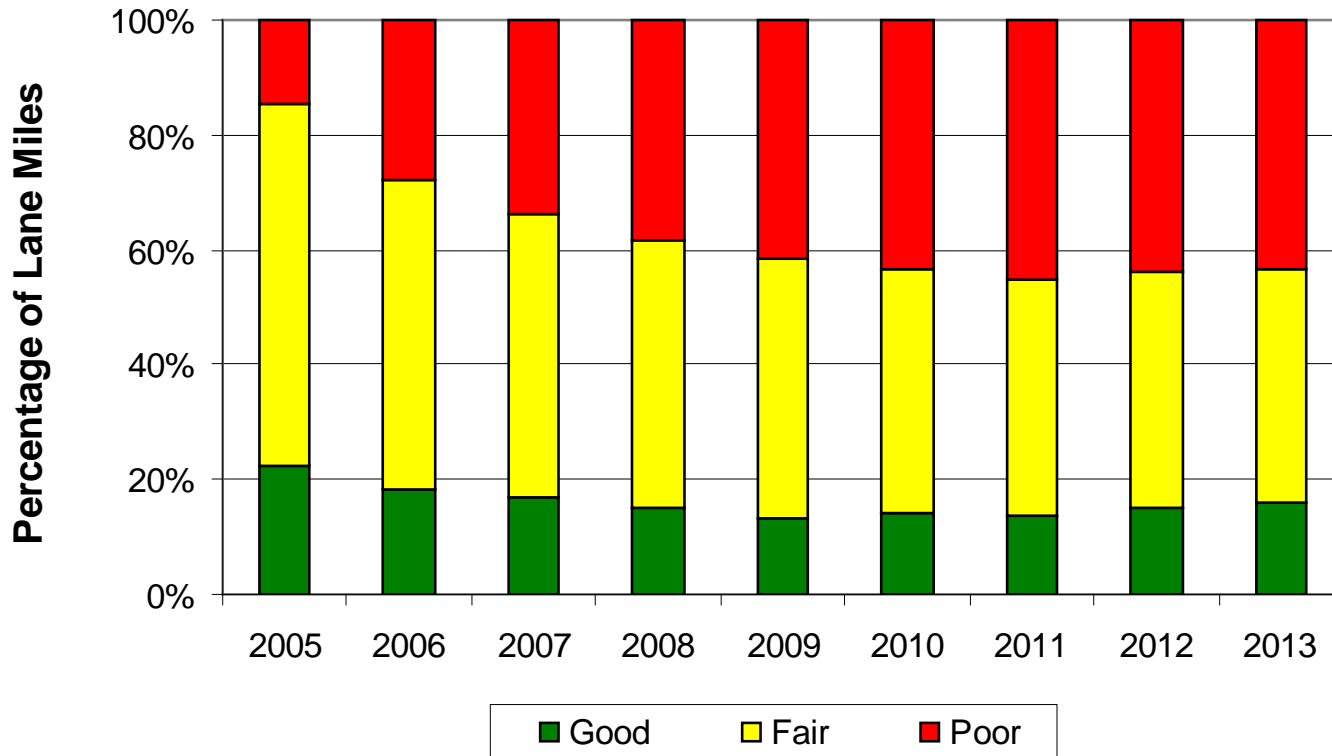
(in billions)



Road Conditions Deteriorate

Over 40% of Non-Trunkline Roads in Poor Condition

Federal Aid Non-Trunkline Pavement Condition





Short History on Road Funding Debate

Governor Pushes, Legislature Punts

- Early in first term, Governor Snyder requests legislature increase transportation spending by \$1.2B
- Legislature rebuffs Governor Snyder's request and appropriates General Fund dollars to meet state transportation funding needs in interim
- Differing legislative proposals emerge in Spring 2014, but no consensus.
- Governor and legislature agree to plan in late 2014



Proposal 15-1: Proposed Solution

- Raise motor fuel taxes to address roads (tie-barred legislation) but also exempt motor fuels from existing sales tax (constitutional amendment)
 - helps offset the impact at the pump
 - ensures all taxes at the pump go to transportation
- BUT – exempting motor fuels from sales tax takes revenue from schools and local governments
 - SO – raise sales and use tax from 6% to 7% so that schools and local governments gain revenue (requires constitutional amendment)
- BUT – sales tax is “regressive” (low-income households pay greater percentage of their income)
 - SO – expand tax credits for low-income households to help offset (tie-barred legislation)



Constitutional Amendment



Proposal 15-1: Why a Public Vote?

Largely a Problem of Our Own Creation

- Michigan citizens have created a number of constitutional limits on policy actions of elected officials
- Given the objectives of transportation funding solution, public vote was unavoidable
- Proposal adds to existing limitations, making it more difficult for future policymakers to address financial problems
- If approved, likely that voters will be asked to repeat process in future

Sales and Use Taxes in Michigan

A Primer

- **Sales Tax** – currently 6% and raises \$7.6B
 - 4% base – 60% to School Aid Fund and 15% to local governments (via constitution)
 - 2% add-on (Proposal A) – all to School Aid Fund (via constitution)
- **Use Tax** – companion tax (on-line/catalog sales, rentals/leases); currently 6% and raises \$1.4B
 - 4% base – state share goes to General Fund
 - 2% add-on (Proposal A) – all to School Aid Fund (via constitution)



Constitutional Amendment

Sales Tax Rate and Revenue Distribution

- Vote to amend the **Michigan Constitution**:
 - Raises maximum sales tax rate from 6% to 7%
 - Exempts motor fuel from sales tax
 - Dedicates 15% of sales tax at 5% (up from 4%) to local government
 - Dedicates 60% of sales tax at 5% (up from 4%) to School Aid Fund
 - Increases portion of use tax dedicated to School Aid Fund to 12.3% of new 5% base



Constitutional Amendment

Use of School Aid Fund

- Current language permits School Aid Fund for “... aid to school districts, higher education, and school employees’ retirement systems...”
- Proposal eliminates “higher education” (four-year public universities)
- Proposal allows “public community colleges”
- Proposal adds new use “career and technical education programs” operations and scholarships

Constitutional Amendment

Does Not Raise Money for Roads

- Changes to the **sales and use taxes** (FY2016):
 - ↓ **\$690 million** from exempting motor fuel
 - ↑ **\$1.5 billion** from increasing rates 6% to 7%
 - **Net increase of \$795 million**
- Increases annual funding for:
 - School Aid Fund (~\$390M)
 - Local governments (~\$115M)
 - State's General Fund (~\$300M)



Impacts on School Aid Fund

Receives 60% of Sales Tax @ 5% Rate

- Dynamic effects of various tax changes
 - Net gain: \$390M
- Exempt “higher education” – reduce SAF appropriations by \$204M
 - without change, potential exposure of \$1.4B
- Allow “community colleges”
 - future potential exposure of \$400M
- Allow CTE operations and scholarships - ????
- Net effect: \$390M to \$594M increase (actual depends on state budget decisions)

How Does Proposal 15-1 Address Road Funding?

- **Ballot Language** – "... and *to give effect to laws* that provide additional money for roads and other transportation purposes by increasing the gas tax and vehicle registration fees."
- ***Direct vote*** on constitutional amendment serves as ***indirect vote*** on transportation funding package



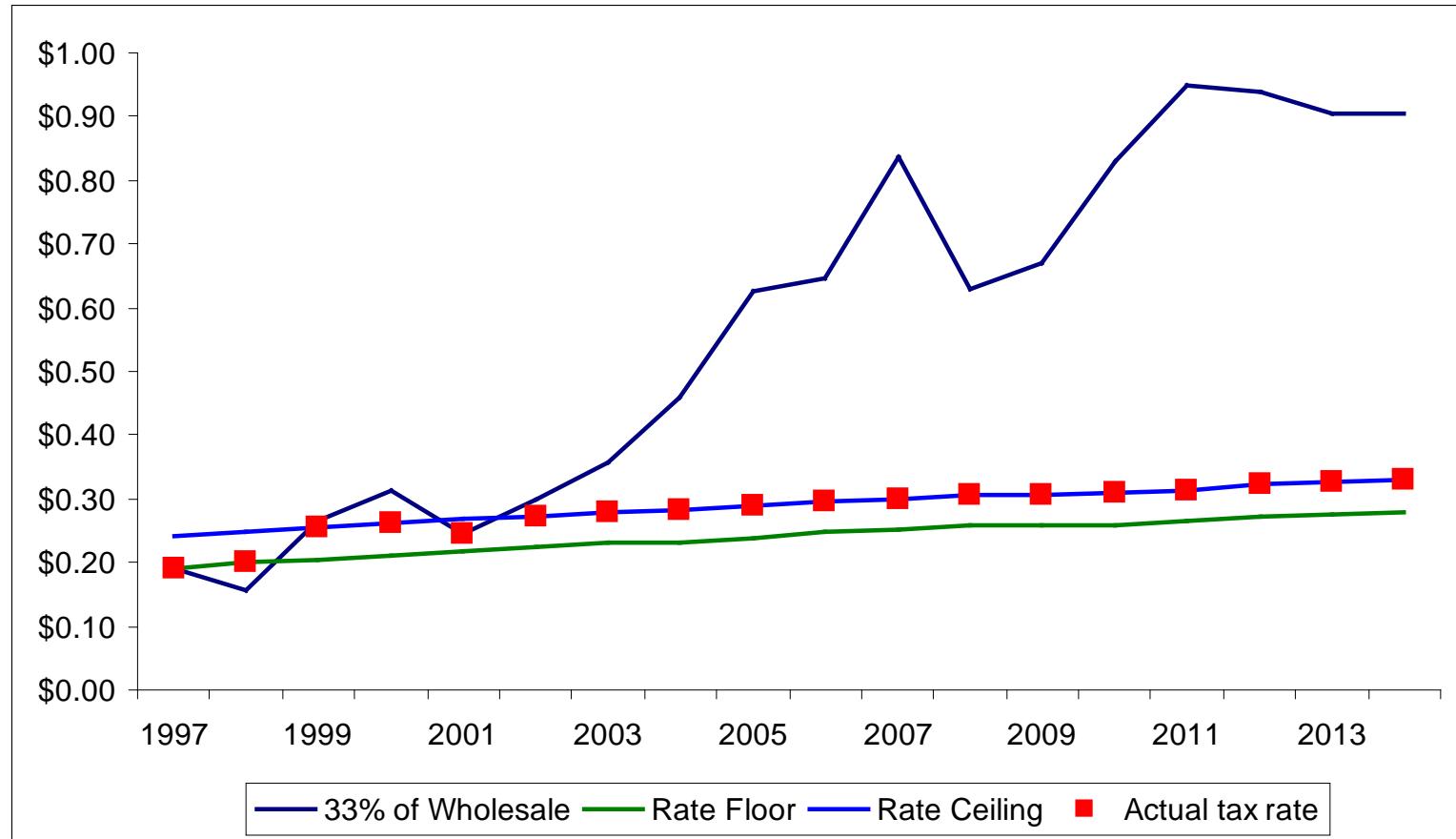
Tie-Barred Legislation: Tax Changes for Road Funding



Motor Fuel Tax Increases

- Increase the state's wholesale motor fuel tax rates on gasoline and diesel
 - Current: 19¢/gallon for gasoline and 15¢/gallon for diesel fuel
 - Proposed: Initial rate equals 14.9% of the wholesale price of each fuel; gasoline 41.7¢/gallon, diesel 46.4¢/gallon starting October 1, 2015
- Create floor and ceiling for future rates, adjust both floor and ceiling annually for consumer price inflation
- Projected future rates for gasoline and diesel: 45¢/gallon by 2019; 50¢/gallon by 2024

What If?: Historical Look at Adjustment Mechanism





Initial Impact of Tax Changes at the Pump

Pre-Tax Retail Price	\$1.900 per gallon		\$2.500 per gallon		\$3.250 per gallon	
	Current	Prop 15-1	Current	Prop 15-1	Current	Prop 15-1
Federal gasoline tax	\$0.184	\$0.184	\$0.184	\$0.184	\$0.184	\$0.184
State sales tax	\$0.125	\$0.000	\$0.161	\$0.000	\$0.206	\$0.000
State gasoline tax	\$0.190	\$0.417	\$0.190	\$0.417	\$0.190	\$0.417
Final Pump Price	\$2.399	\$2.501	\$3.035	\$3.101	\$3.830	\$3.851
	↑ 10.2 cents		↑ 6.6 cents		↑ 2.1 cents	



Registration Tax Increases

- **Eliminates the current depreciation discount** for passenger vehicle registration taxes
 - First registration: full tax provided in law
 - Second registration: 90% of full tax
 - Third registration: 81% of full tax
 - Fourth and subsequent registrations: 73% of full tax
- Increases registrations taxes for **large commercial trucks**
 - truck with gross vehicle weight of 80,000 lbs pays \$1,660 now
 - Increases to \$1,860/\$2,060/\$2,260 in 2016/2017/2018
- Establishes **new annual surcharge for electric vehicles**
 - “solely or predominantly”: \$75 (\$200 if over 8,000 lbs)
 - “partially powered”: \$25 (\$100 if over 8,000 lbs)



Vehicle Registration Examples

Vehicles with List Price of \$30,500; full tax = \$153

2012 Model Year

	Registration Year				
	2015	2016	2017	2018	2019
Current Law	\$112	\$112	\$112	\$112	\$112
<i>% of Initial Tax</i>	73%	73%	73%	73%	73%
Proposal	\$112	\$112	\$112	\$112	\$112
<i>% of Initial Tax</i>	73%	73%	73%	73%	73%

2014 Model Year

	Registration Year				
	2015	2016	2017	2018	2019
Current Law	\$138	\$124	\$112	\$112	\$112
<i>% of Initial Tax</i>	90%	81%	73%	73%	73%
Proposal	\$138	\$138	\$138	\$138	\$138
<i>% of Initial Tax</i>	90%	90%	90%	90%	90%

Tie-Barred Legislation: Financial Impacts on Transportation Funding

- From changes to **transportation taxes** (FY2016):
 - ↑ **\$1.26 billion** from increased motor fuel tax rate
 - ↑ **\$30 million** from increased registration taxes
 - **Net increase of \$1.3 billion** to transportation taxes
- First two years: Some of the new revenue allocated to satisfy road debt service payments (\$800M in FY2016), with remainder allocated to road agencies and public transit.



Tie-Barred Legislation: Financial Impacts on Transportation Funding

(in millions of dollars)

	FY2016	FY2017	FY2018
<i>Transportation Taxes</i>			
Increase Motor Fuel Tax Rate	\$1,260	\$1,260	\$1,290
Increase Registration Taxes	\$28	\$68	\$102
TOTAL TRANSPORTATION TAXES	\$1,288	\$1,328	\$1,392

Distribution:

Road Funding	\$385	\$781	\$1,253
Public Transit - fuel taxes	\$43	\$87	\$139
Public Transit - lost sales taxes	(\$15)	(\$19)	(\$22)
State Trunkline Debt	\$860	\$460	



Expanded Tax Credits

Low- and Moderate-Income Households

- State Earned Income Tax Credit (EITC)
 - Credit against the state income tax for households that meet income thresholds
 - Married couple with three children filing jointly: below \$52,427 in 2014
 - Single taxpayer with no children: below \$14,590 in 2014
- State credit tied to equivalent federal credit; would increase from 6% to 20% of federal credit
- Homestead Property Tax Credit: increased credit for seniors and disabled individuals with incomes between \$3,000 and \$6,000



State EITC Examples

Impact of Increased Credit

<i>Household Type</i>	<i>Children</i>	<i>Earned Income</i>	State EITC	
			<i>Current</i>	<i>Prop 15-1</i>
Married couple	3	\$45,000	\$94	\$312
Married couple	1	\$35,000	\$86	\$285
Single individual	0	\$10,000	\$21	\$70
Single parent	2	\$20,000	\$300	\$1,000

Note: Based on 2014 tax year guidelines.



Road Construction Process

Competitive Bidding and Road Warranty Use

- MDOT and larger local road agencies must develop and implement a “performance-based maintenance system” and “performance rating system”; beginning in FY2017, at least 20% of all maintenance services would be tied to system
- Clarifies competitive bidding requirements for projects over \$100,000 and adds reporting requirements for agencies that determine another method is in public interest
- Local road agencies must submit proposed warranty program to MDOT by February 1, 2016; new reporting from locals and MDOT on warranty use



Summary of Revenue Implications

	FY2016	FY2017	FY2018
<i>Sales and Use Taxes</i>			
Increase Sales & Use Tax from 6% to 7%	\$1,485	\$1,520	\$1,560
Exempt Motor Fuel from Sales Tax	(\$690)	(\$775)	(\$850)
TOTAL SALES AND USE TAX	\$795	\$745	\$710
<i>Transportation Taxes</i>			
Increase Motor Fuel Tax Rate	\$1,260	\$1,260	\$1,290
Increase Registration Taxes	\$28	\$68	\$102
TOTAL TRANSPORTATION TAXES	\$1,288	\$1,328	\$1,392
<i>Tax Credit Adjustments</i>		(\$260)	(\$270)
TOTAL NEW REVENUE	\$2,083	\$1,813	\$1,832



What if Voters Reject Proposal 15-1?

Back to the Drawing Board

- There is no “Plan B” to provide permanent solution to transportation funding needs
- On temporary basis, General Fund will continue to finance state transportation needs (\$285M current)
- House has signaled that it will revisit its 2014 plan
 - Phase in gas tax increase, phase out sales tax on gasoline
 - Reduce sales tax by \$800M (\$480M to SAF; local governments by \$120M)
- Bottom line: time will tell



Looking for More Information?

- CRC's full report available at website (www.crcmich.org)
- Ballot language at Secretary of State website (www.michigan.gov/sos)
- Tie-barred legislation (www.legislature.mi.gov)

Don't forget to vote on May 5



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