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## 1978 STATE BALLOT ISSUES

### TRANSPORTATION PROPOSALS OF THE LEGISLATURE

The legislature has placed on the November 7 ballot two proposed amendments (Proposals M and R) to the Michigan Constitution relating to transportation.

#### Proposal M — State Transportation Commission and Taxes

Proposal M amends Article V, Section 28, and Article IX, Section 9, and would:

- Replace the present state highway commission with a state transportation commission and change its composition and function; and,
- Change the present constitutional earmarking of highway user taxes to permit a portion of such taxes to be used for nonhighway transportation purposes.

#### The Proposed State Transportation Commission

The proposed amendment to Article V, Section 28, would replace the existing four-member state highway commission with a six-member transportation commission and the name of the department would be changed to the state transportation department. Members of the commission would continue to be appointed by the governor with the advice and consent of the senate with no more than one-half of the members from the same political party. The term of office of the commissioners would be three years instead of the present four years.

The role and function of the commission would be changed under the proposed amendment. While the present state highway commission is charged with the responsibility to "administer" the state highway department, the proposed transportation commission is limited to "establishing policy" for the transportation department. While limited to a policymaking role, the constitutional authority of the proposed transportation commission is broadened to cover transportation programs and facilities while the constitutional responsibility of the present highway commission is limited to state highways and facilities. Both the present constitution and proposed amendment give the respective commissions jurisdiction over such other public works of the state as provided by law and the present highway commission has been assigned overall authority for aeronautics, public transportation and port development. Thus, the proposed amendment gives constitutional status to the more comprehensive responsibilities of the transportation commission and department that are currently assigned by statute and by executive order.

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The proposed amendment deletes the present constitutional requirements that the commission appoint the director and that the director be a competent highway engineer and administrator. Under the proposed amendment the director of the state transportation department shall be appointed as provided by law.

### Transportation Revenues

The present constitution provides that all taxes on motor vehicle fuels and on registered motor vehicles, except general sales and use taxes and regulatory fees, shall be used exclusively for highway purposes as defined by law. Pursuant to this provision motor vehicle weight taxes, the seven-cent diesel fuel tax, and 8.5 cents of the 9.0 cent gasoline tax are earmarked for highway purposes. The remaining one-half cent of the gasoline tax has been dedicated by the legislature to the general transportation fund for aid to public transportation.

The proposed amendment makes a number of changes in the constitutional earmarking provisions:

- The present highway user taxes plus taxes on aircraft and aircraft fuels would be earmarked for “transportation” purposes rather than for “highway” purposes.
- A minimum of 90 percent of the taxes on motor vehicle fuels and on registered motor vehicles are to be used exclusively for roads, streets and bridges and appurtenances.
- Up to a maximum of ten percent of the taxes on motor vehicle fuels and on registered motor vehicles could be used for comprehensive transportation purposes as defined by law.
- Up to 25 percent of the general sales taxes on motor vehicle fuels, motor vehicle sales, and on the sale of parts and accessories for motor vehicles and 100 percent of the taxes on aircraft fuels and on aircraft shall be used for comprehensive transportation purposes as provided by law.

Under the current constitutional provision sales taxes collected on motor vehicle-related sales are expressly excluded from earmarking for highway purposes. The present constitution provides that 25 percent of sales taxes go to the state general fund, 60 percent to the school aid fund and 15 percent to cities, villages and townships. The proposed amendment would permit the legislature to earmark up to 25 percent of sales taxes collected from motor vehicle-related sales (i.e., the present general fund portion of such taxes) for general transportation purposes. That portion of sales taxes earmarked for the school aid fund and for local units would not be affected by the amendment.

In effect, the proposed amendment would guarantee a minimum 90 percent share of motor vehicle fuel and registration taxes for highway purposes and would permit, but not require, the legislature to earmark a portion of highway user taxes and a portion of motor vehicle-related sales taxes to general transportation purposes.

## Proposal R – Railroad Redevelopment Authority and Bonds

Proposal R would add a new section (54) to Article IV of the Michigan Constitution of 1963. The proposed amendment would:

- Require the legislature to provide by law for the creation of a railroad redevelopment authority and to prescribe its powers and duties;
- Permit the railroad redevelopment authority to issue state faith and credit general obligation bonds or notes to a maximum of \$175 million outstanding at any one time;
- Permit the authority to make loans to railroads with trackage in Michigan for redevelopment projects within the state; and,
- Limit the use of such loans for redevelopment projects considered by the authority to be either in the interest of national defense or to meet the requirements of industries within Michigan which use railroads as the primary means of transporting their goods.

The proposal to issue state full faith and credit bonds to make loans to railroads requires a constitutional amendment rather than simply voter approval of a state bond issue. The Michigan Constitution of 1963 prohibits the state from being a party to, financially interested in, or engaging in any work of internal improvement except for public internal improvements provided by law (Article III, Section 6). The constitution also provides that the credit of the state shall not be granted to, nor in aid of any person, association or corporation, public or private, except as authorized by the constitution (Article IX, Section 18). These prohibitions were originally included in the Michigan Constitution in the mid-19th century as a result of the financial difficulties encountered by the state from issuing state debt to finance canals and railroads. They were designed to keep the state out of business ventures and to protect public funds. The prohibitions were continued in both the 1908 and 1963 constitutions.

Thus, Proposal R would amend the constitution to permit the state to have a financial interest in a work of internal improvement by issuing state bonds for railroad redevelopment projects and to permit the state to loan its credit to private railroad corporations.

The proposed amendment permits the authority to issue general obligation bonds or notes up to a maximum of \$175 million outstanding at any time. Thus, as outstanding bonds are retired additional bonds or notes could be issued within the \$175 million ceiling. The full faith and credit of the state would be pledged for the bonds and notes. Since state bonds are tax exempt and since these proposed bonds would be unlimited tax obligations of the state, they could be sold at a relatively low interest rate. The railroad redevelopment authority could then make loans to railroads for redevelopment projects within the state at lower interest rates than the railroads could obtain by issuing their own obligations. Currently, the state could issue full faith and credit

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bonds at an interest rate of about 5.5 percent, while the interest rate on bonds issued by a railroad rated A would be about 9.25 to 9.5 percent. Proponents of the amendment believe that because of this differential in interest rates, state loans to railroads would encourage railroads to undertake redevelopment projects within Michigan.

While not specified in the amendment, it appears to be the intent that payments by the railroads on loans made by the authority would be used by the authority to make the principal and interest payments on the general obligation state debt issued. However, the bonds would be full faith and credit obligations of the state and, if repayments of loans by the railroads were insufficient to meet principal and interest payments on the state bonds, the state would be obligated to use general state revenues to make up any short-fall.