

TRANSPORTATION FUNDING PACKAGE

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House Joint Resolution UU
Sponsor: Rep. Haveman

Senate Bill 847 (House Substitute)
Sponsor: Sen. Dave Hildenbrand

House Bill 4539 (Conference Report)
Sponsor: Rep. Wayne Schmidt

House Bill 5493 (House Substitute)
Sponsor: Rep. Rob VerHeulen

House Bill 5492 (Senate Substitute)
Sponsor: Rep. Earl Poleski

House Bill 5477 (Conference Report)
Sponsor: Rep. Rob VerHeulen

Complete to 12-18-14

A SUMMARY OF HOUSE JOINT RESOLUTION UU, SENATE BILL 847, AND HOUSE BILLS 4593, 5492, AND 5493

House Joint Resolution UU would amend the State Constitution to:

- Eliminate the sales and use tax on gasoline and diesel fuel used to operate motor vehicles after October 1, 2015.
- Increase the maximum sales and use tax by 1% (from 6% to 7%).
- Dedicate 60% of the first 5% of the sales tax and an amount equal to 12.3% of the first 5% of the use tax to the School Aid Fund. (The sales tax earmark currently applies to the first 4% of the tax; the use tax earmark would be new.)
- Provide for the School Aid Fund to be used exclusively for aid to school districts, public community colleges, public career and technical education programs, scholarships for students attending either public community colleges or public career and technical education programs, and school employees' retirement systems, as provided by law. (This effectively removes aid to public universities as an allowable use for the fund.)
- Dedicate 15% of the first 5% of the sales tax to be used for revenue sharing with townships, cities, and villages. (This earmark currently applies to the first 4% of the tax.)

The resolution would require voter approval at the May 12, 2015, regular election.

The following bills are tie-barred to House Joint Resolution UU, meaning they would not take effect unless voters approve the amendment to the State Constitution.

House Bill 4539 would amend the General Sales Tax Act to exempt gasoline and diesel fuel from the sales tax after October 1, 2015, and provide for a 1% increase on the 4% portion of the total rate.

House Bill 5492 would amend the Use Tax Act to exempt gasoline and diesel fuels from the use tax after October 1, 2015, increase the 4% portion of the rate to 5%, and alter the distribution of use tax revenue. In the bill, the distribution would change to approximately 62.64% for the General Fund (currently 2/3), and 37.36% for the School Aid Fund (currently 1/3), as a result of earmarking 12.3% of the first 5% of the tax to the School Aid Fund. The remaining changes simply substitute the 7% rate for the 6% rate where appropriate.

House Bill 5477 would, among other changes, amend the Motor Fuel Tax Act by converting the current specific taxes of 19 cents per gallon for gasoline and 15 cents per gallon for diesel into a 14.9% ad valorem tax calculated against the average wholesale prices of gasoline and diesel, effective October 1, 2015. Although the wholesale rate remains fixed at 14.9%, the actual cents-per-gallon levy for gasoline and diesel will vary in conjunction with the average wholesale prices.

The bill defines the initial average wholesale prices as the 12-month rolling averages for gasoline and diesel from July 2013 through June 2014, which means the initial tax rates would be 41.7 cents per gallon for gasoline and 46.4 cents for diesel. For future years, the 12-month rolling average period ends on the last day of the month that is three months prior to the month the new rates would take effect. The bill contains an inflation adjustment mechanism to limit large swings in the cents per gallon levy that may result from volatile gas prices so that the levy cannot increase by more than 5 cents per gallon above the rate of inflation. Additionally, the levy could not fall below the initial rate, adjusted for inflation or 5% per year, whichever is less.

House Bill 5493 would amend the Motor Fuel Carrier Tax Act such that beginning October 1, 2015, the per-gallon tax rates for motor fuels are the same as specified in Section 8 (1) of the Motor Fuel Tax Act. Alternative fuels (a term defined in the bill) would be subject to the same treatment as in Section 152 of the Motor Fuel Tax Act.

Senate Bill 847 would amend the Income Tax Act to increase the Earned Income Tax Credit (EITC) from 6% to 20% of the credit allowed under Section 32 of the federal Internal Revenue Code, beginning with the 2016 tax year. Senate Bill 847 would also reduce the household income qualifiers for the homestead property tax credit for those seniors or disabled filers with household resources under \$6,000.

Several other transportation-related bills are contingent on voters approving the proposed amendment to the constitution contained in House Joint Resolution UU but are not described in detail in this document:

- House Bill 4251 and House Bill 5167 would establish requirements related to competitive bidding and performance-based systems for state and local road construction projects.

- House Bill 4630 (Conference Report) would implement increases in certain truck registration fees and increase vehicle registration tax revenue through eliminating the "depreciation" of ad valorem tax rates for passenger cars, vans, and light trucks.
- House Bill 5460 would establish requirements related to road construction project warranties.

FISCAL IMPACT:

Based on administration estimates of the full-year impacts of the bills in this package, the total net impact of the package, assuming voter approval of the proposed constitutional amendment, would be an estimated increase in state revenue of \$1.7 billion. Estimated net impacts for individual funds would be as follows:

- \$1.2 billion per year for distribution to road agencies (39.1% to the State Trunkline Fund, 39.1% to county road commissions, and 21.8% to cities and villages), except that for FY 2015-16 the first \$800 million of this revenue would be dedicated for pay-down of transportation-related debt and for FY 2016-17 the first \$400 million would be dedicated for that purpose.
- \$300 million to the School Aid Fund (SAF).
- \$130 million to the Comprehensive Transportation Fund (CTF), for public transportation purposes.
- \$95 million for constitutional revenue sharing payments to cities, villages, and townships.

Because the EITC is claimed when a taxpayer's return is filed, the increase in the credit under Senate Bill 847 will not be realized until 2016 tax year returns are filed in 2017, meaning FY 2016-17 would be the first year state revenues are impacted by the increase in the credit. It is estimated that the full fiscal year impact would be to reduce income tax revenue by approximately \$260 million, all of which would come from General Fund/General Purpose (GF/GP) revenue.

For FY 2015-16 only, then, GF/GP revenue would increase by an estimated \$255 million. In subsequent years, the package would be approximately revenue neutral for the General Fund.

An attached table provides estimated impacts by fund for each bill in the package. Legislation related to collection of tax on internet sales (Senate Bills 658 and 659) is included in the table but is not tied to voter approval of the proposed constitutional amendment.

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■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.

Summary: Transportation Funding Agreement

Millions of Dollars

Proposed Change	Legislation	Revenue Impacts						First Year of Full Phase-In
		GF/GP	SAF	Const Rev Shar	CTF	Roads	TOTAL	
Remove Sales Tax on Fuel	HJR UU/HB 4539	(\$91)	(\$551)	(\$75)	(\$35)		(\$752)	FY 2016
Increase Sales/Use Tax Rate by 1 Percent	HJR UU/HB 4539/ HB 5492	507	656	164	15		1,342	FY 2016
Adjust Use Tax Earmarking (12.3% of 5% to SAF)	HJR UU/HB 5492	(151)	151				0	FY 2016
Supplemental for CTF hold harmless	TBD	(20)			20		0	FY 2016
Internet sales collections	SB 658/SB 659	10	44	6			60	FY 2016
Increase Motor Fuel Taxes (14.9%) (A)	HB 5477/HB 5493				120	1,080	1,200	FY 2016
Registration fees: phase out depreciation (B)	HB 4630				5	40	45	FY 2019
Increase registration fees for heavy trucks	HB 4630				5	45	50	FY 2016
Expand Earned Income Tax Credit (6% to 20%) (C)	SB 847	(260)					(260)	FY 2017
TOTAL NET IMPACT		(\$5)	\$300	\$95	\$130	\$1,165	\$1,685	

(D)

NOTES

(A) First \$800 million of revenue for FY 2015-16 and \$400 million or revenue for FY 2016-17 dedicated to debt pay-down; remainder for new road projects.

(B) Long-run estimated revenue impact of \$210 million in FY 2030.

(C) Increase in EITC effective January 1, 2016 but does not impact state revenues until FY 2016-17.

(D) 39.1% to State Trunkline Fund, 39.1% to County Road Commissions, 21.8% to Cities and Villages (after debt pay-downs).

NOTE: All revenue impacts are based on administration estimates and are contingent on voter approval of May 2015 ballot proposal, with exception of SBs 658 and 629.