Fiscal Analysis

MICHIGAN VEHCILE CODE - FEE REVENUE AND DISTRIBUTION

Bill/Sponsor	**SENATE BILL 554 as passed the Senate,** Sen. Shirley Johnson **SENATE BILL 539 as passed the Senate,** Sen. Judson Gilbert
House Committee	Transportation
Analysis	**Summary/ Fiscal Impact**

SB 554 would amend the Michigan Vehicle Code to increase, and/or redistribute a number of fees currently provided under the Code - driver license fees, vehicle title and registration service fees[1], and automobile dealer license fees. The estimated revenue increase from these changes is $66.2 million[2]. Under provisions of SB 554, the $66.2 million in additional revenue would be distributed as follows:

Transportation Administration Collection Fund*	$39.8 million
General Fund	$25.9 million
Michigan Transportation Fund[3]	$534,800
*New fund, see definition below.	

SB 554 adds new section 810b which would create a new Transportation Administration Collection Fund (TACF) within the state treasury. In other sections, the bill earmarks a number of vehicle title and registration service fees – both current and increased - to the new TACF.

The total credited to the TACF would be approximately $96.2 million. This total would come from a transfer of approximately $56.4 million in vehicle registration service fee revenue currently credited to the Michigan Transportation Fund (MTF), plus an additional $39.8 million in new TACF revenue from fee increases. The bill provides that this TACF revenue be used to defray certain administrative costs of the departments of State and Treasury.

The bill directs the Department of State to "*expend money from the fund, upon appropriation, to defray the costs of manufacturing and the administrative costs of issuing, selling, replacing, and substituting registrations, and licenses and collecting fees*." The bill also directs the Michigan Department of Treasury to expend money in the fund, upon appropriation, to defray the costs of collecting motor fuel taxes.

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[1] With regard to vehicle title and registration fees, the bill would increase Department of State service fees only. The vehicle weight and ad valorum taxes provided in the Michigan Vehicle Code would not be affected by the bill.

[2] The revenue estimates used in this analysis are based on Department of State 2002 transaction records.

[3] The estimated increased MTF revenue does not consider MTF revenue transferred to the TACF under the bill.

The bill directs the State Treasurer to credit interest earnings on TACF balances to the TACF, and indicates that money in the TACF at the close of the fiscal year remain in the fund and not lapse to the General Fund.

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SB 539 would amend Section 10 of Public Act 51 of 1951 to direct that "*funds for the necessary expenses incurred by the Department of State in administration and enforcement of the sections 801 to 810 of the Michigan Vehicle Code be appropriated from the TACF created in Section 810b [created in SB 554*]". Appropriating these costs from the TACF would apparently eliminate the current MTF grant to the Department of State starting in FY 2003-04.

SB 539 would also strike current language which called for the "phase-out" of MTF appropriations for administrative costs of all but certain specific named state agencies. This language appeared to have excluded the Department of Treasury as an eligible recipient of MTF grants. Striking this language would allow the MTF to reimburse the Department of Treasury for its costs of collecting MTF revenue (from motor fuel taxes).

Both SB 554 and SB 539 have effective dates of October 1, 2003. The two bills are tie-barred.

MTF Distribution

Note that the MTF is the main collection and distribution fund for almost $2.0 billion in state transportation revenue - primarily from motor fuel taxes and vehicle registration fees. Funds collected by the MTF are distributed by Act 51 formula to other state funds, accounts and programs, and to county road commissions and cities and villages.

By using additional fee revenue to offset $39.8 million in MTF funds currently appropriated for the MTF grant to the Department of State, SB 554 would free up a like amount for distribution according to Act 51 formula:

10% of MTF to Comprehensive Transportation Fund– $4.0 million
35% of MTF to the State Trunkline Fund - $13.9 million
35% of MTF to the county road commissions for - $13.9 million
20% of MTF to cities and villages - $8.0 million

Interdepartmental Grants (IDGs) from Transportation Funds

Article IX, Section 9 of the Michigan Constitution dedicates motor fuel taxes and vehicle registration fees for transportation purposes - "*after payment of necessary collection expenses*." This language provides for a dedicated source of state transportation revenue, and also provides authority for interdepartmental grants (IDGs) from transportation funds to the Department of Treasury for the collection of motor fuel taxes, and to the Department of State for the collection of vehicle title and registration fees. Section 10 of Public Act 51 of 1951 further provides that funds appropriated for such necessary expenses "*shall be based on established cost methodology that reflects actual costs*."

In the FY 2002-03 state transportation budget (PA 561 of 2002) $10.2 million was appropriated for the MTF grant to the Department of Treasury, with $94.5 million appropriated from the MTF for the Department of State IDG. The

Executive's budget recommendations for FY 2003-04 would have funded these MTF grants at approximately the same levels.

In 2002 the County Road Association of Michigan (CRAM) filed a lawsuit challenging the legality of these MTF grants, *County Road Association of Michigan et al v John M. Engler et al*. The CRAM lawsuit argues that the grant to the Department of Treasury violates provisions of Public Act 51 of 1951. CRAM also argues that the grant to the Department of State is in excess of necessary collection expenses allowed by the Constitution.

The two bills are apparently intended to provide for the Department of State's MTF collection costs to be funded from service fees deposited to the TACF. However, the language in the two bills regarding TACF funding of Department of State administrative costs is not identical. Under SB 554 TACF monies would be appropriated to the Department of State "*to defray the costs of manufacturing and the administrative costs of issuing, selling, replacing, and substituting registrations, and licenses and collecting fees"* SB 539 directs that "*funds for the necessary expenses incurred by the Department of State in administration and enforcement of the sections 801 to 810 of the Michigan Vehicle Code be appropriated from the TACF created in Section 810b"*.

It is not clear how excess TACF funds would be distributed if it were determined that the Department of State's actual administrative costs were less than TACF fee revenue.

Note that the two bills as passed the Senate are not consistent with regard to the Department of Treasury. SB 554 directs the Department of Treasury to expend money from the TACF, as appropriated, to defray the cost of collecting motor fuel taxes. SB 539 directs that the Department of State's Michigan Vehicle Code administration and enforcement costs be appropriated from the TACF, but is silent with regard to the Department of Treasury.

Sunset Provisions
Fees established in Sections 312e, 312h, 801(3), 806, 807, and 811 of the Michigan Vehicle Code would appear to sunset on October 1, 2009 under provisions of SB 554.

Driver's License Fees and the TEDF
In its FY 2003-04 budget recommendations, the Executive had proposed increasing driver's license fees by a total of $23.7 million, and would have redirected $12.7 million currently credited to the Transportation Economic Development Fund (TEDF). The total of $36.4 million would have been credited to a new Traffic Enforcement and Safety Fund within the Michigan State Police. This proposal was made, in part, in SB 374 (Basham), SB 375 (Basham) and SB 400 (Emerson). These bills have not has not been taken up in Senate committee.

Under SB 554 the TEDF share of driver license fee revenue would not change.

Analyst(s)
William Hamilton

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