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Senate Bill 59 (Substitute S-2 as reported)
Sponsor: Senator Jud Gilbert, II
Committee: Transportation

Date Completed: 4-17-07

RATIONALE

Under the Michigan Transportation Fund (MTF) law, 19 cents from every gallon of gas purchased in Michigan goes to the MTF, to be used to maintain and improve Michigan's transportation infrastructure. The gas tax (along with a similar 15-cent tax on diesel fuel) provides about 52% of the revenue for the Fund, with vehicle registration fees accounting for most of the remainder. Despite increases in the gas tax rate in 1984 and 1997, revenue to the MTF has not kept pace with the rate of inflation, and the Fund has become increasingly reliant on registration fees. Although gasoline consumption in the State has continued to grow despite high fuel costs, real revenue from the gas tax has declined by 8.9% from its high point just after the 1997 tax increase, and currently is about the same as it was in fiscal year 1983-84, even as the cost of construction materials and labor needed to maintain and build roads has continued to rise.

In addition, some have raised concerns that the growing prevalence of alternative fuels will have a negative impact on the MTF, since fuels containing ethanol and biodiesel are subject to a reduced tax rate under the Motor Fuel Tax Act.

Because of these and other concerns, it has been suggested that the current system of funding transportation infrastructure in the State is unsustainable, and alternative funding methods should be explored.

CONTENT

The bill would amend the Michigan Transportation Fund law to require the creation of an alternative transportation

funding task force and a citizens advisory committee to review and make recommendations for potential sources of transportation funding to replace or supplement the 19-cent gas tax.

Composition of Task Force

Under the bill, by October 1, 2009, the Governor would have to appoint up to seven individuals to serve as a task force to review alternative transportation funding options, alternative transportation investment priorities, and potential strategies for maximizing returns on transportation investments. The task force would have to evaluate the potential of alternative strategies to replace or supplement the 19-cent gasoline tax and would have to focus on implementation of technical strategies to put in place user-pay funding methods.

The appointments would be subject to the advice and consent of the Senate. The task force would have to include at least one representative each of manufacturing, commerce, agriculture, tourism, labor, and transportation.

Beginning January 1, 2008, the task force also would have to include the majority and minority leaders of the Senate, or a member of the Senate designated by each leader, and the Speaker and minority leader of the House of Representatives, or a member of the House designated by each leader.

Task Force Responsibilities

The primary focus of the alternative transportation funding task force would be to examine alternatives to the portion of

road funding supported by motor fuel taxes, and to suggest or recommend alternative revenue collection systems funded through user-pay methods. The task force would have to include an analysis of the feasibility of alternative methods.

The task force would have to make recommendations for implementation of pilot programs to test feasible alternatives to replace the portion of road funding that comes from motor fuel taxes, and would have to make a preliminary recommendation on pilot programs by December 31, 2008.

By a majority vote of the task force, it would have to report to the Governor, the State Transportation Commission, and the Legislature on the following:

- Identified capital and maintenance needs.
- Transportation investment and maintenance priorities.
- Relative use of transportation systems.
- Responsibilities for the identified needs including alternative transportation funding options.
- Historical transportation financing patterns as they relate to total statewide fiscal resources.
- Strategies for maximizing the returns on transportation investments.

All studies and reports relating to highways would have to be reported according to functional and legal classification. The task force would have to publish a preliminary report of the data and findings by December 31, 2008.

After holding appropriate hearings, the task force would have to recommend, if it considered it necessary, alterations of formulas for and alternative sources of transportation funding and alterations to the distributions of transportation responsibilities by April 1, 2009. The report and recommendations would have to include any positions that a minority of task force members supported.

Citizens Advisory Committee

Under the bill, the Governor would have to appoint up to 14 people to serve as a citizens advisory committee. The committee would have to include at least one representative from a list of three

recommendations supplied by each of the following organizations:

- Michigan Farm Bureau.
- Michigan Trucking Association.
- Michigan Association of Counties.
- Michigan Townships Association.
- Michigan State Chamber of Commerce.
- Michigan Tourist Association.
- County Road Association of Michigan.
- Michigan Municipal League.
- Michigan Public Transit Association.
- Asphalt Pavers Association of Michigan.
- Michigan Concrete Pavers Association.
- Michigan Infrastructure and Transportation Association.
- Michigan Railroads Association.
- American Council of Engineering Companies.

The citizens advisory committee could create any subcommittees that it deemed necessary, and any subcommittee could make recommendations to the full committee. The committee would have to receive and comment upon all reports, studies, and recommendations prepared by the various designated technical subcommittees of the advisory committee before they were submitted to the task force. The members of the committee would have to be given sufficient time and opportunity to give members of the task force their majority, minority, or individual views of the reports, studies, and recommendations.

MDOT Assistance

The Michigan Department of Transportation (MDOT) would have to provide qualified staff, needs, technical oversight, and fiscal analysis subcommittees. By March 1, 2008, MDOT would have to provide a recommended work program to the task force to enable the advisory committee to carry out its functions.

By May 1, 2008, the Legislative Auditor General would have to review and comment on the recommended work program developed by MDOT in order to assist the citizens advisory committee.

Proposed MCL 247.659c

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

The Michigan Transportation Fund faces an annual shortfall of about \$700 million just to maintain the current state of roads in Michigan, according to testimony before the Senate Transportation Committee. About \$2 billion in additional revenue would be required to repair the State's transportation infrastructure completely. The existing structure of transportation funding is inadequate to meet those needs. In recent years, revenue has been affected by a number of factors, including the higher price of oil, which has motivated individuals to drive less and choose more fuel efficient cars. Despite the pressure of higher prices, gasoline consumption in Michigan continues to rise, but at a rate lower than inflation. As a result, the number of vehicle-miles driven on Michigan roads has increased, while real revenue to the MTF from the gas tax has been decreasing since the last rate increase in 1997. At the same time, the Fund is facing increasing costs, as well as the prospect of paying back bonds that were used to fund road projects under the local Federal match program. That program has allowed local governments to take advantage of Federal matching dollars to pay for necessary road improvements, but now a portion of the MTF must be used to service those bonds, diverting money from current or future projects. The cost of materials and labor has risen as well, further limiting the Fund's ability to maintain the State's roads.

In addition to these difficulties, Michigan is entering a new era of transportation, with alternative fuels gaining greater prominence. Fuels such as ethanol and biodiesel are not subject to the motor fuels tax, and fuels containing ethanol or biodiesel are subject to a reduced tax rate under the Motor Fuels Tax Act. Consequently, as those alternative fuels become more common, displacing traditional fuels, revenue to the MTF can be expected to fall.

Fundamental changes may be needed to align revenue with the cost of maintaining Michigan's transportation infrastructure.

Other states have implemented innovative ways of paying for road maintenance and improvements that require the motorists who use the roads to pay for the improvements. One approach that has been effective in some cities is the creation of fast lanes, where motorists pay a fee to drive in a designated lane and bypass congestion. Reportedly, the revenue generated by the user fees often is sufficient to fund the necessary road improvements entirely.

The task force and advisory committee proposed by the bill would examine the problems facing transportation funding in the State and recommend innovative solutions such as these that would focus on user-pay funding methods. The task force could make recommendations and suggest pilot programs, although the Legislature would have to grant approval before those programs could be put into effect. The task force would include various interested parties, and minority as well as majority opinions would have to be included in any reports to the Legislature. These provisions would serve to foster the greatest number of ideas, and encourage the development of a solution that would be acceptable to the greatest number of parties involved. The citizens advisory committee would have a similarly broad membership, including representatives of organizations and associations involved in road construction or concerned with the maintenance of State roads.

Response: The citizens advisory committee should include a labor representative, to represent the interests of those doing the actual work. Although labor would be included in the task force, it would not be represented on the advisory committee.

Also, there appears to be a conflict between some of the dates specified in the bill. As currently written, the bill would require the task force to make preliminary recommendations by December 31, 2008, although the Governor would not be required to appoint members of the task force until October 1, 2009.

Supporting Argument

The current problems of transportation funding in Michigan are too great to be ignored, since Michigan residents and businesses alike depend on a high-quality transportation infrastructure to live and

travel and conduct business in the State. Properly funded, Michigan's roads could attract companies to Michigan, while the currently deteriorated roads may cause some firms to locate elsewhere. Well maintained roads and bridges contribute to the quality of life of all Michigan residents, and investing in Michigan's roads is in the public interest. The bill would encourage a broad-based discussion of the best possible approach to funding this important public service, including ways to replace or supplement the motor fuels taxes, which have been unable to keep up with the rising cost of road maintenance.

Opposing Argument

The proposed citizens advisory committee would appear to duplicate the responsibilities of the Asset Management Council, which was created under the MTF law to advise the State Transportation Commission on an asset management strategy. It is unclear what the benefit of creating this additional committee would be.

Response: The advisory committee would be composed of representatives from a variety of backgrounds, who would be encouraged to look past traditional funding mechanisms and consider innovative solutions. With such a difficult problem, it would be helpful to have as many people contributing ideas as possible.

Legislative Analyst: Curtis Walker

FISCAL IMPACT

The bill would require the Department of Transportation to staff the new task force and advisory committee and perform other administrative duties. The fiscal impact of these additional responsibilities cannot be determined at this time.

Fiscal Analyst: Joe Carrasco
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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.