M E M O R A N D U M

HOUSE FISCAL AGENCY

DATE: June 8, 2009

TO: House Committee on Transportation

FROM: William E. Hamilton

RE: House Resolution 106 (Rep. Nerat)
Michigan's Return on Contributions from the Federal Highway Trust Fund

Summary

There are several federal transportation taxes that are dedicated to federal transportation programs. Those taxes include the 18.4 cent per gallon federal gasoline excise tax, the 24 cent per gallon federal diesel tax, federal taxes on other motor fuels, on truck tires, on commercial truck and trailer sales, and on vehicles of over 55,000 Gross Vehicle Weight. Those taxes are credited to the Federal Highway Trust Fund – the federal fund used to support federal-aid transportation programs.

The amount of federal taxes attributable to each state is estimated by the Federal Highway Administration (FHWA). The FHWA publishes a report on the amount of revenue attributed to each state as compared to the amount each state gets back in federal transportation programs. The FHWA analysis starts with July 1, 1956 – significant federal support for transportation programs began with the enactment of the Federal-Aid Highway Act of 1956.
See http://www.fhwa.dot.gov/policyinformation/statistics/2007/fe221.cfm

The federal aid highway program is typically authorized for a five year period. The current federal authorizing legislation, for the period 2005-2009, is called the Safe, Accountable, Flexible, and Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU).

The federal-aid to transportation program provides funds from the Federal Highway Trust Fund to states within specific program categories. The major federal program categories are: Interstate Maintenance, National Highway System, Surface Transportation Program (STP), Congestion Mitigation and Air Quality (CMAQ), and the Bridge Program. Funding for each of these program categories is apportioned to states based on formulas established in the federal authorizing legislation. For example, federal Bridge Program funds are apportioned to states based on each state's proportionate share of structurally deficient/functionally obsolete bridges. SAFETEA-LU also provides additional funds to some states based on equity considerations – the "Equity Bonus."

The amount of federal aid each state receives is usually more or less than that amount for tax revenue attributable to each state. This is primarily due to the fact that some states with relatively small populations receive a disproportionate return of federal aid for projects of national or regional importance. The "Equity Bonus" is an attempt to ensure that each state receives a minimum rate of return on taxes credited to the federal Highway Trust Fund – taxes attributed to each state.

Under SAFETEA-LU each state's return on its computed contribution to the Highway Trust Fund is as follows: 2005=90.5%; 2006=90.5%; 2007=91.5%; 2008=92.0%; 2009=92.0%.

Problems in Rate of Return Calculation – The Equity Bonus is computed based on each state's tax revenue contribution to the federal Highway Trust Fund, as estimated by the Federal Highway Administration (FHWA). But each state's actual rate of return is complicated by the fact that more is currently being distributed from the Highway Trust Fund than is supported by tax revenue. Congress has decided to use the balances in the Highway Trust Fund in order to increase transportation spending beyond the level that can be supported by revenue.

Because the distribution from the Highway Trust Fund has recently been greater than 100% of receipts, it appears that for many states, including Michigan, the return on contribution is greater than 100%. This has been true for most of the last five years.

For 2007, the most recent fiscal year for which data is available, federal Highway Trust Fund taxes attributable to Michigan totaled $1.044 billion, while the amount apportioned to the state was $1.171 billion – that is to say, of the taxes attributed to the state, Michigan received 112% back in federal program dollars. This is due to the situation described above – Congress is distributing more for the program than is supported by tax revenue.

The alternative way to calculate Michigan's rate of return is to compute Michigan's apportionment divided by the apportionment to all states, then divide that percentage by Michigan's percentage contribution to the Highway Trust Fund; i.e., Michigan's contributions divided by the contribution of all states. Computed in this manner, Michigan's 2007 rate of return is only 93.6%.

Cumulatively, from 1957 through 2007, federal transportation taxes attributable to Michigan total $22.566 billion, while the state has received $21.114 billion in program funds – a rate of return of 94%.

Based on FHWA data sheets, Michigan's 2007 rate of return, 112%, is 35th out of 50 states, and its cumulative rate of return since 1957 is 94% – 46th out of the 50 states.

SAFETEA-LU expires on September 30, 2009. It is likely that the issue of "donor states" and each state's rate of return on attributed tax contributions to the Highway Trust Fund will be part of the reauthorization debate.