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BILL ANALYSIS



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House Bill 4612 (Substitute S-2)
House Bill 4615 (Substitute S-1)
House Bill 4616 (Substitute S-1)
Sponsor: Representative Eric Leutheuser (H.B. 4612)
Representative Rob VerHeulen (H.B. 4615)
Representative Michael McCready (H.B. 4616)
House Committee: Roads and Economic Development
Senate Committee: Transportation

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CONTENT**House Bill 4615 (S-1) would amend the Motor Fuel Tax Act to do the following:**

- Increase the gasoline tax to 24 cents per gallon on October 1, 2015, 29 cents per gallon on January 1, 2016, and 34 cents per gallon on January 1, 2017.
- Increase the diesel tax to 22 cents per gallon on October 1, 2015, 29 cents per gallon on January 1, 2016, and 34 cents per gallon on January 1, 2017.
- Beginning January 1, 2018, annually adjust the tax rates on gasoline and diesel fuel based on the lesser of 5.0% or the change in the U.S. Consumer Price Index (CPI), rounding up to the nearest 1/10 of a cent; and provide that the tax could not be negatively adjusted.
- Eliminate motor fuel taxes effective January 1, 2033.
- Require the Michigan Department of Transportation (MDOT) to provide the Senate and House Committees on Transportation with a report that would do the following: evaluate road-building materials that would last longer, focus on more expensive materials that increase road life, focus on maximizing value to taxpayers, and present ways that the Department could dedicate 5 cents of the fuel tax toward constructing longer-lasting roads; the report would have to be provided by December 1, 2015, and updated by July 1, 2016.
- Apply the motor fuel tax to alternative fuels (based on the per gallon equivalent to motor fuels); this tax rate would be effective for alternative fuel commercial users beginning January 1, 2016, and for a person other than an alternative fuel commercial user or alternative fuel dealer beginning January 1, 2017.
- Provide for alternative fuel dealer alternative fuel dealer licenses for \$500 and alternative fuel commercial user licenses for \$50; and repeal a \$50 license fee for liquefied petroleum gas dealers.
- Delete provisions allowing for retail diesel dealers to claim fuel tax refunds on undyed diesel sales of 100 gallons or less for nontaxable purposes.
- Increase civil penalties for operators, owners, or drivers of vehicles using dyed diesel fuel.

House Bill 4616 (S-1) would amend the Motor Carrier Fuel Tax Act to provide for fuel tax rates on motor carrier fuel purchases that would correspond with the fuel taxes that House Bill 4615 (S-1) would put into effect.

House Bill 4612 (S-2) would amend the Michigan Vehicle Code to do the following:

- Levy an additional vehicle registration fee of \$30 for hybrid electric vehicles with four or more tires weighing 8,000 pounds or less and \$100 for those weighing more than 8,000 pounds.**
- Levy an additional vehicle registration fee of \$100 for nonhybrid electric vehicles with four or more tires weighing 8,000 pounds or less and \$200 for those weighing more than 8,000 pounds.**
- Require increases to these hybrid and nonhybrid electric vehicle registration fees if the tax on gasoline were increased above 19 cents per gallon.**

All of the bills would take effect on October 1, 2015. The bills are tie-barred to each other than to Senate Bill 414 and House Bills 4613 and 4614.

A more detailed description of House Bills 4615 (S-1) and 4612 (S-2) follows.

House Bill 4615 (S-1)

Gasoline & Diesel Tax Rates

The bill would increase the gasoline tax to 24 cents per gallon on October 1, 2015, 29 cents per gallon on January 1, 2016, and 34 cents per gallon on January 1, 2017. The bill also would increase the diesel tax to 22 cents per gallon on October 1, 2015, 29 cents per gallon on January 1, 2016, and 34 cents per gallon on January 1, 2017. Beginning January 1, 2018, the Department of Treasury would annually adjust the tax rates on gasoline and diesel fuel based on the lesser of 5.0% or the inflation rate, rounding up to the nearest 1/10 of a cent.

The Department of Treasury would have to publish notice of gasoline and diesel fuel tax rates at least 30 days before the effective date of the new rate. The Department's determinations regarding the tax rate, inflation, and consumer price index would be presumed correct and could not be set aside unless an administrative tribunal or a court found the determination completely erroneous.

("Consumer price index" would mean United States consumer price index for all urban consumers as defined and reported by the United States Department of Labor, Bureau of Labor Statistics. "Inflation rate" would mean the annual percentage change in the consumer price index, as determine by the Department, comparing the two most recent October 1 through September 30 periods that are immediately preceding the effective date of the rate prescribed under Section 8(1)(c) (which contains the annual adjustment requirement), converted to decimals. If the annual percentage rate were negative, then the inflation rate would be zero.)

Effective January 1, 2033, motor fuel taxes on gasoline and diesel fuel would be \$0 per gallon.

50-Year Roads Task Force

Under the bill, MDOT would have to form a special internal task force named the 50 year roads task force. The purpose of the task force would be to create a public report that would do the following: evaluate road-building materials that would last longer, focus on more expensive materials that increase road life and reduce maintenance costs with the goal of reducing the construction budget by at least 50%, focus on maximizing value to taxpayers, and present ways that the Department could dedicate 5 cents of the fuel tax toward constructing longer-lasting roads.

The report would be required to be finalized and made public by December 1, 2015. The task force would have to present the report at a public joint committee hearing of the Senate and House standing committees on transportation.

By July 1, 2016, the task force would have to update the report to provide suggested language that could dedicate departmental money equal to a five-cent tax increase exclusively toward the specific higher quality, longer life road construction, along with suggested metrics to measure the effectiveness of attaining goals associated with the purpose of the task force.

Alternative Fuel Tax Rates

The Motor Fuel Tax Act provides for a 15-cent-per-gallon tax on liquefied petroleum gas (LPG), specifies the manner in which the tax is to be collected, and designates LPG dealers as responsible for collecting and remitting the tax. Various provisions also deal with reimbursement of LPG taxes.

Under the bill, these provisions would refer to alternative fuel instead of LPG. The bill generally would set the tax rate equal to a gallon or gallon equivalent for the following alternative fuels: compressed natural gas, hydrogen, hydrogen compressed natural gas, and liquefied natural gas.

The tax rate would be effective for alternative fuel commercial users beginning January 1, 2016, and for a person other than an alternative fuel commercial user or alternative fuel dealer beginning July 1, 2016.

("Alternative fuel" would mean a gas, liquid, or other fuel that, with or without adjustment or manipulation such as adjustment or manipulation of pressure or temperature, is capable of being used for the generation of power to propel a motor vehicle, including, but not limited to, natural gas, compressed natural gas, liquefied natural gas, LPG, hydrogen, hydrogen compressed natural gas, or hythane. The term would not include motor fuel, electricity, leaded racing fuel, or an excluded liquid.

"Gallon equivalent" generally would mean the following: 1) for compressed natural gas, 5.660 pounds or 126.67 cubic feet at 60 degrees Fahrenheit and one atmosphere or pressure; 2) for hydrogen and hydrogen compressed natural gas, the volume or weight that is equal to 128,450 BTUs; and 3) for liquefied natural gas, 6.060 pounds.)

For licensure as an alternative fuel dealer or alternative fuel commercial user, an applicant would have to file an application with the Department of Treasury. An alternative fuel dealer license would cost \$500, and an alternative fuel commercial user license would cost \$50.

An alternative fuel dealer would have to file with the Department a report indicating the number of gallons or gallon equivalents, if any, of alternative fuel used by the dealer, and submit to the Department payment of any taxes owed. The report and payment would have to be submitted by the 20th calendar day of each month. Beginning January 1, 2016, an alternative fuel commercial user would be required to meet these requirements, and beginning July 1, 2016, a person other than an alternative fuel dealer or commercial user would have to meet these requirements. A person who did not pay the tax would be required to do so, along with any applicable penalties or interest.

An alternative fuel dealer would have to clearly list in plain view of the customer the price of the alternative fuel in diesel gallon equivalents, as well as any other information required by law.

The bill generally would exempt government and schools from the tax. Currently, government and schools are exempt from taxation for LPG use.

"Alternative fuel commercial user" would mean a commercial or other business enterprise or entity that is a consumer or end user of alternative fuel to propel a motor vehicle on the public roads and highways of this State. The term would not include a person licensed as an alternative fuel dealer. "Alternative fuel dealer" would mean a person that is licensed or required to be licensed as such, that is in the business of selling alternative fuel at retail, and that uses alternative fuel.

"Use", "used", or "uses" are currently defined as: 1) selling or delivering LPG by placing it into an attached fuel supply tank of a motor vehicle; 2) delivering LPG into storage for use in motor vehicles; and 3) withdrawing LPG from a cargo tank for use in motor vehicles. The bill would refer to alternative fuel rather than LPG. The bill also would add the following to the terms' definition: placing or delivering alternative fuel into the fuel supply tank of a motor vehicle by or through the operation of an alternative fuel filling station or by any other means not involving the delivery, receipt, or purchase of alternative fuel from an alternative fuel dealer or any other means not described in the three current definitions of "use", "used", or "uses".

"Alternative fuel filling station" would mean a machine or other device that is supplied with alternative fuel and that is designed or used for placing or delivering alternative fuel into the fuel supply tank of a motor vehicle.

Dyed Diesel Penalty

The bill would increase civil penalties for operators, owners, or drivers of vehicles using dyed diesel fuel. Dyed diesel fuel generally is restricted to non-roadway use. Currently, the penalties are \$200 for each of the first two violations within one year, and \$5,000 for each third and subsequent violation within one year. The bill would require a civil penalty of \$1,000 for the first violation and \$5,000 for each subsequent violation.

House Bill 4612 (S-1)

The bill would increase annual vehicle registration fees for hybrid electric vehicles with four or more tires weighing 8,000 pounds or less by \$30, and by \$100 for those weighing more than 8,000 pounds. ("Hybrid electric vehicle" would mean a vehicle that can be propelled at least in part by electrical energy and uses a battery storage system of at least four kilowatt-hours, but is also capable of using gasoline, diesel fuel, or alternative fuel to propel the vehicle.)

The bill also would increase annual vehicle registration fees for nonhybrid electric vehicles with four or more wheels weighing 8,000 pounds or less by \$100 and by \$200 for those weighing more than 8,000 pounds. ("Nonhybrid electric vehicle" would mean a vehicle that is not capable of using gasoline, diesel fuel, or alternative fuel to propel the vehicle.)

The bill would require adjustments to hybrid and electric vehicle registration fees based on the amount of the motor fuel tax. If the gasoline tax were increased above 19 cents per gallon, the Secretary of State would have to increase these fees. For a hybrid electric vehicle, the increase would be \$2.50 per each cent or fraction of 1 cent above 19 cents per gallon. For a nonhybrid electric vehicle, the increase would be \$5 per each cent or fraction of 1 cent above 19 cents per gallon.

MCL 257.801 (H.B. 4612)
207.1002 et al. (H.B. 4615)
207.211 et al. (H.B. 4616)

FISCAL IMPACT

House Bills 4615 (S-1) & 4616

The bills would result in the following increases to the Michigan Transportation Fund:

- \$475.1 million in fiscal year 2015-16
- \$733.0 million in fiscal year 2016-17
- \$822.1 million in fiscal year 2017-18

Beginning in fiscal year 2018-19, when motor fuel taxes would be adjusted to inflation, annual revenue from the tax would increase accordingly.

Beginning January 1, 2033, House Bill 4615 (S-1) would reduce motor fuel tax rates to \$0 per gallon. This would reduce the MTF by a significant but indeterminate amount, likely by over half. It is unknown what share of MTF revenue would be attributable to the motor fuel tax and what fuel tax receipts would be in 2033. Under the increases in the bill, motor fuel taxes would comprise a majority of MTF revenue, whereas they currently comprise about half of MTF revenue.

Levying the motor fuel tax on alternative fuels would increase MTF revenue by an indeterminate but nominal amount in the short term. As alternative fuel vehicles represent a larger market share, fuel tax revenue from alternative fuels would continue to increase.

House Bill 4612 (S-2)

The bill would have a positive but nominal and indeterminate impact on transportation revenue, resulting in increased funding to MDOT and local road agencies.

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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.