

Legislative Analysis



MOTOR FUEL TAXES

Phone: (517) 373-8080
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House Bill 4615 (passed by the Senate as S-4)
Sponsor: Rep. Rob VerHeulen

Analysis available at
<http://www.legislature.mi.gov>

House Bill 4616 (passed by the Senate as S-1)
Sponsor: Rep. Michael D. McCready

House Bill 4614 (passed by the Senate as S-1)
Sponsor: Rep. Andrea LaFontaine

House Committee: Roads and Economic Development
Senate Committee: Government Operations
Complete to 7-13-15

SUMMARY:

House Bill 4615 would amend the Motor Fuel Tax Act (Public Act 403 of 2000) in the following ways.

**** The gasoline tax would be increased from 19 cents per gallon to:**

- 23 cents per gallon on October 1, 2015
- 27 cents per gallon on January 1, 2016
- 34 cents per gallon on January 1, 2017

**** The diesel tax would be increased from 15 cents per gallon to:**

- 21 cents per gallon on October 1, 2015
- 27 cents per gallon on January 1, 2016
- 34 cents per gallon on January 1, 2017

**** Beginning January 1, 2018, the tax rates on gasoline and diesel fuel would be adjusted annually based on the lesser of 5% or the change in the U.S. Consumer Price Index (CPI), rounding up to the nearest 1/10 of a cent. (The tax could not, however, be adjusted downward based on negative CPI changes.)**

**** As of January 1, 2033, motor fuel taxes for gasoline and diesel would revert to 19 cents per gallon, and then the fuel taxes would be eliminated as of January 1, 2034.**

**** The bill would apply these same motor fuel tax rates to alternative fuels (based on the per gallon equivalent to motor fuels); this tax rate would be effective for an alternative fuel commercial user beginning January 1, 2016, and for a person other than an alternative fuel commercial user or alternative fuel dealer beginning January 1, 2017. The definition of alternative fuels would be expanded (see the explanation later in the summary). Currently, liquefied petroleum gas (the only alternative fuel cited) is taxed at 15 cents per gallon.**

Over the last eight fiscal years, this tax has generated between \$350,000 and \$415,000 in revenue for credit to the Michigan Transportation Fund (MTF).

** Seven cents per gallon of motor fuel taxes, beginning January 1, 2017, would be credited to a newly created "50-Year Roads Lock Box Fund." (Specifically, the bill refers to amounts in excess of 27 cents per gallon but not including inflation adjustments.)

** The Lock Box Fund would be created within the State Treasury and administered by the Department of Treasury. Money could be spent only after each house of the Legislature approved a concurrent resolution on a roll call vote to release money. Money could only be used, upon appropriation, for the specific "higher quality, longer life cycle" construction, as described in a comprehensive public report prepared by a special 50-Year Roads Task Force.

** The Michigan Department of Transportation (MDOT) would be required to form a 50-Year-Roads Task Force by October 1, 2015. The purpose of the task force would be to create a comprehensive public report that:

- Evaluates road materials and construction methods that could allow MDOT to build high-quality roads that last longer than those typically constructed, with a goal of roads lasting at least 50 years, higher quality roads, and reduced maintenance costs.
- Focuses on materials and processes that may require higher initial up-front spending but that produced lifecycle construction and maintenance savings. The aim would be reduction of at least 50% in net present value 50-year lifecycle costs compared to such costs in 2015, without any state roads being rated in poor condition.
- Focuses on longer-term time frames that seek to maximize value to taxpayers on a total cost basis, regardless of funding or financing considerations.

** The comprehensive report would have to be finalized and made public by December 1, 2015, and the task force would present the report at a joint committee hearing of the standing committees of the House and Senate with responsibility for transportation issues. The report would have to be updated by July 1, 2016.

** As noted earlier, the definition of alternative fuels would be expanded; the term currently applies only to liquefied petroleum gas (LPG). The new definition would apply to: *"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, liquefied petroleum gas, hydrogen, hydrogen compressed natural gas, or hythane."* The term would not include electricity.

** The bill would specify the basis for measuring alternative fuels for taxation ("gallon equivalents"), the method of collection, and exemptions. For example, there are exemptions for alternative fuel sold directly to the federal government, state government, or local government for use in their motor vehicles; and alternative fuel sold directly to a

nonprofit, private, parochial, or denominational school, college, or university and used in a school bus.

** The bill would impose a fee of \$500 for a license as an alternative fuel dealer. The license fee for an alternative fuel commercial user would be \$50. (Currently, there is a \$50 license fee for LPG dealers, which would be eliminated.)

** In addition to its use as a fuel to propel motor vehicles, diesel fuel has other uses, including as a fuel for farm equipment and construction equipment. The Motor Fuel Tax Act provides for the untaxed use of diesel fuel for those uses. Untaxed diesel fuel is dyed, and the Motor Fuel Tax Act provides penalties for the use of dyed (untaxed) diesel fuel in motor vehicles. Under HB 4615, the civil penalties for the use of dyed (untaxed) diesel fuel in motor vehicles would be increased for first-time violations from \$200 to \$1,000. The penalty for second and subsequent violations would be \$5,000. Currently, the penalty is \$200 for each of the first two violations in a 12-month period and \$5,000 for a third violation in a 12-month period and each subsequent violation.

House Bill 4616 would amend the Motor Carrier Fuel Tax Act to make the tax rates for motor fuel (gasoline and diesel) and alternative fuel in that act consistent with the rates established in House Bill 4615 for the Motor Fuel Tax Act.

House Bill 4614 would make complementary amendments to the Streamlined Sales and Use Tax Revenue Equalization Act. Sections of this act that currently only apply to diesel fuel used by qualified commercial motor vehicles would now apply to "motor fuel" (meaning diesel fuel and gasoline) and alternative fuel.

The three bills are tie-barred to each other, as well as to House Bills 4612 and 4613 and Senate Bill 414, meaning the bills could not take effect unless all those bills are enacted.

FISCAL IMPACT:

Based on projections of gasoline and diesel fuel consumption, the bills would increase motor fuel tax revenue dedicated to the MTF by about \$385 million in FY 2015-16, \$440 million in FY 2016-17, and \$470 million in FY 2017-18 as the rate increases are fully implemented. After that point, the inflation adjustment mechanism and modest increases in diesel fuel purchases are more than expected to offset the continued projected decline in gasoline purchases, yielding increases in motor fuel tax revenue of about \$40 million per year.

Additionally, the 50-Year Roads Lock Box Fund would receive an estimated \$270 million in FY 2016-17, and approximately \$350 million thereafter on an annual basis.

Michigan's motor fuel taxes and vehicle registration taxes are dedicated to transportation purposes in Article IX, Section 9 of the 1963 Michigan Constitution. Revenue from these taxes is credited to the Michigan Transportation Fund (MTF) created in Section 10 of

Public Act 51 of 1951, and distributed to various state and local transportation programs. Specifically, after deductions for certain collection and administrative costs, and for certain categorical or targeted transportation programs, Section 10 of Act 51 distributes 10% of MTF revenue to the Comprehensive Transportation Fund (CTF) for public transportation purposes, and then of net MTF revenue, 39.1% to the State Trunkline Fund (STF), 39.1% to county road commissions, and 21.8% to city and villages.

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