Senate Fiscal Agency
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BILL ANALYSIS

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House Bills 4180 (S-3), 4181 (S-2), 4182 (S-2), 4183 (S-4), & 4184 (S-1)
Senate Bill 578 (Substitute H-1)
Sponsor: Representative Donni Steel (H.B. 4180)
Representative Steve Frisbie (H.B. 4181)
Representative Bradley Slagh (H.B. 4182)
Representative Tom Kunse (H.B. 4183)
Senator Veronica Klinefelt (S.B. 578)
House Committee: Transportation and Infrastructure
Appropriations (S.B. 758)
Senate Committee: Appropriations

Date Completed: 10-3-25

CONTENT

House Bill 4180 (S-3) would amend the General Sales Tax Act to exempt motor fuel from the Michigan sales tax beginning January 1, 2026. The bill also would require a portion of the revenue that otherwise would be deposited into the General Fund (GF) to be used to reimburse the School Aid Fund (SAF) for any revenue lost due to the motor fuel exemptions in the bill as well as the exemptions in House Bill 4182 (S-2).

House Bill 4181 (S-2) would amend the Streamlined Sales and Use Tax Revenue Equalization Act to exempt interstate motor carriers from the sales tax on motor fuels and alternative fuels beginning January 1, 2026.

House Bill 4182 (S-2) would amend the Use Tax Act exempt motor fuel from the Michigan use tax beginning January 1, 2026.

House Bill 4183 (S-4) would amend the Motor Fuel Tax Act to increase the tax on gasoline and diesel fuel from 31 cents per gallon to 51 cents per gallon multiplied by an inflationary adjustment beginning January 1, 2026.

Senate Bill 578 (H-1) would amend Public Act 51 of 1951, the Michigan Transportation Fund law, to create the Neighborhood Road Fund (NRF). Under House Bills 4951 (H-1) and 4961 (H-1), which are not discussed in this analysis, the NRF would receive approximately $1.1 billion in fiscal year (FY) 2025-26, with $688.0 million of that reflecting an earmark in HB 4961 (H-1). Under HB 4961 (H-1), the earmark would increase by $88.0 million per year through FY 2029-30, when it would total $1.04 billion per year for FY 2029-30 and later fiscal years and revenue in the NRF would total approximately $1.5 billion each year.

House Bills 4180 (S-3), 4181 (S-2), 4182 (S-2), 4183 (S-4), and Senate Bill 578 (H-1) are tie-barred to each other.

House Bills 4180 (S-3), 4181 (S-2), & 4182 (S-2)

The bills would amend the General Sales Tax Act, Streamlined Sales and Use Tax Revenue Equalization Act, and Use Tax Act, respectively to exempt the retail sale of fuels subject to the tax under the Motor Fuel Tax Act from sales and use taxes, beginning January 1, 2026. The bills also would exempt from the sales tax retail sales of motor fuels of interstate motor carriers and sales of alternative fuels. House Bill 4180 (S-3) also would require an amount equal to all of revenue the SAF did not receive as a result of the sales and use tax exemptions in HB 4180 (S-3) and 4182 (S-2) be deposited into the SAF from revenue that otherwise would be deposited into the GF.

House Bill 4183 (S-4)

The bill would increase the per-gallon tax on gasoline and diesel by approximately 20 cents per gallon, beginning January 1, 2026, to 51 cents per gallon plus an inflationary adjustment. As under current law, the inflationary adjustment for the rate would be the lesser of 5% or the inflation rate, rounded up to the nearest 1/10 of a cent. The bill also would assess the new tax on a portion of unsold fuel held in storage as of the date the new tax rate took effect.

Senate Bill 578 (H-1)

Senate Bill 578 (H-1) would create the NRF. House Bill 4961 (H-1), which is not tie-barred to the bill, would transfer up to $688.0 million from the CIT to the NRF in FY 2025-26. The earmark would increase by $88.0 million per year through FY 2029-30, when the earmark would total $1.04 billion. The earmark would remain at $1.04 billion in later fiscal years. House Bill 4951 (H-1) would also earmark revenue to the NRF.

Revenue in the NRF would be distributed as follows during FY 2025-26 through FY 2029-30:

- $100.0 million to an account for the repair of closed, restricted, and critical bridges, as determined by the local bridge advisory board.
- $40.0 million to the Local Grade Separation Fund.
- $65.0 million to the Infrastructure Projects Authority Fund.
- $35.0 million to the Comprehensive Transportation Fund (CTF).
- Of any remaining funds, 20.0% to the State Trunkline Fund (STF), 52.0% to county road commissions, and 28.0% to cities and villages.

For fiscal years after FY 2029-30, the distribution of revenue under Senate Bill 578 (H-1) would be as follows:

- $10.0 million to the Local Grade Separation Fund.
- $17.5 million to the Infrastructure Projects Authority Fund.
- $52.5 million to the CTF.
- $6.5 million to county road commissions
- $3.5 million to cities and villages.
- $90.0 million to the STF.
- Of any remaining funds, 28.5% to the STF, approximately 46.5% to county road commissions, and approximately 25.0% to cities and villages.

The bill would require the Department of Transportation to create a cost estimate for the cost of local Federal bridge load analysis, inspection, or other local Federal bridge mandates. Additionally, if money remained in the Movable Bridge Fund, the Department could use those funds to cover any required local Federal bridge load analysis, inspection, or other local Federal bridge mandates if no other source of funding were available.

MCL 205.56a et al. (H.B. 4180)
205.173 & 205.175 (H.B. 4181)
205.96c et al. (H.B. 4182)
207.1008 (H.B. 4183)
Proposed MCL 247.663c

FISCAL IMPACT

The bills would increase State revenue by approximately $1.0 million in FY 2025-26, and $160.4 million in FY 2026-27, the first year in which the changes would be in effect for the entire fiscal year. In future fiscal years, the bills would continue to generate additional revenue over current law.

When combined with revenue that would be generated under House Bills 4951 (H-1) and 4961 (H-1), and distributed through Senate Bill 578 (H-1), and because the bills would mostly transfer money across funds, the impact on individual funds would be substantially different and generally involve reducing GF as well as constitutional revenue sharing to local units, while increasing revenue for transportation purposes, to the Michigan Transportation Fund (MTF), STF, CTF, and NRF. In FY 2025-26, the bills would exhibit the following effects on the listed funds:

-- Increase revenue to local road agencies by approximately $907.8 million, including $897.6 million distributed through the NRF.
-- Increase revenue to the STF by $179.7 million, including $179.7 million distributed through the NRF.
-- Increase CTF revenue by approximately a net $71.1 million.
-- Increase revenue to the Recreation Fund by approximately $11.5 million.
-- Have no impact on SAF revenue.
-- Reduce GF revenue by approximately $681.8 million.
-- Reduce revenue sharing to local units by approximately $69.6 million.

Over the long term, relative to current law, the bills would increase revenue to the MTF, STF, CTF, and Neighborhood Road Fund while decreasing revenue to the GF and revenue sharing to local units. The bills would have no effect on SAF revenue.

House Bills 4180 (S-3), 4181 (S-2), and 4182 (S-2)

The bills would exempt motor fuel from the Michigan sales tax and use tax beginning January 1, 2026. Isolated from other changes in the bills, the exemptions would reduce funds to the SAF, the CTF, the GF, and constitutional revenue sharing. The amounts that go to these funds vary depending on the price of fuel and the tax rate. In FY 2023-24, sales taxes to these funds totaled $685.6 million to the SAF, $43.5 million to the CTF, $112.3 million to the GF/GP, and $93.5 million to constitutional revenue sharing. Sales tax revenue on motor fuel in FY 2023-24 totaled approximately $934.9 million. House Bill 4180 (S-3) also includes a provision to transfer from the share of sales tax revenue received by the General Fund (the GF receives only revenue from sales taxes levied at a 4% rate, the remaining 2% is constitutionally directed to the SAF), an amount equal to the all of revenue the SAF would not receive as a result of the exemptions in HB 4180 (S-3) and 4182 (S-2). Based on the forecast for FY 2025-26, and inclusive of the bills' hold harmless provisions for the SAF, the combined effect of House Bill 4180 (S-3), House Bill 4181 (S-2), and House Bill 4182 (S-2) would be to reduce State sales tax revenue by approximately $695.8 million, comprised of the following reductions: $593.8 million from GF, $69.6 million from constitutional revenue sharing, and $32.4 million from CTF. The bills would have no impact on SAF revenue.

Because the exemptions would not take effect until January 1, 2026, only part of FY 2025-26 revenue would be affected by the bills. In FY 2026-27, the first fiscal year in which the bills would be in effect for the entire year, the bills would reduce State sales tax revenue by approximately $926.3 million, comprised of the following reductions: $790.6 million from GF, $92.6 million from Constitutional revenue sharing, and $43.1 million from the CTF. As in FY 2025-26, the bills would have no impact on SAF revenue.

House Bill 4183 (S-4)

The bill would increase the motor fuel tax, beginning January 1, 2026, to 51 cents, plus an inflationary adjustment, per gallon. Based on the May 2025 Consensus Economic Forecast, the rate would be approximately 52.6 cents, roughly a 20-cent increase from the estimated 32-cents-per-gallon rate estimated for 2026. For FY 2025-26, the changes would be effective for only a portion of the fiscal year, and the higher tax rate would increase revenue to the MTF by an approximately $696.8 million. In FY 2026-27, the first year the changes would be effective for a full fiscal year, the bill would generate approximately $1.1 billion.

Revenues generated from taxes on motor fuels are deposited into the MTF and then redistributed to a variety of other funds and local units. The additional revenue under the bill would increase CTF revenue by approximately $68.5 million in FY 2025-26 and $108.7 million in FY 2026-27 (offsetting the revenue loss to the CTF from House Bill 4180 (S-3), for a net increase of approximately $36.1 million in FY 2025-26 and $65.6 million in FY 2026-27), STF revenue by approximately $241.2 million in FY 2025-26 and $424.9 million in FY 2026-27 million, revenue to the Recreation Fund by approximately $11.5 million in FY 2025-26 and $17.9 million in FY 2026-27, and revenue to local units (counties, cities, and villages) by approximately $375.6 million in FY 2025-26 and $535.2 million in FY 2026-27.

Senate Bill 578 (H-1)

The bill would create the NRF. Based on House Bills 4951 (H-1) and 4961 (H-1), the NRF would receive approximately $1.1 billion in FY 2025-26 and increase to approximately $1.5 billion by FY 2029-30. Funds in the NRF would be subject to appropriation. In FY 2025-26 through 2029-30, $100.0 million of the revenue in the NRF would be reserved for local bridges and $40.0 million per year would be directed to the Local Grade Separation Fund. Subsequent payments from these earmarks would be made according to terms specified in the bill. The bill also would earmark $65.0 million of revenue to the Infrastructure Projects Authority Fund and $35.0 million to the CTF. From the remaining revenue, 20% would be distributed to the STF, while 52% would be distributed to county road commissions and 28.0% to cities and villages. After FY 2029-30, the earmark for local bridges would be eliminated and the earmark for the Local Grade Separation Fund would decrease to $10.0 million. The $$65.0 million earmark to the Infrastructure Projects Authority Fund would decline to $17.5 million while the earmark to the CTF would increase to $52.5 million. An additional set of earmarks would be added, directing $6.5 million to county road commissions, $3.5 million to city and village road agencies, and $90.0 million to the STF. From any remaining funds, 28.5% would be distributed to the STF, approximately 46.5% would be distributed to county road commissions, and approximately 25.0% would be distributed to city and village road agencies.

With respect to the bill's changes in Section 11g, the bill would be permissive in that it would not require the Department to fund the local Federal bridge load analysis, inspection, or other local Federal bridge mandate, unless no other sources of funds were available. There would be a net-zero impact, in that if the Department funded this analysis, there would be equal savings to the local government units that would not have to fund this analysis, but it would be a cost to the Department. An estimate of total cost of the analysis is not immediately available. The current balance in the Movable Bridge Fund is $19.8 million.

Fiscal Summary

The following tables illustrate the fiscal impact for FY 2025-26, when the changes would affect only a portion of the fiscal year, and FY 2026-27, the first fiscal year in which the changes would be effective for the entire year. Dollar amounts are in millions.

Estimated Fiscal Impact for FY 2025-26

Bill(s)	Local road agencies, NRF	STF	GF	SAF	CTF	Recreation Fund	Rev. Sharing	Total
4180-4182			($593.8)	$0.0	($32.4)		($69.6)	($695.8)
4183	$375.6	$241.2			68.5	$11.5		696.8
4961	(365.4)	(234.6)	(88.0)					(688.0)
578	897.6	179.7			35.0			1,105.7
Total	907.8	241.2	(681.8)	0.0	71.1	11.5	(69.6)	1.0

Estimated Fiscal Impact for FY 2026-27

Bill(s)	Local road agencies, NRF	STF	GF	SAF	CTF	Recreation Fund	Rev. Sharing	Total
4180-4182			($790.6)	($0.0)	($43.1)		($92.6)	($926.3)
4183	$535.2	$424.9			108.7	$17.9		1,086.7
4961	(365.4)	(234.6)	(176.0)					522.0
578	968.0	190.7			35.0			1,193.7
Total	1,137.8	381.0	(966.6)	0.0	100.6	17.9	(92.6)	160.4

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