

Gas and Diesel Tax Increase-

Gasoline Tax Increase:

House Bill 5768 amends Section 8 of the Motor Fuel Tax Act to increase the current 19-cent per gallon tax to 23 cents per gallon (a 4-cent per gallon increase) effective March 1, 2010. The 23-cent per gallon rate would be effective through December 31, 2012 (34 months). Effective January 1, 2013, the rate would increase by an additional 4 cents per gallon, to 27 cents per gallon. A one cent increase at the pump currently generates approximately \$43.8 million. Assuming that current consumption remains unchanged, the proposed change in the gasoline tax rate would increase transportation revenue by \$175.2 million per year during the 34 months of the initial four-cent increase. Starting in calendar year 2013, when the additional 4-cent increase would take effect, the bill would provide an additional \$350.4 million per year in transportation revenue as compared to the current fiscal year baseline.

Diesel Tax Increase:

Two bills are needed to change diesel motor fuel tax rates, one bill to amend the Motor Fuel Tax Act and another bill to amend the Motor Carrier Fuel Tax Act. The Motor Fuel Tax Act effectively taxes motor fuel "at the pump," while the Motor Carrier Fuel Tax Act establishes an equivalent tax on diesel fuel consumed in Michigan by interstate motor carriers. The tax rates under each act have to be the same so that in-state and interstate motor carriers are taxed at identical rates.

House Bill 5768 would amend Section 8 of the Motor Fuel Tax Act, and **House Bill 5769** would amend Section 2 of the Motor Carrier Fuel Tax Act. Together these bills would increase the current 15-cent per gallon tax on diesel motor fuel to 21 cents per gallon (a 6-cent per gallon increase) effective March 1, 2010. The increase would be effective through December 31, 2012 (34 months). The rate would increase by another 6 cents per gallon, to 27 cents per gallon, effective January 1, 2013.

For every one cent increase of tax on diesel motor fuel currently generates approximately \$7.7 million. Assuming that current consumption remains unchanged, the amendments would increase transportation revenue by \$46.2 million per year during the 34 months of the first six-cent increase. Starting in calendar year 2013, when the additional 6-cent increase would take effect, the bills would provide an additional \$92.4 million each year as compared to the current fiscal year baseline.

Fiscal Impact:

In the current fiscal year, constitutionally restricted transportation taxes generates an estimated \$1,809.4 million (i.e. \$1.8 billion) for credit to the Michigan Transportation Fund (MTF). The gasoline and diesel tax rate increases proposed in House Bills 5768 and 5769 would generate approximately \$221.4 million per year in additional transportation revenue during the initial 34 month increase period. Starting in 2013, the bills would provide an additional \$442.8 million annually as compared to the current fiscal year baseline. The initial tax rate increase proposed in

the bills would represent a 12.2% increase over the current fiscal year revenue baseline. The additional increase proposed for 2013 would represent a 24.4% increase from the current fiscal year baseline.

Distribution of this additional revenue will go to the Comprehensive Transportation Fund, the State Trunkline Fund, to county road commissions, and to cities and villages. Note that in addition to the state restricted transportation revenue which the proposed tax rate increases would provide, the additional revenue could help the state secure additional federal revenue. The federal-aid highway program typically requires a **20% non-federal match**. The Michigan Department of Transportation's 2010-2014 Five Year Transportation Program indicates that beginning in FY 2010-11 the department **will not have sufficient State Trunkline Fund revenue to match all available federal revenue**. The department anticipates that without additional state revenue, it will **lose \$475 million in federal aid in FY 2010-11** and a total of **\$2.1 billion over the final four years of the 2010-2014 Five Year Program**.

To put the amount of federal aid available to the state in perspective, the federal aid to state transportation programs represents approximately one-third of state transportation dollars. The actual amount of federal aid to the state has averaged approximately \$1 billion per year over the last five years. In fact, the total federal aid highway program funds made available to Michigan for FY 2008-09, not counting federal American Recovery and Reinvestment Act (ARRA) funds, was \$1.018 billion, of which \$739.8 million was made available for state trunkline programs, and \$278.5 million made available for local road agency projects.