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GONGWER Michigan
The Capitol Record Since 1906

Volume #54, Report #128, Article #1--Tuesday, June 30, 2015

Senate Activity Report

Gas Tax Increase, Income Tax Rollback Move

The Senate GOP plan to fix the roads and possibly reduce the income tax over time was prepped for prime time Tuesday in the Senate Government Operations Committee, with a flurry of House bills and one Senate bill reported on party-line 3-2 votes.

There are several points of controversy in the Senate plan: the elimination of the Earned Income Tax Credit, the eventual redirection of $700 million in income tax revenue for roads and a bill that allows for reductions in the 4.25 income tax rate starting with the 2018 tax year if revenue growth outpaces inflation, using an extremely complicated formula to determine when reductions would happen and how large they would be.

And then there is the increase in the gasoline tax from 19 cents to 34 cents per gallon, phased in at five cents per year over three years, with all of those new funds put to roads.

The committee action, and scheduling of final passage votes Wednesday in the full Senate, signaled that the Senate GOP was willing to embrace this proposal and take it to the bargaining table with **Governor Rick Snyder** and the House, which has resisted increasing the gasoline tax.

Reaction to the plan varied. Mr. Snyder's spokesperson refused to offer an opinion on it, saying only that the governor was glad to see the Senate bring forward a plan. House **Speaker Kevin Cotter** (R-Mount Pleasant) seemed to embrace aspects of it. The road construction industry and business lobby also has embraced it.

But Democrats sharply criticized the plan, which also drew criticism from an array of groups alarmed at the consequences of squeezing at least $700 million - more if the income tax falls - out of the General Fund as well as ending the Earned Income Tax Credit.

The elimination of the EITC, which now provides a state income tax credit to the working poor equal to 6 percent of their federal EITC, clearly made some Republicans on the committee queasy.

Both Senate **Majority Floor Leader Mike Kowall** (R-White Lake Township) and **Sen. Goeff Hansen** (R-Hart), two of the three Republicans on the committee, admitted to having concerns about **HB 4609**, but said they would support moving the bill out of committee to keep the process moving.

Asked after committee if he thought that was the sentiment of many members of his caucus, Mr. Hansen said of the bill, "I think there's a lot of concern about the EITC and the elimination of it, but this is all part of the process. At the end of the day, we're going to have another discussion about it."

And he said as the process continues, "I'm not going to advocate to keep it in. I would just as soon see it removed (from the package), but we'll see how it goes. ... I want a clean road funding package."

Beyond that bill, Mr. Hansen said he thought the bills reported by the committee were generally a good package.

"I think we're able to get the funding that we need, which is really important because ... we've been trying to get something done for 10 years, and where we're at right now, I think we're in a good place," he said.

"Both sides understand that we have to fix our roads. There's no doubt everybody understands that, and I think we're going to be able to get something done with the package."

Tom Hickson with the Michigan Catholic Conference spoke in opposition to HB 4609, saying that while the EITC is not a solve-all for poverty issues, it certainly helps.

THE INCOME TAX BILL: But the package is not without its hurdles. **SB 414** attempts to guarantee $700 million of income tax revenue annually is used for transportation purposes before it reaches the General Fund budget. But if the Senate cannot get that bill to **Governor Rick Snyder**, that money would have to be found by slicing and dicing the state budget - an issue Mr. Hansen said could present some "challenges."

"But we were able to find $550 million at the first of the year," he noted. "I think as we go through and look for a few more things that we can scale back or hopefully get some efficiencies out of, at the end of the day, it's doable."

The formula for the income tax rollback in SB 414 is complex, to say the least. It attempts to balance General Fund revenue with inflation and leaves a variable amount by which the individual income tax could be reduced. In general, the formula seeks to determine how much revenue growth exceeded inflation. If that happened, then the income tax rate would drop by an amount to reduce revenue by how much revenue growth topped inflation.

Barring a major run-up in revenues, such rate decreases would likely amount to 0.1 percentage point or less. David Zin of the Senate Fiscal Agency also noted that any deposits to the Budget Stabilization Fund, under the formula, likely would mean no rate cut because those funds would cease to be considered General Fund revenue.

If successful, the bill would earmark amounts of income tax revenue to be deposited in the Michigan Transportation Fund: $350 million in the fiscal year 2016-17 and $700 million in each subsequent fiscal year through 2032-33.

Senate **Majority Leader Arlan Meekhof** (R-West Olive) characterized SB 414 as "another step in the process," and attempted to simplify the formula to a couple of sentences: "We're going to constrain the growth of government to the rate of inflation. Anything above inflation goes to the income tax rollback.

"Whatever we decide the CPI is ... anything above that will not be available to be spent, so automatically there's an income tax rollback in the following year. So it's not that you have to appropriate it and set it aside, it's not there to spend," he said.

If the revenue isn't there to meet the rate of inflation, he said, the income tax just pauses until it is.

"As Republicans, we believe the economy is going to continue to grow, and those folks that are participating in the economy and making those revenues come in should be the beneficiaries," Mr. Meekhof said.

OTHER BILLS: Beyond those two major pieces of legislation, there were not many major changes made to the package that includes **HB 4610**, **HB 4611**, **HB 4612**, **HB 4613**, **HB 4614**, **HB 4615** and **HB 4616**.

HB 4610 allows townships contributing 50 percent or more toward a road project to require a request for proposal for pavement projects more than $50,000 and gravel projects more than $25,000. This bill also requires a county road commission, if required to bid a project, to use "the responsive and reasonable best value bidder process," and award contracts accordingly.

HB 4611 requires the Department of Transportation and local road agencies to competitively bid on all projects more than $100,000, except for maintenance projects, unless an agency found some other method was in the public interest. Agencies must also report their findings before work has begun.

HB 4612 saw an S-2 substitute that levies an additional vehicle registration fee of $30 for hybrid electric vehicles weighing 8,000 pounds or less and $100 for those weighing 8,000 pounds or more. It also levies an additional vehicle registration fee of $100 for non-hybrid electric vehicles weighing 8,000 pounds or less, and $200 for those weighing more than 8,000 pounds. Both registration fees would be required to increase if the tax on gasoline were increased beyond 19 cents per gallon. These fees are estimated to generate $1.7 million per year.

HB 4613 would require MDOT and local road agencies to secure warranties where possible for construction and preservation projects exceeding $1 million (a change from the House version that suggested $2 million). The bill also would cut allowable MDOT administrative costs from 10 percent to 7 percent.

HB 4614 institutes a process and fee schedule for taxing alternative fuels.

HB 4615 is the gas tax increase/diesel parity bill. It increases the gas tax to 24 cents per gallon on October 1, 2015; to 29 cents on January 1, 2016; and to 34 cents per gallon on January 1, 2017. It also increases the diesel tax to 22 cents per gallon on October 1, 2015; to 29 cents on October 1, 2015, and to 34 cents on January 1, 2017.

Beginning January 1, 2018, the bill would annually adjust the tax rates on gasoline and diesel fuel based on the lesser of 5 percent or the change in the U.S. Consumer Price Index, rounding up to the nearest tenth of a cent. The tax could not be negatively adjusted.

MDOT would also have to provide the Senate and House committees on Transportation with a report on various road and construction costs, and motor fuel taxes would be eliminated as of January 1, 2033.

When fully phased in, the increases in HB 4615 are projected to generate some $800 million in revenue to go toward fixing, maintaining and improving roads and bridges.

Finally, HB 4616 eliminates the flat tax rate and establishes an 18-month limitation period for filing refund claims.

REACTIONS: The Michigan Infrastructure and Transportation Association said it was pleased with the Senate plan to bring additional funding to Michigan's transportation system.

"Their plan is a balance between finding money within the state budget, which the public demands, but also recognizes the need to bring new, additional revenue dedicated to our ailing transportation system," Executive President Mike Nystrom said in a statement. "This proposal will help adequately fund Michigan's roads and bridges for decades to come. We hope to see quick action by both the Senate and House so that we can solve this ongoing road funding problem and stop the continued deterioration of our infrastructure."

House **Speaker Kevin Cotter** (R-Mount Pleasant) did not speak much to the specifics of the plan but applauded the Senate for taking a step in the right direction.

"Our House priorities for a long-term transportation solution were tax fairness, making the best use of existing funding, making road work a priority in the budget process, and consumer protections that ensure quality work," Mr. Cotter said in a statement. "I am optimistic that we can find an agreement with our partners in the Senate that lives up to those standards and fixes Michigan's crumbling roads."

Dave Murray, spokesperson for **Governor Rick Snyder**, said the governor was pleased to see the Senate start moving a plan, but declined to offer any reaction to specific aspects.

While the plan does generate $700 million in new revenue, that is well short of the $1.2 billion Mr. Snyder has urged in sustainable new revenue. And Mr. Snyder has urged that tax relief go to those at the middle and lower income levels. A rate cut would go toward all workers.

MEDC CUTS OUT: One thing Mr. Meekhof said he did not intend to take up from the House were bills (**HB 4607** and **HB 4608**) that would take money from economic development initiatives to put toward roads.

"I think all areas are going to have some topics we'll have to look at that might take a haircut, (but) MEDC is one of our areas that helps us drive that new revenue, so taking away all their tools doesn't seem to be a very good idea at this point," he said after committee.

WHAT'S NEXT: The bills have been placed on General Orders for session on Wednesday, and Mr. Meekhof said it is entirely possible they could be voted out if the caucus is comfortable with that.

And he expressed confidence in the ability to do just that.

"I think it's a great opportunity for us to look at a way we can constrain the growth of government and find a way to fund our roads," Mr. Meekhof said. "It includes a sunset a number of years out so we can have the discussion again - is gas tax the appropriate way to fund roads? This is a step in the process to get it to the floor."

The action by the Senate committee was applauded by the Michigan Chamber of Commerce.

"Maintaining Michigan's transportation infrastructure is a core function of state government and lawmakers need to take bold action now to fix the roads. The Senate plan represents another positive step in the legislative process and we are pleased the Senate is taking action before July 4th," Chamber President and CEO Rich Studley said in a statement. "Going forward, we are optimistic that legislative leaders can work together to resolve differences between the House and Senate to pass a comprehensive solution to the road funding problem before Labor Day."

But Senate **Minority Leader Jim Ananich** (D-Flint) said there is no way Democrats would be able to get on board with any of these ideas as they were presented in committee.

"Unfortunately, at this time, this plan misses the mark for a number of reasons," Mr. Ananich said in committee, noting that Democrats have maintained all along that they seek a comprehensive, long-term solution to road funding that isn't balanced on the back of middle-class families. "This effort to fix our roads should start by not making things worse."

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