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SOUTHEAST MICHIGAN COUNCIL OF GOVERNMENTS

Senate
Fiscal
Analysis

Michigan House Road Funding Package Summary (*April 2025*)

House Bills 4180-4187 and 4230, tie-barred

HB 4180–4182*: Exempts motor and aviation fuels from the sales and use tax.

- In FY 2026, expected distributions from the sales tax revenue generated at the pump include:
  - $752.4M → School Aid Fund (SAF)
  - $102.6M → Revenue sharing
  - $47.4M → Comprehensive Transportation Fund (CTF), i.e. transit
  - $112.5M → General Fund (GF)
- In FY 2026, expected distributions from the 2% use tax on aviation fuel include:
  - $3.8M → Aeronautics Fund
  - $7.0M → Qualified Airport Fund

HB 4183*: Raises the gas and diesel tax from $0.31 to $0.51/gallon.

- Makes up for the sales tax on gas that was removed in HB 4180 and 4181. This shifts all state taxes at the pump to the Michigan Transportation Fund (MTF) in a way that does not raise prices for consumers.
  - Increases CTF by $102.3M, for a net increase of $54.6M
  - Increases State Trunkline Fund by $360.1M
  - Increases local unit funding by $506.9M

HB 4184: Raises aviation fuel tax from $0.03 to $0.10/gallon.

- For FY 2025-26, the increase would generate approximately $19.1M, split between the State Aeronautics Fund (35%) and the Qualified Airport Fund (65%).

HB 4185: Redirects $850M in GF/GP earmarks in sales tax revenue

- $755M → School Aid Fund ($2.6M) increase from FY 2026 projections)
- $95M → Statutory revenue sharing ($7.6M decrease from FY 2026 projections)

As proposed, these amounts are fixed and do not adjust with inflation. Both earmarks would need to be appropriated annually. The distribution formula of statutory revenue sharing is handled through boilerplate in annual appropriation bills, which means it is not secure. For more context, the revenue sharing fund that took a $500M hit from 2001 to 2012 was statutory. House Bill 4185 requires that the revenue sharing funds be distributed on a per capita basis to cities, villages, and townships.

HB 4186: Increases Michigan Business Tax (MBT) business income rate from 4.95% to 30%.

- Designed to raise revenue quickly and phase out MBT.
  - The MBT was eliminated in 2011 as part of the tax overhaul that introduced the current Corporate Income Tax (CIT). However, businesses with outstanding approved or assigned credits (known as "legacy credits") were allowed to continue filing under the MBT until these credits were used up. Under the new proposal, businesses that have opted to continue filing under the MBT will have the option to pay the CIT.

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HB 4187: Redirects all $2.2B generated by the Corporate Income Tax (CIT) to road funding.

- Reduces several earmarks funded by the CIT, including $50M from the Revitalization and Placemaking (RAP) Fund and $500M from the Strategic Outreach Attraction and Retention (SOAR) Fund.
    - Also reduces the CIT's earmarked general fund revenues.
- FY 26-30, the $2.2B will be distributed as follows:
    - 10% to the State Trunkline Fund (STF)
    - 90% to local road agencies
        - 44.58% to County Road Commissions
        - 36.48% to Cities and Villages
        - 18.94% to the Neighborhood Road Fund created in HB 4230
- FY 31 and beyond, the $2.2B will be distributed as follows:
    - 10% to the State Trunkline Fund (STF)
    - 90% to local road agencies
        - 47.36% to County Road Commissions
        - 38.75% to Cities and Villages
        - 13.89% to the Neighborhood Road Fund
- Net effect: Reduces GF by $2.2B per year, increases funding for MDOT by $220.0M per year, and directs $1.98B in revenue to local units for roads.
- The bill would not alter the annual $50.0M earmark of CIT revenue to the Housing and Community Development Fund as originally proposed.

HB 4230 creates the Neighborhood Road Fund (NRF), distributing:

- $375M/year for FY 2025–30
    - Allocates $100.0M to local bridges
    - Remaining revenue would be distributed to county road commissions + cities and villages
- $275M/year after FY 2030
    - All money would be distributed to county road commissions + cities and villages

- Calculating counties' share: Each county would receive $100,000 and any remaining revenue would be distributed based on the county's proportional share of the total combined mileage of all county road commissions.
- Calculating cities and villages' share: Distributed to each unit's road agency based on the local unit's proportional share of the total combined mileage of all city and village road agencies.
- <u>Funds in the NRF would be subject to appropriation.</u>

**Assumes a gas price of $3.64/gallon when calculating revenues from gas taxes. If gas prices are lower than $3.64/gallon, those currently receiving funds from the sales tax on gas lose less than the listed amounts under HB 4180–4182, and the earmarks listed in HB 4183 then overcompensate for these losses. According to the Senate Fiscal Analysis, since 2019, the price of gasoline has equaled or exceeded $3.64/gallon approximately 20% of the time and been below $3.64/gallon approximately 80% of the time.*