Proposal 1 in Review:

Roads for a Better Tomorrow or Tomorrow for Better Roads

Citizens Research Council of Michigan

May 6, 2015

www.crcmich.org
Yep, Nothing Has Changed

May 5

May 6
Looking Forward
What Could be Done to Address Challenge?

• Possible state policy responses:
  1. Continue current course - cobble together funds
  2. Re-prioritize state spending – *increase* transportation funding and *decrease* other funding
  3. Raise state taxes - net increase in state spending

• Issues to consider:
  • Scale – how much $
  • Timing – short-term or long-term solution
  • Political realities – 56, 20, and 1
State Responses
Looking Back for Clues about Next Steps

- Previous legislative plans as jumping off point
  - 2014 House plan – re-prioritize spending
  - 2014 Senate plan – net spending increase
- Both plans would have generated additional, ongoing revenue for transportation, but
  - Amounts vary
  - Timing of revenue increases vary (phase-in)
  - Taxpayer burden of revenue increases vary
Senate Plan Would Have Generated More Revenue and Much Sooner
House Plan Would Have Had School Aid Fund Shoulder Largest Burden

Estimated Sales Tax to School Aid Fund

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Current Law</th>
<th>House Plan</th>
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<tbody>
<tr>
<td>FY2016</td>
<td>$5.9</td>
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<tr>
<td>FY2023</td>
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What if the Legislature Fails to Act?

Another Ballot Proposal

- Will voters wait for a legislative response, or will they petition for another ballot question?
- How would it be structured?
  - “Either/or” choice similar to Proposal A of 1994
  - Status quo as fall back
- What would a ballot proposal contain?
  - Address transportation needs only
  - Which taxes
  - Reforms to Public Act 51 of 1951
Local Responses

Despite Limited Options, More Action Likely

• State’s inability to agree to a long-term solution has prompted local governments to pursue local solutions
• Increased use of dedicated revenues through property tax, bonding, special assessments
• More general fund support for local roads
• Currently, lack authorization to levy local-option sales, gasoline, and vehicle registration taxes
  • Only cities allowed to levy local income tax
  • State to provide locals needed authorization
Structural Challenges Facing Lawmakers

Constitutional Provisions

- Distrust of government has resulted in many legal restrictions on lawmakers’ financial decision making.
- Example: constitutional tax earmarking limits legislative discretion to respond to public priorities.
  - While earmarking might provide a funding floor, it often has a chilling effect for additional funds.
- Example: constitutional limitations on tax rates and tax base growth.
  - Changes to state sales tax require a public vote.
- Solution: amend/rewrite state constitution.