INTER-DEPARTMENTAL GRANTS WHITE PAPER

Issue

The issue is whether or not it is appropriate to continue, reduce or eliminate Inter-Departmental Grants (IDG) to other state agencies from the Michigan Transportation Fund (MTF).

Background

The Michigan Constitution of 1963, Article IX, Sec. 9 (excerpt) states:

> "All specific taxes, except general sales and use taxes and regulatory fees, imposed directly or indirectly on fuels sold or used (and on registered motor vehicles) to propel motor vehicles upon highways . . . shall, after the payment of necessary collection expenses, be used exclusively for transportation purposes as set forth in this section."

The Legislature has been providing IDG's to a large number of state departments for services rendered, including the Secretary of State (SOS), Department of Treasury, Department of Environmental Quality, Office of Auditor General, Department of Natural Resources, Office of the Attorney General as well as the Office of Civil Service.

Currently, only the SOS ($20 million), Treasury ($8.2 million), Auditor General ($204,800) and DEQ ($986,600) receive IDG's from off the top of the MTF – equaling nearly $30 million *(P.A. 158 of 2005)*. IDG's are provided to the SOS for collecting vehicle registration and title fees; to the Treasury for collecting fuel tax; to the DEQ for expedited wetland permits for state and local road and bridge projects; and to the Auditor General for auditing state and local programs.

Note: Other IDG's are also being transferred from the State Transportation Fund (STF), Comprehensive Transportation Fund (CTF) and the State Aeronautics Fund (SAF) to a large number of other state agencies. These transfers add up to another $14.6 million.

Concern

In 2003, the Legislature passed a bill that the Governor subsequently signed into law, which amended the Michigan Vehicle Code by creating the Transportation Administration Collection (TAC) fund *(P.A. 152 of 2003)*. This act allows the SOS to redirect previously collected service fees, as well as new service fees from the MTF into the TAC fund. TAC revenues are used to reimburse administrative costs of the SOS for the collection of vehicle registration/title fees and other related services (in FY 2003 alone, the MTF/IDG to SOS was $96 million). According to the TAC fund law, these revenues can also be used to defray Treasury administrative costs. To date the Legislature has not appropriated any of these TAC funds to Treasury.

In allowing for this shift in revenue from the MTF to the TAC, the annual debate over how much MTF revenue should be included in the IDG for the SOS is supposedly avoided. In order to place some level of control regarding the amount of MTF related revenue that should be made available to the SOS, the Legislature also amended Act 51 of 1951 *(P.A. 151 of 2003)* by capping the IDG to the SOS to $20 million. Since then the Legislature has regularly transferred the maximum amount without much fanfare or debate. Based on information from the Senate and House Fiscal Agency, estimated TAC fund revenues and other MTF revenue sources, the aggregate amount of these revenues is extremely close to the high IDG funding watermark established in FY 2003. The aggregate amount also includes in FY 2005 ($10.5 million), and in FY 2006 ($11 million) of additional service fees, which were identified and shifted *(P.A. 141 of 2005 & P.A. 179 of 2005)* from the MTF to the TAC fund. This shift helped balance the SOS budget at the expense of those responsible for maintaining and improving Michigan's infrastructure and, in so doing, avoided the Act 51 cap of $20 million**.** How much does it actually cost for SOS to provide only vehicle registration-related services? Treasury is not exempt from this debate either, just at a smaller scale.

Over the years, both the SOS and Treasury have made numerous claims to the Legislature and the general public to try to justify IDG increases. These claims include operational streamlining, closing of branch offices, computer hardware and software improvements - see the November issue of Governing Magazine or online at http://66.23.131.98/archive/2005/nov/awards.txt. These state agencies, as well as others, continue to request additional MTF revenues to cover their additional operational expenses and/or economic adjustments.

Recommendations

• Eliminate as many, if not all, MTF Inter-Departmental Grants.

The TAC fund created an excellent self-sufficient funding mechanism for the SOS and/or Treasury. If these agencies need additional revenue to fund their operations, they can and should approach the Legislature and request an increase in the service fees schedule, much like road agencies must do when fuel taxes and registration fees do not generate enough revenue to adequately fund the state's infrastructure.

• PA 51 should also be amended to eliminate or severely reduce the amount of the MTF/IDG to the SOS and Treasury. Since the Michigan Constitution allows for MTF revenues to be used to "pay necessary collections expenses," it seems impossible to totally eliminate IDG's to SOS and Treasury, without a constitutional amendment to Article IX, Sec. 9. However, this should not prohibit the Legislature from lowering the MTF/IDG cap as much as possible through PA 51 amendments and stop using the MTF as a budget-balancing arm of the general fund.

It is also questionable whether or not the Constitution allows MTF revenues, as transferred to the other fund accounts (STF, CTF, SAF) within the PA 51, to be used to pay for service rendered by other state agencies.

Other possible MTF loopholes or lost revenue sources, including recommendations

1) In FY 2005 and 06, Treasury received an IDG for fuel taxes related activities in the amount of $8.2 million. However, in 1997 legislation was enacted which amended the Motor Fuel Tax Act *(P.A. 403 of 2000)* to streamline and avoid fuel tax fraud by changing the collection point from the pump to the distributors (approximately 25). The enacted legislation also allows the distributor to charge a collection fee for collecting and electronically transferring these fuel taxes to Treasury for deposit into the MTF. According to Motor Fuel Tax Act, Section 207.1014, these distributors are entitled to a 1.5% fee for collecting these taxes. The 1.5% is based on the total fuel tax collections. The annual collection fee is estimated at $13-15 million.

The MTF is currently paying approximately $23 million for both groups to collect the same fuel taxes. While double dipping for the same service requires further scrutiny, Treasury's cost allocation plan, which justifies their MTF/IDG for service rendered, is equally questionable considering its cost allocation method and all the improvements and computerization they have implemented.
Recommendation: amend Act 51 to prohibit Treasury from receiving MTF/IDG's; also amend the Motor Fuel Tax Act, Sec. 1014 by prohibiting petroleum distributors from keeping a portion of the fuel taxes (collection fee) and shifting a portion of that to fund Treasury for their services.

2) Under current Michigan Vehicle Code (P.A. 300 of 1949) legislation, Section 257.809(2) the SOS is not collecting pro-rata vehicle registration transfer fees because this sub-section is unclear or being misinterpreted. The pro-rata fee would be collected when an individual wishes to transfer the registration/plate from an older model vehicle to a new or newer model vehicle based on the remaining months/days on the original vehicle registration and value of the newer vehicle. This misinterpreted section or loophole closure could generate $20-23 million.
Recommendation: this sub-section should be amended to clearly require the SOS to collect the pro-rata vehicle registration transfer fee.

What would this additional money mean for Michigan's roads?

Based on the revenues that could be created by reducing/eliminating the above-referenced IDG's and by implementing the above-referenced legislative fixes, from $44 to $81 million dollars could be redirected to Michigan's aging road and bridge systems. Listed below are a variety of MDOT estimates on how the money could be spent on an annual basis.

<u>**Pavement**</u>

Estimated statewide average cost to reconstruct one freeway lane mile is $1.5 million.
• Would be able to reconstruct approximately 29 freeway lane miles annually with additional $44 million and 53 freeway lane miles with an additional $81 million.

Estimated statewide average cost to rehabilitate one freeway lane mile is $0.375 million.
• Would be able to rehabilitate approximately 119 freeway lane miles annually with an additional $44 million and 219 freeway lane miles with additional $81 million.

Bridge

Estimated statewide average cost to reconstruct one bridge is $1.2 million to $1.8 million.
• Would be able to annually reconstruct approximately 24 bridges at the higher estimated statewide average cost and approximately 35 bridges at the lower estimated statewide average cost with an additional $44 million. In addition, would be able to reconstruct approximately 45 bridges at the higher estimated statewide average cost and approximately 65 bridges at the lower estimated statewide average cost with an additional $81 million.

Estimated statewide average cost to rehabilitate one bridge is $0.5 million to $0.7 million.
• Would be able to rehabilitate approximately 64 bridges annually at the higher estimated statewide average cost and approximately 88 bridges at the lower estimated statewide average cost with an additional $44 million. In addition, would be able to rehabilitate approximately 117 bridges at the higher estimated statewide average cost and approximately 162 bridges at the lower estimated statewide average cost with an additional $81 million.

Capacity Increase

This information is based on the current definition for Capacity Increase (CI) projects.

• Estimated that approximately one to two additional CI projects per year could be done with $44 million, and approximately two to three additional CI projects per year could be done with $81 million, depending on scope of individual project and location.

• Estimated that an additional $44-81 million per year would enable advancement of a significant number of CI pre-construction phase activities that include EPE, PE, and ROW phases.

Intersections

Estimated statewide average cost to reconstruct an intersection is $0.7 million.
• An additional $44 million would fund reconstruction of approximately 62 intersections and an additional $81 million would fund reconstruction of approximately 113 intersections each year.

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