

**Transportation Revenue Alternatives**  
**Prepared for the Transportation Funding Task Force**  
**by the Michigan Department of Transportation**

Alternative	Yield Range	Legislation Needed	Advantages/Disadvantages/Comments
<b>VEHICLE REGISTRATION TAXES</b>			
<u>Existing Michigan Law</u> Autos: <i>Ad valorem</i> 0.5% base price, then declining + \$8 fee. Before 1984: weight-based.			<ul style="list-style-type: none"> <li>• Costs \$96 million/year to collect, or \$9/vehicle.</li> <li>• Paid from registration taxes, including fees, and other driver-related charges (titles, plate transfers, etc.)</li> <li>• 50% discount for handicapped</li> </ul>
Motorcycles: \$23/year+\$3 surtax			
Trailers: \$75-\$300 based on weight			<ul style="list-style-type: none"> <li>• Registration is permanent and non-transferable.</li> </ul>
Elected GVW over 8,000 lbs: minimum \$491, ranging up to \$3,117 for 164,000 lbs.			<ul style="list-style-type: none"> <li>• Discounts for farm, milk &amp; log trucks</li> </ul>
<u>Registration Tax Options</u>	<u>Alternative Potential Yield</u>		
1) Straight rate increase	Variable. For example, 50% increase would yield approx \$470 million/year		<ul style="list-style-type: none"> <li>• Annual fee for average car would rise from \$96 to \$142.</li> </ul>
2) Progressive increase	Variable. For example, 25% increase for least expensive cars and 100% increase for most expensive would yield \$300 million.		<ul style="list-style-type: none"> <li>• Affects owners of expensive vehicles more than others.</li> <li>• Does not affect heavy trucks.</li> <li>• Increases revenue faster than now.</li> <li>• Will affect more households as the price of cars inflates</li> </ul>
3) Abolish three 10-per-cent decrements in <i>ad valorem</i> registration tax	\$50 million/year if applied only to newly-registered vehicles.		<ul style="list-style-type: none"> <li>• Yields equivalent of a straight 27.1% increase.</li> <li>• Does not affect heavy trucks.</li> </ul>
4) Collect increased registration tax upon plate transfer to higher-value vehicle.	\$24 million/year		<ul style="list-style-type: none"> <li>• Current transfer fee \$8 (to Department of State).</li> <li>• Slightly increases effective new-car sale price.</li> </ul>
5) <i>Ad valorem</i> motorcycle registrations	Grows to \$4 million/year over time.		
6) Tax recreational trailers same as motor homes	Up to \$5 million/year		<ul style="list-style-type: none"> <li>• Tax travel trailers on same <i>ad valorem</i> basis as motor homes.</li> <li>• Tax at same level as other light motor vehicles: 0.5%</li> <li>• Apply to newly-sold trailers not having permanent plates.</li> </ul>
7) Index registration to inflation	Variable. For example, CPI might increase plate taxes by 4% per year.		<ul style="list-style-type: none"> <li>• Would cause vehicle registrations to increase at a multiple of the rate of inflation, as taxes already are indexed to vehicle price.</li> <li>• Could apply only to weight-based or to all, including <i>ad valorem</i></li> </ul>

			<ul style="list-style-type: none"> <li>• Could apply to weight-based taxes, including heavy trucks. Weight-based taxes have not been adjusted in many years.</li> </ul>
8) Annual flat increase	\$25/vehicle increase would yield approx. \$200 million/year.		<ul style="list-style-type: none"> <li>• Apply to some or all classes of vehicles</li> <li>• Could be temporary or permanent</li> <li>• Current taxes include \$8 surtax to Departments of State and State Police.</li> </ul>
9) Change basis of <i>ad valorem</i> calculation from base price to 1) price after options added, or 2) price as reported for sales tax purposes	Unknown; marginal increase over existing tax base.		<ul style="list-style-type: none"> <li>• Administrative costs would probably rise.</li> <li>• Would make registration tax more explicitly a personal property tax.</li> </ul>
10) Eliminate registration discounts for farm, milk, and log trucks; municipal and publicly-owned vehicles, and others	Probably \$2 to \$5 million/year.		<ul style="list-style-type: none"> <li>• Ends special treatment of some classes of users.</li> <li>• Will be said to penalize disadvantaged industries.</li> </ul>
11) Registration fees could be based on vehicles' emissions of pollutants or carbon dioxide	Any amount depending on base and rate. Bases could be size, weight, miles per gallon, seat-miles per gallon, vehicle class.		<ul style="list-style-type: none"> <li>• Drivers paying the most fuel tax would also pay the highest registration fees.</li> <li>• Would disproportionately affect drivers traveling few miles each year.</li> <li>• Would fall heavily on all classes of truck users. Revenue would fall as the vehicle fleet improves in efficiency.</li> </ul>
12) Surtax for additional registrations over one per household or per person.	Any amount depending on multiplier rate		<ul style="list-style-type: none"> <li>• Incrementally increase registration fee for each vehicle beyond the first (the second vehicle would be charged 1.1 times its normal fee; the third 1.25; the fourth 1.5; etc.)</li> <li>• Falls heavily on multiple-car (perhaps multiple-worker) households.</li> </ul>
13) a. Simplify, privatize, or abolish registration tax collection.  13) b. Abolish registration tax and replace with fuel tax or other user fees.	Some fraction of \$92 million/year cost of license-plate administration (net of costs of replacement revenue method)		<ul style="list-style-type: none"> <li>• Approximately 10 per cent of registration-tax revenue is consumed by the costs of license-plate issuance and Department of State branch offices.</li> <li>• Could make tax collection separate from plate issuance</li> <li>• Collect tax as part of sales tax or insurance transaction</li> <li>• Plates could be produced and sold privately</li> <li>• Renew plates for multi-year periods</li> <li>• Simplify calculation of registration tax</li> <li>• Reduce number of different types of plates</li> </ul>

Alternative	Yield Range	Legislation Needed	Advantages/Disadvantages/Comments
<b>OTHER VEHICLE TAXES</b>			
1) Vehicle ownership or property tax (surtax on registration tax)	Variable; for example, \$100 per vehicle yields \$700 million/year.		<ul style="list-style-type: none"> <li>• Personal property tax based on blue-book value of cars can be costly to administer.</li> <li>• Falls more heavily on multi-family households</li> </ul>
2) Rental car taxes; other travel-related taxes	\$13 million for \$1/day tax on rental cars		<ul style="list-style-type: none"> <li>• Car rentals already taxed in Wayne County</li> <li>• Metro Airport parking and hotel taxes also used in M</li> <li>• Could discourage tourism and convention trade.</li> </ul>
3) Off-road-vehicle tax a) ORVs could be required to obtain a conventional license as condition of using public streets b) Some portion of the 2% credited to trails could be directed to MTF	If half of 345,000 ORV's obtained 4-year motor-vehicle license plates at \$23/year, would yield \$1 million		<ul style="list-style-type: none"> <li>• ORVs licensed by DNR &amp; not fees not credited to MTF</li> <li>• ORV fuel tax credited to recreational fund for trail improvement</li> <li>• New legislation likely to enlarge the mileage of courts roads &amp; city streets open to ORVs.</li> </ul>
4) Bicycle taxes	\$700,000/year at \$1 per sale		<ul style="list-style-type: none"> <li>• Bicyclists do not participate in road finance</li> <li>• Few jurisdictions issue licenses</li> </ul>

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<b>MOTOR FUEL TAXES</b>			
<b>Existing Michigan Law</b>			
Motor Fuel Tax Act: 18.715 cents/gallon for gasoline and all other liquid fuels, except for propane at 15 cents/gallon	Current yield: \$884 million		
Motor Carrier Tax Act: imposes 15 cent/gallon road-use fee on Diesel fuel used to propel road vehicles	Current yield: \$184 million		
<b>Motor Fuel Tax Options</b>			
1) Increase per-gallon fuel tax	Gasoline: \$48 million per 1 cent increase Diesel: \$10.4 million per 1 cent increase		<ul style="list-style-type: none"> <li>• Administrative mechanism is in place</li> <li>• Would be borne by all auto &amp; truck users</li> <li>• Record fuel prices</li> </ul>
2) Index motor fuels to inflation	Variable depending on index used. For example, CPI advances roughly 4% per year. Construction-cost index is highly variable.		<ul style="list-style-type: none"> <li>• Fuel tax increases without indexing lose buying power over time due to inflation</li> <li>• Index to established measures, such as CPI</li> <li>• Increases taxes without vote by elected officials</li> </ul>
3) Abolish 1½-per-cent “cost of collection” allowance	\$13.2 million per year		<ul style="list-style-type: none"> <li>• Original intent allowed for leakage &amp; evaporation</li> <li>• No similar allowance for diesel tax</li> <li>• Likely that \$0.00285/gallon tax increase will be passed on to auto users.</li> </ul>
4) Equalize diesel and propane per-gallon rates with gasoline	\$41.7 million/year for 4 cents/gallon diesel tax increase. Restoring the 19-cent tax on propane would yield \$90,000/year.		<ul style="list-style-type: none"> <li>• Most states and the federal government tax diesel and gasoline differently</li> <li>• Costs would be borne by truck operators &amp; Michigan businesses using diesel trucks, and by interstate and international trucks traveling through Michigan</li> </ul>
5) Petroleum industry taxes (gross receipts, oil industry franchise tax, etc.)	Any amount depending on rates set		<ul style="list-style-type: none"> <li>• Costs likely passed through to consumers. Not really different from per-gallon taxes.</li> </ul>
6) Tax gaseous fuels (compressed natural gas and hydrogen)	Less than \$500,000 is near term; possibly much more in long term.		<ul style="list-style-type: none"> <li>• Compressed natural gas (CNG) is beginning to be used as fleet fuel in Michigan.</li> <li>• Hydrogen is being researched for fuel cells.</li> </ul>
7) Tax electricity used to propel road vehicles	Ought to be equivalent to revenue from liquid fuels from similar-sized vehicles.		<ul style="list-style-type: none"> <li>• Plug-in hybrids might be sold as early as 2010</li> <li>• Needs a administration mechanism</li> <li>• Might require separate meter for road user fees</li> <li>• Could be handled as registration surtax, but tax would fall equally on high- or low-mileage users.</li> </ul>

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<b>TOLL ROADS</b>			
<u>Existing Law</u>			
Michigan does not enable road tolls by any agency			<ul style="list-style-type: none"> <li>• Michigan is the largest state without toll roads.</li> <li>• Michigan has three public tolled bridges and one private tolled bridge.</li> </ul>
Federal law does not permit the conversion of a federal aid road to a toll road, with these recent exceptions: <ul style="list-style-type: none"> <li>• New freeway construction</li> <li>• Conversion of existing highway to freeway</li> <li>• New freeway capacity</li> <li>• Reconstructed freeways</li> <li>• Experiments in congestion management through pricing</li> </ul> Non-federal-aid and private roads are not subject to this provision			<ul style="list-style-type: none"> <li>• Tolls can be collected electronically without slowing traffic.</li> <li>• The total of current Michigan and federal road user fees is equivalent to per-mile tolls of 2.5 cents/mile for an average car and 8.3 cents/mile for a 5-axle truck.</li> <li>• Tolls can used to finance specific routes in the absence of general tax increases.</li> </ul>
<u>Toll Options</u>			
1) Toll reconstruction or expansion of freeways	Potentially-large contribution to project cost. Example: \$300,000,000 per year from tolls on all of I-94 at \$0.10 per vehicle-mile.		<ul style="list-style-type: none"> <li>• Conventional financing would probably be needed, too.</li> <li>• Toll lanes could be open to all equally, or award free travel to carpools; might exclude trucks or open only to trucks.</li> </ul>
2) Public-private partnerships: for designing, financing, building, maintaining and/or operating transportation infrastructure	Example: \$10 million/year for 1 express lane each direction on 8-10 miles of I-75 carrying 16,000 vehicles/day at \$2 per trip.		<ul style="list-style-type: none"> <li>• Revenue could be divided between operator and state.</li> <li>• Lease could be paid in a lump sum or over time.</li> </ul>
3) New toll roads	Little or no application in Michigan.		<ul style="list-style-type: none"> <li>• Because no entirely new roads appear to be needed in Michigan, there is little prospect for a new toll road.</li> </ul>
4) Congestion pricing	Little or no new revenue. Congestion tolls typically only cover costs of installing the pricing system.		<ul style="list-style-type: none"> <li>• Tolls can be adjusted at intervals to meet demand.</li> <li>• Option of high-speed travel is always available, but may not always be affordable for everyone.</li> </ul>
5) Per-mile user fees	Variable. Could be set to equal or exceed current fuel-tax and other revenues.		<ul style="list-style-type: none"> <li>• Possible to vary tolls by route, time of day, and across geographic areas.</li> <li>• Changes to per-mile fees will face same political issues as per-gallon fuel taxes.</li> </ul>

			<ul style="list-style-type: none"> <li>• Expensive to install and operate.</li> </ul>
<p>6) Monetize toll bridges</p> <ul style="list-style-type: none"> <li>a. Raise tolls to cover bridge expenses and credit extra to State Trunkline Fund</li> <li>b. Monetize future income streams for cash</li> </ul>	<p>Depends on tolls and length of leases.</p>		<ul style="list-style-type: none"> <li>• Mechanisms in place for raising tolls and toll collections.</li> <li>• Could provide immediate cash or income stream.</li> <li>• At odds with long tradition of reserving tolls for specific purpose.</li> </ul>

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<b>LOCAL-OPTION TAXES AND FEES</b>	<b>Estimates in this section are from Businesses for Better Roads, Oakland County</b>		
<b>Existing Law</b>			
Property tax is only source available locally or regionally for transportation finance.	Variable depending on millage. Example: \$23 million annually in Oakland County (half-mill would cost \$27.50 for a \$150,000 home)	None. Presently enabled.	<ul style="list-style-type: none"> <li>Can be levied by individual governments (for local roads), or several units or parts of units in taxing districts (as for transit systems or airports)</li> </ul>
Special assessment and tax increment finance districts	Variable, as approved by local voters.	None. Presently enabled.	<ul style="list-style-type: none"> <li>Commonly used for local-road improvements.</li> </ul>
<b>Local Option Taxes and Fees - Other Options</b>	<b>Estimates in this section from Businesses for Better Roads, Oakland County</b>		<ul style="list-style-type: none"> <li></li> </ul>
1) Registration surtax	\$9.6 million/year in Oakland County for a 20 percent increase	Enabling legislation required	<ul style="list-style-type: none"> <li>Impacts same as state-level registration tax increase</li> </ul>
2) Local option fuel tax	\$28 million/year for a 4 cent/gallon tax in Oakland County.	Enabling legislation required	<ul style="list-style-type: none"> <li>Several states provide this option</li> <li>More difficult to administer than state tax as it would be levied on individual retailers</li> <li>More effective if regional, as it would be harder for retailers to locate just outside taxed area.</li> </ul>
3) Driver license and other fees	\$14 million for a \$25 local tax on licenses in Oakland County	Enabling legislation required	<ul style="list-style-type: none"> <li>Since licenses are associated with addresses, can be easily assigned to local government</li> <li>Vehicle titles and real estate transfers could also be subjected to local option taxes</li> </ul>
4) Regional or local sales tax	\$80 million for ½ percent sales tax for Oakland County	Constitutional amendment required	<ul style="list-style-type: none"> <li>A primary means of financing public transit elsewhere in the country</li> <li></li> </ul>
5) Development impact fees	Could fund proportional share of improvements within a district.	Enabling legislation required	<ul style="list-style-type: none"> <li>Common in states with high-growth areas</li> <li>Most effective in rapidly growing areas</li> </ul>
6) Haul-route fees (fees imposed on shippers making intense or repetitive truck use of local roads)	unknown		<ul style="list-style-type: none"> <li>May deter truck-reliant business from locating in jurisdiction charging such fees</li> </ul>

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<b>TRANSPORTATION-RELATED SALES TAX</b>			
<u>Existing Law</u>			
The Comprehensive Transportation Fund receives 4.65% of sales tax collected by auto related establishments (gas stations, parts stores, auto dealers)			<ul style="list-style-type: none"> <li>• Michigan's sales tax is limited to 6% by state constitution.</li> <li>• Michigan is one of only 9 states to levy sales tax on motor fuel.</li> <li>• At the present price of fuel, sales-tax revenue on fuel exceeds motor-fuel-tax revenue.</li> <li>•</li> </ul>
<u>Sales Tax Options</u>			
1) Direct all or a portion of sales tax on fuels to Michigan Transportation Fund	Up to \$1 billion/year depending on retail price and amount redirected.		<ul style="list-style-type: none"> <li>• High cost to School Aid Fund and local revenue sharing (or General Fund if it were used to 'backfill' other funds).</li> </ul>
2) Exempt some or all of motor fuel price from sales tax as an offset to increased motor fuel tax	Up to \$1 billion depending on retail price and amount of increase.		<ul style="list-style-type: none"> <li>• High cost to School Aid Fund and local revenue sharing (or General Fund if it were used to 'backfill' other funds).</li> </ul>
3) Credit vehicle-lease use-tax revenue to the CTF	\$20 million/year		<ul style="list-style-type: none"> <li>• Impact on School Aid Fund and local revenue sharing (or General Fund if it were used to 'backfill' other funds).</li> </ul>
4) Remove federal fuel tax from sales tax basis	None.		<ul style="list-style-type: none"> <li>• Reduces pump price by about 1 cent/gallon.</li> <li>• Reduces School Aid Fund and revenue sharing</li> </ul>



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<b>NON-USER TAX OPTIONS</b>			
1) Replace motor fuel tax with additional one-per-cent state sales tax	\$1.1 billion/year (about the same as current fuel taxes).	Requires constitutional amendment	<ul style="list-style-type: none"> <li>● Revenue would rise with inflation</li> <li>● Not in proportion to road use. Taxes non road users.</li> <li>● Regressive</li> <li>● Not constitutionally dedicated to transportation.</li> </ul>
2) Use state general funds from income, business, and sales taxes for transportation	Variable.		<ul style="list-style-type: none"> <li>● Competition for these funds intense at state level</li> </ul>
3) Sports and entertainment tax	\$15 million/year for local jurisdictions with sports venues.		<ul style="list-style-type: none"> <li>● HB 5613 proposes to levy a 4-6% excise tax on tickets to sports and entertainments, for local streets or transit</li> <li>● Falls mainly to attendees at college and professional ball games, concerts, and the MIS race track</li> </ul>

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<b>PERMIT FEES</b>			
<u>Existing Law</u>			
<ul style="list-style-type: none"> <li>Road agencies charge fees for various administrative and engineering functions.</li> <li>Possible to add fee as revenue source or to cover cost of permitted action.</li> </ul>	At best such fees cover cost to issue permit.		<ul style="list-style-type: none"> <li>A tax could be added to permit fees, or fees could be made to compensate agencies and road users for impacts, such as congestion from driveways.</li> </ul>
<u>Permit Fee Options</u>			
1) Increase driveway permit fees	A few million dollars/year; intended to be a regulatory fee.		<ul style="list-style-type: none"> <li>Permit fees rarely cover administrative costs if permit is for more than a residential drive or small commercial location</li> <li>Fees do not cover impact of driveway on speed, safety or capacity of road</li> <li>Would increase commercial construction costs</li> <li>Favors existing properties unless applied retroactively</li> <li>Could encourage driveway consolidation</li> </ul>
2) Tax billboards in proportion to size and traffic volume	A few million dollars/year; variable; depends on base and rate.		<ul style="list-style-type: none"> <li>Would be a user fee for imposition on traveling public.</li> <li>Increased costs of advertising on billboards would impact tourism industry</li> </ul>
3) Add tax onto overweight/oversize permit fees			<ul style="list-style-type: none"> <li>Would tax some basic manufacturing industries</li> <li>Some local agencies ask shippers to buy permits or post bond amounts against pavement damage by trucks permitted to operate over certain weights</li> </ul>
4) Increase utility permit fees to cover costs of utility work <u>and</u> compensate road users for delay			<ul style="list-style-type: none"> <li>Costs would be passed on to utility ratepayers</li> </ul>

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<b>AVIATION TAXES AND FEES</b>			
<u>Existing Law</u>			
<ul style="list-style-type: none"> <li>Michigan's aviation fuel tax has remained unchanged at \$0.03/gallon since its enactment in 1929.</li> <li>Half is refunded on fuel used for scheduled interstate airline operations.</li> <li>Almost 99 per cent is from the sale of jet fuel</li> </ul>			
<ul style="list-style-type: none"> <li>Michigan's annual aircraft registration tax is \$0.01/lb. of maximum gross weight, and is not applied to airliners.</li> <li>There is a \$5/month surtax on late registrations. Aircraft dealer licenses are \$25/year.</li> </ul>			
<u>Aviation Finance Options</u>			
1) Increase aviation fuel tax	\$3.6 million for each 1-cent increase (if per-gallon refund for scheduled airline operations remains 1.5 cents)		Could lead airlines to adjust where they refuel aircraft
2) Change aviation fuel tax base to per gallon price rather than per gallon	42.4 million (increase of \$34.8 million increase)		
3) Abolish airline refund	\$3.1 million		
4) Increase aircraft taxes	\$287,000 if fees were doubled and aircraft dealers tax increased		
5) Increase aviation permit fees; add fees for tall structures	Just over \$20,000 per year if license fees doubled \$105,000 if fees initiated for tall structures		Currently no fee in place for tall structures near airports

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<b>OTHER FEE INCREASES</b>			
1) Increase transit fares	Variable.	May be done administratively at any time.	<ul style="list-style-type: none"> <li>• Bus fares typically \$1.00 - \$1.50 per ride</li> <li>• Higher gasoline prices make transit ridership slightly less price sensitive</li> </ul>
2) Driver license fees surtax	\$17.5 million for a \$10 surtax		<ul style="list-style-type: none"> <li>• Add surtax to \$18 renewal and \$25 new license fee</li> <li>• Not constitutionally protected; 1987 increase was to fund Transportation Economic Development Fund but has shifted to General Fund last few years</li> </ul>
3) Re-direct title, title-transfer, and expeditious title fees to transportation	\$15 million (roughly) at \$5 surcharge on approx. 3 million annual title transactions		<ul style="list-style-type: none"> <li>• Would come at the expense of the General Fund</li> </ul>
4) Dedicate traffic violation fines to transportation	Variable. Existing \$15 assessments yield \$20 million/year on 1.3 million convictions.	Redirecting overweight fines requires constitutional amendment	<ul style="list-style-type: none"> <li>• Might be especially appropriate for overweight trucks</li> <li>• Mandatory fines threaten judicial independence.</li> </ul>
<b>OTHER REFORMS</b>			
1) Local road reversion and abandonment	No revenue; removes low-use mileage from local road agency responsibility.	Basic revision to public road law.	<ul style="list-style-type: none"> <li>• Would impose high costs on some property owners.</li> <li>• Subdivisions would maintain streets through homeowners' associations</li> </ul>
2) Review bonding and bond refinancing policies	Subject to limits on debt service as a fraction of annual revenues.	None	<ul style="list-style-type: none"> <li>• No special approvals required.</li> </ul>
3) Reconsider transfers to other state agencies a) Cost-control measures for revenue collection b) Other funding sources for routine governmental functions.	Some fraction of \$135 million/year		<ul style="list-style-type: none"> <li>• Functions not funded from transportation funds must be covered from state General Fund, if not abolished.</li> </ul>