

Bruce A Timmons
June 2, 2015

The Honorable Jeff Farrington, Chair, House Committee on Roads and Economic Development
Members of the House Committee on Roads and Economic Development

Re: **HB 4605** (Rep. Pscholka) - Individual income tax; administration; earmark income tax revenue portion of the general fund to the roads funding in the transportation fund.

I believe with 1 exception (Rep. Sarah Roberts), no current Representative served in that office before 2011. Current Members, whose service as a Member is at most 4-1/2 years, remember an improving economy and budget forecasts. Given that limited context, it is understandable that good times can create the illusion that what you have experienced will continue indefinitely – and provide the optimistic foundation for an increasing diversion of income tax revenue for roads, as HB 4605 proposes.

If you encounter resistance among your counterparts in the Senate, understand that most of them served in the House under less auspicious circumstances of the first decade of the 21st Century when the State General Fund (GF/GP) Revenue dropped from FY 1999-2000 to FY 2009-10 from \$9.788 Billion to \$6.785 billion (a decrease of 30.7% in 10 years). (Adjusted for inflation, the decline over that 10-year period was 42.5%.) In 5 of the 10 years there were significant reductions in GF/GP revenue – 19% less in 3 FYs by FY 2002-03 (to \$7.959 B), followed by a modest recovery of 4.5% over 4 FYs by FY 2006-07 (\$8.319 B), an encouraging jump of 12.5% in FY 2007-08 (\$9.360 B), and precipitous declines of **21.3%** in FY 2008-09 (\$7.366 B – almost a \$2 B reduction in one FY), and **7.9%** in FY 2009-10 (to \$6.785 B). [Dollar amounts are from “A Problem 10 Years in the Making” by Mitch Bean, then HFA Director, May 20, 2011. See HFA website for full presentation.]

I had the privilege to serve in legislative staff positions for 45 years before retiring at the end of 2012, most of that service being with the Michigan House and the last 30 years of that tenure with the House Republican Policy Office. I did not always cover budgets (thankfully), but what was transpiring on the annual budget process was omnipresent was always the backdrop for other legislative initiatives and many proposals lost traction as budget woes became a barrier.

For example, one of the current issues bedeviling counties is court funding. In 1980 legislation was passed to begin a 5-year transition to state funding of trial courts. Then the economy went south and during an attempt to delay the timetable, the Attorney General ruled that one Legislature could not bind a future legislature as to a commitment to appropriate money. The whole effort stalled, eventually the initial portion (benefitting Detroit and Wayne County) was undone (1996), and counties are still aching for a solution.

Former legislators, former staff, HFA/SFA analysts, current lobbyists, and department staff have longer memories than House Members. Incoming Governors Blanchard, Engler, and Granholm faced deficits. Even Governor Snyder faced expected GF/GP revenue well below a decade earlier. We had economic dips in the mid-1970's, early 1980's, late 1980's, and the roll-coaster (more down than up) in the 2000-10 era. The rainy day fund (BSF) has had its ups and downs – reaching \$1.26 billion under Gov. Engler in FY 1999-2000, only to have \$1 billion consumed within 2 years and fully evaporated in FY 2002-03, *before* budget strains got even worse.

The point? In the last half century Michigan has seen an uneven series of good and bad economic and fiscal years – at irregular and unpredictable intervals, rarely stable, and noted by erratic climbs and dives. The state GF/GP revenue is not a stable or reliable source of future funding for Michigan's roads. The foundation on which HB 4605 would premise future funding is not solid but more akin to quicksand. It is more wishful thinking than a promise that can be kept.

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I have another basis for skepticism about the use of the General Fund for a cost of government that has historically been paid for by restricted revenue (fuel taxes and auto registration). The General Fund has been stretched thin for the purposes for which only it can serve – public and mental health, corrections, most smaller departments of state government, the legislature, and the judiciary. There are more than two articles in the US Bill of Rights – which also includes, for example, the right to counsel for indigents, a service which this state has systematically ignored for decades and has committed to pay for in coming years. Twice during the current budget cycle, the Legislature again could not find in a nearly \$9 billion GF/GP revenue pot either \$3.5 million for development of a statewide trauma system (instead raiding the crime victim's rights fund) or \$9 million for special equipment and programming in the Department of Corrections budget (instead relying on restricted revenue from inmate telephone calls produced by a contractual surcharge that increased by 300%-400% the bid and actual cost for an inmate call).

Under term limits, memories are short – as to past efforts on similar issues, budget history, and commitments made in statute by predecessors that are soon forgotten, much less honored.

One may well say that a critic of a proposal ought to propose an alternative. I would join many others in support of an increase in the tax we pay for gasoline and diesel fuel.

The gas tax increase is the only option that meets four tests:

1. The source of the revenue is directly related to the use of the funding – users of the roads, for the benefit of the roads. Other sources are not.
2. It is a more reliable, predictable, and stable source of revenue than other alternatives (especially if geared to wholesale rather than pump transactions).
3. It will raise sufficient revenue to meet the projected need of \$1.2 billion annually.
4. It is less susceptible to legislative manipulation and diversion to serve other purposes as we are currently witnessing with respect to GF/GP and restricted funds in pending proposals.

We have all heard concerns about the effect of a gas tax increase on individuals, but I haven't heard as much about the following:

- Fuel taxes are not just paid by individuals – they are also paid by businesses, large and small.
- While it is true that fuel taxes can add to the cost of goods and services, and even food, that are passed along to business customers and private individuals, the immediate and ultimate costs are not borne by Michigan residents if, for example:

Products (e.g., automobiles) are transported to other states and countries for sale.

Fuel is purchased by out-of-state commercial visitors or tourists who use our roads to reach their destinations or to see Michigan sites of interest – *if* the roads will get them where they want to go.

Thank you for allowing me to submit this statement in opposition to HB 4605.

Respectfully,



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