



*On the campaign trail
for Michigan's children*

The May 5th Proposal 1 Road Package: Protecting and Supporting Michigan Children & Families

What will Proposal 1 do?

Proposal 1 will generate new revenue that will fix the state's roads while providing additional stability to schools, communities and families. The passage of proposal 1 will eliminate sales and use tax on gas, so that all state taxes paid at the pump will go towards roads and bridges. This shift is estimated to generate about **1.2 billion dollars** a year to repair and preserve our transportation systems.

BUT... in order to replace the revenue lost by eliminating sales tax on gas purchases, Proposal 1 asks voters to increase the **state sales tax** from 6 to 7 percent. Proposal 1 will result in the following shifts.

- Generate an additional **\$300 million for the School Aid Fund (SAF)**, and shifts the **Constitutional guarantee** that SAF be used for early education, K-12 schools, community colleges, and career/technical education but not 4-year universities.
- Proposal 1 will soften the impact of the higher sales tax on low-income families by reinstating the **Earned Income Tax Credit, generating \$260 million a year for working families**. This change restores the EITC to what it was in 2011.
- A portion of the sales tax dollars will go toward revenue sharing with local governments for basic services. Townships, cities and villages that have been struggling to get by with reduced funding will have an additional \$94 million to work with for important services such as garbage/recycling services, clean drinking water, public safety, local parks and recreation, libraries, etc.

What about Plan B?

This is the best opportunity for new revenue in Michigan to pay for roads, education, and reinstatement of the EITC. If voters reject Proposal 1, the Legislature will likely identify a solution that will redirect funding that currently targets important programs serving Michigan children, youth and families to fix the roads. Until the state identifies new opportunities to generate revenue, rejection of Proposal 1 will result in long-term funding challenges for programs serving children and families.

A Plan B that will likely resurface is the House-approved plan from the 2013-2014 legislative session that proposed phasing out sales tax collections on motor fuel over several years but increasing fuel taxes by a similar amount. This would generate more money for roads but reduce revenues for the School Aid Fund, local governments, and the state general fund without reinstating the EITC.

***Please talk to family, friends and neighbors about the implications of Proposal 1.
And be sure to vote on May 5th.***

What Does the Ballot Language Mean?

Here's a breakdown of the language voters will see on May 5th – the italics are the actual ballot language with a short description of what that language would do.

The proposed constitutional amendment would:

Eliminate sales/use taxes on gasoline/diesel fuel for vehicles on public roads. This eliminates the sales/use tax on gas and diesel fuel.

Increase portion of use tax dedicated to School Aid Fund (SAF). By eliminating sales/use tax on gas, the School Aid Fund would lose quite a bit of revenue. This would increase the portion of use tax that is dedicated to SAF. This increase, with the increase in the sales tax outlined below, would replace the lost revenue and generate new revenues for education.

Expand use of SAF to community colleges and career/technical education, and prohibit use for 4-year colleges/universities. The School Aid Fund was created in 1994 to fund public education and has been used to fund early education (i.e. preschool), community colleges, career/technical education, and higher education. This would no longer allow SAF to fund general operations of 4-year institutions like Michigan State University, University of Michigan, and Wayne State University.

Give effect to laws including those that increase sales/use tax to 7% as authorized by constitutional amendment. This increase in sales tax will offset the cuts to the sales tax on fuel. Sales tax in Michigan would increase from 6% to 7% - a 1 cent per dollar increase – and continue to support schools, local municipalities, and the state general fund.

Give effect to laws including those that increase gasoline/diesel fuel tax and adjust annually for inflation, increase vehicle registration fees, and dedicate revenue for roads and other transportation purposes. These changes create new revenue to fix the roads. Right now, the state fuel taxes are 19 cents per gallon on gas and 15 cents per gallon on diesel (not including sales tax). If Proposal 1 passes, the fuel tax will be based on a formula that includes wholesale fuel prices and inflation. Initial fuel tax rates under this system would be 41.7 cents per gallon for gasoline, and 46.4 cents for diesel.

Also, Michiganders currently pay an annual vehicle registration fee that goes down for the first three years as car/truck values depreciate. Proposal 1 would eliminate this so registration fees would not go down, though it only applies to newer vehicles and exempts 2013 model years or older. There are also new surcharges for hybrid and electric vehicles.

Give effect to laws including those that expand competitive bidding and warranties for road projects. Proposal 1's passage would trigger several laws into effect, all having to do with how roads are built. A couple of them include requiring the Michigan Department of Transportation to develop a performance-based rating system for road maintenance services, and requiring road agencies to publicly disclose whether they purchased a warranty for a particular road project.

Give effect to laws including those that increase earned income tax credit. The state's Earned Income Tax Credit was cut from 20% to 6% in 2011. This change would restore the EITC back to the 20% level, ensuring that the entire package of tax shifts is a net gain for low-to-moderate income families.