Road Funding Practices in Michigan

Presentation to the
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Eric Lupher, President elupher@crrmich.org
Jordon Newton, Research Associate jnewton@crrmich.org
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Transportation Revenue Trends
Michigan Gas Tax Rate Adjustments, FY1950-2017

Tax levied as rate/gallon does not keep pace with inflation

Gas Tax Collections, FY1975-2017

Growth in revenues attributable to rate adjustments, long-term decline in purchasing power (nominal and real)
Gas Collections per Penny Levied, FY1975-2017

Gas tax not a productive tax relative to inflation.
Has not kept pace with increased road usage.

Diesel Fuel Tax Collections, FY1975-2017

More productive than gas tax in nominal terms, but has not grown faster than rate of inflation.
Vehicle Registration Fee Collections, FY1975-2017

Revenues have not grown much faster than the rate of inflation

General Fund Support for Transportation, FY2001-2021

Use of other resources is a recent practice
2015 Funding Package and General Fund Resources

*In combination with other budget promises is consuming all revenue from economic expansion*

Other Means of Raising $2.5 Billion

<table>
<thead>
<tr>
<th>Tax Source</th>
<th>Necessary Rate Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual Income Tax</td>
<td>1.05 percentage points</td>
</tr>
<tr>
<td>Corporate Income Tax</td>
<td>13.5 percentage points</td>
</tr>
<tr>
<td>Sales Tax</td>
<td>1.4 percentage points</td>
</tr>
<tr>
<td>Property Tax</td>
<td>7 mills</td>
</tr>
</tbody>
</table>

Source: Michigan State Budget Office
Trunkline Fund Debt Service, FY2000-2030

2015 Road Funding Package

<table>
<thead>
<tr>
<th></th>
<th>FY2017</th>
<th>FY2018</th>
<th>FY2019</th>
<th>FY2020</th>
<th>FY2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gas Tax</td>
<td>$236</td>
<td>$313</td>
<td>$311</td>
<td>$310</td>
<td>$308</td>
</tr>
<tr>
<td>Diesel Tax</td>
<td>$69</td>
<td>$93</td>
<td>$94</td>
<td>$95</td>
<td>$96</td>
</tr>
<tr>
<td>Registration Fees</td>
<td>$155</td>
<td>$211</td>
<td>$217</td>
<td>$224</td>
<td>$230</td>
</tr>
<tr>
<td>General Fund</td>
<td>$0</td>
<td>$0</td>
<td>$150</td>
<td>$325</td>
<td>$800</td>
</tr>
<tr>
<td>Total</td>
<td>$455</td>
<td>$611</td>
<td>$766</td>
<td>$948</td>
<td>$1,228</td>
</tr>
</tbody>
</table>
50 State Comparison

Types of State Fuel Tax Indexing
MI one of 18 states that have indexed to inflation, price, or both
Vehicle Registration Fees That Fund Roads
Most states tied registration fee revenues to road funding

States that use Toll Booths
MI is one of a few states with very little pass-through traffic
States that use Sales Tax Revenues
6 states use a portion of sales tax revenue for road funding

States that use General Fund Revenues
Some states deposit road use taxes with all others and appropriate based on need
Other Funding Sources States Use

- Sales taxes related to transportation (vehicle purchases and rentals)
- Driving fines and fees (including drivers licenses and traffic fines)
- Vehicle Miles Traveled (Oregon)
- Other major tax dollars
  - Corporate Income (Maryland)
  - Cigarette (Idaho)
  - Mineral royalties (Wyoming) and oil production (Texas)

Funding Local Roads
Finances Continue to Reflect Days of Yore
Local governments dependent on state to collect and distribute revenues

- **Quid Pro Quo**
  - Local governments largely limited to property taxes
  - State will collect taxes and share revenues with local governments
  - School Aid, State Revenue Sharing, Road Funding, Court Funding

- **Horton Act of 1932**
  - Enacted in reaction to Great Depression
  - Share registration fees with counties to replace county and township property taxes
  - Grew to include fuel taxes and folded into PA 51 of 1951

- Will increase reliance on property taxes in absence of state funding or alternative revenue sources,
  - Michigan property tax rates among the highest in the nation

Local-Option Sales Taxes
Michigan one of 9 states with state tax but no local-option taxes
Local-Option Gas Taxes
11 states authorize local-option taxes, usually to counties

Local-Option Vehicle Registration Fees
33 states authorize local fees, most county but some municipal
Other Potential Reforms

- McNitt Act of 1931 merged township road systems into the county road systems
  - Ability to repay road bonds impaired by loss of property value during depression
  - Duplication of effort proved inefficient
- Can we afford to have our small cities and villages continue to care for roads?
  - Cities average ~6 sq. miles and 2,000 people (excl. Detroit)
  - Villages average ~1 sq. mile and 1,000 people
- Would simplify use of local-option taxes authorized to counties

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