December 2025 | Memorandum

CITIZENS RESEARCH COUNCIL OF MICHIGAN

Assessment of the 2025 Michigan Transportation Funding Package

This paper summarizes Report 423 that is available on the Citizens Research Council of Michigan website www.crcmich.org

In a Nutshell

- The 2025 Transportation Funding Package is intended to provide $1 billion in new and newly-earmarked road funding in Fiscal Year 2026, increasing to $2 billion by Fiscal Year 2030. By creating a new Neighborhood Roads Fund, which prioritizes county road commissions and city/village road agencies, instead of amending the current formula, the package is likely to create confusion about which laws apply in the use of which funds.
- The 2025 Transportation Funding Package is unlikely to provide funding on the schedule intended by the legislature. Much of the newly dedicated revenue is likely to be delayed from distribution, and may not become fully available. While roads funding will increase, the uncertain amount and timing of the funding increase will impose challenges for road agencies when planning construction projects.
- Michigan's roads program and funding approach is overly complicated, inefficient, and ineffective at putting available funding to the best use. The 2025 Transportation Funding Package did not address any issues beyond funding. It remains to be seen how helpful the new funding will be in improving Michigan's roads and bridges.

This report provides an overview of a series of public acts affecting Michigan's roads programs and funding, collectively referred to as the 2025 transportation funding package (TFP).[1] It provides details on sources of new and newly-earmarked revenue, as well as how this funding is likely to be distributed between the Michigan Department of Transportation, county road commissions, and city/village road agencies.

Further, the new funding provided by the 2025 TFP is evaluated in the context of historical funding levels from Fiscal Year (FY)2007 to FY2025.

However, the 2025 TFP contains several potential pitfalls and oversights. It is difficult to predict to what extent this legislation will improve Michigan's statewide road and bridge infrastructure.

1 Enacted as Public Acts 16 to 20, 23, and 24 of 2025.

38777 Six Mile Road Suite 208 | Livonia, MI 48152 | 734.542.8001
115 West Allegan Suite 480 | Lansing, MI 48933 | 517.485.9444
P.O. Box 1612 | Holland, MI| 49422| 616.294.8359| crcmich.org

The 2025 Transportation Funding Package

The 2025 TFP made some fundamental changes in how Michigan funds its roads programs.

Changes in Roads Revenue Sources

A cornerstone of the 2025 TFP was exempting motor fuel sales from state sales and use taxes. Only four other states apply sales tax to fuel sales, and Michigan's sales tax on fuel has long been a point of contention. The 2025 TFP exempts motor fuel sales from the sales tax while increasing the motor fuel excise tax by a roughly equivalent amount. This means that motorists will notice very little change in the price of fuel, but all taxes paid at the pump will now go to the Michigan Transportation Fund.

The 2025 TFP also repealed a $600 million road funding earmark from personal income tax revenues. However, the increase in the fuel excise tax is expected to provide $700 million in FY2026, and over $1.1 billion in future years. As such, the MTF will see a net funding increase.

Furthermore, the 2025 TFP introduced a new framework for road funding: the Neighborhood Roads Fund. The NRF will be funded by a new Marijuana Wholesale Tax and earmark, as well as a new earmark of Corporate Income Tax revenue.

Anticipated New Revenue

The 2025 transportation funding package is intended to provide over $1 billion in new funding in FY2026, increasing to over $2 billion by FY2030.

However, it is not certain that all expected revenue will become available.

The new Marijuana Wholesale Tax is expected to provide about $417 million per year. This is roughly 23 percent of all new revenue provided by the 2025 TFP. However, as of publication of this report, the Marijuana Wholesale Tax is being challenged in court. Collection of this revenue may be delayed and perhaps ultimately struck down.

The Corporate Income Tax earmark is expected to provide $688 million in FY2026, increasing to $1.04 billion in FY2030. This is about 50 percent of all new revenue provided by the 2025 TFP. However, the CIT earmark will only begin to become available once total annual CIT revenue exceeds $1.25 billion. This amount of CIT revenue is not guaranteed, making the availability of the CIT roads funding earmark uncertain.

The remainder of new revenue provided by the 2025 TFP will come from the increased fuel excise tax rate. Fuel tax revenue is expected to provide an additional $716 million in FY2026 above FY2025. In FY2027, the first full year of implementation, the increased fuel tax will provide about $1.1 billion in additional revenue. However, the MTF is losing the $600 million annual Personal Income Tax earmark, as well as about $50 million/year of sales tax revenue earmarked for the Comprehensive Transportation Fund. After accounting for these losses and minor diversions in the broader funding distribution formula, road agencies will receive about $91 million in new revenue in FY2026 through the MTF. This will increase to $427 million in FY2027 and further increase with inflation to about $546 million by FY2031.

Distribution of New Revenue

The new revenue provided by the motor fuel excise tax will be deposited into the MTF, and distributed according to standing law (i.e., Act 51 of 1951). After various statutory diversions, most of this revenue will be distributed as follows: 39.1 percent to the MDOT State Trunkline Fund (STF), 39.1 percent to county road commissions, and 21.8 percent to cities/villages.

The new revenue provided by the Marijuana Wholesale Tax and CIT earmark is deposited into the new Neighborhood Roads Fund and then subject to a novel distribution formula. The NRF prioritizes local road agency funding more than does the MTF. After diversions to the CTF and local grant programs, the NRF is distributed as follows: 20 percent to MDOT, 52 percent to county road commissions, and 28 percent to cities and villages (FY2026 to FY2030). The NRF formula changes in FY2031, with MDOT receiving about 30 percent of NRF funds.

If all revenue dedicated by the 2025 TFP becomes available, this will provide about $10.5 billion in new revenue from FY2026 through FY2031. County road commissions will directly receive about 40.4 percent and city/village road agencies about 21.9 percent. Another ten percent will go to grant programs that support local road programs. MDOT's State Trunkline Fund will receive about 23.4 percent—much less than counties but more than cities and villages (not including grant funding dedicated to local agencies)

Impact on Total Roads Funding

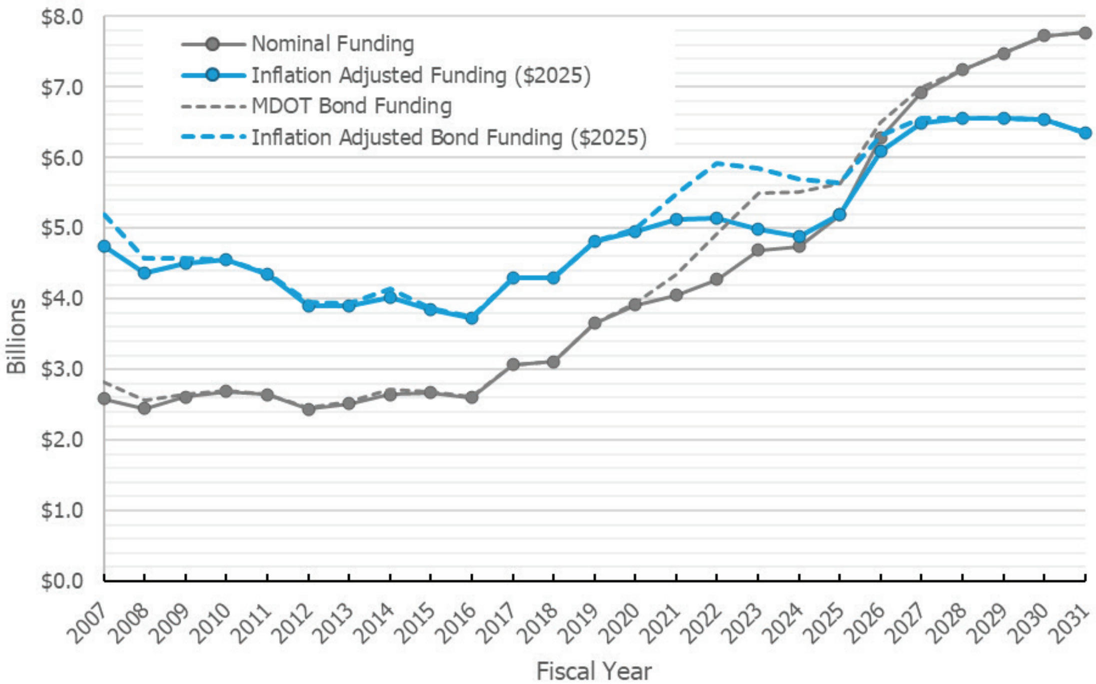
The revenue dedicated by the 2025 TFP will be added to a statewide roads budget that has generally been increasing since FY2016, resulting from the previous transportation funding package adopted in 2015. In FY2025, Michigan's roads programs received $5.5 billion, up from $4.0 billion in FY2016, in inflation-adjusted terms. This is a 38 percent real increase.[2]

Crediting the 2015 road funding package, it is no longer accurate to describe Michigan as an 'underfunded state.' This was true in the past. In 2013, Michigan ranked 45th among all states in road funding. But by 2022 (the most recent year of available data), Michigan climbed to 24th.[3]

2 The 38 percent increase in total roads funding assumes relatively flat funding from federal aid.

3 The Citizens Research Council's 2025 Road Funding Index ranks Michigan as the 28th best funded state using funding data from 2013 to 2022. The rank of 28th results from a weighted average of funding across the decade analyzed. If only the latest annual data, from 2022, is assessed, Michigan ranks 24th. For more, see Citizens Research Council of Michigan, Council Brief. Michigan Ranks 28th in 2025 National Road Funding Assessment, August 2025. https://crcmich.org/2025roadfunding_dennis_20250807

Chart A
Net Statewide Roads Programs Funding, FY2007 to FY2031
(Nominal and Inflation-adjusted)



If all dedicated revenue becomes available, FY2027 roads funding will be nearly $6.8 billion in inflation-adjusted dollars. This will increase funding by an additional 23 percent over FY2025 and represent a 70 percent increase over the FY2016 low point.

Such an increase in funding may elevate Michigan to one of the top 15 best funded states in the nation. This is difficult to estimate considering various unknown elements; regardless, Michigan will likely have one of the top 5 highest fuel taxes in the nation with nearly all revenues benefitting roads and bridges. Michigan also has relatively high vehicle registration fees and will be supplementing fuel and vehicle tax revenue with, potentially, over $1.5 billion annually from other sources (CIT and marijuana taxes).

Shift in Funding Priority to Local Road Agencies

About 70 percent of new revenue provided by the 2025 TFP will be deposited into, and distributed through, the new Neighborhood Roads Fund. As the name suggests, the NRF prioritizes funding of local road agencies (county road commissions and city/village road agencies). When local grant programs are included, inflation-adjusted funding for local road agencies is expected to increase about 40 percent from FY2025.

By comparison, MDOT's inflation-adjusted funding is likely to increase only about 20 percent. Additionally, MDOT is now in the final years of the Rebuilding Michigan Bond Program. The new revenue provided to MDOT by the 2025 TFP is less than the bond expenditures from this program in FY2022 to FY2025. Thus, MDOT may experience an overall decrease in inflation adjusted expenditures on the state trunkline system (assuming MDOT does not sell additional bonds).

This should not be a problem if MDOT strategically expended bond funding within a long-term asset management strategy. In this case, the Rebuilding Michigan Bond Program should put the state trunkline system in a good state of repair and allow for lesser maintenance and replacement costs in the coming years. However, if Rebuilding Michigan Program investments were not part of a coherent long-term asset management strategy, the new revenue provided by the 2025 TFP may not be enough for MDOT to maintain the existing state trunkline network. If NRF funding is less than anticipated, MDOT's challenges may be amplified.

Even if not all expected revenue becomes available, inflation-adjusted funding of local roads programs will likely reach historically high levels as a result of the 2025 TFP.

Potential Pitfalls and Oversights

The 2025 TFP was adopted outside of typical state appropriations processes, without typical committee meetings or consultation with stakeholders. Certain aspects may impose unintended consequences that were not fully considered. For example:

- It is unclear if the authors of the 2025 TFP intended for Michigan's state road program to prioritize local agencies over MDOT so drastically. If so, it is unclear why. Such an approach is likely to increase the reliance of local road agencies on state funding with little accountability. Further, it is unclear if funding dedicated to MDOT will be sufficient to continue to improve and maintain the critical state trunkline system.

- Local road agencies will collectively receive nearly a 50 percent increase in state revenue sharing. Much of the funding will then be distributed between the local agencies according to the same formula that has been used for years. This formula, provided in Public Act 51 of 1951 (Act 51), is antiquated and not well-matched with funding needs. This has led to some local agencies being drastically underfunded while others likely receive more state revenue than makes sense.[2] The 2025 TFP did nothing to address such inequities.

- About 70 percent of the new revenue provided by the 2025 TFP is not guaranteed. Implementation of the Marijuana Wholesale Tax may be held up or struck down in court. The CIT earmark may be only partially available (or not at all) if total CIT revenues significantly decrease in future years.

- Even if all anticipated CIT revenue becomes available, it may become available on a challenging distribution schedule. Most likely, the Michigan Department of Treasury will not deposit CIT revenue into the Neighborhood Roads Fund until priority earmarks are funded, or projections can guarantee that they will be. It is unclear how this will work. Eventually, road agencies will likely adapt. However, this is likely to cause near-term challenges in planning and programming, especially for local agencies.

- From FY2026 to FY2030, the NRF will redirect $205 million annually to a set of three local grant programs. These grants will likely be helpful for local agencies that receive them; however, other local agencies will be left out. It will be contingent upon MDOT, as the administrator of these programs, to award funds fairly and sensibly. If not all anticipated revenue for the NRF becomes available, this may lead to controversy, as these grant programs receive funding before any direct distributions are provided to road agencies. Additionally, these grant programs will lose most NRF funding in FY2031. This imposes a pending 'fiscal cliff' for these programs.

Policy Implications

The 2025 transportation funding package did some good things. By replacing the sales tax with an increase in the motor fuel tax rate, the Michigan Transportation Fund will receive a meaningful funding increase that should be dependable for years to come.

But much of this package appears haphazard and not well thought-out. Policymakers and road agencies will have to wait and see how much revenue from the Marijuana Wholesale Tax and CIT will become available. Even if all anticipated revenue is provided, the uncertainty imposes new difficulties in planning and programming construction projects.

Furthermore, the 2025 TFP did not address long-standing issues in Michigan's roads program that impose inefficient uses of funding. The 2015 road funding package has already increased funding substantially in the last decade. An analysis of roads funding data from 2013 to 2022 concludes that Michigan ranks 28th nationally, with funding levels similar to peer states like Ohio and Indiana.[4] Michigan is no longer an underfunded state—it is about average.

More funding may be a partial temporary solution. But when applied to a broken system, more funding is just as likely to cause more problems.

It is time for Michigan policymakers to establish clear legislative priorities and goals for the state roads program. When rational state transportation policy is established, policymakers should fund independent research to estimate the funding needed to achieve relevant goals. This would provide clear guidance that would allow for long-overdue fundamental reform of Michigan's roads program.

This is the only way to break the cycle of crisis management that has driven Michigan road funding policy for decades.

4 See footnote 3, p. ii.

Endnotes

1 Citizens Research Council of Michigan, Council Brief. *Michigan's Transportation Funding Law Hinders Efficient Use of Road Funding*. August 2024. https://crcmich.org/dennis_act-51_local_distributions_20240821
2 Citizens Research Council of Michigan, Council Brief. *Michigan's Transportation Funding Law Hinders Efficient Use of Road Funding*. August 2024. https://crcmich.org/dennis_act-51_local_distributions_20240821

A Fact Tank Cannot Run on Fumes

Do you find this report useful and want to support analysis that will lead to better policy decisions and better government in Michigan? Your support of Citizens Research Council of Michigan will help us to continue providing policy makers and citizens the trusted, unbiased, high-quality public policy research Michigan needs.

You can learn more about the organization at www.crcmich.org/about. If you found the contents of this report useful and wish to help fill the fact tank so we can carry on our mission, please visit www.crcmich.org/donate or fill out the form below and send it to:

Citizens Research Council of Michigan
38777 Six Mile Road, Suite 208
Livonia, MI 48152-3974

YES! I want to help fill Michigan's Fact Tank and support sound public policy in Michigan!

NAME ______________________________

ADDRESS ______________________________

EMAIL / PHONE ______________________________

- I wish to make a one-time, tax-deductible gift of: $ ________
- I wish to pledge a total of $ ________ with an initial payment of $ ________ .
- I would like my contribution to support: _____ Annual Fund _____ Endowment
- I would like to plan a gift for the Citizens Research Council from my estate _____
- Please mark my gift:

☐ Anonymous ☐ In Honor Of: ______________________

☐ In Memory Of: ______________________

- Gift will be matched by: ______________________

Or donate online at www.crcmich.org/donate