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CITIZENS RESEARCH COUNCIL OF MICHIGAN

109 YEARS OF UNCOMPROMISING POLICY RESEARCH

Assessment of the 2025 Michigan Transportation Funding Package

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Assessment of the 2025 Michigan Transportation Funding Package

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Assessment of the 2025 Michigan Transportation Funding Package

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.

Summary

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).[a] 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.

The 2025 Transportation Funding Package

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

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

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.[b]

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.[c]

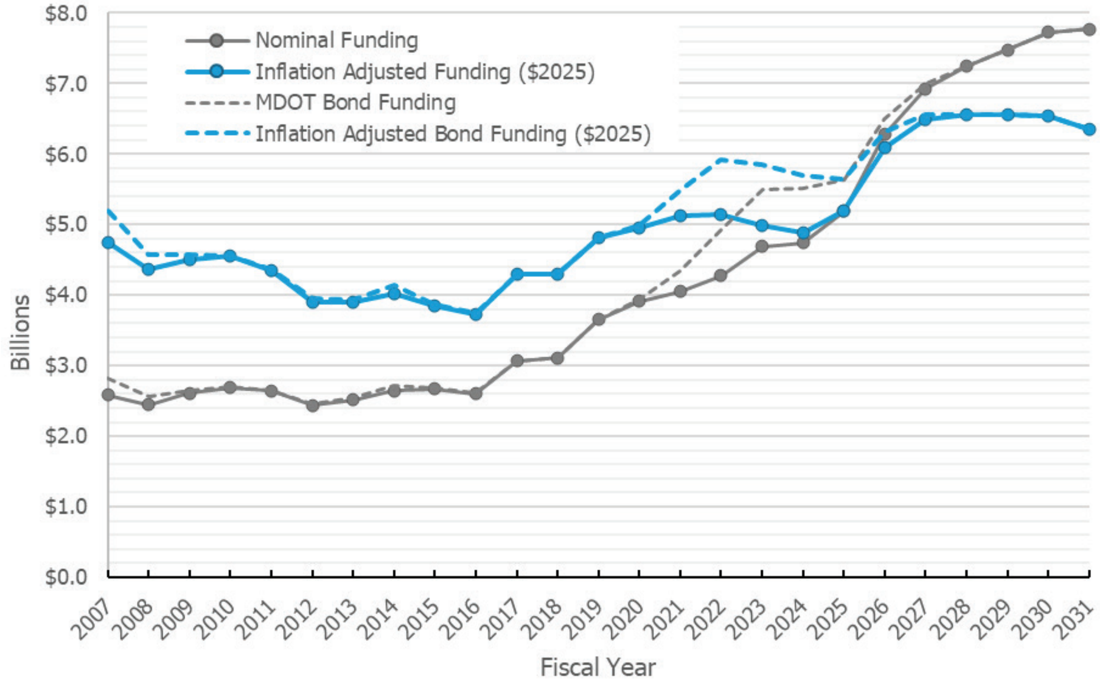
If all dedicated revenue becomes available, FY2027 roads funding will be nearly $6.8 billion in inflation-adjusted dollars. This will increase funding by an additional 23 percent over FY2025 and represent a 70 percent increase over the FY2016 low point.

Such an increase in funding may elevate Michigan to one of the top 15 best

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

c 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)



Source: See Appendix for data sources and methodology.

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.[1] 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.[d] 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.

d See footnote 3, p. ii.

Assessment of the 2025 Michigan Transportation Funding Package

1. Introduction

After years of debate, Governor Whitmer signed into law a new transportation funding package on October 7th, 2025.[2] The 2025 transportation funding package (TFP) is intended to provide an immediate $1 billion in new revenue to the transportation budget in Fiscal Year (FY)2026. New revenue is projected to increase through FY2030, resulting in $2 billion per year in expected new funding.

The $2 billion in new road funding represents nearly a 40 percent increase in state-sourced revenue dedicated to roads. If it is assumed that the federal aid portion of the roads budget remains relatively constant, this will still be about a 25 percent total increase.

This amount of new funding would likely place Michigan in the top 15 states for road funding. At first glance, the 2025 TFP would seem to provide a long-term solution to Michigan's road funding challenges. However, a more detailed evaluation reveals several pitfalls and oversights.

It is currently uncertain how much of the promised new revenue will become available. It can be assumed that roads funding will increase by roughly $500 million per year at minimum. This will be provided by swapping the sales tax on motor fuel with an increase in the fuel excise tax rate, the revenue of which is dedicated to the Michigan Transportation Fund (MTF).[a]

However, about $417 million in annual revenue relies on a new Marijuana Wholesale Tax. This tax is currently being challenged in court. This funding stream may be struck down or at least delayed until legal challenges are resolved. Furthermore, the 2025 TFP earmarks up to $1 billion per year in Corporate Income Tax revenue for roads. But this earmark only becomes available after $1.25 billion in CIT revenue is directed to other uses. If total CIT revenue collections are lower than anticipated, the full roads funding earmark may not become available.

Overall, the 2025 TFP will provide at least a modest increase in road funding across the state, and a substantial increase if all anticipated revenue becomes available. This is a positive development.

However, the 2025 TFP appears to be a rush job. Not only is it unclear how much new funding will become available, but the legislation did nothing to improve the performance or efficiency of Michigan's roads program. If pro-

a The fuel tax increase will provide over $1.1 billion in gross new revenue in FY2027. However, the 2025 TFP repealed a $600 million personal income tax earmark previously dedicated to roads funding, netting about $500 million.

vided within an informed policy framework with coherent objectives and reliable revenue, the anticipated new funding would likely represent a long-term solution. As it is, time will tell.

1.1 Managing Uncertainty

An underlying theme of this report is that it is not straightforward to understand or explain where Michigan's road funding has gone in the past or where it will go in the future.

Before the 2025 TFP, most of Michigan's road funding was distributed through the Michigan Transportation Fund (MTF) as required by Public Act 51 of 1951. Act 51 has been amended hundreds of times and now includes various statutory redistributions reflecting shifting legislative priorities over several decades. Additionally, Michigan's roads program has been subsidized with over $1 billion in General Fund earmarks in recent years, which are difficult to identify. All this has resulted in a roads program that is intractably complicated and a funding formula that is practically impossible to fully track.

The 2025 TFP has further obfuscated Michigan's roads program by creating the new Neighborhood Roads Fund (NRF), which will now operate alongside the MTF. Confounding this, it is currently uncertain if the NRF will receive all the revenue that the 2025 TFP intended to provide.

This report describes the 2025 TFP and its impact on Michigan's roads programs as comprehensively as possible. However, to present this analysis in a way that is comprehendible, the approach includes various assumptions and simplifications. While potentially presenting false precision at times, this report provides a valuable overview of the 2025 TFP and related policy issues that has not been provided elsewhere.

A detailed description of the data sources, assumptions, and calculations used in this report are provided in the methodology appendix.

2 The 2025 Transportation Funding Package

2.1 Revenue Changes

The 2025 transportation funding package (TFP) includes six related laws enacted in October 2025[3] that made fundamental changes in how Michigan's roads are funded.

Funding to the Michigan Transportation Fund

Motor fuel sales in Michigan have been subject to the state sales tax since it was enacted in 1933.[4] Most of this revenue is dedicated to the state's School Aid Fund and General Fund.[5] Many have perceived this as a problem, arguing that any taxes paid 'at the pump' should go to fund roads. Only four other states impose a sales tax on motor fuel.[b]

Through the 2025 TFP, the purchase of motor fuels will be exempt from Michigan's six-percent sales and use taxes effective January 1, 2026.

The sales tax on fuel will be replaced by an equivalent increase in the motor fuel excise tax rate. Michigan drivers will not notice much difference in gasoline prices, but nearly all taxes paid at the pump will be dedicated to the Michigan Transportation Fund (MTF).[c] This tax swap is forecast to generate $715 million in FY2026,[d] increasing to about $1.1 billion the following year.[e]

Beginning January 1, 2026, Michigan's fuel tax rate is forecast to increase by 20.6 cents to 52.6 cents per gallon.[f] Assuming other states do not adopt large rate increases in 2026, this will likely give Michigan the fourth-highest gas tax in the nation.[g]

The 2015 transportation funding package established a $600 million earmark of personal income tax revenue to the MTF. This earmark was repealed by

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b Others include California, Connecticut, Illinois, and Indiana.

c Except for two percent of the gasoline excise tax, which is dedicated to the state Recreation Improvement Fund administered by the Michigan Department of Natural Resources for management of recreational waterways and trails.

d The increase in fuel tax rate will begin on January 1, 2026, therefore the revenues collected by the Department of Treasury won't be reported to MDOT until the February earnings month that will be provided in March. February to September earnings months (eight months) equates to two-thirds of the fiscal year.

e In gross revenue. Net revenue will be less due to the personal income tax earmark repeal as discussed below.

f Public Act 20 of 2025 will increase the motor fuel tax rate, effective January 1, 2026, from 31.0 cents per gallon to 51.1 cents per gallon, as adjusted by the lesser of the inflation rate or five percent, rounded up to the nearest tenth of a cent. As a result of this inflation adjustment, the Michigan House Fiscal Agency estimates the motor fuel tax rate effective January 1, 2026, will be 52.6 cents per gallon – an increase of 20.6 cents per gallon.

g Only California, Connecticut, and Pennsylvania have a higher tax on gasoline. Higher diesel taxes are imposed in Illinois, Indiana, and Pennsylvania. Per a 2025 analysis from the Federation of Tax Administrators https://taxadmin.org/wp-content/uploads/resources/tax_rates/state_motor_fuel_tax_rates.pdf.

the 2025 TFP, effective at the beginning of FY2026.

Elimination of this earmark will not reduce funding to the MTF because the increase in the fuel excise tax will provide over $700 million in FY2026, and over $1.1 billion in future years. This will result in a net increase of about $100 million in FY2026, and about $500 million annually thereafter.

Neighborhood Roads Fund

The 2025 TFP introduced a new 24 percent wholesale tax on marijuana dedicated to road funding.[h] This new tax is anticipated to provide about $417 million annually on full-year basis.[i]

This tax revenue will be deposited in the newly created Neighborhood Roads Fund (NRF),[j] not in the MTF as with traditional transportation revenue.

It is unclear when or if this revenue will be deposited in the NRF, as the tax is currently subject to legal challenges.[k]

The 2025 TFP earmarks revenue from the Corporate Income Tax (CIT) to the new Neighborhood Roads Fund. Notably, the earmark becomes available only after $1.25 billion of CIT revenue is allocated to other uses, imposing uncertainty in how much new roads funding will become available.[l] Assuming that the full earmark becomes available, the CIT revenue will provide $688 million in FY2026, steadily increasing to $1.04 billion in FY2030 and future years.

2.2 Net New Revenue

Chart 1 shows the roads revenue changes provided by the 2025 TFP.

h The 2018 voter petition to legalize recreational marijuana earmarked a 10 percent marijuana retail excise tax for road funding and has contributed about $100 million per year. This tax and revenue dedication will remain unchanged. https://www.legislature.mi.gov/Laws/MCL?objectName=MCL-333-27963

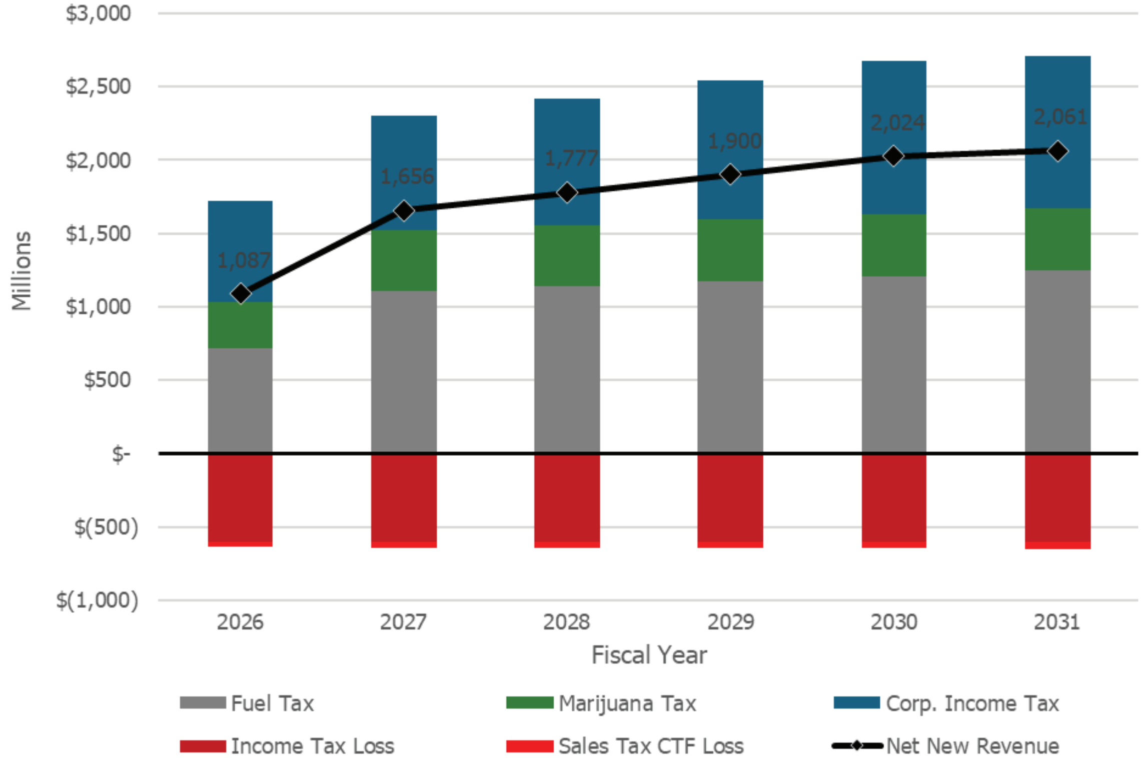
i The Marijuana Wholesale Tax will be applied to only nine months of FY 2026, providing an estimated $315 million in FY2026.

j The Neighborhood Roads Fund is created by Public Act 16 of 2025. There is some confusion regarding the name of this fund, as PA 23 of 2025, the law that creates the Marijuana Wholesale Tax and earmarks it for roads, directs revenue to the Neighborhood Road Fund (no ‘s’). We assume this was an oversight and these conflicting laws refer to the same fund, which we assume to be properly called, the Neighborhood Roads Fund.

k See section 3.3 for details.

l See section 3.3 for details.

Chart 1
Estimated Revenue Impact of 2025 Transportation Funding Package, FY2026 to FY2031



Source: See Appendix for data sources and methodology.

In FY2026, the increase in the fuel tax rate ($716 million), the new Marijuana Wholesale Tax ($315 million), and the CIT earmark ($688 million) will provide new revenue totaling about $1.72 billion.[m] However, the repeal of the Personal Income Tax earmark will reduce funding by $600 million per year. Additionally, the sales tax on fuel would have provided about $32 million to the Comprehensive Transportation Fund in FY2026.

The net result of these tax changes is an increase of about $1.09 billion in new revenue for FY2026.

New revenue increases in FY2027 due to the implementation of the fuel tax rate increase and the new Marijuana Wholesale Tax on a full-year basis, as well as the scheduled increase in dedicated CIT revenue. The 2025 TFP will provide about $1.66 billion in new revenue in FY2027.

With the scheduled increase in the CIT earmark and inflation-related increases in other revenue sources, net new roads revenue is estimated to exceed $2 billion in FY2030 and beyond.

Assuming that all anticipated revenue becomes available, the 2025 TFP will generate $10.5 billion in net new roads revenue from FY2026 to FY2031.

m Assuming full availability of anticipated revenue.

2.3 Distribution of New Funding

The distribution of the new and newly earmarked roads revenue will follow two different paths. The fuel tax revenue is subject to pre-existing law and will be deposited in the Michigan Transportation Fund (MTF), the primary fund by which transportation funding is distributed across Michigan's entire statewide road program.[6] After various statutory deductions and redirections, the majority of MTF funding is distributed 39.1 percent to the MDOT State Trunkline Fund (STF), 39.1 percent to county road commissions, and 21.8 percent to city/village road agencies.

The funding provided by the Marijuana Wholesale Tax and CIT earmark will be deposited into the new Neighborhoods Roads Fund (NRF). The distribution of revenue from this fund essentially runs parallel to the MTF distribution formula. The new NRF has distinct revenue distribution formulas for FY2026 to FY2030, and FY2031 and after.

NRF Distribution, FY2026 to FY2030

Revenue deposited into the Neighborhood Roads Fund will be distributed as follows for FY2026 through FY2030:

1. **$3 million to the new Comprehensive Road Funding Fund in FY2026, $500 thousand thereafter**. This fund is created to finance MDOT's costs to administer the NRF. After an initial deposit of $3 million in FY2026, the fund will receive $500,000 in FY2027. In subsequent years, the $500,000 allocation will be adjusted for inflation.

2. **$100 million to the Neighborhood Local Bridge Fund.** An existing Local Bridge Fund within the Michigan Transportation Fund is used to fund grants to local agencies for bridge repair and replacement.[7] The 2025 TFP created a separate fund within the NRF that will be allocated in the exact same way as the existing Local Bridge Fund.

3. **$40 million to the Local Grade Separation Fund**. This is an existing fund administered by MDOT to provide grants to local agencies to construct railroad bridges over roads in locations where at-grade crossings create congestion and safety issues.[n]

4. **$35 million to the Comprehensive Transportation Fund**. The CTF is an existing fund administered by MDOT to support local public transit programs, primarily bus services and paratransit.[8]

5. **$65 million to the new Infrastructure Projects Authority Fund**. This new fund will be administered by MDOT as a local grant program. Up to 20 percent of annual expenditures from the fund *may* support local transit operations, just like the Comprehensive Transportation Fund. Oth-

n This fund was created in 2023 but appears not to have been consistently funded other than by one-time legislative earmarks (MCL 247.661.i) https://www.legislature.mi.gov/Laws/MCL?objectName=mcl-247-661i.

erwise, the Infrastructure Projects Authority Fund will fund grants to local agencies for projects determined by MDOT for "high capacity mobility transportation." This suggests that the fund is intended to support capital projects related to public transit.[o]

6. **The balance of the NRF is distributed as follows:**

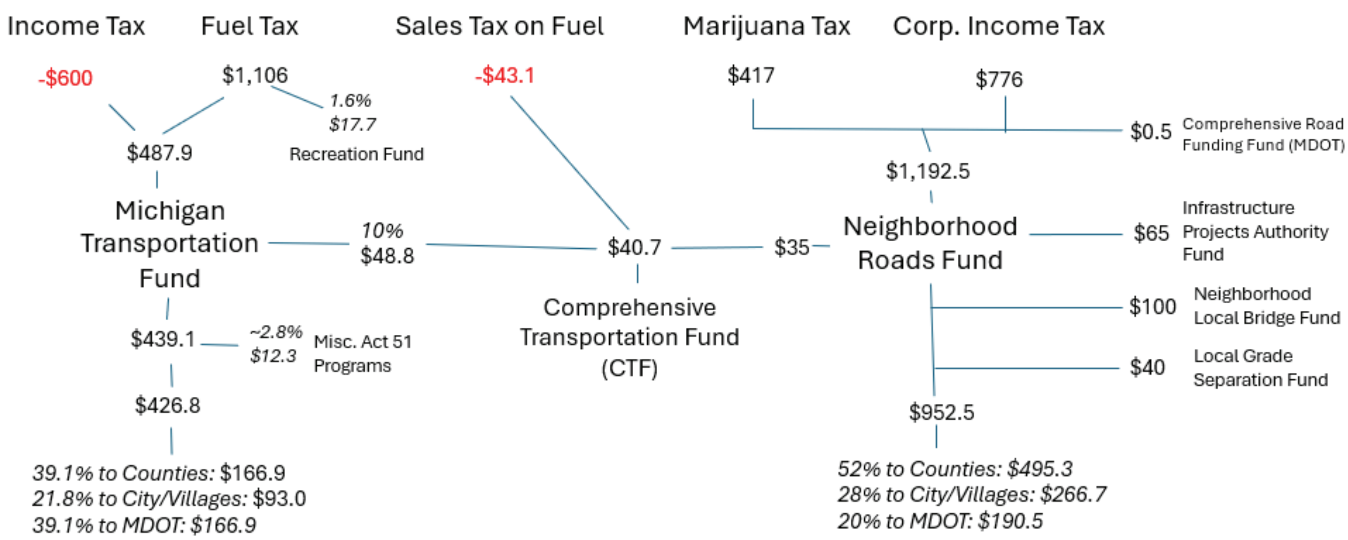
   a. **52 percent to county road commissions**, distributed to each county according to the existing Act 51 formula.

   b. **28 percent to city and village road agencies**, distributed to each local agency according to the existing Act 51 formula.

   c. **20 percent to the MDOT State Trunkline Fund.**

Figure 1 shows how the 2025 TFP will distribute new funding in FY2027. This will be the first fiscal year when a full 12 months of the increased fuel tax and Marijuana Wholesale Tax are in place.

Figure 1
Revenue Changes from FY2025 to FY2027 Resulting from the 2025 TFP
($ Millions)



Notes: Figures include only changes from the 2025 TFP. Preexisting revenue and recipients are not included.

Source: See Appendix for data sources and methodology.

o The enabling legislation governing this fund is vague. It is not immediately clear what kind of grants will be supported by this fund. MDOT will be tasked with administrating this fund and interpreting enabling legislation.

Table 1
Distribution of New Funding in FY2027

Recipient	Funding ($ millions)	Percentage of Funding
County Road Commissions	$662.2	40.0%
City/Village Road Agencies	359.7	21.7%
MDOT	357.4	21.6%
Local Grant Programs	205.0	12.4%
CTF	40.7	2.5%
Other Uses	30.5	1.8%
Total New Funding	$1,655.5	100%

Source: See Appendix for data sources and methodology.

These figures will vary depending on the fiscal year. Distribution for FY2026 and FY2028-FY2031 are provided in the methodology appendix.[p]

NRF Distribution, FY2031 and Subsequent Years

In FY2031, the distribution of the Neighborhood Roads Fund will change to the following:

1. **$500,000 to the Comprehensive Road Funding Fund**, increased for inflation from FY2027.
2. Distribution to the **Local Grade Separation Fund** is reduced from $40 million to **$10 million**.
3. **$52.5 million to the Comprehensive Transportation Fund.**
4. The annual distribution from the NRF to the **Infrastructure Projects Authority Fund** decreases from $65 million to **$17.5 million**.
5. **$6.5 million to county road commissions,** distributed to each county according to the existing Act 51 formula.
6. **$3.5 million to city and village road agencies,** distributed to each local agency according to the existing Act 51 formula.
7. **$90 million to the MDOT State Trunkline Fund**
8. **The balance of the NRF is then distributed as follows:**
    a. **46.475 percent to county road commissions**, distributed to each county according to the existing Act 51 formula.
    b. **28.5 percent to the MDOT State Trunkline Fund**
    c. **25.025 percent to city and village road agencies,** distributed to each local agency according to the existing Act 51 formula.

The Neighborhood Local Bridge Fund, which receives $100 million annually from FY2026 to FY2030, will *not* receive NRF funding after FY2030.

Notably, NRF distributions to other local roads grant funds are greatly reduced in FY2031.

Revenue shared *directly* with local road agencies will remain relatively con-

p In the event that not all anticipated NRF funding becomes available, statutory details regarding funding prioritization will come into effect that are not fully reflected here.

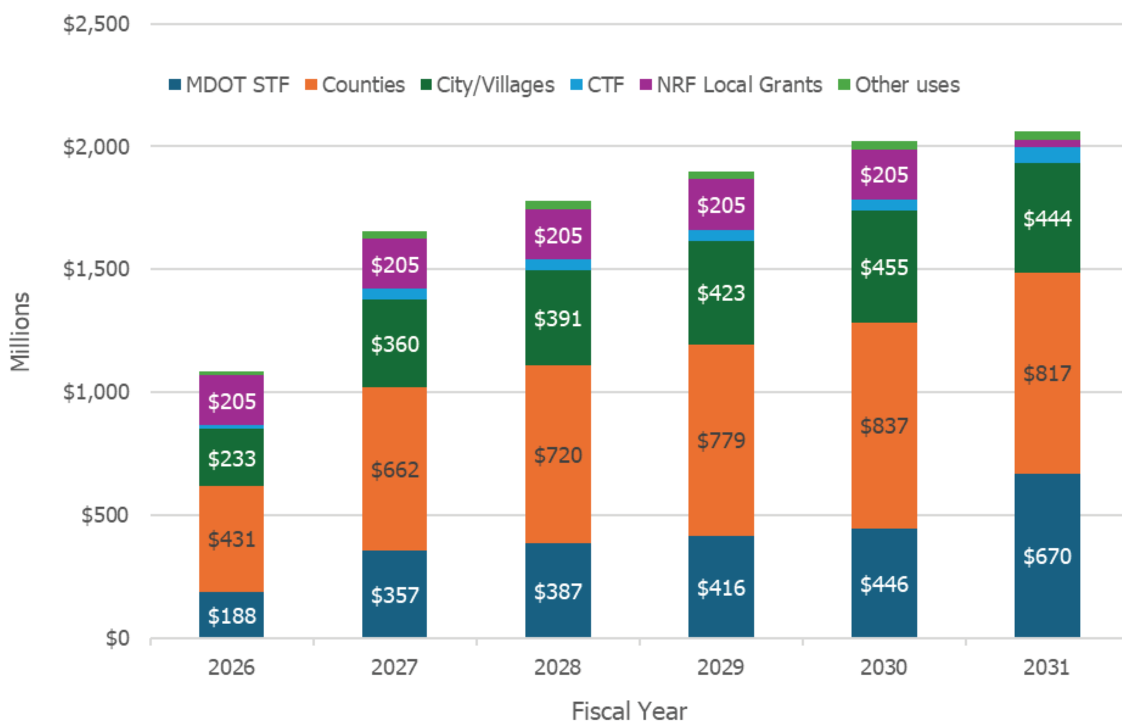
sistent. MDOT will be the main beneficiary of the reduction in NRF local grant funds. Following the change in distribution in FY2031, MDOT will receive about $670 million—nearly a third of the NRF.

2.4 Distribution Trends

If all anticipated revenue becomes available, the 2025 TFP is estimated to provide about $1.09 billion in net new revenue in FY2026, increasing to $2.06 billion in FY2031.

Chart 2 shows how this revenue will be distributed from FY2026 to FY2031.

Chart 2
Distribution of Net New Revenue, FY2026 to FY2031



Note: Distribution figures assume full availability of anticipated revenue.
Source: See Appendix for data sources and methodology.

MDOT State Trunkline Fund

The bottom (dark blue) bar in Chart 2 is the share of new revenue allocated to MDOT's State Trunkline Fund (STF). In FY2026, MDOT will receive $188 million (17.3 percent) of new revenue provided by the 2025 TFP.

MDOT's allocation will increase to $357 million in FY2027—the first full year of implementation of the 2025 TFP. This will increase to $446 million by FY2030.

In FY2031, the NRF distribution formula change increases MDOT's share of new revenue to 32.5 percent, about $670 million.

MDOT is slated to receive a total of $2.46 billion in new funding over this six-year period, 23.4 percent of all new revenue.

County Road Commissions

In FY2026, county road commissions will receive $431 million of the new revenue. This will increase to $662 million in FY2027 and $837 million by FY2030.[q] Additionally, many county road commissions will likely receive a share of the annual $205 million in NRF local grant funding allocated from FY2026 to FY2030.

County road commissions will see a $20 million reduction in funding when the NRF distribution formula changes in FY2031 and NRF local grant funding will be greatly reduced.

County road commissions will receive an estimated $4.2 billion in new funding from FY2026 to FY2031, not including NRF local grants. This equates to 40.4 percent of all new revenue generated by the 2025 TFP.

Cities and Villages

City and village road agencies will receive about $233 million in new funding in FY2026. New funding will increase to $360 million in FY2027 and $837 million by FY2030.[r] Additionally, many cities and villages will receive a share of the $205 million in annual NRF local grant funding from FY2026 to FY2030.

In FY2031, the NRF formula change will reduce funding of cities and villages by $11 million, as well as greatly reduce NRF grant funding.

From FY2026 to FY2031, cities and villages will receive about $2.3 billion in new funding, not including NRF local grants. This is 21.9 percent of all new revenue.

Comprehensive Transportation Fund

The light-blue bar (fourth from the bottom) in Chart 2 represents new revenue dedicated to the Comprehensive Transportation Fund (CTF) that supports local transit agencies.[9]

New funding for the CTF will be $13 million in FY2026. This will increase to $40.7 million in FY2027 and steadily increase to $46.8 million by FY2030.

The CTF will benefit from the NRF distribution formula change in FY2031. The annual distribution from the NRF increases from $35 million to $52.5 million, bringing total FY2031 new funding to $66.4 million.

Cumulatively from FY2026 to FY2031, the CTF will receive about $254 million in new funding, about 2.5 percent of all revenue provided by the 2025 TFP.

q As shown by the orange bar in Chart 2, counties will receive the largest share of new funding.
r Shown by the dark green bar, third from bottom, in Chart 2.

Neighborhood Roads Funding of Local Grant Programs

The Neighborhood Roads Fund directs revenue to other funds before funding is allocated by percentage to road agencies. One of these is the Comprehensive Transportation Fund, which is discussed above. Also included are three local grant program funds.[s]

- The *Neighborhood Local Bridge Fund* will receive $100 million annually from FY2026 to FY2030. Funding from the NRF sunsets in FY2031.
- The *Local Grade Separation Fund* will receive $40 million per year from the NRF in FY2026 to FY2030, then $10 million annually beginning in FY2031.
- The *Infrastructure Projects Authority Fund* will receive $65 million per year from FY2026 to FY2030, falling to $17.5 million annually beginning in FY2031.

These three local grant programs will collectively receive $205 million annually from FY2026 to FY2030, 18.9 percent of the total new revenue in FY2026. The percentage-share declines in future years as the amount of net new revenue increases, but the grant allocations remain as fixed dollar amounts. Local grants will receive 12.4 percent of new funding in FY2027, declining to 10.1 percent in FY2030.

The formula change in FY2031 provides these three local grant programs with only $27.5 million total, 1.3 percent of new revenue in that year.

Over the six-year period from FY2026 to FY2031, NRF local grants will receive just over $1 billion, about ten percent of all new revenue.

Other Uses

Not all new revenue generated through the 2025 TFP will be allocated to roads programs or the CTF. This is represented as “other uses” in Chart 2, and includes the Comprehensive Road Funding Fund (a small allocation to MDOT to support administration of the NRF), the Recreation Improvement Fund, and various diversions of fuel tax revenue through the MTF.[t]

As shown in Chart 2, other uses (represented by the top light-green bar) will account for a very small percentage of new revenue. This is estimated at $17 million in FY2026, and $30 to $36 million in future years – about 1.7 percent of all new revenue from FY2026 to FY2031.

Townships

While townships are not part of the state road funding program, the 2025 TFP may impact funding available for managing road infrastructure within townships.

s See section 2.3 for a brief description of these funds.
t Additional details are provided in the methodology appendix.

Unless a road within a township is state trunkline (owned by MDOT), it is owned by the county road commission within which the township resides. While county road commissions receive state funding from the MTF based on a formula that includes all miles of road (as required by Act 51), many counties with large, urbanized townships have struggled to maintain township roads.

Within the Act 51 framework, county road networks are distinguished as "county primary" and "county local" roads. County road commissions can use MTF funding for both primary and local roads. However, when MTF funding supports a *local* road project, the county must contribute at least 50 percent of funding.[10]

Counties often require townships to provide the matching funds for county local road projects within each township.

While townships will continue to be left out of Michigan's road program as direct recipients of road funding, the 2025 TFP did make some attempt to address this issue. As shown in Chart 2, county road commissions will be the largest beneficiary of the new revenue. Furthermore, the majority of new funding made available to county road commissions will be from the Neighborhood Roads Fund.

Unlike the MTF, the NRF will *not* require local one-to-one matching funds when state revenue is expended on the county local road system.

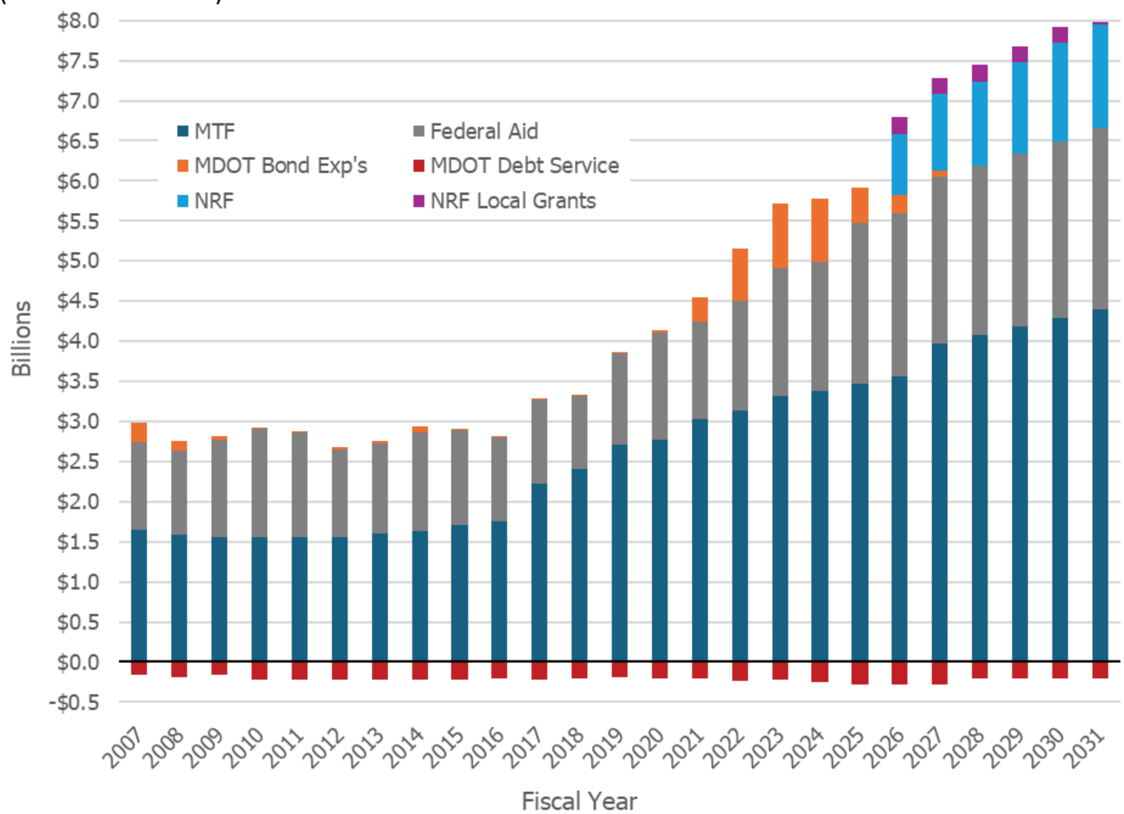
However, it will be up to individual county road commissions to determine if townships will be required to contribute funding for county local roads within their borders when NRF funds are expended. Because roads within townships are owned by the county road commission, the road commission can choose when and how to perform any maintenance or construction on those roads. Some county road commissions may opt to require matching funds from township governments regardless of state law not requiring such a match.

It is not clear how county road commissions will differentiate funding received from the Michigan Transportation Fund, which does require the one-to-one matching fund, from the funding received from the Neighborhood Roads Fund, which does not have this requirement. Additionally, if the funds can be differentiated, it may be difficult for county road commissions to address the equity issues of requiring matching funds from one or more townships but not others.

2.5 Impact of New Funding on State Roads Program

If all anticipated revenue becomes available, the 2025 transportation funding package will provide over $1 billion in new revenue in FY2026, increasing to over $2 billion by FY2030. Most of this revenue will be dedicated to roads programs. This will be a substantial increase in Michigan's overall road funding, as shown by Chart 3.

Chart 3
Michigan Roads Programs Revenue, Bond Expenditures, and Debt Service FY2007 to FY2031
(Nominal Dollars)



Source: See Appendix for data sources and methodology.

Chart 3 shows that Michigan's road funding remained relatively flat between $2.6 and $3 billion from FY2007 to FY2016. After FY2016, there was a steady increase in funding from three sources:

1. The 2015 transportation funding package increased MTF revenues via a new $600 million earmark of Personal Income Tax revenue and an increase in the state motor fuel excise tax. Additionally, the fuel tax rate was indexed to inflation—providing automatic annual increases.
2. Around 2020, federal aid increases began contributing to overall gains.
3. Expenditures from the Rebuilding Michigan Bond Program became a significant addition to funding in FY2021.

By FY2025, Michigan's total road funding had increased to nearly $6 billion, twice the level of a decade prior in nominal terms.

A notable funding increase is projected in FY2026, due primarily to the contribution of the NRF introduced by the 2025 TFP. Funding jumps again in FY2027 as the 2025 TFP becomes fully implemented. In addition to the increase in the NRF, the MTF benefits from a full year of increased fuel tax revenue in FY2027 and future years.

The gradual increase in funding from FY2028 to FY2031 is the result of the increasing contribution of the CIT earmark to the MTF, as well as forecasted inflationary increases in fuel and vehicle registration tax revenues. Funding for the statewide road program is projected to reach $8 billion in FY2031, up from $5.9 billion in FY2025.

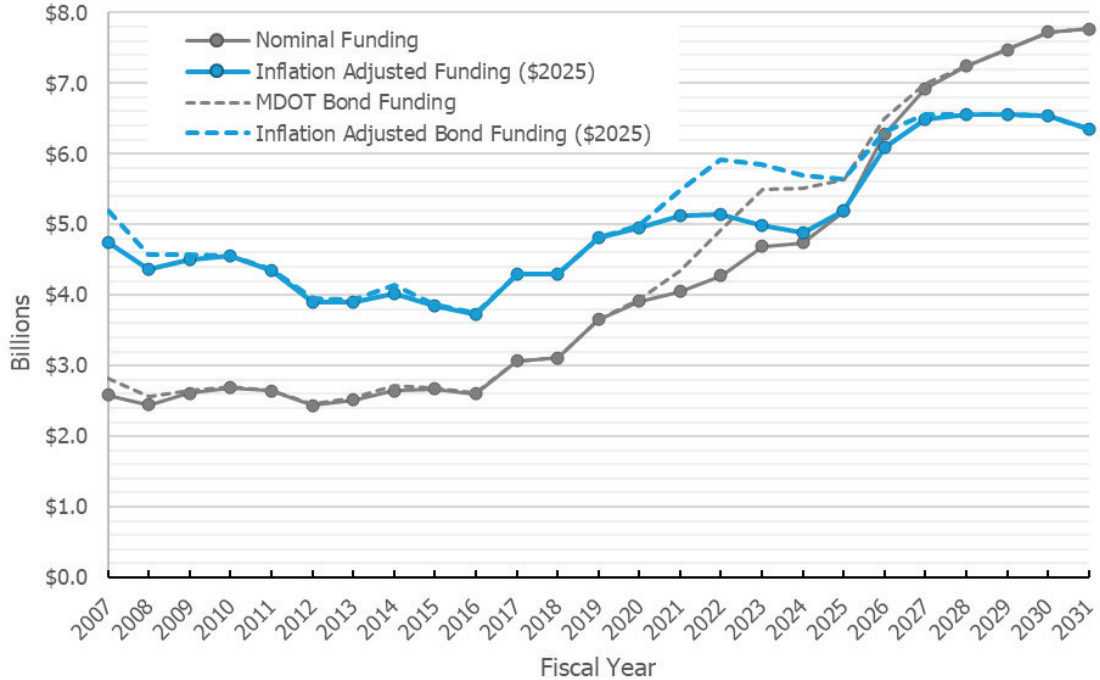
Chart 3 also shows the impact of MDOT bond funding (the orange bar). Bond expenditures peaked in FY2023 at $810.4 million. Bond expenditures are projected to steadily decline through FY2027 as the Rebuilding Michigan Bond Program proceeds are expended.

MDOT bonds must be repaid from future revenue that would otherwise be available for road projects. Chart 3 shows bond debt servicing as negative funding (the red bar below $0 on the y-axis). Since FY2007, Michigan has dedicated an average of $215 million annually for debt servicing.

Chart 4 shows the net funding available through the state transportation budget for roads programs, as well as an inflation-adjusted figure. The nominal funding data in Chart 4 (gray line) is derived from the same data as Chart 3, but debt servicing has been subtracted from the total rather than shown as negative expenditures.

The bold blue line in Chart 4 shows Michigan's net road funding adjusted for inflation. The inflation-adjusted data illustrates the real purchasing power of Michigan's road funding from FY2007 to FY2031.

Chart 4
Net Statewide Roads Programs Funding, FY2007 to FY2031
(Nominal and Inflation-adjusted)



Source: See Appendix for data sources and methodology.

Chart 4 shows that nominal road funding remained flat for FY2007-FY2016 at about $2.5 billion. Funding roughly doubled to about $5.2 billion by FY2025 (not including bond expenditures) and is expected to increase to $7.8 billion by FY2031—nearly triple FY2016 levels.

However, the *inflation-adjusted* data is more representative of Michigan's road funding in real terms. From FY2007 to FY2016, as nominal funding remained flat, the purchasing power of that funding declined from about $4.75 billion (not including bond expenditures) to a low of $3.74 billion. This represents a decrease in real funding of about 20 percent over these nine years.

Inflation-adjusted funding increased after FY2016, exceeding FY2007 levels in FY2019. However, high cost-inflation from 2021 to 2023 reduced the real value of road funding more than anticipated. While nominal funding has nearly doubled from FY2016 to FY2025, real purchasing power is up only about 40 percent over this period and has been relatively flat since FY2019 (not including bond expenditures).

Looking ahead, the projected new revenue from the 2025 TPF is forecast to increase Michigan's nominal road funding from $5.2 billion in FY2025 to $7.8 billion by FY2031.

Michigan's inflation-adjusted road funding is forecast to flatten-out after FY2027, albeit at historically high levels of $6.3 billion. This is around 25 percent higher than FY2025 funding (bond expenditures notwithstanding) and

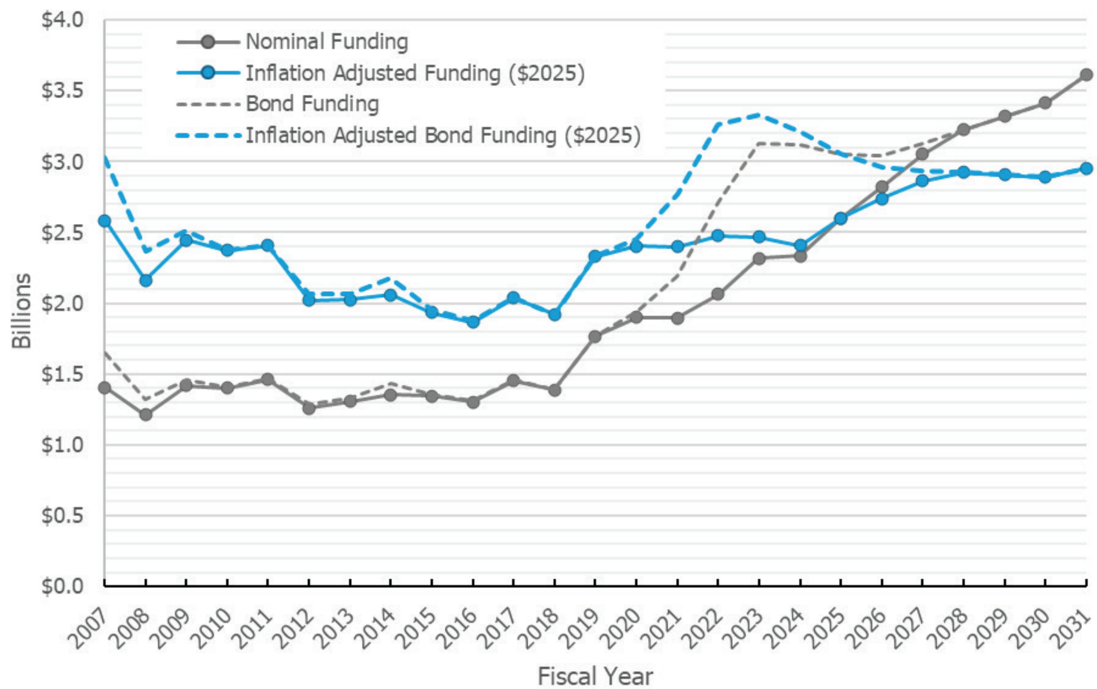
38 percent higher than FY2007.[u]

2.6 MDOT Roads Funding in Historical Context

The 2025 transportation funding package is expected to result in a notable funding increase to Michigan's entire roads program in FY2026 and FY2027. The impact on the Michigan Department of Transportation will be muted, particularly when bond expenditures are included in the analysis.

Chart 5 provides MDOT's *net* annual funding (i.e. debt servicing has been subtracted from gross revenue).

Chart 5
Net MDOT Roads Programs Funding, FY2007 to FY2031
(Nominal and Inflation-adjusted)



Source: See Appendix for data sources and methodology.

MDOT's nominal road funding (solid gray line) was relatively flat from FY2007 to FY2016. During this period, inflation-adjusted funding (solid blue line) declined about 28 percent—from $2.58 billion to $1.87 billion (not including bond funding). The revenue increases from the 2015 transportation funding package have brought MDOT's baseline funding back up to nearly $2.5 billion—about the same level as in FY2007.

As bond funding has been such an integral feature of MDOT's road program, it may be most informative to evaluate MDOT's funding levels by the dashed lines in Chart 5, which reflect all expenditures (including bonds), but does not include revenue dedicated to debt servicing (and thus unavailable for other

u Analysis does not include state GF/GP legislative earmarks. See appendix for details.

uses). With bond funding *included*, MDOT expended about $3 billion (inflation adjusted) in FY2007. This expenditure level was not exceeded until FY2022, and then only due to the Rebuilding Michigan Bond Program.

While the 2025 transportation funding package will provide MDOT with additional revenue, the draw-down of bond proceeds and ongoing inflation will counteract this, resulting in near flat purchasing power from FY2025 through FY2031. The department is not expected to resume the historically high annual funding levels provided by the Rebuilding Michigan Bond Program in the foreseeable future.[v]

2.7 Funding for Local Road Agencies in Historical Context

Evaluating the impact of the 2025 transportation funding package on local agencies is more straightforward than assessing the funding impacts for MDOT as there is no need to consider the messy influence of bond funding and debt servicing. This is not to say that local agencies do not use bond funding, but local bonding is not part of the state transportation budget (the primary focus of this analysis).

County Road Commissions

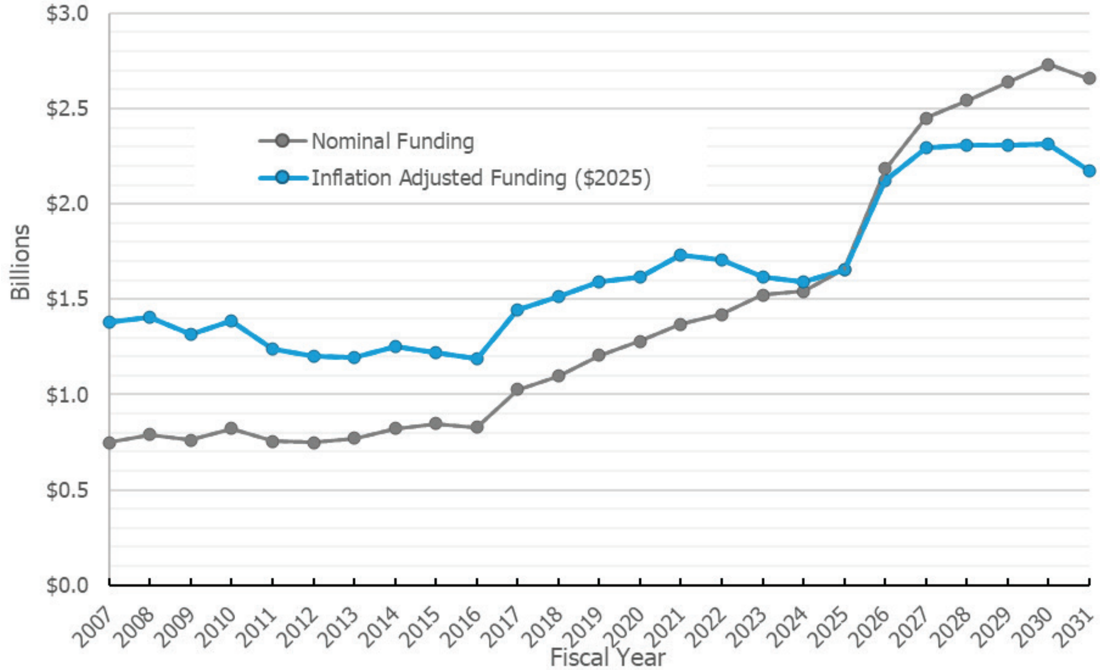
Chart 6 provides the sum of state and federal funding for county road commissions from FY2007 to FY2031 in nominal and inflation-adjusted dollars.[w]

Inflation-adjusted funding for county road commissions hit a low point in FY2016 at $1.19 billion. Following the implementation of the 2015 transportation funding package, funding rapidly increased, reaching a peak of $1.73 billion in FY2021. While nominal funding continued to increase, high cost-inflation from 2021 to 2023 outpaced nominal gains. In FY2025, inflation-adjusted funding to county road commissions was an estimated at $1.66 billion—below the FY2021 peak but still a 40 percent increase from the FY2016 low-point, and 20 percent over FY2007.

v Analysis assumes no further bond sales. Analysis omits general fund earmarks.

w Analysis includes an assumed share of NRF local grant funding awarded to county road commissions. See methodology appendix for details.

Chart 6
County Roads Programs Funding, FY2007 to FY2031
(Nominal and Inflation-adjusted)



Source: See Appendix for data sources and methodology.

With new funding provided by the 2025 TFP, county road funding is forecast to reach about $2.3 billion in FY2027 and remain near that level (in inflation-adjusted dollars) through FY2030. This is more than 90 percent greater than the low point in FY2016 and 64 percent higher than FY2007.

In FY2031, road funding for county road commissions is expected to decline somewhat due to the scheduled change in the distribution formula in the NRF.[x] However, funding will remain substantially higher than historically typical levels.

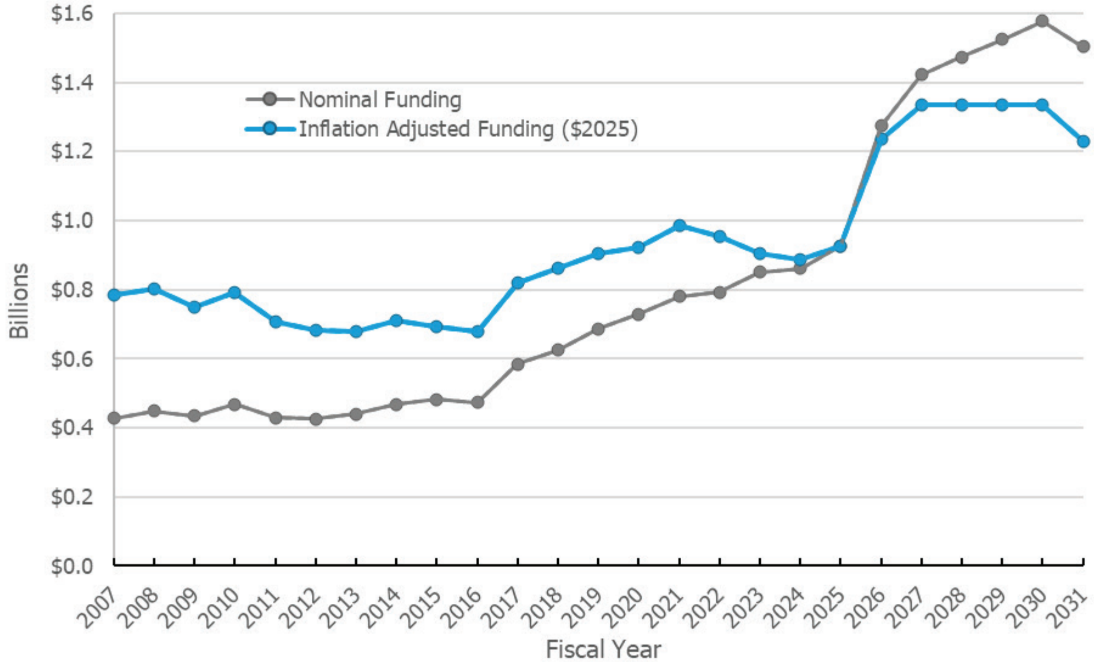
City and Village Road Agencies

Like counties, Michigan's cities and villages will begin receiving generous formula distributions from the Neighborhood Roads Fund (NRF) and will benefit from the increased fuel tax and subsequent distribution through the MTF. Additionally, slightly more than half of NRF local grants is expected to be awarded to cities and villages.[y]

Chart 7 provides the annual amount of state and federal funding for cities and villages from FY2007 to FY2031 in both nominal and inflation-adjusted dollars.

x See section 2.3.
y Analysis includes an assumed share of NRF local grant funding awarded to city and village road agencies. See methodology appendix for details.

Chart 7
City and Village Roads Programs Funding, FY2007 to FY2031
(Nominal and Inflation-adjusted)



Source: See Appendix for data sources and methodology.

Inflation-adjusted funding for cities and villages hit a low point in FY2016 at $677 million. Funding then rapidly increased, reaching a peak of nearly $1 billion in FY2021. While nominal funding continued to increase, high cost-inflation from 2021 to 2023 outpaced nominal gains. In FY2025, funding to city and village road agencies was $926 million—less than in FY2021 but still a 37 percent increase in real purchasing power from FY2016.

With new funding provided by the 2025 TFP, city and village inflation-adjusted funding will reach about $1.33 billion in FY2027 and remain near that level through FY2030. This equates to a 97 percent increase in real terms greater than the low point in FY2016 and 66 percent greater than FY2007.

As with counties, funding for cities and villages is expected to decline in FY2031 due to the scheduled change in the distribution formula in the NRF.[z] However, funding will remain substantially higher than historically typical.

Limitations of Analysis

The data provided in this section reflects the sum total of funding provided to all of Michigan's 83 county road commissions and 531 city/village road agencies, respectively. Thus, these trends represent a comprehensive average for each type of local road agency. However, past and future funding trends for any individual local agency may look significantly different.[aa]

z See section 2.3.
aa For example, it is estimated that about 15 to 20 percent of all local road funding from the state is

This analysis concludes only that, *on average*, local road agencies are currently receiving more funding through the state than has been historically typical. Furthermore, *on average*, funding for local road agencies is forecast to significantly increase further in FY2026 and FY2027.

However, this analysis cannot and should not be used to draw conclusions about the financial status or ongoing road funding needs of any particular local road agency.[ab]

2.8 Additional Funding Trend Details

As previously discussed, Michigan's road funding has steadily increased since FY2016, at least in nominal terms. But it is more relevant to evaluate the real purchasing power of funding as impacted by cost inflation.

Chart 8 breaks out inflation-adjusted funding by source and recipient. Bond expenditures are not shown in Chart 8, but revenue dedicated to debt servicing is included in the funding data.

Chart 8 demonstrates the power of inflation in reducing the effective purchasing power of road funding. While nominal funding was flat from FY2007 to FY2016, purchasing power in 2025-equivalent dollars declined from $4.96 billion to $4.08 billion—a 19 percent reduction.

Similarly, while nominal funding has steadily increased every year since FY2016, cost inflation has recently outpaced gains, due largely to historically high inflation from 2021 to 2023. This led to a decline in purchasing power in FY2023 and FY2024 before rebounding in FY2025.

Looking forward, it is estimated that nominal funding in FY2031 will approach $8 billion. However, assuming historically typical annual inflation, inflation-adjusted funding will be about $6.5 billion. In real terms, Michigan's road funding is likely to peak in FY2027 around $6.75 billion.[ac]

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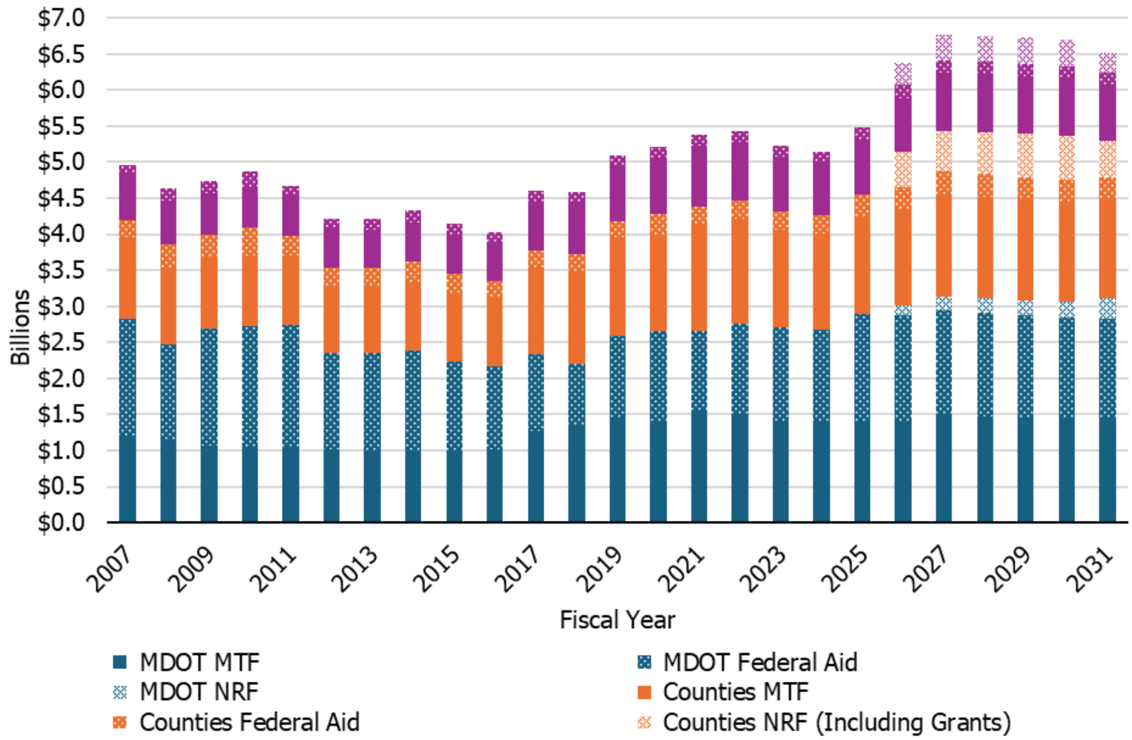
pass-through of federal aid highway funds. Federal aid dollars are not distributed to individual agencies by formula, but are made available on a project-by-project basis through a complicated decision process. Many local agencies may go years without receiving federal aid for an eligible project, while others may be frequent recipients. Additionally, the Michigan transportation budget includes numerous carve-outs and grant programs that may be awarded on an individual basis. Complicating matters is that in any given year, Michigan's transportation budget may include legislative road funding earmarks to specific local agencies or purposes. From FY2012 to FY2025, about five percent of funding has been provided by earmarking of general fund revenue for roads programs. This is not included in the analysis.

ab In addition to the potential for variations in revenue sharing noted in the previous footnote, local agencies all have their own local revenue sources, which may vary greatly. More critically, each local agency has unique challenges that affect funding needs. For example, areas with high truck traffic require higher construction standards and/or more frequent maintenance. Variations in climate, geology, and topography may impose additional costs. Projects in complex urban right-of-ways are more expensive than rural areas. Construction costs are not even across the state—replacing a mile of road is more expensive in some places than others. For an extended discussion, see Citizens Research Council Report 420: A *Data-Driven Assessment of Michigan's Road Program*, March 2025 https://crcmich.org/publications/data-driven-assessment-michigans-road-program.

ac If this seems unintuitive, consider that 3.5 percent of $8 billion is $280 million. Inflation, like inter-

As with other aspects of this analysis, this assumes full availability of all revenues dedicated by the 2025 TFP.

Chart 8
Michigan Roads Programs Funding by Source and Recipient, FY2007 to FY2031
(Inflation-adjusted)



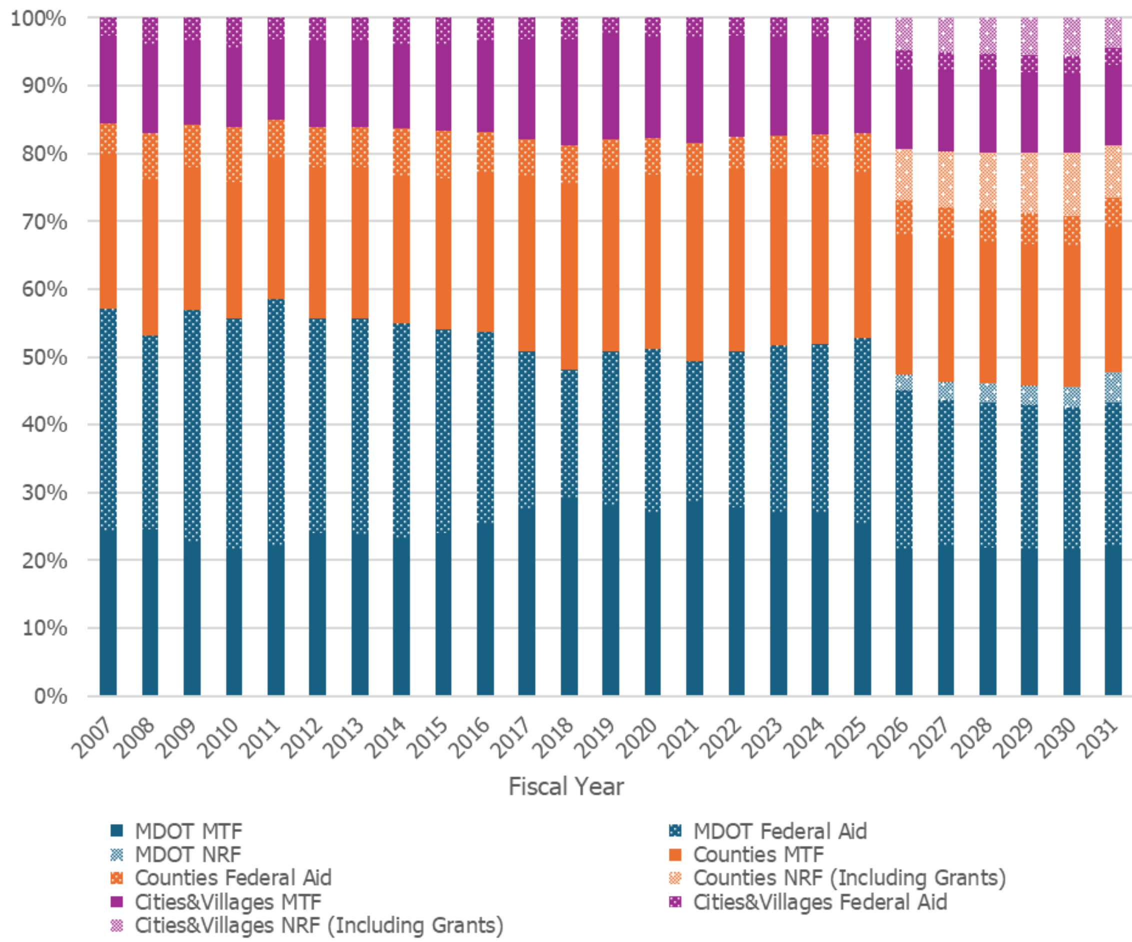
Source: See Appendix for data sources and methodology.

Relative Distribution

Another useful way to evaluate this data is by distribution as a percentage of the budget. All of Michigan's road agencies have generally benefited from the 2015 transportation funding package, and all will further benefit from the 2025 TFP. However, not all recipients have benefitted equally, as shown in Chart 9.

est, compounds annually. Thus, if Michigan had a nominally flat $8 billion road budget at historically typical inflation rates, an additional $280 million in purchase power is lost each year, or over $1 billion every four years.

Chart 9
Michigan Roads Programs Funding by Source and Recipient as Percentage of Total Funding, FY2007 to FY2031



Source: See Appendix for data sources and methodology.

While Michigan has meaningfully increased road funding through both the 2015 and 2025 funding packages, distribution of funds has gradually, but significantly, shifted towards local road agencies. Year-to-year variations in Chart 9 may obfuscate this trend, but this can be clarified by breaking down percentage shares within four time periods:

1. **FY2007 to FY2016** – Before implementation of the 2015 transportation funding package
2. **FY2017 to FY2025** – After implementation of the 2015 transportation funding package
3. **FY2026 to FY2030** – After implementation of the 2025 transportation funding package.
4. **FY2031 and after** – After the legislatively scheduled change in the NRF distribution formula.

Table 2 shows the average percentage share of road funding for each period.

Table 2
Average Percentage Share of Road Funding by Recipient Type

	MDOT	Counties	Cities/Villages
FY2007-FY2016	55.5%	28.3%	16.1%
FY2017-FY2025	50.8%	31.4%	17.7%
FY2026-FY2030	46.2%	34.0%	19.7%
FY2031 and after	47.8%	33.3%	18.9%

Source: See Appendix for data sources and methodology.

Prior to the 2015 transportation funding package, MDOT received, on average, 55.5 percent of all road funding. This declined to 50.8 percent in the FY2017-FY2025 period, and will decline to nearly 46 percent following the 2025 TFP.

The drop in MDOT's overall share of funding between the FY2007-2016 and FY2017-FY2025 periods was primarily due to relative share of federal aid within the full roads budget.[ad]

The drop in MDOT's share of funding between the FY2017-FY2025 and FY2026-FY2030 periods is a result of the 2025 TFP and its increased emphasis on local funding. MDOT's share will decline from about 50.8 percent to 46.2 percent (averaged over these periods).

It is estimated that MDOT's share will increase slightly to 47.8 percent in FY2031 with the scheduled change in the NRF distribution formula. However, absent further legislative changes, MDOT is unlikely to receive more than half of total road funding for the foreseeable future despite receiving about 75 percent of federal aid funding.[ae]

2.9 State Revenue Trends (Federal Aid Omitted)

Thus far, the analysis of the Michigan road funding has included federal aid. It is important to consider federal aid in any comprehensive analysis of roads funding because it contributes about 30 percent of all funding provided through the state roads program in any given year,[af] including about half of MDOT's funding.

However, the amount of federal aid made available is mostly outside the control of state decisionmakers. On the other hand, the amount of state-sourced revenue and the distribution of that revenue is very much under control of the state legislature. Thus, it is useful to evaluate state revenue specifically.

Chart 10 shows roads funding from state revenue sources only, inflation-

ad The split of federal funding between MDOT and local road agencies is consistently around 75 percent (averaging 76.2 percent in FY2007-FY2016, and 74.2 percent in FY2017-FY2025). However, before the 2015 transportation funding package was enacted, federal aid was a relatively larger share of the budget. Since MDOT receives about 75 percent of federal aid, and only about 40 percent of state revenue, the increase in state revenue resulted in MDOT getting a smaller percentage of total funding.

ae Analysis omits general fund earmarks.

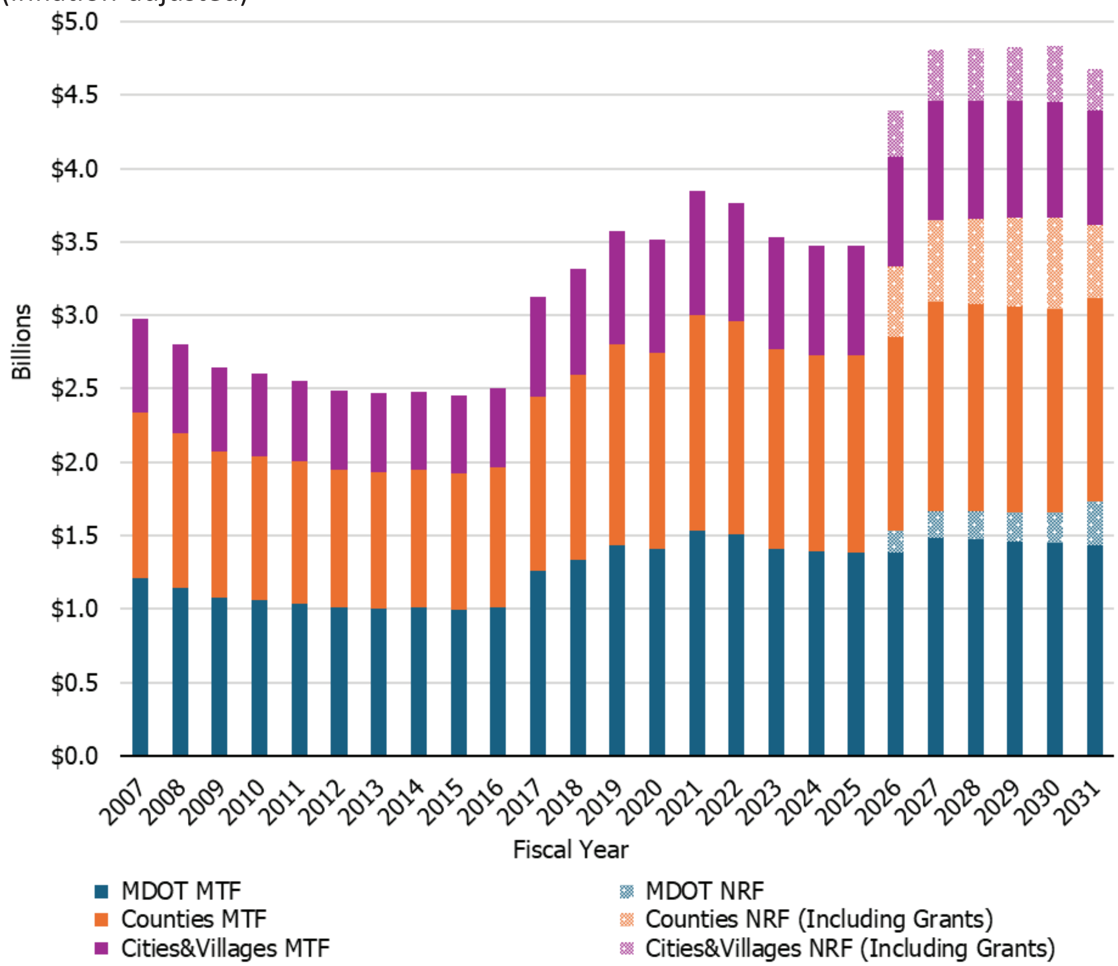
af Not including local revenue sources used by local road agencies.

adjusted to 2025 dollars.

The 2015 transportation funding package increased road funding substantially. After peaking in FY2021 ($3.84 billion), inflation-adjusted state revenue fell to just below $3.5 billion in FY2025. Still, inflation-adjusted revenue was up 41 percent since implementation of the 2015 funding package.

The 2025 TFP is expected to increase total state funding to $4.81 billion in FY2027, a 38 percent increase from FY2025, and 95 percent higher than the low point of just over a decade ago.

Chart 10
Michigan State Shared Revenue for Road Funding by Source and Recipient, FY2007 to FY2031
(inflation-adjusted)



Source: See Appendix for data sources and methodology.

Relative Distribution of State Roads Revenue

Both the 2015 and 2025 transportation funding packages have resulted in a shift of emphasis away from MDOT and towards local agencies. The shift due to the 2015 transportation funding package is marginal. But the shift from the 2025 TFP is abrupt.

Table 3 summarizes the average state-sourced funding and percentage share for each of the four time periods introduced by Table 2 (page 27).

Table 3
Share of State Revenue Sharing by Road Agency Type
(Inflation-adjusted $millions)

	MDOT		Counties		Cities & Villages	
	Avg. Funding	Avg. Share	Avg. Funding	Avg. Share	Avg. Funding	Avg. Share
FY2007-FY2016	$1,056	40.6%	$982	37.8%	$561	21.6%
FY2017-FY2025	$1,408	40.1%	$1,345	38.3%	$760	21.6%
FY2026-FY2030	$1,635	34.5%	$1,961	41.4%	$1,142	24.1%
FY2031	$1,735	37.1%	$1,879	40.2%	$1,064	22.7%

Source: See Appendix for data sources and methodology.

During the period following enactment of the 2015 transportation funding package (FY2017–FY2025), MDOT's average annual inflation-adjusted funding increased by about $352 million (33 percent) over the previous decade average. However, its share of total state revenue sharing dropped slightly. For the FY2026-FY2030 period following the 2025 TFP, MDOT will receive an additional $227 million, on average, each year. This is 16 percent greater than the FY2017-FY2025 period, and a 55 percent increase compared to the pre-FY2017 decade.

The 2015 transportation funding package resulted in an average inflation-adjusted funding increase for county road commissions of $363 million per year, a 37 percent relative gain over the FY2007-FY2016 period. The 2025 TFP will provide county road commissions an additional $616 million each year, on average, through FY2030. This is a 46 percent increase over the FY2017-FY2025 period and double the average funding before FY2017.

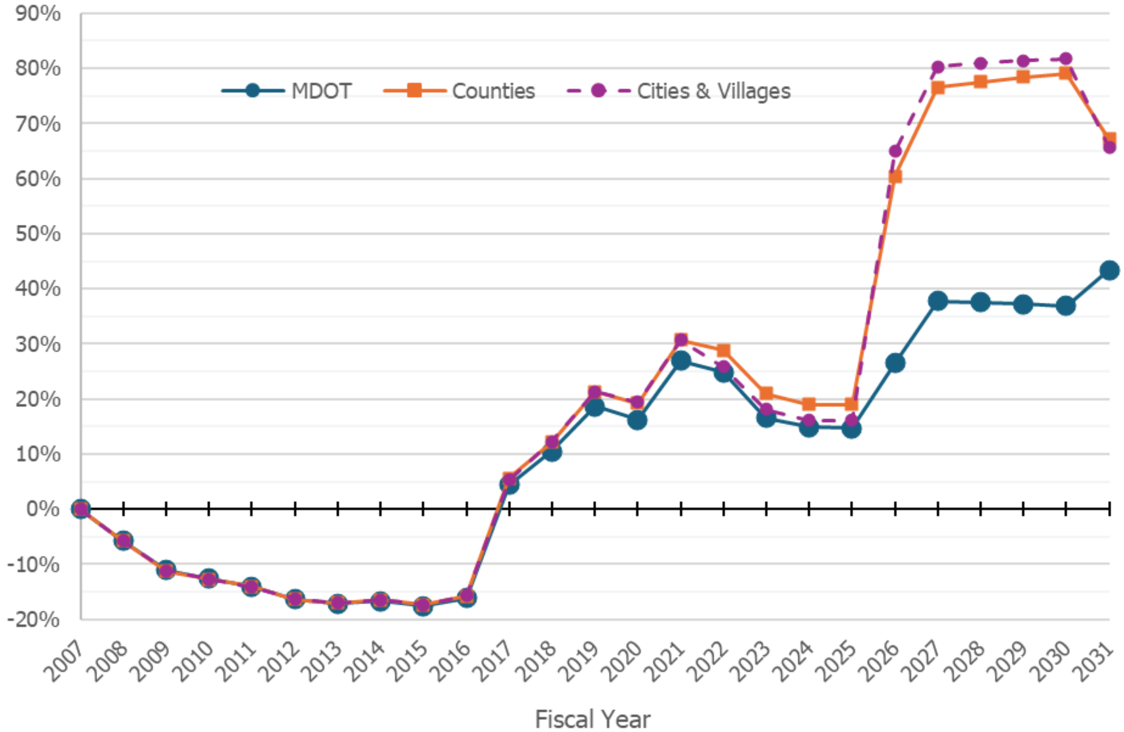
Notably, following the 2025 TFP, county road commissions will receive more state road revenue than MDOT.

Cities and villages received $199 million per year more in FY2017-FY2025 over the previous decade—a 35 percent increase. The 2025 TFP will provide cities and villages with an additional $382 million per year, on average, for the next five years—a 50 percent increase over the previous period and more than double the FY2007-FY2016 average.

Overall, both the 2015 transportation funding package and the 2025 TFP have increased funding for all road agencies in real terms. Furthermore, both packages increased the share of funding for local road agencies.

Another way to visualize this shift in revenue sharing is by the change in inflation-adjusted funding relative to FY2007, as shown in Chart 11.

Chart 11
Relative Change in Funding by Recipient Since FY2007
(Inflation-adjusted)



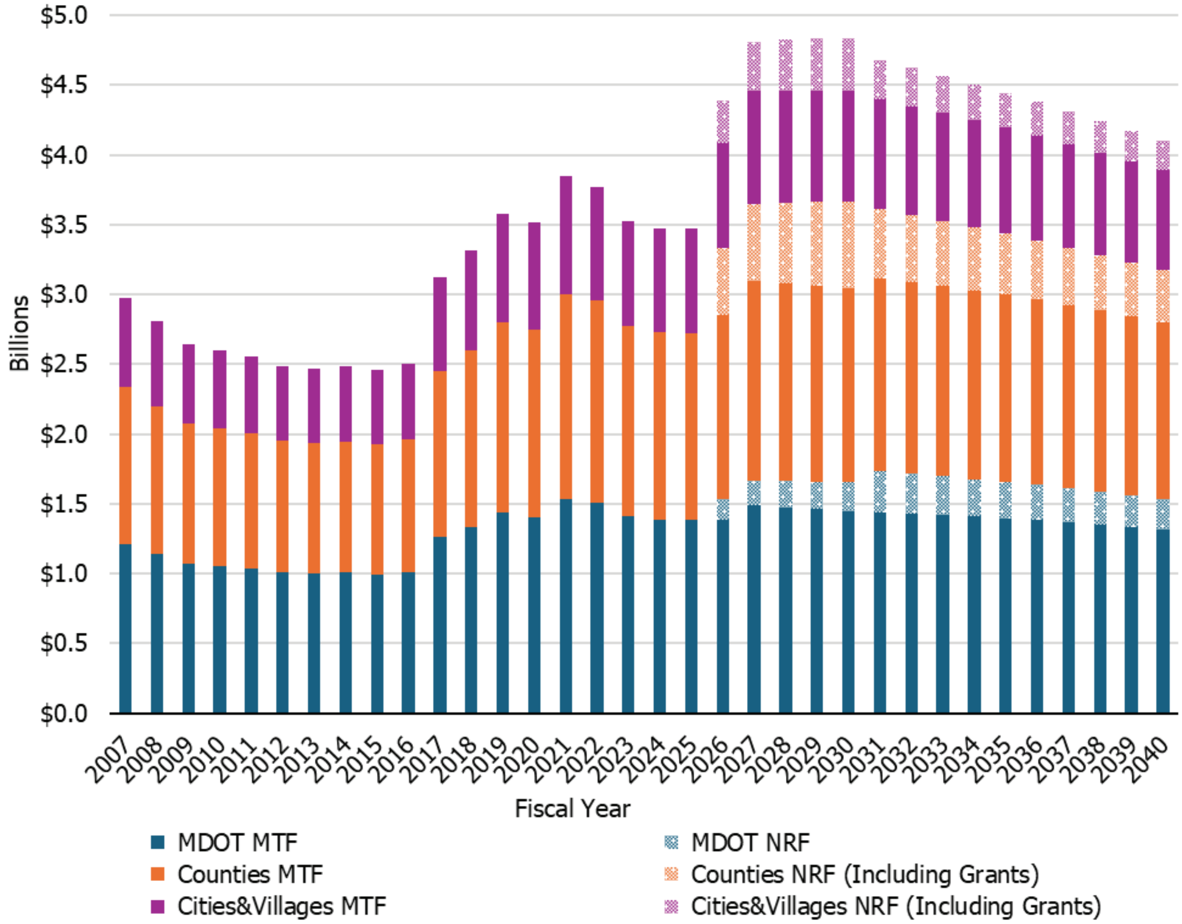
Source: See Appendix for data sources and methodology.

'Futurecasting' State Roads Revenue

Forecasting is tricky business. The forecasts provided for FY2026 to FY2031 represent a best attempt to reflect the intended outcome of the 2025 TFP assuming typical inflation and no disruptive factors. The precision with which this forecast is presented should not be interpreted as high confidence. It is likely that something unexpected will happen in the next five years.

Forecasting beyond five years is more an exercise of divination than analysis. But it can still be useful. Chart 12 forecasts Michigan's roads program funding (not including federal aid) through FY2040.

Chart 12
State Roads Funding, FY2007 to FY2040
(Inflation-adjusted)

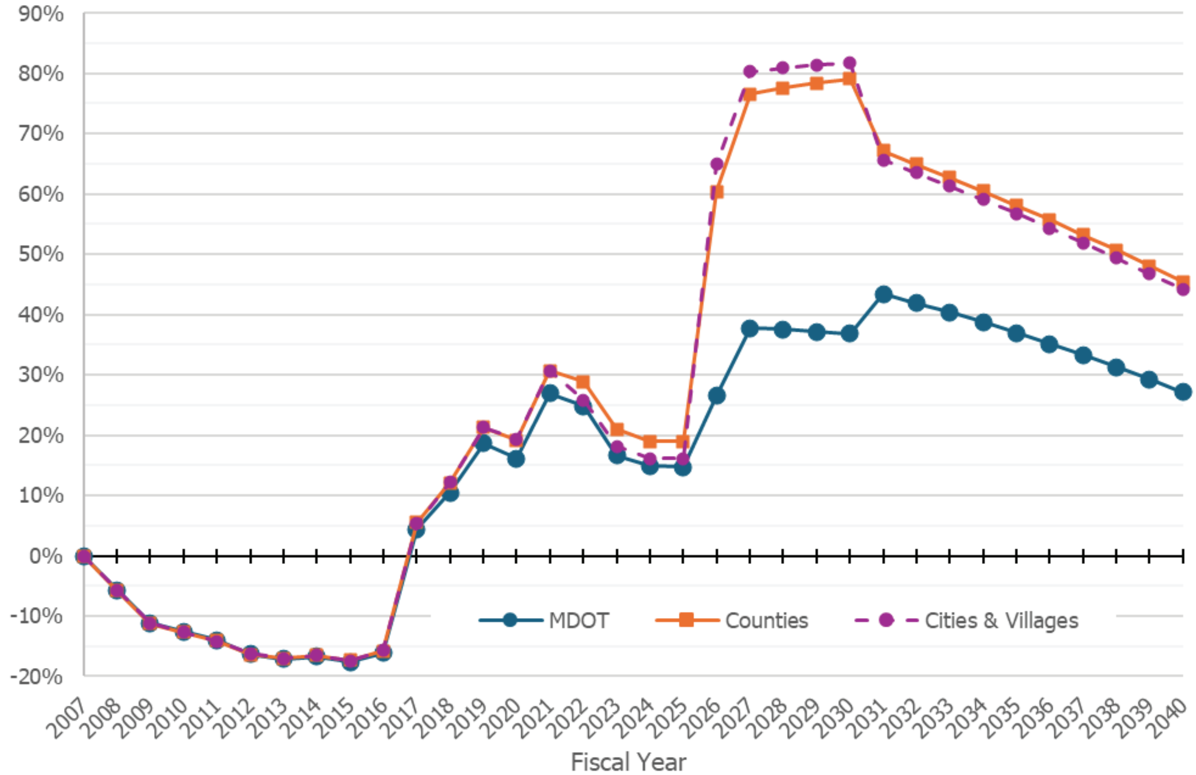


Source: See Appendix for data sources and methodology.

If all anticipated revenue becomes available, assuming fairly conservative estimates of revenue generation, historically typical inflation rates, and all else being equal, Michigan's total (state-source) road funding will remain historically high for the foreseeable future.

Chart 13 provides the same data, but presented as *relative* changes in inflation-adjusted funding from base year FY2007. By FY2040, MDOT's funding will fall to roughly the previous peak seen in FY2021. Local agencies will remain well above historical funding levels.

Chart 13
Relative Change Funding by Recipient Since FY2007
(Inflation-adjusted)



Source: See Appendix for data sources and methodology.

3 Potential Pitfalls and Oversights

At first glance, it would appear that the 2025 TFP has provided Michigan with a fundamentally sound long-term roads funding solution. However, a more comprehensive evaluation suggests potential pitfalls and pratfalls in FY2026 and beyond.

3.1 Unexplained Priorities

One take-away from this report is that Michigan's roads program is intractably complicated. It is very difficult to understand and explain where funding has gone in the past, and where it will go in the future. More problematic is that there is very little understanding of how funding has been matched to objective road funding needs.

The 2025 TFP was adopted outside of the typical state appropriations processes Thus, it is unclear how much consideration was given to how funding should be distributed and the justification for that distribution. Whatever the reasoning, the result is that local road agencies will receive a notably larger share of state roads revenue in the coming years.

As shown in Table 3 on page 30, the relative share of Michigan's road funding dedicated to MDOT will decline by over five percentage points for the FY2026-FY2030 period.

The emphasis on supporting local agencies in the 2025 TFP stands in contrast to recent years, where the legislature has prioritized MDOT with one-time earmarked roads funding. Thus far, the analysis has included only the funding distributed through the MTF as determined by Act 51, and the new NRF funding. However, from FY2012 to FY2025, roads funding has been subsidized with over $1.5 billion from the state General Fund. The majority of this has gone to MDOT (Table 4)

Table 4

Roads Funding Earmarks from State General Fund Revenue

(Not Inflation-adjusted)[11]

	MDOT		Counties		Cities & Villages	
	GF Funding	Share	GF Funding	Share	GF Funding	Share
FY2012 to FY2025	920,471,750	60.7%	383,171,750	25.3%	213,635,400	14.1%

Source: Data made available by Michigan House Fiscal Agency

The 2025 TFP is intended to increase funding for all road agencies. However, an efficient roads funding program would distribute funding in a way that makes sense based on state priorities and related needs. There has been relatively little public discussion about what the state's priorities are (beyond generally increasing funding), nor what the appropriate distribution of state funds *should* be to match these needs.

3.2 Failure to Address Sub-distribution Formula Inequities

As discussed above, it is not clear what the appropriate top-line percentages *should* be in distributing state funds.[ag] An additional issue in Michigan's road program is that the sub-distribution formula among local agencies is outdated and does a poor job at matching funding with objective needs.[12]

The 2025 TFP did nothing to address this long-standing issue. By increasing the funding allocated through this ineffective formula, the 2025 TFP has likely amplified the inefficiency of Michigan's roads program. In fact, the 2025 TFP has made the funding scheme substantially more intractable by creating the new Neighborhood Roads Fund, which now runs parallel to the Michigan Transportation Fund.

While all road agencies will receive increased funding through the 2025 TFP, many local agencies will likely continue to be short-changed, while others will receive more state funding than can be justified. As there has been no effort to evaluate the inequities in the current funding scheme or how the 2025 TFP will address them, it is unclear where funding shortfalls will remain in the future. Additionally, the state has made no effort to try to determine which local road agencies make better use of funding than others. Revenue sharing is provided with very little accountability.[ah]

3.3 Uncertainty of Neighborhood Roads Fund Revenues

As described in section 2.3, about 70 percent of the net new revenue provided by the 2025 TFP will be sourced from a combination of a new Marijuana Wholesale Tax and the state Corporate Income Tax. This revenue will be deposited in the new Neighborhood Roads Fund, most of which is dedicated to roads programs. This analysis has generally adopted an assumption that all revenues expected to become available will become available. But this is not certain.

Marijuana Wholesale Tax

The new Marijuana Wholesale Tax is anticipated to provide about $417 million annually in transportation funding. However, there is a chance that this revenue will not become available.

The Michigan Cannabis Industry Association has filed a lawsuit alleging that the Marijuana Wholesale Tax is invalid and unenforceable.[ai] The cannabis

ag Further, it is unlikely that a 'top-line' distribution formula that first distinguishes between MDOT, county road commissions, and city/village road agencies makes sense. The government level of a road agency is unrelated to its needs.

ah A 2022 Performance Audit Report by the Michigan Office of the Auditor General stated, "local units…do not provide…compliance with laws and regulations; therefor, the financial audits do not provide the necessary assurance to MDOT the local units spent Act 51 funds in accordance with the statutory requirements." P. 19. https://audgen.michigan.gov/wp-content/uploads/2022/01/r591041021-8975.pdf

ai Michigan Court of Claims case no. 25-000160-MM, *Michigan Cannabis Industry Association v. State of Michigan*. In its complaint, the Michigan Cannabis Industry Association argues that Proposal 1 of 2018, industry has further asked for injunctive relief, which would delay collection of the tax and subsequent distribution of revenue to road agencies.

As this report is being drafted, a judgement on an injunction is pending. However, it may not matter. Until legal challenges are resolved, it is unlikely the Michigan Department of Treasury will distribute any revenue collected from the Marijuana Wholesale Tax. If the tax is determined invalid, the state will have to return the revenue. This revenue is likely to either not be collected or remain in an escrow account until the legal challenge has been entirely resolved.

It is also possible that the legal challenge could be resolved quickly and not become an issue. As of November 2025, this remains very uncertain.

Corporate Income Tax

The Corporate Income Tax is anticipated to provide $688 million to the NRF in FY2026, increasing to $1.04 billion in FY2030 (then remaining at that level in future years).

Before CIT revenue is deposited into the NRF, $1.25 billion is reserved for other uses (primarily the General Fund). Thus, for the NRF to receive the full amount of anticipated CIT revenue, total CIT revenue must be at least $1.94 billion for FY2026, increasing to $2.29 billion by FY2030.

This will not be an issue if CIT revenue does not fall below this threshold. However, the CIT is a relatively volatile tax and revenues have typically been much lower, as seen in Chart 14.

If CIT revenues fall below the anticipated amount, the NRF will not receive all earmarked funds. There is some chance that CIT revenues will fall below $1.25 billion and the NRF will receive no funds at all.

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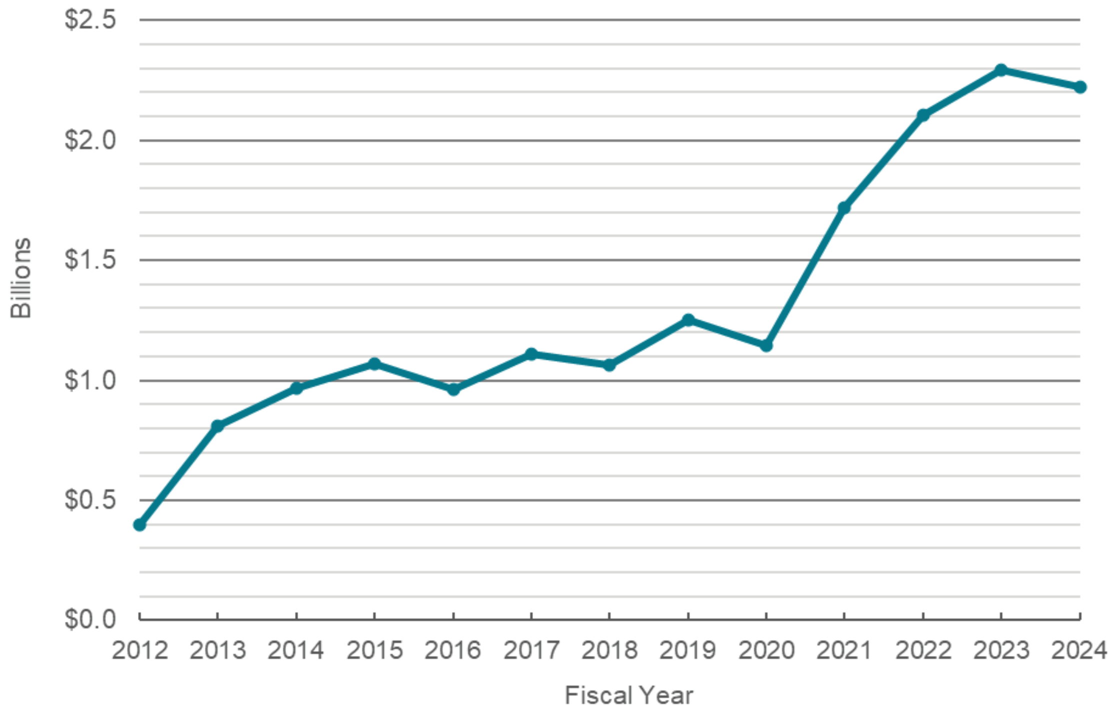
approved by voters, is the exclusive means for imposing an excise tax on the sale of marijuana, and that in order to modify the voter-initiated statute, the matter would either need to be approved by voters or achieve a three-fourths vote in the Legislature. For more information, see article by Kyle Davidson in Michigan Advance, "Cannabis industry group files lawsuit aiming to invalidate Michigan's 24% wholesale tax on marijuana," October 8, 2025. https://michiganadvance.com/briefs/cannabis-industry-group-files-lawsuit-aiming-to-invalidate-michigans-24-wholesale-tax-on-marijuana/. The article includes a link to the complaint filed by the cannabis industry

Chart 14
Corporate Income Tax Revenue, FY2012 to FY2024



Source: Citizens Research Council of Michigan, *Outline of the Michigan Tax System*, November 2025, pp. 7-9. https://crcmich.org/PUBLICAT/2020s/2025/TaxOutline_2025.pdf

Worst-case Scenario

The revenue forecasts provided in this report generally adopt a best-case scenario, including the assumption that all new revenue dedicated by the 2025 TFP will become available as expected. However, there is a non-zero possibility that the Marijuana Wholesale Tax revenue will be delayed or struck down, and the CIT revenue earmark for roads will not be available.

This scenario would result in the Neighborhood Roads Fund being completely unfunded. In this unlikely case, only the increased fuel tax, distributed through the MTF, will provide new funding.[aj]

3.4 Budget Planning Complications Imposed by the Neighborhood Roads Fund

As noted in the previous section, about 70 percent of new revenue provided by the 2025 TFP will be distributed through the NRF. About two-thirds of anticipated NRF funding is from the CIT, which will only be deposited in the

aj This scenario seems unlikely. Hopefully, Michigan will not have to consider this, as it would have severe negative consequences to road agencies and public transit programs. Regardless, that this possibility exists reflects a careless legislative approach in the drafting of the 2025 TFP.

NRF once $1.25 billion has been made available for other uses. Even if CIT revenue is sufficient to cover the NRF allocation, the other uses take priority. Thus, in any given fiscal year, the Michigan Department of Treasury will likely not deposit CIT revenues into the NRF until it is certain that the amount of tax revenue collected will cover other uses.

Furthermore, the NRF distribution formula requires that funds are diverted to five other funds before being distributed to road agencies. As such, the Michigan Department of Transportation will likely not disperse NRF funds to road agencies in any given fiscal year until it is certain that revenues will cover these other funds. These other fund diversions will require over $220 million annually from FY2026 to FY2030.

As a result of the uncertainty here, road agencies will not know exactly how much funding they will receive through the NRF in any given year or when they will receive the funding. Such uncertainty will complicate project planning and financing. Additional resources will be required to plan around these challenges. This will all culminate in a statewide roads program that will be less efficient and effective than if road agencies could rely on predictable, consistent funding.

Fiscal Year 2026 First-quarter Gap

In time, Michigan's road agencies will likely acclimate to the planning challenges resulting from uncertain NRF funding distributions. But FY2026 will impose acute strain.

Collection of new revenue provided by the 2025 TFP will not begin until January 1, 2026. These revenues will not be distributed to road agencies until at least March 2026—six months into Michigan's 2026 fiscal year, which began October 1, 2025.

However, the repeal of the $600 million Personal Income Tax earmark is effective for the entirety of FY2026. This may result in funding distributions for the first five months of the year being less than anticipated prior to the 2025 TFP.

If all goes as planned (i.e., if all expected 2026 new revenue is distributed), road agencies will receive more funding in FY2026 overall than they previously anticipated. But they likely did not plan to take a funding cut in the initial few months; the 2025 TFP was not adopted until FY2026 had already started.

Hopefully, road agencies have funds in reserve to maintain normal activities and planned projects through the FY2026 first-quarter gap. Disruption in project schedules and subsequent inefficient resource allocation is a possibility.[ak]

3.5 Reliance on Local Grant Funding

The new Neighborhood Roads Fund will provide $205 million annually to

ak As of drafting of this report, the Research Council is awaiting guidance from the Michigan Department of Treasury regarding distribution details of the NRF.

three local grant programs from FY2026 to FY2030: the *Infrastructure Projects Authority Fund* ($65 million), the *Neighborhood Local Bridge Fund* ($100 million), and the *Local Grade Separation Fund* ($40 million).[al] As these are grants that will be awarded on an individual project basis, some local agencies will benefit more than others. Many will likely receive no grants.

This is not necessarily a problem and *may* be a partial solution to deficiencies in Michigan's broader roads program. Historically, most roads funding has been distributed through the Michigan Transportation Fund according to factors selected nearly 75 years ago.[13] The formula has been amended over the decades but retains much of the original framework. This approach is now outdated and has created a mismatch between funding allocation and objective needs.[14] Local grant funding can be used to compensate for this deficiency.

In fact, the Local Bridge Program may be the most rational piece of Michigan's entire roads funding scheme.[15] Grants are awarded by committee through a points-based review process that assesses condition and criticality of each bridge, as well as the financial capacity of the local agency.[am] The NRF is scheduled to provide $100 million annually to the Local Bridge Program from FY2026 to FY2030, which will be great help to agencies that are awarded grants.

However, this does impose a potential policy hazard: Local agencies may neglect efficient investments on routine bridge maintenance in the hope that it increases the chance of receiving grant funding when repair becomes a state-level priority.

Ideally, funding needs for bridges that are critical to the state would be built-in to the base funding formula. This would provide local agencies with the resources necessary to make efficient investments in routine maintenance, repair, and reconstruction projects as appropriate to maximize the service life of each bridge.

Another issue is that the newly created Infrastructure Projects Authority Fund is poorly defined. The legislature has essentially tasked MDOT to figure out the best way to award a total of $325 million from FY2026 to FY2030.

The emphasis on local grant funding in the 2025 TFP seems to indicate that the legislature recognized that it does not know how to appropriately distribute funding among local agencies. So, it tasked MDOT with the responsibility. That could work out, but MDOT isn't working with full information either. There has been no concerted effort to understand which local agencies are justifiably struggling.

In FY2031, the $205 million in local grant funding through the NRF is reduced to only $27.5 million (including $0 to the Local Bridge Fund). It is unclear why this funding would be seen as important for five years and then not. Possibly, the

al These grant programs are included in the various charts that visualize funding distribution, possibly giving the impression that these funds will be distributed evenly among road agencies. This is a necessary oversimplification. E.g., sections 2.7, 2.8, and 2.9.

am In comparison, the distribution formula for state revenue sharing is based on factors established in 1951 that do not reflect state funding priorities or respective needs.

authors of the new funding program are expecting future legislatures to provide additional funding. Otherwise, these programs face something of a 'fiscal cliff.'

4 Policy Implications

4.1 Benefits to Michigan's Roads Program

The most positive aspect of the 2025 transportation funding package is the exemption of motor fuel from the state sales tax. By removing the sales tax from fuel and adopting an equivalent increase in the rate of the fuel excise tax, the 2025 TFP has negated a longstanding policy issue. Michigan motorists can now rest assured that all taxes paid at the pump are going to the state transportation program—mostly roads and bridges. Furthermore, as the 2015 transportation funding package indexed the motor fuel excise tax to inflation, this revenue will continue to increase in the near to medium term.[an]

If all revenue expected to be made available by the 2025 TFP becomes available, inflation-adjusted funding for roads programs will increase by about 25 percent from FY2025 to FY2027.[ao] This is a meaningful increase and should put Michigan near the top 15 states for road funding.[ap]

4.2 Unintended Consequences

About 70 percent of the new revenue provided by the 2025 TFP is not guaranteed. The Marijuana Wholesale Tax collection may be delayed or struck down by the courts. Future Corporate Income Tax collections may not be enough to completely fund the NRF earmark.

On the one hand, Michigan's road agencies will likely be thankful for any funding increases provided by these new revenue sources. On the other hand, the uncertainty around new funding imposes new challenges in planning and programming. Major road and bridge projects are typically planned years in advance. Reliable revenue forecasts are necessary for road agencies to plan accordingly. Michigan's road agencies *do* have experience in dealing with funding uncertainty. In any given year, available revenues may vary from projected budgets. However, the reliance on Marijuana Wholesale Tax and CIT revenue imposes novel and potentially extreme challenges.

Until the Marijuana Wholesale Tax is upheld by the courts, Michigan's road agencies should probably not assume that revenue will be distributed.

The CIT earmark imposes a different complication; roads funding will only become available once $1.25 billion has been allocated to other uses. Fur-

an Looking farther ahead, we must consider the impact of increasing fuel efficiency and electrification of vehicles. Diminishing returns of fuel tax revenue will become an issue in future decades.

ao The 25 percent increase assumes relatively flat federal aid funding. Focusing on state-sourced revenue, the 2025 TFP will provide up to a 38 percent increase in FY2027 compared to the FY2025 baseline.

ap This estimate is based on rough math using the framework provided by the Citizens Research Council's State Road Funding Index. See Citizens Research Council, Council Brief: *Michigan Ranks 28th in 2025 National Road Funding Assessment*, August 2025. https://crcmich.org/2025roadfunding_dennis_20250807 thermore, once revenue is deposited in the NRF, it is dedicated to various other funds before direct distribution to road agencies.

The result of this is that it is currently unclear how much funding road agencies will receive from the NRF in any given year, or when they might receive that funding. The difficulty of planning around this should not be overlooked. It is likely that Michigan's road agencies will eventually adapt to this new dynamic, possibly by accruing greater reserve funds. However, for the next few years, road agencies may struggle to plan around this uncertainty—likely imposing wasted efforts and inefficient use of resources.

4.3 Policy Oversights

Michigan's statewide roads program is a mess, and the 2025 TFP did nothing to clean it up. A 2025 CRC analysis of state funding data from 2013-2022 concludes that Michigan is the 28th most well-funded state for road funding.[16] Despite local conventional wisdom that Michigan underfunds its roads, Michigan's recent funding levels have been similar to several peer states that achieve much better system conditions—including Ohio, Indiana, Georgia, Missouri, and Tennessee.[17] Yet, Michigan ranks 40th in road system condition.[18] This analysis strongly suggests that Michigan is not using existing road funding as efficiently as it could be.

There are many potential factors that may contribute to Michigan's poorly performing statewide roads program. A Citizens Research Council report published in March of 2025 identified several potential areas of improvement.[19] Furthermore, the March 2025 CRC report encouraged state policymakers to better understand the problems in the statewide roads program before dedicating substantially more funding. The report stated, "As Michigan's legislature evaluates options to increase road funding, there should be a parallel effort to better understand how funding can be put to greatest and best use. Better information is needed to enable more effective management of the transportation system."[20]

The 2025 TFP was evidently constructed without any such effort to understand Michigan's roads program.

One of the problems with Michigan's roads funding scheme is that the governing law, Act 51, is not only fundamentally antiquated,[21] but has been amended so many times that it is now incomprehensible.[22]

Implicitly acknowledging the impossibility of understanding Act 51, the legislature made no attempt to amend the existing MTF distribution formula. Instead, the 2025 TFP created an entirely new funding mechanism: the Neighborhood Roads Fund. This approach allowed lawmakers to direct more funding to roads without considering how existing funding is being used. It also made Michigan's statewide roads program even more incomprehensible.

Generally, dedicating more funding to an inefficient system without reform will make that system less efficient. It can be expected that the additional roads funding provided by the 2025 TFP will make some positive difference. However, the scale of the funding increase is not likely to result in equivalent improvements in system condition.

4.4 What's Next?

Given the uncertainty of much of the new revenue dedicated by the 2025 transportation funding package, Michigan is now stuck waiting to see how it will work out. If the new Marijuana Wholesale Tax is struck down, and/or CIT revenues are not enough to meet the NRF roads funding earmark, there could be unpredictable consequences and subsequent legislative action.

But let's assume that things work out reasonably well: The Marijuana Wholesale Tax revenues are collected and distributed as intended and the CIT revenues fully cover the NRF earmark. In this case, Michigan will have successfully increased total roads funding by nearly 25 percent,[aq] and may be among the top ~15 best-funded states in the nation.

Unfortunately, Michigan will likely have one of the least effective statewide roads programs in the nation. Available data shows that Michigan is underperforming peer states in roads programs efficiency (i.e., the ability to translate funding dollars into pavement and bridge quality).[23] Putting more money into this system will only make things worse.

Most likely, many Michigan road agencies will continue to argue they are underfunded. Many of them will have a valid argument. There has never been an independent effort to determine what Michigan's road funding needs are or how mismatched the revenue distribution formula is with those needs.[24]

Prudence dictates that state policymakers should acquire a better understanding of Michigan's road program before adopting further changes. Fact-finding efforts should focus on addressing the following questions:

What are the State's Priorities for the Roads Program?

The 2025 TFP was adopted outside of typical appropriations processes. Without a record of committee meetings, it must be inferred from the resulting public acts what the legislature aimed to accomplish. It appears that the priority was simply to increase road funding for all of Michigan's road agencies, with an emphasis on local agencies (rather than MDOT).

There is a pressing need for fundamental policy discussions to clarify the appropriate role of state government in roads funding.

This is a unique challenge in Michigan. Only 7.9 percent of the statewide public road network (by centerline mile) is owned by the state and managed by MDOT. The other 92.1 percent is distributed among 614 local road authorities. Only three other states have more of the public road network under local jurisdiction.[25]

aq The 25 percent increase assumes relatively flat federal aid funding. Focusing on state-sourced revenue, the 2025 TFP will provide up to a 38 percent increase from FY2025 to FY2027.

Furthermore, local agencies are responsible for about 74 percent of Michigan's federal aid roads and 20 percent of the state's National Highway System. Federal aid roads, and especially the National Highway System routes, are typically high-traffic roads that serve regional, statewide, and even national priorities. It is likely appropriate to direct state and federal revenue through the state roads program to support local agencies in the construction and maintenance of these routes.

On the other hand, the introduction of the Neighborhood Roads Fund by the 2025 TFP appears to prioritize funding of local neighborhood streets that do not serve any regional or statewide purpose. Further, NRF funds are not subject to the various stipulations as funding provided by the MTF, such as a requirement to provide a local funding match when MTF funding is used on a low-volume local road.

Generally, Michigan's road funding formula (largely encompassed by Act 51 but now including the 2025 TFP) has become intractably complicated and divorced from its original intent.[ar] Substantial reform is required, ideally the full repeal and replacement of Act 51. However, such reforms cannot be rationally pursued until state policymakers establish and clarify the priorities of the state roads program.

How Much Should it Cost to Meet the State's Goals?

In 2023, an industry-funded study estimated that Michigan's road "funding gap" was as much as $4 billion annually.[26] The findings of this study were provided in testimony to multiple legislative committees and informed assumptions subsequently adopted by state policymakers regarding road funding needs. This "funding gap" estimate deserves a more critical evaluation.

For example, the estimated funding gap includes funding for 165,000 lane-miles of county-local (non-federal aid) roads, as well as costs for county road commission equipment and facilities.[as] As noted above, appropriately scoping Michigan's roads program and policy priorities may not include covering these costs.

Furthermore, the funding needs estimate was based on data provided directly from the road agencies themselves. It is reasonable to believe that road agencies may overestimate their funding needs in communications with policymakers and the public. In fact, the pavement asset management approach required of Michigan road agencies consistently overestimates funding needs.[at,27]

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ar The original intent of the 1951 law was as a 15-year construction program to modernize the state highway system.

as Oddly, city and village local road agency costs were not included.

at Road agencies are required by provisions in Act51 to participate in the state asset management program governed by the Transportation Asset Management Council, which consists of appointed volunteer council members representing various road interests. Agencies are permitted to, and often do, employ alternative asset management approaches for internal use. However, the framework established by the state program has been ineffective at improving statewide pavement asset management. See

After clarifying the priorities and scope of Michigan's roads program, policymakers should fund *independent* research to estimate the annualized life-cycle costs of the roads that fall within the state's priorities. This would be an extensive project, but not difficult. An engineering consultant would be able to take publicly available information such as traffic levels, truck traffic, climate, geology, etcetera, and provide life-cycle costs estimates for each road.[au]

This would provide independent and data-based estimate of what Michigan's road and bridge infrastructure should cost on an annual basis. That information is necessary to guide informed road funding policy.

How Should State Revenue and Federal Aid be Distributed to Meet the State's Goals?

In addressing the previous two questions, policymakers will confirm that the current funding distribution formula is not effective at distributing funding appropriately to meet policy priorities and goals. However, if supported by clear policy priorities and a reliable understanding of funding needs, Michigan's current intractable and ineffective funding formula could be replaced by a relatively simple program the directs funding to where it is most needed.

Certainly, the repeal and replacement of Act 51 is a daunting task. It has long been recognized that Act 51 is antiquated and inefficient, but the complexity of it makes it difficult to amend without fear of breaking something that is working. This shouldn't matter. Act 51 is not working, and for decades Michigan's legislature has been amending it without understanding why it's not working.

The 2025 Transportation Funding Package is likely to provide meaningful funding increases for all of Michigan's road agencies, and may temporarily conceal the fundamental flaws in the system. But throwing more money into a system that is ineffective and poorly understood is not good policy.

Michigan policymakers owe it to the taxpayers and citizens to establish a state roads program based on clear policy priorities and justified needs.

endnote for details.

au A ballpark estimate of the resources required for such a study is about two years and $5 million. Such a study should be administered by a neutral party such as the Department of Technology, Management and Budget to reduce bias by road agency and related interests.

Appendix: Methodology

Michigan's transportation budget and distribution scheme is extremely complicated and practically disallows precise analysis. The Research Council has endeavored to provide the most accurate estimates of historical and forecasted funding as is feasible. Yet it should be understood that assumptions and analytical judgements are a necessary part of this process. This appendix describes the methodology underlying the various charts, tables, and related discussions within this report.

Estimating and Forecasting New Revenue from the 2025 Transportation Funding Package

Fuel Tax Revenue Estimation and Forecast

According to the House Fiscal Agency, the increase in fuel tax revenue will provide an *annualized* $1,073.4 million in FY2026 (October 2025 – September 2026). However, the increased fuel tax will not be effective until January 1, 2026, and the revenues collected by the Department of Treasury will not be reported until February. Only eight months, two-thirds of FY2026, will include additional revenue from the fuel tax increase. Therefore, anticipated new fuel tax revenue for FY2026 is estimated at [$1,073.4 million * (0.667) =] $715,957,800.[av]

Beyond FY2026, fuel taxes collected in a fiscal year are assumed to be distributed to road agencies in that fiscal year. This imposes a known inaccuracy in this analysis. However, this approach is typical in Michigan's financial reporting. Additionally, accounting for this would require a much more complicated analysis.[aw]

Michigan's fuel tax is subject to annual increases based on the previous year's Regional Consumer Price Index (CPI) inflation rate. An annual three percent inflation rate for 2026 to 2030 is assumed. Therefore, FY2027 new fuel tax revenue is estimated at [$1,073.4 billion * 1.03 =] $1,105.6 billion. FY2028 and future years again multiply the previous year by 1.03.

Not all fuel tax revenue is dedicated to roads funding. For example, two percent of gasoline excise taxes are deposited into the Recreation Improvement Fund. As diesel fuel is not subject to the Recreation Improvement Fund diversion, it is estimated that 1.6 percent of *all* new fuel tax revenue will be diverted from the MTF.

Of the fuel tax revenue that is deposited into the MTF, 10 percent is allocated to the CTF, which supports local transit operations.

Distribution of fuel tax revenue through the MTF further includes various carve-outs and legislative earmarks, and thus not all revenue is ultimately available for roads programs. It was determined that deciphering the full Act 51 formula and anticipating one-time diversions is not practical. A document provided by MDOT that estimates FY2026 distributions to local road agen-

av 0.667 is slightly more than 2/3rds. We have rounded up slightly to acknowledge that in addition to the fuel tax increase, the MTF will receive a small revenue increase from increased electric vehicle fees that are related to the fuel tax. Future years do not consider this. We anticipate legislative changes to reset the electric vehicle surcharge. In any event, the additional revenue from the surcharge is marginal compared to all revenue sources deposited into the MTF.

aw Technically, we also ignored the one-month lag in reporting to MDOT and distribution to road agencies in FY2026. This is consistent with analyses provided by MDOT and the HFA.

cies was referenced to estimate the percentage of new fuel tax revenue diverted away from roads programs. MDOT has the benefit of ADARS, a computer program that automates the Act 51 distribution formula as MDOT has interpreted it.

It was found that by assuming a diversion of 2.8 percent of new fuel taxes to other uses results in the estimated funding most closely matching MDOT's. As such, it is assumed that 2.8 percent of new fuel tax revenue will be diverted to "other uses" in FY2026 and future years.

Once fuel tax revenue has been diverted to various earmarks and MTF, it is distributed to road agencies as: 39.1 percent to MDOT State Trunkline Fund, 39.1 percent to county road commissions, and 21.8 percent to cities and villages.

The table below shows the resulting forecasted new fuel tax revenue and distribution from FY2026 to FY2031.

Table A1
Distribution of New Fuel Tax Revenue Provided by the 2025 TFP, FY2026-2031

	New FT Revenue	Recreation Fund	CTF	Other Uses	Total	MDOT (39.1%)	COUNTY (39.1%)	CITY/VLGE (21.8%)
2026	$ 715,957,800	$ 11,455,325	$ 70,450,248	$ 17,753,462	$ 616,298,765	$ 240,972,817	$ 240,972,817	$ 134,353,131
2027	$1,105,602,000	$ 17,689,632	$ 108,791,237	$ 27,415,392	$ 951,705,740	$ 372,116,944	$ 372,116,944	$ 207,471,851
2028	$1,138,770,060	$ 18,220,321	$ 112,054,974	$ 28,237,853	$ 980,256,912	$ 383,280,452	$ 383,280,452	$ 213,696,007
2029	$1,172,933,162	$ 18,766,931	$ 115,416,623	$ 29,084,989	$1,009,664,619	$ 394,778,866	$ 394,778,866	$ 220,106,887
2030	$1,208,121,157	$ 19,329,939	$ 118,879,122	$ 29,957,539	$1,039,954,558	$ 406,622,232	$ 406,622,232	$ 226,710,094
2031	$1,244,364,791	$ 19,909,837	$ 122,445,495	$ 30,856,265	$1,071,153,194	$ 418,820,899	$ 418,820,899	$ 233,511,396

This table shows *gross* new revenue from the increased fuel excise tax. The *net* impact on the MTF must also consider the repeal of the annual $600 million Personal Income Tax earmark. Additionally, the 2025 TFP exempts motor fuel purchases from the sales tax. A percentage of the sales tax collected on motor fuel was dedicated to the CTF. To determine net new funding provided by the 2025 TFP, the funding that would have been provided by the CTF must be subtracted. For FY2026 and FY2027, SFA estimates (page 5) of $32.4 and $41.3 million were adopted, respectively. For FY2028 and beyond, it is assumed that sales tax revenue would have increased by three percent annually.

Net new revenue is described in Table A2 in the following section.

Neighborhood Roads Fund Revenue Estimation and Distribution

The new Neighborhood Roads Fund, created by PA 16 of 2025, is funded by revenue from a new 24 percent Marijuana Wholesale Tax (created by PA 23), and the state Corporate Income Tax (dedicated by PA 24).

It was assumed that the revenue expected to be available for the NRF will become available, and will be distributed to road agencies in the same fiscal year it is collected. As with the estimation and forecast of fuel tax revenues, this assumption imposes some inaccuracy in the analyses. It is likely that a fraction of revenue collected in one fiscal year will not be distributed to road agencies until the following fiscal year. However, this approach is similar to other approaches, and accounting for such factors would require a much more complicated analysis.

The CIT revenue to be deposited into the NRF is scheduled in PA 24 (see section 2.3 for details).

The revenue expected from the Marijuana Wholesale Tax remains uncertain. This was estimated at $315 million for FY2026, similar to estimates provided by state agencies. As with the new fuel tax, collection of this tax will begin on January 1, 2026, and thus will not provide full 12 months of funding until the following fiscal year. FY2027 revenue was estimated at $417 million. For future years, revenue is assumed to increase annually by 0.5 percent.

The distribution of funds from the NRF is determined by PA 16 (see section 2.3 for details).

Net Impact of the 2025 Transportation Funding Package.

Table A2 summarizes the net changes from the 2025 TFP.

Table A2
Net Revenue Change from FY2025, FY2026-2031

FY	Fuel Tax	Marijuana Tax	Corp. Income Ta	Income Tax Loss	Sales Tax CTF Lo	Net New Reven
2026	715,957,800	315,000,000	688,000,000	(600,000,000)	(32,400,000)	**1,086,557,800**
2027	1,105,602,000	417,000,000	776,000,000	(600,000,000)	(43,100,000)	**1,655,502,000**
2028	1,138,770,060	419,085,000	864,000,000	(600,000,000)	(44,393,000)	**1,777,462,060**
2029	1,172,933,162	421,180,425	952,000,000	(600,000,000)	(45,724,790)	**1,900,388,797**
2030	1,208,121,157	423,286,327	1,040,000,000	(600,000,000)	(47,096,534)	**2,024,310,950**
2031	1,244,364,791	425,402,759	1,040,000,000	(600,000,000)	(48,509,430)	**2,061,258,120**

Table A3 summarizes how this revenue will be distributed.

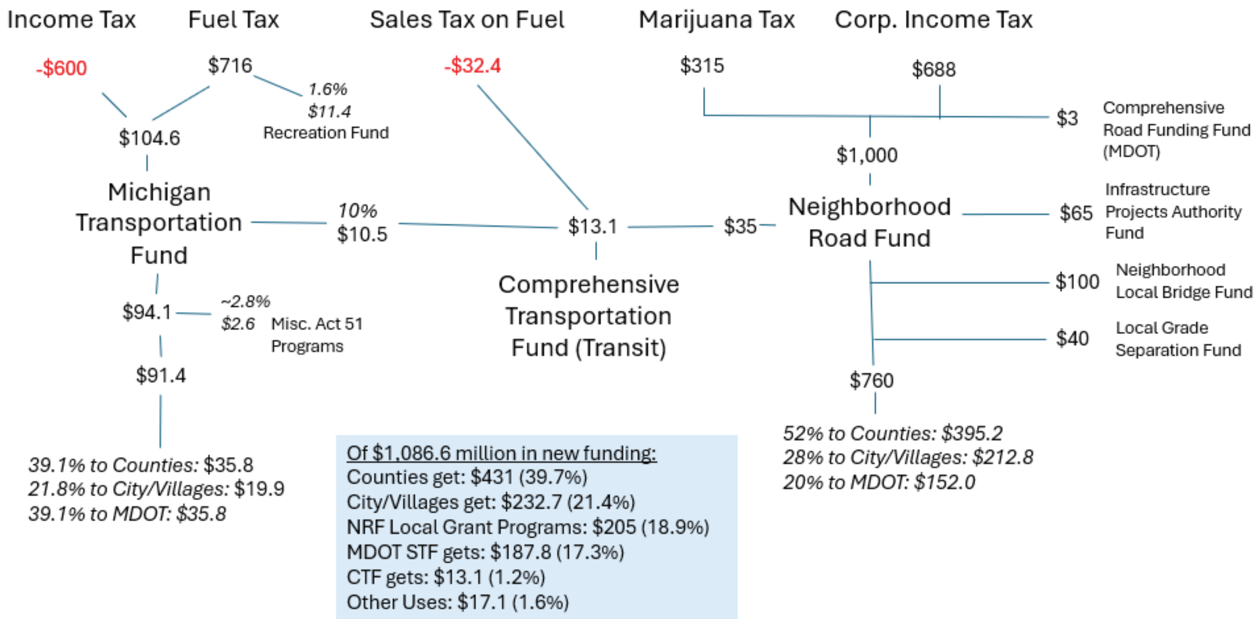
Table A3
Net New Revenue Distribution[AX]

FY	NewRevenue	MDOT STF	Counties	City/Villages	CTF	NRF Local Grant	Other uses
2026	1,086,557,800	187,744,737	430,944,737	232,729,291	13,050,248	205,000,000	17,088,787
2027	1,655,502,000	357,388,864	662,188,864	359,748,011	40,691,237	205,000,000	30,485,024
2028	1,777,462,060	386,566,372	720,188,772	391,191,767	42,661,974	205,000,000	31,853,174
2029	1,900,388,797	416,080,781	778,528,773	422,825,040	44,691,833	205,000,000	33,262,370
2030	2,024,310,950	445,942,145	837,218,933	454,653,443	46,782,588	205,000,000	34,713,841
2031	2,061,258,120	669,772,220	817,222,211	444,118,767	66,436,066	27,500,000	36,208,856
Sum	10,505,479,727	2,463,495,120	4,246,292,291	2,305,266,320	254,313,945	1,052,500,000	183,612,051

It is difficult to capture within a single table how new revenue sources relate to distribution. Figure A1 provides a visual flow chart for FY2026.

ax In this table, "Other uses" includes the Recreation Improvement Fund, the Comprehensive Road Funding Fund, and an assumed 2.8 percent of new fuel tax revenues diverted to various Act 51 funds and transportation earmarks.

Figure A1
Transportation Revenue Changes from FY2025 to *FY2026* from 2025 TFP
($ millions)



An equivalent flow chart for FY2027 is provided in section 2.3.

Figures A2 through A4 describe the sources and distributions of new revenue from FY2028 to FY2030.

Figure A2
Transportation Revenue Changes from FY2025 to *FY2028* from 2025 TFP
($ millions)

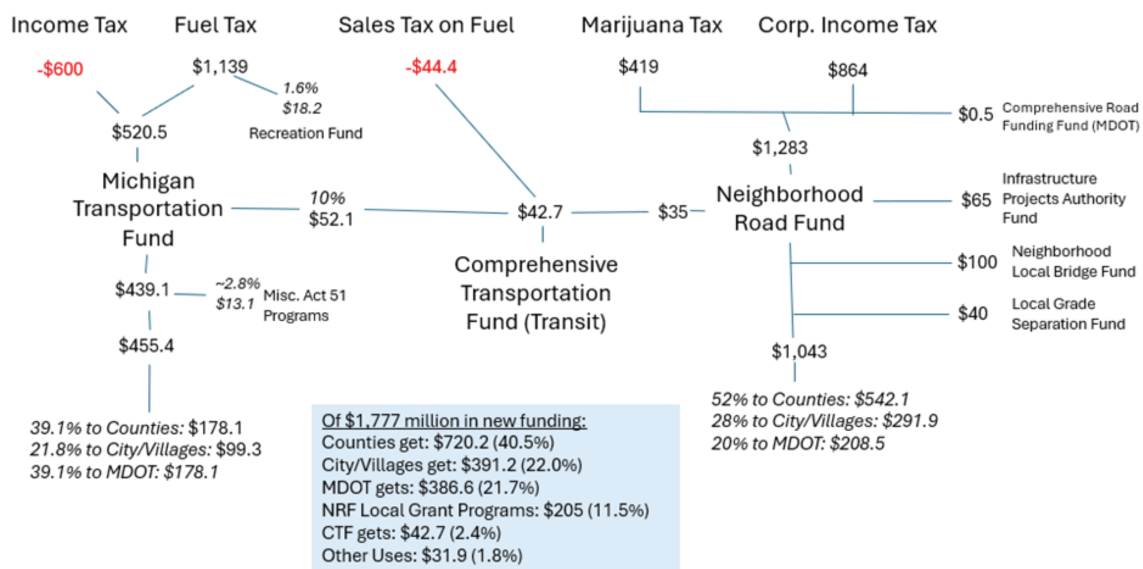


Figure A3
Transportation Revenue Changes from FY2025 to *FY2029* from 2025 TFP ($ millions)

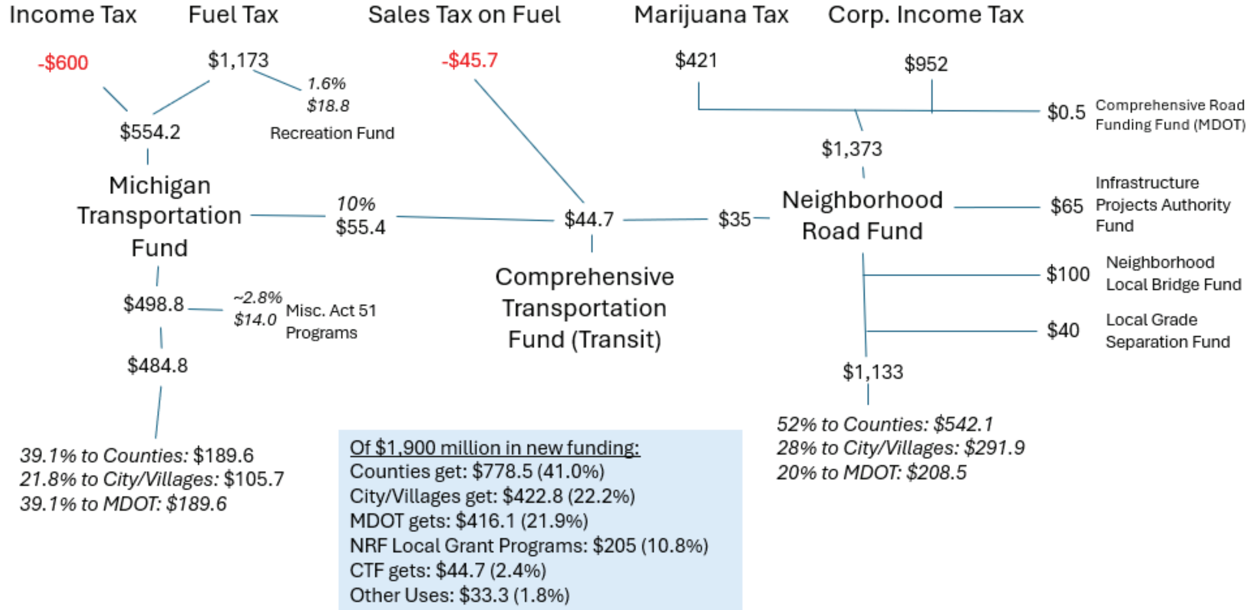
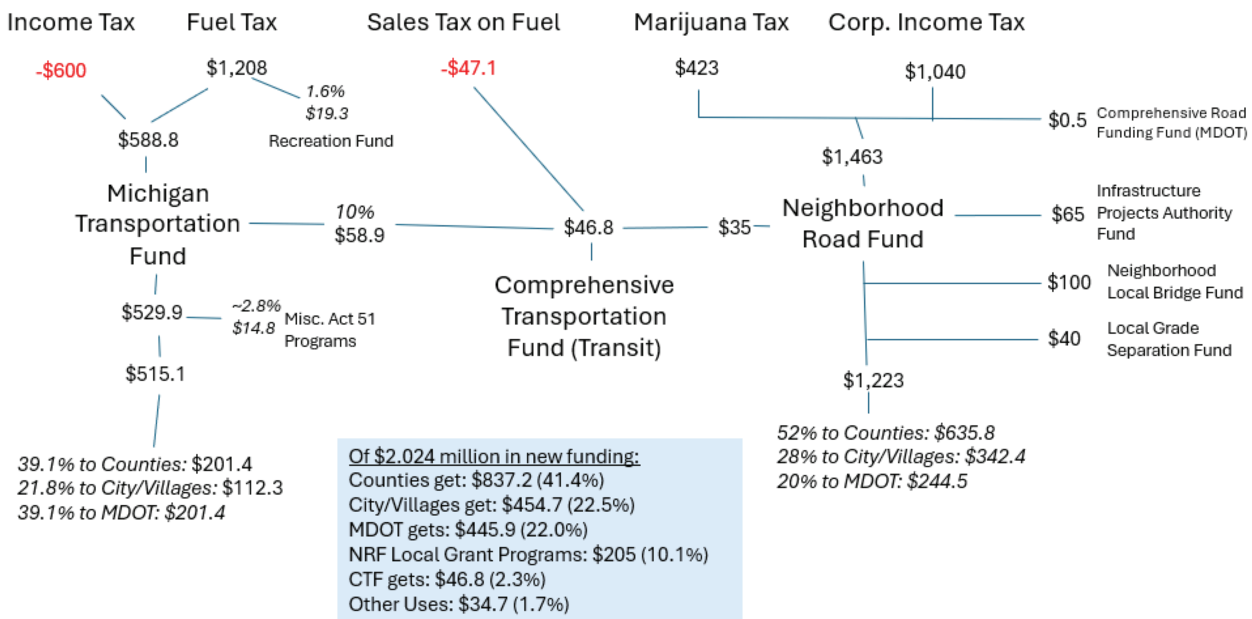
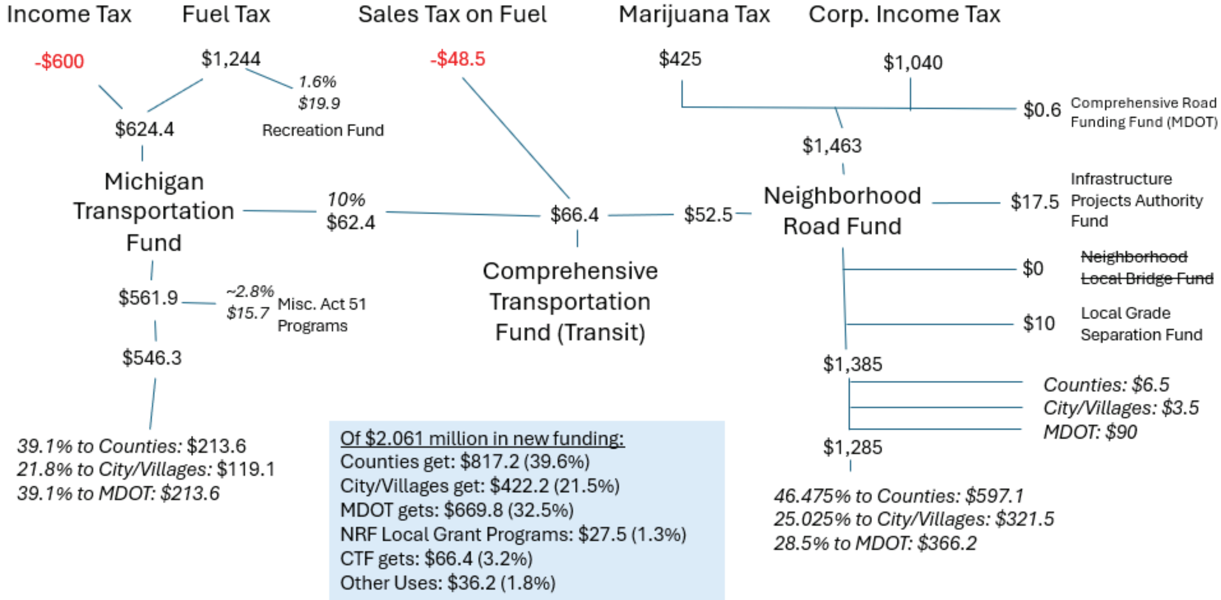


Figure A4
Transportation Revenue Changes from FY2025 to *FY2030* from 2025 TFP ($ millions)



In FY2031, the distribution of the NRF is scheduled to change by the enabling legislation, as shown in Figure A5.

Figure A5
Transportation Revenue Changes from FY2025 to *FY2031* from 2025 TFP
($ millions)



The above flow-charts show that about 1.8 percent of new revenue will go to "other uses." This includes the following:

The Recreation Improvement Fund. State law requires that two percent of excise tax revenue from gasoline is allocated to Recreation Improvement Fund (RIF) administered by the Department of Natural Resources for maintenance of recreational water and trail facilities. This statute was unchanged by the 2025 TFP, and thus the RIF will receive two percent of new revenue from the gasoline tax. This will be about 1.6 percent of all new fuel taxes, as diesel fuel proceeds are not allocated to the fund.

The Comprehensive Road Funding Fund. The CRFF was created by the 2025 TFP to allow MDOT to establish implementation procedures and administer the new Neighborhood Roads Fund. As this fund will support administrative activities rather than directly fund projects, it is included in "other uses." The CRFF allocation is small—receiving only $3 million from the NRF in FY2026, and $500 thousand the following year.

Miscellaneous Act 51 Programs. Michigan's state road program and distribution of funding is intractably complicated. Act 51 includes several carve-outs that are funded through the MTF, and thus funded by fuel taxes, including the new revenue provided by the increased fuel tax. It is estimated that various diversions will account for 2.8 percent of new MTF funding (following distributions to the RIF and CTF). This estimation is based on forecast distributions provided by MDOT. Notably, many of these programs would likely be considered road programs. However, it is difficult to know how these funds will be allocated, and thus they are included as "other uses" herein.

NRF Local Grant Program Distribution

As described above, a significant percentage of the NRF will be allocated to three grant programs: Infrastructure Projects Authority Fund, Neighborhood Local Bridge Fund, and Local

Grade Separation Fund. In estimating and forecasting the net impact of these funds, they are included within the definition of "roads programs," and are assumed to be distributed: 48.6 percent to county road commissions and 51.5 percent to cities and villages.

This is likely the lowest-confidence assumption within the analysis.

It is assumed that the Infrastructure Projects Authority Fund will be divided 85 percent to cities and villages and 15 to county road commissions. This is almost certainly a flawed assumption. This fund is new and vaguely defined by the enabling legislation. It appears that the most obvious use of the fund will be road infrastructure enabling bus rapid transit (e.g., dedicated lanes). This would benefit transit agencies, but would be expended by road agencies that own the infrastructure—which may even include MDOT. However, this fund may also go to infrastructure projects expended by the local transit authorities themselves, such as improved shelters or transit hubs. A portion of this may even support transit operation expenses. It will be up to MDOT to determine how to interpret and administer this new grant program.

The overall logic behind the inclusion of the Infrastructure Projects Authority Fund in the estimates and forecasts of local agency road funding is that it was considered important to acknowledge that a new funding mechanism was created with the intent to benefit local communities—even if it does not ultimately fund roads improvement projects specifically. Additionally, there aren't any other obvious options for how to define or allocate this new fund.

The Local Bridge and Local Grade Separation Funds are pre-existing grant programs,[ay] but have been sporadically funded, sometimes through one-time earmarks that include specific project identification. Additional research would be required to obtain a reliable estimate of how these funds have been distributed in the past and better inform the forecast.

It is assumed that the Neighborhood Local Bridge Fund grants will be split with 70 percent to county road commissions and 30 percent to cities and villages.

It is assumed that the Local Grade Separation Fund will be split 50/50 between county road commissions and city/villages.

Historical Roads Programs Funding Estimates

The complexity of Michigan's Transportation Budget makes it nearly impossible to know with precision how much funding is expended on road and bridge programs within any given year. This analysis relies heavily on analyses previously published by the House Fiscal Agency. The HFA data provides an analytical framework that, while imperfect, is consistent and logical.

Michigan Transportation Fund Distributions

For FY2007 to FY2025, the MTF distribution data was adopted from the 2025 House Fiscal Agency Fiscal Brief: MTF Distribution to Local Road Agencies.[az] The HFA has obtained these figures from annual MDOT financial reports. Thus, there is very high confidence in the precision of this data.[ba]

However, the data is not completely accurate in reflecting *all* roads programs funding through

ay Technically, the Neighborhood Local Bridge Fund is a new fund, but it will be administered equivalent to an existing Local Bridge Fund grant program.

az MDOT distributions are included in this data.

ba Per the HFA fiscal brief, FY2024 data is provisional and FY2025 data is estimated based on anticipated revenue.

the MTF. As previously described, the MTF includes myriad carve-outs, earmarks, and generally intractable diversions. Many of these diversions are ultimately expended on road and bridge projects, but are not included in this data. Unfortunately, obtaining a more precise estimate of historical road and bridge funding is not practical.

That said, this is the best available data. Although incomplete, it is consistently reported with precision and likely reflects total road and bridge funding with reasonable accuracy.

Federal Aid Expenditures

For FY2007 to FY2022, the federal aid expenditure data was adopted from the 2023 House Fiscal Agency Fiscal Brief: Federal Aid In Michigan's Transportation Budget – Focus on the Federal Aid Highway Program. The HFA has obtained these figures from annual MDOT financial reports.[28]

For FY2023 and FY2024, data was obtained directly from MDOT's 2024 Annual Financial Report.[bb]

The available data precisely reports federal aid expended by MDOT and local road agencies each fiscal year. However, the local agency expenditures are not further classified by county and city/village expenditures.

To estimate the split in federal aid between counties and city/villages, it was assumed that distribution roughly follows the MTF distribution formula, with counties receiving 64 percent of local funding, and city/villages the remaining 36 percent.

This is a low-confidence estimate.

Federal aid distributions are not yet available for FY2025. These have been estimated at 88 percent of the federal aid anticipated in the FY2025 transportation budget. A review of FY2020 to FY2024 data shows that federal aid expenditures in these five years have ranged from 76 percent to 101 percent of anticipated federal revenue. Following this, the MDOT share of federal aid in FY2025 is estimated at 75 percent, with the remaining 25 percent again split 64 percent to counties (16 percent of total), and 36 percent to cities/villages (nine percent of total).

MDOT Bond Expenditures

MDOT bond expenditure data was acquired from MDOT Annual Financial Reports. Each report provides the previous ten years of expenditures, all data for the analysis was obtained using only the 2024 and 2014 reports.

Table A4 summarizes bonds expenditures from FY2007 to FY2024.

bb Beginning in 2023, MDOT no longer reported the "Total Highway Planning and Construction Cluster." To maintain consistency, we have added up all of the line items previously included in the cluster, plus a new line item: CORONAVIRUS STATE LOCAL RECOVERY FUNDS.

Table A4

MDOT Bond Expenditures ($1,000s), FY2007 to FY2024

MDOT Bond Expenditures ($1,000s) FY	2007	2008	2009	2010	2011	2012	2013	2014	2015
1989 State Trunkline Bond Proceeds Fund	1,089	0	0	0	0	0	0	0	0
1992 State Trunkline Bond Proceeds Fund	196	2,087	(10)	488	329	1,710	46	209	0
1994 State Trunkline Bond Proceeds Fund	439	5	1	2	0	28	5	0	0
2001 Build Michigan III Bond Proceeds Fund	28,249	11,992	18,936	30	701	(134)	410	41	555
2001 & 2002 Build Michigan II Grant Anticipation I	53,781	32,163	29	0	675	25	202	(267)	0
2004 State Trunkline Bond Proceeds Fund	159,271	66,624	18,914	3,176	1,439	712	582	9,442	2,507
2011 State Trunkline Bond Proceeds Fund	0	0	0	0	0	26,490	23,453	66,996	11,042
Rebuilding Michigan Bond Program	0	0	0	0	0	0	0	0	0
Sum	243,025	112,871	37,870	3,696	3,144	28,831	24,698	76,421	14,104

MDOT Bond Expenditures ($1,000s) FY	2016	2017	2018	2019	2020	2021	2022	2023	2024
1989 State Trunkline Bond Proceeds Fund	0	0	0	0	0	0	0	0	0
1992 State Trunkline Bond Proceeds Fund	0	0	0	0	0	0	0	0	0
1994 State Trunkline Bond Proceeds Fund	0	0	0	0	0	0	0	0	0
2001 Build Michigan III Bond Proceeds Fund	0	0	1	0	0	0	0	0	0
2001 & 2002 Build Michigan II Grant Anticipation I	0	0	0	0	0	0	0	0	0
2004 State Trunkline Bond Proceeds Fund	(8)	0	0	0	0	0	0	0	0
2011 State Trunkline Bond Proceeds Fund	6,124	1,037	122	1	14	33	1	1	389
Rebuilding Michigan Bond Program	0	0	0	0	36,452	296,920	654,030	810,355	782,422
Sum	6,116	1,037	123	1	36,466	296,953	654,031	810,356	782,811

For FY2025 and future years, it was assumed that MDOT bond expenditures will be limited only to the proceeds available in the Rebuilding Michigan Bond Program Proceeds Fund. As of November 2025, MDOT has sold $2.79 billion in Rebuilding Michigan Bonds. These bonds sold at higher than their face value, netting $3.33 billion in proceeds. Through FY2024, MDOT expended $2.58 billion in Rebuilding Michigan Bond funding, leaving approximately $749 million in the fund.

FY2025 financial reporting is not yet available. It is estimated that MDOT will spend down the remaining Rebuilding Michigan bond proceeds in FY2025 to FY2027. It is further assumed that 60 percent ($449 million) will be expended in FY2025.

MDOT Debt Servicing

MDOT bond expenditures must be repaid with future revenue (with interest). Thus, a percentage of MDOT's overall roads programs funding in any given year is applied to debt servicing. For FY2007 to FY2024, debt servicing data was obtained from the 2024 House Fiscal Agency Fiscal Brief: State Transportation Bonds and Debt Servicing – Summary.

For FY2025 and beyond, anticipated debt servicing data was used from the MDOT 2024 Annual Financial Report.

General Fund / General Purpose Roads Funding

GF/GP funding is not included in this analysis.

From FY2012 to FY2025, Michigan transportation budgets have included a total of $2.9 billion in direct general purpose/general fund appropriations. Approximately $2.6 billion of this has been distributed to road agencies—averaging $187 million per year.[bc]

GF/GP funds from were omitted from this analysis because accurate accounting would require

bc Per data made available by the House Fiscal Agency. Additional uses include transit support, rail infrastructure, airport improvements, and waterborne freight infrastructure.

additional time-consuming research. However, GF/GP funding has contributed about 4.7 percent of all road funding since FY2012.

The omission of GF/GP funding is an important caveat to the evaluation of historical road funding.

Forecasted Road Programs Funding

The methodology used to estimate and forecast new revenue made available by the 2025 transportation funding package was previously described. The 2025 TFP revenue will not be an addition to a static FY2025 funding figure. Some pre-existing revenue sources are linked to inflationary increases and tend to increase year-over-year. To evaluate the impact of the 2025 transportation funding package on overall road funding, pre-existing revenue and distribution must also be forecasted.

Michigan Transportation Fund Distributions Forecast

As previously described, historical MTF distributions were obtained from the 2025 House Fiscal Agency Fiscal Brief: MTF Distribution to Local Road Agencies.[bd] In FY2025, MTF distribution to road agencies is reported $3.741 billion.[be] However, in FY2026 and future years, the MTF will no longer be receiving the repealed $600 million personal income tax earmark. Assuming that full earmark is fully distributed to road agencies (rather than being applied to various Act 51 carve-outs), this would have provided an MTF distribution of $2.871 billion. This becomes the FY2025 MTF '*baseline*' funding from which future years are forecast.

The MTF is primarily funded through fuel tax revenue and vehicle registration taxes, and thus tends to increase year-over-year following inflation. Recall that the forecast of 'new' fuel tax revenue embeds an assumed three percent annual increase. For the baseline portion of the MTF, the forecast is slightly more conservative, assuming an annual increase of 2.5 percent.

Table A5 provides the forecasted net distribution of baseline MTF funding.

Table A5

Forecasted Net Funding from 'Baseline' Portion of MTF, FY2026 to FY2031

	2025 Est.	- $600m	2.5% Inflation
	3,471,383,000	*2,871,383,000*	2,871,383,000
2026			2,943,167,575
2027			3,016,746,764
2028			3,092,165,433
2029			3,169,469,569
2030			3,248,706,309
2031			3,329,923,966

Act 51 requires that (after the various diversions) the MTF is distributed 39.1 percent to MDOT, 39.1 percent to county road commissions, and 21.8 percent to cities and villages.[bf] However, historical financial data shows this has not been consistent. From FY2017 to FY2025, reported data shows that MDOT has received, on average, 40.2 percent. Counties have received 38.1 percent, and cities/villages 21.7 percent. It is not clear why this is. It is assumed that the base-

bd MDOT distributions are included in this data.

be This is an estimate based on the annual budget, but is likely close.

bf This formula was used to distribute 'new' fuel tax revenue provided by the 2025 TFP.

line portion of the MTF will continue to follow this historical trend.

The resulting distribution of the baseline MTF was added to the estimated revenue from the increased fuel tax provided in the 2025 TFP (Table A1) to obtain total forecasted MTF funding (Table A6).

Table A6

MTF Funding Distribution Forecast FY2026-2031

	Baseline MTF			New Fuel Tax			Total			
FY	MDOT	COUNTY	CITY/VILLAGE	MDOT	COUNTY	CITY/VILLAGE	MDOT	COUNTY	CITY/VILLAGE	**Total MTF**
2026	1,183,153,365	1,121,346,846	638,667,364	240,972,817	240,972,817	134,353,131	1,424,126,182	1,362,319,663	773,020,495	**3,559,466,340**
2027	1,212,732,199	1,149,380,517	654,634,048	372,116,944	372,116,944	207,471,851	1,584,849,143	1,521,497,461	862,105,899	**3,968,452,504**
2028	1,243,050,504	1,178,115,030	670,999,899	383,280,452	383,280,452	213,696,007	1,626,330,957	1,561,395,483	884,695,906	**4,072,422,345**
2029	1,274,126,767	1,207,567,906	687,774,897	394,778,866	394,778,866	220,106,887	1,668,905,633	1,602,346,772	907,881,783	**4,179,134,188**
2030	1,305,979,936	1,237,757,104	704,969,269	406,622,232	406,622,232	226,710,094	1,712,602,168	1,644,379,336	931,679,363	**4,288,660,866**
2031	1,338,629,434	1,268,701,031	722,593,501	418,820,899	418,820,899	233,511,396	1,757,450,333	1,687,521,930	956,104,897	**4,401,077,161**

Federal Aid Expenditures Forecast

Federal aid expenditures for FY2025 have not yet been reported, but have been estimated as previously described at $2.0 billion.

For FY2026 through FY2031, federal aid expenditures are estimated by assuming a two percent annual increase.

This is a low confidence estimate.

MDOT Bond Expenditures Forecast

It is assumed that MDOT will not sell any new money bonds from FY2026 to FY2031. It is further assumed that only Rebuilding Michigan Bond Proceeds will be expended during this period, and the program will be spent down through FY2027.

As previously detailed, MDOT retained approximately $750 million in Rebuilding Michigan bond proceeds at the end of FY2024. It is assumed that 60 percent of this fund will be expended in FY2025. It is further assumed that $224.6 million will be expended in FY2026, and that $74.9 million will be expended in FY2027, closing out the program.

This is a low confidence estimate.

MDOT Debt Servicing Forecast

For FY2026 to FY2031, anticipated debt servicing used data from the MDOT 2024 Annual Financial Report.

General Fund / General Purpose Roads Funding Forecast

GF/GP funding is not included in this analysis.

The FY2026 budget includes $0 GF/GP appropriations for roads programs.

This is a reduction from FY2025 of approximately $100 million, including $76 million to MDOT to match federal funding.

GF/GP funds were omitted from this analysis because accurate accounting would require additional time-consuming research.

The omission of GF/GP funding is an important caveat to the evaluation of historical road funding. GF/GP funding has contributed about 4.7% of all road funding since 2012.

Long-term "Futurecast"

The "futurecast" forecast of Michigan's roads funding to FY2040 embeds an assumption that inflation-linked revenue deposited into the MTF will slowly decline after FY2031. While the assumptions do not anticipate a legislative change, it is assumed that fuel sales will begin to decline as vehicles become increasingly electrified and fuel efficient.

Compared to the previous period (where annual three percent increases in MTF funding are assumed, a 2.9 percent increase in FY2032 is assumed, decreasing by 0.1 percentage point each year until reaching a 2.2 percent annual increase in FY2039, which is applied to the FY2040 estimate.

The NRF road funding is assumed to increase only 0.15 percent year-over-year, reflecting flat contributions from the CIT and assumed 0.5 percent increases in Wholesale Marijuana Tax revenue.

Inflation Adjustment

This analysis attempts to estimate the purchasing power of Michigan's road funding as accurately as possible by adjusting nominal funding to a combination of regional CPI-U and highway construction cost inflation.

Regional CPI-U for Detroit-Warren-Dearborn, MI was obtained from the Bureau of Labor Statistics. Annual CPI-U inflation for 2025-2031 is estimated at three percent.

Highway Construction Cost Inflation is provided by the Michigan Highway Construction Cost Index (MHCCI), developed by Western Michigan University for FY2012 to FY2023.

Per consultation with MDOT, a 'rule of thumb' is to budget for four percent year-over-year increases in construction costs. A four percent annual construction cost inflation was assumed for years in which MHCCI data is not available, with the exception of 2024 and 2025. Three percent was assumed for 2024 and 2025. It was determined likely that construction cost inflation would be slightly less than typically expected in these years in a 'reversion to the mean' phenomenon following extremely high 18 percent inflation in 2022.

The effective inflation rate on all road agency costs is subject to a combination of construction cost inflation and general (CPI) inflation. To simplify analysis, it is assumed that these inflation rates impact road agency costs equally. Thus, the *effective* inflation rate is assumed to be simply the average of the two indices.

Table A7 summarizes the inflation rates used in the historical and forecasted inflation adjustment to obtain constant FY2025 dollars.

Table A7
Inflation Rates, 2007 - 2030

	MHCCI	DET CPI-U	Avg.
2007	4.00%	1.80%	**2.90%**
2008	4.00%	2.30%	**3.15%**
2009	4.00%	-0.60%	**1.70%**
2010	4.00%	0.80%	**2.40%**
2011	2.48%	3.30%	**2.89%**
2012	4.74%	2.00%	**3.37%**
2013	1.89%	1.60%	**1.75%**
2014	9.66%	1.00%	**5.33%**
2015	2.03%	-1.40%	**0.31%**
2016	2.72%	1.60%	**2.16%**
2017	0.95%	2.10%	**1.53%**
2018	6.90%	2.40%	**4.65%**
2019	7.17%	1.30%	**4.23%**
2020	-0.87%	1.00%	**0.07%**
2021	6.07%	4.30%	**5.19%**
2022	18.03%	8.20%	**13.12%**
2023	0.75%	5.80%	**3.28%**
2024	3.00%	3.00%	**3.00%**
2025	3.00%	3.00%	**3.00%**
2026	4.00%	3.00%	**3.50%**
2027	4.00%	3.00%	**3.50%**
2028	4.00%	3.00%	**3.50%**
2029	4.00%	3.00%	**3.50%**
2030	4.00%	3.00%	**3.50%**

All annual inflation rates reflect the calendar year, but have been applied to Michigan's fiscal year (October 1 – September 30). This imposes some imprecision, but is considered acceptable.

Estimates of MHCCI inflation from 2007 to 2010 and all forecasted inflation rates are considered low-confidence estimates.

The overall 3.5 percent cost inflation is assumed in the "futurecast" analysis.

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