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HIGHWAY FUNDING IN MICHIGAN

THE ISSUE IN BRIEF

An examination of the highway funding system in Michigan and a comparison with other major states leads to three significant conclusions:

First, the highway system in Michigan is largely under the jurisdictional control of local units of government, but these local units are heavily dependent upon intergovernmental transfers from the state to finance the construction and the maintenance of the highway system.

Second, the levels of highway revenues and highway expenditures in Michigan rank low relative to other states.

Third, while motor fuel tax and vehicle registration fee revenues in Michigan were about average relative to the comparison states, highway revenues from other sources were significantly below average.

The highlights that follow serve to describe the highway funding system and further clarify these three major conclusions.

Citizens Research Council of Michigan Report No. 304 describes the governmental units in Michigan with highway jurisdiction, the composition of the highway system in Michigan, the different sources of highway revenues, and the disbursement of funds for highway construction and maintenance. In addition, each of these items is compared to 16 other states, including the 14 other states with populations greater than five million people: California, Florida, Georgia, Illinois, Indiana, Massachusetts, Missouri, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Texas, Virginia and two states, Minnesota and Wisconsin, which were included because of their proximity to Michigan.

There are several reasons why there are pressures to increase highway revenues. While there were 26 percent more licensed motorists in Michigan in 1990 than there were in 1970, there were 37 percent more registered vehicles and traffic volumes increased by 53 percent. During this same 20 year period, the costs associated with constructing and maintaining highways, as measured by the federal highway maintenance and cost index, have increased 297 percent while the United States consumer price index has increased 237 percent. These increasing costs have limited what a dollar expenditure on highway improvements can purchase. In addition, improvements in automotive fuel efficiencies have resulted in a 52 percent increase in the average miles per gallon of an automobile and a 33 percent decrease in average fuel consumption per automobile from 1970 to 1989.

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The net result of all of these factors is that gas tax revenues have been essentially flat in the past four years in nominal dollars and have declined in dollars of constant purchasing power.

Michigan Highway Funding System

Michigan has historically relied on collecting from highway users the funds needed to finance the construction and maintenance of the highway system. The 1963 Michigan Constitution specifies that state taxes and fees collected on items used “for the operation of a motor vehicle on the state highways,” with some exceptions are to “be used exclusively for transportation purposes....” The law that facilitates this dedication of state highway revenues to transportation funding is Public Act 51 of 1951, as amended. Through Act 51, different state “funds” were created to finance the highway system. The most significant fund created was the Michigan transportation fund (MTF), the primary receiving fund for the state tax revenues and user fees dedicated to highway funding, such as motor fuel taxes and registration fees. Act 51 specifies how the money deposited in the MTF is to be appropriated to the different “funds”; how the money should be allocated from the MTF to the state trunkline fund, to county road funds, and to cities and villages: and how this money is to be used for construction and maintenance projects.

Public Act 51 requires that money in the Michigan transportation fund be distributed as follows: (1) to pay the administrative costs and to pay the principal and interest due on outstanding bonds and notes; (2) to finance special transportation projects with specific needs such as the recreation improvement fund, the critical bridge fund, the rail grade crossing account, and the transportation economic development fund; (3) ten percent of the remaining money is allocated to the comprehensive transportation fund, which is for mass transportation purposes; and finally, (4) the balance of the money is to be used to finance snow removal and the “maintenance, improvement, construction, reconstruction, acquisition, and extension” of the highway system by dividing the balance of funds among the highway authorities in the state. The state trunkline fund receives 39.1 percent for state highways, county road funds receive 39.1 percent for division among the 83 counties, and the 534 incorporated cities and villages receive 21.8 percent (See **Chart A** on page 6).

Jurisdictional Control

In Michigan, the state has jurisdictional control over a relatively small proportion of the highway system compared to the other states, while Michigan local units control a larger proportion of the highway system than in most other states. The Michigan highway system is under the jurisdictional control of the state government (eight percent), county road commissions (75 percent), and city and village governments (17 percent). The 17 comparison states, on average, have a larger percentage of the highway system under state control (23 percent), a smaller percentage of the highway system under the control of counties (52 percent), and a larger percentage of the highway system under the control of cities and villages (25 percent).

The proportion of revenues collected by the state as a percent of total highway revenues in Michigan (67 percent) was high relative to the comparison states (56 percent). Michigan counties and townships collected about the same proportion (eight percent) as in the comparison states (nine percent), while the proportion collected at the municipal level was relatively low in Michigan (eight percent) compared to the other states (17 percent). The majority of local government highway revenues in Michigan was transfers from the state and federal governments.

State government in Michigan plays the major role in highway funding. These differing levels of revenue collections do not necessarily reflect the ability of each level of government to fund highways. In Michigan, like many other states, transfers are made from the state government to local units of government to aid in local highway funding. It is because of these transfers that the local highway authorities in Michigan are able to fund the level of highway construction and maintenance they do with the small proportion of revenues collected locally.

Relative to the comparison states, the state government in Michigan transferred a large percentage of state highway revenues to local units of government to finance local highways (See **Table 1**). Local units of government in Michigan were more dependent upon state aid for highway funding than in other states. While almost every state government transfers a proportion of its highway revenues to local units of government. Michigan county roads received the largest proportion of state collected revenues and municipal streets the second largest proportion among the 17 comparison states. State administered highways in Michigan received the smallest proportion of state collected highway revenues among the 17 states.

	<u>MICH</u>	17-State <u>Avg</u>	Nat'l <u>Avg</u>
State Highways	41.4%	70.7%	70.3%
County Roads	37.9%	16.9%	17.7%
Municipal Streets	20.7%	12.4%	12.0%

Source: Federal Highway Administration, Highway Statistics 1990 (Washington D.C.: Government Printing Office, 1991).

Highway Revenue Amounts and Expenditure Levels

Michigan ranked relatively low compared to other states in highway revenues and expenditures. The federal highway administration reports that state and local units of government in Michigan collected \$2.0 billion in highway revenues in 1990, the ninth-largest revenue amount among the 17 comparison states. When these revenue amounts are put in relative terms. Michigan ranked last among the 17 comparison states in highway revenue per capita and revenue per licensed driver, and next to last in revenue per \$1,000 personal income, revenue per registered vehicle and revenue per vehicle mile traveled.

The U.S. Bureau of the Census reports that \$1.8 billion was spent on state and local highways in Michigan in 1989, the tenth-largest expenditure amount among the 17 comparison states. As with relative measures of highway revenues, when expenditure levels are compared in relative terms (using the same measures that were used for revenues) Michigan ranks in the bottom third of the 17 comparison states and below the 17-state average and the national average in almost every measure.

Michigan Revenue Sources

Motor fuel taxes and vehicle registration fees were the largest sources of highway revenues in Michigan, as in most other states. A variety of data presented in the report show that motor fuel

tax and vehicle registration fee revenues in Michigan were about average relative to the comparison states. However, these revenue sources were not the only sources of highway revenues. Other sources included license fees, title fees, road tolls and motor-carrier fees and non-highway-related revenue sources such as property taxes, appropriations from the general funds, and other taxes. Michigan per capita revenues collected from these other revenue sources ranked relatively low, resulting in relatively low total highway revenues and expenditures (See **Table 3**).

Motor fuel taxes (gas and diesel fuel) were the largest source of state and local highway revenues in Michigan, as in most other states. Since Public Act 2 of 1925 first authorized the gas tax at a rate of two cents per gallon, the rate has been increased seven times. While the current law indexes the gas tax rate to a formula that accounts for changes in maintenance costs and in fuel consumption, since 1984 this rate has been capped at 15 cents per gallon. If the index rate had not been capped, in 1992 the gas tax rate would be 19.2 cents per gallon. Tax rates for diesel fuel and other motor fuels in Michigan are tied to the gasoline tax rate.

The current 15 cent per gallon gas tax rate in Michigan was tied with Indiana as the tenth-highest state tax rate among the 17 comparison states, as of January 1, 1992. The average gas tax rate in the comparison states was 15.4 cents per gallon while the national average was 17.3 cents per gallon. These motor fuel tax rates are based on simplified representations of the state base tax rates and do not take into account such additional taxes as sales taxes, local-option fuel taxes, and other taxes. With the four percent state sales tax in Michigan (which is not dedicated for highway purposes), the effective gas tax rate was 19.7 cents per gallon, compared to the average effective gas tax rates of 19.1 cents per gallon in the 17 comparison states and 18.7 cents per gallon in the nation (See **Table 2**).

	<u>MICH</u>	<u>17-State</u> <u>Average</u>	<u>Nat'l</u> <u>Average</u>
Gasoline			
Base	15.0%	15.4%	17.3%
Effective	19.7%	19.1%	18.7%
Diesel Fuel			
Base	15.0%	15.8%	16.8%
Effective	13.7%	20.7%	19.0%

Source: American Trucking Association, Interstate Information Report, No. 92-1 (Alexandria, Va: American Trucking Association.

With the four percent state sales tax and the six cent diesel discount in Michigan, the effective diesel fuel tax rate was 13.7 cents per gallon, compared to the average effective tax rate of 20.7 cents per gallon in the 17 comparison states and 19 cents per gallon in the nation (See **Table 2**).

Comparisons of per capita highway revenues by source show that motor fuel tax revenues were about average in Michigan (See **Table 3**) and the Advisory Commission on Intergovernmental Relations (ACIR) relative tax system measure shows the Michigan tax effort was slightly above average.

Vehicle registration fees were the second largest revenue source for highway funding in Michigan. Michigan registration fees, on both automobiles and trucks, tended to be fairly high relative to the comparison states. However, due to the relatively low level of other taxes and fees on trucks, the total amount of taxes and fees levied on 80,000 pound trucks in the state ranked 14th highest

among the 17 states. Per capita vehicle registration revenues in Michigan were about average relative to the comparison states (See **Table 3**) and the ACIR relative tax system measure shows the Michigan tax effort was above average for automobile registrations, below average for truck registrations, and above average overall.

Michigan per capita revenues were relatively low for other highway revenues (revenues other than motor fuel taxes and vehicle registration fees), property taxes used for highway purposes, appropriations from the general funds of governmental units for highway purposes, and revenue from federal aid (See **Table 3**). While total property taxes in Michigan are relatively high, the amount levied for roads is relatively low.

Table 3

Per Capita State and Local Highway Revenues By Source - 1990

	<u>Michigan</u>	<u>17-State Average</u>	<u>National Average</u>
Motor Fuel Taxes	\$ 71.83	\$ 70.62	\$ 79.24
Vehicle Registration Fees	42.02	43.79	41.24
Other State Highway Fees	7.03	13.76	16.69
Road & Crossing Tolls	1.49	16.21	13.31
Local Highway-User Revenue	<u>0.00</u>	<u>4.71</u>	<u>4.08</u>
TOTAL HIGHWAY-USER REVENUES	\$122.35	\$149.09	\$154.55
Property Taxes	\$ 3.34	\$ 17.49	\$ 17.30
Non-Highway-Related Taxes	0.00	2.51	3.86
Appropriations from General Fund	37.99	45.80	46.16
Federal Aid	35.07	49.77	59.45
Miscellaneous Receipts	<u>20.34</u>	<u>28.12</u>	<u>26.44</u>
TOTAL NON-HIGHWAY-USER FUNDS	\$96.74	\$143.70	\$153.21
TOTAL HIGHWAY REVENUES	\$219.09	\$292.79	\$307.76

Source: Federal Highway Administration, Highway Statistics 1990, (Washington D.C.: Government Printing Office, 1991); CRC calculations.

Chart A
Distribution of Money in the Michigan Transportation Fund

