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CITIZENS RESEARCH COUNCIL OF MICHIGAN

Seeking Property Tax Relief
Exploring Alternative Local Road Funding Options

Key Takeaways

- Michigan's road funding system, with the state primarily responsible for levying taxes and sharing the revenues with local governments to maintain the roads, violates a core ethos of good government: that the misery of raising taxes should accompany the pleasure of spending the revenues.
- As the state has been slow to fulfill its revenue raising responsibilities, local governments have filled the void by levying property taxes, the only option available to most of them. Almost 700 local governments levy a road tax and more are likely to follow, thus placing more strain on the already overburdened property tax.
- By considering the authorization of local-option motor fuel, vehicle registration, income, or sales taxes, the Michigan legislature would be following the practice of other states, including many of our neighbors, to meet local road funding responsibilities.

The quality and funding of roads in Michigan is a hot topic at the state level. The debate over how much increased funding is required to address crumbling roads and where the revenue should come from is largely dominated by state-level actors focusing on the needs of the state's trunkline road system. However, Michigan has over 122,000 route miles of road, and only 9,600 miles (12.7 percent) of those are state (MDOT) highways.[1] Those 9,600 miles of state highways are the most heavily traveled roads, but there are also more than 82,000 miles of county roads and another 30,000 miles of local streets that are important for connecting the state roads to retail, commercial, industrial, and residential properties.

These local roads are not great in great condition: the County Road Association reports that 45 percent of local federal-aid eligible roads are in good or fair condition and only 36 percent of local non-federal-aid eligible roads meet that goal.[2] What are the options, then, for local governments that have to address local demands to repair and fund increased infrastructure investment?

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A New Approach to Policy

The current road funding system in Michigan involves state government collecting various state taxes and distributing a portion of the revenues it collects to local governments. This intergovernmental transfer of funds to finance road and bridge investment is part of a bigger system in which state funding is seen as quid prop quo to make up for the inability of local governments to raise their own revenues. This type of state revenue sharing program is also evident in school funding, unrestricted revenue sharing, and court funding; these programs are designed to maintain acceptable levels of government services from community to community while keeping local government taxes levied at reasonable rates.

The philosophy of the state sharing revenue with local governments in place of local-option taxes dates back many decades and has become engrained in the road funding culture. However, this practice violates a core ethos of good government: the misery of raising taxes should accompany the pleasure of spending the revenues. Budget makers and service providers are most prudent with public funds when they also are the policymakers that have to ask for voter approval to levy the taxes.

Furthermore, Michigan's road funding program has created a culture of dependence. For years, many local road agencies only spent on roads and bridges what they received from the state. Although the case for increased investment was evident, the strategy was to seek increases in state taxes rather than addressing the problems with their own taxes.

Beyond the concepts of good government violated by this practice, it also has created an increasingly complex program that makes policymaking difficult. Two Citizens Research Council of Michigan reports published earlier this year documented many of the road funding needs and options.[a] The reports discussed the goal of competitive tax rates. Interstate comparisons of tax rates are complicated because the Michigan tax that funds state and local roads is compared to state taxes in other states that primarily fund state roads. Local road taxes levied in other states are rarely included in the comparisons.

State transportation-related tax revenues are distributed according to the statutory provisions under Public Act 51 of 1951 (commonly referred to as Act 51).[3] The reports questioned the efficacy of the Act 51 formula for distributing state funds to local road agencies. Efforts to recognize infrastructure funding demands have led to increasingly complex formulas that strain the ability of taxpayers to understand and hold policymakers accountable for road funding expenditures.

Whether because of term limits or merely the passing of time, the history and context for revenue sharing programs such as road funding have been lost on some current policymakers. State taxes are increasingly levied at rates sufficient to fund only state programs (with the exception of the school aid program). Local governments that rely on state revenue sharing and road funding dollars have had to cut back on services or place increasing burdens on the property tax to meet their citizens' demands. It may be time for local governments to be granted further revenue-raising options to break their heavy reliance on state funding to meet local demands.

a "State Budget Note 2019-01: Piecing Together the Road Funding Puzzle." *Citizens Research Council of Michigan*, July 2019. Accessed August 15, 2019. https://crcmich.org/PUBLICAT/2010s/2019/sbn01-Road_Funding_Puzzle.pdf; and "Report 405: Evaluating Michigan's Options to Increase Road Funding." *Citizens Research Council of Michigan*, February 2019. Accessed August 15, 2019. https://crcmich.org/PUBLICAT/2010s/2019/rpt405-Road_Funding_Options.pdf.

Road Funding Today

Road funding at the state level has largely been supported by motor fuel and vehicle registration tax revenues, long-term borrowing, and existing state budget resources (i.e., allocation of general fund revenues). State transportation-related tax revenues are constitutionally earmarked for roads and distributed according to the Act 51 formula: 39.1 percent to the Michigan Department of Transportation (MDOT), 39.1 percent to county road commissions, and 21.8 percent to cities and villages.

The formula distributes state dollars among the local governments based on road miles, population, and vehicle registration fee revenue attributable to each county. Factors contributing to road wear, including road usage, number of lane miles per road, and current infrastructure conditions are not considered in the road funding distribution formulas. This benefits rural road systems with many miles but fewer users.

Estimated Funding Shortfall

In 2015, a state road funding package was passed to put an additional $1.2 billion towards road maintenance and repair once fully implemented in 2021. Four years later, the increased road funding is not yet fully phased in and signals indicate that the planned investment is woefully short. In 2016, then-Governor Snyder created the 21st Century Infrastructure Commission, which estimated that $2.2 billion would be required annually in addition to the $1.2 billion from the 2015 road funding package.[4] Recently, the Senate Fiscal Agency documented that the amount is likely higher because roads have degraded further since 2016.[5]

In early 2019, the Director of MDOT estimated that the state-managed road system will require an additional $1.5 billion per year above the 2015 roads package to meet target conditions[6] and the County Road Association has estimated the system-wide need for county roads at an additional $2 billion per year.[7] A similar statewide estimate of funding required to achieve target conditions for city and village roads is not available. The combined state and county estimate approaches $3.5 billion more each year to attain desired road conditions. Given the lack of a local road investment estimate, the current $2.5 billion figure that is the center of the road funding debate may not be sufficient to meet the entirety of state and local road funding goals.

Plans for Increased Road Funding

Governor Whitmer has proposed a plan to increase fuel taxes by 45 cents per gallon to raise nearly $2.5 billion in new tax revenue; however, due to other budget adjustments included in the Governor's plan, road funding would rise by only $1.9 billion per year when fully phased in. Legislative Republicans have discussed some elements of a possible road plan, but not enough elements have been released to comment on where the funding would come from or how it would be distributed to state and local government road agencies.

The Governor's plan includes a new distribution formula for the new funds generated in an attempt to get more funding to multi-lane, high traffic volume roads (current fuel tax revenue would still be distributed according to the Act 51 formula). The proposal would direct 70 percent ($1.5 billion) of the new funding to state roads with the remaining 30 percent ($570 million) divided among county and local roads.

The road funding discussions at the state level are ongoing and what will ultimately happen is unknown, both in terms of the amount of increased investment and changes to allocation formula.

Local Options for Expanded Road Funding

Counties, cities, and villages share responsibility for local roads. Townships do not generally have authority over the roads in their jurisdiction, but they do contribute local funding to road maintenance and repair. The current funding need to improve and maintain local roads is not clear since a system-wide estimate is lacking, while an estimate to repair and maintain the county road system is pegged at an additional $2 billion per year.

Michigan local governments are fairly limited when it comes to increasing road funding. They can re-prioritize current spending and appropriate additional funding from their general funds; general funds are largely supported by property taxes (in some cities support can come from city income taxes as well). If additional tax revenues are sought for roads, locals can ask voters to approve a dedicated property tax millage (or an income tax if a city is involved). In short, the only option most local governments have available to them for addressing road needs with new tax revenues is to increase property taxes.

The problem with increasing property taxes is that local governments already rely on this revenue source to finance the majority of local services. As a result the property tax is:

1. ***Overused***: all types of local units from cities to school districts to special authorities levy property taxes to support all different kinds of services. Stacking taxes levied by overlapping jurisdictions on the tax rolls of individual taxpayers causes Michigan to have some of the highest property tax burdens in the nation.[8] High property tax rates are burdensome to taxpayers and generally unsustainable. They can lead residents and businesses to leave jurisdictions in search of a better tax climate.

2. ***Regressive***: local governments with less property value and lower-income residents have to levy property taxes at higher rates to generate the same levels of revenue that local units with high property value and higher-income residents can raise with low rates.

3. ***Inadequate***: the tax base is not adequate to support all local government services provided by all types of local governments; property taxes need to be one part of the local funding solution, but not the only local-source revenue option.[b] Furthermore, many local governments that levy property taxes at higher rates are also the entities that were hit harder by tax foreclosures. Many local governments do not have authority within their constitutional or charter tax limitations to levy property taxes at rates needed to yield sufficient funds to fix the roads for which they are responsible.

b "Report 399: Diversifying Local-Source Revenue Options in Michigan." *Citizens Research Council of Michigan*, February 2018. Accessed August 15, 2019. https://crcmich.org/PUBLICAT/2010s/2018/rpt399_Local_Option_Taxes.pdf.

Current Local Road Funding

Despite taxpayer aversion to additional property taxes, a large number of local property tax millages are currently levied in support of road funding. **Map 1** shows that of Michigan's 83 counties, 30 levy a dedicated property tax millage in support of road funding (counties shaded in teal color). The map also includes the number of cities, townships, and villages within each county that levied dedicated road funding millages in 2019 (five counties[c] have no city, village or township road millages).[d]

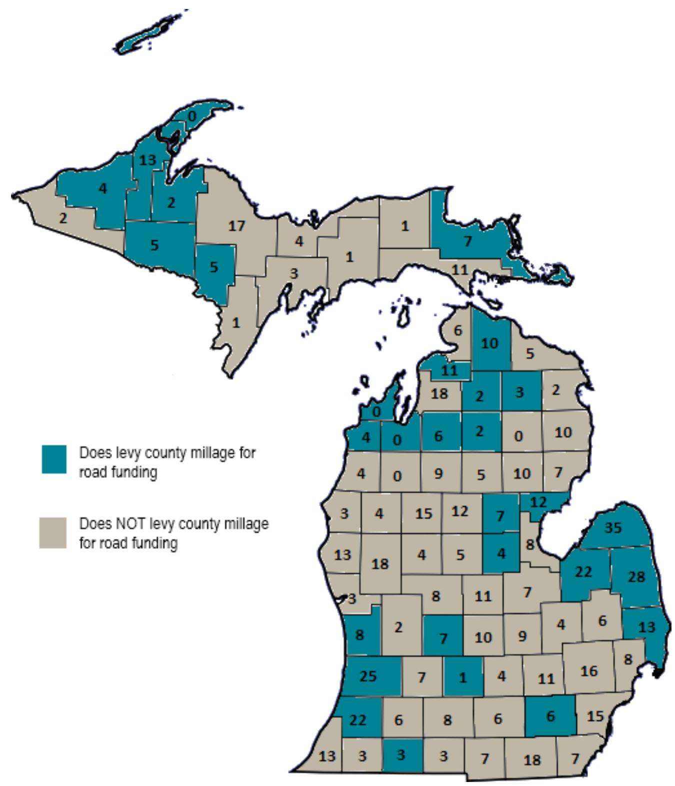
Only Oscoda and Wexford counties do not have any county or local tax effort dedicated to roads; however, the local governments could be using general fund dollars for roads. Twenty-six counties have less than five total county and local road millages being levied by the counties and local governments within them. The rest of the counties have five or more county or local millages dedicated to road funding.

c Keweenaw, Leelanau, Grand Traverse, Oscoda, and Wexford counties.

d This number is slightly overstated because five local governments are located in two counties and counted in both counties' total: Union City village (Branch and Calhoun counties), Mackinaw City village (Cheboygan and Emmet counties), Clare (Clare and Isabella counties), Grand Ledge (Clinton and Eaton counties), and Memphis (Macomb and St. Clair counties).

Map 1

Number of Local Road Millages Levied, 2019



Source: Michigan Department of Treasury

County and Local Property Taxes to Support Roads

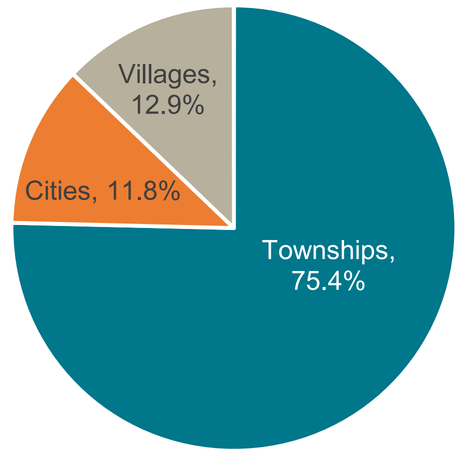
Thirty counties levied dedicated property taxes in support of road funding in 2019, ranging from 0.25 mills[e] in St. Clair County to 5.0 mills in Ontonagon County. Most counties levy dedicated millages at rates around 1.0 mill.

It is not uncommon for cities and villages to supplement Act 51 road funding dollars with general fund dollars, primarily from property taxes. In addition to the dedicated county millages, 731 cities, villages, and townships[f] levied dedicated property tax millages in support of roads; the majority of these are levied by townships (see **Chart 1**).

Table 1 highlights the average rates, as well as highest and lowest rates, levied by cities, villages, and townships in support of road funding. Most of the millages levied were solely in support of roads, but some millages are dedicated to multiple purposes (e.g., road and fire services).

Chart 1

Dedicated Road Millages by Government Type, 2019



Source: Michigan Department of Treasury

In August 2019, 17 county and local road funding millage requests appeared on the ballot. Of those, only two did not pass: a new proposed road millage in Oscoda Township (Iosco County) and an increase to an existing millage in Portage Township (Mackinac County). Most of the proposals that passed were renewals or increases to existing millages. One was for a new property tax millage: 1.0 mills in Sheridan Township (Calhoun County).

Table 1

Local Road Millages, 2019

	Number of Road Millages	Average Millage Rate	Lowest Millage Rate	Highest Millage Rate
Cities	86	1.9248	0.0560	6.7037
Villages	94	3.0363	0.1800	6.2500
Townships	551	1.5116	0.2454	6.0000
Total	731	1.7563		

Source: Michigan Department of Treasury, Local Unit Millage Report

e A mill is a term of taxation. It means $1 of taxation for every $1,000 of value.

f This does not mean that 731 separate local units levy millages because some local units levy more than one millage in support of roads and some cities and villages are located in two counties and double counted; the actual number of separate local units that levy road millages is 652.

Options to Expand Local Road Funding

Before considering new local-option taxes that could be made available to counties and local governments in Michigan, all local governments should examine their existing budget resources to ensure efficiency and effectiveness in budgeting and service provision. While it is likely true that infrastructure spending needs to be increased in many communities, at least some of those communities may be able to find additional revenues within their current budgets that can be better used to fund roads and other infrastructure. If roads are a local priority, spending plans should reflect that.

The first step should always be to review and prioritize local budgets. Once that is done, it may be the case that local governments still need additional revenue to meet road funding demands. If that is the case, then local officials should look to options for increasing tax revenues with voter approval. Some options are discussed below; many of these will require state authorization before counties and local governments can levy them.

Tax Options

Counties and local governments would benefit from alternatives beyond the property tax to fund roads. Our recent research on local-option taxes provides details on the different taxes that could be made available to local governments.[g]

g “Report 399: Diversifying Local-Source Revenue Options in Michigan.” *Citizens Research Council of Michigan*, February 2018. Accessed August 15, 2019. https://crcmich.org/PUBLICAT/2010s/2018/rpt399_Local_Option_Taxes.pdf.

Steps Required to Authorize New Local-Option Taxes

Before any new local tax can be levied by any local government, the following things need to happen:

1. The state needs to pass a law authorizing local governments to levy any new local tax. Local governments that are currently levying local-option taxes, e.g. city income taxes, are explicitly authorized to do so in state law.

2. In order for local units to levy a local-option sales tax, it may be necessary to pass a constitutional amendment, which would require a statewide vote of the people, to explicitly allow for a local sales tax or a rate increase and some flexibility in the disposition of any additional sales tax revenue.

3. Once the state Constitution and state law allow for a local tax, then the legislative body of the local unit (e.g., city council or county commission) needs to pass a resolution or ordinance to levy the tax at whatever rate is desired by the local government and allowed for in state law.

4. Finally, any new local-option tax needs voter approval before it can be levied by a local unit of government.

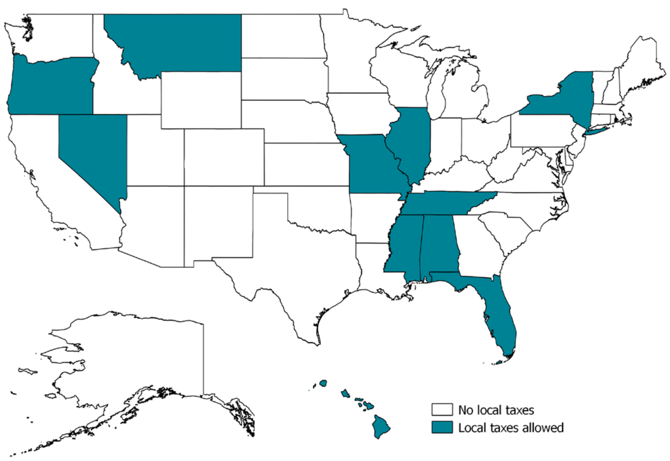
Motor Fuel Taxes

Taxes related to transportation and roads include excise taxes on motor fuels and fees on vehicle registration and licensing. Excise taxes on motor fuels are generally earmarked for transportation purposes.

Some type of local motor fuel tax is authorized in 11 states, not including Michigan. Only nine states have local governments currently levying these taxes (see **Map 2**).[h] As a major revenue source, a local fuel tax is limited. It would require a local rate of 10 to 15 cents per gallon to raise significant funds, which would be on top of existing federal and state excise taxes.

Map 2

Local Motor Fuels Taxes



Source: "Report 399: Diversifying Local-Source Revenue Options in Michigan." *Citizens Research Council of Michigan*, February 2018.

h A local motor fuels tax is authorized to counties in Montana and Tennessee, but no counties in either state currently levy the tax.

Long-term trends provide reason to be concerned with the sustainability of the fuel tax. Fuel tax revenues (adjusted for inflation) have declined consistently over the last four decades as fuel efficiency and alternative fuels and methods of transportation have increased. Over the same period, estimated vehicle miles traveled has doubled leading to a troubling long-term trend of road usage increasing while fuel tax collections are declining.[9] Many states are now considering alternative options for taxing transportation-type goods and services, including levies based on the number of miles traveled rather than fuel consumption.

The attractiveness of a local-option fuel tax may depend on what role increased fuel taxes play in the final state road funding package currently being debated. Fuels are not consumed evenly throughout the state because travel and road use varies considerably. A local gas tax would generate revenue proportionate to highway use across the state. Areas with higher traffic volumes and greater need for funding caused by wear and tear on the roads would likely generate proportionately more funding. Another consideration with a local fuel tax is the ability to export the tax burden to visitors and nonresidents. This would be the case for Michigan's tourism destinations.

Consideration of the tax collection mechanism should begin by looking at how the 11 states that authorize local-option fuel taxes administer their taxes. Michigan levies its state tax at the wholesale level, so piggybacking on the state tax would be complicated.

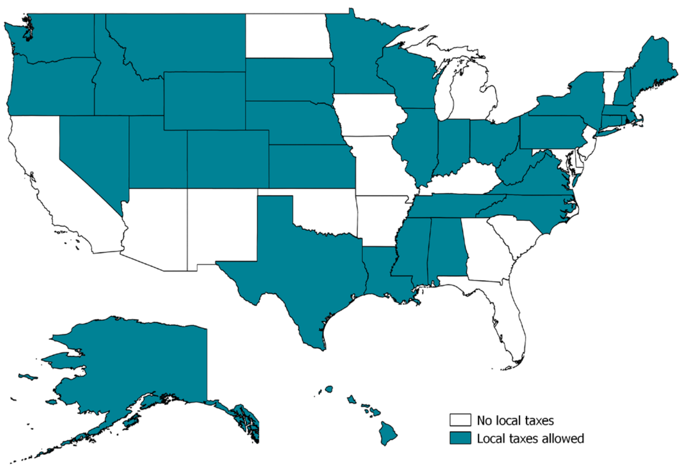
Registration Fees

Currently, vehicle registration fees are levied by the state and based on the weight or sales price of a vehicle. Local-option flat-rate vehicle fees were authorized to counties in Michigan from 1987 to 1992;

however, they proved politically unpopular because they did not account for differences in the weight and costs of vehicles. Local motor vehicle or license taxes are authorized in some form in 33 states; four states levy a state fee, but share the revenue with local governments (see **Map 3**).[i]

Map 3

Local Vehicle-Related Fees



Source: "Report 399: Diversifying Local-Source Revenue Options in Michigan." *Citizens Research Council of Michigan*, February 2018.

Local-option registration fees provide less opportunity to export the tax burden to visitors to those regions, but the higher number of vehicles registered in high traffic regions would generate revenues reflecting greater road usage.

Administration of local-option registration fees should be fairly simple. The state registration fee is administered by the Secretary of State. The state knows where vehicles are registered, and therefore could levy a county or regional tax at the same time and credit revenues collected to the proper taxing entity. The Act 51 formula for distributing state taxes to county road agencies uses this data.

i Arizona, California, Georgia, and Kentucky (Indiana also shares the state vehicle license tax, but has county motor vehicle taxes as well).

Income Taxes

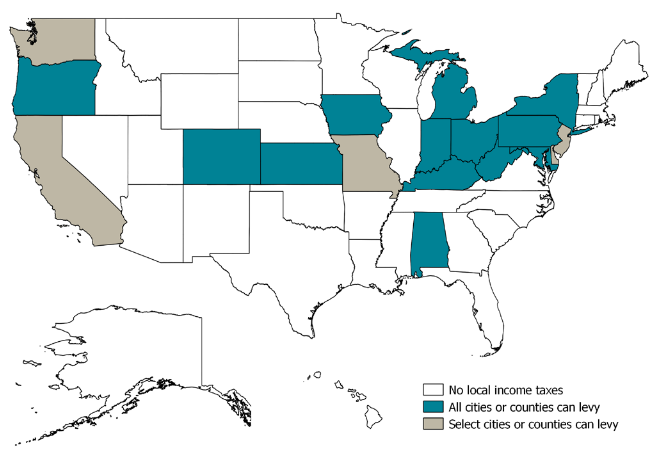
A local-option income tax is currently available only to cities in Michigan, and 24 cities[j] levy the tax with rates ranging from 0.5 percent for nonresidents to 2.4 percent for residents. Eighteen states (including Michigan) and Washington, D.C., allow for some type of local income tax (see **Map 4**).

States have a lot of variation in what type of income is taxed, rates, and what types of local units can levy the tax. Indiana, for example, allows counties to levy local-option income taxes through three different programs with varying rates: a county adjusted gross income tax, a county option income tax, and a county economic development income tax. In addition, supplemental rates are authorized as follows: up to one percent for property tax relief, up to one percent in counties that have instituted a property tax freeze, and up to 0.25 percent to fund public safety services.[10]

The state legislature could authorize counties, cities, and/or other types of local governments to levy a

Map 4

States with Local Income Taxes



Source: "Report 399: Diversifying Local-Source Revenue Options in Michigan." *Citizens Research Council of Michigan*, February 2018.

j Albion, Battle Creek, Benton Harbor, Big Rapids, Detroit, East Lansing, Flint, Grand Rapids, Grayling, Hamtramck, Highland Park, Hudson, Ionia, Jackson, Lansing, Lapeer, Muskegon, Muskegon Heights, Pontiac, Port Huron, Portland, Saginaw, Springfield, and Walker.

supplemental local-option income tax in support of road maintenance similar to what is done in Indiana. The state could also authorize a local-option income tax for general purposes, which could free up more local dollars for road maintenance.

A county or regional local-option income tax would allow part of the tax burden to be exported. Every county and region has workers that travel into that jurisdiction for employment. An income tax would reflect travel patterns and economic activity related to roads.

Counties or regions levying a local-option income tax could piggyback on the state's administration of its income tax. Efforts to move city income tax administration to the state level were undertaken in Detroit prior to its bankruptcy. The experience in Detroit illuminated the number of workers that fall through the cracks and the lack of compliance when workers residing in income tax cities commute and work in non-income tax jurisdictions. Administrative compliance by the employers was spotty. Learning from this experience to benefit other taxing jurisdictions can provide for an efficient administration of the tax.

Sales Taxes

A local retail sales tax is not currently an option in Michigan. The Michigan Constitution limits the sales tax rate to six percent and the state is levying its state tax at that rate. The Constitution is not clear if the rate limit applies only to the state or if it was also intended to limit local officials' ability to levy sales taxes. Furthermore, the disposition of the sales tax is restricted by constitutional and statutory law, which further complicates the ability of local governments to levy a sales tax.[11]

Thirty-seven states allow for local-option sales taxes making Michigan an outlier in this area (see **Map 5**).

Local-option sales taxes allow the taxing jurisdictions to capture economic activity occurring within their jurisdictions, some of it related to visitors purchasing taxable items. The Michigan regions that benefit from tourism would benefit from the purchase of food and drink as well as purchases of souvenirs and other goods. Other regions of the state could benefit generally from visitors making purchases.

Sales taxes generally are administered by the retailers that collect the taxes on behalf of government and submit the revenues on a regular basis. The prevalence of local-option taxes in other states illustrates the extent that those retailers are able to collect the tax for more than one taxing jurisdiction and submit the revenues to the proper agencies.

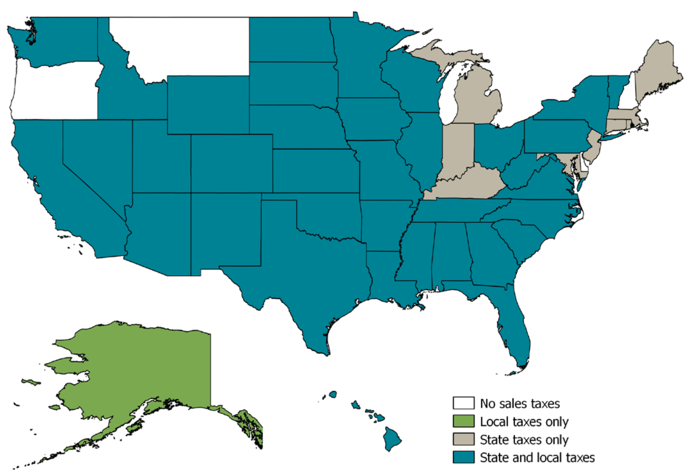
Other Taxes

Some other tax options that could be authorized to local governments, either generally or specifically in support of road and transportation funding, include selective sales taxes on utilities, alcohol, tobacco, marijuana, restaurant meals, hotel accommodations, rental cars, parking, entertainment goods and services, and ridesharing. Some of these may be a better fit to support local road funding than others.

Currently, only Detroit is authorized to levy a utility users' excise tax, at a rate of five percent. This may be an option for expanding local taxes, but it has been a declining revenue source for the city in recent years. Tourism-type taxes at the state and local levels in Michigan and other states are generally earmarked for tourism promotion, convention centers, and related purposes. Some states allow for local "sin" taxes on alcohol, tobacco, marijuana, casino gambling, and soda or sugar. These types of

Map 5

State and Local Sales Taxes



Source: "Report 399: Diversifying Local-Source Revenue Options in Michigan." *Citizens Research Council of Michigan*, February 2018.

taxes can lead to declining revenue streams if people are induced to indulge less with higher taxation. Tobacco consumption in particular has been declining for many years and may not be a good local tax option. Often revenue generated by these sin taxes are dedicated to remedying the costs they impose on government, such as health services.

State marijuana taxes in Michigan are shared with county and local governments that allow marijuana dispensaries within their boundaries. Non-tribal casino gambling is limited to three locations in Detroit, restricting the statewide application of the related tax system. Local soda and sugar taxes do not appear feasible at this time because Michigan enacted a prohibition in 2017 to prevent any local government from levying these types of taxes.[12]

This leaves selective sales taxes (or excise taxes) on alcohol, entertainment/amusement[k], ridesharing, parking, and car rentals as potential options to increase local-option taxes in Michigan. None of these options would provide large revenue streams, but all have potential as supplemental road funding. Some states allow for local taxes on these types of goods and services with variations across the states in what is taxed and what types of local governments can levy the tax. No local governments in Michigan currently have authority to levy any of these types of excise taxes.

Possibilities for New Road Funding Options

The current menu of local-option taxes could be expanded in Michigan to provide local governments with more flexibility when trying to fund road repairs and maintenance.

The best options for road funding may be those that relate directly to road usage and transportation because they follow a user fee philosophy. This makes local taxes on motor fuels and vehicles likely candidates as they would be the closest things to user charges. While these do provide options to consider for local road funding, they would not generally provide large sums in support of local roads unless they were levied at relatively high rates.

Other options that relate to highway use include taxing ridesharing and car rentals and dedicating the receipts to roads. Again, these would not lead to large revenue streams, but would provide supplemental funding in support of road needs. Ridesharing is fairly new, but states and local governments are experimenting with how best to tax the service and level the playing field with traditional taxi services and others providing rides.

Taxes on car rentals are not new; allowing for a local-option tax would require state authorization and local approval. Right now, car rental fees are considered tourism-type taxes and the revenues go towards tourism promotion; another option would be to consider them as road user fees and put the revenues towards roads.

Other revenue options with an indirect linkage to highway use could be considered, such as local-option income taxes. Michigan already authorizes them to cities and they can generate substantial revenue at fairly low rates depending on their structure. Because they are charged to all workers in a given community who use the roads to get to work, income taxes are indirectly related to road use. Income taxes also export part of the tax burden to commuters who work in one community, but live in another.

The same arguments could be made for local sales taxes: local governments could raise large sums with fairly low tax rates and the tax burden would be partially exported to visitors and commuters. However, both income and sales taxes are more cyclical than the property tax and revenues may fluctuate more with the economy. A local sales tax would also be more difficult to implement as it may require a constitutional amendment to enact.

k Entertainment/amusement taxes can be applied to recreation services and businesses, cable television companies, Netflix and streaming services, movies, online cloud services and subscription databases, theaters, concerts and other live entertainment, sporting events, ski hills, bowling centers, golf courses, health clubs, and amusement parks, among others.

One potential area that has so far escaped taxation in Michigan is entertainment and amusement goods and services. These are largely untaxed at the state and local level in Michigan, though some other states allow local units to tax entertainment. These taxes are considered not because they are directly related to roads, but because they represent an untaxed area that has potential to provide needed funding for local road maintenance. However, the argument could be made that if these goods and services are taxed, the funding should be earmarked for the arts and recreation in more of a user fee type model.

Authorize New Taxes at Regional Level

While the Research Council does not have recommendations on what specific taxes should be authorized at the local level, other than the general recommendation that local governments need more options when it comes to funding road maintenance, we do recommend that any new local taxes be authorized at the county or regional level.

If new taxes are authorized to cities and townships, that would lead to 1,700-plus potential taxing jurisdictions. This could reduce the administrative efficiency, equity, and neutrality[l] of the new taxes while increasing competition among local governments across the state. Authorizing taxes at the most local level could also introduce economic distortions by allowing individuals and businesses to adjust their tax burden fairly easily by changing the jurisdictions in which they live and do business.

The biggest problem associated with authorizing new local taxes at the county level is the fact that counties do not have control over all local roads. It creates a mismatch between those raising the revenue and those providing the services. This can be addressed in two ways:

1. County road commissions already have control over the majority of local roads, which are considered county roads, and could take over the repair, maintenance, and funding of all non-MDOT roads within their boundaries.

2. Counties could collect new local taxes and then distribute funds throughout the county depending on road usage and needs.

When reviewing local taxes in other states, it appears that some states allow cities to levy local taxes, some allow counties to levy them, and some allow both to levy the taxes.[m] The data do not show that many states allow townships to levy local-option taxes.

Conclusion

There is little question that state and local road repair and maintenance would benefit from additional investment. The funding needs dominating the public discussion right now are focused on the state roads. It is important to remember that the majority of roads in Michigan are county and local roads, and many local units are levying increased property taxes to try to meet these funding demands. This paper explores what local governments are currently doing to invest in road funding and potential options to expand local road funding.

Counties and local governments would benefit from options beyond the local property tax to meet road repair and maintenance needs. These options could include local taxes on motor fuels and vehicles, income, sales, ridesharing, or car rentals. Most of these tax options, with the exception of income and sales taxes, would provide supplemental road funding, but would not provide large enough revenue streams to meet all road funding demands. When discussing expanding local-option taxes, it is also important to think about what level of government is best suited to levy these new taxes. Any new local taxes should be levied at the regional or county level.

l Neutrality is defined as the criterion that taxes should be structured so as to minimize interference with economic decisions in otherwise efficient markets.

m For more detail, review appendices on: "Report 399: Diversifying Local-Source Revenue Options in Michigan." *Citizens Research Council of Michigan*, February 2018. Accessed August 15, 2019. https://crcmich.org/PUBLICAT/2010s/2018/rpt399_Local_Option_Taxes.pdf.

Endnotes

1 "Who's responsible for which roads in Michigan?" *Michigan Radio*, November 7, 2017. Accessed July 30, 2019. https://www.michiganradio.org/post/who-s-responsible-which-roads-michigan.

2 County Road Association of Michigan. *2019 County Road Investment Plan: A comprehensive 83-county overview of appropriate investment requirements to restore Michigan's county road system*, 2019. Accessed July 30, 2019. https://micountyroads.org/wp-content/uploads/FINAL-LAYOUT-The-Michigan-County-Road-Investment-Plan-of-2019-5-20-2019.pdf.

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