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Michigan's highway and transportation network provides the infrastructure for manufacturing, agriculture and tourism. The ability to rebuild the state's economy by enhancing current industries and attracting new ones depends in part on the quality of the transportation system. Michigan needs a coherent and dependable revenue base for transportation needs. Current funding provisions have fallen short of requirements, resulting in a deteriorating transportation system. Authorization for earmarking sales tax revenue to the Comprehensive Transportation Fund for use on urban and public transit systems expires September 30, 1982. Legislation is pending which would extend this authorization. However, we believe a comprehensive policy rather than a piecemeal approach must be enacted to encompass both structural and fiscal requirements. Legislative and executive action is needed which would provide additional revenue for use on roads and bridges. We estimate $250 million in state expenditures for roads would generate $141.1 million in payroll from 8,050 jobs in construction and related industries; $6.5 million in state income tax and $7.0 million in sales tax revenues; $108.9 million in corporate expenditures and $2.7 million in SBT revenues; and $12.4 million in reduced unemployment compensation benefits, for a total of $278.6 million in economic benefits to Michigan.

Background

Four major transportation accounts were established by 1978 legislation. Two of these, the Michigan Transportation Fund (MTF) and State Department Transportation Fund (SDTF) are essentially escrow accounts for other programs. In fiscal 1981, the MTF received $687.1 million of the total $987.6 million of transportation funds. Most of this came from the 11¢ per gallon motor fuel tax, vehicle weight taxes, and motor carrier license fees. State law mandates distribution of MTF monies as follows: 19% ($130.5 million) to cities and villages; 34.3% ($235.7 million) to county road commissions; and 46.7% ($320.9 million) to the SDTF. After deductions for debt service, SDTF monies are distributed to two other transportation program accounts: the State Trunkline Fund (STF) which finances road and bridge construction, maintenance and repair; and the Comprehensive Transportation Fund (CTF) which provides for urban and public transportation. The CTF additionally receives 27.9% of authorized auto-related sales tax revenue for transportation. This amounts to 6.975% of total sales tax revenue.

Major Funding Sources (millions of dollars)	Fiscal Year 1978	1979	1980	1981	1982[1]
Aviation Fuel	3.9	4.5	3.4	3.5	4.0
Gasoline	413.2	472.3	448.2	417.5	404.3
Liquified Petroleum	0.3	0.3	0.4	0.5	0.6
Truck Diesel Fuel	-0-	-0-	0.5	7.0	7.5
Other Diesel Fuel	24.7	30.4	25.1	13.1	14.0
Wieght tax: Out-of-state	3.4	5.2	5.0	5.1	5.1
In-state	169.9	230.2	231.2	205.9	207.9
Auto-related sales tax	-0-	-0-	-0-	24.0	27.2
Additional Funds, all sources	171.4	238.5	266.8	311.0	240.7
TOTAL	786.8	981.4	980.6	987.6	911.3

[1] Estimated

SOURCE: Executive Budget, various years.

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The 1978 transportation legislation was intended to guarantee a growing and stable source of revenue to meet the increasing costs of road and bridge repair, maintenance and construction, and public transportation. This legislation was projected to generate $2,414 million in the 3-year period 1979-81 inclusive, primarily from motor fuel and vehicle weight taxes. Total revenues were actually $2,227 million, creating a funding shortfall of $187 million. This shortfall has forced many localities to sharply curtail road repair and winter snow removal.

Deferred maintenance and repair has significantly contributed to the poor condition of many of Michigan's roads and bridges. The Michigan Department of Transportation reports that 62.7% of Michigan's interstate highway and federally-assisted primary road systems are critically deficient; 31.9% of the state's highways, roads and streets are in poor or very poor condition. More than half of Michigan's paved main highways, roads and streets are rated substandard by nationally accepted guidelines. Poor roads reduce mileage and increase vehicle maintenance costs. One-third of the bridges are too old or weak to safely handle the maximum allowable vehicle weights on roads feeding into them.

Despite increases in motor fuel and vehicle weight taxes and a growing number of vehicle registrations, the shift by consumers to lighter, more fuel-efficient vehicles has reduced yields from both the motor fuel and vehicle weight taxes by an average 4.9% over each of the past 3 years. Recession-induced reductions in travel, along with greater utilization of public transit and car pooling, have also contributed to the decline in fuel tax revenues. This trend can be seen in the following table.

Fiscal Year	# Registrations	# Miles Traveled	Gasoline Sales	Fuel Tax Revenues	Weight Tax Revenues
1973	5.24 million	58.5 billion	3.65 billion	$347.4 million	$143.9 million
1974	5.40	55.8	4.20	397.1	149.7
1975	5.55	56.0	4.15	392.5	151.4
1976	5.70	61.6	4.23	511.1[1]	163.5[1]
1977	5.99	63.4	4.78	425.7	167.0
1978	6.24	67.4	5.00	437.9	173.4
1979	6.34	64.9	4.44	502.7[2]	235.4[2]
1980	6.49	61.2	4.01	473.8	236.2
1981	6.58	62.5	3.80	437.6	229.9

[1] 15 month fiscal year.
[2] Gasoline tax was increased from 9¢ to 11¢ per gallon and the vehicle weight tax was increased by 30%.
SOURCE: Executive Budget and Economic Report of the Governor, various years.

Thus, Michigan's highway and transportation network has simultaneously received greater use and fewer dollars.

Inflation has eroded the purchasing power of the transportation dollar. The same high petroleum prices that drove up gasoline prices and encouraged consumers to switch to more fuel-efficient vehicles increased the cost of petroleum-based road repair materials such as asphalt. Overall, inflation has increased road maintenance costs by about 10% per year, and construction costs by 15%. The combination of inflation (10%) and declining tax revenues (4.9%) has reduced the purchasing power of transportation dollars at an annual rate of 14.9%.

Increased administrative and enforcement charges, as well as a shift in charges from the general fund to special purpose funds has also reduced the net amount of dollars

available for transportation programming. These charges amounted to $41.0 million (5.2%) in fiscal 1978 but will reach an estimated $58.6 million (6.4%) in fiscal 1982.

The decline in state funds could prevent the state from taking full advantage of federal highway improvement grants because the state has been incapable of meeting the matching funds requirement. This could cost the state as much as $140 million million in fiscal 1982 alone. Shrinking revenues from federal motor fuel taxes will also reduce available federal highway funding in the years ahead.

In summary, additional program priorities, higher labor and materials costs, increased administrative and enforcement charges, and declining revenues have all negatively impacted on the quality of the entire transportation system, creating this crisis.

The Agenda Ahead

Although the magnitude of Michigan's road repair problem is compounded by the winter freeze-thaw cycle, Michigan's transportation funding problems are by no means unique. In 1981, 22 states levied higher motor fuel taxes in an attempt to cover the revenue shortfall caused by declining gasoline sales. As of May 1982, 18 other states had introduced legislation to increase motor fuel taxes.

A few states have increased revenues by restructuring motor fuel taxes. Most of the other states have either adopted a percentage tax on the per-gallon price of gasoline, or have increased the cents per gallon tax on gasoline. These last two approaches do not provide a secure method of funding. Revenues from a percentage tax on gasoline declines if gasoline prices decline, as they have recently. The cents per gallon tax revenue depends on constant or increasing sales volume to maintain adequate revenues. When volume declines, due to increased numbers of fuel stingy vehicles (a socially desireable change), or because of reductions in the number of miles travelled, revenues decline. Revenue programs should not be designed to discourage socially desired effects.

Legislation on transportation financing is under study in the Michigan legislature, and additional proposals may emanate from government and private sources. We believe any comprehensive, long-range solution must consider indexing the motor fuel tax to fuel consumption and highway maintenance costs. This would automatically tie transportation taxes to increased or decreased need for road funding and help offset the impact of reduced fuel consumption. Tax increase proposals will obviously have to deal with changes in the formula for vehicle weight taxes, and extend and expand the proportion of sales tax provided for transportation purposes. Issues to be addressed in the design of a comprehensive policy include allocating funds among administrative and enforcement costs, indebtedness, public transit, road and bridge repair and maintenance, or highway construction. Indexing, while an attractive alternative and far superior to a percentage or cents per gallon tax on gasoline, tends to remove many of the incentives to improve efficiency and contain costs.

However, legislation of this type would go far toward ensuring adequate funds for total transportation needs, thereby helping to reverse the progressive deterioration of Michigan's transportation system. This would assist Michigan on its path to economic recovery.