Road Funding

BACKGROUND

The Michigan Department of Transportation (MDOT), describes its "business strategy" as "improving Michigan's total transportation system by efficiently delivering transportation products, services, and information." However, it has run into roadblocks—or at least speed bumps—in recent years, including

- growth in traffic volume without a corresponding growth in road building, repair, and maintenance revenue,
- a mature highway system that is, on average, seven years older than those in neighboring states,
- hundreds of bridges that are more than 30 years old and need work.

Legislation enacted in 1997, when combined with fund transfers and other transportation financing reforms, has resulted in an increase in transportation funds of more than $300 million annually. This financial infusion, plus an anticipated $150 million increase in federal highway funds (from $550 million last year), enabled the MDOT to announce record 1998 allocations of more than $1 billion for road and bridge repair and rebuilding; some of this money is included in the $861 million allocated to local units of government for local roads.

GLOSSARY

Trunk line
Any road for which the Michigan Department of Transportation has responsibility.

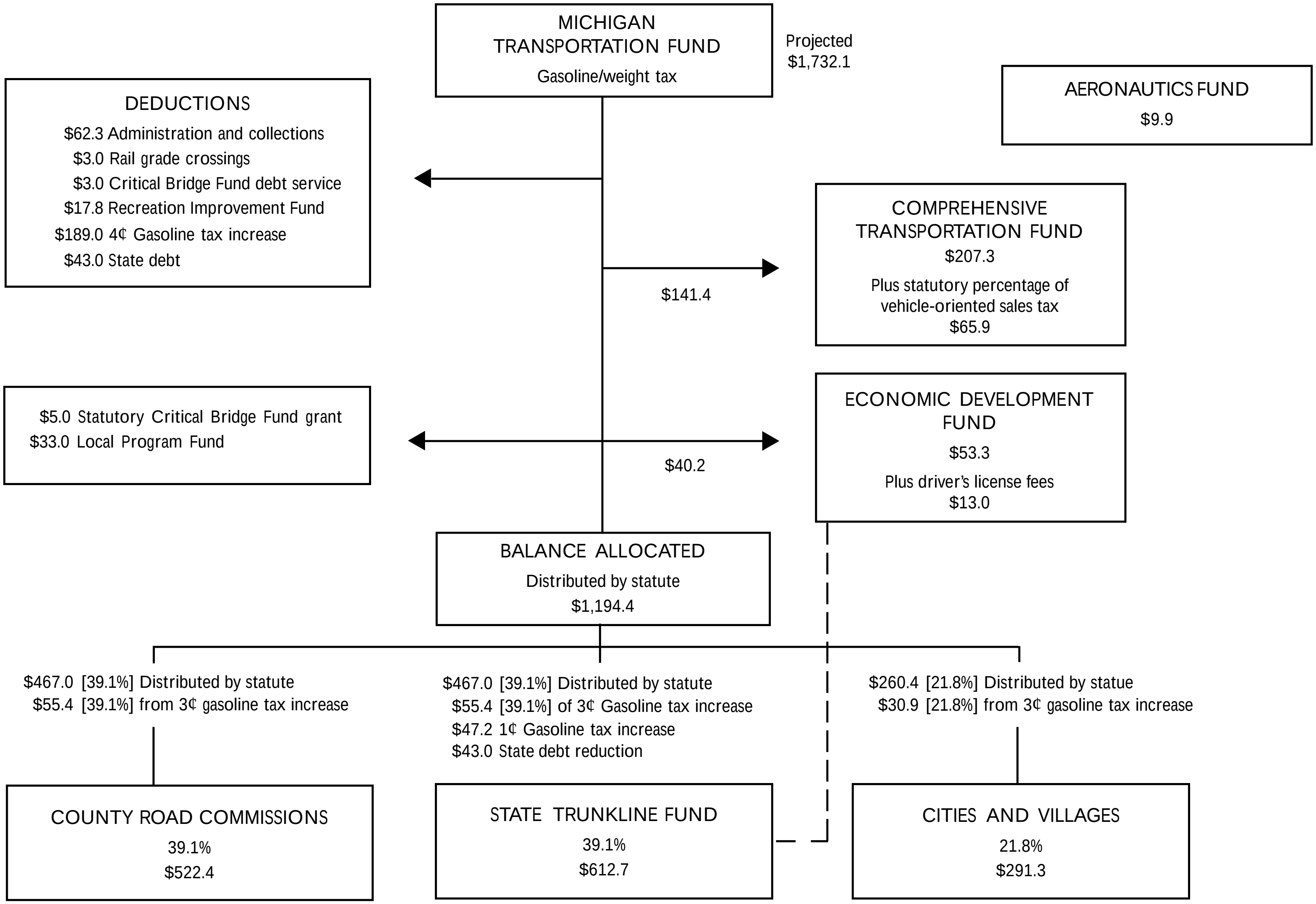
Transportation funding increases approved or enacted in 1997 total $307.6 million and comprise the following:

- A 4-cent-per-gallon gasoline tax increase, yielding about $190 million
- Reform of the so-called "spillage" or "shrinkage" allowance, nearly $4 million
- Increased truck fees, about $36 million
- Increase in one-time (i.e., one-trip) permit fees for oversize or overweight trucks, more than $7 million
- Elimination of the diesel fuel discount, $28 million
- General Fund offset of funds the MDOT pays to other state departments for administrative services, $43 million

A recent legislative attempt to raise another $31 million by increasing diesel fuel taxes by an amount comparable to the gasoline tax hike failed and is considered dead for the time being.

As Exhibit 1 shows, transportation funding is complex. The state revenue sources include motor-fuel taxes (gasoline and diesel), vehicle-registration fees (based on weight) and various other taxes and fees. Most of the money goes into the Michi-

EXHIBIT 1. State Transportation Funding FY 1997–98 (millions)



SOURCE: Michigan Department of Transportation.

gan Transportation Fund ($1.4 billion in 1996–97 and a projected $1.7 billion for 1997–98), but it does not all go toward roads, and of that which does, some gets there through other channels.

- Grants are made from the Michigan Transportation Fund for such programs as rail grade-crossing construction and maintenance, critical bridges maintenance, debt service, and the Recreation Improvements Fund—an allocation to the Michigan Department of Natural Resources for park roads and other transportation-related projects.
- Administrative costs are paid to other state departments for services rendered to the MDOT (e.g., license fee collection by the Michigan Department of State on behalf of the MDOT). An identical amount ($43 million in FY 1997–98) is moved into the Transportation Fund from the state General Fund, offsetting any loss to direct transportation funding.
- An allocation is made to the Economic Development Fund, to finance road projects in support of economic development efforts; this is supplemented by a percentage of the vehicle-related sales tax.
- About 10 percent goes into the Comprehensive Transportation Fund, to finance various modes of public transportation; this also is supplemented by revenue from the vehicle-related sales tax.

The balance ($1.2 billion in 1997–98) goes to the State Trunkline Fund, county road commissions, and cities and villages. State law (Public Act 51 of 1951) dictates that these funds be distributed according to the following formula:

- 39.1 percent for use on state roads
- 39.1 percent to counties
- 21.8 percent to cities and villages

Exhibit 1 shows that in FY 1997–98 the State Trunkline Fund was appropriated about $613 million; counties, $522 million; and cities and villages, $291 million.

In addition to the state money pumped into the Michigan Transportation Fund (the chief wellspring of transportation financing) a substantial sum is received from the federal government, which allocates to the states a share of the 18.3-cent federal tax on gasoline: For Michigan, an average of $515 million for roads ($550 million when mass transit is added) over the past five years; Congress has authorized an average of $300–350 million per year for the next five years, although differences between the House and the Senate are yet to be ironed out.

Exhibit 2 presents the MDOT's proposed expenditures for the $1.03 billion combined capital and maintenance programs for FY 1997–98.

EXHIBIT 2. Proposed Capital and Maintenance Spending for Michigan Roads, FY 1997–98 (millions)

Repair and Rebuild Roads and Bridges	
Preserve road surface and base	$245
Passing relief lanes	10
Capacity improvement	100
Research and development capacity improvement	8
Subtotal	$363
Maintenance	
Routine maintenance	$176
Preventive maintenance	30
Crack sealing and other	30
Subtotal	$236
Bridges	$160
TOTAL REPAIR AND MAINTAIN ROADS AND BRIDGES	$759
New Roads	
Expand	$ 42
Research and development	8
Subtotal	$ 50
Other	$221
TOTAL TRUNK-LINE PROGRAM	$1,030

SOURCE: Michigan Department of Transportation.

The governor launched Build Michigan in 1992—a program to spend $5 billion on road repair over a 10-year period, financed partially by a $200 million bond issue. The second phase, Build Michigan II, relies solely on the gasoline tax increase. Not all of these programs coincide precisely with the revenue and distribution streams depicted in Exhibit 1. For example, routine maintenance funding was not included in the trunk-line total in the past, but in FY 1997–98, some $176 million for this purpose is included, as are federal matching funds.

DISCUSSION

In addition to a long dispute over raising fuel taxes, deteriorating roads, and the governor's Build Michigan I and II programs, the governor, legislative Democrats, the Michigan Chamber of Commerce, local units of government and others have battled over a number of issues—including the state's attempt to incorporate some 9,000 miles of local roads into the state trunk-line system and begin to privatize roadway maintenance.

Under a process dubbed "rationalization," the MDOT launched a plan in 1997 to assume jurisdiction over key state roads. Until then, the state had exercised jurisdiction over only 9,600 of 119,000 miles of road—ranking Michigan 48th in the nation in this respect. Arguing that "the state should have responsibility for the most heavily traveled roads that make up our commercial backbone network," the MDOT began to add to its jurisdiction 9,100 miles to expand state control over roads that "carry 70 percent of all vehicle traffic and 85 percent of . . . commercial traffic," leaving local governments free to maintain more than 100,000 miles of "truly local roads." The state argues, further, that it can consolidate construction work along a corridor—without penalizing motorists because neighboring jurisdictions cannot agree on the level or timing of maintenance, repair, or construction.

The program is opposed by many local units of government. Many of the 9,100 miles of roads proposed for state takeover are said by the County Road Association of Michigan to fail to fulfill the MDOT's definition of "state highway"—some on the list are gravel roads. And because in the past the state has been eager to devolve responsibility for roads to the local level (state law provides for transfer of jurisdiction—from state to local level and vice versa—and hundreds of miles of roadway regularly change hands), the local units of government cannot understand this "sudden reversal." Moreover, with maintenance costing an average of $12,000 per mile, the association's members also worry about what the transfer will cost them in state funds.

The administration calls local control "monopolistic" (locals currently have jurisdiction over more than 90 percent of state roadways); the governor believes the state properly should have jurisdiction over the roadways that are used by the large majority of all vehicle and truck traffic. Moreover, the state auditor general found in a 1994–1997 audit that counties (1) lack priority for repairing roads that cross jurisdictional lines and (2) do not have adequate criteria by which to determine the value of repairs, which "could have a material effect on the state's use of funds."

The MDOT also has begun a program to put routine roadway maintenance up for bid, allowing private companies to compete for the work. This practice is drawing some criticism, and the Senate Fiscal Agency reports that at least in one instance—on a 20-mile stretch near Lansing—maintenance by private contractors cost nearly twice as much as comparable work by state and local crews. The fiscal agency reports that the MDOT has rejected attempts by county road commissions to bid for the work and recommends allowing all competitors—cities, counties and private firms—to bid. House Bill 5524 would stop the MDOT from refusing to allow counties to bid on such contracts, deeming county road commissions as "prequalified" to bid. The Michigan Chamber of Commerce has weighed in against the bill, saying that it would "bias the bid process in favor of road commissions, who do not carry the heavy tax burden shouldered by private contractors."

See also Business Taxes; Privatization; State-Local Relations.

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