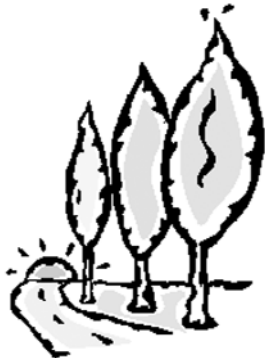


*A Quick Guide to*  
**Roads &  
Road Funding  
In  
Michigan**



*Provided by:*  
*The County Road Association of Michigan*  
**Township Relations Committee**

2009

Visit CRAM online at [www.micountyroads.org](http://www.micountyroads.org)

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## **Introduction**



For most public officials in Michigan, it will come as no surprise to learn that the state's transportation infrastructure is in crisis -- the feedback we receive on a daily basis from our constituents confirms this.

However, for those not directly involved in maintaining the transportation infrastructure, the causes of this crisis may not be clear. The purpose of this publication is to share with the leaders of Michigan's townships, the County Road Association of Michigan (CRAM) positions on this challenge and what we think could be done about it.

We will also explain why we hold these positions, and cite supporting data and statements from many other experts on this subject in the state.

Working on behalf of the CRAM Board of Directors, the CRAM Township Relations Committee hopes to foster and/or solidify a spirit of partnership with townships with regard to roads. CRAM believes that Michigan townships are our partners in facing the current road-funding challenge. It is our sincere hope that through sharing this information we will all be better positioned to face this crisis.

Sincerely,

**William Watkins**

Hillsdale County Board of Road Commissioners  
Chairman, CRAM Township Relations Committee

*If you have questions or comments about roads or road funding, please visit the CRAM Web site ([www.micountyroads.org](http://www.micountyroads.org)) or call or e-mail the association office:*

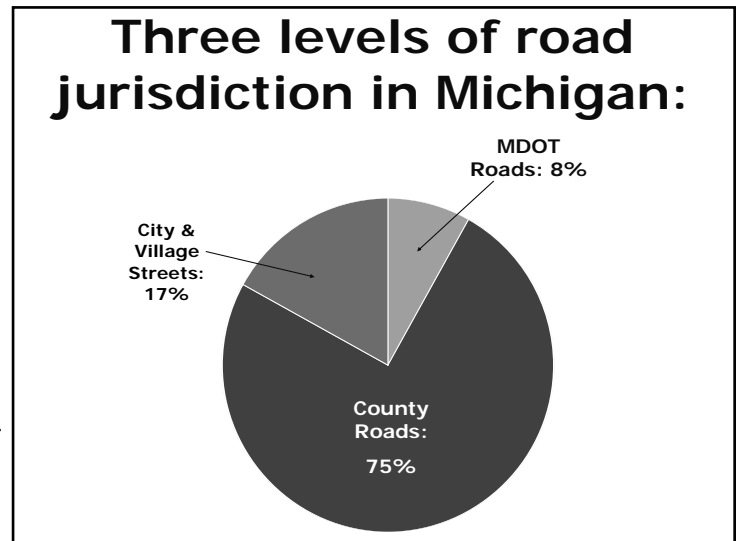
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## **Part I: Who is responsible for Michigan's roads?**

In order to understand the road issues in Michigan, we need to first understand who is responsible for the roads. In Michigan, all roads fall into one of three categories of road jurisdiction:

1. State highways, under the jurisdiction of the Michigan Dept. of Transportation (MDOT): 9,695 miles (8 percent of all roads).
2. County roads, under the jurisdiction of county road commissions: 90,162 miles (75 percent of all roads). In Wayne County, the county roads fall under the jurisdiction of the county Department of Public Services (the road commission was abolished in the 1980s).
3. City or village streets, under the jurisdiction of Michigan's 533 cities and villages: 20,914 miles (17 percent of all roads).



**Note:** Michigan has the eighth largest public road system in the nation, the sixth largest local (county, city and village roads) system and the third largest county system. Michigan's state highway system is the 28th largest in the nation.

Here's a little more information about each level of jurisdiction.

### **State Highways**

State highways fall under the jurisdiction of the Michigan Department of Transportation (MDOT). Included under this heading are all highways with the letters "M", "US" or "I" in their names. Examples include M-55, M-37, US-27, US-12, I-75, I-94, etc. Generally, all freeways fall under MDOT jurisdiction, as do many major inter-county roads. In 65 counties, MDOT contracts with the county road commission to maintain these roads.

### **County Roads**

Generally, county road commissions have jurisdiction over all roads, except state highways, in all townships in the state. Additionally, some county road commissions have jurisdiction over some of the primary roads in the cities and villages.

Over the years, the cities and villages in Michigan have taken jurisdiction over some, or in some cases, all of the roads within their boundaries (except state highways). When a township, or part of a township incorporates and becomes a city or village, the road commission has one year in which to determine which roads to turn over to the new city or village. After that first year, jurisdiction of any road may be transferred either way, if agreed upon by both parties.

### **City & Village Streets**

The cities and villages have jurisdiction over residential or subdivision streets within their boundaries. Whether a city or village or the road commission has jurisdiction over major streets within the community depends upon a variety of factors and varies from community to community.

## Part II: Why are Michigan's roads in the condition they are in, and why are other states' roads in better shape?

### The History of Road Funding in Michigan

In order to understand where Michigan is today in terms of road funding, it is necessary to understand where we have been in the past.

When we look at Michigan's record for the last 45 years, we find that Michigan has done a pretty decent job of funding such important areas as health and education. Roads, unfortunately, are a different story.

As the chart on the right indicates, since at least 1964, roads have been Michigan's "forgotten priority" -- Michigan has continuously ranked in the bottom nine states in per capita state and local expenditures on roads. Today, Michigan still ranks in the bottom four states.

<u>Expenditures</u>	<u>1964</u>	<u>1974</u>	<u>1984</u>	<u>1988</u>	<u>1992</u>	<u>2006</u>
Health	5	8	9	3	12	11
Education	11	7	10	7	11	8
<b>Roads</b>	<b>43</b>	<b>44</b>	<b>42</b>	<b>44</b>	<b>49</b>	<b>47</b>

Source: US Census Bureau

Given this track record, it should be no surprise that Michigan's roads are in worse

shape than those in many other states. Many of the states that, for years, have ranked higher than Michigan in per capita road spending, do not have the freeze/thaw cycles that Michigan experiences each spring and fall, which take a tremendous toll on paved road surfaces. Nor do road agencies in many of these states spend millions of dollars on snowplowing and salting.

### Others agree: Michigan's roads are in poor condition

It is not just Michigan's road agencies that have concluded that Michigan's roads need help. In November 2008, the governor's **Transportation Funding Task Force**, a non-partisan group made up of four state legislators and nine business, labor and community leaders from across the state, came to the same conclusion. The Task Force, after closely studying roads and road funding for six months, concluded that Michigan needs to double its level of annual road funding just to maintain the existing road system in "good" condition. The Task Force concluded this would result in spending an additional \$3 billion per year on Michigan's roads.

Here are a few examples of statements included in the Task Force report:

- *What the Task Force has determined, after months of hard work and much public input, is that if Michigan's transportation system is to continue to serve the state adequately, our investment in transportation must increase significantly.*

- *Michigan is moving from under-investing in transportation to disinvesting in transportation.*

- *More investment in transportation is absolutely needed. Much more .... We must increase investment in transportation soon, or we will put past investment at risk.*

Another group calling for increased transportation funding is the **Michigan Asset Management Council**, a group appointed by the governor to oversee the state's efforts to apply the philosophy of asset management to the state's transportation infrastructure.

The Asset Management Council documented that the road system is rapidly declining. The Council reported in 2008 that there was an 88 percent increase in the number of miles of Michigan’s “federal-aid eligible” roads (those roads on which federal road funding can be spent) that declined from “fair” or “good” condition to “poor” between 2004 and 2007.

Yet another voice indicating there is a serious problem with Michigan’s road system is the **Reason Foundation**, a Los Angeles and Washington DC-based non-profit think tank. In its 2007 “Report on the Performance of State Highway Systems,” the foundation concluded that Michigan:

- ▶ Has the **8th worst** road system in the nation based on overall performance;
- ▶ **Ranks 16th** in the nation based on deficient bridges;
- ▶ Has the **4th worst** rural interstate conditions; and
- ▶ Has the **8th worst** urban interstate conditions.

The foundation also ranks Michigan 8th in the nation in congested roads; 10th in the nation in the amount of additional road miles needed; and 6th in the nation in the total cost of road miles needed.

And the list goes on. Numerous other national and state-based organizations, including many of the major newspapers in the state, have reached the same conclusion: Michigan’s roads are bad and increased funding is needed to address the problem.

**The Bottom Line**

It is clear that the condition of Michigan's roads won't catch up with that of roads in other states as long as Michigan ranks in the bottom seven states in per capita road funding.

**Where does road funding come from?**

**State road funds**

The two largest sources of road funding in Michigan are the vehicle registration fee and the state-collected gas tax.

Traditionally, the gas tax was the largest single source of road funding in Michigan, though vehicle registration fee revenues surpassed the gas tax in 2008, as gas consumption continues to decline statewide.

Historically, Michigan's gas tax rate has been below the national average, making it a major contributor to the state's poor showing in per capita road funding comparisons.

The state gas tax was last raised more than a decade ago in 1997, when it was increased from 15 cents per gallon to 19 cents. Prior to 1997, it had not been increased since 1984, when it rose from 13 to 15 cents per gallon.

So, where does Michigan’s gas tax rank compared to other states? We remain below average. The table above lists the gas tax rates for Michigan and our six closest neighbors.

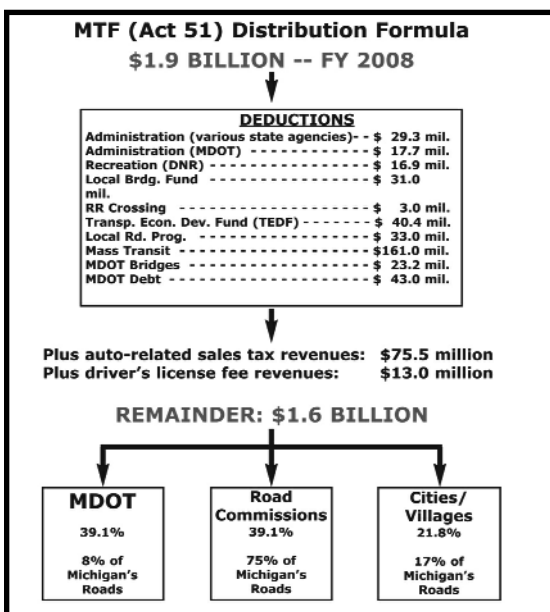
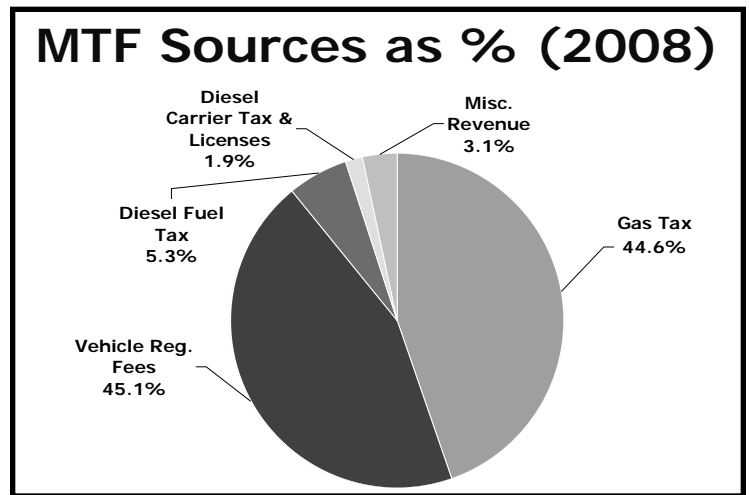
<b>Michigan’s gas tax rate compared to nearby states</b>	
Indiana . . . . .	.18 cents*
Michigan . . . . .	.19 cents
Illinois . . . . .	.19 cents**
Minnesota . . . . .	.20 cents
Ohio . . . . .	.28 cents
Pennsylvania . . . . .	.32.3 cents
Wisconsin . . . . .	.30 cents

\* = While Indiana’s gas tax is lower than Michigan’s the state has generated substantial road funding by leasing its toll road to a private company.  
 \*\* = Illinois also allows local gas taxes which increase its gas-tax rate to well above 19 cents in many counties.

**Besides the gas tax & vehicle registration fee, what are the other sources of state road funds?**

In addition to the state-collected gas tax and vehicle registration fee, there are a number of other state-collected revenues that contribute to road funding in Michigan. The pie chart at right shows those sources and indicates what percentage of total state road funds they accounted for as of 2008.

Michigan is one of only nine states in the nation that applies a sales tax (6 percent) to gas and diesel sales. It is interesting to note none of the revenue from that sales tax goes to roads.



**How are state-collected road funds distributed?**

How are the state-collected revenues divided among the state, county road commissions and cities & villages? The state Legislature addressed this question through a road-funding formula that is spelled out in Michigan Public Act 51 of 1951.

In the act, the Legislature established a single "pot" for state-collected road funds known as the **Michigan Transportation Fund (MTF)**. It then created a formula for the distribution of MTF funds.

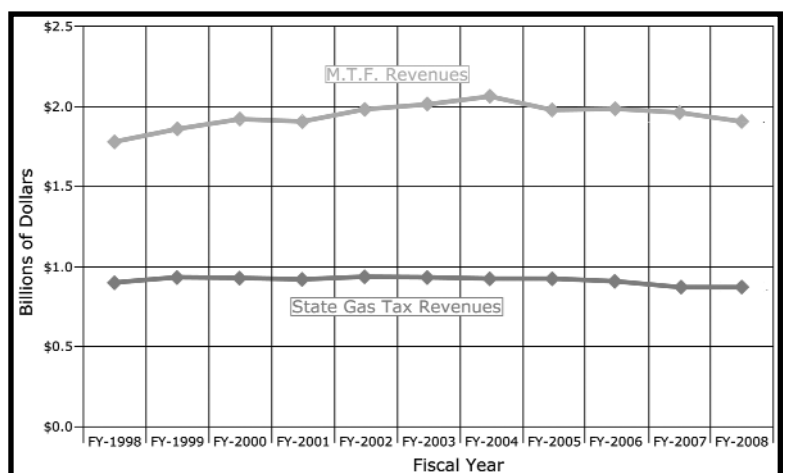
According to the formula, money is first taken off the top of the MTF for a number of items including the Bridge Fund and public transportation. The formula then calls for 39.1 percent of the remaining money to go to MDOT (which has jurisdiction over 8 percent of Michigan's roads), 39.1 percent to go to county road commissions (which have jurisdiction over 75 percent of Michigan's roads) and 21.8 percent to go to cities and villages (which have jurisdiction over 17 percent of Michigan's roads).

Note that while MDOT receives 39.1 percent of the MTF funds according to the formula, when you add in the fund deductions that go to MDOT, such as the revenue from a half-penny of gas tax that is dedicated to MDOT bridges and the 1997 truck registration fee increase revenues, MDOT actually receives approximately 41 percent of MTF funds.

**What's wrong with the MTF?**

Michigan's MTF dollars are simply not generating enough revenues to adequately maintain the public roads in the state. Nor are these revenues keeping up with inflation. In recent years, MTF revenues have declined.

Remember, this problem is compounded by the fact that Michigan's per capita road funding has lagged behind most states for at least 45 years.



From 1998 through 2008, MTF grew a net total of 7 percent statewide (see chart at right). This is significantly lower than the combined rate of inflation for these 11 years. **In each of the last three years, MTF has actually declined by approximately 4 percent per year, as the chart shows.**

But that's not the whole story. Many of the costs associated with critical road maintenance activities are increasing far faster than the consumer rate of inflation. Here are some examples from one Southeast Michigan road commission for the period from 1998 through 2008:

<u>Item</u>	<u>Percentage increase, '98-'08</u>
12-yard snowplow/dump truck (purchase price) . . . . .	74%
Diesel fuel . . . . .	489%
Gasoline . . . . .	420%
Asphalt . . . . .	49%
Gravel . . . . .	20%
Guardrail & hardware . . . . .	102%
Plow blades . . . . .	134%
U-channel sign posts . . . . .	145%
Traffic signal cable . . . . .	40%

**NOTE:** Fuel taxes are "flat" taxes: They do not increase with the price of gas or diesel or with inflation. That means, assuming gas and diesel sales remain fairly steady, each year the gas and diesel tax revenues have less and less buying power. That's because no additional dollars are generated, while all the costs these revenues pay for increase from year to year. It also means that road agencies do not receive additional funding when gas or diesel prices go up.

## Federal Funds

Most road agencies in Michigan rely on federal road funding, generated by the 18.4-cent federal gas tax, for major road improvements, such as road widening projects. While federal funds coming to Michigan have increased slightly in the last couple of years, the increase has been minimal for most road commissions.

That's because the federal road funds coming to Michigan are split among the Michigan Department of Transportation (MDOT), county road commissions and cities and villages. After deductions for special programs and "earmark" grants, legislation and tradition set the division as follows:

75% = MDOT

25% = Divided among county road commissions, cities and villages statewide

That means by the time the 25 percent local portion of any increase in federal road funding is spread among the 83 county road agencies and 533 cities and villages in Michigan, no single agency receives a very substantial amount.

Additionally, Michigan is a **“donor”** when it comes to federal funds: We send more money to Washington DC than we get back. For every dollar Michigan sends to Washington DC in road funding, we get back 92 cents.

## So, what happens when there's not enough money for roads?

When there's not enough money to adequately maintain roads, the road surfaces deteriorate, winter road maintenance services are reduced and, in urban areas, roads become increasingly congested. This ultimately has a negative impact on both business and quality of life. And ...



Because the road agencies can't afford to spend enough in any community, the communities get frustrated and accuse the road agencies of spending all their money in other communities. And ...

Road agencies must compete with each other for the scarce road dollars. This undermines the cooperative spirit necessary to most efficiently maintain the road system on which Michigan relies.

### **What if we could just stimulate economic development? Would that solve our road problems?**

Over the last decade, prior to the current economic downturn, some Michigan counties experienced tremendous growth. As a result of the growth, these counties received new revenue from taxes associated with all the growth. In some parts of the state, there was development of new office complexes, new commercial developments, tremendous new growth in the industrial sector and explosive growth in residential development.

However, in most cases, this development resulted in no increase in funding for roads. Why?

#### **New development produces tax revenues in three areas:**

1. Property taxes -- from new buildings
2. Income taxes -- from new jobs
3. Sales taxes -- from commerce at the new commercial developments

How much of this tax revenue went to either MDOT or the county road commissions to address the traffic problems resulting from the growth?

Except for the 17 Michigan counties with property tax millages dedicated specifically to roads, the county road commissions and MDOT get NO revenue from new development. The 17 counties with road millages are: Allegan, Baraga, Charlevoix, Chippewa, Crawford, Gladwin, Houghton, Huron, Iron, Leelanau, Midland, Montmorency, Ontonagon, Sanilac, St. Joseph, Tuscola and Van Buren. Millage revenue in these counties is spent on county roads and city or village streets but not state highways.

Many townships in Michigan also contribute to the cost of maintaining and improving the roads within their borders. Some do this through a dedicated road millage, while others contribute dollars from their general funds on a project-by-project basis. Obviously, townships that use revenues generated by property taxes to contribute to the cost of road maintenance or road improvements, saw a road-related benefit from the new development.

#### **Township contributions**

In light of the insufficient level of state-collected road funding, the partnerships between road commissions and townships has enabled many road commissions to complete projects that otherwise would not have been undertaken for years, if at all. In 2007, townships statewide supplemented road commission budgets by a total of \$102 million, with townships in 82 counties contributing to their road commission's efforts.

### **Part III: What other road-related issues might you hear about?**

#### **What about using property taxes for roads?**

Though the largest sources of road funding in Michigan are the state-collected gas tax and vehicle registration fee, some local governmental agencies have already been forced to turn to the property tax for supplemental road funds.

While road commissions have no taxing authority, as noted above, in 17 counties, the voters have approved a countywide property tax millage dedicated to roads. Some townships and many cities and villages are already doing this as well. Why? Necessity, resulting from decades of inadequate road funding and demand from citizens for better roads.

The net result of these efforts is a shifting of the road funding burden partially onto local property taxes.

Are property taxes the best way to pay for roads? Which is the most equitable way to raise money for roads, fuel taxes or property taxes? But there is an even more basic question implied in this question: Should road funding be based on:

A. The extent to which you use the roads;

OR

B. The value of your property?

Which method hits the elderly and those on fixed incomes the hardest?

The County Road Association of Michigan (CRAM) believes the fuel tax is the most equitable way to fund roads in Michigan, because:

A. The fuel taxes are "user" taxes (the more you use the roads, the more you pay); and

B. Michigan has not exhausted the fuel tax as a funding mechanism (Michigan's fuel taxes remain below the national average and well below many of our neighboring states).

#### **Are Michigan cities & villages currently supplementing their state road funds?**

Yes. Michigan's cities and villages already subsidize their streets. They discovered long ago that MTF funds are not adequate to address their road needs.

On average, Michigan cities and villages receive nearly half of their road funding from a source other than the MTF. That other source is typically local taxes of one form or another.

In other words, Michigan's cities and villages have already been forced to turn to sources other than the state-collected road funds for nearly half of their road funding needs. In some of these communities, dedicated property tax millages are already used for roads. In others, the community uses general-fund monies for road maintenance.

As noted above, road commissions have no taxing authority. They cannot raise property taxes, and they have no general fund that could be used to supplement their state-collected revenues. Unless they receive contributions from townships, road commissions must operate with what they receive from the state (MTF), which, as in the case of the cities and villages, is inadequate to meet road needs.

#### **What about the diesel tax?**

Currently, Michigan charges 15 cents tax per gallon of diesel fuel, but 19 cents per gallon of gasoline.

According to MDOT, a Federal Highway Administration study estimates that 40 percent of the cost of building and repairing roads is attributable to trucks, but the revenue generated by the 15-cent tax on diesel

accounts for only 15 percent of the funds needed for these activities.

In other words, trucks are not paying their fair share to build and maintain roads in Michigan.

For the last several years, a proposal has been discussed in Lansing to raise the diesel tax. CRAM believes the diesel tax should be raised so it is equal to the gas tax. If the diesel tax is increased, CRAM would like the revenues to be funneled through the MTF road-funding formula, as with most other state-collected road funding, so that all levels of roads in Michigan benefit equally.

A 4-cent diesel tax increase would generate approximately \$40 million statewide. Road Commissions would receive 39.1 percent of that, or about \$15.6 million collectively. Thus, no individual road commission would see a large increase in funding from such an increase, but every little bit helps. CRAM and its members believe raising the diesel tax is the equitable thing to do.

### **Development impact fees**

Over the years there have been several attempts to authorize certain governing bodies to levy fees on developers to cover the costs of road improvements necessitated by their developments. These fees, which are used in other parts of the country, are known as development impact fees.

CRAM supports this idea and has been involved in this discussion for more than a decade.

To date there has not been enough support in the state Legislature to enact the necessary laws to make development impact fees possible in Michigan.

### **So, what is being done?**

Currently, three efforts are underway in Michigan to attempt to address the road funding crisis the state is facing. They are:

1. A vast consortium, known as the Michigan Transportation Team (MTT) is pursuing the "Drive MI" campaign, aimed at raising Michigan's gas and diesel taxes and vehicle registration fee. CRAM is a member of this team and actively supports the effort.

In addition to CRAM, team members include the Michigan Infrastructure-Transportation Association, Michigan Municipal League, Michigan Chamber of Commerce, the International Brotherhood of Teamsters, the Michigan Farm Bureau, Michigan Public Transit Association, Michigan Retailers Association and many others.

2. As one element of the Drive MI effort, a group of Michigan business, government and civic leaders created a group known as Businesses for Better Transportation (BBT), which is seeking to establish local funding options that would allow counties to raise money on their own to address transportation issues, such as congestion or public transportation. The effort is supported by many road commissions across the state as well as organizations such as the Michigan Association of Counties and many others.

BBT was able to introduce enabling legislation in 2008 that would have allowed counties to seek voter approval for a local-option gas and/or diesel tax, local-option vehicle registration fee, local-option license fee, local-option property transfer fee and a local-option sales tax. Counties could choose from this menu of options and pursue one or more that meet their needs.

While the legislation was not enacted in 2008, it is expected to be reintroduced in 2009.

3. Each year, a portion of the MTF dollars is diverted from road and transit needs to fund non-transportation state departments through what are known as "interdepartmental grants" or IDGs.

In theory the IDGs are used to refund those departments for the collection of monies that go into the MTF, such as the Secretary of State's Office, which collects vehicle registration fees.

However, CRAM and many others feel these departments receive more than is warranted by the cost of collecting these dollars. As a result, CRAM and others are working in Lansing to reduce the IDGs, so more transportation dollars are used for true transportation purposes.

## Easy Solutions?

*"There is always an easy solution to every human problem ... neat, plausible and wrong."*

*-H.L. Mencken, 1949*

When it comes to road funding, H.L. Mencken was certainly correct -- there are no easy solutions. We must urge our state legislators to increase the gas and diesel taxes and vehicle registration fee and implement reforms to ensure transportation funding stays in the MTF.

Here are some of the "easy solutions" that are frequently proposed, with an explanation of why they are wrong.

### **"Why not require truckers to reduce the weight they carry?"**

It is true that heavy trucks do far more damage to the road surface than cars. It is also true that Michigan allows heavier trucks than most states (164,000 pounds vs. 80,000 pounds).

However, studies have indicated that road damage is related more to axle load than to gross weight. Michigan's axle load restrictions are comparable to most other states.

Additionally, if Michigan reduced the gross vehicle weight allowed, it is estimated there could be as many as 12,000 to 15,000 new trucks added to the roads.

CRAM believes heavier trucks do far greater damage to the roads than cars and don't pay their fair share for road upkeep. Consequently, CRAM believes heavy trucks should pay a fairer share.

### **"Why not use toll roads?"**

Below are seven reasons we do not use toll roads in Michigan.

1. Only freeways can be made toll roads.
2. Typically, tolls collected on toll roads are used to maintain the toll roads, not other roads.
3. Freeways represent 1 percent of Michigan's public road system. If all Michigan freeways became toll roads, 99 percent of Michigan's public road system would remain underfunded.
4. States with toll roads, such as Ohio and Pennsylvania, have a higher gas tax than Michigan to maintain their other roads.
5. Toll roads are especially effective for states with high pass-through traffic. Michigan is a peninsular state, with little pass-through traffic.
6. To avoid tolls, some motorists would drive on local roads, increasing the burden on those roads.
7. Retrofitting existing freeways to be toll roads could be expensive.

### **"Why not just build roads to European standards?"**

It's true that in some European countries, roads are built to higher standards and last longer than the roads built in the United States.

But, they also cost considerably more. What is the cost difference?

It is estimated that building roads to the European standard would increase project costs by 50 to 75 percent. If Michigan road agencies opted to build roads to European standards, they would only be able to reconstruct half as many roads, meaning the rest of our roads would deteriorate to an even worse condition before they could be repaired.

Additionally, it is interesting to note that the cost of gas in Europe is more than \$5 per gallon -- mainly because fuel taxes there are much higher.

*We hope this information has helped to illuminate the problems Michigan's county road commissions face when it comes to road funding. CRAM hopes Michigan's townships will join us to work together to find solutions that result in better roads across our great state.*