

State Notes

TOPICS OF LEGISLATIVE INTEREST

Winter 2017



Transportation Revenue, Appropriations, and Road Quality after the Road Funding Package **By Michael Siracuse, Fiscal Analyst**

The collection of additional money for Michigan's roadways has begun. Fiscal year (FY) 2016-17 will see the first portions of the new revenue set aside for the Michigan Department of Transportation's (MDOT's) Michigan Transportation Fund (MTF) via the Road Funding Package of 2015.¹ Increases to the State gas and diesel taxes, as well as a 20% increase in vehicle registration fees, are expected to generate over \$450.0 million in new revenue for the MTF by the end of FY 2016-17. The adoption of Senate Concurrent Resolution (SCR) 19 in October 2016 ensures that a portion of this new money will not be allocated to the Roads Innovation Fund (or "lockbox") as it is collected throughout the year. (The lockbox provision, enacted by Public Act 175 of 2015, required the first \$100.0 million in annual fuel tax revenue to be deposited into a "Roads Innovation Fund" beginning in FY 2016-17, until released by concurrent resolution of the Legislature. Before FY 2016-17 began, Senate Concurrent Resolution 19 removed the lockbox. No money was ever deposited into the Roads Innovation Fund.) Income tax earmarks to the MTF, which will draw income tax revenue away from the General Fund, will not begin until FY 2018-19.

The purpose of this article is to provide a general overview of the State's transportation budget, including a look at appropriations, revenue, and "Remaining Service Life" of the trunkline after the passage of the Road Funding Package of 2015.

Appropriations

Gross appropriations to MDOT for FY 2016-17 will exceed \$4.0 billion for the first time since FY 2008-09, the year of the American Recovery and Reinvestment Act, which contributed nearly \$2.4 billion in Federal aid for transportation. As shown in [Figure 1](#) and [Table 1](#) below, this projection does not include a direct contribution from the General Fund, or a substantial increase in Federal dollars from the previous five years. (The impact of the Road Funding Package on the General Fund will not begin until FY 2018-19.)

Revenue

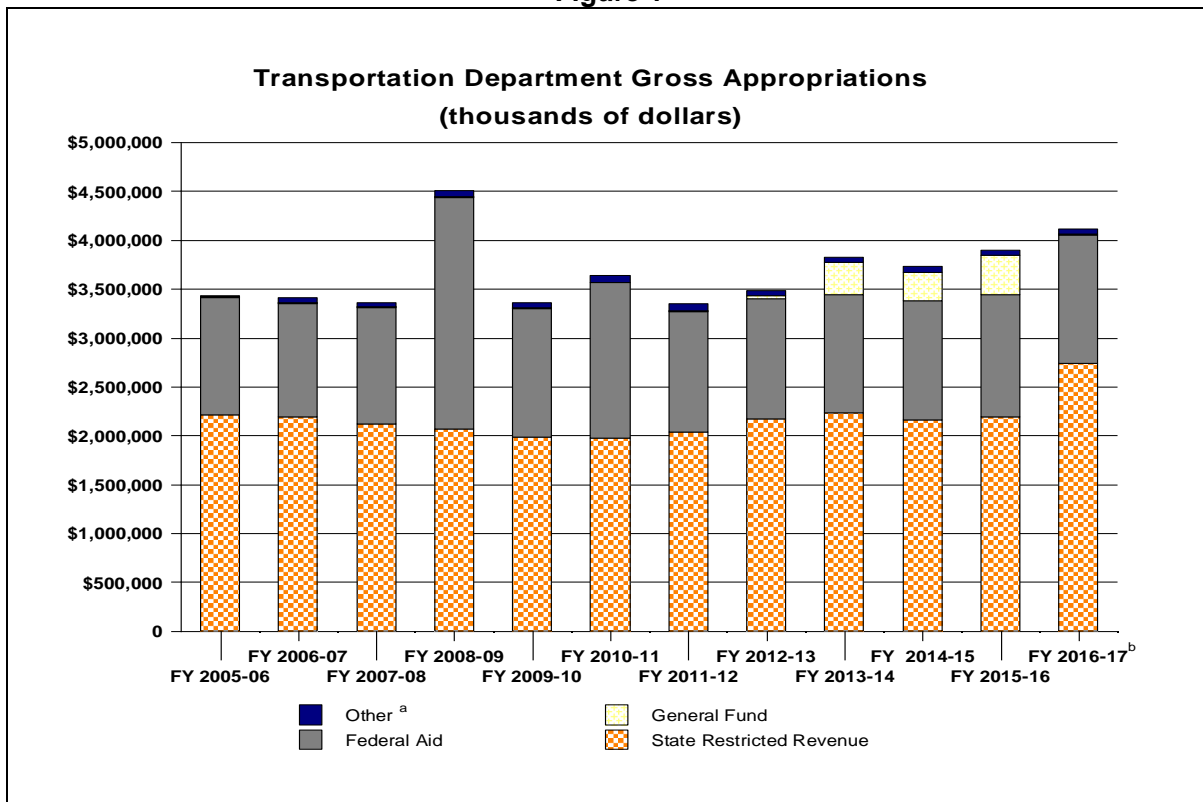
The bulk of the projected increase in restricted revenue is attributable to the Road Funding Package, Public Acts 174 through 180 of 2015, which, beginning on January 1, 2017, increased vehicle registration taxes by 20% and raised the State tax on diesel fuel and gasoline to 26.3 cents per gallon (cpg), up from 15 cpg and 19 cpg, respectively (excludes sales taxes).

Revenue from these restricted sources was already up before the new fuel rates and registration fees took effect. Revenue was up 4.33% from FY 2013-14 to FY 2014-15; and will be up again, based upon estimates, another 3.13% for FY 2015-16, as shown in [Figure 2](#) and [Table 2](#).

¹ Public Acts 174-180 of 2015. For a detailed description of this legislation, please see the Senate Fiscal Agency's Summary as Enacted of Senate Bill 414 and House Bill 4370, et al., dated 11-23-15: <http://www.legislature.mi.gov/documents/2015-2016/billanalysis/Senate/pdf/2015-SFA-0414-N.pdf>



Figure 1



a) Includes Interdepartmental Grants and Local and Private Revenue Sources.

b) Figures subject to change until the end of FY 2016-17.

Table 1

Fiscal Year	Gross Appropriation	Federal Aid	State Restricted Revenue	Other	General Fund
2005-06	\$3,424,910.2	\$1,210,650.3	\$2,208,159.9	\$6,100.0	\$0.0
2006-07	\$3,408,192.0	\$1,168,679.7	\$2,192,012.3	\$47,500.0	\$0.0
2007-08	\$3,360,195.6	\$1,200,740.6	\$2,116,605.0	\$42,850.0	\$0.0
2008-09	\$4,508,896.1	\$2,372,023.2	\$2,065,248.7	\$71,624.2	\$0.0
2009-10	\$3,361,611.1	\$1,326,578.9	\$1,978,578.8	\$56,453.4	\$0.0
2010-11	\$3,637,328.3	\$1,589,766.0	\$1,969,724.4	\$77,837.9	\$0.0
2011-12	\$3,346,437.2	\$1,241,195.2	\$2,030,855.7	\$73,886.3	\$500.0
2012-13	\$3,481,834.1	\$1,231,830.1	\$2,171,291.9	\$55,712.1	\$23,000.0
2013-14	\$3,826,145.6	\$1,208,268.6	\$2,227,374.8	\$53,902.2	\$336,600.0
2014-15	\$3,725,062.6	\$1,223,599.5	\$2,154,985.2	\$61,830.0	\$284,647.9
2015-16	\$3,898,451.4	\$1,259,488.0	\$2,184,391.4	\$54,572.0	\$400,000.0
2016-17	\$4,114,503.6	\$1,314,744.0	\$2,736,727.7	\$54,531.9	\$8,500.0



Figure 2

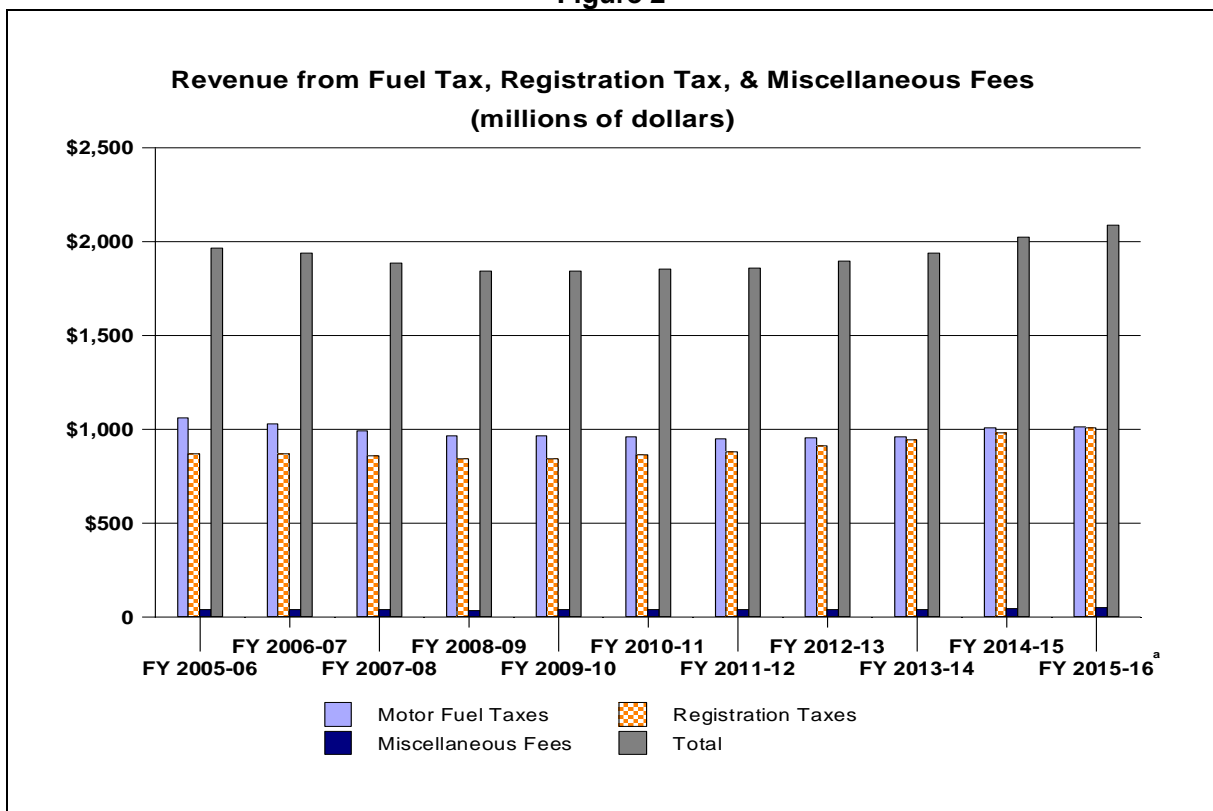


Table 2

Revenue from Fuel Tax, Registration Tax, & Miscellaneous Fees (millions of dollars)				
	Motor Fuel Taxes	Registration Taxes	Miscellaneous Fees	Total
FY 2005-06	\$1,055.3	\$867.7	\$36.0	\$1,959.0
FY 2006-07	\$1,027.8	\$871.7	\$35.7	\$1,935.3
FY 2007-08	\$989.3	\$855.0	\$36.2	\$1,880.6
FY 2008-09	\$964.0	\$839.7	\$33.0	\$1,836.7
FY 2009-10	\$962.1	\$842.1	\$33.8	\$1,838.0
FY 2010-11	\$957.7	\$859.7	\$34.2	\$1,851.5
FY 2011-12	\$945.9	\$876.1	\$35.0	\$1,857.0
FY 2012-13	\$950.9	\$906.5	\$36.1	\$1,893.5
FY 2013-14	\$958.8	\$940.6	\$37.4	\$1,936.8
FY 2014-15	\$1,003.8	\$978.1	\$38.8	\$2,020.7
FY 2015-16	\$1,011.4	\$1,003.9	\$47.8	\$2,083.9

The new taxes are expected to generate an additional \$450.0 million in revenue for FY 2016-17: roughly \$150.0 million from increased registration taxes and \$300.0 million from motor fuel taxes over nine months of the fiscal year. Once the new rates are applied for an entire fiscal year, FY 2017-18, the expected additional revenue from these taxes will be \$600.0 million.

There is some concern that increased fuel tax rates will reduce consumption, either from fewer miles travelled by consumers or from competitive pricing along Michigan's borders. Although fuel consumption could go down, since the new rates have taken effect, it is unlikely that the reduction would be significant. Pennsylvania, for example, raised its gasoline tax from 31.2 cpg in 2014 to 50.5 cpg in 2015. According to data compiled by the United States Department of Transportation², the state saw fuel consumption drop after the rate change only from 6,640,642,000 gallons in 2014 to 6,459,618,000 gallons in 2015, less than 3%. Likewise, in California, a gas tax increase in 2010 from 18 cpg to 35.3 cpg reduced fuel consumption only by less than 1.5% the following year, from 17,623,342,000 gallons down to 17,382,533,000.³ If fuel consumption in Michigan decreases significantly in FY 2016-17, it will be due more likely to the price per barrel of oil and the global oil market, than to the Michigan per-gallon tax rate.

Regarding the State's competitive fuel pricing versus other states and Canada, as of 2015, the gasoline tax rates for Illinois, Indiana, Ohio, and Wisconsin were (excluding sales taxes) 19 cpg, 18 cpg, 28 cpg, and 30.9 cpg, respectively.⁴ The national average was 24.95 cpg for that year.⁵ After Michigan's new rates go into effect, they will be less competitive with Ohio's rates; however, Michigan's most populated areas are a fair distance from the borders of Illinois and Indiana, lessening the incentive for Michigan drivers to travel across state lines for cheap gas. Canadian gas has been, and will continue to be, substantially more expensive than fuel in Michigan; at the start of 2017, since the new State fuel taxes have taken effect, a gallon of gas that costs \$2.40 per gallon in Detroit would cost \$3.18 in Windsor.⁶

Remaining Service Life

The Michigan Department of Transportation has several methods of measuring road quality; however, the key metric is called Remaining Service Life (RSL). Remaining Service Life is defined as "the estimated number of years until it is no longer cost effective to perform preventive maintenance on a pavement section".⁷ Roadways with an RSL rating of 8 or above are considered to be in "Good" condition. Those roads with a rating between 3 and 7 are considered "Fair". Roads rated from 0 to 2 are in "Poor" condition.

Once a roadway is in Poor condition, it no longer is a candidate for less expensive forms of preventative maintenance. Poor roadways require either rehabilitation or reconstruction (R&R), and Capital Preventative Maintenance (CPM) or Reactive Maintenance (RM) is no longer appropriate

² See the Federal Highway Administration, Office of Highway Policy Information's Highway Statistics Series, <http://www.fhwa.dot.gov/policyinformation/statistics.cfm>.

³ Id.

⁴ Id.

⁵ Id.

⁶ Based upon the average price of gas in Ontario as of January 10, 2017 (110.9 cents per liter multiplied by the number of liters in a gallon (3.785411784), multiplied by the exchange rate for the U.S. dollar (.7571), rounded up to the nearest penny.

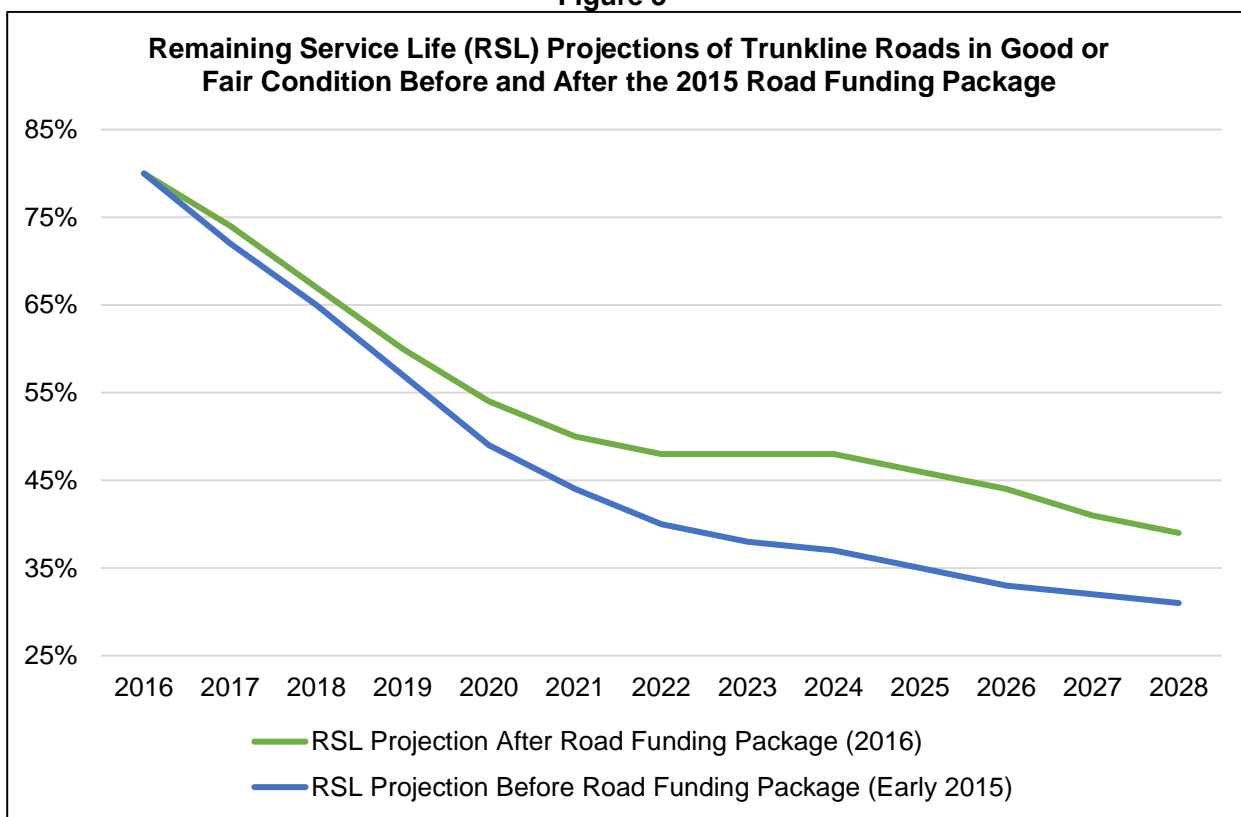
⁷ Michigan Department of Transportation, *Project Scoping Manual*, revised December 2016, Section 4, page 2.



for these roads. This ratings distinction is important as R&R is a costly form of road repair when compared to preventative maintenance. According to the Department, "CPM allows MDOT to address approximately four to five times the amount of pavement as R&R, with the same amount of money."⁸

From 2005 through 2014, MDOT was able to maintain a rating of Good or Fair for at least 85% of the State's trunkline system. Current projections from MDOT, however, indicate that much of the trunkline will deteriorate to Poor condition before preventative maintenance can be performed. The Road Funding Package of 2015 will help slow this deterioration, but only slightly, as shown in Figure 3, below.⁹

Figure 3



Conclusion

Excluding Federal funding, Michigan will appropriate more money on roads in FY 2016-17 than it ever has before. More money will come in the years to follow as the income tax earmarks of the Road Funding Package begin to take effect in FY 2018-19; however, the full impact of the package will not be felt for several more years. As the condition of the trunkline worsens, the window of opportunity to maintain it in Good or Fair condition without applying the expensive R&R procedure narrows.

⁸ Id.

⁹ RSL Projections figures provided by MDOT. See also: *21st Century Infrastructure Commission Report*, Chapter 6: Transportation Recommendations, Nov. 30, 2016.