

Michigan Transportation Funding Options White Paper

DRAFT

November 21, 2022

There are significant needs and risks to the current transportation funding system in Michigan

Risks



1. Long-term uncertainty in federal funding for transportation
2. Sustainability of state-level general fund transfers is uncertain (\$600M per year)
3. Electric vehicle adoption and continued improvements to fuel economy reducing fuel tax revenues
4. Construction cost inflation outpacing revenue increases
5. Compounding costs due to deferred maintenance

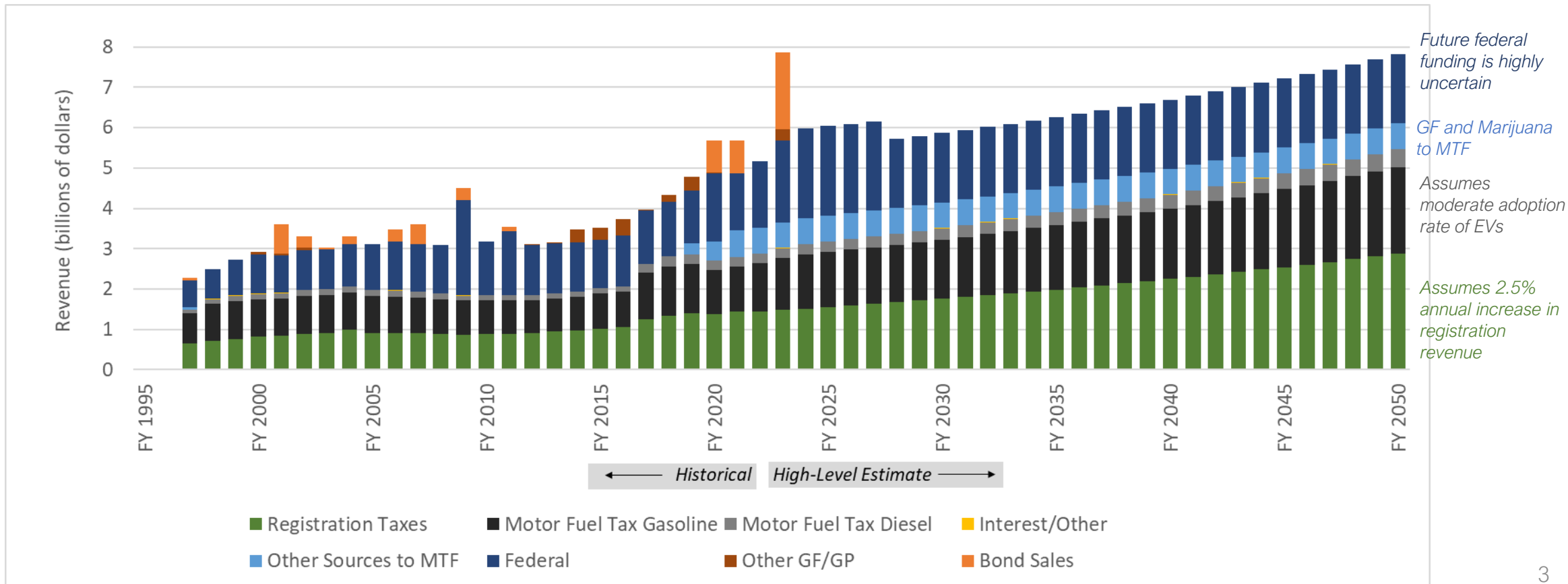


Needs

1. **Current structural funding shortfall:** The Michigan Mobility 2045 Long Range Transportation Plan estimated a \$2B per year federal-aid road and bridge transportation funding gap.
2. **Compounding future concerns:** Reductions in fuel tax revenues and inflationary pressure may further widen this gap.

State-level transportation revenue before Act 51 distributions, not inflation adjusted

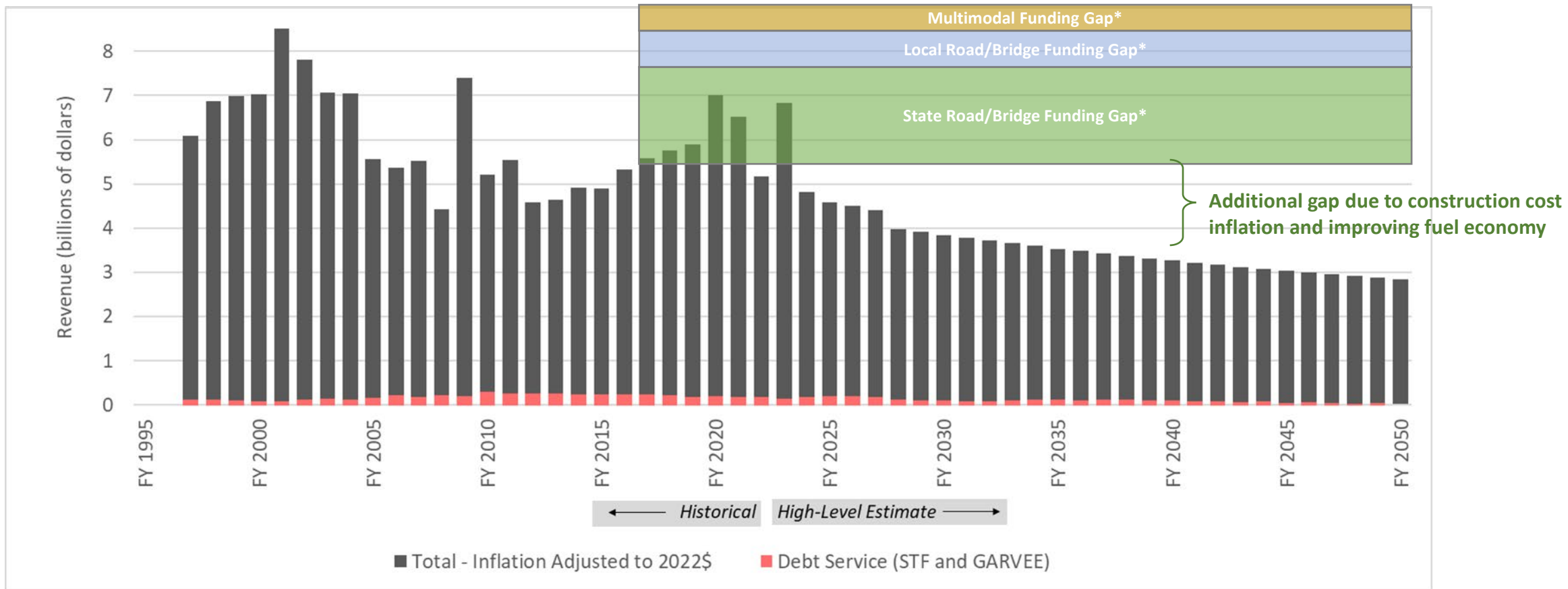
- A mix of different funding sources is expected to continue, subject to the risks described on slide 2...



State-level transportation revenue before Act 51 distributions, construction cost inflation adjusted

- ...but the buying power of the revenue is going down.

Options for filling local and state road/bridge funding gap are explored in later slides

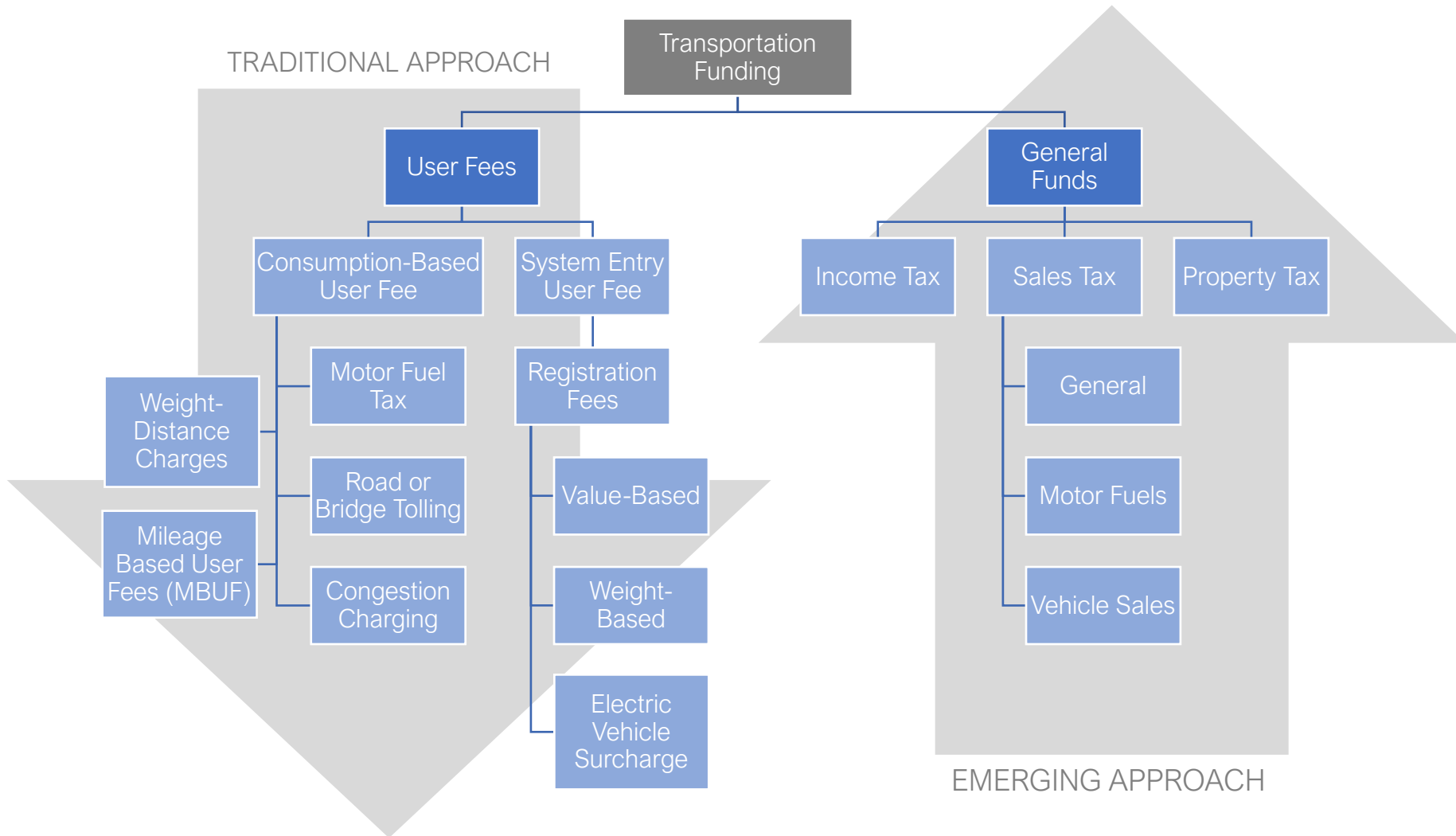


*\$1.6B state road/bridge funding gap, \$600M local road/bridge funding gap, and \$430 multimodal (rail and bus) gap estimated considering a 15-year investment term in the Nov. 2016 MI Infrastructure Commission Report. This was inflated to 2022\$ for this graphic

There is a growing understanding of the importance of equity with transportation funding



- Funding options that result in relatively less burden on disadvantaged groups compared to current funding sources are preferred
- Example: Fuel tax represents a larger share of income the less a driver makes. This disparity may widen as the vehicle fleet becomes increasingly fuel-efficient and electric vehicle ownership increases

We are all benefactors of better transportation whether we use the system or not

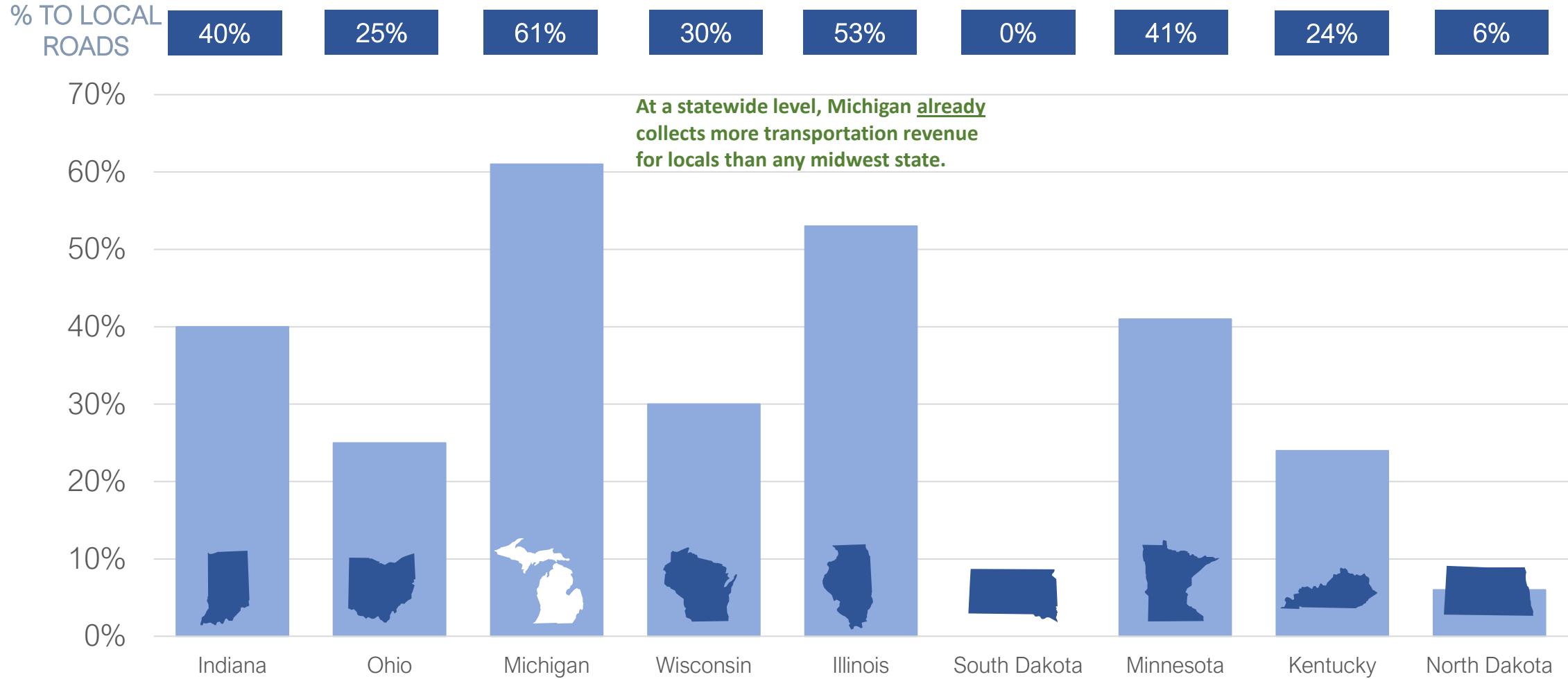


We are all benefactors of better transportation whether we use the system or not

- User fees approximate use but not the full consumption or impact on roads and bridges
- A consumption/impact-based user fee would cripple the trucking industry and economy
- Tying transportation funding to economic use via general funds is emerging at the state and national level
 - Further diversification of funding sources

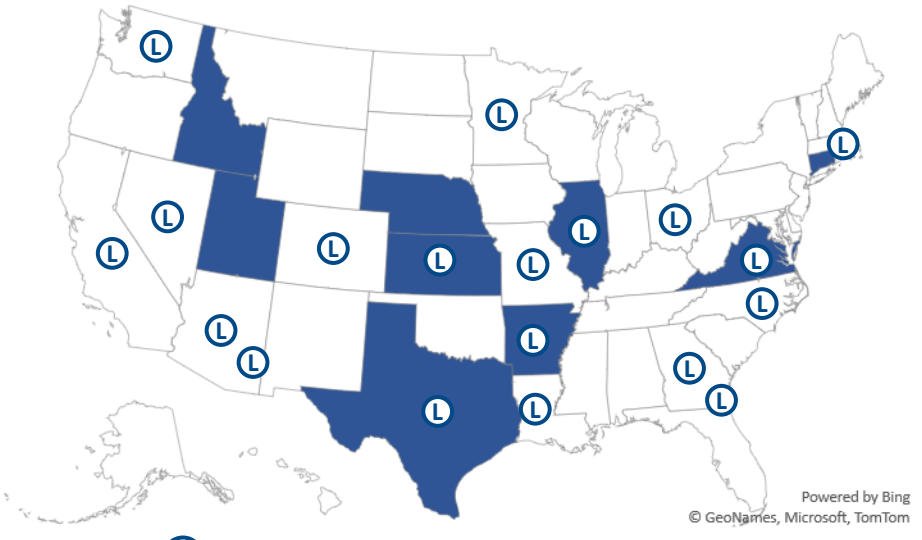
Share Of		
Traffic	90%	10%
User Fees	60-80%	20-40%
Asset "Consumption"	<5%	>95%

State Collected Revenue Distributed to Local Governments



Funding Option: General sales tax increase for transportation

Sales tax for transportation



L Local (transit or highway/streets)
 ■ Statewide

State - \$2.3B Gap



1.5 cent increase in 2023

Local - \$900M Gap



0.6 cent local option in 2023

Ideas

Opportunities:

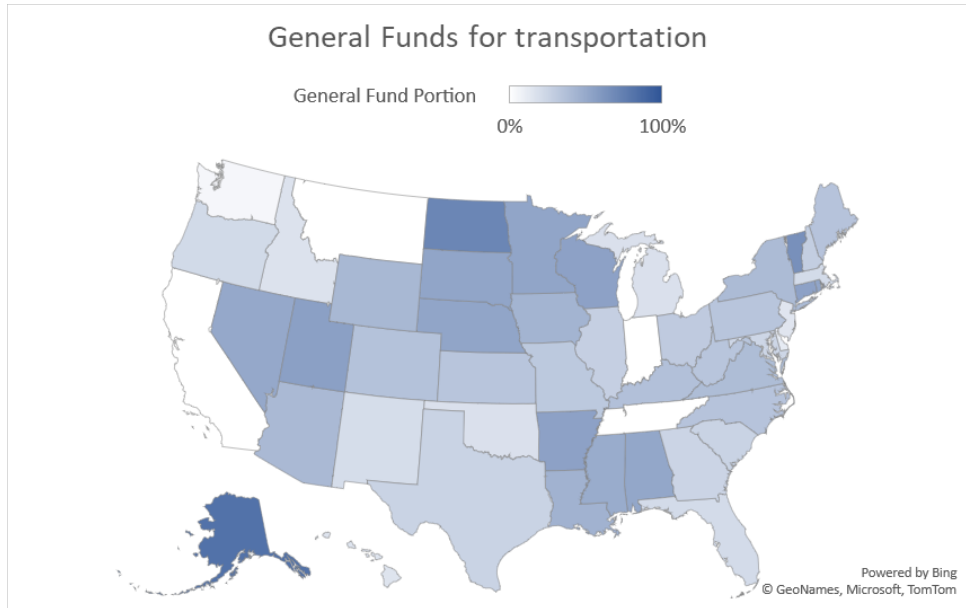
- Good sustainability - sales tax revenue increases as price of goods increases
- Sales tax is more progressive than direct user fees

Challenges:

- Would require constitutional amendment
- Concerns related to outcome of 2015 Proposal 1

- Could be paired with reduction in fuel tax to make more viable
- Allow locals to add on up to 0.5 cent local tax to help close the local funding gap
- [others] _____

Funding Option: Income tax (General Fund) increase for transportation



Opportunities:

- Good sustainability – income tax revenue increases as the economy grows
- Income tax is connected to users of economy, which roads support

Challenges:

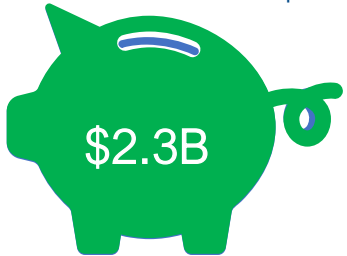
- Income tax increases are historically unpopular
- Does not tax passive income

Ideas

• With recent budget surplus, could additional General Fund commitment be made (i.e. grow from \$600M to \$1.6B) without raising taxes?

• [others] _____

State - \$2.3B Gap

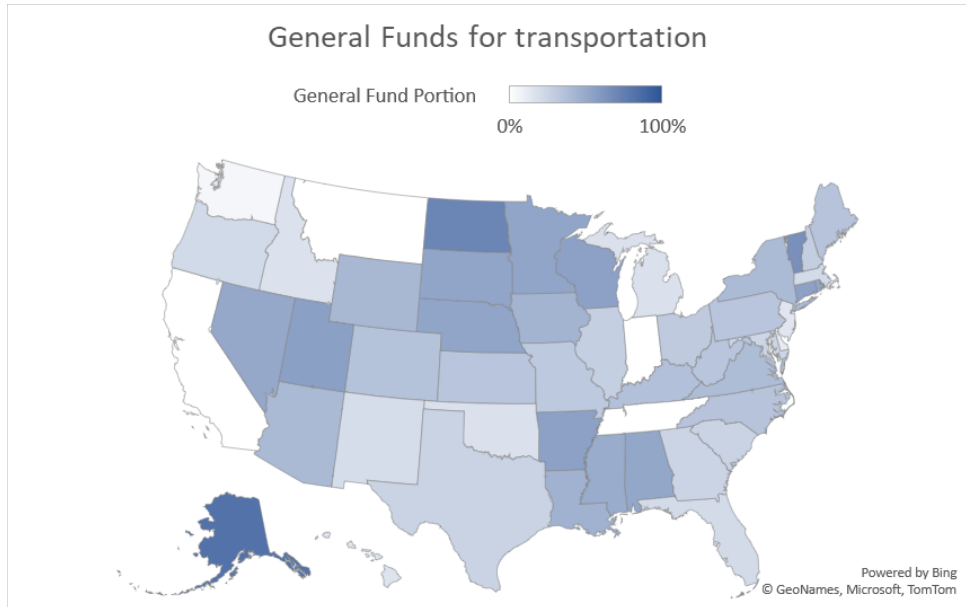


Local - \$900M Gap



0.9% increase in 2023

Funding Option: Corporate Income tax (General Fund) increase for transportation



Opportunities:

- Good sustainability – corporate income tax revenue increases as the economy grows
- Corporate income tax is connected to users of economy, which roads support

Challenges:

- Corporate income tax has small leverage
- Only applies to C-corporations

Ideas

- With recent budget surplus, could additional General Fund commitment be made (i.e. grow from \$600M to \$1.6B) without raising taxes?
- [others] _____

State - \$2.3B Gap



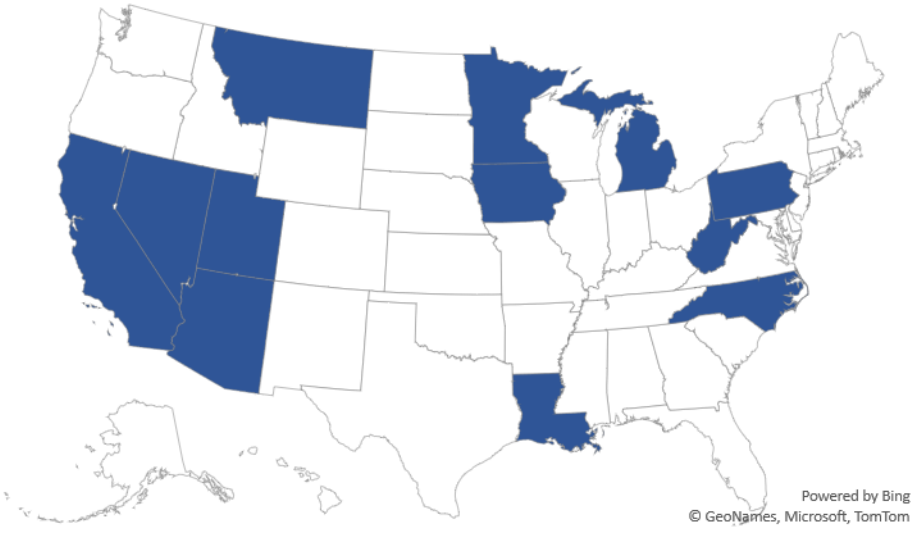
Local - \$900M Gap



2.0% increase in 2023

Funding Option: Vehicle registration fee increase and reform

States with indexed or value-based registration fees



Opportunities:

- Reform can be justified due to ambiguities in different vehicle classes and categories with very low utilization

Challenges:

- Registration fees were already increased recently in 2017 funding package (20% increase for most vehicles)
- Michigan already has EV, hybrid, and proxy for indexed rate (through the ad valorem tax)

Ideas

- Monthly registration fee payment program pilot instead of “birthday tax”. Registration fees could feel like other utilities
- Focus an increase on mostly higher-value vehicles to make system more progressive
- [others] _____

State - \$2.3B Gap



Double registration fees in 2023

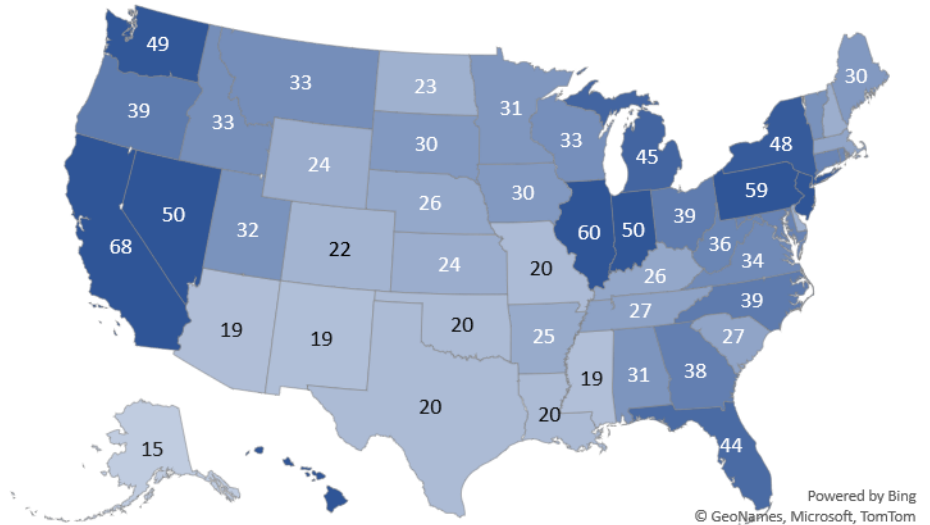
Local - \$900M Gap



Could explore local option registration fees

Funding Option: Fuel Tax Increase

Taxes collected on gasoline - as of 1/1/2022



Graphic included excise and sales taxes

Opportunities:

- Low cost to collect

Challenges:

- Long-term sustainability concerns due to growing electric vehicles and better fuel economy
- Michigan already has relatively high fuel taxes
- Will become increasingly regressive

Ideas

- Income-based fuel tax discount
- [others]

State - \$2.3B Gap



45 cent per gallon increase in 2023*

Local - \$900M Gap

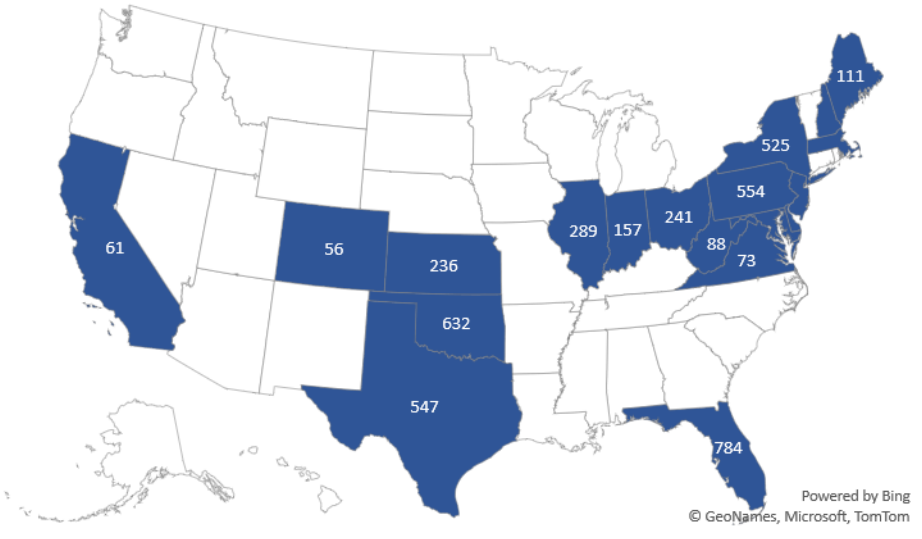


18 cent per gallon local option in 2023*

**Would need to be indexed to fuel economy increases in future to continue to close gap*

Funding Option: Utilize existing Federal programs to toll existing highways and bridges

States with least 50 miles of toll all lanes toll roads



Opportunities:

- Tolling is a sustainable user fee – “Road User Charging” with today’s technology
- Make significant improvements to system up-front using toll bonding

Challenges:

- Tolling existing capacity is much more controversial than tolling new capacity
- Technological advancement has reduced collection costs in last 10-15 years, but cost-to-collect still higher than other revenue options
- Takes 4 to 6 years to implement tolling

Ideas

- Include an income-based discount program
- Look at higher Act 51 local allocation or project-level toll revenue diversion to locals
- [others]

State - \$2.3B Gap



550-mile toll road system at low toll rates

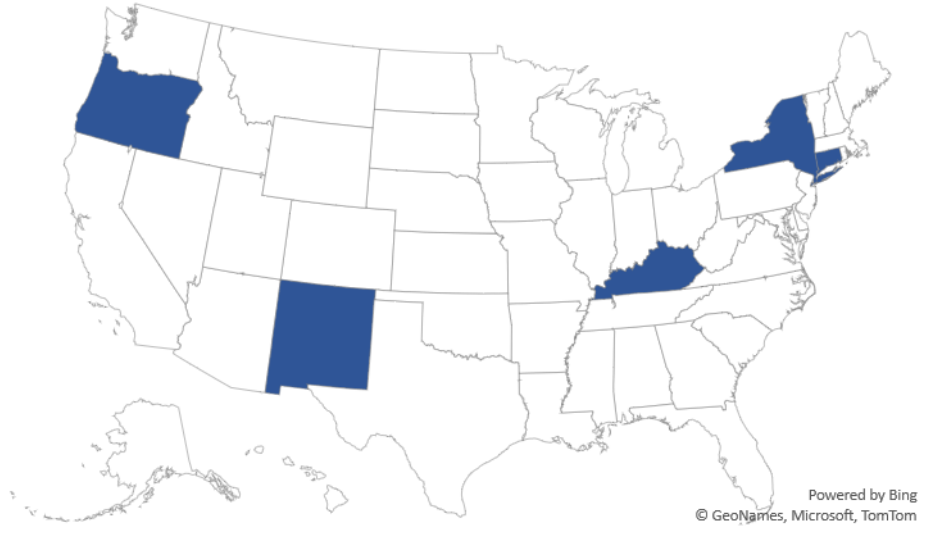
Local - \$900M Gap



Could explore local direct or offset options with tolling

Funding Option: Commercial Vehicle Mileage Based User Fee

States with weight-distance taxes on commercial trucks



Opportunities:

- Could be varied by weight as in other states
- More straightforward to implement than MBUF for passenger cars since trucks already keep mileage logs

Challenges:

- Would generate significant commercial vehicle opposition

Ideas

State - \$2.3B Gap



Local - \$900M Gap



\$0.10 per mile flat per mile fee

- Could pair with sales tax increase (which would target more passenger car users)
- Related to MBUF topic, voluntary pilot of MBUFs for passenger cars
- [others] _____

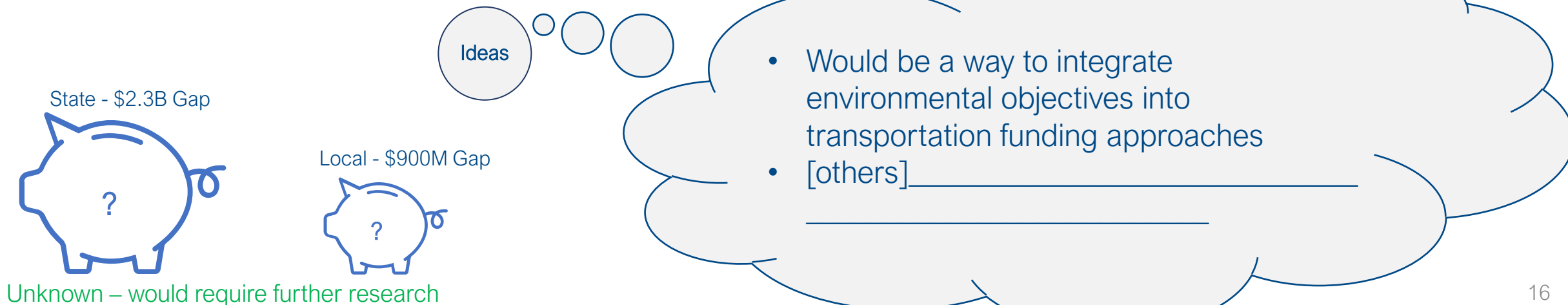
Funding Option: Monetization of assets

Opportunities:

- Monetization of communications/fiber, right-of-way for solar or wind production, rest area commercialization, EV charging opportunities

Challenges:

- Would require federal legal and/or policy changes



The future of the limited access highway system

- Big industry question: How to modernize, manage, and fund our Interstate and other limited access highway system? “Interstate 2.0”
- More state-level flexibility with Interstate system related to tolling and monetization of assets
- Address resiliency, safety, sustainability & equity
- Local versus regional/national: Complete streets on main street versus speed and efficiency on highway system
- Unique Michigan opportunities with vehicle manufacturers and technology
 - Connected vehicles
 - Autonomous vehicles
 - Electric vehicles
 - CAVNUE project



Image from Cavnue.com

Visionary leadership is needed regarding modernizing, managing, and funding our Interstate and other limited access highway system

Other Considerations

#	Funding Option	Refer to Slide	Impact	Sustainability	Political Lift	Feedback?
1	General Sales Tax Increase for Transportation	9	High	High	High	
2	Vehicle Registration Fee Increase and Reform	10	Med	Med	Med	
3	Fuel Excise Tax Increase	11	High	Med	High	
4	Utilize Federal Programs to Toll Existing Highway and Bridges	12	High	High	Med	
5	Commercial Vehicle Mileage Fee	13	Med	High	Med	
6	Monetization of Assets	14	Unknown	Med	Med	