FY 2020 Executive Budget Recommendation
Department of Transportation
Fixing Michigan Roads Plan
March 5, 2019

WHY ARE MICHIGAN ROADS SO BAD?

After nearly 40 years of disinvestment, Michigan's roads are rated as being among the worst in the nation.[1] Only 33% of the state trunkline system roads, (which carry the heaviest traffic load and encompass all Interstates, freeways, and M-routes) are currently in good condition. Pavement conditions on local roads are even worse, with only 18% ranked in good condition.

	Good	Fair	Poor
State Trunklines	33%	45%	22%
Local Roads	18%	34%	48%

Source: Michigan Transportation Asset Management Council Pavement Comparison Dashboard, 2019

These advanced levels of deterioration have resulted primarily from inadequate revenues that have not kept pace with rising costs and financing plans that promoted short-term condition gains without sustainable long-term revenues.

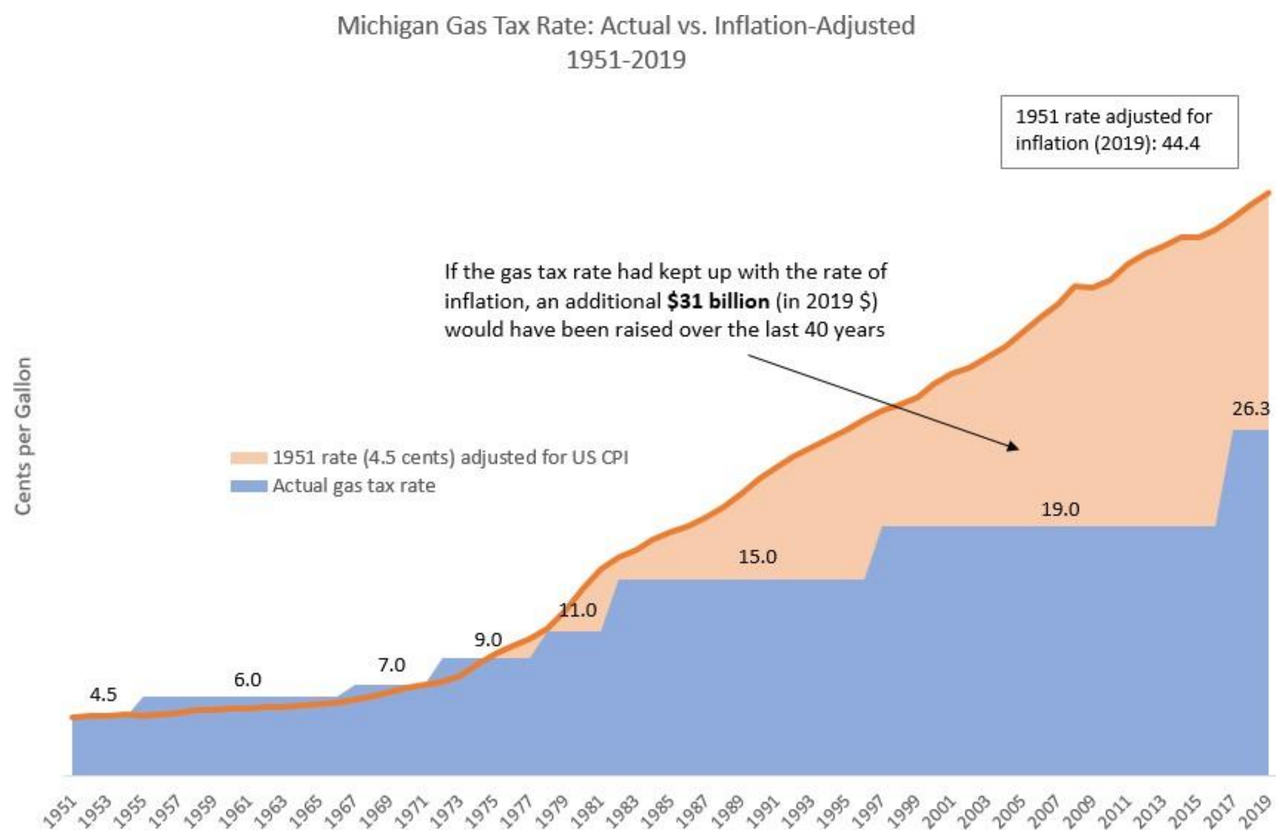
Actual Transportation Revenues vs. Inflationary Need – Erosion of the Road Dollar

- The state's primary fund for supporting roads and bridges is the Michigan Transportation Fund (MTF), funded principally by motor fuel and vehicle registration tax revenues.
- In fiscal year 1998, the MTF collected $1.8 billion in revenue. Taking into account the escalating cost of road construction materials and other inflationary pressures, $4.5 billion would be needed in fiscal year 2019 just to maintain the program levels of 20 years ago – 54% higher than projected baseline MTF collections for the current fiscal year.
- In fiscal year 2019, MTF revenues only have 65% of the purchasing power that they did 20 years ago as the costs to construct and repair our roads have escalated over time.

Motor Fuel Taxes Holding Flat – Four Decades of Disinvestment

- While vehicle registration taxes are based on the value of a vehicle and tend to increase over time, Michigan motor fuel taxes were historically based on a flat cents-per-gallon rate that was not indexed for inflation. That changed in 2015; however, it does not take effect until 2022.
- Michigan's gasoline tax was increased only once between 1982 and 2015 . Spread over 33 years, the increase of 4-cents per gallon in 1997 amounts to less than 1 percent of revenue growth per year.
- Any increase to motor fuel taxes (inflationary or otherwise) requires an act of the legislature.

[1] In 2018, the American Society of Civil Engineers gave Michigan a "D+" for the state of our infrastructure and a "D-" for the condition of our roads. Michigan is tied with New York as having the worst roads of every state included in ASCE's rankings.



Bonding Without Sustainable Revenues

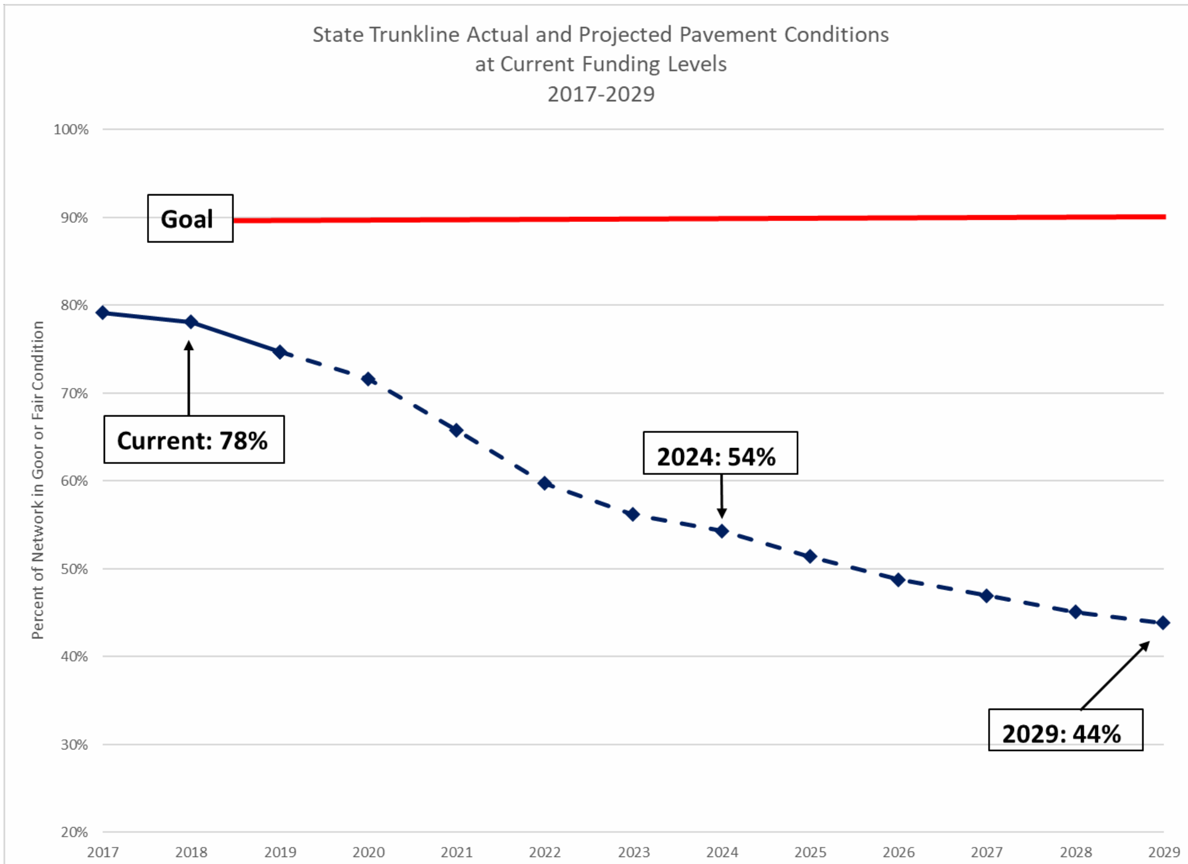
- As Michigan's transportation revenue base eroded and road conditions declined, the state used bonding as means to preserve pavement conditions.
- By fiscal year 2009, the state had accumulated $2.3 billion in bonded debt.
- Today, MDOT has $1.2 billion in outstanding debt, requiring $196.6 million in annual debt service payments – funds that are not available to be spent on current road and bridge construction needs.

2015 Revenue Package

- In 2015, a $1.2 billion transportation revenue plan was enacted that did not take effect until 2017 and was intended to phase in over five years.
- One-half of the 2015 plan relied on motor fuel and registration tax increases; the other half on a diversion of Individual Income Tax (i.e., general fund) revenue.
- The amount of funding in the plan was based on the need at the time for state roads only. However, funding was distributed via the existing Public Act 51 formula that sends less than 40% of funds to state roads.

THE COST OF INACTION

Since 2015, road conditions have continued to deteriorate at an accelerating rate. Michigan's state and local road agencies have tried to do more with less, but they are caught in a losing battle. The prolonged deterioration of the transportation network is evident in the falling condition indexes, as Michigan motorists know from experience. As shown below, MDOT roads are currently at 78% good or fair condition but are forecasted to drop to 54% by 2024 unless more dollars are invested. Over just the next five years, the percentage of state roads in poor condition is projected to double, from 22% to 44%. The 2015 package only slowed the rate of decline.



<u>"Hidden" Auto Repair Tax</u>

As pavement conditions worsen, Michigan residents are already paying a "hidden tax" of higher auto repair bills for flat tires, bent rims, etc. The transportation advocacy group TRIP reports this currently totals $4 billion per year – averaging $562 per motorist statewide,[2] and $865 for people in Metro Detroit.[3] This does not factor in loss of time and productivity, and the general inconvenience of motorists having to deal with those repairs.

THE FIXING MICHIGAN ROADS PLAN

The three tenets of the Fixing Michigan Roads Plan:

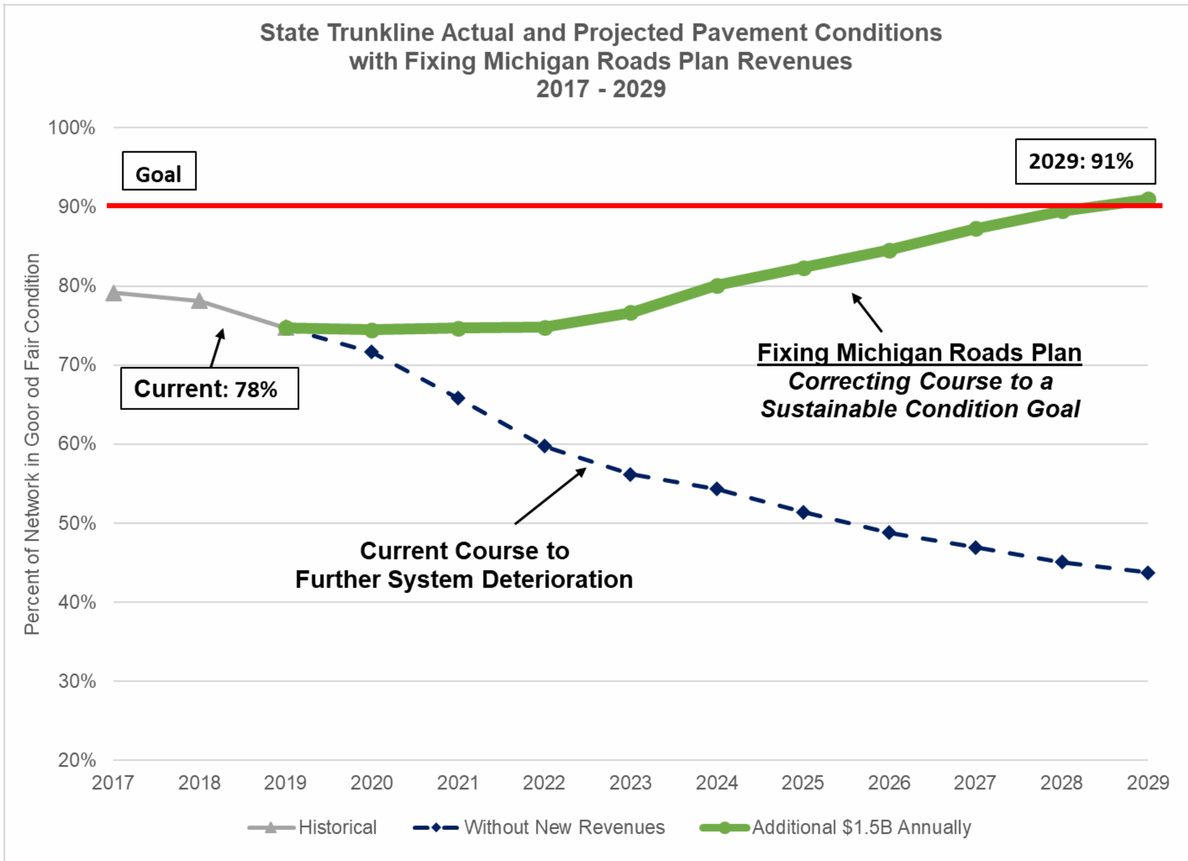
1) **Create a sustainable long-term solution to improve state road condition to 90% good or fair in ten years by targeting investments to the most highly-traveled roads.**
2) **Replace diversions from the General Fund with Constitutionally-protected revenues, freeing up existing state funds for needed investments in education.**
3) **Provide tax offset to mitigate the impact for low income families.**

[2] TRIP fact sheet, September 2018
[3] Crain's Detroit Business, February 2018

The Fixing Michigan Roads Plan provides a permanent long-term solution to our decades-in-the-making transportation crisis that will restore conditions to over 90% good or fair by 2029 through a sustainable 10-year plan that focuses resources on the most highly-traveled roads.

This plan is based on an asset management model that optimizes investments to forecast its annual need. The model uses account condition, the type of "fix" needed, project cost estimates, and the desired goal in order to develop its optimum investment strategy.

As illustrated below, the Fixing Michigan Roads Plan will restore all Interstates, freeways, and M-roads to over 90-percent good or fair condition by 2029.



Other key objectives of the Fixing Michigan Roads Plan include:

- Maintain all current PA 51 distributions to local road agencies and provide additional resources for local communities to help them fix their most highly-traveled roads and critical bridge needs.
- Provide support for rural economic development.
- Provide support for innovative options for transit, rail, and mobility programs.
- Ensure that state transportation revenues are constitutionally-protected.

FIXING MICHIGAN ROADS PLAN REVENUES

Revenue for the Fixing Michigan Roads Plan comes from three 15-cent increases to motor fuel taxes phased in over 12 months:

<table>
<tr><th colspan="4">Fixing Michigan Roads Plan Revenues
(in millions)</th></tr>
<tr><td></td><td colspan="2">FY 2020</td><td>FY 2021</td></tr>
<tr><td></td><td>10/1/19</td><td>4/1/20</td><td>10/1/20</td></tr>
<tr><td>Incremental Fuel Tax Increase (Cents-Per-Gallon)</td><td>$0.15</td><td>$0.15</td><td>$0.15</td></tr>
<tr><td>Cumulative Fuel Tax Increase (Cents Per Gallon)</td><td colspan="2">$0.30</td><td>$0.45</td></tr>
<tr><td>Gasoline Tax</td><td colspan="2">$1,060.2</td><td>$2,098.8</td></tr>
<tr><td>Diesel Tax</td><td colspan="2">$201.0</td><td>$399.6</td></tr>
<tr><td>Alternative Fuels Tax</td><td colspan="2">$2.5</td><td>$5.6</td></tr>
<tr><td>TOTAL New Revenue</td><td colspan="2">$1,263.7</td><td>$2,504.0</td></tr>
<tr><td>End Diversions from General Fund (to MTF Roads-Only Formula)</td><td colspan="2">($325.0)</td><td>($325.0)</td></tr>
<tr><td>DNR Recreation Improvement Fund (Constitutional Dedication)[4]</td><td colspan="2">($21.2)</td><td>($42.0)</td></tr>
<tr><td>TOTAL New Revenues for Transportation</td><td colspan="2">$917.5</td><td>$2,137.0</td></tr>
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Among the revenue-generating components of the plan, major provisions include:

Increased Motor Fuel Tax

- Increases gasoline and diesel taxes from 26.3 cents per gallon to 71.3 cents per gallon over 12 months, with three 15-cent increases scheduled for October 1, 2019, April 1, 2020, and October 1, 2020.

- Existing statutory language that provides for inflationary indexing beginning in fiscal year 2022 would be retained and would apply to all new and existing motor fuel taxes.

Direct New Revenue to Fixing Michigan Roads Fund

- Upon full implementation in fiscal year 2021, the new revenues will be deposited into a new Fixing Michigan Roads Fund.

- This plan will provide over $2.1 billion in new revenue for transportation when adjusted for constitutional and statutory deductions.

- All existing state and local transportation distributions would be protected at their current levels. The first $325 million of new revenue is directed to the Michigan Transportation Fund to replace the statutory Individual Income Tax earmark at the original level prescribed for fiscal year 2020 under the 2015 roads package.

[4] The state Constitution requires that 2% of the gasoline tax be directed to the Recreation Improvement Fund (RIF). Of the dollars flowing to the RIF, 80% are deposited to the Michigan State Waterways Fund and 14% to the Snowmobile Fund, with the balance remaining in the RIF.

Ends General Fund Diversion to Transportation

- Eliminates the statutory earmark of Individual Income Tax (General Fund) revenue to the MTF that was included in the 2015 revenue package.

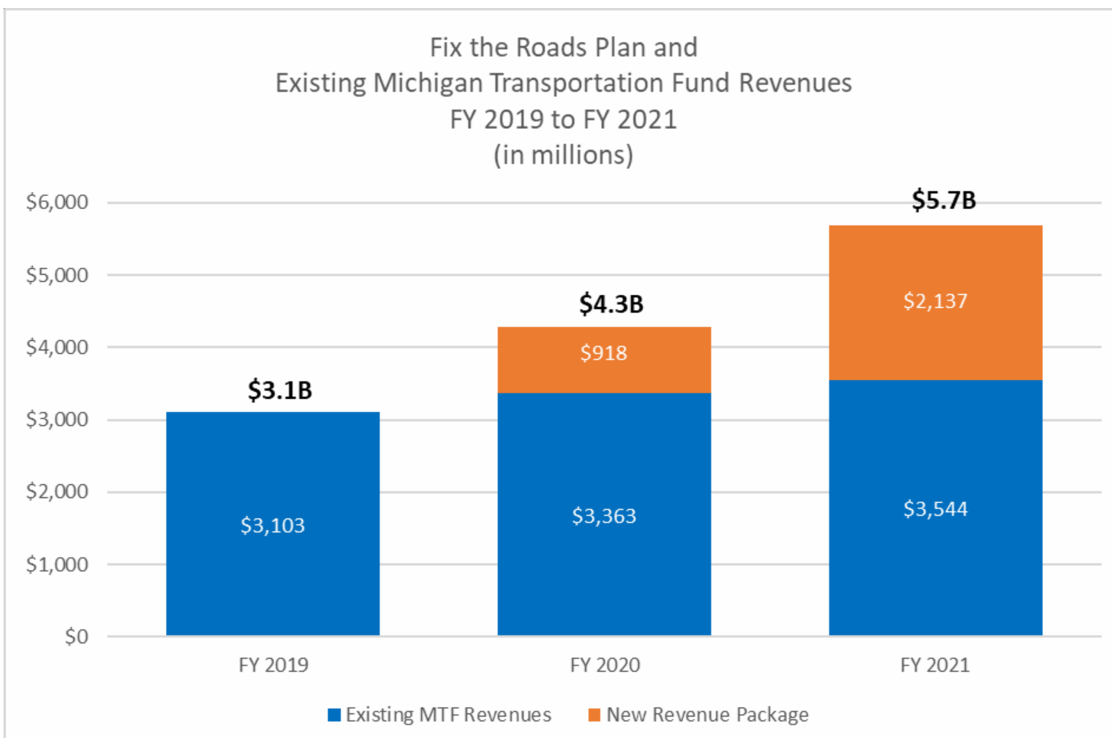
- Restores the General Fund back to the Higher Education budget, ending a significant redirection of School Aid fund revenue.

- Return $500 million in School Aid Fund revenue to schools for new education investments, including funding for pre-school, the per-pupil foundation allowance, special education, at-risk, and career and technical education.

Earned Income Tax Credit

- Increases the Earned Income Tax Credit (EITC) from 6% to 12% over two years (4% in FY 2020, and an additional 2% in FY 2021) to mitigate the impact of the motor fuel increase on low income families.

As indicated below, when combined with baseline Michigan Transportation Fund Revenues, a total of $5.7 billion of state revenues will be dedicated to state and local transportation programs when the plan is fully implemented in fiscal year 2021 – an 83-percent increase over the current fiscal year.



FIXING MICHIGAN ROADS PLAN DISTRIBUTION

The Fixing Michigan Roads Plan includes a new distribution formula that directs the additional funds to the most highly-traveled roads. In order to accomplish this objective, the plan utilizes federally defined National Functional Classifications (NFCs) that categorize each road by its intended purpose and traffic that it carries. Road dollars are distributed to MDOT and local road agencies based on their share of lane miles in each NFC. This contrasts with the current distribution method that was developed in the 1950s prior to the build-out of the Interstate Highway System and has, in part, also contributed to the deterioration of our most highly-traveled roadways to their current condition status.

Fixing Michigan Roads Plan Distribution (in millions)		
	FY 2020	**FY 2021**
Interstates and Other Freeways (47%)	$431.2	$1,004.4
Principal Arterials (30%)	$275.3	$641.1
Minor Arterials (7%)	$64.2	$149.6
Major Collectors (7%)	$64.2	$149.6
Local Bridges (4%)	$36.7	$85.5
Multi-Modal Innovation Projects (3%)	$27.6	$64.1
Local Rural Economic Corridors (2%)	$18.3	$42.7
TOTAL New Transportation Distribution	**$917.5**	**$2,137.0**

Fixing Michigan Roads distribution criteria are defined as follows:

47% Interstates and Other Freeways
Includes all of Michigan's Interstate freeways, as well as other limited access freeways (both U.S. and M-routes). All freeways are under the jurisdiction of MDOT.

30% Principal Arterials
This category reflects the state's most highly-traveled non-freeway routes. Many these routes are under MDOT's jurisdiction, however some highly-traveled local roads (especially within major urban areas) are also eligible for funding under this category.

7% Minor Arterials
This category also includes highly-traveled roads, but they generally carry less traffic than freeways and provide connectivity to the higher arterial system. Most of these roads are locally-owned.

7% Major Collectors
This category represents roads with the next highest level of traffic and are almost completely under local jurisdiction. Major collectors provide connectivity to neighborhood streets and the local street network.

4% Local Bridges
This allocation supports the reconstruction of locally-owned bridges, which can otherwise impose significant financing burdens on small local communities.

3% Multi-Modal Innovation Projects
This transportation funding plan also supports innovative projects in public transit, rail, and mobility services:

- **Transit and Mobility**
  The largest share of Multi-modal Innovation funding is dedicated to projects focused on increased service efficiency, capital improvements, and technology or service models that support greater mobility for seniors or people with disabilities.

- **Rail and Port Development**
  New investments will be made in Michigan's rail and port infrastructure, improving passenger and freight access to rail service, capital improvements, and resources targeted at developing marine freight capabilities.

2% Local Rural Economic Corridors
Recognizing that the NFC-based distribution may not recognize uniquely significant roads in rural areas (e.g., roads servicing major agricultural or manufacturing facilities), funds will be distributed to existing Rural Task Forces to aid in economic development. These task forces spearhead projects in the 78 out of the state's 83 counties that have a population of less than 400,000 residents.

STATE AND LOCAL DISTRIBUTION

While the statutory distribution of new revenues will be according to the traffic load-based formula described above, the financial distribution to MDOT and local road agencies is projected to be as follows:

Fixing Michigan Roads Plan - State and Local Distribution* (in millions)		
	FY 2020	**FY 2021**
State-Owned Roads (70%)		
State Road Projects	$645.6	$1,503.7
TOTAL State-Owned Roads	**$645.6**	**$1,503.7**
Local Road Agencies (27%)		
Local Road Projects	$189.3	$441.0
Local Bridges	$36.7	$85.5
Local Rural Economic Corridors	$18.3	$42.7
TOTAL Local Road Agencies	**$244.3**	**$569.2**
Multi-Modal Innovation Projects (3% - State and Local)		
Transit and Mobility	$16.6	$38.5
Rail and Port Investments	$11.0	$25.6
TOTAL Multi-Modal Innovation Projects	**$27.6**	**$64.1**
TOTAL Distribution of New Transportation Revenues	**$917.5**	**$2,137.0**

**Percentages are based upon full implementation in FY 2021*

When fully phased-in, the Fixing Michigan Roads distribution formula will direct $1.5 billion (70%) to state roads, $569 million (27%) to local roads, and $64 million to multi-modal transit, rail, and mobility projects. In combination with existing funds, overall transportation funding provides 55% to state roads and 45% to local roads. This ratio balances critical needs at the local level with the fact that the large majority of highly-traveled lane miles are maintained by the state.

TRANSPARENCY AND ACCOUNTABILITY

To ensure full transparency and promote the optimal use of taxpayer resources, the Fixing Michigan Roads Plan also includes several significant accountability measures:

Priority Project List
MDOT and local road agencies will develop Five-Year Plans that target the investment of these funds using sound asset management principles.

Transparency/Central Website
The public will be able to find and track the progress of each state and local project on an easily accessible website.

Fixing Michigan Roads Review Committee
An independent Fixing Michigan Roads Review Committee will review progress at the midpoint of the ten-year plan, and take the following actions:

- Assess whether the plan is improving overall system condition.
- Evaluate revenues to determine if the plan is appropriately funded.
- Review whether the new formula is directing the dollars effectively.
- Evaluate and recommend potential alternatives to the motor fuel tax as a user-fee proxy, given the increasing number of electric and alternative fuel vehicles.