Transportation Funding: "Down the Rabbit Hole", a Metaphor for Adventure Into the Unknown

By Rick Olson
August, 2014 Revised

There have been numerous studies and reports regarding road funding in Michigan. This report compares and contrasts the findings and conclusions of those reports with the proposals recently considered in Lansing. First we will look at those findings and conclusions, then look at the proposals as outlined in the attached "Summary of Transportation Funding Proposals" received from Governor Snyder's Office.

Summary

All of the proposals to date fall short of meeting the needs of our state's roads and bridges. The Governor's and the Senate's failed proposal go the furthest to meeting the goal of achieving 95%/85% good or fair roads in the next 12 years, but still fall far short.

The chart below attempts to compare and contrast the various approaches described above, and projecting the results financially if the proposals were continued through the next 3 years, i.e., to 2017.

Losses to Each Michigan Motorist Under Various Transportation Funding Proposals

	Status Quo	Governor	Senate	House	Colbeck
	(dollars in billions, first 4 lines)				
Additional Dollars Needed	2.183	2.183	2.183	2.183	2.183
Additional Dollars Proposed	0.286	1.230	1.500	0.450	0.300
Difference	1.897	0.953	0.683	1.733	1.883
Amount falling behind in 3 years, i.e., by 2017	5.691	2.859	2.049	5.199	5.649
Number of Michigan Motorists	7,059,509	7,059,509	7,059,509	7,059,509	7,059,509
Amount falling behind per Motorist by 2017	806	405	290	736	800
Accum. Depreciation per Motorist by 2017	1,056	655	540	986	1,050
Addiional Maintenance Cost per Motorist per year	330	330	330	330	330
Accumulated Maintenance Cost per Motorist by 2017	990	990	990	990	990
Total Loss Per Motorist by 2017	**1,796**	**1,395**	**1,280**	**1,726**	**1,790**

This chart shows that all of the proposals will cost the motorist more by inaction or inadequate action (from $1280 to $1,796 per motorist) than the $2.183 billion per year extra, or $309 per motorist per year, or $928 over the three years, of fully funding the roads would cost. Inaction is raising the cost per motorist.

The bottom line is that each the roads must and will be "fixed" someday. The question is whether the roads will be maintained with "fixes" while they cost less or whether they will be allowed to deteriorate until they cost more to fix. "Pay me now, or pay me later," As the oil change ad says, which most motorists believe and do get the oil changed on their cars fairly regularly. The same applies to roads. The revenue required will need to be raised from taxpayers one way or another. So, it makes sense, if one wishes to minimize the tax burden on the hardworking taxpayers, to fix the roads when it will cost the least over the long-term.

Clearly what the studies have shown is that raising the money sooner to provide funding for pavement preservation is the lowest cost method. The longer the legislature delays, the higher the tax increase necessary. In this case, being "conservative" means more revenue now, rather than a lot more revenue later. It is interesting that "conservatives" decry the ballooning national debt as putting intolerable burdens on future taxpayers, yet delay in providing adequate road funding is doing exactly the same thing in Michigan.

Lest these conclusions appear unduly critical of the Republican proposals analyzed, note that there have been no published Democrat solutions proposed. Instead, when one reads the news articles published by MIRS and Gongwer of the private conversations among the Governor, Senate leaders and House leaders, what you see are demands by the Democrats if they are to contribute their votes to a solution that they must get something in return on some other issues, such as increased homestead property tax credits or increase earned income tax credits. Whitmer spokesperson Bob McCann has been quoted as saying, "It can't be something that hits lower-income people harder."If that's their only idea, we really don't have anywhere to go."

It is time for a unconditional, bi-partisan solution. I have yet to hit a Republican pothole or a Democrat pothole. It is time to get past politics and achieve a policy breakthrough. The Michigan citizens deserve no less.

A. Transportation Funding Findings to Date and Conclusions Reached

Rick Olson, State Representative, 55^{th} District
June 25, 2012, last revised August 14, 2014

We have talked much about needing more money for our roads and bridges. For those not intimately involved in those discussions, here is a summary of the findings of various studies done in recent years:

1. **TF2 Report.** In 2008, the Transportation Funding Task Force (TF2) recommended that the state increase investment (and accompanying revenue) **$3 billion** to achieve its "good" option for transportation (considering all transportation needs, including roads, bridges, addressing safety issues, increasing capacity, rail, transit and aviation).

2. **House Transportation Committee Work Group.** The September, 2011 report "Michigan's Road Crisis: What Will It Take to Maintain Our Roads and Bridges?" reported on what it would take to just preserve our existing road surfaces and bridges and achieve over a 12 year period 95% of the freeways and 85% of all other paved roads in the state at a "good" or "fair" condition. It found that it would take an investment of **at least $1.4 billion** more per year than current spending. The study used the asset management approach of what would be the least cost long-term combination of "fixes" and timing of fixes to maintaining the value of the state's assets of roads and bridges – a business approach. This approach emphasizes doing the capital preventive maintenance to avoid the much higher cost "fixes" of rehabilitation or reconstruction necessary much sooner in the road life than if the capital preventive maintenance is not done.

3. **House Transportation Committee Work Group Update, 2012.** The "Michigan's Road Crisis: What Will It Take to Maintain Our Roads and Bridges? 2012 Update" released in March, 2012 indicated that the shortfall to achieve the 95%/85% goals had **risen to $1.542 billion** per year and rising over the 12 years studied. This study was updated to reflect the year delay from 2012 that the first additional moneys were assumed to be available in the initial study due to the failure to achieve any funding increases in 2011. The study also utilized additional road condition data unavailable in 2011. The study also found that the year's delay will cost the hardworking

taxpayers in the state an additional $1.8 billion over the next 12 years compared to the costs had the legislature acted in 2011.

4. **Former Representative Rick Olson's Transportation Funding Update, 2013.** The amount of additional funding the State of Michigan needs to just preserve our existing road surfaces and bridges and achieve over a 12 year period 95% of the freeways and 85% of all other paved roads in the state at a "good" or "fair" condition has risen to **$1.754 billion**, up from $1.542 billion just a year earlier. The cost of delay from the legislature taking no action in 2012 to 2013 has been **$2.219 billion**.

5. **Former Representative Rick Olson's Transportation Funding Update, 2014.** The additional money needed to maintain our roads and bridges over the course of 12 years to reach the goals of 95% and 85% good or fair rose to **$2.183 billion**, after factoring in increases in construction costs and changes in road condition. Note that this is the first year estimate, which rises to an additional $3.207 billion in 2025.

   The total 12 year cost rose from $21.965 billion in the 2011 study, to $25,151 billion in the 2012 study, to $28,912 in the 2013 study, to this year's study 12 year total of $30,279. In three years, the cost of delay has grown $8.314 billion or an average of $2.771 billion per year.

6. **Michigan Transportation Asset Management Council's "Michigan's Roads and Bridges 2013 Annual Report", Spring, 2014.** "In 2004, the Council projected it would have cost approximately $3.7 billion to bring all federal-aid eligible roads rated poor and fair up to a good rating. In 2013, the Council projects it would have cost $14.1 billion, more than triple what it would have cost in 2004. This represents $10.4 billion in lost value of our road assets."

   Note that the Council's estimate deals only with the federal-aid eligible roads. Previously, I recall the Council saying that all Michigan roads value was depreciating at $3 billion per year.

7. **TRIP Report.** "*Where Are We Going? Current and Future Pavement and Bridge Conditions, Safety, and Congestion Levels of Michigan's Roadways and the Impact on Michigan Households, Based on Investment Levels over the Next Decade,"* was issued by TRIP, a Washington, DC, based national transportation research organization in late March, 2012. The report concluded: "Increased transportation investment is critical to Michigan's economic recovery and to lower costs for state's residents; each Michigan household could save nearly $2,000 annually by 2022 if funding is increased to allow for significant improvements."

8. **TRIP Report, January 2014.** TRIP estimates that Michigan roadways that lack some desirable safety features, have inadequate capacity to meet travel demands or have poor pavement conditions cost the state's residents approximately $7.7 billion annually in the form of additional vehicle operating costs ($2.3 billion), lost time and wasted fuel due to traffic congestion ($3.1 billion) and traffic crashes ($2.3 billion).

   Put on a per motorist basis for the 7,059,509 licensed drivers in Michigan, that is a total of $1091 per motorist, comprised of $330 each for additional vehicle operating costs and losses due to congestion and $439 for losses due to traffic crashes.

9. **Phase In?** Another run of the funding model was run to see what the result would be if the legislature were to phase in funding increases of $200 million the first year, then $400 million, then $600 million, then $800 million and finally $1 billion, rather than do a $1.4 billion increase all at once. The result was that, although these amounts of money are far better than no additional

money, we would actually see a decrease in the average quality of our roads in the future from the current condition. That is, the roads would still be deteriorating faster than the capital improvements to them.

10. **Just Maintain Our Current Poor Quality?** The House Transportation Committee Work Group set the 95%/85% goals and then sought to see what the lowest cost combination of "fixes" and timing of "fixes" was to derive the additional funding needed. A follow up question was asked, "What would it take to just maintain the road conditions with no average road system improvement?" The funding model was again used and the following was the result (i.e., we would still need over $1 billion more per year, and rising):

Year	Total Funds Needed to Maintain Roads in 2011 Condition (millions)	Total Additional Funding Above Current Investment Needed to Maintain 2011 Condition (millions)
2013	$2,796.95	$1,104.53
2014	$2,796.42	$1,104.00
2015	$2,700.99	$1,008.57
2016	$2,276.56	$584.09
2017	$2,567.96	$875.14
2018	$2,734.69	$1,042.25
2019	$2,916.46	$1,224.16
2020	$3,062.21	$1,369.87
2021	$3,035.90	$1,342.37
2022	$3,012.37	$1,320.52
2023	$3,122.45	$1,429.25
2024	$3,315.41	$1,623.00
2025	$3,485.79	$1,793.37
Total	**$37,824.16**	**$15,821.15**
Avg	***$2,909.55***	***$1,217.01***

Note that these calculations were made with 2011 construction costs and road conditions. We have not rerun the model with this perspective, but we can extrapolate 2014 costs using the information in the 2014 update. The first year cost calculated in 2011 of $1.377 billion rose to $2.183 billion in 2014, or a 1.58533 multiplier. If that multiplier is applied to the $1,104 billion first year cost to simply maintain our current poor quality, one derives $1.751 billion in 2014 dollars and road conditions.

This number may also be looked upon as an estimate of the amount of depreciation in our road system over and above the current level of investment maintaining the roads.

11. **Anderson Economic Group/Michigan Chamber Foundation.** The economic report entitled "Economic Impact and Policy Analysis of Four Michigan Transportation Investment Proposals" (June, 2012), which was commissioned by the Michigan Chamber Foundation and prepared by Anderson Economic Group (AEG), concludes that:
    a. funding for Michigan roads has declined in both real and nominal terms in the past decade – fuel taxes have not been indexed to inflation and those funds do not stretch as far as construction costs have escalated,
    b. the quality of Michigan's roads will decline rapidly if more funding is not raised for additional repairs and maintenance,
    c. fixing the rest of the state's deteriorating roads and bridges would create an additional 11,000 jobs,
    d. money invested in roads and bridges has a higher economic multiplier than household spending because some of the money would have otherwise been spent out of state and because road construction work and its related supply chain is based largely in state. The study estimated the net economic benefit of these scenarios by accounting for both the benefits of infrastructure spending and the costs associated with forgone expenditures by taxpayers (which negative impact is rarely seen in economic impact studies justifying a special interest group's position),
    e. job providers benefit from a well-maintained infrastructure, and
    f. the four most talked-about funding proposals of $1.4 billion additional road funding would provide adequate funding to complete the necessary infrastructure repairs, with increased wholesale gas taxes and vehicle registration fees – or some combination of the two – all very close in terms of the economic boost they would provide to the state. http://andersoneconomicgroup.com/Publications/Detail/tabid/125/articleType/ArticleView/articleId/8025/Economic-Impact-and-Policy-Analysis-of-Four-Michigan-Transportation-Investment-Proposals.aspx

12. "**Fringe Benefit Costs Paid by MDOT for Contract Work on State Trunkline Highways: Are They Out of Line?**" (October 19, 2012, by Rick Olson). The fringe benefits paid by MDOT to county road commissions for contract work done by the road commissions on state trunkline highways on behalf of MDOT, although very high for some road commissions, appear to have reasonable explanations. Significant efforts to control these costs have been expended by the road commissions in question.

Conclusions Reached:

1. **We need at least $2.183 additional funding or savings to maintain our roads and bridges and achieve the 95%/85% good or fair condition in the next 12 years. The model assumed the least cost way of maintaining the roads' asset value, that being the asset management approach of pavement preservation, whereas in reality, some "worst first" construction will be necessary.**

   Any additional revenue source should have the capability of growing, otherwise the state will be in a similar position within just a few years as inflation eats up the additional revenue.

   The $2.183 billion calculated with the model is just the additional amount needed to maintain our existing pavements and bridges, and does not consider <u>additional</u> (i.e., none in addition to what is currently being allocated out of current funding) funding for relieving congestion, addressing safety issues, increased attention to our gravel roads,

meeting deferred state and local road agency equipment needs, or providing increased funding for transit, rail, air or water transportation. If we consider just the current 10% of the Michigan Transportation Fund going to transit, the $2.183 billion would need to be increased by 10/9 = 1.11, or $2.426 billion.

2. **To avoid an average additional cost of $2.771 billion per year to the taxpayers caused by delay, action needs to be taken ASAP to avoid missing yet another construction year. Time is not on our side. Delays in solving Michigan's road funding shortfall is analogous to the tremendous national debt because of the burden on future taxpayers.**

3. **We need to be bold in filling the funding gap in one fell swoop, as incrementalism does not achieve the goals. Gradual increases in additional revenue, while beneficial, will not help us that much in reaching the 95%/85% quality goals.**

4. **Doing less than the total need would expend considerable political capital and end up disappointing the taxpayers with higher costs, but no better roads. That is, if we are to take action, we might as well achieve the goals, rather than take the potential political heat for the higher costs AND still have poor roads.**

   Note also that even with $2.183 billion of additional funding per year, improvement would not be instantaneous and even with the goals of 95%/85% good or fair in 12 years, the roads would be far from pristine, as fair is not good.

5. **While it will cost motorists money in terms of higher gas taxes and vehicle registration fees, there will be offsetting savings in vehicle repairs, longer life vehicles, safety, etc. of an estimated $330 per year, not counting savings in less congestion or traffic crashes. This compares with $309 per motorist if an additional $2.183 billion of revenue were raised.**

6. **There are both short term job benefits and long-term benefits of creating an environment for businesses to flourish from maintaining our roads and bridges.**

7. **There is not enough fraud, waste and abuse in the system to eliminate which would fill the funding gap calculated in other studies. Nonetheless, control of these costs remains important and continued efforts are warranted.**

B. Application of the Findings and Conclusions to the Transportation Funding Proposals Recently Discussed.

1. Status Quo:

In recent years, the legislature has allocated General Fund money to the Michigan Transportation Fund to allow MDOT to have adequate "match money" to receive all of the federal gas tax money allocated to Michigan. It has also in the 2014 Fiscal Year Budget allocated an additional $230 million ($115 million in two waves) to and from a Roads and Risks Reserve Fund, which moneys have been allocated to specific projects by the legislative leadership on an allegedly partisan basis.

In March, 2014, the legislature approved a compromise supplemental spending plan that included $100 million to help state and local road agencies fill potholes to adjust for the harsh winter that had consumed funds for snow removal and salting roads that normally would be available for spring and summer routine maintenance. In the 2014-15 fiscal year budget, the legislature appropriated $127 million to match available federal aid for the state trunkline program, $144.5 million additional dollars through the Act 51 formula, plus additional amounts for match and specific programs, for a total of $286,147,900. These are steps in the right direction, but small steps when compared with what is needed. They do, however, give the politicians political cover in an election year for "having done something".

2. **The Governor's Proposal**.
In early 2012, a package of bills was introduced in the House by a bi-partisan group of Representatives which comprised the Governor's proposals. About $1.2 billion would have been raised, about half through increases in the gas tax and about half via increases in the vehicle registration fees. Additional revenues could have been raised at the local level to raise the total to the $1.4 billion additional estimated to be needed at that time by an optional local vehicle registration fee.

In 2013 and 2014, the Governor proposed raising an additional $1.23 billion, plus perhaps $280 million if all counties or regions adopted the up to $40 optional vehicle registration fees (doubtful, in my opinion, concurrent with a significant increase in the registration fees at the state level). That said, it appears that some local funding option and/or requirement will be needed, as it is unlikely that sufficient additional revenue will be generated by any of the current proposals.

Those proposals are now significantly out of date, with the huge increase in the amount of increased revenue now estimated to reach the goals of 95%/85% due to legislative inaction.

The Governor also proposed a new funding distribution formula, via a Commercial Corridor Fund, through which the bulk of the increased revenue would flow. This, obvious would not be terribly popular with those road agencies that need additional funding but would see little of the increased revenue. Care must be taken on how any additional funding be distributed, so that it goes where it is needed most. The model used in the Olson studies can be used to suggest where those funds should go on an objective basis, rather than via a power struggle among the state and local road agencies. That is, the model showed that MDOT would need a higher percentage of the new money than provided for in the Act 51 formulas, but not as much as was proposed in the 2012 "Commercial Corridor Fund" proposal. Care will need to be taken to not split the road funding coalition by a fight amongst them on how the money is to be split.

3. **The House $450 Million Proposal**.
While better than what ended up happening legislatively thus far in 2014, $450 million is a pittance when compared with what is actually needed. Much of the proposals were a shift of funds, such as permanently dedicating the constitutionally unallocated portion of the 6% sales tax. Transportation asset management requires multi-year planning. This is best accomplished with dedicated funds the road funding agencies can reasonably forecast, and should not be subject to the whims of the legislature year-by-year.

That said, there are elements of the House proposal that may be parts of a larger solution, such as basing the fuel tax on the wholesale prices of fuel, and gasoline-diesel fuel tax parity. I perceive the provisions increasing the fees on the over-sized and over-weight vehicles are a political response to public pressure to make it look equitable, but would raise little extra revenue, as this would not change for the trucks of standard weight.

4. Senate Actions.
Many proposals were made and some adopted, but mostly in different versions than passed the House, so despite lots of talk, virtually nothing was enacted into law. The most significant proposal to increase the gas and diesel fuel tax about $1.5 billion failed to be approved. While the most ambitious proposal to date, it still falls short of what the most recent model runs indicate is needed. It would, however, be significant progress, and far better than a poke in the eye with a sharp stick.

5. Senator Colbeck's "Let's find the cash in the sofa cushions" Proposal.
Senator Colbeck proposes that we solve the funding problem by:

- Grow our way out of it as revenue increases and freezing other spending
- Eliminating one time spending in budgets
- Diverting money we use to pay debt service on state bonds (well, really, after they are paid, to be fair)
- Cost reductions via efficiency improvements
- Finding jobs for the 411,000 unemployed to raise income tax revenues
- Raising revenues via advertising (such as billboards on each of the state overpasses), renting road sides for hay or other crop growing, concessions, naming rights and shared resources
- A 5% reduction in state spending due to greater transparency of 10,000,000 citizen "accountants"

While I applaud Senator Colbeck for trying to think innovatively to solve the problem, many of the ideas are just wishes. Yes, the legislature should look hard at each budget line item to appropriate the moneys available to the highest priority uses. However, when one looks at the state's General Fund budget for the 2014-15 fiscal year, the total is $8,590,191,300, of which the largest chunks are $3,239,701,400 for Community Health and $1,980,798,400 for Corrections. The remainder is scattered out among many recipients, whose budgets have been scrutinized by some fairly conservative legislators the past few years. I just don't believe that you are going to find anywhere close to $2 billion loose change among those cushions. For the purposes of the Conclusion below (carried to the Summary on page 1), I have assumed $300 million per year, merely a SWAG estimate.

Are some of the potential additional revenue sources he suggests possible? Perhaps, but is additional advertising on state properties what we want? Will the revenue net of costs of implementing the advertising program be really substantial?

C. Conclusion:

The charts below attempt to compare and contrast the various approaches described above, and projecting the results financially if the proposals were continued through the next 3 years, i.e., to 2017.

Loss of Value in Road System by 2017 Under Various Transportation Funding Proposals

	Status Quo	Governor	Senate	House	Colbeck
	(dollars in billions)				
Depreciation per year above current investment	1.751	1.751	1.751	1.751	1.751
Additional Dollars Proposed	0.286	1.230	1.500	0.450	0.300
Depreciation Minus Added Dollars, i.e., Loss of Value in Road System per Year	1.465	0.521	0.251	1.301	1.451
Loss of Value in Road System by 2017	**5.253**	**4.623**	**3.813**	**6.963**	**7.413**
Number of Michigan Motorists	7,059,509	7,059,509	7,059,509	7,059,509	7,059,509
Loss in Value per Motorist by 2017	744	655	540	986	1,050

A smart business person attempts to maintain the value of his or her assets by doing preventive maintenance to minimize the long-term costs. Delay or inadequate action is costing each motorist in Michigan money.

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Summary of Transportation Funding Proposals

Background

For the past 50 years, Michigan has ranked in the lowest 10 states in the country for investment in roads. According to 2010 census data, Michigan invests less in transportation per capita than any other state. In 2008, a legislatively- and gubernatorially-appointed Transportation Funding Task Force (TF2) released its recommendation that Michigan needs to "at least double" its annual $3 billion investment in transportation in order to develop and maintain a good transportation system.

The TF2 report went on to say that "doing nothing is not an option" and predicted that Michigan would soon lack sufficient state funding to match federal aid, and that the condition of roads and bridges would decline without additional investment. The TF2's predictions have proven true.

Other studies have also been conducted, including a 2011 study conducted by Representative Rick Olson for the House of Representatives' Work Group on Transportation. Unlike the TF2 study, which looked at all modes of transportation, the Olson study focused exclusively on roads and bridges, and the investment needed to preserve existing infrastructure. The study validated the estimate of road and bridge needs included in the TF2 report, and recommended that additional annual investment of nearly $1.5 billion would be needed just to preserve Michigan's existing roads and bridges. An interesting aspect of this needs assessment that has often been overlooked is that the $1.5 billion shortfall identified is for federal aid eligible roads and bridges, and does not include the needs of strictly local roads.

The 2011 study has been updated several times since then. The most recent 2014 edition places the annual additional investment needed to preserve existing roads and bridges at nearly $2.2 billion. This estimated need does not include funding to relieve congestion, address safety issues, or meet the needs of other non-highway modes.

Status Quo (marginally better than "Do Nothing")

While no permanent revenue solution has been enacted, the State Legislature has, for the past three years, shifted state General Funds to the State Transportation Fund to enable MDOT to continue to match federal aid. The cost of doing nothing more to address the current transportation funding crisis is significant:

- $7.7 billion annually in lost time, wasted fuel, crashes, etc, according to a 2013 TRIP report:
  - $1,600 annually per driver in Detroit
  - $1,027 annually per driver in Grand Rapids
  - $1,032 annually per driver in Lansing

- According to Michigan's crash statistics and data from the National Safety Council, highway crashes in 2012 cost Michigan an estimated $8.9 billion:
  - Total crashes: 273,891, estimated cost of $2 billion
  - Total fatalities: 936, estimated cost of $1.32 billion
  - Total injuries: 70,158, estimated cost of $5.5 billion

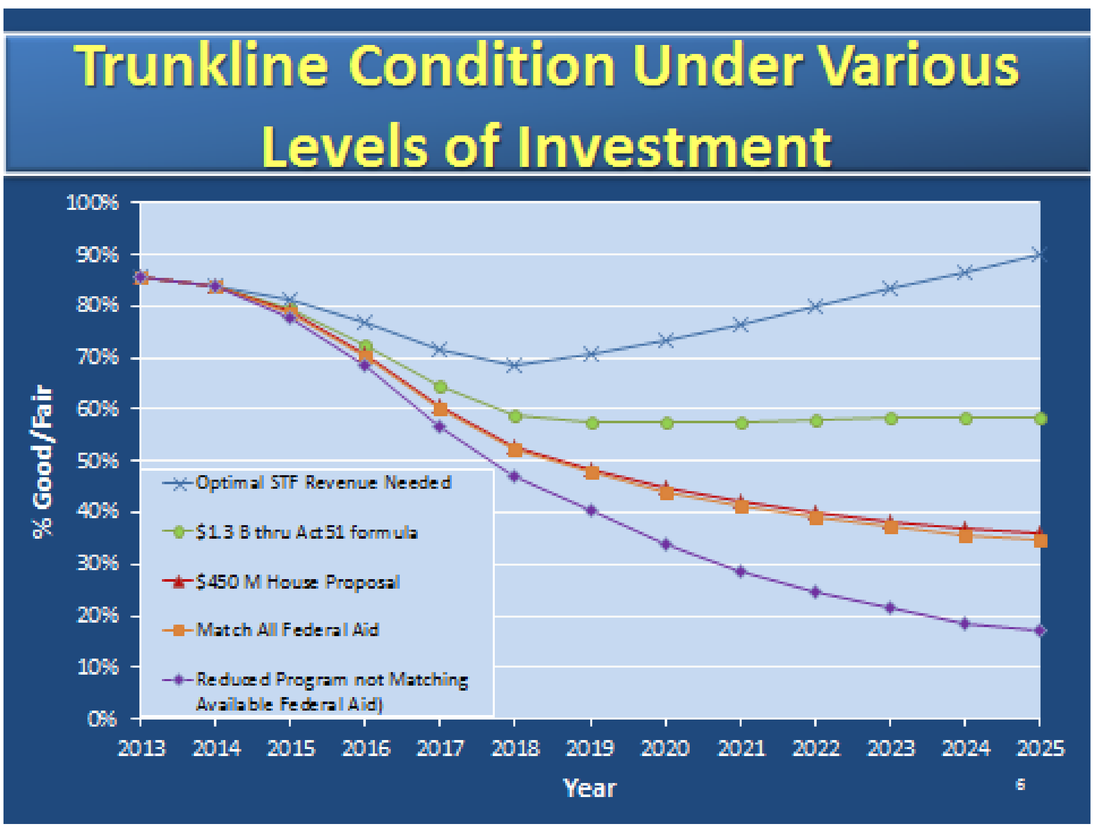
In addition, continue delay increases the cost to address the problem. If the current decline in condition is allowed to continue, MDOT estimates that the cost to reconstruct state trunkline highways would be $26 billion in just 10 years.

Not calculated is the significant economic impact that deteriorating roads and bridges will have on businesses or their location decisions, or the impact on the tourism industry, which in Michigan is 80% auto-based.

Trunkline Condition

The addition of General Funds to allow MDOT to continue to match federal aid have been important to the effort to preserve state trunkline highways and bridges, but the graph shows that much greater investment is needed. The graph also depicts projected state trunkline condition under other funding scenarios that have been proposed, including:

- The roughly $450 million for roads through the Act 51 three-way distribution formula proposed by the House
- A modified version of Governor Snyder's $1.3 billion proposal that would distribute funds through the existing Act 51 formula, rather than the Commercial Corridor Fund that the Governor proposed
- An "optimal" funding scenario, currently estimated at $1 billion additional investment annually, just for state highways and bridges.



Governor's Proposal

In 2011, Governor Snyder called for greater investment in infrastructure through a Special Message to the Legislature. Legislation for reforms and revenue were introduced in response, but only two of the reform measures were enacted.

In his 2013 State of the State address, and his 2014 Budget Proposal, Governor Snyder offered more specific proposals to increase investment in transportation infrastructure and services by a total of nearly $1.5 billion, including:

- Increase the tax on motor fuels to the equivalent of 33 cents-per-gallon and convert it to a price-based tax that would increase with price. This would provide about $730 million in new revenue.
- Increase light vehicle registrations 60% and truck and trailer registrations 25%, to provide a little more than $500 million in new revenue
- A $40 local-option registration fee that could be enacted on a county-wide or regional basis, subject to approval of the voters. If enacted for the full amount state-wide, this would provide an estimate $280 million in additional new revenue for local road agencies.

The Governor's proposal also included changes to the historic funding distribution formula that would have directed a greater share of new revenue to roads with a vital economic function, through a Commercial Corridor Fund. The proposal would have increased the share of revenue distributed to federally-designated collectors and arterials, including state highways. The intent would be to direct funds where they would have the greatest economic impact, and to come as close as possible to the "optimal" funding line on the graph above.

Without changing the Act 51 distribution formula, something closer to an estimated $3 billion in additional annual funding would be needed in order to return state highways and bridges to 90% good/fair condition.

According to MDOT's economic impact model, Governor Snyder's proposal, without the additional local-option funding, would in just the first two years have these economic impacts:

- Create or support an average of 14,400 jobs in the first two years
- Increase personal income by $1.93 billion
- Increase Gross State Product by $3.34 billion

If the Governor's proposal had been enacted when it was first called for, Michigan would be realizing these benefits already.

Over a ten year period, the Governor's proposed new state investment would:

- Create or support more than 131,000 jobs
- Increase personal income by $11.95 billion
- Increase Gross State Product by $25.80 billion

The projected return on investment of Governor Snyder's proposed investment is 3.56. For every dollar invested, the state would see $3.56 in return.

House Proposal

In May, 2014, the House of Representatives acted on a series of bills intended to provide additional revenue for roads and bridges as well as require some reforms to improve efficiency of road agencies. In total, the bills would provide an estimated $450 million in additional revenue. As passed the House, these bills would:

- HB 5477 – Base fuel tax on wholesale prices of gasoline and Diesel fuel, at 6%. No effective increase in gasoline tax; Diesel-fuel tax would rise to approximately 19 cents/gallon, yielding about $35 million more per year. Taxes would rise or fall with prices, but never less than 19 cents/gallon or more than 32.5.
- HB 5492 – Shift one sixth of use-tax revenue to 3-way roads formula, shifting $239 million in 2015, rising to $264 million by 2018, if appropriated by future legislatures.
- HB 5459 – Shift remaining unappropriated fraction of sales-tax revenue ($132 million/year) to 3-way roads formula.
- HB 4630 – Make minor changes to vehicle registration laws: change effective date of tax on transferred plates, shift late fees to the MTF, deny discount farm plates to light vehicles. No increase to most car and truck registration tax rates.
- HB 5452 – Increase MDOT and local permit fees for oversize and overweight truck movements by 100 per cent.
- HB 5453 – Double fines for truck-related traffic violations; dedicate 100% increase (approximately $5.2 million/year) to three-way roads formula.
- HB 5167 – Enlarge use of competitive bidding by MDOT and local road agencies; require 6 largest local agencies to pay for maintenance on a performance basis.
- HB 5460 – Require warranties on all highway contracting by all agencies.
- HB 5493 – Conform Diesel-fuel tax to HB 5477.

There was no action on these House bills:

- HB 4028 – Enable county commissions to offer voters a ballot proposal for a surtax of up to 0.18 per cent on vehicle registrations for roads or transit.
- HB 4925 – Enable MDOT to conclude agreements with concessionaires to develop, build, finance, and operate highway projects.

State trunkline condition is not projected to improve at the House-proposed funding level. Because the legislature has appropriated General Funds of around $120-$130 million to the State Transportation Fund to match federal aid for each of the past three years, and because the proposed $450 million in funding would be distributed through the existing Act 51 three-way formula for road agencies, the share going to the STF would be only about $175 million, just $50 million or so more than the STF currently receives.

MDOT did not model the economic impacts of this proposal.

Senate Actions

The Senate in June endeavored to enact a more robust funding package for transportation, but ultimately the effort did not succeed. Although some bills were passed to provide some additional revenue, the total fell far short of the amount needed. There were many changes to the bills at the last moments, in an effort to pass something. Only these bills passed the Senate in June, most not in the form passed by the House:

SB 149 – Allow MTF to receive other than vehicle-related taxes (sales tax). Abolish transfer of $20,000,000/year from STF to Secretary of State after 2016.

- HB 4630 – Increase tax on light vehicles by 37%, for new cars after 2018 only, yielding up to $218 million in 2030. No increase in truck registration tax. No change to discount plates. Make minor changes to vehicle registration laws: change effective date of tax on transferred plates, shift late fees to MTF. Increase taxes and fees for Secretary of State and State Police. Makes permanent the shift of fees from MTF to Secretary of State after 2015. In first year, yields $48 million for MTF, $11 million for Secretary of State, and $2 million for State Police. S-3 passed; must be returned to House.
- HB 5453 – Double fines for truck-related traffic violations; dedicate 100% increase (approximately $5.2 million/year) to 3-way roads formula. House version passed.
- HB 5167 – Enlarge use of competitive bidding by MDOT and local road agencies; require 20% of MDOT maintenance expenditures to by paid for on a performance bases; require 6 largest local agencies to pay for maintenance on a performance basis. S-2 passed.
- HB 5460 – Require warranties on all highway contracting by all agencies "where possible." Require warranty program for all local agencies. S-3 passed.
- HB 5493 – Conform Diesel-fuel tax to HB 5477. S-1 passed.

The following bills were not taken up by the Senate, or were defeated:

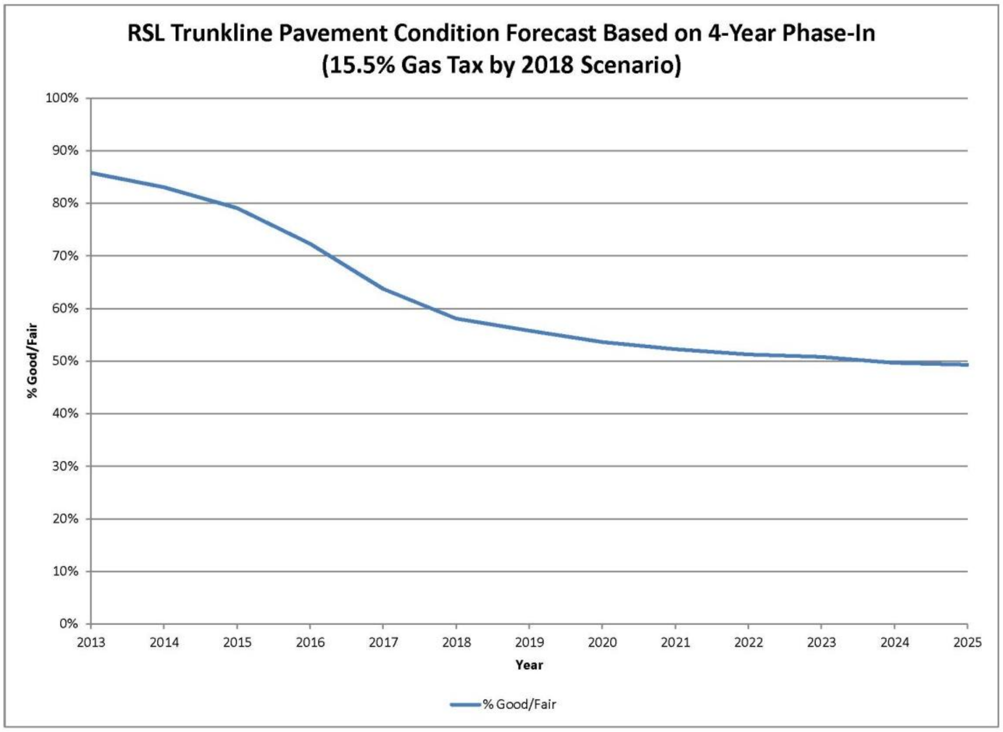
- HB 5477 – Base fuel tax on wholesale prices of gasoline and Diesel fuel. Amendments rejected to allow tax to rise to up to 15% (46 cents/gallon). Amended to allow tax rate to rise with the rate of inflation. S-12 adopted and defeated.
- HB 5492 – Shift one sixth of use-tax revenue to three-way roads formula, shifting $239 million in 2015, rising to $264 million by 2018, if appropriated by future legislatures. Never reported.
- HB 5459 – Shift remaining unappropriated fraction of sales-tax revenue ($132 million/year) to three-way roads formula. Never reported.
- HB 5452 – Increase MDOT and local permit fees for oversize and overweight truck movements by 100 per cent. Defeated, reconsidered.

Most significant among these bills was HB 5477 (S-9). That version of this bill would have raised the wholesale-price-based fuel tax rate from 6% to up to 14.85% for gasoline and 15% for Diesel fuel by 2018, yielding about $1.5 billion over current fuel-tax revenues. After 2018, price-driven changes would be limited to 5 per cent increase or decrease per year.

The revenue from the Senate package would be distributed through the four-way Act 51 formula, so that by 2018 the distribution would be:

State highways:	$738 million	County roads:	$738 million
Public transit:	$187 million	City streets:	$412 million

The Senate proposal would not significantly improve the condition of state highways and bridges, for two reasons. First, the phased-in revenue increases don't provide enough new revenue early on to stop imminent highway deterioration. Second, the funding is distributed through the existing Act 51 formula, which means that the majority of funds go to local road agencies.



The economic impact over the first two years of the Senate proposals, if the package had passed in its entirety, and a comparison to the Governor's proposal, are included in the chart below:

Economic Impact Comparison

	Senate Phased-In Proposal	Governor's Proposal
Jobs in 1st two years	12,960	14,400
Jobs over 10 years	152,640	131,000
Personal Income Increase over two years	$1.71 billion	$1.93 billion
Personal Income Increase over ten years	$13.97 billion	$11.95 billion
Gross State Product increase over two years	$3.32 billion	$3.34 billion
Gross State Product increase over 10 years	$27.2 billion	$25.80 billion
Return on Investment	3.12	3.56