

MICHIGAN HIGHWAY FINANCE AND GOVERNANCE

May 1997

REPORT NO. 321

Citizens Research Council of Michigan

<http://www.crcmich.org>

38200 West Ten Mile Road • Suite 200 • Farmington Hills, Michigan 48335-2806 • (248) 474-0044 • Fax (248) 474-0090 • E-Mail: crcmich_semich@compuserve.com
1502 Michigan National Tower • Lansing, Michigan 48933-1738 • (517) 485-9444 • Fax (517) 485-0423 • E-Mail: crcmich_lmsg@compuserve.com

MICHIGAN HIGHWAY FINANCE AND GOVERNANCE

Contents

Summary	v
I. Introduction.....	1
A. Highways as a Government Priority	1
B. Michigan Road Conditions	2
1. Interstate Comparison of Road Conditions	2
2. Michigan Bridge Conditions	2
3. Congestion	3
4. Regional Disparities	3
C. Highway Organization	4
1. Functional Classification	4
2. Jurisdictional Control	5
D. The Michigan Highway System	6
1. County Road Systems	7
2. Municipal Streets	9
3. The State Highway System	10
4. Federal Government	11
E. The Relationship of Functional Classification to Jurisdictional Control	12
1. Jurisdictional Control by Functional Classification	12
2. Functional Classification by Jurisdictional Control	13
II. Revenue Issues.....	14
A. Appropriate Funding Among Levels of Government.....	14
1. Highway-User Taxes	14
2. Non-Highway-User Taxes	14
3. The Michigan Highway Funding System	14
B. Highway-User Tax Revenue Options	15
1. Motor-Fuel Taxes	15
2. Motor-Vehicle Weight and Ad Valorem Taxes	20
3. Other Highway-User Revenue Sources	22
4. Highway-User Taxes as a Revenue Source	24
5. Federal Funding.....	27
C. Non-Highway-User Tax Revenue Sources	29
1. State Government	29
2. Local Government	29
D. Additional Highway Revenue Options.....	33
1. Toll Roads	33
2. Local Registration Fees	33
3. Local Motor-Fuel Taxes	33
E. Conclusions: Taxes.....	35
1. State Taxes	35
2. Local Taxes	35
III. Are Additional Revenues the Entire Answer?	36
IV. Jurisdictional Control.....	37
A. How Michigan Has Changed	38
1. Population Growth	38
2. Urban Sprawl	38
3. Highway Use.....	39

CRC REPORT

B. Jurisdictional Control Has Remained Unchanged.....	39
1. Roads No Longer Serving the Same Purposes	39
2. Should Townships Control Their Own Roads?	40
C. A New Era in Jurisdictional Control.	43
D. Conclusions: Re-Assigning Jurisdictional Control.....	44
1. Determining Factors	44
2. Re-assignment to the State vs. Reassignment to Local Units	45
3. Impediments to Change	45
4. Benefits of Addressing Jurisdictional Control	46
V. Prioritizing Highway Needs	47
A. Current Needs Assessment Provisions	47
B. The Problem.....	47
C. Why a Needs Assessment is Important	48
D. An Alternative Needs Assessment Methodology – An Oversight System	49
VI. Physical Structure	50
A. Road Construction Standards.....	50
1. Highway Condition Factors	50
2. Re-Addressing Highway Construction Assumptions	54
3. Effect on Road Construction Costs	54
B. Investment in Maintenance	55
1. Effect of Federal Funding on Maintenance	55
VII. Administrative Issues	57
A. Privatization.....	57
B. Intergovernmental Cooperation	57
C. Experience with Privatization and Intergovernmental Cooperation	58
1. Michigan Department of Transportation	58
2. County Road Commissions	59
3. Municipalities	60
D. Conclusions: Administrative Issues	60
VIII. State Highway-User Tax Allocations	64
A. The McNitt and Horton Acts	64
B. Michigan Transportation Fund.....	65
1. Administrative and Collection Costs and Transfers to Other Departments	65
2. Special Revenue Funds	68
3. Comprehensive Transportation Fund	68
4. Highway Funds	69
5. Implications of the Current Formulas	70
C. The Role of Needs Assessment in Allocating Revenues.....	70
1. State-Collected Revenues.....	70
2. Federally-Collected Revenues	71
3. Incorporating Use and Needs into the Allocation Formulas.....	71
IX. Conclusion	74

MICHIGAN HIGHWAY FINANCE AND GOVERNANCE

Charts and Figures

Chart 1	-- Pavement Ratings of Michigan Roads: 1985 and 1994	2
Chart 2	-- Federal Pavement Ratings of Major Roads in Michigan and Comparison States -- 1994	3
Chart 3	-- Bridge Condition in Michigan by Jurisdiction -- 1994	4
Chart 4	-- Michigan Highway System Characteristics by Functional Classification -- 1994	5
Chart 5	-- Michigan Highway System Characteristics by Jurisdictional Control -- 1994	6
Chart 6	-- Jurisdictional Control of Michigan Highway Mileage by Functional Classification -- 1994	13
Chart 7	-- Major Transportation Revenue Sources in Michigan: FY1996	15
Chart 8	-- Effective Gas Tax Rates in Michigan and Comparison States -- 1996	16
Chart 9	-- Effective Diesel Fuel Tax Rates in Michigan and Comparison States -- 1996	17
Chart 10	-- Annual Registration and Weight Taxes on an 80,000 Pound, Five-Axle Tractor-Semi-Trailer	22
Chart 11	-- Index of Change in Michigan Highway-User Tax Revenues: 1960-95	24
Chart 12	-- Comparison of State Motor Fuel Tax Rate Experiences With HMOC	25
Chart 13	-- Motor Fuel Tax Revenues: Consumption Based v. Ad Valorem Taxation	26
Chart 14	-- Comparison of Federal Highway Trust Fund Receipts Attributable to the States and Federal-Aid Apportionments and Allocations to the States from 1957 to 1994 with National Ranking	28
Chart 15	-- Michigan Population Growth: 1890-1990	38
Chart 16	-- Land Area of Incorporated Governmental Units in Michigan by Decade of Incorporation	38
Chart 17	-- Number and Size of Trucks on Michigan Roads -- 1994	53
Chart 18	-- State Highway Assistance to Local Governments in Michigan: 1918-40	64
Chart 19	-- Basic Organization and FY95 Funding of Michigan Highway System	66
Chart 20	-- Michigan Transportation Fund: Summary of Distributions -- FY1995	69
Chart 21	-- Rural/Urban Nature of Michigan Highway System -- 1994	71
Figure 1	-- Highway Maintenance and Operations Cost (HMOC) Index in Michigan	25
Figure 2	-- Michigan Metropolitan Area Boundaries and Rural ISTEA Task Force Boundaries	34

Tables

Table 1	-- Interstate Comparison of State and Local Spending -- 1993	1
Table 2	-- Sales Tax Levies on Motor Vehicle-Related Purchases	19
Table 3	-- Diesel Fuel Tax Rate in Michigan and Surrounding States	20
Table 4	-- Automobile Taxes and Fees -- 1994	23
Table 5	-- Michigan Contributions to, and Returns from Federal Highway Trust Fund and Contributions to Deficit Reduction	27
Table 6	-- County Road Commission Revenue Sources for Highway Funding in Michigan -- 1994	30
Table 7	-- City and Village Revenue Sources for Highway Funding in Michigan -- 1994	31
Table 8	-- Township Contributions to County Road Funds -- 1994	32
Table 9	-- County Road System Miles -- 1994	41
Table 10	-- Charter Townships in Michigan by County -- 1996	42
Table 11	-- Comparison of County Highway Miles to Vehicle Miles Traveled by County	72

MICHIGAN HIGHWAY FINANCE AND GOVERNANCE

Summary

This report, which was summarized in *CRC Memorandum 1046* addresses the question of the extent to which highway revenues in Michigan, whether increased or not, could be more efficiently spent.

The Introduction shows that Michigan ranks high in relative measures of general expenditures, but near the bottom in relative measures of spending on highways. The state has a growing percentage of roads rated poor and bridges rated fair or worse. Federal Highway Administration statistics show Michigan to be among the worst of the states. Over 40 percent of the interstates are considered congested.

The Michigan highway system is dominated by the counties in terms of jurisdictional control, with 75 percent of the highway miles and 53 percent of the bridges. Roads under state control account for only 8 percent of the highway miles, but carry over 53 percent of the vehicle miles traveled. Cities and villages have jurisdiction over the remaining 17 percent of the highway miles.

State-collected motor-fuel and motor vehicle registration taxes are the primary sources of revenue not only for the state, but also for the counties and municipalities. Property taxes are the primary source of locally-collected tax revenues. Additionally, federal funding plays a major role in funding new construction and reconstruction of old roads and bridges. This section describes the organization of the Michigan highway system and gives a brief description and history of each of the participants in providing highways

Revenue Issues notes that both highway-user and non-highway-user taxes may play a legitimate role in funding roads. Motor-fuel tax rates in Michigan are relatively low by themselves, but they are about equal to the national average when the cost of paying the sales tax is included. Included in this discussion are the evaporation allowance, the tax credits and exemptions provided, the levy of the sales tax on motor-vehicle related sales, and the motor carrier fuel tax. Motor vehicle registration fees, license fees, and certificate of title fees are explored and the rates are compared to several other states. Finally, several alternate methods of taxing motor-fuels are discussed, such as introducing the price of fuel as a determinant of the tax rate on motor fuel tax revenues.

Non-highway-user taxes also play a role in highway funding for both the state and local levels of government. The Michigan Constitution precludes the use of highway-user taxes for purposes not related to transportation, it does not specify that only these taxes can be used for transportation. Property taxes are the primary tax source for road funding by local levels of government. The only revenue source that could raise sufficient revenues to displace property taxes as the primary funding source is local motor-fuel taxation. There are some problems with this option, mostly tax collection problems, but because they have the greatest connection to highway use and the benefits derived from a strong highway system, these taxes might provide a means for local governments to raise revenues for highway funding.

It is clear that increased revenues could be put to productive use. The remainder of the report concentrates on five recommended reforms that must be addressed if increased revenues are to be more efficiently spent and if there is to be adequate local responsibility for funding road construction and maintenance.

Jurisdictional Control shows how population growth, urban sprawl, and highway use have changed the character of Michigan. Many roads no longer serving the purposes they once did. These factors should be used to determine jurisdictional control of roads and bridges. However, the division of responsibility for most roads and bridges remains close to what the state, counties and municipalities had assumed by the end of the 1930s. The result is a mismatch of roads to jurisdiction, which creates accountability and funding problems.

Because jurisdictional control is perhaps the most critical link in establishing a strong, efficiently-funded highway system, an assessment of the proper assignment of jurisdictional control is a key element in addressing the overall efficiency of the highway finance and governance system.

Any consideration of jurisdictional control should be based on an understanding that having one unit of government administer the entire stretch of a road is no longer as important as it was when highway construction was paramount. Maintaining the roads currently in place and making them operate efficiently, the new focus in highway administration, can be accomplished at a more local level than was necessary for their construction.

Prioritizing Highway Needs discusses the lack of a statewide needs assessment since 1983. There are several factors that have made a needs assessment difficult under the current statute. First, there is no uniform methodology among the many units of government for assessing road and bridge conditions. Second, there is the perception that parochial bias of each unit of government can lead to the creation of a “wish list” of funding needs. Finally, there is no statutory provision for prioritizing roads according to their functional classification. Until a needs assessment is completed, it is not possible to accurately estimate the level of highway funding needs or to prioritize those needs in a systematic manner.

Physical Structure discusses the standards used in highway construction and the level of resources devoted to highway maintenance. Michigan must give greater attention to factors that affect highway condition. These include the age of the highway system, Michigan’s terrain and weather, the use of road salt, and the use of the highway system by trucks. For years, the standards used for constructing roads and bridges have been based on assumptions adopted by the American Association of State Highway Transportation Officials (AASHTO) some 40 years ago. In light of the demands on the Michigan roads and bridges, a debate on these standards is overdue.

It may be more expensive to build roads to higher standards. But any additional cost might be low enough to warrant such a move, and the additional costs may be offset by reduced maintenance costs in the long run. Irrespective of construction standards, if roads are not maintained, their lifespans will be shorter than they should be. Fixing poor roads is three to five times more expensive than keeping them in good, or at least fair condition. If done properly, a greater initial investment could result in reduced taxpayer cost over the life of the road or bridge.

Administrative Issues discusses the benefits of privatization and intergovernmental cooperation. One state government, 83 counties, and 534 municipalities are involved in administration of the Michigan highway system. Since both privatization and intergovernmental cooperation lend themselves to efficiency gains, reduced duplication, and taxpayer savings, future utilization of these tools should be encouraged. This section concludes with a discussion of county road commissions that lays out the current status of road commissions, the options available under the three forms of county government, and a brief interstate comparison of county road governance.

Finally, **State Highway-User Tax Allocations** discusses the formulas used to disburse funding through the Michigan Transportation Fund. State highway-user tax revenues, deposited into this fund, are used to pay for administrative and collection costs and to fund recreational transportation projects, bridge repairs, rail grade crossing repairs, projects related to economic development, comprehensive transportation projects. The remainder (almost three quarters of the revenues) is divided among the state, the county road commissions, and the municipalities for snow removal and care for the highway systems under their jurisdiction.

Because current formulas for funding county and municipal roads do not take highway usage into account, if the needs of heavily traveled highways are to be addressed, excessive amounts of funding will be directed to the lightly used roads. Conversely, appropriate funding in rural areas will mean a shortfall in urban areas. For example, Oakland County has 2.7 percent of the county road mileage in Michigan, but these roads carry 13.6 percent of the traffic. Other urban counties are in similar circumstances. By contrast, rural Newago County has 1.7 percent of the road miles, but carries only 0.4 percent of the traffic.

Unless the Michigan highway system is restructured both financially and administratively, it is very likely that any additional dollars will purchase a lower level of transportation services than they should.