

### VIII. State Highway-User Tax Allocations

Over the years in Michigan, increasing raising revenues responsibility have been given to the state government, not only to fund state highways, but also to fund a portion of the local street costs. There are two reasons for this. First, the state is the unit of government best suited to levy most highway-user taxes. Second, tax policy has evolved over the years, leading state revenues to supplant local taxes, particularly property taxes, as the primary source of local highway revenues.

The sharing of state revenues with local governments for highway purposes predated any active state in-

volvement in the construction and maintenance of the highway system in Michigan. Initially, this involvement entailed “reward” dollars to encourage a uniform highway system between population centers of the state. This involvement eventually grew into the state trunkline system and a direct state involvement in highway construction.

State highway-user tax revenue allocations to local governments were a minor proportion of local government’s highway funding until the Great Depression and the subsequent passage of the McNitt and Horton Acts. (See **Chart 18.**)

#### A. The McNitt and Horton Acts

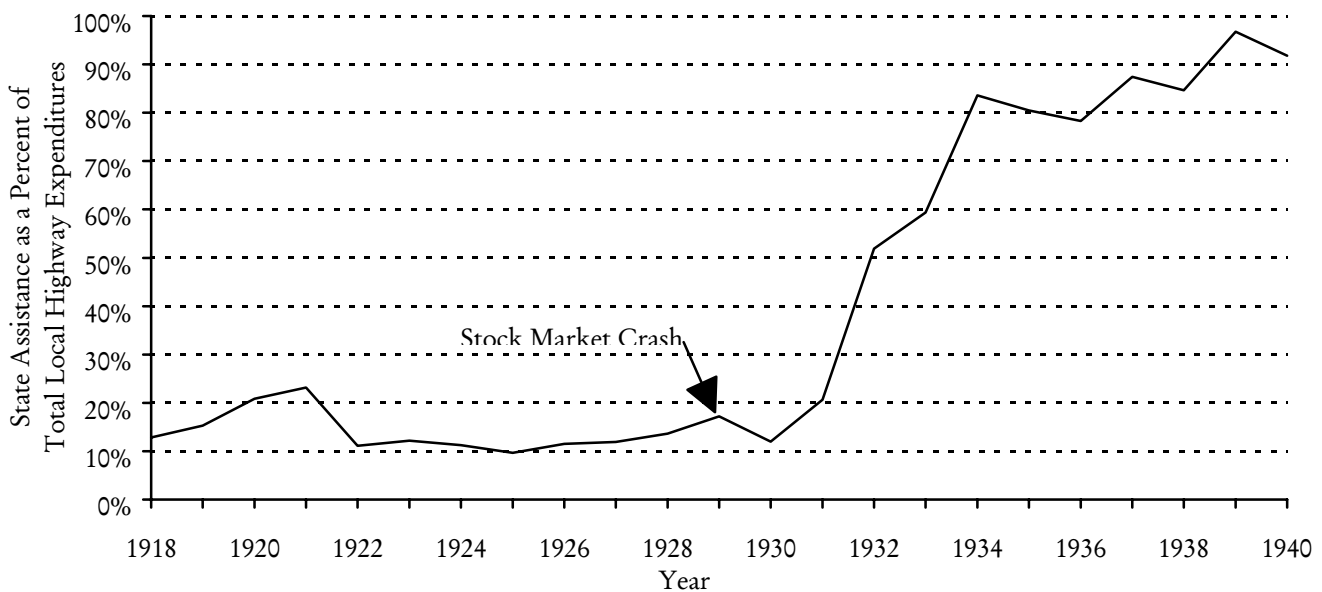
The Great Depression resulted in a decline in the assessed valuation of taxable property, the adoption of the 15-mill property tax rate limitation in 1932, and a large volume of property tax delinquencies. This left many local governments unable to meet debt service requirements from the property tax levy.

The first step toward addressing these problems was passage of the McNitt Act in 1931. This Act merged township road systems with county road systems to

allow local highway agencies to capitalize on the remaining tax base. Given the circumstances of the time and the enactment of the McNitt Act, a means was needed to fund local roads and fill the void created by departure from the use of the property tax. This void was filled by the Horton Act.

The Horton Act affected financial support at all levels of government by changing the allocation of motor-vehicle weight and motor-fuel tax proceeds. As a re-

Chart 18  
State Highway Assistance to Local Governments in Michigan: 1918-40



Source: *Michigan Highway Finance*, Robert S. Ford and Marvin A. Bacon, (University of Michigan Press, Ann Arbor, 1943).

sult, township and county property taxes for road improvement, maintenance, or debt service were practically eliminated. State-levied, highway-user taxes became the chief bases of rural highway finance in Michigan.

Public Act 51 in 1951 now governs highway governance and finance. Its enactment was a reaction to the shortcomings of the Horton Act. Among other

things, the Horton Act resulted in an inefficient allocation of state tax revenues. The Horton Act included specific provisions that one-half of the money available for state trunkline construction had to be spent in the forest and mineral sections of the state (i.e., the northern Lower Peninsula and the Upper Peninsula). Additionally, very few state dollars found their way to municipalities under provisions of the Horton Act.

## B. Michigan Transportation Fund

The Michigan Transportation Fund is the primary receiving fund for the tax revenues and user fees dedicated to highway purposes, including motor-fuel tax revenues, motor-vehicle weight and ad valorem tax revenues, other revenues from the Michigan Vehicle Code, and the Motor Carrier tax revenues. In FY1995, the Michigan Transportation Fund received nearly \$1.4 billion from these revenue sources (See **Charts 18 and 19**).

Expenditures are not made directly from the Michigan Transportation Fund to finance transportation projects. Instead, appropriations or transfers are made from the fund to various state transportation funds, county road commissions, and cities and villages to finance various transportation projects in accordance with statutory formulas (See **Charts 18 and 19**). In a nutshell, the formula requires that:

1. The principal and interest on outstanding bonds and notes, administrative costs, and collection costs are paid.
2. Appropriations are made to finance special-need transportation projects through various funds, including:
  - the Recreation Improvement Fund,
  - the Critical Bridge Fund,
  - the Raid Grade Crossing Account, and
  - the Transportation Economic Development Fund.
3. Ten percent of the remaining funds are provided to the Comprehensive Transportation Fund for mass-transportation purposes.
4. The remainder of the funds (almost three quarters of the Michigan Transportation Fund revenues) are divided among the state, counties, and municipalities

to be spent for snow removal and the “maintenance, improvement, construction, reconstruction, acquisition, and extension” of the highway systems under their jurisdiction. This division is based on the following percentages:

- The State Trunkline Fund (39.1 percent),
- County road funds (39.1 percent), divided among the 83 counties using a formula described below; and
- Cities and villages (21.8 percent), divided among the cities and villages using a formula described below.

### 1. Administrative and Collection Costs and Transfers to Other Departments

In FY1995, seven state departments relied in part on Michigan Transportation Fund grants totaling \$76.6 million for their funding. These grants were for:

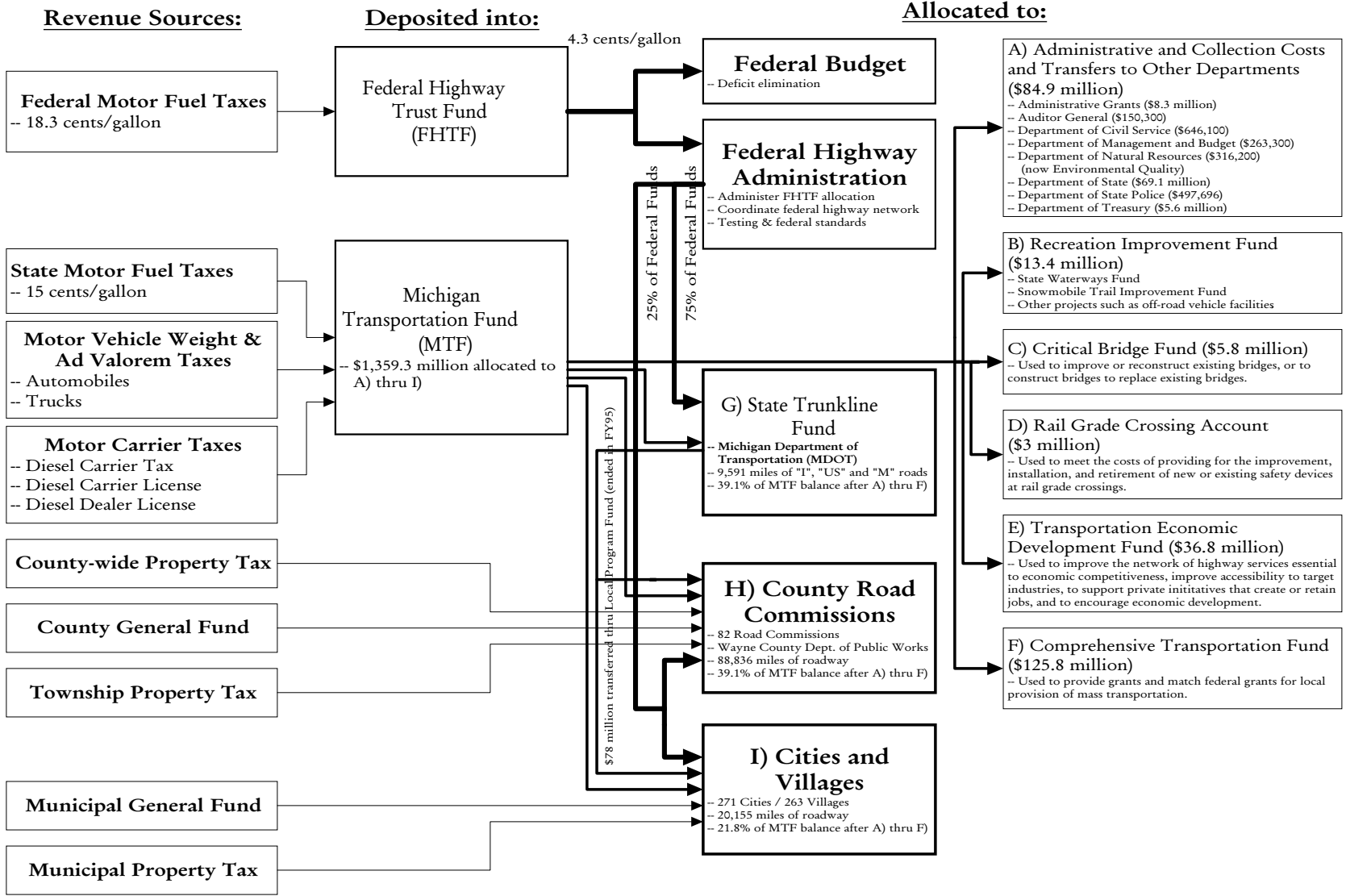
- Collection costs for the performance of revenue raising tasks on behalf of MDOT,
- Specialized tasks performed on behalf of MDOT by other departments, and
- The performance of tasks germane to the general conduct of government business.

#### a) Collection Costs.

Article IX, Section 9, of the Michigan Constitution restricts certain taxes, *after the payment of collection expenses*, solely for transportation-related purposes. Pursuant to this, a portion of the transportation-related taxes deposited into the Michigan Transportation Fund are transferred to the General Fund to finance collection activities performed by the Departments of State and Treasury.

Chart 19

**Basic Organization and FY95 Funding of Michigan Highway System**



Source: Michigan Department of Transportation Annual Report, Michigan Transportation Fund Fiscal Year Ending September 30, 1995, (Lansing, MI: 1995).

Determining the proper amount of these grants has been a continuing point of controversy. Reports of the State Auditor General show that these departments have not been able to consistently identify their collection expenses or how much of their operations are transportation related. This inability has consistently led to both overcharges and undercharges to the Michigan Transportation Fund.

In many ways, it is nearly impossible to identify the proper amount of grants between departments such as these. If it were only an administrative task, with no external benefits, MDOT could perform that task itself. However, these departments perform many tasks and the transportation-related tasks serve other non-transportation-related purposes. The tasks performed for MDOT happen to fit most logically with these other departments. The problem arises in determining where a task stops serving MDOT and begins serving the other purposes.

For example, the Department of State directs services and programs in four major areas: traffic safety and motor vehicle-related activities; the election process and voter registration; housing the chief historian of the state; and keeper of the most important records of state and local government. The Department of State issues drivers licenses; administers the driver point system; titles and registers motor vehicles; and licenses automobile-related businesses such as car dealerships, repair facilities, automotive mechanics, and driver-training schools. The Department also registers snowmobiles, mopeds, and watercraft, and administers the state personal identification card program. The problem comes in determining how much of these efforts are related to its overall mission and how much it does on behalf of MDOT.

Additionally, there are other benefits associated with many of these tasks. Drivers licenses are issued for transportation purposes, but they also serve as a means of identifying people of drinking age. The Department of State reaffirms that vehicle registrants have the vehicle insured before the registration is issued. This has social implications beyond MDOT's concern. Tracking of vehicle identification numbers and title holders is used by police agencies. How should the costs of providing these services be allocated? In attempting to determine the proper com-

A significant proportion of total taxes on a gallon of gasoline is destined not to be used for highway construction or maintenance, or for mass transit. If the price of a gallon of gasoline to the consumer is \$1.20, total taxes would be approximately \$0.40. Of this total however, seven cents would be attributable to the general sales tax and 4.3 cents is levied by the federal government for deficit reduction. In addition, the equivalent of two cents is transferred from the Transportation Fund to the Departments of State, Treasury, State Police, and Environmental Quality for highway-related functions that they perform. As a result, only about 26.7 cents of the 40 cents is directed toward highway construction and maintenance, or to mass transit.

pensation for collecting fees that go into the Michigan Transportation Fund, the state is attempting to draw a fine line in an area that is mostly gray.

### b) Transfers for Services of Direct Benefit to MDOT.

The transfer of funds from the Michigan Transportation Fund to the Department of Environmental Quality (DEQ) is based on a memorandum of agreement with MDOT that provides for prompt processing of state, county, and municipal applications for wetland, stream-crossing, and water-discharge permits, and preliminary review of proposed projects. This transfer supports 11 employee positions in DEQ.

Likewise, the transfer to the Department of State Police is to cover matching funds for federal aid to the Office of Highway Safety Planning.

These transfers avoid duplication of knowledge and efforts. MDOT requires a staff person familiar with environmental issues to help steer through the maze of environmental requirements. It could hire and train someone to do this in-house, or it could take advantage of the fact that DEQ's function is the enforcement of these laws. The knowledge base is already in place, and a grant to DEQ allows MDOT to take advantage of this knowledge base.

### c) Funding Other State Departments.

Dedication of Michigan Transportation Fund revenues to other departments can have the effect of distorting the funding needs of some state departments. While some departments have successfully earmarked

revenues for their own purposes, other functions, including welfare, higher education, corrections, and general government administration have to compete for General Fund dollars, which now has fewer revenue sources, for their funding.

Some functions, such as the Auditor General and the Civil Service Commission, span all of state government. The tasks performed are germane to the everyday operation of government, creating an economical, efficient government that benefits the entire state. Should these departments be funded out of the General Fund, or should they require grants from each department that is funded with a special revenue fund?

Article XI, Section 5, of the Michigan Constitution, specifies that the Civil Service Commission shall receive “. . . a sum not less than one percent of the aggregate payroll of the classified service for the preceding fiscal year. . . .” This provision was not meant as a vehicle for tapping into special funds. It was meant as a means of ensuring that the Civil Service Commission does not become under funded. Reliance on grants such as these creates a perception that the sole purpose of the Michigan Transportation Fund grants is funding these departments at a greater level than would be the case if the General Fund was their sole funding source.

#### **d) Assessment of Problems and Recommendations.**

MDOT is required to obtain a contract with other departments prior to any transfer of funds. These contracts require the departments to provide cost allocation plans to MDOT and to participate, if requested, with MDOT in an annual review of the services and programs financed from constitutionally restricted transportation funds. However, the Auditor General has found that effective processes have not been established by the Department of Management and Budget (DMB), in conjunction with MDOT, to ensure that the other departments are providing current cost allocation plans in order to properly allocate the cost of transportation-related activities to transportation-related funding sources.

While a study is currently being performed of the allocation of costs between the Department of State and MDOT, such studies are the exception rather than the norm. It has been several years since such a study last was conducted. The Auditor General repeatedly has

recommended that each department involved in transportation-related activities and receiving grants from the Michigan Transportation Fund, should develop a time and effort cost allocation methodology to better identify transportation-related costs. Since the types of services, activities, technology, and programs conducted by each department, and the laws are constantly in flux, efforts to identify transportation-related costs should be an ongoing process for the departments receiving Michigan Transportation Fund dollars. With constant changes occurring, it is possible that such studies could be out-dated before the information collected actually is utilized in the appropriations process. A decade after conducting such a study, there is little chance that a grant will reflect actual costs.

## **2. Special Revenue Funds**

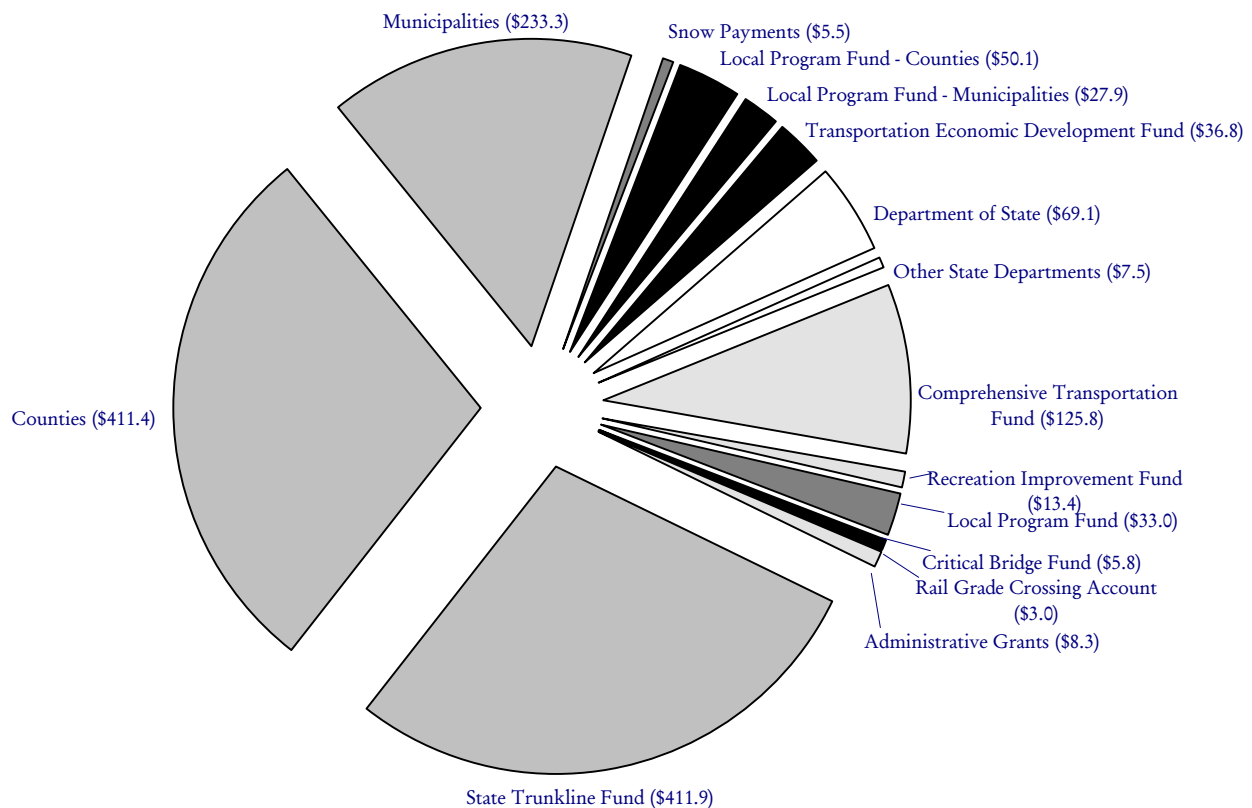
In order to aid Michigan highway authorities with the financing of special transportation and highway improvement projects, several special revenue funds have been created. These include the Recreation Improvement Fund, the Rail Grade Crossing Account, the Critical Bridge Fund, and the Transportation Economic Development Fund. The Michigan Transportation Fund remains the most logical fund to finance the needs met through these funds. In any case, the allocation of funds for each of these purposes should be revisited occasionally to ensure that the amount of the allotment maintains some relationship to need.

## **3. Comprehensive Transportation Fund**

After dollars have been allocated from the Michigan Transportation Fund to each of these purposes, 10 percent of the balance is deposited into the Comprehensive Transportation Fund. This allocation is supplemented by the deposit into this fund of up to 25 percent of the general sales tax revenues on motor-vehicle related sales.

The Michigan Constitution was amended in 1978, at a time when more and more highway-user taxes were being diverted for comprehensive transportation purposes, to provide a limit on how much revenue from these sources could be used for comprehensive transportation purposes. These provisions permit, but do not require, the legislature to dedicate a portion of these taxes. Over time, these limits have evolved into a mandate, automatically making funds available for

Chart 20  
Michigan Transportation Fund: Summary of Distributions -- FY1995



Source: Annual Report, Michigan Transportation Fund and Local Program Fund, Michigan Department of Transportation.

comprehensive transportation purposes. Comprehensive transportation is important and highway-user taxes remain a logical source of revenues. However, this fund should not be above review.

#### 4. Highway Funds

After administrative and collection costs have been paid and funds have been set aside for funding special transportation-related needs, the balance of funds is used for highway purposes by each of the three levels of government involved in providing highways. Public Act 51 of 1951, as amended, provides for the allocation Michigan Transportation Fund dollars for these purposes through the end of the 1998 fiscal year. After September 30, 1998, the law provides only for apportionments and appropriations to each level of government sufficient to pay the principal and interest payments due on outstanding bonds and notes.

##### a) State Trunkline Fund.

The State Trunkline Fund receives 39.1 percent of balance. This fund is used for funding the construction and maintenance of state administered roads. MDOT and State Transportation Commission determine how and where these funds are spent.

##### b) County Road Funds.

Another 39.1 percent of the balance is allocated to the county road commissions. Internal formulas in Act 51 provide for the division of this money among the 83 counties. This formula first provides funding for specific programs:

- (1) An amount equal to one percent of the total funds distributed to counties in the previous year is deposited into a snow removal account to assist those counties with measured snowfalls of 80 inches or more.

(2) In order to encourage each county to employ a licensed engineer, \$830,000 is set aside for distribution of \$10,000 to each county.

(3) Ten percent of the balance of county funds is distributed to counties having “urban” primary or local roads.

The remainder of the funds is distributed among the counties for use on primary (75 percent) and local roads (25 percent) based on the following factors:

- Counties receive funds for county primary roads based primarily on the proportion of registered motor vehicle taxes collected in each county under the Michigan vehicle code and, to a lesser extent, the proportion of total county primary mileage located in each county.
- Counties receive funds for county local roads based primarily on the county share of the total state population residing outside incorporated municipalities.

County road commissions cannot rely solely on Michigan Transportation Fund revenues for their funding. State aid for local road construction projects is limited to half of the costs on roads and three quarters of the cost on bridges (except if a bridge is included in the “critical” bridge program).

**c) Municipal Funds.**

The final 21.8 percent of the balance is transferred to municipalities. The formulas used for dividing the Michigan Transportation Fund money among the cities and villages include the following factors:

(1) The population of each city or village relative to

the total urban population in the state;

(2) The miles of major roads in each city or village relative to the mileage in every city and village; and,

(3) The miles of local street roads in each city or village relative to the mileage in every city and village.

**5. Implications of the Current Formulas**

First, these formulas allocate funds to care for a highway system based on a 1930s model of Michigan. As discussed previously, much has changed since the 1930s. Jurisdictional control should be reorganized, and the Michigan Transportation Fund allocation formula dividing the money among the state, county road commissions, and municipalities should be revised to reflect that reorganization.

Second, the formulas dividing the county road funds among the county road commissions and the municipal funds among the cities and villages are favorable to rural areas of the state. The formulas recognize highway miles in such a way that a mile of highway in one location is equivalent to a mile of highway in any other location, regardless of the amount of usage. A two-lane road in a rural county holds the same weight in the formula as a six-lane road in an urban county. A proportion of the county road funds is set aside for urban roads, but as **Chart 15** shows (see page 38), more than 70 percent of the state population resides in urban areas. While a majority of the highway miles in Michigan are in rural areas of the state, a smaller majority of lane miles are in rural areas. Furthermore, a majority of the vehicle miles are traveled in urban areas (See **Chart 21**). Thus, measures that better reflect the cost burden on highway providers and highway use should be adopted.

**C. The Role of Needs Assessment in Allocating Revenues**

Conducting a needs assessment to prioritize highway needs is important for a proper allocation of state and federal tax revenues.

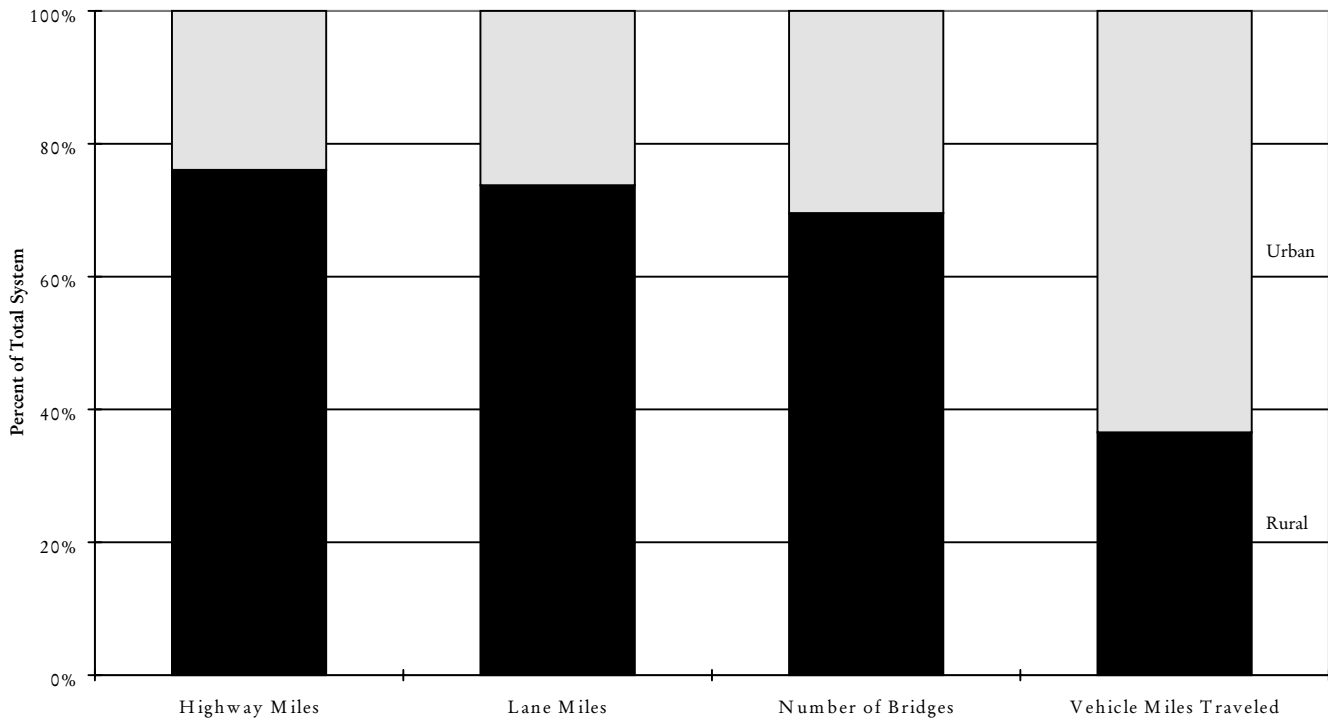
**1. State-Collected Revenues**

Revenue sharing programs, whether restricted or unrestricted, violate a fundamental and sound principle of government, that responsibility for raising money should accompany the pleasure of spending it. Despite violation of this principle, there are at least two justifications for such programs. First, some local govern-

ment programs are of enough importance that the state should encourage their provision. Second, it is necessary for a state role in funding some services to minimize the potential inequities that would result from relying solely on local tax effort. Both of these justifications point to a need for state funding to be directed in a meaningful way to the local governments that are least capable of meeting local needs with local funding.

As long as state tax dollars are allocated for local spending, the state is responsible to taxpayers in:

Chart 21  
Rural/Urban Nature of Michigan Highway System -- 1994



Source: Federal Highway Administration, *1994 Highway Statistics*, (Washington, D.C.: Government Printing Office, 1995).

- allocating funds in a meaningful way;
- overseeing the local spending of these funds;
- auditing the information provided by local governments; and
- accounting for the expenditure of this money.

Michigan has a long history of sharing state-collected highway-user tax revenues with local levels of government for highway construction and maintenance. As the collector of these revenues, it falls upon the state to direct these dollars to the roads in a manner that recognizes needs. This holds true whether making decisions about priorities among state trunklines or in prioritizing needs among the different levels of government. It should also hold true in assessing priorities among regions of the state. Such an allocation system is lacking in highway funding.

## 2. Federally-Collected Revenues

The Intermodal Surface Transportation Efficiency Act (ISTEA) increases the need for a strong statewide needs assessment process. ISTEA requires greater lo-

cal participation in planning and project selection than had previously been the case, thus emphasizing the need for a comprehensive investment strategy. To carry this out requires allocation decisions prioritizing state and local projects. These decisions are made more difficult and less informed without a statewide needs assessment.

## 3. Incorporating Use and Needs into the Allocation Formulas

The Michigan Transportation Fund distribution would be significantly affected if utilization and a measure of needs were factored into the formula. **Table 11**, which compares county highway miles to vehicle miles traveled by county, illustrates how using highway miles in the current allocation formula helps rural counties.

Oakland County, for example, comprises 2.7 percent of the county primary and local mileage in Michigan, but 13.6 percent of the total county vehicle miles are in Oakland County. Wayne County has 1.6 percent of the mileage, but 15.9 percent of the vehicle miles. Kent County has 2.1 percent of the mileage, but 5.1

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**Table 11**  
**Comparison of County Highway Miles to Vehicle Miles Traveled by County -- 1995**

County	Highway Miles	Percent of Total County Mileage	Vehicle Miles Traveled	Percent of Total County VMT	Percentage Point Diff. btw Mileage and VMT
Alcona	766.9	0.9	65.7	0.3	-0.6
Alger	497.4	0.6	16.8	0.1	-0.5
Allegan	1,825.8	2.1	273.3	1.2	-0.8
Alpena	658.6	0.7	70.6	0.3	-0.4
Antrim	879.5	1.0	93.4	0.4	-0.6
Arenac	655.8	0.7	43.3	0.2	-0.5
Baraga	498.8	0.6	10.6	0.0	-0.5
Barry	1,081.9	1.2	145.1	0.7	-0.6
Bay	1,022.6	1.2	324.4	1.5	0.3
Benzie	622.5	0.7	42.2	0.2	-0.5
Berrien	1,456.2	1.6	472.2	2.1	0.5
Branch	1,009.3	1.1	78.7	0.4	-0.8
Calhoun	1,328.3	1.5	270.0	1.2	-0.3
Cass	1,000.0	1.1	146.4	0.7	-0.5
Charlevoix	726.9	0.8	33.7	0.2	-0.7
Cheboygan	1,124.4	1.3	31.7	0.1	-1.1
Chippewa	1,285.8	1.4	71.8	0.3	-1.1
Clare	997.5	1.1	67.4	0.3	-0.8
Clinton	1,130.1	1.3	228.6	1.0	-0.2
Crawford	718.1	0.8	27.6	0.1	-0.7
Delta	859.9	1.0	64.9	0.3	-0.7
Dickinson	542.5	0.6	38.2	0.2	-0.4
Eaton	1,134.2	1.3	223.5	1.0	-0.3
Emmet	825.1	0.9	47.7	0.2	-0.7
Genesee	1,521.0	1.7	1,356.3	6.1	4.4
Gladwin	582.1	0.7	24.3	0.1	-0.5
Gogebic	951.5	1.1	56.6	0.3	-0.8
Grand. Traverse	1,301.5	1.5	375.0	1.7	0.2
Gratiot	1,182.0	1.3	126.0	0.6	-0.8
Hillsdale	1,208.5	1.4	134.0	0.6	-0.8
Houghton	878.2	1.0	20.3	0.1	-0.9
Huron	1,612.9	1.8	103.0	0.5	-1.4
Ingham	1,154.8	1.3	534.8	2.4	1.1
Ionia	1,077.7	1.2	95.9	0.4	-0.8
Iosco	867.7	1.0	62.0	0.3	-0.7
Iron	629.5	0.7	25.4	0.1	-0.6
Isabella	1,173.5	1.3	125.5	0.6	-0.8
Jackson	1,548.5	1.7	429.8	1.9	0.2
Kalamazoo	1,169.4	1.3	548.1	2.5	1.1
Kalkaska	838.4	0.9	39.8	0.2	-0.8

County	Highway Miles	Percent of Total County Mileage	Vehicle Miles Traveled	Percent of Total County VMT	Percentage Point Diff. btw Mileage and VMT
Kent	1,843.0	2.1	1,135.3	5.1	3.0
Keweenaw	173.8	0.2	7.0	0.0	-0.2
Lake	990.3	1.1	52.0	0.2	-0.9
Lapeer	1,298.2	1.5	206.6	0.9	-0.5
Leelanau	626.9	0.7	88.8	0.4	-0.3
Lenawee	1,510.3	1.7	255.1	1.1	-0.6
Livingston	1,209.4	1.4	326.6	1.5	0.1
Luce	371.6	0.4	12.8	0.1	-0.4
Mackinac	649.5	0.7	50.8	0.2	-0.5
Macomb	1,247.5	1.4	1,678.6	7.6	6.2
Manistee	1,040.0	1.2	56.3	0.3	-0.9
Marquette	1,278.1	1.4	126.5	0.6	-0.9
Mason	946.9	1.1	57.3	0.3	-0.8
Mecosta	1,135.2	1.3	56.3	0.3	-1.0
Menominee	1,198.8	1.4	47.0	0.2	-1.1
Midland	873.1	1.0	163.5	0.7	-0.2
Missaukee	845.6	1.0	24.7	0.1	-0.8
Monroe	1,286.4	1.5	371.7	1.7	0.2
Montcalm	1,523.7	1.7	135.3	0.6	-1.1
Montmorency	639.7	0.7	16.0	0.1	-0.6
Muskegon	1,117.0	1.3	228.4	1.0	-0.2
Newaygo	1,529.7	1.7	92.4	0.4	-1.3
Oakland	2,351.3	2.7	3,029.1	13.6	11.0
Oceana	1,159.0	1.3	48.0	0.2	-1.1
Ogemaw	848.1	1.0	76.2	0.3	-0.6
Ontonagon	588.6	0.7	27.1	0.1	-0.5
Osceola	944.1	1.1	74.7	0.3	-0.7
Oscoda	731.6	0.8	35.0	0.2	-0.7
Otsego	829.3	0.9	51.2	0.2	-0.7
Ottawa	1,486.1	1.7	489.0	2.2	0.5
Presque Isle	775.2	0.9	63.1	0.3	-0.6
Roscommon	841.6	0.9	66.6	0.3	-0.6
Saginaw	1,803.3	2.0	607.7	2.7	0.7
St. Clair	1,519.5	1.7	459.5	2.1	0.4
St. Joseph	1,010.0	1.1	146.0	0.7	-0.5
Sanilac	1,814.6	2.0	83.8	0.4	-1.7
Schoolcraft	433.3	0.5	16.7	0.1	-0.4
Shiawassee	1,076.3	1.2	161.5	0.7	-0.5
Tuscola	1,630.1	1.8	181.6	0.8	-1.0
Van Buren	1,291.7	1.5	214.6	1.0	-0.5
Washtenaw	1,486.7	1.7	673.7	3.0	1.4
Wayne	1,392.8	1.6	3,538.6	15.9	14.4
Wexford	985.4	1.1	35.2	0.2	-1.0
Total County	88,678.6	100.0	22,212.5	100.0	

Source: Michigan Department of Transportation.

## MICHIGAN HIGHWAY FINANCE AND GOVERNANCE

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percent of the vehicle miles. On the other hand, Houghton County has 1.0 percent of the mileage, but only 0.1 percent of the vehicle miles. Other rural counties show similar relationships.

Clearly, if transportation in lightly populated areas is to be made possible, some subsidization from more heavily populated parts of the state is necessary. On the other hand, to ignore highway utilization in the formula means that inefficient distribution will occur. Under the current formula, 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. To the extent that a reorganization returns county road commissions to their original purpose, providing primary roads where municipalities are not available to provide such roads, the significance of this problem will be diminished. In any event, the internal formula should be changed to reflect more accurately the different costs imposed on county road commissions by multiple lane roads. Lane miles or vehicle miles traveled would be better measures than population and highway miles.

Finally, it should be recognized that the current meas-

ures act as proxies for the direct measurement of road needs. These measures approximate highway use, but they do not measure potholes, congestion, or roads at the end of their lifespan. When the highway system is receiving proper care and maintenance, use of proxy measures is suitable to fund future care and maintenance. In such a case, money needs to be allocated to those roads that are most heavily used. However, in many instances the roads in Michigan have not been properly maintained. Measures that more directly reflect needs should be considered, such as road quality, congestion, or funding prioritization based on a state-wide needs assessment.

Past suggestions for alternative allocation formulas have not gone far, because they create winners and losers relative to the current formula. As long as these suggested formulas are based on proxy measures that approximate needs, based on road miles, vehicle registrations, or population, any reallocation creating winners and losers will be hard to justify. However, if a formula can be created that directly addresses the needs of the state, the “winners” will be the actual highway users, and the end result will be a highway system that is more uniform in quality than is currently the case.

## IX. Conclusion

Although state and local spending in Michigan for most functions ranks high in nationwide comparisons, Michigan ranks near the bottom in most rankings of highway spending. This low level of spending shows up in a disproportionately high number of miles of road being rated as poor.

Increased funding for highways, therefore, can be justified. Part of this increase could come from state levied highway-user taxes, but locally raised taxes need to play a greater role in funding local road needs. More money, however, is only a part of the solution and, in the long run, if the only response is increased dollars to highways, the transportation needs of the state will not be well served.

The basic system by which Michigan roads are constructed and maintained was adopted, for the most part, in an earlier era. It has been adjusted and modified over the years, but a thoroughgoing reassessment of the ways in which the state finances and administers its road system is overdue. At a minimum, such a reassessment should address these issues:

- *Jurisdictional Control.* The jurisdictional responsibilities for roads should be aligned with the functions that those roads perform. If a road that was once a major link between population centers is now a regional or local road, responsibility for maintaining it should be reassigned accordingly to either the counties or municipalities. Municipalities should be responsible for roads within their boundaries and county road commissions should be responsible for roads outside municipalities.

The exact purpose for which their tax dollars will be used should be clear to the taxpayers asked to support revenue enhancements -- whether at the state or local level. Without a rational, consistent, and relatively stable organization of roads, it is illogical that some roads will be fixed because they are state or county roads, while others of seemingly equal purpose and importance will not be fixed because they are under the jurisdiction of a different level of government.

- *Priority Determination.* The state has no structure for systematically determining which construction or maintenance projects should be carried out in what or-

der. If projects of lesser importance take precedence, inefficiencies will result.

Taxpayers should not be expected to fund highways when there is no assessment of road conditions, the total cost of construction and maintenance, or the priority with which work will be undertaken.

- *Physical Structure.* Whether Michigan builds its highways to standards high enough to deal satisfactorily with the terrain, weather and types of vehicles to which they are subject, is an open question. Although some experiments with higher quality roads are underway, a major rebuilding of Michigan roads should be done in the light of a thorough understanding of the potential costs and benefits of higher construction standards.

In addition, incentives to increase the level of highway maintenance should be incorporated into the funding structure.

- *Administrative Efficiency.* Although some privatization and intergovernmental cooperation have occurred, there remain substantial opportunities to minimize overlap and duplication through further pursuit of these approaches.

- *Highway Funding Allocation.* Unless the mechanism by which dollars are distributed reflects utilization of the roads, dollars will continue to be maldistributed and result in unnecessarily high expenditures. In addition, a means of aligning funding with functional classification and appropriate jurisdictional control should be incorporated into the allocation formula.

So, in response to the question, "If taxes are increased to raise additional revenues for highways, will additional revenues, at any level, address the ills of the highway system, or are other reforms needed to make this system operate economically and efficiently," this report concludes that the answer is no. Unless the system is restructured, any additional dollars will be inefficiently allocated, purchasing a lower level of transportation services than they should, and highway expenditures will be unnecessarily inefficient irrespective of any increase in revenues.