

### **Scope of Problem:**

- Michigan has some of the worst roads in the nation. The 2018 American Society of Civil Engineers report gave Michigan a D- on the condition of its roads.
- Condition declines are the result of nearly 40 years of disinvestment, with short-term fixes (bonding, temporary federal funds, and one-time general fund) used to mask the true level of the funding need.
- Michigan ranked 46<sup>th</sup> out of the 50 states in per capita spending on roads and was last among the Great Lakes states according to the Tax Policy Center/Brookings Institution based on the most recent data (2015).
- State roads are currently at 78% good or fair condition, and are forecasted to get precipitously worse quickly unless additional investments are made to correct course. The number of roads in poor condition is forecasted to double, from 22% to 44%, in just the next five years.
- Michigan's bad roads not only affect travel and the economy, but the problem is now so acute that it endangers the safety of Michigan motorists.
- Every day that this problem is left unaddressed the transportation network deteriorates further and the cost to rebuild grows.
- There are no easy solutions – the problem is big and the solutions required are also big. That is both the reality and the challenge of the situation we find ourselves in.

### **Funding Need:**

- Various independent studies have estimated Michigan's the total transportation funding need between \$2.2 billion - \$2.7 billion annually.
- MDOT forecasts \$1.5 billion in additional revenue is needed each year to restore condition to 90% good/fair on state roads only, with no less than an additional \$1.2 billion needed annually just to stop the road condition from declining further. The professionals at MDOT use an asset management model that optimizes investments to forecast this annual need. The model factors in condition, the type of "fix" needed, project cost estimates, and the desired condition goal to develop the optimum investment strategy.
- Local roads have needs as well, but the collective local need cannot be fully quantified (there are over 600 local road agencies that set their own condition goals/spending priorities). Clearly, though, substantial additional funds are also needed for these roads.

### **Three Tenets of the Fixing Michigan Roads Plan:**

- **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.**
- **Replace diversions from the General Fund with constitutionally protected revenues, freeing up existing state funds for investments in education.**
- **Provide a tax offset to mitigate the impact for low income families.**

**Fixing Michigan Roads Plan – Key Components:**

Goal:

- Restore state roads to 90% good or fair condition in ten years (2029).

Revenues:

- Provides for a cumulative 45-cent motor fuel tax increase phased-in in 15-cent increments every six months (15 cents on 10/1/2019, 15 cents on 4/1/2020, and 15 cents 10/1/2020), raising the state gasoline and diesel taxes from 26.3 cents to 71.3 cents (indexed to inflation beginning in FY 2022 consistent with current law).

<b>Fixing Michigan Roads Plan Revenues</b>			
<i>(In Millions)</i>			
	<b>FY 2020</b>		<b>FY 2021</b>
	<b>10/1/19</b>	<b>4/1/20</b>	<b>10/1/20</b>
<b>Incremental Fuel Tax Increase (Cents-Per-Gallon)</b>	<b>\$0.15</b>	<b>\$0.15</b>	<b>\$0.15</b>
<b>Cumulative Fuel Tax Increase (Cents-Per-Gallon)</b>		<b>\$0.30</b>	<b>\$0.45</b>
Gasoline Tax		\$1,060.2	\$2,098.8
Diesel Tax		\$201.0	\$399.6
Alternative Fuels Tax		\$2.5	\$5.6
<b>TOTAL New Revenue</b>		<b>\$1,263.7</b>	<b>\$2,504.0</b>
<i>End Diversions from General Fund (to MTF Roads-Only Formula)</i>		<i>(\$325.0)</i>	<i>(\$325.0)</i>
<i>DNR Recreation Improvement Fund (Constitutional Dedication)</i>		<i>(\$21.2)</i>	<i>(\$42.0)</i>
<b>TOTAL New Revenues for Transportation</b>		<b>\$917.5</b>	<b>\$2,137.0</b>

- Generates \$2.5 billion in new transportation revenue when fully phased in.
  - Ends the Budgetary ‘Shell Game’
    1. Eliminates the statutory earmark of Individual Income Tax (General Fund) revenue to Transportation budget.
    2. Restores the General Fund back to the Higher Education budget, ending a significant redirection of School Aid Fund revenue.
    3. Returns \$500 million School Aid Fund revenues to be appropriately invested in K-12 education priorities such as pre-school, the per-pupil foundation allowance, special education, at-risk funding, and career and technical education.
  - Provides \$2.1 billion in new funding for critical transportation improvements when fully phased-in.
- Increases the Earned Income Tax Credit (EITC) from 6% to 12% of the federal credit over two years (4% in FY 2020, and an additional 2% in FY 2021) to mitigate the impact of the motor fuel increase for working, low income families.

Current Distribution Formula:

- Maintains all current Public Act 51 distribution levels for state and local transportation needs. The first \$325 million of new revenues are directed to the Michigan Transportation Fund to replace the statutory Individual Income Tax (General Fund) earmark at the original level prescribed for FY 2020 under the 2015 roads package.

New Distribution Formula:

- Directs \$2.1 billion of the additional revenues to a new Fixing Michigan Roads Fund.
- Targets the investments to the most highly traveled roads through a new distribution formula based on National Functional Classification.
- 90% of total annual vehicle miles traveled and 97% of annual commercial vehicle miles traveled are on the higher-level system, including Principal Arterials, Minor Arterials, and Major Collectors.
- By directing the additional revenues to the higher-level system, it frees up existing Michigan Transportation Fund revenues to be spent by local governments on roads that serve a more local purpose. The new distribution formula distributes the additional revenue in the following manner, using lane miles as the appropriate measure of funding need for each category of roads:
  - *47% for 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% for Principal Arterials* - This category reflects the state’s most highly traveled non-freeway routes. Many of 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% for 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% for 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% for Local Bridges* – Targets investments for bridges on local roads.
  - *3% for Multi-modal* – Funding for key transit, rail, and mobility projects across the state.
  - *2% for Local Rural Economic Corridors* – Funding for roads that play a key commercial role in rural areas but are not included in the new formula.

<b>Fixing Michigan Roads Plan Distribution</b>		
(In Millions)		
	<b>FY 2020</b>	<b>FY 2021</b>
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
<b>TOTAL New Transportation Distribution</b>	<b>\$917.5</b>	<b>\$2,137.0</b>

- 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.

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

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

Transparency & Accountability:

- The Fixing Michigan Roads Plan is both transparent and accountable.
- MDOT and local road agencies will develop Five-Year Plans that target the investment of these funds using sound asset management principles.
- The public will be able to find and track the progress of each state and local project on an easily accessible website.
- An independent Fixing Michigan Roads Review Committee will review progress at the midpoint of the ten-year plan and take the following actions:
  - Assess the level of improvement in the 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 increasing fuel efficiency and the increasing number of electric and alternative fuel vehicles.