A vertical, black and white photograph of a classical column with a detailed capital, positioned on the left side of the slide.

Michigan's Transportation Revenue Sharing Program: A Case for Reform

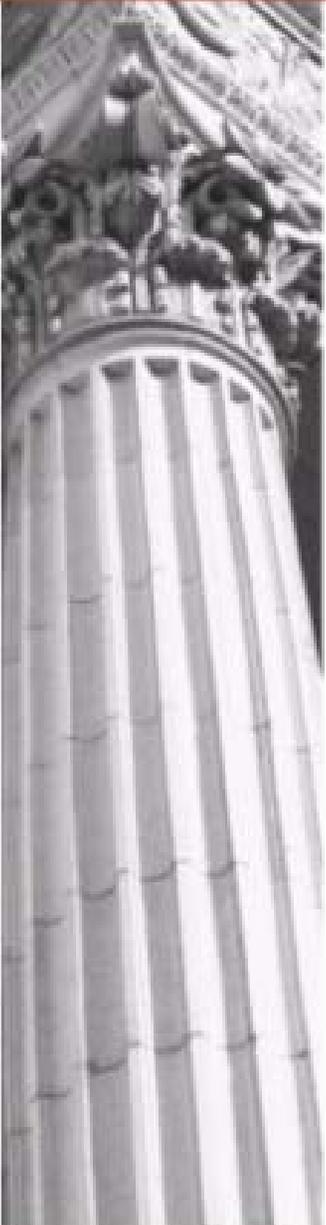
**Presented to
Transportation Funding Task Force**

October 27, 2008



Citizens Research Council of Michigan

- Founded in 1916
- Statewide
- Non-partisan
- Private not-for-profit
- Promotes sound policy for state and local governments through factual research – accurate, independent and objective
- Relies on charitable contributions of Michigan foundations, businesses, and individuals
- *www.crcmich.org*



What Was True Then Is True Today

“Per capita intergovernmental revenues showed considerable variation. It may be supposed that this distribution of funds between counties results chiefly from the State formula distributing highway funds to counties. An important element in that formula is road mileage, a factor which would favor the less densely populated “out-state” counties.”

Citizens Research Council of Michigan, 1958



State Revenue Sharing History

- State gov't has long history sharing transportation revenues with local gov't
- Initially very little – about 10% until 1930s
- Grew substantially following Great Depression – reached 90% in 1940
- PA 51 of 1951 first time state provided direct assistance to cities
- Today, state \$ represents about 57% of total local revenues, single largest source
- No local gas, registration, or sales taxes



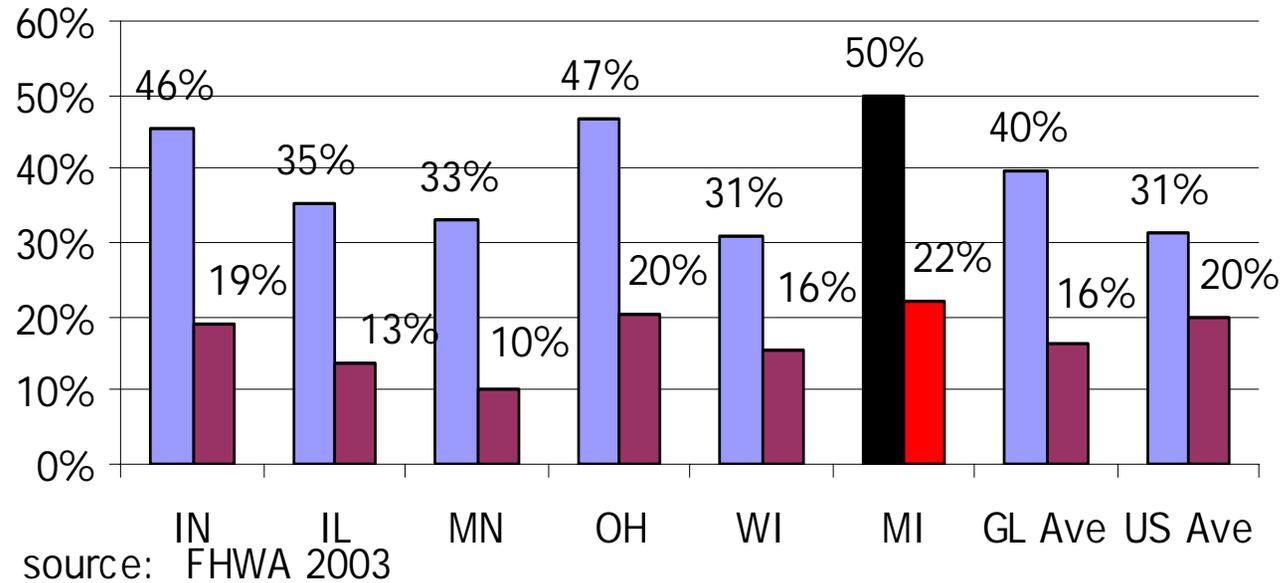
Why Share State Revenues?

- Principal reasons:
 1. **Economies of Scale** – user fees
 2. **Uniformity** – construction standards
 3. **Equity** – can not leave locals to “go it alone”
 4. **Market Disruption** – problem with local taxes (e.g., gasoline)
- State’s role is to:
 1. Ensure a distribution system based on need, however defined
 2. Ensure accountability to those paying taxes



Heavy Reliance on State Revenue

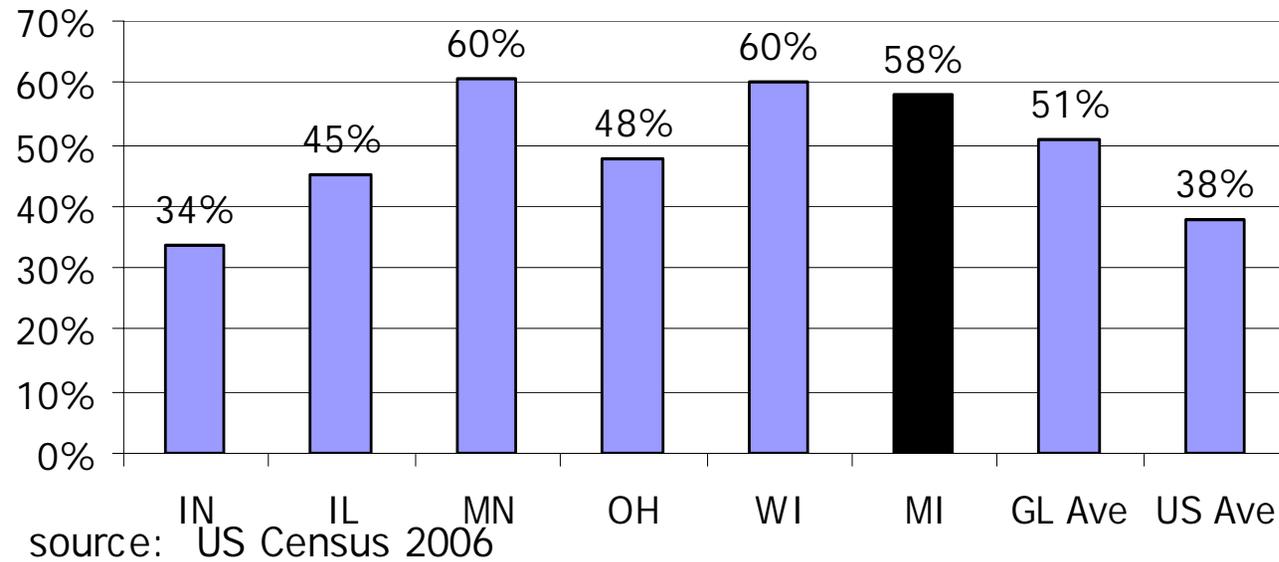
State and Federal User Taxes as Percent of Total Highway Revenue





Heavy Reliance on Local Gov't Spending for Roads

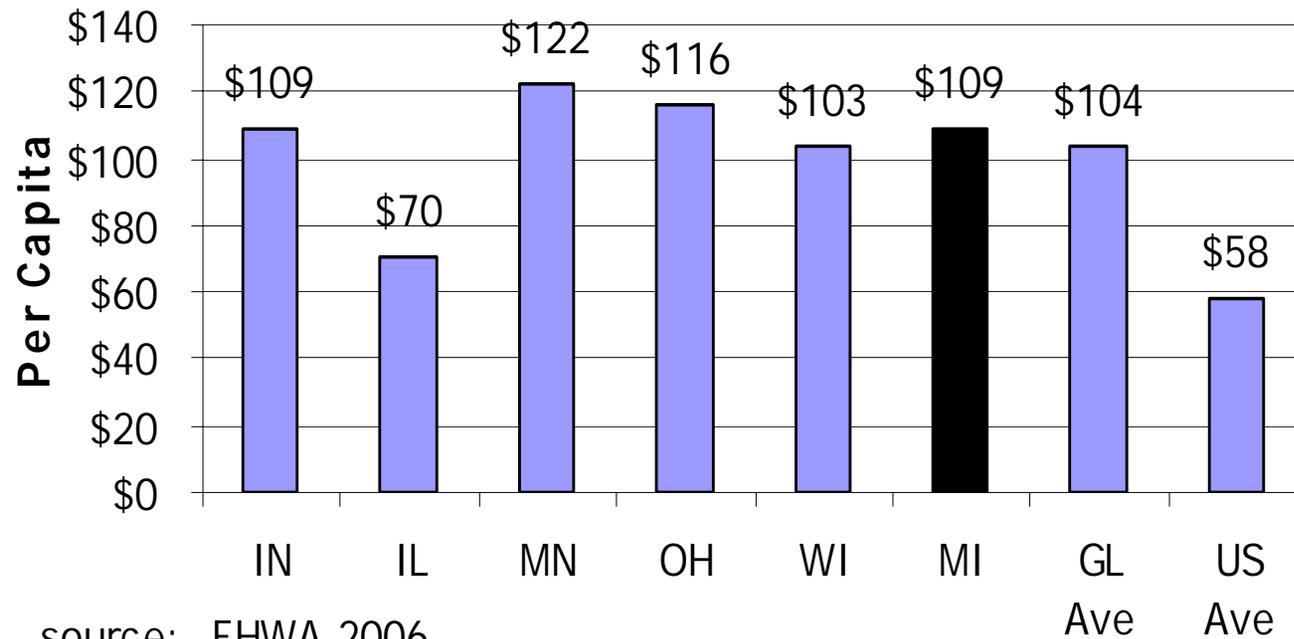
Percent of Highway Spending (State and Local)
By Local Gov't





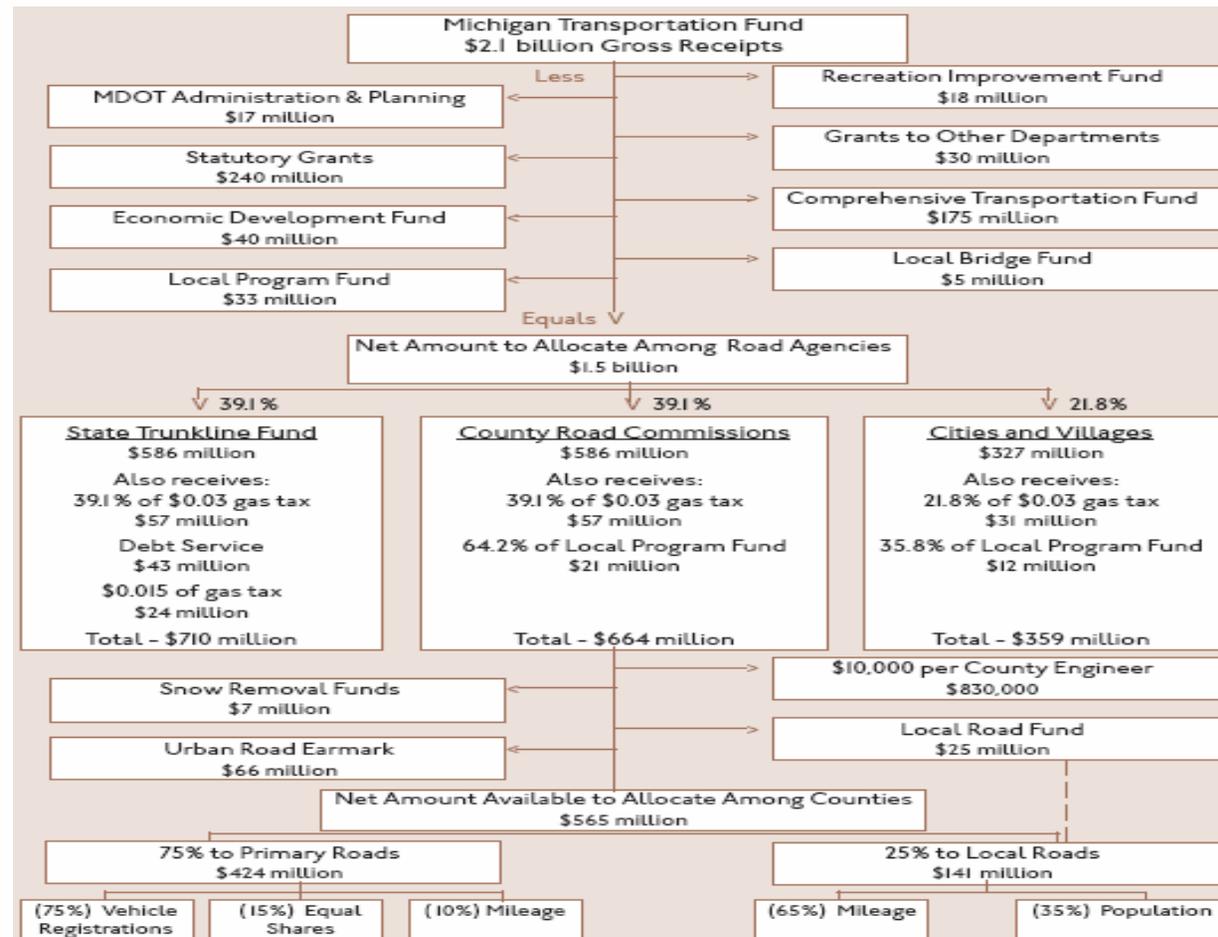
MI is Average in Per Capita Aid

State Aid for Local Roads and Streets



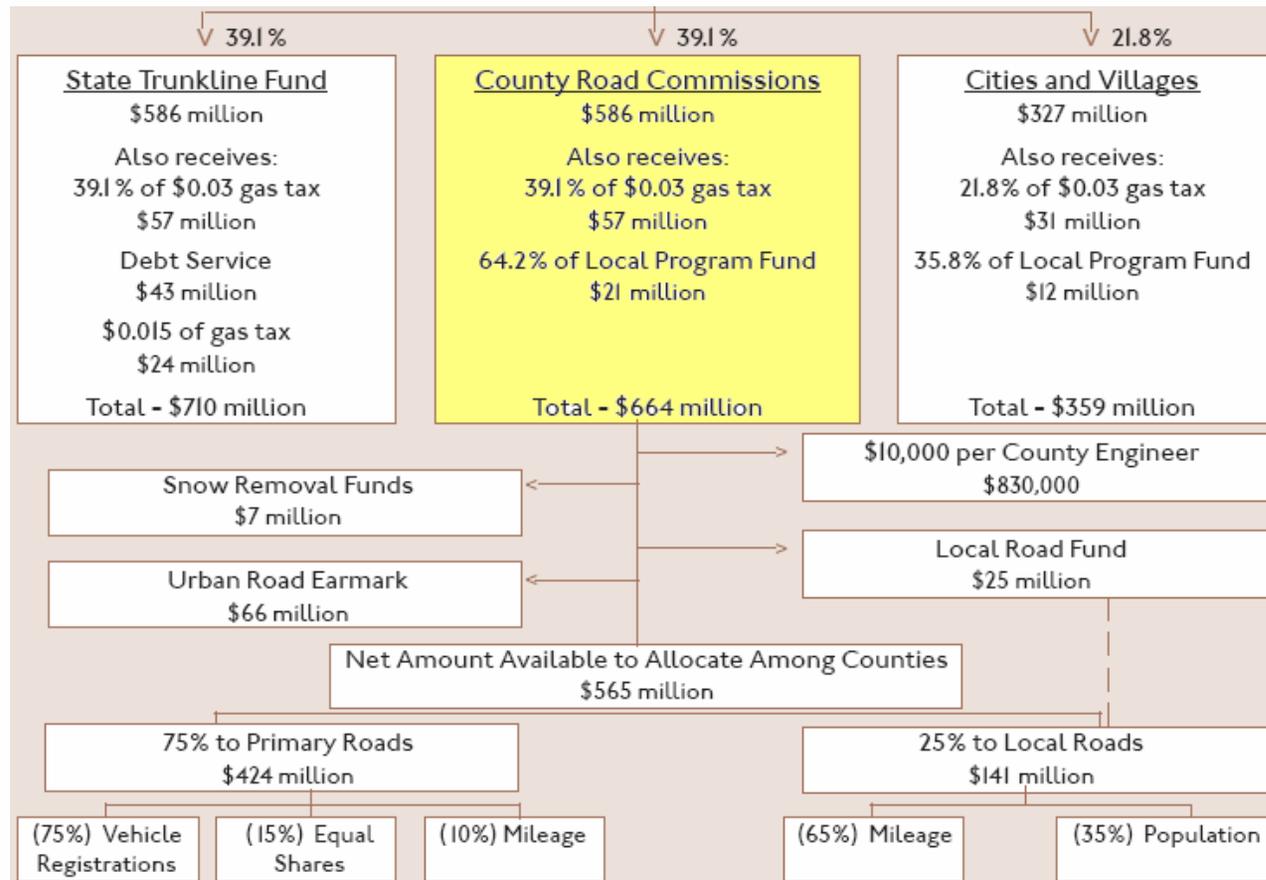


What Are We Talking About?





Specifically - County Allocations





Current Allocation Factors

- Needs vary considerably across state
- Very imperfect measures of highway utilization
- Factors include: miles, population, and vehicle registration
- These are proxies of utilization
- More a remnant of history and the availability of data
- All miles treated equally, regardless of use or number of lanes



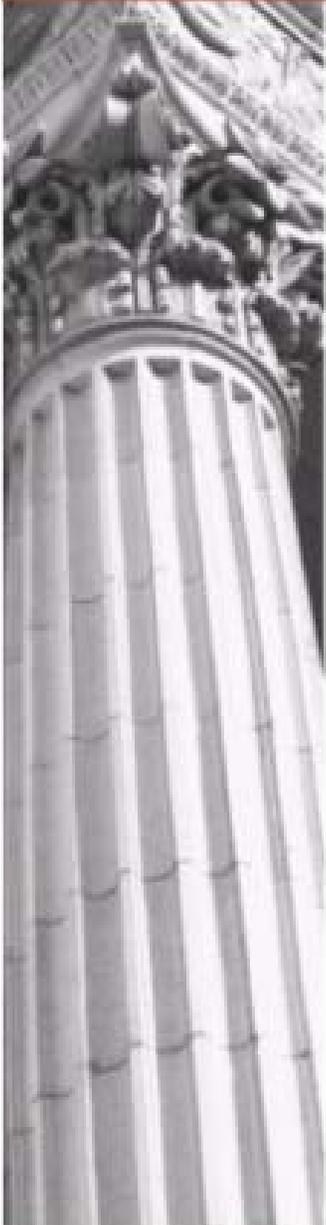
One-Third of State Funding Unrelated to Use

	Primary Roads	Local Roads	Total	2007 (millions)
Veh. Reg.	56%		56%	\$ 317.8
Mileage	8%	16%	24%	\$ 134.2
Equal Share	11%		11%	\$ 63.6
Population		9%	9%	\$ 49.4
Total	75%	25%	100%	\$ 565.0



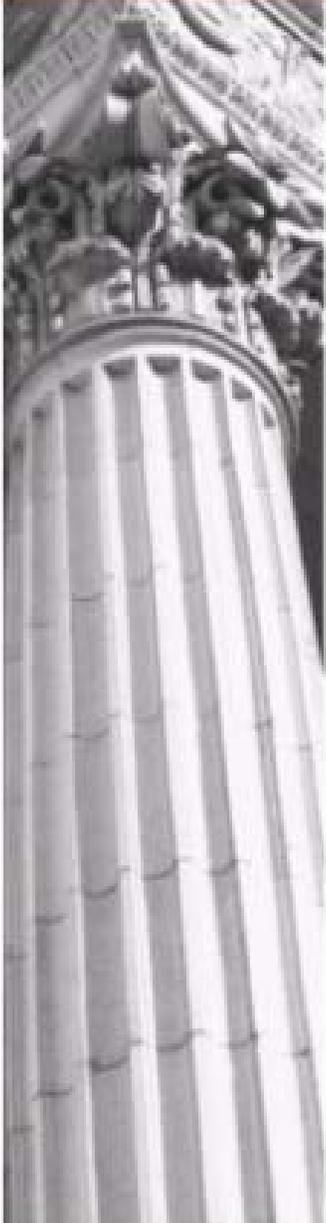
What Are The Results?

- Results in a disconnect between amount of \$ distributed and use of assets
- Impossible to “target” state dollars where road travel is highest
- Needs go unmet
- Bias toward rural counties
- Not as efficient as could be



Top 10 Counties

	Per Mile Traveled		Per Capita	
	Amount	Rank	Amount	Rank
Keweenaw	\$ 0.14	1	\$ 569.91	1
Baraga	\$ 0.11	2	\$ 270.60	4
Houghton	\$ 0.09	3	\$ 163.44	25
Alger	\$ 0.09	4	\$ 246.08	9
Luce	\$ 0.08	5	\$ 293.10	3
Missaukee	\$ 0.07	6	\$ 202.17	15
Wexford	\$ 0.07	7	\$ 152.59	33
Schoolcraft	\$ 0.07	8	\$ 252.96	7
Cheboygan	\$ 0.06	9	\$ 156.49	28
Charlevoix	\$ 0.06	10	\$ 151.94	35



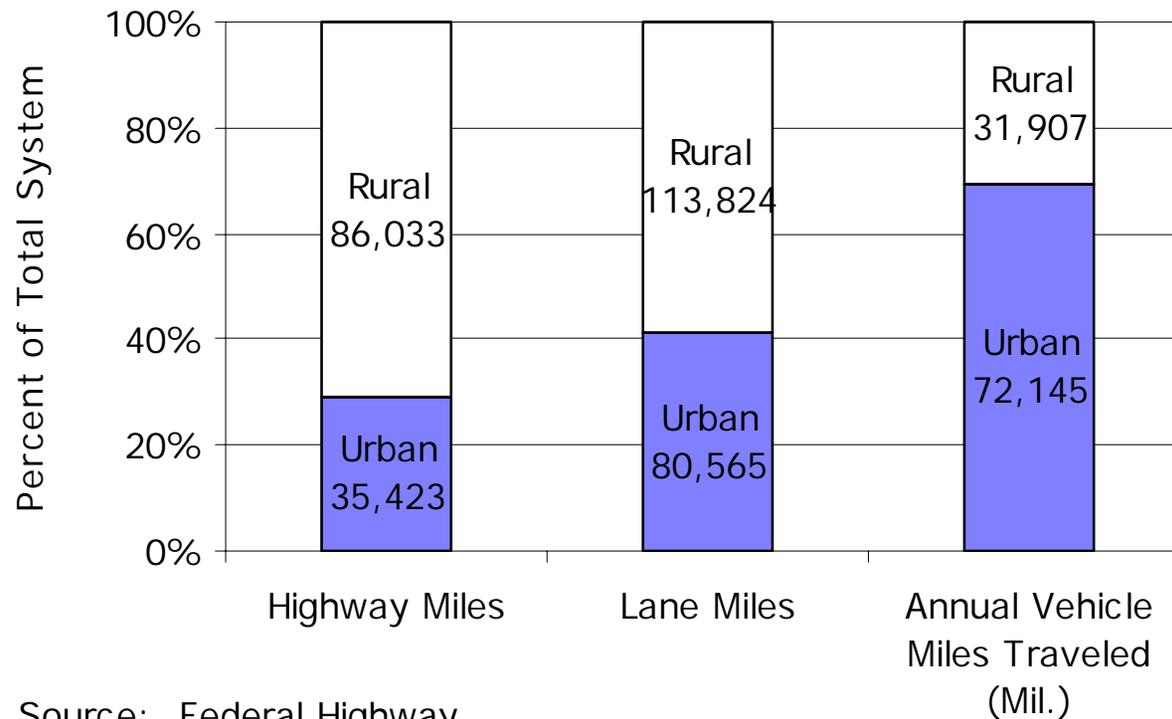
Bottom 10 Counties

	Per Mile Traveled		Per Capita	
	Amount	Rank	Amount	Rank
Ottawa	\$ 0.02	74	\$ 81.60	79
Wayne	\$ 0.02	75	\$ 88.87	73
Kent	\$ 0.02	76	\$ 92.34	67
Macomb	\$ 0.02	77	\$ 78.59	81
St Clair	\$ 0.02	78	\$ 87.31	76
Kalamazoo	\$ 0.01	79	\$ 93.43	64
Genesee	\$ 0.01	80	\$ 84.39	77
Oakland	\$ 0.01	81	\$ 89.99	71
Washtenaw	\$ 0.01	82	\$ 78.24	82
Monroe	\$ 0.01	83	\$ 79.80	80



Michigan Population Distribution Mirrors Highway Use *NOT* Miles

Michigan Highway Characteristics: Urban/Rural



Source: Federal Highway



Discrepancies are Stark

	% of Miles	% of Use	Difference
Sanilac	1.70%	0.35%	1.35
Huron	1.57%	0.29%	1.28
Newaygo	1.38%	0.35%	1.03
Chippewa	1.33%	0.32%	1.01
<u>Tuscola</u>	<u>1.55%</u>	<u>0.56%</u>	<u>1.00</u>
Genesee	2.21%	4.29%	-2.08
Washtenaw	1.84%	4.29%	-2.45
Kent	2.89%	5.86%	-2.97
Macomb	2.65%	6.36%	-3.71
Oakland	4.74%	12.94%	-8.20
Wayne	5.93%	18.23%	-12.30



When to Make Changes

- When the pie is enlarged
- Minimize the number of “losers”
- Options
 - New revenue only – “hold harmless”
 - New AND existing revenues
- Challenge: finding the “right” mix of factors
- We are **not** recommending a specific mix



Wholesale Change

Table 3
Effects Associated With Changing PA 51 Allocation Factors:
Miles Traveled Substituted for Route Mileage
Estimated Michigan Transportation Fund* Distributions to Counties for FY2007

	<u>"Winners"</u>	<u>"Losers"</u>
Number of counties	18	65
2006 population (within counties)	7,450,799	2,644,844
Miles traveled (within counties) - billions	24.9	8.3
Range of percentage (loss)/gain	1.4% to 26.4%	-0.9% to -46.4%
Average percentage (loss)/gain	11.7%	-25.7%

* Does not include distribution of county funds for snow removal, mileage transfers, or county engineers.

- Full scale substitution would be devastating
- Fewer "winning" counties, but these counties represent nearly 75% of residents
- "Winning" Counties represent 75% of AVMT
- Politically difficult



New Revenue Only

Table 4
Distribution of New State-Raised Transportation Revenue:
Annual Vehicles Miles Traveled versus Route Mileage Factors
Estimated Distributions to Counties

	<u>Using Mileage</u>	<u>Using AVMT</u>
New revenue to distribute	\$195 million	\$195 million
Total re-distributed (AVMT vs. mileage)	\$0	\$18 million
Percent of total re-distributed	0%	9.3%
Average Increase (above FY2007 amount)	29.7%	24.5%
Minimum Increase	29.7%	15.9%
Maximum Increase	29.7%	37.6%
Number of counties under 29.7%		65
2006 population (within counties)		2,644,844

- Hold harmless option – all winners, but some more than others
- Urban counties do better



New and Existing Revenue

Table 5
Distribution of State-Raised Transportation Revenue:
Miles Traveled Substituted for Route Mileage
Estimated MTF* Distributions to Counties for FY2007

	<u>"Winners"</u>	<u>"Losers"</u>
Number of counties	41	42
2006 population (within counties)	8,835,560	1,260,083
Miles traveled (within counties) - billions	30.0	3.2
Range of percentage (loss)/gain	1.3% to 64.4%	-0.3% to -30.5%
Average percentage (loss)/gain	27.7%	-13.4%

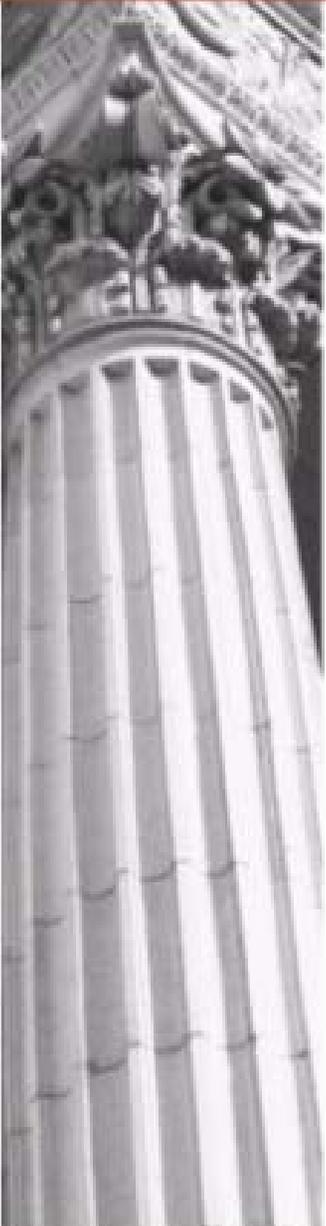
* Does not include distribution of county funds for snow removal, mileage transfer or engineers.

- Some devastating effects
- About 50/50 ratio of "winners" to "losers"
- Nearly 90% of population wins
- "Winning" counties represent 90% of AVMT



The Work Ahead

- Clearly a case can be made for more investment
- Challenge and responsibility of government is to ensure that taxes are spent as efficiently as possible
- Avoid a case of “throwing good money after bad”
- When will the opportunity arise again, another 10 years? sooner?



Government Reforms Take Time

"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."

Citizens Research Council of Michigan, 1997



Citizens Research Council of Michigan

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