Michigan Consensus Policy Project

Transportation Funding Proposal

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The Michigan Consensus Policy Project has been formed to make recommendations on significant policy areas that need to be addressed in Michigan. It is co-chaired by Bob Emerson and Ken Sikkema, who will be assisted by a small Steering Committee that includes former Lt. Governor John Cherry and former Speaker of the House Paul Hillegonds. It was launched in collaboration with the Center for Michigan, a nonpartisan 501(c)3 “think and do” tank chaired by former newspaper publisher Phil Power. Sikkema serves as Project Director.

The primary objective of the project is to demonstrate that partisan differences and affiliations do not prohibit achieving consensus on stubbornly difficult and contentious issues facing the state. The Steering Committee will assist the co-chairs in identifying a few important areas that urgently need to be addressed—with the intention of focusing on those that are particularly challenging and, therefore, have not been fully resolved. Work groups composed of Democrats and Republicans will be commissioned to research these issues and then, after a vigorous internal debate over potential solutions led by the Project Director and involving Democrats and Republicans, make a consensus recommendation to policy makers in Lansing.

The Consensus Policy Project is not designed to replace or subvert the role of the Governor and the state legislature in making public policy, but rather to offer possible consensus solutions for them—and the public--to consider.

Transportation Funding Work Group

Bob Emerson, Ken Sikkema, John Cherry and Paul Hillegonds began meeting in June 2018 to discuss the major issues facing the state of Michigan and the need for consensus solutions. They decided to focus their initial efforts on transportation infrastructure funding not only because of its importance, but also because of the difficulty associated with raising the revenue necessary to address it.

The members of this work group believe that their role is to make a recommendation on transportation funding that addresses the full extent of the need. The history of attempts to address transportation funding in Michigan have been characterized by proposed politically palatable revenue increases that are anemic, ultimately only serving to both postpone the day of reckoning and making the long-term problem bigger and thus more difficult to address. This occurs because the longer we delay proper maintenance of our roads, the more expensive the task becomes.

Michigan is in that situation today. In spite of some additional revenue dedicated to transportation funding in recent years, our roads continue to deteriorate, although at a slower rate.

The Policy Project acknowledges that other solutions might exist, but we urge that they all be measured by their ability to address the full transportation funding need in Michigan.

Revenue Need for Transportation

The 21st Century Infrastructure Commission estimated that an additional $2.6 billion is required annually to address transportation-related needs[1]. This includes the following:

- Interstates and US highways and bridges--$1.0 billion annually to achieve 95% good or fair condition
- Other state highways and bridges--$600 million annually to achieve 85% good or fair condition
- City and country roads, defined as "other highly used roads and bridges under local jurisdiction"--$600 million annually to achieve good or fair condition
- Multimodal systems, defined as "bus transit, passenger rail, and freight systems"--$430 million annually

The funding gap identified by the 21st Century Infrastructure Commission was confirmed by an independent study commissioned by Business Leaders of Michigan in January of 2016. The Transportation Funding Work Group has found no data or information that disputes these estimates.

In one important respect, however, the $2.6 billion estimate made by the 21st Century Infrastructure Commission understates the current funding gap. In addition to the three categories of roads used by the Commission to reach its estimate, a fourth category of roads exists that also need attention: Many local roads and suburban streets that are not included in the category of "other highly used roads and bridges under local jurisdiction." Because these roads have historically been considered the sole responsibility of local government, little or no state funds have been devoted to their repair and maintenance. Moreover, good statewide information apparently does not currently exist on the condition of these roads and the

[1] This is in addition to the revenue resulting from the road funding package enacted by the legislature in late 2015. When fully effective in 2021, this package will generate $1.2 billion each year.

associated costs to fix them. It is our position, however, that any comprehensive transportation funding proposal must include a mechanism to encourage local units of government to address these roads, consistent with the understanding that these roads and streets remain the primary responsibility of local units of government.

We propose, therefore, creating a fund of approximately $100 million that local units of government could access to address this fourth category of roads and streets, with the understanding that local units would be required to both document the condition of these roads and provide some level of match to any state dollars available from this fund.

Based on the above, we estimate the total need to fix and maintain Michigan roads is estimated to be $2.7 billion annually.

Transportation Funding Proposal

The following is the transportation funding proposal recommended by the work group of John Cherry, Bob Emerson, Paul Hillegonds and Ken Sikkema:

- Raise both the gas tax and the diesel fuel tax five cents annually for 9 years—for a total of 45 cents after ten years—to adequately address the $2.6 billion annual need identified by the 21st Century Infrastructure Commission for the three categories of state and highly used local roads and bridges.
- Current estimates suggest that each penny increase in the gas tax raises $46 million annually and each penny increase in the diesel tax raises $9 annually. This will raise an additional $275 million in year 1, $550 million in year 2, $825 million in year 3, etc. By year 9, an additional $2.475 billion will be raised annually for transportation needs.
- Although this falls slightly short of the $2.6 billion we estimate is needed, we would point out that other revenue has recently become available for roads. The passage of Proposal 1 in November of 2018—legalization of recreational marijuana—dedicates 35% of the new 10% excise tax to roads, which the Senate Fiscal Agency estimates to be $62.8 million when fully operational in 2022-23. In addition, action by the legislature and the Governor during the recent lame duck session resulted in an additional $100 million dedicated annually to roads. The addition of this $163 million will, therefore, fully fund the $2.6 billion annual need identified by the 21st Century Infrastructure Commission for the three categories of state and highly used local roads and bridges.
- Raise the fuel taxes—i.e., both the gas and diesel fuel taxes--an additional 2 cents to create the state fund for local units to access, on a matching basis, to address other local streets and roads. This additional 2 cents would begin in the first year and remain in place every year. The $110 million raised each year—$92 million from the gas tax and $18 million from the diesel fuel tax--approximates the $100 million we include in the total $2.7 billion need estimate.
- With the addition of this 2 cents each year, beginning in year one, results in a total increase by year 9 of 47 cents per gallon.

Principles Underlying This Proposal

Fuel taxes remain the most viable revenue source because they link the amount of citizen use of the roads with the tax revenue necessary to maintain the system. The diesel tax should be included as a fundamental matter of equity, since diesel-powered vehicles—principally, but not exclusively, trucks—also use the roads.

- While we acknowledge the increasing use of electric vehicles and the declining value of the gas tax because of vehicle mileage increases, the gas tax still remains the revenue source most related to use and will remain so for some considerable length of time.
- We also acknowledge the emerging technology for assessing miles traveled by individual vehicles and the various projects testing and utilizing that technology. Any alternative mileage-related fee is, however, many years away from being universally adoptable.
- The gas tax continues to be an attractive way to raise revenue for transportation needs because it is paid in relatively small amounts on a regular basis as only a part of the total cost of gas.
- Increases in fuel taxes can be phased in over a period of years.
- Expanding the use of toll roads in Michigan continues to be an option, but it is unlikely that it would raise enough revenue even under the most optimal conditions to be anything but a small portion of the revenue needed.
- The only alternative sources of revenue available to raise the $2.6 billion needed annually are the income tax, the sales tax, and the property tax, all of which are problematic in their own right and none have the same direct connection to use as do fuel taxes.

We believe the annual $2.6 billion needed to address the three categories of heavily used state and local roads should be phased in over time, for the following reasons:

- The tax increase required to raise it is simply too great for consumers to pay all at once.
- The capacity to do the work—raw materials, workers, companies—simply does not currently exist to absorb $2.6 billion of annual work all at once without significant price increases due to excess demand and limited supply.
- Michigan drivers have a limited tolerance for orange barrels—a tolerance that is already being tested under the current level of expenditures.

Impact on Consumers

The impact on consumers of this proposal will obviously depend on the number of gallons purchased. During the 2015 transportation funding debate, the state treasury department created five categories of consumers based on income levels and hypothetical annual gas consumption in order to estimate the impact of various transportation funding proposals being discussed at that time. Because vehicle miles traveled in Michigan have increased approximately 10 percent since these categories were originally created in 2015[2], we increase the gallons per year in each of these categories 10 percent to roughly reflect this fact. Following were the five categories, with the increased estimate of gallons consumed per year:

1. Senior, two-person household with modest income ($27,000) and one vehicle using 366 gallons per year
2. Low-income ($27,000), two-person household with one vehicle using 495 gallons per year
3. Low-income ($27,000), four person household with one vehicle using 514 gallons per year
4. Middle-income ($48,000), four-person household with two vehicles using 963 gallons per year
5. High-income ($100,000), four-person household with two vehicles using 1,054 gallons per year

Using these five categories created by the Michigan Department of Treasury and reflecting an updated estimate of vehicle miles driven, the first year 7 cent gas tax increase in this proposal would have the following annual and weekly impact on consumers:

1. $25.62 annual….$0.49 weekly
2. $34.65 annual….$0.67 weekly
3. $35.98 annual….$0.69 weekly
4. $67.41 annual….$1.30 weekly
5. $73.78 annual….$1.42 weekly

Beginning in the second year—and each year thereafter through the ninth year—the increase is an additional 5 cents per gallon. Without factoring additional usage, the additional annual and weekly impact is as follows:

1. $18.30 annual--$0.35 weekly
2. $24.75 annual--$0.48 weekly
3. $25.70 annual--$0.49 weekly
4. $48.15 annual--$0.93 weekly
5. $52.70 annual--$1.01 weekly

Purely for the sake of providing some context, the weekly costs for these hypothetical consumers could be compared to the following:

- One 20 ounce bottled water at a typical Michigan convenience store: $0.99
- One loaf of whole wheat bread recently purchased at a Michigan grocery store: $1.59

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[2] *Modernizing Michigan's Transportation System: Progress and Challenges in Providing Safe, Efficient and Well-maintained Roads, Highways and Bridges,* TRIP, April 4, 2017

Of greater importance is the fact that NOT fixing our roads is far more costly to the average Michigan motorist than raising the gas tax. The national transportation research group TRIP recently estimated the increased cost to motorist of driving on roads in poor conditions in Michigan to be $4.8 billion annually or $686 annually per average Michigan motorist[3]. These additional vehicle operating costs (VOC) include accelerated vehicle depreciation, additional vehicle repair costs, increased fuel consumption and increased tire wear.

This hidden annual tax of $686 represents a weekly cost of $13.19 for all hypothetical consumers in the five categories listed.

The additional costs associated with accelerated vehicle depreciation, increased fuel consumption, and increased tire wear are incurred by *all* motorist, not just those who suffer the misfortune of the need for a new tire rim and possibly front end damage, which can cost between $500 and $1000 to repair.

As one assesses the impact of this proposal on consumers, it is helpful to also note how much gas prices fluctuate on an annual basis, as well as on a geographical basis. AAA recently noted, for example, that average gas prices dropped 55 cents in Michigan during calendar 2018—incidentally, the largest decrease of any state in the nation. Seven Michigan zip codes accessed on the GasBuddy App on January 10, 2019, representing areas in Detroit, Flint, Oakland County, Lansing, West Michigan, Gaylord, and Marquette indicated that the range between gas stations only a few miles from each other on that particular day was an average of 35 cents per gallon.

What the Proposal Does Not Address and Why

A debate about transportation funding in Michigan will undoubtedly include issues such as the distribution formula in Act 51, the merits of bonding, the value of an Infrastructure Bank, and many others—including the exact structure of the new matching fund we propose to help address local roads. Although these issues are certainly important, we believe they too frequently detract from the fundamental issue of raising the proper level of revenue necessary to address the problem. Our role as a workgroup has been to stay focused on the revenue needed and how best to raise it.

The Need to Fully Solve the Problem

We urge others interested in solving the transportation funding challenge focus on solutions that fully solve the problem. Doing less—nibbling at the edge of the problem--will simply increase the long run cost of repair and maintenance, as more roads deteriorate to the point that it becomes ever more expensive to repair them later.

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[3] *Michigan's Top Transportation Challenges,* TRIP, April 2015