

County Road Association of Michigan
2014 New Commissioners' Workshop

Road Funding

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Topics to be Covered:

- Overview: Michigan's roads & funding
- State road funding
- Local road funding
- Federal road funding
- Statewide Studies:
 - Asset Management
 - Olson/Schmidt report
- Easy solutions: Debunking the myths

Overview:

Why are Michigan's roads in such poor condition?

Why are roads in other states in so much better shape?

Per Capita State & Local Expenditures (Michigan's Rank in the Nation)

<u>Expenditures</u>	<u>1964</u>	<u>1974</u>	<u>1984</u>	<u>1988</u>	<u>1992</u>	<u>2010</u>
Health	5	8	9	3	12	13
Education	11	7	10	7	11	9
Welfare	31	5	3	8	17	32
Roads	43	44	42	44	49	47/50*

Source: U.S. Census Bureau

* Per SFA; SFA looked only as state spending

Michigan vs. Nation:

Michigan's road responsibilities

- **8th largest public road system in US**
(119,570 miles)
- **6th largest local road system**
(109,875 miles)
- **3rd largest county road system**
(88,961 miles)
- **28th largest state highway system**
(9,695 miles)



State Funds

Act 51

1. Establishes powers/duties of state & local road agencies.
2. Provides for the classification of all public roads.
3. Establishes Michigan Transportation Fund (MTF).
4. Allocates MTF dollars (creates distribution formulas).
5. Provides process to amend or repeal parts of act.

Act 51

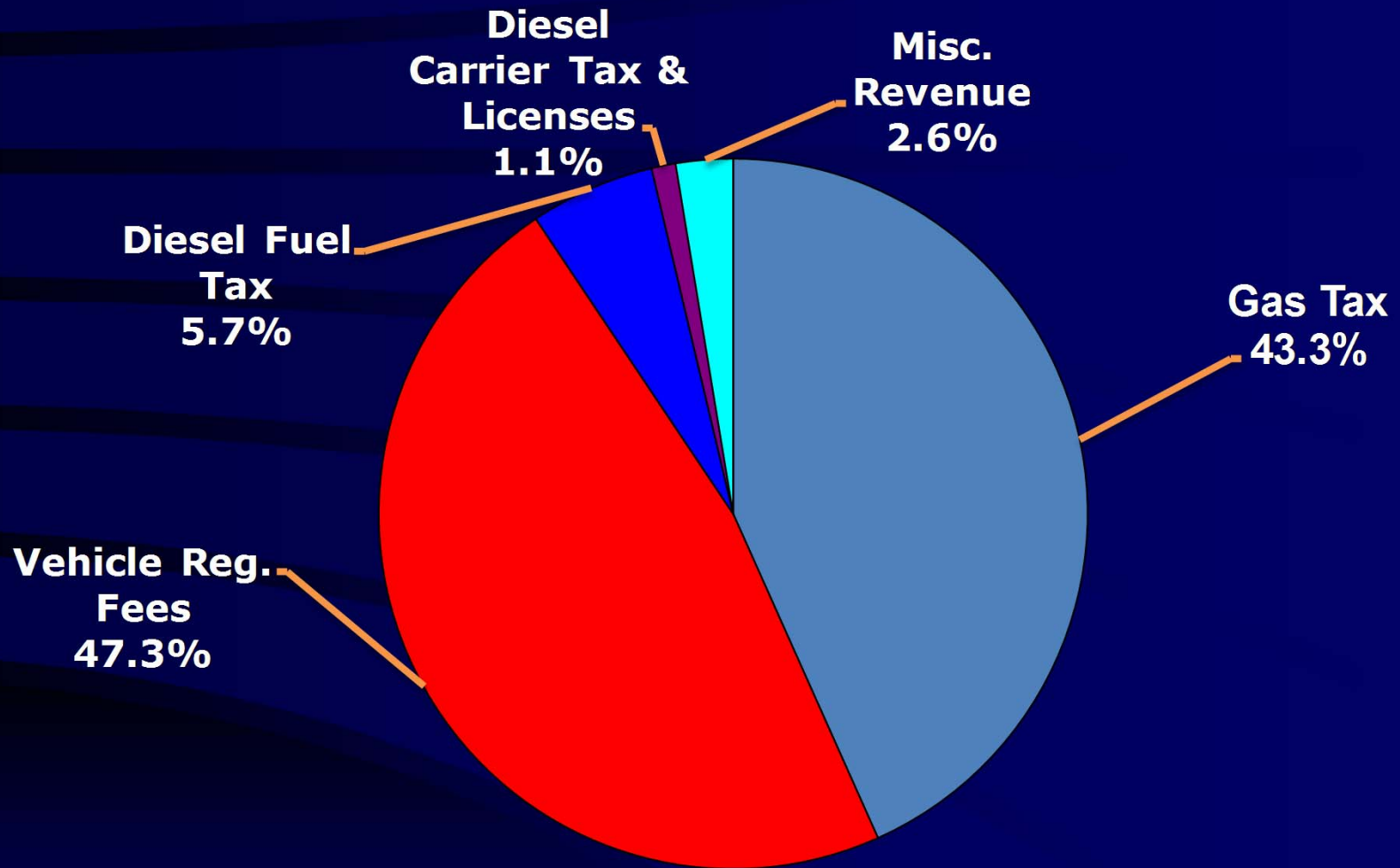
- Signed into law in 1951
 - amended 93 times since.
- Road funds distribution formula amended 25 times.
- 54 of 75 sections (72%) added since 1951.
- Only 12 sections remain in original form.
- 45 sections have been amended — some multiple times.
- Not the same law today as adopted in 1951.

What is the MTF?



The pot of state-collected transportation funds.

MTF Sources as % (2013)



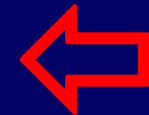
Note: MTF funds are constitutionally protected – at least 90% MUST be used for roads.

30-Year History of the Gas Tax

- Raised 2 cents in 1983 (to 13 cents)
- Raised 2 cents in 1984 (to 15 cents)
- Raised 4 cents in 1997 (to 19 cents)

State Fuel Tax Rates (2014)

State	Gas	Diesel	State	Gas	Rank	Diesel	Rank
California	39.5	10	Iowa	21		22.5	
N. Carolina	37.5	37.5	W. Virginia	20.5		20.5	
Washington	37.5	37.5	Louisiana	20		20	
Rhode Island	32	32	Texas	20		20	
Wisconsin	30.9	30.9	Tennessee	20		17	
Maine	30	31.2	Illinois	19		21.5	
Oregon	30	30	Michigan	19	Tie - 30	15	42
Kentucky	29.4	26.4	Vermont	18.2		27	
Minnesota	29.5	29.5	Arizona	18		26	
Ohio	28	28	Mississippi	18		18	
Montana	27	27.7	New Hamp.	18		18	
Nebraska	26.4	26.4	Indiana	18		16	
Connecticut	25	54.9	New Mexico	17		21	
Idaho	25	25	Hawaii	17		17	
Utah	24.5	24.5	Missouri	17		17	
Kansas	24	26	Alabama	16		19	
Massachusetts	24	24	South Carolina	16		16	
Maryland	23.9	24.25	Oklahoma	16		13	
Nevada	23	27	Virginia	14.78		23.38	
N. Dakota	23	23	New Jersey	10.5		13.5	
Wyoming	23	23	New York	8.05		8	
Delaware	23	22	Alaska	8		8	
S. Dakota	22	22	Georgia	7.5		7.5	
Colorado	22	20.5	Florida	4		4	
Arkansas	21.5	22.5	Pennsylvania	0*		0*	



* Pennsylvania shifted its fuel tax to the wholesale level as a percentage, rather than a flat per-gallon rate.

What about roads in Ohio?

Ohio's gas tax:

- Starts at: 19 cents
- Increased by: 9 cents ('05)

Total: 28 cents

Michigan's gas tax:

- Starts at: 19 cents
- Sales tax: 21 cents*
(at \$3.50/gallon)

Total: 40 cents

*** None of the sales tax revenue goes to roads.**

- Ohio's 9-cent increase has been generating \$450 million/year since '05

MTF Act 51 Distribution Formula

\$1.9 billion (FY 2013)



Taken off the top: 20%

Recreation:	\$16.4 M
Railroad Crossings	\$ 3.0 M
Econ. Dev. Fund	\$40.6 M
Local Road Program	\$33.0 M
Local Bridge Fund	\$29.8 M
MDOT Admin grants	\$20.3 M
MDOT Debt Service	\$43.0 M

Inter-Departmental Grants:

Dept. of State:	\$20.0 M
Dept. of Treasury:	\$ 2.5 M
Dept. of NR&E:	\$ 1.2 M
Auditor General:	\$ 0.1 M
Comprehensive Transp. Fund:	\$162.4 M



What's left: (\$1.5 billion)



MDOT

39.1% (40%)

8% of roads



Road Commissions

39.1% (38.3%)

75% of roads



Cities & Vill.

21.8% (21.5%)

17% of roads

Changes to MTF Formula

<i>Year</i>	<i>MDOT</i>	<i>Road Comm.</i>	<i>C & Vs</i>
<i>1952</i>	44%	37%	19%
<i>1957</i>	47%	35%	18%
<i>1972</i>	44.5%	35.7%	19.8%
<i>1978</i>	46.7%	34.3%	19%
<i>1982</i>	41.9%	37.4%	20.7%
<i>1985</i>	39.1%	39.1%	21.8%

**The formula has not
changed since 1985,
but the distribution of
funds has.**

How?

Local Program Fund

- \$33 million off top of MTF
- \$21 million to road commissions (64.2%)
- \$12 million to cities/villages (35.8%)

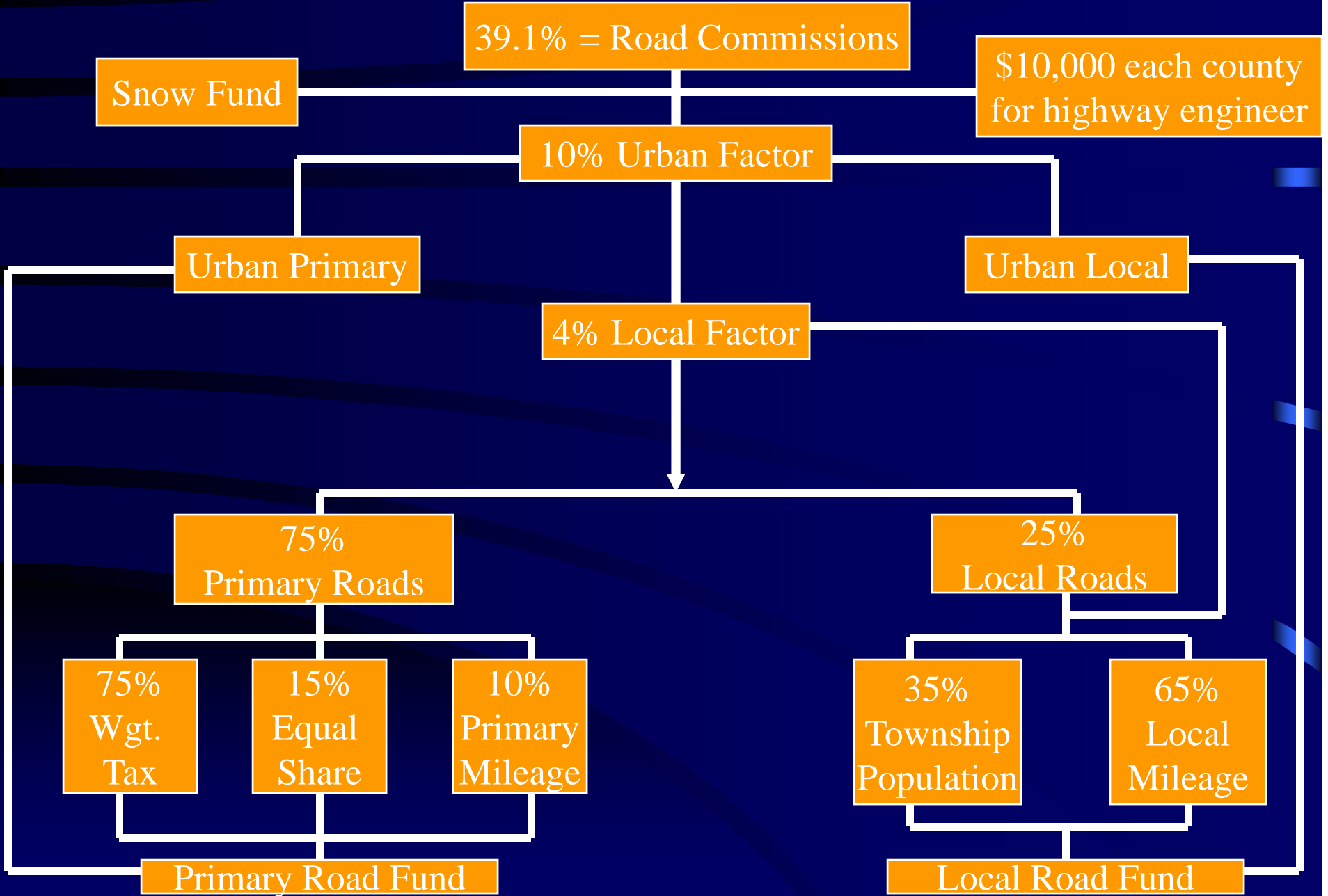
How were the 4 cents of new gas tax distributed in '97?

1 cent → MDOT bridges (1/2 cent today)
+ 3 cents → MDOT, county road commissions, cities & villages

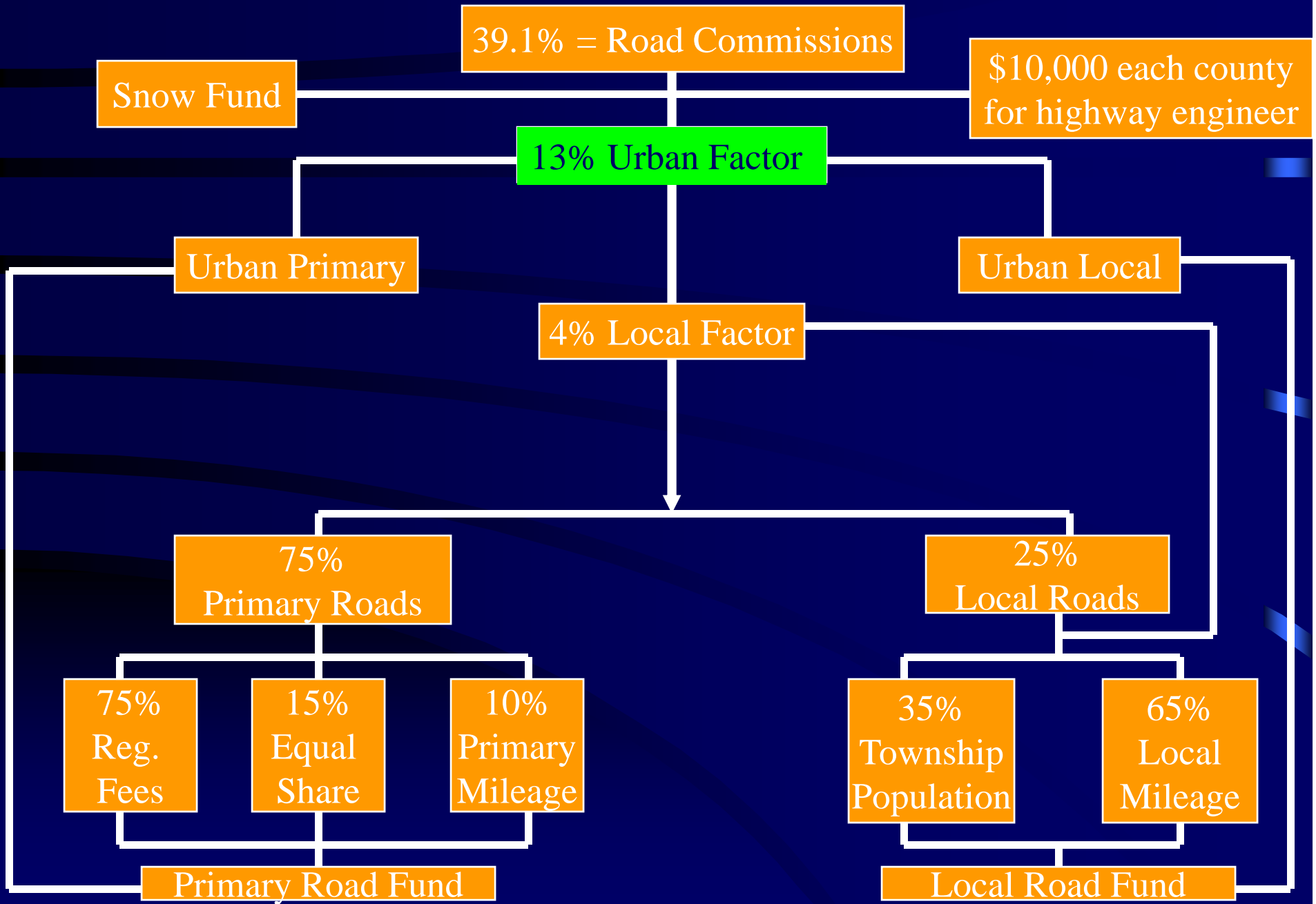
4 cents (Gas only, not diesel)

- \$45 million in truck registration fees set aside for MDOT debt
- 60% of all new state road money = MDOT

Internal Formula



Internal Formula



Snow Fund

- Established to assist counties with large amounts of snow.
- Deducted off the top of the "internal" formula.
- Approx. \$8.3 million distributed in FY '13.
- Funds distributed to 53 counties.
- Distribution based on 14-year avg. snowfall (the more snow you had, the more \$ you get).

Transportation Economic Development Fund (TEDF)

- Enacted in 1987
- Created to fund projects supporting economic growth
- Mission:
 - Help state compete in global market
 - Serve as catalyst for economic growth
 - Improve quality of life
- Eligible agencies: MDOT, county road commissions, cities & villages

TEDF Categories:

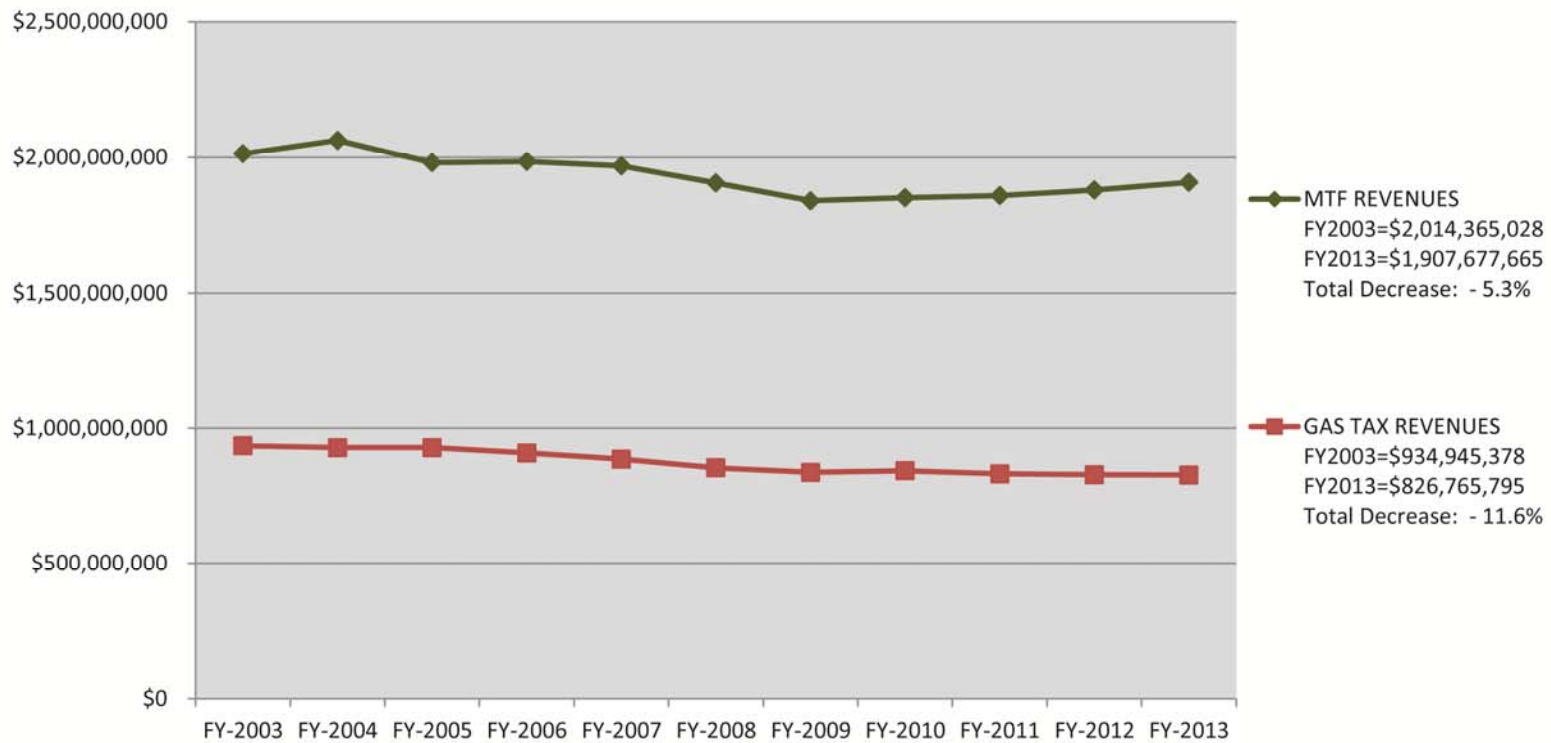
<u>Category</u>	<u>Description</u>	<u>FY '13 \$</u>
A	Projects tied to target industry development or redevelopment	\$11M
B	Improve local rd. to become trunkline (category eliminated)	
C	Congestion reduction, urban	\$ 5.6M
D	Create rural all-season network	\$15.4M
E	Devel. commercial forests	\$ 5.0M
F	Road improvements in rural cities	\$ 2.5M

TEDF Cuts

TEDF Category A was cut \$12 million
in FY 11, FY 12 and FY 13.

What's wrong with MTF?

STATEWIDE M.T.F. AND GAS TAX DECLINE



RCOC Operating (MTF) Revenues

FY 03 – FY 13:

- 2.6%

RCOC Cost Increase Examples (03-13)

<u>Item</u>	<u>% Increase</u>
-------------	-------------------

Diesel fuel

217%

Gasoline

185%

Asphalt

104%

Cold patch

87%

Salt

77%

Plow blades

134%

Traffic signal cabinet

224%

Local Funding

Local Funding Sources:

Current:

TIFA/LDFA/DDA

Bonds/Revenue Notes

County millage

Township millage

County appropriations

Municipal contributions

Developer/other contributions

Special assessments

Possible:

Dev. impact fees

Local options:

- sales tax

- gas & diesel tax

- prop. transfer tax

- drivers license fees

- vehicle reg. fees

Countywide Millages:

Allegan

Baraga

Benzie

Charlevoix

Chippewa

Crawford

Dickinson

Gladwin

Grand Traverse

Houghton

Huron

Iron

Leelanau

Midland

Montmorency

Ontonagon

Sanilac

St. Clair

St. Joseph

Tuscoloa

Van Buren

A few final thoughts on gas tax:

The fuel tax is one of the most equitable ways to fund roads in Michigan because:

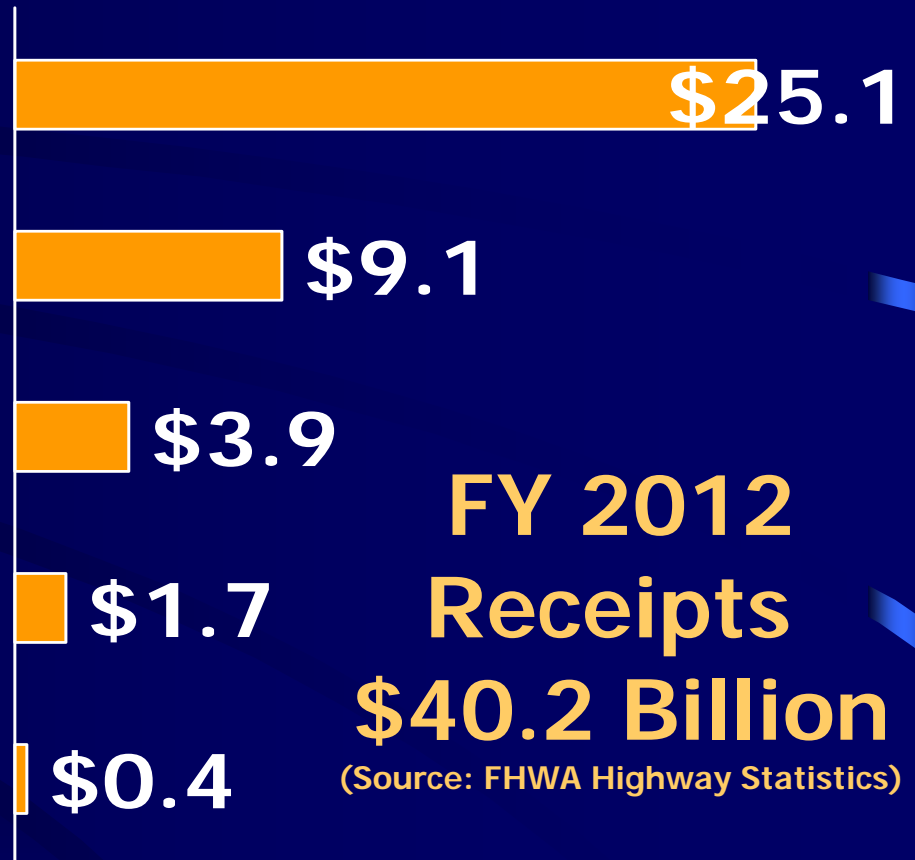
- A. It's a "user" tax (the more you use the roads, the more you pay); and
- B. Michigan hasn't exhausted the fuel tax as a funding mechanism.
- C. However, increasing fuel efficiency (CAFE) will continue to erode revenue...

Federal Funds:



Highway Trust Fund

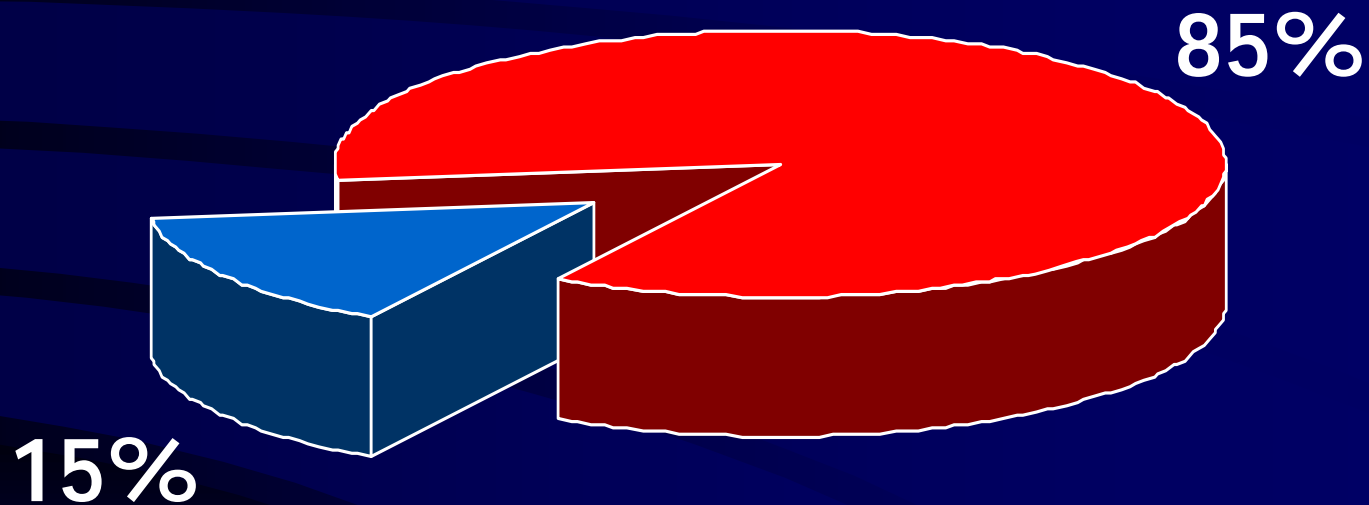
Gasoline (62.3%)
Diesel/Special (22.6%)
Trucks & Trailers (9.6%)
Federal Use Tax (4.3%)
Tires (1%)



In Billions

HTF Accounts

A Portion of Motor Fuel Taxes goes to a Mass Transit Account of the HTF



■ Mass Transit Account
■ Highway Account

FY 2012

Federal Legislation

- Authorized for 6 years:

- FY '92 through '97:

Intermodal Surface Transportation Efficiency Act
(ISTEA)

- FY '98 through '03 (enacted 8 mos. Late):

Transportation Equity Act for the 21st Century
(TEA-21)

- FY '04 through '09 (enacted 22 mos. late):

Safe, Accountable, Flexible, Efficient Transportation
Equity Act – A Legacy for Users (SAFETEA-LU)

- FY 09 – 2012: continuing resolutions

Moving Ahead for Progress in the 21st Century (MAP 21)

- 2-year bill (through Oct. 1, 2014)
- Continued SAFETEA-LU funding levels with small inflationary increases
- Consolidated federal programs from 90 to less than 30 to focus on key national goals
- Reduced core programs from 7 to 4:
 - Nat'l Highway Performance Program (NHPP)
 - Transportation Mobility Program
 - Congestion Mitigation & Air Quality (CMAQ)
 - Highway Safety Improvement Program

Map 21, cont'd

- NHPP is the new program focusing on interstates and National Highway System
- The Surface Transportation Program (STP) remains the primary source of major improvement funds for locals
- Officially eliminated "earmarks"
- Safety funding was significantly increased

Map 21, cont'd

- Transportation Enhancements program merged into Transportation Alternatives program
- Transportation Alternatives also merged Safe Routes to School, Recreational Trails & Scenic Byways programs
- It appears this program is receiving less funding than the sum of the programs it contains.
- What's next? Possibly continuation with same funding levels...

Michigan's Donor Status

- Michigan traditionally got less \$\$ back from Washington than it sent.
- Prior to TEA-21, Michigan received back 82% of money sent to Washington.
- TEA-21: "donor status" was reduced to 90.5%.
- SAFETEA-LU: 92%.
- ARRA (stimulus) funds meant most states got more than 100%.
- MAP 21: Today, all states are getting at least 95%

Donor Status Cont'd

- It would be nice to get
- Politically, that is unlikely
- There are more donee states.
- Each state has equal representation in the Senate.
- Even if we did, this would NOT solve Michigan's road-funding crisis.



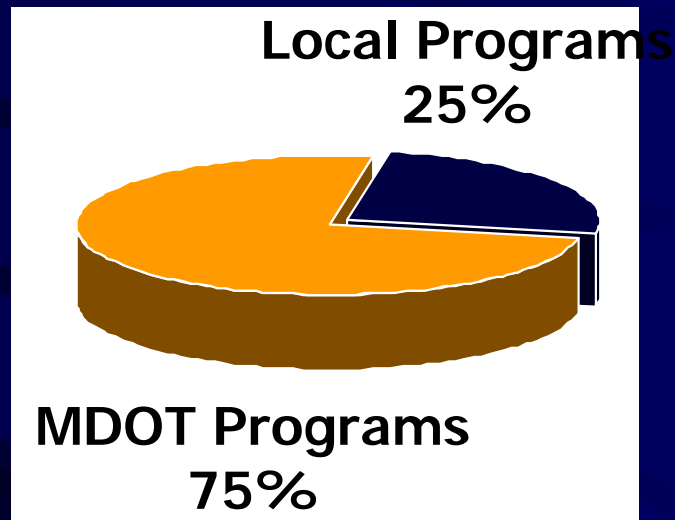
Federal Allocation in Michigan FY '13

<u>Major Category</u>	<u>Amount (millions)</u>
National Highway Performance Program (NHPP)	\$566.2
Surface Transportation Program (STP)	\$260.4
Congestion Mitigation/Air Quality (CMAQ)	\$ 70.4
Highway Safety Improvement Program (HSIP)	\$ 55.2
Railway-Highway Crossing	\$ 7.4
State Planning & Research	\$ 20.0
Metropolitan Planning	\$ 9.8
Transportation Alternatives	<u>\$ 26.0</u>
Total:	\$ 1,015.5

Source: MDOT Statewide Planning Division

State Statute

The 75/25 split of federal funds



Excluding CMAQ, Enhancements Grants & Bridge Funds.

Local Distribution of Federal Funds



Local Bridge Fund:

- MDOT calculates total bridge deck needing repair & applies for federal bridge funds.
- 25% of deck area ID'd is on local bridges.
- 15% of federal bridge funding to Michigan is set aside for locals as Local Bridge Fund.
- Typical Local Bridge Program = about \$47 million, based on:
 - \$22 million = ½ cent gas tax for bridges
 - \$5 million appropriated by MTF statute
 - \$20.1 million in federal funds

Regional Distribution of Federal Road Funds

Most is distributed through either:

- Rural Task Forces

OR

- Metropolitan Planning Organizations (MPO)

Task Forces or MPOs

- Rural task forces represent several counties in rural areas.
- MPOs represent several counties in urbanized areas
- Individual counties within MPOs can have their own task forces.

Rural & Urban Examples:

- Huron/Sanilac/Tuscola Rural Task force.
- S.E. Michigan MPO = SEMCOG
- Oakland County Federal Aid Task Force (Funding Committee)

Statewide Studies:

- **Asset Management**
- **Olson/Schmidt study**

Asset Management

What is Asset Management?

APWA describes it as:

“A methodology to efficiently and equitably allocate **generally insufficient resources** among valid and competing goals and objectives.”

AM Moves to the Public Sector

- In the late 1990s, FHWA began promoting AM, generating interest among road agencies.
- The Governmental Accounting Standards Board issued Statement No. 34 (GASB 34) in 1999.
- Required road agencies to track and report the value of their transportation assets.
- Michigan has played a leading role; now used extensively at state level & being integrated at county & municipal levels.

PASER

Pavement **S**urface **E**valuation & **R**ating system:

- A means of collecting compatible road system data.
- **Since '03:** All city, county & state fed. aid roads rated using PASER (40K of 120K)
- Half of federal-aid system rated each year.
- Many county non-federal-aid roads now rated also. Eventually, all roads will be rated.

Needs Study

Following Asset Management will result in a needs study:

- Inventory the assets.
- Establish asset performance standards.
- Identify gap between desired & actual status (this IS the need).

Conclusions:

- 2012 Asset Management report: The percentage of roads rated “poor” more than doubled between 2004 (13.6%) and 2011 (35.1%).

Olson/Schmidt Study

- Published 2011 by Reps Rick Olson & Roy Schmidt
- Concluded road needs = minimum of \$1.4 billion in new funding just to keep roads in good shape.
- Refuted the argument that sufficient savings can be achieved through additional "efficiencies":
 - "there is just not enough savings available (through efficiencies) to achieve our goals."
 - "It is too easy to fool ourselves into believing, 'Well, we have done something to solve the problem'."
- Is the basis of the governor's road-funding proposal.
- Updated in 2014: Now need \$2.18 billion/year

House Speaker Bolger's Road-Funding Plan

- Replace gas and diesel taxes with 6% tax at wholesale level.
- Dedicate available portion of sales tax on gas to roads (without touching part that goes to schools & revenue sharing).
- Dedicate 1% of 6% use tax to roads.
- Increase overweight/oversize permit fees.
- Would generate \$450 million/year 2015-17 and \$500 million/year in 2018 and after

Easy Solutions

“There is always an easy solution to every human problem...neat, plausible and wrong.”

- *H.L. Mencken*

These are distractions to avoid the hard funding questions.

“Why not force truckers to reduce the weight they carry?”

- It's true Michigan allows 164,000-pound trucks vs. 80,000 pounds in rest of country.
- Studies indicate damage is related to axle load rather than gross weight.
- Michigan's axle loads for 164,000-pound trucks are LESS.
- If Mich. Banned 164,000-pound trucks, would be 1,800 more 80,000-pound trucks.

"Why not use toll roads?"

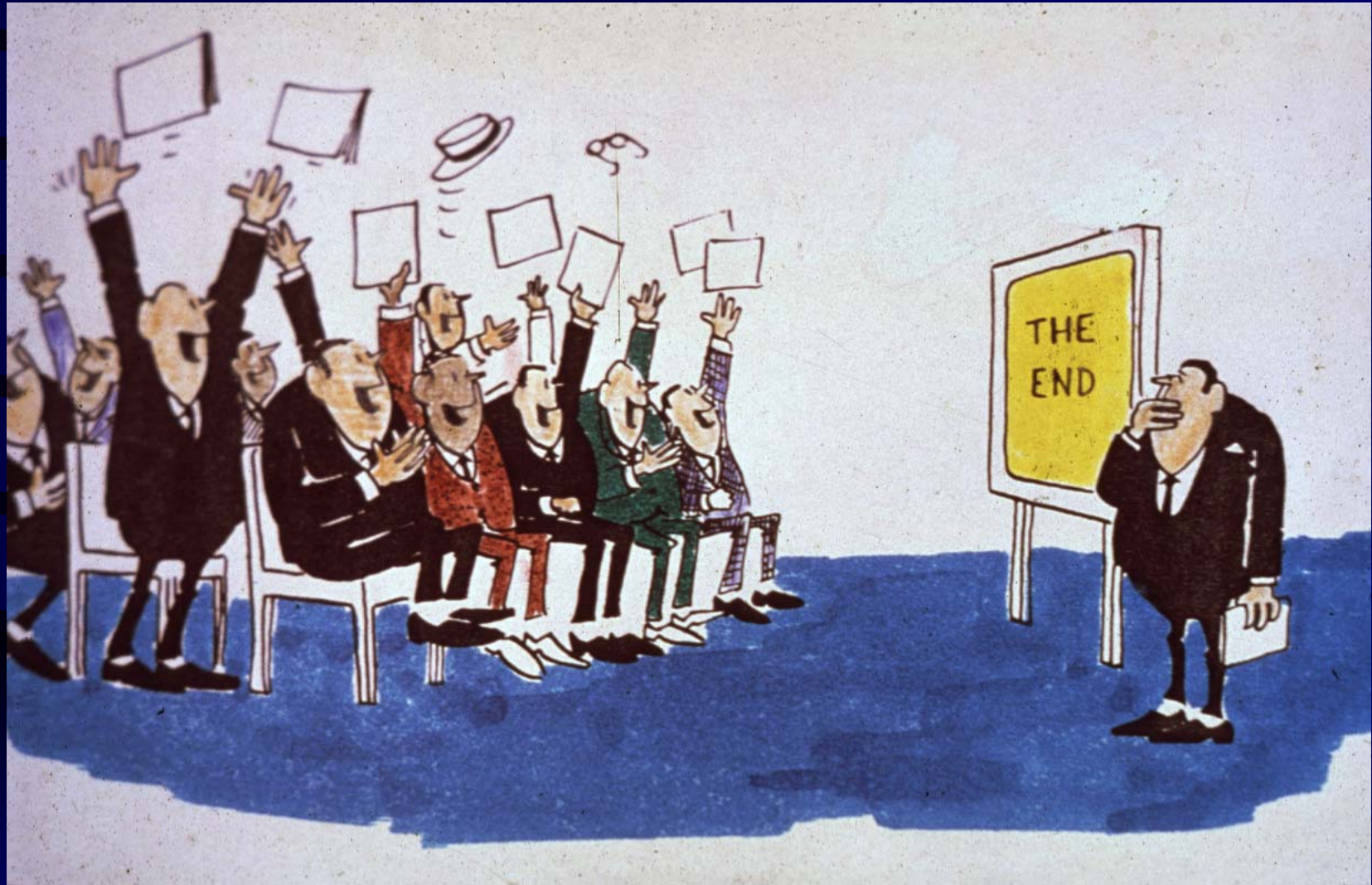
- Only freeways can be toll roads.
- Toll \$\$ used only on toll road.
- Freeways = 1% of Michigan's roads.
- States with toll roads (Ohio, Pennsylvania, etc.) have lots of pass-through traffic (& higher gas taxes!).
- Michigan is a peninsula state.
- Retrofitting freeways for tolls is expensive.
- To avoid tolls some drivers would use local roads.

“Why not build roads to European standards?”

- It's true: In some European countries, roads are built to last longer.
- Building roads like that would cost 50% to 75% more.
- The average cost of gas in Europe? More than \$6/gallon – because fuel taxes average several dollars!
- Give us a \$2 gas tax & we'll build roads to last 50 years.

Road-Funding Conclusion:

- One or two incremental fee increases won't be enough.
- This situation requires **multiple** – possibly dramatic – **changes to the user fee structure**.
- The longer we put off addressing this situation, the worse the road system will become.
- The worse the road system becomes, **the more expensive it is to repair**.



QUESTIONS ???

