SOUTHWEST MICHIGAN PLANNING COMMISSION
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MEMORANDUM

DATE: July 15, 2015

FROM: MPO Staff

TO: Members of the NATS TAC and Policy Committees

SUBJECT: Proposed Changes to the Transportation Improvement Program (TIP) 2014-2017

The Michigan Department of Transportation (MDOT) is proposing the following changes to the NATS 2014-2017 TIP:

- Change Year of ROW phase of JN 127449, a resurfacing project (Mill and Two Course HMA Overlay) on US-12 from Bakertown Road to the start of the divided section to 2016

  ROW Phase (2016): Federal Cost of $16,370; state cost of $3,630 for a total phase cost of $20,000.

  Total project cost is $5,121,884.

- Add three phases of JN 127563 (74% in NATS, 26% in TwinCATS); a cold milling and one course overlay project on M-63 in the City of St. Joseph and on M-139 in the City of Niles from the turn at Front St to Marmont St.

  PE Phase (2015): Federal cost of $29,920 in STP, a state cost of $6,635, for a total phase cost of 36,555.

  ROW Phase (2016): Federal cost of $7,268 in STP, a state cost of $1,612, for a total phase cost of $8,880.

  CON Phase (2017): Federal cost of $229,185 in STP, a state cost of $50,821 in STP, for a total phase cost

  Total project cost is $439,785.

July 9, 2015

Senate and House transportation funding proposals: Policy and perspective

Over the course of the past few weeks, the Michigan House of Representatives and Senate have passed two different plans for funding our state's transportation system. Both proposals have similarities. They both include:

- establishing a tax system for alternative fuel vehicles,
- taxing diesel fuel at the same rate as gasoline,
- indexing the gas tax to inflation, and
- focusing on greater use of warranted road projects.

However, there are many areas where the two plans take very different paths for funding transportation services in the future.

The House plan is estimated to generate approximately $1.15 billion by the 2019 state fiscal year, with approximately 90 percent of that money being diverted from other parts of the state budget. The Senate plan would generate over $1.4 billion by the 2018 state fiscal year with approximately 50 percent of the revenue being generated by a 15-cent increase in the gas tax and the other half coming from reprioritizing other parts of the state budget.

Senate plan and gas taxes

The Senate plan increases the state gas tax by four cents a gallon on October 1, 2015, another four cents on January 1, 2016, and seven cents on January 1, 2017. The diesel tax, which is currently at a lower rate than gasoline, will increase at a slightly different rate but will match the gas tax at 34 cents a gallon on January 1, 2017. Per gallon fuel taxes then will increase by the rate of inflation each January thereafter. The Senate plan requires the first eight cents of the gas tax increase to be distributed according to the established funding formula. The last seven cents of the new tax will be directed to something called the "50-Year Roads Lock Box Fund." This money will not be distributed through the transportation fund, but would instead be released from the lock box only after the House and the Senate approve a resolution authorizing the money to be used for specific road projects.

Advantages of a gas tax

One of the chief advantages of increasing the gas tax is that the state constitution strictly limits how the money is used. The constitution specifies that all money collected at the pumps shall be used for construction and maintenance of public roads and bridges. Money can be deducted for the cost of collecting the revenue, and no more than 10 percent of the revenue can be used for comprehensive transportation purposes, which include mass transportation and nonmotorized programs. This means that in times of fiscal distress, the legislature has no authority to divert these funds for other state purposes.

Redirecting current state funds

Both the House and the Senate plans rely heavily on reprioritizing existing state revenues to fund transportation. In both plans, the legislature has identified the state income tax as the source of the revenue. While both the House and Senate plans add money for transportation purposes starting on October 1, the Senate's plan uses the new gas tax revenue to supply the first year of revenue. The House plan requires diverting over $500 million out of the state budget that was approved less than a month ago – a budget that did not take into account this diversion of revenues. The Senate plan does not impact other parts of the state budget until October 1, 2016.

The House plan, in general, relies on shifting the majority of the projected state general fund growth over the next four years to transportation purposes. Of course, for the first year, this money has already been allocated throughout the state budget. The House plan also identifies other specific sources of revenue. In particular, those revenues targeted are currently used for economic development projects. These include proceeds from a lawsuit against tobacco companies to offset health care costs associated with smoking, and funds paid to the state by casinos operated by Native American tribes. Both the House and Senate are considering eliminating the Earned Income Tax Credit to pay for roads. This state income tax credit is currently claimed by more than 700,000 low-income wage earners.

Issues with diverting current state funds

Unlike revenues generated through the gas tax, which are constitutionally protected and can only be used for transportation purposes, all other revenues under both plans will only stay in the transportation fund as long as the legislature doesn't find a greater need. For example, when the legislature created statutory revenue sharing by dedicating portions of state taxes to assist local governments, they legally obligated this money to local governments. When the state ran into budget problems, they simply amended the law and diverted these funds to other state purposes. Outside of the money generated by the increases in fuel taxes and modest revenues associated with alternative fuel vehicle registrations, all of the remaining funding in both plans could be shifted at any time to other state priorities, just like statutory revenue sharing. These funds will be extremely vulnerable any time the state has budget concerns, which has occurred frequently over the past decades.

Future growth for transportation funds

Both the House and Senate funding plans have components that will allow for natural growth, and components that will stagnate or disappear. The Senate plan indexes the 34-cent per gallon gas tax to the rate of inflation, with all revenues from the inflationary increase being diverted to the "lock box." The House plan increases the 19-cent gas tax in the future, also based on the rate of inflation. While lack of indexing has been one of the issues that created problems for funding Michigan's roads in the past, the new plans fail to recognize the trend of less fuel consumption based on more fuel-efficient vehicles. This reduced consumption will likely result in either revenues increasing by less than inflation or possibly even being reduced year over year.

The House plan requires shifting an increasing amount of the state's income tax revenue into the transportation fund, culminating in $792 million being shifted in the 2019 state fiscal year. The legislation then requires this amount to be increased by the rate of inflation each year thereafter. The Senate plan caps the transfer of income tax revenue in fiscal year 2018 at $700 million, and freezes the transfer at that amount in years thereafter. As noted earlier, the House plan includes the use of $75 million per year from the tobacco company lawsuit settlement; this payment expires in 2022 and thus creates a funding reduction in that year and thereafter.

Funding for mass transit

The state constitution allows up to 10 percent of fuel taxes and vehicle registration fees to be used for comprehensive transportation purposes. This includes funding for local bus systems as well as "dial-a-ride," rail, intraurban buses, and nonmotorized programs. The last time gas taxes were increased was in 1997, but none of this revenue was directed to the Comprehensive Transportation Fund. Unfortunately, the last time revenue was increased for comprehensive transportation purposes was in 1987. This lack of funding at the state level has contributed to Michigan having a very poor mass transit system.

The House plan does nothing to change funding for mass transit; none of the revenue is dedicated to mass transit purposes. The only part of the Senate plan that goes to the Comprehensive Transportation Fund is 10 percent of the first eight cents of the gas tax increase. This would mean an annual increase of approximately $40 million per year, or an increase of less than 15 percent following three decades of stagnant funding.

Impact on local road agencies

Under Public Act 51, all fuel taxes and vehicle registration fees flow into the transportation fund. Some of the funds are taken "off the top" for specific transportation programs, including the Comprehensive Transportation Fund. The remainder is distributed to the Michigan Department of Transportation and to county, city, and village road agencies. Just under $1.6 billion of the approximately $2 billion collected is distributed by the formula. PA 51 specifies that 39.1 percent of the pot goes to the State Transportation Fund, 39.1 percent goes to county road agencies, and 21.8 percent goes to city and village road departments. Counties are responsible for roads within townships. Actual amounts distributed to each local government are determined based on formulas prescribed by PA 51. Neither the House nor Senate plan changes the distribution formula to local governments. However, both plans create special provisions for the use of the new revenues.

The House plan does not allow any of the new funds to be used for the Comprehensive Transportation Fund. All of the new money is directed to the 39/39/22 formula. When fully implemented, the House plan increases funding to county road agencies by approximately $450 million per year; cities and villages would see an increase of approximately $250 million per year.

The Senate plan creates three different scenarios for the new funds. The first eight cents of the gas tax, or about $370 million, will flow through the existing state transportation fund formula. This means more funds for the Comprehensive Transportation Fund. The final seven-cent gas tax increase and all revenue associated with inflationary increases in the future will go to the "50-Year Roads Lock Box Fund." None of this money will be distributed by the normal formula and it is unknown if any of the revenue will be distributed to local road agencies. The final component – the $700 million per year from the state income tax – will all be distributed by the 39/39/22 formula. Once fully implemented, approximately $400 million will go to counties through the PA 51 formula and $220 million will go to cities and villages.

50-Year Roads Lock Box Fund

The most controversial component of the Senate plan, outside of the source of funds, is the "50-Year Roads Lock Box Fund." The plan starts diverting $330 million away from the current transportation fund in 2017 and places the revenues within the Department of Treasury with the stipulation that the funds may not be expended until the legislature releases them through a resolution approved by both the House and Senate.

The funds will not be released until MDOT develops a plan that reduces the lifetime cost of building and maintaining a road by 50 percent, and stipulates that roads be built in such a way to last 50 years instead of the current 20-year design standard. It is unclear if this applies to all roads or just state roads. The plan must also meet the objective that no state road (it is assumed this means state trunkline road) will be graded in poor condition under the PASER system in 10 years and that there is no further degradation of the PASER rating on the other 92 percent of the roads in the state under local control.

There are two significant issues at play within these objectives. The first is the concept that state roads become a priority for the new revenue under the Senate plan. Currently, the condition of state trunkline roads is much better than the local road system. The 8,000 miles of Interstates, U.S. Highways, and M roads are where all of the state and the majority of federal funds are currently spent. However, this proposal does not anticipate any overall improvement in the other 114,000 miles of roads under local jurisdiction over the next decade. In Southeast Michigan, 50 percent of these roads are currently rated in poor condition; the Senate plan fails to recognize and improve them.

The second major area of concern is the thought that shifting to a 50-year design life for roads will somehow cut long-term costs. This gets into the area of asset management. A decade ago, legislation was enacted that formed a Transportation Asset Management Council (TAMC). This council of engineers and other professionals was assigned the task of designing procedures on how to maintain roads at an optimal level for the least cost. The professional engineers have developed strategies that focus on extensive use of inexpensive maintenance programs that can extend the life of roads by years or even decades. The problem in Michigan has always been that our road systems are so poorly funded that we can't afford to do the necessary maintenance, much less replace roads. The Senate plan runs contrary to the strategy developed by TAMC on how to maximize the value of transportation spending. We may end up putting so much money into building a few roads to a 50-year standard there would be no money left to maintain the rest of the system.

Some would refer to 50-year roads as the European model of road construction. Michigan has actually done a demonstration project using these higher construction standards on a portion of I-375 in Detroit. That roadway was constructed approximately 20 years ago. At this point in time, its condition is virtually indistinguishable from the adjacent pavement that was constructed at the same time using normal construction specifications. However, the “European model” doubles the cost of traditional construction.

The 50-year plan creates a huge upfront construction cost. This comes at a time when there is an unprecedented backlog in maintenance needed to preserve existing roads and an even larger list of roads that need to be replaced. The Senate plan fails to account for these upfront costs and states that the plan should proceed “regardless of funding or financing considerations.” While constructing 50-year roads is a lofty goal, implementing this concept while operating and fixing the remaining system will require far more resources than provided in either the House or Senate plan for decades to come.

Fifty-year standard roads focus on the concepts of thicker and deeper roadways. Generally, the concrete is significantly thicker than traditional roads by feet instead of inches. The road base is also much deeper than traditional roads, meaning using more sand and gravel in the road bed. Additional factors that may become significant cost barriers include the other uses of the right-of-way. Because these road beds will be significantly deeper, and potentially wider, it may also require extensive relocation of other infrastructure such as public and private utilities.

What may be the most disconcerting part of the “lock box” is that the legislature has reserved over $300 million per year for road projects at their discretion. In the past two years, the legislature has reserved additional road funds for projects of their choosing. This process circumvents all the established procedures used to plan, prioritize, and coordinate projects across the state.

SEMCOG’s Legislative Policy Platform

SEMCOG membership has adopted a Legislative Policy Platform. The very first issue area in the platform is transportation. The policy looks for the legislature to provide “adequate and sustainable funding for road and local transit systems that taken into account the changing nature of fuel consumption.”

Funding plans that depend on the yearly battle over appropriations through an ever-changing legislature impacted by term limits significantly misses on the issue of adequate and sustainable. Half of the Senate plan’s funding meets the objective; none of the House’s plan offers a solid foundation for the future. The Senate plan offers a modicum of hope for transit systems; the House plan offers nothing. The Senate lock box plan is more likely to create a scenario where all of the new revenue will be focused on very limited projects leaving the remainder of the state’s transportation system no better off than it is today.