



HOW COUNTY ROADS ARE FUNDED

During the past couple years, there have been numerous legislative proposals to address the funding challenges that transportation agencies are experiencing statewide, and what actions can be taken to ensure that road services can be continued at a level that meets the public expectation.

In the fall of 2008, several bills were introduced to increase transportation funding to address Michigan's deteriorating infrastructure and funding shortfalls. Since this initial legislation was introduced, a variety of amendments were drafted for consideration. Most of these legislative proposals attempted to generate much-needed revenues for transportation agencies, such as allowing for local tax options, permitting fast lanes and toll roads. At this time, none of the proposed legislation to generate additional road revenue has been passed into law.

"While this pending legislation is a step in the right direction, the Washtenaw County Road Commission had to take other steps to work within general declining revenues and rapidly increasing costs. So we identified those areas where we can cut back our services, and reduced some overhead costs," explained **Steve Puuri**, Managing Director.

In 2006, the Board of County Road Commissioners approved some significant reductions in service levels and overhead costs, due to the revenue shortages that are plaguing road agencies throughout the state.

Most recently, the Board has been thoroughly reviewing the 2009 anticipated revenues, fund balances, and commitments through the first quarter, and will have to make some more difficult choices on what other areas the agency can significantly reduce expenses.

"Washtenaw County is just one of 83 road commissions that are looking for every means by which to obtain sufficient funding, so we can continue to maintain Michigan's transportation system now and into the future," said Puuri. *"That is why we have also been meeting with our local officials and regional planning groups to share information on the statewide transportation funding challenges and how stagnant revenues are impacting their Road Commission in Michigan."*

"As we talk with these various groups however, we have discovered another challenge; how to educate the public on where we receive our funding, what our typical costs are to maintain the county roads in a reasonably safe and convenient condition for the traveling public, and why our financial needs are not currently being met," Puuri stated. *"Our public presentations and this article are intended to help citizens learn more about the responsibilities of a road commission, as well as gain insight into the alarmingly high costs associated in conducting our type of business."*

ROAD FUNDING SOURCES

It seems to be a common misconception of the public that road commissions receive their funding from property taxes. Contrary to this misunderstanding, outside of some local funding that may be contributed by a township or developer for a specific project or service, road commissions do not directly receive any property tax revenues or funding from the Washtenaw County Government general fund. Instead, all Michigan road agencies rely heavily upon the receipt of federal and state monies collected through the gas and diesel taxes, and vehicle registration fees and distributed through the **Michigan Transportation Fund (MTF)** – which, over

the past several years have decreased to 2000 levels. The 2009 MTF revenues are anticipated to be \$800,000 less than 2008.

This decrease in revenues is largely because the gas tax has not been increased for a decade (1997), which means that road funding has not been able to keep up with current inflation and the ever-rising costs for equipment, materials, and other overhead expenses.

Fuel taxes are levied in various ways in different states. Some states such as Louisiana, levy a flat rate per gallon.

Others charge a tax similar to a sales tax in that it applies to the monetary amount of the gasoline or diesel sold. Other states allow local communities to levy gasoline taxes in addition to any state taxes that might be levied.

In Michigan, the state gas tax is charged at a flat rate of 19 cents per gallon (cpg), which goes directly into the MTF. However, the Michigan consumer also pays a 6% sales tax at the pump, as well as 0.875 cpg for the environmental regulation fee for refined petroleum fund, both of which are not allocated to the MTF for roads, but are instead distributed to non-transportation agencies.

Additional road revenues are also generated through the federal gas tax of 18.4 cpg, which are collected in all states in addition to any state or local taxes on gasoline sales. However, in Michigan, these federal dollars are returned from Washington D.C. at a rate of 92% and then they are dispersed on a 75% to 25% ratio – with MDOT retaining the larger portion of the revenues, and 83 county road commissions, and 533 cities and villages vying for the remaining 25%.

Another potential source of revenue for road commissions is federal and state grants for specific projects. Although there is a lot of competition to receive these funds, the Washtenaw County Road

Commission has been very successful in obtaining a number of grants for major reconstruction projects. Once this funding is approved however, it is the responsibility of the Road Commission to furnish the required “match” money to secure the grant. This match amount can be any where from 5% to 20% of the total grant amount, depending upon the type of grant, which is applied toward the construction costs, - plus an additional amount (as much as 15% to 35% more) to cover added costs for preliminary engineering, environmental assessments, traffic studies, construction oversight and testing.

“It is important the public realize that these grant funds can only be applied to the specific road improvement project for which they were awarded, and cannot be used for the construction of other roads and bridges, or to pay for road maintenance, facilities upkeep, equipment, and other administrative costs,” Puuri explained. “This can be very confusing to citizens who read that their road commission has a substantial construction program; yet, we have very limited routine maintenance funds. They do not fully understand that more than one-half of the funds cannot be used for routine maintenance of the roads; only for the specific road or bridge construction projects that received grant funding.”

HOW ROAD FUNDING IS DISPERSED

Accumulated revenues generated from state and federal fuel taxes and vehicle registration fees, are overseen by the Michigan Department of Transportation (MDOT), who is responsible for disbursing the **Michigan Transportation Fund (MTF)**. First, there are several \$100 million skimmed off the top for transit and inter-departmental grants to state agencies;

then the MTF is divided between 83 county road commissions (allocated 39.1%); and 533 cities and villages (21.8%) and MDOT (allocated 39.1%) maintains the state trunklines and interstates, which encompass about 8% of Michigan’s transportation network (county road commissions oversee approximately 75% of the public roadways and cities/villages 17%, respectively).

CAUSES FOR MTF DEFICIENCIES

The current revenue deficiencies in the MTF can be attributed to a number of causes:

- (1) Michigan’s current 19 cpg gas tax is the second lowest rate among our neighboring states, many of whom have seen gas tax increases in the past five years. (Wisconsin 20 cpg; Ohio 28 cpg; and Pennsylvania 32.3 cpg.
- (2) In addition, Michigan’s diesel tax is only 15 cpg, and does not provide adequate funding to the MTF. Yet, the trucking industry – a primary user of diesel fuel – is one of the largest contributors to road deterioration due to much heavier axle and wheel loads.
- (3) Vehicle registration fees are another source of revenue for roads; however, when consumers downsize their vehicle or do not purchase new vehicles, there is less money generated through these fees.
- (4) Another MTF deficiency is created by the number of funding transfers to other state agencies, such as the Secretary of State, Department of Treasury, and the Attorney General. These transfers for non-transportation related purposes are depleting the only source of available funding to ensure the future of our transportation infrastructure and a safer road system.

REVENUES vs. EXPENSES

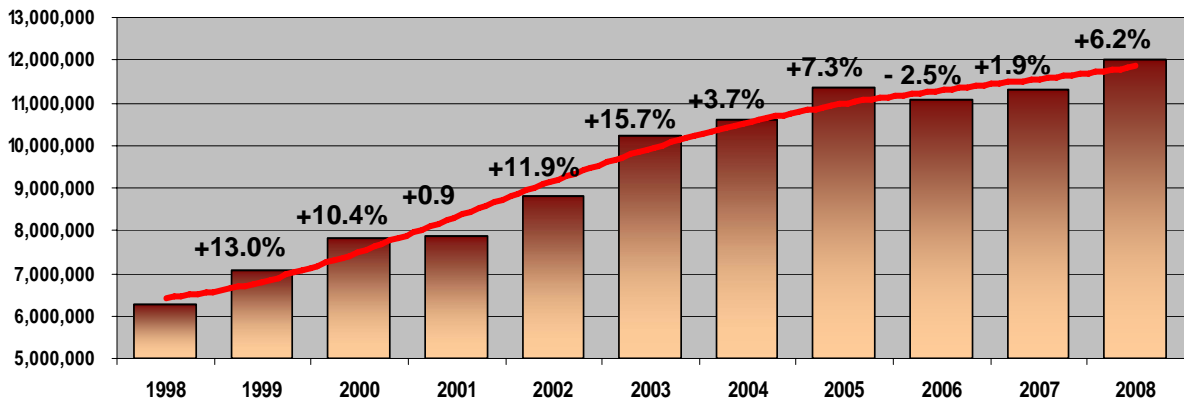
In 2008, the Washtenaw County Road Commission received approximately \$16.6 million through the MTF. These funds were primarily used to cover routine maintenance operations (snow removal, dust control, grading, ditching, mowing, patching, etc.), as well as to purchase equipment and materials, and to cover administrative overhead costs (facilities, utilities, personnel, etc.). A portion of this amount also covered the match required for \$4.1 million received through

Federal and state grants in 2008. Other funding received by the agency was made available through various federal and state grants or local sources, such as contributions from townships, cities, developers, utilities, and through permit application fees. While the \$16.6 million received by the agency in 2008 may seem like it should be an adequate amount, it was quickly depleted due to the high inflationary costs incurred by the Road Commission to provide its mandated services.

Core Services Costs

Primary & Local Roads – Routine Maintenance

Costs for routine maintenance have increased by 97% since 1998 (+9.7%/yr.)



ROAD COMMISSION RESPONSIBILITIES

The Washtenaw County Road Commission is statutorily responsible for maintaining approximately 1,647 miles of county roads (2008 certified miles); the agency also contract with MDOT to maintain approximately 580 additional lane miles of state highways. To meet this demanding challenge, the agency first focuses its attention on the most heavily traveled roads in the county, to ensure that they are reasonably safe and convenient to travel. Interstate highways, state trunklines and paved primary roads are the highest priority for winter maintenance. County primary roads are at the top of the capital improvement list for major reconstruction projects, and overall preventive maintenance.

Following this long list of roadways are Washtenaw County' local roads – both paved and soft surface (gravel or limestone). However, Public Act 51 of 1951 limits the amount of funds that can be expended by a road commission for improvements on the local roads. At least 50% of the funds required for local road improvement must come from sources other than those provided through the MTF. Thus, to address the preservation and improvements to the local road system, the agency often turns to the townships for help through

their general fund allocations and/or special assessment districts.

“We hope the information provided in this article will help citizens of Washtenaw County to better understand how our road funding works, and the current revenue challenges we are trying to address. Our agency and other road commissions statewide are meeting regularly to discuss what we can do to address the revenue shortfalls we are experiencing. It is our hope that by educating our customers across the state, we will gain your support in addressing this critical road funding problem for which a viable solution is needed immediately,” state Puuri.

“If you recognize the importance and value of the roads on which you travel, and believe that maintaining a safe and convenient transportation system is a number one priority, the Washtenaw County Road Commission welcomes your support, and asks that you join us in communicating this message to our state legislators; that providing sufficient and appropriate funding for all of Michigan’s roadways and bridges is an idea whose time has come!” Puuri concluded.

For further information on the WCRC, please visit our website at: www.wcroads.org.