FISCAL BRIEF

MTF Distribution Formula to Local Road Agencies

William E. Hamilton, Senior Fiscal Analyst
November 9, 2018

Fast Facts

- Revenue from motor fuel taxes and vehicle registration taxes is constitutionally dedicated for transportation.
- Revenue is credited to the Michigan Transportation Fund (MTF) and distributed by Act 51 formula to other transportation funds, categorical programs, and to local road agencies. Act 51 also governs the distribution of MTF revenue among local road agencies.
- Estimated MTF revenue for FY 2018-19 is $2.9 billion, including $150.0 million from an earmark of Income Tax revenue; the MTF distribution to local road agencies would total $1.4 billion.

Introduction

Historically, most state-generated tax revenue recognized in the state transportation budget has come from two sources: motor fuel taxes and vehicle registration taxes. Together these sources are expected to generate $2.8 billion in FY 2018-19.

Motor fuel and vehicle registration tax revenue is dedicated for transportation purposes in Article IX, Section 9 of the Michigan's 1963 Constitution. This revenue is credited to the Michigan Transportation Fund (MTF) and then distributed in accordance with Section 10 of Public Act 51 of 1951 (Act 51).

In addition to this constitutionally dedicated revenue, beginning in FY 2018-19, the MTF also receives revenue from an earmark in the Income Tax Act—revenue that had previously been credited to the state General Fund. This Income Tax earmark, which was one of the elements of the 2015 Road Funding Package, will total $150.0 million in FY 2018-19.[1] Including the Income Tax earmark, estimated MTF revenue in FY 2018-19 will total over $2.9 billion.

Section 10 of Act 51 establishes the MTF and directs the distribution of MTF revenue. MTF revenue is first allocated for administrative, statewide planning, and collection costs, and for various statutory categorical programs. Section 10 also allocates MTF revenue to the Comprehensive Transportation Fund (CTF) for public transportation programs, including capital and operating assistance to 81 local public transit systems. The MTF balance after these various allocations and distributions, plus revenue from the Income Tax earmark, is distributed for state and local road agency highway programs as follows:

- 39.1% to the State Trunkline Fund (STF), for construction and preservation of the state trunkline system and administration of the Michigan Department of Transportation (MDOT)
- 39.1% to 83 county road commissions for preservation of county road systems
- 21.8% to 533 cities and villages for preservation of city and village street systems

[1] Section 51d of the Income Tax Act earmarks $150.0 million to the MTF in beginning in FY 2018-19. The earmark increases to $325.0 million in FY 2019-20, and for FY 2020-21, and each fiscal year thereafter, is $600.0 million. Section 51d directs the revenue be disbursed to state and local road agency programs, as provided in Section 10(1)(k) of Act 51.

The MTF distribution described above, and as represented in the attached flowchart, is sometimes referred to as the Act 51 "external" formula. Act 51 also has "internal formulas," that drive the MTF distribution among the 83 county road commissions and 533 cities and villages. The MTF revenue distribution to county road commissions and to cities and villages represents the largest funding source for those local road agencies.

MTF to County Road Commissions

The estimated MTF formula distribution to county road commission in FY 2018-19 is $980.0 million, including $21.2 million from the Local program fund.

The MTF distribution to county road commissions is distributed among the 83 county road commissions by formula established in Section 12 of Act 51. The three primary distribution factors include road miles, population, and registration taxes attributable to the county. Of the three, registration taxes is the most heavily weighted factor, accounting for almost half the basis for distribution. See Table 1 for county road commission MTF distribution factors.

According to the Michigan Secretary of State, the assignment of registration taxes to a particular county is based on the registration address used by the vehicle owner. For private passenger cars this is generally the owner's primary residence, although registrants may use an alternate address, such as a second home. Businesses may use the corporate address even though company vehicles may be physically located anywhere in the state. The assignment of county is not based on the Department of State branch office the registrant elects to use.

Table 1, below, shows the relative weighting of the factors affecting the distribution of MTF revenue to county road commissions. The table uses $1.0 billion—roughly the FY 2018-19 MTF distribution to county road commissions—for illustrative purposes. [Because of rounding, payments to county road commissions for the employment of professional engineers, and adjustments for jurisdictional transfers, the figures will not total to $1.0 billion.]

Table 1: MTF Distribution to County Road Commissions
Distribution assuming $1.0 billion MTF

Distribution Factors		
1.00%	by snow formula	$10,000,000
9.90%	by urban road mileage, for urban Primary and Local roads	99,100,000
47.90%	by resident vehicle registrations, for Primary roads	479,000,000
6.39%	by Primary road mileage, for Primary roads	63,900,000
9.58%	1/83 equally, for Primary roads	95,800,000
16.41%	by Local-road mileage, for Local roads	164,100,000
8.84%	by rural population, for Local roads	88,400,000

Plus $10,000 each for county engineer, and adjustments for mileage transferred between jurisdictions. *Source: MDOT, Bureau of Planning.*

Some MTF distribution factors change infrequently. Population factors change only after each decennial census. Road system mileage changes when roads are built or abandoned. However, formula mileage figures are only adjusted annually after local road agencies submit maps of local road system mileage. Mileage as used in the formula represents linear road miles.[2] Registration figures change every month based on registration data reported by the Michigan Secretary of State.

The factors described above drive the distribution of total MTF revenue to county road commissions. The distribution to any particular county is a function of that county's proportional share of each one of the factors. For example: if the total MTF distribution to county road commissions was $1.0 billion, roughly 47.9% of the $1.0 billion, $479.0 million, would be distributed based on registrations within counties. As an example: If 9.2% of vehicle registration revenue was attributable to County A, that county would receive roughly 9.2% of the $479.0 million distributed based on registrations. County A would receive its share of the other distribution factors based on its proportional share of those factors.

MTF to Cities and Villages

The estimated MTF formula distribution to cities and villages in FY 2018-19 is $546.4 million, including $11.8 million from the Local program fund.

The MTF distribution to cities and villages is distributed among the 533 cities and villages by formula established in Section 13 of Act 51. Section 13 directs that 75% of the MTF distribution to cities and villages—after deduction for a 0.7% earmark for snow payments—be allocated for city/village *major streets.*[3] The distribution of MTF major street funds among the 533 cities and villages is based on two factors: 60% based on city/village census population and 40% based on city village "equivalent major mileage."

The balance of the MTF distribution to cities and villages is earmarked for *local streets*. MTF local street funds are allocated among the 533 cities and villages based on two factors: 60% based on census population, and 40% of local street mileage.

The amount any particular city or village receives in MTF funding is based on that municipality's proportional share of the city/village allocation factors.

As used in the city/village distribution formula, "mileage" represents linear miles of city/village streets. However, the "equivalent major mileage" factor used in allocating MTF major street funds includes both 1) city/village major street mileage, weighted by population, and 2) the mileage of state trunkline highways within municipalities with populations greater than 25,000. The specific definition of *equivalent major mileage* from Section 13(15) is as follows:

[2] Act 51 provides for the classification of the county roads as either *county primary roads* or *county local roads*. Act 51 also defines county *urban system* roads which may be either county primary or county local roads.
[3] Act 51 provides for the classification of the city and villages streets as either *major* or *local*.

"Equivalent major mileage" means the sum of two times the state trunk line mileage certified by the department as of March 31 of each year, as being within the boundaries of each city and village having a population of 25,000 or more, plus the major street mileage in each city and village, multiplied by the following factor:

(i) 1.0 for cities and villages of 2,000 or less population

(ii) 1.1 for cities and villages from 2,001 to 10,000 population

(iii) 1.2 for cities and villages from 10,001 to 20,000 population

(iv) 1.3 for cities and villages from 20,001 to 30,000 population

(v) 1.4 for cities and villages from 30,001 to 40,000 population

(vi) 1.5 for cities and villages from 40,001 to 50,000 population

(vii) 1.6 for cities and villages from 50,001 to 65,000 population

(viii) 1.7 for cities and villages from 65,001 to 80,000 population

(ix) 1.8 for cities and villages from 80,001 to 95,000 population

(x) 1.9 for cities and villages from 95,001 to 160,000 population

(xi) 2.0 for cities and villages from 160,001 to 320,000 population

(xii) For cities over 320,000 population, a factor of 2.1 increased successively by 0.1 for each 160,000 population increment over 320,000

Although the Act 51 distribution formula for cities and villages includes a recognition of state trunkline miles, cities and villages are not responsible for the maintenance of state trunkline highways within municipal boundaries. Under Section 1c of Act 51 cities and villages are required to participate in the cost of construction or reconstruction of state trunkline highways within municipal boundaries; however, this section was amended in 2016 (Public Act 459 of 2016) to exclude limited access highways from the cost sharing requirement.

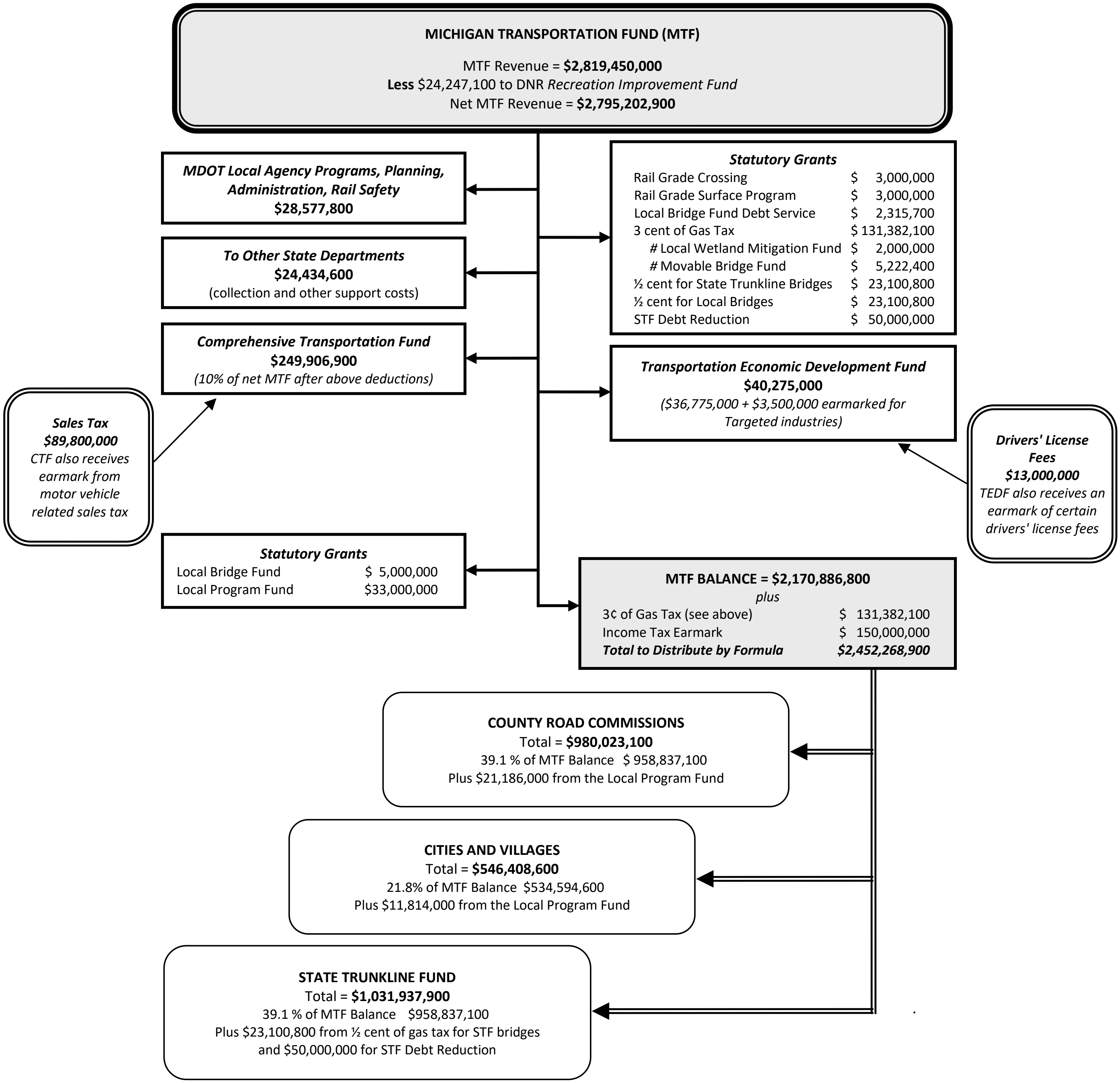
The above descriptions of estimated and actual MTF revenue and distributions are on a fiscal year basis. However, MDOT distributes MTF revenue to county road commission and to cities and villages each month, based on the prior month's actual MTF revenue and calculated distribution factors. The MDOT is responsible for the administration of the Act 51 formula distribution of MTF revenue. The distributions and related distribution calculations are reported on the MDOT website.[4]

[4] https://www.michigan.gov/mdot/0,4616,7-151-9625_14406_54348---,00.html

ATTACHMENT

FY 2018-19 MICHIGAN TRANSPORTATION FUND REVENUES AND DISTRIBUTIONS PER Sec. 10, 1951 PA 51

February 2018 ORTA Estimate



Note: This flowchart represents the distribution of MTF revenue derived from constitutionally restricted motor fuel and vehicle registration taxes as guided by Section 10 of Public Act 51 of 1951, as amended by Public Act 246 of 2016. The earmark of $150.0 million for state and local highway programs, established in Section 51d of the Income Tax Act by Public Act 179 of 2015, is shown as an addition to the MTF balance for distribution to road agencies by formula.