Budget Briefing: Transportation

William Hamilton, Senior Fiscal Analyst

January 21, 2026

Briefing Topics

- Transportation Revenue Sources (Budget Level)
- Transportation Appropriation Areas (Budget Level)
- Transportation Funding – Sources, Distribution, and History
  - October 2025 Transportation Funding Package

Michigan's Transportation Budget

Michigan's Transportation budget supports:

- State and local road and bridge programs
  - Construction and preservation of the state trunkline highway system
  - Funding for local road agencies (83 county road commissions, 531 cities and villages)
- Public transportation programs
  - Capital and operating assistance to 80 public transit agencies
  - Capital and operating assistance for rail passenger service in Michigan
- Aeronautics programs
  - Capital assistance to public use airports
- Administration of the Michigan Department of Transportation (MDOT)

Key Budget Terms

Fiscal Year: The state's fiscal year (FY) runs from October to September. FY 2025-26 is October 1, 2025, through September 30, 2026.

Appropriation: Authority to expend funds. An appropriation is not a mandate to spend. Constitutionally, state funds cannot be expended without an appropriation by the legislature.

Line Item: Specific appropriation amount that establishes spending authorization for a particular program or function in a budget bill.

Boilerplate: Specific language sections in a budget bill that direct, limit, or restrict line item expenditures, express legislative intent, and/or require reports.

Lapse: Appropriated amounts that are unspent or unobligated at the end of a fiscal year. Appropriations are automatically terminated at the end of a fiscal year unless designated as a multi-year work project under a statutory process. Lapsed funds are available for expenditure in the subsequent fiscal year.

Note: Unless otherwise indicated, historical budget figures in this presentation have not been adjusted for inflation.

Funding Sources

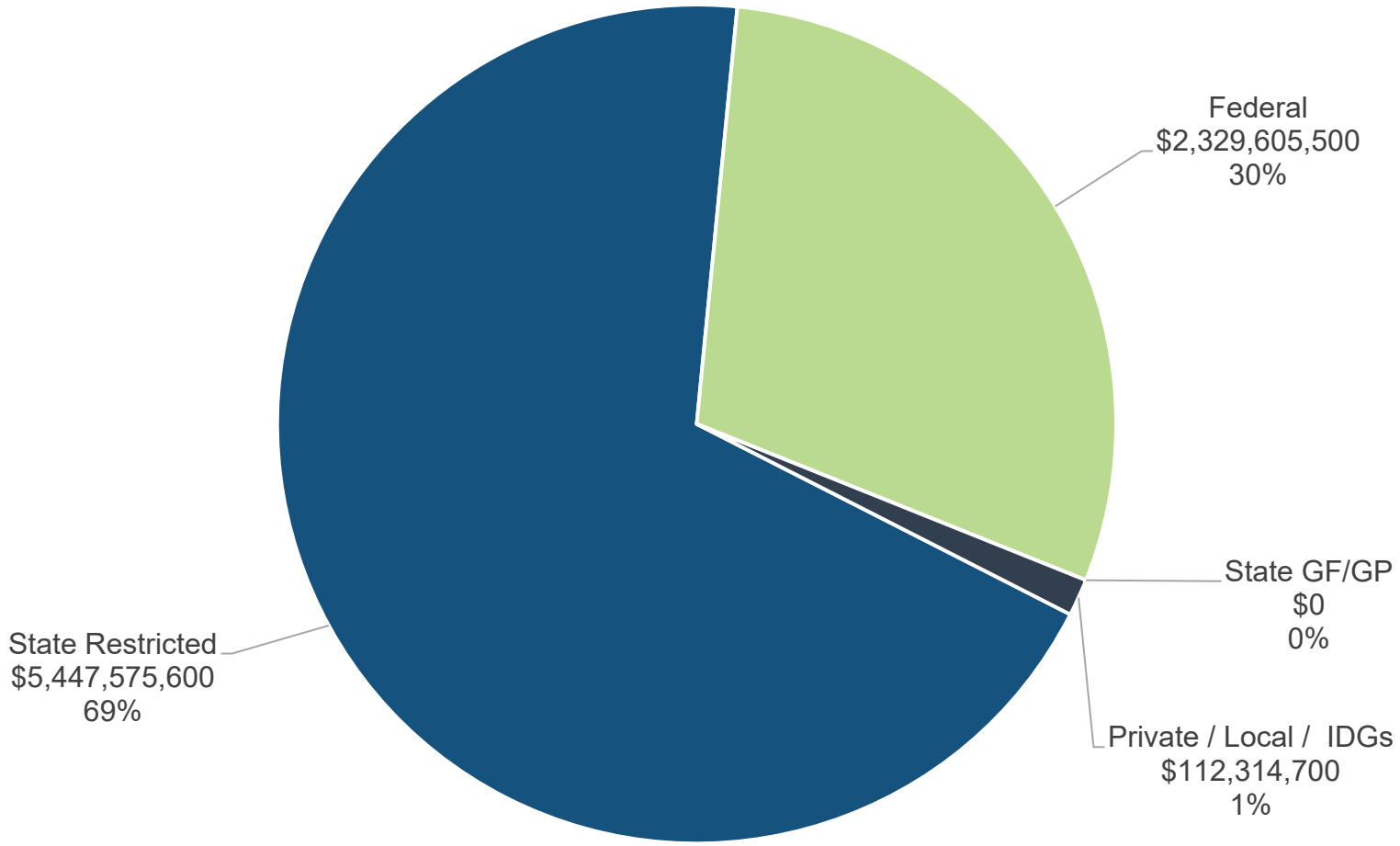
FY 2025-26 Transportation Budget

Fund Source	Funding	Description
Gross Appropriations	$7,889,495,800	Total spending authority from all revenue sources
Interdepartmental Grants (IDG) Revenue	4,366,200	Funds received by one state department from another state department, usually for services provided
Adjusted Gross Appropriations	$7,885,129,600	Gross appropriations excluding IDGs; avoids double counting when adding appropriation amounts across budget areas
Federal Revenue	2,329,605,500	Federal grant or matching revenue; generally dedicated to specific programs or purposes
Local Revenue	87,448,500	Revenue received from local units of government for state services
Private Revenue	20,500,000	Revenue from individuals and private entities, including payments for services, grants, and other contributions
State Restricted Revenue	5,447,575,600	State revenue restricted by the State Constitution, state statute, or other restriction which limits use for specific purposes.
State General Fund/General Purpose (GF/GP) Revenue	$0	Unrestricted revenue from taxes and other sources available to fund basic state programs and other purposes as determined by the legislature

Note: This table and other figures used in this presentation reflect the FY 2025-26 budget as enacted in Article 15, 2025 PA 22 (House Bill 4706).

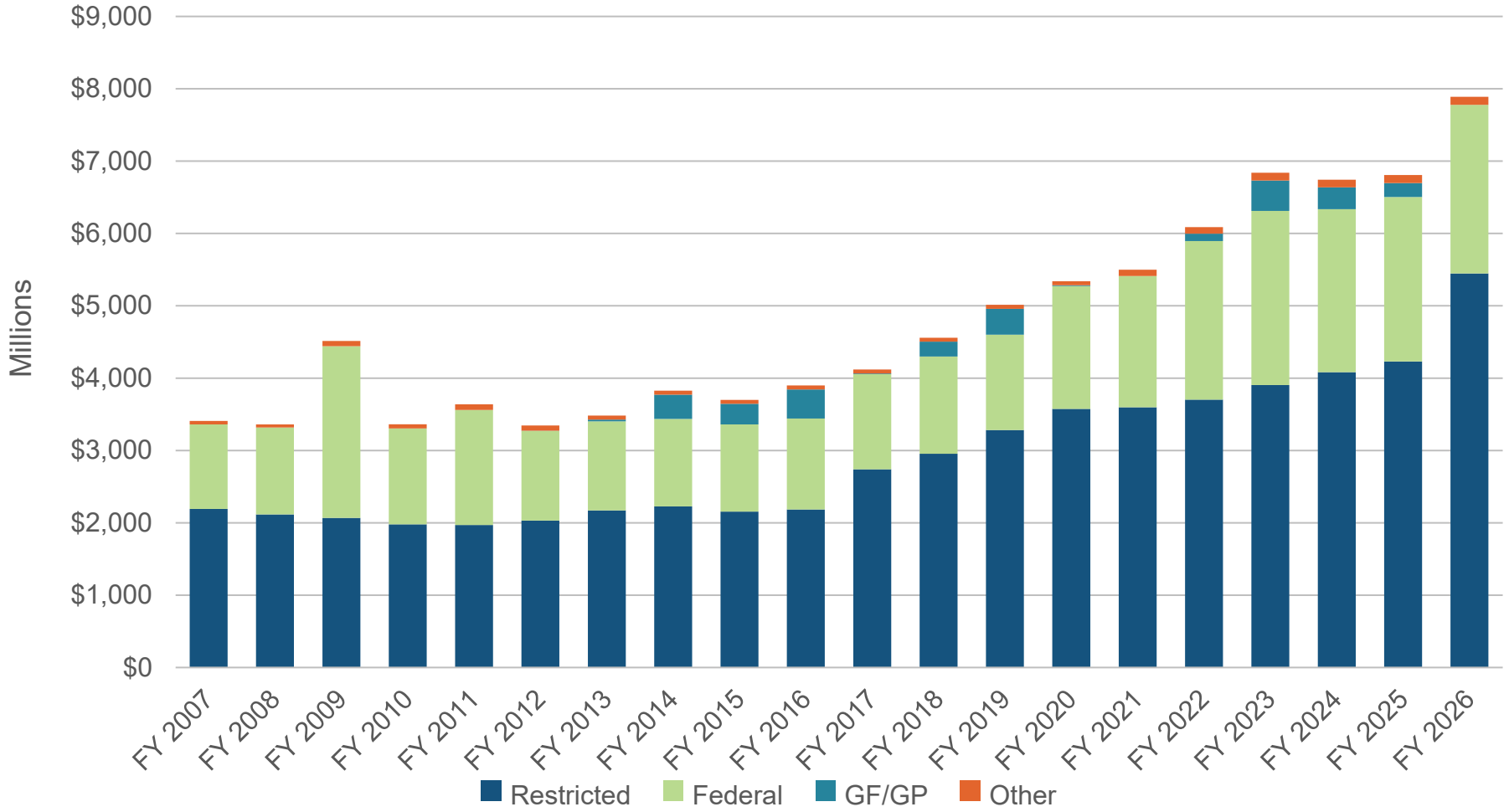
FY 2025-26 Fund Sources

State restricted revenue is the largest fund source in Michigan's $7.9 billion transportation budget. Federal revenue is second largest.



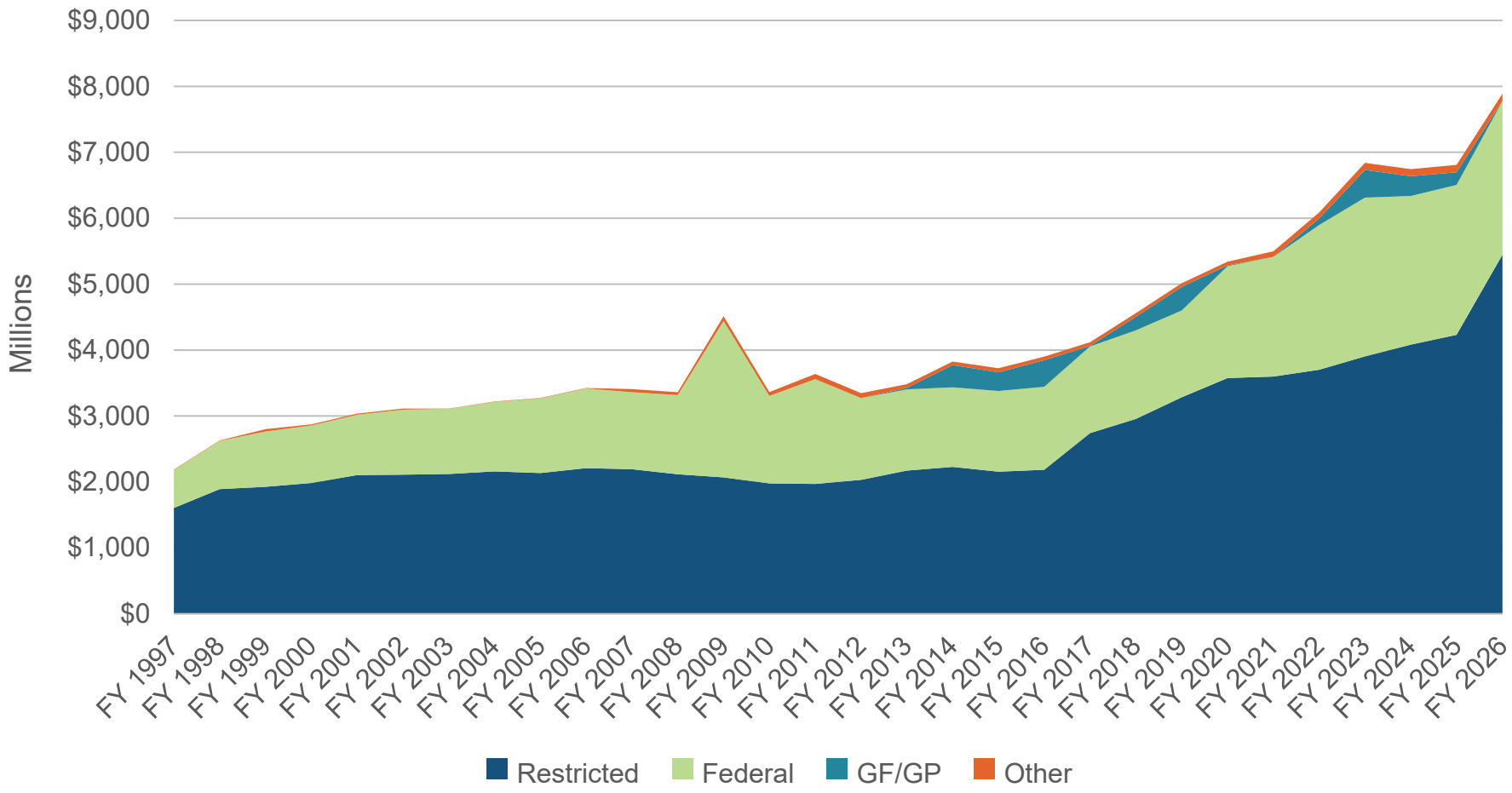
Transportation Appropriations

Federal increase in FY 2009 reflects federal “Stimulus” funds. Increases beginning in FY 2017 reflect the impact of November 2015 Road Funding Package, as well as additional federal aid from COVID relief and IIJA. FY 2026 reflects impact of October 2025 Transportation Funding Package.



Transportation Gross Appropriations
(30-Year Time Horizon)

Federal increase in FY 2009 reflects federal “Stimulus” funds. Increases beginning in FY 2017 reflect the impact of November 2015 Road Funding Package, plus additional federal aid from COVID relief and IIJA. FY 2026 reflects of October 2025 Transportation Funding Package.



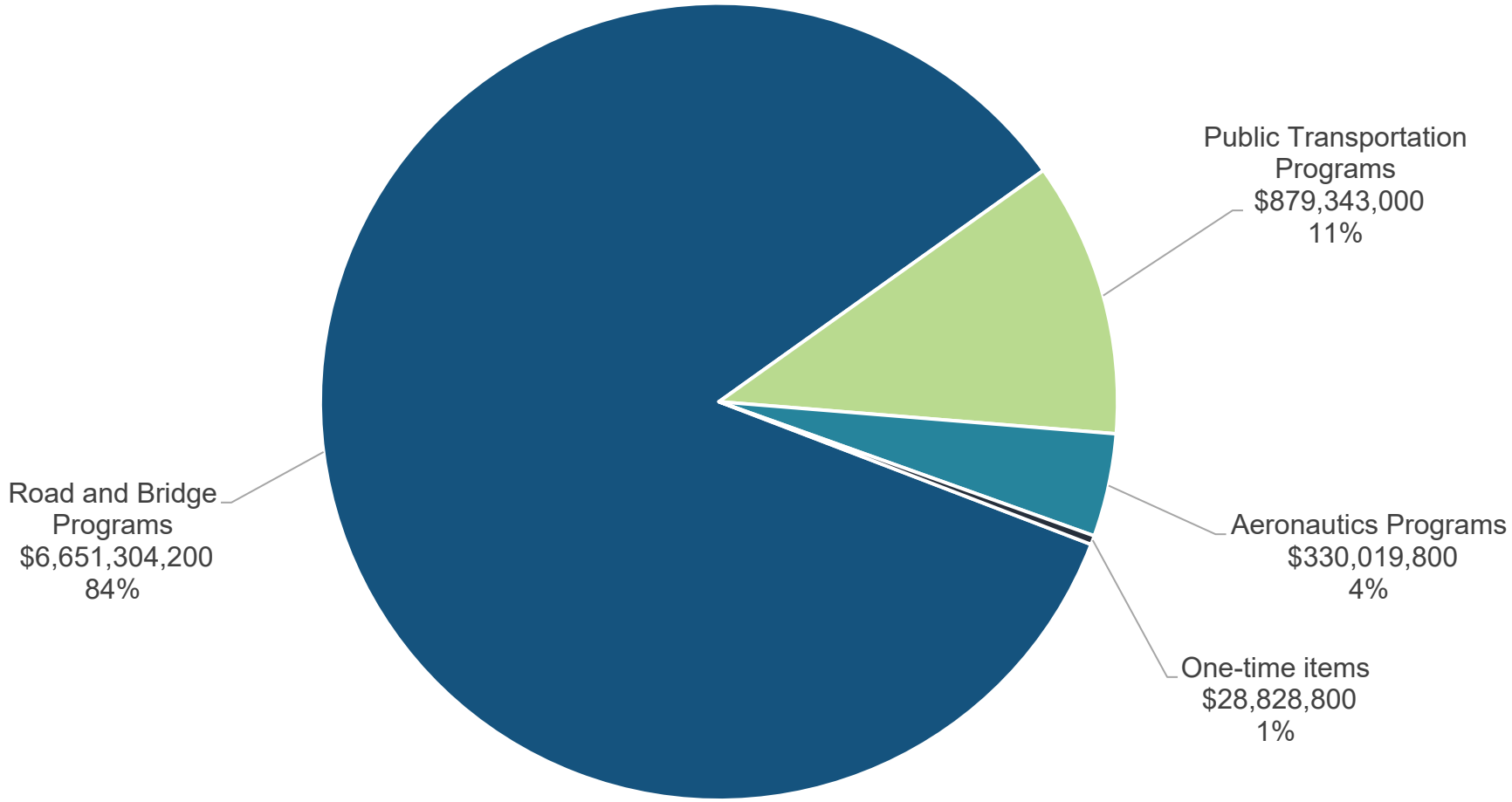
Appropriation Areas

Transportation Appropriation Areas

- State and local road and bridge programs
- Public transportation programs
- Aeronautics programs

FY 2025-26 Gross Appropriations

Three major programs in the **$7.9 billion** Transportation budget are: Road and bridge programs (including distributions to local road agencies), **84%**; public transportation programs, **11%**; and aeronautics programs, **4%**. (One-time items total $28.8 million, less than 1%)

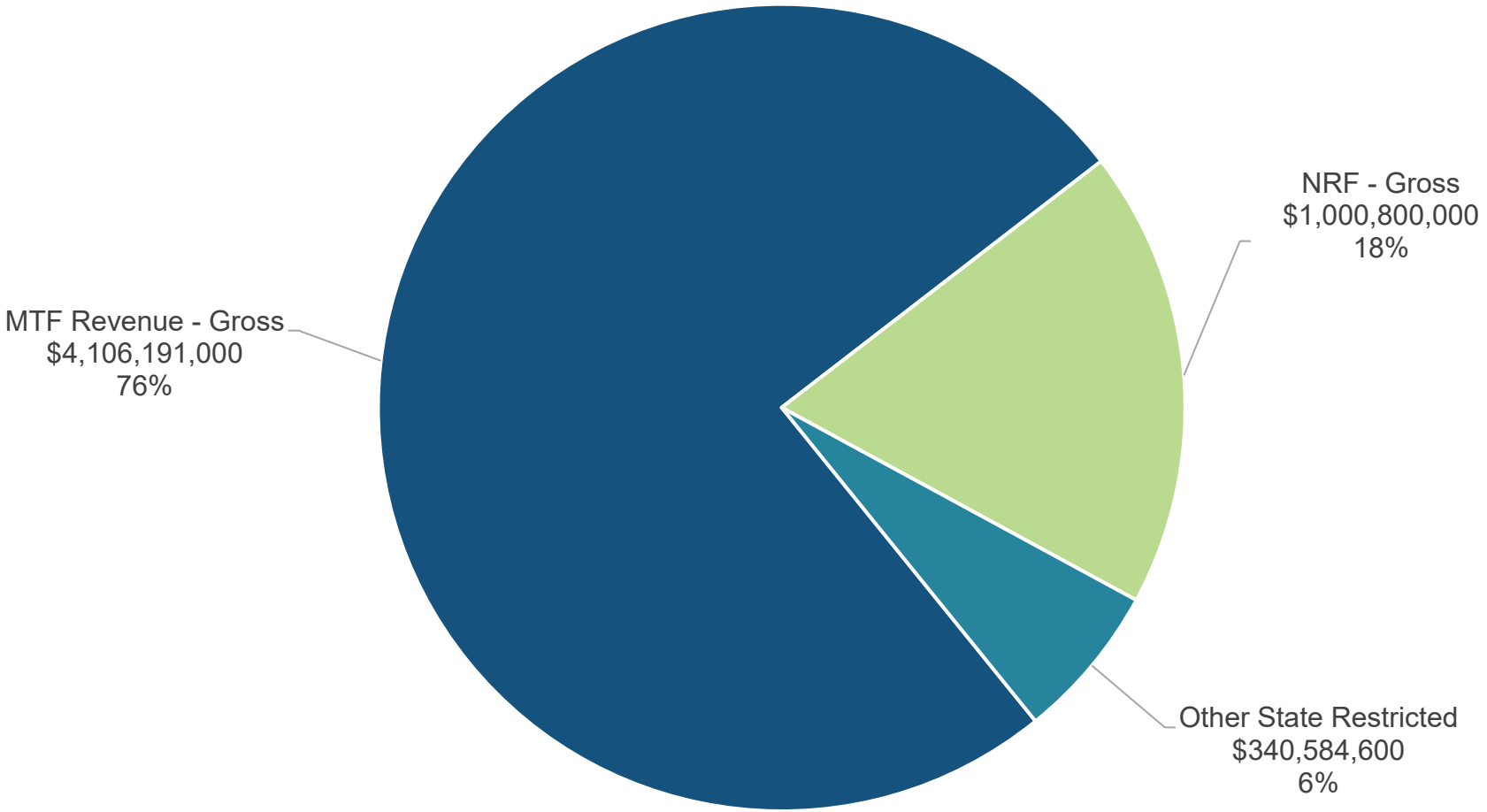


Major Budget Topics

Transportation Revenue

FY 2025-26 State Restricted Revenue

Michigan's **$7.9 billion** transportation budget includes **$5.4 billion** from state restricted revenue sources. The breakout of restricted revenue sources is shown below.



Transportation - State Restricted Revenue Michigan Transportation Fund

- **Motor Fuel Taxes**
  - The Motor Fuel Tax Act establishes a per-gallon tax on gasoline and diesel motor fuel, and per-gallon equivalent for alternative fuels. Since January 1, 2022, the rate has been inflation-adjusted annually.
  - The rate effective **January 1, 2026, 52.4 cents per gallon,** reflects both the October 2025 Transportation Funding Package 20-cent per gallon increase, and a 1.4 cent per gallon inflation adjustment.
- **Vehicle Registration Taxes**
  - Various taxes on car, truck, and trailer registrations established in the Michigan Vehicle Code
- **Marijuana Retail Excise Tax**
  - Earmark of a retail excise tax on recreational marijuana retail sales, estimated at **$109.0 million** in FY 2026 (based on January 2026 CREC).
- **Note: The October 2025 Transportation Funding Package eliminated, with the 2025-2026 fiscal year, a $600.0 million earmark of income tax revenue to the MTF.**

Transportation - State Restricted Revenue Michigan Transportation Fund

- The Michigan Transportation Fund (MTF) is the primary collection sales distribution fund for state restricted transportation revenue.
- MTF revenue is *distributed* in accordance with Public Act 51 of 1951 ("Act 51").
- **FY 2025-26**, estimated baseline MTF revenue, before impact of the October 2025 Transportation Funding Package, totaled **$3.9 billion.**
- MTF impacts of the October 2025 Transportation Funding Package:
  - **Increased motor fuel tax rate**, effective January 1, 2026, by 20.0 cents per gallon. This will increase gross MTF revenue by:
    - **$1.073 billion** on 12-month basis
    - **$715.6 million** in FY 2025-26
  - **Eliminates the $600.0 million individual income tax earmark** effective October 1, 2026.
  - **The net change in MTF revenue is a $350.5 million increase on 12-month basis, $33.7 million for FY 2025-26.**

October 2025
Transportation Funding Package

On October 3, 2025, the Michigan House and Senate passed a seven-bill package primarily related to state transportation funding. The Governor approved all bills in the package on October 8, 2025.

House Bill 4183 (2025 PA 20) amends the **Motor Fuel Tax Act** to increase the motor fuel tax rate from 31.0 cents per gallon to at least 51.0 cents per gallon effective January 1, 2026.

House Bill 4961 (**2025 PA 24**) amends the **Income Tax Act** to:

- Eliminate, effective October 1, 2025, a **$600.0 million** annual earmark of **Individual Income Tax** revenue to the Michigan Transportation Fund (MTF);
- Establish a new earmark of **Corporate Income Tax** (CIT) revenue – **$688.0 million** in FY 2025-26 – for credit to the Neighborhood Roads Fund (NRF) established in Senate Bill 578.

House Bill 4951 (2025 PA 23) creates a new act, **the Comprehensive Road Funding Act. The act establishes a 24% Wholesale Marihuana Excise Tax** and earmarks revenue from the tax for credit to the NRF established in Senate Bill 578.

Senate Bill 578 (**2025 PA 16**) amends Act 51 to create the NRF and to direct the appropriation and distribution of revenue earmarked to the fund in House Bills 4951 and 4961.

October 2025
Transportation Funding Package

House Bill 4180 (2025 PA 17) and **House Bill 4182 (2025 PA 19)** amend the **General Sales Tax Act**, and the **Use Tax Act**, respectively, to exempt motor fuel from the sales and use taxes beginning January 1, 2026, and to hold the School Aid Fund harmless for revenue lost due to the exemptions.

House Bill 4182 has no direct impact on transportation funding, and House Bill 4180 has only a limited direct impact on transportation funding – it affects the "auto-related sales tax" credited to the Comprehensive Transportation Fund (CTF).

The exemption of motor fuel sales from sales and use tax was intended to address a perceived tax policy problem – that Michigan was one of a small number of states to impose both motor fuel tax and sales tax on motor fuel sales.

Exempting motor fuels from the sales tax, and at the same time increasing the motor fuel tax by 20 cents per gallon is sometimes described as a "tax swap."

October 2025
Transportation Funding Package – MTF Impacts

- **Motor Fuel Tax Impacts**
  - Amendments to the Motor Fuel Tax Act would increase MTF revenue by $1.073 billon on a 12-month basis.
  - Because the increase is effective January 1, 2026, only 2/3rds of the impact would be recognized in FY 2025-26 – $704.1 million.
- **Income Tax Impacts**
  - Elimination of the Individual Income Tax earmark to the MTF would reduce MTF revenue by $600.0 million in FY 2025-26 and each subsequent fiscal year.
  - The change was effective October 1, 2025, and is reflected in each monthly MTF distribution beginning October 2025.
- **Net MTF Impact**

  12-month basis: $456.1 million gross increase ($105.6 million CTF; $350.5 million to road agencies)

  FY 2025-26 partial year: $104.1 million gross increase ($70.4 million CTF; $33.7 million to road agencies)

October 2025 Transportation Funding Package

Motor Fuel and Alternative Fuel Tax Rates (per gallon or gallon equivalent)			
Period	**Gasoline**	**Diesel**	**Alternative Fuels***
August 1, 1997 – December 31, 2016	19.0 cents	15.0 cents	15.0 cents
January 1, 2017 – December 31, 2021	26.3 cents	26.3 cents	26.3 cents
January 1, 2022 – December 31, 2022	27.2 cents	27.2 cents	27.2 cents
January 1, 2023 – December 31, 2023	28.6 cents	28.6 cents	28.6 cents
January 1, 2024 – December 31, 2024	30.0 cents	30.0 cents	30.0 cents
January 1, 2025 – December 31, 2025	31.0 cents	31.0 cents	31.0 cents
January 1, 2026 – December 31, 2026	52.4 cents	52.4 cents	52.4 cents

* = prior to the enactment of 2015 PA 176, “alternative fuels” were not specifically addressed in the Motor Fuel Tax Act, with the exception of “liquified petroleum gas” for which the tax was 15 cents per gallon.

October 2025 Transportation Funding Package – NRF Impacts

- **Corporate Income Tax Impacts**
  - Earmarks $688.0 million in Corporate Income Tax to the NRF in FY 2025-26.
  - Earmark comes after a $1.2 billion earmark to state GF/GP and $50.0 million to Housing Fund. Corporate Income Tax revenue must be $1.9 billion for NRF to receive full $688.0 million in FY 2025-26.
  - CIT earmark to NRF increases each year by $88.0 million until the total reaches $1.040 billion in FY 2029-30.
- **24% Wholesale Marihuana Excise Tax**
  - Net estimated 12-month revenue impact to the NRF is $417.0 million

    ($420.0 million gross impact less $3.0 million for administration)
  - Partial-year impact in FY 2025-26 is $312.8 million (75.0% of 12-month impact)

Neighborhood Roads Fund

- For the 2025-26 through 2029-30 state fiscal years, money in the fund each fiscal year would be distributed as follows:
  - **$100.0 million** to **Local Bridge Advisory Board** for the repair of closed, restricted, and critical bridges as determined by the board.
  - **$40.0 million** to **Local Grade Separation Fund** for rail grade separations.
  - After the above distributions, $100.0 million as follows:
    - **$35.0 million** to the **Comprehensive Transportation Fund** (CTF) for use for eligible authorities and eligible governmental agencies that provide public transportation services.
    - **$65.0 million** to the **Infrastructure Projects Authority Fund**.
  - Money remaining in the fund after the above distributions as follows:
    - 52% to county road commissions, to be allocated in the same way as MTF revenue returned to counties under section 12 of the act.
    - 28% to city and village road agencies, allocated in the same way as MTF revenue returned to cities and villages under section 13 of the act.
    - 20% to State Trunkline Fund (STF) for use under section 11 of the act.

For more information about the Transportation budget:

HFA Resources

http://www.house.mi.gov/hfa/Transportation.asp

Contact Information

William E. Hamilton

Senior Fiscal Analyst

whamilt@house.mi.gov

(517) 373-8080