MEMORANDUM

DATE: November 20, 2025

TO: Interested Parties

FROM: William E. Hamilton

RE: Transportation-Related Impacts of the October 2025 Transportation Funding Package

Introduction

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 7, 2025.

The House Fiscal Agency's "Enrolled/Enacted" legislative analysis of the "Transportation Funding Package" is found on the Michigan Legislature website.[1] However, some bills in the package effect other tax policy changes not directly related to transportation funding. This memo is intended to analyze only the bills, or parts of bills, that affect transportation revenue and distribution, specifically:

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 end, effective October 1, 2025, a $600.0 million earmark of income tax revenue to the Michigan Transportation Fund (MTF), and to establish a new earmark of Corporate Income Tax (CIT) revenue for credit to the new Neighborhood Roads Fund (NRF) established in Senate Bill 578.

House Bill 4951 (2025 PA 23) creates a new act to impose new wholesale excise taxes on certain sales or transfers of marijuana and to earmark revenue from the new tax for credit to the NRF established in Senate Bill 578.

Senate Bill 578 (**2025 PA 16**) amends 1951 PA 51 to create the NRF and to direct the appropriation and distribution of revenue earmarked to the fund in House Bills 4951 and 4961.

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. Note that House Bill 4182 has no direct impact on transportation funding, and House Bill 4180 has only a limited direct impact on transportation funding. However, 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.[2]

This memo will focus on the transportation-related fiscal impacts of the package for an initial 12-month period, as well as the partial-year impacts in FY 2025-26. The memo does not attempt to project revenue or distribution impacts beyond these time frames.

[1] https://www.legislature.mi.gov/Bills/Bill?ObjectName=2025-HB-4180

[2] See Fiscal Brief: Motor Fuel Taxes, Sales Tax on Motor Fuels, and Methods of Tax Collection - Updated 2/24/2025

OCTOBER 2025 TRANSPORTATION FUNDING PACKAGE
TRANSPORTATION-RELATED IMPACTS

Motor Fuel Tax Changes (House Bill 4183)

House Bill 4183 amends the Motor Fuel Tax Act to increase the motor fuel tax rate by 20 cents per gallon (from 31.0 cents per gallon to 51.0 cents per gallon), plus an inflation adjustment, effective January 1, 2026. As a result, the motor fuel tax rate effective January 1, 2026, and for all of calendar year 2026, will be an estimated 52.6 cents per gallon, i.e., the 2025 rate of 31.0 cents per gallon, plus the 20-cent-per-gallon increase, plus an *estimated* 1.6-cent-per-gallon inflation adjustment.[3]

This increase in the motor fuel tax rate will increase gross state revenue by an estimated $1,073.4 million for an initial 12-month period. Because the increase does not take effect until January 1, 2026, there will only be a partial-year impact (8/12ths) on FY 2025-26 revenue. The estimated FY 2025-26 increase in motor fuel tax revenue is $715.6 million.

The calculation of House Bill 4183's revenue impact is shown in **Table 1**, below.

The increase in motor fuel tax revenue will be distributed according to current statutory provisions:

> Two percent ($17.3 million) of the increase attributable to gasoline will be credited to the Recreation Improvement Account.[4]
>
> The balance, after the 2% Recreation Improvement Account earmark, will be credited to the Michigan Transportation Fund (MTF) and be distributed according to the provisions of section 10 of 1951 PA 51:
>
> > 10% to the Comprehensive Transportation Fund (CTF) for public transportation
> >
> > The balance, after the 10% CTF earmark, for state and local road programs as follows:
> >
> > > 39.1% to county road commissions
> > > 21.8% to cities and villages
> > > 39.1% to the State Trunkline Fund (STF)

A description and flowchart of the 1951 PA 51 MTF distribution formula is found on the House Fiscal Agency website.[5] **Tables 2a and 2b**, below, show the distribution of the increased revenue under House Bill 4183 on a 12-month and partial-year basis.

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[3] The annual inflation adjustment is not new in the October 2025 Transportation Funding Package; it was part of the November 2015 Road Funding Package amendment to the Motor Fuel Tax Act, House Bill 4738, enacted as 2015 PA 176. See https://www.legislature.mi.gov/Bills/Bill?ObjectName=2015-HB-4738

[4] Section 40 of Article IX of the state constitution dedicates 2% of all tax revenue derived from the sale of gasoline for consumption in internal combustion engines to the Recreation Improvement Account in the Michigan Conservation and Recreation Legacy Fund. While in general revenue from the motor fuel tax is constitutionally dedicated to transportation and directed by statute to the MTF, there is a presumption in current law that 2% of revenue from the motor fuel tax on gasoline is used for watercraft, snowmobiles, and off-road vehicles, which supports the dedication of 2% of revenue from the motor fuel tax on gasoline to the Recreation Improvement Account. This constitutional dedication is reflected in Part 711 of the Natural Resources and Environmental Protection Act.

[5] See Fiscal Brief: MTF Distribution Formula to Local Road Agencies - February 21, 2025

Income Tax/Corporate Income Tax Impacts (House Bill 4161)
House Bill 4161, which amends the Income Tax Act, also affects MTF revenue. The bill reduces MTF revenue, starting with FY 2025-26, by eliminating a $600.0 million annual earmark of individual income tax revenue to the MTF that was part of the November 2015 Road Funding Package. The earmark was allocated entirely to state and local road programs according to 1951 PA 51 formula—39.1% to county road commissions, 21.8% to cities and villages, and 39.1% to the STF.

Elimination of the $600.0 million individual income tax earmark partially offsets the increase in MTF revenue from the motor fuel tax increase. As shown in **Tables 2a and 2b,** the net increase in MTF revenue from the October 2025 Transportation Funding Package for distribution to state and local road programs will total $350.6 million in the initial 12-month period and $45.2 million in FY 2025-26.

Although House Bill 4161 eliminates the $600.0 million earmark of individual income tax revenue to the MTF beginning in FY 2025-26, the bill establishes a new earmark of CIT revenue for credit to the NRF established in Senate Bill 578. The earmark is $688.0 million in FY 2025-26 and will grow by $88.0 million annually until it reaches a total of $1.04 billion in FY 2029-30, if CIT revenues are sufficient to permit the maximum distribution.[6] Note that, although House Bill 4161's elimination of the $600.0 million MTF individual income tax earmark is offset by the designation of CIT revenue for the new NRF, the two funds follow different distribution models and the timing of revenue credited to and distributed from each fund is different.

Sales and Use Tax (House Bills 4180 and 4182)
House Bills 4180 and 4182 amend the General Sales Tax Act and the Use Tax Act, respectively, to exempt eligible motor fuels from the sales and use taxes, effective January 1, 2026. This exemption will reduce sales and use tax revenue by an estimated $927.7 million on a 12-month basis. Because the exemption does not take effect until January 1, 2026, there will be only a partial-year impact on FY 2025-26 revenue—an estimated gross revenue reduction of $695.8 million.

The exemption of motor fuel from sales and use tax, and the increase in the motor fuel tax rate, is sometimes described as a tax swap. The exemption of motor fuels from sales and use tax will offset, to some degree, the increase in the motor fuel tax—although not necessarily on a dollar-for-dollar basis. The actual impact on state revenue of this sales and use tax exemption will vary from year to year depending on fuel prices and gallons sold.

The exemption of motor fuels from the state *use tax* has no direct impact on transportation funding. The exemption of motor fuels from the state *sales tax* has no impact on funding for state and local road programs, but does have an impact on CTF revenue by reducing the "auto-related sales tax" attributable to motor fuel sales. This impact is described in the **Summary** below and in the notes to **Tables 2a and 2b.**

Marijuana Wholesale Tax (House Bill 4951)
House Bill 4951 creates a new act, the Comprehensive Road Funding Tax Act, to impose new wholesale excise taxes on certain sales or transfers of marijuana, effective January 1, 2026, and distribute nearly all of the revenue to the NRF established in Senate Bill 578.

The bill will generate approximately $420.0 million annually based on current estimates of marijuana wholesale sales. Because the tax does not take effect until January 1, 2026, the bill will have only a partial-year impact on FY 2025-26 revenues—an estimated $315.0 million.

[6] There will be a corresponding reduction in revenue distributed to the state's general fund equal to $88.0 million in FY 2025-26, $176.0 million in FY 2026-27, $264.0 million in FY 2027-28, $352.0 million in FY 2028-29, and $440.0 million in each subsequent year.

In FY 2025-26, the bill allocates $3.0 million of the marijuana wholesale tax revenue to the Comprehensive Road Funding Fund for implementation and administration costs, with the remainder deposited in the newly created NRF to be used for certain designated transportation purposes. In subsequent fiscal years, the allocation to the Comprehensive Road Funding Fund for implementation and administration costs are reduced to $500,000, with an annual inflation adjustment beginning in FY 2027-28, again with the balance deposited in the NRF.

After deduction of $3.0 million allocated for implementation and administration, the net amount for credit to the NRF will be $417.0 million on a 12-month basis.

Neighborhood Roads Fund (Senate Bill 578)
Senate Bill 578 amends 1951 PA 51 to create the NRF and to direct the appropriation and distribution of revenue earmarked to the NRF in House Bills 4951 and 4961.

The specific NRF distribution earmarks are shown in **Tables 2a and 2b.** After distributions to specific categorical or targeted programs, including the Local Bridge Advisory Board, and the Local [Rail] Grade Separation Fund, the CTF, and the Infrastructure Projects Authority Fund, the NRF balance is distributed to state and local road and bridge programs as follows:

County road commissions – 52.0%
Cities and villages – 28.0%
STF – 20.0%

Note that while the “external” distribution formula for NRF revenue established in Senate Bill 578 is different from the MTF distribution formula of section 10 of 1951 PA 51, the “internal formulas” of section 12 of 1951 PA 51 (allocating the county MTF distribution among the 83 county road commissions) and section 13 of 1951 PA 51 (allocating the city and village MTF distribution among the 531 eligible cities and villages) will also apply to the NRF distributions.

The distribution percentages described above apply only for the first five fiscal years after the effective date of Senate Bill 578—FYs 2025-26 through 2029-30. Senate Bill 578’s NRF funding distributions, as well as provisions regarding the Movable Bridge Fund, are described in detail in the House Fiscal Agency’s “As Enrolled/Enacted” legislative analysis of the bill package.

OCTOBER 2025 TRANSPORTATION FUNDING PACKAGE
SUMMARY OF IMPACTS ON STATE AND LOCAL ROAD PROGRAMS

12-month Impact
Distributions to State and Local Road Programs
(Figures in Millions)

	MTF	NRF	Total
Local Road Agencies	$213.5	$692.0	$905.5
STF	137.0	173.0	310.0
Total	$350.5	$865.0	$1,215.5

Partial-Year (FY 2025-26) Impact
Distributions to State and Local Road Programs
(Figures in Millions)

	MTF	NRF	Total
Local Road Agencies	$20.5	$608.6	$629.1
STF	13.2	152.2	165.3
Total	$33.7	$760.8	$794.5

MTF revenue is distributed through formulas under section 10 of 1951 PA 51. NRF funding, as provided through a redirection of CIT revenue, and revenue from a new wholesale excise tax on marijuana sales, is distributed though the NRF established in Senate Bill 578.

Local Road Agency Impacts – FY 2025-26
The $629.1 million estimated increase in funding for distribution to local road agencies in FY 2025-26 (both MTF and NRF combined) represents a 30.2% increase as compared to actual FY 2024-25 MTF distributions.

STF Impact – FY 2025-26
The estimated FY 2025-26 increase STF funding (both MTF and NRF combined) of $165.3 million represents a 12.5% increase as compared to actual FT 2024-25 STF revenue from the MTF. However, it should be noted that for FY 2024-25, $76.0 million in one-time state General Fund/General Purpose revenue was appropriated to the STF to ensure that state trunkline programs would be able to match all available federal aid. General Fund/General Purpose revenue was not appropriated in the FY 2025-26 transportation budget. After consideration of this one-time funding, the net increase in STF revenue in FY 2025-26 will be $89.3 million—an increase from FY 2024-25 of 6.7%.

Categorical Road Programs
In addition to the distributions to state and local road programs described above, the NRF also provides funding for two targeted or categorical programs of primary benefit to local road agencies, the Local Bridge Advisory Board, and the Local [Rail] Grade Separation Fund.

The above impacts are also shown in **Tables 2a and 2b**.

OCTOBER 2025 TRANSPORTATION FUNDING PACKAGE
IMPACTS ON THE CTF AND PUBLIC TRANSPORTATION

Full-Year Impacts

By increasing motor fuel tax revenue for credit to the MTF, House Bill 4183 will increase CTF revenue by $105.6 million on a 12-month basis. However, House Bill 4180, by exempting motor fuels from the state sales tax, will decrease the CTF share of "auto-related" sales tax by an estimated $44.4 million. As a result, the impact of the two bills taken together is a net increase to CTF revenue of $61.2 million on a 12-month basis—excluding the additional revenue earmarked to the CTF from the NRF in Senate Bill 578.

Partial-Year (FY 2025-26) Impacts

By increasing motor fuel tax revenue for credit to the MTF, House Bill 4183 will increase CTF revenue by $70.4 million in FY 2025-26, as prorated to reflect the partial-year impact of the motor fuel tax increase. House Bill 4180, by exempting motor fuels from the state sales tax, will decrease the CTF share of "auto-related" sales tax by an estimated $32.4 million. As a result, the impact of the two bills taken together is a net increase to CTF revenue of $38.0 million in FY 2025-26—excluding the additional revenue earmarked to the CTF from the NRF in Senate Bill 578.

Comprehensive Transportation Fund
Transportation Funding Package Impacts
(Figures in Millions)

	12-month	FY 2025-26
CTF 10% share of MTF increase	$105.6	$70.4
Less auto-related sales tax loss	(44.4)	(32.4)
Net Impact	$61.2	$38.0

Table 1: House Bill 4183 Full-Year Revenue Impacts
(Figures in Millions)

	Baseline FY 2025-26 Revenue Estimates [1]	Impact of 20-cent-per-gallon Increase on 12-Month Basis [2]
Motor Fuel Tax Impacts		
Gasoline [3]	$1,341.0	$874.5
Diesel [4]	286.0	186.4
Alternative Fuels	2.4	1.5
Total	$1,629.4	$1,062.4
Vehicle Registration Impact [5]		$11.0
Total Revenue Impact		**$1,073.4**

Notes:

1. Michigan Department of Treasury, Office of Revenue and Tax Analysis (ORTA), May 16, 2025.
2. These figures show the estimated 12-month impact of a 20-cent-per-gallon increase in the motor fuel tax effective January 1, 2026, as adjusted for inflation—in effect, a total increase of 21.6 cents per gallon as compared to the 2025 motor fuel tax rate of 31.0 cents per gallon.
3. The revenue figures for the motor fuel tax on gasoline are gross figures, prior to the 2% earmark for the Recreation Improvement Account.
4. Includes fuel tax revenue collected from interstate and cross-border motor carriers under the authority of the Motor Carrier Fuel Tax Act.
5. The increase in the motor fuel tax rate will also affect a vehicle registration “gas fee” surcharge assessed on plug-in hybrid and electric vehicles under the Michigan Vehicle Code.

Table 2a: Transportation Funding Package:
Transportation-Related Revenue and Distribution Impacts Only
Initial 12-Month Impacts [1]
(Figures in Millions)

	New MTF Funding	New NRF Funding/ Distribution	Total Transportation Impacts	
House Bill 4183 – Motor Fuel Tax Increase [2]	**$1,073.4**			
Recreation Improvement Account	17.3			
Net Motor Fuel Tax increase to MTF	**$1,056.1**			
Comprehensive Transportation Fund [3]	105.6			
Subtotal for Road Programs	**$950.5**			
Other Revenue Impacts				
House Bill 4161 – Individual Income Tax	(600.0)			
House Bill 4161 – Corporate Income Tax		$688.0		
House Bill 4951 – Wholesale Marijuana Tax		417.0		
Total Designated for NRF		**$1,105.0**		
NRF Distribution				
Local Bridge Advisory Board		100.0	100.0	
Local [Rail] Grade Separation Fund		40.0	40.0	
Public Transportation ($100.0 million Gross)				
Comprehensive Transportation Fund [4]		35.0	35.0	
Infrastructure Projects Authority Fund		65.0	65.0	
MTF Balance to Distribute to Road Programs	**$350.5**			
NRF Balance to Distribute to Road Programs		**$865.0**		
NRF Distribution (Non-Road)			**$240.0**	
			Total Road Program Increase	**FY 2024-25 Actual MTF Distribution**
Distribution to Road Programs [5]				
County Road Commissions	$137.0	$449.8	$586.8	$1,326.1
Cities/Villages	76.4	242.2	318.6	759.0
Subtotal – Local Road Agencies	$213.5	$692.0	$905.5	$2,085.0
State Trunkline Fund	137.0	173.0	310.0	1,326.1
Total to Road Programs	**$350.5**	**$865.0**	**$1,215.5**	**$3,411.1**
Total Transportation Impacts			**$1,455.5**	

Table 2a Notes:

1. **Table 2a** shows estimated revenue and distribution impacts of the October 2025 Transportation Funding Package for the initial 12-month period.
2. This figure, calculated in **Table 1**, represents the impact of a 20-cent-per-gallon increase in the motor fuel tax rate, as adjusted for inflation, effective January 1, 2026, on an annualized basis, as compared to initial ORTA FY 2025-26 baseline estimates.
3. Although House Bill 4183 will increase Comprehensive Transportation Fund (CTF) revenue by $105.6 million, House Bill 4180, by exempting motor fuels from the state sales tax, will decrease the CTF share of "auto-related" sales tax by an estimated $44.4 million. As a result, the impact of the two bills taken together is a **net increase to CTF revenue** of **$61.2 million** on a 12-month basis—not including additional revenue earmarked to the CTF from the NRF in Senate Bill 578.
4. Senate Bill 578 directs that the $35.0 million NRF earmark to the CTF is for use under section 10b of 1951 PA 51, the section that broadly defines the uses of CTF money, for eligible authorities and eligible governmental agencies (defined terms in 1951 PA 51) that provide public transportation services. Of the $35.0 million, Senate Bill 578 reserves 5% ($1.75 million) for agencies in urbanized areas with a Michigan population of up to 100,000 and nonurbanized areas as defined in 49 USC 5311.
5. The MTF distribution to road agencies will follow the current distribution formula of section 10(1)(l) of 1951 PA 51. The distribution of the net NRF balance to road agencies under Senate Bill 578 are as follows: county road commissions, 65.0% of 80.0% (52.0%); cites and villages, 35.0% of 80.0% (28.0%). The STF will receive 20.0% of the net NRF balance.

Note that the distribution percentages used for **Tables 2a and 2b** apply only for the first five fiscal years after the effective date of Senate Bill 578—FYs 2025-26 through 2029-30.

Table 2b: Transportation Funding Package:
Transportation-Related Revenue and Distribution Impacts Only
Partial-Year Impacts – FY 2025-26 [1]
(Figures in Millions)

	New MTF Funding	New NRF Funding/ Distribution	Total Transportation Impacts	
House Bill 4183 Motor Fuel Tax Increase [2]	**$715.6**			
Recreation Improvement Account	11.5			
Net Motor Fuel Tax increase to MTF	**$704.1**			
Comprehensive Transportation Fund [3]	70.4			
Subtotal for Road Programs	**$633.7**			
Other Revenue Impacts				
House Bill 4161 – Individual Income Tax	(600.0)			
House Bill 4161 – Corporate Income Tax		$688.0		
House Bill 4951 – Wholesale Marijuana Tax [4]		312.8		
Total Designated for NRF		**$1,000.8**		
NRF Distribution				
Local Bridge Advisory Board		100.0	100.0	
Local (Rail) Grade Separation Fund		40.0	40.0	
Public Transportation ($100.0 million Gross)				
Comprehensive Transportation Fund [5]		35.0	35.0	
Infrastructure Projects Authority Fund		65.0	65.0	
MTF Balance to Distribute to Road Programs	**$33.7**			
NRF Balance to Distribute to Road Programs		**$760.8**		
NRF Distribution (Non-Road)			**$240.0**	
			Total Road Program Increase	**FY 2024-25 Actual MTF Distribution**
Distribution to Road Programs [6]				
County Road Commissions	$13.2	$395.6	$408.8	$1,326.1
Cities/Villages	7.3	213.0	220.4	759.0
Subtotal – Local Road Agencies	$20.5	$608.6	$629.1	$2,085.0
State Trunkline Fund	13.2	152.2	165.3	1,326.1
Total to Road Programs	**$33.7**	**$760.8**	**$794.5**	**$3,411.1**
Total Transportation Impacts			**$1,034.5**	

Table 2b Notes:

1. **Table 2b** shows estimated revenue and distribution impacts of the October 2025 Transportation Funding Package, as prorated to reflect the partial year impacts in FY 2025-26.
2. This figure represents the impact of a 20-cent-per-gallon increase in the motor fuel tax rate, as adjusted for inflation, effective January 1, 2026, on an annualized basis, as compared to initial ORTA FY 2025-26 baseline estimates. Because the Motor Fuel Tax increase does not take effect until January 1, 2026, the estimate assumes that 66.7% (8/12ths) of the full-year impact will be realized in FY 2025-26.
3. House Bill 4183 will increase CTF revenue by $70.4 million in FY 2025-26, reflecting the partial-year impact of the motor fuel tax increase. House Bill 4180, by exempting motor fuels from the state sales tax, will decrease the CTF share of "auto-related" sales tax by an estimated $32.4 million. As a result, the impact of the two bills taken together is a **net increase to CTF revenue** of **$38.0 million** in FY 2025-26—not including additional revenue earmarked to the CTF from the NRF in Senate Bill 578.
4. This figure represents the impact of House Bill 4951's wholesale excise tax on marijuana, effective January 1, 2026, on an annualized basis. Because the tax does not take effect until January 1, 2026, the estimate assumes that 75.0% (9/12ths) of the full-year impact will be realized in FY 2025-26.
5. Senate Bill 578 directs that the $35.0 million NRF earmark to the CTF is for use under section 10b of 1951 PA 51, the section that broadly defines the uses of CTF money, for eligible authorities and eligible governmental agencies (defined terms in 1951 PA 51) that provide public transportation services. Of the $35.0 million, Senate Bill 578 reserves 5% ($1.75 million) for agencies in urbanized areas with a Michigan population of up to 100,000 and nonurbanized areas as defined in 49 USC 5311.
6. The MTF distribution to road agencies will follow the current distribution formula of section 10(1)(l) of 1951 PA 51. The distribution of the net NRF balance to road agencies under Senate Bill 578 are as follows: county road commissions, 65.0% of 80.0% (52.0%); cites and villages, 35.0% of 80.0% (28.0%). The STF will receive 20.0% of the net NRF balance.