

# FISCAL BRIEF

## MTF DISTRIBUTION FORMULA TO LOCAL ROAD AGENCIES

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### FAST FACTS

- Revenue from motor fuel taxes and vehicle registration taxes is constitutionally dedicated for transportation.
- Constitutionally dedicated transportation revenue is credited to the Michigan Transportation Fund 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.
- MTF revenue from constitutionally restricted sources is estimated to total \$3.0 billion in FY 2022-23. An additional \$600.0 million will come from an earmark of income tax revenue.
- An estimated \$1.9 billion in MTF revenue will be distributed to local road agencies in FY 2022-23.

### 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. For fiscal year (FY) 2022-23, these two sources are expected to generate \$3.0 billion.

Motor fuel and vehicle registration tax revenue is dedicated for transportation purposes in section 9 of Article IX of the state 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, in FY 2022-23 the MTF will receive \$600.0 million from an earmark of Income Tax Act revenue. The dedication of income tax revenue for state and local road programs was one of the elements of the November 2015 Road Funding Package.<sup>1</sup>

Beginning in FY 2020-21, the MTF has also received revenue from an earmark of the excise tax on recreational marijuana sales under the Michigan Regulation and Taxation of Marihuana Act. Revenue credited to the MTF from that earmark totaled \$49.3 million in FY 2020-21 and \$69.4 million in FY 2021-22 and was estimated at \$59.0 million for FY 2022-23.<sup>2</sup>

Section 10 of Act 51 establishes the MTF and directs the appropriation of MTF revenue. MTF revenue is first allocated for administrative, statewide planning, 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 78 local public transit agencies. The MTF balance, after these various allocations and distributions, plus revenue from the income tax earmark and the recreational

<sup>1</sup> Public Act 179 of 2015 added section 51d to the Income Tax Act to earmark a portion of income tax revenue to the State Trunkline Fund and to local road agencies (county road commissions and cities and villages) in accordance with the distribution formula established under section 10(1)(k) of Act 51. Public Act 588 of 2018 subsequently amended section 51d to define the income tax earmark as follows: \$264.0 million in FY 2018-19, \$468.0 million in FY 2019-20, and \$600.0 million for FY 2020-21 and each fiscal year thereafter.

<sup>2</sup> The FY 2022-23 estimate was made by the Michigan Department of Treasury in February 2022 as part of the FY 2022-23 revenue estimates used to develop the FY 2022-23 transportation budget.

marijuana excise tax, is distributed for state and local road agency road 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 construction and preservation of county roads.
- 21.8% to 531 cities and villages for construction and preservation of city/village streets.

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 531 eligible 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 commissions in FY 2022-23 is **\$1,248.1 million**. This figure includes **\$234.6 million** attributable to the earmark of income tax revenue as well as \$21.2 million from the Local Program Fund.<sup>3</sup>

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 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.]

<b>Table 1: MTF Distribution to County Road Commissions</b>		
Distribution assuming \$1.0 billion MTF		
<b><u>Distribution Factors</u></b>		
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.		
<i>Source: MDOT, Bureau of Transportation Planning</i>		

<sup>3</sup> The Local Program Fund is an earmark of MTF revenue made in section 10 of Act 51; \$33.0 million is divided between county road commissions (\$21.2 million) and cities and villages (\$11.8 million).

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 or “map” miles.<sup>4</sup> Registration figures change every month based on registration data reported by the Michigan Secretary of State.

The factors described above drive the distribution of the county road commission share of total MTF revenue to specific county road commissions. The distribution to any 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. 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 2022-23 is **\$695.9 million**. This figure includes **\$130.8 million** attributable to the earmark of income tax revenue as well as \$11.8 million from the Local Program Fund.

The city/village share of MTF revenue is distributed among the 531 eligible 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*.<sup>5</sup> The distribution of MTF major street funds among the 531 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 531 cities and villages based on two factors: 60% based on census population, and 40% based on 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:

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<sup>4</sup> 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.

<sup>5</sup> Act 51 provides for the classification of the city and village 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. However, 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. This section was amended in 2016 (Public Act 459 of 2016) to exclude limited access highways from the cost-sharing requirement.

## **SUMMARY**

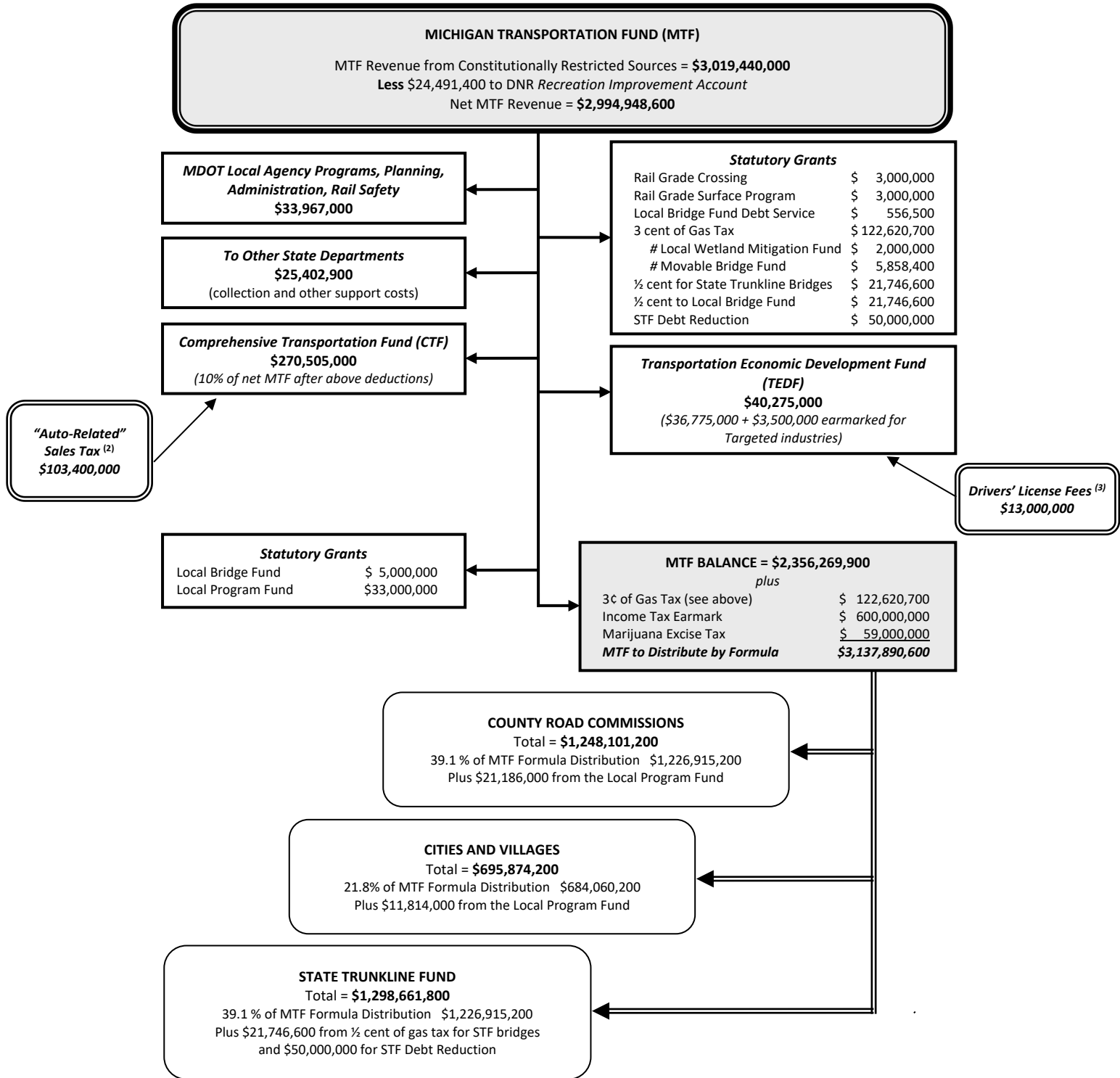
The above descriptions reflect estimated MTF revenue and distributions on a fiscal year (FY 2022-23) basis. These estimates are the basis for the MTF appropriations shown in the enacted state transportation budget. However, MTF revenue is distributed each month to county road commissions and to cities and villages based on the prior month’s *actual* MTF revenue and calculated distribution factors. The final/actual fiscal year distribution to local road agencies—and to the STF—may be higher or lower than the estimated/budgeted figures. 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.<sup>6</sup>

**See Appendices A and B for tables showing recent history of MTF revenue by source and MTF distribution by recipient. Appendix C shows the MTF distribution to road and bridge programs, including an adjustment of nominal dollars to inflation-adjusted dollars.**

<sup>6</sup> <https://www.michigan.gov/mdot/business/local-government/act-51/michigan-transportation-fund>

**FY 2022-23 MICHIGAN TRANSPORTATION FUND REVENUES AND DISTRIBUTIONS PER Sec. 10, 1951 PA 51<sup>(1)</sup>**

February 2022 ORTA Estimate



Notes:  
 (1) This flowchart represents the distribution of MTF revenue derived from constitutionally restricted motor fuel and vehicle registration taxes as directed by section 10 of Public Act 51 of 1951, as well as statutory earmarks of income tax revenue (section 51d of the Income Tax Act) and marijuana excise tax revenue (section 14 of Initiated Law 1 of 2018). These two statutory earmarks are shown as additions to the MTF balance for formula distribution to road agencies.  
 (2) In addition to an earmark of MTF revenue, the CTF also receives an earmark of sales tax attributable to “auto-related” sales.  
 (3) Section 819 of the Michigan Vehicle Code earmarks a portion of drivers’ license fee revenue to the TEDF.

APPENDIX A

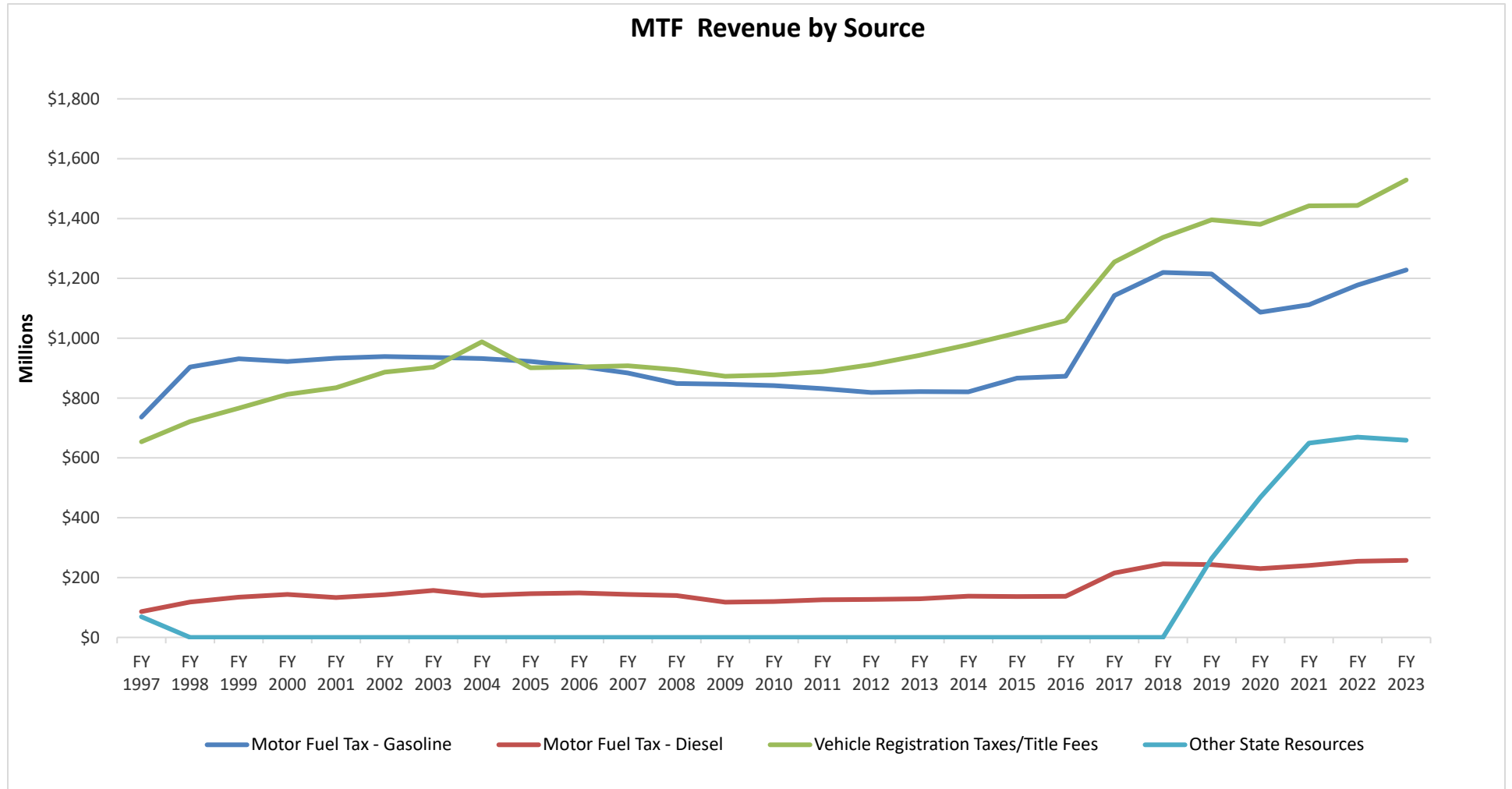
Michigan Transportation Fund							
Revenue by Source							
FY 1996-97 through FY 2022-23							
Fiscal Year	Motor Fuel Tax Gasoline	Motor Fuel Tax Diesel	Registration Taxes (1)	Interest/ Other	MTF Subtotal	Other State Resources (2)	MTF Total
FY 1997	\$736,316,600	\$86,254,400	\$653,924,300	\$13,042,000	\$1,489,537,300	\$69,000,000	\$1,558,537,300
FY 1998	903,542,100	118,263,000	721,646,800	17,004,700	1,760,456,600		1,760,456,600
FY 1999	931,031,100	134,566,100	766,062,100	13,169,900	1,844,829,200		1,844,829,200
FY 2000	921,991,100	143,481,400	812,533,900	14,564,000	1,892,570,400		1,892,570,400
FY 2001	933,494,000	133,199,300	834,643,000	12,203,900	1,913,540,200		1,913,540,200
FY 2002	938,911,800	142,977,500	886,645,000	5,700,200	1,974,234,500		1,974,234,500
FY 2003	935,671,700	156,952,900	903,268,700	4,512,800	2,000,406,100		2,000,406,100
FY 2004	932,139,700	140,515,700	987,816,000	4,111,800	2,064,583,200		2,064,583,200
FY 2005	922,368,200	146,335,500	901,019,500	7,075,200	1,976,798,400		1,976,798,400
FY 2006	906,220,700	148,599,500	903,844,100	9,255,400	1,967,919,700		1,967,919,700
FY 2007	883,687,500	143,806,400	907,809,000	8,132,700	1,943,435,600		1,943,435,600
FY 2008	848,864,100	140,095,600	894,723,500	5,885,300	1,889,568,500		1,889,568,500
FY 2009	846,013,300	117,633,300	872,950,300	2,393,400	1,838,990,300		1,838,990,300
FY 2010	841,658,700	120,069,300	877,512,700	937,200	1,840,177,900		1,840,177,900
FY 2011	831,717,500	125,598,100	888,451,300	6,342,300	1,852,109,200		1,852,109,200
FY 2012	818,797,700	126,781,900	911,569,400	(1,147,000)	1,856,002,000		1,856,002,000
FY 2013	821,632,200	128,910,000	942,740,100	1,047,700	1,894,330,000		1,894,330,000
FY 2014	820,621,900	137,731,200	978,458,400	985,400	1,937,796,900		1,937,796,900
FY 2015	866,609,200	136,714,200	1,017,690,500	1,160,700	2,022,174,600		2,022,174,600
FY 2016	872,898,100	137,554,900	1,058,937,000	2,937,500	2,072,327,500		2,072,327,500
FY 2017	1,142,610,800	215,179,100	1,254,806,200	5,041,700	2,617,637,800		2,617,637,800
FY 2018	1,219,864,400	245,812,200	1,336,879,200	5,693,900	2,808,249,700		2,808,249,700
FY 2019	1,214,730,700	243,208,400	1,395,514,300	7,290,300	2,860,743,700	264,000,000	3,124,743,700
FY 2020	1,086,857,100	229,937,000	1,380,517,600	4,499,400	2,701,811,100	468,000,000	3,169,811,100
FY 2021	1,111,620,600	240,223,600	1,442,201,400	2,793,900	2,796,839,500	649,265,000	3,446,104,500
FY 2022	1,177,604,900	254,653,100	1,443,777,000	3,714,900	2,879,749,900	669,432,700	3,549,182,600
FY 2023	1,228,100,000	257,500,000	1,528,800,000	5,050,000	3,019,440,000	659,000,000	3,678,440,000

This table shows the major sources of MTF revenue. Figures are actual except for FY 2021-22, which is based on provisional figures at February 17, 2023, and FY 2022-23, which is based on revenue estimates made in February 2022.

Notes: (1) Vehicle registration taxes shown in this table include vehicle title fees of approximately \$35.0 million annually. (2) Other state resources include \$69.0 million transferred from the Budget Stabilization Fund in FY 1997-98, an earmark of income tax revenue beginning in FY 2018-19, and an earmark of recreational marijuana excise tax revenue beginning in FY 2020-21.

APPENDIX A (1)

MTF Revenue by Source



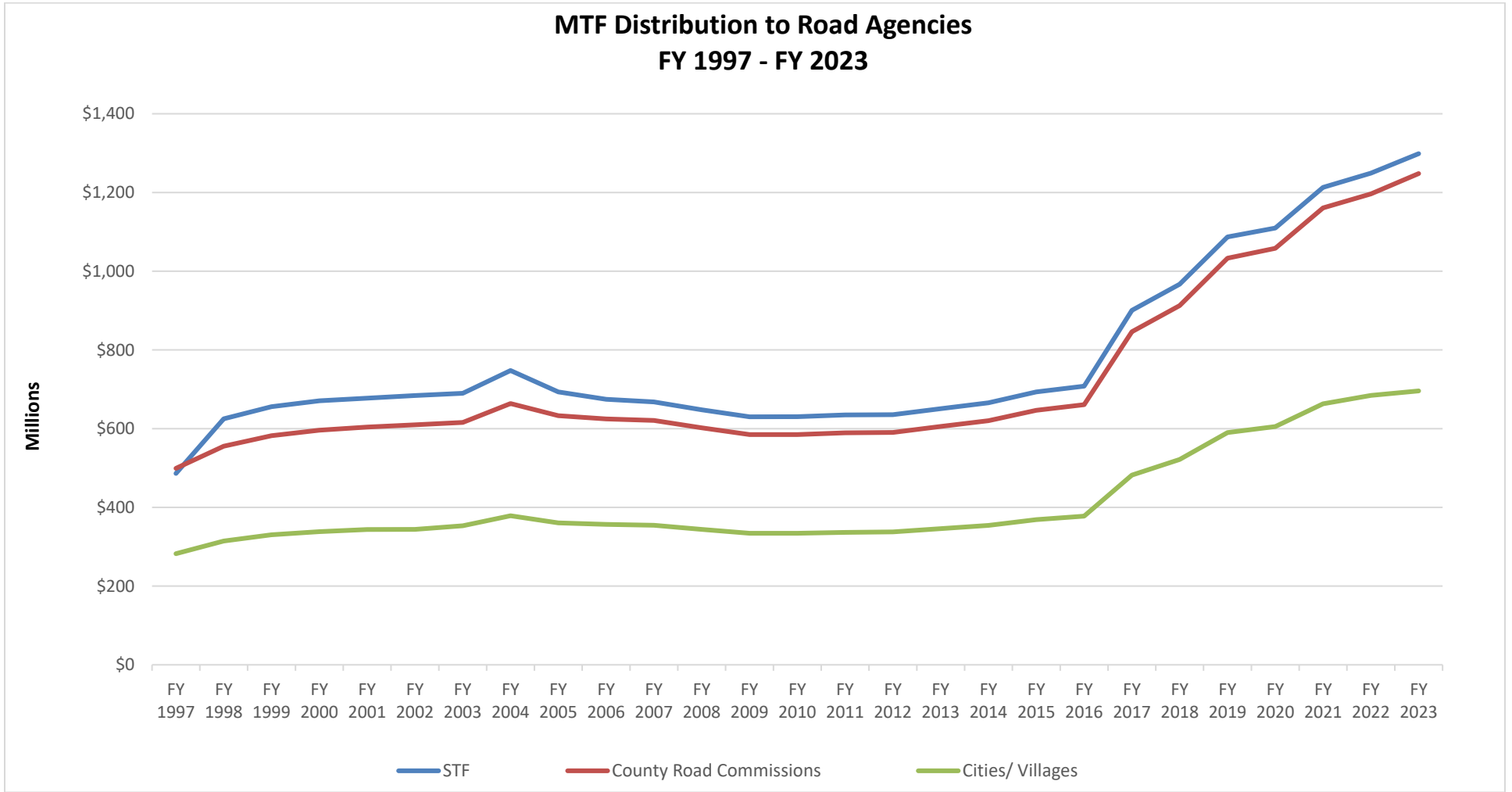
APPENDIX B

Michigan Transportation Fund Distribution of MTF Revenue FYs 1996-97 through 2022-23						
Fiscal Year	STF	County Road Commissions	Cities/ Villages	Subtotal "Road" Programs	CTF	Total *
FY 1997	\$486,248,200	\$499,124,700	\$282,350,900	\$1,267,723,800	\$132,189,700	\$1,399,913,500
FY 1998	625,027,100	555,472,700	314,505,800	1,495,005,600	145,276,300	1,640,281,900
FY 1999	655,708,300	582,137,700	330,469,500	1,568,315,500	153,046,900	1,721,362,400
FY 2000	670,709,900	596,221,200	338,480,500	1,605,411,600	156,854,400	1,762,266,000
FY 2001	677,294,100	604,058,300	343,724,000	1,625,076,400	159,197,100	1,784,273,500
FY 2002	684,072,900	609,816,000	344,115,500	1,638,004,400	160,530,700	1,798,535,100
FY 2003	689,707,200	615,929,800	353,418,500	1,659,055,500	162,323,700	1,821,379,200
FY 2004	747,762,800	663,652,200	378,676,100	1,790,091,100	166,353,200	1,956,444,300
FY 2005	693,458,600	632,817,300	360,491,800	1,686,767,700	167,344,100	1,854,111,800
FY 2006	674,537,700	624,533,100	356,649,900	1,655,720,700	165,412,800	1,821,133,500
FY 2007	667,986,300	620,932,200	354,606,500	1,643,525,000	164,749,500	1,808,274,500
FY 2008	648,004,700	602,121,700	343,922,400	1,594,048,800	159,921,300	1,753,970,100
FY 2009	630,168,100	584,896,000	334,202,600	1,549,266,700	155,288,500	1,704,555,200
FY 2010	630,437,800	584,985,600	334,190,700	1,549,614,100	155,205,100	1,704,819,200
FY 2011	634,709,500	589,550,500	336,436,700	1,560,696,700	156,716,800	1,717,413,500
FY 2012	635,473,100	590,440,500	337,831,300	1,563,744,900	157,031,900	1,720,776,800
FY 2013	650,716,800	605,702,000	346,038,200	1,602,457,000	161,417,600	1,763,874,600
FY 2014	665,574,700	620,108,800	354,157,100	1,639,840,600	165,492,400	1,805,333,000
FY 2015	693,345,200	646,571,400	368,971,900	1,708,888,500	172,482,400	1,881,370,900
FY 2016	707,899,300	660,824,400	377,723,200	1,746,446,900	176,938,400	1,923,385,300
FY 2017	900,507,700	846,320,900	482,048,400	2,228,877,000	229,838,400	2,458,715,400
FY 2018	966,950,400	912,502,900	521,678,600	2,401,131,900	248,735,200	2,649,867,100
FY 2019	1,087,057,900	1,033,019,400	590,016,900	2,710,094,200	254,028,600	2,964,122,800
FY 2020	1,109,679,400	1,058,206,900	605,310,000	2,773,196,300	240,423,700	3,013,620,000
FY 2021	1,213,097,800	1,160,869,000	663,089,300	3,037,056,100	249,114,700	3,286,170,800
FY 2022	1,249,269,600	1,196,336,300	684,472,300	3,130,078,200	256,851,100	3,386,931,300
FY 2023	1,298,661,800	1,248,101,200	695,874,200	3,242,637,200	270,505,000	3,513,142,200

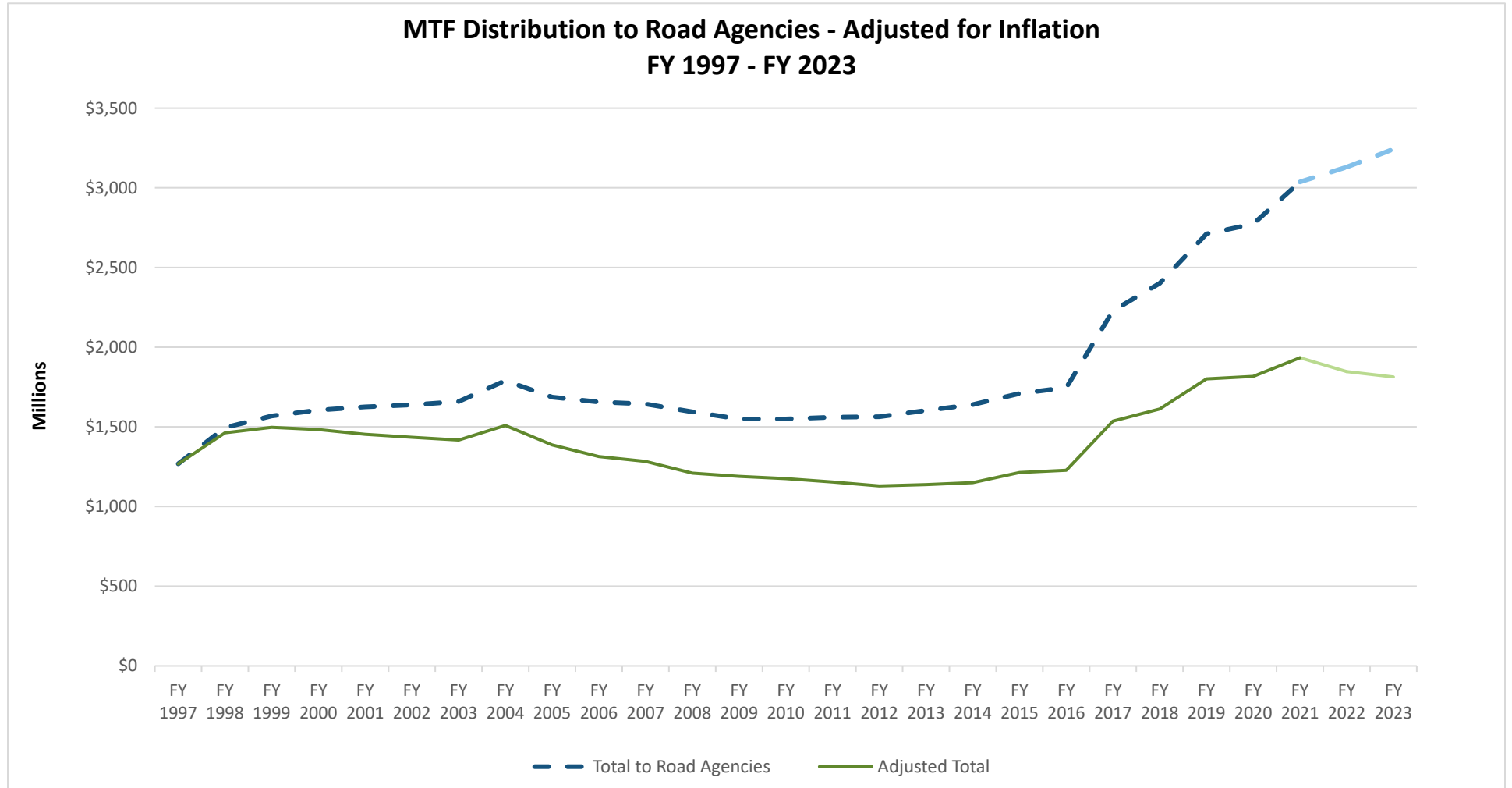
\* This table shows the distribution of MTF revenue to the four major recipients of MTF revenue. The STF, county road commission, and city/village amounts include certain Act 51 earmarks (State Trunkline Bridges, State Trunkline debt service, Local Program Fund) in addition to formula distribution of the MTF balance. The total column does not equal total MTF revenue because it does not include various "off-the-top" uses of MTF revenue for special targeted or categorical programs, or for fund administration and collection costs. Figures are actual except for FY 2021-22, which is based on preliminary figures at February 17, 2023, and FY 2022-23, which is based on budget estimates made in February 2022.



APPENDIX B (1)



APPENDIX C



This chart shows an inflation adjustment for MTF subtotal “road” program distributions using the Detroit Consumer Price Index (D-CPI). Figures are actual except for FY 2021-22, which is based on provision figures at February 17, 2023, and FY 2022-23, which is based on revenue estimates made February 2022.

Although the total MTF distribution to the STF and local road agencies increased by a nominal \$1.769 billion from FY 1996-97 to FY 2020-21, the inflation-adjusted value of the MTF distribution for FY 2020-21, using FY 1996-97 as the base and the Detroit Consumer Price Index as a measure of inflation, was \$1.933 billion, an increase of \$665.8 million.