Road Advocates See Fiscal Cliff Disappear With Road Funding

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The nearly $2 billion in long-term road funding dollars signed today should be enough to prevent the state from driving off the “fiscal cliff,” according to the road industry, even if it isn't the $3.1 billion originally advertised as the magic number needed to “fix the damn roads.”

In all, the Governor signed seven bills today designed to raise enough money, in theory, to repair the roads faster than they're deteriorating, with the heavy emphasis being on local roads in urban/suburban areas.

The funding replaces the expiring bonding dollars the Governor used the last few years to repair and replace mostly state highways, meaning the workers who are on jobs today will have work tomorrow.

“I think it certainly clears the cliff, and we should be able to avoid job loss in the industry,” said Lance **BINONIEMI**, Michigan Infrastructure and Transportation vice president of government affairs.

The web of tax changes used to make this all happen has impacts that are beyond road funding. The Legislature and the Governor agreed that every cent of state taxes collected at the pump should go to roads. Doing that impacted schools and local governments though, since they received a slice from the sales tax on gasoline.

“In a nutshell, we are going to be swapping the sales tax for fuel tax, which means there will be no tax increase as far as the motoring public is concerned,” said Ed **NOYOLA**, the County Road Association chief deputy legislative director.

According to the House Fiscal Agency’s analysis of the bills, HB 4183 increases Michigan's gas tax from 31 cents a gallon to at least 51 cents starting Jan. 1, 2026, bringing in $698.7 million this year and $1.086 billion next fiscal year.

Meanwhile, HB 4181 ends the 6 percent sales tax on gasoline starting Jan. 1, 2026. This will cost the government, in general, $695.8 million this year and $927.7 million next year, of which $680 million will no longer go to schools in FY 2027.

To pay for the schools and local government, the state is no longer steering $600 million in income tax money to the roads. This money is going to make schools whole. The roads will take money from the Corporate Income Tax that had been going to the Strategic Outreach and Attraction Reserve (SOAR) fund.

Also, HB 4951 creates a new 24% wholesale tax on marijuana that's being collected outside the state's marijuana law. This was done because a three-quarters majority vote of the Legislature is needed to amend a law enacted through the petition initiative process, which legalized pot.

The $420 million expected to be collected from marijuana is going into local roads and, along with the new corporate income tax money, that should swell to $688 million over time, per SB 578 .

“We’re excited about that and that will increase over time, up to $1.4 billion by 2030,” Noyola said.

As this was going on, the state decided to wipe away state business tax cuts created through President Donald **TRUMP**'s One Big Beautiful Bill to prevent more revenue loss. The legislation required Michigan (and other states) to offer $540 million in business tax breaks for research and development, the depreciation of business equipment, a business interest deduction and more. This was done through HB 4961 . The amount of lost revenue was expected to go down over time -- $275 million in FY '30, for example, but now none of it is going away.

What is staying are other tax cuts passed through the One Big Beautiful Bill to deduct tips, overtime pay and Social Security in state returns. HB 4961 allows the roughly $100 million loss in revenue from ending taxation on overtime compensation to stay. Another $50 million is being lost from the state no longer taxing tips. And, finally, another $20 to $30 million is lost with additional retiree tax cuts.

The marijuana tax and corporate income tax would be put into a bucket to be distributed to counties, locals and the Michigan Department of Transportation, while the fuel taxes would continue to operate the same as they are currently, but with an expected $1 billion more. Marijuana was expected to grow $420 million and the corporate income taxes would be worth $688 million.

The Neighborhood Roads Fund would have $100 million put into a grant fund for critical bridges called the Local Bridge Advisory Board and $40 million put into a local grade separation fund.

Another $100 million would be divided up with $35 million going for use in public transportation, and $65 million going to the Infrastructure Projects Authority Fund, which would be used to create or expand transportation services like public transportation.

That leaves nearly $1.45 billion. The State Trunkline Fund would then get 20 percent of that, leaving more than $1.15 billion that would be divvied up between the 83-county road commission and municipal road agencies.

Counties would have more than $830 million to be distributed, but it wouldn't end up as $10 million per county. Instead, it gets put through the same allocation as the Michigan Transportation Fund revenue return, which would also go up based on the increase in the fuel taxes.

"Urban areas are probably going to get more money than a rural area because they have more miles, they have a bigger population, they have more vehicle registrations. Whoever thought that Act 51 was old and antiquated is sorely mistaken, because it is keeping up with the times based on these quantifiable factors," Noyola said.

The taxes would start on Jan. 1, 2026, and Noyola said the 83 counties across the state would see a roughly 35 percent increase to their budgets in 2026, because it would only be a partial year for tax collection and by the 2027 budget could see a 50 percent budget increase.

"What we're going to do with that is focus on those poor roads and maintaining what we've got in good and fair condition. That's always been the goal." Noyola said.

He said there was expected to be an emphasis put on the poor condition roads and maintaining the rest better. Fixes to the local infrastructure would be the biggest area needing fixes using that funding increase.

"From your driveway to the highway, whether you're on a county road or you're on a city neighborhood street or neighborhood subdivision, that's where the complaints are coming from," Noyola said.

He said there are subdivisions with 50 years of needed repairs, but where those first repairs would be made would be up to the county or city road agencies or public works.

"Are we going to be able to do everything? Heck no! I mean, we've been in this hole for decades," Noyola said.

Binoniemi called the package "a significant investment. The most we've seen in our road system, and it's a heavy focus on the local system, which we think is going to make a huge impact on those road conditions," Lance said.

MITA had been saying for years that road funding was set to fall off a fiscal cliff as the funding dried up from Whitmer's road bonding program (See "Whitmer Announces Population Council, Appoints Co-Chair," 6/1/23).

He said the industry was hoping to come closer to the nearly $4 billion they had asked for and were hoping for the original $3 billion that was seen in the House and Senate plans.

“It seems as though this was all that was politically possible at this time,” he said.