

MICHIGAN

# Other states give a glimpse of a new tax Michigan drivers might pay in future

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A new way to fund Michigan's roads could be coming to a vehicle near you — but it's not without potential concerns.

The Democrat-led Legislature wants to fund a \$5 million study for what is commonly called a "road usage charge," which would bill drivers based on the miles they travel instead of relying on the tax they pay at the pump based on the amount of gasoline they buy. Similar programs in other states have had high start-up costs and could be hard to sell to drivers over worries about their movements getting tracked, leading to privacy protections, experts said.

Michigan's roads are funded largely through the gas or diesel tax drivers pay when they fill up their cars or trucks. But as the number of gallons of gas bought has declined in the past 20 years, elected officials and experts have feared that gas tax revenues will eventually start declining as sales of electric vehicles and gas-electric hybrid vehicles grow. So the state is studying options, including a mileage-based program.

In most states that are testing a mileage-based plan, the selection of such a plan allows drivers to opt out of a different flat fee, such as a highway use tax in Virginia that drivers pay when registering their vehicles.

The idea in Michigan is in the earliest planning phases. The \$5 million is part of budget plans that still need to be approved and sent to Gov. Gretchen Whitmer for her signature.

If approved, the study would likely start by the end of the year, and actual wide-scale implementation could be years down the road. But it's a necessary change, experts said.

"The gas tax is not nearly as sustainable as it once was. With a growing number of electric and hybrid vehicles, states are increasingly seeing they're not getting that revenue," said

Baruch Fiegenbaum, senior managing director of transportation policy for the Washington, D.C.-based Reason Foundation, a free market-oriented policy research group. "Conventional vehicles are becoming much more fuel-efficient, and I think we're going to see more mileage-based fees down the road."

From 2004 to 2023, gas tax revenue increased 29% in the state as the tax rate rose, according to a Michigan House Fiscal Agency analysis. The gas tax grew from 19 cents a gallon in 2016 to 26 cents between 2017 and 2021, 27 cents in 2022, nearly 29 cents in 2023 and 30 cents this year, with the last three adjustments being tied to inflation, the analysis found. Gas tax revenue grew from \$932 million in 2004 to \$1.2 billion in 2023, while diesel tax revenue rose 113% from \$120 million in 2004 to \$256 million in 2023.

But the number of gallons of gas sold in Michigan declined 14% from 4.9 million in 2004 to 4.2 million in 2023, according to the state, driving the concern that gas tax revenue could start decreasing as well. "We really need to get intentional about how we're going to find this money," said Rep. Ranjeev Puri, a Canton Township Democrat who leads the House's transportation budget.

## What other states are doing

Other states, including Virginia, Utah and Oregon, have already started similar programs. There, drivers can choose to opt in to the program; it's not a mandate.

In Virginia, the state allows drivers to select the "Mileage Choice" option when they renew their registration instead of the state's annual highway use fee. That fee, implemented by the Virginia General Assembly in 2020, only applies to fuel-efficient vehicles that get 25 miles per gallon or more and is based on a formula that includes the fuel tax rate for all residents and the average number of miles driven by all Virginians, according to the state's website.

This year, electric vehicle owners are paying \$123.98, whereas a vehicle with a 30 miles per gallon average would pay \$26 a year with prices going up based on how efficient a vehicle is. If drivers select the "Mileage Choice" program instead, they install a mileage reporting device and will be charged up to the amount of the highway use fee.

"For many, the savings can be substantial," Jillian Cowherd, spokesperson for the Virginia Department of Motor Vehicles, said in an email.

For example, she pointed to the 1,400 people who had opted into the program when it started in 2022. In the first year, those participants saved a total of \$26,000, Cowherd said, and almost half of them were paying less than half of what they would for a highway use fee.

A key part of Virginia's plan is that drivers would never pay more than the highway use fee — if they reach that point, they don't have to pay for more miles.

“What does that look for an individual? Say, for instance, you have an electric vehicle and only drive 5,000 miles a year, you could save over \$70 a year by enrolling in Mileage Choice,” Cowherd said.

## **Tracking devices have privacy protection**

But, like in most states, how exactly those miles get tracked can be a sticking point. In Virginia, a company the state has contracted with called Emovis will send drivers a device to put in their cars.

Drivers get to choose whether they want a mileage device with GPS capability. The devices with GPS tracks only the miles driven, not the location.

Utah has similar options, also operated by Emovis. There, the state says the company will send the state a monthly report with the number of miles a vehicle is driven.

In Utah, drivers can choose a flat fee or pay a rate of 1.06 cents per mile. The annual fee ranges from \$23.25 for a gas hybrid to \$60.25 for a plug-in hybrid to \$138.50 for an electric vehicle. But those selecting the miles driven rate will never pay more than the flat fee, according to Utah's website.

The company “will not disclose to the state any location data tied to your personal information unless compelled by a warrant that is part of a valid criminal proceeding,” the Utah Department of Transportation says on its website.

## **Shaping Michigan's future**

Michigan's prospective program looks like it could be shaped in much of the same way. As proposed, the state's Department of Transportation must create a committee to study the specifics of what a road usage charge would look like.

That committee, among other things, would be tasked with considering how to protect "all personally identifiable information" as well as "increased privacy concerns when location data is used in conjunction with other technologies." Like Utah, Michigan's initial plans show an emphasis on data not being available by anyone unless it becomes part of a court case, lawsuit or for academic research "with all personal information removed."

Making that clear to would-be adopters will be crucial to getting people to actually participate, experts said.

"That's just something I wouldn't be comfortable with," said Kevin Kroll, a Commerce Township resident who has owned an electric vehicle since January. "I'd probably pick a flat fee. No one knows when I go to the gas station, so why would I need to have my movements tracked in an EV?"

He later joked he'd rather pay double if it meant that no one knew where he was at.

"I recognize we need to find different revenue for our roads," Kroll said. "Everyone wants to drive, but no one wants to pay for it. We need to make a migration from internal combustion engines, but if they're going to do something like (a new road usage charge program), it really needs to be thought out."

That's true from the financial side as well. A report last year by the Citizens Research Council of Michigan found that road usage charge programs "appear to be revenue negative," meaning the programs were "providing less revenue to the state than if the programs were not to exist."

The Reason Foundation's Fiegenbaum said there are a few reasons for that. Especially in the earliest days of a program, states need drivers to buy into the program, so they sometimes offer discounts that might not exist later when the programs are expanded. This could mean that in the earliest days, when there aren't a lot of drivers enrolled, administrative costs could be higher, Fiegenbaum said.

There is also the burden of being some of the earliest adopters. In the first years of similar programs, there wasn't a particularly competitive market of companies that could provide the services states needed to track mileage at scale, meaning costs were initially higher than they might be for states that follow behind, Fiegenbaum said.

"Once you get closer to full deployment, you can get administrative costs similar to a gas tax," Fiegenbaum said.

Even if Michigan's final budget includes the funding for the study, Michigan is still several years from adopting a program. The study is required to be completed by the end of 2026, meaning full-scale implementation would likely be much later if lawmakers vote to create such a program.

More states are looking into a mile-based approach, Fiegenbaum said, although some states may be slow to move forward. In his opinion, it is perhaps one of the most sustainable options feasibly available for states looking to supplement gas taxes, he said.

Other options, like relying on revenues from the normal general fund budget, can be tricky because transportation "rarely beats out, say, education" in terms of priority, Fiegenbaum said. Increasing property taxes is generally done at the local level, he noted, not statewide. Adopting toll roads could be a solution, he said, but it often isn't as expansive as a mileage-based road usage charge.

"That leaves us with a mileage-based user fee, and I think it's the best of the options we've come up with so far," Fiegenbaum said.

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