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POLITICS

Roads approach revenue cliff as Michigan draws last of $3.5B in road bonds

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Lansing — The Michigan Department of Transportation this year will begin spending the last $700 million of $3.5 billion the Whitmer administration borrowed in 2019 to pay for highway reconstruction projects after lawmakers refused to hike taxes.

When that money runs out two years from now, the state will be saddled not only with paying off the loans and interest incurred under Gov. Gretchen Whitmer's Rebuilding Michigan plan but also will face an estimated annual revenue shortfall of up to $3.9 billion to continue paying for needed road work across Michigan.

There is no plan for how to fund the state's long-term transportation needs when the $3.5 billion in bond proceeds run out — a familiar tune that's paused every few years in Lansing as temporary stopgaps are put in place.

The 2025 budget plan Whitmer proposed Wednesday included no new funding mechanisms for roads outside of the borrowed money and the prospect of tight elections in November likely will forestall action on the decidedly unpopular political hot potato.

After her annual budget presentation to lawmakers, Whitmer said Michigan's road funding future is an "ongoing conversation," but said she has no plans to introduce another gas tax increase. In 2019, during Whitmer's first year in office, she proposed a 45-cent-per-gallon fuel tax increase that was dead on arrival in a Republican-controlled Legislature.

Democratic lawmakers on Wednesday said the state Legislature, now under more permissive term limits and Democratic control, shouldn't and can't keep punting on permanent road funding solutions. But they also argued the conversation should be held in conjunction with discussions on the effect that increased sales of electric vehicles will have on gas tax revenue and the potential expansion of public transit options.

"What does long-term revenue look like that isn’t so reliant on the gas tax?" asked Sen. Mallory McMorrow, D-Royal Oak. "And what’s the most cost-effective solution knowing that continuing to expand roads and add lanes, that’s just more that we’re going to have to maintain long-term?”

Rep. Nate Shannon, D-Sterling Heights, held a hearing Tuesday in the House Transportation, Mobility and Infrastructure Committee on the state's road funding so lawmakers can understand "the urgency of the crisis we face."

"We cannot continue to operate business as usual in this town — where everything has to be about the politics of the issue — when there are real road concerns and that plays into the safety of the public," Shannon said.

The Growing Michigan Together Council, a state commission empaneled by Whitmer, in December said the $3.9 billion estimate for bringing Michigan's roads into acceptable condition would increase as proper maintenance is deferred. The group also concluded the state lacks a coordinated transit network, despite research showing young people would prefer it to individual vehicles.

Whatever the potential future funding approaches for Michigan's roads, the apparent need for them will become clearer as the Rebuilding Michigan funds dwindle, said Lance Binoniemi, vice president of government affairs for the Michigan Infrastructure and Transportation Association.

“Because we have been investing over the past few years and because there has been a significant amount of road work done, I think the public believes we’re getting the job done,” Binoniemi said. “But there’s no money to maintain what we’re doing now.”

Rebuilding Michigan winding down

After her initial effort to pass a 45-cent gas tax increase failed in 2019, Whitmer in 2020 announced the Rebuilding Michigan program, which involved selling $3.5 billion in bonds over a five-year period to help fund or accelerate major construction projects.

Those bonds have been used to complete an "incredible amount of work," Whitmer said Wednesday. In Metro Detroit, bond-funded projects include the widening and reconstruction of Interstate 96 in western Oakland County as well as rebuilding I-275 in western Wayne County, I-475 in the Flint area, four miles of I-75 in southern Monroe County and I-696 in Oakland County.

"…the bond program has rebuilt some of the busiest roads and bridges in our state, vital corridors for commuters and the flow of commerce," said Jeff Cranson, Michigan Department of Transportation spokesman. "The debt incurred pales in comparison to what we would leave our posterity in crumbling roads and bridges that they will have to repair."

The state also has received about $7.3 billion — a boost of about $1.1 billion from the prior federal funding rate — thanks to the federal Infrastructure Investment and Jobs Act signed into law in 2021. But that money also is set to run out in 2026.

The lack of a long-term plan Wednesday to replace those funding sources didn't go unnoticed. Rep. Donni Steele, R-Orion Township, argued the governor wasn't making infrastructure a priority.

"She's touting her borrowed road funding," Steele said. "But not only will our kids have to pay that back, that money won't even be used to fix local roads."

Whitmer's bond proposal came several years after Republican former Gov. Rick Snyder signed a law that raised gas taxes and registration fees by about $600 million a year and ramped up to $600 million in general fund revenue diversions toward roads. The plan came after voters rejected a 2015 ballot proposal that would have raised the state 6% sales tax by one percentage point to pay for roads.

Whitmer's plan in 2019 to raise gas taxes by 45 cents per gallon couldn't find support, even in the Democratic caucuses that served in the minority at that time. The Rebuilding Michigan plan was a way to get an immediate influx of cash that could be paid off in the coming years.

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$3.9B revenue cliff

When Michigan hits the 2026 revenue cliff, it will have to manage the debt incurred through the Rebuilding Michigan plan and find money to meet the needs of continuing road deterioration.

Less than a year ago, Public Sector Consultants pegged the state's revenue shortfall for roads at roughly $3.9 billion — a shortfall that will be fully realized after the Rebuilding Michigan money runs out in 2026. The study was commission by the Michigan Infrastructure and Transportation Association.

The Michigan Department of Transportation pegs its revenue shortfall in 2026 at $2.4 billion, but that number only captures state trunk lines — not county and local roads. It reflects what it would cost in ongoing annual revenue for the state's trunk line pavement conditions to reach 90% over 10 years.

But the latest rebuilding surge came at a cost. The Rebuilding Michigan bonds have accumulated about $2.2 billion in interest on top of the $2.8 billion sold in bonds so far. The department maintains that the first $2.8 billion in bonds were sold at a premium so they funded about $3.3 billion in work, giving residents a bigger bank for their buck.

The state's transportation and transit options should be a priority as Michigan looks to the long-term economic viability and growth of the state, said Rep. Jason Morgan, D-Ann Arbor, citing reasons individuals give for leaving the state.

"Everyone can see that we have a problem that's only going to get worse, and now we need to come up with a solution for it," Morgan said.

The March 2023 Public Sector Consultants report found that, overall, Michigan's transportation network costs about $9 billion a year to operate and maintain, but that number jumps to $16.7 billion depending on how much maintenance the state has put off.

As of last year, 33% of Michigan roads receiving federal aid and 45% of roads not receiving federal aid were in "poor condition" and in need of costlier reconstruction within two years.

By 2034, the Michigan Department of Transportation expects 32% of the state's pavement to be in fair condition and 48% to be in poor condition.

To close the gap between $2.4 billion and $3.9 billion, each adult in Michigan would have to pay between $283 and $535 more annually, according to the Public Sector Consultants study.

That could be achieved by a 39- to 74-cent-per-gallon gasoline tax increase; converting the fuel tax to a percentage levy per dollar instead of per gallon; a 2- to 3-percentage point increase to the sales tax; potential local taxes on sales to fund road projects; or a 3- to 5-cent tax per mile, the implementation of which is still unclear, according to the study.

Michigan's current gas and diesel fuel tax is 30 cents per gallon; it rose from 28.6 cents per gallon on Jan. 1 because of an inflationary increase mechanism written into the 2015 road funding law.

"Everyone knows what the potential solutions are but nobody wants to say it out loud," Morgan said. "...Voters in our state will support funding for things that they view as priorities. Where the challenge comes in is when voters see us spending money on individual projects for our districts or specific projects rather than large overarching priorities."

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