PROPOSAL 11 2nd Place

Funding Michigan's Transportation Infrastructure Needs

Introduction to the Problem

Michigan is home to America's automotive industry and has one of the most extensive public road systems in the nation. From the 1940s through the 1980s, state and federal funds were used to expand and improve the major trunk lines and bridges throughout the state. Beginning in the late 1990s, state roadways started to deteriorate as the funding available for road and bridge maintenance was not sufficient to meet the cost of doing necessary repairs and maintenance.

The Federal Highway Administration (FHA) has indicated that Michigan's urban roads are worse than its Midwestern neighbors and the state is one of the worst ten states scored out under the FHA International Roughness Index (FHA, 2010). Only 40.6% of our urban lane miles are in good condition compared to 56% as a national average. The decay of Michigan's infrastructure has been documented in a number of review papers. A team from the Anderson Economic Group released a report in 2010 summarizing the state of Michigan roads and bridges and recommending a course of action for improvement (Anderson, et. al., 2010).

The Michigan Department of Transportation has also documented the critical situation of the state transportation network in their annual reports and in their 2011-2015 transportation plan (MDOT, 2011). They estimate a need for 1.3 billion dollars annually to match all available federal aid. This is about 200 million dollars short of the projected annual funding available from the Michigan Transportation Fund (MDOT, 2011).

Michigan Governor Rick Snyder has recently called for changes in the fuel tax at the wholesale level and possible increased vehicle registration fees of up to $120 per vehicle to provide the funds to complete the needed maintenance work on our highway system (Snyder, 2011). The governor noted that the bipartisan House Transportation Committee estimated that it would cost 1.4 billion dollars more than the current budget allotment over the next five years to completely meet all of the needs for upgrading and improving Michigan's transportation infrastructure to the level needed (Michigan House of Representatives, 2011).

Proposed Solution

It is clear that additional revenues are necessary to meet the shortfall mentioned above. With the current high cost of motor fuels, increases in the gasoline and diesel taxes would be unpopular. Increasing the price of fuel would have a negative impact on the budgets of every Michigan citizen who drives a vehicle, now and into the future. Likewise, any significant increase in vehicle registration fees would be difficult to accomplish politically and would be an increased tax burden on every Michigan vehicle owner every year.

We propose a redirection of certain sales tax revenues into a new, special fund which would address the transportation infrastructure needs noted above. This would be combined with a small, gradual increase in vehicle registration fees over a five year period. Our proposal is outlined below.

Step 1 – Create the **Michigan Infrastructure Improvement Fund** (MIIF) in the State Treasury. This would be a legislatively-created fund used to supplement the Michigan Transportation Fund and directed toward priority repair and maintenance projects. Money in this fund will leverage our ability to procure all available federal funds and greatly increase the funds available for needed infrastructure work. Once transportation needs are satisfied, the revenue in this fund could be directed in the future toward other infrastructure needs such as water supply systems and sewage treatment systems.

Step 2 – Amend the Michigan General Sales Tax Act (Public Act 167 of 1933) to **direct sales tax revenues from the following sources to fund the MIIF** (referred to below as "the fund") as follows.

a. Fifty percent of all sales tax revenues from the sale of new vehicles in Michigan shall be deposited into the fund. The State of Michigan registered 429,357 new vehicles in 2010. The National Automobile Dealers Association estimates these sales totaled $6,440,000,000. Fifty percent of the sales tax revenue from these sales equates to over $193 million.
b. One hundred percent of all sales or use tax revenue from the sale of used vehicles shall be deposited into the fund. For the past decade, the Michigan Department of Treasury has collected between $100 to $150 million annually in "use tax" from used car sales between private parties (Lockwood, 2011).
c. One hundred percent of all sales tax revenue from the sale of all automotive parts, accessories, lubricants, and maintenance products shall be deposited into the fund. No data are currently available to estimate the revenue from this category.

Step 3 -- Amend the Michigan General Sales Tax Act (Public Act 167 of 1933) to remove many of the current special-interest sales tax exemptions. This would **make up to the general fund the sales tax revenues diverted to the MIIF** in Step 2 of this proposal.

A broad variety of special-interest sales tax exemptions have crept into the sales tax code over the past 78 years. There is no reason that these should not be reevaluated from time to time and removed if no longer warranted or if the state has critical needs for this revenue. Removing these exemptions would help to "flatten" the sales tax and make sure that all consumers pay their fair share of this general tax. A suggested list of exemptions, identified by their numerical section in the Sales Tax Act, to eliminate from the statute and brief rationale for each is described below.

a. Section 205.54a and 205.54p – Remove the sales tax exemption for churches and agricultural producers. Church and state should be separated and churches should pay their fair share of taxes on purchases. Agriculture is our state's second largest industrial sector. They are profitable businesses and are industrial operations in this day and age that do not need tax subsidies to survive. They should pay their fair share of sales taxes on purchases. The industry gets to deduct the costs of production from their state and federal income tax. They should not be allowed to double-dip by also being exempt from sales tax on purchases.
b. Section 205.54h– Remove the sales tax exemption for purchases by Federal Government Agencies. These agencies should pay their fair share of taxes on all purchases just any other agency would.
c. Section 205.54m -- Remove the sales tax exemption for rail freight cars, passenger cars, locomotives, parts, materials and lubricants. Railroads are profitable businesses and should pay their fair share of sales taxes on purchases.
d. Section 205.54q – Remove the sales tax exemption for various fraternal organizations under this section. These non-profit organizations should pay the sales tax on purchases just like any other group.
e. Section 205.54r – Remove the sales tax exemption for trucks, trailers, rolling stock, etc. for out of state use. If the items are purchased in Michigan, the state sales tax should be collected on them.
f. Section 205.54s – Remove the sales tax exemption for purchase of investment coins and bullion. This is becoming a big industry with the increase in commodity metal prices and was nothing more than a special interest tax exemption added to the tax code several years ago. It is long overdue for removal.
g. Section 205.54t– Remove the sales tax exemption for industrial processing equipment. Industries are profitable corporations and should pay sales tax on these purchases. As noted with the agricultural producers, these costs are deductible from their state and federal income taxes.
h. Section 205.54u – Remove the sales tax exemption for "extractive operations". Mining, logging, oil and gas extraction, and related industries are profitable industries. Oil and gas extraction is exceptionally profitable. These industries already are subsidized by being able to remove public trust resources with minimal payback to the citizens of the state who own them in common trust.
i. Section 205.54w – Remove the sales tax exemption for materials used in hospital construction. The majority of the medical care industry is a large, profitable business. They should pay sales tax like anyone else. So called "non-profit" groups like Blue Cross-Blue Shield have executives that are in the top 1% of income earners. If they can afford these compensation packages, they can afford to pay the state sales tax on purchases.
j. Section 205.54aa – Remove the sales tax exemption for Native American tribal members. They are citizens of the state of Michigan as well as citizens of their tribes and they benefit from using our roadways. They should be

required to pay sales tax on vehicles, ATVs, snowmobiles, etc. just like any other Michigan citizen.

k. Section 205.54 – Remove the sales tax exemption for installation of pollution control equipment. Industries are required to install this equipment under current state and federal pollution control laws. There is no longer any need for an incentive to do this by eliminating sales taxes on this equipment. This exemption is long overdue for removal.

Step 4 – Increase the annual vehicle registration fees gradually over the next five years. Every vehicle operated on Michigan roadways contributes to the wear and tear on our transportation infrastructure. It is only fair that the owners of every vehicle pay their proportionate share of maintaining the system.

At present there are approximately 9.7 million non-expired vehicles registered with the Michigan Secretary of State (Kelly, 2011). A ten dollar per vehicle increase in registration fees, per year for each of the next five years (2012-2017), would generate an additional 97 million dollars the first year, rising to nearly 500 million dollars by the fifth year. A sliding scale could also be implemented to charge the minimal ten dollar increase to owners of cars and light trucks while increasing the fees proportionately for Class 2 through Class 9 vehicles. This limited, gradual increase in registration fees would be much more acceptable to the general public than the $120 per vehicle proposed by the Governor. An improved transportation system would offset some of the 2007 estimated annual cost of $287 per person lost because of congested and poorly maintained roadways (Anderson, et al., 2010).

Educational Program

These proposed changes in the tax code will likely meet with fierce opposition from the many groups impacted. But these special interest groups should not be allowed to benefit while the general population of the state suffers with bad roads and dangerous bridges. If the general public is educated on the need for and the fairness of these changes, there will be broad political support for these changes. People are tired of special interests getting everything while the general population suffers.

Several different forms of media and promotion will be used to educate the general public of all the benefits that the Michigan Infrastructure Improvement Fund (MIIF) has to offer. The most eye-catching way promote the MIIF plan is by airing ads on television, similar to campaign ads, educating the public on Michigan's current road conditions, and the role of the MIIF in changing them. Another form of promotion that will reach a large audience is to create a Facebook page that will draw in tens of thousands of daily internet users. The MIIF Facebook page will also be a great way to encourage others to spread the word about MIIF. A third way of promoting MIIF to the general public is by creating promotional items such as bumper stickers and T-shirts, produced and distributed by Michigan's road builders. Lastly, a form of educating the

public on MIIF's plans to improve road conditions in Michigan is by airing educational ads over the radio. This form of promotion would reach thousands of people and include catchy slogans that people would remember long after hearing the radio ads.

An effective way of introducing the Michigan Infrastructure Improvement Fund to the public would be to air promotional ads on television. These television ads would range between 30 seconds to 60 seconds in length. The ads would acknowledge the extreme and potentially dangerous conditions of roads and bridges in the state of Michigan. People who view these commercials will be interested in them because the ads will address how the poor road conditions are affecting their vehicles, tourism and the overall economy of Michigan. They would also discuss the role that MIIF would play in improving the conditions of these roads and bridges.

The commercials would inform the public of how the MIIF plan would redirect the sales tax on vehicles into a fund that would pay for labor and materials needed for improving Michigan's roads and bridges. The redirection of taxes would result in no additional cost to the public. The ads would also discuss the small, gradual increase in vehicle registration fees to support the MIIF plan. The reevaluation of special interest sales tax exemptions would be presented to the public as potential ways to generate revenue for the MIIF). The MIIF ads would be similar to a government campaign ad, asking for the public's support to carry through with the MIIF plan. These ads would gain public support, and persuade the public to become more interested in what MIIF stands for. They would also be a primary source of educating the general public about the Michigan Infrastructure Improvement Fund. The cost of these ads would require funding from the road builders.

Another way to spread the word about MIIF is through online promotion. This form of promotion would be a student-led program, and would reach thousands of people who use social-networking websites, such as Facebook, daily. A Facebook page dedicated to the education and support of MIIF would be created. This page would be especially effective in our modern times, as Facebook is now becoming a primary source of communication. The creators of the page would post status updates, informing its followers of MIIF's plans to improve the condition of Michigan's roads and bridges.

This is a simple, effective, and cost-free way of educating the public on the plans MIIF has for improving the conditions of Michigan's roads and bridges. The page would ask its followers to spread the word about MIIF, either on Facebook or by word of mouth. People who would generally ignore governmental issues such as MIIF would be more inclined to "like" the MIIF page if they had an incentive to. People who "like" the page would be entered in a monthly contest to win a $100 gas card. This form of public educating would cost nothing except time and the value of the gas cards. It also has the potential of reaching thousands of people.

The printing of promotional material such as flyers, bumper stickers and T-shirts would help in the education of the public of the MIIF. These promotional items would be produced and distributed to the public by the road builders in Michigan.

Citizens who are clueless about what MIIF is would have their interest piqued and they would be likely to question what MIIF is all about. The promotional materials would also encourage people to educate others about the Michigan Infrastructure Improvement Fund by word of mouth. The MIIF material is a conversation starter and would get people interested in learning more about how MIIF and how it would benefit them personally.

An effective way to promote MIIF to a wide range of people is by airing radio ads. The ads would include catchy themes/slogans. Some examples of attention-grabbing slogans are: "**MIIF-The Road to Michigan's Future**", "**MIIF Means Money for Michigan**", or "**MIIF- Are We on the Right Road**?". These slogans will catch people's attention, and they are more likely to remember them. The ads would educate radio listeners about the benefits of the MIIF plan and also encourage them to learn more about the plan by visiting and "liking" the MIIF Facebook page. The radio ads will be heard on several different genres of music stations, to assure that a wide array of listeners are being informed on the MIIF plan.

This proposal will result in minimal increases in taxes for most of the citizens of the state and more equitable payment of taxes by certain individuals and industries which have been subsidized by our tax code for far too long.

Improving Michigan's roads will help to avoid some of the costs paid by drivers who have damaged vehicles due to poor road infrastructure. These costs totaled $542 million in total vehicle damages and an average of $3,763 per injured person in 2006. An education program that points out these existing costs and compares them to the slight fee increases would result in increased public support for this proposal.

Conclusion

The State of Michigan has a serious infrastructure problem. It has roadways and bridges that are in disrepair and not enough money available to fix them. The damaged infrastructure has a negative impact on commerce (industrial, agricultural, and tourism) and costs each Michigan driver an average of $287 per year.

Without sufficient matching funds, the state stands to lose billions of dollars of federal transportation funding. Anderson (2010) estimates that 15,000 Michigan jobs also hang in the balance. The benefits to every Michigan citizen from improving our infrastructure are clear and far outweigh the cost. Michigan needs to generate the revenues needed to resolve this problem and this plan is a relatively painless way to do it. All that is needed is the political will to make these changes.

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