

**DATE:** May 1, 2018  
**TO:** Interested Parties  
**FROM:** William E. Hamilton, Senior Fiscal Analyst  
**RE:** MTF Distribution Formula to Local Road Agencies

Historically, most of the state-generated tax revenue recognized in the state transportation budget has come from two sources: motor fuel taxes and vehicle registration taxes. Together these sources are expected to generate \$2.8 billion in FY 2017-18.

Motor fuel and vehicle registration tax revenue is constitutionally dedicated for transportation. 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). After deductions for administrative, planning, and collection costs, and for various statutory categorical programs, the MTF balance is distributed as follows:

- 10% to the Comprehensive Transportation Fund (CTF) for public transportation programs, including capital and operating assistance to 81 local public transit systems

Of the remaining balance, after the 10% distribution to the CTF:

- 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 preservation of county road systems
- 21.8% to 533 cities and villages for preservation of city and village street systems

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 533 cities and villages.

Descriptions of both the external and internal MTF distribution formulas generally describe MTF revenue and distributions on a fiscal year basis. However, MDOT distributes MTF revenue to county road commission and to cities and villages each month, based on the prior month’s actual MTF revenue and calculated distribution factors. The distributions and related distribution calculations are reported on the MDOT website.

### **MTF to County Road Commissions**

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 office 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 as established in Section 12 of Act 51. The table uses \$900.0 million—roughly the FY 2017-18 MTF distribution to county road commissions—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 \$900.0 million.]

**Table 1**  
**MTF Distribution to County Road Commissions**  
 Distribution assuming \$900.0 million MTF

<u>Distribution Factors</u>		
1.00%	by snow formula	\$9,000,000
9.90%	by urban road mileage, for urban Primary and Local roads	89,100,000
47.90%	by resident vehicle registrations, for Primary roads	431,100,000
6.39%	by Primary road mileage, for Primary roads	57,510,000
9.58%	1/83 equally, for Primary roads	86,220,000
16.41%	by Local-road mileage, for Local roads	147,690,000
8.84%	by rural population, for Local roads	79,560,000

Plus \$10,000 each for county engineer, and adjustments for mileage transferred between jurisdictions.

Act 51 provides for the classification of the county roads as either county primary roads or county local roads. Act 51 also defines urban system roads which may be either county primary or county local roads.

*Source: Michigan Department of Transportation, Bureau of Planning.*

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 road miles. Registration figures change every month based on registration data reported by the Michigan Secretary of State.

The factors described above drive the distribution of total MTF revenue to county road commissions. The distribution to any particular 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 \$900.0 million, roughly 47.9% of the \$900.0 million, \$431.1 million, would be distributed based on registrations within counties. If 9.6% of vehicle registration revenue was attributable to Macomb County, Macomb County would receive roughly 9.6% of the \$431.1 million distributed based on registrations. Macomb County would receive its share of the other distribution factors based on its proportional share of those factors.

## MTF to Cities and Villages

The MTF distribution to cities and villages is distributed among the 533 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>1</sup>. The distribution of MTF major street funds among the 533 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 533 cities and villages based on two factors: 60% based on census population, and 40% of 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:

“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.

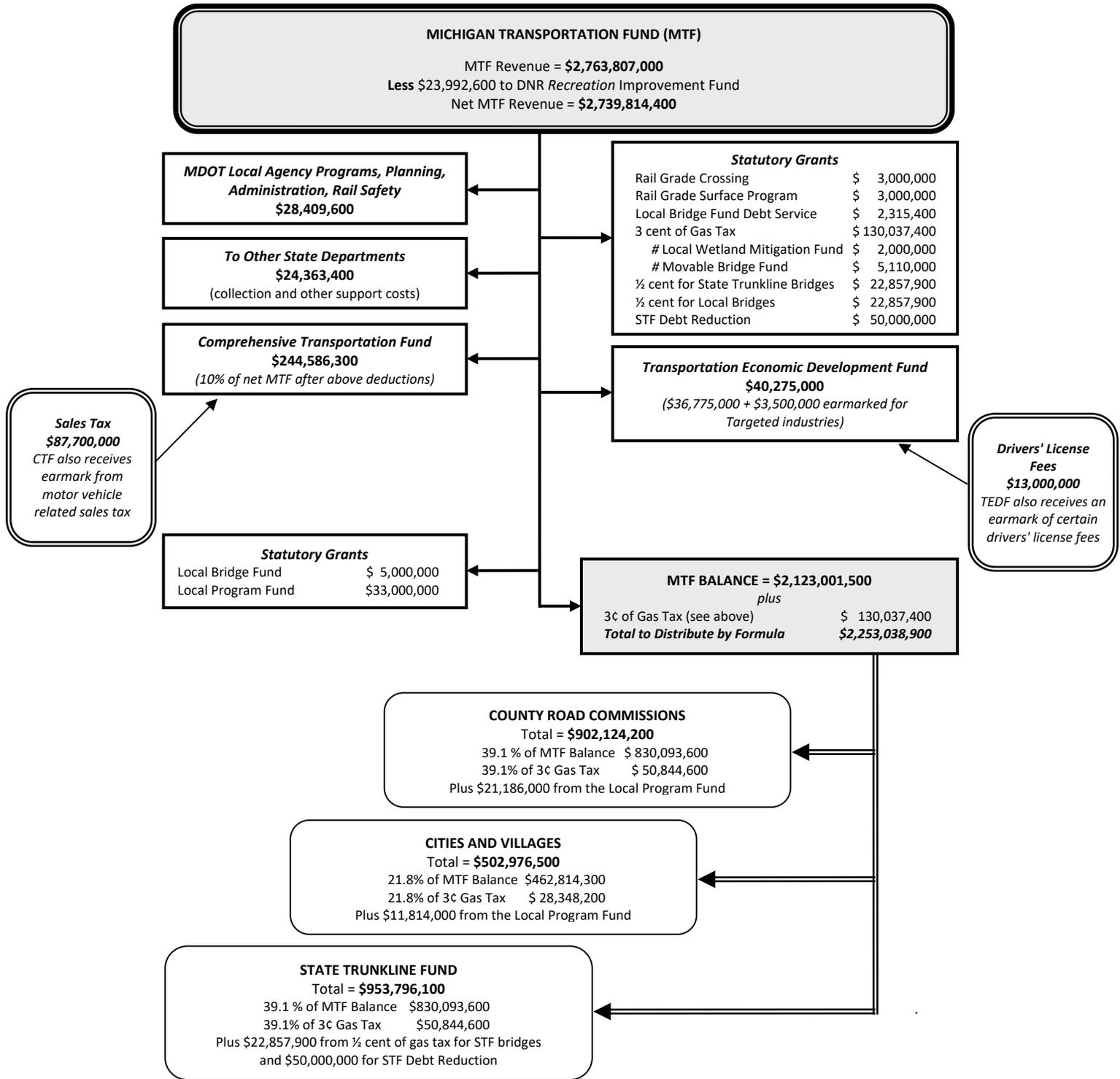
It’s not clear why the Act 51 distribution formula for cities and villages includes a recognition of state trunkline miles. Cities and villages are not responsible for the maintenance of state trunkline highways within municipal boundaries. Under Section 1c of Act 51 cities and villages are required to participate in the cost of construction or reconstruction of state trunkline highways within municipal boundaries; however, this section was amended in 2016 (Public Act 459 of 2016) to exclude limited access highways from the cost sharing requirement.

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<sup>1</sup> Act 51 provides for the classification of the city and villages streets as either major or local.

**FY 2017-18 MICHIGAN TRANSPORTATION FUND REVENUES AND DISTRIBUTIONS PER Sec. 10, 1951 PA 51**

*January 2017 ORTA Estimate*



# Note: This flowchart represents the distribution of MTF revenue as guided by Section 10 of Public Act 51 of 1951, as amended by Public Act 246 of 2016. Public Act 246 established two new earmarks of MTF revenue: \$2.0 million for a new Local agency wetland mitigation bank fund, and \$5.0 million for a new Movable bridge fund, effective September 22, 2016.