



Where did the Money from Higher Transportation Taxes Go?

Summary

Despite the existence of various dedicated funds, the state can shift money from one spending priority to another. As a result, a \$460 million increase in transportation taxes translates to a \$160 million increase for road repairs.

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A bigger budget means more money for programs beyond road repair

By James M. Hohman

What if the Legislature and governor hike gas and vehicle registration taxes to fix the roads, but then hardly any extra money actually goes to fix the roads?

Drivers started paying those higher taxes last month, though they were enacted near the end of 2015. But at least in the short term, the main effect of these tax increases appears to be higher spending on schools and Medicaid, not road repairs.

The 7.3-cent-per-gallon tax increase motorists began paying on Jan. 1 and the 20 percent increase in the vehicle registration tax are expected to cost road users another \$460 million this year. The money is dedicated to transportation funding — mostly to the roads, but also some for public transit.

Yet the state transportation budget will only have \$160 million more this year for road repairs, not \$460 million. Why? The Legislature shifted funds out of the transportation budget just as new tax revenue was coming into it.

Gov. Snyder has been pushing for more transportation funding since he took office in 2011. Many proposals were offered and rejected over the years, and the Legislature began shifting revenue from other taxes to the transportation budget.

By last year, the Legislature was transferring \$402 million in General Fund revenue to transportation, which is nearly as much as this year's tax increases will deliver.

With the new road tax money rolling in, all but \$9.75 million worth of General Fund revenue was removed from this year's transportation budget. The \$392 million in General Fund money previously earmarked for roads is now mostly paying for Medicaid and public schools.

Specifically, the school aid budget is getting \$163.8 million more in General Fund revenue this year, and the state agency that manages Medicaid is getting \$132.6 million more.

The budgetary change is a lesson in fungibility: Increased tax revenue can be shifted from one purpose to another. Moving some General Fund

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Not all the money raised by increased transportation taxes goes to transportation.

revenue to transportation allowed more road repairs in the last couple years than would have been the case otherwise.

Such details rarely wind up in the talking points politicians use to sell the public a tax increase. You won't see any press releases promoting the gas tax as a way to fund medical welfare programs.

The gas and vehicle registration taxes will continue to fund the transportation budget. And lawmakers plan to send some income tax money to roads in the future, so the funding for roads will go up.

Drivers got more road funding the last few years without having to pay more in transportation taxes. When those taxes did go up with the start of the new year, Lansing's response was to spend more on schools and Medicaid. Taxpayers should pay closer attention to the lesson about fungibility as they listen to future state spending debates.

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