



116
401
THS

THE HISTORY OF THE MICHIGAN
ROAD TAX STRUCTURE

Thesis for the Degree of B. S.
MICHIGAN STATE COLLEGE

M. E. Luhrs
1948

The History of the Michigan
Road Tax Structure

A Thesis submitted to
The Faculty of
MICHIGAN STATE COLLEGE
of
AGRICULTURE AND APPLIED SCIENCE

By

M. E. Luhrs

Candidate for the Degree of
Bachelor of Science

March 1948

THESIS

C.1

4/1/48
g

-Acknowledgement-

The author wishes to express his thanks to the many persons and organizations without whose help it would have been impossible to gather all the information and data included in this thesis. I wish especially to thank the Michigan State Highway Department, The Michigan Good Roads Federation, The Michigan County Road Association, The Michigan Municipal League and the civil engineering faculty of Michigan State College for their cooperation and assistance.

M. E. Luhrs

INTRODUCTION

Roads and streets are the bonds which integrate our economic and social functions. They knit together our rural and urban areas, making possible the pattern of life to which we are accustomed today. It is necessary to remember that every mile of these roads and streets are public property and therefore both a public asset and liability. It is impossible to comprehend fully the part that the automobile and the roads that it travels plays, but the fact stands out that the automotive industry is the number one industry in Michigan and that the tourist and resort industry is second in importance. In addition to providing essential roadways for motor vehicle travel, Michigan's road system fulfills other important needs, such as providing access to land of property owners as well as general governmental responsibilities of transportation of mail, public health and safety national defense and other services of direct and indirect benefit to the community as a whole. But above all, as the Bureau of Labor Statistics indicates, the automobile is removed from the luxury class, it is now considered as the fourth necessity of life in the United States, taking rank after food, clothing and shelter.

In 1905 there were 2,958 automobiles registered in Michigan, 245 miles of stone or crushed macadam highways, 7,700 miles of gravel roads, and over 60,000 miles of clay, sand and earth roads. In 1946 there was one passenger automobile to

each 115 families and one self propelled motor vehicle to each family in the state. There was a total of 104,517 miles of highways in Michigan at the end of the same year. This growth is tremendous, and Michigan can be truly proud both as a pioneer in the automotive industry, and as a pioneer in providing adequate highway facilities and services to it's citizens. These improvements have not been without cost. During the period from 1905-1946, governments in the state have raised more than two billions of revenue for the support of roads and streets. On top of this, the federal government has contributed through cash grants-in-aid and emergency relief expenditures, close to 400 million dollars. It is the purpose of this study to see how this revenue was raised and distributed.

Within the state the revenues have come principally from two sources; taxes on property and taxes on motor vehicles. During the period from 1910 to 1946 these two types of taxes have contributed substantially equal amounts, but their relative importance has changed greatly. Local property tax which at one time completely supported the entire highway system, now is of relative minor importance and contributed only 14% of the highway revenues in 1946. The motor vehicle tax which has grown in importance with the adoption of the Weight Tax in 1915 and the Gasoline Tax in 1925, now supplies the major portion of the revenue. The reasons for

this change are evident, they are the results of changing economic conditions. The major causes for the shift in the taxation policy are;

1. Growth of population
2. Increased complexities of our way of life due to the expansion of industrial production and scientific achievement.
3. The relative decline of agriculture, and the practical disappearance of once important resources in some areas of the state
4. The inappropriate use of land for agriculture and suburban development.
5. The phenomenal growth in the number and use of automobiles and the accompanying development of highway and street facilities.
6. The demand for other governmental services commensurate with these expansions.

These changes have definitely shifted the burden from the property owner to the automobile user. It is evident that a limited application of the benefit theory of tax distribution has taken place. The benefit theory of taxation is one of the four well known theories of taxation that exist today. These theories are known as the benefit theory, the privilege theory, the ability theory and the equalization theory. The benefit theory states that each individual should be taxed according to the benefits he receives from the performance for the community of the government functions. The actual division of the tax under this theory should be on one or the other of the following bases; cost of service or value of service. It can be seen that through the motor vehicle taxes the motorists as users and benefitors

have paid their share of the taxes. However, some motorists such as city motorists receive less benefit for their money, whereas, long distance haulers are often said to have received larger benefits than their contribution to highway costs.

The privilege theory holds that the government gives special permission to do certain acts which otherwise would be illegal. The permission to do these acts constitutes a privilege which should be paid for by the citizen. It is difficult to see how this theory applies to road taxation today, because it is impossible to classify the use of highways and roads as a special privilege, a theory which was prominent when roads were first built and financed by the use of tolls.

The ability theory is based on the precept that the activities of government are undertaken for the benefit of society as a whole, and therefore the costs of the activities are a charge on society, and not any individual. For that reason the cost of government should be distributed among the citizens in proportion to their ability to pay. This theory is difficult to apply to road taxation because automobile ownership is not a true index of wealth or ability to pay due to the fact that auto ownership is a necessity for so many motorists.

The equalization theory is a radical theory which argues that the state should use it's taxing power to reduce inequalities in the wealth of it's citizens. It has no connection with road taxation and is just mentioned in passing.

In reviewing these theories of taxation, attention must be paid to one of the features which has come into prominence in the last few decades. That is whether a tax is proportional, progressive, or regressive. A proportional tax is one that the rate of taxation is the same for all incomes or that the tax is the same fraction of income for all. Under a progressive system of taxation, the rate of tax is much greater on successively richer individuals. When the tax burden falls more heavily on the poor than on the rich, the tax is said to be regressive. On the whole, it is the general opinion of the present economic and social system that the progressive type of tax is desirable because the proportion of income devoted to the necessities of life is smaller for the rich man than for the poor man. Along these lines it must be admitted that road taxes tend to be regressive because people in the lower income brackets spend a larger per cent of their income on automobile transportation than do families of larger income. How this situation could be remedied, if so desired, would be a difficult problem, but one which is worthy of consideration due to the fact that revenues from taxes on

-3-

automobile ownership and operation have become the greatest single source of revenue, and as such must be protected.

Let us examine the various types of taxes or fees that have been used by various states as sources of highway funds in the past, in the light of the above discussion. Some of these taxes have never been used in Michigan, but are worthy of study as sources of highway funds.

The earliest type of tax used for the support of roads was the property tax. In early pioneer days property was the principal base on which taxes were levied; the economic system was simple and governmental activities were few. Prior to the automobile, roads were primarily used for access to property and it was proper that the property taxes should be used to support these roads. It was taxation under the benefit theory. However with the advent of the automobile there was growing demand for better roads and user taxes ^{SUCH} as the gasoline tax and registration fees came into effect. However, until the depression property taxes remained the primary source of funds. With the advent of the depression, and the devaluation of property and the delinquency of property taxes, the burden upon the property owners was lightened until property tax became a secondary source of highway funds.

Registration fees have been and are used by all the states as producers of highway revenue. Originally instituted to help finance the costs of registration they have developed to

the point of being large revenue producers. They might be classified under the privilege system of taxation. That is the state gives the privilege of automobile ownership and use of the roads for the payment of this fee. The fees are based upon weight and horsepower of the automobile, and tend to be regressive because in general the weight and horsepower of the car is not indicative of the owner's ability to pay.

The gasoline tax is the primary source of revenue for highway funds today. Since it's institution it has been readily accepted by the motorist. The gasoline tax is probably the least regressive of all the highway taxes. It falls under the benefit system of taxation. The person who buys more gas pays more tax, but because he travels more he receives a larger share of the benefits derived from the highway system and services. It also falls under the category of the ability^{THEORY} of taxation in that the person with the larger income will tend to travel more, use his automobile more frequently, and thus pays a larger share of the tax.

Special operator's and chauffeur's license fees are of minor importance as sources of revenue. They are based on the benefit theory of taxation, in that certain commercial users get a larger benefit from the highways and therefore should pay these extra fees.

In some states there is a tax on installment paper, or installment sales contracts for automobile purchase. This type

of tax should never be resorted to if possible, because it is a most regressive type of tax in that burdens the very poorest group of automobile owners, those who purchase on credit at high rates of interest.

Tolls for the privilege of using roads and bridges were one of man's earliest fiscal devices. They were used in early American days, and necessarily so, because they provided the funds for road construction under the old turnpike system. However, with the advent of the automobile and the realization that a more centralized system of transportation was required, necessitating a more thorough and uniform system of finance, the toll system became outmoded. It is not in general use today, and is only looked upon as desirable when some extra service is furnished, such as the Pennsylvania Turnpike, the Holland Tunnel or the Straits of Mackinaw ferry service. These tolls fall under the benefit theory of taxation; the person paying the toll has gotten an extra service and pays for this benefit.

Nothing has been mentioned of the distribution of the revenues obtained from the above taxes. It is here that one of the major problems concerning highway finance is brought into focus. Should the money obtained from motor vehicle taxes be used expressly for highway and road purposes, or may it be used for the general fund. It is the opinion of the majority of the experts that the funds raised from motor vehicle taxes are dedicated to use for highways and roads.

If this condition were not accepted, the motorist would stand out as paying double taxes. He would be paying regular taxes for the general services, such as health, protection and education, and on top of that he would be paying his motor vehicle tax, a portion of which would be going for the same services. As long as there is need for improvement and maintenance of highways, the motorists' user taxes should be used for those purposes, except in time of emergency.

Another problem concerning the distribution of these tax revenues is the manner in which they are to be distributed to the divisions in the state. At the present time there are three separate systems of highways and streets in Michigan: (1) State trunklines (2) County roads, and (3) City streets. Each of these systems has a different legal basis, and each offers a different combination of highway services, and each have claim upon the total road tax revenue. The method and amounts distributed have changed from time to time, and quite naturally have been cause for debate as to it's distribution. This subject will be discussed more thoroughly when studying each of the separate systems.

THE MICHIGAN HIGHWAY SYSTEM TODAY

There is a grand total of 106,435 miles of roads and streets in Michigan distributed between rural and urban areas and among state, county and municipal jurisdiction as follows:

<u>Rural</u>	<u>Miles</u>	
County roads.....	84,661	✓ 82.15
State trunklines.....	8,248	✓ 6.22
Total rural.....	92,909	✓ 92.36
<u>Urban</u>		
County roads.....	687	✓ 0.67
State trunklines.....	1,038	✓ 1.00
Other city streets.....	11,801	✓ 11.80
Total urban.....	13,526	✓ 13.48
Grand total.....	106,435	✓ 118.01

The degree of improvements on road and streets varies widely among the various systems. Two-thirds of the mileage of rural state trunklines is made up of roads with dustless surfaces (high or intermediate types) and about one-third consists of gravel roads (low type). Less than one-eighth of the mileage of rural county roads consists of dustless surfaces, over half being made up of gravel roads, and almost a third consists of dirt roads. In cities and villages, more than nine-tenths of the trunklines mileage is made up of dustless surfaces. Nearly one-half of the mileage of non-trunkline streets is gravel or dirt.

More than 8,400 structures have been built on Michigan's roads and streets. Most of these are bridges, the remainder are railroad grade separation, or highway grade separations. There are 1,108 structures on rural state trunklines, 6,247

on rural county roads and 1,059 on urban and local streets.

All in all, this is an impressive array of highway facilities, however, as the Highway Study Committee in their analysis of "Highway Needs In Michigan" observed, fourty-six per cent of the road and street mileage within the state is now deficient and requires improvement to meet the demands of today's traffic. The problem which confronts the state is a pressing one, The Highway Study Committee estimates that a total long range program from 12 to 15 years involving from \$158,444,000 to \$179,141,000 annually would be necessary to correct the present deficiencies and to maintain existing roads and streets. It is a staggering sum, a challenge which will have to be met if Michigan is to maintain it's position as a leader in highways and the tourist industry.

With this problem in mind, the three main systems of highways and streets will be examined, and their financial history given especial attention. An endeavor will be made to correlate the various changes in policy with the causes for change. The methods of raising revenue from the various types of road taxes, and the distribution thereof will be studied with the question of raising highway funds in the future.

THE STATE TAX STRUCTURE

The network of roadways that now serve Michigan began centuries ago as Indian trails. These Indian trails were used by settlers and gradually expanded until now many of the state and county roads follow their path. While Michigan was still a territory in the period covering 1816 to 1835, the only road building that was not local was that supported by the Federal government. Roads were built between Detroit and the following cities: Toledo, Chicago, Saginaw, Grand Rapids and Port Huron. These roads were of vast aid to settlers. However, after Michigan became a state in 1837 the Federal government withdrew it's support in road building, and the roads fell into poor condition. The state had little money, so the only remedy possible at the time was to charter plank road companies. The first plank road company was chartered in 1844, and in 1844 the State Legislature passed a General Plank Act to regulate their operations. The specifications for plank roads and their rates were set forth in this legislation. However, the program was a failure because the roads deteriorated rapidly and could not be kept up from the tolls received. The majority of the companies abandoned operations long before the turn of the century. A "dark age" fell upon road transportation until the turn of the century and the invention of the automobile which awoke public interest in the roads. In 1901, the state legislature established a special committee headed by Senator Horatio S. Earle to investigate the problem of highway

improvement. The committee's report urged that a state highway commission be established and a state aid system be inaugurated. To make it possible for these steps to be taken, the committee recommended that the State Constitution be amended to remove the prohibition against using state funds for road improvement. The Constitution of 1850 prohibited the state from engaging in any work of internal improvement, except in the expenditure of funds obtained from federal grants. This restriction on state participation in road building represented a reversal of the earlier attitude, for under the Constitution of 1835, the state was required to encourage road building and all other internal improvements. However, in carrying out this mandate, the state went into heavy debt which was one important factor in contributing to the virtual bankruptcy of the state in 1841. Several other attempts were made to have the state participate in road building, but in 1872 and 1891 the Michigan Supreme Court declared that the state had no right to be a party to internal improvements because it invaded the rights of local self-government.

In 1903 the legislature enacted a law creating a state highway department, but the attorney-general declared the act void under the Constitution of 1850. In 1905 the Constitution was unanimously amended so as to read, "The State shall not be a party to, nor interested in any work or internal improvement, nor engaged in carrying on such work except in the improvement of or aiding in the improvement of the public wagon roads, and

in the expenditure of grants to the State of land or property." The same legislature created a state highway department, set up a state aid system, and enacted a motor vehicle registration law. Senator Earle was appointed as Michigan's first State Highway Commissioner. The Highway commissioner was appointed by the governor until 1913, when that method of taking office was supers^{ed}ed by the method of public election according to the provisions of P.A. 1909, No.283.

The state aid system which went into effect in 1905 gave much help to local road building and formed the beginnings of a state-wide highway system. It provided for grants to counties and townships as rewards for the construction of roads according to specifications laid down in the statute. The amount of these rewards ranged from \$250 to \$1,000 per mile of road built. Between 1906 and 1913 these grants averaged 24% of the costs for constructing the reward roads. In the law of 1905, streets and roads within the limits of cities and villages were not eligible for reward; but an amendment in 1915 made them eligible if they were a part of the county system.

In 1913 reward roads were eligible to receive annual rewards for repairs. An amendment to the general highway in that year provided for an annual appropriation for this purpose of an amount equal to 2 per cent of total rewards already paid, provided repairs were made according to standards of the State Highway Department. In 1927 repair

rewards were abolished.

The privilege for applying for rewards on new construction was suspended in 1923 and in 1925 it was revoked, although reward payments were continued on construction already underway. A 1929 law discontinued rewards on all construction not finished by 1930, but payments on such construction were not completed until 1933.

In 1913 the state took steps to develop an intergrated highway system. There were 60,000 motor vehicles registered in the state. Increasing use of automobiles brought an insistent demand for more and better through roads, connecting city with city. Prior to that time, the state had not engaged directly in highway construction, but had merely paid local units for part of the costs of their own highway projects. Therefore in 1913 the state legislature established a 3,000 mile trunkline system. The system was a compromise, because not only did it specify the cities through which the trunklines would be built but it required that plans drawn by the state highway for routes between cities be approved by local authorities. According to the law, the state highway commissioner did not have power "to establish trunkline highways other than those expressly enumerated in the act". However, this act was an important step in the foundation of the state trunkline system.

Also in 1913, the legislature imposed a "horsepower" tax on motor vehicles. This was the beginning of a new era

in highway finance. It was the acceptance of the theory that the motorist should bear a share of the cost of highway and streets. In 1915 the tax was also applied to the weight of motor vehicles. The act provided for a basic rate of tax on passenger cars of 25 cents for each horsepower, and 25 cents per hundredweight; for trucks the tax was 15 cents per horsepower and 15 cents per hundredweight. These rates were altered in succeeding years. The tax and fees were to be collected by the secretary of state, and deposited in the state treasury to the credit of the state highway fund. The fund was to be used for laying out, building, widening, improving and maintaining the public highways and bridges of the state in accordance with the law. 50 per cent of the amount collected annually was to be returned to the counties, $\frac{7}{8}$ of which was proportioned to the counties in ratio to the amount of tax collected in the county, and the remaining $\frac{1}{8}$ divided equally between all counties.

In 1915, the legislature passed the Covert act which authorized property owners to initiate road construction by petition, and which authorized and required land owners to pay at least half of the cost through special assessments. This act will be discussed in greater detail when studying the county tax system.

A significant change in the financing of Michigan's highways occurred in 1917 when Michigan qualified for participation in the Federal Aid plan. Congress in 1916

passed the Federal Road Act which provided for grants-in-aid up to 50% of the cost of rural roads, with funds allocated among the various states in proportion to their area, population and road mileage. It was necessary for Michigan legislature in 1917 to pass P.A. No.99 which provided for: (1) authorization of the state highway commissioner to make surveys, prepare plans and specification, and to take charge of the building and maintaining of federal-aid roads; (2) to permit counties, townships and special assessment districts to issue and sell bonds to finance federal-aid roads; and (3) to require the levy of county and township taxes in an amount sufficient to pay 25 to 50 per cent of the total construction costs. For example, counties having a valuation of \$100,000 or less per trunkline mile were required to contribute 25% of the cost of federal-aid roads, whereas counties having a valuation between \$100,000 and \$200,000 per trunkline mile were responsible for 30% of the cost. The percentages were later changed in P.A. 1925, No.17. Construction was to be carried out by local road commissions, under the supervision of the state highway department and the federal government.

By 1919, there were over a quarter-million motor vehicles registered, but the state trunkline network laid out in 1913 under P.A. 1913, No.334 was far from completed. It was less than one half built, and there were many gaps between cities. Two facts were outstanding; first, a central administrative director was needed to produce a connected state-wide highway system; and secondly, the money for inter-

county roads was inadequate to allow the construction to keep up with the increasing usage of automobiles.

In remedying the first fault the legislature passed P.A. 1919, No. 19, which gave the state highway commissioner supervision of the construction, maintenance and improvement of trunkline roads. The cost of improving state trunkline roads were to be met partly by the state, and in part by the local unit concerned. The counties, townships or good-road districts would pay per trunkline mile, ranging from $7\frac{1}{2}\%$ to 25% of the cost. The state would pay the remainder out of any money in the state highway fund not otherwise appropriated. In case of failure of the county or township to raise the money the state highway commissioner would send notice of his intention to build the road, giving an estimate of the costs, to the county board of road commissioners requiring the spreading of the highway tax within the county to meet the portion of charge credited to that county or township. The law thus gave the state highway commissioner the authority for the entire trunkline system, although part of the expense was still borne by the local units. In meeting the second need, the increased financial burden was met by raising the rates of the weight tax under P.A. 1919, No. 383, and by a \$50 million highway bond issue which was authorized by constitutional amendment, Art. X, Sec. 10 of Michigan Constitution 1908, adopted in 1919. The state could borrow up to \$10 million a year, and not exceeding \$50 million as an aggregate sum for the express purposes of ; (1) paying the state portion of federal-aid roads,

(2) paying expenses incurred on state trunklines, and (3) paying state rewards. The bonds were secured by a general tax levy. 1.2 million dollars were to be included in the state tax of 1921, and 1.5 million dollars each year thereafter. Such funds were set aside as a sinking fund under the administration of the State Administrative Board.

These steps were a tremendous forward movement. It centralized authority in the state highway commissioner, and provided adequate funds. By 1924, the entire amount of the bond issue had been spent. Almost 6,000 miles of trunklines were improved during the six-year period.

In 1925, additional changes took place in the administrative and fiscal policy concerning the state highway system that presaged a new era in Michigan highways. Under P.A. 1925, No. 17, the state assumed full responsibility for the cost of constructing and maintaining rural trunklines and federal-aid roads; thus relieving the counties and townships of any obligation to contribute to the cost of these roads. In the second section of this act the state highway commissioner was given full power to contract with any persons or firms for the construction, improvement and maintenance of the trunkline highways.

P.A. 12 of the same year authorized the state highway commissioner to lay out and establish five hundred additional miles of state trunkline highways. It also incorporated all roads that had been improved as federal aid projects or that were to be improved as federal aid projects in the state trunk-

line system. In 1929, under P.A.7 of that year, another five hundred miles was authorized for construction, which brought the total length of the trunkline network to over 8,900 miles in 1930.

However, the most important step inaugurated in 1925 was the establishment of the Gasoline Tax. In order to finance the state trunklines a tax of two cents per gallon was imposed on gasoline sold for use on the highways; as authorized by P.A.1925, No.2 a gasoline tax enforcement fund was set up in the same year by drawing out of the gasoline tax revenues sufficient sums to defray the expense of collecting the tax. The tax was accepted immediately and was an outstanding success. In 1927 the rate of tax was increased to three cents per gallon, methods of collections outlined, and disbursement of the revenues formulated. Thus, in P.A.1927, No.150, a privilege tax of three cents per gallon was imposed on all gasoline sold or used in producing or generating power for propelling motor vehicles used upon the public roads and highways in the state. All wholesale dealers were to be licensed by the Secretary of State, upon the presentation of a sworn application upon a form prescribed, and the payment of an annual license fee of five dollars. The license of the wholesaler could be revoked in case of non-payment or neglect or refusal to file his monthly report. The act provided that the wholesale distributor would pay the tax on all gasoline handled by him, except for a deduction of three per cent to allow

for evaporation and loss.

All revenue under this act received and collected by the secretary of state, excepting the license fees, were to be deposited in the state treasury to the credit of the state highway fund. After the end of the calendar year the revenue was to be appropriated from the highway fund for the specific purposes and amounts set forth in the following schedule:

- (1) Payment of 2 million dollars annually to several counties and townships for payment of state rewards due these counties and townships until full payment was made.
- (2) For the payment of interest on state highway bonds and the principal thereof, not less than three million dollars.
- (3) A sum equal to the difference between six million dollars and 50% of the total weight tax collection shall belong to the counties. $\frac{7}{8}$ of this difference being distributed to the counties in proportion to the collections made in that county, and the remaining $\frac{1}{8}$ of the difference to be divided equally among the 83 counties.
- (4) A sum of 2,000 dollars per mile of trunkline highway, contained within the limits of a city or village shall be paid annually to each city or village provided that the highway is maintained in a manner satisfactory to the state highway commissioner.
- (5) If there was any balance it was to be used for the general construction, betterment, improvement and maintenance of the public highways within the state.

In 1929 the state abolished the rewards to local units for highway construction under P.A.195, of that year.

With the coming of the depression in 1929 and the years followed, great changes were made in the administrative and financial structure of the state highway system which had developed in the previous 30 years. Prior to 1929, the general property tax had been the main source of revenue for supporting the highways, even though the weight tax and the gasoline tax

had been introduced and were of growing importance. However, as a result of the depression; property values dropped, property tax collections fell accordingly, and there was a wholesale tax delinquency. Out of this situation grew the demand for an immediate reduction in real estate taxes. Coupled with this demand was a growing conviction that better administration, both as an operating unit and financially, could be obtained if the local township roads were consolidated under county authorities. The township authorities were doing their best, but with 1,269 separate township systems there was a great deal of overlap and waste.

Therefore in 1931, in section 130 of the Public Acts of that year, or what is more commonly known as the McMitt Act, attempts were made to remedy the above conditions. The act authorized the consolidation of township roads within the county system over a five-year period, 1932-1936. During each year, one-fifth of the township roads were to be incorporated in the county system. To finance the transfer, the act provided that the following amounts from the weight and gasoline taxes should be apportioned among the counties for the maintenance of township roads according to the proportion of the total township mileage within the county, \$2 million in 1932, \$2.5 million in 1933, \$3 million in 1934, \$3.5 million in 1935 and \$4 million in 1936 and thereafter. Thus, the 68,000 miles of township roads were to become part of the county system, and their expense to be paid by revenues from the motor vehicle taxes. To further aid the property owners,

the local tax levy on property for highway purposes was restricted within a three mill limit, and could only be used to pay the interest and principal on debts that had been previously incurred and to improve local roads.

Even before the depression the problem of congestion in cities and the lack of proper facilities had brought to prominence the necessity of developing more adequate fiscal arrangements for the support of trunkline developments in the municipalities. Therefore, in P.A.1931, No.131, or the Dykstra Act, provision was made for larger state participation in urban street costs. The state was allowed to pay from 50 percent of the cost of trunkline construction in cities of over fifty thousand population to 100 percent of such costs in cities having less than twenty thousand population, provided that the streets in the latter cities did not exceed twenty feet or the width of the road immediately beyond the city limits. This legislation established Michigan as a forerunner among states in helping finance city streets with state funds. Michigan cities such as Saginaw, Ann Arbor, Jackson, Grand Rapids, Flint and Kalamazoo took advantage of this legislature and initiated street widening and construction plans during the 1930's.

The year 1932 brought little relief from the depression. In fact, the depression reached its lowest level in that year with record unemployment, lowest farm prices and general tax delinquency at its peak. Many local units were defaulting on road bonds issued under the Covert Act. To meet this situation, the legislature in a special session that year passed

the Horton Act, which drastically revised the distribution of the motor vehicle revenues. As amended in 1934, the following appropriations were made to the counties: (1) the entire proceeds of the weight tax, and (2) \$6,550,000 from the gasoline tax. A sum equal to seven-eighths of the proceeds of the weight tax plus \$2,550,000 of the gasoline tax proceeds were apportioned to the counties according to weight tax collections, and the remaining one-eighth of the sum of these two items was distributed among the counties under the McWitt Act on a prorata basis according to township road mileage.

All of the funds appropriated under the Horton Act were earmarked for definite purposes; as previously stated, \$4 million from the gasoline tax could be spent only on former township roads. The balance of the total allocation was to be divided into two equal parts as follows: the first fifty percent was to be used for the general needs of the county road commission; the second fifty percent was to be apportioned among the following five uses in the stipulated order of priority;

- (1) Reduction of special assessment installments under the Covert Act maturing after May 17, 1932, the effective date of the Horton Act, regardless of whether such assessments were levied against special assessment districts, cities and villages, townships-at-large or counties-at-large.
- (2) Any funds remaining after the payment of the first priority were to be used to reduce the taxes levied on the county-at-large for county road and bridge bonds.
- (3) Any remaining balance may be used for the reduction of taxes levied for township highway purposes.
- (4) Of any remaining funds an amount up to fifty percent may be allocated for the maintenance

of additional McMitt roads. If the county board of supervisors failed to vote funds for such roads, the funds became available in part for city streets according to priority five.

- (5) The balance, if any, was to be divided between the county road commission for general road purposes, and the cities and incorporated villages on a prorata basis according to population.

However, as this act was amended by P.A.1941, No.256, the five priorities are fixed so that only two-thirds of the fifty percent may be used by the counties according to the first 3 priorities, and that only fifty percent of the funds remaining after the deduction of allocations for the first 3 priorities may be used for the fourth priority, thereby insuring the fifth priority of receiving at least 8 percent of the total fund.

The funds allocated to the cities and villages under the fifth priority of the Horton Act must be spent according to the following five designated priorities:

- (1) Payment of the city or village share of maintenance costs for state trunkline and federal aid roads.
- (2) Payment of the city share of obligations undertaken jointly with the state highway department for construction under the Dykstra Act.
- (3) Payment of debt service incurred for street improvement.
- (4) Reimbursement of property owners for special assessments paid for the improvement of state trunkline highways, if the legislative body of the city decides to appropriate money for this purpose.
- (5) General street purposes.

In addition to establishing a system of priorities for the use of the \$6,550,000 which is turned over to the counties as explained above, the act set a number of regulations concerning the expenditure of the remaining proceeds of the gasoline tax which are appropriated for the

state trunkline system. The state highway department is limited in it's expenditures by the following:

- (1) A sum of \$4,082,059.78 each year is reserved for interest and sinking fund payments on state highway bonds.
- (2) A sum of \$5 million is earmarked for the maintenance of the state trunkline system and non-trunkline highways and bridges.
- (3) Of the amount that remains after deducting current operating expenses of the state highway department and other contractual obligations, one-fourth must be spent for construction in the Upper Peninsula, and one-fourth for construction in the Lower Peninsula north of Townline 12.

As a result of the adoption of the Horton Act, local tax levies for road purposes were practically eliminated. In this manner motor vehicle taxes became the principal basis of rural highway finance in Michigan.

In 1933, the motor carrier fee was adopted, and displaced the net weight tax previously levied on common and contract carriers. A mileage tax, which was graduated from one mill per mile of operation for vehicles under eleven thousand pounds gross weight to two mills for vehicles weighing over fifteen thousand pounds is levied, plus the weight tax and the gasoline tax. The proceeds are appropriated to the state highway department after expenses of administration have been met.

In 1934, the weight tax on passenger cars was lowered to 35 cents per hundred weight, at which rate the tax now stands.

In 1937, under P.A. No.102, the legislature made a continuing appropriation of \$5 million for the state highway department to be used for the construction and maintenance of highways. However, only \$1,750,000 was allowed by the governor

for the fiscal years ending June 1938 and 1939, and in 1939 this law was suspended until 1943 at which time the payments became operative again.

In 1937 the weight tax was amended so as to provide a special rate for farmers who owned and operated trucks in their business. The rate of fifty cents per hundredweight was prescribed instead of the higher commercial rate.

In 1938 a constitutional amendment requiring that motor vehicle tax funds should be used exclusively for highway purposes was passed and approved by every county in the state. Part of the Antidiversion amendment reads as follows: "All taxes imposed directly upon gasoline and like fuels sold or used to propel motor vehicles upon the highways of this state, and on all motor vehicles registered in this state, shall, after the payment of the necessary expenses of collection thereof, be used exclusively for highway purposes, including the payment of public debts incurred therefor, and shall not be diverted or appropriated to any other purposes; provided, the legislature may provide by law a method of licensing, registering, and transferring motor vehicles and their certificates of title, and licensing and regulating motor vehicle dealers and operators; and may prescribe charges sufficient to pay for the enforcement thereof."

After this date to the present, there have been no striking changes in the state policy due to legislature, the only laws being passed, were those amending previous laws and in general changing the rate of taxation. In 1941, the weight

tax rate for farm trucks was reduced to 35 cents per hundred-weight, and there was established a special category for trailers and semi-trailers owned and operated by farmers, the rate for which were 35 to 50 cents per hundredweight, as compared with commercial trailer rates of 50 cents or one dollar per hundred-weight, depending on the weight of the trailer. This law also provided that busses of church, parochial or grammar schools were to be issued license plates at the rate of 50 cents per pair, without any other tax, placing this group in the same category as vehicles owned by governments of the state. In 1945 there was another change in the weight tax rate which applied to commercial trailers weighing between 500 and 1,000 pounds. The rate which had previously been 50 cents was raised to one dollar per hundredweight. In 1945 a liquor tax was applied for highway purposes and this tax along with the returns from the severance tax brought \$3.6 million in revenues to the state in 1946. However, this special liquor tax expired in 1947. Also in 1945 legislation was passed that required that racing fees returned to the cities by the state be used for street improvement, but this requirement also lapsed in 1947. The final minor change occurred in 1947 when the legislature established a tax rate of five cents per gallon on all fuel used by automotive highway vehicles having diesel-type engines.

In discussing the state trunkline system, mention must be made of federal road support. Earlier mention has been made of the inauguration of the federal aid policy in 1916. In 1921

this act was amended and established the policy of using funds on a federal-aid system to be selected by the state highway departments with the approval of the U.S. Bureau of Public Roads. Another change was made in federal policy by the Hayden-Cartwright Act of 1934, which among other things, attempted to discourage the diversion of motor vehicle revenues to non-highway purposes. The act provided that any state which devoted a smaller amount of motor vehicle fees and gasoline taxes than specified by law on June 18, 1934, would be penalized by the withholding of federal-aid allotments in an amount not greater than one-third of the allotment to which it would have otherwise been entitled. In addition to the Hayden-Cartwright Act, the Federal-Aid Highway Act of 1938 contained a provision allowing states which had not diverted highway revenues, and which were unable to match federal-aid funds for 1938 and 1939, to be relieved of the matching requirements; provided that at least ninety percent of motor vehicle taxes had been applied to administrative and operative expenses of the state highway department, the maintenance of the state and federal-aid highway systems, and the payment of interest on and the amortization of bond obligations of the state for the payment of which such revenues had previously been pledged.

The importance of these federal-aid grants during the depression cannot be minimized. Road construction in Michigan would have been at a standstill if it had not been for these funds. Highway grants which had averaged \$3 million annually

increased to \$12 million dollars in 1937. In addition, W.P.A. expenditures were made in Michigan; these expenditures reaching a peak in 1939 when over \$71 million of federal funds were spent for highways in Michigan.

Summary

We have seen the evolution in highway financial policy in the state which has gradually shifted the burdens of supporting the highways from the property owners. Before the appearance of the automobile, there was no need for a state system, travel was local in nature, and the primary purpose of the roads was for access to property. Therefore, in view of the services rendered it was proper that revenues were provided from taxes levied on the property of each community. The development of the automobile and the growing usage of the highway, demanded some sort of centralization. For this purpose the state highway department was created. As the roads became more used by motorists it was inevitable that they should pay an increasing percentage of highway costs the weight and gasoline taxes. With the coming of the depression this change in fiscal policy was accelerated so that now the major portion of the highway revenue is obtained from user taxes.

These taxes in general are a regressive type of tax. However, they are much better than the general property tax in that the persons who benefit the most are paying the taxes. With the

adoption of the Anti-Diversion Amendment, the purpose for which these revenues are raised are guaranteed, strictly in accordance with the benefit theory of taxation.

In general, there has been no major opposition to the changes enacted in the fiscal policy. There has been much contention as to the manner in which the revenues are distributed, each unit of government claiming that their share is inadequate.

In comparing Michigan taxes with the rest of the state taxes, a favorable comparison is found. Only one state, Missouri, has a lower rate of gasoline tax, while three other states have rates of three cents per gallon. Michigan weight tax varies from 75 to 120 percent of the national average. On the whole, the Michigan motorist paid an average of 3.7 mills in gasoline and weight taxes for each mile traveled. This amounted to 68 percent of the national average in 1946.

On the following pages are shown various graphs and tables which show the sources of revenue to the state and their relative importance, and the distribution of these funds.

Michigan Highway Users Normal Tax Contribution
to Government is Over \$106 million a year.

Tax Analysis for 1941

State special imposts for highway purposes

Motor fuel.....	\$35,480,207	
Registration fees.....	24,420,400	
Motor vehicle titles.....	1,132,475	
Driver's license fees.....	1,451,752	
Motor carrier special taxes.....	608,893	
Road, Bridge and Ferry Tolls.....	701,000	
Total special state highway imposts.....		63,794,727

*General contributions to state government

General sales tax on automotive products.....	\$17,718,975	
Oil productive severance taxes	185,704	
		17,904,679
Total state taxes borne by highway users		\$81,699,406

General contributions to Federal Government

Gasoline	\$16,035,091	
Lubricating oil.....	1,129,903	
Automotive parts and accessories.....	7,534,606	
		24,700,605
		<u>\$106,499,011</u>

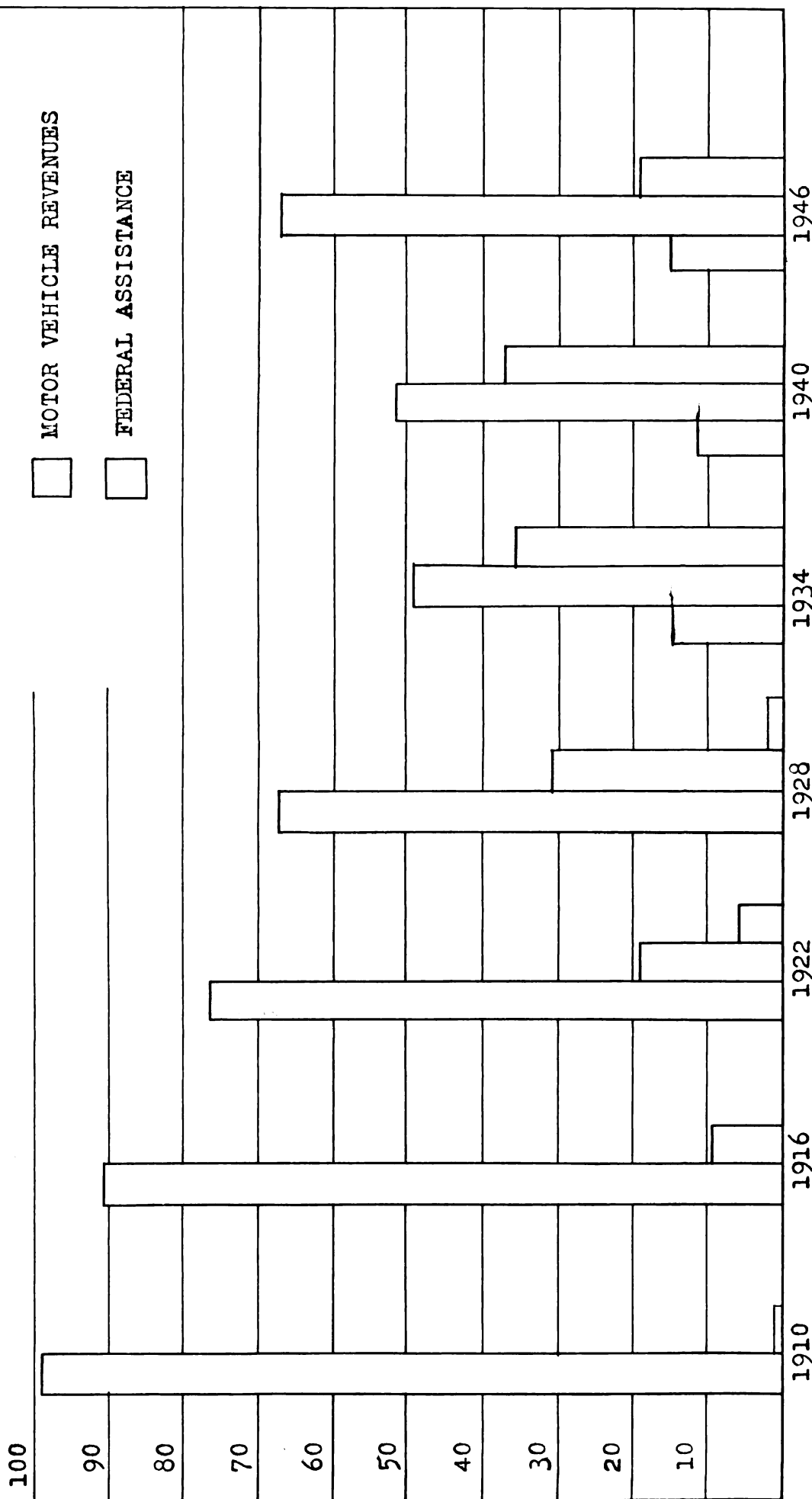
* Does not include county and municipal taxes or property taxes.

**FEDERAL
ASSISTANCE**

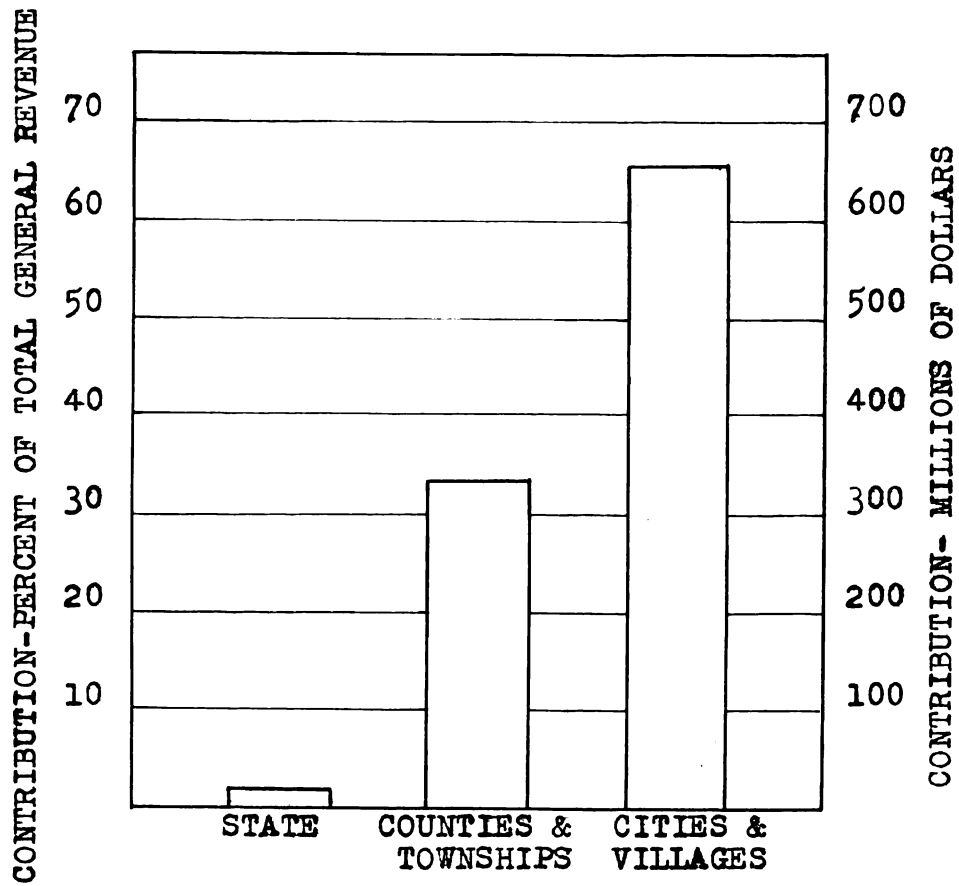
**FUNDS AVAILABLE FOR ALL ROADS AND STREETS IN MICHIGAN
PERCENT OF ANNUAL TOTAL DERIVED FROM EACH OF THREE PRINCIPAL SOURCES
AT SIX-YEAR INTERVALS BETWEEN 1910 AND 1946**

PERCENT OF TOTAL ANNUAL HIGHWAY FUNDS

☐ GENERAL REVENUE
☐ MOTOR VEHICLE REVENUES
☐ FEDERAL ASSISTANCE



**GENERAL REVENUES FOR ROADS AND STREETS IN
MICHIGAN
AMOUNT & PERCENT CONTRIBUTED BY THE SEVERAL GOVERNMENTS
PERIOD 1910 TO 1946**



MOTOR VEHICLE HIGHWAY REVENUE IN MICHIGAN
 PERCENT OF TOTAL CONTRIBUTED BY EACH TAX SOURCE
 PERIOD 1910 TO 1946

CONTRIBUTION-PERCENT OF TOTAL MOTOR VEHICLE REVENUE

50

40

30

20

10

☐ WEIGHT TAX

☒ GASOLINE TAX

☐ MISCELLANEOUS
 REVENUE

MOTOR VEHICLE HIGHWAY REVENUE IN MICHIGAN
PERCENT OF TOTAL DISTRIBUTED TO AND EXPENDED BY GOVERNMENTAL UNITS
PERIOD 1910 TO 1946

60

50

40

30

20

10

DISTRIBUTION-PERCENT OF TOTAL MOTOR VEHICLE REVENUE

☐ STATE

☐ COUNTIES &
TOWNSHIPS

☐ CITIES &
VILLAGES

TO

1

2

30

25

2

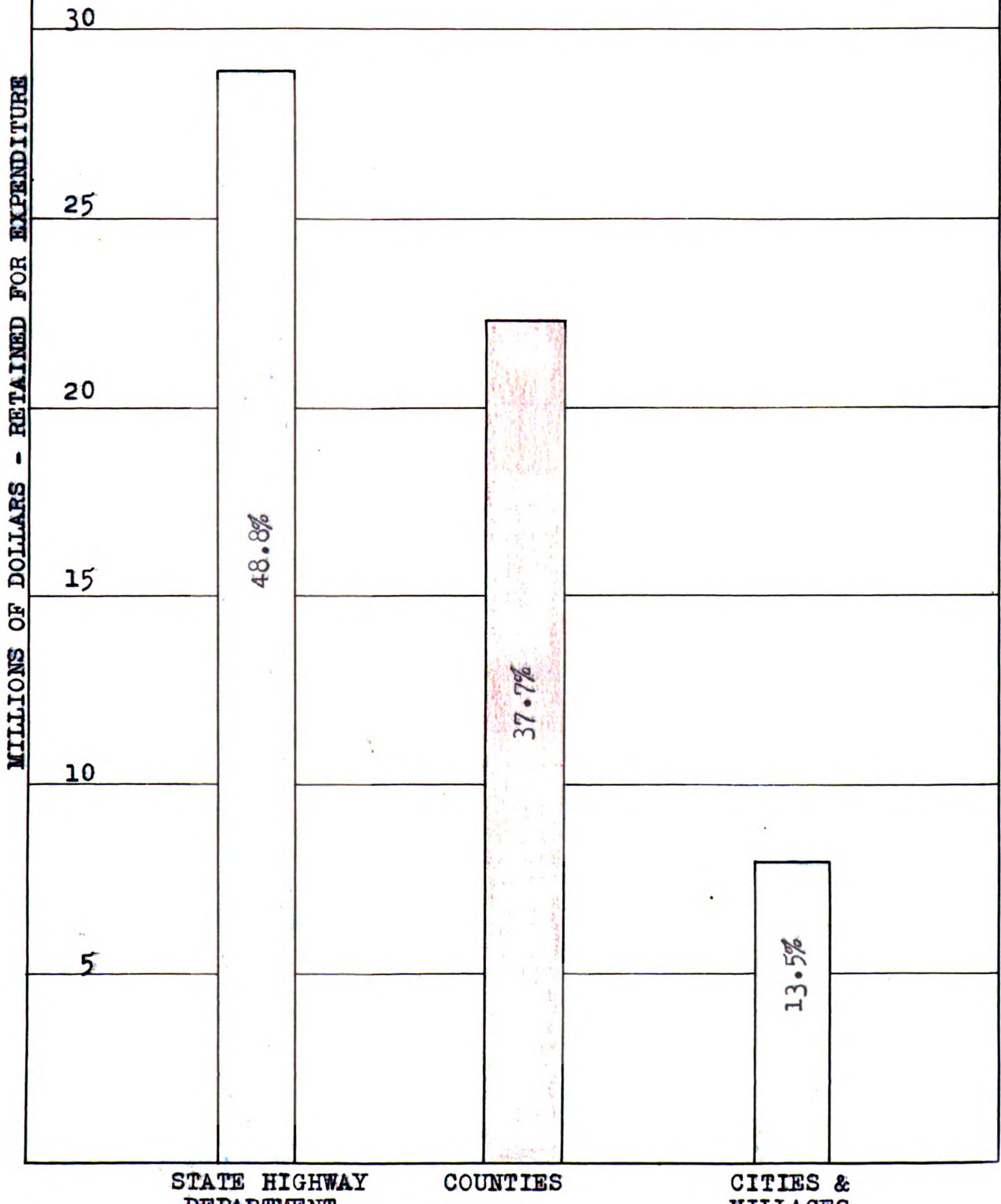
1

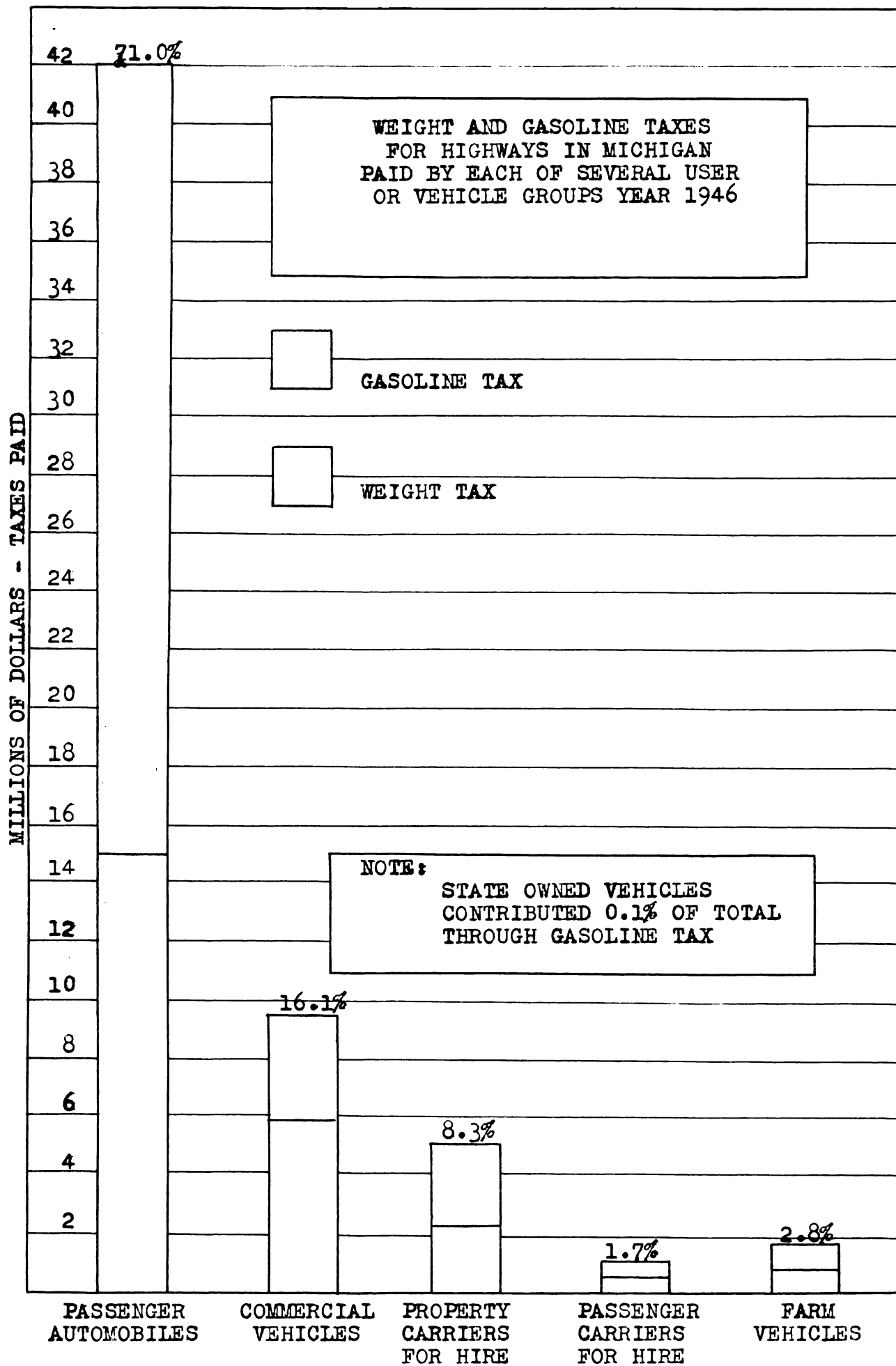
—

MILLIONS OF DOLLARS - RETAINED FOR EXTENSION

DISTRIBUTION OF MOTOR VEHICLE REVENUE IN MICHIGAN
TO STATE HIGHWAY DEPARTMENT, COUNTIES, AND CITIES & VILLAGES
YEAR 1946

- | | |
|---|---|
| <p>STATE HIGHWAY DEPT. RECEIVES-</p> <p>1. NET GAS TAX LESS \$6,750,000</p> <p>2. FOREIGN VEHICLE WEIGHT TAX & NET MISC. LICENSES & FEES, LESS WEIGHT TAX COLLECTION EXPENSES</p> | <p>LOCAL GOVERNMENTS RECEIVE-</p> <p>1. ALL WEIGHT TAX EXCEPT FROM FOREIGN VEHICLES</p> <p>2. \$6,750,000 OF GASOLINE TAX</p> |
|---|---|





TRUNKLINE CONSTRUCTION EXPENDITURES BY MICHIGAN STATE GOVERNMENT
FINANCED BY FEDERAL GRANTS-IN-AID
AMOUNT, AND SHARE OF CONSTRUCTION EXPENDITURE
OVER PERIODS FROM 1919 TO 1946

ANNUAL AVERAGE
AMOUNT OF GRANT FEDERAL SHARE OF CONST. EXPEND.

PERIOD	8	7	6	5	4	3	2	1	0	5	15	15	20	25	30	35	40	PERCENT
1919-1922																		
1923-1928																		
1929-1934																		
1935-1940																		
1941-1946																		

MILLIONS OF DOLLARS

PERCENT OF TOTAL FEDERAL ASSISTANCE

FEDERAL ASSISTANCE FOR HIGHWAYS IN MICHIGAN
 PERCENT OF TOTAL BENEFIT ACCRUING TO STATE AND LOCAL GOVERNMENTS
 THROUGH EXPENDITURE ON THEIR RESPECTIVE ROAD SYSTEMS
 PERIOD 1917 TO 1946

☐ FEDERAL AID ALLOTMENTS

☐ RELIEF EXPENDITURES

40

30

20

10

STATE

COUNTIES &
TOWNSHIPS

CITIES &
VILLAGES

120	HIGHER IN 16 STATES										HIGHER IN 19 STATES										HIGHER IN 43 STATES										HIGHER IN 46 STATES										REGISTRATION-WEIGHT	MOTOR FUEL	ALL TAXES	REGISTRATION-WEIGHT	FUEL	ALL TAXES			
110																																																	
100																																																	
90																																																	
80																																																	
70																																																	
60																																																	
50																																																	
40																																																	
30																																																	
20																																																	
10																																																	
	</																																																

**MOTOR-FUEL AND WEIGHT TAX PER-MILE COSTS IN MICHIGAN
APPLYING TO THE PRINCIPAL HIGHWAY USERS
YEAR 1946**

MOTOR-FUEL TAX

☐

WEIGHT TAX

MILLS PER MILE OF USAGE - AVERAGE TAX

	PASSENGER CARS	FARM TRUCKS	COMMERCIAL TRUCKS	PROPERTY CARRIERS	CARRIER BUSES
9					
8					
7					
6					
5					
4					
3					
2					
1					

THE COUNTY AND TOWNSHIP ROAD STRUCTURE

The Township Highway System

The outline of the township highway system was established by laws enacted during the period while Michigan was still a territory in 1805, 1819, and 1827. The Act of 1805 authorized the territorial governor to divide the territory of Michigan into as many road districts as he saw fit. He was required to appoint a supervisor for the upkeep and development of roads with the district, and who was responsible for the assessment of the road tax in the district. The road work was financed by a tax, payable in labor on each adult, male freeholder. The tax could be commuted at the rate of 62 cents for each day's labor and the amount of labor was limited to thirty days of work on the roads in any one year. In 1819 the county commissioners were given the final authority and responsibility for the roads in each county. However, the township supervisor of highways was in charge of the administration of road repair and development. In 1827 the organization of administrative practices for township highways was established, and these practices survived until the passage of the McNitt Act in 1931. The law of 1827 provided for the election of three township highway commissioners and an overseer of highways in each road district. These offices placed the control and administration of the roads within each township.

In 1831 there was a consolidation of the various acts

concerning township roads. In P.A.1861, No.243, the tax for township roads was limited to one-half days labor, or fifty cents for each \$100 of property owned by the taxpayer; a minimum of one-tenth day's labor or it's equivalent in money was also established. The amount of tax levy in any year was decided upon by the electors of the township in meeting. If a majority of the electors agreed, the highway tax could be assessed on a money basis instead of on a labor basis. The act also stipulated that all highway taxes levied had to be spent for highway purposes within the township.

In 1903 the townships were authorized to issue bonds for road construction, if approved by a majority vote of 60% at a general township election. The bond issue was limited to 5 percent of the total value of property within the township, and the township was required to impose a tax to cover the annual payment of principal and interest on these bonds.

State aid was given the township roads under the State Reward Act of 1905 and it's succeeding amendments, one of which placed part of the township roads under state control as state trunklines.

The option of paying township road taxes by labor was discontinued in 1907, and all township road taxes were made payable in cash.

There were no other major changes in the township road system until 1931 when the needs for a more centralized authority was realized and the township roads were incorporated

in the county system.

County Road Tax Structure

The development of the county road system was an outgrowth of the township highway system established in 1805 by the Michigan territorial government. These township roads were allowed to develop in a rather haphazard manner until 1893, when the adoption of a county road system was made permissive for all counties under P.A.149 of that year. This was the most important piece of highway legislature that had been enacted since Michigan had reached statehood. The general features of the law provided that a general election was necessary to determine whether a county was to adopt the county road system. Upon adoption of the system, administration was placed in a local board of county road commissioners, who were at first elected to office; but an amendment in 1911 permitted appointment in counties having over thirty surveyed townships, providing this method of selection was agreed upon by the county board of supervisors. In 1917, under P.A.356, appointment of county road commissioners was made optional in counties comprised of more than twelve surveyed townships. All the county roads were under the sole jurisdiction of the county road commissioners whose duty was to keep them in proper condition and to make improvements when necessary.

The system was financed by a county road tax levied on the property of the county-at-large, with a limit of three mills, in addition to the township highway tax. Bond issues could be

floated by the county road commissioners, if approved by a majority vote of the electors at a general county election.

The purpose of the act was to enable the established county road commissioner to raise the standards of road administration above, the township level. However, there was mistrust on the part of some that the state was trying to usurp powers from the local governments and put it in the hands of the counties, and approval on the county system was often held up for this reason. To overcome this difficulty, under P.A.1909, No.283, any part of a county which favored the county system could create a good-road district within which the county road law would be operative. The district could be formed upon petition by ten percent of the resident freeholders of any township or city, and approval of the proposal at a municipal election. The administration of the district was placed in the board of good road commissioners, one member representing each municipality involved. Financial support was obtained by the levy of a uniform property tax over the entire district. In addition each good roads district was entitled to receive state rewards and a share of the weight tax. When the entire county adopted the county road system, the good road district was dissolved. It was 1920 before all the counties except Benzie and Oceana had adopted the county road system, these counties finally adopted the system in 1930.

Additional sources of revenue were provided by the state

for the county road system. In 1905, as previously discussed county road systems were eligible to receive state rewards. After 1915 part of the proceeds of the weight tax was made available to county road commissions.

In 1915, another method of finance was initiated as a supplementary means of financing road improvements. According^{to} P.L. 1915, No. 59, or the Covert Act, the use of a special assessment device was permitted upon petition of the owners of property fronting on at least two miles of the highway for which the improvement was intended. The petition had to be approved by the board of county road commissioners, who had to prepare the method of financing the improvements, i.e., the apportioning of costs to the special assessment road district, the county-at-large, and the township-at-large. When the assessment roll had been prepared, bonds could be issued payable from proceeds of the assessments. Originally, 50 percent of the cost had to be borne by the district, but in 1917 this was reduced to as low as 25% by the legislature. This method of financing roads proved satisfactory until the depression, at which time, property values declined and the assessments were too heavy a load for the property owners to carry. Therefore in 1931 and 1932, the McNitt and Horton Acts were passed to ease this situation, and as mentioned before the McNitt Act provided for the consolidation of the township road within the county system.

An outstanding feature was added to the county road system in 1925 with the passage of the super highway law.

This provided the machinery by which two or more counties could cooperate in the construction of super highways, which were defined by law, as roads exceeding a width of 106 feet. A contract was made among the active counties in relation to the coordinated development of these roads.

Financial support for these super highways was to be provided from the proceeds of a special county tax not to exceed the rate of one-half of one mill, levied on the total assessed value of property in each of the participating counties, the levy of special assessment under the Covert Act, and any funds available to the road commissions of the various counties. The super highway had the status of a county road within each county.

As observed during the study of the state tax structure, in the years following the depression, the county system has been supported mainly through the redistribution of motor vehicle taxes by the state and by federal-aid grants; and that the property tax is no longer an outstanding contributor to the highway revenues of the county.

Let us examine the history of Bay County which was a pioneer in county road administration and which set an example for the passage of the County Road Act of 1893. In 1883 the legislature passed Local Act 278 which established a "stone road district" in Bay County consisting of the cities of Bay City, West Bay City and the Townships of Monitor, Williams, Frankenhest, Bangor, Kawkawlen and Hampton. The act provided for the appointment of "three stone road commissioners" by the

Board of Supervisors to hold office for one, two and three years respectively. Thereafter one commissioner was appointed each year for a three year term.

The Board was created to maintain and repair three road crossing these townships and entering the cities, with the provision that no road district funds were to be spent within the corporate limits of the cities, A later act provided that these main roads could be improved within the cities far enough to join the city pavements; the cost within the cities shared by the road district and the cities.

The "stone road board" was authorized to order the levy of not more than one-half mill road tax to be spread on the taxable property of the district including the cities. The commissioners were given full charge of maintenance and construction of the roads named in the act, and were authorized to employ such aides, assistants, and laborers as were necessary.

The stone road act of Bay County was amended every two years up to and including 1891. Local Act 350 of 1885 provided that the commissioners were to receive a salary of \$75 a year and permitted them to levy a two mill tax instead of the original one half mill tax in the original act. Local Act 396 of 1887 raised the number of commissioners from three to five, while Local Act 386 of 1889 added 5 new townships to the district, and authorized the Board to employ an engineer. The act of 1891 added another road to the district. With the

passage of the general county road act in 1893, Bay County gradually came under that act, and is now subject to it's privileges and limitations, except that Bay County is allowed five commissioners instead of the usual three. Special credit should be given to Bay County, for it's position as a leader in the field of county road administration and finance.

Summary

The development of the present county tax system and administration has been traced from ~~this~~^{its} early beginnings as township roads under the territorial government to it's present stage. Several factors are outstanding; namely, a more coordinated system has been developed and the system is no longer financed locally by use of property taxes and special assessments, but by the distribution of state-collected user taxes. This change is due to the recognition of need for centralized system of roads in Michigan, and the necessity of relieving the burden of property owners during the depression.

As discussed previously, the two formulas for distributing highway funds to the counties involve the application of the following factors: the mileage of the township roads; the number of counties; and the weight tax collections in each county. First, under the McKitt Act, gasoline tax revenues in the amount of \$4 million are distributed to the counties in ration of total mileage of township roads within the county to the total state mileage

of such roads. The mileage of township roads are certified so as to make sure that the counties are only receiving funds for the true mileage of township roads within the county. This mileage can be recertified biennially by the counties to provide for the expansion of the system. The second formula is used to distribute the entire proceeds of the weight tax and \$2,550,000 of the gasoline tax to the counties. One-eighth of this total is divided equally among the eighty-three counties; the other seven-eighths are apportioned according to weight tax collections within each county. This last formula was devised under the Horton Act. In addition \$200,000 is granted to the counties from the state highway fund for snow removal. This appropriation was made in 1938, and is made to counties having over sixty inches of snowfall during the fiscal year, with the apportionment being based upon each county's proportion of the total "inch miles of snow." This factor is computed by multiplying the number of inches of snowfall in the county by the number of miles of road in the county. Another source of funds, the general property tax, is used in only six counties.

The methods of distribution of the motor user taxes to the counties is criticized by some authorities, who feel that traffic density should be a factor in the distribution of funds to the counties. However, it must be realized that the problem of devising a method for distribution of these funds is a difficult one, as Fishman in her "State-Local Fiscal Relations in Illinois" Stated:

"Calculation of the significance to vehicle users of any proposed improvement in the highway system must take account of present traffic density, the size of the area to be served, it's population, income, competing modes of transportation, the geographical distribution of trading and industrial centers, plus a substantial element of judgement in predicting changes in these variables. No simple formula will serve this purpose satisfactorily. The allocation of funds to and within counties by a central authority equipped with necessary information, experience, and discretionary power appears to be the optimum from the standpoint of efficiency."

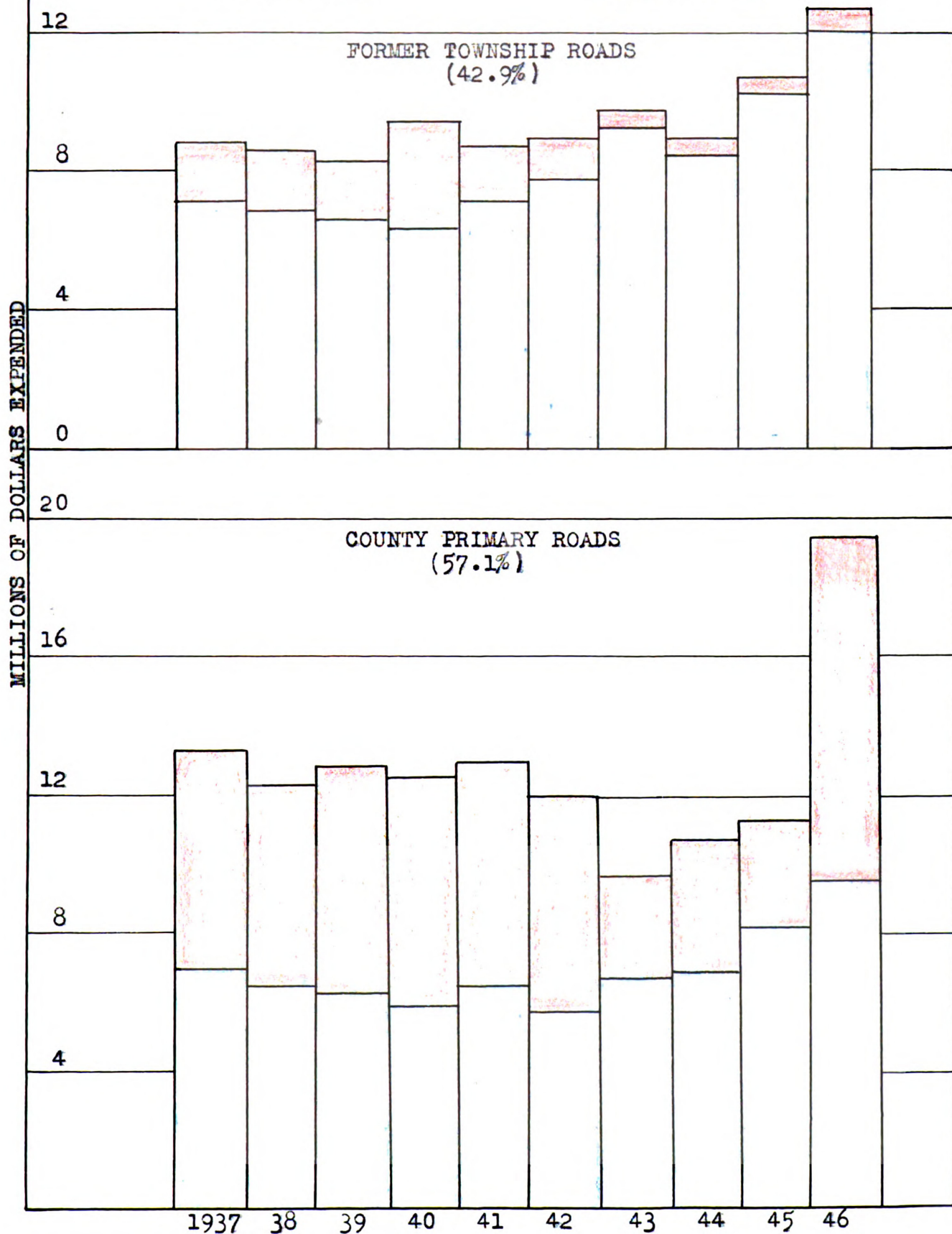
The administrations of the county system needs reorganization in some counties. In about three-fourths of the counties in Michigan, county road commissioners are appointed by the board of supervisors. Commissioners are elected by the voters in the remaining counties. Experience has shown that better county highway administration has been obtained under the appointive system. In about half of the counties the road commission operates purely as a policy-making body, leaving all managerial authority in the hands of a full-time engineer who is responsible to the road commission. This type of organization is more efficient than the methods used in the other counties in which the managerial powers are exercised by the board of road commissioners. If corrections are made to remedy these faults, and cooperation with other county and city agencies in the development of integrated regional highway programs is

obtained, the county system will operate at it's maximum efficiency.

HIGHWAY EXPENDITURES BY THE COUNTIES IN MICHIGAN ON COUNTY PRIMARY AND FORMER TOWNSHIP ROADS FOR CONSTRUCTION AND MAINTENANCE YEARS 1937 TO 1946

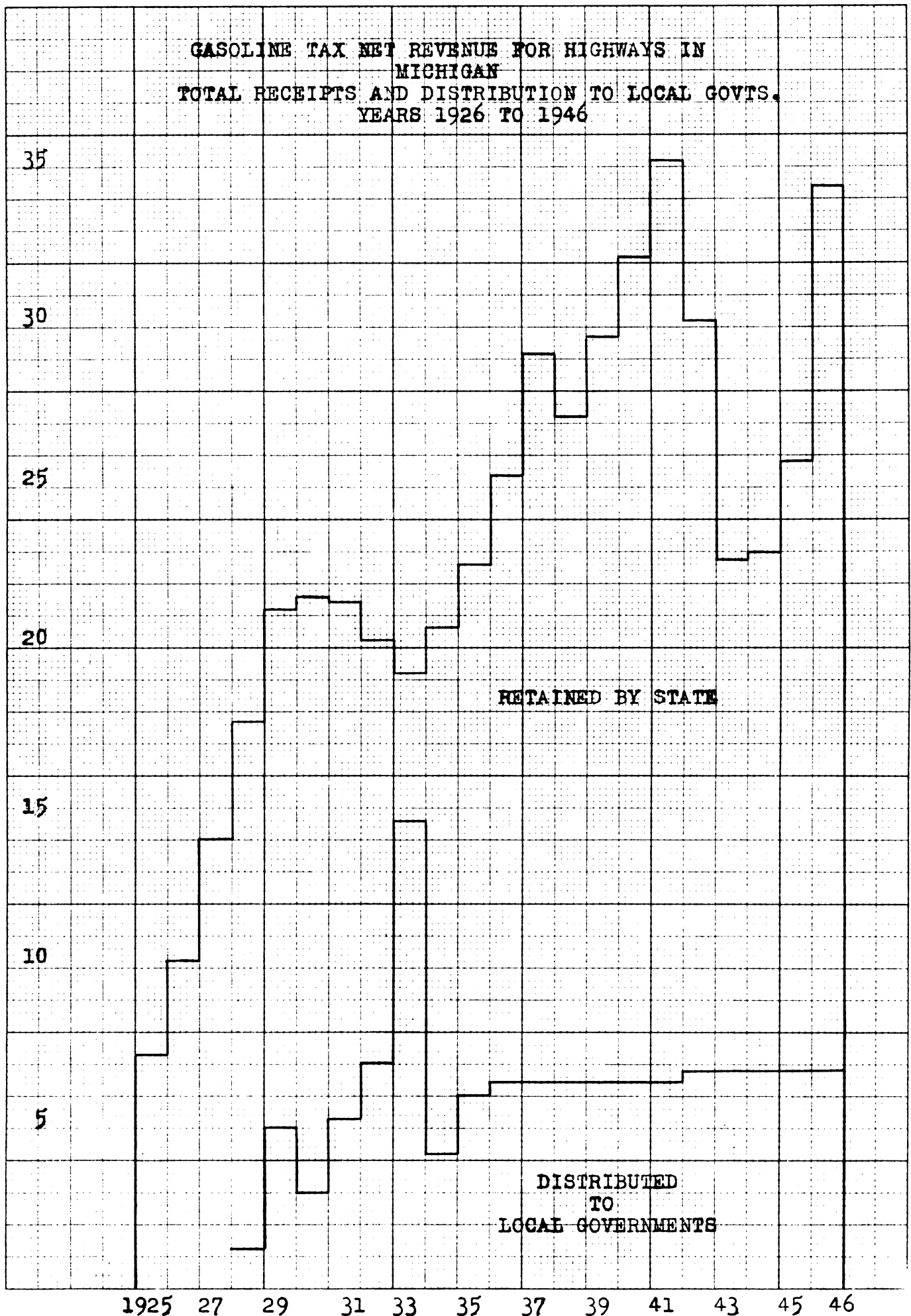
— CONSTRUCTION

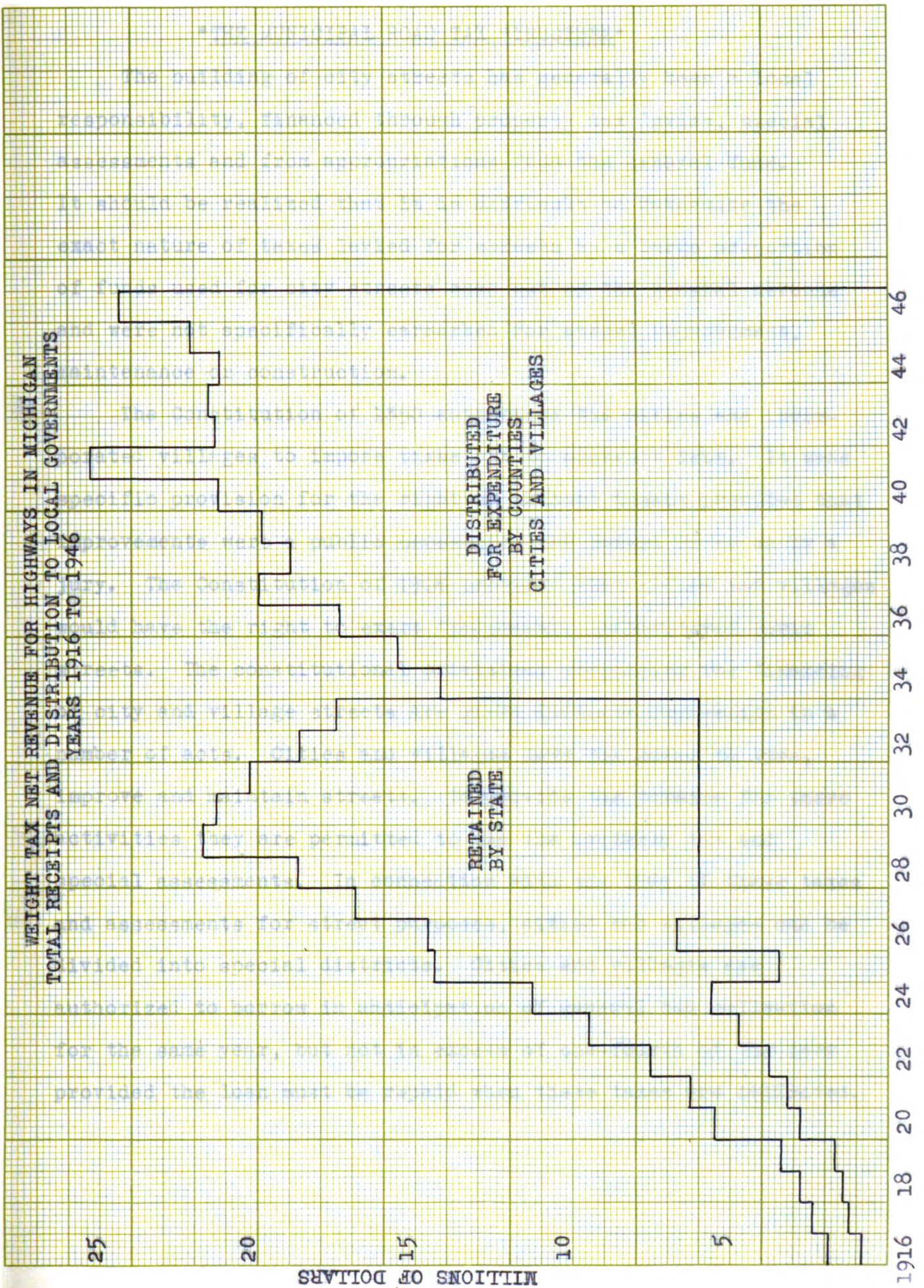
— MAINTENANCE



GASOLINE TAX NET REVENUE FOR HIGHWAYS IN
MICHIGAN
TOTAL RECEIPTS AND DISTRIBUTION TO LOCAL GOVTS.
YEARS 1926 TO 1946

MILLIONS OF DOLLARS





MILLIONS OF DOLLARS

THE MUNICIPAL ROAD TAX STRUCTURE

The building of city streets has generally been a local responsibility, financed through property tax levies, special assessments and from appropriations from the general fund. It should be realized that it is difficult to determine the exact nature of taxes levied for streets as a large proportion of funds used for city streets come out of the general revenue and were not specifically earmarked for street improvement, maintenance or construction.

The Constitution of 1850 authorized the cities and incorporated villages to impose taxes and to contract debt. It made specific provision for the right of eminent domain provided that improvements were a public necessity, and judged to be so by a jury. The Constitution of 1908 provided that cities and villages would have the right to exert "reasonable control" over their streets. The constitutional provisions concerning the financing of city and village streets are given definite expression in a number of acts. Cities and villages have the power to open, improve and maintain streets. To provide the revenue for these activities they are permitted to use the property tax and special assessments. In connection with the levy of these taxes and assessments for street purposes, cities and villages can be divided into special districts. Cities and villages are authorized to borrow in anticipation of general tax collection for the same year, but not in excess of one-fourth of the levy provided the loan must be repaid when these taxes are collected.

Funds may also be borrowed in anticipation of the collection of special assessments made for streets. These regulations are set forth in the Constitution of 1929.

Expenditures on city and village streets, other than state and county expenditures on their respective trunkline and primary roads have totaled \$84.9 millions of dollars since 1910. This is the greatest highway expenditure made by any of the three jurisdictions, and represents about 37.0 percent of the total expenditures. The urban units spent 85% of their total, and federal relief agencies spent the remainder. These funds were obtained by general property taxes and special assessments for the most part until the depression. Since then general revenues provide little more than fifty percent of the funds expended for streets, while the remainder is provided by proceeds from the state and county under the Dykstra Act, and the McNitt and Horton Acts, as explained previously. Under the original Horton Act the cities and villages received funds only if there was a balance remaining after the deduction of the the first four priorities. This system resulted in grave misjustice to some cities. In 1942 there were 67 cities that never received one cent from the distribution of the weight and gas taxes. In that year the per capita amount proportioned to cities ranged from \$.80 in Oakland County to \$7.19 in Roscommon County. However, this fault was remedied in 1941 by passage of amendment to the Horton Act which required that the counties leave a balance of at least eight percent of the weight and gas

tax refunds for city and municipal use. It is believed by some, that the distribution of funds to the cities should be made directly from the state instead of passing through the county's hands.

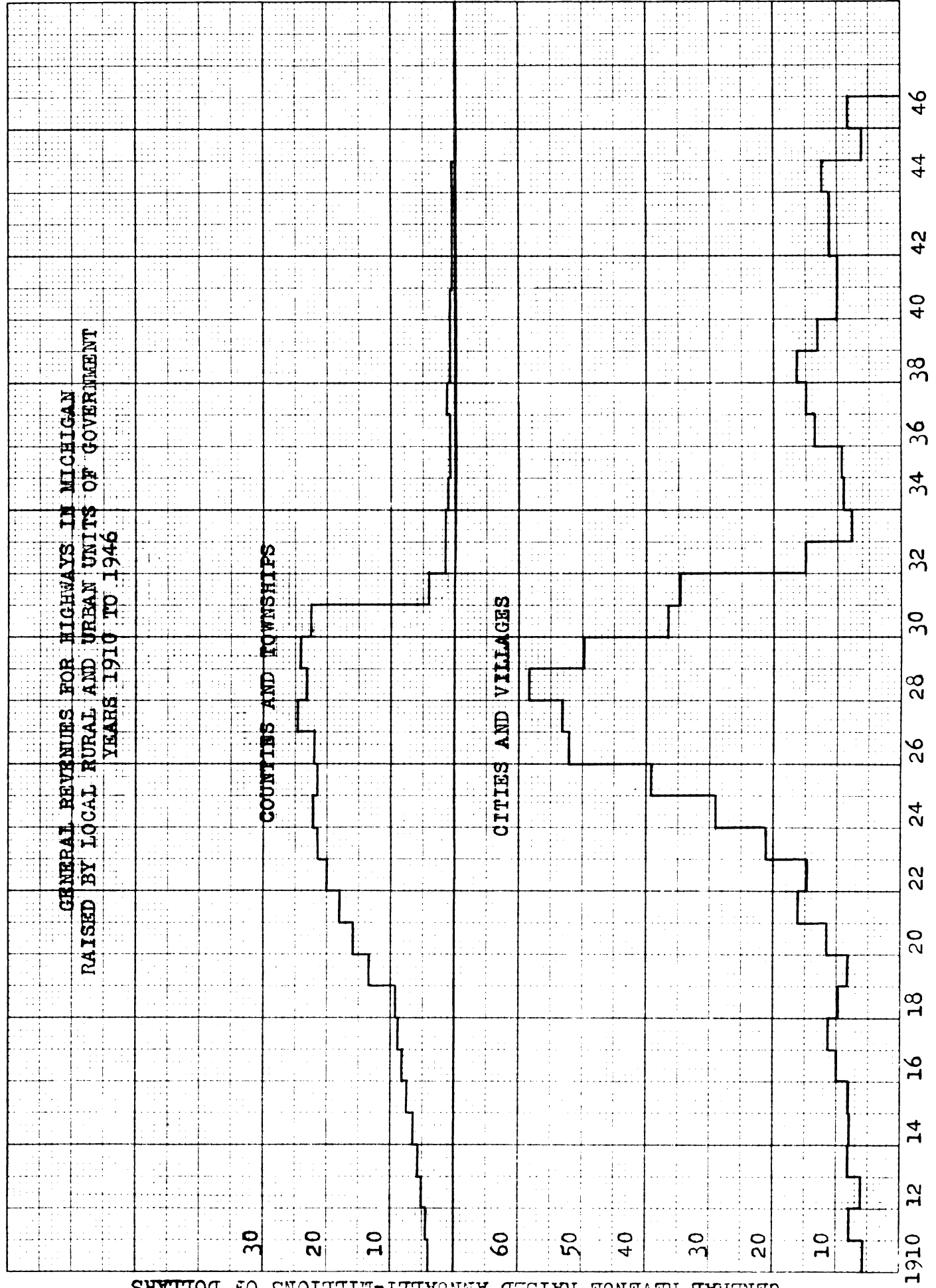
The Highway Study Committee in it's report of 1948, recommended that standard accounting practices should be adopted by the municipalities; closer cooperation with the state and county be strived for; and that the state legislature direct cities to classify street systems into major and local streets on the basis of accepted principles of street planning, the classification in each city or village to be carried out in cooperation with, and subject to final approval of the State Highway Department. These steps would enable a better view of the financial needs of the municipalities to be obtained.

GENERAL REVENUES FOR HIGHWAYS IN MICHIGAN RAISED BY LOCAL RURAL AND URBAN UNITS OF GOVERNMENT YEARS 1910 TO 1946

GENERAL REVENUE RAISED ANNUALLY-MILLIONS OF DOLLARS

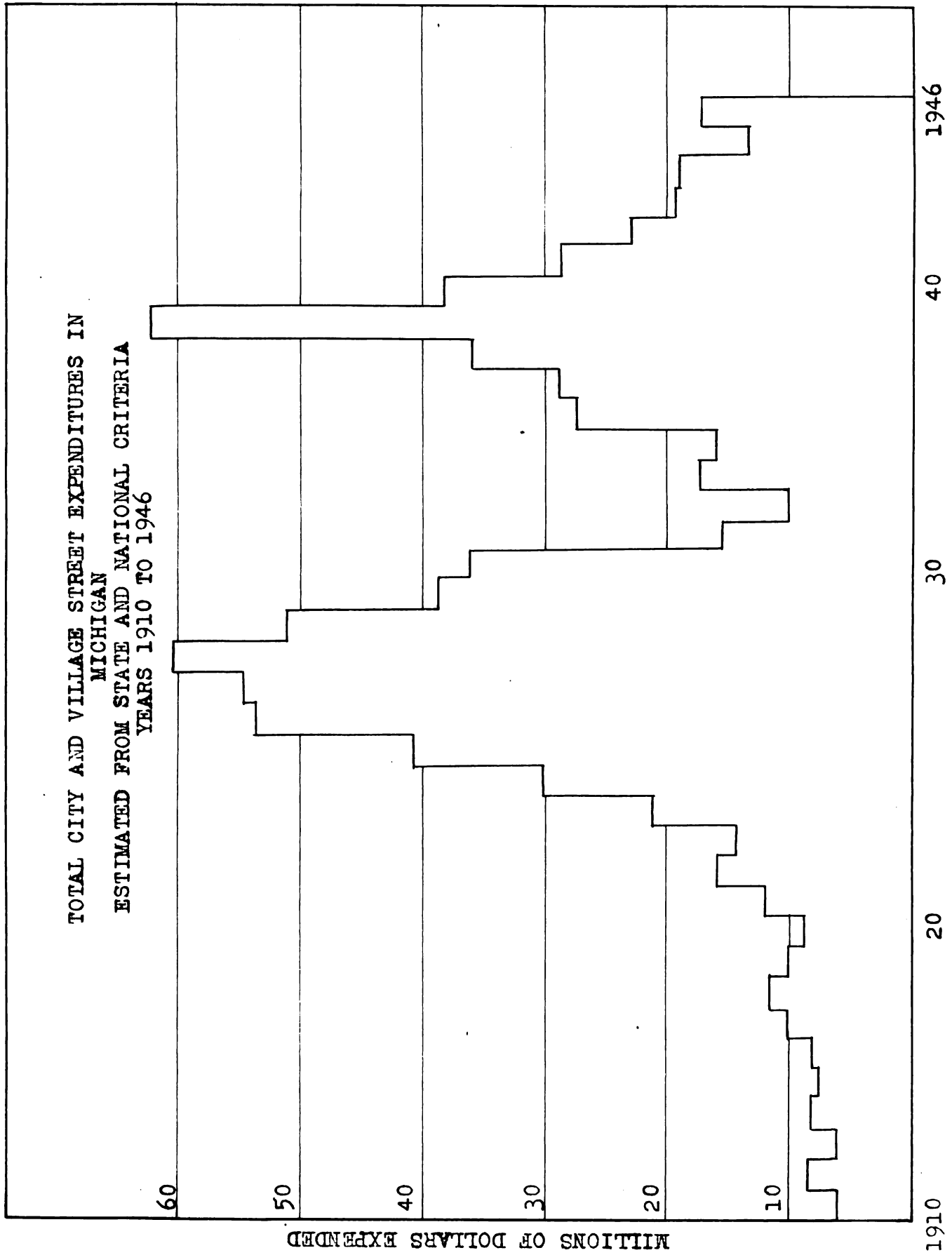
COUNTIES AND TOWNSHIPS

CITIES AND VILLAGES



TOTAL CITY AND VILLAGE STREET EXPENDITURES IN
MICHIGAN
ESTIMATED FROM STATE AND NATIONAL CRITERIA
YEARS 1910 TO 1946

MILLIONS OF DOLLARS EXPENDED



CONCLUSION

In the preceding pages we have traced the development of the Michigan Road Tax system. We have seen how the system grew complex, as the problem faced by the highway system became more involved due to the development of the automobile and highway travel. Michigan has endeavored to meet these problems as they arose, and are now attempting to find a solution to the increased cost of maintenance and construction that exist today. The only way this problem can be dealt with, as it has been in the past, is through long range planning and legislation. As it has been so aptly stated, "Highway progress is primarily a history of legislation." Just what shape or form this legislation will take place is a matter of question, and will undoubtedly be a compromise between the state, county and municipal levels of government.

As the financial history of highways and roads in Michigan was developed, we have seen the growth of three separate, but coordinated systems of roads and streets. The state trunkline system consists of 9,386 miles of urban and rural highways. This system is financed by the gas tax and federal-aid funds. The county system is made up of 85,348 miles of rural and urban streets. This system is financed in it's entirety with proceeds from the weight and gas taxes, and secondary federal-aid grants; with the exception of Allegan, Chippewa, Geobeic, Marquette, Menominee and St. Clair counties, in which county property taxes are assessed for highways. These taxes amounted to \$0.36

million in 1946. City streets comprise a total of 11,801 miles. City streets are financed through returns of the motor vehicle taxes through the county, general revenues from the city and federal emergency grants.

As has been discussed, the highway system has been financed from three major sources of funds since 1931. Originally, the general revenue, i.e., the property tax was the sole support of the highway system. However, with the increased use of the highways and the decline of real estate values due to the depression, the property tax has been relegated to a position of minor importance. In 1947 less than one million dollars was raised for the state trunkline through general revenues. The major portion of this amount came from receipts of the Straits of Mackinaw ferry tolls, which go to defray ferry operating expenses. In 1946, only \$0.50 million of county and township taxes were assessed for roads and streets. Municipal property tax support for the same year amounted to some eight millions of dollars.

The motor vehicle taxes, consisting of the gas tax, and the weight tax and the motor carrier fees are now the major support for highways. Since their adoption they have played an ever increasing role of importance. In 1946, over \$59.2 million were raised by this type of tax. The cost of collection amounted to \$2.1 or 3.4% of the gross total revenues. In 1946, the weight tax collection amounted to \$27 million, the gas tax revenues totaled \$34.6 million and the motor carrier fees came to a total of \$0.67 million.

Federal aid funds also play a prominent part in Michigan highway finance. Michigan was allotted \$16.6 million of funds for the fiscal year ending in 1947. These included \$6.8 million for projects on the federal-aid highway system, \$5.7 million for those on this system and in urban areas, and \$4.1 million for those on principal secondary and feeder roads comprising the federal-aid secondary system. By agreement with the counties, 73% of the secondary road funds are expended on sections of that system undercounty jurisdiction, and the remainder on portions that are state trunklines.

As was stated in the introduction, Michigan faces a long range program of highway construction and improvement which added to maintenance problems will cost approximately \$160 million annually for the next twelve to fifteen years. The method or methods by which this program will be financed is open to question. There have been several suggestions as to how the funds are to be raised, and they will be just mentioned briefly as it is beyond the scope of this report to study the possibilities closely. The Michigan Tax Study Advisory Board in its report of 1945 suggested that the rate of gasoline tax be raised to four cents per gallon. The report also urged that the distribution of motor vehicle revenues to the various levels of government be on a strict percentage basis of 40% to the state highway department, 35% to the counties and 25% to cities and villages. The Michigan Highway Study and Michigan Good Roads Federation in their

joint analysis, "Highway Needs in Michigan" mad the following recommendations: a larger share of the expense for local roads should rest on the local tax structure; state retail sales tax on automobiles and accessories could be devoted to the support of highways; and the weight tax rate should be raised to 55 cents per hundredweight, the rate prior to 1933. This analysis also calls for a different method of apportioning the motor vehicle tax revenues, as the present method of distribution was adopted during the depression to meet the needs of that period.

In conclusion, Michigan has made tremendous strides in the development of its roads and streets, both financially and administratively. This has been due to the perserverance of its citizens and various organizations in their fight for good roads, and the legislature for its recognition of the importance of good roads and streets. With this same combination, Michigan can look forward to its future highways with a high degree of assurance.

F I N I S

-BIBLIOGRAPHY-

- DEARINGS, CHARLES L. American Highway Policy. Washington: The Brookings Institution, 1941
- FORD, ROBERT S. Financing Government in Michigan. Mich. Govt. Studies, Bur. Govt., Univ. Of Mich., No.9 (1942)
- FORD, ROBERT S. Trends in Highway Finance. Michigan Pamphlets, Bur. Govt., Univ. Mich., No.5 (1940)
- FORD, ROBERT S. Michigan Highway Finance. Mich. Govt. Studies, Bur. Govt., Univ. Mich., No.12 (1943)
- HIGHWAY RESEARCH BOARD. Department of Highway Finance. Report.... A Summary of Financial Surveys in Nine States, Proc. Sixteenth Ann. Meeting of the Highway Research Board, 1936.
- KENNEDY, G. DONALD. Michigan State Highway Finance. Proc. Twenty-Fifth Ann. Highway Conf., 1939.
- KENNEDY, G. DONALD. The Motorists Stake in the Highways., Proc. Twenty-Fourth Ann. Highway Conf., 1938.
- MICHIGAN. Constitution of the State of Michigan, 1835, as Amended.
Constitution of the State of Michigan, 1850, as Amended.
Constitution of the State of Michigan, 1908, as Amended.
Constitution of the State of Michigan, 1929, as Amended.
Financial Report of Michigan County Governments, 1946.
State Highway Commissioner. Biennial Reports for the Fiscal Year(s) ending June 30.... 1905-1946.
State Highway Department. Report on Automobile Weight Tax and Related Financial Studies, 1934.
Statutes Annotated... Vols.7 and 8. Chicago: Callaghan and Co., 1936.
Tax Study Advisory Board. Report of 1945.
- MICHIGAN GOOD ROADS FEDERATION. Financing Michigan Highways, Roads and Streets. Lansing: 1947.
- MICHIGAN GOOD ROADS FEDERATION. Highway Needs in Michigan. Lansing: 1948.
- MICHIGAN HIGHWAY USERS CONFERENCE. The Miracle of Highway Transportation in Michigan. Detroit: 1946.
- NATIONAL HIGHWAY USERS CONFERENCE. Highway User Taxes. Highway User Series, No. RL3, 1927.
- OLSON, HERBERT A. Financing Municipal Streets with Motor Taxes Proc. Twenty-First Ann. Highway Conf., 1935.
- OWEN, WILFRED. Recent Trends in Highway Finance. Proc. Thirty-Fourth Ann. Conf. of the Nat. Tax Assn., 1941.
- RODGERS, FRANK F. History of the Michigan State Highway Department, 1905-1933. Lansing: 1933.
- SCHMILLEL, LOUIS H. Distribution of Horton Act Revenues. Proc. Thirty-Seventh Ann. Convention Mich. Municipal League, 1935.
- VAN WAGONER, MURRAY D. The Crossroads of Highway Administration. Proc. Twenty-Fourth Ann. Highway Conf., 1938.
- VAN WAGONER, MURRAY D. Financial Needs of the State Highways. Proc. Twenty-Third Ann. Highway Conf. 1937.
- U.S. PUBLIC ROADS ADMINISTRATION. Annual Report(s) for the Fiscal Year(s) ending June 30., 1919-1946.

ALL THE WAY

THE WAY

THE WAY

~~THE WAY~~

MICHIGAN STATE UNIVERSITY LIBRARIES



3 1293 03145 9252