

SUBSTITUTE FOR
SENATE BILL NO. 281

A bill to amend 1951 PA 51, entitled

"An act to provide for the classification of all public roads, streets, and highways in this state, and for the revision of that classification and for additions to and deletions from each classification; to set up and establish the Michigan transportation fund; to provide for the deposits in the Michigan transportation fund of specific taxes on motor vehicles and motor vehicle fuels; to provide for the allocation of funds from the Michigan transportation fund and the use and administration of the fund for transportation purposes; to promote safe and efficient travel for motor vehicle drivers, bicyclists, pedestrians, and other legal users of roads, streets, and highways; to set up and establish the truck safety fund; to provide for the allocation of funds from the truck safety fund and administration of the fund for truck safety purposes; to set up and establish the Michigan truck safety commission; to establish certain standards for road contracts for certain businesses; to provide for the continuing review of transportation needs within the state; to authorize the state transportation commission, counties, cities, and villages to borrow money, issue bonds, and make pledges of funds for transportation purposes; to authorize counties to advance funds for the payment of deficiencies necessary for the payment of bonds issued under this act; to provide for the limitations, payment, retirement, and security of the bonds and pledges; to provide for appropriations and tax levies by counties and townships for county roads; to authorize contributions by townships for county roads; to provide for the establishment and administration of the state trunk line

fund, local bridge fund, comprehensive transportation fund, and certain other funds; to provide for the deposits in the state trunk line fund, critical bridge fund, comprehensive transportation fund, and certain other funds of money raised by specific taxes and fees; to provide for definitions of public transportation functions and criteria; to define the purposes for which Michigan transportation funds may be allocated; to provide for Michigan transportation fund grants; to provide for review and approval of transportation programs; to provide for submission of annual legislative requests and reports; to provide for the establishment and functions of certain advisory entities; to provide for conditions for grants; to provide for the issuance of bonds and notes for transportation purposes; to provide for the powers and duties of certain state and local agencies and officials; to provide for the making of loans for transportation purposes by the state transportation department and for the receipt and repayment by local units and agencies of those loans from certain specified sources; and to repeal acts and parts of acts,"

by amending section 10 (MCL 247.660), as amended by 2007 PA 210, and by adding section 11g.

THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

1 Sec. 10. (1) A fund to be known as the Michigan transportation
2 fund is established ~~and shall be set up and maintained~~ in the state
3 treasury as a separate fund. Money received and collected under the
4 motor fuel tax act, 2000 PA 403, MCL 207.1001 to 207.1170, except a
5 license fee provided in that act, and a tax, fee, license, and
6 other money received and collected under sections 801 to 810 of the
7 Michigan vehicle code, 1949 PA 300, MCL 257.801 to 257.810, except
8 a truck safety fund fee provided in section 801(1)(k) of the
9 Michigan vehicle code, 1949 PA 300, MCL 257.801, and money received
10 under the motor carrier act, 1933 PA 254, MCL 475.1 to 479.43,
11 shall be deposited in the state treasury to the credit of the
12 Michigan transportation fund. In addition, income or profit derived
13 from the investment of money in the Michigan transportation fund
14 shall be deposited in the Michigan transportation fund. Except as
15 provided in this act, no other money, whether appropriated from the

1 general fund of this state or any other source, shall be deposited
2 in the Michigan transportation fund. Except as otherwise provided
3 in this section, the legislature shall appropriate ~~funds-MONEY~~ for
4 the necessary expenses incurred in the administration and
5 enforcement of the motor fuel tax act, 2000 PA 403, MCL 207.1001 to
6 207.1170, the motor carrier act, 1933 PA 254, MCL 475.1 to 479.43,
7 and sections 801 to 810 of the Michigan vehicle code, 1949 PA 300,
8 MCL 257.801 to 257.810. ~~Funds-MONEY~~ appropriated for necessary
9 expenses shall be based upon established cost allocation
10 methodology that reflects actual costs. Appropriations for the
11 necessary expenses incurred by the department of state in
12 administration and enforcement of sections 801 to 810 of the
13 Michigan vehicle code, 1949 PA 300, MCL 257.801 to 257.810, shall
14 be made from the Michigan transportation fund and from ~~funds-MONEY~~
15 in the transportation administration collection fund created in
16 section 810b of the Michigan vehicle code, 1949 PA 300, MCL
17 257.810b. Appropriations from the Michigan transportation fund for
18 the necessary expenses incurred by department of state in
19 administration and enforcement of sections 801 to 810 of the
20 Michigan vehicle code, 1949 PA 300, MCL 257.801 to 257.810, shall
21 not exceed \$20,000,000.00 per state fiscal year. ~~except for the~~
22 ~~fiscal year ending September 30, 2006. For the fiscal year ending~~
23 ~~September 30, 2006, the legislature may appropriate funds in excess~~
24 ~~of \$20,000,000.00 from the Michigan transportation fund for all~~
25 ~~incremental additional expenses incurred by the department of state~~
26 ~~in enforcing sections 801 to 810 of the Michigan vehicle code, 1949~~
27 ~~PA 300, MCL 257.801 to 257.810, that arise because of the~~

~~replacement of standard design registration license plates as provided in section 224 of the Michigan vehicle code, 1949 PA 300, MCL 257.224. All money in the Michigan transportation fund is apportioned and appropriated in the following manner:~~

(a) Not more than \$3,000,000.00 as may be annually appropriated each fiscal year to the state trunk line fund for subsequent deposit in the rail grade crossing account.

(b) Not less than \$3,000,000.00 each year to the local bridge fund established in subsection ~~(5)~~ **(4)** for the purpose of payment of the principal, interest, and redemption premium on any notes or bonds issued by the state transportation commission under former section 11b or subsection ~~(10)~~ **(9)**.

(c) ~~Revenue~~ **EXCEPT AS OTHERWISE PROVIDED IN THIS SUBDIVISION, \$5,000,000.00 EACH YEAR OF THE REVENUE** from 3 cents of the tax levied under section 8(1)(a) of the motor fuel tax act, 2000 PA 403, MCL 207.1008, to the **MOVABLE BRIDGE FUND CREATED IN SECTION 11G, WITH THE REMAINDER TO THE** state trunk line fund, county road commissions, and cities and villages in the percentages provided in subdivision ~~(i)~~ **(J)**. **THE DEPARTMENT SHALL ANNUALLY ADJUST THE AMOUNT ALLOCATED UNDER THIS SUBDIVISION BY AN AMOUNT EQUAL TO THE ANNUAL INCREASE IN THE DETROIT CONSUMER PRICE INDEX FOR THE PRECEDING YEAR.**

~~(d) Until September 30, 2004, all of the revenue from 1 cent of the tax levied under section 8(1)(a) of the motor fuel tax act, 2000 PA 403, MCL 207.1008, to the state trunk line fund for repair of state bridges under section 11. Beginning October 1, 2004 and continuing through September 30, 2005, 3/4 of the revenue from 1~~

~~cent of the tax levied under section 8(1)(a) of the motor fuel tax~~
~~act, 2000 PA 403, MCL 207.1008, shall be appropriated to the state~~
~~trunk line fund for the repair of state bridges under section 11,~~
~~and 1/4 of the revenue from 1 cent of the tax levied under section~~
~~8(1)(a) of the motor fuel tax act, 2000 PA 403, MCL 207.1008, shall~~
~~be appropriated to the local bridge fund created in subsection (5)~~
~~for distribution only to cities, villages, and county road~~
~~commissions. Beginning October 1, 2005, 1/2 **ONE-HALF** of the revenue~~
~~from 1 cent of the tax levied under section 8(1)(a) of the motor~~
~~fuel tax act, 2000 PA 403, MCL 207.1008, shall be **IS** appropriated~~
~~to the state trunk line fund for the repair of state bridges under~~
~~section 11, and 1/2 of the revenue from 1 cent of the tax levied~~
~~under section 8(1)(a) of the motor fuel tax act, 2000 PA 403, MCL~~
~~207.1008, shall be **IS** appropriated to the local bridge fund created~~
~~in subsection (5) **(4)** for distribution only to cities, villages,~~
~~and county road commissions.~~

(e) \$43,000,000.00 to the state trunk line fund for debt
 service costs on state of Michigan projects.

(f) ~~Except as provided in subsection (4),~~ 10% to the
 comprehensive transportation fund for the purposes described in
 section 10e.

(g) \$5,000,000.00 to the local bridge fund established in
 subsection ~~(5)~~ **(4)** for distribution only to the local bridge
 advisory board, the regional bridge councils, cities, villages, and
 county road commissions.

(h) \$36,775,000.00 to the state trunk line fund for subsequent
 deposit in the transportation economic development fund, ~~and, as of~~

1 ~~September 30, 1997,~~ with first priority for allocation to debt
2 service on bonds issued to fund transportation economic development
3 fund projects. In addition, ~~beginning October 1, 1997,~~
4 \$3,500,000.00 is appropriated from the Michigan transportation fund
5 to the state trunk line fund for subsequent deposit in the
6 transportation economic development fund to be used for economic
7 development road projects in any of the targeted industries
8 described in section 9(1)(a) of 1987 PA 231, MCL 247.909.

9 (i) Not less than \$33,000,000.00 as may be annually
10 appropriated each fiscal year to the local program fund created in
11 section 11e.

12 (j) The balance of the Michigan transportation fund as
13 follows, after deduction of the amounts appropriated in
14 subdivisions (a) through (i) and section ~~11b-11g~~:
15

16 (i) 39.1% to the state trunk line fund for the purposes
17 described in section 11.

18 (ii) 39.1% to the county road commissions of ~~the~~ **THIS** state.

19 (iii) 21.8% to the cities and villages of ~~the~~ **THIS** state.

20 (2) The money appropriated pursuant to this section shall be
21 used for the purposes as provided in this act and any other
22 applicable act. Subject to ~~the requirements of~~ section 9b, the
23 department shall develop programs in conjunction with the Michigan
24 state chamber of commerce and the Michigan minority business
25 development council to assist small businesses, including those
26 located in enterprise zones and those located in empowerment zones
27 as determined under federal law, as defined by law in becoming
qualified to bid.

1 (3) Thirty-one and one-half percent of the ~~funds~~**MONEY**
 2 appropriated to this state from the federal government pursuant to
 3 23 USC 157, commonly known as minimum guarantee funds, shall be
 4 allocated to the transportation economic development fund, if ~~such~~
 5 ~~an~~**THE** allocation is consistent with federal law. ~~These funds~~**THIS**
 6 **MONEY** shall be distributed 16-1/2% for development projects for
 7 rural counties as defined by law and 15% for capacity improvement
 8 or advanced traffic management systems in urban counties as defined
 9 by law. Federal ~~funds~~**MONEY** allocated for distribution under this
 10 section ~~shall be~~**IS** eligible for obligation and use by all
 11 recipients as defined by the transportation equity act for the 21st
 12 century, Public Law 105-178.

13 ~~—— (4) For the fiscal year beginning October 1, 2003 only, the~~
 14 ~~apportionment of 10% of Michigan transportation fund money to the~~
 15 ~~comprehensive transportation fund as provided in subsection (1)(f)~~
 16 ~~shall be reduced by \$10,000,000.00 and the \$10,000,000.00 shall be~~
 17 ~~transferred to the state trunk line fund for capacity improvements~~
 18 ~~to state trunk line highways.~~

19 (4) ~~(5)~~ A fund to be known as the local bridge fund is
 20 established ~~and is set up and maintained~~ in the state treasury as a
 21 separate fund. The money appropriated to the local bridge fund and
 22 the interest accruing to that fund shall be expended for the local
 23 bridge program. The purpose of the fund is to provide financial
 24 assistance to highway authorities for the preservation,
 25 improvement, or reconstruction of existing bridges or for the
 26 construction of bridges to replace existing bridges in whole or
 27 part. The money in the local bridge fund is not subject to section

1 12(15) or 13(5). The local bridge advisory board is created and
2 shall consist of 6 voting members appointed by the state
3 transportation commission and 2 nonvoting members appointed by the
4 ~~state transportation department~~. The board shall include 3 members
5 from the county road association of Michigan, 1 member who
6 represents counties with populations 65,000 or greater, 1 member
7 who represents counties with populations greater than 30,000 and
8 less than 65,000, and 1 member who represents counties with
9 populations of 30,000 or less. Three members shall be appointed
10 from the Michigan municipal league, 1 member who represents cities
11 with a population 75,000 or greater, 1 member who represents cities
12 with a population less than 75,000, and 1 member who represents
13 villages. Each organization with voting rights shall submit a list
14 of nominees in each population category to the state transportation
15 commission. The state transportation commission shall make the
16 appointments from the lists submitted under this subsection. ~~Names~~
17 ~~shall be submitted within 45 days after October 1, 2004. The state~~
18 ~~transportation commission shall make the appointments by January~~
19 ~~30, 2005.~~ Voting members shall be appointed for 2 years. The
20 chairperson of the board shall be selected from among the voting
21 members of the board. In addition to the 2 nonvoting members, the
22 department shall provide qualified administrative staff and
23 qualified technical assistance to the board.

24 (5) ~~(6) Beginning October 1, 2005, no~~ NO less than 5% and no
25 more than 15% of the ~~funds~~ **MONEY** received in the local bridge fund
26 may be used for critical repair of large bridges and emergencies as
27 determined by the local bridge advisory board. ~~Beginning October 1,~~

1 ~~2005, funds~~ **MONEY** remaining after the ~~funds~~ **MONEY** allocated for
 2 critical large bridge repair and emergencies ~~are~~ **IS** deducted shall
 3 be distributed by the board to the regional bridge councils created
 4 under this section. One regional council shall be formed for each
 5 department of transportation region as those regions exist on
 6 October 1, 2004. The regional councils shall consist of 2 members
 7 of the county road association of Michigan from counties in the
 8 region, 2 members of the Michigan municipal league from cities and
 9 villages in the region, and 1 member of the ~~state transportation~~
 10 department in each region. The members of the ~~state transportation~~
 11 department ~~shall be~~ **ARE** nonvoting members who shall provide
 12 qualified administrative staff and qualified technical assistance
 13 to the regional councils.

14 (6) ~~(7) Beginning October 1, 2005, funds~~ **MONEY** in the local
 15 bridge fund after deduction of the amounts set aside for critical
 16 repair of large bridges and emergency repairs shall be distributed
 17 among the regional bridge councils according to all of the
 18 following ratios, which shall be assigned a weight expressed as a
 19 percentage as determined by the board, with each ratio receiving no
 20 greater than a 50% weight and no less than a 25% weight:

21 (a) A ratio with a numerator that is the total number of local
 22 bridges in the region and a denominator that is the total number of
 23 local bridges in this state.

24 (b) A ratio with a numerator that is the total local bridge
 25 deck area in the region and a denominator that is the total local
 26 bridge deck area in this state.

27 (c) A ratio with a numerator that is the total amount of

1 structurally deficient local bridge deck area in the region and a
 2 denominator that is the total amount of structurally deficient
 3 local bridge deck area in this state.

4 (7) ~~(8) Beginning October 1, 2005, the~~ **THE** regional bridge
 5 councils shall allocate the ~~funds~~ **MONEY** received from the board for
 6 the preservation, improvement, and reconstruction of existing
 7 bridges or for the construction of bridges to replace existing
 8 bridges in whole or in part in each region.

9 (8) ~~(9) Beginning January 1, 2007 and each~~ **EACH** January, after
 10 ~~2007,~~ the department shall submit a report to the chair and the
 11 minority vice-chair of the appropriations committees of the senate
 12 and the house of representatives, and to the standing committees on
 13 transportation of the senate and the house of representatives, on
 14 all of the following activities for the previous state fiscal year:

15 (a) A listing of how much money was dedicated for emergency
 16 and large bridge repair.

17 (b) A listing of ~~what~~ **THE** emergency and large bridge repair
 18 projects **THAT** were funded.

19 (c) The actual weights used in the calculation required under
 20 subsection ~~(7).~~ **(6)**.

21 (d) A listing of the total money distributed to each region.

22 (e) A listing of ~~what~~ **THE** specific projects **THAT** were funded
 23 pursuant to subsection ~~(8).~~ **(7)**.

24 (9) ~~(10)~~ The state transportation commission shall borrow
 25 money and issue notes or bonds in an amount of not less than
 26 \$30,000,000.00 to supplement the funding provided for the local
 27 bridge program under subsection ~~(6).~~ **(5)**. The bonds or notes issued

1 pursuant to this subsection may be issued by the commission for any
 2 purpose for which other local bridge funds ~~fund~~ **MONEY** may be used under
 3 this section. The bonds or notes authorized by this subsection
 4 shall be issued by resolution of the state transportation
 5 commission consistent with the requirements of section 18b.

6 **(10)** ~~(11) The state transportation department shall promulgate~~
 7 rules pursuant to the administrative procedures act of 1969, 1969
 8 PA 306, MCL 24.201 to 24.328, governing the administration of the
 9 local bridge program. The rules shall set forth the eligibility
 10 criteria for financial assistance under the program and other
 11 matters related to the program that the department considers
 12 necessary and desirable. The department shall take into
 13 consideration the availability of federal aid and other financial
 14 resources of the highway authority responsible for the bridge, the
 15 importance of the bridge to the highway, road, or street network,
 16 and the condition of the existing bridge.

17 **(11)** ~~(12) Beginning October 1, 2004, the revenue **THE MONEY**~~
 18 appropriated to the local bridge fund pursuant to subsection (1) (d)
 19 shall be distributed only to the local bridge advisory board, the
 20 regional bridge councils, cities, villages, and county road
 21 commissions.

22 **(12)** ~~(13) Beginning October 1, 2008, the **THE** regional bridge~~
 23 councils shall determine ~~what **THE**~~ bridge projects **THAT** are selected
 24 for funding from the local bridge fund created in subsection ~~(5)~~
 25 **(4)** and shall make a list of selected projects available to
 26 interested parties in the region. A determination that a bridge
 27 project is selected for funding in a given fiscal year is not

1 approval to disburse the ~~funds-MONEY~~.

2 (13) ~~(14) Beginning October 1, 2008, a~~ A county road
3 commission, city, or village may implement a bridge project if the
4 bridge project has been selected for funding and is included in the
5 appropriate regional bridge council's current multiyear bridge plan
6 for the local bridge program but the regional bridge council has
7 not allocated ~~funds-MONEY~~ to the bridge project for the fiscal year
8 that the bridge project is on the current multiyear bridge plan. A
9 county road commission, city, or village may borrow ~~funds-MONEY~~ to
10 implement a project that has been selected for funding and is
11 included in the appropriate regional bridge council's current
12 multiyear bridge plan but has not been allocated ~~funds-MONEY~~ by the
13 regional bridge council. Based on available local bridge ~~funds~~,
14 **MONEY**, when a bridge project that was implemented with borrowed
15 ~~funds-MONEY~~ is allocated funding in a subsequent fiscal year, the
16 funding shall only be used to repay the amount approved by the
17 multiyear bridge plan when the ~~funds-were-MONEY WAS~~ borrowed. To be
18 eligible for repayment of the amount borrowed, a bridge project
19 that has been implemented with borrowed ~~funds-MONEY~~ shall be
20 administered through the department's local bridge program.

21 **SEC. 11G. (1) THE MOVABLE BRIDGE FUND IS CREATED IN THE STATE**
22 **TREASURY AS A SEPARATE FUND. THE STATE TREASURER MAY RECEIVE MONEY**
23 **OR OTHER ASSETS FROM ANY SOURCE FOR DEPOSIT INTO THE FUND. THE**
24 **STATE TREASURER SHALL DIRECT THE INVESTMENT OF THE FUND. THE STATE**
25 **TREASURER SHALL CREDIT TO THE FUND INTEREST AND EARNINGS FROM FUND**
26 **INVESTMENTS. MONEY IN THE FUND AT THE CLOSE OF THE FISCAL YEAR**
27 **SHALL REMAIN IN THE FUND AND SHALL NOT LAPSE TO THE GENERAL FUND.**

1 THE DEPARTMENT SHALL BE THE ADMINISTRATOR OF THE FUND FOR AUDITING
2 PURPOSES.

3 (2) THE DEPARTMENT MAY ENTER INTO A CONTRACT WITH A PERSON OR
4 AGENCY THAT HAS JURISDICTION OF A PUBLICLY OWNED MOVABLE BRIDGE FOR
5 THE OPERATION OF THAT BRIDGE. A CONTRACT ENTERED INTO UNDER THIS
6 SUBSECTION SHALL REQUIRE ANY CONTRACTOR HIRED BY THE DEPARTMENT TO
7 OPERATE THE BRIDGE TO MAINTAIN INSURANCE IN AN AMOUNT SPECIFIED BY
8 THE DEPARTMENT. THIS SUBSECTION DOES NOT REQUIRE THE DEPARTMENT TO
9 ASSUME OWNERSHIP OR JURISDICTION OF A PUBLICLY OWNED MOVABLE BRIDGE
10 AS PART OF A CONTRACT DESCRIBED IN THIS SUBSECTION.

11 (3) EACH PERSON OR AGENCY OTHER THAN THE DEPARTMENT THAT OWNS
12 OR HAS JURISDICTION OF A PUBLICLY OWNED MOVABLE BRIDGE SHALL SUBMIT
13 TO THE DEPARTMENT THE OPERATIONAL PROCEDURES FOR THAT BRIDGE AND
14 THE OPERATIONAL COSTS INCURRED BY THE PERSON OR AGENCY IN OPERATING
15 THE BRIDGE ON AN ANNUAL BASIS. THE DEPARTMENT SHALL DEVELOP
16 PROCEDURES TO GOVERN THE OPERATION OF AND TO DETERMINE THE
17 OPERATIONAL COSTS OF ALL PUBLICLY OWNED MOVABLE BRIDGES IN THIS
18 STATE. THE DEPARTMENT SHALL ANNUALLY DEVELOP AN ESTIMATE FOR THE
19 OPERATIONAL COST OF EACH PUBLICLY OWNED MOVABLE BRIDGE IN THIS
20 STATE FOR EACH FISCAL YEAR. FOR EACH PUBLICLY OWNED MOVABLE BRIDGE
21 THAT IS OWNED BY OR UNDER THE JURISDICTION OF A PERSON OR AGENCY
22 OTHER THAN THE DEPARTMENT, THE DEPARTMENT SHALL USE THE OPERATIONAL
23 PROCEDURES AND OPERATIONAL COSTS SUBMITTED BY THAT PERSON OR AGENCY
24 UNDER THIS SUBSECTION IN DEVELOPING THE PROCEDURES AND ESTIMATE
25 REQUIRED BY THIS SUBSECTION. USING THE ESTIMATES DEVELOPED UNDER
26 THIS SUBSECTION, THE DEPARTMENT SHALL DISTRIBUTE A PERCENTAGE OF
27 MONEY FROM THE MOVABLE BRIDGE FUND TO EACH PERSON OR AGENCY

1 RESPONSIBLE FOR THE OPERATION OF A PUBLICLY OWNED MOVABLE BRIDGE.
2 IF THE DEPARTMENT IS RESPONSIBLE FOR THE OPERATION OF A PUBLICLY
3 OWNED MOVABLE BRIDGE, THE MONEY DISTRIBUTED UNDER THIS SUBSECTION
4 SHALL BE DISTRIBUTED TO THE DEPARTMENT.

5 (4) IF THE DEPARTMENT OFFERS TO ENTER INTO A CONTRACT
6 DESCRIBED IN SUBSECTION (2) AND THE OWNER OR AGENCY THAT HAS
7 JURISDICTION OF THE BRIDGE DECLINES, THE OWNER OR AGENCY SHALL
8 CONTINUE TO RECEIVE THE AMOUNT OF MONEY THAT IT OTHERWISE WOULD
9 HAVE RECEIVED FOR THE OPERATION OF THAT BRIDGE UNDER THIS ACT.

10 (5) AS USED IN THIS SECTION, "OPERATIONAL COSTS" INCLUDES ALL
11 REASONABLE AND CUSTOMARY COSTS ASSOCIATED WITH THE OPERATION OF A
12 PUBLICLY OWNED MOVEABLE BRIDGE. OPERATIONAL COSTS DO NOT INCLUDE
13 ROUTINE MAINTENANCE COSTS, CAPITAL IMPROVEMENT COSTS, OR EMERGENCY
14 STRUCTURAL, MECHANICAL, ELECTRICAL, OR HYDRAULIC REPAIRS.

<<Sec. 13. (1) The amount distributed to cities and villages shall be returned to the treasurers of the cities and villages in the manner, for the purposes, and under the terms and conditions specified in this section. The amount received by a newly incorporated municipality shall be in place of any other direct distribution of funds from the Michigan transportation fund. The population of a newly incorporated municipality as determined under this section shall be added to the total population of all incorporated cities and villages in the state in computing the amounts to be returned under this section to each municipality in the state. Major street mileage, local street mileage, and equivalent major mileage, if applicable, shall be determined by the department before the next month for which distribution is made following the effective date of incorporation of a newly incorporated municipality.

(2) From the amount available for distribution to cities and villages during each December, an amount equal to 0.7% of the total amount returned to all cities and villages under subsections (3) and (4) during the previous calendar year shall be withheld. The amount withheld shall be used to partially reimburse cities and villages located in counties that are eligible for snow removal funds pursuant to section 12a and that have costs for winter maintenance on major and local streets that are greater than the statewide average. The distributions shall be made annually during February and shall be calculated separately for the major and local street systems but may be paid in a combined warrant. The

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distribution to a city or village shall be equal to 1/2 of its winter maintenance expenditures after deducting the product of its total earnings under subsections (3) and (4) multiplied by 2 times the average municipal winter maintenance factor. Winter maintenance expenditures shall be determined from the street financial reports for the most current fiscal years ending before July 1. A city or village that does not submit a street financial report for the fiscal year ending before July 1 by the subsequent December 31 is ineligible for the winter maintenance payment that is to be based on that street financial report. The department shall determine the average municipal winter maintenance factor annually by dividing the total expenditures of all cities and villages on winter maintenance of streets and highways by the total amount earned by all cities and villages under subsections (3) and (4) during the 12 months. If the sum of the distributions to be made under this subsection exceeds the amount withheld, the distributions to each eligible city and village shall be reduced proportionately. If the sum is less than the amount withheld, the balance shall be added to the amount available for distribution under subsections (3) and (4) during the next month. The distributions shall be for use on the major and local street systems respectively and shall be subject to the same provisions as funds returned under subsections (3) and (4).

(3) Seventy-five percent of the remaining amount to be returned to the cities and villages, after deducting the amounts withheld pursuant to subsection (2), shall be returned 60% in the same proportion that the population of each bears to the total population of all cities and villages, and 40% in the same proportion that the equivalent major mileage in each bears to the total equivalent major mileage in all cities and villages. The amount returned under this subsection shall be used by each city and village for the following purposes in the following order of priority:

(a) For the payment of contributions required to be made by a city or village under the provisions of contracts previously entered into under 1941 PA 205, MCL 252.51 to 252.64, that have been previously pledged for the payment of the principal and interest on bonds issued under that act; or for the payment of the principal and interest upon bonds issued by a city or village pursuant to 1952 PA 175, MCL 247.701 to 247.707.

(b) Payment of obligations of the city or village on highway projects undertaken by the city or village jointly with the department.

(c) For the payment of principal and interest upon loans received pursuant to section 11(5), to the extent other funds have not been made available for that payment.

(d) For the preservation, construction, acquisition, and extension of the major street system as defined by this act including the acquisition of a necessary right of way for the

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system, work incidental to the system, and an appurtenant roadside park or motor parkway, of the city or village and for the payment of the principal and interest on that portion of the city's or village's general obligation bonds that are attributable to the construction or reconstruction of the city's or village's major street system. Not more than 5% per year of the funds returned to a city or village by this subsection shall be expended for the preservation or acquisition of appurtenant roadside parks and motor parkways. Surplus funds may be expended for the development, construction, or repair of off-street parking facilities, the construction or repair of street lighting, and transfer to the local street system under subsection (6).

(e) For capital outlay projects for equipment and buildings, contributions pledged for the payment of loans and for the payment of contractual debt service requirements for the payment of bonds for the purpose of providing funds for capital outlay projects for equipment and buildings necessary to the development and maintenance of the road system so long as amounts allocated under this subdivision are used for transportation purposes.

(4) The remaining amount to be returned to incorporated cities and villages shall be expended in each city or village for the preservation, construction, acquisition, and extension of the local street system of the city or village, including the acquisition of a necessary right of way for the system, work incidental to the system, and subject to subsection (5), for the payment of the principal and interest on the portion of the city's or village's general obligation bonds that are attributable to the construction or reconstruction of the city's or village's local street system. The amount returned under this subsection shall be returned to the cities and villages 60% in the same proportion that the population of each bears to the total population of all incorporated cities and villages in the state, and 40% in the same proportion that the total mileage of the local street system of each bears to the total mileage in the local street systems of all cities and villages of the state. The payment of the principal and interest upon bonds issued by a city or village pursuant to 1952 PA 175, MCL 247.701 to 247.707, and after that payment, the payment of debt service on loans received under section 11(5), shall have priority in the expenditure of money returned under this subsection.

(5) Money distributed to each city and village for the maintenance and preservation of its local street system under this act represents the total responsibility of the state for local street system support. Funds distributed from the Michigan transportation fund shall not be expended for construction purposes on city and village local streets except to the extent matched from local revenues including other money returned to a city or village by the state under the state constitution of 1963 and statutes of the state, from funds that can be raised by taxation in cities and villages for street purposes within the limitations of the state

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constitution of 1963 and statutes of this state, from special assessments, or from any other source.

(6) Money returned under this section to a city or village shall be expended on the major and local street systems of that city or village. However, the first priority shall be the major street system. Money returned for expenditure on the major street system shall be expended in the priority order provided in subsection (3) except that surplus funds may be transferred for preservation of the local street system. Major street funds transferred for use on the local street system shall not be used for construction but may be used for preservation. A city or village shall not transfer more than 50% of its annual major street funding for the local street system unless it has adopted and is following an asset management process for its major and local street systems and adopts a resolution with a copy to the department setting forth all of the following:

(a) A list of the major streets in that city or village.

(b) A statement that the city or village is adequately maintaining its major streets.

(c) The dollar amount of the transfer.

(d) The local streets to be funded with the transfer.

(e) A statement that the city or village is following an asset management process for its major and local street systems.

(7) A city or village that has not adopted an asset management plan shall obtain the concurrence of the department to transfer more than 50% of its major street funding to its local street system. The department may provide for pilot projects that would allow a city or village that has adopted an asset management plan under subsection (6) to combine their local and major street funds into 1 street fund and to submit a single report to the department on the expenditure of funds on the local and major street systems.

(8) Not more than 10% per year of all of the funds returned to a city or village from any source for the purposes of this section may be expended for administrative expenses. A city or village that expends more than 10% for administrative expenses in a year is subject to section 14(5).

(9) In each city and village to which funds are returned under this section, the responsibility for street preservation and the development, construction, or repair of off-street parking facilities and construction or repair of street lighting shall be coordinated by a single administrator to be designated by the governing body who shall be responsible for and shall represent the municipality in transactions with the department pursuant to this act.

(10) Cities and villages may provide for consolidated street administration. A city or a village may enter into an agreement with other cities or villages, the county road commission, or with the state transportation commission for the performance of street or highway work on a road or street within the limits of the city

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or village or adjacent to the city or village. The agreement may provide for any of the contracting parties to perform the work contemplated by the contracts including services and acquisition of rights of way, by purchase or condemnation in its own name. The agreement may provide for joint participation in the costs if appropriate.

(11) Interest earned on funds returned to a city or a village for purposes provided in this section shall be credited to the appropriate street fund.

(12) In addition to the financial compliance audits required by law, the department may conduct performance audits and make investigations of the disposition of all state funds received by cities and villages for transportation purposes to determine compliance with the terms and conditions of this act. Performance audits shall be conducted according to government auditing standards issued by the United States general accounting office. The department shall develop all performance audit procedures and reporting requirements sufficient to determine whether funds expended under this section were expended in compliance with this act by September 1, 2012 and shall report to the transportation committees of the senate and house of representatives no later than October 1, 2012 on the additional audit procedures and reporting requirements. The audit procedures shall include a review of the road fund balance of the city or village. The cities and villages shall report their road fund balances by fund balance component. The department shall assist cities and villages to ensure that road fund balances are consistently classified and are in compliance with the audit and reporting requirements of this section. The department shall provide notice to cities and villages of the standards to be used for audits under this subsection prior to the fiscal year in which the audit is conducted. The department shall notify cities and villages of any subsequent changes to the standards. Cities and villages shall make available to the department the pertinent records for the audit. Performance audits may be performed at the discretion of the department or upon receiving a request from the speaker of the house of representatives or the senate majority leader.

(13) WITH THE APPROVAL OF THE DIRECTOR OF THE DEPARTMENT, A CITY MAY USE UP TO 20% OF THE AMOUNT RECEIVED BY THAT CITY UNDER THIS SECTION FOR PUBLIC TRANSIT PURPOSES IF MORE THAN 10,000,000 PASSENGERS USED PUBLIC TRANSIT WITHIN THAT CITY DURING THE PREVIOUS FISCAL YEAR.

(14) ~~(13)~~—As used in this section:

(a) "Administrative expenses" means expenses that are not assigned under this section, including, but not limited to, specific road construction or maintenance projects, and are often referred to as general or supportive services. Administrative expenses do not include net equipment expense, net capital outlay, debt service principal and interest, or payments to other state or

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local offices that are assigned, but not limited to, specific road construction projects or maintenance activities.

(b) "Equivalent major mileage" means the sum of 2 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.

(c) "Population" means the population according to the most recent statewide federal census as certified at the beginning of the state fiscal year, except that, if a municipality has been newly incorporated since completion of the census, the population of the municipality for purposes of the distribution of funds before completion of the next census shall be the population as determined by special federal census, if there is a special federal census, and if not, by the population as determined by the official census in connection with the incorporation, if there is such a census and, if not, by a special state census to be taken at the expense of the municipality by the secretary of state pursuant to section 6 of the home rule city act, 1909 PA 279, MCL 117.6.>>