House
Legislative
Analysis
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TRANS. FUND DISTRIBUTION

Senate Bill 461 (Substitute H-5)
First Analysis (6-30-93)

Sponsor: Sen. Doug Carl
Senate Committee: Transportation & Tourism
House Committee: Transportation

THE APPARENT PROBLEM:

As part of a comprehensive transportation funding package, Public Acts 231 and 233 of 1987 created the transportation economic development program, which is used to help support Michigan's economy by providing needed transportation improvements on state highways, city streets and county roads where economic development opportunities exist. Public Act 231 established the Transportation Economic Development Fund, and sets forth general criteria for funding projects in urban areas, allocates sums to various categories of projects and provides for the issuance of bonds to help fund the program. Public Act 233 specifies general criteria for funding projects in rural areas. Transportation officials charged with authorizing how money is to be distributed from the fund have discovered in recent years that some categories established under the acts may not be providing for the best use of fund dollars. For instance, so-called "category B" funds--which are used to pay for improvements to county roads so that they can be adopted into the state trunk line system--apparently have been used for only one project in the last two years, even while the demand for so-called "category A" funds--which are used for economic development transportation projects in certain "targeted industries"--remains strong and continues to increase. In fact, it has come to be expected that many requests for category A grants by locals will be refused simply because not enough money is available to meet all requests, which requires department officials to closely scrutinize requests to determine which projects would be most beneficial to increasing economic development in the state. On top of this, some people believe fund money could be used effectively for economic development projects in certain areas of the state that previously relied on certain industries but that, due to economic changes or simply because those industries have moved elsewhere, now depend more on other industries. Unfortunately, language in Public Act 231 does not specify whether fund money may be used for redevelopment projects in certain targeted industries that have experienced or could experience a loss of jobs. Legislation has been introduced that would correct these and various other concerns related to the use of money in the Transportation Economic Development Fund.

THE CONTENT OF THE BILL:

The bill would amend the Transportation Economic Development Fund Act to revise the way certain funds may be distributed under the act, and to make various other changes. Specifically, the bill would do all of the following:

* Require that an economic development project within a targeted industry (the category A funds) be related to either 1) an opportunity for permanent job creation or retention and an increase in the local tax base, or 2) contributing to the economic development of areas that had experienced or had significant potential to experience job loss. (The first of these criteria applies under current law.) Under the second provision, the State Transportation Commission would have to adopt criteria for applications and evaluations of projects applied for under this category within 90 days after the bill's effective date.

* Remove from TEDF funding eligibility projects that would result in the addition of county roads or city or village streets to the state trunk line system. (Currently, these projects may receive up to 50 percent of the TEDF's balance after the first $7.5 million distribution of the fund.)

* Provide for the funding of rural and small town road development projects, which currently are funded by the TEDF under Public Act 233 of 1987, which would be repealed by the bill. (Essentially,

none of this language is new but merely would replace the language currently found in Public Act 233.)

* Reduce from 25 percent to 20 percent the required local match for projects funded through the TEDF.

* Add "mining" to the list of targeted industries to which an eligible economic development road project would have to relate. (Currently, they must relate to agriculture and food processing, tourism, forestry, high technology research, manufacturing, or office centers of at least 50,000 square feet).

The bill is tie-barred to House Bill 4257, which was signed into law on April 14 of this year as Public Act 20. (This act deleted a March 31, 1993, sunset date on the allocation of $36,775,000 annually from the Michigan Transportation Fund for deposit into the TEDF or to pay the debt service on bonds issued to fund TEDF projects.)

MCL 247.903 et al.

HOUSE COMMITTEE ACTION:

The House Transportation Committee adopted Substitute H-5 for the bill that is nearly identical to the Senate-passed version of the bill, except the House substitute does not include certain language that would limit the amount of TEDF funds that could be distributed cumulatively within a single county for economic development road projects in any of the act's targeted industries (so-called "Category A" funds). In addition, the House substitute does not include a provision that would require 50 percent of the percentage of funds allocated to counties with 1,750,000 or more people to be applied to the maintenance and repair of existing roadways within the city of Detroit. And finally, the House substitute would include "mining" as one of the targeted industries to which an economic development road project would have to relate to be eligible for TEDF monies.

FISCAL IMPLICATIONS:

The Department of Transportation says the bill would not affect state budget expenditures, except that it would give the department more flexibility in determining where to allocate monies from the TEDF. Local governments, however, would save money under the bill as the amount they would have to pay to match state funds provided via the fund would be lowered from 25 percent to 20 percent. (6-25-93)

ARGUMENTS:

For:

The bill would make the following changes to the acts that govern the Transportation Economic Development Fund:

* Public Act 231 of 1987, which is the primary act governing how the TEDF may be utilized, currently allows fund monies to be used for projects that will result in the addition of county roads or city and village streets to the state trunk line system, but MDOT officials say that this category of funding has been used little over the past couple of years as few roads and streets have been adopted into the state trunkline system. These officials believe fund dollars could be better used in other ways. The bill not only would eliminate the category of funds that may go to state trunkline additions (known as "category B" funds), but would expand the uses within the so-called "category A" funding group, also known as "targeted industries." The act currently permits funds to be used for economic development road projects relating to industries such as agriculture, manufacturing, tourism, office centers, and certain others, but does not specify whether fund monies may be used for redevelopment projects within any of those industries. Because some areas of the state have experienced loss of industry and jobs (i.e., plant closings by vehicle manufacturers or the closing of the Wurtsmith Air Force Base in Oscoda due military cutbacks at the federal level, to name just two examples), MDOT officials believe TEDF monies could be used to redevelop the infrastructure in these areas so they could be reused in other ways, which hopefully would attract other business and industry to the state. The bill would give MDOT officials the flexibility to approve the use of TEDF funds for such projects.

* The TEDF is currently governed by two separate acts, Public Acts 231 and 233 of 1987, where the latter generally authorizes funding for rural and small town development projects and the former provides for all other categorical funding. Apparently, the legislature enacted Public Act 233 late in the 1987 legislative session to provide for rural projects to be funded by the TEDF, instead of simply amending Public Act 231 (otherwise known

as the TEDF Act) to include them among the different categories eligible for funding in that act. By repealing Public Act 233 and adding almost the same language to Public Act 231 (any differences are simply meant to ensure that the act mirrors provisions found in the federal act that provides transportation funds to the states, known as ISTEA), the bill would simplify administration of the TEDF by state officials.

* One of the specific changes made at the federal level under ISTEA provides that local governments need provide only 20 percent matching funds in order to receive federal/state transportation monies. Michigan's TEDF Act currently requires locals to provide a 25 percent match. By lowering this matching requirement to 20 percent, the bill would make it easier for local governments to gain access to federal and state transportation dollars to make badly-needed road repairs without having to ask their voters to approve larger transportation funding proposals.

* The bill would include "mining" as one of the targeted industries within "category A" funding projects that would be eligible to receive TEDF monies. Mining contributes to a significant part of the economic growth of Michigan's Upper Peninsula, and has the potential to provide even greater returns if the areas in which it occurs were fully developed to allow mined goods to be transported to market more quickly and efficiently. Adding this industry to the list of eligible projects merely would permit MDOT officials to consider it when deciding on which projects to approve for TEDF funding.

POSITIONS:

The Department of Transportation supports the bill. (6-26-93)

The Michigan County Road Association supports the bill. (6-28-93)