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UNRESTRICTED LOCAL TRANSPORTATION FUNDS DISTRIBUTION FORMULA

House Bill 4182 as introduced First Analysis (4-13-99)

Sponsor: Rep. Gloria Schermesser
Committee: Transportation

THE APPARENT PROBLEM:

Under current law, local officials in cities and villages must spend 75 percent of the transportation funds returned to them by the state on the construction of major streets in their jurisdiction (the streets most heavily traveled), and 25 percent on their local streets (although the local street expenditures must be matched with local revenue). This restriction on the use of funds sometimes has a deleterious result: those streets most needing repair are not able to be given priority attention.

Some have argued that the restriction on major and local streets should be eased, so that local officials can direct road construction and repair funds to the roadways where those funds are most needed.

THE CONTENT OF THE BILL:

House Bill 4182 would amend the Michigan Transportation Fund act to ease some of the restrictions on the ways local governments use their major street and local street grants, distributed by the state from the Michigan Transportation Fund. Specifically, the bill would revise two provisions in section 13 of the act: the percentage caps on transfers from major to local street funds, and the out-year transfer assurance. Generally, House Bill 4182 would allow a city or village to maintain and improve its local street system using major street money, if its local match on local street projects was fulfilled, and if the local government notified the state.

Specifically, House Bill 4182 would require that the money distributed to cities and villages under section 13 be used on the major and local street systems of those cities and villages, and that the first priority be the major street system. However, money designated for the major street system could be used for the local street system if matched equally by local revenues and construction expenditures. If a city or village

transferred more than 25 percent of its major street funding to the local street system, the local government would be required to adopt a resolution and send a copy to the transportation department. That resolution would include (1) a list of the major streets, (2) a statement that the major streets are adequately maintained, (3) the amount of the transfer, and (4) the local streets to be funded with the transfer.

Further, the bill retains language that specifies that when a local government forgoes or exceeds a shift of major street money to its local street system in any given year, then major street money received during the next succeeding two years may be transferred for expenditure on the local system until the amount so authorized for transfer was fully expended.

The bill also would leave unchanged the requirements in this section that no more than 10 percent of the returned funds be used for administrative expenses; that a single administrator be designated locally to coordinate projects; and, that interest earned on funds returned be credited to the appropriate street fund. The bill would also continue to allow cooperative agreements between state and local government for consolidated street administration.

MCL 247.663

BACKGROUND INFORMATION:

Under current law, cities and villages receive funds for the maintenance and construction of some roads within their jurisdictions (including partial reimbursement for snow removal in areas with more than 80 inches annually). The money is allotted by a weighted formula comprising population and road miles: specifically, the amount is returned 60 percent 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 percent 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 amount of each allotment is determined by adding the state-certified trunk line miles (multiplied by two) plus the major local street miles (multiplied by a factor that depends on population, and that ranges from a low of 1.0 to a high of 2.1 increased successively by 0.1 for each 160,000 population increment over 320,000).

Seventy-five percent of the amount returned is used by cities and villages for the major street system: to fund bond repayment; highway projects jointly undertaken with the state transportation department; loan repayment; and the maintenance, improvement, construction, reconstruction, acquisition, and extension of their major street systems. Up to five percent of the funds can be used for roadside parks and motor parkways. The remaining amount returned is allocated using the same formula, and can be used for the same purposes, but for the local street system, except state funds expended for local streets must be matched from local revenues. Current law further requires that no more than 25 percent of the major street revenue may be used annually for local streets, although an additional 15 percent may be used in an emergency or with the permission of the Department of Transportation. Further, when a city does not transfer major street funds to the local street system in any given year, the city may transfer the appropriate matched amount from the major street allotment during the two subsequent years.

FISCAL IMPLICATIONS:

The House Fiscal Agency notes that House Bill 4182 would amend Section 13 of Public Act 51 of 1951 by eliminating some restrictions on the way cities and villages can use their formula distributions from the Michigan Transportation Fund (MTF). Specifically, the bill would eliminate some limitations on the transfer of major street funds to the city or village's local street system. The bill also provides for certain reporting requirements for a city or village that does transfer more than 25 percent of major street funds to the local street system. The bill would have no overall fiscal impact since it does not affect the MTF distribution formula or the total MTF distribution. (3-23-99)

ARGUMENTS:

For:

Local officials can best make repair and maintenance decisions concerning local roads. This legislation would allow them to do so, since it eliminates some of the restrictions on the way local governments spend their transportation funds. The restrictions would be lifted if a village or city sent a resolution to the Department of Transportation that includes a list of major streets, a statement that the major streets are adequately maintained, the amount of the transfer, and the local streets to be funded with the transfer. Although the legislation enables greater flexibility in decision-making, it also requires a written rationale if local priorities direct funding away from the region's major streets. It is important to emphasize what the bill would not do: it would not eliminate local match requirements; it would not change the jurisdiction of roads; it would not change the road funds allocation formula; it would not change the categories of roads, and it would not destroy the partnership between state and local road agencies. All the bill does is allow local governments greater flexibility when they direct their road funds to the roads that most need repair.

Against:

This legislation is premature. The allocation system for state transportation funds that is currently in use will expire later this year, on September 30, 1999. The allocation system is a set of formulas for state and local road agencies. According to the *Gongwer Michigan Report*, the governor appointed a nine-member study committee in February 1999, to assist the administration and the legislature to revise the structure for financing transportation in Michigan. The governor also intends to appoint a 24-member citizens advisory committee to review the work of the study committee. Although this bill would not alter the funding formula, or change road jurisdictions or road categories, it would be wise to await the recommendations of the governor's study committees, and then take those recommendations into account in a more comprehensive approach to transportation funding reform, rather than taking a piecemeal approach to the issue of transportation funding.

POSITIONS:

The Michigan Municipal League supports the bill. (3-24-99)

The County Road Association of Michigan supports the bill. (3-24-99)

Sumpter Township supports the bill. (3-17-99)

The City of Lincoln Park supports the bill. (3-15-99)

Analyst: J. Hunault

■This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.