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BILL ANALYSIS

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Senate Bill 334 (as enrolled)
Sponsor: Senator Michael Switalski
Senate Committee: Transportation
House Committee: Appropriations

PUBLIC ACT 9 of 2004

Date Completed: 3-18-04

RATIONALE

Public Act 51 of 1951 provides for the distribution of money from the Michigan Transportation Fund (MTF). Under the Act, the State "returns" MTF funds to cities and villages for specific purposes in a particular order of priority. The purposes include the construction and maintenance of a city's or village's major street system, followed by the construction and maintenance of the city's or village's local street system. The Act provided that a city or village could not spend MTF funds for the construction of local streets unless the money was matched by local revenues. Also, funds designated for the major street system could be used for the local street system, but the money had to be matched equally by local revenue expenditures on the major street system or State trunk line highways.

Some municipalities, however, do not have enough money to meet the match requirement for projects on local streets. It was suggested that cities and villages should be allowed to spend major street system funds on a local street system without matching expenditures, in order to carry out preservation projects.

CONTENT

The bill amended Public Act 51 of 1951 to provide that surplus money returned from the Michigan Transportation Fund for expenditure on the major street system may be spent on preservation of the local street system, without regard to the amount of local revenue spent, until January 1, 2009.

(The Act defines "preservation" as an activity undertaken to preserve the integrity of the existing roadway system. The term does not include new construction of highways, roads, or bridges. Preservation does include routine and/or preventive maintenance, capital preventive treatments, reconstruction, resurfacing, restoration, rehabilitation, and other specified activities.)

The bill specifies that major street funds transferred for use on the local street system may not be used for construction.

Under the bill, beginning January 1, 2009, money returned to a city or village for expenditure on the major street system may not be transferred or spent for use on the local street system except to the extent matched by local revenues spent by the city or village on the major street system or State trunk line highways. (For purposes of this provision, "local revenue" means revenue other than MTF revenue and includes General Fund revenue and special assessments.)

Under the Act, if a city or village transfers more than 25% of its major street funding for the local street system, the city or village must adopt a resolution and include in it certain information (e.g., the amount of the transfer and the local streets to be funded). Under the bill, the resolution also must include a statement that the city or village is following an asset management process for its major and local street systems.

The bill requires the Michigan Department of Transportation (MDOT) to prepare a report, on or before October 1, 2008, listing the following information by city and village:

-- Amounts transferred between major street fund and local street fund.
-- Amounts of local revenue spent on the major street system.

The report must include fiscal years from January 1, 2002, through June 30, 2008. The report must analyze the extent to which the bill affected city and village transfers from major street funds to local street funds, and the amount of local revenue spent on city or village major streets and State trunk lines.

Additionally, the bill deleted various references to "improvement", "maintenance", and "reconstruction" and instead refers to "preservation". The bill made this change in the provisions that spell out the purpose of MTF funds returned to cities and villages, which had referred to "...the maintenance, improvement, construction, reconstruction, acquisition, and extension" of the major and local street systems. Also, under the bill, money distributed to each city and village for the preservation and improvement of its local street system under the Act represents the total responsibility of the State for local street system support. The Act had referred to "maintenance", rather than "preservation".

MCL 247.663

BACKGROUND

Previously, Public Act (PA) 51 of 1951 provided that not more than 25% per year of the amount returned to a city or village for use on the major street system could be spent on a local street system. Evidently, this restriction sometimes meant that the streets most needing repair could not be given the attention they required. To address this, Public Act 54 of 1999 amended PA 51 to delete the restriction on the percentage of MTF money for major street systems that a city or village could spend on a local street system; require that money returned to a city or village from the MTF be spent on the major and local street systems of that city or village with the first priority being the major street system; and require a city or village that transfers more than 25% of its major street money to a local street system to adopt a resolution on the use of the funds.

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

By eliminating the local match requirement for the use of major street system funds on local street system maintenance and preservation projects, the bill will give cities and villages flexibility in the use of money allocated to major street systems. This will alleviate a financial burden on local governments without costing the State anything. At the same time, the bill will help support more road work at the local level and put people in communities to work on necessary preservation projects.

Supporting Argument

In conjunction with legislation establishing an "asset management program", Public Act 498 of 2002 amended PA 51 to enact a single definition of the term "maintenance" (which previously had been defined in three separate ways), as well as use and define the term "preservation". Preservation specifically excludes the construction of new streets and bridges, but encompasses most other roadway projects, including maintenance. By eliminating the local match only for preservation projects, the bill continues to require cities and villages to use local revenue in order to match State funding for projects involving new road construction. This requirement ensures that the State does not pay the full cost of building new roads that might contribute to urban sprawl. Referring to "preservation" instead of "maintenance", "improvement", or "reconstruction" also brings consistency to the Act and enhances the distinction between preservation and construction.

Legislative Analyst: Julie Koval

FISCAL IMPACT

The bill will not have any fiscal impact on the State. Restricted State transportation revenue in the Michigan Transportation Fund is distributed to road agencies (Michigan Department of Transportation, county road commissions, incorporated cities and villages) pursuant to formulae contained in Public Act 51 of 1951. The bill does not change the PA 51 formulae for distribution of MTF revenue to these road agencies. Public Act 51 also contains formulae to distribute MTF revenue among individual cities and villages based on various criteria. The MTF allocation received by cities and villages is divided 75% for work on the major street system and 25% for work on the local street system. The bill might affect how a city or village spends its major street system and local street system funds. The bill changes what funds are eligible to be transferred from the major street system to the local street system and also the use of those funds, after they have been transferred.

The Act limits the amount of MTF funding that a city or village may transfer from its major street system to its local street system. As a rule, cities and villages are allowed to transfer only an amount equal to the non-MTF revenue (i.e., local-generated revenue) spent on major streets or State trunk line highways, regardless of the intended use of the transferred funding. The bill allows cities and villages to transfer MTF funding from their major street allocation to their local system without regard to the amount of non-MTF revenue spent on major streets or state trunk line highways, if the money transferred is to be spent on preservation projects. The bill continues the annual limitation on the amount of funds that may be transferred, but provides additional requirements if the cap is exceeded. Under the bill, in order to transfer more than 25%, a city or village must adopt and follow an asset management process for its major and local street system.

The bill allows cities and villages to transfer only "surplus" major street funds to local street preservation projects. "Surplus" funds are those resources available after all major street funding priorities have been met.

The bill could result in additional investment in local street preservation projects by allowing the transfer of major street funding to the local system. At the same time, the bill could decrease the amount of MTF investment in major street projects, either preservation or construction. However, it is important to note the bill's restriction that only "surplus" major street funds may be transferred for local street preservation projects. This suggests that there is no current need for the funding on the major street system, either construction or preservation projects. In other words, the major street funds will remain unused until the city or village identifies an eligible project.

The bill also could result in a decreased level of local street construction investment. By effectively prohibiting the transfer of major street funds for local street construction projects, the bill could lead to a reduction in local, non-MTF revenue support for major and local street investment.

Fiscal Analyst: Craig Thiel

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