



Senate Fiscal Agency
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BILL ANALYSIS



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Senate Bill 1132 (Substitute S-2 as passed by the Senate)
Senate Bill 1192 (Substitute S-2 as passed by the Senate)
Sponsor: Senator Mike Prusi (S.B. 1132)
Senator Jud Gilbert, II (S.B. 1192)
Committee: Transportation

Date Completed: 4-20-06

RATIONALE

Federal legislation authorizing financial aid to municipalities for projects to improve local road networks frequently requires the affected local government to provide a certain amount in matching funds. Municipalities sometimes are unable to contribute the required amount during tight economic times, leaving the Federal dollars unused and necessary road work undone. It has been suggested that the State establish a grant program, financed through the sale of bonds, to assist local governments in meeting the match requirements.

CONTENT

Senate Bill 1132 (S-2) would amend Public Act 51 of 1951, the Michigan Transportation Fund (MTF) law, to create within the State Trunk Line Fund a program to provide grants to municipalities and other local agencies to match Federal aid projects during fiscal year (FY) 2005-06 or FY 2006-07. Funds deposited into the match program in the aggregate could not exceed \$80.0 million.

Senate Bill 1192 (S-2) would amend the MTF law to do the following:

- Prescribe eligibility criteria for a grant.
- Require the Michigan Department of Transportation (MDOT) to submit to the Legislature reports on projects funded through the program.
- Require MDOT to determine additional eligibility criteria.

-- Limit the amount of an individual grant to 25% of the amount of Federal funds available for the project.

The bills are tie-barred to each other. They are described below in further detail.

Senate Bill 1132 (S-2)

The "local federal match program" would be created for the purpose of receiving the proceeds of bonds issued under Section 18b of the MTF law that are to be repaid under Section 11(1)(a)(iii) (described below).

The bill specifies that the Legislature intends that funds in the proposed match program be used for any of the following:

- Projects that were the subject of a Federal appropriation in Public Law 109-59 (the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users, or SAFETEA-LU) or Public Law 105-78 (the Transportation Equity Act for the 21st Century, or TEA-21) and had been designated as high-priority road and bridge projects that had received earmarks in the Federal budget, as long as those projects were under construction or let for bid by the end of FY 2006-07.
- Projects scheduled to be under construction during FY 2006-07 and that could be advanced to FY 2005-06.
- Any project scheduled for any fiscal year after FY 2006-07 that could be advanced and under construction or let for bid during FY 2005-06 or FY 2006-07.

(Section 18b authorizes the State Transportation Commission to borrow money and issue notes or bonds for specified purposes. Section 11(1)(a)(iii) requires money in the State Trunk Line Fund to be appropriated to MDOT for the payment of the principal and interest on bonds issued under Section 18b for transportation purposes other than comprehensive transportation purposes (the movement of people and goods by conveyance that provides general or special service to the public) and the payment of contributions of the State Transportation Commission to be made pursuant to contracts entered into under Section 18d, which contributions are pledged to the payment of principal and interest on bonds issued under that section and contracts executed under it.

Under Section 18d, the State Transportation Commission, a county road commission, and a city or village may enter into a contract providing for the construction or reconstruction of highways under the jurisdiction and control of one of the contracting parties to the extent that they are otherwise authorized by law to spend money on the highways, roads, or streets, that provides for allocation of the share of the cost to be borne by MDOT or a county road commission, city, or village in annual installments for up to 30 years.)

Senate Bill 1192 (S-2)

Funds received under the local Federal match program would have to be granted to municipalities and other local road agencies to match Federal aid projects as provided in the bill. The local municipality or agency would have to submit projects to MDOT. The Department would have to review the submittals and apply criteria that took into account the needs of highway, road, and street systems, and an equitable allocation of available funds considering the project's geographic location. If the projects met the criteria, MDOT would have to award grants to the extent of available funds.

Projects selected for funding would have to meet all of the following criteria:

- The project would have to be under construction or let for bid by September 30, 2007.

- The applicant would have to have identified all of the necessary funding to complete the project.
- The project would have to be for the opening, widening, improvement, construction, and reconstruction of a Federal aid-eligible road or street, including the work incidental to that opening, widening, improvement, construction, and reconstruction.

All bond proceeds not used to fund grants awarded by September 30, 2007, would have to be appropriated for the purposes described in Section 11(1)(f).

(Under Section 11(1)(f), State Trunk Line Fund money must be appropriated to MDOT for the opening, widening, improvement, construction, and reconstruction of State trunk line highways and bridges, including the acquisition of necessary rights of way and the work incidental to that opening, widening, improvement, construction, or reconstruction. Money in the Fund not otherwise appropriated, distributed, determined, or set aside by law must be used for the construction or reconstruction of the interstate highway system to the extent necessary to match Federal aid funds as they become available for that purpose; and for the construction and reconstruction of the State trunk line system.)

Beginning in 2007, MDOT would have to submit to the Legislature by each February 1 a written report containing the balance remaining in the program, a list of all projects currently funded under the program, a list of all Federal high-priority projects eligible for funding under the program, and a list of pending funding requests. Additionally, MDOT would have to submit a report within 30 days after the program had spent \$40.0 million. The report would have to contain the same information (except the balance in the program).

The Department would have to provide additional criteria for selecting the remaining projects to be funded in a fiscal year within 30 days after MDOT issued the report required after the expenditure of \$40.0 million. In determining the additional criteria to apply to the remaining funds, MDOT would have to consult with interested local road agencies, the Michigan Municipal League, and the County Road Association of

Michigan, and would have to consider any recommendations those entities made. The Department would have to apply those criteria that distributed the remaining funds most equitably, considering the funded projects' geographic location. In applying the criteria, MDOT would have to take into account the needs of highway, road, and street systems, as well as an equitable allocation of available funds considering the geographic location of the project.

MCL 247.661e (S.B. 1132)
Proposed MCL 247.661f (S.B. 1192)

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

Many municipalities would like to take advantage of Federal funding to complete critical road, bridge, and transit projects, but a local match often is required. Budget constraints sometimes make it difficult for local governments to meet the match requirement. The proposed grant program would provide the funding necessary to gain access to Federal dollars, enabling municipalities and local road agencies to perform projects that would improve the State's transportation infrastructure and facilitate economic development. The \$80.0 million specified in the bill would result in access to \$320.0 million in Federal funding. The projects that could be financed with this money reportedly would generate more than 7,000 construction jobs over the next two years. Additionally, the bill could enhance job creation efforts at the local level, particularly in communities not located directly on a State trunk line or interstate highway. Improving local road networks, which connect to those major arteries, could result in economic benefit to those communities.

Legislative Analyst: Julie Koval

FISCAL IMPACT

If the full \$80.0 million of authorized bonds were issued, the bills would cost the State approximately \$7.2 million annually and up to \$110.0 million over the next 15 years from the State Trunk Line Fund in debt service costs. Debt service costs are the

first priority of expenditures from the State Trunk Line Fund. Increasing debt service costs of the State Trunk Line Fund would mean that less funding would be available for the opening, widening, improvement, construction, and reconstruction of State trunk line highways and bridges, for rail grade crossings, and for operating expenses of the Fund.

For local units of government, the bills would result in \$400.0 million in additional funds for road and street projects. Of the funding, \$80.0 million would come in the form of grants from the State Trunk Line Fund and \$320.0 million would come from the Federal government.

The Department would incur administrative costs for implementing the local Federal match program and meeting the proposed reporting requirements.

Fiscal Analyst: Jessica Runnels

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.