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BILL ANALYSIS

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Senate Bill 670 (as reported without amendment)
Sponsor: Senator Randy Richardville
Committee: Transportation

Date Completed: 9-2-09

RATIONALE

Transportation funding in Michigan relies heavily on motor fuel taxes and vehicle registration fees. In recent years, the revenue from those sources has not kept pace with the costs of maintaining and improving the State's roads and highways. A number of commissions and independent bodies have proposed ways to realign transportation funding with the expected costs and, most recently, a task force was convened under Public Act 21 of 2007 to examine alternative means of funding transportation infrastructure in the State. The task force submitted its final report to the Governor on November 10, 2008. Among its recommendations, the task force suggested various ways that transportation funds could be used more efficiently, including a proposal that the Michigan Transportation Fund (MTF) be reclassified as a trust fund to take advantage of slightly higher interest rates. Some have suggested that the task force's recommendation be put into statute.

CONTENT

The bill would amend the MTF law to classify the MTF as a trust fund, and to prohibit income or profit derived from the investment of money in the Fund from being used for administrative expenses of the Michigan Department of Transportation.

Under the law, the MTF is maintained in the State Treasury as a separate fund, and money received from the collection of motor fuel taxes, money received under the Motor Carrier Act, and money received under certain sections of the Motor Fuel Tax Act must be deposited into the MTF. In addition, income or profit from the investment or money in the Fund must be deposited into the Fund.

MCL 247.660

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
As a trust fund, the MTF would qualify for slightly higher interest rates, increasing the return on money in the Fund. Since the MTF is much larger than many other trust funds managed by the State Treasurer, the benefits of earning a higher interest rate could be substantial, as much as an additional $10 million a year by some estimates. That money could be put to use addressing the transportation infrastructure needs of the State.

Opposing Argument
Reclassifying the MTF as a trust fund would be inconsistent with the Management and Budget Act and with generally accepted accounting principles, specifically those developed by the Governmental Accounting Standards Board (GASB). The MTF contains money collected for the State's own use, while a trust fund typically is used to hold funds in reserve for a separate entity. The terms of the trust dictate how and to whom the money is to be disbursed.

In addition, it is questionable whether there would be substantial benefits to the reclassification, particularly given the current low interest rates. The State Treasurer already seeks to obtain the best possible rate of return on money in the MTF, and has shown the ability to manage those funds prudently. There is little reason to expect that reclassifying the Fund would have a substantial impact. Regardless, the bill would not help to address the basic shortfall that the MTF faces in coming years.

Legislative Analyst: Curtis Walker

FISCAL IMPACT

The bill would potentially increase State expenses. If the Michigan Transportation Fund were classified as a trust fund, its ability to provide revenue for intra-fund borrowing could be restricted. The School Aid Fund is perhaps the most significant borrower within the State's intra-fund borrowing pools. Reducing the available revenue to the School Aid Fund would potentially increase the cost of meeting that Fund's cash flow needs.

Intra-fund borrowing rates are capped by statute, but given current market conditions, they are currently near zero. As a result, the bill's prohibition on using investment earnings for administrative expenses would likely have a negligible effect on the Department's revenue to cover administrative expenses as well as the distribution of revenue to other expenditure categories in the MTF.

Fiscal Analyst: David Zin