

SUBSTITUTE FOR
HOUSE BILL NO. 5007

A bill to amend 1951 PA 51, entitled

"An act to provide for the classification of all public roads, streets, and highways in this state, and for the revision of that classification and for additions to and deletions from each classification; to set up and establish the Michigan transportation fund; to provide for the deposits in the Michigan transportation fund of specific taxes on motor vehicles and motor vehicle fuels; to provide for the allocation of funds from the Michigan transportation fund and the use and administration of the fund for transportation purposes; to promote safe and efficient travel for motor vehicle drivers, bicyclists, pedestrians, and other legal users of roads, streets, and highways; to set up and establish the truck safety fund; to provide for the allocation of funds from the truck safety fund and administration of the fund for truck safety purposes; to set up and establish the Michigan truck safety commission; to establish certain standards for road contracts for certain businesses; to provide for the continuing review of transportation needs within the state; to authorize the state transportation commission, counties, cities, and villages to borrow money, issue bonds, and make pledges of funds for transportation purposes; to authorize counties to advance funds for the payment of deficiencies necessary for the payment of bonds issued under this act; to provide for the limitations, payment, retirement, and security of the bonds and pledges; to provide for appropriations and tax levies by counties and townships for county roads; to

authorize contributions by townships for county roads; to provide for the establishment and administration of the state trunk line fund, local bridge fund, comprehensive transportation fund, and certain other funds; to provide for the deposits in the state trunk line fund, critical bridge fund, comprehensive transportation fund, and certain other funds of money raised by specific taxes and fees; to provide for definitions of public transportation functions and criteria; to define the purposes for which Michigan transportation funds may be allocated; to provide for Michigan transportation fund grants; to provide for review and approval of transportation programs; to provide for submission of annual legislative requests and reports; to provide for the establishment and functions of certain advisory entities; to provide for conditions for grants; to provide for the issuance of bonds and notes for transportation purposes; to provide for the powers and duties of certain state and local agencies and officials; to provide for the making of loans for transportation purposes by the state transportation department and for the receipt and repayment by local units and agencies of those loans from certain specified sources; and to repeal acts and parts of acts,"

by amending sections 12 and 13 (MCL 247.662 and 247.663), section 12 as amended by 2010 PA 143 and section 13 as amended by 2010 PA 261.

THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

1 Sec. 12. (1) The amount distributed to the county road
2 commissions shall be returned to the county treasurers in the
3 manner, for the purposes, and under the terms and conditions
4 specified in this section. The department and the county road
5 association of Michigan shall jointly develop incentives for
6 counties to establish statewide purchasing pools for the more
7 efficient use of Michigan transportation funds.

8 (2) Each county road commission shall be reimbursed in an
9 amount up to \$10,000.00 per year for the sum paid to a licensed
10 professional engineer employed or retained by the county road
11 commission in the previous year. The sum shall be returned to each
12 county road commission certified by the state transportation
13 department as complying with this subsection regarding the

1 employment of an engineer.

2 (3) An amount equal to 1% of the total amount returned to the
3 county road commissions from the Michigan transportation fund
4 during the prior calendar year shall be withheld annually from the
5 counties' November monthly distribution provided for in section 17,
6 and the amount shall be returned to the county road commissions for
7 snow removal purposes as provided in section 12a.

8 (4) An amount equal to 10% of the total amount returned to the
9 county road commissions from the Michigan transportation fund shall
10 be returned to each county road commission having county primary,
11 or county local road, or both, mileage in the urban areas as
12 determined pursuant to section 12b. This sum shall be distributed
13 pursuant to section 12b. The return shall be in addition to the
14 amounts provided in subsections (6) and (7) and for the purposes
15 stated in those subsections.

16 (5) An amount equal to 4% of the total amount returned to the
17 county road commissions from the Michigan transportation fund shall
18 be returned to the county road commissions in the same percentages
19 as provided in subsection (7). All money returned to the county
20 road commissions as provided in this subsection shall be expended
21 by the county road commissions for the preservation, construction,
22 acquisition, and extension of county local road systems and shall
23 be in addition to the amounts provided in subsection (7).

24 (6) Seventy-five percent of the remainder of the total amount
25 to be returned to the counties shall be expended by each county
26 road commission for the preservation, construction, acquisition,
27 and extension of the county primary road system, including the

1 acquisition of a necessary right of way for the system, work
2 incidental to the system, and a roadside park or motor parkway
3 appurtenant to the system, and shall be returned to the counties as
4 follows:

5 (a) Three-fourths of the amount in proportion to the amount
6 received within the respective county during the 12 months next
7 preceding the date of each monthly distribution, as specific taxes
8 upon registered motor vehicles under the Michigan vehicle code,
9 1949 PA 300, MCL 257.1 to 257.923.

10 (b) One-tenth of the amount in the same proportion that the
11 total mileage in the county primary road system of each county
12 bears to the total mileage in all of the county primary road
13 systems of the state.

14 (c) One eighty-third of the remaining 15% of the amount to
15 each county.

16 (7) The balance of the remainder of the total amount to be
17 returned to counties shall be expended by each county road
18 commission for the preservation, construction, acquisition, and
19 extension of the county local road system as defined by this act,
20 including the acquisition of a necessary right of way for the
21 system, work incidental to the system, and a roadside park or motor
22 parkway appurtenant to the system, and shall be returned to the
23 counties as follows:

24 (a) Sixty-five percent of the amount in the same proportion
25 that the total mileage in the county local road system of each
26 county bears to the total mileage in all of the county local road
27 systems of the state.

1 (b) Thirty-five percent of the amount in the same proportion
2 that the total population outside of incorporated municipalities in
3 each county bears to the total population outside of incorporated
4 municipalities in all of the counties of the state, according to
5 the most recent statewide federal census as certified at the
6 beginning of the state fiscal year.

7 (8) Money deposited in, or becoming a part of the county road
8 funds of a board of county road commissioners shall be expended
9 first for the payment of principal and interest on the bonds, for
10 the payment of contractual contributions pledged for the payment of
11 bonds, for debt service requirements for the payment of contractual
12 contributions pledged for the payment of bonds, and for debt
13 service requirements for the payment of notes and loans in the
14 following order of priority:

15 (a) For the payment of contributions required to be made by a
16 board of county road commissioners under a contract entered into
17 under 1941 PA 205, MCL 252.51 to 252.64, which contributions have
18 been pledged for the payment of the principal and interest on bonds
19 issued under that act, or for the payment of total debt service
20 requirements upon notes issued by a board of county road
21 commissioners under 1943 PA 143, MCL 141.251 to 141.254.

22 (b) For the payment of principal and interest upon bonds
23 issued under section 18c, and the payment of contributions of a
24 board of county road commissioners to be made pursuant to contracts
25 entered into under section 18d, which contributions are pledged to
26 the payment of principal and interest on bonds issued after June
27 30, 1957, under the authorization of section 18c and contracts

1 executed pursuant to its provisions.

2 (c) For the payment of principal and interest upon loans
3 received pursuant to section 11(7), to the extent other funds have
4 not been made available for that payment.

5 (9) Beginning November 1, 2008, not to exceed 50% per year of
6 the amount returned to a county for use on the county primary road
7 system may be expended, with or without matching, on the county
8 local road system of that county. Except as otherwise provided in
9 this subsection, beginning September 30, 2010, not to exceed 30%
10 per year of the amount returned to a county for use on the county
11 primary road system may be expended, with or without matching, on
12 the county local road system of that county. An additional amount,
13 not to exceed 20% per year of the amount returned to a county for
14 use on the county primary road system, may be expended on the
15 county local road system of that county if there is an emergency or
16 if the county road commission determines that an additional 20% may
17 be expended on the county local road system. The county road
18 commission may attach any conditions to its determination if the
19 determination is for nonemergency purposes, including, but not
20 limited to, a requirement that the additional 20% expended on the
21 county local road system only be used to supplement funds from
22 other sources. Not to exceed 15% per year of the amount returned to
23 a county for expenditure on the county local road system may be
24 used, with or without matching, on the county primary road system
25 of that county, and not to exceed an additional 15% per year of the
26 amount returned to a county for expenditure on the county local
27 road system, may, in case of an emergency or with the approval of

1 the county road commission, be expended, with or without matching,
2 on the county primary road system of that county. An amount
3 returned to a county for and on account of county local roads,
4 under this section, in excess of the total amount paid into the
5 county treasury each year by all of the townships of that county
6 for and on account of the county local roads pursuant to section
7 14(6) may be transferred to and expended on the county primary road
8 system of that county.

9 (10) Not less than 20% per year of the funds returned to a
10 county by this section shall be expended for snow and ice removal,
11 the construction or reconstruction of a new highway or existing
12 highway, and the acquisition of a necessary right of way for those
13 highways, and work incidental to those highways, or for the
14 servicing of bonds issued by the county for these purposes. Surplus
15 funds may be expended for the development, construction, or repair
16 of an off-street parking facility.

17 (11) Not more than 5% per year of the funds returned to a
18 county for the county primary road system and the county local road
19 system shall be expended for the maintenance, improvement, or
20 acquisition of appurtenant roadside parks and motor parkways.

21 (12) Funds returned to a county shall be expended by the
22 county road commission for the purposes provided in this section
23 and shall be deposited by the county treasurer in a designated
24 county depository, in a separate account to the credit of the
25 county road fund, and shall be paid out only upon the order of the
26 county road commission, and interest accruing on the money shall
27 become a part of, and be deposited with the county road fund.

1 (13) In a county to which the funds are returned the function
2 of the county road commission shall be limited to the formation of
3 policy and the performance of the official duties imposed by law
4 and delegated by the county board of commissioners. A member of the
5 county road commission shall not be employed individually in any
6 other capacity for other duties with the county road commission.

7 (14) A county road commission may enter into an agreement with
8 a county road commission of an adjacent county and with a city or
9 village to perform work on a highway, road, or street, and with the
10 state transportation department with respect to a state trunk line
11 and connecting links of the state trunk line within the limits of
12 the county or adjacent to the county. The agreement may provide for
13 the performance by each contracting party of the work contemplated
14 by the contract including engineering services and the acquisition
15 of rights of way in connection with the work contemplated, by
16 purchase or condemnation, by any of the contracting parties in its
17 own name and the agreement may provide for joint participation in
18 the costs.

19 (15) Money distributed from the Michigan transportation fund
20 may be expended for construction purposes on county local roads
21 only to the extent matched by money from other sources. However,
22 Michigan transportation funds may be expended for the construction
23 of bridges on the county local roads in an amount not to exceed 75%
24 of the cost of the construction of local road bridges. ~~This~~
25 ~~subsection does not apply to section 11b.~~

26 (16) Notwithstanding any other provision of this act, at least
27 90% of the state revenue returned annually to the county road

1 commission from the Michigan transportation fund less the amounts
2 described in subdivisions (a) to (e) shall be expended annually by
3 the county road commission for the preservation of highways, roads,
4 streets, and bridges, and for the payment of contractual
5 contributions pledged for the payment of bonds or portions of
6 bonds, debt service requirements for the payment of bonds or
7 portions of bonds, and debt service requirements for the payment of
8 notes and loans or portions of notes and loans issued or received
9 after July 1, 1983, for the purpose of providing funds for the
10 preservation of highways, roads, streets, and bridges. If an
11 appropriate certificate is filed under subsection ~~(19)~~-(18) but
12 only to the extent necessary, this subsection shall not prohibit
13 the use of any amount of state revenue returned annually to the
14 county road commissions for the payment of contractual
15 contributions pledged for the payment of bonds, for debt service
16 requirements for the payment of bonds, and for debt service
17 requirements for the payment of notes or loans, whenever issued or
18 received, as specified under subsection (8). The amounts which are
19 deducted from the state revenue returned to a county road
20 commission from the Michigan transportation fund, for the purpose
21 of the calculation required by this subsection are as follows:

22 (a) Amounts expended for the purposes described in subsection
23 (8) for bonds, notes, loans, or other obligations issued or
24 received before July 2, 1983.

25 (b) Amounts expended for the administrative costs of the
26 county road commission.

27 (c) Amounts expended for capital outlay projects for equipment

1 and buildings, and for the payment of contractual contributions
2 pledged for the payment of bonds, for debt service requirements for
3 the payment of bonds, and for debt service requirements for the
4 payment of notes and loans issued or received after July 1, 1983,
5 for the purpose of providing funds for capital outlay projects for
6 equipment and buildings.

7 (d) Amounts expended for projects vital to the economy of the
8 local area or the safety of the public in the local area. Before
9 these amounts can be deducted, the governing body over the county
10 road commission or the county road commission, as applicable, shall
11 pass a resolution approving these projects. This resolution shall
12 state which projects will be funded and the cost of each project. A
13 copy of each approved resolution shall be forwarded immediately to
14 the department.

15 (e) Amounts expended in urban areas as determined pursuant to
16 section 12b.

17 (17) As used in this subsection, "urban routes" means those
18 portions of 2-lane county primary roads within an urban area which
19 has average daily traffic in excess of 15,000. Notwithstanding any
20 other provision of this act, except as provided in this subsection,
21 a county road commission shall expend annually at least 90% of the
22 federal revenue distributed to the use of the county road
23 commission for highways, roads, streets, and bridges, less the
24 amount expended on urban routes for other than preservation
25 purposes and the amount expended for hard-surfacing of gravel roads
26 on the federal-aid system, on the preservation of highways, roads,
27 streets, and bridges. A county road commission may expend in a year

1 less than 90% of the federal revenue distributed to the use of the
2 county road commission for highways, roads, streets, and bridges,
3 less the amount expended on urban routes for other than
4 preservation purposes and the amount expended for hard-surfacing of
5 gravel roads on the federal-aid system, on the preservation of
6 highways, roads, streets, and bridges, if that year is part of a 3-
7 year period in which at least 90% of the total federal revenue
8 distributed in the 3-year period to the use of the county road
9 commission for highways, roads, streets, and bridges, less the
10 amount expended on urban routes for other than preservation
11 purposes and the amount expended for hard-surfacing of gravel roads
12 on the federal-aid system, is expended on the preservation of
13 highways, roads, streets, and bridges. If a county road commission
14 expends in a year less than 90% of the federal revenue distributed
15 to the use of the county road commission for highways, roads,
16 streets, and bridges, less the amount expended on urban routes for
17 other than preservation purposes and the amount expended for hard-
18 surfacing of gravel roads on the federal-aid system, on the
19 preservation of highways, roads, streets, and bridges and that year
20 is not a part of a 3-year period in which at least 90% of the total
21 federal revenue distributed in the 3-year period to the use of the
22 county road commission for highways, roads, streets, and bridges,
23 less the amount expended on urban routes for other than
24 preservation purposes and the amount expended for hard-surfacing of
25 gravel roads on the federal-aid system, is expended on the
26 preservation of highways, roads, streets, and bridges, the county
27 road commission shall expend in each year subsequent to the 3-year

1 period 100%, or less in 1 year if sufficient for the purposes of
2 this subsection, of the federal revenue distributed to the use of
3 the county road commission for highways, roads, streets, and
4 bridges, less the amount expended on urban routes for other than
5 preservation purposes and the amount expended for hard-surfacing of
6 gravel roads on the federal-aid system, on the preservation of
7 highways, roads, streets, and bridges until the average percentage
8 spent on the preservation of highways, roads, streets, and bridges
9 in the 3-year period and the subsequent years, less the amount
10 expended on urban routes for other than preservation purposes and
11 the amount expended for hard-surfacing of gravel roads on the
12 federal-aid system, is at least 90%. A year may be included in only
13 one 3-year period for the purposes of this subsection. The
14 requirements of this subsection shall be waived if compliance would
15 cause the county road commission to be ineligible according to
16 federal law for federal revenue, but only to the extent necessary
17 to make the county road commission eligible according to federal
18 law for that revenue. For the purpose of the calculations required
19 by this subsection, the amount expended on urban routes by a county
20 road commission for other than preservation purposes and the amount
21 expended for hard-surfacing of gravel roads on the federal-aid
22 system shall be deducted from the total federal revenue distributed
23 to the use of the county road commission.

24 (18) A county road commission shall certify, which
25 certification shall, for purposes of the validity of bonds and
26 notes, be conclusive as to the matters stated therein, to the state
27 transportation department on or before the issuance of any bonds or

1 notes issued after July 1, 1983, pursuant to 1943 PA 143, MCL
2 141.251 to 141.254, 1941 PA 205, MCL 252.51 to 252.64, or section
3 18c or 18d, for purposes other than the preservation of highways,
4 roads, streets, and bridges and purposes other than the purposes
5 specified in subsection (16)(c) that its average annual debt
6 service requirements for all bonds and notes or portions of bonds
7 and notes issued after July 1, 1983, for purposes other than the
8 preservation of highways, roads, streets, and bridges and other
9 than for the purposes specified in subsection (16)(c), including
10 the bond or note to be issued does not exceed 10% of the funds
11 returned to the county road commission pursuant to this act, less
12 the amounts specified in subsection (16)(a), (b), and (c) during
13 the last completed fiscal year of the county road commission. If
14 the purpose for which the bonds or notes are issued is changed
15 after the issuance of the notes or bonds, the change shall be made
16 in such a manner to maintain compliance with the certification
17 required by this subsection, as of the date the certificate was
18 originally issued, but no such change shall invalidate or otherwise
19 affect the bonds or notes with respect to which the certificate was
20 issued or the obligation to pay debt service on the bonds or notes.

21 (19) In each charter county to which funds are returned under
22 this section, the responsibility for road improvement,
23 preservation, and traffic operation work, and the development,
24 construction, or repair of off-road parking facilities and
25 construction or repair of road lighting shall be coordinated by a
26 single administrator to be designated by the county executive who
27 shall be responsible for and shall represent the charter county in

1 transactions with the state transportation department pursuant to
2 this act.

3 (20) Not more than 10% per year of all of the funds received
4 by and returned to a county from any source for the purposes of
5 this section may be expended for administrative expenses. A county
6 that expends more than 10% for administrative expenses in a year
7 shall be subject to section 14(5) unless a waiver is granted by the
8 department of treasury. As used in this subsection, "administrative
9 expenses" means those expenses that are not assigned including, but
10 not limited to, specific road construction or preservation projects
11 and are often referred to as general or supportive services.
12 Administrative expenses shall not include net equipment expense,
13 net capital outlay, debt service principal and interest, and
14 payments to other state or local offices which are assigned, but
15 not limited to, specific road construction projects or preservation
16 activities.

17 (21) In addition to the financial compliance audits required
18 by law, the department ~~of treasury shall~~ **MAY** conduct performance
19 audits and make investigations of the disposition of all state
20 funds received by county road commissions, county boards of
21 commissioners, or any other county governmental agency acting as
22 the county road authority, for transportation purposes to determine
23 compliance with the terms and conditions of this act. Performance
24 audits shall be conducted according to government auditing
25 standards issued by the United States general accounting office.
26 **THE DEPARTMENT SHALL DEVELOP PERFORMANCE AUDIT PROCEDURES AND**
27 **REPORTING REQUIREMENTS SUFFICIENT TO DETERMINE WHETHER FUNDS**

House Bill No. 5007 (H-2) as amended December 1, 2011

1 EXPENDED UNDER THIS SECTION WERE EXPENDED IN COMPLIANCE WITH THIS
2 ACT BY JULY 1, 2012 AND SHALL REPORT TO THE TRANSPORTATION
3 COMMITTEES OF THE SENATE AND HOUSE OF REPRESENTATIVES NO LATER THAN
4 AUGUST 1, 2012 ON THE ADDITIONAL AUDIT PROCEDURES AND REPORTING
5 REQUIREMENTS. The department ~~[of treasury]~~ shall provide 6 months
6 notice to the county road commission or county board of
7 commissioners, as applicable, of the standards to be used for
8 audits performed under this subsection prior to the fiscal year in
9 which the audit is conducted. The department shall notify the
10 county road commission or county board of commissioners of any
11 subsequent changes to the standards. County road commissions or
12 county boards of commissioners, as applicable, shall make available
13 to the department ~~of treasury~~ the pertinent records for the audit.
14 PERFORMANCE AUDITS MAY BE PERFORMED AT THE DISCRETION OF THE
15 DEPARTMENT OR UPON RECEIVING A REQUEST FROM THE SPEAKER OF THE
16 HOUSE OF REPRESENTATIVES OR THE SENATE MAJORITY LEADER.

17 Sec. 13. (1) The amount distributed to cities and villages
18 shall be returned to the treasurers of the cities and villages in
19 the manner, for the purposes, and under the terms and conditions
20 specified in this section. As used in this section, "population"
21 means the population according to the most recent statewide federal
22 census as certified at the beginning of the state fiscal year,
23 except that, if a municipality has been newly incorporated since
24 completion of the census, the population of the municipality for
25 purposes of the distribution of funds before completion of the next
26 census shall be the population as determined by special federal
27 census, if there is a special federal census, and if not, by the

1 population as determined by the official census in connection with
2 the incorporation, if there is such a census and, if not, by a
3 special state census to be taken at the expense of the municipality
4 by the secretary of state pursuant to section 6 of the home rule
5 city act, 1909 PA 279, MCL 117.6. The amount received by the newly
6 incorporated municipality shall be in place of any other direct
7 distribution of funds from the Michigan transportation fund. The
8 population of the newly incorporated municipality as determined
9 under this section shall be added to the total population of all
10 incorporated cities and villages in the state in computing the
11 amounts to be returned under this section to each municipality in
12 the state. Major street mileage, local street mileage, and
13 equivalent major mileage, if applicable, shall be determined by the
14 state transportation department before the next month for which
15 distribution is made following the effective date of incorporation
16 of a newly incorporated municipality.

17 (2) From the amount available for distribution to cities and
18 villages during each December, an amount equal to 0.7% of the total
19 amount returned to all cities and villages under subsections (3)
20 and (4) during the previous calendar year shall be withheld. The
21 amount withheld shall be used to partially reimburse those cities
22 and villages located in those counties that are eligible for snow
23 removal funds pursuant to section 12a and that have costs for
24 winter maintenance on major and local streets that are greater than
25 the statewide average. The distributions shall be made annually
26 during February and shall be calculated separately for the major
27 and local street systems but may be paid in a combined warrant. The

1 distribution to a city or village shall be equal to 1/2 of its
2 winter maintenance expenditures after deducting the product of its
3 total earnings under subsections (3) and (4) multiplied by 2 times
4 the average municipal winter maintenance factor. Winter maintenance
5 expenditures shall be determined from the street financial reports
6 for the most current fiscal years ending before July 1. A city or
7 village that does not submit a street financial report for the
8 fiscal year ending before July 1 by the subsequent December 31
9 shall be ineligible for the winter maintenance payment that is to
10 be based on that street financial report. The average municipal
11 winter maintenance factor shall be determined annually by the state
12 transportation department by dividing the total expenditures of all
13 cities and villages on winter maintenance of streets and highways
14 by the total amount earned by all cities and villages under
15 subsections (3) and (4) during the 12 months. If the sum of the
16 distributions to be made under this subsection exceeds the amount
17 withheld, the distributions to each eligible city and village shall
18 be reduced proportionately. If the sum is less than the amount
19 withheld, the balance shall be added to the amount available for
20 distribution under subsections (3) and (4) during the next month.
21 The distributions shall be for use on the major and local street
22 systems respectively and shall be subject to the same provisions as
23 funds returned under subsections (3) and (4).

24 (3) Seventy-five percent of the remaining amount to be
25 returned to the cities and villages, after deducting the amounts
26 withheld pursuant to subsection (2), shall be returned 60% in the
27 same proportion that the population of each bears to the total

1 population of all cities and villages, and 40% in the same
2 proportion that the equivalent major mileage in each bears to the
3 total equivalent major mileage in all cities and villages. As used
4 in this section, "equivalent major mileage" means the sum of 2
5 times the state trunk line mileage certified by the state
6 transportation department as of March 31 of each year, as being
7 within the boundaries of each city and village having a population
8 of 25,000 or more, plus the major street mileage in each city and
9 village, multiplied by the following factor:

10 1.0 for cities and villages of 2,000 or less population;

11 1.1 for cities and villages from 2,001 to 10,000 population;

12 1.2 for cities and villages from 10,001 to 20,000 population;

13 1.3 for cities and villages from 20,001 to 30,000 population;

14 1.4 for cities and villages from 30,001 to 40,000 population;

15 1.5 for cities and villages from 40,001 to 50,000 population;

16 1.6 for cities and villages from 50,001 to 65,000 population;

17 1.7 for cities and villages from 65,001 to 80,000 population;

18 1.8 for cities and villages from 80,001 to 95,000 population;

19 1.9 for cities and villages from 95,001 to 160,000 population;

20 2.0 for cities and villages from 160,001 to 320,000

21 population;

22 and for cities over 320,000 population, by a factor of 2.1
23 increased successively by 0.1 for each 160,000 population increment
24 over 320,000. The amount returned under this subsection shall be
25 used by each city and village for the following purposes in the
26 following order of priority:

27 (a) For the payment of contributions required to be made by a

1 city or village under the provisions of contracts previously
2 entered into under 1941 PA 205, MCL 252.51 to 252.64, which
3 contributions have been previously pledged for the payment of the
4 principal and interest on bonds issued under that act; or for the
5 payment of the principal and interest upon bonds issued by a city
6 or village pursuant to 1952 PA 175, MCL 247.701 to 247.707.

7 (b) Payment of obligations of the city or village on highway
8 projects undertaken by the city or village jointly with the state
9 transportation department.

10 (c) For the payment of principal and interest upon loans
11 received pursuant to section 11(5), to the extent other funds have
12 not been made available for that payment.

13 (d) For the preservation, construction, acquisition, and
14 extension of the major street system as defined by this act
15 including the acquisition of a necessary right of way for the
16 system, work incidental to the system, and an appurtenant roadside
17 park or motor parkway, of the city or village and for the payment
18 of the principal and interest on that portion of the city's or
19 village's general obligation bonds which are attributable to the
20 construction or reconstruction of the city's or village's major
21 street system. Not more than 5% per year of the funds returned to a
22 city or village by this subsection shall be expended for the
23 preservation or acquisition of appurtenant roadside parks and motor
24 parkways. Surplus funds may be expended for the development,
25 construction, or repair of off-street parking facilities, and the
26 construction or repair of street lighting, and transfer to the
27 local street system under subsection (6).

1 (e) For capital outlay projects for equipment and buildings,
2 contributions pledged for the payment of loans and for the payment
3 of contractual debt service requirements for the payment of bonds
4 for the purpose of providing funds for capital outlay projects for
5 equipment and buildings necessary to the development and
6 maintenance of the road system so long as amounts allocated under
7 this subsection are used for transportation purposes.

8 (4) The remaining amount to be returned to incorporated cities
9 and villages shall be expended in each city or village for the
10 preservation, construction, acquisition, and extension of the local
11 street system of the city or village, as defined by this act,
12 including the acquisition of a necessary right of way for the
13 system, work incidental to the system, and subject to subsection

14 (5), for the payment of the principal and interest on that portion
15 of the city's or village's general obligation bonds which are
16 attributable to the construction or reconstruction of the city's or
17 village's local street system. The amount returned under this
18 subsection shall be returned to the cities and villages 60% in the
19 same proportion that the population of each bears to the total
20 population of all incorporated cities and villages in the state,
21 and 40% in the same proportion that the total mileage of the local
22 street system of each bears to the total mileage in the local
23 street systems of all cities and villages of the state. The payment
24 of the principal and interest upon bonds issued by a city or
25 village pursuant to 1952 PA 175, MCL 247.701 to 247.707, and after
26 that payment, the payment of debt service on loans received under
27 section 11(5), shall have priority in the expenditure of money

1 returned under this subsection.

2 (5) Money distributed to each city and village for the
3 maintenance and preservation of its local street system under this
4 act represents the total responsibility of the state for local
5 street system support. Funds distributed from the Michigan
6 transportation fund shall not be expended for construction purposes
7 on city and village local streets except to the extent matched from
8 local revenues including other money returned to a city or village
9 by the state under the state constitution of 1963 and statutes of
10 the state, from funds that can be raised by taxation in cities and
11 villages for street purposes within the limitations of the state
12 constitution of 1963 and statutes of the state, from special
13 assessments, or from any other source.

14 (6) Money returned under this section to a city or village
15 shall be expended on the major and local street systems of that
16 city or village. However, the first priority shall be the major
17 street system. Money returned for expenditure on the major street
18 system shall be expended in the priority order provided in
19 subsection (3) except that surplus funds may be transferred for
20 preservation of the local street system. Major street funds
21 transferred for use on the local street system shall not be used
22 for construction but may be used for preservation. ~~as defined in~~
23 ~~section 10c.~~ A city or village shall not transfer more than 50% of
24 its annual major street funding for the local street system unless
25 it has adopted and is following an asset management process for its
26 major and local street systems and adopts a resolution with a copy
27 to the department setting forth all of the following:

1 (a) A list of the major streets in that city or village.

2 (b) A statement that the city or village is adequately
3 maintaining its major streets.

4 (c) The dollar amount of the transfer.

5 (d) The local streets to be funded with the transfer.

6 (e) A statement that the city or village is following an asset
7 management process for its major and local street systems.

8 (7) A city or village that has not adopted an asset management
9 plan shall obtain the concurrence of the department to transfer
10 more than 50% of its major street funding to its local street
11 system. The department may provide for pilot projects that would
12 allow a city or village that has adopted an asset management plan
13 under subsection (6) to combine their local and major street funds
14 into 1 street fund and to submit a single report to the department
15 on the expenditure of funds on the local and major street systems.

16 (8) Not more than 10% per year of all of the funds returned to
17 a city or village from any source for the purposes of this section
18 may be expended for administrative expenses. As used in this
19 subsection, "administrative expenses" means those expenses that are
20 not assigned including, but not limited to, specific road
21 construction or maintenance projects and are often referred to as
22 general or supportive services. Administrative expenses shall not
23 include net equipment expense, net capital outlay, debt service
24 principal and interest, and payments to other state or local
25 offices that are assigned, but not limited to, specific road
26 construction projects or maintenance activities. A city or village
27 which in a year expends more than 10% for administrative expenses

1 shall be subject to section 14(5).

2 (9) In each city and village to which funds are returned under
3 this section, the responsibility for street preservation and the
4 development, construction, or repair of off-street parking
5 facilities and construction or repair of street lighting shall be
6 coordinated by a single administrator to be designated by the
7 governing body who shall be responsible for and shall represent the
8 municipality in transactions with the state transportation
9 department pursuant to this act.

10 (10) Cities and villages may provide for consolidated street
11 administration. A city or a village may enter into an agreement
12 with other cities or villages, the county road commission, or with
13 the state transportation commission for the performance of street
14 or highway work on a road or street within the limits of the city
15 or village or adjacent to the city or village. The agreement may
16 provide for the performance by any of the contracting parties of
17 the work contemplated by the contracts including services and
18 acquisition of rights of way, by purchase or condemnation by any of
19 the contracting parties in its own name. The agreement may provide
20 for joint participation in the costs if appropriate.

21 (11) Interest earned on funds returned to a city or a village
22 for purposes provided in this section shall be credited to the
23 appropriate street fund.

24 (12) In addition to the financial compliance audits required
25 by law, the department ~~of treasury shall~~ **MAY** conduct performance
26 audits and make investigations of the disposition of all state
27 funds received by cities and villages for transportation purposes

1 to determine compliance with the terms and conditions of this act.
2 Performance audits shall be conducted according to government
3 auditing standards issued by the United States general accounting
4 office. **THE DEPARTMENT SHALL DEVELOP ALL PERFORMANCE AUDIT**
5 **PROCEDURES AND REPORTING REQUIREMENTS SUFFICIENT TO DETERMINE**
6 **WHETHER FUNDS EXPENDED UNDER THIS SECTION WERE EXPENDED IN**
7 **COMPLIANCE WITH THIS ACT BY JULY 1, 2012 AND SHALL REPORT TO THE**
8 **TRANSPORTATION COMMITTEES OF THE SENATE AND HOUSE OF**
9 **REPRESENTATIVES NO LATER THAN AUGUST 1, 2012 ON THE ADDITIONAL**
10 **AUDIT PROCEDURES AND REPORTING REQUIREMENTS. THE AUDIT PROCEDURES**
11 **SHALL INCLUDE A REVIEW OF THE ROAD FUND BALANCE OF THE CITY OR**
12 **VILLAGE. THE CITIES AND VILLAGES SHALL REPORT THEIR ROAD FUND**
13 **BALANCES BY FUND BALANCE COMPONENT. THE DEPARTMENT SHALL ASSIST**
14 **CITIES AND VILLAGES TO ENSURE THAT ROAD FUND BALANCES ARE**
15 **CONSISTENTLY CLASSIFIED AND ARE IN COMPLIANCE WITH THE AUDIT AND**
16 **REPORTING REQUIREMENTS OF THIS SECTION.** The department ~~of treasury~~
17 shall provide notice to cities and villages of the standards to be
18 used for audits under this subsection prior to the fiscal year in
19 which the audit is conducted. The department shall notify cities
20 and villages of any subsequent changes to the standards. Cities and
21 villages shall make available to the department ~~of treasury~~ the
22 pertinent records for the audit. **PERFORMANCE AUDITS MAY BE**
23 **PERFORMED AT THE DISCRETION OF THE DEPARTMENT OR UPON RECEIVING A**
24 **REQUEST FROM THE SPEAKER OF THE HOUSE OF REPRESENTATIVES OR THE**
25 **SENATE MAJORITY LEADER.**