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BILL ANALYSIS

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Senate Bills 25 and 1049 (as enacted) **PUBLIC ACTS 500 & 501 of 2016**
Sponsor: Senator Mike Kowall
Senate Committee: Economic Development and International Investment
House Committee: Appropriations

Date Completed: 4-28-17

**RATIONALE**

The Transportation Economic Development Fund (TEDF) was created by Public Act 231 of 1987 to assist in the funding of highway, road, and street projects necessary to support economic growth. The Fund provides a means for the State, local agencies, and businesses to work together to meet transportation demands. The Act authorizes the State Transportation Commission to approve funding from the TEDF for five categories of projects, which are referred to as Categories A, C, D, E, and F. The definition of "project" includes transportation road construction or improvement, transit-oriented development, and a transit-oriented facility. A project must relate to one of the categories listed in the Act.

Apparently, certain medical groups planned expansions that required infrastructure construction or modifications to roads. It was suggested that the Act allow infrastructure funding to be distributed for projects relating to the construction or expansion of medical facilities.

In addition, several amendments were suggested to address other concerns, or to generally update the Act. For example, the suggestions related to increased specificity regarding different category boundaries, the resolution of incongruities within the Act and between the Act and Federal aid eligibility criteria, and the inclusion of up-to-date information for a determination of funding eligibility.

**CONTENT**

**Senate Bill 25 amended Public Act 231 of 1987 to do the following:**

-- **Add medical research or medical tourism facilities of not less than 50,000 square feet to the list of targeted industries within Category A.**
-- **Change the population criteria from less than 5,000 to more than 5,000 for projects relating to development within rural counties on county rural primary roads or major streets within incorporated villages and cities (Category D), and refer to improvements rather than developments.**

**Senate Bill 1049 amended Public Act 231 of 1987 to do the following:**

-- **Require funds distributed to Category F projects to be distributed for improvements within rural counties to roads and streets that are eligible for Federal aid, and are located inside the boundaries of an urban area or an urbanized area.**
-- **Require funds distributed to Category D projects to be distributed for the improvement of rural primary roads in rural counties and major streets in cities and villages with a population of 5,000 or less that are located outside the boundaries of an urban area or an urbanized area.**

- **-- Require Category D funding to be reduced by $2.0 million for fiscal year (FY) 2015-16, instead of FY 2016-17, and require that amount to be allocated to a project identified in an appropriation act.**
- **-- Allow the urban task force that represents the majority of the communities in the urban area of each county to designate for eligibility Category C projects, instead of Category D projects.**
- **-- Allow an urban task force, in the case of widening projects, to designate project eligibility using the most current traffic count; and permit projects for the construction of new roads with three or more lanes where the traffic count exceeds 10,000 vehicles per day.**
- **-- Require programs and projects authorized under Category C, instead of Category D, to be administered in a manner similar to current Federal aid projects and in accordance with the policies of the State Transportation Commission.**
- **-- Modify reporting requirements for the Commission related to job creation and economic benefits of certain projects.**

Each bill took effect on January 9, 2017.

## <u>Senate Bill 25</u>

As noted above, the Act authorizes the State Transportation Commission to approve funding from the TEDF for five categories of projects. The categories are described below:

-- Category A: Economic development road projects related to targeted industry development and redevelopment opportunities.
-- Category C: Road improvements in urban counties to reduce traffic congestion.
-- Category D: Road improvements in rural counties to create an all-season road network.
-- Category E: Road improvements for the development of commercial forests in the State.
-- Category F: Road improvements that support an all-season road network in the urban areas of rural counties.

The targeted industries under Category A are as follows:

-- Agriculture or food processing
-- Tourism
-- Forestry
-- High technology research
-- Manufacturing
-- Mining
-- Office centers of at least 50,000 square feet

The bill added medical research or medical tourism facilities of not less than 50,000 square feet to the list of Category A targeted industries.

In addition, Category D previously included projects for development within rural counties on county rural primary roads or major streets within incorporated villages and cities with a population of less than 5,000. Under the bill, the category includes projects for improvements within rural counties on county rural primary roads or major streets within incorporated villages and cities with a population of more than 5,000.

## <u>Senate Bill 1049</u>

<u>Category Description & Distribution Modifications</u>

The Act prescribes the amount that must be distributed to each category. After the payment of interest and principal on bonds issued under the Act and the appropriation for costs of administration of the Fund as provided under the Act, Category E must receive the first $5.0 million of Fund revenue for forest roads. Previously, the next $2.5 million of the Fund had to be distributed to Category F for improvements to roads and streets that are eligible for Federal aid in cities and villages having a population of 5,000 or more within rural counties.

Under the bill, instead, the $2.5 million must be distributed to Category F for improvements within rural counties to roads and streets that are eligible for Federal aid and are located inside the boundaries of an urban area or an urbanized area as determined by the most recent Federal decennial census and as adjusted by the Michigan Department of Transportation (MDOT).

Of the balance remaining after the funding of Category E and F projects, projects must be funded in the categories described in the Act based on the following percentages:

- 50% for economic development road projects in any of the targeted industries (Category A).
- 25% for projects to reduce congestion on county primary and city major streets within urban counties including advanced traffic management systems (Category C).
- 25% for development projects within rural counties (Category D).

Previously, the revenue allocated to Category D had to be distributed for the improvement of rural primary roads in rural counties and major streets in cities and villages with a population of 5,000 or less. Under the bill, the revenue must be distributed for the improvement of rural primary roads in rural counties and major streets in cities and villages with a population of 5,000 or less that are located outside the boundaries of an urban area or an urbanized area as determined by the most recent Federal decennial census and as adjusted by MDOT.

Previously, the Act required Category D funding to be reduced by $2.0 million for FY 2016-17, only. The bill specifies that, for FY 2015-16 only, Category D funding must be reduced by $2.0 million, and $2.0 million must be allocated to the project described in Section 901 of Article XX of Public Act 268 of 2016. (Public Act 268 of 2016 made general appropriations for FY 2016-17. Section 901 of Article XX requires $2.0 million to be appropriated for a rural county primary road project in a county with a population of more than 26,500 but less than 27,000.)

Urban Task Force Eligibility Designations

The bill requires the urban task force that represents the majority of the communities in the urban area of each county to select and designate for eligibility Category C projects within their respective allocations. Previously, those task forces had to designate for eligibility Category D projects, instead.

The Act requires one nonvoting member of each task force to be a designee of and represent the administrator. (The "administrator" is the person appointed by MDOT to serve as director of the Office of Economic Development.) Under the bill, in the case of widening projects only, the task forces must designate projects for eligibility as follows:

- Projects must be eligible for Federal aid.
- Projects must add travel lanes, left turn lanes, and intersectional improvements to roads with two travel lanes carrying more than 10,000 vehicles per day or roads with more than two travel lanes carrying more than 25,000 vehicles per day based on the most recent traffic count or (as previously provided) a traffic count done on or before April 1, 1993.

The bill provides that projects also may be for the construction of new roads with three or more travel lanes where the projected traffic count exceeds 10,000 vehicles per day based on an engineering study approved by MDOT.

Federal Funding Distribution

Previously, the obligation authority for any Federal funds allocated under Section 10 of the Michigan Transportation Fund (MTF) law was required to be distributed equally among urban task forces and regional rural task forces according to the distribution formula outlined under Public Act 231 of 1987 relating to Categories C and D. An additional 1.5% of the obligation authority for Federal funds identified in Section 10 of the MTF law had to be distributed among the regional rural task forces according to the distribution formula outlined under Public Act 231 relating to Category D. The funds had to be obligated and used consistently with Section 10 of the MTF law. The bill deleted these provisions.

(Section 10 of the MTF law establishes the Fund and appropriates money in the MTF to various funds or specific purposes.)

<u>Other Provisions</u>

The bill requires Category C programs and projects to be administered in a manner similar to current Federal aid projects and in accordance with the adopted policies of the Commission. Previously, this applied to Category D, rather than Category C, programs and projects.

Public Act 231 requires the Commission, by December 31 each year, to report to the Governor, the House and Senate Appropriations Committees, and the House and Senate Fiscal Agencies the following information:

-- The projects funded during the previous fiscal year.
-- The status of projects funded in the immediately preceding fiscal year.
-- The degree to which the projects funded have achieved the objectives of the Act.
-- Any other information considered necessary by the Commission for the Legislature to evaluate the effectiveness of the Act.

In addition, under the bill, the Commission must report the number of jobs created and retained and any other economic benefits of the projects funded and listed under Category A. Previously, the Act required this information for projects funded and listed from the previous fiscal year.

MCL 247.909 (S.B. 25)
247.901 et al. (S.B. 1049)

## 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

The health care industry in Michigan is one of the biggest providers of jobs and has one of the largest economic influences within the State. According to Economic Development and International Investment Committee testimony, the health care industry provides 570,000 jobs to Michigan residents; nearly 1.0 million jobs to residents, if indirect jobs are included; and 195,000 jobs specifically to residents of Oakland County. One 2014 report estimated that the industry provides more than $34.0 billion annually in wages, salaries, and benefits to the economy.[1]

Important medical groups, such as Henry Ford Health System and Genesys Health, have become significant investors in communities across the State. For example, Henry Ford Health System reported an investment of more than $500.0 million in economic development and infrastructure improvements, including investments around the Henry Ford Hospital in Detroit, and more than $369.0 million in the construction of Henry Ford West Bloomfield Hospital. These groups also contribute to medical research, and attract external research funding to the State. For example, Henry Ford Health Systems reports bringing in over $60.0 million worth of external research funding annually. This research attracts not only additional funding, but also medical tourism and expert medical residents and physicians who will serve the State.

[1] "The Economic Impact of Healthcare in Michigan", the Michigan State Medical Society, the Michigan Health & Hospital Association, and the Michigan Osteopathic Association, 2014.

Henry Ford Health System and Genesys Health System have significant investments planned within Michigan. Genesys planned a comprehensive "Campus and Community Revitalization" initiative, which, according to Committee testimony, has the potential to create around 4,000 jobs in areas that have seen job losses from a shrunken auto industry. In 2015, Genesys invested $5.6 million in the Downtown Flint Health Center, which created 140 jobs; the broader initiative included an extension to the Dort Highway, the creation of a Life Sciences Research and Development Institute, the establishment of a veteran retirement home, and the development of several other facilities. The project was projected to require a total investment of $484.8 million that would create 5,283 permanent jobs and 4,111 construction jobs. Henry Ford Health System also is planning an expansion of its facilities.

These projects increase the economic wellbeing of communities around Michigan; hospitals and wellness centers provide local economies with stability and attract future business. Some of these projects require the expansion of existing roadways or other infrastructure modifications. For example, Henry Ford Health System reports that deteriorating roadways and traffic congestion around its facilities creates problems. Category A funding allows public road agencies access to money to fill in a "gap" between road planning and funding. This enables companies wishing to invest in an area to act more quickly. By adding medical research and medical tourism facilities to the list of targeted industries eligible for TEDF funding, which can help support necessary infrastructure improvements, Senate Bill 25 will encourage those wishing to invest in Michigan communities through the creation or expansion of medical facilities to do so.

**Supporting Argument**

Senate Bill 1049 addressed several issues that had been outstanding and made some changes according to suggestions by the Auditor General and others. For example, the bill modified provisions to allow for the use of the latest available traffic counts in accordance with Federal regulations and further defined rural and urban boundaries. These amendments refine the Act to reflect correct information, reform different processes, and enhance clarity.

Legislative Analyst: Drew Krogulecki

**FISCAL IMPACT**

The bills will have no fiscal impact on State or local government. The bills will not create additional revenue or costs to the State budget.

Senate Bill 25 expands the list of projects qualifying for Category A funding to include medical research or medical tourism facilities of not less than 50,000 square feet. This will not reduce or increase the amount of funding in Category A; however, it may make the grant process for those awards more competitive.

Senate Bill 1049 will not create new revenue or costs for the State or local units of government. The bill requires that $2.0 million in Category D funding be reduced for FY 2015-16, and refers to Section 901 of Article XX of Public Act 268 of 2016, as to the purpose of the reduction. As a result, Category D of the Transportation Economic Development Fund will not have a $2.0 million reduction for FY 2016-17.

In addition, the bill adds more specificity to urban/rural boundary definitions, makes updated data available to the Department of Transportation, and removes outdated language and sections from Public Act 231 of 1987. These changes will not create new revenue or costs.

Fiscal Analyst: Michael Siracuse