Legislative Analysis

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PUBLIC ACT 51 OF 1951 – STATE TRUNKLINE FUND EXPENDITURES

House Bill 5899 as introduced
Sponsor: Rep. Jim Lilly
Committee: Transportation and Infrastructure
Complete to 5-14-18

SUMMARY:

House Bill 5899 would amend Public Act 51 of 1951 (Act 51), the statute that governs state transportation appropriations. Among other things, Act 51 establishes and directs appropriations from the State Trunkline Fund (STF), a state restricted transportation fund that supports the construction and preservation of the state trunkline highway system and provides for the administration of the Michigan Department of Transportation.

The STF receives revenue primarily from the Michigan Transportation Fund (MTF) in accordance with the MTF distribution formula established in Section 10 of Act 51. STF revenue for FY 2017-18 is estimated at $1.0 billion, of which $953.8 million is from the MTF. STF revenue is appropriated in the annual state budget. FY 2017-18 STF appropriations are made in Article XVII of House Bill 5323, enacted as Public Act 107 of 2017. (A table showing FY 2017-18 STF appropriations is found on page 4 of this bill summary.)

The bill would establish new directives in Section 11 of Act 51 with respect to the use of STF revenue. Specifically, the bill would direct that money in the STF at the close of the fiscal year would remain in the STF and "be expended no later than 3 months after the close of the fiscal year for the purpose for which the money was appropriated." The bill provides that if inclement weather prevents the department from expending money from the STF within three month after the close of the fiscal year, "the department shall expend the money no later than 3 months after the inclement weather ends."

The bill would take effect 90 days after enactment.

MCL 247.661

FISCAL IMPACT:

The department's authority to make expenditures from any fund source, including the STF, is derived from appropriations made in annual appropriation acts. The department may make expenditures only for programs specifically authorized in appropriation line items, only up to the spending limits established in those appropriation line items, and only for the one-year period authorized by an appropriation act.

The Management and Budget Act (Public Act 431 of 1984) governs state appropriations. Every appropriation act includes standard language affirming the authority of the Management and Budget Act over state appropriations:

> Sec. 202. The appropriations authorized under this part and part 1 are subject to the management and budget act, 1984 PA 431, MCL 18.1101 to 18.1594.

As provided in the Management and Budget Act, and in the purpose statements of appropriation acts themselves, appropriations are made for a one-year period only. Section 451 of the Management and Budget Act states that "at the close of the fiscal year, the unencumbered balance of each appropriation shall lapse to the state fund from which it was appropriated." The Management and Budget Act provides only limited authority to carry over spending authority into subsequent fiscal years: Section 248 of the Management and Budget Act authorizes extended spending periods for certain capital outlay line items. Section 451a of the Management and Budget Act provides specific criteria for the work project authorizations.

Chapter 15, Section 200 of the Department of Technology, Management, and Budget's Office of Financial Management, Financial Management Guide, provides to state agencies detailed instructions for year-end book closing. These instructions help ensure that that accounting records, and financial statements, are prepared in accordance with Generally Accepted Accounting Principles (GAAP).

House Bill 5899 would appear to make a general exception to these appropriation limitations with respect to the STF. The bill would direct that money in the STF at the close of the fiscal year remain in the STF and "be expended no later than 3 months after the close of the fiscal year for the purpose for which the money was appropriated." The bill provides that if inclement weather prevents the department from expending money from the STF within three month after the close of the fiscal year, "the department shall expend the money no later than 3 months after the inclement weather ends."

These provisions appear to be in conflict with terms of appropriation bills, which provide only one-year spending authority, with the Management and Budget Act, and with GAAP.

The bill would supersede current appropriations boilerplate that directs that at the end of each fiscal year, the unexpended and unencumbered balance from STF appropriations lapses back to the STF and is automatically re-appropriated for the capital state trunkline road and bridge program. The specific boilerplate language is as follows:

> Sec. 604. At the close of the fiscal year, any unencumbered and unexpended balance in the state trunkline fund shall remain in the state trunkline fund and shall carry forward and is appropriated for federal aid road and bridge programs for projects contained in the annual state transportation program.

BACKGROUND INFORMATION:

The Michigan Department of Transportation is responsible for preservation and maintenance of 9,683 miles of state trunkline highways and 4,485 trunkline bridges. The department uses its own forces to perform state trunkline maintenance in 19 counties. The department contracts with 64 county road commissions (as well as a number of municipalities) for state trunkline maintenance services. The agreements between the department and county road commissions are voluntary agreements; the standard terms of the agreements are negotiated by the department and representatives of county road commissions.

These maintenance agreements are generally beneficial both to MDOT and to county road commissions. Both MDOT and county road commissions achieve savings through sharing facilities and equipment. In addition, the maintenance contract provides for reimbursement of county fixed overhead costs.

It is our understanding that the bill is intended to address a contract issue between MDOT and some county road commissions. Each year the department establishes a baseline budget for each contracting road commission. In some years, after all winter maintenance costs are known, additional STF funding may be available. MDOT notifies contracting county road commissions of additional funding, if any, for work activities under terms of the state trunkline maintenance agreements. However, whether part of the original agreement baseline budget, or supported by additional STF funding available after winter maintenance costs are known, under current law all work activities under the state trunkline maintenance agreement must be completed before the end of the state fiscal year.

FY 2017-18
Estimated STF Revenue and Enacted Appropriations

STF Revenue	***FY 2018 YTD***
Baseline STF revenue from MTF Distribution	$953,796,100
Misc STF revenue	48,069,200
STF as Appropriated	**$1,001,865,300**
STF Appropriations	
Debt service	$140,321,500
Interdepartmental grants (IDGs)	22,095,100
Exec.Direction/Finance/Business support	33,509,800
Information Technology	32,157,900
Planning	7,277,700
Design/Engineering	125,094,500
Trunkline Maintenance	317,593,400
Office of Rail	728,700
Capital Outlay - Facilities	5,501,500
Subtotal	**$684,280,100**
State Trunkline Road and Bridge Construction	317,585,200
Total STF Appropriation	**$1,001,865,300**
State Trunkline Road and Bridge Construction **FUND SOURCES**	***FY 2018 YTD***
Federal Revenue	*$783,367,300*
Local Revenue	30,003,500
Blue Water Bridge Fund	9,800,800
State Trunkline Fund (STF)	317,585,200
Total	**$1,140,756,800**

Fiscal Analyst: William E. Hamilton

■ This analysis was prepared by nonpartisan House Fiscal Agency staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.