Senate Fiscal Agency
P.O. Box 30036
Lansing, Michigan 48909-7536

BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986

House Bill 4965 (Substitute H-3 as passed by the House)
House Bill 4966 (Substitute H-2 as passed by the House)
Sponsor: Representative Rodney Wakeman (H.B. 4965)
Representative Andrea K. Schroeder (H.B. 4966)
House Committee: Transportation
Ways and Means
Senate Committee: Transportation and Infrastructure

Date Completed: 6-16-20

CONTENT

House Bill 4965 (H-3) would amend Public Act 51 of 1951, the Michigan Transportation Fund law, to do the following:

- **Require certain amounts distributed from the Michigan Transportation Fund (MTF) to a county under the Act to be spent toward attainment of the condition goals in the county's asset management plan and as otherwise required by the Act instead of as currently prescribed in the Act.**
- **Allow a county road commission to use a portion of the amount returned to the county under the Act for the payment of debt service on bonds, notes, or other obligations.**

House Bill 4966 (H-2) would amend the Michigan Transportation Fund law to do the following:

- **Require certain amounts distributed from the MTF to a city or village under the Act to be spent toward attainment of the condition goals in the city's or village's asset management plan and as otherwise required by the Act instead of as currently prescribed in the Act.**
- **Allow a city or village to use a portion of the amount returned to the city or village under the Act for the payment of debt services on bonds, notes, or other obligations.**

House Bill 4965 (H-3)

Generally, the Act prescribes the manner in which funds from the MTF must be allocated.

Among the amount distributed to county road commissions, and after deducting certain amounts required by the Act, 75% of the remainder of the total amount to be returned to the counties must be spent by each county road commission for the preservation, construction, acquisition, and extension of the county primary road system, including the acquisition of a necessary right of way for the system, work incidental to the system, and a roadside park or motor parkway appurtenant to the system, and must be returned to the counties as follows:

-- Three-fourths of the amount in proportion to the amount received with the respective county during the 12 months next preceding the date of each monthly distribution, as specific taxes on registered motor vehicles under the Michigan Vehicle Code.
-- One-tenth of the amount in the same proportion that the total mileage in the county primary road system of each county bears to the total mileage in all of the county primary road systems of the State.
-- One eighty-third of the remaining 15% of the amount to each county.

The balance of the remainder of the total amount to be returned to counties must be spent by each county road commission for the preservation, construction, acquisition, and extension of the county local road system as defined by the Act, including the acquisition of a necessary right of way for the system, work incidental to the system, and a roadside park or motor parkway appurtenant to the system, and must be returned to the counties as follows:

-- Sixty-five percent of the amount in the same proportion that the total mileage in the county local road system of each county bears to the total mileage in all of the county local road systems of the State.
-- Thirty-five percent of the amount in the same proportion that the total population outside of incorporated municipalities in each county bears to the total population outside of incorporated municipalities in all of the counties in the State, according to the most recent statewide Federal census as certified at the beginning of the State fiscal year.

Under the bill, the provisions above would apply except once the asset management plan for a county as described in Section 9a had been approved, then the amounts distributed to a county under the Act would have to be spent toward attainment of the condition goals in the asset management plan and as otherwise required by the Act.

(Section 9a of the Act requires each county road commission to submit annually a report on infrastructure conditions and investment to the Transportation Asset Management Council (TAMC). Projects contained in the annual multiyear program of each commission responsible for 100 or more certified miles of road must be consistent with the asset management process. Beginning October 1, 2020, if a commission meets this requirement, it must submit an asset management plan to the TAMC for review according to a three-year schedule. "Asset management plan" means a plan created by a local road agency and approved by the local road agency's governing body that includes provisions for asset inventory, performance goals, risk of failure analysis, anticipated revenues and expenses, performance outcomes, and coordination with other infrastructure owners.)

Under the Act, at least 20% per year of the money returned to a county under the Act must be spent for snow and ice removal, the construction or reconstruction of a new highway or existing highway, and the acquisition of a necessary right of way for those highways, and work incidental to those highways, or for servicing of bonds issued by the county for these purposes.

Instead, under the bill, at least 20% per year of the money returned to a county under the Act would have to be spent for snow and ice removal, the reconstruction of an existing highway, if not in conflict with its asset management plan as provided in Section 9a, and the acquisition of a necessary right of way for those highways, and work incidental to those highways, or for the servicing of bonds issued by the county for these purposes.

The Act specifies that money distributed from the MTF may be spent for construction purposes on county local roads only to the extent matched by money from other sources. However, Michigan transportation funds may be expended for the construction of bridges on the county local roads in an amount not to exceed 75% of the cost of construction of local road bridges.

Under the bill, the match could exceed 75% of the cost of construction in the case of a public emergency.

The bill also would allow a county road commission to use a portion of the amount returned to the county under the Act for the payment of debt service on bonds, notes, or other obligations.

<u>House Bill 4966 (H-2)</u>

Under the Act, among the amount distributed to cities and villages, and after deducting certain amounts required by the Act, 75% of the remaining amount must be returned 60% in the same proportion that the population of each bears to the total population of all cities and villages and 40% in the same proportion that the equivalent major mileage in each bears to the total equivalent major mileages in all cities and villages. Each city and village must use the amount returned in this manner for certain purposes in a prescribed order of priority.

Among other purposes, the amount returned in the manner described above must be used by each city for the preservation, construction, acquisition, and extension of the major street system as defined by the Act including the acquisition of necessary right of way for the system, work incidental to the system, and an appurtenant roadside park or motor parkway of the city and village for the payment of the principal and interest on that portion of the city's or village's general obligation bonds that are attributable to the construction or reconstruction of the city's or village's major street system.

The remaining amount to be returned to incorporated cities and villages must be spent in each city or village for the preservation, construction, acquisition, and extension of the local street system of the city or village, including the acquisition of a necessary right of way for the system, work incidental to the system and subject to the Act, for the payment of the principal and interest on the portion of the city's or village's general obligation bonds that are attributable to the construction or reconstruction of the city's or village's local street system.

Under the bill, for either of the purposes described above, once an asset management plan described in Section 9a had been approved, funds would have to be used for the preservation, construction, and acquisition of the street system toward the attainment of the condition goals in an asset management plan and otherwise required by the Act or for an emergency as described in Section 11c.

(Section 11c generally requires all construction projects whose costs exceed $100,000 to be performed by contract awarded by competitive bidding unless the Michigan Department of Transportation (MDOT) finds that some other method is in the public interest. The Director of MDOT must report those findings to the State Transportation Commission before work is started; however, in a case in which MDOT determines emergency action is required, the report need not be filed before the contract is awarded.)

The bill specifies that a city or village could use a portion of the amount returned to the city or village under the Act for the payment of debt services on bonds, notes, or other obligations. Once the asset management plan for a city or village as described in Section 9a had been approved, amounts distributed to a city or village could be spent toward attainment of the condition goals in the asset management plan and as otherwise required by the Act.

MCL 247.661h et al. (H.B. 4965) Legislative Analyst: Tyler VanHuyse
247.663 (H.B. 4966)

FISCAL IMPACT

The bills would have no direct impact on State or local government, as they would not change the amount of the MTF distributions through the Public Act 51 formula that go to MDOT, counties, and cities and villages.

Public Act 51 of 1951 directs that counties be allotted 39.1% of MTF revenue, and that cities and villages be allotted 21.8%. Michigan Transportation Fund revenue comes chiefly from the State gas tax and vehicle registrations. For fiscal year (FY) 2019-20, the county share of this revenue is $1.1 billion and the city/village share is $620.0 million. Currently, Public Act 51 requires these local units of government to spend the majority of their share of MTF revenue (75%, after other earmarks) on the primary road system (for counties) and on the major street system (for cities/villages), with the remainder to be spent on the local road system (for counties) and the local street system (for cities/villages). These existing requirements direct that the bulk of the MTF revenue to local units of government be spent on the larger roadways under local jurisdiction. The bills would remove this requirement and, instead, would direct that the MTF revenue local units of government received be spent in accordance with that local unit's asset management plan. This could give local units of government more freedom when it comes to spending MTF revenue on major or local road systems, so long as those agencies planned ahead on the use of that revenue when submitting their asset management plans and multi-year program plans to the Transportation Asset Management Council.

The submission of an asset management plan to the TAMC is a relatively new requirement for local agencies, added under Act 325 of 2018. Under that Act, approximately one-third of local agencies must submit asset management plans to the TAMC annually, so that within three years every local agency will have submitted an asset management plan. Under Public Act 325 of 2018, this rotation of plan submissions begins October 1, 2020; therefore, only a third of the required asset management plans will be submitted in FY 2020-21, with another third to follow in FY 2021-22, and the final third in FY 2022-23. Adding the language of the current bills would strengthen the importance of the asset management plans that will be submitted in the coming years.

Fiscal Analyst: Michael Siracuse