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INTERMUNICIPALITY COMMITTEE AUDITS

**House Bill 4244 (Substitute H-1)
House Bill 4609 (Substitute H-1)
First Analysis (5-11-99)**

**Sponsor: Rep. Ruth Jannick
Committee: Local Government and Urban
Policy**

THE APPARENT PROBLEM:

Under Michigan law, local units of government can form intermunicipality committees to study area-wide government problems of mutual interest and concern. (See *BACKGROUND INFORMATION*, below.) The Department of Treasury considers intermunicipality committees to be local units of government, and as such requires them to conduct an annual audit under the Uniform Budgeting and Accounting Act.

One kind of intermunicipality committee is the Urban Area Transportation Study (UATS) Committee, a coordinating agency that is sometimes formed to maintain the eligibility of communities within a particular county to utilize federal transportation funds. Fourteen UATS committees operate in Michigan, in order to coordinate transportation funding for urban areas. Some, although not all, are organized as intermunicipality committees.

In 1997, the federal government modified the auditing requirements for agencies that use federal transportation planning funds so that agencies receiving less than \$300,000 are no longer required to conduct an annual audit. About half of Michigan's urban transit study groups receive this level of funding, or less. The new Federal Highway Administration rules also specified that the cost of undertaking an annual audit would no longer be a chargeable expense. Consequently, the cost of an annual audit (estimated to be \$36,000 by one UATS committee) is now borne entirely by the UATS local membership dues, and that cost can constitute a significant percentage of a UATS committee's total budget. Further, the cost reduces the total matching funds which serve as the basis for the UATS committee's federal financial support. For example, a loss of \$5,000 in local matching funds could reduce

the level of federal support by approximately \$25,000 to \$30,000.

Despite the changes in the federal law, the Department of Treasury has continued to require UATS to conduct and fund annual audits, warning that state revenue sharing could be withheld if an audit is not provided.

In light of the change in federal law, and in order to allow local intermunicipality committees, including Urban Area Transportation Study Committees, to operate more efficiently, some have argued that intermunicipality committees should not be required to conduct an annual audit, but should instead conduct biennial audits that would cover a two-year period.

CONTENT OF THE BILLS:

House Bill 4244 would amend the Uniform Budgeting and Accounting Act (MCL 141.422d) to exempt intermunicipality committees from the audit and budget requirements set forth in the act. Specifically, House Bill 4244 would change the definitions of "legislative body" and "local unit" that are found in the act to specify that neither definition would include an intermunicipality committee established under Public Act 200 of 1957.

House Bill 4609 would amend the act that provides for intermunicipality committees (MCL123.637) to require that an intermunicipality committee obtain an audit of its financial records, accounts, and procedures not less frequently than once every two years. The bill would require that the committee submit the results to the state treasurer, and that the audit met all requirements set forth in the Uniform Budgeting and Accounting Act.

The bills are tie-barred to each other.

House Bills 4244 and 4609 (5-11-99)

BACKGROUND INFORMATION:

Intermunicipality Committees. Public Act 200 of 1957 (MCL 123.631. to 123.636) allows the governing bodies of any two or more municipalities (defined to mean any city, village, township, charter township, or other incorporated political subdivision of the state) to establish an intermunicipality committee for the "purposes of studying area government problems of mutual interest and concern, including such matters as facility studies on sewers and sewage disposal, water, drains, roads, rubbish and garbage disposal, recreation and parks, and ports; and to formulate recommendations for review and action by the member governing bodies." Under the law, an intermunicipality committee may employ personnel or coordinate and conduct all types of surveys and studies; it must adopt by resolution of a majority any recommendations; it may publicize its purposes and findings and may distribute reports; and it must make an annual report of its activities to the member governing bodies. For the purpose of providing funds to meet the expenses of an intermunicipal committee, the member governing bodies, by resolution, may authorize the allocation of municipal funds.

FISCAL IMPLICATIONS:

The House Fiscal Agency notes that House Bill 4244 would have no direct impact on state or local revenue, but may reduce local costs for local units who are members of intermunicipality committees. (4-20-99)

ARGUMENTS:**For:**

These bills will help urban transportation study committees use their funds more efficiently and effectively. They will do so without jeopardizing the financial management of the committees, since under the proposed legislation, the state would retain the requirement for an audit, but reduce its frequency from once each year to once every two years.

POSITIONS:

The Ann Arbor-Ypsilanti Urban Area Transportation Study Committee supports the bills. (5-6-99)

The Department of Treasury supports the bills. (5-6-99)

The Michigan Townships Association supports the bills. (5-6-99)

Analyst: J. Hunault

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