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# HOUSE FISCAL AGENCY

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**HB4825** AS REPORTED WITH AMENDMENT(S)

**Sponsor**  
**Committee**

Rep. Scott Shackleton  
HOUSE APPROPRIATIONS

**Analyst(s)** Hamilton, William

**Completed** 7/11/01

### State Fiscal Impact

**Cost** None  
**Revenues** Decrease

### Local Fiscal Impact

**Cost** None  
**Revenues** Increase

House Bill 4825 would amend PA 231 of 1987 to establish a funding floor for Transportation Economic Development Fund (TEDF) categories "C" and "D" of \$9.8 million each. This would presumably direct increased debt service from category "A", since "A" would be the only TEDF category without a statutory minimum. Categories "C" and "D" are considered "local" programs while category "A" is considered to be a "state" program.

In the proposed FY 2001-02 transportation budget, this treatment of Build Michigan III TEDF debt service would increase the amount allocated to categories "C" and "D" by \$1.75 million each from the amounts proposed in the Executive budget recommendation, and decrease funding for category "A" by \$3.5 million. This is effectively an increase in "local" revenue and a decrease in "state" revenue.

A more detailed analysis of this bill was made in a House Fiscal Agency memo to the House Committee on Appropriations dated July 9, 2001.

MEMORANDUM



DATE: July 9, 2001  
 TO: House Committee on Appropriations  
 FROM: William E. Hamilton  
 RE: HB 4825 - Transportation Economic Development Fund

**Purpose** - This memo analyzes the fiscal impacts of House Bill 4825, a bill to amend PA 231 of 1987, regarding the Transportation Economic Development Fund (TEDF). HB 4825 was referred to the House Committee on Appropriations on May 24, 2001.

**Summary** - House Bill 4825 would amend PA 231 of 1987 to establish a funding floor for TEDF categories “C” and “D” of \$9.8 million each. This would presumably cause TEDF debt service in excess of \$6.6 million to be appropriated from category “A”, since “A” would be the only TEDF category without a statutory minimum. Categories “C” and “D” are considered “local” programs while category “A” is considered to be a “state” program.

In the proposed FY 2001-02 transportation budget, this treatment of Build Michigan III TEDF debt service would increase the amount allocated to categories “C” and “D” by \$1.75 million each from the amounts proposed in the Executive budget recommendation, and decrease funding for category “A” by \$3.5 million. This is effectively an increase in “local” revenue and a decrease in “state” revenue in relation to the alternative appropriation choice of taking all TEDF debt service “off the top” of the program.

**Background** – The TEDF was created by PA 231 of 1987 (MCL 247.901) to help fund highway, road, and street improvements related to either a specific type of economic activity or a specific type of road system. Most funds for the TEDF program come from a \$40.3 million Act 51 earmark of MTF funds (\$36,775,000 plus an additional \$3,500,000 specifically earmarked for the category “A” target industries program). In addition, TEDF receives approximately \$13.0 million each year from a statutory earmark of a portion of drivers’ license fees, and interest earnings of approximately \$4.0 million on the TEDF fund balance.

Of the total \$53.8 million appropriated from the fund in the 2000-01 fiscal year, \$537,800 is appropriated for program administration, \$6.6 million for debt service on existing TEDF bonds, and \$50.2 million for TEDF programs.

There are five TEDF program categories - “A”, “C”, “D”, “E”, and “F”. (Category “B”, which financed the conversion of local roads to state trunklines, is no longer a part of the TEDF program). The amount allocated to each of these program categories is determined by PA 231:

Program Category	FY 2000-01 Appropriation	Basis of Funding	State/Local
“E” - Forest roads	\$5,000,000	Fixed amount by PA 231	Local
“F” - Cities in rural counties	\$2,500,000	Fixed amount by PA 231	Local
“A” - Target industries	\$23,065,100	\$3.5 million Act 51 earmark, plus 50% of TEDF balance after debt service, administration, and “E” and “F” allocations.	State
		25% of TEDF balance after debt service, administration, and “E” and	

"C" - Urban county congestion	\$9,782,600	"F" allocations.	Local
"D" - Rural county primary	\$9,782,600	25% of TEDF balance after debt service, administration, and "E" and "F" allocations.	Local

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*Because PA 231 allocates a percentage of the TEDF balance to categories "A", "C", and "D", any increase in TEDF debt service "off the top" of the program would reduce the net TEDF balance available for distribution to categories "A", "C", and "D".*

Category "C" is intended to provide funds for urban congestion relief in the state's five largest urban counties (Wayne, Oakland, Macomb, Genesee, and Kent). Category "D" is intended to provide assistance to the remaining 78 counties for the county primary road system. Categories "C", "D", "E" and "F" are considered local programs; funds are distributed to local road agencies which have – within program criteria – discretion in project selection. Category "A", intended to assist with the transportation infrastructure needs of specific economic development projects, is a competitive grant program administered jointly by MDOT and the Michigan Economic Development Corporation.

**Debt Service** – In 1989 the department issued \$100 million in bonds for TEDF category "A" and "B" programs. From fiscal year 1990-91 through 1997-98 annual debt service on these bonds – from \$5.9 to \$11.5 million – was taken from the category "A" program allocation. This changed with the PA 79 of 1997 amendment of Act 51 which gave TEDF debt service "first priority" from the program. This was interpreted to mean that TEDF debt service was taken "off the top" of the program rather than from the category "A" allocation. This change in funding for debt service was first made in the 1998-99 fiscal year budget.

In October 2000 the State Transportation Commission authorized the sale of Build Michigan III bonds – including bonds related to transportation economic development projects. The department intends to sell Build Michigan III bonds sometime in the current fiscal year. Although those bonds have not yet been issued, anticipated debt service on these bonds is reflected in the Governor's 2001-02 FY budget recommendations.

**The Apparent Problem** – As noted above, Section 10 (1) (g) of Act 51 provides for a \$36,775,000 annual appropriation from the Michigan Transportation Fund (MTF) to the Transportation Economic Development Fund (TEDF) *"with the first priority for allocation to debt service on bonds issued to fund transportation economic development projects."* TEDF debt service in the current fiscal year is \$6.6 million, and the appropriation for this debt service is, as described above, taken "off the top" of the TEDF program.

The Executive recommendation for the 2001-02 budget includes a \$7.0 million increase in TEDF debt service related to the economic development portion of Build Michigan III bonds. This increase in debt service would reduce the amount available for TEDF programs. In accordance with the Act 51 "first priority" language, the Executive proposed to take this \$7.0 million increase in debt service "off the top" of the TEDF program. As a result of the PA 231 distribution formula, half of the \$7.0 million program reduction (\$3.5 million) would come from the category "A" program (Target industries), with the remaining \$3.5 million reduction coming equally from categories "C" (Urban congestion relief) and "D" (Rural county primary) – even though all TEDF/ Build Michigan III projects were category "A" projects.

*The treatment of TEDF debt service in the Executive's proposed 2001-02 budget is the same as in the current year budget – however the effect on categories "C" and "D" is greater because of the increase in TEDF debt service from \$6.6 million to \$13.6 million as a result of Build Michigan III bonds.*

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Both the Senate- and House-passed Transportation appropriations bills (SB 239) direct all the Build Michigan III/TEDF debt service to come from category "A". However, some argued that this change required an amendment to Act 51 or, alternatively, to PA 231.

**Conclusion** - House Bill 4825 would amend PA 231 of 1987 to establish a funding floor for Transportation Economic Development Fund (TEDF) categories "C" and "D" of \$9.8 million each. This would presumably direct increased debt service from category "A", since "A" would be the only TEDF category without a statutory minimum. Categories "C" and "D" are considered "local" programs while category "A" is considered to be a "state" program.

In the proposed FY 2001-02 transportation budget, this treatment of Build Michigan III TEDF debt service would increase the amount allocated to categories "C" and "D" by \$1.75 million each from the amounts proposed in the Executive budget recommendation, and decrease funding for category "A" by \$3.5 million. This is effectively an increase in "local" revenue and a decrease in "state" revenue in relation to the alternative appropriation choice of taking all TEDF debt service "off the top" of the program.

*Note: The House-passed substitute for Senate Bill 239, the 2001-02 fiscal year state transportation appropriations bill, is tie-barred to the passage of HB 4825. Also, HB 4825 is identical to SB 521.*

**Attachments:**

Attached are flowcharts showing TEDF distribution in the current year and proposed funding for FY 2001-02.

If you have any questions please call me at 3-8080.

MEMO TO APPROPRIATIONS