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BILL ANALYSIS

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Senate Bill 334 (Substitute S-3 as reported)
Sponsor: Senator Michael Switalski
Committee: Transportation

Date Completed: 7-14-03

RATIONALE

Public Act 51 of 1951 provides for the distribution of money from the Michigan Transportation Fund (MTF). Under the Act, the State "returns" MTF funds to cities and villages for specific purposes in a particular order of priority. The purposes include the construction and maintenance of a city's or village's major street system, followed by the construction and maintenance of the city's or village's local street system. A city or village may not spend MTF funds for the construction of local streets unless the money is matched by local revenues. Also, funds designated for the major street system may be used for the local street system, but the money must be matched equally by local revenue expenditures on the major street system or State trunk line highways.

Some municipalities, however, do not have enough money to meet the match requirement for projects on local streets. It has been suggested that cities and villages should be allowed to spend major street system funds on a local street system without matching expenditures, in order to carry out preservation projects.

CONTENT

The bill would amend Public Act 51 of 1951 to provide that money returned from the Michigan Transportation Fund for expenditure on the local street system could be spent without regard to the amount of local revenue spent, if the money were to be spent on preservation. (This would apply to money that had been returned to a city or village for the major street system and transferred by the city or village to the local street system. Transferred money that was to be spent on the local street system for construction

purposes still would be subject to the requirement that it be matched by the amount of local expenditures on the major street system or State trunk line highways.)

Additionally, the bill would delete various references to "improvement", "maintenance", and "reconstruction" and instead refer to "preservation". The bill would make this change in the provisions that spell out the purpose of MTF funds returned to cities and villages, i.e., "...the maintenance, improvement, construction, reconstruction, acquisition, and extension" of the major and local street systems. Also, the Act states that money distributed to each city and village for the maintenance and improvement of its local street system under the Act represents the total responsibility of the State for local street system support. The bill would refer to "preservation", rather than "maintenance". (The Act defines "preservation" as an activity undertaken to preserve the integrity of the existing roadway system. The term does not include new construction of highways, roads, or bridges. Preservation does include routine and/or preventive maintenance, capital preventive treatments, reconstruction, resurfacing, restoration, rehabilitation, and other specified activities.)

Under the Act, if a city or village transfers more than 25% of its major street funding for the local street system, the city or village must adopt a resolution and include in it certain information (e.g., the amount of the transfer and the local streets to be funded). Under the bill, the resolution also would have to include a statement, where applicable, that the city or village was following an asset management plan.

BACKGROUND

Previously, Public Act (PA) 51 of 1951 provided that not more than 25% per year of the amount returned to a city or village for use on the major street system could be spent on a local street system. Evidently, this restriction sometimes meant that the streets most needing repair could not be given the attention they required. To address this, Public Act 54 of 1999 amended PA 51 to delete the restriction on the percentage of MTF money for major street systems that a city or village could spend on a local street system; require that money returned to a city or village from the MTF be spent on the major and local street systems of that city or village with the first priority being the major street system; and require a city or village that transfers more than 25% of its major street money to a local street system to adopt a resolution on the use of the funds.

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

By eliminating the local match requirement for the use of major street system funds on local street system preservation projects, the bill would give cities and villages flexibility in the use of money allocated to major street systems. This would alleviate a financial burden on local governments without costing the State anything. At the same time, the bill would help support more road work at the local level and put people in communities to work on necessary preservation projects.

Supporting Argument

In conjunction with legislation establishing an "asset management program", Public Act 498 of 2002 amended PA 51 to enact a single definition of the term "maintenance" (which previously had been defined in three separate ways), as well as use and define the term "preservation". Preservation specifically excludes the construction of new streets and bridges, but encompasses most other roadway projects, including maintenance. By eliminating the local match only for preservation projects, the bill would continue

to require cities and villages to use local revenue in order to match State funding for projects involving new road construction. This requirement ensures that the State does not pay the full cost of building new roads that might contribute to urban sprawl. Referring to "preservation" instead of "maintenance", "improvement", or "reconstruction" also would bring consistency to the Act and enhance the distinction between preservation and construction.

Legislative Analyst: Julie Koval
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FISCAL IMPACT

The bill would not have any fiscal impact on the State. Restricted State transportation revenue in the Michigan Transportation Fund is distributed to road agencies (Michigan Department of Transportation, county road commissions, incorporated cities and villages) pursuant to formulae contained in Public Act 51 of 1951. The bill would not change the PA 51 formulae for distribution to these road agencies. Public Act 51 also contains formulae to distribute MTF revenue among individual cities and villages based on various criteria. The MTF allocation received by local units of government is divided 75% for work on the major street system and 25% for work on the local street system.

The Act distinguishes between "maintenance" and "construction" projects for the purposes of requiring a local match on a local street road and bridge projects using MTF funding. The bill would further define which road and bridge projects on the local street system require a local revenue match. The bill would delete the local revenue match requirement for road and bridge projects on the local street system covered under the definition of "preservation" in Section 10c of PA 51. Without the exemption from the match requirement for "preservation" projects (i.e., reconstruction of an existing road), local units of government would be required to provide a local match for more types of road and bridge projects.

The bill also would allow local units of government to transfer funds from their major street allocation to their local street allocation without regard to the amount of local revenue expended on the major street system if the money transferred is to be spent on

"preservation" projects. This provision would have no fiscal impact on the State. For construction projects, the transfer of funds from major to local system would continue to be limited to the amount of local revenues spent on the major system.

The bill could affect road and bridge construction decisions of local units of government. The amount of local financial resources invested in local road and bridge construction projects on the local street system could decrease as a result of the elimination of the match requirement. Consequently, the dollars annually spent on major versus local road construction, maintenance, and repair, within any given local unit of government, could be affected. The change in these expenditure patterns would vary by local unit of government, and depend on factors such as existing road mileage, type, and locality, average city road expenditures, and traffic patterns.

According to the Michigan Department of Transportation, for the fiscal year that ended September 30, 2002, local units of government spent approximately \$41,600,000 in local financial resources to match MTF revenue used for road and bridge construction projects on the local street system. Under the bill, a portion of this funding, representing "preservation" work, would not have to be spent by the local unit of government to match State MTF resources spent on the local street system.

Fiscal Analyst: Craig Thiel

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.