

# SENATE BILL No. 1323

May 15, 2008, Introduced by Senators GILBERT, VAN WOERKOM, HARDIMAN and CROPSEY and referred to the Committee on Transportation.

A bill to amend 1951 PA 51, entitled

"An act to provide for the classification of all public roads, streets, and highways in this state, and for the revision of that classification and for additions to and deletions from each classification; to set up and establish the Michigan transportation fund; to provide for the deposits in the Michigan transportation fund of specific taxes on motor vehicles and motor vehicle fuels; to provide for the allocation of funds from the Michigan transportation fund and the use and administration of the fund for transportation purposes; to set up and establish the truck safety fund; to provide for the allocation of funds from the truck safety fund and administration of the fund for truck safety purposes; to set up and establish the Michigan truck safety commission; to establish certain standards for road contracts for certain businesses; to provide for the continuing review of transportation needs within the state; to authorize the state transportation commission, counties, cities, and villages to borrow money, issue bonds, and make pledges of funds for transportation purposes; to authorize counties to advance funds for the payment of deficiencies necessary for the payment of bonds issued under this act; to provide for the limitations, payment, retirement, and security of the bonds and pledges; to provide for appropriations and tax levies by counties and townships for county roads; to authorize contributions by townships for county roads; to provide for the

establishment and administration of the state trunk line fund, local bridge fund, comprehensive transportation fund, and certain other funds; to provide for the deposits in the state trunk line fund, critical bridge fund, comprehensive transportation fund, and certain other funds of money raised by specific taxes and fees; to provide for definitions of public transportation functions and criteria; to define the purposes for which Michigan transportation funds may be allocated; to provide for Michigan transportation fund grants; to provide for review and approval of transportation programs; to provide for submission of annual legislative requests and reports; to provide for the establishment and functions of certain advisory entities; to provide for conditions for grants; to provide for the issuance of bonds and notes for transportation purposes; to provide for the powers and duties of certain state and local agencies and officials; to provide for the making of loans for transportation purposes by the state transportation department and for the receipt and repayment by local units and agencies of those loans from certain specified sources; and to repeal acts and parts of acts,"

by amending sections 12 and 13 (MCL 247.662 and 247.663), section 12 as amended by 2002 PA 498 and section 13 as amended by 2006 PA 338.

**THE PEOPLE OF THE STATE OF MICHIGAN ENACT:**

1       Sec. 12. (1) The amount distributed to the county road  
2       commissions shall be returned to the county treasurers in the  
3       manner, for the purposes, and under the terms and conditions  
4       specified in this section. The department and the county road  
5       association of Michigan shall jointly develop incentives for  
6       counties to establish statewide purchasing pools for the more  
7       efficient use of Michigan transportation funds.

8       (2) Each county road commission shall be reimbursed in an  
9       amount up to \$10,000.00 per year for the sum paid to a licensed  
10      professional engineer employed or retained by the county road  
11      commission in the previous year. The sum shall be returned to each  
12      county road commission certified by the state transportation  
13      department as complying with this subsection regarding the

1 employment of an engineer.

2 (3) An amount equal to 1% of the total amount returned to the  
3 county road commissions from the Michigan transportation fund  
4 during the prior calendar year shall be withheld annually from the  
5 counties' November monthly distribution provided for in section 17,  
6 and the amount shall be returned to the county road commissions for  
7 snow removal purposes as provided in section 12a.

8 (4) An amount equal to 10% of the total amount returned to the  
9 county road commissions from the Michigan transportation fund shall  
10 be returned to each county road commission having county primary,  
11 or county local road, or both, mileage in the urban areas as  
12 determined pursuant to section 12b. This sum shall be distributed  
13 pursuant to section 12b. The return shall be in addition to the  
14 amounts provided in subsections (6) and (7) and for the purposes  
15 stated in those subsections.

16 (5) An amount equal to 4% of the total amount returned to the  
17 county road commissions from the Michigan transportation fund shall  
18 be returned to the county road commissions in the same percentages  
19 as provided in subsection (7). All money returned to the county  
20 road commissions as provided in this subsection shall be expended  
21 by the county road commissions for the preservation, construction,  
22 acquisition, and extension of county local road systems and shall  
23 be in addition to the amounts provided in subsection (7).

24 (6) Seventy-five percent of the remainder of the total amount  
25 to be returned to the counties shall be expended by each county  
26 road commission for the preservation, construction, acquisition,  
27 and extension of the county primary road system, including the

1 acquisition of a necessary right of way for the system, work  
2 incidental to the system, and a roadside park or motor parkway  
3 appurtenant to the system, and shall be returned to the counties as  
4 follows:

5 (a) Three-fourths of the amount in proportion to the amount  
6 received within the respective county during the 12 months next  
7 preceding the date of each monthly distribution, as specific taxes  
8 upon registered motor vehicles under the Michigan vehicle code,  
9 1949 PA 300, MCL 257.1 to 257.923.

10 (b) One-tenth of the amount in the same proportion that the  
11 total mileage in the county primary road system of each county  
12 bears to the total mileage in all of the county primary road  
13 systems of the state.

14 (c) One eighty-third of the remaining 15% of the amount to  
15 each county.

16 (7) The balance of the remainder of the total amount to be  
17 returned to counties shall be expended by each county road  
18 commission for the preservation, construction, acquisition, and  
19 extension of the county local road system as defined by this act,  
20 including the acquisition of a necessary right of way for the  
21 system, work incidental to the system, and a roadside park or motor  
22 parkway appurtenant to the system, and shall be returned to the  
23 counties as follows:

24 (a) Sixty-five percent of the amount in the same proportion  
25 that the total mileage in the county local road system of each  
26 county bears to the total mileage in all of the county local road  
27 systems of the state.

1           (b) Thirty-five percent of the amount in the same proportion  
2 that the total population outside of incorporated municipalities in  
3 each county bears to the total population outside of incorporated  
4 municipalities in all of the counties of the state, according to  
5 the most recent statewide federal census as certified at the  
6 beginning of the state fiscal year.

7           (8) Money deposited in, or becoming a part of the county road  
8 funds of a board of county road commissioners shall be expended  
9 first for the payment of principal and interest on the bonds, for  
10 the payment of contractual contributions pledged for the payment of  
11 bonds, for debt service requirements for the payment of contractual  
12 contributions pledged for the payment of bonds, and for debt  
13 service requirements for the payment of notes and loans in the  
14 following order of priority:

15           (a) For the payment of contributions required to be made by a  
16 board of county road commissioners under a contract entered into  
17 under 1941 PA 205, MCL 252.51 to 252.64, which contributions have  
18 been pledged for the payment of the principal and interest on bonds  
19 issued under that act, or for the payment of total debt service  
20 requirements upon notes issued by a board of county road  
21 commissioners under 1943 PA 143, MCL 141.251 to 141.254.

22           (b) For the payment of principal and interest upon bonds  
23 issued under section 18c, and the payment of contributions of a  
24 board of county road commissioners to be made pursuant to contracts  
25 entered into under section 18d, which contributions are pledged to  
26 the payment of principal and interest on bonds issued after June  
27 30, 1957, under the authorization of section 18c and contracts

1 executed pursuant to its provisions.

2 (c) For the payment of principal and interest upon loans  
3 received pursuant to section 11(7), to the extent other funds have  
4 not been made available for that payment.

5 (9) Not to exceed 30% per year of the amount returned to a  
6 county for use on the county primary road system may be expended,  
7 with or without matching, on the county local road system of that  
8 county. Not to exceed 15% per year of the amount returned to a  
9 county for expenditure on the county local road system may be used,  
10 with or without matching, on the county primary road system of that  
11 county, and not to exceed an additional 15% per year of the amount  
12 returned to a county for expenditure on the county local road  
13 system, may, in case of an emergency or with the approval of the  
14 state transportation department, be expended, with or without  
15 matching, on the county primary road system of that county. An  
16 amount returned to a county for and on account of county local  
17 roads, under this section, in excess of the total amount paid into  
18 the county treasury each year by all of the townships of that  
19 county for and on account of the county local roads pursuant to  
20 section 14(6) may be transferred to and expended on the county  
21 primary road system of that county.

22 (10) Not less than 20% per year of the funds returned to a  
23 county by this section shall be expended for snow and ice removal,  
24 the construction or reconstruction of a new highway or existing  
25 highway, and the acquisition of a necessary right of way for those  
26 highways, and work incidental to those highways, or for the  
27 servicing of bonds issued by the county for these purposes. Surplus

1 funds may be expended for the development, construction, or repair  
2 of an off-street parking facility.

3 (11) Not more than 5% per year of the funds returned to a  
4 county for the county primary road system and the county local road  
5 system shall be expended for the maintenance, improvement, or  
6 acquisition of appurtenant roadside parks and motor parkways.

7 (12) Funds returned to a county shall be expended by the  
8 county road commission for the purposes provided in this section  
9 and shall be deposited by the county treasurer in a designated  
10 county depository, in a separate account to the credit of the  
11 county road fund, and shall be paid out only upon the order of the  
12 county road commission, and interest accruing on the money shall  
13 become a part of, and be deposited with the county road fund.

14 (13) In a county to which the funds are returned the function  
15 of the county road commission shall be limited to the formation of  
16 policy and the performance of the official duties imposed by law  
17 and delegated by the county board of commissioners. A member of the  
18 county road commission shall not be employed individually in any  
19 other capacity for other duties with the county road commission.

20 (14) A county road commission may enter into an agreement with  
21 a county road commission of an adjacent county and with a city or  
22 village to perform work on a highway, road, or street, and with the  
23 state transportation department with respect to a state trunk line  
24 and connecting links of the state trunk line within the limits of  
25 the county or adjacent to the county. The agreement may provide for  
26 the performance by each contracting party of the work contemplated  
27 by the contract including engineering services and the acquisition

1 of rights of way in connection with the work contemplated, by  
2 purchase or condemnation, by any of the contracting parties in its  
3 own name and the agreement may provide for joint participation in  
4 the costs.

5 (15) Money distributed from the Michigan transportation fund  
6 may be expended for construction purposes on county local roads  
7 only to the extent matched by money from other sources. However,  
8 Michigan transportation funds may be expended for the construction  
9 of bridges on the county local roads in an amount not to exceed 75%  
10 of the cost of the construction of local road bridges. This  
11 subsection does not apply to section 11b.

12 (16) Notwithstanding any other provision of this act, at least  
13 90% of the state revenue returned annually to the county road  
14 commission from the Michigan transportation fund less the amounts  
15 described in subdivisions (a) to (e) shall be expended annually by  
16 the county road commission for the preservation of highways, roads,  
17 streets, and bridges, and for the payment of contractual  
18 contributions pledged for the payment of bonds or portions of  
19 bonds, debt service requirements for the payment of bonds or  
20 portions of bonds, and debt service requirements for the payment of  
21 notes and loans or portions of notes and loans issued or received  
22 after July 1, 1983, for the purpose of providing funds for the  
23 preservation of highways, roads, streets, and bridges. If an  
24 appropriate certificate is filed under subsection (19) but only to  
25 the extent necessary, this subsection shall not prohibit the use of  
26 any amount of state revenue returned annually to the county road  
27 commissions for the payment of contractual contributions pledged



1 for the payment of bonds, for debt service requirements for the  
2 payment of bonds, and for debt service requirements for the payment  
3 of notes or loans, whenever issued or received, as specified under  
4 subsection (8). The amounts which are deducted from the state  
5 revenue returned to a county road commission from the Michigan  
6 transportation fund, for the purpose of the calculation required by  
7 this subsection are as follows:

8 (a) Amounts expended for the purposes described in subsection  
9 (8) for bonds, notes, loans, or other obligations issued or  
10 received before July 2, 1983.

11 (b) Amounts expended for the administrative costs of the  
12 county road commission.

13 (c) Amounts expended for capital outlay projects for equipment  
14 and buildings, and for the payment of contractual contributions  
15 pledged for the payment of bonds, for debt service requirements for  
16 the payment of bonds, and for debt service requirements for the  
17 payment of notes and loans issued or received after July 1, 1983,  
18 for the purpose of providing funds for capital outlay projects for  
19 equipment and buildings.

20 (d) Amounts expended for projects vital to the economy of the  
21 local area or the safety of the public in the local area. Before  
22 these amounts can be deducted, the governing body over the county  
23 road commission or the county road commission, as applicable, shall  
24 pass a resolution approving these projects. This resolution shall  
25 state which projects will be funded and the cost of each project. A  
26 copy of each approved resolution shall be forwarded immediately to  
27 the department.

1 (e) Amounts expended in urban areas as determined pursuant to  
2 section 12b.

3 (17) As used in this subsection, "urban routes" means those  
4 portions of 2-lane county primary roads within an urban area which  
5 has average daily traffic in excess of 15,000. Notwithstanding any  
6 other provision of this act, except as provided in this subsection,  
7 a county road commission shall expend annually at least 90% of the  
8 federal revenue distributed to the use of the county road  
9 commission for highways, roads, streets, and bridges, less the  
10 amount expended on urban routes for other than preservation  
11 purposes and the amount expended for hard-surfacing of gravel roads  
12 on the federal-aid system, on the preservation of highways, roads,  
13 streets, and bridges. A county road commission may expend in a year  
14 less than 90% of the federal revenue distributed to the use of the  
15 county road commission for highways, roads, streets, and bridges,  
16 less the amount expended on urban routes for other than  
17 preservation purposes and the amount expended for hard-surfacing of  
18 gravel roads on the federal-aid system, on the preservation of  
19 highways, roads, streets, and bridges, if that year is part of a 3-  
20 year period in which at least 90% of the total federal revenue  
21 distributed in the 3-year period to the use of the county road  
22 commission for highways, roads, streets, and bridges, less the  
23 amount expended on urban routes for other than preservation  
24 purposes and the amount expended for hard-surfacing of gravel roads  
25 on the federal-aid system, is expended on the preservation of  
26 highways, roads, streets, and bridges. If a county road commission  
27 expends in a year less than 90% of the federal revenue distributed

1 to the use of the county road commission for highways, roads,  
2 streets, and bridges, less the amount expended on urban routes for  
3 other than preservation purposes and the amount expended for hard-  
4 surfacing of gravel roads on the federal-aid system, on the  
5 preservation of highways, roads, streets, and bridges and that year  
6 is not a part of a 3-year period in which at least 90% of the total  
7 federal revenue distributed in the 3-year period to the use of the  
8 county road commission for highways, roads, streets, and bridges,  
9 less the amount expended on urban routes for other than  
10 preservation purposes and the amount expended for hard-surfacing of  
11 gravel roads on the federal-aid system, is expended on the  
12 preservation of highways, roads, streets, and bridges, the county  
13 road commission shall expend in each year subsequent to the 3-year  
14 period 100%, or less in 1 year if sufficient for the purposes of  
15 this subsection, of the federal revenue distributed to the use of  
16 the county road commission for highways, roads, streets, and  
17 bridges, less the amount expended on urban routes for other than  
18 preservation purposes and the amount expended for hard-surfacing of  
19 gravel roads on the federal-aid system, on the preservation of  
20 highways, roads, streets, and bridges until the average percentage  
21 spent on the preservation of highways, roads, streets, and bridges  
22 in the 3-year period and the subsequent years, less the amount  
23 expended on urban routes for other than preservation purposes and  
24 the amount expended for hard-surfacing of gravel roads on the  
25 federal-aid system, is at least 90%. A year may be included in only  
26 one 3-year period for the purposes of this subsection. The  
27 requirements of this subsection shall be waived if compliance would

1 cause the county road commission to be ineligible according to  
2 federal law for federal revenue, but only to the extent necessary  
3 to make the county road commission eligible according to federal  
4 law for that revenue. For the purpose of the calculations required  
5 by this subsection, the amount expended on urban routes by a county  
6 road commission for other than preservation purposes and the amount  
7 expended for hard-surfacing of gravel roads on the federal-aid  
8 system shall be deducted from the total federal revenue distributed  
9 to the use of the county road commission.

10 (18) A county road commission shall certify, which  
11 certification shall, for purposes of the validity of bonds and  
12 notes, be conclusive as to the matters stated therein, to the state  
13 transportation department on or before the issuance of any bonds or  
14 notes issued after July 1, 1983, pursuant to 1943 PA 143, MCL  
15 141.251 to 141.254, 1941 PA 205, MCL 252.51 to 252.64, or section  
16 18c or 18d, for purposes other than the preservation of highways,  
17 roads, streets, and bridges and purposes other than the purposes  
18 specified in subsection (16)(c) that its average annual debt  
19 service requirements for all bonds and notes or portions of bonds  
20 and notes issued after July 1, 1983, for purposes other than the  
21 preservation of highways, roads, streets, and bridges and other  
22 than for the purposes specified in subsection (16)(c), including  
23 the bond or note to be issued does not exceed 10% of the funds  
24 returned to the county road commission pursuant to this act, less  
25 the amounts specified in subsection (16)(a), (b), and (c) during  
26 the last completed fiscal year of the county road commission. If  
27 the purpose for which the bonds or notes are issued is changed

1 after the issuance of the notes or bonds, the change shall be made  
2 in such a manner to maintain compliance with the certification  
3 required by this subsection, as of the date the certificate was  
4 originally issued, but no such change shall invalidate or otherwise  
5 affect the bonds or notes with respect to which the certificate was  
6 issued or the obligation to pay debt service on the bonds or notes.

7 (19) In each charter county to which funds are returned under  
8 this section, the responsibility for road improvement,  
9 preservation, and traffic operation work, and the development,  
10 construction, or repair of off-road parking facilities and  
11 construction or repair of road lighting shall be coordinated by a  
12 single administrator to be designated by the county executive who  
13 shall be responsible for and shall represent the charter county in  
14 transactions with the state transportation department pursuant to  
15 this act.

16 (20) Not more than 10% per year of all of the funds received  
17 by and returned to a county from any source for the purposes of  
18 this section may be expended for administrative expenses. A county  
19 that expends more than 10% for administrative expenses in a year  
20 shall be subject to section 14(5) unless a waiver is granted by the  
21 department of treasury. As used in this subsection, "administrative  
22 expenses" means those expenses that are not assigned including, but  
23 not limited to, specific road construction or preservation projects  
24 and are often referred to as general or supportive services.  
25 Administrative expenses shall not include net equipment expense,  
26 net capital outlay, debt service principal and interest, and  
27 payments to other state or local offices which are assigned, but

1 not limited to, specific road construction projects or preservation  
2 activities.

3 (21) In addition to the financial compliance audits required  
4 by law, the department of treasury shall conduct performance audits  
5 and make investigations of the disposition of all state funds  
6 received by county road commissions, county boards of  
7 commissioners, or any other county governmental agency acting as  
8 the county road authority, for transportation purposes to determine  
9 compliance with the terms and conditions of this act. Performance  
10 audits shall be conducted according to government auditing  
11 standards issued by the United States general accounting office.  
12 **THE DEPARTMENT SHALL DEVELOP ALL ADDITIONAL AUDIT PROCEDURES AND**  
13 **REPORTING REQUIREMENTS SUFFICIENT TO DETERMINE WHETHER FUNDS**  
14 **EXPENDED UNDER THIS SECTION WERE EXPENDED IN COMPLIANCE WITH THIS**  
15 **ACT BY JULY 1, 2008 AND SHALL REPORT TO THE TRANSPORTATION**  
16 **COMMITTEES OF THE SENATE AND HOUSE OF REPRESENTATIVES NO LATER THAN**  
17 **AUGUST 1, 2008 ON THE ADDITIONAL AUDIT PROCEDURES AND REPORTING**  
18 **REQUIREMENTS.** The department of treasury shall provide 6 months  
19 notice to the county road commission or county board of  
20 commissioners, as applicable, of the standards to be used for  
21 audits performed under this subsection prior to the fiscal year in  
22 which the audit is conducted. The department shall notify the  
23 county road commission or county board of commissioners of any  
24 subsequent changes to the standards. County road commissions or  
25 county boards of commissioners, as applicable, shall make available  
26 to the department of treasury the pertinent records for the audit.

27 Sec. 13. (1) The amount distributed to cities and villages

1 shall be returned to the treasurers of the cities and villages in  
2 the manner, for the purposes, and under the terms and conditions  
3 specified in this section. As used in this section, "population"  
4 means the population according to the most recent statewide federal  
5 census as certified at the beginning of the state fiscal year,  
6 except that, if a municipality has been newly incorporated since  
7 completion of the census, the population of the municipality for  
8 purposes of the distribution of funds before completion of the next  
9 census shall be the population as determined by special federal  
10 census, if there is a special federal census, and if not, by the  
11 population as determined by the official census in connection with  
12 the incorporation, if there is such a census and, if not, by a  
13 special state census to be taken at the expense of the municipality  
14 by the secretary of state pursuant to section 6 of the home rule  
15 city act, 1909 PA 279, MCL 117.6. The amount received by the newly  
16 incorporated municipality shall be in place of any other direct  
17 distribution of funds from the Michigan transportation fund. The  
18 population of the newly incorporated municipality as determined  
19 under this section shall be added to the total population of all  
20 incorporated cities and villages in the state in computing the  
21 amounts to be returned under this section to each municipality in  
22 the state. Major street mileage, local street mileage, and  
23 equivalent major mileage, if applicable, shall be determined by the  
24 state transportation department before the next month for which  
25 distribution is made following the effective date of incorporation  
26 of a newly incorporated municipality.

27 (2) From the amount available for distribution to cities and

1 villages during each December, an amount equal to 0.7% of the total  
2 amount returned to all cities and villages under subsections (3)  
3 and (4) during the previous calendar year shall be withheld. The  
4 amount withheld shall be used to partially reimburse those cities  
5 and villages located in those counties that are eligible for snow  
6 removal funds pursuant to section 12a and that have costs for  
7 winter maintenance on major and local streets that are greater than  
8 the statewide average. The distributions shall be made annually  
9 during February and shall be calculated separately for the major  
10 and local street systems but may be paid in a combined warrant. The  
11 distribution to a city or village shall be equal to 1/2 of its  
12 winter maintenance expenditures after deducting the product of its  
13 total earnings under subsections (3) and (4) multiplied by 2 times  
14 the average municipal winter maintenance factor. Winter maintenance  
15 expenditures shall be determined from the street financial reports  
16 for the most current fiscal years ending before July 1. A city or  
17 village that does not submit a street financial report for the  
18 fiscal year ending before July 1 by the subsequent December 31  
19 shall be ineligible for the winter maintenance payment that is to  
20 be based on that street financial report. The average municipal  
21 winter maintenance factor shall be determined annually by the state  
22 transportation department by dividing the total expenditures of all  
23 cities and villages on winter maintenance of streets and highways  
24 by the total amount earned by all cities and villages under  
25 subsections (3) and (4) during the 12 months. If the sum of the  
26 distributions to be made under this subsection exceeds the amount  
27 withheld, the distributions to each eligible city and village shall



1 be reduced proportionately. If the sum is less than the amount  
2 withheld, the balance shall be added to the amount available for  
3 distribution under subsections (3) and (4) during the next month.  
4 The distributions shall be for use on the major and local street  
5 systems respectively and shall be subject to the same provisions as  
6 funds returned under subsections (3) and (4).

7 (3) Seventy-five percent of the remaining amount to be  
8 returned to the cities and villages, after deducting the amounts  
9 withheld pursuant to subsection (2), shall be returned 60% in the  
10 same proportion that the population of each bears to the total  
11 population of all cities and villages, and 40% in the same  
12 proportion that the equivalent major mileage in each bears to the  
13 total equivalent major mileage in all cities and villages. As used  
14 in this section, "equivalent major mileage" means the sum of 2  
15 times the state trunk line mileage certified by the state  
16 transportation department as of March 31 of each year, as being  
17 within the boundaries of each city and village having a population  
18 of 25,000 or more, plus the major street mileage in each city and  
19 village, multiplied by the following factor:

20 1.0 for cities and villages of 2,000 or less population;

21 1.1 for cities and villages from 2,001 to 10,000 population;

22 1.2 for cities and villages from 10,001 to 20,000 population;

23 1.3 for cities and villages from 20,001 to 30,000 population;

24 1.4 for cities and villages from 30,001 to 40,000 population;

25 1.5 for cities and villages from 40,001 to 50,000 population;

26 1.6 for cities and villages from 50,001 to 65,000 population;

27 1.7 for cities and villages from 65,001 to 80,000 population;

1       1.8 for cities and villages from 80,001 to 95,000 population;  
2       1.9 for cities and villages from 95,001 to 160,000 population;  
3       2.0 for cities and villages from 160,001 to 320,000

4 population;

5       and for cities over 320,000 population, by a factor of 2.1  
6 increased successively by 0.1 for each 160,000 population increment  
7 over 320,000. The amount returned under this subsection shall be  
8 used by each city and village for the following purposes in the  
9 following order of priority:

10       (a) For the payment of contributions required to be made by a  
11 city or village under the provisions of contracts previously  
12 entered into under 1941 PA 205, MCL 252.51 to 252.64, which  
13 contributions have been previously pledged for the payment of the  
14 principal and interest on bonds issued under that act; or for the  
15 payment of the principal and interest upon bonds issued by a city  
16 or village pursuant to 1952 PA 175, MCL 247.701 to 247.707.

17       (b) Payment of obligations of the city or village on highway  
18 projects undertaken by the city or village jointly with the state  
19 transportation department.

20       (c) For the payment of principal and interest upon loans  
21 received pursuant to section 11(5), to the extent other funds have  
22 not been made available for that payment.

23       (d) For the preservation, construction, acquisition, and  
24 extension of the major street system as defined by this act  
25 including the acquisition of a necessary right of way for the  
26 system, work incidental to the system, and an appurtenant roadside  
27 park or motor parkway, of the city or village and for the payment

1 of the principal and interest on that portion of the city's or  
2 village's general obligation bonds which are attributable to the  
3 construction or reconstruction of the city's or village's major  
4 street system. Not more than 5% per year of the funds returned to a  
5 city or village by this subsection shall be expended for the  
6 preservation or acquisition of appurtenant roadside parks and motor  
7 parkways. Surplus funds may be expended for the development,  
8 construction, or repair of off-street parking facilities, and the  
9 construction or repair of street lighting, and transfer to the  
10 local street system under subsection (6).

11 (4) The remaining amount to be returned to incorporated cities  
12 and villages shall be expended in each city or village for the  
13 preservation, construction, acquisition, and extension of the local  
14 street system of the city or village, as defined by this act,  
15 including the acquisition of a necessary right of way for the  
16 system, work incidental to the system, and subject to subsection  
17 (5), for the payment of the principal and interest on that portion  
18 of the city's or village's general obligation bonds which are  
19 attributable to the construction or reconstruction of the city's or  
20 village's local street system. The amount returned under this  
21 subsection shall be returned to the cities and villages 60% in the  
22 same proportion that the population of each bears to the total  
23 population of all incorporated cities and villages in the state,  
24 and 40% in the same proportion that the total mileage of the local  
25 street system of each bears to the total mileage in the local  
26 street systems of all cities and villages of the state. The payment  
27 of the principal and interest upon bonds issued by a city or

1 village pursuant to 1952 PA 175, MCL 247.701 to 247.707, and after  
2 that payment, the payment of debt service on loans received under  
3 section 11(5), shall have priority in the expenditure of money  
4 returned under this subsection.

5 (5) Money distributed to each city and village for the  
6 maintenance and preservation of its local street system under this  
7 act represents the total responsibility of the state for local  
8 street system support. Funds distributed from the Michigan  
9 transportation fund shall not be expended for construction purposes  
10 on city and village local streets except to the extent matched from  
11 local revenues including other money returned to a city or village  
12 by the state under the state constitution of 1963 and statutes of  
13 the state, from funds that can be raised by taxation in cities and  
14 villages for street purposes within the limitations of the state  
15 constitution of 1963 and statutes of the state, from special  
16 assessments, or from any other source.

17 (6) Money returned under this section to a city or village  
18 shall be expended on the major and local street systems of that  
19 city or village. However, the first priority shall be the major  
20 street system. Money returned for expenditure on the major street  
21 system shall be expended in the priority order provided in  
22 subsection (3) except that surplus funds may be transferred for  
23 preservation of the local street system. Major street funds  
24 transferred for use on the local street system shall not be used  
25 for construction but may be used for preservation as defined in  
26 section 10c. A city or village shall not transfer more than 50% of  
27 its annual major street funding for the local street system unless

1 it has adopted and is following an asset management process for its  
2 major and local street systems and adopts a resolution with a copy  
3 to the department setting forth all of the following:

4 (a) A list of the major streets in that city or village.

5 (b) A statement that the city or village is adequately  
6 maintaining its major streets.

7 (c) The dollar amount of the transfer.

8 (d) The local streets to be funded with the transfer.

9 (e) A statement that the city or village is following an asset  
10 management process for its major and local street systems.

11 (7) A city or village that has not adopted an asset management  
12 plan shall obtain the concurrence of the department to transfer  
13 more than 50% of its major street funding to its local street  
14 system. The department may provide for pilot projects that would  
15 allow a city or village that has adopted an asset management plan  
16 under subsection (6) to combine their local and major street funds  
17 into 1 street fund and to submit a single report to the department  
18 on the expenditure of funds on the local and major street systems.

19 (8) Not more than 10% per year of all of the funds returned to  
20 a city or village from any source for the purposes of this section  
21 may be expended for administrative expenses. As used in this  
22 subsection, "administrative expenses" means those expenses that are  
23 not assigned including, but not limited to, specific road  
24 construction or maintenance projects and are often referred to as  
25 general or supportive services. Administrative expenses shall not  
26 include net equipment expense, net capital outlay, debt service  
27 principal and interest, and payments to other state or local

1 offices that are assigned, but not limited to, specific road  
2 construction projects or maintenance activities. A city or village  
3 which in a year expends more than 10% for administrative expenses  
4 shall be subject to section 14(5).

5 (9) In each city and village to which funds are returned under  
6 this section, the responsibility for street preservation and the  
7 development, construction, or repair of off-street parking  
8 facilities and construction or repair of street lighting shall be  
9 coordinated by a single administrator to be designated by the  
10 governing body who shall be responsible for and shall represent the  
11 municipality in transactions with the state transportation  
12 department pursuant to this act.

13 (10) Cities and villages may provide for consolidated street  
14 administration. A city or a village may enter into an agreement  
15 with other cities or villages, the county road commission, or with  
16 the state transportation commission for the performance of street  
17 or highway work on a road or street within the limits of the city  
18 or village or adjacent to the city or village. The agreement may  
19 provide for the performance by any of the contracting parties of  
20 the work contemplated by the contracts including services and  
21 acquisition of rights of way, by purchase or condemnation by any of  
22 the contracting parties in its own name. The agreement may provide  
23 for joint participation in the costs if appropriate.

24 (11) Interest earned on funds returned to a city or a village  
25 for purposes provided in this section shall be credited to the  
26 appropriate street fund.

27 (12) In addition to the financial compliance audits required

1 by law, the department of treasury shall conduct performance audits  
2 and make investigations of the disposition of all state funds  
3 received by cities and villages for transportation purposes to  
4 determine compliance with the terms and conditions of this act.

5 Performance audits shall be conducted according to government  
6 auditing standards issued by the United States general accounting  
7 office. **THE DEPARTMENT SHALL DEVELOP ALL ADDITIONAL AUDIT**

8 **PROCEDURES AND REPORTING REQUIREMENTS SUFFICIENT TO DETERMINE**

9 **WHETHER FUNDS EXPENDED UNDER THIS SECTION WERE EXPENDED IN**

10 **COMPLIANCE WITH THIS ACT BY JULY 1, 2008 AND SHALL REPORT TO THE**

11 **TRANSPORTATION COMMITTEES OF THE SENATE AND HOUSE OF**

12 **REPRESENTATIVES NO LATER THAN AUGUST 1, 2008 ON THE ADDITIONAL**

13 **AUDIT PROCEDURES AND REPORTING REQUIREMENTS. THE AUDIT PROCEDURES**

14 **SHALL INCLUDE A REVIEW OF THE ROAD FUND BALANCE OF THE CITY OR**

15 **VILLAGE. THE CITIES AND VILLAGES SHALL REPORT THEIR ROAD FUND**

16 **BALANCES BY FUND BALANCE COMPONENT. THE DEPARTMENT OF TREASURY**

17 **SHALL ASSIST CITIES AND VILLAGES TO ASSURE THAT ROAD FUND BALANCES**

18 **ARE CONSISTENTLY CLASSIFIED.** The department of treasury shall

19 provide notice to cities and villages of the standards to be used

20 for audits under this subsection prior to the fiscal year in which

21 the audit is conducted. The department shall notify cities and

22 villages of any subsequent changes to the standards. Cities and

23 villages shall make available to the department of treasury the

24 pertinent records for the audit.

25 (13) On or before October 1, 2008, the department shall

26 prepare a report listing by city and village, and in total, the

27 following information:

1           (a) Amounts transferred between major street fund and local  
2 street fund.

3           (b) Amounts of local revenue expended on the major street  
4 system. The report shall include fiscal years from January 1, 2002  
5 through June 30, 2008. The report shall analyze the extent to which  
6 the amendatory act that added this subsection affected city and  
7 village transfers from major street funds to local street funds,  
8 and the amount of local revenue expended on city or village major  
9 streets and state trunk lines. The report shall be submitted to the  
10 house and senate appropriations committees and to the house and  
11 senate fiscal agencies.