Senate Fiscal Agency
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BILL ANALYSIS

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Senate Bill 1182 (as enrolled)
Sponsor: Senator Jud Gilbert, II
Senate Committee: Transportation
House Committee: Transportation

PUBLIC ACT 338 of 2006

Date Completed: 9-21-06

RATIONALE

Public Act 51 of 1951, the Michigan Transportation Fund (MTF) law, provides for the distribution of money from the MTF. Under the Act, the State "returns" MTF funds to cities and villages for specific purposes in a particular order of priority. Money returned to a city or village must be spent on its major and local street systems, with the major street system being the first priority. Money returned for expenditure on the major street system must be spent in the priority order established in the Act, and surplus funds may be transferred for preservation of the local street system. Previously, under the Act, a city or village could not transfer more than 25% of its annual major street funding for the local street system unless it had adopted and was following an asset management process for its major and local street systems and adopted a resolution setting forth specific information.

Additionally, effective on January 1, 2009, a city or village would have been prohibited from transferring for use on the local street system surplus MTF money returned to it for use on the major street system, except to the extent matched by local revenue (revenue other than MTF revenue) spent by the city or village on the major street system or State trunk line highways.

Some people expressed concern that the 25% limit and the match requirement would impede the ability of local governments to allocate limited resources in the most effective manner. In order to give communities more flexibility in addressing their transportation infrastructure needs, it was suggested that the limit be increased and the match requirement eliminated.

CONTENT

The bill amended Public Act 51 of 1951 to do the following:

-- Increase from 25% to 50% the maximum amount that a city or village may transfer from its annual major street funding for the local street system (unless it is following an asset management process).
-- Require a city or village that has not adopted an asset management plan to obtain the concurrence of the Michigan Department of Transportation (MDOT) to transfer more than 50% of its major street funding to the local street system.
-- Allow MDOT to provide for pilot projects that will allow a city or village that has adopted an asset management plan to combine its local and major street funds into one fund and submit to MDOT a single report on the expenditure of funds on the local and major street systems.
-- Eliminate a provision that, beginning on January 1, 2009, would have prohibited a city or village from transferring surplus MTF revenue for use on a local street system without local matching revenue.

(Under the Act, "asset management" means an ongoing process of maintaining, upgrading, and operating physical assets cost-effectively, based on a continuous physical inventory and condition assessment.)

The bill took effect on August 15, 2006.

MCL 247.663

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

A community's major street system needs might not require 75% of the money the city or village receives from the MTF, and the community might wish to use the surplus for work on the local road system. Previously, if the community did not follow an asset management plan, however, it had to pay for projects exceeding the 25% transfer limit out of its general fund or by instituting a millage. The Act's match requirement also would have had to be funded in this way. Many local governments, however, have experienced revenue sharing cuts over the last few years, while their administrative costs have risen. The 25% limit could be, and the match requirement was expected to become, a significant obstacle to the completion of necessary local road projects. By increasing the amount of money a city or village may transfer to the local street system without an asset management plan, and eliminating the match requirement, the bill gives cities and villages more flexibility to assess their road systems and direct MTF money where it is most needed.

Response: The bill reduces the incentive for cities and villages to follow an asset management plan.

Legislative Analyst: Julie Koval

FISCAL IMPACT

The bill will have no fiscal impact on State government.

The bill will have no net fiscal impact on local units of government, but it will allow for more flexibility in how they spend their street improvement dollars by allowing more funding to be dedicated to the local street system and by eliminating the match requirement scheduled to become effective January 1, 2009.

Fiscal Analyst: Jessica Runnels