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TRANSPORTATION FUNDING DIST. FORMULA

Senate Bill 321 (Substitute H-2)
First Analysis (11-24-87)

Sponsor: Sen. Richard Fessler
Senate Committee: State Affairs, Tourism and Transportation
House Committee: Appropriations

THE APPARENT PROBLEM:

Public Act 51 of 1951 provides the mechanisms by which the Michigan Department of Transportation (MDOT) receives and distributes state restricted funds from fuel and motor vehicle weight taxes. The act establishes the formula for distributing money from the Michigan Transportation Fund (MTF) to counties, cities, the State Trunkline Fund (STF), and the Comprehensive Transportation Fund (CTF). The basis for funding the state's transportation programs by using revenues from transportation-related taxes may still be a sound concept; however, it has been argued that the methods of distribution have become outdated since transportation needs have changed over the years. The formulas that exist to distribute money to the various transportation needs have been criticized as being too inflexible to allow money to be placed where it may be most needed. The concern has also been voiced that, since the vast majority of funds is spent by formula process, transportation policy decisions over the years have been assumed to an inordinate degree by MDOT rather than by the legislature. It is argued that the legislature should have more opportunity for input into funding priorities, perhaps by line item appropriation of the transportation projects.

Public Act 438 of 1982 amended Public Act 51 of 1951 to establish a temporary formula for the distribution of money deposited in the MTF. The 1982 act also provided for a task force to be formed, composed in part by members of the House and Senate, to recommend a new distribution formula by October 1, 1984. With no recommendation having been made, the deadline has been extended several times. Meanwhile, several concerns are being voiced about problems facing the state transportation system. Some of these concerns are: the current state of disrepair of Michigan's highways, roads, streets and bridges; the difficulty of obtaining needed funds for transportation projects vital to economic growth and re-industrialization; the need for repair and retirement of railroad crossings; and the lack of flexibility of local units of government to obtain funds. At the same time, the cost of maintaining transportation programs continues to escalate. What is needed, many say, is to establish alternative funding methods for transportation projects with limited resources and to update funding distribution.

THE CONTENT OF THE BILL:

The bill would amend Public Act 51 of 1951 to establish new funding methods for transportation projects and to revise distribution methods.

Michigan Transportation Fund

Beginning October 31, 1987 and for the fiscal years ending September 30, 1988, through September 30, 1993, funding would be appropriated as follows:

$22.5 million of the MTF would go to the STF for deposit in the Transportation Economic Development Fund, or allocated to debt service on bonds issued to fund economic development fund projects for the fiscal year ending September 30, 1988; $30 million would go the STF for each fiscal year thereafter through the fiscal year ending September 30, 1993; not more than $3 million would be annually appropriated each fiscal year from the MTF to the STF for deposit in the rail grade crossing account. The bill would retain the existing distribution formula for the fiscal years through September 30, 1993, and provide that if a distribution formula were not enacted after September 30, 1993, an amount sufficient to pay the obligations of the principal and interest due on bonds and notes issued for any of the purposes permitted by the act would be apportioned and appropriated from the MTF with the balance reverting to the fund until a distribution formula were enacted.

The bill would provide that 30 percent of the funds appropriated to the state from the federal government (also known as 85 percent minimum floor funds) would be allocated to the Transportation Economic Development Fund, if the allocation were consistent with federal law. The funds would be divided equally between development projects for rural counties and for capacity improvement in urban counties. The bill would also provide that the Department of State would receive no more than $55 million annually from the MTF.

The bill would provide that not more than 30 percent (increased from 15 percent) per year of the amount of money returned to a county from the MTF for use on its primary road system could be expended, with or without matching funds, on the local road system of that county.

Currently, the act requires that 90 percent of all state revenue returned annually to a county road commission from the MTF be spent on maintenance of existing highways, although certain amounts are first deducted before the formula is calculated. The bill would allow the deduction of amounts "expended for projects vital to the economy of the state or the safety of the public." Under the bill the governing body over the county road commission or the county road commission would pass a resolution approving specific projects and the cost of each project.

Snow Fund

The act provides for an amount to be withheld from counties' November monthly distribution and then returned to county road commissions for snow removal. The amount is distributed among the counties on the basis of measured snowfall in excess of 80 inches during the prior fiscal year, divided proportionately among the counties based upon

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inches of snow. The bill would specify that the amount would be distributed to counties on the basis of "each respective county's average percentage share of the total amount returned annually to all counties in the state in each of the 14 calendar years before 1987."

Bus Authorities

Under current law, after payments from the Comprehensive Transportation Fund (CTF) for debt service and administration, 5 percent of the balance must be distributed for new small bus services and for specialized services, 8 percent for intercity passenger transportation purposes, 5 percent for intercity freight transportation purposes, and 17 percent for the transportation development account. (Sixty five percent of the CTF is distributed as operating grants to eligible authorities and eligible governmental agencies.) Unspent funds revert to the CTF.

The bill would specify that 65 percent for the fiscal year ending September 30, 1988 and 70 percent each fiscal year thereafter would be distributed as operating grants to eligible authorities and eligible governmental agencies. For the fiscal year ending September 30, 1988, eligible authorities and agencies would receive a grant of up to 50 percent (increased from 45 percent) of the difference between the eligible operating expenses of the authority or agency and the amount of operating grants received by that agency or authority from the federal government under the Urban Mass Transportation Act. For each fiscal year thereafter, each eligible authority and agency which provided transportation services in urbanized areas could receive a grant of up to 40 percent of their eligible operating expenses. Funds not obligated at the end of the fiscal year would revert to the CTF for appropriation in the following year. For the fiscal year ending September 30, 1989, and each fiscal year thereafter, eligible authorities and agencies which provided public transportation services in nonurbanized areas would receive a grant of up to 50 percent of its eligible operating expenses. Funds remaining at the end of the fiscal year would be distributed by MDOT for public transportation purposes. For the fiscal years ending September 30, 1989, 1990, and 1991 each eligible authority and agency would receive a distribution from the CTF not less than the distribution received for eligible operating expenses for the fiscal year ending September 30, 1987. Beginning with the fiscal year ending September 30, 1992, and each year thereafter, each eligible authority and agency would receive a distribution from the CTF for eligible operating expenses not less than the distribution received for the fiscal year ending September 30, 1989. Under the bill, the ratio between CTF funds and local funds in the base years would be maintained for all fiscal years by eligible authorities and agencies. Reductions in the ratio would require a proportionate reduction in the CTF funds provided for any fiscal year. Operating grants to eligible authorities and agencies would not increase from one fiscal year to the next by an amount greater than the percentage change between the CTF revenues appropriated during the preceding fiscal year (except for the fiscal year ending September 30, 1989, in which case the fiscal year ending September 30, 1987 would be used) and the estimated CTF revenues to be appropriated for the fiscal year for which grants were authorized. Funds remaining would be used for public transportation purposes and MDOT would have to make this determination by March 1 of each year. Under the bill, each eligible authority and agency which received CTF funds would be required to prepare and submit to MDOT a quarterly report of the progress made in carrying out transportation programs within 40 days after the end of each fiscal year quarter. The department could periodically adjust or redistribute funds previously distributed.

For the fiscal year ending September 30, 1988, 35 percent of the balance of CTF would be distributed by MDOT for public transportation purposes. Funds distributed would be expended according to specific line item appropriation for certain public transportation purposes, including at least $850,000 each fiscal year for operating assistance grants for specialized services. The term "specialized services" would mean public transportation services primarily designed for people who are handicapped or 65 years of age or older.

For the fiscal year ending September 30, 1989, and each fiscal year after, ten percent of the CTF would be distributed by MDOT for intercity passenger and intercity freight transportation purposes. Funds distributed by MDOT could be used to initiate new services by eligible authorities and agencies not receive operating grants. The department would fund approved projects in the following percentages of eligible operating expenses: startup, 100 percent; first year, 90 percent; second year, 80 percent; third year, 70 percent; fourth year and each thereafter, as detailed in the spending requirements for the balance of the CTF. The balance of eligible operating expenses would be met from local revenue sources including farebox. MDOT would pay up to 100 percent of eligible capital expenses during the startup and first three years of service. After the third year, the department would participate in eligible capital expenses in the same percentage as for other eligible authorities and agencies. The department would annually prioritize all requests for CTF to institute new services. The department would pay up to 80 percent of the portion of costs for intercity passenger operating assistance projects not eligible for reimbursement by the federal government for the first two years of new services. For the third year, eligible costs would be reimbursed at up to 60 percent of the portion of the costs not eligible for reimbursement by the federal government. After the third year, eligible costs would be reimbursed at up to 50 percent. Eligible costs of services provided as of September 30, 1981, would be reimbursed at up to 50 percent (increased from 40 percent).

For the fiscal year ending September 30, 1989, and each fiscal year after, 20 percent of the CTF would be distributed by MDOT for public transportation purposes. Of the 20 percent distributed for public transportation purposes, beginning with the fiscal year ending September 30, 1989, the local share and effective bonus assistance programs would each be funded with not less than $1 million and the specialized services assistance program would be funded with not less than $2 million.

The unappropriated and unencumbered balance of the CTF would lapse at the end of each fiscal year and revert to the CTF for appropriation in the following fiscal year.

Bonding

Under the bill, funds from the CTF could be distributed to a trustee or to the Michigan Municipal Bond Authority authorized to receive the funds according to a borrowing resolution adopted by an eligible authority. The issuance of notes of the authority would have to be authorized by a borrowing resolution of the authority in anticipation of payment of proceeds from the CTF according to the authority's ability to bond under the Metropolitan Authorities Act. The issuance of notes would be subject to the prior approval of the State Transportation Commission. Failure of the commission to take action within 35 days after receipt of notification from the eligible authority of intent to issue the notes would constitute approval by the commission. The eligible authority could only issue the note

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in anticipation of funds to be received during its current fiscal year at any time before the eligible authority's receipt of the funds from the CTF. The pledge of 100 percent of the funds the authority expected to receive from the CTF would have to be secured by a direct transfer of the pledged funds from the funds to the trustee or the Michigan Municipal Bond Authority. The notes would not be a debt or a liability of the state or constitute a pledge of the full faith and credit of the state. The notes would have to mature not more than 13 months from the date of issuance and bear interest at a fixed or variable rate, and could be secured by letter or line of credit issued by a bank or as provided in the borrowing resolution.

State Trunkline Fund

The bill would require money deposited in the STF to be appropriated to MDOT for the transfer of funds to the Transportation Economic Development Fund, but the transfer would be reduced each fiscal year by the amount of debt service to be paid in each year from the STF for bonds, notes or other obligations issued to fund projects of the Transportation Economic Development Fund.

Money deposited in the STF would also be appropriated for the transfer of funds to the Railroad Grade Crossing Account for expenditure to meet the cost, in whole or in part, of providing for the improvement, installation, and retirement of new or existing safety devices at rail grade crossings on public roads and streets. However, funds deposited to the account could only be expended after all federal funds from the Grade Crossing Improvement Program or other programs had been exhausted or committed. In addition, funds could only be expended if the affected railroad paid 25 percent and the local road authority paid 10 percent.

Other Provisions

The bill would revise the needs study committee. The committee would include five people representative of the following interests: manufacturing, commerce, agriculture, tourism, and labor. The needs study committee would report to the governor, transportation commission, and the legislature on identified transportation issues. The committee would be required to publish a preliminary report of data and findings by January 1, 1989. The committee would also recommend alterations of distributions of transportation responsibilities before January 1, 1990. The bill would also establish a citizens advisory committee which would receive and comment upon reports and studies prepared by various designated technical subcommittees and would make recommendations to the needs study committee before reports and studies had been submitted to it. The governor could appoint not more than 23 persons to 4-year terms, who would serve as a citizens advisory committee and would include at least one representative of certain organizations. MDOT would be required to provide a recommended work program to the needs study committee by January 1, 1988.

The Transportation Commission would be required to request a formal opinion from the attorney general regarding the question of whether reducing the age of persons entitled to specialized services from 65 to 60 would constitute a state mandated cost on units of local government, thus requiring the state to reimburse those units for the increased costs of services. If the attorney general concluded that reducing the age of persons entitled to specialized services from 65 to 60 would not constitute a state mandated cost, the legislature would reduce the age from 65 to 60 within two years after the effective date of the bill.

The act currently requires eligible authorities and agencies to post operating times on each passenger shelter operated or used by the authority or agency. The bill would require, instead, that the schedules be "made available, at no cost."

The bill would delete the requirement that MDOT use solar energy systems, integrated with conventional systems, to heat hot water at a highway rest area or travel information center facility that was constructed or extensively remodeled or modernized.

The bill would require primary road and major street programs, based on long-range plans, be made available for review by the public.

The bill would take effect October 31, 1987 and is tie-barred to Senate Bills 152, 154, 156, 495 and House Bills 4169, 4735, and 5071, which constitute the other parts of the comprehensive transportation funding package.

FISCAL IMPLICATIONS:

According to the Department of Transportation, the bill is enabling legislation that authorizes the department to distribute funds from the MTF for various transportation needs, including the Transportation Economic Development Fund ($30 million) and the Rail Grade Crossing Account. It would also set up new internal formulas for bus transit. The bill merely distributes revenue that would be raised under other bills in the transportation funding package. (11-23-87)

ARGUMENTS:

For:

In 1982, a new law was approved requiring the state and local units to spend at least 90 percent of road funds on existing roads. It may have been necessary then, considering the poor conditions of state roads at that time. Now, however, that provision is not helping the state to meet current transportation needs. New projects, especially those designed for much needed public safety and economic development, are difficult to fund under the current 90/10 formula. The bill would provide an economic development exemption to the 90/10 maintenance/construction requirement for such projects. Further, it would revise the distribution formula and raise new funds to provide the necessary support for the state's transportation system to serve the needs of state industries, commercial vendors, rural areas, and residents.

For:

The bill would provide for $30 million from the STF, before other distributions were made, to fund the much needed Transportation Economic Development Fund. The funds would assist the state to provide transportation projects needed to attract and retain business and industry to ensure continued economic growth. The bill would also include "aircraft" in the definition of a "public transportation purpose" to allow airports, which are often a major factor in attracting economic development, access to the resources of the CTF.

For:

The creation of the rail grade crossing improvement program would help meet the public safety needs of rail grade crossings in the CTF, which would have revenue to meet this critical need.

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Against:

The bill would require that any lapsed CTF money revert to the CTF. If the money were deposited into the MTF it would redirect revenue that was not being used into other areas where the needs were far greater than revenues. In turn, government spending would be more efficient because more needs would be met. As the bill is currently written, revenue remaining in the fund at the end of a fiscal year could be spent arbitrarily through the CTF, rather than directed to the MTF.

POSITIONS:

The Department of Transportation supports the bill. (11-23-87)

The Michigan Municipal League supports the bill. (11-23-87)

The Oakland County Road Commission supports the bill. (11-23-87)

The Michigan Association of Counties supports the bill. (11-23-87)

The Michigan Townships Association supports the bill. (11-23-87)

The Michigan Railroads Association supports the bill. (11-23-87)