SFA BILL ANALYSIS

Senate Fiscal Agency • Lansing, Michigan 48909 • (517) 373-5383

Senate Bill 321 (as reported without amendment)
Sponsor: Senator Richard D. Fessler
Committee: State Affairs, Tourism, and Transportation

Date Completed: 6-3-87

RATIONALE

Public Act 51 of 1951 provides the mechanisms by which the Michigan Department of Transportation 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, and the Comprehensive Transportation Fund (CTF). While most people maintain that the basis for funding the State's transportation programs by using revenues from transportation related taxes is still a sound concept, some argue that the methods of distribution have become outdated since transportation needs over the years have changed. 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. Others have voiced concern 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 the Department of Transportation rather than by the Legislature. It is argued by some that the Legislature should be given more opportunity for input into funding priorities, perhaps by line item appropriation of the transportation projects.

Public Act 438 of 1982 amended 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 Senate and House, to recommend a new distribution formula by October 1, 1984. With no recommendation having been made, the deadline was extended to August 1, 1986. Since the task force did not devise a new formula, the sunset for the temporary formula was eventually extended to June 1, 1987, to allow the Legislature to come up with a new formula and to address other transportation matters, including revenue issues.

There are many who have voiced concern about problems they feel are facing the State transportation system. Among these 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. The most recent needs study projected transportation funding requirements for the 12-year period through 1994 to be $27.6 million in 1983 dollars (over 80% for highways) versus available revenues of $22.1 billion — a shortfall of $5.5 billion. More recently, the Legislature received the Coopers & Lybrand Study which updated inflation and cost estimates, using reduced Federal aid assumptions, and projected the shortfall at more than three tiems as much: about $17.7 billion. A key issue, therefore, in the financing of State transportation programs is how to achieve the desired goals with limited resources. Some say that alternative ways to pay for road construction and other transportation projects must be found, and that distribution of such funding should be updated to reflect current needs.

CONTENT

The bill would amend Public Act 51 of 1951 to provide that, beginning in the fiscal year ending on September 30, 1988, $25 million of the Michigan Transportation Fund would have to be allocated to the Transportation Economic Development Authority (which would be created by Senate Bill 151). The bill also would do the following:

- Revise the process by which money in the Comprehensive Transportation Fund is distributed to eligible bus operating authorities.
- Require annual appropriations for a rail grade crossing improvement and retirement program.
- Require State Trunk Line Fund projects to be listed in appropriations bills.
- Provide for a deduction from the State and county distribution formulas for projects vital to the economy or to the safety of the public.
- Revise the snow fund formula.
- Provide for State matching funds on a two-to-one basis to cities, villages, and townships that receive funds from SEMTA under the municipal credit program.
- Add bonding provisions to enable eligible authorities to borrow on a cash anticipation basis.
- Prohibit State funds or Comprehensive Transportation Fund bond proceeds from being used to fund the operation of the Detroit Downtown People Mover.
- Add "aircraft" to the definition of "public transportation".

Except for the provision dedicating $25 million to the Transportation Economic Development Authority, which would take effect upon the date of the bill's enactment, the bill would take effect on October 1, 1987.

Michigan Transportation Fund

Beginning October 1, 1987, and for the fiscal years ending September 30, 1988, through September 30, 1993, $25 million of the Michigan Transportation Fund (MTF) would have to be apportioned to the Transportation Economic Development Authority. The bill also would retain the existing distribution formula for those years, and provide that if a distribution formula were not enacted for any time period beginning after September 30, 1993, an amount sufficient to pay 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 prohibit operating grants from increasing from fiscal year to fiscal year greater than the percentage increase in Comprehensive Transportation Fund revenues from the preceeding fiscal year to the estimated increase in the fiscal year for which the grants would be authorized.

Bus Authorities

Under the current code, after payments from the Comprehensive Transportation Fund (CTF) for debt service and administration, 5% of the balance must be distributed for new small bus services and for specialized services, 8% for intercity passenger transportation purposes, 5% for intercity freight transportation purposes, and 17% for the transportation development account. (65% of the CTF is distributed as operating grants to eligible authorities and eligible governmental agencies.) Unspent funds revert to the CTF.

Instead of allocating specific percentages for each purpose, the bill provides that 35% of the CTF would have to be distributed for public transportation purposes. Public transportation purposes would include specialized services; grants for new small bus service; intercity passenger and freight transportation purposes; rail grade crossing improvement and transportation; bus capital expenditure matching funds; supplemental operating assistance to eligible authorities and governmental agencies; matching funds to a city, village, or township that used a municipal credit program; and public transportation development. (The distribution of the 65% would be unchanged.) Unspent funds would revert to the MTF.

Rail Grade Program

Beginning with the fiscal year ending September 30, 1988, the bill would require the Legislature annually to appropriate an amount sufficient to fund a rail grade crossing improvement and retirement program in order to preserve and enhance public safety at rail grade crossings and to meet all or part of the costs of providing for the improvement, installation, construction, reconstruction, relocation, maintenance, and retirement of new or existing safety devices at all rail grade crossings on public roads and streets.

The program would be required to bear the cost of providing grade crossing improvements only after the exhaustion or commitment of any available Federal funds obtained through the Federal Aid Highway Grade Crossing Improvement Program, or any other comparable Federal program. Upon exhaustion or commitment of those funds, the program would have to bear between 75% and 80% of the cost of the improvement or retirement, with the remaining cost split equally by the road authority and the railroad involved.

The maintenance and repair of all future and existing automatic grade crossing warning devices would be the responsibility of the railroad involved at its own expense, although the proposed program would have to pay $100 per month to the railroad for each such crossing. That amount would have to be adjusted annually to reflect the change in and conform to the U.S. Department of Commerce consumer price index.

State Trunk Line Fund

The Act currently provides that money deposited in the State Trunk Line Fund "is appropriated to the state transportation department" for certain purposes. The bill would refer to money "appropriated annually by the legislature" to the Department.

The bill also provides that all projects to be funded in whole or in part or undertaken by the Fund would have to be listed in the annual appropriation bill or a supplemental appropriation bill for that fiscal year for the Department of Transportation. In addition to the projects scheduled for the fiscal year covered by the appropriation bill, projects planned for the succeeding two fiscal years would have to be listed in the annual or supplemental appropriation bill for that fiscal year. Projects not on the list of planned projects would not be eligible for funding in subsequent fiscal years unless approved by the Legislature in an appropriation bill.

The Act requires that 90% of all State Trunkline revenue 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". Before the deduction, the Department would have to obtain approval from the Legislature by concurrent resolution passed by a majority vote of both houses. The resolution would have to state which projects would be funded and the cost of each project. Pursuant to the proposed deduction, the bill specifies four projects that the Department would have to construct.

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. That 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 inches of snow. The bill provides, instead, 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 1986".

SEMTA/Bonding

The bill provides that if a city, village, or township received funds from the Southeastern Michigan Transportation Authority (SEMTA) as a credit in the manner provided in the Act, the State would match on a two-to-one basis each dollar the city, village, or township put into the credit program. If a city, township, or village had not used at least 25% of its own funds as matching funds with the State, the bill would require SEMTA to use the municipality's share of the money for expenditure within the county in which the city, village, or township was located. The State matching contribution to any city, village, or township could not exceed twice the amount of revenue the municipality receives as its base municipal credit from the authority that granted the credit. (While the bill actually would extend these provisions to municipalities included in a "multicounty authority" created under the Metropolitan Transportation Authorities Act, SEMTA is the only multicounty authority at this time.)

The bill provides that funds from the CTF and the MTF could be distributed to a trustee, or to the Michigan Municipal Bond Authority, authorized to receive the funds pursuant 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 and the MTF pursuant to the authority's ability to bond under the Metropolitan Transportation Authorities Act. The issuance of notes would be subject to Section 11, Chapter III of the Municipal Finance Act (which provides for the issuance of obligations without the approval of the Department of Treasury if certain conditions are met). An authority could issue the notes either in anticipation of funds to be received

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during its current fiscal year or in anticipation of funds to be received during its next fiscal year at any time within five months before the beginning of that fiscal year. The pledge of 100% of the funds the authority expected to receive from the CTF and the MTF would have to be secured by a direct transfer of the pledge 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.

The bill also would prohibit State funds or Comprehensive Transportation Fund bond proceeds from being used to fund the operation of the Detroit Transportation Corporation Central Automated Transit System (the Detroit Downtown People Mover).

Other Provisions

The Act requires that 90% of a county's revenue from the MTF be spent on road maintenance and debt service, after certain amounts are deducted. The bill would add a deduction for amounts spent for projects vital to the economy of the local area or the safety of the public in the local area. Before those amounts could be deducted, the county road commission or the governing body over the county road commission, as applicable, would have to pass a resolution approving the projects. The resolution would have to state which projects would be funded and the cost of each. A copy of the resolution would have to be forwarded immediately to the Department.

The Act requires eligible authorities and eligible governmental 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 the Department use solar energy systems, integrated with conventional systems, to heat hot water at a highway rest area or travel information center facility that is constructed or extensively remodeled or modernized.

MCL 247.660 et al.

FISCAL IMPACT

The bill would create an Economic Development Authority to which $25.0 million would be appropriated from the Michigan Transportation Fund. This appropriation to the Authority would reduce revenues received by the Comprehensive Transportation Fund, State Trunkline Fund, county road commissions, and cities and villages. The bill also would provide appropriations to fund a rail grade crossing improvement and retirement program. If these appropriations were made from the MTF, they would further reduce the revenues received by the entities mentioned above.

ARGUMENTS

Supporting Argument

In 1982, a new law was approved requiring State and local units to spend at least 90% 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 a deduction for such projects from the 90/10. Further, with the deadline of the temporary formula approaching, the package presents a newly designed approach to raising and distributing transportation funds. It would fine tune 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.

Supporting Argument

The bill would require that any lapsed Comprehensive Transportation Fund (CTF) revenue be deposited into the Michigan Transportation Fund (MTF). This requirement would redirect revenue that was not being used into other areas where the needs were far greater than revenues.

Response: This provision could actually promote less sound spending, so that remaining revenue at the end of a fiscal year would be spent arbitrarily rather than lost to the MTF.

Supporting Argument

The requirement that projects to be funded from the State Trunkline Fund be listed in the annual appropriations bill along with the projects planned for the following two fiscal years would appropriately give the Legislature more opportunity for input into transportation project planning and selection.

Response: Establishing annual transportation programs by line item appropriation could make it virtually impossible for the program to match needs, such as the requisites of land purchases and construction staging. An already slow process would become completely unworkable. Further, instead of requiring a legislative concurrent resolution, the bill should require the State Transportation Commission, to obtain an economic development exemption to the 90/10 maintenance/construction requirement.

Supporting Argument

The bill would provide for $25.0 million from the MTF, before other distributions were made, to fund the much needed Economic Development Authority, proposed in Senate Bill 151. 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 also would 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.

Supporting Argument

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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