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BILL ANALYSIS

Senate Fiscal Agency

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Senate Bill 768 (as reported without amendment)

Sponsor: Senator Richard D. Fessler

Committee: State Affairs, Tourism, and Transportation

Date Completed: 2-27-90

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 to counties, cities, the State Trunkline Fund, and the Comprehensive Transportation Fund (CTF). The Act was amended by Public Act 234 of 1987 after the methods for distributing transportation funds were criticized as being too outdated and inflexible to allow money to be placed where it may be most needed. Apparently, however, some of the changes made by Public Act 234 have caused additional problems or confusion. For example, Public Act 234 deleted provisions concerning new small bus services but the definition of "new small bus service", which evidently no longer is needed, was not deleted. Further, some report that references to a provision that places a ceiling on the annual increase allowed for transportation grants have been misplaced. To explain, Public Act 234 changed the distribution of transportation funds to specify that after payments for debt service and administration, 70% of the CTF is to be distributed as operating grants to eligible authorities and governmental agencies subject to a formula specified in the Act. The formula allows an eligible authority or governmental agency that provides public transportation services in an urbanized area a maximum grant of 40% of the difference between its eligible operating expenses and the amount of Federal grants it receives. For an eligible authority or

agency providing services to nonurbanized areas, the maximum grant is 50% of the difference. For fiscal year 1987-88 only, the maximum operating grants were 50% and 60%, for urbanized and nonurbanized services respectively. Public Act 234 provided for a ceiling on the amount by which the operating grants may increase annually but references to the ceiling occur in the provisions concerning the fiscal 1987-88 grants, not in the sections concerning the grants for subsequent fiscal years where, some contend, they more properly belong.

Additionally, there appear to be problems with the distribution of the remaining 30% of the CTF. Currently, the Act specifies that the 10% of the CTF that is to be used for intercity passenger and freight transportation purposes may be used to initiate new services by eligible authorities and governmental agencies that as of October 1, 1988, had not received grants from the rest of the Fund. Some maintain that the term "new services" applies to local bus new services that are funded under the 20% of the CTF that is dedicated generally to public transportation purposes and that may be used by any authority or governmental agency regardless of whether it also receives operating grants. It has been suggested, therefore, that all eligible authorities and governmental agencies specifically be allowed to use funds from the 20% category to initiate new bus services.

Finally, some believe that additional efforts

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should be made to encourage the development of the public transit system and that one method of accomplishing this is to provide additional funding for the local share and effective bonus assistance programs. The programs allocate funds to public transit systems based on population in the system's jurisdiction and the fare box revenues realized by the system. Allocating lapsed grant funds to these programs, some contend, would help target needed revenues to transit systems most in need of them and avoid the dilution of these funds through the distribution formula.

CONTENT

The bill would amend Public Act 51 of 1951 to:

- Provide that unspent operating grants to eligible authorities and governmental agencies would lapse to local share and effective bonus assistance programs rather than to the Comprehensive Transportation Fund.
- Delete language that allows authorities and governmental agencies that do not receive operating grants to initiate new services using funds from the 10% of the CTF dedicated for intercity passenger and freight transportation purposes. Instead, the bill provides that local bus new services initiated by eligible authorities and governmental agencies, that were not in their fourth year or beyond of funding on October 1, 1988, would be funded from the portion of the 20% of the CTF dedicated for local bus new services.
- Remove language that places a ceiling on the annual increase in operating grants received in fiscal year 1987-88 and, instead, apply the ceiling to grants received in subsequent fiscal years, beginning with fiscal year 1989.
- Delete the definition of "new small bus services".

FISCAL IMPACT

The bill would have no fiscal impact on State or local government.

ARGUMENTS

Supporting Argument

The bill would delete unnecessary language, correct misplaced references to other provisions of the Act, and most importantly, encourage the development of new services and the expansion of the public transit system by clarifying how the new services are to be funded, eliminating the restriction on the authorities and agencies that may receive funding to those that do not receive operating grants, and providing additional funds for the local share and effective bonus programs.

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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.