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NEIGHBORHOOD ROADS FUND

Senate Bill 578 (H-1)
Sponsor: Sen. Veronica Klinefelt
House Committee: Appropriations [Discharged]
Senate Committee: Appropriations [Discharged]
Complete to 10-2-25

SUMMARY:

Senate Bill 578 would amend 1951 PA 51, which governs the distribution of funding for state and local road and bridge programs, to create the Neighborhood Roads Fund, create the Infrastructure Projects Authority Fund, prescribe the distributions and other parameters of each fund, and expand allowable uses of money in the Movable Bridge Fund.

Neighborhood Roads Fund

The bill would create the Neighborhood Roads Fund in the state treasury. Money in the fund at the close of a fiscal year would not lapse to the general fund.

For the 2025-26 through 2029-30 fiscal years, money in the fund each fiscal year would be distributed as follows:

- $100.0 million to a separate account to be spent by the Local Bridge Advisory Board[1] for the repair of closed, restricted, and critical bridges as determined by the board.
- After the above distribution, $40.0 million to the Local Grade Separation Fund for use under section 11i of the act.[2]
- After the above distributions, $100.0 million as follows:
    - $35.0 million to the Comprehensive Transportation Fund (CTF)[3] for use for ***eligible authorities*** and ***eligible governmental agencies*** that provide public transportation services, with 5% ($1.75 million) reserved for agencies in urbanized areas with a Michigan population of up to 10,000 and nonurbanized areas under 49 USC 5311.[4]
    - $65.0 million to the Infrastructure Projects Authority Fund described below.
- Money remaining in the fund after the above distributions as follows:
    - 52% to county road commissions, to be allocated in the same way as Michigan Transportation Fund (MTF) revenue returned to counties under section 12 of the act.[5]
    - 28% to city and village road agencies, allocated in the same way as MTF revenue returned to cities and villages under section 13 of the act.[6]
    - 20% to the State Trunkline Fund (STF) for use under section 11 of the act.[7]

[1] Created in section 10(4) of the act: https://www.legislature.mi.gov/Laws/MCL?objectName=MCL-247-660
[2] https://www.legislature.mi.gov/Laws/MCL?objectName=MCL-247-661i
[3] https://www.legislature.mi.gov/Laws/MCL?objectName=MCL-247-660b For a description of the CTF: https://www.house.mi.gov/hfa/PDF/Alpha/Fiscal_Brief_CTF_and_State_Support_for_Public_Transit_Aug2023.pdf
[4] https://www.law.cornell.edu/uscode/text/49/5311
[5] https://www.legislature.mi.gov/Laws/MCL?objectName=MCL-247-662 For a description of MTF distributions: https://www.house.mi.gov/hfa/PDF/Alpha/Fiscal_Brief_MTF_Distribution_Formula_to_LRA_Feb2025_Update.pdf
[6] https://www.legislature.mi.gov/Laws/MCL?objectName=MCL-247-663
[7] https://www.legislature.mi.gov/Laws/MCL?objectName=MCL-247-661

For the 2030-31 and subsequent fiscal years, money in the fund each fiscal year would be distributed as follows:

- $100.0 million to the Local Grade Separation Fund for use under section 11i.
- After the above distribution, $70.0 million as follows:
  - $52.5 million to the CTF for use for eligible authorities and eligible governmental agencies that provide public transportation services, with 5% ($2.63 million) reserved for agencies in urbanized areas with a Michigan population of up to 10,000 and nonurbanized areas under 49 USC 5311.
  - $17.5 million to the Infrastructure Projects Authority Fund.
- After the above distributions, $100.0 million as follows:
  - $6.5 million to county road commissions, to be allocated as is MTF revenue returned to counties under section 12.
  - $3.5 million to city and village road agencies, to be allocated as is MTF revenue returned to cities and villages under section 13.
  - $90 million to the STF.
- Money remaining in the fund after the above distributions as follows:
  - 46.5% to county road commissions, to be allocated as is MTF revenue returned to counties under section 12.
  - 25% to city and village road agencies, to be allocated as is MTF revenue returned to cities and villages under section 13.
  - 29.5% to the STF.

Matching funds would not be required from a local unit of government or county road commission as a condition for spending money distributed under the above provisions, but a government entity spending money distributed under the above provisions could request matching funds from other sources.

> ***Eligible authority*** means an authority organized under the Metropolitan Transportation Authorities Act.[8]
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> ***Eligible governmental agency*** means a county, city, or village or an authority created under 1963 PA 55; the Urban Cooperation Act; 1967 (Ex Sess) PA 8; 1951 PA 35; the Public Transportation Authority Act; or the Revenue Bond Act. (These acts all authorize the formation of different public transportation authorities by certain local units of government or other public entities or through intergovernmental arrangements.)

Infrastructure Projects Authority Fund

The bill would create the Infrastructure Projects Authority Fund in the state treasury. Money in the fund at the close of a fiscal year would not lapse to the general fund.

The Michigan Department of Transportation (MDOT) could expend money in the fund each year only as follows:

- If the amount appropriated in a fiscal year from the CTF for operating grants to eligible authorities and eligible governmental entities under section 10e(4)(a) of the act[9] is *not*

[8] The Metropolitan Transportation Authorities Act authorizes two or more counties in a metropolitan area to form a regional transportation authority. The Suburban Mobility Authority of Regional Transit (SMART) is organized under this law.

[9] https://www.legislature.mi.gov/Laws/MCL?objectName=MCL-247-660E

less than the amount expended under that provision in the 2025-26 fiscal year, as adjusted for inflation using the Detroit CPI, then MDOT could expend up to 20% of the fund for payment of supplemental operating grants to eligible authorities and eligible governmental entities, subject to all of the following:

  - MDOT would have to receive and review financial documents demonstrating that an eligible authority or eligible governmental entity is in compliance with a balanced budget plan before it could award a grant to the authority or entity.
  - MDOT would have to allocate grants in a way that conforms to, supplements, and is proportional to the formula for operating grants under section 10e(4)(a).
  - Grants under these provisions would be in addition to any money an eligible authority or eligible governmental entity may receive under section 10b.[10]

- After the above, MDOT could make ***qualified investments*** in infrastructure mobility projects consistent with section 10b to eligible authorities and eligible governmental entities. MDOT would have to consider the following criteria, as reasonably applicable, before entering into a written agreement for the qualified investment:
  - Whether the qualified investment is for the development, expansion, or enhancement of any of the following:
    - A high-capacity mobility transportation project.
    - Regional or multijurisdictional high-capacity mobility transportation that connects major centers of population, employment, education, health care, or other activity.
    - Innovative and flexible mobility transportation to meet mobility needs in lower density areas, for first- and last-mile transportation solutions, or for other specialized purposes such as access to health care.
  - Support for the qualified investment in the affected region, including from the following:
    - Local government.
    - An eligible authority or eligible governmental entity.
    - Regional anchor institutions such as major regional employers, local and regional economic development organizations, and educational institutions.
  - Financial participation from affected regional entities, including local units of government and public transportation providers.
  - The readiness, financial feasibility, and financial sustainability of the qualified investment, with the qualified investment facilitating a complete capital and operating financial model for the project it supports, with the highest priority for financial assistance given when the qualified investment is necessary to meet a capital or operating matching requirement for federal funding.
  - Whether the proposed qualified investment will provide locally or regionally significant benefits for the movement of people or goods, provide regional economic growth, and increase the attractiveness of the region for population growth, job growth, or tourism, with priority given to a qualified investment that includes a transit, nonmotorized, or multimodal (i.e., movement using multiple forms of transportation) component.

Qualified investment would mean a grant, loan, or other economic assistance provided by MDOT to an eligible authority or eligible governmental entity under the bill for a

[10] https://www.legislature.mi.gov/Laws/MCL?objectName=MCL-247-660b

project eligible for assistance under the Federal Transit Act[11] or Title 23 (Highways) of the United States Code.[12]

Grants and qualified investments from the Infrastructure Projects Authority Fund could be used to match federal aid, grants, or other assistance.

By December 31, 2026, and each subsequent calendar year in which the Infrastructure Projects Authority Fund receives appropriations, MDOT would have to report to the governor, the State Transportation Commission, and the legislature on the status of projects funded by the fund. The report would have to include all of the following for the previous fiscal year:

- The location of funded projects.
- A listing of total money distributed to each region.
- Individual project funding amounts.
- Project selection criteria.
- A listing of individual project support.
- A running total fund balance.
- Any other relevant details about the status of the fund.

Movable Bridge Fund

Finally, the bill would allow distributions from the Movable Bridge Fund to cover certain costs related to local federal bridge inspections or mandates. Money in the fund is generally used to offset the operational costs of publicly owned movable bridges in the state.[13]

The bill would require MDOT to develop, each year before September 30, 2029, an estimate for the cost of local federal bridge load analysis, inspection, or other local federal bridge mandates. Before September 30, 2029, MDOT could use any money remaining in the Movable Bridge Fund in a fiscal year, after the required distribution for operational costs of publicly owned movable bridges, to cover other costs for required local federal bridge load analyses or inspections, or other local federal bridge mandates, for which no other source of funding is available.

MCL 247.661g and proposed MCL 247.663c

FISCAL IMPACT:

Neighborhood Road Fund

As described in the summary above, Senate Bill 578 would create the Neighborhood Roads Fund and would establish a model for the appropriation and distribution of revenue earmarked to the fund as proposed in House Bills 4951 and 4961.

The specific fund recipients, as described in the summary above, are primarily local units of government, including county road commissions, cities and villages, and local public transit

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[11] 49 USC 101 to 80504: https://www.law.cornell.edu/uscode/text/49

[12] 23 USC 101 to 611: https://www.law.cornell.edu/uscode/text/23

[13] Movable bridges have components that can move to allow outsized water traffic to pass. Drawbridges (technically called bascule bridges) are the most familiar type. Others include vertical-lift bridges (which raise vertically like an elevator) and swing bridges (which pivot horizontally). There are 25 publicly owned movable bridges in Michigan, 12 owned and operated by MDOT (11 drawbridges and one vertical-life bridge), and 13 by local units of government (10 drawbridges and three swing bridges).

agencies (eligible authorities and eligible governmental agencies). The State Trunkline Fund also would receive a distribution equal to 20% of the balance after distributions to the Local Bridge Advisory Board, the Local Rail Grade Separation Fund, and the Comprehensive Transportation Fund. Specific estimated distributions will be in a future HFA analysis.

Movable Bridge Fund

The bill's provisions regarding the Movable Bridge Fund would not affect state or local costs or revenues generally. The bill would authorize the transfer of funds from a state restricted fund, the Movable Bridge Fund, to support local road agency bridge inspections.

Since the Movable Bridge Fund's establishment in 2016, more money has been credited to the fund than needed to reimburse eligible bridge owners for operating costs of movable bridges. The bill would allow for transfer of funds not needed for movable bridge operations to support local road agency bridge inspections. The fund has built up a fund balance, and funds are available for transfer as authorized under the bill.

The benefit of allowing the transfer of Movable Bridge Fund revenue for local bridge inspections would accrue primarily to those local road agencies that have a relatively large number of bridges and that incur significant costs related to required bridge inspections.

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