MEMORANDUM

DATE: January 21, 2026

TO: House Appropriations Subcommittee on State and Local Transportation

FROM: William E. Hamilton, Senior Fiscal Analyst

RE: Act 51 Matching Requirements and the Neighborhood Roads Fund

Summary
In October 2025, the Michigan legislature passed, and the governor signed into law, a seven-bill Transportation Funding Package. One of the bills in the package, Senate Bill 578, enacted as 2025 PA 16, amends 1951 PA 51 by adding new Section13c to establish a new fund, the Neighborhood Roads Fund (NRF). NRF funding is provided from two sources: a redirection of corporate income tax revenue made in House Bill 4961; and revenue from a new wholesale excise tax on marijuana established in House Bill 4951.

Senate Bill 578 both establishes the NRF and directs the appropriation and distribution of NRF revenue. The bill establishes a new fund, the Infrastructure Projects Authority Fund, earmarks a portion of NRF revenue to that fund, and directs the appropriation and use of Infrastructure Projects Authority Fund revenue. Senate Bill 578 also directs the distribution of NRF revenue to programs and recipients already established in 1951 PA 51, specifically, the Local Bridge Advisory Board, the Local Grade Separation Fund, the Comprehensive Transportation Fund (CTF), county road commissions, cities and villages, and the State Trunkline Fund (STF).

Senate Bill 578 includes one subsection specific to the ***use*** of NRF revenue, a new subsection regarding ***matching***:

> "Matching funds are not required from a local unit of government or county road commission as a condition for expending [NRF] money distributed under subsection (5) or (6). However, any governmental entity expending [NRF] money distributed under subsection (5) or (6) may request matching funds from other sources."

As described in the balance of this memo, these provisions appear to be permissive. They allow the use of NRF revenue to fund 100% of project cost by NRF recipients – for local bridge projects, local grade separation projects, public transportation projects, and various capital projects undertaken by county road commissions and cities and villages. NRF recipients may nonetheless request participation in project costs from other sources.

Historically, Act 51 provisions have limited how much state-restricted revenue could be spent on capital improvements to county local roads and city and village local streets. Act 51 provisions have also provided for local contributions for improvements to county local roads and city and village streets. Use of the NRF to provide 100% state funding in support of local road system improvements would represent a significant change in state fiscal policy.

Introduction/Background

Public Act 51 of 1951 ("Act 51") establishes the Michigan Transportation Fund (MTF) as the primary collection and distribution fund for state-generated revenue dedicated to transportation programs. In FY 2024-25, approximately **$3.9 billion** in state-restricted transportation revenue was credited to the MTF. MTF revenue is distributed by Act 51 formula to other funds and programs, including to the Comprehensive Transportation Fund (CTF) for public transportation programs, to the State Trunkline Fund (STF) for construction and preservation of the state trunkline highway system, and to local road agencies (county road commissions, and cities/villages) for local road and street programs.

Historically, MTF revenue originated almost exclusively from motor fuel taxes and vehicle registration taxes. Beginning in FY 2018-19, MTF revenue included an earmark of Income Tax revenue. Beginning in FY 2020-21, the MTF also receives an earmark of revenue from a retail excise tax on recreational marijuana.

In October 2025, the Michigan legislature passed, and the governor signed into law, a seven-bill Transportation Funding Package. One of the bills in the package, Senate Bill 578, enacted as 2025 PA 16, amended Act 51 to establish a new fund, the Neighborhood Roads Fund (NRF). NRF funding is provided from two sources: a redirection of corporate income tax revenue made in House Bill 4961; and revenue from a new wholesale excise tax on marijuana established in House Bill 4951.

Senate Bill 578 both established the NRF and directed the appropriation and distribution of NRF revenue as follows:

The first $240.0 million is designated for the following targeted or categorical programs:

$100.0 million to the Local Bridge Advisory Board
$40.0 million to the Local Grade Separation Fund
$35.0 million to the CTF
$65.0 million to the Infrastructure Projects Authority Fund

The balance of NRF revenue, after the $240.0 million in targeted or categorical earmarks, is distributed to state and local road programs, specifically: 52.0% to county road commissions; 28.0% to cities and villages; and 20.0% to the STF. [1]

[1] The distribution formula described above is the formula prescribed in Senate Bill 578 for FYs 2025-26 through 2029-30. Senate Bill 578 prescribes a different formula for FY 2030-31 and subsequent fiscal years. The House Fiscal Agency's detailed legislative and fiscal analysis of the October 2025 Transportation Funding Package can be found on the Michigan Legislature website. The link to Senate Bill 578 and the related House Fiscal Agency analysis is found here: Senate Bill 578 of 2025 (Public Act 16 of 2025) - Michigan Legislature

NRF Distribution to Local Road Agencies/Matching Requirements

As noted above, Senate Bill 578 created the NRF and directs the distribution of NRF revenue to various state funds and programs, including distributions to county road commissions, and cities and villages. With respect to the distributions to county road commissions, and cities and villages, Senate Bill 578 specifies the following:

> **For county road commissions**: "the amounts appropriated to county road commissions must be allocated in accordance with the provisions governing the ***distribution and use*** of MTF revenue returned to counties under Section 12 [of Act 51]."
>
> **For cities and villages**: "the amounts appropriated to city and village road agencies must be allocated in accordance with the provisions governing the ***distribution and use*** of MTF revenue returned to cities and villages under Section 13 [of Act 51]."

Sections 12 and 13 of Act 51 establish "internal formulas" for distribution of MTF revenue to county road commissions, and to cities and villages, respectively. Section 12 establishes the "internal formula" that allocates the county MTF distribution among the 83 county road commissions. Section 13 establishes the "internal formula" that allocates the city and village MTF distribution among the 531 eligible cities and villages. Sections 12 and 13 also prescribe eligible uses of MTF monies.

Although Senate Bill 578 directs that the NRF distributions to county road commissions, and to cities and villages, follow provisions governing the distribution and use of MTF distributions under Sections 12 and 13, respectively, those NRF ***distributions*** retain their identity as NRF revenue; they are not MTF revenue.

And while Senate Bill 578 indicates that the NRF distributions to county road commissions, and to cities and villages, follow provisions governing the distribution and use of MTF distributions under Sections 12 and 13, respectively, the bill contains one provision specific to the ***use*** of NRF revenue; Subsection 7 includes new provisions regarding ***matching***:

> "Matching funds are not required from a local unit of government or county road commission as a condition for expending [NRF] money distributed under subsection (5) or (6). However, any governmental entity expending [NRF] money distributed under subsection (5) or (6) may request matching funds from other sources." [2]

[2] Subsection 5 governs NRF distributions from FY 2025-26 through FY 2029-30; Subsection 6 governs NRF distributions starting in FY 2030-31.

Matching Requirements Under Act 51

Prior to the enactment of Senate Bill 578, three sections of Act 51 contained general matching requirements for grants from state restricted transportation funds: [3]

Section 11i, which creates and governs the **Local grade separation program** and **Local grade separation fund**, states that the required written agreement between the Michigan Department of Transportation and a funding recipient must provide for a local, private, or federal *match* of not less than 10% of project costs.

Section 12, which provides for the distribution of MTF revenue to **county road commissions**, including specific provisions governing the use of MTF monies on county roads, authorizes county road commission MTF expenditures for county local road construction only to the extent *matched* by money from other sources.

Section 13, which provides for the distribution of MTF revenue to **cities and villages**, including specific provisions governing the use of MTF monies on city and village streets, prohibits city or village MTF expenditures for local street construction except to the extent *matched* from local revenues.

In addition to these statutory requirements, the **Local Bridge Advisory Board**, the board that administers the **Local Bridge Program** established under Section 10 of 1951 PA 51, requires, as a matter of policy, that the local agency bridge owner/grantee provide 5% of project cost. [4]

A more detailed description of these matching requirements follows below.

[3] One additional section of Act 51, section 20a, establishes matching requirements under less general and more specific circumstances. Section 20a establishes conditions, including matching requirements, under which a township may enter into a contract with a county road agency to perform road preservation work on local county roads within the township. Only one township, Bloomfield Township in Oakland County, currently has such a contract – with the Road Commission for Oakland County.

[4] The specific authority of the Local Bridge Advisory Board is established in Administrative Rule, R 247.162.

County Road Program Matching Requirements/Township Contributions

County road commissions receive MTF revenue through distributions directed by Section 12 of Act 51. This MTF revenue is primarily for the preservation of roads and bridges under county jurisdiction.

Sections 2 through 5 of Act 51 provide for the selection and certification of a system of county primary and county local roads. Section 2 indicates that the county primary system is to be selected on the basis of greatest general importance to the county. Section 4 indicates that all the roads under county jurisdiction not included in the county primary system constitute the county local road system.

Although county roads generally lie within townships, responsibility for the improvement or preservation of these county roads lies with the county road commission having jurisdiction over the road, not with the township. Under current law, townships are permitted, but not required, to appropriate money for improvement or preservation of county roads within the township. [5]

Because townships do not have road jurisdiction, they do not receive a distribution of MTF monies under Act 51.

Although townships are not legally required to pay for the cost of improvement or preservation of county roads, townships do make financial contributions to county road projects. This is due, in part, to Act 51 restrictions on the use of MTF revenue by county road commissions.

County road commissions look for township contributions to fund some road projects because Act 51 limits how much a county road commission can expend on *construction* – as opposed to maintenance – on the county local road system. Section 12(15) indicates that MTF funds may be expended for construction purposes on county local roads "*only to the extent matched by money from other sources*." This effectively limits a road commission's MTF share of county local road construction costs to 50% of project cost. The balance of project cost has to come from other sources. In practice, this 50% share of project cost frequently comes from township contributions or special assessments.

Section 12 allows the use of county MTF revenue for up to 75% of local county road bridge construction.

Act 51 does not define “construction.” In practice, the Section 12 limitation on the use of MTF monies for local county road construction governs any capital construction or reconstruction project, not simply new road construction.

County road commissions and townships work together to identify program and funding priorities, and to negotiate cost sharing agreements. In some cases, the township agrees to provide matching funds for county local road construction projects, as described above. In other cases, the township provides funds for higher levels of service within the township than the road commission would otherwise be able to provide. For example, townships may provide funding for dust control programs or ditching and culvert repair programs. Under Act 51, townships may not be required to provide matching funds, but road commissions may prioritize service or projects in townships that do contribute matching funds.

Many county road commissions have “match money” programs that formalize the cost share responsibilities of the road commission and participating township. Townships contribute to the costs of these projects through township general fund contributions, township road millages, or through

[5] See Attorney General Opinion No. 6570, dated April 14, 1989. https://www.ag.state.mi.us/opinion/datafiles/1980s/op06570.htm

special assessments. County government may also contribute to county road commission road programs through general fund contributions or county-wide millages.

Options for Use of NRF on County Local Road Projects

Because House Bill 578 indicates that "matching funds are not required" with respect to NRF expenditures, a county road commission could fund a county local road construction project using NRF revenue for 100% of project cost. Or a road commission could use MTF revenue for half the cost of a county local road construction project, and use NRF revenue to provide the required 50% matching funds. In each of these examples, the road commission could fund a county local road construction project without requesting township contributions.

At the same time, a road commission could maintain the current model of prioritizing projects in townships that contribute to projects or programs. The language governing the NRF is permissive: "Any governmental entity expending NRF money may request matching funds from other sources."

While a road commission cannot require township matching funds, a road commission could request matching funds and prioritize NRF-funded projects or programs where matching funds are provided from other sources, including township contributions.

If road commissions were to routinely use NRF money to fund local road projects at 100% of cost, and townships pulled back matching contributions, the result could be less funding for local road programs – or at least, a smaller net funding increase than the gross NRF revenue increase. In effect, state funds would replace local contributions for local projects.

In 2024, townships contributed approximately **$231.0 million** for county road projects – almost exclusively on the county local road system.[6] In addition, over **$65.0 million** was provided through county-wide millages, levied and collected by county government.

City/Village Matching Requirements

Section 13 of 1951 PA 51, the section that governs the distribution of MTF to cities and villages, includes provisions governing the use of MTF, including specific restrictions on the use of MTF monies for local street construction. Section 13 prohibits city or village MTF expenditures for local street construction except to the extent *matched* from local revenues.

The Section 13 matching requirements largely mirror the Section 12 provisions governing use of MTF monies by county road commissions. However, the practical implications of these Act 51 restrictions are somewhat different for cities and villages as compared to county road commissions. Unlike road commissions, cities and villages can provide matching funds from their own revenue sources – from municipal general fund contributions or city street millages. County road commissions do not have the authority to levy taxes and generally have no sources of ongoing operating revenue other than MTF distributions.

[6] Information obtained from a review of county road commission financial statements and Act 51 annual reports.

Local Grade Separation Program – Matching Requirements

The Local Grade Separation Program is established in section 11i of Act 51. The program provides grants from the Local Grade Separation Fund to Michigan cities, villages, and county road commissions for rail grade separation projects.[7]

Section 11i states that the required written agreement between the Michigan Department of Transportation (MDOT) and a funding recipient must provide for a local, private, or federal match of not less than 10% of project costs.

Senate Bill 578 provides a $40.0 million annual appropriation from the NRF to the Local Grade Separation Fund. Because of Section 13c's "matching funds are not required" language, MDOT could authorize the use of the NRF to provide 100% funding for a rail grade separation grant – although the Section 13c language regarding matching NRF grants appears to be in conflict with Section 11i matching requirements.

Section 11j requires MDOT to develop parameters for prioritizing the approval of funding applications for railroad crossing projects awarded under the Local Grade Separation Program. The department could prioritize project applications where the city, village, or county road commission provided matching funds – perhaps even overmatching beyond the 10% minimum. Although matching funds are not required of NRF local grantees, project selection may still be guided by the availability of local matching funds.

Local Bridge Advisory Board – Matching Requirements

The Local Bridge Advisory Board, the board that administers the **Local Bridge Program** established under Section 10 of 1951 PA 51, requires, as a matter of policy, that the local agency bridge owner/grantee provide 5% of bridge project cost.

Senate Bill 578 provides a $100.0 million annual appropriation from the NRF to the Local Bridge Advisory Board. Because of Section 13c's "matching funds are not required" language, the Local Bridge Advisory Board could amend its policy and authorize the use of NRF grants to provide 100% funding for a local agency bridge project.

If NRF money was routinely used to fund Local Bridge Program projects at 100% of project cost, the result could be less funding for local bridge programs – or at least, a smaller net funding increase than the gross NRF revenue increase. In effect, state funds would replace local contributions for local projects.

During the three most recent fiscal years, FYs 2022-23, 2023-24, and 2024-25, a total of $571.2 million was expended for local bridge program construction phase contracts administered by MDOT. Of that total, local road agencies contributed approximately **$31.5 million,** an average of over $10.0 million per year. [8]

[7] "Grade separation" is defined to mean an intersection of a railroad and roadway at different levels with the railroad either above or below the roadway. MCL - Section 247.661i - Michigan Legislature

[8] Information obtained from MDOT, Financial Operations.

MTF Funding for County Local Roads

As noted above, Section 12(15) of Act 51 limits how much county road commissions can spend on county local road construction. Section 14(6) further states that MTF revenue distributed to county road commissions represents the total state responsibility for the county local road system and that other funds for county local roads may be raised by townships or county government.[9]

Section 13 contains similar language with respect to MTF funding for city and village local streets: "Money distributed to each city and village for the maintenance and preservation of its local street system under this act represents the total responsibility of this state for local street system support." [10]

Section 20 of Act 51 also authorizes townships to appropriate township funds for the maintenance or improvement of county roads within the township.[11]

These Act 51 provisions suggest that the Legislature intended to limit how much state-restricted revenue could be spent on the county local road system. These provisions also provide for local contributions for the maintenance and improvement of the county road system. Use of the NRF to provide 100% state funding in support of local road system improvements would represent a significant change in state fiscal policy.

[9] MCL - Section 247.664 - Michigan Legislature

[10] MCL - Section 247.663 - Michigan Legislature

[11] MCL - Section 247.670 - Michigan Legislature. In some ways this section appears to define the authorities of townships in 1951 PA 51 that should be made in Chapter 41 of the Michigan Compiled Laws: MCL - R-S-1846-41-1-16 - Michigan Legislature, or in the Charter Township Act MCL - Section 247.670 - Michigan Legislature

Appendices

Appendix 1
Township Road History

Although there are no longer "township roads" in Michigan, in the early part of the 20th Century townships did have jurisdiction over many local roads in the state. However, in the 1930s many townships were unable to raise local revenue because of the loss of taxable property values during the Great Depression. Townships were in danger of defaulting on highway bonds. In 1931, the state legislature passed the McNitt Act (Public Act 130 of 1931), which transferred jurisdiction of township roads to county road commissions. A Citizens Research Council publication, Michigan Highway Finance and Governance, (May 1997) contains a discussion of road jurisdiction and the McNitt Act. [12]

Appendix 2
County/Township Cooperation

The following statement from the **Kalamazoo County Road Commission's** 2024 financial statements provides a description of county/township cooperation with respect to road funding.[13]

> The financial commitment of local township boards and residents through the years has proven invaluable. Although not required, these partnerships help to provide better service to joint constituencies and a long-term collaborative effort. For the local road system, the Road Commission establishes road improvement priorities that are developed in conjunction with township governments. Each township works with a designated road commission team to develop five-year local road improvement plans supporting asset management for planning purposes and local road preservation.
>
> The Road Commission maintains a local road participation fund program that provides funds for each township that must be matched on a dollar-for-dollar basis for local road improvement projects. In 2024, the Road Commission applied $2.6 million toward this local match program.
>
> Local projects include local road preservation/structural improvement; preventive maintenance; and construction projects, such as chip seal, hot mix asphalt (HMA) overlays, and road reconstruction.

[12] https://crcmich.org/PUBLICAT/1990s/1997/rpt321s3.pdf

[13] https://www.kalamazoocountyroads.com/userfiles/kcrc/file/Financials/2024%20Audited%20Financial%20Statements.pdf