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BILL ANALYSIS

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Senate Bill 518 (Substitute S-2)
Senate Bill 519 (Substitute S-1)
Sponsor: Senator Jim Runestad (S.B. 518)
Senator Michael D. MacDonald (S.B. 519)
Committee: Transportation and Infrastructure

Date Completed: 1-13-20

CONTENT

Senate Bill 518 (S-2) would amend the Michigan Transportation Fund law to do the following:

- **Require funds used by the State to purchase local Federal funds that were available to be purchased by the Michigan Department of Transportation (MDOT) as part of the local Federal aid buyout program to be deducted before allocation of certain Federal funds appropriated to the State from the Federal government.**
- **Require MDOT, as part of the local Federal aid buyout program, to pay local agencies the amounts identified in their three-year or five-year local transportation improvement plan for each year in which they planned to participate in the program.**
- **Prescribe requirements that MDOT's Federal aid buyout program would have to meet.**
- **Allow MDOT, if it were unable to fulfill its Federal aid matching obligations for a fiscal year, to reduce the local Federal aid buyout program for a given fiscal year.**
- **If MDOT reduced the program, require MDOT to submit a letter to the Senate and House of Representatives explaining why it was unable to fully fund its Federal aid matching obligation.**

Senate Bill 519 (S-1) would amend the Michigan Transportation Fund law to require an amount equal to the amount of money owed by MDOT to local road agencies to purchase Federal funds under the local Federal aid buyout program as provided by Senate Bill 518 (S-2) to be paid to local road agencies before distribution to the State Trunk Line Fund (STF).

The bills are tie-barred.

Senate Bill 518 (S-2)

Under the law, 23% to 27% of the DOT-FHWA highway research, planning, and construction Federal funds appropriated to the State from the Federal government for road and bridge construction must be allocated to programs administered by local jurisdictions after deduction of the following:

- Funds that are specifically allocated at the Federal level to the State or local jurisdictions.

-- Funds allocated by MDOT to the State and to local jurisdictions through a competitive process.

In addition, the bill would require 23% to 27% of the funds described above to be allocated to programs administered by local jurisdictions after deduction of funds used by the State to purchase local Federal funds that were available to be purchased by MDOT as part of the local Federal aid buyout program described below.

Under the bill, as part of the local Federal aid buyout program operated by MDOT, MDOT would have to pay local agencies the amounts identified in their three-year or five-year local transportation improvement plan for each year in which they planned to participate in the local Federal aid buyout program with MDOT. The Department's local Federal aid buyout program also would have to meet the requirements described below.

As part of the local Federal aid buyout program operated by MDOT, MDOT would have to make available to local agencies up to 80% of the eligible local Federal funds allocated to local agencies for the Surface Transportation Block Grant funding. The Department would have to pay local agencies the amount of Federal funds, identified in the approved State transportation improvement plan, as determined by the local road agency, not to exceed 100% of the total local agency eligible funds.

The local road agency would have to notify MDOT, their local planning group or regional planning organization, and their metropolitan planning organization before the fiscal year which projects the local agency had determined would be included in the local Federal aid buyout program for the next fiscal year, and the local agency would have to complete the identified projects with the buyout funds. The local agency would have to spend any remaining buyout funds on Federal aid eligible roads for activities and improvements, not including routine maintenance, or use the remaining funds as additional funds for any Federal aid project undertaken on roads under its jurisdiction. Local agencies would have to complete an eligible activity or improvement with the Federal buyout funds within three years as required by the law.

If the identified projects could not be completed within the three-year time frame, the local agency would have to notify MDOT and the appropriate metropolitan planning organization, regional planning organization, or rural task force of the limitation and identify an alternate Federal aid eligible road project where a similar improvement would be accomplished within the original three-year time frame.

The completed road projects accomplished with the buyout funds would have to be documented with the Transportation Asset Management Council investment reporting tool and reported in the fiscal year the project was completed.

(The Surface Transportation Block Grant Funding offers funding to States and local agencies to preserve and improve the conditions of any Federal-aid highway, bridge and tunnel projects on any public road, pedestrian and bicycle infrastructure, and transit capital projects.)

The bill also specifies that if MDOT were unable to fulfill its Federal aid matching obligation to obtain all available Federal funds for a fiscal year, MDOT could reduce the local Federal aid buyout program for that fiscal year. However, MDOT could only reduce the amount of the local Federal aid buyout funds if that reduction were necessary to ensure that MDOT could perform routine maintenance, operate safety programs, and carry out other administrative functions. The Department would have to make this determination before the beginning of the fiscal year and would have to notify all local road agencies that had submitted applications for the local Federal aid buyout program for that fiscal year before the beginning of the fiscal year. If MDOT reduced the local Federal aid buyout program, MDOT would have to submit a detailed letter to the chairs of the Senate and House of Representatives transportation committees, the chairs of the Senate and House transportation appropriations subcommittees, the Senate Majority Leader, and the Speaker of the House of Representatives explaining why MDOT was unable to fully fund its Federal aid matching obligation.

Senate Bill 519 (S-1)

Generally, the Act establishes the Michigan Transportation Fund (MTF) and provides the manner in which apportioned and appropriated money within the Fund must be distributed. After the deduction of certain amounts specified by the Act, the Act requires the balance of the MTF to be appropriated and apportioned as follows:

-- 39.1% to the county road commissions of the State.
-- 21.8% to the cities and villages of the State.
-- 39.1% to the STF for the purposes described in Section 11 of the Act.

(Section 11 of the Act establishes the State Trunk Line Fund and requires money deposited into the Fund to be used for certain purposes, including: 1) the payment of bonds, notes, or other obligations, 2) the transfer of money as appropriated to the Transportation Economic Development Fund, 3) the transfer of money as appropriated to the rail grade crossing account, 4) the transfer of money as appropriated to the grade crossing surface account, 5) the total operating expenses of the State Trunk Line Fund, 6) and for the preservation, reconstruction, and improvement of State trunk line highways and bridges.)

Under the bill, before distribution of the 39.1% to the State Trunk Line Fund for purposes described in Section 11 of the Act, each year an amount equal to the amount of money owed by MDOT to local road agencies to purchase local Federal funds under the local Federal aid buyout program as provided in Section 10o(5) (which Senate Bill 518 (S-2) would amend) would have to be paid to local road agencies.

MCL 247.660o (S.B. 518)
247.660 (S.B. 519)

Legislative Analyst: Tyler VanHuyse

FISCAL IMPACT

The bills would significantly increase the Department's allotment of Federal aid at an equivalent cost to the Department's appropriated share of the Michigan Transportation Fund under Public Act 51 of 1951. The bills would not have a direct fiscal impact on State or local government, as they do not create new revenue or expenditures; however, the bills could create savings in the cost of construction projects on roads under local jurisdiction at an estimated rate of between 20% and 30%.

The bills would create a buyback program within MDOT to give local agencies the opportunity to exchange their portion of Federal aid for the Department's STF dollars. This exchange would mean significant savings in administrative costs to local road agencies, whose financial and administrative offices are much smaller than MDOT's. Any savings that could result from reduced road and bridge construction labor costs are indeterminate. The bills do not address how the Federal Davis-Bacon Act of 1931 would apply to the buyback program or the participating local agencies.

The chief concern for MDOT is whether there would be enough STF, after the proposed statutory commitment of STF dollars to the buyback program, to fund MDOT's other STF obligations, including bond payments, highway maintenance, and the Department's own Federal matching obligations; however, this concern is addressed in subsection (6) within Senate Bill 518 (S-2), which would allow MDOT to reduce buyout funding through the program should there be a shortage of STF for its other obligations.

As a hypothetical exercise, a breakdown of the Department's STF spending for fiscal year (FY) 2019-20 is provided in the table below. The first column represents the Department's STF obligations under current law, while the second shows what the Department's STF obligations would be if the bills were enacted for the current year.

	STF Spending FY 2019-20	**STF Spending FY 2019-20 - with Buyback Program**
Debt Service	$97,505,600	$97,505,600
Administrative and Operational Expenses	243,094,800	243,094,800
Highway Maintenance	405,641,800	405,641,800
Buyback Program	0	222,720,200
Federal Aid Matching	196,673,600	252,353,700
STF Spending on Road and Bridge Construction	304,891,900	26,491,600
Total STF spending	**$1,247,807,700**	**$1,247,807,700**

Please note the increased Federal aid matching obligation and the reduced amount of discretionary STF spending on Road and Bridge Construction in the second column. The line for STF Spending on Road and Bridge Construction represents the Department's available STF for road and bridge construction *after* meeting Federal aid matching requirements. For this analysis, a matching rate of 20% STF is applied to the Federal aid amount. If the bills' changes were enacted for the current fiscal year, the reduced STF availability likely would mean significant consequences for the Department's five-year trunkline road and bridge construction plan. The language in Senate Bill 518 (S-2), Subsection (6), would allow the Department to suspend the buyback program before it reached an STF shortfall.

Fiscal Analyst: Michael Siracuse

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