

Legislative Analysis



TRANSPORTATION BOND SINKING FUND

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House Bill 4669 as introduced
Sponsor: Rep. Scott VanSingel
Committee: Appropriations
Complete to 4-28-21

Analysis available at
<http://www.legislature.mi.gov>

SUMMARY:

House Bill 4669 would amend 1951 PA 51 (“Act 51”), the statute that governs state transportation appropriations. The bill would create a new restricted fund in the state treasury, the Transportation Bond Repayment Sinking Fund.

Under the bill, the state treasurer could deposit money and other assets received from any source into the sinking fund. The state treasurer would have the same authority to invest the assets of the sinking fund as is granted to an investment fiduciary under the Public Employee Retirement System Investment Act. The bill would make the Michigan Department of Transportation (MDOT) the administrator of the fund for audits of the sinking fund.

The bill prescribes uses of the sinking fund: MDOT could expend money from the fund, upon appropriation, only for payment of principal and interest on bonds issued under section 18b of Act 51 or for paying off bonds issued under section 18b prior to maturity.

The bill would prohibit MDOT from spending money from the sinking fund to extend the maturity of a bond.

The bill would require that MDOT deposit money into the sinking fund upon the sale of “new bonds.” Specifically, if MDOT issued “new bonds,” the bill would require a dollar-for-dollar deposit of State Trunkline Fund (STF) revenue into the sinking fund, up to \$234.6 million each fiscal year, until an amount equal to the amount of the new bonds had been deposited into the sinking fund.

The bill would also amend section 11 of Act 51, the section that establishes the priority order of appropriations from STF, to effectively make the earmark of STF revenue to the sinking fund the first appropriation priority.

Although House Bill 4669 is not tie-barred to another bill, line-item appropriations in two appropriations bills (House Bills 4409 and 4420) are tie-barred to House Bill 4669.

MCL 247.661 and proposed MCL 247.668n

BACKGROUND INFORMATION:

Historically, most state-generated tax revenue recognized in the state transportation budget has come from two sources: motor fuel taxes and vehicle registration taxes. For FY 2020-21, these two sources are expected to generate \$2.8 billion. Motor fuel and vehicle registration tax revenue is dedicated for transportation purposes in section 9 of Article IX of the Michigan

Constitution. This revenue is credited to the Michigan Transportation Fund (MTF) and then distributed in accordance with section 10 of Act 51.

In addition to this constitutionally dedicated revenue, in FY 2020-21 the MTF will receive \$600.0 million in revenue from an earmark of Income Tax Act revenue. The dedication of Income Tax revenue for state and local road programs was one of the elements of the November 2015 Road Funding Package.

Section 10 of Act 51 establishes the MTF and directs the appropriation of MTF revenue, including earmarks of MTF revenue to the STF, a state restricted transportation fund established in section 11 of Act 51.¹

STF revenue for FY 2021-22 is estimated to be \$1,257.0 million.

As an example of how the bill's provision might work: In August 2020, MDOT sold \$800.0 million in "new money" STF bonds. Actual bond proceeds, including issue premium, totaled over \$1.0 billion. If the provisions of the bill had been in effect in 2020, after selling the \$800.0 million in STF bonds, MDOT would have had to deposit \$234.6 million from the STF into the sinking fund prior to the end of the 2019-20 fiscal year. MDOT would have been required to deposit an additional \$234.6 million in each of the next two fiscal years (FYs 2020-21 and 2021-22) and an additional \$96.2 million in FY 2022-23.

MDOT could not fund the sinking fund with bond proceeds. After selling bonds, MDOT would have to fund the sinking fund with current STF revenue, as appropriated by the legislature—up to \$234.6 million. If MDOT had been required to deposit \$234.6 million to the sinking fund from current (FY 2020-21) STF revenue, there would have to have been a like reduction in current STF appropriations.

FY 2020-21 STF revenue estimates and enacted appropriations are shown in **Table 1**, below.

FISCAL IMPACT:

The bill would have no impact on local units of government.

The bill would have a contingent impact on MDOT's ability to finance its state trunkline road and bridge programs. The bill would require a transfer from one state restricted transportation fund, the STF, to a new state restricted transportation fund established in the bill, the Transportation Bond Repayment Sinking Fund, contingent on the sale of "new bonds." The effect of this requirement would be to restrict MDOT's ability to sell transportation bonds as currently authorized under section 18b of Act 51.

As of September 30, 2020, outstanding transportation bonds issued by pledge of STF revenue totaled \$1,159.1 million.

¹ Section 11 currently establishes the priority order of STF appropriations as follows: STF debt service, earmarks for certain categorical programs (the Transportation Economic Development Fund, the rail grade crossing account, and the [rail] grade crossing surface account), STF operating expenses, preservation of the state trunkline system, and "opening, widening, improving, construction, and reconstruction of state trunk line highways and bridges."
<http://legislature.mi.gov/doc.aspx?mcl-247-661>

Debt service on bonds issued through a pledge of STF revenue, per debt service schedules, is \$143.1 million for FY 2020-21 and \$154.5 million for FY 2021-22.

For additional information on state transportation bonds and debt service requirements, see House Fiscal Agency Fiscal Brief, State Transportation Bonds and Debt Service.²

TABLE 1
FY 2020-21
Estimated STF Revenue and Enacted Appropriations

	FY 2021 YTD
STF Revenue	
Baseline STF revenue from MTF Distribution	\$1,208,580,700
Misc STF revenue	48,464,300
STF as Appropriated	\$1,257,045,000
STF Appropriations	
Debt service	\$124,952,100
Interdepartmental grants (IDGs)	23,100,900
Exec.Direction/Finance/Business support	34,717,700
Information Technology	38,289,900
Planning	7,757,000
Design/Engineering	138,808,000
Trunkline Maintenance	415,521,900
Office of Rail	771,900
Capital Outlay - Facilities	5,501,500
Subtotal	\$789,420,900
State Trunkline Road and Bridge Construction	467,624,100
Total STF Appropriation	\$1,257,045,000
State Trunkline Road and Bridge Construction	FY 2021
FUND SOURCES	YTD
Federal Revenue	\$822,327,100
Local Revenue	30,003,500
Blue Water Bridge Fund	7,179,100
State Trunkline Fund (STF)	467,624,100
Total	\$1,327,133,800

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■ This analysis was prepared by nonpartisan House Fiscal Agency staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.

² https://www.house.mi.gov/hfa/PDF/Alpha/Fiscal_Brief_State_Transportation_Bonds_Summary_Mar2021_Update.pdf