



Senate Fiscal Agency
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BILL ANALYSIS



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

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.

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.

Date Completed: 1-15-20

Fiscal Analyst: Michael Siracuse