Senate Fiscal Agency
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BILL ANALYSIS

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Senate Bill 465 (Substitute S-3 as reported)
Senate Bill 466 (Substitute S-1 as reported)
Sponsor: Senator Jim Runestad (S.B. 465)
Senator Michael D. MacDonald (S.B. 466)
Committee: Transportation and Infrastructure

CONTENT

Senate Bill 465 (S-3) would amend the Michigan Transportation Fund law to do the following:

-- Require the Michigan Department of Transportation (MDOT) to award money from the State Trunk Line Fund (STF) to local road agencies in exchange for Federal aid obligation authority allocated to local-agency projects, if allowed by Federal law and rules.
-- Specify certain amounts of money that MDOT would have to make available from the STF in exchange for Federal aid obligation authority awarded to local road agencies unless the amounts would have to be reduced to match all available Federal aid.
-- Require MDOT, if it reduced the amount of money available from the STF, to submit a letter to the Michigan Senate and House of Representatives explaining why it was unable to match available Federal aid or perform essential functions.
-- Allow local road agencies to apply for State money in exchange for 100% of the Federal aid obligation authority allocated by MDOT to a local road agency project in a metropolitan planning organization transportation improvement program or in the rural transportation improvement program.
-- Require money to be exchanged with local road agencies for Federal aid obligation authority in an amount equal to 90 cents per dollar of all Federal aid obligation authority allocated.
-- Require money exchanged for Federal aid obligation authority to be spent within three years after the exchange.
-- Prescribe limitations on the number and total costs of force-account projects that a local road agency that was awarded State money in exchange for Federal aid obligation authority could undertake per fiscal year.
-- Require contracts between local road agencies and contractors for projects funded from State money exchanged for Federal aid obligation authority to contain a Federal wage and benefits schedule.

Senate Bill 466 (S-1) would amend the Michigan Transportation Fund Law to require a certain percentage of the Michigan Transportation Fund (MTF), after other deductions, to be appropriated and apportioned for the purposes of awarding money to local road agencies in exchange for Federal aid obligation authority as provided by Senate Bill 465 (S-3).

MCL 247.660o (S.B. 465)
247.660 (S.B. 466)

Legislative Analyst: Tyler VanHuyse

FISCAL IMPACT

The bills could increase the Department's allotment of Federal aid at a near-equivalent cost to the Department's appropriated share of the MTF under Act 51 of 1951. The bills would not have a direct fiscal impact on the State or local units of government, as they would not create new revenue or expenditures; however, the bills could create a 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 MDOT's STF dollars at a rate of 90%. It is believed that this exchange would mean significant savings in administrative costs to local road agencies, whose financial and administrative offices are much smaller than MDOT's. A savings due to reduced labor costs would be unlikely; Senate Bill (SB) 465 would require that local project contracts paid for through the buyback program be compliant with Federal wage requirements under the Davis-Bacon Act of 1931. Additionally, road construction labor is at a premium, and even without this compliance requirement, it is unlikely that projects funded through the buyback program would result in any savings from labor costs.

The chief concern for MDOT is whether there would be enough STF funding, 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 MDOT's own Federal matching obligations. This concern, however, would be addressed in subsections (6), (7), and (8) within SB 465, which would allow MDOT to reduce buyout funding through the program if there were a shortage of STF dollars for its other obligations.

The Department has offered local units of government options for Federal buyback in the past. Throughout most of the 2000s, MDOT made available a voluntary buyback program for local units that would exchange Federal funds for STF at a rate of 75%. The program ceased when MDOT's annual allotment of the MTF became too small to continue the program. The 2015 road funding package increased revenue from gas and registration taxes in more recent years, allowing for the return of a Federal buyback program. In the decades to come, however, MDOT's current bonding initiative for $3.5 billion in new debt over four years inevitably will result in larger bond payments, which could cause MDOT, again, to cease offering Federal buyback if the bills were enacted, which it would be allowed to do under subsection (6) of SB 465.

Date Completed: 10-19-21 Fiscal Analyst: Michael Siracuse