

Legislative Analysis



ALLOCATION OF FEDERAL-AID HIGHWAY FUNDS BETWEEN STATE AND LOCAL PROGRAMS

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House Bill 4739

Sponsor: Rep. Marty Knollenberg

Committee: Transportation

Complete to 12-6-11

A SUMMARY OF HOUSE BILL 4739 AS INTRODUCED 6-14-11

House Bill 4739 would amend Section 10 of 1951 PA 51 (Act 51), the act which governs the distribution of surface transportation funds in Michigan. Section 10 currently directs that from 23% to 27% of the federal-aid highway funds appropriated to the state, with certain exceptions, be allocated to programs administered by local jurisdictions. The section indicates that it is the intent of the legislature that an average of 25% of applicable federal-aid highway funds be allocated to local jurisdictions.

The bill would allow local jurisdictions an increased share of federal-aid highway funds under two circumstances: If a local jurisdiction is able to provide matching funds for federal funds appropriated to the state, and the state transportation department is unable to provide matching funds for federal-aid highway funds appropriated to the state. Under the circumstances described in the bill, the percentage limitation in subsection (1), i.e. 27%, would not apply, but would be adjusted upward *"to take account of the local jurisdiction's ability to provide matching funds."*

The bill could allow for the reallocation of federal-aid highway funds from state trunkline programs under the authority of the Michigan Department of Transportation to programs under the jurisdiction of local road agencies – county road commissions, cities, and villages.

FISCAL IMPACT:

For several years the Michigan Department of Transportation has identified potential shortfalls in its ability to match federal funds for its capital state trunkline road and bridge construction/reconstruction program – most federal-aid highway programs require a 20% non-federal match. To date, the department has been able to identify all state matching funds needed to match federal aid through short-term or one-time funding mechanisms identified in FY 2010-11 and FY 2011-12 budget agreements. The department's preliminary draft 2012-2016 Five-Year Transportation Program (Five Year Plan) identifies a potential shortfall in state funds of between \$75 million and \$100 million per year, resulting in a loss of \$440 million to \$600 million in federal aid each year of the five-year period.

Note that the issue of obtaining state matching funds for federal aid has been an issue in budget development, and in the department's Five Year Plan, with regard to the department's trunkline program only. It is not clear to what extent local agencies are also having trouble matching the federal aid made available for programs under local jurisdictions. It is much harder to quantify funding problems at local jurisdictions, in part because there are 616 local road agencies.

If local jurisdictions collectively had sufficient local resources, the bill would allow those agencies to use those resources to match federal-aid highway funds beyond the current 27% limitation. In this circumstance, use of federal-aid funds by local agencies could prevent the state from losing federal funds apportioned to the state as a whole. However, according to figures presented in the department's preliminary draft 2012-2016 Five Year Plan, the annual shortfall in matching funds is between \$75 million and \$100 million. In effect, local jurisdictions would have to identify an additional \$75 million to \$100 million in local matching funds, beyond what they currently provide for local federal-aid projects, to prevent the loss of federal funds. It is not clear if local agencies collectively have the resources to make up for the shortfall of matching funds in the state trunkline programs. In addition, it is not clear if local agencies have additional federal-aid eligible projects to put under contract in order to use all available federal aid.

If local jurisdictions were able to provide matching funds needed to match all available federal aid, it would also cause a shift in construction activity from the state trunkline system to the local road system, with a corresponding fall-off in state trunkline pavement condition.

It should be noted that the 23% to 27% figures which currently guide the allocation of federal-aid highway funds to local jurisdictions apply to all local jurisdictions collectively, not to any particular local agency. So while a particular county road commission or municipality may have enough money in its road fund or street fund to match federal aid, or may have bonding capacity to provide the match for federal-aid projects, local agencies *collectively* may be experiencing difficulty in obtaining matching funds for local federal-aid programs. The ability of some local agencies to match federal aid may not be representative of local road agencies as a whole.

BACKGROUND DISCUSSION:

Federal aid represents one of the largest revenue sources for state transportation programs – it is second only to state restricted revenue (from state motor fuel taxes and vehicle registration taxes), in its contribution towards funding Michigan's transportation systems. Federal funds typically represent one-third of the revenue appropriated in the state transportation budget.

Over the last 15 years, from FY 1997-98 through FY 2011-12, baseline federal aid appropriated in the state transportation budget (not counting federal Stimulus funding) has ranged from \$732.5 million to \$1.43 billion, and averaged \$1.10 billion over that

time. Federal aid in the current year (FY 2011-12) state transportation budget is \$1.24 billion.

While federal funds provide support for transit, rail passenger, rail freight, and aviation programs, the largest share of federal aid is provided for state highway programs – \$1.08 billion in the FY 2011-12 state Transportation budget. Of this, \$841.6 million is appropriated for state trunkline programs, with \$240.4 million in federal aid appropriated for programs under local jurisdiction.

In recent years, the state's ability to access federal-aid highway funds has been at risk due to a shortfall in required state matching funds. The potential loss of federal funds, and the identification of state sources of matching funds, has been the focus of recent budget deliberations. However, it should be noted that the issue of matching funds for federal aid is related to the department's trunkline program only. It is not clear to what extent local agencies are also having trouble matching the federal aid made available for programs under local jurisdictions.

Allocation of Federal Highway Funds between the State and Local Road Agencies

Generally speaking, the federal-aid highway program provides funding only for capital projects, and related planning activities. Federal funds cannot be used for routine or reactive maintenance, or for general administrative functions. In addition, federal funds are generally only available for roads and streets of a certain "functional classification." Broadly speaking, the program supports major roads and streets but not subdivision streets or local rural roads. Roads meeting these requirements are referred to as "federal-aid eligible" or "on the federal-aid system."

As described above, federal-aid highway funds are made available to states, and state highway agencies are responsible for administering the programs in accordance with federal requirements. However, not all federal-aid eligible roads in Michigan are under state jurisdiction; a large number of federal-aid eligible roads are under the jurisdiction of local road agencies: county road commissions, cities, and villages.

Of 119,570 total road miles in Michigan, 33,504 are on the federal-aid system.

Of these 33,504 federal-aid system miles, 9,681 are under state jurisdiction, and 23,823 are under the jurisdiction of local road agencies. The state's share of federal-aid eligible roads, 29%, is quite low as compared to other states.

Because a large share of federal-aid eligible roads in Michigan are under the jurisdiction of local road agencies, Section 10o of Public Act 51 of 1951 (MCL 247.660o) directs that that 23% to 27% of the federal-aid highway funds appropriated to the state, with certain exceptions, be allocated to programs administered by local jurisdictions. There is no required amount or percentage allocation to any particular local road agency: not all local road agencies have roads on the federal-aid system; not all local road agencies have access to federal funds.

Although most federal-aid eligible road mileage is under local jurisdiction, the state trunkline highway system, almost all of which is on the federal-aid system, has the highest traffic volume, as measured by Average Daily Traffic, and carries the largest share of commercial truck traffic. This state trunkline system includes all the Interstate, US, and M numbered highways.

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