

# Fiscal Year 2021 Local Federal Fund Exchange Program Report

March 29, 2022

## Background

In the fall of 2015, the County Road Association (CRA) proposed a Local Federal Fund Exchange (LFFE) Program to the Rural Task Force (RTF) Program Advisory Board. The RTF Program Advisory Board agreed to begin a pilot program to assess the validity of an exchange program. To ensure State Transportation Improvement Program (STIP) stability, and as the stewards of the federal aid process, the Michigan Department of Transportation (MDOT) agreed to an exchange program and developed suitable guidelines. Steve Puuri from CRA, Denise Jones, Eric Mullen, and Pam Boyd, all from MDOT, worked together to develop the LFFE Program Pilot Guidelines and Procedures document. Sample agreements and procedures were developed and put into place. The pilot called for a limit of five federal fund exchanges, to allow for any issues to be worked out.

Although there were several entities negotiating federal fund exchanges in Fiscal Year (FY) 2016, only one exchange, Montcalm County to Kent County, took place. The lack of exchanges in FY 2016 was attributed to the timing of the completed guidelines and procedures, as well as additional questions that were raised by potential participants.

The pilot was continued in FY 2017 and the exchanges remained limited to five transactions. There were five LFFE transactions completed in FY 2017. Concerns raised by RTF Program Advisory Board members and MDOT management were addressed with updates to the FY 2018 LFFE Program Guidelines. Appendix A, *The Rural Task Force (RTF) Local Federal Fund Exchange Program Proposal for FY 2018*, documents those concerns and changes to the 2018 guidelines. The exchange agreement was not changed from the original template developed in 2015. The FY 2018 LFFE Program was expanded to allow 15 exchanges. Steve Puuri created a webpage on the CRA website that assisted buyers and sellers to identify potential partners for fund exchanges. This site also outlined the exchanges, funding amounts, rate of exchange, and the date the agreements were signed. Thirteen exchanges were successfully executed in FY 2018.

In FY 2018, a more formal process for handling the exchanges was developed. This included requesting transfers of Surface Transportation Block Grant (STBG) allocation and obligation authority through the MDOT finance office, notification to the participating counties, and the MDOT Local Agency Programs (LAP). A *Selling County Project Information* spreadsheet was developed and distributed to all the selling counties, to track the local funds that were exchanged for the federal STBG funds. This spreadsheet documented that those projects, previously listed on the S/TIP by the selling county, were completed.

In FY 2019, the LFFE Program was expanded to allow 30 exchanges. The Program Guidelines were further updated regarding the seller's reporting responsibilities and to outline the capability of a county road commission to enter into an agreement with a city or village that has a project in the S/TIP to include those funds in the county's exchange with the understanding that the city or village project will be funded with a portion of the non-federal exchanged funds. The Agreement Template was also updated for FY 2019 with the change in the trigger for the Buyer to pay the Seller. The old trigger was the date of obligation of the Buyer's project. It is now the date that the allocation transfer is confirmed by MDOT staff. This was done to protect the Seller in case the Buyer did not get their project obligated in the specific fiscal year.

### History of LFFE Program Exchanges:

Year	Number of Exchanges
2016	1
2017	5
2018	13
2019	18
2020	17

### Description of FY 2021 Program

In FY 2021, the ability for the purchasing county to request STP-Flexible funds through an exchange was added to the LFFE program. This would only be done if the purchasing county was using the funds on an urban road project. These requests were honored on a first-come, first-served basis and were limited to the amount of STP-Flex funds allocated to the RTF program in that specific year. The reduced number of exchanges in FY21 was likely due to the uncertainty of local fund availability. There were no other changes to the program in FY 2021. The guidelines for the program can be found on the [MDOT RTF page](#).

In the FY 2021 program, 6 exchanges were executed. A total of \$4,081,435 of federal funds were exchanged.

### FY 2021 Local Federal Fund Exchanges:

Buying County	Buying RTF	Federal Amount	Selling County	Selling RTF	Local Payback Amount	Date of Agreement
Clinton	6	\$389,574.00	Arenac	7D	\$311,658.87	January 19, 2021
Oakland	Urban	\$587,256.00	Emmet	10A	\$469,804.80	September 24, 2020
Bay	7B	\$532,535.00	Gladwin	7C	\$426,028.00	September 11, 2020
Oakland	Urban	\$773,603.00	Mason	14	\$618,882.40	September 10, 2020
Kent	Urban	\$932,000.00	Montcalm	8A	\$699,000.00	November 4, 2020
Kent	Urban	\$866,467.00	Newaygo	14	\$649,850.25	October 27, 2020
Total Federal funds exchanged		<b>\$4,081,435.00</b>				

### Summary

The information provided by the Selling Counties demonstrates that the program was beneficial to the participating agencies and the communities they served. The exchanges were negotiated after project selection to ensure that other RTF members were not negatively affected by the exchange. All the FY 2021 STIP projects that the federal funds were exchanged from were built, are in the process of being built, or are banked for next fiscal year's projects.

The information compiled from the *Selling County Project Information* spreadsheets for the FY 2021 LFFE Program is included in Appendix B. Comments provided by the Sellers as to the value of the program are included in Appendix C. The value of the program can be seen in

Appendix B where it is shown by the scope increases and additional projects completed with the exchanged funds remaining after the STIP project was completed.

## Appendix A

### The Rural Task Force (RTF) Local Federal Fund Exchange Program Proposal for FY 2018

November 2, 2017

It is the responsibility of the Michigan Department of Transportation (MDOT) to ensure stability of the State Transportation Improvement Program (STIP) including a fair and transparent process for project selection and adherence to the federal transportation planning process. MDOT is recommending changes to the Local Federal Fund Exchange Program to uphold this responsibility. With the expansion of the Local Federal Fund Exchange Program, it is to be made available to all RTF agency members, including small cities, villages, and transit agencies (as outlined in the Recommendations under Issue 4).

Below is a summary of issues and recommendations that have been compiled from a MDOT staff report (that evaluated the 2016 and 2017 Local Federal Fund Exchange Program pilot), notes from meetings and internal MDOT discussions.

#### Note:

The term “federal-aid projects” includes all “federal-aid eligible activities” listed in the STIP.

#### 1. Issue

To ensure that federal funds are used appropriately and verify that the non-federal transportation dollars are used to implement the seller’s original federal-aid project(s), as prioritized within the Rural Task Force (RTF) project selection process.

#### Recommendations

- The Local Federal Fund Exchange Program agreements will be modified to specify the federal-aid project(s) and funding amounts, that the buying and selling agencies will utilize. Rural funding must be utilized on federal aid projects, in rural counties, as well as rural areas within urban counties (as defined by the adjusted census urban boundary).
- If the selling agency does not intend to utilize the non-federal transportation dollars that they have obtained for the prioritized federal-aid project(s), then MDOT may not allow the agreement to move forward.

#### 2. Issue

Ensure that stability of the STIP is maintained, particularly in the first two years of the STIP, as required by the Federal Highway Administration (FHWA).

#### Recommendation

- In addition to the recommendations above, to ensure that the current year federal-aid project(s) in the STIP are not abandoned, the Local Federal Fund Exchange Program agreements will be modified to specify the federal-aid project(s) and funding amounts, that the buying and selling agencies will utilize.

### **3. Issue**

Federal-aid exchanges of future year funding are problematic because of the uncertainty of the amount of federal aid and the lack of ability to track any future year dollars in any financial system at MDOT.

#### **Recommendations**

- Federal-aid exchanges will remain limited to current fiscal year exchanges. Federal funds must be obligated in the year of allocation to avoid fiscal constraint issues in the STIP.
- The ability to bank non-federal transportation dollars and use them in subsequent years is allowed, on a limited basis, to fund larger scale projects and should be maintained as part of the Program. MDOT staff will work with the CRA Engineering Specialist to update the 2018 Local Federal Fund Exchange Program guidelines and agreements. These updates will include a tracking protocol that will identify future non-federal transportation dollar project(s) (or activities) and the year of project implementation. A two-year limit will apply to the banking of non-federal transportation dollars.

### **4. Issue**

The concerns expressed by RTF Program Advisory Board members, regarding the reduction in funding due to counties participating in the Local Federal Fund Exchange Program, could negatively impact the total funding available within the individual RTF.

#### **Recommendations**

- Implementation of the RTF prioritized federal aid project(s) utilizing non-federal transportation dollars, must be in adherence to the RTF project selection process (ensuring participation from counties, small cities, villages, and transit agencies), thus safeguarding against negative financial impacts to all agencies within the RTF.
- MDOT, working with CRA, made the Local Federal Fund Exchange Program pilot available to the County Road agencies. However, with the expansion of the Local Federal Fund Exchange Program, it is to be made available to all RTF agency members (including small cities, villages, and transit agencies).
- Recognizing that other agencies have not been involved in the development and review of the current Local Federal Fund Exchange Program, if there is interest from other RTF agencies to participate, MDOT will work with the RTF Program Advisory Board and the requesting RTF agencies (such as Michigan Municipal League (MML) and Transit Association members) to determine the applicability and logistics of participating in the Program and establish the process and methodology for participation. The objective in subsequent years is to have one program agreement that can be utilized by all participants in the Local Federal Fund Exchange Program.

### **5. Issue**

Tracking those projects or activities using non-federal transportation dollars coming back to the selling agency (to ensure that STIP stability and the impacts to the federal aid system, can be evaluated and demonstrated).

## **Recommendations**

- It is the expectation of MDOT that the RTF members will proactively work with their Regional Planning Agency (RPA) representative to monitor and track all project and funding exchanges and to ensure accuracy of financial reports pertaining to the exchange of federal and state funds.
- MDOT staff will work with the CRA Engineering Specialist to update the 2018 Local Federal Fund Exchange Program guidelines and agreements. This will include reporting requirements from the selling agency to the appropriate RPA representative. This information will then be included in the monthly status report, which is sent from the RPA representative to the MDOT RTF staff.

Note: The Act 51 report is not an effective tool for tracking federal aid exchange projects or activities, due to the timeline in which they are submitted (May) and approved (September) of the following fiscal year.

## **6. Issue**

Changing federal aid allocation estimates are not specifically addressed in the current Local Federal Fund Exchange Program agreements.

## **Recommendations**

- The funding amount identified in the Local Federal Fund Exchange Program agreements is (and shall remain) for a specified dollar amount. If the buyer and seller choose to adjust the agreement, an amended agreement is required, and a copy is to be provided to the MDOT RTF Coordinator.
- If there is a significant dollar change to the original agreement (exceeding \$10,000), then the amended agreement amount would need to be approved by the appropriate RTF committee (to ensure fair distribution of funds between all agencies on the RTF committee). A copy of the updated agreement and RTF meeting notes are also to be submitted to the MDOT RTF Coordinator.

## **7. Issue**

To ensure adherence of the objectives of the Local Federal Fund Exchange Program, non-federal transportation dollars that are returned to the seller must be used as outlined in the guidelines and agreements.

## **Recommendation**

- MDOT staff will work with the CRA Engineering Specialist to update the 2018 Local Federal Fund Exchange Program guidelines and agreements to include language, stating that agencies that do not follow Program guidelines, the terms of the agreement or misuse the Program funds, will not be allowed to participate in the Local Federal Fund Exchange Program for the next four years without MDOT approval.

## **8. Issue**

Request for expansion of Local Federal Fund Exchange Program.

### **Recommendations**

- Expanding the Program from five to fifteen transactions is acceptable for FY 2018, provided these recommendations are included in the Local Federal Fund Exchange Program guidelines and agreements, and MDOT receives timely tracking, reporting and accurate project updates from the RPA representatives (for assessment of the Program expansion).
- Prior to the expansion of the Local Federal Fund Exchange Program in subsequent years, MDOT will evaluate the Local Federal Fund Exchange Program. The focus will be in respect to ensuring adherence to guidelines, STIP stability, and tracking of the Program are followed. MDOT is confident that expansion of the Program is achievable, through a cooperative effort between the RTF members, RPA representatives, the RTF Program Advisory Board and MDOT.
- MDOT will provide an evaluation of the 2018 Local Federal Fund Exchange Program and recommended changes (if any) for the 2019 Local Federal Fund Exchange Program, at the RTF Program Advisory Board meeting in August 2018. Following the RTF Program Advisory Board meeting, MDOT staff will work with the CRA Engineering Specialist to finalize the FY 2019 Local Federal Fund Exchange Program guidelines and agreements, no later than October 1, 2018.

## **9. Issue**

Consideration that a date should be set for Local Federal Fund Exchange Program agreements to be in place.

### **Recommendations**

- MDOT will allow participation in the Local Federal Fund Exchange Program as late as March 31, within that fiscal year. This date is to ensure that participating agencies have the ability to obligate the funding within that fiscal year (particularly for the buying agency).
- Any agreements requested after March 31, shall only be considered by MDOT, on a case-by-case basis. Consideration factors will include the amount of obligation authority remaining, the status of project plans for delivery, etc. Each written request would require written MDOT acceptance (email is acceptable), prior to the execution of the agreement.

Note: The buying agency shall assume the risk of losing the ability of utilizing these funds, should their project not be obligated within that FY.

**Summary**

Based upon analysis of the 2016 and 2017 Local Federal Fund Exchange Program pilot, MDOT recommends that program enhancements outlined above be added to the Local Federal Fund Exchange Program guidance and agreements, to enable better evaluation, monitoring and reporting. Once agreement is reached on all of the above recommendations, MDOT staff will work with the CRA Engineering Specialist to update the 2018 Local Federal Fund Exchange Program guidelines and agreements, to reflect these enhancements.

This guidance will be included in the information packet for the RTF Program Advisory Board meeting, scheduled for November 2, 2017.



## Appendix B

### Appendix B

**2021 Local Federal Fund Exchange seller information**

Note that many counties report on the total cost of the projects that they applied the exchanged funds to rather than just the portion of exchanged funds used on the project. These projects were originally programmed with federal and local funds, sometimes Transportation Economic Development Fund Category D, so the total project cost would exceed the federal funds exchanged.

**Arenac** \$311,658.87 Received from exchange

Job Number	Fiscal Year	Project Name	Limits	Project description	Completed Date	Project Cost	
209577	2021	Arenac State Rd	Stover Rd to Palmer Rd	Asphalt Overlay	9/30/2021	\$372,000.00	Major benefit to Arenac County is to be able to put the money on the road system not use the fund for engineering. Our county feels like this program works the best of us and will continue to sell our federal aid funds.

**Emmet** \$469,804.80 Received from exchange

Job Number	Fiscal Year	Project Name	Location/Limits	Project description	Completed Date	Project Cost	
130371	2021	Wilderness Park Drive	Cecil Bay Road east for 2.35 miles	Cold-in-Place Recycling and Asphalt Resurfacing	7/2/2021	\$637,706.42	The Emmet County Road Commission design the project in-house, did the EGLE permitting, bid the project with 2 alternatives (crush and shape and cold-in-place recycling), hired an inspector but did much of the inspections ourselves. Ultimately, the project cost came in \$39,300 under the Engineer's Estimate. We were able to dictate to the Contractor when the project was to start and what the completion date had to be. With the LFFE program, we held onto the funds until 2021 due to COVID-19 without penalty of losing the FY2020 funding.

**Gladwin** \$426,028.00 Received from exchange

Job Number	Fiscal Year	Project Name	Limits	Project description	Completed Date	Project Cost	
206754	2021	Various Locations	Gladwin County	Asphalt Overlay	9/1/2021	\$667,785.00	Bid through our local paving contract, we kept costs to a minimum, utilized our own people for inspection and layout. Costs kept in house.

**Mason** \$618,882.40 Received from exchange

Job Number	Fiscal Year	Project Name	Limits	Project description	Completed Date	Project Cost	
206253	2021	Hansen Rd	Stiles Rd to Amber Rd	Crush & Shape & Asphalt Resurfacing	In Progress	\$700,000.00	The benefits of Participating in the LFFE Program are substantial. It takes about 5 to 6 months to bid a project through the MDOT Bid letting process after the plans, estimate and specifications are completed. For a Local Agency like a Road Commission this is extremely hard to accomplish with a small Engineering staff. From May through November the Engineer staff is out in the field inspecting, survey and testing on HMA, Chip Seal, Township & MDOT Local Agency Projects. The Engineer Staff needs to final out the MDOT funded projects within 120 days of completion so that takes care of December and January. Contractors also benefit from the LFFE Program. The projects that are bid do not require the amount of paperwork that MDOT Bid projects need. Project completion was delayed due to utility conflicts. It is expected to bid the project in February 2022 with Construction between May through November of 2022.

**Montcalm** \$699,000.00 Received from exchange

Job Number	Fiscal Year	Project Name	Limits	Project description	Completed Date	Project Cost	
206956	2021	CR 506 (Country Farm Rd) & Grow Rd	Back Rd to Grow Rd, CR 506 to Wise Rd	Two Course Asphalt Overlay	9/30/2021	\$694,723	Our county wide material bid prices are lower than if let through the MDOT system. This allows us a larger projects scope which in turn completes more roadwork.

**Newaygo** \$649,850.25 Received from exchange

Job Number	Fiscal Year	Project Name	Limits	Project description	Completed Date	Project Cost	
212122	2021	Croton Dr	Newaygo City Limits to Swan Ave	Crush & Shape & Asphalt Resurfacing	9/1/2021	\$941,193.52	Selling allowed for an increase in material let ensuring all eligible money was spent with contractors and allowed the scope of the project to be expanded.

## Appendix C

### **Arenac County**

Major benefit to Arenac County is to be able to put the money on the road system, not use the fund for engineering. Our county feels like this program works the best for us and will continue to sell our federal aid funds.

### **Emmet County**

The Emmet County Road Commission design the project in-house, did the Michigan Department of Environment, Great Lakes, and Energy permitting, bid the project with 2 alternatives (crush and shape and cold-in-place recycling), hired an inspector but did much of the inspections ourselves. Ultimately, the project cost came in \$39,300 under the Engineer's Estimate. We were able to dictate to the Contractor when the project was to start and what the completion date had to be. With the LFFE program, we held onto the funds until 2021 due to COVID-19 without penalty of losing the FY 2020 funding.

### **Gladwin County**

Bid through our local paving contract, we kept costs to a minimum, utilized our own people for inspection and layout. Costs kept in house.

### **Mason County**

The benefits of Participating in the LFFE Program are substantial. It takes about 5 to 6 months to bid a project through the MDOT Bid letting process after the plans, estimate and specifications are completed. For a Local Agency like a Road Commission this is extremely hard to accomplish with a small Engineering staff. From May through November the Engineer staff is out in the field inspecting, survey and testing on Hot Mix Asphalt, Chip Seal, Township & MDOT Local Agency Projects. The Engineer Staff needs to final out the MDOT funded projects within 120 days of completion so that takes care of December and January. Contractors also benefit from the LFFE Program. The projects that are bid do not require the amount of paperwork that MDOT Bid projects need. Project completion was delayed due to utility conflicts. It is expected to bid the project in February 2022 with Construction between May through November of 2022.

### **Montcalm County**

Our county wide material bid prices are lower than if let through the MDOT system. This allows us a larger projects scope which in turn completes more roadwork.

### **Newaygo County**

Selling allowed for an increase in material let ensuring all eligible money was spent with contractors and allowed the scope of the project to be expanded.