

Fiscal Year 2023 Local Federal Fund Exchange Program Report

March 8, 2024

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 (S/TIP) 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 updated to outline how a county road commission may 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 specifics of this agreement are the responsibility of the parties involved.

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 that 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.

Lastly, the Program Guidelines were updated to include reporting requirement instructions.

In FY 2020, the RTF Exchange Templates and Allocation Accounts were created for the five urban counties to hold the allocation transferred to them from an exchange. These allocations point to the Local RTF obligation authority which has an obligation guarantee that state that any project with a complete biddable package submitted to MDOT Local Agency Programs will be obligated that fiscal year or off the top of the next fiscal year. This protects the Buyers utilizing the new trigger of the point of allocation transfer confirmation in the 2019 agreement template.

There were no other changes to the program in FY 2023. The guidelines for the program can be found on the [MDOT RTF page](#).

History of LFFE Program Exchanges

| Year | Number of Exchanges |
|------|---------------------|
| 2016 | 1 |
| 2017 | 5 |
| 2018 | 13 |
| 2019 | 18 |
| 2020 | 17 |
| 2021 | 6 |
| 2022 | 14 |
| 2023 | 11 |

Description of FY 2023 Program

In the FY 2023 program, 11 exchanges were executed. A total of \$7,662,859 of federal funds were exchanged. The increased number of exchanges in FY 2023 was likely due to the increased number of Counties participating in the Federal-Aid Buyout. Below is a listing of the participating counties.

| Selling County | Selling RTF | Selling Amount | Buying County | Buying RTF | Payback Amount | Date of Agreement |
|--------------------------------------|-------------|----------------|---------------|------------|--------------------|--------------------|
| Mecosta | 8A | \$1,021,172 | Oakland | Urban | \$1,021,172 | July 15, 2021 |
| Cass | 4 | \$ 733,752 | Kent | Urban | \$733,752 | September 10, 2021 |
| Ogemaw | 7D | \$382,074.00 | Oakland | Urban | \$500,000 | December 28, 2021 |
| Newaygo | 14 | \$1,041,563.00 | Oakland | Urban | \$1,000,000 | December 29, 2021 |
| Baraga | 13A | \$554,159.00 | Oakland | Urban | \$553,000 | September 9, 2021 |
| Osceola | 8A | \$736,319.00 | Oakland | Urban | \$664,183 | July 22, 2021 |
| Keweenaw | 13A | \$230,000.00 | Oakland | Urban | \$298,611 | July 22, 2021 |
| Barry | 3 | \$780,000.00 | Oakland | Urban | \$940,222 | July 8, 2021 |
| Mason | 14 | \$297,200.00 | Oakland | Urban | \$717,742 | September 9, 2021 |
| Emmet | 10A | \$758,598.00 | Oakland | Urban | \$625,000 | May 20, 2021 |
| Kalkaska | 10A | \$1,435,298.00 | Oakland | Urban | \$609,177 | January 20, 2022 |
| Total federal funds Exchanged | | | | | \$7,662,859 | |

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 2022 S/TIP projects that the federal funds were exchanged from were built or are in the process of being built and scheduled for completion before the end of this fiscal year.

The information compiled from the *Selling County Project Information* spreadsheets for the FY 2022 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 S/TIP project was completed.

Appendix A

The Rural Task Force Local Federal Fund Exchange Program Proposal for FY 2018

November 2, 2017

It is the responsibility of MDOT to ensure stability of the S/TIP including a fair and transparent process for project selection and adherence to the federal transportation planning process. MDOT is recommending changes to the LFFE Program to uphold this responsibility. With the expansion of the LFFE 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 FY 2016 and FY 2017 LFFE Program pilot), notes from meetings and internal MDOT discussions.

Note:

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

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 RTF project selection process.

Recommendations

- The LFFE 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 S/TIP is maintained, particularly in the first two years of the S/TIP, as required by FHWA.

Recommendation

- In addition to the recommendations above, to ensure that the current year federal-aid project(s) in the S/TIP are not abandoned, the LFFE 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 S/TIP.
- 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 FY 2018 LFFE 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 LFFE 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 LFFE Program pilot available to the County Road agencies. However, with the expansion of the LFFE 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 LFFE 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 LFFE Program.

5. Issue

Tracking those projects or activities using non-federal transportation dollars coming back to the selling agency (to ensure that S/TIP 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 FY 2018 LFFE 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 LFFE Program agreements.

Recommendations

- The funding amount identified in the LFFE 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 Program Manager.
- 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 Program Manager.

7. Issue

To ensure adherence of the objectives of the LFFE 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 FY 2018 LFFE 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 LFFE Program for the next four years without MDOT approval.

8. Issue

Request for expansion of LFFE Program.

Recommendations

- Expanding the Program from five to fifteen transactions is acceptable for FY 2018, provided these recommendations are included in the LFFE 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 LFFE Program in subsequent years, MDOT will evaluate the LFFE 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 FY 2018 LFFE Program and recommended changes (if any) for the FY 2019 LFFE 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 LFFE Program guidelines and agreements, no later than October 1, 2018.

9. Issue

Consideration that a date should be set for LFFE Program agreements to be in place.

Recommendations

- MDOT will allow participation in the LFFE 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 FY 2016 and FY 2017 LFFE Program pilot, MDOT recommends that program enhancements outlined above be added to the LFFE 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 FY 2018 LFFE 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

2023 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.

| Baraga Received from exchange | | | | | | | |
|---------------------------------|-------------|-------------------------------|---|--|----------------|----------------|---|
| Job Number | Fiscal Year | Project Name | Limits | Project description | Completed Date | Project Cost | Benefit of Participating in LFFE Program |
| 219286 | 2023 | Pelkie Road | Fr 2.83 mi N of M-38, North to Otter River Bridge | One Course Asphalt Overlay (GPA) | 9/30/2023 | \$353,941.00 | Bundled bidding with another local project. Reduced administrative costs. |
| Barry Received from exchange | | | | | | | |
| Job Number | Fiscal Year | Project Name | Location/Limits | Project description | Completed Date | Project Cost | Benefit of Participating in LFFE Program |
| 206905 | 2023 | Countywide | Cedar Creek Rd, Milo Rd, Irving Rd | One Course Asphalt Overlay (GPA) | 7/1/2023 | \$823,804.00 | By using the FFE, BCRC was able to bid the HMA overlay of Cedar Creek Rd, Irving Rd, & Milo Rd with a larger bid package of asphalt paving throughout Barry County that totalled 20+ miles of HMA work. This led to bid prices around \$70/ton and included a 4% total bid deduct from the awarding contractor resulting from an award for all of the paving work throughout the county being awarded to that respective bidder. Current AUP on MERL list 36A HMA at \$104.48/ton. Obviously a significant savings on this project as well as the large amount of additional paving that was completed in Barry County. The economies of scale realized by this process saved on our local paving work and allowed the FFE funds to go further! |
| Cass Received from exchange | | | | | | | |
| Job Number | Fiscal Year | Project Name | Limits | Project description | Completed Date | Project Cost | Benefit of Participating in LFFE Program |
| 207181 | 2023 | Calvin Center Road | US 12 to Grange Street | Mill and one course non-structural hot-mix-asphalt | 7/10/2023 | 158,720.00 | CCRC can do the work and ease of work schedule Ease of coordination with othe construction activity CCRC can do the work and ease of work schedule CCRC can do the work and ease of work schedule |
| 207345 | 2023 | Various | County wide | Pavement Marking (GPA) | 9/11/2023 | 60,000.00 | |
| 216628 | 2023 | Pine Lake Street | Hess Road to M 62 | Crush & Shape & Asphalt Resurfacing | 8/1/2023 | 268,122.00 | |
| 216784 | 2023 | Calvin Hill Street | Robinson Road to Cassopolis Road | Crush & Shape & Asphalt Resurfacing & One Course Asphalt Overlay (GPA) | 8/1/2023 | 100,160.00 | |
| Emmet Received from exchange | | | | | | | |
| Job Number | Fiscal Year | Project Name | Limits | Project description | Completed Date | Project Cost | Benefit of Participating in LFFE Program |
| 205621 | 2023 | N. Conway Road | | Asphalt Reconstruction | | | This project was removed from STIP |
| 215446 | 2023 | E Hathaway Road | | Asphalt Reconstruction | 5/19/2023 | 618,129.11 | Project completed earlier in season at a savings to the local agency. |
| Kalkaska Received from exchange | | | | | | | |
| Job Number | Fiscal Year | Project Name | Limits | Project description | Completed Date | Project Cost | Benefit of Participating in LFFE Program |
| 213087 | 2023 | CR571 | Grass Lk Rd to Meyers Rd | Crush & Shape & Asphalt Resurfacing | Nov 22 2023 | \$632,001.94 | Bid savings of \$100,000+/-, quicker bidding and project completion, less paperwork and overall better project. |
| Keweenaw Received from exchange | | | | | | | |
| Job Number | Fiscal Year | Project Name | Limits | Project description | Completed Date | Project Cost | Benefit of Participating in LFFE Program |
| 206844 | 2023 | Gay-Lac LaBelle Road | Rd., thence 2.5 miles | Crush & Shape & Asphalt | 9/22/2023 | \$471,361.16 | Much Less PE & CE costs vs. programming project thru LAP/MDOT |
| Mason Received from exchange | | | | | | | |
| Job Number | Fiscal Year | Project Name | Limits | Project description | Completed Date | Project Cost | Benefit of Participating in LFFE Program |
| 215963 | 2024 | Iris | Pere Marquette Highway to S. Lakeshore Drive | Crush & Shape & Asphalt Resurfacing | N/A | N/A | Project is anticipated to be bid in March of 2024 and construction will be completed prior to November 15, 2024. |
| Mecosta Received from exchange | | | | | | | |
| Job Number | Fiscal Year | Project Name | Limits | Project description | Completed Date | Project Cost | Benefit of Participating in LFFE Program |
| 206941 | 2023 | 80th Ave | Cleveland to Taft | Two Course asphalt Resurfacing (GPA) | 7/21/2023 | \$227,196.11 | the purchasing County on an additional project. 155th from 6 Mile to Pierce (a 1.5 mile overlay project) |
| 209697 | 2023 | 14 Mile | 105th to 120th | Crush & Shape & Asphalt Resurfacing (GPA) | 6/30/2023 | \$397,901.08 | The three projects would have had a cost closer to \$1,280,000.00 with a local match of \$255,000.00 that we were able to put towards other projects. Total cost \$794,438.05 |
| 206935 | 2023 | 23 Mile | 130th to 140th | Two Course Asphalt Resurfacing (GPA) | 7/21/2023 | \$169,340.86 | |
| Newaygo Received from exchange | | | | | | | |
| Job Number | Fiscal Year | Project Name | Limits | Project description | Completed Date | Project Cost | Benefit of Participating in LFFE Program |
| 214616 | 2023 | Various county fed aid routes | | Single Course Chip Seal | 10/30/2023 | \$1,165,764.72 | Less engineering costs resulted in more road miles being covered under this program. |
| Ogemaw Received from exchange | | | | | | | |
| Job Number | Fiscal Year | Project Name | Limits | Project description | Completed Date | Project Cost | Benefit of Participating in LFFE Program |
| 212024 | 2023 | State Road | Schedule to Clark | Two Course Asphalt Resurfacing | 10/1/2023 | \$320,395.08 | Able to complete Sage Lake Road as well |
| | 2023 | Sage Lake Road | State to M-55 | Single course asphalt resurfacing | 10/1/2023 | \$195,319.50 | |
| Osceola Received from exchange | | | | | | | |
| Job Number | Fiscal Year | Project Name | Limits | Project description | Completed Date | Project Cost | Benefit of Participating in LFFE Program |
| 217758 | 2023 | 165 Ave | 13 Mile Rd to 15 Mile Rd | Aggregate Grade Lift & Asphalt Overlay (GPA) | 10/27/2023 | \$1,734,542.98 | |
| Received from exchange | | | | | | | |
| Job Number | Fiscal Year | Project Name | Limits | Project description | Completed Date | Project Cost | Benefit of Participating in LFFE Program |
| | 2023 | | | | | | |
| | 2023 | | | | | | |
| | 2023 | | | | | | |
| Received from exchange | | | | | | | |
| Job Number | Fiscal Year | Project Name | Limits | Project description | Completed Date | Project Cost | Benefit of Participating in LFFE Program |
| | 2023 | | | | | | |
| | 2023 | | | | | | |
| Received from exchange | | | | | | | |
| Job Number | Fiscal Year | Project Name | Limits | Project description | Completed Date | Project Cost | Benefit of Participating in LFFE Program |
| | 2023 | | | | | | |

Appendix C

Summary of Responses

Baraga County

Bundled bidding with another local project. Reduced administrative costs.

Barry County

By using the FFE, BCRC was able to bid the HMA overlay of Cedar Creek Rd, Irving Rd, & Milo Rd with a larger bid package of asphalt paving throughout Barry County that totaled 20+ miles of HMA work. This led to bid prices around \$70/ton and included a 4% total bid deduct from the awarding contractor resulting from an award for all of the paving work throughout the county being awarded to that respective bidder. Current AUP on MERL list 36A HMA at \$104.48/ton. Obviously, a significant savings on this project as well as the large amount of additional paving that was completed in Barry County. The economies of scale realized by this process saved on our local paving work and allowed the FFE funds to go further!

Cass County

CCRC can do the work and ease of work schedule and ease of coordination with other construction activity

Emmet County

Project completed earlier in season at a savings to the local agency.

Kalkaska County

Bid savings of \$100,000+/-, quicker bidding and project completion, less paperwork and overall better project.

Keweenaw County

Much Less PE & CE costs vs. programming project thru LAP/MDOT

Mason County

Project is anticipated to be bid in March of 2024 and construction will be completed prior to November 15, 2024.

Mecosta County

Was able to contribute the remaining \$41,663.95 we received from the purchasing County on an additional project. 155th from 6 Mile to Pierce (a 1.5 mile overlay project). The three projects would have had a cost closer to \$1,280,000.00 with a local match of \$255,000.00 that we were able to put towards other projects.

Newaygo County

Less engineering costs resulted in more road miles being covered under this program.

Ogemaw County

Able to complete Sage Lake Road as well

Osceola County

N/A