

## MEMORANDUM



**DATE:** March 9, 2010  
**TO:** House Appropriations Subcommittee on Transportation  
**FROM:** William E. Hamilton  
**RE:** Interdepartmental Grants from State-Restricted Transportation Funds

*Overview* – Interdepartmental Grants (IDGs) are a budgetary tool. They are used for two primary purposes: to allow one state department to reimburse another state department for services performed, and to allow sharing of costs and revenue when more than one department has program responsibility.

IDGs are typically used only for restricted fund programs – programs where one state department has statutory authority over a restricted fund but a second department performs services for the program or fund, or shares program responsibility. An appropriation is made from the restricted fund budget as an IDG; the IDG is shown as a revenue source in the "receiving" departmental budget. The use of IDGs prevents double-counting appropriations; IDGs are deducted from gross appropriations when considering actual total state appropriations.

Several state departments perform services for the Michigan Department of Transportation, for state-restricted transportation funds, or support transportation program objectives. These services include revenue collection, accounting, auditing, legal counsel, human resource management, environmental permitting, and enforcement of truck size and weight regulations.

The FY 2009-10 enacted budget appropriates \$49.7 million from state restricted transportation funds to other state departments through IDGs. There are currently nine state departments that receive spending authority through IDG appropriations from state transportation funds.

There are four primary state restricted transportation funds: the Michigan Transportation Fund (MTF), the State Trunkline Fund (STF), the State Aeronautics Fund (SAF), and the Comprehensive Transportation Fund (CTF). Each fund has a separate statutory purpose. To ensure a proper allocation of costs to each fund, there are separate line item IDG appropriations by department and by fund source. For example, there are four separate IDG appropriations for the Legislative Auditor General, one each from the MTF, the STF, the CTF, and the SAF. Because of the multiple fund sources, there are actually 23 separate IDG line items in the transportation budget. [See Exhibits C and D]

The Governor's FY 2010-11 transportation budget would appropriate \$51.2 million from state restricted transportation funds for IDGs to other state departments, a \$1.5 million increase from the current year. This increase is primarily due to the recognition of \$721,500 for budgeted economic increases, and an increase of \$747,500 in the MTF's estimated share of the department of Treasury's tax collection costs.

The Executive budget would make IDG appropriations to only eight state departments in FY 2010-11; the budget recognizes the elimination of the Department of History Arts and Libraries, and the transfer of record management functions to the Department of Technology, Management, and Budget.

The amount appropriated for IDGs represents spending authority, i.e. the maximum amount authorized in the budget. The amount actually charged to transportation funds by other departments may be less than the appropriated amount. Both Public Act 51 of 1951 and appropriations boilerplate require that reimbursement of other state departments from transportation funds be based on actual cost as supported by cost allocation plans. These costs are audited biennially by the Legislative Auditor General.

***IDGs from the Michigan Transportation Fund*** – Two of the largest IDGs from transportation funds in the current year budget are the MTF appropriation to the Michigan Secretary of State (\$20.0 million), and the MTF appropriation to the Michigan Department of Treasury (\$7.3 million). These appropriations provide for the partial reimbursement for the Department of State's costs of collecting vehicle registration taxes for credit to the MTF, and the Department of Treasury's costs of collecting motor fuel taxes for credit to the MTF.

The MTF is the main collection and distribution fund for approximately \$1.8 billion in state transportation revenue – primarily from motor fuel taxes and vehicle registration taxes. Funds collected by the MTF are distributed by Act 51 formula to other state funds, accounts, and programs, and to county road commissions, cities and villages.

Article IX, Section 9 of the Michigan Constitution dedicates motor fuel taxes and vehicle registration taxes for transportation purposes – "*after payment of necessary collection expenses.*" This language provides authority for the reimbursement from transportation funds for the Department of Treasury's costs of motor fuel tax collection, and for the Department of State's costs related to the collection of vehicle registration taxes.

Note that the \$20 million IDG appropriation to the Department of State represents only part of that department's costs related to collecting vehicle registration taxes. Additional funding is provided from the Transportation Administration Collection Fund (TACF), appropriated directly to the Department of State in the General Government budget.

Over the last thirteen years the Department of State's costs of collecting vehicle registration taxes ranged from \$79.5 million (FY 1995-96) to \$97.6 million (FY 2000-01). The costs were \$91.1 million in FY 2007-08, the most recent year for which cost data is available.<sup>1</sup> The \$91.1 million figure represents both the approximate mean and median figure for the thirteen year period.

#### **Note on the Department of State and the TACF**

Note that prior to FY 1997-98, the Department of State's vehicle registration costs had been funded entirely through an IDG from the MTF. However, for four fiscal years, FY 1997-98 through FY 2000-01, the state General Fund absorbed an average of \$46.2 million in vehicle registration costs. In FYs 2001-02 and 2002-03 the Department of State vehicle registration costs were again primarily funded through an IDG from the MTF. Starting in FY 2003-04 Department of State vehicle registration collection costs were funded in part from a \$20.0 million MTF IDG, in part from the state-restricted TACF, and in part from the state General Fund.

While the TACF was originally supported entirely from vehicle registration service fees, starting in FY 2006-07 Department of State *look-up fees* were also dedicated to the TACF. Look-up fees are generated primarily from the sale of driver information to insurance companies. Look-up fees are not related to the department's vehicle registration function. Although TACF appropriations in the General Government budget increased by approximately \$40 million in FY 2006-07, to reflect the inclusion of look up fee revenue, this did not reflect an increase in Department of State costs, merely a reclassification of look-up fee revenue (which had been treated as General Fund revenue) to TACF restricted fund.

For additional information on this funding history, see our memo "*Transportation Administration Collection Fund*," dated April 9, 2007 on the House Fiscal Agency website <http://www.house.mi.gov/hfa/PDFs/TACF%20history.pdf>

<sup>1</sup> Source: MAXIMUS cost allocation study.

***Legislative Auditor General Performance Audit*** – In accordance with a boilerplate requirement in transportation appropriation acts, the Legislative Auditor General conducts a performance audit of charges to transportation funds by state departments. The boilerplate section requires a detailed audit report "*with recommendations and conclusions, including a list of services charged to transportation funds, the appropriateness of those charges, the cost allocation methodologies used in determining the level of funding, and any unreimbursed costs.*"

The most recent audit report (OAG Report 591-0105-08), issued December 2008, was of two fiscal years: the fiscal years ending September 30, 2006 and September 30, 2007.

The audit report listed three audit objectives: to determine the appropriateness of selected State agencies' charges to transportation funds; to determine compliance with selected State agencies contractual and reporting requirements for transportation-related funding; to report the services charged to transportation funds, the cost allocation methodologies used in determining the level of funding, and the unreimbursed costs.

The report disclosed one finding with regard to the appropriateness of the cost allocation methodologies; specifically the methodology used by the Department of Treasury.

The Department of Treasury allocated costs of administering and enforcing the Motor Fuel Tax Act based on the ratio of motor fuel tax collections to total tax collections. The audit report concluded that the department's total tax collection costs were supported, but the allocation to transportation funds was not made on an equitable basis. The specific amounts cited were costs of \$7,284,865 and \$7,037,869 charged to the MTF in FY's 2005-06 and 2006-07 respectively, and costs of \$43,965 and \$38,010 charged to the SAF in FY's 2005-06 and 2006-07 respectively.

The audit recommended that the department "*allocate expenditures to the MTF and SAF based on the level of activity necessary to administer and enforce the Motor Fuel Tax Act.*" The audit also recommended that the Michigan Department of Transportation "*improve its review and approval of the cost allocation methodologies developed by state agencies to help ensure that costs for transportation related activities are accurately identified and equitably allocated to transportation funds.*"

A cost allocation method as recommended by the Auditor General, based on "level of activity necessary to administer and enforce the Motor Fuel Tax Act," could result in either decreased or increased allocation of costs to transportation funds.

The audit concluded that costs allocated to transportation funds by other departments were for appropriate charges.

The audit report also identified unreimbursed transportation-related costs of \$6.8 million in FY 2005-06 and over \$2.1 million in FY 2006-07.

**[See Exhibits E and F]**

**Exhibits:**

- A. Appropriation boilerplate concerning Interdepartmental Grants from transportation funds
- B. Public Act 51 of 1951 language concerning Interdepartmental Grants from transportation funds
- C. List of departments Interdepartmental and Statutory Contracts
- D. Table showing a history of IDG appropriations
- E and F. Tables showing actual costs, audit exceptions, and unreimbursed costs for FYs 2005-06 and 2006-07 as reported in audit report OAG 591-0105-08.

**Exhibit A*****Appropriations Boilerplate Concerning Interdepartmental Grants from Transportation Funds  
From the FY 2009-10 Transportation Appropriations Act, 2009 PA 116 (SB 254)***

Sec. 306. (1) The amounts appropriated in section 103 to support tax and fee collection, law enforcement, and other program services provided to the department and to transportation funds by other state departments shall be expended from transportation funds pursuant to annual contracts between the department and those other state departments. The contracts shall be executed prior to the expenditure or obligation of those funds. The contracts shall provide, but are not limited to, the following data applicable to each state department:

(a) Estimated costs to be recovered from transportation funds.

(b) Description of services provided to the department and/or transportation funds and financed with transportation funds.

(c) Detailed cost allocation methods appropriate to the type of services being provided and the activities financed with transportation funds.

(2) Not later than 2 months after publication of the state of Michigan comprehensive annual financial report, each state department receiving funding pursuant to an interdepartment contract with the department shall submit a written report to the department, the state budget director, and the house and senate fiscal agencies stating by spending authorization account the amount of estimated funds contracted with the department, the amount of funds expended, the amount of funds returned to the transportation funds, and any unreimbursed transportation-related costs incurred but not billed to transportation funds. A copy of the report shall be submitted to the auditor general, and the report shall be subject to audit by the auditor general as provided in subsection (4).

~~(3) In addition to the requirements of subsection (2), the state treasurer shall develop a cost allocation plan to identify the actual costs of work based on time and effort performed by the Michigan department of treasury for state restricted transportation funds. The cost allocation plan shall specifically identify the costs of collecting constitutionally restricted motor fuel taxes. The cost allocation plan shall be submitted to the senate and house of representatives standing committees on appropriations subcommittees on general government, the senate and house fiscal agencies, the auditor general, and the state budget director by November 1. The cost allocation plan shall be subject to audit by the auditor general.~~

(4) Biennially, in each even-numbered fiscal year, the auditor general shall conduct an audit of charges to transportation funds by state departments for the 2 preceding fiscal years. The audit shall include both charges governed by interdepartmental contracts as well as miscellaneous charges from other state departments not governed by contracts. The auditor general shall prepare a detailed report, with recommendations and conclusions, including a summary of charges and related services to transportation funds by department, the appropriateness of those charges, the cost allocation methodologies used in determining the level of funding, and any unreimbursed transportation-related costs, if any. The report shall be provided to the senate and house of representatives committees on appropriations, the senate and house fiscal agencies, and the state budget director 9 months after publication of the state of Michigan comprehensive annual financial report.

[Note: Subsection (3) was vetoed by the Governor.]

**Exhibit B*****Public Act 51 of 1951 Concerning Interdepartmental Grants from Transportation Funds***

## Sec. 10 (1) [Excerpt]

Except as otherwise provided in this section, the legislature shall appropriate funds for the necessary expenses incurred in the administration and enforcement of the motor fuel tax act, 2000 PA 403, MCL 207.1001 to 207.1170, the motor carrier act, 1933 PA 254, MCL 475.1 to 479.43, and sections 801 to 810 of the Michigan vehicle code, 1949 PA 300, MCL 257.801 to 257.810. Funds appropriated for necessary expenses shall be based upon established cost allocation methodology that reflects actual costs.

Appropriations for the necessary expenses incurred by the department of state in administration and enforcement of sections 801 to 810 of the Michigan vehicle code, 1949 PA 300, MCL 257.801 to 257.810, shall be made from the Michigan transportation fund and from funds in the transportation administration collection fund created in section 810b of the Michigan vehicle code, 1949 PA 300, MCL 257.810b. Appropriations from the Michigan transportation fund for the necessary expenses incurred by department of state in administration and enforcement of sections 801 to 810 of the Michigan vehicle code, 1949 PA 300, MCL 257.801 to 257.810, shall not exceed \$20,000,000.00 per state fiscal year except for the fiscal year ending September 30, 2006. For the fiscal year ending September 30, 2006, the legislature may appropriate funds in excess of \$20,000,000.00 from the Michigan transportation fund for all incremental additional expenses incurred by the department of state in enforcing sections 801 to 810 of the Michigan vehicle code, 1949 PA 300, MCL 257.801 to 257.810, that arise because of the replacement of standard design registration license plates as provided in section 224 of the Michigan vehicle code, 1949 PA 300, MCL 257.224.

### **Exhibit C**

**The following is a list of departments which perform services for transportation funds or programs under contract with the Michigan Department of Transportation. These departments are included in Section 103, Interdepartmental and Statutory Contracts, in the FY 2009-10 transportation appropriations act, 20097 PA 116, (Senate Bill 254).**

#### **Department of Environmental Quality**

An MTF IDG supports Department of Environmental Quality, Land and Water Management Division environmental clearance activities for state and local road and bridge construction projects.

#### **Department of State**

An MTF IDG provides partial reimbursement of costs attributable to collection of transportation revenue from vehicle title and registration taxes processed by the Department of State. Grant limited to \$20.0 million by Act 51, as amended by 2003 PA 151. Additional reimbursement from the TACF is in the General Government budget bill.

#### **Department of Treasury**

The MTF IDG represents costs attributable to collection of motor fuel taxes. IDGs from other fund sources provide from the reimbursement of investment activity costs attributable to transportation funds managed by the department.

#### **Legislative Auditor General**

Audit costs attributable to transportation programs and funds.

#### **Department of Attorney General**

Legal services and litigation costs of the Attorney General in support of transportation programs.

#### **Civil Service Commission**

Civil service administrative expenses for MDOT, based on the constitutionally-mandated charge of 1% of related payroll.

#### **Department of History, Arts, and Libraries**

Costs of record retention at state records center; moved to the Department of Technology, Management, and Budget in FY 2010-11.

#### **Department of Technology, Management and Budget**

Accounting, budget, payroll, purchasing, and mail services attributable to transportation funds

#### **Department of State Policy**

An STF IDG supports the Michigan State Police, Motor Carrier Enforcement Division, and the transportation portion of Criminal Justice Information Center.

In addition to the line item appropriations shown below, Section 708 of General Government appropriation bills authorize the Department of Management and Budget to assess transportation funds a proportionate share of MAIN accounting system costs.

**Exhibit D**

**Transportation Appropriations  
Interdepartmental and Statutory Contracts  
Appropriation History**

	FY1995-96	FY1996-97	FY1997-98	FY 1998-99	FY1999-00	FY2000-01	FY2001-02	FY2002-03	FY2003-04	FY2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	Executive FY 2010-11
<b>APPROPRIATIONS</b>																
Department of Civil Service <sup>3</sup>	4,193,700	4,193,700	4,556,900	2,369,000	1,465,000	1,420,000	1,620,000	2,140,000	2,140,000	2,140,000	2,140,000	2,850,000	2,850,000	5,195,000	6,047,000	6,047,000
Department of Environmental Quality	768,400	750,000	756,600	780,000	813,000	855,500	925,300	884,800	884,800	958,200	986,600	1,020,800	1,057,000	1,247,900	1,087,100	1,132,600
Department of Management and Budget	3,455,400	2,206,400	2,076,400	998,200	824,900	966,300	1,144,500	1,211,700	1,539,200	1,335,700	1,315,800	1,467,500	1,603,000	1,528,900	1,160,100	1,288,800
Department of State <sup>1,2</sup>	81,646,500	86,255,600	43,861,700	47,104,600	56,830,800	54,904,200	95,814,100	94,500,000	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000
Department of State Police	6,580,200	6,417,700	6,473,800	6,701,100	6,305,700	9,935,700	8,210,700	8,253,300	6,853,300	7,226,700	7,667,300	9,265,400	9,564,800	9,593,400	9,808,000	10,203,200
Department of Treasury	6,421,600	6,370,000	6,791,900	6,984,900	94,700	101,000	8,098,500	10,323,500	6,797,000	7,935,700	8,501,300	8,991,100	8,179,000	7,405,000	7,598,600	8,608,400
Legislative Auditor General	346,300	631,100	567,700	555,300	537,200	573,200	501,800	607,500	616,200	723,700	723,700	723,700	723,700	723,700	723,700	723,700
Department of Attorney General	2,517,600	2,482,300	2,421,600	2,472,800	2,590,100	2,710,200	2,777,300	2,823,100	2,823,100	2,936,400	3,151,300	3,013,100	3,123,100	3,138,600	3,190,100	3,208,500
Department of Natural Resources	25,900	25,700	35,500	36,300	37,500											
Department of History, Arts, & Libraries									137,500	139,000	149,700	79,000	139,200	117,300	87,700	
<b>GROSS APPROPRIATION</b>	<b>\$105,955,600</b>	<b>\$109,332,500</b>	<b>\$67,542,100</b>	<b>\$68,002,200</b>	<b>\$69,498,900</b>	<b>\$71,466,100</b>	<b>\$119,092,200</b>	<b>\$120,743,900</b>	<b>\$41,791,100</b>	<b>\$43,395,400</b>	<b>\$44,635,700</b>	<b>\$47,410,600</b>	<b>\$47,239,800</b>	<b>\$48,949,800</b>	<b>\$49,702,300</b>	<b>\$51,212,200</b>
<b>FUND SOURCES</b>																
Comprehensive transportation fund	405,700	339,200	304,600	300,100	181,400	192,700	354,300	324,900	345,900	323,900	334,100	341,800	346,400	336,800	426,500	440,800
Michigan transportation fund	90,648,800	95,586,600	54,050,700	56,010,000	60,220,800	55,892,100	104,808,300	105,747,800	27,765,900	29,001,300	29,429,700	29,926,600	29,165,900	28,603,000	28,632,100	29,720,500
State aeronautics fund	321,600	245,700	264,500	283,500	260,000	291,400	364,300	284,500	297,500	297,100	323,800	341,000	346,100	340,500	429,300	448,000
State trunkline fund	14,579,500	13,161,000	12,922,300	11,408,600	8,836,700	15,089,900	13,565,300	14,386,700	13,381,800	13,773,100	14,548,100	16,801,200	17,381,400	19,669,500	20,214,400	20,602,900
State general fund/general purpose	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>TOTAL OF FUND SOURCES</b>	<b>\$105,955,600</b>	<b>\$109,332,500</b>	<b>\$67,542,100</b>	<b>\$68,002,200</b>	<b>\$69,498,900</b>	<b>\$71,466,100</b>	<b>\$119,092,200</b>	<b>\$120,743,900</b>	<b>\$41,791,100</b>	<b>\$43,395,400</b>	<b>\$44,635,700</b>	<b>\$47,410,600</b>	<b>\$47,239,800</b>	<b>\$48,949,800</b>	<b>\$49,702,300</b>	<b>\$51,212,200</b>

Notes:

<sup>1</sup> In 2003, SB 539 limited the MTF appropriation to the Department of State to \$20.0 million. At the same time, SB 554 shifted certain vehicle registration fees from the MTF to a new Transportation Administration Collection Fund (TACF). The estimated amount of this fund shift was \$51.4 million in FY 2003-04. The total appropriation to the Department of State from the TACF and MTF was \$94.7 million in FY 2003-04.

<sup>2</sup> In FY 2005-06, an additional \$11.0 million (MTF) was appropriated to the Department of State for reissuance of registration license

<sup>3</sup> In FY 2009-10 Civil Service Commission assumed some Human Resource functions formerly housed in the department and appropriated in the Business support appropriations unit.

Note that the above amounts represent appropriated amounts. Reimbursement was based on actual costs.

**Exhibit E**

**Transportation Appropriations  
Interdepartmental and Statutory Contracts  
Comparison of Appropriations to Actual Charges and Audit Findings**

*Per OAG Report 591-0105-08*

<b>FY2005-06</b>	<b>Appropriation</b>	<b>Actual Charges</b>	<b>Audit Exception</b>	<b>Unreimbursed</b>
<b>APPROPRIATIONS</b>				
Department of Civil Service <sup>1</sup>	2,140,000	2,781,461		
Department of Environmental Quality	986,600	983,965		
Department of Management and Budget	1,315,800	1,315,800		2,838,688
MAIN user charges <sup>2</sup>		1,553,000		
Department of State	20,000,000	20,000,000		3,908,935
Department of State Police	7,667,300	7,017,055		
Department of Treasury <sup>3</sup>	8,501,300	7,956,260	7,328,760	3,743
Legislative Auditor General	723,700	472,800		
Department of Attorney General	3,151,300	2,590,490		22,495
Department of History, Arts, & Libraries	149,700			
<b>GROSS APPROPRIATION</b>	<b>\$44,635,700</b>	<b>\$44,670,831</b>	<b>\$7,328,760</b>	<b>\$6,773,861</b>

Notes:

<sup>1</sup> As provided in Article XI, Section 5 of the Constitution, Civil Service charges are based on 1% of payroll.

<sup>2</sup> MAIN user charges are appropriated in boilerplate in General Government appropriations acts.

<sup>3</sup> The Auditor General found that with regard to the collection of motor fuel taxes, the Michigan Department of Treasury "did not allocate expenditure to the MTF and SAF based on the level of activity necessary to administer and enforce the Motor Fuel Tax Act."

**Exhibit F**

**Transportation Appropriations  
Interdepartmental and Statutory Contracts  
Comparison of Appropriations to Actual Charges and Audit Findings**

*Per OAG Report 591-0105-08*

<b>FY2006-07</b>	<b>Appropriation</b>	<b>Actual Charges</b>	<b>Audit Exception</b>	<b>Unreimbursed</b>
<b>APPROPRIATIONS</b>				
Department of Civil Service <sup>1</sup>	2,850,000	2,509,510		
Department of Environmental Quality	1,020,800	994,202		
Department of Management and Budget	1,467,500	1,418,000		2,150,732
MAIN user charges <sup>2</sup>		1,040,500		
Department of State	20,000,000	20,000,000		
Department of State Police	9,265,400	8,373,541		
Department of Treasury <sup>3</sup>	8,991,100	7,747,379	7,075,879	1,303
Legislative Auditor General <sup>4</sup>	723,700	932,581		
Department of Attorney General	3,013,100	2,359,698		
Department of History, Arts, & Libraries	79,000	79,000		
<b>GROSS APPROPRIATION</b>	<b>\$47,410,600</b>	<b>\$45,454,411</b>	<b>\$7,075,879</b>	<b>\$2,152,035</b>

Notes:

<sup>1</sup> As provided in Article XI, Section 5 of the Constitution, Civil Service charges are based on 1% of payroll.

<sup>2</sup> MAIN user charges are appropriated in boilerplate in General Government appropriations acts.

<sup>3</sup> The Auditor General found that with regard to the collection of motor fuel taxes, the Michigan Department of Treasury "did not allocate expenditures to the MTF and SAF based on the level of activity necessary to administer and enforce the Motor Fuel Tax Act."

<sup>4</sup> Of the \$932,700 in reported charges, only \$723,700 related to audit costs of state restricted transportation funds. The remaining \$208,881 are for costs of MDOT Single Audit, charged to federal funds.