

MEMORANDUM



DATE: April 11, 2013
TO: Interested Parties
FROM: William E. Hamilton
RE: The Comprehensive Transportation Fund and State Support for Local Public Transit Agencies – Updated and Revised

A previous version of this paper, dated March 26, 2013, indicated that there were 79 eligible public transit agencies in the state. The Michigan Department of Transportation subsequently provided a revised list that identified 78 eligible public transit agencies. This updated paper uses the new figure of 78 public transit agencies, and includes an updated list of public transit agencies (Appendix B) and an updated list of public acts governing Michigan public transit agencies (Appendix C).

Overview – The Comprehensive Transportation Fund (CTF) is a state-restricted fund created in Section 10b of Public Act 51 of 1951 (Act 51). The fund is restricted for public transportation purposes.¹

CTF revenue is appropriated in annual state transportation budgets for a number of public transportation programs in accordance with the provisions of Section 10e of Act 51. CTF-funded programs include targeted transit programs (e.g. transportation-to-work, specialized services), intercity bus, rail passenger, and rail freight programs, as well as funding for Michigan Department of Transportation's administrative and planning functions related to public transportation. The largest share of CTF revenue is appropriated for operating and capital assistance to the state's 78 public transit agencies. A five-year history of CTF-funded line items in the transportation budget is shown as Appendix A, at the end of this memo.

The balance of this memo will describe in additional detail sources of CTF revenue, and the use of CTF revenue to provide operating assistance to local public transit agencies.

CTF Revenue

The CTF has two primary revenue sources:

10% MTF Earmark – The largest source of CTF revenue is an earmark of Michigan Transportation Fund (MTF) revenue made in Section 10 of Act 51. The MTF is the main

¹ Section 10c(h) of Act 51 provides the following definition of public transportation:

"Public transportation", "comprehensive transportation", "public transportation service", "comprehensive transportation service", "public transportation purpose", or "comprehensive transportation purpose" means the movement of people and goods by publicly or privately owned water vehicle, bus, railroad car, aircraft, rapid transit vehicle, taxicab, or other conveyance which provides general or special service to the public, but not including charter or sightseeing service or transportation which is exclusively for school purposes. Public transportation, public transportation services, or public transportation purposes; and comprehensive transportation, comprehensive transportation services, or comprehensive transportation purposes as defined in this subdivision are declared by law to be transportation purposes within the meaning of section 9 of article IX of the state constitution of 1963.

collection and distribution fund for approximately \$1.8 billion in revenue from motor fuel taxes and vehicle registration taxes. Section 10 of Act 51 directs 10% of MTF revenue to the CTF; however, because this earmark comes after several statutory deductions from the MTF, the effective distribution to the CTF is approximately 9% of gross MTF revenue. The estimated MTF transfer to the CTF for FY 2012-13 is \$158.1 million.

Auto-Related Sales Tax – Section 25 of the General Sales Tax Act directs that "not less than 27.9% of 25% of the collections of the general sales tax imposed at a rate of 4%" on the sales motor fuels, motor vehicles, and automotive parts and accessories be deposited each year into the CTF. This earmark is commonly described as the "auto-related sales tax." For FY 2012-13, the auto-related sales tax earmark is estimated to total \$88.0 million for credit to the CTF.

Interest on the CTF fund balance and other miscellaneous revenue sources account for the balance of CTF revenue. Based on Michigan Department of Treasury estimates (February 2012), CTF revenue will total \$246.6 million in FY 2012-13.

| <u>FY 2012-13 Estimated CTF Revenue</u> | |
|--|----------------|
| MTF Transfer..... | \$158,155,100 |
| Auto-Related Sales Tax..... | 88,000,000 |
| Interest & Misc..... | <u>487,000</u> |
| CTF Total..... | \$246,642,100 |

Local Bus Operating Assistance

State operating assistance to eligible transit agencies represents the largest annual appropriation of CTF revenue. Section 10 of Act 51 establishes the payment of operating grants to "eligible authorities and eligible governmental agencies" as the third CTF appropriation priority, after CTF-related debt service and payment of the department's costs of administering the CTF. Local bus operating assistance represents approximately two-thirds of annual CTF appropriations.

The FY 2012-13 appropriation for *Local bus operating* is \$166.6 million. This funding level is unchanged since FY 2006-07.

Although this analysis uses the term "transit agencies," Act 51 refers to "eligible authorities and eligible governmental agencies." These terms are defined in Section 10c of Act 51 through reference to the various statutes under which transit agencies are organized. There are 78 transit agencies eligible for state operating assistance under provisions of Section 10e of Act 51 and the related definitions of Section 10c.

The state of Michigan does not own or operate any transit agencies in the state. All 78 transit agencies are local units of government in some sense; each is either a unit of county, township, or city government, or is an authority organized under one of several authorizing statutes. A list of the state's 78 eligible transit agencies and related form of organization is shown as Appendix B and C.

Of the 78 eligible transit agencies, some are large metropolitan or urban systems such as the Detroit Department of Transportation (DDOT), the Suburban Mobility Authority for Regional Transportation (SMART), the Ann Arbor Transportation Authority, the Capital Area Transit Authority (CATA/Lansing), The Interurban Transit Partnership (*The Rapid*/Grand Rapids), and the Flint Mass Transportation Authority. Other eligible transit agencies are small city systems; others are county-wide demand-response systems.

The service provided by transit agencies depends on the goals of the agency's governing body and characteristics of the service population. Some agencies are focused on transporting people to work; some provide service primarily to college students; some are dedicated to elderly and disabled populations.

Local bus operating assistance is distributed among the 78 transit agencies based on provisions of Section 10e of Act 51 as amended by Public Act 79 of 1997. Those provisions provide for the reimbursement of *up to* 50% of eligible operating expense for transit agencies that provide service in urbanized areas, defined as having a Michigan population greater than 100,000. Section 10e also provides for the reimbursement of *up to* 60% of eligible operating expense for non-urban transit agencies.

Act 51 establishes the 50% and 60% reimbursements as ceilings. Except for FY 1997-98, state operating assistance to transit agencies has not reached the 50% and 60% ceilings.

Public Act 79 of 1997 also established a funding floor for all agencies; no agency could receive less than the amount it received in FY 1996-97. Public Act 79 also directed that service provided by water vehicle (i.e. ferry service) be reimbursed at 50% of eligible operating expense.

The current year state appropriation of \$166.6 million is not large enough to fund transit agencies at the 50% and 60% levels. As a result, the Michigan Department of Transportation prorates the distribution. Using the department's proration methodology, and ignoring the impact of agencies at the 1997 funding floor, FY 2012-13 state operating assistance would reimburse urban transit agencies at 32.4% of *budgeted* eligible operating expense, and non-urban agencies at 38.9% of *budgeted* eligible operating expense.

Note that the department makes the initial distribution based on transit agency budget estimates. The final distribution is based on actual/audited eligible expense. The entire *Local bus operating* line item is distributed to transit agencies; the department does not hold back or lapse any of the funds in this line item.

See [Exhibit A](#) for a model of the department's distribution method.

It is sometimes stated that the current state assistance formula, which reimburses based on eligible operating expenses, creates an incentive for transit agencies to spend money, and that the distribution formula does not provide an incentive for transit agencies to be efficient. It should be noted that state assistance only covers a portion of eligible operating expense – 32.4% for urban systems and 38.9% for non-urban systems in our example. The portion of transit agency expense not reimbursed from the state operating assistance must be recovered from other sources, generally farebox revenue, local contributions, or federal funds.

It might be more accurate to say that the state operating assistance formula rewards local cost participation. Agencies that pass local transit millages can expand service and effectively use local funding to leverage additional state funding. Since state funding is capped at the appropriated amount, every additional dollar of state assistance a transit agency can capture comes at the expense of other transit agencies. Under this formula, agencies in relatively affluent areas, areas that are more likely to pass local transit millages, have tended to capture an increasing share of state assistance. This is another consequence of Public Act 79 of 1997, which eliminated a "growth cap" on local transit agencies.

Current Issues in Local Bus Operating Distribution

The Detroit Department of Transportation (DDOT) is the largest transit agency in the state. Historically, the city has provided General Fund support for DDOT operations. According to city financial statements, baseline General Fund support to DDOT averaged \$75 million from FY 2000-01 through FY 2010-11. However, because of budget constraints, the city has proposed a reduction in its General Fund contribution to DDOT. DDOT's budgeted General Fund contribution for FY 2012-13 is only \$39.8 million. Because of anticipated reductions in city General Fund support, DDOT's budgeted eligible operating expenses were also reduced.

In FY 2010-11, and FY 2011-12, DDOT's budgeted eligible operating expenses totaled \$155.3 million, and \$159.6 million, respectively. For FY 2012-13, DDOT's budgeted eligible operating expense fell to \$123.7 million.

Normally, since state assistance is distributed as a percentage of eligible operating expense, a reduction in DDOT's eligible operating expenses would also reduce the amount of state assistance. However, because of provisions of Public Act 79 of 1997, the amount of state assistance cannot be reduced below the 1997 funding floor. The department's estimated FY 2012-13 distribution to DDOT will be at DDOT's 1997 floor, \$48.4 million. While this is less than recent years' local bus operating distribution to DDOT, the amount is still \$8.3 million more than DDOT would have received without the floor funding provisions. Reimbursing DDOT at the 1997 funding floor effectively reduces the amount that the other urban transit systems might have otherwise received.

The Governor has requested a FY 2012-13 supplemental appropriation of \$5.4 million from the CTF for a new *Discretionary state operating* line item. The line item would provide additional funding for the urban transit agencies affected by the reduction in DDOT's estimated operating expense and the reimbursement of DDOT at its 1997 funding floor. The line item was also included in the Governor's FY 2013-14 budget request at approximately the same funding level. The department has not yet identified a methodology for distributing this additional funding among the affected urban transit agencies.

Exhibit A – Computation of Local Bus Operating Distribution

When the Michigan Department of Transportation distributes state operating assistance, it computes the maximum possible state assistance based on the submitted budgets of all eligible transit agencies – 50% for urban agencies, and 60% for non-urban agencies. The department then reduces the computed distribution amounts proportionally to hit the amount of the actual appropriation. For example, the current fiscal year appropriation of \$166.6 million is 64.9% of the \$256.9 million needed for reimbursement at the 50% and 60% ceilings. As a result, the department computes the distribution to urban agencies at 64.9% of the 50% ceiling, and the distribution to non-urban at 64.9% of the 60% ceiling. See below.

| FY 2012-13 Distribution of Local Bus Operating Assistance Based on Budget Estimates | | | |
|--|-----------------------------------|------------------------------|---------------------------------|
| To Compute Maximum Reimbursement (per Act 51) | Eligible Operating Expense | Act 51 % Ceilings | Maximum Reimbursement |
| Urban Systems | \$365,481,386 | 50.00% | \$182,740,696 |
| Non-Urban Systems | <u>123,640,768</u> | 60.00% | <u>74,184,462</u> |
| Total | \$489,122,154 | | \$256,925,158 |
| Appropriation as a Percent of Maximum Reimbursement | | | |
| Appropriation | \$166,624,000 | | |
| Maximum Reimbursement | 256,925,158 | | |
| Percentage of Maximum | 64.9% | | |
| | | Percentage of Maximum | Computed % Reimbursement |
| To Compute Actual Reimbursement Percentages * | Act 51 % Ceilings | | |
| Urban Systems | 50.0% | 64.9% | 32.4% |
| Non-Urban Systems | 60.0% | 63.1% | 38.9% |
| *The actual reimbursement percentage for many systems will be lower than the computed percentage because some agencies receive floor funding based on FY 1996-97 distribution, and water services are reimbursed at 50% of eligible operating expense. To the extent that some agencies receive more than the computed reimbursement %, some agencies will receive less. | | | |

Appendix A
Comprehensive Transportation Fund Appropriations
FY 2008-09 through FY 2012-13

| Line Item | FY 2008-09 <i>Actual Expended</i> | FY 2009-10 <i>Actual Expended</i> | FY 2010-11 <i>Actual Expended</i> | FY 2011-12 <i>Actual Expended</i> | FY 2012-13 <i>Enacted Budget</i> |
|--|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|-------------------------------------|
| <i>Debt Service/Planning/Administration</i> | | | | | |
| Debt Service | \$29,891,600 | \$29,843,198 | \$29,852,647 | \$19,917,203 | \$18,580,400 |
| IDGs | 271,949 | 277,936 | 215,816 | 214,282 | 480,100 |
| Adm. Services/Business Support | 1,097,000 | 1,102,900 | 1,304,700 | 1,590,300 | 1,175,400 |
| Info Technology/MAIN Support | 68,321 | 58,180 | 44,455 | 195,900 | 208,600 |
| Planning | 688,754 | 777,653 | 617,491 | 741,663 | 610,500 |
| Freight/Passenger Services | 5,171,465 | 4,634,326 | 3,838,800 | 3,958,733 | 4,974,700 |
| Subtotal | 37,189,089 | 36,694,193 | 35,873,909 | 26,618,081 | 26,029,700 |
| <i>Statutory Operating</i> | | | | | |
| Local bus operating | 166,624,000 | 166,624,000 | 166,624,000 | 166,624,000 | 166,624,000 |
| Discretionary state operating (1) | | | | | 5,396,600 |
| <i>Intercity Passenger & Freight</i> | | | | | |
| Office of Rail | | | | | 2,363,700 |
| Freight property management | 999,516 | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 |
| Detroit/Wayne County port authority | 500,000 | 468,200 | 468,200 | 468,200 | 468,200 |
| Intercity bus service/Intercity services | 1,874,999 | 1,304,084 | 700,000 | 1,334,284 | 3,000,000 |
| Rail passenger (operations/infrastructure) | 6,800,000 | 8,200,000 | 8,667,000 | 8,667,000 | 19,292,000 |
| Rail passenger - Supplemental capital (2) | | | 18,750,000 | | |
| Freight preservation and development | 2,992,900 | 1,264,200 | 1,264,200 | 3,999,999 | |
| Rail infrastructure loan program | 300,000 | | | | |
| Marine passenger service | 400,000 | 398,100 | 400,000 | 400,000 | 400,000 |
| Terminal development | 549,999 | 180,698 | 150,000 | 460,999 | 461,000 |
| Subtotal | 14,417,414 | 12,815,282 | 31,399,400 | 16,330,482 | 26,984,900 |
| <i>Public Transportation Development</i> | | | | | |
| Specialized services | 3,952,713 | 3,906,562 | 3,843,642 | 3,838,139 | 3,943,800 |
| Municipal credit program | 2,000,000 | 2,000,000 | 2,000,000 | 2,000,000 | 2,000,000 |
| Bus capital/Transit capital | 9,402,999 | 8,474,500 | 7,999,248 | 16,748,400 | 33,642,900 |
| Van pooling | 195,000 | 195,000 | 190,899 | 149,539 | 807,000 |
| Service development/Initiatives (3) | 93,635 | 350,000 | 50,000 | 65,000 | 765,000 |
| Transportation to work | 3,346,133 | 4,064,630 | 4,463,620 | 4,595,894 | 4,700,000 |
| Subtotal | 18,990,480 | 18,990,692 | 18,547,409 | 27,396,972 | 45,858,700 |
| Total Expended/Appropriation | \$237,220,983 | \$235,124,167 | \$252,444,718 | \$236,969,535 | \$270,893,900 |

Notes:

- In February 2013, the Governor requested a supplemental appropriation of \$5,396,600, for a new *Discretionary state operating* line item. The request has not been approved as of March 25, 2013.
- This represented state matching funds related to the purchase of Norfolk Southern track between Dearborn and Battle Creek Michigan, authorized in 2011. See House Fiscal Agency analysis "Michigan's High Speed intercity Passenger Rail Projects" <http://www.house.mi.gov/hfa/PDFs/Capital%20grants%20supplemental%20request%20update.pdf>
- FY 2012-13 includes \$250,000 appropriation made in 2012 PA 387 to establish the Regional Transit Authority.

The above schedule shows line-item appropriations from the CTF, and excludes federal, local, or other fund sources.

Appendix B
List of Public Transit Agencies in Michigan and Legal Basis of Organization

| <u>Agency</u> | <u>Public Act</u> (see Appendix C) |
|---|--|
| Adrian | 279 |
| Allegan County | 94 |
| Alma | 279 |
| Altran Transit Authority | 196 |
| Ann Arbor Transportation Authority ¹ | 55 |
| Antrim County | 94 |
| Barry County | 94 |
| Battle Creek | 279 |
| Bay Area Transportation Authority (Grand Traverse & Leelanau Counties) | 196 |
| Bay Metropolitan Transportation Authority (Bay County) | 196 |
| Beaver Island Transportation Authority | 196 |
| Belding | 279 |
| Berrien County | 94 |
| Benzie Transportation Authority | 196 |
| Big Rapids | 279 |
| Blue Water Area Transportation (Port Huron) | 7 |
| Branch Area Transit Authority | 196 |
| Buchanan | 279 |
| Cadillac/Wexford Transit Authority | 7 |
| Capital Area Transportation Authority (Lansing) | 55 |
| Caro Transit Authority | 196 |
| Cass County Transportation Authority | 196 |
| Charlevoix County | 94 |
| Cheboygan County | 94 |
| Clare County | 94 |
| Clinton Area Transit System | 196 |
| Crawford County Transportation Authority | 196 |
| Delta Area Transit Authority | 196 |
| Detroit Department of Transportation (DDOT) ¹ | 279 |
| Detroit Transportation Corporation (People Mover) | 7 |
| Dowagiac | 279 |
| Eaton County Transportation Authority | 7 |
| Eastern Upper Peninsula Transportation Authority (Chippewa County) | 7 |
| Gladwin County | 94 |
| Gogebic County Transit | 196 |
| Greater Lapeer Transportation Authority | 196 |
| Greenville | 279 |
| Hancock | 279 |
| Harbor Transit (Grand Haven) | 196 |
| Hillsdale | 279 |
| Houghton | 279 |
| Huron County | 94 |
| Ionia | 279 |
| Iosco County | 94 |
| Interurban Transit Authority (Saugatuck) | 196 |
| Interurban Transit Partnership (Grand Rapids) | 196 |
| Isabella County Transportation Commission | 7 |

Appendix B
List of Public Transit Agencies in Michigan and Legal Basis of Organization

| <u>Agency</u> | <u>Public Act</u> (see Appendix C) |
|---|--|
| Jackson Transportation Authority (City of Jackson) | 196 |
| Kalamazoo Metro Transit System ² | 279 |
| Kalkaska Public Transit Authority | 196 |
| Lenawee County | 94 |
| Livingston County | 94 |
| Ludington Mass Transportation Authority | 196 |
| Macatawa Area Express Transportation Authority (Holland) | 196 |
| Manistee County | 94 |
| Marquette County Transit Authority | 7 |
| Marshall | 279 |
| Mass Transportation Authority (Flint) | 55 |
| Mecosta Osceola Transit Authority | 196 |
| Midland County | 94 |
| Midland (City) | 279 |
| Muskegon County | 94 |
| Niles | 279 |
| Ogemaw County | 94 |
| Ontonagon County | 94 |
| Otsego County | 94 |
| Roscommon County Transportation Authority | 196 |
| St. Joseph County Transit Authority | 196 |
| Saginaw Transit Authority Regional Services | 196 |
| Sanilac County | 94 |
| Sault Ste. Marie | 279 |
| Schoolcraft County | 94 |
| Shiawassee Area Transportation Agency | 7 |
| Suburban Mobility Authority for Regional Transportation (SMART) ¹ (Wayne, Oakland, Macomb, Monroe Counties) | 204 |
| Thunder Bay Transportation Authority (Alcona, Alpena, Montmorency counties) | 196 |
| Twin Cities Area Transportation Authority (Benton Harbor) | 55 |
| Van Buren County | 94 |
| Yates Township | 359 |

Source: List provided April 2013, by the Michigan Department of Transportation, *Office of Passenger Transportation*

Notes:

1. A new Regional Transit Authority (Wayne, Oakland, Macomb, and Washtenaw Counties) was created under Public Act 387 of 2012. The Regional Transit Authority will become the designated recipient for state and federal grants for the region effective October 1, 2013.
2. The Kalamazoo County Transportation Authority, established under the authority of Public Act 196 of 1986, collects a millage in the out-county area and contracts with Kalamazoo Metro for services in the out-count area. Currently all state and federal funds are distributed directly to the Kalamazoo Metro Transit System.

Appendix C
Public Acts Governing Michigan Public Transit Agencies

Public Act 7 of 1967, Urban Cooperation Act

Authorizes authorities organized under interlocal agreements

Public Act 55 of 1963, Mass Transportation Authorities Act

Authorizes authorities in cities of less than 300,000

Public Act 94 of 1933, Revenue Bond Act

Authorizes public corporations to make public improvements, including transportation systems. Many county transportation systems are organized under this act.

Public Act 196 of 1986, Public Transportation Authority Act

Authorizes two or more political subdivisions (counties, cities, villages, townships) to form a public authority

Public Act 204 of 1967, Metropolitan Transportation Authorities Act

Authorizes regional transportation authorities formed by two or more counties in metropolitan areas. Public Act 204 is the governing statute for SMART.

Public Act 279 of 1909, Home Rule City Act

Authorizes city transit systems

Public Act 359 of 1947, Charter Township Act

Provides authority for charter townships

Public Act 387 of 2012, Regional Transit Authority Act

Establishes a new Regional Transit Authority for Wayne, Oakland, Macomb, and Washtenaw Counties, effective December 19, 2012. The Regional Transit Authority will become the designated recipient for state and federal grants for the region effective October 1, 2013. Public Act 387 repeals Sections 4a and 4b of Public Act 204 of 1967, sections which had established the Regional Transit Coordinating Council (RTCC) as the designated recipient of transit grants for southeast Michigan.