FY2017-2020 TIP Financial Plan

Introduction

The function of the TIP Financial Plan is to manage available federal-aid highway and transit resources in a cost-effective and efficient manner. Specifically, the Financial Plan details:

1. Available highway and transit funding (federal, state, and local);
2. Fiscal constraint (cost of projects cannot exceed revenues reasonably expected to be available);
3. Expected rate of change in available funding (unrelated to inflation);
4. Year of Expenditure (YOE) factor to adjust for predicted inflation;
5. Estimate of Operations and Maintenance (O and M) costs for the federal-aid highway system (FAHS).

Available Highway and Transit Funding

The majority of federal highway and transit funding is derived from federal motor fuel taxes, currently 18.4 cents per gallon on gasoline and 24.4 cents per gallon on diesel. These funds are deposited in the Highway Trust Fund (HTF). A portion of these funds is retained in the Mass Transit Account of the HTF for distribution to public transit agencies and states. In recent years, the HTF has seen large infusions of cash from the federal General Fund, due to declining collections from motor fuel taxes. This is mostly due to increased fuel efficiency in conventionally-powered vehicles, as well as a growing number of hybrid and fully-electric vehicles that require little to no motor fuel.

There are a number of federal highway programs serving different purposes. Appendix A contains a list of these programs. Federal highway funds are apportioned to the states (*apportionment* means distribution of funds according to formulas established by law) and then a portion is allocated to local agencies based on the population in each region. Local agencies within GVMC receive approximately $14.5 million in federal-aid highway funding each year. In addition, The Michigan Department of Transportation (MDOT) spends approximately $46 million (average over 4 years) annually for capital needs on state-owned highways in the region (I-, US-, and M- roads).

Like the highway programs, there are a number of federal transit programs, the list of which can also be found in Appendix A. Transit funds are distributed according to a complex set of distribution formulas. ITP The Rapid receives approximately $11 million in federal-aid transit funding each year.

State funding for transportation comes from vehicle registration fees and motor fuel taxes. Currently, state motor fuel taxes are set at 19 cents per gallon on gasoline and 15 cents per gallon on diesel. The state also levies a six percent sales tax on the wholesale and federal tax portion of each gallon of motor fuel. Virtually none of this sales tax revenue goes to transportation. Funding from motor fuel taxes and registration fees (but not the sales tax) is deposited in the Michigan Transportation Fund (MTF), which is analogous to the federal HTF. The current gross receipts to the MTF are approximately $1.95 billion annually. The Comprehensive Transportation Fund (CTF) within the MTF is used for transit. Currently, a little under $167 million is deposited by the state into the CTF each year. MTF funding, after set-asides, is distributed to the State Trunkline fund (I-, US-, and M-designated roads) and to counties, cities, and villages throughout the state.

A series of laws enacted in November 2015 increased state funding for transportation. The Michigan House Fiscal Agency estimates that, starting in FY 2016, an additional $455 million will be raised, increasing each year until FY 2020, when it's expected that the increase will stabilize at an additional $1.2 billion per year.[1]

Local funding is much more difficult to predict. There is a patchwork of transportation millages, special assessment districts, downtown development authorities, and other funding mechanisms throughout the region. Therefore, this Financial Plan does not attempt to quantify current non-federal funding or forecast future non-federal funding revenues, except for MTF and CTF.

Fiscal Constraint and Project Selection

The most important financial consideration when creating and/or maintaining a S/TIP is *fiscal constraint*. This means that each year's list of projects cannot exceed the amount of funding reasonably expected to be available in the fiscal year. Funding is considered "reasonably expected to be available" if the federal, state, and local funding amounts are based on amounts received in past years, with rates of change developed cooperatively between MDOT, transportation planning agencies, and public transportation agencies. Note that these rates of change are ***not*** the same as inflation; rather, they are forecasts of the amount of funding that will be made available by the federal, state, and local governments. In Michigan, this cooperative process is facilitated by the Michigan Transportation Planning Association (MTPA), whose members include the aforementioned agencies, plus the Federal Highway Administration (FHWA) and Federal Transit Administration (FTA). The MTPA has determined that recent federal transportation funding shortfalls make it prudent to hold federal funding levels at a two percent annual rate of increase for all four years of the FY 2017-FY 2020 TIP (see Appendix A).

Within GVMC, there are 21 jurisdictions and transportation providers. All jurisdictions are provided the funding targets for the years covered by the TIP. This controls the amount of federal-aid highway funding programmed. The large public transit agency (ITP The Rapid) is issued a similar target (developed by FTA and MDOT's OPT) with the amount of federal-aid transit funding expected. Each jurisdiction has developed a system for determining which projects are selected for funding. Criteria can include pavement condition, traffic volumes, and number of years since last repair, and/or other factors. MDOT has a similar project selection process. Agencies throughout the state use asset management principles approved by the Michigan Transportation Asset

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1 Hamilton, William E., Jim Stansell, and Kyle I. Jen. "Road Funding Package—Enacted Analysis." Lansing, MI, House Fiscal Agency, November 2015.

Management Council (TAMC), whose duties are prescribed by state law. Transit agencies each select projects based on internal assessment of capital and operations needs.

Year of Expenditure (YOE)
When MDOT, local jurisdictions, and public transit agencies program their projects, they are expected to adjust costs using year of expenditure (YOE) dollars. YOE simply means that project costs have been adjusted for expected inflation. This is not the same as expected rates of funding change (see previous section). Each local jurisdiction has its own inflation factor(s), based on past experience. However, MDOT has developed YOE factors for itself and any agency that hasn't developed its own. For the upcoming FY 2017-FY 2020 TIP cycle, they are five percent for FY 2017 and FY 2018, 4.5 percent for FY 2019, and four percent for FY 2020. See Appendix A for more details.

Summary: Resources available for capital needs on the federal-aid highway system
Table 1 contains a summary of the predicted resources that will be available for capital needs on the federal-aid highway system within GVMC over fiscal years 2017 through 2020. The only local (i.e., non-federal) funding included is funding required to match federal-aid funds. This is usually about 20 percent of the cost of each project.

Table 1. Forecast of Resources Available for Capital Needs on the Federal-Aid Highway System within GVMC (millions of dollars).

2017	2018	2019	2020
$20.0	$19.1	$18.7	$19.4

Estimate of Operations and Maintenance Costs for the Federal-Aid Highway System
Almost all federal-aid highway funding is restricted to capital costs; i.e., the cost to build and maintain the actual physical assets of the federal-aid highway system (essentially, all I-, US-, and M- designated roads, plus most public roads functionally classified as "collector" or higher). Operations and maintenance (O and M) costs, such as snow and ice removal, pothole patching, rubbish removal, electricity costs to operate streetlights and traffic signals, etc. are the responsibility of MDOT or local road agencies, depending on road ownership. Nevertheless, federal regulations require an estimate of O and M costs on the federal-aid highway system over the years covered by the TIP. Appendix A explains the method and assumptions used to formulate the estimate. Table 2 contains a summary O and M cost estimate for roads on the federal-aid highway system within GVMC. These funds are not shown in the TIP, because most highway operations and maintenance costs are not eligible for federal-aid. The amounts shown are increased by the agreed-upon estimated YOE (i.e., inflation) factors (see Appendix A for a discussion of YOE adjustments).

Table 2. Forecast of Operations and Maintenance Costs on the Federal-Aid System within GVMC (millions of dollars).

2017	2018	2019	2020
$44.0	$46.2	$48.3	$50.3

Summary: Resources available for capital needs of Public Transit Agencies
Transit agencies receive their funding from a variety of sources: federal, state, and local. Federal funding is distributed, in large part, according to the population of the urbanized area and/or state. For example, Section 5307 (Urbanized Area Formula Grant) is distributed directly to large transit agencies located within the GVMC Transportation Management Areas (TMAs; urbanized areas with more than 200,000 residents). Section 5307 funds are distributed to federally-specified transit agencies in urbanized areas between 100,000 and 199,999 residents. For areas under 100,000 population, the state can generally award funding at its discretion.

Other sources of funding are more specialized, such as Section 5310 (Transportation for Elderly and Persons with Disabilities) and Section 5311 (for rural areas). See Appendix A for more information on federal transit resources.

The State of Michigan, through the MDOT Office of Passenger Transportation (OPT), also distributes CTF funding to match federal-aid, for job access reverse commute (providing access to available employment for persons in low-income areas), and for local bus operating (LBO). LBO funds are very important to the agencies as federal-aid funding for transit, like federal-aid funding for highways, is almost entirely for capital expenses.

Local funding can come from farebox revenues, a community's general fund, millages, and other sources. As with local highway funding, local transit funding can be difficult to predict. Therefore, this chapter will only include federal and state resources available for transit.

Table 3 contains a summary of the predicted resources that will be available for capital needs (and some operations needs, depending on the program) for public transit agencies within GVMC during fiscal years 2017 through 2020. Federal funding reasonably expected to be available is included. CTF funding expected to be distributed by the MDOT Office of Passenger Transportation to public transit agencies within GVMC is also included.

Table 3. Forecast of Resources Available for Public Transit Capital Needs within GVMC (millions of dollars).

2017	2018	2019	2020
$12.3	$12.5	$12.8	$13.0

Demonstration of Financial Constraint, FY 2017 through FY 2020

After determination of resources available for federal-aid highway and transit capital needs within GVMC from FY 2017 through FY 2020, and matching those available resources to specific needs, a four-year program of projects is created within the context of the region's transportation policies as contained in the 2040 Regional Transportation Plan. The list must be adjusted to each year's YOE factor and then fiscally constrained to available revenues (see Appendix A). Table 4 contains a summary of the cost of highway and transit projects programmed over the four-year TIP period, matched to revenues available in that same period. This table shows that the FY 2017 through FY 2020 TIP is fiscally constrained. Note: Operations and maintenance costs of the federal-aid highway system are included in the text of this chapter. However, these costs are not included in the TIP itself, as nearly all highway operations and maintenance costs are ineligible for federal-aid funding.

Table 4. Demonstration of fiscal constraint, FY 2017 through FY 2020 TIP (millions of dollars).

	2017	2018	2019	2020
Highway Funding	$20.0	$19.1	$18.7	$19.4
Highway Programmed	$20.0	$19.1	$18.7	$19.4
Transit Funding	$12.3	$12.5	$12.8	$13.0
Transit Programmed	$12.3	$12.5	$12.8	$13.0
Total Funding	$32.3	$31.6	$31.5	$32.4
Total Programmed	$32.3	$31.6	$31.5	$32.4
Difference	$0	$0	$0	$0