Finance

The *Michigan Department of Transportation State Long-Range Transportation Plan 2005-2030*, *Finance Technical Report* presented information on the federal and state laws that govern the collection and distribution of transportation revenues in the state of Michigan. It also provided an estimate of future revenue available to support transportation in Michigan. This white paper will update the estimate of future revenue using Fiscal Year (FY) 2012 as a base year and forecasting out to FY 2035.

Federal Funding
Federal funding for improvements to the surface transportation system is largely derived from excise taxes levied on the sale of motor fuel, large trucks and trailers, truck tires and the use of heavy vehicles. These taxes are deposited into the Highway Trust Fund (HTF). The funds within HTF are distributed to federal programs and to the states by formulas established in the authorizing legislation.

Federal authorizing legislation for surface transportation (SAFETEA-LU) expired on September 30, 2009. This legislation applied to highways and transit funding. The "Moving Ahead for Progress in the 21st Century Act" (MAP-21) is a 24-month transportation authorization bill. Folded into the bill is an extension of SAFETEA-LU for another three months, until September 30, 2012. Signed into law July 6, 2012, MAP-21 authorizes federal transportation programs and funding through September 30, 2014. The impacts and implications of pending policy changes won't be fully known for some time and therefore can't be considered and prepared for immediately. In the months ahead, U.S. Department of Transportation will need to put out new regulations and prepare for the changes. With the passage of MAP-21, the number of highway programs is consolidated and a higher share of the overall resources are made available directly to states and metropolitan areas. The legislation maintains current funding for transportation, with a slight adjustment for inflation. But it does not index the federal gas tax, limit spending to revenue, or transition funding to a more sustainable, user-based revenue source to ensure the future long-term solvency of the Highway Trust Fund as many hoped a new authorization bill would. The impacts to Michigan are currently being assessed.

Passenger Rail has been successfully funded in recent years through Federal Railroad Administration's (FRA) High Speed Intercity Passenger Rail Competitive Grant Program. MDOT secured nearly $511 million in federal funding on several major projects.

State Funding
The Michigan Transportation Fund (MTF) is the distribution fund for state transportation revenues. Public Act 51 of 1951 known as "Act 51," mandates how these funds are

distributed and spent. The two main sources of state funding are vehicle registration taxes and motor fuel taxes.

- Michigan's current gasoline tax rate is 19 cents per gallon. This tax is fixed per gallon of gasoline sold and is independent of the price of gasoline. The current diesel fuel tax rate is 15 cents per gallon.
- Act 51 mandates how transportation funds are distributed between units of government or between the state, cities and counties, and the order in which programs receive funding.
- The State Trunkline Fund (STF) receives 39.1 percent of the remainder of the MTF after several appropriations are made directly to specific programs and jurisdictions. The funds in STF are used for the state trunkline highway capital program, routine maintenance, and other non-capital uses.

The State Aeronautics Fund primarily consists of revenue from the aviation fuel tax, the airport parking tax, and other license and registration fees.

The Comprehensive Transportation Fund (CTF) receives up to 10 percent of MTF, but only after statutory deductions are completed. The resulting share for CTF is a little over eight percent.

The CTF provides state funding for local transit, intercity bus, passenger rail, rail freight and marine/ports. In addition to a share of MTF, the other major revenue source for CTF is motor vehicle related sales tax revenue. The Michigan Constitution provides that not more than 25 percent of the state general sales tax on motor vehicle related products shall be used for comprehensive transportation purposes. The General Sales Tax Act states that not less than 27.9 percent of 25 percent of the sales tax collected at four percent on motor vehicle related sales be given to CTF. This distribution has been reduced in several prior years.

The following table summarizes the state and federal financial baseline amounts, which was used to forecast future transportation by mode. These amounts represent FY 2012 funding levels with the exception of the federal transit and intercity passenger and freight program amounts. These estimated amounts are for FY 2012, which were established using FY 2011 levels for the base except for the FTA Section 5309 program, which used the average of FY 2010 and FY 2011 levels.

Table 1: 2012 Revenue Available by Program (in millions)

Program	***Federal***	***State***	***Total***
Highway Capital and Maintenance Program	$760.0	$730.9	$1,490.9
Transit Program	$31.2	$194.5	$225.7
Intercity Passenger and Freight Program*	**$2.6	* $16.3	$18.9
Aeronautics Program	$94.1	$7.3	$101.4
Total MDOT Transportation Revenue	***$887.9***	***$949.0***	***$1,836.9***

Amounts are before capital and non-capital uses.
* Includes Intercity Bus, Passenger Rail, Rail Freight and Marine/Port programs.
** Dedicated entirely to the Intercity Bus program. No baseline revenue for the Passenger Rail, Rail Freight or Marine Port programs.

Federal Funding Trends

Although federal revenues distributed to states have continued to grow over time, the current status of HTF is in jeopardy. Over the past four years, nearly $35 billion was transferred from the federal general fund to HTF to keep enough money in HTF to maintain authorized funding levels. At current highway and transit funding levels, HTF outlays are projected to exceed revenue by over $13 billion per year for the next five fiscal years. Our forecast assumes that Congress will continue to make transportation funding a priority and resolve the funding issue.

Federal revenue for public transportation programs have grown over time, but as already stated, current levels will not be sustainable without structural changes to federal transportation funding. Regarding passenger rail funding, even though we have been successful the last couple of years getting competitive grants from FRA, it is unrealistic to forecast revenues beyond what is normally earmarked in federal legislation. Passenger rail funding has traditionally been limited to discretionary earmarks and competitive programs. Therefore, we are not projecting any future federal revenue for passenger rail.

State Funding Trends

Total state transportation revenue in Michigan has grown over the last 20 years. However, fuel tax revenue has steadily declined over the last seven years. The other main revenue source for state revenue, vehicle registration revenue, has grown at a more consistent rate than fuel tax revenue. This is primarily due to vehicle price inflation. There was a decrease in revenue during FY 2008 and FY 2009, due to the economic downturn and a decrease in the number of vehicles registered in Michigan.

While the revenues within CTF have grown overall, they have been inconsistent from year to year due to fluctuations in MTF, and primarily to revenue being redirected from the CTF to the state general fund and STF. The reductions have had an impact on programs that rely on CTF funding such as the transit capital, intercity bus, and rail programs.

Aeronautic Funding Trends

Revenues for aviation are largely from the federal government, through the Federal Aviation Administration. For FY 2012, Michigan is anticipating up to $94.1 million in federal funds for airport capital improvements and development. The State Aeronautics Fund is the state source of funds for aviation projects at Michigan airports. The aviation fuel excise tax generates the greatest share of revenue to the fund. At three cents per gallon, the tax has not been increased since its inception.

Forecasted Transportation Revenue

The following growth rates have been established to forecast future transportation revenue. These growth rates are based on historical trends.

- Federal highway revenues are expected to increase at an annual rate of 2.6 percent.
- State highway revenues (excluding bond revenues) are expected to increase at an annual rate of 2.3 percent.
- The 2035 revenue forecast must also account for annual inflation. The annual inflation rate used is 2.3 percent, which is the average annual compounded increase of the Consumer Price Index-All Urban Consumers, Detroit, for the period covering 1991 - 2011 (U.S. Bureau of Labor Statistics).
- Federal transit and intercity bus revenues are expected to increase at an annual rate of 4.3 percent.
- State transit and intercity/freight revenues are expected to increase at an annual rate of 1.7 percent.

Table 2 below summarizes the total state and federal forecasted transportation revenues by mode available in FY 2035.

Table 2: Forecasted Transportation Revenue

	FY 2012 – FY 2035 Estimate In 2012 Dollars (in millions)		
	Federal	***State***	***Total***
Highway Program	$18,334.1	$16,320.2	$34,654.3
Transit Program	$917.3	$4,531.8	$5,449.1
Intercity Passenger and Freight Program*	**76.4	*$352.2	$428.6
Aeronautics Program	$1,791.0	$219.5	$2,010.5
Total MDOT Transportation Revenue Forecast	***$21,118.8***	***$21,423.7***	***$42,542.5***

Revenue is before capital and non-capital uses.
* Includes Intercity Bus, Passenger Rail, Rail Freight and Marine/Port programs.
** Forecast dedicated entirely to the Intercity Bus program. No forecasted revenue for the Passenger Rail, Rail Freight or Marine/Port programs.

The following table summarizes state and federal revenue forecasted to be available (in 2012 dollars) for the capital highway program through FY 2035. After deducting dedicated revenues for routine maintenance, debt service, and other non-capital uses, the amount is $21.0 billion.

Table 3: Highway Revenue Forecast in 2012 Dollars (in millions)

	Annual Growth Rate	*FY 2012 - FY 2035*
Federal Highway Revenue	**2.6%**	**$18,334.1**
State Highway Revenue	**2.3%**	**$16,320.2**
Bond Proceeds		**$2,800.5**
Less Non-Capital Uses		**($10,600.6)**
Highway Revenue Available (Highway Capital Projects & Routine Maintenance)		**$26,854.2**
Less Routine Maintenance		**($5,850.5)**
STF Available (Highway & Bridge Capital Projects)		**$21,003.7**

Source: MDOT, Bureau of Transportation Planning.

Long-Range Transportation Revenue Issues

Federal and state revenues are subject to unforeseen changes in the economy, unforeseen changes in policy direction, and changes in technology. These unknowns are difficult to quantify, but certainly could affect the forecasts. Some long-range transportation revenue issues include:

- Due to the decrease in state revenue over the last several years, MDOT has experienced difficulty in matching all available federal transportation funds. With the continued near term forecast of flat state revenue, this will continue to be a significant issue facing the department until state revenue is increased.
- The Highway Account of HTF is expected be in deficit in FY 2013, and the Mass Transit Account the following fiscal year.
- MAP-21 legislation maintains current funding for transportation, with a slight adjustment for inflation. But it does not index the federal gas tax, limit spending to revenue, or transition funding to a more sustainable, user-based revenue source to ensure the future long-term solvency of the Highway Trust Fund.
- Changes in automotive fuel efficiency (and subsequent fuel tax revenues) may force changes in how transportation revenues need to be collected.
- Transportation funding purchasing power is eroding due to many things including reduced consumption and the lack of fuel tax indexing at the federal and state level.