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REVISE CTF FUNDS DISTRIBUTION

House Bill 5911 (Substitute H-2)
First Analysis (11-19-96)

Sponsor: Rep. William Byl
Committee: Transportation

THE APPARENT PROBLEM:

Public Act 51 of 1951 establishes mechanisms by which the Michigan Department of Transportation receives and distributes state restricted funds from fuel and motor vehicle weight taxes. Among the various funds that provide funding for specific purposes is the Comprehensive Transportation Fund (CTF), which primarily funds mass transit programs involving bus, rail, air and water. Currently, the act specifies that after payments for debt service and administration, 70 percent of the fund is to be distributed as operating grants to eligible authorities and governmental agencies subject to a formula in the act. The formula, which was established in 1987, allows an eligible authority or governmental agency that provides public transportation services in an urban area to receive a grant of up to 40 percent of the difference between its eligible operating expenses and the amount of federal grant money it receives; for those providing such services in nonurban areas, the maximum grant is 50 percent of the difference. In recent years, however, many public transit agencies have seen their operating grants shrink from well below these ceilings, as the state has attempted to balance the needs of the many local agencies by shifting limited dollars to where they may be most needed and by utilizing the local share and effective bonus assistance program to encourage local transit authorities to use their funds in the most cost-effective manner. Apparently, this has resulted in some urban systems receiving as little as 20 percent and nonurban systems as little as 26 percent of their operating expenses from the state, which, when combined with shrinking federal public transit subsidies, has made it difficult for transit agencies to even maintain existing services. Some people believe adjustments are needed to the current formula established for the CTF to ensure not only that operating grants are a higher priority in the overall distribution formula, but also that urban and nonurban transit agencies are guaranteed a flat 40 percent and 50 percent, respectively, of their operating expenses.

THE CONTENT OF THE BILL:

The bill would amend Public Act 51 of 1951 to revise the formula for CTF funding for local public transit agencies. At present, the act specifies that an urban area shall receive up to 40 percent of the difference between its eligible operating expenses and the amount of federal grant money it receives, and a nonurban area shall receive up to 50 percent of its eligible operating expenses from the CTF. Under the bill, for the fiscal year ending September 30, 1997 and each fiscal year thereafter an eligible authority or governmental agency offering public transportation services in an urban area "with a population greater than 100,000" would receive a grant of 40 percent (instead of up to 40 percent) of its eligible operating expenses, and those providing these services in an urban area "with a population less than or equal to 100,000" would receive a grant of 50 percent of the difference. (The bill would delete the reference to "nonurbanized areas.")

The act establishes a priority system of funding where debt service must be paid first, fund administration must be paid second, and then, of the remainder, 70 percent must go to local systems as operating grants. The bill would eliminate the 70 percent requirement and, instead, would establish as a third CTF priority the payment of transit operating assistance. Funding of intercity passenger and intercity freight transportation would be given fourth priority, and any remaining funds would be available for distribution for public transportation purposes by the Department of Transportation.

Currently, the act limits the amount of increase in operating grants to eligible authorities and governmental agencies from one fiscal year to the next to the percentage change in the amounts appropriated by the legislature to the CTF for mass transit purposes from the previous fiscal year (the so-called revenue growth cap), and directs any funds remaining after grants are paid to transit agencies to the local share and effective bonus assistance programs; the bill would delete these provisions. Instead, the bill specifies that no system would receive less money than it did in fiscal year 1996-97, and would ensure that the ratio between CTF funds and local funds in the base years would remain constant for all fiscal years.

Of the remaining 30 percent of CTF funds after amounts are paid for urban and nonurban public transportation services, the act requires not less than 10 percent to be used for intercity passenger and freight transportation purposes, and requires the department to use the remaining 20 percent for "public transportation development" (i.e., the local share and effective bonus assistance programs and specialized services assistance program.) Beginning with the 1997-98 fiscal year and for each fiscal year thereafter, the bill essentially would reallocate this remaining 20 percent of CTF funds to fund the increased bus system operating assistance costs that would result from eliminating the revenue growth cap under the bill. Local share and effective bonus assistance programs would receive a flat appropriation of $1 million--rather than at least this amount--for the fiscal year ending September 30, 1996, but would be eliminated after this date. The bill also would increase the level of funding for the specialized services assistance program, which serves primarily the elderly and handicapped, from not less than $2 million to not less than $3.1 million. And the bill would alter the way the department funds "local bus new services" so that these would receive, in their fourth and subsequent years, funds at the same level as other transit systems (i.e., 40 or 50 percent) that received operating assistance. Under the bill, the department would continue to use discretionary funds to fund local bus new services during the start-up and first three years of service.

Finally, the bill would delete obsolete references to the federal Urban Mass Transportation Act of 1964, which was superceded by the Intermodal Surface Transportation Efficiency Act (ISTEA) of 1992, and various other references to the 40- and 50-percent caps in the act that would be rendered obsolete by the bill. In addition, an obsolete provision directing the state transportation commission to request a formal opinion by the attorney general relative to the fiscal impact to local units of government of requirements under the specialized services assistance program would be deleted.

MCL 247.660e

FISCAL IMPLICATIONS:

The House Fiscal Agency says the bill would require a reallocation of approximately $10.6 million of state CTF funds from the public transportation development account to the local bus operating assistance account to pay for increased eligible reimbursements to local public transit agencies. This would increase state expenditures for local bus operating assistance and, correspondingly, would reduce the funds available for other public transportation development expenditures; however, total CTF spending would remain unchanged. (11-13-96)

ARGUMENTS:

For:

The present formula established under Public Act 51 of 1951 providing state operating assistance to local public transit agencies was established by Public Act 234 of 1987, the last major overhaul of funding distribution formulas under the act. At that time, a revenue growth cap was included in the formula to ensure that state operating assistance amounts would remain consistent with anticipated revenues into the CTF in the following years. Apparently these changes were added to the act in 1987 with the understanding that they would be revisited within three years to ensure locals continued to receive adequate levels of state operating assistance from the CTF; this update, however, never was made. According to public transportation officials, urban and rural transit agencies generally received 40 or 50 percent, respectively, of their operating expenses in the years following the 1987 changes, but inflation and increased demand from local agencies have resulted in some urban systems receiving, by some accounts, only 20 percent of their eligible operating expenses and nonurban systems only 25 percent of expenses. The bill would restore the original intent of Public Act 234 by requiring that local transit agencies receive a flat 40 or 50 percent of their eligible operating expenses, depending on population. In addition, the bill would remove the revenue growth cap so that locals would be eligible to receive operating assistance in line with their ongoing, and ever increasing, needs. But rather than require additional state revenue to be generated, the bill proposes to pay for this change by shifting existing funds away from the public transportation development account, which essentially pays for new bus services. With these changes, existing local public transit agencies throughout the state would be better able to meet growing demands for state operating assistance that has resulted from years of operating under the 1987 revenue growth cap while the number of riders on these systems has steadily increased.

Against:

The bill would increase amounts to local transit agencies for operating assistance, but in so doing could negatively impact a number of other transit-related programs, including specialized services, municipal credit, bus transit capital, bus property management, planning grants, ridesharing and vanpooling programs, emergency operating grants, and various others. In addition, by eliminating the 70 percent allocation of the CTF to operating assistance and, instead, creating this program as the third priority under the CTF, the bill could end up actually reducing amounts to local transit agencies, since what they would receive ultimately would be determined in the legislative appropriations process--which itself would be subject to gubernatorial approval. Moreover, the bill would eliminate provisions which encourage local transit agencies to cut costs and ensure that they are operating efficiently and effectively in the services they currently provide. Perhaps most importantly, however, providing a guarantee that all systems would receive a flat 40 or 50 percent of their operating expenses (and replacing the current "nonurbanized area" designation with the 100,000 population threshold that would determine the share an agency would receive) would put the state in the position of having to match locals for their corresponding share of whatever they chose to spend on their respective systems. Thus, transit systems in larger urban areas could siphon a larger amount of total dollars from the CTF since they have a larger tax base and could use this to leverage more CTF funds than could smaller, more rural transit agencies. The bill could, in fact, make it difficult for MDOT to allocate CTF funds in the fairest way to ensure that all local transit agencies would be able to operate at adequate funding levels.

POSITIONS:

The Michigan Public Transit Association supports the bill. (11-18-96)

The Suburban Mobility Authority for Regional Transportation (SMART), which serves the public transit needs of the greater Detroit area, supports the bill. (11-18-96)

The Department of Transportation is not opposed to the bill. (11-15-96)

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