

FISCAL BRIEF

THE COMPREHENSIVE TRANSPORTATION FUND (CTF) AND STATE SUPPORT FOR LOCAL PUBLIC TRANSPORTATION

William E. Hamilton

August 8, 2023

FAST FACTS

- The Comprehensive Transportation Fund is a state restricted fund that is restricted for public transportation purposes.
- Estimated CTF revenue for FY 2022-23 totals \$410.9 million.
- Approximately 2/3 of CTF revenue is appropriated for operating and capital assistance to 80 local public transit agencies in Michigan.

INTRODUCTION

The Comprehensive Transportation Fund (CTF) is a state restricted fund created in section 10b of 1951 PA 51 (“Act 51”). The CTF is restricted for public transportation purposes.¹

CTF revenue is appropriated in annual state transportation budgets for various public transportation programs in accordance with section 10e of Act 51. CTF-funded programs include targeted or categorical transit programs such as municipal credit and specialized services. The CTF also supports intercity bus, rail passenger, and rail freight programs, as well as public transportation administrative and planning functions of the Michigan Department of Transportation (MDOT).

However, the largest share of CTF revenue is appropriated for operating and capital assistance to the state’s 80 local public transit agencies.² Together, state operating and capital assistance to local transit agencies represent approximately two-thirds of FY 2022-23 CTF-funded appropriations. By itself, state operating assistance represents approximately half of FY 2022-23 CTF appropriations.

An 11-year history of CTF-funded line items in the transportation budget is shown as **Appendix 1 – Table A** at the end of this publication.

The balance of this publication will describe in additional detail sources of CTF revenue and the use of CTF revenue for operating and capital assistance to local public transit agencies.

CTF REVENUE

The CTF has two primary revenue sources: an earmark of Michigan Transportation Fund (MTF) revenue, and an earmark of certain revenue in the General Sales Tax Act (commonly described as the “auto-related sales tax”).

Michigan Transportation Fund Earmark. The largest source of CTF revenue is an earmark of MTF revenue made in section 10 of Act 51. The MTF is the main collection and distribution fund for dedicated transportation revenue. Historically, MTF revenue was derived almost exclusively from constitutionally restricted motor fuel taxes and vehicle registration taxes.

¹ Section 10c(h) of Act 51 defines “public transportation” as 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 that is exclusively for school purposes. The section declares public transportation to be transportation purposes within the meaning of section 9 of Article IX of the state constitution.

² See **Appendix 2 – Note A**, on the term “transit agencies.”

Total MTF revenue for FY 2022-23 is estimated at \$3.7 billion. Of that total, \$3.0 billion is the estimated amount derived from motor fuel taxes and vehicle registration taxes.

Section 10 of Act 51 provides for the appropriation of MTF revenue. Specifically, section 10(1) directs the distribution of MTF revenue to subsidiary state transportation funds and targeted programs, to local road agencies, and to the CTF. Section 10(1)(h) directs 10% of MTF revenue to the CTF. However, because this earmark comes after a number of other earmarks—at least with respect to the organization of section 10(1) of Act 51—the actual CTF share of gross MTF revenue is less than 10%.

The estimated transfer from the MTF to the CTF for FY 2022-23 is **\$270.5 million**. This figure is approximately 7.4% of total MTF revenue and approximately 9.0% of MTF revenue derived from motor fuel taxes and vehicle registration taxes.³

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 of motor fuels, motor vehicles, and automotive parts and accessories be deposited each year into the CTF. For development of the FY 2022-23 transportation budget, the auto-related sales tax earmark was estimated at **\$103.4 million**.

Although the statutory language specifies “not less than,” in practice, the amount of auto-related sales tax credited to the CTF has always been equal to or less than—never more than—the amount calculated at 27.9% of 25% of the auto-related sales tax collected at 4%.⁴

Other Revenue Sources. Interest on the CTF fund balance, other miscellaneous revenue sources, and the appropriation of the available CTF fund balance account for the balance of CTF revenue used in the FY 2022-23 transportation budget.

Estimated CTF revenue, as appropriated in the FY 2022-23 transportation budget, totals **\$410.9 million**.

CTF Revenue Estimates – FY 2022-23	
MTF Transfer	\$270,505,000
Auto-Related Sales Tax.....	103,400,000
Other	<u>37,045,900</u>
Appropriated CTF Total	\$410,950,900

General Fund Contributions. Note that, in addition to the baseline CTF revenue sources described above, between FY 2012-13 and FY 2015-16, a total of **\$59.4 million** in state general fund revenue was appropriated for public transportation programs—primarily to ensure sufficient funding to match federal grants for transit capital and rail infrastructure programs.

See **Appendix 2 – Table B**, for an 11-year history of CTF revenue.

See **Appendix 2 – Table C**, for a history of general fund appropriations for public transportation programs.

³ For additional information on the MTF distribution, see the House Fiscal Agency publication [Fiscal Brief: MTF Distribution Formula to Local Road Agencies - Update](#), February 20, 2023. For additional information on the history of the Act 51 earmark of MTF revenue for the CTF, and the constitutional provisions affecting this earmark, see **Appendix 2 – Notes B and C**.

⁴ For additional information on the auto-related sales tax earmark for the CTF, including the related constitutional provisions affecting this earmark, see **Appendix 2 – Notes D and E**.

LOCAL BUS OPERATING ASSISTANCE

State operating assistance to eligible transit agencies represents the largest annual appropriation of CTF revenue. Section 10e 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 MDOT’s costs of administering the CTF. Local bus operating assistance represents approximately half of FY 2022-23 CTF appropriations.⁵

For a number of years, funding for the Local Bus Operating line item was in a fairly narrow range. From FY 2006-07 through FY 2013-14, the baseline CTF appropriation was \$166.6 million, and for both FY 2014-15 and FY 2015-16 it was \$167.4 million.⁶ Beginning in FY 2016-17, the appropriation increased incrementally. The FY 2022-23 Local Bus Operating appropriation is **\$201.4 million**.

LOCAL BUS OPERATING DISTRIBUTION FORMULA

Local bus operating assistance is distributed among the 80 transit agencies based on provisions of section 10e of Act 51 as amended by 1997 PA 79. Those provisions direct that operating assistance reimburse up to 50% of eligible operating expenses for transit agencies that provide bus transit service in urbanized areas, defined as having a population greater than 100,000. Section 10e also provides for the reimbursement of up to 60% of eligible operating expenses for bus transit service provided by transit agencies to nonurbanized areas, i.e., service areas with a population of less than 100,000.

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.

1997 PA 79 also established a funding floor for transit agencies; no agency could receive less than the amount it received in FY 1996-97. However, this funding floor is subject to another provision of section 10e that requires that “the ratio between CTF and local funds in the fiscal year ending September 30, 1989 shall be maintained for all fiscal years by the eligible authority or eligible governmental agency. Reductions in this ratio shall require a proportionate reduction in CTF provided for any fiscal year.”

Based on budget estimates, three transit agencies—the city of Ionia, Berrien County, and Cass County—would be reimbursed at their FY 1996-97 funding floor in the FY 2022-23 distribution. However, this could change when the final distribution, based on audited eligible operating expense, is calculated. MDOT calculates a funding floor for the Regional Transit Authority (RTA) as a whole based on the collective eligible operating expenses of the agencies that make up the RTA.

In calculating the local bus operating distribution, MDOT does not recognize a funding floor for agencies that were established after the enactment of 1997 PA 79 or were otherwise not included in the FY 1996-97 local bus operating distribution. However, two such agencies, the Detroit Transportation Corporation, and the RTA (administrative costs), are combined with other RTA agencies in calculating a gross RTA funding floor.

The local bus operating appropriation also provides operating support for service provided by water vehicle (i.e., ferry service). 1997 PA 79 also directed that ferry service be reimbursed at 50% of eligible operating expense. For FY 2022-23, there are four systems that provide service by water vehicle and that will receive state operating assistance for that service

⁵ From FY 2001-02 through FY 2011-12, local bus operating represented between 66% and 70% of CTF appropriations. Starting with FY 2012-13 and through FY 2022-23, the local bus operating share of CTF appropriations fell to an average of roughly 57% of CTF appropriations. The reduction in the local bus operating relative share of CTF appropriations did not reflect reductions in local bus operating appropriations, but was rather due to increased CTF appropriations for other programs, specifically rail passenger programs, as well as transit capital.

⁶ In both FY 2012-13 and FY 2013-14, this baseline funding was supplemented through a \$5.4 million Discretionary State Operating line item.

at 50% of eligible operating expenses: the Beaver Island Transportation Authority, the Charlevoix County Transportation Authority (Ironton Ferry), the City of Mackinac Island, and the Eastern Upper Peninsula Transportation Authority (EUPTA), which provides ferry service to three islands in the St. Mary's River south of Sault Ste. Marie, Michigan.

The current year (FY 2022-23) local bus operating appropriation of \$201.7 million is not large enough to fund bus transit agencies at the 50% and 60% reimbursement levels for, respectively, urban and nonurban service. As a result, MDOT prorates the distribution. Using the department's proration methodology, FY 2022-23 state operating assistance would reimburse urban transit agencies at **29.2%** of eligible operating expenses and nonurban agencies at **35.0%** of eligible operating expenses. These figures are based on transit agency budgeted eligible operating expenses as submitted to MDOT in accordance with the department's Revenue and Expense Manual.⁷

See **Exhibit** (page 5), for a model of MDOT's distribution method.

MDOT makes monthly distributions during the fiscal year based on the above calculation, i.e., based on each agency's budgeted eligible operating expenses. This provisional distribution is adjusted twice. The first redistribution is based on reconciled transit agency expenditure reports filed shortly after the end of the fiscal year. The final distribution is made after audited financial statements are received from all agencies, typically a year or more after the close of the fiscal year.

After the final distribution is made, the entire Local Bus Operating appropriation will have been distributed to transit agencies. MDOT does not hold back or lapse any of the funds in this line item.

Over the last fifteen years, from FY 2008-09 to FY 2022-23, state funding for the Local Bus Operating line item increased from \$166.6 million to \$201.7 million. However, as transit agency budgets increased in the aggregate, the state percentage share of operating cost has declined. In FY 2000-01, state funding reimbursed 38.1 % and 45.7% of urban and nonurban agency eligible expenses, respectively. As noted above, the calculated reimbursement percentages for FY 2022-23 will be 29.2% for urban systems and 35.0% for nonurban systems—other than those agencies that provide ferry service and those agencies at their 1997 floor.

It is sometimes stated that the current state assistance formula, which reimburses based on eligible operating expenses, creates an incentive for transit agencies to expand budgets, 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 expenses—29.2% for urban systems and 35.0% for nonurban systems per the FY 2022-23 calculation. The portion of transit agency expenses not reimbursed from state operating assistance must be recovered from other sources, generally farebox revenue, local contributions, or federal funds.⁸

It might be more accurate to say that the state operating assistance formula rewards local cost participation. Agencies that receive support through local transit millages, or that are able to access other sources of local funding, can expand service, e.g., expand hours of service or add new routes, and effectively use local funding to leverage additional state funding.

To some extent, measures of program effectiveness, such as expanded service, are in tension with measures of efficiency such as farebox recovery, cost per rider, or cost per mile.

⁷ Note that, because agencies that provide ferry service are reimbursed at 50% of eligible operating expenses, and some agencies are at their 1997 funding floor, the actual distribution to other urban and nonurban transit agencies will be somewhat different from the 29.2% and 35.0% calculated in our example. Our calculated figures are simply used to illustrate MDOT's method of prorating operating assistance.

⁸ Note that federal Formula Grants for Rural Areas may be used for transit system operating expenses. Federal Urbanized Area Formula Grants generally cannot be used for operating assistance in urbanized areas of 200,000 population or greater.

EXHIBIT – COMPUTATION OF LOCAL BUS OPERATING DISTRIBUTION

When MDOT 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 nonurban agencies. The department then adjusts the computed distribution amounts proportionally to reflect the actual appropriation. For example, the FY 2022-23 appropriation of \$201.7 million is 58.4% of the \$345.4 million needed for reimbursement at the 50% and 60% ceilings. As a result, the department computes the distribution to urban agencies at 58.4% of the 50% ceiling (29.2%), and the distribution to nonurban at 58.4.1% of the 60% ceiling (35.0%). See below.

FY 2022-23 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	\$479,999,500	50.00%	\$239,999,800
Non-Urban Systems	<u>175,741,000</u>	60.00%	<u>105,444,600</u>
Total	\$655,740,500		\$345,444,400
Appropriation as a Percent of Maximum Reimbursement			
Appropriation	\$201,750,000		
Maximum Reimbursement	345,444,400		
Percentage of Maximum	58.4%		
To Compute Actual Reimbursement Percentages *			
	Act 51 % Ceilings	Percentage of Maximum	Computed Reimbursement Percentage
Urban Systems	50.0%	58.4%	29.2%
Non-Urban Systems	60.0%	58.4%	35.0%
To Compute Actual Reimbursement *			
	Eligible Operating Expense	Computed Reimbursement Percentage	Computed Reimbursement
Urban Systems	\$479,999,500	29.2%	\$140,167,200
Non-Urban Systems	<u>175,741,000</u>	35.0%	<u>61,582,800</u>
Total	\$655,740,500		\$201,750,000
* The actual reimbursement percentage for most transit agencies 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 percent, some agencies will receive less.			

TRANSIT CAPITAL

In addition to operating assistance to local transit agencies, the CTF also provides capital assistance through the Transit Capital line item.

The CTF revenue in the Transit Capital line item is used primarily to provide the non-federal match for federal-aid grants to local transit agencies. Federal transit grants are typically for capital improvements, including bus acquisition or technology upgrades. These federal grants typically require a 20% non-federal match.

Some federal-aid transit program funds, primarily the Formula Grants for Rural Areas program, are made to the state of Michigan, i.e., MDOT. The department in turn makes federal program funds available to eligible local transit agencies serving rural areas as defined in federal law. These state-administered federal transit grants are subject to state budgetary authority and are reflected in the annual state transportation budget. Federal-aid transit funds for service in urban areas (Urbanized Area Formula Grants) are apportioned directly by the federal government to local transit agencies serving urbanized areas. These urbanized area funds are not reflected in the state transportation budget. However, the CTF funds in the Transit Capital line item provide the non-federal matching funds for both Rural Area Formula Grants (in budget) and the Urbanized Area Formula Grants (off-budget).⁹

Section 10e(4) of Act 51 effectively requires that at least \$8.0 million from the CTF be distributed each year for matching federal capital grants. Section 10b(3)(f) of Act 51 further requires that the state pay not less than two-thirds of the local match required for Federal Transit Administration capital grants to local transit agencies.

For a number of years, appropriations for the transit capital program provided more than these statutory minimums. In fact, for a number of years, state CTF appropriations provided 100% of the non-federal match for local federal-aid transit capital grants.

From FY 2004-05 through FY 2010-11, reductions in CTF revenue resulted in reduced appropriations for transit capital programs. During this period, MDOT used other sources to provide the non-federal match for local federal-aid transit grants. Those other sources included bond proceeds and toll credits, a type of “soft match” authorized in federal law.

Increases in transit capital appropriations starting in FY 2011-12, as well as the appropriation of general fund revenue for transit capital in FY 2012-13, FY 2014-15, and FY 2015-16, allowed MDOT to again provide 100% of the non-federal match required for local agency federal transit capital grants.

The FY 2022-23 transportation budget includes **\$68.1 million** CTF for transit capital. It is anticipated that this will provide 100% of required non-federal funds to match available federal capital grants.

⁹ In addition to the two major federal transit grant programs, Formula Grants for Rural Areas, and Federal Urbanized Area Formula Grants, there are a number of targeted or categorical transit grant programs. CTF funds in the Transit Capital line item are also used to provide the required non-federal match for these targeted or categorical program, including discretionary grant awards. The amounts provided to Michigan transit agencies, and required non-federal match, aren't known until grants are awarded.

APPENDIX 1 – TABLE A

**Comprehensive Transportation Fund Appropriations
FY 2012-13 through FY 2022-23**

<u>Line Item</u>	<u>FY 2012-13</u>	<u>FY 2013-14</u>	<u>FY 2014-15</u>	<u>FY 2015-16</u>	<u>FY 2016-17</u>	<u>FY 2017-18</u>	<u>FY 2018-19</u>	<u>FY 2019-20</u>	<u>FY 2020-21</u>	<u>FY 2021-22</u>	<u>FY 2022-23</u>
Debt Service	\$18,580,400	\$19,318,500	\$18,215,500	\$18,202,200	\$18,249,900	\$18,244,500	\$19,401,500	\$10,896,000	\$10,903,900	\$10,899,800	\$1,466,600
MDOT Public Transportation Planning and Administration	7,449,300	7,343,100	7,608,300	7,772,400	7,937,600	7,893,200	8,063,200	8,002,300	8,169,800	8,221,300	8,396,500
Direct Transit Programs											
Local bus operating	\$172,020,600	\$172,024,000	\$167,400,000	\$167,400,000	\$186,250,000	\$188,250,000	\$190,750,000	\$196,750,000	\$193,750,000	\$196,750,000	\$201,750,000
Transit capital	33,642,900	25,895,300	25,895,300	24,610,800	37,357,100	42,853,500	50,062,600	53,070,700	41,070,700	41,070,700	68,076,100
Subtotal	\$205,663,500	\$197,919,300	\$193,295,300	\$192,010,800	\$223,607,100	\$231,103,500	\$240,812,600	\$249,820,700	\$234,820,700	\$237,820,700	\$269,826,100
Other transit-related programs	12,215,800	11,783,700	13,596,200	10,948,700	10,663,100	11,698,100	12,538,100	16,038,000	16,879,000	19,753,300	20,453,300
Intercity passenger and freight	26,984,900	48,155,700	47,388,900	43,449,500	60,043,000	66,543,400	71,940,600	78,894,500	79,449,500	86,035,000	110,808,400
Total CTF Appropriations	\$270,893,900	\$284,520,300	\$280,104,200	\$272,383,600	\$320,500,700	\$335,482,700	\$352,756,000	\$363,651,500	\$350,222,900	\$362,730,100	\$410,950,900
Direct Transit as a % of Total CTF											
Local bus operating	63.50%	60.46%	59.76%	61.46%	58.11%	56.11%	54.07%	54.10%	55.32%	54.24%	49.09%
Transit capital	12.42%	9.10%	9.24%	9.04%	11.66%	12.77%	14.19%	14.59%	11.73%	11.32%	16.57%
Percentage total of CTF	75.92%	69.56%	69.01%	70.49%	69.77%	68.89%	68.27%	68.70%	67.05%	65.56%	65.66%
Intercity as a % of total CTF											
Intercity passenger and freight	9.96%	16.93%	16.92%	15.95%	18.73%	19.84%	20.39%	21.70%	22.69%	23.72%	26.96%

KEY:

This table shows CTF appropriations by major program from FY 2012-13 through FY 2022-23. The table shows CTF funding only and excludes federal, local, or other fund sources. Additional data for FYs 2001-02 through 2011-12 is available from the House Fiscal Agency.

It should be noted that the appropriation is not same as the expenditure and for some line items not all spending authority is used. Spending authority lapses vary by line item and fiscal year. Lapses of CTF appropriations have generally been less than 2% each year, with the exception of FY 2019-20 when \$25.5 million in spending authority lapsed. Of this, \$17,987,100, was lapsed from the Rail Operations and Infrastructure line item within Intercity Passenger and Freight, approximately 26% of the total Rail Operations and Infrastructure appropriation. A more detailed breakdown of CTF appropriations, including CTF lapses, is available from the House Fiscal Agency.

APPENDIX 1 – TABLE B

**Comprehensive Transportation Fund
Revenue History
FY 2012-13 through FY 2022-23**

	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
	<i><u>Actual</u></i>	<i><u>Estimated</u></i>									
MTF Transfer (net)	\$161,417,600	\$165,492,400	\$172,482,400	\$176,938,400	\$229,838,400	\$248,735,200	\$254,028,600	\$240,423,700	\$249,114,700	\$256,853,000	\$270,505,000
Auto-Related Sales Tax (net)	102,969,600	102,025,900	90,806,200	84,499,200	87,540,800	96,117,700	96,851,300	90,065,900	92,548,900	139,232,600	103,400,000
Interest and other Misc.	1,050,500	1,120,600	1,453,200	6,439,700	1,132,600	14,031,800	9,868,100	11,968,800	6,510,300	24,784,600	37,045,900
CTF Revenue Total	\$265,437,700	\$268,638,900	\$264,741,800	\$267,877,300	\$318,511,800	\$358,884,700	\$360,748,000	\$342,458,400	\$348,173,900	\$420,870,200	\$410,950,900

KEY:

This table shows actual CTF revenue for FYs 2012-13 through 2021-22, and estimated revenue for FY 2022-23. Additional data for FYs 2001-02 through 2011-12 is available from the House Fiscal Agency.

The figures are net of the redirection, made in some years, of certain CTF earmarked funds to other purposes. Those redirections include the one-time redirection of a portion of the auto-related sales tax from the CTF to the state general fund. Additional detail on those redirections is available from the House Fiscal Agency.

APPENDIX 1 – TABLE C

General Fund Appropriations for Public Transportation Programs FY 2012-13 through FY 2015-16

<u>(Project or Program)</u>	<i>2012 PA 200</i> ⁽¹⁾	<i>2014 PA 34</i> ⁽²⁾	<i>2014 PA 252</i> ⁽³⁾	<i>2015 PA 84</i> ⁽⁴⁾	Four-Year Total
	<i>House Bill 5365</i>	<i>Senate Bill 608</i>	<i>House Bill 5313</i>	<i>Senate Bill 133</i>	
	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	
Transit Capital	12,000,000	--	5,000,000	6,100,000	23,100,000
Rail Infrastructure	11,000,000	--	5,000,000	18,900,000	34,900,000
Beaver Island Ferry	--	300,000	--	--	300,000
RTA	--	--	1,100,000	--	1,100,000
Total	\$23,000,000	\$300,000	\$11,100,000	\$25,000,000	\$59,400,000

Notes:

1. According to a boilerplate report dated September 20, 2013, the \$12.0 million appropriation for Transit Capital was expended or encumbered for matching Federal Transit Administration capital grants to local public transit agencies and the \$11.0 million appropriation for Rail Infrastructure was expended or encumbered for capital rail passenger improvements on the Dearborn-Kalamazoo rail corridor.
2. Funds were earmarked in this supplemental appropriation bill for a capital grant to the Beaver Island Transportation Authority.
3. The appropriation act included a \$10.0 million line item, Transit Capital and Rail Infrastructure. According to a boilerplate report dated November 20, 2015, \$5.0 million was expended or encumbered for matching a Federal Transit Administration capital grant for bus acquisition by the Detroit Department of Transportation and \$5.0 million was expended or encumbered for capital rail passenger improvements on the Dearborn-Kalamazoo rail corridor. The act also included a \$1.1 million line item for the RTA established under the Regional Transit Authority Act, 2012 PA 387. Section 1005 earmarked the funds for staff and other administrative costs associated with RTA startup.
4. The appropriation act included a \$25.0 million line item, Transit Capital and Rail Infrastructure." According to a boilerplate report dated November 21, 2016, \$6.1 million was expended or encumbered for matching a Federal Transit Administration capital grants: \$5.0 million to the Interurban Transit Partnership (Grand Rapids) related to new Laker Line service, and \$1.1 million for bus acquisition by the Suburban Mobility Authority for Regional Transportation (SMART). \$18.9 million was expended or encumbered for various capital rail passenger improvements on the Detroit-Chicago rail corridor.

APPENDIX 2 – NOTES

NOTE A: TRANSIT AGENCIES DEFINED

Although this publication 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 80 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 80 transit agencies are local units of government in some sense; each is either a unit of county or city government or is an authority organized under one of several authorizing statutes.

Of the 80 eligible transit agencies, some provide scheduled, fixed-route service in metropolitan or urban areas. These urban systems include the Detroit Department of Transportation (DDOT), the Suburban Mobility Authority for Regional Transportation (SMART), the Ann Arbor Transportation Authority (AATA), the Detroit Transportation Corporation (DTC/People Mover), the Capital Area Transit Authority (CATA/Lansing), the Interurban Transit Partnership (The Rapid/Grand Rapids), the Flint Mass Transportation Authority, Kalamazoo Transit, Saginaw Transit, and the Muskegon Area Transit System.

Some eligible transit agencies are small city systems; others are countywide demand-response systems.

The service provided by a transit agency depends on the goals of the agency’s governing body and the characteristics of the service population. While all agencies provide some form of general public service, many agencies also provide targeted service, including service targeted for people commuting to work, for college student populations, or for elderly and disabled populations.

A list of the 80 eligible Michigan transit agencies and related form of organization is shown in **Appendices 3a and 3b**.

NOTE B: ON THE CTF SHARE OF MTF REVENUE IN ACT 51

When the current framework for the distribution of MTF revenue was first established in section 10 of Act 51 by 1982 PA 438, the 10% CTF share came directly “off the top” before any other statutory earmarks. 1988 PA 348 amended section 10 to establish an MTF earmark, beginning in FY 1987-88, of up to \$3.0 million for the rail grade crossing account. This earmark came prior in distribution order to the CTF’s 10% share, as did a subsequent earmark, established through 1992 PA 223, which, beginning with FY 1992-93, earmarked at least \$3.0 million for local/critical bridge fund debt service. Additional earmarks were added by 1997 PA 79, specifically: \$43.0 million for State Trunkline Fund debt service; revenue equal to one cent of the gas tax for state bridge programs (subsequently amended to include local bridge programs); and revenue equal to three cents of the gasoline tax for distribution to state and local road agencies. These 1997 earmarks effectively channeled new revenue generated from the 1997 increase in the motor fuel tax on gasoline to state and local road agencies, bypassing the CTF and public transportation programs.

In addition, beginning in FY 2018-19, revenue from an earmark in the Income Tax Act was credited to the MTF. This income tax earmark, one of the elements of the November 2015 road funding package, was \$264.0 million in FY 2018-19, \$468.0 million in FY 2019-20, and \$600.0 million in FY 2020-21 and each subsequent fiscal year. This income tax earmark was entirely directed in statute to state and local road and bridge programs. None of the revenue from the income tax earmark was credited to the CTF or available for public transportation programs.

In addition, beginning in FY 2020-21, revenue from an earmark of an excise tax on recreational marijuana was also credited to the MTF. As with the earmark of income tax revenue, revenue from the marijuana excise tax earmark was entirely

directed in statute to state and local road and bridge programs. None of the revenue from the marijuana excise tax earmark was credited to the CTF or available for public transportation programs.

NOTE C: CONSTITUTIONAL PROVISIONS AFFECTING THE MTF-CTF EARMARK

The two main sources of MTF revenue, motor fuel taxes and vehicle registration taxes, are constitutionally restricted for transportation. Section 9 of Article IX of the state constitution indicates that these two revenue sources, “after payment of necessary collection expenses [shall] be used exclusively for transportation purposes as set forth in this section.” The section goes on to indicate that not less than 90% of revenue from motor fuel taxes and vehicle registration taxes shall be used for state and local roads, streets, and bridges. The section also provides that the balance, if any, of the revenue from motor fuel taxes and vehicle registration taxes, after the payment of necessary collection expenses, shall be used exclusively for comprehensive transportation purposes as defined by law.

The constitutional language cited above effectively sets a funding floor for state and local road programs of not less than 90% of motor fuel tax and vehicle registration tax revenue. There is no such funding floor for public transportation programs. The constitution effectively creates a funding ceiling for public transportation programs of not more than 10% of motor fuel tax and vehicle registration tax revenue. As a result, the revenue from motor fuel taxes and vehicle registration taxes is constitutionally restricted for transportation, but the designation of part of those taxes for public transportation purposes is a statutory restriction only, as provided in Act 51.

NOTE D: CONSTITUTIONAL PROVISIONS AFFECTING THE AUTO-RELATED SALES TAX EARMARK

In addition to restricting the use of motor fuel taxes and vehicle registration taxes, section 9 of Article IX of the state constitution provides for not more than 25% of auto-related sales taxes, after payment of necessary collection expenses, to be used for comprehensive transportation purposes. Again, this constitutional language creates an upper limit to the CTF portion of auto-related sales tax; there is no constitutional minimum. The current earmark of auto-related sales tax in the General Sales Tax Act is well below the 25% constitutional limit.

In November, 2005, the Michigan Supreme Court published an opinion for a case on appeal, County Road Association of Michigan v Governor of Michigan. Among other things, the case dealt with the constitution provisions related to the dedication of sales tax to the CTF. The opinion summary is as follows:

This case involves the authority of the Governor, exercised in Executive Order No. 2001-9, to reduce the Legislature's allocation of general sales taxes to the Comprehensive Transportation Fund (CTF) by \$12,750,000 for the fiscal year ending September 30, 2002, and to transfer those revenues to the state's general fund. Appellants claim that the general sales tax revenues allocated to the CTF are "constitutionally dedicated" funds within the meaning of Const. 1963, art. 9, § 9, and therefore immune to the Governor's power to balance the budget, Const. 1963, art. 5, § 20.

The Court of Appeals concluded that art. 9, § 9, which it found to be ambiguous, does not dedicate any portion of the general sales tax revenues for comprehensive transportation purposes. 260 Mich. App. 299, 677 N.W.2d 340 (2004). We agree with the Court of Appeals that the revenues at issue are not constitutionally dedicated and that the Governor had the authority to reduce the Legislature's allocation of general sales tax revenues to the CTF in EO 2001-9. We disagree, however, that art. 9, § 9 is ambiguous. In affirming the Court of Appeals, we rely on the plain meaning of the constitutional provision.

<https://case-law.vlex.com/vid/county-road-ass-n-886851452>

NOTE E: AUTO-RELATED SALES TAX EARMARK TO THE CTF

As noted above, the “auto-related sales tax” is an earmark made in section 25 of the General Sales Tax Act that 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 of motor fuels, motor vehicles, and automotive parts and accessories be deposited each year into the CTF. Note that there is not a separate sales tax on motor fuels or auto-related sales. Sales of motor fuels, motor vehicles, and automotive parts are simply part of the base of sales transactions subject to the general Michigan sales tax. The Michigan Department of Treasury does not track sales tax revenue by product. In order to estimate sales tax attributable to the sales of motor fuels and other auto-related items, the Department of Treasury identifies sales tax collection by type of business using North American Industry Classification System (NAICS) codes, a standard national system of classifying types of business.¹⁰ As a result, in calculating the auto-related sales tax, the Department of Treasury uses sales tax revenue as reported by auto dealers, auto parts suppliers, and service stations. The estimate does not include auto-related sales made at general retail stores (such as Walmart, Costco, Meijer, etc.) that also sell auto-related products. At the same time, the Department of Treasury’s calculation would include sales made at service stations and auto parts stores that were not auto-related.

It should also be noted that the auto-related sales tax earmark only applies to the sales tax, including the sales tax attributable to the sales of automobiles. This CTF earmark does not apply to vehicle sales financed through lease agreements. Leases are subject to use tax, which is not included in the auto-related sales tax earmark.

Because the earmark of auto-related sales tax to the CTF is a statutory earmark only, and not a constitutional earmark, the legislature can redirect some or all of it for other purposes. Between FY 2003-04 and FY 2007-08, a total of \$57.8 million in auto-related sales tax earmark was redirected from the CTF to the state general fund in response to state general fund budget shortfalls.

A portion of auto-related sales tax was also redirected from the CTF to other purposes as part of the FY 2020-21 budget agreement. Specifically, the amount of auto-related sales tax credited to the CTF was reduced by \$18.0 million for the 2020-21 fiscal year only, and \$18.0 million was redirected to the Transportation Administration Collection Fund (TACF), a state restricted fund created in section 810b of the Michigan Vehicle Code dedicated primarily to payment of expenses incurred by the Department of State in the administration and enforcement of the vehicle registration sections of the Michigan Vehicle Code. The change in the distribution of auto-related sales tax was made in Senate Bill 256, enacted as 2021 PA 38.

¹⁰ <https://www.census.gov/naics/>

APPENDIX 3a

List of Eligible Local Transit Agencies and Form of Organization

Agency	Public Act (See Description Below)
Alger Transit Authority (ALTRAN)	Public Transportation Authority Act
Allegan County	Revenue Bond Act
Alma	Home Rule City Act
Ann Arbor Transportation Authority #	Mass Transportation System Authorities Act
Antrim County	Revenue Bond Act
Arenac Public Transit Authority	Public Transportation Authority Act
Barry County	Revenue Bond Act
Battle Creek	Home Rule City Act
Bay Area Transportation Authority (BATA) (Grand Traverse, Leelanau Counties)	Public Transportation Authority Act
Bay Metropolitan Transportation Authority (Bay County)	Public Transportation Authority Act
Beaver Island Transportation Authority (<i>ferry service only</i>)	Public Transportation Authority Act
Belding	Home Rule City Act
Benzie Transportation Authority	Public Transportation Authority Act
Berrien County	Revenue Bond Act
Big Rapids	Home Rule City Act
Blue Water Area Transportation (Port Huron)	Urban Cooperation Act
Branch Area Transit Authority	Public Transportation Authority Act
Buchanan	Home Rule City Act
Cadillac/Wexford Transit Authority	Urban Cooperation Act
Capital Area Transportation Authority (Lansing)	Mass Transportation System Authorities Act
Caro Transit Authority	Public Transportation Authority Act
Cass County Transportation Authority	Public Transportation Authority Act
Charlevoix County	Revenue Bond Act
Charlevoix County – Ironton Ferry (<i>ferry service only</i>)	Urban Cooperation Act
Cheboygan County	Revenue Bond Act
Clare County	Revenue Bond Act
Clinton Area Transit System	Public Transportation Authority Act
Crawford County Transportation Authority	Public Transportation Authority Act
Delta Area Transit Authority	Public Transportation Authority Act
Detroit Department of Transportation (DDOT) #	Home Rule City Act
Detroit Transportation Corporation (People Mover) #	Urban Cooperation Act
Dowagiac	Home Rule City Act
Eastern Upper Peninsula Transportation Authority (Chippewa County) (<i>both bus transit and ferry service</i>)	Urban Cooperation Act
Eaton County Transportation Authority	Urban Cooperation Act
Mass Transportation Authority (Flint)	Mass Transportation System Authorities Act
Gladwin County	Revenue Bond Act
Gogebic County Transit	Public Transportation Authority Act
Greater Lapeer Transportation Authority	Public Transportation Authority Act
Greenville	Home Rule City Act
Hancock	Home Rule City Act
Harbor Transit (Grand Haven)	Public Transportation Authority Act
Hillsdale (City)	Home Rule City Act
Houghton (City)	Home Rule City Act
Huron County	Revenue Bond Act
Interurban Transit Authority (Saugatuck)	Public Transportation Authority Act
Interurban Transit Partnership (Grand Rapids)	Public Transportation Authority Act
Ionia (City)	Home Rule City Act
Iosco County	Revenue Bond Act
Isabella County Transportation Commission	Urban Cooperation Act

<u>Agency</u>	<u>Public Act (See Description Below)</u>
Jackson Transportation Authority (City of Jackson)	Public Transportation Authority Act
Kalamazoo – Central County Transportation Authority	Public Transportation Authority Act
Kalkaska Public Transit Authority	Public Transportation Authority Act
Lenawee Public Transit Authority	Public Transportation Authority Act
Livingston County	Revenue Bond Act
Ludington Mass Transportation Authority	Public Transportation Authority Act
Macatawa Area Express Transportation Authority (Holland)	Public Transportation Authority Act
Mackinac Island (City of) (<i>ferry service only</i>)	Home Rule City Act
Manistee County	Revenue Bond Act
Marquette County Transit Authority	Urban Cooperation Act
Marshall	Home Rule City Act
Mecosta Osceola Transit Authority	Public Transportation Authority Act
Midland (City)	Home Rule City Act
Midland County	Revenue Bond Act
Muskegon County	Revenue Bond Act
Niles	Home Rule City Act
Ogemaw County	Revenue Bond Act
Ontonagon County	Revenue Bond Act
Otsego County	Revenue Bond Act
Roscommon County Transportation Authority	Public Transportation Authority Act
St. Joseph County Transit Authority	Public Transportation Authority Act
Saginaw Transit Authority Regional Services	Public Transportation Authority Act
Sanilac County	Revenue Bond Act
Sault Ste. Marie	Home Rule City Act
Schoolcraft County Transit Authority	Public Transportation Authority Act
Shiawassee Area Transportation Agency	Urban Cooperation Act
Suburban Mobility Authority for Regional Transportation (SMART) # (Wayne, Oakland, Macomb, Monroe Counties)	Metropolitan Transportation Authorities Act
Thunder Bay Transportation Authority (Alcona, Alpena, Montmorency Counties)	Public Transportation Authority Act
Twin Cities Area Transportation Authority (Benton Harbor)	Mass Transportation System Authorities Act
Van Buren County	Revenue Bond Act
Yates Township Transportation Authority	Public Transportation Authority Act

List provided June 2023 by the Michigan Department of Transportation, Office of Passenger Transportation

There are 80 transit agencies eligible to receive state operating and capital assistance under Act 51: 76 agencies that provide bus transit service only; three agencies that provide ferry service only; and one agency, EUPTA, that provides both bus transit and ferry service.

Four agencies, the Ann Arbor Area Transportation Authority, the Detroit Department of Transportation, the Detroit Transportation Corporation, and the Suburban Mobility Authority for Regional Transportation, are independent systems with different forms of organization. They receive planning support and funding through the Regional Transit Authority, created under the Regional Transit Authority Act, 2012 PA 387. The Regional Transit Authority became the designated recipient for state and federal grants for the region effective October 1, 2013. <https://rtamichigan.org>

APPENDIX 3b

Public Acts Governing Michigan Public Transit Agencies

Home Rule City Act, 1909 PA 279

Authorizes city transit systems.

Revenue Bond Act, 1933 PA 94

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

Mass Transportation System Authorities Act, 1963 PA 55

Authorizes public transportation authorities in cities with a population of less than 300,000.

Metropolitan Transportation Authorities Act, 1967 PA 204

Authorizes regional transportation authorities formed by two or more counties in metropolitan areas; SMART is established under the act.

Urban Cooperation Act, 1967 (Ex Sess) PA 7

Authorizes authorities organized under interlocal agreements.

Public Transportation Authority Act, 1986 PA 196

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

Regional Transit Authority Act, 2012 PA 387

Establishes a Regional Transit Authority for Wayne, Oakland, Macomb, and Washtenaw Counties, effective December 19, 2012.