

MEMORANDUM



DATE: April 27, 2006
TO: Interested Parties
FROM: William E. Hamilton
RE: Comprehensive Transportation Fund Revenue Issues

CTF 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

Appropriations from the CTF are made in the annual state transportation budget. Appropriations support a number of public transportation programs in accordance with the provisions 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 administration of the Michigan Department of Transportation's Bureau of Multi-modal Transportation Services.² However, the largest share of CTF revenue is appropriated for capital and operating assistance to the state's 79 public transit agencies.³ A breakdown of the CTF-funded line items is shown in Exhibit A at the end of this memo.

There are two primary sources of CTF revenue. Approximately two-thirds of total CTF revenue comes from a transfer from the Michigan Transportation Fund (MTF). The MTF transfer to the CTF will total an estimated \$172.3 million in the current fiscal year (FY 2005-06).⁴ The other major source of CTF revenue is an earmark of part of the sales tax levied on motor fuels, motor vehicles, and motor vehicle-related products. This earmark is commonly described as the "auto-related sales tax." For the current fiscal year, the auto-related sales tax earmark is estimated to total \$65.9 million. 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 (January 2006), CTF revenue will total \$239.5 million in the current fiscal year.

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.

² In addition to appropriations in state transportation budgets, CTF revenue has also been used as a fund source in recent Capital Outlay budgets. The CTF provided funding for expansion of the Detroit/Wayne County Metro Airport (Midfield Terminal) in Capital Outlay appropriations from FY 1995-96 through FY 2002-03. These appropriations included \$9.6 million in direct CTF support, and \$15.7 million in CTF-supported bond proceeds. In addition, the FY 2003-04 Capital Outlay bill, HB 4386 (PA 193 of 2003), included \$130,000 in CTF funding for repairs to the British Island dock on Mackinac Island.

³ Local bus operating assistance represents approximately two-thirds of CTF-funded appropriations.

⁴ As provided in Section 10(1) (f) of Act 51, the CTF receives 10% of net MTF revenue after other statutory deductions and distributions from the MTF (to other transportation funds and programs). As a result, the CTF's share of gross MTF revenue is approximately 8%. Advocates for public transportation programs have argued that Act 51 should be amended so that the CTF receives "the full 10%" of MTF revenue, i.e. to require that the 10% MTF transfer be made prior to other statutory deductions from the MTF. This would result in an increase in CTF revenue of approximately \$30.0 million per year, with a corresponding decrease in revenue for state and local highway programs.

FY 2005-06 CTF Revenue Estimate (1/12/06)

MTF Transfer.....	\$172,252,500
Auto-Related Sales Tax.....	65,900,000
Interest & Misc.....	<u>1,356,000</u>
* CTF Total.....	\$239,508,500

Pressure on CTF Revenue

Like most state revenue in the transportation budget, CTF revenue is restricted. Restricted revenue, unlike state General Fund revenue, can only be used for specific purposes pursuant to the state constitution or statute. However, the restrictions on CTF revenue are somewhat different than the restrictions on other state-restricted revenue in the state transportation budget. These differences have made it easier to redirect CTF revenue from public transportation programs to highway programs, and to use CTF revenue to offset General Fund revenue in other budgets.

MTF revenue transfer – As noted above, the largest source of CTF revenue is a transfer from the MTF. The MTF is the main receiving and distribution fund for approximately \$2.0 billion in state-restricted transportation revenue. The two main sources of MTF revenue, motor fuel excise taxes and vehicle registrations taxes, are *constitutionally* restricted for transportation. Article IX, Section 9 of the 1963 Michigan 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.⁵

The constitutional language cited above effectively sets a funding floor for state and local highway and street 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 a part of those taxes for public transportation purposes (in the CTF) is a *statutory* restriction only, as provided in Act 51.

On two recent occasions the Legislature has redirected revenue from the CTF to highway programs. In the FY 1997-98 state transportation appropriations act (SB 174, enacted as PA 117 of 1997), \$25 million was appropriated from the CTF fund balance for distribution to the State Trunkline Fund (STF), county road commissions, and cities and villages for road and bridge programs through the Act 51 distribution formula. In 2003, the Legislature amended Act 51 (SB 539, enacted as PA 151 of 2003) to make a one-time (FY 2003-04) redirection of \$10.0 million from the CTF's share of MTF revenue. The \$10.0 million was redirected from the CTF to the STF "*for capacity improvements to state trunk line highways.*"

⁵ The provisions of Article IX, Section 9 of the 1963 Constitution as first ratified are substantially the same as those of Article X, Section 22 of the 1908 Michigan Constitution which also provided for earmarking of fuel taxes and registration taxes for highway purposes. At the November 7, 1978 general election, Michigan voters ratified House Joint Resolution F which amended Article IX, Section 9 to substitute "transportation purposes" for "highway purposes" in the first paragraph, and to add the second, third, and fourth paragraphs to the section to set a 90% floor for road and bridge funding, to address the use of revenue for comprehensive transportation purposes, and to authorize the issuance of debt secured by state-restricted transportation revenue.

Auto-related sales tax – In addition to restricting the use of motor fuel taxes and vehicle registration taxes, Article IX, Section 9 of the Constitution provides that *not more than 25 percent* of auto-related sales taxes, after payment of necessary collection expenses, shall be used for comprehensive transportation purposes. Again, this constitutional language creates a ceiling for the CTF's 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 ceiling.

Prior to October 1, 2003, the General Sales Tax Act had earmarked 27.9% of 25% of the auto-related sales tax collected at 4% to the CTF. In 2003, the Legislature amended the General Sales Tax Act to reduce the CTF percentage share for two fiscal years only, FYs 2003-04 and 2004-05. Public Act 139 of 2003 (SB 399) reduced the CTF's share of auto-related sales tax to 24% of 25% of the sales tax collected at 4%. This change effectively reduced CTF revenue by \$10.6 million and \$10.9 million in FYs 2003-04 and 2004-05, respectively.

In 2004, the Legislature again amended the General Sales Tax Act (SB 1104, enacted as PA 544 of 2004) to redirect an additional \$10.0 million from the CTF in FY 2004-05. The amendments to the General Sales Tax Act noted above were made in response to the state's General Fund budget problems. These amendments effectively redirected revenue from the CTF to the state General Fund.⁶

The reduction in the CTF's share of auto-related sales tax made in PA 139 of 2003 was for a two-year period only: FYs 2003-04 and 2004-05. However, the Governor's FY 2005-06 budget proposal recommended extending the percentage reduction through FY 2005-06. The Legislature subsequently passed and the Governor signed a bill, SB 839 enacted as Public Act 69 of 2006, which allowed the CTF share of auto-related sales tax to revert to the prior rate, but which redirected a flat \$11.1 million to the state General Fund. The Governor's FY 2006-07 budget proposals do not include redirection of auto-related sales tax to the state General Fund.

See Exhibit A below for a six-year history of CTF revenue, including statutory changes affecting the CTF.

See Exhibit B below for a six-year history of history of CTF expenditures and appropriation line items.

Summary

There is no state General Fund revenue appropriated in the state transportation budget. Most of the state revenue in the transportation budget is constitutionally restricted for transportation and can not be used to offset shortfalls in the state General Fund. However, the specific restrictions on the use of the CTF revenue for public transportation purposes are statutory only, not constitutional. CTF revenue derived from the auto-related sales tax can be redirected to the state General Fund through amendment of the Sales Tax Act, or, under certain circumstances, through Executive Order. In addition, Act 51 can be amended to direct less MTF revenue to the CTF and more to highway programs.

There may be continuing pressure to redirect CTF revenue to other purposes as public transportation competes with other priorities in the transportation budget and with General Fund programs in other budgets.

For a discussion of the impacts of CTF revenue reductions on public transportation programs, see our companion memo, "[State Support for Local Public Transit](#)."

⁶ In addition to the amendments to the General Sales Tax Act noted above, Executive Order 2001-9 redirected \$12,750,000 of auto-related sales tax from the CTF to the state General Fund to offset reductions in General Fund revenue.

Exhibit A

Comprehensive Transportation Fund Appropriations FY 2001-02 through FY 2006-07



Line Item	FY 2001-02 <i>Actual Expended</i>	FY 2002-03 <i>Actual Expended</i>	FY 2003-04 <i>Actual Expended</i>	FY 2004-05 <i>Actual Expended</i>	FY 2005-06 <i>Enacted</i>	FY 2006-07 <i>Exec. Rec.</i>
<i>Debt Service/Planning/Administration</i>						
Debt Service	21,351,221	24,491,900	28,491,984	26,268,674	28,843,600	28,807,800
IDGs	295,156	303,473	294,977	295,915	334,100	341,800
Administrative Services	2,349,904	1,599,000	1,382,900	1,336,200	1,161,200	1,354,700
Info Technology/MAIN Support	91,100	224,118	186,137	105,621	230,800	234,300
Planning	1,033,291	773,406	536,905	531,798	1,260,300	1,060,300
UPTRAN/Multi-Modal (administration)	6,480,333	6,673,461	4,772,742	5,039,859	4,969,500	5,707,100
subtotal	31,601,005	34,065,358	35,665,645	33,578,067	36,799,500	37,506,000
<i>Statutory Operating</i>						
Local Bus Operating	159,500,000	160,000,000	161,680,000	161,680,000	163,276,100	166,624,000
<i>Intercity Passenger & Freight</i>						
Freight property management	1,774,000	1,500,000	1,370,411	997,664	1,000,000	1,000,000
Detroit/Wayne County port authority	468,500	500,000	500,000	500,000	500,000	500,000
Intercity bus equipment	1,200,000	1,997,824	2,000,000	1,264,778	800,000	1,800,000
Rail passenger service	6,922,000	8,300,000	8,299,930	7,200,000	7,200,000	7,200,000
Freight preservation and development	7,668,800	3,592,900	3,505,438	1,621,738	1,392,900	3,092,900
Rail infrastructure loan program	0	100,000	100,000	100,000	100,000	1,100,000
Intercity bus service development	1,200,000	1,300,000	1,176,099	787,137	1,300,000	1,300,000
Marine passenger service	299,481	800,000	765,000	458,833	400,000	400,000
Terminal development	1,428,300	2,884,398	2,782,170	76,416	1,551,300	1,751,300
subtotal	20,961,081	20,975,122	20,499,048	13,006,566	14,244,200	18,144,200
<i>Public Transportation Development</i>						
Specialized services	3,939,500	3,937,931	3,906,707	3,554,610	3,600,100	4,100,100
Municipal credit program	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Bus capital	15,081,900	14,399,499	13,570,993	7,228,362	16,352,200	27,226,500
Ride sharing	325,744	330,700	330,700	0	0	0
Van pooling	195,000	195,000	168,600	195,000	195,000	195,000
Bus property management	24,534	3,722	11,323	0	0	0
Service development and new technology	166,825	158,241	121,705	50,000	0	350,000
Planning grants	53,160	80,000	76,000	74,731	0	0
Audit settlements	16,688	5,542	50,000	0	0	0
Regional service coordination	100,000	500,000	99,486	0	0	0
Work first initiative/Transportation to work	3,391,369	4,919,526	4,547,835	3,241,053	3,300,000	4,844,000
subtotal	25,294,720	26,530,161	24,883,349	16,343,756	25,447,300	38,715,600
Total Expended/Appropriation	\$ 237,356,806	\$ 241,570,641	\$ 242,728,042	\$ 224,608,389	\$ 239,767,100	\$ 260,989,800

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

Exhibit B

**Comprehensive Transportation Fund
FY 2001-02 – 2006-07**



*This table shows actual CTF revenue for FYs 2001-02 through 2004-05, and estimated revenue for FYs 2005-06 and 2006-07.
FY 2001-02 to 2005-06 appropriations are based on actual YTD authorizations.
FY 2006-07 based on Executive recommendation.*

	FY 2001-02 Actual	FY 2002-03 Actual	FY 2003-04 Actual	FY 2004-05 Actual	FY 2005-06 ORTA 01/12/06	FY 2006-07 ORTA 01/12/06
<i>MTF transfer</i>	\$159,772,355	\$163,744,307	\$176,168,538	\$167,262,007	\$172,252,000	\$176,781,600
Less: CTF to STF (SB 539) ¹			<i>(10,000,000)</i>			
MTF Subtotal	\$159,772,355	\$163,744,307	\$166,168,538	\$167,262,007	\$172,252,000	\$176,781,600
<i>Auto-Related Sales Tax</i>	\$78,819,126	\$79,440,334	\$75,515,900	\$77,799,052	\$77,000,000	\$79,000,000
less: EO 2001-9 ²	<i>(\$12,250,000)</i>					
SB 399 ³			<i>(10,556,000)</i>	<i>(10,875,136)</i>		
less: SB 1103 ⁴				<i>(10,000,000)</i>		
less: SB 839 ⁵					<i>(11,100,000)</i>	
Sales Tax Subtotal	\$66,569,126	\$79,440,334	\$64,959,900	\$56,923,916	\$65,900,000	\$79,000,000
<i>Interest</i>	726,800	326,600	97,844	(18,555)	136,000	100,000
<i>Misc</i>	323,233	2,796,712	4,424,986	5,266,894	1,220,000	1,220,000
Total CTF Revenue	\$227,391,514	\$246,307,953	\$235,651,268	\$229,434,262	\$239,508,000	\$257,101,600
Revenue difference from prior year		\$18,916,439	(\$10,656,685)	(\$6,217,006)	\$10,073,738	\$17,593,600
Unreserved CTF Fund Balance at 9/30/XX	\$98,000	\$5,507,000	\$133,000	\$3,964,000		

Notes:

1. SB 539 reduced CTF share of MTF distribution by one-time \$10.0 million and redirected to State Trunkline Fund.
2. Executive Order 2001-9 redirected \$12.25 million from CTF to GF/GP.
3. SB 399 reduced CTF share of auto-related sales tax from 27.9% of 1% (25% of tax at 4%) to 24.0% of 1% for two years.
4. SB 1103 redirected \$10.0 million from CTF to GF/GP.
5. SB 839 redirected \$11.1 million from CTF to GF/GP.

The reductions in CTF share of auto-related sales tax were redirected to state GF/GP.