Chapter 11
Financial Analysis & Constraints

The fiscal year (FY) 2023-2026 Transportation Improvement Program (TIP) is a four-year scheduling document containing the projects that are planned to be obligated to implement the surface transportation policies contained in the 2050 Long Range Transportation Plan. The TIP project list is required to be *fiscally constrained*; that is, the cost of projects programmed in the FY 2023-2026 TIP cannot exceed the amount of funding *reasonably expected to be available* for surface transportation projects during the time period covered by the FY 2023-2026 TIP. This financial plan is the section of the TIP documenting the methods used to calculate funds reasonably expected to be available and compares this amount to proposed projects to demonstrate that the TIP is fiscally constrained. The financial plan also estimates the cost of operating and maintaining the transportation system in the Jackson MPO during the four-year period covered by the TIP.

Sources of Transportation Funding

The basic sources of transportation funding in Michigan are motor fuel taxes and vehicle registration fees. Motor fuel is taxed at both the federal and state levels, the federal government at 18.4¢ per gallon on gasoline and 24.4¢ per gallon on diesel fuel, and the State of Michigan at 26.3¢ per gallon on both gasoline and diesel fuel. Michigan also charges sales tax on motor fuel, but this funding is not applied to transportation. These motor fuel taxes are levied on a per-gallon basis. The amount collected per gallon does not increase when the price of gasoline or diesel fuel increases. Over time, inflation erodes the purchasing power of any excise tax, unless the tax adjusted to compensate for inflation.

The State of Michigan also collects annual vehicle registration fees when motorists purchase license plates or tabs. This is a crucial source of transportation funding for the state. Currently, slightly less than one-half of the transportation funding collected by the state is in the form of vehicle registration fees.

Cooperative Revenue Estimation Process

Estimating the amount of funding available for the FY 2023-2026 TIP is a complex process. It relies on a number of factors, including economic conditions, miles travelled by vehicles nationwide and in the State of Michigan, and federal and state transportation funding received in previous years. Revenue forecasting relies on a combination of data and experience and represents a “best guess” of future trends.

The revenue forecasting process is a cooperative effort. The Michigan Transportation Planning Association (MTPA), a voluntary association of metropolitan planning organizations (MPOs) and agencies responsible for the administration of federally-funded highway and transit planning activities throughout the state, formed the Financial Work Group (FWG) to develop a statewide standard forecasting process. FWG is comprised of members from the Federal Highway Administration (FHWA), Federal Transit

Administration (FTA), the Michigan Department of Transportation (MDOT), transit agencies, and MPOs, including JACTS. It represents a cross-section of the public agencies responsible for transportation planning in our state. The revenue assumptions in this financial plan are based on the factors formulated by the FWG and approved by the MTPA. They are used for all TIP financial plans in the state.

Federal-aid surface transportation is divided into two parts: Highway funding, which is administered by the Federal Highway Administration (FHWA) and transit funding, administered by the Federal Transit Administration (FTA).The following sections discuss each separately.

Highway Funding

Sources of Federal Highway Funding

Receipts from federal motor fuel taxes (plus some other taxes related to trucks) are deposited in the federal Highway Trust Fund (HTF). Funding is then apportioned to the states. Apportionment is the distribution of funds through formulas in law. The current law governing these apportionments is the Infrastructure Investment and Jobs Act (IIJA), sometimes also referred to as the Bipartisan Infrastructure Law (BIL). Through this law, Michigan receives approximately $1.4 billion in federal-aid highway funding annually. This funding is apportioned in the form of a number of programs designed to accomplish different objectives, such as road repair, bridge repair, safety, and congestion mitigation. A brief description of the major funding sources follows.

Surface Transportation Block Grant Program (STBG): Funds construction, reconstruction, rehabilitation, resurfacing, restoration, preservation, and/or operational improvements to federal-aid highways and replacement, preservation, and other improvements to bridges on public roads. Michigan's STBG apportionment from the federal government is split, with slightly more than half allocated to areas of the state based on population and half that can be used throughout the state. A portion of STBG funding is reserved for rural areas. STBG can also be flexed (transferred) to transit projects.

Highway Safety Improvement Program (HSIP): Funds to correct or improve a hazardous road location or feature or address other highway safety problems. Projects can include intersection improvements, shoulder widening, rumble strips, improving safety for pedestrians, bicyclists, or disabled persons, highway signs and markings, guardrails, and other activities. The State of Michigan retains all Safety funding and uses a portion on the state trunk line system, distributing the remainder to local agencies through a competitive process.

Congestion Mitigation and Air Quality Improvement (CMAQ): Intended to reduce emissions from transportation-related sources. There is currently an emphasis on certain projects that reduce particulate matter (PM), but funds can also be used for traffic signal retiming, actuations, and interconnects; installing dedicated turn lanes; roundabouts; travel demand management (TDM) such a ride share and vanpools; transit; and non-motorized projects that divert non-recreational travel from single-occupant vehicles. The Jackson MPO area does not qualify for this measure because the population is less than the 200,000 threshold.

Transportation Alternatives Program (TAP): Funds can be used for a number of activities to improve the transportation system environment, such as non-motorized projects, preservation of historic transportation facilities, outdoor advertising control, vegetation management in rights-of-way, and the planning and construction of projects that improve the ability of students to walk or bike to school. Funds are split between the state and various urbanized areas based on population.

Carbon Reduction Program (***CRP):*** New funding source established in IIJA. These funds encompass various eligible activities aimed at reducing transportation emissions defined as carbon dioxide (CO2) emissions from on-road highway sources. Funds may also be used to promote sustainable transportation practices. Funds are split between the state and various urbanized areas based on population.

Base and Assumptions Used in Forecast Calculations of Federal Highway Funds

At least every two years, allocations are calculated for each of these programs, based on federal apportionments and *rescissions* (nationwide downward adjustments of highway funding from what was originally authorized) and state law. Targets can vary from year to year due to factors including actual vs. estimated receipts of the Highway Trust Fund, authorization (the annual transportation funding spending ceiling), and the appropriation (how much money is actually approved to be spent). Allocations for FY 2024, as released by MDOT on June 22, are used as the baseline for this FY 2023-2026 TIP financial forecast. The Financial Work Group of the MTPA developed an assumption, for planning purposes, that the amount of federal-aid highway funds received will increase by 2% each year during the FY 2023-2026 TIP period.

Sources of Highway Funding Generated at the State Level

There are two main sources of state highway funding, the state motor fuel tax and vehicle registration fees.

The state law governing the collection and distribution of state highway revenue is Public Act 51 of 1951, commonly known simply as *Act 51*. All revenue from the motor fuel tax and vehicle registration fees is deposited into the Michigan Transportation Fund (MTF). Act 51 contains a number of complex formulas for the distribution of the funding, but essentially, once funding for certain grants and administrative costs are removed, approximately ten percent of the remainder is deposited in the Comprehensive Transportation Fund (CTF) for transit. The remaining funds are then split between the Michigan Department of Transportation (MDOT), county road commissions, and municipalities (incorporated cities and villages) in a proportion of 39.1 percent, 39.1 percent, and 21.8 percent, respectively.

Several years ago, major changes to the State of Michigan's surface transportation revenue collection were enacted. These changes included:

1) Increasing the motor fuel tax to 26.3¢/gallon from 19¢/gallon (gasoline) and 15¢/gallon (diesel), effective January 1, 2017
2) Raising vehicle registration fees by an average of 20%, effective January 1, 2017
3) Transferring $150 million from the state's General Fund to highways in fiscal year (FY) 2019

4) Transferring $325 million from the state's General Fund to highways in FY 2020
5) Transferring $600 million from the state's General Fund to highways in FY 2021 and subsequent years
6) Adjusting the motor fuel tax for inflation by up to 5% each year, starting in January 2022

When these changes took full effect in the 2020-21 state fiscal year, MTF revenues were anticipated to increase to over $4 billion annually. The financial impact of COVID-19 shutdowns resulted in less than expected collections. MDOT is yet to recognize significant gains from the enacted legislation. Cash receipts in the 2020-21 state fiscal year totaled $3.412 billion. Cash receipts in the 2021-22 state fiscal year totaled $3,537 billion.

MTF funds are critical to the operation of the road system in Michigan. Since federal funds cannot be used to operate or maintain the road system (items such as snow removal, mowing grass in the rights-of-way, paying the electric bill for streetlights and traffic signals, etc.), MTF funds are local community and county road agencies' main source for funding these items. Most federal transportation funding must be matched so that each project's cost is a maximum of approximately 80% federal-aid funding and a minimum of 20% non-federal matching funds. In Michigan, most match funding comes from the MTF. Finally, federal funding cannot be used on local public roads, such as subdivision streets, or other roads not designated as federal-aid eligible. Here again, MTF is the main source of revenue for maintenance and repair of these roads.

Funding from the MTF is distributed statewide to incorporated cities, incorporated villages, and county road commissions, collectively known as **Act 51 agencies**. The formula is based on population and public road mileage under each Act 51 agency's jurisdiction.

Base and Assumptions Used in Forecast Calculations of State-Generated Highway Funds

State-generated funding for highways (i.e. MTF funding) only needs to be shown in the TIP if it is in a project that also contains federal-aid funding, or is non-federally funded but of regional significance. Therefore, most state-generated funding for highways that is distributed to MDOT and to the counties, cities, and villages of the state through the Act 51 formulas is not shown in the TIP. The total amount of MTF funding available each year can be projected. As long as the amount of MTF funding for highways shown in the TIP does not exceed the total projected MTF funding available, it is assumed that state-generated funding shown in the FY 2023-2026 TIP is constrained to reasonably available revenues.

State-Administered Programs that Use both Federal-Aid and State Funding

Michigan has two programs that use both state funding and federal funding. These programs are Transportation Economic Development Fund (TEDF) Category C and TEDF Category D. The state money in these programs is separate from the state MTF money that is distributed to the cities, villages, and county road commissions each year. These funds are distributed to urban and rural counties as defined in Act 51. In the JACTS area, the distribution of each funding source is:

- TEDF Category C: Congestion mitigation in designated urban counties. There are no designated urban counties in the JACTS area.
- TEDF Category D: All-season road network in rural counties. In the JACTS area, this is Jackson County.

Four additional TEDF categories (A, B, E, and F) are 100% state-funded programs that are competitively awarded by the state. Projects using these funds do not have to be in the TIP unless they are being supplemented with federal-aid highway funding by the awardee, or the project is considered regionally significant.

Local Bridge is another important program with both federal and state funding components. It is funded through a portion of the state motor fuel tax. It is supplemented with Surface Transportation Block Grant Program (STBG) funding retained by the state. The Local Bridge program is competitive, with funds being awarded by Local Bridge Committees in each of the MDOT planning regions.

Base and Assumptions Used to Forecast Programs with Combined Federal and State Funding

Funding targets for TEDF Category C and Category D funds (both federal and state) for fiscal years 2023 through 2026 were released by MDOT on June 22. TEDF Category C and Category D projects programmed in the TIP are constrained to the targets provided, plus any carryforward of the state portion of these programs (the federally-funded portion does not carry forward).

Since the Local Bridge program is competitively-awarded, only those Local Bridge projects that have already been awarded for use in fiscal years 2023 through 2026 are shown. Therefore, Local Bridge projects are fiscally self-constrained.

Sources of Locally-Generated Highway Funding

Local highway funding can come from a variety of sources, including transportation millages, general fund revenues, and special assessment districts. Locally-funded transportation projects that are not of regional significance are not required to be included in the TIP. This makes it difficult to determine how much local funding is being spent for roads in the JACTS area. Additionally, special assessment districts and millages generally have finite lives, so an accurate figure for local transportation funding would require knowledge of all millages and special assessment districts in force during each year of the TIP period, which is difficult to achieve. It is therefore assumed that locally-generated funding shown in the FY 2023-2026 TIP is constrained to reasonably available revenues.

State Trunkline Funding

The State of Michigan maintains an extensive network of highways across the state and within the JACTS area. Each highway with an **I-**, **US-**, or **M-** designation (e.g. I-94, US-127, M-50), is part of this network, which is known as the **State Trunkline System**. The portion of the State Trunkline System in the JACTS area is comprised of over 500 lane-miles of highway, hundreds of bridges and culverts, signs, traffic signals, safety barriers, sound walls, and other capital that must be periodically repaired, replaced, reconstructed, or renovated. The agency responsible for the State Trunkline System is the Michigan

Department of Transportation (MDOT). MDOT has provided JACTS with a list of projects planned for the portion of the trunkline system within the JACTS area over the FY 2023-2026 TIP period. As a matter of standard operating procedure, it is assumed that the trunkline project list provided to JACTS (and similar lists provided to the other MPOs in the state) is constrained to reasonably available revenues.

Innovative Financing Strategies--Highway

A number of innovative financing strategies have been developed over the past two decades to help stretch limited transportation dollars. Some are purely public sector; others involve partnerships between the public and private sectors. Some of the more common strategies are discussed below.

Toll Credits: This strategy allows states to count funding they earn through tolled facilities (after deducting facility expenses) to be used as "soft match," rather than using the usual cash match for federal transportation projects. States have to demonstrate *maintenance of effort* when using toll credits—in other words, each state must show that the toll money is being used for transportation purposes and that it is not reducing its efforts to maintain the existing system by using the toll credit program. Toll credits have been an important source of funding for the State of Michigan in the past because of the four highway bridge crossings and one tunnel crossing between Michigan and Ontario. Toll credits have also helped to partially mitigate highway-funding shortfalls in Michigan, since sufficient non-federal funding has frequently been not been available in past years to match all of the federal funding apportioned to the state.

State Infrastructure Bank (SIB): Established in a majority of states, including Michigan. Under the SIB program, states can place a portion of their federal highway funding into a revolving loan fund for transportation improvements such as highway, transit, rail, and intermodal projects. Loans are available at 3% interest with a 25-year loan period to public entities such as regional planning commissions, state agencies, transit agencies, railroads, and economic development corporations. Private and nonprofit corporations developing publicly owned facilities may also apply.

Transportation Infrastructure Finance and Innovation Act (TIFIA): This nationwide program provides lines of credit and loan guarantees to state or local governments for development, construction, reconstruction, property acquisition, and carrying costs during construction. TIFIA enables states and local governments to use the borrowing power and credit of the federal government to fund finance projects at far more favorable terms than they would otherwise be able to do on their own. Repayment of TIFIA funding can be delayed for up to five years after project completion with a repayment period of up to 35 years. Interest rates are also low.

Bonding: Bonding is a form of borrowing where the borrower issues (sells) IOUs for portions of the debt it is incurring, called *bonds*, to willing purchasers of the debt. The borrower is then obligated to repay lenders (bondholders) the principal and an agreed-upon rate of interest over a specific time period. The amount of interest a bond issuer (borrower) will have to pay depends in large part upon its perceived credit risk--the greater the perceived chance of default, the higher the interest rate. In order to bond, a borrower must pledge a reliable revenue stream for repayment. For example, this can be the toll

receipts from a new transportation project. In the case of general obligation bonds, future tax receipts are pledged.

States are allowed to borrow against their federal transportation funds, within certain limitations. While bonding provides money up front for important transportation projects, it also means diminished resources in future years, as funding that could otherwise pay for future projects must instead be reserved for paying the bonds' principal and interest. Michigan's Act 51 law requires that funding for the payment of bond and other debts be taken off the top of motor fuel tax and vehicle registration receipts collected before the distribution of funds for other transportation purposes. Therefore, the advantages of completing a project more quickly need to be carefully weighed with the disadvantages of reduced resources in future years.

Advance Construct/Advance Construct Conversion: This strategy allows a community or agency to build a transportation project with its own funds (advance construct) and then be reimbursed with federal-aid funds for the federal share of the project in a future year (advance construct conversion). Tapered match can also be programmed, where the agency is reimbursed over a period of two or more years. Advance construct allows for the construction of highway projects before federal funding is available; however, the agency must be able to build the project using its own resources up front, and then be able to wait for federal reimbursement in a later year.

Public-Private Partnerships (P3): Funding available through traditional sources, such as motor fuel taxes, are not keeping pace with the growth in transportation system needs. Governments are increasingly turning to public-private partnerships (P3) to fund large transportation infrastructure projects. An example of a public-private partnership is Design/Build/Finance/Operate (DBFO). In this arrangement, the government keeps ownership of the transportation asset, but hires one or more private companies to design the facility, secure funding, construct the facility, and then operate it, usually for a set period of time. The private-sector firm is repaid most commonly through toll revenue generated by the new facility.

Operations and Maintenance of the Federal-Aid Highway System

Construction, reconstruction, repair, and rehabilitation of roads and bridges are only part of the total cost of the highway system. It must also be operated and maintained. *Operations and maintenance* includes those items necessary to keep the highway infrastructure functional for vehicle travel, other than the construction, reconstruction, repair, and rehabilitation of the infrastructure. Examples include, but are not limited to, snow and ice removal, pothole patching, rubbish removal, maintaining rights-of- way, maintaining traffic signs and signals, clearing highway storm drains, paying the electrical bills for street lights and traffic signals, and other similar activities, and the personnel and direct administrative costs necessary to implement these projects. These activities are as vital to the smooth functioning of the highway system as good pavement.

Federal-aid highway funds cannot be used for operations and maintenance. Since the TIP only includes federally-funded capital highway projects (and non-federally-funded capital highway projects of regional significance), it does not include operations and maintenance expenses. While in aggregate, operations and maintenance activities *are* regionally significant, the individual projects do not rise to that level. However, federal

regulations require an estimate of the amount of funding that will be spent operating and maintaining the federal-aid eligible highway system over the FY 2023-2026 TIP period. This section of the Financial Plan provides an estimate of the cost of operations and maintenance in the JACTS area and details the method used in the estimation.

MDOT University Region estimates that its operations and maintenance costs were approximately $21,700 per lane-mile in FY 2022. Using the FY 2022 estimate as a baseline, costs were increased 4% per year over the life of the FY 2023-2026 TIP to adjust for inflation (also known as *year of expenditure* adjustment—see **Year of Expenditure (Inflation) Adjustment for Project Costs** section below) to provide a total of $47.7 million estimated operations and maintenance costs on the state trunkline system in the JACTS area from FY 2023 through 2026.

Local Act-51 road agencies (county road commissions, incorporated cities, and incorporated villages) are responsible for operating and maintaining the roads they own, including those roads they own that are designated as part of the federal-aid system. The main source of revenue available to these agencies to operate and maintain the roads is the Michigan Transportation Fund (MTF). The estimate of available funding is based on the assumption that each lane-mile of road in the system has an approximately equal operations and maintenance cost. There are 501.97 lane miles of locally-owned road on the federal-aid network in the JACTS area. Therefore, applying the per-lane-mile cost of maintenance derived from MDOT University Region's FY 2022 estimate to the number of lane-miles of locally-owned federal-aid eligible road in the JACTS area yields an annual maintenance cost of $10.9 million in the base year of FY 2022, or a total of $47.6 million over the life of the FY 2023-2026 TIP, adjusted for year of expenditure.

Finally, adding together the trunkline and locally-owned per-lane mile costs yields a total of $16 million in the base year of FY 2022 for estimated operations and maintenance costs on the entire federal-aid system in the JACTS area, or a total of $68 million over the life of the FY 2023-2026 TIP, adjusted for year of expenditure.

Highway Commitments and Projected Available Revenue

The FY 2023-2026 TIP must be fiscally constrained; that is, the cost of projects programmed in the TIP cannot exceed revenues "reasonably expected to be available" during the relevant plan period. MDOT issued each MPO in the state, including JACTS, a local program allocations table covering the years of the FY 2023-2026 TIP. These allocations specify what is reasonably expected to be available to local agencies in the Surface Transportation Block Grant (STBG)—Urban and –Rural Program, National Highway Performance Program, Transportation Economic Development (TEDF) Category C Program (federal and state), and the TEDF Category D Program (federal and state). Projects using these funds are constrained to the amounts in the allocations table, plus any funding from the *state* portion of the TEDF Category C or Category D Programs (the federal portion of these programs does not carry forward).

Funds for projects that are competitively awarded are considered to be reasonably expected to be available only after they have been officially awarded. This includes all Safety, CMAQ, TAP, and Bridge projects. The only projects using these funds in the TIP are those that have already been awarded. Therefore, these projects are self-constrained to available revenue.

Year of Expenditure (Inflation) Adjustment for Project Costs

Federal regulations require that, before being programmed in the TIP, the cost of each project is adjusted to the expected inflation rate (known as year of expenditure, or YOE) in the year in which the project is programmed, as opposed to the cost of the project in present-day dollars, as mentioned in the section entitled **Operations and Maintenance of the Federal-Aid Highway System**, above. As with the projection of available funding, the projected rate of inflation is determined in a cooperative process between MDOT and the MTPA. All local road agencies use the same 4% annual inflation rate as MDOT to determine YOE costs. As an example, if a project costs $750,000 in the first year of the TIP, the same project is projected to cost $843,648 in the fourth year of the TIP, at a 4% YOE rate. This is done in order to provide a more realistic estimate of a project's cost at different points in time. Because of the constant pressure of inflation on all goods and services in the economy, it is preferable to build a project as close to the present day as possible; thus the attraction of bonding as a funding strategy (see the **Innovative Financing Strategies—Highway** section above). This also demonstrates the fundamental problem facing infrastructure funding—the rate of inflation (standardized at 4% for MDOT and local agencies) is higher than the expected growth in tax revenues (standardized at 2%). Transit projects have a different inflation rate that reflects the different goods and services necessary to operate transit systems, as opposed to road networks.

Demonstration of Fiscal Constraint of the FY 2023-2026 TIP—Highway Projects

This financial plan is required to show that the cost of highway projects in the FY 2023-2026 TIP does not exceed the amount reasonably expected to be available to fund those projects. This is known as *demonstration of fiscal constraint*, and is also required for transit projects (see below). Table 11-1 compares the amount of funding from each of the federal, state, and local highway funding sources programmed in TIP highway projects to the amount of each highway funding source reasonably expected to be available in each year of the FY 2023-2026 TIP period. Table 11-1 demonstrates that the FY 2023-2026 TIP is fiscally constrained for highway—the amount programmed using each highway funding source does not exceed the amount reasonably expected to be available from that highway funding source in any of the four years of the TIP.

Table 11-1: Demonstration of Fiscal Constraint – Highway, FY 2023-2026 TIP

(Amounts in millions of dollars)

Funding Source	Funding Level	FY 2023	FY 2024	FY 2025	FY 2026	Total by Source
Congestion Mitigation & Air Quality Improvement Program (CMAQ), Estimated Available	Federal	$9.90	$10.10	$10.30	$10.51	$40.80
Congestion Mitigation & Air Quality Improvement Program (CMAQ), Programmed	Federal	$9.90	$10.10	$10.30	$10.51	$40.80
National Highway Performance Program (NHPP), Estimated Available	Federal	$3.50	$3.57	$3.64	$3.71	$14.43
National Highway Performance Program (NHPP), Programmed	Federal	$3.50	$3.57	$3.64	$3.71	$14.43
Surface Transportation Block Grant Program (STBG), Estimated Available	Federal	$25.62	$26.13	$26.66	$27.19	$105.60
Surface Transportation Block Grant Program (STBG), Programmed	Federal	$25.62	$26.13	$26.66	$27.19	$105.60
Transportation Alternatives Program (TAP), Estimated Available	Federal	$1.39	$1.42	$1.45	$1.48	$5.73
Transportation Alternatives Program (TAP), Programmed	Federal	$1.39	$1.42	$1.45	$1.48	$5.73
MTF and Other State Funding, Estimated Available	State	$6.10	$6.22	$6.35	$6.47	$25.14
MTF and Other State Funding, Programmed	State	$6.10	$6.22	$6.35	$6.47	$25.14
Local Funding, Estimated Available	Local	$5.22	$5.32	$5.43	$5.54	$21.51
Local Funding, Programmed	Local	$5.22	$5.32	$5.43	$5.54	$21.51
Total, All Sources, Estimated Available	N/A	**$51.73**	**$52.76**	**$53.82**	**$54.90**	**$213.21**
Total, All Sources, Programmed	N/A	**$51.73**	**$52.76**	**$53.82**	**$54.90**	**$213.21**

Transit Funding

Sources of Federally-Generated Transit Funding

Federally-generated revenue for transit comes from federal motor fuel taxes, just as it does for highway projects. Some of the federal motor fuel tax collected nationwide is deposited in the Mass Transit Account of the Highway Trust Fund (HTF). Federal-aid transit funding is similar to federal-aid highway funding in that there are several core programs where money is distributed on a formula basis and other programs that are

competitive in nature. Here are brief descriptions of some of the most common federal-aid transit programs.

Section 5307: This is the largest single source of transit funding that is apportioned to transit agencies in Michigan. Section 5307 funds can be used for capital projects (such as bus purchases and facility renovations), transit planning, and projects eligible under the former Job Access Reverse Commute (JARC) program (intended to link people without transportation to available jobs). Some of the funds can also be used for operating expenses, depending on the size of the transit agency. One percent of funds received are to be used by the agency to improve security at agency facilities. Distribution is based on formulas including population, population density, and operating characteristics related to transit service. Urbanized areas of 200,000 population or larger receive their own apportionment. Areas between 50,000 and 199,999 population are awarded funds by the governor from the governor's apportionment. In the JACTS area, the Jackson Area Transportation Authority receives Sec. 5307 funding from the state.

Section 5310, Elderly and Persons with Disabilities: Funding for projects to benefit seniors and disabled persons when service is unavailable or insufficient and transit access projects for disabled persons exceeding Americans with Disabilities Act (ADA) requirements. Section 5310 incorporates activities from the former New Freedom program. Urbanized areas in the state with populations over 200,000 receive an apportionment of Sec. 5310 funding directly from the federal government. The State of Michigan allocates funding in remaining areas of the region on a per-project basis. Since there are no urbanized areas over 200,000 population in the JACTS area, all transit agencies receiving Sec. 5310 funds do so through allocations from the State of Michigan.

Section 5311, Non-Urbanized Area Formula Grant: Funds for capital, operating, and rural transit planning activities in areas under 50,000 population. Activities under the former JARC program (see Section 5307 above) in rural areas are also eligible. The state must use 15 percent of its Section 5311 funding on intercity bus transportation. The State of Michigan operates this program on a competitive basis.

Section 5337, State of Good Repair Grants: Funding to state and local governmental authorities for capital, maintenance, and operational support projects to keep fixed guideway systems in a state of good repair. Recipients will also be required to develop and implement an asset management plan. Fifty percent of Section 5337 funding is distributed via a formula accounting for vehicle revenue miles and directional route miles; fifty percent is based on ratios of past funding received. The Detroit Transportation Corporation (People Mover) is currently the only recipient of Section 5337 funding in the State of Michigan.

Section 5339, Bus and Bus Facilities: Funds will be made available under this program to replace, rehabilitate, and purchase buses and related equipment, as well as construct bus-related facilities. Each state receives a fixed amount, with the remaining funding apportioned to transit agencies based on various population and service factors.

Flex Funding. In addition to these funding sources, transit agencies can also apply for Surface Transportation Program and Congestion Mitigation and Air Quality Improvement (CMAQ) program funds.

Base and Assumptions Used in Forecast Calculations of Federal Transit Funds

Each year, the Federal Transit Administration (FTA) issues funding apportionments for states, urbanized areas, and/or individual transit agencies, depending on the regulations for the federal-aid transit funding source in question. Transit agencies use this apportionment information to estimate the amount of federal-aid funding they will receive in a given year, under the general oversight of MDOT's Office of Passenger Transportation (OPT). Current statewide procedures are to consider the federal amounts programmed into the FY 2023-2026 TIP by each transit agency to be constrained to reasonably-expected available revenues.

Sources of State-Generated Transit Funding

The majority of state-level transit funding is derived from the same source as state highway funding, the state tax on motor fuels and vehicle registration fees. Act 51 stipulates that 10 percent of receipts into the MTF, after certain deductions, are to be deposited in a subaccount of the MTF called the Comprehensive Transportation Fund (CTF). This is similar to the Mass Transit Account of the federal Highway Trust Fund. Additionally, a portion of the state-level auto-related sales tax is deposited in the CTF. Distributions from the CTF are used by public transit agencies for matching federal grants and also for operating expenses.

Base and Assumptions Used in Forecast Calculations of State Transit Funds

MDOT OPT provides each transit agency with estimates of how much CTF funding it will receive and specifies the purpose(s) for which it can be used. For example, some distributed funds are used for local bus operating, while others are used to match federal funding, and yet other CTF funds can be used for a variety of other purposes. In keeping with the general procedures for federal transit funds, the state-generated transit funding amounts programmed into the FY 2023-2026 TIP by each agency are considered to be constrained to reasonably-expected available revenues.

Sources of Locally-Generated Transit Funding

Major sources of locally-generated funding for transit agencies include farebox revenues, general fund transfers from city governments, and transportation millages. All transit agencies in Southeast Michigan collect fares from riders. The Jackson Area Transportation Authority has a millage of 2 cents for every tax dollar collected by the City of Jackson. This millage raises $550,000 annually.

Base and Assumptions Used in Forecast Calculations of Local Transit Funds

Locally-generated transit funding amounts programmed into the FY 2020-2023 TIP by each agency are considered to be constrained to reasonably-expected available revenues.

Innovative Financing Strategies--Transit

Sources of funding for transit are not limited to the federal, state, and local sources previously discussed. As with highway funding, there are alternative sources of funding that can be utilized for transit capital and operating costs. Bonds can be issued (see discussion of bonds in the **Innovative Financing Strategies—Highway** section). The federal government also allows the use of toll credits to match federal funds. Toll credits

are earned at tolled facilities, such as the Blue Water Bridge in Port Huron. Regulations allow for the use of toll revenues (after facility operating expenses) to be used as "soft match" for transit projects. Soft match means that actual money does not have to be provided—the toll revenues are used as a "credit" against the match. This allows the actual toll funds to be used on other parts of the transportation system, thus stretching the resources available to maintain the system.

Transit Capital and Operations

Transit expenditures are divided into two basic categories, capital and operations. *Capital* refers to the physical assets of the agency, such as buses and other vehicles, stations and shelters at bus stops, office equipment and furnishings, and certain spare parts for vehicles. *Operations* refers to the activities necessary to keep the system operating, such as driver wages and maintenance costs. The majority of transit agency expenses are usually operating expenses. This was true for the previous FY 2020-2023 TIP, and is also true of the FY 2023-2026 TIP, where capital expenses are approximately 20% of total anticipated expenses during the four-year TIP period, whereas operations expenses are approximately 80% of total anticipated expenses. As with highway operations, almost all transit operating costs do not have to be in the FY 2023-2026 TIP, so the percentages in this paragraph is not reflected in the TIP project list itself.

Demonstration of Fiscal Constraint of the FY 2023-2026 TIP—Transit Projects

This financial plan is required to show that the cost of transit projects in the FY 2023-2026 TIP does not exceed the amount reasonably expected to be available to fund those projects. This is known as *demonstration of fiscal constraint*, and is also required for highway projects (see above). Table 11-2 compares the amount of funding from each of the federal, state, and local transit funding sources programmed in TIP transit projects to the amount of each transit funding source reasonably expected to be available in each year of the FY 2023-2026 TIP period. Table 11-2 demonstrates that the FY 2023-2026 TIP is fiscally constrained for transit—the amount programmed using each transit funding source does not exceed the amount reasonably expected to be available from that transit funding source in any of the four years of the TIP.

Table 11-2: Demonstration of Fiscal Constraint – Transit, FY 2023-2026 TIP

(Amounts in millions of dollars)

Funding Source	Funding Level	FY 2023	FY 2024	FY 2025	FY 2026	Total by Source
Section 5307 Urbanized Area Formula Program, Estimated Available	Federal	$12.60	$12.85	$13.11	$13.37	$51.93
Section 5307 Urbanized Area Formula Program, Programmed	Federal	$12.60	$12.85	$13.11	$13.37	$51.93
Section 5310 Enhanced Mobility of Seniors & People with Disabilities, Estimated Available	Federal	$7.71	$7.86	$8.02	$8.18	$31.78
Section 5310 Enhanced Mobility of Seniors & People with Disabilities, Programmed	Federal	$7.71	$7.86	$8.02	$8.18	$31.78
Section 5311 Formula Grants for Rural Areas, Estimated Available	Federal	$4.12	$4.20	$4.29	$4.37	$16.98
Section 5311 Formula Grants for Rural Areas, Programmed	Federal	$4.12	$4.20	$4.29	$4.37	$16.98
Section 5339 Bus and Bus Facilities, Estimated Available	Federal	$2.60	$2.65	$2.71	$2.76	$10.72
Section 5339 Bus and Bus Facilities, Programmed	Federal	$2.60	$2.65	$2.71	$2.76	$10.72
CTF and Other State Funding, Estimated Available	State	$6.10	$6.22	$6.35	$6.47	$25.14
CTF and Other State Funding, Programmed	State	$6.10	$6.22	$6.35	$6.47	$25.14
Local Funding, Estimated Available	Local	$5.22	$5.32	$5.43	$5.54	$21.51
Local Funding, Programmed	Local	$5.22	$5.32	$5.43	$5.54	$21.51
Total, All Sources, Estimated Available	N/A	**$38.35**	**$39.12**	**$39.90**	**$40.70**	**$158.06**
Total, All Sources, Programmed	N/A	**$38.35**	**$39.12**	**$39.90**	**$40.70**	**$158.06**