Chapter 14
FINANCIAL PLAN

For purposes of implementing the provisions of the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) legislation, the Federal Highway Administration (FHWA), and the Federal Transit Administration (FTA) jointly issued revised planning regulations governing the development of plan and programs for urbanized areas.[22] These regulations were designed to ensure the adequacy of metropolitan transportation planning and programming and the eligibility of metropolitan areas for federal highway and transit funds. The SAFETEA-LU Act continues most, and adds several new, requirements to those contained in the Transportation Equity Act for the 21st Century (TEA-21) for planning. One part of the SAFETEA-LU regulations requires that the Transportation Plan include a financial plan "*that demonstrates how the adopted transportation plan can be implemented*."[23] The regulations for the Financial Plan include:

- (i) For purposes of transportation system operations and maintenance, the financial plan shall contain system-level estimates of costs and revenue sources that are reasonably expected to be available to adequately operate and maintain Federal-aid highways (as defined by 23 U.S.C. 101(a)(5)) and public transportation (as defined by title 49 U.S.C. Chapter 53).

- (ii) For the purpose of developing the metropolitan transportation plan, the MPO, public transportation operator(s), and State shall cooperatively develop estimates of funds that will be available to support metropolitan transportation plan implementation, as required under Sec. 450.314(a). All necessary financial resources from public and private sources that are reasonably expected to be made available to carry out the transportation plan shall be identified.

- (iii) The financial plan shall include recommendations on any additional financing strategies to fund projects and programs included in the metropolitan transportation plan. In the case of new funding sources, strategies for ensuring their availability shall be identified.

- (iv) In developing the financial plan, the MPO shall take into account all projects and strategies proposed for funding under title 23 U.S.C., title 49 U.S.C. Chapter 53 or with other Federal funds; State assistance; local sources; and private participation. Starting December 11, 2007, revenue and cost estimates that support the metropolitan transportation plan must use an inflation rate(s) to reflect "year of expenditure dollars," based on reasonable financial principles and information, developed cooperatively by the MPO, State(s), and public transportation operator(s).

- (v) For the outer years of the metropolitan transportation plan (i.e., beyond the first 10 years), the financial plan may reflect aggregate cost ranges/cost bands, as long as the future funding source(s) is reasonably expected to be available to support the projected cost ranges/cost bands.

- (vi) For nonattainment and maintenance areas, the financial plan shall address the specific financial strategies required to ensure the implementation of TCMs in the applicable SIP.

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[22] 23 CFR Part 450 and 500, 49 CFR Part 613

[23] 23 CFR Part 450.322(f)(10)

- (vii) For illustrative purposes, the financial plan may (but is not required to) include additional projects that would be included in the adopted transportation plan if additional resources beyond those identified in the financial plan were to become available.

- (viii) In cases that the FHWA and the FTA find a metropolitan transportation plan to be fiscally constrained and a revenue source is subsequently removed or substantially reduced (i.e., by legislative or administrative actions), the FHWA and the FTA will not withdraw the original determination of fiscal constraint; however, in such cases, the FHWA and the FTA will not act on an updated or amended metropolitan transportation plan that does not reflect the changed revenue situation.

HISTORY OF TRANSPORTATION FINANCING

The development and maintenance of the transportation system is primarily financed by user fees. Local finances have become an important contributor in recent years as well. At the State level, user fees include a per gallon tax on gasoline and diesel fuel and a per vehicle registration fee based on vehicle value. The State gas tax is currently $0.19 per gallon for gasoline and $0.15 per gallon for diesel. Oregon was the first state to levy a gasoline tax in 1919 and Michigan followed suit in 1925. Since that time, all states have adopted some form of the tax. Gasoline is also taxed at the federal level at $0.184 per gallon. Diesel fuel is taxed at the federal level at $0.244 per gallon.

SOURCES OF TRANSPORTATION FUNDING

Collection and distribution of gasoline and diesel fuel taxes in Michigan is regulated under State Act 51 of 1951. Michigan's fuel tax is collected and deposited into the Michigan Transportation Fund (MTF). Federal taxes are placed in the Federal Highway Trust Fund, with the exception of $0.001 per gallon which pays for cleanup of underground storage tanks. Most states, as well as the federal government, earmark all or some portion of the tax for support of highways and mass transit improvements. MTF dollars are distributed to the Michigan Department of Transportation, county road commissions, cities, villages and public transit.

Most states have vehicle registration fees that are earmarked for highway and mass transit improvements. In Michigan, a portion of the registration fees for automobiles and trucks are also deposited in the MTF. There is no passenger vehicle registration fee at the federal level, and no local community is permitted to assess a gasoline tax.

Cities and villages may provide additional funding for transportation improvements. Typical sources at this level include:

- a community's general fund, special millages and general obligation bonds;
- contributions from county governments and other communities;
- public transportation fare box revenues,
- tax increment financing, and
- special assessment districts.

Some communities also accumulate interest on MTF revenue after it has been distributed to them.

County road commissions supplement their budgets through contributions from townships. The private sector has become involved as a source of financing as well. This usually involves developers paying for the construction of access drives or roadways leading to their development. The accounting of such development related expenditures is difficult as they are included in the overall

cost of the development. These development related costs are not addressed in this plan.

At the federal level, SAFETEA-LU extended funding programs from previous highway legislation and created new programs for system improvements. The Interstate and National Highway System programs were developed primarily for improvements to the state trunkline system. The Surface Transportation Program (STP) provides funds for the urban and rural areas. The Surface Transportation Program also includes an Enhancement Fund for different categories of projects including beautification, historic preservation, non-motorized, water quality, and wildlife projects. The Federal Transit Administration provides operating and capital funding for public transportation and programs.

There are separate programs specifically for:

- bridge replacement and rehabilitation: the Local Bridge Program (partially funded with State MTF revenues);
- Safety projects and programs;
- Rail-highway crossing programs and projects;
- Safe Routes to School programs and projects;
- Recreational Trails programs; and
- projects that relieve congestion and address air quality emissions, i.e. the Congestion Mitigation and Air Quality Improvement Program (CMAQ).

Programs that are not likely to be used in Kalamazoo County include Appalachian Development Highway System and Border Infrastructure programs.

SOURCES OF REVENUE FOR PLAN DEVELOPMENT

Federal Funding

Interstate Maintenance
National Highway System (NHS)
Surface Transportation Program (STP) including Enhancement Funds
Bridge Replacement and Rehabilitation
Congestion Mitigation & Air Quality (CMAQ) Improvement Program
Safety
Rail-Highway Crossings
Safe Routes to School
Recreational Trails
Border Infrastructure
Federal Transit Administration Operating and Capital programs
New Freedom Program
Job Access Reverse Commute Program
Other federal sources

State Funding

Motor Vehicle Tax (Act 51) Distribution
Comprehensive Transportation Fund Distribution
Transportation Economic Development Funds
Other state sources

Local Funding

General Revenue Contributions	Dedicated millages
Township Contributions	Service contracts
Street Improvement Assessments	Fare box revenues
Road Improvement Bonds	Private Industry Contributions
Tax Increment Financing Districts	Foundation Contributions
Special Assessment Districts	Others

REVENUES PROJECTED FOR THE 2035 TRANSPORTATION PLAN

The following table shows the projected transportation revenues available to the agencies in Kalamazoo County over the life of the 2035 Transportation Plan. The following assumptions and data were used to develop these revenues projections:

- Local road agency revenues are based on the 2005 - 2008 average revenues as reported on the Act 51 reports.

- Federal and State road revenues for the local road agencies are inflated using the procedure approved by the Michigan Transportation Planning Association at their January 20, 2009 meeting.

- MDOT revenues available for the Transportation Plan were provided by MDOT and exclude funds used to maintain and operate the highway system through routine maintenance and winter maintenance activities.

Scenario Two: Interim growth rates and estimated revenue results

Federal:
FY 2009 – consistent with SAFETEA-LU, including Earmarks and Discretionary
FY 2010/2011 – same as FY 2009 level without Earmarks and Discretionary
FY 2012/2013 – 3.2 percent annual growth (current Five Year Plan growth rate)
FY 2014 and beyond – 4.89 percent annual growth (current MiTP annual growth rate)

State:
Use STF spreadsheet which matches the latest Dept. of Treasury estimates
FY 2009 less than FY 2008 estimate
FY 2010/2011 – Share of MTF revenue: approximately 1 percent annual growth
FY 2012/2013 – Share of MTF revenue: approximately 2 percent annual growth
FY 2014 and beyond – grow at 4.04 percent (current MiTP annual growth rate)

MiTP = Michigan Transportation Plan MTF = Michigan Transportation Funds
STF = Surface Transportation Fund

- Public transportation revenue projections were provided by the public transportation service provider. State revenues were held constant in dollars. Federal and local revenues increased by 3% annually. Fares are projected at current levels.

- It is assumed that local public transportation revenues obtained through fares, millages, contracts, etc. will be sufficient to match federal and state funds to maintain the current level of public transportation service.

- All public transportation services are combined into one system covering fixed route, supplemental Americans with Disabilities Act (ADA) service, and demand response service.

- Federal funding included in the local streets revenues came from:

  - Surface Transportation Program (urban and rural)
  - Local Enhancement
  - Congestion Mitigation Air Quality (CMAQ)
  - Local Safety

- Other federal programs may be used at a project by project basis but are not included in the estimated revenues.

- The majority of the local road agency revenues come from the Michigan Transportation Fund and local revenues.

- Road revenues received by the smaller cities and villages are primarily used for street operations, maintenance, winter maintenance, and are not included in these estimated revenues.

- Estimates for local revenues from Federal programs (Surface Transportation Program, Local Enhancement, Safety, and Congestion Mitigation Air Quality) are based on the FY 2005 - 2008 annual average and are inflated per the method approved by the Michigan Transportation Planning Association at their January 20, 2009 meeting, Scenario Two.

2035 TRANSPORTATION SYSTEM REVENUES

Source	**2005-2008 Annual Average Total**	**Plan Total** (Annual Total x 25)
TOTAL TRANSPORTATION REVENUES		**$2,910,574,073**
Local/Secondary Streets	$8,399,612	$259,887,251
Major/Primary Streets	$26,018,912	$1,055,893,579
Local STP	$3,196,000	$148,791,613
MDOT Preserve		$352,782,289
MDOT Capacity and New Streets		$249,337,528
Public Transportation		$751,363,868
Local Safety	$400,000	$10,400,000
Congestion Mitigation Air Quality	$860,000	$40,037,793
Local Enhancement	$1,007,153	$42,080,152

Note that these revenues do not include funds that may be applied for in categories such as Local Bridge, Safe Routes to School, etc.

These revenues are total revenues available to the local agencies that have been historically received and used for operation, maintenance, and construction/heavy maintenance on the entire local street system. MDOT funding provided is only those revenues to be used for construction activities. Route maintenance and operations are funded by other revenues. Public transportation revenues include both capital and operating revenues. Detailed revenue and expense information is included in the appendix.

It is important to remember that these revenue projections are based on recent history for local funds with the assumption that the average annual increases will continue through the life of the Transportation Plan. Other projections were based on the best advice and information available at the time the document was developed. No new funding sources are projected. The actual revenue received during this Plan when compared to these projections will vary depending on several factors that are not known at the time the Plan was developed. These factors include, but are not limited to, future federal transportation legislation, fuel prices, and how trips are completed.

TRANSPORTATION EXPENDITURES

Over the 25-year horizon of the 2035 Transportation Plan, there will be expenditures on operations, maintenance, and construction on roads and non-motorized facilities; and on operations and capital for public transportation. The expenditures are projected for the 25-year horizon using the following data and assumptions:

- Local Act 51 reports were used to determine the average expenditures for 2005 - 2008 for the Local/Secondary street systems and for the Major/Primary street systems. This historic expense is projected out over the life of the Plan to estimate road operations and maintenance costs.

- Costs are assumed to grow at 3.5% per year (Michigan Department of Transportation provided growth rate).

- Public transportation expenditures for capital, operations, and maintenance equipment were increased 3% per year starting with 2008 costs.

- Public transportation service levels are assumed to remain at existing levels.

- Non-motorized lanes, wide lanes, paved shoulders, signed routes, and sidewalks built under this plan are assumed to be included where feasible in the cost of adjacent road projects.

- Separate non-motorized paths/trails are assumed to be funded by local Enhancement grants.

- It is assumed that the the same proportion of expenditures on streets will remain constant through the plan horizon.

- Expenditure on public transportation capital are based on Federal vehicle replacement schedules. Operating and Capital expenditures were provided by the public transportation service provider.

- Operation and maintenance costs used to maintain the MDOT system are not included here. MDOT will maintain and operate their system using funds not provided to KATS.

The following table projects the expenditures on the transportation system over the life of the 2035 Transportation Plan. It includes public transportation operations and capital, specific non-motorized separate trail projects, local street system operations and maintenance including winter maintenance, local agency and MDOT preservation and capacity projects. As with the revenue projections, the Transportation Plan cost projections may vary from actual costs of future developments in costs change significantly from the basis used in this document.

TOTAL TRANSPORTATION SYSTEM EXPENDITURES

Source	**FY 2005-2008 Annual Average Total**	**Total** (Annual Total x 25)
TOTAL TRANSPORTATION EXPENDITURES		**$2,875,464,487**
Local/Secondary Street Operations, Maintenance, and Construction	$10,974,966	$485,704,005
Major/Primary Street Maintenance	$6,458,767	$285,836,785
Major/Primary Street Winter Maintenance	$2,153,902	$95,322,284
Major/Primary Street Other excluding Construction	$3,136,819	$138,821,893
TOTAL OPERATIONS & MAINTENANCE OF THE STREET SYSTEM		***$1,005,684,968***
Plan Preservation Projects		$855,350,000
Plan Capacity Projects		$201,236,730
Public Transportation Operations and Capital		$719,845,844
Local Safety		$10,400,000
Local Enhancement (Separate Non-motorized trails)		$40,037,793
Congestion Mitigation Air Quality		$42,080,152
TOTAL PLAN EXPENDITURES		***$1,868,950,519***

ILLUSTRATIVE PROJECTS

Even though many road projects are included in the 2035 Transportation Plan, there are several significant capacity improvement or new facility projects that have not been included as part of the future planned facilities. These projects that the area considers to be important have to remain illustrative because funding cannot be reasonably projected for them over the life of the 2035 Transportation Plan. These illustrative projects are discussed in the Unfunded Transportation Projects and Needs chapter.

TRANSPORTATION CONTROL MEASURES CONTAINED IN THE STATE IMPLEMENTATION PLAN

There are no transportation control measures that apply to the Kalamazoo Area Transportation Study area in the Michigan State Implementation Plan.

COMPARISON OF TRANSPORTATION SYSTEM REVENUES TO EXPENDITURES

The comparison of total projected transportation system revenues to the total projected transportation system expenditures for the 25-year plan horizon is shown in the following table:

Total Transportation System Revenues and Expenditures

Total Revenue	$2,910,574,073
Total Operations and Maintenance (non-MDOT streets)	$1,005,684,968
Total Plan Expenditures	$1,868,950,519
Revenues - Expenditures (Operating and Maintenance)	$35,938,586

OPERATION AND MAINTENANCE OF THE TRANSPORTATION SYSTEM

Based on historic revenue sources and expenditures from the local road agencies excluding MDOT, there are sufficient resources to maintain existing operations and maintenance of the system. It is assumed that MDOT has identified sufficient funding in the statewide system to operate and maintain their system. The 2035 Transportation Plan does allow for adequate operation and maintenance of the transportation system. In addition to these resources identified for operations and maintenance, a significant number of Transportation Plan projects are system preservation projects totaling $855,350,000.

2035 TRANSPORTATION PLAN FINANCIAL CONSTRAINT

This chapter has shown that total projected transportation system revenues exceed total expenditures. The financial plan sets aside resources for system operation and maintenance separate from the projects included specifically in the Transportation Plan. As shown in the previous table, total revenues exceed total expenditures over the 2035 Transportation Plan by $35,938,586. The 2035 Transportation Plan is financially constrained.