



STATE OF MICHIGAN  
DEPARTMENT OF TRANSPORTATION  
LANSING

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To: Transit Agencies Managers and CEOs  
Subject: Transit Capital Match Situation Update

Within the next several days, you will be receiving your capital match plan letter from the Bureau of Passenger Transportation indicating how the Michigan Department of Transportation (MDOT) will be matching your fiscal year (FY) 2010 federal grants. As a prelude to that letter and to help you plan for the future, I am writing to provide you an overview of the current situation we face regarding state resources available to match federal transit grants over the next few years.

#### **Background Information**

As we all know, revenues to the Comprehensive Transportation Funds (CTF) have not kept up with the increasing needs in the transit industry, in particular, increased operating expenses and increased federal funds for capital projects. Over the last 11 years, FY 2000 and FY 2010, the total CTF appropriation **for all programs** has fluctuated up and down but not strayed far from about \$200 million a year. When compared to the FY 2000 program appropriation of \$199.1 million, the proposed FY 2011 CTF appropriation of \$198.0 million is less and below the 11 year average of \$202 million. However during this same time period, the CTF appropriation for transit operating assistance increased by 11 percent and as we know this increase has come at the expense of other CTF supported programs, including capital match assistance. Over this time frame, the appropriation for transit capital match has dropped from \$17.4 million to \$8.5 million proposed for FY 2011, a drop of more than 50 percent. To further exacerbate the situation, the federal funds coming to Michigan that needed to be matched increased over 60 percent.

To help offset the loss of annual CTF appropriations for capital programs MDOT has used toll revenue credits to match federal grant awards. Although this does result in a lower level of overall project funding, it does allow for MDOT and transportation providers to capture federal funds that would otherwise be lost due to lack of matching funds. The CTF programs have committed approximately \$50 million of toll revenue credits since FY 2005 to leverage federal funds. We estimate that we will use approximately \$11 million in toll revenue credits in our FY 2010 match plan. We do not anticipate having access to toll revenue credits as a source of match in FY 2011.

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Prior to toll revenue credits, MDOT sold CTF revenue bonds as a method to finance capital match. In 2002 and 2003, a total of over \$100 million was made available from the sale of CTF bonds of which \$70 million has been committed to match federal transit grants, for buses and facilities. Only a subset of the bond proceeds can be used for vehicles versus facilities, since a certain percentage of the bond proceeds overall have to be used for investments that have a 30 year useful life. Bond proceeds have not been used to match preventative maintenance, planning or equipment, either because they are not a capital expense or have a limited useful life, which is why having toll revenue credits available has helped fill a gap that the bond proceeds could not. Our project authorizations for capital match have included bond proceeds every year since FY 2003.

Of the original 2002 and 2003 bond proceeds available for capital match, about \$6 million remains uncommitted and of this \$6 million, nearly \$5.0 million can be used only to match facilities (based on useful life considerations). We anticipate committing all the remaining 2002 and 2003 bond revenues available for vehicles in the FY 2010 capital match plan. The remaining facilities bond proceeds should be fully committed by FY 2011.

In FY 2009, the 2002 and 2003 bonds were restructured by selling new bonds and paying off some of the FY 2009, FY 2010, and FY 2011 debt service. This resulted in \$41.2 million that would have been used for debt service in those years available for expenditure on capital projects. This will also result in more consistent debt service payments. Of these "new" bond proceeds, \$23.2 million are currently programmed to be used to match federal transit grants. MDOT will begin to allocate some of these new proceeds in FY 2010 capital match plan, but you will see a more significant use of them in FY 2011.

### **Current Situation**

The use of toll revenue credits, bond reprogramming and bond restructuring have helped us get through these lean revenue years. However, these are short term fixes and they come with significant complications. As you know, the use of toll revenue credits have resulted in lost investment in our transit infrastructure, nearly \$63.0 million to date. Also, as we noted above, based on current projections, toll revenue credits will not be available in FY 2011.

Another complication is that 2002 and 2003 bond proceeds are being spent down too slowly. When the bonds were issued, MDOT had a five year expenditure plan that included using some of the proceeds for federal match and some of the proceeds for 100 percent state funded infrastructure projects. However, as annual revenues to the CTF began to drop, MDOT reprogrammed more bond proceeds to be used as federal match and amended its expenditure plan so that the bond proceeds would plug revenue holes over a longer period of time. As a result, MDOT has not been spending down the bond proceeds as quickly as envisioned when the bonds were issued and this has led to arbitrage payments.

The most recent complication and one of the main reasons for this letter is to explain the limitations of the "new" bonds, those from the FY's 2009, 2010 and 2011 restructuring of the original 2002 and 2003 bonds. For these proceeds, there is a very short expenditure window. The window differs depending on "issue date" of the new bonds, but in general, once these "new" bond proceeds are committed to your agency as match they must be expended by your agency within two years. Your project authorization will clearly indicate if your match commitment includes these new bond proceeds and the authorization will include an obligation deadline and expenditure deadline, neither of which is subject to extension. The state's match commitment will automatically terminate at the end of two years. Absent significant new state revenues, expenditure of your federal grants beyond the two year match deadline will require you to replace the bond proceeds with local match. In addition, this additional source of match will be exhausted in FY 2012.

In summary, the resources available to MDOT to match federal transit grants are becoming increasingly scarce.

- Starting in FY 2010 we will begin to match some federal funds with bond proceeds that must be expended by your agency within in two years.
- In FY 2011 and FY 2012, over 50 percent of the match we commit to your projects will be from the new bond proceeds, which must be expended by your agency in two years.
- Starting in FY 2011, we will no longer have toll revenue credits available to match preventative maintenance and equipment.
- The new bond proceeds will be exhausted in FY 2012, therefore starting in FY 2013, based on the current revenues to the CTF, we do not foresee state resources being able to provide the full 20 percent federal match.

These conditions can change and we will keep you updated. However, we encourage you to consider local options for meeting your federal match obligations in the coming years.

Sincerely,



Sharon L. Edgar, Administrator  
Bureau of Passenger Transportation