

LSC Greenbook

Analysis of the Enacted Budget

Department of Transportation

(Including the Ohio Rail Development Commission)

Main Operating Budget Funding

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ATTACHMENT:

Budget Spreadsheet By Line Item

Department of Transportation

- Total biennial funding of \$20.1 million from the GRF
- GRF public transit funding for the eight largest urban systems was eliminated in FY 2012, but is offset by flexible federal funding
- Flat GRF funding for rail development grants and loans and airport capital improvement projects

OVERVIEW

Agency Overview

The Ohio Department of Transportation (ODOT) is the agency charged with planning, building, and maintaining the state's transportation system. Most of the agency's resources are devoted to the state's system of highways, but it also has responsibilities in the areas of rail, aviation, and public transportation. Less than one-half of 1% of the Department's budget comes from the General Revenue Fund (GRF). Most of the budget is derived from federal sources, the state motor fuel tax, and bond revenue. The following provides an analysis of the GRF portion of the ODOT budget, which includes appropriations provided in the main operating budget act for the state's public transportation, rail, and aviation programs. The majority of the Department's biennial funding is contained in H.B. 51, the transportation budget act for FY 2014-FY 2015.

Appropriation Overview

As Table 1 below shows, the budget provides ODOT with a GRF budget of approximately \$10.1 million in each fiscal year, about 11.1% above FY 2013 spending of just over \$9.0 million.

| Fund Group | FY 2013* | FY 2014 | % change, FY 2013-FY 2014 | FY 2015 | % change, FY 2014-FY 2015 |
|-----------------|-------------|--------------|---------------------------|--------------|---------------------------|
| General Revenue | \$9,005,982 | \$10,050,000 | 11.6% | \$10,050,000 | 0.0% |

*FY 2013 figures represent actual expenditures.

Funding Distribution

By Functional Category

Of the total GRF budget provided to ODOT in H.B. 59, 72.6% of appropriations are for public transportation, 19.9% are for rail transportation, and 7.5% are for aviation. Table 2 below provides a summary of appropriations for these programs by fiscal year as well as the share each makes up of the biennium's total GRF allocation. Under

H.B. 59, GRF funding for public transportation remains constant compared to actual FY 2013 spending, while appropriations for rail transportation and aviation are greater.

| Functional Category | FY 2013 Actual | FY 2014 Appropriations | FY 2015 Appropriations | Biennium Total | Percent of Budget |
|-----------------------|----------------|------------------------|------------------------|----------------|-------------------|
| Public Transportation | \$7.3 | \$7.3 | \$7.3 | \$14.6 | 72.6% |
| Rail Transportation | \$1.0 | \$2.0 | \$2.0 | \$4.0 | 19.9% |
| Aviation | \$0.7 | \$0.8 | \$0.8 | \$1.5 | 7.5% |
| Total | \$9.0 | \$10.1 | \$10.1 | \$20.1 | 100.0% |

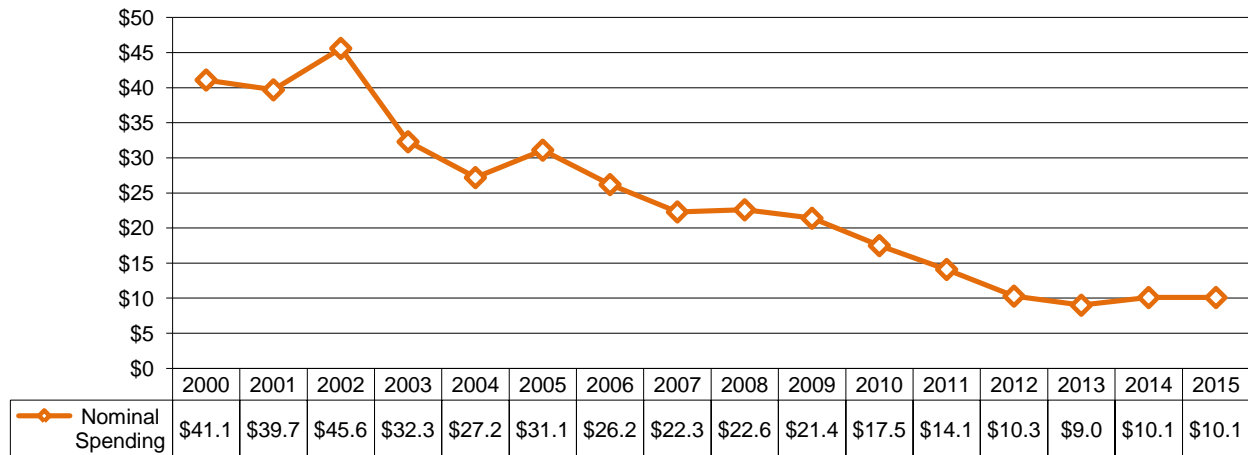
Note: Individual amounts may not add to totals due to rounding.

Though GRF public transit funding remains flat from the previous biennium under H.B. 59, the amount appropriated is below the allocations for this purpose in previous years. However, ODOT will continue its recent practice of directing \$6 million per year in flexible federal funds to the Urban Formula component of the Ohio Public Transportation Grant Program, which was funded exclusively by the GRF before the FY 2012-FY 2013 biennium. Under this strategy, the eight largest urban transit systems, which are no longer eligible to receive GRF funding either through the Ohio Public Transportation Grant Program or the Elderly and Disabled Fare Assistance Program, and potentially several small urban systems, use local funds to make up for the loss of GRF dollars. This minimizes the recent GRF funding cuts to small urban transit systems and rural transit systems, which receive priority due to heavier past reliance on GRF funding. In addition, \$14 million per year in flexible federal funds will be competitively awarded for vehicle replacements, transit facility capital improvements, or capitalized operating expenses, which will further enable the transit agencies receiving these awards to shift local funds toward operating purposes. These flexible federal funds are appropriated in H.B. 51, the transportation budget act for FY 2014 and FY 2015.

GRF Funding History

To put the GRF funding component of ODOT's budget in historical perspective, the \$10.1 million appropriated for each fiscal year for public transit, rail, and aviation grant programs is among the Department's lowest GRF allocations since FY 2000. Chart 1 below shows ODOT's GRF spending from FY 2000 to FY 2013 and the appropriations for FY 2014 and FY 2015. Overall, the chart shows that GRF appropriations for the transit, rail, and aviation modes in FY 2014 are 77.9% lower in nominal terms than the peak of \$45.6 million in GRF spending for these purposes in FY 2002.

**Chart 1: Historical GRF Spending vs. FY 2014-FY 2015 Appropriations
(\$ in millions)**



Transportation Highlights in H.B. 59

While most of ODOT's funding and a large number of transportation policy changes, including the plan for the Ohio Turnpike and Infrastructure Commission to issue bonds to fund selected Major New construction projects, were included in the transportation budget act (H.B. 51), the main operating budget also includes some permanent and temporary law changes that affect the Department. These provisions are summarized below.

Speed Limit Changes

H.B. 59 further revised the changes to the state's highway speed limits that were made in H.B. 51, the transportation budget act. Under H.B. 59, the maximum speed limit on all rural freeways in Ohio, rather than just interstate highways, is set at 70 miles per hour. Additionally, the speed limit on rural highways without traffic control signals is set at 65 miles per hour, and the speed limit on rural divided highways is set at 60 miles per hour. The act also authorizes the Director of Transportation to determine whether or not speed limits on these highways are reasonable and safe based upon an engineering study and consultation with the Director of Public Safety and any applicable local authorities. If the Director determines that the speed limits are not reasonable and safe, the provision authorizes the Director to declare a speed limit that is deemed to be reasonable and safe. The fiscal effect of this provision will generally encompass only the costs of replacing speed limit signs or placing overlays on existing signs where applicable. This would result in no more than a minimal additional cost to the Highway Operating Fund (Fund 7002).

Diesel Emissions Reduction Grant Program

The main operating budget authorizes the continuation of the Diesel Emissions Reduction Grant (DERG) Program, in partnership with the Ohio Environmental Protection Agency (EPA). Under this program, EPA solicits, evaluates, and scores public and private projects that are eligible for Diesel Emissions Reduction Grants using federal Congestion Mitigation and Air Quality (CMAQ) funds that are received by ODOT. H.B. 59 also authorizes DERG funds to be used for projects that involve the purchase or use of hybrid and alternative fuel vehicles pursuant to federal CMAQ guidance.

Under this program, public entities receive funds reimbursed from moneys in the Highway Operating Fund (Fund 7002) designated for the DERG Program, while private entities receive funds to be reimbursed through transfers of cash from the Highway Operating Fund to the Diesel Emissions Reduction Fund (Fund 3FH0), used by the Environmental Protection Agency. H.B. 59 prohibits total expenditures between both EPA and ODOT from exceeding the amounts appropriated to EPA Fund 3FH0 appropriation item 715693, Diesel Emissions Reduction Grants, which is set at \$10.0 million in each fiscal year.

Aluminum Coil Permits

H.B. 59 contains a provision requiring ODOT to adopt rules establishing requirements for an aluminum coil permit that are substantially similar to existing requirements for a steel coil permit, which would allow the transportation of up to three aluminum coils while exceeding the 80,000 pound legal load limit with a maximum vehicle weight of up to 120,000 pounds. This provision could provide additional revenue to the Highway Operating Fund (Fund 7002) from fees charged for new aluminum coil permits. ODOT's aluminum coil fees are likely to be in line with the current fees for steel coils, which are \$65 for a one-way trip, \$125 for a 90-day permit, and \$470 for an annual permit. However, there could also be an increase in highway maintenance costs related to possible road wear or damage caused by heavy loads of aluminum coils.

County Bridge Program

A provision in H.B. 59 requires ODOT to establish a county bridge program to assist counties with the maintenance of bridges with monetary or other resources to address infrastructure needs related to county-maintained bridges, including bridge embankments, drainage bridge repair, and other conditions. In effect, this provision codifies ODOT's current County Local Bridge Program, under which the Department contracts with the County Engineers Association of Ohio to manage local bridge projects funded with federal money.

Deposit of Income from Leases, Sales, and Public-Private Partnerships

H.B. 59 codifies ODOT's current practice of depositing proceeds from public-private partnerships (P3s) and transportation facility leases or sales into the Highway Operating Fund (Fund 7002). Under this provision, Fund 7002 would also receive any revenue from commercial advertising at rest areas, rather than the Roadside Rest Area Improvement Fund (Fund 5W80), which is currently inactive.

ANALYSIS OF ENACTED BUDGET

Category 1: Public Transportation

GRF appropriations in this category provide capital, operating, technical, and planning assistance to 62 transit systems. Of the 62 transit systems, 27 systems are in urban areas and 35 are in rural areas. In the main operating appropriations bill, GRF dollars provide formula funding for operating and capital grants to public transit systems to match federal funding. GRF funds also provide reimbursements to public transit systems offering reduced fares for the elderly and disabled and support the operating expenses of the Office of Transit.

| Appropriations for Public Transportation | | | | |
|--|--------------|-------------------------------|-------------|-------------|
| Fund | ALI and Name | | FY 2014 | FY 2015 |
| General Revenue Fund | | | | |
| GRF | 775451 | Public Transportation – State | \$7,300,000 | \$7,300,000 |

Public Transportation – State (775451)

This line item provides funding for the Ohio Public Transportation Grant Program and the Elderly and Disabled Fare Assistance Program. Funding is also used to provide technical assistance to individual transit systems. Overall, H.B. 59 provides \$7.3 million in each fiscal year for this line item. These amounts are flat compared to FY 2013 spending. This line item funds three public transportation programs, which are briefly described below.

Public Transit Assistance

This program provides partial funding for operating assistance and capital projects to the urban and rural transit systems operating throughout the state under the Ohio Public Transportation Grant Program (OPTGP). OPTGP provides grants to transit systems for operating assistance as well as for planning and capital projects. State funding is only available to match a federal grant. Of the 27 urban transit systems, there are eight "large urban" systems and 19 "small urban" systems. For the purposes of allocating funds under the Urban Formula component of the OPTGP, the 27 urban systems are placed into five categories based on system size. Each category is allocated a fixed percentage of the available funds. Within each category, funds are suballocated to transit systems based on a formula that takes into account factors such as ridership, revenue service miles, farebox revenue, cost per hour, passengers carried per mile, and fare recovery rates. For rural systems, OPTGP Rural Formula funds are allocated based on a formula that takes into account the number of passengers, revenue vehicle miles, and local contributions. ODOT allocated about \$4.4 million for this program annually in the FY 2012-FY 2013 biennium, a level which is likely to continue under H.B. 59.

Overall, the impact of the appropriations on the Public Transit Assistance Program will vary depending on the size of each transit system.

Large urban transit systems. At the appropriation levels provided under the main operating budget, the eight largest urban transit systems (operating in and around Akron, Canton, Cincinnati, Cleveland, Columbus, Dayton, Toledo, and Youngstown) will continue to be ineligible for GRF funding through the OPTGP. This will reserve GRF funding to small urban transit systems and rural transit systems, which are a higher priority due to their heavier past reliance on GRF funding compared to their urban counterparts. However, H.B. 51, the transportation budget act for FY 2014 and FY 2015, includes \$20 million per year in flexible Federal Highway Administration (FHWA) funds that will be used to assist transit agencies during the biennium, the same amount available in the FY 2012-FY 2013 biennium. Of the \$20 million in flexible federal funds allocated for this purpose, \$6 million annually will be included in the Urban Formula Program for expenses eligible for federal reimbursement. The use of these federal dollars allows the eight largest transit systems to then use local resources to backfill the GRF funds for which these systems are no longer eligible.

Rural transit systems. Within the OPTGP, ODOT has historically given priority to the Rural Formula Program over the Urban Formula Program in allocating GRF funding, as rural transit systems were much more reliant on GRF funding than their urban counterparts. Under the appropriations in H.B. 59, rural transit systems will likely receive about the same amount in GRF funding as that provided in the last biennium.

Small urban transit systems. The 19 small urban transit systems have borne most of the GRF funding reductions in recent fiscal years. Nevertheless, several of these small urban systems may be able to take advantage of some of the \$6 million in flexible federal funds being inserted into the Urban Formula Program if they have sufficient local revenues to use as a match to draw down the additional federal funds. If several small urban systems are able to qualify for the flexible federal funds, additional GRF resources would be made available for the other small urban systems, which would mitigate the effects of the recently diminished overall supply of GRF funding for those agencies.

Transit System Preservation Discretionary Program. Under H.B. 51, \$14 million per year of the flexible federal funding being provided for transit purposes has been allocated for competitively awarded grants. The priority for these discretionary grants, for which all 62 transit systems will be eligible, will be to assist transit agencies in replacing vehicles and transit system infrastructure, though they may also be used for capitalized operating expenses if necessary. These funds will assist transit agencies in freeing up local resources for other noncapital purposes, such as operating costs.

Elderly and Disabled Assistance

This program offers affordable transportation for the elderly and people with disabilities through reduced fare assistance to public transit agencies offering half fare or less rides to passengers within those population groups. In order to qualify for funding under this program, a transit system must receive an allocation from either the urban or rural component of the OPTGP. The allocations of funds to individual transit systems under the program are based on the actual ridership of the elderly and people with disabilities for the prior calendar year and the actual loss of farebox revenue from the reduced fares offered. Currently, 53 public transit systems offer half fares. The other systems have chosen not to offer reduced fares for financial reasons. According to ODOT, it would take about \$13.5 million to reimburse transit systems for their foregone revenue from reduced fares. The current fare assistance program allocation of \$2.1 million annually, continued under H.B. 59, comprises only about 15.5% of that amount. As a result, ODOT will continue to provide no reduced fare assistance funding to the eight largest urban transit systems to minimize the impact on funding to rural and small urban transit systems, which rely on GRF funds more so than their urban area counterparts.

Public Transit Operating

This program covers the operating costs, such as payroll, supplies, and equipment, for ODOT's Office of Transit. The Office's administration and oversight duties include program development, application review and project selection, contract preparation, invoice payment, quality assurance, site visits, data collection reviews, drug and alcohol audits, financial audits, training, and technical assistance. To reduce GRF expenses, the Office of Transit has moved eligible payroll to federal sources of reimbursement, among other cost-saving measures. These dollars are accounted for in the portion of the Public Transit Assistance Program funded in H.B. 51.

Category 2: Rail Transportation

This category of appropriations is administered by the Ohio Rail Development Commission (ORDC). ORDC administers programs that promote economic development and rail-highway safety. The following table shows the funding provided under H.B. 59 for the GRF appropriation item that supports a portion of the Rail Transportation category.

| Appropriations for Rail Transportation | | | | |
|--|--------------|----------------------------------|-------------|-------------|
| Fund | ALI and Name | | FY 2014 | FY 2015 |
| General Revenue Fund | | | | |
| GRF | 776465 | Ohio Rail Development Commission | \$2,000,000 | \$2,000,000 |

Ohio Rail Development Commission (776465)

This line item supports the Rail Development Grant and Loan Program overseen by ORDC. Overall, H.B. 59 appropriates \$2.0 million in each fiscal year for this line item. This amount is about twice the slightly over \$1.0 million spent in FY 2013. Beginning in FY 2013, this line item has been used exclusively for the Rail Development Grant and Loan Program as ORDC's operating costs have been assumed by non-GRF sources. This cost shift was possible as a result of the completion of lease reserve payments for the Panhandle rail line.

Rail Development Grant and Loan

The Rail Development Grant and Loan Program provides financial assistance to railroads, businesses, and communities for the rehabilitation, acquisition/preservation, or construction of rail and rail-related infrastructure. The loans and grants are distributed through the following programs:

Rail Line Rehabilitation Program. This program keeps select rail lines in good and safe operating condition in order to provide rail transportation services to Ohio businesses. These lines are typically those divested by large Class I railroads (Norfolk Southern and CSX Transportation) that were in need of maintenance at the time of divestiture. In determining loan and grant awards, ORDC evaluates a project's contribution toward job creation, effectiveness of rail service, economic development potential, preventing derailments, and keeping up train speeds.

Freight Rail Development/Spur Program. This program helps provide rail spurs and other rail infrastructure as an incentive for companies to locate or expand in Ohio. Funds are recouped if requisite jobs or carloads are not created within three years of project completion.

Rail Line Acquisition/Preservation Program. This program consists of loans and grants to prevent cessation of service or preserve lines or rights-of-way for future rail development. ORDC may also provide funding for an entity to acquire a rail line as long as the acquisition enhances the rail line's viability. Over the course of FY 2011 and FY 2012, ORDC approved grant or loan assistance to 29 rail development projects totaling \$4.2 million in grants and \$1.8 million in loans, for an average of about \$207,000 in state assistance per project. These projects are expected to leverage millions of dollars more in additional capital investment and generate an estimated 3,000 carloads of freight, reducing congestion from commercial truck traffic on the state's highways.

The budget appropriates \$2.0 million in GRF funding in each year of the FY 2014-FY 2015 biennium for these programs. However, readers should note that this funding is augmented with \$2.1 million in each fiscal year for grants and loans through appropriation item 776664, Rail Transportation – Other, contained in H.B. 51, the FY 2014-FY 2015 transportation budget bill. Line item 776664 also supports about \$700,000 in each year for ORDC's payroll and administrative costs. Between H.B. 51 and H.B. 59, ORDC will have available grant and loan funding of about \$4.1 million in each fiscal year.

Category 3: Aviation

This category of appropriations provides funding that enables the Office of Aviation to work with airports to meet national safety standards, make infrastructure improvements, coordinate with the Federal Aviation Administration (FAA), register aircraft, provide air transportation to state officials, and maintain the state's aircraft fleet. The following table shows the amounts appropriated for the GRF appropriation item that funds a portion of the Aviation category.

| Appropriations for Aviation | | | | |
|-----------------------------|--------------|------------------------------|-----------|-----------|
| Fund | ALI and Name | | FY 2014 | FY 2015 |
| General Revenue Fund | | | | |
| GRF | 777471 | Airport Improvements – State | \$750,000 | \$750,000 |

Airport Improvements – State (777471)

This line item is used to support grant funding as well as airport and pavement condition inspections and airspace protection, planning, engineering, and technical assistance to Ohio's general aviation airports. Overall, H.B. 59 includes \$750,000 in each fiscal year for this line item. These amounts are 5.7% above FY 2013 spending of about \$710,000.

Airport Grant Program

The Airport Grant Program provides capital improvement grants to publicly owned airports that do not receive FAA passenger or air cargo entitlements. These are typically small general aviation airports. Grant funds may provide up to 90% of the construction costs associated with airport pavement resurfacing or obstruction removal and marking projects. The grant program operates on a reimbursement basis. In order to be awarded grant funds, an airport must have a current Airport Safety Plan that complies with Transportation Security Administration (TSA) guidelines. There are currently 99 publicly owned airports eligible to receive grant funding.

GRF funding for airport grants is augmented by funding of \$620,000 per fiscal year in aircraft license tax revenues deposited into the Airport Assistance Fund (Fund 5W90), which is appropriated in H.B. 51. Together, these sources are expected to support projects at four to six airports. Overall, state appropriations for this program have declined in recent years. Given the diminished level of state support, ODOT predicts the average Pavement Condition Index (PCI) for runways, taxiways, and aprons across the state to decline.

Aviation Operating

GRF funds provide a portion of the Office of Aviation's operating expenses in each year. Activities funded by the GRF include administration of the Airport Safety

Program, enforcement of the Ohio Airport Protection Law, and administration of the Airport Grant Program. These functions are described briefly below.

Airport Safety Program. Under the Airport Safety Program, Office of Aviation officials conduct safety and pavement condition inspections at 157 noncommercial service public use airports on a three-year cycle to ensure airport operations comply with FAA standards and the Ohio Airport Protection Law. After inspections, airports are advised of deficiencies and assisted in developing a corrective action plan. The salaries of the inspectors conducting the inspections are paid out of the GRF. However, the federal government reimburses the state a set amount per inspection, the proceeds of which are deposited into the GRF. The information gathered from airport pavement condition inspections is used to assess the maintenance needs of Ohio's airports and to assist with the selection of projects receiving Airport Grant Program funds.

Ohio Airport Protection Law enforcement. The Office of Aviation enforces the Ohio Airport Protection Law by reviewing any proposed construction that will take place within a specified distance of an airport runway. If the construction is determined to pose no obstruction hazard to airport navigation, the Office issues a permit to proceed. If there is a potential hazard, the Office works with project officials to change the location or design of the structure under construction so that it does not obstruct airport operations.

Airport Grant Program administration. As noted above, the Airport Grant Program provides capital improvement funds to certain publicly owned airports. Office of Aviation staff verify and evaluate grant applications, rank proposed projects based on merit and availability of funds, execute grant contracts, and so on to carry out the grant program. The Office currently employs one part-time employee as a Grants Planner after the previous Grants Planner retired.

The majority of funding for the Aviation Operating Program is appropriated in H.B. 51, the transportation budget bill for FY 2014 and FY 2015. These funds, amounting to approximately \$4.9 million per year from the Highway Operating Fund (Fund 7002), primarily are used to operate and maintain the state's aircraft fleet. The aircraft are used to transport the Governor, legislators, and state personnel, and to perform aerial photography, emergency management, forestry missions, homeland security, prisoner transfers, Department of Natural Resources missions, wild animal inoculations, and marijuana eradication assistance. ODOT maintains a fleet of 24 aircraft, which include those of the Ohio State Highway Patrol and the Department of Natural Resources. Any costs arising from the nonhighway use of the aircraft must be reimbursed to ODOT. Fund 7002 resources also support the costs associated with the registration and oversight of about 11,000 Ohio aircraft.

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FY 2014 - FY 2015 Final Appropriation Amounts

All Fund Groups

Line Item Detail by Agency

| | | | FY 2012 | FY 2013 | Appropriation FY 2014 | FY 2013 to FY 2014 % Change | Appropriation FY 2015 | FY 2014 to FY 2015 % Change |
|--|--------|----------------------------------|-------------------------|---------------------|--------------------------|--------------------------------|--------------------------|--------------------------------|
| Report For Main Operating Appropriations Bill | | | Version: Enacted | | | | | |
| DOT Department of Transportation | | | | | | | | |
| GRF | 775451 | Public Transportation-State | \$ 7,340,352 | \$ 7,288,749 | \$ 7,300,000 | 0.15% | \$ 7,300,000 | 0.00% |
| GRF | 776465 | Ohio Rail Development Commission | \$ 2,368,049 | \$ 1,007,727 | \$ 2,000,000 | 98.47% | \$ 2,000,000 | 0.00% |
| GRF | 777471 | Airport Improvements-State | \$ 625,455 | \$ 709,506 | \$ 750,000 | 5.71% | \$ 750,000 | 0.00% |
| General Revenue Fund Total | | | \$ 10,333,856 | \$ 9,005,982 | \$ 10,050,000 | 11.59% | \$ 10,050,000 | 0.00% |
| 5CF0 | 776667 | Rail Transload Facilities | \$ 41,400 | \$ 43,600 | \$ 0 | N/A | \$ 0 | N/A |
| State Special Revenue Fund Group Total | | | \$ 41,400 | \$ 43,600 | \$ 0 | N/A | \$ 0 | N/A |
| Department of Transportation Total | | | \$ 10,375,256 | \$ 9,049,582 | \$ 10,050,000 | 11.05% | \$ 10,050,000 | 0.00% |