



STATE OF MICHIGAN
DEPARTMENT OF TRANSPORTATION
LANSING

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State Transportation Commission
and
Kirk T. Steudle, Director
Michigan Department of Transportation

We are pleased to submit the Annual Financial Report for the Michigan Department of Transportation (Department) for the fiscal years ended September 30, 2009 and 2010. This report is prepared by the Bureau of Finance and Administration, which is responsible for both the accuracy of the data and the completeness and fairness of the presentation. The data is accurate in all material respects and is presented in a manner designed to fairly set forth the financial position and results of the Department's operations.

This report is in compliance with the State of Michigan Financial Management Guide, which requires state agencies issuing financial reports to be consistent with the State of Michigan Comprehensive Annual Financial Report. In complying with state agency reporting guidelines, this report does not fully comply with all generally accepted accounting principles. For example, the combined balance sheet does not include long-term obligations or capitalized assets, but all disclosures necessary to enable the reader to gain a reasonable understanding of the Department's financial affairs are included. A summary of the Department's financial information follows.

FINANCIAL UPDATE

During fiscal year (FY) 2010, the Department continued to deliver high quality products and services with a focus on safety even as revenues remained steady and costs for materials and services increase. The State of Michigan's economic situation continues to pose financial challenges for the Department. With population declining and automobile sales still at historically low levels, the revenues from vehicle registrations increased only slightly for FY 2010. Gasoline and diesel fuel consumption for FY 2010 declined slightly. These factors contributed to a minimal increase of .3 million in revenues deposited in the Michigan Transportation Fund (MTF), the first such increase in the last five years. Minimal revenue increases for FY 2011 and FY 2012 are forecasted as well. Total MTF revenue in FY 2010 was \$1.8 billion. Between FY 2009 and FY 2010, a decrease of \$1.9 million in gasoline and diesel taxes collected was offset by an increase of \$2.4 million in vehicle registration taxes.

In FY 2010, the Comprehensive Transportation Fund (CTF) received \$155.2 million total MTF revenue, a \$0.1 million or 0.1 percent decrease compared to FY 2009 in MTF revenues for public transportation services. The CTF also receives \$76.8 million in sales tax revenue from vehicle-related sales, which was a decrease of \$6.1 million or 7.4 percent in FY 2010. This sales tax reduction was mostly due to a \$5.7 million redirection to the State's General Fund. The amount of aviation fuel tax revenue deposited in the Aeronautics Fund decreased by \$0.3 million, or 4.7 percent, over the previous fiscal year. Aviation fuel tax revenues have not been at these low levels in more than 20 years.

In 2005, the authorizations that provided federal transportation dollars for highway and transit programs were replaced with the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU). Michigan received \$788.7 million in apportionments and \$763.7 million in new obligation authority for FY 2010 for the highway program.

During FY 2009, the Federal Government provided assistance in the form of the American Recovery and Reinvestment Act (ARRA). The Department received authorization to expend \$850 million on state and local roads, of which the entire amount was obligated on time as the result of coordinated efforts by many Department staff. As of September 30, 2010, \$28.9 million was available for rural and intercity bus capital projects, \$30.4 million for airport improvements, and \$40.3 million for high speed rail projects.

PROGRAM OVERVIEW

Due to continued low levels of state revenues, the Department faced a challenge in matching future federal aid for the road and bridge program. As a result the department cut \$22 million dollars from non-capital expenditures to be used to leverage future federal aid. In addition, Trunkline bonds were refinanced during FY 2010, saving an additional \$5.9 million.

In FY 2010, the Department focused on the utilization of the newly available funds provided by ARRA, in addition to delivering the existing planned program. The Department continues to exceed its goals for pavement and bridge condition ratings. Currently, pavement and bridge conditions are rated at 91 percent and 90 percent good and fair, respectively. The overall system health of trunkline pavements remains at 10.2 years average remaining life at the end of FY 2010. Asset management technology and strategies continue to enhance accurate forecasting of pavement condition and assist prioritization of future projects. Over \$1.2 billion was spent on capital outlay expenditures for roads and bridges in FY 2010.

In FY 2010, the Department's focus continued to be on preservation of existing public transportation services by distributing \$166.6 million in CTF monies for local transit operations, and allocating over \$10 million in CTF funds plus another \$10 million in toll credits to match over \$106 million in federal transit capital funds. In FY 2010, state and federal funds were used to maintain intercity bus services in nearly 100 Michigan communities. State funds continued to support passenger rail services along two existing corridors. A combination of state and federal funds was used to improve intercity bus facilities, and the closing of both private and public railgrade crossings increased safety for rail passengers. Safety was also the focus of the Department's ongoing safety certification of private motor bus and limousine carriers.

In FY 2010, the Department's Freight Services and Safety Division continued to make targeted capital investments designed to help maintain efficient freight service on the 530 miles of state-owned rail lines operated, under contract, by four railroad companies. Nearly 28 miles of main-line track were improved, enhancing the safety and efficiency of the line and helping ensure continued rail access to shippers. The Department provided funding for 39 grade crossing safety enhancement projects and three crossing closure efforts on roads under county, city, or village jurisdiction, investing approximately \$7.8 million in the interest of motorist safety. Through the Freight Economic Development Program, the Department loaned monies for one project, investing .4 million to provide rail access for an expanding business. The Department also provided nearly .5 million in legislatively mandated operating assistance to the Detroit-Wayne County Port Authority for administrative and marketing expenditures.

In FY 2010, the Department conducted 78 federally required inspections of Automated Weather Observation Systems (AWOS), at 39 airports, installed and certified one AWOS at an additional airport, and upgraded five AWOS systems with the latest technology. It also serviced and accomplished 16 federally required inspections at four Very High Frequency Omni Range ground navigation system (VOR) locations, maintaining a required 98 percent reliability rate. The Department conducts annual inspections at 220 public-use airport and heliports. The Department licenses 235 public-use landing sites, 214 aircraft dealers, 63 flight schools, 77 hospital heliports, and the on-demand temporary landing sites. In 2010 approximately 6,800 aircraft were registered.

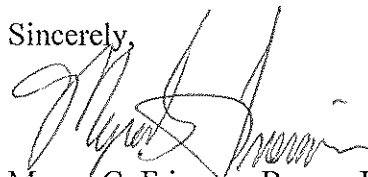
During FY 2010, the Department contracted for 145 airport improvement projects totaling \$118.9 million, all having significant safety benefits. In addition to the safety benefit, the projects are developed to either preserve the existing infrastructure or expand the runway capacity.

CONCLUSION

In FY 2010, \$3.8 billion was expended from all revenue sources to address Michigan's transportation needs. The Department's challenge continues to be making wise investment decisions with its limited resources to maximize the results achieved. This has fostered many innovative ideas in the Department and will undoubtedly promote even more in the future.

We wish to express our appreciation to the many people whose dedicated efforts made possible the preparation of this report. Their combined efforts have produced a report that will enable decision-makers and concerned citizens to better understand and evaluate the Department's financial condition.

Sincerely,



Myron G. Frierson, Bureau Director
Finance and Administration