

Executive Summary

The Transportation Funding Task Force was created in response to Public Act 221 of 2007 (P.A. 221 or Act 221), legislation which passed both the Michigan Senate and House of Representatives with a bipartisan majority and was signed into law by Governor Jennifer Granholm in December 2007.

The Task Force is comprised of 13 members. Nine represent interests including manufacturing, labor, transportation, agriculture, aviation, commerce, public transit, tourism, and the general public. Four members of the Legislature also serve on the Task Force, representing each legislative body and each side of the political aisle.

The purpose of the Task Force, as defined by P.A. 221, is to “review the adequacy of surface transportation and aeronautics service provision and finance” in Michigan, review strategies for maximizing return on transportation investment, and evaluate the potential of alternative strategies to replace or supplement transportation taxes and fees. A major and consistent focus of the group has been the need to stimulate economic activity and enhance personal mobility.

As they began their work seven months ago, the members of the Task Force very quickly realized the enormity and importance of the task that had been appointed to them.

Hard Truths

What the Task Force ultimately determined, after months of hard work and much public input, is that if Michigan’s transportation system is to continue to serve the state adequately, our investment in transportation must increase significantly.

Road-user fees for a typical Michigan auto driver come to just pennies over \$1 per day. The typical auto driver pays 2½ cents per each mile driven; a typical semi-truck driver, 8 1/3 cents. Michigan’s Airport system has been sustained over the years with a fuel tax established in 1929, a rate sustainable because of aviation’s popularity and growth. Transit investment in Michigan is half to one-tenth the investment made by other populated, economically diverse states like New York, New Jersey, Maryland, Illinois, Massachusetts, California, even Minnesota and Delaware. We pay relatively little for a transportation system that provides priceless access to global opportunity.

Compounding this historic underinvestment are factors beyond our control. Michigan is approaching a crisis of infrastructure funding caused by steady erosion of purchasing power, continued inflation in materials costs, and a decline in fuel-tax revenues due to spikes in gas prices, reduced travel and a slow economy. The decline in revenues, and a corresponding increase in demand for travel alternatives, has exposed the inherent structural problems with the current means of transportation finance.

For the past several years, the transportation revenue stream has been enhanced with bond revenues to provide a more robust level of investment. As a result, Michigan has made progress, particularly in improving the condition of the most highly used highways and bridges. But that bonding cannot continue without additional revenue.

As a result, Michigan is moving from underinvesting in transportation, to disinvesting in transportation.

That is the hard truth the Transportation Funding Task Force had to face. The group asked the Citizens Advisory Committee (CAC), also created by Act 221, to identify and quantify Michigan’s

transportation needs, based on “do nothing,” “good,” and “better” investment scenarios. The Task Force reviewed their methodology, and asked them to propose efficiencies and reforms that could help stretch taxpayer dollars and maximize the benefit of existing investment.

Based on the information at their disposal, the Task Force could reach only one conclusion. More investment in transportation is absolutely needed. Much more.

Greater Efficiency

Properly chosen transportation investments can be phenomenally productive, but only if every dollar is used efficiently. With the assistance of the CAC, the Task Force learned that transportation agencies have been relentlessly vigilant in stretching shrinking revenue. Their efforts may go unnoticed, because cost-cutting measures are designed not to disrupt service or impose on customers. While the Task Force was able to recommend some additional efficiencies that are beyond the ability of any one transportation agency to implement, it is clear that efficiency is standard operating procedure at agencies across the state.

First among the efficiencies already achieved is Michigan’s nationally-recognized focus on asset management, involving every road agency in the state. On a smaller scale, many transportation agencies work cooperatively with each other or the private sector to economize and avoid duplication. Savings range from grand improvements – like the technologically advanced region-wide snow and ice removal program in Southeast Michigan, the nation’s first LEED certified, energy efficient transit center in Grand Rapids, or the recently completed 80,000 square foot hangar at Oscoda-Wurtsmith Airport which can fully house a Boeing 747-8 for maintenance operations during inclement weather and created 200 new jobs – to simple adjustments like multipurpose trucks or cooperative purchasing consortiums. But increasingly, transportation agencies must let some opportunities to save go undone, as cash is not available to make small improvements, however productive.

No Federal Bailouts

Given the current state of the national economy, it is unlikely the federal government will come to Michigan’s transportation rescue. Even if they did, Michigan is not in a position to take advantage of new federal funding. *This is the last year Michigan will have enough state and local matching funds to claim all federal transportation funding available to the state.*

Some local agencies are already unable to make use of all federal transportation funding. By 2010, this will be true across all modes and across all jurisdictions.

We must increase investment in transportation soon or we will put past investment at risk, and the infrastructure and transportation service on which we rely will deteriorate.

Abundant Choices

The good news is that there is a way out of the transportation investment crisis.

In fact, there are many ways out. We have room to choose among many alternatives to pay for a basic “good” transportation system, but it is the consensus of the Task Force that in order to compete in a global economy as a state we need to continue to strive for “better” over time.

Although the level of investment needed for “good” and “better” are significant, they are not out of line with transportation investment needs nationally. The National Surface Transportation Policy and Revenue Study Committee, after two years of research and public comment, recommended that investment in transportation by all levels of government should be at least

\$225 billion per year, an increase of 161 percent compared to national capital investment today of \$86 billion.

In Michigan, we need to at least double our current investment in transportation.

Despite the magnitude of the funding gap, it can be closed. Not all the revenue need come from state coffers; the federal government, local government, and even the private sector should be partners in this effort. But one or two incremental fee increases will not be enough; it will require multiple – possibly dramatic – changes to the user-fee structure. Most of the revenue alternatives and efficiencies described in this report will likely be needed if we are to accomplish our goal.

The one choice we cannot afford is to do nothing.

The consequences to Michigan if action is not taken to address the need for increased transportation investment are dire indeed. Michigan stands to lose up to \$1 billion in federal funds each year, because transportation agencies will not have enough revenue to provide the required matching funds. They will not be able to sustain the current level of investment, putting more than 17,000 jobs at risk. The condition of our infrastructure will deteriorate, with 30 percent of Michigan roads predicted to decline into poor or fair condition during the next decade. The condition of airport pavements will also decline, with the average airport pavement needing rehabilitation as soon as 2012, and crucial aviation safety programs will need to be terminated or reduced in scope. Existing local transit services and intercity passenger rail services will be reduced, and intercity bus service to rural areas will likely be eliminated.

Real Opportunities

Restoring our investment in transportation has the potential to accomplish valuable and much needed changes. The “good” level of investment will sustain 126,000 Michigan jobs, attract new business, open new global markets for Michigan products and services. It will yield roughly \$41 billion in other economic benefits for all sectors of the Michigan economy.

For highways, roads and bridges, “good” investment will ensure that the most frequently used roads and bridges remain largely in good condition. It will allow local road agencies to do more than just plow snow and patch potholes, and will preserve local roads in the same condition they are today. It will reduce congestion with road widenings and construction of the highest-priority capacity improvements, and improve safety.

For passenger transportation, a “good” investment level will allow transit agencies to begin replacing aging buses with greener, more fuel-efficient vehicles. It will enhance convenience and choice in passenger transportation and allow implementation of long-overdue travel alternatives, such as commuter rail and light rail in Southeast Michigan and bus rapid transit in Grand Rapids. It will provide urban travel options that make Michigan cities more attractive to business and residents.

For freight transportation, “good” investment will reduce the travel time and increase the reliability of freight shipments on the ground and in the air. It will save lives by improving railroad-highway grade crossing safety.

For aviation, a “good” investment level will create an Aviation Economic Development Fund for aviation improvements needed to attract jobs. It will reinstate currently curtailed programs that are important to safety and that can provide new economic opportunities.

Good transportation will return benefits directly to households and businesses. It is estimated that congestion, poor pavement condition and crashes cost Michigan drivers and truckers \$7 billion

annually in wasted fuel, lost time, vehicle maintenance costs, medical costs, lost productivity, and property damage. Based on economic analysis conducted by the University of Michigan, the Task Force estimates that investment at the “good” level would provide an average Michigan household an additional \$2,000 per year in increased personal income and savings through reduced travel time and vehicle maintenance, and increased safety.

The “Better” investment level would accomplish even more. It would allow for infrastructure and transportation service improvements that would push Michigan into the forefront of economic competitiveness within our region and throughout the Nation. It would sustain more than 240,000 jobs, leverage an expected \$1.9 billion in federal funds, and provide more than \$84 billion in other economic benefits. The “better” level of investment is something to continue to strive for in the future.

Working in the Snow

The people of Michigan have been “working in the rain” for several years now, struggling with a sluggish state economy. To continue that analogy, the weather nationally has taken on a sharp and sudden chill. It seems inevitable that the rain will turn to snow. Perhaps severe snow.

But one of the many things the people of Michigan excel at is digging out from under a big snow. Everyone bundles up and pitches in. They bring whatever tools they have available. They all contribute, and make their best, most responsible effort to clear the way.

This report proposes making significant new investment in transportation. It is an investment that will create jobs and economic opportunity, attract business, improve property values, increase revenue, help the environment and ultimately save taxpayer dollars. It is an investment very worth making. In light of the storm that is upon us, it is an investment we cannot afford to forego.

This investment will require a contribution from everyone. It will require all the tools we have available, and some new ones that have yet to be crafted.

But if everyone contributes, if we work together to give our best, be our most responsible, we can make it happen. This significant investment in transportation can help Michigan dig out. We can set an example for the rest of the nation, show them how it’s done, and reclaim our place as a national economic leader once again.

Figure A: Summary of Transportation Investment Scenarios

Investment Scenario	Aviation	Highway, Road & Bridge ¹	Intermodal Passenger	Intermodal Freight	Total Across Modes
Do Nothing	\$121M	\$1,900M	\$241M	\$14M	\$2,276M
State & Local Funds	\$16M	\$1,653M	\$193M	\$7M ²	\$1,869M
Federal Funds Leveraged (avg per year)	\$105M	\$247M	\$48M	\$7M	\$407M
Federal Funds at Risk (avg per year)	(\$16M)	(\$954M) ³	(\$112M)	(\$0)	(\$1,082M)
Jobs Lost ⁴	(416)	(13,532)	(3,516)	(N/A) ⁵	(17,464)
Good	\$242 M	\$6,136M	\$773M	\$19M	\$7,170M
State & Local Funds	\$79M	\$4,935M	\$508M	\$12M	\$5,534M
Federal Funds Leveraged (avg per year)	\$163M*	\$1,201M	\$265M*	\$7M	\$1,636M
Jobs Supported	3,800	87,000	35,100	250	126,150
Other Benefits	Not Available	\$37,000M	\$4,369M	\$31M	\$41,400M
Better	\$327M	\$12,696M	\$1,336M	\$41M	\$14,400M
State & Local Funds	\$130M	\$11,495M	\$779M	\$34M	\$12,438M
Federal Funds Leveraged (avg per year)	\$197M*	\$1,201M	\$557M*	\$7M	\$1,962M
Jobs Supported	5,200	179,000	59,000	600	243,800
Other Benefits	Not available	\$76,200M	\$7,449M	Not available	\$83,649M

¹ Current investment among road agencies is \$3.2 Billion (FY 08), putting the current total across modes at \$3.576 Billion. Doing nothing will result in a decrease in funds available for investment in highways, roads and bridges.

² This amount only reflects rail investment. Trucking and air cargo are in their respective columns. No other freight funds were identified.

³ Estimates of federal aid are subject to change based on decisions made by the federal government.

⁴ Aviation - One job is estimated to be supported for every \$60,000 spent. This figure includes direct and indirect jobs from construction expenditures, but does not reflect additional jobs created by increased passenger or cargo traffic as a result (Adapted from economic benefits studies of Detroit Metro and Willow Run Airports). Highway, Road, and Bridge - One job is estimated to be supported for every \$70,500 spent. (Adapted from U of M's Economic Benefits of MDOT's 2007-2011 Highway Program). Intermodal Passenger - One job is estimated to be supported for every \$32,000 invested in capital for transit. (Adapted from Cambridge Systematics Study, E-1). Intermodal Freight - With no federal funds at risk, there will be no job loss.

⁵ The investment scenarios for intermodal freight were not included. Only rail investments were identified by the CAC Intermodal Subcommittee. Air and truck-cargo investment needs were included with their respective infrastructure, and no specific marine cargo investments were identified. Rail infrastructure supports over 4,000 jobs in the state, however, there was not a comparable calculation identified to accurately identify "jobs supported" by the investment scenarios as was done for other modes.

* Federal funds leveraged includes possible competitive federal grants that could be available.

Figure B: Summary of Funding Alternatives (in order of time horizon)

Key: ● = High
 ◐ = Medium
 ◑ = Low

Guiding Principles

Statewide Revenue Options	Workable short run	Sustainable long run	Participation at all levels	Relationship of payers/ benefits received	Adaptation to changing conditions	Retention for transportation purposes	Sufficient to leverage other funds
Increase vehicle registration rates	●	●	◐	●	●	●	◐
Eliminate registration discounts	●	●	◐	●	●	●	◐
Adjust motor fuel tax	●	◐	◐	●	◐	●	◐
Equalize diesel & gasoline fuel tax rates	●	◐	◐	●	◐	●	◐
Abolish 1.5% "cost of collection" allowance	●	◐	◐	◐	◐	●	◐
Reduce Inter-Departmental Grants	◐	◐	●	●	◐	●	◐
Increase sales tax and dedicate increase to transportation funding	◐	●	●	◐	●	◐	●
Direct all or a portion of sales tax on fuels to the MTF	◐	◐	◐	●	◐	●	◐
Direct some (or all) of Natural Resources Trust Fund Revenue to roads	◐	◐	◐	◐	●	◐	◐
Aviation Options							
Increase aviation fuel tax	●	◐	◐	●	◐	◐	◐
Increase aircraft registration fee	●	◐	◐	◐	◐	●	◐
Abolish commercial airline refund	●	◐	◐	◐	◐	◐	◐
Urge increase in aviation block grant	◐	●	●	●	●	◐	◐
Redirect sales tax on aviation products or make a specific allocation to aviation from unallocated sales tax revenue	◐	◐	●	◐	●	◐	●
Change aviation fuel tax to % of price	◐	◐	◐	●	●	◐	●
Work with Congress to make reliever and super-reliever airports eligible for same federal funding as primary airports	◐	●	◐	●	◐	◐	●
Local Funding Options							
Encourage local transportation investment by enabling a broad spectrum of local revenue options	◐	◐	◐	●	●	●	●
Public-Private Partnerships (P3s) & Tolling							
Enable P3s for toll-financed reconstruction, expansion or new construction of freeways.	◐	●	◐	●	◐	●	●
Enable toll-financed reconstruction, expansion or new construction of freeways.	◐	●	◐	●	◐	●	●