



**Joint Meeting
State Transportation Commission (STC)
And
Michigan Aeronautics Commission (MAC)**

Thursday, March 22, 2012, 9:02 a.m.

MINUTES

I. OPENING REMARKS/INTRODUCTIONS

The meeting was called to order by MAC Chair Kavalhuna at 9:02 a.m.

Chair Kuvalhuna welcomed the audience and the STC members. All members were present except STC Vice Chair Wyett, MAC Commissioner Heather, and MAC Commissioner Kamarainen.

MAC Chair welcomed the members of SMART, the Director of MDOT, Kirk Steudle; and the Director of Aeronautics, Mike Trout.

II. PRESENTATIONS

Director's Report – MDOT Director Kirk Steudle

Federal Update

Director Steudle stated that the Aeronautics Commission held a legislative open house on March 21, 2012. He stated that he was unable to attend; however, Mr. Trout will be giving him an update on the open house. He stated that there was a lot of discussion on both transportation reform and transportation funding. Director Steudle stated that they are routinely seeing a pattern reflecting that reforms will lead the way. Legislators want to see reform first. The department is finding ways to be better and more efficient, focusing on being as efficient as possible and adopting as many innovations as possible, and then be ready for additional revenue and invest it wisely.

Director Steudle discussed that the current Authorization will expire on March 31, 2012, which will affect the collection of the federal motor fuel tax that is about \$110 million per day. He stated that the Senate approved legislation with bipartisan support of 74 to 22. The House completed committee work, but the bill has not passed. The House bill does not have bipartisan support and they are currently regrouping.

The Senate version is a two-year bill, retroactive to the prior six-months, essentially making it an 18-month bill. It maintains current funding plus a little inflation. There are no earmarks in it and it includes reforms with a significant amount of performance measures.

The House bill is a Five-year bill that maintains funding at a reduced rate, about \$3 million less than fiscal year 2012 levels. It has no earmarks, but it does have performance measures and provides greater flexibility to the states on how to best spend the money. This bill took the transit bill and put it in another committee. This sounded good except it lost all of the transit supporters so it is now back in the highway bill. The House will not take the bill up until Mid-April 2012, meaning an extension will be needed. This means that the department may have 35 percent less projects out this fiscal year. From a planning perspective, in the same year you have the President's proposal that doubles the amount, one that maintains it, and one that cuts it by a third. There are seven months left in the fiscal year and it is uncertain if that budget will be doubled or a third less than what it is currently.

MI Transportation Plan

Director Steudle discussed the MI Transportation Plan Revisions. He stated that since the reauthorization of the highway program could change the requirements, this revision is an interim step to keep the plan current and will follow a more streamlined approach than a more complete update. The process involves a technical review, consultation, and public involvement. This revision will be developed by providing updates in the form of white papers to our existing technical reports as needed, inclusion of new plans since the MI Transportation Plan's adoption, and reaffirming strategies. MI Transportation Plan's trends and demographic data will be revised to extend out to 2035, providing the minimum 20-year horizon required by Federal regulation. The Public Involvement Plan is out for Public Comment until April 30, 2012.

Director Steudle stated that a full update will be scheduled at a future time, probably in August or September of 2012, in response to new requirements that may result from reauthorization of the highway program.

Director Steudle asked if the Commissioners had any questions.

STC Commissioner Hayes asked what the federal allocation was for highways and transit. He stated he recalled that highways received \$.95 on the dollar and \$.89 on the dollar for transit.

Director Steudle stated that it is actually \$.43 cents on the dollar for transit, most of which goes to those states with big urban transit systems. Without Michigan having a robust transit system in Southeast Michigan, the State is losing out on that money and until we have a Regional Transit system in Southeast Michigan we are unlikely to get it.

Director Steudle stated that the highway allocation is around \$.92 to \$.93 on the dollar. The Senate bill takes care of the equity bonus that actually guarantees that every state gets \$.95 cents per dollar. There have been some provisions and there is an amendment that states every State will get back what they put in, but that amendment failed.

Chairman Jung asked how the development of the Regional Transit Authority in Southeast Michigan is progressing.

Director Steudle stated that it is coming along well. It did hit a bump a few weeks ago but it is believed that it has been worked out and expected to move within the Senate Committee soon. It is high priority of the Governor and expected to move forward.

Aeronautics' Report – Office of Aeronautics Director Mike Trout

Mr. Trout's discussed the Aeronautics Commission, the Office of Aeronautics and its programs, and the Aviation Funding and Reauthorization.

Mr. Trout stated that the Aeronautics Code was established in 1945, establishing the Aeronautics Commission whose focus is to encourage, foster, and promote aviation. In the past 8 to 9 months Chairman Kavalhuna has established a General Aviation Committee that is diverse and will provide a lot of input to Aeronautics and assist in getting the MAC's message out to the public.

Mr. Trout discussed the aviation partners and the relationship that has been built with those groups. It also includes communities and Michigan's citizens, providing them with an aeronautics system that can lead to their success.

Mr. Trout discussed the significant impact Michigan airports have on Michigan's economy. There are 235 licensed airports in Michigan with almost half being privately owned. The passenger counts and the cargo numbers are strong indicators of the economy. Detroit Metro Airport is the 15th largest airport in the United States, the 17th busiest in the world, and rated the #1 airport in the world by JD Power in 2010. He stated that in addition to passengers, airports provide a lot of benefit to the communities they serve. There is a full range of how global companies are using Michigan airports for their businesses.

Mr. Trout discussed the reinvention of the Office of Aeronautics and stated that everything Aeronautics does is focused on the department's strategic plan and the goals within it. The product of that is the scorecard and different measuring systems. He stated that Aeronautics now consists of three sections, with main function being project development and Federal Aviation Administration (FAA) grants. Aeronautics also provides flights and processes permits, along with education and outreach.

He discussed the National Plan for Integrated Airport Systems (NPIAS) which is the tool that identifies those airports that are eligible to received federal funds. He also discussed the Michigan Airport System Plan (MASP) that was developed to set the focus on investments and preservation. It is set up by tiers with approximately 97% of the investment going to bigger airports; however, it is still important to look at the other tiers because it supports the entire system.

The Reauthorization increases the local match going to 10% instead of 5%, which will have a significant impact, especially on smaller communities. Most will be able to meet the increase, while for others, it will be a challenge.

In the next few years, you will be hearing a lot about the Next Generation Air Transportation System (NextGen). NextGen transforms the current air traffic control system from a ground-based system to a satellite-based system. Part of the discussion deals with the unmanned air traffic vehicles known as Drones. The Drones will be tested, with a group in Michigan trying to attack one of the test sights. The Passenger Facility Charge's (PFCs) have had changes to the provisions and now medium and large hub airports can charge \$7 that may incentivize services at these airports.

He stated that historically, Michigan has received \$80 to \$100 million from the FAA Airport Improvement Program and that we have budgeted to cover the match. With the non-federal share growing, that amount will not be sufficient, requiring us to double what will be needed. The current budget allows for that, but it will be difficult to go beyond a couple of years.

Mr. Trout discussed Essential Air Service (EAS) funding stating that that more than half of the airports are receiving airport subsidies, so it is important to work closely with those airport communities to assist in meeting their needs. EAS funding benefited approximately 150,000 passengers in 2010. There would be significant detrimental impacts to the communities if the EAS is reduced or eliminated.

Mr. Trout discussed the Airport Safety and Protection Plan (ASAP), a \$60 million bond program, provided funds for the local match from 2003 to 2007 and allowed for projects that don't rise to the FAA priority level requirements. It focused on preservation and pavement rehabilitation. The bonds are paid off from the parking tax at the Detroit Metro Airport that generates \$6 million. Debt service comes off the top and the rest is used for the local match. With debt service slowly increasing, additional stress will be placed on the ability to match grants.

Mr. Trout discussed the 2013 and 2014 appropriation estimates. Total revenues are expected to be \$18 million in 2013 and \$13 million in 2014. In 2014 there is no revenue in the Aero Fund Reserve. Expenses are estimated at \$17.8 million in 2013 and \$13 in 2014. In 2013, the Air Service Program will receive an additional \$600,000. He also stated that MDOT's Five-Year program invests \$838 million over the next five years, but in order to stay on schedule, annual investments of \$160 to \$170 million are needed. At current levels there will be approximately \$50 million in annual shortfall.

Mr. Trout briefly discussed Delta Airlines, stating that they reported \$854 million in net income, up 44 percent from 2010. Their revenue was up by 11 percent while fuel costs rose 28 percent. They are also continuing to cut flights by two to three percent. As the airlines become more efficient, fuel consumption is less, which results in less state revenue.

Mr. Trout discussed the Michigan business tax structure, stating that it is very promising. The business climate is improving in Michigan, which is a good message that Michigan is coming back. We still need to find creative solutions to the funding problems.

He reported that relative to the Next Michigan Development Corporation, two new designations were recently approved, I-69 and Grand Traverse. This will transform these areas into centers of economic development and hubs for commerce and freight logistics.

Aeronautics creates thousands of jobs. Our role is to ensure investments are focused on enhancing safety and supporting communities. He stated it is important to understand that solutions can be found to work on what can be done faster, cheaper, and more effectively.

Mr. Trout opened the floor to questions.

STC Commissioner Hayes asked about the impacts of security and security issues.

Mr. Trout stated that there is no direct impact on what Aeronautics does. Pertaining to the big picture at larger airports, the increased security measures do impact the airports.

STC Commissioner Hayes asked about the responsibility around the immediate airspace for the smaller airports.

Mr. Trout stated that they do focus on fencing, but it is very expensive. As for airspace, they are more concerned about what may go into the airspace and the traffic within the airspace.

MAC Commissioner Collins stated that in smaller airports, it is fencing, airspace security, and pass codes, etc. However, the burden is in the protocol established. The corporate pilot knows his manifest and who is boarding the airplane.

Mr. Trout added that the aviation community is more aware. Still it is amazing how many vehicles have access to driving onto the runways. The primary focus is with fencing and gates, but the costs can be up to \$1 million just for fencing one small airport.

MAC Chair Kavalhuna discussed the aviation fuel tax and that it is outdated.

Mr. Trout stated that the 3 percent fuel tax has been in place since 1929. With the amount of gallons used going down, it is becoming a problem.

MAC Chair Kavalhuna asked about the fuel tax and incentives larger airlines like Delta receive.

Mr. Trout stated that yes; the larger airlines do receive incentives. They actually get half of the tax back, reducing their tax to 1.5 percent. The bigger airlines pay 50 percent less in tax.

MAC Chair Kavalhuna asked if there was legislation being discussed to address that problem

Mr. Trout stated that yes; it looks at redirecting some of the sales tax. If that occurs the excise tax could be reduced or removed.

III. PUBLIC COMMENT

MAC Chairman Kavalhuna asked if there were any public comments.

There was no public comment.

IV. ADJOURNMENT

MAC Chairman Kavalhuna adjourned the joint meeting of the STC and MAC at 9:53 a.m.

MAC Chairman Kavalhuna announced that the MAC meeting will remain in the auditorium after a brief break.

Frank E. Raha III
State Transportation Commission Advisor

MINUTES
MICHIGAN STATE TRANSPORTATION COMMISSION MEETING
March 22, 2012
Lansing, Michigan

Meeting noticed in accordance with Open Meetings Act, Public Act 267 of 1976.

Present: Jerrold M. Jung, STC Chairman
Linda Miller Atkinson, Commissioner
Michael D. Hayes, Commissioner
Charles F. Moser, Commissioner
Sharon J. Rothwell, Commissioner

Also Present: Kirk Steudle, Director
Amy Dickenson, Commission Executive Assistant
Jack Cotter, Commission Auditor, Office of Commission Audits
David Brickey, Attorney General's Office, Transportation Division
Brenda O'Brien, Engineer of Construction and Technology
Brad Wieferrich, Engineer of Design
Myron Frierson, Bureau Director, Finance and Administration
David Wresinski, Director, Bureau of Transportation Planning
Mike Kilpela, External Audit Division Administrator, Commission Audits
Tim Hoeffner, Administrator, Office of High Speed Rail

Absent: Frank E. Raha III, Commission Advisor
Todd A. Wyett, Vice Chairman

A complete list of those people who attended the meeting is attached to the official minutes.

I. **WELCOME**

II. **COMMISSION BUSINESS**

Commission Minutes

Chairman Jung entertained a motion for approval of the minutes from the State Transportation Commission meeting of February 23, 2012.

Moved by Chair Jung, with support from Commissioner Hayes and support from Commissioner Rothwell, to approve the minutes from the State Transportation Commission meeting of February 23, 2012. Motion carried.

III. **OVERSIGHT**

Commission Agreements (Exhibit A) – Myron Frierson

Mr. Frierson presented information on 18 agreements. Pending any questions, Mr. Frierson asked for approval of Exhibit A; none were forthcoming.

Mr. Frierson asked that item #15 be moved to supplemental A.

Chair Jung entertained a motion. Motion was made by Commissioner Rothwell supported by Commissioner Moser to approve Exhibit A. Motion carried on a unanimous voice vote.

Commission Agreements (Exhibit Supplemental A) – Myron Frierson

Mr. Frierson presented information on one agreement. Pending any questions, Mr. Frierson asked for approval of Exhibit Supplemental A; none were forthcoming.

Chair Jung entertained a motion. Motion was made by Commissioner Atkinson supported by Commissioner Hayes to approve Exhibit Supplemental A. Motion carried with Commissioner Moser abstaining from the vote.

Bid Letting Pre-Approvals (Exhibit A-1) – Myron Frierson

Mr. Frierson gave a brief re-cap of the March 2012 bid letting. 61 State projects with total engineers' estimates of \$98.1 million and a total low bid dollar amount of \$1.6 million were let. In comparison to March of 2011, 62 State projects were let with a total engineers' estimate of \$172.6 million and total low bid dollars of \$163.1 million. Mr. Frierson stated there are currently 15 State projects that are to-be-advertised.

The number of State trunkline projects anticipated to be let during FY 2012 is 327 with a total construction cost estimate of \$735.1 million, representing 45.9% of the total number of projects anticipated to be let and 44.3% of the total cost projection for fiscal year 2012. In comparison through March of 2011, 175 State projects with a total engineers' estimate of \$491.7 million were let representing 51.8% of the total number of projects anticipated to be let in FY 2011 for this period and 60.3% of the anticipated construction cost.

Leading up to and including the March 2, 2012, bid letting, 56.4% of the number of projects anticipated for this period was let, and of the projected construction cost estimated, 58.1% was let. For this same period through March 2011, 71.1% of the number of projects anticipated was let and 95.6% of the projected construction cost estimate was let.

The March 16, 2012, bid letting advertised 1 State project with a total engineers' estimate of \$3.6 million. The April 6, 2012, bid letting, is currently advertising 30 State projects with total engineers' estimates of \$55.1 million. Of the 30 State projects, 14 include warranties with \$41.2 million in total engineers' estimates. In addition to the State projects advertised, 51 Local projects with total engineers' estimates of \$35.4 million and 5 Aeronautics projects with engineers' estimates of \$ 2.1 million are scheduled to be let

Pending any questions, Mr. Frierson asked for approval.

Commissioner Hayes asked what happens if the lettings are that far behind and once lettings start happening more quickly can it be handled and can the actual projects be completed.

Mr. Frierson stated that the department can handle it, but from an engineering standpoint the projects have to be reevaluated to see if they can be constructed within the original timeframes. Sometimes, they may have to be pushed into two construction seasons. Currently, some projects have been shifted that are more significant to ensure they are completed within this construction season.

Commissioner Rothwell stated that once the federal funding issue is resolved, then the department will come back to the STC to provide information on the full impacts of pushing those projects out.

Director Steudle stated that the department went back and reevaluated all of the projects, looking at the planned projects that to be let this construction season and then those that are critical and absolutely had to go forward. The best time to be working is June and July, still working on contract awards pushes the construction phase out and into potentially bad weather in the Fall. Typically, at this time 95 percent of the money is obligated and the department is only at 50 percent, shifting projects further into Fall that could result in quality issues. Staff is putting the best projects forward to address the issues.

Chairman Jung entertained a motion. Motion was made by Commissioner Atkinson and supported by Commissioner Rothwell to approve Exhibit A-1. Motion carried on a unanimous voice vote.

Bid Letting Pre-Approvals (Exhibit Supplemental A-1) – Myron Frierson

Mr. Frierson presented 8 projects. Pending any questions, Mr. Frierson asked for approval.

Chairman Jung entertained a motion. Motion was made by Commissioner Rothwell and supported by Commissioner Hayes to approve Exhibit Supplemental A-1. Motion carried with Commissioner Moser abstaining from the vote.

Letting Exceptions Agenda (Exhibit A-2) – Brad Wieferich

Mr. Wieferich provided information on ten justifications for MDOT projects that need Commission approval and one justification for Local Projects that needs Commission approval.

Pending any questions, Mr. Wieferich asked for approval of Exhibit A-2; none were forthcoming.

Chairman Jung entertained a motion. Motion was made by Commissioner Hayes and supported by Commissioner Moser to approve Exhibit A-2. Motion carried on a unanimous voice vote.

Contract Adjustments (Exhibit B) – Brenda O'Brien

Ms. O'Brien provided information on two extra items and one overrun item of work for MDOT projects totaling \$25,908.52 and 11 extra and two overrun work items for Local project work totaling \$571,233.20.

Pending any questions, Ms. O'Brien asked for approval of Exhibit B.

Commissioner Atkinson asked that the department include a column in the matrix to identify whether the project(s) have been presented to the Commission in a prior meeting.

Ms. O'Brien stated that the department would make sure it is added back into the matrix.

Commissioner Atkinson also discussed a potential typo on Overrun 2012-14. She stated the word quaintly is in the write-up and it doesn't read correctly.

Director Steudle stated that the word is a typo and should be the word "quantity".

Chairman Jung entertained a motion. Motion was made by Commissioner Atkinson and supported by Commissioner Rothwell to approve Exhibit B. Motion carried on a unanimous voice vote.

Six-Month Financial Audit Follow-Up Report (Exhibit C) – Jack Cotter

Mr. Cotter stated that Exhibit C is the Six Month Financial Audit Follow-up report. He stated that Guidance Document 10044, Processing Audit Requests and Auditor's Reports on Contractual Agreements, provides for processing auditor's reports within 120 days of the date the reports are issued. As reported in the Exhibit C, the Schedule of Auditor's Reports Outstanding, the department has not completed its processing of some auditor's reports as provided for in the guidance document. Our report covers 12 auditor's reports, with approximately \$3.5 million in net recommended adjustments due to the department and recommended questioned costs of \$5.7 million. As the report indicates, the department is working with the audited entities and Commission Audit, to close these audits.

Pending any questions, Mr. Cotter asked for approval of Exhibit C.

Chairman Jung asked Mr. Cotter how the department was performing in the collection of receivables.

Mr. Cotter stated that the department is doing well.

Chairman Jung inquired from the director on the performance of the Office of Commission Audits within the organization.

Director Steudle stated that working relationship has been good under Mr. Cotter's leadership. It is a very open relationship with a wealth of expertise. Mr. Cotter provided the department with an internal process review that was of very large value to the department on the processing of permits.

Commissioner Atkinson asked Mr. Cotter if the department is timely with its actions toward collecting the receivables.

Mr. Cotter stated that yes, to the extent the other parties interject into the process.

Chairman Jung entertained a motion. Motion was made by Commissioner Moser and supported by Commissioner Hayes to approve Exhibit C. Motion carried on a unanimous voice vote.

Six-Month Operational Audit Follow-Up Report (Exhibit D) – Jack Cotter

Mr. Cotter stated that in accordance with Guidance Document 10045, the Office of Commission Audits completed a bi-annual follow-up on Operational audit reports with recommendations outstanding 180 days or more.

Exhibit D is the Six-Month Operational Audit Report. The scope of this report reflects the status of recommendations at March, 13, 2012. The prior bi-annual follow-up report included one open recommendation. OCA determined, based on discussions with department personnel, and review of flowcharts and procedures developed by MDOT, that the remaining recommendation was satisfactorily resolved.

Chairman Jung entertained a motion. Motion was made by Commissioner Hayes and supported by Commissioner Atkinson to approve Exhibit D. Motion carried on a unanimous voice vote.

IV. **RESOLUTION**

Resolution 2012-3, Contract Modifications – Jack Cotter

Pending any questions, Chairman Jung asked for approval of Resolution 2012-3 as amended; none were forthcoming.

Commissioner Atkinson stated that she recommends amending:

1. Paragraph three to read “WHEREAS, Among its several duties and responsibilities, the Commission shall establish transportation program objectives to be pursued by the Director of the Department of Transportation with respect to all modes of transportation; and”;
2. paragraph four to read “WHEREAS, The best interests of the State are served by the expeditious completion of transportation-related construction projects, the consistent and efficient operations of construction contractors, subcontractors, related vendors, and employees, with oversight and attention to recourse owed; and”;
3. Paragraph six to and to add item c. that reads “Ensure that, where justified, redress is pursued to recover costs of extras and overruns from parties responsible for errors and that policies are implemented to prevent recurrence;

Chairman Jung entertained a motion to approve with the changes recommended by Commissioner Atkinson. Motion was made by Commissioner Atkinson and supported by Commissioner Hayes to approve Resolution 2012-3, as amended. Motion carried on a unanimous voice vote.

V. **EXHIBIT A-3 INFORMATION ONLY**

Tim Hoeffner provided information on Exhibit A-3, an upcoming waiver request for approval on an amendatory contract between MDOT and Norfolk southern. He provided the Commissioners with a review of the department's rail program. He stated the contract will provide for Norfolk Southern to perform additional track stabilization and maintenance work that will increase the contract amount by \$3,920,197.

Mr. Hoeffner stated that last year Norfolk Southern implemented speed restrictions on some of their railways. At the beginning on March 2012, Norfolk Southern informed MDOT that they were going to lower the speeds on additional pieces of rail, which directly impacts the high-speed rail projects. Most of the work in the amendatory contract was already planned; it just puts the work ahead of what was previously planned. Norfolk will be performing additional track stabilization and maintenance work that will extend the contract term by approximately seven months, allowing sufficient time to complete the additional work. They will perform track stabilization and maintenance work on six additional sections of Norfolk Southern-owned track between the cities of Kalamazoo and Dearborn. The original contract provided for this work on only two section of Norfolk Southern-owned track.

Commissioner Hayes stated that if the lines are shut down for 8 hours, will passengers be notified so they do not have to wait.

Mr. Hoeffner stated that yes, notice will be given.

Director Steudle stated that there are three roundtrips per day that Wolverine provides and asked what the impact would be on that service.

Mr. Hoeffner stated that it will be a major impact on the Wolverine service.

Chairman Jung stated that this contract would be presented to him on a waiver and asked if the Commission had any additional questions.

VI. **MEETING SCHEDULE**

Revised 2012 State Transportation Commission Meeting Schedule – Jack Cotter

Pending any questions, Mr. Cotter asked for approval of the Revised 2012 Meeting Schedule; none were forthcoming.

Chairman Jung entertained a motion. Motion was made by Commissioner Atkinson and supported by Commissioner Moser to approve the Revised 2012 Meeting Schedule. Motion carried on a unanimous voice vote.

VII. **COMMISSION COMMENTS**

VIII. **PUBLIC COMMENTS**

IX. **ADJOURNMENT**

There being no further business to come before the Commission, Chairman Jung declared the meeting adjourned at 11:15a.m.

The next full meeting will be held on April 26, 2012, in the 1st floor conference room, Office of Aeronautics in Lansing, Michigan, commencing at the hour of 9:00 a.m.

Frank E. Raha, III
Commission Advisor