MDOT
Michigan Department of Transportation

FIVE-YEAR TRANSPORTATION PROGRAM

FINANCIAL CRISIS KEY MESSAGES

FY 2010-2014

2010-2014 FIVE-YEAR TRANSPORTATION PROGRAM FINANCIAL CRISIS KEY MESSAGES

FIVE-YEAR TRANSPORTATION PROGRAM

Dear Friend:

These are challenging times for Michigan and transportation funding investments in Michigan are facing significant declines. About 10 years ago, while there was a shortage of transportation funding and many of our roadways were in poor condition, other factors were working in our favor. The economy was booming and vehicle miles traveled were on the rise. All of these factors gave us reason to be confident that an increase in the gas tax would carry us for years to come.

Today's environment is starkly different. Motorists have made permanent changes to their driving habits. These changes are good for Michigan and the environment but have negative impacts on transportation revenue. Motorists are driving less, and buying more fuel efficient vehicles and hybrids, leading to a $100 million decrease in gas tax revenue over the past five years. This trend is going to continue. In addition, the drop in new car sales has led to declining vehicle registration revenues, and skyrocketing construction and maintanance costs are eroding the purchasing power of the funding we do have.

The bottom line is that MDOT is reaching a point of not being able to maintain its capital investments and the system reliability that Michigan's economy needs and residents expect.

The way we have funded transportation for over a century is no longer adequate and it has to be fixed, in both the short term and long term. Our role isn't to dictate how transportation should be funded, but simply to raise awareness of the needs and to show what will happen to our infrastructure if we continue with the status quo.

This was the message of the Transportation Funding Task Force, a bipartisan group appointed by Gov. Granholm and the Michigan Legislature. In its November 2008 report on Michigan's transportation needs and funding alternatives, the Task Force made recommendations for organizational efficiencies and reforms and nine general recommendations, in addition to recommending funding alternatives specific to aviation, highways, roads and bridges, intermodal freight and intermodal passenger transportation.

This document identifies funding strategies for the 2010-2014 Five-Year Transportation Program. While MDOT can match all federal revenues available in 2010, we are faced with the reality that there will be insufficient state revenues available to match all of the estimated available federal funds beginning in 2011. If that happens, millions of dollars in federal fuel taxes already paid by Michigan residents and businesses will be lost to us. Our money will go to other states that are able to provide the needed match.

Please take a moment to make yourself familiar with the charts and graphs contained in this document that provide detail about how this funding crisis will affect all modes of transportation in Michigan: highways, bridge, public transit, rail, aviation, marine and non-motorized transportation.

MDOT's mission is to provide the highest quality integrated transportation services for economic benefit and improved quality of life. Please be assured we are doing everything we can to accomplish our mission, even in these challenging times, and continue to focus on system preservation and safety. We continue, every day, to act on every possible opportunity to stretch limited taxpayer dollars, to further our chances to match federal aid, and to continue to improve the efficiency of MDOT programs across all modes.

Thank you for seeking information regarding the Five-Year Transportation Program.

Sincerely,

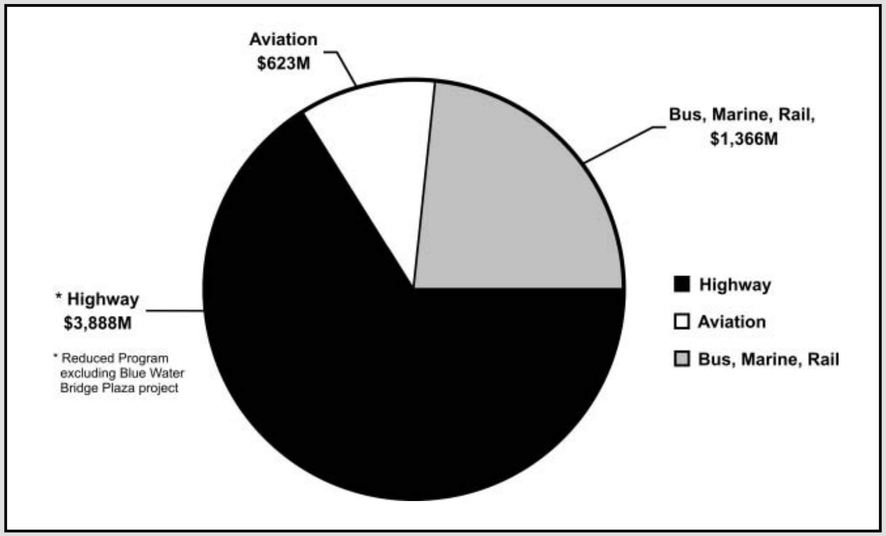
Kirk T. Steudle, Director
Michigan Department of Transportation

2010-2014 FIVE-YEAR TRANSPORTATION PROGRAM FINANCIAL CRISIS KEY MESSAGES

INTRODUCTION

MDOT's Five-Year Transportation Program

(Total = $ 5.877 Billion)



The Five-Year Transportation Program is an integrated program that includes highways, bridges, public transit, rail, aviation, marine, and non-motorized transportation. The Multi-Modal Program focuses largely on continued safe and secure operation of the existing transportation system through routine maintenance, capital replacement and rehabilitation; and preservation of existing service levels. The highway portion is a rolling program; each year, a new fifth year is added and program/project adjustments are made to other years. The Five-Year Transportation Program document only pertains to that portion of the programs that MDOT delivers, and does not account for those portions delivered locally with state and federal funds that are directly controlled by local agencies, such as transit agencies or county road commissions. MDOT's Appropriations bill requires the department to annually provide the Five-Year Transportation Program to the legislature, state budget office and the house and senate fiscal agencies before March.

The purpose of this document is to summarize the key messages regarding the funding crisis within all of the modes (highways, public transit, rail, aviation, marine) presented in the 2010-2014 Michigan Department of Transportation (MDOT) Five-Year Transportation Program.

These are challenging times for Michigan and transportation funding investments in Michigan are facing significant declines.

- All modes of transportation are being affected by declining state revenues and decreased buying power.
- Revenue uncertainties at the federal level, due to the expiration of the Federal Highway Authorization SAFETEA-LU and the Federal Aviation Authorization are affecting the delivery of MDOT's programs.
- MDOT is reaching a point of not being able to maintain its capital investments and the system reliability that Michigan's economy needs and residents expect.
- The Five-Year Transportation Program invests nearly $5.9 billion in MDOT's transportation system assuming the reduced Highway Program investment is implemented beginning in 2011.
- This includes Five-Years of investments (FY 2010-2014) in the highway, aviation, bus, rail and marine programs.
- Each mode has a reduced program size compared to the previous (2009-2013) Five-Year Transportation Program. The highway program total is reduced most dramatically by more than 35 percent compared to the previous Five-Year Program total.

HIGHLIGHTS OF MDOT'S KEY MESSAGES

HIGHWAY PROGRAM

✓ There are insufficient state revenues available to match all of the estimated available federal funds beginning in 2011.

✓ $2.1 billion in unmatchable federal funds could go to other states that can provide the required match.

✓ Unless state revenue for transportation increases, Michigan will experience substantial decline in road and bridge system condition, service level and reliability.

✓ A reduced Highway Program investment strategy, cutting approximately $600 million annually beginning in FY 2011, will be implemented if federal funding continues to go unmatched.

PASSENGER TRANSPORTATION PROGRAM

✓ The Passenger Transportation Program has seen steady revenue declines for several years

✓ Programs have been cut and reduced to divert available revenues to maintaining essential services. Capital investments have been deferred to maintain operating programs, yet funding still has not kept pace with the rising cost of doing business.

✓ There has not been adequate capital match since 2005 and millions of dollars in capital investment has been lost as a result.

✓ Projected revenues in the Five-Year Program are not enough to even maintain the current level of passenger services provided.

RAIL FREIGHT PROGRAM

✓ The Rail Freight Program has experienced revenue declines for several years.

✓ The Michigan Rail Loan Assistance Program (MiRLAP) has been suspended and the balance of the fund diverted to the general fund.

✓ Fewer grade crossing safety enhancement projects will be undertaken due to funding constraints and rising construction costs.

AVIATION PROGRAM

✓ The Aviation Program has also seen steady revenue declines for several years

✓ The aviation fuel tax revenues have declined in recent years, programs have been reduced, yet funding still has not kept pace with the rising cost of doing business.

✓ Aviation fuel tax rates have not been increased since their inception in 1929.

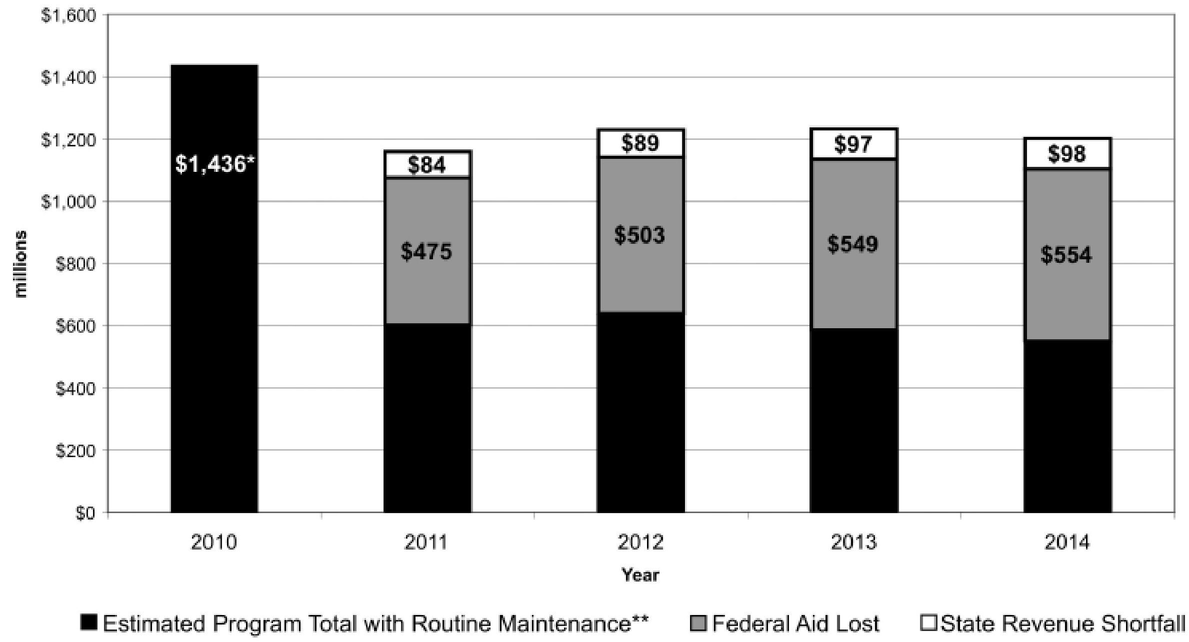
HIGHWAY PROGRAM

Highway Program Revenue Assumptions

- State revenue shortfalls of approximately $90 million per year beginning in 2011 are indicative of the declines in the Michigan Transportation Fund (MTF) revenue. Fewer gallons of fuel are being purchased due to volatile fuel prices and more fuel efficient vehicles which has led to a decrease in gas tax revenue over the past Five-Years, and this trend is expected to continue. Vehicle registration revenues are declining due to Michigan's weak economy.
- Federal-aid revenues are assumed flat for 2010 and 2011 due to the expiration of the SAFETEA-LU legislation in September 2009 and the lack of new federal transportation legislation on the horizon.
- If additional state revenues are not realized, the department stands to lose nearly $2.1 billion in unmatched federal funds between 2011 – 2014. These funds could go to other states that can provide the required match.
- The shortfall of state revenue and unmatchable federal-aid is over $2.4 billion.

The graph shows the state revenue shortfalls anticipated and resulting federal-aid that cannot be matched. A state revenue shortfall totaling approximately $370 million is projected between 2011 and 2014.

MDOT Highway Revenue Shortfall and Federal-Aid Lost



* 2010 Proposed Highway and Maintenance Capital Program with anticipated American Reinvestment and Recovery Act (ARRA)

** Reduced Program size are reported by year in Reduced Highway Investment Strategy & Impacts Section of the 2010 - 2014 document.

Highway Program Strategies

This Five-Year Transportation Program document identifies two highway program investment strategies. The first assumes that MDOT can match all federal revenues available. The second reflects a reduced highway program investment, assuming insufficient state revenues will be available to match all of the available federal funds.

- In order to address the shortfall, MDOT has developed a strategy to reduce the Highway Program by an annual average of $600 million over the 2011 – 2014 time period.
- The reduced program continues a preservation and safety focus and allocates 87 percent of the available highway capital funding (approximately $260 million) to the pavement preservation, bridge and safety categories.
- The reduced program does not completely eliminate funding for any one program.
- The reduced program emphasizes maintaining project production schedules so program delivery can continue if additional revenues become available. Construction phases of projects would be delayed or cut under the reduced program.

The table below overviews the Highway Program investment strategies presented in the Five-Year Transportation Program. The table compares the transportation program assuming that all federal-aid could be matched to the reduced program which constrains the program to expected revenues.

- With the exception of routine maintenance, program category reductions range from approximately 50 to 80 percent.

Highway Program Investment Strategy

Annual Averages

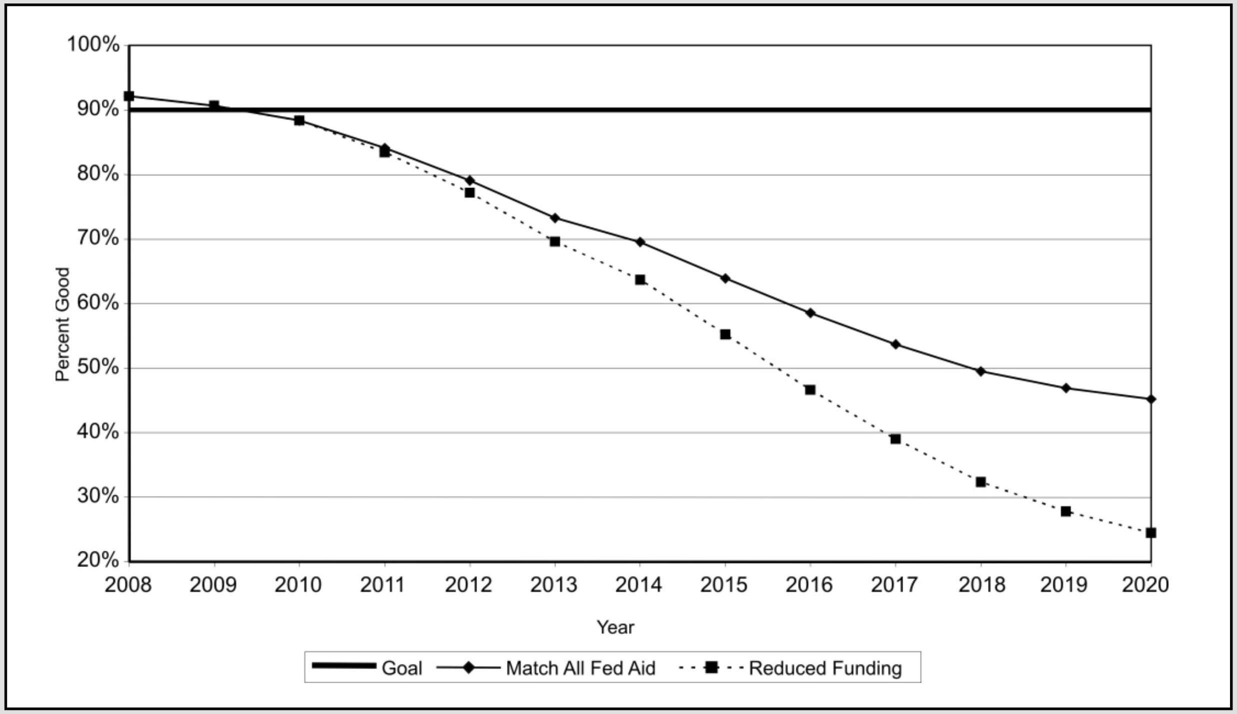
Highway Program	Match All Federal Aid	Reduced Program
	2010-2014	2011-2014
Repair & Rebuild Roads	$455 M	$164 M
Repair & Rebuild Bridges	$202 M	$68 M
Capacity Improvements/ New Roads	$55 M	$10 M
Safety & Operations	$76 M	$33 M
Congestion Mitigation & Air Quality	$40 M	$7 M
ITS	$13M	$3 M
Other	$108 M	$39 M
Routine Maintenance	$304 M	$289 M
Total	$1.253 M	$613 M

Consequences of the Reduced Highway Program

- If MDOT implements the reduced program, the Highway Program will support approximately 8,400 jobs per year from 2011-2014. A loss of more than 7,000 jobs annually (compared to a fully matched program).
- An annual average of $613 million will be invested in the reduced Highway Program over the 2011-2014 timeframe, of which nearly $300 million is routine maintenance.
- Annual investment in the pavement preservation program is reduced by nearly $300 million annually beginning in 2011 under the reduced program strategy.
- More than 100 road construction projects will be delayed or removed from the Five-Year Transportation Program.
- 375 miles of road rehabilitation or reconstruction work will be delayed or removed.
- Nearly 800 miles in road preventive maintenance work each year will be removed or delayed from the 2011-2014 timeframe.
- The reduction to the pavement preservation program will substantially impact the progress made in improving system condition, MDOT asset management's approach towards sustaining system condition, and the corridor strategies used to more efficiently coordinate construction activities.
- After having reached the goal of 90 percent good, pavement conditions are expected to decline from 91 percent good in 2008 to 63 percent good in 2014.
- Even if we are able to match all available federal aid, pavement condition is still projected to deteriorate sharply, as illustrated in the graph.

- At the reduced funding level, 575 bridge projects will be delayed or removed from the program.
- Bridges would be more susceptible to becoming structurally deficient if funding is not sufficient to keep pace with our asset management approach.
- Bridge funding reductions could lead to bridges being rated "serious and critical," some of which may need temporary supports, emergency repairs, or restricted load postings.
- If we were able to match all available federal aid the current combined freeway/non-freeway bridge condition of 90 percent good could be sustained. However, under the reduced program bridge condition would steadily decline.
- Although safety will continue to be emphasized by the department in all projects implemented, reduced funding will significantly impact the replacement cycle for stand-alone traffic signs and signal upgrades.
  - Sign replacement cycle will increase from 15 to 25 years
  - Signal replacement cycle will increase from 25 to over 50 years
  - Signal retiming cycle will increase from 10 to 15 years
- There will be limited placement of non-freeway rumble strips and edge line pavement markings only emphasizing pavement marking projects where they are federally mandated.
- Starting in 2011, the Congestion Mitigation and Air Quality (CMAQ) program will be reduced by roughly 80 percent. This could put the state at increased risk of implementing costly prescriptive measures that would be needed to attain national air quality standards.

Pavement Condition Forecast Comparison Match All Federal Aid vs. Reduced Funding Strategies



The graph depicts the comparison between the match all federal aid program and the reduced program pavement condition. The graph indicates, even under the match all federal aid program, federal and state revenues will not be enough to prevent the rapid decline in pavement condition.

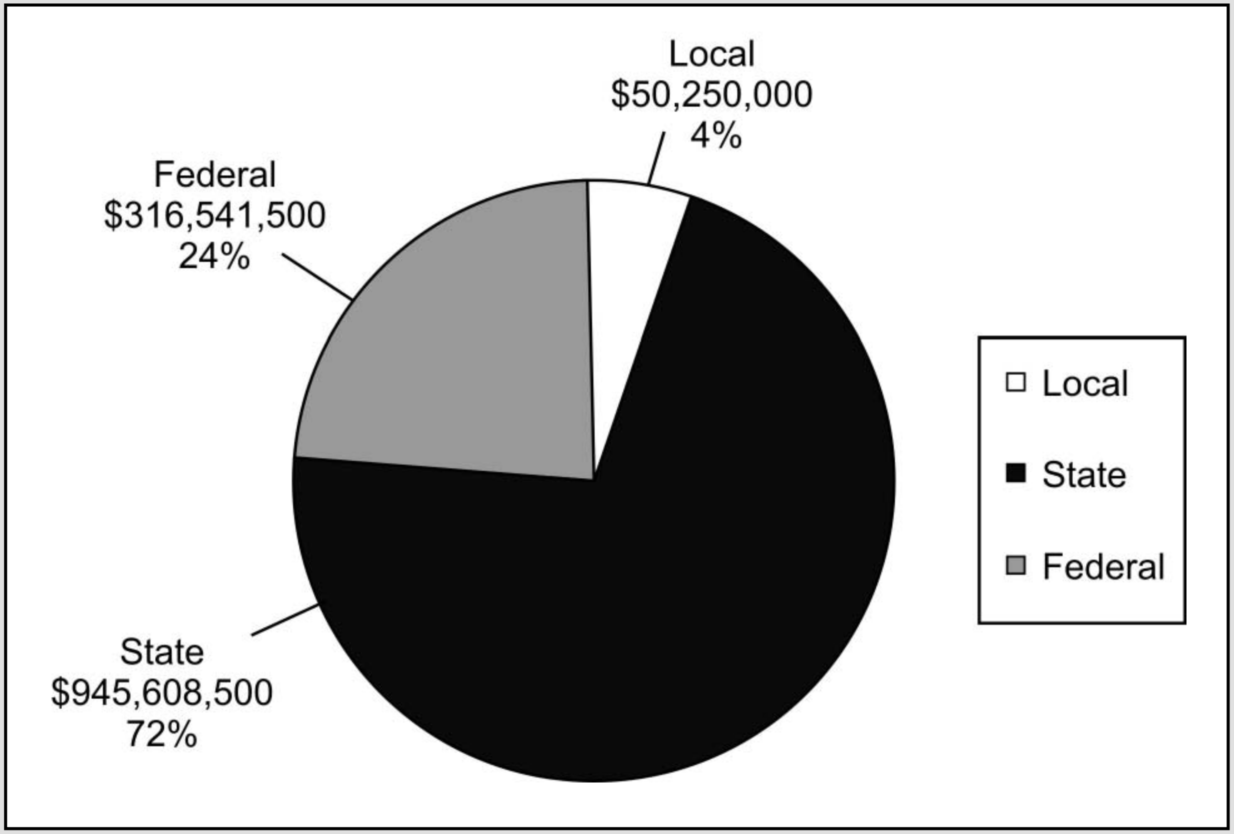
- Excluding anticipated construction activities associated with the Blue Water Bridge Plaza, Capacity Improvement/New Roads funding would be reduced from $55 million to just $10 million on average per year.
  - Portions of the Holland to Grand Haven Bypass will be delayed including work along M-231, I-96, and US-31 in Ottawa County.
  - Portions of the US-131 Constantine Bypass project planned for FY 2012 will be delayed in St. Joseph County.

PASSENGER TRANSPORTATION PROGRAM

Passenger Transportation Revenue Assumptions

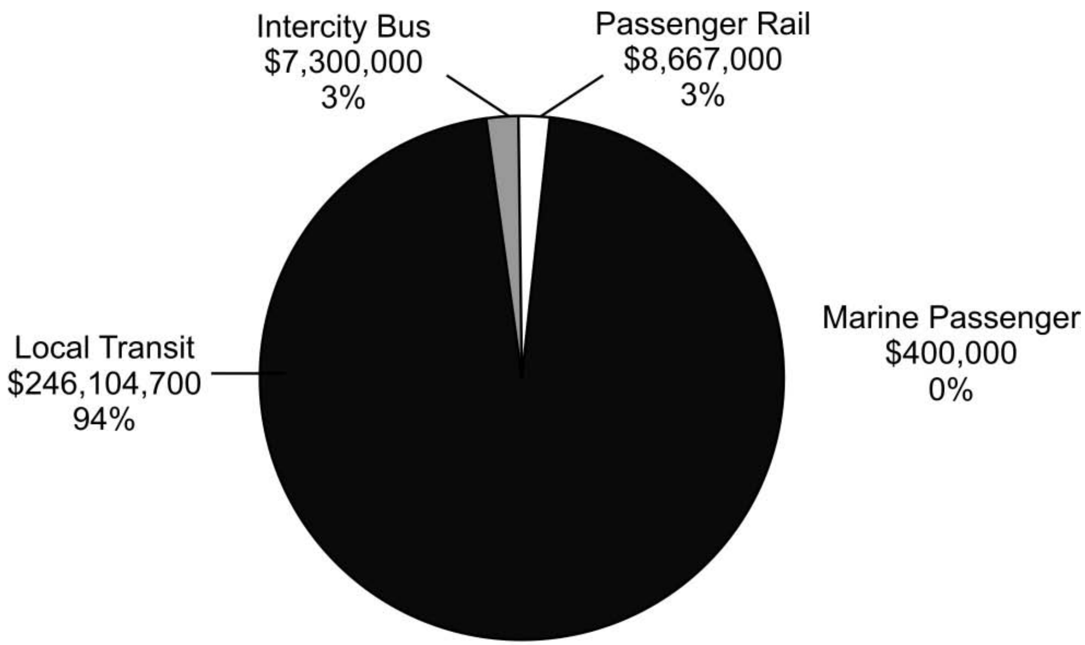
- Total Passenger Transportation Program for FY 2010 to FY 2014 is approximately $1.3 billion
- The Passenger Transportation Program has seen steady revenue declines for several years
- Revenues are insufficient to meet program needs such as continuation of transit services and bus replacement
- The revenues shown at right are the Five-Year total, based on no-growth for any of the sources
  - Federal funding bill has expired and we are working under a continuation budget, so revenues are projected to be flat over the Five-Years
  - State funds directed to the Comprehensive Transportation Fund (CTF) are projected to be flat at best with hopes that the legislature will not divert constitutionally unprotected funds.
- Majority of federal funds go directly to public transit providers, and are not reflected in the state program
- Programs have been cut and reduced to divert available revenues to maintain essential services. Capital investments have been deferred to maintain operating programs, yet funding still has not kept pace with the rising cost of doing business.

Passenger Transportation Five-Year Program By Revenue Source



Investment Strategy Multi-Modal - Passenger Transportation

FY 2010 Passenger Transportation By Mode



Breakdown of Five-Year Program by mode will likely look like FY 2010

Passenger Transportation Program Strategy

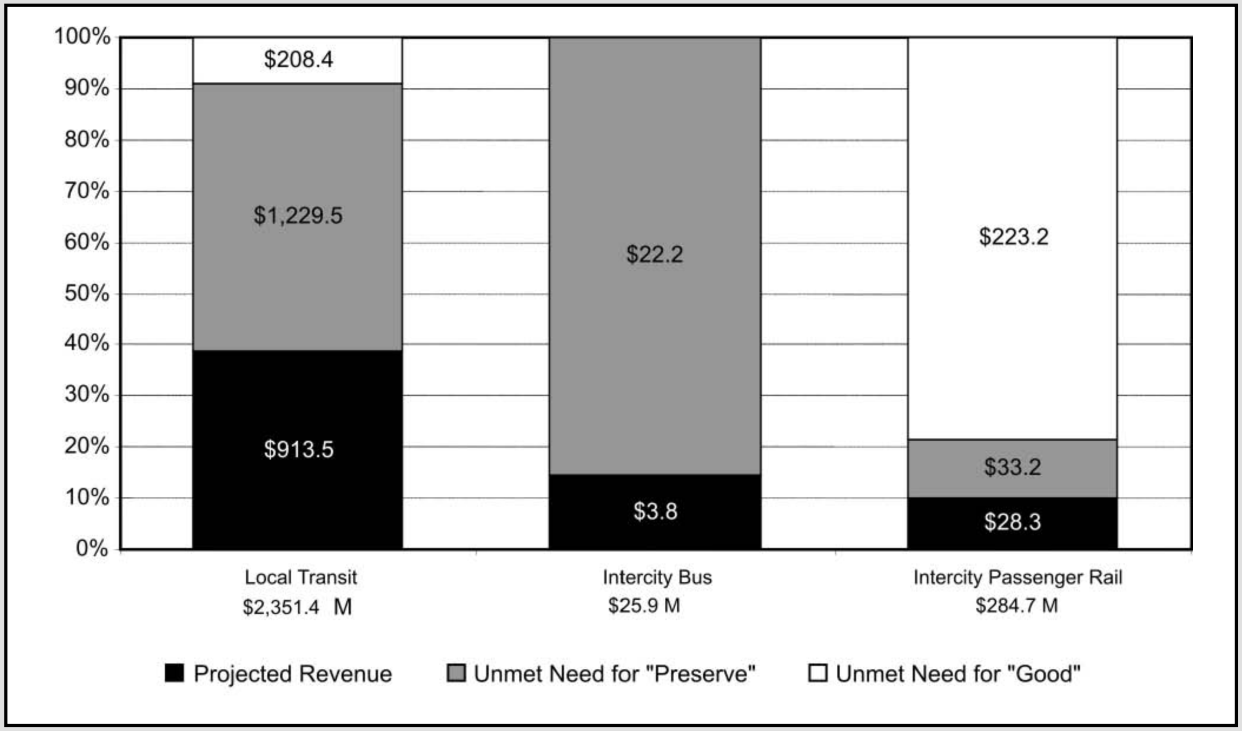
- Each year $273 million will be invested in the bus, passenger rail and marine/port programs.
- Investment of CTF revenues is determined by the detailed requirements set forth in Act 51 of 1951 as well as the annual appropriations process.
- The chart shows the breakdown by passenger transportation mode for FY 2010. The appropriations level for each mode can vary from year to year, but generally the percent for each mode remains about the same.
- Each year over $200 million in operating, capital and special project contracts will be issued to support over 130 local transit providers.
- Funds will be focused on continued safe and secure operation for the existing system through routine maintenance, capital replacement/rehabilitation, and preserving existing service levels.

Consequences of the Reduced Passenger Transportation Program

- As indicated in the chart, the program does not have sufficient revenue available to even preserve existing services for all modes let alone reach a "good" level of service which the Transportation Funding Task Force defined in their final report as a level of investment that would preserve, modernize and expand the passenger transportation system to provide users with increased transit options.
  - (Note: Intercity bus service was recently enhanced with a new route that improved the connectivity throughout the state which is why we consider the funds needed for "preservation" to be about the same as the funds needed for "good".)
- The "good" level of service would require additional funding of $343 million per year.

Projected Revenue vs. Revenue Needed for Desired Service Levels

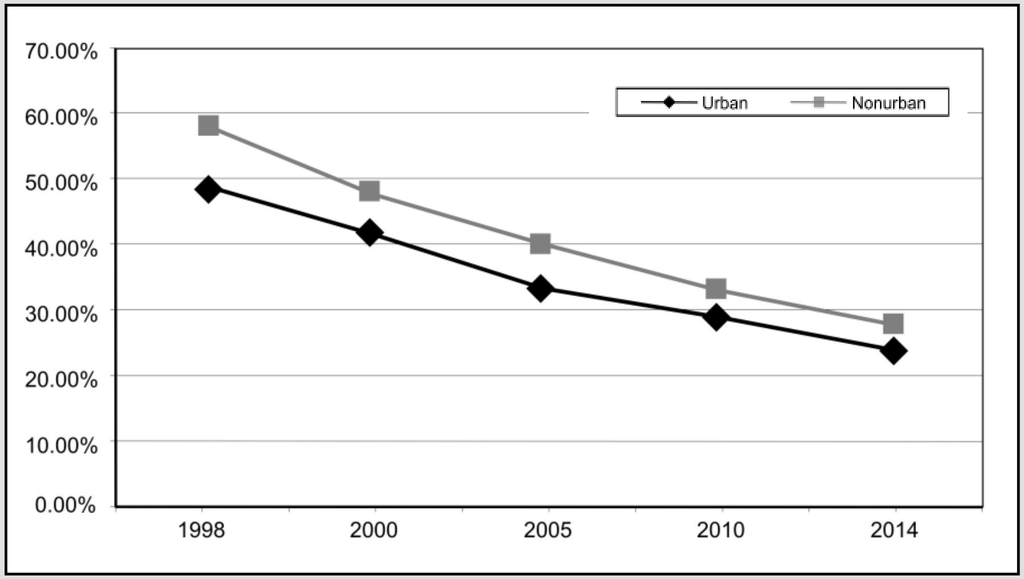
Five-Year Total Needs (in millions)



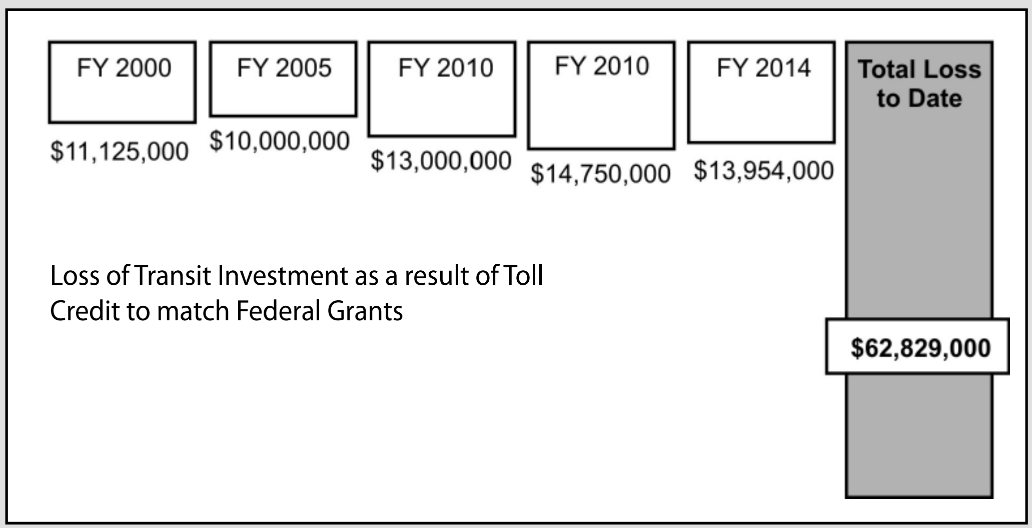
- The chart to the right indicates the steady decline in the state's share of local transit system operating expenses. State law requires the CTF to share in transit operating expenses.
- Prior to this Five-Year Program some operating and capital programs have been eliminated in their entirety in order to divert available revenues to maintenance of essential public transportation services.
  - However, in this Five-Year Program, the available funds are inadequate to maintain essential services.
  - State revenues are not keeping up with the increasing costs of providing service for all passenger transportation modes – local transit, intercity bus, and passenger rail.
- The same situation is occurring on the capital side of the program
  - Some state funded capital programs, such as passenger rail infrastructure and construction of new intercity passenger terminals and stations have been eliminated or severely reduced to divert available revenues to matching and leveraging federal capital funds.
  - Since 2005 MDOT has matched some federal grants with toll credits, which are a funding mechanism that stand in the place of cash match (state or local). While the toll credits allows access to the federal funds, the credits cannot be used to purchase goods or services, therefore decreasing the purchasing power of the federal funds. The extent of the lost purchasing power is illustrated in the adjacent chart.

Local Public Transit Cost vs. Revenues

State Share of Operating Expenses



Loss of Transit Investment



RAIL FREIGHT PROGRAM

The focus of the Rail Freight Program is safety and preservation. The program primarily provides for safety enhancements at railroad crossings and the management and preservation of 530 miles of state-owned rail lines. The program also provides support for freight-related economic development. The program reflects the reductions already faced and expected to continue during this five-year period.

Revenue Assumptions

- There have been on-going revenue shortfalls for several fiscal years.
- Grade crossing safety funding is approximately 20 percent below FY 2001.
- Funding for state-owned rail infrastructure and freight-related economic development is approximately 72 percent below FY 2001 levels.

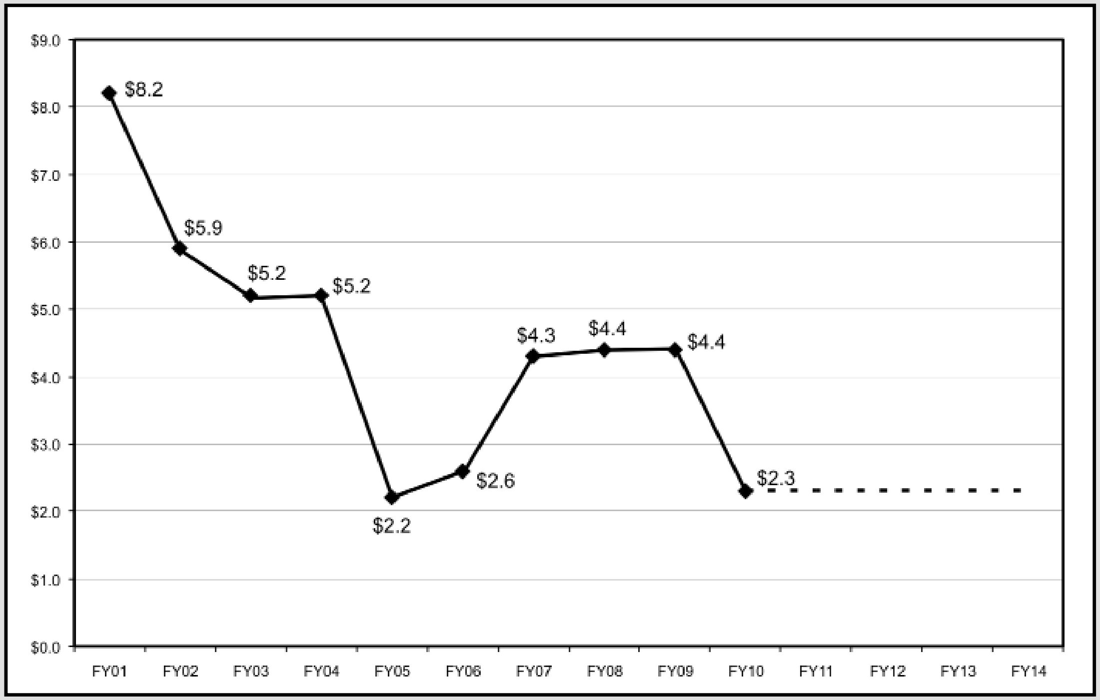
Rail Freight Program Strategies

- The reduced program continues a safety and preservation focus.
- The Michigan Rail Loan Assistance Program (MiRLAP) has been suspended and the balance of the fund diverted to the general fund. The self-sustaining revolving loan fund had been available for rail infrastructure investments.
- Additional program reductions may be needed – and will be made annually – if revenues do not support the already reduced program.

Rail Freight Program Consequences

- Fewer grade crossing safety enhancement projects will be undertaken due to funding constraints and rising construction costs.
- Reduced state CTF funding undermines preservation efforts on state-owned lines and limits MDOT's ability to address new business opportunities or emergency situations.
- Suspension of MiRLAP particularly affects smaller, short-line railroads, for which capital assistance can be critical to address emergency situations as necessary to maintain service.

Rail Freight Program- CTF Revenue



AVIATION PROGRAM

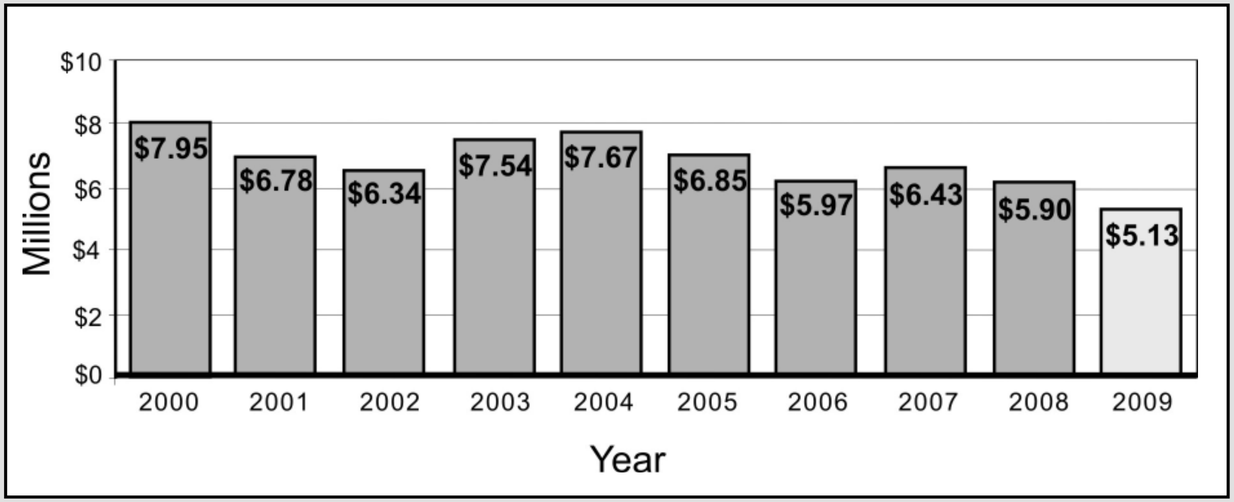
MDOT's FY 2010-2014 Aviation Program provides capital assistance with federal, state, and local funds to airports in Michigan. In addition, the program provides for technical support and safety oversight for airports, pilots, and flight instructors. The focus is largely on continued safe and secure operation of the existing airport system through capital replacement/rehabilitation, and preservation of existing facilities.

Aviation Revenue Assumptions

MDOT anticipates revenue for aeronautics programs to remain flat or reduced. Cost increases for construction materials have far outpaced the overall inflation rate. The asphalt and concrete used to construct runways and adjoining pavement costs far more now than it did just five short years ago. While construction costs have increased dramatically, revenues have not kept pace.

As shown in the graph, even without adjusting for inflation, aviation fuel tax revenue is at its lowest level in over a decade.

State Aviation Fuel Tax Revenue

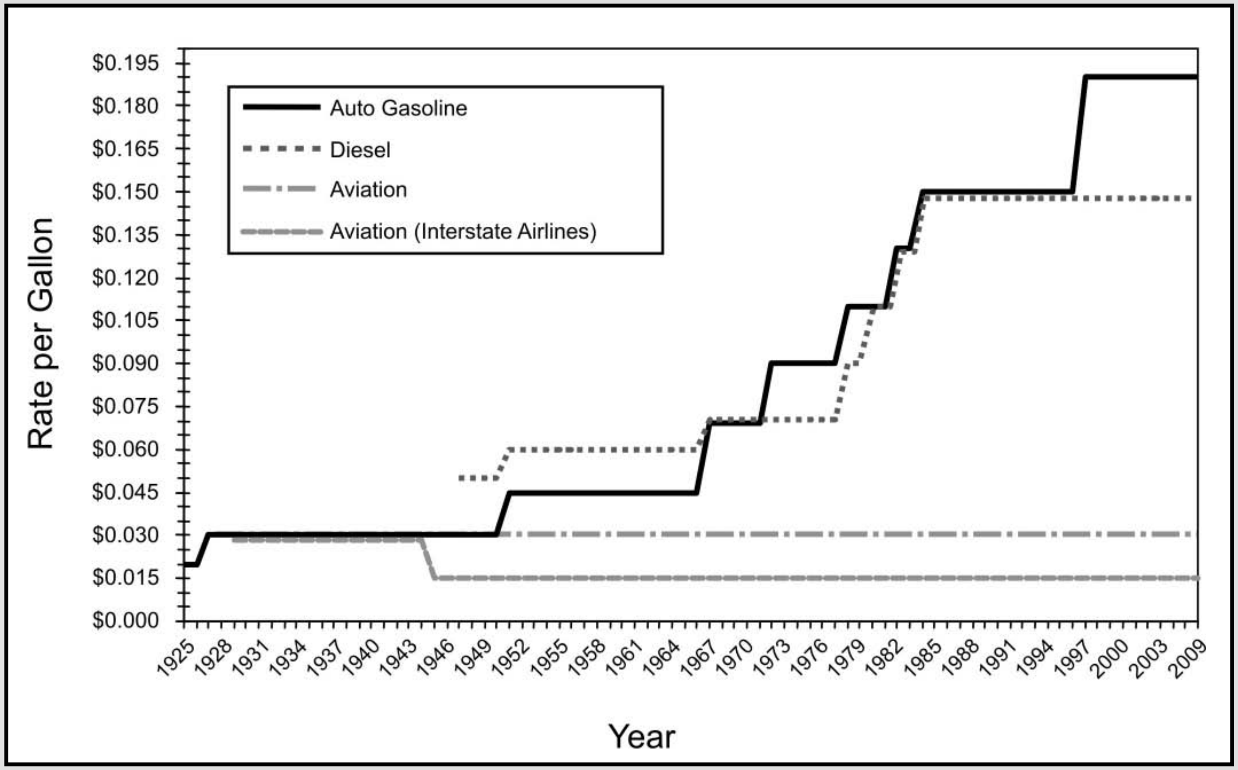


• From 2008 to 2009, a 13 percent reduction in aviation fuel tax revenues occurred.

The tax rate for aviation fuel tax has never been adjusted since its inception in 1929. The chart below shows a comparison of Michigan fuel tax rates to the aviation tax rate.

It is also important to note that the state aviation fuel tax revenues are used to fund both operating and capital programs for Aeronautics. Additional non-federal funds for capital improvements are also provided by the Detroit Metro Wayne County International Airport parking tax.

Comparison of Michigan Fuel Tax Rates



Anticipated Aviation Program Reductions and Strategies

MDOT anticipates continued budget challenges for its aeronautics program in FY 2010. As a result, the aviation program will be reduced to reflect the continued downward trends in revenues.

- Each year, an average of $124.5 million of federal, state and local funds will be invested in the total aviation program.
- The anticipated Aviation Capital Program for FY 2010 is a 26 percent reduction from FY 2009. This program is funded with a combination of federal and state funds. The state funded portion of the program has been declining rapidly over the past Five-Years.

Consequences of Reduced Aviation Program

- The remaining state funding will be used almost exclusively to match available federal dollars. Statewide operating programs funded with State Aeronautics Funds (SAF) were eliminated or suspended in FY 2009 and will likely remain so without an increase in SAF revenue during FY 2010.
- Programs Eliminated or substantially reduced include:
  - All Weather Airport Access Program
  - Airport Rescue and Fire Fighting (ARFF) Training
  - Air Service Program
  - Airport Inspection Program
  - Runway and Airport Approach Marking

CONCLUSIONS

MDOT's mission is to provide the highest quality integrated transportation services for economic benefit and improved quality of life. Please be assured we are doing everything we can to accomplish our mission, even in these challenging times, and continue to focus on system preservation and safety. We will continue to look for every avenue to save as much as possible to better match federal aid and stretch limited taxpayer dollars as far as possible by achieving efficiencies in MDOT programs across all modes. However, implementing reduced funding strategies that are constrained to available revenue, due to the funding crisis that we face today, will result in more rapid system deterioration.