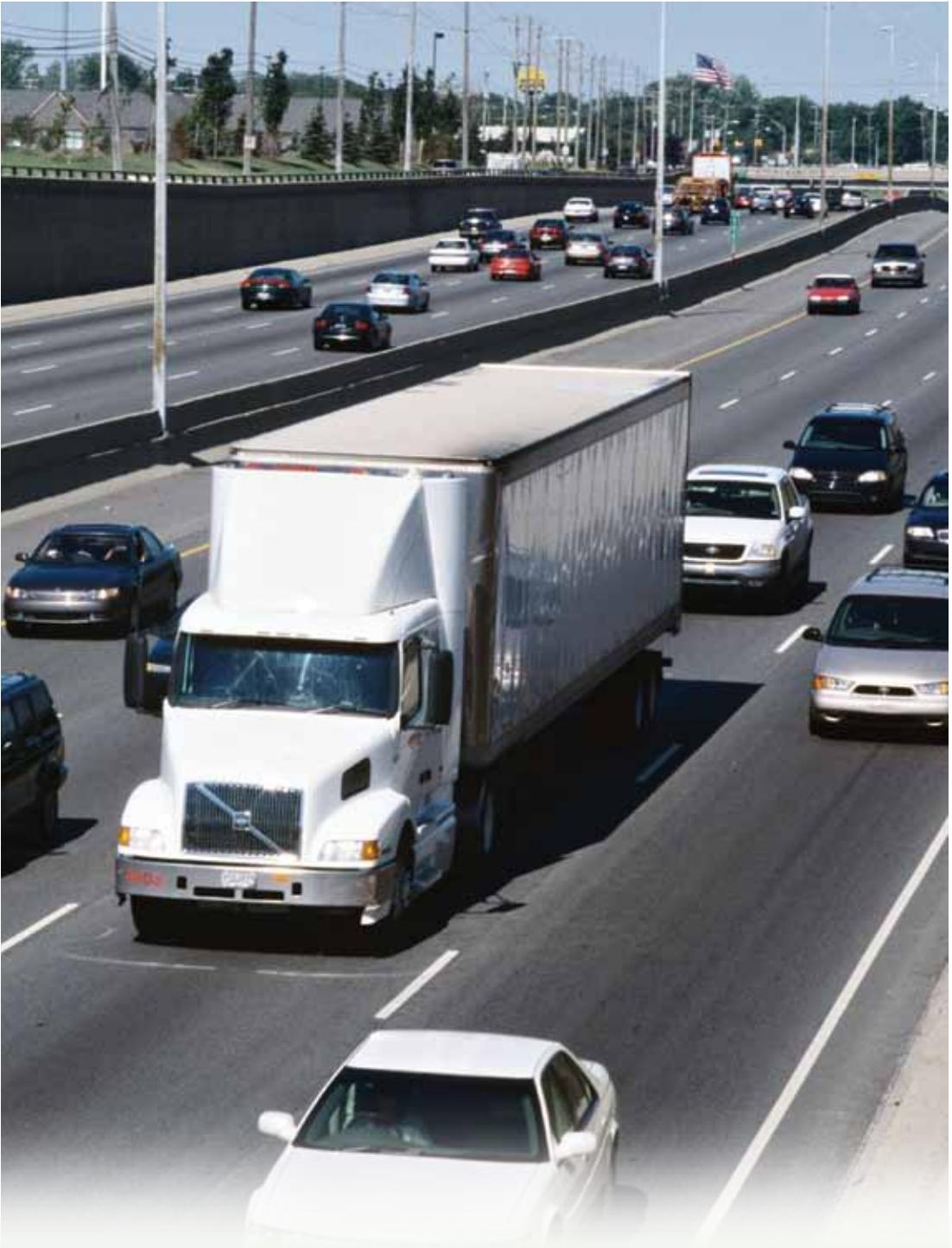


Michigan Department of
Transportation's

Positions on the Next Federal Surface Transportation Authorization

March 2011





Prepared by MDOT's Intermodal Policy Division, February 2011.
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Michigan Department of Transportation's Positions on the Next Federal Surface Transportation Authorization

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Achieve Real Equity to Bring \$100 Million More Back to Michigan Each Year

What's Best for Michigan

Michigan's status as a donor state must end with this federal surface transportation authorization. Basing the allocation of federal transportation funding on national goals and priorities for transportation and the economy is one way to rectify this ongoing problem.



Why

The federal highway program is supported by dedicated user fees – motor fuel taxes and excise taxes. Motorists pay for the roads they drive on each time they refuel their vehicles. These fees should be used to repair the roads Michigan motorists use, not sent to other states.

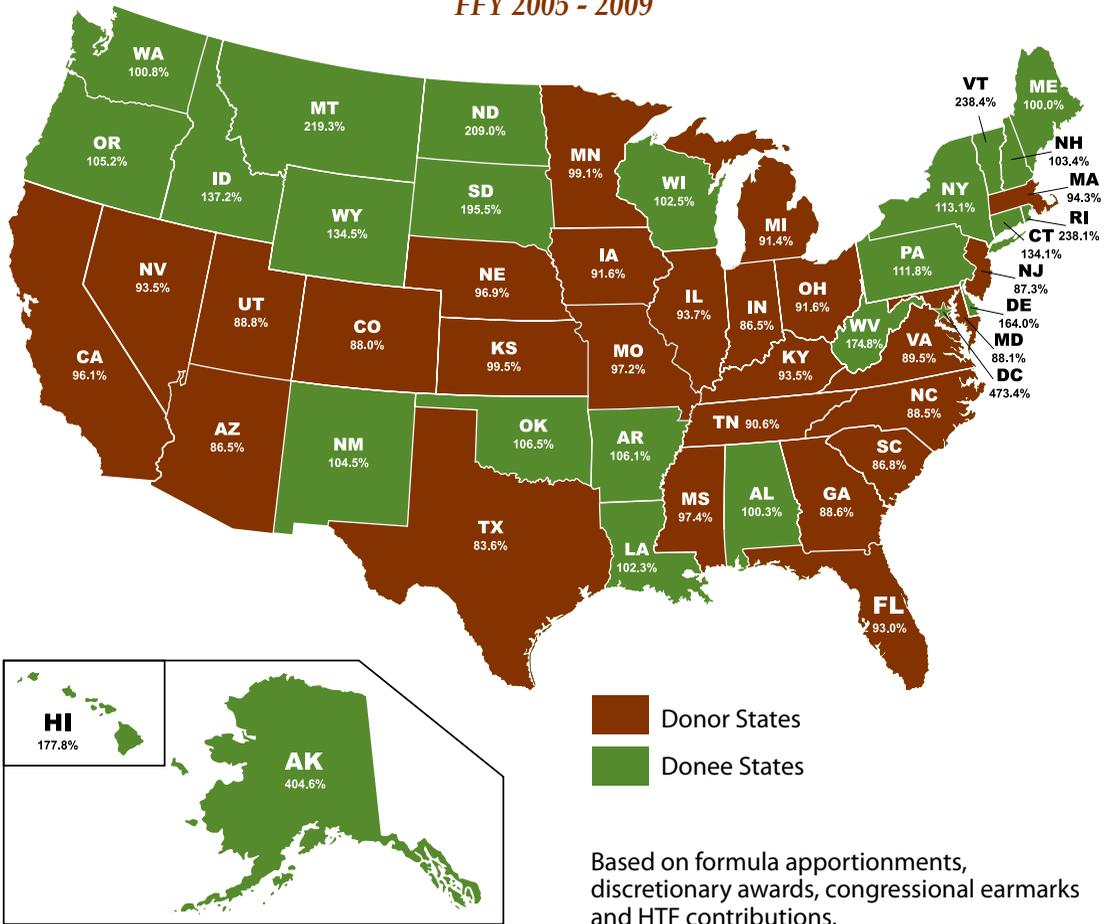
Since the inception of the Federal Highway Program, Michigan has been a donor state, contributing a greater percentage of funds generated by federal user fees to the Federal Highway Trust Fund (HTF) than it receives in allocations. The rationale was that additional funds were needed for those large western states with low population densities that could not generate sufficient revenue to support the needs of their Interstate Highway System. The nation's interest continues to be served by supporting a national highway system in these states, but these are no longer the only states receiving greater than 100 percent return on their contributions to the HTF.

Over the five-year period covered by SAFETEA-LU (FY 2005-2009) 26 states contributed a greater percentage share to the HTF than was returned to them. Michigan was among these 26 states and our rate of return was 91 percent. If Michigan's share of federal highway funding was equal to our share of tax revenue contributions to the HTF, we would have received \$518 million more over this five-year period.

The federal highway program has evolved into a hodge-podge of programs and project earmarks with little vision, direction or cohesiveness, and the illogic in rates of return is one result. If the federal-aid highway program is to be more goal-oriented and performance-driven, the allocation of highway funds must be reengineered to focus on addressing national priorities, and funding formulas should be reconfigured to reflect those goals. Such an approach has the potential to rationalize the rate of return for donor states.

Cumulative Rate of Return

FFY 2005 - 2009



Donor States
 Donee States

Based on formula apportionments, discretionary awards, congressional earmarks and HTF contributions.

Ensure Adequate Funding for Needed Infrastructure Investments

What's Best for Michigan

Increase the level of federal transportation investment in highways and transit systems to maintain and improve operations, safety and mobility, provide more transportation options, and improve our global competitiveness.

Promote the development of new, innovative financing mechanisms to supplement current revenue streams (i.e., public private partnerships, tolling, Transportation Infrastructure Finance and Innovation Act (TIFIA) and others), and diversify the revenue sources supporting the Highway Trust Fund and Mass Transit Account.

Preserve, at a minimum, the current 20 percent general fund contribution necessary to support the federal transit program. In addition, continue to credit the Mass Transit Account with 20 percent of each future year increase in the motor fuel tax (or successor).

Why

The current level of federal funding is simply insufficient to meet the needs of the transportation system. This point has been shown over and over in the last few years through research and reports, as shown in the table that follows.

Report	Total Capital Funding from all Sources	Estimated Annual Investment Needs 2008-2035	Estimated Federal Share of Investment Needs
FHWA Conditions and Performance December 2009	\$76 billion	\$189 billion	\$85 billion
National Surface Transportation Infrastructure Financing Commission February 2009	\$76 billion	\$214 billion	\$96 billion
National Surface Transportation Policy and Revenue Study Commission December 2007	\$76 billion	\$262 billion	\$118 billion

Source: "Paying Our Way" Report of the National Surface Transportation Infrastructure Financing Commission

These needs estimates were reinforced in a state-level study examining the needs of the transportation system in Michigan. The study found annual infrastructure needs in Michigan of between \$7 and \$14 billion.

Investment levels need to increase over time to help meet these documented needs and the federal government should continue to play a significant role in investing and maintaining an integrated national transportation system.

Sharpen Focus on Border Issues and Funds

What's Best for Michigan

Move the Coordinated Border Infrastructure Program "above the line" and outside the calculation of the Equity Bonus to ensure that the nation's critical border facilities are truly treated as national priorities, and allocate funding based on trade and traffic volumes, security, and infrastructure needs.



Why

International border crossings are unique national resources that not only benefit the northern and southern border states, but benefit the entire United States by providing improved trade connections with Canada and Mexico.

Michigan is essentially a pass-through state for international border trade. Despite the benefit that our border crossings provide to states across the country, we shoulder the burden of funding the upkeep and improvement of our facilities and surrounding infrastructure.

- At the Blue Water Bridge, approximately 50 percent of the incoming commercial traffic passes on to other states, including Illinois, Indiana, and Ohio, while 30 percent of the outgoing traffic originates in other states.
- The Ambassador Bridge sees 60 percent of the incoming commercial trade passing through to destinations such as Illinois, Indiana, Kentucky, and Texas, while 68 percent of the outgoing Ambassador Bridge commercial traffic originates in other states, such as Ohio, Indiana, Illinois, Kentucky and Tennessee.

Our borders should be treated as projects of national significance and should be funded in a manner consistent with other nationally significant projects.

Michigan needs funding for border projects that does not come out of formula programs. Because it is "below the line," the current border program simply diverts funds to border infrastructure that would otherwise be available for important road and bridge projects elsewhere in Michigan. Michigan carries a disproportionately larger share of the funding burden for ensuring that the goods crossing the border are safe, sufficient, and efficient. Many other states benefit while Michigan foots the bill.

Explore New Federal Revenue Opportunities

What's Best for Michigan

Diversify the portfolio of funds available for investment in transportation to improve the stability of the overall funding stream and reduce dependence on the gas tax.

Continue to explore the viability of replacing motor fuel taxes with a fee on Vehicle Miles Traveled (VMT) as a means of improving the long-term stability of infrastructure funding.



Why

Increasing gasoline prices in the past have exposed a fundamental weakness in our reliance on motor fuel taxes as the source of funding for our transportation infrastructure investments.

- High fuel prices have shifted the demand for motor vehicles away from larger, less fuel-efficient vehicles toward smaller, more fuel-efficient models.
- Policymakers also have responded by legislating higher fuel efficiency.
- The U.S. Environmental Protection Agency predicts that fuel efficiency for light-duty vehicles on the road will increase by 42 percent by 2030, and the fuel efficiency for freight trucks will increase by 15 percent over this time period.
- The decline in VMT in recent years has shown that demand for motor fuel is not as inelastic as was once thought.

Projected motor fuel tax revenue under current tax rates shows that while revenue may once again grow in future years, revenue growth will not be high enough to keep pace with inflation.

Some research has been done on the viability of a fee on VMT as a more sustainable source of revenue for transportation investments. The benefits of a VMT fee include improved revenue raising potential, the ability to send market signals to users, and better targeting of investments. Questions still remain about the concept, which require more research, including a closer look at the cost of shifting to a VMT fee and how to address privacy concerns.

Michigan is a recognized leader in Vehicle and Infrastructure Integration (VII) technology, and this unique perspective could prove beneficial in further efforts to research the viability of a VMT-based fee.

Beyond the motor fuel tax and VMT fee, the reports generated by the two commissions created by SAFETEA-LU contain considerable information on other sources of revenue that can be used to supplement or replace existing taxes to diversify the revenue stream. The options and recommendations of these commissions should be considered.

Expand the Toolkit of Options for Financing Transportation Projects

What's Best for Michigan

Continue and expand programs that offer innovative methods to finance transportation projects, including the TIFIA program, State Infrastructure Banks, Private Activity Bonds, and Build America Bonds.

Promote and encourage private sector participation in infrastructure projects to expand financing options and accelerate project delivery while ensuring that appropriate controls are in place to preserve the public interest. In addition, create incentives to increase state, local, and private investment levels in public transportation.

Establish federal policies regarding tolling and road pricing that provide states with maximum flexibility for toll financing of transportation projects whether or not they increase capacity.

Why

The documented needs of the transportation system far surpass revenue currently available, and revenue likely to be available in the foreseeable future. Expanded options for financing projects can fill a small portion of the gap between revenue and needs.

Demand for the assistance provided through these programs has accelerated in recent years as the revenue provided through traditional funding mechanisms has declined. Enhancing federal support for these programs and activities could leverage billions of additional dollars for investment in our system.

Greater opportunities for private sector involvement in project financing, development, construction and operations can provide many benefits beyond simply supplying capital for financing. Public Private Partnerships (P3s) also can benefit states and ultimately travelers by improving life-cycle investing, providing incentives for more efficient operations and maintenance, and transferring risk to the private sector.

There are currently four different tolling or pricing programs authorized by federal law that are either pilot or demonstration programs with limited access to slots within each program. Project development takes time and states need more certainty than these pilot programs offer in order to more effectively plan projects and programs.

Advances in toll collection technology have laid to rest many of the issues and concerns related to mobility and safety surrounding toll collection gantries.

Tolling, and particularly road pricing, has proven to be a viable mechanism for sending market signals to road users, which can lead to less congestion on priced facilities. In areas where viable modal choice exists, environmental benefits may result as well.

Protect Transportation Funding Firewalls

What's Best for Michigan

Restore firewalls that ensure that revenues generated by transportation users remain in the HTF and are invested in transportation systems.

Maintain a separate Mass Transit Account within the HTF and preserve the existing federal transit program funding guarantees.

Ensure that any new revenue source used for transportation, whether it accrues to the HTF or to a newly created fund, is also protected by firewalls.



Why

Budgetary firewalls, which are intended to protect transportation funds from spending pressures in other areas of the federal budget, recognize the unique nature of these trust-funded programs. Recent House action weakened these firewalls.

Continuing to protect transportation funds with firewalls also will ensure that we continue to maintain a commitment to taxpayers that the user fees they pay will go toward improving our nation's infrastructure.

Focus Federal Resources on Core Programs

What's Best for Michigan

Limit or eliminate funding for discretionary programs. Take steps to ensure that the type of projects or work funded through discretionary programs are eligible for funding under existing core programs.



Why

Michigan would benefit from an increase in the share of highway funding distributed through existing core formula programs. These programs provide a critical source of funding for most road and bridge improvement projects in Michigan. While recent grant-based programs such as the Transportation Investment Generating Economic Recovery (TIGER) program have been popular, transportation agencies also need the kind of consistent and predictable funding provided by formula programs to plan, design, construct and maintain vital transportation infrastructure.

If discretionary funds were distributed by existing formulas for the period covering FY 2005-09, Michigan would have received an additional \$404 million. Some examples of discretionary funds include:

- Interstate Maintenance Discretionary Program
- Bridge Discretionary Program
- Transportation, Community, and System Preservation Program
- Truck Parking Facilities Program
- Ferry Boat and Ferry Terminal Facilities Program

Increasing funds for discretionary programs causes corresponding decreases in formula programs, which reduces Michigan's overall percentage of funds received.

Through the five-year period of SAFETEA-LU (2005-09), Michigan received an average of less than 1.8 percent of funds distributed through discretionary programs. This is far less than the 3 percent of funds Michigan received from formula-based programs, which are included in the equity calculation that guarantees all states at least a 92 percent rate of return.

To maximize use of funds during the next surface transportation authorization period, targeted dollars should be directed to projects that are already planned or programmed. When a project is funded outside of existing plans, the transportation agency must shift funds from an approved and fully vetted project to the project receiving the discretionary award.

Focus “New Starts” Funding on Filling Urban Transit Gaps

What’s Best for Michigan

Revise the New Starts program to use a portion of the funds specifically to establish fixed guideway systems in metropolitan areas lacking local rapid transit. Criteria for New Starts funding should consider economic development benefits, including special consideration for economically distressed areas, and land-use benefits.



Why

Currently, both expansion transit projects and new transit projects compete for the same discretionary New Starts funds. Based on existing criteria, system expansion projects have a significant advantage. As a result, Michigan metropolitan areas cannot compete effectively and they continue to fall behind, creating gaps in the nation’s passenger transportation system and hurting Michigan’s ability to compete for business, workers, and tourism.

Separating project evaluations for the two categories will help provide a more balanced approach to the allocation of funding. It will facilitate development of new fixed-guideway systems in U.S. metropolitan areas currently lacking these systems, ensuring that light and commuter rail will generate the significant economic, environmental, and mobility benefits that our current bus-only systems cannot achieve.

Developing fixed guideway systems in Michigan’s urban areas also is essential to achieve the vision of high-speed rail in America. As the Michigan terminus of the Detroit-Chicago high-speed rail corridor, the Detroit metropolitan area must establish a local rapid transit system to capture the economic benefits that high-speed rail will bring to the Midwest. Without it, high-speed intercity rail will result in travel from Michigan to other Midwestern cities, such as Chicago and Minneapolis, where business travelers or tourists can easily complete trips using high-frequency, high-performing local transit. Southeast Michigan is the largest metropolitan region in the U.S. without high-capacity rapid transit service in place and lacks a metro transit system with a transit connection to the Detroit Metropolitan Airport.

In addition, the criteria for New Starts funding should include special consideration for projects in economically distressed areas. This would be in addition to the current economic and land-use benefits criteria. New Starts projects in areas with high unemployment and economic distress can improve both transportation and economic opportunity.

Michigan has a number of fixed guideway projects in development. New Starts criteria that ensure Michigan’s proposal will only compete against proposals from other metropolitan areas that have yet to establish a fixed guideway system are essential to Michigan’s economic growth and to ensuring a fully integrated national high-speed rail system.

Consolidate Federal Transit Programs

What's Best for Michigan

Consolidate federal transit programs into the following six areas:

1. *Operations and Access*
2. *System Preservation and Renewal*
3. *Congestion Relief and Metro Mobility*
4. *Enhancements/Quality of Life*
5. *Research and Planning*
6. *Administration*

Why

With the passage of SAFETEA-LU, there are now 53 federal transit programs, many of which focus on smaller specialized services. The expansion of these specialized services limits the flexibility of state and local governments to deliver other public transportation projects and services. In addition, the next federal transportation authorization needs to take action to address the cost of compliance with the numerous federal transit reporting requirements and provide capital and operating assistance to meet those requirements and to help transit providers address costs that are beyond their ability to control.

The consolidation of smaller specialized services into broader categories will expedite program implementation, improve overall user services, and allow recipients to leverage funding for similar purposes. Examples of recommended changes include:

- Streamline the current federal grant approval process to expedite project delivery and reduce routine project costs. Streamline the reporting process by making all reports due annually instead of quarterly.
- Preserve the 80 percent federal match for capital investments, New Starts, and transit formula funding and provide 90 percent federal funding for key investments of high priority, such as State of Good Repair.
- Preserve the “needs based” approach and increase funding to address unmet needs.
- Provide operating assistance for urbanized transit systems (5307) that operate less than 100 buses in urbanized areas with a population greater than 200,000.
- Retain core programs (5307 and 5311), but consolidate the Job Access and Reverse Commute and New Freedom funding and eligible program activities into Section 5307 and 5311 formula programs. Continue to keep urban funds administered by FTA separate from small urban and rural funds administered by the states. Allow the states to transfer Job Access and Reverse Commute and New Freedom funding and eligible program activities to Section 5310 if needed.
- Retain and streamline the Fixed Guideway Modernization program (replace the seven-tier apportionment formula with a two-tier formula.)
- Streamline and simplify the New Starts program.
- Retain separate set asides from the research program.

Continue Focus on Safety

What's Best for Michigan

Adopt an ambitious national goal of reducing the number of highway fatalities by half over two decades, and support that goal by providing the overall level of transportation funding necessary to give agencies a real opportunity to achieve this goal.

Encourage partnerships at all levels of government to ensure cooperation and collaboration that continues to create synergies and results in improved safety.

Provide states maximum flexibility to pursue programs and projects that are best suited to meet the unique safety needs that exist in individual states.



Why

The nation's heightened focus on highway safety - including higher funding levels and a more strategic examination of where improvements can be made - has resulted in a declining fatality rate. Building on this success can further reduce the societal cost of traffic fatalities and debilitating injuries that currently still exceed \$300 billion annually.

Over 70 different agencies and organizations in Michigan participated in the development and implementation of Michigan's Strategic Highway Safety Plan. In the six years the plan has been in existence, it has contributed to the impressive safety gains the state has experienced. The cooperation and collaboration that made the plan possible should continue to be encouraged, and safety funding should focus on flexibility and simplicity to allow Michigan to utilize available resources for the most pressing identified safety needs.

Michigan's Strategic Highway Safety Plan includes the specific goals of reducing traffic fatalities from 1,084 in 2007 to 850 in 2012, and reducing serious traffic injuries from 7,485 in 2007 to 5,900 in 2012. These are specific and measurable goals that serve to focus the efforts of the agencies and organizations involved in improving traffic safety. A national safety agenda that includes ambitious national goals and is supported by an appropriate level of resources can focus efforts nationwide.

Consolidate Federal Funding Programs to Encourage Asset Management

What's Best for Michigan

Provide greater funding flexibility to allow Michigan to invest in the right system at the right time to preserve the infrastructure at the lowest possible cost.

Michigan, and other states with an asset management system in place, should receive federal transportation funds as a block grant to invest as they see fit to best preserve transportation systems.



Why

Distribution of federal aid by program category (Interstate, national highway system, etc.) is not compatible with an asset management approach to investment. Transportation agencies should be able to use federal aid for any purpose that best preserves transportation assets and achieves performance goals, provided they have a plan in place to do so.

Asset management protects the infrastructure from disinvestment and encourages agencies to invest where it will most benefit the movement of people and goods.

Asset management views the transportation system as a whole rather than as separately funded projects, and investment results are judged by the people who use the system, rather than the jurisdiction that owns each asset.

Take a Sensible Approach to Performance Measurement and Accountability

What's Best for Michigan

Any potential approach to performance measurement and/or additional accountability measures adopted by Congress should:

- *Serve to better focus the federal program on areas of national interest.*
- *Recognize the unique characteristics of each state/region.*
- *Be developed cooperatively with states or regions rather than come in the form of a prescriptive top-down mandate.*
- *Be accompanied by real process reforms, such as regulatory relief and more flexible funding.*



Why

The American public has an interest in knowing what is being done with its tax dollars and expects to see tangible results. A national system of performance measure could enhance transparency and accountability.

The federal program could be more effective if it were refocused on a narrower set of objectives that are more clearly in the national interest and a national system of performance measures would force the program to regain its focus. Properly executed, performance measures could drive better performance.

The federal program currently focuses more on process versus outcome. If a streamlined system of performance measures is not adopted, it could add even more process to the program and serve to slow down program development, making it more costly.

MDOT has embraced the use of statewide performance measures for well over a decade, and serves as a great example of how effectively performance measures can focus investments and deliver results.

No matter how well designed and implemented any system of performance measurement is, it simply cannot take the place of the funding levels necessary to meet our transportation infrastructure needs.

Continue Investment in Intelligent Transportation Systems (ITS)

What's Best for Michigan

Ensure sufficient transportation funding that allows states to invest in ITS deployment, operations and maintenance at levels which meet the public's needs for improved safety and mobility.

Support strong national priorities in ITS and Vehicle-Infrastructure Integration (VII) research and deployment of state-of-the-art technologies that improves safety, reduces congestion, provides for more efficient movement of goods and services, and supports Michigan companies that are developing technologies for the next generation of automobiles. Provide incentives and financial support for states that research, test and deploy these technologies.

Why

Expanding and enhancing ITS infrastructure already in place is a cost-effective means of improving the movement of people and goods throughout the state.

A state-of-the-art ITS deployment provides Michigan with a safe and reliable transportation system and maximizes use of the existing highway infrastructure. The valuable information this system provides to the public and MDOT improves safety, traffic flow, and the environment, but ITS technologies require a commitment to operations and maintenance to ensure that the benefits from these deployments are maximized.

Michigan is a national leader in the area of ITS and VII research. MDOT's commitment to these technologies and its strategic partnerships with the auto industry, and with nations around the world, bring Michigan genuine economic benefit from cutting-edge research and implementation. Continued focus on the VII program in Michigan will also ensure that Michigan residents reap the safety and mobility benefits at an early stage of deployment.

The future of transportation is based on vehicle-to-infrastructure (V2I) and vehicle-to-vehicle (V2V) communications. Because of Michigan's past investments, testing and performance in this area, the state is well positioned to take advantage of advancements in related technologies. This will provide economic benefits to the state and improve the ability to efficiently and safely move people and goods.

Continue Research Program Funding

What's Best for Michigan

Continue funding for university and industry research at the project or need-specific level.

Investment in research programs is necessary to develop, disseminate, and implement good practices that will enhance service delivery, promote "best practices" through technical standards, and increase the operational efficiency of transportation systems.



Why

Blanket funding to research centers does not guarantee that MDOT's applied research goals will be met. Project or needs-based funding allows MDOT the flexibility to ensure that funds are used effectively on research projects that will be of lasting value.

MDOT manages its federal research funds in a highly effective manner. The department is able to integrate research funds into the existing management structure, therefore making the most of our available funds.

Michigan has several renowned research universities that can offer cost-effective and quality research that will continue to advance transportation research and best practices.

Authorizing Legislation Should Cover No Less Than a Six-Year Period

What's Best for Michigan

Ensure the next surface transportation authorizing legislation covers a period of at least six full fiscal years from the date of enactment.



Why

Delays in enacting SAFETEA-LU resulted in a bill that covered little more than four full fiscal years.

Following the enactment of each authorization bill, the U.S. Department of Transportation is required to engage in many rulemaking proceedings to change federal regulations to accommodate and/or implement the provisions of the new law. This process takes considerable time. Several rules implementing provisions of SAFETEA-LU were not issued until after the original expiration of the law in September 2009.

When new programs are created, or when funding levels are shifted between programs to address new priorities as typically occurs in each authorizing statute, it takes time for state, Metropolitan Planning Organizations (MPO), and local programs to adjust. States, MPOs and local agencies should not be asked to redirect their scarce resources to make that kind of adjustment more often than is truly necessary.



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