



STATE OF MICHIGAN  
**DEPARTMENT OF TRANSPORTATION**  
LANSING

RICK SNYDER  
GOVERNOR

KIRK T. STEUDLE  
DIRECTOR

May 25, 2012

State Transportation Commission  
Attn: Chairman Jung  
P. O. Box 30050  
Lansing, Michigan 48909

Kirk T. Steudle, Director  
Michigan Department of Transportation  
425 W. Ottawa  
Lansing, Michigan 48913

Dear State Transportation Commission and Director Steudle:

We are pleased to submit the Annual Financial Report for the Michigan Department of Transportation (Department) for the fiscal years (FY) ending September 30, 2010 and 2011. This report is prepared by the Bureau of Finance and Administration, which is responsible for both the accuracy of the data and the completeness and fairness of the presentation. The data is accurate in all material respects and is presented in a manner designed to fairly set forth the financial position and results of the Department's operations.

This report is in compliance with the State of Michigan Financial Management Guide, which requires state agencies issuing financial reports to be consistent with the State of Michigan Comprehensive Annual Financial Report. A waiver has been granted by the State Budget Office, Office of Financial Management (OFM) to restate FY 2010 fund balance to comply with Governmental Accounting Standards Board Statement No. 54 (GASB54). GASB54 also changed the definition of a special revenue fund. The majority of the Department's funds are now considered Capital Projects Funds under the new GASB54 definitions.

### **FINANCIAL UPDATE**

During FY 2011, the Department continued to deliver high quality products and services while seeing a moderate increase to revenues. Although improving, the State of Michigan's economic situation continues to pose financial challenges for the Department. Improving automobile sales contributed to an increase in vehicle registration revenue but was offset by reduced fuel tax revenue as a result of higher gas prices. These factors contributed to a net increase of \$12.8 million in revenue deposited in the Michigan Transportation Fund (MTF). Total MTF revenue in FY 2011 was \$1.8 billion. Between FY 2010 and FY 2011, there was a decrease of \$4.4 million in gasoline and diesel taxes collected and an increase of \$17.5 million in vehicle registration taxes.

In FY 2011, the Comprehensive Transportation Fund (CTF) received \$156.7 million total in MTF revenue, a \$1.5 million increase compared to FY 2010 in MTF revenues for public transportation services. The CTF also received \$90.0 million in sales tax revenue from vehicle-related sales, which was an increase of \$13.2 million in FY 2011. The vehicle-related sales tax increase was partly due to a \$5.7 million redirection to the State's General Fund in FY 2010. An improving economy also contributed to that increase.

In 2005, the federal act that provided federal transportation dollars for highway and transit programs was replaced with the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU). Michigan received \$790.0 million in apportionments and \$748.7 million in new obligation authority for FY 2011 for the highway program. The Department continues to deliver a road and bridge program under the uncertainty caused by the expiration of SAFETEA-LU in 2009. Congress has authorized nine extensions to SAFETEA-LU as a stop-gap measure while reauthorization of transportation funding is developed. This uncertainty has a direct impact on the Department's road and bridge program, affecting timing of project lettings and overall concern with the ability to deliver the Department's announced annual programs. Despite the uncertainty at the national level, the Department was able to deliver the FY 2011 capital program as announced.

In FY 2011, aviation fuel tax revenue deposited in the State Aeronautics Fund increased by \$0.2 million over the previous fiscal year, increasing slightly from the historically low revenues in FY 2010.

Due to continued low levels of state revenues, the Department faces a challenge in matching future federal aid for the road and bridge program. In FY 2011, the Department addressed these challenges by reducing administrative costs, reducing maintenance expenditures, and utilizing innovative financing techniques such as the use of toll credits to match federal aid. The Department expects to match federal aid in FY 2012 using the same strategies.

## **PROGRAM OVERVIEW**

The Department's Transportation Program supports the creation of jobs, growth of the economy, preservation of our environment, the safety and security of the transportation system, and implements the direction set by the State Transportation Commission. In FY 2011, the Department was confronted with increased project costs, stretched budgets, and an aging infrastructure. Currently, pavement and bridge conditions are rated at 89 percent and 93 percent good and fair, respectively. The overall system health of trunkline pavements remains at 8.6 years average remaining life at the end of FY 2011. Asset management technology and strategies continue to enhance accurate forecasting of pavement condition and assist in prioritization of future projects.

The FY 2011 capital program provided Michigan travelers with approximately 153 route miles of improved roads and over 190 rehabilitated and maintained bridges. There were 54 projects let for the reconstruction and rehabilitation of trunkline roads. Additionally, the Department managed the good and fair roads by extending the life of approximately 1,600 miles of pavement through the Capital Preventive Maintenance Program. With the FY 2011 Highway Program investment, the Department will continue to positively influence Michigan's economy by supporting more than 15,500 jobs.

The FY 2011 Highway Capital and Maintenance Programs invested \$1.02 billion to maintain the 9,700 mile state trunkline system, including pre-construction phases (project scoping, environmental clearance, design, right-of-way acquisition) and construction projects. Pavement preservation activities, including road rehabilitation and reconstruction and capital preventive maintenance totaled \$436 million. Bridge preservation activities, including bridge rehabilitation and reconstruction and bridge capital preventive maintenance, will total \$170 million. Capacity Improvements and New Roads investments totaled \$143 million, which included \$100 million investment in I-94/I-69 freeway and bridge improvements leading to the existing Blue Water Bridge plaza. Routine maintenance activities total an estimated \$275 million; this includes pothole filling, snow plowing, sweeping, and grass cutting.

The Department allocated \$52 million in federal and state funds to work categories that include signs, pavement markings, median guardrail, traffic signals, and safety programs that address several focus areas in Michigan's State Highway Safety Plan. For safety projects in FY 2011 there were 26 total projects, of which thirteen were low cost safety improvements. The remaining 13 projects were cost justified by addressing 20 fatalities and 63 serious injuries which occurred during the study period. In FY 2011, the department replaced statewide 150 million feet of pavement markings and replaced special markings at school, pedestrian, railroad crossing and intersection approaches in approximately 40 Michigan counties.

In FY 2011, the Department's focus continued to be on preservation of existing public transportation services by distributing \$166.6 million in CTF monies for local transit operations, and allocating \$8 million in CTF funds plus another \$16 million in bond proceeds to match approximately \$96 million in federal transit capital funds. In FY 2011, state and federal funds were used to maintain intercity bus services in nearly 100 Michigan communities, improve intercity bus facilities, and replace intercity buses. Safety was also the focus of the Department's ongoing safety certification of private motor bus and limousine carriers. In addition, the Department distributed approximately \$8.6 million in CTF monies to support passenger rail services along two existing corridors, including the preliminary tasks involved in the acquisition of the accelerated rail corridor between Kalamazoo and Dearborn. Approximately \$4.2 million in bond proceeds was used to perform stabilization work along the accelerated rail corridor, plus another \$40 million in American Recovery and Reinvestment Act funds to provide for the replacement of two passenger rail stations and the renovation of one passenger rail facility. In FY 2011, state and federal funds were used to maintain intercity passenger rail services in

22 Michigan communities; improve and replace intercity passenger rail facilities; and spur economic development along Michigan's rail lines.

In FY 2011, the Department continued to make targeted capital investments designed to help maintain efficient freight service on the 530 miles of state-owned rail lines operated, under contract, by four railroad companies. A project was begun to improve approximately 26 miles of main-line track, enhancing the safety and efficiency of the line and helping ensure continued rail access to shippers. A number of smaller projects were undertaken as well. The Department provided funding for 45 grade crossing safety enhancement projects and 2 crossing closure efforts on roads under county, city, or village jurisdiction, investing over \$8.7 million in the interest of motorist safety. Through the Freight Economic Development Program, the Department loaned monies for two projects, investing \$300,000 to provide rail access for expanding businesses. The Department also provided nearly \$500,000 in legislatively mandated operating assistance to the Detroit-Wayne County Port Authority for administrative and marketing expenditures.

During FY 2011, the Department contracted for 108 airport improvement projects totaling \$33.56 million. This is significantly less than the 145 projects totaling \$118.9 million in FY 2010. The decrease is due to uncertainty of the continuing resolutions for funding the Airport Improvement Program (AIP) at the federal level. In addition to projects which benefit aviation safety, some projects are developed to either preserve the existing infrastructure or expand the runway capacity. Statewide airport pavement inspections revealed that 86 percent of primary runways at Tier 1 category airports are in "good or better" condition (up from 75 percent in year 2000).

A reauthorization of Federal Aviation Administration funding was enacted on February 14, 2012. The Act – "FAA Modernization and Reform Act of 2012", authorized funding for aeronautics projects through FY 2014. The Act reduced the federal participation in project expenditures from 95 percent to 90 percent. The Department is developing strategies to address this additional demand for matching funds.

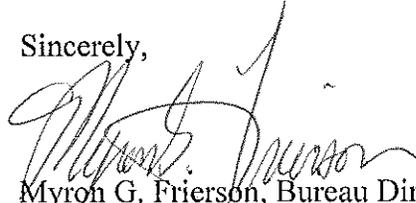
## **CONCLUSION**

In FY 2011, \$3.4 billion was expended from all revenue sources to address Michigan's transportation needs. The Department strives to make wise investment decisions with its limited resources to maximize the results achieved. This has fostered many innovative ideas in the Department and will undoubtedly promote even more in the future.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Myron G. Frierson". The signature is written in a cursive style with a large, prominent initial "M".

Myron G. Frierson, Bureau Director  
Finance and Administration