

Minutes of the Joint Meeting
Between the
Michigan State Transportation Commission
and the
Michigan Aeronautics Commission
March 29, 2007
Lansing, Michigan

STATE TRANSPORTATION COMMISSION

Members Present:

Ted B. Wahby, Chairman
Linda Miller Atkinson, Vice Chair
Maureen Miller Brosnan, Commissioner
James Scalici, Commissioner

Members Absent:

James Rosendall, Commissioner

Also Present:

Frank E. Kelley, Commission Advisor
Patrick Isom, Legal Counsel

MICHIGAN AERONAUTICS COMMISSION

Members Present:

James Collins, Chairman
Joyce Woods, Vice Chair
Terry Everman, Commissioner
Sidney Adams, Jr., Commissioner
J. William Prochazka, Commissioner
Mindy Koch, Commissioner
Kirk Steudle, Commissioner
Dan Atkinson, Commissioner

Members Absent:

Brig. Gen. Richard Elliott, Commissioner

Also Present:

Rob Abent, MAC Director
Barbara Burris, Executive Assistant

A list of all others present is attached to the official minutes.

I. OPENING REMARKS

The March 29, 2007, Joint Meeting of the State Transportation Commission (STC) and the Michigan Aeronautics Commission (MAC) was called to order by State Transportation Commission Chairman Ted Wahby at 9:05 a.m. He welcomed the many guests in attendance and the Aeronautics Commission members. He asked the members of the State Transportation Commission to identify themselves for the record.

Members of the Transportation Commission proceeded with introductions as follows: Jim Scalici, Maureen Miller Brosnan, Linda Atkinson, and Chairman Ted Wahby. He turned the floor over to MAC Chairman James Collins.

Jim Collins, Chairman of the Aeronautics Commission, began the introductions from the MAC, followed by Joyce Woods, Terry Everman, Bill Prochazka, Sidney Adams, Mindy Koch, and Dan Atkinson.

Also seated at the head table but unidentified on record were MDOT Director Kirk Steudle, a statutory member of the MAC, and Patrick Isom, Assistant Attorney General, In Charge – Transportation.

Turning to the agenda, Chairman Wahby called on MDOT Director Kirk Steudle for a report on “Transportation’s Future Challenges.”

II. PRESENTATIONS

A. Transportation’s Future Challenges

MDOT Director Kirk Steudle’s PowerPoint presentation, from an overview of the U.S. surface transportation system through a briefing on the Michigan transportation system, including aeronautics, highways, roads and bridges, is paraphrased as follows:

Around the world major players are investing aggressively in transportation. In addition to China, India and Western Europe, Canada is planning a \$233 million deep-water port in Prince Rupert. Mexico is expanding containership capacity at its deepest port, and the voters of Panama have approved a \$5 billion investment to deepen and widen the Panama Canal.

The global challenge for our transportation system is the degree to which our economy is dependent on foreign trade.

Trade, as a percentage of the Gross Domestic Product, increased from 13 percent in 1990, to 26 percent in 2000, and is expected to reach 35 percent by 2020. The

increase in containers coming to our ports and then inland by rail and truck is threatening to overwhelm our entire system.

Another impact of increased foreign investment in transportation is the skyrocketing construction costs resulting from increased demand around the world. In the past, construction prices have typically risen moderately with inflation (about 2.5 percent per year); but from 2004-2006 states across the country have been hit with a 30 percent increase in costs. This has seriously disrupted the delivery of transportation projects and moved many important projects to the back burner.

As we seek an answer to the question of “how much investment is needed to support our economy,” we also have to look at where we are today. Everyone, from the U.S. Chamber of Commerce to the Congressional Budget Office, agrees that a highway funding crisis is looming at the federal level.

Analysts predict that because of the deficit in the Highway Trust Fund, there will be an \$11 billion cut in federal-aid for highways. The President’s budget proposal for FY 08 shows that the crisis will fall later than sooner but will be much more severe. It projects deficits in the highway account of the Trust Fund of \$200 million in calendar year 2008 and \$5.7 billion in 2009. This translates into very bad news for states because it would mean a cut in federal aid of \$800 million in FY 09, and \$18 billion in FY 2010, unless Congress takes some corrective action.

Nothing has changed in the way America lives, works, and travels like the Interstate Highway System. Last year marked the 50th Anniversary of the Interstate. Those important routes, which make up only one percent of total U.S. miles, carry 24 percent of all traffic, and they are aging rapidly. Interstate traffic is expected to double over the next 20 years. It is time to modernize the system and build the national capacity needed for the 21st Century.

Creating the future Interstate System will require four actions:

- Preservation – We in Michigan have been leading in the preservation efforts simply because we started freeway construction well before the rest of the country.
- Enhanced Performance
- Additional Capacity (where bottlenecks exist)
- Reduced Demand (by providing alternatives to highway modes)

On the national level, we clearly have a challenge. Referring to Michigan, specifically, transportation assets across the state are not all owned by MDOT or state government; many are owned by private companies or private firms.

Michigan is home to 488 landing facilities, including airports and heliports (236 are available for public use, while the remaining 252 are restricted to private use only). There are 18,600 active pilots and 7,800 registered aircraft; 30 scheduled cargo and passenger airlines; six aircraft manufacturers; 131 certificated aircraft/component repair stations; six military aviation facilities across the state; 78 local public transportation systems; 40 specialized transportation providers; two public ferry operators; countless miles of privately held railroad track (along with about 650 miles of state-owned tracks); 107 railroad bridges; and 730 railroad crossings.

Director Steudle highlighted MDOT's assets:

- 9,700 miles of road (27,000 lane miles)
- 5,700 bridges
- 215 park-and-ride lots
- 2,400 trucks, maintenance vehicles, vans and cars
- 450,000 signs; 4,000 traffic lights; 8 million linear feet of guardrails
- 4,500 miles of fences
- 83 rest areas; 13 travel information centers; 85 roadside parks
- 27 scenic turnouts; 41 picnic sites; 2,400 picnic tables
- 163 pump houses; 188 water wells; 54 sewage disposal facilities; 64,000 catch basins

All of these assets are supported by revenue that comes from two specific sources: \$1 billion comes from federal aid, and another \$2 billion comes from state user fees.

While there are two distinct pots of money, the requirements for spending are very restrictive, and they are not interchangeable.

The Director shared a graph illustrating Michigan's fuel tax rates (1925 to present), including the aviation fuel tax (\$.03 per gallon), as compared with the auto fuel tax (\$.18 per gallon) and the diesel fuel tax (\$.15 per gallon). Back in 1982, approximately 65 percent of MDOT's funding came from vehicle fuel taxes and about 32 percent came from registration fees. It is estimated, however, that somewhere around 2011-2012, due to the decline in gas tax revenues, revenue from registration fees will exceed gas tax revenues.

The Director referenced a slide depicting the components of the price of a gallon

of gas and noted that federal and state gas taxes do not change size even when the price of a gallon goes up. A very small portion of the six percent sales tax gets allocated for transportation purposes, but, for the most part, this is not used for transportation purposes at all and the transportation revenues from fuel taxes basically stay the same. As the cost of gas increases above \$3.00 per gallon, consumption drops, which impacts on revenues to the transportation fund.

The Director posted a slide illustrating “traffic growth.” From 1960 to 2005, the annual vehicle miles traveled (AVMT) increased 212 percent, while the number of miles of road system increased only nine percent. In FY 2005 over 103 billion AVMT were recorded for the system (121,457 miles).

With respect to air travel, passenger totals in 2005 were over 11 times greater than in 1960. However, only five air carrier airports were added during the same time frame, bringing the total to 18.

To the question, “why are the road conditions declining,” the Director offered two explanations: 1) inflation; and 2) erosion in purchasing power. Purchasing power of \$.19 in 1998 now equals 15.1 cents.

The Director shared another graph, titled “Efficiencies,” depicting the number of employees in the Department of Transportation. In 1994, the department employed approximately 3700 workers. Today, the department employs 2901 workers. The result has been the delivery of a larger program with fewer employees. While the last couple of years have been record years (2007 being one of the largest years yet), next year, with a \$1.33 billion program, will be the smallest since 1999.

There has been a steady decline in aviation fuel tax revenues, as well. In 1996, aviation fuel tax revenues totaled \$8 million; in 2006, \$6 million. At the same time, construction costs are increasing across the board.

Less consumption also accounted for a decline in revenue in both aviation and highways. As people purchase less fuel, less revenue is being generated. In 2002, one penny represented approximately \$50 million in revenue to the state. In 2006, that number decreased to \$47.7 million. This has had a significant impact on MDOT’s ability to deliver programs.

The Director noted that 2007 expenditures for the Bureau of Aeronautics are expected to exceed revenue by about 21 percent. He credited MAC Director Rob Abent for balancing this reduction with significant cuts to Aeronautics programs. Challenges exist on the capital side of the Aeronautics program, as well, with requests for capital totaling \$779 million and only \$490 million anticipated in

federal funds – a shortfall of \$289 million. This includes Detroit Metro Airport. Excluding Metro Airport, which receives funding directly from the FAA, there is still a funding shortfall of \$275 million.

With respect to highways, pavement conditions in 2007 are expected to reach the stated goal of 90 percent being in “good condition.” When this goal was established, in 1997, 64 percent were considered in good condition and 36 percent in poor condition. The goal of 90 percent in “good condition” cannot be sustained at the current investment level and roads will begin to decline after 2007.

With respect to bridges, the Director noted that freeway bridges across the state were approximately 76 percent in “good condition” in 1998. The department’s goal is to hit 85 percent across the state.

In the Detroit metropolitan area, which has experienced a number of recent incidents concerning bridges, 63 percent of the bridges were in good condition in 1998. This year, the department expects to reach a level of 80 percent in good condition, and the figure continues to go up.

The Director shared a final slide, depicting the number of bridges built and reconstructed. The highest number of bridges constructed occurred during the ‘60s and ‘70s, while the Interstate system was being constructed. Bridge reconstruction has increased consistently since 1970, more dramatically in the 2000s, and is expected to reach 1000 within the next couple program years. All bridges are required by federal mandate to be inspected every two years. If any one component is rated at a poor level, the bridge is moved into a one-year cycle. If it is rated at a very poor level, it can be placed on a six-month or three-month cycle.

Following an incident involving a bridge at Groesbeck, which showed no signs of distress during a 2006 inspection, the Director asked bridge inspectors to reexamine all bridges of the same vintage and design. No other incidents of similar deterioration were discovered that would cause the department to advance projects or remediate for cause. He added that oftentimes, copycat claims and/or issues may present themselves that are later found to be without merit.

He thanked the Commissioners for their time and invited questions.

There being no questions of Director Steudle, Chairman Wahby thanked him and called on Dr. Mulu Birru, Director of the Wayne County Department of Economic Development.

B. Detroit Regional Aerotropolis

Preliminary to his report, Dr. Birru extended greetings from Wayne County Executive Robert Ficano. He introduced colleagues in attendance, Frank Ross and Dave Tyler. He thanked the Commissions for the opportunity to present what arguably may be the single-most important economic development generator for Wayne County and southeastern Michigan.

Southeast Michigan and the State of Michigan are at an industrial development crossroads in an increasingly fast-paced, globally networked economy that is changing the rules of competition and business. This state of economic affairs is evident more than ever before in view of the fact that strategic decisions and development initiatives taken today will determine the 21st century direction of our region in terms of industrial mix, diversification, business competitiveness, job creation, and citizen quality of life.

Historical challenges in Michigan are manifested by bankruptcies, downsizing, mergers, plant closures, massive layoffs, and high mortgage foreclosures. Obviously, there are shifts in the global transportation paradigm, which has a definite advantage for the region in terms of generating economic development.

- There are continued shifts from sea, to rail, and highways over to airports.
- Air logistics and the new economy are inextricably interwoven.
- Forty (40) percent of the value of world trade now goes by air (versus under two percent by weight).
- World air cargo traffic is expected to triple by 2020 (international air express three times faster)
- FAA projects a nearly 50 percent increase in passenger flights by 2020 and one billion passengers a year. It is estimated that the metro region will have more growth than other airports due to the growth capacity that exists for passenger traffic since most major cities are congested or reaching full capacity.
- Air commerce is generating airport cities and Aerotropoli at and around major passenger and cargo airports.
- Airports are now multimodal, multifunctional enterprises generating considerable commercial development within and well beyond their boundaries.

Speed and agility have taken center stage: Speed . . . speed . . . speed has replaced location . . . location . . . location. It is about survival of the fastest, and the fastest is the fittest!

Industry will increasingly emphasize accelerated development cycles.

International sourcing and sales will dominate markets — in the southeast region, the auto industry now outsources \$9 billion worth of parts, mostly to China.

Flexible customized production and rapid delivery have become service hallmarks.

The most successful companies will use advanced information technology and high-speed transportation delivery.

Parts and inventories are sourced globally, inventories minimized, and manufacturing is much closer to customer orders.

In today's economy, there is an unprecedented economic paradigm dominated by E-Commerce. In 1995, there was virtually no E-Commerce. By 1999, there was an E-Commerce of business to consumer (B2C) that reached nearly \$7 billion. One hundred sixty-six million packages were shipped by Internet Retailers (E-tailers), and approximately 70 percent of these packages were shipped via expedited delivery. By 2003, E-tailers shipped close to 1.1 trillion packages annually.

Globally, by 2006, E-Commerce will approach \$7 trillion in transactions (up over 100 percent from \$7 billion in 1999).

Research predicts that by end of this year, E-marketplaces will account for up to two thirds of business to business (B2B) supply-chain transactions.

The expansion of B2C E-commerce and Internet orders places a premium on speed and reliability in delivery.

New centers for distribution supply-chains are emerging as the “just in time” delivery links to meet these challenges.

To meet speed and reliability imperatives:

New global logistics and distribution centers are being built near gateway airports.

These centers contemplate “flow-through” facilities for both durable and perishable goods.

The clustering around airports of time-sensitive goods gives rise to demand for:

Expansion of air cargo and air express; less-than-truckload; and third-party logistics providers.

So, what are the “critical challenges” facing Michigan? Will Wayne County and greater southeast Michigan job creation over the coming decades achieve the goals both in quantity and quality set by state and local, public and private leadership? Will industrial and commercial development in and around Detroit Metro and Willow Run Airports be economically efficient, physically attractive, and environmentally sustainable?

How these interwoven challenges are met will determine, in a significant way, the economic future of Wayne County and Southeast Michigan. The Aerotropolis is evolving to serve this critical, time-driven paradigm in the new global economy.

An Aerotropolis, as defined by Dr. Birru, is the reverse of a metropolis. In a metropolis, there are inner cities and growth created from inner cities outward. With an Aerotropolis, there is growth centered around an airport or airport cities radiating outward from the airport.

In this particular case, the Aerotropolis would be the areas in and around Willow Run Airport and Detroit Metro Airport, or approximately 25,000 acres and seven communities and interconnected counties. (Dr. Birru referenced a map depicting the communities and their contributions, with Romulus as the largest contributor).

The subject Aerotropolis is defined as the 20-mile radius between downtown Detroit and Ann Arbor. The beneficiaries of the Aerotropolis would encompass a significantly larger area, including Port Huron, Flint, Lansing, Jackson, Toledo, and so forth. Spines and clusters of airport-linked businesses will include retail centers, business parks, logistics parks, industrial parks, wholesale merchandise marts, information and communications, hotels, tourism and entertainment centers and large mixed-use residential developments (demonstrating via a schematic of a typical airport city/Aerotropolis).

The two major “engines” of the Aerotropolis are Detroit Metro Airport (serving more than 125 nonstop destinations, supporting 71,000 jobs, handling over 350,000 tons of cargo and mail annually, and serving over 35 million passengers per year) and Willow Run Airport (covering 2500 acres with five runways and

capacity to land 747 cargo jets, an increase of 500 million pounds of air cargo, increased commercial traffic, 1500 local jobs, and nearly \$85 million in local income). An application for a “free trade zone” is pending.

In the past, these two airports have not been used extensively for cargo purposes because there was never a push for diversification. However, Dr. Birru pointed out, there is no other city in the U.S. that can boast two airports seven miles apart with 11 runways and 25,000 acres surrounding it. He added, these two airports are key to development of air cargo, more so than any other city in the U.S.

Detroit, being centrally located, within reach of approximately 65 percent of major cities, is prosperous with highways and rail lines, which makes the area ripe for development in the future. International flights connect the U.S. with Canada, Latin America, and Europe, and a straight line connection to Asia over the North Pole provides a distinct advantage over west coast regions.

To make this opportunity achievable and to explore the full potential of what these two airports offer, transportation is extremely important; the Detroit Ann Arbor connection is extremely important; transit development is extremely critical to take advantage of the growth; and mobility is extremely important.

Dr. Birru presented a series of slides illustrating public transit linkages.

To respond to these challenges, Dr. Birru advised, we have to plan it right. If we commit the resources needed to make it achievable, it is projected that 60,000 new jobs will be created as a result of these two airports. One hundred thousand people will work and live in the Aerotropolis. Two counties and seven communities are poised to move forward in cooperative ways, as are Michigan’s world class universities (Eastern Michigan University, UM-Dearborn, and the University of Michigan), as well as several colleges, community colleges, and technical schools. The I-94 corridor is also home to General Motors and Ford and a numerous high-tech companies.

Dr. Birru advanced two options for shaping the Aerotropolis: 1) Leave it alone and continue as is without the benefit of these two airports; or 2) plan intelligently to achieve full benefit, as supported by a number of studies. He shared several illustrations of the Charrette Visions commissioned from the University of Michigan. Meetings have been held and agreement reached with Washtenaw County to work together. Wayne and Washtenaw Counties and the seven local communities have:

- Developed a nonbinding MOU for future planning and study.
- Are cooperating to leverage state and regional support.

- Are working toward uniform development and design guidelines.
- Are working to create an Aerotropolis Strategic Plan.
- Are actively pursuing the participation of the Wayne County Airport Authority.

Dr. John Kasarda, the foremost expert on the subject of airport city development, has been retained to make sure planning is done correctly for maximum benefit. In addition, efforts are underway to build collaborative teams and relations with Detroit Renaissance, the Detroit Regional Chamber, SEMCOG, area universities and the business community. Aerotropolis has been identified as a very important economic engine. He noted that success has been reached at both local and regional levels. Further efforts to gain funding from the Michigan Economic Development Corporation, the Governor, Legislature, and other regional partners are being undertaken, as major funding will be needed for infrastructure improvements and improvements at the airports to make sure that the projected 60,000 jobs becomes a reality.

Dr. Birru thanked the Commissions and entertained questions.

Commissioner Woods inquired as to the success rate of similar developments.

Dr. Birru explained that Schiphol Airport in Amsterdam is the best example. He noted that approximately 22 representatives from a committee comprised of the Detroit Chamber of Commerce, the Detroit Renaissance, the private sector, Wayne County, and the seven communities will be traveling to Schiphol Airport and to Frankfurt to study their practices and participate in an International Airport City Conference. Other successful Aerotropolis cities include those in Dubai, Beijing, and Hong Kong, where, he observed, decisions come easier.

To a follow-up question from Commissioner Woods, Dr. Birru indicated that other cities in the U.S. that are exploring this concept include Dallas and Memphis. He added that Detroit is considered to have a much greater opportunity to be the best in terms of the Aerotropolis concept.

Commissioner Brosnan followed with a question concerning the role of MDOT in propelling the plan forward.

Dr. Birru responded that up this point, the role of Wayne County has been to galvanize local agreement. Discussions with MDOT and the MEDC have taken place, and representatives of the MEDC will participate in the trip to Amsterdam. The next step is to gain acceptance and support for it.

There being no further questions, Chairman Wahby opened the floor for public

comment. He advised that both Commissions would accept comments during their regular meetings following a short recess.

V. PUBLIC COMMENT

No speakers were forthcoming.

Chairman Wahby announced that following adjournment, the Transportation Commission would hold its regular meeting on the second floor; that the Aeronautics Commission would remain in the auditorium.

Following further announcements from MAC Director Abent relating to security measures, Chairman Wahby adjourned the meeting.

The meeting of the Joint STC/MAC Commissions adjourned at approximately 10:00 a.m.

Frank E. Kelley
State Transportation Commission Advisor