Governor Snyder's Message on Infrastructure
Summary

October 25, 2011

Specific Actions requested, by appearance in the message, with page number:

1. MDOT Competitive Bidding, Page 3 – MDOT to competitively bid for long-term engineering management services, construction and maintenance operations for a portion of the state network, with contracts in place within 12 months.
2. Consolidation of County Road Commissions with County Government, Page 4 – Revise Act 283 of 1909 to allow any county to incorporate their county road commission in to county general government.
3. Consolidation of Small City Road Funding, Page 4 – Revise Act 51 to remove cities and villages that receive under $50,000 in funding from the distribution formula. Allow larger jurisdictions to consolidate if they chose to.
4. Road Agency Best Practices, Page 4 – Require all road agencies to meet performance criteria and best practices as a condition for receiving state transportation revenue.
5. Competitive Bidding for all Road Agencies, Page 4 – Revise Act 51 to allow open, competitive bidding for road maintenance and construction by all road agencies, for all roads across the state.
6. Financial Audits for Road Agencies, Page 5 – Revise Act 51 to allow financial audits by MDOT of local road agencies' spending.
7. Motor Fuel Taxes, Page 6 – Eliminate current gas and diesel fuel taxes. Replace gas and diesel fuel taxes with a uniform tax on motor fuels at the wholesale level that raises equivalent dollars.
8. Increase Transportation Investment by $1.4 Billion annual, Page 6 – For example, a statewide registration fee that cost the average driver $10 per month would generate $1 billion in new transportation revenue.
9. Regional Registration Fee, Page 7 – Create a law that allows counties and regional authorities to level a local vehicle registration fee dedicated to transportation, if approved by a vote of the local citizens. To be collected by the state and returned to the local agency.
10. Focus Highway Investment on Highest Volume Roads, Page 7 – Focus highway investment through a new distribution formula that links road investment to road use and traffic. Over 7 years, gradually subject all Act 51 distributions to the new formula.
11. Regional Transit Authority in SE Michigan, Page 8 – Create a Regional Transit Authority for southeast Michigan to coordinate existing bus services, with permanent, dedicated regional funding to invest in rapid transit along four critical routes including Gratiot, Woodward, Michigan Avenue and the M-59 corridor.

12. Revisions to Comprehensive Transportation Fund (CTF) Distribution Formula, Page 8 – Create a separate program in the Comprehensive Transportation Fund for new revenue to invest in new and expanded public transit services, thereby protecting funding for existing services in rural areas. Encourage the consolidation of transit agencies and require that they achieve best practices similar to those required of road agencies as a condition of new funding.
13. Rural Infrastructure, Page 8 – MDOT and Agriculture & Rural Development to coordinate with the food and agriculture industry to ensure their infrastructure needs are included in economic expansion opportunities.
14. Port Dredging, Page 9 – Work with Congressional Delegation to make sure federal Harbor Trust Fund balance continues to be spent to dredge ports in Michigan.
15. New Soo Lock, Page 9 – Work with Congressional Delegation and other Great Lakes state to provide funding for construction of a new Soo Lock.
16. New International Trade Crossing, Page 10 – Need to build it.
17. Clean Water, Page 10 – Direct state agencies to consider implementation of green infrastructure options to protect water quality. Direct state agencies to collaborate with local communities to plan for water management and protection. Support changes recommended by the SRF advisory group
18. Removal of Dams, Page 11 – Direct DEQ to work with DNR and Agriculture & Rural Development to identify, prioritize and streamline efforts to remove problem dams.
19. Broadband, Page 12 – Allow use of the MPSCS towers by ISPs, currently restricted by Michigan Public Safety Communications System Act.

MDOT Competitive Bidding (pg. 3)

Summary

The proposal is for MDOT to identify a portion of the state highway network that would be an appropriate candidate for competitive bidding. The department will competitively bid that segment for long-term management, construction and maintenance of a portion of the state network, with contracts in place by October 2012.

Why it Matters

Opening the competition for road maintenance and construction contracts to all bidders, whether public sector or private sector, will reduce costs. Open competition will also help ensure that the roads are appropriately and cost-effectively maintained, summer and winter.

Statistics

More than a decade ago, MDOT undertook a pilot project to privatize maintenance of a portion of I-496 in Lansing. The highly visible first-time pilot project did not go well, but MDOT did learn many lessons about how to administer such a contract. These lessons can be applied to new competitive bidding contracts, particularly how to set up such a contract to best control costs.

Many other public agencies who tried such a contract continued their efforts. They are now successfully on their third generation of contracts. For example, Ontario has used this competitive contracting mechanism for 15 years and is very satisfied with the results. Companies have formed for this specific purpose and the competition is strong. The contracts are focused on results and outcomes, not head count or billable hours.

MDOT's asset management approach, performance measures and metrics, more sophisticated technology and new contracting techniques will make it possible to ensure that contracted work – even maintenance work – will meet required standards of timeliness, effectiveness and efficiency.

Consolidation of County Road Commissions with County General Government (pg. 4)

Summary

The proposed reforms will amend Act 283 of 1909 to allow counties of any size to assume the powers and perform the duties that are otherwise undertaken by a board of county road commissioners. The law currently allows only counties of a certain size to assume those powers and duties.

Why It Matters

The county road commission is an archaic body created more than 100 years ago, when roads were unpaved, most of Michigan was rural, and automobiles where just making an appearance. This antique system of road administration must be modernized to improve efficiency, accountability, and the effective investment of transportation funds in 75 percent of the Michigan road network that county road commissions currently oversee.

Statistics

Michigan is the only state in the nation with county road commissions. In two of the largest Michigan counties, Wayne and Macomb, this reform has already occurred, and county general government performs the duties that otherwise would be undertaken by the road commission. In 46 other Michigan counties, the road commission is appointed by and reports to the county board. But there are still 35 Michigan counties where county road commissions are independently elected and remain separate from county general government.

In total, county road commissions are responsible for more than 90,000 miles of Michigan's 120,000 mile road and bridge network, some 75 percent of the total system.

Michigan's county road network is the 4th largest county road system in the country.

Consolidation of Small City Road Funding (pg. 4)

Summary

The proposed reform will remove up to 128 cities and villages which receive less than $50,000 in funding from state road funds. The streets overseen by those cities and villages will be reassigned to the appropriate county or county road commission. The road funds that would have been distributed to those cities and villages will go with the roads to the agency assuming their upkeep. The funding will stay with the road, not the jurisdiction.

This reform should be tie-barred to legislation providing new revenue for transportation, in order to ensure that jurisdictions assuming responsibility for city and village streets receive sufficient funds to preserve and maintain the streets. Large urban counties in particular will be hurt by enacting these reforms without providing additional transportation revenue.

Why It Matters

This reform helps increase the efficient use of state road funding by consolidating responsibility for road construction and maintenance under a much more manageable number of larger, more sophisticated road agencies. It has the potential to achieve greater economies of scale in purchasing and equipment management, further stretching limited transportation resources. It also will relieve up to 128 cities and villages of road funding reporting requirements, reducing the paperwork burden for these agencies and for the state.

Statistics

Public Act 51 of 1951 spells out the distribution of state transportation revenue. Act 51 currently distributes funds “off the top” to state agencies through interdepartmental grants and to some small and specifically-focused programs. Funds are then distributed to the Comprehensive Transportation Fund for transit, the State Trunkline Fund for state highways, and to 83 county road commissions and 533 cities and villages.

Each of the 533 cities and villages receive funds based on formula involving a complicated combination of population and street miles. More than 200 of these agencies have less than 10 miles of streets under their jurisdiction.

Road Agency Best Practices (pg. 4)

Summary

Road agencies will be required to achieve the following best practices as a condition for receipt of new funding.

The required best practices include administrative cost-savings that will result when employees pay 20% of their health care premiums and when new employees are enrolled in a defined contribution pension plan.

In addition, road agencies will need to achieve three of these five additional best practices:

- Development of an asset management plan for federal-aid highways and bridges
- Development of a safety plan
- Solicit open, competitive bids on construction and maintenance contracts from any public or private sector agencies
- Fulfillment of a multi-jurisdiction consolidation plan
- An internet report card on operating and financial statistics

Why It Matters

Road agencies receiving state funds for investment in road infrastructure need to be accountable to the public for the way they use those taxpayer dollars. Requiring all road agencies to achieve certain best practices as a condition of receiving new funding will help ensure transparency and accountability. It will also help ensure the most effective use of those funds, as well as the funds traditionally distributed to local road agencies through the road funding formula.

Statistics

Michigan's 617 local road agencies oversee some 111,000 miles of roads.

Under the current road funding distribution, local road agencies receive some 60% of state highway funding, and 25% of federal highway funding.

Competitive Bidding for All Road Agencies (pg. 4)

Summary

The proposal is to amend Act 51 to allow open, competitive bidding by both public agencies and private sector companies for road maintenance and construction for roads under all jurisdictions.

Why it Matters

Opening the competition for road maintenance and construction contracts to all bidders, whether public sector or private sector, will reduce costs. Open competition will also help ensure that the roads are appropriately and cost-effectively maintained, summer and winter.

Financial Audits for Road Agencies (pg. 5)

Summary

The proposal is to amend Act 51 to allow either MDOT to conduct financial audits of local road agencies.

Why It Matters

Allowing financial audits of local road agencies assures that the funding being passed to locals from the state and federal governments is being correctly and effectively spent. It is important to note that this amendment is to *allow* financial audits, but not require them, thereby avoiding an unfunded mandate. It is also important to note that these are financial audits, not performance audits, which can be more costly and complicated.

Statistics

Making this change will address a 1976 Michigan Court of Appeals ruling issuing an injunction which prohibits MDOT from conducting such financial audits of road agencies (68 Mich App390, CRAM vs. State Highway Commission, 1976, p. 390-402, and Wayne County v. Auditor General).

Unlike road agencies, transit agencies are already subject to financial audit requirements.

Motor Fuel Taxes:
Eliminate the Cents-Per-Gallon Fuel Taxes and
Enact Wholesale-Price-Based Taxes (pg. 6)

Summary

The proposal will eliminate the existing 19-cents-per-gallon tax on gasoline as well as the 15-cents-per-gallon tax on diesel fuel. Together, these user fees currently raise some $965 million per year in state transportation revenue.

That revenue will be replaced with funds generated by a new price-based wholesale tax on motor fuels. A revenue neutral tax on the wholesale price of motor fuel will be collected when fuel is removed from the national fuel-transport system for delivery to retailers. It will be collected at the same point and in the same manner as the current motor fuel tax, except that the wholesale price will be reported along with fuel volume.

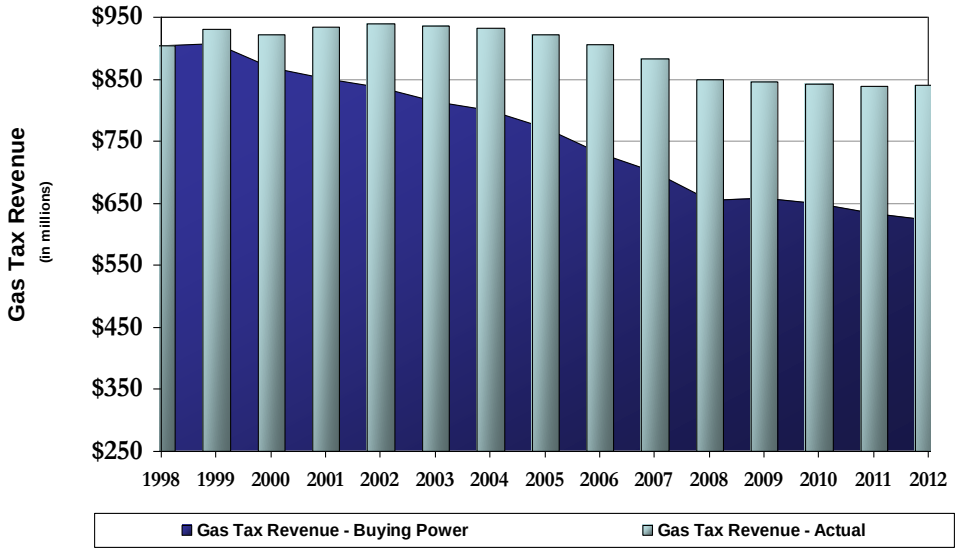
Because fuel prices are volatile, transportation revenues will need to be insulated from unpredictability by applying ceilings and floors to the taxable price of motor fuels. Ceilings on tax rates will prevent the price-based tax from rising too quickly when fuel prices increase, and prevent tax windfalls for government. Floors will prevent the tax from falling abruptly should fuel prices decrease, allowing road agencies to continue to budget for multi-year road repair programs.

One and a half percent of the current gasoline tax is reserved by law for petroleum distributors, to cover the cost of making the fuel-tax payments. This money is not delivered in a refund, but is simply not collected from taxpayers. No equivalent deduction is allowed to Diesel fuel-taxpayers, including individual truck operators filing quarterly returns. Because the cost of paying the tax is so small, it is proposed to eliminate this reduction with the new wholesale tax.

Why it Matters

One major impediment to adequate preservation of Michigan's transportation infrastructure has been the ever-decreasing buying power of the flat, cents-per-gallon motor fuels taxes. Making the new user fee dependent on fuel price will help protect Michigan transportation revenues from the effect of inflation. The transportation user fee will rise with fuel prices. (See chart)

Gas Tax Revenue –
Actual vs. Buying Power



Statistics

Current motor fuel taxes are as follows:

Gasoline	19 cents/gallon
Diesel fuel	15 cents/gallon
Propane	15 cents/gallon
Compressed natural gas	no road-user fee
Electricity for road use	no road-user fee

Current motor fuel taxes yield some $841 million on gasoline and $124 million on diesel fuel, for a total of $965 million.

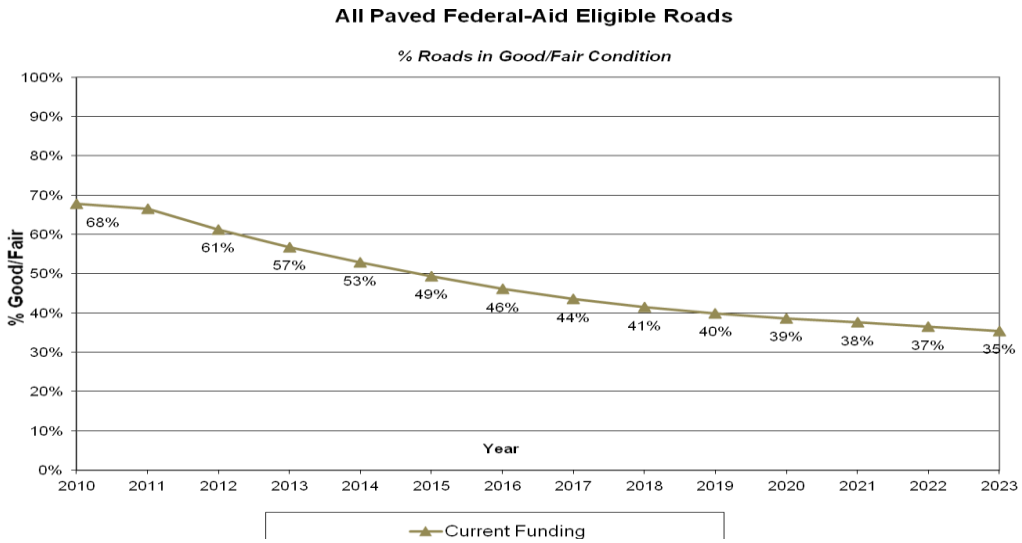
Increase Transportation Investment by $1 - $1.4 Billion Annually
(pg. 6)

Summary

There has been a need identified for an increase in funding for transportation by $1 to $1.4 billion annually. For example, an increase in Michigan's vehicle registration fee by an amount that equates to about $10 per month for the average driver would raise about $1.1 billion. In addition, a local or regional registration fee of $40 per year on the average vehicle would raise nearly $300 million.

Why It Matters

The recent report of a legislative work group on transportation funding reviewed the data and called for an additional investment in roads and bridges of $1.4 billion annually. Without more investment, the condition of Michigan's roads and bridges will continue to deteriorate, and the ultimate cost to repair them will be much higher.



Statistics

Funding for transportation investment at the state level comes from two user fees. In 2011, the following revenue was available from these sources.

State gas taxes	$996 million
State Registration Fees	$844 million

Increasing the vehicle registration fee is a fair way to ensure users of electric, hybrid, and highly-fuel efficient vehicles to contribute their fair share to the upkeep of the transportation system.

Regional Registration Fee (pg. 7)

Summary

The proposal is to revive the option of local surtaxes on vehicle registrations, at the option of voters in each county or multi-county region.

Regions might apply additional road-user fees of up to $40 per average vehicle. Heavy trucks will not be surtaxed. Revenues could be used for local or other roads, or public transit, at voter option. In total this option could raise $218 million per year statewide.

Why It Matters

Historically, Michigan has shared more state revenue with local agencies than other states do. This has resulted in a lack of sufficient funding for the highest statewide transportation priorities. Providing county and multi-county regions with a means to fund their own priority projects allows state revenue to be refocused on statewide priorities. Enacting a multi-county regional registration fee option also provides a mechanism for counties and communities to consider regional consolidation – at least for transportation purposes – in order to realize mutually beneficial goals.

Statistics

Local-option registration taxes do not have the drawbacks of local-option fuel taxes, which can disrupt gasoline retailing near the borders of the taxing jurisdictions.

The registration fee has not been changed since 1983.

Focus Highway Investment on Highest Volume Roads: Revisions to Act 51 "Internal" Road Formula (pg. 7)

Summary

A new formula is proposed for distributing state transportation revenue among road agencies to modernize and simplify funding formulas that have been largely unchanged since 1951. The new formula will shift the focus away from state-designated legal classification and will be centered around the notion that the funding should follow the traffic.

Why It Matters

The formula distributing state revenue for transportation has changed little since it was enacted in 1951, but both the amount of traffic and the driving patterns of people and shippers have changed significantly. It is vital to modernize the formula in order to ensure that the people and shippers who use Michigan's roads receive the best value for their money. The current funding distribution formula puts suburban counties with multi-lane roads, and urban areas with large traffic but declining population at a disadvantage. That is why the new distribution formula will focus on the most highly-traveled commercial corridors – the roads that most support Michigan's economy.

Background

Act 51 contains a series of formulas that determine how each dollar of state transportation revenue is distributed to road and transit agencies. A high-level or "external" formula first determines how much money is available to county road commissions, cities and villages, MDOT, and the Comprehensive Transportation Fund. Once these amounts are set, two "internal" formulas determine how county road funds are divided among the 83 county road commissions, and how the city/village share is divided among the 533 cities and villages.

The "internal" formulas that divide money among county road commissions and cities/villages are dominated by population (or vehicle ownership, which approximates population in most counties) and secondarily by route or "centerline" miles. This puts those suburban counties with multi-lane roads that serve greater traffic at a disadvantage. A five-lane road which is more expensive to maintain receives no more weight in the Act 51 formula than a less expensive two-lane road.

Because the city formula is dominated by resident population, it can disadvantage cities with large numbers of downtown jobs but declining population. The formula reflects where people sleep, not where they drive. The same is true of the county formula that reflects the car registrants' home address.

Both the “external” and “internal” formulas are largely unchanged since 1951. The only substantial change was to the external formula in 1978, when the State Trunkline Fund was reduced to create the Comprehensive Transportation Fund.

The formula will no longer rely on the Act 51 state “legal” classifications (city major and local streets and county primary and local roads). The new formula will be based largely on vehicle miles traveled (VMT) – funding will follow the traffic. The goal of the formula is to ensure the roads that carry the majority of person-and ton-miles are preserved in good condition.

At the federal level, roads are stratified by functional classification, a federally-required designation of all roads based on how they are used. The higher-order roads typically carry the most traffic, have the most lanes, and are the most expensive to maintain and repair. VMT is estimated for all federal-aid eligible roads. VMT is not estimated for roads that are not on the federal aid system; for those roads, lane miles will be used to apportion some funding through the new formula for their maintenance.

The new formula will also feature a rural component to ensure that mobility and access in rural areas can be maintained. Rural counties with lower population need to maintain the major roads that provide connectivity, as these routes are important to the agriculture, timber, and mining industries.

Regional Transit Authority in Southeast Michigan (pg. 8)

Summary

The proposal is to create a new Regional Transit Authority (RTA) serving Wayne, Oakland, Macomb and Washtenaw Counties through a governance structure and financing mechanism established under state law. The authority will provide a new Rolling Rapid Transit service to over 4.2 million citizens living in Michigan's largest metropolitan area and coordinate existing transit service throughout the region.

Why it Matters

The Detroit metropolitan area is the only major metropolitan area in America that lacks a high capacity rapid transit service. Michigan is ready to restore its status as a great state, but to achieve that southeast Michigan must be on the road to becoming a great region. Visit any great metropolitan region, and one is struck by the fact that great cities have great transit; Michigan's largest metropolitan area does not.

Every day, tens of thousands of Detroiters take buses to work outside of the city because they don't own a car or cannot drive one. These workers and their families depend on transit to put food on the table and a roof over their heads. For many of these workers, reliable transit is the difference between a paycheck and a welfare check. Employers depend on transit to deliver workers on-time – every time – and that is why they like to locate their businesses near transit stations and stops.

Multiple research studies conclude that every dollar invested in transit yields an average return on investment (ROI) of $4.

The digital age has liberated a new generation of tech-savvy workers from the constraints of living near the plants and production facilities where their parents worked. Their interests and priorities have changed as their working world has expanded. Safe, convenient mobility options other than the automobile attract these workers who would rather spend their transit time buffing up business plans or getting ready for the day than driving a car in rush hour traffic and risking unexpected delay. Transit options help communities to attract and keep these workers and their families.

Transit is used by riders to either make money or spend money, and Michigan's economy needs more of both. Transit benefits all citizens, whether they use it or not.

Supporting facts and statistics

- Southeast Michigan is the largest metropolitan region in America that does not have a high capacity rapid transit service in place or under development.
- Families earning between $20,000 and $50,000 per year spend up to 30% of their household income on transportation, which is more than they spend on housing. Across all households, for every dollar earned, 18 cents is spent on transportation, the largest source of household debt other than mortgages.
- Southeast Michigan spends an average of $75 per capita on transit services while the average of the top 25 metropolitan regions in America is $184 annually.
- By 2015, over 500,000 citizens in the four-county transit region will be aged 65 or older, and will live in communities where transit service is either poor or non-existent. National data indicate that 1/4th of the people over age 75 do not drive.
- Thirty percent (30%) or 215,000 Detroit citizens do not have access to a car – FTA, 2005. "Up to 1/3 of Detroit households do not have a car and must rely on public transit to get to work, school, shopping and health care." (*Detroit Free Press*, "Regional or Bust," August 14, 2011).
- Surveys from AARP conclude that 71% of older adults want to live within walking distance of transit.
- The suburban bus system (SMART) provides rides to approximately 40,000 people per day; the Detroit bus system (DDOT) provides rides to more than 100,000 people per day.
- Data from the National Transit Database (2005-2009) shows that ridership in southeast Michigan increased by 15% over that time period.
- "Locations near transit rank as the No. 1 choice for all development types – ULI/Price Waterhouse Coopers "Emerging Trends" real estate report, 2005.

Revisions to Comprehensive Transportation Fund Distribution Formula (pg. 8)

Summary

The proposal is to modernize the portions of Act 51 which specify how the state invests Comprehensive Transportation Fund (CTF) revenues to better reflect current public transportation goals. Performance requirements and best practices will become a prerequisite for local transit systems to receive operating and capital funding. Incentives in the form of bonuses and penalties will encourage consolidation and regionalization of local bus agencies. With revenue growth, a new program will be added to allow the state to make strategic investments in regional and rapid transit in metropolitan areas. CTF support for intercity passenger rail will be solidified.

Why it Matters

The existing network of local bus services, while essential to meet basic mobility needs, is not sufficient to generate much needed economic development benefits in urban areas, particularly in Southeast Michigan. A modern system of urban transit within and between Michigan's major cities – including light rail, rapid bus, commuter rail, and high speed intercity rail – is vital if Michigan cities are to be competitive for employers and employees.

Background

The CTF is created in Act 51. There are specific requirements for how the CTF shall be used in support of public transportation, which includes local transit, passenger rail, intercity bus, and rail freight.

The current distribution of CTF funding supports a network of local bus service that provides essential mobility for those who cannot or chose not to operate or own a car, but does not allow for major expansion of more modern transit systems. The majority of local bus trips today are to help Michigan residents meet their basic needs, such as getting to work, school, the doctor, or the grocery store. The CTF formula needs to be modernized to reflect current economic development and mobility goals for the state's public transportation services. Proposed changes include:

- Encourage efficiency and effectiveness for CTF programs that support existing local transit services – operating assistance and match to federal funds – by:
  - Adding performance measures (best practices) as a funding prerequisite.
  - Adding incentive (bonus and penalties) for consolidation and regionalization of local transit operations.

    - Eliminating the legal requirement for the CTF to provide two-thirds of the match for all federal transit capital grants, but retain a program that can provide some match, with a priority on vehicle replacement.

- Add a new urban transit investment program to allow the state to strategically invest in urban transit projects. This strategy will allow investment to be state driven (discretionary) while keeping support of basic operations through a consistent formula allotment.

- Solidify state support for passenger rail, including a commitment of sufficient CTF to maintain existing passenger rail services and to expand service frequency in response to federally-funded infrastructure improvements.

Statistics

Via grants or contracts, MDOT distributes CTF to 79 transit agencies; 40 specialized services providers; three intercity passenger carriers; and various local units of government.

The primary revenues to the CTF are sales tax contributions and transfers from the Michigan Transportation Fund (MTF). The annual contributions of MTF are set in Act 51 of 1951 and the annual contribution of sales tax is set in the General Sales Tax Act.

- In FY2010, the MTF distribution to the CTF was approximately $156 million.
- In FY2010, the sales tax contribution to the CTF was $82 million.

In most states, transit agencies use local and regional sales taxes as a source of transit funding. Since this is not an option in Michigan, a small portion of the sales tax goes to the CTF. This is one reason why the CTF has played and will continue to play a significant role in sharing in the cost of providing local transit services.

Rural Infrastructure (pg. 8)

Summary

The proposal is for MDOT and the Department of Agriculture & Rural Development (MDARD) to coordinate with the food and agriculture industry to better understand their infrastructure needs and ensure that they are addressed in economic expansion opportunities.

Why It Matters

Agriculture is the second largest industry in Michigan and growing, with international exports generating $1.75 billion in Michigan in 2010. According to USDA's Economic Research Service, there were 14,700 agricultural export-related jobs in Michigan that year. Exports are expected to grow to over $2 billion in 2012; there are plans to double that figure in five years.

The Michigan agriculture industry is in an excellent position to market products world-wide, provided the infrastructure is in place to move those goods. Understanding the infrastructure needs of the agricultural industry is the first step to address those needs. As investments are made to improve transportation, it is important to also ensure the needs of the variety of transportation modes employed by the agriculture industry – often in rural areas – are addressed.

Statistics

Michigan's agricultural diversity is second only to California in the U.S. We are the number one producer in the nation of many products such as dry beans, blueberries, tart cherries, pickling cucumbers, green grapes, squash, and a variety of bedding plants.

Michigan exports almost one-third of the crops grown here, with the top five agricultural exports being soybeans, feed grains, vegetables, fruits, and dairy products. Over 60 percent of all Michigan's agricultural exports went to Canada, our number one export market. Rounding out the top five countries eager for Michigan-grown products were Mexico, Japan, Korea, and China.

In 2009, over 42 million tons of agriculture products moved throughout the state, valued at over $37 billion. Ninety percent of this total moved by truck, and 9.5 percent moved by rail. Of this overall total, 25.5 million tons and over $11 billion of agriculture products originated in Michigan.

The biggest movements of Michigan products include sugar beets in the Saginaw Bay area, beans from the thumb region, and grains such as corn and wheat throughout the southern lower peninsula.

Port Dredging (pg. 9)

Summary

The proposal is to work with Congress to appropriately spend federal funds for port dredging. Enough Harbor Maintenance Tax (HMT) revenue is collected each year to meet all of the nation's authorized harbor maintenance needs, but a large portion of those funds are being withheld and used for other purposes.

Why It Matters

Without adequate dredging of harbor navigation channels, sediment can build-up which decreases the authorized channel depth. Inadequate depth means cargo ships must come or go light-loaded, which drives up shippers' costs, drives up the cost of exports and imports, and increases costs to consumers.

Twenty-seven Michigan ports, in all corners of the state, are in need of dredging. There are five specific Michigan ports in need of dredging each year, and without it they may have to cease operations.

Statistics

The Harbor Maintenance Trust Fund (HMTF) was established in 1986 to fund the operation and maintenance of ports and harbors. The HMT was set at .04 percent of cargo value on shipments into and out of U.S. ports in order to partially fund the U.S. Army Corps of Engineers (Corps) harbor maintenance programs. In 1990, in an attempt to fund 100 percent of operation and maintenance costs, Congress tripled the ad valorem HMT from .04 percent to .125 percent. A substantial surplus subsequently accrued in the HMTF as a result.

The HMTF surplus is projected to be $6.2 billion by the end of FY 2011, up from $5.65 billion at the end of FY 2010. The surplus will continue to grow by hundreds of millions of dollars each year unless used for its intended purpose.

To ensure that HMT revenue entering the HMTF is spent for its intended purpose, Congressmen Charles Boustany (R-LA) and Joe Courtney (D-CT) introduced H.R.104, bipartisan legislation with 26 original cosponsors. HR-104 currently has 118 cosponsors. Senator Carl Levin (D-MI) and Senator Kay Bailey Hutchinson (R-TX), with 12 original cosponsors, have introduced S. 412, a companion bill in the Senate. The bills legislatively tie HMTF appropriations to HMTF revenue, but apply only to future HMTF revenues, not the existing surplus.

New Soo Lock (pg. 9)

Summary

The proposal is to work with the Michigan Congressional delegation and other Great Lakes states to seek funding for a new large lock at Sault Ste. Marie. Congress authorized construction of the new lock in the Water Resources Development Act of 1986. The new lock will replace two functionally obsolete locks that were constructed during World War I and are now closed. It will be capable of accommodating the 1,000 foot long vessels that account for approximately 70 percent of the U.S. Great Lakes' fleet.

A total of $33.6 million has been spent to deepen the approach channels for the new lock and construct two cofferdams upstream and downstream. The project now needs Congressional appropriations for construction of the new lock. An additional $545.7 million is needed to complete the project, all of which will be the responsibility of the federal government.

Why It Matters

The St. Marys Falls Canal and Soo Locks are a critical link in the Great Lakes – St. Lawrence Seaway system. This marine transportation system extends more than 2,000 miles from the western end of Lake Superior to the Gulf of St. Lawrence on the Atlantic Ocean and provides direct access to world markets for the agricultural and industrial heartland.

Closure of the Soo Locks due to accident, mechanical failure, sabotage, or act of war would be disastrous to the Great Lakes' and the nation's economy. Steel mills would lose access to their major source of iron ore and southeastern Michigan electric utilities would lose their primary access to coal to fire generating plants. Other major industries involved with agriculture, cement, and construction would also experience significant economic impacts.

The project is expected to create thousands of jobs over the course of construction.

Statistics

Marine traffic using the locks has grown dramatically over the past century and has averaged over 85 million tons annually during the past twenty years. A total of nearly nine *billion* tons of cargo have passed through the locks since their construction.

Three commodities – iron ore, grain, and coal – account for the greatest volume of traffic passing through the locks. The most important commodity is iron ore (primarily in the form of taconite pellets) which originates in the Mesabi Range of Minnesota and the Marquette Range in the Upper Peninsula of Michigan. The

ore is destined for the steel producing centers in the Chicago, Detroit, Hamilton-Nanticoke, and Cleveland-Pittsburgh regions. The second major commodity is coal, which consists of western U. S. coal transshipped through Superior, Wisconsin, destined for electric utilities in the Detroit area; and eastern U. S. coal, shipped from Lake Erie ports to Lake Superior utilities and industries. The third major commodity is grain produced in the prairie states and provinces and destined for Québec and overseas markets. Other significant commodities include limestone and cement produced at northern Michigan ports destined for major ports on Lake Superior; and fertilizer from western Canada destined for the agricultural region of the southern Great Lakes.

The St. Marys Falls Canal, including the Soo Locks, is owned and operated by the U.S. Army Corps of Engineers. The Soo Locks allow vessels to overcome the approximately twenty foot difference in elevation between Lake Superior and Lake Huron.

The Soo Locks have played a major role in national defense during every major war and conflict since the late 1800's by accommodating the movement of iron ore to the steel producing centers of North America.

New International Trade Crossing (NITC) (pg. 10)

Summary

The NITC will create a freeway-to-freeway connection from I-75 in Michigan to Highway 401 in Ontario, modern and efficient border inspection facilities in both countries, and a new six-lane bridge over the Detroit River.

The NITC will provide an additional border crossing to ensure the safe, efficient, and secure movement of people and goods across the U.S.-Canadian border to support the growth of the economies of Michigan, Ontario, Canada, and the U.S.

Why It Matters:

- The U.S. and Canada share the largest bilateral trade relationship in the world. Trade with Canada represents approximately 3% of the total U.S. Gross Domestic Product (GDP). It is estimated that over 7 million U.S. jobs are tied in some way to trade with Canada. Michigan's trade with Canada accounts for more than 10% of total U.S. trade. Nearly 24% of all U.S. trade with Canada crosses at the Detroit and Port Huron international border crossings. Michigan's trade with Canada accounted for 11.6% of Michigan's GDP in 2009.
- International trade and commerce supports more than 221,500 Michigan jobs. Building the NITC will create 10,000 jobs in Michigan during the five-year construction period. The new bridge, when completed, will help retain 25,000 jobs in Michigan that might be lost to other states on the northern border without additional crossing capacity.
- The NITC has been recognized as a significant economic catalyst for the City of Detroit and southeast Michigan by Mayor Bing, the Detroit Regional Chamber of Commerce, auto and auto-parts manufacturers, and many other industry groups.
- The international crossings in the Detroit area are the busiest on the northern border. This trade occurs on six existing lanes of aging infrastructure. Competing crossings in upstate New York, with far less commercial traffic, have 17 existing lanes. In addition, New York is proposing another crossing.
- Michigan's share of these costs is $0. Michigan will bear no financial responsibility for the completion of design, right-of-way acquisition, construction, or operation of the project. Canada has pledged $550 million for project components in Michigan that will not be funded by the public-private-partnership (P3) or the U.S. Government. Additionally, Canada will address any revenue shortfalls associated with the agreement with the toll-bridge concessionaire.
- The direct Canadian expenditure may be used to match U.S. federal highway aid from the Surface Transportation Program, enabling Michigan to receive up

to $2.2 billion of Michigan's contributions to the federal Highway Trust Fund that might be lost if state revenues remain inadequate after 2012. Without the NITC, and without the corresponding Canadian investment, MDOT anticipates a shortfall of between $75 and $115 million in state funds to match federal aid, which would result in the loss of between $440 and $600 million in federal funds for highways.

- Bridge construction will be financed by the private sector and will be repaid by tolls.
- The cost of the U.S. Customs Plaza will be the responsibility of the U.S. General Services Administration and Customs and Border Protection.
- Traffic estimates that were developed as part of the environmental clearance document were validated by an independent analysis performed by Wilbur Smith Associates (WSA). WSA is a worldwide leader in toll projects, providing a broad range of traffic, revenue, operations, and technology support services.
- The NITC financial model was developed by KPMG and Deloitte & Touche, two professional financial advisory firms with a global presence.
- In January 2010, the border transportation partnership that includes the U.S. Federal Highway Administration, the Michigan Department of Transportation, Transport Canada, and the Ontario Ministry of Transportation solicited expressions of interest worldwide for the financing and development of the NITC. Twenty responses, representing 37 firms, indicated a strong interest in implementing the project as a P3.
- Canada's additional investment to cover project costs in Michigan and any potential revenue shortfalls will be repaid by tolls. The State of Michigan will bear no responsibility for the repayment of the Canadian funding.

Cost and Financing of U.S. Project Components:

Project Component	Funding Source	Cost (Thousands)
U.S. Half of Bridge	Private Financing (i.e., tolls)	$501,600
U.S. Toll Plaza	Canadian Federal Funds	$150,644
U.S. Customs Plaza	U.S. General Services Administration	$269,967
I-75 Interchange	Canadian Federal Funds	$420,090
Total Cost:		**$1,342,301**

Source: Report to the Legislature of the State of Michigan responding to Public Act 116 of 2009, Section 384 – May 1, 2010.

Clean Water (pg. 10)

Summary

The Department of Environmental Quality administers three funds that provide low-interest loans to municipalities for maintaining wastewater and drinking water infrastructure.

The Governor proposes to modify the funding structure to create a grant and low-interest loan program that addresses critical needs of the state's sewer, wastewater and drinking water infrastructure.

Further, the proposed changes create a streamlined program that is easier for local units of government to access for their infrastructure needs.

Why it Matters

Water and sewer infrastructure is critical to maintaining our quality of life. Failing water supply systems expose residents to diseases like e. coli. Failing sewer systems contaminate neighborhoods and shoreline beaches. For Michigan to succeed, these key components of our infrastructure must be maintained in modern working condition.

Adequate sewer and water infrastructure is key to urban redevelopment and economic development in Michigan. Water and sewer infrastructure in most of Michigan's municipalities is aging and needs repair. The present funding structure does not adequately address local needs in a timely or comprehensive way.

Statistics / Background:

The State Revolving Fund (SRF) provides low-interest loans to help fund wastewater treatment improvements, storm water treatment, and non-pointsource pollution control projects. The SRF Program began in 1989, replacing a construction grant program.

The Strategic Water Quality Initiatives Fund (SWQIF) provides low-interest loans for on site upgrade or replacement of failing septic systems or for the removal of groundwater or storm water from sanitary or combined sewer leads. It helps municipalities fund wastewater treatment improvements that cannot qualify for assistance from the SRF. The SWQIF was created in November 2002 with the passage of Proposal 2.

The Drinking Water Revolving Fund (DWRF) provides low-interest loans to water suppliers. The goal of the DWRF is to assist water suppliers in providing safe/high quality drinking water. The DWRF Program began in 1997.

The SRF and DWRF are capitalized annually with federal grant funds and a required 20 percent state match. The SWQIF and SRF are funded with proceeds from the sale of Great Lakes Water Quality Bonds ($1 billion), as authorized by the passage of Proposal 2 in November 2002.

- As of October 1, 2011, the SRF has funded 433 projects worth $3.7 billion.
- As of October 1, 2011, the SWQIF has funded 18 projects worth $18 million.
- As of October 1, 2011, the DWRF has funded 238 projects worth $691 million.
- Over the past nine years, Michigan has spent $350 million of the available $1 billion authorized by Proposal 2.

Removal of Dams (pg. 11)

Removal of Dams

Summary:

There are nearly 2,600 dams around the state. Nearly three-quarters are privately owned. The expense of maintaining them often exceeds what owners can afford. Failing dams endanger public safety and our natural resources.

The Governor's proposal directs the Michigan Department of Environmental Quality to work with the Departments of Natural Resources and Agriculture and Rural Development, to identify, prioritize, and streamline efforts to remove problem dams.

Why it Matters:

Two dams have failed in Michigan so far this year. Dam failures jeopardize the safety and health of riparian owners downstream. Failures also release sediment into the waterways, killing fish and damaging the ecosystem.

Background / Statistics:

Most of the state's dams were built by private owners decades ago for power, milling, and recreation. The American Society of Civil Engineers recently gave Michigan a "D" in its 2009 Dam Infrastructure report card, stating, "Over 90 percent of Michigan's dams will reach or exceed their design life by 2020. Many dams are abandoned, no longer serve any useful purpose, and pose safety hazards to downstream residents."

In Michigan, 74 percent of dams are privately owned. Repairs often exceed six figures. Removal can cost millions of dollars. Most private owners cannot afford fixes or removals.

Broadband (pg. 12)

Why it Matters

From government and schools to hospitals and private industry, our cyber networks are integral to Michigan's infrastructure, economic growth and quality of life.

Michigan has long served as a conduit for speedy transport via our Great Lakes and the same can be true today for the transport of information along high-speed broadband. This connectivity enables:

- Government to improve service and efficiency: around-the-clock self-service, employee mobility
- Schools to expand their curriculums and research capabilities: video conferencing, online classes
- Health industry to engage with patients and exchange data to improve health outcomes: electronic medical records, insurance and health advice
- Businesses to serve customers around the world: video conferencing, e-jobs and telework
- Support of our growing IT sector; from 2009-2010 while the nation lost high-tech jobs, Michigan added 2,700—more than any other state.

It is also essential to modernizing and optimizing our traditional infrastructure, including public buildings and physical transportation networks.

- High-speed broadband equips our public facility assets with remote sensing and efficiency tools for our increasingly mobile workforce.
- Intelligent transportation—the integration of information and technology into our systems improves the travel experience, makes it safer and delivers supply-chain efficiency.

Use of high-speed broadband at home is also a game-changer for our citizens. Yet, only 67% of Michigan households choose to have a broadband connection in the home, nearly 97% are rural (no service/service below 3Mbps connectivity) (Connect Michigan Survey, June 2011).

Efforts Underway

In addition to broadband communication networks that are privately funded, Michigan is working with partners like Merit Network, Inc., Michigan State University and other private and public agencies, to make the most of over $247 million in federal broadband dollars. This collaborative approach will help bridge the urban-rural divide. Funding amounts and related efforts include:

- **Comprehensive Community Backbone Infrastructure**
  Building out over 2,300 miles of fiber network, offering speeds between 100 Mbps-10 Gbps. Further connect the citizens and businesses of our

two peninsulas by investing in additional fiber access across the Mackinac Bridge.

- **Public Computer Centers**
  Investing in 295 local public computing centers and implementing sustainable adoption and training programs for students, displaced workers and small businesses.
- **Sustainable Broadband Adoption**
  MSU is providing training to increase broadband subscription and use by high school students, displaced workers and small businesses in Detroit, Highland Park, Hamtramck, Lansing, Jackson, Benton Harbor, Flint, Kalamazoo, Pontiac and Saginaw. The Eastern Upper Peninsula Intermediate School District is providing 3,500 computers to economically disadvantaged students in Chippewa, Luce, and Mackinac counties with vouchers for discounted broadband access.
- **Last Mile** - Last-mile investment will flow through eight geographically dispersed local service providers, expanding Internet access where it has previously been limited or unavailable.
- **Streamline the broadband build-out process** by establishing a one-stop shop for approving all utility work permit clearances within state road rights-of-way. The state with the least bureaucracy will win in the long-run in this arena. Let's make it easy for our partners to help us get there. I have directed MEDC CEO Mike Finney to direct this effort as part of the Economic Growth Executive Group.

Michigan's public sector broadband—800 facilities, 1,800 local units of government and 500 school districts—is currently a patchwork of service. We are eliminating redundancy and filling gaps, resulting in shared networks, reduced costs and increased bandwidth.

Proposal

The Michigan Public Safety Communications System (MPSCS) is Michigan's statewide 800 MHz digital, trunked, integrated mission critical voice and data communications network consisting of 180 geographically dispersed communications towers and related infrastructure.

The MPSCS towers have been utilized for public safety equipment co-locations to enhance existing local, state, and federal public safety operations around the state. This practice has been in place for more than 10 years and continues to expand in all regions of the state.

There are 57,500 mission critical communications radios attached to over 1400 agencies with a primary focus of Public Safety, spanning local, state, federal, and private agencies serving and protecting the citizens of Michigan. The system is compatible with radios in Wisconsin, Ohio, and Indiana

Change MPSCS financing and update appropriate laws currently restricting the MPSCS towers to public safety use. Expand use of the MPSCS towers for co-location opportunities to:

- Underserved areas of the state – We will extend the reach of broadband to facilitate rural broadband opportunities.
- Educational institutions - Enhancing access to educational materials/curriculum.
- Public safety co-locations will continue to have priority within the MPSCS and ensuring their communication ability will always be the top priority.

The bonds will be refinanced from tax-exempt to taxable bonds. Approximately $2.5 million from the IT Internal Service Fund will be used in order to bridge the cost of the conversion, and will be paid back via co-location charges. Revenue beyond repayment of the bonds will be used to refresh MPSCS technology.