



STATE OF MICHIGAN
DEPARTMENT OF TRANSPORTATION
LANSING

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July 1, 2009

State Transportation Commission
and
Kirk T. Steudle, Director
Michigan Department of Transportation

We are pleased to submit the Annual Financial Report for the Michigan Department of Transportation (Department) for the fiscal years ended September 30, 2007 and 2008. 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 Department of Management and Budget's Administrative Guide to State Government, which requires state agencies issuing financial reports to be consistent with the State of Michigan Comprehensive Annual Financial Report. In complying with state agency reporting guidelines, this report does not fully comply with all generally accepted accounting principles. For example, the combined balance sheet does not include long-term obligations or capitalized assets, but all disclosures necessary to enable the reader to gain a reasonable understanding of the Department's financial affairs are included. A summary of the Department's financial information follows.

FINANCIAL UPDATE

During fiscal year (FY) 2008, the Department continued to deliver high quality products and services with slightly lower revenues. The State of Michigan's economic situation continues to pose financial challenges for the Department. With population declining and automobile sales decreasing, the revenues from vehicle registrations decreased for FY 2008. Reduced fuel consumption for FY 2008 resulted from gasoline prices reaching more than \$4 per gallon. These factors contributed to a decrease in revenues deposited in the Michigan Transportation Fund (MTF) for the fourth consecutive year. Further revenue declines for FY 2009 and FY 2010 are forecasted as well. Total MTF revenue decreased from \$1.943 billion in FY 2007 to \$1.890 billion in FY 2008, a 2.7 percent decrease. Between FY 2007 and FY 2008, a decrease of \$38.5 million in gasoline and diesel taxes collected was compounded by a decrease of \$16.7 million in vehicle registration taxes.

In FY 2008, the Comprehensive Transportation Fund (CTF) received \$159.9 million total MTF revenue, a \$4.8 million or 3.0 percent decrease compared to FY 2007 in MTF revenues for public transportation services. The CTF also receives \$82.1 million in sales tax revenue from vehicle-related sales, which had an increase of \$14.4 million or 21.3 percent in FY 2008 due to \$4 per gallon gasoline. The amount of aviation fuel tax revenue deposited in the Aeronautics Fund decreased by \$1.0 million, or 15.6 percent, over the previous fiscal year. Aviation fuel tax revenues remain well below FY 2005 levels.

In 2005, the authorizations that provided federal transportation dollars were replaced with the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU). Michigan received \$805.9 million in apportionments and \$769.5 million in new obligation authority for FY 2008.

PROGRAM OVERVIEW

In FY 2008, the Department continued the Jobs Today Program, which focuses resources on improving the condition of existing roads and bridges while providing economic stimulus for the state's economy. The Department continues to exceed its goals for pavement and bridge condition ratings. Currently, pavement and bridge conditions are rated at 92 percent and 89 percent good and fair, respectively. The overall system health of trunkline pavements has improved from 6.8 years average remaining life in FY 1996 to 9.6 years average remaining life at the end of FY 2008, this represents a 41 percent improvement. Asset management technology and strategies continue to enhance accurate forecasting of pavement condition and assist prioritization of future projects. Over \$1.1 billion was spent on capital outlay expenditures for roads and bridges in FY 2008.

The Department's comprehensive highway safety program began a three-year program to reduce lane departure related crashes. An additional \$17 million was used to install cable barriers on 65 miles of critical divided highway corridors and 2,742 miles of shoulder and centerline rumble strips on non-freeways during FY 2008. MDOT estimates a reduction of 1,860 minor injury and property damage only crashes and 79 severe injuries and fatalities.

Accomplishments in FY 2008 included adding 150 million feet of pavement markings statewide and replacing special markings in approximately 40 of Michigan's 83 counties. The Department also upgraded signs on 153 miles of non-freeway facilities and 272 miles of freeway. The Department installed seven new traffic signals, upgraded or modernized 174 traffic signals and beacons, six school devices, and re-timed 550 signals.

In FY 2008, 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 expending over \$15 million in CTF funds plus over \$12 million in toll credits to match over \$124 million in federal transit capital funds. CTF funds were also used to provide intercity capital and operating assistance of \$1.8 million and passenger rail operating assistance of \$6.4 million. In FY 2008, ridership continued to increase as state and federal funds were used to maintain intercity bus services in many Michigan communities. State funds continued to support passenger rail services along two existing corridors. A combination of state and federal funds was used to improve intercity bus facilities, and the closing of both private and public railgrade crossings increased safety for rail passengers. Safety was also the focus of the Department's ongoing oversight of private motor bus and limousine carriers. The Department's public

transportation program focused on environmental stewardship with continued growth in the MichiVan Vanpool Program and financial support of local agency advancements in the area of "green" transit facilities, transit buses, and bus technology. Transit facility renovations also assisted with community redevelopment in several areas of the state. Transit agencies continued to have success passing local millages.

In FY 2008, the Department's Freight Services and Safety Division 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. Through the Freight Economic Development Program and Michigan Rail Loan Assistance Program, the Department loaned monies for four projects, investing over \$900,000 to provide rail access for new and expanding businesses or improve existing railroad infrastructure. The Department provided funding for 57 grade crossing safety enhancement projects and three crossing closure efforts on roads under county, city, or village jurisdiction, investing a total of approximately \$8.1 million. The Department also provided \$500,000 in legislatively mandated operating assistance to the Detroit-Wayne County Port Authority for administrative and marketing expenditures.

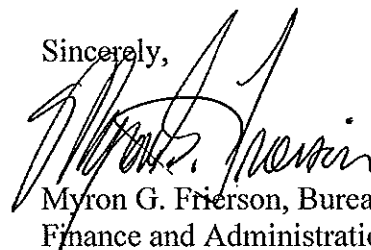
During FY 2008, the Department contracted for 162 airport improvement projects, all having significant safety benefits. In addition to the safety benefit, 70 percent of the projects were developed to preserve the existing infrastructure and 30 percent were to expand the runway capacity. These projects totaled \$124 million. Through the All Weather Airport Access Program, all eligible airports in Michigan now have achieved all weather accessibility. Annual inspections at 220 public use airports and heliports were conducted and licenses provided for 235 public use landing sites, 77 hospital heliports, 63 flight schools, and 214 aircraft dealers. Approximately 7,250 aircraft were registered. Important safety publications, the *Michigan Aeronautical Chart* (distributed to 18,000 pilots) and the *Airport Directory* were made available on the Aeronautics Web site. Additionally, over 1,800 charts and 2,100 directories were sold, as well.

CONCLUSION

In FY 2008, \$4.0 billion was expended from all sources to address Michigan's transportation needs. The Department's challenge continues to be making 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.

We wish to express our appreciation to the many people whose dedicated efforts made possible the preparation of this report. 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,



Myron G. Frierson, Bureau Director
Finance and Administration