

**Testimony of Bill Rustem, Director of Strategic Policy for Governor Snyder  
Michigan Senate Transportation Task Force  
Tuesday, November 13, 2012**

**GOOD MORNING SENATOR KAHN AND MEMBERS OF THE SENATE  
TRANSPORTATION TASK FORCE. THIS IS THE FIFTH AND FINAL MEETING OF THE  
TASK FORCE AND I WOULD LIKE TO BEGIN BY THANKING YOU FOR CONDUCTING  
AN EXCELLENT INVESTIGATION INTO AN ISSUE OF CRITICAL IMPORTANCE TO  
MICHIGAN'S ECONOMIC PROSPERITY. YOU HAVE TAKEN YOUR JOBS SERIOUSLY  
BY LISTENING TO NEARLY THREE DOZEN TRANSPORTATION EXPERTS FROM  
EVERY PERSPECTIVE AND EVERY CORNER OF THE STATE. BUT THE TIME FOR  
LISTENING IS DRAWING TO A CLOSE AND THE TIME FOR ACTION IS SOON UPON  
US.**

**YOU HAVE INVESTIGATED MICHIGAN'S ASSET MANAGEMENT METHODS AND  
THE TOOLS WE USE TO GET MAXIMUM VALUE FOR EACH TRANSPORTATION  
DOLLAR. YOU HEARD ABOUT MEASURES BEING TAKEN BY STATE AND LOCAL  
ROAD AGENCIES TO RESTRAIN LABOR AND MATERIAL COSTS, AND YOU HEARD  
ABOUT HOW MICHIGAN COMPARES TO OTHER STATES.**

**YOU LEARNED THAT MICHIGAN IS NATIONAL EFFICIENCY LEADER, AND THAT OUR ASSET MANAGEMENT PLAN IS A MODEL THAT IS BEING REPLICATED IN OTHER STATES AND LOCALITIES ACROSS AMERICA. CLEARLY, MICHIGAN IS DOING A GOOD JOB IN GETTING VALUE FOR MONEY. DESPITE THE RHETORIC OF SOME, THE SIMPLE TRUTH IS THAT WE CANNOT EXTRACT ENOUGH MONEY THROUGH EVEN GREATER EFFICIENCY TO PAY FOR UNMET ROAD NEEDS.**

**YOU HAVE INVESTIGATED CURRENT REVENUES, ROAD CONDITIONS, AND MAINTENANCE NEEDS AT THE STATE AND LOCAL LEVELS. YOU LEARNED THAT THE CONDITION OF MICHIGAN ROADS IS BAD, AND GETTING WORSE – THE TRENDS ARE ALL IN THE WRONG DIRECTION. IN FACT, OUR ROADS WILL SOON BE IN WORSE CONDITION THAN THEY WERE IN 1997 - THE LAST TIME THE GAS TAX WAS RAISED.**

**YOU HEARD SEVERAL EXPERTS ESTIMATE THAT MICHIGAN NEEDS A MINIMUM OF \$1.4 BILLION OF NEW REVENUE EACH YEAR TO ACHIEVE THE ROAD QUALITY GOALS OF 95% GOOD/FAIR CONDITION FOR FREEWAYS AND 85% GOOD/FAIR FOR THE REST OF OUR PAVED ROADS. IMPROVEMENTS TO PUBLIC TRANSIT**

**RAIL SERVICE, OR TO MODERNIZE FREEWAYS WOULD REQUIRE ADDITIONAL RESOURCES. WE HAVE CONFIDENCE IN THESE ESTIMATES.**

**LAST WEEK, YOU SOUGHT THE ANSWER TO A VERY IMPORTANT QUESTION: WHAT IS THE COST OF DOING NOTHING? YOU LEARNED THAT EACH DAY WE DELAY, WE LOSE NEARLY \$3 MILLION DOLLARS WORTH OF ROAD VALUE, AND EACH YEAR OF DELAY COSTS NEARLY \$1 BILLION IN LOST ROAD VALUE. IN SHORT, TIME IS OUR ENEMY. THE COST OF DOING NOTHING IS ALREADY HIGH AND GETTING HIGHER BY THE DAY. IT IS ANOTHER ONE OF THOSE BILLS THAT OUR GENERATION IS GETTING READY TO HAND TO OUR CHILDREN.**

**OVER A YEAR AGO, GOVERNOR SNYDER STARTED THIS CONVERSATION BY DELIVERING A SPECIAL MESSAGE THAT PRESENTED SEVERAL PRINCIPLES UPON WHICH TRANSPORTATION INVESTMENT POLICY SHOULD BE BASED:**

- **USER FEES SHOULD BE THE FOUNDATION FOR ROAD FUNDING – THE MORE ONE USES OUR ROADS, THE MORE ONE SHOULD PAY FOR THEIR CARE AND MAINTENANCE;**

- **FUNDING SHOULD BE ON A “PAY-AS-YOU-GO” BASIS – DEBT FUNDING SHOULD BE USED SPARINGLY FOR MAJOR PROJECTS, BUT NOT FOR ROUTINE ROAD REPAIRS;**
- **FUNDING SHOULD KEEP PACE WITH INFLATION;**
- **REVENUE SOURCES SHOULD BE FAIR, SIMPLE AND BROADLY BASED; AND FINALLY,**
- **THE DISTRIBUTION OF REVENUES SHOULD ENABLE US TO FOCUS RESOURCES ON OUR MOST HIGHLY TRAVELED ROADS – THE ARTERIES THAT CARRY THE LIFE-BLOOD OF OUR ECONOMY AND SUSTAIN THE JOBS AND INCOMES UPON WHICH MICHIGAN FAMILIES DEPEND.**

**IF WE USE THESE PRINCIPLES TO EVALUATE OUR PRESENT ROAD FUNDING REGIME, WE FIND THAT IT FAILS IN SEVERAL CRITICAL WAYS. THE MOTOR FUEL EXCISE TAX IS A GOOD PROXY FOR ROAD USE AND IT IS PAID BY BOTH RESIDENTS AND NON-RESIDENTS, BUT IT IS FLAT AND FIXED SO THAT IT DOES NOT KEEP PACE WITH INFLATION AND INSTEAD REQUIRES PERIODIC ADJUSTMENT BY THE LEGISLATURE – A JOB THAT HAS ALWAYS BEEN TOUGH, AND IS GETTING TOUGHER. IN FACT, FUEL REVENUES HAVE DECLINED AS CARS**

**BECOME LIGHTER AND MORE EFFICIENT AND RISING GAS PRICES MOTIVATE CONSERVATION.**

**MOTOR VEHICLE REGISTRATION FEES BASED ON VEHICLE VALUE ARE NOT DIRECTED RELATED TO ROAD USE, AND THEY NO LONGER KEEP PACE WITH INFLATION AS THEY DID IN THE PAST. UNFORTUNATELY, THE FEES ARE PAID ALL AT ONCE EACH YEAR (HAPPY BIRTHDAY!), THEY ARE EXPENSIVE TO ADMINISTER AND CANNOT BE EXPORTED TO NON-RESIDENT AUTO USERS. IT SHOULD BE NOTED THAT TRUCKERS PAY MI REGISTRATION FEES AND THEY PAY QUARTERLY. WHILE REGISTRATION FEES AREN'T PERFECT, MAINTAINING SOME REVENUE SOURCE DIVERSITY IS IMPORTANT FOR KEEPING FUNDING STREAMS STABLE AND PREDICTABLE.**

**TWO CHARACTERISTICS OF OUR CURRENT FUNDING REGIME ARE CAUSE FOR IMMEDIATE ALARM: FIRST, IN THE ABSENCE OF ADEQUATE REVENUE TO PAY FOR ROAD MAINTENANCE, WE HAVE ABANDONED THE "PAY-AS-YOU-GO" PRINCIPLE IN FAVOR OF DEBT FINANCING. FIFTEEN YEARS AND SEVEN BOND ISSUES HAVE PASSED SINCE THE LAST TIME THE GAS TAX WAS ADJUSTED. THIS YEAR, WE WILL SPEND 24% OF THE STATE TRUNKLINE FUND ON DEBT SERVICE**

**ALONE, THE EQUIVALENT OF 5.7 CENTS OF OUR 19 CENT GAS TAX. IN SHORT, WE ARE MAXED OUT ON DEBT.**

**SECOND, FOR THE FIRST TIME IN MEMORY, LAST YEAR WE TOOK \$136 MM FROM THE GENERAL FUND TO MEET MICHIGAN'S MATCH FOR FEDERAL HIGHWAY AID. THAT VIOLATES THE USER FEE PRINCIPLE AND PITS ROAD MAINTENANCE AGAINST FUNDS USED TO PROTECT PUBLIC HEALTH, SAFETY AND WELFARE. IT IS A RACE TO THE BOTTOM FOR WHICH THERE CAN BE NO WINNER.**

**GOVERNOR SNYDER IS COMMITTED TO REINVENTING ROAD FUNDING MUCH LIKE WE REFORMED THE MICHIGAN BUSINESS TAX. HE HAS RECOMMENDED ONE POSSIBLE SCENARIO FOR REINVENTING ROAD FUNDING, BUT HE REMAINS OPEN TO ALTERNATIVE SCENARIOS SO LONG AS QUALITY GOALS ARE ACHIEVED IN ACCORD WITH THE PRINCIPLES I MENTIONED A MOMENT AGO.**

**LAST WINTER, BILLS WERE INTRODUCED:**

- **TO PRODUCE A MINIMUM OF \$1.4 BB IN NEW TRANSPORTATION REVENUES;**
- **TO MOVE FROM THE FLAT, FROZEN MOTOR FUEL EXCISE TAX TO A TAX BASED ON THE WHOLESALE PRICE OF GAS WITHIN "SAFETY BANDS" TO PROVIDE STABILITY AND PROTECT AGAINST VOLATILITY;**
- **TO ADDRESS THE INEQUITY BETWEEN THE DIESEL AND GASOLINE TAXES;**
- **TO DISTRIBUTE REVENUE IN A WAY INTENDED TO FOCUS RESOURCES ON OUR MOST HIGHLY USED CORRIDORS OF COMMERCE;**
- **AND TO INCREASE THE ACCOUNTABILITY AND TRANSPARENCY OF ROAD AGENCIES.**

**AS WE APPROACH ANOTHER WINTER, ONLY THE BILLS TO ENHANCE ACCOUNTABILITY AND TRANSPARENCY HAVE BEEN ENACTED; THE "MEAT" OF THE FUNDING PROPOSAL REMAINS ON THE TABLE.**

**NOTHING THAT YOU HAVE HEARD FROM NEARLY THREE DOZEN EXPERTS, INCLUDING BOTH LEGISLATIVE FISCAL AGENCIES, CONTRADICTS THE ESSENTIAL**

**FACT THAT MICHIGAN IS UNDERINVESTING IN ITS TRANSPORTATION  
INFRASTRUCTURE TO THE DETRIMENT OF OUR CITIZENS AND OUR ECONOMY.**

**THE ROAD FUNDING PROBLEM IS JUST TOO BIG TO SOLVE BY RE-SLICING THE  
EXISTING PIE OF STATE REVENUES AND ENGAGING IN A KIND OF INTERNECINE  
CONFLICT FROM WHICH ONLY LOSERS CAN EMERGE. AND WE CANNOT  
SQUEEZE ENOUGH REVENUE OUT OF MORE EFFICIENCY TO MAKE A  
DIFFERENCE.**

**TOGETHER, WE HAVE TAKEN SEVERAL STEPS TO MAKE MICHIGAN A MORE  
ATTRACTIVE PLACE TO LIVE AND TO EARN A LIVING. AND IT'S WORKING: OUR  
ECONOMY IS REBOUNDING AND MOMENTUM IS BUILDING. NOW IS THE TIME  
TO TAKE SIMILAR STEPS REGARDING OUR CRITICAL INFRASTRUCTURE.**

**A QUOTE FROM JOHN ENGLER'S 1997 STATE OF THE STATE MESSAGE PRESENTS  
THE CHALLENGE WE FACE TODAY, LIKE WE DID THEN: "JUST AS A NEW  
STRATEGY IS IMPORTANT FOR PREPARING OUR WORKERS, A NEW STRATEGY IS  
IMPORTANT FOR REPAIRING OUR INFRASTRUCTURE."**

**LET'S WORK TOGETHER TO MEET THAT CHALLENGE AND DEVELOP A NEW STRATEGY. LET'S BE RELENTLESS IN TAKING POSITIVE ACTION TO INVEST IN OUR ROADS, OUR ECONOMY, AND OUR FUTURE. THE NEW YEAR WILL JUDGE OUR SUCCESS OR FAILURE.**

**THANK YOU, I WILL NOW TAKE QUESTIONS.**