

Antrim County Road Commission

Report to the Antrim County Board of Commissioners

November 10, 2011

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INTRODUCTION

“The sole purpose for the existence of the Antrim County Road Commission is to serve the travelling public in such a manner as to provide the services which allow the movement of people, goods and services as safely, efficiently and economically as possible with the resources provided for its accomplishment.

The Antrim County Road Commission and its employees shall constantly be aware of the public trust placed in it by The People and shall conduct all business in a manner which is in line with that responsibility.

The Antrim County Road Commission shall ever be aware of the responsibility of its role of stewardship over the environment and shall manage its facilities and conduct its operations accordingly.”

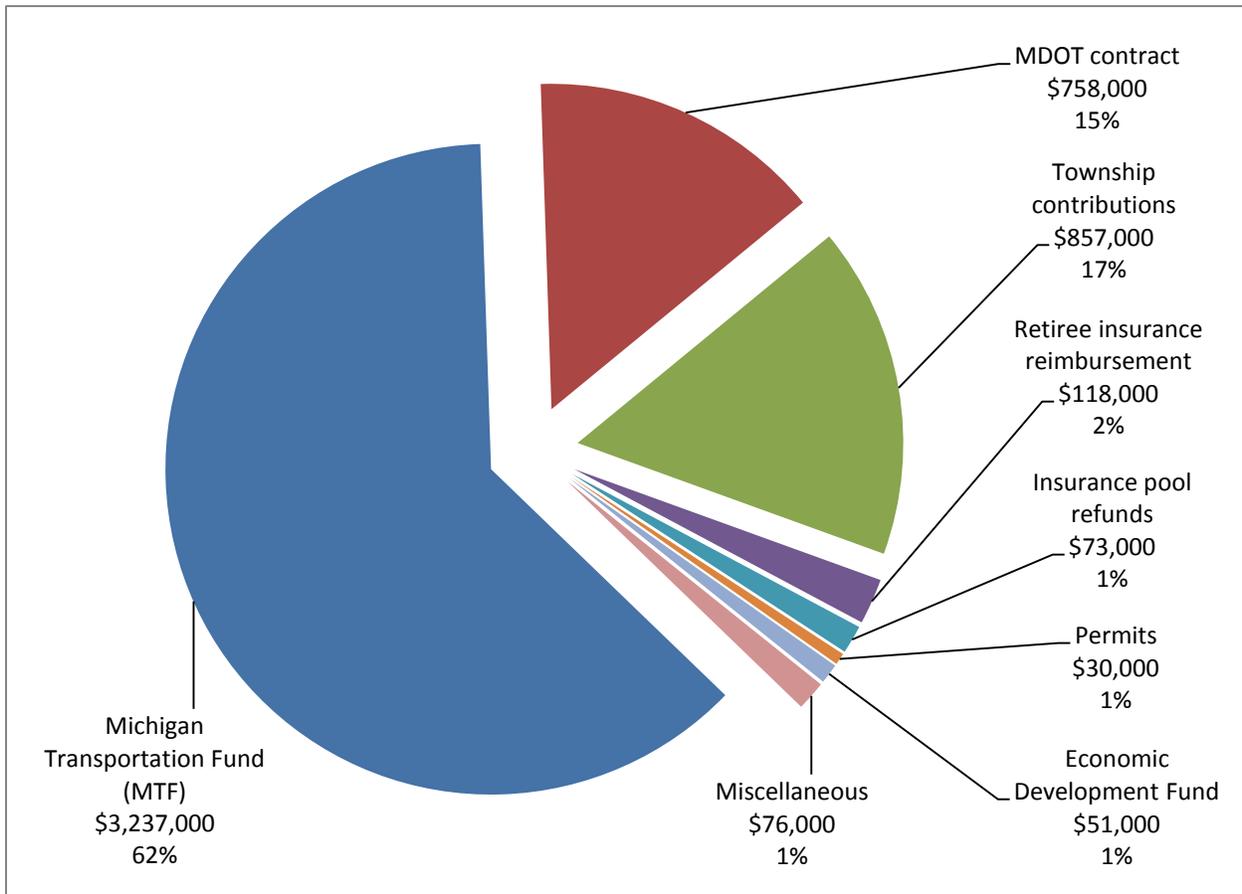
The statement above is the Mission of the Antrim County Road Commission (ACRC). The ACRC was created April 15, 1920 by the appointment of three county road commissioners by the Board of Supervisors. The Board of County Road Commissioners first met April 20, 1920 and has been meeting regularly since. In that year, a number of roads were taken into the county road system that now comprises, for the most part, the county primary roads. Over a five year period beginning in 1932, the ACRC took into its jurisdiction 20% of the township roads each year creating the local county road system. Most of these roads continue to serve the traveling public today although there has been many miles added and deleted throughout the last 90 years.

Today the ACRC maintains 210 miles of primary county roads and 663 miles of local county roads. Also, the Michigan Department of Transportation (MDOT) contracts with the ACRC to maintain 98 miles of state trunkline (M 32, M 66, M 88, US 31 and US 131). In the county system, approximately 650 miles are maintained throughout the year, 560 miles are paved, 91 miles are gravel and 222 miles are seasonal roads (two tracks).

REVENUES

Revenues are received from the following three main sources, Michigan Transportation Fund (MTF), MDOT contract and township contributions totaling over \$4,850,000 or 93% of all revenues. The remaining 7% comes from miscellaneous sources. The revenues received in calendar year 2010 by the ACRC are shown in Figure 1 below.

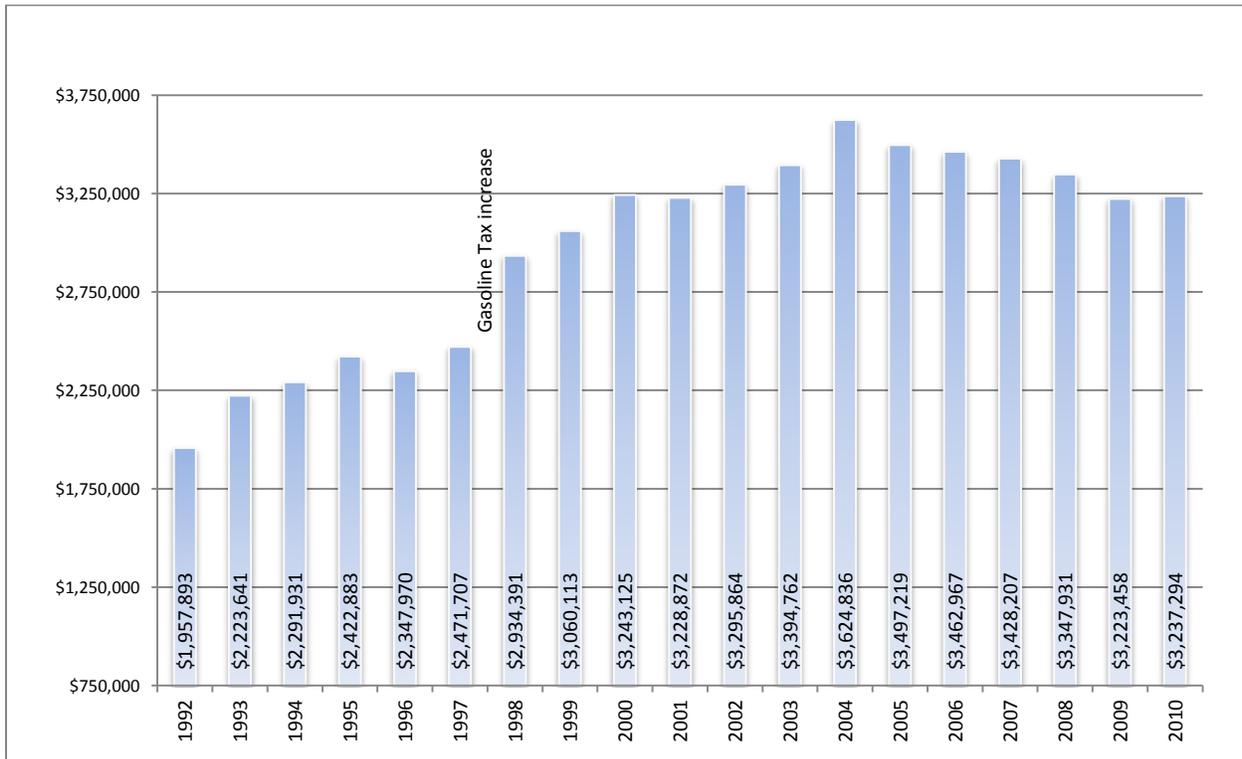
Figure 1 – 2010 Revenues



The MTF is the primary source of funding for all road agencies in Michigan. Revenues from gasoline tax, diesel fuel tax and vehicle registration fees make up the MTF which totaled over \$1.8 billion in 2010. The MTF has been declining since 2004 at which time the ACRC collected \$3,625,000. This decline can be attributed to the higher price of fuel and a bad economy forcing consumers to drive less and buy more fuel efficient. Also, declining vehicle sales has contributed to lower MTF collections.

Had MTF revenue remained flat since 2004, the ACRC would have collected an additional \$1.5 million. Figure 2 below shows MTF revenues received by the ACRC since 1992. Note that in 1997 the gasoline tax was increased from 15 cents per gallon to the current 19. With the increased cost of construction materials and equipment, we have effectively wiped out any gains made with that tax increase.

Figure 2 – Michigan Transportation Fund Revenues 1992 - 2010

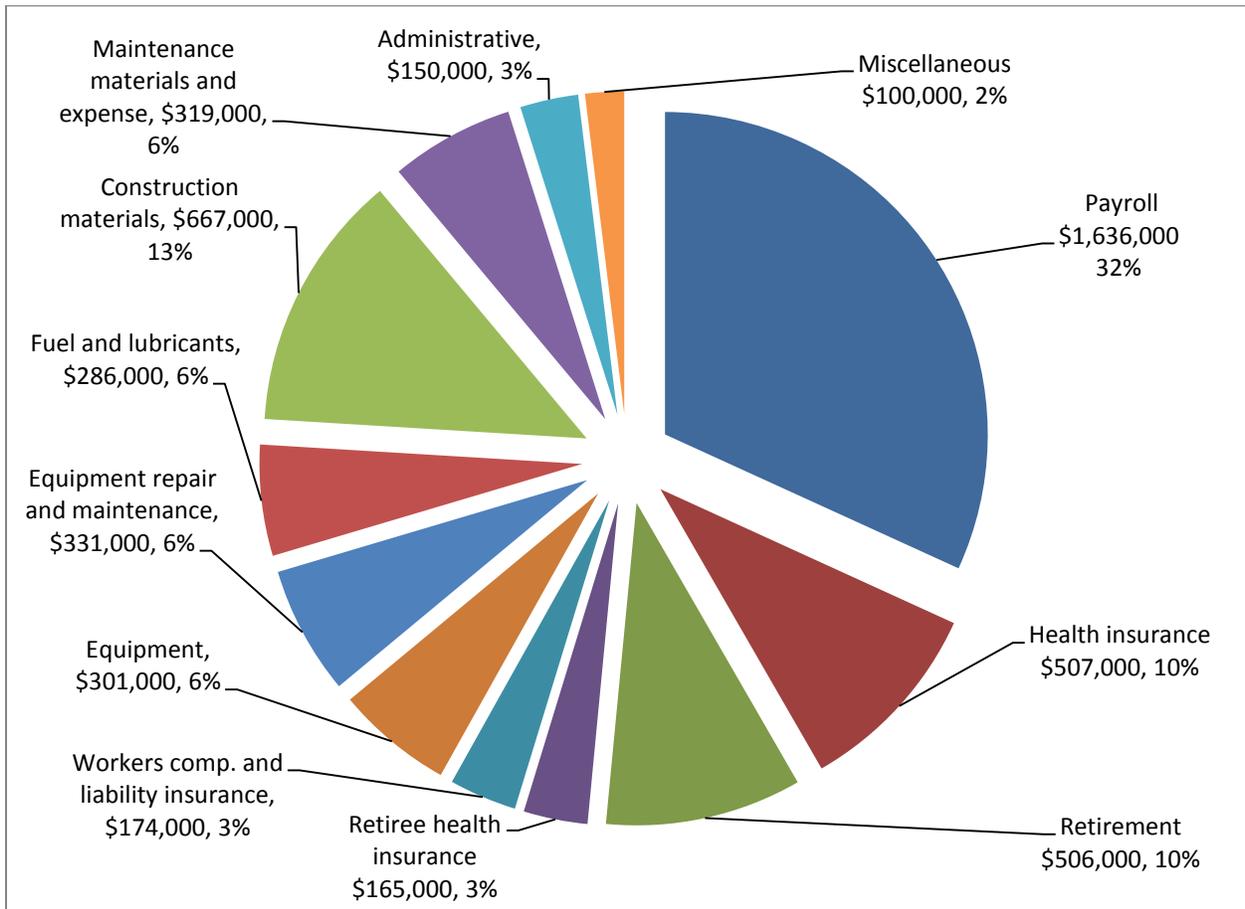


The revenues discussed here do not include Federal Aid money as this will be discussed in a later section.

EXENDITURES

Total expenditures for 2010 were \$5,142,000. About half of the expenses are wages and benefits. Wages run about 32% with health insurance and retirement at 10% each. Please note that the net health insurance expense for retired employees is the difference between the expense of \$165,000 and \$118,000 of retiree health cost reimbursed to ACRC. The net amount equals \$47,000 and this is the actual cost of health care benefit paid by the ACRC for retired employees. The ACRC will reimburse a fixed dollar amount to a retiree for health care depending on when they retired ranging from nothing to \$250 per month. Figure 3 shows the breakdown of major expense items.

Figure 3 – 2010 Expenditures



Winter maintenance is the single largest activity that costs the most for the ACRC. This cost is almost impossible to predict due to the extreme variations in winter weather from year to year. Winter maintenance cost \$1,689,000 in 2008-2009. This was the most expensive winter on record for Antrim County. This breaks down to \$615,000 on county primary roads, \$758,000 on county local road and \$316,000 on state highways.

TOWNSHIP CONTRIBUTIONS

Thirteen of the fifteen townships in the county have road millages ranging from 0.3 to 2.0 mils. The total revenue generated by these millages in 2010 was just over \$1 million. All townships have contributed money to local road improvements at some point in time and a few have contributed to primary road improvements.

The ACRC adopted a cost share policy years ago in order to distribute what money was available to share with townships on a fair basis. This policy has been revised several times due to the loss of revenues and the reduced buying power of those revenues. State law requires that at least 50% of local road improvements be funded by sources other than road commission funds. Currently, this policy requires that a township, or other funding source, contribute 90% of a project cost and if a project includes new asphalt paving, the cost of the asphalt is 100%. The only time this policy takes effect is if a township comes to the ACRC requesting a particular project. The ACRC does not dictate to the townships what projects they will do on local roads. If a project is requested, the ACRC will determine what the project will consist of and provide cost estimates.

In 2010, the ACRC evaluated all local paved roads and submitted a report to each township. This report communicated the existing conditions of the paved local roads and a five year suggested priority of preventive maintenance and/or reconstruction. This five year plan was based on each townships history of road contributions and their millage collections. This was a suggestion of needs on the existing paved local road system only and was intended as a tool for each township to use in their road project selection process. This report also estimated the amount of money needed to address any local paved road needs beyond the five year plan. There are many townships that have a greater need than funding ability.

FEDERAL AID

Federal aid is not reflected in either the revenues or expenditures sections above. This money is pass through money, meaning that the ACRC has to account for it, but everything that is shown as revenue is what is spent on federal aid projects. These projects are planned from three to five years in advance and the amount of money spent each year can vary significantly. This money is shown in our annual budget and audits.

Federal aid is administered through MDOT and is very restrictive. Most county primary roads are eligible, no local roads. There are a couple of different funding categories that come with special restrictions on use. All federal dollars require significant project planning, design, documentation and testing of materials. Also required is Davis-Bacon prevailing wages which significantly increases the cost of construction. Federal dollars are used to maximum extent possible by the ACRC, but they do impose a remarkable cost for using them. One staff person spends around 80 to 90 percent of his time dedicated to federal aid projects. Almost all work is done in house including the initial programming, survey, design, layout, inspection and documentation. The ACRC uses consultants for some materials testing that requires an extensive amount of training and very expensive equipment that does not allow us to do so cost effectively.

The ACRC has been able to use the different categories of federal aid available to avoid any local cost match requirement. That has limited the ability to work on some roads. In the future, if new state or locally generated revenues are available, we will be able to satisfy the usual 20% local match requirement to expand the number of road projects we could consider. There is still a vast gap in needed funding. There will be more projects than funding unless there are some major changes at the state and /or federal level of funding.

COUNTY ROAD PAVEMENT CONDITIONS

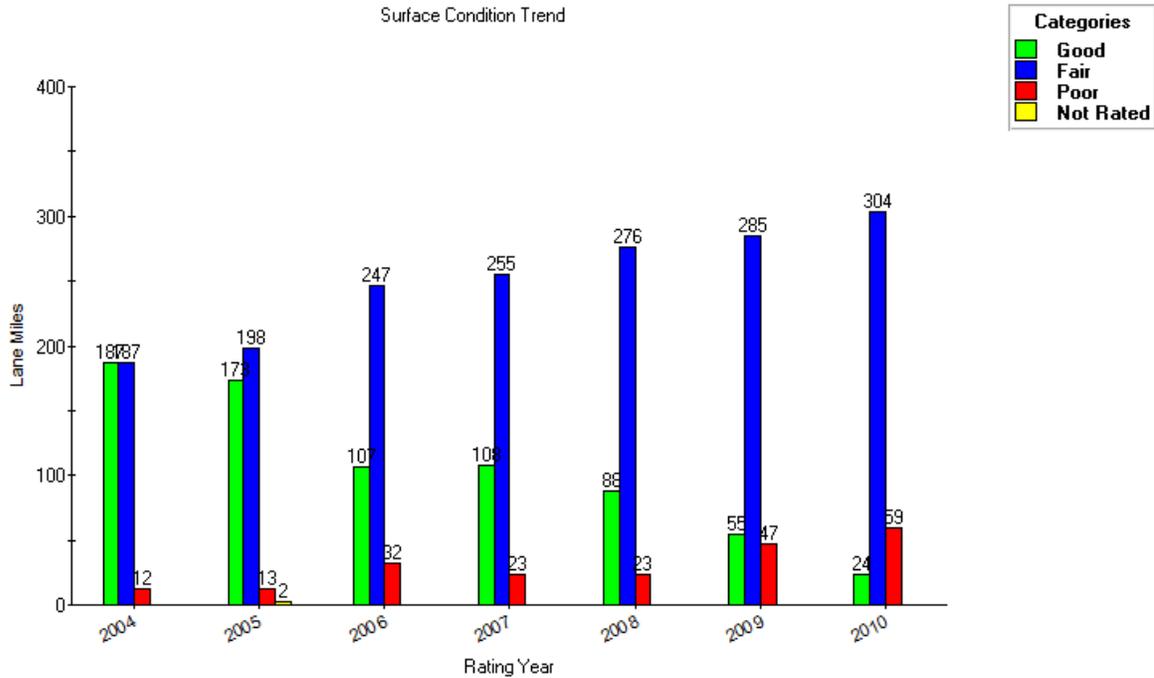
The State of Michigan passed legislation that requires the use of an asset management system for public paved road maintenance. The Asset Management Council was established as a result of this legislation. Michigan is recognized nationally as leader in pavement asset management.

Since 2003 we have been evaluating and rating our federal aid eligible paved road system in Michigan. Some agencies have done the same with the local road system within their jurisdiction. The ACRC has been involved in this rating every year on the county primary roads and the state highway systems since the start. Also, the ACRC has rated all local paved roads in 2007 and in 2010.

There are some alarming statistics that have been realized throughout the state as a result of gathering this condition data. All road systems in Michigan, whether it is state highways, county local and primary roads or city and village streets, have been deteriorating.

Figure 4 shows the county primary system pavement conditions and trends for all years from 2004 through 2010.

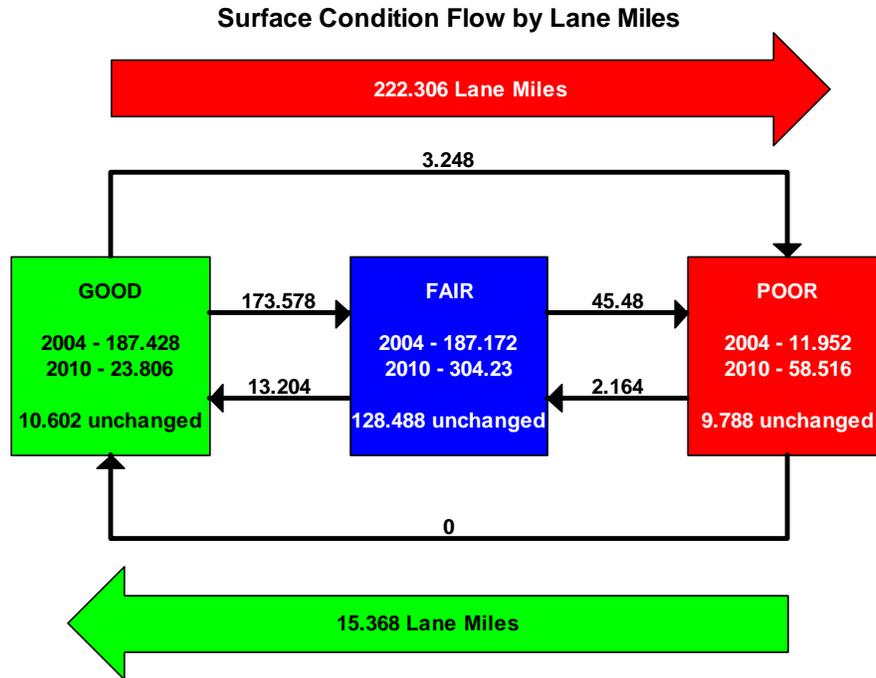
Figure 4 – Primary County Road Surface Condition Trend



Note, these charts are showing lane miles of roads, not roadway miles.

Figure 5 shows the flow of lane miles of roads from one condition to the next.

Figure 5 – Primary County Road Surface Condition Flow



The large red arrow at the top shows the number of lane miles of roads that have dropped in condition between the years 2004 and 2010. About 110 miles of primary county roads, or about half of the system, have deteriorated while we have only upgraded less than eight miles, as shown by the large green arrow at the bottom. The smaller arrows show the exact changes from the different condition ratings. The number of miles in the poor category has increased by over 23 miles in the six year period. It is very evident that this trend cannot continue for long before all of our roads will be in poor shape.

Figures 6 and 7 shows the same information for the local roads pavement conditions. There is one main difference in that data has only been collected in two different years, 2007 and 2010.

At first glance the local system of paved roads appears to be in better condition than the primary system. There is 15% of the primary system in poor condition compared to 25% of the local road system. There is a much greater number of miles on the local system in good condition, however the roads that fall into the poor condition will cost considerably more money to repair. Looking at the current conditions is a part of the picture, it is extremely important to look at the trends. Although there has only been two years of data collected, the trend is still very apparent. As with the primary system, this is not a good trend and the only way to reverse this is through spending more money on roads which means more revenues are needed.

Figure 6 – Local County Road Surface Condition Trend

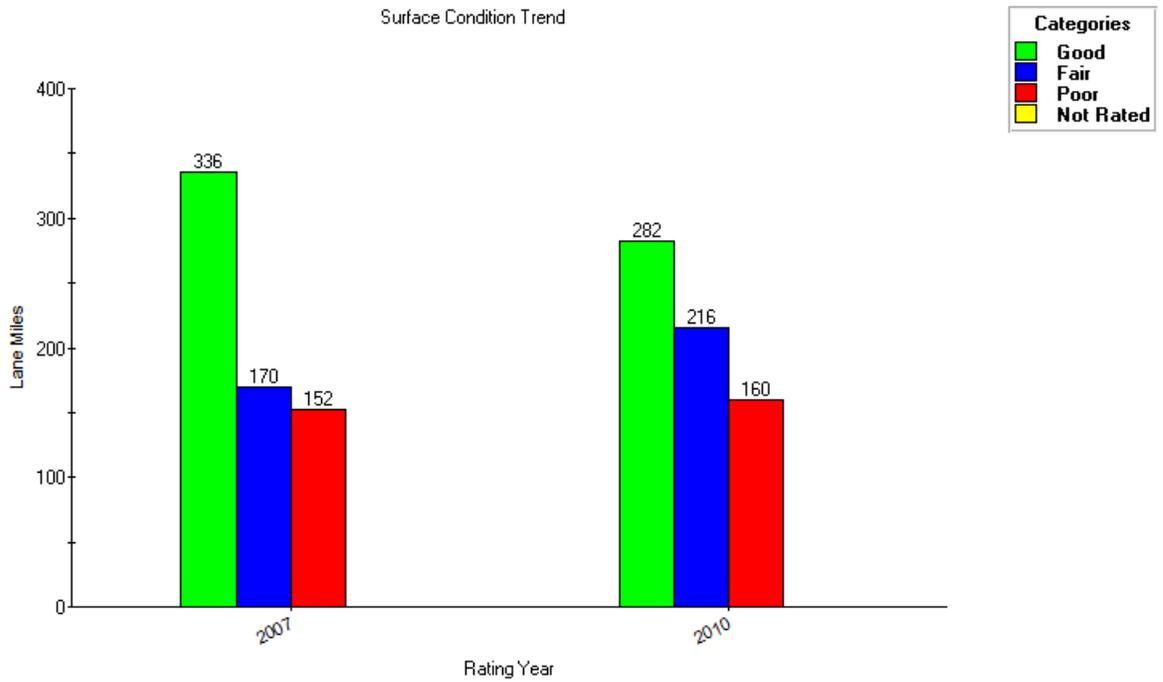
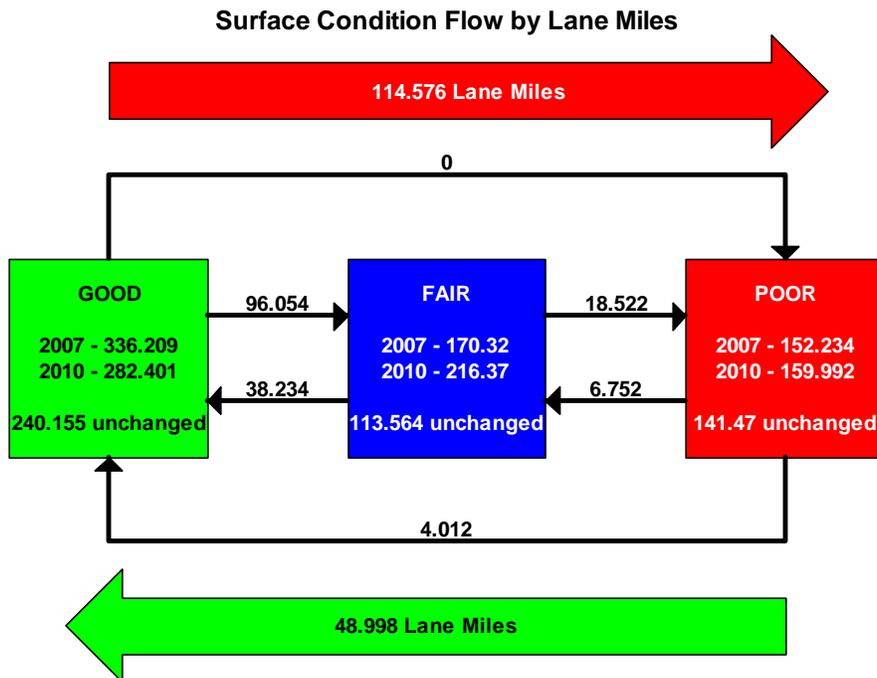


Figure 7 – Local County Road Surface Condition Flow



COUNTY ROAD NEEDS

As shown in the previous section, the number of road miles deteriorating is far exceeding what is being improved. Antrim County roads are deteriorating at an increasingly faster rate with each year.

Antrim County is not alone in this trend, all roads systems across the state are seeing similar statistics. The Transportation Asset Management Council website has all data collected from the county primary and state highway systems available for viewing. In 2004, 12% of these two systems combined were in poor condition. In 2010, this increased to almost 35%. The forecast is for 50% in poor condition by the year 2015 if Michigan does not increase the funding for roads. This information may be found on the internet using following address:
www.michigan.gov/tamc.

Using today's costs for construction and maintenance, the estimated cost to improve all poor and fair pavements to a good condition would require almost \$12 million on the local county road system. For the primary system, the same improvement would require well over \$10 million.

It is very evident that even with the townships contributing almost \$1 million every year, there is a tremendous shortfall. With the cost of inflation compounding this problem, there is no hope of reversing this deterioration.

EQUIPMENT STATUS AND NEEDS

The existing fleet of trucks and equipment contains various types and sizes of light, medium and heavy duty trucks, front end loaders, motor graders and various other pieces of equipment.

The heavy truck category, class 7 and 8, includes both single and tandem axle chassis that range in age from five to 20 years old. The tandem trucks in this category are the main workhorse year round with the most use during winter. As you might expect, the environment that these trucks work in is very severe, with high vibrations from the under body scraper and constant bathing in salt brine. It is extremely hard on all components of the truck and leads to a shortened life expectancy. The current average miles on this group of trucks is over 200,000, which is not extremely high for a heavy truck but is very high for this type of application. The goal for replacement of these trucks is 15 years. A new truck will be put into service at the first of the year and fully equipped will cost \$184,000. In order to meet the goal replacement cycle of 15 years, two trucks will need to be purchased every year for a total of \$352,000 in today's dollars.

Included in the heavy equipment category are four front end loaders, three motor graders and one wheeled excavator. A new grader was purchased in 2010 replacing a 1995 model at a cost of \$224,000. The goal replacement cycle for this equipment is five years. In order to meet this goal, an estimated \$126,000 must be set aside annually.

All other trucks and miscellaneous equipment replacements are scheduled as needed at an estimated annual cost of \$40,000 to \$75,000.

Keeping a fleet within the optimum replacement cycle reduces long term maintenance costs and reduces down time thereby increasing overall efficiency. In order to meet these goals, approximately \$530,000 needs to be allocated to equipment replacement annually. In 2010 a total of \$301,000 was spent and in 2011 only \$184,000. In the past two years the ACRC will have been \$575,000 short of what is needed to meet the goals.

With an aging fleet, response time will be longer and service to the public will be decreased. It is extremely important that the ACRC maintain a modern, well equipped and properly maintained fleet. It is getting more difficult as funding wanes to keep the fleet in appropriate condition.

Over the last few years, the ACRC has been retrofitting trucks with side wing plows. As of this fall, all existing trucks capable of handling such extra equipment have been retrofitted. All new trucks will have wings installed along with the usual equipment. This has helped to cope with a downsized crew, utilizing fewer trucks to plow the same or more miles than in the past. These wings have allowed most local roads to be covered in one pass rather than two. It also helps to clear a wider travel lane on the higher volume roads on the first pass, leaving them safer for the traveling public until a second pass can be made. As of today, only one other road commission in the lower peninsula will have more wings installed than the ACRC. With the delivery of the new truck in January, there will be 13 wings in use, up from nine last winter.

FACILITY NEEDS

The ACRC maintains garages in Mancelona, Central Lake and Kewadin. The administration offices are located at the main garage in Mancelona.

The Kewadin garage was built to address the need for a quicker response in winter to the southwest corner of the county. This area is somewhat isolated from the rest of the county by Torch Lake. A truck storage garage, salt barn and a cold storage building are located there. These facilities are in relatively good shape. The salt barn roof has reached its life expectancy and new shingles are scheduled to be installed in 2012 at an estimated cost of \$22,000 to \$25,000.

Located at the Central Lake facility are two truck storage garages, an equipment maintenance shop, two cold storage buildings and a salt barn. The truck storage is poor shape and needs to be replaced at an estimated cost of \$1,000,000. With this replacement, one cold storage building would be eliminated. The remaining buildings are in relatively good shape.

The Mancelona truck storage garage was replaced in 2004 at a cost of \$1,400,000. The main equipment repair shop is located here along with two cold storage buildings, the sign shop and a salt barn. An office addition and general renovation were completed in the mid 1990s. All buildings in Mancelona location are in good shape.

The biggest need of all the facilities is the replacement of the Central Lake truck storage garage at an estimated cost of \$1,000,000. It is not scheduled nor is it anticipated to be in the near future.

STAFF

The ACRC currently employs 32 full time people plus one vacant position (superintendent) to be filled early 2012. There are 25 truck drivers, equipment operators and mechanics with seven in administration/supervision. At least one part time truck driver will need to be used during the winter.

In 2006 a total of 44 were employed which through attrition was reduced to 37 by 2008. A retirement incentive was offered this past June with the goal of reducing the crew by about four. This goal was realized and the incentive payment will be recouped through benefit and wage savings in less than five months.

The 25 employees are represented by the Teamsters Union. A three year contract was settled last June. Health care changes were negotiated that will help reduce costs. Also, no wage increases for the life of the contract.

WORKERS COMPENSATION AND LIABILITY INSURANCE

It is important to mention both workers compensation and liability insurance coverage of the ACRC. Many road commissions created two different self insurance pools at a time when it was expensive and often difficult, if not impossible, to obtain adequate commercial insurance.

The County Road Association Self Insurance Fund (CRASIF) was created in 1978 and the ACRC was a charter member. The CRASIF is the workers compensation program for many road commissions in the state. As an insurance pool, any excess revenues or gains from investments are returned to the members, not kept as profit for the private insurance company. Since its inception in 1978, the ACRC has paid \$1,229,280 in premiums and has \$642,227 refunded. The actual cost for coverage is \$587,053 over 33 years, or just under \$18,000 per year.

Another note of importance is that for the second year in a row, the ACRC has had the best safety record of all member road commissions in CRASIF. This excellent safety record not only has maintained a safe and healthy crew, but directly affects premiums. A modification factor is calculated based on each member's safety record and claims. This number is multiplied by the standard premium. The ACRC modification factor is 0.742 which reduces the standard premium by 25%. ACRC staff is very proud of this accomplishment and work very hard to continue this excellent safety record.

The Michigan County Road Commission Self Insurance Pool (MCRCSIP) was created in 1984 and again the ACRC was a charter member. The MCRCSIP is the liability insurance program for many road commissions in the state. MCRCSIP provides nearly all types of property and casualty insurance coverage for its members. As is the case with the workers comp insurance, the MCRCSIP has been able to refund excess revenues and investment returns to its members. From 2004 through 2011, the ACRC paid \$969,000 in premiums and received \$409,000 in refunds. The net premium for this eight year period is \$560,000 or an average of \$70,000 per year.

CURRENT TRANSPORTATION PROPOSALS

Governor Snyder announced his special message on infrastructure on October 26, 2011. His message included some proposals that could have a significant impact on the ACRC and all road agencies in Michigan, some of which are negative. The ACRC could see a reduction in funding and a need to rely on locally raised revenues even more. The following are just a few of the more important proposals from the Governor's message:

- Increase vehicle registration fees by \$10 per month. This could generate \$1 to \$1.4 billion in new revenue for roads.
- A local option of up to \$40 per year on vehicle registration fees by a vote of the people in the county. For Antrim County, this could generate up to \$880,000 per year based on 22,000 vehicles registered in the county.
- Change the current 15 cent per gallon diesel tax and the 19 cent per gallon gasoline tax to a percentage of the wholesale cost of fuel, the percentage to begin would create neutral revenue at the time it is put into place. Instead of the revenue remaining the same as the price of fuel increases, the revenue would increase with changes in price, therefore automatically indexing for inflation to some degree. Floors and ceilings would be put into place to limit some of the volatility that could occur.
- Allow open competitive bidding among all private and public entities for road maintenance and construction regardless of the project. Not only could private business bid on contracts but all government agencies could bid on others also. This also could mean competitive bidding on all winter maintenance.
- Allow for consolidation of road maintenance agencies. Including the option for a county to absorb the road commission.
- A change in the MTF funding formula over a seven year period, shifting funding away from rural areas and into larger commercial areas. Basically, shifting the revenue from northern Michigan and the upper peninsula to southern Michigan, in particular south east Michigan. This could have a devastating effect on road funding in Antrim County.

Legislation was introduced in the House (House Bills 5125 and 5126) the morning before Governor Snyder's message that would allow a county to abolish the road commission and move it into general county operations. Similar bills have been introduced in the Senate as well.

There are a few positive proposals being discussed in Lansing concerning road and transportation funding. However, it appears that there are just as many proposals that could have a detrimental effect on Antrim County roads and the ACRC. If the MTF funding formula is changed as the Governor has proposed, Antrim County could receive less revenues than it currently is. As pointed out in previous sections, the need for additional revenue to keep Antrim County roads in good condition and keep the equipment that maintains these roads in good shape is extremely large. Any loss, or not gaining any new revenues would be very bad for Antrim County.

SUMMARY

The needed money for roads and road maintenance equipment has been discussed in previous sections. At current revenues, it has been shown that pavement conditions are deteriorating and that the ACRC is not keeping pace with adequate equipment replacement. The ACRC is quickly approaching the tipping point in which service to the travelling public is going to drop dramatically. In the past few years, instead of sacrificing the level of service provided, the ACRC has sacrificed road repair, equipment replacement, facility replacement and twice now employees.

Beginning last June, the ACRC laid off 21 of its 29 crew. This was a result of pavement preservation contracts that the ACRC is not equipped to do and the lack of major road construction/reconstruction. If layoffs continue, highly skilled and dedicated employees will not be willing wait out tough times. The ACRC stands lose years of experience and skill. It was discussed that the current crew has worked safely and proven that by an excellent safety record resulting in many dollars saved in workers compensation premiums. This along with proposals in Lansing to mandate privatization will result in a part time, unskilled and less safe crew. This is more than just an issue of employee safety, it is the safety of the traveling public also.

It is estimated that \$22 million is needed to improve the current system of county paved roads to good condition. It is also estimate that between \$500,000 and \$600,000 is needed annually just for equipment replacement. It appears it will be a daunting task.

The ACRC is committed to provide the highest level of service to the traveling public with the resources that are available to do so. All current resources are being stretched to the maximum in order to accomplish this.