REPORT OF THE

GOVERNOR'S CAPITAL TRANSPORTATION FUNDING WORKING GROUP

JANUARY 31, 2006

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Governor's Capital Transportation Funding Working Group

I. INTRODUCTION

This report documents the work of the Governor's Capital Transportation Funding Working Group (the Working Group) from December 2005 through January 31, 2006. The purpose of the Working Group was to assess the impact of the fall 2005 deferral of transportation projects worth about $130 million, representing about 20 percent of the projects in the Biennial Capital Work Plan for Fiscal Years 2006-2007 (the Capital Work Plan) of the Maine Department of Transportation (MaineDOT), and to make recommendations to mitigate this impact. If left unresolved, this deferral will impact 143 projects in 112 communities across Maine.

A. Background

In March 2005, MaineDOT published an *interim* version of its Capital Work Plan. The plan was published on an *interim* basis because of unprecedented funding uncertainties that existed at that time including a long delay in reauthorization of the federal surface transportation funding act, and pending state legislative action on the state Highway Fund budget, fuel-tax indexing, and state bonding.

In the summer of 2005, Congress passed the reauthorization act, known as "SAFETEA-LU". This law sets federal funding ceilings for highways and transit covering the five year period from October 1, 2004 (10 months before passage of the act) through September 30, 2009. It also included unprecedented levels of directives for funding specific, Congressionally-designated High Priority Projects, sometimes referred to as earmarking. On the state level, the Highway Fund budget was approved, fuel-tax indexing was preserved, and a state transportation bond was enacted by the Legislature and later approved by Maine voters. Meanwhile, Hurricanes Katrina and Rita battered the Gulf Coast, spiking energy and constructions costs at a time when demand for construction materials (asphalt, steel, concrete, fuel) by countries like China and India already had been driving prices higher. Further, on-going communications with the Federal Highway Administration in the fall of 2005 continued to shed light on cash flow challenges in the federal reauthorization bill.

B. The Deferral of $130 Million in Projects

With this new information, it became apparent that MaineDOT had to revise its Capital Work Plan. MaineDOT increased project cost estimates and reduced available capital cash flow to reflect the new realities. After carefully weighing a number of factors including safety, project deliverability, federal funding restrictions, and long-standing resource allocation policies aimed at taking care of existing infrastructure before building additional capacity, MaineDOT in the fall of 2005 deferred projects worth about $130 million, representing 143 projects in 112 communities across Maine – about 20 percent of the projects in its Capital Work Plan. For more information on the factors causing the deferrals and the deferral criteria, see Appendix A.

C. The Charge to Respond

Given the impact of transportation investment on safety, the economy, and the day-to-day lives of Maine travelers, public officials and stakeholders voiced disappointment to MaineDOT and transportation decision-makers. On December 1, 2005, Governor John Baldacci described this deferral as "unacceptable", and convened this Working Group, a bi-partisan team of knowledgeable legislators, industry and business leaders, municipal officials and other stakeholders. (For a list of Working Group members, see Appendix B.) The Working Group was charged with delivering to the Governor and the Transportation Committee by the end of January 2006 a report that includes an assessment of the impact of the deferral and recommendations to restore as many of the deferred projects as the Working Group considers necessary and prudent to support the state's transportation system and foster economic growth.

D. Working Group and Subgroup Proceedings

On December 15, 2005, the Working Group was convened by Senator Dennis Damon, Senate Chair of the Transportation Committee. At this initial meeting, Governor Baldacci addressed the Working Group members and the group received an in-depth briefing on the scope of the challenge. Due to the short time frame available and the holiday season, the Group decided to form three subgroups so that work on key areas could proceed in parallel and report back to the full Working Group. First, an Impact Assessment Subgroup was tasked to develop an analysis of the overall impact of the project deferrals on the transportation system, Maine's communities, and state and local economies. Second, a Value Engineering Subgroup was tasked to reduce the amount of funding needed by stretching existing resources by working with the construction and engineering consulting industry and municipal officials to examine opportunities for program efficiency that would not jeopardize essential safety or quality. Finally, a Funding Alternatives subgroup was tasked to identify available funding alternatives that would be appropriate to meet the level of need identified. Brief summaries of the findings of each of the three subgroups are set forth below.

1. Impact Assessment Subgroup.

This subgroup concluded that the project deferrals would have widespread and significant impacts, but that much more in-depth study would be required in order to attribute accurate cost estimates to the various "elements of impact." In its report, set forth in full in Section III below, this subgroup analyzed impacts on employment, highway reconstruction, bridges, and pavement preservation. The deferral of projects would be a significant blow to private-sector employment in the construction and engineering/design industries. The direct impacts of job-loss would be accompanied by secondary and tertiary job losses, as well as concurrent threats to the stability of transportation-related businesses and their work forces. MaineDOT's highway reconstruction efforts would be severely affected, with $82 million of the total projects in this area. Inflation over the deferral period would result in higher construction costs for future highway programs, highway safety efforts would be curtailed, property-acquisition costs would escalate, future projects would be further delayed, municipal road budgets would be put under even greater strain, and the costs to the economy of seasonally posting roads against heavy-truck traffic would grow. MaineDOT's bridge improvements would be similarly affected by inflation and the department's bridge maintenance activities would be redirected from prevention to urgent repair, deepening an observed trend of an increasing proportion of state transportation investments directed towards bridge needs. Preservation of pavement on properly constructed roadways would also suffer disproportionate impacts of inflation, as projects are put off.

2. Value Engineering Subgroup.

This Subgroup generated recommendations in the areas of bridge improvements, high-way improvements, paving, and contracting. The analysis, included in full in Section IV below, concluded that $10 million could be contributed toward the deferred projects through various cost saving measures and efficiencies. Bridge recommendations include greater emphasis on rehabilitation versus bridge replacement, elimination of temporary structures by using "get in and get out" strategies, a temporary suspension of painting treatments, and possible changes in specifications. Highway-project engineering recommendations include adhering to existing road alignments, more road closures during construction, and scrutiny of approaches to utility relocation and guardrails. Highway paving recommendations focus on alternative treatments and modification of specifications regarding QC/QA, work restrictions, and other requirements. Recommendations concerning contracting include increasing the local administration of projects and revising various aspects of the bidding process. While the subgroup believes that meaningful cost savings can be derived from engineering review, it also acknowledges the potential of quality compromises when standards are changed, project control is delegated, and greater risk is assumed by the state.

3. Funding Alternatives Subgroup.

This subgroup analyzed the scope of the immediate challenge and, with a strong contribution of research by the Maine Turnpike Authority and its bonding experts, identified the funding options available in the most fundamental terms, and also recommended to the full Working Group a range of funding levels. Its full report is set forth in Section V below.

This subgroup determined that due to the long-term, on-going nature of developing transportation infrastructure projects, the scope of the immediate challenge is less than the original $130 million deferral amount. That is, as with any on-going production operation, the suspension of operations – in this case the stopping of work on certain projects - means that output will be reduced. More specifically, in the fall of 2005 work on the deferred projects was suspended and will not resume if and until the recommendations of this report are implemented – which will be spring of 2006 at the earliest. This means that certain projects cannot be delivered by June 30, 2007 even if additional funding is provided this spring, which in turn means that they can wait for funding in the next regular budgeting cycle in the FY2008-FY2009 biennium. MaineDOT estimates the cost of projects that can be pushed into and funded in the next biennium at approximately $30 million. After reducing the original $130 million deferral amount by this $30 million, and after further reducing the need amount by the $10 million in savings that the Value Engineering Subgroup determined was feasible, this means the scope of the immediate need is about $90 million.

The Funding Alternatives Subgroup recommended that this amount should be raised as follows.

- Cash Resources in the range of $20 to $30 million should be raised from a combination of Highway Fund and General Fund sources.
- Bonding should be utilized to address the remainder of the need including $40 million of federally authorized GARVEE bonding and $20 to $30 million of State General Obligation or Revenue Bonds.

With the benefit of the three subgroup reports, the full Working Group met on January 23rd and January 25th to discuss these findings, draw conclusions, and make recommendations. After lengthy and wide-ranging discussions, the Working Group respectfully provides the following conclusions and recommendations.

II. CONCLUSIONS AND RECOMMENDATIONS

A. Solving the Immediate $ 90 Million Challenge

As discussed above, a combination of factors including unprecedented increases in construction costs caused by world-wide demand and recent hurricanes and federal cash-flow challenges resulting from the recently-passed federal transportation funding bill required that MaineDOT defer transportation projects worth about $130 million, representing about 20 percent of the projects in MaineDOT's Work Plan. After reducing this deferral amount by the $30 million worth of projects that are undeliverable in this biennium, and by the $10 million in engineered savings identified by the Value Engineering Subgroup, this means the scope of the immediate challenge is about $90 million.

To address this immediate need, on January 25, 2006, the bi-partisan Governor's Capital Transportation Working Group unanimously voted to recommend the following.

1. Invest $90 million.

   To partially restore the projects deferred in the fall of 2005, invest an additional $90 million in MaineDOT's capital program.

2. Use a 1/3 Cash, 2/3 Bonding Ratio.

   To provide a reasoned and fiscally prudent balance between cash and bonding, while recognizing that the long-term nature transportation infrastructure requires a long-term investment strategies, the funding should consist of one third (1/3) from cash, two thirds (2/3) from bonding. To raise the $90 million, this obviously means $30 million from cash resources, and $60 million from bonding.

3. Cash Resources: $30 million.

   About $15 million in Highway Fund Resources are anticipated to be available for this effort. This amount has two primary components. First, a one-time amount of $10-11 million will be available reflecting Personal Service savings and other amounts related to MaineDOT efficiency efforts and other factors. The Transportation Committee consistently has a long-standing policy that all Personal Service savings should be directed to MaineDOT's capital program. Second, the Revenue Forecasting Commission has revised Highway Fund revenue forecasts upward by an amount exceeding $4 million which should be available to dedicate to capital needs.

   The balance of the cash resources required - $15 million – must come from the General Fund. The Group understands the pressures on the General Fund, but this contribution was imperative to reach bi-partisan consensus. The Group encourages bi-partisan and creative discussions aimed at reaching this amount, and understands that doing so may be contingent upon General Fund budget proceedings, budget priorities, revenue re-forecasting, and the availability of lapsing balances and cascades.

4. Bonding: $60 million.

Given the long-term nature of investment in transportation infrastructure, and given low recent bonding levels, the Working Group strongly believes that bonding in the amount of $60 million for this purpose is prudent and reasonable. There are three types of bonds that are available to meet this need.

- GARVEE Bonds. GARVEE bonds, an acronym for Grant Anticipation Revenue Vehicle, are an accepted transportation financing tool. As detailed in the research paper prepared by the Maine Turnpike Authority attached as Appendix C, twenty-two (22) states have authorized GARVEE issuances collectively totaling over $9.7 Billion. Maine is one of those states, having authorized a modest $48.4 million (the lowest amount in the nation) for the replacement of the Waldo-Hancock Bridge. This single issuance will result in a low maximum federal debt-to-revenue ration of about 3.2 % in 2007, well below accepted levels of 20%.

  GARVEE bonds are secured solely by future funds received from the Federal Highway Administration. As such, they do not constitute a pledge of the full faith and credit of the State. Accordingly, this tool is available to address the challenge this spring after receiving approval by the Legislature and the Governor. The Group strongly recommends that this tool should be dedicated only for projects to reconstruct, rehabilitate, and/or replace existing bridges and existing arterial and major collector highways, and not for new highways or bridges on a new location. That is, this tool should be used carefully to address existing needs, as opposed to new capacity.

  GARVEE bonding can be utilized using at least two approaches. One approach is to authorize a one-time issuance in a set amount. The Working Group recommends this approach as part of the bonding solution for the immediate $90 million challenge. (See Bonding Recommendation discussion below.) Another approach would be general enabling legislation that allows GARVEE bonds to be issued until a statutory federal debt-to-revenue cap is reached – say 10%. General enabling legislation would allow the flexibility to manage funding uncertainties like those that gave rise to this Working Group. The Working Group recommends that this latter approach be evaluated as part of the long-term funding solutions effort. A chart attached as Appendix D shows various options for GARVEE bond issuances.

- General Obligation Bonds. To date, this is the traditional tool for bonding for transportation investment in Maine. The Group noted that the amount of General Obligation bonds approved for the current biennium is at historic lows. As the graph and related spreadsheet attached as Appendix E illustrates, Maine voters have approved an average of $179 million in bonds (in 2005 inflation adjusted dollars) each biennium over the last 20 years. Voters have approved only $74 million thus far in this biennium. General Obligation Bonds are issued by the State and secured by a pledge of Highway Fund or General Fund revenue. Accordingly, they constitute a pledge of the full faith and credit of the State and require a 2/3^rds vote of the Legislature and voter approval.

- State Revenue Bonds. Another option could be revenue bonds issued by a third party – the Maine Municipal Bond Bank or the Maine Turnpike Authority – and secured by a dedicated revenue stream from the Highway Fund, the General Fund, or some other dedicated or appropriated funding source. These bonds do not constitute the pledge of the full faith and credit of the State, and therefore could be utilized this spring with Legislative and gubernatorial approval. A chart attached as Appendix D illustrates the amount of bonds that could be issued depending upon the size of the annual dedicated revenue stream and bond term.

5. Bonding Proposal.

Again, the Group encourages and expects creative and wide-ranging debate as to how to constitute this $60 million bond component. As a starting point, the Group proposed the following for the purpose of generating discussion.

- GARVEE: $ 40 million. As the explanation for the deferral attached as Appendix A demonstrates, about 40% of the cause of the deferral is related to federal cash flow challenges. Accordingly, the Group believed a federal solution that can be used only for transportation – GARVEE – should be about 40% of the solution. GARVEE bonds also has the added benefit of being capable of implementation this spring, a required goal to prevent more projects from becoming undeliverable this biennium. Sample legislation for a one-time GARVEE issuance of $40 million is attached as Appendix F.

- Other Bonding: $20 million. The Working Group proposes that additional bonding in the amount of $20 million be authorized. The following bonding options should be considered (in descending order of preference).

  - General Obligation Bond. Although surely to engender some debate, a General Obligation bond secured by Highway Fund revenue should be considered. This proposal is predicated upon the assumption the $15 million in General Fund cash is secured. If not, securing the bond with General Fund revenues should be considered.

  - State Revenue Bonds.

  - Additional GARVEE Bonding.

These funding recommendations are summarized in the spreadsheet attached as Appendix G.

B. Addressing the Long-term Funding Challenge and the "Infrastructure Deficit"

Throughout the proceedings of the Working Group and the Subgroups, a persistent theme emerged: capital transportation needs are chronically under-funded, and that new funding strategies will be required to prevent the need for similar Working Groups in the future. By way of illustration, in preparation of its Capital Work Plan, MaineDOT reported that $2 billion in transportation needs were identified throughout the State's transportation system in this biennium alone. (Note this figure was calculated before recent cost increases.) The Capital Work Plan ultimately funded less than one-third of these needs, leaving over $1.3 billion in unmet transportation need - the "infrastructure deficit". **It is the unanimous finding of the Working Group that the current transportation funding model is neither adequate nor sustainable for funding Maine's transportation infrastructure now or in the future.**

Accordingly, the Group unanimously voted to recommend to the Governor that some group – this Working Group or some other similarly constituted group – continue to work toward identifying alternative funding options to meet this long-term challenge.

Existing on-going efforts will aid in such an analysis. The Transportation Committee previously charged MaineDOT, along with the Maine Turnpike Authority, to prepare "a report containing research findings and recommendations regarding strategies to address the State's transportation infrastructure deficit including all modes of travel." (PL 2003, Chapter 690.)

In 2005, MaineDOT and the Maine Turnpike Authority launched "Transportation 2025" -- an initiative aimed at accomplishing three primary objectives:

- Assess the State's Transportation needs over the next twenty-years
- Define the "Infrastructure Deficit" (Including all modes of travel)
- Conduct research on the sustainability of the motor fuels tax as the primary source of funding for the State's Highway & Bridge transportation programs.

(A detailed outline of "Transportation 2025" is attached as Appendix H.)

The report required by PL 2003, Chapter 690 will be delivered to the Governor and Transportation Committee in February of 2006. The extended Working Group could utilize this report as a foundation to develop a long-range comprehensive funding strategy for transportation investment in Maine. The Working Group believes that given the long-term nature of capital transportation investment, this challenge must be addressed soon in order to achieve the mission of responsibly providing a safe and efficient transportation system that supports economic opportunity and quality of life.

III. REPORT OF THE IMPACT ASSESSMENT SUBGROUP

The Impact Assessment Subgroup discussed the impacts of the deferrals and the prospect of completing a detailed Economic Impact Assessment (EIA). Given the time available and the practicality that completing a comprehensive EIA would take several months to a year, the subgroup prepared the attached "Elements of Impact" papers on Highway Reconstruction, Bridges, Pavement Preservation and Jobs. In short, there was consensus among the subgroup that the deferral of $130 million in transportation projects would be significant and widespread but very difficult to put a specific dollar figure to without further study. Therefore, the attached papers evaluated the following factors which illustrate some of the impacts of the deferrals:

- Safety – Each deferred project improves safety. Any accidents that occur on deferred projects are unacceptable if future accidents could be avoided by securing resources now. Impacts range from a few thousand dollars to well in the millions based on such factors as the number of fatalities, injuries, property damage, emergency response costs, traffic delays related to crashes, etc.

- Jobs – Based on federal estimates and conversations with Maine industry experts, hiring freezes or slow downs are already in place, and the $130 million deferral could translate to between 2,500 and 1,000 lost jobs annually. The vast majority of these jobs provide livable to exceptional wages with full benefits.

- Inflation – Depending upon inflation rate assumptions, delaying $130 million in transportation investments two years readily translates to at least $10.6 million in increased costs using a very conservative 4% annual rate to over $33 million based on a potential 12% annual average rate in a construction industry dependent upon fuel and competing globally for construction materials.

- Future Capital Programs – If a solution is not identified to fund these projects before the next fiscal cycle, new projects in MaineDOT's next capital program will be extremely limited perpetuating the backlog of unfunded transportation needs and unfunded economic opportunities statewide.

- Real Estate Costs – Many transportation projects involve real estate acquisition. Although the impact will vary based on project location, simply waiting to purchase land for some projects could add up to 10% annually for some project cost components.

- Community & Regional Impacts – Deferments have different impacts at the state, regional and local level. Some project deferrals will impact regional mobility and others will jeopardize millions in private local investments.

- Posted Roads – The deferrals hold the potential to increase posted roads over the next two years creating significant detour routes for heavy vehicles which exponentially increase the cost of transportation for Maine businesses.

- Deferred Maintenance – MaineDOT maintenance forces may forgo basic maintenance on non-deferred projects to perform work on current deferred projects. This leads to higher future costs as actions such as sand removal, improved drainage, etc. are canceled shortening the lifespan of other transportation infrastructure.

- Jobs for Maine Youth and Maine College Graduates – Lost jobs and potential layoffs will lead to less recruiting by the transportation industry and fewer opportunities for Maine college graduates and occupational and trade school graduates. If the deferrals stay intact, the desire to keep young People in Maine could be undermined.

- Changes in Scopes of Work – In addition to inflation, delaying paving, highway and some bridge projects for two years will require more costly treatments due to highway and bridge deterioration that will take place over this time period.

A. Elements of Impact: Jobs

Transportation investments create jobs. MaineDOT has consistently contracted out a significant amount of its design work and virtually all of its construction to consultants and contractors, which provides jobs to thousands of people throughout Maine. Although quantifying the job impact associated with the $130 million deferral is extremely difficult, estimates range from a maximum of 2,500 to at least 1,000 jobs lost based on Federal Highway Administration estimates and proprietary discussions with Maine design firms and construction consultants. Although a specific number could be the subject of immense debate, deferring $130 million will result in significant lost jobs and freezes or reductions in hiring. It should also be noted that both design consultants and construction industry jobs provide more than just a livable wage but provide desirable salaries and benefits. These jobs directly support Maine-based businesses and provide opportunities for Maine's young people to gain meaningful employment within Maine. These jobs are interspersed throughout the state and are among the highest paying in some regions. Maine design firms have already been laying off engineers or not hiring their usual complement of graduates as a result of decreased transportation investments over the last several years.

1. Need for a Consistent Capital Program – Engineering/Design Firms.

In order for an efficient capital program and productive labor force, MaineDOT must have a relatively consistent capital program. Peaks and valleys in spending translate to periods of hiring and laying off of employees. Maine-based design firms need to have competent staff to remain competitive with out-of-state firms and are particularly susceptible to being impacted by the deferrals. Although a section of highway may remain drivable after a two-year period, this delay in engineering and design work translates to labor and cash-flow challenges for Maine firms. Businesses may reduce staffing or close altogether. Once funding is restored, these same Maine businesses will be at a competitive disadvantage with larger out-of-state firms able to endure the deferrals by shifting work elsewhere. Consequently, the two-year delay associated with these deferrals may result in irrecoverable losses for small Maine-based businesses.

Real Life Example: Construction Jobs Pay Livable Wages & Provide Opportunities

An employee trained in vocational school began earning about $6 per hour as an equipment operator out of high school. Although he was hired with a troubled past, the company took a longer-term view of his employment. It discussed with him a five-year plan to bring value to himself, the company and the community if he focused. The company suspected that his life would parallel his success on the job, and it has.

He is currently one of the top operators in the state, and his life has been fulfilled in ways he never dreamed of when he joined the company. Although he works long hours, his efforts on the company's behalf have improved his life dramatically:

- He now earns between $45,000-$50,000 per year
- At 28 years old, he has over $40,000 invested in his 401(k) plan
- He enjoys the benefit of health insurance
- He recently built a home and welcomed his new baby son into it

This employee understands what commitment is, and the multifaceted rewards that can happen through hard work and dedication.

2. <u>Need for a Consistent Capital Program – Construction Firms</u>.

The impact of a $130 million deferral on the construction industry jobs is more pronounced because most of this funding is associated with construction. In order for Maine construction firms to remain competitive, they must invest in new technologies, training and capital equipment. These investments translate into millions spent in the Maine economy each year and result in lower cost, more efficient transportation projects built by better-trained employees, using innovative technology and state-of-the art construction equipment. Peaks and valleys in the construction industry not only preclude many of these investments but also result in periods of hiring and layoffs.

Real Jobs for Maine Graduates

Quality entry-level jobs are essential for Maine college graduates looking to remain in the state. MaineDOT, design and construction firms:

- Regularly recruit on Maine campuses
- Offer internships to Maine college students
- Regularly hire Maine graduates
- Provide additional career training and lifelong employment opportunities for Maine graduates

3. Highway & Bridge Skills Not Readily Transferable.

Although many of the design and construction firms impacted by the deferrals also work for private industries and municipalities, the skills required for highway and bridge design and heavy construction are not readily transferable to these other sectors. For example, designing a major arterial highway such as Route 26 in Poland is significantly more complicated than designing a subdivision road network, and the equipment and construction skills needed to replace bridges is not readily transferable to building retail stores. In short, both design firms and the construction industry maintain staff that work predominantly on MaineDOT projects. If these skilled employees are laid off as a result of the deferrals, they would likely be forced to seek employment outside of Maine, find jobs in different industries or receive public assistance.

B. Elements of Impact: Highway Reconstruction

Maine is generally a sparsely populated rural state with over 8,000 miles of state-owned highways, of which almost 2,000 primary highway miles are unbuilt which means they have never been constructed to modern standards. These highways may have inadequate drainage, base, pavement, sight distance or width. For the past decade, MaineDOT has aggressively reconstructed highways throughout the state increasing safety, reducing travel time, and supporting transportation mobility. MaineDOT has also started to focus on highway improvements in village and urban areas. All highway reconstruction projects are major investments with average costs in the millions of dollars.

Route 109 in Wells

Highway Reconstruction deferrals include two projects on Route 109 in Wells shown in the adjacent photograph. Delaying this project has the following effects:

- Multiple High Crash Locations or unsafe highway sections remain unfixed.
- Unsafe soft shoulders provide little room for driver error.
- Inadequate sidewalks and limited or no shoulders remain for bicyclists and pedestrians.
- Over 8,000 vehicles a day cope with a highway not built for this traffic volume.
- Access to Sanford and beyond from the Maine Turnpike suffers.

1. <u>Impacts of Deferral</u>.

Of the $130 million in project deferments, over $82 million is in highway reconstruction. While the magnitude of deferring these projects will be dispersed throughout the state and is difficult to calculate, the following factors illustrate some of its significance:

- <u>Inflation</u> - Inflation alone will result in millions of dollars in add future costs simply by waiting two additional years for these projects. For example, if we apply a conservative annual construction inflation rate of 4% to this $82 million, it would cost approximately $88.7 million for the same work in just two years later. Applying a more realistic 7% annual inflation rate would cost almost $93.9 million or $11.9 million more.

- <u>Safety</u> - Highway reconstruction projects make highways safer. The specific safety improvements vary based on the conditions of highways before reconstruction projects. However, highway reconstruction projects regularly improve sight distance, include intersection reconfigurations, and may add guard rails or improve drainage to keep water off roads, minimizing potentially hazardous conditions. While it would be nearly impossible to quantify the safety impact of these deferrals, putting these projects off for two years perpetuates the risks of unsafe highways. Any accidents that occur on deferred projects represent an unacceptable impact if the accidents could have been avoided by securing resources now. Accidents directly impact the economy. Impacts range from a few thousand dollars to well in the millions based on such factors as the number of fatalities, injuries, property damage, emergency response costs, traffic delays related to crashes, etc.

- <u>Right-of-Way-Costs</u> - Highway reconstruction projects almost always require the purchase of real estate, or "right of way." Real estate costs, particularly in Southern Maine, are increasing as much as 7-10% a year, (based on several current projects underway in Gorham, Biddeford and Gray.) Real estate costs are such a significant part of overall transportation project costs, that the price of real estate in certain projects, such as the future Gorham Bypass could exceed the project's construction costs. Additionally, property owners will be impacted during the deferral period. They may be unable to sell their property and they could be frustrated due to uncertainty regarding if or when the state will be acquiring their property.

- <u>Cumulative Effect on Other Projects</u> - This $82 million in highway reconstruction deferrals affects more than just the projects directly associated with it. Unless new resources are identified, this population of projects will be included in the FY2008-FY2009 Capital Work Plan, displacing additional projects which will likewise be delayed. Since MaineDOT is already unable to meet many identified transportation needs, this deferral will exacerbate the ongoing trend of transportation needs growing at a higher rate than MaineDOT's ability to fund them.

Route 1 in Thomaston

Highway Reconstruction deferrals include one project in Thomaston shown in the adjacent photograph. Postponing this project has the following effects:

- Delay of a hotel, restaurant and Federal Credit Union which are under construction but require highway alterations.
- Delay of a $2.3 million municipal wastewater project.
- Local economic plans and future growth efforts in support of Thomaston's Pine Tree Zone are also supported by this project.

- Impacts on Regions/ Communities and Abutters - Multi million dollar transportation investments have related but different effects at the state, regional or local level. At the regional level, coordinated transportation investments may significantly reduce travel time within an entire region. At the local level, transportation investments are often catalysts for economic opportunities and/ or other investments such as utility upgrades. For example, transportation resources often leverage Community Development Block Grants and other funding sources. For an abutter on a highway with poor drainage, a highway reconstruction project translates into the absence of minor flooding after each significant rainfall. While it may be impossible to apply a dollar figure to these impacts, they illustrate that transportation affects people differently depending upon their perspective. What might be considered a simple delay at the state level is significant if it translates to a missed opportunity to expand tourism initiatives at a regional level, losses in other revenue at the state level or added costs for a homeowner coping with flooding and waste water runoff.
- Highway Postings - Maine has over 1,800 miles of public roads that are seasonally posted to heavy vehicles to avoid significant infrastructure damage during spring freeze/ thaw cycles. Each time a road is posted, truck traffic must go through varying but expensive detours that take additional time and use more fuel. Although MaineDOT will make every effort to avoid posting any highway projects on this list, conditions in the spring could require additional road postings.

C. Elements of Impact: Bridges

MaineDOT is responsible for capital improvements and maintenance to over 2,700 bridges. MaineDOT's goal for bridge investments is to take the most practical actions which may include bridge replacement, rehabilitation or maintenance activities to minimize the costs to each bridge over its life span. Over the past decade, bridge needs have grown more acute with many of the post-depression era bridges reaching the end of their useful life and required capital improvements on several very large expensive bridges. For example, about 250 bridges and culverts have exceeded their normal life span and the state is currently working on a number of major multi-million bridge projects including the Augusta-Memorial Bridge, Deer Isle/ Sedgwick Bridge, Norridgewock Covered Bridge, and the Kittery Memorial Bridge to name a few.

1. Impacts of Deferral.

Of the $130 million in project deferrals, $19 million is in the Urban and Federal Bridge Program, which include 12 bridge projects that will be deferred. The impacts of these deferrals will vary based on the future costs of construction materials and future funding for transportation.

Leeds/ Turner Bridge

Bridge deferrals include the replacement of this structure on Route 219 over the Androscoggin River.

This bridge is vital for east-west transportation for many small Maine municipalities. It carries over 3,200 vehicles per day including a significant number of heavy vehicles.

This deferral will lead to higher future costs to replace the bridge but could prove disastrous if the bridge was posted for heavy vehicles or closed considering the approximate 20 mile and over 30 minute detour route.

- Multiple High Crash Locations or unsafe highway sections remain unfixed.
- Inadequate sidewalks and limited or no shoulders remain for bicyclists & pedestrians
- Over 8,000 vehicles a day cope with a highway not built for this traffic volume..
- Access to Sanford and beyond from the Maine Turnpike suffers.

- Inflation - Based on a recent informal survey on inflation and construction materials, bridge costs have increased dramatically. For example, MaineDOT estimates that the cost of steel girders fabricated and delivered today will be 25% to 35% more than just 18 months ago. Costs of other materials such as tubular steel, reinforcing bars, wire strand, and cement have risen even more dramatically. Although MaineDOT bridge engineers and technicians have been working diligently to find ways to do more with less in order to obtain the highest possible benefit given limited resources, the impact of time on this $19 million in bridge deferrals will be significant. Assuming a modest annual increase of 10% due to inflation and construction materials, the same $19 million bridge investment today will cost almost $23 million in just two years.

- Impact on Maintenance Activities - As indicated above, MaineDOT attempts to optimize bridge investments to minimize bridge life-cycle costs. These investments vary and include everything from bridge replacement and rehabilitation projects to bridge painting and a range of bridge maintenance activities. An example of a bridge maintenance activity could be as simple as improving drainage and clearing salt from bridge structures. Over time, debris and salt can damage a bridge, leading to much higher costs than a maintenance activity or shortening a bridge's lifespan. However, when capital funding is insufficient, State maintenance forces may be redirected from conducting routine preventative maintenance activities to performing urgent (holding action) repairs on bridges such as ones currently deferred. This leads to not only future higher costs for other bridge structures but will likely increase the number of posted bridges (including closures).

  While the impact of reallocating maintenance forces is about as difficult to quantify as the risk of skipping an oil change in a personal automobile, overtime these risks will lead to significant costs. Furthermore, the economic impacts associated with bridges constitutes a slippery slope that varies tremendously. At one level, deferring maintenance activities leads to higher future capital costs. However, this increases the risk of future bridge postings. If a bridge becomes posted to heavy vehicles, depending upon detour routes and truck traffic volume on the bridge, the economic impact on travelers becomes significant. If a bridge deteriorates to the point that it is closed, an entire region of the state may experience considerable impacts.


- Impact on Entire Capital Program - While bridges represent a vital part of the transportation system, there are few bridge advocates outside of MaineDOT. For example, MaineDOT regularly receives over 1,000 requests for highway projects, intersection improvements, pedestrian trails, transit assistance and other projects that would costs billions of dollars to fund. By comparison, the department rarely receives requests for bridge improvements. MaineDOT is simply expected to maintain bridges in an adequate condition; bridges seldom get noticed unless there is a catastrophic failure. However, when bridges fail, the entire transportation system will be impacted with often significant detour routes.

Donnells Bridge, Ogunquit

Bridge deferrals include engineering funding for future improvements to this structure on Route 1 in Ogunquit: Donnells Bridge:

- Carries up to 17,000 vehicles a day in the summer
- Connects two of Southern Maine's major tourism destinations
- Serves many bicyclists and pedestrians.

As indicated in the photographs this bridge is in poor conditions and is inadequate for significant bicycle and pedestrian traffic. There have been numerous "near misses" and at least one recent accident involving a bicyclist.

Over the past several biennia, bridges have represented 17-20% of MaineDOT's capital program. However, the $19 million in bridge deferrals exacerbates a declining trend in funding compared to an increased trend in bridge needs. For example, MaineDOT currently estimates that bridge needs in the next capital program at $112 million or approximately $40 million more than the past two capital programs. As a higher percentage of the department's capital budget is shifted to bridges, investments in other transportation projects with more tangible economic opportunities such as time saving mobility improvements, new roads opening up areas to development and congestion alleviation projects will need to be reduced.

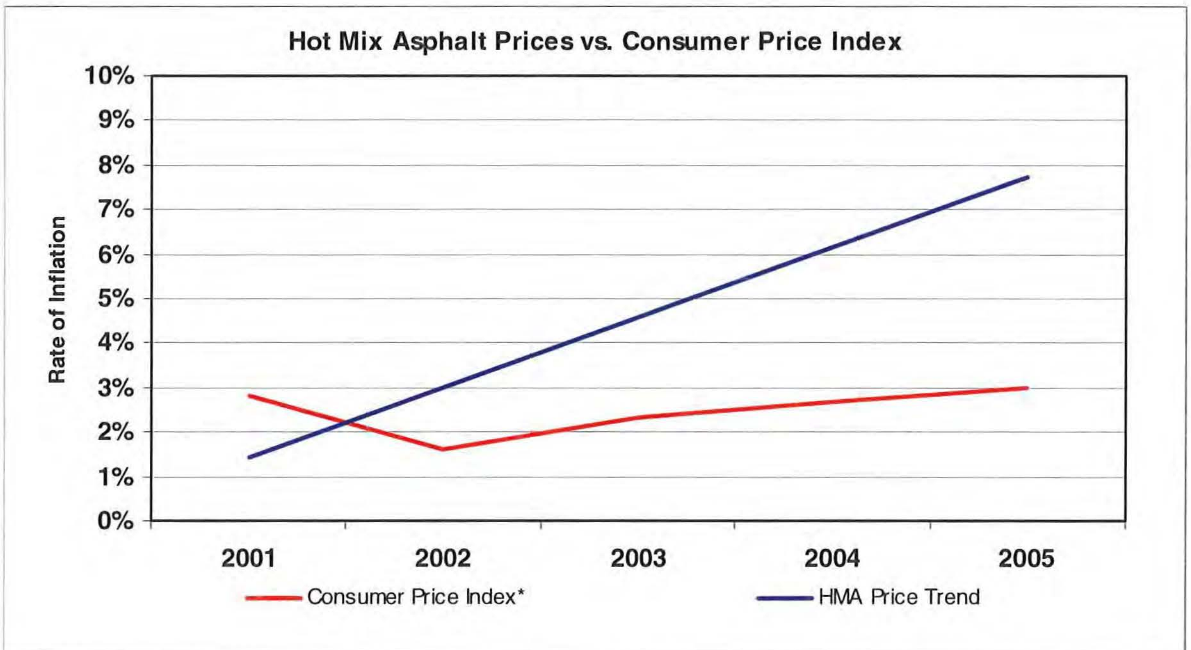
D. Elements of Impact: Pavement Preservation

MaineDOT spends millions of dollars each year reconstructing highways throughout the State. These are major construction projects that average over one million dollars per project. They typically include new road bases, sight distance improvements, shoulders, guard rails, improved drainage, etc. Once roads are fully reconstructed, they may last almost indefinitely, as long as they are adequately maintained. MaineDOT's pavement preservation philosophy is to apply the most cost-effective treatment at the proper time to maintain previous multi-million investments. Although it may seem counterintuitive to apply crack-sealing or a light pavement on a road that appears to be in good condition compared to other roads, pavement preservation optimizes resources by applying low cost treatments to preserve previous investments. By way of comparison, pavement preservation is analogous to re-shingling a roof before the entire roof fails.

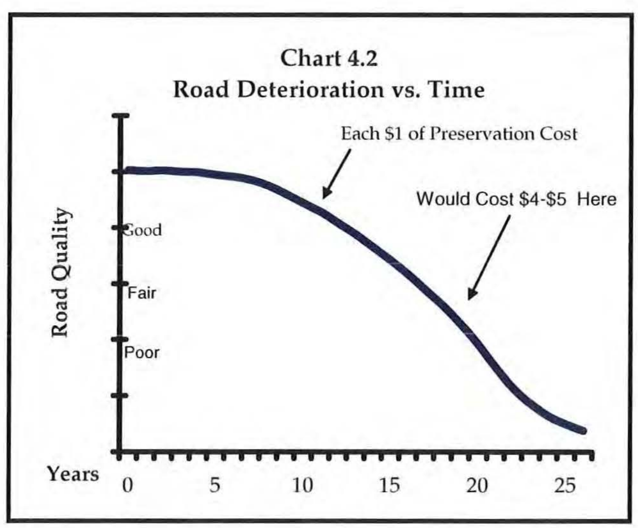
1. Impacts of Deferral.

Of the $130 million in project deferrals, over $13 million is in pavement preservation. The impacts of these deferrals will vary based largely on inflation and on the potential for higher costs treatments needed due to highway deterioration during the deferral period.

- Inflation - The deferral of pavement preservation projects will be significantly impacted by inflation. Pavement preservation treatments utilize liquid asphalt a petroleum byproduct. Even prior to recent increased demand related to hurricanes, the market for liquid asphalt has proven to be extremely volatile. As indicated in the graph below asphalt prices have increased dramatically when compared to the Consumer Price Index.



- Higher Cost Treatments - MaineDOT strives to apply the most cost effective pavement treatments at the most appropriate time in the lifecycle of a highway. Once a highway begins to deteriorate, the costs to make the improvements that bring the highway to the proper condition may rise exponentially. If all pavement preservation projects currently



deferred require a different scope of work and more costly treatment, these costs which are in addition to inflation could reach $7 million. The $7 million assumes that each deferred pavement preservation project would require a higher treatment due to the two-year delay.

Pavement Treatments

Pavement treatments per project vary based on road condition. Costs can vary considerably according to the treatment, from a few thousand per mile for crack sealing to over $400,000 per mile for extensive paving, shoulder work and guardrail replacement.

The project depicted in the adjacent photo consists of a light paving treatment at roughly $100,000 per mile on Route 201A in Norridgewock. Although from a drivability standpoint, this roads functions adequately, considerable water damage due to a permeable service could result in significantly higher future costs.

- Road Condition - Quantification of the impact of rough roads is extremely difficult, if not futile. Nevertheless, MaineDOT regularly receives feedback from the traveling public expressing a desire for smooth highways. In addition to the public expectations, smooth roads are vital for several of Maine's paper mills. Although detailed information is proprietary, several Maine paper mills produce very high quality paper. During transport, this sensitive product can be damaged over bumpy highways. Industry officials have even indicated that smooth highways are just as important as access to and from paper mills.

IV. REPORT OF THE VALUE ENGINEERING SUBGROUP

To ensure that existing resources are being stretched to their practical limit, MaineDOT enlisted the aid of a multi-disciplined Value Engineering (VE) Team to analyze opportunities for cost reduction in the Highway and Bridge Program. This Team included DOT staff, the construction industry, engineering consultants, municipal officials, the Federal Highway Administration, special interest groups, and a member of the Transportation Committee - in all 41 members (see Appendix B). The VE Team was asked to consider the following questions and forward cost reduction ideas to MaineDOT in advance of their January 11 meeting.

- What design criteria could be modified to decrease costs but preserve safety?
- Are there alternative capital treatments that should be considered?
- Would changes in risk allocation or bidding requirements be helpful while still fair?
- Is there opportunity in lessening work restrictions and allowing more road/bridge closures during construction?
- Is QC/QA providing commensurate value-added for its cost?
- Is there a way to increase schedule reliability for utility adjustments?
- What measures would increase participation in the bidding process?
- Would more widespread use of prefabricated products reduce total costs?
- Are there other options that should be considered?

Deputy Commissioner Bruce Van Note opened the VE Team meeting and informed the group that the cost-savings goal from this effort was $5 to $10 million dollars. Team members had already provided almost 100 initial ideas for cost reduction, and more were added during the morning session of the Team meeting. These ideas were tabulated and provided back to the Team, along with MaineDOT's initial estimate of potential savings and possible timeframe for each idea if implemented. All ideas were included on the original list, but their source was kept anonymous to allow each idea to be considered solely on its merits.

During the afternoon session, the VE Team subdivided into four groups with the task of identifying those ideas that held the greatest opportunity for immediate savings on a program basis. The results are tabulated below.

VE Team Top Recommendations
January 11, 2006

Category	VE Idea	2006/2007 Potential Savings
BRIDGE	• Place more emphasis on bridge rehabs vs. replacement • Stop painting bridges (2 year moratorium) • Work with agencies on a project basis to reduce in-stream restrictions • Close bridges with reasonable detours & low traffic volumes • Reduce specs & design criteria for low volume, small bridges • Eliminate QC/QA penalties for buried concrete	$2M
CONTRACT	• Allow road closures / detours during construction • Assign more construction risk to State • Fully implement Cost Base Estimating • Utilize more Prebid Meetings • Use more Locally Administered Projects with State funds	$1M
HIGHWAY	• Eliminate guardrail upgrades when safety performance is adequate • Maintain existing vertical/horizontal alignment unless demonstrated safety issue (non-NHS) - use more Advisory Speed Signs to mitigate • Improve utility relocation schedules and construction coordination • Eliminate 2' offset to face of guardrail • Use more alternatives to new subbase materials • Allow more road closures / flexibility in construction sequencing	$2M
PAVING	• Use "Town-like" specs for Maintenance Paving • Consider mitigating / reducing penalty provisions in QC/QA • Revise Method C penalties, etc. & seek Federal approval • Foster better communications / consistency of spec interpretations • Paving / Sealing Built Roads - Option 1 - Expand use of Maintenance mix (9.5) - State only $ - Option 2 - Create new Federally accepted 3/4" spec with reduced risk and eliminate some "Superpave" mix requirements • Allow Contractor to have / access State PMRAP stockpiles	$5M
TOTAL		**$10M**

While some of the above ideas will generate cost savings through process improvements or greater design/contracting flexibility, other ideas may reduce quality or add to user costs. Public acceptability of reduced traveler convenience during construction will be necessary, along with Federal Highway Administration approval for some ideas. The VE Team concluded that MaineDOT has already implemented a number of measures with the greatest rate-of-return, and therefore additional savings are not easily found.

It is noted that the VE Team did not attempt to match VE Ideas with specific projects due to time constraints. Considerable project-specific knowledge is needed to match VE Ideas with projects, and MaineDOT is beginning that process now. True cost-reduction requires examination of the entire project portfolio and adjustments to project budgets. Speed is of the essence, because there is little or no opportunity for projects that have been developed to the point of near advertising for bids.

MaineDOT staff developed a first order approximation of possible savings, and found that expedient implementation could be expected to generate $10 million dollars in project savings, which amounts to roughly 3% of the total program. MaineDOT also plans to revisit the entire list of VE Ideas for possible application to current and future projects, as it continues to take steps to provide quality infrastructure to Maine's taxpayers at the lowest possible cost.

V. REPORT OF THE FUNDING ALTERNATIVES SUBGROUP

Senator Dennis Damon convened the meeting of the Funding Sub-Group on Friday, January 6th. The following represents a summary of the discussion and recommendations that the Funding Subgroup believes that the full Working Group should consider to mitigate the immediate challenge – restoring as many of the deferred projects for fiscal years 2006 and 2007 as is reasonable and prudent. Some long-term funding considerations are also mentioned below.

A. Background and Scope of the Challenge

A combination of factors including unprecedented increases in construction costs caused by world-wide demand and recent hurricanes and federal cash-flow challenges resulting from the recently-passed federal transportation funding bill required the Maine Department of Transportation (MaineDOT), in the fall of 2005, to defer transportation projects worth about $130 million, representing about 20 percent of the projects in MaineDOT's 2006-07 Biennial Capital Work Plan. If left unresolved, this deferral will impact 143 projects in 112 communities across Maine.

On December 1, 2005, Governor John Baldacci described this deferral as "unacceptable", and convened a working group to assess and mitigate its impact. Since then, MaineDOT has evaluated the readiness or deliverability on deferred projects to determine whether the projects could be delivered if additional resources were found and project development could resume. As with any on-going production operation, the suspension of the operation means that output will be reduced. In this case, MaineDOT estimates that even if additional funds are found, the lack of funding certainty to the spring of 2006 will result in about $30 million worth of projects being pushed into the next biennium (2008-09), meaning funding for these delayed projects can occur in the next budget cycle. This means the scope of the immediate challenge is about $100 million.

Of course, the best way to mitigate the impact of the deferrals is to reduce costs in the first place. To address this challenge, the Value Engineering Subgroup is working to identify changes to designs, contracting, and work requirements to reduce costs of MaineDOT's Capital Work Plan. This group first met on January 11th. An ambitious goal of $10 million has been set. Assuming this goal is met, and assuming the scope of MaineDOT's original Capital Work Plan is satisfactory, this means that the immediate funding shortfall is about **$90 million**.

B. Recommended Solution(s)

The Funding Subgroup considered a variety of possible solutions. After a wide-ranging discussion, the group reached consensus that policymakers should adopt a balanced approach that first exhausts available cash resource options; and then utilizes alternative financing measures to resolve the immediate transportation funding challenges facing the State.

Further analysis was conducted based on the criteria discussed to suggest an allocation formula:

Cash Resources:	$20-30 million
Alternative Financing Strategies	
State General Obligation or Revenue Bonds	$20-30 million
Federal – GARVEE Bonds	$ 40 million
Total Solution	$ 90 million

1. Available Cash Resources.

a. Highway Fund.

It is projected that approximately $15 million in Highway Fund resources should be available for allocation to MaineDOT's capital program in the Highway Fund Supplemental Budget. This amount consists of two components.

- MaineDOT Personal Services Savings. Due to a number of factors including efficiencies realized through on-going reorganization and work planning efforts, there exists about $10.9 million in Personal Service savings for FY05 available for the capital program. The Transportation Committee has consistently voted to use such savings for the capital program. Given the dire need, this should occur again.
- Revised revenue projections. The Revenue Forecasting Committee recently revised Highway Fund projections upward for the balance of fiscal year 2006 by an estimated $4 to 5 million. Again, these funds should be allocated to resolve this immediate challenge.

b. General Fund.

State budgets adopted by Governors and Legislatures have historically shifted funds between the State's General Fund and Highway Fund during difficult budget periods. In some cases these contributions were restored or offset with reverse contributions. Given the potential negative impacts these project deferments would have on the Maine economy and given the reported General Fund surplus, the members believed that some level of General Fund participation is appropriate. No specific level of funding was determined, but a strong recommendation was made that the Governor and Legislature consider this important transportation need as decisions are made regarding the disposition of any surpluses in the General Fund as part of the Governor's Supplemental Budget to be considered by the Legislature in the coming weeks. The Governor has indicated support, and a strong interest in working with the Transportation and Appropriations Committees to develop a workable bipartisan mechanism.

c. Federal Considerations.

Short-term federal cash-flow challenges account for about 40 percent of the immediate financial challenge now facing MaineDOT. Facing this reality, the Funding Subgroup believes that any solution should include a federal component that includes two approaches.

- Maintain a dialogue with our congressional delegation, stressing the urgency of the problem and the need for additional federal help to offset project deferrals that are likely to harm Maine's economy.
- Urge members of Maine's delegation to seek generic earmarks for MaineDOT capital projects under the transportation "corrections" bill to be taken up later this year. The State should make this request in a letter to our congressional delegation. Signatories should be the Governor and the members of the Legislature's Transportation Committee.

2. <u>Alternative Financing Strategies</u>.

The Funding Subgroup members concluded that available cash resources could only address part of the solution, given the size of the funding challenge. General Fund and Highway Fund options will continue to leave a sizeable gap between the number of deferred projects and the amount of available funds.

The Maine Turnpike Authority, represented on the Governor's Working Group by its Executive Director, Paul Violette, utilized its expertise and that of its investment bankers to prepare the attached analysis. This provided the Sub-Group with a menu of financing options that would be particularly applicable and readily available to address the immediate funding challenge.

Although the attached paper explores these options in more depth, the following highlights the principle recommendations resulting from the MTA analysis, and the discussion among Sub-Group members:

a. Transportation Debt Policy.

The MTA analysis of Maine's position with respect to transportation related debt states the following: ….. " when compared to other states, Maine has been extremely conservative in the practice of borrowing to finance long-term transportation improvements." This observation was referring to the short-term borrowing typical for State bonds of ten years on average, toward investments in transportation infrastructure that in some cases can have a useful life measured in decades.

The subgroup members discussed this assessment of state borrowing practice and suggested the Governor and Legislature consider longer-term borrowing for these longer- term assets in order to spread said borrowing over more of the assets useful life, and therefore reduce debt-service payment burden on either the General Fund or Highway Fund, depending on the source of re-payment.

It was suggested that this policy question should be further explored as long-term transportation funding issues are addressed, but longer-term borrowing could be considered if this is the borrowing option chosen to address the immediate funding challenge. Further discussion revolved around whether current debt-to-revenue policies unduly restrict needed transportation investment.

b. General obligation bonding.

If the Legislature decides to send a general obligation bond issue to the voters in 2006, the Funding Subgroup strongly recommends that a transportation component be included. The subgroup recognized that this may not be likely.

c. Conduit Financing (also known as Revenue Bonds).

Other states, most notably New York, have issued revenue bonds through third parties. The New York Thruway, for example, issues debt on behalf of the New York State Division of Budget and the New York Department of Transportation. The arrangement uses a dedicated stream of revenue provided by these agencies for debt service repayment.

Using this model, the Maine Turnpike Authority or the Maine Municipal Bond Bank could issue bonds on behalf of MaineDOT. Such an arrangement would require a dedicated stream of revenue such as a portion of the state motor fuel tax, a General Fund appropriation, or other revenue source.

The subgroup discussed how this particular approach to bonding differed from the more conventional G.O. Bonding discussed above. The subgroup discussed this concept as it relates to long-term funding challenges, and how enabling MaineDOT to exercise some limited financing authority to address sudden changes in funding was a policy goal worthy of consideration. With respect to the more immediate funding challenge, the advantage of this approach would be the ability to finance long-term transportation improvements without pledging the full faith and credit of the State of Maine. The source of repayment would be the security for the bond.

d. GARVEE Financing.

The Federal Highway Administration several years ago authorized the use of what have become known as "GARVEE" Bonds, and acronym for Grant Anticipation Revenue Vehicle. This accepted tool allows state government transportation departments, such as MaineDOT, to borrow against future federal transportation revenues to finance long-term capital investments. Because about 40 percent of the current challenge is related to federal funding complications, the subgroup believes that a federally financed solution should be considered as one component of the solution.

Maine issued a GARVEE in 2004 to fund portions of the Waldo-Hancock Bridge replacement project, with bonding not to exceed $50 million. While not legislatively mandated, the State chose to restrict the final maturity of this GARVEE to 2015, representing an 11-year term of debt.

Maine's use of GARVEE is modest in size, compared with other states that have utilized this financing tool, ranking next to last among the 23 states and U.S. territories that have pursued such financing. Subgroup members observed that while the issuance of new GARVEE bonds would mean taking on additional debt, the cost of this new debt should be measured against the State's ability to help close the current transportation funding gap by delivering projects over the near term.

In evaluating the expanded use of GARVEEs, the State should consider 1) minimizing the impact of additional debt on the cash-funding of projects in the current Statewide Transportation Improvement Program (STIP), and 2) better matching the term of the debt with generally long useful lives of the projects that can be funded with GARVEE's (bridges or major highway reconstruction).

C. <u>Long-term Funding Considerations</u>.

Senator Damon spoke to the need to continue this type of effort as the Transportation Committee evaluates alternative funding strategies to address the development and maintenance of the State's transportation system in the future. The Committee has directed MaineDOT and the MTA to evaluate and analyze the sustainability of the motor fuel tax as the primary source of funding for the highway and bridge program. MaineDOT contracted with the Margaret Chase Smith Center for Public Policy to research alternative financing options to the motor fuels tax. A report will be delivered to the Committee in February.

The subgroup agreed that this effort should continue to address these longer-term funding concerns.

APPENDIX A

PROJECT DEFERRAL DISCUSSION PAPER

Project Deferrals Necessary to Balance MaineDOT's 2006-2007 Capital Work Plan

The Maine Department of Transportation (MaineDOT) is revising its $648 million *interim* Biennial Capital Work Plan for Fiscal Years 2006-2007 (Work Plan), as a result of new information regarding actual financial resources and rapidly increasing construction costs. This revision, which obviously must be done to assure prudent fiscal management, is required now to receive federal approvals necessary to assure continued federal funding. **Due to a number of factors outlined below, MaineDOT must defer transportation projects now estimated to cost about $130 million from its Work Plan, representing over 20% of projects.** Priority consideration will be given to deferred projects when MaineDOT develops its next Biennial Capital Work Plan for Fiscal Years 2008-2009, or sooner, if alternative resources are identified.

Background

In March 2005, MaineDOT published an *interim* Biennial Capital Work Plan for Fiscal Years 2006-2007. This Work Plan was presented on an "interim" basis primarily due to the delay in enacting the federal surface transportation act (which expired 10/1/04), but also due to state funding uncertainty related to pending legislative actions on the state highway fund budget, motor fuel-tax indexing, and bonding levels. Since that time, the state HF budget was passed, indexing was preserved, a state transportation bond was passed, and most importantly, in August Congress approved and the President signed the federal surface transportation bill, "SAFETEA-LU". Furthermore, construction costs have risen dramatically due to worldwide demand and the effects of recent hurricanes. Consequently, MaineDOT now has far more reliable information regarding available financial resources and anticipated costs.

Primary Causes for Work Plan Project Deferrals:

- **Federal Cash-Flow Challenges** - SAFETEA-LU, the reauthorization of the federal surface transportation programs for years 2005 through 2009, presents both short-term challenges and long-term benefits to transportation funding. Though cumulative funding levels over the life of SAFETEA-LU (without adjusting for inflation) calls for an overall increase in federal transportation funding for Maine, the bill has created some immediate cash flow challenges. These challenges are due to its retroactive application, reconciliation of the numerous extensions of the previous legislation, the impacts of the High Priority Projects (HPP) program, other new or modified legislative provisions affecting core funding formulas, and overall funding levels. Consequently, some project priorities contained in the Work Plan had to be changed to accommodate some new priorities defined in federal law. In addition, the extent of the HPP and other programs as a percentage of core funding, and the fact that some of the projects designated for special funding under SAFETEA-LU are not yet ready for construction, means that funding is not useable for the current Work Plan projects.

- **Unprecedented Increases in Construction Costs** – Across the nation and in Maine, the construction sector is facing rapidly escalating costs for construction materials such as petroleum, concrete, and steel. Fuel oil and asphalt costs, which are necessary for all transportation construction projects and for paving in particular, have been driven exceptionally high due, in part, to recent hurricanes. Steel and other construction materials have become more expensive due to increased worldwide demand at home and abroad.

- **Aggressive Programming and Higher Production Rates** - In order to put every capital transportation investment to work as soon as possible, MaineDOT historically has programmed aggressively, work plans have included slightly more projects than can be supported by projected funding based upon historical experience that additional funding may emerge and that some projects will not move to construction due to local concerns, permitting, and other production constraints. Happily, changes in production processes and design assumptions instituted over recent years have resulted in higher percentage of the planned projects being delivered. Although a positive development, increased production rates have meant that prior programming assumptions need to be adjusted to remain fiscally constrained. Looking forward, MaineDOT's Work Plan management process will allow for a more dynamic and gradual recalibration of the capital program over time.

- **Potentially Lower Fuel-Tax Revenues** - High motor-fuel prices may have the effect of reducing the amount that people drive or the vehicles they chose. This could affect funding for transportation projects, since both the state and federal government depend primarily on per-gallon motor-fuel taxes for funding of capital improvements. While fuel prices are now declining, they remain relatively high, and any revenue adjustment at the state level will not be known until later this year.

In sum, federal cash flow challenges, higher construction costs, aggressive programming coupled with higher production rates, and potentially reduced state revenues require that MaineDOT defer transportation projects now estimated to cost about $130 million from its Work Plan, representing about 20% of projects, unless alternative resources are identified.

<u>Project Selection Criteria</u>:

When MaineDOT develops its Capital Work Plan, the Department conducts a comprehensive project selection process, since transportation needs and requests for projects greatly exceed available resources. MaineDOT went through a similar process to identify those projects in the Work Plan that will be deferred. This process included consideration of the following:

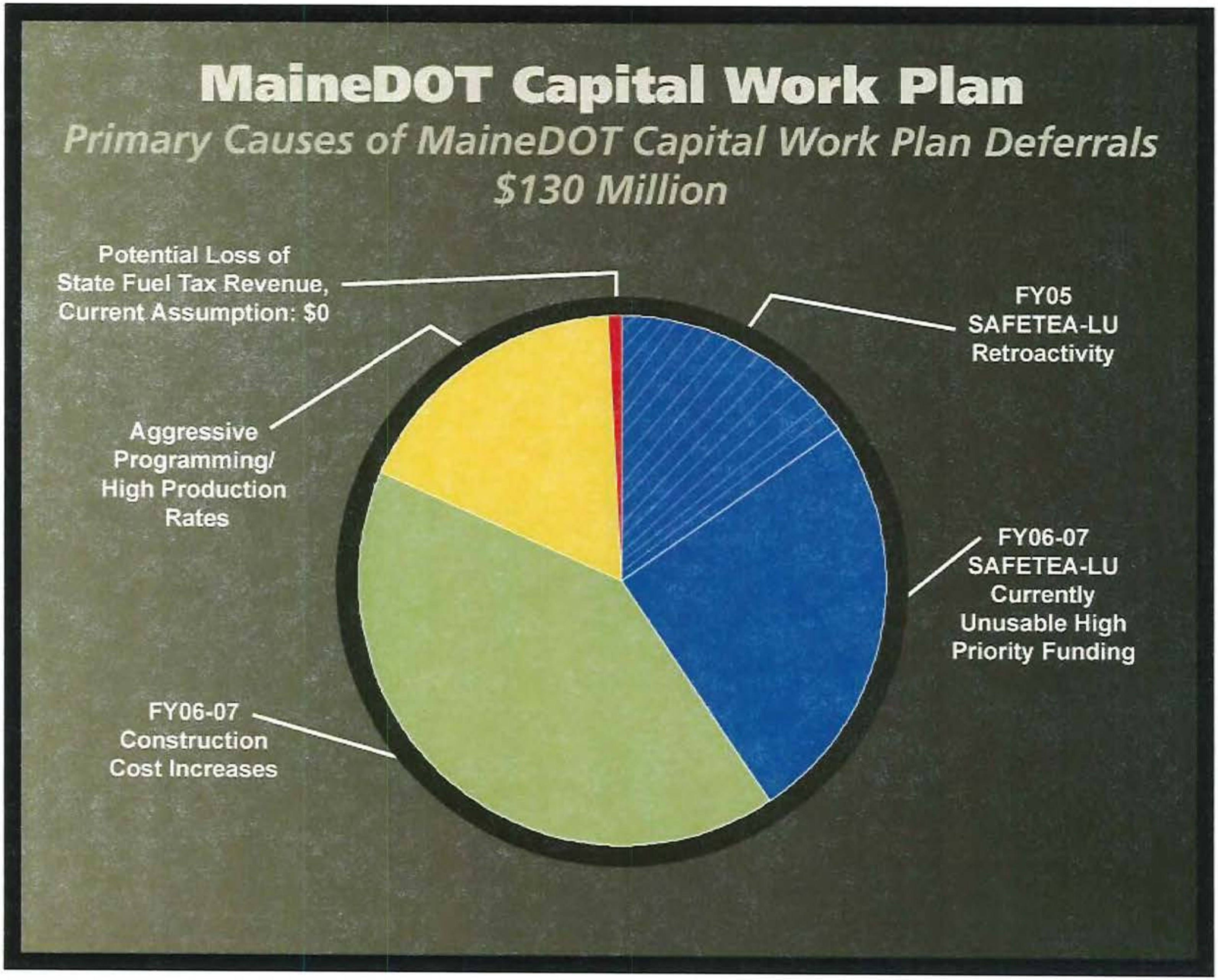
- **Contractual Agreements** – Despite federal uncertainty because of piecemeal funding through "Continuing Resolutions" in Congress, MaineDOT began implementing its FY 2006-2007 Work Plan in July. Due to contractual obligations and the added costs of deferring projects already under construction, MaineDOT did not defer any projects that were already under contract for construction.

- **Federal Inflexibility** – As indicated above, SAFETEA-LU limits Maine's flexibility in transportation programming. Project priorities identified in SAFETEA-LU must not only be included the Work Plan, but they also limit the pool of additional transportation projects in the Work Plan that could be deferred.

- **Transportation Safety** – Safety remains MaineDOT's top priority. Although all transportation improvement projects include a safety element, MaineDOT considered the safety component of each project as projects were evaluated.
- **Project Readiness** – Since all projects deferred from the FY 2006-2007 Work Plan will be top priorities for the FY 2008-2009 Work Plan, the readiness of projects for construction was a strong factor in the consideration. For example, projects that would need to be deferred to FY 2008, based on non-fiscal factors such as environmental permitting, complications involving state and local agreements, or additional unforeseen delays, have been deferred to allow for the most practical use of financial resources currently available.
- **Resource Allocation Policy** – MaineDOT's capital programming is in some ways comparable to home ownership. Just as it would not be fiscally prudent to build an addition to a home when its roof is failing, the Department provides a minimum amount of resources to maintain the existing transportation system, prior to making major improvements. Therefore, although the deferred projects will include some bridge and paving projects, the majority of the projects that will be deferred are highway reconstruction projects.
- **Regional Distribution** – Every transportation project is meaningful and important to its surrounding communities and region. As projects were selected to be deferred, consideration was given to avoid canceling all projects in a specific region, and project deferrals are distributed across the entire state.

Next Steps:

MaineDOT will produce a revised Biennial Capital Work Plan for Fiscal Years 2006-2007. Further, MaineDOT is evaluating ways to stretch existing resources, as well as alternative funding sources that might allow projects to be added back into the Work Plan, thus minimizing the impacts of the deferrals. MaineDOT would like to hear from affected stakeholders regarding the impact of these deferrals. A web link has been established at www.mainedot.gov, giving all citizens the opportunity to provide the Department with feedback regarding transportation projects.


MaineDOT Capital Work Plan
Primary Causes of MaineDOT Capital Work Plan Deferrals
$130 Million
Potential Loss of State Fuel Tax Revenue, Current Assumption: $0
FY05 SAFETEA-LU Retroactivity
Aggressive Programming/ High Production Rates
FY06-07 SAFETEA-LU Currently Unusable High Priority Funding
FY06-07 Construction Cost Increases

APPENDIX B

MEMBERSHIP LISTS –
FULL WORKING GROUP AND SUBGROUPS

Governor's Transportation Capital Funding Working Group

- John Butts, Associated Constructors of Maine
- David A. Cole, Maine Department of Transportation
- Dana Connors, Maine State Chamber of Commerce
- Senator Dennis Damon, Maine Legislature, Transportation Committee
- Kate Dufour, Maine Municipal Association
- Maria Fuentes, Maine Better Transportation Association
- Dale E. Hanington, Maine Motor Transport Association, Inc.
- Jeffrey K. Jordan, City of South Portland
- Scott A. Leach, The Lane Construction Company
- Representative Boyd Marley, Maine Legislature, Transportation Committee
- Representative Terry McKenney, Maine Legislature, Transportation Comm.
- Catherine Reilly, State Planning Office
- Senator Christine Savage, Maine Legislature, Transportation Committee
- Alan Stearns, Governor's Office
- Paul E. Violette, Maine Turnpike Authority

Impact Assessment Subgroup

- Senator Christine Savage, Maine Legislature
- Jimmy Cook, Teamsters Local 340
- Maria Fuentes, Maine Better Transportation Association
- Parker "Chip" Laite, Jr., Selectman, Town of Camden
- Catherine Reilly, State Planning Office
- Conrad Welzel, Maine Turnpike Authority
- David Cole, Maine Department of Transportation
- Greg Nadeau, Maine Department of Transportation

Maine Department of Transportation Staff:

- Dale Doughty
- Marty Rooney
- Gary Williams

Transportation Funding Gap/Value Engineering Subgroup

- Representative Terry McKenney, Maine Legislature
- Robert Driscoll, ACEC (HNTB)
- John Butts, Associated Constructors of Maine
- Newell Auger, Auger & Associates
- John Anderson, Boothbay Town Manager
- Roger Raymond, Bucksport Town Manager
- Steven Buck, Caribou Town Manager
- William Shane, Cumberland Town Manager
- Frank Carroll, F.R. Carroll & Sons
- Anthony Hayes, Falmouth Public Works Director
- Ron Farrin, Farrin Bros. & Smith, Inc.
- John Ferraiolo, Ferraiolo Construction
- Michael Praul, FHWA
- Tom Gorrill, Gorrill-Palmer Consulting Engineers, Inc.
- John Duncan, Greater Portland Council of Governments
- John Simko, Greenville Town Manager
- Theodore Crooker, Harry C. Crooker & Sons
- Bruce Van Note, Maine Department of Transportation
- Kenneth Sweeney, Maine Department of Transportation
- Chip Getchell, Maine Department of Transportation
- Jeffrey Adams, Maine Department of Transportation
- Kyle Hall, Maine Department of Transportation
- Wayne Frankhauser, Maine Department of Transportation
- John Dority, Maine Department of Transportation
- Bradford Foley, Maine Department of Transportation
- John Melrose, Maine Tomorrow
- Dana Lee, Mechanic Falls Town Manager
- Robert Robillard, Pike Industries, Inc.
- Thomas Stevens, Presque Isle City Manager

Transportation Funding Gap/Value Engineering Subgroup (Continued)

- Stephen Cole, S.W. Cole Engineering, Inc.
- John Sturgeon, Sargent & Sargent, Inc.
- Herbert Sargent, Sargent & Sargent, Inc.
- Theodore Karasopoulos, SEA Consultants, Guertin Elkerton Associates
- Stephen Sawyer, Sebago Technics
- Jon Shaw, Shaw Brothers
- Greg Dore, Skowhegan Road Commissioner
- Jeff Andrews, T.Y. Lin International
- Scott Leach, The Lane Construction Corporation
- Tony Grande, Vanasse Hangen & Brustlin
- Kim Suhr, Wyman & Simpson, Inc.
- Erik Street, Yarmouth Public Works Director

Funding Subgroup:

- Senator Dennis Damon, Maine Legislature
- Alan Stearns, Governor's Office
- Dale Hanington, Maine Motor Transport Association, Inc.
- Paul Violette, Maine Turnpike Authority
- Jack Parker, Reed & Reed, Inc.
- Steve Sawyer, Sebago Technics
- Jeff Jordan, City of South Portland
- John Melrose, Maine Tomorrow
- Maria Fuentes, Maine Better Transportation Association
- Conrad Welzel, Maine Turnpike Authority
- Kate Dufour, Maine Municipal Association
- David Cole, Maine Department of Transportation
- Greg Nadeau, Maine Department of Transportation
- Bruce Van Note, Maine Department of Transportation

Maine Department of Transportation Staff:

- Marty Rooney, Maine Department of Transportation
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APPENDIX C

MAINE TURNPIKE AUTHORITY PAPER ON FUNDING OPTIONS

Maine Turnpike Authority

430 RIVERSIDE STREET
PORTLAND, MAINE 04103

Memorandum

To: The Governor's Capital Transportation Funding Working Group

From: Paul E. Violette, Executive Director, Maine Turnpike Authority

Re: Funding Options for Consideration

Date: January 5, 2006

The Maine Turnpike Authority is pleased to be a participant in the Governor's Capital Transportation Funding Working Group. In preparation for this discussion, Turnpike staff began by identifying the following criteria by which strategy options would be judged. We agreed that any recommendation we offered should:

- Generate funding to address the immediate and critical transportation needs of the state.
- Generate funding in a prudent, responsible fashion that will not simply exacerbate the problem for policy makers in a future biennium.
- Alleviate short term financial pressures so that the focus can be shifted to the development of long term structural funding solutions.

Once this criterion was established, Authority staff met with the Maine Turnpike Authority's investment bankers to flesh out various options available to address current and future state transportation funding shortfalls. This memo describes our findings and offers some recommendations for further thought.

Summary of Findings

If the Governor and the Legislature choose to address the funding shortfall facing Maine's transportation infrastructure there are three basic ways to go about it. The first would be to provide a significant additional allocation from the State's General Fund to the State's Transportation Fund. The second would be to increase the flow of revenue into the State's Transportation Fund by increasing the gas tax and/or various license and registration fees. And the third would be to generate additional funding through some method of bonding.

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Practical Assumptions

Given the state's current fiscal situation we can not assume that significant additional General Fund revenues will be forthcoming to solve the state's transportation funding shortfall, although such a transfer would be desirable. It is probably safe to assume that neither the Governor nor the Legislature would be supportive of increases in the gas tax or other existing transportation revenue sources. Even if they were of a mind to do so, these methods of revenue collection could not be implemented swiftly enough to have any meaningful impact on the immediate and serious problem confronting the State's transportation capital improvement program. This leads us to the third option, bonding.

A Case for Bonding

Having examined the State of Maine's position with respect to transportation related debt, we are convinced that a strategic program of bonding can meet all of the criteria listed above, and in fact, represents the most responsible and appropriate approach to the state transportation funding shortfall. As this memo will reflect, when compared to other states, Maine has been extremely conservative in the practice of borrowing to finance long-term transportation improvement projects. In light of the current shortfall, it seems most appropriate to consider whether Maine is taking full and wise advantage of its favorable position in the financial marketplace to improve the economic opportunities for its citizens. This is especially true if you subscribe to the philosophy that the costs of long term capital improvements should be shared by the many people who enjoy those improvements over at least a portion of the structure's lifespan. We believe that most Maine people embrace this philosophy (it is demonstrated repeatedly by their support of transportation bond issues) and that prudent financing opportunities are available.

Bonding Recommendation

A survey of various State Transportation Funding programs indicates that there are three primary bonding strategies; General Obligation Bonds, GARVEE Bonds and Conduit Issued Revenue Bonds. It became immediately clear that General Obligation Bonds would not meet the criteria we established. The time required to gain approval and issue a General Obligation Bond disqualifies it as a viable approach to address the shortfall before the end of the current fiscal year. In addition, Maine General Obligation Bonds have historically been issued to mature in just ten years. The debt repayment requirements of such a short-term issuance would do little to alleviate current cash flow problems and would only assure the continual re-emergence of the problem in future years.

The staff of the Maine Turnpike Authority recommends that the working group give further consideration to the additional use of GARVEE Bonds and/or new Conduit Issued Revenue Bonds, both of which could provide immediate and lasting benefits.

GARVEE Bonds

Maine is familiar with GARVEE Bonds having recently issued (in late 2004) a GARVEE to fund portions of the Waldo Hancock Bridge Project. Currently, the use of additional GARVEE bonds is very limited by Maine Law and the issuance for the Waldo-Hancock Bridge had a maturity of just 11 years, resulting in a relatively steep and short-term repayment cycle, which may be contributing to current cash flow problems. In the future, the State may want to consider a longer term of 15 to 25 years, particularly if the capital asset has a useful lifespan of 50 years or so.

Conduit Issued Revenue Bonds

The New York Thruway is a leading conduit issuer. While the Thruway, like the Maine Turnpike, has its own toll revenue bond credit that is used to fund major toll highway capital needs, it also acts a conduit issuer for two non-toll bond programs. As a conduit issuer, the Thruway issues debt on behalf of the New York State Division of Budget and the New York Department of Transportation, using a dedicated stream of revenue provided by theses agencies for debt service payment. Using this model the Maine Turnpike Authority or the Maine Municipal Bond Bank could issue bonds on behalf of the Maine Department of Transportation should a non-toll revenue stream be dedicated for such purpose.

Trends

As the attached information indicates, more and more states are employing Highway User Revenue Bond strategies and lengthening final maturity dates on these bonds to 15-25 years. These states have deliberately embraced debt levels higher than Maine on all comparative ratios as prudent long term strategies for funding critical infrastructure needs. Even within the State of Maine, it is notable that the Maine Turnpike Authority currently pays approximately 25% of its annual operating revenue for debt service compared to the State of Maine, which allocates only 4-5% of its annual revenue to debt service payments (see table on page 5.) We believe these strategies could be helpful in structurally repairing the recurring cash flow shortages in Maine's transportation fund, while enhancing the important correlation between the financing of a project and its useful lifespan.

We believe that both additional GARVEE's and new Conduit Issued Revenue Bonds could provide the short term relief that is required prior to the end of the State's current fiscal year and without any impact to the State' AA General Obligation Bond rating. We anticipate that any new GARVEEs that extended their final term to 15-25 years would likely carry mid to low A category ratings. The Conduit Issued Revenue Bonds would likely carry a "mid to high A" rating, which would result in marginally lower issuance cost than the GARVEE Bonds.

Thank you for your consideration.

Funding of State Transportation Programs

From a macro perspective, States, State Departments of Transportation, and transportation agencies of the State typically fund their short and long-range State Transportation Improvement Plans (STIPs) and other related programs from a variety of revenue and capital funding sources. These include highway programs that range from those administered at the State-level to those funded more independently away from state control, or more at the local and regional level. A variety of funding sources for these broad programs include, but are not limited to, the following:

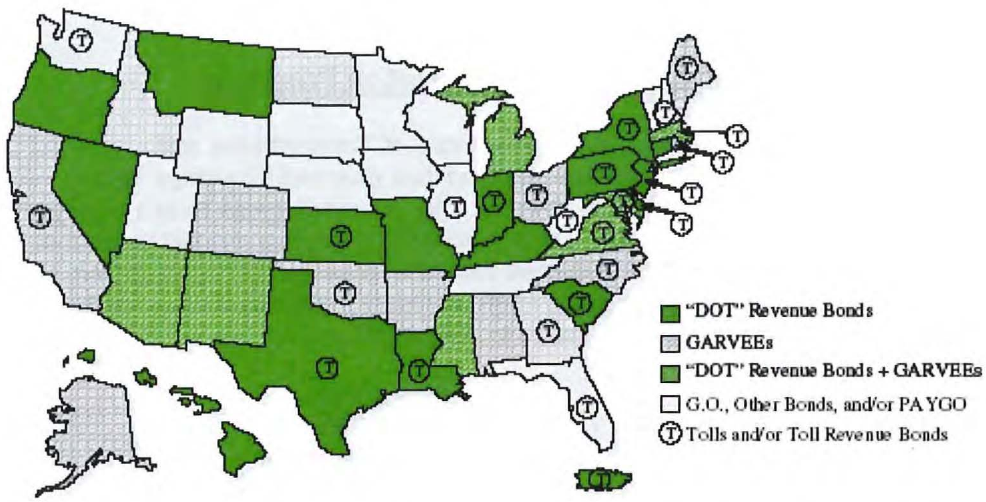
- General Obligation Bonds
- State General Fund Revenues
- Toll Revenues
- Toll Revenue Bonds
- State Motor Fuel Taxes
- State Motor Fuel Tax Bonds
- Highway User Fees and Bonds
- Federal Gas Taxes
- GARVEE Bonds
- Personal Income Taxes and Bonds
- Vehicle License and Registration Fees
- Vehicle L&R Fee Bonds
- Local Option Gas Taxes and Bonds
- Sales Taxes and Sales Tax Bonds

In the chart below, we have summarized how the states fund their highway transportation programs. We have coded the map to distinguish among the following features: 1) States that fund Pay-as-You-Go via their General Fund and/or with General Obligation Bonds, 2) States that issue some form of transportation-revenue bonds through their respective Department of Transportation, 3) States that issue GARVEEs, and 4) States (or State agencies) that issue Toll Revenue Bonds.

- "DOT" Revenue Bonds: These States (listed in the table below) issue dedicated highway revenue bonds secured by highway user fees or taxes, and do not carry the G.O. security of the State. Typically, these bonds are sold with final maturities that range from 15 to 25 years and carry credit ratings that range from the A-category to the strong AA-category. These bonds are not secured by Federal Highway Reimbursements.

- G.O, Other Bonds, and/or PAYGO: These States fund transportation needs from General Obligation bonds that carry the full faith and credit of the State and/or Pay-As-You-Go funding, or other bonds. Maine falls in this category as it issues bonds for the Highway Program, but these bonds are secured by the State's G.O., although paid from highway funds.

- "GARVEEs": These States issue GARVEE bonds either secured solely by Federal Highway Reimbursements or back stopped with other dedicated revenues of the State.



Note: North Carolina to issue GARVEEs in 2006; NC Turnpike Authority created but not yet collecting tolls; Idaho, Georgia and Maryland expect to issue new GARVEEs in 2006.

DOT Revenue Bonds and Conduit Issuers

The table below lists those States that issue highway revenue bonds either by their respective DOTs, the State, or a conduit issuer. A conduit issuer is a third party, such as a municipal bond bank, who issues bonds on behalf of the State. These bonding programs are paid and secured by dedicated highway revenues of the State and not by the State's full faith and credit.

Gas and Other Highway User Tax Bond Programs	
Arizona Transportation Board	Highway Revenue Bonds
Commonwealth of Massachusetts	Special Obligation Revenue Bonds
Commonwealth of Virginia	Transportation Revenue Bonds
Delaware Transportation Authority	Transportation System Revenue Bonds
Indiana Transportation Finance Authority	Highway Revenue Bonds
Kentucky Turnpike Authority	Economic Development Road Revenue Bonds
Missouri Highways and Transportation Commission	State Road Bonds
New York State Thruway Authority	Highway and Bridge Trust Fund Bonds
Pennsylvania Turnpike Commission	Oil Franchise Tax Revenue Bonds
Puerto Rico Highway and Transportation Authority	Transportation Revenue Bonds
Rhode Island Economic Dev. Corporation	Motor Fuel Tax Revenue Bonds
State of Connecticut	Special Obligation Bonds
State of Hawaii DOT	Highway Revenue Bonds
State of Kansas DOT	Highway Revenue Bonds
State of Louisiana	Gasoline and Fuel Tax Revenue Bonds
State of Maryland DOT	Consolidated Transportation Bonds
State of Michigan	Comprehensive Transportation Revenue Bonds
State of Michigan	State Trunk Line Fund Bonds
State of Mississippi	Highway Revenue Bonds (Four-Lane Highway Program)
State of Montana DOT	Highway Revenue Bonds
State of Nevada	Highway Improvement Revenue Bonds
State of New Jersey Transportation Trust Fund	Revenue Bonds
State of New Mexico	Revenue Highway Bonds
State of Oregon DOT	Highway User Tax Revenue Bonds

Below we highlight a sample of dedicated highway revenue bonding programs:

Connecticut (Special Tax Obligation Program) -- While Connecticut has been able to lower its gas tax rate significantly since its high of 38¢ in 1997, it remains the 8th highest in the nation at 25¢, 5¢ above the national average. Pledged revenues include Motor Fuels Tax, Motor Vehicle Receipts, Licenses, Permits and Fees, and Sales Tax. The State covenants to raise pledged revenues sufficient to maintain 2.0x debt service coverage. Total outstanding debt equals $3.1 billion and current debt service coverage equals 2.60x for the senior lien and 2.30x for the subordinate lien. Annual debt service fluctuates from a low of $35 million to a high of $414 million.

Kansas (Kansas DOT Highway Revenue Bonds) –The State has covenanted to provide annual revenues to the State Highway Fund at least equal to three times annual debt service. The State Highway Fund includes a portion of the Motor Fuel Tax, Sales and Use Tax and Vehicle Registration and License Fees. Total outstanding debt equals $1.5 billion and the current debt service coverage level is 5.37x. This means that Kansas dedicates almost 20% of their highway user fees toward debt service payments annually.

Commonwealth of Massachusetts (Special Obligation Revenue Bonds) – Massachusetts currently levies a gasoline tax of 21¢ per gallon, of which 6.86¢ is available for bond debt service and the Commonwealth covenants not to divert or reduce receipts. Total outstanding debt equals $574.8 million and the current debt service coverage is 3.19x.

New York State Thruway Authority (Highway and Bridge Trust Fund Bonds) – Cooperative Agreement Payments made by the State to the Authority from funds in the Dedicated Highway and Bridge Trust Fund. The Fund comprises the Petroleum Business Tax, Motor Fuel Tax, Highway Use Tax and Motor Vehicle Registration Fees. Total outstanding debt equals $5.5 billion and the current debt service coverage is 3.19x. Annual debt service ranges from a low of $43 million to a high of $722 million.

Rhode Island (Gas Tax Bonds) -- Under the State's Motor Fuel Tax Act, 2¢ of the 30¢-per-gallon Motor Fuel Tax are pledged for bond debt service of motor fuel tax revenue bonds. These bonds are issued through the Rhode Island Economic Development Corporation, as a conduit borrower for the DOT and represent the State's match of the GARVEE program. Total issuance is expected to be $42.8 million with annual debt service of between $3 and $5 million, representing approximately 7% of the annual motor fuel tax revenue.

Maine by Comparison

Similar to other States, Maine relies on multiple sources to meet the demands of funding highway-related needs: These include 1) pay-as-you go funding from the State's General Fund (which includes state motor fuel taxes), 2) issuing General Obligation Bonds for its Highway Program, 3) issuing GARVEE bonds for specific project needs, and 4) relying on the Maine Turnpike Authority for over 109 miles of operations, maintenance, preservation and major highway funding requirements.

General Obligation Bonds

Maine's "5% Rule" on GO Bonds: The State issues General Obligation Bonds within the framework of a 5% Rule, which has been in place since 1999 and says that no more than 5% of annual general fund revenues may be allocated to GO debt service payments. The "rule" of a 5% standard is a policy measure not a constitutional mandated threshold. State bonding can expand to any amount agreed upon by 2/3 of both House and Senate and approved by the Governor and the voters. For many years Maine bonded under a 7% rule and later under a "90% rule" which allowed no more than 90% of retiring debt to be rolled over to new bonds.

GARVEEs

Background: In the 2004 Session, the Maine Legislature approved GARVEE bonds as a new tool to fund certain elements of the state's transportation program. Maine joined 19 other States that have implemented GARVEEs with a collective bond issuance of over $9.7 billion in par amount to fund transportation needs. Below we provide a list, ranked by largest GARVEE issuer, of the states that have issued GARVEEs since 1998. Noted below are the new GARVEE States of Idaho, Maryland and North Carolina who expect to issue over $1billion collectively of GARVEE bonds in 2006.

GARVEE Issuer	Par issued in $millions
Massachusetts	$1,907.34
Colorado	1,739.19
New Jersey (Transit)	1,336.25
Virginia	898.32
California	614.85
Michigan	600.00
Arkansas	575.00
Maryland (2006)	400.00
North Carolina (2006)	400.00
Idaho (2006)	350.00
Arizona	338.77
Ohio	305.00
Rhode Island	216.81
Alabama	200.00
Mississippi	200.00
Puerto Rico	139.87
Kentucky	139.64
Montana	122.80
New Mexico	118.77
Alaska	102.81
Oklahoma	96.46
Maine	48.40
US Virgin Islands	20.85

Expanding Maine's GARVEE program?

Evidenced above, Maine's GARVEE program is quite modest in size versus other states that have implemented similar programs. Any expansion of the State's GARVEE program would allow for incremental funding capacity for transportation projects. And while the issuance of new GARVEE bonds would of course mean taking on additional debt, the cost of the new debt would have to be measured against the State's ability to help close a current transportation funding gap by delivering projects over the near term. The alternative otherwise is for projects to be delayed, downsized, or re-programmed with the State's Transportation Improvement Plan. Delay would translate into higher overall costs given the current high inflationary impact of steel, concrete, and other construction materials. In evaluating the expanded use of GARVEEs, the State should consider 1) minimizing the impact of additional debt on the cash-funding of projects in the current STIP, and 2) better matching the term of the debt with the generally long useful lives of the projects that can be funded with GARVEEs.

Maine's GARVEE bonds are secured solely by the future receipt of federal transportation funds and do not have any backstop security of other State revenue sources or the full faith and credit of the State. The GARVEEs were legislatively approved *only* to fund portions of the Waldo-Hancock Bridge, with a bonding amount of GARVEEs not to exceed $50 million. Unlike other states, this authorizing statute is limiting as does not allow future GARVEEs to be issued without future approval of the Legislature. Other states chose to either approve GARVEEs for a basket of projects, a broader program, and/or a not-to-exceed par amount that ranged from several hundred million to over a billion dollar in bonding capacity. While not legislatively mandated, Maine also chose to restrict the final maturity of the 2004 GARVEE bonds to 2015, representing an 11-year term of the debt. However, such a short-term debt repayment cycle seems inconsistent with a capital asset that has a useful life of 50 years. This was a ratings based decision, since states that issue beyond 12-year GARVEEs typically fall below AA-category ratings which was a structuring goal of the State.

Adding additional debt service to a relatively short final maturity structure would keep within the ratings parameters of the current AA ratings, but would otherwise cannibalize monies programmed for pay-as-you-go needs. To relieve this added debt burden, the State could issue a subordinate tranche of GARVEEs that extended 15 to 25 years. While these bonds would carry a lower rating (likely in the low A-category), annual debt service would be reduced, thereby allowing for greater near-term PAYGO funding. The table below highlights the annual debt service costs for an assumed $100 million transaction assuming a 15, 20, 25 and 30 year final maturity.

	15-Year Final Maturity	20-Year Final Maturity	25-Year Final Maturity	30-Year Final Maturity
Annual Debt Service	$10.6 million	$8.5 million	$7.4 million	$6.7 million

Federal Funding Levels: In August 2005, SAFETEA-LU, the new federal reauthorization of the Surface Transportation Program, was approved and funding levels were authorized through 2009. Maine is expected receive a 30% increase in overall federal transportation dollars (vs. TEA-21), with an average annual apportionment of $190 million ($980 million over 5 years). Of this amount, approximately $199 million is allocated to the High Priority Project Program ("earmarks").

While the State's total apportionment is the full $980 million, historically, States have received 88 percent of the total funding level. Therefore, for planning purposes, it is assumed that the State will in fact receive $862 million, $175 million of which will be used for "earmarks." This would leave approximately $687 million of unencumbered federal funds to be used by the State. Thus, the net effect of Maine having the highest "earmarking" levels of any State, is a reduction in the amount of flexibility and absolute federal dollars to spend on other State transportation projects. Herein lies a significant part of the current cashflow problem that we are attempting to correct at the State level.

While these increased dollars will be programmed for use within the State's STIP, they also represent an increased source of bonding capacity for GARVEEs. As the pledged revenue source for the GARVEE bonds, the increased federal highway funds serve to strengthen the underlying GARVEE credit and add to overall debt capacity, notwithstanding the need for future State legislative approval.

Structuring Issues and Impacts: As mentioned earlier, when considering future GARVEEs, any State should evaluate debt structuring goals to balance the impact of additional debt loading versus programmatic funding requirements of the STIP. Also, the State will again be required to match the non-federal portion of any new bond-funded projects. This State Match can be satisfied upfront or over time as an annual state match to debt service.

Below, we address the financial impact of issuing a hypothetical $100 million in new GARVEE bonds. To dampen the near-term impact of this new debt service, we assume the term of the new bonds is extended to 15-years (from the current 11 years), which lowers annual debt service requirements. Further, principal retirement is assumed to be deferred at least two years to again address any concerns of already obligated near-term federal dollars. The use of capitalized interest can also be helpful in smoothing any additional programmatic restrictions. In the table below we gauge the impact of adding an additional $100 million of new GARVEE bonds, as it would affect debt service and monies otherwise available for pay-as-you funding for DOT's highway program. As you can see, with the combination of increased federal funds and a longer debt structure, the State can fund $100 million of new bonds and still project significant federal funds available for PAYGO funding.

	Assuming TEA-21 Funding Levels	2004 Bonds' Debt Service	Federal Funds after Debt Service	Assuming SAFETEA-LU Funding Levels (1)	2004 Bonds & Hypothetical 2006 Bonds' ($100 mm) Debt Service	Federal Funds after Debt Service
2007	$150,000	$5,585	$144,415	$190,000	$10,600	$179,400
2008	150,000	5,585	144,415	190,000	10,600	179,400
2009	150,000	5,585	144,415	190,000	16,230	173,770
2010	150,000	5,585	144,415	190,000	16,230	173,770
2011	150,000	5,585	144,415	190,000	16,230	173,770
2012	150,000	5,585	144,415	190,000	16,230	173,770
2013	150,000	5,585	144,415	190,000	16,230	173,770
2014	150,000	5,585	144,415	190,000	16,230	173,770
2015	150,000	5,585	144,415	190,000	16,230	173,770
2016				190,000	10,645	179,355
2017				190,000	10,645	179,355
2018				190,000	10,645	179,355
2019				190,000	10,645	179,355
2020				190,000	10,645	179,355
2021				190,000	10,645	179,355

(1) Preliminary and based upon average annual apportionment before earmarking. No based upon historical receipts, which are 88 percent of total.

Comparative Statistics

Gas Taxes: For comparative purposes, the following table details the per gallon motor fuel taxes for New England and Northeast states. It shows that Maine is one of the higher states on a relative basis to neighboring states and high versus the national average of 20 cents per gallon. As noted, Maine is unique versus most other States, having its gas tax pegged to an inflation index (CPI) that adjusts annually.

State	Gasoline Tax (cents per gallon)
Rhode Island	31.0
Maine*	25.2
Connecticut	25.0
New York	23.2
Massachusetts	21.0
Vermont	20.0
New Hampshire	19.5

*** Maine is the only state with a gas tax pegged to a specific inflation index that is adjusted annually. Other states have variable tax rates adjusted quarterly (KY, NE) or annually (FL, IA, NY, PA, WV, WI)***

Debt Medians: Another measurement to consider is how Maine is positioned compared to other states as it concerns overall state debt load. In May 2005, Moody's published its "2005 State Debt Medians" which is an annual analysis of state debt medians, based on two measures of state debt burden: 1) debt per capita and 2) debt as a percentage of personal income. Each median is based on the analysis of municipal obligations issued by each state and supported by the tax base, and are the debt burden measures most commonly used by municipal analysts. It should be noted that debt burden is one of numerous factors that Moody's uses in determining a State's credit quality and bond rating. In the table below, we have excerpted various statistics and rankings from the Moody's report for comparative review:

State	ME	VT	NH	MA	CT	RI	NY
Moody's Rating	Aa2	Aa1	Aa2	Aa2	Aa3	Aa3	A1
Net Tax-Supported Debt Per Capita	$634	$716	$457	$3,372	$3,614	$1,373	$2,593
Rank (#)	30	25	37	2	1	10	5
Net Tax-Supported as % of Personal Income	2.2%	2.3%	1.3%	8.5%	8.5%	4.3%	7.2%
Rank (#)	30	27	39	2	3	15	5
Total Net Tax Supported Debt ($ millions)	$835	$445	$594	$21,638	$12,662	$1,485	$49,864
Rank (#)	40	43	42	5	7	35	2

Conclusion

The State of Maine has been conservative in its borrowing for transportation-related projects having issued very little debt and keeping the final maturity of this debt relatively short in nature. Moreover, the transportation-related debt that has been issued to date has been done on General Obligation basis, with the exception of the GARVEE bonds issued in 2004, which were issued through a conduit or third party issuer (Maine Municipal Bond Bank). The statutory limits placed on the State with regard to debt issuance and the lower annual debt service costs incurred from a longer final maturity seem to indicate that the issuance of bonds through a conduit issuer may be appropriate for the State to consider.

APPENDIX D

MAINE BONDING CAPACITY CHARTS

State/Non-Federal Revenue Bonding Capacity

Assumption: 5 % Interest

Annual Dedicated Revenue Stream (M = Millions)

	$2M	$4M	$6M	$8M	$10M
Bond Term					
10 years	$15M	$31M	$46M	$62M	$77M
15 years	$21M	$42M	$62M	$83M	$104M
20 years	$25M	$50M	$75M	$100M	$125M

GARVEE FINANCING CAPACITY

To Remain ≤ 10% Federal Debt to Revenue Ratio

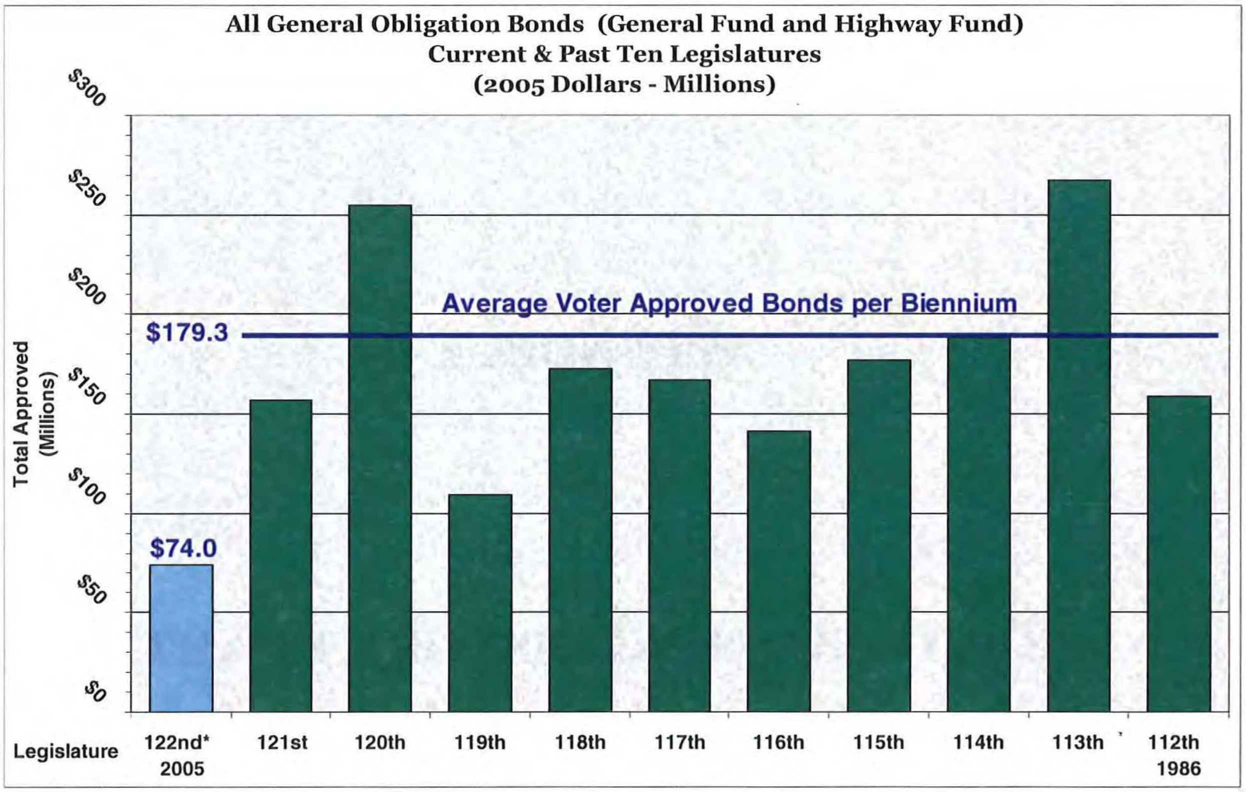
Assumptions: 5% Interest
3% Annual Growth of Federal Funds

Bond Term	**One-Time Issuance 2007**	**Per-Biennium Issuances**	**One-time & Biennial Issuances**
10 years	$87 M	$35 M	$70 M one-time & $20 M on-going
15 years	$110 M	$45 M	$70 M one-time & $35 M on-going
20 years	$130 M	$54 M	$70 M one-time & $45 M on-going

APPENDIX E

STATE BONDING HISTORY CHART

STATE BONDING HISTORY



Legislature	Total Enacted by Legislature	Total Enacted Adjusted for Inflation**	Total Approved by Voter	Total Approved Adjusted for Inflation**
122nd*	$83.0	$83.0	$74.0	$74.0
121st	$149.4	$157.0	$149.4	$156.9
120th	$259.3	$276.8	$238.7	$254.8
119th	$98.3	$109.2	$98.3	$109.2
118th	$175.8	$203.7	$148.8	$172.4
117th	$137.3	$166.7	$137.3	$166.7
116th	$147.0	$187.7	$110.7	$141.3
115th	$207.2	$280.6	$130.7	$177.0
114th	$205.9	$306.2	$126.6	$188.3
113th	$181.9	$295.2	$164.8	$267.4
112th	$110.2	$188.8	$92.8	$158.9
Average:	**$167.2**	**$217.2**	**$139.8**	**$179.3**

* To Date - Not Included in Averages

** CPI Inflation through 2005

As shown above, Maine voters have approved an average of $179 million in bonds per biennium, adjusted for inflation to 2005 dollars.

APPENDIX F

DRAFT GARVEE LANGUAGE

DRAFT GARVEE LANGUAGE

One-time issuance of $40 million

Existing Bridges and Major Roads Only
Up to 20 year bond terms

An Act to Allow More Rebuilding of Bridges and Major Roads By Authorizing Limited and Prudent GARVEE Financing

Be it enacted by the People of the State of Maine as follows:

Sec. 1. Definitions. As used in this Act, unless the context otherwise indicates, the following terms have the following meanings.

1. Bank. "Bank" means the Maine Municipal Bond Bank.

2. GARVEE. "GARVEE" means grant anticipation revenue vehicle debt financing.

3. Qualified transportation projects. "Qualified transportation projects" mean projects to reconstruct, rehabilitate, and/or replace existing bridges and existing arterial and major collector highways that meet eligibility requirements of the Federal Highway Administration. "Qualified transportation projects" do not include projects that predominately consist of a new highway and/or a new bridge on a new location, unless approved by the Legislature.

4. Revenues. "Revenues" means, in the case of bonds or notes issued by the bank to finance the qualified transportation projects, payments of funds derived from the Federal Highway Administration and other investments, gifts, grants, contributions, appropriations, income and any other amounts pledged to secure payment of such bonds or notes.

Sec. 2. Qualified transportation projects costs. Costs of the qualified transportation projects include, without limitation, costs related to:

A. The purchase price or acquisition of any property or interests in those properties or other rights necessary or convenient for such projects;
B. The study, permitting and engineering of any such projects, including the preparation of plans and specifications, surveys and estimates of cost;
C. Construction, reconstruction, paving, repaving, building, alteration, repair, restoration, environmental review or remediation, enlargement or other improvement, including all labor, materials, machinery, fixtures and equipment, including rolling stock or vehicles;
D. Engineering, architectural, legal and other professional services;
E. Reserves, insurance, letters of credit or other financial guarantees for payment of future debt service on bonds or notes; and
F. All other costs or expenses necessary or convenient to such projects, including the financing or refinancing of the projects.

Sec. 3. GARVEE financing authorized. Notwithstanding any other provision of law, upon certification, the bank shall issue from time to time up to **forty million dollars ($40,000,000.00)** of GARVEE bonds to be repaid solely from annual federal transportation appropriations for funding for qualified transportation projects.

The bank shall issue GARVEE bonds from time to time pursuant to a resolution to be adopted by the bank. The GARVEE bonds issued must be secured pursuant to a pledge and certificate issued by the Department of Transportation and approved by the State Budget Officer. The pledge and certificate must contain provisions that dedicate and pledge receipt of future federal transportation funds to secure the payment of the GARVEE bonds, including principal, interest and issuance costs. The terms of the GARVEE bonds, their repayment schedule and other provisions to facilitate their creditworthiness are determined by the bank in consultation with the Department of Transportation and the State Budget Officer. The pledge and certificate are a part of the contract with the holders of the GARVEE bonds to be authorized.

The GARVEE bonds must be in the form, bear the date or dates, mature at the time or times and have such other terms as determined by the bank and approved by the Department of Transportation and the State Budget Officer, except that a GARVEE bond may not mature more than **20 years** from the date of its issue.

GARVEE bonds issued under the provisions of this Act do not constitute a debt or liability of the State or of any political subdivision of the State, or a pledge of the full faith and credit of the State or of any political subdivision of the State, but are payable solely from the funds and revenues pledged for that purpose.

The proceeds from the sale of the GARVEE bonds are to be deposited into the appropriate highway fund capital account or other appropriate dedicated revenue account.

Sec. 4. Maine Municipal Bond Bank provisions. The bank has all the powers and duties provided by the Maine Revised Statutes, Title 30-A, chapter 225, modified and supplemented as provided in this section for the purposes set forth in this section. All words, terms and phrases have the same meaning as provided in Title 30-A, chapter 225, except as modified and supplemented in this section for the purposes set forth in this section.

1. Lending and borrowing powers. The bank may assist the State by borrowing money to finance or refinance from time to time all or a portion of the costs of the qualified transportation projects and make the proceeds of such borrowing available to the Department of Transportation at terms agreed upon by the bank, the State Budget Officer and the Department of Transportation. The principal of and interest on any bonds or notes issued by the bank to finance or refinance the qualified transportation projects must be secured by a pledge of funds paid by the Federal Highway Administration and any matching funds of the State as necessary and legally available that are allocated for such purpose on an annual basis by the Department of Transportation in its sole discretion and may further be secured by a pledge of any rights, grants, reserves, contracts, agreements or other revenues or property as may be determined by resolution of the bank. Bonds, notes, leases, agreements or other forms of debt or liability entered into or issued by the bank under this section are not in any way a debt or liability of the State and do not constitute a loan of the credit of the State or create any debt or liability on behalf of the State or constitute a pledge of the faith and credit of the State. Each bond, note, lease, agreement or other evidence of debt or liability entered into by the bank must contain a statement to the effect that the bank is obligated to pay the principal, interest, redemption premium, if any, and other amounts payable solely from the sources pledged for that purpose by the bank and that neither the faith and credit nor the taxing power of the State is pledged to the payment of the principal, interest, premium, charge, fee or other amount on the bond, note, lease, agreement or other form of indebtedness.

2. Powers with respect to qualified transportation projects. In addition to all other powers elsewhere granted to the bank, the bank may, with respect to the qualified transportation projects:

A. Acquire title to, or an interest in, the qualified transportation projects;
B. Make and execute contracts and all other instruments, including any amendments or modifications to the extent permitted under its contract with holders of its bonds or notes, with the State, the Federal Highway Administration or any other legal entity in furtherance of the purposes of this Act; and
C. Lease the qualified transportation projects to the State or any agency, political subdivision, instrumentality or department of the State to further the purposes of this Act, as long as the obligation of the State or of any such agency, political subdivision, instrumentality or department to make any rental or other payments are considered executory only to the extent of funds paid by the United States Department of Transportation and any matching funds of the State as necessary and legally available that are allocated for such purpose on an annual basis by the Department of Transportation in its sole discretion, as long as the liability on account of the State or any such agency, political subdivision, instrumentality or department is not incurred by the State or any such agency, political subdivision, instrumentality or department beyond the money available for that purpose.

3. Pledge of federal highway funds. The Department of Transportation is authorized to transfer, assign or pledge any or all of the funds paid to it, directly or indirectly, by the Federal Highway Administration with respect to the qualified transportation projects, together with any matching funds of the State as necessary and legally available that are allocated for such purpose on an annual basis by the Department of Transportation in its sole discretion. Any such pledge does not constitute a debt or liability on behalf of the State or of any political subdivision of the State or a loan of the credit of the State or of any political subdivision of the State or a pledge of the faith and credit of the State or of any political subdivision of the State. A decision by the Department of Transportation not to allocate such federal transportation funds or state matching funds as necessary and legally available in any given fiscal year for the payment of such bonds or notes or related costs and expenses may not be construed to constitute an action impairing any contract entered into by the bank under this Act.

4. Contracts are subject to continuing federal appropriations of federal transportation funds. Every contract relating to the issuance of bonds or notes to finance all or a part of the costs of the qualified transportation projects must provide that all financial obligations of the State or of any agency, political subdivision, instrumentality or department of the State in regard to the portion of the principal of and interest on such bonds or notes and the related costs and expenses that may be paid from federal transportation funds pursuant to federal law and any agreement between the Federal Highway Administration or any agency of the Federal Highway Administration and the Department of Transportation that is or is to be the initial recipient of such federal transportation funds are subject to continuing federal appropriations of federal transportation funds at a level equal to or greater than the amount needed to pay the federal share of principal, interest and costs and expenses on such bonds or notes.

5. State agency powers. Each agency, instrumentality, department or other political subdivision of the State, for the purpose of aiding and cooperating in the financing, construction, operation or maintenance of the qualified transportation projects, has the power:

A. To sell, lease, loan, donate, grant, convey, pledge, assign or otherwise transfer to the bank any real or personal property or interests in any real or personal property; and
B. To enter into agreements, including loan and pledge agreements, with any person for the joint financing, construction, operation or maintenance of the qualified transportation projects and to agree to make payments, without limitation as to amount except as set forth in the agreement, from revenues received in one or more fiscal years by the Department of Transportation or any person to defray the costs of the financing, construction, operation or maintenance of the qualified transportation projects.

To assist in the financing, construction, operation or maintenance of the qualified transportation project, any governmental unit or political subdivision may, by contract, pledge, assign or otherwise transfer to the Department of Transportation or otherwise as directed by the bank all or a portion of federal transportation funds paid to the governmental unit or political subdivision or the revenues from any other legally available source.

6. Corporate powers. In addition to all other powers granted to the bank, for the purpose of carrying out this Act, the bank may:

A. Make, enter into and enforce all contracts or agreements necessary, convenient or desirable for the purposes of financing or refinancing the qualified federal transportation projects;
B. Invest any funds or money of the bank not then required for funding costs of the qualified transportation project in the same manner as permitted for the investment of funds belonging to the State or held by the Treasurer of State, except as otherwise permitted or provided by this Act; and
C. Fix and prescribe any form of application or procedure to be required of the State or of any agency, political subdivision, instrumentality or department of the State with respect to the qualified transportation projects and fix the terms and conditions of the qualified transportation projects and may enter into agreements with the State or any agency, political subdivision, instrumentality or department of the State or of any political subdivision of the State in connection with the qualified transportation projects.

7. Exception to prohibited acts and limitation of powers. Notwithstanding the provisions of the Maine Revised Statutes, Title 30-A, section 5958, the bank may make loans to the State or any agency, political subdivision, instrumentality or department of the State in connection with the financing of the qualified transportation projects.

8. Bonds and notes of bank. Notwithstanding the provisions of the Maine Revised Statutes, Title 30-A, section 6003, the bank may issue its bonds from time to time in any principal amounts that it considers necessary to provide funds for any of the purposes authorized by this Act, including the financing or refinancing of all or a portion of the costs of the qualified transportation projects.

9. Receipt of federal appropriation money. The Treasurer of State may receive from the Federal Government any amount of money as appropriated, allocated, granted, turned over or in any way provided for the purposes of this Act. In connection with the financing of the qualified transportation projects, these amounts must be credited to and deposited in the Highway Fund and are available to the bank.

10. Agreements with financial institutions. Notwithstanding the provisions of the Maine Revised Statutes, Title 30-A, section 6019, the bank may enter into any agreements or contracts with any commercial banks, trust companies or banking or other financial institutions within or outside the State that are necessary, desirable or convenient in the opinion of the bank to provide any other services to the bank to assist the bank in effectuating the purposes of this Act.

11. Remedies of holders of bonds and notes. In addition to all other rights or remedies set forth in the Maine Revised Statutes, Title 30-A, section 6023, subsection 2, the trustee as appointed pursuant to that section may, and upon written request of the holders of 25% in principal amount of all bonds then outstanding that have been issued to finance or refinance all or a portion of the costs of the qualified transportation projects shall, in the trustee's or the bank's own name, by mandamus or other suit, action or proceeding at law or in equity, enforce all rights of such bondholders, including the right to require the bank to collect payments and other amounts and to collect interest and amortization payments under agreements payable to the bank and pledged to payment of such bonds, adequate to carry out any agreement as to, or pledge of, those payments and other amounts and of such interest and amortization payments and to require the bank to carry out any other agreements with the bondholders and to perform its duties under this Act.

Sec. 5. Appropriations and allocations. Allocations will be created by Financial Orders.

APPENDIX G

FUNDING RECOMMENDATIONS CHART

1/30/2006

GOVERNOR'S CAPITAL TRANSPORTATION FUNDING WORKING GROUP
A PROPOSED SOLUTION TO THE IMMEDIATE CHALLENGE

All dollar figures are in $ Millions

CHALLENGE		
Projects Deferred in Fall 2005 Due to Inflation & Federal Cash Flow		$130.0
LESS: Projects Undeliverable by 06/30/07		($30.0)
LESS: Engineered savings (process, contracting, design)		($10.0)
IMMEDIATE NEED:		**$90.0**
SOLUTION		
CASH		
Highway Fund (MaineDOT Personal Services and other + Revenue Reprojections)	$15.0	
General Fund	$15.0	
Cash Subtotal:	$30.0	**$30.0**
BONDING		
GARVEE (Federal Revenue Bond)		
One-time Issuance	$40.0	
Other (Descending Order of Preference)	$20.0	
State General Obligation Bond		
State Revenue Bond		
Additional GARVEE		
Bonding Subtotal:	$60.0	**$60.0**
TOTAL – IMMEDIATE SOLUTION:		**$90.0**

APPENDIX H

DETAILED OUTLINE OF "TRANSPORTATION 2025"

Transportation 2025

"Fueling this Economic Engine"

Introduction

Governor John E. Baldacci and the Maine Legislature's Transportation Committee have called upon the Maine Department of Transportation (MaineDOT) and the Maine Turnpike Authority (MTA) to lead a discussion in our state about the future of transportation in Maine. It is well known within the transportation community that reliance on fuel taxes as the primary source of funding, at both state and federal levels, is not sustainable into the future.

In order to maximize current resources, the Governor is encouraging a review of how we conduct the business of managing, maintaining, and constructing our transportation system. The Governor and the Maine Legislature will require a demonstration of commitment, from transportation agencies at all levels of government and the quasi-governmental sector, to manage our systems effectively and efficiently before new or expanded resources are even considered. In short, we must investigate strategies to maximize the investment of taxpayer resources in Maine's transportation system, and to do so in a fiscally prudent and sustainable manner.

An analysis of alternative revenue sources and innovative financing techniques that do not rely solely on motor-fuel taxes should also be conducted at the state and federal levels. Transportation investment is a long-term endeavor, and *Transportation 2025* is an initiative designed to develop strategies and concepts with which we can assess the needs and challenges facing transportation over the next 20 years.

Statement of Objective

The objectives of this project are to educate policy makers and the public on transportation needs, to discuss the sustainability of current resources to meet those needs, and to define the challenges and opportunities facing the State of Maine and our communities over the next 20 years. There exists a looming transportation infrastructure deficit resulting from the combination of aging transportation assets, the unsustainability of the motor-fuel tax, (our primary revenue source at both the state and federal levels), and significant growing demands on the transportation system.

There will be two distinct elements to this effort:

I. Planning, Management, and Maintenance of Transportation Systems and Assets

MaineDOT will partner with the MTA to develop a scope and strategy for addressing the infrastructure deficit. The scope will be shared with local and regional agencies, including Regional Planning Organizations (RPOs) and Metropolitan Planning Organizations (MPOs).

MaineDOT and the MTA will evaluate opportunities in the following areas:

- Collaboration on highway and bridge infrastructure projects
  - Short-term (two to five years)
  - Long-term (six to twenty years)
- Joint Strategic Plan on Alternative Modes
- Funding alternatives
- Operational efficiencies / joint facilities
- Local partnering opportunities

II. Policy Development relating to transportation financing and needs

This element of the process is designed to engage policymakers from the federal, state and local levels in a long-range policy analysis and development effort. Initial public discussion will center on the concepts we have developed or models obtained from around the country. The following is a process and schedule outline:

December 2004 - Annual Transportation Conference

The Annual Transportation Conference theme will highlight policy sessions intended to stimulate discussion about concepts that can be further refined over the next year. The conference will kick off a year-long process aimed at raising awareness of funding challenges, as well as possible short- and long-term solutions. The key objective of this program will be to highlight the impact of transportation on economic prosperity and the looming infrastructure deficit.

Fall 2005 - Regional Transportation Forums (RTFs)

A series of six regional forums will be conducted, each focusing on a different aspect of transportation, as well as on certain central themes. Local press, interested citizens, business leaders, and policy-makers will receive comprehensive briefings on the transportation system and funding issues as part of each conference. These forums will promote a higher level of public understanding regarding transportation needs, and funding challenges and limitations.

The Regional Transportation Forums will be conducted during the fall of 2005, and will be jointly hosted by MaineDOT, the Maine Turnpike Authority, and nine Regional Planning Organizations (RPOs). The RPOs include:

- **Androscoggin Valley Council of Governments** - Androscoggin, Oxford, and Franklin Counties
- **Eastern Maine Development Corporation** and **Hancock County Planning Commission** - Penobscot, Piscataquis, Hancock, and Washington Counties
- **Greater Portland Council of Governments** and **Southern Maine Regional Planning Commission** - Cumberland and York Counties
- **Kennebec Valley Council of Governments** - Kennebec and Somerset Counties

- **Mid-Coast Regional Planning Commission & Mid-Coast Council for Business Development & Planning** - Waldo, Knox, Lincoln, and Sagadahoc Counties
- **Northern Maine Development Corporation** - Aroostook County

Regional Needs Assessments

MaineDOT's Public Involvement Process for Long-Range Planning

Replacing RTACs with a more comprehensive approach

Over the past several months, MaineDOT's Bureau of Planning has been working to improve the public involvement process for long-range planning. After surveying Regional Transportation Advisory Committee (RTAC) members, meeting with several outside organizations, and brainstorming a variety of options, a new process was introduced this fall. The guiding principals that have shaped the new process include:

- The principles of the Sensible Transportation Policy Act;
- Governor Baldacci's goals of regionalism; and
- Coordination of economic development, land use, and transportation strategic-planning efforts.

These principles have led to a process that will be organized by Maine's Economic Development Districts and Regional Planning Organizations with the guidance of MaineDOT's Bureau of Planning.

Each Economic Development District has been asked to design a more inclusive public outreach strategy for its Region that will replace the Regional Transportation Advisory Committee. These outreach strategies include surveys, public forums, face-to-face interviews, and steering committees. Past RTAC members have been invited to participate in this public involvement process by sitting on steering committees and/or participating in public forums. Transportation 2025 will provide forums which the RPOs can use to meet these objectives.

Economic Development Districts are now conducting and analyzing community, census, and transportation research. Over the coming months they will be providing opportunities for input from the general public, representatives of municipalities, transportation and environmental professionals, and a diversity of other stakeholder groups. All of this will culminate in the production of Regional Needs Assessments (RNAs) that will then be integrated into a single statewide document. These assessments will examine demographic, economic, and land-use trends across identified transportation corridors and make recommendations for improvements.

The recommendations will be policy- and priority-based, and will not deal with specific transportation projects. Because of the effort to integrate transportation planning with land-use and community development, recommendations may also address those issues.

Regional Needs Assessments – A Summary

A. *Purpose, Use, and Schedule*

Purpose:

- Expand public involvement efforts into the long range planning process
- Identify transportation and corresponding land-use planning and economic development issues, and opportunities to maximize limited resources and make sensible investments at the local, regional, and state levels
- Identify and prioritize regional transportation corridors and transportation needs
- Consider modal opportunities
- Identify opportunities for leveraging additional financial resources
- Integrate information into Comprehensive Economic Development Strategies (CEDS)
- Identify intra-regional priorities

How Used:

- RNA recommendations will be integrated into the Long-Range Planning (LRP) process
- RNA's will support local and regional economic development and transportation initiatives

Schedule:

- RNAs ongoing; anticipated completion April/ May 2005, and once every five years thereafter

B. *Defining the Infrastructure Deficit*

- Identify and quantify transportation needs between now and 2025
  - This will include data on conditions of transportation system, usage, etc. for all transportation modes. This must be done in a way that will roll into the LRP.
  - These analyses will need to take into account existing and future needs for transportation projects that add capacity for all transportation modes.

- Identify anticipated future funding based on traditional revenue sources:
  - Motor-Fuels Tax (Indexed to CPI)
  - Bonding
  - Federal reauthorization and earmarks
  - State appropriations
  - Tolls

- Based on anticipated needs/ projected revenues, quantify the overall infrastructure deficit, by mode, with specific information related to new-capacity projects

C. *Identify mechanisms to meet funding gap; quantify implications of not meeting the gap*

- Research potential new funding sources to address the difference between identified/ projected needs and projected revenues to include tolling, public/ private partnership opportunities, revised cost-sharing policies, etc.
- Based on aforementioned transportation needs and anticipated funding levels, prepare an assessment of what ***not*** meeting the gap would mean for Maine's:
    - Economy
    - Environment
    - Quality of life
    - Legacy regarding the transportation funding gap – costs of doing things later versus now, such as right-of-way increases, etc.
    - System performance levels
    - Costs of deferred actions
    - Performance

D. *Communicating the Infrastructure Deficit*

- Develop LRP draft sections based on A, B, and C above
- Regional Transportation Forums; these should precede the LRP and include meaningful public input
    - RPOs will arrange venue, advertise, and assure transportation stakeholders attendance
    - Facilitate, document, and analyze forums, including preparation of reports with executive summaries
    - Anticipated Agenda Items:
        - Education; needs v. resources; infrastructure deficit
        - Explanation of Regional Needs Assessments
        - Long-range plan purpose

E. Draft Long-Range Plan

- The long-range plan document should include a concise synopsis of the following:
    - Transportation goals and strategic plan
    - Anticipated transportation needs
    - Projected transportation revenues
    - Strategy to meet gap between needs and revenues
    - Applicable sections of RNAs
    - State and federal requirements

- LRP Schedule
    - Kick off December 2004
    - Needs Assessments Due April/May 2005
    - Regional Transportation Policy Forums: Fall 2005
    - Report to the Governor and the Transportation Committee - January 2006

APPENDIX I

WORKING GROUP MISSION

Governor's Capital Transportation Funding

Working Group

Mission

The Governor's charge is to prepare a report to him and the Transportation Committee by January 2006 containing recommendations that will restore as many of the projects deferred in November 2005 from MaineDOT's FY 2006-2007 Bi-Ennial Capital Work Plan, that the Working Group considers necessary and prudent to support the state's transportation system and economic growth. The Governor has urged broad participation in this process.

Inaugural Membership

Senator Dennis Dennis Damon
Senator Christine Savage
Representative Boyd Marley
Representative Terrence McKenney
Dana Connors, Maine State Chamber of Commerce
David Cole, Commissioner MaineDOT
Kate Dufour, Maine Municipal Association
Maria Fuentes, Maine Better Transportation Association
Dale Hanington, Maine Motor Transport Association
Jeff Jordan, City of South Portland
Scott Leach, Lane Construction
Kate Reilly, State Planning Office
Alan Stearns, Office of the Governor
Paul Violette, Maine Turnpike Authority

Working Sub-Groups

Sub-Group on Impact Assessment:

This working group will develop analysis of the overall impact of the project deferrals on the transportation system, Maine's communities, and state and local economies. The full working group will receive this analysis as soon as it is finalized by the sub-group. A preliminary outline is attached and a more complete outline is being developed by MaineDOT and State Economist, Kate Reilly. The Sub-Group will then develop a final analysis which the Governor's Working Group can use as a resource.
Deputy Commissioner Greg Nadeau will facilitate this sub-group. Gregory.nadeau@maine.gov – 624-3004

Sub-group on Value Engineering:
This sub-group will work to stretch available capital transportation funding even further by working with construction industry, consulting engineering and municipal officials to analyze opportunities for greater capital program efficiency without jeopardizing safety, effectiveness or essential quality. Opportunities may include a review of specifications, work restrictions, and alternative treatments on projects such as paving and small bridges.
MaineDOT Deputy Commissioner Bruce Van Note will facilitate this sub-group.
bruce.vannote@maine.gov – 624-3009

Sub-Group on Funding Alternatives:

If, as a result of the analysis above, a determination is made by the full Working Group that new or alternative funding sources are needed, this sub-group will have available to the full working group recommendations on funding alternatives available and appropriate to meet the level of need identified.
Contact: Deputy Commissioner Greg Nadeau
Gregory.nadeau@maine.gov – 624-3004

APPENDIX J

SYNOPSIS OF WRITTEN COMMENTS RECEIVED BY MaineDOT

From Written Comments Received by MaineDOT Concerning Deferral of $130 Million in Transportation Projects

In an effort to help assess the scope of impacts in individual communities, and corridors resulting from the $130 million deferrals, MaineDOT has compiled these excerpts from letters received from town officials, elected officials, business representatives, and others. The excerpts are representative of, but do not include, all of the comments received. Each is attributed to an individual or group, and identifies the route(s) to which the comments apply:

"...This project was already deferred in 2001 for four years and was reinstated in 2004 after public process. ...This deferment has impacts not only on the 16,000 plus vehicle trips per day and the safety of the public, but it also impacts $56 million of economic development in the immediate future and up to $75 million long term. Currently, a four star hotel, a restaurant, and a Federal Credit Union are under construction. They all require highway alterations before occupancy can occur. ... Further, a car wash is pending construction and three other retail projects are currently before the Planning Board under site plan. This deferment further complicates the Town's position with economic development as a $2.3 million wastewater project is slated to be part of the highway reconstruction. ... This decision has further impacts on the 150 acre Thomaston Economic Tract placed under the Pine Tree Zone of which contacts have been made for a potential bio-diesel plant with 90 new jobs and a potential Canadian manufacturing facility with 100 new jobs. ...This decision to defer... the second time in five years, not only impacts highway safety in this area ... it also jeopardizes significantly the economic development. ... Clearly, to wait until 2008/2009 without assurances after two prior failures, is an unacceptable resolution for Thomaston's viability. ..."

Valmore Blastow, Town Manager, referring to Route 1 in Thomaston

"...Quite frankly... this road has gone from being an embarrassment to the state and town, to being a true public concern. ...This state highway is a major link to surrounding communities, most of whom contract with Houlton for fire and ambulance service. ... Our town school bus fleet is housed on this road, resulting in considerable bus traffic. ... This road carries a considerable volume of heavy truck traffic servicing industry, including the transportation of many hazardous chemicals. ... Since 2001 there have been forty seven (47) motor vehicle accidents on this road, with five (5) of them involving fatality. ... The Houlton residents voted to allocate $200,000 to the rebuild and we cannot utilize those funds for any other purpose. ..."

Douglas Hazlett, Houlton Town Manager; referring to Bangor Street in Houlton

"I am deeply concerned about the condition of Route 11 between the Towns of Naples and Casco. ...This section is highly traveled and in poor repair. ... Though many patches have been done; it is in great need of repaving. The quick fixes fail to last and uneven pavement and pot holes once again exist. These problems create driving hazards that are exacerbated by our ever changing winter weather. ..."

Richard M. Cebra, State Representative; referring to Route 11, Naples

"...the Freeport section has continued to deteriorate to the point that wheel ruts and poor shoulder drainage conditions are creating dangerous winter driving conditions. If the reconstruction is not performed in 2006 (or 2007 at the latest,) then safety considerations would require that significant sections of the road need to be shimmed and overlaid. This type of improvement would be a waste of financial resources, since it would last only a short time before the road deteriorated again. It would be a more efficient use of limited funds to rebuild the road soon, instead of doing overlay work and still having to rebuild the road in the near future. ..."

Albert Presgraves, Freeport Town Engineer; referring to Route 136 in Freeport

"Route 114 should seriously be considered for non deferral from the current work plan due to what people are telling me are the number of accidents and deaths due to the condition of this road. ..."

Derik Goodine, Naples Town Manager; referring to Route 114 in Naples

"...Route 109 has various problems that combine to make it a hazardous road to travel: rapidly increasing traffic volumes; poor lines of sight; awkward alignment of intersections; especially its intersections with Route 9A and Bragdon Road; and the serious deterioration of the road's surface and shoulders. Unfortunately, deferring this project will only aggravate and worsen these conditions. ..."

Wells Board of Selectman; referring to Route 109; Town of Wells

"...As you know, Route 23 is a major collector highway and considering the road's terrible condition, this decision to not improve it is unbelievable. Over the years, the letters have been written by Sidney selectman and residents requesting that the road be improved, but unfortunately, these have had minimal to no impact. This great concern has been shown because it is felt that Route 23's extremely deteriorated condition renders it unsafe to drive on. ..."

Tomas J. Fiola, D.D.S.; referring to Route 23; Town of Sidney

"...The road is in deplorable condition now; it's difficult to imagine what it will be like in the midst of the winter. Our showroom sales depend on happy tourists in the summer, not disgruntled folks who complain about the road. ...No one can safely walk or bike along our road. ...Transportation projects that are deferred surely will cost much more than they would have had they been completed in a timely manner. ..."

Trish and Steve Barnes; Business Owners in Tenants Harbor; referring to Route 131 in Tenants Harbor and Port Clyde

"...these two projects were scheduled for construction in the 2004-2005 BTIP. ...The two projects have already suffered one work plan deferral. ...the condition of the two State highways will not permit another deferral without sacrificing public safety. ...They should not be deferred at the expense of the projects recently added to the 2006-2007 work plan. ..."

Mark D. Johnson, Mayor; referring to Route 112 and Route 9; City of Saco

"...Route 15 serves a major gateway into the community for the Bangor and Downeast areas and also serves many commuters who travel to work in the Bangor area. ...This section of Route 15

is much in need of repair due to poor road surface condition and narrow shoulders. The deferment of the Route 15 project would cause the town to become even more backlogged in transportation projects vital to the area. ..." ***Dover-Foxcroft***

Jack J. Clukey, Dover-Foxcroft Town Manager; referring to Route 15 in Dover-Foxcroft

"...This would be a serious error in judgment. ...The economy of the Rangeley Lakes Region is totally dependant on safe, passable access. The limited infrastructure that currently exists is barely adequate given current growth. ...This area relies on tourism, and tourists need safe access. Economic growth in the Western Mountains of Maine has been a long time coming. Let us not stop it in its tracts. ..."

Tom McAllister, Saddleback, Maine; referring to Height of Land and Route 4

"...We believe that it is critically important to both the economy and of the State and the safety of the travelers that these two projects remain on the list to be completed. ...This projected increase in traffic is alarming given the physical condition of the two corridors. At this time, Route 4 north of Madrid and the Height of the land are in dire need of reconstruction. Due to alignment and drainage problems as well as the overall condition of the pavement, the accident rates on both of these sections are higher than average. Consequently, the safety of the workers commuting to Rangeley as well as the revenue –generating visitors and seasonal residents depends upon bringing these roads up to standards and eliminating the danger they represent. ..."

Rebecca Kurtz, Coordinator, Rangeley Lakes Scenic Byway; referring to Height of Land (Route 17) and Madrid (Route 4), Saddleback Mountain area

"...The roadway is clearly in need of investment as demonstrated by the departments previous funding on engineering and design that has been basically completed. The project was well received by residents in the area and there are few impediments, such as environmental impacts, to construction. It would seem that projects brought to this stage should be considered highest priority for construction funding. ... Also, the project serves an area of expanding residential population and elementary school traffic in the immediate area. The town is anxious to have a safer environment with the sidewalk portion of the project that has been planned. ..."

Anthony Hayes, Public Works Director; referring to Falmouth Road in Falmouth

"...It is the safety issue of this Appalachian Trail section that warrants our highest concern. Horror stories of a friend spending the night over the bank, logging trucks tipping over, numerous moose encounters, ambulance near-misses, and frequent winter slides are utmost in our thoughts. Now Poland Springs is saying they will have tanker trucks passing over Route 4 every seven minutes. Dozens of workers commute to Rangeley daily from lower Franklin County. ..."

Evelyn McAllister, Rangeley Lakes Chamber of Commerce; referring to Route 4 in Madrid

"...we have lived here 23 years and the road has never been in more deplorable and unsafe condition. ...It has been recently designated a National Scenic Byway which will significantly increase the heavy summer traffic to and from the Schoodic Peninsula. ..."

Charles F. Davis, South Gouldsboro; referring to Route 186 in Gouldsboro

"...this section of Route 186 is in the worst shape of any road on Schoodic Peninsula. ...The road is so rough that it cannot be plowed effectively during the winter months, thereby rendering it unsafe for vehicular traffic... this section of Route 186 has been designated as part of the National Scenic Byway. ...We believe that it is an embarrassment to the National Scenic By-Ways program. ..."

Selectman, Town of Gouldsboro; referring to Route 186 in West and South Gouldsboro

"...this is the worst road on the Schoodic Peninsula, yet the rebuild was canceled in favor of two road projects in neighboring Winter Harbor that are far less critical to the transportation needs of the entire Schoodic community, and are far less in need of repair. ... the key transportation artery on the peninsula..."

Brad Vassey, Gouldsboro Town Manager;
referring to Route 186 in South and West Gouldsboro

"...This road is the primary access point to Schoodic Peninsula, the Town of Winter Harbor, the villages of West and South Gouldsboro and the Schoodic Region of Acadia National Park. As part of the Schoodic Scenic By-Way, this road is heavily used by visitors during the tourist season. It is also used heavily year round by local residents who depend on it for transportation to work in Ellsworth and beyond. It is also the main road used by first responders and fire and police vehicles, as well as by school buses traveling to and from Summer High School. In short this section of Route 186 is probably the worst, and most heavily used, road in Schoodic Peninsula...."

Selectmen, Town of Gouldsboro; referring to Route 186; towns of South and West Gouldsboro

"...This road section needs immediate attention. The State of Maine can not possibly save enough money to justify the deferral of this project. As a town manager, I fully understand that there are not enough tax dollars to fix all problems. I also fully understand the importance of public safety. ... Deferring the planned projects on Route 114 does not make sense. For years, the road has been classified by MaineDOT as 6.72 miles of deficient highway, (project number 012792.00). If you had to travel this section of Highway or if you had a reason to walk this stretch, this project would not have been deferred. ...Since this project is a true matter of life and death, and poor planning and no action by the State frequently causes unnecessary property damage and excessive human pain and suffering within our municipality, I encourage you to reconsider your decision to defer these projects. ..."

David Hague, Sebago Town Manager; referring to
Route 114 that connects Standish with Naples

"...It is such a disappointment to hear, yet again, of the lack of funding to fix the portion of Route 2 from Route 11 East to Hermon. This stretch of road, at best, is dangerous. The ruts on the shoulders and into the roadway from the heavy loads that pass on the road can cause a car to be directed right into the ditch. ...Safety is greatly reduced, as well due to the inability of plows to plow the road surface effectively due to the ruts and potholes. Then there is the cost which is being absorbed by every driver who uses this route to maintain their suspension and wheel alignments. ..."

Evelyn A. Serval, Etna Town Manager; referring to Route 2 from Route 11 East to Hermon, Town of Etna

"...Over the last several years, the pavement has been breaking up, and the winter snow removal has caused more pavement to disappear. The road is in horrific condition. Drainage issues help with disappearance of pavement along the shoulders, causing the travel in some places to shrink such that cars are "sharing" the middle of the road in order to travel safely. ..."

John M. Falla, Tenants Harbor Town Manager; referring to Route 131 from Tenants Harbor to Port Clyde.

"...We have been patiently waiting for a decade for reconstruction of this road. Since the construction and opening of the Sabattus interchange, which we supported, there has been an increase in heavy traffic. As you know, this seven mile stretch of road is heavily traveled and in deplorable condition. ...On Route 9 there were 54 reportable crashes between 2000 and 2003 of which 5 were incapacitating injuries and 22 non- incapacitating injuries. The Route 196 stretch had 129 reportable crashes with 6 incapacitating injuries and 22 non- incapacitating injuries. ..."

Lisbon Board of Selectman; referring to Route 9; Town of Lisbon

"...I was stunned to learn that this cut was being considered! ...The very hazardous condition of this road makes waiting until the next cycle unacceptable. Although a difficult task, reinstatement of this funding would be the right thing to do. ..."

Robert A. Berube, State Representative; referring to Route 9 in Lisbon

"...This leaves the towns in limbo as we have to arrange for funding for this project, in which we hope to replace antiquated water and sewer lines during the construction of the road, which in all probability would not survive the project without replacement. ..."

Jay and Livermore Town Officials; referring to Route 4; Livermore Falls to Jay

"...This spring the Town is planning to use local dollars and some State maintenance money to make improvements to the Route 109 corridor from the intersection of Route 4 to Old Mill Street. I hope that you will do all within your power to "find" the funding necessary to fund at least phase one of Route 109 improvements in Wells. The two projects together will send a strong message to the citizens and the visitors to Wells and Sanford that we recognize the importance of Route 109 to the future of our communities and state. ..."

Mark Green, Town Manager; referring to Route 109 in Sanford

"...Route 26 does not meet federal highway safety standards, and many sections of the road have been patched several times rather that being re-built. "The federal standards are 12 feet of lane and 8 feet of shoulder. In many sections (of Route 26) we have 10 feet of lane and no shoulder. ..."

Brett Doney, President and CEO of Enterprise Maine; referring to Route 26

"...Again, it's been patched and filled, but potholes will soon return with the arrival of colder weather. The money which your administration had designated for this most necessary project

was somehow diverted elsewhere. In addition to causing additional wear and tear on our vehicles, there is a serious safety concern for drivers who must negotiate a slalom course through and around the potholes. I ask only that you see to it that the money which was designated for this highway be returned. ..."

Palmer Payne, Boothbay Harbor; referring to Route 226 in Randolph and Chelsea

"...Katahdin Valley Health Center purchased and renovated (total investment over $600,000) our new clinic at 59 Bangor Street on the premise that the condition of Bangor Street would be remedied through construction in 2006. We now find that not to be the case. Katahdin Valley Health Center is a federally qualified health center receiving 330 grant funding to serve the uninsured, underinsured, and underserved populations within our scope of project. We were and are concerned, that especially; the elderly patients will find it difficult to navigate through the poor road conditions, never mind the overall patients interacting with the driving general public under such poor road conditions. ..."

Durward Humphrey, Katahdin Valley Health Center; referring to Bangor Street in Houlton