



INDIANA DEPARTMENT OF TRANSPORTATION

100 North Senate Avenue
Room N758
Indianapolis, Indiana 46204

PHONE: (317) 232-3166
FAX: (317) 232-0238

Michael R. Pence, Governor
Karl B. Browning, Commissioner

August 15, 2014

Mr. Brian Bailey, State Budget Director
Indiana State Budget Agency
200 W. Washington Street
State House, Room 212
Indianapolis, IN 46204

RE: FY2016-2017 Biennium Letter

Dear Mr. Bailey:

The Indiana Department of Transportation (INDOT) is transitioning from an era of the Major Moves program, in which the fundamental priority was adding new capacity to the State's surface transportation system. Governor Pence has directed that INDOT's three priorities are: "Take care of what we have", "Finish what we started", and "Plan for the future".

Take Care of What We Have

Taking care of what we have is represented in three of INDOT's Key Performance Indicators (KPIs): percentage of pavement in fair or better condition, percentage of bridges that are functioning at their design level, and severe crashes (safety). Success or failure of meeting the first two KPIs is a function of how much money we spend on preservation coupled with the ability of the agency to execute its capital plan (completing projects on-budget and on-time). We fell short on both KPIs in FY2014. Further, upon completing significant data analysis, when we view the ten-year outlook based on expected spending levels, the quality of the surface transportation system declines. Please see Attachments A and B at the end of this report.

Finish What We Started

The projects that fall into this category include the completion of:

- I-69 to Indianapolis
 - I-69 (Section 4) Crane to Bloomington is under construction with expected open-to-traffic late in 2015.
 - I-69 (Section 5) is funded and soon to be under construction from Bloomington to Martinsville and expected to open to traffic in the fall of 2016.
 - There are not sufficient funds to construct the final section (6) from Martinsville to I-465. However, funds have been set aside to begin the required environmental work and preliminary engineering. This effort will take between 24 months and 36 months before advancing land purchases, final design and construction.

- The Ohio River Bridges at Louisville (funded and scheduled to be open to traffic October, 2016)
- U.S. 31 in South Bend (scheduled to be fully open to traffic before end of 2014) and Hamilton County (scheduled to be open to traffic by the end of 2015)
- U.S. 31 rural between Hamilton County and South Bend (unfunded, developing a strategy for a form of incremental improvements)

Plan for the Future

There are two compatible strategies for delivering on the framework for future development: the Governor's Blue Ribbon Panel recently completed priorities for infrastructure needs with statewide significance, and, INDOT is working with Connexus to complete similar needs assessments, region by region, to have a fuller understanding of regional needs for the state controlled highways (not for local government infrastructure needs). INDOT has set aside funding to "advance" the outcome of the Blue Ribbon Panel. Initially, the plan is to explore the feasibility of P3 tolling options for the Tier 1 projects.

Major Moves 2020

The 2014 legislature released \$400M in two tranches for completion of nine interstate widening projects and one special project in Fort Wayne. Only the first tranche of \$200M was authorized for spending in CY2014. Five projects of the first tranche are scheduled for lettings in October and December 2014, and May 2015. Second tranche lettings will be determined upon approval by OMB.

Performance Indicators & Program Measures:

INDOT's capital program focuses on two broad categories: maintaining the assets we have and effectively delivering our construction program. Determination of programming priorities is based on such measures as pavement conditions, bridge structural quality, traffic mobility, and safety. INDOT's established KPIs for pavement quality is 92.5% (fair or better), and 100% of bridges are at their intended use condition. Currently, 90.6% of our pavement is in fair or better condition and 99.8% of our bridges are not restricted. As noted above, the trajectory for pavement and bridge condition at currently known spending availability is expected to decline over the next ten years.

Execution and delivery of taxpayer value is measured by two KPIs: projects that are delivered on-time and projects delivered on-budget. The KPIs threshold for these metrics is 90% of projects on-time and on-budget. Currently 67.3% of our projects are expected to be completed on-time and 68.1% of our projects are expected to be completed on-budget. We expect this number to decline before it improves. This is mainly due to a backlog of projects already late or over budget but not yet completed. INDOT is implementing more disciplined contract management practices in order to bring these two measures into compliance.

Since 2005, INDOT's operating expenses have increased an average of 2.2% per year – far below the 3.9% actual composite inflation rate for the agency as reported by Global Insight, due largely to a workforce reduction of nearly 30%. Managing operating expenses is a critical component of meeting our construction plan – every dollar we don't spend on operations is a dollar we spend on highways and bridges. The agency has developed a staffing model consistent with our public safety requirements (snow and ice removal) and our construction oversight requirements, our two largest staffing requirements.

Accomplishments:

Major projects completed and open to traffic, or nearing completion, this past biennium include the Hoosier Heartland Highway, Sections 1-3 of I-69 from Evansville to the Crane Naval Surface Warfare Center, the U.S. 24 Fort to Port highway, and U.S. 31 Kokomo.

In FY2014, we continued to see an increase in our DamageWise program. We invoiced \$7.1M through the program – compared with \$1.4M billed in FY2010. DamageWise involves a partnership with law enforcement that allows quick identification of damaged state property on INDOT right of ways. Collected reimbursements are reinvested into INDOT capital programs and operations.

INDOT muscled through a historic winter this year. By all measures (staff time, salt used, fuel used, etc.) this winter was 150-170 percent of a typical Indiana winter. With countless 16-hour days from our front-line drivers, endless work on our equipment from our mechanics, and great partnership with our sister agencies, we delivered our typical level of service for the motoring public. In real terms, we experienced more than \$24M of excess costs for overtime, salt, fuel, etc and \$41M in road and bridge damage for which we are expediting repairs.

In 2014, INDOT continued to invest heavily in our chip seal roadway preservation program. With in-house forces we are performing this activity that results in the least cost of ownership of Indiana's pavements. In FY2014, we performed 1,400 lane miles of chip-seal.

INDOT's commitment to an alternative options approach for construction projects was demonstrated in the opening of the Milton-Madison Bridge in April, 2014. The new construction method approved for this bridge replacement involved "truss sliding." The 30-million pound new steel truss bridge is 2,428-feet long and 40-feet wide, with two 12-foot lanes and 8-foot shoulders – twice as wide as the old bridge. The truss of the bridge is the longest bridge in North America to be slid laterally into place.

INDOT conducted a satisfaction survey of Indiana residents in the fall of 2013. This survey was a follow-up to the 2011 survey and measured what our customers – Hoosier taxpayers – think of the job we do. Again, as in 2011, Hoosiers are generally satisfied with INDOT's performance. As in 2011, 64 percent of Hoosiers reported they are satisfied or very satisfied. Only 8 percent of those Hoosiers surveyed reported they are dissatisfied; this is a one percent improvement over 2011. Hoosiers continue to tell us that their highest priorities are repairing and maintaining existing highways and bridges, and removing snow and ice from highways.

Critical to INDOT's ability to improve KPI performance is a culture of continuous improvement and individual accountability to our overall results. The agency is implementing two initiatives to achieve this change of culture: develop a pipeline of the next generation of leaders – both managerial and subject matter expertise (INDOT Talent Management Program), and, establish a system of results orientation such that each person in the organization understands his/her role in achieving the required results.

Challenges:

There are two primary challenges faced by the state relating to the surface transportation system:

- The age of the highway infrastructure
- Funding mechanisms that do not keep pace with the basic needs of the system

Age of the highway infrastructure

More than half of the state-controlled bridges in the state are 50 or more years old (about 2,800 bridges). The average life expectancy of a bridge is 75 years. Thus, we can expect an increasing demand on maintenance and rehabilitation in the coming years. Highway condition is similar, though not as dramatic, because the roadways receive more frequent maintenance and repair cycles.

While INDOT has KPIs related to roadway and bridge quality, at the current funding levels, the system likely will decrease in quality during the next ten-plus years.

Funding mechanisms do not keep pace with the basic needs of the system

The principal taxing structure used to underwrite transportation expenses both at the Federal and State level remains largely the same with over 80 percent of combined funding coming from fuel taxes. Under current funding formulas, revenues will not reach a level high enough to meet future infrastructure needs. This is primarily a result of fewer miles being driven (higher gas prices), the advancement of technology, and the continued improvement of vehicle fuel efficiency.

Revenues are based on a fixed price per gallon of fuel. Since 2005, construction costs have increased at a compound rate exceeding 3.9% primarily due to the nature of the construction materials needed (i.e., steel, bituminous materials, etc.) and the increase in fuel costs required to transport bulk materials and operate heavy equipment. This translates into a 30% loss of buying power since 2005. Future expectations for inflation, as predicted by Global Insight, show a continuation of this trend, albeit more moderate growth (2.4% compounded annual growth rate) from FY2015-2024.

The combination of infrastructure age (needs demand) coupled with a “fixed rate” tax revenue and the inflationary cost of construction will result in a system of decreased quality that will begin to be evident to the public within the next five years.

Objectives for the Biennium:

Achieve significant major project milestones (Finish what we started):

- I-69 Section 4 (Crane to Bloomington) is scheduled to open to traffic late in 2015, weather permitting
- Construction will begin on I-69 Bloomington to Martinsville (Section 5) with planned opening to traffic in 2016
- Construction on U.S. 31 in Hamilton County is also well underway with a December 2015 completion date
- The Ohio River Bridges East End Crossing project is on target to be substantially complete in October, 2016
- The Record of Decision for the Illiana Corridor is expected to be issued in December 2014 with procurement bids due in the spring of 2015, and commercial close in the Spring of 2015. Currently the Illiana is scheduled to open to traffic in 2018
- Major Moves 2020 projects (with approved funding) will be substantially complete and open to traffic by end of year 2016

Improve operational performance:

- Substantially improve our KPI and delivery performance
- Good-to-Great – first who, then what
 - Get the right people in the right seats

INDOT will continue improving its succession management program. This program facilitates the creation of succession plans that guide managers in targeting critical and essential positions within INDOT and identifying current employees who have the potential to eventually move into those positions.

- Implement Talent Management

Purpose is to identify and develop high-potential employees. Creating a culture of accountability and continuous improvement where employees directly link their work to achieving INDOT results – increasing discretionary effort and improving productivity – is increasingly important over the next biennium as we act on having the right people in the right seats.

- Improve financial management
 - Delegate budget management to managerial level in the organization requiring accountability to fiscal constraints
 - Implement continuous improvement programs throughout each business unit

We have begun this process and are currently training individuals to assist others to See It, Own It, Solve It, and Do It. Over the next three years, we expect to establish a culture of ownership and accountability to solve problems. This will vastly increase our capacity for meaningful improvement.
 - Implement “Open Roads” (practical design)

Open Roads redefines the development standards and practices used to scope and design preservation projects such that we are focusing design on problem solving and not “gold-plating”. Adoption of Open Roads requires a culture shift both internally to the department and externally with our consultant design partners to embrace the philosophy of eliminating potential project enhancements that don’t directly impact our KPIs. INDOT’s declared goal for this effort is to deliver 100% of the projects in our five-year capital program at 90% of the programmed costs. Savings realized through application of Open Roads will be reinvested in delivery of additional preservation projects not currently funded.

Strategic Initiatives:

- Develop funding alternatives for addressing the needs of the surface transportation system
- Prior to the Joint Transportation Committee annually required report on the state of INDOT in the Fall of 2015, complete a study of various funding methods and their application to Indiana infrastructure needs

- Improve customer satisfaction results and stakeholder communication
- Establish a culture of results-oriented, individual accountability throughout the organization
- Specifically, standardize Project Management and Construction Delivery for achieving a culture of on-time and on-budget without sacrificing quality

Conclusion:

INDOT has transitioned to a position to achieve the Governor's directives – "Take care of what we have", "Finish what we started", and "Plan for the future". In the coming biennium, INDOT plans completion of the final Major Moves new capacity program, will implement material operational and financial management improvements, and will begin pursuing funding strategies that will address the current deficits. Our identification of innovative funding options will not cease; we will continue advancement of initiatives such as Open Roads to meet our performance metrics and increase the number of projects we can deliver within existing funding; and we will aggressively implement our talent management plan to put the right people in the right places resulting in a high-functioning, results-oriented organization.

Regards,

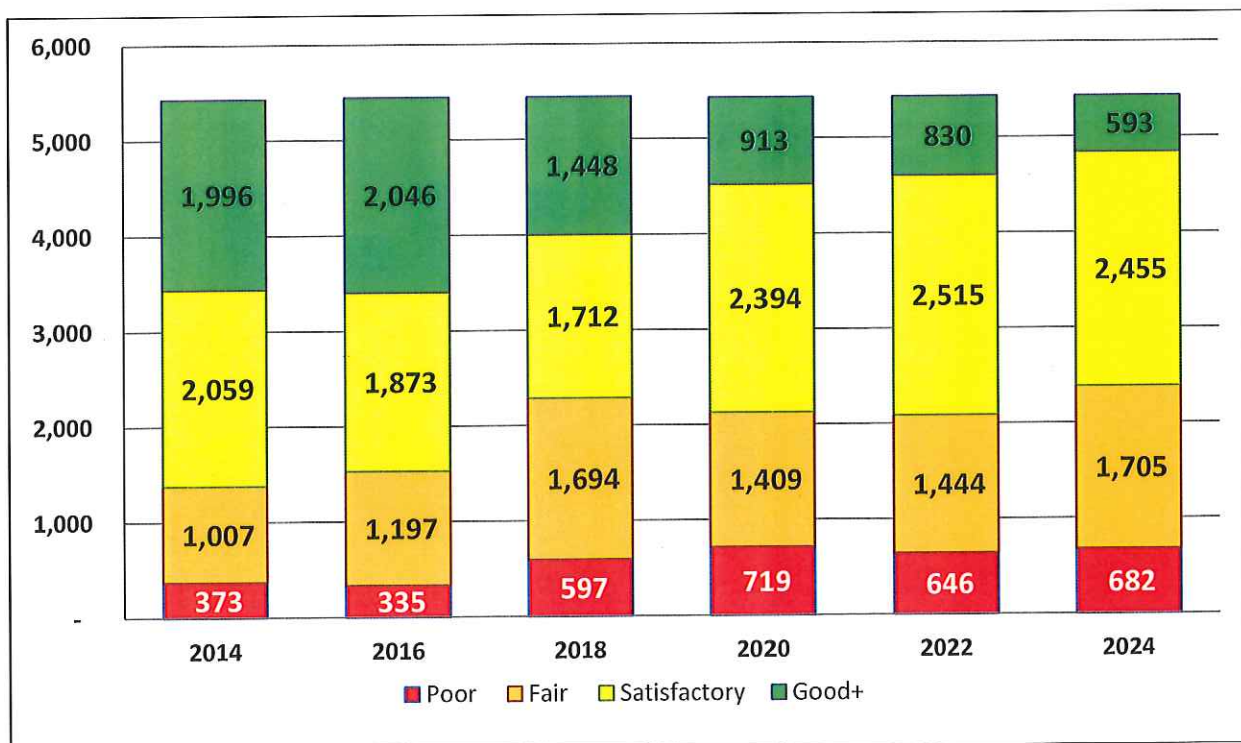


Karl B. Browning
Commissioner

cc: Mark Ahearn
Steve Simcox
INDOT Executive Staff
INDOT District Deputy Commissioners

Attachment A

Outcomes of Bridge Quality
at Currently Programmed Funding Levels Through 2018
and at \$300M from 2019-2024



Attachment B

Pavement Surface Conditions
 Over 10 Years for Current Funding Trends

