



INDIANA DEPARTMENT OF TRANSPORTATION

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Indianapolis, Indiana 46204

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Eric Holcomb, Governor
Michael Smith, Commissioner

August 22, 2022

Zachary Q. Jackson
State Budget Agency
200 W. Washington Street
State House, Room 212
Indianapolis, IN 46204

RE: FY 2024-2025 Biennium Letter

Dear Mr. Jackson:

The Indiana Department of Transportation is pleased to present its 2024-2025 Biennium Budget. Attached as Exhibit A are associated change package amounts and narratives.

Everything that we do and will do is guided by our Mission and overarching goals.

Our Mission:

INDOT shall collaboratively plan, build, and maintain safe and innovative transportation infrastructure that enhances Indiana's quality of life, drives economic growth, and accommodates new modes of transport.

Last year, INDOT received \$1.593 billion in dedicated state revenue, \$370.5 million in special fund transfers, and utilized \$1.589 billion in federal funding, comprising core distributions, grants, and special COVID stimulus funding. In FY 2023, we are forecasting combined federal and state funding approaching \$4.01 billion. All of our decisions and actions are guided by the persistent desire to be the best possible stewards of taxpayer dollars.

During the last two years, INDOT continued to improve the condition of transportation assets throughout the state, improved motorist and worker safety, enhanced our communication and outreach with the public, and accelerated highway construction and maintenance projects that increase capacity and reduce congestion. INDOT's success in executing our Mission was recently recognized by CNBC in its 2022 list of America's Top States for Business, which ranked Indiana #1 in the nation for infrastructure.

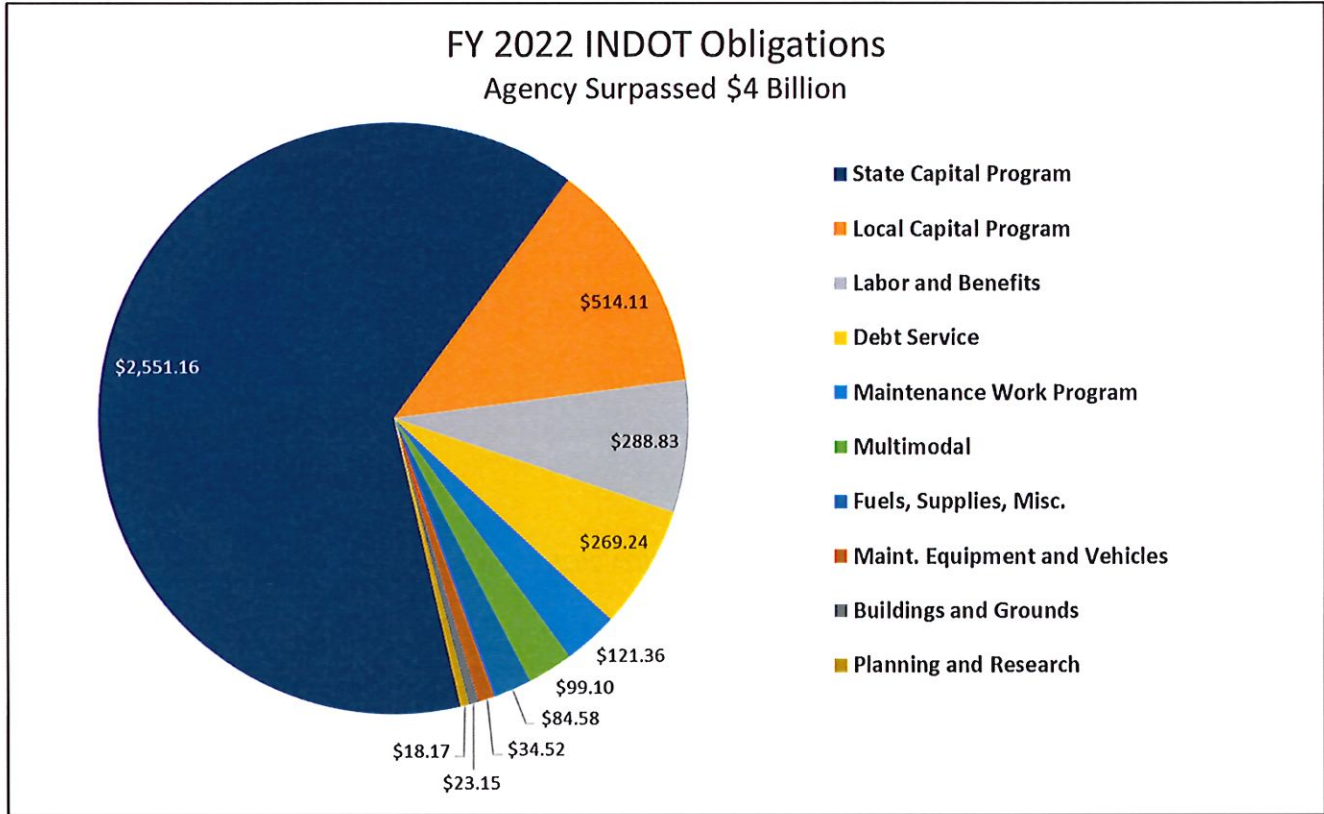
Our Goals:

INDOT shall deliver great service, enhance Indiana's economic competitiveness and quality of life, execute a 20-year road and bridge plan, and develop a 21st Century workforce.

Our Mission, and these Goals, guide our strategic planning and deployment of resources and are directly aligned with Governor Eric Holcomb's Next Level Agenda. This proposed 2024-2025 Biennium Budget reflects the funding necessary to accomplish our Mission and serve the traveling public through the next biennium

Accomplishments

The chart below displays how INDOT deployed funding in FY 2022 to enhance the state's transportation infrastructure while being responsible stewards of taxpayer dollars.



Next Level Roads

INDOT moved quickly to increase transportation construction, maintenance and preservation activities as directed in the Governor's 20-year Next Level Roads plan made possible through the bipartisan passage of House Enrolled Act 1002 during the 2017 legislative session. Through the first five years of Next Level Roads, we invested approximately \$7.7 billion to improve the condition of existing assets, enhance safety, and prepare our transportation system to accommodate future demands. INDOT has resurfaced nearly 14,900 lane miles of pavement, representing more than 50% of the total INDOT inventory. The agency has also repaired or replaced almost 3,700 bridges, nearly 65% of the total number of bridges on state-maintained roads, through FY 2022.

State and Local Projects

During FY 2021 and FY 2022, INDOT has deployed \$4.8 billion in state and federal funding through our Preservation Program to maintain, rehabilitate, and extend the service life of Indiana highways and bridges. This has allowed the agency to complete or start 449 projects to add lanes, replace lanes, or preserve lanes for over 4,570 miles of INDOT roadways out of approximately 29,000 total lane miles. Additionally, the agency has built, rehabilitated, replaced, or maintained 1,365 state owned bridges.

Maintenance & Preservation

The following maintenance and preservation activities have been accomplished:

- Chip-sealed more than 2,300 lane-miles of state roads
- Crack-sealed over 7,000 lane-miles of state roads
- Applied more than 43,000 miles of centerline and edgeline stripes
- Replaced nearly 30,000 sheet signs
- Serviced nearly 6.5 million highway lane miles during winter operations

Major Construction Projects

Over the past two years, INDOT either started, continued, or completed construction projects on multiple Interstates, increasing capacity, reducing congestion, improving motorist safety, or extending an asset’s useful life. These projects include:

Project	Construction Began	Status	Open to Traffic Date
I-70 Hendricks County, Added travel lanes	April 2020	Open to Traffic	Summer 2022
I-69 Section 6 Finish Line, Martinsville to Indianapolis	March 2019	Ongoing construction	Fall 2024
I-65 Bartholomew County, Added travel lanes	February 2021	Ongoing construction	Late Summer/Early Fall 2022
I-65 Boone County, Added travel Lanes	March 2021	Ongoing construction	Summer 2023
Sherman Minton Renewal	September 2021	Ongoing construction	Fall 2023
I-65 Tippecanoe County, Added travel lanes	March 2022	Ongoing construction	Fall 2023
Clear Path 465	March 2022	Ongoing construction	Fall 2025
I-70 Hancock County, Added travel lanes	May 2022	Ongoing construction	Fall 2024
I-65 and I-70 North Split	December 2020	Ongoing Construction	Winter 2022

Local Program

During that same period, INDOT also assisted local transportation agencies through various supporting services and distributed \$490 million in federal aid. Along with \$349.7 million in Community Crossing funding, this allowed the local agencies to complete 61 projects rehabilitating or replacing local roads, and 53 projects rehabilitating or replacing local bridges

Agency Program Highlights

Community Crossings

Community Crossings is a matching grant partnership between INDOT and Hoosier communities, both urban and rural, providing funding to invest in road and bridge infrastructure projects. Projects submitted to INDOT for funding are evaluated based on need, traffic volume, local support, impact on connectivity and mobility, and regional economic significance. Since 2016, the state has awarded \$1.15 billion in state funds for local road and bridge projects that support economic development, create jobs, and strengthen local transportation networks. In CY 2021, INDOT awarded \$202.1 million to 362 separate communities for 3,333 road and bridge projects. In the first call for Projects in CY 2022, INDOT awarded \$107.8 million to 224 separate communities for 1,535 local projects. The second call for projects in CY 2022 closes August 31, 2022.



Financing & Tolling Operations

Prior to the start of each fiscal year, we use back-tested, multi-variable regression models to provide revenue forecasts, targeting a +/-3% variance from actual. Forecasts for the independent economic variables used in the modeling are provided through our subscription service with S&P Global (formally IHS Markit). We plan our capital program and constrain our operational spending within the confines of our forecasted revenue. We continually monitor current events, market conditions, data releases, and review our revenue forecast each quarter (more frequently if necessary). When our forecasting reviews indicate material deviations over the short- or long-term, we confer with department heads and executive staff to discuss the potential impacts and determine the extent to which changes in capital programming and spending plans are necessary. Our current revenue forecast fully funds FY 2023 expected activities and will fund our proposed 2024-2025 Biennium Budget.

During FY 2022, INDOT provided \$170.8 million to the Indiana Finance Authority, extinguishing the Series 2017A I-69 Section 5 Bonds and lowering INDOT's overall annual debt service payments.

In partnership with the Kentucky Transportation Cabinet, the Kentucky Public Transportation Infrastructure Authority, and the Indiana Finance Authority, transitioning to a new Toll Service Provider for the Ohio River Bridges began in June 2021 and will continue during FY 2023 with full operational transfer expected in April 2023.

Risk and Internal Control

Responding to requirements of the new Financial Management Circular 6, which was published January 1, 2022, we began to review and formalize our risk management and internal control environments. FMC 6.1 addresses Agency Internal Control, and we began taking inventory and reviewing our nearly 100 existing handbooks, manuals, guidelines, policies, and procedures. Our Finance Manual, comprising 24 chapters and 27 appendices of financial practices, procedures, and controls, will be reviewed and updated as necessary for conformance with current GASB standards and the Uniform Internal Control Standards for Indiana Political Subdivisions.

FMC 6.2 addresses Agency Risk Assessment. During FY 2022, we began formalizing the concept of risk management by establishing an internal risk advisory board of senior management representing the various functional areas of the agency. This group is responsible for creating formal processes to identify and manage risks which, if materialized, would adversely affect INDOT's ability to achieve its Mission and objectives; harm its reputation; impair its financial strength or integrity; cause non-compliance with any controlling policies, rules, standards, or regulations; expose the agency to adverse legal actions; or in any way harm or diminish its assets or resources. INDOT has drafted and continues to refine resources to assist employees in identifying risk, assessing the probability of a risk materializing and the level of impact to the agency, cataloging existing mitigation strategies, and identifying where additional mitigation plans may be necessary.

INDOT currently has a robust and efficient Internal Audit program and staff. During FY 2023, we will review for any necessary adjustments to conform with FMC 6.3

Internal Control and Risk Management initiatives will expand throughout the agency in FY 2023 and will continue as ongoing institutionalized functions of management.

Transportation Services Call Center

Our Transportation Services Call Center has been serving customers since it was launched in early 2018. INDOT offers over 100 services and each of these services have specific service level agreements for completion of the work. Since INDOT launched the call center, it has responded to more than 303,000 cases submitted through customer phone calls, emails, and online via "Report a Concern" messages. Our customers continue using this service and we continue to respond. The average speed to answer incoming phone calls is 26 seconds, and 96% of resolved cases met the established INDOT service level agreements.



Damage to State Property

Approximately 9% of motor vehicle crashes that occur each year cause damage to our transportation assets, such as guardrails, cable barriers, signs, and bridges. This program continues to collect reimbursement for repair costs from vehicle drivers or their insurance companies. Since program inception, INDOT has successfully collected 90% of its invoices totaling nearly \$78.4 million and ranking our program among the best in the nation. Collections in FY 2022 were the highest in the program's history at \$9.71 million.

Innovation and Process Improvement

Our Mission guides us to explore and incorporate innovative ideas and solutions into our business. To lead this effort, a Division of Innovation and Process Improvement was created to stimulate creative thinking and gather information and ideas from employees at all levels of INDOT, focusing on solutions which foster an environment of idea sharing and process execution. During FY 2022, employees submitted more than 150 ideas and five are moving toward statewide implementation. A total of 34 ideas have been evaluated, approved, and chosen for statewide implementation since the inception of the division.

Oversize/Overweight Permitting System

In 2021, INDOT completed a major revision of the system which issues oversize/overweight (OS/OW) vehicle permits. The new automated, web-based system now operates in real time to review bridge clearances, road restrictions and closures, and generates a safe route for OS/OW vehicles to minimize damage caused by these vehicles. Each year, approximately 400,000 OS/OW vehicles are issued permits to travel on INDOT's highways and with this new system, permit application reviews and approvals, which could sometimes take days, can be achieved now in minutes.

Asset Management Plan

INDOT's formal Asset Management Plan plays an active and indispensable role in efficiently allocating investment across major asset classes. Variables such as present condition, materials, deterioration rates, and changes in traffic patterns and volumes are analyzed in union with various treatment options and costs. The Plan replaces subjectivity with data-driven algorithms which maximize utility and provide a "best-use-of-resources" roadmap over a 20-year planning horizon

Challenges

Future Funding Models

Over 80% of our state revenue and 75% of federal aid originates through the taxation of motor fuel. Over the past two years, we have analyzed the vulnerability of motor fuel tax revenue, particularly from adoption of Electric Vehicles and, more recently, from changes in demand elasticity due to price increases. We have adopted the use of the Verhulst Logistic Equation to model the adoption of electric vehicles and use monthly EV and Hybrid vehicle registration data supplied by the Indiana Bureau of Motor Vehicles to calibrate the model. Indiana currently imposes a supplemental registration renewal fee of \$150 on Electric Vehicles and \$50 on Hybrid Electric Vehicles, with all revenue from those fees deposited into the local Community Crossings Fund.

At the end of FY 2022 there were approximately 12,600 all-electric vehicles and 100,000 hybrid vehicles registered in Indiana representing less than 2% of total automobile and light duty vehicle registrations, with an associated reduction in total motor fuel tax revenue collected by the state estimated to be approximately \$10 million to \$15 million dollars. Although the relative impact to revenue was manageable over the past two years, our adoption model indicates an accelerating transition to alternative vehicles, and by FY 2040, half of Indiana's registered automobiles and light duty vehicles are projected to be electric with a corresponding decrease in the revenue available to INDOT for maintaining Indiana's state transportation infrastructure.

The transition from fossil fueled internal combustion engines to alternative power sources will require new funding models to provide revenue necessary for the construction, preservation, and maintenance of the state highway system. We forecast this to be our biggest challenge beyond the 2024-2025 biennium.

Maintaining our Workforce

During fiscal years 2021 and 2022, 1,311 employees departed INDOT through retirement, termination, or resignation, which accounted for 70% of the total loss. During the same period, we were able to hire 1,234 replacements, for a net loss of 77. At the highest level of the Agency, 75% or six of our eight Executive Team positions saw turnover: Commissioner, Chief of Staff, CFO, General Counsel, Deputy Commissioner of Operations, and the Deputy Commissioner of Capital Programs.

Despite the challenges, we also see turnover as an opportunity to build our team with new employees of diverse backgrounds, with new ideas and fresh perspectives.

Managing the Influx of Federal Funds

The Bipartisan Infrastructure Law (BIL) increased INDOT's core federal program by approximately \$970 million through FY 2026. In addition to increased core formula funding, INDOT was also the recipient of over \$1.2 billion of COVID stimulus funding, the remaining \$900 million of which will be obligated during FY 2023. The Bipartisan Infrastructure Law also provided opportunities for all state transportation departments to compete for a significant amount of new grant funding. In response, INDOT is coordinating its competitive grant activities through a newly appointed Director of Grants. With a few exceptions, funding from federal programs

requires state matching and we have balanced our programming and operational expenses in FY 2023 and throughout the 2024-2025 biennium within the limits of our forecasted revenue, providing capacity to capture all federal funding requested.

Inflation Effects

During FY 2022, INDOT offered 426 construction contracts for bidding. Of that total, 400 were awarded for a total amount of \$1.536 billion, three contracts valued at approximately \$15 million received no bids, and 23 contracts with an estimated market price of over \$91 million were not awarded due to bids exceeding statutory price guidelines for acceptance. Construction was not the only area impacted by rising costs and material delays. During FY 2022, eight Quantity Purchase Agreements (QPA) were cancelled due to supply-chain impacts, and three agreements deemed strategically important to operations (snow trucks, plows, and pavement marking materials) were renegotiated. As we continue to process new QPA's during FY 2023, double-digit price increases are not uncommon. We expect this pattern will continue through FY 2023 and into FY 2024, then begin to moderate as we approach FY 2025. For current FY 2023, we are closely monitoring operating and maintenance expenses and have established funding set asides necessary to cover anticipated inflationary increases in our capital program. Our revenue forecasts are updated quarterly, and we are currently projecting revenue sufficient to cover increases in our cost of doing business. If conditions deviate materially from forecast, we will adjust our programs accordingly.

Using data supplied by S&P Global (formally IHS Markit), we are projecting core CPI (less food and energy), maintenance and repair of vehicles and buildings, cleaning services and waste hauling, office supplies, tires, paint, and other general economic indices reflecting the cost of operations and maintenance will see double-digit percentage increases from the 2022-2023 biennium. Specifically addressing our Buildings & Grounds program, key indicators for non-residential and commercial building construction are projected to increase 25% to 35%.

INDOT was not uniquely impacted by inflation; so were local transportation agencies. During FY 2022, 89 local contracts were awarded for a total of \$237,863,192, and 10 contracts with a market price of \$68,224,234 were not awarded due to bids exceeding statutory price guidelines for acceptance. Of the 89 contracts awarded, 11 failed to be awarded on the first attempt and were re-submitted throughout the fiscal year and were ultimately awarded. The 89 awarded contracts received an average of 3.6 bids per contract and the 10 contracts remaining open at the end of the fiscal year received an average of only 1.7 bids.

Work Zone Safety

Work zone crashes can be devastating and expose our employees, our contractors, and motorists to the potential for serious injury or death. Reducing these crashes and making work zones safe remains a core commitment for INDOT. An analysis of crash data from the first six months of pre-COVID 2019 with the first half of CY 2022 shows that although the number of crash events on Indiana highways decreased by more than 13%, the number of crashes in highway work zones increased by more than 17%.

To address safety in our work zones, INDOT initiated the "Protect the Queue" program, which utilizes back-of-queue warning trucks to provide motorists with advance warning of approaching slowed or stopped traffic. Analysis of nearly 430 hours of queueing showed an 80% reduction in hard-breaking events when queue warning trucks were present. INDOT is actively evaluating an Automated Queue Warning System, comprised of roadside speed sensors and portable changeable message signs, which would virtually monitor and analyze queued traffic and relay information to portable message signs that transmit warning to motorists. We will continue working with all stakeholders to explore new methods and technologies to improve work zone safety on Indiana roads

Objectives for the Next Biennium

INDOT will continue to execute the Next Level Roads plan, investing the following into Indiana's transportation system:

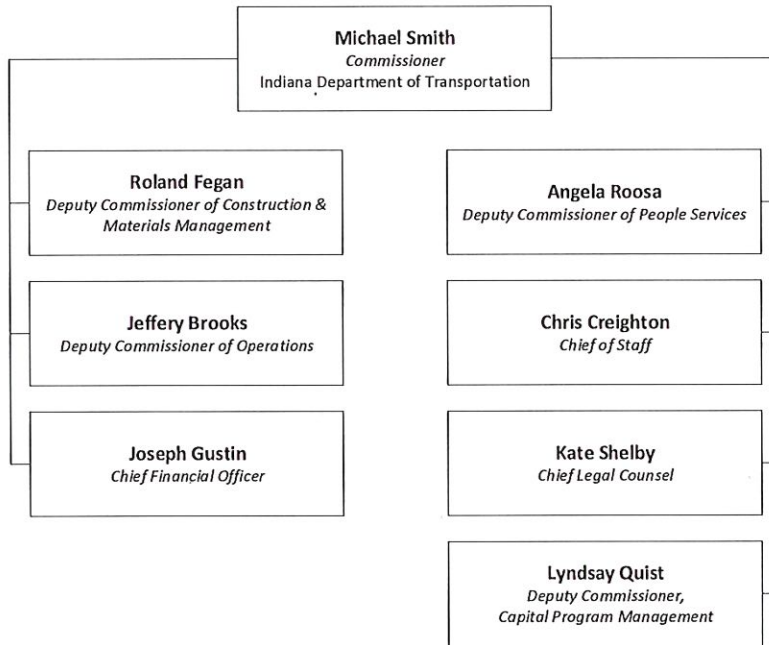
- Invest \$4.8 billion constructing, preserving, and maintaining Indiana's highways and bridges through our Capital Program.
- Continue supporting local public agencies by distributing \$657.2 million in federal funding along with \$417.3 million in Community Crossings funding to build, replace, or repair local roads and bridges.
- Complete construction of I-69 Section 6 Finish Line. This final segment of the I-69 corridor connecting Indianapolis to Evansville will be open to traffic by the end of CY 2024.
- Reopen the Indianapolis I-65/I-70 North Split Interchange to full movements of traffic by the end of CY 2022 and complete all remaining project related items by the end of CY 2023.
- Complete the Sherman Minton Bridge Renewal project by the end of CY 2023.

- Closely monitor the adoption of electric vehicles. Continually evaluate new registration data from the BMV, collect other relevant intelligence, and modify the adoption curves in our revenue forecasting model.
- Coordinate our pursuit of federal grant opportunities with the Office of Management and Budget and the State Budget Agency as required, and we will compete confidently for those federal opportunities which support our Mission.
- Continue planning, designing, and purchasing right-of-way for I-69 Ohio River Crossing, the final connection of I-69 between Evansville, Indiana and Henderson, Kentucky.
- Start and complete Planning and Environmental Linkage studies on US 30 and US 31, as well as issue an RFP for Planning and Environmental Linkage studies for the interstate system in downtown Indianapolis

INDOT will deliver continued improvement of operational and strategic initiatives, through the following:

- Continue refining and utilizing our asset management program to help ensure that INDOT's investments in transportation infrastructure are efficient, effective, and economical. Begin laying the foundation for expanding our asset Management Program to include individualized tracking and reporting of additional categories such as signals, signs, retaining walls, overhead structures, and high mast lighting towers.
- Continue executing our 10-year statewide plan of modernizing and upgrading interstate rest areas and welcome centers, constructing new buildings, and repurposing some as truck parking facilities. Through FY 2022, INDOT had invested \$50.1 million in this improvement program. A \$125.7 million investment is scheduled for FY 2023, and an additional \$125.1 million during the next biennium.
- Invest federal funds for optimal impact while also supporting our local sub-recipients through proper distributions.
- Indiana's National Electric Vehicle Infrastructure Deployment Plan was submitted to the federal Joint Office of Energy and Transportation on August 1, 2022. The plan defines Indiana's alternative fuel corridors and is intended as a roadmap to guide the location, type, and density of EV charging station installation. An approved plan is necessary for Indiana to receive approximately \$100 million of federal funding over the next five years. Approval is expected by the end of September 2022.
- Maintaining our focus and commitment to make work zones safer by expanding the Protect the Queue program and continuing to implement additional mitigation strategies such as the Automated Queue Warning system.
- Monitoring, assessing, and continuing to develop our internal control environment, targeting compliance with FMC 6.1, expanding our risk assessment initiative, targeting compliance with FMC 6.2, and reviewing our internal auditing practice and refine as necessary to comply with FMC 6.3
- Continue implementation of our data governance initiative.
- Enhancing internal communications with employees through greater use of direct customized tactics, tools, and targeted messaging.
- Expand our candidate search into new venues and develop a program to reach high school age students, engaging and inviting them to consider preparing for future opportunities at INDOT.
- Expand our focus on diversity, equity, inclusion, and belonging by continuing to gather baseline data on the agency's efforts and integrating those efforts more pervasively throughout our departments and divisions to facilitate positive change.

Organizational Chart



Looking Ahead

Throughout the next biennium, we will continue to deliver Next Level Roads construction, preservation, and preventive maintenance programs; always focusing on safety, addressing the equity and sustainability of our investments, and ever mindful of external forces continually testing our system's resilience. Our decisions are data-driven which provides the flexibility to react and change course when necessary to adjust for fluctuations in funding, inflation, or other political or socio-economic conditions.

Our dedicated team of 3,500+ innovative and resourceful employees will continue to find better, more efficient, and effective ways to deliver our products and services, and our stated Mission will guide our stewardship of Indiana's transportation system.

We will continue to support Indiana's 14 Municipal Planning Organizations and local public transportation agencies through distribution of funding, grant management, contract administration, and technical assistance.

The transportation landscape will change to accommodate the adoption of electric vehicles, financial resources will expand and contract, we live in a connected global economy which will continue to challenge our delivery of projects and impact the costs of doing business, and our system must become sustainable and resilient to the changing forces of nature. We can and must find new and innovative ways to meet these challenges

Regards,

Michael Smith, Commissioner
Indiana Department of Transportation