



INDIANA DEPARTMENT OF TRANSPORTATION

Driving Indiana's Economic Growth

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Mitchell E. Daniels, Jr., Governor
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October 16, 2012

Mr. Adam M. Horst, Director
Indiana Office of Management and Budget
200 W. Washington Street
State House, Room 212
Indianapolis, IN 46204

RE: FY2014-2015 Biennium Letter

Dear Mr. Horst:

The Indiana Department of Transportation (INDOT) is committed to delivering a first-class highway system to our citizens and constituents. We take our responsibility seriously and work to ensure that Hoosier taxpayer dollars are invested wisely now to pay dividends for decades to come. INDOT is a fully integrated, multi-modal organization that not only provides funding and investment for highway infrastructure, but also for air, rail and transit facilities and programs.

In preparation for the uncertainty of future federal transportation funding, INDOT implemented creative means to generate additional resources for transportation investment. These activities include the Hoosier Helper State Farm partnership, which supports motorist assistance programs; the DamageWise program, which helps defray the cost of repairing state property damaged in accidents; and the pursuit of public-private partnerships to help finance capital projects and ensure delivery to completion.

The recent announcement of a new two-year federal highway bill (MAP-21 - Moving Ahead for Progress in the 21st Century) and subsequent federal funding positions INDOT to continue improving and enhancing both new and existing transportation infrastructure projects all across the state.

Over the last two years, INDOT has transformed the way it conducts business. We have launched and completed more road and bridge projects than in any corresponding period in the history of Indiana, invested more than \$1 billion annually in those projects, and furthered Governor Daniels' Major Moves program. We have adopted innovative management and construction processes, improved operations, restructured departments, reduced operating expenses, increased service delivery, enhanced recognition of high-performance employees, and augmented employee and public communication.

INDOT's mission – to plan, build, maintain and operate a superior transportation system enhancing safety, mobility, and economic growth – provides the strategic framework and direction for the department's drive to implement innovative, creative, and fiscally responsible transportation solutions. We will also continue to assess opportunities in non-highway modes of transportation to ensure that Indiana residents and visitors can travel as safely and efficiently as possible.

Performance Indicators & Program Measures:

INDOT's capital program function focuses on two broad lines: maintaining the assets we have and effectively delivering our capital program. INDOT utilizes many ongoing measures to evaluate the quality of the state's transportation system. We measure, among other things, pavement conditions, bridge structural quality, traffic mobility, and safety. We also have performance metrics, such as construction projects meeting estimates and percentage of construction contracts awarded on schedule, that help track how we are doing as an agency with regards to dollars and time.

We also focus on multi-modal measures, such as those involving the Public Mass Transit Fund. Each transit entity looks to increase its overall performance either by reducing operating expenses or increasing total miles traveled. A key performance indicator to INDOT is the percentage increase in passenger trips. This is vital to the overall purpose of the fund.

Measuring the dollars we spend also is important. INDOT has maintained an excellent record of prudent spending of federal and state funds. We aggressively monitor revenue collections and operations spending throughout the year. Since 2005, INDOT's operating expenses have only increased an average of 1.2% per year – far below the 3.9% composite inflation rate for the agency.

Accomplishments:

During tough economic times, when most states have had to delay or scale back planned transportation projects, INDOT has positioned itself to continue its record-breaking program with help from proceeds from the lease of the Indiana Toll Road. Through Governor Daniels' Major Moves program, we have completed 54 new roadway corridors and 185 new centerline miles and preserved nearly 3,300 centerline miles of roadway and 705 bridges.

A few of the major projects nearing completion – with part or all open to traffic in FY 2013 and FY 2014 – 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; U.S. 31 Kokomo; and Accelerate 465. Additional projects in various stages of engineering or construction this biennium include Section 4 of I-69 from Crane to Bloomington; U.S. 31 Plymouth to South Bend; U.S. 31 Hamilton County; the final phase of the S.R. 25 Hoosier Heartland Highway from Delphi to Logansport; the Illiana Corridor; and the Ohio River Bridges with its first groundbreaking of the East End Crossing project in August 2012.

INDOT has implemented a variety of innovations to combat fiscal challenges as well as streamline operations. In FY 2012, we recovered \$4.1 million through the DamageWise program – compared with \$1.4 million recovered in FY 2010. The program involves a partnership with law enforcement that allows quick identification of damaged state property in INDOT right-of-ways. Collected reimbursements are reinvested into INDOT capital programs and operations.

We have converted 582 vehicles to run on both propane and conventional gasoline. Propane burns cleaner and is less expensive than conventional gasoline while providing nearly the same fuel economy. It also lowers maintenance costs and is safer. In FY 2012, INDOT reduced gasoline usage by 546,000 gallons and saved taxpayers nearly \$953,000.

INDOT also forged ahead with new initiatives to save money during winter operations without compromising our performance in removing snow and ice. We increased our statewide use of salt brine (a mixture of salt and water) as an anti-icing agent before storms, and results indicated that using brine could significantly reduce the amount of money spent on salt, fuel, and personnel hours during winter operations.

INDOT embraced a unique bridge replacement method, called "truss sliding." The Milton-Madison Bridge will be closed only 10 days, rather than being closed a year using traditional construction methods. Under this new construction method, a new 3,181-foot-long bridge is being assembled on temporary supports, then will be moved along steel rails and plates and slid into place atop the existing bridge piers, which are being rehabilitated. This bridge project will be complete in April 2013.

In 2011, INDOT conducted satisfaction surveys of two primary INDOT stakeholders: Indiana residents and INDOT business partners. The surveys measured what our customers – Hoosier taxpayers – think of the job we do, and what our business partners – consultants, contractors, utilities, and real estate appraisers and buyers – think of working with us. In general, Hoosiers are satisfied with INDOT's performance. When asked how satisfied they are with INDOT's performance during the past two years, 64 percent of Hoosiers reported they are satisfied or very satisfied, compared with only 55 percent of those surveyed in surrounding states about their DOTs. Only 9 percent of those Hoosiers surveyed reported they are dissatisfied, roughly half the 17 percent dissatisfaction level reported for neighboring state DOTs.

In 2012, INDOT adopted four key values that complement our mission statement and goals by giving employees an expectation of desired attitudes and practices in the workplace. These values provide us with the best opportunity to create a better agency and culture through engaged employees. Our values:

- **Respect** -- *Treat others fairly. Value the individual skills, experience, diversity and contributions of fellow employees.*
- **Teamwork** -- *Share information and seek input from co-workers and agency partners to achieve goals.*
- **Accountability** -- *Take personal responsibility for actions and decisions.*
- **Excellence** -- *Provide exceptional customer service through individual initiative, innovation, and delivery of quality results.*

Challenges:

Starting in FY 2004, state gas tax revenues have dropped by roughly \$60 million per year over the past 9 years. While the steep decline in revenues has slowed, long-term forecasts reveal that, under current funding formulas, revenues will not reach a level high enough to meet future infrastructure needs. The State Highway Fund, which is funded primarily with fuel taxes, has been negatively impacted due to fewer miles driven and more fuel-efficient vehicles. To counteract lower revenues, INDOT has provided more efficient service delivery and cost containment. In addition, we have put a high priority on managing our expenses, which resulted in millions of dollars in savings through a reduced operating budget, while continuing to accomplish our mission.

With the passage of a 2-year federal transportation bill, MAP-21, earlier this summer, current funding levels will be maintained over the near term with slight increases expected in FY 2014. MAP-21 includes consolidation of programs as well as streamlining of environmental review, which may expedite the overall project delivery process. INDOT can now plan expenditures over the next biennium with assurance of federal funding availability. We must, however, continue with a vigilant eye toward additional cost containment measures and alternative revenue sources. To leverage the forecasted federal funds contained in MAP-21, INDOT will be required to produce applicable matching dollars up to \$150 million. Currently, INDOT's state revenues fall short of attaining the necessary funds to meet its matching obligation and must rely on toll road credits (a finite source) to leverage all of its federal appropriations. In the long term, this structural funding problem cannot be solved via cost containment alone. The funding shortfall will continue to escalate if fuel taxes, in its present form, are the primary source of revenue for INDOT.

Today, INDOT is responsible for the safety and maintenance of over 28,000 lane miles of roadway and 5,300 bridges. Currently, over 2,100 roadway lane miles (or 7.6% of pavement assets) are rated in poor condition. Similarly, over 430 bridges (or 8.2% of all state-controlled bridges) are rated as poor. It will be impossible for INDOT to sustain the condition ratings for its pavement and bridge assets at current spending levels. While Indiana performs comparably with other Midwestern states and the overall US in these measurement categories, particularly in the pavement metric, there has been some degradation of bridge ratings in recent years. Without taking action, the percentage of assets rated as fair and poor will grow over time, thereby exacerbating the funding shortfall dilemma, since more invasive bridge rehabilitation and/or replacement projects are considerably more expensive than preventative maintenance treatments.

Finally, construction inflation has continued to erode INDOT's buying power in its largest cost category (construction) within the total agency budget. Despite a weak economy the last 5 years, construction costs have increased at a compound rate exceeding 4.5% 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. Future expectations for inflation, as predicted by Global Insight, show a continuation of this trend with heightened intensity commodity inflation beginning in FY 2015. This, coupled with shrinking state transportation revenues, generates the conditions in which INDOT will not have the purchasing power to invest in our transportation infrastructure at an appropriate level to adequately serve the motoring public and a growing state economy.

Objectives for the Biennium:

INDOT will continue to achieve success involving both capital projects and operations in the FY 2013-15 biennium.

We will achieve significant milestones with the November 2012 opening of the completed Fort to Port project in Allen County, as well as a 67-mile long section of the new I-69 extension, stretching from Evansville to Crane. Surveying, geotechnical engineering, and design work also are continuing on the I-69 Bloomington to Martinsville section. U.S. 31 in Hamilton County will be upgraded to reduce congestion, improve safety, and provide continuity of commerce, and will be complete in December 2015.

With its recent groundbreaking for the first section of the Ohio River Bridges project, this \$2.6 billion project, a partnership between Indiana and Kentucky, will bring unprecedented improvements in cross-river mobility to Southern Indiana near Louisville, Kentucky. The project will connect Clark County, Indiana, and Jefferson County, Kentucky, with two new bridges spanning the Ohio River, along with associated approach work.

Indiana is moving ahead with the Illiana Corridor, a planned highway route that may ultimately connect I-55 in Will County, Illinois, to I-65 in Lake County, Indiana, and provide a bypass around the congestion of northwest Indiana and Chicago.

In May 2011, Governor Daniels signed into law Senate Bill 473 which allows for expanded use of private capital for transportation improvements. In the next biennium, INDOT will pursue public-private partnerships as an additional procurement alternative for new highway projects. Public-private partnerships offer the opportunity for roads and other infrastructure to be designed, built, and completed years sooner and at reduced public costs.

INDOT will continue to reduce operating expenses and curtail headcount, which will take us below the current levels. Building on FY 2012 successes in developing and adopting new procedures and quantitative processes, we will continue to improve our partnerships with utility companies in establishing new procedures involving the exchange of information between INDOT and utilities on highway improvement projects. These changes have helped improve communication between INDOT, Local Public Agencies, and utility companies – thereby improving our utility coordination process.

INDOT will continue improving its succession management program. This program will facilitate 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. We will continue to evaluate winter operations and snow routes as well as the expanded use of technology to improve weather forecasting and effectively plan snow and ice treatments. We will continue to emphasize employee development, training, and communications. These initiatives are vital to meeting our goal to improve customer satisfaction and agency accountability.

Conclusion:

Transportation is a vital part of Indiana's economic future and overall quality of life. Today, through the hard work and dedication of our INDOT employees, we have completed, or have in process, dozens of projects that will benefit Indiana for generations to come. Many of these projects had been dreamed of – and planned – for decades. Today, the dreams of many Hoosiers are becoming reality.

We are privileged to present INDOT's biennium budget request that effectively allocates our resources and continues to demonstrate an ongoing commitment to fiscal responsibility. We urge your support.

Regards,



Michael B. Cline
Commissioner