



Annual Report on Initiatives for Outsourcing, Privatization and Downsizing within VDOT

HB 5063 (Special Session I, 2006)

Report to the General Assembly of Virginia

Virginia Department of Transportation
1401 East Broad Street
Richmond, Virginia 23219

November 2007



COMMONWEALTH of VIRGINIA

DEPARTMENT OF TRANSPORTATION
1401 EAST BROAD STREET
RICHMOND, VIRGINIA 23219-2000

David S. Ekern, P.E.
COMMISSIONER

December 17, 2007

The Honorable Timothy M. Kaine
Members of the General Assembly

Dear Governor Kaine and Members of the General Assembly:

Chapter 7 from the 2006 Special Session Acts of Assembly requests the Commonwealth Transportation Commissioner to report annually on all actions and initiatives of the Virginia Department of Transportation (VDOT) in the preceding and current fiscal year that involved outsourcing, privatization, and downsizing.

The attached report documents that VDOT's expenditures in fiscal year 2007 totaled \$2.9 billion of which 73% (\$2.13 billion) was spent either with private sector vendors or in payments to localities. Considering VDOT's debt service payments (\$0.26 billion), the agency's total external expenditures increases to 81%.

VDOT currently has several privatization initiatives designed to build and operate transportation facilities by utilizing private capital. The Public Private Transportation Act of 1995 (PPTA), as amended, is the legislative framework enabling VDOT to enter into agreements authorizing private entities to develop and/or operate transportation facilities. The report provides information on current PPTA projects, such as the Coalfields Expressway and the Interstate 495 hot lanes projects, and active PPTA proposals, such as the Route 460 proposal.

In addition, VDOT has continued consolidation of its maintenance and operations from 334 to 248 locations and is consolidating its sign fabrications function from seven locations to one. VDOT staffing now stands at levels not seen since 1965. The increased use of technology, process streamlining and modernized business practices continues to drive VDOT's business improvement activities.

Attached is a copy of the report for your review. If you have questions or need additional information, please let me know.

Sincerely,

A handwritten signature in black ink that reads "David S. Ekern".

David S. Ekern

Attachment

cc: The Honorable Pierce R. Homer

PREFACE

The Virginia Department of Transportation (VDOT) is required to report annually on its outsourcing, privatization, and downsizing activity and on efforts for maximizing the generation of revenue from existing assets of the Department.

This report has been created pursuant to:

The Commonwealth Transportation Commissioner shall annually report in writing to the General Assembly, no later than November 30 of each year, on all actions and initiatives of the Virginia Department of Transportation in the preceding fiscal year that involved outsourcing, privatization, and downsizing. Further, the Commissioner shall provide, in writing to the General Assembly, detailed and specific plans for outsourcing, privatization, and downsizing in the current fiscal year, including, but not limited to, appropriate asset management and intelligent transportation system functions and services. Such report shall include a description of efforts that have been made, are under way, or are to be undertaken for maximizing the generation of revenue from existing assets of the Department of Transportation, including but not limited to real estate, and increasing the role of the private sector and public-private partnerships in the leasing of real estate and other assets in the development of highway projects.

Chapter 7 of the 2006 Special Session Acts of Assembly

A report on all actions, accomplishments, achievements, and initiatives of the Virginia Department of Transportation, in the preceding fiscal year that involved outsourcing, privatization, and downsizing, as required pursuant to Chapter 420, Acts of Assembly of 2006

Item 444 B-2 of the Appropriation Act

The Commonwealth Transportation Commissioner shall annually report in writing to the General Assembly, no later than November 30 of each year, on all actions and initiatives of the Virginia Department of Transportation in the preceding fiscal year that involved outsourcing, privatization, and downsizing. Further, the Commissioner shall provide, in writing to the General Assembly, detailed and specific plans for outsourcing, privatization, and downsizing in the current fiscal year.

Chapter 420 of the 2006 Acts of Assembly

The Virginia Department of Transportation (VDOT) is on a journey of innovation and improvement. Facing the challenges of tomorrow, VDOT has sharpened its focus on developing the best possible roadway system, business priorities, and workforce in order to fulfill its mission:

The Department will plan, deliver, operate and maintain a transportation system that is safe, enables the easy movement of people and goods, enhances the economy, and improves the quality of life.

VDOT has three key areas of focus:

- The System
 - Getting customers there safely and reliably
 - Giving customers choices
 - Delivering projects on-time and on-budget, with high quality
- The Business
 - Embracing high-value technology
 - Privatizing where it can
 - Retaining public responsibility where it should
- The Workforce
 - Employing the right skills
 - Working smarter
 - Being flexible and accountable

For more on VDOT's journey see Appendix A (titled "VDOT's Journey to Date"), and for future plans see Appendix B (titled "VDOT's FY2007/FY2008 Business Plans).

The journey continues -- VDOT's FY2007/FY2008 Business Plans reflect a focus on the transportation system, the way VDOT does business, and improving VDOT's workforce.

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EXECUTIVE SUMMARY

For the first time since adopting its on-time and on-budget performance measures in 2002, VDOT met or exceeded all of its on-time, on-budget, and quality targets.

- Construction projects:
 - From 20% on-time in FY2002 to 90% on-time in FY2007
 - From 51% on-budget in FY2002 to 90% on-budget in FY2007
- Maintenance projects:
 - From 38% on-time in FY2002 to 80% on-time in FY2007
 - From 59% on-budget in FY2002 to 91% on-budget in FY2007
- Highway project quality:
 - From 89.8% quality score in FY2002 to 90.9% in FY2007

VDOT spent \$2.13 billion, or 73% of total expenditures externally (payments to private vendors and to localities). Considering VDOT's debt service payments (\$0.26 billion), the agency's total external expenditures increases to 81%. In order to become a more efficient agency, VDOT has developed strategic initiatives to focus on the system, the business, and the workforce.

As VDOT seeks to improve its methods of doing business, it looks to outsource, privatize, and downsize where it is prudent and economical to do so. Highlights of activity in these areas include:

	<u>FY2007</u>	<u>FY2008</u>
Outsourcing	<ul style="list-style-type: none"> • Outsourced 58% of interstate maintenance to Turnkey Asset Management System (TAMS contracts) 	<ul style="list-style-type: none"> • Continue to outsource 100% of interstate system by July 2009
Privatization	<ul style="list-style-type: none"> • Pursued four active private partnership agreements (PPTA projects) to build additional capacity, valued at \$3.8 billion 	<ul style="list-style-type: none"> • Continue four additional PPTA projects currently under review, valued at \$4.2 billion
Downsizing	<ul style="list-style-type: none"> • Consolidated maintenance facility operations from 335 to 248 sites (a reduction of 87 properties), resulting in reduced administrative overhead and increased span of control for superintendents 	<ul style="list-style-type: none"> • Continue to consolidate sign fabrication facilities from 7 sign shops to 1 facility, reducing fabrication costs and improving efficiency

Outsourcing, privatization, and downsizing are not objectives in and of themselves; rather, they are strategies to leverage when appropriate and where the business case exists. While VDOT's basic mission may not change, the way VDOT delivers the transportation system will. VDOT's

FY2007/FY2008 Business Plans (see Appendix B) outline how VDOT plans to focus on the system, the business, and the workforce on its journey. The following highlights some of the goals from the business plans:

Focus on the system

- Progress towards decreasing the percent of structurally deficient bridges
- Progress towards decreasing the percent of deficient pavements
- Implement safety measures that will assist in the goal of reducing highway deaths by 100 by 2010 (from 946 annually to 846 or less)

Focus on the Business

- Reduce project development time by 10%
- Continue the First Cities Initiative
- Meet SWaM participation FY09 target of 40%

Focus on the Workforce

- Reduce injuries that result in lost time from work by 5%
- Achieve 25% telework or alternative work schedule (reducing office space needs)

SECTION 1: OUTSOURCING

Outsourcing is defined as a method of contracting with the private sector to provide a service or good. The government retains ownership and control over operations.

VDOT relies heavily on contracting -- notably in the area of highway construction and maintenance -- to meet its mission and deliver its program. VDOT lets contracts at the statewide, regional, district, and local levels. Due to the large number and variety of contracts, this report summarizes the outsourcing activity using standard categories established by the Department of Accounts (DOA).

This report is based on the integration of VDOT financial data with specific activities. The financial data is organized by account code within its Financial Management System (FMSII). DOA defines the account codes used and these codes form the guideline which VDOT uses to record financial activity. Within FMSII, there are nine categories that define general areas of expenditure. Within each of these categories, expenditures are broken down further into specific areas which allow detailed allocation.

The following coded expenditures indicate all areas of VDOT spending. Although all areas of spending indicate outsourcing of some form, only those categories which are considered as true outsourcing are used. Those account codes are: 1200, Contractual Services; 1300, Supplies & Materials; 1400, Transfer Payments; 1500, Continuous Charges; 2100, Property & Improvements; 2200, Equipment; and 2300, Plant & Improvements.

<i>CODE</i>	<i>EXPENDITURE DEFINITION</i>
1100	Personal Services
1200	Contractual Services
1300	Supplies & Materials
1400	Transfer Payments
1500	Continuous Charges
2100	Property & Improvements
2200	Equipment
2300	Plant & Improvements
3100	Obligations

VDOT recorded FY2007 expenditures totaling \$2.9 billion. Of that total, 73% (\$2.13 billion) was spent either with private sector vendors (\$1.73 billion) or in payments to localities (\$0.40 billion). Debt service payments could also be considered an external expenditure; if debt service payments (\$0.26 billion) were included, total external expenditures were 81%.

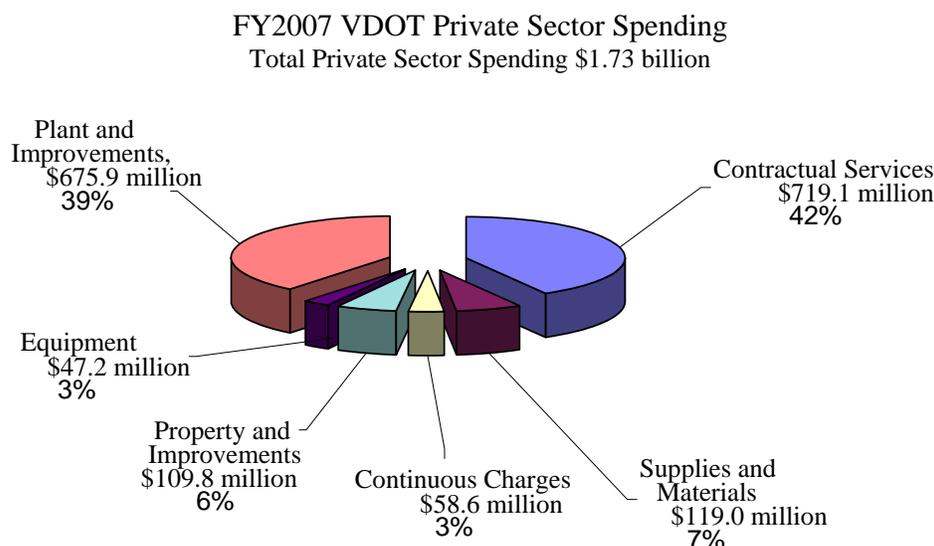
FY2007 Expenditures with Private Vendors

VDOT spent \$1.73 billion in FY2007 with private vendors. These expenditures with private vendors are composed of six main categories, defined as follows by the DOA:

- **Contractual Services** -- expenditures for communication services, employee development services, health services, management and informational services, repair and maintenance services, support services, technical services, and transportation services.

- **Supplies and Materials** -- expenditures for administrative supplies, energy supplies, manufacturing and merchandising supplies, medical and laboratory supplies, repair and maintenance supplies, residential supplies, and specified use supplies.
- **Continuous Charges** -- expenditures for insurance-fixed assets, insurance-operations, capital and operating lease payments, installment purchase and service charges.
- **Property and Improvements** -- expenditures for property and improvements acquisition, natural resources acquisition, and site development.
- **Equipment** -- expenditures for computer, educational, cultural, electronic, photographic, medical, laboratory, motorized, office, specific use, and stationary equipment.
- **Plant and Improvements** -- expenditures for acquisition and construction of plant and improvements. These are VDOT's construction expenditures.

The graph that immediately follows shows the percent that each category represents of the total spending with private vendors. A detailed explanation and breakdown of each of these six categories can be found in Appendix C (titled "Breakdown of Categories of VDOT's FY2007 Private Sector Spending").



In addition to this overview of private sector spending, VDOT has tracked specific activity related to outsourcing initiatives. VDOT's reports on these relevant activities are presented below.

Interstate Maintenance

Chapter 896 of the 2006 Acts of Assembly requires all interstate maintenance to be outsourced by July 2009. A primary tool to achieve this legislative mandate is Turnkey Asset Maintenance Services (TAMS).

TAMS contractors will be primarily responsible for ordinary maintenance: roadside work, incident management, snow removal, emergency response and incidental repair work, such as pothole repair. As of July 1, 2007, there are six contracts in place that traverse the construction districts of Richmond, Hampton Roads, Culpeper, Salem, and Bristol. By July 1, 2008, the Hampton Roads District will have completely outsourced their interstate systems with TAMS contracts, as will have the Staunton District. The remaining interstate routes in Culpeper, Fredericksburg and Northern Virginia Districts will have TAMS contracts in place by July 1, 2009.

In concert with the TAMS contracts, VDOT is soliciting proposals from vendors to maintain interstate signage and pavement markings. While the TAMS contracts require the maintenance of signs damaged by such events as vehicle strikes and storm damage, they do not require maintenance or replacement of signs that are outdated.

Examples of ongoing maintenance and operations outsourcing include:

- Pavement resurfacing – pavement resurfacing work is contracted out. Striping of new pavement and upgrade or installation of new guardrail is also completed by private contractors.
- Bridge maintenance – bridge maintenance work is contracted out including bridge painting, deck repair and replacement, superstructure and substructure repair and corrective maintenance, and all bridge rehabilitations or reconstruction.
- Bridge inspection – a portion of bridge inspections are provided by private contractors.
- Nearly all guardrail upgrades and guardrail replacement is conducted by private contractors.
- Installation of nearly all signals and electronic signs is conducted by private contractors.

Asset Management

VDOT defines asset management as the systematic process of operating and maintaining the state system of highways by combining engineering practices and analysis with sound business practices to achieve cost-effective outcomes. The function of asset management is to maintain the roads, and this function represents a larger portion of spending each year. In FY2007, maintenance spending was approximately 33% of total expenditures.

VDOT has entered into contracts with the private sector to deliver many maintenance and operations related projects and services. In FY2007, \$664 million of the \$971 million, or 69% of these expenditures, were paid to the private sector. Of the payments to the private sector, \$464 million (48% of the \$971 million) were directly delivered through private contracts. This percentage is expected to increase in FY2009-FY2010 as more maintenance and operations services are delivered through private contract. Another \$200 million (21% of the \$971 million) was paid to vendors for supplies, materials, fuel and non-contracted services that support maintenance and operations.

Business Practices Review Committee

VDOT has established a Business Practices Review Committee to identify opportunities to reduce costs and increase efficiency while delivering the transportation program. This committee reviews opportunities to consolidate or outsource the transportation programs.

SECTION 2: PRIVATIZATION

Privatization is defined as a method of contracting with the private sector to provide a service or good.

Public Private Transportation Act

The Public Private Transportation Act of 1995 (PPTA), as amended, is the legislative framework enabling VDOT to enter into agreements authorizing private entities to develop and/or operate transportation facilities. VDOT currently has several active privatization initiatives aimed at granting the private sector with operational control over specific service facilities as well as delivery of more traditional projects (see Table 1: Active PPTA Projects Under Contract). One such agreement is highlighted below.

- In FY2006, VDOT implemented a concession agreement with Transurban (895) LLC. Under this agreement, Transurban agreed to assume the rights and obligations to manage, operate, maintain and collect tolls on the Pocahontas Parkway (Route 895, Richmond region) for a period of 99 years. The agreement has also allowed the Airport Connector, a direct connection to the Richmond International Airport, to proceed.

Table 1: Active PPTA Projects Under Contract

Project	District	Estimated Value (\$million)	Comments
<p>Coalfields Expressway Links Interstates 64 and 77 in West Virginia with US Route 23 in Virginia, which also links to interstates in Kentucky and Tennessee. Specifically, the Coalfields Expressway will extend approximately 50-miles from Pound in Wise County, through Dickenson and Buchanan counties, and will link with the West Virginia Coalfields Expressway near Slate, Virginia.</p>	Bristol	\$2,500	Feasibility study ongoing.
<p>I-495 Hot Lanes VDOT is negotiating to add four High Occupancy Toll (HOT) lanes to 14 miles of the Capital Beltway between Springfield and the Dulles Toll Road. Carpoolers and buses would have free HOT lane access.</p>	Northern Virginia	\$1,400	Business terms have been reached. Financial close by December 31, 2007.
<p>I-95/395 Hot Lanes Develop, and operate new high occupancy toll (HOT) lanes on the I-95/395 corridor from Northern Virginia to the Fredericksburg region. On March 1, 2004, a competing proposal was submitted to expand and/or extend the I-95/395 HOV lanes from the 14th Street Bridge to Massaponax and provide a transit component which links Massaponax to Dulles Toll Road corridor and other transit facilities in the Northern Virginia area.</p>	Fredericksburg/NOVA	\$1,000	Environmental review in process.
<p>Route 28 Design-build of six high-capacity grade-separated interchanges on Route 28 in Fairfax and Loudoun Counties including improvements to key arterial routes that connect or are adjacent to Route 28. Ultimate plans call for the construction of a total of 10 interchanges and widening Route 28 from six to eight lanes between Route 7 and Interstate 66.</p>	Northern Virginian	\$325	Final four interchanges under construction.
<p>Route 58 Phase 2 of the corridor to construct the Hillsville Bypass consisting of approximately 5.2 miles of new four-lane divided highway.</p>	Salem	\$90	Hillsville Bypass Ground breaking held October 2007.
<p>Route 895 Concession agreement to manage, maintain, operate, and collect tolls on Pocahontas Parkway</p>	Richmond	\$550	Concession agreement signed in 2006.

Table 2 below highlights four active proposals and candidate projects that the Department is examining.

Table 2: Active PPTA Proposals and Candidate Projects

Project	District	Estimated Value (\$million)	Comments
Active Proposals			
I-81 Corridor Proposed design-build contract for truck climbing lanes	Bristol, Salem, Staunton	\$141	Completed public hearings in November 2007.
U.S. Route 460 Development and/or operation of the new U.S. Route 460	Hampton Roads, Richmond	\$1,500	Developing request for detailed proposals, working with Hampton Roads Transportation Authority.
Candidate Projects			
Midtown Tunnel/MLK Includes the Midtown Tunnel, the Downtown Tunnel, and the Martin Luther King ("MLK") Freeway Extension located in the Cities of Norfolk and Portsmouth, Virginia. The Project comprises a new submerged two-lane tunnel parallel to the existing Midtown Tunnel; and fire, life and safety improvements to the existing Midtown Tunnel with minor modifications to the Interchange at Brambleton and Hampton Boulevard in Norfolk; and fire, life and safety improvements to the existing Downtown Tunnel; and extending the MLK Freeway from London Boulevard to Interstate 264 (I-264).	Hampton Roads	\$750	Preparing Solicitation for Conceptual Proposals, working with the Hampton Roads Transportation Authority.
Southeastern Parkway & Greenbelt Study corridor begins at the interchange of Interstates 64 and 464 in Chesapeake, and extends generally east and northeast, around Stumpy Lake, terminating at Interstate 264 east of Oceana Naval Air Station in Virginia Beach.	Hampton Roads	\$1,850	Solicitation pending completion of environmental review process, and collaboration with City of Virginia Beach, Cities of Chesapeake and Hampton Roads Transportation Authority (HRTA)

More information can be found at <http://www.virginiadot.org/business/ppta-default.asp>.

SECTION 3: DOWNSIZING

Downsizing is defined as an organization's reduction in the number of employees, number of reporting levels, or overall size in an attempt to increase efficiency.

VDOT's Workforce Transformation and Declining Staffing Levels

VDOT's workforce changes since 2002 include:

- Number of employees from 10,192 in 2002 to 8,576 as of July 2007
- Consolidated maintenance facility operations in FY2007 from 335 locations to 248 to improve efficiency
 - Implemented a plan to eliminate 33 supervisory teams and corresponding administrative staff as part of our maintenance facility consolidation
 - Increased span of control for area superintendents to an average of 1:15 from as low as 1:8 in some areas

VDOT's downsizing efforts are described earlier and in Appendix D (titled "VDOT's Employment Levels History") and in VDOT's external Web site (www.virginiadot.org).

Devolving Service Delivery Responsibilities to Localities

VDOT is also devolving its responsibility for the local systems to localities. Additionally, VDOT has several programs that enable localities to administer part of their construction programs.

- **Full Devolution:** In FY2006, VDOT completed devolution of Suffolk's secondary system to the local government. This resulted in the closure of the Suffolk Residency and the reduction of 42 positions. VDOT has partnered with Stafford and James City Counties to develop a model and guidebook that provide tools to counties interested in pursuing devolution. On September 11, 2007, James City County passed a resolution to accept construction and maintenance responsibilities starting in FY2009 –FY2010.
- **Partial Devolution:** The General Assembly has given localities the option to take greater control of their construction dollars through initiatives such as the Local Partnership and Urban Construction Initiatives. These initiatives have enabled localities to experiment with administering their own construction projects.

To date, seven municipalities have taken responsibility for their entire construction program by joining the urban construction initiative. The Town of Blacksburg and the Town of Dumfries have each passed a resolution stating their intent to join the Urban Construction Initiative in July 2008. More information can be found at <http://www.virginiadot.org/business/local-assistance-firstCities.asp> .

SECTION 4: MAXIMIZING THE GENERATION OF REVENUE FROM EXISTING ASSETS OF THE DEPARTMENT

Chapter 7 of the 2006 Special Session Acts of Assembly calls for VDOT to add a new element to its annual reporting. This new requirement reads, “*Such report shall include a description of efforts that have been made, are under way, or are to be undertaken for maximizing the generation of revenue from existing assets of the Department of Transportation, including but not limited to real estate, and increasing the role of the private sector and public-private partnerships in the leasing of real estate and other assets in the development of highway projects.*”

VDOT has several ways in which it generates revenue from the Department’s assets:

- When VDOT determines that property previously purchased for highway right-of-way are not needed by the Department, these properties are offered for sale. Any properties suitable for independent development are offered to the public via the VDOT Web site and are advertised locally. Any properties not suitable for independent development are offered for sale to owners of land adjoining those properties. In FY2007, 120 deeds were generated conveying 107.2 acres with a total of \$7.2 million received.
- When VDOT determines that property purchased for highway right-of-way will be needed in the future, but not the near future, VDOT will lease such land and improvements. For example, if funding for a highway construction project is delayed, VDOT will seek tenants for any houses on the associated right-of-way properties. In FY2007, VDOT collected \$645,964 from the lease of right-of-way land and improvements.
- VDOT leases property for cell towers to accommodate the needs of private sector companies. Revenues from this source in FY2007 were \$3.2 million; the projection for FY2008 is \$3.6 million.
- VDOT has developed a pricing guide for private vendors who wish to lease VDOT facilities for the duration of a maintenance contract. This pricing policy is currently yielding \$343,409 in revenues, and additional licenses are pending completion which will augment this figure for FY2008.

Recommended Price List By Property Type for Use by TAMS Contractors October 2007

<u>Property Type:</u>	<u>Rent per Month</u>
Area Headquarters	\$3,900
Chemical Storage Site	\$1,250
Storage Lot	\$ 600

- In FY2007, VDOT received \$22,203 in annual income from leases for VDOT property, and in FY2008 VDOT will receive \$343,409 from licenses of properties.
- Vending Revenues are collected at Interstate Rest Areas that have vending shelters. This is accomplished through a contract with Business Opportunities for the Blind (BOB) and the VDOT Asset Management Division. VDOT and BOB generally share the commissions equally. The exception to this is for new vending shelters when VDOT has not yet recovered its costs; in

that case VDOT receives a higher than normal share of the commissions (approx. 75% - 25% until VDOT recoups its costs).

- In FY2007, VDOT's revenue from this fund was \$1,173,589.
- For FY2008, VDOT projects the same level of revenue -- approximately \$1.2 million -- from this source.
- In 2007, VDOT received approximately \$240,000 from the Pocahontas Parkway PPTA from electronic funds received in tolls that are returned to VDOT to recover the cost of the electronic toll collection.

VDOT has also initiated activity to recoup some of the costs it incurs in providing services. As authorized by Chapter 527 of the 2006 Acts of Assembly, VDOT can charge a fee to recoup a portion of the costs associated with reviewing land development impact studies. Most fees are expected to be approximately \$1,000. Since these are new fees, there is currently no history upon which to base a prediction as to how many of these might be collected on an annual basis. In every case, however, VDOT's costs to review are anticipated to exceed the fee.

VDOT will continue to endeavor to make the best business decisions in regards to use, disposal, and revenue-generating activity with regard to its assets, ever mindful of the need to be a good steward.

Appendix A: VDOT's Journey to Date

Today, VDOT is streamlined, publicly accountable, and focused on excellent delivery and performance of its core business and mission. In 2002, on-time, on-budget, and quality performance targets were established. In 2007, the agency met or exceeded all performance targets.

- Construction projects:
 - From 20% on-time in FY2002 to 90% on-time in FY2007
 - From 51% on-budget in FY2002 to 90% on-budget in FY2007
- Maintenance projects:
 - From 38% on-time in FY2002 to 80% on-time in FY2007
 - From 59% on-budget in FY2002 to 91% on-budget in FY2007
- Highway project quality:
 - From 89.8% quality score in FY2002 to 90.9% in FY2007

Since 2002, the system, the business, and the workforce have all undergone major changes. The accomplishments outlined below chronicle just a few of the achievements on VDOT's journey.

Major achievements to the system include:

- Successfully integrated public-private partnerships into our program
- Established a System Operations program (one of the first in the nation) that focuses on maximizing capacity of the existing highway network, increasing safety and using technology to address congestion along major travel corridors
- Implemented "511" telephone line that motorists can call to get real-time traffic and travel information
- Implementing land use and transportation planning activities requiring localities to work with VDOT to review the traffic impact of development proposals with a substantial impact on state highways (Chapter 527 regulations)
- Pursuing a strategy offering to transfer responsibilities to localities that wish to assume local control over transportation programs. Created devolution model to assist localities when deciding whether to take over maintenance (a summary of the benefits and realities of participating in the initiative is available at VDOT's Web site -- see link on page 9).
- Established three highway safety corridors on areas of interstate with high accident rates (I-95 Richmond; I-95 Northern Virginia; I-81 Montgomery and Roanoke Counties)
- Developed a new vision for I-81 that incorporates short-term safety improvements and rail upgrades, and identifies long-term transportation needs

Major achievements to the business include:

- Created formal written annual business plans to guide the implementation of the strategic plan
- Promoted accountability and improved transparency through the "Dashboard," available at VDOT's Web site, which enables the public to review VDOT's performance in critical service areas
- Established data integrity for project management and cash management by defining new policies and procedures and assigned accountability
- Implemented an Asset Management System that tracks asset conditions
- Established pavement and bridge performance targets
- Eliminated \$867 million of project deficits
- Improved internal financial controls (a 2006 audit by the Auditor of Public Accounts found no reportable findings for VDOT)
- Developed a Project Cost Estimation System to ensure reliable, consistent cost estimates on all projects

Major changes to the workforce include:

- Streamlined the workforce, reducing it to 8,576 as of July 2007 (the lowest level since 1965)
- Shifted service delivery responsibilities from the state workforce to private contractors across all areas of the agency
- Streamlined management structure to ensure that decision-making authority is assigned to the appropriate area and transferred appropriate decision-making authority and accountability from headquarters to the field
- Established Innovative Project Delivery and Innovative Project Finance business units to develop the full potential of the Public-Private Transportation Act and to find new ways to engage the private sector in project funding and delivery
- Continued working to professionalize the workforce, increasing the number of positions required to be registered professional engineers
- Established a knowledge management program to transfer and share institutional expertise among employees
- Established an executive leadership program to develop VDOT leaders of the future

Appendix B: VDOT'S FY2007/FY2008 Business Plans

FY07 Business Plan

Improve Internal Business Processes	
Linking Land Use and Transportation Planning	
In FY07 Business Plan we said that we would:	We have:
Design rules and procedures for reviewing local comprehensive plans and land development proposals	<ul style="list-style-type: none"> • Implemented procedures and completed training. • Land Development Committee has issued statewide guidelines for capturing cost and workload
Evaluate VDOT staffing and skill set requirements for analyzing comprehensive plans and development	<ul style="list-style-type: none"> • Included this as a part of the FY08 Business Plan – Focus on the Workforce
Provide technical assistance and training to localities on managing the impacts of land use on transportation	<ul style="list-style-type: none"> • Provided technical assistance and training to localities on managing the impacts of land use on transportation.
Move forward with a state access management program to reduce traffic congestion and improve safety	<ul style="list-style-type: none"> • Included this as a part of the FY08 Business Plan. VDOT will develop comprehensive highway access management standards.
Coordinate and provide technical assistance to localities as part of plan review in accordance with Acts of the General Assembly Chapter 527- in order to foster effective transportation planning and mitigate impacts of growth	<ul style="list-style-type: none"> • Trained and supported localities in FY07. This is an ongoing effort in the FY08 Business Plan.

Program Delivery	
In FY07 Business Plan we said that we would:	We have:
Establish a goal of reducing construction engineering and inspection (CEI) costs (Savings will be shifted to construction projects)	<ul style="list-style-type: none"> • Included this in the FY08 Business Plan – deliver the CEI Budget Development and Tracking System.
Reduce project delivery timeframes by examining current PE processes (Expand the use of “No Plan” projects to speed delivery and reduce costs)	<ul style="list-style-type: none"> • Conducted internal process review on the Concurrent Engineering Process (CEP) • Began revising Road Design Manual to better describe No-Plan projects (to be included in next update of the Road Design Manual. • Included the next phase of this initiative in the FY08 Business Plan - to investigate reducing project development time by 10%
Convene industry CEO forums to solicit suggestions on best practices to expedite project delivery	<ul style="list-style-type: none"> • Completed the FY07 forums. This is an ongoing initiative included in FY08 Business Plan.

System Operations	
In FY07 Business Plan we said that we would:	We have:
Improve highway safety to drive down deaths and fatalities by leading and implementing the Governor's Strategic Highway Safety Plan (SHSP)	<ul style="list-style-type: none"> • With our partners at DMV and VSP, completed Virginia's State Highway Strategic Plan • Launched a public information campaign, "Virginia's Highway Safety Challenge", with DMV and VSP • Virginia fatalities were 946 (CY 2005) and 961 (CY 2006)
Institute primary route safety corridors	<ul style="list-style-type: none"> • Developed procedures to find candidate high crash rate primary segments within each district for potential designation as a Highway Safety Corridor. (Not completed because lacking proper enforcement).
Start the Safe Roads to Schools Program (SRTS)	<ul style="list-style-type: none"> • Implemented the Safe Routes to Schools Program • 8 school divisions and one statewide applicant received \$242,000 in grants to develop SRTS programs and promote the program • Awarded \$2.4 million for 8 project grants for improvement projects in 6 localities (6 districts) • Transferred the program coordinator position to Transportation and Mobility Planning Division.
Deliver Maintenance Projects on time and on budget; Institute other performance measures for maintenance and operations	<ul style="list-style-type: none"> • Met all of our on-time/ on-budget targets for maintenance in FY07
Reduce congestion by expanding safety service patrols and instituting a quick incident clearance capability on all major travel corridors	<ul style="list-style-type: none"> • Begun development of the Statewide Safety Service Patrol Plan • Developed the Incident Management Strategic Vision • Proposed Incident Management Legislation • Implemented Regional and Area Incident Management Teams • Begun a pilot review of quick clearance specialty tow contracts
Improve traveler information with improved 511 service coverage and start providing travel time information on critical corridors	<ul style="list-style-type: none"> • Worked to implement travel times and sub-tiered metro-urban travel information (ongoing)
Consolidate district operations functions into regional service areas based on traffic patterns to better manage traffic operations	<ul style="list-style-type: none"> • Completed this initiative. • Regional Operations commenced July 2006.
Utilize traffic engineering research and new products to improve sign visibility and other safety features on highways	<ul style="list-style-type: none"> • Completed testing experimental wet/night reflectors in select work zones. • Included in FY08 Business Plan to implement a program focused at "Signs and Safety"
Employ economic solutions to congestion management (HOT Lanes)	<ul style="list-style-type: none"> • Included in FY08 Business Plan to pursue HOT Lanes Network (PPTA)

Administration	
In FY07 Business Plan we said that we would:	We have:
Examine the impact of reduced 'program' staffing on the need and level of 'administrative & support' staffing	<ul style="list-style-type: none"> Began reviewing the need for this initiative
Benchmark and align administrative support staffing levels and costs to industry standards	<ul style="list-style-type: none"> Included in FY08 Business Plan, analyze the workforce to predict and prepare for business changes
Effectively manage staffing and skills sets to support the changing role of VDOT Establish workforce and development plans which assess current and needed skill sets and develop staffing strategies to fill skill gaps	<ul style="list-style-type: none"> Evaluated skill sets of contract monitors impacted by AHQ consolidations for placement in other areas of the Department. Started to identify needed skill sets for Superintendents managing multiple locations. Included in FY08 Business Plan, workforce methodology
Meet interim SWAM goal of 20%, move toward Statewide goal of 40%	<ul style="list-style-type: none"> Achieved 30.03% for FY07 (DMBE records) Revised FY08 Target to 35%

Administration: Internal Controls	
In FY07 Business Plan we said that we would:	We have:
Address or implement 50 recommendations from Special Review of Cash Management and Capital Budget Practices	<ul style="list-style-type: none"> Addressed or implemented all 50 recommendations
As the Department re-evaluates programs and implements outsourcing and downsizing initiatives, ensure that proper internal controls are maintained to promote accountability, stewardship, and fiduciary responsibilities	<ul style="list-style-type: none"> Included in the FY08 Business Plan to implement the ARMICS program Requested and received an extension from DOA for Stage 1 completion to 11/30/2007

Encourage Private Investment	
In FY07 Business Plan we said that we would:	We have:
Continue with the Transportation Partnership Opportunity Fund and proceed with FY07 scheduled PPTA and design/build projects Identify candidate PPTA and design/build projects through the innovative project team.	<ul style="list-style-type: none"> Met this initiative in FY07 by proceeding with scheduled PPTA and design/build projects and identifying candidate projects through the innovated project team. Worked on major projects in FY07 (I-495 HOT Lanes project and the Route 460 PPTA)

Continue Where Feasible To Transfer Program Delivery To Localities

In FY07 Business Plan we said that we would:	We have:
Continue with First Cities Initiative	<ul style="list-style-type: none"> • Worked with partner cities on streamlining project delivery • Experienced another year of growth and expansion for the Urban Construction Initiative (First Cities) in FY07 with the City of Harrisonburg, the Town of Bridgewater, and the City of Lynchburg joining the initiative.
Consider more aggressive devolution initiatives	<ul style="list-style-type: none"> • Provided counties with information and tools to assist in making the decision to assume responsibilities for the secondary system of highways. • Partnered with Stafford and James City counties.

Outsource Where Financially Prudent

In FY07 Business Plan we said that we would:	We have:
Define Core Business Functions Determine base level resources where VDOT must retain capability Determine the most cost effective way to deliver services Move from a service provider to a contract manager	<ul style="list-style-type: none"> • Established an outsourcing methodology that includes an analysis of business function, base level resources, and costs to help determine if a function should be outsourced
Chapter 544 of the 2006 Acts of Assembly requires the Commissioner to report in November 2006 on past and future plans for outsourcing, privatizing and downsizing of the agency. VDOT Executive staff has established a methodology to evaluate operational areas for outsourcing. Candidate areas include:	
Equipment repair and maintenance	<ul style="list-style-type: none"> • Made the decision to not move forward at this time
Primary and Secondary System Maintenance (already partially outsourced)	<ul style="list-style-type: none"> • Made the decision to not move forward at this time
Safety Service Patrols (already partially outsourced)	<ul style="list-style-type: none"> • Included this initiative in the FY08 Business Plan
Sign production and installation	<ul style="list-style-type: none"> • Started implementation • Developed interstate fabrication & maintenance RFP
Smart Traffic Centers	<ul style="list-style-type: none"> • Not made a decision on this initiative. This initiative will be a Regional Decision
Special Facilities	<ul style="list-style-type: none"> • Made the decision to not move forward at this time
Surplus Equipment Auctions	<ul style="list-style-type: none"> • Not worked on this initiative. Dept. of General Services is leading this effort
Toll Collection Facilities	<ul style="list-style-type: none"> • Transferred Dulles Toll Road facilities with the Metropolitan Washington Airport Authority (MWAA) agreement

Adjust Staffing, Facilities, Other Resources

In FY07 Business Plan we said that we would:	We have:
In FY06, VDOT developed a methodology and decision making process for determining appropriate number and location of Area Headquarters	<ul style="list-style-type: none"> • Completed the plan • Began to close/consolidate facilities
Study of Regionalizing Right of Way function completed. Recommendations under consideration	<ul style="list-style-type: none"> • Managed workload by shifting it between districts
Optimize the mix of consultant and Department personnel for preliminary engineering and construction inspection	<ul style="list-style-type: none"> • Included in this in the FY08 Business Plan – Focus on the Workforce.
Staff will evolve from “do’ers” to program managers	<ul style="list-style-type: none"> • Started evolving to program managers with the letting of TAMS maintenance contracts.
Review Central Office and Field Administration for overhead reductions	<ul style="list-style-type: none"> • Reduced Central Office staffing by 100 positions. • (These 100 positions were offset by the transfer of 30 field Civil Rights positions to the Central Office with no change to Commissioner’s Reserve and the transfer of 12 positions for Commissioner’s Reserve to Operations.

FY08 Business Plan

Focus on the System

System Initiative #1: Improve the Preservation and Management of the System.	
We will:	We have:
Establish a program for the repair, replacement and rehabilitation of bridges less than 60 feet in length	
Hold workshops on rapid repair technology for delivering cost effective maintenance with minimal traffic delay	
Deliver recommendations and a fee structure associated with heavy vehicles (HB1645, HB2917, SB1321)	
Investigate reassigning components of the highway system to the functional classification system (HB 3202 - due January 1, 2009)	
Deliver a biennial report on the system to the General Assembly (HB2838)	
Continue implementation of TAMS (due July 1, 2009)	

System Initiative #2. Improve Safety and Security	
We will:	We have:
Implement the 50 actions from Virginia's Strategic Highway Safety Plan	
Implement a program focused at "Signs and Safety"	
Establish a Virginia Center for Transportation Safety especially focused on truck safety, and older and younger drivers	
Conduct a review of all of Virginia's laws regarding pedestrian safety and recommend code changes	

System Initiative #3. Improve Mobility	
We will:	We have:
Develop and propose a comprehensive statewide congestion management plan	
Expand the use of safety service patrols and implement quick clearance techniques	
Explore the use of advanced technology solutions to improve traffic flow and information in Hampton Roads and NOVA	
Develop and implement comprehensive highway access management standards (HB2228, SB1312)	
Pursue HOT Lanes Network	

System Initiative #4. Improve Land Use and Transportation with our Partners	
We will:	We have:
Implement the Chapter 527 Traffic Impact requirements and procedures	
Local System Improvements Aid localities in determining whether or not to assume control of the secondary system Local administration of projects (First Cities Initiative as baseline) Subdivision Street Standards Modernization (SB1181)	

Focus on the Business

Business Initiative #1: Improve Project Development and Delivery	
We will:	We have:
Implement the enhanced Construction, Engineering and Inspection (CEI) process	
Evaluate and implement appropriate recommendations of the Transportation Accountability Commission and the SJR 60 study	
Implement a Context Sensitive Solutions (CSS) Program	
Investigate reducing project development time by 10%	
Review past outsourcing initiatives to ensure effectiveness	

Business Initiative #2: Ensure efficient and effective VDOT Management	
We will:	We have:
Implement the AHQ consolidation	
Develop a list of candidate functions for outsourcing. Evaluate and outsource as appropriate	
Develop and fund a research, technology and best practices program focused on longer lasting, lower cost bridges, pavements and other roadway infrastructure and features and rapid repair techniques and technologies	

Business Initiative #3: Unify the System Investment Process	
We will:	We have:
Integrate STIP, SYIP and the Six-Year Maintenance and Operations Program into one process document that includes maintenance and construction projects on a consistent cycle (HB5002 Item 444 A.5)	
Incorporate into the transportation selection process performance measures relating to congestion reduction, safety, transit and HOV use, job-to-housing ratios, job and housing access to transit and pedestrian facilities, and consider them in selecting transportation improvement projects (HB3202)	

Business Initiative #4: Improve SWAM

We will:	We have:
Achieve interim SWAM goal – that 35% of all contract expenditures will be paid to a SWAM vendor	
Enhance and develop DBE program through the Business Opportunity Workforce Development Program	

Business Initiative #5: Assess Internal Controls

We will:	We have:
Implement the Agency Risk Management and Internal Controls Standards program (ARMICS statewide program) to assess effectiveness of key processes and procedures	

Business Initiative #6: Engage Key Partners

We will:	We have:
Continue forums with Chief Executives on improving business practices	
Expand/improve the formal partnering process beyond contractors, to include local government at all levels for project development	

Focus on the Workforce

Workforce Initiative #1: Implement Project Management and Contract Management Training

We will:	We have:
Design and implement training programs for Project Management, Contract Management, and Context Sensitive Solution Methodology	

Workforce Initiative #2: Get the right people, in the right places, in the right numbers to get the work done

We will:	We have:
Analyze the workforce to predict and prepare for business changes	
Develop a succession plan	

Workforce Initiative #3: Implement a Diversity Program

We will:	We have:
Develop a Diversity Plan that defines expectations of leaders and employees in how we work together and provides programs and communications to nurture an inclusive work environment that values and welcomes employees with diverse perspectives and backgrounds	
Develop analysis, reporting tools, and programs that will provide management with practical employment solutions and strategies to increase diversity in the workforce	

Workforce Initiative #4: Improve Workforce Safety Programs

We will:	We have:
Assess the current safety policies and programs to determine effectiveness and efficiency (Workforce Safety, Loss Time, and Employee Assistance)	
Redesign, develop, and implement a comprehensive workforce safety program that is aligned with the agency's mission and integrates performance metrics to measure the effectiveness of our programs Develop and implement programs that reduce loss time days and accidents by 5%	

Workforce Initiative #5: Implement a VDOT Telework Program (HJR144)

We will:	We have:
Increase by July 1, 2008 the number of employees who telework or work alternate schedules to 20% of the eligible workforce	
Set up a cross functional team sponsored by Chief of Technology and Chief of Organizational Development to set technology standards and provide web-enabled access and systems	

Appendix C: Breakdown of Categories of FY2007 Private Sector Spending

VDOT's private sector spending is comprised of the following six categories: Contractual Services; Supplies & Materials; Continuous Charges; Property & Improvements; Equipment; and Plant & Improvements. Note that VDOT's construction expenditures are captured in the category of Plant & Improvements. The information below gives a detailed breakdown of each of these six categories.

Contractual Services

DOA defines contractual services as expenditures for communication services, employee development services, health services, management and informational services, repair and maintenance services, support services, technical services, and transportation services.

Contractual Services	Expenditures FY07 (in millions)
Repair and Maintenance Services	\$406.1
Support Service	\$183.0
Management and Informational Services	\$65.7
Technical Services	\$36.3
Communications Service	\$18.2
Employee Development Service	\$6.4
Transportation Services	\$4.6
Health Service	\$.5
Other Contractual Services or Refunds	-\$1.7
Total	\$719.1

Communication services and technical services include services provided by Virginia Information Technologies Agency (VITA). Management and information services include audit and fiscal services. Repair and maintenance services include custodial services, as well as outsourced highway repair and maintenance services such as guardrail repair, mowing, ditch cleaning, and sign maintenance. Support service expenditures include all outsourced design work, toll collection labor, and other skilled temporary labor services.

Supplies and Materials

DOA defines supplies and materials as expenditures for administrative supplies, energy supplies, manufacturing and merchandising supplies, medical and laboratory supplies, repair and maintenance supplies, residential supplies, and specified use supplies.

Supplies and Materials	Expenditures FY07 (in millions)
Repair and Maintenance Supplies	\$77.0
Energy Supplies	\$25.7
Specific Use Supplies	\$9.3
Administrative Supplies	\$2.6
Other Supplies and Materials	\$1.9
Manufacturing and Merchandising Supplies	\$1.9
Medical and Laboratory Supplies	\$.4
Residential Supplies	\$.2
Total	\$119.0

Supplies and materials may include any building, custodial, electrical, mechanical, or vehicle supplies, as well as coal, gas, gasoline, oil, and steam used by the agency. It also includes highway repair and maintenance items such as stone, sand, and marking paint. Specific use supplies include materials for emergency operations such as salt and abrasives.

Continuous Charges

DOA defines continuous charges as expenditures for insurance-fixed assets, insurance-operations, capital and operating lease payments, installment purchase and service charges.

Continuous Charges	Expenditures FY07 (in millions)
Service Charges	\$20.8
Operating Lease Payments	\$19.3
Insurance – Operations	\$11.7
Capital Lease Payments	\$5.5
Insurance - Fixed Assets	\$1.3
Installment Purchases	\$0
Payments for State Employee Health Insurance Programs	\$0
Other Continuous Charges	\$0
Total	\$58.6

Expenditures in the services charges category include utility related charges such as electricity, refuse, and water and sewer bills.

Property and Improvements

DOA defines property and improvements as expenditures for property and improvements acquisition, natural resources acquisition, and site development.

Property and Improvements	Expenditures FY07 (in millions)
Acquisition of Property and Improvements	\$103.0
Site Development	\$6.9
Natural Resources	\$.1
All Other Property and Improvements	-\$0.2
Total	\$109.8

Equipment

DOA defines equipment as expenditures for computer, educational, cultural, electronic, photographic, medical, laboratory, motorized, office, specific use, and stationary equipment.

Equipment	Expenditures FY07 (in millions)
Motorized Equipment	\$28.4
Electronic and Photographic Equipment	\$5.0
Specific Use Equipment	\$4.2
Computer Hardware and Software	\$2.9
Stationary Equipment	\$2.7
Office Equipment	\$2.3
Medical and Laboratory Equipment	\$.9
Educational and Cultural Equipment	\$.8
Other Equipment	\$.0
Total	\$47.2

Plant and Improvements

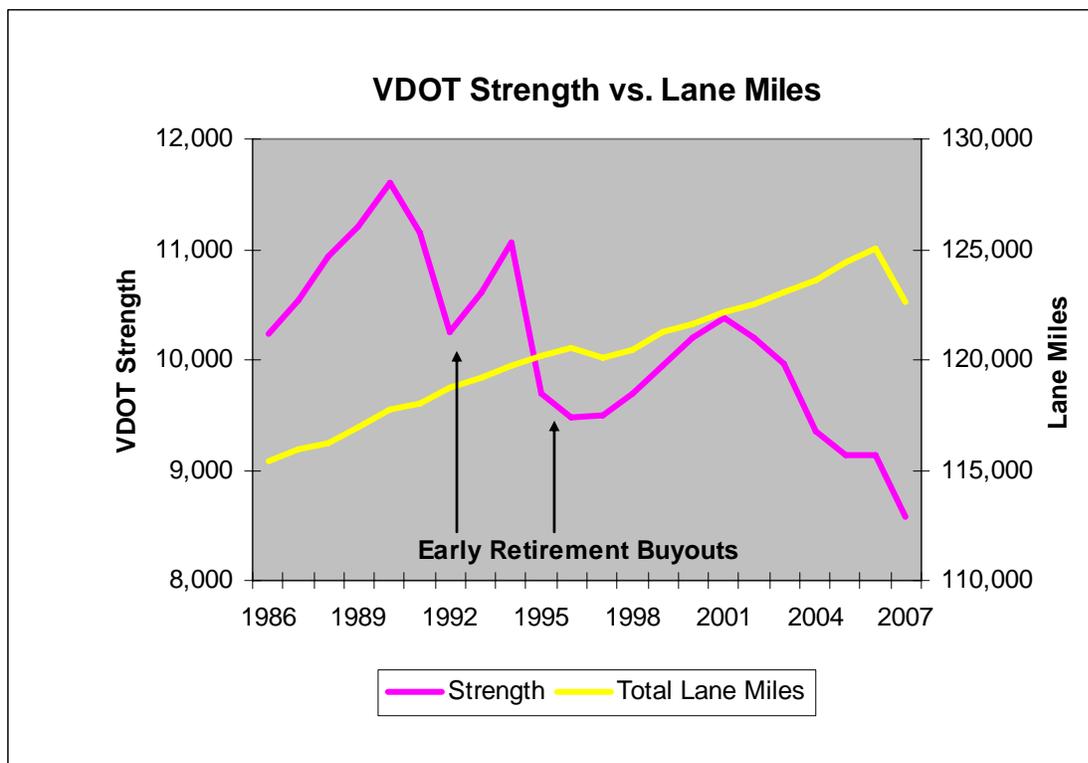
DOA defines plant and improvement as expenditures for acquisition and construction of plant and improvements. These are VDOT's construction expenditures.

Plant and Improvements	Expenditures FY07 (in millions)
Total	\$675.9

Expenditures within this group include road and bridge construction.

Appendix D: VDOT's Employment Levels History

VDOT Strength (# of Filled Positions) vs. Lanes Miles



VDOT's Maximum Employment Level History

- The Appropriation Act for 1989 included 12,277 MEL positions.
- In 1992, the General Assembly reduced the MEL by 707 positions (677 due to early retirements and 30 to create the DRPT) bringing the total MEL to 11,570.
- In 1994, 212 positions were eliminated due to changes in and a reduction in work processes, resulting in a MEL of 11,358 positions.
- In 1995, the General Assembly reduced MEL by another 50 positions. In April 1995, the Department accepted 1,249 separations by employees under the Workforce Transition Act. Also in April, the Department identified 53 safety related positions that were critical and should not be eliminated. In the six months since then, another 245 positions had been identified as critical. Therefore, the Department's MEL at the end of 1995 totaled 10,357.
- In 1996, the General Assembly reduced MEL by a total of 95 positions (65 positions returned and 30 positions transferred to DMV) for a total MEL of 10,262.
- 2000 General Assembly action increased MEL by 410 positions, giving an authorized MEL of 10,672.

- The 2000 Session reduced MEL by 171 positions for a total MEL of 10,501:
 - 1 MEL transfer to Department of Rail & Public Transportation
 - 127 positions from Maintenance Division
 - 23 positions Maintenance Weigh Party, and;
 - 20 positions from Fleet Management to DGS.
- In 2001, the General Assembly authorized an additional 144 MEL for a total authorized MEL of 10,645 to implement the Commission on Transportation Policy's (CTP) recommendations.
- In 2002, MEL reduced by 5 (on-loan to DRPT for 4 years) for a total MEL of 10,640.
- In 2003, General Assembly reduced MEL 118 positions resulting in a reduced total MEL of 10,522:
 - 100 2003 Appropriations Act, and
 - 18 Equipment Positions.
- Also, in 2003 MEL was reduced by an additional 22 positions due to positions being transferred to other agencies as part of final WPS recommendation, resulting in a total MEL of 10, 500 positions:
 - 10 Hauling Permits MEL transferred to Department of Motor Vehicles, and
 - 12 MEL transferred to the Department of Rail and Public Transportation.
- Effective July 1, 2004, 182 positions transferred from VDOT to the Virginia Information Technology Agency (VITA). Total MEL of 10,318.
- Effective July 1, 2005, 2 positions transferred from VITA to VDOT. Total MEL of 10,320 positions.
- Effective July 1, 2006, VDOT proactively reduced MEL from 10,322 positions to 9,822 positions, a 4.8% reduction which equates to 500 positions.