

Governor-Elect Perdue
Transition Advisory Group Sessions
Session Summary 14

Transportation

November 24, 2008

Session Arranged by the
Governor-Elect Perdue Transition Team

Session Facilitated by the
Small Business and Technology
Development Center (SBTDC)

Report Prepared by the
UNC-Chapel Hill School of Government

Session Summary 14

Transportation

SECTION 1. **Executive Summary**

Concerns regarding the state's ability to fund its transportation needs, particularly its need for intermodal transportation, topped the agenda of transportation-related issues raised during the transportation transition advisory group session. Discussion of construction inflation and declining revenue streams began in the morning session during the current administration's presentation and continued in the afternoon as participants identified financial concerns and offered potential solutions. The other major issue that dominated both the morning and afternoon sessions was the culture of the Department of Transportation (DOT). The current administration discussed its efforts to reorganize and realign and to create a culture of accountability and responsibility in response to a comprehensive evaluation of the organization by the consulting firm McKinsey and Company, and participants in the afternoon session identified the need for a departmental change in culture as a priority.

SECTION 2. **Process Used in Session**

The session began with a morning presentation about the current administration's work on transportation matters, including its efforts to meet issues, opportunities, and challenges.

In the afternoon, invited participants discussed pressing issues in the topic area and participated in an exercise for developing possible solutions and recommendations for the issues. Further, the audience participated in an exercise to prioritize the issues. Finally, the audience reconvened to review solutions, recommendations, and prioritization as captured in the notes from the afternoon exercise.

See facilitator agenda (electronic Appendix 1) for details about the process devised and used by facilitators from the Small Business and Technology Development Center (SBTDC).

SECTION 3. **Participant List**

SBTDC facilitators: Ron Ellinich and Larry Loucks

UNC-Chapel Hill School of Government reporters: Shea Denning and Richard Ducker

UNC-Chapel Hill MPA student note taker: Kate Mulvaney

Governor-Elect Perdue's transition team: Mark Ezzell and Chrissie Pearson

DOT Administration panel participants:

Lyndo Tippett, Secretary of Transportation

Susan Coward, Deputy Secretary for Intergovernmental Affairs and Budget Coordination

Anthony Roper, Deputy Secretary for Administration and Business Development

Mark Foster, Chief Financial Officer

Roberto Canales, Deputy Secretary for Transit

Jon Nance, Chief Engineer

Hope McLamb, Director of Operations for the Division of Motor Vehicles

Attendees:

Fred Aikens	Sepideh Asefnia	Ram Athavale
Marilyn Baird	Tad Boggs	Paul Brant
Vincent Brown	Victor Bruinton	Bill Buchanan
Fred Burchett	Roberto Canales	Becky Carney
Lee Cooper	Susan Coward	Lisa Crawley
David Farren	Marc Finlayson	Adam Fischer
Laura Godwin	Larry Goode	Damien Graham
Malachi Greene	Wib Gulley	Bridget-Anne Hampden
Steve Jackson	Ed Johnson	Lori Kroll
Renaldo Lovisa	Jed McMillan	Joe Milazzo
Beau Mills	Tony Moore	Barbara Mulkey
Bill Mullinex, Sr.	Eddie Musselwhite	Jon Nance
Keith Parker	Dennis Patterson	Sheila Pierce
Joseph Qubain	Craig Raborn	DeLano Rackand
Johanna Reese	Alfred Ripley	Anthony Roper
Carol Rubello	Perry Safran	Len Sanderson
Scott Saylor	Al Swanstrom	Nina Szlosberg
Anne Tazewell	Steve Thomas	Bobby Thompson
Jim Trogdon	Larry Tysinger	Steven Waters
Judy Weseman	Richard Westbrook	Ralph Womble
Steve Zelnak		

SECTION 4. **Significant Issues, Opportunities, and Challenges Identified in Morning Sessions about Current Administration Efforts**

Secretary of Transportation Lyndo Tippett and six members of the current administration: Susan Coward, Deputy Secretary for Intergovernmental Affairs and Budget Coordination; Anthony Roper, Deputy Secretary for Administration and Business Development; Mark Foster, Chief Financial Officer; Roberto Canales, Deputy Secretary for Transit; Jon Nance, Chief Engineer; and Hope McLamb, Director of Operations for the Division of Motor Vehicles, identified issues, opportunities, and challenges currently faced by the department and discussed the department's efforts to address those matters.

Lyndo Tippett, Secretary of Transportation

Secretary Tippett opened the meeting by outlining the responsibilities of the department, which include maintaining the second largest highway and ferry systems in the nation, along with airports, passenger train, and bicycle and pedestrian routes. DOT's organizational chart is attached in the electronic supplementary material.

Susan Coward, Deputy Secretary for Intergovernmental Affairs and Budget Coordination

Coward discussed the department's 2004 adoption of a Long-Range Statewide Multimodal Transportation Plan. A centerpiece of the plan is adoption of an investment scenario that focuses on upgrading and preserving the existing transportation system and reduces traditional levels of funding for expansion. The plan introduced a tiered approach to managing the transportation system, with statewide, regional, and subregional levels. The statewide tier, identified as Strategic Highway Corridors, is comprised of seven percent of the highway system but carries nearly 50 percent of the traffic. The plan recognizes the need to improve and maximize the use of these highways, which are critical to statewide mobility and connectivity.

DOT efforts to streamline its processes and better use its resources are evidenced by the memorandum of agreement it entered with the Army Corps of Engineers and the Department of Environment and Natural Resources Ecosystem Enhancement Program (EEP) that establishes procedures for providing compensatory mitigation through EEP to offset impacts of DOT projects. The new procedures reduce delays created by the requirement for environmental mitigation by allowing DOT to use existing assets to gain credits. DOT has also begun to use design/build construction contracts as authorized by G.S. 136-28.11 for appropriate projects, which expedites project completion. Eighteen of twenty-eight design-build contracts have been completed, resulting in \$1 million in savings as compared to the cost of traditional contracts for engineering and construction.

DOT continues to work with the I-95 Corridor Coalition and Florida, Georgia, South Carolina, and Virginia to administer the federal funds that were awarded for improvements along the I-95 corridor through the Corridors of the Future program.

Coward discussed DOT's efforts to address the findings and recommendations of McKinsey and Company, the global management consulting firm that evaluated the department and issued a report in 2007. Among the McKinsey findings were that the department had a "silo" culture, a lack of cooperation across groups within the department, and a lack of accountability. The department's Transformation Management Team (TMT) (of which Coward is a member) is charged with designing and implementing changes based upon the McKinsey report. Coward noted that the department had undergone an organizational realignment as a result of the findings and that many redundancies had been eliminated. She also said that DOT was working to create a culture of accountability and responsibility.

Coward identified four issues confronting the department in the near term:

1. The current federal law funding highways expires on September 30, 2009. Federal funding must be reauthorized for the state to continue to receive the funds it has in past years.

2. The Bonner Bridge project involves multiple phases of construction. The first phase, schedule for letting in Spring 2009, will replace the current bridge with a new parallel bridge. Bonner Bridge opened in 1964 and is the only highway link between Hatteras Island and the mainland.
3. The General Assembly directed a logistics study in 2007 to address concerns regarding freight flows and necessary infrastructure. Since freight issues involve many areas of government and administration, DOT should not be the primary party responsible for freight quarter development. High level cabinet coordination is needed to address these issues.
4. Land use issues associated with DOT projects.

Mark Foster, Chief Financial Officer

Foster pointed out challenges facing the department as a result of current state and national economic conditions. Foster's handouts are included in the electronic supplementary material for this report and contain more detailed information than is reflected in this summary section. The department's 2008-9 budget was \$4 billion. Seventy-five percent of the department's budget is funded by appropriations from North Carolina's Highway Fund and Highway Trust Fund, while the other quarter of the budget is met mainly through federal funding. State transportation revenue sources are composed of the motor fuels tax (55 percent); the highway use tax (25 percent); and fees (20 percent). Foster provided a detailed projection of how the department will use its 2008-9 budget. He identified several key accomplishments of the department in 2007-8, including

- Realignment of DOT to improve performance and accountability
- Completion of 168 major projects and the awarding of \$850,000 in new contracts
- Initiation of contracts to rehabilitate/replace 133 bridges and the maintenance of 12,712 bridges
- Construction or rehabilitation of nearly 1,700 miles of road
- Use of more than 800,000 tons of reclaimed/recycled asphalt pavement in production
- 24 percent increase in public transportation ridership since 2003
- Implementation of major program changes at the Department of Motor Vehicles (DMV), including central license issuance, e-sticker, and vertical licenses for underage persons
- 25.6 percent increase in minority business program participation

Foster also noted as departmental accomplishments the issuance of \$300 million in GARVEE bonds to fund 34 projects on Strategic Highway Corridors, the department's creation of enhanced cash management models, and a \$43 million budget reduction resulting from its collaboration with other agencies on EEP. Foster echoed Coward's description of the department's long-range investment strategy shifting the department's focus from expansion to modernization and preservation. He noted that transportation spending by division correlates with the population in each division and that larger metropolitan areas receive more funding than less-populated areas.

Foster addressed a myriad of financial challenges. He noted that the unfunded cost of loop projects meant that under current projections, those projects could not be completed until 2050. While the typical state department of transportation manages 20 percent of the state's roads, DOT is responsible for 80 percent of roads in North Carolina. The state's population has grown, and growth in traffic has outpaced population growth. More freight is moving across the state, and port traffic is also expected to increase. DOT's purchasing power has decreased nearly 50 percent due to construction inflation. A dollar today buys about half of the construction that it did in 2002. And the news gets worse. DOT expects to lose \$1 billion in revenue over the next 3 years because of decreasing DMV fees, decreasing amounts of motor fuels taxes, and decreasing highway use taxes. Foster characterized DOT's revenue stream as out of sync with the infrastructure needs of the state. The department must transition from the current indirect user fee system to a direct user fee system to remain viable. Relying on the federal government is not an option since the federal Highway Trust Fund is depleted. Foster said he expects the federal government to enact a stimulus package, but that the state's share of any such funds (estimated to be around \$300 million), while welcome, would not by itself fund the state's transportation needs. Foster also commented on the need for federal reauthorization of appropriations from the federal Highway Trust Fund to the states. He noted in conclusion that the industry reaction to current economic conditions in terms of prices and payout curves made this the right time to invest but raised the ubiquitous question of where the department could find the funds to make such an investment.

Anthony Roper, Deputy Secretary for Administration and Business Development

Anthony Roper, Deputy Secretary for Administration and Business Development, spoke about the five units under his supervision: Civil Rights Unit/EEO, Business Opportunity and Workforce Development, HBCU (Historically Black Colleges and Universities) /MIHE (Minority Institutes of Higher Education), Division of Safety/Risk Assessment, and General Services. Roper noted the department's civil rights unit was part of what made DOT "work well," and that working well was a goal agreed upon by the Transition Management Team. The civil rights unit encompasses Title VI and Title VII activities and programs. Business opportunity workforce development involves supportive services for federal recipients, outreach, and activities to strengthen small businesses enterprise. The HBCU/MIHE programs award DOT internships that encourage students to pursue careers in transportation with an ultimate goal of having a diverse workforce involved in transportation. The Division of Safety/Risk Assessment is charged with keeping employees and the traveling public safe. Finally, the General Services division must maintain 2000 DOT facilities across the state. Many of these facilities are aging and in need of repair. The division is working to identify those needs.

Roberto Canales, Deputy Secretary for Transit

Canales addressed the five divisions under his supervision: Aviation, Bicycle and Pedestrian, Ferry, Public Transportation, and Rail. Canales discussed efforts to transform the operation of these divisions. He cited a goal of working with local, regional, and state partners to improve operations and leverage resources.

The Aviation Division is responsible for maintaining 72 local airports and relies upon state and federal funding for these purposes. Issues confronting the division relate to aging infrastructure, safety, and the need for a skilled aerospace workforce. He cited a recent study showing that the economic benefit of the state's general aviation airports was nearly \$20 billion per year.

The Bike and Pedestrian Division has a \$6 million budget. Issues in this area arise around the mixing of pedestrians and bikes with motorists. Bike and pedestrian travel must be better connected with other modes of transportation.

The Ferry Division is responsible for the state's 22 ferries, which cover seven routes. The ferries are aging and in need of repair and, in some cases, replacement; fuel costs have increased; and there is a shortage of trained and licensed people to operate the ferries.

The Public Transportation Division helps manage and works with all counties with bus service, van pools, car pools, and light rail, including working with local entities to expand public transportation options. Issues for this division involve aging buses in need of repair coupled with increased ridership. There also is a need for better coordination between modes of transportation. Higher levels of efficiency could result from reducing redundancy through coordination with private partners.

The Rail Division operates the two Class I railroads and twenty-four short line railroads, used predominately for freight operations. It also contracts with Amtrak for passenger rail use. There has been a 30 percent growth in ridership. Issues in this area center around capacity, on-time performance, making rail attractive to users, and connectivity with other modes. Safety at rail crossings also has been an issue. Rail transport, like other modes of public transportation, also presents opportunities for public-private partnerships.

Jon Nance, Chief Engineer

Nance identified four challenges facing DOT:

1. Land use. There must be better coordination between local government and DOT regarding construction of improvements, such as shopping centers, that impact state roads.
2. Technology. DOT must use technology such as signs and cameras to improve transportation.
3. Farm-to-market roads. These roads were not built to support the loads of trucks and the amount of traffic they are now sustaining.
4. Long-range planning.

Hope McLamb, Director of Operations for the Division of Motor Vehicles

McLamb noted that the Division of Motor Vehicles (DMV) has contact with nearly every household in the state at least once a year, by way of registration renewals for the 8.5 million registered motor vehicles in the state or license issuance or renewals for the state's 6 million licensed drivers. McLamb noted that the Division has made many services available online such as registration renewal and obtaining a driving record or duplicate driver's license. Two new programs have or will affect the issuance of driver's licenses by the agency. First, beginning July 1, 2008, driver's licenses are issued from a central location and are mailed to customers at their

home addresses. Customers receive a temporary certificate at the DMV location when they renew their licenses and keep their current license to use as photo identification until receiving the new license in the mail. Second, beginning July 1, 2011, local property taxes on registered motor vehicles will be collected by DMV at the time the vehicle's registration is renewed. Challenges facing DMV include maintaining good customer service despite budget cuts and maintaining and supporting an aging computer system and aging DMV facilities.

Question-and-Answer Session with DOT

Representatives from DOT then fielded questions from those in attendance, related to range of issues. Below are summaries of significant points made or issues addressed in the course of responding to those questions.

- DOT is considering leaseback arrangements and other forms of financing for dealing with aging infrastructure.
- DOT's revamped organizational structure reflects the need for financial innovation.
- The potential for a reduction in petroleum production has been considered in the strategic planning process, which is based upon a multi-modal system.
- A vehicle-miles-traveled (VMT) tax was the subject of an extensive study in Oregon and was also the subject of a study in the Triangle. A VMT tax, which is akin to a fee for use of state roads, potentially could replace the motor fuels tax. The 21st Century Transportation Committee (a committee established by the General Assembly in 2007 to study the transportation infrastructure needs of the state) has considered recommending that a fee be paid upon registration renewal that is based on an odometer reading. DOT recognizes that the motor fuels tax is a "pay by the drink" system and that avoidance of large lump-sum assessments is a valid point for consideration in any VMT tax. The odometer-based fee considered by the 21st Century Transportation Committee is about \$4 per month based upon 10,000 vehicles miles traveled per year.
- The 21st Century Transportation Committee has considered how to meet the infrastructure needs of the transportation system given the decreasing revenue stream. All of the solutions include taxation. Tolls can provide revenue, but will provide less than 5 percent of the amount needed.
- DOT is working to reduce the time from concept to ribbon cutting.
- DOT has developed a draft prioritization model that has been presented to the Board of Transportation and a subcommittee of the 21st Century Transportation Committee. Within the next few months, this tool will be used for setting priorities. There will be no impact on TIP for the next 36 months.
- DOT recognizes that \$6 million for the entire state is insufficient to meet the need for bicycle and pedestrian accommodations and is looking for recommendations. Including these accommodations in project budgets is a solution for future projects.
- DOT's Quality Enhancement Group is following the issue of climate change, including the business function of including climate change in decisions.

SECTION 5. Key Issues and Solutions/Recommendations

Discussion among the participants in the afternoon focused on six key topics, identified by the facilitators, SOG faculty, and a member of the governor-elect's transition team, based upon the morning session. Those topics were: (1) N.C. Opportunities; (2) Alternate Modes of Transportation; (3) Process/Decision Making/Prioritization; (4) Finance/Funding; (5) Land Use; and (6) Perception/Public Information and Media. Participants raised pressing issues in the various subject areas and proposed solutions and recommendations for those issues. Finally, participants voted, via a dot exercise, for issues that they deemed a priority. Due to the number of issues and recommendations raised, this section of the report includes only the issues that received three or more priority votes. The electronic supplementary material for this report includes a full list of issues and recommendations that made up the afternoon session, as well as comments made on note cards and submitted after the meeting adjourned.

Topic Area No. 1: N.C. Opportunities

Issue No. 1. Need for Improved Relationship and Reporting among Local, Town, City, Regional, Statewide, and Federal Transportation Agencies and Government (11 votes)

Recommendation

- Have more frequent communication among involved entities and involve counties more.

Issue No. 2. Need for New Leadership and Less Centralization (11 votes)

Recommendations

- Sell infrastructure (for example, bridges, ferry system) to private entities.
- Require counties to maintain county roads.

Issue No. 3. Allow Each Region More Opportunities to Strategically Chart Its Own Transportation Course (9 votes)

Recommendations

- Integrate with federal government, state government, and others for long-range planning
- Compare strategic plan where commonalities exist.

Issue No. 4. Restructure Board of Transportation (6 votes)

Recommendations

- Eliminate geographic representation and replace with representation based upon function.
- Allow public to address BOT in public forum.

Issue No. 5. Use DOT to Promote New Energy Economy (3 votes)

Recommendations

- Advanced biofuels.
- Incentivize DOT to partner.

Issue No. 6. Refocus Long-Range Strategic Plan for DOT (3 votes)**Recommendations**

- More multimodal choices.
- Allow more local/regional decision making.

Topic Area No. 2: Alternate Modes of Transportation**Issue No. 1. Funding (22 votes)**

Note: "Funding" as an issue received 7 votes; "Funding for Mass Transit" received 15 votes. For purposes of this report, the votes and recommendations have been consolidated.

Recommendations

- Empower local governments with decision-making authority and allow local government to fund project from funds allocated to it; give counties incentive to require more of developers.
- Designate sales tax on bikes to bike trails/paths.
- Make small pot of money available to municipalities to use as seed money in pilot projects.
- Require cities and counties to maintain secondary roads.
- Think outside the box.
- Look at incremental value created by property's proximity to mass transit project.
- Create new funding model.
- Value tax.
- Transfer tax.
- Incremental property tax.
- Base registration fees on weight of vehicle.
- Explore private partnerships.
- Have employers pay for use of system/buses by their employees.
- Give employers a tax credit for expense; create a tax credit reward system.

Issue No. 2. Create Economic Hubs (3 votes)

No recommendations

Topic Area No. 3: Process/Decision Making/Prioritization**Issue No. 1. Structure of Board of Transportation Makes Prioritization Tough (9 votes)****Recommendation**

- Priorities should come up through Metropolitan Planning Organization (MPO) process based on objective, set criteria.

Issue No. 2. Public Input Process Does Not Work. There Is Little Public Confidence in Prioritization Process (5 votes)

Recommendations

- Sunset highway trust fund. Replace with needs-based formula.
- Establish third-party monitoring of DOT outcomes.

Issue No. 3. Federal/State Agency Disconnect (5 votes)

Recommendations

- Implement robust GIS system that will make approval process flow more quickly.
- Implement computerized intergovernmental approval, similar to Florida's system.

Issue No. 4. Need to Develop Mass Transit before Need Is Overwhelming (3 votes)

Recommendations

- Make local land use work (or transportation projects) a condition of funding.
- Equalize all transportation modes in planning efforts so roads are not supreme method.

Topic Area No. 4. Finance/Funding

Note: The first three issues identified below, and voted upon by participants, might better be characterized as recommendations for solving the issue of finance/funding shortfalls.

Issue No. 1. Enact House Bill No. 2363 (Congestion Relief/Intermodal Transport Fund), Introduced in the 2007 Session of the General Assembly (14 votes)

Recommendation

- The issue statement is actually a recommendation for addressing the need for a dedicated revenue source for intermodal transportation.

Issue No. 2. Allow County/City to Tax; Approval by Referendum; Powell Bill Funds (10 votes)

Recommendation

- Participants recommended providing more local tax authority for any use, abolishing the need for a referendum, and restricting Powell bill funds for road use only.

Issue No. 3. Toll All Interstates at State Border (8 votes)

Recommendation

- Again, the issue statement is actually a recommendation for gaining additional revenue.

Issue No. 4. Multimodal Long-Range Goal of 12 Percent, Now Is 3 Percent (3 votes)**Recommendation**

- Adopt plan to increase from 3 percent to 12 percent.

Topic Area No. 5: Land Use**Issue No. 1. Disconnect between Land Use and Transportation Planning (10 votes)****Recommendations**

- Strengthen local governments' ability to engage in both transportation planning and land use planning.
- Review existing legislation that allows DOT financial participation in local transportation plans if local land use plans have been adopted.
- Ensure that local government land development decisions are consistent with local land use plans to make planning more reliable.
- Allow DOT to review local government decisions to require (or refrain from requiring) right-of-way dedication and road improvements from developers.
- Tie state transportation project funding decisions to local land use planning.
- Resurrect recommendations of Smart Growth Commission for better coordinating transportation and land use decisions.
- Authorize local governments to impose transportation impact fees.
- Provide municipalities with greater funding and maintenance responsibility for major roads within municipal limits.

Issue No. 2. Lack of Coordination among Metropolitan Planning Organizations (MPOs) and Councils of Government (COGs)—Regional Agencies Responsible for Transportation and Land Use (6 votes)**Recommendations**

- Develop better coordination procedures among MPOs, COGs, and DOT divisions.
- Try to adjust jurisdictional boundaries of regional agencies so that they better coincide.

Issue No. 3. Enhance Corridor Protection Efforts to Protect Potential Highway Locations from Future Land Development and Develop Better Means for Setting Protection Priorities (5 votes)**Recommendation**

- Strengthen the ability of local governments to acquire right-of-way in advance and establish state trust fund available to local governments for such a purpose.

Issue No. 4. Capture Increase in Land Value Through Land Acquisition and Resale (4 votes)

Note: This is better categorized as a recommendation to address financial concerns than a land use issue.

Issue No. 5. No State Money for Project Too Close to Existing Housing (3 votes)

No recommendations

Topic Area No. 6: Perception/Public Information and Media

Issue No. 1. Need a Change of Culture at DOT (21 votes)

Recommendation

- Change of leadership attitude.

Issue No. 2. DOT is Too Big—Need Realignment of Divisions (9 votes)

Recommendations

- Create individual arms of the department that report directly to the governor.
- Make the organization flatter, less of a hierarchy.

Issue No. 3. Public Does Not Trust DOT to Use Money Effectively (9 votes)

Recommendations

- Someone needs to be the face of issues.
- Make clear and effective case that DOT has new leadership.
- DOT should focus more at grassroots level.
- The new administration should take the time to listen and communicate with municipalities as a local level.

Issue No. 4. DOT Needs to Market Like a Big Business for Public to Understand Issues Faced and to Communicate the Rules It Follows (7 votes)

Recommendations

- Identify key messages and communicate them over and over again.
- Hire a public relations person who is better at communicating issues.
- Retain outside agency to advise the department and help it develop a twenty-first century strategy.
- Improve website to be more forward-looking.
- Talk about successes.

SECTION 6. Concluding Comments

As noted in the executive summary, two issues rose above the others in terms of priority rankings given by the participants in the afternoon session. Those issues are funding for transportation, particularly multimodal transportation, and the department's culture. While those issues received the largest number of votes as priority concerns, there were no consensus conclusions about whether these issues were of paramount concern. The same is true for the recommendations. While more than 50 participants attended at least some portion of the meeting, fewer than that

number participated in the afternoon session by identifying and prioritizing issues and proposing solutions. The perspectives shared by those who participated varied as did their backgrounds and personal and professional interests in the workings of the DOT.

Electronic Supplementary Material

- Appendix 1: Facilitator agenda provided by the Small Business and Technology Development Center (SBTDC)
- Agency transition reports and other documents provided for session

