

June 1, 2020

David Schumacher, Director
Office of Financial Management
PO Box 43113
Olympia, WA 98504-3113

Re: WSDOT Expenditure Adjustment Recommendations

Mr. Schumacher:

The impacts of the pandemic are being felt across the state at all levels. In the transportation sector, we have seen unprecedented drops in vehicle traffic, ferry ridership, and toll facility transactions, which all have had a tremendous impact on the revenues to support the investments assumed in the 2020 Supplemental Transportation Budget. The Department appreciates the opportunity to share our recommendations for addressing these significant losses in state transportation revenues, while making the most of available revenues to operate, maintain, and preserve our existing system.

The decisions that will need to be made this biennium are difficult, and we recognize that the level of cuts needed to balance our budget now and into the future will impact our workforce and the communities we serve. In order to lessen those impacts to the extent possible, the department has implemented the Governor's directive to freeze hiring activities, personal services contracts, and major equipment purchases. These measures were consistent with the actions we took on April 17 that also included discontinuing out-of-state travel and suspending new consultant contracts and task orders.

As you are aware, prior to the pandemic and the subsequent economic downturn, transportation funding was facing severe fiscal challenges. The department worked closely with OFM and the Legislature to address the financial shortfalls caused by Initiative 976 in the 2019-21 biennium. However, the outlook in future biennia is as challenging and still needs to be addressed. Even before the impacts of COVID-19, our budget was not balanced beyond the current biennium.

I believe WSDOT's recommended approach to address these challenges aligns with the Governor's policy goals and WSDOT's values, mission, and strategic goals. In addition to the steps already taken to lessen the impacts, the option we are suggesting is a four pronged approach that involves:

- Adjust expenditures by first recognizing the underspending due in part to recent project delays related to pausing for the Initiative 976 and the Governor's directives to suspend construction activities until protocols could be put in place to ensure the safety of workers during the stay home order.

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- Delay the addition of new assets to the system because we need to focus first on the operation, maintenance, and preservation of our existing assets and because new assets will require additional ongoing investments and staff resources to operate and to maintain in a state of good repair.
- Strategically implement transformational operation changes designed to position the organization to be more resilient, nimble, and a stronger employer of choice.
- Look for innovative ways to generate new revenue with our existing assets.

Recommendation summary

WSDOT's 2020 enacted budget appropriation is \$7.4 billion. The state portion of the budget is \$6.3 billion, with \$4.5 billion budgeted for capital projects and grants to transit agencies and local partners. The majority of WSDOT's budget goes towards the capital program, which includes approximately 2,200 FTE and many consultants and contractors.

Most of WSDOT's operating budget supports two core programs: Highway Maintenance and Washington State Ferries. These programs operate and maintain existing taxpayer investments in transportation infrastructure with an estimated replacement value of almost \$200 billion. Washington residents and businesses rely on our system for essential services, to move the state's economy, to provide access to opportunity, and to get to the places that contribute to quality of life. As the vast majority of the new revenue appropriated for transportation in the 21st Century has been legislatively directed to capital projects, WSDOT has been operating and maintaining an expanding system with resources that have remained essentially static for over twenty years.

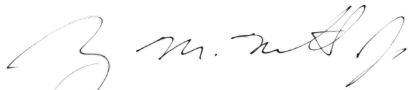
For these reasons, the majority of our recommendation proposes to address the revenue shortfall by deferring projects from the capital program that add to the state's transportation infrastructure. Deferring projects allows the state to better align the timing of when revenue will be received, with the timing of when the expenditure will occur. WSDOT's capital program is currently planned to be heavily leveraged with bonds, but deferring projects will save debt service costs, and allow the state time to reevaluate whether some of the expansion projects are still necessary, given the uncertainty when post-COVID traffic patterns will return.

1. March updated project cash flow reflects underspending of approximately \$500 million.
2. Delay adding \$320 million worth of new capital assets to the transportation system, which impacts over 300 FTE.
3. Implement transformational operational changes to position the agency for a sustainable future by reducing \$129 million of on-going costs and over 600 FTE.
4. Evaluate innovative ways to generate revenue with existing assets.

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Attached is the savings template you requested with additional details for each of these options. These estimates will change as projects are awarded, and as we continue working on estimating the costs to implement these proposals. We stand ready to work together with OFM and the Governor to address these fiscal challenges and look forward to discussing this proposal in greater detail with you and your team.

Sincerely,

A handwritten signature in cursive script, appearing to read "R. Millar".

Roger Millar, P.E., FASCE, FAICP
Secretary of Transportation

RM:jd
Attachment

cc: Keith Metcalf, WSDOT
Doug Vaughn, WSDOT
Amber Coulson, WSDOT

Budget Savings Options 2020

Dollars in Thousands

Agency: Washington Department of Transportation

Agency Priority H, M, L	Impact 1-5	Program/Activity	Other Funds					FTE Change		Brief Description and Rationale	Effective Date (MM/YY)	Impacts of Reduct Other Consider
			Fund	FY 20	FY 21	FY 22	FY 23	FY 20	FY 21			
	1	Capital Program - Underspending	All accounts		500,000	-	-	-	-	Based on the capital spending appropriations provided in the 2020 enacted budget, the latest March month end capital spending plan reflects underspending of approximately \$500 million (state funds). Change orders due to pausing projects and restarting those projects are not reflected in this amount.		
	1	Capital Improvement - Delay adding new assets to the system	All accounts		320,000	500,000 to 700,000		500,000 to 700,000	300-500	The majority of capacity comes from adjustments to the expansion and mobility capital projects. When projects are delayed or cut, consultants and WSDOT staff are also impacted. The FTE assumptions depend on the types of projects deferred and will align the capital support functions to capital program size. The range provided in the future fiscal years depends on actions taken this biennium. Note* We are seeing more people use active transportation, and local street networks as a means to move around during the stay home order, and this behavior may stick longer-term once the order is lifted. By making small investments in improving connectivity of local streets, large investments in highway infrastructure can be avoided. One option to consider is for WSDOT to set up a grant program for local governments to apply for local connectivity projects. A major scoring factor in the grant process would be based on preserving and protecting the efficiency and throughput of the highway system. This would allow the local agency to determine solutions that benefit their system and help the overall network. Stronger relationships would be fostered between WSDOT and the local agencies. Furthermore it would be a positive way to help MPOs focus on overall system improvements. The cost savings of this approach is difficult to estimate but in many instances the local investment of \$5 to \$20 million may save a highway investment which is \$50 to \$100 million, sometimes more.		
	1	Aviation - Capital Expansion Project	State Bldg Const. Acct		75	-	-	-	-	Capital funding for the Telford Helipad received in the FY2020 supplemental will be eliminated, saving \$75,000. This will eliminate this project. Funds are not currently obligated.		
	1	Aviation - CARES Act Eligible	Aeronautics		94	-	-	-	-	The program will eliminate the state match for the Methow Valley Airport helipad project, \$94,000 (\$47,000 from each sub program) in this biennium. The CARES Act covered the state match with a fully funded grant for planning and the construction of the project will not occur in this biennium. This is one-time.		
	2	Aviation - Revitalization Loans	22L		950	-	-	-	-	Community aviation revitalization loans with capital funding will return \$950,000 in unobligated funds. This funding was a one-time distribution to the program and not currently obligated.		
	2	Local Program - Multiuse Roadway Safety Account	Multi-use Roadway		500	-	-	-	-	This account supports administration of the Multi-Use Roadway grant program to increase opportunities for safe, legal, and environmentally acceptable motorized recreation on public roads. Reductions would result in less funding available for local governments and law enforcement agencies - RCW 46.09.540. During the recent call for projects, no applications were received. There are no active agreements in place for this funding.		
	1	Agencywide - Prioritize use of technology	All accounts		180	6,300		6,300	-	Prioritize use of technology to gain long term operating efficiencies. This includes emphasizing teleworking and drop-in spaces for eligible staff, prioritizing digital customer service and public engagement over brick and mortar, virtual tours to explain WSDOT work, and promoting cashless/automated transactions, all of which promote smaller facility footprints and reduced travel. This may include offices such as the Goldsmith or ELG buildings, call-in centers, and toll facilities, among others. This change supports the modern work environment (E.O.16-07), benefits the environment and highway system by reducing traffic, has the potential to improve travel times for freight, and provides staff with better work/life balance. Increasing teleworking also opens up a range of recruiting options for specialized skills. Although there may be initial upfront costs to implement innovative solutions, the long-term benefits support the agency's mission, goals, and vision to be more nimble and resilient, as well as, be a strong owner and employer of choice. Leveraging some technology solutions may eventually require less staff resources to deliver the same body of work, which would eventually offset the cost of the upfront investment. Some considerations include: - Migration to the cloud - Mobile LIDAR - Paperless operations - Digital signatures - Virtual participation - Improved information search - Re-engineering processes to leverage advancements in technology - Vehicle fleet use Note* Additional actions are necessary to fully address the long-term funding shortfall in multi-modal account due to the passage of I-976.		Reduces near-term costs assoc travel, and by re-engineering p streamline workflow and gener Estimated facility cost savings: 2019-21: \$180,000; 2021-23: \$6,300,000
	1	Agencywide - Consolidate activities across geographic boundaries	All accounts		2,095	3,845		3,845	15	Teleworking during the pandemic has shown us that we can effectively work remotely, which opens the possibility of staff providing services regardless of their geographic location. This may enable a single person or team to meet the needs that exist throughout a region or statewide. These opportunities may exist for: planning, plan development, plan review (chan plans, paving, striping), administrative activities, IT Services, work orders and agreements, overnight TMC responses, goods/services purchasing and tracking, vendor payments, employee reimbursements, some elements of maintenance and preservation activities (guard rail, bridge, roadway, lumination, striping, patching), grants management, utility and developer reviews, and design services. Being more flexible with regional and organizational boundaries will promote a more flexible workforce that can more efficiently meet the needs of the organization. The dollars and FTE estimates will continue to be refined as the department continues to evaluate implementation impacts.		Centralization for work orders, payments, & employee reimbu October 2020: 19-21 \$475,000 \$1.9M 8.00 FTE Goods & Services Purchasing et 2020 2019-21 estimated saving FTE; 2021-23 \$625,000 3.00FTE Consolidating real estate service development services, and env across the state results in appri \$110K annual compensation cc
	5	Agencywide - Operations service reduction Rail - Delay the start date for the two additional passenger rail roundtrips and associated maintenance contracts until after July 2021.	Multi-modal		11,540	-	-	-	-	Ridership on Amtrak Cascades is currently reduced by some 97% compared to last year at the same time and only one daily roundtrip is currently operating. Ticket revenue has decreased accordingly, although most of the costs related to operation of the service have not decreased at the same rate (including labor and maintenance costs). Federal CARES funding should provide some relief to WSDOT and other states to offset the decrease in ticket sales; however, it is still uncertain how much will be allocated to WSDOT from the total available funding from Amtrak. Moreover, it is uncertain how long the low ridership levels will continue and how large the deficit will be from ticket revenue. WSDOT will be working with Amtrak to restore daily service as demand increases, but we expect that to be a slow ramp-up of service, rather than a single event. Current state funding for the Amtrak Cascades service for this biennium includes adding two more daily roundtrips between Seattle and Portland, beyond the four roundtrips that are already part of our normal service levels.		
	1	Agencywide - Operations service reduction WSF - Modify Ferry service	Puget Sound Ops		63,035	75,000		75,000	300-400	After adjustments for \$39.2 million awarded CARES ACT funding and anticipated one-time under expenditure trends of \$7M, this proposal includes additional on-going reductions to maintain some level of service on all domestic routes, but reduce schedules to more closely match demand and eliminate the oldest vessels first. We expect the remaining service to continue WSP's safe and reliable reputation. A reduced fleet would ideally be configured to provide a greater ratio of active to reserve vessels than currently exists today. This would potentially improve upon our service reliability. Removing older vessels should also free up maintenance and preservation funding to re-invest in the Issaquah and Jumbo class vessels to improve their chances of meeting their service life expectations. The remaining service continues in compliance with federal requirements (US Coast Guard, US Dept. of Transportation, etc.) and by continuing some service to nearly all routes we maintain social equity and service isolated populations. A downsized fleet, particularly one that allows re-investment in the existing vessels, allows us to prioritize preservation and maintenance.		Prior to the COVID-19 crisis, Pri approximately 75% of its reven generated fares and miscellane permit fees. The remaining 25% in the form of statutory distribri transfers from other transport accounts, such as the Motor Ve Multimodal Account and Trans (Nickel) Account.
	1	Agencywide - Operations service reduction Highways	MVA, Toll		50,157	25,079		25,079	298	The current maintenance approach is that of a statewide emphasis that spans across over 7,000 miles of state highways and over 3,500 bridges. With these proposed reductions, the focus shifts to primarily addressing interstate and National Highway System routes which are Washington's major highways and main freight travel corridors. Even with this focus shift, these routes will still see some level of reduction in service, while secondary routes and lower volume roadways would see significant reductions in service along with the presence of WSDOT Maintenance staff. This would result in a significant reduction in workforce and equipment. This would be seen in the closure of many of the rural area sheds across the state. After the reduction in workforce process and the surplusing of equipment, the remaining crews and equipment previously housed at these locations would be consolidated into the 24 statewide Maintenance Area Offices. Finally, the deferral of routine and preventative maintenance will result in highway and bridge assets deteriorating beyond the preserve, maintain, and repair point of the life cycle curve. As such, assets will fail far beyond the desired strategic investment goal of state of good repair.		
		Align state provided services to our partners and the public to reflect emerging market changes (like traffic information) and changes in our role as a state transportation provider (Program X/Q)	Puget Sound Ops, MVA		300	300		300	-	We'd need to assess demand, but this might include: 511, HAR, and SRView. Elimination of these systems would require communication campaign to inform travelers of alternative ways to get this traffic information, removing signs, transmitters, and beacons. Utility costs are minimal. HAR is used during wildfire season, but third-party apps provide the same details.		
	1	Agencywide - Innovative Partnerships Privatize some Park & Ride lots and Rest Areas	All accounts		-	-		-	-	WSF currently outsources the operations of multiple Park and Ride locations. We plan to look for opportunities to partner with the private sector to monetize and/or lower operating/maintenance costs from park and rides and other WSDOT owned facilities. A handful of Park and Ride facilities statewide are already experimenting with this model.		

