

# CEO Peer Exchange on Agency Management and Emerging Issues

NCHRP 20-24 (99)

## Summary Report

Sunday, April 19 – Tuesday, April 21, 2015

Campus Club  
Coffman Memorial Union  
University of Minnesota  
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*Prepared by*  
Benjamin Perez  
Paula Hammond

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# PROJECT OVERVIEW

The state department of transportation (DOT) Chief Executive Officer (CEO) Peer Exchange Workshop was held at the University of Minnesota in Minneapolis Sunday, April 19 through Tuesday, April 21, 2015. The CEO Peer Exchange Workshop included six hour-long, facilitated discussions of current and emerging technical topics. A larger list of 11 potential topics was vetted with DOT CEOs at the 2015 American Association of State Highway and Transportation Officials (AASHTO) Washington Briefing CEO dinner in February 2015 and then narrowed for inclusion in the workshop agenda based on their recommendations. The workshop also included two round table discussions and a final synthesis session.

Each of the technical sessions included brief 15 minute presentations made by former DOT CEOs, followed by 45 minute facilitated discussions. The intent of the workshop was to create a forum for information exchange and open discussion and to provide the CEOs to with the opportunity to build relationships with their peers.

This summary document provides a synopsis of the presentations as well as the ensuing conversation.

The following DOT CEOs participated in the Workshop:

- § Marc Luiken Alaska Department of Transportation & Public Utilities
- § Malcolm Dougherty California Department of Transportation
- § Shailen Bhatt Colorado Department of Transportation
- § Jennifer Cohan Delaware Department of Transportation
- § Randy Blackenhorn Illinois Department of Transportation
- § Michael Hancock Kentucky Transportation Cabinet
- § Pete Rahn Maryland Department of Transportation
- § Charlie Zelle Minnesota Department of Transportation
- § Janet Oakley South Carolina Department of Transportation
- § Sue Minter Vermont Agency of Transportation
- § Carlos Braceras Utah Department of Transportation
- § John Cox Wyoming Department of Transportation

# WELCOME

AASHTO Executive Director Bud Wright opened the CEO Peer Exchange Workshop observing that it is one of AASHTO's most important activities. In the two years that Bud has led AASHTO there have been 16 new state DOT CEOs, and several more new appointments are anticipated. While DOT CEOs are an ever-changing group, they remain close-knit due to their shared experience and service ethic. The CEO Peer Exchange provides a forum for sharing experiences and engaging in informal, open discussion. To facilitate the discussion, AASHTO and its consultant Parsons Brinckerhoff developed a total of 11 proposed topics that were vetted with CEOs at the Washington Briefing CEO Dinner in February 2015. Based on their feedback the agenda of the CEO Peer Exchange Workshop has been narrowed to include six discussion areas. The peer exchange setting is conducive to conversation and AASHTO is eager to organize future sessions with small groups of CEOs and provide opportunities for subsequent dialogue. The hope is that the information shared at the peer exchanges will help CEOs do their jobs better.

# WORKING WITH WASHINGTON TO ENHANCE YOUR STATE'S TRANSPORTATION PROGRAM

## AASHTO

Bud Wright reported that AASHTO celebrated its centennial in 2014 and that its members include state DOTs and associate members from federal, state and local transportation agencies and others from overseas. AASHTO supports all five transportation modes: highways, rail, transit, air and water. State DOTs operate 19 percent of all roads in the United States, with this figure ranging from a low of 9 percent in California to 80 percent of all roads in both Virginia and North Carolina. State DOTs have a wide range of responsibilities. Some operate short line railroads, air ports and sea ports. Many provide funding for urban transit and others also operate their states' motor vehicle administrations.

In 2014 AASHTO refreshed its strategic plan to set the course for the coming five years. One new emphasis is a focus on transportation solutions across all modes that create economic prosperity and enhance safety and quality of life. AASHTO advocates for effective transportation policy as well as other policy areas including water resources, aviation, and rail. The wide variety of settings in states across the country is a challenge for AASHTO, as strategies that work in Vermont may not work in California.

AASHTO's most significant role is providing technical expertise to state DOTs and the organization maintains communities of practice in different areas, operates the Center for Environment Excellence, the AASHTO Project Finance Institute, and National Operations Center of Excellence. It also prepares industry publications that set standards and best practices.

AASHTO's national leadership includes a Board of Directors which is comprised of 52 members – one from each state, Puerto Rico, and the District of Columbia – as well as an eleven-member Executive Committee. AASHTO's Board sets the organization's policy, and resolutions require a 2/3 majority, or 36 votes. AASHTO's officers include a Secretary-Treasurer, Vice President, and President. All AASHTO officers are DOT CEOs who hold their positions for one year on a rolling basis. The organization also has four affiliated regional associations that are officially independent of the national AASHTO association, but that inform some of the organization's activities and decisions.

AASHTO is a committee-driven association where ideas percolate from the bottom up. It has a total of 33 modal and topic-oriented standing committees and subcommittees, each of which is chaired by a state DOT CEO. The effort of volunteers is essential to AASHTO's success. Without DOTs wanting to participate, AASHTO would not be what it is today.

## FEDERAL HIGHWAY ADMINISTRATION (FHWA)

FHWA Executive Director Jeff Paniati discussed the federal perspective on its relationships with state DOTs and the role of the FHWA Division Offices. FHWA has 2,900 employees, including approximately 2,300 in its division offices and headquarters, as well as an additional 600 employees in its Office of Federal Lands. FHWA operates Resource Centers in four locations, staffed by technical experts, as well as the Turner Fairbank

Highway Research Center in McLean, Virginia. From the federal perspective, national highway infrastructure is a federal-assisted state-operated system. This drives the way FHWA views its role. FHWA tries to be consistent but not uniform in its interactions with the different states. FHWA is responsible for spending transportation monies in accordance with guidance from Congress and Federal law and regulations. .

FHWA's goal is to help states deliver transportation improvements. It works with its peers including the Environmental Protection Agency (EPA), the U.S. Fish and Wildlife Administration, and the U.S. Army Corps of Engineers to facilitate moving projects through the approval and permitting process. FHWA plays a national role in program and policy development, and its Division Offices provide oversight, stewardship, and technical assistance to state DOTs. FHWA is in the process of updating Stewardship and Oversight Agreements with all states. These agreements define how the local Division Office and State will work together to administer the Federal-aid Highway Program. As these agreements are renewed, FHWA is trying to introduce more consistency.

To be successful FHWA's Division Offices need to operate in partnership with state DOTs. It is important for the Division Offices to build strong and trusting relationships with their local partners. It is important for FHWA's Division Administrators to understand the states' needs and what governors are trying to accomplish. The relationship needs to be a two-way street, so DOT secretaries should get to know their Division Administrators and build informal relationships as well.

Division Administrators have been coached to operate through personal communication and forward leaning leadership philosophy. Issues that have already been discussed should be memorialized in email and memos. The Division Administrators should be good listeners and help DOTs find a path forward. The Division Administrators need to know the edges (boundaries decided by law and regulation) and be comfortable working near the edge and not just in the middle. They recognize sometimes States will want or need to appeal a decision to the next level. Let them know when this is going to happen, as it is best not to have surprises.

The operating environment has changed in the Division Offices; there has been a reduction of 200 staff across the Agency in recent years and at the same time the program is more complex. Recently Division Offices have introduced resource sharing, with some staff members working in multiple states in a given discipline. There are also hybrid positions where some Division Office staff may assist at the national level. FHWA is trying to make more efficient use of its resources and talent to deliver the right expertise to state DOTs. FHWA has also moved to risk-based stewardship and oversight. This is a technique to evaluate risks, which are either a threat or an opportunity to make improvements. At the state level FHWA focuses on both project and program risk, and tries to provide guidance on the tools that are available to address these issues. FHWA also tracks projects of interest nationally and at the division level and performs randomized project compliance reviews.

FHWA is in the business of innovation. Through its Every Day Counts (EDC) initiative, FHWA is focused on identifying underutilized innovations. If a new approach works in one state, FHWA shares that experience with other locations. FHWA is also taking the significant investment in research and innovation made in the Strategic Highway Research Program 2 (SHRP2) and is moving it into implementation and demonstration. Two other "innovation" focuses are performance-based practical design and performance management. FHWA also has an emphasis on performance-based practical design and moving away from cookbook design to a more

engineering-based approach, and hopes to encourage states around the country to adopt this approach. FHWA is also emphasizing better performance management to move DOTs from process-based programs to an outcome-based process, where we identify targets and report on performance. FHWA's approach in these innovation areas is to be "stewardship-heavy and oversight-light"—that is to focus on technical assistance, technology deployment and training to share experiences for mutual use and the common advantage of all state DOTs.

## FEDERAL AND STATE PERSPECTIVES

John D. Porcari, National Director of Strategic Consulting for Parsons Brinckerhoff, and former Maryland Transportation Secretary and U.S. Deputy Secretary of Transportation discussed the relationship between USDOT and state DOTs. John has been very lucky in his career due to the people he has worked with. In Maryland he served two tours as Secretary of a department that encompasses every transportation mode for two different governors. On a good day heading a state DOT is one of the best jobs there is, and John's experience in Maryland provided excellent preparation for working in Washington.

On the state side, the most critical ingredient for a DOT CEO's success is his or her relationship with their governor. DOT CEOs need to establish a bank of good will with their governor because they need the benefit of the doubt when something goes wrong. And something is always going wrong. You can build that bank of trust by understanding the governor's overall policy priorities on areas outside of transportation, including economic development and housing. Get to know the economic development secretary and act as a team. Be conservative with your budget numbers so that you have the resources to help to advance the governor's goals when an opportunity arises.

Plan your work, and then work your plan to advance your agenda. As an incoming DOT secretary you need to know right now what you want your legacy to be at the end of your term. Here's an analogy: If you are a pilot, you have to divide your time between scanning the instruments and looking out the cockpit window at where you are going. If you fail to do either, it can be disastrous. As a DOT CEO, if you apply this same approach you can pay attention to today's issues (the instrument panel) without losing sight of where you want to land.

Emergency response is key to any DOT CEO. When you walk in the door, you need to know what your emergency plan is; you will be at risk if you do not. Make your first day your "worst day"—get briefed immediately on emergency response plans and procedures, and ask a lot of questions. You cannot learn during an event. You need to know the steps involved in responding before it occurs. Remember that one of your primary duties in any incident is to keep your Governor and other elected officials briefed in real time.

The seams between your agency and other cabinet departments are important to watch, and they involve communication and contact with others. One of your primary responsibilities is to work across organizational lines to advance the larger agenda. Build those relationships and win the benefit of the doubt. Also be prepared to be pulled into things with just a slight nexus to transportation. Transportation is often the "glue" that holds together larger policy initiatives. In Maryland, we use transportation—and transportation dollars to drive both our economic development plan and the Nation's first "Smart Growth" initiative.



The most successful DOT CEOs meet with their federal partners early on to discuss their priorities. It is important because you do have an opportunity to call on your federal partners when you really need help. You need to know your agenda and make sure that USDOT leadership knows what your priorities are. You can help your governor and legislature by conveying their priorities to leadership at USDOT. Of USDOT's 55,000 employees, only 110 are political appointees. They are stretched thin and rely heavily on the career staff. Governors, senators and congressmen make a real impression when they come to US DOT to discuss a project. Use your delegation to advance your agenda.

Federal agencies are micro managed by Congress. While leadership has little ability to restructure or change the status quo, it does have the ability to develop work-arounds. The Tappan Zee Bridge is an example of how work-arounds can help advance a strategic project, particularly when it has the support of a Governor who isn't shy about reaching out to US DOT.

State CEOs have a great ability to help drive change through process reengineering that is both ad hoc and programmatic. The national transportation system is federalism, built from the ground up; but it is an aggregation of state systems and priorities driven at the local and state level. DOT CEOs have a lot of power to shape national policy, and have a lot of credibility at USDOT. Urgency at the Congressional district level is what defines a priority—that's how it works. State DOTs are system operators. This is not true at USDOT, with the notable exceptions of the Federal Aviation Administration and the Saint Lawrence Seaway. State DOTs need make sure that USDOT understands their operational realities.

## GOALS FOR THE CEO ORIENTATION

AASHTO President John Cox noted the value for CEOs to get together for a short and intense period of time to share their experiences. The Peer Exchange Workshop provides immense value for new and more seasoned CEOs alike. The first goal of the session is to establish and strengthen relationships, and this will provide great value to CEOs. Many CEOs also act as resources and advocates for one another. This session also provides CEOs with the opportunity to strengthen relationships with US DOT with Jeff Paniati's participation and to gain from the experience and insight of John Porcari, former Deputy Secretary of USDOT.

The CEO Orientation is issue driven. The names and faces may change, but the issues remain much the same. AASHTO has developed an important list of topics that will be discussed in a setting designed to provide CEOs with insight from our shared experience with them.

Lastly, AASHTO hopes that the CEO Peer Exchange Workshop will enable new CEOs to understand the merits of having an agency like AASHTO and the benefit it brings as an industry advocate.

# PROGRAM OVERVIEW

Workshop moderator Thomas DeCoster recommended a new book by Connor and Smith to the CEOs: *Change the Culture, Change the Game*, noting that culture is a set of beliefs. All of you have been new at some time, and as leaders you want people to act in a certain way. You have all arrived with an inherited set of beliefs – a culture. However, this may not be in concert with what you want to achieve. All of your agendas will be challenged by an existing set of beliefs. Be consistent with your message and agenda. Communicate predictably and consistently so your staff can anticipate what you are going to say. By doing this you will instill a set of beliefs in your organization and those beliefs will lead to actions which then lead to outcomes. Change the culture, change the game.

Dr. DeCoster explained that the Workshop would entail presentations of a series of topics followed by discussions of the different topics, interspersed with two round table sessions with open agendas. His role is to serve as a facilitator and help guide the discussion.

# PAY ME NOW: FUNDING TRANSPORTATION IN TODAY'S CONTENTIOUS FISCAL ENVIRONMENT

Former North Carolina Secretary of Transportation Gene Conti told the CEOs that they were all his heroes. He also told this to his employees in North Carolina too. DOT staff are not thanked or recognized enough for what they do, but as CEOs we are not in the game to be recognized, but to make the nation great. DOTs are businesses that deliver services in a certain way. They manage construction programs, assets, operations of major infrastructure; they are also regulators, enforcers and grant administrators. Their work requires obtaining financial resources and using them to deliver services.

The current funding is comprised of a set of programs that can flex up to a certain dollar limit. The consolidated program categories include: the National Highway Performance Program; the Surface Transportation Program; the National Highway Safety Improvement Program; and the Congestion Mitigation and Air Quality Program. Each of these different funding programs is consolidated under the Moving Ahead for Progress in the 21<sup>st</sup> Century (MAP-21) transportation authorization act. Under Map-21, 92.6 percent of federal funding is apportioned by formula, up from a level of 83 percent under the previous authorization act. This has been largely accomplished by eliminating earmarking.

Forty-three percent of all transportation funding comes from the states. All the different states levy a combination of fees and taxes to generate state transportation funding. There are also significant local funds. We all piece together the various sources to make our programs work.

For the past 10 to 15 years, the states have also been using a variety of financing tools to augment their programs. These tools are used with different levels of intensity and include revenue bonds, grant anticipation bonds, state infrastructure banks (SIBs), and federal credit assistance through the Transportation Infrastructure Finance and Innovation Act (TIFIA) program. Some states also team with private investor developers to implement projects on a public-private partnership (P3) basis, in spite of the challenges involved in gaining citizen trust for these arrangements.

The current state of play is not good. We have had two federal commissions agree that we need a new approach to transportation funding in the United States, and AASHTO and the Transportation Research Board (TRB) have also reached the same conclusion. What do we need to do about this situation? We need new revenue measures. One of the proposals under consideration would levy fees based on Vehicle Miles of Travel (VMT). There are VMT fee pilot projects under way in Oregon, Washington, California and Florida and the University of Iowa has conducted a nation-wide pilot. Other states including Arizona, Georgia, Virginia, and West Virginia have enacted special fees or taxes on electric and alternative fuel vehicles.

There are several questions to consider as we consider how to address our transportation funding crisis:

- § How do we move forward as states in the context of a traditional partnership approach with the feds?
- § Are there approaches to bringing more private resources to bear while maintaining the public interest? Will they produce significant NEW resources?

- § Can we save enough through efficiencies, outsourcing, etc., to make a difference?
- § Will technological changes require a fundamental rethinking of how we fund/finance transportation?

### Discussion

- § It is interesting that Gene did not talk about tolling. The biggest funding horizons in California are tolling and then VMT fees in the long term.
- § The combination of technology and tolling leads us to VMT very soon. In Oregon they have moved past pilots and have four or five contractors implementing their own VMT systems. Each of them does it a different way and collects different amounts of money. By doing so they have created consumer choice. VMT fees are a new type of user fee; tolling will likely evolve into a congestion management tool.
- § The issue that scares people in California regarding the VMT pilot is privacy. The state legislature has mandated that California begin its pilot within a year and the governor is eager to pursue this option.
- § Several insurance companies are essentially doing a similar thing by incentivizing customers to install tracking devices to detect how people drive, and then have their insurance rates set accordingly.
- § The public does not recognize that electric vehicles do not generate transportation funding.
- § Illinois has embarked on a push to generate new transportation revenues because they have bonded their existing monies up to the hilt. The state also took \$500 million in transportation funds to balance its budget. In addition, a significant population of the state does not drive, so a new solution is needed and that solution should include a lockbox on new revenues to ensure they can only be used to support transportation needs.
- § As DOTs, we need to work on our messaging. We need to explain how the current funding crisis arose. We need to convey the speed of trust; DOTs need to gain the people's trust. We are terrible at talking about our accomplishments and need to do a better job on how we report on the efficiencies we create. We need to document inputs and outcomes.
- § In the last legislative session in one state there was no discussion of the need for new transportation investment.
- § We need to use the condition of our bridges and tunnels to discuss how to bring them into a state of good repair. We just need to do it rather than talking about doing it.
- § The issue at the federal level is the transfer of funds from the general trust fund to keep the highway trust fund solvent. The revenue gap is about \$15 billion annually and that could be generated with a seven to eight cent increase in the federal motor fuel tax. If we had the gumption to raise the federal gas tax by ten cents, eight would go to fill the gap and leave only two cents for investment. We need to raise the gas tax far more than the ten cents. The greatest barrier is trust; people think, "I'm paying more, but I'm not getting much more." People don't realize that just to return to 1990 funding levels, we would need to increase the gas tax by 15 cents.

- § There are some areas of concern with VMT fees. VMT fees will incentivize motorists to minimize their expenses and the system will be more expensive to operate. Charging more is the challenge, we need to make the tough decision to collect more money.
- § One difference between the VMT fee and the motor fuel tax is that VMT will increase over time, but fuel consumption will go down. That addresses part of the challenge of collecting more money.
- § Sixty percent of transportation funding in South Carolina comes from federal sources. The state is at risk in terms of cash management if the federal government cannot meet its full commitment. The state is at risk of starting and stopping projects unless an additional funding cushion can be found. There is a huge opportunity cost if the federal government does not authorize a new transportation act. How are other states dealing with this issue?
- § Other states are holding back on some big projects, but by doing so the states made it easier to delay a new transportation act.
- § Most states are proceeding with their programs but they are making different programmatic decisions.
- § As the pipeline slows down, contractors are having difficulty getting loans to buy new equipment, so some states are losing contractor capacity. DOTs are not undertaking the kind of large reconstruction project that they would if they had more certainty regarding funding.
- § We should index the motor fuel tax according to two indices: the consumer price index (CPI) and national average fuel economy. This two-step index would ensue that the gas tax would be adjusted commensurately as increases in fuel economy continue. Another option would be to implement a sales tax on cost of gas rather than a per-gallon tax.
- § Legislators want control over the way in which taxes increase. The industry needs to work on transforming this culture and have decision makers agree to price the system like a utility. This is an industry crisis.
- § In Alaska people believe that they do not need to pay for anything.
- § The notion of indexing the gas tax based on fleet fuel efficiency is attractive. Politicians do not want to vote for what people hate. Perhaps we could charge a tax on the sale of vehicles themselves. It would add one to two percent to the cost of a vehicle and people would be able to finance it. Vermont used bridge failure as a catalyst to raise new transportation funding in 2009 and since then the percentage of structurally deficient bridges has dropped from 20 to seven percent.
- § The gas tax is a declining revenue source and indexing it is not popular with state legislators. Why do we continue to pursue a declining revenue source?
- § A ten cent increase to the motor fuel tax failed in Delaware and indexing was not understood.
- § Kentucky saw a precipitous fall in fuel tax revenues in 2009. The General Assembly had indexed the fuel tax to inflation. It capped increases in the CPI, but made a mistake by not capping decreases. This cause the fall in revenue in 2009.

- § We are brainwashed to the point that we cannot breach the subject of increasing the motor fuel tax. If it were indexed when the federal motor fuel tax was last increased in 1993, it would be 54 cents per gallon today. Something has to change.
- § Local sales tax measures have been passed to fund transportation improvements in 20 counties in California, gaining the required two-thirds of the vote. Local governments told the voters what projects would be built with the money the measures raised. This began in 1986 and involved 20 to 30 year improvement programs. Now the counties have demonstrated that they have come through. Los Angeles County has 10 million residents alone and has successfully passed three revenue measures, one of which is perpetual. It is harder to do this at the state level and far harder at the federal level. California led with “this is what you want” and followed with what it would cost. People will vote for fixing potholes at the local level.
- § South Carolina has a penny sales tax in a number of counties, but it does not have the population levels for the millage to make much of a difference.
- § In Georgia the Assembly gave counties the authority to set up a one cent sales tax for up to four years and then use the revenue for capital improvements.
- § Georgia recently passed a bill to raise the state gas tax by six cents. It also includes a \$5.00 hotel fee and a \$200 tax on sales of electric vehicles. This provides additional money to fund maintenance needs, but it does not provide for growth beyond that.
- § As far as asset management is concerned, the state should lead with the proposition that if the people want 95 percent bridge health and fewer pot holes, then this is what it will cost. Lay out the metrics and identify the outcomes first, and then tell the voters how much it costs. This approach leads to a better outcome.
- § Wyoming has engaged in two conversations with state legislators and other decision makers: 1) federal funding is what it is 2) what will the role of state funding be? Should the state provide money for transportation? If the answer is yes: be prepared for a multiyear program; be prepared for all kinds of scrutiny; and be prepared to have one bite at that opportunity.
- § Trust in the state’s ability to deliver those improvements is key.
- § Does this argue for greater segmentation in funding? Should we create a federal program that addresses federal needs?
- § The notion that federal funding is not needed is false. We need a national program that meets our needs. We cannot be reduced to having islands of good in a sea of poor.
- § How do we have the conversation at the national level? The federal program has become diluted. Funding needs to address a national purpose, so we need to connect it to outcomes. How much money does it take? That is hard to talk about at the national level.
- § If we are having success at the local level, perhaps we could replicate it at the federal level. We need to specify what funds will be used for what purposes.
- § We can do performance measurement, but we do not have a national vision.

- § A national vision does not acknowledge state boundaries. That is always difficult. This is a difficulty we all face.
- § Have we engaged auto manufactures in this discussion? They need to be part of the conversation. That has not happened when it comes to funding.
- § Federal discussions with the auto manufacturers are all at the technical level. Funding should be an agnostic subject; we need to expand the conversation.
- § States need advocacy on the subject of funding at the national level. We start out wanting more and then only get the status quo.
- § We need to reinforce the fact that interstate commerce supports economic development. We need to understand that as a national purpose.
- § We spend a lot of money on things that do not support interstate commerce. Our economy is a metropolitan economy.
- § South Carolina is the nation's largest exporter of automobiles, tires, and aerospace equipment. The focus is not on public transit; instead it is on corridors of commerce. Commerce isn't happening in Charlestown. It's the members of the I-95 Corridor Coalition and the president of Michelin that are driving commerce.



# IN OR OUT – WHO DOES THE WORK AND HOW DOES IT GET DONE

The outsourcing of DOT functions is ideologically charged and politically emotional. Therefore, it is necessary to delve into the motivations that drive it, the choice of functions to be outsourced, contract structures and how relationships are managed. Together these are the factors that drive the outcome of pursuing this strategy. If a DOT is weak in any one area, the result of the entire program can be diminished. As the following terms demonstrate, there is a lack of common definitions: outsourcing, privatization, contracting out, asset management, public private partnerships. Nomenclature can imply subtle differences, so it is helpful to identify common features. All outsourcing efforts involve complex discussions that come at different stages; they involve promoting the public interest; they require initial assessments of feasibility; they are facilitated through sophisticated agreements; and they require ongoing performance assessment.

In 1995 Virginia passed P3 enabling legislation and the state's first P3 project was to outsource the maintenance of 10 percent of its Interstate system. Elected officials did not object and the public was generally ambivalent, as long as the job was done well. However, there was opposition in the contracting community. VDOT implemented the project as a pilot and conducted an exhaustive performance assessment to document the performance of its contractors.

Under the right conditions, outsourcing can be a source of new ideas, creativity and innovation. This can be encouraged by including research and development elements into a DOT's contracts with service providers. Outsourcing also provides the opportunity to change the organizational culture of a DOT and a focus on how core functions are approached. It also mitigates the long term challenges involved with providing health care and retirement benefits to public employees.

There are also a number of potential warnings. If cost savings fail to materialize, the situation needs to be assessed holistically, as there will be many critics. Another important issue is attracting enough bidders for outsourcing opportunities to maintain a competitive process. This becomes problematic when there are fewer than two or three bidders. If this is the case, there may be a need to rework the procurement documents and conduct a new bidding process. DOTs should be prepared for the management of outsourcing contracts to be more expensive compared to traditional procurements due to the need for heightened performance monitoring. There may also be a cost and difficulty in bringing work back into the agency.

DOTs should determine their motivations for pursuing outsourcing contracts and they should assess the potential costs and benefits of doing so. Benefits can include saving money or reducing the size of the government. When outsourcing leads to staff reductions, managers should make plans to utilize remaining staff resources so that service is maintained. Contract requirements need to be both specific and clear, and competition needs to be encouraged throughout the procurement process. DOTs should perform due diligence reviews on service providers and supplies before awarding contracts and then assess their performance during the contract period, as well as at the end of the job. DOTs should also take care to minimize potential service disruptions at the end transition of outsourcing contracts.

The following discussion questions were posed to the CEOs to facilitate their discussion of outsourcing:

- § What is the impact of unions on a decision to outsource?
- § How do you calculate true costs of in-house performance versus outsourcing?
- § What is the appropriate assignment of risk when outsourcing services?

### Discussion

- § Florida has gone the furthest of any state in contracting out services. Its target is to have 45 percent of maintenance performed by private contractors.
- § The bias towards business being more efficient can work for or against you. It is important to consider what you want cost-benefit analyses to demonstrate. For an unbiased opinion the CEO should stay involved in the process.
- § Governments are not good at figuring out what their overhead is, due to the many costs buried in their systems.
- § In looking at risk assignment you need to look at the costs.
- § Everything must be documented in written form; if an item is important to the DOT it needs to be reflected in the contract documents.
- § Some states, including Texas, are moving in the opposite direction. Colorado and Tennessee have gotten rid of all of their contractors and have moved functions back in house. In some cases states do not know what they are paying.
- § In Illinois the government is interested in the bottom line. They are open to doing whatever makes sense in terms of retaining functions or outsourcing them. Illinois outsources all of its engineering needs, but very little in terms of maintenance. It remains a unionized state with a governor who does not care for unions.
- § Vermont is concerned with using taxpayer dollars efficiently. The Vermont Agency of Transportation (VTrans) workforce has shrunk, but costs have expanded. Outsourcing involves questions regarding risk and control. VTrans is exploring this issue carefully with the state legislature. VTrans believes that it can expand staff levels and improve efficiency, but outsource certain functions such as line striping. They want to deliver the best value to taxpayers while allowing VTrans to remain in control.
- § State DOTs need to find the right mix of organic competencies, keeping their most efficient functions and outsourcing those that are less efficient.
- § There are different notions of ownership and responsibility between a DOT and service providers. When work is done outside a DOT there may be less opportunity to control it and, therefore, greater risk.
- § It comes down to stewardship of public resources. If we can achieve a vibrant and more competitive market, then outsourcing is more likely to be effective.
- § DOTs also need to maintain core competencies in house so that they can provide effective oversight. They also need a certain level of competency to be able to negotiate for fair value.

- § Healthy competition should give DOTs a sense of what the work should cost. There is usually good competition in urban areas, but that may be difficult to replicate in rural settings.
- § In Maryland, performance standards were higher for private service providers than for the public sector. They also got better efficiencies by outsourcing an entire function.
- § The public often does not want to interact with private service providers.
- § In California Caltrans does 90 percent of its design work in house and as an owner-operator it makes decisions in the best interest of the state. If work is well managed there may not be much difference in the cost whether it is done in house or not.
- § In the end a consultant hour will cost more.
- § What is the most efficient way to implement a work plan? When ramping up it makes sense to contract out more, if work is receding then contract less. It is best to keep staff levels below the fluctuation of the work flow.
- § There is no one universally correct answer. VDOT looked at outsourcing as part of a larger vision.
- § There was a retaining wall on a highway in Richmond that had a chronic water seepage problem. VDOT had looked at it but was unable to fix the problem. Within ten days of the private sector's taking over the maintenance of the road, the seepage stopped. The contractor found that it was caused by a blocked drain. It then approached this issue systematically by inventorying all drains on the interstate and fixing any that clogged, thereby reducing its costs.
- § DOTs need to maintain core competencies. The worst situation for a contractor is when a state DOT has a project manager that is not qualified.
- § One way to gage internal performance is to take the same performance monitoring procedures used on an outsourcing contract and apply them on work done internally.
- § The American Council of Engineering Companies (ACEC) and AASHTO have supported federal legislation to outsource a larger portion of work delivered with federal money.
- § The bottom line is how we consider costs and quality in innovation. It would be helpful to under a study of outsourcing to identify benchmarks on what strategies work well.
- § We would need to be careful in coming up with the list of questions that such a piece of research would answer. It might be more helpful to reach out to a handful of states that have used outsourcing successfully and develop case studies based on their experience.
- § States need to undertake risk process reviews and use a decision tree approach to identify the best project delivery options in different situations.
- § Has AASHTO done any investigation on best practices with outsourcing? ACEC has been advocating for outsourcing with CEOs, so the "back and forth" on this issue is alive and well.
- § It would be helpful if some examples of good outsourcing contracts could be identified.
- § Outsourcing involves questions regarding risk and control.

# THE BUCK STOPS HERE: THE ART AND PRACTICE OF USING PERFORMANCE MANAGEMENT AND COMMUNICATIONS TO BUILD AGENCY CREDIBILITY

Former Washington State Secretary of Transportation Paula Hammond remarked that public service was revered during President's Kennedy's administration, but this has evolved into a "Got you!" mentality. Public watch dogs look for problems and instances where government needs to be reformed. At the same time there are diminishing resources available to public agencies and there is a growing expectation the government will be efficient. With its growing role and prominence, technology is changing the world. It facilitates efficient outcomes and informs all kinds of decisions including driver behavior. Change has come fast and in this new environment there is a need for strategic communication in a 24/7 world where everyone is an author and has an opinion.

As CEOs you need to figure out where you want to go and how to get there. What will your legacy be and how can your employees follow you? What is your agency about and how do you fashion your strategic plan and vision? What is the path for getting there? In Washington, accountability is a key tenet of the DOT's vision and we used performance management and strategic communication to convey this culture of performance.

In order to shape a culture of performance you need to communicate your vision and direction and get the right people on your team. You also need to engage employees and empower them to act. Never talk "at" employees. Listen to maintenance staff and learn what their challenges are. Management should engage with the legislature and discuss the challenges the DOT is facing and your employees should know that you are raising their issues. At the same time you should encourage the broad use of data to inform decision making across the agency. There is valuable data coming from many different sources, including private vendors.

There is also a need to communicate results consistently and to admit to making mistakes. Be an honest broker, but also tell people what you are going to do about a situation. Create a communication strategy for just about everything you do, both internally and externally. Use a variety of tools, including social media, to provide information where the public gets its news. Inform key stakeholders such as city council members about important developments first and then bring in a trusted reporter. Figure out what to say and what order to bring people in. Draw from performance results to create good news stories and educate and inform. Give your employees guidance and, once you have, trust them to deliver.

You should also be the first to share your bad news. It is important to control the story and make your message non-defensive. Draw from performance results to create good news stories to educate and inform – you will be able to write the blog piece better than anyone else. Talk to neighbors and friends about the importance of transportation. If your employees know the talking points then they will be educators and ambassadors too.

Results can change the story. States are using real data and performance journalism to tell their stories.

The following discussion questions were suggested to CEOs to foster further discussion:

- § How best can an agency maintain its commitment to transparency when the Governor's office controls communications?
- § What are effective ways to use performance results as a means to educate the public on investment needs?
- § What techniques compel DOT employees at all levels to get on board with the performance management culture?

### Discussion

- § What techniques compel employees to get on board? It may take a certain level of crisis.
- § Be an open book. If there is a mistake it will come out anyway. The press can be your biggest ally and your biggest liability.
- § What are the best metrics to determine if we are doing in the right direction? California uses *Mile Marker* performance reports that include regular reporting on such metrics as percentage of distressed pavement. Repeated reporting allows a DOT to show the progress they are making.
- § Hold a lantern to your problem. Tell the public that there is a problem and then tell them what you are doing about it. This is far better than having others discover your problem. You need to keep staff informed to and tell them actual facts.
- § It is also useful to keep key stakeholders informed. In Alaska there were problems on a road that is used by an oil company, so the DOT reached out to the oil company's leadership and kept them apprised of ongoing repairs.
- § It is also important to communicate with the contractor community.
- § There is also a lot of information on real-time traffic conditions. Contractors have information to share on progress in work zones and help can explain why motorists do or don't see workers at a given construction site. Convey this information to the public as well as real-time information.
- § Convey the importance of transportation investment.
- § California has 12 transportation projects that have twitter accounts.
- § DOTs should put information out that makes their governors look good, use DMV wait times if they're good.
- § Communications at Illinois DOT have been reactive, with just 3 out of 6,000 employees devoted to communication. When you are reactive you tend to appear in a bad light.
- § When your governor is up for reelection, communications will change.
- § It is important to get out and meet employees; engage in their discussions. Serve barbeque to the maintenance guys and talk about your vision for the DOT and listen to their recommendations.
- § Utah has developed a system to use asset management data to develop a timeline of future maintenance projects. Asset management is an important investment driver and this is a way to convey its significance.

- § When there is bad news, be proactive and convey it to television stations and transportation reporters. By doing so you will also convey that you think their jobs are important.
- § It is important to meet with employees and mid-level managers. Engage with staff and let them tell you how they have been supporting your business plan.
- § With performance management, quarterly reviews are an effective tool. The notion that managers meet on a quarterly basis to review performance encourages staff to engage and do a good job. Missouri has a set of 115 performance measures and its quarterly performance reviews grew to include 175-200 people. This began to instill an understanding of the importance of doing things right.
- § It is important to communicate in person. Use the media to show your stakeholders that you have boots on the ground. In Vermont VTrans has used its work zone safety staff in advertisements and they have also given testimony to the state legislature.
- § In Kentucky the state budget has been cut over the past seven years, but transportation funding has actually grown, so the DOT has used some funding to alleviate constraints in other areas to engender trust amongst different government agencies.
- § Use front line people to train other staff on messaging.
- § AASHTO's Communication Committee is a great resource. The CEOs were encouraged to reach to the Committee Chair.
- § There are two NHCHRP studies on communication that will be coming out soon.
- § AASHTO also provides communication and media training to state DOTs.

# THINGS I KNEW AFTER 15 YEARS AS A DOT CEO THAT I WISH I HAD KNOWN AT SIX MONTHS

Pete Rahn shared the following lessons learned from his long time experience as a DOT CEO.

- § Problems get reinvented with each new administration. Take a breath. Someone may be hoping to get a different decision.
- § There is no such thing as a “one time” decision for a CEO—every decision is a precedent. It will come back and be used to justify many other requests in the future.
- § There is a reason things are done the way they are. Understand why before you make changes, but don't fall victim to “paralysis by analysis.”
- § There are no secrets in government—ever—don't try to fool yourself that there can be. If people hear something from you they will want to share it to demonstrate that they are close to you. It is hard to hold a confidential conversation. If you ask someone for something, they will likely need to ask someone else.
- § There are people in your organization who will never like you. Don't be afraid to make a decision because you think people won't like you as a result.
- § The sooner you can explain why something is not a good idea to your governor, the sooner you will be of real value to him/her. It is a service to be honest with your governor and help him or her make fully informed decisions.
- § There are a lot of other agencies envious of your resources. DOTs have a lot of discretion in how they spend money. As a CEO, you choose how and where money is spent. This makes DOT CEOs important.
- § Make sure your staff knows it's ok to disagree with you. You need to cultivate an environment where staff are willing to share their opinions openly.
- § You're being watched and interpreted, always...always...ALWAYS! Even questions that you ask can be perceived as requests.
- § Everything you see has been *screened*. You should have detailed conversations with your staff about what you think needs to come to your desk.
- § It's not your enemies that will get you into trouble—it's your friends, because you naturally want to help friends.
- § You can never praise your staff enough, but false praise does not produce desired results. Praise reinforces good behavior.
- § Messages get weaker coming up and stronger going down. You should be very concerned if someone tells you that you have “a little problem with a bridge.”
- § Announce to all staff instantly what you're going to do to them that is negative. Have a communications plan in place. Your staff needs to communicate bad news to you too. At the start of a crisis information is



often wrong, so be careful in your reporting to the media. Give them clear information, but devoid of details that could be wrong.

- § You don't have to know the answer to start.
- § Eighty percent is close enough to implement. Don't get bogged down before starting. How do you get planners and engineers to do this? Find the right planners and engineers and put them in the right positions. Change behavior, not necessarily the culture.
- § Middle management can be like a thick layer of old Jell-O if you don't have them aligned with your agenda. They bounce back to their old shape. Bring people together and make them part of the process outcome. Engage middle management and involve them in decision-making.
- § You can't have innovation without both empowerment and need. Why change something if it is working? You need an obstacle to drive innovation. Policy and procedures are the scar tissue of past transgressions. Just empowering won't get you what you want, you need to describe what the problem or obstacle is. These two things must go together.
- § Your staff must be ONE TEAM! Having multiple competing teams leads to infighting. If two leaders are not getting along, invite them to have breakfast and tell them to work it out. Also tell them that if they cannot, you will do it for them, but they will not like the outcome.
- § Legislators won't increase resources as long as they get what they want. Be straight forward. Tell them that the DOT doesn't have the money, but that there is a planning process.
- § The media can be your partner—but never your friend. They are like semi-domesticated wolves. If you feed them they will be your friend, but if they smell blood they will go for your throat.
- § Creating competition is the key to lowering costs. Specifications are 50 percent politics and 50 percent engineering. Let the marketplace decide these things. Get more bidders involved and you will lower costs.
- § Trust your intuition. You haven't gotten where you are because your instincts are bad.
- § Your department will follow what you do—not what you say (if it's positive...just do it...don't announce it—they won't believe you anyway).
- § The lawsuits follow you long after you've left the job.
- § Have fun! Your organization can work well if you are not there. Attend events. That is your reward. You do a lot of good things in your job. Your satisfaction is your reward.

### Discussion

- § The media is jaded when it comes to the government. They are always on the lookout for a scandal. They follow the Woodward ethic of hunting for the three C's: conflict, confrontation, and controversy.
- § The film industry is enamored of plots involving government decisions to do wrong and then cover them up
- § You need to manage the message and the issues.
- § Press releases don't feed the media.



§ Newspapers are a dying industry. They are looking for the three C's more and more. Bad news sells papers.

## SKATING ON THIN ICE

Former Virginia Transportation Secretary Dave Gehr posited that there are three inevitabilities in life: death, taxes, and change. To create change one needs to keep up enough momentum, because if you go too slowly you may “break through the ice” and drown. Innovations in technology fostered tremendous change from 1900 to 1985, but since that time the pace has doubled.

In *The Prince*, Machiavelli wrote, “There is nothing more difficult to take in hand, more perilous to conduct, or more uncertain in its success, than to take the lead in the introduction of a new order of things.” Instigating change in a state DOT is perilous. Trying to implement change among VDOT’s 10,000 employees, Dave noted that there were three general attitudes among his staff: those that were eager to help implement change, the bulk of employees who could go either way, and then those who took a kidney stone philosophy of life; “This too shall pass.” Naysayers to change are likely to view the DOT CEO as a political appointee who will not be in the position that long. When you have a disruptive force on your team, the only thing to do is get rid of it.

There are several drivers of change at state DOTs. They include the Governor’s expectations, the evolving legislative environment, downsizing and rightsizing, changes in technology, and changes in customer demands. Implementing change successfully involves creating power and motivation and high quality leadership that extends beyond excellent management alone. Change is 70 to 90 percent leadership and 10 to 30 percent management.

John Kotter in his book *Leading Change* identifies the following steps that make successful change within an organization happen:

1. Establishing a sense of urgency
2. Building a guiding coalition of people who are committed to carrying out change
3. Developing a vision and strategy
4. Communicating the change vision
5. Empowering broad-based action
6. Generating Short Term Wins
7. Never letting up
8. Incorporating change into the DOTs organizational culture

At VDOT, Dave formed focus groups across the organization to discuss and address different issues. Through this process he cobbled together a cross section of employees who became a guiding coalition to enact change. The composition of the focus groups was random and they discussed VDOT’s work around the state.

When you are looking to implement change, make those most impacted by it create the change. Empower them for broad-based action and then generate incremental wins. Success is not forever and failure is not fatal. If you start small, your first wins will generate bigger wins later on. Never let up; make embracing change part of

the DOT's organizational culture. As Yogi Berra said, "If you don't know where you're going, you will wind up someplace else."

The following questions were posed to the CEOs to engage them in a discussion of change at state DOTs.

- § How do you deal with tactical issues while making strategic change?
- § How do you deal with obstacles to change?
- § How do you successfully implement a high performing entrepreneurial government?

## IMPLEMENTING A STRATEGIC PLAN AT CALTRANS

Caltrans Director Malcolm Dougherty reported that the agency has implemented a strategic plan that involved building consensus from the bottom up and the top down. The process began with a program review that focused on processes and organizational structure. The process took 12 to 18 months and was led by a committee of eight people, four of whom were internal to Caltrans and four external people. Three of the four external committee members were former employees and they added creativity and credibility to the process. Their input was valuable, but could have been more so if their experience had been more complimentary to Caltrans as an agency. The premise underlying the process was that that were modernizing the agency to reflect a new age.

When it was time to fold the recommendations of the committee into a strategic plan, Caltrans needed input from its managers. They convened a group of 25 to 30 people and spent four hours refining the agency's vision and mission statement, and through this process management also owned that vision. Caltrans' old mission statement was to "Improve Mobility Across California." However, the agency needed to recognize that it does not exist just to deliver projects. Its real mission was to improve the quality of life and the state's economy. Understanding that mission was critical. Caltrans had been too highway-centric. The plan wrapped safety, system performance, stewardship, sustainability and organization in a neat package. First they gained buy-in and ownership from executive staff, and now the agency is conducting outreach to its staff through a series of district meetings. Staff are selling the plan to their co-workers and lightbulbs are turning on. It is difficult to communicate to the entire organization, but they did have a town hall meeting with 5,000 to 6,000 staff attending one week after the strategic plan was announced.

When implementing change, remember that actions speak louder than words. Adopt an element of the plan and act on it to give the process credibility. Caltrans' CEO adopted a bike plan, and by doing so brought a large cohort of staff onboard. The agency's executive team also became part of the sell team. The plan is a flag, and hopefully agency-wide staff are all rowing towards that flag. It has taken a lot of work to bring staff on board and it has involved building consensus from above and below and interaction with external partners, but when staff saw the final product they understood the value.

### Discussion

- § North Carolina DOT implemented a strategic plan in 2009 that introduced a new way of doing business. After this a new governor and DOT secretary came in and continued to the process.

- § South Carolina has a governor who thinks reform is easier than revenue. SCDOT has not had the luxury of having 18 to 24 months to develop a new plan. How do you manage expectations and still get to a deliberate process to implement change while delivering tactical operations needs? SCDOT has had some early wins. They raised wages for maintenance staff and they have made some process reforms, but there was an expectation that they would go further.
- § Making effective change and good decisions on daily operations buys you credibility with staff.
- § You really have to have staff involved and you can't rush. It has to be incremental, one step at a time.
- § How long does it take to bring things back? You have to stop and take a breath first. Illinois DOT doesn't really have mid-level management.
- § This may be an opportunity.
- § People know what they need to do their jobs better.
- § With a new strategic plan you change where decisions are made. You need to change the delegation and move it down. Be honest and explain when cuts were made for political purposes. Recognize that middle management may not want to take on change because it means more work.
- § AASHTO has recently gone through a numbers driven strategic planning process. The Association's plan represents the industry's needs and priorities. AASHTO needs to support the planning process in general, but it facilitates rather than dictates.
- § AASHTO's training courses are helpful in developing leadership opportunities and grooming promising new talent for positions in their organizations.

# DISASTER RECOVERY

Former Utah Department of Transportation Executive Director John Njord remarked that with regard to disaster recovery it is not a matter of “if” it will happen, but rather “when.” Not all disasters are on the scale of hurricanes Katrina or Sandy; they can encompass train derailments, floods, storms, dam and levy failures, tornados, truck explosions, train derailments, and bridge hits. Lessons can be derived from any disaster event, and when it comes to a disaster, no agency should be as prepared as a state DOT. The National Guard and State Police will clearly play important roles, but DOTs have the people, the know-how and the contracting authority that is required to respond to a disaster.

How long would it take you as DOT CEOs to respond to a catastrophic bridge failure? A disaster response may be your only opportunity to use alternative delivery techniques such as design-build Construction Manager / General Contractor (CM/GC) procurements. If you believe you do not have the tools in place to respond to a disaster, now is the time to plan. In addition to natural disasters there are also planned disasters, such as the planned closure of the I-405 freeway in Los Angeles known as “carmageddon” or special events such as the Olympics. Planned disasters require exceptional planning. There are important lessons to be learned from both types of events.

Disaster recovery requires all hands on deck. For example, half of Utah’s DOT staff supported the 2002 Winter Olympic Games in Salt Lake City. Make your best people available. Learn how old processes can be modified and improved. Your staff will deliver in spades and it is an opportunity to build the DOT’s reputation and public trust. Your staff will thrive in this type of environment. They will be able to bypass certain processes and the overall experience will be fulfilling. Your staff will apply their experience from prior events in responding to new incidents. Following a tornado in Salt Lake City, UDOT staff arrived at the scene without any direction from headquarters.

With regard to resiliency, our transportation infrastructure is designed to accommodate predictable occurrences such as 100-year floods. How do we plan for an uncertain future; what happens if 100-year storms happen every 30 to 50 years? Changing that standard has a significant cost. There are certain subjects you can and cannot broach with elected officials. They may not want to discuss climate change, but they are almost always willing to discuss weather events, including billion-dollar storms. We have an uncertain future so we need to discuss these issues with our local government partners.

The following discussion questions were provided to the CEOs for their consideration.

- § How have you prepared with your Governor’s office and other agencies to be ready for all aspects of the unanticipated disaster?
- § What role should state DOTs play in preparation for transportation related impacts at the local level?
- § How should the state DOT balance efforts between disaster response and system resiliency?

## DISASTER RECOVERY IN VERMONT

VTrans Secretary Sue Minter discussed her agency's response to Hurricane Irene, which dumped 15 inches of rain on Vermont in late August 2011. At that time 225 out of the state's 251 towns incurred damage, together with 500 miles of state roads and over 200 state and local bridges. In addition, and all east-west corridors in the state were severed and 13 communities were completely cut off due to damaged infrastructure. VTrans' Road Crews were the state's responders. The agency needed to make quick decisions and utilized the Incident Command System to implement an effective response and chain of command. Even though the state's emergency response center was flooded, VTrans stood up its own Incident Command Centers in the areas hardest hit and repurposed state tourism call centers and had the information and processes in place to launch an effective response.

The first step in the recovery was to set the goals. The governor's first priority was to reestablish access to all communities that were cut off. Within 24 hours of the storm, VTrans had re-deployed 750 people out of a staff of 1,500 and they had reestablished communication with 12 out of 13 affected communities. VTrans articulated response goals and reported on progress. People were desperate for information, so VTrans went on the radio every day at noon to report on the recovery. It was important to make sure the responders understood the order of priorities as they went about their jobs. The private sector also assisted in the response with contractors providing back hoes and Google assisting with mapping. Within three days they had real time maps showing outages and ongoing repair work. VTrans had access to all of this information and they communicated every success from road re-openings to special collaborations. The states of Maine and New Hampshire sent workers to Vermont who helped with road building and the state also employed innovative new contracting and permitting procedures. Permitting needs involved a high level of interagency coordination with mapped information shared on iPads.

In the end, the crisis was transformed into mission and opportunity. The state's goal was to have every road open in time for winter maintenance. VTrans met that goal, reopening all roads in the state by December 31, 2011, just four months after the storm. The recovery involved input from all sectors of government and VTrans demonstrated that it had an exceptional understanding of federal rules and the Governor also provided exceptional leadership.

The recovery effort also provided an opportunity to improve resiliency so that the state would be stronger and better prepared in the event of another storm. Part of this effort involved replacing 2,000 drainage culverts. After the event it was hard to keep the momentum and morale up once the recovery was complete. The state legislature took the opportunity to increase salaries for VTrans employees based on the agency's contribution to the recovery.

One challenging aspect of the response was constantly being asked by the media what the recovery effort would cost and how the state would pay for it. VTrans initial ball park estimates were based on a nominal construction process. Now they are closing roads and rebuilding bridges and they know the more you can be prepared for the next event the better the outcome will be.

## Discussion

- § Hearing the governor brag about the DOT is always a real upper.
- § Kentucky has learned as a result of multiple events. The Transportation Cabinet coordinates with the Department of Emergency Services, the National Guard and the State Police. These events provide opportunities to build your reputation, but you don't think of them that way at the time. In the recent past the state has seen an F-5 tornado, a ½ inch ice storm, a 25 inch snowfall, river flooding that required breaching a levee, and a damaged bridge on the inland waterway. This last incident required closing a bridge on I-64 between Kentucky and Indiana. Indiana had wanted to take up to a year to rebuild the bridge, but they were able to complete the repair in four months. This experience demonstrated to the metropolitan area that two bridges in the region were not enough.
- § Washington State has had a series of floods and mountain pass avalanches that has required coordination between the DOT and the governor. At one point when I-5 was closed, WSDOT prepared maps updating the situation on a daily basis by 7:00 a.m. so that all agencies could understand the latest developments. They were so good at addressing the situation that the governor would call in advance if the forecast looked threatening.
- § One of the first things that incoming CEOs should consider doing is confirming their emergency response teams and conduct table top exercises. South Carolina has pre-position contracts that kick in when there is a disaster.
- § Disaster response also involves coordination with the Finance Office and paperwork to document the flow of money. In the aftermath of the 1994 earthquake, Caltrans conducted tabletop exercises to anticipate needs and recognized that the Department needed a helicopter.
- § One of the worst things one can do in responding to a disaster is to over promise on the response time. You cannot do enough joint agency disaster response preplanning. Roles need to be clearly defined.
- § In the event of an emergency, DOTs should reach out to their FHWA Division Administrator. FHWA will help you get where you need to go. AASHTO can also help mobilize resources. It has used its Standing Committee on Maintenance to determine what equipment is available in nearby states in the event of a disaster.
- § Another issue in the aftermath of disasters is permitting for oversized vehicles.

## ROUND TABLE DISCUSSION: ASK THE EXPERTS – LEARN HOW YOUR PEERS AND PREDECESSORS HAVE DEALT WITH SIMILAR ISSUES

It would be helpful to share information on what metrics different CEOs monitor on an annual, quarterly or monthly basis. What information is most important to you as a CEO and how frequently to you look at it?

- § Safety and reliability of the urban system. One CEO looks at this on a daily basis.
- § It is good to look at project delivery and big line budget items, such as snow removal in the winter. Pay more attention if you are close to maxing out your budget.
- § One DOT CEO has biannual check-ins with legislators and also conducts annual reviews of asset conditions including culverts, signing and striping.
- § Another seasoned CEO reported having a list of 103 metrics that he tracks. You want to be able to see tangible results in things like striping, signage and guard rail markers. They have an outcome measure for each of these items. For example, what percentage of signage has a reflection factor of “x.” Sometimes it is best to track a collection of factors.
- § It is good to monitor information that drives decisions that the CEO needs to make. If data helps you make decisions, monitor it. Otherwise don’t get bogged down.
- § Another CEO would identify four or five metrics that would help track how well the Department was meeting its five major goals, which included safety and employee satisfaction. These were monitored on a quarterly basis. Each business unit also conducted periodic reviews. This requires a lot of work, but if you do it consistently over time then you really know where you are.
- § Governors are increasingly demanding that DOTs track a series of performance measures.
- § The public is interested in system operations, as well as automobile, bike, and pedestrian safety. On the sustainability front, stakeholders are interested in greenhouse gas emissions and energy consumption, both in terms of motor fuels and buildings. Financial performance is also of interest.
- § Maryland DOT had approximately 120 performance measures that it tracked regularly and then the governor increased that to 400 which were reported at the county level. It is important to focus on what informs decisions.
- § Another CEO conducts monthly financial reviews.
- § One CEO tracks cash flow and looks at the department’s ebb and flow of money on a daily basis. They can accelerate or slow down projects and expenditures as needed. They also project cash flows forward 18 months. All the CEOs attending confirmed that they have access to cash flow models, some delegate monitoring and review of the cash flow model output to their CFOs.



- § One CEO looks at bid summaries on a weekly basis. These reports identify the number of bidders, the high and low cost estimates, and the deviations from those amounts in the bids. This gives him a sense of market trends in just five minutes and helps him understand where the department's cost estimates are lagging behind actual trends.
- § With regard to disasters, it was interesting to note the difference in the DOTs' responses to Hurricane Katrina in Louisiana and Mississippi. Only ten percent of DOT workers reported to work the day following Katrina in Louisiana. However, ninety percent of DOT workers came to work on the same day in Mississippi. Mississippi had worker home kits for their maintenance staff that identify any special needs their family members may have. The DOT then facilitated communication between its workers and their families. It also provided family members with any support they needed to deal with the effects of the disaster, allowing state maintenance workers to go to work rather than look after their families. This proved to be an extremely useful process that could be replicated in other states.
- § Several gulf state DOTs are coordinating on hurricane response. They have a repository of information on resources and have conducted joint disaster response exercises. Maintenance workers often do not get much credit, but they are the backbone when it comes to disaster response. They know what to do without being told.
- § North Carolina DOT has an annual regional equipment rodeo with other DOTs at Myrtle Beach every year. It is a great event that boosts morale and pride for maintenance workers.
- § The experience to date with P3s has been halting. There are public outreach challenges when private partners make a profit performing roles that are perceived as belonging to the public sector.
- § The AASHTO Project Finance Institute (APFI) is carrying on the work of the original AASHTO Center for Excellence in Project Finance. The earlier center had a training program for CEOs and CFOs at the Wharton School. APFI is working with FHWA and will be developing training around many FHWA products. APFI will be preparing webinars and e-learning so that people will not need to travel to benefit from its training programs. It is developing training around the FHWA *P3 Model Contract Guide*, it will offer courses on bonding, and is developing a case study of the Pennsylvania Rapid Bridge Replacement project, among others. APFI is also closely related to the Build America Transportation Investment Center (BATIC) which builds capacity at the state DOT level. APFI is a resource which is available to all state DOTs.
- § P3s are an important concept for DOTs and in addition to toll road concessions they can also be used to develop and operate rest areas or 511 centers. There is a continuum of P3 opportunities.
- § We can derive important lessons from P3 projects that have failed and from overseas experience. Many P3s in Europe have been used to mitigate against European Union sovereign debt caps. There is concern about the prevalence of availability payment P3 projects. We should be talking about funding, not financing. In 1980 we had issued \$18 billion in transportation debt in the United States. By 2012 that level had risen to \$164 billion. The fact is that we are making up for the lack of transportation revenue by borrowing. P3 projects will not help us unless they provide new revenue.

- § There is a misunderstanding that involving the private sector will solve the funding crisis. Financing does not replace funding.
- § The United States has the ability to innovate. We are moving toward connected vehicles and the private sector is playing a prominent role. P3s will be involved and we will need new business models to use them on connected vehicle strategies. With multistate corridors we will need business people to leverage more than just the connected infrastructure.
- § The more information that AASHTO can provide on P3s the better. There is a long learning curve involved with P3 contracting and with the dispute resolution process.

# BUILDING AND SUSTAINING WORKING RELATIONSHIPS WITH TRANSPORTATION STAKEHOLDERS: FIVE BEST PRACTICES

John Njord noted that DOT CEOs rely on relationships and partnerships to do their jobs. Powering through alone is not an option. In particular, CEOs need to build partnerships with their legislatures. He introduced five best practices for engendering and nurturing partnerships: 1) trustworthiness 2) being a good asker 3) staying on message 4) assessing the political environment and 5) resolving conflict.

Utah DOT has a fleet of howitzers that it uses to control avalanche risk during the snow season. One day during John's tenure as Transportation Executive Director there was an incident where the Department had overshot a snow pack on a mountain and hit a home instead. That same day, John actually visited the damaged home and spent time with its owner. Utah DOT admitted that it was at fault and agreed to assume all costs involved with repairing the home. While the incident was reported on the evening news, it quickly became a non-story. By owning its own mistake UDOT was able to garner trustworthiness in the community. You are never wrong when you do the right thing. Whenever you have an opportunity to do the right thing, take it and be a trustworthy partner.

As a DOT CEO you are an interface between the governor and everyone else. You need to build allies in Governor's office and with industry, local officials, and legislators. You can do so by asking people about their roles and concerns. It is important to help make connections and find allies and then reach out to the right people and inform leadership – including legislators on both sides of the aisle – about what is going on in the community.

If you are technically trained, it is hard to deliver the message in a sound bite. In order to stay on message, you need to keep things at the level of a fifth grade elevator speech. Do not get into geomorphology. If you have children, test your messaging on them and see what they take away.

A DOT CEO cannot work in a vacuum. Who is your boss? Everyone is, from the governor to legislators, so it is always important to assess the political environment. If you have unresolved conflicts it is like having an anchor attached. Resolve conflicts and keep the momentum going.

The CEOs were posed the following questions to stimulate discussion:

- § As a new CEO, where do you begin to develop the most strategic relationships you'll need to succeed?
- § How do you balance or resolve differences in the interests of the stakeholders and the Governor/agency?
- § What's the most important set of skills and actions you consider necessary for strong working relationships?

## Discussion

- § There are internal issues and external issues. As a CEO, your number one boss is the governor. You need to understand his or her sphere of influence, as well as that of his staff. Get to know the governor's chiefs of

staff and make sure that you don't give them surprises. When interacting with external players, listen and nod, but do not promise. Never promise anything unless you know where your governor stands.

- § You will likely find that a small number of legislators understand and are interested in transportation. Establish a close and frank relationship with them. Be trustworthy advisors to them, but always know what you stand for.
- § You need 5<sup>th</sup> grade clarity when you are interacting with stakeholders who are not transportation specialists.
- § Being a DOT CEO is lonely. Very few CEOs get a ticker tape parade.
- § Your self-worth should never be based on your position. Remember who you are.
- § All your actions should be based on what you want people to say about you.
- § We all know and have relationships with lobbyists. In some cases they can be advocates. They will want to help if you promote what they do. You have to know where your governor stands before engaging with lobbyists.
- § The DOT CEO's integrity is his or her most precious possession. Give level handed access and respect and then if you and others you deal with are on the same side of an issue you can advance it. Respect and positive relationships will carry you through challenging times.
- § Never assume where a lobbyist will fall on an issue. Follow the money. You should be aware if a local government has hired a lobbyist to talk to you as a CEO. Lobbyists have close relationships with legislators and they can be effective, but be wary.
- § Every state is like a small town. Lobbyists are a good source of information and they may be helpful in stitching together the coalition of supporters you will need to pass a transportation bill. In some cases shared discussions involving construction, transit, environmentalists and others can be facilitated by lobbyists.
- § You also need to include local officials including mayors and MPO officials in the fabric of transportation programs.
- § Work hard at cultivating these relationships. You need to understand community needs and visions in order to have a balanced plan. Relationships and collaboration should be emphasis areas.
- § CEOs often get pushback from their own teams that make it hard to color outside the lines.
- § How has success been measured in the past? Collaboration requires a management focus, so there is often a focus on that. In these cases, there is a motivation to measure the process rather than the results. Remember, it is the results that really matter.
- § A project that benefits automobiles but hurts other modes is not good. We have all been hired for our judgment, so remember you don't have to follow the cook book all the time.

- § It can be a problem when stakeholders go around the DOT CEO and take a situation to the governor. You need to make sure that you and your governor are aware when you are being told different stories by the same stakeholder.
- § There are some debates in Congress about pushing funding down to the local level. You need to establish open working relationships with counties, cities and MPOs. Engage them in discussions so that they understand how the DOT makes decisions, and remember that the DOT is better at awarding and managing contracts.
- § Some states believe that local governments are not being heard.
- § The role of counties, cities and MPOs is different in different states. In California, MPOs are also funding partners.
- § In some state legislators are deferential to local governments.

# WORKSHOP SYNTHESIS

In the final session, each of the CEO Peer Exchange Workshop participants discussed the core wisdom that he or she gained from the session.

- § The workshop has been a valuable session and that the intimate setting provided a safe environment for exchanging information. It was helpful to include seasoned CEOs and develop new contacts. There is much to be gained by listening to the participants discuss how to be effective as CEOs in our different settings. Transferability and trustworthiness were a common thread throughout the session, as was the value of humility. An appropriate sense of professional humility allows a CEO to lead unapologetically. As public servants professional humility establishes credibility. While arrogance is usually unintentional, it is a real turnoff.
- § One CEO wished he had been privy to these types of conversations when he was early on in his tenure. Communication with employees and stakeholders is critical to the CEO. If he had a message and others wound up not doing things his way, he always felt that he did a poor job in conveying his message.
- § Another CEO learned a lot. Pete Rahn's statement that friends can get you into trouble really resonated. The shields should go up around friends. It might be helpful to have a check list of questions for your comptroller, chief engineer and others early on. This would help the CEO learn about his/her organization and think strategically.
- § Another CEO agreed that friends need to be treated carefully and that it is important not to let down one's shields. Your friends are more likely to get you in trouble than your enemies.
- § Every day is a learning experience. One issue that was not addressed in the workshop was internal communication. There are differences in the effectiveness based on the medium through which information is conveyed. The AASHTO Project Finance Institute may be a potential resource to allow us to have a P3 alternative on the table to determine what the best business decision is.
- § Jack Welch's new book *The Real-Life MBA* conveys that truth and trust are two important elements in an organization. We have the tools we have and we teach one another how to use these tools effectively. Big meetings are necessary, but the small setting of the CEO Peer Exchange is very fruitful.
- § Having attended a number of smaller meetings over the years, one CEO finds that the advantage of this type of setting is building relationships and providing opportunities for mentoring. The CEO's job is very lonely, so it's good to have relationships with one's peers.
- § It is important for organizational culture to drive people's behavior in an organization. We need to come to grips with the culture to understand it and then have an influence on the culture and change the game.
- § The peer exchange was a great format and it was valuable to learn from one another. Developing personal and agency credibility is important. This CEO has had great experiences traveling around his state and has found that people are pleased to see him. This makes him realize that the CEO's position is important. He has learned to show interest but offer few opinions. He believes we need to be open about where we are

going. Embracing plurality does not mean you don't have a backbone as a CEO. You can have both, they're not a dichotomy. The purpose of a DOT is to maximize the health of the people and the environment and prosperity of the state. We are working together for something bigger than any one of us. Wherever the CEO goes, he or she will be told that it is the center of growth for the state. Be straightforward and open: it's an honor to do the job.

- § A number of former CEOs have moved into consulting. Their skills are transferable. Learning never ends – we all learn from one another.
- § It has been humbling to be a sponge and learn from her peers. The CEOs job is all about people and risk. When you walk into this job, you need to understand your areas of risk and identify specific issues that you need to address early on. Recognize that you have a team of people that you can call on. It might be helpful to develop a check list of issues to review with different senior staff members.
- § Trust and integrity are most important not just for the CEO, but for their organizations. It isn't about the leader; it's about the entire organization.
- § The Peer Exchange was an invaluable session and it was great to go through the issues. It's all about developing relationships with this group and it is helpful as we embark on our work. The discussion on performance metrics and the key measures we need to inform decisions was particularly helpful.
- § Having attended this event several times since 2001, it has always been helpful to validate what we are trying to accomplish as CEOs. Without this opportunity he would not realize that others are dealing with the same issues. Encourages state DOT employees to participate in AASHTO activities and bring new ideas back home. Accomplishments are accountable to the culture of the department not an individual leader.
- § One observer was impressed by the willingness of all of the CEOs to share and not feel vulnerable. The workshop provided an excellent opportunity for listening and understanding.
- § You learn every time you attend this event. John Porcari and Jeff Paniati's remarks provided insight on how CEOs can influence US DOT if they approach it correctly.

AASHTO president Bud Wright conveyed that he has always relied on the value of relationships both in the past and present. We are analytical and data gatherers, but it all comes back to relationships. We need to continue delivering that message until it becomes boring. AASHTO's responsibility is to provide services and add value to you as CEOs. We need to have better ways to interact. Bud heard the demand for more opportunities for CEOs to engage with one another. AASHTO wants to serve your needs. AASHTO is a fee-for-services organization and it needs to engage to find out what will meet your needs as CEOs. The array of AASHTO services has to evolve. The culture in AASHTO needs to recognize change as well. Bud asked the CEOs to help him understand what kinds of help they need to do their jobs better.

Bud and Paula will distill what was discussed at the CEO Peer Exchange with the full AASHTO Board at the Spring Meeting in Cheyenne. There are enough nuggets that could be described to illustrate what has occurred here. The discussion there should convey 1) the value of participating in a CEO Peer Exchange, and 2) a robust discussion of the issues.

## Discussion

- § For a topic like outsourcing it would be helpful to discuss what has been successful and what has failed. Are there ways to deal with unions? Dive down into it.
- § Discussions in a Board session are heard by 250 people in the audience. There is a degree of candor that has been possible at the CEO Peer Exchange Workshop that cannot be replicated in a Board meeting.
- § It might be helpful for new CEOs to identify what value they derived from the workshop. In military parlance it would be an “after action lessons learned.” It would provide the CEOs with the opportunity to discuss what they took back home and what they learned.
- § It would be helpful to provide specific on where to go in AASHTO for information.
- § One highlight was Pete Rahn’s 23 Things presentation. Perhaps that could be made at a Board meeting.
- § Other take-aways from the CEO Peer Exchange could also be incorporated into the AASHTO Leadership Institute.



# POTENTIAL RESEARCH TOPICS FOR FURTHER CONSIDERATION

The workshop discussions highlighted a number of areas in which research and development efforts could advance the state of transportation system and agency practices. Potential research topics could include:

- § Opportunities for GIS-based data collection and information management efficiencies through cooperative efforts by state transportation agencies and departments of natural resources
- § Understanding trends and management challenges as professional practice and agency culture in transportation evolve from a historical civil engineering base to greater engagement of communications, control systems, and information management
- § Understanding of trends and management challenges associated with evolving roles of regional agencies, non-highway transportation modes and intermodal interchanges, alternative equipment ownership business models (such as shared-use fleets, privately-owned control systems), and maintenance service delivery
- § Opportunities for information exchange and public-policy partnership with the insurance industry for use of VMT as a basis for rates and revenue generation
- § Alternative approaches to indexing to prolong the effectiveness of fuel taxes as a primary transportation revenue source, for example based on (a) consumer price indices and (b) average fleet fuel efficiency.
- § Envisioning the nation's future transportation system and the implications for interstate commerce corridors, the role of metropolitan areas, development of regional economies, and distribution of resources among the states
- § Improving management ability to characterize professional-services "product quality" and "core competencies" to facilitate workforce development and sourcing decisions
- § Development of guidance for assessing outsourcing options, addressing, for example, setting of organizational goals, consistent measures of overhead and administrative costs, characterization of an effective decision-making sequence (decision tree), model contract documents, and case studies
- § Development of guidance for DOT executives on disaster response, readiness assurance, "continuation of operations" plans, system and organizational resiliency and redundancy measures, financial and contracting procedures, and case studies
- § Development of guidance on how to monitor transportation agency performance, including for example specific measures, frequency of reporting, and examples of dashboards and other displays
- § Development of guidance on improving intra-agency communication and understanding of agency performance objectives, for example among maintenance and project delivery staff