Oregon
Tina Kotek, Governor

Department of Transportation
Director's Office
355 Capitol St. NE, MS 11
Salem, OR 97301

March 5, 2025

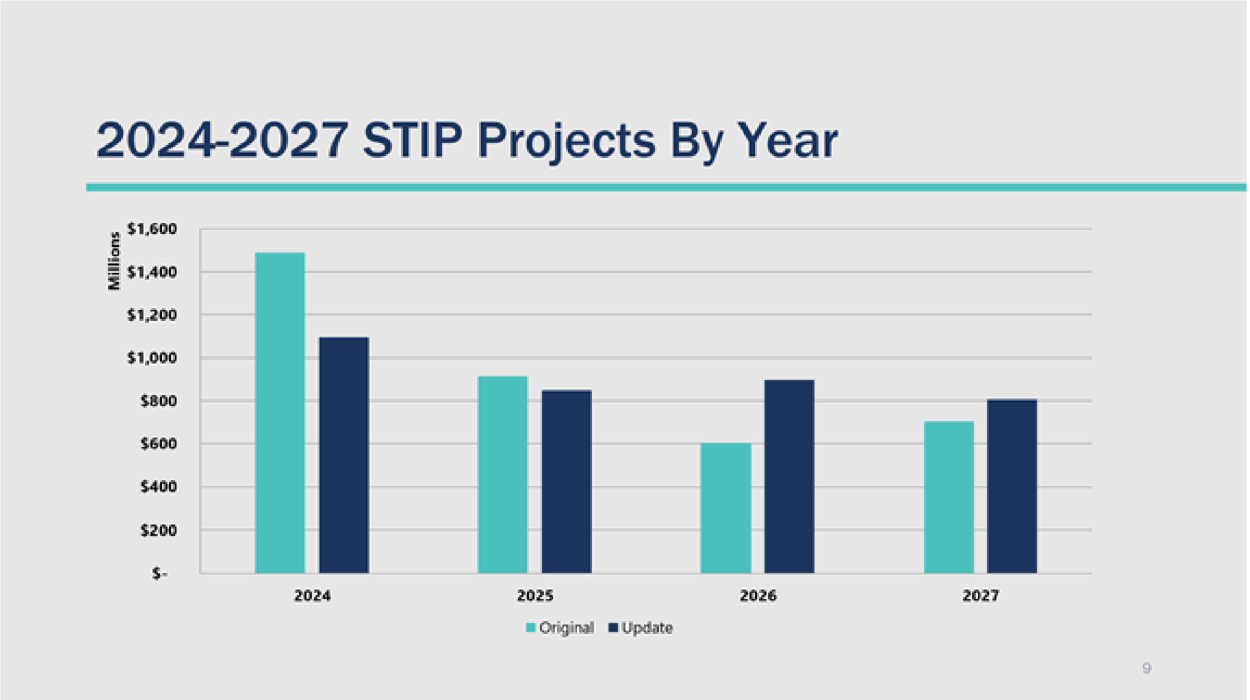
Senator Aaron Woods, Co-Chair
Representative David Gomberg, Co-Chair
Joint Committee on Ways and Means
Subcommittee on Transportation and Economic Development
900 Court Street NE
H-178 State Capitol
Salem, OR 97301

Dear Co-Chairs Woods and Gomberg, and members of the committee,

During the Joint Committee on Ways and Means Subcommittee on Transportation and Economic Development hearing on March 3, 2025, members raised several questions during ODOT's presentation on HB 5541 – Oregon Department of Transportation Budget. Please see the department's responses below:

1. **What projects or activities did ODOT not pursue as a result of not having the federal dollars due to the agency's overestimation of Federal as Other revenue?**

In late 2023, ODOT recognized that we had overestimated federal highway revenue (shown in our budget as *Federal as Other*) by about $1 billion, based on the projects programmed in the Statewide Transportation Improvement Program (STIP). Among the causes of this problem was an overprogramming of the 2024-2027 STIP, which was heavily frontloaded in 2024 and 2025, with fewer projects in 2026 and 2027. The projects programmed in 2024 and 2025 exceeded the amount of federal funds ODOT would receive, which could have caused a cash shortfall. In order to address this problem, among other steps ODOT went to the Oregon Transportation Commission in May of 2024 with a request to rebalance the spending in the STIP to push dozens of projects out to a later date. This better balanced the projects in the STIP to match when federal funding would be available and avoided a cash shortfall in the current biennium. The OTC approved this adjustment to projects in the STIP, which is shown in the chart below. The list of the projects that were delayed to a later year is available on the OTC website at Agenda_J4_STIP_Rebalance_PACKET.pdf.



2. **What are the components of the $235m in collections costs shown in the State Highway Fund sources and uses chart? How much does it cost to collect all of these? Is there a reduction in costs if we switch from a WMT?**

The collection costs include two larger categories over the three divisions that collect the motor fuels taxes, heavy trucks taxes and fees and the driver and motor vehicle fees. The two broad categories are the division and unit costs to collect the revenues and an assessment for shared services coming from the IT, HR, procurement, payroll and similar groups that support the agency as a whole. The table below shows these budget values separated by division and cost category for the 2025-27 ODOT Agency Request Budget. The $235 million in the Ways & Means presentation chart is the annual average total of the combined costs across all three programs.

2025-27 Agency Request Budget ($ Millions)			
Program	Program Costs	Shared Services Assessment	Total Costs
DMV	$260	$90	$350
CCD	$85	$30	$115
Fuels Tax	$4	$1	$5
Total	$349	$121	$471
		Annual Average	$235

The cost for DMV is the entirety of the cost of running the DMV's driver and vehicle programs, including the cost of driver licensing, vehicle registration and titling, customer service, and field operations. Similarly, the cost of CCD covers the cost of all of the division's motor carrier programs, including weight-mile tax, registration, over-dimensional permitting, customer service, enforcement, and safety programs.

The fuels tax is extremely efficient to collect, with a cost well under 1%, due to the limited number of payers and the large amount of revenue collected.

Based on costs in the 2025-2027 ARB shown above and projected revenue collections, DMV's total cost of collection is about 35%. This is because most DMV services, other than vehicle titling and registration, are not intended to be net revenue raisers, and many fees do not even cover the cost of providing the service. For example, most driver licensing and testing fees do not cover the full cost of providing the service, and this is also true of records and a variety of other services, according to the 2024 DMV Cost of Service Study. Through a major IT system upgrade and other steps, DMV has taken substantial steps to improve the cost-effectiveness of its services. This includes putting many transactions—from registration to license renewal to knowledge tests—online, which is almost always the least cost mode of delivering the service, and engaging in public-private partnerships like new kiosks deployed in retail outlets. DMV has kept staffing essentially flat for two decades while the state's population has grown by more than 20% and the number of transactions has increased significantly.

Based on costs in the 2025-2027 ARB shown above and projected revenue collections, the total cost of Commerce and Compliance's trucking programs is about 10% of total revenue. However, the cost of collecting the weight-mile tax is much lower as a percentage of revenue. The WMT costs for CY2024 was approximately $11 million to collect revenue of $471 million, or about 2.4%. Collection of weight-mile costs used in this calculation includes personnel, services and supplies, and WMT debt collection costs.

If we were to implement the WMT simplification that ODOT and the trucking industry have discussed, there would be a reduction of annual costs including approximately 10 FTE and associated supplies and services totaling approximately $1,000,000. Included in the WMT simplification would be the elimination of a $5 per vehicle suspension fee which would reduce annual revenue by $150,000. This creates a net annual savings of approximately $850,000, which equates to an annual savings of 7-8% in WMT administrative costs. However, if trucks were to be subject to a diesel tax, CCD would have to add staff to administer IFTA as well as enforce fuel tax requirements, though there would be reduced costs for ODOT's Fuels Tax Group.

3. What is the status of the HB 2017 projects?

ODOT has shared with the Subcommittee an HB 2017 project status update and also the original memo from the Joint Committee on Transportation's leadership that lays out the amounts of funding and timing for each project. The HB 2017 projects named in Section 71d were intended to be a nearly 10 year program, and given the limited resources in any given year cash and bond proceeds were to be made available over time according to legislative guidance.

The Legislature included 26 ODOT projects in Section 71d. (Funding for the I-5 Rose Quarter was included in a different section of the bill; I-205 was not directly funded in HB 2017, but in HB 3055 (2021) ODOT was allowed to use funding originally set aside for the Rose Quarter on I-205, tolling, and the I-5 Boone Bridge.) Of the ODOT projects in Section 71d:

- 17 are complete
- 9 are not yet complete

Of the not yet complete projects 7 have started construction or are under contract.

- ***Powell Boulevard*** Ph 1 is complete; Ph 2 and 3 under contract and will begin construction later this year.
- ***OR 217*** started construction in 2021 and is expected to be complete this year.
- Southern Oregon Seismic Triage started construction in 2020, and the final bridge expected to be complete this summer.
- ***US 97 & Cooley Road*** construction is substantially complete. With additional local funding and a federal grant we were able to do much more than was initially contemplated by the $50 million allocation in HB 2017.
- ***US 97 in Terrebonne*** started construction in 2024 and is expected to be complete in 2026.
- ***OR 30 Hughes Lane*** in Baker County started construction in 2024 as planned by the Legislature.
- ***US 20 Freight Mobility Enhancements*** is nearing completion.

Two projects are not yet under construction or under contract.

- ***OR 22 Center Street Bridge*** is still in design. Per the legislative direction, the project was not to receive funding until 2025; the first phase will be out to bid in 2026.
- ***The OR 58 Passing Lanes*** project was intended by the Legislature to be funded in 2024. This project was not well-scoped before inclusion in HB 2017, so there wasn't a well-developed project. ODOT is assessing the project's viability given lack of community support, limited benefit of the project, cost increases, and community and environmental impacts.

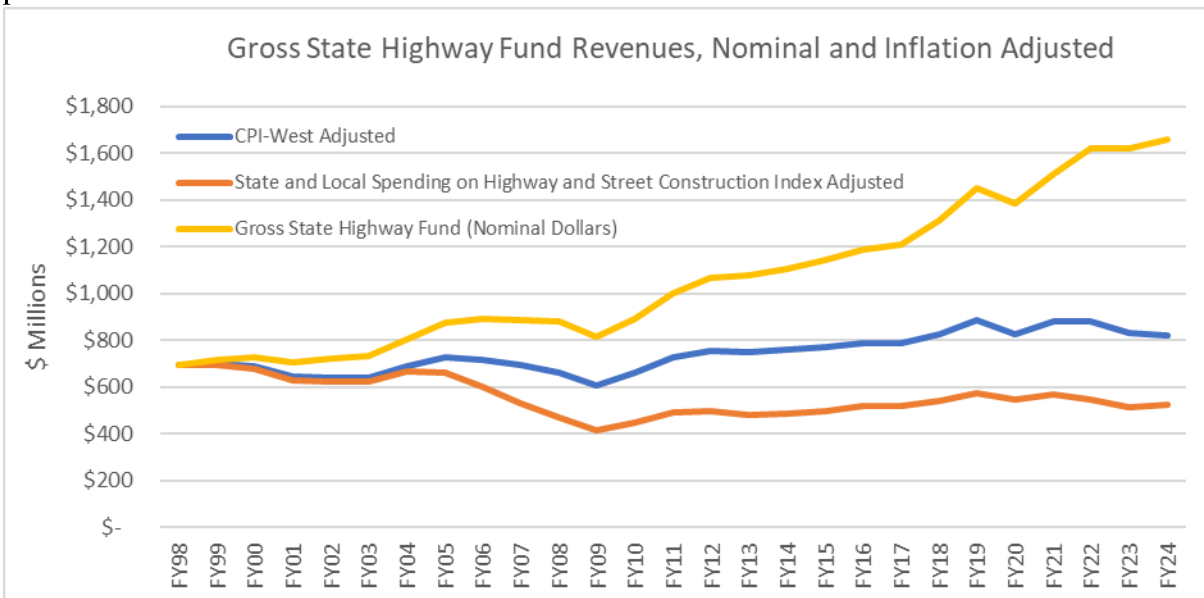
4. **What is the basis for the inflation adjustment on the chart?**

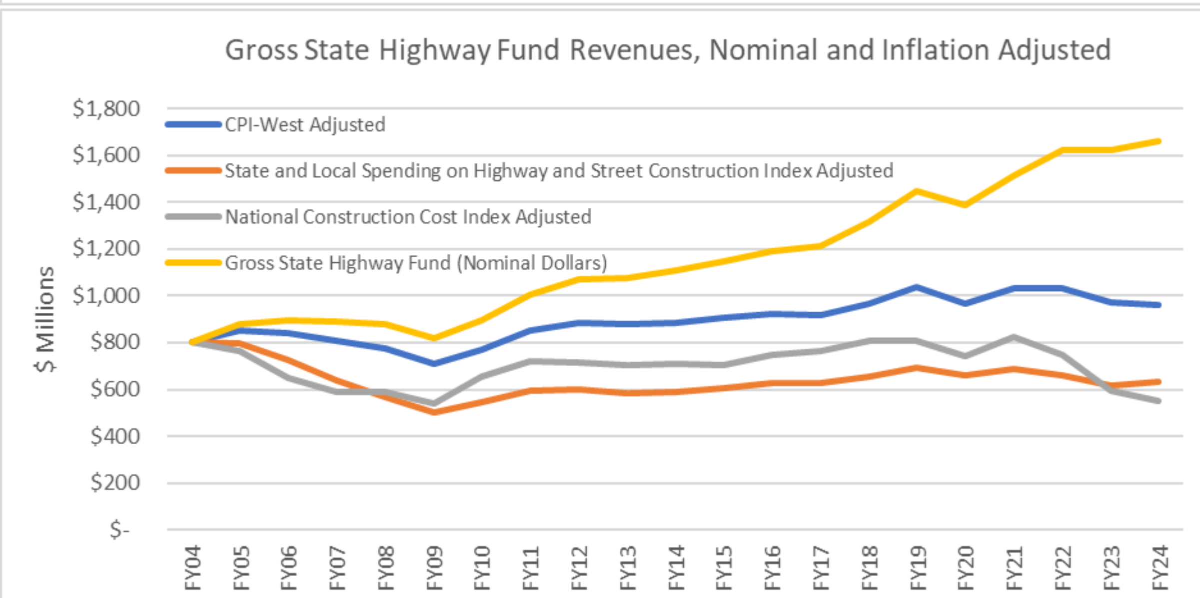
The chart included in our Ways & Means presentation presents the State Highway Fund revenues in both nominal and inflation adjusted dollars using an inflation index developed by the U.S. Bureau of Economic Analysis and forecasted by our shared vendor with DAS, which measures the change in spending by state and local governments on highways and street construction. We use this index because it provides a measure of road construction inflation, has a relatively long history, and is forecasted by our vendor several years into the future.

Another option would be to use the National Highway Construction Cost Index, produced by FHWA. This index is built from component costs such as asphalt and concrete and provides a strong direct link to construction costs. The drawback to this index is it has a relatively short history, is not forecasted into the future, and is updated on a lagged basis of about nine months

Alternatively, an inflation measure like the CPI-West provides a long history and is forecasted by DAS. However, it has one big drawback, which is no direct connection to transportation construction costs.

With that said, here are a couple charts providing a comparison of these different index options to adjusting the State Highway Fund for inflation impacts. The first chart matches the chart included in the Ways & Means presentation with the CPI-West inflation adjusted line added. The second chart includes the FHWA construction cost index as well, where FY 2004 is the furthest available historical data. In both charts, the CPI adjusted index shows mild growth over the historical series, while both construction indices show a loss in real revenue over the analysis period.

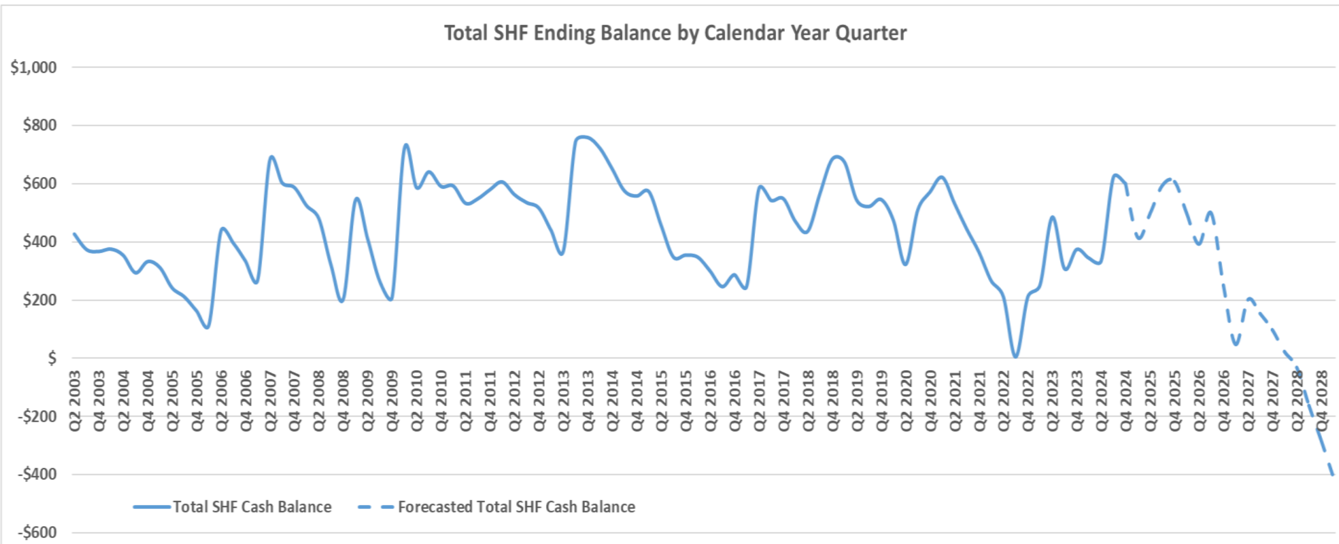




5. Can we show the State Highway Fund balance going backward before 2023?

The chart below depicts the State Highway Fund cash balance going back to July 2003. The significant spikes in cash balances in 2006, 2007, 2009, 2010, 2013, 2017, 2020, 2023, and 2024 represent bond sales directed by historical funding packages. Much of the balance in the State Highway Fund represents bond proceeds held for specific programs and projects.

In 2022, the timing of project expenditures and debt issuances and a large balance of unreimbursed federal FEMA funds for wildfire response efforts led ODOT to draw its State Highway Fund balances down to close to zero, until additional debt issuances to cover project expenditures replenished the fund. This illustrates the narrow margin of funds on which ODOT is operating.



6. **Provide specifics about the work that is being done to improve performance and accountability coming out of the Strategic Review.**

Over the last couple of years ODOT has focused on accountability of our leadership team, ensuring expectations and outcomes were being met. This has included a number of personnel actions that we are not at liberty to discuss. However, of our agency leadership team of twelve, seven have been in their roles for two years or less, which can be attributed to the need for greater accountability and bringing new leaders on. The need for change and better outcomes has been an area that the agency is continually focused on. In order to accelerate outcomes, the Director commissioned an external strategic review panel in 2024 to focus on areas of improvement, particularly around budgeting and project delivery. This strategic review implementation has led to leadership changes, additional accountability measures and active structural changes to align expectations and deliverables.

Below are some examples of the accountability measures that the agency is implementing in order to have clear metrics by which performance in delivery is identified and measured. This also includes areas that will be actively reorganized or restructured to achieve the outcomes that Oregonians expect.

Improving Budgetary Processes

At the end of 2023, ODOT identified that our budget and capital programming practices have enabled significant overestimation of federal funds in the budget. We identified long-standing errors in budgetary and capital programming practices since 2017. At the request of Director Strickler, ODOT Audit Services undertook an audit of the agency's spending of HB 2017 funding. That audit was delivered to the Oregon Transportation Commission in January 2025. The audit found that progress had been made on improving budgetary processes but that a number of important steps needed to be implemented, including separating out HB 2017 funds to be able to track them more effectively.

In response to the original budget issue ODOT identified and the audit, the agency has taken a number of steps to improve its budgeting and financial practices, even before the audit of HB 2017 funds was completed.

- The budget error was caused in part by frontloading projects in the first two years of the 2024-2027 STIP, which then led to spending and revenue projections in the 2023-2025 budget that were not accurate and which ODOT feared could have led to overspending. To address this, at the May 2024 OTC meeting ODOT presented the Commission a proposal to push a number of projects out to 2026-2027 to avoid overspending in the 2023-2025 biennium.
- To avoid a similar situation in the 2027-2030 STIP, ODOT will not frontload projects in the next STIP, instead spreading projects more evenly across time.
- ODOT has been monitoring 2023-2025 expenditures against budget in Project Delivery and Local Government to ensure the agency does not overspend. This monitoring has shown that ODOT is not spending in a way that risks overspending against available revenue.
- Because the agency's cash flow model does not have a sufficient level of precision to accurately budget several years into the future across multiple types of funds, the agency built the 2025-2027 Project Delivery and Local Government budgets using historic actual federal funding rather than cash flow model output. This will prevent the overestimation of federal funds that occurred in 2023-2025.
- ODOT rebuilt its budget allocation to clearly divide revenue between operations and maintenance and capital and used this model to build its 2025-2027 budget.

ODOT has committed to a number of specific steps to address audit findings.

- Beginning in July in the 2025-2027 biennium, ODOT will create specific fund details for HB 2017 funds to be able to track expenditures. This action was already in process.
- ODOT will explore options to replace the cash flow model that led to the inaccurate estimates of federal revenue and expenditures. Until the model can be replaced, it will not be used for functions, such as the budget, for which it cannot provide estimates with an appropriate level of accuracy.
- ODOT will create regular reports to compare HB 2017 actuals with projected values used in STIP and budget and adjust as needed, and ODOT will reconcile HB 2017 actual funding with allocations of funding and report to the OTC each year.

- Finance and Budget Division will work with Delivery & Operations to keep bid dates current to minimize the risk of the cash flow model mis-estimating expenditures.

ODOT will be held accountable to these actions through continued monitoring by ODOT's Audits group, which will review implementation of these steps. The Oregon Transportation Commission will also monitor this work, as ODOT will continue to report to them.

Improve Project Delivery Processes

Develop and implement a 5-10 year rolling program rather than programming in STIP. ODOT is overly reliant on a three-year STIP cycle without a long-term capital program that identifies investment priorities over a longer period of time. The STIP process requires ODOT to estimate project costs years in the future, increasing the challenges of maintaining project budget, scope, and schedule. The shift to a rolling program allows for better project selection at the beginning of the process and will be designed to ensure that there are very few challenges in scope, schedule, budget throughout the lifecycle of a project, which will allow for targeted accountability in delivery.

Outcomes from this work include:

Former Process	Change (10-Year Rolling Investment Strategy)	Outcome	Tracking Progress
Proposed projects materialized from different sources without consistent statewide criteria.	Projects will be proposed annually, with proposers required to consider how projects contribute to adopted goals from the OTP. Closes the gap between long range plans and short-term investments; ensuring investment decisions advance long-term goals.	Creates a consistent process for identifying, evaluating, and advancing proposals based on data, plans, and needs.	Completion of the 10-Year Rolling Investment Strategy document.
Programs and Areas utilized narrowly defined requirements and different reporting systems to determine which projects to scope and evaluate project efficacy.	Goals and metrics for selection will be set following internal and external input. Goals and metrics will be balanced between qualitative and quantitative criteria, and weights or thresholds will be established.	Establishes agency investment direction and allows for adjustments as conditions change. Improves methods to gauge progress toward agency strategic objectives and performance measures.	Published scoring matrix. Tracking and reporting of investment impacts to goals (e.g. safety, state of good repair, etc.).
Project selection is decentralized by program type.	Review of proposals will be coordinated by a centralized group who will compare proposals across the agency to identify which best further progress toward agency goals and outcomes. Centralized review will revise or adjust timing of	Balances investments to see projects' potential beyond specific, single-program metrics.	10-Year Rolling Investment Strategy document is published after work by centralized group.

	investments in Strategy if appropriate, and document why potential projects did not move forward.		
Projects are rapidly scoped once, with high-level assumptions informing programmed scope, schedule, and budget.	Every year, a portion of projects in the Strategy will be funded in the STIP for preliminary engineering or design work *only* to improve and deepen understanding of project requirements, scope and risks. As projects become ready, they are moved forward for construction.	Improves estimates for scope, schedule, and budget. Projects that are ready for construction move forward annually.	Tracking and reporting of on-time and on-budget project estimates.

Move toward centralized program management and project controls and reporting systems. Lack of a common set of standard tools, structures, and controls to manage and deliver similar work throughout the organization. This impedes our ability to track delivery of projects and programs before issues occur, identify challenges or opportunities on projects or programs, and consistently deliver.

The Delivery and Operations Division is responsible for the delivery of projects within the STIP. This is typically done by staff in the five ODOT Regions, with technical support and guidance from the Engineering and Technical Services Branch. Project controls and reporting is supported by the Statewide Project Delivery Branch. The Branch supports Region staff delivery projects and Program Managers. Quarterly Portfolio Reviews (QPRs) have been established in each region. These reviews are also attended by the Statewide Construction Engineer, Chief Engineer, Statewide Project Delivery Branch Manager, Capital Program Engineer and the Division Administrator. Region project delivery and maintenance staff also attend. Most of the discussion focused on projects that were yellow or red. Regions also identified projects that had gone well, and they wanted to highlight.

Outcomes from this work include:

- Reorganization of the project delivery portion of the Division and Operations Division. This structure will rely on a Capital Program Engineer to set standards of practice for project delivery similar to the function of the Maintenance Engineer. This branch will focus on providing standards, tools, financial oversight and support to Region project delivery teams. Strong partnership with program managers outside the division and staff in Finance and Budget will be needed.
- Quarterly portfolio reviews through planning, design and construction that utilize predictive metrics to assess project performance and keep projects aligned with delivery goals. Standardized project and portfolio reports
- Quarterly program reviews that focus on progress towards formalized goals and outcomes.
- Uniform guidelines on the utilization of project delivery tools such as project risk registers, cost estimates, constructability reviews and engagement of a more formalized Project Executive Team. Projects that require a more formalized Project Executive Team

will have an established dollar threshold, level of complexity/risk and legislatively named projects.

- Improved project delivery metrics above the 2024 baselined metrics.
    - 2025 Construction projects – Improve the number of projects that are completed on time (based upon original contract completion date) by 25%.
    - 2025 Construction projects – Improve the number of projects that are completed on budget (based upon original contract and construction engineering amounts at time of award) by 50%.
    - 2026 Construction projects - Improve the number of projects that are completed on time (based upon original contract completion date) by 50%.
    - 2026 Construction projects - Improve the number of projects that are completed on budget (based upon original contract and construction engineering amounts at time of award) by 75%.
    - STIP Performance – Beginning with projects that are programmed in the 27-30 STIP, expect to see on-time, on-budget delivery improvements to yield 90% or better overall performance.
- Reorganization of the division and finalizing quarterly program reviews with all 20 programs contained in the STIP. The reviews conducted by D&O staff are focused on project level performance related to scope, schedule and budget.

- Increased transparency in project scope/schedule/budget changes. Summaries of change management requests will be available on-line, beginning 10/1/2025, in alignment with the start of the new federal fiscal year.
- Improved performance and accountability metrics for staff. Project delivery staff performance reviews will include a review of their ability to deliver projects on-time and on-budget. These metrics will be incorporated in performance appraisals beginning July 1, 2025, utilizing the current metrics as a baseline and setting portfolio improvement goals for each individual in order to achieve the overall agency goals noted above.

Review structural reporting or functional placement to improve outcomes. The current Delivery and Operations project portfolio has individual projects that require experience and expertise beyond that in ODOT. Additionally, several program audits and reviews have indicated the disciplines of Right of Way, Geo/Hydro, Haz Mat and Bridge would benefit from being centralized. In Fall 2024 ODOT developed an implementation plan and schedule to address the FHWA Bridge Program recommendations – which included addressing centralization of both the geotechnical and hydraulic disciplines. In late 2024 the implementation plan was initiated through a work team that includes statewide Bridge Program leadership, the Chief Engineer and the Statewide Capital Program Engineer – along with project delivery program staff.
Outcomes from this work include:

- Centralizing key disciplines will result in better risk management. The risks associated with the disciplines noted above can have a significant impact on cost overruns and delays. The outcome of this change will be better risk management during the design and construction of identified projects.
- We see the coordination of bridge, hydrology and geo disciplines impacting the development and delivery of bridge projects – and contributing to both schedule and cost

risks. Centralizing these disciplines is intended to improve coordination and collaboration between these disciplines to improve project delivery quality.

- Centralizing these key disciplines will address technical competencies across the Agency and ensure that projects are staffed with appropriately experienced subject matter experts, peer reviewers and technical mentors. The centralized structure of the disciplines will allow improved resourcing to ensure technical competency and will focus on risk assessment and management in projects and across the portfolio for those discipline areas.
- With the increase in right-of-way acquisition associated with ADA curb ramp and pedestrian safety improvement projects, we need to improve the consistency and practice of acquisition to manage schedule and cost risks associated with the acquisition process.
- Clarification in roles and responsibilities will improve the accountability within the agency by providing employees and managers with clear performance expectations.
- Restructuring our Project Delivery staff, programs, design and construction delivery under a Capital Program Engineer. The centralization of project controls, selection of projects and oversight of changes to scope/schedule and budget will drive the on-time/on-budget metrics in other portions of the strategic review.
- Centralized selection of projects in addition to the 10 Year Rolling Investment Strategy will lead to a more strategic list of projects, improved leveraging of available funding sources, and increased transparency. Projects will be selected based on identified state and federal goals and desired outcomes. This will eliminate project selection decisions being made by area, region or program manager level priorities and shift to the priorities of the state, the commission and the agency.
- Centralized selection of projects will result in a more strategic utilization of available funding sources through the development of project financing plans. Projects identified in the 10 Year Rolling Investment strategy will be programmed for design and construction based on specific stage gate requirements. Projects that do not meet those requirements will not be funded to move forward. This will support improvements in on-time/on-budget improvements. This will also ensure every project is screened based on federal and state program requirements, goals and metrics.