

# STATE OF COLORADO

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## DEPARTMENT OF TRANSPORTATION

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**DATE:** December 10, 2012

**TO:** Colorado Transportation Commission

**FROM:** Tim Harris, Chief Engineer  
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**SUBJECT:** **December 20, 2012 TC Workshop**  
**Responsible Acceleration of Maintenance and Partnerships (RAMP)**

### Summary:

The Colorado Department of Transportation is changing how it programs and expends funds for multi-year transportation projects. Through this new effort, referred to as Responsible Acceleration of Maintenance and Partnerships (RAMP), CDOT will begin to fund multi-year projects based on year of expenditure. This is a change from the current practice which requires that the total amount of a project's cost be in place before any funds can be spent. This is a more effective and efficient approach to budgeting that will benefit the Department over the long-term.

RAMP also provides the Department a one-time opportunity, over a five year period, to increase its annual funding by up to \$300 million per year. This funding will be expended through two primary funds; the Asset Management and Operational Improvements Fund and the Transportation Partnership Fund. A third potential pool related to direct federal funding in larger metro areas is also being explored. Dollar amounts for each fund will be determined by the Transportation Commission. All projects identified for RAMP funding will be in addition to CDOT's planned construction program or accelerated from this program.

While this change in fiscal management will help to fill the transportation maintenance funding gap for a while, it is not permanent, nor is it large enough to meet Colorado's longer-term system preservation and capacity needs. This is a challenge that will require a much greater, statewide effort.

### Proposed Action:

No action requested in December, information and discussion only; potential action in January related to project prioritization criteria.

### Background:

Historically, the Colorado Transportation Commission has taken a conservative approach to its budget and project funding. For large, multi-year projects this required CDOT regions to acquire or "bank" the full amount of a project's total cost before initiating a project. This approach, long the practice of many state transportation agencies, provided financial security during times of state and federal budget uncertainty--as was the case during the period leading up to and following the expiration of SAFETEA-LU.

However, in recent years the Department has begun to take steps to prepare for a new approach as described in this memo. First, in 2006 CDOT transitioned to the SAP software system in order to manage our cash more effectively. Second, staff began to study other states that had already moved to funding multi-year projects based on year of expenditure --including a recent two-day senior staff visit to North Carolina (a state that also uses the SAP software). The financial assurance provided by the July 2012 passage of MAP-21 provided the final component needed to make this change. CDOT joins several other DOTs around the nation who have moved to this more efficient and effective means of project delivery.

**Proposed Approach:**

Described below are the source and level of RAMP funding and the plan for spending these funds.

*Available Funding Analysis*

In preparing for RAMP, CDOT staff conducted a comprehensive analysis of current commitments and historic rates of expenditures to determine the amount of one-time funding available through this change and ensure that CDOT can continue to honor our current commitments in the STIP. Currently identified projects in the STIP will be “held harmless.” Further, these projects, if ready, can be accelerated to take advantage of this one-time funding. A transition STIP process will need to be developed for FY14 and FY15 and a new STIP process will need to be developed for post FY15.

Table 1 below describes the total funds available for RAMP by funding category, suggested reserve balance amounts for each category, and remaining available funds. This analysis indicates that up to \$1.5 billion could be available over the five year period. This availability does not include possible acceleration of dedicated federal funds from larger MPOs (see Funding Category 3 below).

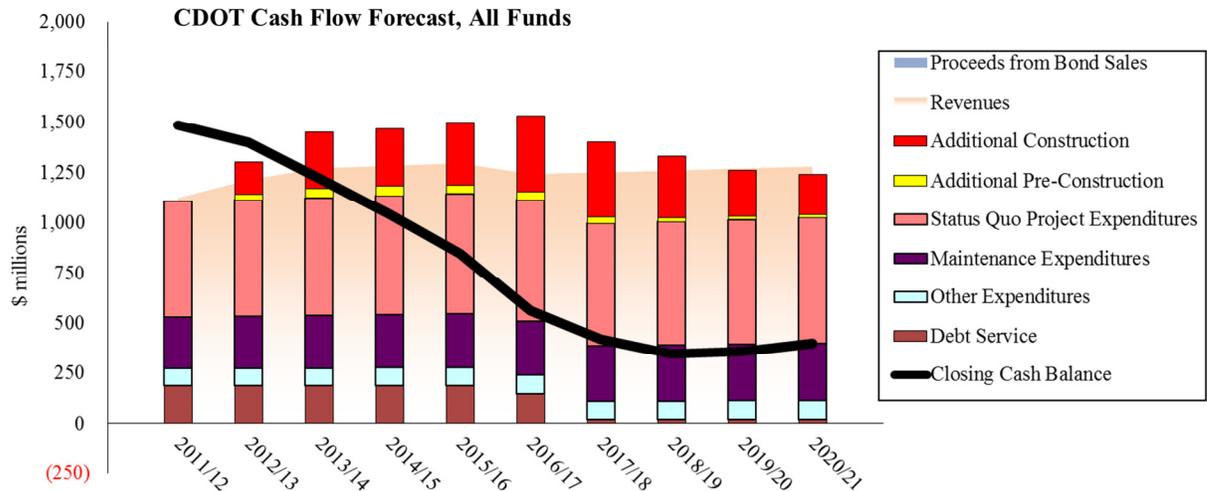
**Table 1: Funding including cash and federal obligations as of December, 2012**

	<b>Estimated Balance</b>	<b>Maintained Reserve Balance</b>	<b>Available Funds</b>
State Highway Fund* (CDOT)	1,340,000,000	(310,000,000)	<b>1,030,000,000</b>
State Highway Fund* (Transit)	40,000,000	(10,000,000)	<b>30,000,000</b>
<b>Subtotal</b>	<b>1,380,000,000</b>	<b>(320,000,000)</b>	<b>1,060,000,000</b>
State Bridge Enterprise	310,000,000	(30,000,000)	<b>280,000,000</b>
<b>Total</b>	<b>1,690,000,000</b>	<b>(350,000,000)</b>	<b>1,260,000,000</b>

Notes:

\*Includes HUTF and federal reimbursements for CDOT highway and bridge projects, and transit projects funded by FTA or by FASTER funds.

CDOT contracted with Dye Management Group to conduct a cash flow analysis as illustrated in the graph below. Dye Management has performed similar analysis for other DOTs converting to a cash-balance approach. This analysis confirms that up to \$1.5 billion could be accelerated while still retaining adequate cash reserves to cover on-going operations. Staff believes the amount of accelerated funds is reasonable and within the capacity for the consulting and contracting industry to absorb over a five-year period without causing large swings in the industry.



Funding Categories

The second component of RAMP is determining how the one-time funds will be expended. The plan is proposed to consist of two main programs. Funding amounts for each program will be determined by the Transportation Commission. A third potential pool related to direct federal funding in larger metro areas may also be explored.

1. Program 1: Asset Management and Operational Improvements Fund: Dedicated to slowing the deterioration and improving the safety and operation of the state's highways, bridges, tunnels and other assets. The Colorado Transportation Commission has already authorized a portion of the funds by increasing the highway paving program in the current fiscal year by \$86 million to \$200 million total for paving in current fiscal year 2013.

- Asset Management Projects
  - Eligible asset types: highways, tunnel, bridges, road equipment and facilities
  - Sample criteria: Asset condition, safety benefit, and complete construction within 5 years
  - Project examples:
    - Eisenhower Johnson Memorial Tunnel (EJMT) fire suppression system – improves safety for the traveling public and protects the asset.
    - I-76 surface treatment – improves a key asset in poor condition.
    - Replacing snowplows and other maintenance equipment past their useful life.
- Operational Improvement Projects
  - Eligible project types: ITS, active traffic management (ATM), adaptive traffic signals, improved trucking/freight efficiencies
  - Sample criteria: High benefit/cost ratio for operational improvement, improved safety, and complete implementation/construction within 5 years
  - Project examples:
    - An existing Adaptive Traffic Signal System for 11 intersections on 10<sup>th</sup> Street (US 34 Business Route) in Greeley increases the average speed by 5 mph and reduces stops by 30-50% per day. This concept could be applied in other locations throughout the state to improve traffic operations.

2. **Program 2: Transportation Partnership Fund:** Dedicated to leveraging state transportation dollars by creating Public-Private Partnerships (P3s) with industry and Public-Public Partnerships with local governments to provide improvements on “critical need” corridors of the state highway system where partnership opportunities exist. This fund will provide an opportunity to potentially move forward with projects that CDOT would not be able to fund alone.
  - Public-Private Partnerships
    - Eligible project types: Projects that utilize alternative financing mechanisms through private sector involvement
    - Potential criteria: Projects on “critical need” corridors that share costs, risks and benefits. Complete construction/implementation within 5 years
    - Partnership examples: HPTE partnerships, concessionaire agreements
  - Public-Public Partnerships
    - Eligible project types: Highway or transit improvements that take advantage of multiple funding sources or mechanisms
    - Potential criteria: Projects on “critical need” corridors that share costs, risks and benefits. Complete construction/implementation within 5 years
    - Partnership examples: Leveraging non-CDOT government funding, and highway transfer opportunities.
  
3. **Potential Program 3: Metropolitan Planning Organizations:** This potential third pool would be available should the Metropolitan Planning Organizations (DRCOG, Pikes Peak, and North Front Range) take the same approach using their dedicated federal funds. This category- which relies on close cooperation with these Metropolitan Planning Organizations and their local member governments- would increase spending on a one-time basis in those programs as well and provide additional leveraging opportunities with RAMP. MPO funds potentially available under RAMP are estimated to be up to \$320m over five years, and are not included in the funding levels identified in Table 1 above.

**Timeline:**

In some ways the program is already underway. The Transportation Commission has approved advancement of future fiscal year funds in the Surface Treatment Program and for certain major projects such as I-25 near the Air Force Academy, a Diverging Diamond Interchange near Grand Junction and the Twin Tunnels in Idaho Springs. Additionally, the Commission has increased surface treatment funding in the current fiscal year by \$86 million, to a total of \$200 million this year. This new program is an exponential expansion of that concept and past practice.

Following the December meeting of the Transportation Commission, staff will develop more detailed selection criteria for Commission consideration and possible adoption in January. STAC will review and may comment in advance of the January Commission meeting. Following adoption of selection criteria, CDOT region staff will determine which projects meet the selection criteria and will work with CDOT management and regional planning and project partners to prioritize and select the projects. Projects will be shared with STAC and provided to the Commission to ensure they meet the established selection criteria. For the Transportation Partnership Fund, potential public and private financing partners will work with CDOT staff and HPTE staff as appropriate to determine project eligibility after criteria has been finalized. All aspects of the program will be defined and underway early in 2013.

**Benefits:**

In a time of reduced resources, RAMP provides an opportunity to increase funding to help preserve our transportation infrastructure and improve system operations around the state. However, this is a limited effort that will last for five years only. The increased transportation funding will be a critical boost to the

state construction industry that is still suffering from unemployment in excess of 20 percent. The projects built with these funds are expected to directly sustain or create 10,550 jobs (ARRA studies show 10.55 direct jobs are employed annually with every \$1.5 million spent). The program also will make improvements in the state's transportation system, crucial to the support of Colorado's economic development and the quality of life of residents and visitors.

This effort is part of CDOT's commitment to better serve its citizens and is an example of just one of the department's business process improvement efforts that is putting CDOT on a on a path to be more *efficient, effective and elegant* per the direction of Governor Hickenlooper.

# **Responsible Acceleration of Maintenance and Partnerships (RAMP) Program**

## **Frequently Asked Questions:**

1. How will this actually work, and will it follow the current STIP?

First, it is important to note that all projects in the current Statewide Transportation Improvement Program (STIP- Colorado’s list of “planned for” for projects over the next several years) will be honored, and in some cases the projects may be accelerated or even expanded in scope.

Second, the STIP reflects when funds will be budgeted to a project, and is not reflective of what year the project will actually be started or completed. By moving to an expenditure-based STIP, CDOT engineers and financial experts will predict how much each project in the STIP will spend each year. For instance, a \$10 million interchange project may currently be budgeted in the STIP like this:

FY 2013: \$5 million budgeted  
FY 2014 \$5 million budgeted

That project may go to advertisement in late FY 2014 (and expend only a small amount of funds), be in full construction in FY 2015, and finish up the project in FY 2016. The new expenditure-based STIP will look like this for the project:

FY 2014: \$1 million expended  
FY 2015: \$7 million expended  
FY 2016: \$2 million expended

With a greater emphasis on planning for expenditures, the \$5 million that would have been budgeted, but not spent, in FY 2013 is “freed up” and can be utilized on projects ready for construction in FY 2013. An additional \$5 million can also be freed up in FY 2014. Only in FY 2015 does this project require its first \$1 million expenditure. That expenditure can be made from other projects that have been budgeted but are not ready for construction. Across hundreds of projects over a 5-8 year program period, the power of expenditure management will create a substantial one time investment in transportation.

2. Under what legal authority is this program being created and implemented?

CDOT’s management and Transportation Commission have the authority to make these types of funding decisions. The objective is to improve our financial management to allow for the delivery of transportation improvements for the state

of Colorado as expeditiously as possible. This concept simply rearranges the process by committing funds to the year in which expenditures will actually occur.

3. What other alias does this have?

This effort has been called by several different terms, including Cash Management, Accelerated Program Delivery, Advanced Budgeting, and Project Expenditure Forecasting. Each of those terms captures a piece of the entire issue.

4. Where do RAMP program resources come from?

CDOT is using existing funds to make this program possible. The funds to make this program possible are currently directed to projects that are not yet ready to utilize the available funds. CDOT will direct those funds to projects that are ready to go and fund projects in the year they are expected to expend the funds. This one-time permanent change in CDOT's process for budgeting and expending funds is what provides us the ability to temporarily expand our program.

5. Aren't the funds designated under RAMP already "spent"?

No. CDOT's finances are tightly controlled by both our Systems Applications and Products (SAP) accounting system and Colorado's statewide accounting system to ensure that funds cannot be spent twice. Before a contract can be advertised, there is a systematic check to ensure that there will be appropriate levels of funding to pay the contractor when the time comes. At the award of a contract, the funds will be "encumbered," or reserved, in the year that the payments will be made and cannot be used for any other purpose.

In addition, CDOT is in the process of developing a methodology to help project cash needs and usage plans before information is entered into the accounting system. This will ensure that we are looking ahead and managing funds in a proactive and responsible manner. If at any time reserves are projected to be below an acceptable level, project design and bidding can be slowed to maintain required reserves.

6. How can CDOT deliver 50% more with current staff resources?

CDOT will continue to contract with consultants, likely increasing their usage. We will also evaluate and adjust staff roles and responsibilities to meet this increased demand. Decisions related to these adjustments cannot be finalized until we've defined the program concretely. In the meantime, discussion will be ongoing among our staff to determine how best to accomplish the objectives.

7. Is there going to be equity in the distribution of funds across the state? Will Resource Allocation formulas apply to these funds?

Any funds allocated will be based on selection criteria to be approved by the Transportation Commission after review by the STAC. Existing Resource Allocation formulas help determine how much money in our base program will reach various parts of the state and in what form (surface treatment, safety projects, etc.). While these existing formulas will not be rigidly applied to these accelerated funds, there are substantial needs across the state. Our expectation is that the benefits of these projects will touch all across Colorado.

8. Who will decide the criteria that the selection of projects will be based on? Who will choose the projects?

CDOT staff is developing a draft set of criteria for project selection. Those criteria will be reviewed by STAC and presented to the Transportation Commission for approval. Following approval, CDOT region staff will determine which projects meet the selection criteria and will work with CDOT management and regional planning and project partners to prioritize and select the projects. Projects will be provided to the Transportation Commission to ensure projects meet the established selection criteria. The Asset Management Fund will rely heavily on CDOT's objective to make capital investments that minimize long term life cycle costs and improve safety. For the Transportation Partnership Fund, potential public and private financing partners will work with CDOT staff to determine project eligibility after criteria has been finalized.

9. Are we going to honor the Statewide Long-Range Transportation Plan?

Candidate projects that are not currently in the STIP must be consistent with the Long-Range Transportation Plan and included in the STIP applicable at the time the project is ready.

10. How will this affect processes with TPRs and STAC?

Discussions with TPRs and STAC will continue to address the change in STIP format to reflect year of expenditure rather than budget year. This re-alignment of projects to year of expenditure will allow additional projects to be funded in the near term. Policies and program level allocations will be discussed with STAC to provide input to the Transportation Commission. Projects that require STIP amendments will follow the required public involvement processes and must be consistent with the Statewide Long-Range Transportation Plan. CDOT staff will continue to work with TPRs to prioritize local area transportation needs.

11. Does the "color" of money matter for this program?

Yes. Some state and federal funds, like the state gas tax going to CDOT, are flexible, while other funds, such as state FASTER Bridge funds have dedicated purposes that are not changed with this program. One initial check on project eligibility will be an

analysis of the type of funds available for expenditure in each year, and whether a proposed project can utilize those particular available funds.

12. What types of projects are eligible for these funds?

A project that is in the current STIP can be accelerated to start in an earlier year if it is “ready to go”. Other projects that are not in the current STIP must meet minimum eligibility criteria to be considered as a candidate project for evaluation. The eligibility criteria are expected to include:

- Specific program criteria to be determined by the Transportation Commission
- Consistency with the Statewide Long-Range Transportation Plan
- Ability to complete construction within 5 years (December 2017), including applicable project development process (i.e. NEPA, TIP, STIP, etc.)

13. Is CDOT maintenance equipment eligible for RAMP program resources?

Yes. Because RAMP is focused on capital investment, CDOT’s maintenance equipment is currently being discussed for RAMP eligibility with the Transportation Commission. A small amount of additional investment in this area can yield great results. We are also revising our processes of specifying and ordering road equipment.

14. What happens when RAMP resources are expended?

RAMP is an accelerated construction program but does not create any additional or new spending authority. Once this period of accelerated construction ends -and the new processes stabilize- CDOT’s construction program will normalize. Since the TRANs bonds are scheduled for their final payment in FY2017 the program is expected to stabilize at a level somewhat higher than it is today. Construction program activities should also increase if the HPTE continues to identify and advance projects using innovative financing.

CDOT will continue to use this process to maximize the funding going into projects and keep the cash balance at a responsible level that allows for reaction to emergencies, the ability to take advantage of new opportunities, and assurance that CDOT will remain an exceptional steward of the transportation funding for the state of Colorado.

15. When will the RAMP program begin?

In some ways we already have. The Commission has approved advancement of future fiscal year funds in the Surface Treatment Program and for certain major projects such as I-25 near the Air Force Academy, a Diverging Diamond Interchange near Grand Junction and the Twin Tunnels in Idaho Springs. Additionally, the

Transportation Commission has increased surface treatment funding in the current fiscal year by \$86 million, to a total of \$200 million this year. This new program is an exponential expansion of that concept and past practice. Definition of the process and identification of projects will occur in early 2013.

16. What does this do for maintenance?

Any improvements we make to the system affects future decisions on maintenance activities. Dedicating a large portion of this program to Asset Management projects is meant to upgrade the condition of our existing network. A larger investment in projects will help to reduce the burden we place on our maintenance professionals to keep our system safe and functional.

17. Is asset devolution a component to the RAMP program?

Yes, devolution projects are projects where the state transportation facilities are improved and then transferred to a local entity. Since the local entity will be responsible for future maintenance this is considered a form of public-public partnership and therefore the project is a potential candidate for funding under Program 2, the Transportation Partnership Fund.

18. Will RAMP affect current Memorandums of Understanding between CDOT and other entities?

The MOUs expire in June 2013, and continue to be evaluated. This approach to project acceleration and financing does not alter the manner in which CDOT works with all of its planning partners to ensure that a statewide perspective is in place to ensure state has the best transportation system possible.

This concept does not change the overall philosophy of ensuring that important projects are constructed throughout the state. CDOT is confident that this process will enhance, rather than detract from, the ability to meet the transportation needs of the state, both within and outside the metro areas.

19. What will the CDOT cash reserve be after RAMP is implemented?

CDOT will be conducting a risk analysis to determine the amount of cash reserve that the Department needs to keep on hand in order to cover all of its obligations. However; we are initially targeting a 120-day reserve based on experience gained by other state DOTs.

20. How will RAMP impact future resource allocations?

Resource allocation formulas and processes are set by the Transportation Commission. The RAMP program, in-and-of-itself, will have no effect on those

processes. As part of the upcoming Statewide Plan Update, the Transportation Commission has begun early discussions of resource allocation and may decide to adjust resource allocation strategies that it feels make more effective use of the increased flexibility this concept could provide.

Once a project goes to advertisement under this process, the future year funding must be prioritized in the budget. The new financial planning tools being developed to support this effort will help to project cash needs and usages and ensures that the funding is managed in a proactive and responsible manner to minimize programmatic disruptions.

If there is a sudden and unanticipated downturn in future year revenues new projects may be delayed to fund the previously advertised projects. Given the historical stability of CDOT's revenues this is a risk unlikely to arise so it makes sense to pursue this effort to accelerate the delivery of needed projects for the citizens of Colorado.

21. Is this just another way to spend more money in metro Denver?

Colorado has transportation needs across the entire state. By changing how we budget and expend funds, we hope to spend more money over the next five years in metro Denver and in all other areas of the state. Because this is a one-time boost, we want to do what we can to preserve and repair our most critical assets across the state and leverage some of the funds with the private sector and other governmental entities to grow the available funds beyond what the department has available on its own.