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THE STATE OF NEW HAMPSHIRE
DEPARTMENT OF TRANSPORTATION



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The Honorable Christopher T. Sununu, Governor
Budget Committee
State House
Concord, NH 03301

Dear Governor Sununu and members of the Budget Committee;

The Department of Transportation is pleased to present the Fiscal Year 2024-2025 biennial budget. The entire Department of Transportation team works hard every day to provide transportation excellence enhancing the quality of life in New Hampshire. It is a distinct honor and privilege to work alongside such a dedicated and talented group of professionals that plan, manage, construct, and maintain our state's complex and vital transportation infrastructure.

At the Department of Transportation, we strive to clearly convey the message of what we do, why we do it, and what value our operation has to the public. Some of the challenge comes from the complexity of the transportation system and the complexity of funding both our operations and construction activities. This letter is intended to provide a high-level summary of the DOT budget submission, but also to clarify and explain the complexities about how Transportation is funded. We have also summarized the challenges our agency faces over the next several years and additional needs required to mitigate these challenges, as well as the ongoing initiatives at the Department to improve efficiency.

To supplement this letter, we have also prepared a budget handout. This document is intended to provide a comprehensive overview of the Department and emphasizes the clear distinction between the two major components of the Department's budget – the Operating budget, to operate and maintain the transportation system, and the Municipal Aid and Construction budget. The construction program, approved through the Ten-Year Improvement Plan (TYP) process, primarily focuses on system preservation, and includes bridges that have reached the end of their useful life, paving on poor and very poor roads, the highest regional priorities, and projects that provide vital additional capacity.

It is worth noting, that over two thirds of all expenditures by the Department are pass through to municipalities and provide economic opportunity for the private sector by our procurement of goods and services, as well as our management of construction activities provided by private sector contractors.

What the Highway Fund is:

- The Highway Fund is the Fund into which unrestricted State of New Hampshire revenue collected by the Department of Safety (Road Toll; Vehicle Registration Fees) are made available

for appropriation to various agencies, primarily the Department of Transportation and the Department of Safety;

- The Highway Fund is the Fund into which the Department of Transportation collects Federal reimbursement for eligible construction project expenses;
- The Highway Fund is the Fund into which Federal bond and loan proceeds, such as GARVEE and TIFIA are deposited for use on eligible construction project expenses.

What the Highway Fund is not:

- The Highway Fund is not the Department of Transportation, and the Department of Transportation is not the Highway Fund. This misconception has in the past, and could in the future, lead to budgetary choices that impact the ability of the Department of Transportation to provide the services that the traveling public and taxpayers expect;
- The Highway Fund is not funded exclusively with New Hampshire taxes and fees;
- The Highway Fund does not include the Turnpike Fund, although the Turnpike System is managed by the Department of Transportation;
- The Highway Fund is not available entirely to the Department of Transportation, and the financial resources available to the Department of Transportation are not available for any purpose the Department chooses.

What the DOT Budget is:

The Department of Transportation's Budget includes requests for appropriations from four Funds in the State:

- General Fund - primarily used for Aeronautics, Rail and Transit, although in recent budgets General Funds have also supported specific highway needs, and were transferred into the Highway Fund to balance the budget;
- Highway Fund - to fund operations of the Department as well as debt service, municipal aid, construction and maintenance;
- Turnpike Fund - to fund operations, maintenance, debt service and capital on the Turnpike System;
- Capital Fund - to fund projects approved through the capital budget process such as state match for transit and aeronautics projects, as well as department facilities and infrastructure (generally not roadway or turnpike construction as this is done through the Ten-Year Plan process with restricted revenue sources).

Recent federal funding effects on the DOT budget:

The COVID-19 pandemic had a significant impact on all modes of the transportation. During the pandemic travel patterns and use of the system changed significantly, leading to reductions in all forms of revenue. Recognizing this, congress passed several COVID relief bills that included funding

specifically for transportation uses. For this reason, during the FY22/23 budget federal funding was available to supplement state revenues. Funds from the CARES, CRSSA and ARP Acts were used to reduce the need for state funds and offset operational losses. In the case of Aeronautics and Transit, federal relief funds could even be used to match traditional federal funds, eliminating the need for state or local match entirely, while \$41 million was provided to supplant lost highway revenues which was drawn down to fund highway operations and other expenses that are not typically eligible for federal funds.

At the end of last year congress then passed the Infrastructure Investment and Jobs Act (IIJA), which served as a surface transportation reauthorization bill. While federal transit funds can be used for both operating and capital expenses, federal highway funds can only be used for design and construction, and not for routine maintenance or operations.

Lastly, in addition to traditional federal formula funds, NHDOT has applied for and received additional discretionary federal grants (BUILD, INFRA, RAISE etc.), federal loans (TIFIA), and additional federal funds through annual redistribution of federal contracting authority. Federal bonds (GARVEE) have also been used to advance a number of projects. Since the last budget several of the projects funded by these sources have completed, the largest of which was the widening of I-93 from Salem to Manchester. While the IIJA provided an increase in formula funding, in the FY24/25 budget there will be a reduction in the use of federal funds due to both the completion of construction projects and the depletion of COVID relief funds.

Here are some major components of the budget:

- The combined total efficiency budget submission across all funds and source of funds is **\$752.7 million for FY 2024**, comprised of \$338.7 million for operating and \$414.0 million toward Municipal Aid and Construction projects. Overall, this is a 3% decrease over total adjusted authorized budget in FY2023;
- The combined total submission across all funds and source of funds is **\$773.8 million for FY 2025**. Overall, this is a 0.3% decrease from the adjusted authorized budget in FY 2023, and an increase of 2.8% of the total budget request for FY 2024.
- The \$414 million in FY 2024 toward Municipal Aid and Construction reflects advancing the projects that were approved and signed into law in July 2022 in the financially constrained 2023-2032 TYP.
- Federal funds decreased by 3% in FY 2024 and 1.6% in FY 2025, as compared to FY 2023 adjusted authorized. Federal funds budgeted in FY 2024 and FY 2025 are in alignment with the federal IIJA program levels and the TYP.
- In the prior budget federal covid relief funds were available to supplement lost highway fund revenue. While operating spending has been maintained at FY 2023 levels the Department's draw on the Highway Fund is \$232.8 million in FY 2024, or an increase of 3.1% as compared to adjusted authorized FY 2023, and remains level to the FY 2024 budget for FY 2025.
- Turnpike Funds were reduced by 20.9% in FY 2024 and 8.7% in FY 2025, as compared to adjusted authorized FY 2023. This is due to a reduction in revenue associated with a decrease in traffic and ash flow schedule of major capital construction projects.

Agency Challenges and Needs

This budget reflects DOT's priorities given the targets that were established. The Department continues to put safety and customer service first in maintaining the State's transportation system, but faces challenges in the upcoming budget to maintain our prior targets for preventative maintenance on the System, as well as to replace equipment that has been deferred during previous budget cycles. We recognize certain budget realities, which if not addressed, will impact the level of service the Department provides to New Hampshire residents and the traveling public:

Recent Challenges:

- **Inflation** – Increases in the cost of commodities and manufactured goods has had a significant impact on the Department's capacity. As examples, the price of diesel has increase by more than 150%, while the price of salt has increased by 54%. The additional needs included in the agency budget request reflect the additional funds that are necessary to fund these significant cost increases.
- **Supply Chain** – While the legislature provided funding in the FY 22/23 budget for numerous activities and programs, the funds provided in several critical areas were not spent or lapsed due to an inability to purchases critical materials or equipment. Over the last several years the department has advocated for significant investment in the fleet. Unfortunately, while funds have been encumbered, DOT has taken delivery of very few vehicles and pieces of equipment. These delays in receiving vehicles have led to higher costs per vehicles, with as much as a 36% increase in the purchase price. Additionally, these delays have meant that vehicles already beyond their replacement parameters have been kept in service. To keep these vehicles running additional investment has been necessary. Staff have had to prioritize these repairs, but supply chain issues have further impacted the ability to secure parts, leaving vehicles and equipment parked even when needed to perform critical activities.
- **Workforce** – The current vacancy rate at NHDOT is 22.6% compared to a department wide vacancy rate of 10% in March of 2020. With 371 vacant full-time positions as of November 1, 2022 the impact on the department is significant and numerous critical activities are being deferred. Of particular concern was the Department's ability to perform winter maintenance this upcoming season. With 184 vacancies in the bureaus that perform winter maintenance the department has been focused on finding volunteers from elsewhere within DOT and state government who have a Commercial Drivers License (CDL) and are able to perform winter maintenance. To assist with this the Fiscal Committee approved a Winter Maintenance Retention Policy to provide \$5,000 to individuals who support winter maintenance, both as full-time employees and as volunteers. This policy has been successful. The department now has over 85 volunteers and has seen a reduction in the number of employees in highway maintenance positions leaving state service. Exit interviews confirm that the primary reasons for separation are retirement and comparatively low wages.
- **Productivity** – With higher vacancy rates, and less people the Department has fallen short of our target accomplishments. For example, in CY 21 the Bureau of Bridge Maintenance was planning to remove 12 bridges from the red list, instead they were only able to remove 4, or 33% of the targeted number. In CY 22 the target was to remove 4 bridges from the red list, and to date we have not completed the removal of any. We have also underperformed in our planned bridge preservation work by 77% in CY 21 and are trending similar for CY 22. These reductions in

accomplishments are largely due to vacancies but are also significantly compounded by bridge maintainers driving plow trucks in the winter when they are typically able to work on bridges. Similarly, the Bureau of Highway Maintenance only completed 36% of the planned drainage work this summer, largely due to vacancies and also because highway maintainers needed to be used to supplement our pavement marking program, where we have not been able to find part time summer help. Unfortunately, these trends will continue this winter as volunteers from around the Department perform winter maintenance.

In total to address several of the challenges noted above, the Department has identified \$20.7 million in additional prioritized needs for FY 2024 and \$28.7 million in additional prioritized needs for FY 2025.

Longer term challenges:

- Decline of Highway Fund revenues continue to provide challenges into the future. The continuous improvement in fuel efficiency of vehicles has eroded and will continue to erode road toll revenue into the future, especially now that automakers are pledging to produce only hybrid and electric vehicles by various dates over the course of the next decade. A study completed by Cambridge Systematics, Inc. in February 2020 revealed the average MPG rating of registered vehicles in NH has increased by 35% over the last 15 years and was projected to increase by more than 20% over the next 10 years, although this analysis needs to be updated to reflect latest industry trends.
- Preventative maintenance of state-owned assets has been significantly reduced in previous budgets, including bridge washing and sealing, mowing, tree and brush clearing, graffiti removal, etc. Preventative maintenance allows the Department to be proactive and efficient. Every dollar spent on preventative maintenance reduces future repair costs, extends the life of the asset, and saves money in the long run. For example, by trimming and clearing trees along roadsides it allows more sunlight to melt snow in the winter which reduces salt usage.
- The Department has experienced a significant shortage of rented equipment for winter maintenance. Despite a 10% rate increase in the FY21-22 Budget, especially in the southern part of the State, we have a shortage of plows to supplement the Department's fleet. Approximately 50-55% of the Department's winter maintenance is performed by private contractors. The Department is concerned about our ability to provide timely treatment and plowing of roadways and feels an additional rate increase may be necessary to attract and retain private contractors.

Initiatives to Improve Efficiency

The Department's goal is to be a good steward of public funds through the pursuit of quality and efficiency. Especially in the current environment DOT needs to be as efficient as possible in how we plan, manage, and track work that is completed or deferred. The Department continues to evaluate improvements that can be made using various tools, such as LEAN, process reviews, or technology deployment.

- Implementation of asset management has been a core improvement the Department has undertaken and continues to pursue in the 2024-2025 Budget. While it can take many years to

fully implement asset management, the Department has identified core areas it can focus on to improve efficiency and decision-making through the collection and analysis of data.

- The implementation of a work order, fleet and inventory system that is started FY 2022 will eliminate 4 legacy systems, standardize processes and consolidate asset data to provide improved planning, maintenance, and reporting on the Department's Transportation assets. Phase 1 of this project is complete and the overall project is progressing well.
- The continued use of brine, pre-wetting, and pre-treatment systems, supplemented with AVL (Automatic Vehicle Location) equipment for portions of the fleet, will efficiently and cost-effectively dispense salt during winter operations and continue to result in cost savings from reduced salt use, as well as improved safety. Recently the use of ARPA funds to invest in plow route optimization tools was also approved, which will further enhance our winter maintenance program.
- The use of technology and software, to streamline and eliminate paper processes, encourage virtual collaboration and meetings, will improve efficiency and result in cost savings.
- The department continues to review and evaluation the driveway permitting process to improve efficiency, tracking, and customer interaction, through standardization of procedures, better on-line guidance, and enhanced communication. Recently the use of ARPA funds was also approved for the implementation of a new on-line permitting tool.

We believe the Department has compiled and submitted a responsible, realistic, and transparent budget; responsible in its attempt to fund the core operations and functions of the DOT, realistic in addressing the economic and budgetary conditions in the state, and respectful of the legislative process through the transparency with which we have constructed the budget. However, there are key challenges and needs that warrant further discussion and strong consideration. We look forward to working with you to adequately fund our core services and balance the budget.

Sincerely,



William Cass, P.E.

Assistant Commissioner

Attachments