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We have completed an audit of the Department of Transportation, Highway Planning and Real Property Management. This audit was authorized by the Legislative Commission on September 6, 2001. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions. The results of our audit, including findings, conclusions, recommendations, and the Department's response, are presented in this report.

We wish to express our appreciation to the management and staff of the Department for their assistance during the audit.

Respectfully presented,

A handwritten signature in black ink, appearing to read "Paul V. Townsend".

Paul V. Townsend, CPA
Legislative Auditor

November 25, 2002
Carson City, Nevada

STATE OF NEVADA
DEPARTMENT OF TRANSPORTATION
HIGHWAY PLANNING AND REAL PROPERTY MANAGEMENT

AUDIT REPORT

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DEPARTMENT OF TRANSPORTATION
HIGHWAY PLANNING AND REAL PROPERTY MANAGEMENT

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EXECUTIVE SUMMARY

DEPARTMENT OF TRANSPORTATION HIGHWAY PLANNING AND REAL PROPERTY MANAGEMENT

Purpose

The purpose of this audit was to assess the Department of Transportation's (NDOT's) procedures for developing short- and long-term plans for capacity projects¹ and pavement preservation projects,² including the selection, prioritization, and funding of projects. We also assessed the Department's procedures for acquiring, managing, and disposing of real property. Our audit included a review of planning and real property activities for calendar years 1999 through 2001.

Results in Brief

The Department's short- and long-term transportation planning efforts need to be improved. Important aspects of the process are unclear, and poorly documented. For instance, capacity projects included in NDOT's short-term plans were not fully evaluated for need in accordance with Department procedures. Also, decisions about project prioritization were made without explicitly using criteria or data. Furthermore, NDOT has performed little long-term financial planning concerning its needs and resources. As a result, decision-makers³ do not have complete information to make informed decisions about the state's transportation system and stakeholders do not have the information to fully participate in the process. Better documentation would also make the process more open and transparent. This would enhance accountability and provide reasonable assurance

¹ Capacity projects include constructing a new roadway or interchange, as well as adding lanes to an existing roadway.

² Pavement preservation projects include major maintenance work such as reconstruction or overlaying a roadway.

³ Decision-makers include legislators and State Board of Transportation members.

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that federal and state transportation funds are spent on capacity projects that are most needed.

NDOT acquires, manages, and disposes of millions of dollars of real property each year. However, NDOT does not have an efficient way to identify the property it owns and determine whether the property is no longer needed by the Department. In addition, NDOT did not have documentation that it performed all aspects of its processes for acquiring, managing, and disposing of properties. This was caused, in part, because records can be filed in a number of areas resulting in property management files missing pertinent information. As such, information to support NDOT's compliance with laws, regulations, and policies was not always available.

Principal Findings

- None of the 30 capacity projects we selected from the last 3 years' plans were fully evaluated in accordance with Department procedures. The estimated cost for these 30 projects is nearly \$1.7 billion. Documenting its evaluations of capacity projects would help provide assurance the Department selects the most beneficial projects. (page 17)
- The Department's process for determining which capacity projects will be included in its proposed short-term plans is unclear. This prioritization process involves deciding which projects to fund over the next 3 years, the year to fund the project, and the project's funding source. Our audit found the Department lacked documentation on how it prioritized capacity projects. Therefore, the Department could not demonstrate the extent to which it considered specific criteria or data, such as safety, user benefits, and congestion relief to prioritize projects. A more transparent process would enhance accountability

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and promote better understanding by local officials and the public. (page 21)

- Although generally familiar with the Statewide Transportation Improvement Program (STIP) process, stakeholders⁴ involved in statewide highway planning do not fully understand NDOT's process for prioritizing capacity projects. Based on our interviews, NDOT's process for prioritizing projects is unclear to metropolitan planning organization (MPO) officials. Moreover, our written survey of officials in the 15 rural counties expressed similar concerns. Eight of 10 counties responding to the survey indicated they do not understand how decisions about the Department's short-term plans are made and 7 of 10 do not understand the criteria used. (page 23)
- In contrast to capacity projects, NDOT prioritizes preservation projects based on a well documented process using criteria such as pavement condition, safety data, and traffic volume. NDOT's process allows it to quantify the backing of repairs, identify preservation project priorities, and identify funds needed in the long-term to maintain state highways. (page 25)
- NDOT does not have documentation, including written policies and procedures for deciding how to allocate federal and state funds among categories. The Department categorizes projects into three broad categories: capacity, preservation, and other. The lack of documentation makes it more difficult for the Department to explain and justify its allocation decisions. (page 26)
- NDOT's long-term planning documents project revenues and expenditures over a limited time and do not discuss strategies for addressing potential funding

⁴ Stakeholders include MPO and rural transportation officials.

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shortfalls. In addition, some projects in the Department plans are listed without identifiable funding sources. This can lead to unrealistic expectations by report users. (page 29)

- NDOT could not provide any written policies and procedures related to the issuance of bonds to fund highway projects. The Department issued \$100 million of bonds in November 2000, and plans to issue another \$557 million from fiscal years 2002 to 2006. In addition, although NDOT's analysis to decide whether to issue bonds was reasonable, it could have been improved by (1) analyzing the tradeoffs of borrowing to fund projects, and (2) preparing cash flow projections that covered the entire payback period of the bonds. (page 32)
- NDOT does not have an inventory of land it owns and the status of those properties. NDOT estimates it currently owns over \$350 million of right-of-way, including easements. The lack of an inventory impacts NDOT's ability to manage its properties. NDOT is currently in the process of developing a comprehensive automated inventory system that Department officials believe will improve the efficiency of their operations. (page 36)
- NDOT did not have evidence that excess property determinations were made for the 15 completed projects totaling \$85.1 million we reviewed. The Department defines excess property as property acquired for an NDOT project that is not needed after a project is completed. NDOT management stated the excess property determinations were made but not documented. By not documenting excess property determinations, NDOT cannot be assured that these determinations are being done and cannot easily identify its excess property. (page 37)

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- NDOT generally relies on requests from third parties to identify properties to sell or lease. Of the 25 disposals and 30 leases we examined, about two-thirds of the disposals and over half of the leases were initiated by third parties. Relying on third parties is not the most effective property management method and may not maximize benefits to the State. Some properties have low values and cannot be leased or sold economically; however, NDOT does have other properties of considerable value. For example, two properties recently appraised exceeded \$9 and \$16 million. (page 37)
- Although policies and procedures provide rules for disposing of surplus property, some requirements were not followed. NDOT defines surplus property as property no longer needed for highway purposes. First, 28 surplus property requests required to be submitted to the Surplus Property Committee were not reviewed by the Committee. Second, we found four instances where NDOT lacked appraisals supporting that properties were exchanged for reasonably close values. Inconsistent evaluations, inappropriate disposals, and not receiving fair value for exchanged properties could result from not following established processes. (page 38)
- NDOT has not established effective lease monitoring and collection processes. Several leases expired before they were renewed and not all payments were collected. We found 18 leases had expired before lease renewal notices were sent. Of the 18 expired leases, 12 had been expired for at least 6 months with one agreement being expired for 34 months. Because of the poor monitoring and collecting practices, we identified about \$48,000 in lease payments that went uncollected. (page 40)
- NDOT did not have evidence it always complied with property management laws and Department

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procedures. Many of the 30 leases we examined did not have records to support that one or more of the property management requirements were completed. For example, NDOT lacked evidence it regularly inspected 16 of the properties. The purpose of inspections is to detect damage, vandalism, weed growth, vehicle abandonment, trash dumping, unauthorized uses or change of use. Letting properties get run-down can reduce their value, thus not protecting the public investment. (page 41)

- The Department's inventories of properties it leases are not accurate. We found the inventories had duplications and expired agreements, and did not include all leased properties. Without a complete inventory, agreements may not get renewed, payments may go uncollected, and properties may not be inspected. In addition, management will not have accurate information on the Department's leasing activities. (page 42)
- Although acquisition files were missing some information, for the 70 properties tested nothing came to our attention to indicate these property acquisitions were not completed in accordance with key laws, regulations, and procedures. We tested requirements that NDOT obtain and review appraisals, purchase the property at fair market value or follow administrative settlements, and condemnation procedures. Although NDOT followed established acquisition rules, many factors can delay or increase the time needed to acquire real property. These factors include condemnation court cases, environmental concerns, traffic and budget issues, and other design and technical problems. (page 43)

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Recommendations

This audit report contains 11 recommendations. To improve the development of short- and long-term plans for project selection, prioritization, and funding, the Department should evaluate all capacity projects in accordance with Department procedures. In addition, it needs a written process for determining how capacity projects are placed in short-term plans and should prepare and make available to decision-makers and stakeholders a summary of the Department's prioritization analysis. Further, its process for allocating funds among categories needs to be documented. Moreover, the Department's long-term plan needs to include projected revenues, expenditures for major categories, and alternatives for addressing any funding shortfalls. In addition, debt management policies and procedures should be developed.

To improve the management and disposition of real property, the Department needs to continue developing its real property inventory system, document its excess property determinations, and establish criteria for what to do with its excess property. In addition, it needs to process all requests for surplus property through the Surplus Property Committee and track requests. Finally, records need to be maintained and monitoring processes developed for leasing activities. (page 93)

Agency Response

The agency, in its response to our report, accepted all 11 recommendations. (page 67)

Introduction

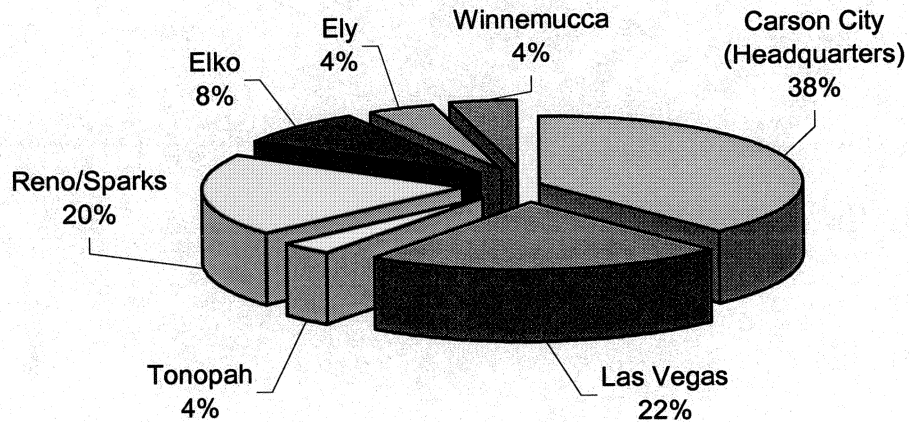
Background

Purpose and Organizational Structure

The mission of the Nevada Department of Transportation (NDOT) is to efficiently plan, design, construct, and maintain a safe and effective transportation system for Nevada's economic, environmental, social, and inter-modal needs. The Department is overseen by a seven-member board of directors consisting of the Governor, Lieutenant Governor, Attorney General, State Controller, and three members appointed by the Governor. The three appointed members must be residents of Nevada, informed on and interested in the construction and maintenance of highways and other matters relating to transportation, and reside in a different highway district from the other appointed members.

By statute, the Department has four divisions: Operations, Engineering, Planning, and Administrative. The head of each division reports to the Deputy Director. In 1996, the Department created a unit called the Program Development Office from personnel within the Planning Division. The Program Development Office also reports directly to the Deputy Director. NDOT's headquarters is located in Carson City. In addition, NDOT divides the State into three geographic districts: Elko, Reno, and Las Vegas, each of which is headed by a District Engineer. Major maintenance stations are located in Ely, Winnemucca, and Tonopah. The number of approved positions as of May 2002, was 1,679. Exhibit 1 shows the breakdown of authorized positions by location.

**Nevada Department of Transportation
Authorized Positions by Location
As of May 2002**



Source: NDOT Human Resources records.
Note: The above percentages do not include temporary employees.

Budgetary Information

The Department's revenues and expenditures are recorded in the State Highway Fund. It is a special revenue fund established to account for the receipt and expenditure of dedicated highway-user revenue. The main funding sources for the Highway Fund are: (1) state fuel and motor vehicle taxes and fees, and (2) fuel tax and other highway-user revenue collected by the Federal Government.⁵ Congress allocates federal funds to the states based on provisions in the Transportation Equity Act for the 21st Century and annual appropriation bills. Federal funds are available for reimbursement of expenditures on approved projects. The federal portion is typically 95% of a project's total cost.

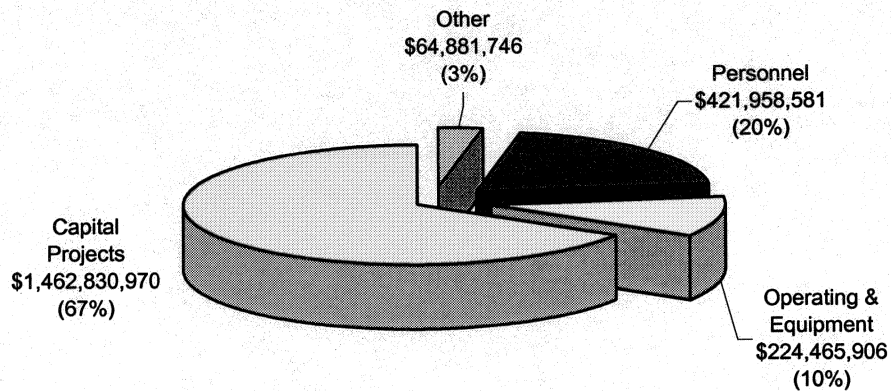
Over the last 5 years, state fuel and motor vehicle taxes have contributed about two-thirds of NDOT's funding, while federal sources provided the remainder. Expend-

⁵ Appendix D shows the gas taxes collected by county for fiscal year 2001.

itures for fiscal year 2002 were \$424 million with the majority of payments for salaries (\$93 million), buildings and improvements/capital improvements (\$268 million), and operating and equipment (\$46 million). Exhibit 2 shows the breakdown of expenditures for fiscal years 1998 to 2002.

Exhibit 2

**Nevada Department of Transportation
Breakdown of Expenditures
Fiscal Years 1998 to 2002**



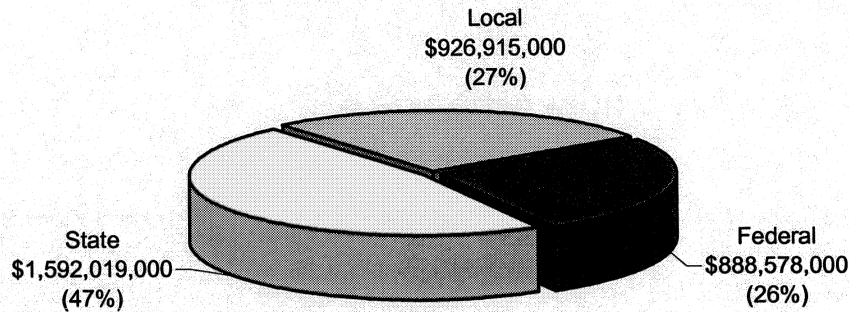
Source: State Accounting System.

Counties also collect taxes and fees for local transportation projects. These taxes and fees include:

- County Mandatory and Optional Fuel Taxes
- Regional Road Impact Fees
- Room Tax
- Sales Tax
- Motor Vehicle Privilege Tax

Exhibit 3 shows the breakdown of funding for Clark and Washoe counties' transportation plans by federal, state, and local sources.

**Combined Clark & Washoe Counties
Projected Transportation Revenue Sources
Five-Year Periods**



Source: Clark County Regional Transportation Program '01 - '25, fiscal years '01 - '05;
Washoe County Regional Transportation Improvement Program '02 -'06.
Note: State amount includes about \$658 million in bonds.

Nevada Highways

Growth in travel on Nevada's system of roads and bridges is the fastest in the nation as a result of significant population growth and increases in tourism. Reno and Las Vegas are also major distribution centers for the western United States. In addition, the state's expanding manufacturing industry is adding to truck travel trends.

According to a national transportation research organization, Nevada led the nation in percent increase in highway travel in the 1990s. Vehicle miles of travel in the State jumped 73% from 1990 to 2000, from 10.2 billion miles to 17.6 billion miles. In addition, Las Vegas surpassed all major urban areas in percent increase in highway travel from 1995 to 2000, with daily miles of travel increasing by 46%. Moreover, the Nevada State Demographer's Office has projected that the state's population will increase by approximately 643,000 residents by 2010, a 31% increase.

Nevada has over 44,000 miles of highways, including about 24,000 that are considered to be unimproved. About 5,400 miles are maintained by NDOT, while the rest are locally maintained. Exhibit 4 shows state maintained miles by county.⁶

⁶ Appendix E shows further information on state maintained highways.

**State Maintained Highways
Centerline Miles by County⁷
As of December 31, 2001**

County	Total	Percentage of Total
Carson City	51.80	0.9%
Churchill	341.66	6.2%
Clark	812.28	14.9%
Douglas	104.10	1.9%
Elko	720.25	13.2%
Esmeralda	238.74	4.4%
Eureka	198.60	3.6%
Humboldt	345.66	6.3%
Lander	280.32	5.1%
Lincoln	352.58	6.4%
Lyon	242.73	4.4%
Mineral	205.82	3.8%
Nye	576.04	10.5%
Pershing	201.25	3.7%
Storey	14.21	0.3%
Washoe	375.37	6.9%
White Pine	410.60	7.5%
Totals	5,472.01	100.0%

Source: "Nevada's State Maintained Highways,
Descriptions, Index & Maps", January 2002.

Transportation Planning

Key issues, such as traffic congestion, air pollution, and the economic viability of neighborhoods and commercial areas, are significantly affected by decisions on how highway funds are spent. Promoting the safe and efficient management, operation, and development of surface transportation systems is in the state's interest. These systems serve the mobility needs of people and freight, and foster economic growth and development within and through urbanized areas. Planning for system expansion becomes critical when demands outpace revenues, a situation Nevada currently faces. NDOT estimates that the state's transportation needs will exceed revenues over the next 10 years (2001 to 2010) by about \$4.2 billion.

Federal Planning Framework

Much of the framework for state-level transportation decision-making was defined

⁷ Centerline miles measure the length of a road between two points, regardless of the number of lanes.

by the Intermodal Surface Transportation Efficiency Act (ISTEA) of 1991. In June 1998, Congress passed the Transportation Equity Act for the 21st Century, reauthorizing the provisions of ISTEA. Federal law requires each state to develop a long-range statewide transportation plan. This plan presents strategies for addressing a state's transportation needs. The plan also covers the management of existing assets, which includes maintaining, monitoring, and improving transportation system performance. Also required by federal law is a "financially constrained" Statewide Transportation Improvement Program (STIP). Financially constrained means that plans only include projects for which funds can reasonably be expected to be available. The STIP lists projects that a state plans to advance over at least the next 3 years and the source of funding for the projects. It is intended that the short-term capital investment and operational decisions provided in the STIP will be consistent with the policies and objectives delineated in the statewide long-term plan.

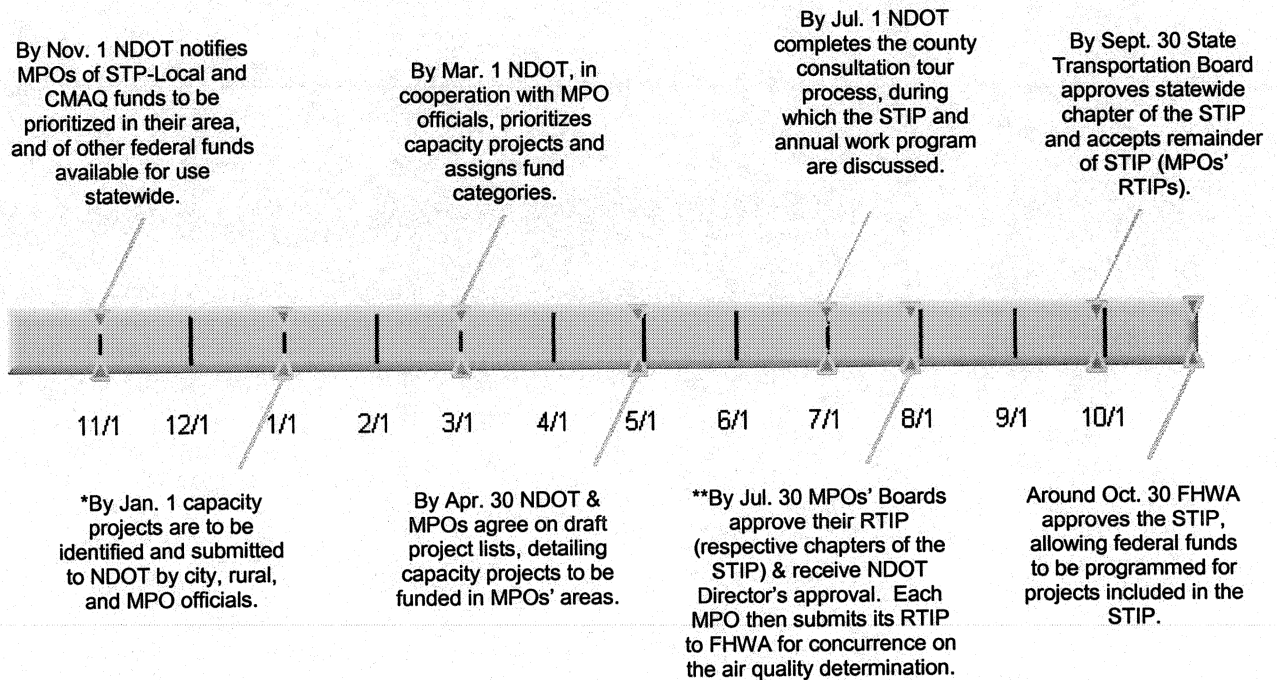
State Planning Overview

NDOT's Program Development Office prepares a STIP annually covering all areas of the State. The STIP includes a 3-year list of transportation projects by funding source. Development of the STIP is completed in cooperation with the state's metropolitan planning organizations (MPOs) and local government agencies. In Nevada, the MPOs are the Regional Transportation Commission (RTC) of Southern Nevada, RTC of Washoe County, and the Tahoe Metropolitan Planning Organization. Carson City recently became eligible to be an MPO based on the latest census. By federal law, an MPO is designated for each urban area with a population of more than 50,000 by agreement between the Governor and units of local government. Federal law specifically authorized an MPO for the Lake Tahoe region. The MPOs, in cooperation with NDOT, develop short- and long-term transportation plans for urbanized areas of the State. Upon approval by the NDOT Director, the MPOs' short-term plans, called Regional Transportation Improvement Programs (RTIPs), are incorporated unchanged into the STIP. Projects within MPO boundaries can only be included in the STIP if they are included in an MPO's RTIP. Each year, NDOT meets with county officials to present each county's portion of NDOT's draft plan and to request their approval. Federal law also requires the Department to develop its transportation plans in

consultation with local transportation officials from non-MPO areas. The nature and extent of the consultations are not specifically outlined in federal law. Exhibit 5 shows the timeline for developing the STIP.

Exhibit 5

**Statewide Transportation Improvement Program
Development and Approval Timeline**



Source: LCB Analysis of Statewide Transportation Improvement Program.

* The timing and manner of project submittal is unclear. Projects are continually submitted throughout the year, verbally or in writing.

**The timing of MPO Boards' approvals can vary greatly.

Note: STP-Local: Surface Transportation Program-Local;
CMAQ: Congestion Management and Air Quality;
FHWA: Federal Highway Administration.

Right-of-Way

To acquire lands needed for highway purposes, NDOT's Right-of-Way section researches property information, provides property appraisals, and negotiates the acquisition. Once acquired, the Right-of-Way section is responsible for real property management. Real property management is the control and administration of lands and improvements acquired for right-of-way purposes. This involves maintaining and protecting the right-of-way acquired, including improvements; the responsibility for

occupancy and rental of improved and unimproved lands; and the sale of improvements or land no longer needed. To accomplish its responsibilities, the Right-of-Way section is organized into eight areas:

- 1) **Administrative Services** – Provides day-to-day administrative support.
- 2) **Engineering** – Researches and prepares information such as maps, title searches, and legal descriptions on properties NDOT acquires, leases, and disposes. Engineering also, determines land ownership of new right-of-way and calculates precisely the areas needed for highway use.
- 3) **Appraisal Review** – Examines appraisal reports, conducts on site investigations and sets just compensation for acquiring, leasing, and disposing of property. This section is also available for appraisal assignments.
- 4) **Northern Right-of-Way District** – Provides appraisal, negotiation, relocation and property management services; manages leased, licensed, and rented property; and disposes of surplus property in northern Nevada. In addition, this District has utility relocation responsibilities that include negotiating utility and railroad adjustments and performing required field inspections, permitting, and field surveillance.
- 5) **Southern Right-of-Way District** – Provides appraisal, negotiation, relocation and property management services; manages leased, licensed, and rented property; and disposes of surplus property in southern Nevada. In addition, this District has utility relocation responsibilities that include negotiating utility and railroad adjustments and performing required field inspections, permitting, and field surveillance.
- 6) **Utilities** – Responsible for utility relocation and reimbursement, accommodation of encroachment and highway beautification. In addition, it prepares agreements governing utility relocations and coordinates actual adjustments with highway construction right-of-way acquisition. Utilities also manages leased, licensed, and rented property in northern and southern Nevada.
- 7) **Control** – Helps prepare, monitor, and maintain the Division's annual budget. It also gathers and compiles cost estimates, programs funding for acquisitions, and prepares various bills to other entities. In addition, Control monitors and processes all right-of-way and utility payments.
- 8) **Condemnation** – Provides liaison between the Right-of-Way section and the legal staff when property acquisition negotiations break down and condemnation proceedings are filed.

Scope and Objectives

This audit was authorized by the Legislative Commission on September 6, 2001, and was made pursuant to the provisions of NRS 218.737 to 218.893. The Legislative Auditor conducts audits as part of the Legislature's oversight responsibility for public programs. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.

This audit included the Department's planning and real property activities for calendar years 1999 through 2001. The objectives of the audit were to assess the Department's procedures for:

- developing short- and long-term plans for capacity projects and pavement preservation projects, including the selection, prioritization, and funding of projects; and,
- acquiring, managing, and disposing of real property.

Findings and Recommendations

Documentation Lacking for Capacity Project Evaluations

The Department lacked documentation that capacity projects included in short-term plans were evaluated for need. Department procedures indicate all capacity projects are evaluated using such data as current and projected congestion levels and benefit-cost. Our testing found none of the 30 capacity projects we selected from the last 3 years' plans were fully evaluated in accordance with Department procedures. The estimated cost for these 30 projects is nearly \$1.7 billion. Documenting its evaluation of capacity projects would help provide assurance the Department selects the most beneficial projects.

Department Evaluation Procedures Were Not Performed

Department procedures describe how all proposed capacity projects will be submitted to NDOT for evaluation and possible inclusion in its plans. These procedures indicate NDOT performs an evaluation to assess a project's worthiness and assist the Department in allocating resources to meet the most critical transportation needs. Part of this process includes determining current and projected congestion levels and benefit-cost. NDOT states it uses benefit-cost analysis to determine if the use of public funds is justified for a project.

An NDOT booklet on the project evaluation process states, **"This process will be used to evaluate projects proposed for Federal and State funding."** The booklet indicates the Department performs a six-part evaluation to score capacity projects using the following criteria:

- Volume to Capacity Ratio
- Functional Classification
- Number of Through Travel Lanes
- Percent Change in Volume to Capacity Ratio
- 10-Year Projected Percent Increase in Traffic Volume
- Benefit-Cost Evaluation

Projects exceeding the minimum score are eligible for inclusion in the Department's short- or long-term plans.

Our testing found NDOT performed only a few parts of the evaluation for 8 of 30 projects we selected from the last three short-term plans.⁸ Furthermore, the Department did not have documentation supporting the numbers used in the evaluations. For the other 22 projects, the Department did not perform any parts of the evaluation, or comparable analyses. Therefore, NDOT did not perform the complete six-part evaluation or comparable analyses for any of the 30 projects we tested, including six projects designated by the Department as Super Projects.⁹ Without documentation, NDOT cannot demonstrate why these 30 projects were included in short-term plans. According to NDOT, the 30 projects have an estimated cost of nearly \$1.7 billion, which does not include costs for all phases of the projects.

NDOT's Explanations for Not Performing Project Evaluation Procedures

NDOT cited three reasons why it did not perform the six-part evaluation for the projects tested. Each reason is explained below, followed by our analysis of their explanation.

NDOT Is Not Responsible for Evaluating Projects in MPO Areas

Over two-thirds (23 of 30) of the projects tested were in metropolitan planning organization (MPO) areas. NDOT indicated MPOs are responsible for evaluating the projects in their areas. However, we noted this contradicts what NDOT told the State Transportation Board in September 1999 when the Department indicated that it uses benefit-cost software to evaluate all projects included in its plans. In addition, various NDOT documents indicate the Department performs the six-part evaluation on all projects proposed for federal and state funding. For example, when NDOT revised the evaluation process in 1999, it sent the revised booklet to city, county, and MPO transportation officials throughout the State. The cover letter stated:

This report describes how NDOT evaluates Capacity and Non-Capacity Projects for possible inclusion into the Annual Work Program... State Transportation Improvement Program... Short Range Element... and the Long Range Element...

⁸ Appendix F lists the 30 capacity projects tested and the results of our testing.

⁹ Appendix G includes further information on the Super Projects. According to NDOT, Super Projects are larger in size and scope than typical projects undertaken by the Department.

It is very important that this report be reviewed by staff who are familiar with roadway needs in your area so they can recommend to the County Board actions that NDOT should consider to improve the State transportation system. Project Submittal Forms must be returned by January 1, 2000. Each project will be evaluated and considered for inclusion in the FY 2001-2010 programs.

In addition, Washoe County RTC's planning document states:

NDOT is responsible for planning, programming, construction, and maintenance activities involving federal aid and state gas tax funding...

NDOT is responsible for project selection for NHS, STP-Statewide, Bridge, Safety, and Interstate Maintenance projects.

Furthermore, federal law gives state transportation departments approval authority over MPOs' plans. The law requires the Governor to approve the plan in total or reject it. The Governor has delegated this approval authority to the NDOT Director. This approval gives NDOT considerable ability to influence what projects are placed in an MPO plan, since it can reject the plan making the MPO ineligible to receive federal funds. In addition, NDOT is responsible for allocating funding to the various areas of the State. As such, if NDOT does not support certain projects in an MPO's area, it can allocate those funds elsewhere.

Even if NDOT believes it is not responsible for selecting projects in MPO areas, the Department exerts significant influence and proposes the majority of projects using federal and state funds in those areas. Our audit work confirmed NDOT significantly influences project selection in MPO areas. For example, 18 of 30 capacity projects tested were from Clark County. Seventeen of the 18 projects were proposed by NDOT, serving as a member of the RTC of Southern Nevada's advisory committee. Therefore, it is important that NDOT evaluate projects in the MPO areas, and document its evaluations and selections.

Some Projects Were Evaluated Through Other Studies

NDOT indicated that 7 of 30 projects we tested were evaluated as part of other studies, including major investment studies (MIS). The purpose of an MIS is to examine a transportation corridor and propose alternative solutions to transportation problems within that corridor. The methodologies used in these studies to evaluate projects were not consistent with the Department's six-part evaluation. For example, the

Department's procedures indicate accident data are used to calculate the benefit-cost ratio. However, some studies did not consider accident data in calculating benefit-cost.

In addition, some studies evaluated individual projects as part of a group of projects. For example, one study included a benefit-cost analysis for a group of projects, but not separately for the individual projects. Consequently, from the information provided in the study, it is difficult to evaluate the need for individual projects. These studies contained information to perform components of the six-part evaluation; however, none of the studies had sufficient information to complete the entire six-part evaluation. If the Department is going to use both the six-part evaluation and these studies to evaluate projects, it must establish a better link between these studies and its six-part evaluation process to ensure projects are evaluated in a consistent manner.

Projects Were Included in Plans Before Current Process Was Developed

NDOT indicated 16 of the 30 projects we tested were included in Department plans before the six-part evaluation process was developed in 1996. The Department indicated the projects were evaluated by other methods in use at the time. However, it did not provide any documentation these projects were evaluated using other methods. In addition, the Department could only provide support for 13 of these projects being included in plans before the six-part process was developed.

Projects Should Be Evaluated for Need

Transportation experts believe a key activity is to evaluate each proposed project to provide a basis for deciding which projects to fund. Many entities develop project-ranking methods that consider either the severity of the problem or the estimated benefit or impact of the proposed project. Some perform a cost-effectiveness or benefit-cost analysis. These methods offer an approach to examine, in a rigorous and analytic way, the best use of resources.

Furthermore, the U.S. General Accounting Office issued a report identifying and describing capital decision-making practices, which included a review of transportation organizations. According to the report, leading organizations have defined processes for selecting projects based on pre-established criteria. Our survey of states found several use pre-established criteria to select capacity projects. For example, Oregon

law sets eligibility criteria. The eligibility criteria are used to determine projects eligible for further consideration. After a project meets the minimum criteria, prioritization factors are used to select it for inclusion in Oregon's plans from the pool of eligible projects.

Recent reports have suggested that federal transportation funding may be reduced when the Transportation Equity Act is renewed in 2003. In addition, economic conditions can impact the collection of gas taxes and other fees available for highway projects. In 2001, before federal funding concerns were reported, the Department estimated a shortfall of \$4.2 billion over the next 10 years. When financial resources are limited and do not keep pace with demand, it is even more important that decision-makers make the best use of resources. Evaluating projects using objective criteria would help the Department select the most beneficial projects and spend its resources efficiently.

Recommendation

1. Evaluate all capacity projects, proposed by or submitted to NDOT for inclusion in the Department's plans, in accordance with Department procedures and document the project evaluations.

Process for Prioritizing Capacity Projects Is Unclear

The Department's process for determining which capacity projects will be included in its proposed short-term plans is unclear and not well documented. As a result, decision-makers do not have complete information when making decisions about the state's transportation system and stakeholders do not have the information to fully participate in the process. Project prioritization involves deciding which projects to fund over the next 3 years, the year to fund the project, and the project's funding source. A more transparent process would enhance accountability and promote better understanding by local officials and the public.

During our audit, we reviewed NDOT and MPO records, interviewed NDOT and MPO personnel, and reviewed minutes and observed meetings where plans were

developed. Our audit found the Department lacked documentation on how it prioritized capacity projects. Therefore, the Department could not demonstrate the extent to which it considered specific criteria or data, such as safety, user benefits, and congestion relief to prioritize projects. Furthermore, Department explanations lacked details of the process.

Explanation of NDOT’s Project Prioritization Process

Each November, the Department solicits highway projects from city and county officials throughout the State. By January, each implementing agency should provide to NDOT the capacity and non-capacity increasing projects they want evaluated for funding and included in the transportation plan. Department procedures indicate capacity projects that meet the minimum criteria from NDOT’s six-part evaluation of need may be selected for funding through the process outlined in the Statewide Transportation Improvement Program (STIP). However, the STIP only states:

Projects submitted on the Project Evaluation Report and Submittal Forms are evaluated and prioritized by the NDOT Program Development Division. This process identifies if the project will be placed in our plan and when, e.g. Long Range, Short Range, or Annual Plan.

NDOT could not provide further documentation or detailed explanation of this process. For example, Department responses referred to federal laws and regulations. Our review of laws and regulations and discussion with Federal Highway Administration (FHWA) personnel revealed that federal laws and regulations are broad and do not contain specific requirements about prioritizing projects.

At a State Transportation Board meeting in September 1999, NDOT personnel discussed the project prioritization process. They mentioned NDOT analyzes proposed capacity projects from across the State using FHWA software designed to determine need and economic merit. NDOT then considers how much local areas contribute to the state gas tax funding. However, based on our testing of capacity projects and discussions with agency personnel, NDOT has not analyzed proposed capacity projects using the FHWA software for several years. In addition, the Board or Department does not have written policies on how gas tax contributions for each county or other criteria affect project prioritization.

NDOT management cited two reasons for not having documentation of how projects were prioritized. First, NDOT personnel indicated they have little influence on how projects in MPO areas are prioritized. However, our work indicated NDOT has significant influence through its allocation of federal and state funds to the MPOs. The allocation of funding is subjective and based more on the projects NDOT agrees to fund than on established criteria. By establishing the criteria considered in allocating highway funds to the various areas of the State, NDOT would provide better information to transportation planners.

Second, NDOT management believes the prioritization of capacity projects is subjective and therefore cannot be easily documented. They also believe it is influenced by such factors as right-of-way delays, environmental assessments, construction schedules, and staffing. We agree these factors can affect project delivery and therefore have some effect on when projects are included in its short-term plans. Nevertheless, NDOT still needs to better document how it prioritizes capacity projects to ensure the process is clear and to provide better accountability. For example, in a written survey in 2000, FHWA personnel said NDOT has a priority setting process for some types of transportation projects, but that capacity projects generally result from negotiations between the various interested parties.

Key Stakeholders Do Not Understand How Projects Are Prioritized

Based on our interviews and written survey, stakeholders involved in statewide highway planning generally believe that NDOT promotes an effective exchange of information in developing the STIP and provides timely access to its personnel. However, stakeholders do not fully understand NDOT's process for prioritizing capacity projects. Based on our interviews, NDOT's process for prioritizing projects is unclear to MPO officials. We interviewed RTC management, staff, and advisory committee members. MPO officials stated they submit projects to NDOT, but they do not know what analysis is done or how the projects rank. Moreover, our written survey of officials in the 15 rural counties expressed similar concerns.¹⁰ Eight of 10 counties responding to the survey indicated they do not understand how decisions about the Department's

¹⁰ Appendix H summarizes our survey of transportation officials from non-metropolitan/rural areas.

short-term plans are made and 7 of 10 do not understand the criteria used.

In addition, a recent consultant's study contracted by NDOT reported similar concerns by county officials regarding NDOT's prioritization process. The consultant's interviews with county officials revealed:

- **The prevailing attitude is that NDOT tells communities what their priorities should be and the Department does little to inform them of the basis of decisions. It is unclear whether or not communities understand how projects are selected in their local areas, particularly when NDOT project priorities are different than perceived local needs.**
- **Most respondents suggested a need for more coordination and planning with NDOT to identify local project priorities. One interesting comment was communities need a better understanding of how and why NDOT identified project priorities. It also implies that local communities may not know what NDOT is doing or why.**

Finally, legislators and State Transportation Board members have questioned the prioritization process. The Board has expressed the need for "backup" to know the process NDOT has gone through in developing its short-term plans. Although explanations were provided, no documentation was available to help legislators and Board members understand the process.

Better documentation of the process for prioritizing capacity projects would serve many purposes, including:

- 1) Helping local transportation officials, legislators, and the public understand the process.
- 2) Providing guidance to users, such as NDOT staff and local officials proposing projects, on how projects are submitted and evaluated.
- 3) Helping to ensure all projects are consistently evaluated since all projects go through the same analysis.

How Others Prioritize Projects

Transportation experts indicate there are many ways to prioritize projects. A key criterion is a technical measure that incorporates a number of roadway characteristics, including accidents and traffic volumes. Other criteria used are the significance of the route, route continuity, cost effectiveness, and the recommendations of experts in the field. Projects prioritized for funding need to be consistently analyzed using established criteria and prioritization factors.

We surveyed the 17 states comprising the Western Association of State Highway and Transportation Officials. Eleven of 14 states that responded have written documentation for prioritizing projects. For example,

- In Washington, calculating a project's benefits and costs is at the heart of prioritizing capacity projects. Procedures have been developed following principles established in recognized and accepted transportation documents. The benefit-cost ratio accounts for project impacts that can be reduced to monetary benefits. The Washington DOT also recognizes non-monetary factors in prioritizing.
- In California, the Transportation Commission's policy states the short-term plan should include for each proposed project, information to support an objective analysis of interregional program priorities, including benefits and costs. The Commission encourages the Department to consider using values of time, safety, and vehicle operation costs.

The FHWA has developed a model to help states compare relative costs and benefits associated with potential highway improvements, such as widening or resurfacing. The model is called the Highway Economic Requirements System (HERS) and uses computer software. Twenty states volunteered to participate in the pilot project, including many western states. Before taking part in the pilot project, state officials indicated they might use the model to:

- compare the benefits and costs of making alternative highway improvements,
- develop or refine state transportation investment plans, and
- assess highway needs forecast by state district offices or local agencies.

Indiana and Oregon use their own customized version of the national HERS model. These states have found their models useful for determining future highway needs and planning highway projects.

NDOT's Prioritization of Preservation Projects Is More Objective

In contrast to capacity projects, NDOT prioritizes preservation projects based on a well documented process using criteria such as pavement condition, safety data, and traffic volume. Highway pavement is managed using NDOT's Pavement Management System. This system provides an inventory of pavement condition, traffic volumes, weather condition, maintenance costs, and accidents. NDOT personnel then conduct

field reviews on each roadway section identified as needing work to make the final recommendation. The System allows NDOT to quantify the backlog of pavement repairs on state highways, identify project priorities, monitor the state's progress toward eliminating the backlog of pavement work, and identify funds needed in the long term to maintain state highways at a serviceable level.

Recommendations

2. Develop a written process that specifies the criteria used in determining how capacity projects are placed in short-term plans.
3. Prepare and make available to decision-makers and stakeholders a summary of the Department's analysis used annually to determine which projects are included in short-term plans.

Process for Allocating Funds Is Not Documented

NDOT does not have documentation, including written policies and procedures, for deciding how to allocate federal and state funds among project categories. The lack of documentation makes it more difficult for the Department to explain and justify its allocation decisions, which reduces accountability. Department personnel indicated they have informal, unwritten policies concerning the allocation of funds. However, NDOT has considerable flexibility in allocating federal and state funds among project categories. For example, it can spend state gas taxes on any of the three project categories. Also, many of the major federal programs, such as the National Highway System, Surface Transportation Program, and Interstate Maintenance, can be spent on preservation or capacity projects.¹¹ Therefore, NDOT needs more complete documentation on allocating these funds.

Description of Project Categories

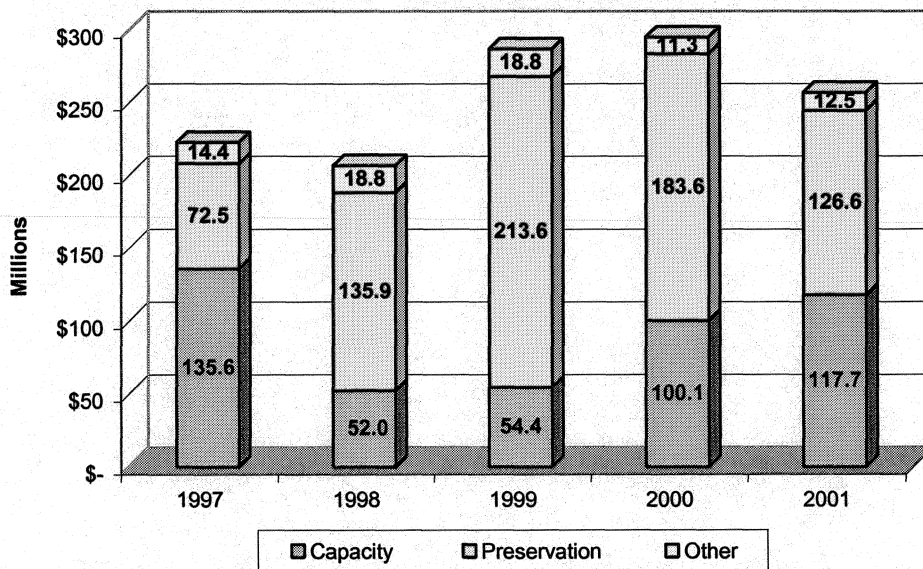
The Department places projects into three broad categories: capacity, preservation, and other projects. Capacity projects are those that increase the highway

¹¹ Appendix I includes more details on the multiple uses of federal funds and the transferability of funds between programs.

capacity by constructing a new roadway or interchange, or by adding lanes to an existing roadway. Preservation projects include major maintenance such as reconstructing or overlaying a roadway, but exclude minor maintenance typically done by NDOT employees such as sealing and patching. Other projects include numerous smaller projects such as safety improvements, sound walls, and enhancements such as landscaping. As shown in Exhibit 6, the amount of funds NDOT spent on the categories over a 5-year period varied considerably from year to year. Therefore, it is important for NDOT to document its basis for allocating funds to meet the state's transportation needs.

Exhibit 6

**Capital Expenditures by Category
Federal Fiscal Years 1997 to 2001**

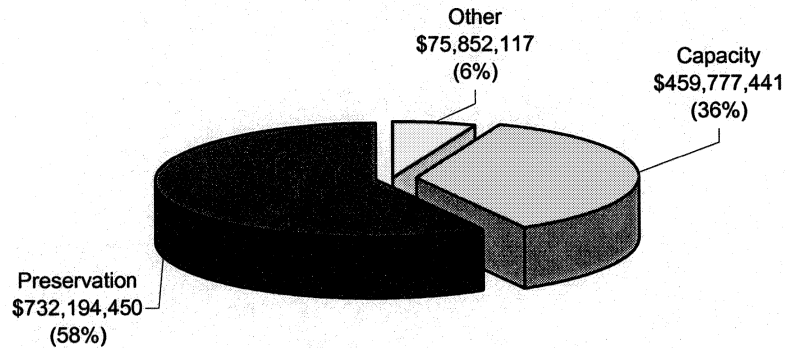


Source: NDOT records.

Note: The above expenditures do not include design or right-of-way costs since the information is not available by project category.

Exhibit 7 shows capital expenditures by category for the last 5 years. Preservation projects accounted for over half of the capital expenditures. However, based on Department plans for fiscal years 2002 and 2003, capacity projects will account for about 75% of capital expenditures.

**Capital Expenditures by Category
Federal Fiscal Years 1997 to 2001**



Source: NDOT Records.

Note: The above expenditures do not include design or right-of-way costs since the information is not available by project category.

NDOT's Informal Allocation Policies

Department documents indicate that preserving existing highways is a top priority. Other informal policies include using state gas taxes to pay for preservation projects and using federal funds largely for capacity and other projects that qualify for specific federal funds. In addition, the Board has set minimum pavement condition levels that help the Department determine the funding allocated to preservation projects. Overall, the Department stated it allocates funds to assure a fiscally sound work program that meets the needs of the State, and obligates all federal money by the end of the federal fiscal year. These informal policies should be documented to help ensure the Department's philosophy for allocating funds is followed, and agreed upon by the Transportation Board.

Department management believes funding allocation decisions are difficult to document. They also believe policies and procedures could make it more difficult to spend all of the state's allocation of federal funds. However, the policies can be written to allow the Department flexibility and not hinder their ability to spend all federal funds, while improving justification for allocation decisions.

How Other State Transportation Departments Allocate Funds

Half of the state transportation departments responding to our survey (7 of 14) have documentation, including written policies and procedures, on the allocation of funds between project categories. Some states have outlined the process in state law. Other states link the allocation of funding to desired highway conditions, or performance measures. For example,

- Through written policy, the Utah DOT established a hierarchy for allocating resources. Operation and safety of the existing system is the first priority, followed by preservation of existing infrastructure, and then capacity improvements. To complement this policy, Utah created major policy goals. For instance, one goal is that the percentage of road mileage in fair condition or better will be 90% for interstates, 70% for arterial roads, and 50% for collector roads. The written policy and major policy goals guide how funds are allocated among project categories.
- Montana uses performance measures to allocate funds between project categories. Management systems collect data on highway pavement and congestion conditions. This data is then analyzed to determine the current level of service for roadways. Montana then allocates funds based on the current levels of service and the desired levels, or performance target.

We realize that no two states are alike and that Nevada has been the fastest growing state. However, as noted above, half of the states we surveyed developed funding allocation policies regardless of their diversity from other states. Developing funding policies directed at Nevada's needs is a prudent business practice. These policies help decision-makers and stakeholders participate and understand the funding allocations and help ensure consistency in the process.

Recommendation

4. Document the process, including criteria and guidelines, for allocating funds among project categories.

Long-Term Financial Planning Has Limitations

NDOT's long-term planning documents include little financial planning. The documents include projected revenues and expenditures over a limited time and do not discuss strategies for addressing potential funding shortfalls. The Department and decision-makers could benefit from more extensive information about future

transportation needs and resources, and potential solutions to any funding shortfalls. In addition, NDOT does not have any written policies and procedures related to the issuance of bonds to fund highway projects, despite plans to issue bonds for over \$550 million. Dramatic increases in demand and growing competition for limited state and local funds creates pressure for funding for transportation infrastructure. For these reasons, financial planning should be an important part of any statewide transportation planning process.

Department Has Not Performed Sufficient Long-Term Financial Planning

NDOT's long-term plan's goal is to forecast transportation needs for the State. The long-term plan can provide decision-makers such as the State Transportation Board and the Legislature with a comprehensive view of statewide transportation needs and resources. However, the planning documents NDOT provided us contained only brief descriptions of funding sources and limited projections of revenues and expenditures by major category. None of the planning documents mentioned strategies for addressing potential funding shortfalls. A good financial planning process will allow decision-makers to see the extent the State will be able to address or meet its goals. Decision-makers can then decide whether they should reduce the goals to stay within the projected funding levels, prioritize among different objectives, or propose additional funding sources.

The Department provided three long-term planning documents: the NevPlan, the Actual Work Program, and the Transportation System Projects report. The NevPlan is the Department's 20-year plan forecasting the future needs of the State. Although it covers 20 years, the plan only projects revenues and expenditures for 3 years.

The Department also prepares an annual report required by state law, referred to as the Transportation System Projects report. Although this report lists projects for the next 10 years with estimated costs, it does not estimate total funding available for this 10-year period. As such, several of the projects are listed without identifiable funding sources. For example, the report shows the funding sources for a \$150 million project in Clark County and Phase 2 of the Carson City freeway project for \$135 million as "Unknown". By not estimating total revenues, the Department cannot provide

reasonable assurance that projects listed in the 10-year plan will have funding. This can lead to unreasonable expectations of report users.

The Actual Work Program is also prepared by the Department every 2 years and provided to the Legislature. Although this report includes projected revenues and expenditures for the next 10 years as required by NRS 408.203, its projections are not realistic. For example, for the first 3 years the projected expenditures are three times the projected revenues. This is unrealistic because the Department annually prepares a 3-year plan that federal law requires to be financially constrained. Financially constrained means the plan only contains projects for which funds can reasonably be expected to be available. Furthermore, per Department personnel, the expenditures are based on planning documents that are intentionally overstated to allow the Department flexibility in starting projects. Therefore, this report does not provide useful information for long-term planning.

NDOT believes that identifying revenues and project expenditures beyond 3 years is very difficult and likely to change because of the State's rapid growth. We understand these concerns, but that does not mean planning is not worthwhile. It just means that plans need to be reviewed more often and adjusted as required by new information.

Transportation Experts' Recommendations and Noteworthy Practices

Federal law requires each state to develop a long-term transportation plan, with a minimum 20-year forecast period, for all areas of the state. The FHWA recommends the statewide planning process include a long-term plan that is fiscally sound. It should include a financial element that identifies future needs and resources as well as possible funding shortfalls for at least 20 years.

The FHWA issued a report in April 2002 evaluating states' long-term plans. One of the purposes of the review was to identify noteworthy practices. Noteworthy practices included 20-year, long-term plans that forecast revenues, costs, and funding shortfalls, including options for addressing any shortfalls. The FHWA report indicated many states have adopted these practices, but Nevada was not one of these states.

The FHWA report did note one aspect of Nevada's long-term plan as noteworthy. The report commended the Department for establishing goals, performance measures,

and strategies. However, the FHWA noted the Department's long-term plan lacks targets for its goals. Targets are levels to determine if the Department is meeting its goals. Decision-makers could use the targets to measure the Department's progress. For example, one of NDOT's goals is to provide a statewide transportation system that adequately meets present and future accessibility and mobility needs. The Department intends to measure its performance towards this goal by calculating the miles and percent of congested roadways. However, NDOT has not identified targeted levels for these measures.

Benefits of Financial Planning

Financial planning is a key element for a successful transportation planning program and serves a number of purposes:

- Helps decision-makers face financial realities and exercise responsible stewardship over public assets. This includes ensuring the existing transportation system is maintained and operated before beginning major new investments.
- Helps ensure that credible plans are adopted which have considered the funding likely to be available over the period of the plan.
- Identifies funding shortfalls early in the long-term planning process, which should allow time to develop a strategy to address the shortage.
- Ensures that decision-makers are weighing priorities and making necessary trade-offs between projects.

Department Needs Debt Management Policies

NDOT could not provide written policies and procedures related to the issuance of bonds to fund highway projects. The Department issued \$100 million of bonds in November 2000, and plans to issue another \$557 million from fiscal years 2002 to 2006 to fund capacity projects. In addition, although NDOT's analysis to decide whether to issue bonds was reasonable, it could have been improved by (1) analyzing the trade-offs of borrowing to fund projects, and (2) preparing cash flow projections that covered the entire payback period of the bonds.

NRS 408.273 authorizes the State Board of Finance, when so requested by the State Transportation Board, to issue special obligation bonds to provide money to enable the Department to fund highway construction projects. The Department cooperates with the State Treasurer's Office in the issuance of the bonds. The State

Treasurer's Office has policies and procedures that address its responsibilities, including the methods of sale and investment of bond proceeds. However, since the Department plans to issue over a half billion dollars in bonds, debt policies are needed concerning its responsibilities, including what factors to consider in deciding the appropriateness of each potential bond issuance. The lack of policies and procedures increases the risk that NDOT may make financing decisions that impair its ability to fund its future needs and accomplish its mission.

Benefits of A Debt Management Policy

The Government Finance Officers Association (GFOA) recommends that state and local governments intending to issue debt incorporate a comprehensive debt policy in its capital improvement program. GFOA states:

The foundation of any well-managed debt program is a comprehensive debt policy. A debt policy sets forth the parameters for issuing debt... and provides guidance to decision makers... A debt policy is beneficial because it enhances the quality of decisions, rationalizes the decision-making process, identifies objectives for staff to implement, demonstrates a commitment to long-term financial planning objectives and is viewed positively by the rating agencies.

A debt policy is a tool to assist the government in managing its financial affairs. The development and adoption of debt policies can also contribute to a government's efforts to control the types and levels of its outstanding obligations. Policies should not become so restrictive or be followed so rigidly that they interfere with the government's effort to provide public services and facilities. A debt policy should stimulate an open debate about the government's outstanding obligations and lead to informed decisions.

Necessary Elements of A Debt Management Policy

A debt policy serves as a framework within which the government can evaluate each potential issuance. Some elements of a debt management policy include:

- **The purposes for which debt may be issued:**
Should debt be issued solely for Super Projects or can debt be issued for major capacity projects, preservation projects or transit projects? At what point in project development should bonds be issued?
- **Legal debt limitations or limitations established by policy, including limitations on the pledge of the issuer's general credit:**

How much debt will the Board allow? What is an acceptable debt ratio? Should transportation debt be limited to the same bond rating as general obligation?

- **Types of debt permitted to be issued and criteria for their issuance:**

Should the Board issue Grant Anticipation Revenue Vehicle (GARVEE) bonds? Special revenue bonds? Grant Anticipation Notes (GANs)? Bond Anticipation Notes (BANs)? Under what conditions should they issue the different instruments?

- **Structural features that may be considered, such as maturity of the debt:**

Although the Board can legally issue bonds with maturities up to 20 years, should the Board mitigate the risk of decreases in federal reauthorization by limiting such debt maturity to two reauthorization periods (12 years)? Should the debt term be limited to the life of the projects funded with the debt?

- **Compliance with federal tax law provisions, such as arbitrage requirements:**

What evaluation should be done to ensure that obligations are issued for projects with good prospects of timely initiation to comply with the U.S. Tax Code? Who should track the progress of bonded projects to make sure they meet targeted spending goals to avoid having to pay an arbitrage rebate?

Bonding Analysis Could Be Improved

The analyses prepared by the Department and its financial advisors before issuing bonds were reasonable. These analyses included cash flow projections, various scenarios for issuance and payback, and calculating debt ratios based on revenue projections. However, we did note two areas for improvement. Considering the amount of money borrowed, the additional analysis is important.

First, the Department analyses did not include the benefits of borrowing to fund these projects.¹² Since borrowing money requires the payment of interest, it decreases the revenues available for new projects in future periods. The tradeoffs that determine when borrowing is better are due to whether advancing the benefits of the project, avoiding inflation, and advancing the revenues being generated more than offset the additional costs of borrowing.

¹² Versus paying project costs with available funding.

Second, the cash flow projections prepared by the Department did not cover the entire time horizon for payback of the bonds. When NDOT management presented their plan to issue over \$650 million in bonds to the State Transportation Board in July 2000, they presented a cash flow projection for the next 5 years, ending in fiscal year 2005. However, the bond payback period extended 10 years past that time because some of the bonds were not to be issued until 2005. In March 2001, after the first \$100 million of bonds were issued in December 2000, the Department prepared a 10-year cash flow projection through fiscal year 2010. The 10-year projection indicated that some of the bonds were to be issued in 2006, with the bond payback extending through 2016, 6 years past the time covered by the cash flow projection.

Recommendations

5. Include in the Department's long-term plan the projected revenues, expenditures for major categories, and alternatives for addressing any funding shortfalls.
6. Establish debt management policies and procedures, including the purposes and conditions when debt may be issued, types of debt and maturity terms, and the analyses that should be prepared to ensure future transportation needs can be met.

Real Property Management Has Weaknesses

NDOT acquires, manages, and disposes of millions of dollars of real property each year. However, NDOT does not have an efficient way to identify the property it owns and whether the property is no longer needed by the Department. In addition, NDOT did not have documentation that it performed all aspects of its processes for acquiring, managing, and disposing of properties. This was caused, in part, because records can be filed in a number of areas resulting in property management files missing pertinent information. As such, information to support NDOT's compliance with laws, regulations, and policies was not always available.

Real Property Not Easily Identified

NDOT's policy is to manage property to maximize public benefit and to lease or dispose of property when it is no longer needed. However, we identified several weaknesses that impact NDOT's ability to identify and manage its real property. The Department does not have an inventory of land it owns and the status of those properties. Further, NDOT does not document its determination of excess property once a project is completed. As a result, properties owned and those considered excess to a project's needs cannot be easily identified. This impacts NDOT's ability to manage its real property.

No Real Property Inventory

The Department acquires millions of dollars of property each year for highway construction. NDOT estimates it currently owns over \$350 million of right-of-way, including easements. However, the Department does not have an inventory system that identifies these properties and the status of them. Property management procedures state that NDOT will maintain an inventory of all property under its jurisdiction. This includes acquisitions, excess or surplus lands, and property disposals. In addition, federal regulations require inventories of real property considered excess to a project's needs.

NDOT maintains property information by project, map, or other method. However, according to NDOT, the maps it uses do not specify its interest in the property and must be cross-referenced with project files and legal documents to determine which properties it owns. In addition, the Right-of-Way section identifies property interest on the property schedules. Although the schedules are updated after property is sold, property schedules may not reflect the current status of properties NDOT still owns. We also found staff record property acquisitions and disposals on the Lands Acquired Report. However, our testing showed it took, on average, over 300 days to record acquisitions and disposals on this report. Further, this report is a listing of all real property acquired by NDOT, but does not designate if the property is currently owned and other pertinent information. In addition, two properties selected for testing were recorded as disposals but were actually acquisitions. These factors impact the usefulness of this report.

Not maintaining an inventory system reduces NDOT's ability to easily identify the property it owns. NDOT officials stated they are currently in the process of developing a comprehensive automated inventory system. The purpose of the inventory project is to compile right-of-way information to improve the efficiency of NDOT's operations and to make the right-of-way information accessible and user-friendly for the public. NDOT has completed its needs assessment and is currently developing a request for proposal. Once the inventory project is completed, the inventory system should go a long way in helping NDOT manage its real property. As stated by Department officials, the new inventory will improve the efficiency of their operations.

Excess Property Determination Not Documented

NDOT did not have evidence it determined excess property after a project was completed for the 15 completed projects totaling \$85.1 million reviewed. NDOT management indicated excess property determinations are made but not documented. Department officials stated that after a project is completed and the final bill is paid, staff determines what property is excess to the project. The Department defines excess property as property acquired for an NDOT project that is not needed after a project is completed. By not documenting excess property determinations, NDOT cannot be assured that these determinations are being done and cannot easily identify its excess property.

Federal regulations require the Department to establish procedures for determining when property is no longer needed. Furthermore, NDOT procedures indicate that lands excess to its needs should be leased or disposed of in a timely manner. NDOT officials stated they have a process for disposing of property after completion of individual projects. NDOT also has developed procedures for the Surplus Property Committee (SPC) to review requests for possible disposal. However, no written procedures have been established to identify excess properties and whether they should be leased or submitted to the SPC for review.

Reduced Ability to Manage Property

Without an inventory system and by not documenting its excess property determinations, NDOT's ability to manage its real property is reduced. This impacts NDOT's ability to lease excess property or to determine if the property is surplus and

should be sold. As stated by NDOT, it would require an enormous effort to research the files of virtually every project ever undertaken by NDOT to determine the properties it owns and those that are excess.

As a result, NDOT generally relies on requests from third parties to identify properties to sell or lease. Of the 25 disposals and 30 leases we examined, about two-thirds of the disposals and over half of the leases were initiated by third parties. For purposes of our report, the use of leases includes lease and rental agreements and licenses. Relying on third parties is not the most effective property management method and may not maximize benefits to the State. As a result, properties excess to NDOT's needs may be sitting idle incurring costs to maintain. Thus, NDOT could be losing the opportunity to provide additional revenues to the State Highway Fund. We realize that some properties have low values and cannot be leased or sold economically; however, NDOT has other properties of considerable value. For example, two properties recently appraised exceeded \$9 and \$16 million. NDOT needs to establish criteria for identifying excess property and then determining if the property should be left idle, leased, or referred to the SPC.

Officials stated NDOT does not want to be in the position of having to reacquire property it previously owned. We agree NDOT should not reacquire land, but several factors can mitigate this concern. First, effective long-term planning should identify NDOT's future needs. Second, the Surplus Property Committee should minimize this possibility since it examines all disposal requests for future highway needs. Accordingly, the risk of having to reacquire property can be reduced.

Disposal Requirements Not Always Followed

Although policies and procedures provide rules for disposing of surplus property, some requirements were not followed. First, 28 surplus property requests required to be submitted to the Surplus Property Committee were not reviewed by the Committee. Second, we found four instances where NDOT lacked appraisals supporting that properties were exchanged for reasonably close values. Not following established processes could result in properties not being consistently evaluated, being disposed of prematurely, and not receiving fair value for exchanged properties. Better tracking of

disposal requests would help ensure all requests are reviewed by the SPC and key requirements are met.

Disposal Requests Not Approved by SPC

NDOT defines surplus property as property no longer needed for highway purposes, as determined by the Department. When potential surplus property is identified, a request for disposal is submitted to the SPC. The SPC reviews the request and determines whether the property should be retained or can be sold. Property management procedures require all requests for surplus property be submitted to the SPC. The Committee's duties and responsibilities include considering retention for future needs; coordinating with municipalities and government agencies; contacting District Engineers; and obtaining appraisals, environmental clearances and Federal Highway Administration approvals where applicable. If the Committee determines the property is surplus, it recommends disposal to NDOT management. The Transportation Board has final approval authority.

Even though a process has been established, 11 of the 16 applicable property disposals and 2 of the 14 disposal request denials we examined did not have evidence they received the Committee's review and recommendation. In addition, our review of the surplus property request list for calendar years 1999, 2000, and 2001 found another six requests were authorized and at least nine requests were denied without going to the Committee. Several of these requests were denied by right-of-way employees while management approved or denied the others. Current guidelines do not permit or discuss the circumstances when someone can process surplus property requests other than the Committee. The SPC helps provide safeguards against disposing of property that may be needed. As stated by NDOT management, they do not want to be in a position of having to reacquire property previously owned.

Property Exchanges Not Supported by Appraisals

Currently, the Right-of-Way section's staff specialist maintains a list of requests reviewed by the Committee, but the list is not complete and does not show all the requests received. In addition, another committee member maintains a list of surplus property requests for his own use; however, this list also does not always have complete information. Tracking all requests received and noting key approval, denial,

and disposal information would help NDOT ensure requests are properly handled through their final disposition.

In addition, NDOT sometimes exchanges land it owns with a third party when obtaining right-of-way for highway construction. Four of the five exchanges we examined lacked appraisals. Because no appraisals were provided, we could not determine if the properties were exchanged for equal value properties. NDOT policy requires exchanges have appraisals and be exchanged for equal value properties. Without documentation supporting the exchanges, NDOT could make an inequitable exchange that does not benefit the State.

Inadequate Leasing Practices

Poor lease monitoring and collection practices resulted in expired leases and uncollected rents of about \$48,000, based on the lease files examined. In addition, NDOT lacked records it performed or completed key property management requirements and does not have an accurate lease inventory. As such, the Department could not show it complied with some federal and state requirements and property management policies. By better documenting and monitoring its property management efforts, NDOT could demonstrate it complied with laws, regulations, and policies, and received all the revenues it is entitled. NDOT management indicated they are under great pressure to acquire property for highway construction and, therefore; it's not always cost-beneficial to perform property management procedures. We agree not all properties can be leased, reviewed, and inspected economically. However, it is an NDOT policy that in all cases the primary concern is to protect the public investment and maximize benefits to the State.

Poor Lease Monitoring and Collection Efforts

NDOT has not established effective lease monitoring and collection processes. Several leases had expired before they were renewed and not all payments were collected. Because of the poor monitoring and collecting practices, we identified about \$48,000 in lease payments that went uncollected. Department officials indicated they are in the process of developing a lease tracking system that should improve their efforts in monitoring leases.

From our review of correspondence files, we found 18 leases had expired before lease renewal notices were sent. Of the 18 expired leases, 12 had been expired for at least 6 months with one agreement being expired for 34 months. Most of the lessees continued paying monthly; however, others did not. This resulted in non-payment of \$4,800 in lease payments.

In addition, one lessee did not make payments totaling \$6,300 for 1997 through 2001. This error occurred because the lease had not been set up in the accounting system so payment notices were not sent. The error was not detected until we brought it to NDOT's attention. In another case, a lessee was delinquent in making payments for over 1 year. The last lease payment received from this lessee was in November 1998. Delinquent payments accumulated to about \$46,000 before any collection efforts were started in January 2000. The lessee subsequently filed bankruptcy in July 2000 and sold the business. Although NDOT negotiated with the new owner and settled the prior lease debt for \$9,187, the entire \$46,000 may have been collected if NDOT had followed its collection processes. NDOT officials indicated that collection efforts were made prior to January 2000, but they were unable to provide any documentation of these efforts.

Lease Records Not Available

NDOT did not have evidence it always complied with federal and state laws and Department procedures. Many of the 30 leases we examined did not have records to support that one or more of the property management requirements were completed. As a result, the State may not be receiving fair compensation for the leased properties and the properties could get run-down and lose value.

Our examination of 30 agreements found:

- Eight leases lacked evidence that a lease determination was done and approved. Thus, NDOT cannot show it leased these properties for fair market value as required by state law, federal regulation, and Department policies and procedures. Not renting properties at fair market value reduces the monies received by the State that could be used for highway purposes.
- NDOT lacked evidence it regularly inspected 16 of the properties. Depending on the type of agreement, property management procedures require regular inspections and the preparation of quarterly inspection

reports. As stated in the procedures manual, the purpose of inspections is to detect damage, vandalism, weed growth, vehicle abandonment, trash dumping, unauthorized uses or change of use. Letting properties get run-down can reduce their value, thus not protecting the public investment.

- Documentation was not provided showing a lease analysis was completed for eight of the leased properties. The property management procedures manual indicates leases should be re-evaluated every 5 years and rentals be re-evaluated and re-negotiated at yearly intervals. Again, not renting properties at fair market value reduces the monies available for highway purposes.

Because property management files are missing pertinent information and records can be filed in a number of areas, information to support NDOT's compliance with laws, regulations, and policies was not always available. Although some records were eventually found, it took significant effort by both NDOT and LCB audit staff to locate these records. NDOT management agreed the records could be filed in multiple areas and are not easily retrievable, but they emphasized the records were not missing. However, no additional information was provided.

Lease Inventory Not Up-to-Date

Although the Department has inventories of properties it leases, the inventories are not accurate. We found the inventories had duplications, expired agreements, and did not include all leased properties. Without a complete inventory, agreements may not get renewed, payments may go uncollected, and properties may not be inspected. In addition, management will not have accurate information on the Department's leasing activities.

At the start of our audit, we were provided an inventory of properties the Department leased. However, in determining the reliability of the inventory, we found other lease listings. We reconciled these listings and found discrepancies between the inventories.

Further, in response to our request for additional information, NDOT provided us with two reports dated 1999 and 2002. Although, NDOT represented these reports were its current inventory, the reports had numerous errors. Our review found duplicated and expired agreements on the 1999 and 2002 reports. In addition, active

agreements recorded on the listings provided to us at the beginning of the audit were not recorded on these subsequent reports.

NDOT policies indicate the Department is to maintain an inventory of leases, residential rentals, and licenses. Also, federal regulations require property management records to include inventories of leases or agreements for use of real property. As previously stated, NDOT management indicated both the northern and southern Right-of-Way offices are in the process of developing a tracking system that will provide a complete inventory of leases.

Property Acquisitions Follow Established Rules

We selected 70 properties totaling \$13.2 million from the 389 properties recorded by the Department as acquired during calendar years 1999, 2000, and 2001. For the 70 properties tested, nothing came to our attention that these acquisitions were not completed in accordance with key laws, regulations and procedures. However, we did find that acquisition files did not always contain complete information. Some types of the missing information included: right-of-way agent assignments and property owner notifications. Our examination of NDOT's process to acquire property included reviewing federal regulations, state laws, and property management procedures. From our review we identified and tested various compliance requirements. Compliance requirements include obtaining and reviewing appraisals, purchasing the property at fair market value, or following administrative settlements and condemnation procedures. Although NDOT followed established acquisition rules, many factors can delay or increase the time needed to acquire real property. These factors include condemnation court cases, environmental concerns, traffic and budget issues, and other design and technical problems.

NDOT purchases significant amounts of real property for roadway construction. When purchasing land, the landowners are notified of NDOT's intent to acquire their property. NDOT will then have the property appraised. Once the property is appraised, NDOT staff will review the appraisal and determine the fair market value of the property. Finally, the right-of-way agent will make an offer to the landowner.

Acquisitions can be direct purchases, administrative settlements, or condemnations. Direct purchases are negotiated between the right-of-way agent and

the landowner. If the landowners believe their property is worth more than NDOT is offering, they can obtain their own appraisal and request an administrative settlement. NDOT management will review the landowner's information and will either support the original offer or make a new offer. If a settlement cannot be reached, NDOT will request permission from the State Board of Transportation to start condemnation procedures. Condemnations are processed through the court system. Although a necessary tool in acquiring land, condemnations can be costly to the State. Recently, the court awarded a landowner over \$7 million plus interest for 8.5 acres of land. This court case took almost 9 years to complete, impacting NDOT's ability to acquire land for highway construction.

Recommendations

7. Continue developing the real property inventory system, including procedures to list properties and identify each property's status.
8. Document excess property determinations and establish criteria for determining when excess property should be left idle, leased, or referred to the Surplus Property Committee.
9. Follow established procedures for requiring all requests for disposals of surplus property, abandonments, and relinquishments be reviewed by the Surplus Property Committee and track requests noting key information.
10. Maintain records supporting compliance with disposal and leasing requirements.
11. Develop a process for tracking and monitoring leases to ensure all agreements are up-to-date, property management requirements are met, and collection efforts are made as outlined in the property management manual.

Appendices

Appendix A Audit Methodology

To gain an understanding of the Department and its transportation planning and property management processes, we conducted preliminary interviews with Department officials and staff. We also interviewed personnel from the Federal Highway Administration (FHWA) and the regional transportation commissions (RTC) of Washoe County and Southern Nevada. We then reviewed budgets, performance information, and other financial and program information describing the activities of the Department. In addition, we reviewed General Accounting Office and other states' reports and various websites of professional organizations concerning transportation agencies. Finally, we reviewed federal and state laws and regulations, NDOT planning documents, property management policies and procedures, and legislative committee minutes.

To accomplish our objective of assessing the Department's procedures for developing short-term and long-term plans for projects, we conducted extensive interviews of individuals involved in the transportation planning process. These interviews included transportation planning officials from the RTC of Washoe County, the RTC of Southern Nevada, and the Tahoe Metropolitan Planning Organization. We also attended State Transportation Board, RTC, and technical advisory meetings. In addition, we attended rural county commission meetings where transportation plans were developed and approved. Further, we reviewed the minutes from these meetings over the past several years and correspondence involving NDOT and the local transportation planning bodies.

In addition, we surveyed 17 states that belong to the Western Association of State Highway and Transportation Officials regarding their transportation planning processes. We obtained information about the procedures for allocating funds among major project categories, allocating funds to metropolitan planning organizations

(MPOs) and other areas, and selecting and prioritizing highway capacity projects. The states surveyed were Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nebraska, New Mexico, North Dakota, Oklahoma, Oregon, South Dakota, Texas, Utah, Washington, and Wyoming. We obtained information from 14 of the 17 states surveyed. Arizona, Hawaii, and Idaho did not respond to the survey.

We also surveyed the 15 non-MPO counties in Nevada. We obtained information on the effectiveness of NDOT's consultation process and the counties' understanding of how projects are selected and funded. The counties surveyed were Carson City, Churchill, Douglas, Elko, Esmeralda, Eureka, Humboldt, Lander, Lincoln, Lyon, Mineral, Nye, Pershing, Storey, and White Pine. We obtained information from 10 of the 15 counties surveyed. Carson City, Esmeralda, Humboldt, Nye, and Storey counties did not respond to the survey.

Then, we reviewed NDOT's process for allocating funds among major categories and for allocating funds to each MPO through interviews with NDOT personnel and RTC officials. We also reviewed available documentation and researched literature on transportation planning used to help select and prioritize projects. In addition, we analyzed the federal programs to determine how federal funds can be used for different project categories and computed the allocation of funds for the last 5 years.

For 30 capacity projects, we determined whether NDOT followed its project evaluation process by reviewing agency records on the projects. The sample totaling nearly \$1.7 billion was judgmentally selected from the 83 projects listed on the first year of the STIPs approved for years 1999, 2000, and 2001. We also reviewed the Super Projects for historical and background information. In addition, we reviewed the Department's process for preparing its long-term plan. We also reviewed the planning processes from other states and the MPOs in Nevada. Further, we researched guidance from transportation experts on long-term planning. We then examined NDOT's process for deciding to issue bonds to fund highway capacity projects. To do this, we interviewed NDOT personnel and reviewed applicable Department documentation, including analysis done by NDOT. We also researched literature on issuing bonds, including bonding policies and required analysis. Finally, we reviewed Board and legislative minutes for discussions on the issuance of bonds.

To accomplish our objective of assessing the Department's procedures for acquiring, managing, and disposing of real property, we randomly selected 70 properties totaling \$13.2 million. Our sample was selected from the 389 properties recorded by the Department as acquired during calendar years 1999, 2000, and 2001. For the 70 properties, we reviewed acquisition documentation to determine if key acquisition steps were followed such as appraisals completed, fair market value (FMV) paid, and property use analysis done. We also scheduled how long it took NDOT to acquire the properties and record them on the Lands Acquired Report. Furthermore, we determined if the Department recorded the acquired properties on an inventory of lands owned.

Then, we judgmentally selected 30 of the 233 properties the Department leased, licensed, and rented during calendar year 2001. Our sample was selected from the inventory listing provided by NDOT at the beginning of the audit and additional information obtained from NDOT accounting. We considered location, type of lease, and dollar amount for selecting our testing sample. We tested these properties for compliance with established requirements, such as appraisals completed, payments collected, properties inspected, and lease/rent amounts periodically reviewed and updated. In addition, we reviewed correspondence files for expired lease, license, and rental agreements. Once identified we determined the length of time the agreements were expired and if payments were received during the expired period.

Finally, we judgmentally selected 15 completed projects totaling \$85.1 million and determined if the Department followed its process for identifying excess property. The completed projects were selected from the 25 projects having right-of-way acquisition costs recorded as completed by NDOT accounting as of January 2002. We also randomly selected 25 surplus property disposals totaling \$2.3 million from the 75 disposals listed on the Lands Acquired Report during calendar years 1999, 2000, and 2001. Then, we reviewed disposal documentation to determine if properties were sold for FMV and the proper method of disposal was used. We also reviewed NDOT's compliance with other disposal related requirements, such as obtaining an appraisal, receiving proper approvals, and using the Surplus Property Committee. In addition, we judgmentally selected 15 of the 45 surplus property request denials from calendar years

1999, 2000, and 2001, and reviewed available documentation for approval and justification of the denied request.

Our audit was conducted from September 2001 to September 2002, in accordance with generally accepted government auditing standards.

In accordance with NRS 218.821, we furnished a copy of our preliminary report to the Director of the Department of Transportation. On November 6, 2002, we met with agency officials to discuss the results of our audit and requested a written response to the preliminary report. That response is contained in Appendix J which begins on page 67.

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Appendix B
Prior Audit Recommendations

As part of our audit, we requested the Department of Transportation determine the status of the six recommendations in our 1996 audit. NDOT reported all six recommendations have been fully implemented. The scope of our current audit did not include the prior audit recommendations, which related to soliciting, awarding, and managing consultant agreements. Therefore, we did not verify the status of the recommendations.

Appendix C

Glossary of Transportation Terms

AASHTO-American Association of State Highway and Transportation Officials-An interest group made up of state transportation officials based in Washington, D.C., involved in research, advocacy and technical assistance.

Apportionment-A federal budgetary term that refers to a statutorily prescribed division or assignment of funds. It is based on prescribed formulas in the law and consists of dividing authorized obligation authority for a specific program among transit systems.

Arbitrage-The difference in the interest paid on an issuer's tax-exempt bonds and the interest earned by investing the bond proceeds in taxable securities. Arbitrage earnings that exceed limits imposed by federal regulations must be rebated to the federal government.

AWP-Annual Work Program-NDOT's capital improvement program for the current Federal Fiscal Year.

BANs-Bond Anticipation Notes-Short-term borrowings issued in anticipation of the issuance of bonds.

CMAQ-Congestion Mitigation and Air Quality Program-An ISTEA and TEA-21 funding program that provides funds for projects and activities that reduce congestion and improve air quality in regions not yet attaining federal air quality standards.

Easement-A right to use the land of another for specific purposes. Permanent easements are used to locate a permanent highway related feature, such as drainage. Temporary easements are used for such purposes as detours and temporary structures that will be removed after their purpose is completed.

Enhancement Projects-Various scenic, historic and environmental activities eligible for project funding under the Surface Transportation Program (STP) element of Federal Transportation funding resources.

Excess Property-Any property that is acquired for an NDOT project that is not needed after a project is completed.

FHWA-Federal Highway Administration-Division of the U.S. Department of Transportation that administers the funds for highway planning and capital programs.

GARVEE Bonds-Grant Anticipation Revenue Vehicles-Financing instrument that enable states to fund transportation projects based on their anticipated future federal funding. States and local agencies can issue GARVEE bonds for

Appendix C

Glossary of Transportation Terms (continued)

transportation projects using future federal highway funds to repay the principal, interest, and any other costs associated with the issuance of the bonds.

GANs-Grant Anticipation Notes-Short-term borrowings, the principal and interest on which are to be paid solely from the grant revenues under the terms of a grant agreement.

ISTEA-Intermodal Surface Transportation Efficiency Act of 1991-Legislation passed by the U.S. Congress that authorizes Federal funding through 1997 for highway and transit purposes. The Act reinforces MPO responsibilities and provides more flexibility in transportation planning and programming decision-making.

Lease/Rental-Agreements for others to use NDOT property. Agreements are for a certain time frame and the amount should be set at fair market value. Types of leases/rentals are multi-use (joint uses of property), airspace (space above or below the property), and residential (home).

License-Agreement primarily for parking and landscaping on property that NDOT holds an easement interest only. These agreements are one-time fee arrangements.

LOS-Level of Service-The quality of flow in the moving stream of people or vehicles. Typically, ranges from LOS A (free flow traffic) to LOS F (stop-and-go unacceptable conditions).

LRE-Long Range Element-Identifies projects the State, MPO, and/or local governments would like to have initiated within the next 4-10 Federal Fiscal Years.

MIS-Major Investment Study-As a subset of the regional transportation system planning process, a more detailed planning procedure to inform decision-makers of the impacts and consequences of various transportation options on a corridor or sub-area basis. The preferred strategy will be included as a refinement of the regional transportation system plan.

MPO-Metropolitan Planning Organization-The agency designated by the Governor to administer the federally required transportation decision-making process in urbanized areas with over 50,000 population.

NHS-National Highway System-A 155,000 mile interconnected system of roads, authorized through ISTEA and TEA-21. Comprised of Interstate highways

Appendix C

Glossary of Transportation Terms (continued)

and roads designated as most important to interstate travel, national defense, intermodal connections, and international crossings.

Programming-The designation of funds for transportation projects which, when approved, are included in the RTIP and STIP.

Real Property-Land, buildings, and any other attached improvement.

ROW-Right-of-Way-Land corridors needed for the construction of highways, transit facilities, railroads, etc.

RTIP-Regional Transportation Improvement Program-A capital investment program prepared by the MPO cooperatively with the State and transit operator that prioritizes transportation projects to be implemented with Federal funds over a minimum of 3 years.

RTP-Regional Transportation Plan-MPO long range plans that serve as the basis for the investment of public and private funds in specific transportation system improvements over the next 20 plus years.

SRE-Short Range Element-Identifies projects proposed by NDOT to be initiated within the next 2 to 3 Federal Fiscal Years.

STIP-Statewide Transportation Improvement Program-Lists all capital and non-capital transportation projects proposed for funding under Title 23 of the Federal-Aid Highway Act or the Federal Transit Act. The STIP covers 3 federal fiscal years.

STP-Surface Transportation Program-A federal capital funding program for a variety of highway, transit, pedestrian and bicycle projects.

STP-Statewide-Surface Transportation Program-Statewide-Sixty-five percent of the STP federal funding program allocated directly to the State, after allocations for safety and enhancement projects.

STP-Local (Urbanized)-Surface Transportation Program-Local-Thirty-five percent of the STP federal funding program allocated directly to urbanized areas of the State with population of 200,000 or more, after allocations for safety and enhancement projects.

Surplus Property-Property no longer needed for highway purposes as determined by NDOT.

Appendix C

Glossary of Transportation Terms (continued)

TEA-21-Transportation Equity Act for the 21st Century-Legislation passed by the U.S. Congress that authorizes federal funding through 2003 for highway and transit purposes.

Urbanized Area-An area with a population of 50,000 or more designated by the U.S. Census Bureau.

Appendix D
Gas Taxes
Collected by County
Fiscal Year 2001

County	State Gas Tax Collected⁽¹⁾	% of State Gas Tax Collected	Federal Gas Tax Collected⁽²⁾	County Gas Tax Collected⁽³⁾	Total Gas Tax Collected
Carson City	\$ 6,179,966	3.66%	\$ 6,442,571	\$ 4,517,242	\$ 17,139,779
Churchill	1,986,017	1.18%	2,070,408	2,282,175	6,338,600
Clark	108,999,016	64.50%	113,630,703	84,407,340	307,037,059
Douglas	4,018,273	2.38%	4,189,021	1,995,421	10,202,715
Elko	5,193,841	3.07%	5,414,542	4,289,231	14,897,614
Esmeralda	51,250	0.03%	53,428	567,897	672,575
Eureka	336,062	0.20%	350,342	822,358	1,508,762
Humboldt	2,479,568	1.47%	2,584,932	3,027,279	8,091,779
Lander	700,713	0.41%	730,488	1,152,606	2,583,807
Lincoln	528,701	0.31%	551,167	1,750,731	2,830,599
Lyon	2,895,199	1.71%	3,018,224	2,455,812	8,369,235
Mineral	573,853	0.34%	598,238	873,654	2,045,745
Nye	3,294,556	1.95%	3,434,551	3,658,489	10,387,596
Pershing	677,533	0.40%	706,324	1,267,682	2,651,539
Storey	61,378	0.04%	63,986	92,179	217,543
Washoe	29,799,951	17.63%	31,066,238	23,186,396	84,052,585
White Pine	1,220,897	0.72%	1,272,777	1,904,272	4,397,946
Totals	\$168,996,774	100.00%	\$176,177,940	\$138,250,764	\$483,425,478

Source: Federal and state gas taxes collected – Auditor computed based on NDOT and Department of Taxation records.
County gas tax collected – Department of Taxation reports.

Note: Fiscal year 2001 figures were the latest figures available by county at the time of the audit.

- (1) 17.65¢ per gallon state gas tax rate. Collections shown do not include petroleum clean up tax and imported gasoline and lubricating oils inspection fees.
- (2) 18.40¢ per gallon federal gas tax rate.
- (3) 6.35¢ per gallon is mandatory in each county. State law also authorizes counties to levy up to an additional 9¢ per gallon.

Appendix E

State Maintained Highways Miles by County

County	Centerline Miles							Lane Miles	
	Interstate Routes	U.S. Routes	State Routes	Frontage Roads	State Park Roads	Total	Percentage of Total	Total Miles	Percentage of Total
Carson City	0.00	21.95	26.77	3.08	0.00	51.80	0.9%	133.97	1.0%
Churchill	29.30	174.78	121.20	12.27	4.11	341.66	6.3%	753.16	5.7%
Clark	146.73	159.08	431.22	53.08	22.17	812.28	14.8%	2,678.14	20.2%
Douglas	0.00	49.09	54.08	0.00	0.93	104.10	1.9%	269.16	2.0%
Elko	132.77	195.19	330.26	59.07	2.96	720.25	13.2%	1,729.39	13.1%
Esmeralda	0.00	115.80	121.80	1.14	0.00	238.74	4.4%	477.49	3.6%
Eureka	25.77	47.39	111.88	13.56	0.00	198.60	3.6%	449.96	3.4%
Humboldt	61.39	75.41	187.26	21.60	0.00	345.66	6.3%	816.52	6.2%
Lander	26.99	56.90	166.55	29.88	0.00	280.32	5.1%	615.95	4.7%
Lincoln	0.00	172.40	175.24	0.00	4.94	352.58	6.4%	705.30	5.3%
Lyon	14.88	106.48	110.41	4.05	6.91	242.73	4.4%	531.41	4.0%
Mineral	0.00	118.15	87.09	0.00	0.58	205.82	3.8%	418.13	3.2%
Nye	0.00	240.46	309.16	26.42 ⁽¹⁾	0.00	576.04	10.5%	1,169.98	8.8%
Pershing	75.09	0.00	69.06	56.06	1.04	201.25	3.7%	555.14	4.2%
Storey	0.37	0.00	13.84	0.00	0.00	14.21	0.3%	29.15	0.2%
Washoe	49.11	38.29	258.32	25.91	3.74	375.37	6.9%	1,067.84	8.1%
White Pine	0.00	265.02	142.44	0.00	3.14	410.60	7.5%	827.37	6.3%
Totals	562.40	1,836.39	2,716.58	306.12	50.52	5,472.01	100.0%	13,228.06	100.0%

Source: "Nevada's State Maintained Highways, Descriptions, Index & Maps", January 2002, and NDOT records.

(1) Includes 25.35 miles of access roads.

Note: "Centerline miles" measures the length of a road between two points, regardless of the number of lanes. "Lane miles" measures the length of all lanes between two points. Therefore, a two-lane road that is 10 centerline miles would have 20 lane miles.

Appendix F Analysis of Capacity Projects

#	Project Description	Projects Submitted Prior to Six-Part Evaluation	Six-Part Evaluation						Overall Project Score Evaluated?	Estimated Project Cost (Millions)
			Volume to Capacity Ratio Evaluated?	Functional Classification Evaluated?	Number of Through Travel Lanes Evaluated?	Net Change in Volume to Capacity Ratio Evaluated?	10-Year Projected Percent Increase in Traffic Volume Evaluated?	Benefit Cost Ratio Evaluated?		
1	US 50A & US 50 from approx. 1.00 MW of Leeterville Jct. to approx. 1.00 ME of Scheckler Cutoff	(1)				Yes			\$ 12.7	
2	I 15 from Sahara to Charleston	(1)				Yes			38.7	
3	SR 227 Lamoille Rd. from Spring Creek Pkwy. to Horse Palace turnoff	(1)				Yes			3.1	
4	SR 650 McCarran Blvd. from I 80 to Prater					Yes			23.0	
5	US 395, The Carson City Freeway, from E. William St. (SR 530) to N. Carson St. (SR 529)	(1)	Yes				Yes		170.6	
6	FR C007, west of US 395 and FR C008, east of US 395 from the DO/CC county line to Clear Creek Rd.								(2)	
7	Resort Corridor Access Rd. from Russell Rd. interchange to Industrial Rd.								20.0 (3)	
8	I 215, Southern Beltway from I 515 to Stephanie St.	(1)							112.5	
9	US 93 from near Wagonwheel Interchange to Hoover Dam Alternate crossing	(1)							344.0	
10	SR 146, St. Rose Pkwy. from I 15 to Stephanie St.								35.7	
11	I 15 from the Stateline to approx. 2 MN (northbound lanes) and 21 MN (southbound lanes)	(1)							24.0	
12	G-662 Erie Grade Separation over I 15								(4)	
13	I 15 at Lamb Blvd. (SR 610) Interchange	(1)							20.0	
14	SR 160 Paltrump Valley Rd. from Las Vegas Blvd. (SR 604) to Rainbow Blvd. (SR 595)	(1)							35.4	
15	SR 599 Rancho Rd. from US 95 South to US 95 North (Ann Rd. Interchange)								4.5	
16	Summerlin Parkway from US 95 to Rampart								23.0	
17	SR 573 Craig Rd. from Losse Rd. to I 15								28.0	
18	SR 573 Craig Rd. from I 15 to Las Vegas Blvd.								2.8	
19	Martin Luther King Blvd. from Carey Ave. to Cheyenne Ave.		Yes						4.4 (5)	

Appendix F Analysis of Capacity Projects (continued)

#	Project Description	Projects Submitted Prior to Six-Part Evaluation	Six-Part Evaluation						Overall Project Score Evaluated?	Estimated Project Cost (Millions)
			Volume to Capacity Ratio Evaluated?	Functional Classification Evaluated?	Number of Through Traffic Lanes Evaluated?	Net Change in Volume to Capacity Ratio Evaluated?	10-Year Projected Percent Increase in Traffic Volume Evaluated?	Benefit Cost Ratio Evaluated?		
*20	US 95/115 to Craig Rd. from Martin Luther King Blvd. to Valley View Blvd.								103.0	
*21	Hoover Dam Alternate crossing	(1)					Yes		236.0	
22	US 95 from Craig Rd. (SR 573) to Charleston Park Rd. (SR 157).								3.0	
23	I 15 from US 95 to Hollywood Blvd.								3.0	
24	SR 756, Centerville Ln. from Waterloo Ln. to US 395								- (2)	
25	US 90 east of Dayton from Fortune Dr. to Chaves Rd.								9.0	
26	US 50A from Fernley to the LY/CH county line	(1)							11.5	
27	SR 341 Virginia City Rd. from Mira Loma to near the junction with S. Virginia St. (SR 430)	(1)							6.0 (6)	
*28	I-580 / US 395 from Bowers Mansion Rd. (SR 429) to Mt. Rose Hwy. (SR 431)	(1)	Yes						370.0	
29	US 395 at Clear Acre Ln.								20.0 (7)	
30	McCarran from 4th to S. Virginia St. (SR 430)								11.0	
Total Yes			3	0	0	4	0	2	\$1,674.9 (\$1.7 billion)	

Source: Analysis of NDOT records.

Note: Estimated project cost does not include all project phases for some projects.

- (1) Projects that NDOT indicated were evaluated before the six-part evaluation process was developed in 1997. However, NDOT did not provide any documentation these projects were evaluated using other methods.
 - (2) Projects have been cancelled. However, since the projects were included in short-term plans, they were still subject to the six-part evaluations.
 - (3) By agreement, NDOT portion \$20 million.
 - (4) Project costs included in cost for project #11.
 - (5) Stewardship not to exceed \$3.678 million. Stewardship agreements allow MPO or local governments to administer federally funded projects.
 - (6) Washoe project, NDOT contribution \$6 million.
 - (7) Stewardship not to exceed \$20 million. Stewardship agreements allow MPO or local governments to administer federally funded projects.
- * NDOT has designated the project as a "Super Project". In some cases, the project shown is just one phase of a Super Project, the estimated project cost includes only one phase.

Appendix G

Information on Super Projects

Project Title/ Description	Number of Phases	Originally Proposed By	Estimated Project Completion Date	Current Cost Estimate
I-15 Widening Las Vegas to California State Line	5	The project was included in the Department's long-range element in 1997. Phases 1 and 2 were completed in 1999 and 2000, respectively.	Early 2005 (A)	\$ 90,000,000
US 95 Widening in Northwest Las Vegas	5 (B)	The project stems from a Major Investment Study begun in December 1995 by NDOT in cooperation with the RTC of Southern Nevada, Clark County, and the Cities of Las Vegas and North Las Vegas.	Late 2006	\$ 397,500,000
I-580/US 395 from Bowers Mansion Rd. to Mt. Rose Hwy.	2	The I-580 redevelopment from north of Reno to the State Capitol has been a work in progress since 1957. In 1983, a public task force proposed the current alignment which includes the final 8.5 mile section from the Mt. Rose junction to Bowers Mansion. The proposal was endorsed by the City of Reno, Washoe County and NDOT Board of Directors and approved by the FHWA.	Mid 2007	\$ 370,000,000
US 395 Carson City Bypass	2 (B)	In 1972, the Nevada State Highway Department, FHWA, Carson City and Douglas County began a study of U.S. 395. After several years of review and study, the preferred route was approved by Carson City officials and the FHWA in 1977. The current design follows this preferred route.	Late 2009	\$ 260,000,000
US 93 Hoover Dam Bypass	Not yet determined	As early as 1965 the Bureau of Reclamation recognized roadway deficiencies at the Hoover Dam. In 1989, Reclamation formed the "Colorado River Bridge Project Management Team," comprised of federal and state stakeholders (C), to evaluate a new crossing. In 1997, governors and congressional representatives from Nevada and Arizona appealed for and received funding for design from the Secretary of Transportation.	Mid 2007	\$ 231,000,000
US 93 Boulder City Bypass	Not yet determined	The FHWA, in cooperation with the Bureau of Reclamation and Land Mangement, National Parks Service, NDOT, Boulder City, City of Henderson, RTC of Southern Nevada, Clark County Public Works, and Western Area Power Administration, is preparing an Environmental Impact Statement (EIS). The Draft EIS was released in March 2002 but no decisions have been made on a preferred route.	Unknown	Not yet determined (D)

Source: NDOT Super Project websites and NDOT records.

- (A) This is the estimated project completion date through Phase 4. The final phase, Phase 5, which will widen the northbound and southbound lanes south of Primm, is being deferred until Caltrans widens the roadway on their side of the state line.
- (B) In addition to the phases listed, the project has multiple sub-phases.
- (C) The project management team was comprised of the Bureau of Reclamation, FHWA, National Parks Service, Nevada DOT and Arizona DOT.
- (D) The draft EIS identifies three alternatives. Two alternatives follow the existing U.S. 95 corridor. The estimated cost for these alternatives is \$220 million. The third alternative, a southern bypass of Boulder City, is estimated to cost \$345 million.

Appendix H

Non-MPO/Rural Transportation Officials Survey

For non-metropolitan/rural areas, federal law requires the Department to develop their short- and long-term plans in consultation with local officials with responsibility for transportation. To help assess the effectiveness of NDOT's consultation with local transportation officials on highway planning, we sent questionnaires to the county commissions in every county, except Washoe and Clark counties.¹³ We requested the questionnaire be completed by the person(s) most knowledgeable about NDOT's consultation with local transportation officials. We received responses from 10 of 15 counties.

A copy of the questionnaire with a summary of responses received is included in this appendix. Not all counties responded to each question, therefore, the number of responses to each question is shown as "N". In addition, questions requiring a narrative response have not been summarized for purposes of this appendix.

¹³ Washoe and Clark counties were not sent questionnaires because of their official status as metropolitan planning organizations.

Appendix H

**Non-MPO/Rural Transportation Officials Survey
(continued)**

March 19, 2002
Page two

We hope the survey results will help improve the state's transportation planning process. We will provide copies of our report to all interested parties. Thank you for your cooperation.

Sincerely,



Paul V. Townsend, CPA
Legislative Auditor

PVT:rie
Enclosure

Appendix H
Non-MPO/Rural Transportation Officials Survey
(continued)

LEGISLATIVE COUNSEL BUREAU
AUDIT DIVISION
SURVEY OF RURAL TRANSPORTATION OFFICIALS

COUNTY: _____

QUESTIONNAIRE COMPLETED BY: _____

TITLE: _____

PHONE NUMBER: _____ DATE: _____

	<u>Strongly Disagree</u>	<u>Disagree</u>	<u>Neutral</u>	<u>Agree</u>	<u>Strongly Agree</u>
1. NDOT promotes an effective exchange of information with county officials in developing the Statewide Transportation Improvement Program (STIP). (N = 10) (please circle one)	0	2	1	7	0
2. NDOT promotes an effective exchange of information with county officials in developing the state's long-term transportation plans. (N = 10)	0	2	3	4	1
3. NDOT's rural consultation process was developed in cooperation with local officials. (N = 10)	0	4	1	4	1
4. Timely access to NDOT personnel is provided before decisions are "locked in". (N = 10)	0	1	3	6	0
5. NDOT selects highway capacity projects in cooperation with local officials. (N = 10)	1	2	2	4	1
6. NDOT communicates the basis for state transportation decisions. (N = 10)	0	2	4	4	0
7. NDOT's process for developing the STIP is understood by local officials. (N = 10)	1	5	2	2	0
8. NDOT provides local officials with technical assistance as needed to effectively participate in consultations on planning. (N = 10)	0	3	4	1	2

Appendix H
Non-MPO/Rural Transportation Officials Survey
(continued)

9. Does either the Board of County Highway Commissioners or Regional Transportation Commission have authority over the cities located in your county? (N=9)

Yes 3 No 6

10. In what ways has NDOT consulted with county officials in the development of the STIP?

11. In what ways has NDOT consulted with county officials in the development of the state's long-term transportation plans?

12. Is NDOT's process for developing the STIP understood for: (N=10)

How decisions are made?	Yes <u>2</u>	No <u>8</u>
What criteria are used?	Yes <u>3</u>	No <u>7</u>

13. Is a copy of the draft STIP mailed to each county commission member prior to NDOT holding the "county consultation" meeting? (N=9)

Yes 7 No 2

14. Are you satisfied with NDOT's process for developing the STIP? (N=9)

Yes 5 No 4

If not, please explain why. _____

Appendix H

**Non-MPO/Rural Transportation Officials Survey
(continued)**

15. Would you like a copy of our report? (N=10)

Yes 8 No 2

16. Other comments. _____

Thank you for responding to this questionnaire.

Appendix I

Federal Aid Programs Usage and Transferability Provisions

Program	Usage Provisions	Transferability Provisions	2001 Apportionment (millions)
National Highway System (NHS)	<ul style="list-style-type: none"> * construction, reconstruction, resurfacing, restoration, rehabilitation, and operational/safety improvements of segments of the NHS * construction of/and operational improvements for a federal-aid highway not on the NHS * highway research and highway/transportation planning * highway related technology transfer activities * capital and operating costs for traffic monitoring, management, and control facilities and programs 	<ul style="list-style-type: none"> * up to 50% of the State's NHS apportionment may be transferred to its STP, IM, CMAQ, HBRRP (Highway Bridge Replacement and Rehabilitation Program), and/or Recreational Trails apportionment * up to 100% may be transferred to the STP if certain conditions are met * any amounts transferred to the STP are not subject to the STP earmarking and subdivision requirements 	\$53.1
Surface Transportation Program (STP)	<ul style="list-style-type: none"> * construction, reconstruction, rehabilitation, resurfacing, restoration, and operational improvements for highways * highway and transit safety infrastructure improvements and programs, hazard eliminations, projects to mitigate hazards caused by wildfire, and railway-highway grade crossings * capital and operating costs for traffic monitoring, management, and control facilities and programs * surface transportation planning programs * transportation enhancement activities 	<ul style="list-style-type: none"> * Transportation Enhancements (TE) Set-aside – up to 25% of the difference between the amount set aside for TE for the fiscal year and the amount set aside for TE for FY97 may be transferred to the IM, CMAQ, NHS, HBRRP, and/or Recreational Trails apportionment * Safety Set-aside – funds made available for FY91 for the Hazard Elimination and Railway-Highway Crossing programs may not be transferred, up to 25% of the difference between the remainder of the safety set-aside for the fiscal year -the "optional safety" funds- and the comparable amount for FY97 may be transferred to the IM, CMAQ, NHS, HBRRP, and/or Recreational Trails apportionment * Suballocation to Areas – STP funds allocated to sub-state areas (population of 200,000 or under, urbanized areas with a population over 200,000) may not be transferred 	\$51.8
Interstate Maintenance (IM)	<ul style="list-style-type: none"> * projects for resurfacing, restoration, rehabilitation, and reconstruction * projects for the reconstruction or new construction of bridges, interchanges, and over crossings along existing interstate routes, including the acquisition of right-of-way * projects for preventive maintenance, but not the construction of new travel lanes other than HOV (high occupancy vehicle) lanes or auxiliary lanes 	<ul style="list-style-type: none"> * up to 50% of its IM apportionment to its NHS, STP, CMAQ, HBRRP, and/or Recreational Trails apportionments * if the IM apportionment is in excess of the State's needs for that program and the State is adequately maintaining the Interstate System, this excess may be transferred to its NHS or STP apportionments * any amounts transferred to the STP are not subject to the STP earmarking and subdivision requirements 	\$45.7
High Priority Projects (HPP)	<ul style="list-style-type: none"> * Canamex Corridor Innovative Urban Renovation Project in Henderson * construction for the U.S. 395 Carson City Bypass * extension of I-580 in Washoe and Douglas counties * improvements to the at-grade railroad crossings in Reno * widening I-15 from the California State line to Las Vegas * widening U.S. 50 between Fallon and Fernley * I-580/U.S. 395 freeway extension to Carson City * reconstruction of I-15 interchange at Sahara Ave and Rancho Rd in North Las Vegas * widening of Craig Rd in North Las Vegas * widening I-15 in San Bernadino County, CA 	<ul style="list-style-type: none"> * None 	\$42.7

Appendix I
Federal Aid Programs
Usage and Transferability Provisions
(continued)

Program	Usage Provisions	Transferability Provisions	2001 Apportionment (millions)
Minimum Guarantee (MG)	<ul style="list-style-type: none"> * based on the usage provisions of the program to which funds are allocated. * MG funds ensure that each state receives a specific share of the aggregate funding for major highway programs, with every state guaranteed at least a 90.5% return on its percentage share of contributions to the highway account of the HTF and that no state receives less than \$1 million annually. The first \$2.8 billion of the MG funds distributed each year are administered as STP funds. The amount in excess of \$2.8 billion each year is distributed to each of the 5 core programs, IM, Bridge, NHS, CMAQ, and STP based on the ratio of each core program's apportionment (for the fiscal year) to the sum of the 5 core programs (for the fiscal year) for each state. 	<ul style="list-style-type: none"> * based on the transferability provisions of the program to which funds are allocated 	\$27.1
Congestion Mitigation and Air Quality Improvement Program (CMAQ)	<ul style="list-style-type: none"> * transportation control measures to assist areas designated as nonattainment * pedestrian/bicycles off-road or on-road facilities including modification of existing public walkways * ISTEA management and monitoring systems * traffic management/monitoring/congestion relief strategies * transit (new system/service expansion or operations) * inspection and maintenance programs * alternative fuels (including clean fuel fleet programs and conversions) * travel demand management * project development activities for new services and programs with air quality benefits * public education and outreach activities * rideshare programs * experimental pilot projects/innovative financing 	<ul style="list-style-type: none"> * the State may transfer up to 50% of the amount under limited circumstances to programs including STP, NHS, IM; but funds can only be used in nonattainment or maintenance areas 	\$9.3 (Clark) \$5.2 (Washoe)

Source: FHWA, Catalog of Federal Domestic Assistance, and NDOT records.

Note: The federal participation portion is 80%-95% with the funds usually available for three years after the last day of the fiscal year for which the funds are authorized, except for HPP funds which are available until expended.

Appendix J

Response From the Department of Transportation



KENNY C. GUINN, Governor

STATE OF NEVADA
DEPARTMENT OF TRANSPORTATION
1263 S. Stewart Street
Carson City, Nevada 89712
Telephone (775) 888-7440 • Facsimile 888-7201

November 20, 2002

TOM STEPHENS, P.E., Director

In Reply Refer to:

Audit Subcommittee
of the Legislative Commission
Legislative Building
401 S. Carson Street
Carson City, NV 89701-4747

Subject: NDOT Response to LCB Audit Report on Highway Planning and Real Property Management

Dear Chairman Dini and Members of the Audit Subcommittee:

Enclosed is the NDOT response to the LCB Audit Report on Highway Planning and Real Property Management. The response is divided into two parts, one on Highway Planning and the other on Real Property Management. There are also appendices and attachments.

The LCB review of "Highway Planning" was largely limited to a review of selection, programming and funding of capacity projects. Capacity projects generally include highway widening for either congestion or safety reasons, interchanges, and new highways. In recent years, NDOT has spent about 25% of its budget on capacity projects. Most capacity projects appear in the program for a number of years, advancing from the environmental phase to design, right-of-way acquisition and finally to construction. Thus, most capacity projects are reviewed a number of times by many different people and governmental organizations in a very public process before they are built.

With regard to the 30 capacity projects reviewed in the audit, we believe they all belonged in the program. **Even a brief review of these 30 projects will show that they had good justification** for inclusion in the program and that the group taken as a whole shows a remarkable balance. Most of them had extensive evaluations and were the subject of well-reasoned judgments made through consultation, with all stakeholders. Unfortunately, **project decisions do not and should not fit into some canned formula.**

Another key issue in the audit is NDOT's use of the so called "six-part evaluation" for capacity project selection. The six-part evaluation was only intended to be used to evaluate highway widening projects outside the urban areas and then only as a threshold evaluation. It is even too simplistic for that purpose. **There is no silver bullet for project selection.**

A key issue in the audit is the level of understanding by local officials of the capacity project selection process. For starters, most capacity projects selections must conform to complicated federal procedures which are difficult to understand. **There is no doubt that NDOT tries hard to explain the process.** For example, 70% of the rural counties responding to an LCB questionnaire agreed that "NDOT promotes an effective exchange of information" and NDOT has assigned a half-dozen employees to work directly with the two urban RTCs on project selection and program development. I believe the issue here is not so much that rural and even some urban RTC employees may not fully understand the process, but rather that they do not fully agree with the result. **Everybody wants more money.**

(0)-4667A

The audit largely ignores the role of elected officials. Nearly 90% of capacity projects have to be included in the Clark or Washoe Transportation Improvement Programs. Such inclusion is reviewed by RTC staff and then voted upon by the Regional Transportation Commissions comprised of elected officials. Rural projects are voted on at county commission meetings. These projects are then included in the State Transportation Improvement Program (STIP) and voted upon by the State Transportation Board. The STIP has to be approved by the Division Administrator of the Federal Highway Administration who has more than a dozen employees in Carson City. During this nearly year long process, proposed projects are subject to scrutiny at every level of government with numerous opportunities for comment. The process truly meets the federal requirement for cooperation, coordination and consultation. Again, **there is no silver bullet.**

NDOT operates in a fish bowl. Every motorist is an expert on highway problems. Traffic is among the top public issues in Nevada because of Nevada's unbelievably fast growth and economic dependence on tourism. The importance of highway issues is recognized by the fact that four of the six statewide elected officials, headed by no less than the Governor, serve on the State Transportation Board which administers NDOT. Highways are front page news and special columns are devoted to highway issues (i.e., "Road Warrior" in the *Las Vegas Review-Journal* and "Street Beat" in the *Reno Gazette-Journal*). Few question project selections except that everyone wants more projects.

We accept the Highway Planning Audit Recommendations only because we view them as requesting better communications and documentation of our current process, not as requesting a change to that process.

NDOT's record keeping and documentation for real property management has not been changed much in the last 40 years and the Department is currently issuing a request for proposal (RFP) to develop a multimillion-dollar computerized system. While NDOT believes its current practices for identifying excess and surplus property are good, they are not well documented. Lease management practices have been improved in the past year and will continue to be improved. The Department does not agree with all of the findings and also takes exception to some of the statements in the body of the report regarding real property management. **However, NDOT can accept all of the Real Property Management Audit Recommendations and looks forward to reporting the results of their implementation.**

The voluminous attachments to this response are not obscure documents pulled from cobweb-covered file cabinets, but are regularly used to help manage the State Transportation Improvement Program. We are providing them because **we know of no other way to show that project selection and program management is well done.**

Finally, be assured that the State Highway program is in good financial condition. Debt is low, income is steady and the State Highway Fund is healthy.

Sincerely,



Thomas E. Stephens, P.E.
Director

Attachments

State of Nevada
Department of Transportation
Highway Planning and Real Property Management

Audit Report Response

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PART I of NDOT Response to
LCB Audit Report on Highway Planning and Real Property Management
Response to Highway Planning Review
(November 20, 2002)

1. Summary:

NDOT does not agree with many of the comments in the audit report. The capacity project evaluation and selection process is much more complex and involves many more entities than described. The process, with all its complication and judgmental factors has served Nevada well and has resulted in a good, well-balanced highway program.

The State Highway program is in good financial condition. Debt is low, income is steady and the State Highway Fund is healthy. The large projects in the program will be constructed over a number of years and prudent levels of bond financing will provide needed funding. In the longer term, additional revenues will be needed to address the shrinking fuel tax dollar which is not adjusted for inflation. There is also some uncertainty about increases in federal funding since the reauthorization of six-year federal transportation bill will likely be delayed a year. Cash flow is monitored in great detail on a weekly basis. If the current revenue pictures changes, the State Transportation Board will slow down the program to maintain its sound financial foundation.

NDOT accepts the Highway Planning Audit Recommendations only because we view them as requesting better communications and documentation of our current process, not as requesting a change to that process.

2. Introduction:

The LCB review of "Highway Planning" was largely limited to a review of selection, programming and funding of capacity projects. Capacity projects generally include highway widening for either congestion or safety reasons, interchanges, and new highways. In recent years, NDOT has spent about 25% of its budget on capacity projects. Most capacity projects appear in the program for a number of years, advancing from the environmental phase to design, right-of-way acquisition and finally to construction. Thus, most capacity projects are reviewed a number of times by many different people and governmental organizations in a very public process before they are built. With regard to the review of 30 so-called "capacity projects" which LCB auditors used as the basis for many of their conclusions, the proof is in the pudding.

The audit largely ignores the role of elected officials. More than 80% of capacity projects must first be included in a regional Transportation Improvement Program (TIP) reviewed by a sophisticated, well-paid RTC staff and then voted upon by the Regional Transportation Commission comprised of elected officials. Rural projects are presented and voted on at the county commission meetings of every rural county. Then the projects must be included in the State Transportation Improvement Program (STIP) and voted upon by the State Transportation Board which is headed by the Governor and has three other statewide elected officials as members as well as three appointed regional representatives. Elected officials make the approvals, not NDOT staff.

NDOT only controls funding for the State, not the local highway program. Over 90% of money in NDOT's budget, whether state or federal funding, is for expenditure on the state highway system. Most of that money is spent on preservation of the state highway system. Capacity projects are nearly all done to address safety or congestion relief issues. NDOT, not the local governments, are held responsible for the State Highway system which carries over 60% of the vehicle miles traveled and over 80% of the truck miles traveled in the state. Nearly 90% of all pavement deterioration of all paved roads, both state and local, is on state roads. With the notable exception of the Las Vegas Beltway, there are few locally maintained roads with speed limits exceeding 55 MPH.

Local entities have their own funding stream for transportation consisting of up to 15.35 cents per gallon of the gas tax compared to 17.65 cents per gallon available to NDOT except for \$33 local entities get the vehicle registration fee. Local governments also utilize a menu of added local taxes for transportation which vary by local jurisdiction but include such items as sales taxes, a developer impact fees, and surcharges on the vehicle registration fees, and hotel room taxes. Thus, NDOT's funding should be primarily spent on the State Highway System and NDOT should strongly advocate for the most needed projects.

Contrary to what might be inferred from the audit report, even a brief review of these 30 projects will show that they had good justification for inclusion in the program and that the group taken as a whole shows a remarkable balance based on extensive project evaluations and well-reasoned judgments made through consultation, coordination and cooperation with all stakeholders. Unfortunately, these decisions do not and should not fit into some canned formula.

The Nevada Department of Transportation has a large, professional staff which has done an outstanding job serving the needs of the nation's fastest growing state. (See Attachment 3A, NDOT Organization Chart) They are not only doing things right, they are doing the right things.

3. Comments on LCB's Principal Findings:

A. Evaluation of Capacity Projects:

The first issue here is that NDOT publishes a booklet entitled: *Project Evaluation Report and Submittal Forms*. (See Attachment 1A.) The booklet contains a project scoring system based on six criteria: the volume to capacity ratio, functional classification, number of through lanes, percent change in the volume to capacity ratio, 10-year projected percent increase in traffic volume and benefit cost ratio. The "six-part evaluation" is not used for most capacity projects nor should it be. The six-part evaluation was only meant to be applicable to widening projects outside the urban areas and then only as a threshold evaluation. It was never intended to apply to anything except highway widening projects outside Clark and Washoe counties which applies to just four of the thirty projects reviewed by the audit.

Five parts of the six-part evaluation can be done in just a few minutes for practically any section of highway using a Functional Classification Map and the *Annual Traffic Report*. (See Appendix 1) This methodology is overly simplistic and provides questionable results. As the LCB audit discovered, NDOT does not rely on this six-part evaluation even for most rural capacity projects and, therefore, the NDOT document should be revised and expanded to explain how projects are really evaluated.

The second issue relating to this finding is the evaluation of projects in Clark and Washoe counties. Extensive project evaluations are done by NDOT and/or the Regional Transportation Commission. For the larger projects, these evaluations can cost millions of dollars. Federal requirements dictate that a project cannot be done unless the Regional Transportation Commission votes to include the project in its Regional Transportation Improvement Program (TIP). Evaluation procedures have not been standardized and while most projects have merit, inclusion of a particular capacity project in the program often comes down to a negotiation process within the RTC membership.

NDOT advocates for inclusion of the most-needed congestion relief projects on the state system since NDOT is directly responsible for the freeway systems in the urban areas with the notable exception of the Beltway. Obviously most of the money in the State Highway Program is for use on the State Highway System. As previously noted, local governments have extensive funding sources to improve the local system and they also often apply their funds to adding development-driven interchanges to the state's freeway system. However, NDOT has no authority to dictate specific project selection criteria to the metropolitan Regional Transportation Commissions.

B. Selection of Capacity Projects:

The use of the term "prioritization" in the audit is confusing with regard to how capacity projects are placed in the State Transportation Improvement Program (STIP). Projects are only prioritized by their placement in the STIP for a given year. (See Attachment 2A for a copy of the 2002-2011 STIP.) For example, a FY03 project gets done before a FY04 project, but there is no ranking of FY03 projects. The Department's goal is to deliver all the programmed projects within their designated years. As projects are developed, some of them encounter unanticipated delays which cause them to be automatically reprogrammed into the next year. Large projects are often divided into phases which appear in different years but do not require re-justification for each subsequent phase. For example, the widening of US95 in northwest Las Vegas and the widening US50/50A between Fernley and Fallon are both multi-year phased projects whose phases appear as separate projects in different years without the need for separate justifications. Only a few projects are ever canceled due to issues raised during development.

The programming is driven by the federal requirements since most capacity projects of any size will use federal funding or will likely use federal funding. A general description of the Federal process is contained in 23 CFR, Part 450. (See Attachment 2C, Code of Federal Regulations CFR 23, Highways, Part 450 Planning Assistance and Standards.) For the two large urban areas the federal government sets forth a process of consultation with the Regional Transportation Commissions which are designated as Metropolitan Planning Organizations (MPO). Under the federal procedures before a capacity project can be programmed for federal funding, it must be approved by the MPO and included in the State Transportation Improvement Program (STIP). Thus, both the RTC and the State Transportation Board must approve each project in an urban area.

Because 86% of Nevadans reside in Washoe and Clark counties, nearly all the capacity projects are in these two urban areas. For example, 22 of the 25 FY03 capacity projects in the recently approved 2003-2012 STIP are in Clark or Washoe. Many of these projects have been in the program for years and have now advanced to the construction stage. For example, US95

Widening in Las Vegas was launched with a Major Investment Study in late 1995; the widening of I-15 between Las Vegas and Los Angeles was an earmark in ISTEA in 1991; the Hoover Bridge started out in a Congressional bill in the 1980's; the Carson City Bypass had environmental work done in the 1980's; and the completion of a freeway between Reno and Carson City has been in progress since the 1960's.

Every year these metropolitan area projects must be taken to the RTC's technical advisory committee which makes recommendations to their respective Regional Transportation commissions for which projects to include in the Regional Transportation Improvement Program (TIP). Well in advance of this, the NDOT Program Development Office, with offices in Carson City and Las Vegas, has been working closely with the RTC staffs to develop the program. By federal law, no projects with federal money or on the federal system in either Clark or Washoe counties can be put into the STIP without first being in the regional TIP. The State Transportation Board must either approve or disapprove the regional TIP in its entirety and cannot "line-item veto" projects it does not like.

As noted above, inclusion of a particular capacity project in the program often comes down to a negotiation process within the RTC membership. This is often left to the technical advisory committees of the RTCs whose membership includes the public works directors of the various governmental entities whose elected representatives serve on the commissions. Both urban RTCs have 12-member technical advisory committees who monthly review all the highway items to come before their commissions. NDOT staff maintains that state highway money including most of the federal highway money should be spent on the state system and NDOT advocates for the projects it considers to be most important.

The audit points out that theoretically the NDOT director can reject the regional Transportation Improvement Program (but not individual projects) and, thus, not do any capacity projects in the metropolitan area for that year. The notion that the director of NDOT would unilaterally use his authority to reject either the Clark or Washoe county regional Transportation Improvement Programs is laughable. Any director who would do such a thing without a vote of the State Transportation Board would have a very short tenure. The capacity project selection process is one of cooperation, not of confrontation.

With regard to capacity projects in the 15 rural counties, there is a consultation process with county commissions who, according to Nevada law, have exclusive control over matters pertaining to public highways in their counties. (see NRS 403.085) Senior NDOT officials make presentations at each rural county commission meeting in the state and request that the commission approve the proposed program. (See attachment 2B, FY2003 County Consultation Notes.) NDOT tries to work with staffs of all counties prior to the presentation to the county commission but in the 8 counties with populations of under 10,000, this often does not happen because there are small staffs focused on other matters. NDOT feels there are good communications with the more specialized staffs of the 7 larger, rural counties (i.e., CC, CH, DO, EL, HU, LY and NY). It should be noted that Carson City just made MPO status and thus the MPO procedures will apply. Likewise the Lake Tahoe portion of Douglas County is part of the special Tahoe MPO under the TRPA.

There are fewer than a dozen capacity projects in the rural areas and these have been the subject of a great deal of attention from the State Transportation Board at their meetings. Most of the time these projects were originally proposed by NDOT due to congestion or safety issues. Not infrequently they have been proposed by the county, often with an offer to provide some funding toward the project.

Additionally, NDOT, by law, obtains resolutions of support from cities and counties in conjunction with all projects to construct new highways or freeways or to add interchanges to existing freeways. And just in case there is anything else that has been left unexamined, NDOT has a Statewide Transportation Technical Advisory Committee (STTAC) made up representatives of cities, counties, state governmental agencies and others who take a look at the STIP before it goes to the State Transportation Board for approval. (A list of the STTAC membership is on page 18 of the NevPLAN which is attachment 3B.)

Once the STIP is approved by NDOT it must then be approved by the Federal Highway Administration (FHWA) and the Federal Transit Administration (FTA). This approval is not automatic and it is not uncommon that either the FHWA or FTA will send the STIP back for changes usually with regard to something in a regional TIP that may be unclear or not calculated correctly. There are many federal technical details.

With regard to the audit finding, NDOT does not dictate the process for inclusion of capacity projects in the regional Transportation Improvement Programs. As noted, it is often a process of negotiation among meritorious projects. To some extent this is also true of the few capacity projects that are in the rural areas which comprise only 10% of the state's population. However, we can and will outline some of the criteria involved in project evaluation and describe the approval process which is basically outlined above.

C. Stakeholder Understanding:

The use of the term "prioritization" is confusing with regard to inclusion of capacity projects in the State Transportation Improvement Program (STIP). Projects are only prioritized to the extent that they are placed in the STIP for a given year. (See attachment 2A for a copy of the 2002-2011 STIP.) The Department's goal is to deliver all the programmed projects within their designated years. As projects are developed, some of them encounter unanticipated delays which cause them to be automatically reprogrammed into the next year. Large projects are often divided into phases which appear in different years but do not require separate justification. For example, the widening of US95 in northwest Las Vegas and the widening US50/50A between Fernley and Fallon are both multi-year phased projects whose phases appear as separate projects in different years without the need for separate justifications. Only a few projects are ever canceled due to issues raised during development.

The previously described federal process for developing the state transportation program is extremely complex. The Federal Highway Administration attempts to explain the process including fund categorization with little success. (see Attachment 4B, Financing Federal Aid Highways.) The process often becomes one of coordination and consultation among various stakeholders. NDOT is not surprised that rural county and even some MPO employees may not understand the complex federal or the consultive nature of project selection process.

With regard to the LCB poll of the rural counties, eight of the fifteen rural counties have populations of less than 10,000 people and do not have a lot of employees working on capacity project programming. NDOT does try to work with interested county staff both from Carson City and the District Office level. (Note: NDOT has district offices in Elko, Ely, Las Vegas, Reno, Tonopah, and Winnemucca.) NDOT District or Assistant District Engineers often become advocates for capacity projects in their districts. Each year senior NDOT officials make presentations to each county commission meeting in the state. (See attachment 2B, FY2003 County Consultation Notes.) It is no wonder that 70% of the respondents to the LCB poll felt that NDOT promotes an effective exchange of information. NDOT is going to work to get 100%. Because capacity projects are being done in only four rural counties, NDOT is not surprised that there may be a feeling in some counties that capacity projects are not selected in cooperation with local officials. The NevPLAN is an attempt to provide an overview of the forecasting for future transportation needs. (See attachment 3B.)

With regard to the RTC of Southern Nevada and the Washoe RTC, NDOT believes that they do, in fact, understand how they put together their own Transportation Improvement Programs which must include all capacity projects in their jurisdictions.

Seven years ago NDOT established the Program Development Office to work mainly with the two urban Regional Transportation Commissions in development of their regional Transportation Improvement Programs in order to avoid impasses between the regional TIP and the STIP, and help the RTC insure their TIPs meet federal requirements. This office reports to the Director. (See Attachment 3A, NDOT Organization Chart.) Prior to 1996 the employee at NDOT responsible for the STIP was buried within the Planning Division at the same level as the bicycle coordinator. The NDOT Program Development Office currently has four employees in Southern Nevada and five in Northern Nevada whose primary mission is to coordinate the development of the urban and state Transportation Improvement Programs. While each of the urban RTCs would like more state money spent in their areas, NDOT advocates a coordinated and balanced statewide program.

D. Selection of Preservation Projects:

NDOT has worked very hard to develop an award-winning maintenance management program which has greatly improved the condition of the state highway system. NDOT appreciates the recognition from the LCB Audit of the merits of the preservation program.

E. Allocation of Funding Among Categories:

Most capacity projects involve federal funding. Because NDOT plans to repay nearly all bond funding with future federal funding, bond money expenditures also have to adhere to federal requirements. Although there is an appendix attached to the LCB audit report summarizing broad federal funding categories, the allocation of federal funding is much, much more complex than indicated by this chart. NDOT has many employees devoted to federal financial issues.

NDOT uses the guidelines in federal law and well as the allocation information provided by the Federal Highway Administration to allocate funds among categories. (See Attachment 4A, Financial Management Status of Funding Report and Attachment 4B, Financing Federal Aid Highways.) The federal funding is allocated in the STIP among various projects. During the

course of the year, especially in the last quarter, funds are shifted to insure that all federal money is obligated by the September 30 deadline. The Prime Directive is "Thou shalt not lose any federal money at the end of the year."

As noted above, except for certain categories such as CMAQ and local STP, state and federal funding is not allocated by jurisdiction. Local entities have their own funding stream for transportation consisting of up to 15.35 cents per gallon of the gas tax (note the state gas tax is only 17.65 cents per gallon) and the vehicle privilege tax (the state only gets \$33 a vehicle out of the registration). Local governments also utilize a menu of added local taxes for transportation which vary by local jurisdiction but include such items as a sales tax, developer impact fees, surcharges on the vehicle registration fees, and hotel room taxes. It should be noted that this situation where local governments levy significant gas and other taxes is relatively unique to Nevada. In most other states, a large state gas tax of perhaps 30 cents per gallon is levied and then the state DOT distributes or allocates a portion of it to various local jurisdictions. This of course requires such state DOTs to have procedures to allocate funds which are not needed in Nevada since the locals get a direct allocation set by the Legislature.

Further, over the years we try to insure that there is a balance between various areas (e.g., rural to urban, maintenance to capacity, etc.). While there is no set formula for this division, NDOT feels the efforts have been successful. (See Attachment 4C, Highway System & Funding Overview.)

F. Long-Term Financial Planning:

NDOT's financial planning is good in the five year time frame and adequate out to about 10 years. For example, 10-year cash flow projections were presented to the 2001 Legislature and the STIP extends to 2011. NDOT also does very detailed project specific cash flow projections for the next 10 years. Beyond 10 years is a great unknown. The recently adopted NevPLAN provides a general forecast of future transportation needs of the state (See Attachment 3C.) but does not have specific financial projections. It would be easy enough to extend the 10-year financial forecast to 20 years but not advisable to place much reliance on it because of federal funding uncertainties.

G. Issuance of Bonds:

The last issuance of bonds in 2000 was approved by the State Transportation Board and the State Board of Finance. Additionally, the Legislative Interim Finance Committee approved the expenditure of these bond funds. NDOT certainly agrees with the statement in the LCB audit report that the analysis for issuing bonds was reasonable. The Department's justification for this issuance was detailed in the memorandum accompanying all of the requests for these approvals. Similar reasoning would be used for future bond issuances and NDOT has no objection to incorporating this reasoning into a formal written policy for the issuance of bonds.

4. Response to Audit Recommendations:

A. Recommendation #1, Capacity Project Evaluation: *Evaluate all capacity projects, proposed by or submitted to NDOT for inclusion in the Department's plans, in accordance with Department procedures and document the project evaluations.*

NDOT does not dictate the criteria for evaluation of capacity projects for Clark and Washoe counties. However, NDOT does extensive project evaluations to support its recommendations to the RTCs. Rural capacity projects are also evaluated. NDOT can summarize the criteria used by NDOT to evaluate projects. The project evaluation booklet will also be revised to reflect actual practice. On this basis, NDOT accepts this audit recommendation.

B. Recommendation #2, Process for Placing Capacity Projects in Program: *Develop a written process that specifies the criteria used in determining how capacity projects are placed in short-term plans.*

NDOT participates in but does not dictate the process for placing capacity projects in Transportation Improvement Programs in Clark and Washoe counties. A great deal of judgment is used with no small amount of negotiation among the parties. To some extent, this is also true of the few capacity projects that are in the rural areas. However, NDOT can summarize the criteria used by NDOT to make recommendations and describe the approval process which is basically outlined in this response. On this basis, NDOT accepts this audit recommendation.

C. Recommendation #3, Stakeholder Understanding: *Prepare and make available to decision-makers and stakeholders a summary of the Department's analysis used annually to determine which projects are included in short-term plans.*

NDOT does not dictate the process for inclusion of capacity projects in the urban areas' Transportation Improvement Programs. As noted, it is often one of negotiation. To some extent, this is also true of the few capacity projects that are in the rural areas which comprise only 10% of the state's population. However, NDOT can summarize the analysis done by NDOT to make recommendations and describe the approval process which is basically outlined in this response. On this basis, NDOT accepts this audit recommendation.

D. Recommendation #4, Category Funding Allocation: *Document the process, including criteria and guidelines, for allocating funds among project categories.*

NDOT accepts this recommendation to further document the current process.

E. Recommendation #5, Long-Term Financial Planning: *Include in the Department's long-term plan the projected revenues, expenditures for major categories, and alternatives for addressing any funding shortfalls.*

NDOT agrees that long-term financial planning beyond the year 2011 is not currently addressed. It would be relatively easy to extend NDOT's 10-year financial projections to 20 years but not advisable to place much reliance on them. The current policy to delay bid openings if cash flow projections show a future funding shortfall can be formalized. Therefore, this recommendation is accepted.

F. Recommendation #6. Debt Management Policies: *Establish debt management policies and procedures, including the purposes and conditions when debt may be issued, types of debt and maturity terms, and the analysis that should be prepared to ensure future transportation needs can be met.*

NDOT used sound procedures to analyze the last bond issuance which is NDOT's only outstanding debt. Therefore, NDOT accepts this recommendation and will use the procedures used for the December 2000 Bond issuance as a model to formalize NDOT's debt management policies as well as add additional commentary on issues such as arbitrage.

PART II of NDOT Response to
LCB Audit Report on Highway Planning and Real Property Management
Response to Real Property Management
(November 20, 2002)

1. Summary:

NDOT's record keeping and documentation in the real property area have not been modernized in the last 40 years, and the types of documents necessary for a particular right-of-way concern are diverse and generally contained in files that are not centrally located in the Department. To address this, the Department is currently issuing a Request for Proposal to develop a computerized system that will automate the business process, thereby improving the efficiency of delivery and tracking of information relative to right-of-way concerns. While NDOT believes its current practices for identifying excess and surplus property are good, they are not well documented. Lease management practices have been improved in the past year and will continue to be improved. As noted below, the Department does not agree with all of the findings. However, NDOT can accept all of the recommendations and looks forward to reporting the results of their implementation.

2. Introduction:

The acquisition of right-of-way is critical to constructing greatly needed highway projects is the most important points of the Department's Right-of-Way Division. The acquisition of right-of-way is also becoming increasingly complex and costly due to new requirements and higher property values. NDOT recognized the need to increase its capacity to acquire right-of-way and has added 16 staff to the Division since 1999, for a total of 93 staff, as well as hired consultants to address right-of-way needs for important highway projects. While important, documentation related to the management and disposal of right-of-way has not been the main focus of the Right-of-Way Division. The current right-of-way system at NDOT has been in place for over 40 years and has not been significantly automated with the advent of the information age. We agree that we need to use modern tools to improve accessibility and inventory of the information relative to right-of-way concerns for the Department, even though developing this system will be costly and time consuming.

3. Comments on LCB's Principal Findings:

A. Inventory of Land:

The audit report indicates that NDOT does not have an inventory of land it owns and the status of those properties. NDOT does not have a single inventory showing the real properties owned and the status of those properties: Historically, the Department did not have a need for a single inventory. Real property information has been maintained and made available upon request for all NDOT projects. The information can be provided through a search of a specific project, route name, milepost, township and range, intersecting streets or any other location information. The types of documents necessary for a particular right-of-way concern are diverse and are generally contained in files that are not centrally located in the Department. Documents are in the form of maps and agreements that are decades old, all of various sizes, configurations and made of differing materials. We agree that we need to use modern tools to improve accessibility and inventory of the information relative to right-of-way concerns for the Department.

B. Excess Property Determinations:

The audit report indicates that NDOT did not have evidence that excess property determinations were made for 15 completed projects totaling \$85.1 million reviewed by the auditors. Excess property is different than surplus property. Excess property is property acquired for a specific project, but is not needed for that specific project after it is completed. Surplus property is property that is no longer needed for any highway purposes.

NDOT does not often retain excess property because Nevada Revised Statute 408.487 requires that NDOT can only acquire real property it considers necessary for specific highway purposes. However, there are times when an entire parcel is acquired for a project even if only a portion is needed. These “total takes” are used to avoid paying more expensive severance damages to the remaining parcels. In the past, properties have not been determined to be excess until completion of the project for which it was acquired. Changes during the construction of a project can result in an adjustment to the final right-of-way limits. While these acquisitions may be excess to the project, they may not necessarily be surplus to the Department’s needs because they may be needed for future highway purposes.

The Right-of-Way Division has not been consistently documenting the determinations of excess property at project closeout. This is done when a project is completed and the final bills are paid and can take many years because there may be outstanding litigation to be settled. NDOT will assure that excess property determinations are documented.

C. Third Party Requests for Surplus Determination:

The audit report indicates that NDOT generally relies on requests from third parties to sell or lease and that relying on third parties is not the most effective property management method and may not maximize benefit to the State.

Surplus property determinations are generally made in response to an inquiry from a third party. During the time frame reviewed in the audit, NDOT received 115 third party requests for surplus property. NDOT does not have the staff to determine which of its thousands of individual pieces of right-of-way might be surplus and should be sold or leased.

The report also indicates that some properties have low values and cannot be sold or leased economically, but that NDOT has other properties of considerable value. Two parcels recently appraising at excess of \$9 and \$16 million were cited as examples. NDOT does work with local entities to identify parcels with high value potential. Given current staffing levels, NDOT has balanced the need to retain right-of-way for future highway purposes with enhancing revenues to the State Highway Fund by selling high value properties.

D. Rules for Disposing of Surplus Property:

The audit report indicates that although policies and procedures provide rules for disposing of surplus property, some requirements were not followed. The report found that 28 surplus property requests required to be reviewed by the Surplus Property Committee did not go through the Committee, and that in four instances, NDOT lacked appraisals supporting that properties were exchanged for reasonably close values.

Surplus property determinations are generally made by the Department's Surplus Property Committee, which is chaired by the Assistant Chief Right-of-Way Agent. Committee recommendations to approve disposal of a property are forwarded to the NDOT Director who then requests final approval by the State Transportation Board of Directors pursuant to NRS.533.408. Because of Nevada's rapid growth, the Committee denies most requests. NDOT does not want to be in the position of having to re-acquire property that it previously owned. The Committee has also authorized the Chairman to deny certain requests without going through the Committee. These include requests for right-of-way from the interstate highway system, and property needed for an ongoing or future project. Other requests for disposal may not go through the Committee before they are presented to the Transportation Board for consideration. These include road exchanges where NDOT is abandoning or relinquishing its interest in highway, and disposals as a result of executed agreements with local governmental entities. The State Transportation Board of Directors has established a policy to turn over ownership and maintenance responsibilities for local streets to the cities and counties, so that NDOT can concentrate its resources on the state highway system. Twenty-six of the 28 properties cited in the audit were not required by policy to go to the Surplus Property Committee. The other two could not be tracked with the name provided by the auditors.

We disagree with the reference to four instances where NDOT lacked an appraisal supporting exchanges. Three of the four instances were part of a right-of-way settlement agreement for potential damages relating to Spring Mountain Interchange and Fashion Show Drive. The agreement contained a listing of the value of the properties in consideration for damages. The other exchange was with the USFS and State Lands for property on SR 28 for a joint project. Typically appraisals are not done for these types of exchanges.

E. Lease Monitoring:

The audit report indicates that NDOT has not established effective lease monitoring and collection processes. NDOT properties that have not been declared surplus, may be available on an interim basis for temporary uses such as landscaping or parking. NDOT leases property on a case-by-case basis or solicits leases as follow-up to the excess property determinations. NDOT's Right-of-Way and Accounting divisions maintain a listing of the lease agreements. The Accounting Division automatically bills lessees for payment even when the lease has expired. Lessees who do not pay their bills to NDOT are referred to NDOT's Legal Division.

NDOT agrees that there can be better documentation on the expiration dates of the agreements.

F. Property Management Procedures:

The audit report indicates that NDOT did not have evidence it always complied with property management laws and Department procedures. NDOT agrees that property management practices were not always followed. With the current workload, staff is not available to provide sufficient property management to the hundreds of leases maintained by the Department. NDOT has requested additional staff, but they have been utilized to meet the demands of acquisition for projects.

G. Property Inventories:

The audit report indicates that the Department's inventories of properties it leases are not accurate, and that without a complete inventory, agreements may not get renewed, payments may go uncollected and properties may not get inspected. NDOT's Right-of-Way and Accounting Division's maintain a listing of the lease agreements. However, NDOT agrees that the accuracy of the inventories can be improved.

H. Acquisitions:

The audit report indicates that although acquisition files were missing some information, for the 70 properties tested nothing came to the auditor's attention to indicate that these property acquisitions were not completed in accordance with key laws, regulations and policies. NDOT agrees with this audit finding.

4. Response to Audit Recommendations:

A. Recommendation #7, Inventory System: *Continue developing the real property inventory system, including procedures to list properties and identify each property's status.*

Real property historically has been accounted for with a parcel numbering system with property documents filed in thousands of folders. Parcel numbers are also used on right-of-way and construction plan sheets, which show the property improvements. These are filed by projects utilizing the milepost identification system. Retrieval of information on individual parcels is a time consuming process of reviewing extensive paper documents and plan sheets. There is no comprehensive summary, much less an automated summary. Except for high value properties, current status is not assessed unless there is a specific inquiry about the parcel usually generated by either a proposed construction project or someone interested in acquiring surplus property.

NDOT has recognized the cumbersome nature of our antiquated right-of-way records system and for the past year has been working on developing a Request for Proposal (RFP) to hire a consultant to help us modernize our system. Appendix II-A is a description of the solution we proposed to the State Transportation Board. Attached to this appendix are the briefing memos on this subject from our Board Meetings of May 24, 2001, June 4, 2002, and November 14, 2002.

Because we have been working on this issue for the past two years, this is a reasonable recommendation to accept. However, it will probably take three to five years to get our records reorganized and the system automated.

B. Recommendation #8, Excess Property: *Document excess property determinations and establish criteria for determining when excess property should be left idle, leased, or referred to the Surplus Property Committee.*

Often the terms "excess" and "surplus" property are confused. *Excess* property is property that was not needed for the last construction project. It is in *excess* to the particular project. With the growth of the state and the changing requirements of the highways (e.g. sound walls, improved drainage, new guard rail standards, lighting etc.), most *excess* property may well be needed for future projects and is thus held in reserve for the future. A small portion of the *excess* property

may indeed be *surplus* to all likely future needs and could thus be sold, abandoned or relinquished. Because it is often expensive to determine what *excess* property is *surplus* (e.g. analysis of future highway needs, land survey of the property, legal description of the portion of the original parcel that is surplus, etc.) NDOT generally does not analyze a piece of *excess* property to determine if it is *surplus* unless an inquiry is received from someone who wants to acquire the parcel or where the parcel has a relatively high value which would justify the expense of the analysis and the marketing of the property.

However, we do agree that *excess* property reviews should be documented after each project. Also, NDOT will formalize the current criteria used to determine if property will be leased or referred for a surplus determination. Therefore, NDOT accepts recommendation #8.

C. Recommendation #9, Surplus Property: Follow established procedures for requiring all requests for disposals of surplus property, abandonments, and relinquishments be reviewed by the Surplus Property Committee and track requests noting key information.

As noted earlier, the terms "*excess*" and "*surplus*" property are confused. *Excess* property is property that was not needed for the last construction project. It is in *excess* to the particular project. With the growth of the state and the changing requirements of the highways (e.g., sound walls, improved drainage, new guard rail standards, lighting etc.) most *excess* property may well be needed for future projects and is thus held in reserve for the future. A small portion of the *excess* property may indeed be *surplus* to all likely future needs and could thus be sold because it is often expensive to determine what *excess* property is *surplus* (e.g. analysis of future highway needs, land survey of the property, legal description of the portion of the original parcel that is surplus, etc.) NDOT generally does not analyze a piece of *excess* property to determine if they are *surplus* unless an inquiry is received from someone who wants to acquire the parcel or where the parcel has a relatively high value which would justify the expense of the analysis and the marketing of the property.

In some cases it is relatively easy to determine when a property is not surplus and should be held for future use. Such obvious examples may not be referred to the surplus property committee with the determination being made by a senior NDOT manager. Likewise, the relinquishment of a highway to a city or county pursuant to Department policy does not need to be reviewed by the Surplus Property Committee. However, these determinations need better documentation. Surplus property determinations that are referred to the Surplus Property Committee are well documented in the minutes of its meetings. Criteria for exceptions to submitting surplus property requests to the Committee and to determinations made by the Committee could also be better defined.

Therefore, NDOT accepts Recommendation 9 and will better document all surplus property determinations and clarify the criteria and process used.

D. Recommendation #10, Disposal and Leasing Records: *Maintain records supporting compliance with disposal and leasing requirements.*

NDOT already maintains extensive documentation regarding disposal and leasing. However, the system has not been automated to provide summaries or identification of when leases need to be renewed. NDOT should improve and modernize its business practice in this area and thus accepts Recommendation # 10.

E. Recommendation #11, Reviews by Surplus Property Committee: *Develop a process for tracking and monitoring leases to ensure all agreements are up-to-date, property management requirements are met, and collection efforts are made as outlined in the property management manual.*

As noted in the discussion of Recommendation #10, there is a need to improve and modernize NDOT's business practice with regard to leases. NDOT currently leases dozens of parcels of property. Past record keeping methods allowed some leases to lapse before renewal, but in most cases the lessee has continued with lease payments thus avoiding any loss of revenue to the State. Also, collection of past due payments had not been pursued as vigorously as would be the case in the private sector.

NDOT took steps last year to reduce the likelihood of lapses by creating a new, manual filing system and involving our Accounting Division which regularly reviews leases on a routine basis. Also, our Accounting Division implemented written debt collection procedures and has been working closely with the Controller's Office to improve collection of past due lease payments as well as other debts to NDOT. As of November 2002, there are 9 lessees who are 90 or more days past due for a total amount of \$37,590. However, 4 of the lessees are in bankruptcy and the total amount they owe is \$22,381.

NDOT accepts Recommendation 11 and will continue working on improving processes to track and monitor leases and to improve the collection of debts.

APPENDIX 1: Evaluation of Capacity Projects
PART I of NDOT Response to
LCB Audit Report on Highway Planning and Real Property Management
Response to Highway Planning Review
(November 20, 2002)

As described in the body of the response, project evaluation is a very complex process. Unfortunately the LCB Audit concentrates on the use (or more correctly the lack of use) of the so called six-part evaluation.

The six-part evaluation is in the booklet entitled *Project Evaluation Report and Submittal Forms*. This is a booklet that NDOT Program Development Office published setting forth a simple methodology for evaluating widening of highways in rural counties as well as for submission of non-capacity projects. As described in the booklet, this is a two step process. The first step is a project scoring system based on six criteria: the volume to capacity ratio, functional classification, number of through lanes, percent change in the volume to capacity ratio, 10-year projected percent increase in traffic volume and benefit cost ratio. The second step is a project selection process based on an extensive review. Unfortunately the impression is left that if the project passes the first step, then it gets in the program.

The auditors were told by NDOT that the six-part evaluation did not apply to project selections in Washoe and Clark counties (see page 18 of the LCB Audit Report) and contrary to the impression left in the audit report, the State Transportation Board was never told that NDOT uses the six-part test on all projects. Of the 30 projects selected by the auditors, only 4 are highway widening projects in rural areas, and 2 of these are different phases of the same project (Numbers 1 and 26 in Appendix F of the LCB Audit Report). The six-part test is even too simple for these four projects and NDOT needs to revise this booklet to clearly explain its use.

The discussion of the STIP at the September 21, 1999 Transportation Board meeting contained in Attachment 1D validates the consultive nature of the project evaluation and selection for inclusion in the program.

Description of Attachments to Appendix 1

Attachment 1A. *Project Evaluation Report and Submittal Forms* (Revised October 1999). This is a booklet that NDOT Program Development Office published setting forth a methodology for evaluating widening of highways in rural counties as well as for submitting non-capacity projects. As described in the booklet, this is a two step process. The first step is a project scoring system based on six criteria: the volume to capacity ratio, functional classification, number of through lanes, percent change in the volume to capacity ratio, 10-year projected percent increase in traffic volume and benefit cost ratio. The step is a project selection process based on an extensive review.

Attachment 1B. *Functional Classification Maps*. This is a set of maps which designates the functional classification for all significant streets, roads, and highways in Nevada.

Description of Attachments to Appendix 1 (continued)

Attachment 1C. 2001 Annual Traffic Report. This is a 426 page book which contains traffic counts for over 4,000 locations for the past ten years. It is the very basic document to quickly determining if a section of roadway is becoming or may soon become congested and thus may be a candidate for widening or other capacity improvement.

Attachment 1D. Excerpt from the September 1999 Transportation Board of Directors Meeting. This is a ten page discussion between Kent Cooper and the State Transportation Board regarding project evaluation. It should be noted that Mr. Cooper's comments were in response to questions from the Board and not part of the prepared presentation.

APPENDIX 2: Selection of Capacity Projects
PART I of NDOT Response to
LCB Audit Report on Highway Planning and Real Property Management
Response to Highway Planning Review
(November 20, 2002)

The attachments to this appendix provide a glimpse of some of the elements of the project selection process. Although NDOT is required to follow the federal process only for those projects involving federal funding, NDOT uses the same process of consultation for nearly all projects. Setting up a separate system for non-federal projects would be confusing and time consuming. The process allows extensive input from all stakeholders.

Description of Attachments to Appendix 2:

Attachment 2A. Transportation System Projects 2002-2011 (Approved October 1, 2001). This is a 305 page document which was presented to the State Transportation Board in September 2001. This is NDOT's basic work plan.

Attachment 2B. FY 2003 County Consultation Notes (August 8, 2002). This is a 52 page copulation of notes from the county tours in 2002 at which senior NDOT officials presented each county's portion of the proposed STIP and annual work program to the county commission for approval.

Attachment 2C. Code of Federal Regulations CFR 23, Highways, Part 450 Planning Assistance and Standards (Revised April 1, 2002). This is a 12 page excerpt from the 530 page 23CFR which governs the federal highway program. This section describes the planning process at the state and MPO level.

APPENDIX 3: Stakeholder Understanding
PART I of NDOT Response to
LCB Audit Report on Highway Planning and Real Property Management
Response to Highway Planning Review
(November 20, 2002)

The organizational chart in Attachment 3A is instructive from the placement of activities within the Department.

Description of Attachments to Appendix 3:

Attachment 3A. NDOT Organization Chart (February 1, 2002). This shows the organization of the more than 1,600 employees who work for NDOT.

Attachment 3B. NevPLAN (approved November 14, 2002). This is an 87 page review and forecast of future transportation needs in Nevada.

APPENDIX 4: Allocation of Funding Among Categories
PART I of NDOT Response to
LCB Audit Report on Highway Planning and Real Property Management
Response to Highway Planning Review
(November 20, 2002)

This is really the financial section. Attachment 4B attempts to describe the federal funding program from the Highway Trust Fund. Attachment 4B provides an overview as well as a project specific assignment of how the federal funds are distributed in Nevada. Attachment 4B shows where the money has gone in recent years as well as future funding challenges.

Description of Attachments to Appendix 4

Attachment 4A. Financial Management Status of Funding Report (September 17, 2002). This 386 page monthly financial report showing the allocation on a project by project basis as well as a summary of the funding for the entire highway program.

Attachment 4B. Financing Federal Aid Highways (August 1999). This is a 78 page booklet published by the Federal Highway Administration that explains the federal financial process.

Attachment 4C Highway System & Funding Overview (October 2001). This 24 page booklet contains graphs, charts and maps relevant to state highway expenditures over a five year period as well as future projections.

Appendices and Attachments to Part II:

APPENDIX 5: Evaluation of Real Property Management
PART II of NDOT Response to
LCB Audit Report on Highway Planning and Real Property Management
Response to Real Property Management
(November 20, 2002)

Description of Attachments to Appendix 5

Attachment 5A. Memorandum from NDOT Director Tom Stephens to State Transportation Board of Directors re: Agenda Item #16 for the November 14, 2002, State Transportation Board of Directors Meeting, *Approval for the Department of Transportation to Issue a Request for Proposals for a Right-of-Way Inventory System.*

Attachment 5B. Memorandum from NDOT Director Tom Stephens to State Transportation Board of Directors dated May 23, 2002, re: Agenda Item #14A for the June 4, 2002 State Transportation Board Meeting, *Update on Right-of-Way Actions to be Presented at future State Transportation Board of Directors' meetings and update on the Department's Right-of-Way Inventory Project.*

Attachment 5C. Memorandum from NDOT Director Tom Stephens to State Transportation Board of Directors dated May 14, 2002, re: Agenda Item #6 for the May 24, 2002, State Transportation Board of Directors Meeting, *Discussion and Possible Direction to Staff Regarding a Request for Proposal to Inventory the Department's Right-of-Way.*

**Department of Transportation Response
to Audit Recommendations**

<u>Recommendation Number</u>		<u>Accepted</u>	<u>Rejected</u>
1	Evaluate all capacity projects, proposed by or submitted to NDOT for inclusion in the Department's plans, in accordance with Department procedures and document the project evaluations.....	<u> X </u>	<u> </u>
2	Develop a written process that specifies the criteria used in determining how capacity projects are placed in short-term plans.....	<u> X </u>	<u> </u>
3	Prepare and make available to decision-makers and stakeholders a summary of the Department's analysis used annually to determine which projects are included in short-term plans	<u> X </u>	<u> </u>
4	Document the process, including criteria and guidelines, for allocating funds among project categories.....	<u> X </u>	<u> </u>
5	Include in the Department's long-term plan the projected revenues, expenditures for major categories, and alternatives for addressing any funding shortfalls	<u> X </u>	<u> </u>
6	Establish debt management policies and procedures, including the purposes and conditions when debt may be issued, types of debt and maturity terms, and the analyses that should be prepared to ensure future transportation needs can be met.....	<u> X </u>	<u> </u>
7	Continue developing the real property inventory system, including procedures to list properties and identify each property's status	<u> X </u>	<u> </u>
8	Document excess property determinations and establish criteria for determining when excess property should be left idle, leased, or referred to the Surplus Property Committee	<u> X </u>	<u> </u>
9	Follow established procedures for requiring all requests for disposals of surplus property, abandonments, and relinquishments be reviewed by the Surplus Property Committee and track requests noting key information.	<u> X </u>	<u> </u>

**Department of Transportation Response
to Audit Recommendations
(continued)**

<u>Recommendation Number</u>		<u>Accepted</u>	<u>Rejected</u>
10	Maintain records supporting compliance with disposal and leasing requirements	<u> X </u>	<u> </u>
11	Develop a process for tracking and monitoring leases to ensure all agreements are up-to-date, property management requirements are met, and collection efforts are made as outlined in the property management manual	<u> X </u>	<u> </u>
	TOTALS	<u> 11 </u>	<u> 0 </u>