REPORT OF THE
COMMONWEALTH TRANSPORTATION BOARD

Integrated Directional Signing Program

TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA

SENATE DOCUMENT NO. 19

COMMONWEALTH OF VIRGINIA
RICHMOND
2005

COMMONWEALTH of VIRGINIA

Office of the Governor

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July 25, 2005

The Honorable Martin E. Williams
Chairman, Senate Transportation Committee
Senate of Virginia
Post Office Box 1096
Newport News, Virginia 23601

The Honorable Leo C. Wardrup, Jr.
Chairman, House Transportation Committee
Virginia House of Delegates
Post Office Box 5266
Virginia Beach, Virginia 23471

Dear Senator Williams and Delegate Wardrup:

I am writing to report on the actions taken by the Commonwealth Transportation Board (CTB) with respect to Chapter 491 of the 2005 Acts of Assembly regarding the Integrated Directional Sign Program (IDSP).

The CTB adopted revised participation criteria which reserve up to two spaces of each "gas" sign for businesses that are open 24 hours/day, 7 days/week. The CTB also adopted a revised fee structure that is intended to generate a reserve not to exceed 10% of the Virginia Department of Transportation's (VDOT) cost to operate the program.

The General Assembly directed VDOT to study the feasibility and desirability of auctioning sign space at crowded locations. The Department's study of this subject is attached.

Please let me know if you need any additional information or have any questions.

Sincerely,

Pierce R. Homer

Enclosures

COPY: Mr. Gregory A. Whirley

Integrated Directional Signing Program
Report to the Virginia General Assembly
Virginia Department of Transportation
July 25, 2005

Executive Summary

IDSP Fees

Chapter 491 of the 2005 Virginia Acts of Assembly (see Appendix A) directed the Commonwealth Transportation Board (CTB) to establish reasonable fees for the IDSP and report to the General Assembly. The fees shall be used solely to defray the actual costs of supervising and administering the signage program with a reasonable margin, not to exceed ten percent. The IDSP contains four subprograms: 1) Specific Travel Services Signing (Logo), 2) Tourist Oriented Directional Signing (TODS), 3) Supplemental Guide Signing, and 4) General Motorist Service signing (GMS), as well as several Special Programs. These Special Programs include trails, wayfinding, watershed, and Scenic River signing. A private contractor, Virginia Logos (VL), currently administers the IDSP program.

Following a 30-day public comment period (see Appendix B for a summary of comments), the CTB adopted a reduced fee structure on June 16, 2005 (see Appendix C). A copy of the CTB resolution authorizing the new fee structure is included with this report (see Appendix D). Annual fees for participants in the Logo program were reduced from $900 to $800 for locations with traffic volumes under 40,000 Annual Average Daily Traffic (AADT) and from $1,250 to $1,000 for locations with high traffic volumes (40,000 AADT or more). There were no changes in the other fees associated with the IDSP.

To calculate a fee structure that would generate a margin of no more than ten percent, expenses related only to the IDSP were used. Such expenses include the fee paid to Virginia Logos for administering the program, administrative costs incurred by VDOT's Central Office and District staff, costs incurred for special studies related to the program, such as the Full Service Food Logo experiment, and special applications, such as the maintenance budget for GMS signs. With the reduced fee structure, the forecasted revenue in FY06 is $4,490,850, while expenses are expected to be $4,325,510. This produces an expected margin of $165,340 or four percent.

Because of fluctuations in participation, the annual revenue is subject to increase to a point that, in subsequent years, the margin may exceed ten percent. This will require annual reviews and possible fee adjustments as needed to stay below the ten percent margin. Funds related to the IDSP will be deposited in a specific account for this program.

Gas 24/7

Chapter 491 of the 2005 Virginia Acts of Assembly also directed the Department of Transportation to review a change in the operation hours of Gas Category I establishments from

16 hours per day to 24 hours per day. As part of a 30-day public comment period, the need for giving some priority to gas participants who are open 24 hours per day, 7 days per week was broached. Of the 832 comments received, 813 suggested that some type of priority for a 24-hour operation would be beneficial to the traveling public.

The CTB recognized the benefit of a 24/7-gas operation. Its June 16, 2005 resolution adopted criteria that reserved two spaces on the gas motherboard for 24/7 gas operations. The recommendation can be found on page 4 of the IDSP "Participation Criteria" document. The complete Logo Program regulations and criteria can be found on the VDOT web site at http://www.virginiadot.org/infoservice/sign-programs.asp.

Auctioning

Chapter 491 of the 2005 Virginia Acts of Assembly further directed the Department of Transportation to review the feasibility and desirability of auctioning certain travel services (Logo) signs for which there are more businesses interested in locating on the sign (motherboard) than there is space to accommodate. Currently, Federal regulations permit a maximum of six logo panels on a motherboard and no more than four motherboards between interchanges for the categories of gas, food, lodging, and camping/attractions. Various experiments are underway nationwide that may result in changes to these criteria. One such experiment in Virginia related to Full Service Food is testing the impact of placing a food logo on a motherboard that is not specifically designated for food.

Our report titled "Proposed Implementation of an Auctioning System for Saturated Interchanges in the Virginia Specific Travel Services (Logo) Program," prepared by Virginia Logos, is included in this report (see Appendix E). This report briefly commented on the following:

1. Identifying the number of saturated interchanges;
2. Comparing the participation cost for the Virginia Logo Program to other types of outdoor advertising;
3. Investigating the legality of auctioning spaces on the Logo program, including identifying what will be needed from the Federal Highway Administration;
4. Determining the legislative implications of the proposed change;
5. Reporting on South Carolina's system of auctioning;
6. Listing the options for conducting the auction and analyzing the advantages and disadvantages of such an auction, including possible fee reductions at sites not auctioned if auctioning is put in place;
7. Analyzing the impact of the auction on various types of businesses;
8. Researching what other types of auctioning is occurring in the state government of Virginia; and
9. Providing revenue estimates for auctioning.

The report provided a review of some basic questions dealing with auctioning logo spaces on the "motherboard". The report includes information about a variety of advertising fees; however, it is not possible to estimate revenues that would be generated by an auctioning of the logo spaces. Should auctioning be pursued, a more in-depth revenue analysis should be undertaken.

Currently, South Carolina is the only state Department of Transportation that is considering the adoption of an auction process, but they have not scheduled the implementation of their draft proposal at this time

Auctioning clearly has the capability to generate additional revenue for the IDSP or other transportation programs. Should the General Assembly desire to change its current policy and adopt auctioning to generate greater revenue, a legislative change would be required.

Appendices

A. Chapter 491
B. Summary of 832 Public Comments
C. IDSP Program Fees
D. IDSP CTB Resolution – June 16, 2005
E. Logo Auctioning Report – June 2005

APPENDIX A

CHAPTER 491

An Act to specify certain duties of the Commonwealth Transportation Board in connection with the Integrated Directional Signing Program.

[S 813]

Approved March 22, 2005

Be it enacted by the General Assembly of Virginia:

1. *§ 1. In addition to the duties set forth in § 33.1-12 of the Code of Virginia, the Commonwealth Transportation Board shall establish reasonable fees to be collected by the Commonwealth Transportation Commissioner from any qualified entity for the purpose of participating in the Integrated Directional Sign Program (IDSP) administered by the Department of Transportation or its agents that is designed to provide information to the motoring public relating to gasoline and motor vehicle services, food, lodging, attractions or other categories as defined by the IDSP. Such fees shall be deposited into a special fund specifically accounted for and used by the Commissioner solely to defray the actual costs of supervising and administering the signage programs. Included in these costs shall be a reasonable margin, not to exceed ten percent, in the nature of a reserve Fund.*

2. That the Commonwealth Transportation Board shall report no later than August 1, 2005, on the actions it has taken relative to adjusting fees as a result of this Act.

3. That the Department of Transportation is hereby directed to review (i) the feasibility and desirability of auctioning certain travel services (logo) signs for which there are more businesses interested in locating on the sign than there is space to accommodate and (ii) concerning Gas Category I, a change from 16 hours per day to 24 hours per day. The results of such review shall be reported to the Senate and House Transportation Committees no later than August 1, 2005.

APPENDIX B

Virginia Integrated Directional Signing Program
Summary of 832 PUBLIC COMMENTS
Received May 5, 2005 – June 6, 2005

770 LETTERS

763 Letters supporting 24/7 gas priority signing
2 Letters from wineries concerning fees and high-low volumes
2 Letters from campgrounds concerning fees and implementation of TODS
1 Letter from Spotts Fain Consulting supporting 24/7 Gas priority signing
1 Letter from Virginia Petroleum Convenience and Grocery Association (included was a comparison of other states' gas logo participants criteria)
1 Letter from Hardees regarding fee reduction

62 EMAILS

50 Emails support 24/7 gas priority signing
4 Emails concern handicap accessibility
1 Email concerning TODS trailblazer fees – Donna Pugh Johnson
7 Emails do not support 24/7 gas priority signing – Detail below:

Va. Petroleum Convenience and Grocers Association – Mike O'Connor

- Reduce Fees
- Keep Sign Committee active
- Provide annual accounting of costs associated with running program to CTB and Sign Committee
- 24/7 guarantees one business model placement on signs wherever and whenever they decide to locate, eliminating competition
- Grandfathering provision previously agreed to by Wawa has been eliminated.
- No other privatized state or PA (Wawa home base) provides preference to 24-hour operations.
- Businesses have the option to add 24 hours to their logo panel
- Most businesses do not stay open 24 hours/ business is slow at night, safety issues, family run operations do not want to be open every minute of the day.
- Many businesses will be forced to open 24/7 to compete for space.
- Government should not be providing preference to one business model over another.

Handy Mart Stores – Ken Rice

- Feels the change is to benefit Sheetz and Wawa, which are too far away mileage wise, (2 miles or more) so using lobbyist to get their way.
- Most of the Handy Marts are open 24 hours, 18 locations
- Paid allot of money for the sites near interstate.
- Calls the 24/7 by Wawa a scam!
- At most interchanges, most gas is open 24 hours anyway.
- Refute power play by big chains and keep program as is.

BP Gas Station in Ashland – Greg Puryear

- Reduce fees /Gas margins continue to drop and gas prices continue to rise
- "VEHEMENTLY' oppose 24/7
- Robbery and theft increase late night/reduction in traffic
- Does not pay from business standpoint to stay open all night.
- No agency should be able to dictate Mr. Puryear's hours of operation

Southside Virginia Gasoline Distributor – Jerry Moore

- Keep program affordable/keep program as is!
- Current participants have made program a success
- Request comes through hands of enterprising new company, which doesn't respect past contributions of locations that gave their support.

Emmart Oil Company – Jim Emmart

- States the convenience chain pushing the 24/7 wants to eliminate competitors on the signs.
- 24 hours is allowed on the signs now.

Retail Alliance Merchants Association (2000 members and customers in Hampton Roads) Margaret Ballard

- Locally owned merchants would by harmed by the change.
- Due to employment and safety issues, merchants cannot stay open 24 hours/forcing them to change or remain off signs, hurting business in face of increasing out of state competition.
- No other state mandates 24 hours to be on a sign.
- Retail Alliance active in logo sign fee negotiations at '05GA.
- SB 813 directed VDOT to conduct review of 24 hour by Aug. 05, did not require new guidelines before that time.
- Views proposed changes out of realm of legislative intent, forcing a serious matter upon GA and Transportation Committee.
- Request CTB not vote in favor of change in sign fee guidelines that hasn't received appropriate legislative review and is anti competitive in nature.

Sadler Brothers Oil and Slip In Food Marts, Director of State Operations – Mark Burnette

- Any changes to the present sign program are unnecessary and would hurt small businesses.
- Has 24 locations and employs close to 300 people.

<u>0 Public Comment Phone Calls</u>

APPENDIX C

VIRGINIA DEPARTMENT OF TRANSPORTATION
INTEGRATED DIRECTIONAL SIGNING PROGRAM FEES
CTB Adopted June 16, 2005

LOGO

High Volume (1)(7)	Annual Fee	
Main Line	~~$1,250~~	$1,000
Trailblazer (11)	$150	
Switchout (per occurrence) (8)	$90	

Regular	Annual Fee	
Main Line	~~$900~~	$800
Trailblazer	$150	
Switchout (per occurrence) (8)	$90	

TODS (10)

	Annual Fee
Main Panel	$450
Trailblazer	$100
Application (one time)	$100
Close (9)	$50

Supplemental (2)

		Application/Site Prep	
Commercial Entities	Annual Fee	New	Maint/Repl
Major Sign (3)	$700	$250	$100
Minor Sign	$250	$250	$100
	(6)		

Wineries	2004	2007	2010
Sign (per set - main & trailblazers)	$0	$175	$450
	(4)	(5)	(5)

GMS

Signs	N/A

(1) High Volume - 40,000 ADT (average daily traffic) or more in both directions on any leg of the interchange
(2) The following are exempt from annual fees (They will be charged for new construction, maintenance, and replacement)
  (a) Federal, State and Local Governments
  (b) Nonprofit organizations
  All entities are subject to application/site preparation fees per installation for new signs, maintenance, or replacement
(3) Major Sign is 12 square feet or larger
(4) Supplemental (wineries) - Entity will pay for maintenance and maintenance replacement
(5) Supplemental (wineries) - No charge to entity for maintenance
(6) Supplemental (commercial entities) - Entity will be responsible for maintenance, replacement, or new construction
(7) Nonprofit entity may elect to pay the "regular" rates and be classified as a Category II
(8) Switchout - Replacing a logo panel due to a design change
(9) Close - Covering a panel due to seasonal closing or other reason for temporary closure.
(10) TODS - no annual fees for Natural Resource Agencies
(11) Logo trailblazer on a TODS panel will be charged the Logo trailblazer fee

Fees adopted by the Commonwealth Transportation Board on June 16, 2005

APPENDIX D *Agenda item # 3*

**RESOLUTION
OF THE
COMMONWEALTH TRANSPORTATION BOARD**

June 16, 2005

MOTION

Made By: Mr. Davies Seconded By: Mr. Bowie Action: Motion Carried

Title: Integrated Directional Signing Program

WHEREAS, Section 46.2-830 of the *Code of Virginia* authorizes the Commonwealth Transportation Board to provide a uniform system of marking and signing highways under the jurisdiction of the Commonwealth; and

WHEREAS, on September 21, 1972, the Commonwealth Transportation Board approved the Minimum State Criteria by which gas, food, lodging, and camping establishments may qualify for participation in the Virginia Department of Transportation's (VDOT) Travel Services (Logo) Signing Program on the right of way of interstate highways in rural areas; and

WHEREAS, from time to time, the Commonwealth Transportation Board has adopted, by subsequent resolutions, revisions to the fees and criteria for participation in Virginia's highway signage programs, and

WHEREAS, on September 16, 2004, the Commonwealth Transportation Board adopted the current criteria for participation and annual fees for the Integrated Directional Signing Program and authorized the Department of Transportation to modify existing operating procedures and develop additional operating procedures, as required, to administer the Integrated Directional Signing Program, and directed that should net revenue be generated, in excess of the funds required contractually with the private contractor and by the Department of Transportation to administer the Integrated Directional Signing program, all such additional net revenue shall be allocated for the maintenance and improvement of Virginia's Rest Areas and Welcome Centers; and

WHEREAS, Chapter 491 of the 2005 Virginia Acts of Assembly directed the Commonwealth Transportation Board to establish reasonable fees for the Integrated Directional Signing Program which shall be used solely to defray the actual costs of supervising and administering the signage program with a reasonable margin, not to exceed ten percent; and

WHEREAS, Chapter 491 of the 2005 Virginia Acts of Assembly further directed a review of the change in Gas Category I from 16 hours per day operation to 24 hours per day; and

WHEREAS, a public comment period was held from May 6, 2005, to June 6, 2005, to solicit comments on a proposed annual fee reduction and possible change in the Gas Category I criteria.

NOW, THEREFORE, BE IT RESOLVED, that, the criteria for participation in the Integrated Directional Signing Program are established as set forth in the attached Integrated Directional Signing Program Participation Criteria (June 16, 2005), and other previously established criteria for the Integrated Directional Signing Program are hereby rescinded; and

BE IT FURTHER RESOLVED, that, effective June 16, 2005, the annual fees for the Integrated Directional Signing Program are established as set forth in the attached Integrated Directional Signing Program Fees (June 16, 2005) and any other previously established fees for participation in the VDOT's Travel Service Signing Program are hereby rescinded; and

BE IT FURTHER RESOLVED, that participants in the Logo Program between September 16, 2004 and June 16, 2004, and who remain on the program as of October 1, 2005, will receive a one time prorated credit on their next bill in this manner: the difference in the amount paid between September 16, 2004 and June 16, 2004, and the amount paid times the ratio of the June 16, 2005 fee divided by the September 16, 2004 fee rounded to the next higher whole dollar; and

BE IT FURTHER RESOLVED, that the Department of Transportation is authorized to modify existing operating procedures and develop additional operating procedures, as required, to administer the Integrated Directional Signing Program.

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APPENDIX E

Proposed Implementation of an Auctioning System for Saturated Interchanges in the Virginia Specific Travel Services (Logo) Program

Virginia Department of Transportation

Prepared by Virginia Logos
June 2005

Proposed Implementation of an Auctioning System for Saturated Interchanges in the Virginia Specific Travel Services Program

Objective: To determine the effects of auctioning each space on Virginia's Specific Travel Services (Logo) background at saturated interchanges. An interchange is considered saturated if there are more qualified businesses that wish to participate in the program than space available on the Logo mainline for a specific service.

Background: The Logo program currently has an annual fee based on the Annual Average Daily Traffic (AADT) Count published by the Virginia Department of Transportation (VDOT). The highest sum in both directions of either leg adjacent to the interchange is used to determine the interchange's traffic volume. If the traffic volume is greater than or equal to 40,000 AADT, the annual fee is $1,000.00. If the traffic volume is less than 40,000 AADT the annual fee is $800.00 (fees as of June 16, 2005).

During the 2005 legislative session, the General Assembly of Virginia passed the following law concerning the Logo program:

> Be it enacted by the General Assembly of Virginia:
>
> 1. *§ 1. In addition to the duties set forth in § 33.1-12 of the Code of Virginia, the Commonwealth Transportation Board shall establish reasonable fees to be collected by the Commonwealth Transportation Commissioner from any qualified entity for the purpose of participating in the Integrated Directional Sign Program (IDSP) administered by the Department of Transportation or its agents that is designed to provide information to the motoring public relating to gasoline and motor vehicle services, food, lodging, attractions or other categories as defined by the IDSP. Such fees shall be deposited into a special fund specifically accounted for and used by the Commissioner solely to defray the actual costs of supervising and administering the signage programs. Included in these costs shall be a reasonable margin, not to exceed ten percent, in the nature of a reserve Fund.*
>
> *2. That the Commonwealth Transportation Board shall report no later than August 1, 2005, on the actions it has taken relative to adjusting fees as a result of this Act.*
>
> *3. That the Department of Transportation is hereby directed to review (i) the feasibility and desirability of auctioning certain travel services (logo) signs for which there are more businesses interested in locating on the sign than there is space to accommodate and (ii) concerning Gas Category I, a change from 16 hours per day to 24 hours per day. The results of such review shall be reported to the Senate and House Transportation Committees no later than August 1, 2005.*

With the changes directed by the General Assembly of Virginia, the annual fee may be reduced, retroactively, during the summer of 2005.

Research: Our research consisted of nine (9) main steps:

1. Identify how many interchanges are saturated;
2. Compare the participation costs for the Virginia Logo Program to other types of outdoor advertising (billboards, transit, etc.);
3. Investigate the legality of auctioning spaces on the Logo program, including identifying what may be needed from the Federal Highway Administration;
4. Determine the legislative implications of the proposed change;
5. Report on South Carolina's system of auctioning;
6. List the different options for conducting the auction and analyze the advantages and disadvantages including possible fee reductions at sites not auctioned;
7. Analyze the impact of the auction on various types of businesses (one location businesses, national chains, etc.);
8. Research what other types of auctioning is occurring in the state government of Virginia; and
9. Provide revenue estimates for auctioning.

Step 1 - Identifying the number of saturated interchanges.

Currently, of the 1,564 mainline Logo background signs in Virginia, 174 (11%) are full. Of the 174 full signs, 126 (72.4%) are under food service, 36 (20.7%) are under lodging service, and 12 (6.9%) are under gas service. No camping or attraction signs are full in Virginia. At 30 of the full sites, there have been no other businesses that have applied and been denied.

Category	Logo* Signs #	Logo* Signs # Full	Logo* Signs % Full
Food	517	126	24.37%
Camping	126	0	0.00%
Gas	540	12	2.22%
Lodging	360	36	10.00%
Attractions	21	0	0.00%
Total	1564	174	11.13%

*Logo signs as of 7/19/05

Step 2 – Compare the participation costs for the Virginia Logo Program to other types of outdoor advertising (billboards, transit, etc.)

Although the Logo program can be considered outdoor advertising, it does not compare well with other outdoor advertising media. The two are very different products, with a logo sign for food, lodging, or camping measuring only fifteen (15) square feet and displaying only the business name, while a standard billboard measures 672 square feet and including information about business location, special deals, etc.

As in most types of advertising, outdoor advertising does not have a standard rate for Virginia. Several factors may be used to determine the cost of outdoor advertising:

a) The region the media is located;
b) The exposure of the media;

c) The size of the advertising; and
d) The type of business.

The costs for billboards in the Richmond, Hampton Roads, Fredericksburg, Charlottesville, and Harrisonburg areas can range between $2,500 and $6,000 per month ($30,000 and $72,000 per year respectively) depending on location of the structure, size of the billboard, packaging deals, negotiations, and changes in the market and economy. The Roanoke, Lexington, Martinsville, Danville, Lynchburg, and New River Valley run between $1,000 and $2,500 per month ($12,000 and $30,000 per year respectively).

The population of an area has a major impact on the rate for outdoor advertising. This is not necessarily the case for the Logo program. Currently the Logo program determines each participating businesses' fees by the traffic counts at the particular interchanges. Population does play a role in this determination, but the cut off that splits the program into the two fee categories is set by the Annual Average Daily Traffic (AADT) count of 40,000 cars per day in both directions of either leg adjacent to the interchange. This is a very low standard to meet. The AADT in the Northern Virginia area may triple the 40,000 per day mark, while the traffic on I-81 for an Abingdon interchange may be 41,000. Other forms of outdoor advertising have considerably more flexibility in determining the rates in each region of Virginia than the Logo program offers.

While using the AADT for the logo program simplifies the fee structure and helps avoid a different fee being charged in each direction of an interchange, it differs greatly from how other media set their rates. Other forms of outdoor advertising media use more exact exposure numbers. If a billboard can be seen only by travelers heading in the northbound direction, only the traffic volume in the northbound direction would be used to determine the exposure of the billboard, which would then be used as one of the factors for setting the rate.

In most outdoor advertising media, different rates are used for different size advertising. Usually, the larger the advertising, the higher the rate charged. But this is not always the case. Transit advertising (i.e., advertising on busses, public benches, or bus stops) may be more expensive than a large billboard in a rural area. For example, in Richmond with GRTC, the cost for an advertisement on the back of the bus is $175 per month ($2,100 per year), while wrapping the bus costs $1,500 per month ($18,000 per year). With the Logo program, the size of business plates are mandated and the size of the plates used does not affect the annual fee.

The type of business and business owner can both affect the rate charged for outdoor advertising. National franchises may negotiate nationwide media campaigns, and thus may receive a lower rate per location than a small business owner would receive. This may also be the case for small businesses that wish to advertise at multiple locations in an area. Some businesses may be long time customers with the ability to negotiate a better deal for advertising than a business that is advertising for the first time.

Like outdoor advertising, advertising in the print media has significant variations. For example, color advertisements in AAA Car & Travel vary from $18,000 for a full page advertisement to $3,600 for 1/6 page. Arthur Frommer's Budget Travel magazine varies from $25,000 to $7,000 for the same sizes. In newspapers, a one-quarter page ad can vary from $105 to $1,700. One-quarter page ads in 17 daily papers around the state would cost $53,000.

The true market value of a good or service is the amount that customers are willing to pay for the product or service. Some Logo participants are willing to pay a much higher annual fee than others. With the price increase of 2004, ten percent (10%) of the Logo participants discontinued their participation due to the increase in rates. Most of these cancellations occurred at non-saturated interchanges. This would suggest that the market value of the Logo program would depend on the business model of the potential participants and whether the service for the business at the interchange is saturated.

Participation in the Logo program is a key part of the business plan for businesses that rely heavily on traveling motorists. Those businesses would be willing to pay more than businesses that do not rely as heavily on patronage from traveling motorists. The market value will also increase depending on the interchange. If a service is saturated at a particular interchange, a business may be willing to pay more in order to insure continued participation. If a business is not participating in the program, but would like to participate, then they may be willing to pay more than some of the current participants.

Step 3 - Investigate the legality of auctioning spaces on the Logo program, including identifying what will be needed from the Federal Highway Administration.

Virginia has no statutes that prohibit or restrict the auctioning of spaces on the Logo program, except Chapter 491 passed during the 2005 legislative session limiting the Department's revenue retained from the program. The full statute is shown in the previous section.

The Federal Highway Administration (FHWA) does not play a role in determining the fees associated with each state's Logo program or in setting the criteria for determining which of the qualified businesses at an interchange should be allowed to participate.

Step 4 - Determine the legislative implications of the proposed change.

The legislative implications of auctioning spaces are unknown. As it is impossible to predict which businesses will be outbid, it is impossible to predict how a business that is removed from the program or denied participation will react. National chains would appear to have greater resources to outbid small, locally owned businesses in an auctioning environment.

Step 5 - Report on South Carolina's system of auctioning.

The State of South Carolina has approved a system for auctioning spaces on their Logo program signs, but they have yet to implement the system (they may begin in fall 2005). South Carolina is the only state that has approved such a system, and the level of effectiveness of their system has yet to be determined. The proposed system uses fax auctioning where the highest six bids from qualified businesses are awarded participation in the Logo program. The complete bid procedures for South Carolina are listed in Appendix I.

Step 6 - List the different options for conducting the auction and analyze the advantages and disadvantages including possible fee reductions at sites not auctioned if auctioning is put in place.

There are two methods of auctioning that could be used for spaces on the Logo program: (1) a closed auction and (2) an open auction. In a closed auction, the bids made by one establishment are not known to another bidder during the auction period. This method may lead to a lower average cost per space among winning bids. In an open auction, the bids made by each establishment are known to all bidders.

The auction process can be handled several different ways. Live auctions and internet auctions could be used under an open method of auctioning, while fax auctioning could all be used under the closed auction method. The amount of resources that the Department wishes to allocate for the implementation of an auctioning system would need to be taken into consideration when selecting a system.

In a live auction, an auctioneer would auction off each space at saturated interchanges. This may limit participation in the auction process, as it requires each establishment wishing to participate in the auction to be present or represented. The costs associated with a live auction would also be greater than those incurred by an internet or fax auction.

Internet auctioning sites, such as e-bay, may produce the highest amount of revenue. Such sites seem to offer the most flexibility for customers to actively take part in participating in the process, while not limiting participants to those available to attend a live auction. This process is more expensive than a fax auction, but the possible increase in revenue resulting from an internet auction would cover any associated costs.

A fax auction, where each qualified establishment must fax in their bid is the least expensive method. Establishments that wish to bid, but do not have access to the internet, would be able to participate in the process without having to attend a live auction.

The projected revenue from the program could impact the annual fee of interchanges that are not saturated. The amount of the impact will depend on the revenue produced and the total number of establishments participating in the Logo Program each year.

Step 7 - Analyze the impact of the auction on various types of businesses (one location businesses, national chains, etc.).

The impact of an auction system on each business will depend on two factors:

(a) The amount one business is willing to pay to participate in comparison to the amount other businesses are willing to pay; and
(b) The role Logo program participation plays in each establishment's business model?

Each business (national chain or one location establishment) will be affected by the implementation of an auctioning system differently depending on these two factors. One would assume that smaller businesses would not have as much capital available, and as such would be at a disadvantage when bidding against a national chain or multi-location business. How much this may hurt the small business owner would depend on the percentage of customers the small business expects to gain from participating in the Logo Program.

Step 8 - Research what other types of auctioning is occurring in the state government of Virginia.

Very little information is available on other types of auctioning taking place in state and local government in Virginia. Most of the information available pertains to reverse auctioning, which is being used as a procurement method for supplies or for the awarding of contracts. Reverse auctioning is a process that sets a starting price; all bidders can see the price and lower it at any time during the auction. The auction takes place for a fixed time period, and this process can be used in a live setting or on the Internet. The goal is to secure the lowest unit price for an item.

In December of 2002, the Governor's Commission on Efficiency and Effectiveness, established by Governor Mark Warner, released its final report on governmental efficiency (Appendix II). One of the commission's recommendations was the use of reverse auctioning. The Department of Transportation currently uses this process for some of its procurement needs for items such as desks and auto parts.

Step 9 - Provide revenue estimates for auctioning.

There has been no specific experience in other states to report, which could be used to provide revenue estimates for auctioning. As such, revenue estimates for auctioning in Virginia cannot be determined due to the inability to predict the amount that will be bid for each space.

Appendix I

South Carolina Department of Transportation
Engineering Directive Memorandum

Number:

Primary Department: Traffic Engineering

Referrals:

Subject: Specific Service (Logo) Signing Bid Procedures

Pursuant to S.C. Code Ann. §57-25-170 of the 1976 Code as amended, and 25A S.C. Code Ann. Regulation 63-338(E)(5) Specific Information Service Signing, this engineering directive establishes an annual bid process for interchanges on fully controlled access highways (hereinafter “interchanges”), where the number of qualified businesses exceeds the available space in a service category.

Eligible Locations

At interchanges where the number of qualified businesses, as defined by the regulations, desiring to participate in the logo sign program exceeds the available space in one or more service categories, SCDOT or its authorized independent contractor (hereinafter “SCDOT”), shall solicit bids from each of the qualified businesses to determine which businesses are placed on the logo panel.

Bids shall only be solicited for the service category or categories where the number of qualified businesses exceeds the available space. Other service categories shall continue at the current participation rates.

Eligible Businesses

All businesses desiring to participate in the logo sign program shall complete an application and meet all of the requirements for their service type as outlined in 25A S.C. Code Ann. Regulation 63-338.

When the number of qualified businesses exceeds the available space in a service category, each eligible business desiring to submit a bid shall use the official bid form (Bid Form No. SCLI-083-1). All bids shall be received by SCDOT before the prescribed deadline on the bid form. Bids received after the deadline designated by SCDOT shall be considered non-responsive.

If, at the time that the bidding process commences, a current logo participant's business signs have been displayed for less than a year from the date of the original participation agreement with SCDOT, that business' signs shall continue to be displayed until the signs have been displayed for at least one year. In this situation, this business shall have its signs placed in the lowest ranking position and shall retain this position until the next annual bid solicitation. In the event more than one business has displayed its signs for less than one year, positions will be assigned based on the date of the participation agreement, with the newest agreement being in the lowest ranking position. This business shall be charged a prorated fee covering the time period between the expiration of its original participation agreement and the next annual solicitation. This prorated fee shall be based on the business' current participation rates. This provision shall only be necessary during the first year of the bidding process at an interchange.

Bid Criteria

Bidders shall only compete against other qualified businesses within the same service category.

Bids shall be for one year of participation and shall be solicited annually as long as the number of qualified businesses exceeds the available space at an interchange.

All participation agreements with the successful bidders shall have the same beginning and expiration dates, regardless of when business signs are received and subsequently installed by SCDOT.

For rural area participants, bids shall cover the annual participation fees for two mainline and any required ramp business signs unless otherwise directed by SCDOT. If a business also requires trailblazer signs, each trailblazer shall be billed at the current rate and shall be in addition to the submitted bid.

For urban participants, bids shall cover the annual participation fees for one or two directions, depending on logo panel availability. The bid form shall specify how many directions.

SCDOT may charge for the installation of business signs.

Minimum Bids

The bid form (Bid Form No. SCLI-083-1) shall list the minimum annual bid price for participation. Minimum bid price shall be set based on the existing participation fees for the interchange. Bids not meeting the minimum bid price shall be considered non-responsive.

Business Sign Placement

The highest bidder shall have their business sign placed in the top-left position for the service category. The next highest bidder shall be placed in the lower-left position and so on, based on the layout of the logo panel at that interchange. Positions shall be shown on the bid form with the highest bidder being placed in Position 1, the next highest in Position 2, and so forth.

At interchanges where the number of service panels is fewer than four (4), panel layouts shall be configured to maximize the number of services displayed, even when this reduces the overall number of businesses who participate in the logo sign program. When determining panel layouts, service categories shall be given the priority of gas, food, lodging, camping and attractions.

Equal Bids

In the event of equal bids, the businesses submitting the equal bids shall be given the opportunity to resubmit within five days of written notice by SCDOT. When resubmitting bids, the businesses shall be told which positions they are bidding for. The overall ranking and position of the other bidders shall not be affected, regardless of the bids submitted on the re-bid. Minimum acceptable bid prices for any resubmissions shall be equal to the original bid prices.

Bid Tabulation and Award Notification

After receipt of bids on the day and time specified on the bid form (Bid Form No. SCLI-083-1), bids shall be tabulated and awards made to the highest bidders based upon the number of positions available, with the highest bid being located in Position 1, the next highest in Position 2 and so forth until all positions are filled.

The Statement of Award shall be sent to all bidders and shall be posted on the bulletin board in the elevator lobby of the 5th floor of the SCDOT Headquarters Building located at 955 Park Street, Columbia, South Carolina and on the SCDOT Procurement Web Site located at www.dot.state.sc.us/doing/procurement/awards.asp.

SCDOT shall not require qualified businesses to post bid bonds. Therefore, successful bidders shall return the signed participation agreement and pay participation fees and any installation fees and or trailblazer fees within ten business days of the Statement of Award by SCDOT of a successful bid. Should the participation agreement or payment not be received within 10 business days, the bid shall be disqualified and the next eligible bidder shall be notified.

Should the number of qualified businesses successfully submitting bids be less than the number of available spaces, additional qualified businesses shall be given the opportunity to participate in the logo sign program at the same rate as the lowest successful bidder. Priority for participation by additional businesses will be established based on the first business to return its signed participation agreement and payment to SCDOT.

Submitted by: ___________________________________
Director of Traffic Engineering

Recommended by: ________________________________
Deputy State Highway Engineer

Approved by: ___________________________________
State Highway Engineer

Effective Date: _________________________________

Appendix II

Report on Government Efficiency

By

The Governor's Commission On Efficiency And Effectiveness

THE GOVERNOR'S COMMISSION ON EFFICIENCY AND EFFECTIVENESS
Final Report
DECEMBER 12, 2002

INTRODUCTION

Governor Mark R. Warner established the Governor's Commission on Efficiency and Effectiveness when he signed Executive Order Number 5. He asked former Governor L. Douglas Wilder to chair the Commission and Nigel Morris, President and COO of Capital One Financial Corporation, to be vice-chair.

In the Executive Order and in his charge to the Commission at its initial meeting, Governor Warner asked the Commission to develop recommendations that would enable the Commonwealth to serve its citizens more effectively and to manage its resources more efficiently.

Specifically, the Governor noted that the purpose of the Commission shall be to:

1. Identify redundant and ineffective services
2. Streamline and consolidate state agencies and programs
3. Better use technology to improve service delivery and reduce costs
4. Employ 21st century management tools, such as Six Sigma, to make state services more efficient.

As the Commission proceeded, the continuing budgetary challenges of the Commonwealth lent even greater urgency to its work, especially the mandates to streamline state government, to find ways of making it run more cost-effectively and to identify permanent sustainable savings in the operation of Virginia government.

The Commission has taken both its original charge and the obligations that recent circumstances have imposed very seriously. It has organized its major recommendations in three areas:

- **Proposals to streamline/consolidate/outsource and eliminate approximately 15% of existing state agencies and departments. (We estimate that the dollar amount that could accrue from these streamlinings, outsourcings and eliminations, including the privatization of ABC, could total more than $500 million.)**
- **Specific identification of real and substantial savings totaling approximately $750 million annually that can be achieved by changing the way the Commonwealth performs some of its business operations. These savings can be realized without any reduction in current services. The Commission believes that achieving $750 million in permanent annual savings over a 2-4 year period is a realistic and feasible goal.**
- **Proposals for continuous improvement to ensure that the Commonwealth develops a clear vision, establishes and measures long-term objectives, and maintains a competitive advantage versus other states.**

The Commission understands that Virginia is a well-managed state and, in most areas, compares well to other states across the country. Virginia justly deserves the reputation it earned in the early and mid 1990's for sound financial management and governmental excellence. But in a rapidly changing world, Virginia's future cannot be secured merely by pointing to its previous success.

Virginia's reputation for sound financial management and governmental excellence was a hard won achievement, garnered because its leadership was willing to confront head-on the challenges it faced and to make tough decisions. Virginia will retain this reputation only if its leadership continues to exhibit these attributes.

STREAMLINING

From the inception of the Commission, former Governor Wilder emphasized the critical importance of the Governor Warner's charge to streamline state government. Governor Wilder noted that the Commission's willingness to make tough decisions about governmental streamlining was crucial, both to its task of bringing real reform to Virginia state government and to demonstrating its seriousness to the citizens of the Commonwealth. Governor Wilder appointed a Streamlining Subcommittee to examine the current organization of Virginia state government and to make recommendations for reforming it.

The Commission's examination of the manner in which Virginia state government is presently organized reached a number of conclusion that reinforce the case for agency streamlining.

- **Virginia state government is not presently organized, even at the highest levels, to operate the basic business functions of state government in the most efficient and effective manner.**
- **Agencies have often been established and maintained as a means of responding to a specific issue or to the expressed needs of a particular**

constituency. We believe that there are more efficient and effective ways of utilizing taxpayer dollars.

- **It has been much easier to create and expand government units than it has been to reduce and eliminate programs and departments. We believe that there ought to be a continuous review of agency performance with consequences for not meeting expectations.**
- **There is considerable duplication of effort in activities undertaken by separate departments, agencies and programs.**
- **There are functions now being provided by state government that could be furnished equally well outside of government or by combining existing activities within government in a streamlined form.**

The Commission recommends that the following steps be taken to streamline and consolidate Virginia state government.

- **Merge the Virginia Museum of Natural History into the Science Museum of Virginia**
- **Merge the Chesapeake Bay Local Assistance Department into the Department of Conservation and Recreation and maintain as a separate division within the department.**
- **Merge the Commission on Local Government into the Department of Housing and Community Development (maintaining the annexation functions and the collegial body within DHCD)**

- **Merge the State Milk Commission with the Department of Agriculture and Consumer Services (with input from the Milk Commission's regulants about the best means of accomplishing this task.)**
- **Consolidate the Charitable Gaming Commission, Racing Commission and Lottery into a single department under the Lottery after a determination by the Governor of the most appropriate methods and timing for the consolidation..**
- **Merge the Council on Human Rights with the Office of the Attorney General. (Ensure the maintenance of all functions and the continuation of public input into its operations.)**
- **Integrate Richard Bland College into the Community College System.**
- **Eliminate the Center for Innovative Technology in its existing form and reconstitute it as part of a statewide initiative to enhance Virginia's research and development infrastructure.**
- **The Governor should acquire sound business assessments of the real value of a privatized ABC retail operation and develop an RFP process to realize this value and authorize legislation for the 2003 General Assembly session. Privatization should be structured so as to provide at least as equal a revenue stream to the localities and to the state activities that are presently supported by ABC earned income.**
- **Merge Chippokes Plantation into the Department of Conservation and Recreation**
- **Move the office of Consumer Services from the Department of Agriculture**

- **Eliminate all general fund support for the Commonwealth Competition Council**
- **Merge the Department for the Blind and Vision Impaired, the Department for the Deaf and Hard of Hearing and the Department of Rehabilitative Services in a manner that will result in an enhancement and not a diminution of services. The Commission believes a consolidation plan that can result in the provision of more effective services needs to have genuine input and participation from the stakeholder groups.**
- **Develop a common chart of accounts that can identify with precision the total amount of dollars spent on consultants, utilize a return on investment criteria for consultant engagements and implement periodic external reviews of consultant utilization and renewal procedures.**
- **Eliminate the Commonwealth's function as a power plant operator by developing an energy management process that will enable the private sector to take over the management, upkeep and upgrade of power plants.**
- **The Governor should develop a plan for reforming the administration and funding of local constitutional officers. This plan should examine: a) ways of eliminating duplication of efforts between constitutional officers and local officials; b) the possible regional provision of services currently provided by constitutional officers; c) the possible use of constitutional officers in collecting state receivables to offset potential reductions in general fund support; and d) possible streamlinings and consolidations that could be achieved in the agencies- The Compensation Board and the Commonwealth**

Attorneys Services Council- that currently administer and support constitutional officers.

Savings in Government Operations

The Commonwealth of Virginia is a large enterprise. If the states were included with businesses in the S&P 500, a 1996 Duke University study noted that Virginia would rank 50^{th} on the list. For this reason, it is imperative for Virginia to examine how well its business practices compare to those of other large enterprises, not only in the public sector but in the private sector as well.

The Commission spent considerable time evaluating Virginia's business practices- in financial management, procurement, information technology, human resources, receivables, real estate management, and inventory control. Virginia is deservedly proud of the recognition and rewards it has received for excellence in financial management.

But the Commission discovered that there is substantial room for improvement in almost all the basic business practices in which the Commonwealth is engaged. Virginia does not do an especially good job of obtaining available procurement savings. State government does not purchase and utilize information technology in the most cost-effective manner. It does not manage its extensive real estate holdings in a manner befitting the size of the portfolio. Its receivables practices could be far more effective in collecting dollars that the state is legitimately owed. And its human resource policies need major revision.

The Commission discovered similar problems with almost every major business practice.

- **Information necessary for developing an enterprise-wide approach to the basic business practices of the Commonwealth is often not collected or not accessible to the agencies that could effectively utilize it.**
- **There is limited systematic analysis about how the Commonwealth can save taxpayer dollars by reforming the way it purchases goods, organizes its information system, collects receivables, and manages its real estate holdings.**
- **Best practices utilized by the private sector to reduce their costs have only been partially and incompletely incorporated into Virginia state government.**
- **Responsibility for the basic business practices of state government is either ill defined or so widely diffused across agencies that it has become virtually impossible to leverage the size of the Commonwealth's activities and maximize savings opportunities.**

The savings that could accrue to the Commonwealth from changing the way it does business are extraordinarily large, ultimately reaching $750 million annually. It is important to note that the savings that the Commission has identified in reforming the business practices of the Commonwealth will not require any reduction in the services that are provided to the citizens of Virginia. It requires the will, the management skill and the tenacity to change the way business is currently done.

The $750 million dollar figure was reached by adding the realistic savings that could be achieved from modifying the following business practices.

Procurement: ($500 Million)

Achieving substantial procurement savings will require the development of better analytical tools, better procurement planning and better collaboration across state government. With the exception of a recommendation to continue reverse auctioning, we do not envision the need for much legislative change. Reforms such as the Public-Private Education Act and the Public-Private Infrastructure Act have provided needed flexibility.

Major Recommendations:

- **Develop enterprise wide approaches to purchasing and gathering information about agency spending patterns, promoting collaboration between departments and agencies.**
- **Reengineer the capital outlay process to eliminate the gap between contract cost and actual final cost on transportation and construction projects.**
- **Premise the procurement of prescription drugs on a preferred drug plan with a three tier system.**
- **Authorize legislation to enable the use of reverse auctioning as a permanent procurement tool.**
- **Remove Virginia Correctional Enterprises as a mandatory supplier for universities**
- **Develop an effective Minority Supplier Program that provides better information about minority supplier availability, centralizes information about opportunities for minority suppliers and holds agencies accountable for better performance. (See Appendix One- Procurement Report)**

Background Information:

At every point on the procurement continuum- from upfront analysis of savings opportunities to the evaluation of how well a contractor has performed- the Commission identified key elements that were either not working optimally or simply broken. This was evident in both the purchase of goods and supplies and in the procurement of large capital outlay projects.

- **At the most rudimentary level, the Commission discovered that the Commonwealth had never systematically collected the kind of information that would be necessary to organize procurement to make the best use of taxpayer dollars.**
- **The lack of a good information base is compounded by inadequate upfront planning on large projects. This is especially true in capital outlay construction projects and in the development of information technology systems.**
- **There are also serious deficiencies in contract negotiation and contract management. Vendors themselves told the Commission that the Commonwealth often does not obtain the best discounts.**
- **Finally, there is also considerable evidence to suggest that Virginia has not achieved adequate supplier diversity. Virginia state government's performance does not match that of either effective private sector companies or a number of other states.**

In the last decade many private sector companies have made procurement reform a major feature of both the reengineering process and productivity improvement. The reason that procurement reform in the private sector has become so widely discussed is simple. Corporations that have seriously addressed procurement matters have been able to achieve savings and productivity improvement that make notable additions to the bottom line. Expectations of real savings in the range of 10%-20% on the total spend over a two-to-three year period are common in the corporate world today.

The Commission believes that the low-end figure of 10% is a realistic figure for Virginia state government. Virginia should save $500 million annually on a total spend of $5 billion. These annual savings of $500 million should be fully realized in a 2-4 years.

Information Technology: **($100 million)**

Information technology savings can be achieved, in part, by better procurement of information technology, by eliminating the purchase of duplicative administrative information systems, by utilizing technology to perform work tasks more efficiently, and by providing better customer service through technology.

Major Recommendations:

- **Negotiate statewide contracts for information technology purchases that leverage purchase volume into substantial discounts.**
- **Consolidate administrative information systems projects across agencies. (See Appendix Two: KPMG Consulting Report)**
- **Combine data centers to increase effectiveness and cost savings**
- **Use technology to consolidate business processes such as payroll processing and accounts receivable.**

- **Use web-based technology to organize customer service activities such as licensing and permitting more efficiently and effectively in a one-stop shop. (See Appendix Three- Commission Work Team IT Recommendations)**

Background:

There are four specific areas related to the organization and use of information technology that were the focus of the Commission's work:

- **The procurement of information technology hardware, software and services**
- **The duplication of expensive administrative information systems across agencies departments and agencies**
- **The extent of human resources that are assigned to tasks that can be done with more efficiency by utilizing technology**
- **The capacity of the Commonwealth to provide better customer service by deploying information technology more effectively.**

The information technology area presently suffers from many of the same deficiencies that are evident with the general procurement practices noted above. Because of the fragmented nature of the state procurement system, the Commonwealth does not negotiate the best available discounts on information technology purchases.

Moreover, the lack of upfront planning, good project specification and sound management of IT projects has resulted in wasteful use of taxpayer dollars. Finally, the separate purchase of expensive administrative systems by agencies and departments in lieu of an enterprise-wide collaborative approach has not been the highest and best use of IT resources. .

As a benchmark comparison, the KPMG Consulting study noted that both Pennsylvania and Florida are redesigning their administrative systems on an enterprise wide basis for less than half the amount that has been spent in Virginia (over $560 million on independent systems since 1996.

For example, it is common practice for large businesses to decide upon a single ERP system (Enterprise Resource Planning) system for the enterprise. In Virginia at present, different agencies own every major ERP system on the market. And when different agencies purchase the same system, there is no evidence of volume discounts obtained through a collaborative purchase.

The current strategic plans of state agencies provide further evidence for the lack of integration in this regard. The written strategic plans for Virginia state agencies call for implementing 13 different financial management systems, 3 different payroll systems and 3 different human resource systems.

Based on estimates developed by the Secretary of Technology and a KPMG Consulting study, the Commission believes that annual savings of $100 million dollars can be achieved in the information technology area within three years.

Real Estate Operations (60 million)

Paying more focused attention to real estate leasing and related issues may save the Commonwealth $60 million dollars. It is an area that has not received adequate attention.

Major Recommendations:

- **Develop a portfolio management system for handling real estate in the Commonwealth with clearly identified lines of responsibility.**

- **Reduce the vacancy rate in office space leased by the Commonwealth to less than 5%**
- **Strategically manage the lease expiration and renewal process, including the 212 leases that will expire in the next year.**
- **Explore beneficial sale-leaseback opportunities for the property that the Commonwealth presently owns. (See Appendix Four: Real Estate Opportunities)**
- **Maximize possible beneficial sales and public-private development of surplus property by developing better methods for designating property as "surplus" and by reexamining the opportunities for property that has already been designated as "surplus."**

Background:

- **The Commonwealth currently manages an assemblage of real estate assets with a decentralized management approach.**
- **As a result, critical real estate data such as vacancy rates are maintained at the agency level or are not captured at all.**
- **Co-location possibilities for state offices are often not pursued because real estate decisions are often made on an agency-by-agency basis.**
- **The Commonwealth does not have a procedure for taking the best advantage of lease expirations, including the 212 leases that will expire in the next year.**
- **The state has not seriously examined the possibility of sale-leaseback opportunities for the property that it currently owns.**

The Commission estimates that the Commonwealth may achieve $60 million in savings if it managed its real estate holdings as a portfolio, actively sought to reduce leased office spaces through co-location of agencies and reduced vacancy rates in the space that it currently leases. As a point of comparison, the federal government was able to achieve a 42% reduction in average vacancy rates over a four year period in the late 1990's when it moved to a portfolio management system.

Inventory Management *($50 million)*

The Commonwealth could achieve a $34 million one-time savings by reducing overall inventory to the level that existed two years ago. More sophisticated methods of inventory management could further enhance overall savings.

Major Recommendations:

- **Reduce inventory balances in VDOT, DOC and ABC by 20%**
- **Request that the Auditor of Public Accounts develop a standard mandating that all inventories in excess of $10,000 be classified as inventory in the state accounting systems.**
- **Standardize inventory management practices across state agencies**
- **Centralize distribution systems**
- **Involve suppliers in inventory reduction efforts (See Appendix Five: Virginia State Inventory Findings)**

Background:

- **The existing inventory balances of $172 million are more than 25% higher than they were only 2 years ago.**

- **Inventory management in the Commonwealth is decentralized across the state. Inventory management practices are not standard across agencies and metrics are not universally in place.**
- **Accounting policies do not require inventory of less that $1 million per agency to be captured in the accounting system as inventory.**

A 20% reduction in inventory balances in just three agencies- VDOT, DOC, ABC- would provide a $34 million one time savings opportunity for the Commonwealth. Over time, there is considerable opportunity for more significant inventory reduction by developing better statewide systems of inventory management, centralizing distribution systems across agencies and involving suppliers in inventory reduction opportunities.

Receivables ($30-45 million)

The Commonwealth could significantly enhance its process of collecting the money it is legitimately owed. **The Commonwealth currently has $5.6 billion of receivables that are either past due or considered "uncollectible."**

Major Recommendations:

- **Collection management should be standardized across agencies**
- **The current time period for declaring accounts delinquent should be shortened**
- **The Commonwealth should develop better collections agency strategies through the utilization of multiple agencies, through differentiating commission based on values and by providing settlement guidelines to agencies.**

- **Legislation should be submitted to the 2003 General Assembly enabling the Commonwealth to use "debt sales" to raise dollars from its "uncollectible" and "unworked" receivables. (See Appendix Six: Receivables Opportunities)**

Background:

The Commonwealth of Virginia has $2.5 billion of receivables, of which $1.6 billion are past due and $1.2 billion are more than 90 days past due. Additionally, $3.1 billion of receivables are deemed un-collectible.

The Commission's examination of the Commonwealth's receivables process noted that there are significant opportunities for enhancement. The current time period for declaring an account delinquent should be shortened. Processes for selecting and using external collections agencies are not consistent with best practices evident in the private sector. And "un-collectible receivables" that are currently not being pursued.

The Commission estimates that there is a $30-$45 million opportunity for the Commonwealth if it optimized receivables collections if it took steps to improve collections agency strategies and took action with unpursued "un-collectible receivables."

Human Resources ($11 million)

The Commission believes that there are two areas in the administration of human resources-payroll processing and training- where substantial savings can be realized.

Major Recommendations:

- **Individual agency payroll systems should be folded into service bureaus.**
- **The feasibility of a payroll system serving all Virginia colleges and universities should be explored.**

- **The Commonwealth should minimize the use of “training incidentals” (travels, meals, lodging) by promoting the use of e-training and videoconferencing.**
- **The Commonwealth should develop a comprehensive approach to training that defines appropriate roles/responsibilities for the Department of Human Resource Management Services, individual state agencies, higher education, private providers and the V-SHARE workforce development consortium. (See Appendix Seven: Human Resource Opportunities)**

Background Information:

The state payroll function is currently performed in a variety of ways. Some agencies perform it in-house while others use centralized service bureau processing. A study developed for the Commission noted that the existing service bureaus are 50% more efficient in payroll processing than the existing in-house processes. Increasing the use of service bureaus can save $2 million annually and optimizing the performance of service bureaus could save an additional $3 million dollars for a total save of $5 million per year.

The Commonwealth currently spends **$66 million per year** on training. **The largest percentage (36%) of the training budget is spent on “training incidentals”- travel, lodging food, etc.** The Commonwealth could conservatively save $6 million dollars annually without any reduction in training opportunities by changing its mode of delivering instruction where appropriate. The Commonwealth should minimize the use of training incidentals by maximizing its use of e-training.

CONTINUOUS IMPROVEMENT

The previous sections of our report have described the steps that Virginia needs to take to streamline its bureaucracy and operate with the level of efficiency that its citizens deserve. However, if we as a state are to avoid the continual recurrence of such challenges and maintain our reputation for fiscal responsibility and management strength, Virginia's leadership must establish an enduring process of continuous improvement in the management of state government.

Essential components of this process should include:

- Reforms that will enable the government to operate against long-term goals and long-term objectives.
- Managing performance and ensuring accountability in a systematic manner over the short and long term.
- Developing practices to optimize the contribution of Virginia's workforce
- Developing ways of ensuring the most efficient and effective use of the state budget dollars that are presently distributed to localities and to promote regional cooperation.

Reforms to Enhance Governmental Planning/Efficiency

The Commission recommends three reforms to enhance the capacity of Virginia government to promote the long-term interests of the citizens and the Commonwealth.

Change the Budget Cycle

At present, a new Governor must submit budget amendments to the biennium budget proposed by his predecessor within a few days of assuming office. This is an extraordinarily difficult task for an incoming Governor. In addition, it leaves Virginia's

Governor without the capacity to craft his own budget in its entirety until his third year in office. The Commission recommends a change in the budget cycle so that an incoming Governor would offer modifications to the second year of a biennial budget upon taking office. The incoming Governor would then craft his own biennial budget in the second year of his term. We recommend legislation to change the budget cycle beginning with the Governor elected in 2005.

The Right of the People to Re-Elect the Governor

At present, Virginia is the only state in which the people do not have the right to reelect their Governor to consecutive terms. In addition, the Governor is the only state elected office-holder in Virginia who can not be reelected. A good case can be made that long-term planning and accountability would be enhanced by granting this right to the public. The Commission recommends giving the public the right to decide whether it wishes to have the power to reelect a Governor for consecutive terms.

Enhancing Government Operations

If Virginia is to implement and achieve the savings identified in this report, it needs to ensure that state government is organized to work proactively and collaboratively. At present, primary responsibility for a number of key business practices is not clearly assigned. In addition, Virginia could do a better job of analyzing savings opportunities at the front end of its governmental processes. The Commission recommends that the Governor develop a plan to reorganize Cabinet functions in a manner that assigns clearer responsibility and authority on matters that are currently the responsibility of multiple officials.

Promote Governmental Excellence and Accountability

We believe that the Commonwealth should develop a vision for its future, long-term objectives for services and opportunities it provides to the citizens, and a system of state government accountability that can measure and assess:

- Current service performance
- Productivity improvement
- Progress against long-term objectives.

We recommend the adoption of a Roadmap for Virginia's future that includes the development of guiding principles, a long-term vision and a system of accountability emphasizing performance management that will allow citizens to be informed and engaged and will provide information to elected officials as they determine and fund services. An ongoing, bi-partisan Council on Virginia's Future should be established to monitor and report on its implementation. (See Appendix Eight: Continuous Improvement Opportunities)

Optimize Virginia's Workforce

A study conducted for the Commission noted that the Commonwealth's compensation philosophy employs a number of features consistent with those utilized by best-in-class organizations. But the study also noted that the compensation practices of the Commonwealth are not consistent with its stated objectives.

Direct compensation lags behind its peers and the Commonwealth has never seriously funded or implemented its performance based compensation system. At the same time, benefits such as paid time off are far more generous than in most private sector organizations, The practical result is an incentive package and a culture that are neither adequate for employees nor for the Commonwealth's need to have the highest possible performing workforce.

Compensation practices should be reformed to place greater emphasis on real merit pay and direct compensation and to reduce the amount of paid time-off. (See Appendix Seven: Human Resource Opportunities) In addition, the Commission recommends that state government revisit the actuarial assumptions of the retirement system and consider whether it would be appropriate to have a partial or whole conversion to a defined contribution or hybrid plan.

Promote Regionalism

Many of the principles and actions being recommended for the improved efficient and effective delivery of state services should be equally applicable to localities. Virginia's structure of local government and method of state funding for localities fails to incentivize cooperation, efficiency, and effectiveness and places many localities at a competitive disadvantage. Since the Hahn Commission Report in 1967, there have been 13 additional commissions that have made reports. Yet the challenge of promoting vibrant, competitive regions while retaining existing local identity and boundaries still remains. (See Appendix Nine: Commissions that have Addressed regional Matters since 1967)

Examining the manner in which state funding can be utilized effectively and efficiently at the local and regional levels is a logical complement to the work of this Commission. We recommend that the Governor develop a process to do so, but one that is explicitly designed to overcome the lack of action that has too often has been the real outcome of previous reports.

CONCLUSION

In challenging economic times, most state governments will simply hunker down and make the kind of adjustments that will enable them to get through the immediate budget cycle. This Commission has articulated a far more ambitious response for the Commonwealth, one that calls for responding to the current challenges proactively and creatively by streamlining government, changing the ways it conducts its business and developing a real capacity for establishing and meeting long-term goals.

We do not suggest that implementation will be easy. But we believe that our ideas will position the Commonwealth to maintain its commitment to governmental excellence and to retain a competitive edge in comparison to other states. The citizens of Virginia deserve nothing less.