Vic Suhm January 10, 2017 Presentation
to the International Right of Way Association
at the Texas Star in Euless, Texas

There are six topics that I will address with you today:

1. Infrastructure and why it is important that we invest in infrastructure.
2. The state (or condition) of our infrastructure.
3. Our region's Metropolitan Mobility Plan
4. Funding infrastructure investment – traditional and alternative funding and the politics affecting funding including a few comments on "the Trump plan."
5. What a good infrastructure funding protocol might look like.
6. I'll conclude with a preview of the 85th Texas Legislature, which is convening as we speak, and give you a brief overview our legislative agenda for the session. Then, we'll take your questions and comments.

1. Infrastructure: roads, bridges, airports, water & sewer lines, storm drainage--all are really important--all require on-going investment—and we under-invest in all, which is penny wise and pound foolish and at our own peril. My focus today is transportation infrastructure.

   So, why is it important that we invest in infrastructure?
   - It's a core function of government; it's not something we can provide as individuals but rather something we rely on government to provide.
   - It is essential, not optional – we use it and rely on it in our daily lives.
   - It is critical to our quality of life. Without the ability to move people and goods with a reasonable predictability and efficiency, we have no quality of life.
   - It is an essential component of a healthy economy. We fortunately live in a region with a strong, healthy and vibrant economy. We can't sustain it if we don't invest in our infrastructure. If we don't have a reasonable level of mobility, businesses will choose to expand and relocate elsewhere; our economy and our tax base – and our quality of life – will decline. Infrastructure investment is truly important.

2. The state (or condition) of our infrastructure.
   - Despite its significance, we as a nation have neglected our transportation infrastructure. We have been underinvesting in our infrastructure for decades. We invest annually less than one third of what is needed.
   - The American Society of Civil Engineers periodically rates the condition of our infrastructure. Bridges and rail get a C+; aviation, roads and public transit get a D.
   - Highway congestion costs our economy $101 billion annually; transit systems deficiencies cost another $90 billion a year.
   - The average American family loses $3,400 per year in disposable income due to inadequate infrastructure.
   - In 2015, the World Economic Forum ranked the economic competitiveness of U.S. infrastructure at no. 11. We were ranked first in 2005.
   - Our transportation infrastructure needs modernization, not just better maintenance. High speed rail is just one of many examples. Every wealthy nation in the world except the United States has invested in high speed rail, linking city centers and providing a

desirable alternative to both air and automobile travel. China, for example, has a high speed network of 11,800 miles and is investing $504 billion to extend it to 18,600 miles by 2020, connecting 80 percent of its major cities. Outside Amtrak's 28 miles of 150-m.p.h. track in rural Massachusetts and Rhode Island, the American rail network is largely limited to speeds of 110 m.p.h. or less – pretty pathetic.

3. Our region's Metropolitan Mobility Plan
   Let me say at the outset that we in North Texas are extremely fortunate to have a great metropolitan planning organization. Our MPO is probably the best in the country. The policy board – the Regional Transportation Council or RTC – consists of 44 mostly local elected officials and meets monthly; they come together, take off their city or county hats, and make sound decisions that are in the best interests of the region.

The MPO creates the metropolitan mobility plan, which is the region's long range transportation plan . . . it is the guiding document for operating, maintaining and improving the region's transportation network. The MPO adopted the current plan – Mobility 2040 – last March; it adopts a new plan every 3-to-4 years and updates the current plan periodically as needed.

The Dallas-Fort Worth area is a large, diverse region . . . it is the fourth largest metropolitan region in the country in terms of population. Covering about 9,500 square miles, the region's landscape ranges across dense urban areas to suburban development, small town centers, and rural ranch and farm land. Multiple transportation options are needed to help the region's diversity of residents reach their destinations. The MTP improvements will create a transportation system that serves a variety of travel needs. They take steps toward allowing the region's residents to choose how they want to travel to their destination. Providing choices can improve quality of life for the region's residents.

DFW is a growing region . . . it adds approximately 1 million people every decade. The region's population and employment are expected to grow by 53 percent and 47 percent, respectively by 2040. This growth will increase demand on the region's already congested transportation system. As the region grows, transit will play an increasingly important role in the way people travel.

By law the mobility plan is financially constrained, which means that it contains only projects for which the revenue needed to fund them is reasonably expected to be available. Because our transportation needs are greater than revenues expected to be available to fund them, Mobility 2040 prioritizes projects that maximize the existing transportation system, then strategically invests in new infrastructure.

3 components seek to Maximize the Existing System

$37.4B Infrastructure Maintenance to maintain and operate existing facilities
$ 7.2B Management & Operations to improve efficiency and remove trips from the system
$ 3.6 B Growth, Development, & Land Use Strategies seek a more efficient land use and transportation system balance

2 components make Strategic Infrastructure Investment

$27.2B Rail & Bus seek to induce a switch from auto to transit
HOV/Managed Lanes seek to increase auto occupancy and predictable travel time
$43.4B Freeways/Tollways & Arterials add additional vehicle capacity to the system

$118.9B Mobility 2040 total [compared to $431.5 billion in needs]

Mobility 2040 is larger than previous plans because of a growing economy and because of the passage of two constitutional amendments [Prop 1 & Prop 7] approved by the voters in 2014 and 2015, following actions taken by the 83rd and 84th Texas Legislatures. Another change is noteworthy – HB 20 passed by the 84th Texas Legislature – requires implementing performance-based funding allocation and adoption of a new ten-year plan. Last month, the RTC adopted its first ten-year plan, programming $6,984,390,000 to projects.

Let's look at some regional performance indicators:

Regional Performance Measures	2017	2040
Population	7,235,508	10,676,844
Employment	4,584,235	6,691,449
Vehicle Miles of Travel (Daily)	206,241,991	319,727,680
Annual Hours Spent in Delay (Per Person)	72	114
Vehicle Hours Spent in Delay (Daily)	1,520,582	3,588,740
Increase in Travel Time Due to Congestion	38.1%	58.2%
Annual Cost of Congestion	$10.7 billion	$25.3 billion

4. Funding infrastructure investment – traditional and alternative funding and the politics affecting funding including a few comments on "the Trump plan."

   When we refer to "traditional transportation funding," we are primarily talking about the motor fuels tax and the vehicle registration fee. Historically these have been the principal sources of revenue to fund roadways in the U.S. and in Texas. When we refer to alternative funding mechanisms, primarily we are talking about tolling and PPPs [CDAs in Texas]. In the interest of time, I'm not going to get into the various forms of financing or debt involved in funding transportation.

   Traditional funding, i.e., gas tax & vehicle registration fees, is far and away the most efficient way to fund roadways; revenue collection is relatively easy and low cost – less than five percent, compared to 25 percent or more for toll collection. Since it's been about 25 years since the Texas Legislature or the U.S. Congress voted to raise the rates of the gas tax – and longer for the VRF – to say that traditional transportation funding is politically challenging would be a gross understatement. Ideally, the Lege and Congress would have indexed these to inflation in 1991 and 1993 when they last adjusted the rates, but they didn't. Had they done so, we'd be paying about 75 cents a gallon now rather than 38.4 cents. Inflation has eaten away nearly half the purchasing power of the MFT and VRF over the last 25 years. Additionally, increasing vehicle fuel efficiency and the introduction of alternatively fueled-vehicles is rendering the traditional MFT less effective as a reliable revenue source for funding transportation.

Accelerated use of tolling as a means of constructing new highways began around 2005 during the tenure of former TTC chair Ric Williamson. During the Williamson era, TxDOT strongly encouraged use of tolling and provided financial incentives for doing so. Every year more than 7.4 million drivers are making the choice with their steering wheel to drive NTTA toll roads. NTTA toll roads free up lane miles on tax-funded roads and provide important mobility options for North Texas motorists. The NTTA system has 1,000 lane miles and accommodates 2.5 percent of the daily VMT in the region; without it, annual delay cost would increase about $2.31 million.

Governor Abbott and the current TTC do not encourage tolling. Legislative and gubernatorial opposition to tolling was in part the motivation that led the 83rd and 84th Texas Legislators to passing the JRs that led to voter approval of Prop 1 & Prop 7. These two measures will increase funding for transportation investment by about $5 billion annually – a significant sum – far more than has ever been achieved previously – but still far less than what is really needed to sustain mobility. As I mentioned earlier, Mobility 2040, our region's MTP, programs less than 30 percent of what North Texas really needs.

We've constructed far more roadway improvements over the previous several years than any region in the country – about $25 billion worth. We've been able to do this by using tolling and CDAs – and the leverage they enable. The power of leverage in sustaining mobility is very large; in our case, less than $3 billion in public funding generated more than $22 billion in private sector funding to implement major transportation improvements.

There are upsides and downsides to tolling and PPPs. The upside is that they enable the implementation of needed improvements at least a decade sooner than would be possible without them. The benefits to the motoring public and to commerce and productivity are huge, and avoiding the cost of a decade or more in construction price inflation is a significant capital savings. The downside is that toll roads and PPPs are expensive. The initial electronics, the on-going collection of tolls, and the interest on toll revenue bonds make toll roads costlier than tax roads, and the profit and tax components of PPPs add another element to project cost. On balance, the upsides outweigh the downsides, when there is insufficient political will to provide traditional tax and fee revenue to fund the needed improvements.

Okay, so how does the Trump infrastructure plan fit in to all this? First, there is more unknown than known about his plan. Here's what he's said so far – a 10-year infrastructure program involving $138 billion in federal tax credits to generate $1 trillion of private investments in road, bridge and public utility projects. Congress does have an appetite for a large infrastructure program but absolutely no consensus on how to pay for it. The projects must have a revenue stream to repay the investors; presumably that would be tolls, but not all projects are suitable for tolling and the public and elected officials in some areas have grown weary of tolls. That is certainly the case in Texas, so if the Trump plan, when we learn more detail, turns out to be one that relies almost exclusively on debt, tolling, PPPs and leverage, then Texas may not be all that receptive and possibly not benefit all that much.

5. What might a good infrastructure funding protocol look like?

Most likely we'll rely largely on the MFT and VRF revenue sources as the primary tools to fund transportation for several years into the future; in Texas, sales and severance taxes (Prop 1 & Prop 7) will also be significant revenue sources. Bear in mind that these sources (at current rates) provide only about one-third of the amount of revenue needed to fund a system that sustains mobility. Doubling the rates of the federal and state MFT and the state VRF, indexing them to inflation, and also indexing the MFT to the CAFÉ standard would make them viable revenue sources **until** alternatively fueled vehicles constitute a significant market share. Several states are now testing a VMT [vehicle miles traveled] fee to supplement and eventually replace the MFT. The "big brother" fear has so far precluded Texas from being one of these states. At some point, I believe the VMT fee will be the way we raise revenue to fund transportation, but not until an efficient collection system is developed and public acceptance and political receptivity increase.

6. Okay, let's take at the 85th Texas Legislature, which convened today at noon, and briefly review our legislative agenda for the session.

The legislative schedule

Bill pre-filing began November 14. This month (January), the Legislature convenes, the governor delivers the state of the state address, the comptroller issues his 2018-19 revenue estimate, the lieutenant governor and speaker organize committees and hearings begin on the base appropriations bill. In February, standing committees begin hearings. March 10 is the bill filing deadline and the 140-day session ends May 29.

Legislature Make-up

The Legislature will not be significantly different from last session. Overall, it remains pretty strongly conservative, especially in the Senate. The Ds picked up 4 seats in the House [urban swing districts], but the R's still have a solid majority. Six Republican incumbent House members did however lose their seats in the primary, including two committee chairs [Doug Miller & Wayne Smith]. The only changes in the Senate came in the 1st and 24th districts, where Republicans Kevin Eltife of Tyler and Troy Fraser of Horseshoe Bay retired. They are replaced by Bryan Hughes of Mineola and Dawn Buckingham of Lakeway, both Republicans.

Legislative Priorities

The top priority of the Legislature is, as always, passing the appropriations act. Balancing the budget will be a big challenge this session. The Legislature is going into this session with a $5.76 billion lower general fund balance than last session. The Comptroller's biennial revenue estimate for this session is 2.7% lower than it was for the current biennium. Prop 7 approved by the voters in November 2015 dedicates some sales tax revenue to transportation; it reduces the amount available for general government by $4.71 billion for the 2018-19 biennium. Additionally, the Legislature last session passed HB 32, which reduces the rate of the franchise tax, lowering its revenue this biennium 18.6% from last biennium. Sales tax is the single largest state revenue source. Actual sales tax collections increased 12.3% in the 2014-15 biennium; the estimated increase for the 2016-17 biennium is 1.4% and 0.8% for the 2018-19 biennium, driven primarily by reduced collections from oil and gas-related sectors, due to contractions in drilling activity following the 2014 steep drop in crude oil prices. Another negative impact on the budget is a projected 6.0% decline in federal income for Medicaid due to expiration of Texas'

Medicaid Waiver under Section 1115 of the Social Security Act. Medicaid and CHIP caseload growth will cost the General Fund $1.6 billion more than in the current biennium. Over the last 20 years, growth of the Texas economy averaged 3.8% per year; estimated growth for 2016 is 0.2 percent. Given the tighter finances in this biennium, the Legislative Budget Board in early December adopted an 8% spending cap, meaning that appropriations over the next two years can grow no more than 8% over the previous two years. That compares to a 2015-16 spending cap of 11.68%, which was about 1 percentage point lower than the previous biennium. So, you can see why adopting a balanced budget is going to be a major challenge for the Legislature this session.

Moving beyond the budget, the consensus priority issue is improving foster care and child protective services. The LBB took some steps in early December to begin to address this issue but more action will be needed during the session.

Other priority issues vary somewhat from the Governor, Lt. Governor and Speaker:
The Governor wants the Legislature to pass some stronger anti-abortion measures and to prohibit sanctuary cities. Both the Governor and Lt. Governor support SB 21, which calls for an Article V "Convention of States" to limit the power of the federal government.

The Lt. Governor has a specific list of 25 priorities that he has for this session, which reflect his commitment to conservative principles of maintaining a small but efficient government, reducing taxes, empowering parents, fighting for constitutional rights and protecting Texas values. His top priorities are property tax reform, school choice, sanctuary cities and personal privacy (the transgender bathroom bill).

In addition to the budget and child protective services, Speaker Straus has mentioned several issues he hopes the Legislature will address, including improving school funding formulas and eliminating "Robin Hood" recapture, making higher education accessible to students regardless of their family's financial situation, encouraging entrepreneurship and small business growth, finding ways to reform the state's property tax system, and expanding the capacity of the state's mental health care system. He also plans to restore funding in the supplemental budget for disabled children's in-home therapy services; his view is that the cuts were "well intentioned" but "probably a mistake."

So, what is the Legislature likely to do with **transportation** this session? Given the current budget constraints and the new transportation funding the Legislature approved the last two sessions, it's highly unlikely that we'll see any transportation funding advancements this session. One possible exception may be a bill authorizing a pilot program permitting a sales tax TIF--something like a transportation reinvestment zone using the state sales tax rather than the ad valorem tax. If it moves, which is far from certain, it may be limited to one or two projects, one of which could be LBJ East.

Much of our effort this session will be defending or protecting the funding we have and preserving all the tools in the proverbial tool box. Defeating bills that would further limit use of tolling, managed lanes and CDAs will be a primary focus. In addition, we'll be closely monitoring the TxDOT Sunset bill and any efforts to amend HB 20 from last session.

Transportation advocacy organizations like DRMC, TRTC and TAoT have all adopted specific legislative agenda for the session. While each contains some unique positions, they have much in common and reflect consistency with respect to major issues. All really focus on protecting what we have and supporting bills that expand dedicated funding for transportation. In the interest of time, I'll not go into the detail of the advocacy agenda now but will be happy to elaborate on any of them to the extent anyone wants me to during our Q & A time.

For now, let me just summarize by restating that the big challenge facing those of us who advocate for mobility is preservation of the proverbial "tools in the toolbox." Sustaining the ability to use the managed lanes, tolling and CDA (or PPPs) tools is critical to sustaining mobility in our region. Over the last couple of legislative session, there has been growing opposition to use of these tools by legislators. While I think most North Texans do not oppose these tools, some folks do. I think those who do fall generally into two categories--TEA partiers and Collin County residents. If you live in Collin County, it's pretty difficult to avoid driving on a tollway and if you drive them to and from work daily, you likely are paying a pretty hefty bill to NTTA. I know some folks who are paying $400 a month. So, it's pretty easy to see why these folks have some real concern with tollways. The TEA partiers are a different story; think "foreign investment and double taxation" as the basis of their opposition.

Now we'll open it up for your questions and comments.

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