



TESTIMONY

Overview of Funding Needs

**Phil Wilson
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**Testimony before the
House Select Committee on Transportation Funding**

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INTRODUCTION

My name is Phil Wilson and I am the Executive Director of TxDOT. Also with me is TxDOT Deputy Director John Barton who is here to discuss the engineering and safety aspects of our discussion today.

I would like to start by thanking you. Since I came on board almost two years ago, many of you very generously took the time to discuss your thoughts on how we can improve our operations at TxDOT and thereby improve mobility in this state. I am very grateful for that.

I am also thankful for your strong commitment to transportation, which I believe is well-reflected in the general appropriations act, HB 1025, and many other

pieces of legislation signed into law. But as you know, there is a general consensus that there is more to be done.

A lot of funding ideas have been considered; and you have several bills on the agenda today. But the committee has asked me to focus my remarks on the mid- and long-term outlook for funding, and how the decisions we make today affect our production well beyond the next fiscal biennium.

I know each of you is familiar with the challenges we face with respect to transportation finance including our fully-committed bond funds, the decreased purchasing power of highway funds, rising fuel efficiency, an aging highway system, and the uncertainty of federal funding.

My central message is this. In the world of transportation finance, the biennial budget is really just a glimpse of the

effects of decisions made years ago. Technically, it is a *projection* of how our payments might look in the future based on decisions made in the past.

What is not particularly evident if you just look at today's budget, is what happens in the near future. What some members call "the cliff" occurs after the next biennium. If we want to change the outlook in 2016, we would have to take action today. Here's why.

THE FACTORY

Transportation projects, particularly mobility projects, take many years to develop from the time they are conceived to when they are put up for bid to contractors.

Most of the money appropriated to us in the general appropriations act is to pay for projects that are already

underway, to pay debt service on bonds, and to maintain the existing system.

Therefore, in order to boost contracting levels in 2016, new funding must enter the system now.

I have heard a few members offer analogies to help describe the transportation development cycle. I compare the process to a factory. A factory cannot start churning out its products simply by turning on a machine. A lot has to happen on the front end.

First, it should be established that there is sufficient demand for the product. With the growth the state has seen, we all recognize there is demand for more roads. And for each project we conduct a public involvement process, feasibility, and environmental analysis.

Then, component parts have to be acquired—similar to the design, right of way acquisition, and utility adjustments associated with transportation projects.

The bottom line is, none of these activities can begin until a sound financial analysis indicates there will be sufficient resources to see the process through to the end.

We have the raw materials to produce a robust level of projects in the next biennium. But if we don't increase our resources now, our production in dollar terms will fall to levels not seen since the early 2000s.

When adjusted for construction inflation, our production levels will be down to levels from more than twenty years ago.

Meanwhile, more and more people move to Texas, congestion worsens, and our existing assets age.

THE NEEDS

In any discussion about funding, we need to know what the needs are.

The 2030 Committee was a panel comprised of twelve Texas business and civic leaders appointed by the Texas Transportation Commission in May 2008.

The 2030 Committee was charged with independently determining the fiscal requirements for the state's future transportation needs.

The needs estimate focused on the investment necessary to maintain the pavements and bridges on Texas

roadways, to prevent worsening traffic congestion in urban areas, and to ensure rural mobility and safety.

The Texas Transportation Institute served as the committee's research and technical staff.

Based on their report, which was updated in 2011, we estimate the unmet needs of the state currently at \$4 billion per year—\$1 billion for maintenance and \$3 billion for mobility.

To put it another way – our factory will “produce” \$5.7 billion in new products this year through new contracts for construction and maintenance and we are already \$1 billion below where we need to be. In 2016, our production will fall to \$2.5 billion, leaving us \$4 billion short.

ENERGY SECTOR NEEDS

But that figure did not take into account what is happening in some of the regions of the state where energy exploration and production has flourished.

While this activity is an overall benefit to the state, our roads are being decimated.

In our Legislative Appropriations Request submitted a year ago, we requested \$400 million to repair some of the roads that have already been damaged and another \$600 million each year of the biennium to reinforce other state highways in the affected regions.

HB 1025 did appropriate \$225 million to repair state highways. However, we estimate an average of \$1 billion per year is necessary to properly maintain the state

highways in these regions to compensate for the increased activities.

Continuing with our factory analogy, a whole new market opened up and we need to increase production now to meet demand.

TxDOT RESPONSE

The urgent need in the energy-producing areas of the state is relatively recent. But the department has been aware of the other challenges for several years.

The Texas Legislature's authorization of several bond programs, Congress' willingness to spend more money than they bring in, and a short-term downtick in contractor costs have all helped stave off the severe decline in our contracting levels.

But all of these short-term measures merely delay the inevitable. At this time I would like to say something about how we are managing the funds we have today in response to this issue.

At TxDOT, we take our responsibility to be good stewards of taxpayer money very seriously.

We have instituted a rigorous cost-savings program that challenges every TxDOT employee to identify opportunities to lower costs and increase value. Here are some highlights of that effort, both big and small.

-Privatizing our IT services is expected to result in better tools, better service and lower risk. It will save TxDOT \$30 million a year or \$150 million over 5 years, which

will be reinvested back into our IT systems to allow for more efficient operations.

-TxDOT plans to shrink its fleet from 16,000 vehicles to 10,000 vehicles which could help us avoid costs by approximately \$50 million a year.

-We are privatizing maintenance on I-45 in Houston saving the department \$5 million a year for five years.

- We leveraged improved credit ratings and favorable market conditions to refinance \$800 million of debt for the Central Texas Turnpike System, saving \$200 million over the life of the bonds.

- And on a much smaller scale, simply switching from traditional motor oil to synthetic motor oil will save TxDOT \$1.4 million per year.

Here is another way to look at our budget.

- About 78% of our expenditures are to make payments to contractors and consultant engineers, and to acquire right of way.

- About 9% is for debt service.

- And 5.8% is for personnel costs.

I understand that the joint committee established by HB 1 will delve into these matters more fully and I look forward to that discussion.

FUNDING OPTIONS

Before I conclude, I want to explain one of the other handouts I have provided. Early on in the regular session we were asked to compile a list of all of the ideas we have heard to increase transportation funding.

We at TxDOT execute the vision that you in the legislature provide. Obviously we do not endorse any of the options on the list. What we can do is help to provide an estimate of the revenue that each idea might produce and describe the effects that they have on our programs.

CONCLUSION

In conclusion, please know this. TxDOT is particularly focused on programs that we think reflect the values of the department and our state.

And it's pretty simple. We are committed to improving the quality of life of all Texans. That means we focus on safety, congestion mitigation, and ensuring the economic competitiveness of the state.

We will meet those goals with the resources you provide.