

RPM Presentation #2

Slide 1:

You may have noticed that transportation is getting more attention among our state's leaders. That's a good thing, because we're facing some very important decisions as a state – decisions that will have a huge impact on the health of Texas businesses. So, before any of those decisions are made, it's important that all of us become well-informed about the challenges we face, and that we ask ourselves whether we need to be doing things differently than in the past. We all need to contribute informed viewpoints on the decisions that will determine how the state's most urgent transportation needs will be met, and how they should be paid for.

Slide 2:

Texas has a history of good roads. They have made it possible for us to build and expand a vibrant business environment. But we are, in a sense, a victim of our own success. As the Texas economy and population have grown, our road system has not kept pace and, as a result, we face significant challenges due to increased traffic congestion.

Slide 3:

Right now, the roadway system in Texas is stretched to the limit and it's only going to get worse. You may think to yourself "whenever I travel roads in Texas all I see is orange barrels and new construction out there." Well, don't let that fool you. Most of the construction you see has been paid for with borrowed money. As a result, by 2015, Texas will likely be out of money to build new roads. So, again, maybe it's time to re-think the way we do things.

Slide 4:

What's at stake is no less than the economic future of Texas. As transportation costs rise, so does the price of products. Businesses then either raise their prices -- which

affects their ability to compete, or they absorb the cost -- which affects the income of shareholders, investors, employees and owners. In a larger sense, it affects the state's ability to attract other businesses. And as consumers, we all pay for traffic congestion through higher prices.

Slide 5:

Let's think of it another way. Let's say you own a business and your customer base consists of those people who are within 30 minutes of your business. As traffic congestion gets worse, the number of people within 30 minutes of your business gets smaller. Your market base shrinks. You lose customers, income, and opportunity.

Slide 6:

The same is true for employees. Let's say the maximum commute distance you can reasonably expect an employee to make is 1 hour. As congestion worsens, the number of potential employees within an hour commute becomes smaller. As an employer your potential labor pool shrinks. As an employee your employment opportunities decrease -- all because of increased traffic congestion.

Slide 7:

So, what do we know? Well, what we know is that transportation funding has not kept pace with demand.

Slide 8:

What do we do about it? First, let's get a better idea of how we pay for our roads. Most of that revenue comes from user fees in several forms. When you buy gasoline for your car, you pay a 20 cent state fuel tax. At the same time you pay your state gasoline tax, you also pay a federal gasoline tax-- and right now that's 18.4 cents per gallon. Every year you pay a vehicle registration fee to register your car in Texas and that now amounts to a little over 50 dollars a year. And finally, as I've mentioned earlier, we have turned to

borrowing money, building roads now and paying them off over a 20-25 year period of time. We have relied more in recent years on borrowing than we do on the state motor fuels tax.

Slide 9:

Let's look briefly at what we pay for transportation in Texas relative to other states. Our fuel tax ranks 29th out of the 50 states, registration fees are 19th out of the 50 states, but in the total cost of vehicle ownership in Texas, we rank 44th out of the 50 states. Owning and operating a vehicle on the public roadways of the state of Texas is cheap compared to other states. You may wonder how, if we rank 29th on fuel taxes and 19th on vehicle registration fees, can we rank so low in terms of total cost of vehicle ownership? The reason is because, in Texas, we don't pay a lot of the taxes that that vehicle owners in other states have to pay, most notably personal property tax each year on the vehicles they own.

Slide 10:

So what's the problem and what does it mean for us in Texas? Well, traffic congestion in Texas costs all of us. Because of traffic congestion on our roadways there is about 472 million extra hours of travel time, about \$10.1 billion dollars in delay and wasted fuel cost, and about \$2.1 billion in extra freight cost, each year.

Slide 11:

Hopefully we can all agree that we have a problem. A logical question is, how did we get in the hole we're in? And the answer is -- it's all about supply and demand. Over the past 40 years, our population has more than doubled -- up by 125 percent. The number of cars and trucks on the road has almost tripled. And the number of miles those cars and trucks travel has more than tripled. Over the same time, our roadway capacity has barely grown at all -- only 19 percent. We just have too much demand for roadway space and not enough supply. It's that simple.

Slide 12:

The gasoline tax was originally instituted as a user fee; the more miles you drove, the more gasoline you used, the more tax you paid. We haven't raised that tax in 22 years. Back in 1993, gasoline cost \$1.11 a gallon and the fuel tax portion on that gallon of gasoline was 38 cents, 20 cents of that is the state fuel tax, 18.4 cents the federal fuel tax. Since that time the price of gasoline has increased to \$3.70 but the tax portion of that is still the same 38 cents. That's because it's a tax on a unit of measure – the gallon.

Now contrast that with the sales tax. If you pay more for something now than you paid for it 22 years ago, you would also pay more in sales tax, because it's a percentage tax. If you paid twice what you paid for something 22 years ago, you would pay twice as much in total tax. The gas tax is not a percentage tax, so the tax revenue is the same no matter what the gallon of gas may cost.

Slide 13:

The same can be said with diesel fuel. From 1994 to 2013 the price of diesel fuel has increased from \$1.12 to \$3.93...but the tax remains the same. You may ask yourself, "so what?" -- well here's what happens.

Slide 14:

Since 1993 the cost of everyday goods has just about doubled and so has the cost of building roads, but the tax that we are paying has stayed the same.

Slide 15:

Here's what's happened to the purchasing power of the motor fuels tax-- in 1991 the tax was raised to 20 cents a gallon, but because of increases in the price of construction, today, that 20 cents buys about 8.5 cents worth of construction. The same thing has happened of course with the purchasing power of the federal fuels tax. So not only are we

beginning to collect less tax because of increased fuel efficiency, the tax that we do collect pays for less and less actual highway construction and maintenance services.

Slide 16:

So every year we lose purchasing power to inflation-- every year we can build a little less roadway with the fuel tax we have raised-- but that's just part of the story. The other thing that's occurred is that during this same time we've seen significant improvements in fuel efficiency; so therefore, cars that drive the same amount of miles from one year to the next use less fuel to do it. And because the way we pay for highways depends so heavily on the gasoline tax, the fact that we use less gasoline to drive the same number of miles causes a real problem in terms of paying for that system.

Slide 17:

We also know that mobility is going to get worse—how much worse? Well, it depends on how much of an effort we put into trying to address the problem.

Slide 18:

And we also know that the cost of doing nothing is high. If we do nothing, transportation costs will go up, product prices will go up, delivery times will grow longer, and commute times will grow longer, too. Productivity will suffer, and our overall quality of life will suffer. So, the cost of doing nothing is in fact very high.

Slide 19:

But just as in your business, capital expansion doesn't happen overnight. We can't decide to build a new road today and have it finished by next Tuesday. We have to plan, and that requires knowing how much money we are going to have for construction. We also have to maintain the assets we already have on the ground. Texans have made a significant investment in our transportation system over the years and we need to

maintain that investment so we can continue to get the most efficient use out of that system.

Slide 20:

A couple of years ago the Texas A&M Transportation Institute was asked to project the transportation funding need in Texas over the next 25 years. TTI researchers determined that in order to keep traffic congestion in Texas from getting worse would require about 270 billion dollars over those 25 years. Given our current revenue streams, we are on pace to raise about 100 billion dollars. In other words, we have a 170 billion dollar gap between how much we need and how much we will have. The economic cost, if we continue to spend at those current levels, is 1 trillion dollars. So as expensive as it is to expand the system to accommodate the growth that we expect in Texas, it will be even more expensive if we do not.

Slide 21:

So what do we do? Do we increase the fuel tax? Do we index the fuel tax to something like fuel efficiency or the cost of construction? Do we increase the vehicle registration fee? Have more toll roads? More public-private partnerships? Comprehensive development agreements with private developers? Impose a vehicle miles traveled fee? Give cities and counties the authority to raise money for their local transportation problems? Or do we just drive less or maybe move somewhere else? There are a lot of decisions out there that we need to make over the course of the next couple of years in Texas about how we are going to fund our transportation system on a long term sustainable basis; there are a lot of options on the table.

Slide 22:

Or do we do nothing? That is, in fact, an option, but I think we can all see that the cost of doing nothing is very high – much higher than the cost of meeting the challenge head-on.

Slide 23:

So if you want a change, I would urge you to stay informed, become more involved, and voice your concerns. And play an active role in the process as we try to rethink our path to mobility, to preserve this transportation system that Texans have built, and to preserve our ability to expand that system over time as Texas continues to grow.