



## Texas Department of Transportation

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August 27, 2015

Members of the Texas Senate  
Members of the Texas House of Representatives

Dear Texas Legislator:

In compliance with Sec. 222.0031(c) of the Transportation Code, the Texas Department of Transportation is pleased to submit the attached written report on the implementation of the repayment of bonds prescribed by this section. A copy of this report will be posted to [www.txdot.gov](http://www.txdot.gov).

If you have any questions, please contact Trent Thomas, Director of the State Legislative Affairs Section, at (512) 463-6397 or [trent.thomas@txdot.gov](mailto:trent.thomas@txdot.gov).

Sincerely,

LtGen J.F. Weber, USMC (Ret)  
Executive Director

Enclosure

cc: Texas Transportation Commission

#### OUR GOALS

MAINTAIN A SAFE SYSTEM ▪ ADDRESS CONGESTION ▪ CONNECT TEXAS COMMUNITIES ▪ BEST IN CLASS STATE AGENCY

*An Equal Opportunity Employer*

# Report to the Texas Legislature on \$100 Million Cost Savings

## Introduction

Pursuant to Section 222.0031, the Texas Transportation Code<sup>1</sup> requires the Texas Department of Transportation (TxDOT) to identify \$100 million in savings and reduce the principal and interest on Proposition 14 State Highway Fund revenue bonds. In achieving such savings, TxDOT may not reduce the amount of funding available for transportation projects. TxDOT shall also submit a report to the Texas Legislature by August 31, 2015 on the implementation of these requirements.

## Cost-Savings Report

House Bill 1 (HB 1) from the 83<sup>rd</sup> Texas Legislature's Third Called Session includes a provision requiring the department to report on its efforts toward achieving the required cost savings. The following is an excerpt from the bill's enrolled language:

Sec. 222.0031. REQUIRED REPAYMENT OF BONDS. (a) On or before August 31, 2015, the department shall identify and implement savings and efficiencies that result in a total savings of at least \$100 million in funds appropriated to the department for the state fiscal biennium ending August 31, 2015. The amount saved is appropriated for the state fiscal biennium ending August 31, 2015, to the department from the source from which the money was originally appropriated for the purpose of reducing the principal of and interest on bonds and other public securities issued, and bond enhancement agreements entered into, by the commission as authorized by Section 49-n, Article III, Texas Constitution, as proposed by H.J.R. 28, 78th Legislature, Regular Session, 2003.

(b) To make payments required under Subsection (a), the department:

(1) shall maximize the use of all amounts appropriated to the department;

(2) may use savings realized through operational efficiencies, cost reductions, and cost savings; and

(3) may not reduce the amount of funding available for transportation projects.

(c) Not later than August 31, 2015, the department shall report in writing to the legislature on the implementation of this section.

(d) This section expires September 1, 2015.

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<sup>1</sup> HB 1 (83rd Texas Legislature, Third Called Session)

## Historical Cost-Cutting and Efficiencies

Like many other states across the nation, Texas faces serious transportation challenges, including the precarious state of the Federal Highway Trust Fund, long-term increases in the costs of highway construction and materials, and reduced gas tax revenue per vehicle due to improved fuel efficiency. Meanwhile, Texas' strong economy and favorable climate help fuel the state's population growth of more than a thousand people per day. As congestion worsens, both urban and rural areas have suffered from the effects.

The Texas Transportation Commission and TxDOT have anticipated the state's funding challenges for many years. In response, TxDOT has made efforts to reduce costs and promote efficiencies in order to maximize its resources.

In recent years, as the gap between Texas' transportation needs and resources widened, TxDOT began detailing its cost-cutting efforts to the Texas Legislature. In February 2007, TxDOT included in its Legislative Appropriations Request testimony 46 different proposals to control costs of highway construction and maintenance.

One of the ideas, implemented in 2007, introduced a roadway overlay that reduces road noise and requires less maintenance, thereby stretching TxDOT's maintenance budget further. The innovation recently received local media coverage in Austin.<sup>2</sup> Other cost-cutting measures have also been featured in news stories, including optimization of the department's heavy equipment fleet, recycling asphalt, and the elimination of unnecessary painting practices for equipment.<sup>3</sup>

Additionally, TxDOT's North Tarrant Express project in North Texas earned the department an award in the "Under Budget" category from America's Transportation Awards in conjunction with the American Association of State Highway and Transportation Officials, the U.S. Chamber of Commerce, and the American Automobile Association. The organizations recognized TxDOT for its cost-saving and project-efficiency efforts during the funding and construction of the \$2.1 billion project. The award recognizes a successful project brought in under budget that provided the greatest cost savings to the state while offering maximum performance.<sup>4</sup>

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<sup>2</sup> Bien, Calily and Dugan, Amanda. TxDOT's new roadway overlay gives you a smoother ride. KXAN News Service. July 23, 2015. <http://kxan.com/2015/07/23/txdots-new-roadway-overlay-gives-you-a-smoother-ride/> Last accessed August 4, 2015.

<sup>3</sup> Tollefson, Phoebe. Highway Funding Showdown is Latest Budget Scramble at TxDOT. Medill News Service. Texas Tribune. July 28, 2015. <http://www.texastribune.org/2015/07/28/cost-savings-transportation/> Last accessed August 4, 2015.

<sup>4</sup> America's Transportation Awards: Recognizing the best in transportation. <http://americantransportationawards.org/2015-entries/tx-north-tarrant-express/>

## Addressing HB 1 Requirements

HB 1 resulted in the following achievements for TxDOT:

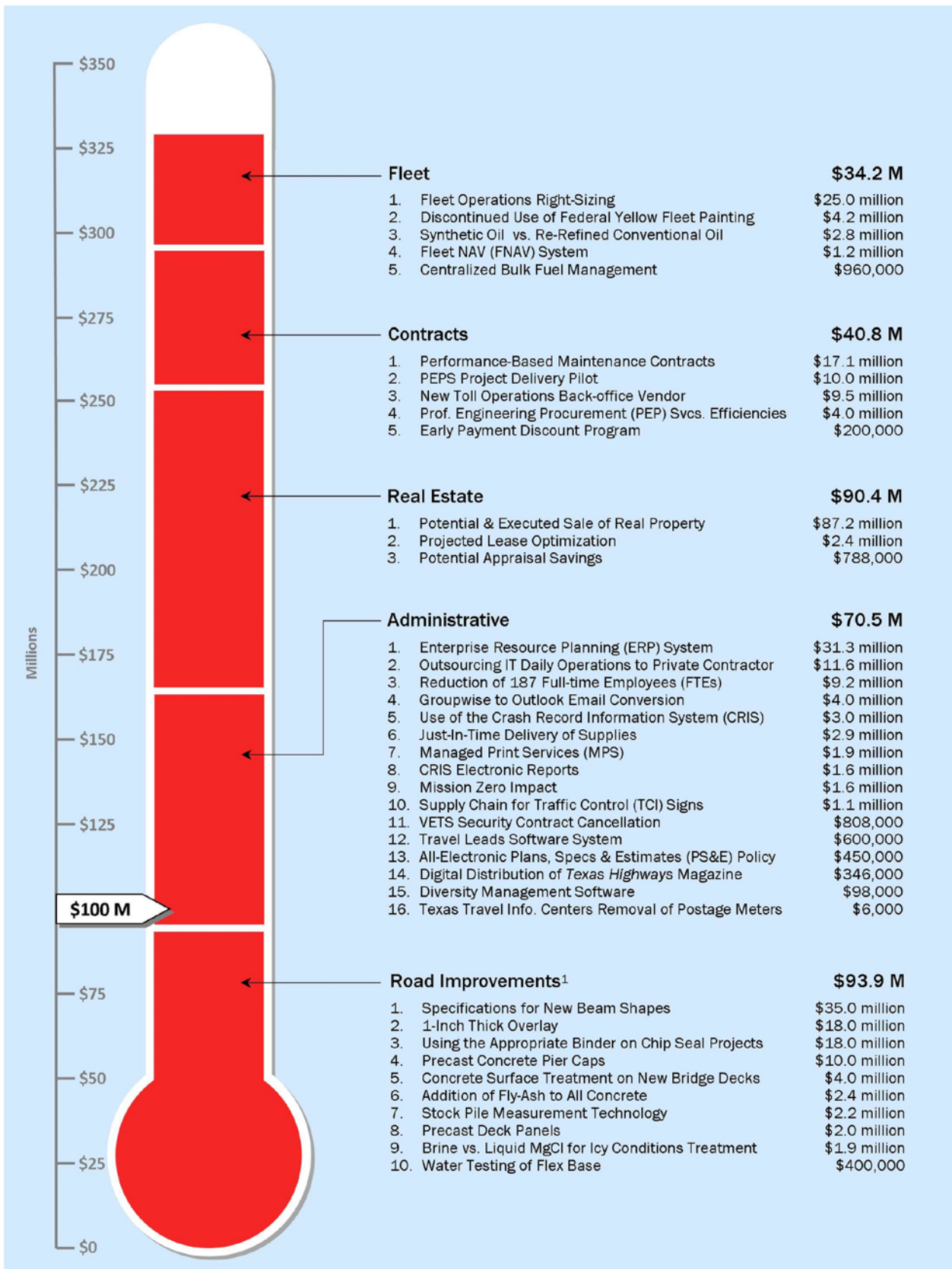
- A comprehensive effort to reduce costs and generate savings department-wide. The associated savings were reinvested into the transportation programs from which savings were incurred.
- Implementation of procedures within the debt management program in order to accelerate the retirement of \$100 million of Proposition 14 debt.
- Implementation of new operational efficiencies to generate revenue through the sale of unneeded property.

HB 1 contemplates that cost reductions and savings could result in cash made available to pay down Proposition 14 debt. The legislation also says that the amount of funding for transportation projects may not be reduced. The vast majority of TxDOT's expenses, however, are associated with transportation projects. In fact, administrative and support costs account for only two percent of TxDOT's budget.

The graphic on the following page illustrates the major categories of cost saving efforts throughout TxDOT. Without cutting transportation projects, TxDOT made significant improvements in road-related savings by applying innovations such as adding fly-ash to all concrete, allowing for flexibility in the design of beam shapes and using more cost-effective binders on chip seal projects. These road-related changes alone allowed TxDOT to achieve over \$90 million in cost savings. Technological improvements and innovations in TxDOT's contracting practices also greatly contributed to cost-saving measures. Overall, TxDOT was able to identify over \$330 million in savings and efficiencies in the FY 2014-2015 biennium, which does not account for the \$173 million in present value savings from debt refunding that will be realized in future years.

# TxDOT Transportation Cost Savings, FY 2014-2015

Pursuant to HB 1 (83<sup>rd</sup> Texas Legislature, Third Called Session)



1. Does not include 3-D Design Process, which represents a \$15 million investment cost in FY 2014-2015 and savings in future years

## Debt Reduction

On Sept. 13, 2003, Texas voters approved a constitutional amendment (Article III, Section 49-n) permitting the Texas Legislature to authorize the commission to issue bonds (known as Proposition 14 Bonds) to fund state highway improvement projects payable from certain revenues deposited to the credit of the State Highway Fund and held in the State Treasury.

The Legislature has authorized the commission to issue up to \$6 billion in aggregate principal, of which \$1.2 billion was designated for safety-related projects. The maximum maturity for these bonds is 20 years. As of July 2015, the commission has issued \$5.3 billion in Proposition 14 Bonds. TxDOT plans to issue the remaining \$700 million in debt in FY 2016 to continue making payments for ongoing transportation projects.

TxDOT continually monitors its financing programs for opportunities to reduce debt service costs through refunding or refinancing existing debt. Since the passage of HB 1, TxDOT conducted refundings for Proposition 14 Bonds in March 2014 and July 2015 to achieve debt service savings.

Given the requirements in HB 1, in conjunction with these refunding transactions, TxDOT structured its refundings in a manner that allowed the department to reduce principal owed by \$100 million. These refundings and reduced interest due to the early retirement of debt resulted in a combined debt service savings of \$173 million on a present value basis.

## Conclusion

Cutting costs and generating new efficiencies is ingrained in the culture of TxDOT. The department's leadership recognizes that savings opportunities are identified not only at the top, but also by employees in the field, by researching best practices from similar entities, and by consistently revisiting and re-evaluating customer needs. With this perspective in mind, TxDOT employees at all levels are encouraged to seek out opportunities for cost savings.