

Texas: Quality of Life at the Crossroads

Prepared By

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August 18, 2014

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"Today, after a long history of regional success, the nation state is failing us on a global scale. It was the perfect political recipe for liberty and independence of autonomous peoples and nations. It is utterly unsuited to interdependence. The city, always the human habitat of first resort, has in today's globalizing world once again become democracy's best hope."

"As it was our origin, the city now appears to be our destiny. It is where creativity is unleashed, community solidified, and citizenship realized. If we are to be rescued, the city rather than the nation-state must be the agent of change."

"Let mayors rule the world."

—Benjamin R. Barber
If Mayors Ruled the Word

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Disclaimer: The views and opinions expressed in this public policy paper are those of the authors.

Purpose

This public policy paper reviews recent studies that discuss the growing population surge to Texas, the strain that is being placed on state and municipal budgets as they attempt to keep pace with the rapid growth, and the

potential solutions offered by private-public partnerships to address the need for development, operation and maintenance of infrastructure needs.

The target audience for this public policy paper includes elected officials, investors, corporations, policy planners, non-profits, community advocates –

essentially, any individual or organization that is interested in seeking innovative solutions to improve the quality of life for Texas communities. Our hope is that readers will improve their understanding of the compromises that are being made as to the quality of life in Texas as the population and the economy continues to expand, and consider private-public partnerships as a potential solution for maintaining the quality of life for all Texans.

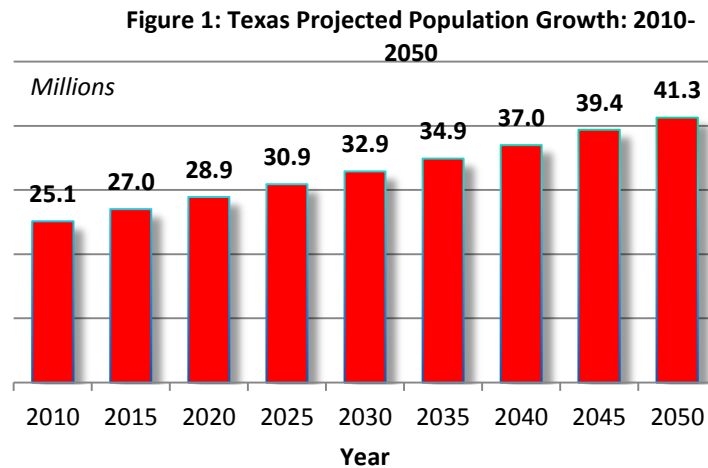
The 19th century was a century of empires, the 20th century was a century of nation states. The 21st century will be a century of cities.

— Wellington E. Web, the former mayor of Denver

Introduction

In a recent *Time* article entitled “Why Texas is Our Future,” economist Tyler Cowan provides a compelling portrait of the remarkable evolution of Texas as one of the most-desired destinations for American people and businesses.¹ Indeed, Census Bureau data confirms that Texas experienced a population surge of 4.3 million persons between 2000² and 2010³ – an extraordinary share of 16 percent of the total 15.1 million persons that were added to the U.S. as a whole during this period. Moreover, three of the top five fastest-growing metros in the country included Austin, Dallas, and Houston.⁴

As Cowan explains, Texas’ population growth is especially puzzling given the state’s propensity for prolonged hot weather days, skimpy welfare benefits, lack of health insurance coverage for many residents, schools that are less than stellar, and relatively higher rates of property crime, murder and other violent crimes. Despite these unattractive attributes, population growth in Texas is not expected to slow down in the distant future. As illustrated by the following chart, the Texas population is conservatively projected to grow from its 2012 estimate of 26 million persons to 41 million persons by the year 2050.⁵ How large is Texas? The current Texas population of 26 million persons is slightly less than the population of Canada (34 million) and Peru (30 million), but larger than Australia (23 million) and Chile (17 million).⁶



The fact that 77 percent of the 4.3 million persons added to Texas during the 2000 to 2010 period were Hispanic partially explains its population surge since Hispanics generally have higher fertility rates than non-Hispanics and include many immigrants. As noted in a recently analysis by the Federal Reserve Bank of Dallas, Texas growth has been driven primarily from domestic rather than international migration.⁷

Why has Texas become a favored destination?

Both Cowan and the Federal Reserve Bank of Dallas point to a number of reasons that Texas has been such a strong magnet.

- Cowan: Texas is perceived by Americans as a place to “start fresh;” has no state income tax; is more business friendly; and Texas’ unemployment rate of 6.4 percent is lower than the national average of 7.3 percent, meaning that jobs are more plentiful in Texas.⁸
- Dallas Federal Reserve: Diversification of the state’s economy, a lower cost of living, low taxes, minimal regulatory burden, and abundant land provide a welcoming environment for people and businesses alike. Texas has shown a tendency to be more recession-proof than other states: while the country finished 2012 with 3.3 million fewer jobs compared to when the economic downturn began in December 2007, Texas finished 2012 with half a million more jobs than it had five years earlier.⁹

Also driving Texas’ population growth are globalization and innovation trends. Americans are facing tougher competition than ever before from overseas workers and technology – which produce cheaper goods and services that Americans desire -- but at the cost of much needed jobs in U.S. communities. In addition, the costs of college, healthcare, and buying a house are increasing faster than income, causing Americans to leave established U.S. population centers due to their higher cost of living. As Cowan explains, during the 1990 to 2008 period, U.S. family income increased by 20 percent, while the cost increases during the same period were substantially higher for housing (56%), a four-year college degree (60%), and healthcare (155%). For example, \$300,000 would buy you a 210 sq. ft. apartment in San Francisco, a 492 sq. ft. apartment in Brooklyn, a 900 sq. ft. apartment in Chicago, and a 3,052 sq. ft. house in Austin – a rather substantial difference and incentive for moving to Texas.

Thus, the “Texas Model” – low taxes, cheap labor, abundant land, a limited government approach, good-paying jobs, and minimal social services -- has been successful in making Texas the nation’s second-fastest growing economy in 2012. However, the model requires significant compromises to investment in human capital (i.e., public schools, public health) and infrastructure (i.e., roads, bridges, and buildings) that also impact the quality of life for all Texans. Are such compromises a necessary ingredient of the state’s formula for success? If so, how well do we understand the consequences of such compromises to local communities in Texas? Perhaps a good place to start is by first understanding the challenges that cities

throughout the U.S. are facing today, then focusing our attention on the specific challenges faced by Texas and its local communities. We may learn that while states like Texas are enjoying economic prosperity, this prosperity is not evenly distributed throughout the state's municipalities or its residents.

High-Growth Cities at a Fiscal Crossroad

Recent studies of U.S. cities confirm that they face a daunting future as the need for improvements in infrastructure increases in response to population growth and declining tax revenues. Fast-growing states like Texas are especially vulnerable when infrastructure projects are not developed, delayed or maintained in order to keep pace with rapid population growth. The League of U.S. Cities, an advocacy organization representing 19,000 cities, towns and villages, reviewed the relevant research and provided the following insightful summary of the top 10 most critical needs faced by U.S. cities today: ¹⁰

- Fragile Fiscal Health: Following the economic downturn, cities are experiencing declining tax revenues, remain vulnerable to cuts in federal funding, are being forced to operate with reduced workforces and service levels, and remain cautious about making significant infrastructure investments. The cumulative impact of these cuts on families, businesses, and the overall local economy have been devastating.
- Deteriorating Transportation Infrastructure: A review of the nation's transportation by the American Society for Civil Engineers found that (a) failing to invest in deficient and deteriorating roads and bridges cost the U.S. \$130 billion in 2010, and by 2020 will result in \$3.1 trillion in lost GDP growth and 877,000 lost jobs, (b) 40 percent of urban interstates have capacity deficiencies, costing \$27 billion a year in lost time and other inefficiencies wasted on the roads. As funding continues to decline, deteriorating transportation infrastructure and traffic congestion are major challenges that will continue to grow.
- Shrinking Middle Class: The recent recession resulted in millions of families across America to live on the financial edge, causing many middle-income, mid-skilled jobs to disappear, and creating more unemployed or under-employed workers. Large job losses in industries such as construction, information technology, manufacturing and insurance are not likely to return, although lower-paying jobs in food service, retail and personal

health care are growing. Thus, many working families have been pushed into poverty or near poverty, and are increasingly dependent on social service programs to meet their basic needs. The authors noted that poverty rates have increased at a faster pace in suburban areas, although poverty rates remain higher in central cities than in suburbs.

- Inadequate Access to Higher Education: The benefits of a higher education are well known and include higher pay for residents, greater tax revenues for cities, a stronger local economy, improved public safety, and a better quality of life. Over a lifetime, a person with a postsecondary education will have higher earnings and make greater tax contributions to the local economy. Despite this fact, only 40 percent of American adults currently have post-secondary credentials which vary considerably across cities. More of the city residents must pursue and successfully obtain postsecondary degrees and credentials in order for cities to be globally competitive and attractive to businesses and families alike.
- Need for Affordable Housing: Safe, affordable and accessible housing are essential elements of healthy cities. After the Great Recession, foreclosures and high vacancies destabilized entire communities across the country, resulting in more than 4 million home foreclosures between 2007 and 2012. The foreclosure and vacancy crisis led to increased crime, shrinking local tax bases, and a greater need for social services.
- Less Than Welcoming Return for Veterans: Higher unemployment, homelessness, and Post-Traumatic Stress Disorder or depression are some of the difficulties faced by veterans returning home from deployment to their families and former lives. Veterans often need support in getting a job, a home and other social services.
- Gang Violence: Quoting from different sources, the authors reported that “there are approximately 1.4 million active street, prison, and outlaw motorcycle gang members comprising more than 33,000 gangs in the United States.”¹¹ Gangs bring fear and violence to afflicted neighborhoods, leading eventually to economic and physical decay, and detachment from civic engagement.
- Broken Immigration System: Although Congress remains gridlocked over proposals to fix the nation’s broken immigration system, studies confirm that immigrants – numbering 40.4 million in 2011 – generate substantial economic growth. As the authors described it: “...immigrants started 28 percent of all new U.S. businesses in 2011, and were more

than twice as likely as native-born residents to start a business in 2012” and “immigrant business owners contribute more than \$775 billion dollars in revenue to our annual Gross Domestic Product and employ one of every ten American workers at privately-owned companies across the country.”¹²

- Climate Change and Extreme Weather: Climate changes – including a storm, drought, heat wave or rising sea levels – are having a profound effect on cities across the country – costing human life, health, disruption of entire economies, and destruction of property and local infrastructure. Indeed, extreme weather events caused more than \$60 billion in damages nationwide in 2011, while damages from Hurricane Sandy alone hit \$65 billion. Following a flooding disaster, nearly 40 percent of small businesses do not reopen their doors, and heavy rainfall events are putting additional strain on aging and deteriorating sewer and storm water infrastructure systems. Even more worrisome is that scientists predict even worse problems in the coming years as the earth’s climate changes.
- Lack of Public Trust: A study decline of public trust in government has been observable over the years – with levels of trust higher (37%) for local government, somewhat lower (22%) for state government, and noticeably lower (12%) for the federal government. Recent acrimony over the federal budget has caused these numbers to lower even further. Despite such declines in public trust, city leaders need the input of citizens to make the best decisions for their communities, which comes from public support and engagement.

Historically, cities have used tax-exempt municipal bonds to pay for schools, roads, water and sewer systems, airports, bridges and other vital infrastructure. However, as the current Administration and Congress search for revenue to close the federal deficit, proposals are being considered that would limit or completely eliminate the federal income tax exemption provided to interest earned on bonds that are issued by state and local governments – a strategy that is strongly opposed by the National League of Cities. The “Texas Model,” as discussed earlier, does not appear to offer Texas municipalities any room for optimism in addressing these critical areas and may force cities to delay or cancel critical infrastructure projects that deliver needed services to the public – including roads, schools, hospitals, water and sewage systems, and others. When infrastructure projects are canceled or delayed, the

public safety is jeopardized, and improvements end up costing more in long-term maintenance costs.

Elected officials, investors, corporations, policy planners, non-profits and community advocates should be concerned about the quality of life that is desired for Texas, and perhaps ponder the following question: Given its recognition for having the second fastest-growing economy in the nation, is Texas doing enough to maintain the infrastructure needs that will be needed to support its fast-growing economy and social service needs? Before answering this question, let's take a closer look at an important issue raised by The National League of U.S. Cities regarding the decline of public trust in local governments.

Public Trust and Citizen Engagement

In their recent review of the ten critical imperatives facing cities in 2014, the study authors underscored the importance of public support for cities:

“While public trust in government has declined, the need for public support and engagement of residents is increasingly critical for cities. City leaders need the input of citizens to make the best decisions for their communities. That's why cities are developing more proactive, intensive forms of public engagement that involve a more diverse group of residents, mix online and face-to-face communications, and involve young people as engagement leaders.”¹³

It seems safe to say that, without this diverse community input, developing public support for innovative strategies like PPP projects to address the infrastructure needs of a community may prove more difficult. Indeed, negative views of PPP projects can spread rapidly in today's media environment, underscoring the need for city leaders to maintain a close pulse of community sentiments.

Efforts by local governments to capture the sentiments of its citizenry, however, often exclude definable segments of citizens from sharing their sentiments on key public issues – a consequence of two common practices:

- **Survey respondents are usually provided only one method for sharing their opinions on surveys** – mail, telephone or online. A telephone-only survey, for example, excludes the hearing impaired or those with speaking disabilities; a mail survey excludes persons who are visually impaired or illiterate; and an online survey would pose limitations for the illiterate, the visually impaired, and persons who lack access to the Internet or feel insecure about using the Internet.

- **Survey respondents are usually provided only one language option to complete a survey.** Most surveys are administered in only one language: English. When only one language is offered to complete a survey, it excludes people who cannot read, write or speak English sufficiently well from participating in a survey. Moreover, requiring a non-English speaker to call a survey sponsor to request a non-English survey or interview requires additional effort on the part of these respondents, often diminishing their survey response rates. The use of English-only surveys excludes large numbers of immigrants that are concentrated in urban communities today.

Because the segments of residents that are excluded from participation in a survey are also likely to be residents that have experienced the most difficulty in using public services, the study can result in misleading conclusions regarding the extent to which city programs and services are adequately addressing community needs. There is a solution, however, that city leaders should consider to minimize or eliminate common problems associated with traditional surveys: the “mixed-mode method.”

Rather than offering survey respondents just one mode for sharing their opinions on surveys, why not provide them several modes? Indeed, why not provide respondents more than one language? The concept is not new, and has been discussed by leading authorities in survey research.^{14 15} These authorities have discussed the various implementations of studies that employed a mixed-mode method, as well as their advantages over traditional survey practices. The studies reviewed by these leading authorities, however, have generally focused on analyzing survey quality, response rates and other outcomes when using various combinations of mail, online, and telephone methods, but have usually not discussed the added advantage of incorporating multiple language options along with multiple modes of data collection.

Surveys, of course, are not the only tool used by local governments to capture the sentiments of community residents. Public meetings, web sites and other approaches have also been utilized with varying degrees of success. Because surveys will likely continue to be the most popular method of gauging community input, it is important that local governments ensure that their survey practices are not inadvertently excluding definable segments of community residents who are generally taxpayers that deserve to have their opinions considered in decisions regarding public policy.

Let's direct our attention now to the question that we posed earlier: is Texas doing enough to maintain the infrastructure needs that will be needed to support its fast-growing economy and social service needs?

A Closer Look at Texas

Although attention is often focused on the economic prosperity that Texas enjoys in comparison to other states, the state has come under the microscope by various organizations that are concerned about the extent to which Texans are benefitting from the state's economic prosperity. A recent analysis by The Dallas Morning News, for example, compared Texas to the nation along a number of indicators related to financial health, business and job climate, housing, and education.¹⁶ As revealed by the grades assigned by the investigators to these four areas, Texas was not exactly the shining star:

- Grade of "D" for Financial Health: Texas ranked No.39 for financial assets and income.
- Grade of "C" for Business and Job Climate: Texas ranked No.34 across 16 business and job measures.
- Grade of "B" for Housing: Texas ranked No.15 on various measures related to homeownership and mortgages.
- Grade of "C" for Education: Texas ranked No.33 on various education measures.

The investigators summarized their findings as follows:

"While the economy has improved in many ways since the recession ended in mid-2009, many people still live on the edge. Forty-four percent of U.S. households and about half of Texas households are liquid-asset poor, meaning they have less than three months of savings -- \$5,887 for a family of four -- as a safety net. Nearly 90 percent of the liquid-asset poor work, 60 percent are white, and nearly half have at least some college education. Many factors, including wages and education, contribute to poverty."¹⁷

Prior to the Dallas Morning News investigation, a number of additional studies had examined the condition of the infrastructure needs for Texas, including transportation, water, energy, housing, energy, education, and health care. As the following discussion will illustrate, Texas has not always given its infrastructure the attention that it requires to keep up with the demands of its rapidly-growing population and economy.

Transportation

The efficiency of Texas' transportation system is a critical component of the state's economy – businesses rely on it to move products and services, and its maintenance creates many jobs. The TRIP Report in 2012¹⁸ was a comprehensive study of the state's transportation system which described its role in the Texas economy as well as the condition of its



roads, bridges and highway. On an annual basis, as the report explains, approximately \$1.2 billion in goods and services are shipped from Texas sites and another \$1.2 billion in goods are shipped to sites in Texas, primarily by trucks and another nine percent by parcel, U.S. Postal Service or courier services that use trucks for part of their deliveries. Coupled with the vehicle miles from a rapidly growing population, the transportation system is clearly in need of support:

- About half of Texas' state and locally maintained urban roads were deteriorated – 18 percent of major urban roads were in poor condition and an additional 27 percent were in mediocre condition.
- Eighteen percent of Texas' bridges show significant deterioration or do not meet current design standards.
- Roadway features (number of lanes, lane widths, lighting, lane markings, rumble strips, shoulders, guard rails, median barriers, and intersection design) are a contributing factor in approximately one-third of all fatal and serious traffic crashes.

The study concluded with an important message to Texas stakeholders:

“Unless transportation funding is increased, Texas' roads and bridges will become increasingly deteriorated and congested and needed safety improvements will remain unfunded. The state faces a significant funding shortfall in the amount needed just to maintain the transportation system in its current condition.”¹⁹

Funding alternatives, however, appear to be limited. In a recent news report on this topic,²⁰ State Rep. Joe Picket, D-El Paso, who sits on the House Transportation Committee, explained: “The average Texan is paying \$3 less a year in gas tax than they were in 1991...few politicians would want to raise the tax when gas prices are so high.” The study's author, Frank Moretti, explained that the increased use of Texas roadways was business-related, an outcome

of the tremendous energy boom being experienced in Texas. Bill Hammond, CEO of the Texas Association of Business (TAB), is advocating in the current legislative session for a \$50 increase in the fee motorists pay to register a vehicle in Texas. In Hammond's view, this is the only real alternative at the current time. Moretti, however, cautioned that "It is not fiscally responsible to let the backbone of your economy fall apart."²¹

As this public policy paper was being finalized, the findings of the 2014 TRIP report were analyzed by The Dallas Morning News on July 23, 2014 in an article entitled "Drivers in Dallas, Across State Pay Price for Aging Highways."²² Following are some of the key findings discussed in this article:

- Aging roadways and continued traffic congestion cost drivers in Texas more than \$25.1 billion every year;
- These conditions result in vehicle maintenance costs, lost time, increased gas consumption and other expenses **that cost the North Texas driver an average of \$1,740 each year;**
- Texas may lose \$3.4 billion in transportation funding in the fiscal year that starts Oct. 1st if a solution is not adopted to keep the Highway Transportation Fund solvent;
- The North Texas region will have the nation's largest network of managed toll lanes; and
- An aging infrastructure system has relied heavily on increasingly insufficient gas tax revenue. The federal gas tax has stayed the same at 18.4 cents per gallon since 1993, while the state gas tax has been 20 cents per gallon since 1991.

The article included a perspective of the TRIP report by Michael Morris, the transportation director for the North Central Texas Council of Governments: "We're just transferring the cost over to the consumer, and there's obviously more cost-effective ways to pay for it, but for whatever reason, we don't seem to ever get those points across."²³

Educational Attainment

The value of a college education and its general relationship to the economic well-being of an individual and the community in which they reside is not always obvious and merits repeating. The most recent information regarding the education attainment of persons that are 25 years or older is provided in the American Community Survey of 2012. Nationally, nearly three in ten (29.1%) adults that are 25 years or older were “college graduates” – that is, had earned a bachelor’s degree or higher.²⁴ The proportion of college graduates in Texas, by contrast, was somewhat lower (26.7%) than the national rate.²⁵



Does educational attainment really matter in regards to one’s earnings potential? The answer to this question is important given the tremendous amount of resources that are dedicated to promoting a college education and its expected benefits. According to a recent report on this issue by The Georgetown University Center, the answer is “yes” and illustrated in Table 1 below. In terms of mean or average earnings, it is clear that a person’s average income increases steadily with each additional level of education attained.

Table 1: Earnings by Highest Degree Earned – 2009

Highest Degree Earned	Mean Earnings*	Median Lifetime Earnings**
Not a high school graduate	\$20,241	\$973,000
High school graduate only	\$30,627	\$1,304,000
Some college, no degree	\$32,295	\$1,547,000
Associate’s	\$39,771	\$1,727,000
Bachelor’s	\$56,665	\$2,268,000
Master’s	\$73,738	\$2,671,000
Doctorate	\$103,054	\$3,252,000
Professional	\$127,803	\$3,658,000

*Sources: *Census Bureau, Current Population Survey, 9-30-11 / **“The College Payoff,” The Georgetown University Center on Education and the Workforce, 2010*

More compelling, however, are the lifetime earnings that are estimated at each level of educational attainment. For example, a high school graduate can expect to earn \$1.3 million over a lifetime while a person with a bachelor's degree could expect to earn \$2.3 million – nearly twice as much. Persons earning a professional degree (i.e., lawyers, doctors, engineers) could expect to earn about \$3.7 million over a lifetime. These numbers demonstrate that a higher education provides access to the higher-paying jobs, which is also reinvested in the communities in which these graduates reside in the form of tax contributions and expenditures.

As shown by Table 2 on the following page, however, Texas ranked 32 among the 51 states in terms of the proportion of college graduates,²⁶ suggesting that there is considerable room for improvement in Texas. In general, increasing levels of median household income²⁷ and per capita income²⁸ rise as the proportion of college graduates rises. While Texas has done a great job of attracting more highly educated individuals to the tech centers in Austin, the telecom centers in Dallas, and the energy centers in Houston, much of the pool of educated graduates have been recruited from countries outside of the U.S. because American universities are not producing enough scientists, engineers and similar technical experts to meet the demands in the private and public sectors. Our universities' inability to produce more graduates with advanced degrees in technical areas has also led to more out-sourcing of this work to foreign countries – a practice that contributes to the unemployment rate in many communities and displaces the economic stimulus needed by many U.S. cities.

Table 2: Income Profile of States Ranked by Percent College Graduates*

STATE	Ranking by Pct. College Graduates	Percent College Graduates	Per Capita Income	Median Household Income
District of Columbia	1	53.0	\$45,307	\$66,583
Massachusetts	2	39.3	\$34,907	\$65,339
Colorado	3	37.5	\$30,329	\$56,765
Connecticut	4	37.1	\$36,891	\$67,276
Maryland	5	36.9	\$35,144	\$71,122
New Jersey	6	36.2	\$34,885	\$69,667
Vermont	7	35.8	\$28,818	\$52,977
Virginia	8	35.5	\$32,517	\$61,741
New Hampshire	9	34.6	\$32,201	\$63,280
New York	10	33.4	\$31,290	\$56,448
Minnesota	11	33.2	\$30,529	\$58,906
Washington	12	31.7	\$29,861	\$57,573
Illinois	13	31.6	\$28,741	\$55,137
Rhode Island	14	31.4	\$29,389	\$54,554
California	15	30.9	\$28,341	\$58,328
Utah	16	30.7	\$23,213	\$57,049
Kansas	17	30.4	\$26,390	\$50,241
Hawaii	18	30.1	\$28,099	\$66,259
Oregon	19	29.9	\$26,011	\$49,161
Delaware	20	29.5	\$28,705	\$58,415
Montana	21	29.4	\$25,148	\$45,076
Nebraska	22	29.0	\$26,245	\$50,723
Georgia	23	28.2	\$24,321	\$47,209
Alaska	24	28.0	\$31,890	\$67,712
Maine	25	28.0	\$26,020	\$46,709
North Dakota	26	27.9	\$30,796	\$53,585
Pennsylvania	27	27.8	\$27,774	\$51,230
North Carolina	28	27.4	\$24,435	\$45,150
Arizona	29	27.3	\$24,600	\$47,826
Wisconsin	30	27.1	\$26,994	\$51,059
Florida	31	26.8	\$25,428	\$45,040
Texas	32	26.7	\$25,359	\$50,740
Missouri	33	26.4	\$24,697	\$45,321
Iowa	34	26.3	\$26,436	\$50,957
South Dakota	35	26.3	\$25,275	\$48,362
New Mexico	36	26.1	\$22,874	\$42,558
Michigan	37	26.0	\$25,074	\$46,859
Idaho	38	25.5	\$22,053	\$45,489
Ohio	39	25.2	\$25,445	\$46,829
South Carolina	40	25.1	\$23,396	\$43,107
Wyoming	41	24.7	\$27,813	\$54,901
Tennessee	42	24.3	\$23,692	\$42,764
Oklahoma	43	23.8	\$23,740	\$44,312
Indiana	44	23.4	\$23,898	\$46,974
Alabama	45	23.3	\$22,815	\$41,574
Nevada	46	22.4	\$25,331	\$49,760
Louisiana	47	22.0	\$23,800	\$42,944
Kentucky	48	21.8	\$22,722	\$41,724
Arkansas	49	21.0	\$21,643	\$40,112
Mississippi	50	20.7	\$20,119	\$37,095
West Virginia	51	18.6	\$22,410	\$40,196
U.S.		29.1	\$27,319	\$51,371

Source: American Community Survey 2012, 1 Year Estimates

*Percent of persons 25 years or older who earned a bachelor's degree or higher

Health Care

A noted limitation of the “Texas Model” discussed earlier was the relative lack of attention that the state devotes to the social services needed by Texans, especially as it concerns health care. Table 3 below shows how Texans have fared in comparison to the U.S.



population along a number of health-related indicators which were provided by the Center for Disease Control.²⁹

Table 3: Texas vs. U.S. – Selected Health-Related Indicators

<i>Health Indicator</i>	<i>Texas</i>	<i>U.S.</i>
Lacked Access Due to Cost		
Percent that did not get or delayed medical care due to cost (2010-2011)	12.0	10.6
Percent that did not get prescription drugs due to cost (2010-2011)	9.9	8.0
Percent that did not get dental care due to cost (2010-2011)	16.4	13.2
Program Participation		
Number of Medicaid beneficiaries per 100 persons below the poverty level (2008-2009)	102	146
Number of Medicare enrollees as percent of 2010 population*	11.9	15.1
Payments per Medicaid beneficiaries (2009)	\$4,330	\$5,209
Percent of persons without health insurance coverage (2009-2011)	24.6	16.0
Available Medical Resources		
Number of community hospital beds per 1,000 resident population (2010)	2.4	2.6
Number of active physicians in patient care per 1,000 civilian population, 2010	20.6	24.0
Number of active dentists per 10,000 civilian population (2009)	4.5	6.0

Sources: Center for Disease Control, Health, United States, 2012, www.cdc.gov/nchs/hus/state.htm;
 *Census Bureau 2010, Table DP-1

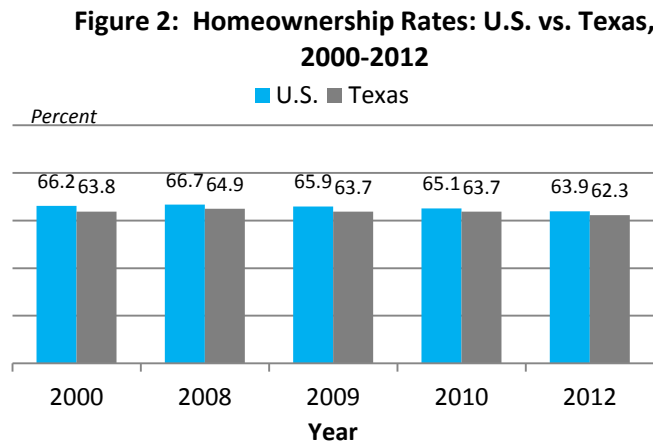
Overall, it is apparent that Texas lags the nation on a variety of health-related indicators. Based on Table 3 above, one can readily observe that, compared to the U.S. population, Texans:

- Were more likely to cite cost as a barrier in not obtaining or having delayed needed medical care due to cost, in not obtaining prescription drugs, and in not getting dental care;
- Below the poverty level were less likely to be Medicaid beneficiaries;
- Were less likely to participate in Medicare;
- Who were Medicaid beneficiaries received lower payments;
- Were more likely to be without health insurance coverage;
- Had fewer community hospital beds;
- Had fewer active physicians in patient care; and
- Had fewer dentists.

Clearly, limited financial resources are preventing Texans from accessing the medical care, dental care and prescription drugs needed by their families, while their participation in programs designed to facilitate their access to the healthcare system is lower than U.S. levels. Once they access the healthcare system, Texans further encounter relatively fewer community hospital beds, active physicians in patient care, and active dentists. These disparities are likely to grow wider as the Texas population continues its rapid population growth and public policy makers remain indifferent to the need for infrastructure and social services.

Housing

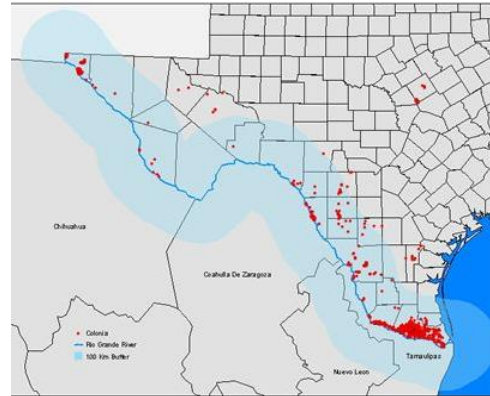
In 2012, Texas had an estimated 10,154,835 housing units.³⁰ Most of these units (88.3%) were occupied, while 11.7 percent were vacant. By comparison, the vacancy rate for the U.S. housing stock was 12.4 percent – not dramatically different from Texas.³¹



In 2012, the homeownership rate in Texas was 62.3 percent, which was lower than the U.S. rate of 63.9 percent.³² Since the Great Recession in 2008, the homeownership rate for the U.S. and Texas have both steadily declined.

Homeownership rates, however, cannot begin to tell the full story of the devastation in the housing industry that resulted from the Great Recession. Indeed, since the financial crisis began in 2008, an estimated 4.2 million foreclosures were completed at the national level – a rate of 2.8 percent.³³ By comparison, the foreclosure rates were lower in Texas (1.2%) and the Dallas/Fort Worth metro (1.3%). The National Foreclosure Report offered some room for optimism by stating that 87 of the top 100 metropolitan areas showed declining foreclosure rates since 2012, signaling a gradually improving housing market. The study authors concluded that foreclosures were emotionally devastating to families that lost their largest asset and were displaced; to communities whose home values declined from the increase of foreclosed properties; and the declining tax base in cities that were disproportionately impacted by foreclosures.

The housing story in Texas would be incomplete without discussing the plight of the “colonias” that have grown steadily since 1950 in Texas counties along its border with Mexico. Colonias are unincorporated subdivisions in Texas that were developed from agriculturally worthless land that would lay in floodplains or other rural properties.³⁴ Developers divided the land into



small lots with little or no infrastructure, then sold them to low-income individuals seeking affordable housing. There are approximately 400,00 Texans living in colonias who are



predominantly Hispanic and native-born. Although colonias are also found in New Mexico, Arizona and California, the largest number (2,294) are located along the Texas 1,248 mile border with Mexico. Colonias have grown as a result of the limited supply of adequate, affordable housing in cities and rural areas along the Texas-Mexico border. Other contributing factors include discrimination, segregation, red-lining and neglect of

these communities. Low-income persons buy the lots through a contract for deed, a property financing method whereby developers typically offer a low down payment and low monthly payments but no title to the property until the final payment is made. Houses in colonias are generally constructed in phases by their owners and may lack electricity, plumbing and other basic amenities. Colonia residents build homes as they can afford the materials. While the state’s per capita income was \$16,717 in 1994, the per capita income of residents in these colonias ranged from \$5,559 to \$8,889.

As a consequence of their limited income and infrastructure, the residents of colonias endure significant threats to their quality of life, including a higher prevalence of diseases like Hepatitis A, Salmonellosis, dysentery, cholera, and tuberculosis; a lack of medical services; unemployment rates of 20 to 60 percent; and the use of contracts for deed that allow easy exploitation of the residents by land developers. For basic health and human services, environmental services and capital improvements, colonia residents must rely on an often confusing combination of local, state and federal programs that often depend on the political

and economic climate. Local public funds and other resources are often limited and unable to provide service to the current and growing colonia population. Hidalgo County has the most colonias and largest number of colonia residents in Texas.

Colonias are symbolic of the state's failure to mobilize the political and economic resources to improve the quality of life for the families that reside in these destitute communities. Contrary to popular perceptions, colonia residents are primarily native Texans – not immigrants or undocumented persons – that merit the basic amenities that all Texans currently enjoy. Creative solutions for financing the infrastructure needed in colonias should be a state legislative priority.

Energy



Energy production continues to be one of the strongest drivers of the Texas economy, providing the residents and businesses the energy needed to thrive in Texas' fast-growing economy. Indeed, Texas has many bragging rights in the energy industry. According to the U.S. Energy Information Administration:³⁵

- Texas was the leading crude oil-producing State in the Nation in 2011.
- In 2011, Texas' 27 petroleum refineries had a capacity of over 4.7 million barrels of crude oil per day and accounted for 27 percent of total U.S. refining capacity.
- Texas accounted for 28 percent of U.S. marketed natural gas production in 2011, making it the leading natural gas producer among the States.
- Texas leads the Nation in wind-powered generation with over one-fifth of the U.S. total.
- The largest refining center in the United States is located in the Houston area.
- Almost one-third of the nation's proven natural gas reserves are in Texas.
- Texas produces more electricity than any other state, and is also the largest electricity consuming state.
- Almost half (47.4%) of Texas' electricity is generated from natural gas; over one-third (35.1%) is generated from coal; about 10.5 percent from nuclear energy; 4.9 percent from wind; and 1.0 percent from other gases.

The manner in which Texans consume energy differs somewhat from the general U.S. population.³⁶ Due to the warmer weather, Texans are more likely (80%) than U.S. residents (6%) to use air conditioning, and less likely to use space heating (22%) than U.S. residents (41%). The average annual electricity cost per Texas household is \$1,801, among the highest in the nation. Driving in such a large state like Texas also increases gas consumption in comparison to states with less land mass.

Based on a recent 2012 Economic Census, the Census Bureau reports that the energy business has been thriving for companies in mining, quarrying and oil and gas extraction with revenues that grew by 34.2 percent to \$555.2 billion from 2007 to 2012, and were among the fastest-growing employers at a growth rate of 23.3 percent.³⁷ Energy has been an especially

lucrative industry for Texas as well as it has learned to apply innovative technologies to harness its abundant energy resources. The Texas landscape includes an abundance of shale rock formations that are used to extract oil and gas, a rich resource that has traditionally required an expensive process to extract.

The discovery of hydraulic fracturing or “fracking” was a game-changer for Texas as it provided developers a less costly process to extract oil and gas from shale rock. The process usually involves the injection of enormous amounts of fresh water deep underground at high pressure to break up or crack the rock formations, thus allowing oil and gas to accumulate. The water is mixed with sand and numerous chemicals. In Texas, the Eagle Ford Shale alone is expected to continue producing significant economic benefits by 2020: nearly \$11.6 billion in gross state product, support \$21.6 billion in total revenues, and provide nearly 68,000 full-time jobs. Despite the boost that it provides to Texas energy production, hydraulic fracturing requires considerable amounts of water.³⁸ According to the Environmental Protection Agency, approximately 35,000 wells are fractured each year across the U.S., which consumes 70 to 140 billion gallons of water – roughly the amount that 80 cities of 50,000 people would use in one year. The tax base for Karnes County, where Eagle Ford Shale is located, exploded from \$217 million to \$6.2 billion in 2013 – a near 28-fold increase. Since 2008, it is estimated that more than 7,000 oil and gas wells have been sunk into Eagle Ford, while another 5,500 have been approved by state regulators. For long-depressed regions, state officials and energy companies perceive this as a game-changing development that can boost their economic future. However, upon close examination, we must ask ourselves: has this really happened or even taken place for these communities?

According to a recent New York Times article³⁹ – “Boom Meets Bust in Texas: Atop Sea of Oil, Poverty Digs In” – local residents in Eagle Ford have little hope for a boost to their economic future. Despite the fact that one-third of Texas’ \$48 billion in tax revenue in 2013 was derived directly or indirectly from the oil and gas industry, little of these funds are spent on social services and programs to assist the poor. The mostly poor residents in the Eagle Ford community could certainly use the financial support as their exposure to toxic gases and other hazards resulting from the oil and gas industry has created an environment that has led to increasing illnesses among residents, who generally do not have health insurance⁴⁰ to seek the needed medical attention.

According to the authors: "oil and gas have brought a new set of problems, including environmental concerns. During the peak ozone season in 2012, Eagle Ford operations in La Salle County daily emitted 12.8 tons of nitrogen oxides and 28 tons of volatile organic compounds—pollutants that produce smog and can cause health problems –according to a report prepared by the Alamo Area Council of Governments." ⁴¹

The authors of the article, Fernandez and Krauss, go on to state that "Texas has reaped tremendous financial benefits from oil and gas. But the poor in the colonias seldom own the leasing rights for the natural resources that lie under the ground they live on." ⁴² The authors further added the perspective of Bernard Weinstein of the Maguire Energy Institute at Southern Methodist University that one-third of Texas's 48 billion in tax revenue last year came directly or indirectly from the oil and gas industry. Unfortunately, very little of this revenue is dedicated to social services and programs to directly assist the poor in our state, including those living in the colonias. The authors surmise that "despite the boom, Texas has some of the highest rates of poverty in the nation and ranks first in the percentage of residents without health insurance." ⁴³

In the same article, Ray Perryman -- a leading Texas economist and author based in Waco -- added: "Despite the bounty of the Eagle Ford, which is considerable and on the whole clearly positive, it is not a rising tide that lifts all boats", and goes on to conclude that "Texas is not a good place to be poor, and there is little political appetite for change." ⁴⁴ The article goes on to cite La Salle County's top elected official, County Judge Joel Rodriguez Jr. who said "the boost in property and sales tax revenue from Eagle Ford activities had been offset by increases in county spending on road repairs, law enforcement, fire safety and administrative functions." ⁴⁵

Indeed, it did not take long for Texas residents who lived in close proximity to these wells that used fracking to realize that their quality of life was changing in very undesirable ways. Communities that have historically rarely experienced earthquakes have been reporting mini-earthquakes as fracking has increased in surrounding areas, ⁴⁶ and concerns for contamination of drinking water sources have also emerged. To examine what Texas, the nation's largest oil producer, had done to protect people in the Eagle Ford community from the industry's pollutants, a team of investigative reporters representing The Center for Public Integrity conducted an 8-month study that revealed some rather disturbing insights. ⁴⁷ The results of this investigation are important not just for Texas, but also for the communities in other states where hydraulic fracturing has made it very profitable to extract oil and gas from deeply buried shale. What did the investigators learn?

- The residents of these communities have experienced various health-related problems such as vomiting, nose bleeds, migraine headaches, eyes burning, and body rashes – problems that have been observed in other communities in different states with fracked wells.
- The chemicals released during oil and gas extraction include hydrogen sulfide, a deadly gas found at high levels Eagle Ford wells; volatile organic compounds (VOCs) like benzene, a recognized carcinogen; sulfur dioxide and particulate matter, which are known to irritate the lungs; and other harmful substances such as carbon monoxide and carbon disulfide. The polluted air creates a stench that is described as rotten eggs.
- Although hundreds of complaints have been submitted by residents to regulatory agencies to report these problems, enforcement has been lax and penalties for violators have been minor or non-existent. Ironically, as the Eagle Ford boom began, budgets for the Texas Commission on Environmental Quality (TCEQ) and air monitoring equipment were reduced substantially by lawmakers.
- Vulnerable persons like children, the sick and the elderly continue to be exposed to toxic emissions since there are no clear federal standards to protect people living near drilling sites.

In analyzing personal financial disclosure statements, the study investigators made another important discovery: state lawmakers who enact the laws that regulate the energy industry are often tied to it. Indeed, nearly one-quarter of the state legislators, or their spouse, had a financial interest in at least one energy company active in Eagle Ford. As the study investigators concluded: “Oil money is so thoroughly ingrained in the Texas culture and economy that there is little interest in or sympathy for those who have become collateral damage in the drive for riches.”⁴⁸

Given the abundance of wealth and profits generated by our state’s natural resources, the authors challenge our state lawmakers and energy industry to develop legislative initiatives and local economic development models that improve the quality of life for those residents that live, work and play in those communities that are located in the epicenter of the oil and gas boom in Texas. *It is time to re-think the definition of success in the Texas energy industry today so that all Texans can benefit from the state’s economic success tomorrow.*

Water Resources

*The Texas Water Report: Going Deeper for the Solution,*⁴⁹ prepared by the Texas Comptroller of Public Accounts in 2014, provided an insightful review regarding the state's supply, distribution and consumption of its water resources and efforts underway to conserve these



resources. The state's water resources have been strained by various factors including a drier climate, rapid population growth, increasing urbanization and industrialization, pollution and changing dietary patterns. Texas continues to experience extended drought, and various Texas cities may already be reaching the limits of its water supply. El Paso and San Antonio, for example, are two urban areas that were considered at "high vulnerability" for limited water, while urban areas classified at "medium vulnerability" included Dallas-Fort Worth/Arlington, Denton-Lewisville, Tyler, Killeen, Austin, Abilene, Odessa and Corpus Christi.

As fresh water becomes more scarce, it has become necessary to transport water across political boundaries. This process is expensive and sometimes complicated by past treaties and current legislation regarding the rights to water resources. For example, Oklahoma won a recent decision to block the transfer of 460,332 acre-feet of its water by Texas' Tarrant Regional Water District, which is expected to serve about 2 million Metroplex residents. Mexico and the Texas/U.S. border regions have struggled with draughts and the shortage of water and compliance with complex international treaties that do not reflect today's environmental realities, and has impacted the flow of water from Mexico to the Rio Grande River. Irrigation water from the Rio Grande is essential to farmers in the Lower Rio Grande Valley. The loss of Rio Grande irrigation could cost the region \$395 million in lost economic output as well as 4,840 jobs associated with agricultural production and sales. In 2010, irrigation was projected to account for over half (56%) of Texas' water use, followed by municipal use (27%). By the year 2060, municipal water use is predicted to become the largest category of water use (38.3%), similar to irrigation (38.1%).

Droughts are a harsh reality of the Texas landscape, where 4 percent of Texas remains in "extreme" or "exceptional" drought. The Texas Commission on Environmental Quality recently reported that 46 of the state's public water systems were at risk of running out of water within 180 days as of January 8, 2014, while seven Texas communities could run out of

water in 45 days or less. The 2011 drought was considered the worst one-year drought in Texas since 1895, resulting in billions of dollars in losses to the state economy. Here are some of the highlights regarding these losses:

- Agricultural producers lost nearly \$7.6 billion due to the drought, including livestock, hay production, cotton, corn, wheat and sorghum.
- The drought killed approximately 5.6 million trees in urban areas and 301 million rural trees.
- The drought spurred more than 21,000 wildfires that consumed one-third of the state's forestry crop.
- The drought cost state agencies and institutions of higher education more than 4253.1 million in fiscal 2011 and about \$131.0 million in fiscal 2012.
- In 2011, the drought and wildfires added to a \$4.6 million gap in the Texas Parks and Wildlife Department's operating budget – which also affected local economies throughout Texas due to reduced tourism and recreational activity.

Recognizing the many challenges facing the state's water resources, efforts have been underway to address the expected shortages through conservation programs and technological innovations. Some of the municipal conservation techniques include a gray water system or kit that takes the water from bathtubs or showers, sinks and washing machines and uses it for landscaping. Although the use of gray water is rare in Texas due to strict permit application fees, about nine Texas cities allow or plan to allow gray water systems. Gray water systems cost from \$100 to \$400 and can save an average family of three about 43,000 gallons of water annually. Some cities – including El Paso, Austin and Region C in North Texas -- are recycling wastewater for use in irrigation and air conditioning towers, thereby reducing the demand for fresh water. Aquifer Storage and Recovery (ASR) is a method used to store water during times of relative plenty so that water can be recovered in times of need. ASR technology is used around the world and has proven about half as expensive as other methods of water storage. El Paso, Kerrville and San Antonio all use ASR for their water storage needs. Although there are noted limitations to ASR in regards to legal and physical limitations, the quality of the recovered water, cost effectiveness, and the potential for other pumpers to capture the stored water, it is considered a viable option for municipalities. Interbasin Transfers (IBTs) involves the physical transfer of surface water between river basins via canals or aqueducts, and are commonly used around the world to augment local and regional water supplies. Since they require large capital

costs, IBTs are generally used to transfer large amounts of water to fast-growing urban areas. The Coastal Bend region of Texas, for example, uses IBTs from the Lavaca to the Nueces River basin to meet its needs for water.

Perhaps the one technique that holds the most promise for Texas is a process called desalination, which converts brackish groundwater -- saltier than fresh water but not as salty as seawater -- into fresh water. Texas aquifers contain about 3 billion acre-feet of brackish groundwater that, if converted to fresh water, could maintain Texas' current consumption levels for about 150 years. There are an estimated 15,000 desalination plants in 120 countries, and 250 in the U.S., and 46 in Texas. Two of the largest plants are located in El Paso and San Antonio. Desalination makes great sense for Texas because of the state's proximity to large bodies of sea water.

Selected commercial entities are doing their part to conserve fresh water and have reduced their water consumption by 32 percent since 1974.⁵⁰ For example, the Frito-Lay plant in San Antonio saved 1 billion gallons of water a year since implementing water conservation efforts in 1999 by recycling the water used in production. In 2009, Texas Instruments recycled 1.2 billion gallons of water, or about 14 percent of the water consumption. Overall, the state's manufacturing sector saved about 165 billion gallons of water by reducing its water consumption.

Texas voters recently approved Proposition 6 which transfers \$2 billion from the Rainy Day Fund to the State Water Implementation Fund for Texas (SWIFT) and the State Water Implementation Revenue Fund for Texas (SWIRFT). These funds are dedicated to the financing of projects on the State Water Plan, which is compiled from 16 regional plans. The SWIFT/SWIRFT funds works as a revolving loan program that reduces borrowing costs for local entities. Without this assistance from the state, local water entities would be required to borrow money or issue bonds backed only their own locally generated revenues, usually at a higher cost. The Texas Water Development Board can issue General Obligation (GO) bonds using its existing \$6 billion bonding authority or it may issue revenue bonds to help local municipalities access cost-effective financing. In addition to these funds, the Texas Legislature is being encouraged to increase state funding for innovative demonstration projects and establishing a prize framework to award research dollars for successful achievements in innovative technology.

While considerable efforts are underway to conserve the state's water resources, there is general agreement that much more needs to be done to keep pace with the rapid growth of the state's population and economic expansion.

Immigration

Immigrants have played an important role in the economic prosperity enjoyed by Texas – a story that is best described in a recent white paper by the Federal Reserve Bank of Dallas entitled *Gone to Texas: Immigration and the Transformation of the Texas Economy*.⁵¹ In the view of the study authors, the immigration politics of our nation and Congressional gridlock have often obscured the economic benefits that immigrants have made to our economic well-being. Following are some of their key insights:



- Texas is one of the nation’s top destinations for immigrants. Since 1990, the number of immigrants grew from 1.5 million to 4.3 million. One in six people living in Texas is an immigrant, reflecting a population surge unlike other large states, rising from 9 percent of the population in 1990 to 16.4 percent in 2012.
- Why are immigrants coming to Texas? Largely for the same reasons that other groups have come to Texas: primarily jobs, the business-friendly environment, affordable homes, and a lower cost of living. In actuality, Texas should have been somewhat unattractive to the less-skilled immigrants with its skimpy safety net and lower levels of public services. But Texas immigrants who have not completed high school also do better in the labor market than comparable U.S. natives. Interestingly, Texas immigrants who have not completed high school also do better in the labor market than comparable U.S. natives, and Texas has been more immigrant-friendly in terms of rejecting laws that other states have passed that target illegal immigrants. Because immigrants like Texas, return migration has been less frequent than the past, and they are more likely to set roots and bring their families.
- Most immigrants in Texas are low-skilled and the majority of the immigrants come from Mexico (60%), but immigrants in general are well represented at the ends of the skill spectrum in occupations as well as in educational attainment. For example, the surges of Asians and Europeans increased the number of computer programmers, scientists, engineers, medical professionals and educators, which were critical to the growth of the

high-tech industry in Austin, the telecom corridor in Dallas, and the health and energy sectors in Houston. Immigrant workers in labor-intensive occupations (i.e., landscaping, food and beverage, light manufacturing, heavy construction, hospitality, farm work) are considerably more likely to be undocumented than their peers in high-skilled occupations.

- There are about 1.8 million undocumented immigrants living in Texas, which translates to only 7 percent of the state's population but 43 percent of the state's foreign-born population. Are undocumented immigrants a fiscal drain on the Texas economy? Not to the extent that politicians would have you believe. According to the most recent report on the subject by the Texas Comptroller in 2006, undocumented immigrants in Texas boosted state revenue by more than they cost the state in education, health and other expenses.⁵² Although negative fiscal effects were noted for low-skilled immigration, studies that took into account their fiscal contributions over a lifetime, including their descendants, found that the negative fiscal effects were minimal.
- While Texas immigrants do well in the labor market, they have high rates of poverty and welfare participation, and low rates of health coverage. Texas faces several challenges in providing services and a safety net for its immigrant population, given the state's traditional low-tax, low-services model of government.

Thus, despite being the nation's second-fastest growing economy in 2012, Texas faces a tension between keeping taxes low and providing the necessary public services to its residents. The tension is more complicated for Texas because the state has more low-skilled immigrants than other states with lower levels of education, higher poverty rates and lower rates of health insurance coverage. Nonetheless, the state's economic success has resulted, in large part, from its ability to integrate the talents of low-skilled and highly-skilled immigrants into its diverse economy.

The state's economic engine needs more than oil and gas to keep it running efficiently into the future – it also needs an educated workforce with skills that are in demand in the Texas labor market, healthy people that can perform at their peak when they are on the job, a well-maintained transportation system that can assure the safe transport of their families and commercial goods, and an ecologically safe environment that does not threaten their overall

quality of life. As a way of summarizing the message that the study authors were trying to convey in their white paper, they raised the following question about the state's future for immigrants:

"What level and type of services should the state provide to ensure that the second generation has opportunities to reach the middle class? A thriving economy helps, but investment in human capital is needed as well."⁵³

Public-Private Partnerships: A Viable Strategy for States and Municipalities

The Need for Alternative Revenue Sources

Our review of selected studies addressing the fiscal outlook for U.S. cities suggests that budget shortfalls are resulting in cuts in services, efforts to raise taxes, or decisions to delay or cancel infrastructure projects. In 2013, a survey of U.S. cities found that 60 percent of them had delayed or cancelled capital projects that year due to fiscal conditions.⁵⁴ Deferrals, unfortunately, lead to further deterioration of infrastructure and added expenses in the long run. Nonetheless, decision-makers will need to make some difficult decisions in the near future in order to meet the need for \$300 billion in urgent infrastructure projects over the next 5-7 years with an additional \$2.2 trillion for new construction and renovations.

The fiscal outlook for Texas, however, appears more positive in the short-term than the long-term. In a recent report by the State Budget Crisis Task Force for Texas,⁵⁵ the study authors described the state as having a strong economy that manages its fiscal affairs conservatively, and one that suffered less from the recent recession. Its pension systems, though stressed by the recent recession, are in far better shape than systems in other states, and Texas has built an impressive reserve balance in its rainy day fund, principally as a result of continued high oil and natural gas prices. However, report authors believe that Texas lacks a long-term financial planning process that focuses on the major issues that will confront the state in the future -- issues that stem from its changing demographic and socioeconomic profile that makes Texas a more populous, more urban, and more ethnically diverse state. The state's future population is projected to be less educated, poorer and more in need of state services than it is today. Indeed, Texas leads the nation in its share of people living in poverty, uninsured adults, and uninsured children. Texas also faces six separate lawsuits related to its public school funding system, which are likely to shape the long-term direction of state finances. Medicaid and other health-related programs continue to take up an increasingly large percentage of the state budget each year.

The state and its communities have little fiscal capacity to draw on since the recession has forced governments to trim budgets to the bone. The state's revenue system relies heavily on sales tax since it does not have a state income tax; the sales tax, however, has become more volatile over time in part due to tax incentives and online commerce whose sales are not taxed. The local revenue system relies primarily on local property taxes, which usually represent

80 percent of a municipalities' revenue stream. Property taxes, while unpopular, were more stable than sales taxes during and after the recession. While state debt has been relatively restrained, the local debt of cities, counties, school districts and special districts is high – a situation that is compounded by the fact that local governments (except school districts) receive very little in aid from the state, which stands in marked contrast to the usual practice in other states with large, urban populations. The authors conclude that the state's "tax system has become calcified" because it is extremely difficult to adjust even when more revenue is needed. Among its several recommendations, the authors suggest that local governments need access to "alternative revenue sources" that take pressure off the property tax.

The concept of alternative revenue sources was also highlighted in a recent New York Times article entitled "Public-Private Partnerships Could Be a Lifeline for Cities"⁵⁶ that underscored the wisdom of cities to take an inventory of their revenue-producing public assets – such as on-street and off-street parking systems, water systems, toll bridges, solid waste disposal plants, utilities and airports – to lease or divest with support from private partners who are willing to invest capital to improve them. In the opinion of author Kent Rowley, it makes sense to create partnerships with private companies so that municipalities can make public payroll, maintain basic services or meet pension fund obligations. By significantly reducing the debt load and shifting of responsibility to the private sector, it allows a city to turn to other priorities, such as buying more textbooks for students or improving local parks.

Public-Private Partnerships

Public-private partnerships – also known as P3 or PPP programs – have been evolving over many years as a viable alternative to public entities for the financing, construction, and operation of infrastructure projects. As defined by the National Council for Public-Private Partnerships, a PPP is defined as:

"A contractual agreement between a public agency (federal, state or local) and a private sector entity. Through this agreement, the skills and assets of each sector (public and private) are shared in delivering a service or facility for the use of the general public. In addition to the sharing of resources, each party shares in the risks and rewards potential in the delivery of the service and/or facility."⁵⁷

Public-private partnerships are not new and have been around for 200 years according to some sources. In her book, Collaboration Nation,⁵⁸ author Mary Scott Nabors tells us of two

historical events that are relevant to our discussion. At the start of the Revolutionary War, the American Navy consisted of a small number of ships commissioned by the colonies and staffed by volunteers. To expand their capacity, the Continental Congress issued licenses to entrepreneurs who were willing to operate armed ships and attack the British merchant vessels in exchange for a large share of the money and goods that they recovered. The fleet of entrepreneurs was so successful at intercepting British vessels and capturing their cargoes that historians consider the campaign a deciding factor in the war's outcome. Yet another example of a public-private collaboration occurred in 1843 when Congress voted to underwrite the \$30,000 cost of Samuel Morse's first experimental telegraph line from Baltimore to Washington.

Over time, public-private partnerships have evolved as a viable alternative to traditional contracting relationships throughout the world. In the United States, public-private partnerships have been adopted by many industries as a project delivery model in such areas as parking meters, state parks, horse racing facilities, lotteries, correctional facilities, schools, libraries, and various other services and infrastructure.

To stimulate the growth of public-private partnerships and utilize P3 projects for more than transportation, the State of Texas passed SB 1048⁵⁹ which provided the legal framework for solicited and unsolicited proposals from private firms to develop infrastructure projects across a wide spectrum, including the following areas:

- Any ferry
- Mass transit facility
- Vehicle parking facility
- Port facility
- Power generation facility
- Fuel supply facility
- Oil or gas pipeline
- Water supply facility
- Public work
- Waste treatment facility
- Hospital
- School
- Medical or nursing care facility
- Recreational facility

- Public building
- Other similar facility currently available or to be made available to a governmental entity for public use

The legislation was modeled after the Virginia Public-Private Partnership Facilities Infrastructure Act, which was passed in 2002.⁶⁰

Clearly, lawmakers made their support for public-private partnerships quite broad with this legislation. In addition, SB 1048 established the Texas Partnership Advisory Commission to provide legislative review and oversight of public-private infrastructure projects.

Why have Texas and other governmental entities embraced public-private partnerships as a vehicle for the delivery of a project? As discussed earlier, local Texas communities have limited revenue options, tax reform is not likely, and the state is providing minimal support to local communities. In such a challenging context, PPPs provide public agencies a solid alternative to the common practices of cutting spending, raising taxes and fees, or deferring projects. The various public entities that have adopted PPPs as a project delivery option have recognized several distinct and valuable benefits, such as:⁶¹

- Comprehensive Contracts: Unlike traditional contracts, PPP programs consider the design, finance, construction, operation and maintenance phases of a project in a single procurement contract. Decision-makers are forced to approach project delivery from a long-term perspective rather than looking at each phase separately, which further minimizes the intermittent budget debates that are characteristic of traditional contracts that are procured in separate phases.
- Cost and Savings: Although the initial cost of financing of PPP programs will most likely be higher at first than traditional tax-free municipal bonds, additional cost savings are generally realized over the longevity of the project.
- Sharing of Risk: Since the responsibility for the capital investment required by a project is shifted to the private partner, the risk for the public entity is substantially reduced.
- Mobilization of Excess or Underutilized Assets: A public entity has the opportunity to make better use of its inventory of excess or underutilized assets in order to structure a deal with a private partner who sees value in these assets.
- Guaranteed Operation & Maintenance: Public entities will not need to worry about the long-term operation and maintenance costs of infrastructure projects since such costs are included in typical PPP agreements.
- Public Control: PPPs retain a high level of public control and should not be confused with “privatizing” and “out-sourcing” of public services or assets.

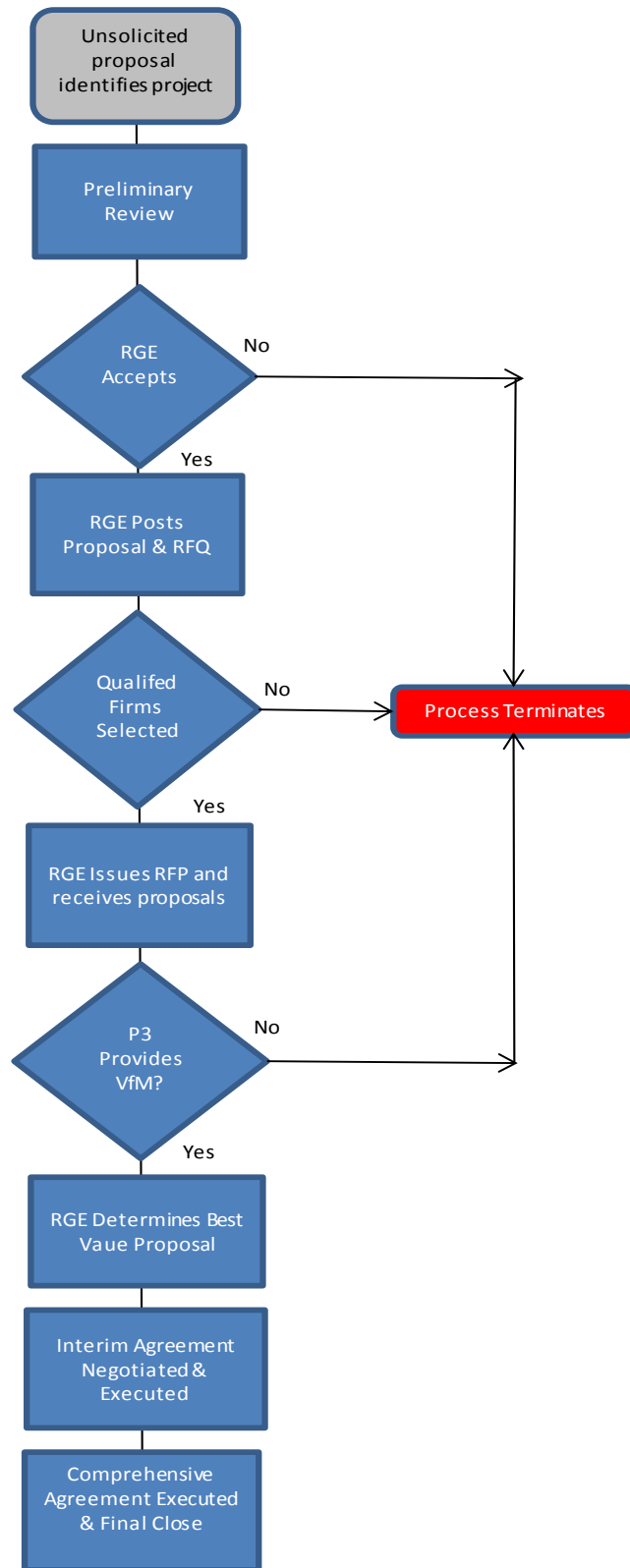
- Services to the Public: PPP projects allow the delivery of needed services and infrastructure to the public, thereby enhancing the quality of life and economic vitality of these communities.

The benefits of public-private partnerships sound promising, but what steps are needed to get such a program started? Fortunately, excellent guidance has been provided by professional organizations on their web sites, like the Texas P3 Association (www.P3Texas.com), regarding the legal framework and steps for creating public-private partnerships in accordance with The Public and Private Facilities and Infrastructure Act of 2011 (the "PPFI"). Importantly, the PPFI guidelines, provided as downloadable documents, address the needs of different types of governmental entities as follows:

- Model PPFI Guidelines for Texas Boards, Commissions, Departments and Agencies ⁶²
- Model PPFI Guidelines for Local Government Entities ⁶³

Figure 3 on the following page describes the general process involved for RGEs (Responsible Governmental Entity) to remain compliant with the PPFI requirements. More detailed guidelines, however, are provided for each of the general steps as well, although they can vary depending on whether the RGE is a state entity or a local government entity. The recommended guidelines are intended to provide RGEs a general template for the implementation of the PPFI and are not designed to be limiting. On the contrary, RGEs have the flexibility to add or delete provisions included in the model guidelines, and add provisions not contained in these model guidelines as long as the resulting guidelines comply with the PPFI. Aside from the general steps involved in obtaining solicited or unsolicited proposals, a critical step in the process involves the VfM or Value for Money analysis. The VfM analysis is a quantitative tool that helps to make the case for selecting the most appropriate mode of project delivery. A Public Sector Comparator (PSC) is used to assess the public sector cost of traditional delivery and how it compares to the cost of the PPP option over the Full Life Cycle (FLC) of the project. Although a VfM is not always conducted, it is the preferred method – and some would argue the only valid method -- for determining the benefits and savings that can be expected from the PPP option.

Figure 3: PFI General Process



In order to obtain the most accurate assessment of savings to be realized from a PPP option, the cost over the full life of a project should include the following:

- Capital/construction costs
- Operating costs
- Taxes
- Project income – base on public sector ability to generate revenue, i.e., user fees
- Risk-related costs

Properly conducted, the VfM analysis reveals the cost savings provided by the PPP delivery option over the traditional procurement method, which past PPP projects have shown to range from 7 to 10 percent, and sometimes higher. Aside from the cost savings, however, the more remarkable outcome is that the governmental entity is able to overcome the traditional barriers to the funding, development, operation and maintenance of critical infrastructure or services that are needed by their community residents – a non-trivial achievement in today’s fiscal climate.

In the section that follows, we provide a special analysis of Texas cities to identify their similarities and differences in regards to key economic and demographic characteristics of their residents. The analysis is intended to identify the cities that are experiencing different levels of economic distress, which may help lawmakers in prioritizing needed legislation or interventions.

Understanding the Needs of Texas Cities

As discussed in the previous section, it seems reasonable to assume that not all Texas cities have enjoyed the same level of economic prosperity that the state has enjoyed in past years, and that their ability to meet the need for social services and infrastructure varies considerably. One way of understanding the challenges faced by individual cities is to examine selected demographic and economic indicators of the residents in each city and determine the similarities and differences that exist among these residents. A statistical procedure called “cluster analysis” permits such an examination by using selected population characteristics to classify or sort cities into groups or clusters wherein the cities within each cluster are as similar to each other as possible, and the defined clusters are as different from each other as possible. Such a procedure can help us understand the challenges that cities share in common as well as the unique circumstances that may require more customized solutions. Cluster analysis is often used in psychology and marketing studies to classify consumers into definable groups so that a specific message or campaign can be designed to influence a consumer decision, whether it is to buy a product or some other behavior.

The cluster analysis included selected population characteristics derived from the decennial Census for 2000 and 2010, as well as the American Community Survey 5-year estimates that covered the period 2008 to 2012. The city characteristics of interest, chosen on the basis of a similar cluster analysis conducted recently by The Demand Institute⁶⁴ for 2,200 cities in the U.S., included the following:

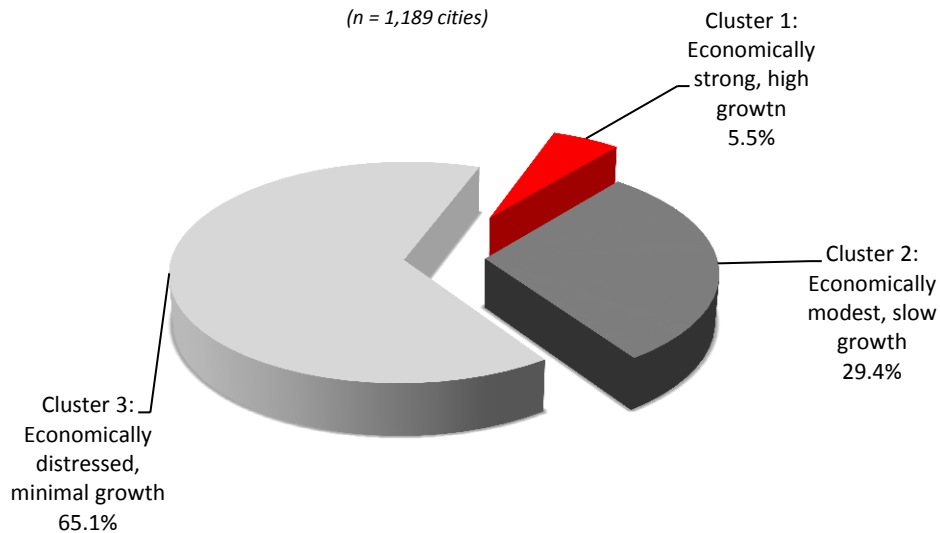
Economic Variables: Median household income, median home value (owners with a mortgage), percent of homeowners, unemployment rate (16 years or older), aggregate household income (sum of earnings of all employed household members, a crude measure of buying power), percent uninsured persons, percent of households on public assistance or food stamps, and percent of college graduates (persons 25 years or older with a bachelor’s degree or higher). All economic variables were drawn from the ACS 2008-2012 5-year estimates file.

After completing the cluster analysis, the derived cluster groups of cities were profiled by the following demographic variables.

Demographic Variables: Population (Census 2010), population growth rate from 2000-2010 (Census 2000 and 2010), percent Hispanic population (Census 2010), percent of foreign-born population (ACS 2008-2012), percent of veterans (ACS 2008-2012, 18 years or older), percent of persons 65 years or older (ACS 2008-2012), and vacancy rate of housing units (ACS 2008-2012).

Although the American Community Survey 5-Year file identified 1,752 Texas cities, towns and census designated places (CDP), the data file was reduced to 1,189 cities by excluding census designated places (primarily unincorporated colonias) and cities without complete information on all of the selected demographic and economic variables. The cluster analysis generated three cluster groups as shown in Figure 4 below.

Figure 4: Cluster Groups of Texas Cities



The largest group of cities – *Cluster 3 Economically distressed, minimal growth* -- consisted of 774 cities or 65.1 percent of all cities. The second largest group of cities – *Cluster 2 Economically modest, slow growth* -- included 350 cities or 29.2 percent of all cities. The third group of cities – *Cluster 1 Economically strong, high growth* -- included only 65 cities or 5.5 percent of all cities. The labels assigned to each cluster are subjective descriptions that are based on the economic and demographic characteristics of each cluster as shown by Table 5 on the following page, which presents the means or averages derived for each variable by cluster group membership.

From the information presented in Table 4 on the following page, we were able to produce descriptive profiles of each cluster group of cities.

Table 4: Cluster Analysis Results and Demographic Profile

Characteristic	Cluster Groups			All Clusters
	Cluster 1: Economically strong, high growth	Cluster 2: Economically modest, slow growth	Cluster 3: Economically distressed, minimal growth	
No. of Cities in Cluster	65	350	774	1,189
Percent in Cluster	5.5%	29.4%	65.1%	100.0%
Economic Characteristics in Cluster Analysis				
Median HH Income	\$112,900	\$62,396	\$37,568	\$43,216
Median Home Value (With Mortgage)	\$344,300	\$144,650	\$80,900	\$92,700
Homeownership rate	89.6	82.7	68.1	72.5
Pct. of households on public asst./food stamps	1.9	5.7	17.1	13.0
Pct. Uninsured persons	6.0	15.4	24.9	21.5
Unemployment rate (16yr.+ population)	4.9	5.2	8.2	6.8
Median aggregate household income (millions)	\$248	\$45	\$33	\$39
Median percent college graduates (25 years or older, Bachelor's degree or higher)	56.9	24.0	11.8	14.3
Demographic Characteristics of Cluster Groups				
Median 2010 population size	3,811	1,395	1,880	1,838
Median rate of population growth 2000-2010	18.7	10.0	2.6	4.3
Median percent of Hispanic population, 2010	8.4	12.5	26.0	18.7
Median percent of foreign-born population	7.7	3.9	7.0	6.0
Median percent of veterans (18 years or older population)	9.8	12.0	9.1	9.9
Median percent of persons 65 years and over	10.7	13.3	14.3	14.0
Median vacancy rate of total housing units	6.4	10.4	16.2	13.8

Cluster 1 - Economically strong, high growth: These cities represented only 5.5 percent of the 1,189 cities analyzed. Cluster 1 includes cities like Dallas, Houston, Austin, San Antonio, and Frisco that shared the following attributes:

- **Economics:** These cities revealed the highest median household incomes (\$112,900) and median home values (\$344,300), coupled with a higher homeownership rate (89.6%). The unemployment rate (4.9%), dependence on public assistance or food stamps (1.9%), and uninsured rate (6.0%) were the lowest among the three cluster groups, while this cluster also revealed a noticeably higher percentage of college

graduates (56.9%) than the other cluster groups. A median aggregate household income of \$248 million confirms that these cities are, collectively, an economic powerhouse.

- **Demographics:** When compared demographically with the other two clusters, Cluster 1 cities reveal that, on average, they have larger populations (3,811, ranging from 305 to 2 million), a higher rate of population growth from 2000 to 2010 (18.7%), the smallest percentage of Hispanics (8.4%) but a higher percentage of foreign-born persons (7.7%), a moderate percentage of veterans (9.8%), fewer persons that were 65 years or older (10.7%), and the lowest housing vacancy rate (6.4%).

Cluster 2 – Economically modest, slower growth: These cities represented 29.4 percent of the 1,189 cities analyzed. Cluster 2 included cities like McKinney, Rowlett, Forney, College Station, DeSoto and Farmers Branch that are experiencing more modest population growth and economic prosperity than Cluster 1 cities. Cluster 2 cities shared the following characteristics:

- **Economics:** Compared to Cluster 1 cities, Cluster 2 cities revealed more modest median household incomes (\$62,396) and median home values (\$144,650), a comparable homeownership rate (82.7%), a slightly higher unemployment rate (5.2%), over twice as likely to be uninsured (15.4%), more than twice as likely to depend on public assistance or food stamps (5.7%), and have aggregate household income (\$45 million) that was only 18 percent of the household aggregate income of Cluster 1 cities. A modest percentage of college graduates (24.0%) presents a further challenge for the economic development of Cluster 2 cities.
- **Demographics:** When compared demographically with the Cluster 1, Cluster 2 cities show that, on average, they have smaller populations (1,395, ranging from 90 to 131,117), a lower rate of population growth from 2000 to 2010 (10.0%), a higher percentage of Hispanics (12.5%) half the percentage of foreign-born persons (3.9%), slightly more veterans (12.0%) and persons that were 65 years or older (13.3%), and a higher housing vacancy rate (10.4%).

Clusters 3 – Economically distressed, minimal growth: These cities represented over two-thirds (65.1%) of 1,189 cities analyzed. Cluster 3 includes cities like Abilene, Amarillo, Corpus Christi, Euless, Galveston, Lubbock and Waco that are experiencing minimal population growth and whose residents are more economically distressed than residents living in the other two clusters. Cluster 3 cities shared the following characteristics in common:

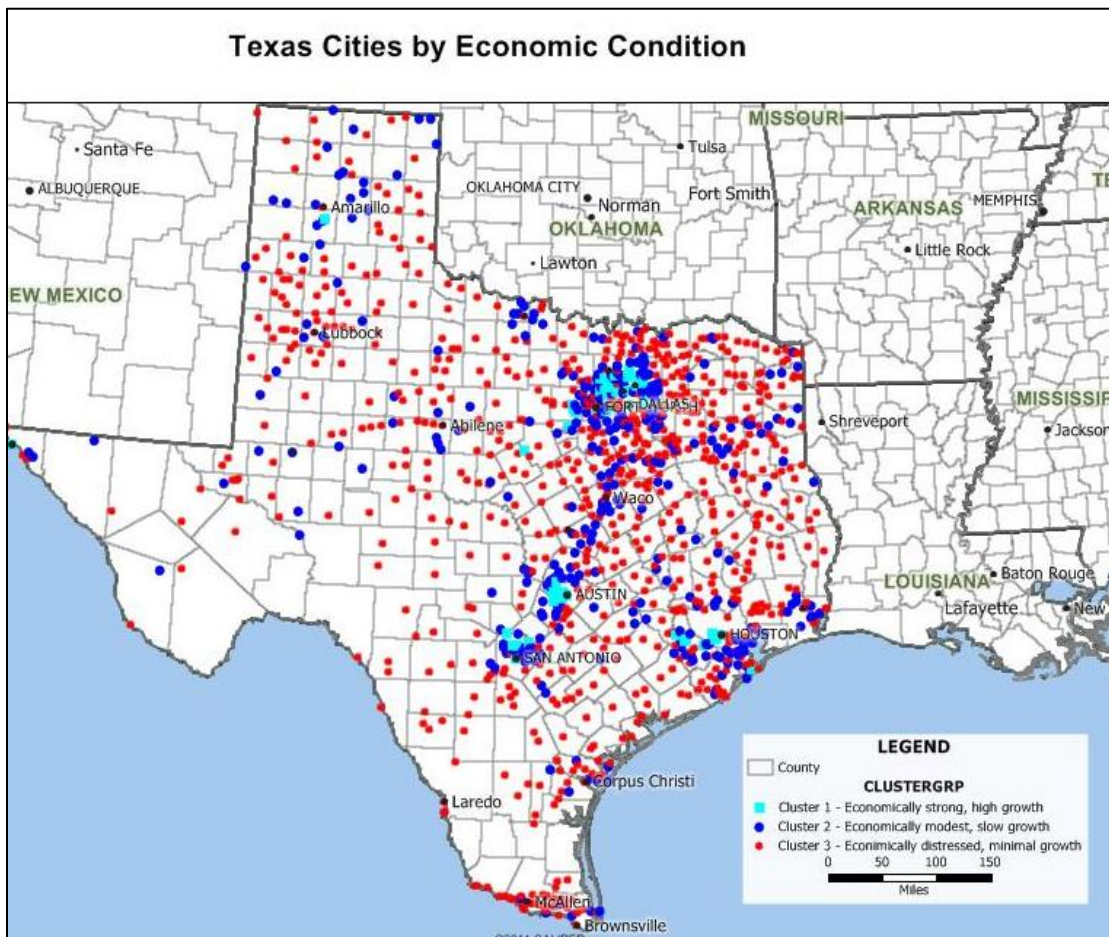
- **Economics:** Cities in this Cluster 3 revealed various signs that they were more economically distressed than cities in the other two clusters. Compared to the other two clusters, for example, Cluster 3 cities had the lowest median household incomes (\$37,568), median home values (\$80,900), homeownership rates (68.1%), aggregate

household income (\$33 million), and percentage of college graduates (11.8%). Cluster 3 cities further revealed the highest rates of unemployment (8.2%), uninsured persons (24.9%), and dependence on public assistance or food stamps (17.1%).

- **Demographics:** When compared demographically with the cities in the other clusters, Cluster 3 cities showed that, on average, their population size (1,880) was moderate with the slowest growth rate (2.6%) during the 2000 to 2010 period. The presence of Hispanics (26.0%) was the highest among the clusters, while the proportion of foreign-born persons (7.0%) and veterans (9.1%) was slightly lower than Cluster 1 cities. The presence of persons 65 years or older (14.3%) and the housing vacancy rate 16.2% were both higher than the other two clusters.

Figure 5 below illustrates the distribution of Texas cities by their economic condition. The map clearly shows that there are many cities throughout the state that are economically distressed (red dots), while cities that are doing better economically are clustered around Dallas/Fort Worth, Houston, Austin, and San Antonio (dark blue and cyan dots).

Figure 5



What have we learned from the cluster analysis? Basically, that there is wide disparity in the economic prosperity enjoyed by residents of cities across the State of Texas, which will limit the ability of many cities – especially the two-thirds of cities concentrated in Cluster 3 -- to meet the demands for services and infrastructure that are required. Only a small percentage of cities (5.5%) in Cluster 1 are economically strong – Dallas, Houston, Austin, Frisco, and San Antonio – and able to expand their economies in large part due to the decisions of key technology, telecom, and energy giants to establish locations in these cities. The fact that such large employers are missing in many of the struggling cities is no coincidence, as clearly demonstrated from the cluster analysis. That is, communities with lower unemployment rates revealed higher incomes and home values, greater aggregate incomes, less dependence on public assistance and food stamps, higher health insurance coverage, higher homeownership rates, and rapid population growth – factors that allow such cities to expand their tax base and support more services and infrastructure needs.

How Much Interest Has Been Generated for PPP Projects in Texas?

Table 5 below answers this question by describing the limited number of PPP projects in Texas that are already in place or in the planning stages.

Table 5
Current and Upcoming Texas Projects
Using Public-Private Partnerships

Governmental Entity	Industry	Project Description
Dallas and Fort Worth	Transportation	\$2.1 billion project to add managed lanes to I-820 and SH 121 in Fort Worth, and a \$2.6 billion project adding managed lanes to the heavily congested LBJ Freeway. Majority of the equity investment provided by Cintra and Meridian Infrastructure, and a portion by Dallas Police & Fire Pension System. ⁶⁵
Austin	Transportation	A 40-mile portion of SH-130 toll road was funded with \$1.56 billion in private capital. ⁶⁶
City of Dallas	Parks & Recreation	Operations for the Dallas Zoo were turned over to the nonprofit Dallas Zoological Society in 2009. The Society is responsible for all zoo management, operations and animals, while the city retains ownership of all related land and the zoo's nearly 200 physical exhibits. Greater private sector donations resulted since it was discovered that donors preferred to give to privately funded institutions. ⁶⁷
City of Farmers Branch	Library	A contract was awarded to LSSI in 2010 to operate its Manske Library with the expectation that residents would receive excellent services at an affordable cost to the City. Annual cost savings were estimated at \$290,000. ⁶⁸
El Paso County	Water Treatment	ECO Resources, Inc. was hired by the Water Authority to address the city's need for short-term portable water and the long-term need for assuring a water supply for its rapidly growing community. The plant significantly improved the quality of water, its cost was not passed to ratepayers, and the tax rate actually went down. ECO funded and built the project, and put the amortized cost of the facility into a 20-year lease-purchase agreement tied to a new 20-year O&M contract. ⁶⁹
City of Dallas	Public Library	The Kroger Company partnered with the Dallas Public Library to construct a branch library with a joint-use parking lot. In return for the construction of a new 12,900 square foot branch library, Kroger was able to construct a new grocery store on property that it owned and a joint-use parking lot on adjacent Library and Kroger property. Due to the increased visibility and convenience, visitors to the Library increased by nearly 80,000 in a two-year period. ⁷⁰
City of Odessa	Water	Partnered with a firm for the design, finance, construction and operation of a brackish water desalination plant.
Selected Upcoming Projects as of 3-15-13 ⁷¹		
City of San Antonio	Real Estate	After purchasing 84 acres of land that can be used to revitalize its east side, a Request for Qualifications was issued for a PPP opportunity to encourage creative redevelopment solutions, such as single-family and multi-family housing, senior housing, new parks, commercial development, restaurants and a community garden.
VIA Metropolitan Transit, San Antonio	Transportation	Solicited Requests for Expressions of Interest for a public-private development opportunity that would transform the existing Robert Thompson Transit Station into a fully developed transit center.
Guadalupe-Blanco River Authority	Water	Recently commissioned a \$2 million engineering study regarding a desalination plant on the Gulf of Mexico that will use a public-private partnership to design, construct and possibly operate the facility.

A cautionary note: Efforts to identify PPP projects in Texas were hampered by a general confusion in the literature in terms of how PPP and privatization projects are defined, and the relative absence of information sources that identify and/or categorize PPP projects.

Key legislation such as SB 1048 has opened the doors wide open for the creation of public-private partnerships in Texas beyond transportation infrastructure projects, a state that is not making sufficient investment in infrastructure and services that have resulted from rapid population change and a conservative fiscal policy. Interestingly, while national trends in infrastructure fundraising resulted in a pool of approximately \$250 billion in 2011, these funds are not being tapped as a result of weak demand levels among public agencies that believe that PPP costs will lead to unnecessary user rate increases, a loss of public assets, more expense than public financing, and more complicated contract negotiations that are too costly to yield a positive outcome.⁸ Fortunately, each of these perceptions has often been shown to be false as evidenced by the many PPP projects that have been successfully executed both nationally and globally.

A National Crisis and a Texas Challenge

In summary, it is clear that our national infrastructure in a host of areas is in substantial disrepair. In the areas of transportation and water supply, the situation is becoming a national crisis. For example:

- The American Society of Civil Engineers gives America a grade of D⁺ for infrastructure and estimates congestion on highways costs the economy 101 Billion annually in wasted time and fuel. A study of American bridges found that more than 66,000 in America are structurally deficient; laid end to end the deficient ones would reach from Canada to Mexico.⁷²
- America's highways are running on empty and the government can no longer rely on gas taxes to fix our nation's roads. No other developed nation relies so heavily on user fees like the gas tax.⁷³
- There has been an unprecedented plunge in infrastructure spending at the national level. Adjusted for inflation and population growth, public expenditures on construction have fallen more than 20 percent since early 2008.⁷⁴
- According to an investigation by Peter Andrew Smith regarding the safety of our nation's drinking water and delivery platforms: "The water supply system remains a deteriorating, mostly subterranean infrastructure so complex that in many municipalities officials can't even say where all the pipes are laid." Finally, Mr. Smith reported that "there were millions of individual cases of water-borne diseases that occur annually and related hospitalization costs approach \$1 billion each year."⁷⁵

Given the national crisis, Texas as well as its sister states have the challenge of insuring that all of its municipalities and cities have the opportunity to provide for its residents not only basic services, such as transportation and water, but a quality of life that is deserving for all Texans. Indeed, the current Administration reports in its attempt to urge Congress to fund infrastructure projects that "a failure to do so will result in states having to decide which projects to continue and which to halt, ultimately placing as many as 700,000 jobs at risk."⁵⁷

Global, national and local trends suggest that the State of Texas is distinctly out of step with innovative responses to the financing of its infrastructure needs. For example, Parag Khanna, in a recent *New York Times* article entitled "The End of the Nation-State?," describes the economic achievements that have been made in other parts of the world like Africa, the Middle East and Asia that have created hundreds of special economic zones via hybrid public-private partnerships and innovative economic models that integrate a rapidly urbanizing world population directly into regional and international markets.⁷⁶ As he explains it, these more decentralized economic models are "the surest path to improving access to basic goods and services, reducing poverty, stimulating growth and raising the overall quality of life."⁷⁷

Yet another relevant analysis relates to the importance of examining public funding priorities between suburban and urban areas in the U.S. In a recent article in *The New York Times* entitled "America's Urban Future," Vishaan Chakrabarti, an associate professor at Columbia University and partner at SHoP Architects, suggests that too much government funding continues to be directed to suburban cities at a period of time that population growth is reversing back to cities.⁷⁸ Chakrabarti maintains that major cities send billions more in tax dollars to the suburbs via state and federal coffers than they get back despite the fact that cities are the economic engines that generate 86 percent of U.S. jobs and 90 percent of our gross domestic product in less than 3 percent of the continental United States. As he explains this paradox:

"...urban mass transit, school systems, parks, affordable housing and even urban welfare recipients receive crumbs relative to the vastness of government largess showered on suburbs. Is it any wonder that in bustling, successful American cities, our subways, remain old, our public housing dilapidated and our schools subpar?some cities are already moving ahead: Chicago, Denver, Dallas and New York are all advancing policies to increase urban density, infrastructure and amenities. But with their citizens' tax receipts still being sent to the hinterlands, these attempts remain half-measures."⁷⁹

The author concludes that "it is only at the federal level that we can redirect this huge wealth transfer back to our urban infrastructure like modern subways, great schools, innovative work spaces, affordable housing and high speed rail. Doing so wouldn't just benefit urban dwellers; it would lower our deficit by substantially increasing productivity, decrease our dependence on fossil fuel and enhance social mobility."⁸⁰

Clearly, Chakrabarti is sending a bold message for the federal government and state legislatures to adopt practices that will benefit the residents of their own communities and strengthen our nation as a whole.

On July 18, 2014 in response to our nation's crisis in infrastructure, the White House announced the creation of a 'one-stop shop' for state and local governments seeking guidance on developing public-private partnerships for transportation projects. "First-class infrastructure attracts investment, and it creates first-class jobs," the President declared in announcing the creation of the center.⁸¹

Lastly, the paradoxical situation in the State of Texas recently captured the attention of *The Wall Street Journal* in an article entitled "Boom Time in Texas: Jobs, Traffic, Water Worries."⁸² Against a backdrop of high population growth, impressive job growth, and an economy that is stronger than many states, the reporters described a state that:

- Is straining its systems for water, power, schools and roads;
- Spends less per resident than all but three states (Florida, Georgia and Arizona);
- Ranked 45th in the nation in per-capita highway expenditures in 2012;
- Needs \$53 billion to meet additional water infrastructure needs by 2060; and
- Has municipalities that are hungry for more state money as they are forced to create more debt to pay for roads, water systems, schools and other services.

In addition, other investigators have found that Texas emits more greenhouse gases than any other state,⁸³ while Texas leads the nation in worker fatalities for seven of the last ten years, and has some of the weakest protections and hardest to obtain benefits in the country. Texas is also the only state that does not require private employers to carry workers compensation insurance or a private equivalent.⁸⁴ Moreover, about 500,000 workers or six percent of the workforce receive no occupational benefits if they were to experience an injury on the job.⁸⁵ A more recent analysis by The Dallas Morning News of federal data regarding workplace deaths over the past decade found that, on average, a Texas worker is 12 percent more likely to be killed on the job than another person doing the same job elsewhere – resulting in 580 excess deaths over the national average in the last decade.⁸⁶ This issue was also recently addressed by The Dallas Morning News in an editorial lamenting "The Dark Side of the Texas Miracle."⁸⁷

Despite these pressing concerns, Texas lawmakers are proud of their economic success story, which they strongly believe is a direct consequence of a policy of lower taxes, light business regulations, and lower spending. Raising taxes does not appear to be a viable option given the strong anti-tax sentiments in the State, while the option to delay or cancel needed infrastructure improvements will further threaten the safety and quality of life for all Texans. Texas lawmakers appear to favor private-public partnerships for building toll roads, but this interest clearly needs to be expanded further to schools, water systems, and other essential public services. Rather than act in a proactive manner, will lawmakers simply embrace other "innovative" solutions that have been proposed – such as recycling toilet water to address water

shortages in Wichita Falls, Texas⁸⁸ or not paving rural roads because the Department of Transportation could not afford to repair pockmarks left by oilfield-related traffic?⁸⁹ Let's hope not.

In summary, we are hopeful that we have provided an insight into the national challenges⁹⁰ faced by our nation⁹¹ regarding its infrastructure needs⁹² and more importantly public policy strategies⁹³ for meeting these needs,⁹⁴ and how these same strategies⁹⁵ and funding initiatives⁹⁶ can be utilized by local⁹⁷ and state agencies⁹⁸ struggling to serve our communities in Texas.

Properly organized, financed and operated, P3 programs combined with supportive legislative and tax programs that exercise a sound public policy balance between tax revenue and end user collection of fees can play a strategic role in the delivery of essential public services⁹⁹ for our local communities — now and in the future.

In the end, our collective challenge will be to overcome the lack of political will,¹⁰⁰ the growing misperceptions of P3 programs and the historical reliance on short-term financing strategies coupled with parochial interests that are comfortable in conducting business as usual in the public sector.¹⁰¹ In the meantime, the global investment community and the private sector continue to seek more P3 projects and lament the lack of viable P3 projects in the pipeline that can provide access to infrastructure projects and assets. The public sector needs to take advantage of “game-changing” private sector investments¹⁰² and seek creative ways to promote more investment opportunities in our communities, not less.

If you fix cities, you kind of fix the world.

—Tony Hsieh, CEO of Zappos

Forget Washington—Cities will win or lose the future.

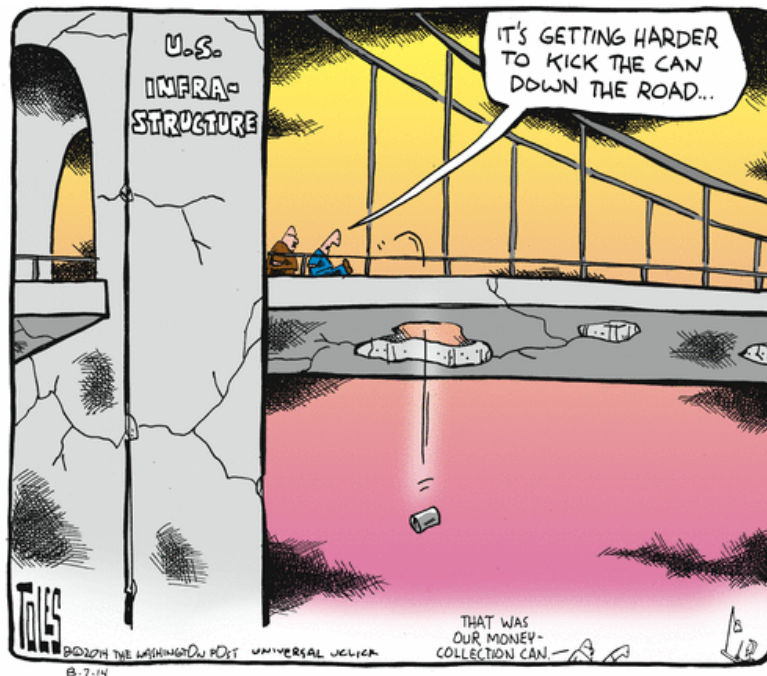
—Jim Clifton, CEO of Gallup

“In a nation of privatized privilege, services that work well—fancy apartment buildings, hotels, restaurants, health clubs, private taxis—all cater to the elite and their private economy. For everyone else, things fall apart: Public transportation systems—roads, tunnels, trains, and buses are in various states of disrepair...”

“Much of the infrastructure was built during the post-World War II boom when America was the world’s largest oil producer and exporter—but today, its water pipes and power stations are run-down, causing lead and mercury poisoning and sporadic blackouts.”

“The United States has spent less than 2 percent of GDP on infrastructure since 1980.”

—Parag Khanna
The Second World



Source: Endnote ¹⁰³



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Mr. Ronquillo has over 35 years of experience representing local, state and federal governmental entities and financial regulatory agencies in a host of practice areas including municipal bond finance, class action litigation including officer and director liability, bank fraud, civil rights, education, employment and desegregation litigation in federal and state court. He has also represented small business and Fortune 500 companies in matters including class action securities litigation, regulatory investigations, commercial litigation and international arbitration. Mr. Ronquillo has also represented private enterprise and non-profits in the development of international infrastructure projects, due diligence, international transactions and private sector investments in Mexico and Latin America.

Mr. Ronquillo is a past recipient of the State Bar of Texas Presidents' Special Citation Award and Outstanding Lawyer of the Year Award from the Texas Mexican Bar Association. He was named to the 2013 list of the Best Lawyers in America. Mr. Ronquillo is AV rated "Preeminent" (Highest Ethical and Competency rating) by Martindale-Hubbell.

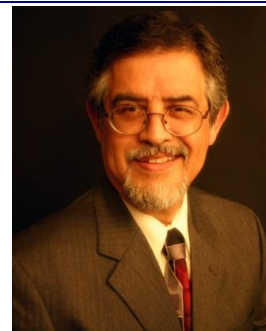
Mr. Ronquillo has been awarded the national Spirit of Excellence Award by the American Bar Association, National Commission on Minority Lawyers. He has been recognized nationally as an outstanding lawyer by the American Immigration Lawyers Association, *Dallas Business Journal*, Ernst & Young, Texas Diversity Council and *Texas Lawyer*. He has also been honored by Texas Monthly and Super Lawyer magazines and listed as a Texas "Super Lawyer" from 2003 through 2014. In addition, *Super Lawyers* has named him to the list of the top 100 lawyers in the Dallas/Fort Worth area.

He is the former President of the Dallas Mexican American Bar Association and former Chairman of the Dallas Hispanic Chamber of Commerce. He is the former National Chairman of the University of Notre Dame, Hispanic Alumni Association and currently serves on the Institute of Latino Studies at the University of Notre Dame and the Board of Advisors of George Washington University Law School.

He was honored in 2011 by *Hispanic Business Magazine* as one of the "100 Most Influential Hispanics" in the United States, and by *Latino Leaders Magazine* with its prestigious "Maestro Award for Leadership." He has served on numerous boards and commissions including the Dallas Museum of Art, Dallas Area Rapid Transit Authority (DART), Children's Medical Center and JPMorgan Chase to name a few. He currently serves on the Smithsonian Latino Center National Board of Directors and sits on the Board of the United States/Mexico Bi-National Chamber of Commerce.

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Following are some of the noteworthy achievements of Rincón & Associates LLC:

- Conducted the first national multicultural study in the automotive industry.
- Introduced the first Hispanic Marketing course at the SMU Cox School of Business.
- Conducted the first study of U.S. Hispanic television audiences that challenged Nielsen's estimates of Hispanic television audiences.
- Conducted the first study of multicultural consumers in Dallas/Ft. Worth.
- Developed SERENITY[®] -- an innovative multicultural survey response system that significantly improves the quality of the survey data collected from multicultural consumers.
<http://www.rinconassoc.com/services/multi-modal-multilingual-methodology>
- Introduced *Populus USA*[®] -- iPhone and iPad application that provides current Census data for all communities in the U.S. and Puerto Rico.

Dr. Rincón received his master's and doctorate degrees from The University of Texas at Austin with a concentration in psychological quantitative methods. His areas of expertise include survey research methodology, measurement bias, audience measurement, demographic analysis and qualitative research.

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