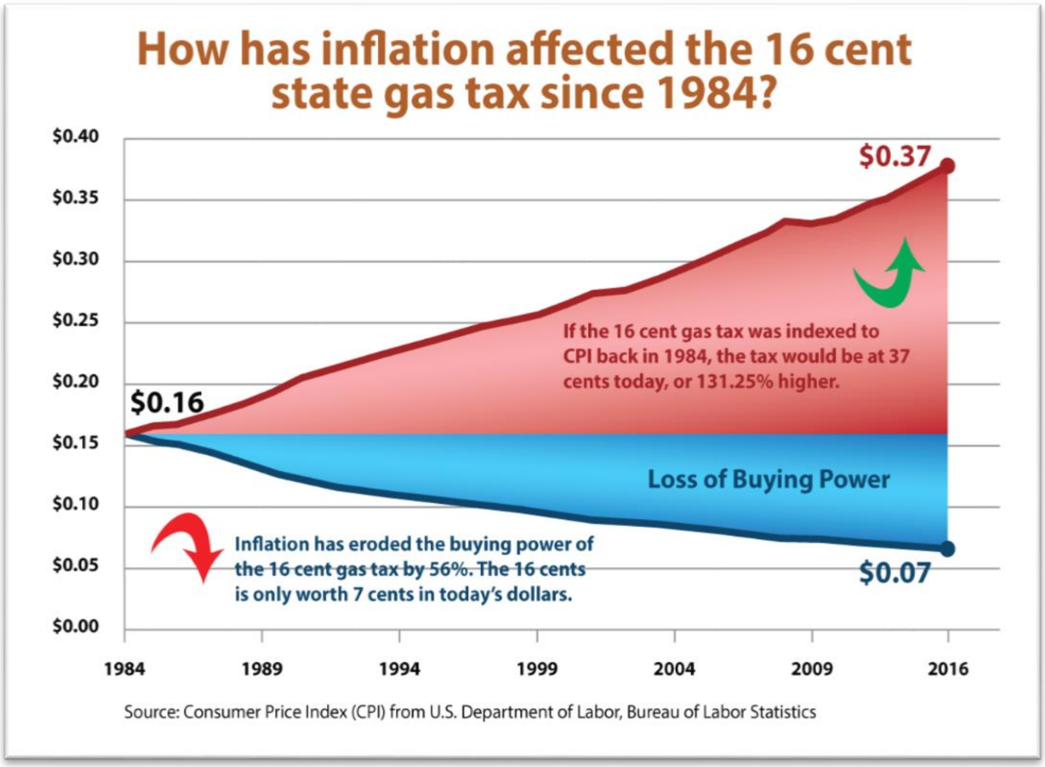
Section 4.0: The Problem

Section 4.1: Loss of Purchasing Power

The dominant reason that transportation is underfunded today is due simply to the fact that the revenue source for transportation has been losing purchasing power every year for decades. Specifically, as seen in Graphic G, the 16 cent motor fuel tax that was put in place in 1984 only has the purchasing power of 7 cents today. Had the motor fuel tax been adjusted for inflation over the years, it would be 37 cents today and there would be no need to discuss how to solve the state's transportation needs. While a cents-per-gallon excise tax on motor fuel, as is in place on both the federal and state level, provides a steady and reliable source of revenue for transportation, increases in revenue over time only occur based on consumption of fuel. More specifically, the only way for transportation's revenue source to avoid losing purchasing power due to inflation that occurs over time is for fuel consumption to increase at a sufficient rate. However, even if fuel consumption grew at a rate sufficient to keep up with inflation, the result necessarily means that the transportation system is being more heavily used which requires more maintenance, additional lanes, and new roads.

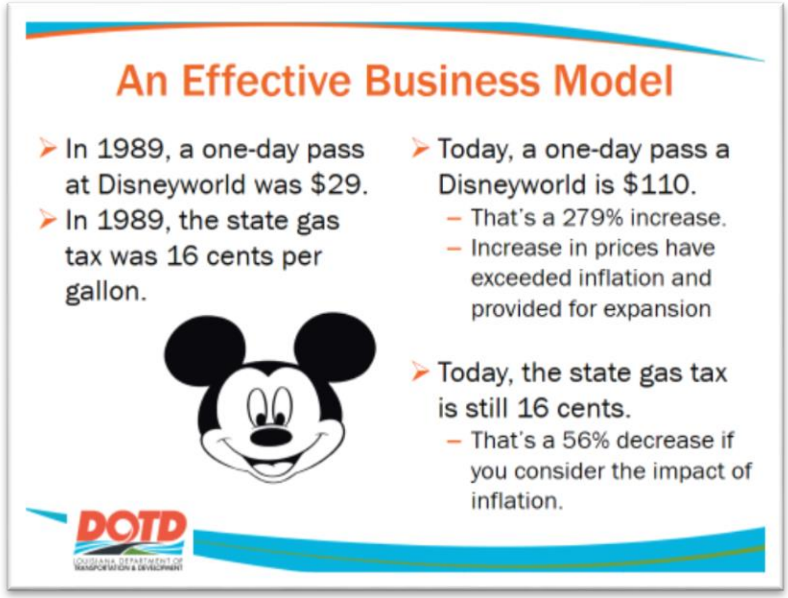
As a result, periodic increases to an excise tax must occur in order to prevent losses in purchasing power so demands on the transportation system can be met. Unfortunately, on both the state and federal levels, increases to the excise tax rates on motor fuel are not periodic but instead have allowed for significant losses in purchasing power since last adjusted. When left unadjusted, these rates lose purchasing power on many different fronts, including consumer price index (CPI), highway construction costs, and fuel economy.

Graphic G: If LA Had Adjusted for CPI Since 1984, There Would be No Need to Act Today



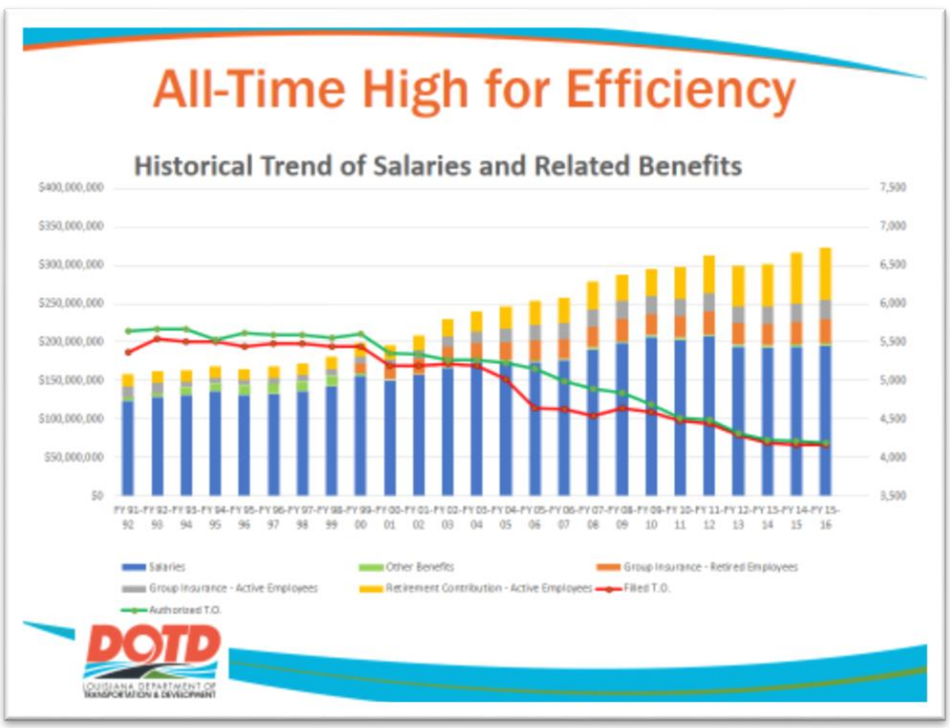
As depicted in Graphic H, private sector business models account for increases in the cost of doing business over time, but nothing has been done to address the rising costs of doing business for DOTD.

Graphic H: Priorities, You Get What You Pay For



Adding to the loss of purchasing power described above, DOTD faces cost increases related to employment and retirees. While DOTD has pursued aggressive efficiency efforts, as demonstrated by the reduction in staffing level depicted in Graphic I, health insurance costs and retirement contribution costs have nonetheless increased significantly. These increased expenses are a cost of doing business that is outside the control of DOTD. Still, the effects of these increasing costs compound on top of increased fuel economy and other inflationary items to drive down the purchasing power of the 16 cents.

Graphic I: DOTD Reduces Staff, Costs of Doing Business Still Rise

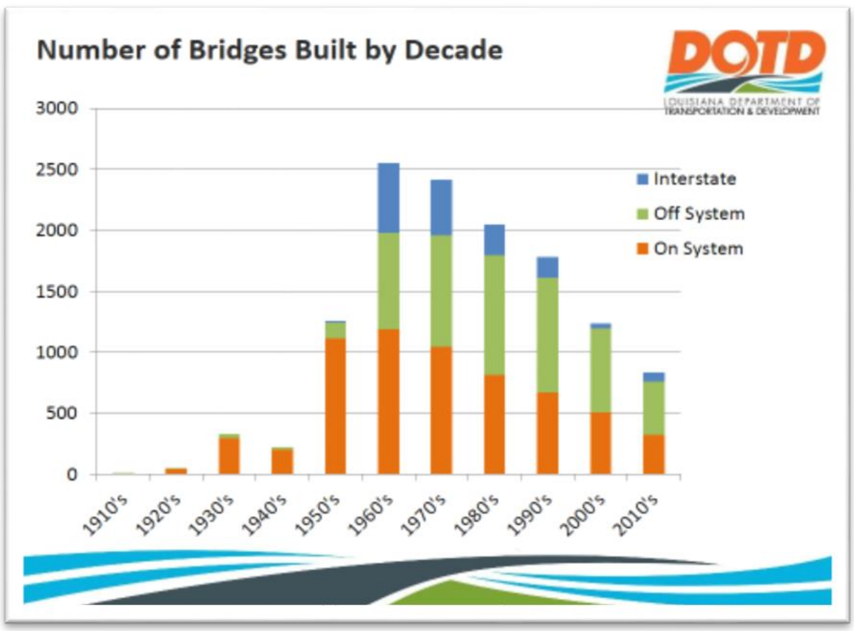


Section 4.2: Loss of One-Time Revenue

Over the course of the past decade, the amount of revenue for highway construction has seen a significant decline. As depicted previously in Graphic F, the State has relied on non-recurring "one-time" sources of revenue for much of its construction budget over the last decade. These sources of revenue are over and above the HTF and TTF, including TIMED bond revenue, federal earmarks, federal stimulus funds, state surplus funds, federal emergency funds, and state general obligation bonds. With these sources of revenue no longer being available, the State is now living within its means, essentially on HTF and TTF alone. While the one-time revenue financed the delivery of projects in the past, there was no additional funding to maintain this investment over time. In essence, Louisiana depended on one-time influxes of revenue to construct projects that it could not afford to build or maintain with the available recurring funds. The result is a transportation system in desperate need of repair.

Section 4.3: Aging Infrastructure

Graphic J: Majority of Bridges Will Exceed Intended Design Life within Next 10 Years



With the plurality of major enhancements to the transportation system in the United States built in the 1960s, as demonstrated in part by Graphic J, with a design life of 50 years, it is past time to replace much of Louisiana's existing transportation system. According the the American Society of Civil Engineers 2012 Report Card, Louisiana's bridges and roads received a "D," which is described as "crumbling infrastructure," while ports, aviation, and levees received a "C," which is described as "marginally performing infrastructure."

As an example of the deteriorating state of Louisiana's transportation system, bridge conditions are such that more than 220 bridges are currently closed, over 1,000 bridges have load-posted weight limits, more than 750 bridges have exceeded their useful life of 50 years, and nearly 2,500 bridges still have timber components. At the current annual budget of approximately $100 million, it will take DOTD 327 years to finance the replacement of bridges that have a 50-year design life.

As it relates to pavement conditions, the 2015 TRIP report highlighted that motorists in Louisiana's three largest cities pay an extra $650 to $700 per year in vehicle damages due to road conditions. Available funding is such that highway pavements in Louisiana can only be replaced or restored every 40-50 years. Without sufficient funding to invest in operation and maintenance of our existing transportation system, bridge and pavement conditions will continue to worsen at an accelerating rate into the future.

Despite dedicating the overwhelming majority of available construction dollars to rehabilitating the current transportation system, the overall condition of the system is worsening each year.

Graphic K: Louisiana is Leading in all the Wrong Ways

- *42 states have better pavement conditions than Louisiana*
- *47 states have better bridge conditions than Louisiana*
- *45 states have lower vehicle fatality rates than Louisiana*
- *Baton Rouge and New Orleans make up 2 of the nation's 5 worst regions for truck commerce*
- *Baton Rouge and New Orleans are among the 10 most congested medium sized urban areas in America*

Section 4.4: Congestion, Limited Mobility

Louisiana's population and density continues to grow in rural and urban areas, leading to measures that must be taken to expand the existing transportation system. As a result of funding limitations and the need to maintain the existing system first, Louisiana is unable to add the new roads, bridges, and lanes that are desperately needed to address the congestion across the State. At this time, the State is only spending approximately $25 million per year on "capacity projects," which is very insignificant considering the $38 billion of megaprojects across the State that are identified by the LSTP. According to data reported by states to the Federal Highway Administration depicted in Graphic K, the Baton Rouge and New Orleans regions both rank in the top 5 worst regions for truck commerce and in top 10 most congested medium sized American urban areas. This does not bode well for commerce today, and the outlook for the future is even worse. At current funding levels for transportation, DOTD expects congestion levels in urban areas to increase[6] dramatically over the next 25-30 years.

Section 4.5: What is at Stake?

As it relates to the effects on our State's economy, former Chairman of the Louisiana Chemical Association board and Task Force member Tom Yura said, "Infrastructure is a key building block for growing business and industry in Louisiana. We cannot be successful without a robust network of highways, ports, bridges, railroads, and airports. Substantial investment is needed in both existing and new capacity to allow industry to sustain what we have today and ensure the potential to grow." Yura, who is Senior Vice President and General Manager at BASF, went on to provide perspective on how the State came together to overcome past workforce challenges that hindered the State's economy, saying "As demonstrated through the joint efforts to tackle workforce development issues facing our State, we must now take the same approach with our aging and inadequate transportation infrastructure. We must have a comprehensive transportation plan, strong cooperation between industry and government leaders, dependable financing of the plan, and quick execution of the plan. A robust and dependable transportation system is needed to ensure the viability of business and industry."

Simply put, Louisiana's transportation system has a direct impact on every facet of daily life. Every single good, service, and person interfaces with the State's transportation system. When the transportation system deteriorates, so does the quality of life in Louisiana. Whether it is less safe

[6] See graphics in Appendix A for expected statewide congestion increases.

commutes that waste time and money, costly vehicle repairs due to poor pavement conditions, or lost economic opportunity from businesses choosing to operate in states that offer better mobility, much is at stake for Louisiana citizens.

While the State has been enduring these effects for years, the decision to invest in transportation is not one that can be deferred any longer without an escalation in consequences. In just one example, Louisiana is only currently able to secure all available federal HTF revenue because it can supplement TTF revenue with toll credits. Toll credits are a finite, non-recurring source of match issued to states for previous toll projects. Louisiana received $140 million in toll credits from the federal government associated with LA 1.

Due to insufficient TTF revenues, DOTD will be required to rely on these credits until exhausted in two to three years. Once the toll credits have been exhausted, the State will be unable to secure all currently available federal funds for transportation. That means that if nothing changes in Washington, D.C., Louisiana will be leaving federal funding on the table in two to three years. If changes are made and more federal funding comes available for transportation, Louisiana will also be leaving those federal funds on the table. The choice and consequences are clear. In summary, Louisiana can either increase its investment in transportation, capture existing and potential new federal funding opportunities, and deliver a transportation system that will improve the quality of life in this State, or not.