

GRAND PARKWAY MEETING

01/31/2008

Summary of Discussions

1. Introductions; Summary of Prior Meeting. The meeting started with a brief introduction of participants and a discussion of topics and issues raised at the January 17 meeting.

2. Traffic and Revenue Study. The participants then discussed various issues relating to the traffic and revenue study for the Grand Parkway project. HCTRA indicated that it was prepared to commit a sufficient amount of funds to pay one-half of the cost of the study. HGAC indicated that as a regional planning organization it could be in a position to confirm projections in the study. HGAC indicated that it has been involved in the region's growth and planning for years. HGAC participation and support could lend credibility to the study process because of this experience. The participants discussed commissioning a Level 1 study with a peer review by an independent consultant.

3. Organizational Structure. HCTRA indicated that John Tyler of HCTRA would speak for the agency on engineering issues and that HCTRA was in the process of reviewing the project scope and costs proposed by TxDOT. However, HCTRA would not be in a position to confirm its position of scope and cost issues until the review and analysis is complete.

TxDOT indicated that all seven counties should be involved in reviewing issues relating to project scope and costs.

3. Environmental Review. The participants then discussed the status of the environmental process for the project. The environmental review process is in different stages for different segments, and assumptions will need to be made for the traffic and revenue study. The final environmental process will dictate the actual routes for the various segments of the project. The participants stressed that the public should understand that the market valuation process for the Grand Parkway project will not preempt the public involvement process for determining the actual routes for the project.

Many segments of the project are in the final stages of the environmental review process, but many others have areas of uncertainty. There could be substantial differences in the final routes for the project. Information learned through the market valuation project will have to be accommodated in any agreement among the parties. David Gornet of the Grand Parkway Association reviewed a schedule of activities dated as of January 28, 2008, that summarized the environmental permitting status for the project, a copy of which HGAC was going to make available on its website.

4. Timeline. Delvin Dennis of TxDOT mentioned that agreement and movement toward the project scope needs to happen soon. Is it appropriate to set deadlines for decisions? A proposed timeline was handed out at the first meeting. When will HCTRA complete its review? HCTRA's response was that the project will be what it is determined to be when the process is concluded. There may be modifications of routes and cross-sections. According to HCTRA the process is under review and a determination needs to be made whether the proposed \$5.4 billion cost is a close, realistic amount or whether it is something higher than that.

According to TxDOT there is a lot of work to be done before September 1. The traffic and revenue study consultants will need information on the construction schedule, costs estimates and the project timeline. The proposed letting schedule is based on 30 months after environmental clearance, with construction starting 2.5 years after that time. TxDOT, at the last meeting, distributed a proposed

construction schedule and cost breakdown and is looking for feedback, all of which will impact the scope of the project. Proposed cost figures are based on March, 2007 dollars and will need to be adjusted for inflation once contract letting occurs.

HCTRA will review and confirm data and accept it as a starting point but does not yet agree that TxDOT's proposal is how the development of the project will progress. The development of a proposed \$5.4 billion project will need to proceed in a way that makes sense from a contracting and a financing standpoint. HCTRA will likely have comments later in the process about the development schedule and sequencing and is not prepared to definitively agree on those matters in advance.

HGAC will discuss with the traffic and revenue consultants how to deal with the variations, all of which will be subject to negotiation. The proposed TxDOT schedule shows the earliest possible development schedule, which is a beginning point for the traffic and revenue study, not an ending point.

5. Design, Construction and Maintenance Standards. The group then discussed the standards to be used for the design, construction and maintenance of the project. TxDOT has developed certain standards in connection with its CDA procurement program and offered to furnish a copy of those standards to HCTRA and other participants for review. Gary Trietsch discussed a summary of the TxDOT standards he described as critical and that needed to be reviewed and addressed. Art Storey of Harris County (HCTRA) said that he recognized that the Grand Parkway was ultimately a TxDOT project, that HCTRA was negotiating as a development partner with TxDOT (and not necessarily an owner) and that HCTRA did not envision trying to preempt the TxDOT standards. However, HCTRA will review the standards to determine if they are sufficient to handle the expected traffic load (Port of Houston commercial traffic for example) because HCTRA does not believe that "one size fits all." After reviewing the standards, HCTRA may have some inquiries but did not expect to insist on changes to such standards on what ultimately will be a TxDOT facility.

TxDOT indicated that people are familiar with the TxDOT design manual and that the parties would need to agree on the basics of the maintenance and operations standards. Regardless of whether the local toll entity is the developer, TxDOT is the developer or a private party is the developer, the standards agreed to as terms and conditions for the market valuation will apply and issues such as how high the grass should grow and other similar maintenance issues when viewed over a 50 year valuation period will impact the valuation determination. The participants then discussed the possible need to adjust some of the design, construction and maintenance variables if it is determined some are too expensive or unrealistic. The participants also discussed the brief TxDOT descriptions of the voluminous design, construction and maintenance materials prepared in connection with TxDOT's CDA procurement program, and HCTRA reiterated it would review those materials in light of HCTRA's standards and the expected traffic load. Both HCTRA and TxDOT agreed to cooperate and share documents and materials.

6. Subcommittees. The group then deviated somewhat from the prepared agenda and took out of order the topic of subcommittees. The group discussed the formation of two subcommittees for now: a traffic and revenue subcommittee and an operations and cost subcommittee. At some point the group indicated that a finance subcommittee would need to be formed.

TxDOT indicated a preference to have each of the three participants (TxDOT, HCTRA and HGAC) name one person to head the subcommittee as the lead person for his or her particular organization. TxDOT also indicated that the lead person was welcome to bring along others from his or her team as needed for subcommittee meetings/conference calls. HCTRA agreed to a point, but stressed that it has a \$3 billion toll system already in operation, six legislative "grandfathered" projects to develop (i.e. non-market valuation projects) and has an existing engineering staff of six people. HCTRA is committed to the process but would rely heavily on its consulting team, and that John Tyler, the

designated lead HCTRA staff person, could not be at every committee meeting and HCTRA may need consultant representation at some committee meetings, and the HCTRA representatives may be a rotating group of staff and consultants. HCTRA was not in a position at this point to agree to a fixed set of committee representatives.

HGAC commented that the two initial subcommittees/working groups would be helpful in moving the process along. HGAC asked for the parties to identify a contact person to help set up the meetings. The three people identified as contact persons were Alan Clark for HGAC, John Tyler for HCTRA and Gary Trietsch for TxDOT. Christy Wilhite of HGAC indicated that the HGAC website was being modified to allow for documents and other materials relating to the Grand Parkway project to be available online. The primary link is as follows: <http://www.h-gac.com/taq/sh99/default.aspx>.

7. Recent Market Valuation Examples -- SH 161 and US 281. HGAC's consultant, CRA International, reviewed the terms and conditions developed (or in the process of being developed) for two recent market valuation projects -- SH 161 in North Texas and US 281 in the San Antonio area. CRA reviewed that various categories that will need to be agreed on: project details, capital costs, traffic and revenue assumptions, operation and maintenance costs, renewal and replacement (life cycle costs) and financing and tax costs. These terms and conditions are more detailed than the two terms and conditions specified in SB 792, the initial toll rate and the toll rate escalation methodology.

It is important to determine and forecast expected traffic levels, as well as costs relating to operation and maintenance standards because those costs are important over time. CRA stressed that the devil is in the details, including issues relating to toll rates during peak periods, evacuation traffic and emergency, military and transit vehicles. CRA then reviewed the two case studies (SH 161 and US 281), and HGAC indicated materials relating to the case studies would be made available on the HGAC website.

HCTRA indicated that the presentation was helpful and that it did not want to live with any surprises in the process. HCTRA also expressed that the distinction between what was being called "terms and conditions" (which were not subject to further negotiations) and "assumptions" (which were variables subject to adjustment) is not something HCTRA is prepared to agree to. In response, CRA suggested that, time permitting, it might be possible to structure an "iterative process" where draft terms and conditions and a draft market valuation are developed before the statutory timeframes in SB 792 are triggered. HCTRA again commended CRA on its presentation, stressed that the focus on the inputs into the market valuation process is helpful and again raised doubts about what it believed to be an artificial distinction between "terms and conditions" and "assumptions." Overall the categories reviewed by CRA presented a good checklist and summary of items for the subcommittees to think about.

TxDOT indicated that the draft process suggested by CRA would not work with the TxDOT proposed schedule handed out at the prior meeting.

HGAC indicated that it would be helpful to develop a draft set of terms and conditions. There is not substantial disagreement on toll rates and policy. Outstanding issues relate to development and financing. HGAC was hopeful that after draft terms and conditions are developed it would not be necessary to revisit every issue for the development of final terms and conditions. Both sides need to be comfortable with the particular decisions that are made and if neither side is pleased not much will be accomplished. The process proposed by CRA is one way to help move the project forward without drawing lines in the sand. It was understood that HGAC and HCTRA were not prepared to commit to TxDOT's schedule.

CRA clarified that draft terms and conditions could take many forms, ranging from “back of the envelope” type calculations to model based determinations. The draft stage could proceed at a faster pace if necessary.

HCTRA indicated it was simply looking for quantification so we can get to the finance stage to determine whether HCTRA wants to be a development partner.

8. Summary of Current Meeting and Issues for Next Meeting. The group then discussed items for consideration and progress reports expected for the next meeting. HCTRA is working on getting the formal actions taken by the various counties delegating authority to HCTRA to negotiate with TxDOT. The group discussed working on the preliminary scope for the traffic and revenue study and scheduling subcommittee meetings to work out the details.

The group also discussed reviewing issues relating to the project description, timeline, cost estimates and the TxDOT and HCTRA design, construction and maintenance standards.

There was some follow up discussion on the CRA presentation relating to the two case studies (SH 161 and US 281). HCTRA raised some issues about details to be addressed, such as why the project was referred to as a “parkway” instead of a limited toll facility lane. Based on HCTRA’s experience, the distinction matters for issues relating to sound walls, trees and landscaping and public expectations.

Finally, the group discussed the process for moving forward. There are issues to review and analyze before another meeting needs to be held. The process needs to allow time for that to happen. The same was true for the next “all counties” meeting, which should be postponed until there was more progress to report back. Staff level discussions need to be held, and HCTRA indicated it would try to work with the various counties on issues relating to their particular segments.