TEXAS DEPARTMENT OF TRANSPORTATION

TRANSPORTATION FUNDING

Understanding Transportation Funding in Texas

Texas Department of Transportation

2014-2015 Edition

The Project Development Cycle

Transportation projects, particularly mobility projects, take many years to develop from the time they are conceived to when they are put up for bid to contractors. Most of the money appropriated to TxDOT in the general appropriations act is to pay for projects that are already underway, to pay debt service on bonds, and to maintain the existing system.

Therefore in order to boost contracting levels in the next two or three years, new funding must enter the system now.

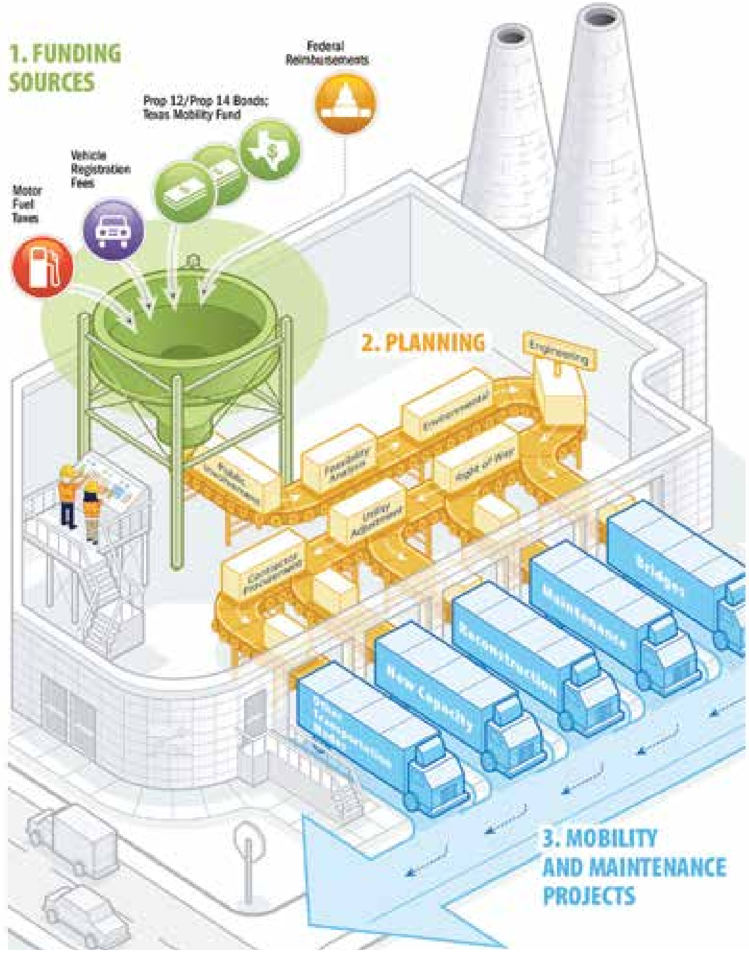
The transportation development cycle can be compared to a factory. A factory cannot start churning out its products simply by turning on a machine. A lot has to happen on the front end.

First, it should be established that there is sufficient demand for the product. This is similar to TxDOT's public involvement, feasibility, and environmental analysis.

Then, component parts have to be acquired—similar to the design, right of way acquisition, and utility adjustments associated with transportation projects.

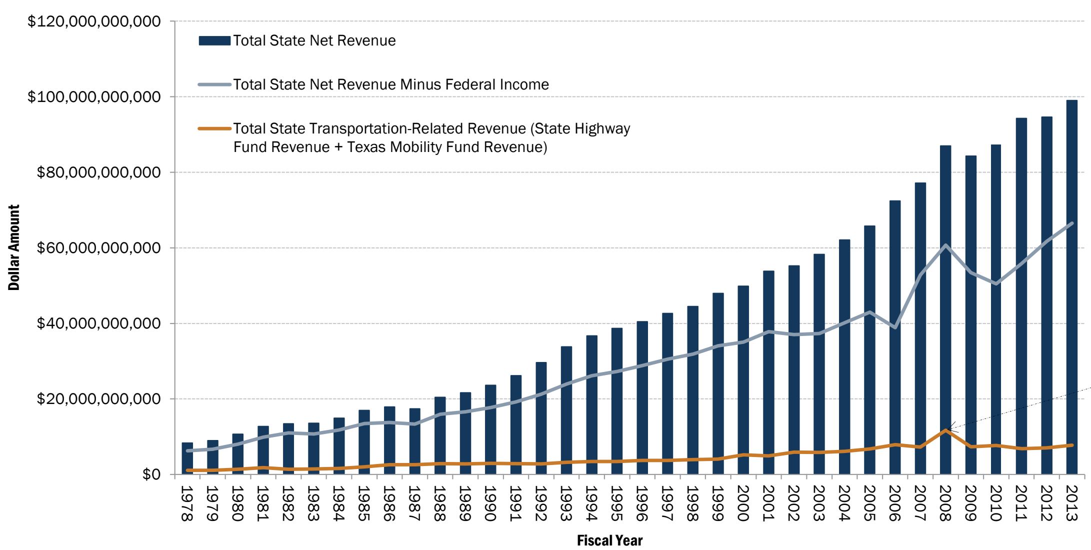
It is important to understand that none of these activities can begin until a sound financial analysis indicates there will be sufficient resources to see the process through to the end.

TxDOT has the raw materials to produce a robust level of projects in the near term. But if we don't increase resources now, our "production" in dollar terms will fall to levels not seen since the early 2000s. Meanwhile, more and more people move to Texas, congestion worsens, and our existing assets age.



Total State Net Revenue vs. Transportation-Related Revenue

(FY1978-FY2013)



Sources of Revenue Information:

Total Net State
-Comptroller of Public Accounts (CPA), *Net Revenue by Source*
-2013: http://www.texastransparency.org/State_Finance/Budget_Finance/Reports/Revenue_by_Source/
-1978-2012: http://www.texastransparency.org/State_Finance/Budget_Finance/Reports/Revenue_by_Source/revenue_hist.php

Total Net State Highway Fund
-CPA, *Annual Cash Report* (http://www.texastransparency.org/State_Finance/Budget_Finance/Reports/Cash_Report)
-Numbers reflect total revenue minus "Other cash transfers between funds or accounts"

Total Texas Mobility Fund
-CPA, *Annual Cash Report* (http://www.texastransparency.org/State_Finance/Budget_Finance/Reports/Cash_Report)

FY2008 includes $3,197.1 million received from the North Texas Tollway Authority for the State Highway 121 agreement.

Notes:
-Total state net revenue and State Highway Fund (SHF) exclude borrowed funds ,which are paid back from certain revenues over time.
-Since 2010, some general revenue has been appropriated to TxDOT to pay debt service on Proposition 12.
-TxDOT received a general revenue appropriation in FY2008 to pay debt service on Proposition 14 and short -term debt.
-Transportation infrastructure is not the only use of the SHF.

Transportation Needs

At the beginning of the 2013 Texas Legislative Session, The Texas Department of Transportation (TxDOT) estimated that there is an average annual gap of $4 billion between the amount of federal and state revenue projected to be available over the next several years and what is needed to maintain the highway network at 2010 levels of congestion and maintenance. However, the gap discussed at that time did not include an estimated $1 billion per year needed to address the deterioration of roadways in areas impacted by the dramatic increase in heavy truck traffic needed for energy development. Together, the estimated gap averages $5 billion per year.

The 2030 Committee was a panel comprised of twelve Texas business and civic leaders appointed by the Texas Transportation Commission in May 2008. The 2030 Committee was charged with independently determining the fiscal requirements for the state's future transportation needs. The Texas A&M Transportation Institute (TTI) served as the committee's research and technical staff.

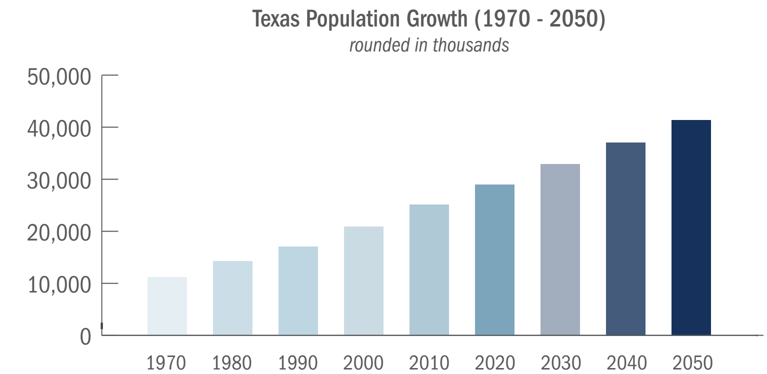
Their study was updated in 2011 and can be found at this web address: http://texas2030committee.tamu.edu/documents/final_03-2011_report.pdf. The committee determined the level of highway investment needed to maintain condition and congestion levels at the 2010 level was $10.8 billion annually.

After removing temporary funding sources that will soon be exhausted from the highway investment strategies in TxDOT's budget, the level of investment from sustainable, reliable funding sources falls $4 billion short of the $10.8 billion annual figure, not including the effects of energy exploration and production. However, in November 2014, voters in Texas will be able to decide on a proposition that would allow lawmakers to deposit up to $1.7 billion dollars annually to the State Highway Fund. If the proposition is approved, and lawmakers decide to allow the deposit, the $5 billion annual, average gap would be reduced by whatever amount lawmakers decide to deposit.

Will the gap increase over time? There are many variables that the 2030 Committee and TTI estimated in establishing the state's funding needs including inflation, revenues, population, and vehicle-miles traveled. Any change in these factors, such as population growth, improved technology, a change in commuter habits, and revenue estimates could cause the gap to change. As with any projection of costs and revenues over a significantly long period of time, the estimated gap is merely a snapshot of how the future may look given the assumptions made at that time. Unforeseen circumstances, such as the continued growth in energy sector impacts, certainly would widen the gap.

Additionally, should the department continue to fall short of the funding needed at least to achieve 2010 condition levels, the funding gap will widen. This is the result of further deterioration of the system beyond current conditions that would require a greater level of investment to restore those conditions.

TEXAS POPULATION GROWTH (1970-2050) *(rounded, in thousands)*



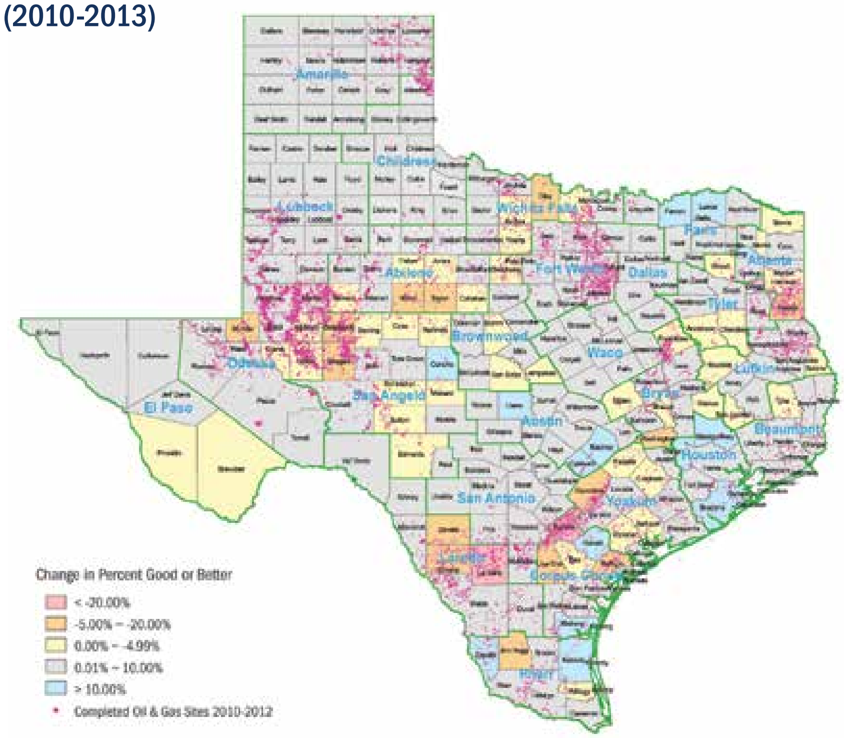
Sources:

1970-1990: "Resident Population, by State: 1900 to 1998", U.S. Census Bureau, *Statistical Abstract of the United States: 1999*

2000: "Resident Population—States: 1980 to 2000", U.S. Census Bureau, *Statistical Abstract of the United States: 2002*

2010-2050: "TX Population, 2010-2050" (note: 2010 is actual Census number, not an estimate), Texas State Data Center, Texas Population Projections Program, Population Projections for the State of Texas and Counties.

PERCENTAGE OF LANE MILES IN GOOD OR BETTER CONDITION (2010-2013)



Texas has seen a tremendous increase in the exploration and production of energy resources over the past decade. For example, with the onset of the Eagle Ford Shale in 2008, shale natural gas production almost tripled in Texas between 2009 and 2012. This increase in energy-related activity has greatly benefited local and state economies. However, the production of oil and gas generates large numbers of heavy trucks on the roads which were not designed for heavy traffic loads. This problem is particularly acute in the oil and gas drilling booming counties. The following counties experienced more than a ten percent drop in their percentage of lane miles in "Good" or better condition in just one year: Hansford, Lipscomb, Roberts, La Salle, Winkler, and Dimmit. Some counties experienced more than a 20 percent drop in their percent of lane miles "Good" or better in the last four years. This map shows the changes in percent lane miles "Good" or better in FY 2010-2013 and the completed oil and gas well locations in 2010-2012.

What are the Challenges?

Potential New Funding Source

In 2013 the Texas Legislature enacted SJR 1 and HB 1. Under current law, the comptroller deposits in the Economic Stabilization Fund (ESF) 75% of the difference between the amount of oil and gas production tax revenue received by the state in the preceding year and the amount received in the fiscal year ending August 31, 1987, with the remaining 25% retained as general revenue.

SJR 1 would, under certain circumstances, allocate half of the amount currently required to be deposited to the ESF to the State Highway Fund and half to the ESF. The General Revenue Fund continues to retain 25 percent. These additional revenues transferred to the state highway fund could only be used for constructing, maintaining, and acquiring rights-of-way for public roadways other than toll roads.

HB 1 establishes the procedures by which the allocations may be adjusted in order to ensure a "sufficient balance" in the ESF. As a result, the amounts to be deposited to the state highway fund are subject to those procedures.

The constitutional amendment was approved by voters on November 4, 2014.

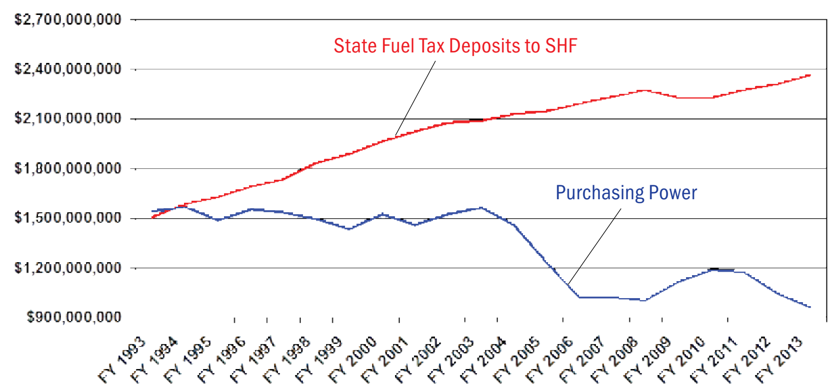
It is expected that SJR 1 could yield as much as $1.7 billion per year for the State Highway Fund starting in 2015, subject to the decision of the legislature regarding the "sufficient balance" of the ESF.

However, most observers agree this will not solve our transportation funding problems. HB 1 directs the speaker and lieutenant governor each to appoint nine members to House and Senate Select Committees on Transportation Funding, Expenditures, and Finance. The committees shall review, study, and evaluate the future reliability of all current state transportation funding sources and alternatives that may increase available state funding for surface transportation. Their recommendations are due Nov. 1, 2014.

Traditional transportation funding sources–primarily motor fuels taxes and registration fees—have not kept pace with mounting transportation demands.

Since the early 1990s, Texans have continued to pay 38.4 cents per gallon in state and federal gas taxes while the state's population has grown by more than 9.4 million (http://quickfacts.census.gov/qfd/states/48000.html), and vehicle miles traveled have increased by more than 68 percent. Population growth is projected to continue, and although more Texans should mean more money in transportation coffers, there are some factors to keep in mind. (Highway Statistics 1990, Table VM-2, 2012, Federal Highway Administration)

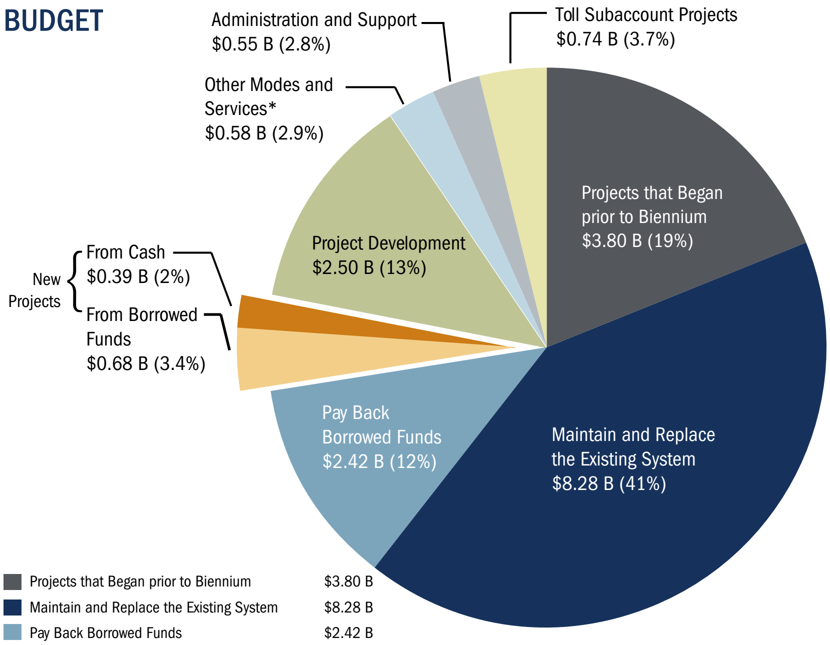
- **Fuel efficiency.** By 2025, Texans could be driving new vehicles with an average fleet-wide fuel efficiency of about 54 miles per gallon. That affects hybrid and SUV drivers the same: fewer fuel tax dollars to build roads and bridges. (77 Federal Register 62627, Oct. 15, 2012)
- **Inflation.** One of the most significant challenges we face is the declining purchasing power of the State Highway Fund. In Texas, construction inflation has increased 80 percent since 2002. Motor fuel tax revenue buys far less these days than it did when the state rate was last adjusted in 1991. (See chart below)



- **Federal funding issues**. Several factors, including the expiration of the current surface transportation legislation, MAP-21 at the end of May 2015, and the continued impending insolvency of the Federal Highway Trust Fund (HTF), make federal funding increasingly unpredictable. The HTF continues to pay out more money to states than it is taking in. Multiple general revenue infusions into the HTF have kept the fund solvent. Without further Congressional action, the HTF would be unable to meet obligations in a timely manner in the summer of 2015, which could result in delayed payments to states. In addition, Texas continues to rate near the bottom in the percentage of fuel tax revenue sent to Washington, compared to the percentage of funds that are returned for projects. These circumstances make it difficult to plan for future transportation projects.
- **Aging infrastructure.** Many Texas roads and bridges have exceeded their intended lifespan and require extensive rehabilitation.
- **Other challenges to consider.** Growing congestion and rural mobility needs aren't the only challenges to our transportation system. The state must also manage impacts to our roadways from the growing energy sector. And with the expansion of the Panama Canal, Texas must be prepared to capitalize on this economic opportunity.

2016-2017 TxDOT LEGISLATIVE APPROPRIATION REQUEST

BUDGET

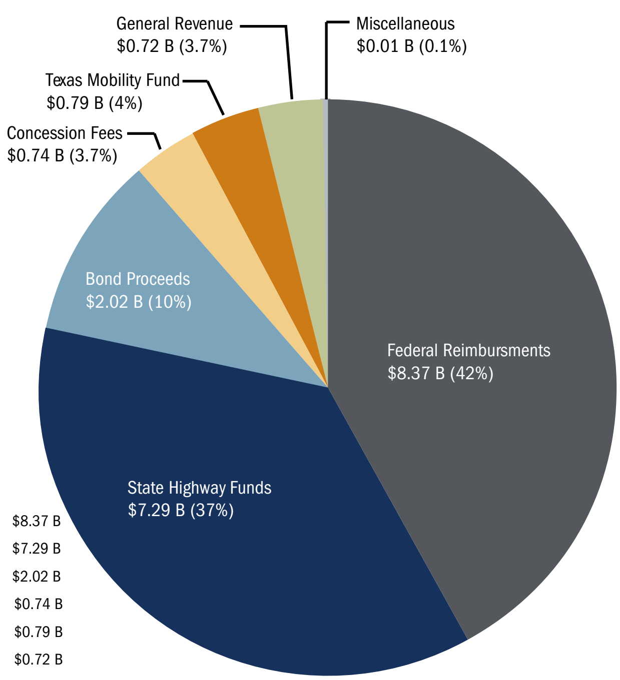


Projects that Began prior to Biennium	$3.80 B
Maintain and Replace the Existing System	$8.28 B
Pay Back Borrowed Funds	$2.42 B
New Projects from Borrowed Funds	$0.68 B
New Projects from Cash	$0.39 B
Project Development	$2.50 B
Other Modes and Services*	$0.58 B
Administration and Support	$0.55 B
Toll Subaccount Projects	$0.74 B
TxDOT Grand Total	$19.94 B

Values do not sum due to rounding.

*Other Modes and Services includes Aviation, Public Transportation, Traffic Safety, Travel Information, and Rail.

METHOD OF FINANCE



Federal Reimbursments	$8.37 B
State Highway Funds	$7.29 B
Bond Proceeds	$2.02 B
Concession Fees	$0.74 B
Texas Mobility Fund	$0.79 B
General Revenue	$0.72 B
Miscellaneous*	$0.01 B
TxDOT Grand Total	$19.94 B

*Miscellaneous includes interagency contracts and GR dedicated funds.

Values do not sum due to rounding.

So, What's the Discussion?

Determining acceptable methods to fund our future transportation needs will be difficult, and no single action is likely to address all of the state's transportation requirements. Several proposals are part of the public dialogue. Here is a sampling.

Maximize Traditional Sources

- **Address other uses.** Dedicating all State Highway Funds to transportation would provide additional revenue each biennium, but other essential state services that are currently supported with state highway fund revenues would need different funding sources.
- **Improve TxDOT efficiency.** TxDOT is continually improving its operations. For instance, the Fleet Forward program is designed to streamline the number of TxDOT vehicles and heavy equipment in order to increase productivity while reducing maintenance and storage costs. The department has also enhanced competition for construction and maintenance contracts to get the most out of limited taxpayer dollars.

Create New Capital

- **Motor Vehicle Sales Tax.** Some legislative leaders have suggested using a portion of vehicle sales tax revenue for transportation. Such revenue is projected to reach $3.8 billion in 2014 and 2015 for the General Revenue Fund. (*source: http://www.texastransparency.org/State_Finance/Budget_Finance/Reports/Certification_Revenue_Estimate/cre1415/CRE2014-15.pdf*)
- **Public-Private Partnerships.** Partnering with the private sector brings in additional money. It allows projects to be built sooner rather than waiting until traditional funding becomes available.
- **Texas Mobility Fund.** Any new revenue sources for the Texas Mobility Fund could help retire debt or expand the capacity of the fund to accelerate new projects.
- **Transportation Reinvestment Zones (TRZ).** TRZs provide another local funding option for entities that choose to participate. Increased property values generate revenue within the improved zone to finance transportation projects.
- **Vehicle Miles Traveled (VMT) tax.** Replacing the current per-gallon fuel tax with a VMT system would accurately reflect road usage and could compensate for increasing fuel efficiency.
- **Index or increase the motor fuel tax.** A one cent increase in the tax would generate about $110 million a year in revenue for the SHF. Any additional gains, however, will eventually be tempered by higher fuel efficiency and inflation.
- **Increase vehicle registration fees.** Each $10 increase in motor vehicle registration fees should yield almost $210 million annually statewide in additional revenues.
- **Tolling.** Toll roads play a significant role in providing transportation solutions. While toll roads cannot be the state's only approach to providing new roadways, they offer drivers alternative routes and more time-saving choices.

NOTE: These funding sources are not all-inclusive. TxDOT does not advocate any particular solution. Final decisions about transportation funding options are made by state legislators and members of Congress.

Demand on our transportation system is out pacing revenue. We're trying to meet 21st century demands with 20th century approaches. Inflation, population growth, aging infrastructure and more fuel-efficient vehicles have stretched available transportation funds beyond their limits.

Just as the problem is multifaceted, so is the solution. Public officials are working to develop options that are practical and acceptable to the public.

Transportation is essential to Texas' future. Investing in a balanced, regionally determined, multi-modal transportation network stimulates economic activity. It also creates employment opportunities and gives Texas communities choices to address their growing and changing populations.

The information and ideas presented in this brochure discuss the needs of highway and road funding in Texas. But there are other equally important modes of transportation, from rail to public transportation to aviation, which must be considered in the solution to Texas' transportation challenges.

Meeting our future needs requires a multilevel approach, and every Texan needs to be involved in the dialogue. We hope you add your voice to the discussion. If you have any questions or comments, please email us at AskTxDOT@txdot.gov.

Find out more: www.txdot.gov

Sources used in this report: http://txdot.gov/inside-txdot/division/finance/funding-sources.html

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