

TRANSPORTATION FUNDING

Understanding State Road and Highway Funding in Texas





TRANSPORTATION NEEDS AND COSTS

In 2009, the 2030 Committee, a group of Texas business, academic and civic leaders, determined that the state needed to invest some \$315 billion over the next two decades to maintain the existing transportation infrastructure, prevent worsening congestion in urban areas and ensure rural mobility and safety. The Texas A&M Transportation Institute (TTI) later updated that needs figure to about \$370 billion and expanded the needs outlook to 2035.

Current state revenue projections show that less than half of that amount will be available over the next two decades.

What is the cost to taxpayers if congestion continues at its current level? If roads and bridges can't be maintained? If businesses locate to other states because they can't transport their products on Texas roads in a timely manner?

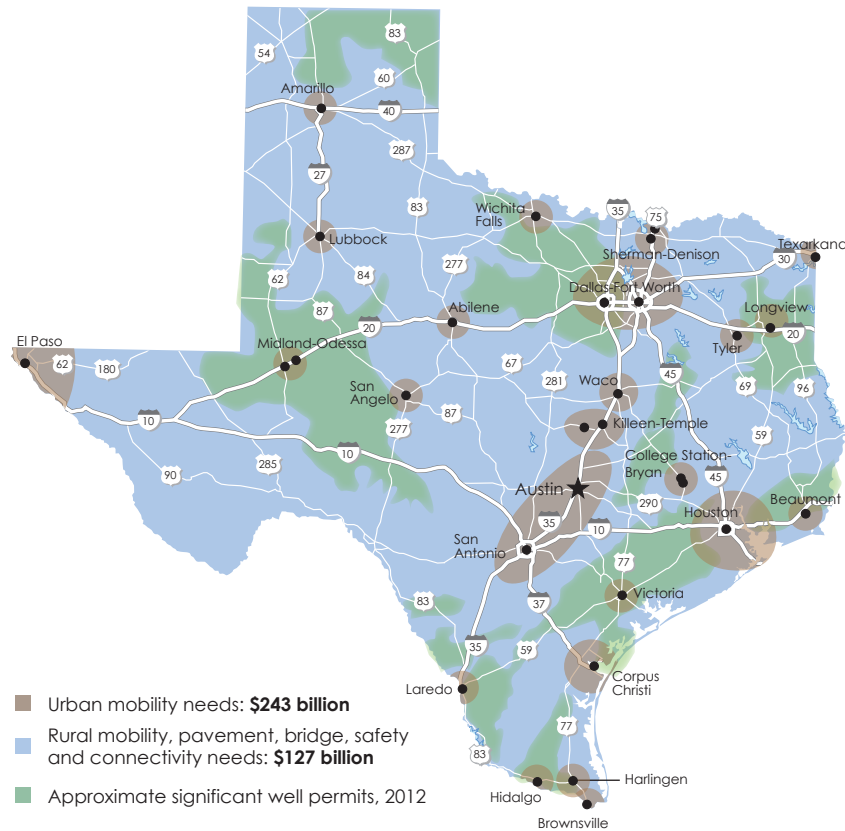
In 2011, the 2030 Committee worked with TTI to answer those questions. According to TTI, the average Texas household will pay about \$232 a year in state taxes and fees for transportation—if there are no changes to funding levels.

But the average Texas household pays much more than that. Rougher roads and traffic congestion add another \$6,000 a year in transportation costs due to longer travel times, increased vehicle maintenance and wasted fuel. Texas businesses also experience considerable costs from increased delivery and shipping times.

It is a daunting task to fill the gap between the state's expected needs and projected revenue, but exploring funding solutions for our most critical transportation needs is a realistic starting point. As state leaders explore long-term financial solutions, TxDOT will continue to make the most of every available resource to improve the state's transportation system.

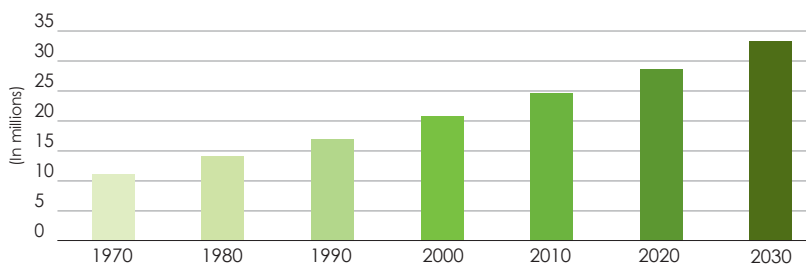
ESTIMATED CONSTRUCTION AND MAINTENANCE NEEDS

This is a compilation of statewide transportation funding needs through 2035 as identified by the TTI. Heavy oil and gas production will also impact the state's road system.



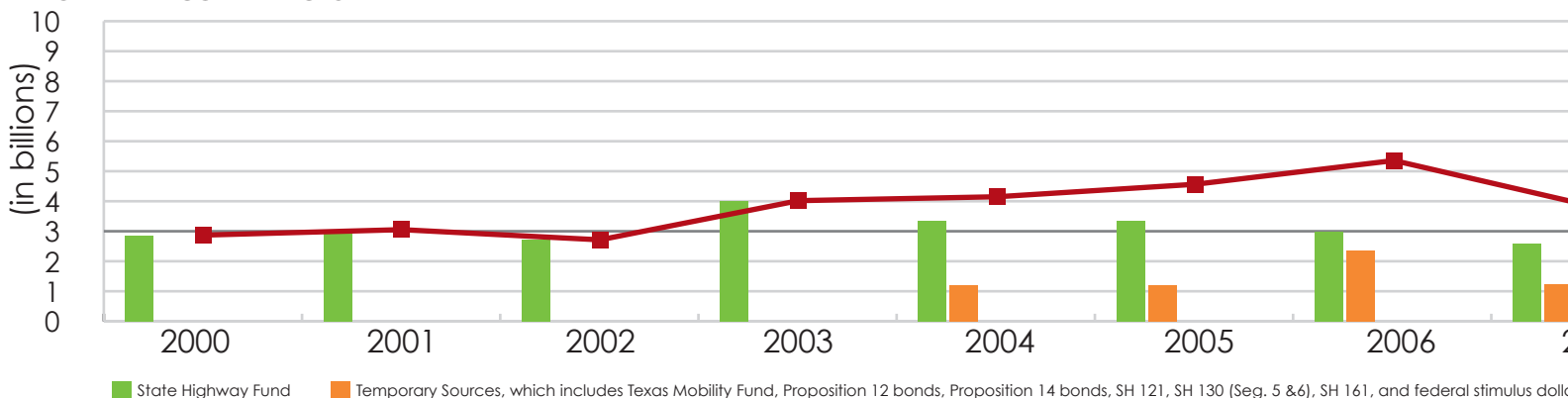
SOURCES: Texas Statewide Long-Range Transportation Plan 2035, current as of 2010. Railroad Commission of Texas, March 2012

TEXAS POPULATION GROWTH, 1970-2030



SOURCE: Texas State Data Center

HIGHWAY CONTRACTS





WHAT ARE THE CHALLENGES?

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 motor fuel taxes while the state's population has grown by more than 8 million, and vehicle miles traveled have increased by more than 40 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.

Fuel efficiency. By 2025, Texans could be driving passenger cars and trucks with an average 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.

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 62 percent since 2002. Motor fuel tax revenue buys far less these days than it did when the state rate was set in 1991.

Federal funding issues. Because of several factors, including the expiration of the federal-aid highway program after 2014 and the need to infuse general funds into the Federal Highway Trust Fund, federal funding is increasingly unpredictable. By any measure of rate of return, Texas ranks at the bottom relative to what other states contribute to the fund and receive back from Washington, D.C. 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.

CONSTRUCTION & MAINTENANCE PURCHASING POWER

Since a dollar in 2000 equals 61 cents today, a \$20 million project built that year would cost \$32 million today.



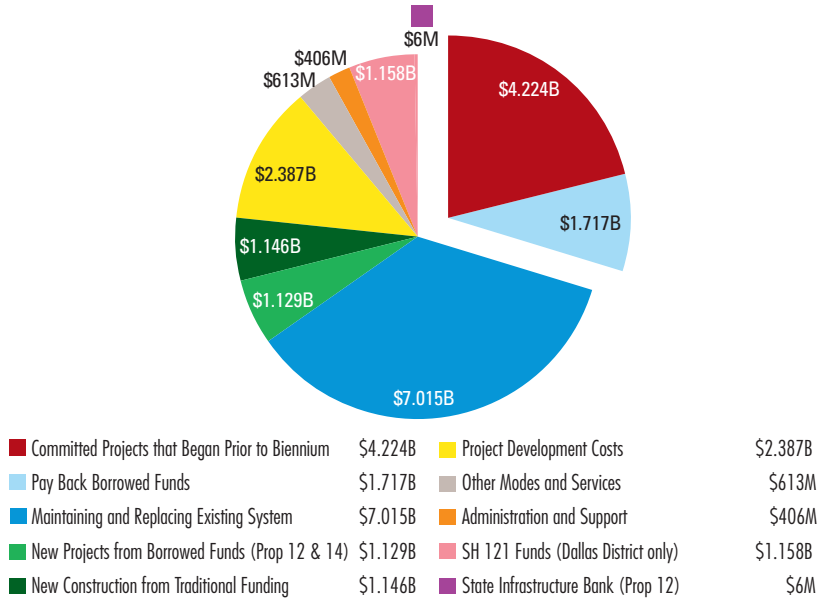
2000 = \$1.00



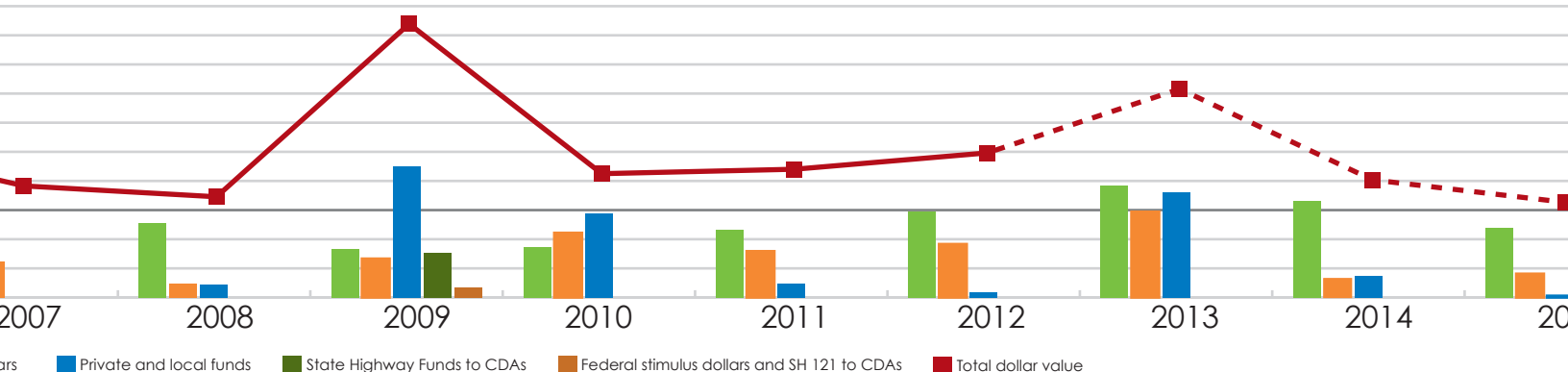
2012 = 61¢

SOURCE: TxDOT, June 2012 Highway Cost Index, 12 month average

2012-2013 TxDOT BUDGET: \$19.8 BILLION



SOURCE: TxDOT, Finance Division



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 motor fuels tax revenue to transportation would provide additional revenue each biennium, but other essential state services that are currently supported with state highway fund revenues would need new funding sources.

■ **Improve TxDOT efficiency.** TxDOT is continually maximizing its budget by streamlining the department and has also enhanced competition for construction and maintenance contracts to get the most out of limited taxpayer dollars.



CREATE NEW CAPITAL

■ **Increase vehicle registration fees.** Each \$10 increase in motor vehicle registration fees should yield almost \$210 million annually statewide in additional revenues.

■ **Index or increase the motor fuel tax.** If the current fuel tax were indexed to the Consumer Price Index, for example, each one percent increase would add about \$20 million a year to the State Highway Fund. A one cent increase in the tax would generate about \$100 million a year in revenue. Any additional gains, however, will eventually be tempered by higher fuel efficiency.

■ **Local options.** A proposal that was discussed in past legislative sessions would have allowed local governments to raise fuel taxes and other fees to address their transportation needs.

■ **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 future fuel efficiency.

■ **Motor Vehicle Sales Tax.** Some legislative leaders have suggested using a portion of vehicle sales tax revenue for transportation. Such revenue was projected to reach \$6.3 billion in the FY 2012-2013 biennium for the General Revenue Fund.



CONTINUE/EXPAND PROGRAMS

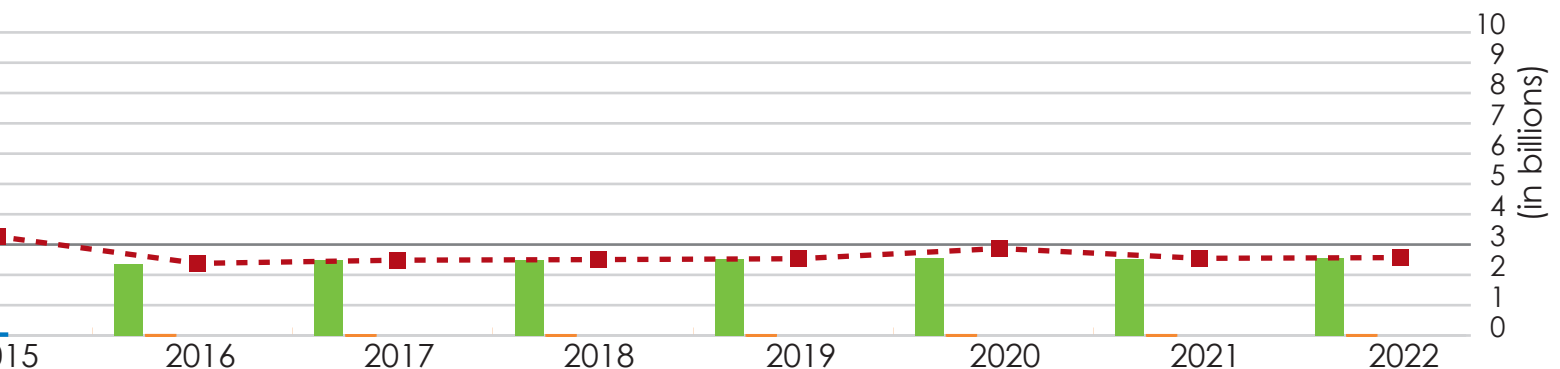
■ **Public-Private Partnerships.** Partnering with the private sector brings in additional money. It allows projects to be built sooner rather than waiting until traditional funding becomes available.

■ **Bonding.** In recent years, the Texas Legislature has approved borrowing against future general and State Highway Fund revenues to accelerate projects statewide. Any new revenue sources the Legislature enacts could help retire the debt or expand the capacity of the Texas Mobility Fund.

■ **Tolling.** Toll authorities play a significant role in developing transportation solutions. While toll roads cannot be the state's sole funding source, they offer drivers alternative routes and more time-saving choices.

■ **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.

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.



SOURCE: TxDOT, Finance Division, June 2012 Cash Forecast

STATEWIDE FUNDING NEEDS

The Texas population could reach more than 35 million by 2040. With that growth will come more demand on the transportation system, demand that cannot be built with existing revenue streams. While every region of the state has important projects that need funding, some projects are important to the entire state's economic well-being. Below are just a few. *(Projects are subject to change and are not listed in order of priority.)*

1 U.S. 54

- Upgrade to 4-lane divided between New Mexico and Oklahoma
- \$173 million

2 Ports-To-Plains corridor

- Construct various road improvements
- \$3.1 billion *(Estimate is preliminary for 4-lane divided facilities.)*

3 I-35E in Dallas and Denton counties

- Construct managed lanes
- \$4.7 billion

4 Loop 49 in Smith and Gregg counties

- Continue building tolled loop around Tyler
- \$165 million

5 Montana Corridor

- Construct grade separations
- Add 4 express lanes from east of Zaragoza to I-10 and extension to Loop 375
- \$457 million

6 I-35

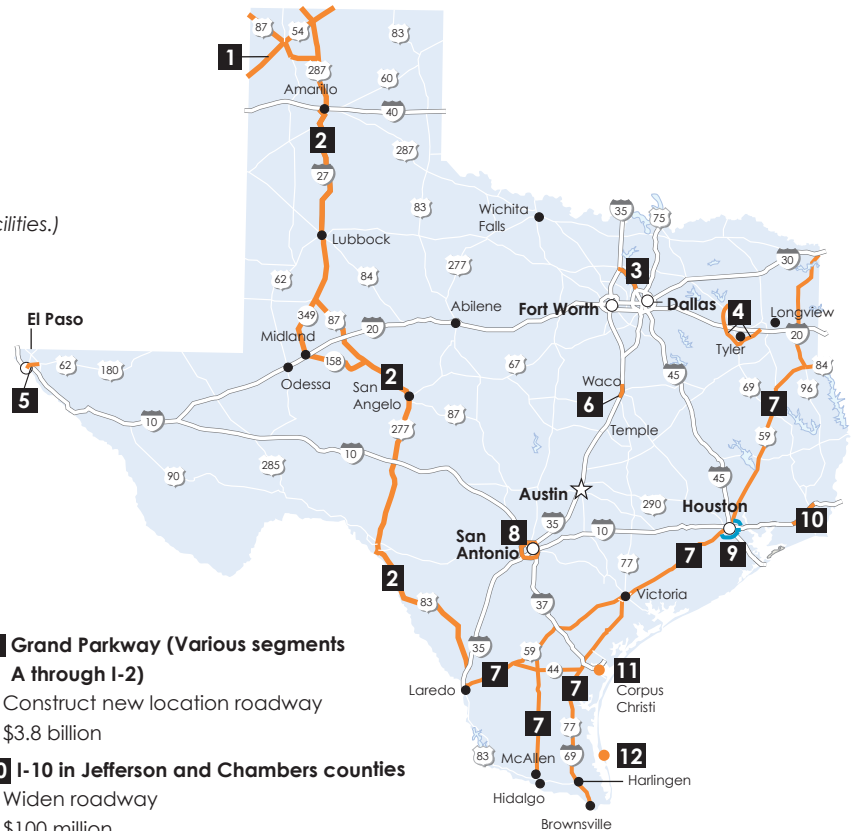
- Expand to eight lanes
- \$280 million

7 I-69 system (U.S. 59, U.S. 77, U.S. 281, U.S. 84, SH 44)

- Upgrade existing roadways to interstate status
- \$16.4 billion *(Estimate is preliminary and is based on suggested improvements from I-69 Segment Committees.)*

8 Loop 1604 in San Antonio

- Add capacity to roadway
- \$2.76 billion



9 Grand Parkway (Various segments A through I-2)

- Construct new location roadway
- \$3.8 billion

10 I-10 in Jefferson and Chambers counties

- Widen roadway
- \$100 million

11 Harbor Bridge in Corpus Christi

- Replace bridge
- \$600 million

12 South Padre Island Causeway

- Construct second connection to the island
- \$457 million

See how we're addressing the most traffic-choked roadways in Texas.

http://apps.dot.state.tx.us/apps/top_100/



CONCLUSION

Demand on our transportation system is outpacing revenue. We're trying to meet 21st century demands with 20th century dollars. 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, multimodal 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, that 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.

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



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