



TEXAS TRANSPORTATION FUNDING 2021 EDITION (JANUARY)

INCLUDES A SUMMARY OF
TXDOT'S LEGISLATIVE APPROPRIATIONS REQUEST
FOR FISCAL YEARS 2022-2023

INTRODUCTION

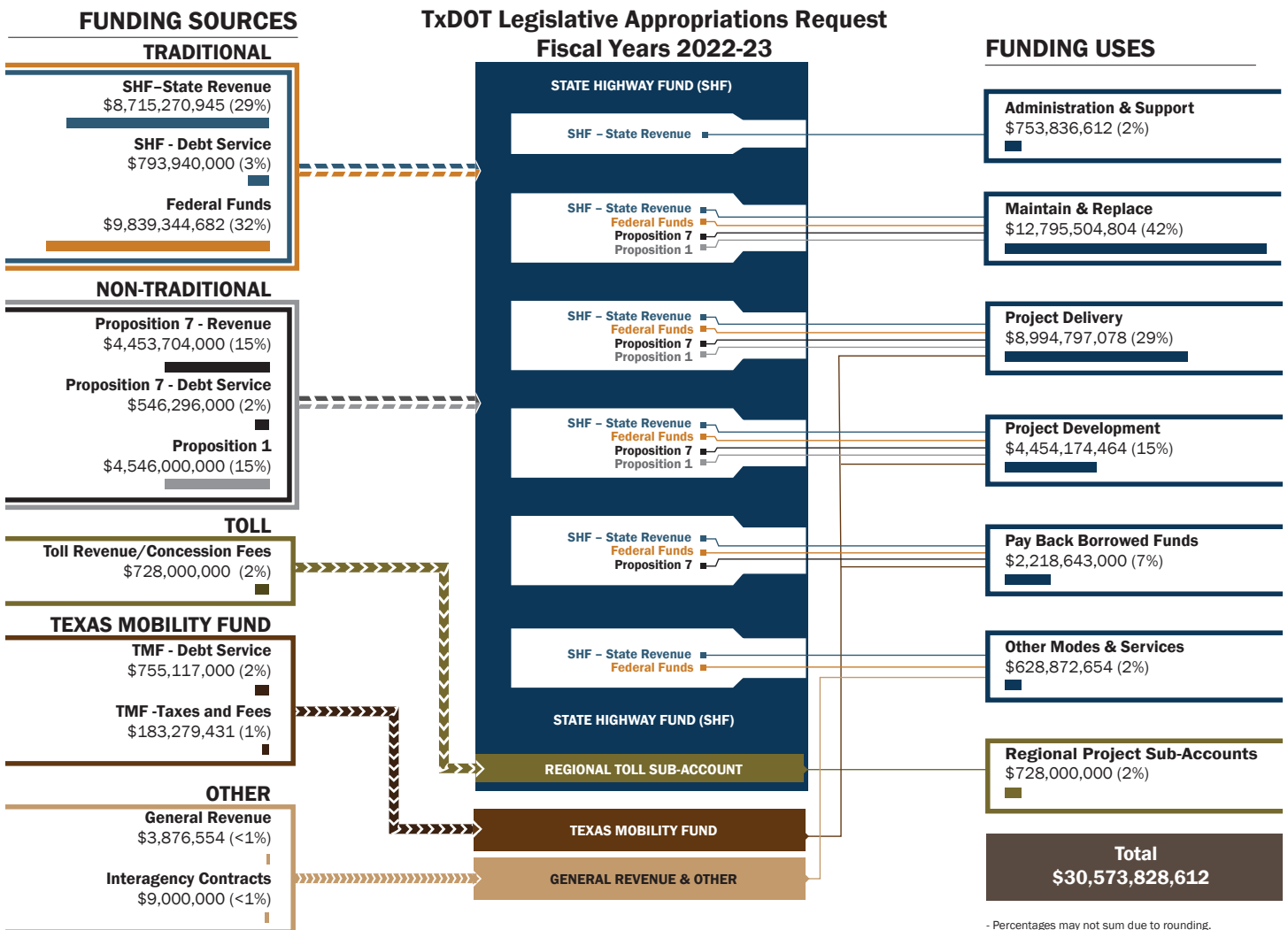
The development and delivery of a transportation project takes many years from conception to completion. Most projects go through several phases from the public involvement, environmental analysis, design, engineering, and right-of-way acquisition phases to actual construction of the projects. However, before any financial commitment can be made to a project, available funds must be identified. The source of funds may vary depending on the project’s scope and the associated constitutional or statutory funding restrictions.

For years, traditional funding from state and federal gas tax revenues met the state highway system’s needs. Over time these revenues failed to meet the transportation needs of the state’s growing population. To address the population boom and the diminishing purchasing power of traditional revenue

sources, the Texas Legislature authorized the Texas Department of Transportation (TxDOT) to issue debt. Bond proceeds allowed TxDOT to advance projects sooner and to pay those debts over several years. To date, the proceeds generated from the bonds (Proposition 14 State Highway Fund Bonds, Proposition 12 Highway Improvement General Obligation Bonds, and Texas Mobility Fund Bonds) have been fully allocated and spent. All formerly permissible bond opportunities for additional funding have been exhausted or suspended. Following these bond programs, the Texas Legislature, with overwhelming voter approval, provided two new, non-traditional sources of funding known as Proposition 1 (2014) and Proposition 7 (2015). This special edition brochure provides an overview of how TxDOT has used these funds and how these funds were reported in the fiscal year 2022-2023 Legislative Appropriations Request (LAR).

FIGURE 1
TxDOT’S LEGISLATIVE APPROPRIATIONS REQUEST FOR FISCAL YEARS 2022-2023

TxDOT submitted its budget request to the legislature on October 9, 2020. Figure 1 illustrates TxDOT’s various funding sources and uses as requested in the FY 2022-2023 biennium. TxDOT uses a forecast that includes previous Texas Comptroller of Public Accounts (comptroller) estimates and internal projections of available revenue for the biennium as the basis of its funding source totals in the left-hand column of Figure 1. The center column of Figure 1 shows how TxDOT has grouped the funding sources. The third column shows where the funds are allocated within the requested budget.



- Percentages may not sum due to rounding.

TxDOT'S CAPITAL BUDGET REQUEST

The FY 2022-2023 capital budget request includes real property and building needs for TxDOT's 25 districts and surrounding local offices, vehicles, construction and maintenance equipment, and computer hardware and software requirements. The fulfillment of TxDOT's capital budget requests, if granted, would contribute to the efficacy of business operations which ultimately will lead to more project delivery and, importantly, to the safety and security of employees and the general public. All of TxDOT's requested capital budget items will only use State Highway Fund dollars and will not require any state general revenue funding.

TxDOT has worked over the last few biennia to update, to restore, or - in some cases where it is more cost-effective- to rebuild its district offices, area engineering offices, and maintenance facilities. TxDOT has selected over 67 deferred maintenance projects that occupy the first three capital budget categories listed below: (1) Acquisition of Land and Other Real Property, (2) Construction of Buildings and Facilities, and (3) Repair or Rehabilitation of Buildings and Facilities. TxDOT built many of its buildings between 1950-1990—some even earlier. Many maintenance facilities are now functionally obsolete and cannot store modern construction equipment or roadway materials for local maintenance projects. Safety measures such as security upgrades, Americans with Disabilities Act compliance updates, stockpile storage for roadway materials, relocation of fuel pumps away from buildings, and roof replacements are among the other facility upgrades.

TxDOT has consolidated and scaled down its capital budget requests for information technology resources. The information technology budget is in line with state requirements for security, data center services, the centralized accounting and payroll and personnel system, and other technology updates.

FIGURE 2

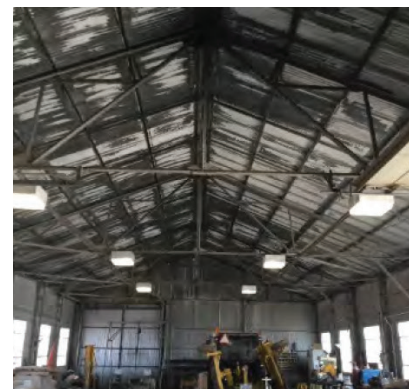
CAPITAL ITEM	LAR AMOUNT
Acquisition of Land and Other Real Property	\$6,600,000
Construction of Buildings and Facilities*	\$153,250,000
Deferred Maintenance	\$51,750,000
Acquisition of Information Resource Technologies	\$172,540,104
Transportation Items	\$27,000,000
Capital Equipment	\$136,901,473
Data Center Consolidation	\$85,571,684
Centralized Accounting, Payroll, and Purchasing System	\$36,278,386
Cybersecurity	\$48,950,000
Legacy Modernization	\$16,480,410
Capital Items Total	\$735,322,057

* Many of these projects are replacement facilities where it is more cost effective to rebuild rather than repair the existing deteriorated facility.

TxDOT'S RIDER REQUESTS

The section below highlights some of TxDOT's requests to consolidate, eliminate, or add rider requirements:

- Revise Rider 14 Reporting Requirement – update to subsection (c) to include: renaming rider to “TxDOT Loans” as TxDOT does not “grant” loans, but rather the Texas Transportation Commission “approves” loans; to make the distinction between loans for tolled and non-tolled projects, and to notify impacted members of the legislature on project status 30 days before consideration of approval of the loan.
- Revise Rider 29 Unexpended Balances Appropriation (UB) – request to add Cybersecurity capital budget item to the existing rider that allows for any remaining balances to be carried forward across the biennium, similar to the authority provided in Acquisition of Information Resource Technologies and Centralized Accounting and Payroll/Personnel System (CAPPS).
- Delete Rider 34 Performance Reporting for the Voluntary Turnback Program – request deletion of this reporting requirement because this program is voluntary and very few local governments participate in the program.
- Revise Rider 36 Proposition 1 Appropriations – update existing rider to allow UB across the biennium to align Proposition 1 authority with Proposition 7 authority.
- Revise Rider 42 Austin Campus Consolidation – update lease payment amounts based on Texas Public Finance Authority (TPFA) estimates and allow UB for any remaining balances to be carried forward across the biennium.



TxDOT'S EXCEPTIONAL ITEMS REQUEST

The following exceptional items will allow the state to keep pace with the needs of Texas' growing population and economy. TxDOT's funding sources are almost exclusively dedicated to roadway projects. In fact, a vast majority of state revenues in the State Highway Fund can only be used for the development, delivery, and maintenance of roadway projects. Thus, the limited State Highway Fund revenues that are not dedicated to roadways by the constitution are insufficient to support these exceptional items because the revenues have been fully committed for years. Further, a significant portion of these funds is transferred each year to the Texas Emissions Reduction Plan (TERP) and is not available to fund TxDOT programs. For this reason, TxDOT requests these exceptional items to provide additional funding to projects with the highest priority. These requests are in line with TxDOT's mission of Connecting You with Texas.

General Revenue is the requested funding source because there are no other eligible sources available to TxDOT. Limited, non-dedicated State Highway Fund amounts available after the transfer to TERP are used to operate TxDOT programs such as Public Transportation, Aviation, Rail, and Maritime.

1. ADDITIONAL FULL-TIME EQUIVALENT EMPLOYEE (FTE) CAPACITY

TxDOT's LAR includes a request for additional FTEs to enhance levels of service, mitigate risks, and manage the workload in a more cost-effective manner. For the upcoming FY 2022-2023 biennium, TxDOT seeks to increase the agency's authorized FTEs by 281 for a total of 12,808 FTEs. This increase will assist existing TxDOT staff in the timely development and construction of new projects and the continued maintenance of the highway system. Types of positions included in the request include maintenance, design oversight, right-of-way acquisition, fleet mechanics, civil rights, and information technology. No additional funding is requested for the additional FTEs.

2. DEBT SERVICE FOR HIGHWAY IMPROVEMENT GENERAL OBLIGATION BONDS (PROPOSITION 12)

The 85th Legislature (2017) appropriated Proposition 7 funds to pay for the debt service on Proposition 12 bonds, pursuant to Rider 42 of the FY 2018-2019 General Appropriations Act (GAA). Increased general revenue funding to pay for Proposition 12 bond debt service would free approximately \$546 million in additional funding for roads. Approximately \$275.5 million in FY 2022 and \$270.8 million in FY 2023 is estimated for Proposition 12 bond debt service.

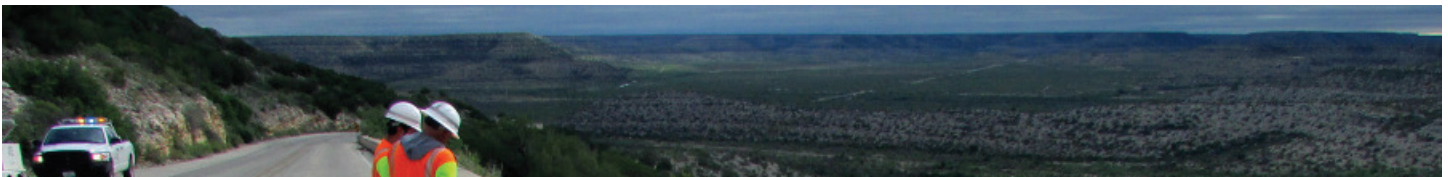


FIGURE 3

TxDOT's Exceptional Items Request for Fiscal Years 2022-2023

PRIORITY	REQUEST	FY 2022	FY 2023	TOTAL BIENNIUM
1	Additional FTEs (281.0)	\$0	\$0	\$0
2	Highway Improvement General Obligation Bond Debt Service Payments	\$275,458,000	\$270,838,000	\$546,296,000
3	Rail - U.S. Customs and Border Protection Facility	\$35,000,000	\$0	\$35,000,000
4	Aviation - Aviation Facilities Development Program (AFDP) and Routine Airport Maintenance Program (RAMP)	\$10,000,000	\$10,000,000	\$20,000,000
5	Public Transportation - Anticipated Population Growth for Rural, Small Urban, and Large Urban Transit Districts	\$0	\$3,767,000	\$3,767,000
6	Public Transportation - Rural Public Transit Program	\$41,000,000	\$41,000,000	\$82,000,000
7	Maritime - Ports Capital Program	\$130,000,000	\$0	\$130,000,000
8	Maritime - Ship Channel Improvement Revolving Fund	\$330,000,000	\$0	\$330,000,000
9	Rail - North East Texas Freight Rail (NETEX)	\$6,000,000	\$4,000,000	\$10,000,000
	Total, Exceptional Items Request	\$827,458,000	\$329,605,000	\$1,157,063,000

3. RAIL – CUSTOMS AND BORDER PROTECTION FACILITY

TxDOT requests \$35 million in general revenue for FY 2022 and UB authority in FY 2023 for the U.S. Customs and Border Protection (CBP) facility to inspect and process the operation of trains crossing the international border at Presidio, Texas. The estimated cost of providing these facilities, according to a study prepared by CBP and transmitted to TxDOT in August 2019, is \$30-35 million. Per the proposed agreement with South Orient Rail Line operator Texas Pacifico, it will take responsibility for funding all future upgrades to the railroad infrastructure of the South Orient Rail Line (estimated at \$58 million-plus) beyond the completion of the existing TxDOT-managed FASTLANE Presidio County rehabilitation project. The ability of Texas Pacifico to fund future upgrades to the railroad infrastructure and continue to develop the usefulness of the South Orient Rail Line as a transportation asset to the region and the State of Texas is dependent upon reopening the Presidio international crossing to commercial rail traffic.

TxDOT is constitutionally prohibited from using dedicated State Highway Fund for rail projects.



4. AVIATION

TxDOT requests \$10 million in general revenue for each year of the upcoming biennium to increase the Aviation Facilities Development Program (AFDP) and the Routine Airport Maintenance Program (RAMP), which support 278 Texas general aviation airports. Airport development needs at these airports exceed annual budget allocations by 68 percent. Funding for both programs has been level for the past 17 years, resulting in a 51 percent decrease in purchasing power due to increases in construction costs. The proposed funding would allocate \$9 million to AFDP and \$1 million allocated to RAMP annually.

TxDOT is constitutionally prohibited from using dedicated State Highway Fund for aviation projects.

PUBLIC TRANSPORTATION

In recent years, the Public Transportation Advisory Committee (PTAC) reviewed existing transit service coverage and hours of operation in state-funded Urban and Rural Transit Districts across Texas. TxDOT's Public Transportation Division and Texas A&M's Transportation Institute researched options for increasing transit service coverage and hours of service on weekdays and Saturdays. The PTAC continues to explore additional funding options that, over time, can help Texas achieve statewide consistency in transit service hours in areas of the state served by Rural and Urban Transit Districts.

5. ANTICIPATED POPULATION GROWTH FOR RURAL, SMALL URBAN, AND LARGE URBAN DISTRICTS

For the next biennium, PTAC recommends \$3.8 million to address population growth and anticipated shifts in formula allocation as a result of the 2020 Census. Following extensive discussion and review of research conducted by Texas A&M Transportation Institute in conjunction with the State Demographer's Office, PTAC recommends the inclusion of \$3.3 million for the FY 2022-2023 biennium. These funds sustain current state per capita funding levels for Rural, Small Urban, and Large Urban Transit Districts in response to the anticipated population growth forecast for 2020 Census results. Additionally, PTAC recommends a \$467,000 increase in FY 2022-2023 funding for Rural and Urban Transit Districts to mitigate anticipated shifts in formula allocations within each area type (rural, small and large urban) even with the additional exceptional item funding. This increase is needed for FY 2023 and anticipated to extend through the following biennium to allow transit districts to adjust to new, 2020 Census-derived funding levels.

TxDOT is constitutionally prohibited from using dedicated State Highway Fund for public transportation projects.



6. RURAL PUBLIC TRANSIT PROGRAM

For the next biennium, PTAC recommends a funding increase of \$41 million per year to provide 14-hour/day weekday service for Texans in all counties and cities covered by a transit district. This is a PTAC priority for lifeline service that PTAC hopes can be addressed in the upcoming session, with an eye toward achieving a longer-term goal of 8-hour Saturday service and 14-hour weekday service statewide.

Transit provides lifeline services for many Texans. Over 70 percent of the approximately 30 million passenger trips taken on state-funded systems each year are for three primary purposes: work, shopping, and medical. The increase would provide additional funding to create a 14-hour service day Monday-Friday statewide, plus annual funding to address the wear and tear on fleet vehicles associated with the increased service levels.

On behalf of PTAC, TxDOT is requesting \$41 million in general revenue for each year of the biennium to assist with fleet replenishment and formula funding. Additional state funding will partially offset the loss of purchasing power and population growth in rural areas. Funds will be used to match the growth in federal funds and improve services for the six million people living in rural Texas by improving access to employment, education, medical services and other necessities of daily life. If not approved, transit services will not be able to keep pace with the growing need and changing demographics, and rural residents will, over time, lose connectivity to services that address their needs.

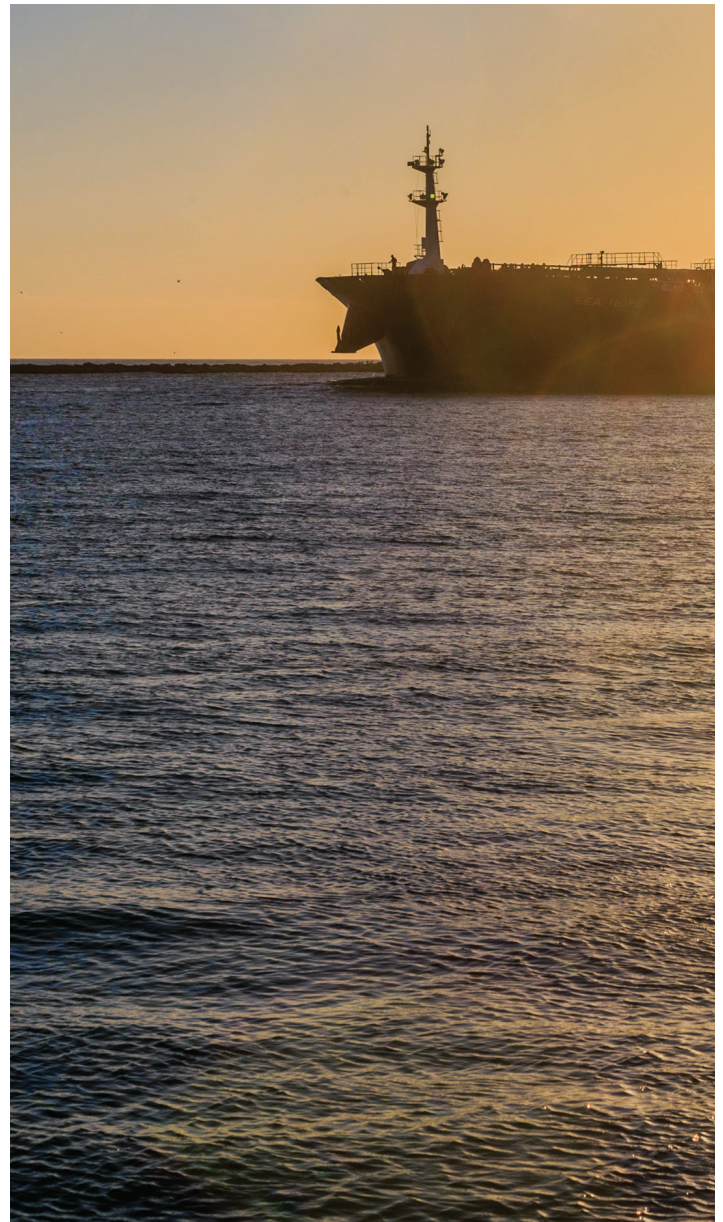
TxDOT is constitutionally prohibited from using dedicated State Highway Fund for public transportation projects.

MARITIME

Texas ports serve as gateways to the state economy and play a vital role in creating jobs for Texans. The maritime industry supports more than 1.5 million jobs in Texas, but every Texan benefits from the maritime industry: more than 90 percent of all consumer goods are transported over water at some point in the supply chain. Texas is in a unique position facing four major influences that impact the state and maritime industry: the state's continued population boom, the dramatic growth of oil and gas production, the expansion of the Panama Canal, and Mexico's expanding economy. These dynamic factors benefit the Texas economy, but they also increase demand on our ports.

7. PORTS CAPITAL PROGRAM

On behalf of the Port Authority Advisory Committee (PAAC), TxDOT requests \$130 million in general revenue for FY 2022 and UB authority in FY 2023 for the Texas Ports Capital Program. Texas is the nation's leading import and export state and a leader in waterborne trade. To maintain this position and remain competitive in the future, both domestically and globally, Texas ports need additional funding for capital improvements



and infrastructure. The funds requested will allow Texas ports to make critical capital improvements that support port activity such as multi-modal connectivity enhancements, port expansions, and replacement of outdated and failing port facilities to keep Texas ports competitive.

Each project in the Port Capital Program was reviewed by a consultant team to ensure feasibility, readiness to let, and constructability. Projects were then scored by three independent engineers, reviewed by TxDOT and approved by the PAAC. Project scores are based on five benefit categories: (1) Operational Impact, (2) Economic Impact, (3) Connectivity Enhancement, (4) Safety and Security Improvement, and (5) Other Benefits.

TxDOT is constitutionally prohibited from using dedicated State Highway Fund for port projects.

8. SHIP CHANNEL IMPROVEMENT REVOLVING FUND

The 2016 expansion of the Panama Canal and improvements to ship-building technology have contributed to vessels becoming progressively larger. To accommodate the vessels and remain competitive, Texas ports must deepen and widen their ship channels.

The PAAC has identified a need for \$2.1 billion in FY 2022 and UB authority in FY 2023 to capitalize the Ship Channel Improvement Revolving Fund. This amount includes \$1.04 billion in Non-Federal Sponsor costs (NFS) for projects that have been authorized for construction by the United States Congress via inclusion in Water Resources Development Acts. The remaining \$1.02 billion represents projects currently in the feasibility study phase.

There are five eligible ship channel projects in Texas. The costs of these projects are shared between the U.S. Corps of Engineers and the ports or navigation districts serving as the non-federal sponsor. Each project's cost can total hundreds of millions of dollars, with one Texas project totaling over \$1 billion.

The non-federal sponsors have secured \$358 million of funding to help cover the required NFS investment for authorized ship channel improvement projects, leaving a remainder of \$681 million in NFS funding needs. Considering the estimated construction timelines for these projects, the expected NFS needs total \$330 million for ship channel improvement projects during the FY 2022-2023 biennium which is TxDOT's request.

Any funding made available by the Legislature would be deposited into the Ship Channel Improvement Revolving Fund to finance loans to the NFS for the five eligible ship channel projects.

TxDOT is constitutionally prohibited from using dedicated State Highway Fund for port projects.

9. RAIL – NORTHEAST TEXAS RAIL (NETEX)

TxDOT requests \$6 million in FY 2022 and \$4 million in FY 2023, a total biennial request of \$10 million in General Revenue, for a limited amount of track and bridge rehabilitation on the Northeast Texas Rural Rail Transportation District (NETEX) freight rail line from Greenville to Mount Pleasant (66 miles). TxDOT owns the 31 miles of the NETEX ROW and has a security interest in the infrastructure from a grant funding agreement in 1996. Track speeds on the NETEX line are limited to 10 mph due to defective cross ties and bridge deficiencies. The rail line continues to deteriorate due to the lack of past rehabilitation and funding. The rail line must be rehabilitated to continue providing service to existing customers and attract new business to the region. TxDOT would seek additional ownership of the line and infrastructure as a condition to expend funds for rehabilitating the line.

TxDOT is constitutionally prohibited from using dedicated State Highway Fund dollars on rail projects.



THE STATE HIGHWAY FUND

The State Highway Fund, commonly referred to as Fund 6, is TxDOT's primary funding source. This fund receives state revenues in the form of taxes and fees. The state constitution dedicates the vast majority of these state taxes and fees to fund the acquisition of right of way, construction, and maintenance of public roadways. State motor vehicle fuels tax revenue and vehicle registration fees make up the greatest share of traditional, constitutionally-dedicated State Highway Fund dollars. Constitutionally-dedicated funds for the purpose of supporting public roadways may not be spent on other modes of transportation that are managed by TxDOT such as rail projects, public transportation, aviation services, and gulf waterway improvements. These other modes of transportation are funded with non-constitutionally dedicated State Highway Fund revenues and federal funds.

In addition to traditional revenue sources such as motor fuel tax, vehicle registration, and other taxes and fees, the State Highway Fund also receives non-traditional funds from Proposition 1,* Proposition 7,* State Infrastructure Bank (SIB) funds, regional subaccounts with toll revenue, and concession revenues from Comprehensive Development Agreements (CDAs). Toll and concession revenues can only be used on projects within the region of the project generating the funds.

The State Highway Fund main account receives the following traditional revenues:

- State motor vehicle fuels tax [20 cents per gallon total, 25 percent (5 cents) goes to Available School Fund]* (see Figure 4)
- Federal highway* and other agency reimbursements (includes federal fuel tax) (see Figure 4)
- Vehicle registration fees*
- Other, smaller revenue amounts such as lubricant sales taxes,* permit fees for special vehicles, and interest* on certain funds
- Local project participation funds

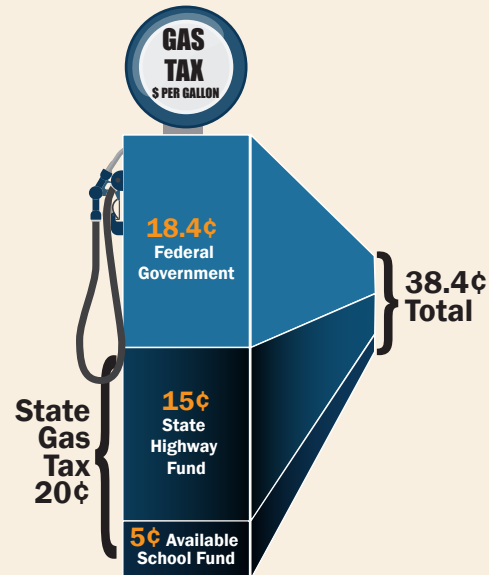
Non-traditional State Highway Fund subaccounts hold the following:

- Proposition 1 funds*
- Proposition 7 funds*
- SIB loan repayments and interest
- Regional toll revenue and revenue from CDAs

* Indicates revenues that are dedicated by the Texas Constitution to fund public roadway projects.



FIGURE 4



FEDERAL FUNDS

Federal funds account for approximately one-third of the revenue deposited into the State Highway Fund. The state General Appropriations Act (GAA) includes federal funds in TxDOT's budget as estimated reimbursements for payments on projects that meet certain federal requirements.

At the federal level, revenue collected from the federal tax on gasoline and diesel is deposited in the Highway Trust Fund. Highway Trust Fund dollars are distributed to states primarily through highway and transit formulas, in addition to discretionary allocations. For decades, federal aid for highways was supported solely by tax and fee revenue deposited in the Highway Trust Fund. Since 1993, the federal motor fuels tax rate has remained at 18.4 cents per gallon of gasoline (see Figure 4) and 24.4 cents per gallon of diesel fuel. These collections have not kept up with the rising demands on the nation's transportation system. For over a decade, Congress has supplemented the Highway Trust Fund with federal general revenue because federal gas tax collections have been insufficient to keep the Highway Trust Fund solvent. For more information on federal funding, please see TxDOT's Educational Series on the Federal Government.

PROPOSITION 1

In November 2014, 80 percent of Texas voters approved the ballot measure known as Proposition 1, which authorized a constitutional amendment for transportation funding. Under the amendment, a portion of existing oil and natural gas production taxes (also known as severance taxes) is divided evenly between the Economic Stabilization Fund, also known as the “Rainy Day Fund,” and the State Highway Fund. Under Section 49-g(c), Article III, Texas Constitution, the funds deposited to the State Highway Fund may only be used for constructing, maintaining, and acquiring rights-of-way for public roadways other than toll roads.

As of December 2020, a total of \$8.22 billion of Proposition 1 funds has been deposited into a subaccount within the State Highway Fund. This figure includes a deposit by the comptroller of \$1.13 billion of Proposition 1 funds in November 2020 (FY 2021) to the State Highway Fund subaccount.

Figure 5a illustrates the method of calculating Proposition 1 transfers to the State Highway Fund. It begins with a preset collection threshold consisting of FY 1987 oil and natural gas production tax levels. Oil production tax revenues in FY 1987 were \$531.9 million and natural gas production tax revenues in the same year were \$599.8 million. One-quarter of total severance tax collections above the threshold are deposited in the state’s general revenue fund. Since November of 2014, the remaining 75 percent of severance taxes have been evenly divided between the Economic Stabilization Fund and the State Highway Fund.

However, before these transfers to the State Highway Fund could occur, the Economic Stabilization Fund balance had to meet a minimum amount as determined by either a joint legislative committee or the legislature as a whole. In the month preceding the past several regular legislative sessions, the Joint Select Committee to Study the Balance of the Economic Stabilization Fund adopted a sufficient balance of the Economic Stabilization Fund. On November 30, 2018, the joint select committee adopted a sufficient balance of \$7.5 billion. The Economic Stabilization Fund has maintained this balance and the State Highway Fund has received the required full transfer of severance taxes.

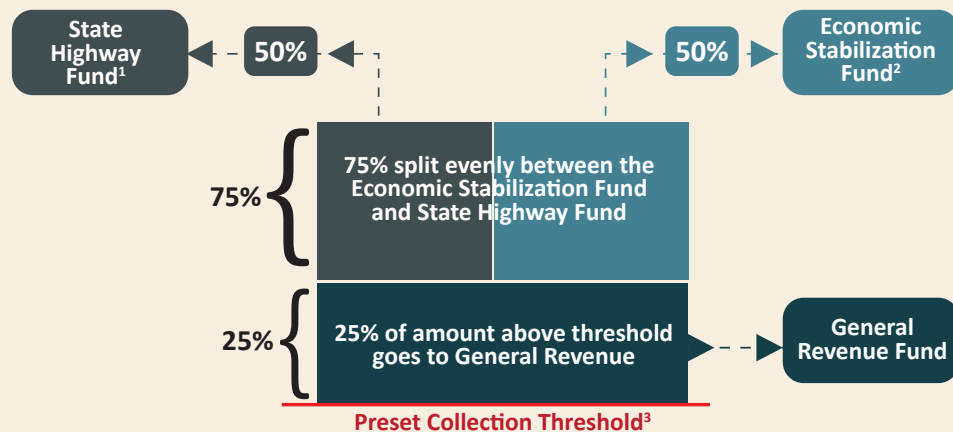
Senate Bill 69, 86th Legislature (Regular Session, 2019) eliminated the joint select committee that determines the Economic Stabilization Fund sufficient balance and replaced it with a formula to determine a new sufficient balance threshold. After September 1, 2021, the sufficient balance threshold will be determined as an amount equal to seven percent of certified, general revenue-related appropriations made for that fiscal biennium. Senate Bill 69 also extended the expiration of Proposition 1 to the State Highway Fund. The last transfer will occur in FY 2035, unless a future legislature votes to extend its expiration.

Beyond FY 2021, for planning purposes, the comptroller’s revised, July 2020 Certified Revenue Estimate (CRE) projects a deposit of \$620 million in fiscal year 2022. TxDOT estimates a deposit of \$1.109 billion in FY 2023 and in later years, which is the 10-year historical average of surplus oil and gas taxes that would have been deposited to the State Highway Fund if Proposition 1 had been in effect over the last ten years.

FIGURE 5a

Proposition 1 Texas Oil & Gas Production Taxes Above Threshold

Proposition 1 funds transfers are set to expire after the Fiscal Year 2035 transfer (December 31, 2034), unless a future legislature votes to extend them.



1. Actual amounts deposited in the State Highway Fund may vary based on the sufficient balance of the Economic Stabilization Fund set by the legislature. SB 69 (86R, 2019) requires the Texas Comptroller of Public Accounts to determine and adopt for a state fiscal biennium a “threshold” balance of the Economic Stabilization Fund in an amount equal to seven percent of the certified general revenue-related appropriations made for that state fiscal biennium (effective beginning with the state fiscal year on September 1, 2021).

2. The Economic Stabilization Fund is also known as the Rainy Day Fund.

3. Preset collection threshold is set at 1987 oil and natural gas production tax levels: \$531.9 million in oil production tax revenues and \$599.8 million in natural gas production tax revenues.

FIGURE 5b

Proposition 1 Texas Oil & Gas Production Taxes Above Threshold

FY	SHF Deposits	Total Deposits
2015	\$1.74 billion	
2016	\$1.13 billion	
2017	\$440 million	
2018	\$734 million	
2019	\$1.38 billion	
2020	\$1.67 billion	
2021	\$1.13 billion	\$8.22 billion*

* To date of publication.

PROPOSITION 7

Proposition 7, a constitutional amendment passed by 83 percent of Texas voters in 2015, increased funding for the state highway system. Proposition 7 funds may be used for the construction, maintenance, and acquisition of right-of-way for public roadways other than toll roads. Proposition 7 funds may also be appropriated to pay for the debt service on Proposition 12 Highway Improvement General Obligation Bonds that otherwise would be funded by general revenue.

As illustrated in Figure 6a, Proposition 7 requires the comptroller to deposit into the State Highway Fund up to \$2.5 billion of the net revenue from state sales and use tax that exceeds the first \$28 billion of revenue the state treasury receives every fiscal year. This provision will expire on August 31, 2032, unless a future legislature votes to extend it. As of December 2020 (FY 2021), TxDOT’s State Highway Fund has received deposits totaling \$7.5 billion in Proposition 7 funds from state sales and use tax revenues.

The second component of Proposition 7 directs a transfer of funds to the State Highway Fund if state motor vehicle sales and rental tax revenue exceed \$5 billion in a fiscal year, 35 percent of the amount above the \$5 billion will be directed to the State Highway Fund. This provision took effect on September 1, 2019 (FY 2020) and will expire on August 31, 2029, unless a future legislature votes to extend it.

The comptroller estimates that \$5 billion of Proposition 7 funding from state sales and use tax will be available for new transportation projects in the fiscal year 2020-2021 biennium,

and no transfers of motor vehicle sales and rental tax to the State Highway Fund will occur during the FY 2020-2021 biennium. Therefore, the 86th Legislature did not appropriate state motor vehicle sales and rental taxes in the 2020-2021 biennium.

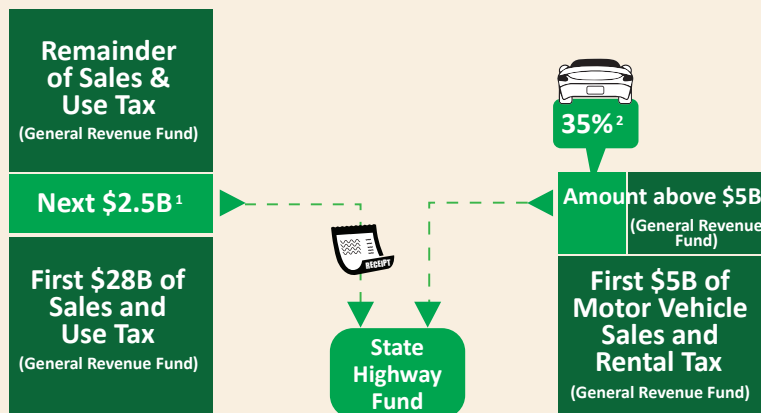
Proposition 7 has special features to allow for both the extension and the retention of fund transfers to the State Highway Fund. For instance, the state constitution allows the legislature, by a record vote of a majority of the members of each chamber, to extend either of the expiration dates of the two Proposition 7 provisions relating to the transfer of (1) state sales and use taxes and (2) motor vehicle sales and rental taxes for 10-year increments. Additionally, the constitution allows the legislature, by a record vote of two-thirds of the members of each chamber, to reduce the revenue deposited in the State Highway Fund under either provision (with the reduction made in the state fiscal year in which the legislature’s resolution is adopted or in either of the following two state fiscal years), provided the reduction is not more than 50 percent of the amount that would otherwise be deposited in the State Highway Fund in the affected state fiscal year.

The ability of the legislature to reduce Proposition 7 fund transfers creates some uncertainty in planning long-term construction projects. While Proposition 1 and 7 funds contribute greatly to funding Texas roadway projects, predicting their contributions over time presents challenges in forecasting long-term construction projects. Therefore, near-term construction contract letting will require close attention to ensure the appropriate funds are available for progress payments on projects as invoices become due.

FIGURE 6a

Proposition 7

Sales & Use Tax; Motor Vehicle Sales & Rental Tax
 Proposition 7 funds (Sales & Use Tax) are set to expire August 31, 2032; and Proposition 7 funds (Motor Vehicle Sales & Rental Tax) are set to expire August 31, 2029 unless a future legislature votes to extend them.



1. This transfer of funds to the State Highway Fund took effect September 1, 2017 (FY 2018).
 2. This transfer of funds to the State Highway Fund became eligible to take effect beginning with the state fiscal year starting on September 1, 2019 (FY 2020).

FIGURE 6b

Proposition 7 Sales and Use Tax; Motor Vehicle Sales and Rental Tax

State Highway Funds Deposits			
FY	State Sales and Use Tax	MV Sales and Rental Tax	Total Deposits
2018	\$939 million	N/A	
2019	\$4.061 billion	N/A	
2020	\$2.5 billion	\$0	\$7.5 billion
2021	\$1.151 billion (estimated) ¹	\$0	

1. The Texas Comptroller of Public Accounts estimates that the full \$2.5 billion sales and use tax deposit will occur. The remaining \$1.349 billion in the first month of September 2021 (FY 2022).

FINANCING

STATE INFRASTRUCTURE BANK

Texas’ State Infrastructure Bank (SIB) is a revolving fund that allows local government entities to borrow money for the costs of certain transportation projects at favorable terms.

SIB LOAN ADVANTAGES

The SIB does not charge any underwriting, banking, rating agency, or application fees. However, a borrower’s reasonable financial and legal fees are an eligible project cost for a loan.

SIB loans offer flexible repayment terms and may even be prepaid without penalties. Further, interest rates are determined at the time of application rather than at loan closing. Borrowers within a designated Economically Disadvantaged County may receive additional interest rate reductions of up to one percent.

PERMISSIBLE USES FOR SIB LOAN PROCEEDS

Construction projects must be public highway-eligible for federal assistance under Title 23 United States Code. Eligible costs include all costs incidental to the construction of public highways such as construction, utility relocation, right-of-way acquisition, appraisal and testing, engineering, surveying, and inspection. Projects must also be consistent with transportation plans developed by the local metropolitan planning organization and with the Statewide Transportation Improvement Program (STIP).

STATUTORILY AUTHORIZED USES OF FUNDING STREAMS

TxDOT created Figure 7 as a guide to clarify the funding restrictions associated with each of its state funding sources and financing tools. Figure 7 is useful in discussions related to non-highway state transportation needs such as aviation projects, capital funding for ports, rail, and public transportation.

FIGURE 7

PROJECT TYPE

FUNDING SOURCE	PROJECT TYPE						
	Non – Tolloed Highways	Tolloed Highways	Rail – Passenger	Rail – Freight	Transit	Aviation	Ports
Proposition 1 Funds	✓						
Proposition 7 Funds	✓						
State Highway Fund – Dedicated ¹	✓	✓					
Texas Mobility Fund – Revenue ²	✓		✓		✓		
Texas Mobility Fund (TMF) –Bond Proceeds ³	✓	✓	✓		✓		
State Highway Fund –Non-Dedicated ⁴	✓	✓	✓	✓	✓	✓	✓
Regional Subaccounts ⁵	✓	✓	✓	✓	✓	✓	✓

Texas Mobility Fund Bonds are suspended and unavailable.

1. State Highway Fund-Dedicated includes traditional sources of state motor fuel and lubricant taxes, motor vehicle registration fees, and interest earned on dedicated deposits. It also includes federal reimbursements that are not reflected in the above grid as a small amount of them may at times be used for other modes of transportation.
2. Texas Mobility Fund revenues in excess of funds required to pay Texas Mobility Fund debt service are prohibited to pay for toll expenditures as part of 2015 legislation.
3. The Texas Constitution allows for the use of Texas Mobility Fund bond proceeds to develop and construct state highways, “to provide participation by the state in the payment of a portion of the costs of constructing and providing publicly owned toll roads and other public transportation projects.” “Other public transportation projects” is undefined and therefore may be available for more types of transportation projects than what is listed here.
4. “State Highway Fund—Non-Dedicated” includes limited revenue sources. An annual, statutorily required transfer of approximately \$150 million goes to the Texas Emissions Reduction Program (TERP) Fund.
5. Regional Subaccount funds may only be used for transportation, highway, and air quality projects as defined by Section 228.001, Transportation Code, in the region where the project from which those funds were derived is located. The revenues are deposited in the State Highway Fund.

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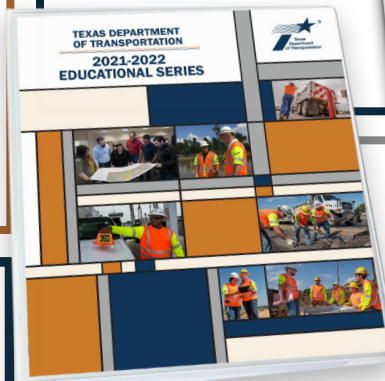
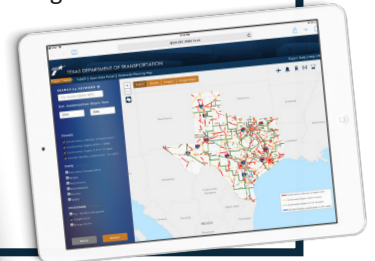
TxDOT is committed to your safety and to the reliability of the information contained on this site. While road conditions can change rapidly, DriveTexas.org is an industry leader in providing some of the most accurate and up-to-date travel-related information currently available to drivers in Texas. Information presented here is as close to real time as possible. For those who use our roads, please do not use this site while operating a motor vehicle.

Be Safe. Drive Smart. Thank you!

TEXAS DEPARTMENT OF TRANSPORTATION Project Tracker



Project Tracker is the gateway to up-to-date information about TxDOT highway improvement projects, providing 24/7-access to the public, employees, and elected officials.



TEXAS DEPARTMENT OF TRANSPORTATION 2021-2022 Educational Series

TxDOT's complete 2021-2022 Educational Series that focuses on a range of transportation issues affecting TxDOT and the state of Texas.



TEXAS DEPARTMENT OF TRANSPORTATION Government Affairs



TxDOT's Government Affairs Division works closely with government on both the state and federal levels through the State Legislative Affairs and Federal Affairs sections.

