

TRANSPORTATION

Funding

IN TEXAS



2016-2017 Edition

Funding Transportation Projects

Transportation projects take many years to develop and construct. In addition to the design, engineering, public involvement, right-of-way (ROW) acquisition, environmental analysis and oversight of highway construction projects, the Texas Department of Transportation (TxDOT) must also adhere to various stages of financial planning. Funding for a transportation project often comes from multiple revenue sources with different permissible uses over a period of years.

TxDOT receives funding from a variety of revenue sources and funding mechanisms. For years state and federal fuel tax revenues were sufficient to meet the needs of the

state highway system. Over time these revenues became less reliable and failed to keep up with the state's growing population and transportation needs. To address the population boom and the diminishing purchasing power of fuel tax revenues, the legislature provided TxDOT with several debt financing tools to advance projects more quickly, as opposed to paying for projects on a cash basis as the money became available. This approach helped the state avoid the substantial effects of inflation. The proceeds from these bonding tools have been completely allocated to projects, some of which are still under construction. Following these bond programs, the legislature, with voter approval,

provided two new sources of funding known as Propositions 1 and 7. The source of funding for Proposition 1 includes a certain amount of the state's surplus oil and gas production tax revenue. Proposition 7 funds are generated from a portion of sales and use taxes, which will be available in the last half of 2018. Beginning in 2020, a percentage of motor vehicle sales and rental tax revenue will also contribute to the state highway system. This brochure explores some of the history and uses of these funds and financing tools as well as a summary of TxDOT's Fiscal Year (FY) 2018-2019 budget request.

State Highway Fund

The State Highway Fund (SHF), also referred to as Fund 6, is TxDOT's primary fund. The SHF receives certain state revenues in the form of taxes and fees. Most of these taxes and fees are dedicated by the state constitution to support public roadways and may not be spent on other modes of transportation. In 2016, all but 3 percent of non-federal SHF revenues were dedicated to public highway projects.

Additionally the SHF contains subaccounts for Proposition 14 bond proceeds, Proposition 1 funding, the State Infrastructure Bank (SIB), and project-specific subaccounts for surplus toll revenue and revenues from comprehensive development agreements (CDAs) that can only be used on projects within the region of the project generating the funds. Upon appropriation, Proposition 7 funds will also have a separate subaccount in the SHF.

The SHF main account receives the following revenues:

- State Motor Fuels Tax*
- Vehicle Registration Fees*
- Other revenues, such as lubricant sales taxes*, permit fees for special vehicles, fees, and interest* on certain funds
- Local project participation funds
- Federal highway* and other agency reimbursements

SHF subaccounts receive the following revenues:

- Proposition 14 bond proceeds*
- Proposition 1 revenues*
- Proposition 7 funds (beginning in FY 2018)*
- SIB loan repayments and interest
- Surplus toll revenue and revenue from CDAs

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

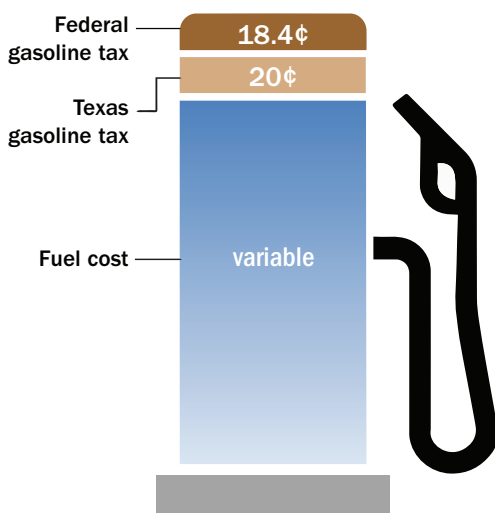
In the FY 2016-2017 biennium, the 84th Legislature increased TxDOT's share of SHF appropriations by approximately \$1.3 billion by requiring that all SHF dollars be appropriated to TxDOT rather than dividing the funds among multiple state agencies.

Federal Funds

About one-third of TxDOT's budget is comprised of federal funds, which are deposited in the SHF. The General Appropriations Act (GAA) includes federal funds in TxDOT's bill pattern as reimbursements for payments on projects that meet certain federal requirements.

Revenue collected from the federal tax on gasoline and diesel is deposited in the federal Highway Trust Fund (HTF). HTF dollars are distributed to states primarily through highway and transit formulas and discretionary allocations. For decades, federal aid for highways was supported solely by tax and fee revenue deposited into the HTF. Since 1993, the federal motor fuels tax rate has remained at 18.4 cents per gallon of gasoline 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. Since 2008, the HTF has been supplemented with federal general funds to compensate for the diminishing value of the federal fuel tax revenue.

In 2017, Texas will be one of only three donor states in the nation and will recoup 95 cents for every dollar that we send to Washington in federal fuel taxes that are paid in our state. A donor state is a state that contributes more funds to the HTF via federal fuel taxes than it receives in return in apportionments. Traditionally, Texas fuel receipts being deposited into the HTF range from ten to twelve percent of the total amount nationally, but the state receives between eight and nine percent back in apportionments. This disparity equates to Texas's loss of approximately \$701 million in 2016 and \$738 million in 2017.



Components of gasoline prices per gallon in Texas

Proposition 1 and Proposition 7

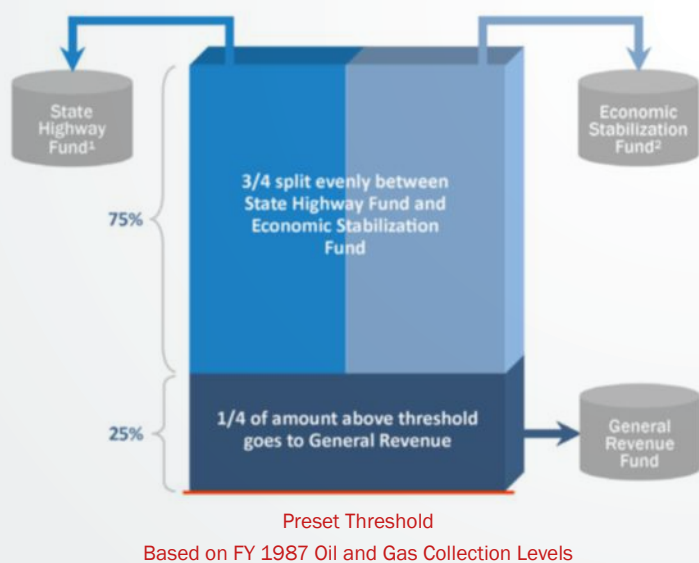
Proposition 1 Funding

- Approved by 80% of voters in November 2014
- Directs a portion of oil and gas severance tax revenue to the SHF
- May be used for the construction, maintenance, rehabilitation and acquisition of ROW for non-tolled public roadways

Factors potentially affecting future Proposition 1 project funding levels:

- Annual fluctuations in oil and gas drilling activity
- A minimum balance for the Rainy Day Fund is established by a joint legislative committee prior to each legislative session – a higher minimum balance could mean less Proposition 1 funding available for the SHF

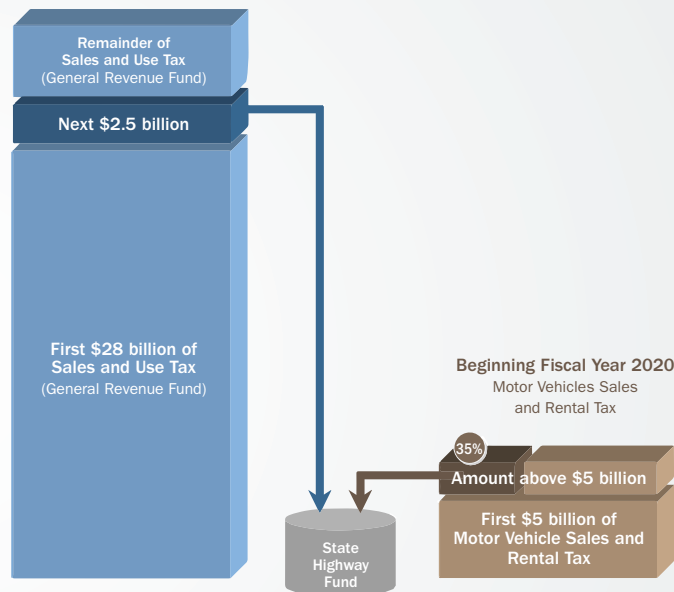
Texas Oil & Gas Production Taxes Above Threshold



1. Actual amounts deposited in the State Highway Fund may vary based on the minimum balance of the Economic Stabilization Fund set by the Legislature
2. Economic Stabilization Fund also commonly known as the Rainy Day Fund

Proposition 7 Funding

Beginning Fiscal Year 2018
Sales and Use Tax



- Approved by 83% of voters in November 2015
- Directs a portion of state sales and use tax and motor vehicle sales tax revenues to the SHF

Factors potentially affecting future Proposition 7 project funding levels:

- State sales and use tax and motor vehicle sales tax collections could fall short of expected levels
- The legislature may reduce Proposition 7 appropriations by up to 50 percent in any given year by a two-thirds vote in both chambers
- The legislature may appropriate Proposition 7 funds to pay Proposition 12 bond debt service
 - o The total FY 2018-2019 request for Proposition 12 debt service is approximately \$650 million

Other Financing & Procurement Tools

Comprehensive Development Agreements

CDAs (an umbrella term for public private partnerships) are entered into using a procurement process that allows TxDOT to select proposals that provide the best value to the state.

Concession fees & surplus toll revenue

TxDOT receives concession fees and surplus toll revenue from certain toll projects. The funds received from these projects that are not

needed for operations, maintenance or debt service must be spent on other transportation projects in the region where the project is located. These funds are held in toll project subaccounts within the SHF.

State Infrastructure Bank

The Texas Transportation Commission establishes guidelines for the SIB, which is a revolving fund that allows local government entities to borrow money from TxDOT. SIB borrowing allows both public and private sector entities to borrow for the costs of transportation projects on favorable repayment terms.

Toll revenue bonds

The Texas Transportation Commission is authorized to issue project revenue bonds (or toll revenue bonds) where the bonds are secured by the toll revenue collected for the project.

Borrowing Programs

As the state's transportation needs outstripped its financial resources, the legislature provided authority to TxDOT to finance projects through bond programs. Texas Mobility Fund (TMF), Proposition 14 State Highway Fund Revenue bonds and Proposition 12 Highway

Improvement General Obligation bonds have accelerated the construction of billions of dollars of highway improvements.

As directed by the legislature and in compliance with federal rules associated with tax-exempt debt, the projects funded

with bond proceeds are long-term capital improvements. The economic consequences and improved safety and mobility resulting from these projects will be enjoyed by taxpayers for generations to come.

Proposition 14 Bonds

- Secured by certain SHF revenues
- Approved by voters in 2003
- Authorized capacity: statutory limitation of \$6 billion
- Maximum maturity: 20 years
- Not subject to constitutional debt limit

Proposition 12 Bonds

- Secured by state general revenue not already dedicated in the constitution
- Approved by voters in 2007
- Highway Improvement General Obligation Bonds
- Authorized and appropriated in 2009
- Authorized capacity: constitutional limitation of \$5 billion
- Maximum maturity: 30 years
- Debt service is subject to the constitutional debt limit

Short-Term Borrowing

- Approved by voters in 2003
- TxDOT can issue short-term bonds in the event that payments on transportation projects exceed the amount of expected revenues in the SHF in the near term
- Loan term limit: 2 years
- Secured by certain SHF revenues
- Not subject to constitutional debt limit

Texas Mobility Fund

The TMF was approved by voters in 2001. In 2003, the legislature dedicated funding sources which allow the issuance of bond debt repaid by revenues of the fund. The TMF, however, unlike Proposition 14 and Proposition 12 bonds, has no statutory limit, and capacity is determined by what the revenue can support. Legislation in 2015 prohibited the issuance of additional debt from the TMF.

- Secured by revenues of the TMF
- The Texas Comptroller of Public Accounts must provide a revenue estimate of the fund before TxDOT may issue TMF bonds.
- Bond capacity: Perpetual, revolving fund
- Maximum maturity: 30 years
- Not subject to constitutional debt limit unless debt service is paid with general revenue funds

TMF revenue sources:

- Certificate of title fees
- Motor vehicle inspection fees
- Driver license fees
- Driver record information fees
- Other fees and interest

Permitted Uses of Funding Streams

| | Non-Tolled Highways | Tolled Highways | Rail <input type="checkbox"/> Passenger | Rail <input type="checkbox"/> Freight | Transit | Aviation | Ports |
|---|---------------------|-----------------|---|---------------------------------------|---------|----------|-------|
| State Highway Fund <input type="checkbox"/> Dedicated ¹ | ✓ | ✓ | | | | | |
| State Highway Fund <input type="checkbox"/> Non-Dedicated | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Texas Mobility Fund <input type="checkbox"/> Bond Proceeds ² | ✓ | ✓ | ✓ | | ✓ | | |
| Texas Mobility Fund <input type="checkbox"/> Revenue | ✓ | | ✓ | | ✓ | | |
| Prop 14 Bonds | ✓ | ✓ | | | | | |
| Prop 12 Bonds ³ | ✓ | ✓ | | | | | |
| Prop 1 Funds | ✓ | | | | | | |
| Prop 7 Funds | ✓ | | | | | | |
| Toll Subaccounts ⁴ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |

Funding Source

1 State Highway Fund-Dedicated includes federal reimbursements.

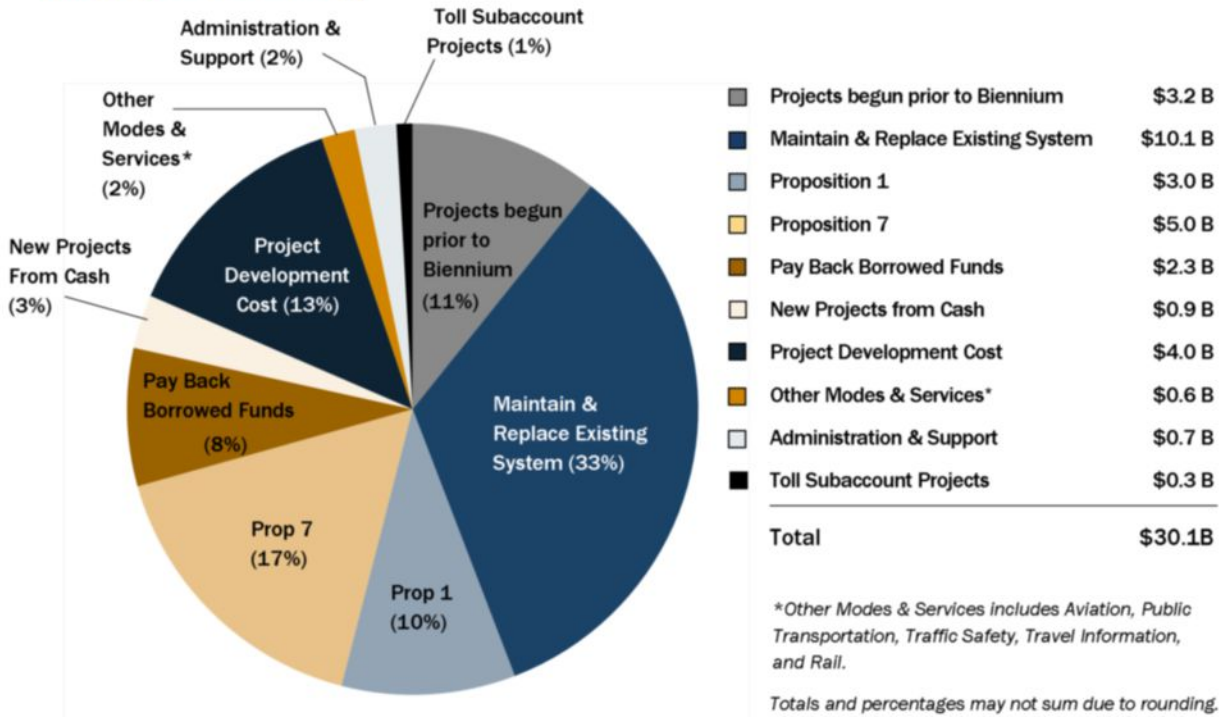
2 The Texas Constitution allows TMF bonds to be used to develop and construct state highways, provide participation by the state in the payment of a portion of the costs of constructing and providing publicly owned toll roads and other public transportation projects. Other public transportation projects" is undefined and therefore may be available for more types of transportation projects than what is listed here.

3 Proposition 12 bond proceeds may be used to provide funding for highway improvement projects with no distinction between tolled and non-tolled highways. During the 2010-11 biennium, Prop 12 proceeds were restricted to non-tolled projects per Rider 60.

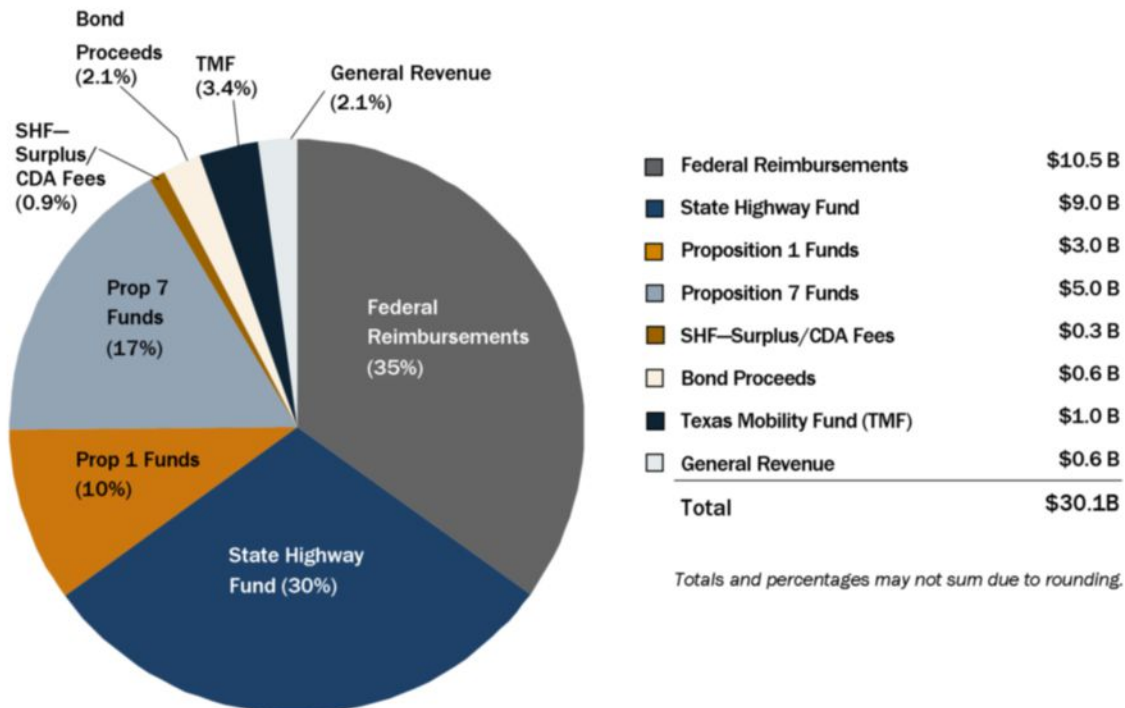
4 Toll Subaccount funds may only be used for transportation, highway, and air quality projects as defined by Section 228.001 of the Transportation Code in the region where the project from which those funds were derived is located. The revenues are deposited to the State Highway Fund but are not dedicated by the Texas Constitution.

2018-2019 TxDOT Legislative Appropriation Request

Budget (Uses of Funding)



Method of Finance (Sources of Funding)



2018-2019 Legislative Appropriation Request Exceptional Items

| Exceptional Item | FY 2018 | FY 2019 |
|---|----------------------|---------------------|
| Disabled Veteran Toll Discount Program | \$7,400,000 | \$9,200,000 |
| Rail – South Orient Railroad (SORR) Rehab Fort Stockton | 12,200,000 | 20,800,000 |
| Rail - SORR Rehab-Paisano | 2,200,000 | 4,800,000 |
| Rural Public Transit | 3,500,000 | 3,500,000 |
| Maritime for Port Capital Program | 132,875,785 | UB |
| Rail - Northeast Texas Rural Rail Transportation (NETEX) District Rehab | 16,000,000 | 14,000,000 |
| Truck Discount Toll Program on SH 130 & SH 45SE | 24,000,000 | 24,000,000 |
| Rail - Heartland Flyer | 2,500,000 | 2,500,000 |
| Total | \$200,675,785 | \$78,800,000 |

■ Disabled Veteran Toll Discount Program

TxDOT is requesting general revenue (GR) amounts of \$7.4 million in FY 2018 and \$9.2 million in FY 2019 to pay for the cost of providing exemptions to qualified veterans who choose to utilize the Central Texas Turnpike System. In 2009, the legislature passed a bill allowing toll entities to establish a free or discounted toll program for certain disabled veterans. Due to TxDOT's bond agreements, funds for the discounts must be returned to the toll system. TxDOT is waiving charges on certain state-owned toll roads for individuals whose specialty license plates display the words "Disabled Veteran," "Purple Heart" or "Region of Valor." In Central Texas, qualified veterans are able to drive free of charge on Loop 1 (excluding managed lanes), SH 45 North, SH 45 Southeast and SH 130 (Segments 1-4). This exceptional item request only applies to the Central Texas roads listed above because the toll agreement requires waived fees to be repaid to the toll system. However, qualified veterans are able to travel free of charge on the Camino Colombia roadway (SH 255 near Laredo), Loop 49 in Tyler and TxDOT's segments of the Grand Parkway in Houston.

■ Rail - SORR Rehab Fort Stockton

TxDOT requests \$12.2 million in FY 2018 and \$20.8 million in FY 2019 in GR for South Orient Railroad (SORR) rehabilitation. The funding is for the rehabilitation of the SORR rail line between Fort Stockton and Alpine to open the interchange with Union Pacific (UP) at Alpine (75 miles). This section of the rail line was constructed in 1912 and is substandard for today's loadings. Rehabilitation is essential to enable shipments to and from the border at Presidio and to provide interchange capability with UP. This would also allow for crude oil shipments west to California across UP's Sunset Route.

■ Rail - SORR Rehab Paisano

TxDOT requests \$2.2 million in FY 2018 and \$4.8 million in FY 2019 in GR for SORR Rehabilitation from Paisano Junction to Presidio International Rail Bridge (72 miles). Texas Pacifico will reconstruct the international rail bridge at Presidio within the next biennium and reopen this rail gateway on the South Orient line. The section of the rail line from Paisano Junction to the international rail bridge is limited to 10 mph speeds due to defective cross ties, bridges and obstructed drainage ditches.

■ Rural Public Transit Program

TxDOT is requesting \$3.5 million in GR 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.

■ Maritime

Texas ports serve as gateways to the state economy and play a vital role in creating jobs for Texans. Texas is the nation's leading export state and a leader in waterborne trade. In order to maintain this position and remain competitive in the future, \$132.9 million in GR funding for capital improvements and infrastructure is needed in FY 2018. TxDOT is requesting unexpended balance (UB) authority to continue expending these funds in FY 2019.

■ Rail - NETEX District Rehab

TxDOT requests \$16 million in FY 2018 and \$14 million in FY 2019 in GR for the rehabilitation of the Northeast Texas Rural Rail Transportation District (NETEX) freight rail line from Greenville to Mount Pleasant. TxDOT owns the 31 miles of the NETEX right-of-way and has a security interest in the infrastructure from a grant funding agreement in 1996.

■ Truck Discount Toll Program on SH 130 (Segments 1-4)/SH 45 SE

TxDOT would like to continue to reduce traffic congestion on I-35 and make Central Texas roadways safer by encouraging trucks to use toll roads. In order to continue the toll discount program for large trucks on SH 130/SH 45 Southeast, TxDOT seeks \$24 million in GR each year of the biennium. If this exceptional item is approved, the funds will allow trucks to pay the same toll rate as cars during all hours of the day, every day of the week.

■ Rail - Heartland Flyer

TxDOT has traditionally funded a portion of the operating costs of Amtrak's Heartland Flyer passenger train between Fort Worth and Oklahoma City. TxDOT has included in its Exceptional Item request \$2.5 million of GR in each year of the biennium to fund this recurring expense.