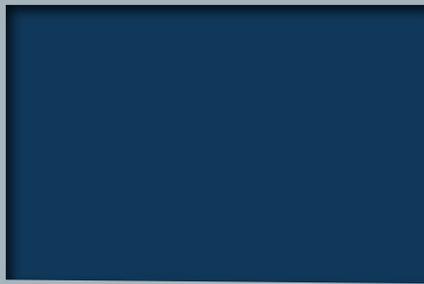
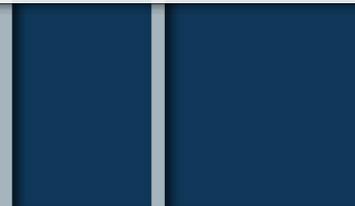
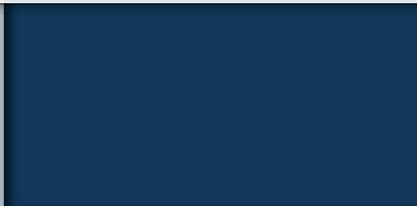




TEXAS

TRANSPORTATION FUNDING

FOR FISCAL YEARS 2020-2021



TEXAS DEPARTMENT OF TRANSPORTATION

VALUES:

People

People are the Department's most important customer, asset, and resource. The well-being, safety, and quality of life for Texans and the traveling public are of the utmost concern to the Department. We focus on relationship building, customer service, and partnerships.

Accountability

We accept responsibility for our actions and promote open communication and transparency at all times.

Trust

We strive to earn and maintain confidence through reliable and ethical decision-making.

Honesty

We conduct ourselves with the highest degree of integrity, respect, and truthfulness.

VISION:

A forward-thinking leader delivering mobility, enabling economic opportunity, and enhancing quality of life for all Texans.

MISSION:

Connecting You With Texas.

GOALS AND OBJECTIVES:

Deliver the Right Projects

Implement effective planning and forecasting processes that deliver the right projects on-time and on-budget.

- Use scenario-based forecasting, budgeting, and resource management practices to plan and program projects.
- Align plans and programs with strategic goals.
- Adhere to planned budgets and schedules.
- Provide post-delivery project and program analysis.

Focus on the Customer

People are at the center of everything we do.

- Be transparent, open, and forthright in agency communications.
- Strengthen our key partnerships and relationships with a customer service focus.
- Incorporate customer feedback and comments into agency practices, project development, and policies.
- Emphasize customer service in all TxDOT operations.

Foster Stewardship

Ensure efficient use of state resources.

- Use fiscal resources responsibly.
- Protect our natural resources.
- Operate efficiently and manage risk.

Optimize System Performance

Develop and operate an integrated transportation system that provides reliable and accessible mobility, and enables economic growth.

- Mitigate congestion.
- Enhance connectivity and mobility.
- Improve the reliability of our transportation system.
- Facilitate the movement of freight and international trade.
- Foster economic competitiveness through infrastructure investments.

Preserve our Assets

Deliver preventive maintenance for TxDOT's system and capital assets to protect our investments.

- Maintain and preserve system infrastructure to achieve a state of good repair and avoid asset deterioration.
- Procure, secure, and maintain equipment, technology, and buildings to achieve a state of good repair and prolong life cycle and utilization.

Promote Safety

Champion a culture of safety.

- Reduce crashes and fatalities by continuously improving guidelines and innovations along with increased targeted awareness and education.
- Reduce employee incidents.

Value our Employee

Respect and care for the well-being and development of our employees.

- Emphasize internal communications.
- Support and facilitate the development of a successful and skilled workforce through recruitment, training and mentoring programs, succession planning, trust, and empowerment.
- Encourage a healthy work environment through wellness programs and work-life balance.





INTRODUCTION

The development and delivery of a transportation project takes many years from conception to completion. Most projects go through several phases from the design, engineering, public involvement, right-of-way acquisition, and environmental analysis to the oversight of highway construction projects. Funding for a transportation project may include multiple revenue sources with different permissible uses of those sources over a period of years.

For years, traditional funding from state and federal gas tax revenues was sufficient to meet the needs of the state highway system. 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 gas tax revenues in

a timely manner, the Texas Legislature provided the Texas Department of Transportation (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 avoid the effects of highway construction inflation cost. The proceeds from these bonding tools (Proposition 14 State Highway Fund Bonds, Proposition 12 Highway Improvement General Obligation Bonds, and Texas Mobility Fund Bonds) are fully allocated to existing projects and have mostly been spent. All formerly permissible bond opportunities for additional funding have been exhausted or suspended. Following these bond programs, the Texas Legislature, with voter approval, provided two new, non-traditional sources of funding known as Proposition 1 (2014) and Proposition 7 (2015).

Under Proposition 1, TxDOT receives a certain amount of the state's oil and gas production tax revenue. TxDOT received the first Proposition 1 deposit in fiscal year (FY) 2015. Proposition 7 funds are derived from state sales and use taxes and motor vehicle sales and rental taxes. The first Proposition 7 deposit was in FY 2018.

This brochure explores some of the history and uses of these funds and financing tools as well as a summary of TxDOT's FY 2020-2021 budget.



TRADITIONAL FUNDING

The State Highway Fund

The State Highway Fund, also referred to as Fund 6, is TxDOT's primary funding source. This fund receives state revenues in the form of taxes and fees. The majority of these taxes and fees are dedicated by the state constitution to fund the acquisition of right of way, construction, and maintenance of public roadways. Constitutionally-dedicated funds for the purpose of supporting public roadways may not be spent on other modes of transportation such as rail projects, public transportation, aviation services, and gulf waterway improvements.

The State Highway Fund also contains subaccounts for Propositions 1* and 7* funds, 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 revenues:

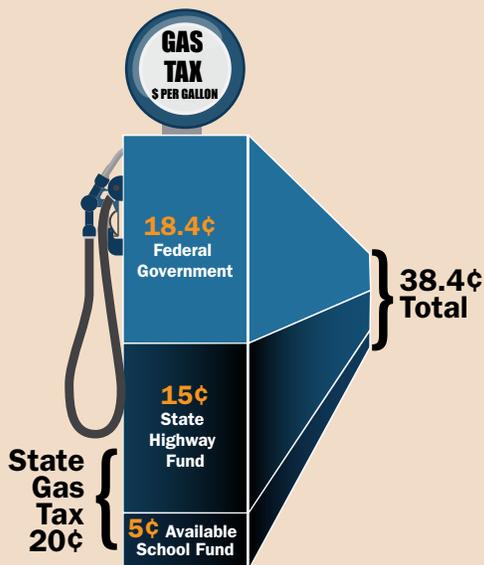
- State Motor Vehicle Fuels Tax [20 cents per gallon total, 25 percent (5 cents) goes to Available School Fund]* (see Figure 1)
- Federal highway* and other agency reimbursements (includes federal fuel tax) (see Figure 1)
- Vehicle Registration Fees*
- Other, smaller revenues such as lubricant sales taxes*, permit fees for special vehicles, fees and interest* on certain funds
- Local project participation funds

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 1: Gas Tax Revenue



Federal Funds

Approximately one-third of TxDOT's budget is comprised of federal funds, which are deposited in 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 1) 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 Highway Trust Fund has been supplemented with federal general revenue to supplement federal gas tax collections.

NON-TRADITIONAL FUNDING

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 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 2019, a total of \$7.094 billion of Proposition 1 funds has been deposited into a subaccount within the State Highway Fund. In late November 2019 (FY 2020), the State Highway Fund received a Proposition 1 deposit of \$1.67 billion. In November 2020, the Texas Comptroller of Public Accounts (comptroller) estimates an FY 2021 Proposition 1 deposit of \$1.46 billion.

Figure 2 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 has been evenly divided between the Economic Stabilization Fund and the State Highway Fund.

However, before these six transfers to the State Highway Fund could occur, the balance of the Economic Stabilization Fund had to meet a minimum amount as determined by legislative committee or the legislature as a whole. In the month preceding the past two 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, which is also known as the "Rainy Day Fund." On November 30, 2018, the committee adopted a sufficient balance of \$7.5 billion. This means that the State Highway Fund will not receive a transfer of severance taxes if the balance of the Economic Stabilization Fund during this biennium is below \$7.5 billion.

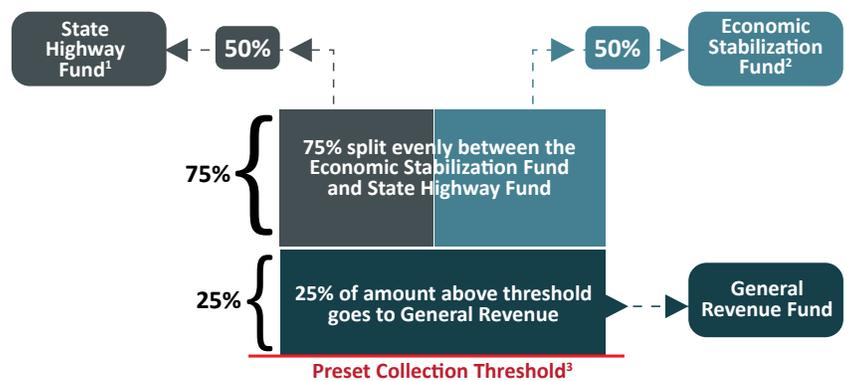
Senate Bill 69, 86th Legislature (Regular Session, 2019) eliminates the select committee that determines the Economic Stabilization Fund sufficient balance and replaces it with an automated procedure to determine a new sufficient balance threshold. The sufficient balance threshold after September 1, 2021, 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, TxDOT estimates deposits of \$1.286 billion per fiscal year, 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 10 years.

Figure 2: 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.

FY	Deposits to SHF	Total Deposits to Date
2015	\$1.74 billion	
2016	\$1.13 billion	
2017	\$440 million	
2018	\$734 million	
2019	\$1.38 billion	
2020	\$1.67 billion	\$7.094 billion
2021	\$1.46 billion (estimated)	



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.

NON-TRADITIONAL FUNDING

Proposition 7

Proposition 7, a constitutional amendment passed by 83 percent of voters in FY 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 are also appropriated to pay for the debt service on Proposition 12 Highway Improvement General Obligation bonds.

As illustrated in Figure 3, 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 coming into the state treasury every fiscal year. This provision is set to expire August 31, 2032, unless a future legislature votes to extend it. As of December 2019, TxDOT's State Highway Fund has received deposits totaling \$5 billion in Proposition 7 funds from state sales and use tax revenues.

Beginning in FY 2020, if state motor vehicle sales and rental tax revenue exceeds \$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 is set to expire August 31, 2029, unless a future legislature votes to extend it.

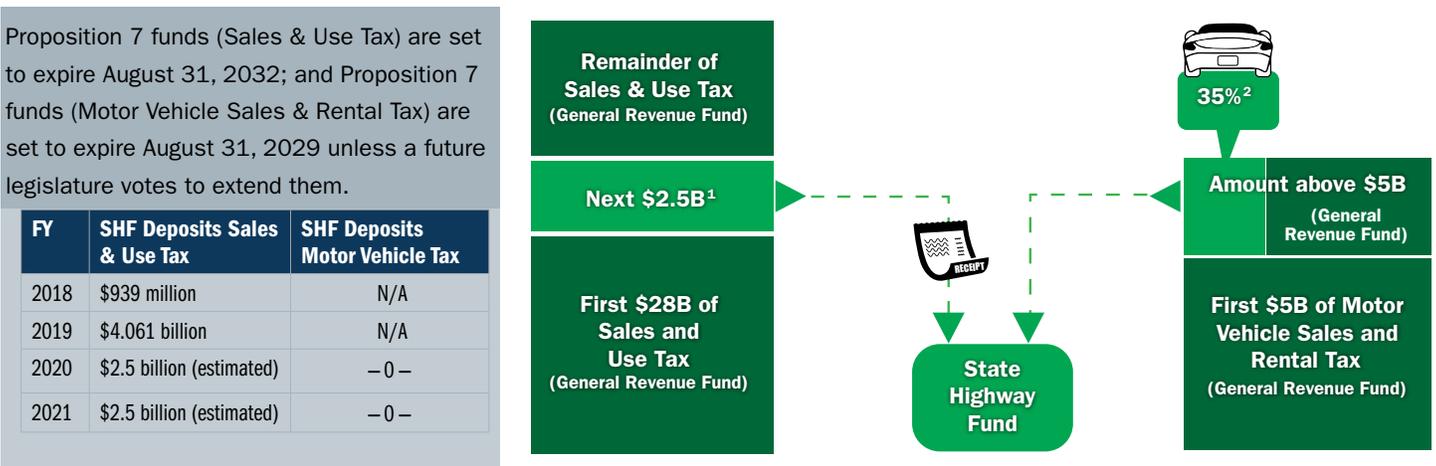
The comptroller estimates that \$5 billion of Proposition 7 funding from state sales and use tax will be available for new transportation projects in the fiscal year 2020-2021 biennium and that no transfers of motor vehicle sales and rental tax to the State Highway

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 3: Proposition 7 Sales & Use Tax; Motor Vehicle Sales & Rental Tax

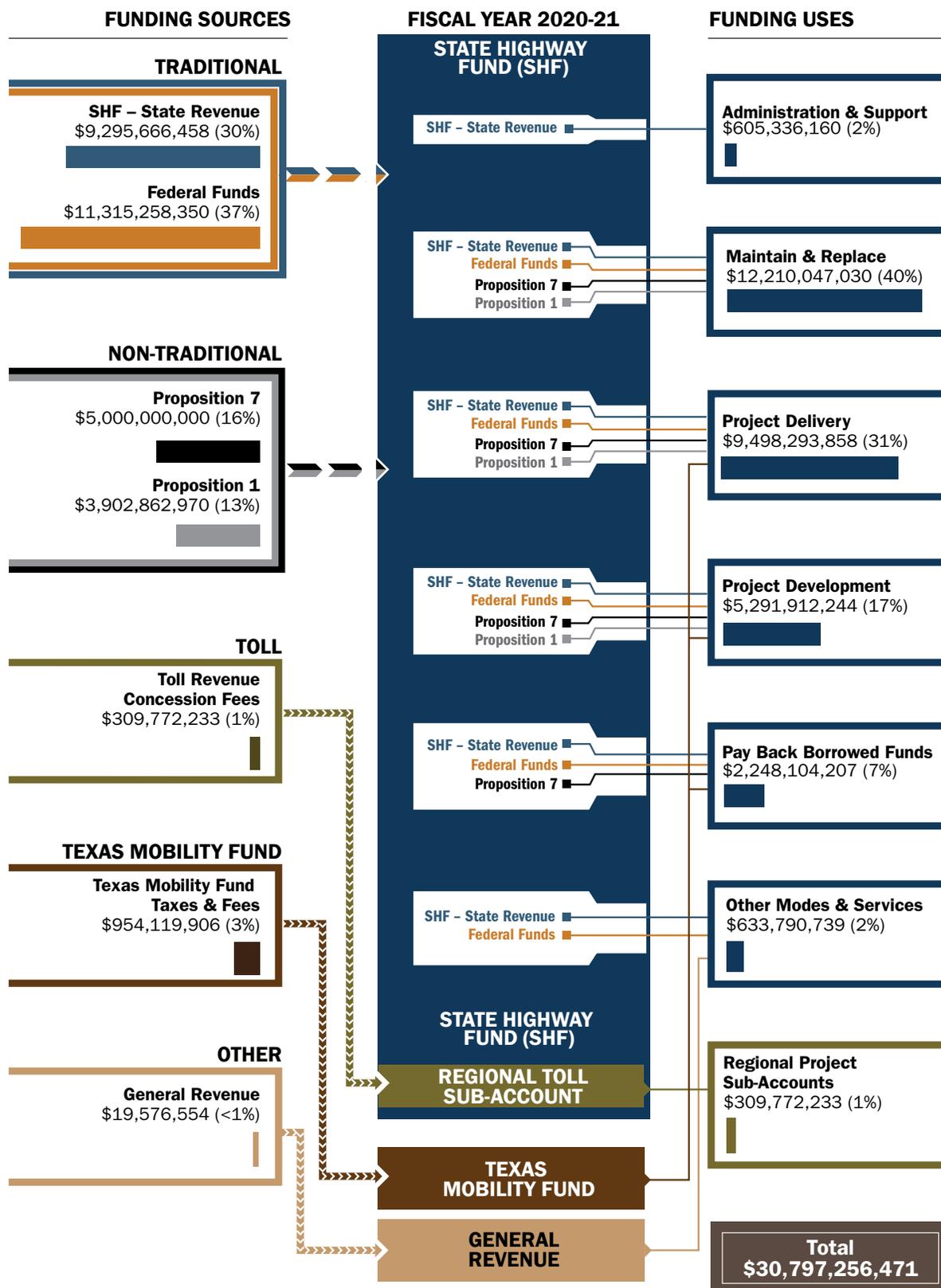


1. This transfer of funds to the State Highway Fund took effect September 1, 2017 (FY 2018).

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 4 includes TxDOT's budget found in Article VII of the General Appropriations Act, 86th Legislature (Regular Session, 2019). Additional appropriations of Economic Stabilization Fund dollars in SB 500 are not included below, but they are referenced on page 8.

Figure 4: HB 1, General Appropriations Act, 86th Legislature (Regular Session, 2019)



- Percentages may not sum due to rounding.

HB 1 RIDERS AND SB 500

There were several significant rider amendments, additions, and deletions in TxDOT's budget for the 2020-2021 biennium.

Transfer Authority

One of TxDOT's budget requests included expanding transfer authority, which TxDOT has requested for several biennia. HB 1 revises Rider 3, Transfer Authority, to allow TxDOT to transfer among strategies (listed below), without prior Legislative Budget Board approval, in amounts not to exceed five percent of the appropriation item from which the transfer is made for the fiscal year:

- A.1.2, Contracted Planning and Design;
- A.1.3, Right-of-Way Acquisition;
- A.1.4, Construction Contracts;
- A.1.5, Maintenance Contracts; and
- A.1.8, Construction Grants and Services.

Transfers from these budget strategies to other budget strategies not explicitly listed must receive prior approval from the Legislative Budget Board.

Reporting Requirements

HB 1 streamlined and eliminated some of TxDOT's budget rider reporting requirements:

- Rider 29 is rewritten to provide unexpended balance authority for both the Acquisition of Information Resource Technologies and the Centralized Accounting and Payroll/Personnel System from the 2018-2019 biennium to the 2020-2021 biennium.
- Rider 31, Debt Reduction Report, as revised, requires reporting only when TxDOT identifies new opportunities to reduce outstanding bond indebtedness.
- HB 1 deletes Rider 32 (SB 1, 2017), Travel Information Centers, which required TxDOT to provide a report detailing the economic and safety impact of travel information centers.
- HB 1 retains Rider 34, Performance Reporting for the Voluntary Turnback Program. The rider requires TxDOT to report local participation in the voluntary turnback program to the Legislative Budget Board on a biennial basis, including a list of the state's most eligible roads with the potential to transfer to local governments, and recommendations to enhance the program.

New Riders and Rider Revisions

HB 1 includes the following revised or new riders in TxDOT's 2020-2021 biennial budget:

- Rider 44, Construction of Intelligent Transportation System, as amended, allows TxDOT to use available funds to assist with the El Paso Intelligent Transportation System projects in lieu of the Master Lease Purchase Program.

- Rider 46, Limitation on Expenditure of Funds, prohibits TxDOT from expending funds to construct a replacement bridge and roadway to Pelican Island in Galveston County through the Texas A&M Galveston campus without Legislative Budget Board approval.
- Rider 47, Transportation Infrastructure Fund, directs TxDOT to apply \$125 million from available revenue to provide grants to counties according to Subchapter C, Chapter 256, Transportation Code (see below SB 500, Section 78).
- Rider 48, Improvements to the McKinney National Airport, appropriates \$15 million in general revenue for airport expansion project improvements to the McKinney National Airport.
- Rider 49, Human Trafficking Signage, appropriates \$200,000 in general revenue for the purpose of installing signage or providing grants to install signage at public transportation hubs, including buses, bus stops, trains, train stations, rest areas, and airports, regarding services and assistance available to victims of human trafficking. TxDOT must work with the Office of the Attorney General of Texas to determine the design and content of the signage. The section also allows for unexpended balance authority for the transfer of unallocated funds from fiscal year 2020 to fiscal year 2021.

Article IX Provisions

Significant Article IX (General Provisions) provision amendments affecting TxDOT are included below:

- HB 1 amends Section 9, Article IX, to strengthen and streamline provisions related to information resources and contracting requirements for technology purchases and services.

SB 500

- Section 78 appropriates \$125 million to TxDOT from the Economic Stabilization Fund (ESF) to provide grants to counties for eligible roadway projects through the Transportation Infrastructure Fund, as authorized under Subchapter C, Chapter 256, Transportation Code.
- Section 79 also appropriates \$5 million to TxDOT from the Economic Stabilization Fund to expand an airport hangar at the South Texas International Airport used by the Texas Department of Public Safety for emergency and first responders.

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 transportation projects at favorable terms.

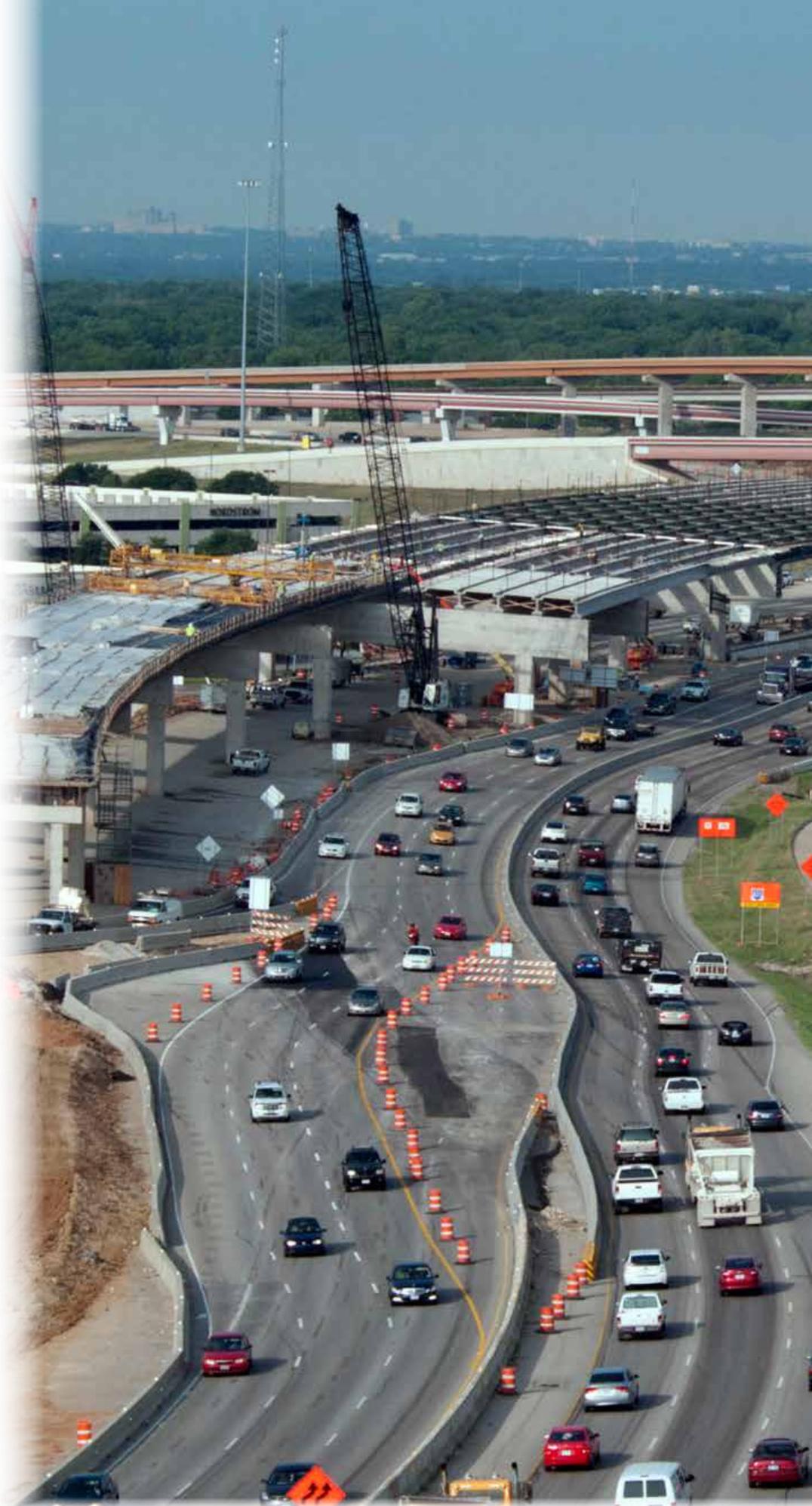
SIB Loan Advantages:

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).



TxDOT created Figure 5 as a guide to clarify the funding restrictions associated with each of its state funding sources and financing tools. Figure 5 is useful in discussions related to non-highway state transportation needs such as aviation projects, capital funding for ports, rail, and public transportation.

Figure 5: Statutorily Authorized Uses of Funding Streams

PROJECT TYPE

FUNDING SOURCE

	Non-Tolled Highways	Tolled Highways	Rail – Passenger	Rail – Freight	Transit	Aviation	Ports
Proposition 1 Funds	✓						
Proposition 7 Funds	✓						
State Highway Fund – Dedicated ¹	✓	✓					
Proposition 14 Bonds	✓	✓					
Proposition 12 Bonds ²	✓	✓					
Texas Mobility Fund – Revenue ³	✓		✓		✓		
Texas Mobility Fund (TMF) – Bond Proceeds ⁴	✓	✓	✓		✓		
State Highway Fund – Non-Dedicated ⁵	✓	✓	✓	✓	✓	✓	✓
Regional Subaccounts ⁶	✓	✓	✓	✓	✓	✓	✓

Texas Mobility Fund, Proposition 14, and Proposition 12 bond programs are unavailable or suspended.

1. State Highway Fund-Dedicated includes state motor fuel and lubricant taxes and motor vehicle registration fees. 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. Proposition 12 bond proceeds may be used to provide funding for highway improvement projects with no distinction between tolled and non-tolled highways.
3. 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.
4. The Texas Constitution allows for the use 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 are listed here.
5. “State Highway Fund—Non-Dedicated” includes limited revenue sources. An annual transfer of approximately \$150 million goes to the Texas Emissions Reduction Program (TERP) Fund.
6. 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 but are not dedicated by the Texas Constitution.





Since **Nov. 7, 2000**, almost **67,000** people have died on Texas roadways.

We've had **almost 19 years** straight of daily deaths on Texas roads.



747 people were killed in 2018 while speeding.

625 pedestrians were killed in 2018 in traffic crashes.



The majority of all deadly crashes are due to mistakes drivers make (e.g., **texting and driving** and **drinking and driving**).

403 people were killed in 2018 in distracted driving.

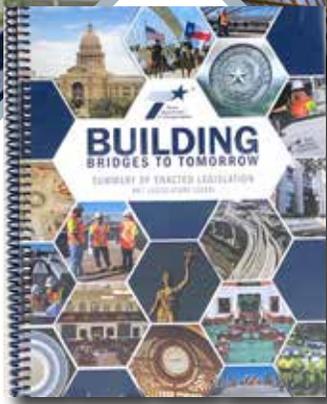


In 2018, **1 out of 4** deaths were caused by drunk driving.

Last year, **984** unbuckled people died in traffic crashes.



3,526 average number of fatalities – or **10** jumbo jet crashes – every year.



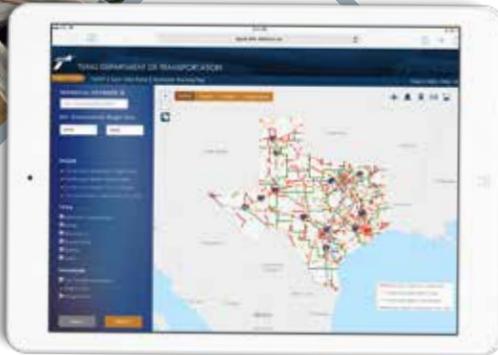
Building Bridges to Tomorrow Summary of Enacted Legislation 86th Legislature (2019)



SCAN WITH SMART PHONE

Texas Department of Transportation 2019-2020 Educational Series

The Educational Series serves as a reference on a range of transportation issues affecting TxDOT and the state of Texas.



TxDOT Project Tracker

To view up-to-date project information for your district and state, visit txdot.gov.
Keyword search "Project Tracker."

