

WEST HOUSTON | POSITION STATEMENT
ASSOCIATION | STATE TRANSPORTATION
BOARD OF DIRECTORS | FUNDING

AUGUST 23, 2010

POSITION STATEMENT ON FUNDING INCREASES

The West Houston Association supports action by the 82nd Texas Legislature to increase transportation revenue in order to assure the Houston Metro Area a minimum of \$1.2 billion per year in new roadway and maintenance contract letting authority, the annual amount of state and federal funds needed to assure funding of programmed projects in the 2011-2014 Houston Metro Area Regional Transportation Improvement Planⁱ. Although this plan does not sufficiently address all the roadway construction needs of the region, it is a minimal acceptable level given the current congestion levels and population and employment growth of the Houston area.

To achieve \$1.2 billion for Houston area projects the West Houston Association endorses any sufficient combination of statewide and local option motor fuel tax increase with indexing and vehicle registration fee increase.

RATIONALE

The Houston Metro Area will have \$867 million per year less funding for roadway expansion and maintenance projects between 2011-2014 according to the current draft of the region's Transportation Improvement Plan (TIP). This translates into removal of needed projects from the TIP. If the current revenue forecast by TxDOT is not reversed, the Houston Metro area is projected to lose \$37 billion through 2035 in state and federal transportation funding. .

This West Houston Association position recommends closing the gap in the Houston Metro area transportation plan by implementing any one or combination of increased existing and additional fees. These fees can be a mix on statewide and local option fees. The Association believes all are acceptable individually or in some combination sufficient to achieve the goal of providing a minimum total of \$1.2 billion per year to the Houston region. This level of contract letting will be consistent with the currently approved regional transportation plan.

Following are potential measures for increasing Houston transportation fundingⁱⁱ (*Houston allocations are set at 19% of the statewide totals*):

1. **Increase State Motor Fuel Tax from 20¢ per gallon**
 - a. **Each 1¢ increase statewide nets an additional \$111 million annually** in transportation funding with a potential gain to the Houston area of \$21 to 23 million. 75% of gross revenue goes to transportation; 25% of gross to public education.
 - b. **A 5¢ per gallon increase statewide** would result in an additional \$560 million per year with a Houston area gain of \$105 to 115 million per year.
 - c. **A 10¢ per gallon local option motor fuel tax** would result in \$245 million per year in revenue in the 8 county TxDOT Houston District area—this calculation is based upon the district's share of state vehicle registrations.

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- d. Motor fuel consumption is on the decline and will eventually need to be substituted with an alternate means of capturing equivalent revenue, such as with a vehicle mileage fee. However this could take years and many legislative sessions to refine.
2. **Indexing the Motor Fuel Tax**—inflation has and will continue to erode the value of the 20¢ state motor fuel tax. Indexing the fuel sales to inflation of 3% would accrue \$395 million more statewide annually. Houston’s share would be approximately \$79 million annually.
3. **End Non-Education State Highway Fund Diversions**—non-education diversions of the state motor fuel tax total \$766 million per year in 2008 and 2009. For 2010 and 2011 the diversions amount to \$575 million per year with DPS being by far the largest at \$562 million per year. If these diversions stop, funds would be returned to highway construction and maintenance. For the Houston area this would mean approximately an additional \$110 million per year.
4. **Increase Vehicle Registration Fees**
 - a. A \$25 increase in the average vehicle registration fee would generate \$600 million annually with the Houston area realizing an additional \$114 million annually.
 - b. A \$25.00 local registration fee applied in the Houston District would yield approximately \$111 million annually. (with registrations in district of 4.47 million in 2008)

BACKGROUND

The TxDOT funding crisis has been building for years. Major construction projects such as Interstate 10 West and the sale of general revenue and highway fund backed bonds only masked the underlying problem of an unsustainable funding model. These factors are affecting funding at the state level:

- **Greater demand from increasing population and travel**—in 25 years, Texas population increased 53%; vehicle miles of travel 103%. Future projections are for 27% greater population and 67% increase in vehicle miles. New roadway capacity over the last 10 years has increased only 10.6%.
- **Falling revenue from traditional user fees as fuel efficiency increases**—FY 2009 state motor fuel tax revenues declined 2.17% from FY 2008. FY 2010 revenue through January is off 1.25%. The prior two years showed 2% and 1.7% increase in fuel tax revenues.

Future vehicle fleet fuel efficiency will yield greater miles per gallon of fuel. New federal fuel standards require car-makers’ fleets to reach a 35.5 per gallon average by 2016, 14 years sooner than previously required. This will contribute to accelerated deterioration of fixed rate motor fuel tax revenue.

- **State Transportation Debt financing totals \$11.5 billion**—as project costs rose and with limited cash flow from tax revenue, the state has turned to debt financing. In 2009 TxDOT bond revenue/interest amounted to 19% of its total revenue.

\$3.1 billion in highway fund revenue bonds (with debt retired by State Highway Fund 6 revenue) have been issued by TxDOT with another \$1.5 billion issued in July, 2010 and \$1.4 billion issued in late 2011. The debt service on these bonds will reach nearly \$500 million each year through 2026 and decline for 5 years until paid off.

The Texas Mobility Fund (TMF), authorized by voters in 2001 has resulted in the issue of another \$6.3 billion in bonds. In 2003 the legislature identified revenue from certain transportation related fees to be used to pay the debt service on these bonds. The Comptroller certifies the amount of bonding authority based upon the requirement that projected revenue from these fees be 110% of debt service. Debt service for TMF is currently \$300 million per year and will increase yearly before reaching \$500 million in 2039.

Another \$5 billion in bonds were approved by voters in 2007. These so-called Proposition 12 Bonds are general revenue obligations of the state. They are not retired from revenue otherwise constitutionally dedicated to transportation. The legislature subsequently authorized \$2.1 billion in bonds. The proceeds allow \$1.85 billion for construction in 2010 and 2011. TxDOT has developed an alternate letting scenario forecast for 2012 and 2013 funded by an additional \$1.6 billion in Prop 12 funds.

- **Uncertainty of Federal Highway Trust Fund**—the federal government, from whom Texas received \$2.7 billion in 2009 or 39% of the State Highway Fund revenue, is increasingly rescinding previously approved funding appropriations and obligation authority. In 2008 TxDOT was hit with a \$258 million rescission. In Sept 2009 TxDOT was hit with another \$742 million rescission. Each results in delayed contract letting and an inability to plan.

In addition, the federal transportation authorization bill has expired. To keep the funding pipeline open, the federal government has resorted to a series of “continuing resolutions” some lasting only 30 days. The current one is an 8 month continuing resolution.

Recent federal stimulus funding has allowed approximately \$2 billion in projects to be scheduled for construction in 2009 and 2010.

- **Long term construction cost increases**—Texas construction inflation increased 65% from 2002 to 2008 while decreasing 12% since the national economic downturn.ⁱⁱⁱ

IMPACT ON THE HOUSTON AREA

The result of TxDOT funding crisis is hitting Houston and other areas of the state. The multi-year regional transportation plan for the Houston area is a compendium of street, highway and transit projects planned by each local, state and federal agency. It is predicated on available funding through 2035. TxDOT recently reduced its estimates of available funds and resulting contract lettings in the Houston area through 2020 by 62% from \$11.7 billion to \$4.4 billion, a shortfall of \$7.3 billion.

The regional plan cannot contain any projects for which there is not a reasonable chance of funds being available. Because of this uncertainty, the following chart shows the restrictions in available funds for Houston areas projects compared to the previous 3 year period.

Project Type	TIP 2008-2011	TIP 2011-2014	\$ Change	% Change
Roadways (Federal-Aid)	3.6	1.0	-2.6	-64%
Roadways (Local & Toll)	5.2	4.4	-.8	-15%
Transit (Federal Aid)	1.3	3.0	+2.3	+131%
Transit (Local)	1.2	1.7	+.5	+42%
Totals	\$11.3	\$10.1	-1.2	-11%

ⁱ \$1.2 billion per year or total of \$3.6 billion for 2011-2014 Transportation Improvement Plan is the amount funded in the 2008-2011 TIP and formed the basis of the projections over the following 3 years.

ⁱⁱ TxDOT Financial Outlook, HGAC, April 2010

ⁱⁱⁱ Testimony of Texas Transportation Commission Chair Delisi before February 1, 2010 Combined Texas House and Senate Transportation Committees.