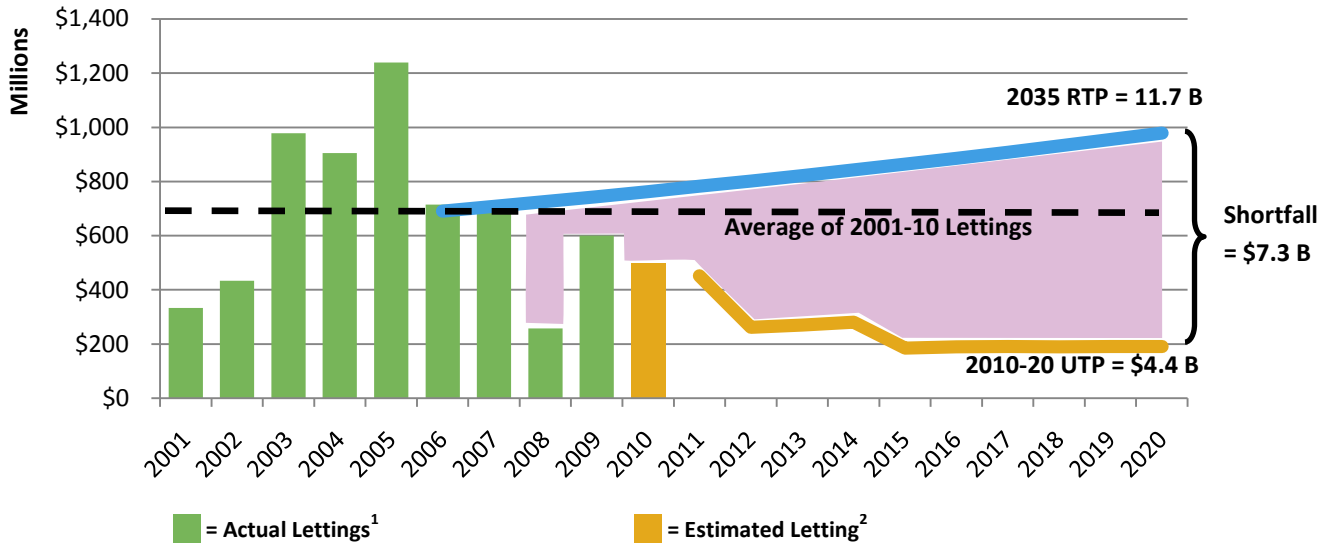


2010 Financial Outlook for the Houston Region

February 8, 2010

TxDOT Construction Funding: Past vs Future



Recent History

Over the last decade, contract lettings by the six-county Houston District of the Texas Department of Transportation (TxDOT) varied from a high of over \$1.2 billion in 2005 to a low of \$257 million in 2008, with a yearly average of \$652 million.³ Much of the letting in 2003-06 was associated with expansion of the Katy Freeway (IH 10 West).

In 2008 TxDOT found itself in a difficult cash flow position statewide for several reasons: a spike in fuel prices decreased vehicle miles traveled which, in turn, decreased federal and state motor fuels tax revenues; a rescission reduced federal funding to States; and TxDOT discovered that it had overestimated the revenue available for its obligations. As a consequence, TxDOT “froze” almost all new contract lettings in the Houston District and across the state. In 2009-10 the American Recovery and Reinvestment Act (ARRA) injected an unexpected \$434 million for roadway projects into the region, thereby decreasing the backlog of unlet projects somewhat.

¹ Proposition 14 Funds of \$40 million in 2009 and \$2 million in 2010 are included.

² Proposition 12 Bonds adds a one-time additional \$270 million to the UTP in 2011 for a total of \$452 million, as shown.

³ Contract lettings represent money obligated to specific projects that have been “let” for construction. The TxDOT letting schedule (http://www.txdot.gov/insdot/orgchart/cmd/cserve/let/2010/lethou.htm#let_stat, e.g., for 2010) includes all contracts for construction and maintenance. It does not include other costs such as engineering, utility relocation, or acquisition of right of way.

In 2007 H-GAC developed the 2035 Regional Transportation Plan (RTP). As a hedge against a weakening economy, it “froze” TxDOT’s anticipated future funding at the historical spending average, allowing only for inflationary increase. However, TxDOT’s 2010-2020 Unified Transportation Program (UTP), an 11-year, near term estimate of annual contracting authority, reflects a significantly lower funding level. The RTP anticipated \$11.7 billion in total funding for 2008-20, while actual and estimated lettings are now expected to be only \$4.4 billion. **The cumulative shortfall is \$7.3 billion.**

Looking Forward

Based on this stark financial outlook, most roadway construction projects in the 2035 RTP are unaffordable. Threatened projects include not only those on the federal or state-owned network, but also those on the local network. TxDOT makes significant collateral investments, such as interchanges and grade separations on local projects, and this is generally a critical component of the financial viability of the local project.

Major TxDOT Projects 2011-2020

Major Corridors and Programs	Federal & State	Local/ Toll	Total
SH 99	\$966	\$3,082	\$4,048
SH 288	\$627	\$1,446	\$2,073
US 290/Hempstead Hwy	\$861	\$948	\$1,809
IH 45 N	\$1,274	\$138	\$1,412
SH 35	\$668	\$25	\$693
US 59 S	\$382	\$254	\$636
IH 45 S	\$604	\$0	\$604
SH 146	\$366	\$118	\$484
SH 249	\$320	\$134	\$454
SH 36	\$236	\$142	\$378
IH 10 W	\$166	\$0	\$166
FM Facilities	\$1,200	\$640	\$1,840
Air Quality Programs	\$359	\$410	\$769
Maintenance	\$3,758	\$0	\$3,758
Total (Millions)	\$11,787	\$7,337	\$19,124

■ = toll component

Note: The amounts shown reflect only construction cost estimates, and may not include costs for engineering, utility relocation, or acquisition of right of way. Maintenance estimate is based on 2001-2010 average percentage of TxDOT lettings (49%).

Options for Funding the Shortfall

One strategy to reduce the revenue shortfall would be the Texas Legislature's authorization and/or voter approval of state or local option transportation taxes. Based on current population projections, vehicle registration rates, and assumed average increase in the fuel efficiency of the vehicle fleet, the impact of these scenarios is shown below.

2011-2020 Revenue Stream Scenarios

Strategy	State	Houston Region
Eliminate Fund 6 Diversions⁴	\$28,321	\$6,514
Index Motor Fuels Tax		
Consumer Price Index	\$1,109	\$255
Highway Cost Index	\$2,372	\$546
Increase Motor Fuels Tax (\$0.01/gal)⁵	\$1,301	\$340
Gasoline	\$929	\$253
Diesel	\$373	\$87
Adopt Vehicle Miles Traveled Fee (\$0.001/mile)⁶	\$2,303	\$675
Personal	\$2,084	\$621
Commercial	\$219	\$54
Increase Vehicle Registration Fee (\$10.00/year)⁷	\$1,529	\$403
Motorcycle	\$36	\$9
Passenger Vehicle < 6,000 LBS	\$1,016	\$259
Passenger Vehicle > 6,000 LBS	\$7	\$1
Truck < 1 Ton	\$456	\$130
Truck > 1 Ton	\$14	\$4
Total (Millions)	\$36,935	\$8,733

⁴ Elimination of diversion beginning in 2011.

⁵ Expressed as unit cost. E.g., multiply by 8 for an 8 cent increase in the motor fuel tax.

⁶ Expressed as unit cost.

⁷ Expressed as unit cost.