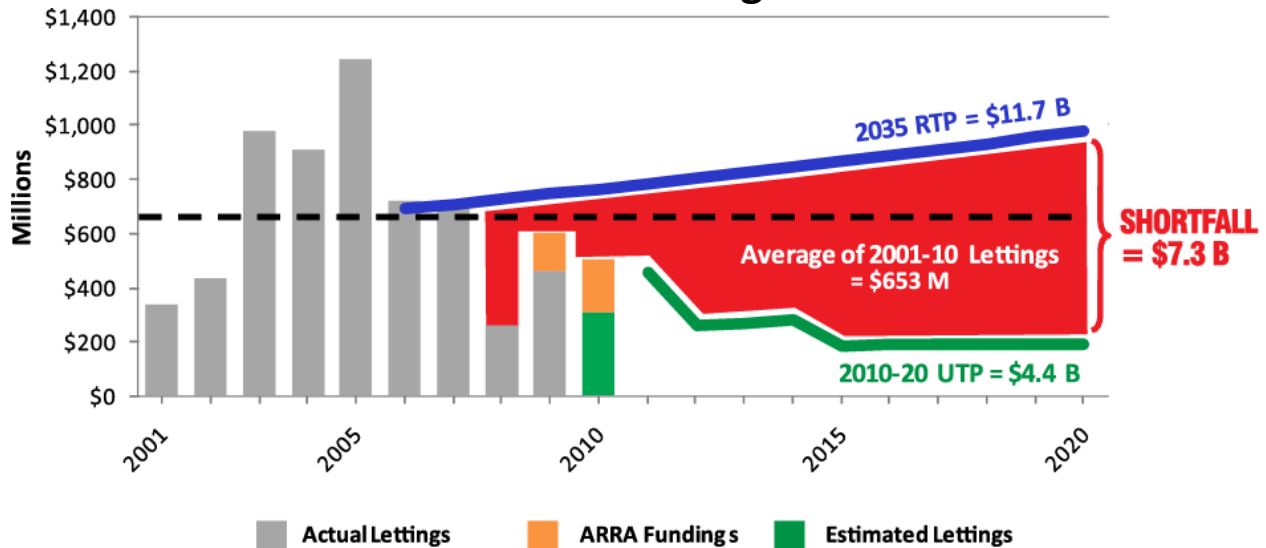


2011-2040 TxDOT Financial Outlook

March 9, 2010

Fig. 1:

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 \$653 million.¹ Much (but by no means all) 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; the largest of several rescissions of federal highway funds reduced federal funding to states; and TxDOT discovered that it had overestimated the revenue available for its contract obligations. As a consequence, TxDOT “froze” almost all new contract lettings in the Houston District and across the state for much of 2008. In 2009-10 the American Recovery and Reinvestment Act (ARRA) injected an unexpected \$434 million for roadway projects into the region, decreasing the project backlog. However, contract lettings for 2009 and expected lettings for 2010 are still below historical levels.

¹ Contract lettings represent money obligated to specific projects that have been “let” for construction. The TxDOT letting schedule for 2010 (<http://www.txdot.gov/insdtdot/orgchart/cmd/cserve/let/2010/> e.g.) includes all contracts for construction and maintenance. It does not include all costs for engineering, utility relocation, or acquisition of right of way. Letting amounts by the Harris County Toll Authority have been excluded from the TxDOT letting schedule totals.

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Near-Term: 2011-2020

H-GAC adopted the 2035 Regional Transportation Plan (RTP) in 2007. Describing our region's highway and mass transit needs, the RTP identifies the priority uses of expected local, state and federal transportation funding. The RTP assumed only limited growth in TxDOT's historical average contract letting volume (2.5% annual growth). However, TxDOT's short term financial forecast contained in its Unified Transportation Program (UTP) reflects significantly lower funding than that seen in either the recent past or forecasted in the RTP. For 2008-20, the RTP anticipated \$11.7 billion in TxDOT lettings. Actual and estimated lettings are now expected to be only \$4.4 billion, leaving a **shortfall of \$7.3 billion**.

Based on TxDOT's latest financial outlook, many if not most major roadway construction projects on the state system may be unaffordable. The financial viability of many tolled projects is also uncertain because significant collateral state investments such as interchanges and frontage roads may not be fundable.

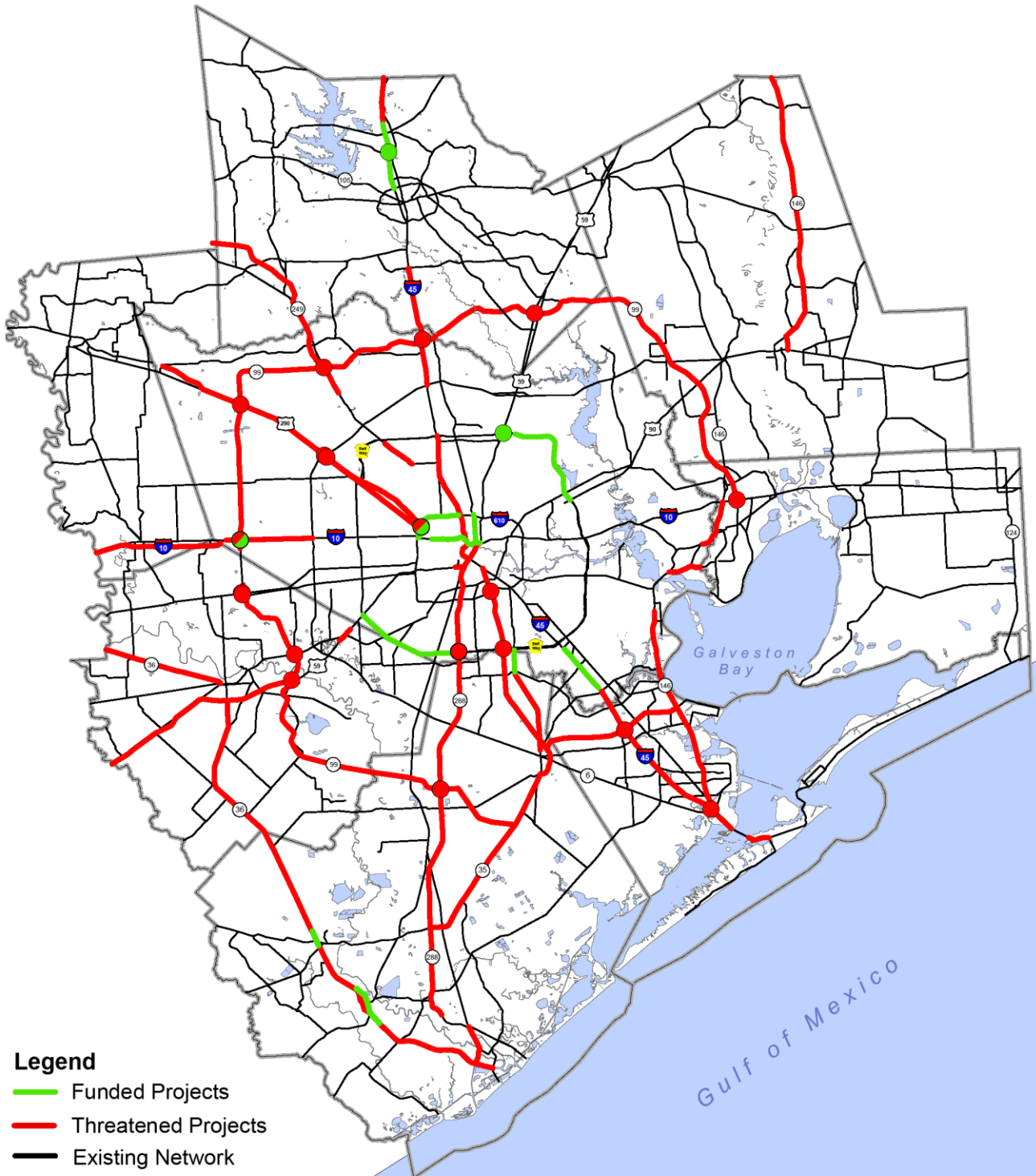
Fig. 2:

2011-2020 Major Projects in the 2035 RTP

Project	Description	Fed & State	Local	Total
IH 10 W	Construct 4 managed lanes	\$164	\$0	\$164
IH 45 N	Widen 8-10 lanes	\$1,252	\$132	\$1,384
IH 45 S	Widen 8-10 lanes	\$564	\$0	\$564
US 59 S	Widen 8-10 lanes	\$341	\$280	\$621
US 290/ Hempstead Hwy	Reconstruct 8-10 main lanes, Construct 4 managed lanes	\$849	\$946	\$1,795
SH 35	Reconstruct 6-8 main lanes, Construct 4 managed lanes	\$665	\$25	\$690
SH 36	Widen 4 lanes	\$209	\$135	\$344
SH 99	Construct 4 toll lanes	\$923	\$2,744	\$3,667
SH 146	Widen 4-6 lanes, express lanes	\$393	\$136	\$529
SH 249	Construct 6 toll lanes	\$322	\$137	\$459
SH 288	Construct 4 toll lanes	\$646	\$1,447	\$2,093
FM Facilities		\$1,200	\$640	\$1,840
Air Quality Programs		\$359	\$410	\$769
TxDOT Maintenance		\$3,068	\$0	\$3,758
Total (Millions)		\$10,958	\$7,034	\$18,682

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 annual average lettings.

Fig. 3:
2011-2020 Major Projects in the 2035 RTP



Looking Beyond: 2021-2040

Beyond 2020 TxDOT forecasts a net decline in gas tax revenue due to expected increase in the average fleet fuel economy. Although the State is expected to have significant growth in population, employment, and vehicle miles traveled, cars and trucks will travel far more on each gallon of fuel. Based on the “mid-range” of three fuel economy scenarios (shown below), TxDOT has predicted that no federal or state dollars will be available for added capacity projects after the year 2020 as all forecasted revenue will be needed to maintain the state transportation network (whose condition is, nonetheless, expected to decline).

Fig. 4:

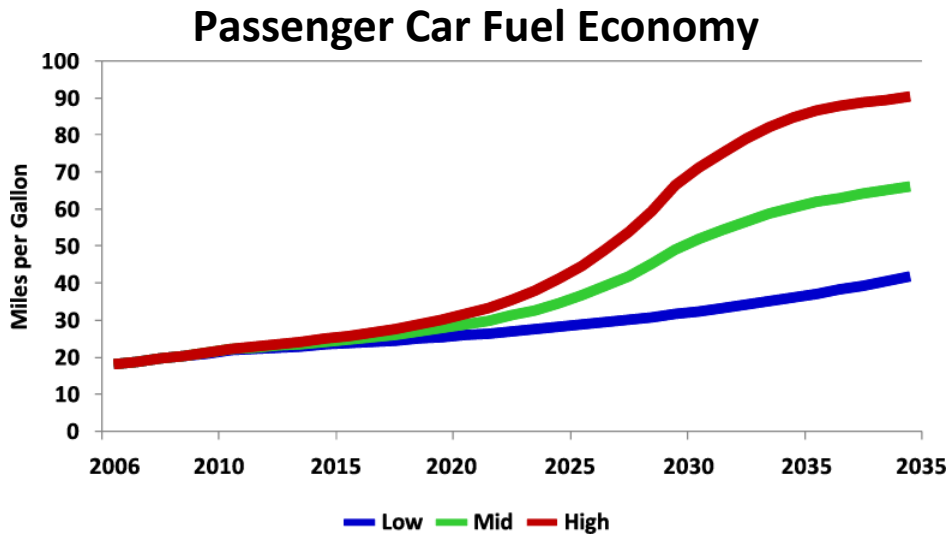
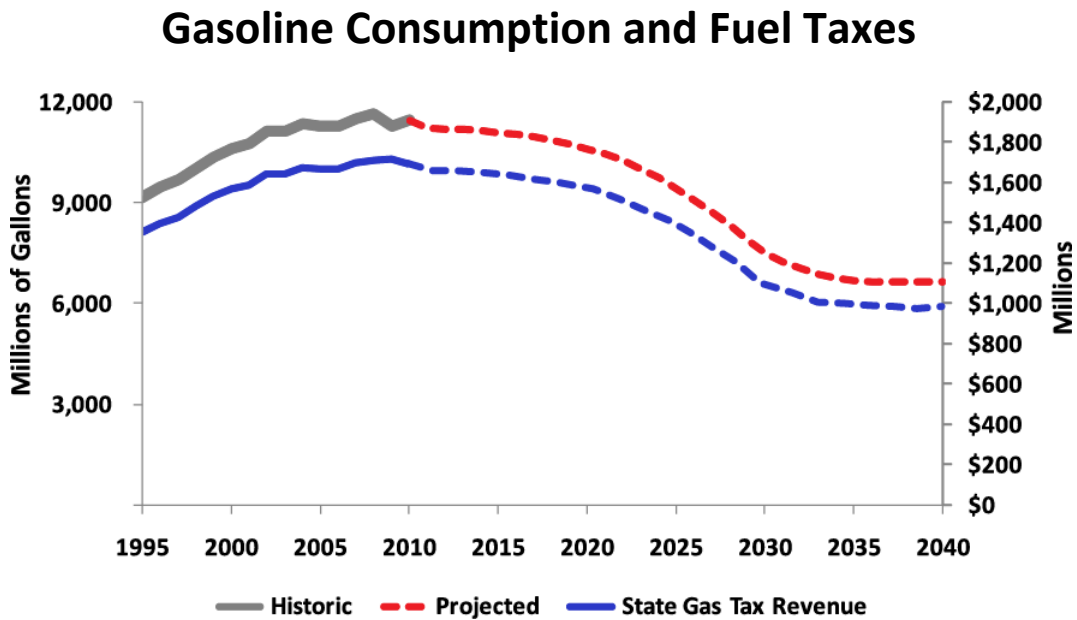


Fig. 5:



Options for Transportation Funding

In recent years H-GAC’s Transportation Policy Council has endorsed and local governments have already used several strategies to increase transportation funding, including:

1. issuing general fund bonds;
2. developing toll roads;
3. using “pass-through” financing to develop state road projects; and
4. dedicating property tax revenue through special districts or tax reinvestment zones.

Other strategies, requiring the actions of the state or federal legislature, could include:

1. streamlining transportation project development;
2. ending diversion of Texas Fund 6 to non-roadway uses (excluding 25% diversion for education);
3. increasing the return to Texas of federal gas tax funds;
4. increasing the motor fuels tax (i.e., tax on each gallon of gasoline and diesel);
5. indexing motor fuels tax to inflation or fuel economy;
6. increasing or standardizing vehicle registration fees; and
7. adopting a vehicle miles traveled fee.

Fig. 6:

Potential Revenue Effects of State Legislative Action for TxDOT Houston District

Strategy	2011-20	2021-40
End Fund 6 Diversion	\$1,799	\$4,325
Motor Fuels Tax - (\$0.01/gal increase)	\$314	\$550
Index Motor Fuels Tax - (3% per year)	\$790	\$5,169
Vehicle Registration Fee - (50% increase)	\$1,184	\$3,544
VMT Fee - (\$0.01/mile)	\$5,769	\$15,409
Total (Millions)	\$9,856	\$28,997

Fund 6 Diversion: Beyond the 25% of motor fuel revenues devoted to fund education in the state, diversions to other state programs have grown to 13% of Fund 6 revenue. In 2009, the diversion totaled \$766 million, amounting to a \$150-170 million loss to our region.

Increase Motor Fuels Tax: At its peak in 2008, Texas sold 15.5 billion gallons of motor fuel (11.7 B gallons of gas and 3.8 B gallons of diesel). Fund 6 revenues for transportation totaled \$2.3 billion. Each one-cent increase in motor fuels tax adds \$142 million to transportation funding, a potential gain to our region of \$28-32 million. However, future returns are expected to diminish as less fuel is consumed due to higher fleet fuel economy.

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Inflation Indexing: Each gallon of gasoline includes 38.4 cents of tax: 18.4 cents federal tax, set in 1993; and 20 cents state tax, set in 1991. (Diesel is 22.4 cents federal and 20 cents state). Because these rates have not been indexed to inflation, the purchasing power of the revenues has declined over the years. If the state gasoline tax had been indexed to inflation since 1993, then 2009 revenues would have been \$800 million higher.

Vehicle Registration Fee: Currently, the typical vehicle registration fee is \$50. A \$25 increase in registration fees would generate nearly \$600 million per year over the next decade.

VMT Fee: Vehicle miles traveled fee potentially has the greatest effect on future revenues because it will not diminish due to increased fleet fuel efficiencies. A penny per mile could generate almost \$5.8 billion for the Houston region over the next decade.

Policy Options

The Houston metropolitan planning organization must submit a fiscally constrained Transportation Improvement Program (TIP) and Regional Transportation Plan (RTP) to the state in June 2010. Given TxDOT's funding forecast as described in the preceding pages, the region has limited options for addressing the funding shortfall and meeting the federally mandated requirement for fiscal constraint. Each policy option will require a reassessment of regional mobility goals and priorities. They include:

1. **Pay as you go.** Develop and implement projects as current funding allows. Projects will be developed and funded based upon the availability of funds from identified sources including local toll revenues. This option could delay or require removal of many of the projects shown in Figs. 2 and 3.
2. **Commit to enhanced statewide and local funding strategies** such as those described above. Revenue from new sources would be dedicated to specific project development and implementation activities.
3. **More aggressive local tolling strategies.** Increase toll rate closer to "market rate" (the point at which increased toll revenues are offset by diminished toll traffic) to increase the number of toll viable projects and revenue for investment in transportation infrastructure.