

Texas Makes Major Headway on Filling Highway Funding Gap

The Texas Department of Transportation has made the point that approximately \$5 billion a year in new and sustained annual funding is needed to keep congestion levels and pavement conditions in our state from deteriorating further. The Texas Legislature took major steps this year to address this minimum funding need.

Lawmakers heard the message sent in 2014 when 80% of the voters passed Proposition 1 to increase highway funding. Legislators responded with two more measures this year that will add new predictable funding streams. At the end of the 2015 legislative session they decisively passed SJR 5, a two-part proposed amendment to the Texas Constitution that would direct billions each year to the State Highway Fund. The Texas Senate voted 31-0 and the Texas House voted 141-1 to send the package to voters. It will appear as Proposition 7 on the November 3rd ballot along with six other proposed amendments.

Constitutionally Dedicated Funding

The Proposition 7 highway funding proposal would dedicate up to \$2.5 billion a year in state general sales tax revenues to the State Highway Fund for construction and maintenance of non-tolled highways and bridges. This revenue would start flowing to the Highway Fund in FY 18.

No sales tax would go to the Highway Fund in a specific year if a major recession caused sales tax revenues to drop below \$28 billion for that year. Additionally, lawmakers by a two-thirds vote could cut the \$2.5 billion by up to 50% in any given year.

The second part of Proposition 7 provides an opportunity to capture some of the future growth in motor vehicle sales tax revenues and dedicate it to highway projects. Voters would instruct the state to transfer 35% of the growth in this revenue stream above \$5 billion annually beginning in FY 20. This is estimated to produce about \$430 million for the Highway Fund in the first year and will increase as vehicle prices increase and more vehicles are purchased. Neither component of Prop 7 represents a tax increase to consumers.

The amendment would have the \$2.5 million provision expire in 2032 and the vehicle sales tax provision expire in 2029. However, the Legislature can by simple majority vote extend both in 10 year increments.

Ending Diversions From the Highway Fund

Eliminating a long-standing source of frustration, legislators also passed a budget that stopped the diversion of about \$650 million a year in revenues from the motor fuel tax and vehicle registration fees going to non-highway spending – primarily for the Department of Public Safety. They also passed HB 20 that prohibits future diversions. The result is more sustainable and long-term funding for transportation projects.

Last year's Proposition 1 constitutionally dedicates a portion of each year's oil and natural gas production taxes to the State Highway Fund. That amounted to \$1.7 billion in 2014 but with lower oil prices is projected to be about \$1.2 billion in each of the next two years. This funding stream could be higher or lower in future years.

Texans Get A Chance to Say "Yes" to Sustained Funding

In combination, the proposed Proposition 7 sales tax dedication, Proposition 1 revenues and the end of Highway Fund diversions will eventually add up to the \$5 billion a year minimum highway funding need identified by TxDOT.

The leadership of Senator Robert Nichols and Rep. Joe Pickett, chairmen of the transportation committees in each house, was a central factor in this achievement, as was the strong support of Gov. Greg Abbott, Lt. Gov. Dan Patrick and House Speaker Joe Straus.

By approving Proposition 7 on November 3rd, Texans will address a critical state need and reduce the severity of our a transportation funding shortfall. They can join lawmakers in approving dedicated funding that will keep Texas from falling further behind on congestion, safety, interregional connectivity and deteriorating roadways.

