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16. Abstract The most recent statewide transportation program of the Texas Department of Transportation (TxDOT) would require about \$15 billion per year to implement as desired. TxDOT's recent annual budgets have been approximately \$5.5 billion, of which about \$3.5 billion has been available for infrastructure improvements. This leaves a current annual shortage from the desired funding level of as much as \$10 billion. This project identified new sources and methods to increase the total funding available for TxDOT's transportation improvement program. Standard approaches such as increasing existing tax or fee rates, as well as borrowing and other time management of financing were not considered. Approximately 100 different methods were identified, only a few of which are in use in Texas. Five funding methods were selected for detailed case studies: <ul style="list-style-type: none"> • cost reduction by competitive bid of performance-based management and maintenance contracts • indexed fuel tax • local/regional option sales or fuel tax • new basis for registration fees and • state sales tax on fuel and/or motor vehicles. Together these methods could increase transportation funding by about \$10 billion annually. The project also proposed an implementation strategy and steps.					
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Project Summary Report
Project 0-4567: Innovative Financing for the Future

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**INNOVATIVE METHODS SHOW PROMISE
FOR FUNDING TRANSPORTATION
PROJECT SUMMARY**

The most recent statewide transportation program of the Texas Department of Transportation (TxDOT) would require as much as \$15 billion per year to implement as desired. TxDOT's recent annual budgets have been approximately \$5.5 billion, of which about \$3.5 billion has been available for infrastructure improvements. This leaves a current annual shortage from the desired funding level of as much as \$10 billion. That does not include funding needed for the proposed Trans Texas Corridor.

Despite the growing number of federal and state funding sources and the gradual increase in tax or fees over time to compensate for both inflation and rapidly growing demand for more infrastructure, funding for transportation, including highways, remains far below what is needed to meet demand, not only in Texas, but nationwide.

This project identified new sources to *increase the total funding* available for TxDOT's transportation improvement program. Only methods new to the state program would that increase the total amount of money available for TxDOT's programs were considered. Increasing existing tax or fee rates, borrowing, or other time management of financing were not considered as part of this project. One final requirement was that any new method would have to be widely implementable within the next two years so it could be enacted, if necessary, through legislation in the 2005 Texas legislative session.

This report describes additional methods that could be pursued to either:

- increase the amount of funds available to implement TxDOT's program, or
- decrease the cost to TxDOT of completing that program.

WHAT WE DID...

This project started with a literature review, including websites of transportation and other federal and state agencies and domestic and international transportation associations and organizations. The search identified the full range of funding methods that have been used, considered or proposed.

After a list of 88 methods had been reviewed by the TxDOT Project Monitoring Committee (PMC), a brainstorming charrette was held with over a dozen U.S. and international experts in transportation funding. The TxDOT project director was also a participant. Some participants

had innovative transportation funding experience in Texas; some did not. The charrette's objective was to identify additional possible funding methods, to suggest criteria that should be considered for new transportation funding methods for Texas, and to suggest some methods that might hold the most potential for Texas. Any new method was to be able to generate at least \$100 million.

Input from the charrette helped to isolate several candidate methods for further examination as case studies. The PMC selected five methods for detailed study. Three other methods were referred to concurrent Project 0-4433, which was addressing toll financing.

The case study results create a possible scenario to increase annual TxDOT revenues to the \$15 billion range. A possible strategy for implementing the increases over time was suggested as well as some initial implementation steps. Findings and conclusions were documented in a research report.



Innovative financing methods will enable Texas to fund more projects needed to meet state transportation needs.

WHAT WE FOUND...

Transportation Funding Methods

Almost 100 different methods were identified, only a few of which are in use in Texas. These methods are listed in Report 4567-1.

Five methods were selected for further examination in detailed case studies, which are discussed later in this report. The objective was to address the following considerations to determine how beneficial and implementable each of the methods might be in Texas:

- where the method has been used, if determinable;
- how it has been used;
- basis and means of collection;
- degree of success where method has been used;
- lessons learned by agencies that have used the method;
- possible legal or legislative issues associated with use of the method in Texas;
- potential technology, ownership, liability, institutional, political, equity, acceptance, implementation, or related issues;
- potential revenue;
- perceived likely public acceptance;
- potential application in Texas;
- likely requirements to use the method in Texas;
- policy and institutional issues; and
- other considerations.

The case study methods were:

1. *Local/regional option sales or fuel tax.* Pass state enabling legislation to permit municipal, county, or regional agencies to levy up to 1 percent sales tax for use on major transportation improvements such as those contained in TxDOT's program. For areas with major unmet transportation needs, this would permit them to accelerate their improvement programs, selecting projects from TxDOT's program.
2. *State sales tax on fuel and/or motor vehicles.* Motor fuel is exempted from sales tax. If this exemption was eliminated the sales tax revenues could be assigned to education (as general fund revenue) in trade for the 24 percent of the motor fuel tax (about \$700 million) now assigned to education. This could help consolidate funding sources by having fuel tax for transportation and sales tax for general fund use, including education.
3. *Indexed fuel tax.* Make the state fuel tax adjustable in proportion to annual or biennial costs to provide the state highway system or another cost index. The tax rate could be adjusted each year or two years to account for increases in the cost index. At initiation, the fuel tax could be raised by 5¢ per gallon to account for inflation since the last fuel tax increase.
4. *Cost reduction by competitive bid of performance-based management and maintenance contracts.* Utilize performance-based contracting and competitive bidding to privatize and reduce costs for highway maintenance. This could reduce annual TxDOT maintenance costs, if utilized system wide, making that money available for other uses.
5. *New basis for registration fees.* Other states levy additional fees collected with the annual vehicle registration fees. Some states use value-based registration fees. A combination of value-based registration fees and added fees such as a traffic safety fund fee could be used.

The traffic safety fund fee could be used to fund the Department of Public Safety (DPS), enabling the approximately 5 percent of the fuel tax to be returned to the transportation fund.

Another three toll-related methods were referred to Project 0-4433 which was studying toll financing in a concurrent research project. Additional revenue could be generated annually if the freeway system was converted to tollways (over a short period or as roads are reconstructed or improved).

Revenue Potential

Table 1 summarizes estimated additional revenue that could be generated by the above methods.

Table 1. Estimated Possible Additional Annual Revenue

Method	Additional Revenue (\$ billion)		
	Transportation/ Highways	Education	DPS
Methods analyzed in this research			
1. Local/regional option sales tax	1.25		
2. State sales tax on fuel (return 24% fuel tax from education to transportation)	.7	.85 (.7)	
3. Indexed fuel tax (10 th year) Fuel tax increase at time of indexing (5¢/gal.)	.8 .7		
4. Performance-based maintenance contracts	.15*		
5. New basis for vehicle registration fees			
- Value-based with \$50 average increase	.9		
- Additional fees, such as:			
· Public safety/enforcement (return fuel tax to transportation)	.4		.5 (.4)
· State system fee for congestion mitigation to improve air quality (CMAQ) fee	.2		
· Environmental mitigation fee	.1		
· Traffic control/safety/traffic records-info.	.1		
Subtotal	5.3	.15	.1
Additional method			
Tolls (3500 miles @ 25,000 average ADT @ 15¢/mile)	4.8		

Method	Additional Revenue (\$ billion)		
	Transportation/ Highways	Education	DPS
Total	10.1	.15	.1

* Actually a reduction in program cost that would release funds for other transportation use.

THE RESEARCHERS RECOMMEND...

Possible Implementation Strategy

With the exception of performance-based maintenance contracting, each of the case study methods could eventually generate on the order of \$1 billion annually in additional funds. The same is true of a fuel tax increase. Tolling the complete freeway/tollway system could produce as much as \$5 billion annually. The \$15-16 billion revenue total, including existing revenues, does not account for future increases in federal funding. It would be unrealistic to expect all of these increases to be made available at once, but they could be implemented over time.

Hence, a strategy for pursuing such a program is suggested which could include the following steps:

- Start by creating a public strategy that:
 - provides transportation benefits for fees, but also provides broader public benefit (e.g., supports the Texas economy);
 - makes it clear what revenues are being used for transportation and how existing state transportation fees and funds are consolidated; and
 - gives local areas the option to accelerate transportation improvements by creating their own transportation authorities, but still provides those areas with the same TxDOT funding they would otherwise receive.
- Consolidate the fuel tax by:
 - eliminating the sales tax exemption on fuels;
 - replacing the 24 percent diversion of fuel tax that supports education with the new sales tax on fuel, increasing revenue to education by \$150-300 million annually;
 - returning the currently diverted fuel tax revenue to transportation use;
 - adding a public safety fee for collection with annual vehicle registration fees to generate \$300 million annually with that revenue being used for DPS; and
 - returning the fuel tax funds that now support DPS to transportation use.
- Enact enabling legislation for a local/region option sales tax for major transportation projects:
 - up to 1 percent for a city, county, or region;
 - usable to accelerate major projects on the TxDOT plan;
 - could be tied into a Regional Mobility Authority; and
 - would be a self-imposed tax by cities, counties, or regions.
- Stabilize fuel tax revenue:

- increase rate by 5¢ per gallon; and
- index new rate to cost of providing highway system.
- Impose additional user fees collectible with annual vehicle registration fees, such as:
 - state CMAQ/clean air fee;
 - highway access fee;
 - initial registration fee (in addition to current title transfer fee);
 - traffic safety fee; or
 - other fees.
- Consider an annual vehicle registration fee based on vehicle value and/or weight:
 - \$25-200 range for passenger and light duty commercial vehicles, averaging at least \$100;
 - commercial vehicle fees closer to the national average
- Review other methods after the 2007 legislature when the legislators have had two sessions to consider and enact measures from the above list.

Suggested Implementation Steps

- Chapter 8 of Report 4567-1 presents a strategy for pursuing a substantial increase in funding for the state transportation program. That strategy will depend on achieving legislative action from the state legislature.

Additional Research

Once the preferred methods to generate additional transportation revenues are selected, it would be beneficial to:

- explore legislation requirements and refine revenue estimates based on the most current available data at the time,
- review experiences with enacting similar funding methods in other states to help prepare strategies to implement new funding methods,
- seek out additional precedents for selected methods to make it easier to gain legislative support, and
- evaluate how tolling the existing Texas freeway system could best be accomplished.

FOR MORE DETAILS...

The research for this project is documented in Report 4567-1, *Innovative Transportation Funding for Texas' Future: Research Report*. That report includes deliverable 4567-P1, *Innovative Transportation Funding Methods*, a description of each of the 98 funding methods assembled from the early part of this research, and deliverable 4567-P2, *Case Studies for Selected Innovative Transportation Funding Methods*.

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TXDOT IMPLEMENTATION STATUS (DATE)

To be written by TxDOT

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YOUR INVOLVEMENT IS WELCOME!

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