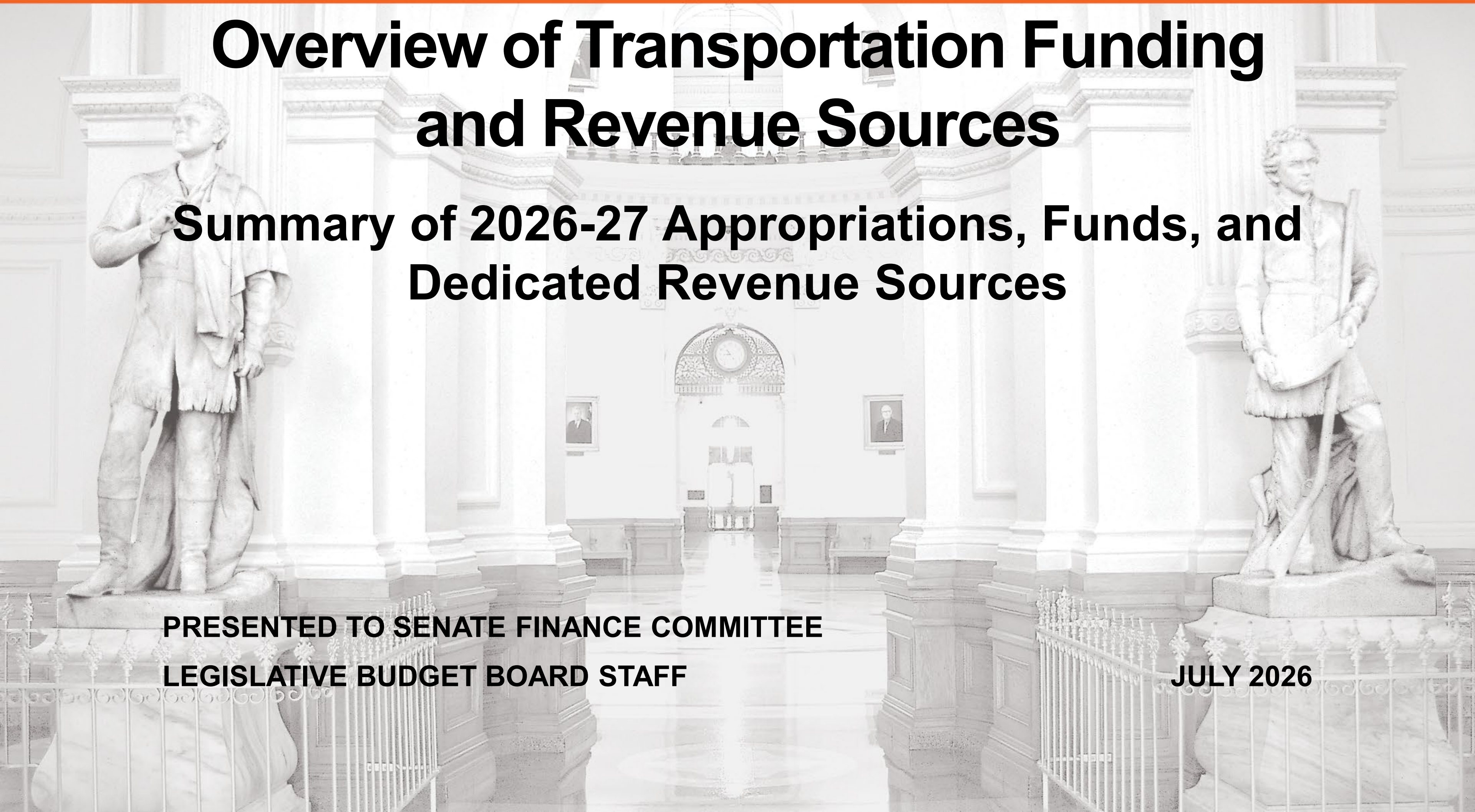


LEGISLATIVE BUDGET BOARD

Overview of Transportation Funding and Revenue Sources

Summary of 2026-27 Appropriations, Funds, and Dedicated Revenue Sources

PRESENTED TO SENATE FINANCE COMMITTEE

LEGISLATIVE BUDGET BOARD STAFF

JULY 2026

Statement of Interim Charge

Senate Finance Committee Interim Charge #7: Study current transportation funding from all sources and the long-term needs of Texas drivers. Assess the implementation of funding appropriated by the 89th Legislature and make recommendations to ensure the effective and efficient use of transportation funding.

1. Historical Changes in State Transportation Appropriations and Funding Sources
2. Biennial Appropriations to the Texas Department of Transportation (TxDOT), 2012-13 Biennium to 2026-27 Biennium
3. TxDOT Appropriations for the 2026-27 Biennium
4. Overview of Funds and Revenues Dedicated by the Texas Constitution:
    - State Highway Fund
    - Federal Funds
    - Texas Mobility Fund
5. Appendices:
    - Appendix A: Proposition 1, 2014, Constitutional Provisions and Revenue History
    - Appendix B: Proposition 7, 2015, Constitutional Provisions and Revenue History

Historical Changes in State Transportation Appropriations and Funding Sources

- Prior to the 2004-05 biennium state appropriations for roadway purposes were funded primarily by revenue from state motor fuels taxes, vehicle registration fees, and federal reimbursements for highway planning and construction expenditures ("traditional" State Highway Fund revenue sources).

- 2001 – Voters approved the creation of the Texas Mobility Fund (TMF) and authority to issue debt backed by revenue in the TMF and the full faith and credit of the state to finance transportation projects. (Proposition 15, 2001; Senate Joint Resolution 16, 77th Legislature, Regular Session, 2001). The 78th Legislature, 2003, dedicated certain revenue sources to the TMF.

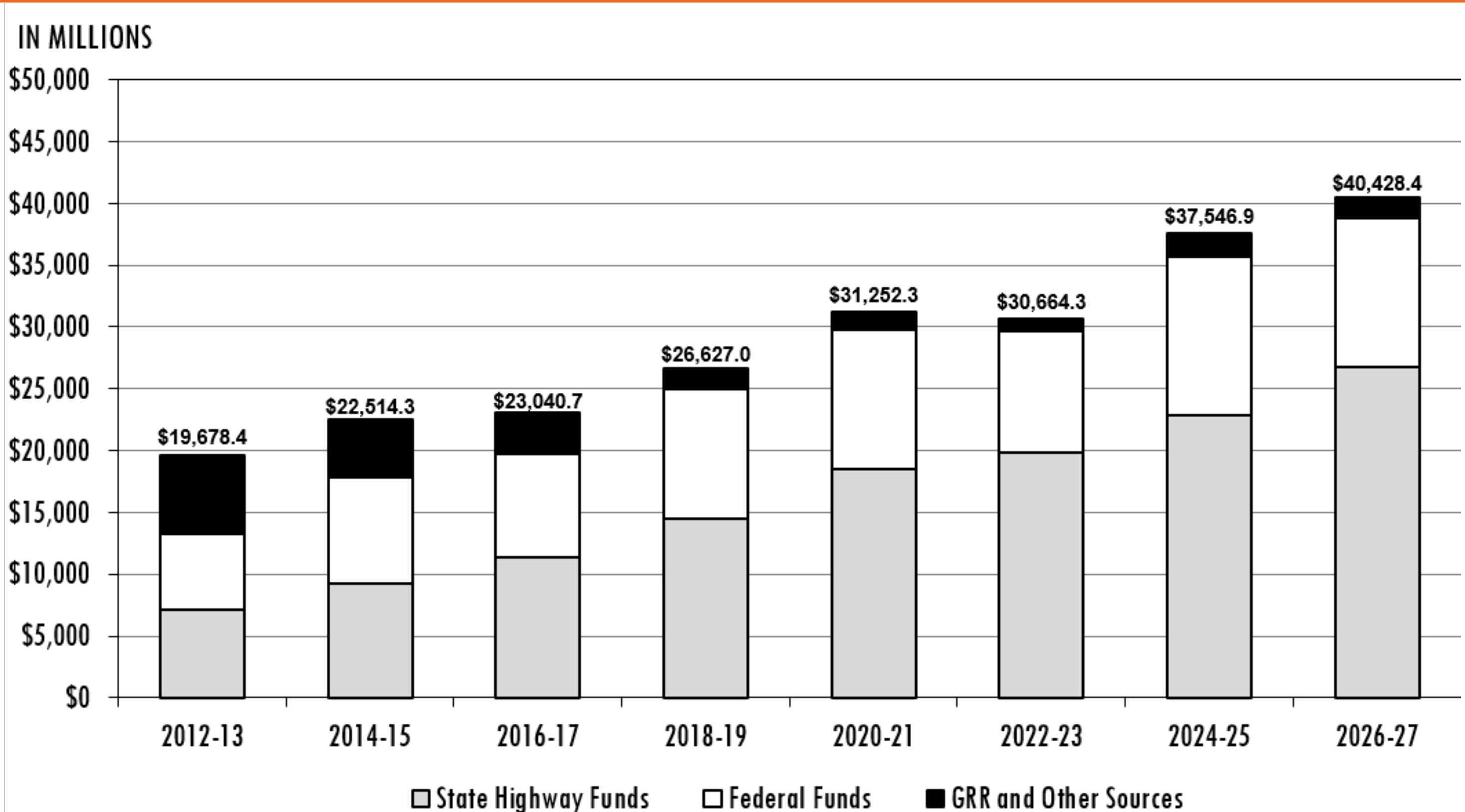
- 2003 – Voters approved the constitutional amendment authorizing the issuance of short-term debt and the issuance of bonds and other public securities secured by the State Highway Fund. (Proposition 14, 2003; House Joint Resolution 28, 78th Legislature, Regular Session, 2003).

- 2007 – Voters approved the constitutional amendment providing for the issuance of general obligation bonds in an amount not to exceed $5.0 billion to fund highway improvement projects. (Proposition 12, 2007; Senate Joint Resolution 64, 80th Legislature, Regular Session, 2007).

Historical Changes in State Transportation Appropriations and Funding Sources

- 2014 – Voters approved the constitutional amendment directing the Comptroller to transfer to the SHF up to one-half the amount of General Revenue previously allocated to the Economic Stabilization Fund to be used for non-tolled public roadway purposes. (Proposition 1, 2014; Senate Joint Resolution 1, 83rd Legislature, Third Called Session, 2013).
- 2015 – The 84th Legislature discontinued the appropriation of money from the State Highway Fund to agencies other than TxDOT, beginning with the General Appropriations Act for the 2016-17 biennium.
- 2015 – Voters approved the constitutional amendment dedicating certain state sales and use tax and motor vehicle sales and rental tax revenue to the SHF to provide funding for non-tolled road purposes and reduction of transportation-related general obligation bond debt. (Proposition 7, 2015 – Senate Joint Resolution 5, 84th Legislature, 2015)

Biennial Appropriations to TxDOT
2012-13 Biennium to 2026-27 Biennium

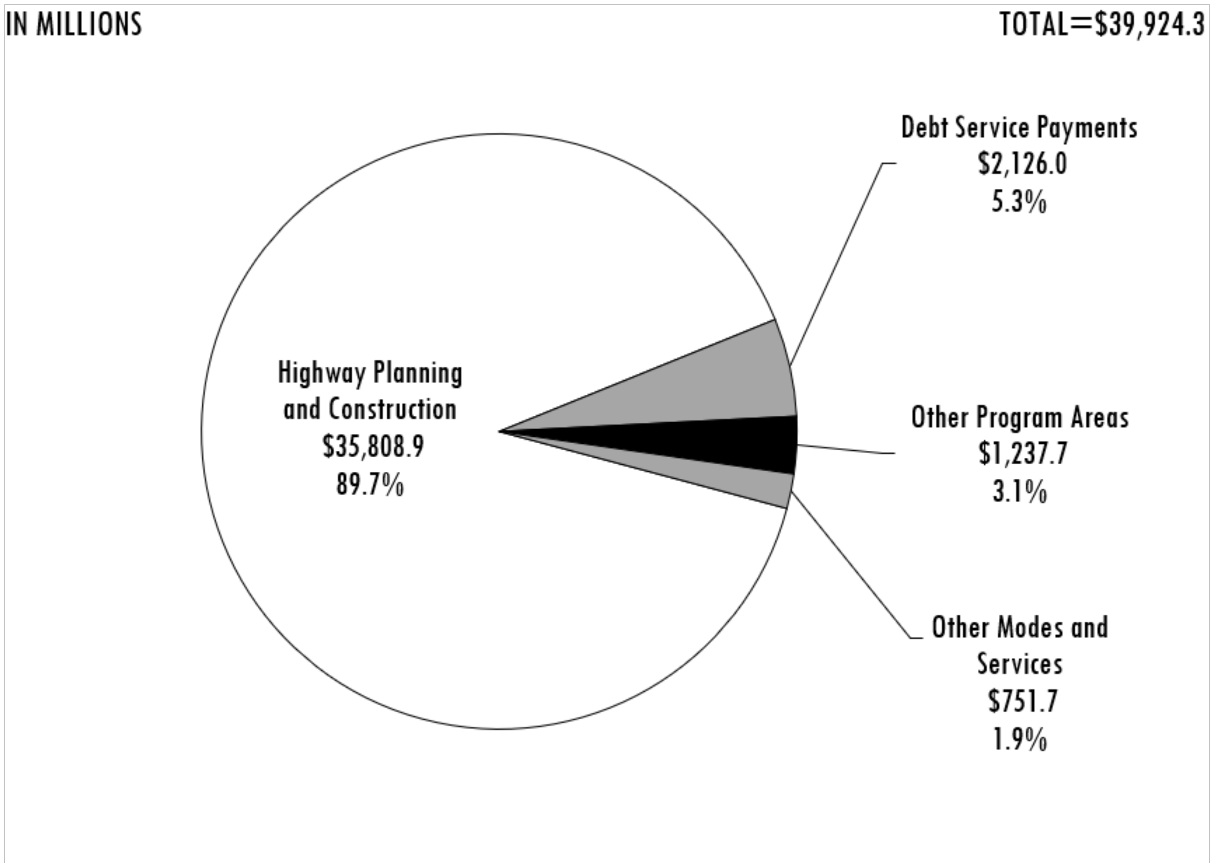


NOTES:

1. "GRR and Other Sources" includes appropriations from the General Revenue Fund, General Revenue-Dedicated Funds, Texas Mobility Fund, Bond Proceeds and other miscellaneous sources.
2. Amounts include appropriations from the General Appropriations Acts for each biennium and Supplemental Appropriations Acts where applicable.

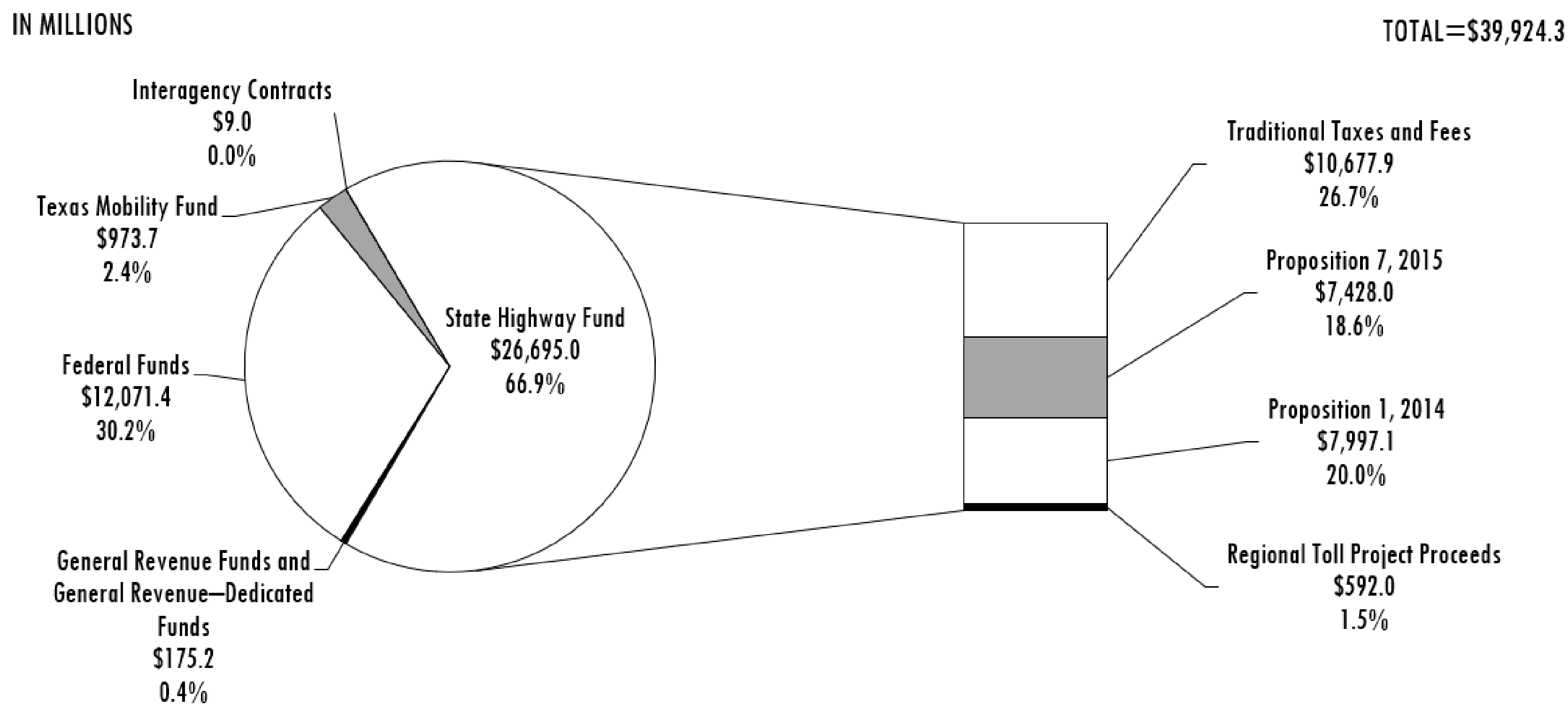
SOURCE: Legislative Budget Board.

TxDOT Program Areas by Appropriation, 2026-27 Biennium



SOURCE: Legislative Budget Board.

TxDOT Appropriation by Funding Source, 2026-27 Biennium



NOTE: Amounts for the State Highway Fund and Texas Mobility Fund are estimated and exclude Federal Funds deposited to the credit of these funds.

SOURCE: Legislative Budget Board.

TxDOT Appropriations, 2026-27 Biennium

- $35.8 billion in All Funds (89.7 percent of total 2026-27 appropriations) is provided for highway planning and design, right-of-way acquisition, construction, and maintenance and preservation, which includes:
    - $24.1 billion from State Highway Fund (SHF) revenue sources;
    - $11.5 billion in Federal Funds; and
    - $0.1 billion from the Texas Mobility Fund (TMF).
- Appropriations for highway purposes are based primarily on TxDOT's forecast of revenues and contract letting.
- Appropriations from the SHF and the TMF are estimated and may be increased or decreased depending on available revenue and actual budget needs for construction and maintenance contracts and bond debt service payments.
- TxDOT's proposed use of additional SHF revenue above the estimated appropriation amounts is subject to approval by the Governor and the Legislative Budget Board (TxDOT Rider 17, Additional Funds).
- The Legislature has historically appropriated all revenue from Proposition 1, 2014, oil and natural gas tax-related transfers and Proposition 7, 2015, sales tax and motor vehicle sales and rental tax allocations to the SHF based on the Comptroller's Biennial Revenue Estimate for those revenue sources, including estimated Unexpended Balance (UB) authority.

State Highway Fund

- The State Highway Fund (SHF) is not established or dedicated by the Texas Constitution, but some revenues deposited to the fund are constitutionally dedicated for public roadway purposes.

- Texas Constitution, Article 8, Section 7-a, dedicates the following revenue sources (net of authorized refunds and costs of collection) for acquiring rights-of-way; constructing, maintaining and policing public roadways; and administration of laws pertaining to the supervision of traffic and safety on public roadways:

  - Three-fourths of state motor fuels taxes;

  - Vehicle registration fees; and

  - Motor fuel lubricants sales tax.

- Texas Constitution, Article 8, Section 7-b, specifies that all revenue received from the federal government as reimbursement for state expenditures of funds that are constitutionally dedicated for the public roadway purposes listed above are also constitutionally dedicated for those purposes.

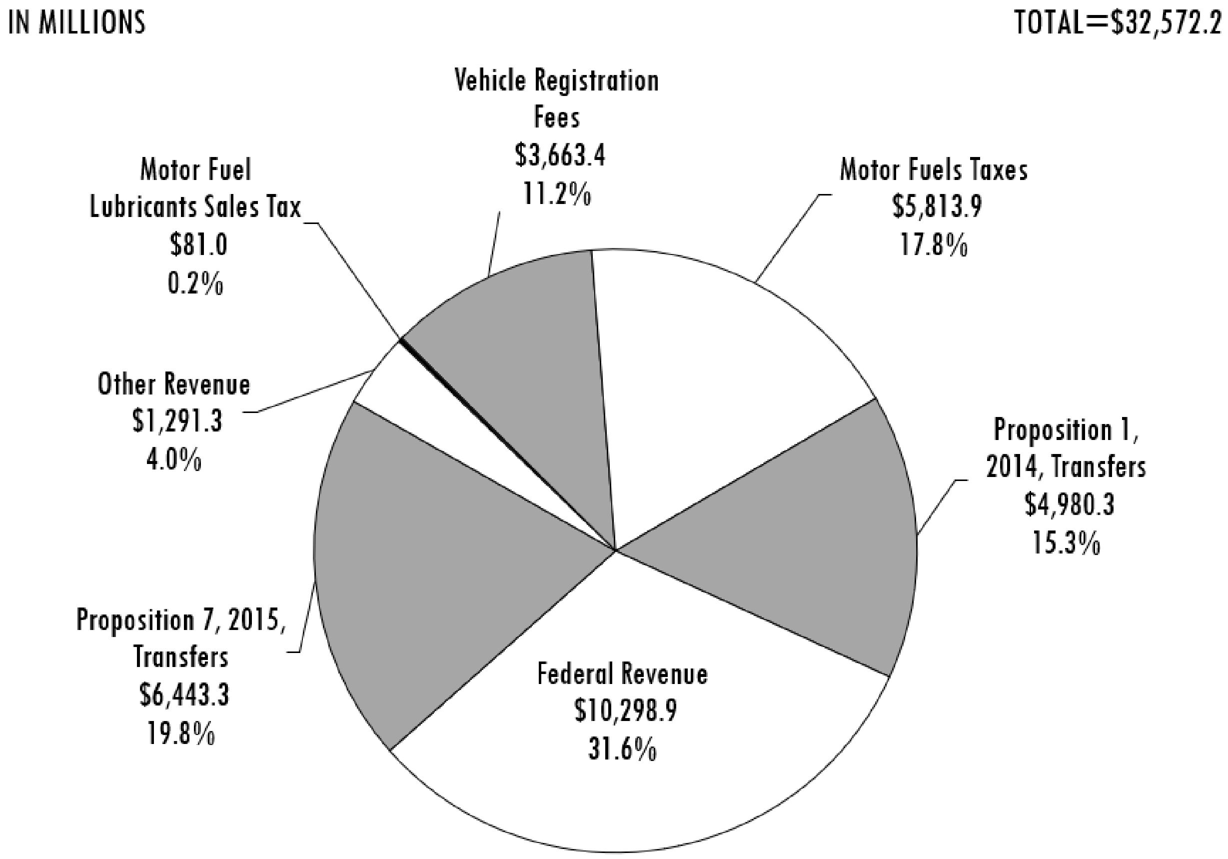
State Highway Fund

- Other SHF revenue sources constitutionally dedicated for non-tolled public roadways include:
    - Proposition 1, 2014 - Oil and natural gas tax-related transfers (Texas Constitution, Article 3, Section 49-g (c-1)) (expires in FY 2043); and
    - Proposition 7, 2015 - State sales tax and motor vehicle sales and rental tax allocations (Texas Constitution, Article 8, Section 7-c) (expire in FY 2042 and FY 2039, respectively).
- State revenues deposited to the SHF that are not required to be spent for public roadways by the Texas Constitution may be used for any function performed by TxDOT.

Federal Funds

- Federal Funds for transportation are typically distributed to states in the form of reimbursements of state expenditures for eligible projects (shown as Federal Reimbursements in TxDOT’s appropriations).
- Federal-state participation matching rate for highway projects is typically 80 percent federal and 20 percent state (non-federal) match.
- $11.5 billion (or 95.2 percent) of TxDOT’s Federal Funds appropriations for the 2026-27 biennium are for highway planning and construction.
- The remaining Federal Funds appropriations consist of funding for public transportation, general aviation, traffic safety programs, rail transportation studies and capital improvements, and debt service subsidies for bonds issued under the Build America Bonds program.

State Highway Fund Revenue Sources, 2026-27 Biennium



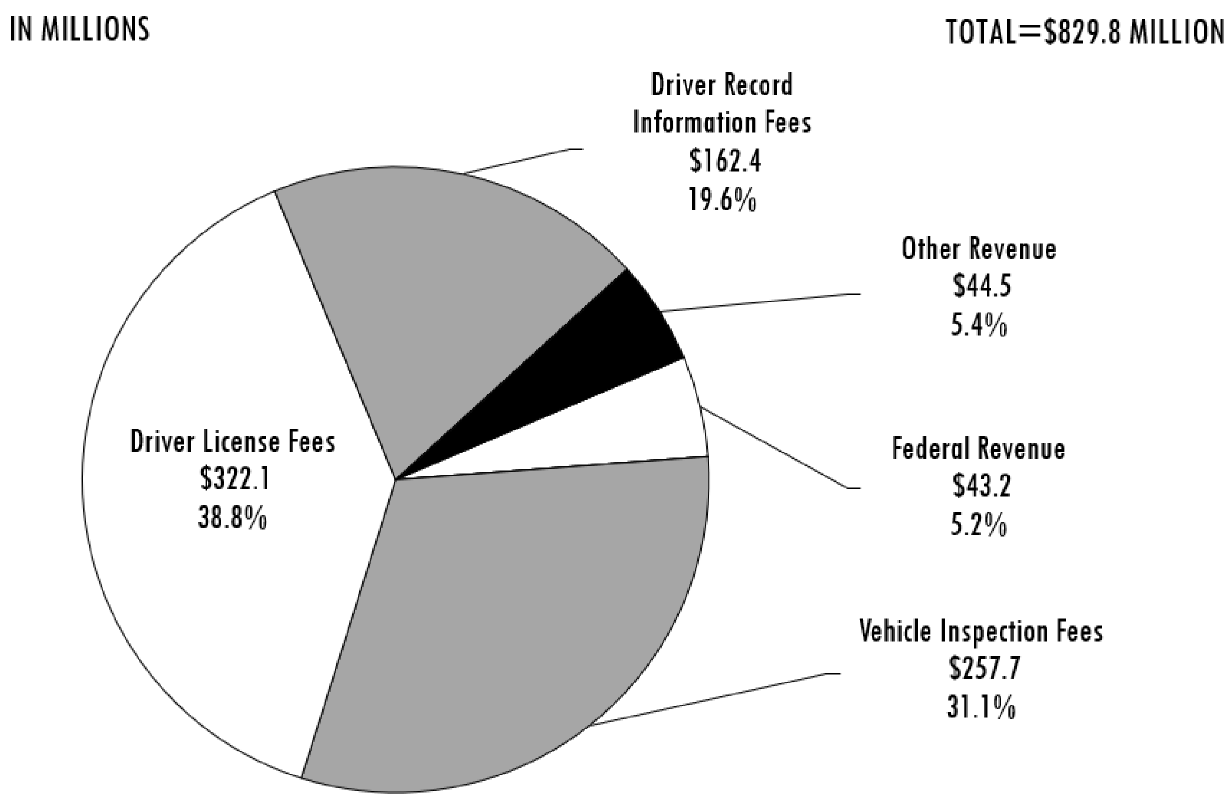
NOTE: Estimated.

SOURCES: Legislative Budget Board; Comptroller of Public Accounts.

Texas Mobility Fund

- Texas Constitution, Article 3, Section 49-k, (approved by voters in November 2001) created the Texas Mobility Fund (TMF) and established the Texas Transportation Commission (TTC) as the administrator of the fund.
- Section 49-k authorizes the TMF to be used for:
  - Financing costs for acquisition of right-of-way and the design, construction, reconstruction, acquisition, and expansion of state highways.
  - State participation in paying part of the costs of construction and providing publicly owned toll roads and other public transportation projects.
- The Legislature may dedicate taxes and other revenues to the TMF that are not otherwise dedicated by the Texas Constitution.
- The Legislature may authorize TTC by law to issue and sell bonds and enter into credit agreements that are secured by and payable from money in the TMF (see Transportation Code, Section 201.943).
- Money in the TMF in excess of the amounts required to be retained under bond obligations and credit agreements may be used for any purpose for which bonds may be issued other than toll roads.
- Current authority to issue new TMF Bonds expires on January 1, 2027.

Texas Mobility Fund Revenue Sources, 2026-27 Biennium



NOTE: Estimated.

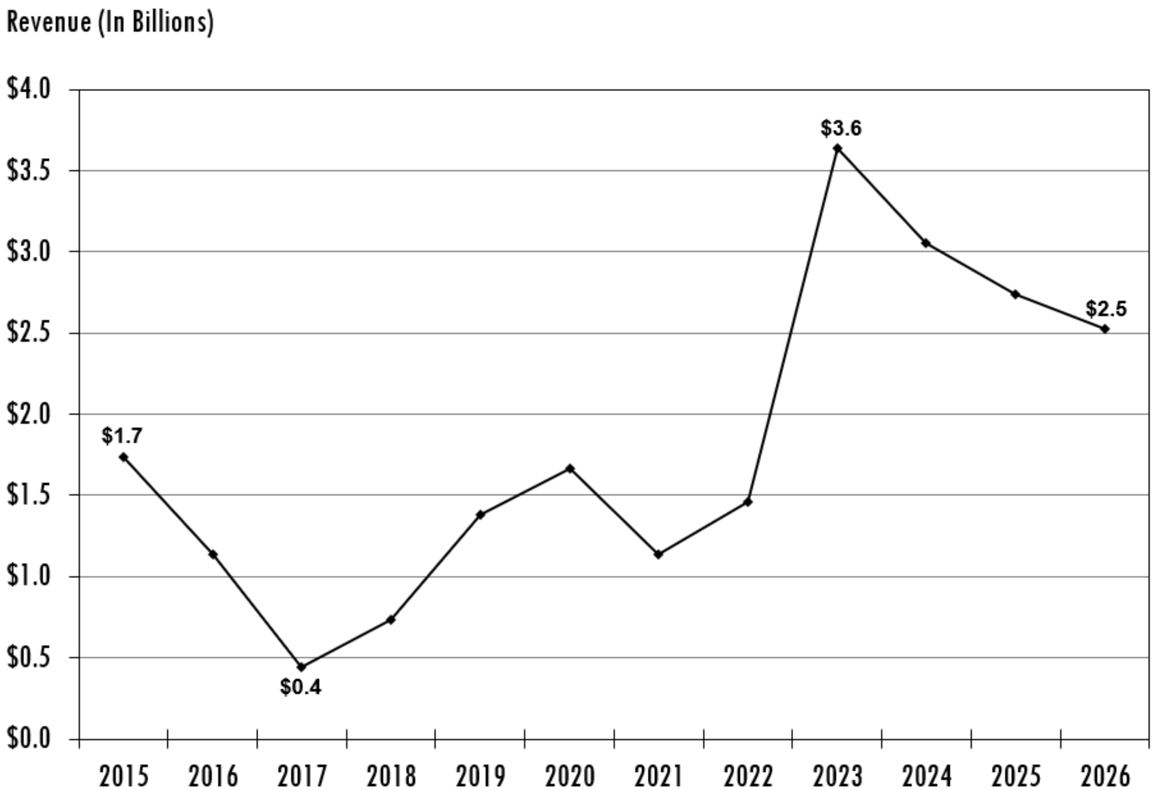
SOURCES: Legislative Budget Board; Comptroller of Public Accounts.

Appendix

Appendix A: Proposition 1, 2014

- Proposition 1, 2014, amended the Texas Constitution to direct the Comptroller, each fiscal year, to transfer to the SHF up to one-half of the amount of General Revenue previously allocated to the Economic Stabilization Fund (ESF).
- Transfers to the ESF and SHF are equal to 75 percent of the amount by which oil and natural tax production tax collections exceed the FY 1987 collection levels ($532.0 million and $600.0 million, respectively).
- Money transferred to the SHF may only be used for construction, maintenance, and acquisition of rights-of-way for non-tolled public roadways.
- A total of $21.6 billion has been transferred to the SHF from FY 2015 to FY 2026 (12 fiscal years).

Appendix A: Proposition 1 Deposits to the SHF Fiscal Years 2015 to 2026



SOURCES: Legislative Budget Board; Comptroller of Public Accounts.

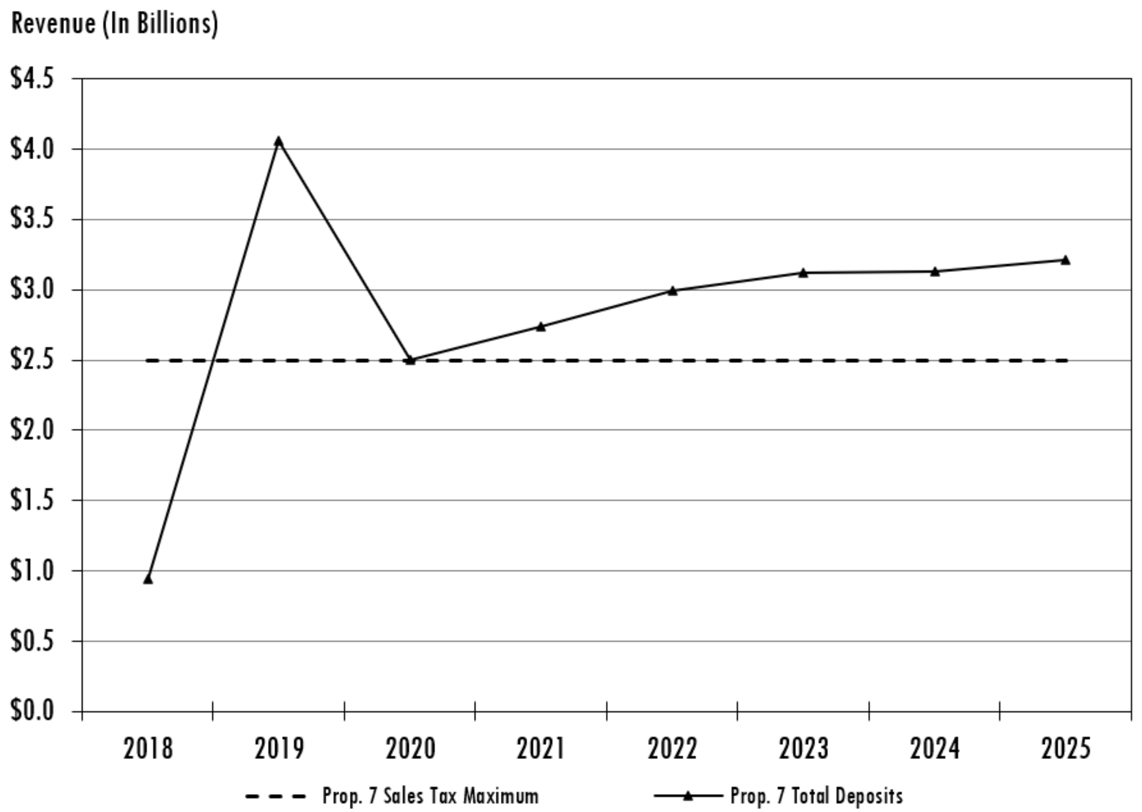
Appendix B: Proposition 7, 2015

- Proposition 7, 2015, added Section 7-c to Article 8 of the Texas Constitution, which directs the Comptroller to deposit the following to the SHF:
    - Beginning in FY 2018, $2.5 billion of the net revenue derived from the state sales and use tax that exceeds the first $28.0 billion collected in each fiscal year through FY 2032.
    - Beginning in FY 2020, 35 percent of the revenues collected from the state motor vehicle sales and rental taxes that exceed $5.0 billion in each fiscal year through FY 2029.
- Revenue allocated to the SHF could only be used to:
    - Construct, maintain, or acquire rights-of-way for non-tolled public roadways; or
    - Repay principal and interest on Highway Improvement General Obligation bonds issued under Texas Constitution, Article 3, Section 49-p.

Appendix B: Proposition 7, 2015

- Section 7-c authorizes the Legislature to do the following by adoption of a resolution:
  - Reduce the SHF allocation from either revenue source by an amount or percentage not to exceed 50 percent of the amount that would have been allocated to the SHF from that source in the affected fiscal year; and
  - Extend the SHF allocations in 10 year increments
- The Eighty-eighth Legislature, 2023, by resolution, extended both revenue allocations by 10 years (FY 2042 for sales tax revenue and FY 2039 for motor vehicle sales and rental tax revenue).
- A total of $22.7 billion has been allocated to the SHF from FY 2018 to FY 2025 (eight fiscal years), including:
  - $20.0 billion from state sales tax revenue.
  - $2.7 billion from state motor vehicle sales and rental tax revenue.

Appendix B: Proposition 7 Deposits to the SHF Fiscal Years 2018 to 2025 [V 2]



NOTE: The revenue deposited in fiscal year 2019 includes $1.6 billion from the fiscal year 2018 sales tax allocation that was deposited to the SHF in September 2018 (first month of fiscal year 2019) and $2.5 billion from the fiscal year 2019 allocation.

SOURCES: Legislative Budget Board; Comptroller of Public Accounts.

Contact the LBB

Legislative Budget Board

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