LEGISLATIVE BUDGET BOARD

Transportation Funding Options

Legislative Policy Report

SUBMITTED TO THE 84TH TEXAS LEGISLATURE

LEGISLATIVE BUDGET BOARD STAFF

FEBRUARY 2015

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OPTIONS TO INCREASE REVENUE AVAILABLE FOR TRANSPORTATION INFRASTRUCTURE

Growth in population, vehicle miles traveled, and freight traffic are deteriorating Texas' road infrastructure and increasing congestion. Simultaneously, the purchasing power of traditional revenue sources for road funding is decreasing as a result of inflation in highway construction costs. When adjusted for population and vehicle miles traveled, the growth rate of motor fuels tax revenue is smaller and even negative in some years as a result of increased fuel efficiency. The Texas Department of Transportation estimates an additional $5.0 billion (as of October 2013) is needed annually to maintain the highway network at 2010 levels of congestion and maintenance.

Costs associated with delaying transportation maintenance include road rehabilitation or reconstruction and poor road conditions. Pavement preservation is 6 to 10 times less expensive than road rehabilitation or reconstruction. Poor road conditions are a factor in approximately one-third of fatal auto accidents; they also increase vehicle maintenance needs and lower the speed at which vehicles can safely travel, thus increasing travel time and vehicle emissions. This report identifies options to increase state revenue for transportation projects related to roads, ports and water, rail, and air. Providing additional revenue for non-highway modes of transportation would help the state address highway needs by offsetting current appropriations from the State Highway Fund for these functions.

FACTS AND FINDINGS

- As of January 2015, the Texas Department of Transportation had $23.2 billion in All Funds available to administer the state's transportation system for the 2014–15 biennium. This includes $1.7 billion received in December 2014 as a result of voter approval of an amendment to the Texas Constitution known as Proposition 1, 2014.
- Traditional methods of financing highway construction and maintenance include revenues from state motor fuel taxes, oversize/overweight vehicle permits, motor vehicle sales and use tax, and motor vehicle registration fees. Other financing methods used for highway construction and maintenance in Texas include the use of bond proceeds, toll revenues, and public private partnerships.
- It is estimated an additional $5.0 billion in revenue is needed per fiscal year to maintain road and bridge conditions and congestion at 2010 levels. This estimate does not account for the funding needs of other modes of transportation.

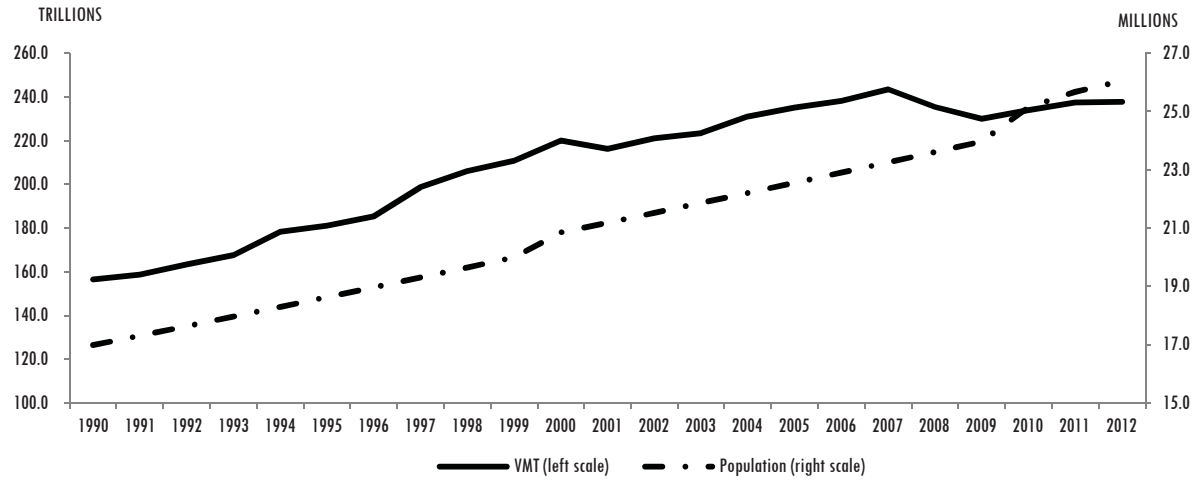
DISCUSSION

The state's transportation system includes roads, waterways, ports, rail, and airports. At the end of calendar year 2012, the Texas highway system had 80,268 centerline miles (representing corridor mileage) that carried nearly 74 percent of the state's motor vehicle traffic. As of August 2013, the state had 52,509 on- and off-system bridges. The state operates 14 ferries that transport vehicles to Galveston Island and Port Aransas. Texas has 10,384 total miles of rail track and 9,784 public highway/rail crossings. Texas has 26 deep and shallow draft ports and 406 miles of the Gulf Intracoastal Waterway (GIWW). The number of Texas airports open to the public was almost 400 in fiscal year 2014. Approximately 300 state and federal contracts for public transportation were issued in fiscal year 2013.

INCREASING USE OF TEXAS' TRANSPORTATION SYSTEM

The state's transportation system is experiencing increased use across modes. More people are traveling more miles on Texas' roadways than at any other point in history, as shown in **Figure 1**. Between 1990 and 2011, the state's population increased by 51 percent, and it is expected to increase another 37.3 percent by 2030. Vehicle miles traveled increased by 44 percent between 1990 and 2010, and are estimated to increase another 35 percent by 2030. Traffic congestion in Houston, Dallas-Fort Worth-Arlington, Austin, and San Antonio is estimated to cost between $787 and $1,090 per traveler each year in wasted time and fuel. The Texas Transportation Institute (TTI) estimates congestion will cost the state an average of $20 billion per year through 2025 in delay time and wasted fuel, rising from the current cost of about $10.8 billion per year. The 2030 Committee, which was formed at the Governor's direction in 2008 and charged with providing an independent assessment of the state's

FIGURE 1
TEXAS POPULATION AND VEHICLE MILES TRAVELED, CALENDAR YEARS 1990 TO 2012



SOURCES: Federal Highway Administration; U.S. Census Bureau.

infrastructure and mobility needs, estimates that urban congestion will result in an average of 130 hours of extra travel time per Texas resident per year by 2035.

Sixty percent of goods shipped annually from Texas are carried by truck, and another 9 percent are carried by services that use trucks for part of the delivery. Freight vehicle miles traveled are expected to increase 120 percent between 2011 and 2035.

Texas also has more than 10,000 rail route miles, which leads all states. In 2010, over 8.8 million rail carloads moved freight on Texas' rail infrastructure, and 89 percent of all rail containers crossing into the U.S. from Mexico entered through Texas. Just over 10 billion ton-miles of freight was transported on Texas' international trade corridors in 2002; this is expected to increase to 18.4 billion by 2020.

Texas has more than 270 miles of deep draft channels and 11 deep draft public seaports. In calendar year 2012, Texas ranked second in the country in terms of total waterborne tonnage transported, with 21 percent of total U.S. maritime freight volume. This was an increase of approximately 38 percent in dead weight tons of cargo from calendar year 2002.

In calendar year 2012, the Texas Gulf Intracoastal Waterway (GIWW) was used to transport nearly 78 million short tons of commodities. Petroleum products represented approximately two-thirds of commodity tonnage moved through the Texas GIWW. From calendar years 2002 to 2012, the U.S. Army Corps of Engineers reported an average annual increase of 5 percent in short tons of petroleum and petroleum products transported through this portion of the GIWW.

TxDOT reports over 7.8 billion pounds of cargo landed at all Texas airports in calendar year 2010. In calendar year 2000, approximately 65 million paid passengers boarded flights (enplanements) according to the Federal Aviation Administration. In calendar year 2013, enplanements had increased to almost 71 million. Overall, the state has almost 400 airports open to the public.

STATUS OF STATE REVENUE SOURCES FOR TRANSPORTATION

Of the $23.2 billion in All Funds available to TxDOT for the 2014–15 biennium, $15.4 billion was appropriated for road construction, maintenance, and preservation activities. This primarily consists of Federal Funds and Other Funds (bond proceeds and State Highway Funds). In addition, some of the funding made available when voters approved Proposition 1, which amended the Texas Constitution to allow the transfer of funds that would have otherwise gone to the Economic Stabilization Fund to the State Highway Fund, was allocated for road maintenance and rehabilitation. The Texas Transportation Code, Chapter 222, requires revenue dedicated by the Texas Constitution and federal law to public roads to be deposited to the State Highway Fund to be used only to improve the state highway system, mitigate adverse environmental effects resulting from highway

construction or maintenance, or for policing and administration of state traffic and safety laws. All other funds in the State Highway Fund are statutorily allowed to be used for any function the Texas Department of Transportation performs. In addition to its responsibility for the state highway system, TxDOT oversees:

- the state's ferry system;
- water transportation via the Gulf Intracoastal Waterway and some seaport related activities;
- rail activities in Texas; and
- general aviation.

Total appropriations to TxDOT for these non-highway-related activities in the 2014–15 biennium are $526.8 million. Funding for TxDOT's activities in these areas primarily comes from Federal Funds and Other Funds (the State Highway Fund), with a small amount of General Revenue Funds appropriated for rail safety activities. For more information on sources of revenue for highways see the LBB publication *Texas Highway Funding: Legislative Primer.*

DECREASING REVENUE POTENTIAL

Vehicles in general are becoming more fuel-efficient, but the increased use of hybrid, alternatively fueled, and electric vehicles has had a negative impact on transportation revenue. As consumers use less gasoline because their cars are more fuel-efficient or use energy sources other than motor fuels, the state's revenue collection potential from motor fuel taxes decreases. The growth rate of motor fuels tax revenues is smaller, and even negative in some years, when adjusted for population and vehicle miles traveled. This is a result of increased fuel efficiency. Nationally, the number of hybrid vehicles sold annually in the United States has grown from 17 in 1999 to almost 496,000 in 2013. The number of alternative fuel vehicles in use in the United States has grown from about 30,000 in 1992 to almost 939,000 in 2010. This includes liquefied petroleum gas (LPG), compressed natural gas (CNG), liquefied natural gas (LNG), methanol and ethanol, electric, and hydrogen-powered vehicles. While these vehicles make up a small percentage of total vehicles, their use is growing.

The state gasoline and diesel taxes have historically been the largest source of revenue for transportation. Rates were set at 20 cents per gallon in 1991 and went into effect in 1993. The current tax rate for LPG, CNG, and LNG was set at 15 cents per gallon in 1987. When adjusted for inflation using the Consumer Price Index (CPI), the gasoline and diesel tax is worth 11 cents per gallon and the LPG, CNG, and LNG tax is worth 9 cents in calendar year 2014.

The other primary source of state funding for the State Highway Fund is motor vehicle registration fees. The number of vehicles registered has been regularly increasing in Texas; as a result, so has this revenue source. The fee for most passenger vehicles was set in 2009, although the new fee was not intended to result in a revenue increase but rather to consolidate categories. For many special vehicle categories, registration fees were established during the 1990s; a few were updated as recently as 2013. As a result, the purchasing power of these fees has also decreased.

The Texas Mobility Fund is primarily funded from vehicle inspection fees, driver license fees, and certificate of title fees. As the population of Texas has increased, so have the number of vehicles and licensed drivers; thus, these revenue sources have steadily increased. The current annual vehicle safety inspection fee was set in 1999, with various other inspection-related fees set before 1995 and in 2002. The $12.50 annual safety inspection fee is worth $8.75 today when adjusted for inflation (CPI). Current driver license fees were established between 1997 and 2007; the fee of $24 for a basic driver's license was set in 1997 and is worth $16.19 today when adjusted to CPI. Fees for certificates of title were increased in 2003 to $28.00 in counties classified as in attainment for federal air quality standards and $33.00 in counties classified as in non-attainment for federal air quality standards. When adjusted to CPI, the buying power of these fees is now $21.66 and $25.52.

The decrease in the purchasing power of all these taxes and fees is greater than what is shown from considering CPI, alone, when the cost of road construction is considered. Between June 1998 and August 2013, the Highway Construction Index, which tracks price changes associated with highway construction costs, increased by approximately 90 percent.

TRANSPORTATION FUNDING GAP

Population growth, increased distances travel, and growth in economic activities and freight are all contributing to the deterioration of existing transportation infrastructure. Concurrently, the state has relatively less money to spend on transportation because of the decreasing purchasing power of the motor fuels tax and other transportation funding sources. Additionally, the authorized capacity for the three bond programs providing funds to TxDOT has all been committed. TxDOT was appropriated $1.6 billion from General

Revenue Funds, State Highway Funds, and Texas Mobility Funds during the 2014–15 biennium for debt service for transportation bonds (General Obligation, State Highway Fund, and Texas Mobility Fund bonds).

During the Eighty-third Legislature, Regular Session, 2013, TxDOT testified the state had an annual deficit of $4.0 billion between the amount of federal and state revenue projected to be available and the funding needed to maintain 2010 levels of congestion and maintenance on highways. This estimate did not consider the cost to address the roadway deterioration in areas experiencing heavy truck traffic as a result of energy sector activities. TxDOT has estimated this deterioration costs at least an additional $1.0 billion per fiscal year for state maintained roads. The estimate also did not consider the needs of any other modes of transportation.

In March 2012, TxDOT estimated pavement conditions given revenue estimates available at the time. This estimate did not account for any unexpected occurrences, such as the increased level of energy sector activity that has since occurred. To measure pavement condition and identify maintenance and rehabilitation requirements, TxDOT uses the Pavement Management Information System (PMIS), which analyzes distress ratings and ride quality measurements. PMIS scores range from 1 to 100, with 90 to 100 being very good and 1 to 34 being poor, as shown in **Figure 2**.

During the past six fiscal years, pavement conditions have not fluctuated significantly, as shown in **Figure 3.** During this time, the proportion of funding from traditional sources of transportation for road maintenance has decreased. New revenue sources such as bond revenues have increased and additional federal funds received as a result of the American Recovery and Reinvestment Act of 2009 have helped the state maintain highways.

ECONOMIC IMPACTS ASSOCIATED WITH TRANSPORTATION

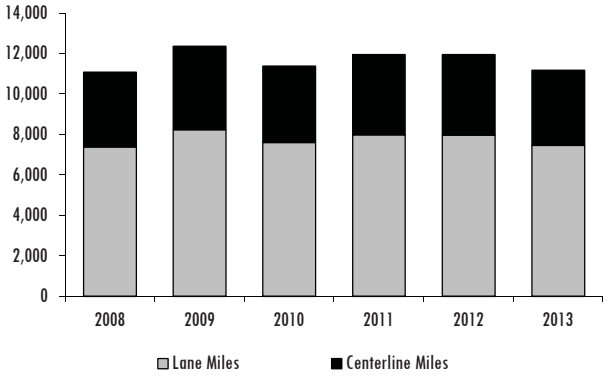
Pavement preservation is an activity to maintain pavements in good to fair condition rather than reacting to pavements in poor condition. According to the University of Texas' Center for Transportation Research (CTR), pavement preservation can extend the initial design life of a roadway. CTR has found that every $1 spent in preservation can eliminate or delay spending $10 on rehabilitation or reconstruction later. In fiscal year 2011, based on the PMIS index that measures the overall condition of pavement, nearly 87 percent of the state's roadway miles were rated in the top two categories as good or better condition. In fiscal year 2010, 18 percent of the state's major urban roads were classified as being in poor condition, and 27 percent were considered fair. As shown in **Figure 4**, The University of Texas' Center for Transportation Research has estimated a decrease in the percentage of lane miles expected to receive scores of good or better condition through 2035, assuming no additional revenue is generated.

FIGURE 2
PAVEMENT MANAGEMENT INFORMATION SYSTEM CLASSES, AS OF FISCAL YEAR 2015

CONDITION SCORE	DESCRIPTION
90–100	Very Good
70–89	Good
50–69	Fair
35–49	Poor
1–34	Very Poor

SOURCE: Texas Department of Transportation.

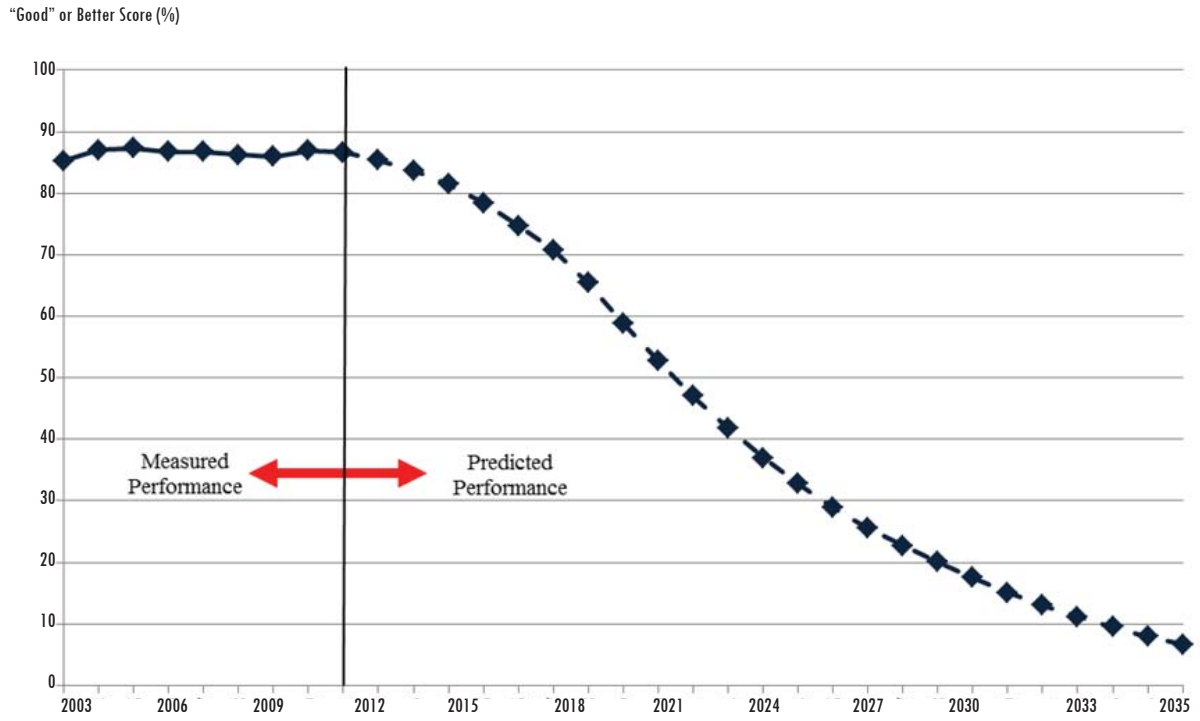
FIGURE 3
NUMBER OF ROAD MILES RATED BELOW GOOD OR BETTER, FISCAL YEARS 2008 TO 2013



SOURCE: Texas Department of Transportation.

Poor conditions result in roads that can safely accommodate fewer vehicles and require slower speeds for safe travel, thus increasing the time it takes for both individuals and freight shipments to reach their destinations. Poor road conditions can also cause safety hazards and damage vehicles. According to TRIP, a national transportation research group, roadway conditions are a factor in approximately 33 percent of fatal traffic crashes; in 2010, Texas had 2,998 traffic fatalities. The state's traffic fatality rate of 1.23 fatalities per 100 million vehicle miles of travel is higher than the nation's average of 1.11. In 2012, TRIP estimated the lack of some road safety features, inadequate capacity to meet travel demand, and poor pavement conditions cost Texans $23.2 billion due to

FIGURE 4
LANE MILES THAT RECEIVE GOOD OR BETTER CONDITION SCORES, CALENDAR YEARS 2003 TO 2035



SOURCES: University of Texas' Center for Transportation Research; Texas Department of Transportation.

traffic accidents, additional vehicle operating costs, and congestion that led to lost time and wasted fuel.

According to the national advisory group Transportation Research Board, strategic investment in transportation infrastructure can have economic benefits. Infrastructure investment areas may include preserving asset value, enhancing capacity, improving safety, and relieving congestion. The Federal Highway Administration (FHWA) has identified wider economic benefits that transportation investments can facilitate, including increases in employment, structural employment changes, and productivity increases. One tool endorsed by FHWA for estimating the wider economic benefits of transportation projects analyzed case studies and found highway projects can result in improved market accessibility, intermodal connectivity, logistics, scheduling, and international competitiveness. These results were the effects of improved travel time reliability, connectivity to intermodal facilities for freight and passengers, and access to labor and product markets. In 2007, FHWA determined 27,800 jobs are supported by every $1 billion invested in highway construction. According to FHWA, every dollar spent on road, highway, and bridge improvements results in an average benefit of $5.20. That cost benefit comes from reductions in vehicle maintenance, delays, fuel consumption, road and bridge maintenance, emissions, as well as from improved safety.

FUNDING OPTIONS

General Revenue Funds are available for general purpose spending by the Legislature and could be appropriated to help address the state's transportation funding needs. Additional options to increase available revenue across all modes of transportation are presented in the following appendices. These options can be classified in one of three ways: redirect existing revenue; increase existing revenue; or develop new revenue sources. Increasing revenue sources for non-highway modes of transportation would address highway needs by offsetting current appropriations from the State Highway Fund for these modes. Statutory changes would be required to implement all of these options, except the option relating to ending State Highway Fund appropriations to all agencies other than TxDOT. In cases where an option would rededicate all or a portion of revenue, the amount of General Revenue Funds and General

Revenue–Dedicated Funds available would be reduced by an equal amount. Therefore, if the Legislature chooses to maintain current levels of funding, it would need to reduce appropriations in other areas, increase other revenue streams, or some combination of the two options.

The options presented in this report would generate varying amounts of revenue for the 2016–17 biennium. **Appendix A** summarizes each option, including the amount of revenue it would generate for the upcoming biennium. For each option presented, **Appendix B** provides a description, information on current uses, methods of implementation, policy considerations, and revenue potential.

The House and Senate introduced 2016–17 General Appropriations Bills include adjustments to replace State Highway Fund appropriations of $1.3 billion to six agencies with other methods of finance. The Senate's introduced 2016–17 General Appropriations Bill includes an additional $1.2 billion to address transportation needs contingent upon the enactment of legislation making a one-time allocation of motor vehicle sales tax revenue to the State Highway Fund. No other changes implementing these options have been made to the introduced 2016–17 General Appropriations Bills.

APPENDIX A: SUMMARY OF OPTIONS

NOTE: OPTIONS IN ORDER OF OPTION TYPE AND FISCAL IMPACT

	DESCRIPTION	GAIN/(LOSS) 2016–17 (IN MILLIONS)	METHOD OF FINANCE	OPTION TYPE
Revenue Sources Not Currently Used for Transportation				
1.	**Redirect Motor Vehicle Sales and Use Tax:** Texas imposes a 6.25 percent tax on the retail sale of motor vehicles; which is primarily deposited to the General Revenue Fund. This option would rededicate all or a portion of net revenue gained from the motor vehicle sales tax from the General Revenue Fund to the State Highway Fund.	$332.2-$1,229.5 ($332.2-$1,229.5)	State Highway Fund General Revenue	Redirect Existing Revenue
2.	**Redirect Motor Vehicle Rental Tax:** Texas imposes a tax on the gross rental receipts of all motor vehicle rentals; which is deposited to the General Revenue Fund. This option would rededicate all or a portion of net revenue gained from the motor vehicle rental tax from the General Revenue Fund to the State Highway Fund.	$30.8-$80.3 ($30.8-$80.3)	State Highway Fund General Revenue	Redirect Existing Revenue
3.	**Redirect Revenue from the Automotive Oil Sales Fee:** A fee of $0.01 per quart is imposed on the first sale of automotive oil delivered or imported to a location in Texas and not sold to a manufacturer or distributor. The majority of this revenue is deposited to General Revenue Dedicated Used Oil Recycling Account No. 146; approximately half of which is appropriated to TCEQ for the used oil collection, management, and recycling program. TCEQ is authorized to charge a fee for this purpose but has not done so. Through this option the Legislature could transfer all revenue from the fee and direct TCEQ to charge a fee to receive appropriations for the program, transfer the current balance of the account, and/or transfer future account balances at the end of a biennium to the State Highway Fund.	$20.3 ($20.3)	State Highway Fund GR-D Account 146 (Used Oil Recycling Account)	Redirect Existing Revenue
4.	**Rededicate a Portion of the Battery Sales Fee to Transportation:** Texas imposes a fee of $2 to $3 on the sale, storage, use, or consumption of new or used lead-acid batteries that are not for resale. Lead-acid battery use for starting, igniting, and lighting applications for vehicles accounts for almost 90 percent of domestic lead-acid battery consumption. This option would rededicate $1 of the battery sales fee revenue estimated to be generated by replacement of lead-acid batteries in passenger cars and light commercial vehicles from the General Revenue–Dedicated Hazardous and Remediation Account No. 550 to the State Highway Fund. This account had a balance of $47.8 million at the end of fiscal year 2014.	$12.1 ($12.1)	State Highway Fund GR-D Account No. 550 (Hazardous and Solid Waste Remediation Account)	Redirect Existing Revenue
5.	**Redirect and Increase the New Resident Use Tax:** The new resident use tax is paid in lieu of the state's motor vehicle use tax of 6.25 percent. The current fee of $90 was set in 1999, and is equivalent to $62.91 in fiscal year 2014 when adjusted for inflation. All vehicles with a value of $1,440 or more would pay more than $90 if they were subject to the motor vehicle use tax of 6.25 percent. This option would increase the new resident use tax applied when new resident's register their vehicle from $90 to $125 to make it equivalent to its original purchasing power. Additionally, this option would reallocate revenue from this tax to the State Highway Fund rather than the General Revenue Fund. The tax could also be indexed to inflation to prevent future erosion of the revenue source.	$50.6 ($36.4)	State Highway Fund General Revenue Fund	Redirect and Increase Existing Revenue

NOTE: OPTIONS IN ORDER OF OPTION TYPE AND FISCAL IMPACT

	DESCRIPTION	GAIN/(LOSS) 2016–17 (IN MILLIONS)	METHOD OF FINANCE	OPTION TYPE
Motor Fuels Tax				
6.	**Implement a Vehicle Miles Traveled Tax:** As fuel efficiency increases vehicles will use less fuel than currently required to travel an equal distance. This reduces the amount of motor fuels tax revenue that will be generated. This option would replace the motor fuels tax with a tax based on the number of miles a vehicle travels.	$380.0	State Highway Fund	Increase Existing Revenue
7-10.	**Index the Motor Fuels Tax:** The current motor fuels tax rate for gasoline and diesel fuel was set at $0.20 per gallon in 1991 and is now worth $0.12 per gallon, after adjusting for inflation. Because the tax is set at a flat rate, it is not regularly adjusted to keep pace with rising costs. Additionally, Corporate Average Fuel Economy (CAFE) standards are set at 34.3 miles per gallon for 2016 and are expected to be at least 40 miles per gallon by 2020. As CAFE standards increase, the amount of motor fuels needed to travel the same distance declines; resulting in declining motor fuels tax revenue.			
	7. **Index the Motor Fuels Tax to Vehicle Fuel Economy**: This option would index the motor fuels tax to CAFE standards to account for reductions in the amount of motor fuels needed to travel per mile.	$343.1 $114.4	State Highway Fund Available School Fund	Increase Existing Revenue
	8. **Index the Motor Fuels Tax to the Average Wholesale Price of Fuel:** This option would index the motor fuels tax rates to changes in the average wholesale price of fuel to prevent the value of this tax revenue from being eroded in the future.	$222.0 $74.0	State Highway Fund Available School Fund	Increase Existing Revenue
	9. **Index the Motor Fuels Tax to the Producer Price Index:** This option would index motor fuels tax rates to changes in the producer price index for other nonresidential construction to link the motor fuels tax rate to change in the producer price index.	$156.4 $52.1	State Highway Fund Available School Fund	Increase Existing Revenue
	10. **Index the Motor Fuels Tax to the Consumer Price Index:** This option would index the motor fuels tax rates to changes in the consumer price index (CPI) to prevent the value of this tax revenue from continuing to erode in the future.	$142.5 $47.5	State Highway Fund Available School Fund	Increase Existing Revenue
11.	**Increase the Motor Fuels Tax:** The current gasoline and diesel tax of $0.20 per gallon was set in 1991 and is now worth $0.12 per gallon when adjusted for inflation. This option would increase the motor fuels tax on gasoline and diesel fuel. Revenue gains reflect estimates of revenue that would be generated for each $0.01 increase in the tax.	$253.5 $84.5	State Highway Fund Available School Fund	Increase Existing Revenue
12.	**Apply the Motor Fuels Tax to Fuel Used to Propel Rail Cars:** The rail industry is currently granted a statutory exemption from the state motor fuels tax on diesel fuel consumed to propel locomotive engines. This option would eliminate this exemption and direct resulting revenue to the Rail Relocation and Improvement Fund, which can be used to finance the relocation and improvement of passenger and freight rail lines and facilities.	$193.1	Rail Relocation and Improvement Fund	Increase Existing Revenue

NOTE: OPTIONS IN ORDER OF OPTION TYPE AND FISCAL IMPACT

	DESCRIPTION	GAIN/(LOSS) 2016–17 (IN MILLIONS)	METHOD OF FINANCE	OPTION TYPE
13.	**Increase the Liquefied And Compressed Natural Gas (LNG and CNG) Tax and Diesel Fuel Tax Based on Energy Content:** LNG, CNG, and diesel fuel have a higher energy content than gasoline and liquefied gas. As a result, based on current rates, LNG, CNG, and diesel fuel are taxed at a lower rate per unit of energy content than gasoline and liquefied gas. This option would increase the tax on LNG and diesel fuels so they are equivalent to the amount paid per 1,000 British thermal units for gasoline.	$125.1 $41.2	State Highway Fund Available School Fund	Increase Existing Revenue
14.	**Repeal Motor Fuel Tax Exemptions Related to Aviation and Motorboats:** Motor fuel used solely in aircraft and aircraft servicing equipment is not taxed. Taxes paid on this gasoline as well as gasoline used for motorboats are subject to refunds. This option would remove these tax exemptions to generate revenue to offset State Highway Funds expended for costs associated with maintaining general aviation airports and some waterways. Estimated revenue gain is based solely on gasoline taxes and does not account for other fuel types.	$78.8 ($45.6)	State Highway Fund General Revenue Fund	Increase Existing Revenue
15.	**Decrease the Motor Fuel Tax Collection Allowance:** Suppliers, distributors, and importers are allowed to retain, as a group, 2 percent of the revenue generated to cover administrative costs of processing and remitting motor fuels tax in a timely manner. This percentage was set in 1971; since this time tax rates have more than quadrupled meaning the dollar amount retained has also increased. This option would set the administrative allowance at $0.002 per gallon (1 percent) and prevent any future tax increases from resulting in a windfall for this group.	$51.1 $17.1	State Highway Fund Available School Fund	Increase Existing Revenue
Registration Fees				
16.	**Redirect Revenue from Certain Special Vehicle Permits:** Permits are required for certain oversized and overweight vehicles and manufactured housing. The amount of this permit fee varies by vehicle type, weight, dimension, and trip. The allocation of this revenue also varies by permit; but a portion of certain permit revenue such as for oversized portable buildings is deposited to the General Revenue Fund. This option would redirect the allocation of portions of these fees from the General Revenue Fund to the State Highway Fund.	$54.5 ($54.5)	State Highway Fund General Revenue	Redirect Existing Revenue
17.	**Index the Motor Vehicle Registration Fee to Fuel Efficiency:** As vehicle fuel efficiency increases, the amount of fuel purchased per mile traveled decreases and therefore the amount of motor fuels tax paid is less than it would be otherwise. The current passenger vehicle registration fee is equivalent to approximately $1.62 per mile per gallon based on average fuel economy. This option would index the motor vehicle registration fee based on fuel efficiency so that it maintains this rate in the future.	$868.1	State Highway Fund	Increase Existing Revenue

NOTE: OPTIONS IN ORDER OF OPTION TYPE AND FISCAL IMPACT

	DESCRIPTION	GAIN/(LOSS) 2016–17 (IN MILLIONS)	METHOD OF FINANCE	OPTION TYPE
18.	**Increase the Motor Vehicle Registration Fee:** The current registration fee for most passenger vehicles was set in 2009; however, this fee was amended as a result of streamlining registration categories and was not intended to generate additional revenue. This option would increase the motor vehicle registration fee for vehicles weighing less than 6,000 pounds by $5. The revenue gain reflects an estimate of revenue that would be generated for each $5 increase in the fee.	$249.0	State Highway Fund	Increase Existing Revenue
19.	**Index Vehicle Registration Fees to Vehicle Miles Traveled:** As vehicles become more fuel efficient they can travel further on less gasoline or other fuels. Motor fuels taxes are based on the number of gallons purchased; therefore, as less fuel is purchased the amount a road user pays declines. This option would index vehicle registration fees to vehicle miles traveled to align fees with road use.	$90.9	State Highway Fund	Increase Existing Revenue
20.	**Scale Vehicle Registration Fees to Standard Presumptive Value:** Standard presumptive value is the calculated value of a vehicle's worth based on similar sales in the Texas region, and is used to calculate motor vehicle sales and use tax in certain situations. Newer vehicles tend to have improved fuel efficiency, meaning they purchase less fuel to travel the same distance as older vehicles and therefore pay less motor fuels tax. Because newer vehicles generally have a higher value than older vehicles, this option would apply an increased registration fee to most newer vehicles to help offset any loss in motor fuels tax.	CBD	State Highway Fund	Increase Existing Revenue
21.	**Scale Vehicle Registration Fees to Vehicle Emissions:** Vehicles that are less energy-efficient than the average vehicle also generally produce more emissions, which are a primary source of air pollution in several areas of the state that do not meet federal air quality standards. This option would base the motor vehicle registration fee charged for each vehicle with the vehicle's air pollution score or actual emissions tested during annual inspections.	CBD	State Highway Fund	Increase Existing Revenue
22.	**Expand the Delinquency Penalty for Late Vehicle Registrations:** Currently, persons that have been cited or arrested for operating a motor vehicle with an expired registration are assessed a fine of 20 percent at the time they renew their vehicle registration. The penalty does not apply to late registrants that were not cited or arrested. This option would apply the delinquency penalty to all persons that renew their vehicle registration late without a statutorily defined valid reason for late registration.	CBD	State Highway Fund	Increase Existing Revenue
23.	**Establish an Inefficient Vehicle Surcharge Fee:** Certain passenger vehicles, sport-utility vehicles, and light-duty trucks produce more emissions and are less energy-efficient than the average vehicle. However, they are exempt from the federal gas-guzzler tax and do not pay additional state taxes. This option would impose a one-time surcharge of $100 on the sale of these vehicles to generate revenue dedicated toward congestion mitigation projects or other initiatives to reduce air pollution from mobile sources.	$115.3	State Highway Fund	New Revenue Source

NOTE: OPTIONS IN ORDER OF OPTION TYPE AND FISCAL IMPACT

	DESCRIPTION	GAIN/(LOSS) 2016–17 (IN MILLIONS)	METHOD OF FINANCE	OPTION TYPE
Alternatively-Powered Vehicles				
24.	**Establish a Vehicle Equalization Fee:** The average Texas driver pays $114.24 per year in motor fuels tax. Electric and some alternatively powered vehicles do not pay the state's motor fuels tax; similarly hybrid and natural gas powered vehicles pay a reduced amount of the state's motor fuels tax. This option would establish an annual vehicle equalization fee of $100 on vehicles not powered by motor fuels taxed by the state and a fee of $50 on hybrid and natural gas powered vehicles to generate revenue to offset the amount of motor fuels tax not paid.	$25.2	State Highway Fund	New Revenue Source
25.	**Establish a Fee on Electric Vehicle Charging Stations:** Electric and certain hybrid vehicles purchase electricity, rather than motor fuels, to operate their vehicles. Revenue from state taxes on electricity is deposited to the General Revenue Fund and Foundation School Fund; therefore operators of these vehicles do not contribute to the cost of using roads in the same manner as traditionally powered vehicles. This option would impose a fee on utility companies powering electric vehicle charging stations to offset the loss of motor fuels tax revenue resulting from these vehicles.	$1.8-$5.1	State Highway Fund	New Revenue Source
Other				
26.	**Eliminate State Highway Fund appropriations to agencies other than the Texas Department of Transportation:** In the 2014–15 biennium a little more than $1 billion in State Highway Funds were appropriated to six state agencies other than the Texas Department of Transportation for various activities as well as employee salary increases and employee benefits for employees whose salaries are paid from State Highway Funds. This option would eliminate State Highway Fund appropriations to all agencies other than the Texas Department of Transportation and reduce or replace appropriations to other agencies with an alternative method of finance. Amounts shown in the gain/loss column represent savings to the State Highway Fund and costs to General Revenue–Related and Other Funds.	$1,329.7 ($1,304.7) ($25.1)	State Highway Fund General Revenue–Related Funds Other Funds	Redirect Existing Revenue
27.	**Increase the Vehicle Certificate of Title Fee:** The current vehicle certificate of title fee was set in 2003 and the amount of the fee allocated to transportation has not increased since (1991). Prior to fiscal year 2015, this amount was $13, which is worth $7.44 in fiscal year 2014 when adjusted for inflation. Additionally, over time revenue from the fee has been allocated to funds other than the State Highway Fund. Currently, the net amount of revenue generated from this fee for transportation is $0. This option would increase the motor vehicle certificate of title fee and deposit all revenue resulting from the increase to the State Highway Fund.	$98.8-$118.7	State Highway Fund	Increase Existing Revenue
28.	**Generate Revenue from State Ferry Operations:** Currently the state operates two ferry routes that provide a shorter route than using existing roads for travel between certain locations. No fee is paid to use these ferries. This option would apply a fee, not to exceed expenditures, for operating the ferries for passengers and/or vehicles that use the state's ferries.	$95.0	State Highway Fund	New Revenue Source

NOTE: OPTIONS IN ORDER OF OPTION TYPE AND FISCAL IMPACT

	DESCRIPTION	GAIN/(LOSS) 2016–17 (IN MILLIONS)	METHOD OF FINANCE	OPTION TYPE
29.	**Increase the Drivers License Fee:** The current fee of $24 applied for the most common type of driver's license was set in 1997. This is worth $16.27 in fiscal year 2014 when adjusted for inflation. Other driver's license fees vary between $3 and $120 and the bulk of these were set between 1995 and 2007. This option would increase the driver's license fee to $36, the occupation license fee from $10 to $25, the commercial driver's license fee from $60 to $90, and the duplicate license fee from $10 to $15 to account for inflation. This revenue estimate is based on original and renewal driver licenses only.	$80.2	Texas Mobility Fund	Increase Existing Revenue
30.	**Increase the Motor Vehicle Safety Inspection Fee:** The current motor vehicle safety inspection fee applied to all vehicles receiving an annual safety inspection was set in 1999. Of this fee, $3.50 is deposited to the Texas Mobility Fund, which is worth $2.45 in fiscal year 2014 when adjusted for inflation. This option would increase the annual motor vehicle safety inspection fee by $1.50 and the two-year safety inspection fee by $4.25 to account for inflation.	$62.1	Texas Mobility Fund	Increase Existing Revenue
31.	**Adjust the Highway Maintenance Fee:** The highway maintenance fee is charged to certain overweight vehicles to offset the cost of additional damage these vehicles create on roadways. The current fee is based solely on a vehicle's weight. This option would restructure the fee to consider distance traveled and could be set so that it results in a revenue increase of 10 percent.	$6.5	State Highway Fund	Increase Existing Revenue
32.	**Generate Revenue from Advertising:** Fees may currently be collected for advertisements placed on certain signs. This option would allow advertising to be placed on certain websites operated by the Texas Department of Transportation and Texas Department of Motor Vehicles and on ferries.	CBD	State Highway Fund	Increase Existing Revenue
33.	**Remove the Motor Vehicle Sales and Use Tax Exemption on Hydrogen-Powered Vehicles:** Vehicles that meet the definition of "hydrogen-powered" and have a fuel economy of at least 45 miles per gallon are exempt from the motor vehicle sales tax. At the time the exemption was adopted no vehicles meeting this definition were available on the open market; however, they now are. This option would remove this exemption and deposit resulting revenue to the State Highway Fund.	NSFI	State Highway Fund	Redirect and Increase Existing Revenue
34.	**Establish Impact Fees to Fund Transportation:** Impact fees are a charge or assessment imposed on new development to fund or recoup the cost of capital improvements or facility expansions attributable to new growth. Statute currently limits the use of transportation impact fees to local governments. This option would authorize the Texas Department of Transportation to establish transportation impact fees to shift a portion of the cost of financing certain transportation projects to the new development resulting in demand for the facility.	CBD	State Highway Fund	New Revenue Source

NOTE: CBD = Cannot be determined; NSFI = No significant fiscal impact.
SOURCE: Legislative Budget Board.

APPENDIX B: DETAILED DESCRIPTION OF OPTIONS

1. REDIRECT MOTOR VEHICLE SALES AND USE TAX	
Description	This option would rededicate all or a portion of net revenue generated from the motor vehicle sales and use tax from the General Revenue Fund to the State Highway Fund.
Current Use	Texas imposes a tax of 6.25 percent on the retail sale price of all motor vehicles; which is primarily deposited to the General Revenue Fund. The motor vehicle sales and use tax is collected by county tax assessor-collectors. Counties are authorized to retain 5 percent of collections and the remainder is remitted to the state. Alternative or additional taxes are levied on motor vehicles brought into the state by a new resident, the gift of a motor vehicle, the even-exchange of a motor vehicle, and as a surcharge on certain diesel truck purchases. The majority of motor vehicle sales tax revenue remitted to the state (99.1 percent in fiscal year 2014) is deposited to the General Revenue Fund and is available to the Legislature for general purpose spending. Revenue derived from calculating the tax due on a used motor vehicle using the standard presumptive value of the vehicle, rather than the sales price, is deposited into the Property Tax Relief Fund. Revenue from the surcharge on certain diesel truck purchases is deposited into the Texas Emissions Reduction Plan Account. In May 2011 the National Conference of State Legislatures found 29 states used some portion of their motor vehicle sales tax for transportation purposes through a variety of constitutional or statutory restrictions.
Implementation	To implement this option, Texas Tax Code, Chapter 152, would be amended to rededicate all or a portion of net revenue gained from the motor vehicle sales and use tax. The amount of motor vehicle sales and use tax collections dedicated to transportation could be calculated in multiple ways: • Proportional dedication: Some percentage of annual collections would be deposited into the State Highway Fund. This would be similar to the current dedication of motor fuels taxes, almost 75 percent of which are deposited into the State Highway Fund. • Fixed dedication: A flat amount of collections would be deposited to the State Highway Fund. • Dedication of growth: All or a portion of annual collections that exceeded the collections in a base year or a fixed dollar amount would be deposited to the State Highway Fund. This would be similar to the method used to calculate the annual transfer to the Economic Stabilization Fund. The option would not change the amount of revenue raised from the tax.
Other Considerations	Dedicating all or some portion of the motor vehicle sales and use tax to transportation would reduce the amount of General Revenue Funds available by an equal amount. Phasing in the motor vehicle sales and use tax dedication over multiple fiscal years would provide the Legislature and affected entities time to address this issue. Inflation would affect both a fixed dedication and a dedication of growth. In the fixed dedication, inflation would erode the purchasing power of the revenue dedicated to the State Highway Fund over time, thus a smaller amount of real (inflation-adjusted) dollars would be dedicated to transportation every year. In a dedication of growth the base amount that would be subtracted from total annual collections for the purpose of calculating the State Highway Fund dedication would become smaller, in real dollars, each year. Thus, part of the increase in the State Highway Fund dedication would be attributed to the declining real value of base year collections.

Revenue Potential

In fiscal year 2014, $3.9 billion in motor vehicle sales and use tax collections were remitted to the state. There are multiple formulas for dedicating the motor vehicle sales and use tax to transportation, the proposed gains and losses below reflect the two proposals made during the Eighty-third Legislature, Regular Session, 2013. Both scenarios would only affect collections currently deposited to the General Revenue Fund and not affect revenue deposited to the Property Tax Relief Fund or the Texas Emissions Reduction Plan Account. There could be costs incurred for programming updates. Because this option would not change the way in which the tax is collected or remitted to the state no other administrative costs are anticipated.

Scenario one shows a phased-in proportional dedication. In the first year, 10 percent of motor vehicle sales and use tax collections would be deposited to the State Highway Fund. The dedication would increase by 10 percent each fiscal year, until 2025, when 100 percent of motor vehicle sales and use tax collections would be deposited to the State Highway Fund. As **Figure 1** shows, this would result in a gain of $1.2 billion to the State Highway Fund in the 2016–17 biennium and a loss of an equivalent amount to the General Revenue Fund.

FIGURE 1
FIVE-YEAR FISCAL IMPACT ESTIMATE OF SCENARIO 1, FISCAL YEARS 2016 TO 2020

FISCAL YEAR	PROBABLE REVENUE GAIN/(LOSS) IN GENERAL REVENUE FUNDS	PROBABLE REVENUE GAIN/(LOSS) IN OTHER FUNDS (STATE HIGHWAY FUND)
2016	($399,097,000)	$399,097,000
2017	($830,441,000)	$830,441,000
2018	($1,295,986,000)	$1,295,986,000
2019	($1,797,792,000)	$1,797,792,000
2020	($2,338,029,000)	$2,338,029,000

SOURCE: Legislative Budget Board.

Scenario two shows a dedication of the growth in collections. Motor vehicle sales and use tax collections in excess of fiscal year 2015 collections would be deposited to the State Highway Fund. As **Figure 2** shows this would result in a gain of $332.2 million to the State Highway Fund during the 2016–17 biennium and a loss of an equal amount to the General Revenue Fund.

FIGURE 2
FIVE-YEAR FISCAL IMPACT ESTIMATE OF SCENARIO 2, FISCAL YEARS 2016 TO 2020

FISCAL YEAR	PROBABLE REVENUE GAIN/(LOSS) IN GENERAL REVENUE FUNDS	PROBABLE REVENUE GAIN/(LOSS) IN OTHER FUNDS (STATE HIGHWAY FUND)
2016	($15,974,000)	$15,974,000
2017	($316,209,000)	$316,209,000
2018	($483,959,000)	$483,959,000
2019	($658,485,000)	$658,485,000
2020	($840,062,000)	$840,062,000

SOURCE: Legislative Budget Board.

2. REDIRECT MOTOR VEHICLE RENTAL TAX	
Description	This option would rededicate all or a portion of net revenue generated by the motor vehicle rental tax from the General Revenue Fund to the State Highway Fund. Texas imposes a tax on the gross rental receipts of motor vehicle rentals, which is entirely deposited to the General Revenue Fund.
Current Use	The motor vehicle rental tax rate is 10 percent if the vehicle is rented for 30 days or less and 6.25 percent if the vehicle is rented for longer than 30 days. Certain counties may impose an additional tax of up to 6.0 percent. Motor vehicle rental companies are responsible for collecting and remitting the tax to the Comptroller of Public Accounts. All motor vehicle rental tax revenue is deposited to the General Revenue Fund and is available to the Legislature for general purpose spending. Under current law, there is no restriction or dedication on the appropriation of this revenue.
Implementation	To implement this option, the Texas Tax Code, Chapter 152, would be amended to rededicate all or a portion of net revenue gained from the motor vehicle rental tax. The amount of motor vehicle rental tax collections dedicated to transportation could be calculated in multiple ways: • Proportional dedication: Some percentage of annual collections would be deposited into the State Highway Fund. This would be similar to the current dedication of motor fuels taxes, 75 percent of which are deposited to the State Highway Fund. • Fixed dedication: a flat amount of collections would be deposited to the State Highway Fund. • Dedication of growth: All or a portion of annual collections that exceeded the collections in a base year or a fixed dollar amount would be deposited to the State Highway Fund. This would be similar to the method used to calculate the annual transfer to the Economic Stabilization Fund. This option would not change the amount of revenue raised from this tax.
Other Considerations	Dedicating all or some portion of the motor vehicle rental tax to transportation would reduce the amount of General Revenue available by an equal amount. Phasing in the dedication over multiple fiscal years would help address this issue. Inflation would affect both a fixed dedication and a dedication of growth. In the fixed dedication, inflation would erode the value of the amount dedicated to the State Highway Fund over time, thus a smaller amount of real (inflation-adjusted) dollars would be dedicated to transportation funding every year. A dedication of growth would have the opposite effect. The base amount that is subtracted from total annual collections for the purpose of calculating the State Highway Fund dedication would become smaller, in real dollars, each year. Thus, part of the increase in the State Highway Fund dedication would be attributed to the declining real value of the base year collections.

Revenue Potential

In fiscal year 2014, $256.6 million in motor vehicle rental tax collections were deposited to the General Revenue Fund. There are multiple formulas for dedicating the motor vehicle rental tax to transportation, the proposed gains and losses below reflect the two proposals made during the Eighty-third Legislature, Third Called Session, 2013. Although these proposals would have affected motor vehicle sales tax collections, they could be extended to motor vehicle rental tax collections. There could be costs incurred for programming updates. Because this option would not change the way in which the tax is collected or remitted to the state no other administrative costs are anticipated.

The first scenario is based on a phased-in proportional dedication. In the first year, 10 percent of motor vehicle rental tax collections would be deposited to the State Highway Fund. The dedication would increase by 10 percent each fiscal year, until 2025, when all motor vehicle rental tax collections would be deposited to the State Highway Fund. As **Figure 1** shows, this would result in a gain of $80.3 million to the State Highway Fund in the 2016–17 biennium and a loss of an equivalent amount to the General Revenue Fund.

FIGURE 1
FIVE-YEAR FISCAL IMPACT ESTIMATE OF SCENARIO 1, FISCAL YEARS 2016 TO 2020

FISCAL YEAR	PROBABLE REVENUE GAIN/(LOSS) IN GENERAL REVENUE FUNDS	PROBABLE REVENUE GAIN/(LOSS) IN OTHER FUNDS (STATE HIGHWAY FUND)
2016	($26,079,000)	$26,079,000
2017	(54,266,000)	$54,266,000
2018	($84,688,000)	$84,688,000
2019	($117,479,000)	$117,479,000
2020	($152,781,000)	$152,781,000

SOURCE: Legislative Budget Board

The second scenario is based on a dedication of the growth in collections. Motor vehicle rental tax collections in excess of fiscal year 2015 collections would be deposited into the State Highway Fund. As **Figure 2** shows, there would be a gain of $30.8 million to the State Highway Fund during the 2016–17 biennium and a loss of an equal amount to the General Revenue Fund.

FIGURE 2
FIVE-YEAR FISCAL IMPACT ESTIMATE OF SCENARIO 2, FISCAL YEARS 2016 TO 2020

FISCAL YEAR	PROBABLE REVENUE GAIN/(LOSS) IN GENERAL REVENUE FUNDS	PROBABLE REVENUE GAIN/(LOSS) IN OTHER FUNDS (STATE HIGHWAY FUND)
2016	($10,127,000)	$10,127,000
2017	($20,663,000)	$20,663,000
2018	($31,625,000)	$31,625,000
2019	($43,030,000)	$43,030,000
2020	($54,895,000)	$54,895,000

SOURCE: Legislative Budget Board

3. REDIRECT REVENUE FROM THE AUTOMOTIVE OIL SALES FEE

Description

This option would rededicate automotive oil sales fee revenue, with the exception of the portion designated for Comptroller of Public Accounts enforcement and collection costs and deposited to the General Revenue Fund, to transportation funding.

Current Use

Texas imposes a fee of 1 cent per quart or 4 cents per gallon on the first sale of automotive oil delivered or imported to a location in Texas that is not sold to an automotive oil manufacturer or distributor. The fee may be adjusted annually, but cannot exceed 5 cents per quart or 20 cents per gallon of oil. Oil manufacturers, distributors and importers are liable for the fee and collect the fee through a surcharge paid by consumers. In fiscal year 2013, Texas received $2.2 million in automotive oil sales fees. For the 2014–15 biennium, the Comptroller estimates automotive sales fee collections of $1.7 million per fiscal year. The majority of automotive oil sales fees are deposited to the General Revenue–Dedicated Used Oil Recycling Account No. 146. Some fee revenue is designated for Comptroller of Public Accounts administrative and enforcement costs and deposited to the General Revenue Fund. Currently, fee collections deposited to Account No. 146 may only be appropriated to the Texas Commission Environmental Quality (TCEQ) and spent for the following purposes:

- grants to used oil collection centers;
- public education regarding used oil collection and recycling;
- registration of used oil collection centers, transporters, marketers and recyclers;
- reimbursement of used oil collection centers for the disposal of used oil contaminated by hazardous wastes—not-to-exceed $7,500 per center or $500,000 in total reimbursement in a given fiscal year; and
- administrative costs of the used oil collection, management and recycling program.

In the 2014–15 biennium, TCEQ was appropriated $841,574 per fiscal year out of this account for a used oil collection, management, and recycling program. Requested baseline funding for the 2016–17 biennium is $419,265 per fiscal year or approximately half that amount.

Implementation

Rededicating the oil automotive sales fee to transportation would require amending Texas Health and Safety Code, Chapter 371. The Legislature could also choose to transfer the balance in the Used Oil Recycling Account to the State Highway Fund. As of August 31, 2015, the balance in the Used Oil Recycling Account is estimated to be $17.1 million.

This option would not change the amount of revenue raised from the fee.

Other Considerations

Rededicating the automotive oil sales fee would result in the loss of a dedicated funding stream for the used oil collection, management, and recycling program. TCEQ is authorized to impose a registration fee for used oil collection centers, but to date has not charged such a fee. Based on the current number of used oil collection centers, an annual registration fee of $180 to $200 per facility would generate sufficient revenue to maintain the funding level requested for the 2016–17 biennium.

Revenue Potential

As **Figure 1** shows, this option would result in a gain of $20.3 million to the State Highway Fund for the 2016–17 biennium and a loss of an equivalent amount to the General Revenue–Dedicated Used Oil Recycling Account. This estimate assumes that the account balance in the General Revenue–Dedicated Used Oil Recycling Account would be transferred to the State Highway Fund in fiscal year 2016, and that all annual collections from the automotive oil sales fee presently deposited to General Revenue–Dedicated Account would be rededicated for transportation funding and accordingly deposited to State Highway Fund. Amounts designated for Comptroller of Public Accounts administrative and enforcement costs would continue to be deposited to the General Revenue Fund. There could be costs incurred for programming updates. Because this option would not change the way in which the fee is collected or remitted to the state no other administrative costs are anticipated.

FIGURE 1
FIVE-YEAR FISCAL IMPACT ESTIMATE, FISCAL YEARS 2016 TO 2020

FISCAL YEAR	PROBABLE REVENUE GAIN/(LOSS) TO GENERAL REVENUE–DEDICATED FUNDS (USED OIL RECYCLING ACCOUNT NO. 146)	PROBABLE REVENUE GAIN/(LOSS) TO OTHER FUNDS (STATE HIGHWAY FUND)
2016	($18,654,362)	$18,654,362
2017	($1,600,000)	$1,600,000
2018	($1,600,000)	$1,600,000
2019	($1,600,000)	$1,600,000
2020	($1,600,000)	$1,600,000

SOURCE: Legislative Budget Board.

4. REDEDICATE A PORTION OF THE BATTERY SALES FEE TO TRANSPORTATION	
Description	This option would rededicate $1 of the battery sales fee generated by replacement of lead-acid batteries in passenger cars and light commercial vehicles from the General Revenue–Dedicated Hazardous and Solid Waste Remediation Account No. 550 to the State Highway Fund.
Current Use	Texas imposes a fee on the sale, storage, use, or consumption of new or used lead-acid batteries that are not for resale. This fee is $2 on batteries with a capacity of less than 12 volts and $3 for a battery with a capacity for more then 12 volts and is collected by wholesale and retail battery dealers who remit this revenue to the state. A portion of this revenue is deposited to the General Revenue Fund for the Comptroller of Public Accounts (CPA) administrative and enforcement costs. The remaining revenue from battery fee receipts is deposited to the General Revenue–Dedicated Hazardous and Solid Waste Remediation Account, approximately $20 million per fiscal year. This is the largest dedicated revenue source deposited to the Hazardous and Solid Waste Remediation Account. This account is administered by the Texas Commission on Environmental Quality (TCEQ), which is authorized to use appropriations from the account to pay for cleanups under the state Superfund program and for the state's 10 percent match for cleanup costs under the federal Superfund program. Appropriations from the account may also be used for other remedial actions, compliance with certain federal environmental regulations, regulation of household and other hazardous substances, the cleanup or removal of hazardous substances spills, and lead-acid battery programs including the remediation of battery recycling facilities. In the 2014–15 biennium, TCEQ was appropriated $50.4 million out of this account for the Superfund and other eligible programs.
Implementation	Redirecting a portion of the battery sales fee to transportation would require amending the Texas Health and Safety Code, Chapter 361. CPA would be required to annually estimate sales of lead-acid batteries for passenger cars and light commercial vehicles and deposit $1 of each fee from the sales to the State Highway Fund. This would be similar to the manner in which the amount of the Sporting Goods Sales Tax is determined and allocated to the Texas Parks and Wildlife Department. In the case of the Sporting Goods Sales Tax, CPA annually derives estimates of the amount of sales tax revenue generated from sporting goods and allocates the revenue in accordance with statute and the General Appropriations Act.
Other Considerations	Lead-acid battery use for starting, igniting, and lighting applications for vehicles accounts for almost 90 percent of national lead-acid battery consumption. The General Revenue–Dedicated Hazardous Waste and Remediation Account had a balance of $47.8 million at the end of fiscal year 2014. Redirecting a portion of the battery sales fee for transportation would reduce the amount of General Revenue–Dedicated Funds available for the Superfund and other waste remediation and cleanup programs by an equal amount.

Revenue Potential

Figure 1 shows this option would result in an estimated $12.1 million gain to the State Highway Fund and an equivalent loss to General Revenue–Dedicated Funds in the 2016–17 biennium. Data was not available to determine what percentage of battery sales are from batteries with less than 12 volts and more than 12 volts. Therefore, this estimate assumes one-third of revenue will be redirected to the State Highway Fund, as would be the case with revenue resulting from sales of batteries greater than 12 volts would be redirected. Actual revenue deposited to the State Highway Fund instead of General Revenue–Dedicated Funds would likely be higher as one-half of revenue resulting from sales of batteries less than 12 volts. This estimate assumes that $1 of each fee collected from battery sales would be rededicated to the State Highway Fund from the General Revenue–Dedicated Hazardous Waste and Remediation Account and annual growth in battery sale fee collections of less than 3 percent. This estimate assumes the portion of the fee for administration and enforcement (approximately $800,000 per fiscal year) would be retained by the Comptroller of Public Accounts. There could be costs incurred for programming updates. Because this option would not change the way in which the fee is collected or remitted to the state no other administrative costs are anticipated.

FIGURE 1
FIVE-YEAR FISCAL IMPACT ESTIMATE, FISCAL YEARS 2016 TO 2020

FISCAL YEAR	PROBABLE REVENUE GAIN/(LOSS) TO GENERAL REVENUE–DEDICATED FUNDS (HAZARDOUS WASTE AND REMEDIATION ACCOUNT NO. 550)	PROBABLE REVENUE GAIN/(LOSS) TO OTHER FUNDS (STATE HIGHWAY FUND)
2016	($5,983,380)	$5,983,380
2017	($6,119,801)	$6,119,801
2018	($6,259,332)	$6,259,332
2019	($6,402,045)	$6,402,045
2020	($6,548,012)	$6,548,012

SOURCE: Legislative Budget Board.

5. REDIRECT AND INCREASE THE NEW RESIDENT USE TAX	
Description	This option would increase the new resident use tax applied when new resident's register their vehicle from $90 to $125 to make it approximately equivalent to its original purchasing power. Additionally, this option would reallocate revenue from this tax to the State Highway Fund rather than the General Revenue Fund. The tax could also be indexed to inflation to prevent future erosion of the revenue source.
Current Use	The new resident use tax is collected by the local county tax assessor at the time of vehicle registration. This tax is imposed in lieu of the use tax of 6.25 percent of the price of a vehicle that is otherwise imposed on a motor vehicle purchased outside of Texas. County tax assessor-collectors collect the new resident use tax and remit this to the Comptroller of Public Accounts. All net revenue generated by the fee is deposited to the General Revenue Fund for general purpose spending. California, Georgia, North Carolina, Oklahoma, and Louisiana do not have a specific fee for new residents registering vehicles in the state; however, they do apply various forms of sales, excise, or ad valorem taxes based on the fair market price, vehicle purchase price, or the vehicle's value. If Texas' motor vehicle sales and use tax of 6.25 percent of the retail price of a vehicle were applied to vehicles registered by new residents, the amount of tax paid for any vehicle with a retail value of at least $1,440 would be above $90.
Implementation	To implement this option, Texas Tax Code, Chapter 152, would be amended to increase the new resident use tax from $90 to $125 and reallocate the collections currently deposited to General Revenue to the State Highway Fund. Because the new resident use tax is a set amount it will eventually lose its relative value, thereby decreasing the purchasing power of the revenue generated from this tax. Adjusting this tax regularly for inflation would help to maintain the purchasing power of revenue collections. This could be done by statutorily providing for an annual or biennial adjustment based on the Consumer Price Index, the Highway Construction Cost Index, or another index, up to a maximum of three percent. This maximum is based on the average inflation from calendar years 1984 to 2013, and would reduce the volatility of the fee if economy-wide inflation exceeds this amount.
Other Considerations	The Texas population is expected to increase nearly 15 percent between calendar year 2013 and calendar year 2020. This population growth contributes to an increase in the number of vehicles on Texas roads which contributes to congestion, road damage, and increased maintenance costs. All new residents are required to register their vehicle within 30 days of moving to Texas and pay the new resident use tax. Prior to a new resident registering a vehicle in Texas, the vehicle must obtain a state inspection to ensure compliance with safety and emissions measures and the owner must present proof of vehicle insurance and ownership. The amount of the current new resident use tax was set by the Seventy-sixth Legislature, Regular Session, 1999, when it raised the fee from $15 to $90. Adjusted for inflation, this fee is equivalent to $63.49 in fiscal year 2014, meaning it has lost almost one-third of its purchasing power. Increasing the new resident use tax would generate additional revenue for transportation and provide a mechanism to recover costs resulting from damage to roads and congestion as a result of increased traffic that is an outcome of new residents.

Revenue Potential

According to the Department of Motor Vehicles, an average of 16,826 new resident transactions were processed per month between June 2012, the first month for which this data is available, and April 2014. Using this average, it is estimated there are an average of 202,345 new resident transactions in a given fiscal year.

Figure 1 shows the fiscal impact of increasing the new resident use tax to $125, so that it is approximately equivalent to what it was worth when it was set in 1999, and redirecting revenue from the General Revenue Fund to the State Highway Fund. Increasing the tax would raise an additional $14.2 million for the 2016–17 biennium. Redirecting the allocation of revenue from the tax would result in a loss of approximately $36.4 million in General Revenue Funds and a gain of an equivalent amount to the State Highway Fund during the 2016–17 biennium. The net revenue gain to the State Highway Fund would be $50.6 million. There could be costs incurred for programming updates. Because this option would not change the way in which the tax is collected or remitted to the state no other administrative costs are anticipated.

FIGURE 1
FIVE-YEAR FISCAL IMPACT ESTIMATE, FISCAL YEARS 2016 TO 2020

FISCAL YEAR	PROBABLE REVENUE GAIN/(LOSS) IN GENERAL REVENUE FUNDS	PROBABLE REVENUE GAIN/(LOSS) IN OTHER FUNDS (STATE HIGHWAY FUNDS)
2016	($18,211,050)	$25,323,126
2017	($18,211,050)	$25,323,126
2018	($18,211,050)	$25,323,126
2019	($18,211,050)	$25,323,126
2020	($18,211,050)	$25,293,130

SOURCE: Legislative Budget Board.

6. IMPLEMENT A VEHICLE MILES TRAVELED TAX	
Description	This option would replace the motor fuels tax with a tax based on the number of miles a vehicle travels (VMT). As fuel efficiency increases vehicles will use less fuel than currently required to travel an equal distance. This reduces the amount of motor fuels tax revenue that will be generated.
Current Use	Currently, a tax of $0.20 per gallon is applied to each gallon of gasoline and diesel fuel sold. This tax is remitted to the state for deposit to the Available School Fund and the State Highway Fund. Under the International Fuel Tax Agreement, interstate truckers file a quarterly tax return to a central processing office, which calculates how much motor fuels tax each state should have received based on the miles driven in the state by interstate truckers. States are then either billed for motor fuels taxes overpaid in their jurisdiction or receive a payment for motor fuels taxes not paid in their jurisdiction (based on miles driven by interstate truckers). Therefore, the motor fuels tax paid by interstate truckers is based on the vehicle miles driven in each jurisdiction. Oregon, New Mexico, Kentucky, and New York use vehicle weight to apply VMT taxes to trucks. Oregon has conducted several pilots in which drivers of passenger vehicles were charged a road user fee. In response, the Legislature directed the establishment of a pilot program in which up to 5,000 drivers will pay the VMT tax in lieu of the state's motor fuels tax beginning in 2015. Germany currently uses a VMT fee for heavy commercial trucks; their fee varies partly by emissions level.
Implementation	To implement a VMT tax the Texas Tax Code, Chapter 162, would need to be amended to either replace or phase out the state's motor fuels tax or to establish a VMT tax in addition to the current motor fuels tax. The tax could be assessed and collected in a variety of ways. For instance, technology at service stations could determine the number of vehicle miles traveled and appropriate charges, or GPS devices in each vehicle could transmit data to a computer. Within Texas' current system of tax collection, the simplest way to implement a VMT tax would be through odometer readings. Under this option, when a vehicle undergoes its annual safety inspection, the inspector would record vehicle mileage and this information would be transmitted to the Texas Department of Motor Vehicles or the Comptroller of Public Accounts. Either agency would then assess the tax, collected by county tax assessor-collectors that currently collect most vehicle related state fees and taxes. Vehicle odometer readings are already collected during vehicle safety inspections and this data is transmitted from the inspection station to the Texas Department of Public Safety. As a result, this implementation would not result in additional requirements on inspection stations or additional data collection for a state agency. The Comptroller of Public Accounts could be authorized to issue refunds for any VMT tax paid for miles traveled outside of Texas. Concerns have been raised regarding a VMT tax, including the potential for an invasion of privacy, the feasibility and cost of retrofitting vehicles to include the necessary technology to implement a VMT tax, difficulties ensuring individuals do not evade a VMT tax, the administrative costs of collecting a VMT tax, and integration of the VMT tax alongside the current vehicle fleet that may not have the capability to collect necessary data. The method of implementation described above could help address many of these concerns.

Other Considerations

Because the VMT tax is a user fee that taxes persons based directly on their use of the road system, it provides direct link to road use based on how much a person drives rather than how much gasoline they purchase. This can encourage efficient use of the transportation system which also reduces the need for new capacity.

As fuel economy increases and hybrid cars continue to gain popularity, the VMT tax would provide source of revenue that compensates for these factors. However, concerns have been raised that the VMT tax decreases the incentive to buy and drive more fuel-efficient vehicles that tend to produce lower emissions.

In 1993, when the state's current gasoline tax of $0.20 per gallon went into effect, the Corporate Average Fuel Economy (CAFE) standard for model year 1993 passenger vehicles was 27.5 miles per gallon. The CAFE standard for model year 2014 vehicles was 31.4 miles per gallon. Using these standards, an average of approximately $0.007 in gasoline tax was paid per mile driven for model year 1993 passenger vehicles. An average of approximately $0.006 in gasoline tax was paid per mile driven for model year 2013 passenger vehicles. Using the Federal Highway Administration's estimate that the average annual miles driven is 13,476 miles per year, this results in a decrease of $13.47 in state gasoline taxes paid annually (from $94.33 paid in 1993 to $80.86 paid in 2014).

A VMT tax provides the flexibility to implement other road-pricing mechanisms that can help to mitigate congestion by influencing traffic behavior. Various pricing strategies could also be employed to account for factors such as vehicle emissions, efficiency, or weight. For instance, the tax structure could consider pollution factors by applying various rates based on a vehicle's emissions standards, engine specifications, or fuel efficiency. Different rates could apply to vehicles of various weight classes to take into account the amount of road damage a vehicle creates. Additionally, a VMT tax is capable of accounting for congestion through various pricing mechanisms such as variable pricing, time-of-day pricing, and cordon pricing.

Revenue Potential

Figure 1 shows estimated additional revenue from a VMT tax above what is generated by the current motor fuels tax. These calculations are based on historical growth rates of vehicle miles traveled and a flat-rate tax of $0.0124 per mile traveled (this is equivalent to the state motor fuels tax paid per mile driven in 1993) and do not include various pricing strategies that could be employed to account for factors such as vehicle emissions, efficiency, or weight. It is assumed it would take one fiscal year to prepare for and implement a VMT tax. As a result, this tax would result in an estimated $380.0 million in additional revenue for the 2016–17 biennium. There could be programming costs incurred to set the tax rate and collect the resulting revenue. These costs would vary depending upon the method of implementation adopted.

FIGURE 1
FIVE-YEAR FISCAL IMPACT ESTIMATE, FISCAL YEARS 2016 TO 2020

FISCAL YEAR	PROBABLE REVENUE GAIN/(LOSS) IN OTHER FUNDS (STATE HIGHWAY FUND)
2016	$0
2017	$380,000,000
2018	$404,300,000
2019	$427,700,000
2020	$449,500,000

SOURCE: Legislative Budget Board.

7. INDEX THE MOTOR FUELS TAX TO VEHICLE FUEL ECONOMY

Description

This option would index the motor fuels tax to Corporate Average Fuel Economy (CAFE) standards to account for reductions in the amount of motor fuels tax revenue associated with increasing fuel economy. As fuel economy standards increase, the amount of motor fuels needed to travel the same distance declines; resulting in declining motor fuels tax revenue.

Current Use

Gasoline and diesel fuel are taxed at a rate of $0.20 per gallon. In accordance with the Texas Constitution, approximately 75 percent of motor fuel tax revenues are dedicated for the construction, maintenance, and policing of public roads and are appropriated to the Texas Department of Transportation and the Texas Department of Public Safety for these purposes. Most of the remaining 25 percent of collections is dedicated to public education.

The federal government sets CAFE standards, which motor vehicle manufacturers are required to meet. Combined CAFE standards are set at 34.3 miles per gallon for model year 2016 and are expected to be at least 38.3 miles per gallon by model year 2020.

Implementation

To implement this option the Texas Tax Code, Chapter 162, would be amended to index the motor fuels tax to CAFE standards to account for reductions in the amount of motor fuels tax revenue associated with increasing fuel economy. The U.S. Department of Transportation and Environmental Protection Agency set CAFE standards that must be met by vehicle manufacturers selling vehicles in the United States. If the gasoline and diesel fuel taxes were held constant at 2014 CAFE standards, the tax would be $0.24 per gallon. As CAFE standards are amended in the future, motor fuel tax receipts would increase incrementally. The gasoline and diesel fuel tax per gallon for fiscal years 2016 through 2020 would be as shown in **Figure 1**. The Comptroller of Public Accounts would annually determine the amount of the tax to be applied.

FIGURE 1
GASOLINE AND DIESEL TAX RATE TIED TO VEHICLE FUEL ECONOMY, FISCAL YEARS 2016 TO 2020

FISCAL YEAR	CAFE STANDARD (MILES PER GALLON)	GASOLINE AND DIESEL TAX PER GALLON
2016	34.3	$0.22
2017	35.1	$0.22
2018	36.1	$0.23
2019	37.1	$0.24
2020	38.3	$0.24

SOURCE: Legislative Budget Board.

Other Considerations

Motor fuel tax collections in Texas have been increasing, but have been doing so at a decreasing rate. The nominal growth of motor fuel tax revenues since the last increase went into effect in 1991 has largely been the result of increases in the number of drivers and vehicle miles traveled in the state. CAFE standards are expected to increase in the future and it is unlikely the standards would ever be reduced, which would result in a revenue loss. Additionally, because CAFE standards are set in advance, it is possible to anticipate future revenue trends associated with indexing the motor fuels tax to fuel efficiency standards.

Revenue Potential

This option would generate $343.1 million in revenue for the State Highway Fund and $114.4 million in revenue for the Available School Fund for the 2016–17 biennium, as shown in **Figure 2**. This estimate uses a gasoline and diesel tax rate set based on CAFE standards for vehicle model years 2016 to 2020 and estimated gallons of motor fuel purchased for highway use as determined based on historical data. There could be costs incurred for programming updates. Because this option would not change the way in which the tax is collected or remitted to the state no other administrative costs are anticipated.

FIGURE 2
FIVE-YEAR FISCAL IMPACT ESTIMATE, FISCAL YEARS 2016 TO 2020

FISCAL YEAR	PROBABLE REVENUE GAIN/(LOSS) IN OTHER FUNDS (STATE HIGHWAY FUNDS)	PROBABLE REVENUE GAIN/(LOSS) IN GENERAL REVENUE FUNDS (AVAILABLE SCHOOL FUND)
2016	$137,871,398	$45,957,133
2017	$205,258,146	$68,419,382
2018	$290,918,974	$96,972,991
2019	$378,676,753	$126,225,584
2020	$485,614,530	$161,871,510

SOURCE: Legislative Budget Board.

8. INDEX THE MOTOR FUELS TAX TO THE AVERAGE WHOLESALE PRICE OF FUEL	
Description	This option would index the motor fuels tax rates to changes in the average wholesale price of fuel to prevent the value of this tax revenue from being eroded in the future.
Current Use	Gasoline and diesel fuel are taxed at a rate of $0.20 per gallon. In accordance with the Texas Constitution, approximately 75 percent of motor fuel tax revenues are dedicated for the construction, maintenance, and policing of public roads and are appropriated to the Texas Department of Transportation and the Texas Department of Public Safety for these purposes. Most of the remaining 25 percent of collections is dedicated to public education. Kentucky levies an excise tax of nine percent of the average wholesale price of gasoline with a minimum wholesale price of $1.786 per gallon and also assesses a supplemental highway user motor fuel tax which is set at $0.05. Under this model, the minimum tax that would be applied is $0.21 per gallon. These are paid on a per gallon basis. The excise tax is calculated based on excise tax from each quarter and adjusted to reflect changes in the average wholesale price. If there is a decrease in the average wholesale price computed for a quarter, the excise tax is adjusted upward by one-half of the decrease for the quarter. The adjustment is statutorily prohibited from increasing the supplemental highway user motor fuel tax by more than $0.05 for gasoline or $0.02 for special fuel. North Carolina has a motor fuels tax rate of 17.5 cents per gallon plus either 3.5 cents or 7 percent of the average wholesale price of fuel, whichever is greater. Under this model, the minimum gas tax that would be due is 21 cents per gallon. The average wholesale price is a weighted average of the wholesale prices of gasoline and No. 2 diesel fuel.
Implementation	The motor fuels tax could be indexed to the wholesale price of fuel by amending the Texas Tax Code, Chapter 162. The Comptroller of Public Accounts (CPA) would be required to determine the average wholesale price of fuel to calculate the rate. This could be done biannually or annually using information from either the preceding six months or twelve months. CPA would be required to make programming changes to the current system to allow for the continued electronic filing of taxes. In Kentucky, the Department of Revenue determines the average wholesale price for each quarter based on sales data accumulated for the first month of the preceding quarter, and provides this information to licensed dealers at least 20 days prior to the first day of each calendar quarter. In North Carolina motor fuels taxes are paid to the Department of Revenue when the fuel is removed from the terminal. The Secretary of the Department of Revenue (Secretary) sets the tax rate twice a year. The Secretary uses information from April 1 to September 30 to determine the rate that applies to the six-month period beginning the following January 1. The Secretary also uses information from October 1 to March 31 to determine the rate that applies to the six-month period beginning July 1. To determine the average wholesale price the Secretary uses information on refiner and gas plant operator sales prices of finished motor gasoline and No. 2 diesel fuel for resale published by the United States Department of Energy or equivalent data.

Other Considerations

The current motor fuels tax rate for gasoline and diesel fuel was set at $0.20 per gallon in 1991 and is now worth $0.12 per gallon, after adjusting for inflation. Because the tax is set at a flat rate, it is not regularly adjusted to keep pace with rising costs. The current gasoline and diesel fuel taxes would have been $0.74 per gallon in fiscal year 2013 if they had been indexed to the wholesale price of fuel. The wholesale price of gasoline sold by refiners in the United States during state fiscal year 1991 was $0.78 per gallon. During fiscal year 2013, the average wholesale price of gasoline sold by refiners in the United States was $2.88 per gallon. If the motor fuels tax were indexed to the wholesale price of fuel, the tax rate would automatically increase or decrease over time and the state's revenue from the motor fuels tax would fluctuate with the cost of fuel. Indexing the motor fuels tax to the wholesale price on fuel is similar to the manner in which Texas implements the sales tax, in that the amount of tax paid would be based on the price of the good purchased.

The price of motor fuels can be volatile. As a result, the amount of tax due and revenue collected from a tax indexed to the wholesale price of fuel could vary over time. Statutorily setting minimum and maximum rate changes could help to address this concern. Calculating the price-based component of a motor fuels tax based on the average wholesale price over a base period also helps to limit volatility in the motor fuel tax rate.

Revenue Potential

Indexing the gasoline and diesel tax rates to the wholesale price of gasoline would increase revenue to the State Highway Fund by $222.0 million in the 2016–17 biennium. Revenue to the Available School Fund would increase by $74.0 million during the 2016–17 biennium as a result of indexing the tax rates to the wholesale price of gasoline. These increases are shown in **Figure 1**.

This estimate uses forecasted gasoline price data from Moody's analytics to estimate the wholesale price of gasoline. There could be costs incurred for programming updates. Because this option would not change the way in which the tax is collected or remitted to the state no other administrative costs are anticipated.

FIGURE 1
FIVE-YEAR FISCAL IMPACT, FISCAL YEARS 2016 TO 2020

FISCAL YEAR	PROBABLE REVENUE GAIN/(LOSS) IN OTHER FUNDS (STATE HIGHWAY FUND)	PROBABLE REVENUE GAIN/(LOSS) IN GENERAL REVENUE FUNDS (AVAILABLE SCHOOL FUND)
2016	$54,385,695	$18,128,565
2017	$167,645,691	$55,881,897
2018	$258,343,254	$86,114,418
2019	$318,266,010	$106,088,670
2020	$380,820,179	$126,940,060

SOURCE: Legislative Budget Board.

9. INDEX THE MOTOR FUELS TAX TO THE PRODUCER PRICE INDEX	
Description	This option would index the motor fuels tax to the producer price index (PPI) for other nonresidential construction to link the motor fuels tax rate to the average change in the selling price of goods used for transportation construction projects.
Current Use	Gasoline and diesel fuel are taxed at a rate of $0.20 per gallon. In accordance with the Texas Constitution, approximately 75 percent of motor fuel tax revenues are dedicated for the construction, maintenance, and policing of public roads and are appropriated to the Texas Department of Transportation and the Texas Department of Public Safety for these purposes. Most of the remaining 25 percent of collections is dedicated to public education. Beginning January 1, 2014, tax on all fuel types other than jet and aviation fuel were indexed to the PPI for highway and street construction in Clark County, Nevada. This will continue through 2016; indexing of state motor fuels tax rate is prohibited after this time, however, the indexed rate applied in 2016 may continue and other fuel taxes may be indexed if approved in a statewide election. The base fuel tax rate will increase or decrease based on the 10-year average of the PPI and increases in the tax are capped at 7.8 percent per year. For calendar year 2014 this is set at 6.2 percent.
Implementation	To implement this option, the Texas Tax Code, Chapter 162, would be amended to index the gasoline and diesel fuel tax rates to the PPI for other nonresidential construction. The Comptroller of Public Accounts (CPA) would be required to calculate the rate annually using the 10-year average of the PPI for other nonresidential construction. CPA would be required to make programming changes to the current system to allow for the continued electronic filing of taxes. In Nevada, the Department of Motor Vehicles is making programming changes so that regular electronic filing of taxes can occur as it does in all other counties. While these changes are being implemented, fuel suppliers and distributors have been paying the indexed portion of their taxes manually using a spreadsheet developed by the department.
Other Considerations	The current motor fuels tax rate for gasoline and diesel fuel was set at $0.20 per gallon in 1991 and was worth $0.12 per gallon in 2014, after adjusting for inflation. Because the tax is set at a flat rate, it is not regularly adjusted to keep pace with rising costs. The PPI measures the average change over time in the selling price of domestic goods and services. One PPI commodity index produced by the Department of Labor measures the selling price of goods for other nonresidential construction. The price is based on revenue received by the producer; therefore, it does not include sales and excise taxes. A primary use of PPI is to measure real growth in output by deflating revenue streams. Rather than using a flat tax rate on the price of gallon sold, under this scenario the amount of tax applied would be adjusted at regular intervals. As a result, the tax rate would automatically increase or decrease with adjustments in costs related to the state's transportation system. Statutorily setting maximum rate changes and/or floors and ceilings could help limit large swings in the tax rate that could occur if a dramatic change in the PPI were experienced. Calculating the price-based component of a motor fuels tax based on the PPI over a base period also helps to limit volatility in the motor fuel tax rate.

Revenue Potential

The current gasoline and diesel fuel taxes of $0.20 per gallon, which went into effect in 1993, would be 20.4 cents per gallon in fiscal year 2016 if they were indexed to the producer price index for other nonresidential construction. Using the IHS forecast for the PPI for other nonresidential construction, indexing the gas and diesel tax rates would increase State Highway Fund revenue by $156.4 million and revenue to the Available School Fund by $52.1 million in the 2016–17 biennium compared to what is expected to be generated by the current gasoline and diesel fuel taxes. This is shown in **Figure 1**. There could be costs incurred for programming updates. Because this option would not change the way in which the tax is collected or remitted to the state no other administrative costs are anticipated.

FIGURE 1
FIVE-YEAR FISCAL IMPACT ESTIMATE, FISCAL YEARS 2016 TO 2020

FISCAL YEAR	PROBABLE REVENUE GAIN/(LOSS) IN OTHER FUNDS (STATE HIGHWAY FUND)	PROBABLE REVENUE GAIN/(LOSS) IN GENERAL REVENUE FUNDS (AVAILABLE SCHOOL FUND)
2016	$48,184,802	$16,061,601
2017	$108,244,345	$36,081,448
2018	$177,326,717	$59,108,906
2019	$252,601,985	$84,200,662
2020	$334,875,907	$111,625,302

SOURCE: Legislative Budget Board.

10. INDEX THE MOTOR FUELS TAX TO THE CONSUMER PRICE INDEX

Description

This option would index the motor fuels tax rates to changes in the consumer price index (CPI) to preserve the value of this tax revenue in the future.

Current Use

The current rate of the gasoline and diesel fuel taxes is $0.20 per gallon. The Comptroller of Public Accounts (CPA) may retain up to 1 percent of all motor fuels taxes for administration and enforcement. Deductions for refunds and administration are made from the motor fuels tax on a monthly basis. After deductions, one-fourth of net collections are deposited to the Available School Fund and approximately three-fourths of net collections are deposited to the State Highway Fund.

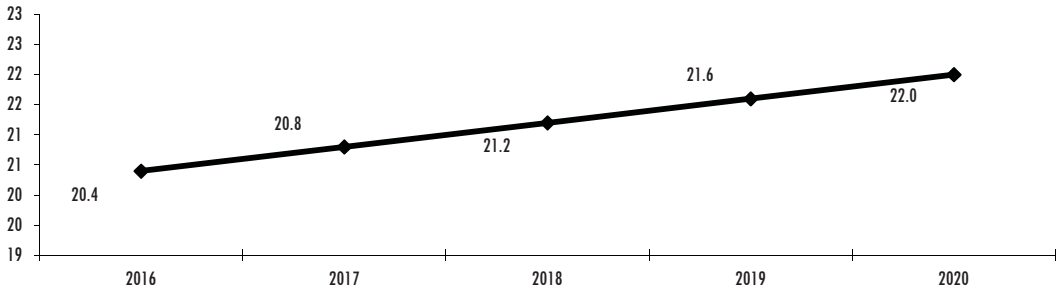
Florida levies a motor fuels tax of $0.203 per gallon as of calendar year 2014. This rate is indexed to the CPI, with a floor of $0.069 per gallon. The base indexing period is a 12-month period during Florida fiscal year 1988-89. The Florida Department of Transportation estimates that in fiscal years 2012 and 2013 the state received approximately $550 million in additional revenue compared to what would have been collected without indexing. In addition, the State Comprehensive Enhance Transportation System Tax (SCETS) is assessed on every gallon of fuel sold and indexed to the CPI and adjusted proportionally to the change in the CPI during the previous 12-month period. Revenue from this tax is required to be spent in the transportation district, and when feasible, the county from which it is collected. According to the Florida Department of Transportation, the typical Florida driver paid $122 annually in state fuel taxes in 2014.

In July 2013, Maryland increased its gasoline and diesel taxes and added an annual CPI increase to the rate. If the CPI declines or does not grow, Maryland's fuel tax rates will not increase. Additionally, the excise tax rate is prohibited from increasing more than 8 percent over the tax rate imposed during the previous year.

Implementation

The option to index the gasoline and diesel taxes would require amending the Texas Tax Code, Chapter 162, to provide for an increase or decrease in the gasoline and diesel fuel tax rates each year in relation to the percentage change in the CPI, rounded to the nearest tenth of a cent. **Figure 1** shows the annual changes in the gas and diesel tax rates after adjusting them to CPA's estimates for changes in the CPI.

FIGURE 1
INDEXED GASOLINE AND DIESEL TAX RATE, FISCAL YEARS 2016 TO 2020



SOURCE: Legislative Budget Board.

Under this option, in fiscal year 2016 the gasoline and diesel tax rate would increase by 0.4 cents per gallon. By the end of the biennium, the rates would have risen 0.8 cents per gallon. In total, the tax rate would increase 2.0 cents per gallon from fiscal year 2016 to fiscal year 2020. To protect against sudden increases that may result from a spike in the CPI, the Legislature could set a statutory floor and ceiling to control the maximum amount of an increase or decrease that could occur.

Other Considerations

The current motor fuels tax rate for gasoline and diesel fuel was set at $0.20 per gallon in 1991 and was worth $0.12 per gallon in 2014, after adjusting for inflation based on the CPI. Because the tax is set at a flat rate, it is not regularly adjusted to keep pace with rising costs. The current gasoline and diesel fuel taxes of $0.20 that went into effect in 1993, would be $0.33 as of 2014, if they had been indexed to the CPI. According to the Florida Department of Transportation, the CPI is less volatile than other options and can normally be forecasted accurately, therefore providing a good reflection of costs. However, the CPI does not include a sampling of all population groups. For instance, it may not accurately reflect price changes in rural areas.

Revenue Potential

Using CPA's 2012–13 economic forecast for the CPI, indexing the gas and diesel tax rates to this index would increase revenue to the State Highway Fund by $142.5 million in the 2016–17 biennium. Revenue to the Available School Fund would increase by approximately $47.5 million as shown in **Figure 2**. This estimate uses the tax rates in **Figure 1** and estimated gallons of fuel purchased for use on highways using projected growth rates based on historical data. There could be costs incurred for programming updates. Because this option would not change the way in which the tax is collected or remitted to the state no other administrative costs are anticipated.

FIGURE 2
FIVE-YEAR FISCAL IMPACT ESTIMATE, FISCAL YEARS 2016 TO 2020

FISCAL YEAR	PROBABLE REVENUE GAIN/(LOSS) IN OTHER FUNDS (STATE HIGHWAY FUND)	PROBABLE REVENUE GAIN/(LOSS) IN GENERAL REVENUE FUNDS (AVAILABLE SCHOOL FUND)
2016	$45,702,141	$15,234,047
2017	$96,837,983	$32,279,328
2018	$151,412,468	$50,470,823
2019	$208,430,260	$69,476,753
2020	$266,844,068	$88,948,023

SOURCE: Legislative Budget Board.

11. INCREASE THE MOTOR FUELS TAX	
Description	This option would increase the motor fuels tax on gasoline and diesel fuel. Revenue gains reflect estimates of revenue that would be generated for each $0.01 increase in the tax.
Current Use	Gasoline and diesel fuel are taxed at a rate of $0.20 per gallon. In accordance with the Texas Constitution, approximately 75 percent of motor fuel tax revenues are dedicated for the construction, maintenance, and policing of public roads and are appropriated to the Texas Department of Transportation and the Texas Department of Public Safety for these purposes. Most of the remaining 25 percent of collections is dedicated to public education. According to the American Petroleum Institute, the average state gasoline excise tax was 20.6 cents per gallon in February 2015, excluding federal and other state gasoline excise taxes. Texas is 1 of 13 states that does not levy additional state gasoline excise taxes on the sale of gasoline. When including other state gasoline excise taxes, Texas' gasoline tax rate was the 43rd lowest rate of all states and the District of Columbia. The highest rate was in Pennsylvania at 68.9 cents per gallon and the lowest rate was Alaska with a rate of 11.3 cents per gallon. The nationwide average state tax on diesel fuel was 19 cents per gallon in January 2015. When including other gasoline excise taxes, Texas' diesel fuel tax rate was the 44th lowest rate of all states and the District of Columbia. The highest rate of state diesel and excise tax was 64.2 cents per gallon in Pennsylvania and the lowest rate 11.8 cents per gallon in Alaska.
Implementation	To implement this option, Texas Tax Code, Chapter 162, would be amended to provide for an increase in the gasoline, diesel fuel, and liquefied natural gas tax rates. Raising the tax would generate additional revenue for the State Highway Fund and Available School Fund.
Other Considerations	The current gasoline and diesel tax of $0.20 per gallon was set in 1991 and was worth $0.12 per gallon in calendar year 2014 when adjusted for inflation. As fuel efficiency improves, the average gasoline tax paid per mile will also decline. Based on the current gasoline tax, a vehicle with a fuel tank of 12 gallons pays $2.40 per tank in gasoline tax to fill the tank. In 1991, when the current and diesel fuel taxes were set, the Corporate Average Fuel Economy (CAFE) standards for model year 1991 passenger cars was 27.5 miles per gallon (mpg). Therefore, the average new vehicle in 1991 would get 330 miles per tank which equated to approximately $0.007 per mile in gasoline tax. However, CAFE standards for model year 2025 vehicles are currently set at 54.5 mpg. Therefore, the average new vehicle with a 12 gallon tank in 2025 will get 654 miles per tank and pay approximately $0.004 per mile in gasoline tax. As a result, the average gasoline tax paid per mile driven will decline by nearly 50 percent from model year 1991 vehicles to model year 2025 vehicles.

Revenue Potential

As shown in **Figure 1**, during the 2016–17 biennium, increasing the motor fuels tax by 1 cent via this option would generate an additional $253.5 million in State Highway Funds. This estimate is based on the number of gallons of motor fuels projected to be purchased for highway use in future years, which was determined using historical data. An additional $84.5 million would be generated for the Available School Fund under this option. Additional revenue would also result from increasing the liquefied natural gas tax; however, this amount cannot be determined at this time. There could be costs incurred for programming updates. Because this option would not change the way in which the tax is collected or remitted to the state no other administrative costs are anticipated.

FIGURE 1
FIVE-YEAR FISCAL IMPACT ESTIMATE OF A 1 CENT INCREASE
FISCAL YEARS 2016 TO 2020

FISCAL YEAR	PROBABLE REVENUE GAIN/(LOSS) IN OTHER FUNDS (STATE HIGHWAY FUNDS)	PROBABLE REVENUE GAIN/(LOSS) IN GENERAL REVENUE FUNDS (AVAILABLE SCHOOL FUND)
2016	$126,241,104	$42,080,368
2017	$127,251,291	$42,417,097
2018	$128,269,753	$42,756,584
2019	$129,296,559	$43,098,853
2020	$130,331,778	$43,443,926

SOURCE: Legislative Budget Board.

12. APPLY THE MOTOR FUELS TAX TO DIESEL USED TO PROPEL RAIL CARS	
Description	This option would eliminate the exemption for diesel fuel consumed to propel locomotive engines from the state motor fuels tax and direct resulting revenue to the Rail Relocation and Improvement Fund (RRIF) to finance the relocation and improvement of passenger and freight rail lines and facilities.
Current Use	In general, the diesel fuel tax of $0.20 is charged on each gallon of diesel fuel sold in Texas used to propel vehicles on Texas' public roads. Texas Tax Code, Chapter 162, exempts diesel fuel used to propel locomotive engines from the diesel fuel tax. In accordance with Texas Constitution, Article VIII, Section 7-a, approximately 75 percent of all net revenue generated by motor fuels taxes used to propel motor vehicles over public roadways is deposited to the State Highway Fund and the remaining 25 percent is deposited to the Available School Fund. Diesel fuel tax revenue deposited to the State Highway Fund is used to acquire rights-of-way; construct, maintain, and police public roadways; or for the payment of principal and interest on certain road district bonds or warrants. RRIF was established in 2005 but has never received revenue or appropriations. The purpose of the fund is to address public safety, congestion, and economic development issues resulting from rail lines located in densely populated areas of the state. Allowable uses of the RRIF are to finance, in whole or in part, the relocation and improvement of passenger and freight rail lines and facilities to promote mobility and public safety. Capital assets and construction projects, including those dealing with highway congestion relief, public safety enhancements, improvements to air quality, and economic expansion opportunities, can be financed using the fund.
Implementation	To implement this option the Texas Tax Code, Sections 162.204 and 162.504, would be amended to eliminate the rail industry exemption from the diesel tax and direct subsequent revenue to the RRIF for the purpose of improving and expanding passenger and freight rail infrastructure in Texas. Because revenue resulting from removing this exemption is not generated by motor fuels taxes used to propel motor vehicles over public roadways, this revenue would not be subject to Texas Constitution, Article VIII, Section 7-a.
Other Considerations	The stated legislative intent for the RRIF was to address the effect of rail demands on state highway congestion, public safety, and air quality. Highway congestion issues related to the state's growth in the last several decades are, in part, a result of the inability of freight rail operations to keep pace with industrial shipping demands, forcing more commercial traffic onto the roadways. Besides relieving highway congestion, moving freight traffic from long-haul trucking to rail options could assist the state in meeting federal air quality standards and improve statewide environmental conditions. Finally, relocating rail lines from densely populated urban areas would free valuable right-of-way space for the development of commuter rail lines, further easing congestion and improving air quality while also increasing the economic viability of the state's market centers.

Revenue Potential

Based on information regarding to gallons of fuel used by the railroad industry from the U.S. Energy Information Administration and applying the current diesel fuel tax rate of $0.20 per gallon; this option would generate approximately $193.1 million in Other Funds for the 2016–17 biennium. The fiscal impact of this option is shown in **Figure 1**.

There could be costs incurred for programming updates. Because this option would not change the way in which the tax is collected or remitted to the state no other administrative costs are anticipated.

FIGURE 1
FIVE-YEAR FISCAL IMPACT ESTIMATE, FISCAL YEARS 2016 TO 2020

FISCAL YEAR	PROBABLE REVENUE GAIN/(LOSS) IN OTHER FUNDS (THE RAIL RELOCATION AND IMPROVEMENT FUND)
2016	$96,530,300
2017	$96,530,300
2018	$96,530,300
2019	$96,530,300
2020	$96,530,300

SOURCE: Legislative Budget Board.

13. INCREASE THE LIQUEFIED AND COMPRESSED NATURAL GAS TAX AND DIESEL FUEL TAX BASED ON ENERGY CONTENT

Description

This option would increase the tax on liquefied natural gas (LNG), compressed natural gas (CNG), and diesel fuels so they are equivalent to the amount paid per 1,000 BTUs for gasoline.

Current Use

Gasoline and diesel fuel taxes are set at $0.20 per gallon. The tax on liquefied petroleum gas (LPG), CNG, and LNG is $0.15 per gallon equivalent volume. In accordance with the Texas Constitution, approximately 75 percent of motor fuel tax revenues are dedicated for the construction, maintenance, and policing of public roads and are appropriated to the Texas Department of Transportation and the Texas Department of Public Safety for these purposes. Most of the remaining 25 percent of collections is dedicated to public education.

A British Thermal Unit (BTU) is a traditional unit of energy that measures the amount of energy content of liquids. Diesel fuel, LNG, and CNG are taxed at a lower rate per unit of energy content than gasoline and liquefied petroleum gas. The amount of BTUs per gallon and motor fuel tax paid for gasoline, diesel, LPG, and CNG, are shown in **Figure 1**.

FIGURE 1
MOTOR FUEL TAX PAID PER 1,000 BRITISH THERMAL UNITS, AS OF FISCAL YEAR 2015

FUEL	BTU/GALLON	CURRENT TAX RATE DOLLAR/ GALLON	DOLLAR/1,000 BTU
Gasoline	116,090	$0.20	$0.172
Liquefied gas	84,250	$0.15	$0.178
Diesel	128,450	$0.20	$0.156
Liquefied natural gas	114,106	$0.15 (1)	$0.139
Compressed natural gas	114,271	$0.15 (1)	$0.131

NOTE: (1) Diesel or gasoline equivalent gallons.
SOURCE: Legislative Budget Board.

Implementation

To implement this option, Texas Tax Code, Chapter 162, would be amended to provide for an increase in the diesel fuel, LNG, and CNG gas tax rates based on BTU per gallon. The diesel fuel tax would increase from $0.20 to $0.22 per gallon and the LNG and CNG rate would increase from $0.15 to $0.20 per gallon equivalent.

Other Considerations

CNG and LNG are increasingly being used as a transportation fuel by fleet vehicles as well as in passenger cars. Vehicular natural gas use has increased at an annual rate of 9.6 percent between fiscal years 1997 and 2012. The current differential in the tax rates for LNG, CNG, gasoline, and diesel results in lower state fuel tax collections when gasoline or diesel is replaced with LNG or CNG.

Prior to 1984, diesel fuel was taxed at a higher rate than gasoline ($0.065 per gallon for diesel compared to $0.05 for gasoline). The gasoline and diesel fuel taxes were last increased in 1991 and the liquefied gas tax was last increased in 1986.

Revenue Potential

Increasing the diesel fuel tax to $0.22 per gallon to equalize the cents of tax per BTU ratio with gasoline, would generate $123.9 million for the State Highway Fund and $40.7 million for the Available School Fund during the 2016–17 biennium. Increasing the LNG and CNG tax to $0.20 to equalize the cents of tax per BTU ratio with gasoline, would generate $1.2 million for the State Highway Fund and $0.4 million for the Available School Fund during the 2016–17 biennium. The combined fiscal impact is shown in **Figure 2**. There could be costs incurred for programming updates. Because this option would not change the way in which the tax is collected or remitted to the state no other administrative costs are anticipated.

FIGURE 2
FIVE-YEAR FISCAL IMPACT ESTIMATE, FISCAL YEARS 2016 TO 2020

FISCAL YEAR	PROBABLE REVENUE GAIN/(LOSS) IN OTHER FUNDS (STATE HIGHWAY FUND)	PROBABLE REVENUE GAIN/(LOSS) IN GENERAL REVENUE FUNDS (AVAILABLE SCHOOL FUND)
2016	$61,920,776	$20,365,826
2017	$63,163,891	$20,774,709
2018	$64,433,741	$21,192,394
2019	$65,729,191	$21,618,500
2020	$67,050,760	$22,053,198

SOURCE: Legislative Budget Board.

14. REPEAL MOTOR FUEL TAX EXEMPTIONS RELATED TO AVIATION AND MOTORBOATS	
Description	This option would remove certain motor fuels tax exemptions for aviation and motorboats to generate revenue to offset State Highway Funds expended for costs associated with maintaining general aviation airports and some waterways.
Current Use	In accordance with the Texas Constitution, approximately 75 percent of motor fuel tax revenues, after deductions and refunds, are dedicated for the construction, maintenance, and policing of public roads. Most of the remaining 25 percent of collections is dedicated to public education. Gasoline for aviation and marine use is exempt from the motor fuels tax; this exemption is estimated to result in foregone revenue of $32.8 million during the 2014–15 biennium and $33.2 million in the 2016–17 biennium. Unclaimed refunds for motorboat fuels are currently deposited to the General Revenue Fund and statute allocates 75 percent of this amount to the Texas Parks and Wildlife Department (TPWD). The actual amount of this allocation received is subject to appropriation and has historically been less than 75 percent. At the federal level, gasoline used for a limited number of purposes, including commercial fishing and commercial aviation, is subject to a refund for motor fuels tax paid but most other marine and aviation uses are not authorized for a refund. Other states treat fuel used for aviation and marine purposes in a variety of ways. According to the Federal Highway Administration, 10 states do not provide any type of exemption or refund for fuel used for marine or aviation purposes. Colorado applies an aviation fuel tax that is lower than the rate for gasoline. Some states have an exemption or refund for diesel fuel used for non-highway purposes but not for gasoline or other fuels. Other states limit the gasoline exemption or refunds related to marine use to commercial fishing boats and apply it in 100 gallon quantities.
Implementation	To implement this option, Texas Tax Code, Chapter 162, would be amended to repeal the exemptions for aviation use and motorboats. Eliminating this exemption would generate additional revenue for the State Highway Fund and Available School fund. This option would not change the way in which the tax is collected or remitted to the state. Additionally, if motorboats are no longer exempt from paying the state motor fuels tax, there would be no revenue from unclaimed refunds for motorboat fuels deposited to the General Revenue Fund. Therefore, Texas Tax Code, Chapter 162, would need to be amended to remove the statutory allocation of this revenue.
Other Considerations	Unclaimed refunds for motorboat fuels are currently one method of finance provided to TPWD. For the 2014–15 biennium this method of finance made up approximately $30.3 million of TPWD's appropriations. Therefore the Legislature would need to increase other revenue streams, reduce appropriations to TPWD, or some combination of the two options in order to maintain current levels of funding. Alternatively, the Legislature could dedicate a portion of motor fuels tax estimated to result from marine use to TPWD. For the 2014–15 biennium, the Texas Department of Transportation was appropriated $289.2 million for aviation services, the Gulf Intracoastal Waterway, and ferry operations.

Revenue Potential

Figure 1 shows that during the 2016–17 biennium, this option would generate an additional $78.8 million in State Highway Funds. This is based on estimates provided by the Comptroller of Public Accounts for the values of the aviation use and marine use exemptions for gasoline. The estimated revenue gain is based solely on gasoline taxes and does not include revenue that would be generated from the diesel fuel and liquefied natural gas taxes. Because unclaimed motorboat tax refunds are currently deposited to the General Revenue Fund and this option would remove the refund option, there would be a loss of $45.6 million to the General Revenue Fund. This is based on the average amount of unclaimed refunds deposited to the General Revenue Fund from fiscal year 2010 to fiscal year 2014. The net gain in All Funds for the 2016–17 biennium would be $33.2 million. There could be costs incurred for programming updates. Because this option would not significantly change the way in which the tax is collected or remitted to the state no other administrative costs are anticipated.

FIGURE 1
FIVE-YEAR FISCAL IMPACT ESTIMATE, FISCAL YEARS 2016 TO 2020

FISCAL YEAR	PROBABLE REVENUE GAIN/(LOSS) IN OTHER FUNDS (STATE HIGHWAY FUND)	PROBABLE REVENUE GAIN/(LOSS) IN GENERAL REVENUE FUNDS (UNCLAIMED MOTORBOAT REFUNDS)
2016	$39,423,208	($22,823,208)
2017	$39,423,208	($22,823,208)
2018	$39,589,875	($22,823,208)
2019	$39,756,542	($22,823,208)
2020	$39,885,113	($22,823,208)

SOURCE: Legislative Budget Board.

15. DECREASE THE MOTOR FUEL TAX COLLECTION ALLOWANCE	
Description	This option would set the administrative allowance for suppliers, distributors, and importers at $0.002 per gallon (1 percent) of motor fuels tax collected and prevent any future tax increases from resulting in a windfall for this group.
Current Use	Currently, suppliers who timely pay motor fuel taxes to the state are allowed to retain 2 percent of the tax due. Distributors and importers are allowed to retain 1.75 percent of the taxes remitted to the supplier to cover administrative expenses, leaving the supplier with 0.25 percent of the total 2 percent timely filer allowance. Article VIII, Section 7-a, Texas Constitution, requires approximately 75 percent of all net revenue generated by motor fuels taxes to be used for acquiring rights-of-way; constructing, maintaining, and policing public roadways; or for the payment of principal and interest on certain road district bonds or warrants. The remaining 25 percent of motor fuels tax revenue is constitutionally dedicated to the Available School Fund. Of the 10 states with the highest gross motor fuels tax collections in calendar year 2012, 5 provide some sort of allowance for either collection expenses or shrinkage. Texas and Pennsylvania allowed the highest allowance at 2 percent while other states allowance's ranged from 1 percent to 1.75 percent. The only other major tax for which an allowance is provided for timely remittance in Texas is the state sales tax. The timely filer discount for the sales tax is statutorily set at 0.5 percent of the sales tax collected.
Implementation	Reducing the administrative allowance and setting it at a fixed amount would require amending the Texas Transportation Code, Chapter 162, to set the total amount that may be retained at $0.02 per gallon. This would be equivalent to 1 percent of the current gasoline and diesel tax rate which is set at $0.20 per gallon. This would reduce the amount of motor fuels tax suppliers and distributors retain and prevent any future tax increases from creating a windfall for suppliers, distributors, and importers if the motor fuels tax is increased in the future. Alternatively, the Legislature could amend statute to retain the allowance for suppliers and distributors at a percentage of the motor fuels tax but reduce the total amount retained by half, to 1 percent. Another alternative would be to set the motor fuel tax collection allowance at 0.5 percent so that it is equivalent to the rate provided for timely filing of the sales tax. The options for implementation discussed above would not alter the current percentage of the total administrative allowance. Distributors who make timely payments would keep 87.5 percent of the total deduction ($0.0175 per gallon or .875 percent of total taxes due) and suppliers and importers would keep 12.5 percent of the total deduction ($0.0025 per gallon or .125 percent of total taxes due) based on an administrative allowance of $0.02 per gallon or 1 percent of motor fuels tax collected. Decreasing the motor fuels tax allowance and setting the allowance at a fixed amount rather than a percentage is not expected to increase or complicate the administrative duties of the taxpayers or the Comptroller of Public Accounts (CPA). The calculation of the allowance would be assessed in the same manner in which it is currently processed after adjusting for the new allowance amount.
Other Considerations	Adjusted for inflation, the 2 percent retained by gasoline suppliers and distributors for remitting gasoline and diesel taxes in 1972 was approximately $41.1 million. CPA estimates this amount will be equivalent to $66.4 million for fiscal year 2015, or $20.1 million more than would have been retained in 1972. Additionally, since the current allowance rate was adjusted in fiscal year 1971, consumption of motor fuel has increased. According to the U.S. Federal Highway Administration, 7.3 billion gallons of motor fuels were used on Texas highways in calendar year 1972. In calendar year 2013, 17.1 billion gallons of motor fuels were used on Texas highways. This represents an increase of 134.2 percent in gallons of motor fuels used on Texas highways. The majority of this would be taxable (some exemptions are provided for certain users) and, therefore, the administrative allowance may be retained from the increased tax revenue generated by the purchase of additional motor fuel.

Revenue Potential

Reducing the administrative allowance for distributors and suppliers will result in additional revenue for both the State Highway Fund and the Available School Fund. According to CPA, the amount of allowance retained by distributors and suppliers will steadily increase through fiscal year 2018 at the current rate of 2 percent. This is because gasoline and diesel fuel consumption is expected to increase during this same time period. However, regardless of fluctuations in gasoline consumption, reducing the tax allowance rate automatically increases the portion of the gasoline tax that the state receives. This estimate assumes the allowance rate for distributors and suppliers would be reduced to $0.002 per gallon and also applies to the option to reduce the rate to 1 percent as long as the gasoline and diesel fuel tax rates remain at $0.20 per gallon. **Figure 1** shows that for the 2016–17 biennium this option would yield an estimated $51.1 million for the State Highway Fund and $17.1 million for the Available School Fund. There could be costs incurred for programming updates. Because this option would not change the way in which the tax is collected or remitted to the state no other administrative costs are anticipated.

FIGURE 1
FIVE-YEAR FISCAL IMPACT ESTIMATE, FISCAL YEARS 2016 TO 2020

FISCAL YEAR	PROBABLE REVENUE GAIN/ (LOSS) IN OTHER FUNDS (STATE HIGHWAY FUND)	PROBABLE REVENUE GAIN/(LOSS) IN GENERAL REVENUE FUNDS (AVAILABLE SCHOOL FUND)
2016	$25,387,500	$8,462,500
2017	$25,725,000	$8,575,000
2018	$26,100,000	$8,700,000
2019	$26,439,222	$8,813,074
2020	$26,782,854	$8,927,618

SOURCE: Legislative Budget Board.

16. REDIRECT REVENUE FROM CERTAIN SPECIAL VEHICLE PERMITS

Description

This option would redirect the allocation of fee revenue from certain special vehicle permits from the General Revenue Fund to the State Highway Fund. Permits are required for certain oversize and overweight vehicles. The allocation of this revenue also varies by permit; a portion of revenue from certain permits is deposited to the General Revenue Fund.

Current Use

A variety of vehicles that transport goods are required to obtain a special vehicle permit. A portion of revenue from permits shown in **Figure 1** is deposited to the General Revenue Fund. Additionally, the Eighty-third Legislature established two new fees and dedicated the state's portion of this fee revenue to the State Highway Fund. However, this dedication was not exempted in the fund consolidation bill and therefore this revenue is deposited to the General Revenue Fund. The Eighty-third Legislature also established a new Texas Department of Motor Vehicles Fund and dedicated revenue from certain fees previously deposited to the State Highway Fund to the new fund. However, the new fund was not exempted from fund consolidation; as a result, dedicated revenues are instead deposited to the General Revenue Fund.

FIGURE 1
ALLOCATION OF REVENUE FROM SELECT SPECIAL VEHICLE PERMITS, AS OF FISCAL YEAR 2014

PERMIT	FEE	ALLOCATION OF REVENUE PRIOR TO FISCAL YEAR 2014	ALLOCATION OF REVENUE BASED ON HB 2202 AND HB 2741
Manufactured Housing (single trip)	$40 for single trip	$19.70 to General Revenue Fund; $20.30 to State Highway Fund	$19.70 to General Revenue Fund; $18.27 to State Highway Fund; $2.03 to DMV Fund
Oversize and Overweight for Oil Well Servicing	$52 per axle	State Highway Fund	90% to General Revenue Fund; 10% to DMV Fund
Oversize and Overweight Motor Vehicle	$60 to $270	50% to General Revenue Fund; 50% to State Highway Fund	50% to General Revenue Fund; 45% to State Highway Fund; 5% to DMV Fund
Oversize Portable Buildings	$15	$7.50 to General Revenue Fund; $7.50 to State Highway Fund	$7.50 to General Revenue Fund; $6.75 to State Highway Fund; $0.75 to DMV Fund
Ready-Mix Concrete Trucks	$1,000 base fee	Did not exist	50% to State Highway Fund and 50% to counties
Unladed Lift Equipment (Annual Permit)	$100	$50 to General Revenue Fund; $50 to State Highway Fund	$50 to General Revenue Fund; $45 to State Highway Fund; $5 to DMV Fund
Vehicles Transporting Timber	$1,500	Did not exist	50% to State Highway Fund and 50% to counties

NOTE: The Department of Motor Vehicles (DMV) Fund was not established per House Bill 6, Eighty-third Legislature, Regular Session and therefore revenue allocated to this fund is instead deposited to the General Revenue Fund.
SOURCE: Legislative Budget Board.

Implementation

To implement this option the Texas Transportation Code, Chapter 623, would be amended to redirect a portion of the fees in **Figure 1** to be deposited to the State Highway Fund instead of the General Revenue Fund. This redirection could apply solely to the portion of the fees that were deposited to the General Revenue Fund prior to the passage of House Bill 2202, Eighty-third Legislature, Regular Session, 2013, which sought to establish the DMV Fund. The option would not change the amount of revenue raised from the fee.

Other Considerations

Most motor vehicle registration fees are deposited to the State Highway Fund, including those collected for passenger vehicles. This option would align the allocation of a majority of the revenue for certain special vehicle permits with allocation of revenue from other vehicle registration fees. This option does not propose reallocating portions of the excess weight permit fee that are deposited to the General Revenue Fund. This portion is distributed from the General Revenue Fund to counties in accordance with the Texas Transportation Code, Section 621.353.

Many of these fees have not been amended since the 1990s; the Legislature could choose to adjust the fees to account for their declining purchasing power over time.

Revenue Potential

Based on an average of the amount of revenue estimated to have been deposited to the General Revenue Fund from these permits between fiscal years 2011 and 2013, the revenue gain to the State Highway Fund would be $54.5 million for the 2016–17 biennium. This is shown in **Figure 2**. There would be an equivalent loss of revenue to the General Revenue Fund. This estimate does not account for revenue from permits for Ready-Mix Concrete Trucks or Vehicles Transporting Timber since these permits were not in existence prior to fiscal year 2014.

There could be costs incurred for programming updates. Because this option would not change the way in which the fees are collected or remitted to the state no other administrative costs are anticipated.

FIGURE 2
FIVE-YEAR FISCAL IMPACT ESTIMATE, FISCAL YEARS 2016 TO 2020

FISCAL YEAR	PROBABLE REVENUE GAIN/(LOSS) IN OTHER FUNDS (STATE HIGHWAY FUND)	PROBABLE REVENUE GAIN/(LOSS) IN GENERAL REVENUE FUNDS
2016	$27,253,978	($27,253,978)
2017	$27,253,978	($27,253,978)
2018	$27,253,978	($27,253,978)
2019	$27,253,978	($27,253,978)
2020	$27,253,978	($27,253,978)

SOURCE: Legislative Budget Board

17. INDEX THE MOTOR VEHICLE REGISTRATION FEE TO VEHICLE FUEL EFFICIENCY

Description

This option would index the motor vehicle registration fee based on vehicle fuel efficiency to maintain the future purchasing power of the fee. As vehicle fuel efficiency increases, the amount of fuel purchased per mile traveled decreases and therefore the amount of motor fuels tax paid is less than it would be otherwise. The current passenger vehicle registration fee is equivalent to approximately $1.62 per gallon under 2014 Corporate Average Fuel Economy (CAFE) standards.

Current Use

All passenger vehicles operating on Texas roads are required to be registered and pay a vehicle registration fee. This fee varies depending upon the type of vehicle. Passenger vehicles and trucks in Texas weighing less than 6,000 pounds pay a vehicle registration fee of $50.75. Net revenue from the registration fee is deposited to the State Highway Fund and constitutionally dedicated for acquiring rights-of-way, constructing, maintaining, and policing public roadways, and administering traffic and safety laws on public roadways.

No states are known to index vehicle registration fees, although several states do have tiered registration fee schedules in which criteria such as age is one factor used to determine the registration fee.

Implementation

This option would amend Texas Transportation Code, Chapter 502, to index the registration fee to vehicle fuel efficiency. The U.S. Department of Transportation and Environmental Protection Agency set CAFE standards that must be met by vehicle manufacturers selling vehicles in the United States. If the fee were set to generate the same revenue per gallon required under 2014 CAFE standards, the fee would be set at $1.62 per gallon. As CAFE standards are amended in the future, vehicle registration fee receipts would increase incrementally with CAFE standards. The amount the registration fee would be for fiscal years 2016 through 2020 under this option are shown in **Figure 1**.

FIGURE 1
VEHICLE REGISTRATION FEES, FISCAL YEARS 2016 TO 2020

FISCAL YEAR	CAFE STANDARD	REGISTRATION FEE
2016	34.3	$67.73
2017	35.1	$69.31
2018	36.1	$71.29
2019	37.1	$73.26
2020	38.3	$75.63

SOURCE: Legislative Budget Board.

The fee would be paid by all persons registering a passenger vehicle in Texas. The Texas Department of Motor Vehicles (DMV) currently oversees the vehicle registration program for passenger vehicles. DMV would be responsible for calculating the registration fee based on statutory direction to set the fee at $1.62 per gallon under CAFE.

Other Considerations

There is a correlation between energy-efficiency and emissions produced by vehicles. Vehicles that are less energy-efficient than the average vehicle also generally produce more emissions. Motor vehicle emissions are a primary source of air pollution in the three areas of the state that do not meet ozone standards set by the U.S. Environmental Protection Agency. As a result, the state spends funds in efforts to comply with federal air quality standards and this contributes to the demand for congestion mitigation transportation projects.

Long-term, the revenue potential from indexing vehicle registration fees to vehicle fuel economy is expected to be positive. CAFE standards are expected to increase in the future and it is unlikely the standards would be reduced, which would result in a revenue loss. Additionally, because CAFE standards are set in advance, it is possible to anticipate future revenue trends associated with indexing vehicle registration fees to fuel efficiency standards.

Revenue Potential

During the 2016–17 biennium, this option would generate an additional $868.1 million in State Highway Funds compared to the revenue that would have been generated under the current registration fee of $50.75 for passenger vehicles. This is based on an annual growth rate in passenger vehicle registrations of 2.0 percent and CAFE standards as set at the end of calendar year 2014. The fiscal impact of this option is shown in **Figure 2**. There could be costs incurred for programming updates. Because this option would not change the way in which the fee is collected or remitted to the state no other administrative costs are anticipated.

FIGURE 2
FIVE-YEAR FISCAL IMPACT ESTIMATE, FISCAL YEARS 2016 TO 2020

FISCAL YEAR	PROBABLE REVENUE GAIN/(LOSS) IN OTHER FUNDS (STATE HIGHWAY FUND)
2016	$410,469,457
2017	$457,670,717
2018	$516,537,063
2019	$577,584,962
2020	$651,215,079

SOURCE: Legislative Budget Board.

18. INCREASE THE MOTOR VEHICLE REGISTRATION FEE

Description

This option would increase the motor vehicle registration fee for vehicles weighing less than 6,000 pounds by $5. The current registration fee for most passenger vehicles was set in 2011. This rate was amended as a result of streamlining registration categories and was not intended to generate additional revenue.

Current Use

The vehicle registration fee for most passenger vehicles (vehicles and trucks weighing 6,000 pounds or less) is $50.75 annually. The annual registration fee for other vehicles such as heavier vehicles and motorcycles and mopeds varies. Revenue from the registration fee is deposited to the State Highway Fund and is constitutionally dedicated for acquiring rights-of-way, constructing, maintaining, and policing public roadways, and administering traffic and safety laws on public roadways.

Implementation

To implement this option, Texas Transportation Code, Chapter 502, would be amended to increase the vehicle registration fee. This fee would be paid by all persons registering a passenger vehicle weighing not more than 6,000 pounds in Texas. The fee could also be increased for other vehicles, including those weighing between 6,001 and 10,000 pounds.

Other Considerations

The amount of motor fuels tax paid per mile driven is decreasing. As vehicles become more fuel efficient, they can travel further on less gasoline or other fuels. Motor fuels taxes, currently the primary source of state transportation funding, are paid based on the number of gallons of gasoline purchased. Therefore, as less fuel is purchased to drive a vehicle more miles, the amount a user pays to drive on the road declines. Increasing vehicle registration fees would help offset the overall decline in motor fuels taxes paid per mile driven.

Revenue Potential

During the 2016–17 biennium, this option would generate an additional $249.0 million in State Highway Funds compared to the revenue that would have been generated under the current registration fee of $50.75 for passenger vehicles. This is based on an annual growth rate in passenger vehicle registration of 2.0 percent and a $5 vehicle registration fee increase. This option would require some programming changes by DMV. **Figure 1** shows the five-year fiscal impact of increasing the current vehicle registration fee by $5.

There could be costs incurred for programming updates. Because this option would not change the way in which the fee is collected or remitted to the state or the allocation of revenue, no other administrative costs are anticipated.

FIGURE 1
FIVE-YEAR FISCAL IMPACT ESTIMATE, FISCAL YEARS 2016 TO 2020

FISCAL YEAR	PROBABLE REVENUE GAIN/(LOSS) IN OTHER FUNDS (STATE HIGHWAY FUND)
2016	$123,279,923
2017	$125,757,887
2018	$128,285,658
2019	$130,864,239
2020	$133,494,650

SOURCE: Legislative Budget Board

19. INDEX VEHICLE REGISTRATION FEES TO VEHICLE MILES TRAVELED	
Description	This option would index vehicle registration fees to vehicle miles traveled (VMT) to align fees with road use. As vehicles become more fuel efficient they can travel further on less gasoline or other fuels.
Current Use	In Texas, vehicle registration fees are currently a flat fee that primarily is based on the type of vehicle being registered. The vehicle registration fee for most passenger vehicles is $50.75 annually. The annual registration fee for motorcycles and mopeds is $30, and the registration fee for motor vehicles 6,001 to 10,000 pounds (which includes heavier pickup trucks) is a base fee of $54. Revenue from the registration fee is deposited to the State Highway Fund and constitutionally dedicated for acquiring rights-of-way, constructing, maintaining, and policing public roadways, and administering traffic and safety laws on public roadways. No other states are known to take into account reductions in transportation revenue paid as a result of increasing fuel efficiency by using vehicle miles traveled when setting vehicle registration fees. However, there are several instances of consideration of a weight-distance tax being applied to trucks. Kentucky, New Mexico, New York, and Oregon apply a weight-distance tax on heavy vehicles and motor carriers are required to report the distance traveled and pay the tax on either a monthly, quarterly, or annual basis in each state. New York's tax applies to vehicles greater than 18,000 pounds, New Mexico and Oregon's apply to vehicles greater than 26,000 pounds, and Kentucky's tax applies to vehicles greater than 60,000 pounds. Oregon has an axle incentive that offers tax reductions for vehicles with a gross weight of 80,000 pounds or greater that operate with more than the required number of axles for the weight they carry. Additionally, in Oregon vehicles that pay the weight-distance tax do not have to pay the state fuel tax.
Implementation	This option would require amending the Texas Transportation Code, Chapter 502, to index the vehicle registration fee paid by all persons registering vehicles weighing not more than 10,000 pounds, a motorcycle, or a moped in Texas to VMT. This fee could also be applied to heavy vehicles. This change can be implemented in one of two ways. The first option would direct the Texas Department of Motor Vehicles (DMV) to annually set the registration fee based on total VMT in the state. DMV would be directed to set the registration fee so that it is equivalent to $0.005 per vehicle mile driven, which is approximately the amount paid per mile driven under the current registration fee. Information regarding statewide VMT is available from the Federal Highway Administration or the Texas Department of Transportation. One vehicle registration fee would apply to all vehicle classifications for which a registration fee based on VMT is applied. Alternatively, the registration fee of $0.005 per vehicle mile driven could be based on the actual number of miles an individual vehicle has traveled. This would be determined based on changes in odometer readings that are collected at the time of a vehicle safety inspection and reported to the Department of Public Safety (DPS). DPS would transfer this information to DMV, which would calculate the registration fee due at the time of vehicle registration renewal. Beginning in fiscal year 2015, all vehicles will be required to pass an inspection prior to registration so this data will be available at the time renewal occurs. However, if a vehicle is sold, the new owner would be responsible for paying for VMT attributed to the previous owner. Additionally, this would not account for VMT outside of Texas. According to the Federal Highway Administration, the average driver travels 13,476 miles annually. Under this option, the average driver would be assessed a registration fee of $67.38.

Other Considerations

Numerous studies have considered options to transition from the motor fuels tax to a VMT tax. Concerns raised have included a potential invasion of privacy if GPS devices are used to track VMT, the feasibility and cost of retrofitting vehicles to track VMT, the potential for evasion of devices in cars can be tampered with, and the feasibility of integrating a VMT tax system into the current system. Applying a vehicle miles consideration to the existing system of vehicle registration negates many of these concerns because new technology in individual cars or by state entities would not be required.

Additionally, the registration fees could be calculated in a way that accounts for other factors. For instance, the VMT fee applied to a registration rate could be adjusted to account for a vehicle's emissions standard or whether or not the vehicle is located in a rural area or an urban area that has more congestion.

Revenue Potential

During the 2016–17 biennium, applying a single registration fee based on vehicle miles traveled to all persons registering vehicles weighing not more than 10,000 pounds, a motorcycle, or a moped would generate an additional $90.9 million in State Highway Funds compared to the revenue that would have been generated under the current registration fee of $50.75 for passenger vehicles. Future revenue gains are shown in **Figure 1**. This estimate is based on VMT information for 2012, the number of passenger vehicles and trucks weighing less than one ton registered in Texas in fiscal year 2012, and applying an annual growth rate of 2.0 percent to VMT.

Because the base amount of $0.005 would be used to set the registration fee in both implementation scenarios, the fiscal impact of applying the new registration fee to vehicles based on the actual number of miles a vehicle is driven should generate a similar amount of revenue. There could be costs incurred for programming updates. Because this option would not change the way in which the fee is collected or remitted to the state no other administrative costs are anticipated.

FIGURE 1
FIVE-YEAR FISCAL IMPACT ESTIMATE, FISCAL YEARS 2016 TO 2020

FISCAL YEAR	PROBABLE REVENUE GAIN/(LOSS) IN OTHER FUNDS (STATE HIGHWAY FUND)
2016	$44,997,172
2017	$45,901,629
2018	$46,824,265
2019	$47,765,447
2020	$48,725,547

SOURCE: Legislative Budget Board.

20. SCALE VEHICLE REGISTRATION FEES TO STANDARD PRESUMPTIVE VALUE

Description

Because newer vehicles generally have a higher value than older vehicles, this option would increase the vehicle registration fee for newer vehicles to help offset the loss in motor fuels tax from higher fuel efficiency. Newer vehicles tend to have improved fuel efficiency, meaning they purchase less fuel to travel the same distance as older vehicles, and therefore, pay less motor fuels tax.

Current Use

All passenger vehicles operating on Texas roads are required to be registered and pay a vehicle registration fee. This fee varies based on the weight of the vehicle. Passenger vehicles and trucks in Texas weighing less than 6,000 pounds pay a vehicle registration fee of $50.75. Net revenue from the registration fee is deposited to the State Highway Fund and constitutionally dedicated for acquiring rights-of-way, constructing, maintaining, and policing public roadways, and administering traffic and safety laws on public roadways.

Seven states have vehicle registration fees that include a component based on a vehicle's value as shown in **Figure 1**.

FIGURE 1
REGISTRATION FEES BASED ON VEHICLE VALUE , AS OF AUGUST 2014

STATE	REGISTRATION FEE
Arizona	$8 ($8.25 in Metro Tuscon and Phoenix) + $1.50 air quality research fee + vehicle license tax (assessed value of 60% of the manufacture's suggested retail price)
Colorado	Based upon the year, weight, taxable value, and month of registration
Iowa	Vehicles up to 11 years old are assessed $0.40 per 100 pounds plus 0.5% to 1% of the vehicle's value depending upon how old the vehicle is; vehicles 12 years and older are assessed a fee of $50
Louisiana	$20 to $82 based on the selling price of the vehicle; current rate is 0.1% with a minimum base price of $10,000
Michigan	Vehicle model years 1983 and newer are assessed $33 to $148 depending on the price of the vehicle; fees decline by 10% each year until the fifth renewal
Minnesota	$10 fixed fee and an additional component based on the vehicle's value; during the first two years 100 percent of the vehicle's value is applied; after this period the proportion of value taxed decreases
Wyoming	$15 plus county registration that is calculated using a percentage of factory price and age of the vehicle

SOURCE: Legislative Budget Board.

Implementation

Vehicle registration fees could be scaled to the price of a vehicle by amending Texas Transportation Code, Chapter 502. The amended registration fee could include a flat base fee applied to all vehicles and a component to account for a vehicle's value, or the fee could be based solely on the taxable price of the vehicle. To calculate the taxable price of the vehicle, the standard presumptive value should be used. This is the current method of determining the taxable value to be applied for motor vehicle sales tax paid on used vehicles and vehicles purchased from anyone other than licensed vehicle dealers. The standard presumptive value is calculated using Black Book, a national guide which uses an average wholesale value based on Texas sales data.

Other Considerations

The current motor vehicle registration fee for passenger vehicles weighing less than 6,000 pounds was set in calendar year 2009; however, this was a result of standardizing various fees and not intended to increase revenue. Prior to this, the registration fee for passenger vehicles had not been changed since prior to calendar year 1991.

Under this option, owners of new cars would pay a larger share of total registration fee revenue than owners of most older cars since vehicle values generally depreciate over time. The Minnesota Department of Transportation (MnDOT), in a study of its transportation funding sources, found that newer vehicles last longer because of improved materials and designs. Therefore, if vehicle owners keep their vehicles for longer periods of time there could be an adverse impact on revenue from vehicle registration fees tied to a vehicle's value. However, because the overall age of the vehicle fleet changes slowly, MnDOT found that its registration fee system is a stable and predictable source of revenue.

Revenue Potential	Data regarding the value of each vehicle registered in Texas is not available to estimate the total revenue that would be generated by this option. In fiscal year 2014, Michigan's registration fees generated $866.5 million. The number of motor vehicles registered in Michigan in 2014 was not available; however, in 2012 Michigan had 8.9 million vehicles registered (this includes all vehicles such as trucks and mopeds). Using these numbers, approximately $97.40 was paid per registered vehicle. In fiscal year 2013, Texas had 23.2 million passenger vehicles registered and the motor vehicle registration fee generated approximately $1.4 billion in revenue. This equated to approximately $60.30 per registered passenger vehicle. This represents a difference of $37.10 in revenue per vehicle which means the revenue gain would be $860 million. There could be costs incurred for programming updates. Because this option would not change the way in which the fee is collected or remitted to the state no other administrative costs are anticipated.

21. SCALE VEHICLE REGISTRATION FEES TO VEHICLE EMISSIONS

Description	This option would base the motor vehicle registration fee on the vehicle's air pollution score or actual emissions tested during annual inspections.
Current Use	All passenger vehicles in Texas are required to be registered and pay a vehicle registration fee. This fee varies, partly based on the weight of the vehicle. Passenger vehicles and trucks in Texas weighing less than 6,000 pounds pay a vehicle registration fee of $50.75. Revenue from the registration fee is deposited to the State Highway Fund and constitutionally dedicated for acquiring rights-of-way, constructing, maintaining, and policing public roadways, and administering traffic and safety laws on public roadways. No states are known to set vehicle registration fees based on vehicle emissions; however some states have multiple tiers of vehicle registration fees which are tied to vehicle weight. Research has shown a relationship between vehicle weight and emissions and fuel use by passenger vehicles. Specifically, according to research completed at the Massachusetts Institute of Technology, every 10 percent reduction in vehicle weight can decrease fuel consumption by approximately 7 percent. Therefore, heavier vehicles are generally less fuel efficient than lighter vehicles. States that have vehicle registration tiers based on weight include Arkansas, Florida, Hawaii, Kansas, New Hampshire, New York, Rhode Island, Utah, and Washington.
Implementation	This option would be implemented by amending Texas Transportation Code, Chapter 502, to set vehicle registration fees based on vehicle emissions. Registration fees could be tied to emissions in two ways. The U.S. Environmental Protection Agency (EPA) samples vehicles prior to a vehicle model being sold and measures their tailpipe emissions. Based on these results, EPA assigns an air pollution score to each vehicle model, which reflects vehicle tailpipe emissions for all major pollutants in vehicle exhaust (carbon-containing compounds, nitrogen oxides, particulate matter, carbon monoxide, and formaldehyde). Vehicles receive a score between 1 and 10, with 10 being the cleanest, and EPA publishes these scores. These scores could be used to assign vehicle registration fees, with vehicles receiving a score of 10 paying the lowest registration fee and vehicles with a score of 1 paying the highest. The second option would also require amending Texas Transportation Code, Chapter 548, to require inspection stations to transmit data regarding motor vehicle emissions to the state. Vehicles in 17 Texas counties classified as near- or non-attainment areas are required to pass an emissions test before their registration may be renewed. During this test, vehicle emissions are sampled and analyzed to ensure they comply with standards for hydrocarbons, carbon monoxide, or nitrogen oxide as set by EPA or the Texas Commission on Environmental Quality (TCEQ). Vehicles that fail an emissions test and do not correct the problem within 45 days are flagged in the Texas Department of Motor Vehicles (DMV) vehicle record database and they cannot be registered until passing an emissions test. As an alternative to scaling vehicle registration fees to emissions for all vehicles, this could be done only in counties classified as near- or non-attainment areas. This would be similar to fees for vehicle certificates of title, which are higher in these counties. TCEQ and DMV would work together to set emissions standards for nitrogen oxide (NOx) and particulate matter (PM) in near and non-attainment counties and set registration fee categories based on a vehicle's emissions for these pollutants as tested during the vehicle emissions inspection. Under this scenario, for instance, three separate fees could be assessed for vehicles with a particulate matter emission of 0.01 grams/mile, particulate matter emissions of 0.02 through 0.06 grams/mile, and 0.07 to 0.12 grams/mile.

Other Considerations	Vehicles that are less energy-efficient than the average vehicle also generally produce more emissions; which are a primary source of air pollution in several areas of the state that do not meet federal air quality standards. As vehicle emission controls have improved, the difference in tailpipe emissions between conventional vehicles and alternatively-fueled vehicles has narrowed. Additionally, EPA is requiring all fuels to meet standard thresholds for tailpipe emissions of air pollutants. However, when considering life cycle emissions, differences in emissions levels are expected to continue. Several studies have found that both compressed natural gas (CNG) and liquefied natural gas (LNG) have lower emissions compared to gasoline. This is due to low petroleum usage during production and low-carbon intensity of the fuel during use. As vehicles become cleaner and their air pollution scores improve, the increased revenue resulting from this method of assessing the vehicle registration fee is likely to slow, resulting in a decline in vehicle registration fees.
Revenue Potential	Information is not currently available to determine the fiscal impact of this option, although it is assumed the amended fees would be set so that they result in an increased fee for vehicles with high emissions. Assigning a vehicle registration fee to vehicles based on the air pollution score of the vehicle, as determined by EPA, would result in the current single registration fee of $50.75 for most passenger vehicles being expanded to 10 individual fees. The amount of revenue that would be generated would depend upon the number of vehicles registered in each of the 10 fee categories. Alternatively, if this option were based on actual emissions test results from annual inspections, the option could only be applied to vehicles in near- and non-attainment areas unless the legislature chooses to expand the requirement for vehicle emissions to be tested to all counties. It is assumed this would result in a revenue gain. Both options could result in costs incurred for programming changes by DMV. Depending on the method of implementation, programming changes could also be required by the Texas Department of Public Safety and/or TCEQ. Because this option would not change the way in which the fee is collected or remitted to the state no other administrative costs are anticipated.

22. EXPAND THE DELINQUENCY PENALTY FOR LATE VEHICLE REGISTRATIONS	
Description	This option would apply the delinquency penalty to all persons that renew their vehicle registration late without a statutorily defined valid reason for late registration. Currently, persons who have been cited or arrested for operating a motor vehicle with an expired registration are assessed a fine of 20 percent of the registration fee at the time they renew their vehicle registration. The penalty does not apply to late registrants that were not cited or arrested.
Current Use	Statute allows a five day grace period for late registrants before a citation would be issued for driving a vehicle with an expired registration. Persons that have been cited or arrested for driving with an expired registration are assessed a fine of 20 percent of the registration fee at the time of registration renewal. These persons also pay a dismissal fee to courts if they were ticketed and do not stand trial. Late registrants who have not been cited or arrested for driving with an expired registration do not pay either fee. County tax assessor-collectors are not notified that a person has received a citation for driving with an expired registration. Instead, they rely on the motor vehicle registrant to inform them of a citation or arrest to assess the penalty. Revenue from delinquency penalties is deposited in the State Highway Fund. The state uses revenue from vehicle registration fees to acquire rights-of-way and construct, maintain, and police roadways in accordance with the Texas Constitution. At least 14 states besides Texas apply some form of a delinquency penalty for late registration. All of these states apply the penalty uniformly to all late registrants, although some allow for a grace period and some have tiered penalties. In California, a penalty is charged on all late vehicle registrations. The penalty amount varies between 10 and 160 percent of the vehicle registration fee due depending upon how late the registration is renewed. Florida charges a delinquent registration fee between $5.00 and $250.00 depending upon the amount of license tax owed. Oklahoma allows one non-penalty month immediately following the registration expiration month and then assesses a penalty of $1.00 per each day registration is late with a maximum penalty of $100.00.
Implementation	This option would amend the Texas Transportation Code, Chapter 502, to expand the delinquency penalty for driving with an expired registration so it applies to all late registration renewals without a valid reason, rather than only to persons who have been cited or arrested for driving with an expired registration. Under this change, county tax assessor-collectors would assess a fine of 20 percent of the registration fee on every motor vehicle owner that renews their registration late, rather than only persons who have been cited or arrested for driving with an expired vehicle registration. Persons registering a vehicle late for valid reasons or within five days of the vehicle's registration expiring would not be subject to the delinquency penalty in accordance with current law. Valid reasons for which a vehicle may be registered late are statutorily defined as extensive repairs on the vehicle; absence of the vehicle owner from the country; seasonal use of the vehicle; or any other reason deemed valid by a county tax assessor-collector. The county tax assessor-collector would remit revenue from expanded penalties to the state in the same manner current delinquency penalty revenue is remitted.
Other Considerations	The annual registration requirement allows the Texas Department of Motor Vehicles to add or confirm a vehicle's details in the registration database and ensure compliance with the state's automobile insurance requirements. Incomplete or out of data records reduce the database's effectiveness and the ability to use it to gather vehicle information. Law enforcement entities use this information to verify the ownership of suspected stolen vehicles, the vehicle's history for salvage title purposes, or that a vehicle meets minimum state automobile insurance requirements. Proof required to demonstrate a valid reason for late registration varies by county. Legislative Budget Board staff contacted several county tax assessor–collectors who indicated they do not currently request any proof of the existence of a valid reason for late registration and rely on the statement of the vehicle owner. Other counties contacted require a vehicle registrant to sign an affidavit attesting to the valid reason for which a vehicle's registration is renewed late.

Revenue Potential	Based on the current vehicle registration fee of $50.75 for most passenger vehicles, the 20 percent delinquency penalty equates to $10.15. Between fiscal years 2006 and 2013, an average of over 1.7 million vehicle registrations were renewed late. Assuming a delinquency penalty of $10.15 were paid for all of these delinquent registrations, an average $17.5 million in revenue would have been deposited to the State Highway Fund during each of these fiscal years. However, there is currently no way to track how many delinquent vehicle registrations result in a penalty or how much in revenue is generated by a delinquency penalty. As a result, it is not possible to determine what amount of this revenue would be generated above what is currently collected in delinquency penalties. Additionally, it is not possible to estimate the number of delinquent vehicle registrations that would be determined valid and would, therefore, not be subject to the penalty. There could be costs incurred for programming updates. Because this option would not change the way in which the penalty is collected or remitted to the state no other administrative costs are anticipated.

23. ESTABLISH AN INEFFICIENT VEHICLE SURCHARGE FEE

Description	This option would impose a one-time surcharge of $100 on the sale of inefficient vehicles to generate revenue dedicated toward congestion mitigation projects or other initiatives to reduce air pollution from mobile sources.
Current Use	Certain state taxes and fees provide incentives for vehicles considered to be efficient and penalize vehicles that are generally high emitters of pollutants or inefficient. Certain ultra low-emission motor vehicles that are capable of being powered by hydrogen and have a fuel economy of 45 miles per gallon or are fully powered by hydrogen are excluded from the motor vehicle sales and use tax in Texas. Additionally, a motor vehicle registration surcharge of 10 percent of the total fees due for the vehicle's registration currently exists for truck-tractor and commercial motor vehicles. Revenue from this surcharge is deposited to the Texas Emissions Reduction Plan Account (General Revenue–Dedicated Funds). Certain passenger vehicles, sport-utility vehicles, and light-duty trucks produce more emissions and are less energy-efficient than the average vehicle. However, they are exempt from the federal gas-guzzler tax and do not pay additional state taxes. New Jersey implemented a Luxury and Fuel-Inefficient Surcharge (LFIS) on July 15, 2006. The LFIS is applied to all new, non-commercially registered vehicles titled in New Jersey that cost more than $45,000 or that had an EPA average fuel economy rating of less than 40 miles per gallon. Some exemptions were provided for vehicles above the price threshold that were classified as zero-emission vehicles, vehicles that exceeded the allowable sales price because of handicapped driver adaptive equipment, and trucks with a gross vehicle weight above 8,500 pounds unless they cost more than $45,000. The surcharge was assessed at 0.4 percent of the gross sale or lease price of the vehicle.
Implementation	This option could be implemented by amending the Texas Transportation or Tax Code to add an inefficient vehicle surcharge. The surcharge would be collected in the same manner as other fees and surcharges associated with the sale or purchase of a new motor vehicle. The motor vehicle sales and use tax is paid by the purchaser of a vehicle to either an authorized vehicle seller or a county tax assessor-collector. County tax assessor-collectors are responsible for ensuring the tax is remitted to the Comptroller of Public Accounts. The motor vehicle sales and use tax is included in the sales price of a vehicle that is seller financed. As the seller receives payments for the vehicle, the tax is remitted by the seller to the Comptroller of Public Accounts. Motor vehicles currently exempt from the motor vehicle sales and use tax and other motor vehicle surcharges in Texas Tax Code, Chapter 152, including interstate motor vehicles, hydrogen vehicles, vehicles for farm or timber use, vehicles transported out-of-state, and vehicles sold to certain child-care facilities, could also be exempt from a surcharge on inefficient vehicles. The surcharge would apply to vehicles purchased with an average fuel economy that is not within 10 percent of Corporate Average Fuel Economy (CAFE) standards issued by the National Highway Traffic Safety Administration. Current CAFE standards are for model year 2016 vehicles to have a fuel economy of 34.3 miles per gallon; therefore, in 2016 vehicles that have an average fuel economy of 30.69 or less would be subject to the surcharge. The surcharge would be set at a flat fee or as a percentage of the price of the vehicle as the New Jersey surcharge is set and similar to the surcharge for truck-tractor and commercial motor vehicles. In New Jersey, the LFIS is collected by all vehicle dealers that collect and remit New Jersey sales tax. The tax is then remitted electronically to the New Jersey Division of Revenue.

Other Considerations

Carbon dioxide emissions from vehicles are directly related to gasoline consumption. For every gallon of gasoline used, 20 pounds of carbon dioxide is produced. Vehicles with low fuel economies consume more gas per mile and therefore emit a higher amount of carbon dioxide, particulate matter, nitrogen oxides, carbon monoxide, sulfur dioxide, and other hazardous pollutants than vehicles with average and above-average fuel efficiencies. Vehicle exhaust emits nitrous oxides and volatile organic compounds into the air, which react to create ozone. Houston-Galveston-Brazoria, Dallas-Fort Worth, and Beaumont-Port Arthur are currently in nonattainment with federal air quality standards for ozone. Vehicle emissions are a primary source of ground level ozone and other air pollutants in nonattainment areas and the state as a whole. Costs resulting from a failure to achieve attainment status could include:

- the withholding of federal highway funding which could delay or stop highway projects and therefore increase overall project costs as construction costs continue to rise;
- the withholding of federal grant funding that supports air pollution planning and control programs;
- the reclassification of areas into a higher nonattainment status which requires additional measures and implementations over a longer period, thus increasing the cost of achieving attainment;
- requiring certain sectors of the economy (such as manufacturing) to purchase more off sets when adding to or constructing new buildings—increasing the cost of doing business in Texas; and
- medical attention required to treat various maladies linked to air pollution caused by vehicles.

Revenue Potential

As shown in **Figure 1**, a surcharge of $100 would generate an estimated $115.3 million in State Highway Funds for the 2016–17 biennium. This is based on the market share and average fuel economy of vehicles sold during 2010. In fiscal year 2010, an estimated 565,873 new vehicles were registered in Texas that did not meet CAFE standards. The CAFE standard for model year 2010 vehicles was 23.5 miles per gallon (mpg), therefore in 2010 vehicles that had an average fuel economy of 21.2 mpg or lower would have been subject to the surcharge. Based on vehicles sold in Texas during 2010, vehicles subject to this surcharge primarily include large trucks, sport utility vehicles, luxury cars, and sports cars. The standards are increasing and are 34.3 mpg for model year 2016 vehicles. Therefore, the actual revenue generated from this option would likely be higher; although, data was not available to estimate this amount. There could be costs incurred for programming updates and administration of the new fee.

FIGURE 1
FIVE-YEAR FISCAL IMPACT, FISCAL YEARS 2016 TO 2020

FISCAL YEAR	PROBABLE REVENUE GAIN/(LOSS) IN OTHER FUNDS (STATE HIGHWAY FUND)
2016	$57,632,465
2017	$57,632,465
2018	$57,632,456
2019	$57,632,465
2020	$57,632,465

SOURCE: Legislative Budget Board.

24. ESTABLISH A VEHICLE EQUALIZATION FEE

Description	This option would establish an annual vehicle equalization fee of $100 on vehicles not powered by motor fuels taxed by the state and a fee of $50 on hybrid vehicles to generate revenue to offset the amount of motor fuels tax not paid.
Current Use	Electric and some alternatively powered vehicles do not pay the state's motor fuels tax; similarly hybrid vehicles pay a reduced amount of the state's motor fuels tax. According to the Texas Transportation Institute the average Texas driver pays $114.24 per year in motor fuels tax. Gasoline and diesel used to propel motor vehicles on the state highway is taxed at the rate of $0.20 per gallon. In accordance with the Texas Constitution, approximately 75 percent of motor fuel tax revenues are dedicated for the construction, maintenance, and policing of public roads and are appropriated to the Texas Department of Transportation and the Texas Department of Public Safety for these purposes. The remaining 25 percent of collections is dedicated to public education. Current statute does not provide for the generation of revenue for the State Highway Fund from vehicles that do not operate on motor fuels or partially operate on another power source. Several other states have imposed fees to capture revenue from electric, hybrid, and other alternatively-fueled vehicles as a substitute for the gasoline tax. The measures that have been implemented are: • Colorado drivers pay an annual $50 fee for plug-in electric cars at the time of registration. • Washington charges fully electric-car owners a $100 annual vehicle registration fee. • Nebraska charges a $75 registration fee for each motor vehicle powered by an alternative fuel that is not otherwise taxed under state motor fuel tax laws. • North Carolina collects an annual $100 fee at the time of registration. • Virginia levies an annual license tax of $64 per vehicle on each all electric and alternative fuel vehicle. Electric vehicles must also pay a $50 annual license tax.
Implementation	A vehicle equalization fee could be established by amending the Texas Transportation Code, Chapter 502, to assess a flat yearly surcharge paid at the time of registration to recover the loss of gasoline taxes due to decreased consumption. This fee would apply to vehicles powered by something other than hydrocarbons. Any fee assessed would be deposited into the State Highway Fund for use on public roadways in the same manner that the current registration fee for passenger vehicles is deposited. Setting the fee at $100 would make it nearly equivalent to the amount of motor fuels tax paid by the average Texas driver. Additionally, Texas Transportation Code, Chapter 502, would be amended to establish a user fee on hybrid vehicles to account for the loss of motor fuel tax revenue that occurs as a result of the reduced motor fuels used by these vehicles. This fee could be set at $50.

Other Considerations

There are several financial incentives in place to purchase electric and other alternatively powered vehicles outside of savings in reduced motor fuel tax expenditures. The U.S. Department of Energy estimates it costs $1.29, on average, to drive an electric vehicle as far as a conventional car travels on $3.30 worth of gasoline.

Persons purchasing or leasing new vehicles powered by compressed natural gas, liquefied petroleum gas, or electric drive (plug-in) may be eligible for a financial incentive of up to $2,500 through the Texas Emissions Reduction Plan (TERP). Grants are also provided through TERP for the replacement of diesel vehicle fleets with alternative fuel or hybrid electric vehicles.

Electricity used to charge plug-in electric vehicles is subject to the Public Utility Gross Receipts Assessment and Miscellaneous Gross Receipts Tax depending upon the location at which electricity to power the vehicle is purchased. Revenue from these taxes is deposited to the General Revenue Fund.

Revenue Potential

Assessing an annual fee of $100 to account for the loss of motor fuels tax to the state from the operation of electric and ethanol vehicles would result in an estimated $9.9 million in additional revenue for the State Highway Fund in the 2016–17 biennium. This is based on the total number of these vehicles in use in Texas in 2010. Actual revenue will likely be higher as a result of the increasing number of these vehicles.

Assessing an annual license fee of $50 or increasing the vehicle registration fee on hybrid vehicles to account for the reduced amount of motor fuels tax paid to operate these vehicles would result in an estimated $15.4 million in additional revenue for the State Highway Fund in the 2016–17 biennium. This is based on the number of hybrid vehicles estimated to be in Texas in calendar year 2013. Actual revenue will likely be higher as a result of increasing numbers of these vehicles registered in Texas. There could be costs incurred for programming updates. If the option were implemented so that the fee is collected and remitted to the state alongside vehicle registration fees, no other administrative costs are anticipated.

As shown in **Figure 1**, the fiscal impact of implementing both of these options would be $25.2 million in the 2016–17 biennium.

FIGURE 1
FIVE-YEAR FISCAL IMPACT ESTIMATE, FISCAL YEARS 2016 TO 2020

FISCAL YEAR	PROBABLE REVENUE GAIN/(LOSS) IN OTHER FUNDS (STATE HIGHWAY FUND)
2016	$12,622,550
2017	$12,622,550
2018	$12,622,550
2019	$12,622,550
2020	$12,622,550

SOURCE: Legislative Budget Board.

25. ESTABLISH A FEE ON ELECTRIC VEHICLE CHARGING STATIONS

Description	This option would impose a fee on utility companies powering electric vehicle charging stations to offset the loss of motor fuels tax revenue resulting from these vehicles.
Current Use	Electric and certain hybrid vehicles use electricity, rather than motor fuels, to operate. Revenue from state taxes on electricity is deposited to the General Revenue Fund and Foundation School Fund; therefore, operators of these vehicles do not contribute to the cost of using roads in the same manner as traditionally powered vehicles. State sales tax is imposed on the sale of taxable electricity at a rate of 6.25 percent of the sales price, with some exceptions. Companies that sell electricity in the retail market are subject to the Public Utility Gross Receipts Assessment (PUCA) and, if a utility sells electricity in an incorporated city or town with a population of more than 1,000, the Miscellaneous Gross Receipts Tax (MGRT). The PUCA is equal to one-sixth of 1 percent (0.001667) of gross receipts from rates charged to the ultimate consumer. The MGRT rate varies according to the population of the city and ranges from 0.581 percent of gross receipts to 1.997 percent of gross receipts. Revenue from both the PUCA and MGRT is deposited to the General Revenue Fund and revenue from MGRT is also deposited to the Foundation School Fund. The motor fuels tax is paid on each gallon of gasoline and diesel fuel purchased for operation of a vehicle on a public highway in Texas. Because electric vehicles do not purchase motor fuels, they are not currently assessed this tax. In accordance with the Texas Constitution, approximately 75 percent of motor fuel tax revenues are dedicated for the construction, maintenance, and policing of public roads. The remaining 25 percent of collections is dedicated to public education.
Implementation	To generate revenue for transportation purposes from vehicles that run on electricity rather than motor fuels, the Texas Tax Code would be amended to establish a fee on utility companies powering electric vehicle charging stations. Administratively, the simplest way to apply this fee would be to assess it per vehicle charging station or per charging outlet powered by a utility company. The fee could be assessed monthly or annually and remitted at the same time revenue from PUCA and MGRT is remitted to the state. The Comptroller of Public Accounts would need to make programming changes to assess this additional fee. Alternatively, the Texas Tax Code could be amended to divert some PUCA and MGRT tax revenue to the State Highway Fund. The Eightieth Legislature passed legislation that would have diverted the first $30 million of MGRT revenue to a new General Revenue–Dedicated account; which was never established.
Other Considerations	While the number of electric vehicles is small (in 2010 there were only 289 in Texas) the number is increasing. In Austin alone there were 550 2-wheel plug-in scooters and 160 4-wheel plug-in vehicles as of April 2012. A number of corporations have been switching their fleets to electric vehicles, and rental car companies have also announced plans to include electric vehicles in their fleets. The Electric Power Research Institute estimates between 10,000 and 37,000 plug-in electric vehicles could be in Austin by 2020. Nationwide, the number of electric vehicles has grown from 17,847 in 2001 to 67,295 in 2011. The U.S. Department of Energy estimates it costs $1.29, on average, to drive an electric vehicle as far as a conventional car travels on $3.30 worth of gasoline. According to the Texas Transportation Institute, the average Texas driver pays $9.52 per month in motor fuels tax. Drivers of all electric vehicles do not pay any motor fuels tax while drivers of hybrid electric vehicles pay a reduced amount. Alternatively, one city allows customers to subscribe to a plan that provides unlimited electric vehicle charging for $5 a month.

Revenue Potential

According to the U.S. Department of Energy's Alternative Fueling Station Locator, in January 2014 there were 550 electric vehicle charging stations and 1,467 electric charging outlets for vehicles in Texas. In both cases, estimates for future growth are based on national growth rates in electric charging stations obtained from the U.S. Department of Energy. There could be costs incurred for programming updates and administration of the new fee under both options below.

Figure 1 shows the fiscal impact of scenario one, in which a $1,200 fee is assessed annually (alternatively $100 per month could be assessed) on each electric charging station. This would generate an estimated $1.8 million in revenue for the State Highway Fund during the 2016–17 biennium.

FIGURE 1
FIVE-YEAR FISCAL IMPACT ESTIMATE OF SCENARIO 1, FISCAL YEARS 2016 TO 2020

FISCAL YEAR	PROBABLE REVENUE GAIN/(LOSS) IN OTHER FUNDS (STATE HIGHWAY FUND)
2016	$842,436
2017	$1,075,301
2018	$1,372,534
2019	$1,751,927
2020	$2,236,192

SOURCE: Legislative Budget Board.

Figure 2 shows the fiscal impact of the second scenario, in which a $1,200 fee is assessed annually (alternatively, $100 per month could be assessed) on each electric charging outlet. This would result in an estimated revenue gain of $5.1 million to the State Highway Fund during the 2016–17 biennium.

FIGURE 2
FIVE-YEAR FISCAL IMPACT ESTIMATE OF SCENARIO 2, FISCAL YEARS 2016 TO 2020

FISCAL YEAR	PROBABLE REVENUE GAIN/(LOSS) IN OTHER FUNDS (STATE HIGHWAY FUND)
2016	$2,247,007
2017	$2,868,121
2018	$3,660,922
2019	$4,672,868
2020	$5,964,534

NOTE: There could be costs incurred for programming and additional resources used to collect the new fee.
SOURCE: Legislative Budget Board.

26. ELIMINATE STATE HIGHWAY FUND APPROPRIATIONS TO AGENCIES OTHER THAN THE TEXAS DEPARTMENT OF TRANSPORTATION

Description

This option would eliminate State Highway Fund appropriations to all agencies other than the Texas Department of Transportation (TxDOT) and replace appropriations to other agencies with an alternative method of finance to make more State Highway Funds available for TxDOT.

Current Use

Six state agencies received approximately $929.4 million in State Highway Funds plus amounts for employee salary increases and employee benefits for employees whose salaries are paid from the State Highway Fund for the 2014–15 biennium. This is shown in **Figure 1**. In addition, TxDOT was appropriated approximately $9.0 billion in State Highway Funds.

FIGURE 1
STATE HIGHWAY FUND APPROPRIATIONS BY AGENCY, 2014–15 BIENNIUM

AGENCY	STATE HIGHWAY FUND APPROPRIATION	USE
Texas Department of Public Safety	$812.6	Funding is provided to police the state highway system and administer state traffic and safety laws on public roads as authorized by the Texas Constitution and statute.
Texas Department of Motor Vehicles	$71.4	Appropriations support motor vehicle registration and titling, dealer registration and regulation, motor carrier registration and regulation, and administration.
Texas A&M Transportation Institute	$16.9	Funding supports highway safety and other transportation related research.
Attorney General	$11.9	Funding provides legal services on behalf of the Department of Transportation and the Department of Public Safety.
Texas Department of Insurance	$10.1	Funding supports the state's vehicle insurance verification system pursuant to statute.
State Office of Administrative Hearings	$6.5	Funding is provided for the Department of Public Safety's Administrative License Revocation Program.

NOTES:
(1) Amounts shown in millions.
(2) In addition to appropriations shown above, agencies received amounts for state employee salary increases and employee benefits for employees whose salaries are paid from the State Highway Fund.
SOURCE: Legislative Budget Board.

Implementation

This option would require changes to methods of finance appropriated in the General Appropriations Act to the agencies shown in **Figure 1**. The House and Senate introduced 2016–17 General Appropriations Bills include appropriations and riders to discontinue funding from the State Highway Fund to agencies other than TxDOT.

Other Considerations

Certain revenue sources deposited to the State Highway Fund are constitutionally required to be used only for acquiring rights-of-way; constructing, maintaining, and policing public roadways; or for the payment of principal and interest on certain road district bonds or warrants. These include motor fuels taxes and vehicle registration fees. The Texas Transportation Code, Chapter 222, provides that revenue required to be used for public roads by either the Texas Constitution or federal law and that is deposited to the State Highway Fund be used solely to improve the state highway system, mitigate adverse environmental effects resulting from state highway construction or maintenance, or for policing and administration of state traffic and safety laws by the Texas Department of Public Safety on state highways. All other funds in the State Highway Fund are statutorily authorized to be used for any function TxDOT performs.

Some fees deposited to the State Highway Fund were established to fund programs administered by agencies other than TxDOT. For instance, the TexasSure program administered by the Texas Department of Insurance in collaboration with other agencies including TxDOT, is funded by a $1 fee charged at the time of motor vehicle registration. Revenue from this fee is deposited to the State Highway Fund.

Revenue Potential

Figure 2 shows the fiscal impact of eliminating State Highway Fund appropriations to agencies other than TxDOT. This would result in an increase of approximately $1.3 billion in State Highway Funds available to TxDOT and a loss of approximately $1.3 billion in General Revenue–Related Funds (including $4.1 million in General Revenue–Dedicated Funds) and $25.1 million in Other Funds (Interagency Contracts and a fund to be established) for the 2016–17 biennium. Fiscal year 2016 and 2017 amounts are based on reductions in funding and method of finance swaps included in the House and Senate introduced 2016–17 General Appropriation Bills to offset items previously funded from the State Highway Fund. Assuming this practice continues, increased State Highway Funds would be available for transportation in future biennia.

FIGURE 2
FIVE-YEAR FISCAL IMPACT ESTIMATE, FISCAL YEARS 2016 TO 2020

FISCAL YEAR	PROBABLE SAVINGS/(COST) IN OTHER FUNDS (STATE HIGHWAY FUND)	PROBABLE SAVINGS/(COST) IN GENERAL REVENUE–RELATED FUNDS	PROBABLE SAVINGS/(COST) IN OTHER FUNDS
2016	$660,746,789	($648,214,921)	($12,531,868)
2017	$669,043,034	($656,449,963)	($12,593,571)
2018	$0	($0)	($0)
2019	$0	($0)	($0)
2020	$0	($0)	($0)

NOTE: Amounts reflected above assume the passage of legislation relating to funding for the Texas Department of Insurance and the Texas Department of Motor Vehicles. Riders in the House and Senate introduced General Appropriation Bills make the method of finance swap for these agencies contingent on the passage of legislation.
SOURCE: Legislative Budget Board.

27. INCREASE THE VEHICLE CERTIFICATE OF TITLE FEE	
Description	This option would increase the certificate of title (CoT) fee, which was last adjusted in 2003, and redirect the increased revenue to the State Highway Fund. The increase could be set to account for the redirection of CoT fee revenue from transportation to other purposes.
Current Use	The owner of a motor vehicle registered in Texas is required to apply to the Texas Department of Motor Vehicles (DMV) for a title to the vehicle. The title establishes the applicant as the legal owner of the vehicle, and the vehicle may not be operated legally on a public highway until the owner obtains a title. The fee for a new motor vehicle title is $33, if the applicant's residence is in one of the 17 counties located within a nonattainment area as defined by the federal Clean Air Act, meaning the county exceeds national standards for air quality. In the remaining 237 counties, the new motor vehicle title fee is $28. Of the amount received by the state, $8 is deposited to the General Revenue Fund and $15 is deposited to the Texas Mobility Fund. Prior to fiscal year 2014, $3 of the $8 portion deposited to the General Revenue Fund was instead deposited to the State Highway Fund. Five dollars collected from CoT fees assessed for vehicles registered in non-attainment counties is deposited to the Texas Emissions Reduction Plan (TERP) Account. An amount equal to the revenue deposited to the Texas Mobility Fund from CoT fees is also transferred each fiscal year from non-Constitutionally dedicated State Highway Funds to the TERP Account. Under the current allocation of revenue, while the Texas Mobility Fund receives $15 in revenue from each title, the amount of title fee revenue dedicated for transportation nets to zero. Revenue in the State Highway Fund from non-Constitutionally dedicated fees (such as the CoT fee) is statutorily authorized to be used for any function the Texas Department of Transportation performs. Revenue in the Texas Mobility Fund is Constitutionally authorized to finance the acquisition, construction, maintenance, reconstruction, and expansion of state highways and other transportation projects.
Implementation	To implement this option, Texas Transportation Code, Chapters 501 and 520, would be amended to provide for an increase in the CoT fee and allocate the increased revenue to the State Highway Fund. The current fee could be increased to account for inflation. Under this scenario, the current fee of $28 for vehicles titled in counties in attainment would be increased to $33. The current fee of $33 for vehicles titled in counties not in attainment with federal air quality standards would be increased to $38. Alternatively, the fee could be increased by $10 so that the amount of revenue deposited to the State Highway Fund is equivalent to the amount deposited from the fee prior to portions of the fee being reallocated to other funds.
Other Considerations	Historically, title fees were solely deposited to the State Highway Fund; however, in 1992 a portion of the fee began to be deposited to General Revenue as part of an agreement to increase the motor fuels tax. The TERP Account began receiving revenue from title fees in fiscal year 2003. The statutory allocation of $5 of CoT fees collected from counties in non-attainment to the TERP Account will expire at the end of fiscal year 2015 unless it is extended by the Legislature. Under current law, the $5 will instead be allocated to the Texas Mobility Fund. However, the statutory direction for an amount equal to the CoT fees deposited to the Texas Mobility Fund to be remitted to the TERP Account from non-dedicated State Highway Fund revenues does not expire until the end of fiscal year 2019. As a result, the transfer required from the State Highway Fund to the TERP Account will increase, absent any legislative changes.

Revenue Potential

These estimates are based on the Comptroller of Public Account's Biennial Revenue Estimate and the number of CoTs issued in attainment and non-attainment counties from fiscal year 2012 to fiscal year 2014. There could be costs incurred for programming updates. Because this option would not change the way in which the fee is collected or remitted to the state no other administrative costs are anticipated.

Figure 1 shows estimated revenue that would be generated if the CoT fee were increased to $33 or $38, depending upon the county the vehicle is titled in. This would generate an additional $98.8 million for the 2016–17 biennium.

FIGURE 1
FIVE-YEAR FISCAL IMPACT ESTIMATE OF SCENARIO 1, FISCAL YEARS 2016 TO 2020

FISCAL YEAR	PROBABLE REVENUE GAIN/(LOSS) IN OTHER FUNDS (STATE HIGHWAY FUND)
2016	$49,194,171
2017	$49,577,081
2018	$50,568,763
2019	$51,580,283
2020	$52,612,035

SOURCE: Legislative Budget Board.

As shown in **Figure 2**, for the 2016–17 biennium, increasing the motor vehicle CoT fee by $10 would generate an additional $118.7 million in State Highway Funds.

FIGURE 2
FIVE-YEAR FISCAL IMPACT ESTIMATE OF SCENARIO 2, FISCAL YEARS 2016 TO 2020

FISCAL YEAR	PROBABLE REVENUE GAIN/(LOSS) IN OTHER FUNDS (STATE HIGHWAY FUND)
2016	$59,137,273
2017	$59,597,576
2018	$60,789,697
2019	$62,005,664
2020	$63,245,954

SOURCE: Legislative Budget Board.

28. GENERATE REVENUE FROM STATE FERRY OPERATIONS

Description

This option would apply a fee, not to exceed expenditures for operating state ferries, for passengers and/or vehicles that use the state's ferries. Currently the state operates two ferry routes that provide a shorter route than using existing roads for travel from Port Aransas to Harbor Island and from Galveston to Port Bolivar; no fees is paid to use these ferries.

Current Use

The Texas Transportation Code requires the Texas Department of Transportation (TxDOT) to use money from the State Highway Fund for ferry operations. TxDOT is also authorized to charge an annual fee for a priority boarding pass. Under this program, TxDOT would have granted access to a new lane that would have allowed priority boarding if 500 people applied for the program; but this has not occurred. For fiscal year 2014, TxDOT was appropriated $45.5 million for ferry operations and maintenance and $45.7 million was appropriated for fiscal year 2015. **Figure 1** shows fees for ferry travel in select other states.

FIGURE 1
FEES FOR FERRY TRAVEL IN SELECT OTHER STATES, AS OF FISCAL YEAR 2014

STATE	NUMBER OF ROUTES	FEES
Wisconsin	6, 1 of which is free	One way fares for walk-on passengers: $2-$95; bicycles: $3.50-$9; motorcycles: $7.50-$40; car/van/pickup: $12-$87; tour/school buses: $2 per person, minimum of $50; double spaces: $30; and semi-truck or similar vehicle: $50. Non-commercial cars, vans, and pickups can purchase punch cards with discounted rates.
North Carolina	7, 4 of which are free	One way fares for pedestrians: $1, bicycles: $2 to $3; motorcycles/scooters/golf carts or ATVs/3 wheel motorcycles: $3 to $10; motorcycles with trailers or side cars: $5 to $15; vehicle and/or combination less than 20 feet: $5 to $15; vehicle and/or combination 20 to 40 feet: $10 to $30; and vehicle and/or combination 40 to 65 feet: $15 to $45
Maine	6	Child round trip: $4.75 to $17; adult round trip: $10 to $33; vehicles with four tires or less and 20 feet or less: $27.50 to $86; child bicycles, not including rider: $5.50 to $10, adult bicycles, not including rider: $8.50 to $20; vehicles with more than four tires and over 20 feet: $2.75/foot to $6.75/foot
Washington	More than 10	At least six fare schedules are in place. Regular passengers in vehicles or walk on: $1.60 to $19.05; bicycle surcharge: up to $2; small vehicle and driver regular fare: $5.35-$51.30; standard vehicles and driver: $7.10 to $63.20 with a surcharge for over height vehicles; motorcycle and driver or stowage: $3.15 to $31.50; vehicles from 22 to 80 feet: $16.55 to $373.90, and vehicles over 80 feet pay the vehicle length fare plus $0.85 to $3.35 per additional foot. These include a $0.25 surcharge per fare dedicated to vessel replacement. A fuel surcharge of up to 10 percent is added to fares when fuel costs exceed the currently-funded average fuel price. For some fares, discounts are available for seniors, disabled, youth or a surcharge is applied for over height vehicles.

NOTE: Many ferry routes that charge a toll allow or require reservations. This is often available on-line, and several systems charge a fee for reservation cancellation or require a minimum advance notice for a cancellation.
SOURCE: Legislative Budget Board.

Implementation

This option would amend Texas Transportation Code, Chapter 342, to require TxDOT to charge a fee for ferry use. Passenger vehicles could pay the fee in a manner similar to the current methods used to pay charges for using toll roads. Texas Transportation Code, Chapter 228, could be amended to allow the use of TxTAGs to pay for ferry service or a bill could be mailed to the registered address of vehicles.

The ferry traveling between Galveston and Port Bolivar is considered a primary means of evacuation during hurricane threats. Emergency vehicles also use the ferries to respond to public safety concerns and transport people via ambulance. Therefore, emergency vehicles would be exempt from any fees charged to use the ferries, and the fees would be suspended when emergency evacuations occur.

Other Considerations

Ferries carry passenger vehicles and combined vehicles with maximum length, height, and width volumes which vary depending on the route. The ferries are used by commuters and other residents from Port Aransas and North Padre Island as well as tourists and visitors. In fiscal year 2013, the highest volume of vehicle traffic on the Galveston/Port Bolivar ferry was in July while the lowest volume of vehicle traffic was in January. Vehicle traffic was 129.2 percent higher in July than January.

Ferries allow motorists to avoid traveling on state highways to reach their destination, which reduces travel time and fuel consumption. According to TxDOT, it would take approximately two hours and twenty minutes to drive to Galveston while the ferry allows crossings in 18 minutes. It would take approximately one hour and fifteen minutes to drive to Port Aransas while the ferry allows crossings in 15 minutes.

There was a 25 cent toll to use the Galveston-Port Bolivar ferry from 1935 to 1949. Prior to the state operating the Corpus Christi-Port Aransas ferry route, a fee was charged for service on this route.

Revenue Potential

Charging a flat fee of $12 for vehicles and $3 for pedestrians traveling on ferries would generate an estimated $95.0 million for the 2016–17 biennium, as shown in **Figure 2**. This is based on the average number of vehicle and pedestrians on the ferries from fiscal year 2011 to fiscal year 2013. Other options for structuring this fee include offering a separate fee for round trip travel and one way travel. Similar to the way current toll charges are structured, any fee schedule for travel on ferries could have reduced rates for fees that are paid through a TxTAG rather than by mail. The fiscal impact of options such as these cannot be estimated. Authorizing the use of TxTAG to pay for ferry travel would require new technology to be placed at ferry crossings. This cost would not be significant and could be absorbed within existing resources.

FIGURE 2
FIVE-YEAR FISCAL IMPACT ESTIMATE, FISCAL YEARS 2016 TO 2020

FISCAL YEAR	PROBABLE REVENUE GAIN/(LOSS) IN OTHER FUNDS (STATE HIGHWAY FUND)
2016	$47,506,004
2017	$47,506,004
2018	$47,506,004
2019	$47,506,004
2020	$47,506,004

SOURCE: Legislative Budget Board

29. INCREASE THE DRIVER LICENSE FEE	
Description	This option would increase the driver license fee from $24 to $36, the commercial driver license fee from $60 to $90, the occupational license fee from $10 to $25, and the duplicate license fee from $10 to $15 to account for inflation.
Current Use	Each operator of a motor vehicle in Texas is required to obtain a driver's license. The fee for most driver's licenses (Class A, B, and C) is $24, including originals and renewals. These are issued for six years. An individual transporting interstate or intrastate commerce or driving a vehicle that requires an endorsement (i.e. school bus, hazardous material, etc.) is required to obtain a commercial driver license. The fee for a commercial driver's license is $60 and was set in 1997. An individual whose license has been suspended, revoked, or denied for certain offenses may obtain a special type of restricted license known as an occupational license. This allows the individual to operate a non-commercial vehicle in connection with work, school-related activities, or essential household duties. The fee for this license is $10 and was set in 1983. If an individual needs a replacement driver license or other form of identification, they are required to request a replacement, or duplicate. The fee for a duplicate license is $10 and was set in 1995. Additional licenses and identification cards are available for certain other persons or persons driving certain specialty vehicles. Driver licenses and identification cards are issued by the Texas Department of Public Safety (DPS). Revenue generated by driver license fees is deposited to the Texas Mobility Fund in accordance with statue.
Implementation	To implement this option, Texas Transportation Code, Chapter 521, would be amended to increase the driver license to $36, the commercial driver license fee to $90, the occupation license fee to $25, and the duplicate license fee to $15. This would adjust the fees so their value is approximately equivalent to the value of the fee when it was set. Raising the fee would generate additional revenue for the Texas Mobility Fund.
Other Considerations	The current fee of $24 applied for the most common type of driver's license was set in 1997. This was worth $16.27 in fiscal year 2014 when adjusted for inflation using the Consumer Price Index-Urban Consumers. The fee for reinstatement of a driver license for motor vehicle offenses and fee for issuance of a license/personal identification certificate to a non-citizen was raised in calendar year 2009. All other fees for driver licenses and personal identification cards have not been raised since calendar year 2007 or earlier. The Legislature could raise additional fees in the driver license category to account for this. Other driver's license fees vary between $3 and $125 and most of these were set between 1995 and 2007. If the amount of the fee is set at a flat amount, as proposed in this option, inflation would erode the purchasing power of the revenue over time. To account for this, the Legislature could provide for an automatic adjustment of the fee to account for inflation by tying it to an index such as the Consumer Price Index or an index related to construction or transportation costs.

Revenue Potential

As shown in **Figure 1**, during the 2016–17 biennium, increasing the fee for a driver license to $36 would generate an additional $80.2 million in Texas Mobility Funds. This estimate is based on the number of original and renewal driver licenses issued in Texas from fiscal years 2011 to 2013. Additional revenue would be generated as a result of increasing the fee for commercial, occupational, and duplicate licenses; however, data is not available to estimate the amount of this increase at this time. Applying the increase to other driver license and personal identification card fees would increase the revenue generated. There could be costs incurred for programming updates. Because this option would not change the way in which the fee is collected or remitted to the state no other administrative costs are anticipated.

FIGURE 1
FIVE-YEAR FISCAL IMPACT ESTIMATE, FISCAL YEARS 2016 TO 2020

FISCAL YEAR	PROBABLE REVENUE GAIN/(LOSS) IN OTHER FUNDS (TEXAS MOBILITY FUND)
2016	$40,085,108
2017	$40,085,108
2018	$40,085,108
2019	$40,085,108
2020	$40,085,108

SOURCE: Legislative Budget Board

30. INCREASE THE MOTOR VEHICLE SAFETY INSPECTION FEE	
Description	This option would increase the annual motor vehicle safety inspection fee by $1.50 and the two-year vehicle safety inspection fee by $4.25 to account for inflation.
Current Use	All passenger vehicles registered in Texas must receive an annual safety inspection. The fee for an annual inspection is $12.50. The inspection station retains $7.00 of the fee and $5.50 is remitted to the state. Of the funds remitted to the state, $3.50 is deposited to the Texas Mobility Fund, and the remaining $2.00 is deposited to the General Revenue–Dedicated Clean Air Account No. 151. New passenger vehicles registered in Texas receive a two-year safety inspection. The fee for a two-year inspection is $21.75. The inspection station retains $7.00 of the fee and $14.75 is remitted to the state. Of the funds remitted to the state, $10.75 is deposited to the Texas Mobility Fund and the remaining $4.00 is deposited to the General Revenue–Dedicated Clean Air Account No. 151. In accordance with statute and the Texas Constitution, revenue in the Texas Mobility Fund is used to provide financing for construction, reconstruction, acquisition and expansion of state highways and other transportation projects. The vehicle inspection safety program in Texas is overseen by the Texas Department of Public Safety (DPS). Each vehicle is inspected for adherence to standards DPS developed for safety-related equipment. A passenger vehicle is normally subject to a 20-point inspection, and a motorcycle is subject to a 13-point inspection.
Implementation	To implement this option, Texas Transportation Code, Chapter 548, would be amended to provide for an increase in the annual and two-year motor vehicle safety inspection fee. Raising the fee would generate additional revenue for the Texas Mobility Fund.
Other Considerations	The current motor vehicle safety inspection fee applied to all vehicles receiving an annual safety inspection was set in 1999. Of the fee for a safety inspection, $3.50 or $10.75 is deposited to the Texas Mobility Fund, depending upon whether the inspection is valid for one or two years. These amounts were worth $2.46 and $7.47 in calendar year 2014 when adjusted for inflation. All vehicles registered in Texas are required to obtain a motor vehicle safety inspection before they can renew their vehicle registration. Drivers operating vehicles with an expired inspection can be penalized through a citation issued by law enforcement. No penalty is applied when the inspection is renewed late. From fiscal year 2006 to fiscal year 2011, DPS issued an average of 44,878 citations a year for driving with an expired vehicle inspection. Vehicles in 17 counties classified as near- or non-attainment areas are required to pass an emissions test before their registration may be renewed. The Texas Commission on Environmental Quality establishes standards for vehicle emissions testing equipment, sets emissions test fees, and captures and analyzes test data. These inspections would not be impacted by this option. If the amount of the fee is set at a flat amount, as proposed in this option, inflation would erode the purchasing power of the revenue over time. To account for this, the Legislature could provide for an automatic adjustment of the fee to account for inflation by tying it to an index such as the Consumer Price Index or an index related to construction or transportation costs.

Revenue Potential

As shown in **Figure 1**, during the 2016–17 biennium, increasing the motor vehicle safety inspection fee via this option would generate an additional $62.1 million in Texas Mobility Funds. There could be costs incurred for programming updates. Because this option would not change the way in which the fee is collected or remitted to the state no other administrative costs are anticipated.

FIGURE 1
FIVE-YEAR FISCAL IMPACT ESTIMATE, FISCAL YEARS 2016 TO 2020

FISCAL YEAR	PROBABLE REVENUE GAIN/(LOSS) IN OTHER FUNDS (TEXAS MOBILITY FUND)
2016	$30,778,975
2017	$31,332,996
2018	$31,896,990
2019	$32,471,136
2020	$33,055,616

SOURCE: Legislative Budget Board.

31. ADJUST THE HIGHWAY MAINTENANCE FEE

Description	This option would restructure the highway maintenance fee to consider distance traveled. The highway maintenance fee is charged to certain overweight vehicles to offset the cost of additional damage these vehicles create on roadways. The current fee is based solely on a vehicle's weight.
Current Use	An oversized and overweight vehicle is defined as a vehicle with a gross load that exceeds statutorily defined maximum legal width, height, length, or weight limits. Vehicles with a gross weight of 80,000 pounds or greater must pay a highway maintenance fee that ranges from $150 to $375 depending upon the vehicle's gross weight. This is in addition to any other permit fees the vehicle is required to obtain. Revenue from the highway maintenance fee is deposited into the State Highway Fund. Kentucky, New Mexico, New York, and Oregon apply a weight-distance tax on heavy vehicles and motor carriers are required to report the distance traveled and pay the tax on either a monthly, quarterly, or annual basis in each state. New York's tax applies to vehicles greater than 18,000 pounds, New Mexico and Oregon's apply to vehicles greater than 26,000 pounds, and Kentucky's tax applies to vehicles greater than 60,000 pounds. Oregon has an axle incentive that offers tax reductions for vehicles with a gross weight of 80,000 pounds or greater that operate with more than the required number of axles for the weight they carry. Additionally, in Oregon vehicles that pay the weight-distance tax do not have to pay the state fuel tax.
Implementation	To implement this option the Texas Transportation Code, Section 623.077, would be amended to restructure the highway maintenance fee assessed to overweight vehicles so that it reflects weight and distance traveled. The new rate could be structured so that revenue generated would be similar to projected revenue collections under the current fee structure or could be established to generate an increase in revenue collections. The highway maintenance fee would be restructured so that it would increase with the weight of the vehicle as well as distance traveled. Under the current structure of the fee, a vehicle weighing 120,000 pounds traveling five miles pays the same fee as a vehicle of identical weight traveling 500 miles would pay. Restructuring the fee to include both weight and distance traveled would make the fee more equitable and proportional to road damage. The highway maintenance fee for each vehicle would be calculated by multiplying the rate based on the vehicle's weight category by the miles traveled. The Texas Department of Motor Vehicles would need to develop a methodology to establish rates per mile for all weight categories, and could do so in consultation with the Texas Department of Transportation. There would be no changes needed to the way in which highway maintenance fees are paid by motor carriers.
Other Considerations	According to the Comptroller of Public Accounts, vehicle weight and distance traveled are the two factors most closely associated with roadway damage caused by vehicles. Few studies quantify the relationship between vehicle weight and the cost of road damage or maintenance. Results from existing studies vary due to factors such as different environmental conditions and pavement structures. The Texas Transportation Institute estimated the amount of damage to the state highway system caused by overweight vehicles to be $62.8 million per year in 1988. Adjusted for inflation, that is the equivalent of $125.7 million in damage in 2014. The highway maintenance fee was increased in 2007 as a result of legislation passed by the Eightieth Legislature, Regular Session. This increase was not intended to cover maintenance and repair costs, but rather to support enforcement efforts against violators of motor vehicle size and weight laws and address administrative issues related to the timeliness of permit issuance.

Revenue Potential

In fiscal year 2014, DMV assessed 165,072 highway maintenance fees which generated $32.4 million in revenue for the State Highway Fund.

Figure 1 shows the fiscal impact of restructuring the fee so that it accounts for both weight and distance traveled and generates 10 percent more revenue than the current fee. This would result in an increase of $6.5 million during the 2016–17 biennium. The actual amount of revenue generated from this fee varies. For instance, in fiscal year 2012, $52.9 million was generated from this fee. Therefore, the actual revenue gain could be higher or lower depending upon the number of highway maintenance fees assessed and the weight of vehicles obtaining this permit in the future. There could be costs incurred for programming updates. Because this option would not change the way in which the fee is collected or remitted to the state no other administrative costs are anticipated.

FIGURE 1
FIVE-YEAR FISCAL IMPACT ESTIMATE, FISCAL YEARS 2016 TO 2020

FISCAL YEAR	PROBABLE REVENUE GAIN/(LOSS) IN OTHER FUNDS (STATE HIGHWAY FUND)
2016	$3,237,455
2017	$3,237,455
2018	$3,237,455
2019	$3,237,455
2020	$3,237,455

SOURCE: Legislative Budget Board

32. GENERATE REVENUE FROM ADVERTISING

Description

This option would allow advertising on certain websites operated by the Texas Department of Transportation (TxDOT) and the Texas Department of Motor Vehicles (DMV) and on ferries.

Current Use

The Texas Transportation Code authorizes TxDOT to sell commercial advertising space at a travel information centers and requires TxDOT to contract for specific information logo signs and major shopping area guide signs that are located along certain highways. Under this contract, as required by statute, fees are assessed of commercial establishments for display on the sign. The fees are paid to the contractor, and at least 10 percent of fees collected by the contractor are required to be remitted to TxDOT.

Currently, the only one of TxDOT's 83 .com or .org domain names with advertising is TEXASHIGHWAYS.COM, which resulted in $42,150 in revenue in fiscal year 2013. Between fiscal year 2011 and fiscal year 2013 the TEXASHIGHWAYS.COM website received approximately 853,000 to 1 million unique page views per fiscal year. The DriveTexas.org website is operated by TxDOT and allows persons to look at highway conditions across the state. In fiscal year 2013 there were almost 800,000 unique page views for the DriveTexas map.

Since 2011, the Washington Department of Transportation (WSDOT) has placed advertising and sponsorship on sections of its websites. WSDOT offers banner advertising packages on ferry schedule and vessel watch Web pages and online traffic and traveler information pages. WSDOT spent $75,000 on start up costs and generated approximately $168,000 in revenue.

The states of California, Oregon, and Washington all allow forms of advertising on their tourism websites. These have not generated a large amount of revenue to date; Experience Washington earned approximately $100,000 in net annual revenues as of January 2010. In 2013 the Massachusetts Department of Transportation Registry of Motor Vehicles Division transitioned to a new website which allowed it to accept advertising. The department estimated $65,000 would be generated during the first year of advertising.

In 2011, the Tennessee Legislature authorized its Department of Transportation to obtain commercial sponsorship of the 511 system, which is a traveler information telephone number. Any revenue generated from this is deposited to the state's highway fund and used solely for transportation purposes. In Texas, the Dallas/Fort Worth area is the only location that currently has a 511 system.

Implementation	To authorize or require TxDOT and DMV to generate revenue from advertising on websites, road signs for 511 or any other future travel information service implemented in Texas, and ferries, the Texas Transportation Code would be amended to provide the agencies explicit authority to do so. The agencies would be required to develop rules and guidelines regarding what types of advertising would be allowed. This would need to ensure preferential treatment is not granted to particular commercial products or services and takes into account government impartiality. Disclosures should also be considered to prevent the appearance of TxDOT or DMV endorsing a product or service. TxDOT has already developed lists of acceptable and unacceptable literature for display at travel information centers and has established terms for display and distribution. Similar criteria could be applied to any future advertising that occurs on TxDOT or DMV webpages. There are three ways other states have identified to manage ad sales. TxDOT and/or DMV could engage in direct sales, requiring the agencies to use or hire their own staff and purchase and house hardware and software. The agencies could also contract with an ad network, which is a company that connects websites selling ad space with advertisers. The costs of contracting with an ad network are generally low, but the ad network keeps a large percentage of the gross revenue, and therefore profits from this model are also generally low. For other assets, the agencies could contract with a vendor similar to the way in which they currently contract for information logo and major shopping and guide signs. The agencies could also sell advertising space on their Web sites through a partner organization. This generally has low costs and allows the agencies to negotiate each partner's share of the revenue. Other government agencies that have sold advertising on websites have found contracting out ad sales to be more cost effective than staffing an internal ad sales function.
Other Considerations	Guidelines from the U.S. General Services Administration prohibit government agencies from selling advertising or sponsorship on Web sites in the ".gov" domain. However, according to TxDOT, there are no restrictions for .com or .org names being used in the state domain name system. Federal law prohibits most commercial activities at rest areas. However, Moving Ahead for Progress in the 21st Century (MAP-21), which was signed into law in 2012, expanded the commercial activities allowed at rest areas. The new law allows, among other things, commercial advertising and media displays at rest areas if they are exhibited solely within a facility constructed within a rest area and are illegible from the main traveled way.
Revenue Potential	The fiscal impact of expanding advertising on TxDOT and/or DMV webpages, signs, and other assets cannot be determined. Revenue generated from this activity would vary depending upon the number of advertisers, rates charged, and structure of the fee schedule for advertising. Other states have generated up to $200,000 in net annual revenues from online advertising. Additional revenue would be generated if advertising were placed on additional webpages, signs, or other assets. Administrative cost would also vary depending upon the method of implementation used to implement this option.

33. REMOVE THE MOTOR VEHICLE SALES AND USE TAX EXEMPTION ON HYDROGEN-POWERED VEHICLES

Description	This option would remove the exemption for hydrogen-powered vehicles from the motor vehicle sales tax and deposit resulting revenue to the State Highway Fund.
Current Use	Vehicles that meet the definition of hydrogen-powered and have a fuel economy of at least 45 miles per gallon are exempt from the motor vehicle sales tax. This exemption for hydrogen vehicles from the motor vehicle sales and use tax was established by the Eightieth Legislature, Regular Session, 2007. At this time, hydrogen-powered vehicles were still in development and not commercially available. Additionally, there were no hydrogen fueling stations in Texas. The first mass-produced hydrogen-powered vehicles became commercially available in calendar year 2014 with two models available for purchase. As of August 2014, six hydrogen fueling stations were located in the Austin, Dallas/Fort Worth, Houston, and San Antonio areas. The current motor vehicle sales and use tax is 6.25 percent of the retail price of all motor vehicles sold in the state, less any trade-in value. The tax is collected by county tax assessor-collectors and remitted to the Comptroller of Public Accounts. Counties are entitled to retain 5 percent of collections, and the revenue remitted to the state is deposited to the General Revenue Fund.
Implementation	Repealing Texas Tax Code, Section 152.090, would remove the motor vehicle sales and use tax exemption for hydrogen powered vehicles. Additionally, amending this section to allocate any revenue resulting from the sales and use tax on hydrogen vehicles to the State Highway Fund would allow the revenue to be used for transportation.
Other Considerations	The Eighty-second Legislature, Regular Session, 2011, amended statute to establish the Clean Transportation Triangle (CTT) and the Alternative Fueling Facilities Program (AFFP) within the Texas Emissions Reduction Plan. CTT grants are provided for the creation of natural gas fueling stations in 63 eligible Texas counties. Under AFFP, grants are awarded for the development of alternative fueling facilities in nonattainment areas of the state (Dallas/Fort Worth, Houston/Galveston/Brazoria, and El Paso County as of September 2014). At least one grant has been made under AFFP for the building of a hydrogen fueling station. This station is to fuel trucks at the Port of Houston. Additionally, hydrogen fuel cells qualify for the property tax exemption for pollution-control property and equipment.
Revenue Potential	The fiscal impact of removing the motor vehicle sales and use tax on hydrogen vehicles cannot be determined at this time, although it is not expected to have a significant fiscal impact in the short term. This is due to the relatively new availability of hydrogen-powered vehicles on the commercial market; meaning the number of hydrogen-powered vehicles that would be bought in Texas and the cost of any qualifying vehicle cannot be estimated. Implementing this option would ensure the state does not lose potential future revenue that would be generated from the sale of these vehicles. As of August 2014 there are two hydrogen powered vehicles on the commercial market. A three-year lease of the Hyundai Tuscon Fuel Cell would cost the consumer $20,693. Applying the current motor vehicle sales and use tax of 6.25 percent to this, and depositing the revenue to the State Highway Fund, would generate an estimated $1,293 per hydrogen-powered vehicle bought or leased in Texas for transportation. There could be costs incurred for programming updates. Because this option would not change the way in which the tax is collected or remitted to the state, no other administrative costs are anticipated.

34. ESTABLISH IMPACT FEES TO FUND TRANSPORTATION

Description

This option would authorize the Texas Department of Transportation (TxDOT) to establish transportation impact fee to shift a portion of the cost of financing certain transportation projects to the new development resulting in demand for the transportation project. Impact fees are a charge or assessment imposed on new development to fund or recoup the cost of capital improvements or facility expansions attributable to new growth.

Current Use

State law allows impact fees to be used to fund water, wastewater, road and drainage facilities. Presently, the authority to assess transportation impact fees in Texas is limited to local governments, including cities, counties and other political subdivisions (e.g., municipal utility districts). According to a national impact fee survey conducted in 2012, five cities in Texas assess transportation impact fees, including the cities of Allen, McKinney, Colleyville, Fort Worth and Arlington. The fees are assessed based on land or building use (e.g., industrial, retail, office, and single-and multi-family residences). The average of the transportation impact fees assessed by these five cities vary by land use category but ranged from $1,087 per 1,000 square feet for industrial land use to $2,101 per 1,000 square feet for retail land use as of August 2012.

Statute authorizing local governments to enact impact fees includes the following planning and analysis requirements or conditions be met when establishing an impact fee:

- a capital improvements plan (i.e., a list of projects to be funded by the impact fees);
- an analysis used to calculate the impact fee;
- establish service areas;
- land use projections that cover the same period as the capital improvements plan;
- an impact fee may not exceed the amount determined by dividing the costs of capital improvements by the total number of projected service units;
- impact fees collected within a service area must be spent on capital improvements within the same service area;
- the appointment of a local capital advisory committee; and
- updates of the capital improvements plan and the land use projections at five-year intervals.

Current statue limits the service area, which is the area where the impact fees will be collected based on the service provided to new development, for transportation impact fees to six miles.

The National Conference of State Legislatures (NCSL) found that impact fees are largely a tool for local governments to pay for the construction or expansion of infrastructure necessitated by and benefitting new development and their rare use in financing state services. The most visible state impact fee may be the shale impact fee the state of Pennsylvania levies on each producing oil and gas well regardless of amounts produced. Pennsylvania is the largest US natural gas producing state that does not impose a severance tax.

Implementation

This option would amend the Texas Transportation Code to provide TxDOT the authority to establish transportation impact fees for financing of transportation projects directly attributable to new or increased commercial and residential development. TxDOT would determine in which areas of the state an impact fee would be an appropriate supplemental funding source for financing transportation projects related to new development – e.g., expansion or improvements to existing transportation infrastructure due to new development or construction of new transportation infrastructure due to new development. Statute would provide the maximum service area for transportation impact fees in an amount that is suitable for projects with a regional scope. Existing planning and analysis requirements for local governments would apply to TxDOT as well, with some modification. For instance, existing transportation planning documents (the Unified Transportation Plan or the Statewide Transportation Improvement Plan) could serve to meet certain of the planning and analysis requirements local governments must complete via a capital improvement plan.

Other Considerations	Impact fees are considered an equitable means of distributing the burden of financing future capital improvements among various types of development in that the contribution of a particular development project is in proportion to the demand it creates for additional capital capacity. The amount of revenue generated by the fee is dependent on economic development. In the event of an economic downturn, development may slow or decline and so would collections of transportation impact fees. Impact fees could have an effect on real estate prices if developers pass along the cost of the fee to homebuyers or other businesses or could be factored into business decisions when determining a location. These are factors the planning and analysis requirements, such as inclusion of local stakeholders in establishing impact fees, could take into account. As one-time levies, impact fees cannot fund operations and maintenance costs once a project is complete. As a result, TxDOT may want to consider using impact fees to fund debt service on bonds issued for new development projects or as partial cash funding for development projects.
Revenue Potential	Since the State of Texas does not presently impose any impact fees for state-funded services, and the actual fee schedules or rates for impact fees would vary by land use and by region or TxDOT district. Therefore, information is not currently available to determine the fiscal impact of or administrative costs associated with establishing impact fees.

OPTIONS TO FUND ENERGY SECTOR TRANSPORTATION REPAIRS

Texas has experienced an increase in oil and gas exploration and production due in part to new technologies such as hydraulic fracturing (fracking) and horizontal drilling. Much of the increase in energy sector activity takes place in rural areas, where roads are not designed for high-volume, overweight traffic. Some of the activity is also in urban or suburban areas, neither of which may have roads constructed for industrial traffic. As a result, energy sector activity has increased road deterioration. Roads intended to last for decades are deteriorating faster than expected and may need repair or replacement in much less time. Increased traffic and road deterioration contribute to increased safety risks for the public and energy sector workers. In Texas' major shale play regions, traffic-related fatalities have increased 13 percent in calendar year 2012 and another 7 percent in calendar year 2013. It is difficult to estimate the actual fiscal impact of energy sector activity on transportation infrastructure for several reasons, including the dynamic nature of the industry and the rapid shifts in geographic focus of activity. Experts estimate the annual cost to the state to repair roads damaged by energy sector activity and with conditions rated below good is between $1 billion and $2 billion.

This report identifies additional funding options for the construction and maintenance of transportation infrastructure affected by energy sector activity. The scope of this review includes only state roads. It does not include local or county roads, waterways, or rail.

FACTS AND FINDINGS

- New technologies expand the areas in which exploration and production of oil and gas is economically feasible. This activity often takes place in rural or suburban areas of the state in which roads may not be designed or constructed for a high level of industrial activity.
- Energy sector activity generally brings a substantial increase in traffic of both passenger vehicles and oversize or overweight vehicles. Roads that were intended for 100 vehicles per day may now have 1,000 oversize or overweight vehicles per day. Increased traffic can deteriorate roads more quickly than originally estimated.
- Damaged or inadequate roads can cause issues related to traffic and public safety. The annual cost to the state to repair roads that are damaged by energy sector activity and are rated below good condition is between $1 billion and $2 billion.

DISCUSSION

The mission of the Texas Department of Transportation (TxDOT) is to provide safe and reliable transportation for the state of Texas. TxDOT has the statutory responsibility to coordinate planning, development, and operation of the state's highway system and other transportation services. The Eighty-third Legislature appropriated more than $20 billion to the agency for the 2014–15 biennium, more than $15 billion of which is designated for construction and maintenance of state highways and other transportation infrastructure. While no funding formulas have been changed due to energy sector activities, funds are indirectly allocated to energy sector-related districts because of accelerated deterioration and its weight in existing formulas. TxDOT estimated that, on average, 10 percent of the agency's total annual maintenance budget is spent in energy sector areas, solely due to increased activity. Additionally, in the 2012–13 biennium, TxDOT used approximately $265 million in unallocated funds and supplemental appropriations for targeted energy sector projects. In October 2014, TxDOT received legislative authorization to access $201 million in additional State Highway Funds to address roadways impacted by the energy sector. In December 2014, TxDOT received legislative authorization to spend additional funds from Proposition 1, the constitutional amendment adopted in 2014, that redirects some revenue that would have gone to the Economic Stabilization Fund to the State Highway Fund. The request approved by the Legislature indicated TxDOT planned to use $261 million of the additional funds for energy sector priorities. This funding was provided in addition to amounts appropriated in the 2014–15 General Appropriations Act.

While energy sector activity is not new to Texas, the current boom challenges the state's transportation infrastructure. People have used Texas oil since at least the 16th century, when Hernando de Soto's exploration team used oil to patch

sailing vessels. In more modern history, "boom and bust" cycles have become common in the energy industry, such as the boom and bust experienced in the 1970s and 1980s. Recently, the state has experienced a significant increase in energy sector activity due in part to new technologies such as hydraulic fracturing (fracking) and horizontal drilling. These technologies make the development of shale plays more feasible for the energy sector. **Figure 1** shows that recent oil and gas drilling is similar to levels recorded in the 1980s.

INCREASE IN ENERGY SECTOR ACTIVITY

TxDOT considers Texas to have five major energy sector areas located across the state, which primarily comprise the nine active shale plays in Texas and the Granite Wash region, a tight sands formation which requires similar extraction techniques as a shale play. TxDOT's energy sector areas include Eagle Ford Shale (South Texas), Permian Basin (West Texas), Barnett Shale (North Texas), Granite Wash (Panhandle), and Haynesville/Bossier (East Texas). While the energy sector is active throughout the state, 80 percent of all new energy activity in the state occurs in approximately 75 of the state's 254 counties. As an example, **Figures 2, 3,** and **4** show the recent increase in activity in the Eagle Ford Shale. Some industry representatives have testified before legislative committees that energy sector activity will continue to grow or at least sustain itself for another decade or more.

INCREASE IN TRAFFIC AND RELATED ROAD DAMAGE

Areas that have seen a substantial increase in energy exploration and production generally have seen a substantial increase in traffic as well.

Bringing a gas well into production requires more than 1,100 loaded trucks, many of which are oversize or overweight. Yearly maintenance of the well requires another 350 trucks. Refracturing, which occurs every 5 years, requires more than 900 trucks. Since several shale plays are in rural areas, the increase in traffic volume and size of vehicles becomes especially pronounced. As an example of an increase in traffic, **Figure 5** shows the increase in oversize/overweight permit issuances in recent years.

Roads in rural areas are often two-lane roads built to accommodate 100 vehicles per day. These roads may now carry 1,000 oversized vehicles per day. Road damage attributed to increased traffic in the energy sector may include rutting, cracking, base failures, shoulder destruction, and bridge hits.

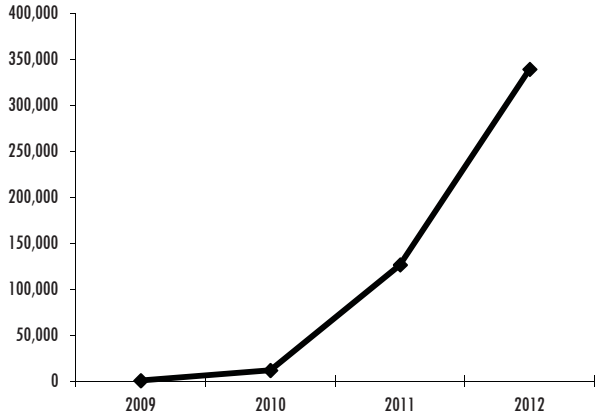
To monitor the effects of traffic and other factors on roadways, TxDOT routinely reviews and scores the quality of state-maintained roads. It examines ride quality and road distress, and then uses those ratings to give roads a condition score of 1 (worst condition) to 100 (best condition). **Figure 6** shows condition scores and corresponding classes. Factors that may affect road quality include frequency of traffic, weight of traffic, moisture, temperature, and soil.

According to TxDOT, more than 7,400 lane-miles of state-maintained roads have been damaged by energy sector activity and display conditions rated below "good" in fiscal year 2014. This means that during TxDOT's routine review and scoring of roads' ride quality and pavement distress, TxDOT determined that these roads scored 69 or lower out of a possible 100 points.

FIGURE 1
TOTAL WELLS DRILLED (OIL, GAS, DRY WELL)
CALENDAR YEARS 1975 TO 2013

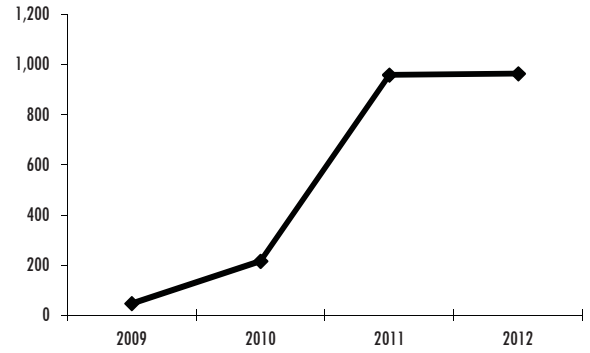
SOURCE: Railroad Commission of Texas.

FIGURE 2
EAGLE FORD SHALE OIL PRODUCTION (BARRELS/DAY) CALENDAR YEARS 2009 TO 2012



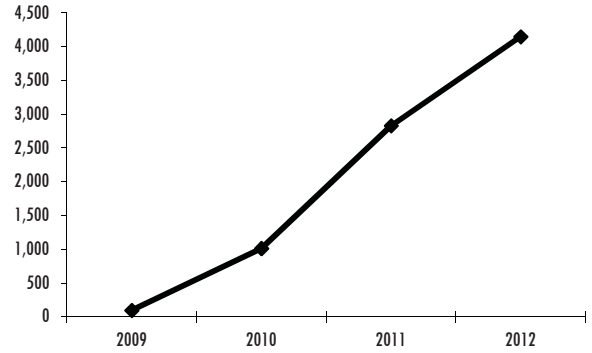
SOURCE: Railroad Commission of Texas.

FIGURE 3
EAGLE FORD SHALE GAS PRODUCTION (MILLION CUBIC FEET/DAY), CALENDAR YEARS 2009 TO 2012



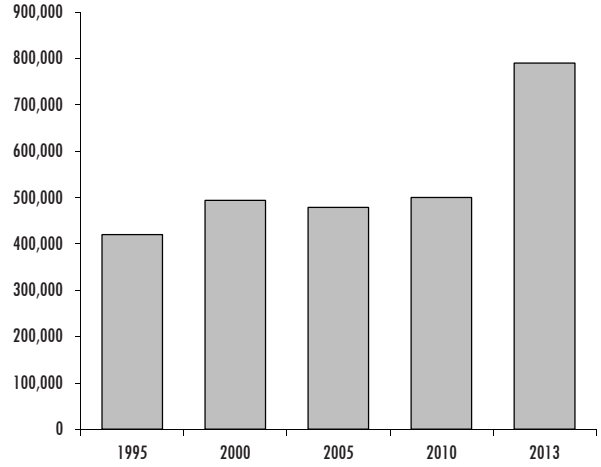
SOURCE: Railroad Commission of Texas.

FIGURE 4
EAGLE FORD SHALE DRILLING PERMITS CALENDAR YEARS 2009 TO 2012



SOURCE: Railroad Commission of Texas.

FIGURE 5
OVERSIZE/OVERWEIGHT PERMITS ISSUED FISCAL YEARS 1995 TO 2013



NOTE: Several changes were implemented in fiscal years 2011 and 2012 that may contribute to the increase in oversize/overweight permits issued in fiscal year 2013. In fiscal year 2011 the Texas Department of Motor Vehicles implemented TxPROS, a Web-based application that allows oversize and overweight permits to be applied for and processed via the Internet. Additionally, House Bill 2553, Eighty-first Legislature, Regular Session, streamlined and clarified some motor vehicle registration requirements, including those related to certain oversize/overweight permits.
SOURCE: Texas Department of Motor Vehicles.

FIGURE 6
PAVEMENT MANAGEMENT INFORMATION SYSTEM CLASSES, FISCAL YEAR 2014

CONDITION SCORE	DESCRIPTION
90 to 100	Very Good
70 to 89	Good
50 to 69	Fair
35 to 49	Poor
1 to 34	Very Poor

SOURCE: Texas Department of Transportation

When constructing roads, the state uses a pavement structure based on expected traffic. Generally, roads are constructed to last decades before experiencing significant damage. Increased traffic of large vehicles damages infrastructure at an accelerated rate. This is due to the extra usage, extra weight, weight distribution, and even how the weight distribution is affected by traffic. For example, vehicles carrying tanks of liquid frequently shift weight, which affects roads differently than static loads.

The 1,100 trucks required to bring a gas well into production have the equivalent effects on roads as 8 million cars. It takes approximately 350 trucks to maintain production at a gas

FIGURE 7
COLLISIONS AND TRAFFIC-RELATED FATALITIES
CALENDAR YEAR 2013

REGION	PERCENT CHANGE IN COLLISIONS	PERCENT CHANGE IN FATALITIES
Energy Sector	7.0%	4.0%
Statewide	6.0%	(0.9%)

NOTE: Texas Department of Transportation considers "energy sector" to include the Eagle Ford Shale, Permian Basin, Barnett Shale, Granite Wash, and Haynesville/Bossier areas.
SOURCE: Texas Department of Transportation.

well, which is equivalent to the effects of 2 million cars. Studies on the effects of the vehicles on state highways and farm to market (FM) roads indicate that natural gas well production causes a 30 percent reduction of pavement life, and oil well production causes a 16 percent reduction in pavement life. In some cases, such as on load zoned roads, excess or overweight traffic can severely damage roads in a matter of days.

By 2013, as a result of road conditions that TxDOT identified were unsafe in energy sector areas, TxDOT made plans to convert more than 80 miles of paved roads to high-end unpaved roads. High-end unpaved roads are sealed gravel roads. TxDOT stated that high-end unpaved roads were smoother and safer than the roads they were replacing. Two road segments in south Texas were converted to unpaved roads and by October 2014 the conversion policy was formally terminated.

PUBLIC SAFETY RISKS

Statistical evidence indicates that increased energy sector activity affects traffic safety. **Figure 7** shows collisions and traffic-related fatalities in energy sectors compared to statewide collision and traffic-related fatality totals.

In calendar year 2012, counties in the Eagle Ford Shale and the Permian Basin experienced a 41 percent and 27 percent increase in traffic-related fatalities, respectively. **Figure 8** shows the prevalence of serious collisions and fatalities in two of the energy sector regions in calendar year 2013.

Some passenger vehicle drivers in areas with energy sector activity report being forced off the road by energy sector vehicles on rural roads. In 2013, a school bus, semi-truck, and pickup truck were involved in a collision near Helena that resulted in several students going to the hospital. In early 2014, an energy sector van collided with a Three Rivers school bus, killing multiple energy sector workers and injuring several students.

TxDOT also reports that severely damaged roads can hinder or prevent roadway access by school buses and emergency vehicles.

ESTIMATED COSTS FOR ROAD MAINTENANCE AND REPAIR

Since September 2007, TxDOT has completed nearly 6,000 construction and maintenance projects in energy sector-affected areas. The cost of those projects was $11.7 billion in All Funds, or an average annual cost of nearly $2.0 billion. To pay for these projects, TxDOT used revenue and bond proceeds from local communities and state revenues from bond proceeds and the State Highway Fund. The majority of projects were funded by the State Highway Fund.

TxDOT projects the cost to address the 7,400 lane-miles of state-maintained roads that have been damaged by energy sector activity and with conditions rated below good is $1.87 billion.

TxDOT estimates that proactively maintaining, or "armoring" roads that will be damaged by energy-sector vehicles, could result in a 700 percent reduction in costs by reducing future repair and maintenance requirements. The agency estimates it would cost an additional $1.7 billion annually to armor the 6,700 lane-miles of state roads currently in good or better condition in the energy sector to protect them from severe deterioration.

FUNDING OPTIONS

General Revenue Funds are available for general purpose spending by the Legislature and could be appropriated to help address the state's transportation funding needs relating to energy sector activity. Additional options to increase

FIGURE 8
TRAFFIC STATISTICS FOR EAGLE FORD SHALE AND PERMIAN BASIN AREAS, CALENDAR YEAR 2013

REGION	SERIOUS COLLISIONS	FATALITIES	MOST DANGEROUS TIMES	MOST PREVALENT CAUSES
Eagle Ford Shale	3,430	236	9 AM, 5 PM	Failure to control speed, driver inattention.
Permian Basin	4,371	358	8 AM, 5 PM	Failure to control speed, driver inattention.

NOTE: "Serious collisions" are those that resulted in serious injuries or death.
SOURCE: Texas Department of Transportation.

available revenue for repairs to state-maintained roads damaged by energy sector activity are presented in the following appendices. These options can be classified in one of four ways: cost avoidance; redirecting existing revenue; increasing revenue; or new revenue. These options would all require statutory changes to be implemented.

The options presented in the report would generate varying amounts of revenue for the 2016–17 biennium. **Appendix C** summarizes each option including the amount of revenue it would generate for the upcoming biennium. For each option presented, **Appendix D** provides a description, information on current uses, methods of implementation, policy considerations, and revenue potential.

APPENDIX C: SUMMARY OF OPTIONS

NOTE: OPTIONS IN ORDER OF OPTION TYPE AND FISCAL IMPACT

	DESCRIPTION	GAIN/(LOSS) 2016–17 (IN MILLIONS)	SAVINGS/ (COST) 2016–17 (IN MILLIONS)	METHOD OF FINANCE	OPTION TYPE
Energy Industry Agreements					
1.	**Use Road Use Maintenance Agreements:** This option would amend statute to allow energy industry entities to make written agreements with TxDOT or repair road damage the entity is responsible for. Roads would be inspected before and after work is done to determine necessary work.	N/A	$100.0	State Highway Fund	Cost Avoidance
2.	**Use Donation Agreements:** Statute allows TxDOT to accept donations of cash and property but not materials or labor. This option would amend statute to allow TxDOT to accept gifts of materials and labor.	N/A	$9.0	State Highway Fund	Cost Avoidance
3.	**Use Advance Funding Agreements:** Counties occasionally provide TxDOT with materials in order to complete work within the county. It is unclear whether private entities can donate materials or cash to counties who in turn provide materials to TxDOT for work within the county. This option would authorize private entities to donate materials or cash to counties, for the purpose of transfer to the state.	N/A	CBD	State Highway Fund	Cost Avoidance
Fees & Taxes					
4.	**Designate a Portion of Severance Tax-Related General Revenue Transfers:** This option would establish a process for the Legislature to designate a portion of severance tax-related General Revenue transferred to the State Highway Fund that should be used for energy sector related activity.	NSFI	N/A	State Highway Fund	Redirect Existing Revenue
5.	**Remove the Severance Tax Exemption for Lost or Unaccounted Gas:** Current gas producers receive a severance tax exemption for lost or unaccounted for gas releases. This option would remove a severance tax exemption for lost or unaccounted for gas releases and allocate new tax revenue in accordance with current law.	CBD CBD CBD CBD	N/A N/A N/A N/A	General Revenue Permanent University Fund State Highway Fund Economic Stabilization Fund	Increase Existing Revenue
6.	**Adjust Fees for Inflation and Redirect Revenue from Vehicles Transporting Natural Gas and Petroleum:** Motor vehicles transporting Condensed Natural Gas (CNG), Liquefied Natural Gas (LNG), or Liquefied Petroleum Gas (LPG) are required to be registered with the Texas Railroad Commission and pay a registration fee, which was last set in 1999. This option would raise fees to account for inflation to 2014 equivalents, and allocate all increases in revenue to the State Highway Fund.	$3.5 ($2.4)	N/A N/A	State Highway Fund General Revenue Fund	Increase and Redirect Existing Revenue
7.	**Establish a Shale Impact Fee:** This option would establish a shale impact fee to offset road maintenance costs associated with increased traffic from well drilling. The one-time fee would be charged at the time the drilling permit application was submitted.	$3.2	N/A	State Highway Fund	New Revenue Source
8.	**Establish a State Excise Tax on Oversized Tires:** A federal excise tax on tires exist, and some states also have an excise tax on tires. This option would create an excise tax for oversized tires and allocate revenue to the State Highway Fund to offset the damage caused by oversize vehicles.	$0.2 - $0.8	N/A	State Highway Fund	New Revenue Source

NOTE: OPTIONS IN ORDER OF OPTION TYPE AND FISCAL IMPACT

	DESCRIPTION	GAIN/(LOSS) 2016–17 (IN MILLIONS)	SAVINGS/ (COST) 2016–17 (IN MILLIONS)	METHOD OF FINANCE	OPTION TYPE
9.	**Establish a Driveway Permit Fee:** In order to help ensure safe movement on state roads, parties who wish to construct new driveways off state highways or modify existing ones must apply for a driveway permit with TxDOT. TxDOT currently does not charge a fee for driveway permits, but issues 10,000 permits annually. This option would create a driveway permit fee.	$2.3	N/A	State Highway Fund	New Revenue Source
Miscellaneous					
10.	**Sell Naming Rights:** This option would authorize the state to sell or lease naming rights to roads, rest stops, toll roads, or other transportation assets.	$4.0	N/A	State Highway Fund	New Revenue Source
11.	**Establish an Energy Sector Transportation Fund:** This option would establish an energy sector transportation fund that could be funded from a portion of oil and gas related fees. Revenue in the fund would be used in regions impacted most heavily by energy sector activity for transportation maintenance.	CBD (CBD)	N/A N/A	New Energy Sector Fund All Funds	Redirect Existing Revenue

NOTE: CBD = Cannot be determined; N/A = Not applicable.
SOURCE: Legislative Budget Board.

APPENDIX D: DETAILED DESCRIPTION OF OPTIONS

1. USE ROAD USE MAINTENANCE AGREEMENTS

Description

This option would amend statute to allow energy industry businesses to formally enter into agreements with the Texas Department of Transportation (TxDOT) for the repair of road damage the business is responsible for. Roads would be inspected before and after work is done to determine necessary work.

Current Use

A road use maintenance agreement (RUMA) is a maintenance financing strategy used by a state or local authority and a private company (or companies). Ohio and West Virginia use RUMAs. Pennsylvania uses a similar agreement, an Excess Use Maintenance Agreement (EMA). While different states have various ways to implement RUMAs, the RUMA process generally involves the following:

- An energy sector company applies for a drilling permit.
- The authority and the company reach a legal agreement regarding the company's duties to repair used roads before (in some jurisdictions), during, and after the drilling process is complete.
- Bonding may be a component for RUMAs. They are optional in Ohio but required in West Virginia. In West Virginia, if a bond is called, that company's entire statewide production is shut down.
- Once the RUMA is agreed upon, a permit is issued. The RUMA process may add an extra month to six weeks to the permitting process.
- The authority usually monitors road conditions and informs the company of necessary repairs. In Ohio, the road must be maintained to an equal or greater level that its condition was prior to drilling activity.

In Ohio, RUMAs were used in the coal and timber industries prior to their use with oil and gas-related activity. RUMAs are required for drilling permits, but bonds are not required. RUMAs are negotiated between the well operator and county or township governments. The Ohio Department of Transportation, in consultation with stakeholders, drafted a model RUMA to serve as a starting point for negotiations between local governments and companies.

In West Virginia, RUMAs were used in the coal industry prior to their use with oil and gas-related activity. Companies must negotiate RUMAs prior to receiving drilling permits and bonds are required. Since the West Virginia Department of Transportation has authority over all of the roads in the state, the state and companies negotiate RUMAs directly. The state had previous experience with industry paying for road damage because of its permitting process relating to the coal industry.

Pennsylvania's EMA requires bonding but does not require companies to do road work prior to drilling activity.

Implementation

Statutory changes to the Texas Transportation Code and Texas Government Code would be necessary to allow RUMAs because of existing requirements for competitive bids for highway improvements. Legislation would need to address current law relating to:

- Competitive bidding requirements for highway improvements and highway improvement materials;
- Minimum amount of money that TxDOT must pay private sector providers;
- Percentage of competitive bid requirements for maintenance projects; and
- Professional service provider qualifications, i.e. requirements for donated professional services from engineers.

The state could choose to make RUMAs required for drilling permits or authorize them as an option. Likewise, the state could choose to make bonds required or optional. The state could choose to make companies responsible only for maintenance related to excessive use or for the relevant sections of road entirely. Entities entering into RUMAs with TxDOT could have drilling permits expedited or prioritized.

Other Considerations

RUMAs shift the costs of maintaining excessively damaged roads to the entities responsible for the damage. During times of increased energy sector activity, RUMAs would be available to cover part or all costs associated with road damage resulting from energy sector activity.

RUMAs could also be implemented in other areas in which transportation funding is needed, such as East Texas' logging industry.

The energy industry would incur costs associated with RUMAs.

Revenue Potential

TxDOT may incur administrative costs associated with developing and negotiating RUMAs. Presumably these costs would be less than the agency's costs to monitor, plan, and carry out road construction and maintenance on its own and would be absorbed by existing resources.

The fiscal impact of this option depends on how the state chooses to classify RUMAs and how RUMAs are structured. The fiscal impact would also depend on whether RUMAs were mandatory or optional.

Scenario 1: Companies agree in RUMAs to provide TxDOT with funding to make necessary repairs. These gifts or funds would result in a revenue gain to the State Highway Fund.

Scenario 2: Companies agree in RUMAs to either make repairs or pay for necessary repairs directly with third parties. Since costs are shifted directly to the companies, this would be a cost avoidance opportunity for TxDOT. The estimate of revenue potential below assumes this scenario. The following estimate of potential revenue assumes 5 percent of the estimated $1.0 billion in energy sector transportation repairs would be paid for through RUMAs. The 5 percent estimate is based on the experience of another state's RUMA program. This would result in an estimated savings of $100.0 million for the 2016–17 biennium, as shown in **Figure 1**.

FIGURE 1
FIVE-YEAR FISCAL IMPACT ESTIMATE OF SCENARIO 2, FISCAL YEARS 2016 TO 2020

FISCAL YEAR	PROBABLE REVENUE SAVINGS/(COST) IN OTHER FUNDS (STATE HIGHWAY FUND)
2016	$50,000,000
2017	$50,000,000
2018	$50,000,000
2019	$50,000,000
2020	$50,000,000

SOURCE: Legislative Budget Board.

2. USE DONATION AGREEMENTS	
Description	This option would amend statute to authorize the Texas Department of Transportation (TxDOT) to accept gifts of materials and labor. Current law authorizes TxDOT to accept donations of cash and property.
Current Use	In calendar years 2012 and 2013, the Texas Transportation Commission accepted or acknowledged nearly $9 million in donations of cash or property from the energy industry. TxDOT has statutory authority to accept donations of money and property. It does not have authority to accept donations of material and labor. This means that the energy industry cannot donate material, labor, or completed roads to the state to help offset the damage caused by energy sector activity. Authorizing the donations of material and labor to TxDOT would provide an additional method of improving roads in energy industry-impacted areas while avoiding costs for the state. TxDOTs *Construction Contract Administration Manual* states that advance funding agreements (AFAs) or donation agreements are used when third parties provide at least some funding for a project. AFAs typically apply if the third party is a local government, a utility owner, or a railroad. For example, AFAs are used when TxDOT districts and local public agencies cooperate to maintain the state highway system. Donation agreements apply to third parties that are private entities. As referenced above, the Texas Transportation Commission currently accepts donations of money and property from the energy industry. Precedent for an exception from the bidding process requirement exists. If a donor seeks to improve access to the donor's land adjacent to a state highway, the general bid process does not apply.
Implementation	For TxDOT to accept donations of materials and labor, the Texas Transportation Code and Texas Government Code would need to be amended to address current statutory impediments relating to: • Competitive bidding requirements for highway improvements and highway improvement materials. • Percentage of competitive bid requirements for maintenance projects. Professional service provider qualifications, i.e. requirements for donated professional services from engineers. Donations must be approved by a Texas Transportation Commission meeting minute order and a vote.
Other Considerations	Donations would likely come during times of relatively heavy road use. The energy industry may be less likely to donate when it was less active. Changes in statute could also help other industries, such as logging, donate to improve roads in areas of focused activity. The energy industry would incur costs associated with donation agreements. Presumably either individual companies, companies active on a particular section of road, or trade organizations would make the donations.

Revenue Potential

The fiscal impact to the State Highway Fund is estimated to be $9.0 million in the 2016–17 biennium, as shown in **Figure 1**. The estimate of potential savings assumes donations of materials and labor would equal previous donations of cash and property. Donors would incur costs for road construction and maintenance rather than TxDOT. TxDOT would incur administrative costs associated with negotiating the donation agreements, but it is estimated that additional administrative work could be absorbed within existing resources.

FIGURE 1
FIVE-YEAR FISCAL IMPACT ESTIMATE, FISCAL YEARS 2016 TO 2020

FISCAL YEAR	PROBABLE SAVINGS/(COST) IN OTHER FUNDS (STATE HIGHWAY FUND)
2016	$4.5 million
2017	$4.5 million
2018	$4.5 million
2019	$4.5 million
2020	$4.5 million

SOURCE: Legislative Budget Board.

3. USE ADVANCE FUNDING AGREEMENTS	
Description	This option would allow private entities to donate materials or cash to counties, for the purpose of transfer to the state. Counties occasionally provide the Texas Department of Transportation (TxDOT) with materials to complete work within the county. It is unclear whether state law allows private entities to donate materials or cash to counties who in turn provide materials to TxDOT for work within the county.
Current Use	The energy sector, state government, and local governments have all shown interest in collaborating to address roads damaged by energy sector activity. In calendar years 2012 and 2013, the Texas Transportation Commission accepted or acknowledged nearly $9 million in cash or material donations from the energy sector. In the same period, five energy sector businesses donated a total of approximately $35 million to local governments to help maintain local roads. In November of 2013, TxDOT and LaSalle County announced an agreement in which the county would supply materials needed to address road issues and TxDOT would perform repairs and provide labor. Without the funding, TxDOT had planned to convert paved roads in the county to high-end unpaved roads. The type and structure of agreements for joint projects that may be used between the energy sector, state government, and local governments are listed in various TxDOT manuals. Advanced funding agreements (AFAs) are generally used if the third party such as a local government provides at least some funding to the state for a transportation project. Municipal maintenance agreements may apply as well in those scenarios. Donation agreements apply when third parties are private entities, such as energy industry companies. It is unclear whether state law or existing types of agreements would allow an energy industry company to donate funding to counties or other local governments who could then use that funding to provide TxDOT with materials or donations to perform work in the county. AFAs and municipal maintenance agreements are commonly used to allow local governments and the state to cooperate in the maintenance of the state highway system. The state also accepts donations from third parties through donation agreements.
Implementation	To authorize the use of advance funding agreements, the Texas Transportation Code and/or the Texas Government Code would be amended to clarify that AFAs could be used to allow third parties to donate to counties or municipalities so that counties could help provide TxDOT with funding needed for local work. Local governments would then transfer the donations to TxDOT. The Texas Transportation Commission would have to accept the donations at meetings.
Other Considerations	Donations would likely come during times of relatively heavy road use. Changes in law could also help other industries, such as coal and logging, donate to improve roads in areas of focused activity. The energy sector would incur costs associated with AFAs. Presumably either individual companies or trade organizations would make the donations.
Revenue Potential	The fiscal impact to the State Highway Fund would be a positive, undetermined amount in cost savings. The energy industry would provide funding to local governments, such as counties, which in turn would provide funding or possibly materials to TxDOT for work in the local government's jurisdiction. Donors would incur costs for road construction and maintenance rather than TxDOT. Local governments and TxDOT may incur negligible administrative costs associated with negotiating the donation agreements which would be absorbed by existing resources.

4. DESIGNATE A PORTION OF SEVERANCE TAX-RELATED GENERAL REVENUE TRANSFERS TO HIGHWAY FUNDING

Description	This option would establish a process for the Legislature to would designate a portion of severance tax-related General Revenue transferred to the State Highway Fund that should be used for energy sector related activity.
Current Use	Under current law, operators must pay a severance tax on the extraction of oil and gas. The revenue generated from such severance taxes and associated transfers from General Revenue to the Economic Stabilization Fund (ESF) and the State Highway Fund do not directly address road damage caused by increased energy sector activity. Voters recently approved a constitutional amendment that will allocate a portion of severance tax-related General Revenue to the State Highway Fund. This option would allocate a portion of the severance tax-related General Revenue transfers to the State Highway Fund to help fund transportation infrastructure repairs that are necessary in large part because of energy sector activity. As of June 2013, 32 states produce natural gas, and 31 states produce oil. At least 28 of those have a severance tax. Thirty-five states have enacted fees or taxes on oil and gas production, including some states that have no commercial wells. Maryland, Pennsylvania and New York do not impose severance taxes despite producing natural gas. Texas imposes severance taxes at the rates of 4.6 percent for oil, 7.5 percent for gas, and 3/16th of one cent per barrel of oil produced in the state as the oil regulation tax. Other states' taxes include: • Alaska: Base rate of 25 percent of production value for oil and gas • Colorado: 2-5 percent of gross income for oil and gas • Louisiana: Up to 12.5 percent of value for oil, 14.8 cents per MCF for gas • Oklahoma: 7 percent of gross production value for oil and gas • Wyoming: 6 percent of market value for oil and gas Arkansas, Oklahoma, Pennsylvania and Wyoming each direct a portion of their severance taxes to highway funding.
Implementation	Legislation enacted by the Eighty-third Legislature, Third Called Session, 2013, established a committee to work with the Comptroller of Public Accounts to determine a sufficient balance for the ESF, based on certain criteria. This process results in an amount of severance tax-related General Revenue that is transferred to the State Highway Fund. Allocations to the State Highway Fund will end after fiscal year 2025. The Texas Transportation Code could be amended to direct the committee to identify a portion of the new severance tax-related General Revenue transfer to the State Highway Fund to be used for repairs in the energy sector. The designation could be optional, or could take place only if the overall transfer reached a certain dollar amount. The rededication could expire in 10 years to allow the Legislature an opportunity to determine whether the revenue should be directed back to the General Revenue Fund for another priority.
Other Considerations	In December 2014, the committee appointed to set the sufficient balance for the ESF determined the balance needed is $7.0 billion for fiscal years 2015 to 2017. As a result, the Comptroller of Public Accounts transferred $1.7 billion from the General Revenue Fund to the State Highway Fund. The ESF had a balance of $8.5 billion in December 2014.

Revenue Potential

In fiscal year 2015, as a result of the passage of Proposition 1, the Comptroller of Public Accounts (CPA) transferred approximately $1.74 billion to the State Highway Fund. The Texas Department of Transportation (TxDOT) plans to use $261 million, or 15 percent, of that amount for energy sector priorities. **Figure 1** shows the estimated transfers to the State Highway Fund as well as the portion that the committee may designate for energy sector priority purposes. The estimated portion of revenue to be used for energy sector priorities would be $362 million in the fiscal year 2016–17 biennium. Because this transfer to the State Highway Fund is already established in law, this option does not represent new revenue.

FIGURE 1
ESTIMATED PORTION OF SEVERANCE TAX-RELATED GENERAL REVENUE TRANSFERS TO ENERGY SECTOR PRIORITY FUNDING, FISCAL YEARS 2016 TO 2020

FISCAL YEAR	PROBABLE TRANSFER OF GENERAL REVENUE FUNDS TO OTHER FUNDS (STATE HIGHWAY FUND)	PROBABLE DESIGNATION OF OTHER FUNDS (STATE HIGHWAY FUND) FOR ENERGY SECTOR PRIORITIES
2016	$1,216,274,000	$182,441,000
2017	$1,197,393,000	$179,609,000
2018	$1,298,069,000	$194,710,000
2019	$1,382,859,000	$207,429,000
2020	$1,508,796,000	$226,319,000

NOTE: Figure assumes that 15 percent of transfers to the State Highway Fund will be designated for Energy Sector Priority purposes.
SOURCE: Legislative Budget Board.

5. REMOVE THE SEVERANCE TAX EXEMPTION FOR LOST OR UNACCOUNTED GAS

Description

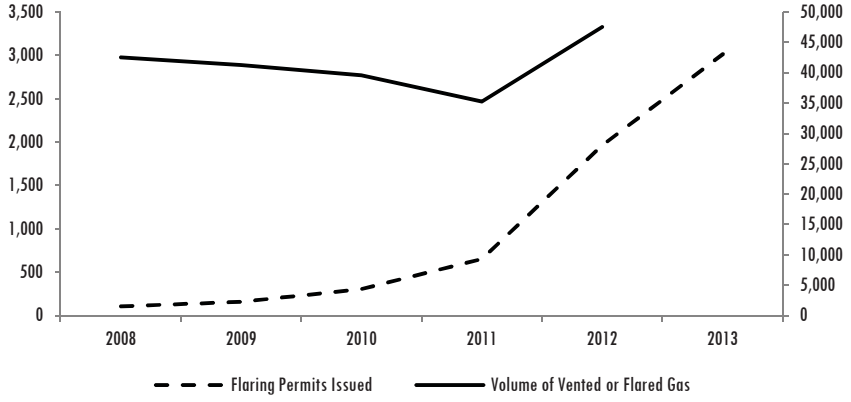
This option would remove a severance tax exemption for lost or unaccounted for gas releases and deposit new tax revenue in General Revenue Funds, the Permanent University Fund, the State Highway Fund, and the Economic Stabilization Fund.

Current Use

Texas Tax Code, Chapter 201, provides for a severance tax exemption for producers on lost or unaccounted for gas releases. The Railroad Commission of Texas (RRC) defines lost and unaccounted for gas as the difference between the amount of gas metered into a distribution or transmission system and the amount metered out. This includes gas that is flared or vented. Thus, the process of burning natural gas released during hydraulic fracturing operations is exempt from taxation. According to information from the U.S. Energy Information Administration, Texas has accounted for, on average, approximately 22.4 percent of all flared or vented gas nationally from federal fiscal years 2008 to 2012. Flaring may be necessary in areas of new exploration where the productive capability of the well is not known, to address various operations and maintenance issues, and in cases where existing pipeline infrastructure cannot sufficiently absorb additional supplies.

RRC regulates the flaring and venting of gas. RRC allows an operator to flare gas while drilling a well and for up to 10 days after a well's completion. After this period, RRC staff may issue flare permits for 45 days at a time, for a maximum limit of 180 days. Operators are required to report to RRC volumes of gas flared on their monthly production report. **Figure 1** shows the number of flaring permits approved by RRC from fiscal year 2008 to 2013 and the volume of flared or vented gas emitted that year, according to the U.S. Energy Information Administration from 2008 to 2012. During this time, the number of flaring permits increased from 107 to 3,012, or 2,715 percent. Given there are more than 144,000 active oil wells in the state, there permits involve only a fraction of the state's wells. According to RRC, approximately 0.8 percent of the total amount of gas reported to the agency is from flared or vented gas.

FIGURE 1
FLARING PERMITS APPROVED BY THE RAILROAD COMMISSION OF TEXAS AND VOLUME OF VENTED OR FLARED GAS (IN MILLION CUBIC FEET), FISCAL YEARS 2008 TO 2013



SOURCE: Texas Railroad Commission; U.S. Energy Information Administration.

Implementation	To implement this option, Texas Tax Code, Section 201.2035, would be amended to require the first purchaser or a gatherer who transports natural gas to report the lost or unaccounted-for gas to the Comptroller of Public Accounts on a monthly basis. Severance taxes owed on lost gas would be paid by the first purchaser or the gatherer on volumes in excess of 2 percent of the gross volume received from producers by the last day of the following month. For first purchasers, taxes would be paid at the price the first purchaser paid the producer. For gatherers, taxes would be paid at the closing price before the due date at the Houston Ship Channel.
Other Considerations	Severance taxes are imposed on the removal of non-renewable resources to producers or entities with a working royalty interest in oil and gas operations. Allowing the removal of resources without application of the severance tax negatively affects state revenue in two distinct ways. First, university lands supporting gas production forgo royalty revenue when there is less product on which to calculate royalties. Second, lost gas results in lower final quantities of gas product subject to taxes at the point of collection. Other states, such as North Dakota, require producers pay taxes on flared gas after one year of well operation or until any approved extensions expire. Taxation is applied to the flared gas as if it had been marketed. House Bill 4246, Eighty-first Legislature, Regular Session, 2009, attempted to address this issue but was not enacted.
Revenue Potential	Removing the tax exemption for lost or unaccounted gas may result in a revenue gain for the General Revenue Fund, the State Highway Fund, the Economic Stabilization Fund, and the Permanent University Fund. Severance tax revenue received as a result of removing the exemption for lost or unaccounted gas would be deposited to the General Revenue Fund. A state university system indicated that option may result in additional revenue to the Permanent University Fund because producers using university lands may increase the amount of royalties paid. A portion of severance tax revenue deposited to the General Revenue Fund is transferred to the Economic Stabilization Fund when certain conditions are met in accordance with the Texas Constitution, Article III, Section 49-G. As a result of a recent constitutional amendment, a portion of the General Revenue Funds that would have gone to the Economic Stabilization Fund would go instead to the State Highway Fund. The option may result in additional costs associated with full-time employees and technology.

6. ADJUST FEES FOR INFLATION AND REDIRECT REVENUE FROM VEHICLES TRANSPORTING NATURAL GAS AND PETROLEUM

Description

This option would increase registration fees related to motor vehicles transporting compressed natural gas (CNG), liquefied natural gas (LNG), or liquefied petroleum gas (LPG) to account for inflation, and redirect all revenue from the General Revenue Fund to the State Highway Fund. These registration fees have not been updated since 1999.

Current Use

For CNG and LNG

The Texas Natural Resources Code, Section 116.072, requires each motor vehicle that is equipped with a CNG or LNG cargo tank and each motor vehicle used principally to transport CNG or LNG in portable cylinders or containers to register with the Texas Railroad Commission (RRC). The annual registration fee established by RRC is required to be not less than $100 nor more than $500; and the annual transfer fee established by RRC is required to be not less than $25 nor more the $100.

The Texas Administrative Code, Section 13.69, requires a $270 registration fee for each CNG cargo tank, or vehicle used principally for transporting CNG portable containers or cylinders; and Section 14.2704 requires a $270 registration fee for each LNG cargo tank, or vehicle used principally for transporting LNG portable containers or cylinders. The transfer fee is $100 for both CNG and LNG cargo tanks and vehicles used principally for transporting portable containers or cylinders. The fee for a lost or destroyed registration decal for both CNG and LNG is $50.

For LPG

The Texas Natural Resources Code, Section 113.131, requires each transport truck, trailer, or other motor vehicle equipped with an LPG cargo container and each truck used principally for transporting LPG in portable containers to register with RRC. The annual registration fee established by RRC is required to be not less than $100 nor more than $300; and the annual transfer fee established by RRC is required to be not less than $25 nor more than $100.

The Texas Administrative Code, Section 9.202, requires a $270 registration fee for each transport truck, trailer, or other motor vehicle equipped with an LPG cargo container and each truck used principally for transporting LPG in portable containers; and a transfer fee of $100. The fee for a lost or destroyed registration decal is $50.

Implementation

Increasing the registration fee for LPG would require amending the Texas Natural Resources Code to authorize the LPG fee to exceed the current limit of $300. Adjusting the fees for inflation from calendar year 1999 dollars to calendar year 2014 according to the Consumer Price Index would increase fees to the amounts shown in **Figure 1**.

FIGURE 1
PROPOSED COMPRESSED NATURAL GAS, LIQUEFIED NATURAL GAS, AND LIQUEFIED PETROLEUM GAS REGISTRATION FEES, FISCAL YEAR 2016

	ORIGINAL FEE	NEW FEE
Original Registration	$270	$384
Replacement	$50	$71
Transfers	$100	$143

SOURCE: Legislative Budget Board.

In the alternative, fees could be tied to the National Highway Construction Cost Index or another transportation-related index. The rededication could expire in 10 years to allow the Legislature an opportunity to determine whether the revenue should be directed back to the General Revenue Fund for another priority. It is estimated that additional administrative work could be absorbed within existing resources.

Other Considerations

Figure 2 shows revenue related to CNG, LPG, and LNG truck registrations, replacement decals and transfer decals.

FIGURE 2
REGISTRATION REVENUE, FISCAL YEARS 2012 TO 2014

HISTORICAL REVENUE	FISCAL YEAR 2012	FISCAL YEAR 2013	FISCAL YEAR 2014
Original Registration	$1,053,357	$1,140,195	$1,116,315
Replacement	$3,800	$10,350	$6,750
Transfers	$12,950	$3,800	$10,800
TOTAL	**$1,070,107**	**$1,154,345**	**$1,133,865**

SOURCE: Texas Railroad Commission.

Revenue Potential

Figure 3 shows the fiscal impact of transferring revenue from the General Revenue Fund to the State Highway Fund. The estimate assumes fees would be updated.

FIGURE 3
FIVE-YEAR FISCAL IMPACT ESTIMATE, FISCAL YEARS 2016 TO 2020

FISCAL YEAR	PROBABLE REVENUE GAIN/(LOSS) TO THE GENERAL REVENUE FUND	PROBABLE REVENUE GAIN/(LOSS) TO THE STATE HIGHWAY FUND
2016	($1,204,033)	$1,712,446
2017	($1,242,083)	$1,766,546
2018	($1,282,555)	$1,824,089
2019	($1,325,914)	$1,885,735
2020	($1,372,777)	$1,952,358

SOURCE: Legislative Budget Board.

7. ESTABLISH A SHALE IMPACT FEE	
Description	This option would establish a shale impact fee to offset road maintenance costs associated with increased traffic from well drilling. Revenue would be deposited to the State Highway Fund.
Current Use	Texas could implement a shale impact fee for oil and gas wells in addition to existing drilling permit fees and surcharges for the purpose of funding transportation repairs in shale play regions. Increased loaded truck traffic associated with drilling and production in Texas shale play regions strains local roads built for lower weight use and leads to premature asphalt wear and tear, ripples, potholes, and torn shoulders. Revenue from a shale impact fee could be used to offset costs associated with transportation repairs in the same shale play area. In Pennsylvania, a shale impact fee is charged each time a gas well is drilled. Pennsylvania has a shale impact fee in lieu of other extraction taxes and fees, including severance taxes. The purpose of this fee would be to provide new revenue to repair roads impacted by energy sector activity.
Implementation	The implementation of a shale impact fee would require a statutory change to the Texas Natural Resources Code. There are multiple options for assessing a shale impact fee. The shale impact fees could be a one-time fee assessed at the same time as a drilling permit application submission. The shale impact fee could be a flat fee, such as $100, and only assessed for drilling permits issued in shale play regions. It could also be implemented on a graded scale, just as the drilling permit fee is graded according to drilling depth. The shale impact fee could be a set percentage of each grade of drilling permit fee, such as 25 percent. For example, if the drilling permit is for a depth of 5,000 feet, the permit would cost $250 and the shale impact fee would be $62.50. Revenue could be deposited into the State Highway Fund to provide additional funds for Texas Department of Transportation's (TxDOT) use for construction and maintenance in affected areas.
Other Considerations	The energy industry would pay the shale impact fee. This fee would be in addition to existing fees paid by the industry. Counties in energy sector regions would benefit from such a fee because TxDOT would have additional funding, either generally or specifically, for projects in the counties from which the fee originated.

Revenue Potential

Revenue generated would vary depending on energy sector activity, although the need for additional revenue for transportation projects would also vary. This estimate assumes a $100 flat shale impact fee would be applied to all drilling permits. Based on the 21,471 drilling permits issued by the Railroad Commission of Texas in calendar year 2013, this would result in a biennial revenue gain of $3.1 million to the State Highway Fund as shown in **Figure 1**. Additionally, the estimate assumes that it would take six months to implement the fee. It is estimated that any additional costs associated with processing additional fees would not be significant and could be absorbed within existing resources.

FIGURE 1
FIVE-YEAR FISCAL IMPACT ESTIMATE, FISCAL YEARS 2016 TO 2020

FISCAL YEAR	PROBABLE REVENUE GAIN/(LOSS) IN OTHER FUNDS (STATE HIGHWAY FUND)
2016	$1,073,550
2017	$2,147,100
2018	$2,147,100
2019	$2,147,100
2020	$2,147,100

SOURCE: Legislative Budget Board.

8. ESTABLISH A STATE EXCISE TAX ON OVERSIZED TIRES

Description

This option would create an excise tax for oversized tires and deposit tax revenue to the State Highway Fund to offset the damage caused by oversize and overweight vehicles. A federal excise tax on tires exists, and some states also have an excise tax on tires.

Current Use

The Internal Revenue Service (IRS) defines an excise tax as a "tax paid when purchases are made on a specific good, such as gasoline." An excise tax may be included in the price of a product.

A federal excise tax on oversized tires currently exists. The federal excise tax is imposed on taxable tires sold by the manufacturer, producer, or importer at the rate of $0.0945 ($0.04725 in the case of a bias ply tire or super single tire) for each 10 pounds of the maximum rated load capacity over 3,500 pounds.

Indiana and Kansas currently have an excise tax on certain tires. The tax rate in both states is $0.25 per tire. Revenue gained from the tax is deposited into funds related to waste tire management.

Implementation

Texas could impose a state excise tax on oversized tires at the same rate or another rate. Revenue from the new tax could be deposited to the State Highway Fund.

A statutory change to the Texas Tax Code would be required to create the tax and allocate revenue to the State Highway Fund. If Texas were to follow other states' example, the retailer would be responsible for collecting the tax from the consumer.

The excise tax would be collected from all purchases of oversized tires, not just those in the energy sector. This tax distributes the cost of road repair to those road users who contribute disproportionate damage to state roads and highways. Heavy or oversize vehicles can damage roads exponentially more than passenger vehicles and some areas with new energy sector activity have roads not designed for oversize and overweight vehicle traffic or traffic involving heavy vehicles. Therefore, the roads deteriorate more rapidly when such vehicles use them.

Other Considerations

Revenue from a state excise tax on oversized tires may vary with changes in energy sector activity, but oversized tires will continue to be used by many industries in the state. Therefore, such a tax could provide a stable source of revenue to the State Highway Fund.

In the 1990s, a $2 recycling fee was charged for every new tire sold. The tax proposed in this option differs in amount and application.

Revenue Potential

The estimate of potential revenue from this tax is based on 171,310 trucks over 8,500 lbs in calendar year 2013, with a range of 4 to 18 tires at a tax rate of $0.25 per tire. **Figure 1** shows this would result in an annual gain of a minimum of approximately $171,310 to a maximum of approximately $770,895 to the State Highway Fund. The estimate assumes implementation of the tax would take one year. The estimate assumes administrative costs related to collecting and disbursing tax revenue would not be significant and could be absorbed within existing resources.

FIGURE 1
FIVE-YEAR FISCAL IMPACT ESTIMATE, FISCAL YEARS 2016 TO 2020

FISCAL YEAR	PROBABLE REVENUE GAIN/(LOSS) IN STATE HIGHWAY FUNDS
2016	$0
2017	$171,310 - $770,895
2018	$171,310 - $770,895
2019	$171,310 - $770,895
2020	$171,310 - $770,895

SOURCE: Legislative Budget Board.

9. ESTABLISH A DRIVEWAY PERMIT FEE

Description

This option would create a state driveway permit fee. The Texas Department of Transportation (TxDOT) currently issues permits for new driveways, but does not charge a fee for these permits. Charging a fee for processing permits could help cover administrative costs related to processing and inspecting driveways and generate revenue for rebuilding roads in the necessary areas.

Current Use

According to TxDOT's Access Management Manual, "physical obstructions and influence on traffic caused by the presence and use of access driveways to property along the highways make it necessary that they be controlled for the safe movement of normal highway traffic." In order to help ensure safe movement, persons who wish to construct new driveways off a state highway or modify existing driveways must apply for a driveway permit with TxDOT. TxDOT processes 10,000 such permits annually, free of charge.

Minnesota currently has a driveway permit deposit, the amount of which is determined by potential damage that may occur during construction.

Implementation

A statutory change would be necessary to authorize or require TxDOT to charge fees for driveway permits. Fees could be graded on complexity of the project or other factors, such as whether the driveway is new or revised. Applicants would pay the driveway permit fee at the time they apply for the permit.

Other Considerations

Commercial driveways are often built to assist with transportation related to energy development. A committee comprised of representatives from state agencies, energy industry professionals, and local governments worked together to develop model driveway standards. TxDOT inspectors regularly work with applicants or those who build unauthorized driveways to ensure public safety. As the demand for driveway permits goes down, so would revenue generated from the permits.

Revenue Potential

TxDOT already incurs costs related to routine roadside inspections of driveways and processing permits. It is estimated that the cost of collecting and processing permit fee revenue would not be significant and could be absorbed within existing resources. It is estimated that implementation of a $150 state driveway permit fee would generate $2.3 million in State Highway Funds for the 2016–17 biennium, assuming 10,000 permit applications annually. This is shown in **Figure 1**. The estimate assumes it would take six months to implement the fee.

FIGURE 1
FIVE-YEAR FISCAL IMPACT ESTIMATE, FISCAL YEARS 2016 TO 2020

FISCAL YEAR	PROBABLE REVENUE GAIN/(LOSS) IN OTHER FUNDS (STATE HIGHWAY FUND)
2016	$750,000
2017	$1,500,000
2018	$1,500,000
2019	$1,500,000
2020	$1,500,000

SOURCE: Legislative Budget Board.

10. SELL NAMING RIGHTS	
Description	This option would authorize the state to sell or lease naming rights to roads, rest stops, toll roads, or other transportation assets.
Current Use	Virginia sells naming rights for certain roads and bridges and estimated that the naming program may raise approximately $5.5 million in new revenue annually. Ohio has also authorized the sale of naming rights and sponsorships for bridges, interchanges, and unique sections of road. The Ohio Department of Transportation estimated that it may raise up to $15 million in new revenue from naming rights advertising annually. Florida sells sponsorship rights for certain state greenway and trail facilities and it has been estimated that the program may generate more than $55,000 in revenue for the state in its first year. The National Conference of State Legislatures (NCSL) suggested selling naming rights in 2006 as an option to increase transportation funding. Michigan, Washington, New Hampshire, Florida, and Maryland have considered related legislation. The Eighty-third Legislature, Regular Session, authorized TxDOT to charge for advertising at travel information centers but did not address roads, rest stops, or toll roads.
Implementation	The Texas Transportation Code would need to be amended to authorize the sale of naming rights. Under current law the Texas Transportation Commission generally cannot name a part of the highway system with anything other than a regular number. The Legislature may name certain roads. Legislation regarding naming rights would clarify that naming rights would not be sold or leased for roads previously named by the Legislature. Naming right fees could be set by statute; or, if authorized by statute, fees could be set administratively by the Texas Transportation Commission. In Virginia, proposals included separate fees for naming rights in urban versus rural areas, as well as different fees for different kinds of roads. For example, naming a highway in an urban area may cost $200,000 while naming a lesser-used road may cost $17,500. Statutory amendments implementing the sale or lease of naming rights will clarify that naming rights must not conflict with the current law, such as federal Highway Beautification Act or the state's enforcement of the Act (e.g., the regulation of outdoor advertising). Statute should clarify that an entity purchasing naming rights cannot violate this Act or other federal law, such as advertising being illegible from the main traveled way.
Other Considerations	Naming rights could be sold for a period of time or indefinitely. Sustainability would depend on interest in naming rights and the length of time for which rights were sold. In other states similar legislation has had opposition from individuals or groups that believe selling public naming rights is outside the proper scope of government. Individuals or entities wishing to name transportation assets would pay costs related to naming rights, such as costs associated with adding signage.

Revenue Potential

Virginia's annual sale of naming rights of its 43 rest stops to GEICO raised $2 million. Texas has approximately twice as many rest stops, so the revenue potential estimate assumes at least twice the income as Virginia receives as shown in **Figure 1**. The estimate assumes it will take a year to plan and implement this change. Any administrative costs associated with developing naming rights would not be significant and could be absorbed within existing resources.

TxDOT and the Texas Transportation Commission may incur administrative costs associated with developing the naming rights process. Presumably, TxDOT could absorb these costs within existing resources.

FIGURE 1
FIVE-YEAR FISCAL IMPACT ESTIMATE, FISCAL YEARS 2016 TO 2020

FISCAL YEAR	PROBABLE REVENUE GAIN/(LOSS) IN OTHER FUNDS (STATE HIGHWAY FUNDS)
2016	$0
2017	$4,000,000
2018	$4,000,000
2019	$4,000,000
2020	$4,000,000

SOURCE: Legislative Budget Board.

11. ESTABLISH AN ENERGY SECTOR TRANSPORTATION FUND	
Description	This option would establish an energy sector transportation fund that would be funded from a portion of oil and gas related fees. Revenue in the fund would be used in regions impacted most heavily by energy sector activity for transportation maintenance. Establishing a dedicated fund and revenue source for energy sector road repairs would help ensure funds for this purpose are available for future legislative appropriation or a regular appropriation for long-term needs.
Current Use	Several states have considered or are using special funds related to energy sector activity. The Montana Legislature considered legislation in 2013 that would have diverted U.S. Mineral Royalties to a newly created state special revenue oil and gas impact fund until December 31, 2020. Through the U.S. Department of Interior, a portion of royalties paid to the federal government associated with mineral extraction that occurs on certain federal land. For fiscal year 2013, Montana received $36.2 million in U.S. Mineral Royalties. The measure would have required that the greater of 25 percent or $10 million of U.S. Mineral Royalties be placed in an impact fund, with funds allocated through grants to local governments impacted by oil and natural gas extraction. Local governments would have been able to use the funds for infrastructure projects, including road and bridge improvements. In 2013, the North Dakota Legislature considered a measure which would have reallocated revenues from the state's oil and gas gross production tax. This tax is imposed in lieu of property taxes on oil and gas producing properties. For oil production, the tax is 5 percent of the gross value at the well of oil produced. For gas production, it is a yearly adjusted flat rate per one thousand cubic feet of gas. Greater amounts of tax revenue would have been reallocated to hub cities and school districts where oil and natural gas extraction is occurring. The allocation would have increased funding to the state impact grant fund by $140 million for the 2013-2015 biennium. During its 2011–2012 session, the Pennsylvania General Assembly passed a measure which imposed a shale impact fee on each unconventional gas well and created a formula for distributing the revenues from the fee. The fee has an annual base amount that is adjusted in accordance with current gas prices, and decreases with each subsequent year of production. Beginning in 2011, a certain percentage of the revenues from the fee, after allocations, were divided among counties and cities where drilling is occurring, and cities where drilling is not occurring but that are located in counties where drilling is occurring. The funds are allocated for emergency preparedness and public safety projects, road and bridge projects, infrastructure projects, water and wastewater projects, records management and information technology projects, and tax reductions. The remaining 45 percent of revenues were divided among six statewide initiatives, including the Highway Bridge Improvement Restricted Account, whose funds are directed to counties to maintain at-risk deteriorated bridges. Counties had to opt to assess the fee within 60 days of passage of the bill to receive revenues from the fee for the first fiscal year. Counties could later opt into imposing the fee as well.

Implementation	The Legislature could redirect portions of existing fees and taxes related to energy industry activity to the energy sector transportation fund. The fund would be outside of General Revenue but inside of the treasury. These fees and taxes include: • U.S. mineral royalty payments; • permitting fees related to drilling; • fees related to oversize and overweight vehicles; • revenue redirected from the State Highway Fund; and • General Revenue Funds appropriated by the Legislature. New revenue generated from other options in the appendices could also be directed to this fund. Depending on the source of the revenue used, statutory amendments or rule changes would be required. TxDOT would administer the fund and prioritize work in areas impacted by the energy industry with input from affected districts and stakeholders. In addition to repair and maintenance work, TxDOT could armor, or proactively reinforce and prepare, roads for use by the energy industry. The fund would help ensure revenue is available for repairs when the energy industry active in areas and also when the industry is less active.
Other Considerations	While creating a special fund for energy sector transportation needs may prioritize and create transparency around transportation needs and how they are addressed, the fund may become unnecessary in times of relatively low energy sector activity. This may unnecessarily preclude use of funds from other important transportation projects or from the Legislature's discretionary uses of funds. Enacting legislation could include a method for transferring funds to the State Highway Fund if certain conditions were met, such as road condition scores on state-maintained roads in the energy sector meeting certain standards.
Revenue Potential	Revenue potential would depend on the revenue sources which the Legislature decided to include as funding sources, therefore the revenue impact of this option cannot be determined at this time.