Texas Department of Transportation
2021-2022 Educational Series
Funding

• Cash Forecast
• Appropriations
• Traditional Sources of Revenue
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• Non-Traditional Sources of Revenue
• Statutorily Authorized Uses of Funding Streams
• Connecting You With Texas

TxDOT RESOURCES LINKS
Scan the QR codes with your mobile device or click on the resource link buttons located here and at the bottom of every page of this document to direct you to additional resources and more details on the information provided in this document.

Texas Department of Transportation
TxDOT’s public website for agency information and resources focused on meeting the needs of drivers, businesses, government officials, and those who want to learn more about TxDOT.

TxDOT 2021-2022 Educational Series
TxDOT’s complete 2021-2022 Educational Series that focuses on a range of transportation issues affecting TxDOT and the state of Texas.

Visual Dictionary
TxDOT’s Visual Dictionary is designed to provide better understanding of transportation elements, words, and concepts.

PUBLICATION DATE: JANUARY 2021
OVERVIEW
Transportation projects take many years to develop and construct. In addition to the public involvement, environmental analysis, design, engineering, and right-of-way acquisition phases to actual construction of the projects. However, before any financial commitment can be made to a project, available funds must be identified. Funding for a transportation project often comes from multiple revenue sources with different permissible uses. For years, state and federal motor fuels tax and state vehicle registration fee revenues adequately serviced the needs of the state highway system. Over time, these traditional revenues failed to keep up with the state’s growing population and transportation demands. To address the population boom and the diminishing purchasing power of motor fuels tax revenues and registration fees, the Texas Legislature provided TxDOT several bonding programs to advance large projects more quickly, as opposed to paying for projects on a cash basis as the funding became available. These bonds helped avoid the substantial effects of inflation. However, TxDOT has fully spent these bond proceeds, and the legislature opted to provide new, non-traditional funding sources rather than creating additional debt. As available bond capacity diminished, the Texas Legislature, with overwhelming voter approval, created two non-traditional, temporary funding sources, known as Proposition 1 (approved by 80% of Texas voters in 2014) and Proposition 7 (approved by 83% of Texas voters in 2015). This document explores TxDOT’s funding sources, briefly summarizes funding for highway projects, and explains the permissible uses of TxDOT’s funding streams.

PERFORMANCE-BASED PLANNING AND PROGRAMMING
In the transportation sector, performance-based planning and programming is the practice of using data to inform decision-making about investment in the transportation system. Performance-based planning and programming provides a link between the state’s transportation strategy and the real-world operations of the highway network. TxDOT relies on this approach to select transportation projects that demonstrate the greatest needs and potential benefits to the state system based on objective measurement. Data inputs include traffic levels, freight volumes, crash counts, and pavement quality scores. Performance-based planning and programming help safeguard taxpayer dollars by helping TxDOT develop and build the right projects to address the needs of the entire state.

TxDOT uses a performance-based process to allocate available funds, to guide project selection, and to distribute funds to projects in the Unified Transportation Program (UTP). The Unified Transportation Program is TxDOT’s 10-year, mid-range planning document that guides the state’s transportation project development. Rather than planning projects on a conservative fiscally-constrained cash forecast, the Unified Transportation Program is now based on a reasonably optimistic forecast of potential funding. This method of planning allows TxDOT to have projects developed so TxDOT can accelerate contracted projects or reduce the number of contracted projects, depending on how the funds are appropriated and become available.
Additionally, this method of planning allows TxDOT districts and local planning organizations to adjust more readily to unpredictable economic factors, such as the state’s oil and gas production, the changing needs of the state budget, and evolving local project needs. While deposits of non-traditional funds are difficult to predict, these new funds and performance-based planning mechanisms allow the state’s transportation experts to add new projects to planning schedules that would otherwise not have been included.

CASH FORECAST

TxDOT staff updates a monthly cash forecast for revenues, expenditures, and fund balances. Staff projects future revenues based on a financial analysis that includes historical trends, current law, the Texas Comptroller of Public Accounts’ official revenue estimates, current events, and other developments. TxDOT’s federal highway reimbursement projections consider the current federal surface transportation authorization bill, continuing resolutions, redistributions, and other federal requirements imposed on the use of those funds. TxDOT projects future expenditures based on budgets using the state General Appropriations Act framework, base contract letting amounts in TxDOT’s 10-year Unified Transportation Program, remaining obligations on previously awarded projects, and other relevant data. The forecast adds a percentage of total expenditures excluding contractor payments, debt service, and other agency appropriations to a growth expenditure line item to account for the effects of inflation, additional programs, legislative changes, and other factors. Figure 1 shows how the cash forecast contributes to planning and programming for transportation projects, which leads to the formation of TxDOT’s Legislative Appropriations Request.

METROPOLITAN PLANNING ORGANIZATIONS

Texas is home to 23 distinct Metropolitan Planning Organizations (MPOs), local decision-making bodies responsible for overseeing the planning and prioritization of transportation improvements in metropolitan areas. Federal law requires governors to designate an MPO for each urban area of Texas with a population of more than 50,000 people.

Once TxDOT or an MPO identifies a needed transportation project, TxDOT staff plans the project—the process by which the MPO and TxDOT evaluate a given project along with other regional priorities and decide if the project should advance to the next step of development. TxDOT and the MPO then prioritize projects for funding and schedule them for construction based on an assessment of the funding available to develop and build projects over the next several years.

Federal law requires each MPO to develop a Transportation Improvement Program (TIP) and requires the state to compile a Statewide Transportation Improvement Program (STIP) as a condition of securing federal funds for transportation projects. A TIP is a four-year, capital improvement program cooperatively developed by local and state transportation entities. It includes a list of multi-modal transportation projects and may involve primarily rural or metropolitan regions. The STIP is a four-year, financially-constrained plan composed of the 23 MPO’s TIPs and the rural TIPs. Projects included in the STIP, once approved by the Federal Highway Administration (FHWA) and the Federal Transit Administration (FTA), are then eligible to use federal funds.

UNIFIED TRANSPORTATION PROGRAM

As described above, the Unified Transportation Program is a 10-year, midrange planning document that guides TxDOT’s transportation project development. The Unified Transportation Program is one part of a comprehensive planning and programming process linking the planning activities of the Statewide Long Range Plan and Metropolitan Transportation Plans to the detailed programming activities under the Statewide Transportation Improvement Program and TxDOT’s 24-month letting schedule. Specifically, the Unified Transportation Program provides a listing of projects and programs that TxDOT plans to develop and construct over the 10 years. The inclusion of projects or programs in the Unified Transportation Program authorizes project development activities and serves as a communication tool for stakeholders and the public to understand TxDOT’s project development commitments. Despite its importance to TxDOT as a planning and programming tool, the UTP is neither a budget nor a guarantee that projects will or can be built.
LETTING
Lettin is the process of providing notice, issuing proposals, receiving bids, and awarding contracts for highway improvement projects. At this stage of project development, TxDOT staff must have a realistic view of how much funding will be available to make progress payments on awarded contracts. In addition to biennial appropriations and past programming commitments, TxDOT must ensure that 1) there is sufficient revenue to support its new commitments; and 2) the revenue will be there beyond the biennium since each project may continue to pay out over several years.

APPROPRIATIONS
The Texas Legislature appropriates funds to state agencies on a biennial basis. TxDOT creates its Legislative Appropriations Request one year in advance of the biennium in which it will spend the requested funds. When TxDOT receives its appropriation, it uses a significant portion of the funds to make progress payment for active projects that were awarded for construction previously. The remaining funds are available for TxDOT to develop future projects and make progress payments on projects that begin in the current biennium. While TxDOT strives to deliver projects on budget and on time, a variety of circumstances—many of which are outside of its control—may delay the delivery of projects. These many moving parts create a greater need for budget flexibility among the project development and delivery strategies in TxDOT’s biennial budget.

TRADITIONAL SOURCES OF REVENUE
TxDOT receives both traditional and non-traditional funding sources with differing constitutional and statutory limitations. The following section summarizes each major traditional source of TxDOT funding, and Figure 6 on page 10 details the statutorily authorized uses of each funding stream.

STATE REVENUE SOURCES
The State Highway Fund, which is also known as “Fund 6,” consists of deposits from various revenue sources, several of which are specifically dedicated by the Texas Constitution for highways. One of the most important revenue sources for the State Highway Fund is the state motor fuels tax. The state currently levies 20 cents per gallon of gasoline and diesel and 15 cents per gallon of liquefied and compressed natural gas. The Texas Constitution dedicates three-fourths of state motor fuels tax revenue to the State Highway Fund and one-fourth of that revenue to the Available School Fund. The Texas Legislature last increased the state motor fuels tax rate in 1991. In fiscal year 2020, the comptroller deposited $2.61 billion in motor fuels tax revenue into the State Highway Fund. The state motor fuels tax contributes a significant amount of funding to the State Highway Fund. However, inflation has caused the purchasing power to deteriorate over the last three decades. Figure 2 illustrates the declining purchasing power of state motor fuels tax (MFT) revenues when adjusting for the Highway Cost Index (HCI).

FIGURE 2

State Motor Fuels Tax Revenue
Nominal vs. HCI 1992 $

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Another significant source of funding for the State Highway Fund is motor vehicle registration fees (VRF). Not including the optional fees that counties assess and a new $4.75 processing and handling fee per vehicle registration, the base annual registration fee is approximately $51 to register most vehicles in Texas. The state and counties share the revenue from the base registration fees. In fiscal year 2020, the comptroller deposited $1.46 billion in vehicle registration fee revenue into the State Highway Fund. Figure 3 illustrates the declining purchasing power of constitutionally-dedicated vehicle registration fee revenue adjusted to the Highway Cost Index (HCI).

Although traditional revenues are declining in purchasing power, they provide TxDOT with predictable revenue sources that are ideal for long-term project planning and delivery. The comptroller deposits these traditional funds monthly, which remain one of the most dependable sources of revenue for the state.

**FEDERAL FUNDING**

The current federal motor fuels tax rate is 18.4 cents per gallon of gasoline and 24.4 cents per gallon of diesel fuel. Revenue collected from the federal tax on gasoline and diesel is deposited in the federal Highway Trust Fund.

Over one-third of TxDOT’s budget is comprised of federal funds. For decades, federal aid for highways was supported solely by dedicated tax and fee revenue deposited into the federal Highway Trust Fund. When Congress enacted the Safe, Accountable, Flexible, Efficient Transportation Equity Act (SAFETEA-LU) in 2005, the surface transportation authorization legislation that determined transportation funding levels from 2005 to 2009, Congress elected to spend down the balance of the Highway Trust Fund that had accumulated over the years. This allowed Congress to raise each state’s allocation of federal highway program funding relative to the previous long-term authorization, but it left no room to increase federal aid after 2009, unless Congress acted to increase the federal motor fuels taxes and fees or provide another funding mechanism. Further, declining gas consumption as a result of increased fuel efficiency, the rising popularity of hybrid and electric vehicles, and the declining purchasing power of the unchanged federal motor fuels tax has increased the necessity for Congress to contribute general funds into the federal Highway Trust Fund.

In subsequent reauthorization acts, Congress kept federal funding at the previous elevated levels without increasing taxes or fees that fund the Highway Trust Fund, requiring the continued transfer of general funds to the federal Highway Trust Fund. The most recent legislation - the Fixing America’s Surface Transportation (FAST) Act - authorized federal funding through fiscal year 2020 and required the transfer of general funds to the federal Highway Trust Fund.

As of the time of this publication, Congress is still working on new surface transportation authorization legislation.

The federal funding amounts that appear in the state General Appropriations Act are estimates of federal reimbursements for payments on projects that were obligated with earlier authority and projects obligated under the Fixing America’s Surface Transportation Act. For more information on surface transportation, maritime, and aviation legislation and funding at the federal level, please see the Federal Government section of this Educational Series document.
NON-TRADITIONAL SOURCES OF REVENUE

PROPOSITION 1

On November 4, 2014, 80% of Texas voters approved a ballot measure known as Proposition 1, which authorized a constitutional amendment for non-tolled highway funding. Under the amendment, a portion of oil and gas tax revenues, which would have otherwise been deposited into the Economic Stabilization Fund (also known as the Rainy Day Fund), is deposited to the State Highway Fund. Figure 4 depicts the statutory procedures for Proposition 1 funding.

TxDOT began awarding project contracts using Proposition 1 funds in March 2015. As of November 2020 (fiscal year 2021), the State Highway Fund has received approximately $8.22 billion.

Unlike TxDOT’s traditional funding sources, Proposition 1 deposits occur yearly rather than monthly, resulting in large cash deposits. While TxDOT has accelerated its letting schedule, there will be a significant cash balance in the State Highway Fund while TxDOT delivers and pays out these projects. The following factors affect future Proposition 1 deposits:

- Fluctuations in oil and natural gas production and prices affect Proposition 1 deposit amounts.
- Since 2014, the sufficient balance of the Economic Stabilization Fund has been established by a joint legislative committee before the beginning of each legislative session. A higher sufficient balance can limit the amount of the transfer to the State Highway Fund. Additionally, legislative appropriations made from the Economic Stabilization Fund that reduce the amount of cash available to meet the sufficient balance may reduce the funding transferred into the State Highway Fund. In other words, if the balance of the Economic Stabilization Fund is less than the sufficient balance, severance tax revenues will first be distributed to the Economic Stabilization Fund until the balance meets the threshold. Only after the sufficient balance is met will funds be distributed evenly between the State Highway Fund and the Economic Stabilization Fund. Under more recent legislation, beginning September 1, 2021, the comptroller will determine the new sufficient balance threshold of the Economic Stabilization Fund by adopting an amount equal to seven percent of the certified general revenue-related appropriations made for that fiscal biennium (FY 2022-2023 biennium). This new mechanism automates the sufficient balance threshold.
- Proposition 1 funds are set to expire after the fiscal year 2035 transfer if the legislature does not extend the statutory expiration date.

**FIGURE 4**

Proposition 1 Texas Oil & Gas Production Taxes Above Threshold

Proposition 1 funds transfers are set to expire after the Fiscal Year 2035 transfer (December 31, 2034), unless a future legislature votes to extend them.

1. Actual amounts deposited in the State Highway Fund may vary based on the sufficient balance of the Economic Stabilization Fund set by the legislature. SB 69 (86R, 2019) requires the Texas Comptroller of Public Accounts to determine and adopt for a state fiscal biennium a “threshold” balance of the Economic Stabilization Fund in an amount equal to seven percent of the certified general revenue-related appropriations made for that state fiscal biennium (effective beginning with the state fiscal year on September 1, 2021).
2. The Economic Stabilization Fund is also known as the Rainy Day Fund.
3. Preset collection threshold is set at 1987 oil and natural gas production tax levels: $531.9 million in oil production tax revenues and $599.8 million in natural gas production tax revenues.
PROPOSITION 7
On November 3, 2015, 83% of Texas voters approved Proposition 7, a constitutional amendment to dedicate portions of revenue from the state’s general sales and use tax as well as from the motor vehicle sales and rental tax to the State Highway Fund for non-tolled projects. Figure 5 illustrates the statutory procedures of Proposition 7 funding. As of August 2020, the comptroller has transferred a total of $7.5 billion in Proposition 7 revenues to the State Highway Fund.

Beginning in fiscal year 2020, if state motor vehicle sales and rental tax revenue exceed $5 billion in a fiscal year, the comptroller will deposit 35 percent of the amount over $5 billion into the State Highway Fund (see Figure 5 below). However, the comptroller estimates that the state motor vehicle sales and rental tax revenue will not reach the $5 billion threshold for fiscal years 2020 or 2021. Similar to Proposition 1 deposits, the State Highway Fund receives large cash deposits from Proposition 7 in one or more large totals each year, rather than smaller monthly deposits. While TxDOT has accelerated its letting schedule, there will be a significant cash balance available in the State Highway Fund as these projects are delivered and paid out.

FIGURE 5
Proposition 7
Sales & Use Tax; Motor Vehicle Sales & Rental Tax
Proposition 7 funds (Sales & Use Tax) are set to expire August 31, 2032; and Proposition 7 funds (Motor Vehicle Sales & Rental Tax) are set to expire August 31, 2029 unless a future legislature votes to extend them.

1. This transfer of funds to the State Highway Fund took effect September 1, 2017 (FY 2018).
2. This transfer of funds to the State Highway Fund became eligible to take effect beginning with the state fiscal year starting on September 1, 2019 (FY 2020).
BORROWING PROGRAMS

Before the adoption of Propositions 1 and 7, the Texas Legislature provided several tools that allowed TxDOT to finance projects through bond programs. The Texas Mobility Fund, Proposition 14 (State Highway Fund Revenue Bonds), and Proposition 12 (Highway Improvement General Obligation Bonds) have accelerated billions of dollars worth of highway improvements. Currently, various constitutional and statutory limitations prevent the Texas Transportation Commission from issuing additional debt for new projects under these three programs. However, the Commission may refinance existing bonds to provide substantial savings to the state.

As directed by the Texas Legislature, and in compliance with federal rules associated with tax-exempt debt, the projects funded with bond proceeds are long-term capital improvements. The economic consequences and improved safety and mobility resulting from these projects will benefit taxpayers for generations to come. While TxDOT has allocated and expended the funds from these bond programs, the following summary explains the rules and the status of each program.

TEXAS MOBILITY FUND

Texas voters approved the creation of the Texas Mobility Fund in 2001, and the Texas Legislature identified and dedicated certain revenues to the fund in 2003 to advance transportation projects. The maximum bond maturity is 30 years.

The program issuance limitation is based on a certified revenue estimate provided by the comptroller. However, changes to state law in 2015 prohibited the issuance of additional debt and restricts future issuances to refunding bonds for savings and replacement of credit agreements. Debt service payments are secured by fund revenues and are also backed by the full faith and credit of the state.

Texas Mobility Fund Bonds are not subject to the constitutional debt limit unless there is a draw from general revenue to make a debt service payment. If there were a draw, only the amount of the draw from general revenue would count against the debt limit. To minimize the likelihood of such a draw, there is a statutory safeguard that TxDOT may only issue additional debt if the projected revenues of the Texas Mobility Fund in any year are at least 110 percent of the program’s projected debt service. Specifically, this safeguard requires the comptroller to certify that annual revenue from the Texas Mobility Fund will be at least 110 percent of annual debt service throughout the years the bonds will be outstanding.

Revenues to the Texas Mobility Fund totaled approximately $475 million in fiscal year 2019. The largest sources of funding are drivers’ license fees, drivers’ record information fees, motor vehicle inspection fees, and certificate of title fees. TxDOT may directly spend any Texas Mobility Fund revenue in excess of the required debt service on certain transportation projects.

STATE HIGHWAY FUND REVENUE BONDS (PROPOSITION 14)

Texas voters authorized the issuance of State Highway Fund revenue bonds, also known as Proposition 14 Bonds, in 2003. Proposition 14 Bonds are secured by certain State Highway Fund revenues. All available bond proceeds have been issued and fully used. State law limits Proposition 14 debt to $6 billion, meaning the Texas Transportation Commission cannot issue more debt—even as the bonds are paid off—unless the legislature amends state law.

HIGHWAY IMPROVEMENT GENERAL OBLIGATION BONDS (PROPOSITION 12)

In 2007, Texas voters approved a constitutional amendment allowing the Texas Legislature to authorize the Texas Transportation Commission to issue $5 billion of Proposition 12 Bonds with a maximum maturity of 30 years. In 2009 the Texas Legislature authorized the issuance of these general obligation bonds to pay all or part of the costs of highway improvement projects. Prior to fiscal year 2018, the bonds were paid from revenue not already dedicated by the constitution, i.e., general revenue. Beginning in fiscal year 2018, the legislature authorized the use of Proposition 7 to pay Proposition 12 debt service.

All available bond proceeds have been issued and fully utilized. Proposition 12 Bonds are a general obligation of the state and, therefore, are subject to the state’s constitutional debt limit. The state constitution limits Proposition 12 debt to an aggregate principal amount of $5 billion, meaning that the commission cannot issue more debt as the bonds are paid off, unless the legislature and voters approve a constitutional provision.
SHORT-TERM BORROWING
TxDOT is authorized to issue short-term debt that is secured by the State Highway Fund to carry out its functions. This debt is subordinate to Proposition 14 debt obligations, meaning Proposition 14 debt must be paid first. The purpose of this program is to ensure that TxDOT can have as many projects underway as possible without carrying a “cushion” in the State Highway Fund balance should project payments come in more quickly or revenues come in more slowly than necessary to maintain adequate cash flow. TxDOT does not have any short-term debt outstanding as of the date of this paper.

TOLL REVENUE BONDS
State law authorizes the issuance of project revenue bonds, also known as toll revenue bonds, where the bonds are secured by the toll revenue collected for the project. As of May 2020, the Texas Transportation Commission has issued such bonds for the Central Texas Turnpike System in Austin and State Highway 249. The Grand Parkway Transportation Corporation issues project revenue bonds for the Grand Parkway (State Highway 99).

The Texas Transportation Commission closed a Transportation Infrastructure Finance and Innovation Act (TIFIA) loan with the United States Department of Transportation through its Build America Bureau Credit Programs Office for I-35E in Dallas in 2016. The Grand Parkway Transportation Corporation also closed a TIFIA loan in 2016 (recently retired with capital market debt) for Segments D-G and another loan in 2019 for Segments H and I. The debt does not constitute an obligation of the state, TxDOT, or any other agency or political subdivision of the state. In other words, the only source of revenue available to pay for the toll system debt is toll revenue from the corresponding toll system.
**STATUTORILY AUTHORIZED USES OF FUNDING STREAMS**

TxDOT created Figure 6 as a guide to clarify the funding restrictions associated with each of its state funding sources and financing tools. Figure 6 is useful in discussions related to non-highway state transportation needs such as aviation projects, capital funding for ports, rail, and public transportation.

**FIGURE 6**

<table>
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Texas Mobility Fund Bonds are suspended and unavailable.

1. State Highway Fund-Dedicated includes traditional sources of state motor fuel and lubricant taxes, motor vehicle registration fees, and interest earned on dedicated deposits. It also includes federal reimbursements that are not reflected in the above grid as a small amount of them may at times be used for other modes of transportation.

2. Texas Mobility Fund revenues in excess of funds required to pay Texas Mobility Fund debt service are prohibited to pay for toll expenditures as part of 2015 legislation.

3. The Texas Constitution allows for the use of Texas Mobility Fund bond proceeds to develop and construct state highways, “to provide participation by the state in the payment of a portion of the costs of constructing and providing publicly owned toll roads and other public transportation projects.” “Other public transportation projects” is undefined and therefore may be available for more types of transportation projects than what is listed here.

4. “State Highway Fund—Non-Dedicated” includes limited revenue sources. An annual, statutorily required transfer of approximately $150 million goes to the Texas Emissions Reduction Program (TERP) Fund.

5. Regional Subaccount funds may only be used for transportation, highway, and air quality projects as defined by Section 228.001, Transportation Code, in the region where the project from which those funds were derived is located. The revenues are deposited in the State Highway Fund.
CONNECTING YOU WITH TEXAS

TEXAS DEPARTMENT OF TRANSPORTATION
Project Tracker

Project Tracker is the gateway to up-to-date information about TxDOT highway improvement projects, providing 24/7-access to the public, employees, and elected officials.

TEXAS DEPARTMENT OF TRANSPORTATION
2021-2022 Educational Series

TxDOT’s complete 2021-2022 Educational Series that focuses on a range of transportation issues affecting TxDOT and the state of Texas.

TxDOT is committed to your safety and to the reliability of the information contained on this site. While road conditions can change rapidly, DriveTexas.org is an industry leader in providing some of the most accurate and up-to-date travel-related information currently available to drivers in Texas. Information presented here is as close to real time as possible. For those who use our roads, please do not use this site while operating a motor vehicle.

Be Safe. Drive Smart. Thank you!

TxDOT’s Government Affairs Division works closely with government on both the state and federal levels though the State Legislative Affairs and Federal Affairs sections.