TEXAS DEPARTMENT OF TRANSPORTATION 2025-2026 EDUCATIONAL SERIES

FUNDING

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- Cash Forecast
- Metropolitan Planning Organizations
- Unified Transportation Program
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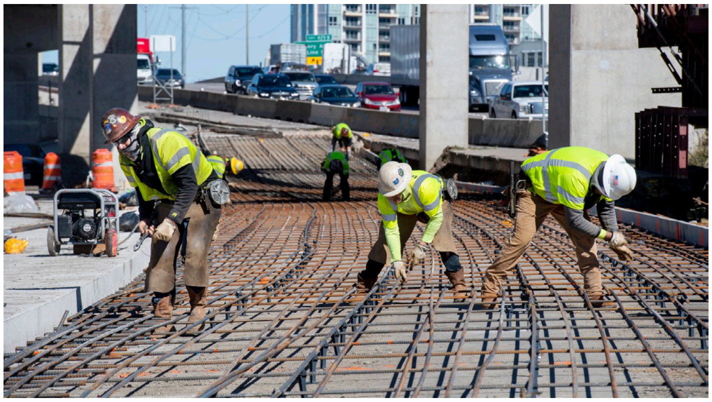
Texas Department of Transportation (TxDOT): Public website offering information and resources for drivers, businesses, government officials, and anyone interested in learning about TxDOT.

TxDOT 2025-2026 Educational Series: Focuses on key transportation issues affecting TxDOT and Texas.

Texas Department of Transportation



OVERVIEW

Transportation projects may take many years to develop and construct. In addition to managing the construction and delivery of highway projects, the Texas Department of Transportation (TxDOT) must oversee the project development phase, which includes public involvement, environmental analysis, design, engineering, and right-of-way acquisition. 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 fuel taxes and state vehicle registration fees 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 taxes and registration fees, the Texas Legislature, in the early 2000s, 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 bond programs provided non-traditional funds that helped the state avoid the substantial effects of inflation. The available proceeds from using these bonding tools in the early 2000s [Proposition 14 State Highway Fund Bonds ($6 billion), Proposition 12 Highway Improvement General Obligation Bonds ($5 billion), and Texas Mobility Fund Bonds ($7.4 billion)][1] were fully allocated to existing projects and have been spent. As the available bond capacity of these tools diminished, the Texas Legislature, with overwhelming voter approval, created two non-traditional funding sources, known as Proposition 1 (2014) and Proposition 7 (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 provide 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, guide project selection, and 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 based on a reasonably optimistic forecast of potential funding. This method of planning allows TxDOT to develop projects so it can accelerate contracted projects or reduce the number of contracted projects, depending on how the funds are appropriated and become available.

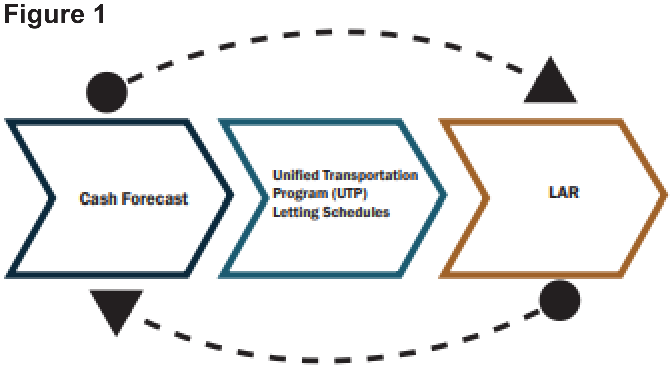
Additionally, this method of planning allows TxDOT's 25 geographic districts and local planning organizations to adjust more readily to unpredictable economic factors, the changing needs of the state budget, such as the state's oil and gas production levels, and evolving local project needs. While non-traditional fund deposits may be 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.

1. The Texas Legislature passed House Bill 2219 (87th Legislature, Regular Session, 2021) to allow TxDOT to issue approximately $2 billion in Texas Mobility Fund Bonds until January 1, 2027. The actual amount of bond issuance is dependent on market prices at the time of issuance.

CASH FORECAST

TxDOT produces and publishes updated actual and projected revenues, expenditures, and fund balances monthly. The revenue estimates are based on a financial analysis that includes, but is not limited to, historical trends, current law, the Texas Comptroller of Public Accounts' (comptroller) official revenue estimates, current events, and other economic developments. TxDOT's federal highway reimbursement projections factor in the current federal surface transportation authorization bill, continuing resolutions, federal redistributions, and federal requirements concerning the use of funds. TxDOT projects future expenditures using multiple variables, such as the state General Appropriations Act (GAA), letting volumes reflected in TxDOT's 10-year Unified Transportation Program, remaining project progress payouts on obligations awarded in previous Fiscal Years (FY), inflationary fiscal impact on cost of services and goods sold, and other relevant data. Figure 1 shows how the cash forecast is used as part of the planning and programming of transportation projects and factored into the development of TxDOT's Legislative Appropriations Request (LAR).

Figure 1



METROPOLITAN PLANNING ORGANIZATIONS

Texas is home to 24 distinct Metropolitan Planning Organizations (MPO). These local decision-making bodies are responsible for overseeing the planning and prioritization of transportation improvements in their respective metropolitan areas. Federal law requires governors to designate a Metropolitan Planning Organization for each urban area of their respective state with a population of more than 50,000 people.

Once TxDOT or a Metropolitan Planning Organization identifies a needed transportation project, TxDOT plans the next steps for the project by evaluating it among regional priorities and deciding if the project should advance to the next step of development. TxDOT and the respective Metropolitan Planning Organization then prioritize projects for funding and schedule them for construction, based on an assessment of the funding available for developing and building projects over the next several years.

As a condition of securing federal funds for transportation projects, federal law requires each Metropolitan Planning Organization to develop a Transportation Improvement Program (TIP) and the state to compile a Statewide Transportation Improvement Program (STIP). A Transportation Improvement Program 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 Statewide Transportation Improvement Program is a four-year, financially constrained plan composed of the 24 Metropolitan Planning Organization's Transportation Improvement Programs and the rural Transportation Improvement Programs. Once approved by the Federal Highway Administration and the Federal Transit Administration, projects included in the Statewide Transportation Improvement Program are 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 that links 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 a 10-year period. 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 Unified Transportation Program is neither a budget nor a guarantee that projects will or can be built.

LETTING

Letting is the process of providing notice, 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) sufficient revenue will be available 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 plans, develops, and submits its Legislative Appropriations Request approximately one year in advance of the biennium in which the funds will be expended. TxDOT commits a significant portion of the funds to make progress payments on active projects that began prior to the start of the biennium and for new projects to be awarded during the 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 alter the timeline in which projects are started and completed. These many moving parts create a greater need for budget to maintain flexibility and fluidity to align spending authority amongst the project development and delivery strategies in TxDOT's biennial budget structure.

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 details the statutorily authorized uses of each funding stream.

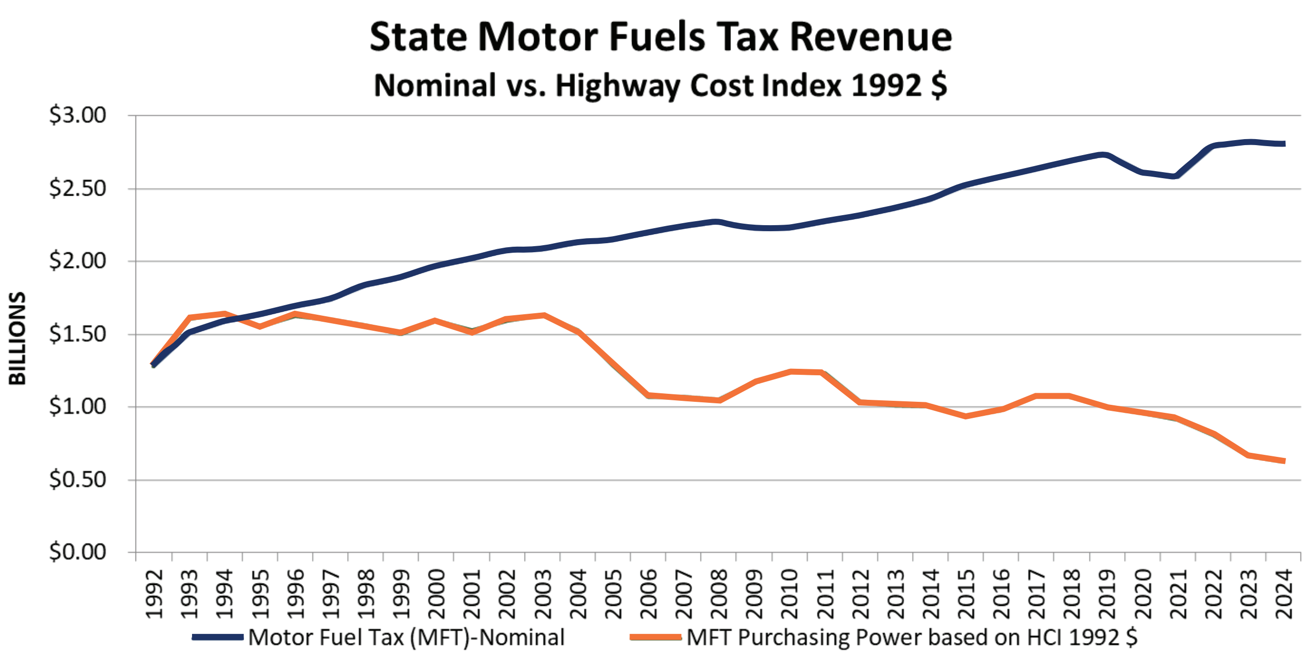
STATE REVENUE SOURCES

The State Highway Fund (SHF), 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. The state motor fuels tax contributes a significant amount of funding to the State Highway Fund. However, inflation has caused purchasing power to deteriorate over the last three decades. In fiscal year 2024, the comptroller deposited $2.81 billion in motor fuels tax revenue into the State Highway Fund. Figure 2 illustrates the declining purchasing power of state motor fuels tax revenue when adjusting for the Highway Cost Index (HCI), a tool which measures construction inflation.

Another significant source of traditional funding for the State Highway Fund is motor vehicle registration fees. Not including the optional fees that counties assess and a $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 fee. In fiscal year 2024, the comptroller deposited $1.68 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).

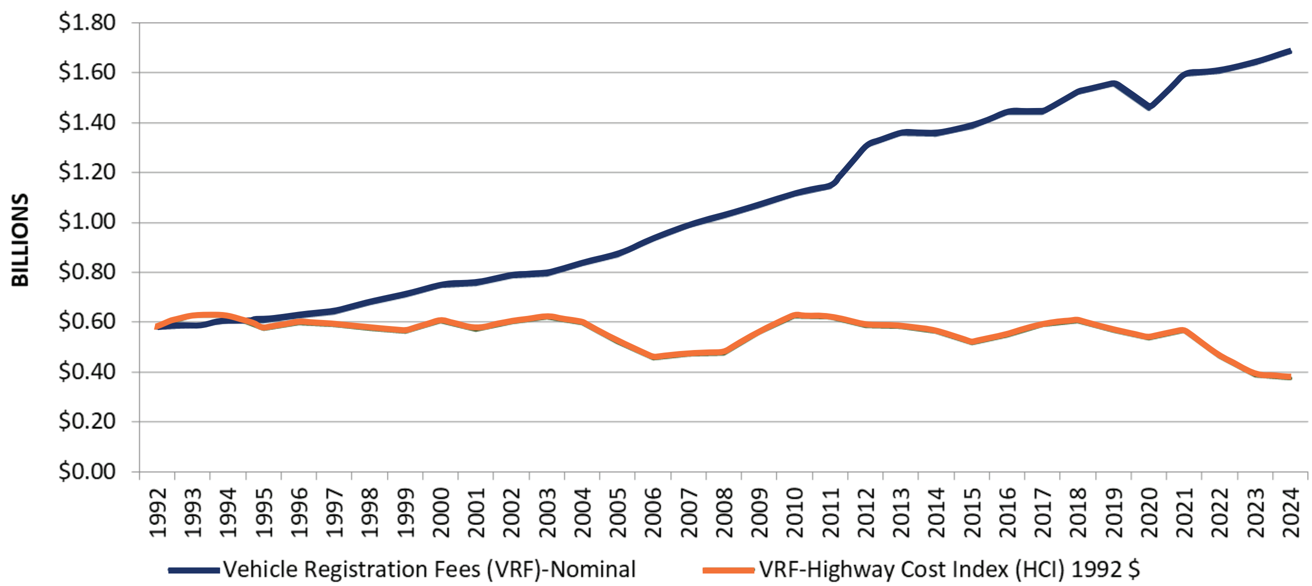
FIGURE 2



State Vehicle Registration Fee Revenue

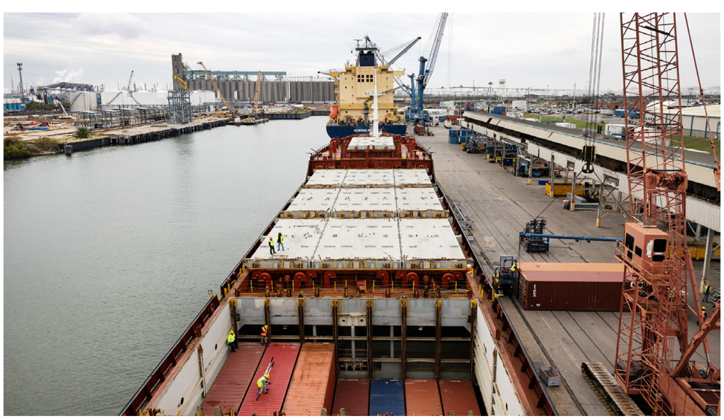
Nominal vs. HCI 1992 $

FIGURE 3



Neither Congress nor the Texas Legislature have raised motor vehicle fuel tax rates since the 1990s, diminishing the purchasing powers of traditional revenues. Last session, the Texas Legislature passed Senate Bill 505 (88th Legislature, Regular Session, 2023) to address current and anticipated transportation funding gaps by creating a state electric vehicle registration fee. Revenues generated from this fee will increase revenues deposited to the State Highway Fund and will work to offset funding gaps experienced by the state, considering the reduction in motor vehicle gas tax buying power and the increase of electric vehicles statewide.

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.

Approximately 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 because of increased fuel efficiency, the rising popularity of hybrid and electric vehicles, and the declining purchasing power of the unchanged federal motor fuels tax have increased the necessity for Congress to contribute general funds to the federal Highway Trust Fund. In subsequent reauthorization acts, Congress kept federal funding at elevated levels without increasing the taxes or fees deposited in the Highway Trust Fund, requiring the continued transfer of general funds to the federal Highway Trust Fund.

The most recent surface transportation legislation, the Infrastructure Investment and Jobs Act (IIJA), passed on November 15, 2021. The Infrastructure Investment and Jobs Act provides a five-year reauthorization of federal highway, highway safety, transit, and rail programs for federal fiscal years 2022 through 2026.

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 Infrastructure Investment and Jobs 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

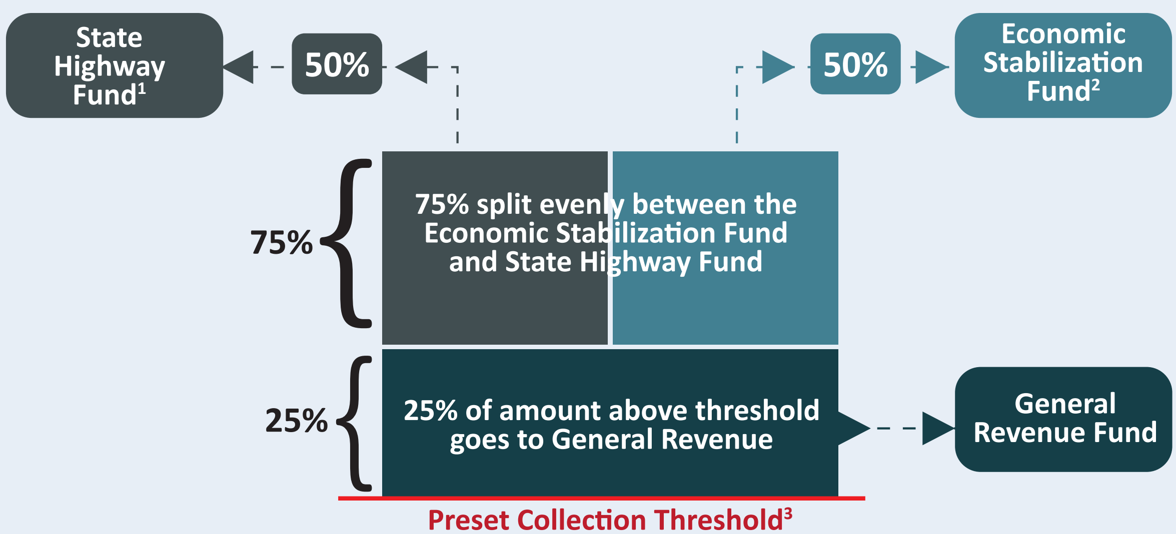
On November 4, 2014, 80 percent of Texas voters approved a ballot measure known as Proposition 1, which authorized a constitutional amendment for non-tolled highway funding. Under the amendment, a portion of oil and gas tax revenues, which would have otherwise been deposited into the Economic Stabilization 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 January 2025 (fiscal year 2025), the State Highway Fund has received approximately $19.1 billion in Proposition 1 revenue. Originally, Proposition 1 funds were set to expire after the fiscal year 2035 transfer without legislative intervention. In 2023, the Texas Legislature passed House Bill 2230 (88th Legislature, Regular Session, 2023), which extended the sufficient balance expiration date eight years – from December 31, 2034, to December 31, 2042.

Unlike TxDOT’s traditional funding sources, Proposition 1 deposits occur yearly rather than monthly, resulting in one-time influx of cash. While TxDOT has accelerated its letting schedule, there will be a significant spike in the State Highway Fund cash balance, the balance is expected to be spent throughout the remainder of the year as project progress payments are received and processed. The following factors affect future Proposition 1 deposits:

- Fluctuations in oil and natural gas production and prices affect Proposition 1 deposit amounts.
- The comptroller determines the 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. A higher sufficient balance in the Economic Stabilization Fund can limit the amount of the Proposition 1 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 be distributed first 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.

Figure 4
Proposition 1
Texas Oil & Gas Production Taxes Above Threshold



1. Actual amounts deposited in the State Highway Fund may vary based on the sufficient balance of the Economic Stabilization Fund determined by the Texas Comptroller of Public Accounts. The sufficient balance threshold of the Economic Stabilization Fund is to be set at an amount equal to seven percent of the certified General Revenue-related appropriations made for the state fiscal biennium.
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.

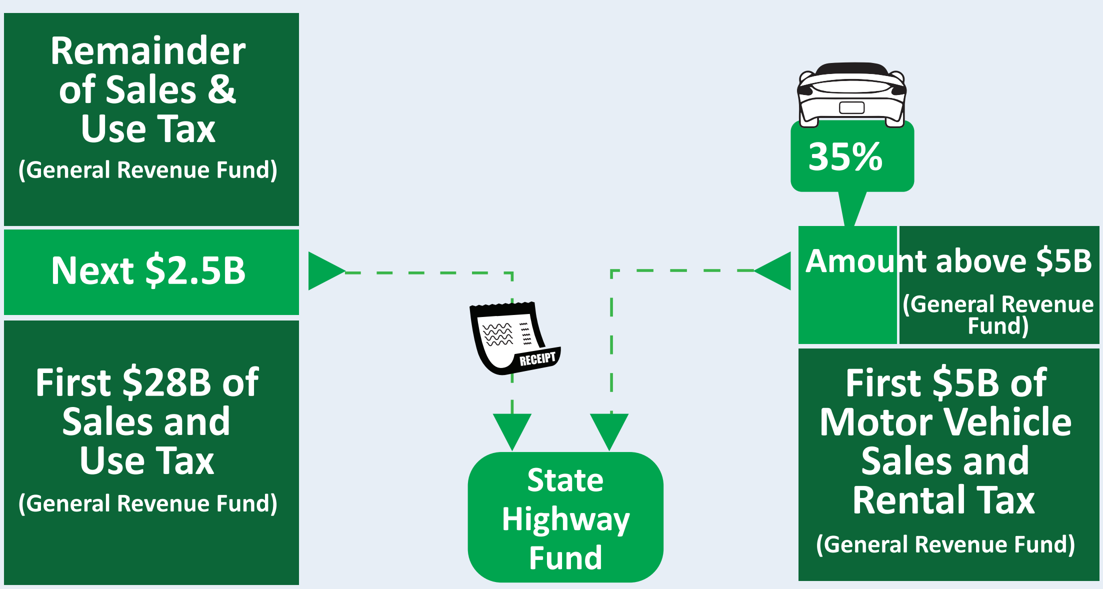
PROPOSITION 7

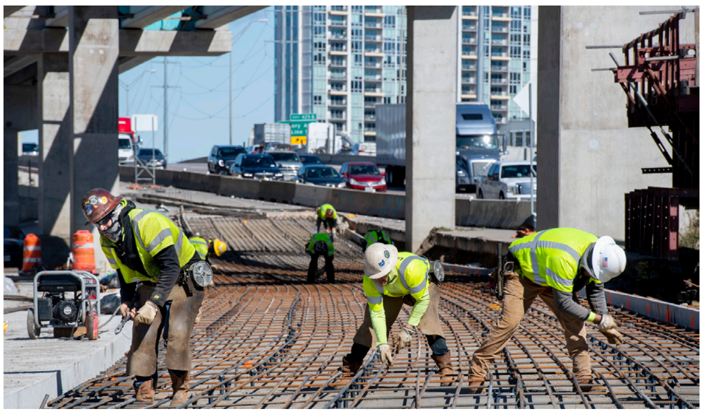
On November 3, 2015, 83 percent of Texas voters approved Proposition 7, a constitutional amendment to dedicate portions of revenue from the state's general sales and use tax as well as from the motor vehicle sales and rental tax to the State Highway Fund for non-tolled projects. Figure 5 illustrates the statutory procedures of Proposition 7 funding. Proposition 7 has two components. The first component requires the comptroller to deposit into the State Highway Fund up to $2.5 billion of the net revenue from state sales and use tax that exceeds the first $28 billion of revenue coming into the state treasury every fiscal year. The second component of Proposition 7 dictates that when state motor vehicle sales and rental tax revenues exceed $5 billion in each fiscal year, the comptroller must transfer 35 percent of the revenue above the first $5 billion collected to the State Highway Fund. As of January 2025, the comptroller has transferred a total of $19.5 billion in Proposition 7 revenues to the State Highway Fund.

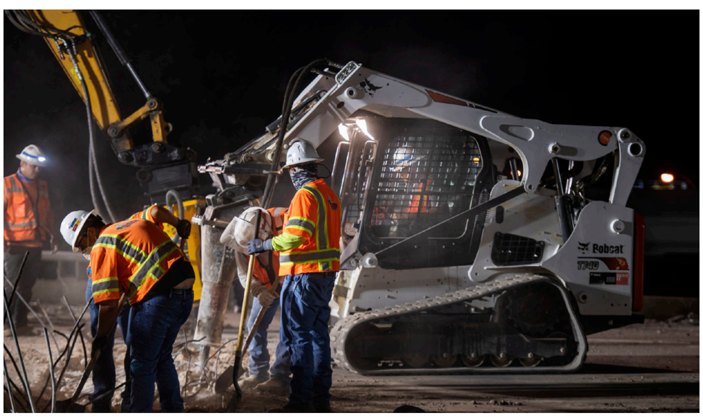
Originally, the first component of Proposition 7 (sales and use tax) was set to expire on August 31, 2032, and the second component (motor vehicle sales and rental tax) took effect on September 1, 2019 (FY 2020) and was set to expire on August 31, 2029. In 2023, the Texas Legislature passed Senate Concurrent Resolution 2 (88th Legislature, Regular Session, 2023), which extended both components of Proposition 7 – sales and use tax and motor vehicle sales and rental tax revenues – for ten years beyond their original expiration dates. Accordingly, the state's sales and use tax transfers into the State Highway Fund is extended through August 31, 2042, while the motor vehicle sales and rental tax portion is extended through August 31, 2039.

Similar to Proposition 1 deposits, Proposition 7 revenue deposits to the State Highway Fund are received in one to two large receipts, rather than in monthly increments. While TxDOT has accelerated its letting schedule, there will be significant spikes in the State Highway Fund cash balance, but project progress payments are expected to liquidate the balance over the remainder of the year.

Figure 5
Proposition 7
Sales & Use Tax; Motor Vehicle Sales & Rental Tax







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. Debt service payments are secured by fund revenues and are also backed by the full faith and credit of the state.

The program issuance limitation is based on the certified revenue estimate provided by the comptroller. Texas Legislature passed House Bill 2219 (87th Legislature, Regular Session, 2021) to allow TxDOT to issue no more than $3.6 billion in Texas Mobility Fund Bonds until January 1, 2027. Currently, TxDOT estimates it can issue $2 billion based on current revenue and interest rate assumptions.

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 $540 million in fiscal year 2024 with $400 million of that amount used to pay debt service. The largest sources of funding are drivers license fees, drivers record information fees, motor vehicle inspection fees, and certificate of title fees. In addition, TxDOT may spend any unexpended and unobligated Texas Mobility Fund revenue on eligible transportation projects.

SHORT-TERM BORROWING

TxDOT is authorized to issue short-term debt that is secured by the State Highway Fund to carry out its functions. 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.

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

FUNDING SOURCE	PROJECT TYPE							
	Highways (Non – Tolled)	Highways (Tolled)	Rail (Passenger)	Rail (Freight)	Transit (Public)	Aviation (Public)	Ports (Outside Gates)	Ports (Inside Gates)
Proposition 1 Funds	✔							
Proposition 7 Funds	✔							
State Highway Fund (Dedicated)[1]	✔	✔						
Texas Mobility Fund[2]	✔		✔		✔	✔	✔	
State Highway Fund (Non-Dedicated)[3]	✔	✔	✔	✔	✔	✔	✔	
General Revenue[4]	✔	✔	✔	✔	✔	✔	✔	✔

1. State Highway Fund (Dedicated) includes traditional sources of funding dedicated by the Texas Constitution and consists 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 these federal funds may at times be used for other modes of transportation.

2. The Texas Constitution allows for the use of Texas Mobility Fund revenues and bond proceeds to develop and construct state highways and other public transportation projects.

3. State Highway Fund (Non-Dedicated) includes very limited revenue sources that are designated by statute but not the Texas Constitution. These limited revenue sources are further constrained by an annual, statutorily required transfer of approximately $130 million, which backfills the Texas Mobility Fund's loss of Certificate of Title Fees. Many multi-modal transportation services have received level funding for decades because of the limited availability of non-constitutionally dedicated funds.

4. State General Revenue may be used on all forms of multi-modal transportation to pay for exceptional items or legislative directives where other revenues are unavailable due to legal restrictions or legislative appropriations and obligations.

MISSION

Connecting you with Texas.

VISION

A forward thinking leader delivering mobility, enabling economic opportunity, and enhancing quality of life for all Texans.

VALUES

People

People are the Department's most important customer, asset, and resource. The well-being, safety, and quality of life for Texans and the traveling public are of the utmost concern to the Department. We focus on relationship building, customer service, and partnerships.

Accountability

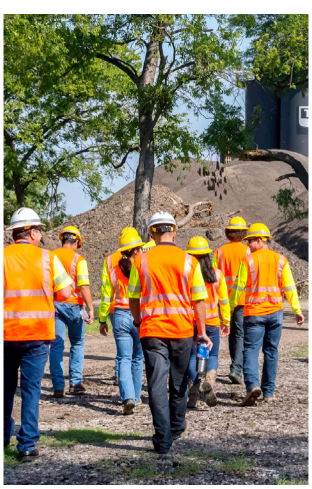
We accept responsibility for our actions and promote open communication and transparency at all times.

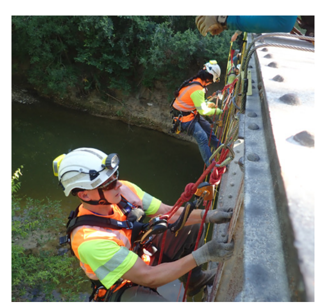
Trust

We strive to earn and maintain confidence through reliable and ethical decision-making.

Honesty

We conduct ourselves with the highest degree of integrity, respect, and truthfulness.





PRIORITIES

Safety

Design, build, operate, and maintain our transportation system with safety as our #1 priority.

Delivery

Responsible program execution throughout the transportation life cycle (planning, design, construction, maintenance, and operations).

Innovation

Forward-thinking, technology-focused, fostering a culture of continuous improvement.

Stewardship

Professional, responsible stewards of resources.