

Driven to Spend: Funding the State's Transportation Needs without Raising Taxes

by The Honorable
Talmadge Heflin
Director, Center for
Fiscal Policy

James Quintero
Policy Analyst

“Government does not have a revenue problem; government has a spending problem. Government does not have a revenue problem; government has a priority problem. It is time that we begin to fine tune our focus and decide what the priority of government ought to be.” ~ U.S. Rep. Marsha Blackburn, Tennessee

Recommendations

1. End Diversions
2. Redirect State Government Resources
3. Reprioritize Existing Local Sales Tax Options
4. Allocate Transportation Funds Based on the Ability to Reduce Congestion
5. Implement Transparency Reforms

Introduction

Last year, the 2030 Committee—a commission of 12 community leaders charged with providing “an independent, authoritative assessment of the state’s transportation infrastructure”—issued a grim forecast for the state’s transportation system.¹

In order to keep pace with the state’s burgeoning population, maintain current infrastructure, and plan new projects, the committee’s report* estimated that state and local governments would need to invest a total of \$315 billion by 2030 or an average of \$14.3 billion per year.² Currently, the state only spends about \$3 billion annually on construction—roughly “\$11 billion less than the 2030 Committee’s recommendation.”³

The consequences of ignoring the state’s growing transportation problems, according to the report, are equally distressing and could include heavier congestion, longer traffic delays, lost productivity, and a possible slowdown of the state’s future economic growth.

With the state’s transportation system facing such an enormous funding challenge and the consequences of inaction so high, many policymakers are left to wonder how the funding

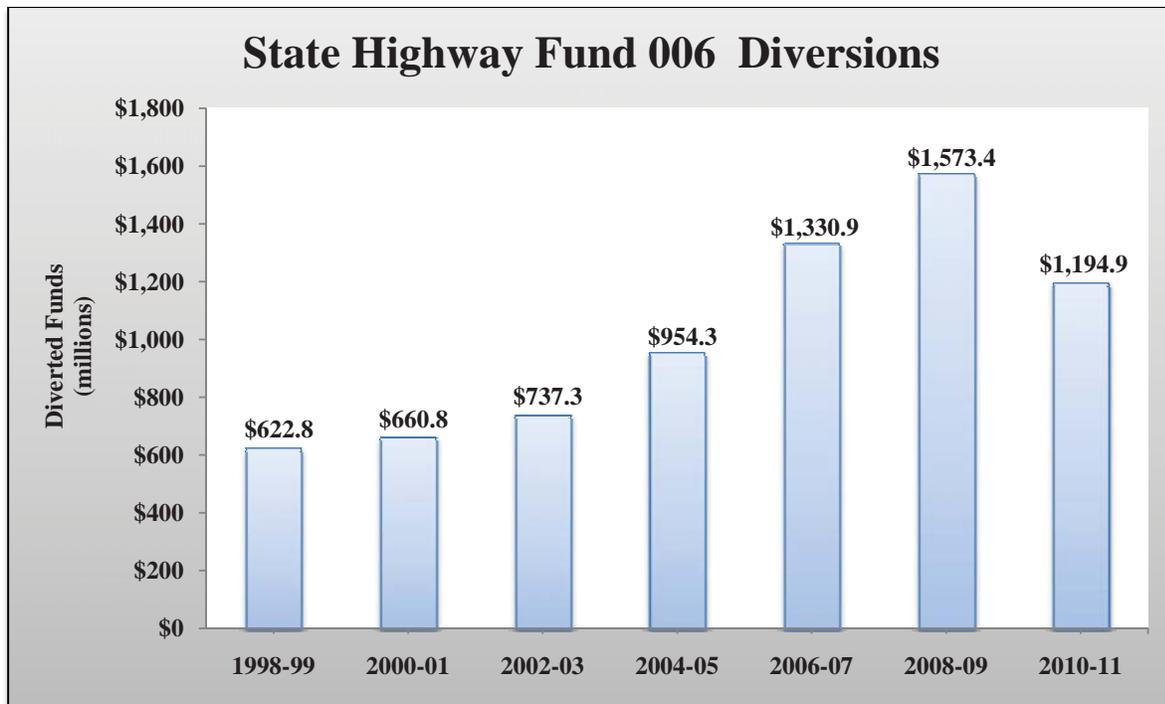
gap will be bridged. New taxes? More fees? Both?

Recommendations

To help the Legislature grapple with the situation at hand, the Texas Public Policy Foundation has crafted five recommendations to help policymakers prioritize state and local resources to address the state’s mobility needs, without raising transportation taxes or fees.

1. **End Diversions.** Augment funding available for transportation by ending the diversion of monies directed at non-transportation related projects.
2. **Redirect State Government Resources.** Identify areas in the budget where state spending has exceeded reasonable growth limits, as determined by the sum of population plus inflation, and in the future direct those resources to crisis areas, such as transportation.
3. **Reprioritize Existing Local Sales Tax Options.** Encourage local governments to direct their portion of sales tax revenue to congestion relief rather than other priorities, such as economic development or health services.

* To view the committee’s full report, *2030 Committee Texas Transportation Needs Report*, please visit: http://texas-2030committee.tamu.edu/documents/final_022609_report.pdf



Source: Legislative Budget Board

4. **Allocate Transportation Funds Based on the Ability to Reduce Congestion.** Strive to ensure that transportation spending is tied to a measurable outcome, such as congestion relief.
5. **Implement Transparency Reforms.** Require transit authorities to adopt basic transparency measures, such as posting budgets and check registers online, to help identify waste, fraud, and abuse.

Enacting these priorities will allow the state to provide the transportation infrastructure needed to handle our growth while protecting taxpayers—a formula sure to keep Texas on the path of sustained economic growth.

Recommendation #1: End Diversions

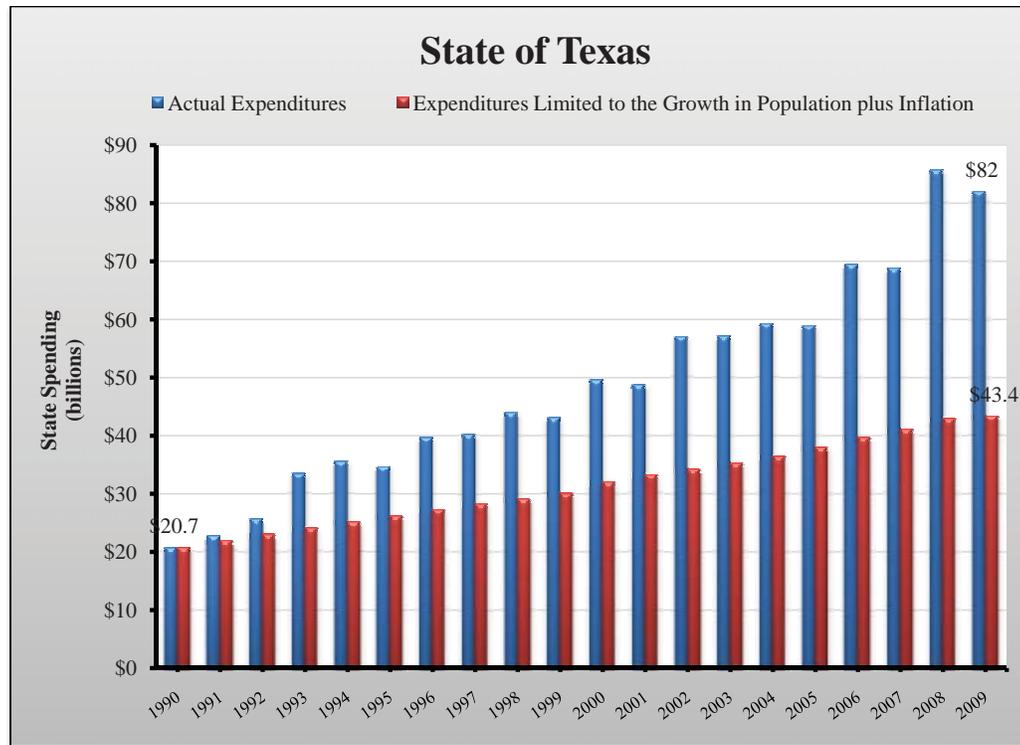
As the Foundation has noted in previous research,* revenue deposited into State Highway Fund 006, a fund in the state's treasury used primarily for "highway construction and

maintenance, acquisition of rights-of-way, and the policing of public roads," is not always used to pay for roads and highways.⁴

As has been the practice for many years, the Legislature often diverts monies in Fund 006 for a broad range of unrelated expenses, including pay raises for state employees and agency spending on retirement and group insurance. It goes without saying that the diversion of these funds to pay for non-transportation related expenses is a faulty practice and should be discontinued, particularly given the sizable nature of the sums diverted.

During the most recent budget-writing cycle, diversions from Fund 006 totaled \$1.2 billion—a slight decrease as compared to the previous biennium, but still a significant amount by any measure. This latest diversion marks the third straight biennium that the Legislature has diverted a billion dollars or more, continuing a long-standing practice that has sapped substantial transportation monies over the years.

* For more information on the Foundation's research into diversions, please see: *Legislature Should End Transportation Funding Diversions*, <http://www.texaspolicy.com/pdf/2009-05-PB15-Diversions-th.pdf>.



Source: Legislative Budget Board

In fact, since the 1998-99 biennium, the Legislature has diverted over \$7 billion out of Fund 006 to pay for non-transportation related expenses.

To be clear, ending the practice of diversions, in and of itself, will not solve the state's mobility challenges. But if policymakers are going to develop a comprehensive strategy for dealing with the state's transportation issues, ending diversions represents the first, most obvious step.

Recommendation #2: Redirect State Government Resources

Many of the plans that propose to solve the state's transportation challenges rely on increasing revenue to the government, either by raising existing taxes and fees or by creating new revenue streams. While the details of each vary somewhat, these proposals share a common flaw: they fail to question current funding priorities or the impact new spending would have on recession weary taxpayers.

Rather than increasing existing revenue streams or creating new ones to pay for transportation projects, a more fiscally

responsible approach would be to redirect existing funds in the state's budget.

Since Texas government typically outspends the amount needed to maintain essential services—as measured by the sum of population growth plus inflation—the state's budget is frequently “padded” with extra funding that can be redirected to high priority areas, like transportation. The amount in question could go a long way toward alleviating the state's transportation crisis.

To get a better idea of how much is spent beyond the sum of population plus inflation increases, consider the growth of the state's budget from fiscal years (FY) 1990 to 2009.

Beginning in FY 1990, actual state spending amounted to roughly \$20.7 billion.⁵ By FY 2009, actual state spending had grown by four times that amount to \$82 billion.⁶

If state spending had been limited to the growth of population plus inflation—again, the measure that best reflects the level of state spending needed to maintain essential services—Texas' budget would have grown from \$20.7 billion in FY

1990 to \$43.4 billion in FY 2009.⁷ The difference in actual expenditures versus expenditures limited to the growth of population plus inflation for just FY 2009 is almost \$40 billion.

Though it is unrealistic to assume all of these funds are readily available, the point remains that they exist and should be considered as part of the solution to the state's long-term transportation needs. With careful planning and pruning, the Legislature can help Texas successfully fend off a transportation funding crisis by committing revenue above population and inflation to this priority.

Recommendation #3: Reprioritize Existing Local Sales Tax Options

The Foundation's previous research has found that local communities have the ability to raise significant transportation funds using existing tools, if they so choose.*

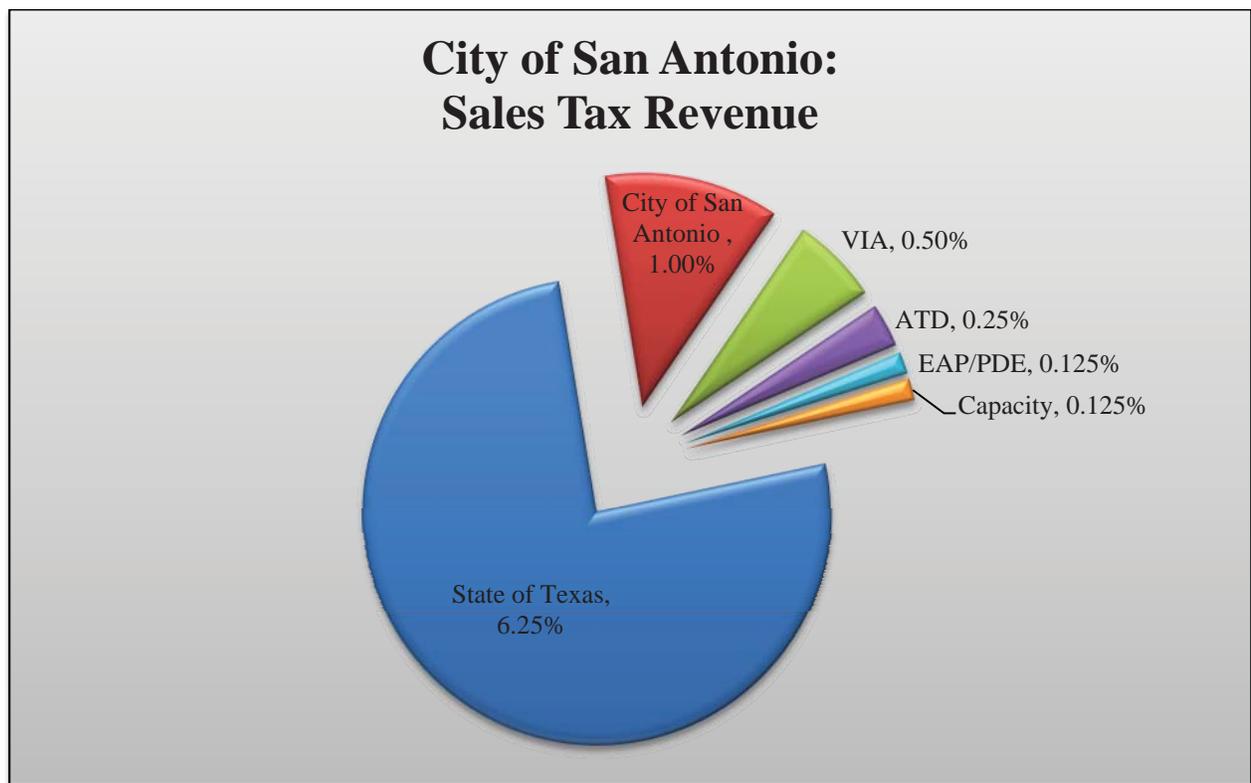
Local taxing jurisdictions in Texas have the authority to levy

a sales and use tax of up to 2 percent, subject to voter approval. Of this 2 percent, local communities have the ability to allocate between .25 percent and 1 percent of their local sales tax revenue to fund a transit authority.⁸

However despite having this tool, not all communities obligate their local sales tax capacity to meet an area's transportation needs. In fact, a number of communities structure their local sales tax in such a way that the revenue funds other priorities, like economic development or health services, or choose not to tax themselves at all. Two of the state's larger cities, San Antonio and El Paso, are good illustrations of this.

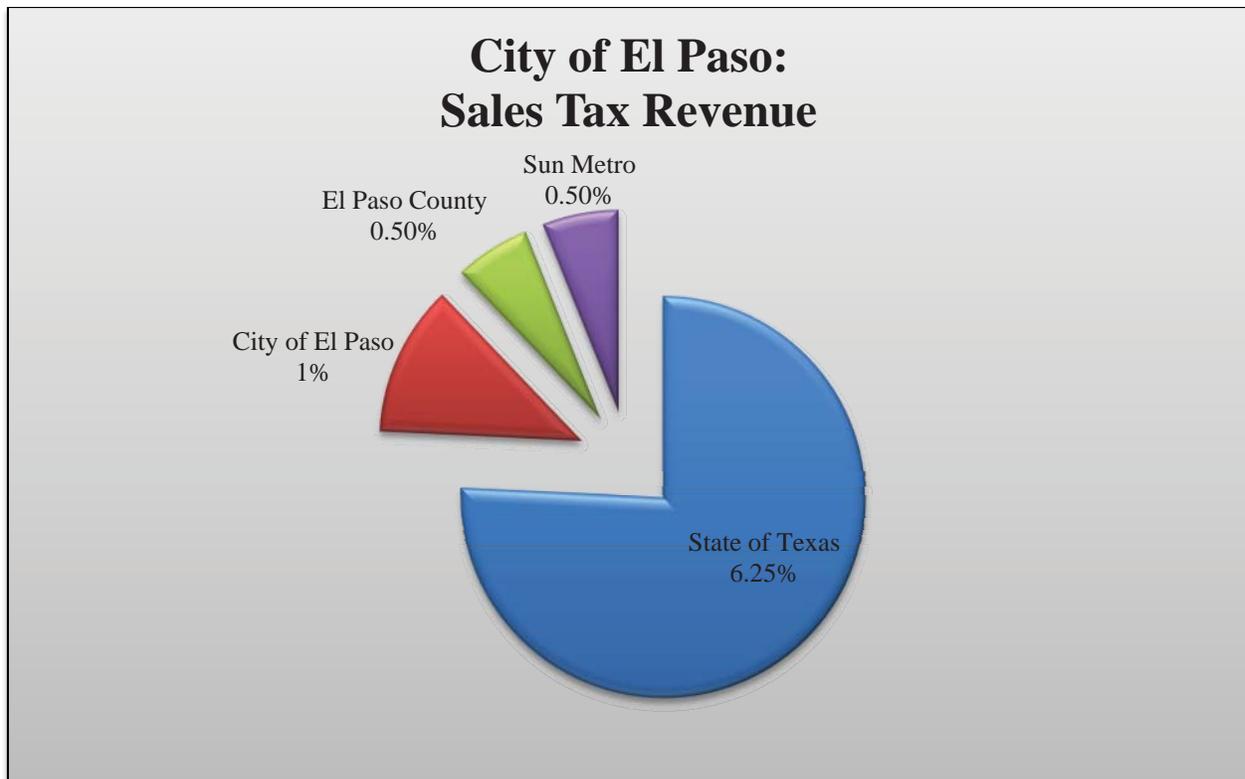
San Antonio

The city of San Antonio's local sales tax capacity goes to fund the city's operations, the VIA Metropolitan transit authority, the Edwards Aquifer Protection (EAP) program, and the Parks Development and Expansion (PDE) program. However, .125 percent of local sales tax capacity remains unused, giving the area's residents the opportunity to increase local transportation funding, if they chose.⁹



Source: City of San Antonio

* For more information on the Foundation's research into local sales tax capacity, please see: *The Existing Local Option for Transportation: An Analysis of Existing Local Transportation Funding Tools*, <http://www.texaspolicy.com/pdf/2009-04-PP13-transtax-jq-th-for%20print.pdf>.



Source: City of El Paso

El Paso

For residents of El Paso, voters have structured their local sales tax in such a way that 1 percent funds the city, .5 percent funds the county, and .5 percent funds the community's transit authority.¹⁰ In this case, it appears the voters of El Paso have determined that county functions represent a greater priority than the communities' transportation needs. While the Legislature cannot specifically mandate that voters obligate their local sales tax capacity to transportation, they can encourage local community officials to inform their constituencies about the tools they already have available.

Recommendation #4: Allocate Transportation Funds Based on the Ability to Reduce Congestion

Texas spends more on transportation than many states do in their entirety.

Consider that for FY 2010, appropriations to the Texas Department of Transportation (TxDOT)—the state's main transportation agency—totaled \$9.7 billion, an amount that

also included \$1.6 billion in federal stimulus funds from the American Recovery and Reinvestment Act.¹¹ Combine that amount with the estimated "\$4.3 billion in budgeted expenses" spent by the state's eight metropolitan transit authorities, and that comes close to \$14 billion spent on transportation in Texas in FY 2010.¹²

By comparison, total state spending in 15 states—Delaware, Hawaii, Idaho, Kansas, Maine, Montana, Nebraska, Nevada, New Hampshire, North Dakota, Rhode Island, South Dakota, Utah, Vermont, and Wyoming—amounted to less than \$14 billion in FY 2009.¹³

With several billion spent on transportation, it is hard to imagine why the state is in the predicament that it is; but perhaps part of the answer lies with how transportation funds are allocated.

Rather than using congestion relief as the sole measure by which transportation funds are allocated, many times other concerns play a bigger role.

By failing to open their books to the public, transit authorities are losing the opportunity to identify efficiencies and redirect those funds to address congestion relief.

Take the case of the Capital Area Metro Planning Organization's 2035 Plan that allocates the expenditure of federal, state and local transportation funding in the Greater Austin area. According to the report, the agency's "ultimate goal" was to develop a transportation plan that balanced "the need to move traffic with our need to build quality communities."¹⁴ However, close examination reveals no additional funding for the next 25 years for the expansion of significantly congested roadways, such as IH-35 through Central Texas or Loop 360 in West Austin. If Texas really is facing a near-term transportation crisis, then it is time to focus on what matters: congestion relief.

Recommendation #5: Implement Transparency Reforms

Governments that adopt basic transparency measures are doing more than just opening up their books to the public, they are also helping to identify efficiencies within the system, which, in turn, can help free up additional resources.

Consider the case of the Texas Comptroller. Since adopting basic transparency measures like posting budgets, check registers, and financial reports online, the Comptroller's office has "already saved taxpayers a projected \$8 million."¹⁵ These funds were freed up by doing simple things, like eliminating duplicative activities and old technologies.

Or take the case of Texas Smart Buy, an e-commerce website for state and local governments that allows for comparison shopping. Through this effort, the state has been able to create "over \$50 million in annually reoccurring savings."¹⁶

And yet despite mounting evidence that transparency efforts can save tax dollars and potentially free up resources, open government reforms have not been widely embraced by parts of the state's transportation sector, specifically at the transit level.

Texas' transit authorities have made little to no effort to prominently post budget information online, check registers, or financial statements and, in fact, have done so poorly in this area that they are the only category of local governments not to have at least one entity recognized by the Comptroller's Leadership Circle* initiative as of June 2010. By failing to open their books to the public, transit authorities are losing the opportunity to identify efficiencies and redirect those funds to address congestion relief.

Conclusion

The state's transportation system faces significant challenges in the coming years as the result of explosive population growth, current infrastructure maintenance requirements, and the need to plan future projects.

Some argue that the best way to solve the state's looming transportation troubles is through higher taxes and fees; but consumers and taxpayers, particularly in today's recession weary environment, are looking for more responsible, innovative alternatives that maximize existing resources and directly address the problem of congestion.

For that reason, the Texas Public Policy Foundation recommends that the Legislature adopt an approach that ends diversions; re-directs state government resources; re-prioritizes existing local sales taxes; allocates funds based on their ability to reduce congestion; and implements transparency reforms to identify inefficiencies and better educate the public.

With this comprehensive, fiscally responsible approach, the Foundation is certain the Legislature can lead Texas down the right road. ★

*The Comptroller's Leadership Circle initiative is an innovative program that "encourages and applauds local governments across Texas that have focused on giving taxpayers a transparent look at local expenditures."

Endnotes

- ¹ 2030 Committee, *2030 Committee Texas Transportation Needs Summary* (Feb. 2009) http://texas2030committee.tamu.edu/documents/final_022609_execsummary.pdf.
- ² Ibid.
- ³ Texas Comptroller of Public Accounts, *Fiscal Notes* (Apr./May 2010) <http://www.window.state.tx.us/comptrol/fnotes/fn1005/road.html>.
- ⁴ Legislative Budget Board, *Fiscal Size-up: 2010-11 Biennium* (Dec. 2009) http://www.lbb.state.tx.us/Fiscal_Size-up/Fiscal%20Size-up%202010-11.pdf.
- ⁵ Source: General Appropriations Act from specified fiscal year.
- ⁶ Ibid.
- ⁷ Author's calculations based on data from Legislative Budget Board, the United States Census Bureau, and the United States Bureau of Labor Statistics.
- ⁸ Texas Comptroller of Public Accounts, *Local Sales and Use Tax: Rate Details and Other Information*, <http://www.window.state.tx.us/taxinfo/sales/>.
- ⁹ City of San Antonio, *Adopted FY 2010 Budget*, <http://www.sanantonio.gov/budget/documents/Annual%20Budgets/FY%202010%20Adopted%20Budget/FY%202010%20Adopted%20Document%20-%20complete.pdf>.
- ¹⁰ City of El Paso, *Fiscal Year 2010 Budget* (Aug. 2009) http://www.elpasotexas.gov/omb/_documents/2010%20Adopted%20Budget%20Book-WEB.pdf#view=fitV.
- ¹¹ Legislative Budget Board, *Fiscal Size-up: 2010-11 Biennium* (Dec. 2009) http://www.lbb.state.tx.us/Fiscal_Size-up/Fiscal%20Size-up%202010-11.pdf.
- ¹² Justin Keener, *Testimony before the House Select Committee on Transportation Funding, Subcommittee on Funding*, Texas Public Policy Foundation (May 2010) <http://www.texaspolicy.com/pdf/2010-05-testimony-transportation-jk.pdf>.
- ¹³ National Association of State Budget Officers, *State Expenditure Report 2008* (Fall 2009) <http://www.nasbo.org/Publications/StateExpenditureReport/tabid/79/Default.aspx>.
- ¹⁴ Capital Area Metropolitan Planning Organization, *CAMPO 2035 Regional Transportation Plan* (Mar. 2010) <http://www.campotexas.org/pdfs/2035DraftTransportationPlanFeb.pdf>.
- ¹⁵ *Susan Combs for Texas Comptroller* (24 May 2010) <http://www.susancombs.com/issues/transparency>.
- ¹⁶ *Window on State Government: TxSmartBuy—Strategic Sourcing*, Texas Comptroller of Public Accounts (2 June 2010) http://www.window.state.tx.us/txsmartbuy/sourcing_info.html.

About the Authors

The Honorable Talmadge Heflin is the Director of the Texas Public Policy Foundation's Center for Fiscal Policy. For 11 terms, Heflin served the people of Harris County as a state representative. Well regarded as a legislative leader on budget and tax issues by Democratic and Republican speakers alike, he for several terms was the only House member to serve on both the Ways and Means and Appropriations committees. In the 78th Session, Heflin served as chairman of the House Committee on Appropriations. He navigated a \$10 billion state budget shortfall through targeted spending cuts that allowed Texans to avoid a tax increase.

James Quintero is a fiscal policy analyst at the Texas Public Policy Foundation. He joined the Foundation's Center for Fiscal Policy in March 2008 and contributes to the following issues: restricting the growth of taxation; appropriations reform; increasing governmental transparency at both the state and local level; and instituting expenditure limits. Prior to joining the Foundation, James completed his Master's of Public Administration degree with an emphasis in Public Finance at Texas State University-San Marcos.

About the Texas Public Policy Foundation

The Texas Public Policy Foundation is a 501(c)3 non-profit, non-partisan research institute guided by the core principles of individual liberty, personal responsibility, private property rights, free markets, and limited government.

The Foundation's mission is to promote and defend liberty, personal responsibility, and free enterprise in Texas by educating and affecting policymakers and the Texas public policy debate with academically sound research and outreach. Our goal is to lead the nation in public policy issues by using Texas as a model for reform.

The work of the Foundation is primarily conducted by staff analysts under the auspices of issue-based policy centers. Their work is supplemented by academics from across Texas and the nation.

Funded by hundreds of individuals, foundations, and corporations, the Foundation does not accept government funds or contributions to influence the outcomes of its research.

The public is demanding a different direction for their government, and the Texas Public Policy Foundation is providing the ideas that enable policymakers to chart that new course.

