

## MEMORANDUM

DATE: May 5, 2008 - Updated

TO: SAMCo Executive Committee  
SAMCo Partner Organizations

FROM: Victor Boyer, Executive Director

RE: **Transportation Funding Outlook & Options – San Antonio/Bexar County**

The following is a summary of key factors impacting transportation funding in San Antonio and Bexar County. Designed to be a quick read, the summary examines current trends, likely future projections, and options to address growing transportation funding gaps.

### FUNDING TRENDS

**I. San Antonio's Regional Funding Shortfall** – Estimated at **\$7.47 billion** through year 2030 for added capacity & congestion relief projects. The regional funding gap increases to **\$18.9 billion** when the following additional deficits are included: \$7.44 billion for reconstruction/rehabilitation of existing roads, \$2.9 billion for pedestrian/bike improvements, and \$1.0 billion for rail relocation. Figures are from a 2006 Bexar County/San Antonio MPO report and represent the cost of unfunded needs beyond projected federal, state, and local revenue. Note: Due to double-digit construction inflation, recent federal rescissions, and state funding cutbacks, the estimated funding gaps have likely widened during the past two years.

**II. Highway Construction Index** – Inflation on highway projects has exceeded **73 percent since 2002** due to the rising costs of aggregate, steel, fuel, and other inputs. A project costing \$10 million six years ago now costs \$17.3 million. Worldwide markets for these inputs show no signs of abating with major highway systems under development in China, India, and other developing countries.

**III. Federal Rescissions/Earmarks** – Texas has **lost more than \$1 billion** in federal highway rescissions (cutbacks) over the past two years and additional rescissions are considered likely in the near term future. The rescissions have been mandated by Congress to adjust for lower than anticipated federal gas tax receipts. In addition, the Federal Highway Trust Fund is slated to shift to a **negative balance by 2009**, further reducing available revenue. Revenue estimates (2009 to 2019) used by TxDOT and local MPO's were recently reduced by about twenty percent (20 %) to compensate for lower than anticipated federal revenue.

**IV. Category 2: From Peak to Valley** – Category 2 (urban congestion) funding for San Antonio peaked at \$164 million per year between 2004 and 2007, the result of accelerating projects through various types of bonding against future revenues - Proposition 14 and the Advanced Transportation District (ATD) sales tax. While this created record letting volume and accelerated delivery of numerous priority projects, the bonds must now be paid back over the next decade or so, greatly reducing available revenue. As a result of bond indebtedness, lower estimates of federal revenue, and numerous other factors, available Category 2 funding for the San Antonio District is **expected to fall from an average of \$164 million per year (2004-2008) to \$21.6 million per year (2009-2019)**, as per an April 2008 presentation by TxDOT officials to the SA/Bexar County MPO.

**V. Local Highway Project Cutbacks** – As a result of continuing federal rescissions, lower estimates for future federal revenue, and a \$1.2 billion “accounting error” reported by TxDOT in 2008, metropolitan planning

organizations (MPO's) across TxDOT have been forced to delay priority projects, often for a decade or more. The SA/Bexar County MPO has been affected as follows:

- **\$132 million** in projects eliminated from 2009-2019 plan (April 2007)
- **\$58 million** in projects eliminated from the FY 2008 plan (September 2008)
- **\$229 million** in additional projects eliminated from the 2009-2019 plan (April 2008)

**\$419 million has been eliminated** to date from San Antonio's Category 2 ten-year plan (UTP), leaving only **\$216 million** available, all of which is Texas Mobility Fund allocations reserved as toll equity for the US 281 and Loop 1604 projects. The following projects have effectively been delayed until FY 2019, unless new funding can be secured:

- Loop 1604 at Randolph AFB (BRAC related)
- 36<sup>th</sup> Street (Port Authority)
- FM 3009 from IH 35 to FM 2252
- IH 10 from Huebner to Loop 1604
- FM 1957 from Loop 1604 to Medina County Line
- SH 211 from FM 1957 to FM 471
- FM 1103 (ROW only)
- Wurzbach Parkway
- IH 35 corridor (\$88 million)

**VI. State Motor Fuels Tax** – The Motor Fuels Tax (i.e. gas tax) has not been increased since 1991, **losing at least one-third of its purchasing power** since that time (CPI basis) and **fifty-percent or more** to the Highway Construction Index (CPI). Despite population growth, gas tax revenues have remained relatively flat for many years due to improved fuel economy. Session after session, a majority of the legislature has refused to raise or index the gas tax, partly due to the reluctance of rural legislators to support an increase they feel will primarily benefit urban areas and partly due to commitments made by some lawmakers to never raise taxes. Despite support from some local legislators, a gas tax amendment failed to carry the House by a vote of 122-19 on May 8, 2007.

**VII. Diversions** - Despite bills introduced by Sen. Wentworth and Rep. Puente and supportive comments from many other legislators, the practice of diverting Fund 6 (gas tax) revenue to non-highway uses (DPS salaries, rural school buses, medical transport, senior citizen alerts, etc.) will increase by \$242.5 million over the current biennium (a total of \$1.573 billion for FY 2008 and 2009) as a result of the 2007 legislative session. **The diversions total more than \$10.8 billion since 1986.**

**VIII. Environmental Setbacks** – As a result of a December 2005 lawsuit brought by Aquifer Guardians and People for Efficient Transportation, US 281 (Loop 1604 to Comal County line) has been **delayed at least three years at cost exceeding \$230 million.** A second Environmental Assessment (EA) for US 281 was recently approved by FHWA and has been challenged in federal court by toll road opponents. The EA for Loop 1604 remains under review by FHWA. In addition, the Alamo RMA announced in April 2007 that a full EIS (Environmental Impact Statement) will be required for the Bandera Road project, potentially adding four to five more years to the project timetable.

**IX. Population Growth** – Bexar County population will increase by roughly **one million new residents to a total population of about 2.4 million in 2030.** The increase is roughly equivalent to absorbing the City of Dallas, Texas. In just one quadrant outside Loop 1604 (Culebra Rd to Bandera Rd) about 300,000 new residents – a city the size of Corpus Christi - are anticipated in the next 10 years, with 80,000 new homes already platted. The present Loop 1604, already highly congested and the only limited access highway serving the area, will not easily absorb the increased traffic flow. **57,000 more cars** are added to Bexar County roads each year, 1091 per week, 156 per day, and 6.5 per hour.

**X. 2007 Legislative Session** – The 2007 legislative session provided **no new revenue for transportation** and as described above expanded the practice of diverting highway funding to non-highway uses. In addition, access to private sector investment was eliminated with the US 281 specifically being included in a two-year moratorium on CDA concessions and a sunset provision that takes effect in 2009. The legislature failed to take action to index the gas tax, to capitalize the rail relocation fund, or to provide local option transportation taxes.

## **WHAT HAS WORKED – SUCCESSFUL STRATEGIES**

In recent years, the most successful funding strategies pursued by SAMCo and its public sector partners (Alamo RMA, City, County, MPO, VIA and TxDOT-San Antonio District) have centered on leveraging and accelerating projects with local money. The primary examples include:

**I. ATD Leverage** – **Eight highway projects totaling \$300 million have been advanced 4 to 11 years** and let to contract in 2006 and 2007 by leveraging funding from the Advanced Transportation District (ATD) quarter-cent sales tax approved by voters in November 2004. One-fourth of the ATD tax, about \$8.5 million per year, has been committed for the next ten years to pay interest to bond these projects, thus advancing future TxDOT funding that otherwise would only have been available on a “pay as you go” basis. The projects are taking place along portions of I-410, I-35, I-10, Spur 421, Blanco Road, and Culebra Road.

**II. ATD Street and Transit Improvements** – VIA Metropolitan Transit is applying its share of the ATD sales tax (one-half of the quarter-cent) to expand **bus services and facilities**, develop **Bus Rapid Transit (BRT)**, and provide **express bus service** to downtown from various points along Loop 1604. VIA ridership is increasing, up about 15 percent in the past year. The City of San Antonio is applying its share of the ATD sales tax (one quarter of the quarter-cent) to **improve streets and sidewalks** along major corridors, with particular emphasis on improving bus corridors.

**III. Pass Through Financing** – Bexar County is accelerating expansions of Blanco and Culebra Roads using a combination of ATD leverage and pass-through financing, a relatively new financial tool that allows local governments to bond and build projects and be reimbursed for a portion of the construction cost over time by TxDOT. Both projects totaling **\$54 million** are currently under construction. Two additional pass through projects totaling **\$68 million** are envisioned for portions of SH 211 and FM 1957 (Potranco Road) using funding from a proposed Public Improvement District (PID) to finance interest and a portion of the capital cost.

**IV. City Bond Programs** – On May 12, 2007 City of San Antonio residents approved **\$307 million** in street, sidewalk, and bridge projects by a voting percentage of 76 to 24 percent. The new funding will help address part of an estimated \$3 billion in identified street improvement needs. Additionally, City Council authorized a 29 percent increase in the City’s Street Maintenance Budget for FY 2007.

**V. Federal Appropriations** – For FY 2006, SAMCo and its public and private sector partners successfully advocated for **\$30 million** in appropriations earmarks for 8 priority projects in San Antonio and Bexar County as part of the federal highway reauthorization bill (SAFETEA-LU). Another **\$7 million** in earmarks was secured in FY 2008. SAMCo continues to support efforts by the City, County, VIA, Port SA, the Corridor Council, and other local entities to secure federal earmarks, so long as this funding source remains available.

**VI. Bonding Highway Projects** – As outlined in section IV regarding Category 2 funding, the SA/Bexar County region has seen record letting volumes the past four years as a result of various forms of bonding backed by the Texas Mobility Fund, Proposition 14, and the ATD. **While this approach has been very successful, bond capacity limits are being reached.** The greater portion of transportation funding slated for the region in coming years must now be used to pay debt service on the bonds.

**VII. Commission Discretionary (Category 12)** – In 2003, San Antonio received \$30.2 million in Category 12 (discretionary) funding from the Texas Transportation Commission for road improvements in the vicinity of the Toyota Plant. While this was a significant accomplishment for San Antonio, it will be difficult to provide similar resources in support of the next major economic development prospect as TxDOT has since dedicated the greater part of its Category 12 funding to pass through finance projects.

**VIII. District Funding Disparities Addressed** – In 2003, TxDOT corrected long-standing disparities in funding among various urban areas, placing key funding categories on a formula basis emphasizing population and vehicle miles driven. San Antonio, which historically lagged behind the other major urban districts, greatly benefited from this new practice and now receives roughly an 11 percent share of total urban statewide funding. At the time, this was a significant accomplishment by SAMCo and its partner organizations. *San Antonio now receives an equitable slice of the funding pie, albeit a pie that continues to shrink in value.*

## WHAT'S NOT WORKING

**I. Waiting for New Federal Money** – Action on the next six-year federal reauthorization bill is still about two to three years away. Meanwhile, Congressionally-mandated rescissions are likely to continue as federal gas tax receipts fall below the levels authorized in SAFETEA-LU. While various national Commissions are exploring future funding options such as raising or indexing the federal gas tax, it will likely be several years before Congress once again focuses on this issue. Meanwhile, the current Administration is actively encouraging states to do more with their own resources, including expanded use of tolling. Some in Congress favor reducing the federal role to essentially maintaining the current interstate system. In addition, Congress has sharply curtailed transportation earmarks, reducing yet another potential source of revenue.

**II. Waiting for New State Money** – As outlined above, the House defeated an amendment to index the state motor fuels tax by a vote of 122 to 19 on May 8, 2007, ensuring that the tax will again remain frozen at the 1991 level at least until 2009. A sizeable block of rural legislators, anti-tax legislators, and some urban legislators who prefer tolling and other non-tax approaches continue to effectively block any increase or indexing of the gas tax. And with Dallas and Austin embarking on a series of major toll projects, it may be challenging in the near term to obtain support from legislators in those two urban areas.

## STRATEGIES CURRENTLY BEING PURSUED BY SAMCo

We are in a race against time, population growth, congestion, and rising construction costs with little relief in sight from Washington, DC. or Austin. The following is a list strategies that SAMCo and its partner organizations are pursuing to regain momentum in the fight against congestion:

**I. US 281 and Loop 1604 Toll Projects** – SAMCo continues to support decisions by the Alamo RMA and the San Antonio/Bexar County MPO to pursue the US 281 and Loop 1604 projects as traditional public-sector, design-build toll projects. On December 3, 2007 the MPO Policy Board approved financial plans totaling \$1.325 billion for more than 40 miles of new capacity along these two corridors. Assuming that any remaining legal challenges to the Environmental Assessment (EA) for US 281 are quickly resolved and bonding is secured, construction may begin as early as fall 2008. As the recent opening of new toll roads in Austin has led to greater than anticipated toll road usage and increasing levels of public support, it is anticipated that the opening of the first toll road segment in San Antonio may follow a similar pattern.

**II. State Legislative Agenda (2008-2009)** – On April 14, the SAMCo Executive Committee approved a 2008-2009 transportation funding legislative agenda developed and recommended by members of SAMCo's State/Federal working group that will serve as the basis for SAMCo's advocacy efforts before the 2009

legislature. Representatives from the City of San Antonio, Bexar County, VIA, Alamo RMA, MPO, Port SA, and the Austin-SA Rail District participated as members of the working group. Key items include:

- Authorize \$5 billion in Proposition 12 general obligations bonds
- Index the motor fuel tax to the Consumer Price Index (CPI) or construction cost index
- Recapitalize the Texas Mobility Fund
- Eliminate diversions of transportation revenues to non-transportation programs
- Continue to support local control of toll projects
- Capitalize the Texas Rail Relocation Fund authorized by voters in November 2005
- Local option revenue sources (policy under development – see next item)

**III. Local Option Revenues/Fees for Transportation** – One potential additional component of SAMCo’s state legislative program is enabling legislation to establish a “menu” of local option taxes or fees (sales tax, gasoline tax, vehicle registration fees, etc.) to fund transportation improvements. Several proposals are being developed statewide, most notably by officials in the Dallas-Fort Worth region, and perhaps as many as ten new revenue sources are being discussed as part of such a menu. The common denominator of any such plan would be local voter approval. SAMCo has formed a working group under the leadership of Tom Turk (LAN) to further explore the concept and develop a specific proposal for consideration by the SAMCo Board of Directors and Executive Committee.

**IV. Building Urban Coalition Partnerships** – Over the past year, SAMCo has hosted several joint meetings with urban county judges, chamber of commerce executives, mobility coalition executives, and other key leaders from the Austin, Dallas, El Paso, Fort Worth, Houston, and San Antonio regions to discuss development of a common set of legislative strategies for funding transportation projects. In November 2008, the group reached tentative agreement on six potential policy goals – 1) cap/reduce diversions; 2) index the gas tax; 3) recapitalize the Texas Mobility Fund; 4) local control of toll projects; 5) local option tax; and 6) capitalize the Texas Rail Relocation Fund. During the remainder of 2008 and beyond, SAMCo will continue to work in partnership with these and other transportation advocacy organizations in the state to establish coordinated legislative strategies on these issues of common interest.

**V. Meetings with Bexar County Legislators** - Last fall, a working group of SAMCo, Greater Chamber, and North Chamber representatives met with selected members of the Bexar County legislative delegation to discuss transportation funding policy options that may be pursued during the 2009 legislative session. Upon approval of the new SAMCo legislative agenda (April 14, 2008), these meeting will continue. One option currently being discussed is to organize a two-hour briefing prior to the legislative session for local legislators and key staff members. This would provide an opportunity to discuss priority projects, projected funding gaps, and potential policy options well before the start of the legislative session.

**VI. SAMCo Federal Issues Agenda** – In preparation for the 2008 SA-DC trip (June 22-25) and future SAMCo Washington DC delegations, the SAMCo Executive Committee has approved an updated federal issues agenda that outlines specific policy recommendations for the next transportation reauthorization bill (2010-2015) as well as specific appropriations earmarks of importance to the City, County, VIA, Port San Antonio, and Rail District. Specific items include:

- Eliminate shortfalls in the Federal Highway Trust Fund
- Increase investment in highways, freight rail, passenger rail (inner-city and local), and mass transit
- Provide additional funding to reconstruct and upgrade aging infrastructure
- Continue to reduce disparities between donor and non-donor states
- Fort Sam Access: Rittiman Road/Harry Wurzbach Corridor (\$3.08 million)
- Fort Sam Access: IH 35/George Beach Avenue Improvements (\$1.191 million)
- 36<sup>th</sup> Street Extension/Port San Antonio – Phase IIIA (\$4.1 million)
- Bus Rapid Transit (BRT) Construction and Development (\$7 million)
- Modernization of VIA’s Bus Fleet and Bus Facility (\$8.9 million)

- Austin-San Antonio Regional Inner-City Passenger Rail Project (several specifics)

**VII. Expanded Use of Pass Through Financing** – Four projects in our region are moving forward as pass-through projects, with Bexar County as sponsor and with the backing of ATD revenue (Blanco Road and Culebra Road) and proposed Public Improvement District revenue (SH 211 and FM 1957). If additional sources of local matching money can be identified, an opportunity exists to capture more Category 12 funding for the San Antonio region. Currently, however, TxDOT is not accepting applications for additional pass through projects because available funds have been exhausted. A potential solution would be to allocate a portion of any new bond proceeds (Proposition 12 or 14) to the pass through program so that these bond funds would be further leveraged.

**VIII. Expedite Bus Rapid Transit (BRT), Commuter Rail, and Express Bus Service** - With support building among local elected officials to encourage development of additional mass transit options, SAMCo should encourage and offer support to VIA and Austin-San Antonio Commuter Rail District to set an aggressive and expedited timeline for both BRT and commuter rail service. The recent allocation of MPO dollars to both projects is a positive step in the right direction. SAMCo should partner with VIA and the Rail District to help secure additional funding and identify creative ways to expedite project delivery, and work to include future BRT routes in City and regional thoroughfare plans.

**IX. Support Continued City Street Investments** - During the past year City officials have brought forward both a successful bond program (\$307 million for street and sidewalk improvements) and a 29 percent increase in the street maintenance budget. With a needs list still in the vicinity of \$3 billion, SAMCo will continue to provide positive encouragement and support for City officials as they build upon last year's increase in street maintenance funding and work toward another bond issue in future years.