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Transportation

Falling oil prices could deepen Texas' road funding woes

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Drivers cheer falling gas prices, but the plummeting value of oil could undermine voters' attempts to pay for more road construction and maintenance.

Texans overwhelmingly agreed in November to partially fill the state transportation agency's \$5 billion annual shortfall with excess oil and gas production taxes. The approval of Proposition 1 was expected to give the Texas Department of Transportation about \$1.7 billion a year.

Yet just as voters were about to head to the polls, the value of oil began a dramatic descent. Because production taxes are based on the cost of oil, falling values lead to falling tax revenues. That means the long-term transportation funding gap lawmakers were already facing in the 2015 legislative session could be bigger than previously thought.

“That’s a challenge that not only we face, but also the Legislature, in finding more steady streams of revenue,” said Veronica Beyer, a TxDOT spokeswoman.

Officials don't know yet how falling prices will affect the agency's bottom line. The impact isn't expected to be immediate. The voter-approved infusion of cash will be made toward the end of each year, so TxDOT won't know for several months how much it will get from oil and gas production taxes in 2015. The landslide passage of the proposition in November garnered the agency an almost-immediate \$1.6 billion deposit in 2014.

"It's too early to make a forecast for what's the next deposit," said James Bass, TxDOT's chief financial officer.

The first glimpse will come in January when the comptroller releases statewide revenue estimates for the next two years. That report will include expected energy production tax proceeds and will give lawmakers an idea of how much of a shortfall they need to fill.

State Rep. Joe Pickett, D-El Paso, sits on the Texas House transportation committee. He said lawmakers see the proposition's 4-to-1 margin of victory as a mandate from voters to keep looking for ways to shore up transportation shortfalls.

"It gives us the momentum," he said.

Pickett said top state officials, like Gov.-elect Greg Abbott, have mentioned making transportation funding a priority more often since Proposition 1's passage than they did before the election. But Pickett also says that shoring up transportation funding — without raising taxes or creating budget holes elsewhere — will be a challenge.

"The next step is not going to be easy," he said.

Weighing options

More than a dozen lawmakers have already filed bills that take aim at TxDOT's shortfall during the legislative session that begins Jan. 13. A bill from Rep. Ruth Jones McClendon, D-San Antonio, calls for an increase in the state tax on gas consumption. That tax, which is passed on to drivers at the pump, has remained at 20 cents per gallon since 1991.

Inflation, rising construction costs and increasingly more fuel-efficient vehicles have dramatically reduced TxDOT's spending power since that tax was last raised. Many say that untouched rate is a primary driving force behind TxDOT's continued

financial woes. The bill from McClendon would raise the rate to 30 cents per gallon. But Pickett said it won't gain much traction in a legislature that fears voter backlash if any taxes or fees are increased.

"It's almost going to be a nonstarter," he said. "It's going to be difficult to get the Legislature to look at it."

Pickett's bills include one that seeks to end the practice of "diversions." That's the term used for money taken from the state highway fund to cover operating expenses for agencies like the Department of Public Safety and the Department of Motor Vehicles. Officials estimate that more than \$618 million that could go to TxDOT instead goes to other agencies each year. He also wants TxDOT to pay down its debt decades faster than is required, to save on interest payments over time.

Rep. Jeff Leach, R-Plano, is one of a handful of lawmakers who have filed bills that would send some or all of the sales taxes on car purchases, vehicle rentals, automobile parts and tires straight to the highway fund.

"All options are on the table, aside from raising taxes or fees," Leach said.

Rebound expected

As legislators lay those options on the table, energy experts expect the price of oil to go back up. Bruce Bullock, director of Southern Methodist University's Maguire Energy Institute, said prices will likely bottom out in early 2015.

"It should begin to recover from there," he said.

Bullock said the value of a barrel should then rise to around \$75. Whether that proves out and how high prices go depend on a lot of factors.

"I would say the big question mark out there right now is global demand," Bullock said.

Another uncertainty is how much lawmakers think they need in a state savings account before sending money TxDOT's way. Proposition 1 only sends production taxes to the transportation agency if the state's "rainy day" fund is at or above a certain level.

Lawmakers in December said the acceptable balance is \$7 billion. But Pickett said that amount is likely to become the source of contention in 2015.

“A lot of us don’t believe you need to have that much there,” he said.

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