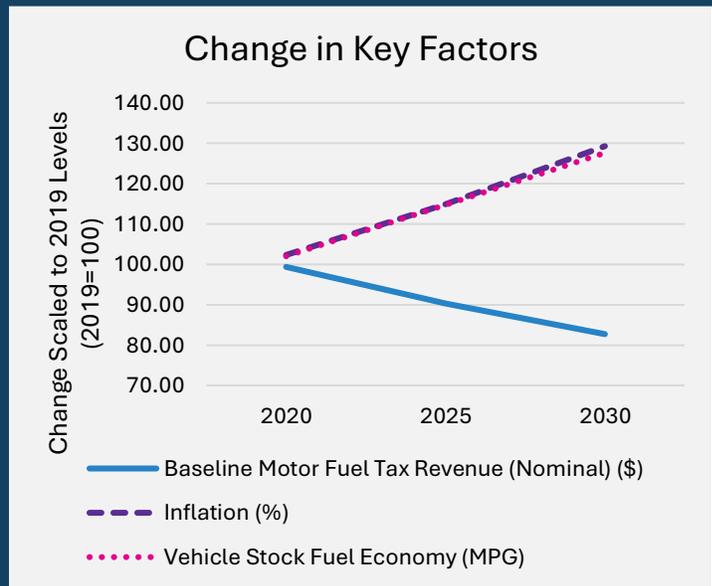


# Texas' Highway Funding Gap: Losses in Motor Fuel Taxes Surpass \$21M Annually

## *Texas Should Consider New Approaches to the Way it Funds Roads to Avoid Further Deterioration of Aging Transportation Infrastructure*

Increasingly, Texas' system for utilizing motor fuels excise taxes to build and maintain state highways, roads, and bridges is inadequate to maintain the quality of its roadway system. One significant issue is inflation: losses to inflation continue to decrease the amount of revenue available for transportation funding—eclipsing \$413 million in general revenue losses for the state by 2030.

Beyond inflation, diminishing revenue availability hampers Texas' transportation, driven both by a gas tax rate that has remained constant at \$0.20 per gallon since 1991 and by significant improvements in vehicle fuel economy. Inflation, a stagnant gas tax, and improvements to fuel economy are the major sources driving down the revenue available to fund Texas' road, all of which predate EV growth in the state.



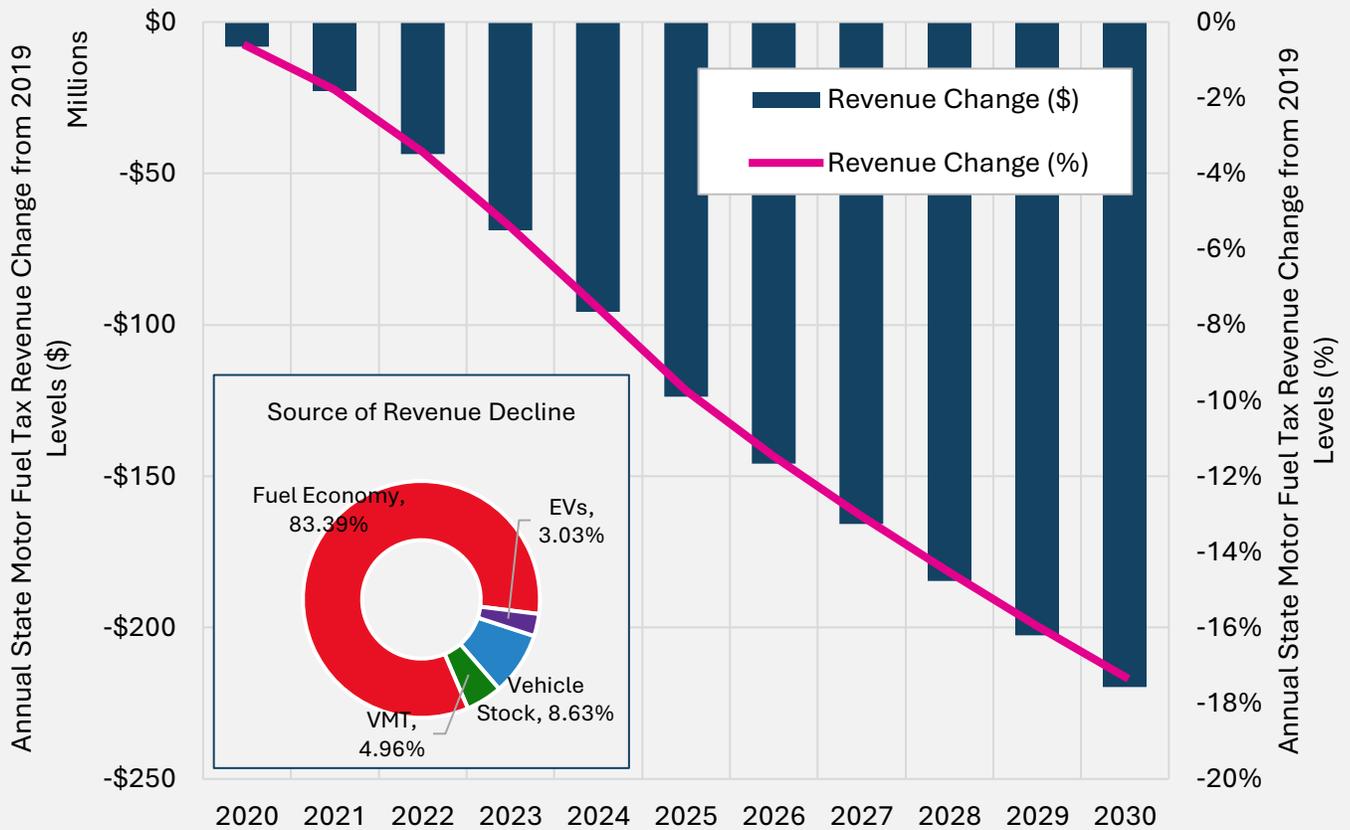
## Texas' Road Funding Faces \$33M Revenue Decline from 2020–22

Texas' revenues could decline by over \$33 million from 2020 to 2022, attributed to waning motor fuel tax revenues alone. Even not considering inflation, these losses are spurred most acutely by significant increases in vehicle efficiency that are not offset by modest increases in vehicle travel. Moreover, while EV registrations in Texas will grow 56 percent in this period, the motor fuel tax revenue decline in Texas by three percent, suggesting EVs are a very small part of the nominal revenue problem.

## Gasoline Tax Revenue Loss = 17 percent Over the Next 10 Years

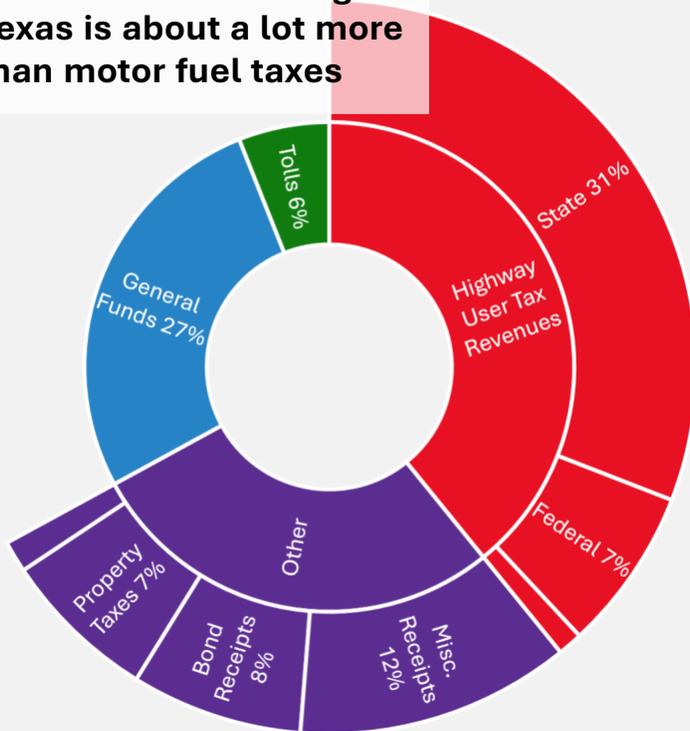
These same trends impacting the state's near-term revenue availability persist through 2030, with changes to vehicle fleet characteristics continuing to profoundly impact road funding. Absent change, Texas could experience an absolute decline of 17 percent in state motor fuel tax revenue (and gasoline consumption) on a nominal basis totaling \$211 million in losses annually by 2030, assuming EIA's Annual Energy Outlook assumptions hold for on-road fuel economy of all vehicles, vehicle travel, vehicle stock, and the number of electric and hybrid vehicles on the road. The chart below illustrates the magnitude of the problem and the major sources driving the revenue decline.

## The Perilous Future for State Motor Fuel Tax Revenue in Texas



The primary source of the loss of revenue is a 25 percent rise in the overall vehicle fleet fuel economy, accounting for nearly \$211 million in revenue losses in 2030 as the state also grapples with aging infrastructure and a rising population. These losses are counteracted to some extent by an increase in overall miles traveled and an increase in the number of vehicles on Texas’ roads. Nevertheless, the losses to road funding could be considerable without change. Other sources not considered in the \$211 million in annual losses in 2030 include declines in Proposition 1 funds, which direct a portion of the state’s oil and gas production tax revenue to fund non-tolled highway maintenance and upkeep. Proposition 1 contributions declined in 2020 due to historically low natural gas and oil prices in 2020 and natural gas refund payments.

Infrastructure funding in Texas is about a lot more than motor fuel taxes



## State Options for Closing the Gap—Difficult Choices

States have long recognized that motor fuel taxes cannot fully support the needs and costs of maintaining a robust road network. The chart to the left displays the other sources of funding the state relies on to fund its infrastructure beyond just motor fuel revenues. To address the gap, the state can consider several options, including shifting taxes collected from other funds such as sales taxes to highway budgets; revenue bonds; public-private partnerships; using property tax growth from geographic zones to pay for improvements in those zones; raising the motor fuel tax; implementing variable rate fuel taxes (e.g., indexing fuels taxes to inflation or overall fuel use); hiking rental taxes; annual vehicle fees; and increasing portions of existing oil and natural gas production taxes. Other states are considering tying funding to actual road use, such as greater use of toll lanes or mileage-

based user fees as recommended by the National Surface Transportation Infrastructure Financing Commission.

## Texas Needs Alternatives Ways to Fund Transportation Infrastructure

As Texas' population and traffic congestion continue to grow and before the gap in road funding becomes a crisis, Texas should consider alternatives to the current ways it funds transportation infrastructure or residents will suffer from increased congestion and reduced quality of life. The state's proposed \$100 annual vehicle registration fee would only make up five percent of \$211 million in annual losses the State faces from fuel tax declines by 2030. The potential revenue generated from an EV registration fee does little to offset larger revenue losses due primarily to inflation and increased fuel efficiency, does not address the more significant road funding pitfalls. More broadly, Texas' burgeoning population and the necessary infrastructure improvements the state needs provide an opportunity for the state to consider funding measures that can support a dynamic, robust transportation infrastructure.