

**JOHN OTTO**  
CHAIRMAN



**SYLVESTER TURNER**  
VICE-CHAIRMAN

**TEXAS HOUSE OF REPRESENTATIVES  
COMMITTEE ON APPROPRIATIONS**

**AGENDA**

**SUBCOMMITTEE ON ARTICLES VI, VII, & VIII**

**LARRY GONZALES, CHAIR**  
WEDNESDAY, FEBRUARY 18, 2015  
07:30 A.M. E1.026

**I. CALL TO ORDER**

**II. CHAIR'S OPENING REMARKS**

**III. BOARD OF DENTAL EXAMINERS**

- Trevor Whitney, Budget Analyst, Legislative Budget Board
- Julie Hildebrand, Executive Director
- Irma Rodriguez, Director of Finance and Administration

**IV. DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS**

- Jordan Smith, Budget Analyst, Legislative Budget Board
- Timothy K. Irvine, Executive Director
- Joe Garcia, Executive Director, TDHCA Manufactured Housing Division

**V. TEXAS LOTTERY COMMISSION**

- Eduardo Rodriguez, Budget Analyst, Legislative Budget Board
- Lisa Collier, First Assistant State Auditor, & Kelley Ngaide, Project Manager, State Auditor's Office, *An Audit Report on the LatinWorks Marketing Contract at the Texas Lottery Commission*
- Gary Grief, Executive Director
- Alfonso Royal III, Director, Charitable Bingo Operations Division

**VI. DEPARTMENT OF TRANSPORTATION**

- Thomas Galvan, Budget Analyst, Legislative Budget Board
- Meredith Melecki, Supervisor, and Joseph Halbert, Analyst, Legislative Budget Board, *Transportation Funding Options*
- Jennifer Fox, Analyst, Legislative Budget Board, *Enhance the Process Used to Remove Nonintegral Roads from the State Highway System*
- Lisa Collier, First Assistant State Auditor, and Cesar Saldivar, Audit Manager, State Auditor's Office, *An Audit Report on Selected Contracts at the Department of Transportation*
- LtGen J.F. Weber, USMC (Ret), Executive Director
- John A. Barton, P.E., Deputy Executive Director
- James Bass, Chief Financial Officer

**VII. DEPARTMENT OF MOTOR VEHICLES**

- Thomas Galvan, Budget Analyst, Legislative Budget Board
- Tedd Holladay, Analyst, Legislative Budget Board, *Increase the Fee for a Duplicate Motor Vehicle Title to Recover State Costs*
- John Walker III, Board Chairman
- Whitney Brewster, Executive Director
- Linda Flores, Chief Financial Officer

**VIII. SPECIAL PROVISIONS RELATING TO ALL BUSINESS AND ECONOMIC DEVELOPMENT AGENCIES**

- Eduardo Rodriguez, Budget Analyst, Legislative Budget Board

**IX. PUBLIC TESTIMONY**

**X. ADJOURNMENT**

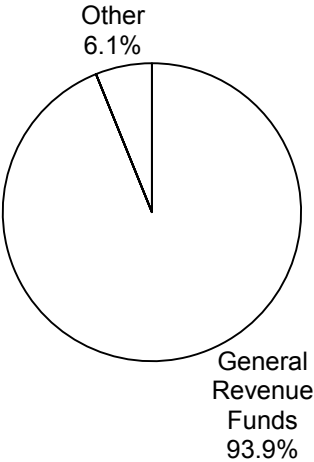
Section 1

Method of Financing	2014-15 Base	2016-17 Recommended	Biennial Change	% Change
General Revenue Funds	\$7,858,367	\$7,924,613	\$66,246	0.8%
GR Dedicated Funds	\$0	\$0	\$0	0.0%
Total GR-Related Funds	\$7,858,367	\$7,924,613	\$66,246	0.8%
Federal Funds	\$0	\$0	\$0	0.0%
Other	\$554,300	\$517,000	(\$37,300)	(6.7%)
All Funds	\$8,412,667	\$8,441,613	\$28,946	0.3%

	FY 2015 Budgeted	FY 2017 Recommended	Biennial Change	% Change
FTEs	55.0	58.0	3.0	5.5%

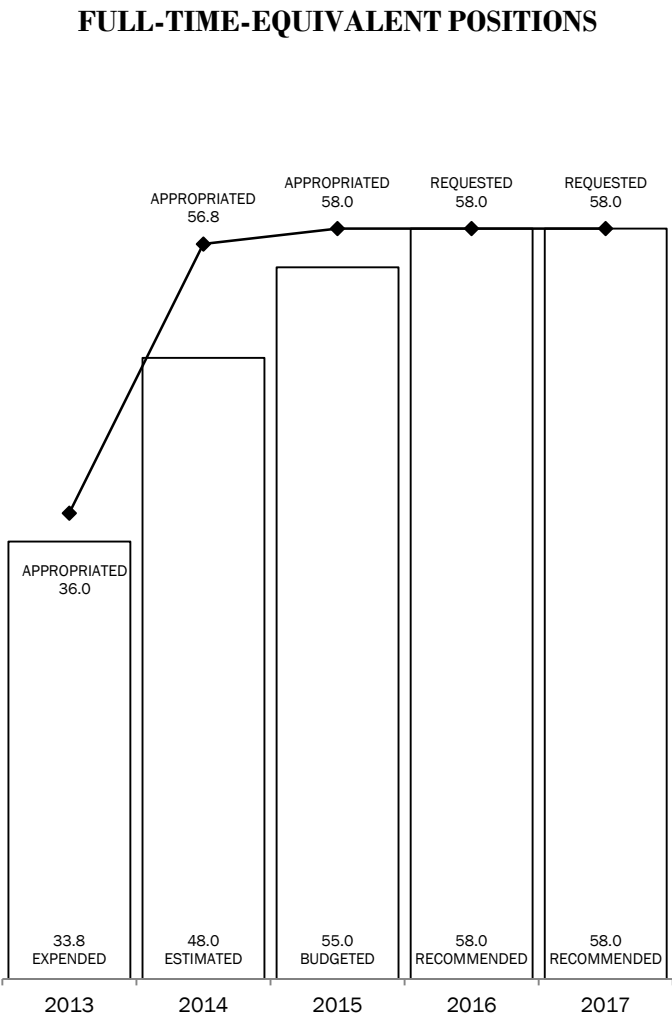
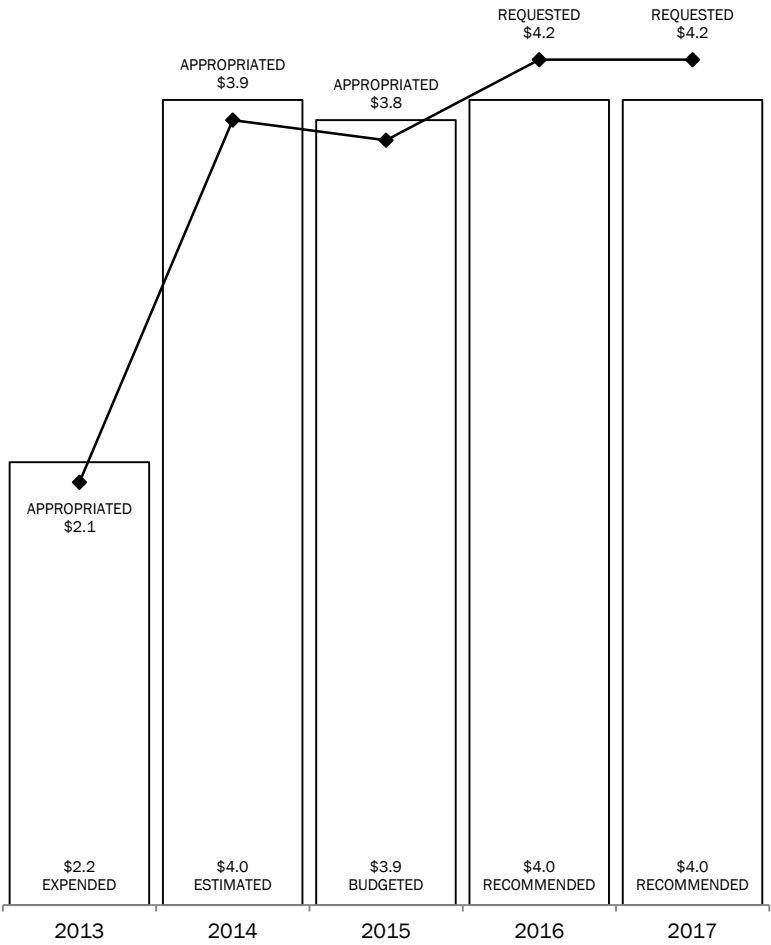
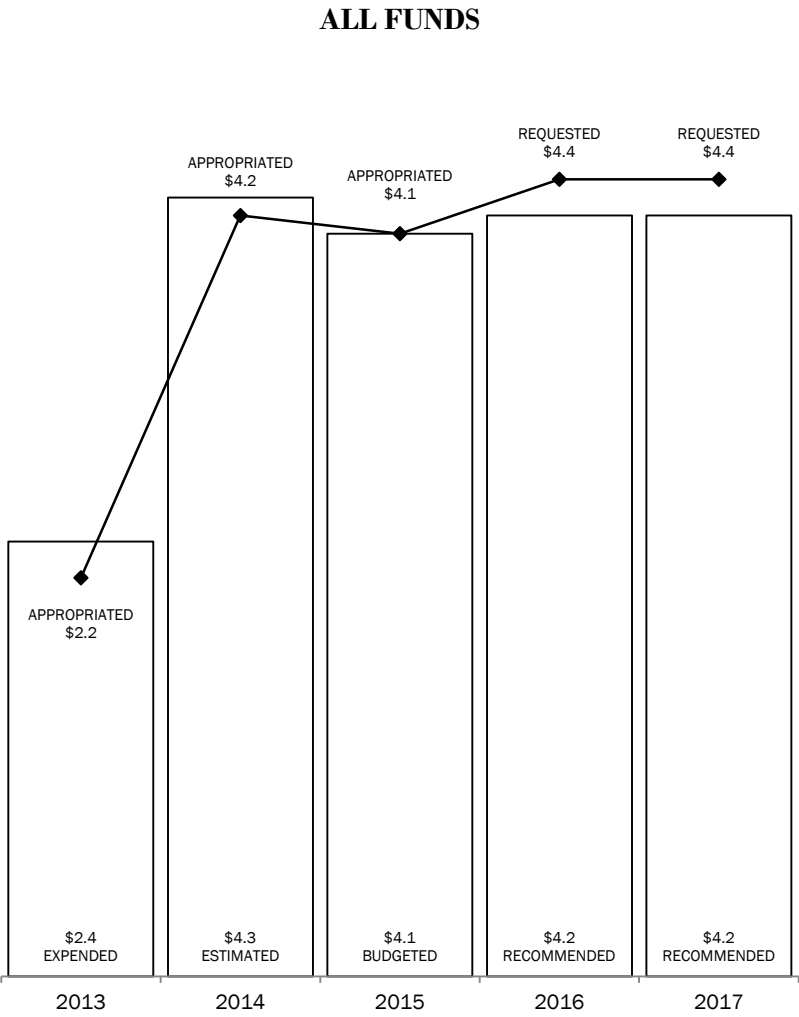
The bill pattern for this agency (2016-17 Recommended) represents an estimated 100% of the agency's estimated total available funds for the 2016-17 biennium.

RECOMMENDED FUNDING  
BY METHOD OF FINANCING



Section 1  
Texas State Board of Dental Examiners  
2016-2017 BIENNIUM  
IN MILLIONS

TOTAL= \$8.4 MILLION





Section 2

Texas State Board of Dental Examiners  
Summary of Recommendations - House, By Method of Finance -- ALL FUNDS

Strategy/Goal	2014-15 Base	2016-17 Recommended	Biennial Change	% Change	Comments
COMPLAINT RESOLUTION A.1.1	\$5,606,219	\$5,641,773	\$35,554	0.6%	
PEER ASSISTANCE PROGRAM A.1.2	\$248,500	\$248,500	\$0	0.0%	
LICENSURE/REGISTRATION/CERT A.2.1	\$1,693,340	\$1,736,140	\$42,800	2.5%	
TEXAS.GOV A.2.2	\$535,000	\$500,000	(\$35,000)	(6.5%)	
<b>Total, Goal A, QUALITY DENTAL CARE</b>	<b>\$8,083,059</b>	<b>\$8,126,413</b>	<b>\$43,354</b>	<b>0.5%</b>	
INDIRECT ADMIN - LICENSURE B.1.1	\$164,862	\$157,600	(\$7,262)	(4.4%)	
IND ADMIN - COMPLAINT RESOLUTION B.1.2	\$164,746	\$157,600	(\$7,146)	(4.3%)	
<b>Total, Goal B, INDIRECT ADMINISTRATION</b>	<b>\$329,608</b>	<b>\$315,200</b>	<b>(\$14,408)</b>	<b>(4.4%)</b>	
<b>Grand Total, All Strategies</b>	<b>\$8,412,667</b>	<b>\$8,441,613</b>	<b>\$28,946</b>	<b>0.3%</b>	Recommendations include a net increase of \$28,946 in General Revenue for the following: an increase of \$46,657 to biennialize salaries at the 2015 level, an increase of \$19,589 for increased Data Center Consolidation maintenance costs, and a decrease of \$37,300 in Appropriated Receipts in alignment with the agency's revenue projection.

**Section 3**

**Board of Dental Examiners  
Selected Fiscal and Policy Issues - House**

1. **Transfers.** The agency’s funding for the Data Center Consolidation for the Shared Regulation Database is set in Section 3(b) of the Special Provisions to All Regulatory Agencies at the end of Article VIII. Section (b) states that agencies participating in the Health Professions Council (HPC) Shared Regulatory Database shall transfer funds through interagency contract to the council. Recommendations provide an increase of \$10,099 in fiscal year 2016 and \$9,490 in fiscal year 2017 in General Revenue funding to fund the HPC’s projected increase in maintenance costs for the Data Center Consolidation for the Shared Regulatory Database.

Section 3

Board of Dental Examiners  
FTE Highlights - House

Full-Time-Equivalent Positions	Expended 2013	Estimated 2014	Budgeted 2015	Recommended 2016	Recommended 2017
Cap	35.0	56.8	58.0	58.0	58.0
Actual/Budgeted	33.8	48.0	55.0	NA	NA
Schedule of Exempt Positions (Cap)					
Executive Director, Group 2*	\$75,000	\$85,161	\$85,161	\$85,161	\$85,161

\* The agency is requesting an increase in authority and funding for the Executive Director Exempt Position from \$85,161 to \$103,555 per fiscal year. The State Auditor's Office Report, Executive Compensation at State Agencies (Report No. 14-705, August 2014), indicates a market average salary of \$121,066 for the Executive Director position at the agency and recommends changing the Group 2 classification to Group 3.

Section 3

Board of Dental Examiners  
Performance Measure Highlights - House

	Expended 2013	Estimated 2014	Budgeted 2015	Recommended 2016	Recommended 2017
<ul style="list-style-type: none"><li>Percent of Jurisdictional and Filed Complaints, Which Were Resolved During the Reporting Period, that Resulted in Remedial Action</li></ul> <p>Measure Explanation: During the Strategic Planning process, this new measure was added for the 2016-2017 biennium to align with the provisions in HB3201, 83rd Legislature, Regular Session which related to the practice of dentistry that imposes surcharges and fees. Provisions of the bill added "remedial action" option for first-time violations.</p>	NA	NA	NA	7%	8%
<ul style="list-style-type: none"><li>Percent of Complaints Resulting in Disciplinary Action</li></ul>	18%	15%	14%	13%	12%
<p>Measure Explanation: According to the agency, this measure is decreasing from 2014-2015 to 2016-2017 due to the addition of a "remedial action" option for first-time violations as implemented through HB3201, 83rd Legislature, Regular Session. The agency anticipates that as more complaints result in remedial action, fewer result in disciplinary action.</p>					

Section 4

Board of Dental Examiners  
Performance Review and Policy Report Highlights - House

Reports & Recommendations	Savings/ (Cost)	Gain/ (Loss)	Fund Type	Included in Introduced Bill	Action Required During Session
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NO RELATED RECOMMENDATIONS

**Section 5**

**Board of Dental Examiners  
Rider Highlights - House**

- 2. **Capital Budget (New).** Recommendations include a new capital budget rider to identify base level funding included in fiscal years 2016-2017 for personal computers. The rider includes \$23,000 in fiscal year 2016 and \$23,000 in fiscal year 2017 for desktop and laptop computer replacement.
- 2. **Contingent Revenue (former).** Recommendations delete this rider. Additional revenues were generated and appropriations were increased during the 2014-2015 biennium for the purpose of this rider. These amounts were included into the 2014-2015 base.
- 3. **Transfer of Unexpended Balances Between Fiscal Years Within the Same Biennium.** Recommendations do not include the agency's request to add this rider to their bill pattern. Article IX, §14.05, Unexpended Balance Authority Between Fiscal Years within the Same Biennium, allows the agency to carry forward balances between fiscal years with Legislative Budget Board approval.

Section 6

Texas State Board of Dental Examiners  
Items not Included in Recommendations - House

	2016-17 Biennial Total	
	GR & GR-Dedicated	All Funds
<b>Agency Exceptional Items - In Agency Priority Order</b>		
1. General Revenue funding for internal audit services as required by Chapter 12, Government Code for agencies who receive and process more than \$10 million in revenue per fiscal year.	\$ 70,000	\$ 70,000
2. General Revenue funding to develop a career ladder program to reclassify positions and increase salaries for staff.	\$ 190,000	\$ 190,000
3. General Revenue funding for computer upgrades and purchases. Additional funding would replace desktop/laptop computer older than 4 years old, expand a document management system to all agency employees and add software for mass electronic communication.	\$ 110,000	\$ 110,000
4. The agency requests the authority and funding to increase the Executive Director Exempt Position from \$85,161 to \$103,555 per fiscal year. The State Auditor's Office Report, Executive Compensation at State Agencies (Report No. 14-705, August 2014), indicates a market average salary of \$121,066 for the Executive Director position at the Dental Board.	\$ 36,788	\$ 36,788
<b>Total, Items Not Included in the Recommendations</b>	<b>\$ 406,788</b>	<b>\$ 406,788</b>

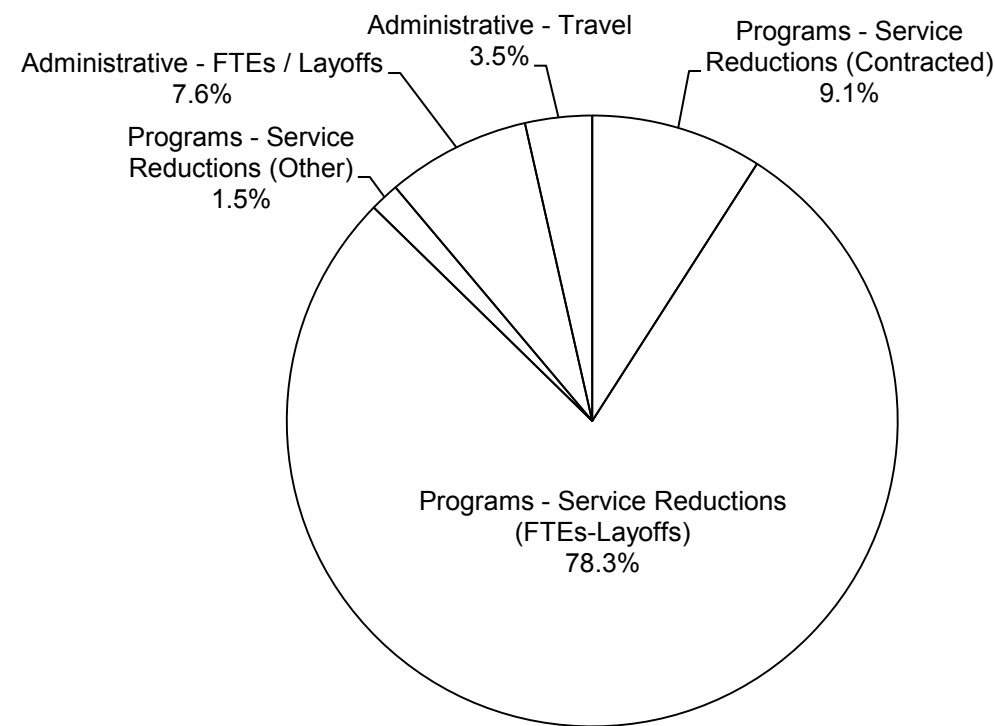
Section 7

Texas State Board of Dental Examiners  
Summary of 10 Percent Biennial Base Reduction Options - House

Biennial Reduction Amounts								
Priority	Item	Description/Impact	GR and GR-Dedicated	All Funds	FTEs	Potential Revenue Loss	Reduction as % of Program GR/GR-D Total	Included in Intro Bill?
1	Enforcement - Reduce Expert Reviewer Contracts	Reductions would require the agency to reduce funding for dental expert reviews of standard of care cases.	\$70,500	\$70,500		\$0	1.2%	N
2	Enforcement - Reduce Travel	Reductions would require a reduction of travel across the agency.	\$27,509	\$27,509		\$0	0.4%	N
3	Licensing - Reduce Postage	Reductions would require the agency to reduce postage costs and convert to electronic correspondance only.	\$12,000	\$12,000		\$0	0.6%	N
4	Indirect Administration (Licensing) - FTE Reduction	Reductions would require the agency to eliminate 0.5 FTE position in Administration.	\$29,532	\$29,532	0.5	\$0	1.5%	N
	Indirect Administration (Enforcement) - FTE Reduction	Reductions would require the agency to eliminate 0.5 FTE position in Administration.	\$29,532	\$29,532	0.5	\$0	0.5%	N
5	Licensing - FTE Reduction	Reductions would require the agency to eliminate 2.0 FTE positions in Licensing.	\$135,544	\$135,544	2.0	\$0	7.2%	N
	Enforcement - FTE Reduction	Reductions would require the agency to eliminate 5.5 FTE positions in Enforcement.	\$472,468	\$472,468	5.5	\$0	8.1%	N
TOTAL, 10% Reduction Options			\$777,085	\$777,085	8.5	\$0		



Texas State Board of Dental Examiners  
Summary of 10 Percent Biennial Base Reduction Options - House  
Agency 10% Reduction Options by Category of Reduction



# The Texas State Board of Dental Examiners



## Mission and Philosophy

The Mission of the Texas State Board of Dental Examiners is to protect the public health and safety and promote high quality and safe dental care by providing enforcement, licensing, peer assistance, and related information services to licensees and their patients.

In carrying out our Mission, the Texas State Board of Dental Examiners will act with the highest standard of ethics, accountability, efficiency, transparency and responsiveness. We will preserve the public trust by regulating the practice of dentistry with a sense of purpose and responsibility and in a fair and impartial manner. We will commit to excellence and professionalism in responding to the needs of the public and the regulated profession that we serve.

## Agency Scope and Organization

The main functions of the Board are:

- License/register qualified dentists, dental hygienists, dental assistants, dental laboratories, and mobile/portable dental units; and
- Investigate all complaints received and prosecute complaints through informal or formal disciplinary means as provided by applicable statutes.

The Board consists of fifteen members appointed by the Governor to serve staggered six-year terms, with eight dentists, two dental hygienists, and five public members. The Board meets on a quarterly basis.

Board staff operates with an annual budget of approximately \$4.2M. Board staff accomplishes the Board's mission through six program divisions: Executive; Finance and Administration; Licensing; Dental Practice; Investigations; and Legal.

In FYs 14 and 15, Board staff increased from 34 FTEs to 55 currently employed FTEs. In order to accomplish such an increase in employees, substantial time has been spent hiring and training new employees and substantial financial resources have been spent in restructuring the Board's physical location and infrastructure. It is expected that in the future, at least two additional FTEs will be added to the current staff.

## Fiscal Years 14 and 15 Activities

House Bill 3201 was passed during the 83<sup>rd</sup> Legislative Session and substantially reformed several Board procedures and increased both funding and FTEs. Additionally, the General Appropriations Act further increased funding and FTEs. The Board has accomplished each milestone listed below.

- **Collecting Dental Service Organization Information.** The Board has collected information described in Section 254.019 of the Dental Practice Act (i.e., relating to ownership of dental practices and agreements with dental service organizations) from dentists and provided a report to the legislature on November 1, 2014. The information will be collected on an on-going basis and will be reported to the legislature on a bi-annual basis.
- **Preliminary Inquiry Process.** The Board has instituted processes to conduct a preliminary inquiry on a complaint received to determine whether to open an investigation. The preliminary review of standard of care cases is conducted by the Board's Director of Dental Practice and non-standard of care cases are reviewed by an attorney. This process has enabled us to quickly dismiss cases where appropriate without a full investigation.
- **Dental Review Panel.** The Board has appointed and begun to use a Dental Review Panel to assist with the review of complaints related to professional competency. The use of the Dental Review Panel has greatly improved the quality of expert reviews of standard of care cases and has significantly decreased the number of days to conduct such a review, further accelerating the case resolution process. The following demonstrates the impact of the preliminary inquiry process and the Dental Review Panel:
  - Of the 550 standard of care cases that were received between January 1, 2013 and December 31, 2013, 66 cases were approved for closure within that period, with a 226 average days to resolution.
  - Of the 592 standard of care cases received between January 1, 2014 and December 31, 2014, 122 cases were approved for closure during that period, with a 192 average days to resolution. This is an 84.85% increase in cases closed and a 15% decrease in average days to resolution.
- **Remedial Plans.** The Board has instituted processes to issue Remedial Plans to resolve complaints with non-disciplinary action when appropriate. This new tool will allow the Board to improve the practice and compliance of licensees in an efficient manner rather than taking the time required to institute disciplinary action against minor, correctable violations.

All of these new processes and the increase in both funding and FTEs have significantly improved the quality and efficiency of the services provided by the Board to the people of Texas. For example:

- To date in FYs 14 and 15, the Board has decreased its caseload by 11% from 1,370 cases on October 1, 2013 to 1,217 cases on December 23, 2014.
- Additionally, the Board has decreased the average age of an open case by 59 days from 366 days on January 1, 2014 to 305 days on December 23, 2014. It is expected that improvements in case resolution will continue throughout FY15.

## Licensing Statistics

The Board currently regulates 16,468 dentists, 12,935 dental hygienists, and 40,380 dental assistants, 893 dental labs and 53 mobile dental facilities. The annual licensing fee for dentists is \$425, dental hygienists is \$109, and dental assistants is \$32.

	FY12	FY13	FY14	FY15 Q1
New Dentists Licensed	956	1,091	965	164
Dentists Renewed	15,133	15,551	16,018	4,464
New Dental Hygienists Licensed	666	726	776	125
Dental Hygienists Renewed	11,801	11,885	12,326	3,583
New Dental Assistants Registered	7,022	5,807	9,622	2,146
Dental Assistants Renewed	32,299	31,199	33,950	9,393
Percent New Licenses Issued w/in 10 days	*	*	52%	56%
Percent Licenses Renewed w/in 7 days	*	*	94%	99%

## Enforcement Statistics

The Board receives approximately 1,000 complaints per year on the licensees it regulates, and approximately 40% of these pertain to standard of care issues.

	FY12	FY13	FY14	FY15 Q1
Complaints Received	976	975	1,039	276
Complaints Resolved	887	861	1,157	235
Average Days for Complaint Resolution	425	510	485	443
Reviews by the Dental Review Panel	†	†	529	264
Complaints Filed at SOAH	64	29	36	16
Disciplinary Action Taken	191	137	111	50
Remedial Plans Offered	†	†	0	6
Caseload	*	1,306	1,210	1,229
Average Age of Open Cases	*	341	302	305
Cases Over Two Years Old	*	118	81	89

\* The Board did not collect this information during the time period specified.

† The Board was not authorized to implement the process during the time period specified.

## **TSBDE Directors and Contact Information**

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# The Texas State Board of Dental Examiners Legislative Appropriations Request



## Baseline Funding

	<u>FY2016</u>	<u>FY2017</u>
General Revenue	\$3,962,611	\$3,962,002
Appropriated Receipts	<u>\$258,500</u>	<u>\$258,500</u>
Total	\$4,221,111	\$4,220,502
FTEs	58.0	58.0

## Exceptional Items

The Board's Legislative Appropriations Request asks for baseline funding and approval of four exceptional items that are needed for the agency to continue to make improvements to the quality and efficiency of its licensing and enforcement responsibilities. Because the Board received increased funding in the 83<sup>rd</sup> Legislative Session, this session's exceptional item requests are modest and reasonably based on reaching the Legislature's goal from last session of improving the Board's ability to regulate the practice of dentistry and ensure public safety. The total funding for all four items is \$203,394 per fiscal year for a total of \$406,788 in the biennium, which is less than 5% of the baseline funding. In priority order, the exceptional items are:

**Internal audit services.** The Board is requesting \$35,000 per fiscal year for this item. Under Chapter 2102, Government Code, the Board is required to conduct a program of internal auditing if it receives and processes more than \$10 million in revenue. An internal audit program will allow the Board to comply with the auditing requirement and will promote quality and efficiency, in that it will minimize the adverse impact of agency risks.

**Career ladder program.** The Board has requested \$95,000 per fiscal year to implement a career ladder program. The Dental Practice Act requires the executive director to develop a career ladder program, but the Board does not currently have the funding to develop such a program.

For example, the Board's licensing division has a director and eleven entry level positions, most at the same classification, regardless of longevity, performance, or the complexity or difficulty of the job duties. With funding for the implementation of a career ladder program, each division could encourage employees to develop their level of skill, responsibility, and authority, resulting in improved employee retention and increased job specialization, efficiency, and performance.

Specifically, the funding would reclassify the job descriptions of approximately fifteen employees, resulting in an average of an eighteen percent increase in salaries, which is a one-step differential in job classification levels.

**Information technology.** Because the Board has grown significantly in the last several years, it has increased business, data storage, and security needs. The agency is requesting \$55,000 per fiscal year for this item. Funding for this item will ensure that the Board's information technology infrastructure is sufficient to meet the Legislature and the Board's goals. Specifically, this item will allow the Board to better serve its customers via telephone and electronic interactions and to collect increasing required data from its licensees for ultimate use by the Board and other agencies in making business and practice decisions.

Staff has identified the following specific items that funding for this item would support:

- Replacement of information technology hardware and software per a four year replacement cycle, as recommended by the Department of Information Resources.
- Expansion of the electronic document management system to the Licensing and Finance and Administration Divisions, which will result in increased efficiencies in the processing of license applications and renewals and agency administrative processes; improved document retrieval, indexing, and distribution; reduced hard-copy storage needs; and improved security, recovery and destruction.
- Continuing education audit software and support, which will increase the efficiency in the audit process to ensure licensee compliance and public safety.
- Call center technology that would allow callers to be placed in a call queue to wait for a Board employee instead of being sent directly to voicemail. This will improve customer service for licensees, applicants, and members of the public.
- Data collection and analysis and email communication software, which will improve the Board's communication with licensees and the public and will foster voluntary compliance by licensees.

**Board authority to compensate the executive director.** The Board is requesting \$18,394 per fiscal year for this item, which would raise the cap from \$85,161 to \$103,555. The executive director position's compensation has not increased with the increases in the agency's size (61%) and appropriations (85%). Additionally, one classified position is within 5% of the executive director's salary, one is within 10% and one exceeds the salary by 40%. Lastly, the State Auditor's Office recommends that the salary group be changed from level 2 to level 3, with a range of \$92,600 - \$145,600. The Auditor's report lists the market average for this position as \$121,066. This funding will allow the Board to bring the executive director's salary closer to similar executive positions in other agencies and other states and will give the Board latitude to evaluate the executive director's performance and compensate commensurate with achievements and experience.

## 504 - Texas State Board of Dental Examiners

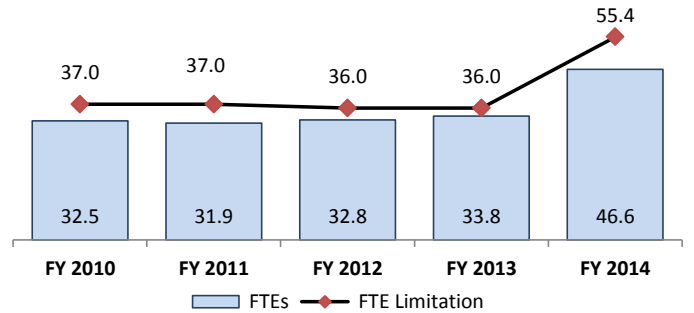
Workforce Summary Document prepared by the State Auditor's Office.  
Based on information **self-reported** by the agency, the following items are worth noting.

### Full-Time Equivalent (FTE) Employees

The agency's full-time equivalent (FTE) employee limitation increased by 53.9 percent to 55.4 FTEs in fiscal year 2014 compared to fiscal year 2013. Compared to fiscal year 2010, the agency saw an increase of 14.1 (43.4 percent) in the total number of FTEs.

#### FTEs Below/Above FTE Limitation

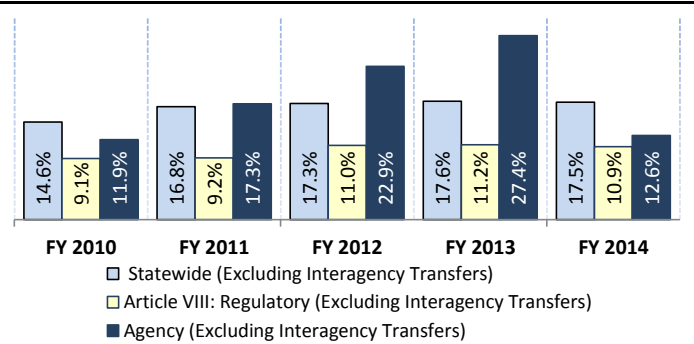
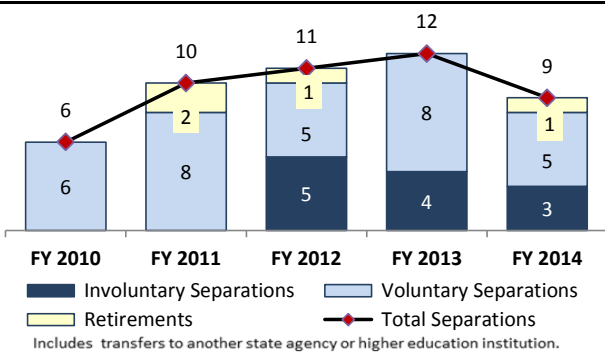
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
FTE Limitation	37.0	37.0	36.0	36.0	55.4
Number Below or Above Limitation	-4.5	-5.1	-3.2	-2.2	-8.8
Percent Above or Below Limitation	-12.2%	-13.8%	-8.9%	-6.1%	-15.9%



Source: State Auditor's Office Full-time Equivalent System.

### Employee Turnover <sup>a</sup>

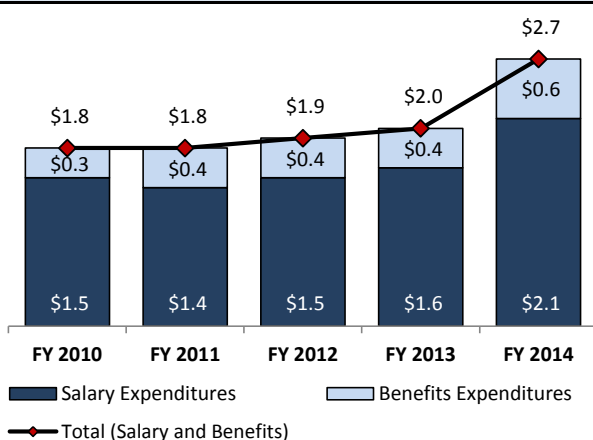
Excluding interagency transfers, the turnover rate within the agency (12.6 percent) was lower than the statewide turnover rate (17.5 percent) and higher than the turnover rate of Article VIII agencies (10.9 percent) during fiscal year 2014. The fiscal year 2014 agency turnover rate including employees who transferred to another state agency or higher education institution was 18.8 percent.



### Compensation Information <sup>a</sup>

The average agency salary in fiscal year 2014 of \$46,277 represented an increase of 10.4 percent compared to the average agency salary in fiscal year 2010. In fiscal year 2014, 94.7 percent of employees were paid below the midpoint of the salary range in which they were assigned; and total agency expenditures for salary and benefits were higher compared to fiscal year 2010.

#### Salary and Benefits Expenditures (in Millions)



#### Average Salary Trends

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Executive Director	\$ 82,500	\$ 82,500	\$ 82,500	\$ 82,500	\$ 85,161
Agency Average	\$ 41,928	\$ 41,587	\$ 43,279	\$ 43,143	\$ 46,277
Article Average	\$ 49,835	\$ 50,584	\$ 51,237	\$ 52,093	\$ 53,839
Statewide Average	\$ 39,265	\$ 39,804	\$ 40,160	\$ 40,398	\$ 42,116

Note: With the exception of the executive director, the average salaries are for classified regular, full-time employees only.

#### Number of and Total Dollars Spent on Salary Actions

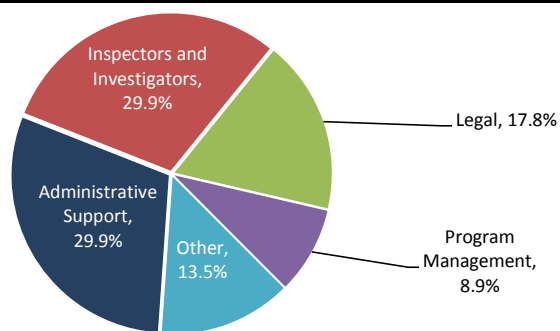
	Fiscal Year 2013		Fiscal Year 2014	
	Actions	Dollars Spent	Actions	Dollars Spent
Promotions	4	\$ 2,644	11	\$ 33,840
Merits	0	\$ 0	0	\$ 0
One-Time Merits	0	\$ 0	38	\$ 152,197
Equity Adjustments	0	\$ 0	18	\$ 40,026
Reclassifications	1	\$ 0	1	\$ 2,800
<b>Totals</b>	<b>5</b>	<b>\$ 2,644</b>	<b>68</b>	<b>\$ 228,863</b>

<sup>a</sup> Turnover, salary trends, and salary action information was prepared from quarterly and year-end summary information received from the Comptroller of Public Accounts' Uniform Statewide Payroll/Personnel System (USPS), the Human Resource Information System (HRIS), and the Standardized Payroll/Personnel Reporting System (SPRS). Unless otherwise indicated, these data are reported for classified regular, full-time and part-time employees. Salary and benefit information was taken from the Uniform Statewide Accounting System of Texas.



## Job Classifications<sup>b</sup>

### Fiscal Year 2014 Major Occupational Categories



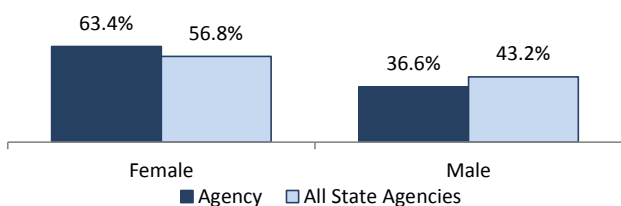
### Agency Job Classifications

In fiscal year 2014, the majority (62.8 percent) of employees were classified in the following job titles: Investigator (25.7 percent), License and Permit Specialist (15.7 percent), Attorney (11.5 percent), and Administrative Assistant (9.9 percent).

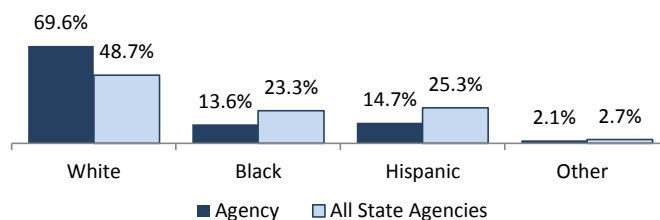
## Fiscal Year 2014 Workforce Demographics<sup>b</sup>

On average, employees at the agency were 46.4 years of age and had 2.8 years of agency length of service. Of the agency's employees, 63.9 percent were 40 years of age or older, and 78.6 percent had fewer than 5 years of agency length of service. The Employees Retirement System estimates that between fiscal years 2014 and 2018, 11.4 percent of the agency's workforce will be eligible to retire (based on fiscal year 2014 data).

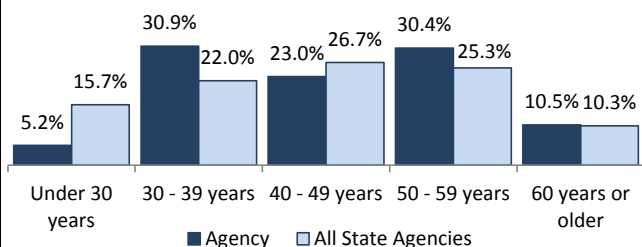
### Gender



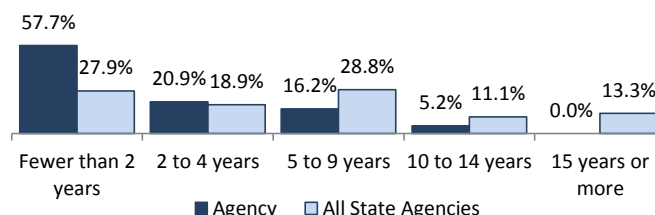
### Ethnic Group



### Age



### Agency Length of Service

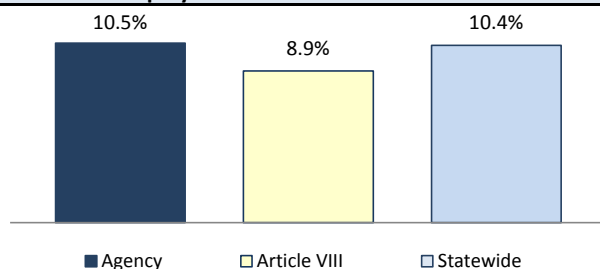


<sup>b</sup> Job classification and demographic information was prepared from quarterly and year-end summary information received from the Comptroller of Public Accounts' Uniform Statewide Payroll/Personnel System (USPS), the Human Resource Information System (HRIS), and the Standardized Payroll/Personnel Reporting System (SPRS). Data includes classified regular, full-time and part-time employees. Demographic data may appear skewed for agencies with fewer than 50 employees.

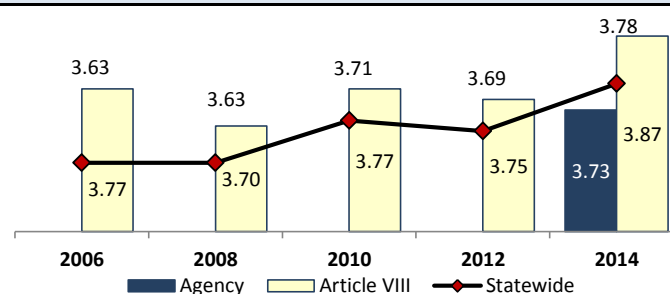
## Survey of Employee Engagement<sup>c</sup>

The Survey of Employee Engagement, administered by the University of Texas at Austin, is an instrument that measures employees' job satisfaction and employees' perceptions of the effectiveness of the agency. Scores range from 1 to 5, with 5 being the highest. Overall, the agency's score is slightly lower than the state average.

### Percent of Employees Who Intend to Leave Within 1 Year<sup>d</sup>



### Overall Employee Satisfaction



<sup>c</sup> Information on the Survey of Employee Engagement was received from the Organizational Excellence Group at the University of Texas at Austin.

<sup>d</sup> Percentage is based on the number of employees who answered the question in the 2014 survey.

**AGENCY STRATEGIC PLAN**  
**FISCAL YEARS 2015 – 2019**  
**TEXAS STATE BOARD OF DENTAL EXAMINERS**



<b>Board Member</b>	<b>Dates of Term</b>	<b>Hometown</b>
Dr. Rodolfo G. Ramos, Jr.	2009 – 2015	Houston, Texas
Dr. Steven J. Austin	2013 – 2019	Amarillo, Texas
Dr. Kirby Bunel, Jr.	2013 – 2019	Texarkana, Texas
Dr. James W. Chancellor	2009 – 2015	Garden Ridge, Texas
Ms. Emily W. Christy	2011 – 2017	San Antonio, Texas
Ms. Renee S. Cornett, RDH	2009 – 2015	Austin, Texas
Dr. D. Bradley Dean	2011 – 2017	Frisco, Texas
Dr. Tamela L. Gough	2011 – 2017	McKinney, Texas
Ms. Whitney Hyde	2009 – 2015	Midland, Texas
Dr. Christine M. Leedy	2011 – 2017	Abilene, Texas
Ms. Evangelia V. Mote	2011 – 2017	Katy, Texas
Mr. Timothy J. O'Hare, JD	2013 – 2019	Farmers Branch, Texas
Ms. Lois M. Palermo, RDH	2013 – 2019	League City, Texas
Mr. Lewis M. White, JD	2013 – 2019	Katy, Texas

DATE OF SUBMISSION:  
June 23, 2014

Julie Hildebrand, Executive Director

Rudolfo G. Ramos Jr., DDS, Presiding Officer

## **Statewide Mission, Philosophy, Goals and Benchmarks**

The following statewide strategic planning elements for Texas State Government promulgated by the Governor in *Strengthening Our Prosperity* are applicable to the Texas State Board of Dental Examiners (Board). The Board's Strategic Plan contained herein is in alignment with these elements.

### **The Mission of Texas State Government**

Texas state government must be limited, efficient, and completely accountable. It should foster opportunity and economic prosperity, focus on critical priorities, and support the creation of strong family environments for our children. The stewards of the public trust must be men and women who administer state government in a fair, just, and responsible manner. To honor the public trust, state officials must seek new and innovative ways to meet state government priorities in a fiscally responsible manner.

Aim high . . . we are not here to achieve inconsequential things!

### **The Philosophy of Texas State Government**

The task before all state public servants is to govern in a manner worthy of this great state. We are a great enterprise, and as an enterprise, we will promote the following core principles:

- First and foremost, Texas matters most. This is the overarching, guiding principle by which we will make decisions. Our state, and its future, is more important than party, politics, or individual recognition.
- Government should be limited in size and mission, but it must be highly effective in performing the tasks it undertakes.
- Decisions affecting individual Texans, in most instances, are best made by those individuals, their families, and the local government closest to their communities.
- Competition is the greatest incentive for achievement and excellence. It inspires ingenuity and requires individuals to set their sights high. Just as competition inspires excellence, a sense of personal responsibility drives individual citizens to do more for their future and the future of those they love.
- Public administration must be open and honest, pursuing the high road rather than the expedient course. We must be accountable to taxpayers for our actions.
- State government has a responsibility to safeguard taxpayer dollars by eliminating waste and abuse and providing efficient and honest government.
- Finally, state government should be humble, recognizing that all its power and authority is granted to it by the people of Texas, and those who make decisions wielding the power of the state should exercise their authority cautiously and fairly.

## **Relevant Statewide Goals and Benchmarks**

### **Regulatory**

#### *Priority Goal*

To ensure Texans are effectively and efficiently served by high-quality professionals and businesses by:

- Implementing clear standards;
- Ensuring compliance;
- Establishing market-based solutions; and
- Reducing the regulatory burden on people and business.

#### *Benchmarks*

- Percentage of state professional licensee population with no documented violations
- Percentage of new professional licensees as compared to the existing population
- Percentage of documented complaints to professional licensing agencies resolved within six months
- Percentage of individuals given a test for professional licensure who received a passing score
- Percentage of new and renewed professional licenses issued online
- Number of new business permits issued online
- Percentage increase in utilization of the state business portal

### **General Government**

#### *Priority Goal*

To provide citizens with greater access to government services while reducing service delivery costs and protecting the fiscal resources for current and future taxpayers by:

- Supporting effective, efficient, and accountable state government operations;
- Ensuring the state's bonds attain the highest possible bond rating; and
- Conservatively managing the state's debt.

#### *Benchmarks*

- Number of state services accessible by Internet; and
- Total savings realized in state spending by making reports/documents/processes available on the Internet and accepting information in electronic format.

## **Agency Mission and Philosophy**

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### **The Mission of the Texas State Board of Dental Examiners**

The Mission of the Texas State Board of Dental Examiners is to protect the public health and safety and promote high quality and safe dental care by providing enforcement, licensing, peer assistance, and related information services to licensees and their patients.

### **The Philosophy of the Texas State Board of Dental Examiners**

In carrying out our Mission, the Texas State Board of Dental Examiners will act with the highest standard of ethics, accountability, efficiency, transparency and responsiveness. We will preserve the public trust by regulating the practice of dentistry with a sense of purpose and responsibility and in a fair and impartial manner. We will commit to excellence and professionalism in responding to the needs of the public and the regulated profession that we serve.

## **External/Internal Assessment**

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### **Overview of Agency Scope and Functions**

The Texas Occupations Code, Title 3, Subtitle D, Chapters 251 et. seq., (Dental Practice Act) defines the practice of dentistry and charges the Board with the responsibility for regulation of such practice. Further, the Health and Safety Code, Title 6, Chapter 467, Peer Assistance Program, authorizes the Board to make contract peer assistance services available to licensees. General rulemaking authority is granted to the Board under Section 254.001 of the Dental Practice Act and authority to address specific subjects is granted throughout the Dental Practice Act.

For well over a century, the State of Texas has required examining boards to safeguard the dental health of all Texans by licensing qualified dental professionals, and by sanctioning violators of laws and rules regulating dentistry. The earliest legislation regulating dentistry in Texas was in 1889, when a board of examiners composed of three practicing dentists was appointed in each judicial district. In 1897, the district system was replaced by one board, the Texas State Board of Dental Examiners, comprised of six dentists appointed by the governor for a term of two years. The number of members was raised to nine dentists in 1919, and the term was changed to six years in 1971. In 1981, the number was raised to 12 with the addition of three public members. Two dental hygienists and one additional dentist were added to the composition of the board in 1991, raising the number to 15. In 1995, the number of public members was raised to six, for a total of 18 members. In 2003, the number was lowered back to 15, with eight dentists, two dental hygienists, and five public members.

The main functions of the Board are:

- License qualified dentists and dental hygienists after successful completion of a clinical examination, and/or by credentials;
- Register dental assistants after successful completion of required education and subsequent competency examination;
- Register qualified dental laboratories;
- Register mobile/portable dental units;
- Annually renew dental and dental hygiene licenses and dental assistant and dental laboratory registrations;
- Investigate all complaints received;
- Prosecute complaints through informal or formal disciplinary means as provided by applicable statutes; and
- Monitor on-going compliance of disciplined licensees/registrants with their respective Board Orders.

The following section, and other sections of this Strategic Plan, detail and discuss the Board's relevant organizational and fiscal aspects, current year activities, service population demographics, technological developments, economic variables, impact of state and federal statutes/regulations, and other legal issues and their implications for

Board activities, services, and performance. Accordingly, imbedded throughout this Strategic Plan are the results of the Board's current self-evaluation (along with plans for additional self assessments) and identification of opportunities for improvement that address these issues.

## **Organizational Aspects**

The members of the Board are appointed by the Governor, with the advice and consent of the Senate, for staggered terms. The Presiding Officer is also appointed by the Governor. The Board elects a Secretary annually. The Board Presiding Officer appoints Board members to serve on committees periodically to undertake review of various topics relating to the regulation of dentistry in Texas. Additionally, per the Dental Practice Act, the Dental Hygiene Advisory Committee (DHAC) advises the Board on matters relating to dental hygiene. The DHAC is composed of six members, three hygienists and two public members appointed by the Governor and one dentist appointed by the Board. Members of this advisory committee serve staggered six-year terms. The Dental Laboratory Certification Council advises the Board on matters relating to dental laboratories and is composed of three members who are appointed by the Board to serve two year terms.

Board staff is comprised of 58 authorized full-time-equivalent positions and operates with an annual budget of approximately \$4.0M. In terms of comparing revenue collections to agency annual appropriations, in Fiscal Year 2013 the Board collected approximately \$9.4M (including the state's \$200 professional fee) and was budgeted approximately \$2.6M, with an excess of approximately \$6.8M that goes to the state's General Revenue Fund. The Board was appropriated approximately 28% of its revenue.

Board staff accomplishes the Board's mission through six program divisions: Executive; Finance and Administration; Licensing; Dental Practice; Enforcement; and Legal. The Board offices are physically located in the William P. Hobby Jr., Building at 333 Guadalupe, Tower 3, Suite 800, Austin, Texas. Dental Board Investigative staff are geographically located throughout Texas. Separate government offices for support staff are not maintained at these field locations.

The Executive Division provides leadership and motivation to meet the Board's mission, manages the day-to-day operation of the agency, and ensures strategic goals are met. The Executive Division's success is guided by a management philosophy focusing on agency accountability to the public and the dental professionals it licenses, efficiency and consistency in providing its services, and open communication with our employees and our customers.

The Finance and Administration Division performs administrative and support functions for the agency including the internal operating budget, reporting of performance measures, purchasing, accounts payable, accounts receivable, travel reimbursement, payroll and personnel management, property management, and mail distribution.

The Licensing Division reviews, processes and issues licenses, registrations and certificates to applicant dentists, dental hygienists, dental assistants, dental laboratories, and mobile dental facilities. The Division also annually renews licenses, registrations and certificates. In serving the applicants and regulated professions, the Division provides information to applicants, licensees, and the general public.

The Dental Practice Division conducts the preliminary review of complaints filed with the Board to determine if an investigation should be conducted to determine if the standard of care may have been violated by the licensee. The Division also serves as the liaison and coordinator of the Dental Review Panel and provides consultation and technical assistance to Board staff.

The Enforcement Division receives, processes and investigates complaints filed by the public. The Division also enforces compliance with disciplinary actions and conditions as set forth for each disciplinary case. In serving the public and the regulated professions, the Division interacts with the public, professional societies, dental schools, and state and/or federal regulatory agencies.

The Legal Division prosecutes violations of the laws and rules related to the practice of dentistry. The Division also provides adjudicative information to agency customers and provides legal services and guidance to the Board and agency staff relating to the regulation of the practice of dentistry and the administration of the agency.

### **Current Year Activities**

House Bill 3201 was passed during the 83<sup>rd</sup> Legislative Session and substantially reformed several Board procedures and increased both funding and full-time-equivalent positions. Additionally, the General Appropriations Act further increased funding and full-time-equivalent positions.

In FY 2014, Board staff increased from 36 full-time-employees to 54 currently budgeted full-time-employees. In order to accomplish such an increase in employees, substantial time has been spent hiring and training new employees and substantial financial resources have been spent in restructuring the Board's physical location and infrastructure. It is expected that in FY 15, it is expected that at least two additional full-time-employees will be added to the current staff.

Additional employee and financial resources have been employed to implement the mandates in HB 3201. The Board has accomplished each milestone listed below.

- The Board has collected information described in Section 254.019 of the Dental Practice Act (i.e., relating to ownership of dental practices and agreements with dental service organizations) from dentists and will provide a report regarding such information to the legislature on November 1, 2014. The information will be collected on an on-going basis and will be reported to the legislature on a bi-annual basis.



- The Board has instituted processes to conduct a preliminary inquiry on a complaint received to determine whether to open an investigation.
- The Board has appointed and begun to use a Dental Review Panel to assist with the review of complaints related to professional competency.
- The Board has instituted processes to issue Remedial Plans to resolve complaints with non-disciplinary action when appropriate.

Specifically, the addition of the Dental Director position has dramatically increased the Board's ability to process complaints via the preliminary inquiry and the use of a Dental Review Panel.

All of these new processes and the increase in both funding and full-time-equivalent employees will significantly improve the quality and efficiency of the services provided in meeting the needs of the people of Texas. To date in FY 2014, the Board has decreased its caseload by 10% from 1,306 cases on September 1, 2013 to 1,164 cases on June 15, 2014. Additionally, the Board has decreased the average age of an open case by 18 days from 341 days on September 1, 2013 to 323 days on June 15, 2014. It is expected that improvements in case resolution will continue throughout the strategic planning period.

### **External/Internal Assessment Issues and Trends**

In conducting an external assessment, the Board collected and analyzed information from several sources including a Customer Service Survey, Stakeholder Input Process, an Industry Assessment, the Survey of Employee Engagement, and separate Board Member and Management Strategic Planning Sessions. The Board conducted a thorough analysis of its past, current and future position and its expectations for internal and external change. It was determined that the following current and future major issues may affect the Board's operations and results in meeting the needs of its customers. These issues have formed the basis for the development of all of the elements of the Strategic Plan.

### ***Public Protection***

The Board serves the entire population of the State of Texas. According to the Texas Comptroller of Public Accounts, Texas' population will increase, on average, 1.7 % per year during the planning period.

The American Dental Association, in a recent environmental scan, found that, despite the continued increase in the state's population, utilization of dental care has declined among working age adults and dental benefits coverage for adults has steadily eroded the past decade. Total dental spending in the U.S. has slowed, with public financing accounting for an increasing share. Dental care utilization among children has increased steadily in the past decade, a trend driven entirely by gains among low income children. The percent of children who lack dental benefits has declined, driven

by the expansion of public programs. Dental benefits are likely to continue to erode for adults, which could negatively influence dental care utilization.

Commercial dental plans will increasingly use more selective networks, demanding increased accountability through data and performance measures.<sup>1</sup> All of these trends will affect the services of the Board. The Board will have to focus on an increased child patient population, decreased dental care utilization by adults, and increased accountability from commercial dental plans, and institute changes as necessary to accommodate these trends.

In addition, the following major issues listed below were gleaned from Stakeholder, Board Member and Staff input.

### *1. Major Practice Issues*

With growing numbers of adults and children receiving anesthesia for dental procedures from providers with variable training, it is imperative to be able to track anesthesia-related adverse outcomes.<sup>2</sup> Dental office anesthesia poses an increased risk of death and other negative patient outcomes, especially in emergency situations. A review of the credentialing of training programs, licensee anesthesia permit requirements, anesthesia relation to dental office deaths, and emergency preparedness by licensees, will advance patient safety and quality.

The Dental Practice Act states that the Board may investigate infection control in the dental profession and adopt and enforce rules to control the spread of infection in the practice of dentistry as necessary to protect the public health and safety. The implementation of infection control recommendations is not uniform across all practices. Board rules relating to infection control should be reviewed and the standards communicated to licensees. In addition, investigations and enforcement should be increased to address this issue.

Texas is a plenary license state and dentists are allowed to practice in any specialty area without restriction. The Board does not have authority to grant specialty licenses. However, in order to make sound rulemaking and business decisions and to enforce the Dental Practice Act, it is important for the Board to be knowledgeable regarding a licensee's specialty qualification. The Board should be more diligent in its collection of information regarding a licensee's specialty. An additional issue related to dental specialties is in the area of business promotion. These rules should be reviewed by the Board and amended as necessary to protect the public.

Medicaid fraud by a dentist, although under the jurisdiction of the Health and Human Services Commission (HHSC), is a concern for the Board since it subjects the dentist to

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<sup>1</sup> American Dental Association, *A Profession in Transition: Key Forces Reshaping the Dental Landscape*, 2013.

<sup>2</sup> Lee, H. H., Milgrom, P., Starks, H., Burke, W. (2013), Trends in death associated with pediatric dental sedation and general anesthesia. *Pediatric Anesthesia*, 23: 741–746. doi: 10.1111/pan.12210

disciplinary action under the Dental Practice Act. In the future, the Board will be required to cooperate with HHSC in investigations, prosecution of cases and the communication of compliance information with licensees, in order to ensure future Medicaid compliance.

Several other practice issues will affect the regulation of dentistry in the coming years including the use of Botox and Lasers in dentistry, the dental treatment of sleep disorders, advances in three-dimensional technology, “do it yourself” dentistry, and other technologies in dentistry. The Board must stay abreast of the issues via Stakeholder input and the use of ad-hoc committees in order to analyze each issue and determine what action, if any, should be taken to protect the public.

## *2. New Practice/Provider Models*

According to the American Dental Association 2012 Health Policy Resources Center survey "Distribution of Dentists," the percentage of dentists who were owners decreased from 91.0 % in 1991 to 84.8 % in 2012 and the proportion of dentists who were solo practitioners decreased from 67.0 % to 57.5 %. Data from the U.S. Census Bureau from 2007 shows the number of office sites controlled by multi-unit dental companies increased by 49.0 % to 8,442. For dental firms with more than 10 offices, the number of offices they controlled increased from 157 in 1992 to 3,009 in 2007.

The trend towards larger, consolidated multi-site practices will continue, driven by changes in practice patterns of new dentists, a drive for efficiency, increased competition for patients, and other economic imperatives. This increase in dental group practices has led to the creation and increased prevalence of Dental Service Organizations. The Board currently collects information from licensees and these organizations and can issue cease and desist orders to any organization that is practicing dentistry. However, the Board does not have regulatory authority over these organizations. Therefore, the Board must be vigilant in ensuring that a dentist and his practice comply with the Dental Practice Act.

An additional result of the increase in dental group practices is new roles and responsibilities of dentists. The Board's current rules have not kept pace with the evolving responsibilities of a dentist as an owner, as a treatment planner, or as one of possibly several treatment providers. The Board should also analyze and determine the need to strengthen rules to ensure that a dental practice owner maintains responsibility for the practice and is routinely and actively involved in the daily operations of the practice.

There is growth nationwide and in Texas of the number of practicing dental hygienists and dental assistants and public perceptions and pressures to address better access to dentistry. There have been related changes to the scope and standards of practice and associated changes to and expansion of the roles and responsibilities of dental hygienists and dental assistants. The Board received opposing comments from stakeholders on this issue. There was both a belief that the Board should limit the

performance of irreversible surgical procedures to a dentist only and apply a team-based approach, headed by the dentist, as well as a belief that the Board should expand the roles of dental hygienists and dental assistants, to include the use of lasers and the administration of local anesthesia. The Board must strike an appropriate balance between these competing interests to ultimately protect the public and comply with the Dental Practice Act.

### *3. Minimum Licensing Standards/Continuing Education*

The Dental Practice Act gives the Board authority to develop a mandatory continuing education program for licensees. In developing this program, the board may: assess the continuing education needs of license holders; require license holders to attend continuing education courses specified by the board; identify the key factors required for competent performance of professional duties; develop a process to evaluate and approve continuing education courses; and develop a process to assess a license holder's participation and performance in continuing education courses to evaluate the overall effectiveness of the program.

Because some continuing education offerings have been inadequate to meet the changing needs and delivery models of dental practices, there has been a rise in rule and standard of care violations and other potential problems for patients. In the future, the Board must review the quality, content, hours, modality and curriculum standards of continuing education courses. Additionally, an auditing program of continuing education compliance should be instituted by the Board.

For the Board to be able to evaluate key factors required for competent performance, data collection by the Board regarding the types of standard of care cases that result in complaints will be necessary. An analysis of such data will benefit the public by allowing the Board to focus continuing education on current and emerging areas of concern.

### ***Organizational Excellence***

In this strategic planning period, it will be imperative for the Board to reach its goals and improve results by fully aligning the Board's plans, processes, decisions, employees and other resources, and actions with the identified issues and related desired results. "Organizational Excellence" as defined herein will provide the Board with an organizing framework to align and integrate efforts to maintain the public's confidence in its ability to meet its Mission. Historically, due to deficiencies in human and fiscal resources, the Board has been unable to make the development of the organization itself a priority. With new funding and associated full-time-equivalent positions, a new focus on the organization will optimize the value of the services delivered to the public, the regulated community and other stakeholders. It is the Board's goal to provide quality services and meet service demands and expectations. The Board must deliver consistent, fast and high quality outcomes for the public.

In order to improve overall agency effectiveness, the Board has determined that it will work to improve in the areas listed below. In devising its Action Plans the Board will involve employees and stakeholders in continuous improvement and problem solving activities. The Board will respond constructively to internal and external critiques. The Board will strive to move from reacting to problems to preventing them by establishing a more proactive approach.

Improving on the values listed below will increase the Board's ability to identify and solve problems.

*1. Accountability to the Public, Licensees, Board Members and Staff*

The Board firmly believes that it must be accountable to the public, licensees, Board members and staff. The foundation for accountability is the establishment of benchmarks by which achievement of the Board's goals, objectives and strategies can be measured. It is expected that the Board's services will benefit the public and licensees and that the Board will progress toward achieving increased service production and efficiency. Each division of the Board should have stated goals and internal performance measures that are not solely budgetary based.

As a means to increase the Board's efficiency in providing services, the Board has increased the number of employed staff this fiscal year. This has made a significant difference in the timeliness of the Board's work production. The timeliness will further improve over time as the Board becomes fully staffed and trained. In addition, the Board will seek out ways to reduce the complexity of its processes, improve online renewal processes, and eliminate waste. In reviewing the Board's processes, we will engage employees to originate process improvements, establish employee-driven work standards and encourage best practice sharing, and, ultimately, formalize these processes and policies.

The Board must also be proactive in the collection, management and use of data. Because of changes in the complexity of dental practices, the Board is facing a growing need to have the analysis of such data to anticipate and respond to inquiries, requests, and potential problems before they manifest in the form of patient harm.

Beyond establishing benchmarks and improving efficiency and data collection, the Board must also be transparent in each of the areas. Annual reporting of Board performance will inform the public on the Board's movement towards reaching its goals and the more widely sharing of data will allow the public to better navigate the dental care system.

Critical to the Board's future success in these areas is a continuous quality improvement focus supported by a self-assessment that will allow the Board to evaluate past performance in order to improve future performance. This self-assessment will also aid in the Board's preparation for its Sunset review in 2017.

The final foundation for accountability is the Board's commitment to customer service satisfaction. In the Board's *Report on Customer Service* the Board has placed a high priority on customer satisfaction and intends to improve satisfaction by deploying strategies that will allow the Board to continuously identify and assess customers' needs and satisfaction. The Board will update and formally post a revised *Compact with Texans* to reflect this renewed and enhanced customer focus.

## *2. Fair and Impartial Regulation*

At the core of fair and impartial regulation is consistency in the Board's external relationships. The Board's stakeholders are very diverse and have exhibited possible conflicts in interests in the past. Because of this diverse and divergent customer base, the Board is challenged to devise systems and processes to be responsive to all stakeholders in an even-handed and transparent manner. Outside pressure from powerful interests and vocal organizations and the rise of new trends in the practice of dentistry, will challenge the Board in the future to develop proportional, balanced, appropriate, professional, effective and mission-critical rules and policies. A focus on fair and impartial regulation will encourage cooperation between the Board and its stakeholders and will result in increased public safety.

The first key area where the Board interacts with the public is in the development of rules. In the development of rules, the Board must focus on its highest priorities first, prioritizing the issues that will provide the most benefit to the public. The use of standing committees and the creation of a rules process similar to the legislative process would allow the Board to review the proposal of rules in a more efficient and balanced manner. The Board must ensure that it is making decisions based on a fair and impartial presentation of all sides of an issue. It must take into consideration expert testimony and not the presentations of parties with special interests. A process that it is adhered to will ensure that the Board fully considers each rule proposal. Additionally, the Board should fully utilize all resources that it has at its disposal including both the Dental Hygiene Advisory Committee and the Dental Laboratory Certification Council.

The second key area where the Board interacts with the public is in the enforcement of the Dental Practice Act. With the implementation of House Bill 3201, the Board must establish oversight procedures for the newly developed Dental Review Panel and other new enforcement processes. As part of these recent changes, the Board has already restructured portions of the current Enforcement and Legal Divisions and has added the new Dental Practice Division. The future goals of these three divisions will be to decrease the number of days required to resolve complaints, reduce the number and rates of minor violations, and diminish recidivism rates. In order to do this, the Board and the public would benefit from a team approach to regulation that emphasizes voluntary, self-regulation. Additionally, the Board must strive for consistency in disciplinary sanctions by strengthening the Disciplinary Matrix (which details the range of prescribed sanctions for each type of violation), reviewing and analyzing the effectiveness of sanctions and ensuring that progressively-escalating disciplinary sanctions are taken against licensees with multiple offenses.

### *3. Effective Communications with the Public, Licensees, Board Members and Staff*

The core element of the Board's Mission is to protect the public. Paramount to fulfilling the Mission is the Board's responsibility to provide the public basic information, including any disciplinary actions, about licensees. Currently, such information is available on the Board's website. However, stakeholders have reported that the information is difficult to access and that a summary of disciplinary actions in terms that are easy to understand would better serve the public. During the strategic planning period, the Board will ensure that the public is fully informed regarding such information by reviewing the website accessibility and the possibility of summarizing disciplinary actions using plain language terms rather than clinical and technical terms used by the dental and legal professions.

Communication with the licensees is also essential to the Board's Mission, in that it can encourage licensees' voluntary compliance with the Dental Practice Act. In the future, the Board must communicate basic compliance information in an understandable format, which will encourage fewer minor violations in areas such as record-keeping and business promotion. The Board can accomplish this increased communication through items such as bulletins or newsletters, public presentations by Board members and staff, and targeted information on the Board's website. The Board should strive to not only act as an enforcer of the law, but also as a peer review source with offerings such as compliance reminders.

Finally, improved internal communication among the Board members and staff will allow each group to have a better understanding of the organizational structure and individual duties and responsibilities. Without internal communication the Board cannot act in a consistent and concerted effort.

In addition to the communication of the basic information described above, the public as a whole and the licensee population would be better informed regarding the Board's services through a well thought out outreach program. In the future, the Board will employ a public information specialist and possibly create a standing public information committee. It is important for the Board to not only measure performance results, but to also communicate those results to the public and licensees. A transition to electronic records will also improve the public and licensees' access to information. The Board will also research the possibility of using a mass electronic communication system in order to provide information to the public and licensees, which will allow the Board to be a more modern, technology driven and focused entity.

### *4. Human, Physical and Fiscal Resource Management*

For the Board to reach its goals, it must appropriately manage its human, physical and fiscal resources. It is imperative for the Board to attract, develop and retain a talented and diverse base of employees. Without a high-performing, well-trained, and diverse workforce, the Board will fail to meet the needs of the public and the professionals it regulates. Employee training should be rigorous, consistent, and timely focused; and,

because the Board has hired so many new employees, on-boarding of these new employees will be critical to the Board's success.

Due to this recent growth in staff, the Board has outgrown its current facilities. The Board's Austin facility is approximately 4,132 square feet of usable space. In FY 2013, the Board housed 29 employees at its Austin office location in the Hobby Building. Currently the office houses 40 employees. The office no longer includes any meeting/conference spaces and very little document storage areas. The square footage per person is well below the State of Texas' allowed maximum square foot per person. In order to make the necessary changes to the offices to accommodate the additional employees, the Board was required to spend approximately \$115,000 on infrastructure improvements. As a result, the Board was unable to fill all of its full-time equivalent positions. Additionally, the Board will need consider the acquisition of additional space in the future.

Finally, the Board would be in a much better position to responsibly manage its resources if it were able to operate on a self-directed, semi-independent status. The Board could establish licensing fees to cover these occasional additional costs of operation without sacrificing resources that should be spent on public protection. Such status would allow the Board to operate like a business, with the flexibility to adjust resources as needed. This would result in enhanced responsiveness to the public and licensees' needs, including more timely resolution of licensing and disciplinary matters. Ultimately, the Board would be able to respond more quickly to its resource needs.

The External/Internal Assessment is the basis for justifying the Board's decisions regarding its goals, objective, strategies and performance measures as detailed in the following sections.



The complete Strategic Plan and the Board's Legislative Appropriations Request are available on the Board's website at:

<http://www.tsbde.state.tx.us/>

Section 1

Department of Housing and Community Affairs  
Summary of Recommendations - House

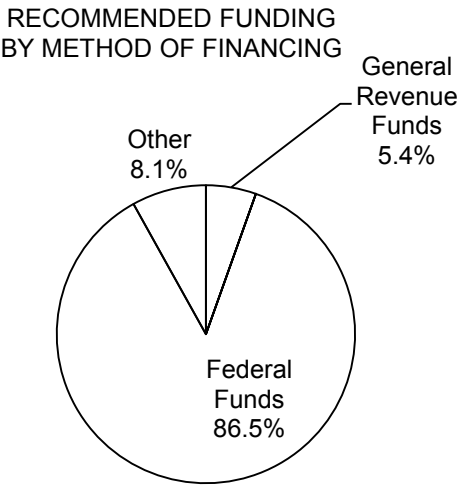
Page VII-1  
Timothy K. Irvine, Executive Director

Jordan Smith, LBB Analyst

Method of Financing	2014-15 Base	2016-17 Recommended	Biennial Change	% Change
General Revenue Funds	\$26,446,338	\$26,480,486	\$34,148	0.1%
GR Dedicated Funds	\$0	\$0	\$0	0.0%
Total GR-Related Funds	\$26,446,338	\$26,480,486	\$34,148	0.1%
Federal Funds	\$445,016,500	\$420,904,702	(\$24,111,798)	(5.4%)
Other	\$36,444,053	\$39,326,927	\$2,882,874	7.9%
All Funds	\$507,906,891	\$486,712,115	(\$21,194,776)	(4.2%)

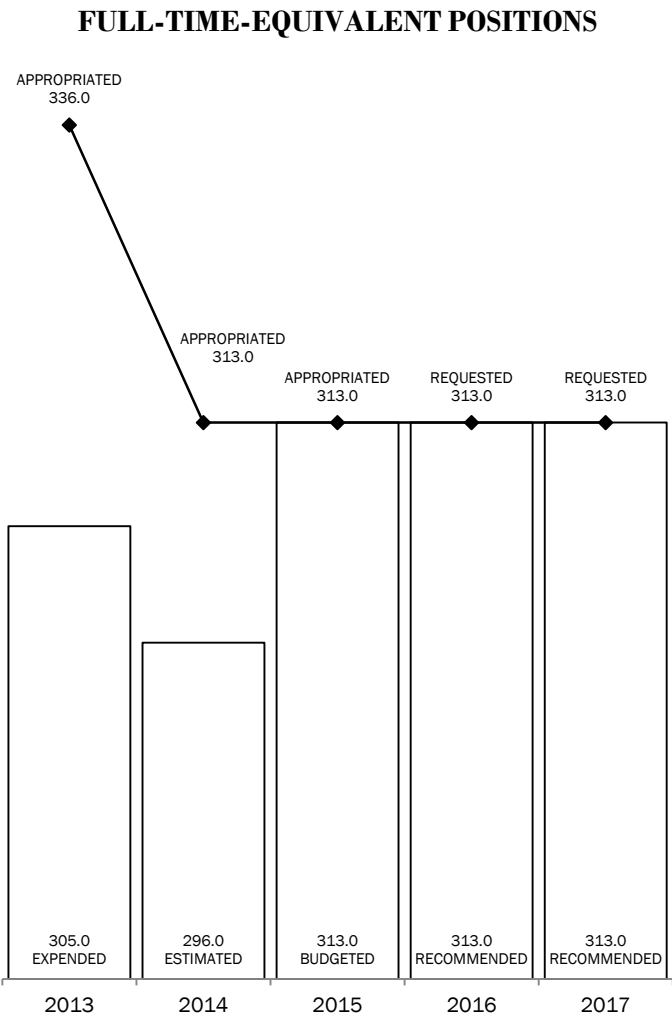
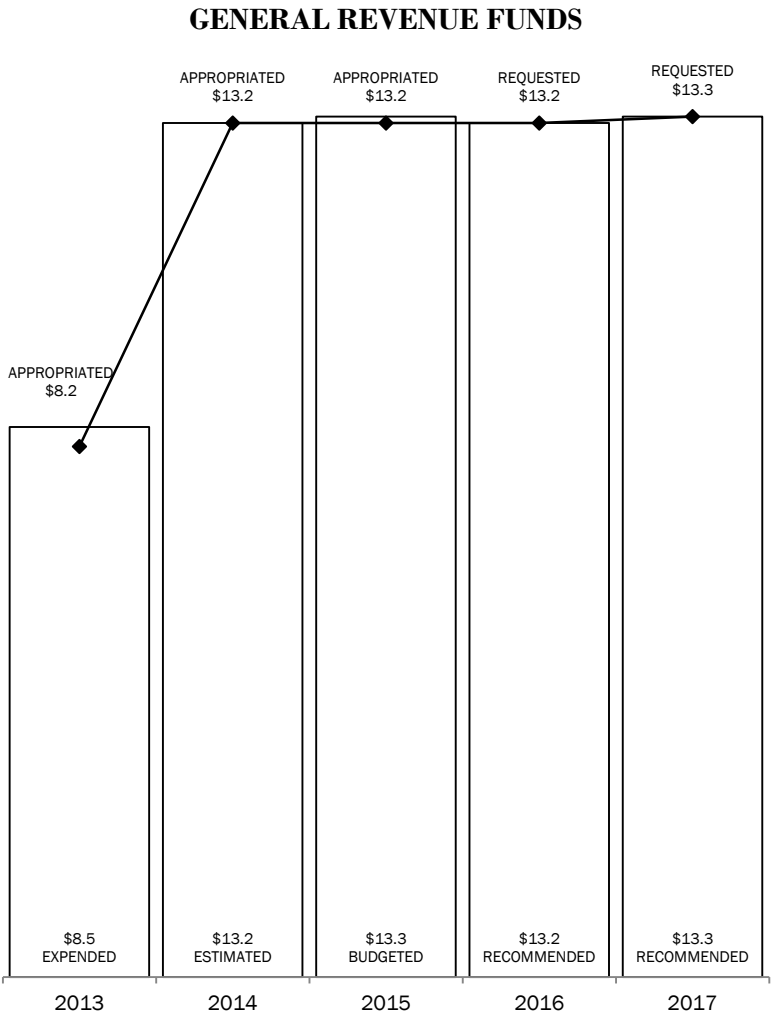
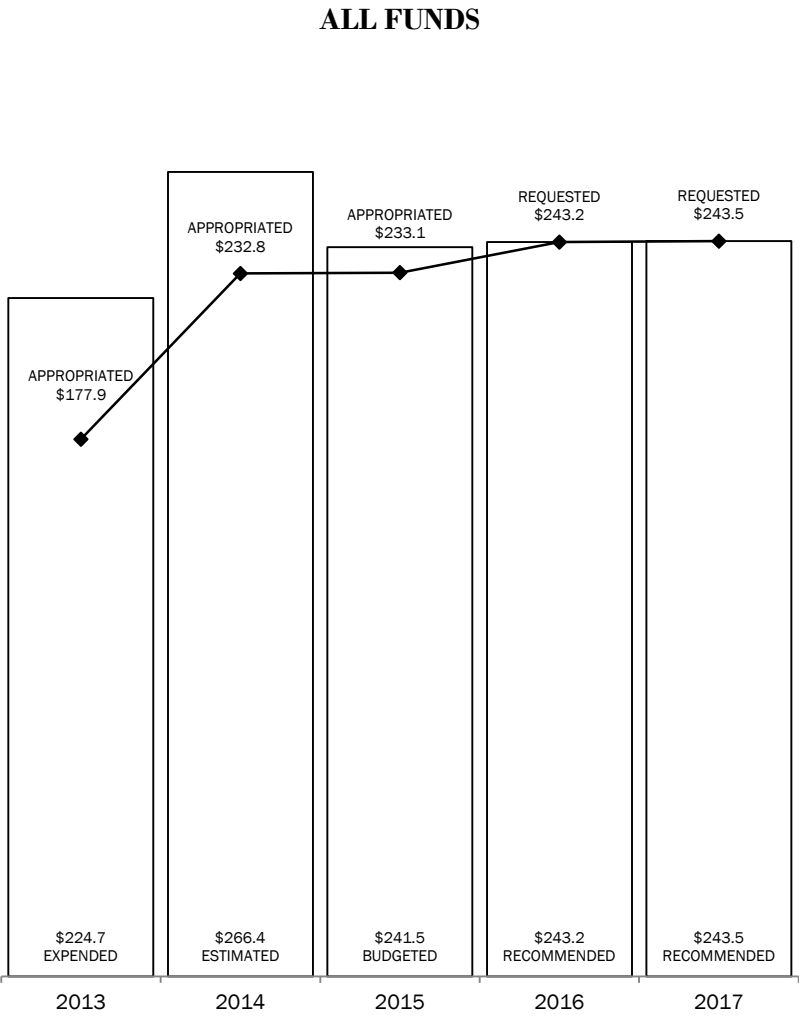
	FY 2015 Budgeted	FY 2017 Recommended	Biennial Change	% Change
FTEs	313.0	313.0	0.0	0.0%

The bill pattern for this agency (2016-17 Recommended) represents an estimated 12% of the agency's estimated total available funds for the 2016-17 biennium.



Section 1  
Department of Housing and Community Affairs  
2016-2017 BIENNIUM  
IN MILLIONS

TOTAL= \$486.7 MILLION



Section 2

Department of Housing and Community Affairs  
Summary of Recommendations - House, By Method of Finance -- ALL FUNDS

Strategy/Goal	2014-15 Base	2016-17 Recommended	Biennial Change	% Change	Comments
MRB PROGRAM - SINGLE FAMILY A.1.1	\$2,734,592	\$3,046,805	\$312,213	11.4%	Recommendations increase Appropriated Receipts for increased operation costs.
HOME PROGRAM A.1.2	\$73,307,102	\$60,000,995	(\$13,306,107)	(18.2%)	Recommendations include a net decrease in Federal Funds of \$13,306,107 due to the following changes: a \$4,100,000 decrease in Community Development Block Grant funds, a \$10,000,000 decrease in Tax Credit Assistance - Stimulus funds, and a \$793,893 increase in HOME Investment Partnership Program funds.
HOUSING TRUST FUND A.1.3	\$12,025,311	\$12,011,476	(\$13,835)	(0.1%)	
SECTION 8 RENTAL ASSISTANCE A.1.4	\$12,158,274	\$12,510,798	\$352,524	2.9%	Recommendations include an increase in Federal Funds of \$352,524 due to an increase in grant funding for the Section 8 Housing Choice Vouchers Program.
FEDERAL TAX CREDITS A.1.5	\$3,377,189	\$3,679,854	\$302,665	9.0%	Recommendations include an increase in All Funds due to the reallocation of FTEs from multiple strategies to address changes in workload in Fair Housing and the Asset Management division.
MRB PROGRAM - MULTIFAMILY A.1.6	\$897,722	\$979,718	\$81,996	9.1%	Recommendations include an increase in Appropriated Receipts to assist with increased workload in the Fair Housing division.
<b>Total, Goal A, AFFORDABLE HOUSING</b>	<b>\$104,500,190</b>	<b>\$92,229,646</b>	<b>(\$12,270,544)</b>	<b>(11.7%)</b>	
HOUSING RESOURCE CENTER B.1.1	\$14,021,537	\$2,813,674	(\$11,207,863)	(79.9%)	Recommendations include a net decrease of \$11,207,863 in All Funds due to the following: a decrease of \$11,282,250 in Federal Funds for the Section 811 Project Rental Assistance Demonstration Project and an increase of \$74,387 in Appropriated Receipts due to an increase in program maintenance costs.
COLONIA SERVICE CENTERS B.2.1	\$666,797	\$692,875	\$26,078	3.9%	
<b>Total, Goal B, INFORMATION &amp; ASSISTANCE</b>	<b>\$14,688,334</b>	<b>\$3,506,549</b>	<b>(\$11,181,785)</b>	<b>(76.1%)</b>	
POVERTY-RELATED FUNDS C.1.1	\$90,457,630	\$90,408,114	(\$49,516)	(0.1%)	
ENERGY ASSISTANCE PROGRAMS C.2.1	\$265,941,454	\$265,952,416	\$10,962	0.0%	
<b>Total, Goal C, POOR AND HOMELESS PROGRAMS</b>	<b>\$356,399,084</b>	<b>\$356,360,530</b>	<b>(\$38,554)</b>	<b>(0.0%)</b>	
MONITOR HOUSING REQUIREMENTS D.1.1	\$5,415,046	\$6,286,556	\$871,510	16.1%	Recommendations include a reallocation in Appropriated Receipts from multiple strategies for increased operations costs and FTEs to assist with property inspections and asset management.

Section 2

Department of Housing and Community Affairs  
Summary of Recommendations - House, By Method of Finance -- ALL FUNDS

Strategy/Goal	2014-15 Base	2016-17 Recommended	Biennial Change	% Change	Comments
MONITOR CONTRACT REQUIREMENTS D.1.2	\$1,134,290	\$1,296,879	\$162,589	14.3%	Recommendations increase Federal Funds by \$162,589 due to an increase in grant funding for the HOME Investment Partnership Program.
<b>Total, Goal D, ENSURE COMPLIANCE</b>	<b>\$6,549,336</b>	<b>\$7,583,435</b>	<b>\$1,034,099</b>	<b>15.8%</b>	
TITLING & LICENSING E.1.1	\$3,413,325	\$3,697,290	\$283,965	8.3%	
INSPECTIONS E.1.2	\$3,451,499	\$3,787,959	\$336,460	9.7%	
ENFORCEMENT E.1.3	\$3,094,443	\$3,369,304	\$274,861	8.9%	
TEXAS.GOV E.1.4	\$38,240	\$38,240	\$0	0.0%	
<b>Total, Goal E, MANUFACTURED HOUSING</b>	<b>\$9,997,507</b>	<b>\$10,892,793</b>	<b>\$895,286</b>	<b>9.0%</b>	Recommendations include an increase in Appropriated Receipts for staff salary reclassifications and to reflect increases in other operating expenses.
CENTRAL ADMINISTRATION F.1.1	\$11,315,491	\$11,489,355	\$173,864	1.5%	
INFORMATION RESOURCE TECHNOLOGIES F.1.2	\$3,297,435	\$3,477,252	\$179,817	5.5%	
OPERATING/SUPPORT F.1.3	\$1,159,514	\$1,172,555	\$13,041	1.1%	
<b>Total, Goal F, INDIRECT ADMIN AND SUPPORT COSTS</b>	<b>\$15,772,440</b>	<b>\$16,139,162</b>	<b>\$366,722</b>	<b>2.3%</b>	Recommendations include a net increase in All Funds due to the following: an increase in General Revenue of \$34,148 to biennialize salaries at 2015 levels; and an increase in Appropriated Receipts for increased costs for disaster recovery Information Technology support and to reflect changes in workload in this goal.
<b>Grand Total, All Strategies</b>	<b>\$507,906,891</b>	<b>\$486,712,115</b>	<b>(\$21,194,776)</b>	<b>(4.2%)</b>	

Section 2

Department of Housing and Community Affairs  
Summary of Recommendations - House, By Method of Finance -- GR & GR DEDICATED FUNDS

Strategy/Goal	2014-15 Base	2016-17 Recommended	Biennial Change	% Change	Comments
MRB PROGRAM - SINGLE FAMILY A.1.1	\$0	\$0	\$0	0.0%	
HOME PROGRAM A.1.2	\$0	\$0	\$0	0.0%	
HOUSING TRUST FUND A.1.3	\$11,792,500	\$11,792,500	\$0	0.0%	
SECTION 8 RENTAL ASSISTANCE A.1.4	\$0	\$0	\$0	0.0%	
FEDERAL TAX CREDITS A.1.5	\$0	\$0	\$0	0.0%	
MRB PROGRAM - MULTIFAMILY A.1.6	\$0	\$0	\$0	0.0%	
<b>Total, Goal A, AFFORDABLE HOUSING</b>	<b>\$11,792,500</b>	<b>\$11,792,500</b>	<b>\$0</b>	<b>0.0%</b>	
HOUSING RESOURCE CENTER B.1.1	\$724,420	\$724,420	\$0	0.0%	
COLONIA SERVICE CENTERS B.2.1	\$0	\$0	\$0	0.0%	
<b>Total, Goal B, INFORMATION &amp; ASSISTANCE</b>	<b>\$724,420</b>	<b>\$724,420</b>	<b>\$0</b>	<b>0.0%</b>	
POVERTY-RELATED FUNDS C.1.1	\$10,100,000	\$10,100,000	\$0	0.0%	
ENERGY ASSISTANCE PROGRAMS C.2.1	\$0	\$0	\$0	0.0%	
<b>Total, Goal C, POOR AND HOMELESS PROGRAMS</b>	<b>\$10,100,000</b>	<b>\$10,100,000</b>	<b>\$0</b>	<b>0.0%</b>	
MONITOR HOUSING REQUIREMENTS D.1.1	\$0	\$0	\$0	0.0%	
MONITOR CONTRACT REQUIREMENTS D.1.2	\$0	\$0	\$0	0.0%	
<b>Total, Goal D, ENSURE COMPLIANCE</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>0.0%</b>	
TITLING & LICENSING E.1.1	\$0	\$0	\$0	0.0%	
INSPECTIONS E.1.2	\$0	\$0	\$0	0.0%	
ENFORCEMENT E.1.3	\$0	\$0	\$0	0.0%	
TEXAS.GOV E.1.4	\$38,240	\$38,240	\$0	0.0%	
<b>Total, Goal E, MANUFACTURED HOUSING</b>	<b>\$38,240</b>	<b>\$38,240</b>	<b>\$0</b>	<b>0.0%</b>	
CENTRAL ADMINISTRATION F.1.1	\$3,358,581	\$3,371,922	\$13,341	0.4%	
INFORMATION RESOURCE TECHNOLOGIES F.1.2	\$283,087	\$295,858	\$12,771	4.5%	
OPERATING/SUPPORT F.1.3	\$149,510	\$157,546	\$8,036	5.4%	
<b>Total, Goal F, INDIRECT ADMIN AND SUPPORT COSTS</b>	<b>\$3,791,178</b>	<b>\$3,825,326</b>	<b>\$34,148</b>	<b>0.9%</b>	Recommendations include an increase of \$34,148 in General Revenue funding in this goal to biennialize salaries at 2015 levels.
<b>Grand Total, All Strategies</b>	<b>\$26,446,338</b>	<b>\$26,480,486</b>	<b>\$34,148</b>	<b>0.1%</b>	

Section 2

Department of Housing and Community Affairs  
Summary of Recommendations - House, By Method of Finance -- FEDERAL FUNDS

Strategy/Goal	2014-15 Base	2016-17 Recommended	Biennial Change	% Change	Comments
MRB PROGRAM - SINGLE FAMILY A.1.1	\$0	\$0	\$0	0.0%	
HOME PROGRAM A.1.2	\$73,307,102	\$60,000,995	(\$13,306,107)	(18.2%)	Recommendations include a Federal Funds decrease due to the following: - A decrease of \$4,100,000 in Community Development Block Grant funds which are not anticipated to be available in the 2016-17 biennium; - A decrease of \$10,000,000 in Tax Credit Assistance Program - Stimulus funds which are not anticipated to be at 2014 levels of \$15,000,000 per year; and - An increase of \$793,893 in HOME Investment Partnership Program funds.
HOUSING TRUST FUND A.1.3	\$0	\$0	\$0	0.0%	
SECTION 8 RENTAL ASSISTANCE A.1.4	\$12,158,274	\$12,510,798	\$352,524	2.9%	Recommendations include an increase in Federal Funds due to an anticipated increase in funding for the Section 8 Housing Choice Vouchers Program.
FEDERAL TAX CREDITS A.1.5	\$0	\$0	\$0	0.0%	
MRB PROGRAM - MULTIFAMILY A.1.6	\$0	\$0	\$0	0.0%	
<b>Total, Goal A, AFFORDABLE HOUSING</b>	<b>\$85,465,376</b>	<b>\$72,511,793</b>	<b>(\$12,953,583)</b>	<b>(15.2%)</b>	
HOUSING RESOURCE CENTER B.1.1	\$11,517,750	\$235,500	(\$11,282,250)	(98.0%)	Recommendations include a decrease in Federal Funds as the majority of program funding for the Section 811 Project Rental Assistance Demonstration was reflected during implementation in 2014 with only administrative costs being reflected in subsequent years.
COLONIA SERVICE CENTERS B.2.1	\$0	\$0	\$0	0.0%	
<b>Total, Goal B, INFORMATION &amp; ASSISTANCE</b>	<b>\$11,517,750</b>	<b>\$235,500</b>	<b>(\$11,282,250)</b>	<b>(98.0%)</b>	
POVERTY-RELATED FUNDS C.1.1	\$80,357,630	\$80,308,114	(\$49,516)	(0.1%)	Recommendations include a reallocation of Community Services Block Grant Federal Funds from this strategy to Strategy D.1.2. to address increased federal oversight requirements related to property monitoring.
ENERGY ASSISTANCE PROGRAMS C.2.1	\$265,941,454	\$265,952,416	\$10,962	0.0%	Recommendations include an increase in Federal Funds due to an anticipated increase in funding for the Weatherization Assistance (Low-Income) Program.
<b>Total, Goal C, POOR AND HOMELESS PROGRAMS</b>	<b>\$346,299,084</b>	<b>\$346,260,530</b>	<b>(\$38,554)</b>	<b>(0.0%)</b>	
MONITOR HOUSING REQUIREMENTS D.1.1	\$0	\$0	\$0	0.0%	

Section 2

Department of Housing and Community Affairs  
Summary of Recommendations - House, By Method of Finance -- FEDERAL FUNDS

Strategy/Goal	2014-15 Base	2016-17 Recommended	Biennial Change	% Change	Comments
MONITOR CONTRACT REQUIREMENTS D.1.2	\$1,134,290	\$1,296,879	\$162,589	14.3%	Recommendations include a reallocation of Community Services Block Grant Federal Funds of \$49,516 from Strategy C.1.2. and an increase of \$113,073 in HOME Investment Partnership Program federal funding due to increased federal oversight requirements related to property monitoring.
<b>Total, Goal D, ENSURE COMPLIANCE</b>	<b>\$1,134,290</b>	<b>\$1,296,879</b>	<b>\$162,589</b>	<b>14.3%</b>	
TITLING & LICENSING E.1.1	\$0	\$0	\$0	0.0%	
INSPECTIONS E.1.2	\$400,000	\$400,000	\$0	0.0%	
ENFORCEMENT E.1.3	\$200,000	\$200,000	\$0	0.0%	
TEXAS.GOV E.1.4	\$0	\$0	\$0	0.0%	
<b>Total, Goal E, MANUFACTURED HOUSING</b>	<b>\$600,000</b>	<b>\$600,000</b>	<b>\$0</b>	<b>0.0%</b>	Recommendations maintain federal funding levels for the inspections of manufactured housing production facilities that the division performs under agreement with the Department of Housing and Urban Development.
CENTRAL ADMINISTRATION F.1.1	\$0	\$0	\$0	0.0%	
INFORMATION RESOURCE TECHNOLOGIES F.1.2	\$0	\$0	\$0	0.0%	
OPERATING/SUPPORT F.1.3	\$0	\$0	\$0	0.0%	
<b>Total, Goal F, INDIRECT ADMIN AND SUPPORT COSTS</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>0.0%</b>	



Section 2

Department of Housing and Community Affairs  
Summary of Recommendations - House, By Method of Finance -- FEDERAL FUNDS

Strategy/Gol	2014-15 Base	2016-17 Recommended	Biennial Change	% Change	Comments
Grand Total, All Strategies	\$445,016,500	\$420,904,702	(\$24,111,798)	(5.4%)	Decrease in Federal Funds by \$24,111,798 due to reduced federal receipts.  The recommendations reflect a decrease of \$25,382,250 in traditional federal funds that are no longer anticipated to be available: - Community Development Block Grant: \$4,100,000 - Tax Credit Assistance Program - Stimulus: \$10,000,000 - Sec 811 Project Rental Assistance Demo: \$11,282,250  The recommendations reflect an increase of \$1,270,452 in traditional federal funds: - HOME Investment Partnership Program: \$906,966 - Section 8 Housing Choice Vouchers: \$352,524 - Weatherization Assistance Program: \$10,962

Section 2

Department of Housing and Community Affairs  
Summary of Recommendations - House, By Method of Finance -- OTHER FUNDS

Strategy/Goal	2014-15 Base	2016-17 Recommended	Biennial Change	% Change	Comments
MRB PROGRAM - SINGLE FAMILY A.1.1	\$2,734,592	\$3,046,805	\$312,213	11.4%	Recommendations increase Appropriated Receipts due to an anticipated increase in operation costs.
HOME PROGRAM A.1.2	\$0	\$0	\$0	0.0%	
HOUSING TRUST FUND A.1.3	\$232,811	\$218,976	(\$13,835)	(5.9%)	
SECTION 8 RENTAL ASSISTANCE A.1.4	\$0	\$0	\$0	0.0%	
FEDERAL TAX CREDITS A.1.5	\$3,377,189	\$3,679,854	\$302,665	9.0%	Recommendation increase Appropriated Receipts due to the reallocation of FTEs from multiple strategies to address changes in workload in Fair Housing and the Asset Management division.
MRB PROGRAM - MULTIFAMILY A.1.6	\$897,722	\$979,718	\$81,996	9.1%	Recommendations increase Appropriated Receipts to assist with increased workload in the Fair Housing division.
<b>Total, Goal A, AFFORDABLE HOUSING</b>	<b>\$7,242,314</b>	<b>\$7,925,353</b>	<b>\$683,039</b>	<b>9.4%</b>	
HOUSING RESOURCE CENTER B.1.1	\$1,779,367	\$1,853,754	\$74,387	4.2%	Recommendations include a net increase of \$74,387 in Appropriated Receipts due to an increase in program maintenance costs.
COLONIA SERVICE CENTERS B.2.1	\$666,797	\$692,875	\$26,078	3.9%	
<b>Total, Goal B, INFORMATION &amp; ASSISTANCE</b>	<b>\$2,446,164</b>	<b>\$2,546,629</b>	<b>\$100,465</b>	<b>4.1%</b>	
POVERTY-RELATED FUNDS C.1.1	\$0	\$0	\$0	0.0%	
ENERGY ASSISTANCE PROGRAMS C.2.1	\$0	\$0	\$0	0.0%	
<b>Total, Goal C, POOR AND HOMELESS PROGRAMS</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>0.0%</b>	
MONITOR HOUSING REQUIREMENTS D.1.1	\$5,415,046	\$6,286,556	\$871,510	16.1%	Recommendations include a reallocation in Appropriated Receipts from multiple strategies for increased operations costs and FTEs to assist with property inspections and asset management.
MONITOR CONTRACT REQUIREMENTS D.1.2	\$0	\$0	\$0	0.0%	
<b>Total, Goal D, ENSURE COMPLIANCE</b>	<b>\$5,415,046</b>	<b>\$6,286,556</b>	<b>\$871,510</b>	<b>16.1%</b>	
TITLING & LICENSING E.1.1	\$3,413,325	\$3,697,290	\$283,965	8.3%	
INSPECTIONS E.1.2	\$3,051,499	\$3,387,959	\$336,460	11.0%	
ENFORCEMENT E.1.3	\$2,894,443	\$3,169,304	\$274,861	9.5%	
TEXAS.GOV E.1.4	\$0	\$0	\$0	0.0%	

Section 2

Department of Housing and Community Affairs  
Summary of Recommendations - House, By Method of Finance -- OTHER FUNDS

Strategy/Goal	2014-15 Base	2016-17 Recommended	Biennial Change	% Change	Comments
Total, Goal E, MANUFACTURED HOUSING	\$9,359,267	\$10,254,553	\$895,286	9.6%	Recommendations include an increase of \$895,286 in Appropriated Receipts for staff salary reclassifications and to reflect increases in other operating expenses.
CENTRAL ADMINISTRATION F.1.1	\$7,956,910	\$8,117,433	\$160,523	2.0%	
INFORMATION RESOURCE TECHNOLOGIES F.1.2	\$3,014,348	\$3,181,394	\$167,046	5.5%	
OPERATING/SUPPORT F.1.3	\$1,010,004	\$1,015,009	\$5,005	0.5%	
Total, Goal F, INDIRECT ADMIN AND SUPPORT COSTS	\$11,981,262	\$12,313,836	\$332,574	2.8%	Recommendations include an increase in Appropriated Receipts for increased costs for disaster recovery Information Technology support and to reflect changes in workload.
Grand Total, All Strategies	\$36,444,053	\$39,326,927	\$2,882,874	7.9%	

Section 3

Department of Housing and Community Affairs  
Selected Fiscal and Policy Issues - House

1. **Federal Funds.** Recommendations decrease Federal Funds by a net amount of \$24,111,798 due to reduced federal receipts anticipated in fiscal years 2016-17. The decrease in the next biennium is primarily due to American Recovery and Reinvestment Act funds (stimulus) which were depleted in 2014-15 and a decrease in funding related to the Section 811 Project Rental Assistance Demonstration. The agency has reported that only administrative costs will be reflected in 2016-17. The items below include a high level summary of the major adjustments. Additional federal grant details can be found in Section 2 of the packet.

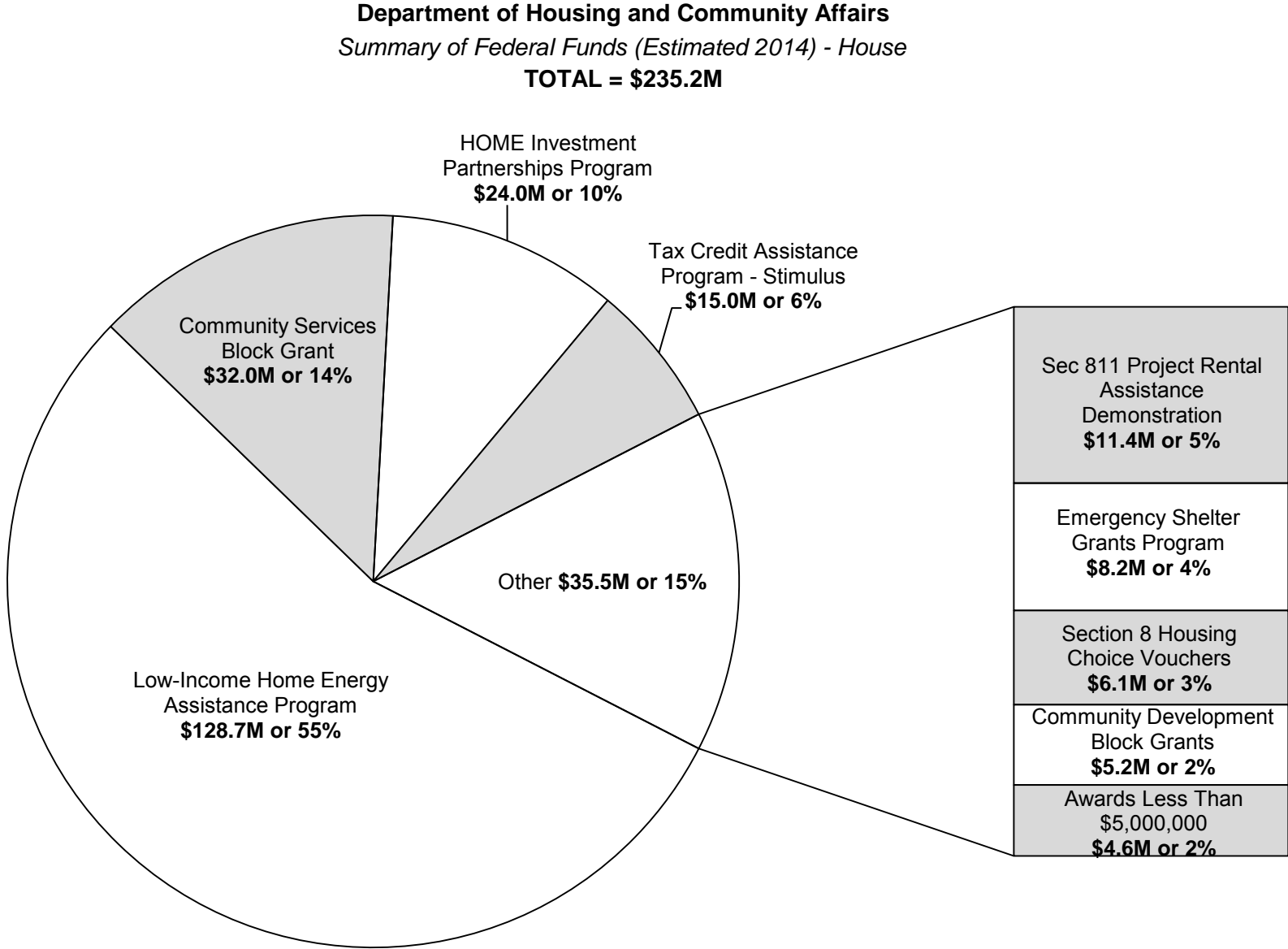
The recommendations reflect a decrease of \$25,382,250 in traditional federal funds that are no longer anticipated to be available:

- Community Development Block Grant: \$4,100,000
- Tax Credit Assistance Program - Stimulus: \$10,000,000
- Sec 811 Project Rental Assistance Demonstration: \$11,282,250

The recommendations reflect an increase of \$1,270,452 in traditional federal funds:

- HOME Investment Partnership Program: \$906,966
- Section 8 Housing Choice Vouchers: \$352,524
- Weatherization Assistance Program: \$10,962

Section 3



Note: Amounts and percentages shown may sum greater/less than actual total due to rounding.

Section 3

Department of Housing and Community Affairs Significant Federal Funds Changes - House					
CFDA No.	Program Name	2014-15 Base	2016-17 Recommended	Recommended Over/(Under) Base	Comments
14.228.000	Community Development Block Grants	\$6,300,000	\$2,200,000	(\$4,100,000)	This program refers to the Neighborhood Stabilization Program ("NSP") funding received in in 2008 and 2010. TDHCA's 2014 NSP funding reflects \$5.2M in estimated loan repayments associated with this program. This was an atypical repayment year and is responsible for the \$4.1M decrease in 2016-17 funding levels, which remain consistent at \$1.1M per year.
14.239.000	HOME Investment Partnerships Program	\$48,059,882	\$48,966,848	\$906,966	When the base reconciliation was prepared, TDHCA had not yet received 2014 HOME funding, so 2013 funding levels were assumed for 2014-15. When preparing the LAR, TDHCA was notified of 2014 allocations, which were \$453,483 higher than the 2013 HOME allocation. This higher figure was used for 2016-17 projections, resulting in the variance noted.
14.258.000	Tax Credit Assistance Program - Stimulus	\$20,000,000	\$10,000,000	(\$10,000,000)	Funding received for TCAP was received as part of the 2009 stimulus funding package. TDHCA made all funds available as loans, resulting in program income. 2014 numbers reflected a jump of \$10M in loan repayments that is atypical and not expected to continue.
14.326.000	Sec 811 Project Rental Assistance Demonstration	\$11,517,750	\$235,500	(\$11,282,250)	TDHCA received a \$12.3M award from the Department of Housing and Urban Development ("HUD") in 2013 for this program. TDHCA reflects all project funding for the program in 2014 but as this program will be administered minimally for a period of five years, has placed estimated administrative funds needed in 2015-17, resulting in the variance noted.

14.871.000	Section 8 Housing Choice Vouchers	\$12,158,274	\$12,510,798	\$352,524	Section 8 funding for FY14-15 reflects Base Reconciliation estimates, which were based on FY13 funding. FY16-17 estimates were based on 2014 funding received at the time the LAR was being prepared, resulting in the variance noted.
81.042.000	Weatherization Assistance for Low-Income	\$8,568,950	\$8,579,912	\$10,962	Department of Energy ("DOE") WAP funding for 2014-15 reflects Base Reconciliation estimates, which were based on 2014 funding. 2016-17 estimates were based on 2015 funding received at the time the LAR was being prepared, resulting in the variance noted.

Section 4

Department of Housing and Community Affairs  
Performance Review and Policy Report Highlights - House

Reports & Recommendations	Savings/ (Cost)	Gain/ (Loss)	Fund Type	Included in Introduced Bill	Action Required During Session
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NO RELATED RECOMMENDATIONS



## Section 5

### Department of Housing and Community Affairs Rider Highlights - House

2. **Capital Budget.** Recommendations amend this rider and reflect changes to capital budget authority for the following: (1) a decrease of \$96,000 in All Funds for Information Technology Hardware and Software Upgrades; (2) a decrease of \$610,000 in All Funds for the Texas Homeless Management Information System, not implemented in Fiscal Years 2014-15; and (3) an increase of \$110,000 in All Funds for the PeopleSoft Financials Maintenance project. The projects are funded with existing Federal Funds and Appropriated Receipts.
15. **(Former) Sunset Contingency.** Recommendations delete this rider. The Department of Housing and Community Affairs was continued by the 83<sup>rd</sup> Legislature, House Bill 3361, and this rider is no longer needed.

**Section 6**

**Department of Housing and Community Affairs  
Items not Included in the Recommendations - House**

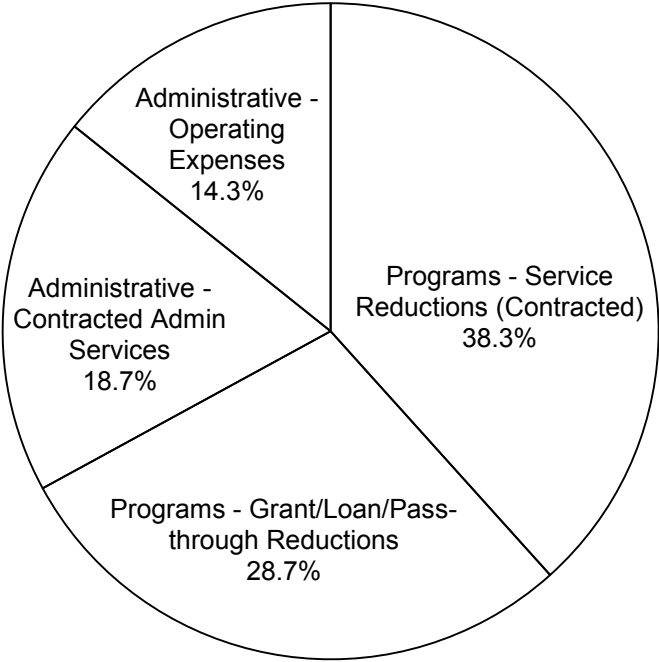
NONE

Section 7

Department of Housing and Community Affairs  
Summary of 10 Percent Biennial Base Reduction Options - House

Priority	Item	Description/Impact	Biennial Reduction Amounts					Included in Intro Bill?
			GR and GR-Dedicated	All Funds	FTEs	Potential Revenue Loss	Reduction as % of Program GR/GR-D Total	
1	Indirect Admin and Support	The board would decrease General Revenue available for TDHCA central administration. This reduction would be consistent with continuing reductions in central administrative functions as federal funds, especially those with greater administrative requirements, decrease or remain level.	\$376,299	\$376,299		\$0	11%	N
2	Housing Resource Center	The Housing Resource Center would be eliminated. This funding has been utilized for market studies, other types of needs surveys and infomration assistance.	\$240,000	\$240,000		\$0	17%	N
3	Housing and Health Services Coordination Council	Reductions would occur among the Housing and Health Services Coordination Council. This reduction would reduce funding for the Council without jeopardizing the overall objective of the Council's mission. Funding for professional services under this program would be eliminated but sufficient funding would remain for TDHCA staff support and Council travel.	\$252,838	\$252,838		\$0	18%	N
4	Poverty Related Funds	This reduction would reduce funding for poverty and homelessness assistance and prevention programs. TDHCA might be able to continue to fund the activity through Community Services Block Grant Discretionary Funds.	\$100,000	\$100,000		\$0	2%	N
5	Housing Trust Fund	Reductions would be made to spending for the Housing Trust Fund (HTF). The agency uses the HTF to fund the Texas Bootstrap Program (TBP) and the Amy Young Barrier Removal Program (AYBR). It is assumed that TDHCA would apply \$3M per year to TBP in order to meet statutorily required funding levels and that the balance would be applied to AYBR. Given required TBP funding levels, the reduction would be able to be taken from the AYBR. Based on the average per unit cost of AYBR, the total impact would be a reduction of an estimated 33 households over the biennium. (15 fewer households in SFY 2016 and 18 fewer in 2017)	\$657,655	\$657,655		\$0	6%	N
6	Poverty Related Funds	Reductions would occur in the Homeless and Housing Service Program (HHSP) Based on the estimated average cost per person served, it is estimated that the program will serve 1,011 fewer persons per year or 2,022 over the biennium. As costs vary significantly based on activities undertaken, the impact would likewise vary from city to city.	\$1,011,199	\$1,011,199		\$0	20%	N
TOTAL, 10% Reduction Options			\$2,637,991	\$2,637,991		\$0		

Department of Housing and Community Affairs  
Summary of 10 Percent Biennial Base Reduction Options - House  
Agency 10% Reduction Options by Category of Reduction





TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Prepared Materials for the  
**HOUSE COMMITTEE ON APPROPRIATIONS**

**2016-17 Budget Overview**  
February 6, 2015

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# TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

## **2016-17 Budget Overview** *Prepared for the House Committee on Appropriations*

### Table of Contents

<b>I. AGENCY OVERVIEW.....</b>	<b>1</b>
<b>II. HOUSE SFY 2016-17 FUNDING RECOMMENDATIONS.....</b>	<b>3</b>
<b>III. SIGNIFICANT ISSUES FACING TDHCA, UPDATES .....</b>	<b>5</b>
INCLUSIVE COMMUNITIES PROJECT, INC. (ICP) VS. TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS ET AL .....	5
FAIR HOUSING.....	6
IMPACT OF OMB CIRCULAR CONSOLIDATION, NEW FEDERAL REGULATIONS.....	7
RESOLUTION OF HOME INVESTMENT PARTNERSHIP PROGRAM LIABILITY ISSUES.....	7
INCREASED EFFICIENCIES, NEW CHALLENGES .....	7
<b>APPENDIX A: FUNDS OUTSIDE THE TREASURY.....</b>	<b>I</b>
<b>APPENDIX B: SCOPE OF PROGRAMS AND SERVICES .....</b>	<b>IV</b>

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## I. AGENCY OVERVIEW

The Texas Department of Housing and Community Affairs (“TDHCA”) is the state agency responsible for promoting and preserving home ownership, financing the development and ensuring the long-term stability of affordable rental housing, supporting community and energy assistance programs, and colonia housing activities. The Department partners with for-profits, nonprofits, and local governments to deliver housing and community-based opportunities and assistance to low and moderate income Texans. TDHCA receives its funding through various federal and state programs. The Manufactured Housing Division, which is administratively attached to TDHCA but has its own executive director and governing board, regulates the manufactured housing industry, ensuring strong consumer protections and a stable business environment. This responsibility includes maintaining records of ownership, location, and real or personal property status and recording and releasing liens.

### Types of Programs and Services

- Homebuyer Assistance
  - Mortgage loans, mortgage credit certificates, down payment assistance
- Homeownership Assistance
  - Home repair, rehabilitation, accessibility modifications
- Single Family Housing Construction and Rehabilitation
- Rental Housing Construction and Rehabilitation
- Rent Payment Assistance
- Home Weatherization and Utility Bill Payment Assistance
- Border and Colonia Technical and Housing Assistance
- Poverty and Homelessness Prevention
- Foreclosure Mitigation
- Manufactured Housing Regulation

### Impact

TDHCA is an important part of the safety net for Texans who need assistance, including safe, decent, and affordable housing. The Department never loses sight of the critical mission it serves for the homeless and for low income persons in our state, assisting with utility bills and making existing homes more livable and accessible. At the same time, the financing and improvements provided through TDHCA programs play a significant role in state and local economies. In State Fiscal Year (“SFY”) 2014 TDHCA expended or allocated approximately **\$800 million** in state and federal funds to enable subrecipients to provide housing and community services.

### **Program Impact Highlights of SFY 2014\***

- Infused **\$77.1 million** in tax credits, which will be received for ten years for a total of **\$771 million in credits**, and **\$48.1 million in loans** into the state's economy to support the construction of **9,654 units** of new and existing multifamily rental units.

#### **Economic Impact of Rental Development Activity**

*Estimates based on new construction units only using multipliers from the National Association of Home Builders*

- Added **\$638.1 million** to local business incomes during new construction, with a recurring impact of over **\$193.7 million** per year;
  - Increased local taxes and other local government revenues by **\$66.8 million** during new construction, with a recurring impact of over **\$35.5 million** annually; and
  - Provided employment for **approximately 9,800 Texans** during new construction, with a recurring impact of **approximately 2,400 Texas jobs** created or maintained annually.
- Provided **\$460.3 million** in homebuyer assistance, helping **3,323 households** become homeowners.
  - Administered **\$4.3 million** in Texas Bootstrap Program loans, helping **125 households** build their own homes.
  - Dedicated **\$18.7 million** in assistance to rehabilitate **290 single family homes**.
  - Administered **\$1.9 million** in assistance to make **110 single family homes** accessible for persons with disabilities.
  - Invested **\$154.3 million** in local capacity to help **198,434 households** keep their utility expenses affordable through weatherization and utility assistance.
  - Committed **\$36.3 million** to local partners to provide vital supportive services to **412,953 Texans** living in poverty, at risk of becoming homeless, and the homeless.
  - Dedicated **\$9.7 million** to help **1,281 households** pay their rent and help an additional **762 persons** in institutional settings transition to independent living.
  - Conducted **16,455 inspections of manufactured homes**, inclusive of **95% of all installations reported**, ensuring consumer safety.
  - Resolved **380 manufactured housing consumer complaints**

Funding and household/persons served reflect DRAFT 2015 State Low Income Housing Plan and Annual Report ("SLIHP") data and Colonia Self-Help Center home rehabilitation data for State Fiscal Year 2014.

## II. HOUSE SFY 2016-17 FUNDING RECOMMENDATIONS

<b>Total Recommended Funding</b>	<b>\$486.7 million over the biennium</b>
<b>General Revenue</b>	<b>\$26.5 million or approximately 5.44% of total funds</b> <ul style="list-style-type: none"> <li>▪ \$10 million over the biennium for the Homeless Housing and Services Program (“HHSP”)</li> <li>▪ \$11.8 million over the biennium for the Housing Trust Fund (“HTF”)                             <ul style="list-style-type: none"> <li>– Reflects level funding for this program</li> <li>– Maintains Rider requiring transfer of 10% of HTF appropriation to Texas Veterans Commission</li> </ul> </li> <li>▪ \$3.83 million of General Revenue derived from Earned Federal Funds associated with indirect administrative support of federally funded programs</li> </ul>
<b>Federal Funds</b>	<b>\$420.9 million or approximately 86.5% of total funds</b> <ul style="list-style-type: none"> <li>▪ Reflects estimate provided by TDHCA in its Legislative Appropriations Request (“LAR”)</li> <li>▪ Does not include \$1.5 million in Community Development Block Grant (“CDBG”) funds for the Colonia Self-Help Center Program. These funds run through the Texas Department of Agriculture bill pattern.</li> </ul>
<b>Appropriated Receipts</b>	<b>\$38.8 million or approximately 7.96% of total funds</b> <ul style="list-style-type: none"> <li>▪ Appropriated Receipts derive from TDHCA housing finance programs and the licensing of the manufactured housing industry.</li> </ul>
<b>Interagency Contracts</b>	<b>\$574,226 or 0.12% of total funds</b> <ul style="list-style-type: none"> <li>▪ The majority of funds are in support of a joint effort with the Texas Department of Aging and Disability Services to expand housing opportunities for special needs populations.</li> <li>▪ Includes funds from the Texas Department of Agriculture (“TDA”) to support administration of CDBG-funded Colonia Self-Help Centers Program pursuant to Rider 7 of TDHCA’s bill pattern and Rider 27 of TDA’s bill pattern.</li> </ul>
<b>FTEs</b>	<b>313 FTEs (Includes 64 for the Manufactured Housing Division and 249 for the remainder of the agency.)</b>

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**Capital Budget**

**\$602,000 over the biennium for IT Hardware and Software Refresh, PeopleSoft maintenance**

- \$130,000 in Federal Funds; \$472,000 in Appropriated Receipts
- Would allow the Department to replace computers that will be older than five years in that biennium. The capital budget will also be used to improve information security and upgrade mission-critical server hardware and software and network hardware that will be end-of-life in that biennium.
- Included in both House Bill 1 and Senate Bill 2

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***Funding Not Reflected in  
2014-15 GAA***

- Annual federal 9% Housing Tax Credit authority. TDHCA can also issue federal “4%” Housing Tax Credits to eligible applicants that are receiving loans funded through Private Activity Bonds (“PABs”) and access additional 9% credits from a national pool of unused credits from other states. In total, TDHCA issued \$77.7 million in credits in SFY 2014 which is received each year for a ten-year period resulting in \$777 million in credits and ultimately syndicated and converted to cash based on discount rates currently in the range of approximately 95%.
  - Approximately \$458 million per year in mortgages, down-payment assistance, and federal mortgage credit certificates (“MCCs”) for low to moderate income households using private sector financing mechanisms and TDHCA’s Private Activity Bond (“PAB”) authority. While historically TDHCA has used its single PAB primarily to issue mortgage revenue bonds, currently TDHCA uses this authority to issue MCC and funds mortgages and down payment assistance through its Taxable Mortgage Program, a private sector financing mechanism.
  - \$116 million in annual PAB authority in support of affordable multifamily (rental) development activity
  - Approximately \$934 million in funds maintained in the Texas Treasury Safekeeping Trust (*i.e.*, “Outside the Treasury”), \$903 million of which are subject to trust indentures governing single family and multifamily mortgage revenue bonds. The remaining funds outside of Treasury are primarily fees collected through housing finance and compliance activities and Housing Trust Fund balances. (See Appendix A for additional detail. Balances are as of 11/30/2015 and therefore an update of balances found in Schedule 6H of TDHCA Legislative Appropriations Request.)
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### III. SIGNIFICANT ISSUES FACING TDHCA, UPDATES

#### **Inclusive Communities Project, Inc. (ICP) vs. Texas Department of Housing and Community Affairs et al.**

ICP is a nonprofit organization located in Dallas engaged in efforts to “create racially and economically inclusive communities” by expanding affordable housing options in areas of greater opportunity. ICP has found that these communities align with greater concentrations of white population and that there are fewer affordable housing options for low income households available in those areas.

In 2008, Inclusive Communities Project, Inc. (“ICP”) filed a lawsuit against the Texas Department of Housing and Community Affairs (“TDHCA” or the “Department”) claiming that the manner in which TDHCA distributed housing tax credit in the Dallas area intentionally violated federal fair housing laws. Specifically, ICP contended that TDHCA had engaged in intentional racial discrimination and that as a result there had been a disproportionate lack of housing tax credit awards in predominantly white census tracts and a disproportionately high amount of awards of housing tax credits in predominantly African American census tracts. After various court actions, a March 20, 2012, order found that the Plaintiff failed to prove that the Department intentionally discriminated in the allocation of LIHTCs but did find that, while unintentional, the allocation of LIHTCs in the Dallas area resulted in a disparate (discriminatory) impact. The trial court (the Federal District Court in Dallas) directed the Department to file a remedial plan. The area affected directly by the litigation is the five-county area of Dallas, Collin, Kaufman, Denton, and Rockwall Counties. However, the principles developed in the remedial plan to ensure fair housing compliance have been adopted on a statewide basis in the development of the qualified allocation plan (“QAP”), which contains the rules that govern the state’s administration of the low income housing tax credit program; this document is adopted by the board and must be approved by the Governor.

An organization in Dallas seeking to revitalize in an area of high African American concentration in South Dallas, Frazier Revitalization Inc., had been trying, unsuccessfully, to obtain competitively awarded 9% low income housing tax credits. Frazier sought to intervene in the ICP litigation, and the court approved the intervention.

In compliance with the court’s order, TDHCA filed a proposed remedial plan which focused on tax credit scoring items that promote greater interest in “high opportunity areas,” areas of greater wealth and lower poverty. Because such factors of wealth often correlate to racial makeup, this remedial plan should result in more applications being awarded in predominantly white census tracts, thereby achieving a more balanced racial distribution. Because TDHCA believed it to be a policy set out in the federal statute which created the LIHTC program Internal Revenue Code (“IRC”) §42, the proposed remedial plan also provided for corresponding incentives for applicants seeking to develop housing which is a necessary part of a concerted revitalization effort in a qualified census tract (“QCT”). ICP and Frazier provided their objections to TDHCA’s proposed plan. A QCT is a census tract typified by a higher level of poverty or a greater percentage of low income households. HUD publishes lists of QCTs annually.

On August 7, 2012, a Memorandum Opinion and Order and Judgment were entered by the federal court in Dallas in the litigation styled *Inclusive Communities Project, Inc. vs. Texas Department of Housing and Community Affairs et al.* These rulings adopted much of the proposed remedial plan but rejected TDHCA’s view of

the requirements of the IRC regarding preferences for revitalization developments in QCTs. TDHCA, represented by the Office of the Attorney General, filed a motion with the court in September 4, 2012, to alter or amend judgment or, in the alternative for a new trial. The motion was granted in part and denied in part by Memorandum Opinion and Order issued on November 8, 2012. Notice of appeal was filed with the court on December 4, 2012.

After briefing and argument, the Court of Appeals remanded (sent back) the case to the trial court judge, Judge Fitzwater, to have him re-decide the matter applying HUD's burden shifting standard. That three part standard requires that the plaintiff prove a *prima facie* case of discrimination by showing that a challenged practice causes a discriminatory effect. If that is done, then the burden shifts to the defendant to prove that the challenged practice is necessary to achieve one or more substantial, legitimate, nondiscriminatory interests. If the defendant meets that burden, then the burden falls back on the plaintiff to show that the defendant's interests could be served by another practice that has a less discriminatory effect. The main issue on remand is whether plaintiff has met that last burden by showing that the substantial, legitimate, nondiscriminatory interests asserted by defendants could be served by another practice that has a less discriminatory effect.

However, upon remand, the State of Texas, represented by the Solicitor General of the Office of the Attorney General, filed a petition for writ of *certiorari* asking the United States Supreme Court to review whether disparate impact claims are cognizable under the Fair Housing Act. Judge Fitzwater stayed the case on remand in the District Court pending a decision on whether to grant *certiorari*. The Supreme Court of the United States granted *certiorari*, briefing was filed by the parties, and the case was argued before the United States Supreme Court on January 21, 2015. A decision is expected to issue this summer.

## **Fair Housing**

In administration of its programs, TDHCA must adhere to federal fair housing requirements and regularly reviews programs to ensure full compliance with the Fair Housing Act and related laws, Executive Orders, and applicable HUD guidance. Additionally, TDHCA, along with other state HUD grantees, is required to "affirmatively further fair housing." In accordance with HUD requirements, this effort is informed by goals and action items included in the state's *Analysis of Impediments to Fair Housing* or "AI," a HUD-required fair housing planning document which TDHCA updated in 2013. In July 2013, HUD issued a proposed "Affirmatively Furthering Fair Housing Rule" for local governments and states receiving Community Development Block Grant, HOME, Emergency Solutions Grant, and Housing Opportunities for Persons with AIDS funds. This proposed rule indicates more stringent fair housing requirements related to fair housing planning, collaboration, and assessment. In light of this heightened focus, TDHCA established a Fair Housing Team which both coordinates and supports ongoing TDHCA fair housing activities and ensures full compliance with any new fair housing requirements from HUD. As part of this effort and to assist in moving action items forward under the state's AI, the Department has recently expanded the fair housing information available on its website to provide resources to citizens, housing professionals, and local communities seeking fair housing information and assistance. It has also produced a tenant brochure advising of fair housing and reasonable accommodations rights, has developed a guide to assist local communities in learning about TDHCA's affordable housing programs, and has created two databases to assist TDHCA in fair housing planning. TDHCA also began convening a state agency fair housing workgroup in May 2014. The group, comprised of representatives from TDHCA, the General Land Office ("GLO"), the Department of State Health Services ("DSHS"), the Texas Department of Agriculture ("TDA"), and the Civil Rights Division of the Texas Workforce Commission, meets monthly to discuss fair housing matters, including documentation of compliance.

## **Impact of OMB Circular Consolidation, New Federal Regulations**

The federal Office of Management and Budget's ("OMB") recently implemented significant regulatory requirements through a "Omni Circular." TDHCA is closely examining the Omni Circular, especially with respect to subrecipient monitoring and procurement requirements. Clarifications incorporated into the Circular may effectively increase administrative oversight in the areas of single audit reviews and review and approval of indirect cost rates. The Omni Circular impacts all TDHCA federally funded programs. On July 24, 2013 HUD released new rules for the HOME Investment Partnerships Program that modified and expanded TDHCA monitoring responsibilities and administrative duties. HUD has delayed the property standards and inspection requirements as it responds to stakeholder questions and concerns.

## **Resolution of HOME Investment Partnership Program Liability Issues**

When activities funded with HOME funds, which come through HUD, do not achieve HUD's compliance requirements, HUD may require the HOME funds to be repaid with state funds. Many years ago there were a number of HOME-funded multifamily developments that failed to meet their compliance requirements, and HUD sought reimbursement. These old transactions presented an aggregate liability of over \$10 million. TDHCA's Asset Management Division was able to resolve approximately half of these transactions through restructuring but simply could not find a way that was acceptable to HUD to resolve the remaining \$5.4 million in liability. In 2009, the Tax Credit Assistance Program ("TCAP") was created under the American Recovery and Reinvestment Act ("ARRA") to provide financial assistance to Housing Tax Credit awardees affected by the economic downturn. TDHCA was under tremendous pressure to provide TCAP assistance in the form of cash-flow loans or even grants. Instead, TDHCA sought to obtain the greatest benefit to the state and developed a program focused on repayable loans. Those loans, as they repay, generate what is called program income or "PI." It was TDHCA's position that the federal stimulus bill would allow TDHCA to use TCAP PI to resolve the outstanding HOME liabilities. After much discussion, HUD has agreed to this solution. TDHCA is in the process of coordinating the necessary transfer of funds, at which time, HUD will consider the old assets resolved. Resources repaid to HUD will be available for future TDHCA HOME activities. Current practices, inclusive of active asset management and the layering of HOME with other funding streams, make it less likely that such issues will arise in the future.

## **Increased Efficiencies, New Challenges**

TDHCA has been successful in recent years in focusing its programs and processes on efforts that promote prompt use of funds with a focus on high quality housing delivery at the time the client is ready to proceed. The use of a reservation system (a first-come, first-served method whereby funds are not reserved for an organization until a specific household has been identified and pre-qualified) has allowed the Department to accelerate greatly the speed with which it releases resources to communities and has allowed for previous program balances to be reduced in its HOME Investment Partnerships Program ("HOME") and Housing Trust Fund ("HTF") that had built up from prior biennia, ensuring prompt and efficient use of resources for their intended purposes. Previous to the introduction of the reservation system, which was piloted with the Texas Bootstrap Program in 2006, TDHCA typically awarded HOME and HTF single family funds through two-year contracts which could be and often were extended. Some awardees would inevitably find fulfillment of the contract too challenging, resulting in a deobligation of all or most funds at the end of the contract period. This meant that households were left unserved or waited long periods of time to be served and, with respect to HOME, raised concerns at HUD of TDHCA's ability to administer the program successfully. Since full implementation of the reservation system for HOME and HTF single family funds, these funds have been quickly committed to eligible households.



Unexpended balances in the HOME program, which had hovered close to \$80 million in 2009, are now at \$34 million, of which nearly all are committed to specific households. HTF expended balances, which had been at \$27.7 million in February 2011, were \$7 million as of November 2014, and as with HOME, nearly all funds are committed to specific households. While the decreases in balances reflect, in part, an overall reduction in funding for both programs, the preponderance of these balance reductions is tied to more efficient allocation of funds that significantly reduces deobligations associated with poor contract performance.

The success of the reservation program in moving funds quickly combined with the reduction in HOME funds by 38% in 2012 (which due to the nature of the program was not felt by local subrecipients until 2014) have created other challenges. In the past, communities participating in the program incurred costs prior to award associated with ensuring client eligibility, but reimbursement of those costs was fairly assured because HOME funds were available; those costs are still likely to be incurred now, but subrecipients may find no funds available under the reservation system with which to reimburse such expenses because funds might be quickly depleted. Additionally, because new fund releases are often committed within minutes, only some of the communities are able to be successful in obtaining funds: There are essentially too few funds to serve all of the need and demand in rural Texas, and unfortunately some communities are unable to access HOME funds. This creates a challenge both for communities wanting to access the program for the first time and also for those who have historically been able to access funds.

TDHCA is holding two roundtables with stakeholders in February 2015 to explore possible program changes that provide fair access and transparency for communities while ensuring that HOME funds continue to be used efficiently and reach households as promptly as possible.



## APPENDIX A: FUNDS OUTSIDE THE TREASURY

### Summary of Funds Held Outside of Treasury

(TDHCA Funds Maintained in the Texas Treasury Safekeeping Trust Company)

In accordance with state law, the TDHCA maintains various accounts in the Texas Treasury Safekeeping Trust Company. These funds are outside the Treasury and, except as appropriated, not reflected in the General Appropriations Act. TDHCA funds outside the Treasury fall into the following broad categories:

- **Funds and obligations associated with TDHCA's single family and multifamily bond issuances made in support of affordable homeownership or rental opportunities.** These represent the majority of TDHCA funds outside the Treasury. Funds in these accounts are restricted by bond indentures; the funds can only be used in accordance with the indenture to repay bond investors or otherwise meet bond obligations.
- **Fees collected in support of TDHCA homeownership programs, multifamily (rental housing development) programs, and multifamily compliance/asset management activities as authorized by state and federal law.** These fees are transferred into the Treasury to defray administrative costs as approved within the General Appropriations Act; fees are reflected as Appropriated Receipts in TDHCA's bill pattern.
- **Housing Trust Fund ("HTF").** As required under Rider 9 of TDHCA's bill pattern, all non-administrative TDHCA General Revenue ("GR") appropriated under the HTF strategy is transferred to HTF accounts outside the Treasury. TDHCA also has a small amount of non-GR HTF funds derived from historic transfers of bond residual and other funds to the HTF; these are also maintained in HTF accounts outside the Treasury.
- **Bond residuals, homeownership program fees, and other resources reserved through Board action to activities/purposes in support of TDHCA housing programs.** Board approved activities include funding for TDHCA's Single Family Bond Warehousing Agreement, bond maintenance expenses, and bond contingency funds.

Following find a summary schedule showing balances for all TDHCA funds outside the Treasury exclusive of bond funds.

**Summary of TDHCA Funds Held Outside of Treasury Exclusive of Bond Indentures \***

	Housing Trust Fund <sup>1</sup>	Compliance Fees <sup>2</sup>	Housing Tax Credits Fees <sup>2</sup>	General Fund <sup>3</sup>	Total
Balance November 2015	7,322,168	6,068,549	8,597,340	9,086,668	31,074,725
Estimated Ending FY 15 Balance	4,372,618	8,079,131	7,582,530	6,720,532	26,754,812
<b>Restrictions/Uses</b>					
<b>Housing Trust Fund<sup>1</sup></b>					
Bootstrap	(1,974,011)				(1,974,011)
Non-Bootstrap HTF	(2,398,607)				(2,398,607)
<b>Fee Accounts<sup>2</sup></b>					
Contingent Legal Expenses <sup>4</sup>			(1,893,969)		(1,893,969)
Capital Budget <sup>5</sup>		(177,614)	(251,626)		(429,240)
SFY 2016-17 Operating Funds <sup>6</sup>		(1,000,000)	(600,000)	(400,000)	(2,000,000)
Estimated Minimal Operating Reserve <sup>7</sup>		(3,256,587)	(4,408,547)	(334,866)	(8,000,000)
Accrued Balances Available for Operational Costs, Other Eligible Uses <sup>8</sup>		(3,644,931)	(428,388)		(4,073,319)
<b>General Fund<sup>3</sup></b>					
Supplemental Single Family Bond Contingency Reserve <sup>9</sup>				(1,610,158)	(1,610,158)
Escrow Fund (Warehousing Agreement) <sup>9</sup>				(1,109,740)	(1,109,740)
Single Family & Multifamily Asset Preservation & Workout <sup>10</sup>				(32,034)	(32,034)
Bond Program/Cost of Issuance/Maintenance/Marketing <sup>3</sup>				(3,233,734)	(3,233,734)
<b>TOTAL</b>	<b>(4,372,618)</b>	<b>(8,079,131)</b>	<b>(7,582,530)</b>	<b>(6,720,532)</b>	<b>(26,754,812)</b>

\* As of 11/30/2014, TDHCA has \$801,863,480 of funds and obligations association with TDHCA's single family bond indentures and \$101,283,613 associated with TDHCA's multifamily bond indentures maintained in the Texas Treasury Safekeeping Trust Company ("TTSTC"). These funds are not reflected in this report.

See following page for notes on funds above.

### Notes on Funds Maintained in Texas Treasury Safekeeping Trust

- 1 Reflects existing balances and obligations associated with state funded Housing Trust Fund ("HTF") as of November 30, 2014. This includes approximately \$5.5M in balances from Notices of Funding Availability ("NOFAs") for the for Texas Bootstrap Program ("TBP") and Amy Young Barrier Removal Program ("AYBR"), reflective of funds made available in 2014 (most of which has already been committed), new SFY 2015 General Revenue, and transfers from other HTF accounts such as loan repayment accounts. TBP and AYBR subrecipients typically require up to twelve and six months, respectively, to expend funds.
- 2 Reflects fees collected and administrative costs associated with TDHCA's compliance monitoring, asset management, and Housing Tax Credit Program ("HTC") activities. Fees collected in accordance with Texas Government Code, including but not limited to §§2306.147(a), .266 and .6716(a); fees are dedicated for the purposes for which collected.
- 3 Reflects funds associated with various sources including bond residuals; Single Family/Multifamily bond administration fees; Mortgage Credit Certificate ("MCC") fees, and fee transfers. These fees are applied to activities necessary for the maintenance and operation of single family homeownership programs, administration of single family and multifamily bond programs, and, as determined by the TDHCA Board, other activities in support of affordable housing, including single family and multifamily asset management activities targeted at preserving the state's investment in certain properties.
- 4 TDHCA may be liable for legal expenses incurred by the complainant in the recent Inclusive Community Program ("ICP") fair housing lawsuit associated with the Housing Tax Credit Program. The trial court awarded the plaintiff, ICP, their legal fees; so the Department made provisions through the establishment of this reserve. The Court of Appeals overturned the award of attorney fees when it remanded the case back to the District Court for further proceedings. However, the trial court, on remand, could reinstate an award of attorney fees; therefore TDHCA will maintain the reserve until the legal proceedings are made final.
- 5 Reflects Appropriated Receipts portion of the IT Hardware and Software Refresh capital budget item.
- 6 Accrued fee balances to be applied to SFY 2016-17 Operating Budgets.
- 7 Based on historical fee collection schedules and administrative expenses, TDHCA estimates that approximately \$8 million should be maintained as an operating reserve fund to be available at the beginning of the year. This ensures that the Department has sufficient resources to administer programs at the beginning of the fiscal year as well as during periods of the year when fee collection is minimal or to leverage against potential adverse market conditions. TDHCA is currently reevaluating this figure; the amount may fluctuate dependent on market conditions.
- 8 Accrued fee balances available for future operational or other eligible uses. Use of various fees are dedicated for purposes/activities for which have been collected.
- 9 Reflects single family bond residual funds applied to single family bond contingency reserves and a single family bond warehousing agreement.
- 10 Reflects residual from the Below Market Interest Rate ("BMIR") Loan Program funds applied to single family and multifamily asset oversight and workout activities.

## APPENDIX B: SCOPE OF PROGRAMS AND SERVICES

TDHCA administers programs that support a housing continuum that ranges from poverty and homelessness prevention through rental assistance and homeownership to home repair and weatherization, in addition to other activities such as disaster recovery and foreclosure relief and manufactured housing licensing. A full list of our programs and services is provided below.

Activity	Program	Program Description	Eligible Beneficiaries Maximum Income*
Homebuyer Assistance	My First Texas Home ("MFTH"): Mortgage Loans	Low interest 30-year, fixed annual percentage rate mortgage loans with down payment and/or closing cost assistance to qualifying first time homebuyers or households who have not owned a home in the previous three years	Moderate Income
	Mortgage Credit Certificate Program ("MCC")	Tax credits to be applied to the annual interest paid on a mortgage loan to qualifying first time homebuyers or households who have not owned a home in the previous three years	Moderate Income
	Texas HOMEbuyer Assistance Program ("HOME HBA")	Down payment and closing cost assistance for homebuyers of single family housing units; may include rehabilitation for accessibility modifications	Moderate Income
	Texas Bootstrap Loan Program ("TBP") [DR]	Development of single family housing through "sweat equity," for which owner-builders provide at least 65% of the labor required to construct or rehabilitate their home	Very Low Income
Multifamily Development	Housing Tax Credit ("HTC") Program	Tax credits used to offset the developer's federal tax liability in exchange for the development of affordable rental properties or the rehabilitation of existing properties to maintain affordable rents for an extended period of time	Very Low Income
	Multifamily Bond Program ("MRB")	Low-interest loans to help finance the development of affordable rental properties or the rehabilitation of existing properties to maintain affordable rents for an extended period of time	Low Income
	HOME Multifamily (Rental) Housing Development ("MFD") [DR]	New construction, demolition and reconstruction, or acquisition and rehabilitation of affordable multifamily rental housing	Low Income

Activity	Program	Program Description	Eligible Beneficiaries Maximum Income*
Single Family Development	Single Family Development (“HOME SFD”) [DR]	Funds for Community Housing Development Organizations (“CHDOs”) to develop or rehabilitate affordable single family homes for homeownership	Low Income
	Colonia Consumer Education Services (Colonia Self Help Centers)	Technical assistance and/or training for colonia residents to carry out self-help home construction, housing repairs, infrastructure improvements, and community development activities such as financial literacy and technology access provided by TDHCA’s Colonia Self Help Centers located along the Texas-Mexico border.	Low Income
	Contract for Deed Conversion Initiative (“CFD”)	Conversion of a contract for deed into a conventional mortgage loan	Very Low Income
Home Rehabilitation	HOMEowner Rehabilitation Assistance Program (“HRA”) [DR]	Rehabilitation or reconstruction of substandard homes or replacement of manufactured housing units owned and occupied by qualified homeowners; potential refinance of existing mortgage in conjunction with home rehabilitation or reconstruction for qualified applicants	Low Income
	Amy Young Barrier Removal Program (“AYBR”) [DR]	Grant funds for accessibility modifications in rental and owner-occupied housing; helps eliminate hazardous conditions in owner-occupied homes and allows persons with disabilities to remain in their homes.	Low Income
	Colonia Self Help Centers	Home repair and home rehabilitation to residents in targeted colonias	Low Income
Home Energy Efficiency	Comprehensive Energy Assistance Program (“CEAP”)	Utility bill payment assistance, consumer education, and case management to help low income households better manage their energy consumption	Very Low Income
	Weatherization Assistance Program (“WAP”)	Installation of weatherization material and minor home repairs designed to make a home more energy efficient	Very Low Income

Activity	Program	Program Description	Eligible Beneficiaries Maximum Income*
Rental Assistance	Tenant-Based Rental Assistance Program ("TBRA") [DR]	Rental assistance for up to 24 months; assistance may include security, utility deposits, while the household engages in a self-sufficiency program	Low Income
	Housing Choice Voucher (Section 8)	Rental assistance	Very Low Income
	Project Access Voucher	Rental assistance for qualifying persons with disabilities transitioning from institutions into the community	Very Low Income
	Section 811 Project Rental Assistance	Project-based rental assistance for persons with disabilities linked through an Interagency Memorandum with HHSC with long term services	Extremely Low Income
Poverty and Homelessness Prevention	Emergency Solutions Grants ("ESG") Program	Rehabilitation and operation of a building for use as an emergency shelter; provision of essential supportive services for homeless persons and homelessness prevention activities	Extremely Low Income
	Homeless Housing and Services Program ("HHSP")	Services and housing ("including construction") to prevent and alleviate homelessness. Available to the eight largest Texas cities with populations larger than 285,500 persons.	Very Low Income
	Community Services Block Grant Program ("CSBG") [DR]	Supports local, community-based efforts to provide child care, health services, transportation, job training and employment services, housing, substance abuse prevention, and other essential services to help transition individuals out of poverty	Very Low Income
Foreclosure Mitigation	Neighborhood Stabilization Program ("NSP") [DR]	Redevelopment of NSP land-banked properties across the state, acquisition and redevelopment of foreclosed, vacant and abandoned properties to create housing affordable for eligible households.	Moderate Income
Manufactured Housing Division	Manufactured Housing ("MH") Division	Regulates the manufactured housing industry. Licenses manufactured housing professionals, titles homes, inspects homes, and investigates manufactured housing complaints	All

[DR] = May offer funding for disaster relief activities.

\* Eligible Beneficiaries by Area Median Family Income ("AMFI")

Extremely Low Income: 0% to 30% AMFI

Very Low Income: 31% to 50% AMFI

Low Income: 51% to 80% AMFI

Moderate Income and Up: >80% AMFI

Section 1

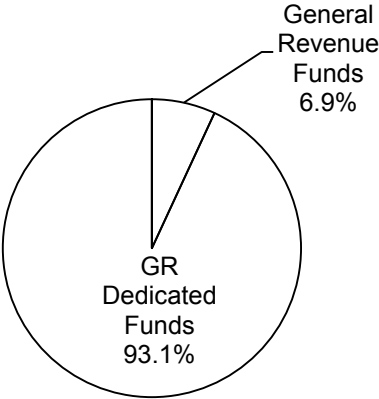
Texas Lottery Commission  
Summary of Recommendations - House

Page VII-8  
Gary Grief, Executive Director

Eduardo Rodriguez, LBB Analyst

Method of Financing	2014-15 Base	2016-17 Recommended	Biennial Change	% Change
General Revenue Funds	\$33,305,249	\$30,816,890	(\$2,488,359)	(7.5%)
GR Dedicated Funds	\$424,912,475	\$415,755,037	(\$9,157,438)	(2.2%)
Total GR-Related Funds	\$458,217,724	\$446,571,927	(\$11,645,797)	(2.5%)
Federal Funds	\$0	\$0	\$0	0.0%
Other	\$0	\$0	\$0	0.0%
All Funds	\$458,217,724	\$446,571,927	(\$11,645,797)	(2.5%)

RECOMMENDED FUNDING  
BY METHOD OF FINANCING

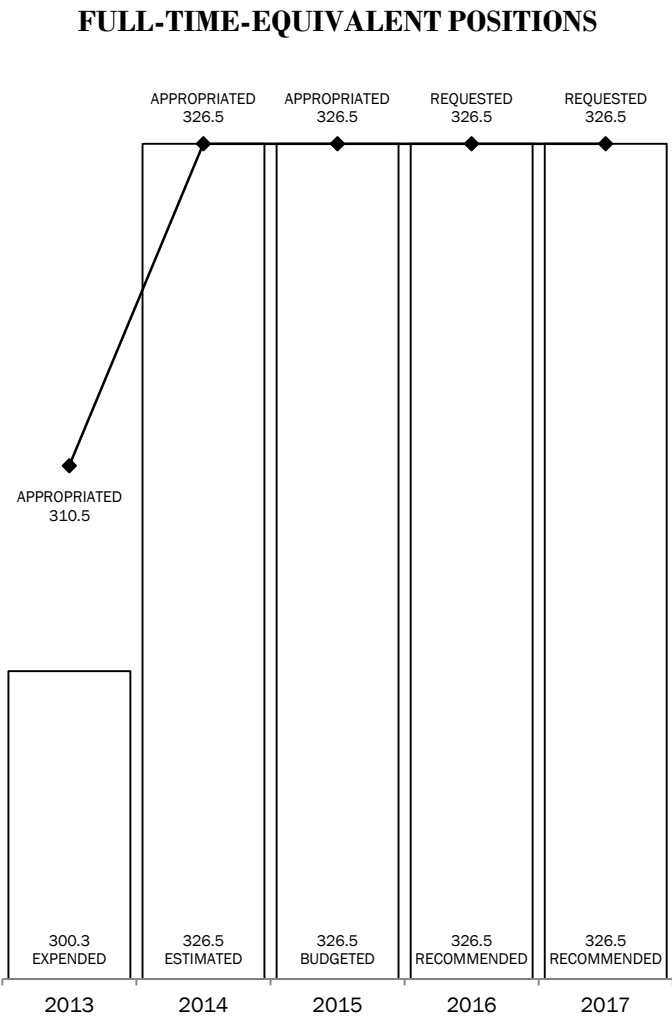
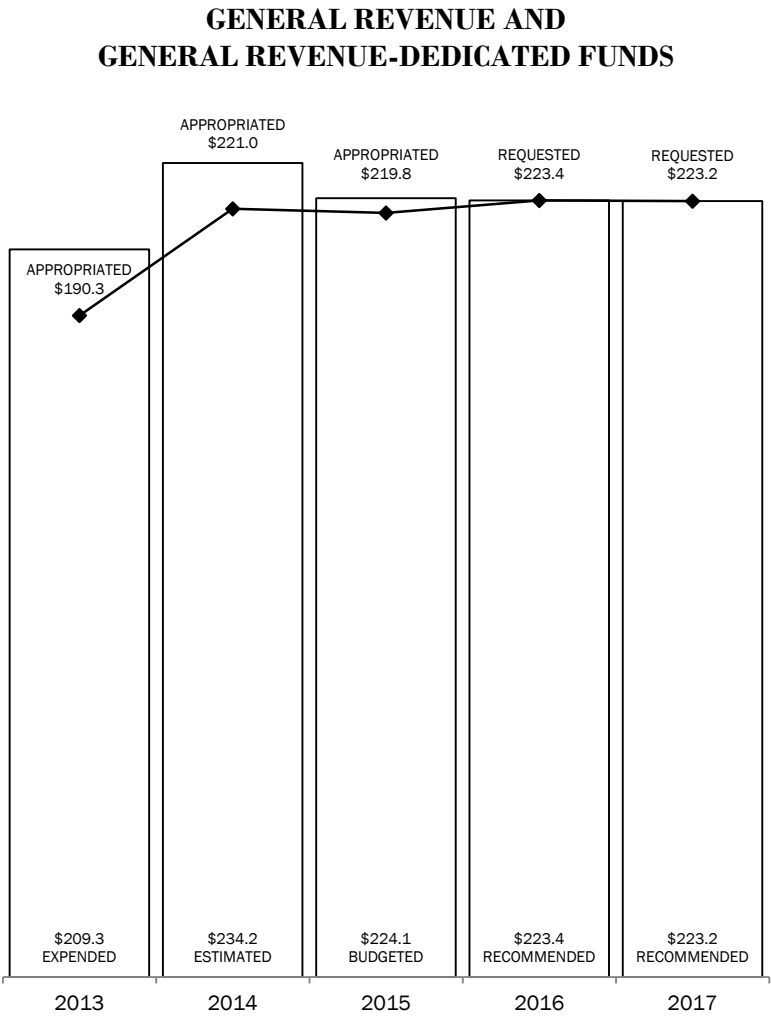
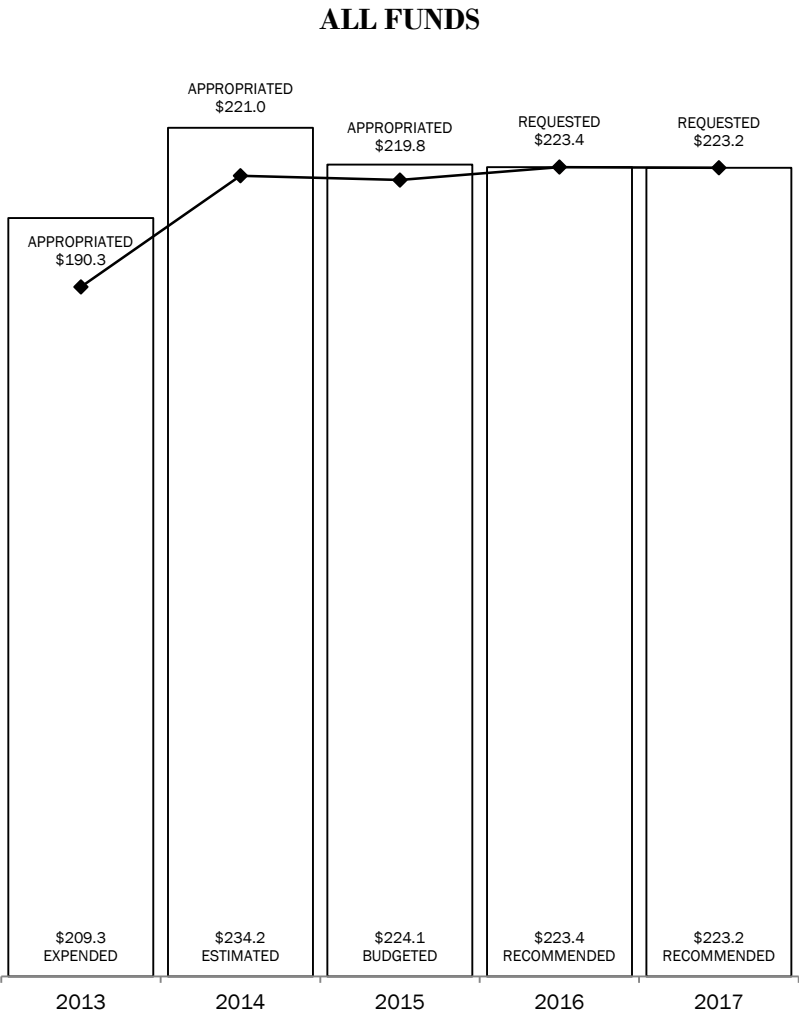


	FY 2015 Budgeted	FY 2017 Recommended	Biennial Change	% Change
FTEs	326.5	326.5	0.0	0.0%

The bill pattern for this agency (2016-17 Recommended) represents an estimated 100% of the agency's estimated total available funds for the 2016-17 biennium.

Section 1  
Texas Lottery Commission  
2016-2017 BIENNIUM  
IN MILLIONS

TOTAL= \$446.6 MILLION





Section 2

Texas Lottery Commission  
Summary of Recommendations - House, By Method of Finance -- ALL FUNDS

Strategy/Goal	2014-15 Base	2016-17 Recommended	Biennial Change	% Change	Comments
<i>2014-15 amounts are based on actual gross lottery ticket sales, while 2016-17 recommendations are based on gross lottery ticket sales estimates provided by the Texas Lottery Commission. Revenue and appropriation amounts will be updated to reflect Biennial Revenue Estimates provided by the Comptroller of Public Accounts.</i>					
LOTTERY OPERATIONS A.1.1	\$14,515,871	\$14,472,066	(\$43,805)	(0.3%)	
LOTTERY FIELD OPERATIONS A.1.2	\$5,335,995	\$5,456,952	\$120,957	2.3%	Recommendations include an increase in General Revenue-Dedicated to biennialize salaries at 2015 levels.
MARKETING AND PROMOTION A.1.3	\$10,816,885	\$11,342,184	\$525,299	4.9%	Recommendations include a reallocation of General Revenue-Dedicated from other strategies for increased costs related to postage, promotional items and staffing to address increased workload demands.
SECURITY A.1.4	\$11,826,232	\$12,534,826	\$708,594	6.0%	Recommendations include a reallocation of General Revenue-Dedicated from other strategies to address higher costs related to the drawings audit contract.
CENTRAL ADMINISTRATION A.1.5	\$25,313,886	\$26,409,775	\$1,095,889	4.3%	Recommendations include a reallocation of General Revenue-Dedicated from other strategies for additional technology and administrative support to assist with increased workload demands.
LOTTERY OPERATOR CONTRACT(S) A.1.6	\$184,839,351	\$175,642,852	(\$9,196,499)	(5.0%)	Recommendations include a decrease in General Revenue-Dedicated related to one-time lottery operator contract payments in fiscal year 2014-15.
INSTANT TICKET PRODUCT. CONTRACT(S) A.1.7	\$52,874,338	\$52,000,000	(\$874,338)	(1.7%)	Recommendations include a reallocation in General Revenue-Dedicated from this strategy related to Instant Ticket contract price reductions.
MASS MEDIA ADVERTISING CONTRACT(S) A.1.8	\$64,813,697	\$64,000,000	(\$813,697)	(1.3%)	Recommendations include a reallocation in General Revenue-Dedicated from this strategy based on projected advertising plan for fiscal years 2016-17.
DRAWING & BROADCAST CONTRACT(S) A.1.9	\$6,470,270	\$5,891,142	(\$579,128)	(9.0%)	Recommendations include a reallocation of General Revenue-Dedicated funding related to contract price reductions for drawings and broadcasts.
MARKET RESEARCH CONTRACT(S) A.1.10	\$1,205,950	\$1,105,240	(\$100,710)	(8.4%)	Recommendations include a decrease in General Revenue-Dedicated funding for anticipated reduction in research needs.
RETAILER BONUS A.1.11	\$8,400,000	\$8,400,000	\$0	0.0%	
RETAILER COMMISSIONS A.1.12	\$38,500,000	\$38,500,000	\$0	0.0%	

Section 2

Texas Lottery Commission  
Summary of Recommendations - House, By Method of Finance -- ALL FUNDS

Strategy/Goal	2014-15 Base	2016-17 Recommended	Biennial Change	% Change	Comments
Total, Goal A, OPERATE LOTTERY	\$424,912,475	\$415,755,037	(\$9,157,438)	(2.2%)	
BINGO LICENSING B.1.1	\$4,060,938	\$1,584,466	(\$2,476,472)	(61.0%)	Recommendations include a net decrease in General Revenue due to the following:  A decrease of \$2,500,000 in General Revenue for one-time funding for the agency's Automated Charitable Bingo System Redesign, and an increase in General Revenue from a reallocation of funding from other strategies to biennialize salaries at 2015 levels.
BINGO EDUCATION AND DEVELOPMENT B.1.2	\$343,391	\$353,848	\$10,457	3.0%	Recommendations include an increase in General Revenue to biennialize salaries at 2015 levels.
BINGO LAW COMPLIANCE FIELD OPER B.1.3	\$3,267,152	\$3,244,314	(\$22,838)	(0.7%)	Recommendations include a decrease and reallocation of General Revenue funds related to an anticipated decrease in Rider 15. Bingo Third Party Reimbursements revenues and the reallocation of General Revenue to other strategies to address increased work demands.
BINGO PRIZE FEE COLLECTION & ACCT B.1.4	\$25,633,768	\$25,634,262	\$494	0.0%	
Total, Goal B, ENFORCE BINGO LAWS	\$33,305,249	\$30,816,890	(\$2,488,359)	(7.5%)	

Section 2

Texas Lottery Commission  
Summary of Recommendations - House, By Method of Finance -- ALL FUNDS

Strategy/Goal	2014-15 Base	2016-17 Recommended	Biennial Change	% Change	Comments
Grand Total, All Strategies	\$458,217,724	\$446,571,927	(\$11,645,797)	(2.5%)	Recommendations include a net decrease in All Funds primarily due to the following:  A decrease of \$2,500,000 in General Revenue related to one-time funding for the agency's Automated Charitable Bingo System redesign.  A decrease of \$6,000 in General Revenue related to an anticipated decrease in Rider 15. Bingo Third Party Reimbursement revenues not anticipated in fiscal years 2016-17.  A decrease of \$9,290,998 in General Revenue-Dedicated related to an anticipated decrease in gross lottery ticket sales.  An increase of \$17,641 in General Revenue and \$133,560 in General Revenue-Dedicated to biennialize salaries at 2015 levels.

## Section 3

### Texas Lottery Commission Selected Fiscal and Policy Issues - House

1. **Contingent Revenue.** The 83<sup>rd</sup> Legislature required the agency to assess and increase fees sufficient to generate enough revenue to cover the costs of 14.0 additional Full-time Equivalent positions the agency requested for the purpose of increasing bingo regulation. The agency increased fees and generated the necessary revenues to meet the conditions of the rider in the 2014-15 biennium. Recommendations delete this rider as the terms have been met. (see Rider Highlights #14)
2. **Sunset Contingency.** The agency underwent Sunset review during the 83<sup>rd</sup> Legislative Session. The agency's appropriations were contingent upon passage of legislation continuing the agency. House Bill 2197 was passed and continued the agency for an additional 12 years through 2025. The rider is no longer needed and is not included in the recommendations. (See Rider Highlights #16)
3. **Unexpended Balances and Capital Authority: Automated Charitable Bingo System.** Recommendations do not include the agency's request to add a new rider for unexpended balance and capital budget authority from fiscal year 2015 into fiscal year 2016 for the purpose of completing the agency's Automated Charitable Bingo System redesign. (see Rider Highlights #15 and Items Not Included in the Recommendations #1)
4. **Gross Lottery Revenues.** Amounts included in the introduced bill reflect agency gross sales revenue estimates of \$3.974 billion in fiscal year 2016 and \$3.974 billion in fiscal year 2017. The agency's estimate represents a \$16 million biennial decrease from anticipated revenues in the 2014-15 biennium. Gross lottery revenue estimates will be aligned with the Comptroller of Public Accounts Biennial Revenue Estimates and all related riders and strategy appropriations will be updated to reflect any subsequent changes.
5. **Joint Committee on Texas Lottery.** The Texas Lottery Commission underwent Sunset review during the 83<sup>rd</sup> Legislative Session. House Bill 2197 continued the Texas Lottery Commission for another 12 years through fiscal year 2025 and required the Texas Legislature to form a joint committee comprised of House and Senate members to study the process of winding down the state lottery. This included potential time frames for phasing out the state lottery, the potential consequences of the absence of the state lottery on the state budget and the programs affected, and any other concerns related to the committee's charge. The joint committee issued a report the 84<sup>th</sup> Legislature in November 2014 that recommended that the Legislature continue the Texas Lottery and the Lottery Commission.

Section 3

Texas Lottery Commission  
FTE Highlights - House

Full-Time-Equivalent Positions	Expended 2013	Estimated 2014	Budgeted 2015	Recommended 2016	Recommended 2017
Cap	310.5	326.5	326.5	326.5	326.5
Actual/Budgeted	300.3	326.5	326.5	NA	NA
Schedule of Exempt Positions (Cap)					
Executive Director, Group 6	\$185,350	\$202,000	\$206,040	\$206,040	\$206,040

Note: In August 2014, the Lottery Commission requested from the Legislative Budget Board and the Office of the Governor to increase the salary for the Executive Director from \$185,350 to \$200,000 each year. The request was granted. During the 83rd Regular Session, the Legislature set the salary in the bill pattern at \$202,000 in fiscal year 2014 and \$206,040 in fiscal year 2015.

Section 4

Texas Lottery Commission  
Performance Review and Policy Report Highlights - House

Reports & Recommendations	Savings/ (Cost)	Gain/ (Loss)	Fund Type	Included in Introduced Bill	Action Required During Session
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NO RELATED RECOMMENDATIONS

Section 5

Texas Lottery Commission  
Rider Highlights - House

Modified Riders

- 1. **Capital Budget.** Recommendations include an All Funds decrease to the agency’s capital budget authority and funding due to a decrease of \$2.5 million in General Revenue related to one-time funding for the Automated Charitable Bingo System and a decrease of \$918,000 in General Revenue-Dedicated Lottery Account 5025 related to one-time funding for new draw games and the broadcast studio remodel.
- 11. **Appropriation of Increased Revenues.** Recommendations amend this rider in alignment with the agency’s request to reflect current lottery sales estimates of \$3.97 billion each year for the 2016-17 biennium and reflect updated fiscal years.

Deleted Riders

- 14. **Contingent Revenue.** Recommendations delete this rider. The rider required the agency to assess and increase fees sufficient to generate enough revenue to cover the costs of 14.0 additional Full-time Equivalent positions for the purpose of increased bingo regulation. The agency increased fees and generated the necessary revenues to meet the conditions of the rider in the 2014-15 biennium. These amounts were also included in the agency’s 2016-17 base. (see Selected Fiscal and Policy Issues #2)
- 16. **Sunset Contingency.** Recommendations delete this rider. The agency underwent Sunset review during the 83<sup>rd</sup> Legislative Session. The agency’s appropriations were contingent upon passage of legislation continuing the agency. House Bill 2197 was passed and continued the agency for an additional 12 years through 2025. The rider is no longer needed. (see Selected Fiscal and Policy Issues #3)

New Riders

- 15. **Unexpended Balances and Capital Authority: Automated Charitable Bingo System.** Recommendations do not include the agency’s request to add a new rider for unexpended balance and capital budget authority from fiscal year 2015 into fiscal year 2016 for the purpose of completing the agency’s Automated Charitable Bingo System redesign. (see Selected Fiscal and Policy Issues #4 and Items Not Included #1)

Section 6

Texas Lottery Commission  
Items not Included in Recommendations - House

		2016-17 Biennial Total	
		GR & GR-Dedicated	All Funds
Agency Exceptional Items - In Agency Priority Order			
1. New rider for unexpended balance and capital budget authority from fiscal year 2015 into fiscal year 2016 for the purpose of completing the agency's Automated Charitable Bingo System redesign. (see Selected Fiscal and Policy Issues #4 and Rider Highlights #15)	\$	-	\$ -
Total, Items Not Included in the Recommendations		\$ -	\$ -

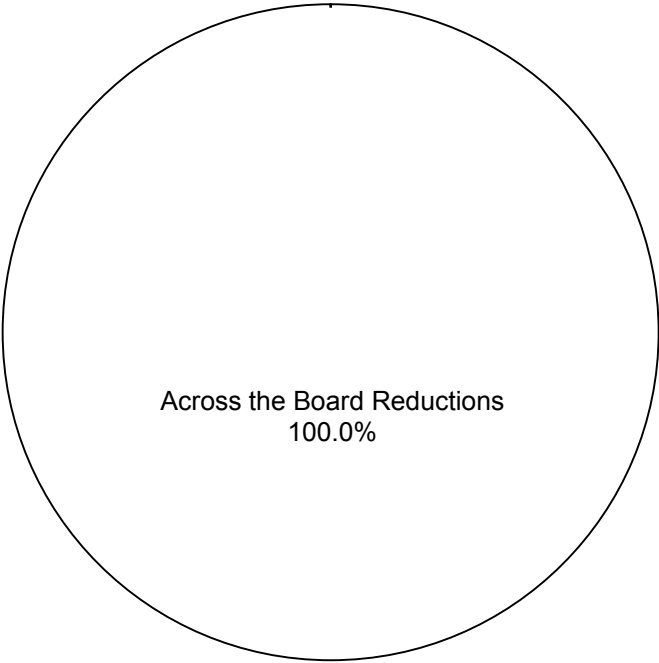


Section 7

Texas Lottery Commission  
Summary of 10 Percent Biennial Base Reduction Options - House

Biennial Reduction Amounts								
Priority	Item	Description/Impact	GR and GR-Dedicated	All Funds	FTEs	Potential Revenue Loss	Reduction as % of Program GR/GR-D Total	Included in Intro Bill?
1	Bingo Administrative Reduction	The agency would eliminate 4.0 of 11.0 Full-time Equivalent (FTE) positions in Strategy B.1.1, Bingo Licensing.	\$499,180	\$499,180	4.0	\$0	13%	No
	Bingo Administrative Reduction	The agency would eliminate 3.0 FTEs and the entire appropriation for Strategy B.1.2, Bingo Education.	\$348,886	\$348,886	3.0	\$0	100%	No
	Bingo Administrative Reduction	The agency would eliminate 7.0 of 29.0 FTEs in Strategy B.1.3, Bingo Law Compliance Field Operation.	\$739,707	\$739,707	7.0	\$0	21%	No
	Bingo Administrative Reduction	The agency would eliminate 1.0 of 4.0 FTEs in Strategy B.1.4, Bingo Prize Fee Collection and Accounting.	\$74,452	\$74,452	1.0	\$0	21%	No
2	Bingo Administrative Reduction	The agency would eliminate 3.0 of 11.0 FTEs in Strategy B.1.1, Bingo Licensing.	\$374,384	\$374,384	3.0	\$0	9%	No
	Bingo Administrative Reduction	The agency would eliminate 11.0 of 29.0 FTEs in Strategy B.1.3, Bingo Law Compliance Field Operation.	\$1,138,936	\$1,138,936	11.0	\$0	33%	No
	Bingo Administrative Reduction	The agency would eliminate 2.0 of 4.0 FTEs in B.1.4, Bingo Prize Fee Collection and Accounting.	\$148,904	\$148,904	2.0	\$0	42%	No
TOTAL, 10% Reduction Options			<u>\$3,324,449</u>	<u>\$3,324,449</u>	<u>31.0</u>	<u>\$0</u>		

Texas Lottery Commission  
Summary of 10 Percent Biennial Base Reduction Options - House  
Agency 10% Reduction Options by Category of Reduction





# An Audit Report on the LatinWorks Marketing Contract at the Texas Lottery Commission

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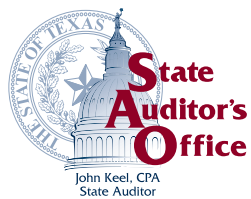
## Overall Conclusion:

The Texas Lottery Commission (Commission) adequately planned, procured, and formed its advertising contract with LatinWorks Marketing. Additionally, the Commission generally managed and monitored the advertising contract to verify that LatinWorks Marketing performed according to the terms of the contract. However, it should review the contractor's year-end report, evaluate performance against goals, and inspect services.

The Commission adequately reviewed contractor billings to ensure they were valid and supported. However, the Commission should ensure that it does not pay state sales tax on certain invoices.

## Background Information:

The *State of Texas Contract Management Guide*, version 1.9, includes four areas for planning, procuring, forming/establishing, and oversight of contracts to assist state agencies with their contract management framework.

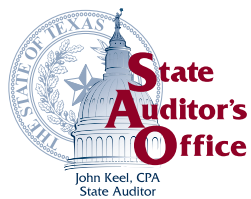


# **An Audit Report on the LatinWorks Marketing Contract at the Texas Lottery Commission**

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## **Findings:**

- The Commission's policies and procedures do not require purchasing personnel to complete a conflict of interest disclosure statement for procurements if there is no conflict. As a result, the Commission's purchasing personnel did not complete conflict of interest disclosure statements for procurements at the Commission.
- The fiscal year 2013 year-end media report that auditors reviewed inappropriately excluded four campaign projects that totaled \$5,023,255.
- The Commission does not have a process to evaluate the contractor's performance against goals, strategies, and estimated budgets established in the advertising and media plans. However, the Commission does compare planned expenditures to actual expenditures for certain media advertisement activities.
- The Commission should strengthen its monitoring procedures to increase its verification of advertising services. Specifically, the Commission does not visually inspect television, radio, and billboard advertisements to verify that those advertisements were actually broadcasted or posted before paying for them.



# **An Audit Report on the LatinWorks Marketing Contract at the Texas Lottery Commission**

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## **Findings (continued):**

- The Commission inappropriately paid state sales tax to one advertising subcontractor totaling \$245,557 since the beginning of the contract. The Commission should make its own determination after consulting with the Office of the Comptroller of Public Accounts about any obligation the Commission has to pay state sales tax rather than relying on the contractor.
- The Commission did not require the contractor to specify the amount of state sales tax paid on most invoices related to billboard advertising equipment. Additionally, the Commission did not consult with the Comptroller's Office about whether it could obtain a refund of the state sales tax it paid.
- Auditors identified one user who had an inappropriate level of access based on that user's current job responsibilities.



**John Keel, CPA**  
**State Auditor**

An Audit Report on

# **The LatinWorks Marketing Contract at the Texas Lottery Commission**

June 2014

Report No. 14-036

## ***The LatinWorks Marketing Contract at the Texas Lottery Commission***

### ***Overall Conclusion***

The Texas Lottery Commission (Commission) adequately planned, procured, and formed its advertising contract with LatinWorks Marketing. The Commission also managed that contract in accordance with statutes, rules, Office of the Comptroller of Public Accounts (Comptroller's Office) requirements, and Commission policies and procedures to help ensure that the State's interests were protected.

The Commission awarded the advertising contract to LatinWorks Marketing in May 2012 for \$104,019,222. The contract is valid through the end of fiscal year 2016.<sup>1</sup> The General Appropriations Act allocates \$32 million each fiscal year to the Commission for advertising services.

The Commission generally managed and monitored the advertising contract to verify that LatinWorks Marketing performed according to the terms of the contract. However, the Commission should improve its review of the contractor's year-end report, evaluate the contractor's performance against goals, and verify the services provided. For example, the contractor inappropriately excluded four advertising campaign projects from the year-end media review report provided to the Commission. Additionally, the Commission did not evaluate the contractor's performance against the goals and planned budget it established at the beginning of the year.

The Commission adequately reviewed contractor billings to ensure that it paid only valid invoices that included required supporting documentation in accordance with applicable statutes, rules, Comptroller's Office requirements, and Commission policies and procedures. However, the Commission should strengthen its processes to ensure that it does not inappropriately pay state

#### **Contract Management Framework**

- **Plan** - Identify contracting objectives and contracting strategy.
- **Procurement** - Fairly and objectively select the most qualified contractor(s).
- **Contract Formation/Rate/Price Establishment** - Ensure that the contract contains provisions that hold the contractor(s) accountable for producing desired results, including all relevant terms and conditions as well as establish processes that are cost-effective and aligned with the cost of providing goods and services.
- **Contract Oversight** - Monitor and enforce the terms of the contract.

Source: *State of Texas Contract Management Guide*, Version 1.9.

<sup>1</sup> According to the contract terms, the Commission can extend the current contract for two additional periods of two years. The Commission estimates the contract value with those extensions would be \$230,787,222.

sales tax. Auditors identified two sampled invoices that combined included more than \$100,000 paid by the Commission in state sales tax, even though the Commission is exempt from paying state sales tax. According to the Commission, it has paid a total of \$245,557 in state sales tax to the contractor since the beginning of the contract. The Commission should consult with the Comptroller's Office to recoup the state sales tax paid and to determine when, if ever, it should pay state sales tax in the future.

Auditors communicated less significant issues related to the contract's function and oversight areas to the Commission separately in writing.

## ***Summary of Management's Response***

The Commission agreed with the recommendations in this report.

## ***Summary of Objectives, Scope, and Methodology***

The objectives of this audit were:

- To determine whether the Commission planned, procured, and established the selected contract for goods and services in accordance with applicable statutes, rules, Comptroller's Office requirements, and state entity policies and procedures to help ensure that the State's interests were protected.
- To determine whether the Commission managed and monitored the selected contract for goods and services to help ensure that the contractor performed according to the terms of the contract and that contractor billings were valid and supported, in accordance with applicable statutes, rules, Comptroller's Office requirements, and state entity policies and procedures.

The scope of the audit covered the Commission's advertising services contract with LatinWorks Marketing. Auditors tested transactions from the inception of the current contract in May 2012 through December 31, 2013.

The audit methodology consisted of collecting and reviewing planning, procurement, and contract formation documentation, including the advertising services contract; conducting interviews with Commission staff; reviewing statutes, rules, Comptroller's Office requirements, and Commission policies and procedures; and performing selected tests and other procedures.

Auditors used expenditure information in the Uniform Statewide Accounting System and the Commission's MIP accounting system and performed analysis to determine completeness of the data. Auditors determined that data was sufficiently reliable for the purposes of this audit. Additionally, auditors reviewed user access to and segregation of duties for the Commission's



accounting system. Auditors did not perform any additional information technology work at the Commission.

# Contents

## ***Detailed Results***

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### Chapter 1

The Commission Planned, Procured, and Formed the Advertising Contract According to Applicable Statutes, Rules, Comptroller's Office Requirements, and Commission Policies and Procedures ..... 1

### Chapter 2

The Commission Adequately Monitored the Advertising Contract to Verify Compliance with Contract Terms; However, It Should Review the Contractor's Year-end Report, Evaluate Performance Against Goals, and Inspect Services..... 5

### Chapter 3

Contractor Billings Were Valid and Properly Supported; However, the Commission Should Ensure That It Does Not Pay State Sales Tax on Certain Invoices ..... 9

## ***Appendices***

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### Appendix 1

Objectives, Scope, and Methodology ..... 12

### Appendix 2

Contractor Information ..... 16

### Appendix 3

Related State Auditor's Office Work ..... 17

# Detailed Results

## Chapter 1

### ***The Commission Planned, Procured, and Formed the Advertising Contract According to Applicable Statutes, Rules, Comptroller's Office Requirements, and Commission Policies and Procedures***

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The Texas Lottery Commission (Commission) planned, procured, and formed the \$104 million contract awarded in May 2012 for advertising services in accordance with applicable statutes, rules, Office of the Comptroller of Public Accounts (Comptroller's Office) requirements, and Commission policies and procedures to help ensure that the State's interests were protected.

The *State of Texas Contract Management Guide*<sup>2</sup> requires several planning and procurement steps to help state agencies ensure that they are more successful in their contracting processes. While the Commission implemented policies and procedures to align with most of those steps, it should ensure that its policies and procedures require purchasing personnel to complete a conflict of interest disclosure statement for procurements.

The Commission followed the required processes to plan the advertising contract according to applicable statutes, its policies and procedures, and other requirements.

The Commission complied with applicable state laws, its policies and procedures, and other requirements while planning the advertising contract it awarded to Latinworks Marketing in May 2012. Specifically, for the contract audited, the request for proposals appropriately included the following:

- Contract objectives, which were documented as a list of services required.
- All 10 applicable solicitation elements required by the *State of Texas Contract Management Guide* (see text box).
- All six applicable lessons learned from the prior advertising contract.
- State rules for subcontracting opportunities.
- Management approval prior to advertising the solicitation.

#### **Applicable Solicitation Elements**

- Quantity.
- Quality.
- Contractor qualifications.
- Evaluation criteria.
- Best value considerations.
- Proposal submission requirements.
- Monitoring.
- Reporting.
- Inspection and testing.
- Final acceptance.

Source: *State of Texas Contract Management Guide*, Version 1.9, Chapter 3.

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<sup>2</sup> *State of Texas Contract Management Guide*, Version 1.9.

In addition, the Commission complied with other requirements. Specifically:

- The Commission's contract managers and purchasing staff complied with certification and training requirements in the *State of Texas Procurement Manual*. The Commission's purchasers and contract managers in contracting and procurement from September 1, 2011, through December 31, 2013, had the required training and certifications for their positions.
- The Commission appropriately completed two risk assessments prior to the solicitation to identify risks, constraints, services, and oversight needed for contract terms.
- The Commission correctly selected the request for proposal procurement method for the advertising services contract.

**The Commission generally procured the advertising contract according to applicable statutes, rules, requirements, and its policies and procedures.**

The *State of Texas Contract Management Guide* requires several planning and procurement steps to help state agencies be more successful in their contracting processes. While the Commission implemented policies and procedures to align with most of those steps, its policies and procedures do not require purchasing personnel to complete a conflict of interest disclosure statement for procurements even if there is no conflict.

As a result, the Commission's purchasing personnel did not complete conflict of interest disclosure statements for procurements at the Commission. The *State of Texas Contract Management Guide* and Texas Government Code, Section 2262.004, state that employees involved in preparing a solicitation must disclose in writing any conflict of interest or lack of any conflict of interest prior to awarding a major contract. The Commission did not perform a sufficient review of that statute and the instructions to purchasing personnel for completing the conflict of interest disclosure statements; therefore, the Commission did not ensure that its internal policies aligned with statute. Although auditors did not find any evidence that conflicts of interest existed, there is a potential for the Commission to have unreported conflicts of interest with contractors.

The Commission adequately completed the following procurement requirements to ensure compliance with applicable state laws, rules, requirements, and its policies and procedures:

- Solicited bidders in accordance with state laws and rules by advertising the proposal on the appropriate Web site and sending notices to all eligible vendors on the State's Centralized Master Bidders List.

- Conducted its bid opening process in accordance with its policies and procedures.
- Ensured that all evaluation team members signed the required non-disclosure statement form that required evaluators to not divulge information concerning the proposals.
- Ensured that all four proposals met the minimum qualifications and were submitted by the due date.
- Selected LatinWorks Marketing as the winning bidder because it was the highest scored proposer.
- Documented its negotiations with LatinWorks Marketing.

The Commission formed the advertising contract according to applicable statutes, requirements, and its policies and procedures.

The Commission formed the advertising contract in accordance with applicable statutes, Comptroller's Office requirements, and Commission policies and procedures to help protect the State's interests. Auditors determined that the Commission's advertising contract contained all essential clauses and recommended terms specified in statute and the *State of Texas Contract Management Guide*.

Additionally, the Commission selected the appropriate payment methodology, designed a change management process in accordance with the *State of Texas Contract Management Guide*, and properly reported the advertising contract to the Legislative Budget Board as required by statute.

### **Recommendation**

The Commission should revise its policies to require all purchasing personnel involved with a contract to sign a conflict of interest disclosure statement prior to awarding a major contract.

### **Management's Response**

*The agency concurs with the recommendation.*

- *The agency has implemented a practice of requiring all purchasing personnel involved with a contract to sign a conflict of interest disclosure statement.*

*Responsible Management: Administration Division Director*

*Target Date: Completed – April 2014*

- *This practice will be incorporated in the agency's "Preparing a Request for Proposals" Procedure.*

*Responsible Management: Administration Division Director*

*Target Date: June 30, 2014*

## ***The Commission Adequately Monitored the Advertising Contract to Verify Compliance with Contract Terms; However, It Should Review the Contractor's Year-end Report, Evaluate Performance Against Goals, and Inspect Services***

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The Commission generally managed and monitored the LatinWorks Marketing contract for goods and services to ensure that the contractor performed according to contract terms. The Commission adequately reviewed weekly, monthly, and quarterly reports that detailed contractor/advertising

performance (see text box for additional information). However, it should ensure that the contractor's year-end media review report matches the Commission's accounting system. In addition, the Commission should create a process to evaluate the contractor's actual performance against goals. The Commission also should periodically confirm that purchased television, radio, and billboard advertisements were appropriately placed in accordance with advertising invoices.

**The Commission adequately managed and monitored the contract with LatinWorks Marketing; however, it should improve its review of LatinWorks Marketing's yearly reports.**

LatinWorks Marketing's advertising performance reports that auditors reviewed were submitted in a timely manner and contained documentation of Commission review, the accuracy of gross rating points<sup>3</sup> in certain reports, and compliance with other contract requirements. However, auditors identified the following issues related to the Commission's monitoring of the LatinWorks Marketing contract:

### **Contracted Deliverables**

Deliverables required by the advertising contract are categorized in the following areas:

#### Weekly and Quarterly Campaign Monitoring:

- Status report.
- Media buy report.
- Post-buy report.
- Post-campaign/promotional report.
- Print audit report.

#### Monthly Expenditure Monitoring:

- Approved expenditure report.
- Historically underutilized business subcontracting plan prime contractor progress assessment report.

#### Yearly Monitoring:

- Advertising plan.
- Media plan.
- Year-end media review report.
- Storage inventory report.

- The fiscal year 2013 year-end media review report that auditors reviewed inappropriately excluded four campaign projects that totaled \$5,023,255. The year-end report is a monitoring tool that compares planned media expenditures to actual media expenditures. The exclusion of those four campaign projects limited the Commission's ability to assess the contractor's performance. Commission management stated that it did not identify that it had not included those four advertising campaign projects because it did not compare report expenditures to its accounting system. Chapter 7 of the *State of Texas Contract Management Guide* states that adequate monitoring of the contractor is a key function of proper contract administration.

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<sup>3</sup> Gross rating points are a measure of the total amount of the advertising exposures produced by a specific media vehicle or a media schedule during a specific period of time.

- The Commission does not have a process to evaluate the contractor's performance against goals, strategies, and estimated budgets established in the advertising and media plans. However, the Commission does compare planned expenditures to actual expenditures for certain media advertisement activities. Neither the Commission nor the contractor is required to evaluate yearly performance because there is no such requirement in the contract terms or Commission policies and procedures. However, not monitoring the contractor's performance against stated goals limits the Commission's ability to effectively evaluate contractor performance in meeting strategic goals like increasing sales.<sup>4</sup> As noted above, the *State of Texas Contract Management Guide* states that adequate monitoring of the contractor is important to ensure proper contract administration.

**The Commission should inspect certain services for which it pays to ensure that it receives those services.**

The Commission has designed contract monitoring policies and procedures to verify that it receives expected services and that the contractor is complying with contract terms, and to determine when the contract is complete and help ensure it performs close-out procedures. However, the Commission should strengthen its monitoring procedures to increase its verification of advertising services. Specifically, the Commission does not visually inspect television, radio, and billboard advertisements for which it has paid to verify that those advertisements were actually broadcasted or posted before paying for them.

Instead, the Commission relies on the television and radio stations' automated systems and subcontractor billboard invoices to determine the accuracy of advertisement placements. As a result, state resources may be wasted if paid advertisements do not actually run or reach the intended audience. Chapter 7 of the *State of Texas Contract Management Guide* states that approvals of goods and services should be provided after those goods and services are inspected and accepted.

**The Commission adequately uses most contract deliverables to ensure compliance with contract terms.**

Auditors verified that the Commission adequately reviewed weekly, monthly, quarterly, and campaign-related contract deliverables related to managing and monitoring the advertising contractor's compliance with contract terms. Specifically:

- The Commission received weekly status reports about the advertising campaigns and contractor activities. Those status reports are the basis for a

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<sup>4</sup> LatinWorks Marketing's fiscal year 2014 advertising plan with the Commission states that the following are key goals: (1) exceeding year-over-year sales, (2) driving the average year-over-year participation, and (3) continuing to contribute \$1 billion to the Foundation School Fund. The advertising plan was completed on May 22, 2013, and the goals are for activities performed during fiscal year 2014.



weekly meeting between Commission staff and the contractor's advertising staff. The Commission also receives an email recap of the weekly meeting discussions.

- The Commission received at least three creative concepts<sup>5</sup> for each of the two advertising campaigns that auditors tested. Auditors reviewed the Commission's feedback on creative options for another campaign, indicating that the Commission adequately ensured that the contractor adhered to the Commission's values<sup>6</sup> and that the State received the best value.
- The Commission monitored the planned, purchased, and actual/received rating points for its television and radio advertising to ensure that it effectively spent advertising dollars.
- The Commission monitored monthly approved expenditures to ensure that the contractor and the Commission agreed on amounts expended and the amounts remaining in specific campaign budgets/purchase orders.

During this audit, to help improve its monitoring of advertising, the Commission requested a study of media buys and their cost-effectiveness to determine whether the Commission could spend its advertising dollars more effectively.

During this audit, the Commission also received the *Impact of Advertising on Lottery Sales in the State of Texas* report<sup>7</sup>, which discusses how advertising affects sales. Increasing sales is a key goal in the Commission's fiscal year 2014 advertising plan.

In addition, auditors verified that the Commission ensured that the advertising contractor complied with historically underutilized business (HUB) requirements in Texas Government Code, Section 2161.253, and that the contractor met the HUB target established in its HUB subcontracting plan.

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<sup>5</sup> Creative concepts are different creative ideas for an advertising campaign the contractor presented to the Commission.

<sup>6</sup> The Commission provides guidelines in its advertising services contracts to "ensure all advertising efforts shall be conducted in a manner commensurate with the dignity and integrity of the State of Texas." The guidelines include provisions that advertising should not unduly influence; show lifestyle change for Lottery winners; display guns, alcohol, and tobacco; or degrade any persons or groups.

<sup>7</sup> The report was written by Dr. Ramkumar Janakiraman, associate professor of marketing at Texas A&M University, and released in March 2014.

## Recommendations

The Commission should:

- Reconcile the year-end media review report using its internal accounting system to verify that all appropriate campaign projects are captured.
- Monitor or require the advertising contractor to evaluate performance against advertising and media plan goals on an annual basis.
- Periodically sample purchased television, radio, and billboard advertisements to verify the placement of Commission advertisements.

## Management's Response

*The agency concurs with these recommendations.*

- *To ensure all advertising expenditures are accurately reflected for each fiscal year, the agency will develop and implement a procedure to reconcile the year-end media review report to the agency's internal accounting system.*

*Responsible Management: Lottery Operations Division Director*

*Target Date: August 31, 2014*

- *The agency will work with the advertising contractor to develop a process to evaluate and report on performance against stated annual advertising/media plan goals.*

*Responsible Management: Lottery Operations Division Director*

*Target Date: August 31, 2014*

- *The agency will develop and implement a procedure for the periodic sampling of purchased television, radio and billboard advertising.*

*Responsible Management: Lottery Operations Division Director*

*Target Date: August 31, 2014*

## ***Contractor Billings Were Valid and Properly Supported; However, the Commission Should Ensure That It Does Not Pay State Sales Tax on Certain Invoices***

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The Commission complied with the billing requirements in the *State of Texas Contract Management Guide*, its own policies and procedures, and specific terms in its advertising contract to verify that the contractor's billings were valid and supported. Auditors tested 30 contractor payments totaling \$4,822,201 and determined that they were properly supported, authorized, allowable, paid in a timely manner, and reasonable according to the contract terms. Additionally, the Commission adequately reviewed contractor invoices, frequently requiring clarification or additional documentation. However, the Commission should strengthen its processes to ensure that it does not inappropriately pay state sales tax for certain advertising services.<sup>8</sup>

**The Commission paid state sales tax on certain invoices.** Auditors identified two sampled invoices that combined included more than \$100,000 in state sales tax that the Commission paid, even though the Commission is exempt from paying state sales tax. According to the Commission, it has paid a total of \$245,557 in state sales tax to its advertising contractor since the beginning of the contract.

According to the Commission, the advertising contractor determined that it had an obligation to pay state sales tax to one vendor for equipment that was required in certain billboard advertising services, even though the equipment was solely for the Commission's use. The Commission provided documentation that was created during the time of the contract procurement process showing that its staff discussed the issue and decided the state sales tax was an allowable cost of providing the advertising services, and the Commission therefore reimbursed the contractor for that portion of the cost based on the contractor's determination of its state sales tax obligations. It is important that the Commission make its own determination after consulting with the Comptroller's Office about any obligation it has to pay state sales tax.

**The amount of state sales tax was not identified on most invoices.** Because the Commission determined in advance that it would pay state sales tax on certain equipment related to billboard advertising, it required the advertising contractor to submit invoices that included only the final price, which did not itemize the portion of that price attributable to state sales tax. Auditors identified one invoice on which the contractor inadvertently itemized the amount of state sales tax included in the final price. All other invoices related to the equipment did not specify the state sales tax. If the invoices do not clarify the portion of the final price that is attributable to state sales tax, it

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<sup>8</sup> All state agencies are exempt from paying state sales tax per Texas Tax Code, Section 151.309 (4).

could be more difficult for the Commission to obtain a refund from the Comptroller's Office for the state sales tax it paid.

**The Commission did not ask for a refund of state sales tax it paid.** After paying the state sales tax for the advertising services discussed above, the Commission did not consult with the Comptroller's Office about whether it could obtain a refund of the state sales tax paid. The Comptroller's Office has a process that state agencies and other exempt organizations can use to recoup state sales tax paid.

**The Commission should review user access to its accounting system.** Auditors reviewed user access to the Commission's accounting system and determined that (1) most users had the appropriate level of access based on their job responsibilities and (2) there was adequate segregation of duties for the ordering, recording, and processing of contractor payments. Auditors identified one user who had an inappropriate level of access based on that user's current job responsibilities. Although auditors confirmed that the user did not edit transactions in the Commission's accounting system, there is a potential risk of inappropriate use or modification of the Commission's financial information. According to Commission management, its annual and periodic access reviews did not identify this issue.

## **Recommendations**

The Commission should:

- Consult with the Comptroller's Office to determine when, if ever, it is required to pay state sales tax for advertising services.
- Request a refund from the Comptroller's Office for all state sales tax it has paid for advertising services.
- Ensure that invoices include enough detail to determine the amount of state sales tax paid, if applicable.
- Evaluate its process for reviewing user access to its accounting system to ensure that it identifies all users who have inappropriate levels of access.

## **Management's Response**

*The agency concurs with these recommendations.*

- *The agency has initiated an inquiry to the Comptroller's Office to determine circumstances when sales tax is required to be paid by a state agency for advertising services.*

*Responsible Management: Controller*

*Target Date: Completed – May 7, 2014*

- *The agency will take all appropriate steps related to the prior payment of sales taxes and any needed refund based on guidance received from the Comptroller's Office.*

*Responsible Management: Controller*

*Target Date: August 31, 2014*

- *The agency will ensure that all invoicing from the advertising contractor provides necessary detail with regard to the payment of sales tax.*

*Responsible Management: Lottery Operations Division Director*

*Target Date: June 30, 2014*

- *The agency has evaluated its process for reviewing user access to the accounting system and, in doing so, has removed access for the user identified by the SAO as having an inappropriate level of access.*

*Responsible Management: Controller*

*Target Date: Completed – April 14, 2014*

# Appendices

## Appendix 1

### **Objectives, Scope, and Methodology**

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#### **Objectives**

The objectives of this audit were:

- To determine whether the Texas Lottery Commission (Commission) planned, procured, and established the selected contract for goods and services in accordance with applicable statutes, rules, Office of the Comptroller of Public Accounts (Comptroller's Office) requirements, and state entity policies and procedures to help ensure that the State's interests were protected.
- To determine whether the Commission managed and monitored the selected contract for goods and services to help ensure that the contractor performed according to the terms of the contract and that contractor billings were valid and supported, in accordance with applicable statutes, rules, Comptroller's Office requirements, and state entity policies and procedures.

#### **Scope**

The scope of the audit covered the Commission's advertising services contract with LatinWorks Marketing. Auditors tested transactions from the inception of the current contract in May 2012 through December 31, 2013. The audit concentrated on all phases (planning, procurement, contract formation, and contract oversight) of the contracting process for the advertising services contract audited.

#### **Methodology**

The audit methodology consisted of collecting and reviewing planning, procurement, and contract formation documentation, including the advertising services contract; conducting interviews with Commission staff; reviewing statutes, rules, Comptroller's Office requirements, and Commission policies and procedures; and performing selected tests and other procedures. The selection methodology for the contracts was based on contract dollar amount, type of contract, and recent audit coverage.

Auditors used expenditure information in the Uniform Statewide Accounting System (USAS) and the Commission's MIP accounting system and performed analysis to determine completeness of the data. Auditors determined that data was sufficiently reliable for purposes of this audit. Additionally, auditors reviewed user access to and segregation of duties for the Commission's

accounting system. Auditors did not perform any additional information technology work at the Commission.

### Sampling Methodology

To test the Commission's payment of contractor invoices, auditors selected nonstatistical samples primarily through random selection designed to be representative of the population. In some cases, auditors used professional judgment to select additional items for testing. Those sample items generally are not representative of the population. The testing results do not identify which items were randomly selected or judgmentally selected. Therefore, it would not be appropriate to extrapolate those results to the population.

To test contract deliverables, auditors used professional judgment to select a sample of deliverables for testing. The sampled deliverables were not representative of the population and, therefore, it would not be appropriate to extrapolate those test results to the population.

### Information collected and reviewed included the following:

- Contract between the Commission and LatinWorks Marketing.
- Commission policies and procedures.
- Commission personnel training and certification records and non-disclosure statements.
- Commission planning and procurement files, approvals, invoices, and other supporting documentation.
- Legislative Budget Board contract database.
- Commission contract expenditure data from the Commission's internal accounting system and USAS.
- Commission sanction folder, contract deliverable reports, and other support documentation.
- Commission internal accounting system user access list and roles.

### Procedures and tests conducted included the following:

- Interviewed employees at the Commission on contract management compliance.
- Reviewed the Commission's contracting policies and procedures to determine whether they aligned with the *State of Texas Contract Management Guide*.

- Tested whether Commission purchasing staff and contract managers met the training and certification requirements outlined in the *State of Texas Procurement Manual*.
- Reviewed planning documentation to determine (1) whether the Commission identified risks, constraints, and objectives; (2) the amount of oversight performed by the Commission; (3) whether a competitive bid process was used; and (4) the level of research performed for the procurement.
- Reviewed the LatinWorks Marketing contract to determine whether it contained approvals, payment methodology, essential and recommended terms in the *State of Texas Contract Management Guide*, and other requirements.
- Verified that the contract was properly reported in compliance with state statute.
- Tested contract expenditures for compliance with contract terms, the *State of Texas Contract Management Guide*, and Commission policies and procedures.
- Reviewed and/or tested the Commission's monitoring activities for compliance with contract terms, including contract deliverables, sanction process, and bond and insurance requirements.
- Tested segregation of duty controls related to purchasing in the Commission's internal accounting system.

Criteria used included the following:

- Texas Government Code, Chapters 322, 2251, 2261, and 2262.
- Texas Tax Code, Section 151.309.
- Title 34, Texas Administrative Code, Chapter 20.
- Title 16, Texas Administrative Code, Chapter 401.
- State of Texas Contract Management Guide, version 1.9.
- *State of Texas Procurement Manual*, version released in 2012; Section 1.1 (Training and Certification).
- The Commission's contracting policies and procedures.



## **Project Information**

Audit fieldwork was conducted from January 2014 through May 2014. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

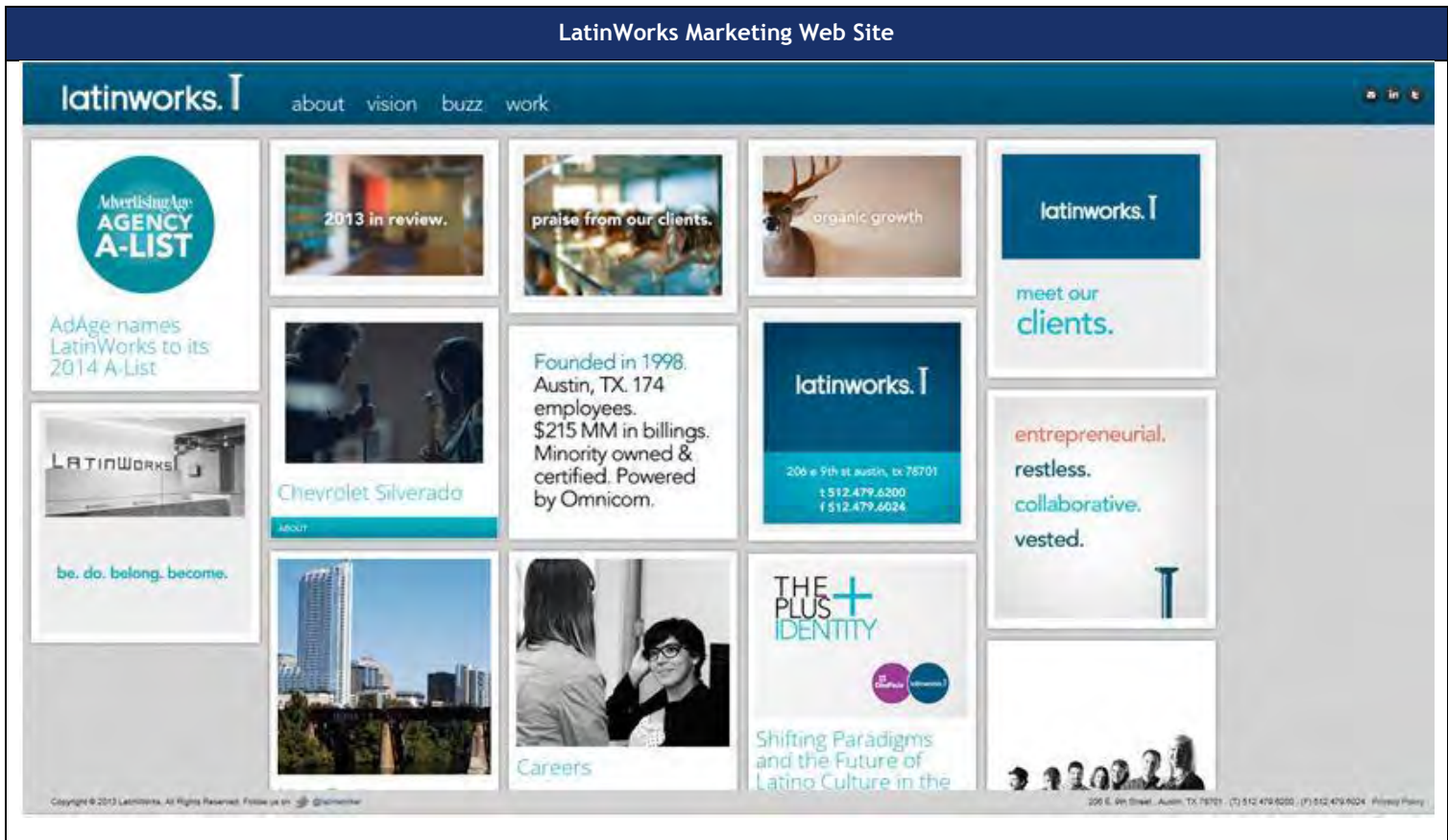
The following members of the State Auditor's staff performed the audit:

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- J. Scott Killingsworth, CIA, CGAP, CGFM (Quality Control Reviewer)
- Nicole M. Guerrero, MBA, CIA, CGAP (Audit Manager)

## Contractor Information

The Texas Lottery Commission (Commission) contracted with LatinWorks Marketing for advertising of lottery products. LatinWorks Marketing is headquartered in Austin, Texas. Figure 1 shows a screenshot of the LatinWorks Marketing Web site.

Figure 1



Source: LatinWorks Marketing Web site at <http://www.latinworks.com/>.

## ***Related State Auditor's Office Work***

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Related State Auditor's Office Work		
Number	Product Name	Release Date
06-062	An Audit Report on Procurement at the Texas Lottery Commission	August 2006
99-050	A Report on Procurement Practices at the Texas Lottery Commission	August 1999

Copies of this report have been distributed to the following:

### **Legislative Audit Committee**

The Honorable David Dewhurst, Lieutenant Governor, Joint Chair

The Honorable Joe Straus III, Speaker of the House, Joint Chair

The Honorable Jim Pitts, House Appropriations Committee

The Honorable Harvey Hilderbran, House Ways and Means Committee

### **Office of the Governor**

The Honorable Rick Perry, Governor

### **Texas Lottery Commission**

Members of the Texas Lottery Commission

Mr. J. Winston Krause, Chair

Ms. Jodie Baggett

Ms. Katie Dickie Stavinoha

Mr. John W. Townes III

Ms. Mary Ann Williamson

Mr. Gary Grief, Executive Director



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February 2, 2015

## **2014 Year-end Results**

### **Lottery**

- FY 2014 Sales
  - \$4.38 billion
  - \$8.3 million over FY 2013
  - Highest sales in Commission history
  
- FY 2014 Revenue Transfers
  - Transfers to the State
    - \$1.220 billion
    - \$6.6 million over FY 2013
    - Largest revenue transfer to the State in agency history
  
  - Transfers to the Foundation School Fund
    - \$1.203 billion
    - \$55.2 million over FY 2013
    - Largest revenue transfer to the Foundation School Fund in agency history
  
  - Transfers to the Texas Veterans Commission
    - \$11.5 million
    - \$5.3 million over FY 2013
    - Largest revenue transfer to the Texas Veterans Commission in agency history
  
- FY 2014 Administrative Expense
  - \$202.1 million
  - 4.6% of lottery sales

## **Bingo**

- CY 2013 Gross Receipts
  - \$719.6 million, \$3.9 million decrease from CY 2012 which was the highest they have been since 1981 when charitable bingo was legalized in Texas.
- CY 2013 Charitable Distributions
  - \$26.6 million, Cumulative Distributions now exceed \$1 billion
- CY 2013 Prize Fees
  - \$27.5 million collected, \$500 thousand over CY 2012
  - \$13.0 million allocations paid to cities and counties
  - \$14.5 million deposited to the State's General Revenue Fund



## **FY 2016-17 Total Budget Request compared to HB 1, as Introduced**

	<b>FY 2014-15 Tx Lottery Budgeted</b>	<b>FY 2016-17 Tx Lottery Requested</b>	<b>FY 2016-17 LBB Recommendation</b>	<b>FY 2016-17 LBB Recommendation Variance from Tx Lottery Request</b>
<b>Method of Financing</b>				
GR Dedicated, Lottery Account - 5025	\$ 424,912,475	\$ 415,755,037	\$ 415,755,037	\$ -
General Revenue Fund - 0001	8,034,249	5,545,890	5,545,890	-
General Revenue Fund - 0001 Rider 8 <sup>a</sup>	<u>25,271,000</u>	<u>25,271,000</u>	<u>25,271,000</u>	<u>-</u>
<b>Total, Method of Financing</b>	<u>\$ 458,217,724</u>	<u>\$ 446,571,927</u>	<u>\$ 446,571,927</u>	<u>\$ -</u>
<b>FTE's</b>	326.5	326.5	326.5	0.0
<sup>a</sup> Bingo Prize Fee appropriation is included in Rider 8.				

- The Commission's total baseline budget request for FY 2016-17 is \$446,571,927, a \$11,645,797 or 2.5% decrease from FY 2014-15 baseline budgeted levels.
  - GR Dedicated, Lottery Account – 5025 decrease is attributed to Lottery Operator Strategy which is budgeted at 2.2099% of gross lottery sales.
  - General Revenue Fund – 0001 decrease of \$2.5 million based on one time FY 2014-15 appropriation for the Automated Charitable Bingo System.
- The Commission is not requesting any exceptional items this biennium.

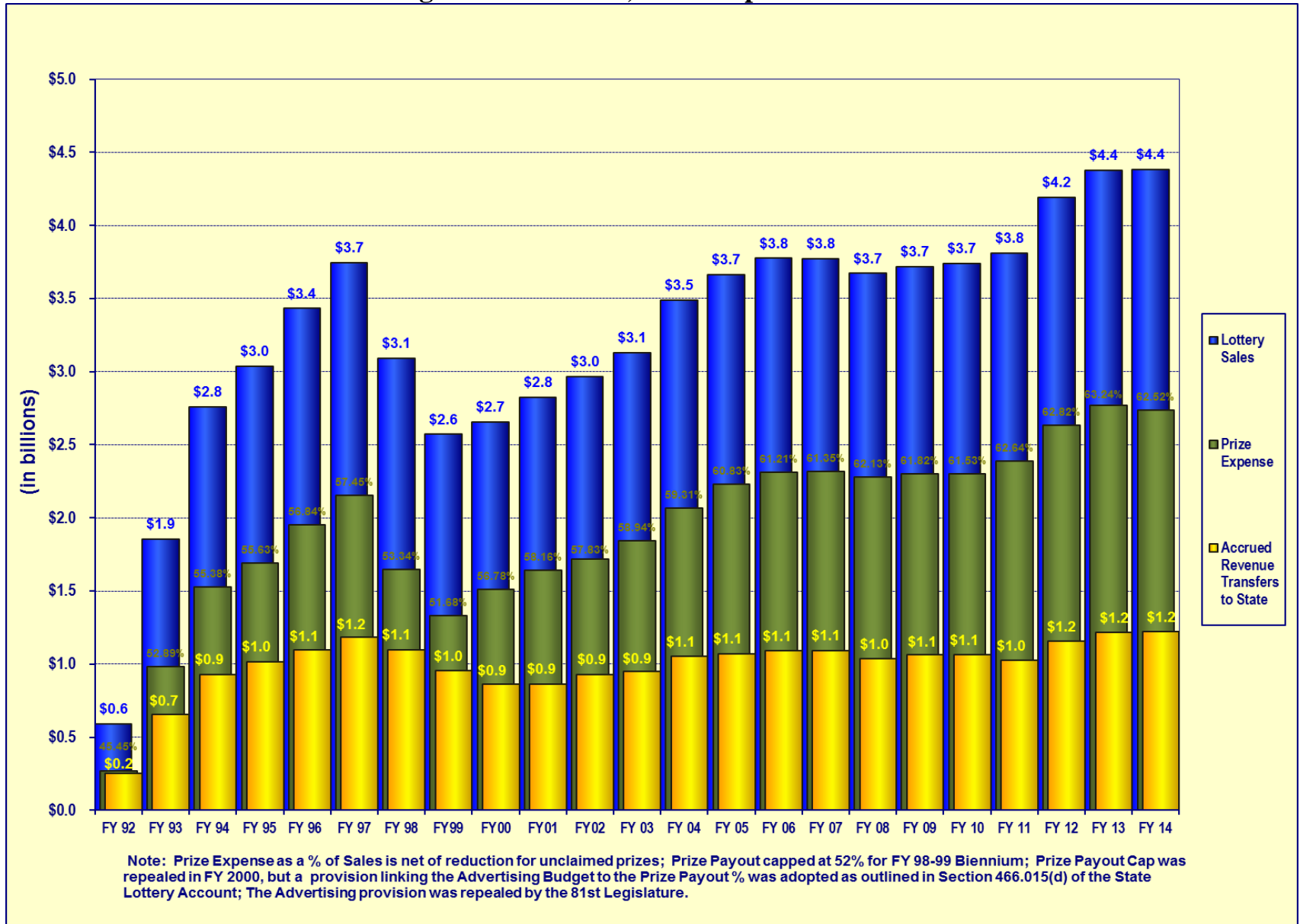
## **Rider Revisions – Not included in HB 1, as Introduced**

- New Rider 701, Unexpended Balances and Capital Authority: Automated Charitable Bingo System. This Rider requests unexpended balance authority for the Automated Charitable Bingo System Capital Budget project from FY 2015 to FY 2016.

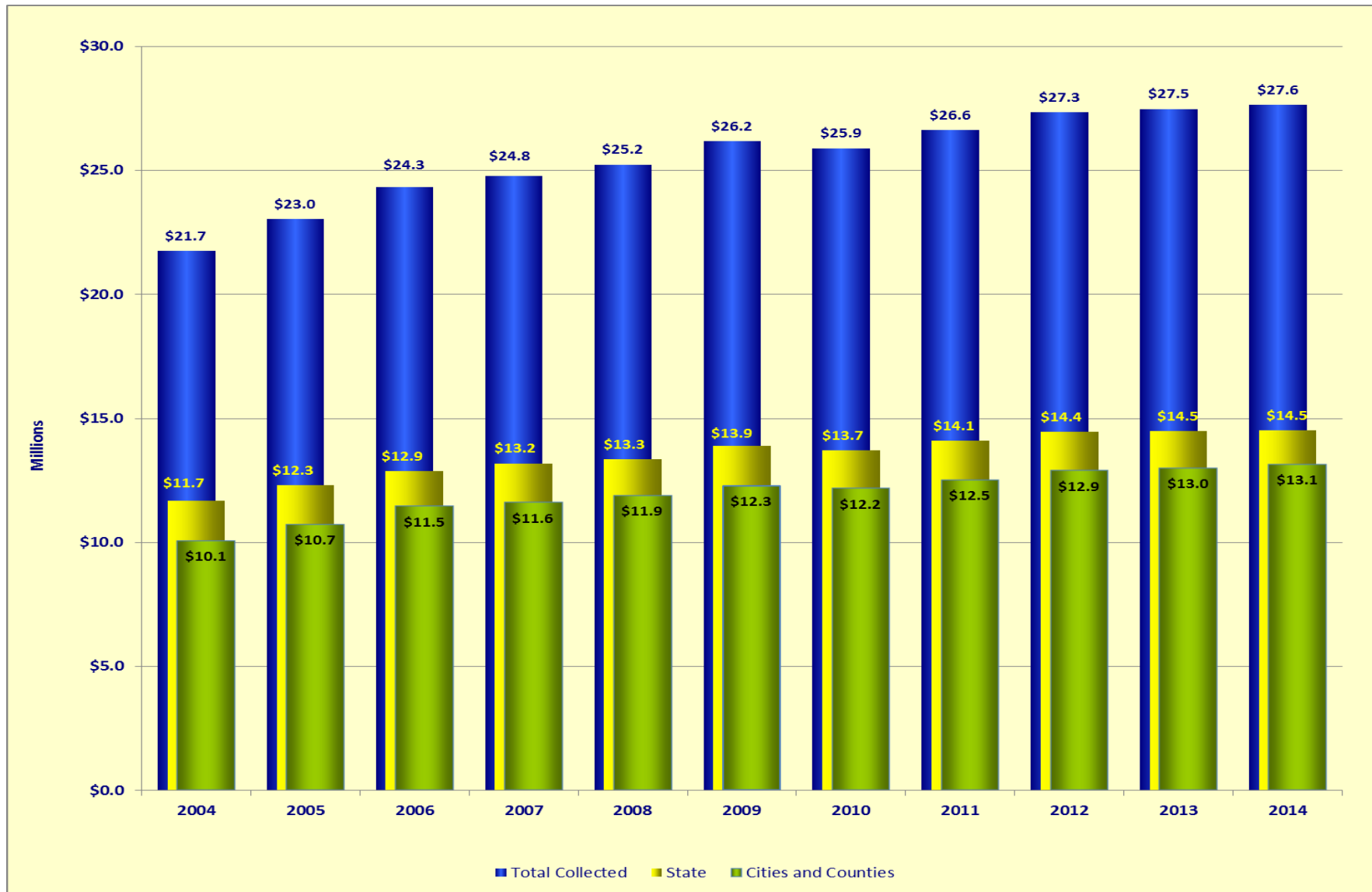
While the goal is to be completed with the development and implementation of this system by the end of fiscal year 2015, this Rider was submitted as a contingency in order to have unexpended balance authority to transfer to fiscal year 2016 in the event the project has not been completed by the end of this fiscal year.

# Texas Lottery Commission

## FY 1992 through FY 2014 Sales, Prize Expense and Transfers



## Charitable Bingo FY 2004 through FY 2014 Bingo Prize Fee Collections



Strategic Fiscal Review 2016-17  
House Budget Recommendations: HB 1 as Introduced  
Department of Transportation (601)

Schedule 1: Agency Overview

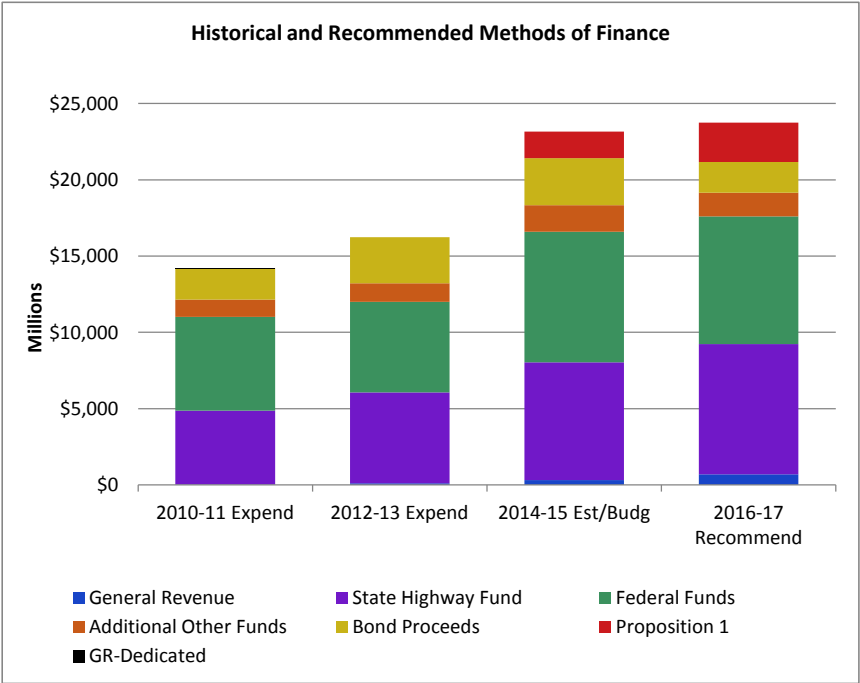
The staff of the Legislative Budget Board conducted the Strategic Fiscal Review in the fall of 2014. The analysis contained in these materials reflects that staff review. The budget amounts for 2016-17 reflect budget recommendations

**Mission Statement:** Work with others to provide safe and reliable transportation solutions for Texas.

**Legal Authority:** Texas Constitution, Art 3, Sec 49-k, 49-l, 49-m, 49-n, 49-p; Transportation Code Ch. 21-2, 51, 91, 111, 201, 203-4, 222-4, 256, 345, 391-5, 455-6, 461, 550, 723; Government Code Ch. 1403, 2205; Property Code Ch. 21; Education Code Ch. 150; 23 US Code Sec 114, 131, 135-6, 402; 49 US Code Sec 4601, 5304, 20101, 47128

Total Number of Programs: 32

Overview and Significant Findings



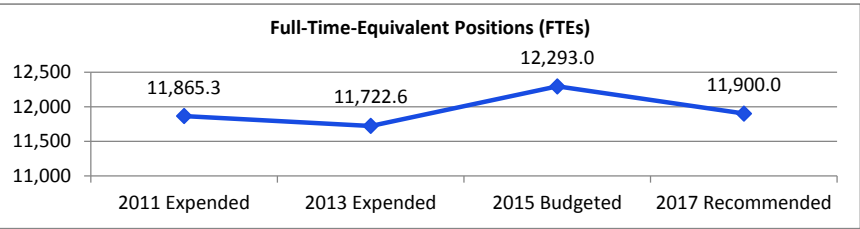
■ **Overview:** The Department of Transportation (TxDOT) was created by the Texas Legislature in 1917 as the Texas Highway Department. Since that time, the agency has evolved from having a singular focus on highways to becoming a multi-modal agency regulating and managing multiple forms of transportation across the state. While TxDOT is still responsible for the creation and preservation of the Texas highway system, the agency is also responsible for non-highway programs ranging from government flight and aircraft maintenance services to the publication of Texas Highways Magazine.

■ **Highway Needs:** The agency has experienced an increase in funding demands for highways due to an expanding population and aging infrastructure. While recommendations in House Bill 1 do not address the full shortfall identified by the agency, it does include additional funds related to Proposition 1, 2014 and State Highway Funds (SHF) made available from other state agencies.

■ **Non-Highway Functions:** While management of the state highway system is the main focus within the agency, they are still responsible for other non-highway programs. Most of these programs received a low priority ranking from the agency, and several have weak mission centrality. Flight Services, Outdoor Advertising Regulation, Travel Information Centers, Travel Information (Other), and Texas Highway Magazine have weak mission centrality due to their indirect link to the agency's mission and relatively low focus within the strategic plan. Due to the nature of these programs, they typically do not receive the same level of analysis as the agency's highway related programs.

■ **2016-17 Recommendations in House Bill 1:**  
1) Recommendations provide \$2.6 billion from revenue transferred to the SHF, pursuant to Proposition 1, 2014. The amendment to the Texas Constitution approved by voters in November 2014 redirects to the SHF as much as half of the oil and natural gas tax-related transfers previously allocated to the Economic Stabilization Fund (ESF) each fiscal year. The funds transferred to the SHF may only be used for constructing, maintaining, and acquiring rights-of-way for public roadways other than toll roads.

2) Recommendations also provide an additional \$1.3 billion in SHF made available from the discontinuation of SHF appropriations to other state agencies to address traffic congestion, maintain existing infrastructure, and address roadway maintenance and safety needs in areas of the state impacted by increased oil and gas production activity.



**Notes:**

1. The agency did not provide information relating to the first full year of appropriations.
2. Full-Time Equivalent Position (FTEs) amounts for 2011 Expended, 2013 Expended, and 2015 Budgeted include the TxDOT Summer Hire FTEs that are exempt from the FTE cap pursuant to Rider 13, Full-Time Equivalent: Summer Hire Program, 2014-15 General Appropriations Act, which authorizes up to 1,200.0 Summer Hire FTEs in the 3rd and 4th quarters of each fiscal year.

**Strategic Fiscal Review 2016-17**  
**House Budget Recommendations: HB 1 as Introduced**  
**Department of Transportation (601)**

**Schedule 2A: Program Listing -- Services and Administration**

Agency Submission		Review and Analysis								
Agency Ranking	Program Name	Year Created	State Authority	Federal Authority	Authority	Mission Centrality	State Service Category	Service Area	Significant Audit and/or Report Findings	Outsourced Services?
1	State Highway Fund Bond Debt Service	2003	Constitution, Statute	NA	Strong	Moderate	Transportation Infrastructure & Support	Statewide	NA	No
2	Texas Mobility Fund Bond Debt Service	2001	Constitution, Statute	NA	Strong	Moderate	Transportation Infrastructure & Support	Statewide	NA	No
3	Highway Improvement General Obligation Bond Debt Service	2009	Constitution, Statute	NA	Strong	Moderate	Transportation Infrastructure & Support	Statewide	NA	No
4	Highway Construction and Preservation <sup>1</sup>	1917	Statute	Public Law	Strong	Strong	Transportation Infrastructure & Support	Statewide	Yes	Yes
5	Comprehensive Development Agreements (CDAs) <sup>2</sup>	2004	Statute	NA	Strong	Strong	Transportation Infrastructure & Support	Statewide	Yes	No
6	Routine Transportation System Maintenance <sup>3</sup>	1917	Statute	NA	Strong	Strong	Transportation Infrastructure & Support	Statewide	Yes	Yes
7	Toll Equity <sup>4</sup>	1997	Statute	NA	Moderate	Moderate	Transportation Infrastructure & Support	Statewide	Qualified	No
8	County Transportation Infrastructure <sup>5</sup>	2013	Statute	NA	Strong	Moderate	Transportation Infrastructure & Support	Regional	NA	Yes
9	Pass-Through Financing	2009	Statute	NA	Moderate	Moderate	Transportation Infrastructure & Support	Statewide	NA	No
10	Border Colonia Access Program <sup>6</sup>	2001	Constitution, Statute	NA	Strong	Moderate	Transportation Infrastructure & Support	Regional	NA	Yes
11	Central Administration <sup>7</sup>	NA	Statute	NA	Strong	Moderate	State Government Administration & Support	Statewide	Yes	No
12	Information Resources	NA	Statute	NA	Strong	Moderate	State Government Administration & Support	NA	No	Yes
13	Other Support Services	NA	Statute	NA	Strong	Moderate	State Government Administration & Support	NA	No	No
14	Planning/Design/Manage <sup>8</sup>	1917	Statute	Public Law	Strong	Strong	Transportation Infrastructure & Support	Statewide	Yes	No
15	Right-of-Way Acquisition	1970	Statute	Public Law	Strong	Strong	Transportation Infrastructure & Support	Statewide	No	Yes
16	Proposition 1, 2014	2014	Constitution, Statute	NA	Strong	Strong	Transportation Infrastructure & Support	Statewide	NA	No
17	Contracted Planning and Design <sup>9</sup>	1917	Statute	NA	Strong	Strong	Transportation Infrastructure & Support	Statewide	Yes	Yes
18	Traffic Safety	1990	Statute	Public Law	Strong	Moderate	Transportation Infrastructure & Support	Statewide	No	No

Schedule 2A: Program Listing -- Services and Administration

Agency Submission		Review and Analysis								
Agency Ranking	Program Name	Year Created	State Authority	Federal Authority	Authority	Mission Centrality	State Service Category	Service Area	Significant Audit and/or Report Findings	Outsourced Services?
19	Rail Transportation <sup>10</sup>	2009	Statute	Public Law	Strong	Strong	Transportation Infrastructure & Support	Statewide	Yes	Yes
20	Aviation Services	1991	Statute	Public Law	Strong	Moderate	Transportation Infrastructure & Support	Statewide	NA	No
21	Ferry Operations <sup>11</sup>	1934	Statute	NA	Moderate	Strong	Transportation Infrastructure & Support	Regional	No	No
22	Public Transportation	1975	Statute	NA	Strong	Moderate	Transportation Infrastructure & Support	Statewide	No	No
23	Government Relations and Policy	NA	Statute	NA	Moderate	Moderate	State Government Administration & Support	NA	No	No
24	Maritime	1975	Statute	NA	Strong	Strong	Transportation Infrastructure & Support	Statewide	NA	No
25	Short-Term Debt Service	2003	Constitution, Statute	NA	Strong	Moderate	Transportation Infrastructure & Support	Statewide	NA	No
26	State Infrastructure Bank (SIB)	1997	Statute	NA	Strong	Moderate	Transportation Infrastructure & Support	Statewide	NA	No
27	Research	1948	Statute	NA	Moderate	Moderate	Transportation Infrastructure & Support	Statewide	No	No
28	Flight Services <sup>12</sup>	2003	Statute	NA	Strong	Weak	Transportation Infrastructure & Support	Statewide	No	No
29	Outdoor Advertising Regulation (Highway Beautification) <sup>12</sup>	1965	Statute	Public Law	Strong	Weak	Transportation Infrastructure & Support	Statewide	NA	No
30	Travel Information Centers <sup>12</sup>	1936	Statute	NA	Strong	Weak	Transportation Infrastructure & Support	Statewide	No	No
31	Travel Information (Other) <sup>12</sup>	1936	Statute	NA	Moderate	Weak	Transportation Infrastructure & Support	Statewide	NA	Yes
32	Texas Highway Magazine <sup>12</sup>	1974	Statute	NA	Strong	Weak	Transportation Infrastructure & Support	Statewide	NA	Yes
Program Summary Included										

- Notes:**
1. Significant audit findings for the Highway Construction and Preservation program include fiscal year 2013 internal audit (IA) identified need for improvements in interim and final construction project reviews and oversight to ensure regulatory compliance and effective use of federal-aid highway program funds. Implementation of recommendations is ongoing.
  2. Significant audit findings for the Comprehensive Development Agreement (CDAs) program include fiscal year 2014 IA identified areas for significant improvement in toll operations relating to the identification of "non-pursuable" toll transactions, tracking billing system errors, and compliance with federal reporting requirements for active toll facility agreements. Implementation of recommendations regarding billing error tracking is ongoing.
  3. Significant audit findings for the Routine Transportation System Maintenance program include fiscal year 2010 State Auditor's Office findings that TxDOT did not post load restrictions on any of the 41 state-owned bridges auditors tested within the 90-day time limit required by the Federal Highway Administration. The agency reports that SAO audit recommendations have been fully implemented.
  4. Qualified indicates that there may be issues relating to agency operations that have not be documented in formal audits, reviews or reports, or LBB Staff cannot verify whether recommendations have been implemented. The agency has completed internal audits looking into the Toll Equity program; and while there is no significant finding provided, analysis indicates that the agency could work towards strengthening the oversight and tracking of the grant and loan obligations within the program.
  5. The County Transportation Infrastructure serves counties in the state located in areas of increased oil and gas production.

Schedule 2A: Program Listing -- Services and Administration

Agency Submission		Review and Analysis								
Agency Ranking	Program Name	Year Created	State Authority	Federal Authority	Authority	Mission Centrality	State Service Category	Service Area	Significant Audit and/or Report Findings	Outsourced Services?

6. The Border Colonia Access program provides financial assistance for roadway projects serving border colonias in economically distressed areas within 62 miles of an international border. This includes Brewster County, Brooks County, Cameron County, Culberson County, Dimmit County, Duval County, El Paso County, Hidalgo County, Hudspeth County, Jeff Davis County, Jim Hogg County, Kinney County, La Salle County, Maverick County, Presidio County, Starr County, Terrell County, Val Verde County, Webb County, Willacy County, Zapata County, and Zavala County.

7. Significant audit findings for the Central Administration program include fiscal year 2011 SAO audit identification of significant deficiencies in internal controls over TxDOT's Central Texas Turnpike System (CTTS) financial reporting. TxDOT reports full implementation of SAO recommendations to address the deficiencies.

8. Significant audit findings for the Plan/Design/Manage program include (1) fiscal year 2014 IA identified extensive improvements to controls in oversight of the metropolitan planning organization (MPO) billing process; and (2) fiscal year 2014 IA identified areas for improvement in engaging and receiving input from the general public on the development of the Unified Transportation Program. Implementation of recommendations is ongoing.

9. Significant audit findings for the Contracted Planning and Design program include fiscal year 2013 and 2014 IA identified areas for improvement in the completeness and accuracy of project status and state/local/federal funding information in TxDOT's Local Government Project Listing. Implementation of corrective actions is ongoing.

10. Significant audit findings for the Rail Transportation program include fiscal year 2014 IA identified significant control weaknesses over the rail management contract process, including (1) record retention for work orders, invoices, authorizations, and master contracts for some projects; and (2) signature authority for invoices. Implementation of corrective actions is ongoing.

11. The Ferry Operations program supports the operation of ferry systems in Port Aransas near Corpus Christi and Galveston-Port Bolivar.

13. Flight Services, Outdoor Advertising Regulation (Highway Beautification), Travel Information Centers, Travel Information (Other), and Texas Highway Magazine have weak mission centrality as they do not directly support the mission of the agency in providing safe and reliable transportation solutions for Texas. In addition, these programs are not highlighted in the agency's strategic plan and received a low priority ranking by the agency during the Strategic Fiscal Review process.



**Strategic Fiscal Review 2016-17**  
**House Budget Recommendations: HB 1 as Introduced**  
**Department of Transportation (601)**

**Schedule 2B: Program Listing -- Fiscal**

Agency Submission						Review, Analysis, and Funding								
Agency Ranking	Program Name	1st Year Full Implementation	2010-11 Expended	2012-13 Expended	2014-15 Est / Budg	2015 FTEs Budg <sup>1</sup>	2016-17 HB 1 - Intro	2017 FTEs Rec.	Percent Change from Base	FTEs Change from Base	Revenue Supported? <sup>2</sup>	Appropriate Use of Constitutional and GR-Dedicated Funds? <sup>3,4</sup>	Agency Funding Alternatives in Recs? <sup>5</sup>	
1	State Highway Fund Bond Debt Service	\$ -	\$ 526,738,205	\$ 630,351,489	\$ 657,300,000	0.0	\$ 852,207,129	0.0	29.7%	0.0	Yes	Compliant	No	
2	Texas Mobility Fund Bond Debt Service	\$ -	\$ 623,211,893	\$ 674,442,579	\$ 914,100,000	0.0	\$ 835,252,052	0.0	-8.6%	0.0	Yes	Compliant	No	
3	Highway Improvement General Obligation Bond Debt Service	\$ -	\$ 22,503,786	\$ 139,137,860	\$ 338,050,000	0.0	\$ 725,962,679	0.0	114.8%	0.0	No	NA	No	
4	Highway Construction and Preservation	\$ -	\$ 6,595,943,450	\$ 6,961,323,336	\$ 10,794,683,254	0.0	\$ 9,973,072,995	0.0	-7.6%	0.0	Yes	Compliant	Partial	
5	Comprehensive Development Agreements (CDAs)	\$ -	\$ 728,690,315	\$ 1,092,101,714	\$ 2,463,757,520	0.0	\$ 1,410,392,664	0.0	-42.8%	0.0	Yes	Compliant	No	
6	Routine Transportation System Maintenance	\$ -	\$ 2,263,033,028	\$ 2,785,893,143	\$ 2,870,028,158	6,283.0	\$ 2,889,315,120	6,093.0	0.7%	-190.0	Yes	Compliant	No	
7	Toll Equity	\$ -	\$ 116,948,355	\$ 259,983,188	\$ 301,797,866	0.0	\$ 37,208,872	0.0	-87.7%	0.0	Yes	Compliant	No	
8	County Transportation Infrastructure <sup>6</sup>	\$ -	\$ -	\$ -	\$ 225,000,000	0.0	\$ -	0.0	-100.0%	0.0	No	NA	No	
9	Pass-Through Financing	\$ -	\$ 37,763,984	\$ 165,330,952	\$ 345,081,704	0.0	\$ 387,510,382	0.0	12.3%	0.0	Yes	Compliant	No	
10	Border Colonia Access Program <sup>6</sup>	\$ -	\$ 48,843,132	\$ 21,096,067	\$ 11,600,000	0.0	\$ -	0.0	-100.0%	0.0	No	NA	No	
11	Central Administration	\$ -	\$ 93,052,906	\$ 89,025,824	\$ 101,652,803	622.5	\$ 117,808,904	610.0	15.9%	-12.5	Yes	Compliant	No	
12	Information Resources	\$ -	\$ 121,053,339	\$ 170,464,718	\$ 267,483,284	72.0	\$ 310,272,052	72.0	16.0%	0.0	Yes	Compliant	No	
13	Other Support Services	\$ -	\$ 65,260,551	\$ 70,256,727	\$ 82,763,317	384.5	\$ 81,962,502	382.0	-1.0%	-2.5	Yes	Compliant	No	
14	Planning/Design/Manage	\$ -	\$ 705,437,867	\$ 657,316,526	\$ 739,720,848	4,333.0	\$ 792,249,146	4,145.0	7.1%	-188.0	Yes	Compliant	No	
15	Right-of-Way Acquisition	\$ -	\$ 712,759,236	\$ 1,207,321,502	\$ 1,224,631,258	0.0	\$ 911,948,765	0.0	-25.5%	0.0	Yes	Compliant	Partial	
16	Proposition 1, 2014	\$ -	\$ -	\$ -	\$ -	0.0	\$ 2,575,000,000	0.0	NA	0.0	Yes	Compliant	Yes	
17	Contracted Planning and Design	\$ -	\$ 378,451,961	\$ 586,775,915	\$ 933,471,677	0.0	\$ 973,509,808	0.0	4.3%	0.0	Yes	Compliant	Partial	
18	Traffic Safety	\$ -	\$ 101,986,612	\$ 104,699,742	\$ 120,934,096	92.0	\$ 121,005,835	92.0	0.1%	0.0	Yes	Compliant	No	
19	Rail Transportation	\$ -	\$ 17,745,515	\$ 32,755,550	\$ 77,682,465	34.0	\$ 41,990,201	34.0	-45.9%	0.0	Yes	Compliant	No	
20	Aviation Services	\$ -	\$ 194,963,831	\$ 181,092,839	\$ 195,265,341	36.0	\$ 159,315,922	36.0	-18.4%	0.0	Yes	Compliant	Partial	
21	Ferry Operations	\$ -	\$ 67,412,321	\$ 76,687,401	\$ 82,597,839	205.0	\$ 87,039,504	205.0	5.4%	0.0	Yes	Compliant	No	
22	Public Transportation	\$ -	\$ 224,305,927	\$ 206,277,202	\$ 185,177,172	47.0	\$ 190,250,288	47.0	2.7%	0.0	Yes	Compliant	No	
23	Government Relations and Policy	\$ -	\$ 830,901	\$ 3,726,774	\$ 5,195,435	27.0	\$ 4,391,396	27.0	-15.5%	0.0	Yes	Compliant	No	
24	Maritime	\$ -	\$ 390,424	\$ 323,064	\$ 1,755,513	2.0	\$ 1,764,713	2.0	0.5%	0.0	Yes	Compliant	No	
25	Short-Term Debt Service	\$ -	\$ 370,595,951	\$ 6,783,225	\$ 110,000,000	0.0	\$ 10,000,000	0.0	-90.9%	0.0	Yes	Compliant	No	
26	State Infrastructure Bank (SIB)	\$ -	\$ 102,295,079	\$ 28,765,422	\$ 14,500,000	0.0	\$ 154,250,000	0.0	963.8%	0.0	Yes	Compliant	No	
27	Research	\$ -	\$ 45,252,756	\$ 42,062,037	\$ 45,581,500	12.0	\$ 45,945,916	12.0	0.8%	0.0	Yes	Compliant	No	

Schedule 2B: Program Listing -- Fiscal

Agency Submission					Review, Analysis, and Funding									
Agency Ranking	Program Name	1st Year Full Implementation	2010-11 Expended	2012-13 Expended	2014-15 Est / Budg	2015 FTEs Budg <sup>1</sup>	2016-17 HB 1 - Intro	2017 FTEs Rec.	Percent Change from Base	FTEs Change from Base	Revenue Supported? <sup>2</sup>	Appropriate Use of Constitutional and GR-Dedicated Funds? <sup>3,4</sup>	Agency Funding Alternatives in Recs? <sup>5</sup>	
28	Flight Services <sup>7</sup>	\$ -	\$ 14,684,979	\$ 11,310,424	\$ 9,981,899	25.0	\$ 9,000,000	25.0	-9.8%	0.0	No	NA	No	
29	Outdoor Advertising Regulation (Highway Beautification)	\$ -	\$ 1,208,655	\$ 1,883,328	\$ 2,129,453	20.0	\$ 2,166,778	20.0	1.8%	0.0	Yes	Compliant	No	
30	Travel Information Centers	\$ -	\$ 11,301,746	\$ 11,740,868	\$ 11,445,969	67.0	\$ 10,037,771	67.0	-12.3%	0.0	Yes	Compliant	No	
31	Travel Information (Other)	\$ -	\$ 12,832,769	\$ 12,370,156	\$ 14,472,188	8.0	\$ 19,636,517	8.0	35.7%	0.0	Yes	Compliant	No	
32	Texas Highway Magazine	\$ -	\$ 8,601,900	\$ 7,628,630	\$ 9,275,650	23.0	\$ 9,403,193	23.0	1.4%	0.0	Yes	Compliant	No	
Total			<u>\$ 14,214,101,374</u>	<u>\$ 16,238,928,202</u>	<u>\$ 23,157,116,209</u>	<u>12,293.0</u>	<u>\$ 23,739,871,104</u>	<u>11,900.0</u>	<u>2.5%</u>	<u>-393.0</u>				
Program Summary Included														

- Notes:**
1. Fiscal Year 2015 Budgeted FTE amounts include the TxDOT Summer Hire FTEs that are exempt from the FTE cap pursuant to Rider 13, Full-Time Equivalent: Summer Hire Program, 2014-15 General Appropriations Act, which authorizes up to 1,200.0 Summer Hire FTEs in the 3rd and 4th quarters of each fiscal year.
2. The Revenue Supported column is only referring to the 2016-17 recommendations. Revenue is supported by State Highway Fund No. 006 (see Schedule 4), Texas Mobility Fund No. 356 (see Schedule 4), Bond Proceeds, Federal Funds, Appropriated Receipts, and General Revenue. A full listing of the funds supporting each program in fiscal years 2016-17 is listed below:
- State Highway Fund Bond Debt Service:** State Highway Fund No. 006, Federal Funds
- Texas Mobility Fund Bond Debt Service:** Texas Mobility Fund No. 356, Federal Funds
- Highway Improvement General Obligation Bond Debt Service:** General Revenue, Federal Funds
- Highway Construction and Preservation:** State Highway Fund No. 006, Texas Mobility Fund No. 356, Bond Proceeds, Federal Funds, Appropriated Receipts
- Comprehensive Development Agreements (CDAs):** State Highway Fund No. 006, Texas Mobility Fund No. 356, Bond Proceeds, Federal Funds
- Routine Transportation System Maintenance:** State Highway Fund No. 006, Appropriated Receipts, Interagency Contracts
- Toll Equity:** State Highway Fund No. 006, Federal Funds
- County Transportation Infrastructure:** NA
- Pass-Through Financing:** State Highway Fund No. 006, Federal Funds
- Border Colonia Access Program:** NA
- Central Administration:** State Highway Fund No. 006
- Information Resources:** State Highway Fund No. 006
- Other Support Services:** State Highway Fund No. 006
- Planning/Design/Manage:** State Highway Fund No. 006, Texas Mobility Fund No. 356, Bond Proceeds, Federal Funds, Appropriated Receipts
- Right-of-Way Acquisition:** State Highway Fund No. 006, Texas Mobility Fund No. 356, Bond Proceeds, Federal Funds, Toll Revenue, Concession Fees
- Contracted Transportation Planning and Design:** State Highway Fund No. 006, Texas Mobility Fund No. 356, Bond Proceeds, Appropriated Receipts
- Traffic Safety:** State Highway Fund No. 006, General Revenue, Federal Funds
- Rail Transportation:** State Highway Fund No. 006, General Revenue, Federal Funds, Appropriated Receipts
- Aviation Services:** State Highway Fund No. 006, Federal Funds
- Ferry Operations:** State Highway Fund No. 006, Federal Funds
- Public Transportation:** State Highway Fund No. 006, Federal Funds
- Government Relations and Policy:** State Highway Fund No. 006
- Maritime:** State Highway Fund No. 006
- Short-Term Debt Service:** State Highway Fund No. 006
- State Infrastructure Bank (SIB):** State Highway Fund No. 006
- Research:** State Highway Fund No. 006, Federal Funds
- Flight Services:** Interagency Contracts
- Outdoor Advertising Regulation (Highway Beautification):** State Highway Fund No. 006
- Travel Information Centers:** State Highway Fund No. 006
- Travel Information (Other):** State Highway Fund No. 006
- Texas Highway Magazine:** State Highway Fund No. 006
3. The Appropriate Use column is only referring to the 2016-17 recommendations.

Schedule 2B: Program Listing -- Fiscal

Agency Submission					Review, Analysis, and Funding							Appropriate Use of	Agency
Agency	Program Name	1st Year Full	2010-11 Expended	2012-13 Expended	2014-15	2015	2016-17	2017	Percent	FTEs	Revenue	Constitutional and	Funding
Ranking		Implementation			Est / Budg	FTEs	HB 1 - Intro	FTEs	Change	Change	Supported? <sup>2</sup>		
						Budg <sup>1</sup>		Rec.	from	from Base		GR-Dedicated	Alternatives
									Base			Funds? <sup>3,4</sup>	in Recs? <sup>5</sup>

4. Those programs that are listed as NA either do not receive funding from the State Highway Fund or the Texas Mobility Fund, or they do not receive funding in the 2016-17 recommendations.
5. **Partial** indicates that the LBB Recommendations contain some portion of the agency's funding alternative either in terms of amounts or methodology. Agency funding alternatives for the Highway Construction and Preservation, Right-of-Way Acquisition, and Contracted Planning and Design programs were partially included in LBB recommendations as recommendations include an additional funds from State Highway Funds previously allocated to other agencies, Proposition 1 funding, and reallocations from other strategies.
6. The County Transportation Infrastructure program and the Border Colonia Access program are not funded in fiscal years 2016-17 and therefore are not revenue supported. In previous biennia, the County Transportation Infrastructure program was funded through the Transportation Infrastructure Fund No. 184, and the Border Colonia Access program was funded through bond proceeds from General Obligation bonds.
7. The Flight Services program is entirely funded through interagency contracts in fiscal years 2016-17 and is therefore not considered revenue supported. The agency charges a set rate to other state agencies to use their services and is paid through interagency contracts. Prior to the 2016-17 biennium, the Flight Services program did receive State Highway Fund No. 006, and is included in Schedule 4.

**Strategic Fiscal Review 2016-17**  
**House Budget Recommendations: HB 1 as Introduced**  
**Department of Transportation (601)**

**Schedule 2C: Program Listing -- Explanation of Recommendations**

Agency Submission		Review and Analysis	
Agency Ranking	Program Name	Funding Compared to 2014-15	Explanation of 2016-17 HB 1 Introduced
1	State Highway Fund Bond Debt Service	↑	<b>Funding:</b> Increase funding for increased debt service and other financing costs associated with the Proposition 14 State Highway Fund Revenue Bond program as the program reaches its authorized debt capacity.
2	Texas Mobility Fund Bond Debt Service	↓	<b>Funding:</b> Decrease funding for debt service and other financing costs associated with the Texas Mobility Fund Bond program related to the cash defeasance of a portion of outstanding debt in 2014-15.
3	Highway Improvement General Obligation Bond Debt Service	↑	<b>Funding:</b> Increase funding for increased debt service and other financing costs associated with the Proposition 12 General Obligation Bond program as the program reaches its authorized debt capacity.
4	Highway Construction and Preservation	↓	<b>Funding:</b> Decrease is related to a reduction in funding from Bond Proceeds and the allocation of Proposition 1 funds to the Proposition 1, 2014, program in HB 1, as Introduced. The final appropriation amount and allocation of Proposition 1 funds is to be determined by the 84th Legislature, Regular Session.
5	Comprehensive Development Agreements (CDAs)	↓	<b>Funding:</b> Decrease funding for Comprehensive Development Agreements to be used for transportation improvement projects in alignment with the agency's projections for future project needs.
6	Routine Transportation System Maintenance	↑	<b>Funding:</b> Increase funding for routine maintenance projects in alignment with the agency's projections for demand of routine transportation projects.
7	Toll Equity	↓	<b>Funding:</b> Decrease funding for toll equity in alignment with the agency's projections for TxDOT participation in local toll projects in the 2016-17 biennium.
8	County Transportation Infrastructure	↓	<b>Funding:</b> Recommendations remove one-time funding to provide grants for county transportation infrastructure projects in counties affected by increased energy sector activity.
9	Pass-Through Financing	↑	<b>Funding:</b> Increase funding for pass-through financing agreement reimbursement payments in alignment with the agency's projections.
10	Border Colonia Access Program	↓	<b>Funding:</b> Recommendations reflect completion of the Border Colonia Access program in the 2014-15 biennium.
11	Central Administration	↑	<b>Funding:</b> Increase funding for Central Administration to adjust for projected agency workload and to provide funding for legal services provided by the Transportation Division at the Office of the Attorney General.
12	Information Resources	↑	<b>Funding:</b> Increase funding to maintain current Data Center Service obligations and to provide information technology replacement and upgrades.
13	Other Support Services	↓	<b>Funding:</b> Decrease funding for Other Support Services to adjust for projected agency workload.

## Schedule 2C: Program Listing -- Explanation of Recommendations

Agency Submission		Review and Analysis	
Agency Ranking	Program Name	Funding Compared to 2014-15	Explanation of 2016-17 HB 1 Introduced
14	Planning/Design/Manage	↑	<b>Funding:</b> Increase funding to allow for an increase in the planning, design, and management of transportation projects related to technology projects, salaries and wages, and federal planning grants.
15	Right-of-Way Acquisition	↓	<b>Funding:</b> Decrease is related to a reduction in funding from Bond Proceeds and the allocation of Proposition 1 funds to the Proposition 1, 2014, program in HB 1, as Introduced. The final appropriation amount and allocation of Proposition1 funds is to be determined by the 84th Legislature, Regular Session.
16	Proposition 1, 2014	↑	<b>Funding:</b> Increase is due to the allocation of Proposition 1 funds to the Proposition 1, 2014, program in HB 1, as Introduced. The final appropriation amount and allocation of Proposition1 funds among programs for highway planning and design, right-of-way acquisition, construction, and preservation is to be determined by the 84th Legislature, Regular Session.
17	Contracted Planning and Design	↑	<b>Funding:</b> Increase funding for new contracted planning and design due to an increase in State Highway Fund No. 006 available from decreased appropriations to other agencies. Funding will go towards statewide mobility and preservation projects.
18	Traffic Safety	↑	<b>Funding:</b> Increase funding to maintain the current Traffic Safety program operations related to distributing state and federal traffic safety grant funding and maintaining the Crash Records Information System.
19	Rail Transportation	↓	<b>Funding:</b> Decrease funding to remove one-time appropriations related to the Austin-San Antonio passenger rail and South Orient Rail Line rehabilitation projects and to account for a decrease in federal funds due to the completion of the Tower 55 project in Fort Worth.
20	Aviation Services	↓	<b>Funding:</b> Decrease funding to remove one-time appropriations related to emergency and first-responder airport facilities.
21	Ferry Operations	↑	<b>Funding:</b> Increase funding to maintain the current Ferry Operations program operations.
22	Public Transportation	↑	<b>Funding:</b> Increase funding to assist small urban and rural transit providers in the development and delivery of public transportation services, including the distribution of state and federal grants.
23	Government Relations and Policy	↓	<b>Funding:</b> Decrease funding for Government Relations and Policy to adjust for projected agency workload.
24	Maritime	↑	<b>Funding:</b> Increase funding to maintain the current Maritime program operations related to the administration of the Gulf Intercoastal Waterway from the Sabine River to Brownsville.
25	Short-Term Debt Service	↓	<b>Funding:</b> Decrease funding to remove one-time appropriations for the repayment of short-term debt in fiscal year 2014.
26	State Infrastructure Bank (SIB)	↑	<b>Funding:</b> Increase funding to the State Infrastructure Bank program in alignment with the agency's request to provide more infrastructure loans.
27	Research	↑	<b>Funding:</b> Increase funding for transportation research performed at state-supported colleges and universities.
28	Flight Services	↓	<b>Funding:</b> Decrease funding based on the agency's projections of the usage of state flight transportation and aircraft maintenance services by other agencies.

Schedule 2C: Program Listing -- Explanation of Recommendations

Agency Submission		Review and Analysis	
Agency Ranking	Program Name	Funding Compared to 2014-15	Explanation of 2016-17 HB 1 Introduced
29	Outdoor Advertising Regulation (Highway Beautification)	↑	<b>Funding:</b> Increase funding for current Outdoor Advertising Regulation services to maintain compliance with federal and state highway beautification laws.
30	Travel Information Centers	↓	<b>Funding:</b> Decrease funding to Travel Information Centers to adjust for projected agency workload.
31	Travel Information (Other)	↑	<b>Funding:</b> Increase funding to Travel Information (Other) to adjust for projected agency workload.
32	Texas Highway Magazine	↑	<b>Funding:</b> Increase funding to Texas Highway Magazine to adjust for projected agency workload.

Program Summary Included

Strategic Fiscal Review 2016-17  
House Budget Recommendations: HB 1 as Introduced  
Schedule 3: Assessments of Mission Centrality and Authority

Department of Transportation (601)

**Mission centrality** is a judgment of how directly connected a program is to the core mission and goals of the agency, as identified in statute, agency strategic plans, or other documents.  
**Authority** is an assessment of how strong and explicit the legal basis is for the existence of the program and the way in which the agency is administering it.

MISSION CENTRALITY				
	Weak	Moderate	Strong	
A U T H O R I T Y	Strong	State Highway Fund Bond Debt Service (1) Texas Mobility Fund Bond Debt Service (2) Highway Improvement General Obligation Bond Debt Service (3) Country Transportation Infrastructure (8) Border Colonia Access Program (10) Traffic Safety (18) Aviation Services (20) Public Transportation (22) Short-Term Debt Service (25) State Infrastructure Bank (SIB) (26)	Highway Construction and Preservation (4) Comprehensive Development Agreements (CDAs) (5) Routine Transportation System Maintenance (6) Planning/Design/Manage (14) Right-of-Way Acquisition (15) Contracted Planning and Design (17) Rail Transportation (19) Maritime (24)	
	Moderate	Travel Information (Other) (31)	Toll Equity (7) Pass-Through Funding (9) Research (27)	Ferry Operations (21)
	Weak			

**Note:** The matrix does not include Indirect Administration programs and any newly funded programs for the 2016-17 biennium (Proposition 1, 2014).

**Strategic Fiscal Review 2016-17**  
**House Budget Recommendations: HB 1 as Introduced**  
**Department of Transportation (601)**

**Schedule 4: Constitutional and General Revenue-Dedicated Accounts**

<b>1</b>	<b>Account:</b>	<b>State Highway Fund No. 006</b>
	<b>Legal Cite(s):</b>	Texas Constitution, Art. VIII, Sec. 7-a Texas Constitution, Art. III, Sec. 49-g(c) Transportation Code, Sec. 222.001, 222.002, 222.072, and 228.012
	<b>Authorized Use:</b>	The State Highway Fund is not established or dedicated by the Texas Constitution, but some revenues are dedicated by the Texas Constitution for acquiring rights-of-way; constructing, maintaining, and policing public roadways; and for the administration of laws pertaining to the supervision of traffic and safety on public roadways. Money in the fund that is not required to be spent for public roadways by the Texas Constitution may be used for functions carried about by the Department of Transportation (TxDOT).
	<b>Revenue Source:</b>	Revenues that are dedicated by the Texas Constitution include motor fuel taxes, vehicle registration fees, sales taxes on motor fuel lubricants, and oil and natural gas tax-related transfers to the fund. Other statutory fees deposited to the State Highway Fund that are not dedicated by the Constitution include special vehicle permit fees and other various fees associated with administrative and regulatory functions carried out by TxDOT and other agencies. Payments received by TxDOT under a comprehensive development agreement and surplus revenue revenue of a toll project/system are held in subaccounts within the fund for the benefit of the region in which the toll project/system is located.

Program(s) Funded		In Compliance with Authorized Use?	1st Full Year Appropriated	2010-11 Expended	2012-13 Expended	2014-15 Est/Budg	2016-17 HB 1 - Intro	Comments
1	State Highway Fund Bond Debt Service	Compliant	\$ -	\$ 493,311,109	\$ 577,469,008	\$ 606,363,617	\$ 798,148,881	
4	Highway Construction and Preservation	Compliant	\$ -	\$ 2,043,456,020	\$ 2,007,666,237	\$ 4,926,025,075	\$ 3,548,529,546	
5	Comprehensive Development Agreements (CDAs)	Compliant	\$ -	\$ 52,557,370	\$ 261,849,083	\$ 234,387,938	\$ 165,713,103	
6	Routine Transportation System Maintenance	Compliant	\$ -	\$ 2,239,221,163	\$ 2,778,077,421	\$ 2,861,514,539	\$ 2,889,315,120	
7	Toll Equity	Compliant	\$ -	\$ 75,955,549	\$ 29,759,164	\$ 49,837,281	\$ 10,484,413	
9	Pass-Through Financing	Compliant	\$ -	\$ 7,414,718	\$ 33,056,979	\$ 72,708,576	\$ 77,502,077	
11	Central Administration	Compliant	\$ -	\$ 93,052,906	\$ 89,025,824	\$ 101,652,803	\$ 117,808,904	
12	Information Resources	Compliant	\$ -	\$ 121,053,339	\$ 170,464,718	\$ 267,483,284	\$ 310,272,052	
13	Other Support Services	Compliant	\$ -	\$ 65,260,551	\$ 70,256,727	\$ 82,763,317	\$ 81,962,502	
14	Planning/Design/Manage	Compliant	\$ -	\$ 211,826,569	\$ 335,392,924	\$ 257,392,305	\$ 337,112,163	
15	Right-of-Way Acquisition	Compliant	\$ -	\$ 314,260,870	\$ 436,112,799	\$ 503,281,034	\$ 305,170,927	
16	Proposition 1, 2014	Compliant	\$ -	\$ -	\$ -	\$ -	\$ 2,575,000,000	
17	Contracted Planning and Design	Compliant	\$ -	\$ 193,691,187	\$ 289,053,809	\$ 491,690,794	\$ 385,426,188	
18	Traffic Safety	Compliant	\$ -	\$ 17,190,836	\$ 17,034,840	\$ 17,612,936	\$ 17,352,744	
19	Rail Transportation	Compliant	\$ -	\$ 6,734,312	\$ 11,945,492	\$ 9,249,513	\$ 9,367,042	
20	Aviation Services	Compliant	\$ -	\$ 68,437,949	\$ 59,567,223	\$ 92,765,341	\$ 59,315,922	
21	Ferry Operations	Compliant	\$ -	\$ 62,724,603	\$ 76,687,401	\$ 82,597,839	\$ 87,039,504	
22	Public Transportation	Compliant	\$ -	\$ 59,904,339	\$ 61,547,690	\$ 64,530,211	\$ 66,099,390	
23	Government Relations and Policy	Compliant	\$ -	\$ 830,901	\$ 3,726,774	\$ 5,195,435	\$ 4,391,396	
24	Maritime	Compliant	\$ -	\$ 390,424	\$ 323,064	\$ 1,755,513	\$ 1,764,713	
25	Short-Term Debt Service	Compliant	\$ -	\$ 370,595,951	\$ 6,783,225	\$ 110,000,000	\$ 10,000,000	



26	State Infrastructure Bank (SIB)	Compliant	\$	-	\$ 102,295,079	\$ 28,765,422	\$ 14,500,000	\$ 154,250,000	
27	Research	Compliant	\$	-	\$ 6,177,220	\$ 10,452,874	\$ 8,263,238	\$ 9,289,093	
28	Flight Services	Compliant	\$	-	\$ 4,381,989	\$ 1,294,695	\$ 981,899	\$ -	
29	Outdoor Advertising Regulation (Highway Beautification)	Compliant	\$	-	\$ -	\$ 1,883,328	\$ 2,129,453	\$ 2,166,778	This program is supported by permit fees deposited into the State Highway Fund.
30	Travel Information Centers	Compliant	\$	-	\$ 11,301,746	\$ 11,740,868	\$ 11,445,969	\$ 10,037,771	
31	Travel Information (Other)	Compliant	\$	-	\$ 12,832,769	\$ 12,370,156	\$ 14,472,188	\$ 19,636,517	
32	Texas Highways Magazine	Compliant	\$	-	\$ 8,601,900	\$ 7,628,630	\$ 9,275,650	\$ 9,403,193	This program is supported by magazine revenue deposited into the State Highway Fund.
<b>Total, State Highway Fund No. 006</b>					<b>\$ 6,643,461,369</b>	<b>\$ 7,389,936,375</b>	<b>\$ 10,899,875,748</b>	<b>\$ 12,062,559,939</b>	

**Notes:** 1. The Revenue Compliance column is only referring to the 2016-17 recommendations.

2. The State Highway Fund is supported by revenue streams that are dedicated by the Texas Constitution and statute for specific purposes, as well as revenue streams that are not specifically dedicated. These revenue streams are not tracked once they are deposited to the fund and consequently there is no mechanism to determine which revenues support which programs. Programs that are not tied specifically to Constitutional or statutory dedications include: Central Administration, Information Resources, Other Support Services, Rail Transportation, Aviation Services, Public Transportation, Government Relations and Policy, and Maritime.

3. The agency did not provide information relating to the first full year of appropriations.

2	<b>Account:</b>	<b>Texas Mobility Fund No. 365</b>
	<b>Legal Cite(s):</b>	Texas Constitution, Art. III, Sec. 49-k Transportation Code, Sec. 201.942
	<b>Authorized Use:</b>	A revolving fund to provide financing for construction, reconstruction, acquisition, and expansion of state highways, including costs related to design and acquisition of rights-of-way as well as state participation in a portion of construction costs publicly owned toll roads and other public transportation projects. The Texas Transportation Commission is authorized to issue bonds and enter into credit agreements secured by and payable from a pledge of money in the fund.
	<b>Revenue Source:</b>	The constitution authorized the Texas Legislature to dedicate any taxes or other revenues that are not otherwise dedicated to the State Highway Fund. This currently includes motor vehicle inspection fees, driver's license fees, driver record information fees, certificate of title fees, federal revenues, and various other revenues related to transportation.

	Program(s) Funded	In Compliance with Authorized Use?	1st Full Year Appropriated	2010-11 Expended	2012-13 Expended	2014-15 Est/Budg	2016-17 HB 1 - Intro	Comments
2	Texas Mobility Fund Bond Debt Service	Compliant	\$ -	\$ 586,203,888	\$ 628,848,432	\$ 870,183,737	\$ 788,644,181	
4	Highway Construction and Preservation	Compliant	\$ -	\$ 162,564,737	\$ 390,038,464	\$ 471,189,010	\$ 260,638,350	
5	Comprehensive Development Agreements (CDAs)	Compliant	\$ -	\$ -	\$ -	\$ 547,153,302	\$ 193,853,632	
14	Planning/Design/Manage	Compliant	\$ -	\$ 23,229,951	\$ 13,233,238	\$ 6,000,000	\$ -	
15	Right-of-Way Acquisition	Compliant	\$ -	\$ 158,044,761	\$ 94,220,183	\$ 177,400,026	\$ 813,063	
16	Contracted Planning and Design	Compliant	\$ -	\$ 66,158,422	\$ 45,789,344	\$ 14,178,401	\$ 2,573,997	
<b>Total, Texas Mobility Fund No. 365</b>				<b>\$ 996,201,759</b>	<b>\$ 1,172,129,661</b>	<b>\$ 2,086,104,476</b>	<b>\$ 1,246,523,223</b>	

**Notes:** 1. The agency did not provide information relating to the first full year of appropriations.

Strategic Fiscal Review 2016-17  
Department of Transportation (601)

Schedule 5: Program Summary

All 2016-17 funding recommendations reflect HB 1 as Introduced

Program: Highway Construction and Preservation

Agency  
Ranking

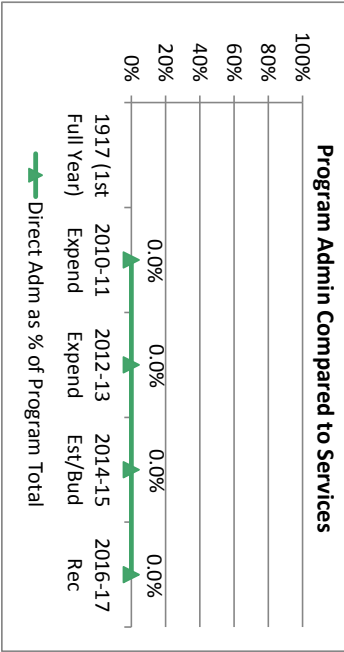
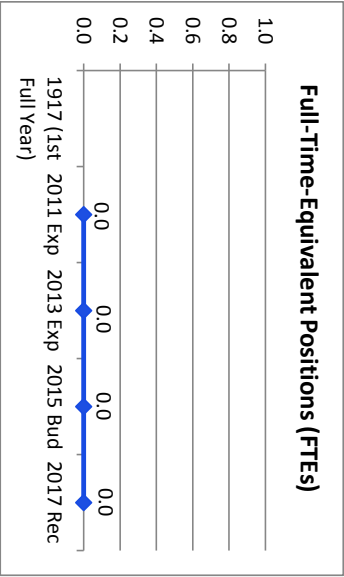
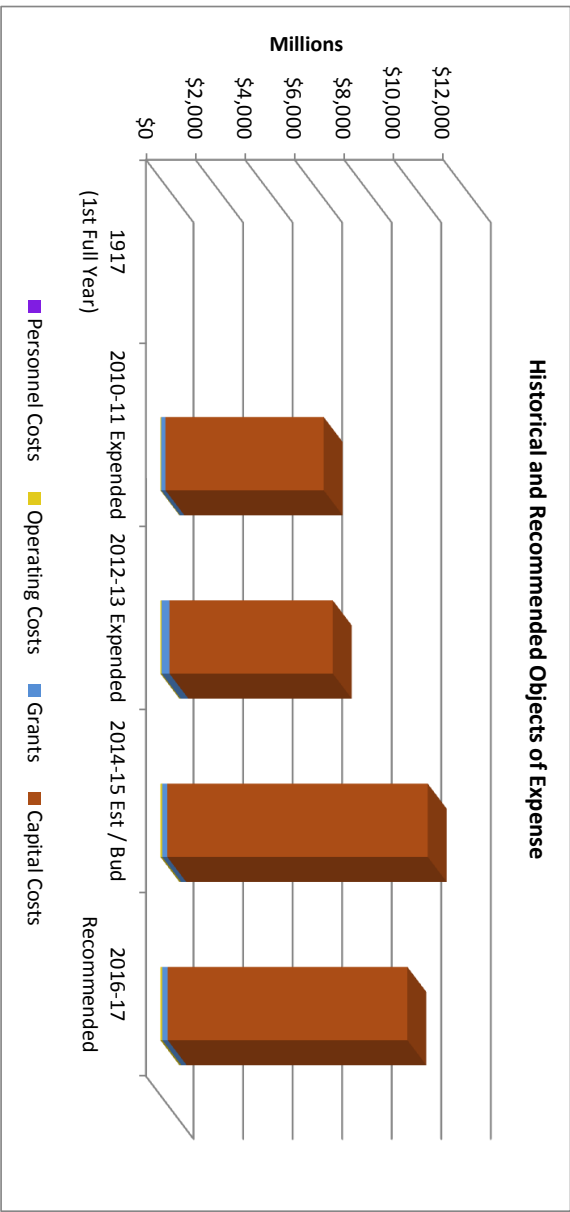
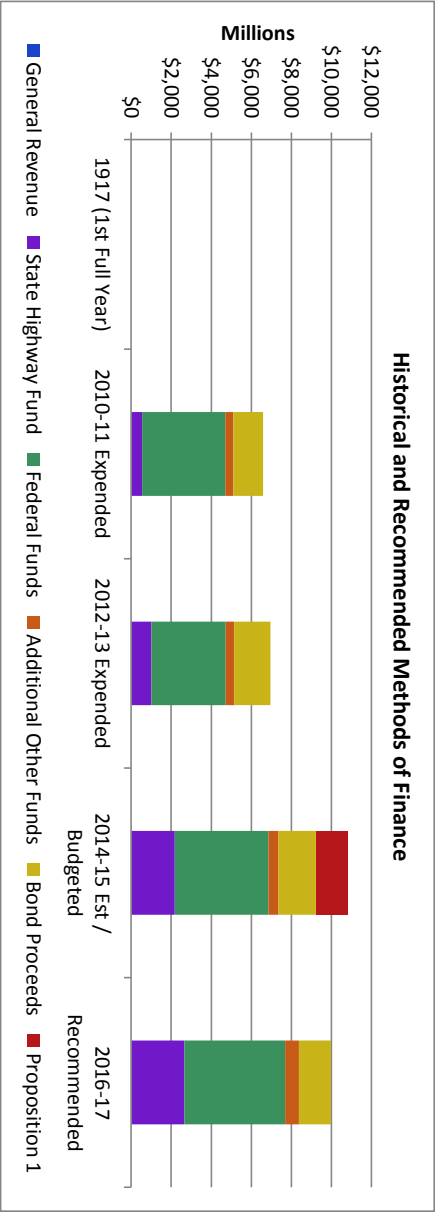
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Supports construction contracts for roads, bridges, and other transportation facilities on the state transportation system and work associated with preventive maintenance and rehabilitation on the roadways.

Legal Authority: Transportation Code, Ch. 201, 203, and 224, Subch. B; 23 U.S. Code, Sec 114

Year Created	1917	Performance and/or	Outsourced Services	Yes
Authority	Strong	Operational Issues No	Revenue Supported	Yes
Centrality	Strong		Use of Dedicated Funds	Compliant
Service Area	Statewide	State Service Category	Transportation Infrastructure & Support	

Major Activities	2014-15 Estimated	2015 FTEs	2016-17 Recommend	2017 FTEs	% of Total
Direct Administration	\$ -	0.0	\$ -	0.0	0.0%
Existing Construction Contracts	\$ 2,489,044,463	0.0	\$ 2,139,857,905	0.0	21.5%
New Construction Contracts	\$ 1,324,126,908	0.0	\$ 998,795,667	0.0	10.0%
Existing Maintenance Contracts	\$ 2,438,824,629	0.0	\$ 2,817,487,459	0.0	28.3%
New Maintenance Contracts	\$ 4,032,736,971	0.0	\$ 3,316,651,803	0.0	33.3%
Construction Contracts - Subaccount	\$ 501,077,902	0.0	\$ 693,080,429	0.0	6.9%
Capital Ferry Construction	\$ 8,872,381	0.0	\$ 7,199,732	0.0	0.1%
TOTAL	\$ 10,794,683,254	0.0	\$ 9,973,072,995	0.0	100.0%



Notes

- 1 Under the Historical and Recommended Methods of Finance, State Highway Fund only includes traditional sources of revenue while Additional Other Funds includes toll revenues, concession fees, and appropriated receipts.
- 2 The Construction Contracts - Subaccount activity pays for construction contracts for roads, bridges and other transportation facilities construction on the state transportation system using regional toll revenues and concession fees deposited to toll project subaccounts in the SHF. TxDOT contracts with outside firms for construction, and the activity represents actual construction work disbursements.

Summary of Recommendations

- 1 Recommendations provide \$4,315.4 million for new construction and maintenance contracts, including \$1,042.6 million in SHF made available from the discontinuation of SHF appropriations to other state agencies.
- 2 HB 1 as Introduced provides an estimated \$2.575 million from Proposition 1 oil and natural gas tax-related transfers to the SHF. The allocation of these funds among TxDOT programs is to be determined by the Eighty-fourth Legislature, Regular Session. The Legislature may appropriate these funds for constructing, maintaining, and acquiring rights-of-way for non-tolled public roadways. 2014-15 Estimated funding includes \$1,569.5 million from the fiscal year 2015 Proposition 1 transfer to the SHF, which was authorized for expenditure by the Legislative Budget Board and the Governor in December 2014.

Summary of Fiscal and Policy Issues

- 1 TxDOT contracts with private firms for the construction and reconstruction of all roads, bridges, and other transportation facilities on the state highway system. Program expenditures represent disbursements to contractors for actual construction work performed. As such, there are no direct personnel costs included in the Highway Construction and Preservation Program.
- 2 The planning and development of highway construction and preservation projects involves the coordination and cooperation of local governments, metropolitan planning organizations, the Federal Highway Administration, TxDOT personnel, and the Texas Transportation Commission. The Texas Transportation Commission authorizes TxDOT personnel to proceed with project planning and development, contract letting, and awards. TxDOT personnel involved in planning, development, and contract letting are aligned with the Planning/Design/Manage and Central Administration programs.
- 3 Federal Funds from federal highway reimbursements and constitutionally-dedicated state revenues to the SHF (e.g., motor fuels taxes and registration fees) are the "traditional" sources of funding for Highway Construction and Preservation.
- 4 Beginning in fiscal year 2005, the agency began supplementing the traditional funding sources with proceeds from the sale of long-term bonds. Bond proceeds from Texas Mobility Fund, Proposition 14 SHF, and Proposition 12 General Obligation bonds make up \$5,138.6 million or 21 percent of the \$24,351.9 million in All Funds expended/budgeted over the last three biennia (2010–11 Expended to 2014–15 Estimated/Budgeted).

Performance and /or Operational Issues

- 1 Internal Audit. Fiscal year 2013 internal audit identified need for improvements in interim and final construction project reviews and oversight to ensure regulatory compliance and effective use of federal-aid highway program funds. Implementation of recommendations is ongoing.

Recommended Statutory Changes for Program Improvement

- 1 NA

Funding Alternatives Not Included in the Recommendations	Change from Recommendations		2017 FTEs
	GR-Related	All Funds	
1 Repair Existing Infrastructure: Funding to address statewide mobility and preservation, statewide maintenance, energy sector safety and maintenance needs on the state highway system, and improvements to Texas ports, including:  a. \$8,500 million in General Revenue Funds for new construction and maintenance contracts to address an estimated \$10 billion biennial funding shortfall for mobility and preservation, maintenance, and energy sector needs. (The remaining \$1.5 billion requested to address the shortfall would be used for contracted planning and design and acquisition of rights-of-way for mobility and preservation projects.)  Recommendations do not include General Revenue for this purpose but include \$3.6 billion in additional SHF that could be used to address the estimated shortfall. (See Summary of Recommendations, above.)  b. \$515.1 million in Federal Funds for new construction and maintenance contracts contingent on continuation of current federal highway funding levels beyond fiscal year 2015.  c. \$30 million in General Revenue Funds for port improvement projects nominated by the Port Authority Advisory Committee and approved by the Texas Transportation Commission.  According to the agency, additional funds for this program would increase the dollar volume of construction contracts awarded by approximately \$1,415 million, number of projects awarded by approximately 283 projects, and number of lane miles contracted for resurfacing by 34,033 lane miles each fiscal year.	\$ 8,530,000,000	\$ 8,920,968,257	0.0

Strategic Fiscal Review 2016-17  
Department of Transportation (601)

Schedule 5: Program Summary

All 2016-17 funding recommendations reflect HB 1 as Introduced

Program: Routine Transportation System Maintenance

Agency Ranking

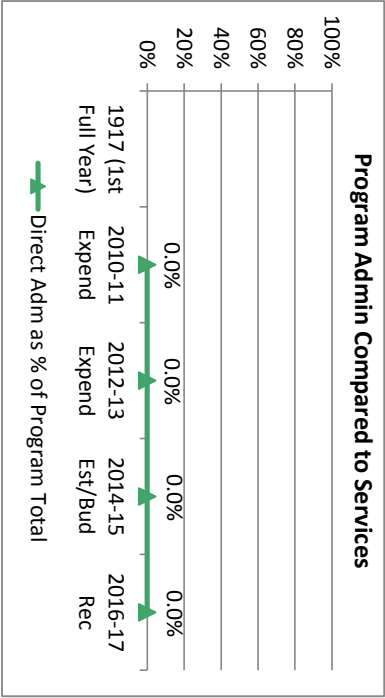
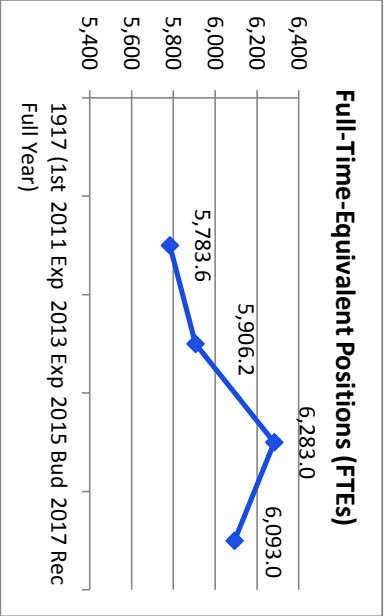
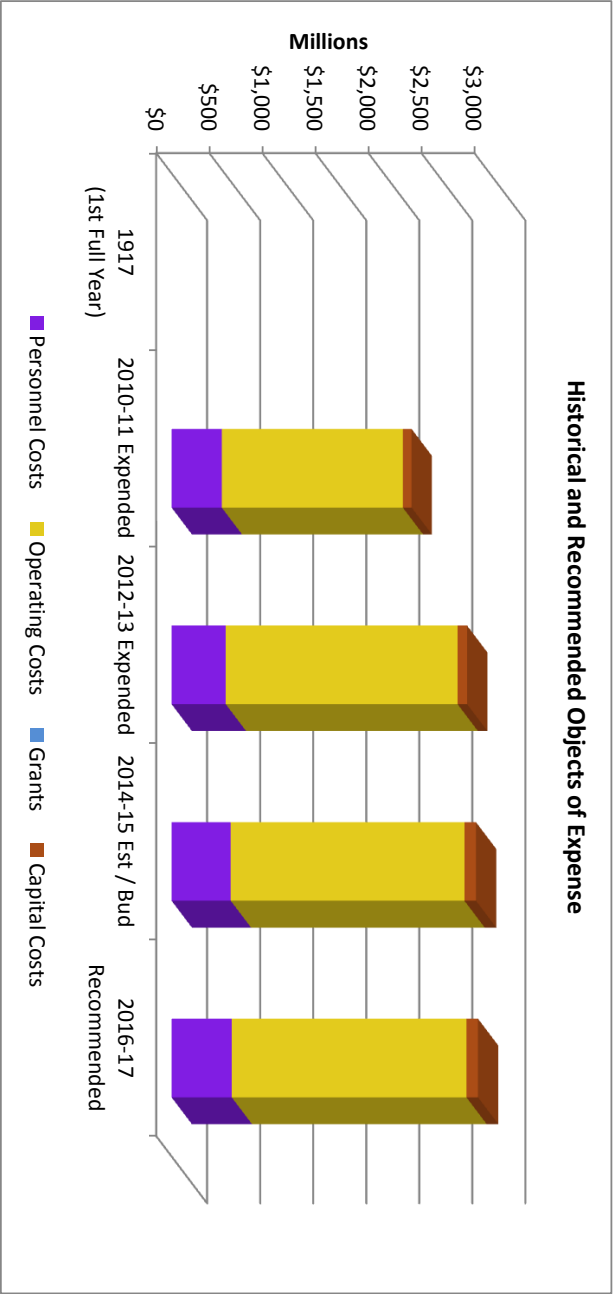
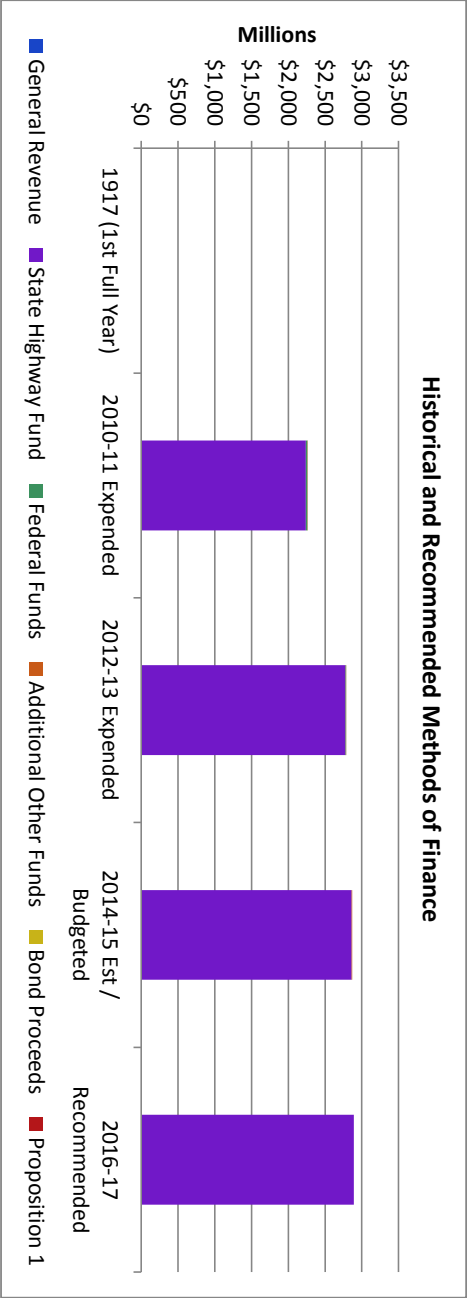
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Provides routine and preventive maintenance of roadway surfaces and bridges, highway markings, traffic signal systems, right-of-way mowing, litter removal, contracts for emergency repairs, and ferry facility maintenance.

Legal Authority: Transportation Code, Ch. 201, 203, and 224

Year Created	1917	Performance and/or	Outsourced Services	Yes
Authority	Strong	Operational Issues	Revenue Supported	Yes
Centrality	Strong		Use of Dedicated Funds	Compliant
Service Area	Statewide	State Service Category	Transportation Infrastructure & Support	

Major Activities	2014-15 Estimated	2015 FTEs	2016-17 Recommend	2017 FTEs	% of Total
Contracted Routine Maintenance	\$ 1,365,938,020	0.0	\$ 1,307,590,092	0.0	45.3%
Routine Maintenance	\$ 1,504,090,138	6,283.0	\$ 1,581,725,028	6,093.0	54.7%
TOTAL	\$ 2,870,028,158	6,283.0	\$ 2,889,315,120	6,093.0	100.0%



Summary of Recommendations

- 1 Recommendations include a reduction of \$46.4 million in SHF from the 2014-15 level for capital budget projects related to the construction and repair/rehabilitation of TxDOT buildings and facilities.

Summary of Fiscal and Policy Issues

- 1 This program provides routine transportation system maintenance functions carried out by contractors and agency personnel. Major preservation and reconstruction of existing highway infrastructure is performed by contractors under the Highway Construction and Preservation program.
- 2 TxDOT personnel involved in routine maintenance account for 6,093 FTEs or 51.2 percent of the agency's FTE cap in the 2016-17 recommendations.
- 3 Although there are many activities associated with routine system maintenance, the agency did not provide detailed expenditure and budget request information at the activity level. The agency stated that the routine maintenance budget is not tracked at the activity level. Appropriations for routine maintenance are allocated to the agency's districts, divisions, and offices (DDOs) based on formulas and other distribution criteria established by the Texas Transportation Commission and TxDOT administration. The budgeting and expenditure of these funds for various activities (with the exception of capital budget appropriations) is largely at the discretion of the DDOs and based on needs in the areas of the state served by the DDOs. While this discretionary authority enables the DDOs to be responsive to regional demands, it limits the ability of the Legislature and agency administration to provide oversight and monitoring of program expenditures.

Performance and /or Operational Issues

- 1 **State Auditor's Office Finding.** Fiscal year 2010 State Auditor's Office audit found that TxDOT did not post load restrictions on any of the 41 state-owned bridges auditors tested within the 90-day time limit required by the Federal Highway Administration. The agency reports that SAO audit recommendations have been fully implemented.

Recommended Statutory Changes for Program Improvement

- 1 NA

Funding Alternatives Not Included in the Recommendations	Change from Recommendations			2017 FTEs	
	GR-Related	All Funds			
<b>1 Toll Discounts to Eligible Veterans</b> The agency included a funding alternative that aligns with their exceptional item request in their Legislative Appropriations Request to continuing providing reimbursements to the Central Texas Turnpike System (CTTS) to offset waived charges related to discounts for certain eligible veterans.	\$	5,063,000	\$	5,063,000	0.0
<b>2 County Road Signs on Texas Highways</b> The agency included a funding alternative that aligns with their exceptional item request in their Legislative Appropriations Request to replace SHF appropriations with General Revenue to fund the fabrication, installation, and maintenance of advanced county road signs on Texas highways.	\$	20,000,000	\$	20,000,000	0.0
<b>3 Toll Discounts to Truck Drivers on SH 130 (Seg. 1-4) &amp; SH 45 SE</b> The agency included a funding alternative that aligns with their exceptional item request in their Legislative Appropriations Request to provide reimbursements to CTTS to offset reduced charges related to toll discounts for truck drivers on SH 130 (Segments 1-4) and SH 45 SE.	\$	40,000,000	\$	40,000,000	0.0

Strategic Fiscal Review 2016-17  
Department of Transportation (601)

Schedule 5: Program Summary

All 2016-17 funding recommendations reflect HB 1 as Introduced

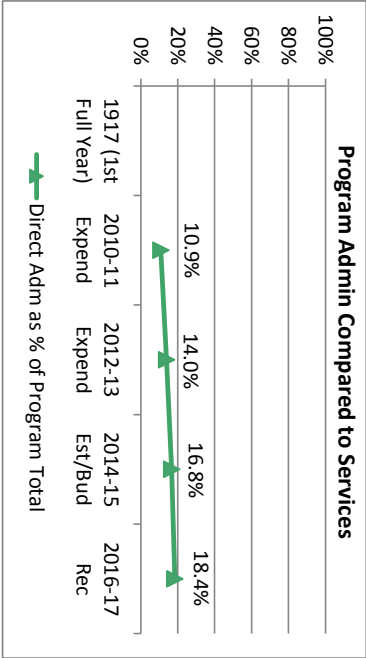
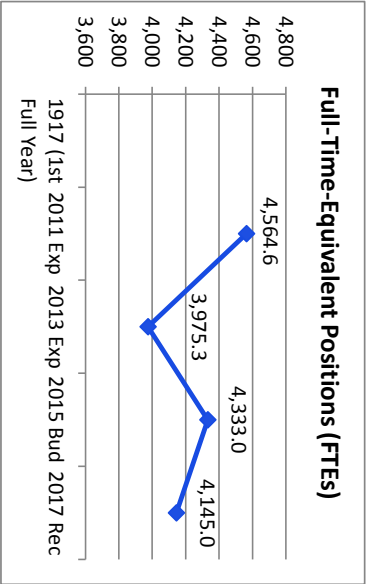
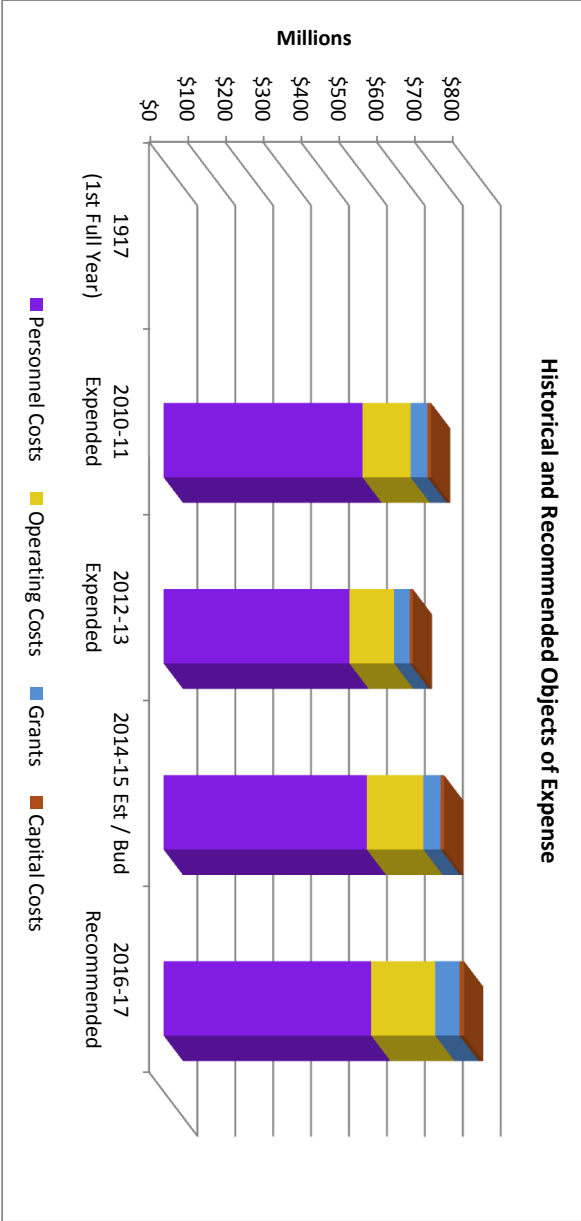
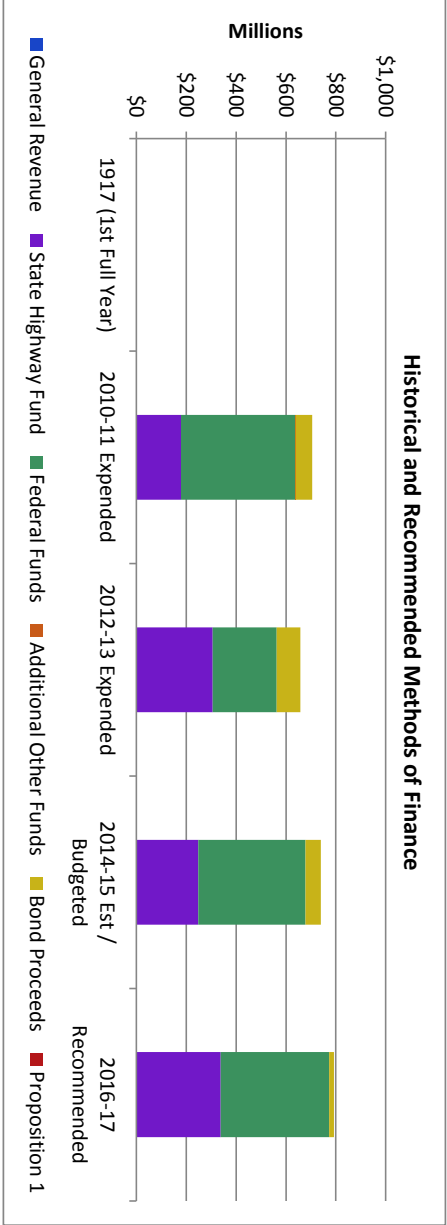
Program : Planning/Design/Manage	Agency Ranking	
	14	out of 32

Provides transportation system planning, preliminary project design, environmental studies, construction and environmental engineering, traffic and speed zone studies, and other activities that support the management and expansion of the state's transportation system.

Legal Authority: Transportation Code, Ch. 201 and 203; 23 U.S. Code, Sec 135 and 49 U.S. Code, Sec 5304

Year Created	1917	Performance and/or	Outsourced Services	No
Authority	Strong	Operational Issues	Revenue Supported	Yes
Centrality	Strong	Use of Dedicated Funds		
Service Area	Statewide	State Service Category	Transportation Infrastructure & Support	Compliant

Major Activities	2014-15 Estimated	2015 FTEs	2016-17 Recommend	2017 FTEs	% of Total
Direct Administration	\$ 124,048,340	436.0	\$ 146,235,489	349.0	18.5%
Design Oversight	\$ 45,040,151	288.0	\$ 47,810,543	288.0	6.0%
District - Plan/Design/Manage	\$ 413,039,057	3,178.0	\$ 426,476,724	3,077.0	53.8%
ROW Division/Coordination	\$ 19,696,345	153.0	\$ 20,100,002	153.0	2.5%
Environmental Affairs Division	\$ 12,556,042	79.0	\$ 12,803,851	79.0	1.6%
MPO Planning	\$ 97,554,552	110.0	\$ 110,929,728	110.0	14.0%
Strategic Project Coordination	\$ 27,786,361	89.0	\$ 27,892,809	89.0	3.5%
TOTAL	\$ 739,720,848	4,333.0	\$ 792,249,146	4,145.0	100.0%



Summary of Recommendations

1 NA

Summary of Fiscal and Policy Issues

- 1 The Planning/Design/Manage program includes planning, preliminary project design, environmental studies, construction and environmental engineering, traffic and speed zone studies, and other activities carried out by agency personnel. TxDOT personnel aligned with this program account for 4,145.0 FTEs or 34.8 percent of the agency's FTE cap in the 2016-17 recommendations.
- 2 TxDOT is required by state law to use private sector engineering-related services to assist in accomplishing its activities in providing transportation projects and must set a minimum expenditure level to be paid to private sector providers for all department engineering-related services for a state fiscal year that is not less than 35 percent of the total funds appropriated in Strategy A.1.1, Plan/Design/Manage (the appropriations bill line item for the Planning/Design/Manage program). The expended, budgeted, and recommended amounts for Contracted Planning and Design range from 54 percent to 107 percent of the Planning/Design/Manage funding levels over the four biennia included in this Strategic Fiscal Review.
- 3 Activities conducted in Planning/Design/Manage provide direct administration and oversight of other TxDOT programs, including but not limited to Highway Construction and Preservation, Right-of-way Acquisition, Contracted Planning and Design, and Comprehensive Development Agreements.

Performance and /or Operational Issues

- 1 Internal Audit. Fiscal year 2014 internal audit reports related to the Plan/Design/Manage program identified the following: (1) need for extensive improvements to controls in oversight of the metropolitan planning organization (MPO) billing process; and (2) areas for improvement in engaging and receiving input from the general public on the development of the Unified Transportation Program. Implementation of recommendations is ongoing.

Recommended Statutory Changes for Program Improvement

1 NA

Funding Alternatives Not Included in the Recommendations	Change from Recommendations		
	GR-Related	All Funds	2017 FTEs
1 Reduce Non-Federal Funding by 20%  The agency provided a funding alternative option to decrease the state funded portion of their program budget by 20 percent if required. According to the agency, this would decrease their ability to sustain the current level of projects that would be ready for on-time letting. If the 20 percent of projects that were not funded in the current budget cycle were delayed to subsequent years, the reduction would have a cumulative impact with the letting of projects falling behind current projections. The agency also indicated the reduction would impact staffing levels, and therefore the ability to manage contractor work, thus reducing output of contracting projects as well. The agency did not provide a projection of how many FTEs would be impacted by this funding alternative.	\$	- \$ (78,186,521)	0.0
2 Increase Non-Federal Funding by 20%  The agency provided a funding alternative to increase the state funded portion of their program budget by 20 percent. An increase in funds would result in an increase in project development and design as well as construction letting and management. According to the agency, management of the additional resources would require additional personnel but they did not identify the total expected need.	\$	- \$ 78,186,521	0.0
An increase in funding would equate to an improvement in the agency's on-time and on-budget performance for both the design and construction contract functions. This would result in improvement of construction contract completion times, reduced traveling time for the public, and improved public safety through work zones.			

Strategic Fiscal Review 2016-17  
Department of Transportation (601)

Schedule 5: Program Summary

All 2016-17 funding recommendations reflect HB 1 as Introduced

Program: Traffic Safety

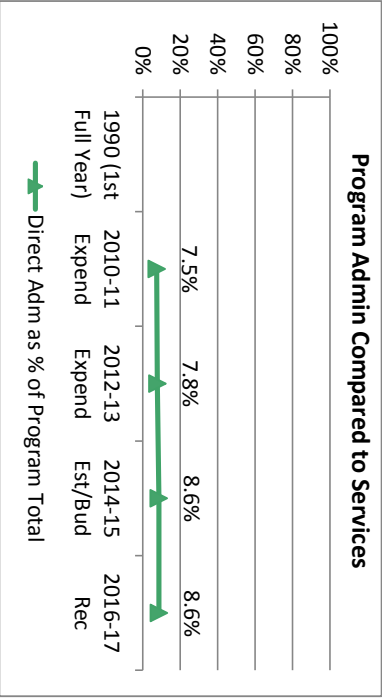
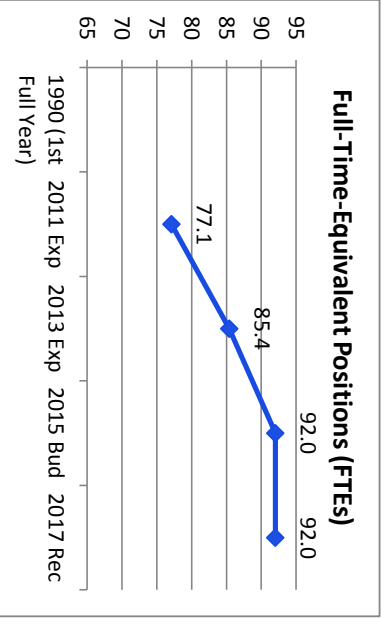
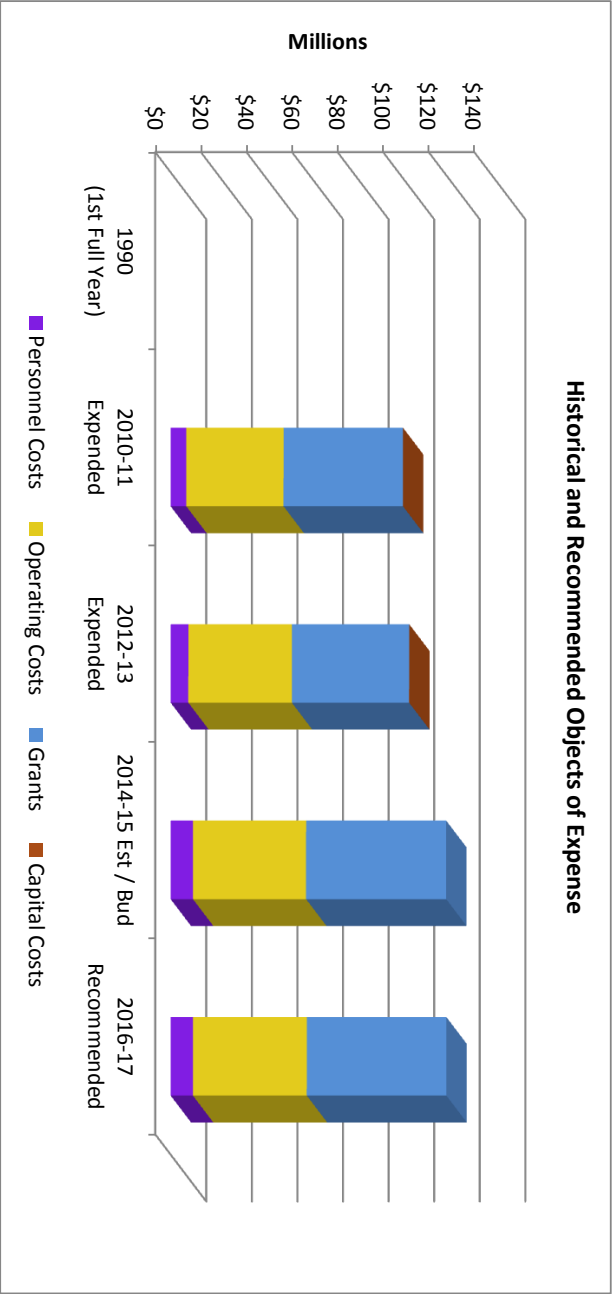
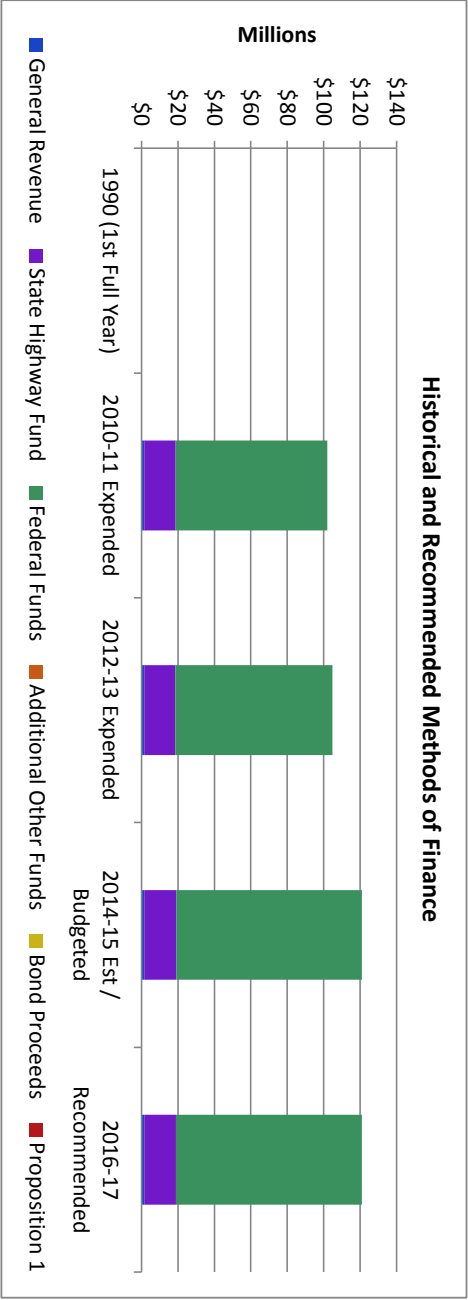
Agency Ranking18 out of 32

Coordinates traffic safety efforts through the Highway Safety Performance Plan, which provides state and federal grant funding to state, local, and non-profit entities; coordinates the State and Community Highway Safety Program; and maintains the state's vehicle crash records information system.

Legal Authority: Transportation Code, Ch. 550, Subch. D; and Ch. 723; 23 U.S. Code, Sec 402

Year Created	1990	Performance and/or	Outsourced Services	No
Authority	Strong	Operational Issues	Revenue Supported	Yes
Centrality	Moderate		Use of Dedicated Funds	Compliant
Service Area	Statewide	State Service Category	Transportation Infrastructure & Support	

Major Activities	2014-15 Estimated	2015 FTEs	2016-17 Recommend	2017 FTEs	% of Total
Direct Administration	\$ 10,341,102	92.0	\$ 10,448,077	92.0	8.6%
Traffic Safety - Grants	\$ 61,484,123	0.0	\$ 61,123,722	0.0	50.5%
Driver Education	\$ 37,321,183	0.0	\$ 37,834,036	0.0	31.3%
Crash Records	\$ 11,787,688	0.0	\$ 11,600,000	0.0	9.6%
TOTAL	\$ 120,934,096	92.0	\$ 121,005,835	92.0	100.0%





Summary of Recommendations

1 NA

Summary of Fiscal and Policy Issues

- 1 Non-constitutionally dedicated SHF revenue is the primary source of state funds appropriations for Traffic Safety. There are no state sources of revenue in the SHF specifically dedicated to Traffic Safety.
- 2 SHF expenditures averaged \$17.3 million per biennium over 2010–11, 2012–13, and 2014–15.
- 3 Traffic safety funds are used to maintain public awareness around traffic safety, including media campaigns that promote safe driving behaviors, to help reduce the number of vehicle crashes and fatalities.
- 4 Maintenance of Effort (MOE) - Federal law requires the state to maintain its aggregate expenditures from all state and local sources for programs at or above the average level of such expenditures in fiscal years 2010 and 2011 to qualify for highway safety funding under certain "Section 405" grants, including Occupant Protection Grants, State Traffic Information System Improvement Grants, and Impaired Driving Countermeasures Grants. States are required to certify in their Section 405 grant applications that they meet the applicable MOE requirements. TxDOT reported that the average annual expenditures for these programs in 2010-11 from state and local sources was \$32.8 million. The state/local expenditure amount TxDOT submitted in the fiscal year 2015 Highway Safety Plan to certify MOE compliance was \$47.7 million (based on fiscal year 2013 expenditures). TxDOT reports that the state received approximately \$18 million in Section 405 funds in fiscal year 2014.
- 5 According to the agency, state funding allocated to this program has not kept pace with the increased demand for information and increased operating costs over the past four fiscal years. TxDOT experienced an increase in the number of FTEs needed to adequately monitor and implement projects, programming, and education efforts statewide. This increase of FTEs has increased demand for budget items in addition to salaries, including travel expenses, equipment, office supplies, attendance at conferences and training, and program public information and education materials for distribution.
- 6 In fiscal year 2015, TxDOT discontinued three state-funded safety awareness media campaigns (Work Zone Safety, Toward Zero Deaths, and Back to School Safety) due to a shortage in state funding. TxDOT's total budget for these campaigns was \$850,000 per fiscal year.

Recommended Statutory Changes for Program Improvement

1 NA

Funding Alternatives Not Included in the Recommendations	Change from Recommendations		
	GR-Related	All Funds	2017 FTEs
1 Reduce Non-Federal Funding by 20% The agency provided a funding alternative option to decrease the state funded portion of their program budget by 20 percent if required. According to the agency, this would decrease their ability to sustain the current level of public information, education, and outreach related to maintaining a strong traffic safety program. In addition, this could impact the agency's ability to meet the cost sharing and match requirements of federal expenditures. An inability to meet the required federal MOE could potentially result in a 49 percent reduction in new federal funding available for traffic safety programs statewide (approximately \$18 - \$20 million per year).	\$	- \$	(3,797,419) 0.0
2 Increase Non-Federal Funding by 20% The agency provided a funding alternative to increase the state funded portion of their program budget by 20 percent. An increase in funds would result in an increase in the current level of public information and educational outreach, including the restoration of the Work Zone Safety, Toward Zero Deaths, and Back to School Safety media campaigns.	\$	- \$	3,797,419 0.0

Strategic Fiscal Review 2016-17  
Department of Transportation (601)

Schedule 5: Program Summary

All 2016-17 funding recommendations reflect HB 1 as Introduced

Program: Aviation Services

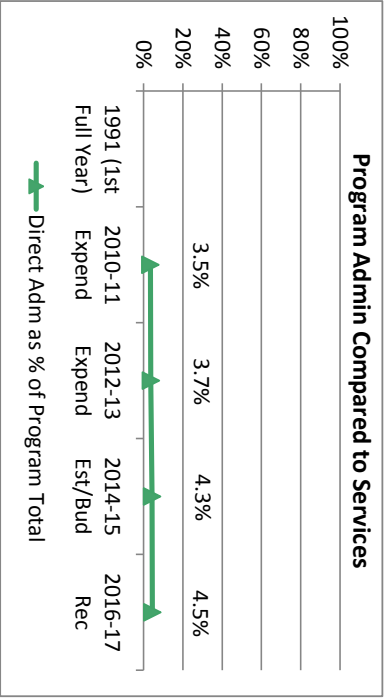
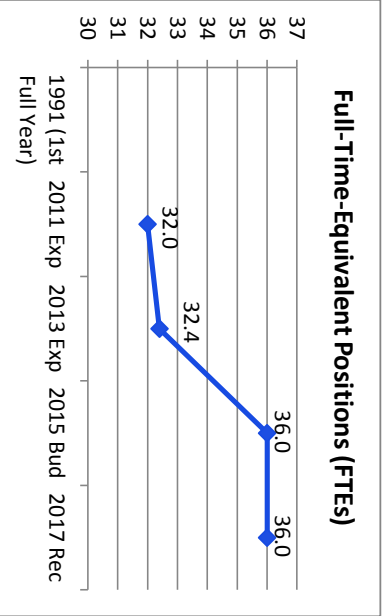
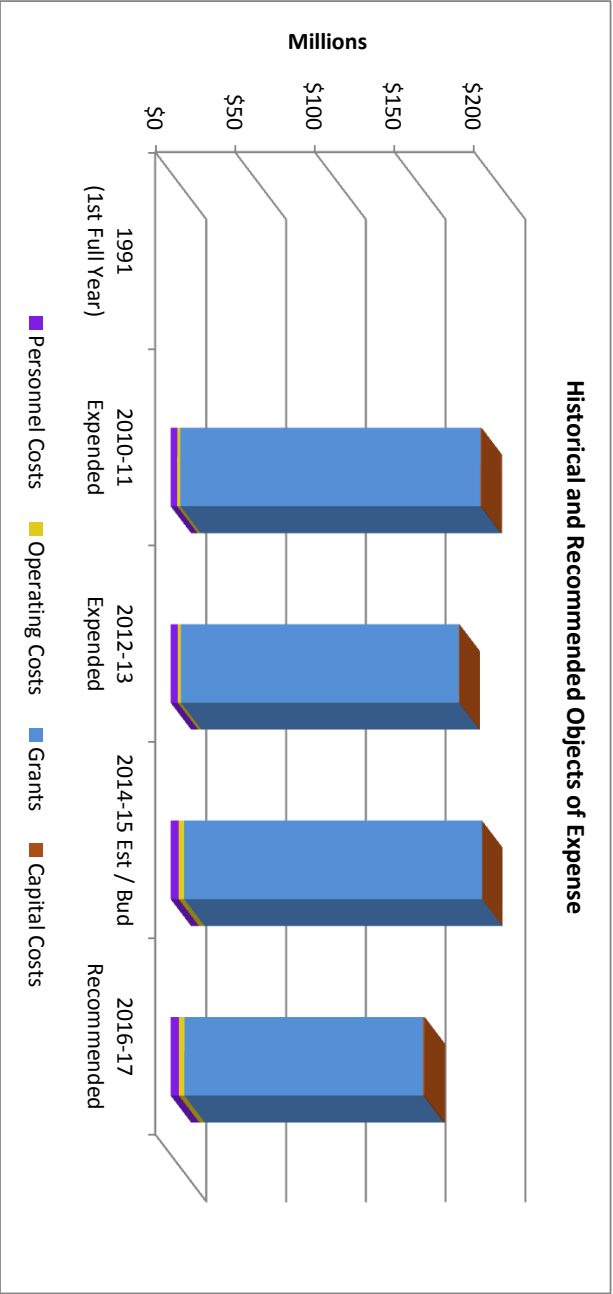
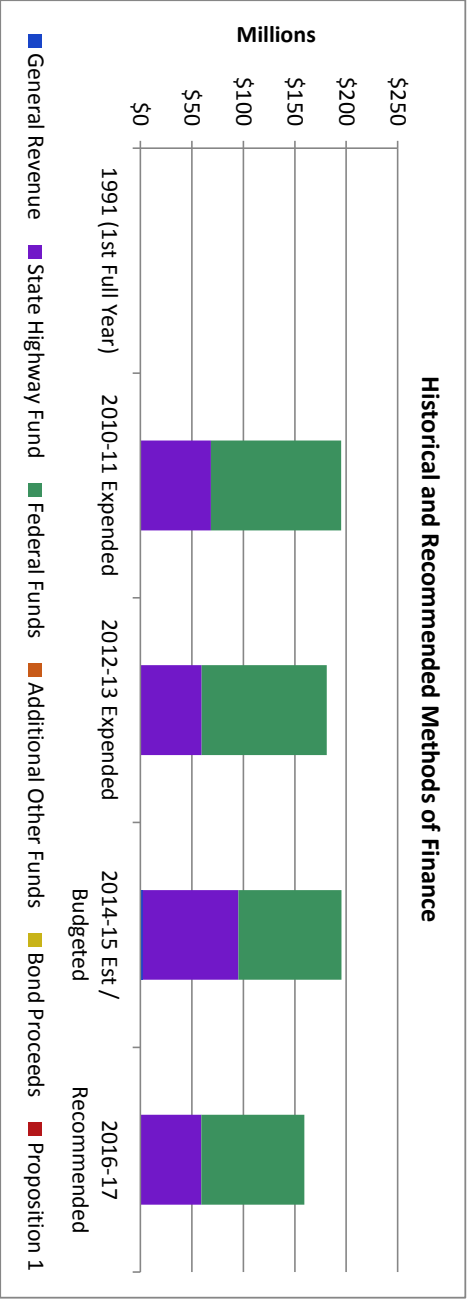
Agency  
Ranking 20  
out of 32

Provides state and federal financial and technical assistance to Texas communities for airport development, and acts as an agent in applying for, receiving, and disbursing federal aviation funds.

Legal Authority: Transportation Code, Ch 21 and Sec. 22.018; 49 U.S. Code, Sec 47128

Year Created	1991	Performance and/or	Operational Issues	No	Outsourced Services	No
Authority	Strong				Revenue Supported	Yes
Centrality	Moderate				Use of Dedicated Funds	Compliant
Service Area	Statewide	State Service Category	Transportation Infrastructure & Support			

Major Activities	2014-15 Estimated	2015 FTEs	2016-17 Recommend	2017 FTEs	% of Total
Direct Administration	\$ 8,480,654	36.0	\$ 7,120,760	36.0	4.5%
Aviation Grants: Development	\$ 180,701,416	0.0	\$ 146,563,941	0.0	92.0%
Aviation Grants: Maintenance	\$ 6,083,271	0.0	\$ 5,631,221	0.0	3.5%
TOTAL	\$ 195,265,341	36.0	\$ 159,315,922	36.0	100.0%



Program: Aviation Services

Summary of Recommendations

1 Recommendations decrease General Revenue funding by \$2.5 million from the 2014–15 level for an emergency and first responder airport facility runway expansion project. TxDOT anticipates this project will be underway by the beginning of the 2016–17 biennium. The recommendations provide appropriation authority in the 2016–17 biennium for any unexpended balances of appropriations (estimated to be \$0) remaining at the end of the 2014–15 biennium to maintain the current funding for this project.

Summary of Fiscal and Policy Issues

- 1 Non-constitutionally dedicated SHF revenue is the primary source of state funds appropriations for Aviation Services.
- 2 SHF appropriations averaged \$60.5 million per biennium over 2010–11, 2012–13, and 2014–15 (excluding estimated UB appropriations of \$25 million in each biennium).

Recommended Statutory Changes for Program Improvement

1 NA

Funding Alternatives Not Included in the Recommendations	Change from Recommendations		
	GR-Related	All Funds	2017 FTEs
1 Reduce Non-Federal Funding by 20%  The agency provided a funding alternative option to decrease the state funded portion of their program budget by 20 percent if required. According to the agency, this would decrease their state grant funding to airports by approximately 31 percent. This would reduce funding to the 79 airports throughout the state that are not currently eligible for federal funding to approximately \$11 million per fiscal year.	\$ (2,500,000)	\$ (12,522,047)	0.0
While the agency states that it would be difficult to quantify the exact reduction in grants issued due to the various size and scope of projects, they project that this reduction would equate to 7-10 aviation projects per year that would not be funded. This would result in a decrease of the number of customers served, as well as negative impact aeronautical transportation and economic development.			
This decrease includes \$2.5 million in General Revenue for emergency and first-responder airport facilities. This reduction was included in LBB recommendations.			
2 Increase Non-Federal Funding by 20%  The agency provided a funding alternative to increase the state funded portion of their program budget by 20 percent. An increase in funds would result in an increase in the number of airport improvement grants the agency could issues by 7-10 projects per year, thus increasing the number of customers served, while enhancing aeronautical transportation and economic development.	\$ -	\$ 12,522,047	0.0

Strategic Fiscal Review 2016-17  
Department of Transportation (601)

Schedule 5: Program Summary

All 2016-17 funding recommendations reflect HB 1 as Introduced

Program: Public Transportation

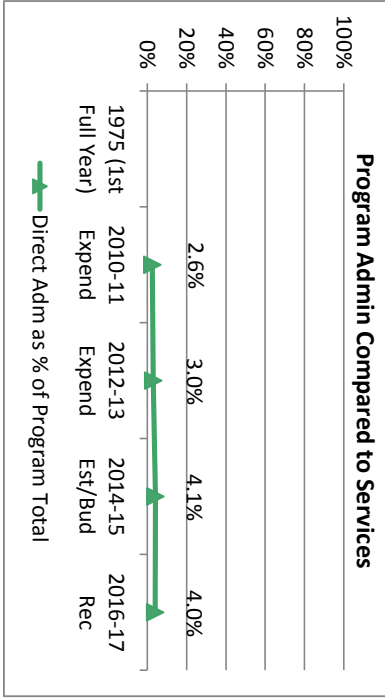
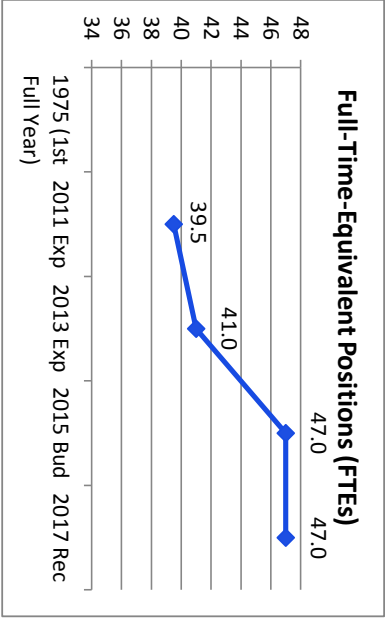
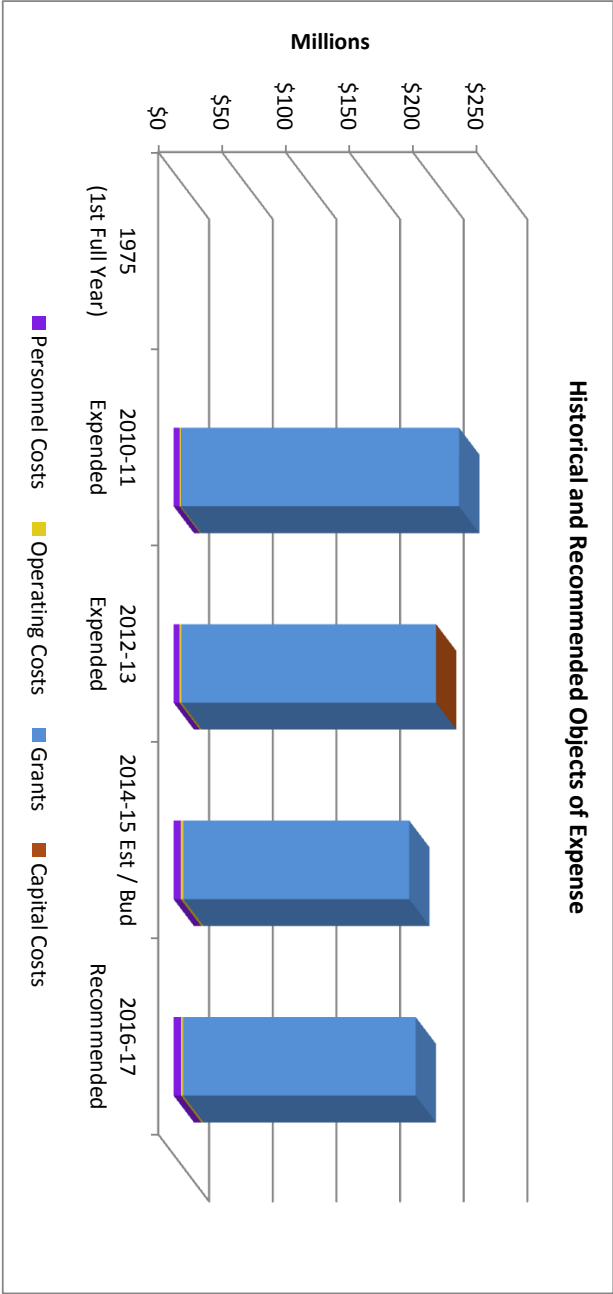
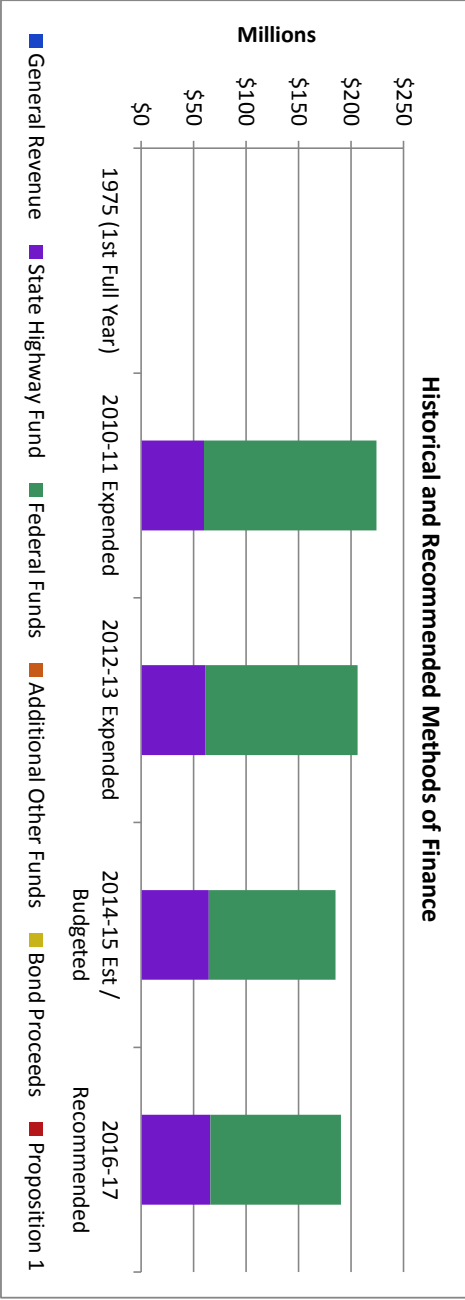
Agency  
Ranking 22  
out of 32

Promotes public transportation projects by distributing state and federal grants and assisting small urban and rural transportation providers, communities, nonprofit and metropolitan planning organizations, and political subdivisions with public transportation services.

Legal Authority: Transportation Code, Ch 455, 456, and 461

Year Created	1975	Performance and/or		Outsourced Services	No
Authority	Strong	Operational Issues	No	Revenue Supported	Yes
Centrality	Moderate			Use of Dedicated Funds	Compliant
Service Area	Statewide	State Service Category	Transportation Infrastructure & Support		

Major Activities	2014-15 Estimated	2015 FTEs	2016-17 Recommend	2017 FTEs	% of Total
Direct Administration	\$ 7,598,102	47.0	\$ 7,557,246	47.0	4.0%
Grants	\$ 177,579,070	0.0	\$ 182,693,042	0.0	96.0%
TOTAL	\$ 185,177,172	47.0	\$ 190,250,288	47.0	100.0%



Summary of Recommendations

1 NA

Summary of Fiscal and Policy Issues

- 1 Transportation Code §456.007(b) authorizes the Legislature to appropriate money for public transportation purposes from the portion of the SHF that is not dedicated by the Texas Constitution.
- 2 The Legislature last appropriated General Revenue for Public Transportation in the 77th Regular Session, 2001 (\$17.7 million for the 2002–03 biennium). SHF appropriations have been the only source of state funds appropriated for the Public Transportation program since fiscal year 2004. SHF appropriations for the 2004–05 biennium totaled \$59.5 million. 2012–13 expenditures from SHF appropriations totaled \$61.5 million (3.5 percent increase from the 2004–05 appropriated level).
- 3 Public Transportation distributes federal and state grants to 30 small urban transit districts (serving areas between 50,000 and 200,000 population) and 37 rural transit districts (serving areas under 50,000 population).
- 4 State grant funds are allocated at 35 percent to urban transit districts and 65 percent to rural transit districts and can be used as local match for federal grant funds. State and local funds spent for transit operating expenses (e.g., salaries, fuel, and other operating costs) are eligible for federal matching funds at a 50-50 matching rate. The federal matching rate for capital projects (e.g., transit vehicle replacement) is 80 percent of the project cost.
- 5 TxDOT reports that 93 to 95 percent of grant funds are used for transit operating expenses.

Recommended Statutory Changes for Program Improvement

1 NA

Funding Alternatives Not Included in the Recommendations	Change from Recommendations				
	GR-Related	All Funds	2017 FTEs		
<b>1 Fleet Management:</b> The agency included an exceptional item request in their Legislative Appropriations Request to increase General Revenue funding to provide grants to support and promote public transportation, including \$16 million for fleet replenishment, and \$20 million for operations and maintenance. This item was not included in the agency's funding alternatives.	\$	36,000,000	\$	36,000,000	0.0
<b>2 Reduce Non-Federal Funding by 20%</b>  The agency provided a funding alternative option to decrease the state funded portion of their program budget by 20 percent if required. According to the agency, operating expenses for public transportation projects, which make up approximately 95 percent of state grants, leverage federal funds at a 50 percent match rate. Any reduction in state funds would put the same amount of federal funds at risk. The funding alternative provided by the agency assumes a \$6.6 million reduction in state funding and an equivalent \$6.6 million reduction in federal funding.  This reduction would impact both urban and rural transit districts as state grants are allocated 35 percent to urban districts and 65 percent to rural districts, and equates to approximately 2 million passenger trips.	\$	-	\$	(13,235,930)	0.0
<b>3 Increase Non-Federal Funding by 20%</b>  The agency provided a funding alternative to increase the state funded portion of their program budget by 20 percent. An increase in funds could be used to replace the aging transportation fleet. Approximately 150 vehicles reach their design life each year, with a replacement cost of \$13 million. According to the agency, current funding levels allow replacement of only 20-30 vehicles per year.  A typical rural transit vehicle costs \$70,000 while urban vehicles range from \$70,000 to \$500,000. The agency would use this additional funding to replace approximately 61 rural and 18 urban vehicles.	\$	-	\$	13,235,930	0.0

Section 1

Department of Transportation  
Summary of Recommendations - House

Page: VII-17  
LtGen Joseph Weber, USMC (Ret), Executive Director

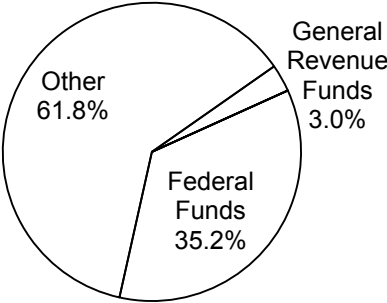
Thomas Galvan, LBB Analyst

Method of Financing	2014-15 Base	2016-17 Recommended	Biennial Change	% Change
General Revenue Funds	\$332,195,991	\$704,748,991	\$372,553,000	112.1%
GR Dedicated Funds	\$0	\$0	\$0	0.0%
Total GR-Related Funds	\$332,195,991	\$704,748,991	\$372,553,000	112.1%
Federal Funds	\$8,562,738,104	\$8,367,826,056	(\$194,912,048)	(2.3%)
Other	\$14,262,182,114	\$14,667,296,056	\$405,113,942	2.8%
All Funds	\$23,157,116,209	\$23,739,871,103	\$582,754,894	2.5%

	FY 2015 Budgeted	FY 2017 Recommended	Biennial Change	% Change
FTEs	12,293.0	11,900.0	(393.0)	(3.2%)

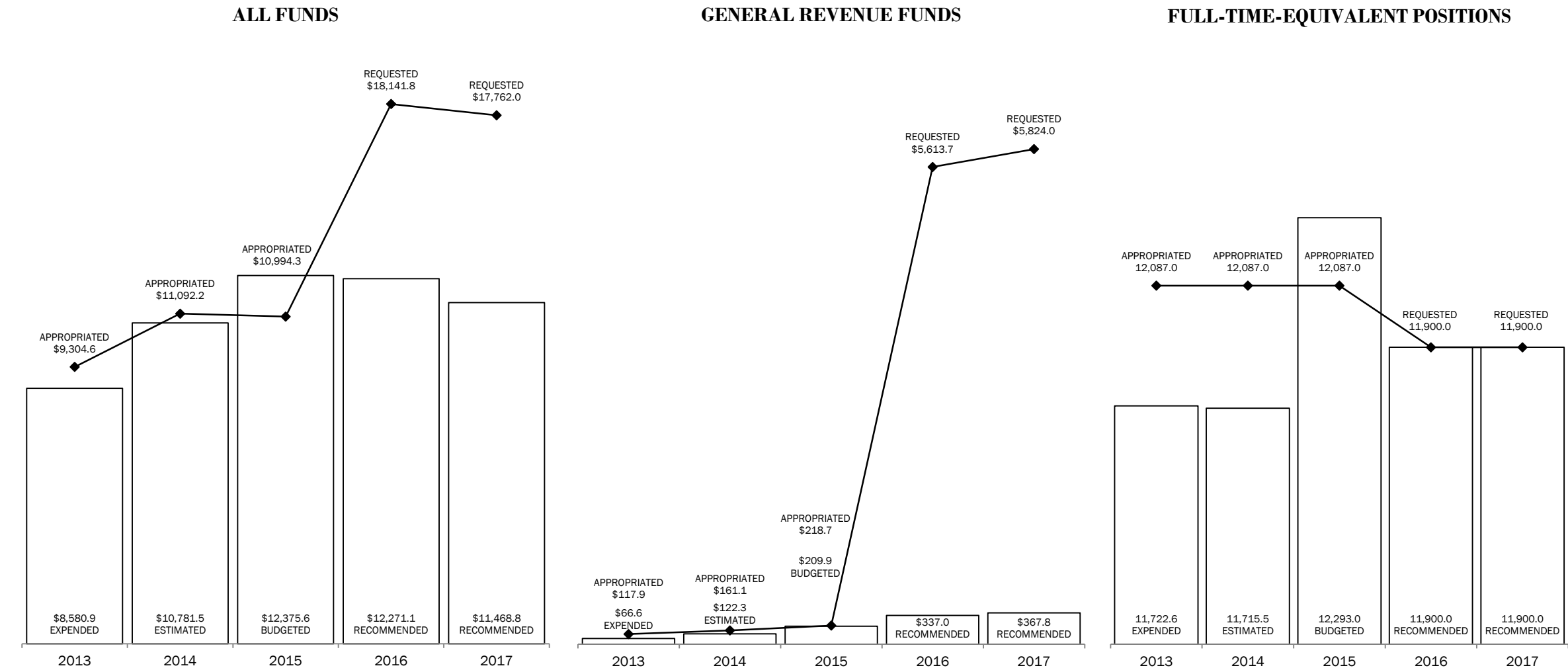
The bill pattern for this agency (2016-17 Recommended) represents an estimated 97% of the agency's estimated total available funds for the 2016-17 biennium.

RECOMMENDED FUNDING  
BY METHOD OF FINANCING



Section 1  
Department of Transportation  
2016-2017 BIENNIUM  
IN MILLIONS

TOTAL= \$23,739.9 MILLION



**Note:** Expended 2013, Estimated 2014, and Budgeted 2015 amounts for Full-Time-Equivalent (FTE) positions include TxDOT Summer Hire FTEs that are exempt from the FTE cap pursuant to Rider 13, Full-Time Equivalent: Summer Hire Program, 2014-15 General Appropriations Act, which authorizes up to 1,200.0 Summer Hire FTEs in the 3rd and 4th quarters of each fiscal year.

Section 2

Department of Transportation  
Summary of Recommendations - House, By Method of Finance -- Supplemental

Strategy/Fund Type/Goal	2014-15 Base	2016-17 Recommended	Biennial Change	% Change	Comments
<b>PLAN/DESIGN/MANAGE A.1.1</b>	<b>\$739,661,981</b>	<b>\$792,249,146</b>	<b>\$52,587,165</b>	<b>7.1%</b>	Recommendations provide funding for planning, design, and management of transportation projects. Recommendations from All Funds include: <ul style="list-style-type: none"><li>• An increase of \$10.6 million for travel survey data sets, statewide orthoimagery, updates to the Statewide Applications Model, and technology standardization projects.</li><li>• An increase of \$10.9 million related to salaries and personnel costs related to a reallocation of FTEs to this strategy above the estimated number for fiscal year 2014.</li><li>• An increase of \$18.5 million related to federal metropolitan planning grant funds.</li></ul>
FEDERAL FUNDS	\$429,250,588	\$436,360,560	\$7,109,972	1.7%	
OTHER FUNDS	\$310,411,393	\$355,888,586	\$45,477,193	14.7%	
<b>CONTRACTED PLANNING AND DESIGN A.1.2</b>	<b>\$906,853,343</b>	<b>\$955,009,807</b>	<b>\$48,156,464</b>	<b>5.3%</b>	Recommendations from All Funds include the following changes: <ul style="list-style-type: none"><li>• A decrease of \$44.9 million in bond proceeds (Other Funds) from the Texas Mobility Fund, Proposition 14, and Proposition 12 General Obligation (GO) bonds.</li><li>• A net decrease of \$10 million in State Highway Funds (SHF; Other Funds) from the 2014-15 level.</li><li>• A decrease of \$73.1 million in Other Funds from oil and natural gas tax-related transfers to the SHF (Proposition 1, 2014).</li></ul>
FEDERAL FUNDS	\$379,032,417	\$555,169,856	\$176,137,439	46.5%	
OTHER FUNDS	\$527,820,926	\$399,839,951	(\$127,980,975)	(24.2%)	2014-15 Base Other Funds includes \$73.1 million in funding from the Proposition 1, 2014, oil and natural gas tax-related transfer to the SHF in fiscal year 2015, which was authorized for expenditure in December 2014 (see Strategy I.1.1, Proposition 1, 2014, below, and Selected Fiscal and Policy Issues #4b.)
<b>RIGHT-OF-WAY ACQUISITION A.1.3</b>	<b>\$1,119,796,258</b>	<b>\$884,741,324</b>	<b>(\$235,054,934)</b>	<b>(21.0%)</b>	Recommendations provide funding for acquisition of right-of-way including: <ul style="list-style-type: none"><li>• An increase of \$21.1 million in SHF.</li></ul>



Section 2

Department of Transportation  
Summary of Recommendations - House, By Method of Finance -- Supplemental

Strategy/Fund Type/Goal	2014-15 Base	2016-17 Recommended	Biennial Change	% Change	Comments
					<ul style="list-style-type: none"><li>• A decrease of \$273.8 million in bond proceeds (Other Funds) from the Texas Mobility Fund, Proposition 14, and Proposition 12 GO bonds.</li><li>• A decrease of \$97.4 million in Other Funds from oil and natural gas tax-related transfers to the SHF (Proposition 1, 2014).</li></ul>
FEDERAL FUNDS	\$458,121,377	\$573,154,275	\$115,032,898	25.1%	
OTHER FUNDS	\$661,674,881	\$311,587,049	(\$350,087,832)	(52.9%)	2014-15 Base Other Funds includes \$97.4 million in funding from the Proposition 1, 2014, oil and natural gas tax-related transfer to the SHF in fiscal year 2015, which was authorized for expenditure in December 2014 (see Strategy I.1.1, Proposition 1, 2014, below, and Selected Fiscal and Policy Issues #4b).
<b>RESEARCH A.1.4</b>	<b>\$45,581,500</b>	<b>\$45,945,916</b>	<b>\$364,416</b>	<b>0.8%</b>	Recommendations provide funding from SHF and Federal Funds for transportation research performed by state-supported colleges and universities.
FEDERAL FUNDS	\$37,318,262	\$36,656,823	(\$661,439)	(1.8%)	
OTHER FUNDS	\$8,263,238	\$9,289,093	\$1,025,855	12.4%	Recommendations include increases in SHF of \$952,338 for transportation research at state-supported institutions and \$70,606 to biennialize salaries at the fiscal year 2015 level.
<b>Total, Goal A, PROVIDE TRANSPORTATION PLANNING</b>	<b>\$2,811,893,082</b>	<b>\$2,677,946,193</b>	<b>(\$133,946,889)</b>	<b>(4.8%)</b>	
FEDERAL FUNDS	\$1,303,722,644	\$1,601,341,514	\$297,618,870	22.8%	
OTHER FUNDS	\$1,508,170,438	\$1,076,604,679	(\$431,565,759)	(28.6%)	
<b>EXISTING CONSTRUCTION CONTRACTS B.1.1</b>	<b>\$2,489,044,463</b>	<b>\$2,139,857,905</b>	<b>(\$349,186,558)</b>	<b>(14.0%)</b>	Recommendations reflect funding for progress payments on construction contracts awarded prior to fiscal year 2016.
FEDERAL FUNDS	\$1,300,688,098	\$960,185,330	(\$340,502,768)	(26.2%)	
OTHER FUNDS	\$1,188,356,365	\$1,179,672,575	(\$8,683,790)	(0.7%)	

Section 2

Department of Transportation  
Summary of Recommendations - House, By Method of Finance -- Supplemental

Strategy/Fund Type/Goal	2014-15 Base	2016-17 Recommended	Biennial Change	% Change	Comments
NEW CONSTRUCTION CONTRACTS B.1.2	\$1,324,126,908	\$998,795,667	(\$325,331,241)	(24.6%)	<p>Recommendations reflect funding for progress payments on construction contracts to be awarded and started during the 2016-17 biennium in alignment with the agency's revenue projections and request. The 2014-15 base expenditures reflect progress payments on construction contracts awarded and started during the 2014-15 biennium, Funding for ongoing payments on these contracts is included in Strategy B.1.1. Existing Construction Contracts.</p> <p>Recommendations also include:</p> <ul style="list-style-type: none"><li>• An increase of \$100 million in SHF.</li><li>• A net decrease of \$64 million in bond proceeds (Other Funds), including a decrease of \$110.5 million in Texas Mobility Fund and Proposition 14 proceeds, offset by an increase of \$46.5 million in Proposition 12 GO bond proceeds.</li><li>• A decrease of \$377.1 million in Other Funds from oil and natural gas tax-related transfers to the SHF (Proposition 1, 2014).</li></ul>
FEDERAL FUNDS	\$380,131,468	\$395,826,640	\$15,695,172	4.1%	
OTHER FUNDS	\$943,995,440	\$602,969,027	(\$341,026,413)	(36.1%)	2014-15 Base Other Funds includes \$377.1 million in funding from the Proposition 1, 2014, oil and natural gas tax-related transfer to the SHF in fiscal year 2015, which was authorized for expenditure in December 2014 (see Strategy I.1.1, Proposition 1, 2014, below, and Selected Fiscal and Policy Issues #4b).
CONSTRUCTION GRANTS & SERVICES B.1.3	\$3,361,737,090	\$1,989,361,918	(\$1,372,375,172)	(40.8%)	<p>Recommendations from All Funds include the following items and adjustments:</p> <ul style="list-style-type: none"><li>• \$1,410.4 million for transportation improvement projects delivered through comprehensive development agreements and design-build contracts (decrease of \$1,053.4 million). (See Selected Fiscal and Policy Issues #8.)</li><li>• \$387.5 million pass-through financing agreement reimbursement payments (increase of \$42.4 million). (See Selected Fiscal and Policy Issues #9)</li><li>• \$154.3 million to provide loans through the State Infrastructure Bank (increase of \$139.8 million).</li></ul>

Section 2

Department of Transportation  
Summary of Recommendations - House, By Method of Finance -- Supplemental

Strategy/Fund Type/Goal	2014-15 Base	2016-17 Recommended	Biennial Change	% Change	Comments
					<ul style="list-style-type: none"><li>• \$37.2 million for TxDOT participation in local toll projects (toll equity; decrease of \$264.6 million).</li><li>• A decrease of \$225 million from the Transportation Infrastructure Fund (Other Funds) related to a fiscal year 2013 supplemental appropriation to provide grants for county transportation infrastructure projects in counties affected by increased energy sector activity (see Selected Fiscal and Policy Issues #18).</li><li>• A decrease of \$11.6 million in GO bond proceeds (Other Funds) for Border Colonia Access Program (BCAP) grant projects.</li></ul>
FEDERAL FUNDS	\$2,084,029,781	\$1,253,863,820	(\$830,165,961)	(39.8%)	
OTHER FUNDS	\$1,277,707,309	\$735,498,098	(\$542,209,211)	(42.4%)	
<b>AVIATION SERVICES B.1.4</b>	<b>\$205,247,240</b>	<b>\$168,315,922</b>	<b>(\$36,931,318)</b>	<b>(18.0%)</b>	Recommendations provide funding for general aviation services and state aircraft services. <ul style="list-style-type: none"><li>• Recommendations include \$60.1 million in SHF and \$100 million in Federal Funds for services and capital improvements for general aviation, reliever, and non-primary commercial service airports.</li><li>• Recommendations include \$9 million from Interagency Contracts (Other Funds) to provide state flight transportation services and maintain state aircraft.</li></ul>
GENERAL REVENUE FUNDS	\$2,500,000	\$0	(\$2,500,000)	(100.0%)	2014-15 Base General Revenue includes one-time funding related to emergency and first responder airport facilities (see Selected Fiscal and Policy Issues #10a).
FEDERAL FUNDS	\$100,000,000	\$100,000,000	\$0	0.0%	
OTHER FUNDS	\$102,747,240	\$68,315,922	(\$34,431,318)	(33.5%)	Recommendations include a decrease of \$33.7 million in SHF related to the appropriation of unexpended balances for airport improvement grants carried forward from fiscal year 2013 to the 2014-15 biennium.
<b>Total, Goal B, TRANSPORTATION IMPROVEMENTS</b>	<b>\$7,380,155,701</b>	<b>\$5,296,331,412</b>	<b>(\$2,083,824,289)</b>	<b>(28.2%)</b>	
GENERAL REVENUE FUNDS	\$2,500,000	\$0	(\$2,500,000)	(100.0%)	
FEDERAL FUNDS	\$3,864,849,347	\$2,709,875,790	(\$1,154,973,557)	(29.9%)	
OTHER FUNDS	\$3,512,806,354	\$2,586,455,622	(\$926,350,732)	(26.4%)	

Section 2

Department of Transportation  
Summary of Recommendations - House, By Method of Finance -- Supplemental

Strategy/Fund Type/Goal	2014-15 Base	2016-17 Recommended	Biennial Change	% Change	Comments
<b>EXISTING MAINTENANCE CONTRACTS C.1.1</b>	<b>\$2,438,824,629</b>	<b>\$2,817,487,459</b>	<b>\$378,662,830</b>	<b>15.5%</b>	Recommendations reflect funding for progress payments on maintenance contracts awarded prior to fiscal year 2016 in alignment with the agency's revenue projections and request.
FEDERAL FUNDS	\$1,332,282,366	\$1,880,876,432	\$548,594,066	41.2%	
OTHER FUNDS	\$1,106,542,263	\$936,611,027	(\$169,931,236)	(15.4%)	
<b>NEW MAINTENANCE CONTRACTS C.1.2</b>	<b>\$4,032,736,971</b>	<b>\$3,316,651,803</b>	<b>(\$716,085,168)</b>	<b>(17.8%)</b>	Recommendations reflect funding for progress payments on maintenance contracts to be awarded and started during the 2016-17 biennium, in alignment with the agency's revenue projections and request. The 2014-15 base expenditures reflect progress payments on maintenance contracts awarded and started during the 2014-15 biennium. Funding for ongoing payments on these contracts is included in Strategy C.1.1. Existing Maintenance Contracts.  Recommendations also include: <ul style="list-style-type: none"><li>• An increase of \$361.9 million in SHF.</li><li>• A net decrease of \$12.2 million in bond proceeds (Other Funds), including a decrease of \$26.9 million in Proposition 14 proceeds offset by an increase of \$14.6 million in Proposition 12 GO bond proceeds.</li><li>• A decrease of \$1,192.4 million in Other Funds from oil and natural gas tax-related transfers to the SHF (Proposition 1, 2014).</li></ul>
GENERAL REVENUE FUNDS	\$1,485,120	\$0	(\$1,485,120)	(100.0%)	2014-15 Base General Revenue includes one-time funding related to track improvements on the South Orient Rail Line (see Selected Fiscal and Policy Issues #10b).
FEDERAL FUNDS	\$1,665,290,899	\$1,793,425,365	\$128,134,466	7.7%	
OTHER FUNDS	\$2,365,960,952	\$1,523,226,438	(\$842,734,514)	(35.6%)	2014-15 Base Other Funds includes \$1,192.4 million in funding from the Proposition 1, 2014, oil and natural gas tax-related transfer to the SHF in fiscal year 2015, which was authorized for expenditure in December 2014 (see Strategy I.1.1, Proposition 1, 2014, below, and Selected Fiscal and Policy Issues #4b).

Section 2

Department of Transportation					
Summary of Recommendations - House, By Method of Finance -- Supplemental					
Strategy/Fund Type/Goal	2014-15 Base	2016-17 Recommended	Biennial Change	% Change	Comments
CONTRACTED ROUTINE MAINTENANCE C.1.3	\$1,365,938,020	\$1,307,590,092	(\$58,347,928)	(4.3%)	Recommendations include a reduction of \$46.4 million in SHF from the 2014-15 level for capital budget projects related to the construction and repair/rehabilitation of buildings and facilities (See Selected Fiscal and Policy Issues #16 and #17).
OTHER FUNDS	\$1,365,938,020	\$1,307,590,092	(\$58,347,928)	(4.3%)	
ROUTINE MAINTENANCE C.1.4	\$1,506,219,591	\$1,583,891,806	\$77,672,215	5.2%	Recommendations provide SHF for routine maintenance activities performed by agency personnel.
OTHER FUNDS	\$1,506,219,591	\$1,583,891,806	\$77,672,215	5.2%	
GULF WATERWAY C.1.5	\$1,755,513	\$1,764,713	\$9,200	0.5%	Recommendations provide SHF for administering the state's responsibility as the nonfederal sponsor of the Gulf Intracoastal Waterway from the Sabine River to Brownsville. Recommendations include \$1.3 million for the acquisition of land for the disposal of dredged material.
OTHER FUNDS	\$1,755,513	\$1,764,713	\$9,200	0.5%	
FERRY OPERATIONS C.1.6	\$91,470,220	\$94,239,236	\$2,769,016	3.0%	Recommendations provide SHF for the maintenance and operation of two toll-free ferry systems in alignment with the agency's request.
OTHER FUNDS	\$91,470,220	\$94,239,236	\$2,769,016	3.0%	Recommendations include an increase of \$3.6 million for fuel and other operating costs and are offset by a decrease of \$1.7million for ferry capital improvements.
Total, Goal C, PRESERVE THE TRANSPORTATION SYSTEM	\$9,436,944,944	\$9,121,625,109	(\$315,319,835)	(3.3%)	
GENERAL REVENUE FUNDS	\$1,485,120	\$0	(\$1,485,120)	(100.0%)	
FEDERAL FUNDS	\$2,997,573,265	\$3,674,301,797	\$676,728,532	22.6%	
OTHER FUNDS	\$6,437,886,559	\$5,447,323,312	(\$990,563,247)	(15.4%)	

Section 2

Department of Transportation  
Summary of Recommendations - House, By Method of Finance -- Supplemental

Strategy/Fund Type/Goal	2014-15 Base	2016-17 Recommended	Biennial Change	% Change	Comments
<b>PUBLIC TRANSPORTATION D.1.1</b>	<b>\$185,177,172</b>	<b>\$190,250,288</b>	<b>\$5,073,116</b>	<b>2.7%</b>	Recommendations provide funding from SHF and Federal Funds to assist small urban and rural transit providers in the development and delivery of public transportation services. Recommendations include \$182.7 million in All Funds (\$63.5 million in SHF; \$119.2 million in Federal Funds) for the distribution of state grants and federal apportionments for public transportation projects (an increase of \$5.1 million in All Funds).
FEDERAL FUNDS	\$120,646,961	\$124,150,898	\$3,503,937	2.9%	
OTHER FUNDS	\$64,530,211	\$66,099,390	\$1,569,179	2.4%	
<b>TRAFFIC SAFETY D.2.1</b>	<b>\$120,934,096</b>	<b>\$121,005,835</b>	<b>\$71,739</b>	<b>0.1%</b>	Recommendations provide funding to coordinate the Texas Traffic Safety Program, distribute state and federal traffic safety grant funding, and maintain the Crash Records Information System.
GENERAL REVENUE FUNDS	\$1,500,000	\$1,500,000	\$0	0.0%	Recommendations continue \$1.5 million in funding from General Revenue - Insurance Maintenance Tax and Insurance Department Fees for ongoing maintenance of the Crash Records Information System.
FEDERAL FUNDS	\$101,821,160	\$102,153,091	\$331,931	0.3%	
OTHER FUNDS	\$17,612,936	\$17,352,744	(\$260,192)	(1.5%)	
<b>TRAVEL INFORMATION D.3.1</b>	<b>\$37,993,807</b>	<b>\$39,077,481</b>	<b>\$1,083,674</b>	<b>2.9%</b>	Recommendations provide SHF for the operation of 12 travel information centers, publishing and distribution of Texas travel and tourism information, and publishing the Texas Highways Magazine.
OTHER FUNDS	\$37,993,807	\$39,077,481	\$1,083,674	2.9%	
<b>Total, Goal D, OPTIMIZE SERVICES AND SYSTEMS</b>	<b>\$344,105,075</b>	<b>\$350,333,604</b>	<b>\$6,228,529</b>	<b>1.8%</b>	
GENERAL REVENUE FUNDS	\$1,500,000	\$1,500,000	\$0	0.0%	
FEDERAL FUNDS	\$222,468,121	\$226,303,989	\$3,835,868	1.7%	
OTHER FUNDS	\$120,136,954	\$122,529,615	\$2,392,661	2.0%	
<b>RAIL PLAN/DESIGN/MANAGE E.1.1</b>	<b>\$5,037,513</b>	<b>\$4,037,254</b>	<b>(\$1,000,259)</b>	<b>(19.9%)</b>	Recommendations provide SHF for rail management and planning activities.
FEDERAL FUNDS	\$1,188,000	\$0	(\$1,188,000)	(100.0%)	
OTHER FUNDS	\$3,849,513	\$4,037,254	\$187,741	4.9%	

Section 2

Department of Transportation  
Summary of Recommendations - House, By Method of Finance -- Supplemental

Strategy/Fund Type/Goal	2014-15 Base	2016-17 Recommended	Biennial Change	% Change	Comments
<b>CONTRACT RAIL PLAN/DESIGN E.1.2</b>	<b>\$29,112,934</b>	<b>\$24,261,066</b>	<b>(\$4,851,868)</b>	<b>(16.7%)</b>	
GENERAL REVENUE FUNDS	\$4,932,934	\$0	(\$4,932,934)	(100.0%)	2014-15 base General Revenue includes one-time funding related to the Unexpended Balance authority for the Lone Star passenger rail project. (See Selected Fiscal and Policy Issues #10b.)
FEDERAL FUNDS	\$23,780,000	\$23,861,066	\$81,066	0.3%	
OTHER FUNDS	\$400,000	\$400,000	\$0	0.0%	
<b>RAIL CONSTRUCTION E.1.4</b>	<b>\$41,166,666</b>	<b>\$11,319,431</b>	<b>(\$29,847,235)</b>	<b>(72.5%)</b>	
GENERAL REVENUE FUNDS	\$5,000,000	\$0	(\$5,000,000)	(100.0%)	2014-15 base General Revenue includes one-time funding related to the South Orient Rail Line project. (See Selected Fiscal and Policy Issues #10b.)
FEDERAL FUNDS	\$30,666,666	\$6,389,643	(\$24,277,023)	(79.2%)	Recommendations reflect a decrease in Federal Funds related to the completion of freight rail improvements at Tower 55 in Fort Worth.
OTHER FUNDS	\$5,500,000	\$4,929,788	(\$570,212)	(10.4%)	
<b>RAIL SAFETY E.1.6</b>	<b>\$2,365,352</b>	<b>\$2,372,450</b>	<b>\$7,098</b>	<b>0.3%</b>	Recommendations provide fee-generated General Revenue for rail safety inspections, investigations, and education in support of the Federal Railroad Administration's rail safety enforcement efforts in alignment with the agency's request. Recommendations include an increase of \$7,098 to biennialize salaries at the 2015 level.
GENERAL REVENUE FUNDS	\$2,365,352	\$2,372,450	\$7,098	0.3%	
<b>Total, Goal E, ENHANCE RAIL TRANSPORTATION</b>	<b>\$77,682,465</b>	<b>\$41,990,201</b>	<b>(\$35,692,264)</b>	<b>(45.9%)</b>	
GENERAL REVENUE FUNDS	\$12,298,286	\$2,372,450	(\$9,925,836)	(80.7%)	
FEDERAL FUNDS	\$55,634,666	\$30,250,709	(\$25,383,957)	(45.6%)	
OTHER FUNDS	\$9,749,513	\$9,367,042	(\$382,471)	(3.9%)	
<b>CENTRAL ADMINISTRATION F.1.1</b>	<b>\$106,287,629</b>	<b>\$122,200,300</b>	<b>\$15,912,671</b>	<b>15.0%</b>	Recommendations provide SHF for the Texas Transportation Commission, executive administration, government and public affairs, general counsel, and administrative support for the agency's divisions and central offices.

Section 2

Department of Transportation					
Summary of Recommendations - House, By Method of Finance -- Supplemental					
Strategy/Fund Type/Goal	2014-15 Base	2016-17 Recommended	Biennial Change	% Change	Comments
OTHER FUNDS	\$106,287,629	\$122,200,300	\$15,912,671	15.0%	Recommendations include an increase of \$12.2 million in SHF to fund an interagency contract for legal services provided by the Transportation Division at the Office of the Attorney General. (See Selected Fiscal and Policy Issues #3c.)
<b>INFORMATION RESOURCES F.1.2</b>	<b>\$265,302,760</b>	<b>\$310,272,052</b>	<b>\$44,969,292</b>	<b>17.0%</b>	Recommendations provide SHF for agency administrative and engineering business functions, including: management and operation of computer, software, and network resources; voice and telecommunication systems; and planning, implementation and, maintenance of information resource systems.
OTHER FUNDS	\$265,302,760	\$310,272,052	\$44,969,292	17.0%	Recommendations include increases of \$18.8 million related to Data Center Services costs for current obligations, \$14.8 million for daily operations, and a reallocation of \$9.8 million for information technology replacements and upgrades.
<b>OTHER SUPPORT SERVICES F.1.3</b>	<b>\$82,763,317</b>	<b>\$81,962,502</b>	<b>(\$800,815)</b>	<b>(1.0%)</b>	Recommendations provide SHF for indirect administrative support services for agency divisions and central offices including internal mail, facilities maintenance, and security; and statewide support for purchasing, warehousing, property management, document and records management, and printing services.
OTHER FUNDS	\$82,763,317	\$81,962,502	(\$800,815)	(1.0%)	
<b>Total, Goal F, INDIRECT ADMINISTRATION</b>	<b>\$454,353,706</b>	<b>\$514,434,854</b>	<b>\$60,081,148</b>	<b>13.2%</b>	
OTHER FUNDS	\$454,353,706	\$514,434,854	\$60,081,148	13.2%	
<b>GENERAL OBLIGATION BONDS G.1.1</b>	<b>\$338,050,000</b>	<b>\$725,962,679</b>	<b>\$387,912,679</b>	<b>114.8%</b>	Recommendations provide General Revenue and Federal Funds for debt service and other financing costs associated with the Proposition 12 GO Bond program.
GENERAL REVENUE FUNDS	\$314,412,585	\$700,876,541	\$386,463,956	122.9%	Recommendations include \$423 million in General Revenue for debt service on current Proposition 12 GO bond obligations (as of October 2014) and \$276.9 million for remaining Proposition 12 GO bond authorization anticipated to be issued over fiscal years 2015 - 2017 (see Selected Fiscal and Policy Issues #7).
FEDERAL FUNDS	\$23,637,415	\$25,086,138	\$1,448,723	6.1%	Recommendations include Federal Funds for interest payment subsidies on Proposition 12 GO bonds issued under the Build America Bonds program.



Section 2

Department of Transportation  
Summary of Recommendations - House, By Method of Finance -- Supplemental

Strategy/Fund Type/Goal	2014-15 Base	2016-17 Recommended	Biennial Change	% Change	Comments
<b>STATE HIGHWAY FUND BONDS G.1.2</b>	<b>\$657,300,000</b>	<b>\$852,207,129</b>	<b>\$194,907,129</b>	<b>29.7%</b>	Recommendations provide State Highway Funds and Federal Funds for debt service and other financing costs associated with the Proposition 14 SHF Revenue Bond program.
FEDERAL FUNDS	\$50,936,383	\$54,058,248	\$3,121,865	6.1%	Recommendations include Federal Funds for interest payment subsidies on Proposition 14 bonds issued under the Build America Bonds program.
OTHER FUNDS	\$606,363,617	\$798,148,881	\$191,785,264	31.6%	Recommendations include \$607.4 million in SHF for debt service on current obligations (as of September 2014) and \$188.3 million for remaining Proposition 14 GO bond authorization anticipated to be issued over fiscal years 2015 - 2017 (see Selected Fiscal and Policy Issues #7).
<b>TEXAS MOBILITY FUND BONDS G.1.3</b>	<b>\$914,100,000</b>	<b>\$835,252,052</b>	<b>(\$78,847,948)</b>	<b>(8.6%)</b>	Recommendations provide funding from Texas Mobility Fund No. 365 and Federal Funds for debt service and other financing costs associated with the Texas Mobility Fund Bond program (see Selected Fiscal and Policy Issues #7).
FEDERAL FUNDS	\$43,916,263	\$46,607,871	\$2,691,608	6.1%	Recommendations include Federal Funds for interest payment subsidies on Texas Mobility Fund bonds issued under the Build America Bonds program.
OTHER FUNDS	\$870,183,737	\$788,644,181	(\$81,539,556)	(9.4%)	
<b>OTHER DEBT SERVICE G.1.4</b>	<b>\$110,000,000</b>	<b>\$10,000,000</b>	<b>(\$100,000,000)</b>	<b>(90.9%)</b>	Recommendations provide \$10 million in SHF for ongoing short-term credit agreements and financing costs (\$5 million each year).
OTHER FUNDS	\$110,000,000	\$10,000,000	(\$100,000,000)	(90.9%)	2014-15 Base includes \$100 million for the repayment of short-term debt in fiscal year 2014.
<b>Total, Goal G, DEBT SERVICE PAYMENTS</b>	<b>\$2,019,450,000</b>	<b>\$2,423,421,860</b>	<b>\$403,971,860</b>	<b>20.0%</b>	
GENERAL REVENUE FUNDS	\$314,412,585	\$700,876,541	\$386,463,956	122.9%	
FEDERAL FUNDS	\$118,490,061	\$125,752,257	\$7,262,196	6.1%	
OTHER FUNDS	\$1,586,547,354	\$1,596,793,062	\$10,245,708	0.6%	
<b>PLAN/DESIGN/MANAGE - SUBACCOUNT H.1.1</b>	<b>\$8,353,334</b>	<b>\$9,500,000</b>	<b>\$1,146,666</b>	<b>13.7%</b>	

Section 2

Department of Transportation  
Summary of Recommendations - House, By Method of Finance -- Supplemental

Strategy/Fund Type/Goal	2014-15 Base	2016-17 Recommended	Biennial Change	% Change	Comments
OTHER FUNDS	\$8,353,334	\$9,500,000	\$1,146,666	13.7%	
<b>CONTRACTED PLAN/DESIGN - SUBACCOUNT H.1.2</b>	<b>\$18,265,000</b>	<b>\$9,000,000</b>	<b>(\$9,265,000)</b>	<b>(50.7%)</b>	
OTHER FUNDS	\$18,265,000	\$9,000,000	(\$9,265,000)	(50.7%)	
<b>RIGHT-OF-WAY - SUBACCOUNT H.1.3</b>	<b>\$104,835,000</b>	<b>\$27,207,441</b>	<b>(\$77,627,559)</b>	<b>(74.0%)</b>	
OTHER FUNDS	\$104,835,000	\$27,207,441	(\$77,627,559)	(74.0%)	
<b>CONSTRUCTION CONTRACTS - SUBACCOUNT H.1.4</b>	<b>\$501,077,902</b>	<b>\$693,080,429</b>	<b>\$192,002,527</b>	<b>38.3%</b>	
OTHER FUNDS	\$501,077,902	\$693,080,429	\$192,002,527	38.3%	
<b>Total, Goal H, DEVELOP TOLL SUBACCOUNT PROJECTS</b>	<b>\$632,531,236</b>	<b>\$738,787,870</b>	<b>\$106,256,634</b>	<b>16.8%</b>	Recommendations provide funding from proceeds deposited to dedicated toll project subaccounts in the SHF related to State Highway 121, State Highway 161, and State Highway 130 (Segments 5 & 6) toll facilities.
OTHER FUNDS	\$632,531,236	\$738,787,870	\$106,256,634	16.8%	
<b>PROPOSITION 1, 2014 I.1.1</b>	<b>\$0</b>	<b>\$2,575,000,000</b>	<b>\$2,575,000,000</b>	<b>100.0%</b>	Recommendations provide an estimated \$2,575 million from Proposition 1, 2014, oil and natural gas tax-related transfers to the SHF in the 2016-17 biennium. The final appropriation amount and allocation of Proposition 1 funds is to be determined by the Eighty-fourth Legislature, Regular Session.
OTHER FUNDS	\$0	\$2,575,000,000	\$2,575,000,000	100.0%	
<b>Total, Goal I, PROPOSITION 1, 2014</b>	<b>\$0</b>	<b>\$2,575,000,000</b>	<b>\$2,575,000,000</b>	<b>100.0%</b>	
OTHER FUNDS	\$0	\$2,575,000,000	\$2,575,000,000	100.0%	
<b>Grand Total, All Agency</b>	<b>\$23,157,116,209</b>	<b>\$23,739,871,103</b>	<b>\$582,754,894</b>	<b>2.5%</b>	
GENERAL REVENUE FUNDS	\$332,195,991	\$704,748,991	\$372,553,000	112.1%	\$700.9 million or 99.5 percent of General Revenue funding included in the recommendations is for debt service and other financing costs associated with the Proposition 12 GO Bond program. (See Selected Fiscal and Policy Issues #7.)
FEDERAL FUNDS	\$8,562,738,104	\$8,367,826,056	(\$194,912,048)	(2.3%)	
OTHER FUNDS	\$14,262,182,114	\$14,667,296,056	\$405,113,942	2.8%	See summary of Other Funds by Method of Financing (MOF), below.

Section 2

Department of Transportation  
Summary of Recommendations - House, By Method of Finance -- Supplemental

Strategy/Fund Type/Goal	2014-15 Base	2016-17 Recommended	Biennial Change	% Change	Comments
<b>Summary of Other Funds Total by MOF, All Agency</b>					
State Highway Fund No. 006	\$6,988,301,083	\$7,726,067,603	\$737,766,520	10.6%	
State Highway Fund - Debt Service	\$716,363,617	\$808,148,881	\$91,785,264	12.8%	
<b>Subtotal, State Highway Fund No. 006</b>	<b>\$7,704,664,700</b>	<b>\$8,534,216,484</b>	<b>\$829,551,784</b>	<b>10.8%</b>	• Subtotal excludes toll project subaccount funds, federal reimbursements, Proposition 14 bond proceeds, and Proposition 1 transfers from oil and natural gas tax-related transfers to the SHF.  • Recommendations include an additional \$1,271.0 million made available through the discontinuation of SHF appropriations to other agencies. (See Selected Fiscal and Policy Issues #2 and #3.)
<b><u>Other Funds (Remaining MOF Sources)</u></b>					
State Highway Fund No. 006 - Toll Revenue	\$505,362,582	\$683,226,352	\$177,863,770	35.2%	Includes funds from SH 121 and SH 161 toll project subaccounts.
State Highway Fund No. 006 - Concession Fees	\$127,168,654	\$55,561,518	(\$71,607,136)	(56.3%)	Includes funds from SH 130 (Segments 5 & 6) toll project subaccounts.
State Highway Fund No. 006 - Proposition 1, 2014	\$1,740,000,000	\$2,575,000,000	\$835,000,000	48.0%	The 2016-17 Recommended Proposition 1 funding amount is estimated. 2014-15 Base includes funding from the fiscal year 2015 oil and natural gas tax-related transfer to the SHF, which was authorized for expenditure in December 2014.
Texas Mobility Fund - Debt Service	\$870,183,737	\$788,644,181	(\$81,539,556)	(9.4%)	
Bond Proceeds - Texas Mobility Fund	\$1,215,920,739	\$457,879,042	(\$758,041,697)	(62.3%)	
Bond Proceeds - State Highway Fund (Proposition 14)	\$822,679,812	\$214,555,584	(\$608,124,228)	(73.9%)	
Bond Proceeds - GO Bonds (Proposition 12, 2014)	\$1,021,588,271	\$1,349,212,895	\$327,624,624	32.1%	
Bond Proceeds - GO Bonds (BCAP)	\$11,600,000	\$0	(\$11,600,000)	(100.0%)	
Transportation Infrastructure Fund No. 184	\$225,000,000	\$0	(\$225,000,000)	(100.0%)	
Interagency Contracts	\$9,000,000	\$9,000,000	\$0	0.0%	
Appropriated Receipts	\$9,013,619	\$0	(\$9,013,619)	(100.0%)	
<b>Subtotal, Other Funds (Remaining MOF Sources)</b>	<b>\$6,557,517,414</b>	<b>\$6,133,079,572</b>	<b>(\$424,437,842)</b>	<b>(6.5%)</b>	
<b>Grand Total, Other Funds</b>	<b>\$14,262,182,114</b>	<b>\$14,667,296,056</b>	<b>\$405,113,942</b>	<b>2.8%</b>	

Section 2

Department of Transportation  
Summary of Recommendations - House, By Method of Finance -- State Highway Fund No. 006  
( excludes toll project subaccount funds, Federal Reimbursements, Bond Proceeds, and oil and natural gas tax-related transfers deposited to the State Highway Fund)

Strategy/Goal	2014-15 Base	2016-17 Recommended	Biennial Change	% Change	Comments
PLAN/DESIGN/MANAGE A.1.1	\$248,333,438	\$337,112,163	\$88,778,725	35.7%	
CONTRACTED PLANNING AND DESIGN A.1.2	\$363,379,583	\$353,380,687	(\$9,998,896)	(2.8%)	
RIGHT-OF-WAY ACQUISITION A.1.3	\$248,525,463	\$269,652,244	\$21,126,781	8.5%	
RESEARCH A.1.4	\$8,263,238	\$9,289,093	\$1,025,855	12.4%	
Total, Goal A, PROVIDE TRANSPORTATION PLANNING	\$868,501,722	\$969,434,187	\$100,932,465	11.6%	
EXISTING CONSTRUCTION CONTRACTS B.1.1	\$201,544,963	\$353,392,560	\$151,847,597	75.3%	
NEW CONSTRUCTION CONTRACTS B.1.2	\$319,503,038	\$419,550,921	\$100,047,883	31.3%	
CONSTRUCTION GRANTS & SERVICES B.1.3	\$316,633,795	\$407,949,593	\$91,315,798	28.8%	
AVIATION SERVICES B.1.4	\$93,747,240	\$59,315,922	(\$34,431,318)	(36.7%)	
Total, Goal B, TRANSPORTATION IMPROVEMENTS	\$931,429,036	\$1,240,208,996	\$308,779,960	33.2%	
EXISTING MAINTENANCE CONTRACTS C.1.1	\$532,064,327	\$405,002,927	(\$127,061,400)	(23.9%)	
NEW MAINTENANCE CONTRACTS C.1.2	\$1,115,696,100	\$1,477,604,135	\$361,908,035	32.4%	
CONTRACTED ROUTINE MAINTENANCE C.1.3	\$1,357,424,401	\$1,307,590,092	(\$49,834,309)	(3.7%)	
ROUTINE MAINTENANCE C.1.4	\$1,506,219,591	\$1,583,891,806	\$77,672,215	5.2%	
GULF WATERWAY C.1.5	\$1,755,513	\$1,764,713	\$9,200	0.5%	
FERRY OPERATIONS C.1.6	\$91,470,220	\$94,239,236	\$2,769,016	3.0%	
Total, Goal C, PRESERVE THE TRANSPORTATION SYSTEM	\$4,604,630,152	\$4,870,092,909	\$265,462,757	5.8%	
PUBLIC TRANSPORTATION D.1.1	\$64,530,211	\$66,099,390	\$1,569,179	2.4%	
TRAFFIC SAFETY D.2.1	\$17,612,936	\$17,352,744	(\$260,192)	(1.5%)	
TRAVEL INFORMATION D.3.1	\$37,993,807	\$39,077,481	\$1,083,674	2.9%	
Total, Goal D, OPTIMIZE SERVICES AND SYSTEMS	\$120,136,954	\$122,529,615	\$2,392,661	2.0%	
RAIL PLAN/DESIGN/MANAGE E.1.1	\$3,849,513	\$4,037,254	\$187,741	4.9%	
CONTRACT RAIL PLAN/DESIGN E.1.2	\$400,000	\$400,000	\$0	0.0%	
RAIL CONSTRUCTION E.1.4	\$5,000,000	\$4,929,788	(\$70,212)	(1.4%)	
RAIL SAFETY E.1.6	\$0	\$0	\$0	0.0%	
Total, Goal E, ENHANCE RAIL TRANSPORTATION	\$9,249,513	\$9,367,042	\$117,529	1.3%	
CENTRAL ADMINISTRATION F.1.1	\$106,287,629	\$122,200,300	\$15,912,671	15.0%	

Section 2

Department of Transportation  
Summary of Recommendations - House, By Method of Finance -- State Highway Fund No. 006  
( excludes toll project subaccount funds, Federal Reimbursements, Bond Proceeds, and oil and natural gas tax-related transfers deposited to the State Highway Fund)

Strategy/Goal	2014-15 Base	2016-17 Recommended	Biennial Change	% Change	Comments
INFORMATION RESOURCES F.1.2	\$265,302,760	\$310,272,052	\$44,969,292	17.0%	
OTHER SUPPORT SERVICES F.1.3	\$82,763,317	\$81,962,502	(\$800,815)	(1.0%)	
Total, Goal F, INDIRECT ADMINISTRATION	\$454,353,706	\$514,434,854	\$60,081,148	13.2%	
GENERAL OBLIGATION BONDS G.1.1	\$0	\$0	\$0	0.0%	
STATE HIGHWAY FUND BONDS G.1.2	\$606,363,617	\$798,148,881	\$191,785,264	31.6%	
TEXAS MOBILITY FUND BONDS G.1.3	\$0	\$0	\$0	0.0%	
OTHER DEBT SERVICE G.1.4	\$110,000,000	\$10,000,000	(\$100,000,000)	(90.9%)	
Total, Goal G, DEBT SERVICE PAYMENTS	\$716,363,617	\$808,148,881	\$91,785,264	12.8%	State Highway Fund appropriations for debt service are designated as "State Highway Fund - Debt Service" under the Method of Financing in the agency's appropriations bill pattern.
Grand Total, All Strategies	\$7,704,664,700	\$8,534,216,484	\$829,551,784	10.8%	

Section 2

Department of Transportation  
Summary of Recommendations - House, By Method of Finance -- 8105 - Bond Proceeds - Texas Mobility Fund

Strategy/Goal	2014-15 Base	2016-17 Recommended	Biennial Change	% Change	Comments
PLAN/DESIGN/MANAGE A.1.1	\$6,000,000	\$0	(\$6,000,000)	(100.0%)	
CONTRACTED PLANNING AND DESIGN A.1.2	\$14,178,401	\$2,573,997	(\$11,604,404)	(81.8%)	
RIGHT-OF-WAY ACQUISITION A.1.3	\$177,400,026	\$813,063	(\$176,586,963)	(99.5%)	
<b>Total, Goal A, PROVIDE TRANSPORTATION PLANNING</b>	<b>\$197,578,427</b>	<b>\$3,387,060</b>	<b>(\$194,191,367)</b>	<b>(98.3%)</b>	
EXISTING CONSTRUCTION CONTRACTS B.1.1	\$371,473,931	\$202,555,614	(\$168,918,317)	(45.5%)	
NEW CONSTRUCTION CONTRACTS B.1.2	\$99,715,079	\$58,082,736	(\$41,632,343)	(41.8%)	
CONSTRUCTION GRANTS & SERVICES B.1.3	\$547,153,302	\$193,853,632	(\$353,299,670)	(64.6%)	
<b>Total, Goal B, TRANSPORTATION IMPROVEMENTS</b>	<b>\$1,018,342,312</b>	<b>\$454,491,982</b>	<b>(\$563,850,330)</b>	<b>(55.4%)</b>	
<b>Grand Total, All Strategies</b>	<b>\$1,215,920,739</b>	<b>\$457,879,042</b>	<b>(\$758,041,697)</b>	<b>(62.3%)</b>	

Section 2

Department of Transportation

Summary of Recommendations - House, By Method of Finance -- 8106 - Bond Proceeds - State Highway Fund (Proposition 14)

Strategy/Goal	2014-15 Base	2016-17 Recommended	Biennial Change	% Change	Comments
PLAN/DESIGN/MANAGE A.1.1	\$9,000,000	\$0	(\$9,000,000)	(100.0%)	
CONTRACTED PLANNING AND DESIGN A.1.2	\$28,612,877	\$13,545,500	(\$15,067,377)	(52.7%)	
RIGHT-OF-WAY ACQUISITION A.1.3	\$52,480,571	\$8,311,242	(\$44,169,329)	(84.2%)	
Total, Goal A, PROVIDE TRANSPORTATION PLANNING	\$90,093,448	\$21,856,742	(\$68,236,706)	(75.7%)	
EXISTING CONSTRUCTION CONTRACTS B.1.1	\$300,178,295	\$122,382,921	(\$177,795,374)	(59.2%)	
NEW CONSTRUCTION CONTRACTS B.1.2	\$68,894,730	\$0	(\$68,894,730)	(100.0%)	
CONSTRUCTION GRANTS & SERVICES B.1.3	\$54,800,000	\$0	(\$54,800,000)	(100.0%)	
Total, Goal B, TRANSPORTATION IMPROVEMENTS	\$423,873,025	\$122,382,921	(\$301,490,104)	(71.1%)	
EXISTING MAINTENANCE CONTRACTS C.1.1	\$281,823,838	\$70,315,921	(\$211,507,917)	(75.0%)	
NEW MAINTENANCE CONTRACTS C.1.2	\$26,889,501	\$0	(\$26,889,501)	(100.0%)	
Total, Goal C, PRESERVE THE TRANSPORTATION SYSTEM	\$308,713,339	\$70,315,921	(\$238,397,418)	(77.2%)	
Grand Total, All Strategies	\$822,679,812	\$214,555,584	(\$608,124,228)	(73.9%)	

Section 2

Department of Transportation					
Summary of Recommendations - House, By Method of Finance -- 8120 - Bond Proceeds - GO Bonds (Proposition 12)					
Strategy/Goal	2014-15 Base	2016-17 Recommended	Biennial Change	% Change	Comments
PLAN/DESIGN/MANAGE A.1.1	\$47,077,955	\$18,776,423	(\$28,301,532)	(60.1%)	
CONTRACTED PLANNING AND DESIGN A.1.2	\$48,570,065	\$30,339,767	(\$18,230,298)	(37.5%)	
RIGHT-OF-WAY ACQUISITION A.1.3	\$85,828,821	\$32,810,500	(\$53,018,321)	(61.8%)	
Total, Goal A, PROVIDE TRANSPORTATION PLANNING	\$181,476,841	\$81,926,690	(\$99,550,151)	(54.9%)	
EXISTING CONSTRUCTION CONTRACTS B.1.1	\$315,159,176	\$501,341,480	\$186,182,304	59.1%	
NEW CONSTRUCTION CONTRACTS B.1.2	\$78,789,793	\$125,335,370	\$46,545,577	59.1%	
CONSTRUCTION GRANTS & SERVICES B.1.3	\$122,520,212	\$133,694,873	\$11,174,661	9.1%	
Total, Goal B, TRANSPORTATION IMPROVEMENTS	\$516,469,181	\$760,371,723	\$243,902,542	47.2%	
EXISTING MAINTENANCE CONTRACTS C.1.1	\$292,654,098	\$461,292,179	\$168,638,081	57.6%	
NEW MAINTENANCE CONTRACTS C.1.2	\$30,988,151	\$45,622,303	\$14,634,152	47.2%	
Total, Goal C, PRESERVE THE TRANSPORTATION SYSTEM	\$323,642,249	\$506,914,482	\$183,272,233	56.6%	
Grand Total, All Strategies	\$1,021,588,271	\$1,349,212,895	\$327,624,624	32.1%	



Section 2

Department of Transportation					
Summary of Recommendations - House, By Method of Finance -- 8142 - State Highway Fund No. 006 - Proposition 1, 2014					
Strategy/Goal	2014-15 Base	2016-17 Recommended	Biennial Change	% Change	Comments
CONTRACTED PLANNING AND DESIGN A.1.2	\$73,080,000	\$0	(\$73,080,000)	(100.0%)	
RIGHT-OF-WAY ACQUISITION A.1.3	\$97,440,000	\$0	(\$97,440,000)	(100.0%)	
Total, Goal A, PROVIDE TRANSPORTATION PLANNING	\$170,520,000	\$0	(\$170,520,000)	(100.0%)	
NEW CONSTRUCTION CONTRACTS B.1.2	\$377,092,800	\$0	(\$377,092,800)	(100.0%)	
Total, Goal B, TRANSPORTATION IMPROVEMENTS	\$377,092,800	\$0	(\$377,092,800)	(100.0%)	
NEW MAINTENANCE CONTRACTS C.1.2	\$1,192,387,200	\$0	(\$1,192,387,200)	(100.0%)	
Total, Goal C, PRESERVE THE TRANSPORTATION SYSTEM	\$1,192,387,200	\$0	(\$1,192,387,200)	(100.0%)	
PUBLIC TRANSPORTATION D.1.1	\$0	\$0	\$0	0.0%	
TRAFFIC SAFETY D.2.1	\$0	\$0	\$0	0.0%	
TRAVEL INFORMATION D.3.1	\$0	\$0	\$0	0.0%	
Total, Goal D, OPTIMIZE SERVICES AND SYSTEMS	\$0	\$0	\$0	0.0%	
PROPOSITION 1, 2014 I.1.1	\$0	\$2,575,000,000	\$2,575,000,000	100.0%	
Total, Goal I, PROPOSITION 1, 2014	\$0	\$2,575,000,000	\$2,575,000,000	100.0%	
Grand Total, All Strategies	\$1,740,000,000	\$2,575,000,000	\$835,000,000	48.0%	

## Section 3

### Department of Transportation Selected Fiscal and Policy Issues - House

1. **Strategic Fiscal Review.** The agency is included in the Strategic Fiscal Review. Please refer to the SFR packet for specific information and findings.

Significant findings and observations include:

- Most of the agency's 31 programs have strong authority and either strong or moderate mission centrality.
- Four out of 31 programs have strong authority and weak mission centrality, including
  - Flight Services
  - Outdoor Advertising Regulation (Highway Beautification)
  - Travel Information Centers
  - Texas Highways Magazine

2. **Other Funds.** Recommendations provide \$14,667.3 million in Other Funds (61.8 percent of All Funds), which represents a net increase of \$405.1 million from the 2014–15 level. (See Section 2, page 14, for a detailed summary of Other Funds by method of finance.) The biennial increase includes:

- a net increase of \$829.5 million in State Highway Funds (SHF) from traditional tax and fee revenue, including an additional \$1,271.0 million made available from the discontinuation of SHF appropriations to agencies other than the Department of Transportation, offset by an increase of \$402 million budgeted in fiscal year 2015 due to available fund balances remaining from the 2012–13 biennium;
- an estimated \$2,575.0 million from oil and natural gas tax-related transfers to the SHF (Proposition 1, 2014), a net increase of \$835 million from the 2014–15 biennium (see item #4, below);
- a net decrease of \$1,050.1 million from bond proceeds (see item #6, below),
- a decrease of \$81.5 million in Texas Mobility Funds for bond debt service; and
- a decrease of \$127.8 million in Other Funds from other non-traditional and one-time funding sources.

3. **State Highway Fund No. 006 Allocations**

- a. **Appropriations to TxDOT.** Recommended SHF appropriations, excluding funds from toll project subaccounts, revenue bond proceeds, and oil and natural gas tax-related transfers to the SHF, provide \$8,534.2 million in direct appropriations to TxDOT (increase of \$829.5 million from 2014–15) and \$603.6 million for Article VII employee benefits to be paid on behalf of TxDOT (increase of \$73.1 million from 2014–15).
- b. **Appropriations to Other Agencies.** The recommendations discontinue funding from the SHF to agencies other than TxDOT. The recommendations result in a biennial decrease of \$1,319.9 million in SHF to other agencies from the 2014–15 level, including reductions of \$1,052.5 million in direct appropriations and \$267.4 million for employee benefits for agencies other than TxDOT. Recommendations replace

## Section 3

SHF appropriations to these agencies with \$1,332.8 million in All Funds from other funding sources, including \$1,307.7 million in General Revenue and \$25.1 million in Other Funds.

- c. **Method of Finance Swap: Interagency Contract for Legal Services.** The recommendations include a method of finance swap for the Office of the Attorney General (OAG) from SHF to an Interagency Contract with TxDOT. The Transportation Division at the OAG provides legal services exclusively to TxDOT that include eminent domain, property damage, and legal representation for TxDOT staff. The division has been historically funded by a direct SHF appropriation to OAG. Recommendations provide \$12.2 million to TxDOT from the SHF to fund the Interagency Contract for legal services (see Rider Highlights, New Rider #41).
- d. **Transfers to the Texas Emissions Reduction Plan Account.** In fiscal year 2009, a portion of the revenue from vehicle title transfer fees previously deposited to the General Revenue-Dedicated Texas Emissions Reduction Plan (TERP) Account No. 5071 began flowing into the Texas Mobility Fund (TMF). Also, since fiscal year 2009 and continuing through fiscal year 2019, the agency is statutorily required to remit monthly to the Comptroller, out of non-constitutionally dedicated State Highway Funds, an amount equal to the title transfer fees deposited to the TMF for deposit to the TERP Account. Title fees deposited to the TMF in fiscal year 2014 totaled \$93.3 million. Beginning in fiscal year 2016, \$5 from title fees collected in EPA "non-attainment" counties that is currently deposited to the TERP Account will begin flowing into the TMF, which will increase the required transfers to TERP from the SHF. The Comptroller's January 2015 Biennial Revenue Estimate includes \$240.8 million (\$119.2 million in fiscal year 2014; \$121.6 million in fiscal year 2017) in estimated title transfer fee deposits to the Texas Mobility Fund for the 2016–17 biennium.

### 4. Proposition 1, 2014.

- a. **Constitutional Amendment.** The amendment to the Texas Constitution approved by voters in November 2014 (Proposition 1, 2014) redirects to the SHF as much as half of the oil and natural gas tax-related transfers previously allocated to the Economic Stabilization Fund (ESF) each fiscal year. The funds transferred to the SHF may only be used for constructing, maintaining, and acquiring rights-of-way for public roadways other than toll roads. The amendment also requires a process to ensure a sufficient ESF balance. The Legislature is required to establish a procedure to make two changes to the allocation prescribed in the amendment: (1) increase the percentage of the oil and natural gas tax-related allocations to the ESF; and (2) decrease the allocation to the SHF by an equal amount. The enactment of House Bill 1, 83<sup>rd</sup> Legislature, Third Called Session, 2013, established this procedure. Before each regular session, the Speaker of the House and the Lieutenant Governor are to each appoint five members to a select committee. In each even-numbered year, the committee is required to adopt an amount considered to be a sufficient balance for the ESF for the next fiscal biennium and to submit the amount to each legislative chamber as a concurrent resolution for approval or amendment. If the Legislature does not approve the resolution or amend the resolution to establish a different sufficient balance, the amount submitted by the select committee would become the sufficient balance. The CPA is required to reduce the allocation of oil and natural gas tax-related transfers to the SHF, if necessary, to maintain the sufficient ESF balance adopted by the committee or the Legislature.
- b. **Fiscal Year 2015 Transfer.** In December 2014, \$1,740.1 million was transferred to the SHF pursuant to Proposition 1. This additional revenue to the SHF is made available for expenditure in fiscal year 2015 through TxDOT's "estimated" State Highway

## Section 3

Fund No. 006 appropriation, subject to the written approval of the Legislative Budget Board (LBB) and the Governor as required by TxDOT Rider 18, Additional Funds, 2014–15 General Appropriations Act. In December 2014, LBB and the Governor approved TxDOT's request under the authority of Rider 18 to spend these additional funds to address congestion in urban areas, improve rural connectivity, maintain existing infrastructure, and address roadway maintenance and safety needs in areas of the state impacted by increased oil and gas production activity.

- c. **2016-17 Recommendations.** Recommendations include an estimated \$2,575 million (\$1,308 million in fiscal year 2016 and \$1,267 million in fiscal year 2017) from Proposition 1 transfers to the SHF (State Highway Fund No. 006 – Proposition 1, 2014) in a new General Appropriations Bill line item (Strategy I.1.1, Proposition 1, 2014) to be used for constructing, maintaining, and acquiring rights-of-way for non-tolled public roadways. The final appropriation amount and allocation of these funds for the 2016–17 biennium is to be determined by the Eighty-fourth Legislature.
- 5. **Federal-Aid Highway Funding – MAP 21.** Recommendations include \$8,367.8 million in Federal Funds for the 2016-17 biennium based on estimates from TxDOT. A total of \$7,900.1 million in Federal Funds is from federal reimbursements for highway planning and construction expenditures. Federal highway funding is authorized through the Moving Ahead for Progress in the 21<sup>st</sup> Century Act (MAP-21). MAP-21 became effective October 1, 2012, and authorized federal funding for federal fiscal years 2013 and 2014. The authorization for MAP-21 was set to expire September 30, 2014, but Congress extended the authorization until May 2015. Congress has supplemented shortfalls in the federal Highway Trust Fund (HTF), which is supported with federal motor fuel taxes, with federal General Fund and other fund transfers to sustain the current funding level for the Federal-aid Highway Program. TxDOT estimates and the LBB recommendations assume Congress will not continue to supplement the HTF with General Funds when Congress decides to extend MAP-21 authorization in 2015, which would result in a reduction in federal highway funding to the states. According to TxDOT, continuation of current MAP-21 funding levels would equate to \$606 million in additional federal obligation authority in the 2016-17 biennium and allow for an additional \$515 million in new contract letting (see Items Not Included in Recommendations #19).
- 6. **Bond Proceeds.** Recommendations from Other Funds include \$2,021.6 million in proceeds from the issuance of bonds for transportation improvement and safety projects. This amount represents 8.5 percent of the All Funds recommendation and includes funding from the following TxDOT bond programs.
  - a. **Texas Mobility Fund Bonds.** Recommendations include \$457.9 million from Texas Mobility Fund (TMF) bond proceeds (a decrease of \$758 million). This amount reflects the agency's forecasted expenditures from TMF bond proceeds for contracted planning and design, right-of-way acquisition, and transportation construction contracts. TMF bond obligations are payable from revenues deposited to Texas Mobility Fund No. 365. Issuance of TMF bonds is not limited to a specific aggregate cap by the Texas Constitution or state law but is limited by statutory debt service coverage requirements based on the Comptroller's certified estimate of TMF revenue. See the Bond Program Summary table, below, for a summary of TMF bond authorization used and authorization remaining as of January 2015.
  - b. **State Highway Fund Revenue Bonds (Proposition 14).** Recommendations include \$214.6 million from Proposition 14 bond proceeds (a decrease of \$608.1 million). This amount reflects the agency's forecasted expenditures from Proposition 14 proceeds for contracted planning and design, right-of-way acquisition, and highway construction contracts. All \$6 billion in Proposition 14 bonds authorized by statute has been

Section 3

obligated to highway improvement and safety projects. See the Bond Program Summary table, below, for a summary of the total Proposition 14 bond authorization used and authorization remaining as of January 2015.

- c. **Proposition 12 General Obligation Bonds.** Recommendations include \$1,349.2 million in Proposition 12 General Obligation (GO) bond proceeds (an increase of \$327.6 million). This amount reflects the agency’s forecasted expenditures from Proposition 12 GO bond proceeds during the 2016–17 biennium for transportation planning and design, right-of-way acquisition, and progress payments on highway construction contracts. All \$5 billion in Proposition 12 GO bond authority has been appropriated and programmed for highway projects, and the agency issues Proposition 12 GO bonds as needed to provide funding for progress payments on highway projects included in the Proposition 12 program. Recommendations provide appropriation authority in the 2016–17 biennium for any unexpended balances of proceeds from the sale of Proposition 12 GO bonds and any unissued authority remaining from appropriations to the agency for the 2014–15 biennium (see Rider Highlights, Modified #29). See the Bond Program Summary table, below, for a summary of the total Proposition 12 GO bond authorization used and authorization remaining as of January 2015.

Bond Program Summary

	TMF	Prop. 14	Prop. 12	Total
Total Authorization	\$7,390,629,619	\$6,000,000,000	\$5,000,000,000	\$18,390,629,619
Authorization Used	\$7,390,629,619	\$5,299,851,213	\$3,557,991,860	\$16,248,472,692
Authorization Remaining	\$0	\$700,148,787	\$1,442,008,140	\$2,142,156,927

Section 3

7. **Bond Debt Service.** Recommendations provide \$2,408 million in All Funds for bond debt service payments on Texas Mobility Fund, Proposition 14, and Proposition 12 GO bonds. The recommendations include \$2,282.2 million from state funds and \$125.8 million in Federal Funds for interest payment subsidies on bonds issued under the Build America Bonds program. The recommendations represent an All Funds increase of \$503.5 million and an increase of \$496.3 million in state funds over the 2014–15 level. The Bond Debt Service Summary table below provides a comparison of the recommended funding levels to the 2014–15 budgeted amounts for debt service payments from state funding sources for each of TxDOT’s bond programs.

Bond Debt Service Summary<sup>1</sup>

	2014–15 Budgeted	2016–17 Recommended	Increase/ (Decrease)	MOF	Included in CDL <sup>3</sup>
Texas Mobility Fund Bonds	\$868,219,659 <sup>2</sup>	\$786,568,181	(\$81,651,478)	TMF	No
Proposition 14 Bonds	\$604,178,915	\$795,748,881	\$191,569,966	SHF	No
Proposition 12 GO Bonds	\$313,512,585	\$699,876,541	\$386,363,956	GR	Yes
<b>Total Debt Service</b>	<b>\$1,785,911,159</b>	<b>\$2,282,193,603</b>	<b>\$496,282,444</b>		

Notes:

1. Debt service amounts are net of Federal Funds for bonds issued as Build America Bonds (\$118.5 million in 2014–15; \$125.8 million in 2016–17).
2. 2014-15 budgeted debt service includes \$168.6 million for the cash defeasance of Texas Mobility Funds in FY 2014.
3. The constitutional debt limit (CDL) applies to debt repaid with unrestricted General Revenue Funds. TMF and Proposition 14 bonds are self-supporting bonds; debt service payments are supported by revenue deposited to the TMF and the SHF (Other Funds), respectively, and are not included in CDL. Proposition 12 bonds are “not self-supporting” GO bonds repaid with unrestricted General Revenue Funds and are included in the CDL.
8. **Comprehensive Development Agreements.** Recommendations include \$752.3 million in All Funds for continuing TxDOT financial participation in comprehensive development agreements (CDA). The enactment of Senate Bill 1730, Eighty-third Legislature, Regular Session, 2013, provided authority for TxDOT to enter into CDAs for specific projects. Authority to enter into CDAs for most projects expires on August 31, 2017. Recommendations continue rider provisions requiring the agency to receive written approval from LBB prior to spending appropriations to enter into a CDA (see Rider Highlights, Modified Rider #22).
9. **Pass-through Financing Agreements.** Recommendations include \$387.5 million in All Funds (\$310 million in Federal Funds; \$77.5 million in State Highway Funds) for pass-through financing agreement reimbursement payments. Under a pass-through financing agreement, a local government or private entity funds the upfront costs for constructing a state highway project. When the state highway project is open to traffic, TxDOT begins reimbursing the upfront costs over time based on the number of vehicles that use the highway each year. The amount of reimbursement is subject to rates for vehicle usage (per vehicle or vehicle miles traveled) and annual minimum and maximum reimbursement

Section 3

amounts specified in each agreement. As of November 2014, the agency has executed 41 agreements for a total of \$1,767.2 million in reimbursements over the life of the agreements.

10. General Revenue Funds for Aviation and Rail Projects.

- a. **Emergency and First Responder Airport Facilities.** Recommendations decrease General Revenue funding by \$2.5 million from the 2014–15 level for an emergency and first responder airport facility runway expansion project. TxDOT anticipates this project will be underway by the beginning of the 2016–17 biennium. The recommendations provide appropriation authority in the 2016–17 biennium for any unexpended balances of appropriations (estimated to be \$0) remaining at the end of the 2014–15 biennium to maintain the current funding for this project (see Rider Highlights, New Rider #40, and Items not Included in Recommendations #6).
- b. **Rail Projects.** Recommendations decrease General Revenue Funding by \$11,418,054 from the 2014–15 level for rail planning and rehabilitation projects. The agency’s 2014–15 budget includes balances of \$6,418,054 carried forward rail project appropriations that originated in the 2010–11 General Appropriations Act, including funds for the Lone Star Rail planning project (\$4,932,934) and South Orient Rail Line rehabilitation (\$1,458,120), and an additional \$5 million appropriated for the 2014–15 biennium for improvements to the South Orient Rail Line (see Item #19, below). The recommendations provide appropriation authority in the 2016–17 biennium for any unexpended balances of appropriations (estimated to be \$0) remaining at the end of the 2014–15 biennium for these projects (see Rider Highlights, Modified Rider #30, and Items not Included in Recommendations #7).

11. Capital Budget Authority. Recommendations provide \$252.6 million in capital budget authority for the 2016–17 biennium allocated to the following categories (see Rider Highlights #2):

Category	Biennial Capital Budget
a. Acquisition of Land and Other Real Property	\$1,300,000
b. Acquisition of Information Resource Technologies	\$73,811,449
c. Transportation Items	\$15,500,000
d. Acquisition of Capital Equipment and Items	\$89,200,000
e. Data Center Consolidation	\$57,228,779
f. Centralized Accounting and Personnel/Payroll System (CAPPS)	\$15,562,936
Total, Capital Budget Authority	\$252,603,164

### Section 3

12. **Mainframe Modernization.** Recommendations maintain capital budget authority at the 2014-15 appropriated level of \$41 million to continue the agency's Mainframe Modernization information resource technology project (see Items Not Included in Recommendations #4). The purpose of the project is to modernize mainframe applications within TxDOT's Management Information System and continue the integration and replacement of enterprise resource planning functionality that was not included within the scope of the CAPPS system project.
13. **Technology Replacements and Upgrades.** Recommendations maintain capital budget authority at the 2014-15 appropriated level of \$32.8 million for the agency's Technology Replacements and Upgrades information resource technology project (see Items Not Included in Recommendations #3). This project addresses the agency's ongoing replacement and upgrade of information technology hardware and software in support of all agency operations.
14. **Data Center Consolidation.** Recommendations increase capital budget authority for the Data Center Consolidation project by \$21,710,077 over the 2014–15 biennium due to cost increases for current service levels identified by the Department of Information Resources (DIR) for the 2016–17 biennium. Recommended capital budget appropriations for the Data Center Consolidation project total \$57,228,779 in State Highway Funds for the biennium.
15. **Centralized Accounting and Personnel/Payroll System (CAPPS).** Recommendations provide \$15 million for ongoing maintenance and support of the CAPPS Financial and Human Resources (HR) systems. Implementation of the financial and HR system projects was completed in October 2015. The agency estimates ongoing maintenance and support costs to be \$7.5 million each year. The recommendations also provide \$562,936 in funding and capital budget authority for payments to the Comptroller's office for converted PeopleSoft licenses used for the agency's internal accounting systems.
16. **Construction of Buildings and Facilities.** Recommendations reduce capital budget authority by \$16.5 million (100 percent) from the 2014-15 appropriated level for the construction of new buildings and facilities (see Items Not Included in Recommendations #1).
17. **Repair or Rehabilitation of Buildings and Facilities.** Recommendations reduce capital budget authority by \$39.1 million (100 percent) from the 2014–15 level for repair or rehabilitation of buildings and facilities (see Items Not Included in Recommendations #2).
18. **FY 2013 Supplemental Appropriations for Energy Sector Road Repairs.** House Bill 1025, Eighty-third Legislature, Regular Session, (Supplemental Appropriations Bill) appropriated \$450 million in General Revenue Funds to TxDOT to address roadway safety and maintenance in areas of the state impacted by increased energy sector activity. The appropriation included \$225 million for deposit to Fund 6 to repair or rehabilitate affected parts of the state highway system. The remaining \$225 million was deposited to a newly created Transportation Infrastructure Fund to provide grants for county transportation infrastructure projects in counties affected by increased energy sector activity, pursuant to Senate Bill 1747, Eighty-third Legislature, Regular Session. The agency reports that the state highway system projects are currently under construction and all of the Transportation Infrastructure Fund grants have been awarded to the eligible counties. The agency requests appropriation authority in the 2016–17 biennium for any unexpended balances of these funds to continue progress payments on the state highway system projects and fulfill the county grant obligations after the Supplemental Appropriations Bill expires (see Items Not Included in Recommendations #30). The appropriation authority in the Supplemental Appropriations Bill will expire and any unexpended or unencumbered appropriations will lapse on June 14, 2015, prior to the effective date of the 2016–17 General Appropriations Act (September 1, 2015).



## Section 3

19. **Rail Receipts from Car Load Fees.** Recommendations include a new rider to appropriate revenue collected from contractual car load fees on the Texas Pacifico rail line for the purpose of funding rail construction projects (see Rider Highlights, New #43). In August 2013, TxDOT and Texas Pacifico Transportation, Ltd. (Texas Pacifico), amended the South Orient Rail Line lease-operating agreement to include an annual surcharge to be paid to TxDOT in an amount equal to \$50 per loaded freight car interchanged to or from a connecting railroad during the preceding calendar year. The first full year of the agreement is calendar year 2014, and the first annual surcharge will be payable in 2015. The annual surcharge would serve as a repayment for the expenditure of state funds to maintain or improve the South Orient Rail Line.

Section 3

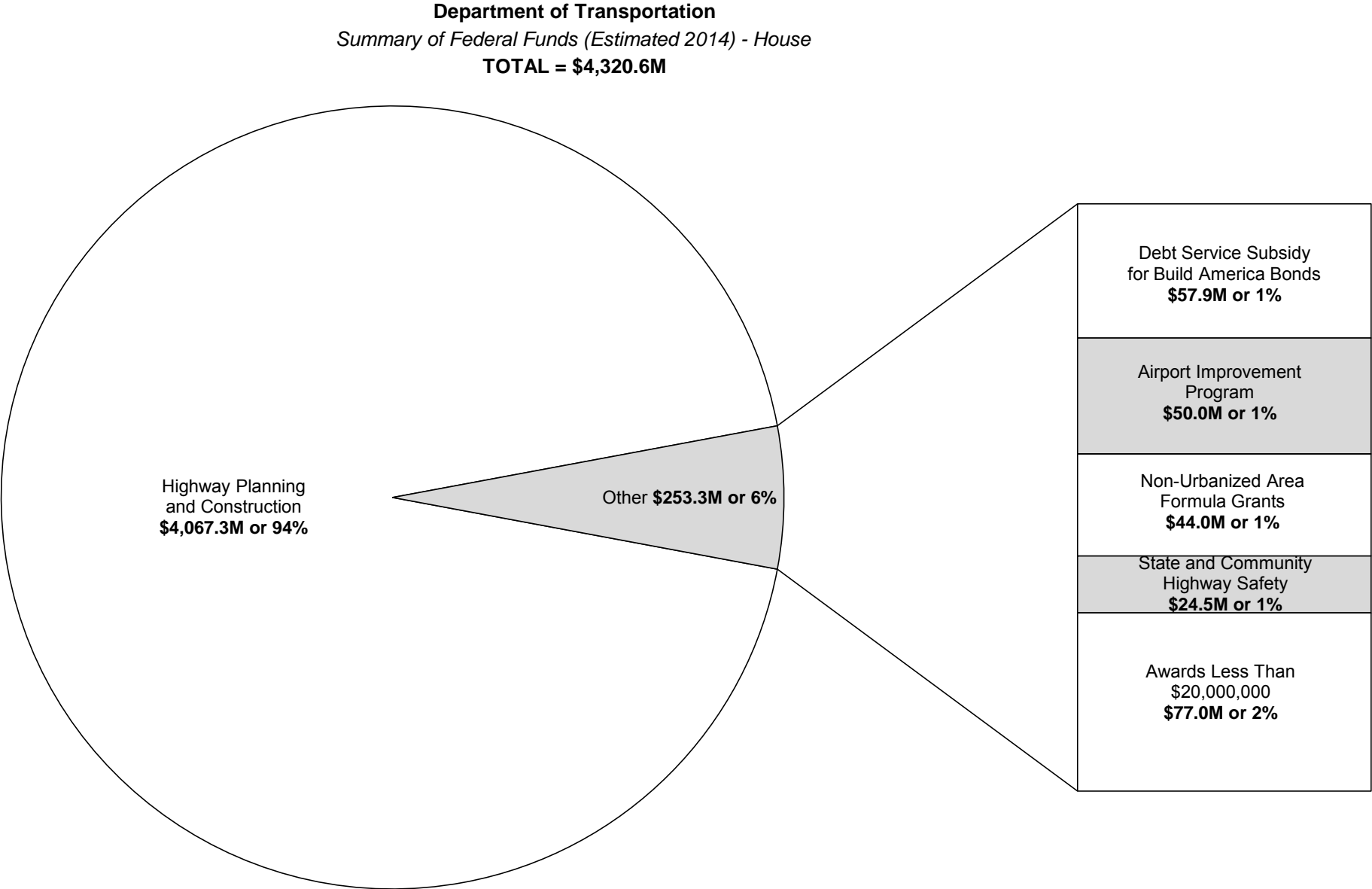
Department of Transportation  
FTE Highlights - House

Full-Time-Equivalent Positions	Expended 2013	Estimated 2014	Budgeted 2015	Recommended 2016	Recommended 2017
Cap	12,087.0	12,087.0	12,087.0	11,900.0	11,900.0
Actual/Budgeted	11,722.6	11,715.5	12,293.0	NA	NA
<i>Actual/Budgeted: Summer Hire Program</i>	<i>181.5</i>	<i>206.0</i>	<i>206.0</i>	<i>206.0</i>	<i>206.0</i>
Schedule of Exempt Positions (Cap)					
Executive Director, Group 8*	\$192,500	\$292,500	\$292,500	\$292,500	\$292,500
Executive Leadership Position (5), Group 8*	NA	\$272,000	\$272,000	\$272,000	\$272,000
Commissioner (5)*	\$15,914	\$16,073	\$16,395	\$16,395	\$16,395

\*The agency is not requesting any changes to its Exempt Positions.

- 1. Recommendations include a reduction of 187.0 FTEs from the FTE cap for fiscal years 2014-15 to fiscal years 2016-17 in alignment with the agency's request. According to the agency, the decrease in FTEs in fiscal years 2016-17 is primarily related to the outsourcing of information technology functions.
- 2. Expended 2013, Estimated 2014, and Budgeted 2015 Actual/Budgeted amounts include the TxDOT Summer Hire FTEs that are exempt from the FTE cap pursuant to Rider 13, Full-Time Equivalent: Summer Hire Program, 2014-15 General Appropriations Act, which authorizes up to 1,200.0 Summer Hire FTEs in the 3rd and 4th quarters of each fiscal year.
- 3. Executive Leadership Positions were not classified as an Exempt until fiscal year 2014.

Section 3



Note: Amounts or percentages shown may sum greater/less than actual total due to rounding.

Section 3

Department of Transportation  
Significant Federal Funds Changes - House

CFDA No.	Program Name	2014-15 Base	2016-17 Recommended	Recommended Over/(Under) Base	Comments
20.205.000	Highway Planning and Construction	\$7,993,590,912	\$7,900,080,167	(\$93,510,745)	
20.205.024	Highway and Bridge - Stimulus	\$83,722,344	\$0	(\$83,722,344)	
20.314.000	E. TX Passenger Rail Improvement Feasibility Study	\$6,333,333	\$6,389,643	\$56,310	
20.319.003	HSIPR-OK City to South TX Investment Plan	\$3,300,000	\$800,000	(\$2,500,000)	
20.507.000	Fed Transit Formula Urbanized Area Program	\$0	\$5,000,000	\$5,000,000	
20.509.000	Non-Urbanized Area Formula Grants	\$85,061,847	\$92,081,508	\$7,019,661	
20.513.000	Capital Assistance Programs for Elderly & Disabled	\$16,256,720	\$13,735,884	(\$2,520,836)	
20.515.000	State Planning and Research	\$3,264,614	\$3,390,112	\$125,498	
20.516.000	Job Access and Reverse Commute Grants	\$150,662	\$0	(\$150,662)	
20.521.000	New Freedom Program	\$1,102,539	\$0	(\$1,102,539)	
20.526.000	Bus and Bus Facilities Formula Program	\$14,810,579	\$9,943,394	(\$4,867,185)	
20.600.000	State and Community Highway Safety	\$40,622,470	\$42,530,352	\$1,907,882	
20.600.008	Crash Records Information System	\$11,484,418	\$12,700,000	\$1,215,582	
20.601.000	Alcohol Traffic Safety and Drunk Driving	\$5,517,527	\$0	(\$5,517,527)	
20.602.000	Motorcycle Helmets and Safety Belt Incentive Grants	\$185	\$0	(\$185)	
20.610.000	State Traffic Safety Information System Improvement Grants	\$989,363	\$0	(\$989,363)	
20.612.000	Incentive Grant Program to Increase Motorcyclist Safety	\$20,942	\$0	(\$20,942)	
20.614.000	Ntl Highway Transportation Sfty Adm (NHTSA) Discretionary Safety Grant	\$412,813	\$401,112	(\$11,701)	
20.616.000	National Priority Safety Programs	\$40,773,442	\$42,521,627	\$1,748,185	
20.933.001	TIGER: Tower 55 Improvement Project	\$24,333,333	\$0	(\$24,333,333)	
21.000.002	Debt Service Subsidy for Build America Bonds	\$118,490,061	\$125,752,257	\$7,262,196	

Section 4

Texas Department of Transportation (TxDOT)  
Performance Review and Policy Report Highlights - House

Reports & Recommendations	Savings/ (Cost)	Gain/ (Loss)	Fund Type	Included in Introduced Bill	Action Required During Session
<b>Enhance the Process Used To Remove Nonintegral Roads from the State Highway System, p. 422</b>					
<i>These recommendations would not have a fiscal impact for the 2016-17 biennium. They would help ensure that all urban roads eligible for the turnback program are reviewed consistently and that program outcomes maximize maintenance funds available to address transportation needs fundamental to state highway system connectivity.</i>					
1. Include a rider in the introduced 2016–17 General Appropriations Bill to require TxDOT to report biennially key performance information regarding the turnback program to the Legislative Budget Board and the Office of the Governor to ensure accountability and assess program effectiveness.				Rider 42 p. VII-34	
<b>Further Reduce Reliance on General Revenue-Dedicated Accounts for Certification of the State Budget</b>					
<i>This report fulfills House Bill 7, Eighty-third Legislature, 2013, requirements relating to the reduction of reliance on available dedicated revenue for certification of the General Appropriations Act. The report provides an overview of the issue and includes recommendations and options to reduce relaince on General Revenue-Dedicated Accounts, including recommendations relating to the transfer from the State Highway Fund to the Texas Emissions Reduction Plan Account.</i>					

## Section 5

### Department of Transportation Rider Highlights - House

#### Deleted Riders (original number)

- 23. **Limitation on Expenditures for Contracts.** The rider addresses contract provisions that are generally applicable to Comprehensive Development Agreements (CDA) in which the private developer has a financial interest in the performance of a toll road project. Rider 22, Comprehensive Development Agreements, applies to all types of CDAs and includes similar provisions regarding the reporting and LBB approval requirements prior to the agency entering into any CDA.
- 29. **Limitation on Expenditures: Prohibition of Lobbyists.** The provisions included in this rider have been added into statute under Transportation Code, Sec. 201.210(d).
- 33. **Battleship TEXAS.** According to the Federal Highway Administration, the Battleship TEXAS does not meet eligibility requirements for federal funding and therefore the rider is no longer needed.
- 39. **Additional Appropriations Made for New Construction and New Maintenance.** Provisions of the rider are obsolete.
- 42. **Allocation for Emergency and First Responder Airport Facilities.** Funds have been appropriated and the project is currently underway. A new rider is being added to provide unexpended balance authority for these funds (see New Rider #40 below and Selected Fiscal and Policy Issues #10a).
- 45. **Contingency for Senate Joint Resolution 1, Eighty-third Legislature, Third Called Session.** Voters have approved the proposed amendment to the Texas Constitution and the appropriation has been built into the agency's bill pattern (see Selected Fiscal and Policy Issues #4).

#### Modified Riders

- 2. **Capital Budget.** Recommendations amend this rider and reflect changes to capital budget authority for the following: (1) a decrease of \$250,000 for the acquisition of land and property; (2) a decrease of \$16,515,000 to remove funds for the construction of building and facilities; (3) a decrease of \$39,123,850 to remove funds for repair or rehabilitation of building and facilities; (4) a decrease of \$5,812,574 for the acquisition of information resource technology to reflect the completion of four Information Technology projects in the 2014-15 biennium; (5) a decrease of \$458,050 for transportation items; (6) a decrease of \$14,841,950 for the acquisition of capital equipment and items; (7) an increase of \$21,710,077 for Data Center Consolidation to reflect estimated costs to maintain current obligations; (8) a decrease of \$13,000,000 related to the ongoing costs of the Centralized Accounting and Payroll/Personnel System (CAPPS) project; and (9) an increase of \$562,936 for the inclusion of PeopleSoft licenses (see Selected Fiscal and Policy Issues #11 - 17). Recommendations delete provisions authorizing the agency to lease rather than purchase certain capital budget items upon LBB approval. Article IX, Sec. 14.03, includes similar provisions.

## Section 5

### 3. Transfer Authority.

- c) Deleted former subsection (c) which limits the transfer of appropriations into strategies in Goal F, Indirect Administration, without prior approval from the Legislative Budget Board. This provision is duplicative of provisions in Article IX, Sec. 14.01, Appropriation Transfers.
- d) Amend former subsection (d) to increase the approval time frame from 15 business days to 30 business days from the date LBB staff forwards its review of a request to exceed transfer limitations to the Chair of the House Appropriations Committee, Chair of the Senate Finance Committee, Speaker of the House, and Lieutenant Governor.

### 14. Reporting Requirements. Recommendations amend the following subsections:

- b) **Cash Forecast.** Amended subsection to remove the requirement to provide expenditure information in the monthly cash forecast reports at the strategy level.
- f) **State Transportation Improvement Program.** Amended subsection to clarify how the agency prepares the State Transportation Improvement Program reports.

### 18. Additional Funds.

- a) Amended subsection to add the new Method of Financing designation for Proposition 1, 2014, transfers to the State Highway Fund to the list of appropriations subject to the reporting and approval requirement prior to the expenditure of amounts in excess of the estimated appropriations for the 2016-17 biennium (see Selected Fiscal and Policy Issues #4).
- b) Amended subsection to increase the approval time frame from 15 business days to 30 business days from the date LBB staff forwards its review of a request to spend additional funds to the Chair of the House Appropriations Committee, Chair of the Senate Finance Committee, Speaker of the House, and Lieutenant Governor.

### 22. Comprehensive Development Agreements.

- a) Amended subsection to clarify that these provisions apply only to comprehensive development agreements (CDA) regardless of the scope of private participation (see Selected Fiscal and Policy Issues #8).
- b) Amended subsection (b) to change the approval timeframe from 45 days from the date a request to spend appropriations to enter into a CDA is received to 30 business days from the date LBB staff forwards its review of the request to the Chair of the House Appropriations Committee, Chair of the Senate Finance Committee, Speaker of the House, and Lieutenant Governor.

## Section 5

29. **Appropriation from Proposition 12 General Obligation Bond Proceeds: Unexpended Authority and Proceeds from Prior Fiscal Biennium.** Amend this rider to specify that any amount of authorized but unissued Proposition 12 General Obligation bond authority remaining at the end of the biennium is appropriated for the same purpose (see Selected Fiscal and Policy Issues #6c).
30. **Unexpended Balance Appropriation: Rail Projects.** Amend this rider to reflect the current strategy allocation for General Revenue Funds previously appropriated for certain rail projects and continue appropriation authority for unexpended balances of these funds remaining at the end of the 2014–15 biennium (see Selected Fiscal and Policy Issues #10b).
34. **Travel Information Centers.** Amend this rider to extend the reporting requirement through the 2016–17 biennium.
39. **Limitation on Capital Budget – Acquisition of Information Resource Technologies.** Amend this rider to remove the reference to the Centralized Accounting and Payroll/Personnel System (CAPPS), which was implemented in the 2014–15 biennium (see Selected Fiscal and Policy Issues #12 and #15); and change the approval time frame from 15 business days to 30 business days from the date LBB staff forwards its review of a request to exceed the capital budget transfer limitations to the Chair of the House Appropriations Committee, Chair of the Senate Finance Committee, Speaker of the House, and Lieutenant Governor.

### New Riders (new section number)

40. **Unexpended Balance Appropriation: Emergency and First Responder Airport Facilities.** Rider provides the agency unexpended balance authority to use any remaining appropriation balance from fiscal years 2014–15 in the following biennium (see Selected and Fiscal Policy Issues #10a).
41. **Interagency Contract for Legal Services.** Rider authorizing an interagency contract between the Department of Transportation and the Office of the Attorney General for legal services (see Selected Fiscal and Policy Issues #3c).
42. **Performance Reporting for the Voluntary Turnback Program.** Rider requires the agency to report key performance information regarding the turnback program to ensure agency accountability and to assess the program's effectiveness. (See Performance Review and Policy Report Highlights #1.)
43. **Appropriation of Rail Receipts from Car Load Fees.** Rider appropriates revenue collected from contractual car load fees on the Texas Pacifico rail line to fund rail construction projects (see Selected Fiscal and Policy Issues #19) .
44. **Proposition 1 Appropriations.** Rider specifies that amounts appropriated from oil and natural gas tax-related to the State Highway Fund in Strategy I.1.1, Proposition 1, 2014, are estimated and the final appropriation amounts and allocation of these funds for the 2016–17 biennium is to be determined by the Eighty-fourth Legislature, Regular Session (see Selected Fiscal and Policy Issues #4c).



Section 6

Department of Transportation  
Items not Included in Recommendations - House

Agency Exceptional Items - In Agency Priority Order

	2016-17 Biennial Total	
	GR & GR-Dedicated	All Funds
1. Capital budget authority of \$64,921,500 for Repair or Rehabilitation of Buildings and Facilities projects. (See Selected Fiscal and Policy Issues #17.)	\$	- \$
a. \$6,301,800 for interior and exterior building renovations		
b. \$5,000,000 for essential building maintenance		
c. \$6,684,000 for roof replacements		
d. \$3,250,000 for radio tower replacement statewide		
e. \$5,057,500 for HVAC upgrades and replacements statewide		
f. \$1,620,000 for replacement and renovation of fuel stations statewide		
g. \$1,317,000 for replacement and repair of emergency generators		
h. \$10,484,474 for modification and upgrade of security systems statewide		
i. \$5,879,600 for electrical upgrades and replacements		
j. \$16,281,126 for minor preventative maintenance		
k. \$3,046,000 for modifications and upgrades to sites		
2. \$30,520,353 in capital budget authority for a new Modernize Portfolio and Project Management (MPPM) information resource technology project.	\$	- \$
3. \$34,889,252 in capital budget authority above amounts appropriated for the 2014-15 biennium for the Mainframe Modernization project. (See Selected Fiscal and Policy Issues #12).	\$	- \$
4. \$7,506,963 in capital budget authority above amounts appropriated for the 2014-15 biennium for Technology Replacement and Upgrades projects (see Selected Fiscal and Policy Issues #13).	\$	- \$
5. Capital budget authority of \$34,648,000 for Construction of Building and Facilities projects. (See Selected Fiscal and Policy Issues #16.)	\$	- \$

Section 6

Department of Transportation  
Items not Included in Recommendations - House

	2016-17 Biennial Total	
	GR & GR-Dedicated	All Funds
a. \$3,500,000 for new Brenham Engineering and Maintenance building		
b. \$1,000,000 for additions to the Paris administration office building		
c. \$3,500,000 for new Kaufman area Engineering and Maintenance building		
d. \$2,500,000 for new Marlin maintenance facility		
e. \$3,500,000 for new Kerrville area Engineering and Maintenance building		
f. \$370,000 for new radio transmission building		
g. \$9,348,000 for new equipment storage buildings statewide		
h. \$750,000 for additions to statewide Engineering and Maintenance buildings		
i. \$3,500,000 for new Hondo area Engineering and Maintenance building		
j. \$2,500,000 for new Tilden maintenance facility		
k. \$2,500,000 for new Cooper maintenance facility		
l. \$880,000 for new maintenance warehouses and engineering shops		
m. \$800,000 for new multi-purpose training facility		
6. State Highway Funds and capital budget authority for acquisition of land for construction of buildings.	\$ -	\$ -
7. General Revenue funding in Goal E. Enhance Rail Transportation related to the planning, design, and construction of rail transportation infrastructure (see Selected Fiscal and Policy Issues #10b).	\$ 11,418,052	\$ 11,418,052
8. General Revenue funding related to a one-time appropriation provided to assist in airport runway expansion for the use of emergency and first responders included in Rider 42. Allocation for Emergency and First Responder Airport Facilities (see Selected Fiscal and Policy Issues #10a and Rider Highlights, New Rider #40).	\$ 2,500,000	\$ 2,500,000
9. General Revenue funding (\$1 billion each year) for new maintenance contracts to repair existing infrastructure along state highways and to improve safety in areas impacted by increased energy sector activity.	\$ 2,000,000,000	\$ 2,000,000,000

**Section 6**

**Department of Transportation  
Items not Included in Recommendations - House**

	<b>2016-17 Biennial Total</b>			
	<b>GR &amp; GR-Dedicated</b>		<b>All Funds</b>	
10. General Revenue funding (\$1 billion each year) for maintenance projects to repair and maintain the state's existing transportation infrastructure.	\$	2,000,000,000	\$	2,000,000,000
11. General Revenue funding (\$3 billion each year) for mobility and preservation projects to maintain the state's existing transportation infrastructure, including: a. \$600 million for Contracted Planning and Design b. \$900 million for Right-of-way Acquisition c. \$1,800 million for New Construction Contracts d. \$2,700 million for New Maintenance Contracts	\$	6,000,000,000	\$	6,000,000,000
12. General Revenue funding to partner with public universities and research institutes to conduct research related to innovative vehicle technology.	\$	20,000,000	\$	20,000,000
13. General Revenue funding to continue providing reimbursements to the Central Texas Turnpike System (CTTS) to offset waived charges related to toll discounts for certain eligible veterans.	\$	5,063,000	\$	5,063,000
14. General Revenue funding to provide rehabilitation to state-owned rail facilities, capital improvements to Class I rail lines, and high speed rail project studies. According to the agency, this would fund 10 projects across the state ranging from \$2 million to \$240 million.	\$	508,000,000	\$	508,000,000
15. General Revenue funding and capital budget authority for the dredging and widening of Texas waterways and navigational channels, including \$50 million for dredging and \$10 million for other related projects.	\$	60,000,000	\$	60,000,000
16. General Revenue funding for capital improvements projects in Texas ports, nominated by the Port Authority Advisory Committee and approved by the Transportation Commission.	\$	30,000,000	\$	30,000,000
17. General Revenue funding to provide reimbursements to the Central Texas Turnpike System (CTTS) to offset reduced charges related to toll discounts for truck drivers on SH 130 (Segments 1 - 4) and SH 45 SE.	\$	40,000,000	\$	40,000,000

Section 6

Department of Transportation  
Items not Included in Recommendations - House

	2016-17 Biennial Total			
	GR & GR-Dedicated		All Funds	
18. Federal Funds from federal highway reimbursements contingent upon the continuation of federal highway funding at levels established in the current federal surface transportation program authorization [Moving Ahead for Progress in the 21st Century (MAP-21)] (see Selected and Fiscal Policy Issues #5), including: a. \$36.4 million for Contracted Planning and Design b. \$54.5 million for Right-of-way Acquisition c. \$109.1 million for New Construction Contracts d. \$406.0 million for New Maintenance Contracts  (Note: <b>Article IX, Sec. 13.01</b> , Federal Funds/Block Grants, provides appropriation authority for additional Federal Funds.)	\$	-	\$	606,000,000
19. General Revenue funding to provide grants to support and promote public transportation, including \$16 million for fleet replenishment, and \$20 million for operations and maintenance.	\$	36,000,000	\$	36,000,000
<b>Agency Rider Revisions and Additions not Included - In Agency Bill Pattern Order</b>				
20. Amend <b>Rider 2, Capital Budget</b> , to remove the requirement to obtain approval from the LBB prior to using capital budgeted funds to lease rather than purchase certain capital budget items.	\$	-	\$	-
21. Amend <b>Rider 3, Transfer Authority</b> , to remove the requirement to obtain approval from the LBB prior to transferring appropriations among strategies A.1.2. Contracted Planning and Design, A.1.3. Right-of-Way Acquisition, B.1.1. Existing Construction Contracts, B.1.2. New Construction Contracts, B.1.3. Construction Grants & Services, C.1.1. Existing Maintenance Contracts, C.1.2. New Maintenance Contracts, and C.1.3. Contracted Routine Maintenance.	\$	-	\$	-
22. Amend the following subsections of <b>Rider 14, Reporting Requirements</b> :  (c) Amend <b>Subsection (c), Project Status Report</b> , to change the reporting guidelines related to status of certain types of transportation projects by legislative district.	\$	-	\$	-

Section 6

Department of Transportation  
Items not Included in Recommendations - House

2016-17 Biennial Total	
GR & GR-Dedicated	All Funds

(d)(1) Amend **Subsection (d1), Toll Project, Rail Project, and Toll Project Entities**, to change the notification requirements regarding Transportation Commission's toll road designations within state House and Senate districts.

(d)(2) Amend **Subsection (d2), Toll Project, Rail Project, and Toll Project Entities**, to remove regional tollway authority applications from the notification requirements.

(d)(3) Delete **Subsection (d3), Toll Project, Rail Project, and Toll Project Entities** to remove the reporting requirement regarding the disclosure of toll authority or regional mobility authority board members' ownership or participation in proposed projects.

(e) Amend **Subsection (e), Public Transportation Activities** to remove the reference to the required annual report on public transportation activities.

23. Delete <b>Rider 15, Green Ribbon Project Expansion.</b>	\$	-	\$	-
24. Amend <b>Rider 18, Additional Funds</b> , to remove the requirement to obtain approval from the LBB and the Governor prior to the expenditure additional funds above the estimated appropriations from State Highway Fund No. 006, State Highway Fund No. 006 - Toll Revenue, and State Highway Fund No. 006 - Concession Fees (see Rider Highlights, Modified Rider #18).	\$	-	\$	-
25. Amend <b>Rider 26, Sale of Surplus Property</b> , to remove the \$500,000 limit on the use of proceeds from the sale of surplus property for rail projects and to provide appropriation authority for proceeds from the sale of Department of Transportation real property to carry out agency functions.	\$	-	\$	-
26. Delete <b>Rider 34, Travel Information Centers</b> (see Rider Highlights, Modified Rider #37).	\$	-	\$	-
27. Delete <b>Rider 39, Limitation on Capital Budget - Acquisition of Information Resource Technologies.</b> (See Selected Fiscal and Policy Issues #12 and #15 and Rider Highlights, Modified Rider #39).	\$	-	\$	-

Section 6

Department of Transportation  
Items not Included in Recommendations - House

28. Add **new Rider, Unexpended Balances Appropriation:Road Repairs in Energy Sectors (HB 1025)** to appropriate in the 2016-17 biennium any unexpended balances of appropriations made for energy sector road repairs in House Bill 1025, Eighty-third Regular Session, 2013. (See Selected Fiscal and Policy Issues #18).

**Total, Items Not Included in the Recommendations**

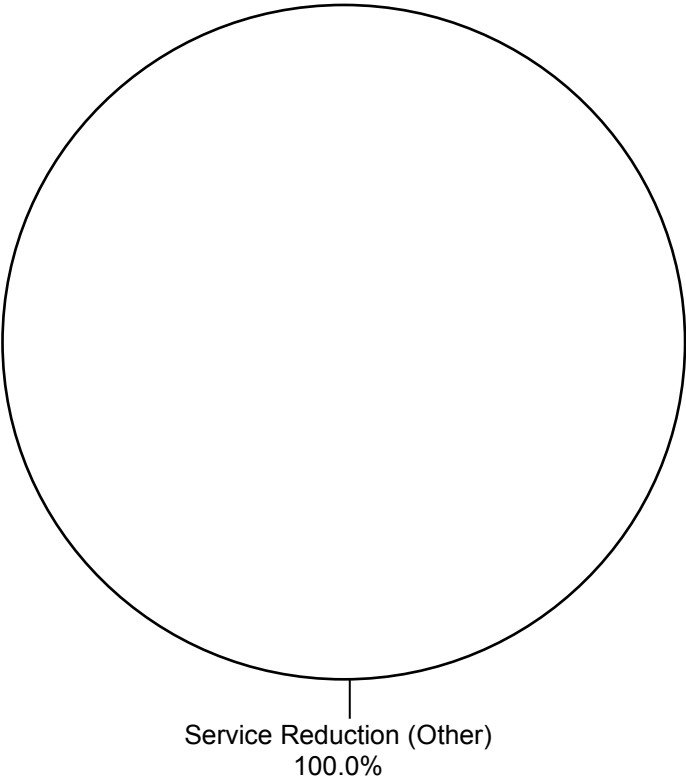
2016-17 Biennial Total			
GR & GR-Dedicated		All Funds	
\$	-	\$	-
\$ 10,712,981,052		\$ 11,318,981,052	

Section 7

Department of Transportation  
Summary of 10 Percent Biennial Base Reduction Options - House

Biennial Reduction Amounts								
Priority	Item	Description/Impact	GR and GR-Dedicated	All Funds	FTEs	Potential Revenue Loss	Reduction as % of Program GR/GR-D Total	Included in Intro Bill?
1	Administrative Reduction - Aviation Services	This reduction would reduce funding towards the support and promotion of General Aviation by the department.	\$645,938	\$645,938		\$0	26%	Yes
	Administrative Reduction - Rail Transportation	This reduction would reduce funding for planning and designing rail transportation infrastructure.	\$241,787	\$241,787		\$0	2%	Yes
2	Administrative Reduction - Aviation Services	This reduction would reduce funding towards the support and promotion of General Aviation by the department.	\$645,938	\$645,938		\$0	26%	Yes
	Administrative Reduction - Rail Transportation	This reduction would reduce funding for planning and designing rail transportation infrastructure as well as reducing rail construction funding.	\$241,787	\$241,787		\$0	2%	Yes
TOTAL, 10% Reduction Options			\$1,775,450	\$1,775,450		\$0		

Department of Transportation  
Summary of 10 Percent Biennial Base Reduction Options - House  
Agency 10% Reduction Options by Category of Reduction







# An Audit Report on Selected Contracts at the Department of Transportation

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## Background:

- The Department of Transportation (Department) awarded \$15.29 billion in highway construction and routine maintenance contracts on projects that were bid between September 2008 and December 2012. Auditors selected one highway construction project and the engineering design contract for this project to audit for compliance with applicable statutes and rules, Office of the Comptroller of Public Accounts requirements, and Department policies and procedures.
- The two contracts audited were:
  - A \$25.56 million reconstruction of an interchange on State Highway 352 in the Department's Dallas District.
  - A \$4.00 million engineering design contract of which \$1.17 million was for the design of this interchange reconstruction.



# An Audit Report on Selected Contracts at the Department of Transportation

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## Overall Conclusion:

- The Department generally planned, procured, formed, and monitored the two contracts and authorizations related to the design and reconstruction of the interchange project according to applicable statutes and rules and its policies and procedures.
- The Department procured a \$4.00 million engineering design contract and a \$25.56 million construction contract in the Dallas District according to applicable statutes and rules and its policies and procedures.
- The Department planned and formed the construction contract and the \$1.17 million in design services authorized for the interchange reconstruction project under the general \$4.00 million engineering design contract according to applicable statutes and rules and its policies and procedures.
- The Department generally monitored progress and payments related to the design and reconstruction of the interchange project in accordance with applicable statutes and rules and its policies and procedures to ensure that the State's interests were protected.



# An Audit Report on Selected Contracts at the Department of Transportation

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## Overall Conclusion (continued):

- For the Dallas District construction contract audited, the Department should improve its oversight of contractor compliance. Additionally, the Department should follow its internal directives regarding (1) segregation of duties and identification of the quality assurance materials tester and (2) segregation of duties in the preparation of daily work reports, which contain the supporting documentation for payments to the contractor.



# An Audit Report on Selected Contracts at the Department of Transportation

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## Findings:

- For the \$25.56 million construction contract audited, the Department followed its processes for identifying the contracting objectives and strategies. The Department has a defined structure in place through which it identifies contracting objectives and strategies. As a result of those processes, the Department selected a qualified contractor for the construction contract audited, and it included essential contract provisions to protect the State's interests.
- The low bid that the Department received on the project exceeded the design engineer's cost estimate by 28 percent.
  - Although the low bid that the Department received exceeded the engineer's cost estimate, the award followed the Department's policies, including documenting the reasons for awarding the contract because it exceeded the engineer's estimate by more than 20 percent. The Texas Transportation Commission approved the award in October 2008.
- The Department monitored progress and payments related to the construction contract according to its policies and procedures.



# An Audit Report on Selected Contracts at the Department of Transportation

## Findings (continued):

- The Department reviewed payments to the contractor and performed materials tests to help ensure that the quality of construction met design specifications. In addition, change orders tested included explanations and support in compliance with the Department's internal requirements.
- The Department should improve its oversight of contractor compliance with contract requirements.
  - The Department did not adequately segregate duties for its quality assurance materials testing or adequately identify who the quality assurance materials tester was.
  - In addition, the Department did not adequately segregate duties in the preparation of daily work reports, which contain the supporting documentation for payments made to the contractor.



# An Audit Report on Selected Contracts at the Department of Transportation

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## Findings (continued):

- Significant delays occurred in the time period for construction.
  - The construction schedule for the interchange was originally set at 28 months. Instead, it took the construction contractor 45 months to complete the project, which was a 61 percent increase.
  - Schedule delays were attributed to both the Department and the contractor.
- The Department planned, procured, and formed the contract for design services in compliance with its policies and procedures.
- The Department performed the required monitoring of the design services vendor.



**John Keel, CPA**  
**State Auditor**

An Audit Report on

# **Selected Contracts at the Department of Transportation**

July 2013

Report No. 13-044

## ***Selected Contracts at the Department of Transportation***

SAO Report No. 13-044  
July 2013

### ***Overall Conclusion***

The Department of Transportation (Department) generally planned, procured, formed, and monitored the two contracts and authorizations related to the design and reconstruction of an interchange on State Highway 352 in the Department's Dallas District according to applicable statutes and rules and its policies and procedures. Specifically:

- The Department procured a \$4.00 million engineering design contract and a \$25.56 million construction contract in the Dallas District according to applicable statutes and rules and its policies and procedures.
- The Department planned and formed the construction contract and the \$1.17 million in design services authorized for the interchange reconstruction project under the general \$4.00 million engineering design contract according to applicable statutes and rules and its policies and procedures.
- The Department generally monitored progress and payments related to the design and reconstruction of the interchange project in accordance with applicable statutes and rules and its policies and procedures to ensure that the State's interests were protected.

For the Dallas District construction contract audited, the Department should improve its oversight of contractor compliance. Additionally, the Department should follow its internal directives regarding (1) segregation of duties and identification of the quality assurance materials tester and (2) segregation of duties in the preparation of daily work reports, which contain the supporting documentation for payments to the contractor.

Auditors communicated other, less significant issues to the Department separately in writing.

#### **Contract Management Framework**

- **Plan** - Identify contracting objectives and contracting strategies.
- **Procurement** - Fairly and objectively select the most qualified contractors.
- **Contract Formation/Rate/Price Establishment** - Ensure the contract contains provisions that hold the contractor accountable for producing desired results, including all relevant terms and conditions, as well as establish processes that are cost-effective and aligned with the cost of providing the goods and services.
- **Contract Oversight** - Monitor and enforce the terms of the contract.

Source: *State of Texas Contract Management Guide*.



## ***Key Points***

**The Department planned, procured, and formed the construction contract according to applicable statutes and its policies and procedures.**

For the \$25.56 million construction contract audited, the Department followed its processes for identifying the contracting objectives and strategies. The Department has a structure in place through which it identifies contracting objectives and strategies; that structure includes the following:

- Long-range planning to identify future needs.
- Short-range planning to prioritize projects for funding.
- Coordinating with affected municipalities and local and regional planning authorities to plan for future traffic needs and identify specific projects for funding.

As a result of those processes, the Department selected a qualified contractor for the construction contract audited, and it included essential contract provisions to protect the State's interests.

**The low bid that the Department received on the project exceeded the design engineer's cost estimate by 28 percent.**

Although the low bid that the Department received exceeded the engineer's cost estimate, the award followed the Department's policies, including documenting the reasons for awarding the contract because it exceeded the engineer's estimate by more than 20 percent. The Texas Transportation Commission approved the award in October 2008.

**The Department monitored progress and payments related to the construction contract according to its policies and procedures.**

The Department reviewed payments to the contractor and performed materials tests to help ensure that the quality of construction met design specifications. In addition, change orders tested included explanations and support in compliance with the Department's internal requirements.

**The Department should improve its oversight of contractor compliance with contract requirements.**

The Department did not adequately segregate duties for its quality assurance materials testing or adequately identify who the quality assurance materials tester was. In addition, the Department did not adequately segregate duties in the preparation of daily work reports, which contain the supporting documentation for payments made to the contractor.

**Significant delays occurred in the time period for construction.**

The construction schedule for the interchange was originally set at 28 months. Instead, it took the construction contractor 45 months to complete the project, which was a 61 percent increase. Schedule delays were attributed to both the Department and the contractor.

**The Department planned, procured, and formed the contract for design services in compliance with its policies and procedures.**

The Department followed its processes related to planning, procuring, and forming the \$1.17 million in design services for the reconstruction of the interchange on State Highway 352. The Department has documented processes through which it identifies the need for design services, selects contractors based on qualifications, and develops the terms of a contract for design services.

**The Department performed the required monitoring of the design services vendor.**

The Department followed the required monitoring activities for the engineering design contract with minimal exceptions. The Department monitored the payment and progress of the design contractor throughout the project.

## ***Summary of Management's Response***

The Department agreed to implement the recommendations in this report.

## ***Summary of Objectives, Scope, and Methodology***

The objectives of this audit were:

- To determine whether the Department procured selected contracts for goods and services in accordance with applicable statutes, rules, Office of the Comptroller of Public Accounts requirements, and state entity policies and procedures to help ensure that the State's interests were protected.
- To determine whether the Department managed and monitored selected contracts for goods and services to help ensure that contractors performed according to the terms of the contracts and that contractor billings were valid and supported, in accordance with applicable statutes, rules, Office of the Comptroller of Public Accounts requirements, and state entity policies and procedures.

The scope of this audit included reviewing the Department's procurement and contract management processes for one highway construction project that was active between September 1, 2008, and December 31, 2012. Auditors selected two contracts: a highway construction contract for the reconstruction of an interchange on State Highway 352 in the Department's Dallas District and the

related engineering design contract for that project. The audit concentrated on all phases (planning, procurement, contract formation, and contract oversight) of the contracting process.

The audit methodology included collecting information and documentation from the Department and reviewing procurement and contract management documents for compliance with federal and state requirements, as well as the Department's internal policies and procedures. The selection methodology for the highway construction project was based on contract dollar amount, the number of days over the original contract schedule time allowed, the dollar amount of liquidated damages charged to the contractor, the number and dollar amount of change orders, the complexity of the project, and the dollar amount and number of projects a contractor had with the Department.

# Contents

## *Detailed Results*

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### Chapter 1

The Department Planned, Procured, and Formed the Construction Contract According to Applicable Statutes and Its Policies and Procedures .....	1
---	---

### Chapter 2

While the Department Generally Monitored Progress and Payments Related to the Construction Contract, It Should Improve Its Oversight of Contractor Compliance with Contract Requirements.....	4
---	---

### Chapter 3

The Department Generally Planned, Procured, Formed, and Monitored the Design Services According to Its Policies and Procedures .....	13
--	----

## *Appendices*

---

### Appendix 1

Objectives, Scope, and Methodology .....	15
--	----

### Appendix 2

The Department of Transportation's Organizational Structure.....	20
--	----

### Appendix 3

Statistical Comparison of Department of Transportation Districts .....	22
--	----

### Appendix 4

Analysis of Engineer's Estimates and Winning Bids .....	24
---	----

### Appendix 5

The Department of Transportation's Project Development Process .....	26
--	----

### Appendix 6

Contractor Information .....	27
------------------------------	----

### Appendix 7

Related State Auditor's Office Work .....	29
---	----

# Detailed Results

## Chapter 1

### ***The Department Planned, Procured, and Formed the Construction Contract According to Applicable Statutes and Its Policies and Procedures***

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The Department of Transportation (Department) followed its processes and applicable state requirements in identifying a need, coordinating planning with affected local entities, and selecting the project for funding approval for the construction contract for the reconstruction of an interchange on State Highway 352 in the Department's Dallas District. Although the low bid that the Department received exceeded the engineer's cost estimate by 28 percent, the Department awarded the contract in accordance with its internal processes. The Department awarded an initial contract for \$24.97 million; after change orders, the total contract amount as of April 2013 was \$25.56 million. The construction contract contained all essential terms and provisions to protect the State's interests.

The Department planned the contract according to applicable statutes and its policies and procedures.

The Department has a structure in place through which it identifies contracting objectives and contracting strategies for its competitively bid highway construction projects. That structure includes the following processes (see Chapter 3 for more information):

- Long-range planning to identify future needs.
- Short-range planning to prioritize projects for funding.
- Coordinating with affected municipalities and local and regional planning authorities to plan for future traffic needs and identify specific projects for funding.

The Department works with the regional metropolitan planning organizations and transit operators when it starts planning a transportation project (see Appendix 5 for more information on the Department's transportation planning process). The Department included the interchange reconstruction project audited in the Statewide Transportation Improvement Plan. Next steps include verifying the preliminary design and cost estimate; completing environmental studies; determining rights of way; conducting routing studies (such as proposing routes when right of way has been determined); and conducting public involvement activities. Before a construction contract phase can be started, plans, specifications, and estimate documents must be

developed and approved by the Department's Design, Traffic, or Bridge divisions, depending on the type of project.

The Department followed the required processes to procure the contract.

The Department awarded the contract in compliance with its policies and procedures to a qualified low bidder through a competitive, sealed bid process. The contractor was selected in accordance with applicable statutes, rules, and the Department's internal policies and procedures to help ensure that the State's interests were protected.

#### Letting

Letting is the (Department's) process of providing notice, issuing proposals, receiving proposals, and awarding contracts.

Source: The Department's *Letting Manual*.

The Department has a documented process for procuring competitively bid construction contracts. Those processes include procurement laws in the Texas Transportation Code, requirements in the Texas Administrative Code, and detailed policies and procedures to guide design and construction procurement. The Department's Construction Division conducts an open reading and awarding of construction and maintenance bid proposals each month, guided by the documented process. The letting process (see text box) includes providing a public notice of the intent to offer work, issuing proposals, receiving electronic or hard-copy proposals, and awarding contracts. Bids are received and read publicly, and contracts are approved for award by the Texas Transportation Commission.

Auditors reviewed documentation from the 2008 meeting at which the Department awarded the contract audited and noted no deficiencies related to the proposal solicitation and contract awarding for the project.

The contract award amount exceeded the Department's cost estimate.

The Department's design engineer's cost estimate for this project was \$19.46 million; however, the low bid of 6 bids the Department received was for \$24.97 million (28 percent higher than the cost estimate). The amounts of the 6 submitted bids ranged from \$24.97 million to \$26.86 million. Because the Department considered the bids to be within a reasonably close price range, it decided to award the contract and begin construction, rather than rebidding the project. A justification for awarding a contract was required because the low bid exceeded the engineer's estimate by more than 20 percent. The award followed the Department's policies, including documenting the reasons for awarding the contract because it exceeded the engineer's estimate by more than 20 percent. The Texas Transportation Commission approved the award in October 2008.

Although the Department's estimate for this project differed by more than 20 percent from the awarded amount, the Department's project cost estimates overall are accurate. For 5,888 projects the Department bid from September 2008 to January 2013, the engineers' estimates were, on average, 7.8 percent higher than the low bid. The Federal Highway Administration provides guidelines for state departments of transportation regarding the accuracy of

engineer estimates. According to the Federal Highway Administration, if the low bids or award amounts are within 10 percent of engineers' estimates for at least 50 percent of projects bid, estimating is considered accurate (see Appendix 4 for more information).

The Department formed the construction contract in compliance with its processes.

Although the Department was exempt from complying with the *State of Texas Contract Management Guide* for the construction contract, the contract contained all essential terms and provisions from the *State of Texas Contract Management Guide*. The terms and provisions in the construction contract held the contractor accountable for producing the required deliverables at the contracted price. Additionally, the construction contract was required to comply with Federal Highway Administration guidance. The Department's contract and the design engineer's project specifications and the Department's special provisions all included the federally required contract terms, provisions, timetables, and milestones to help ensure compliance with those requirements.

## ***While the Department Generally Monitored Progress and Payments Related to the Construction Contract, It Should Improve Its Oversight of Contractor Compliance with Contract Requirements***

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### **Construction Contract Information**

- Contractor: W. W. Webber, LLC
- Bid date: October 16, 2008
- Original award amount: \$24.97 million
- Engineer's estimate: \$19.46 million
- Number of days originally allowed: 560
- Date on which time charges started: January 21, 2009
- Total dollar amount of change orders approved: \$586,902
- Total dollar amount of change orders pending approval as of April 2013: \$361,720
- Days added to contract by change orders: 35
- Days to be added back to contract in change orders pending approval: 124
- Liquidated damages charged to contractor: \$640,500

Source: Department project records.

The Department monitored the contractor's progress, properly reviewed payments, and performed the required quality assurance material tests for the construction contract audited. Additionally, all change orders tested were justified and adequately supported. However, auditors identified some weaknesses in the Department's Dallas District's monitoring efforts during the construction phase of the project.

The project was completed in 45 months, a 61 percent increase from the originally scheduled 28 months. Schedule delays were attributed to both the Department and the contractor. As a result of the delays, the Department initially assessed the contractor \$640,500 in liquidated damages (based on 305 days at \$2,100 per day). As of April 2013, the Department was in the process of approving a change order to pay the contractor \$361,720, of which \$331,720 was for 124 days of overhead cost due to delays determined not to be the contractor's fault.

Causes of the project delays included the contractor's non-compliance with progress schedule requirements specified in the contract, the fact that the Department completed right-of-way acquisitions and utility relocations later than planned, and unforeseen site conditions encountered during construction.

Auditors identified weaknesses in the Department's processes for recording and documenting results of quality assurance testing and preparing documents required to support payments to the construction contractor. The Department did not adequately segregate duties for its quality assurance materials testing or adequately identify who the tester was. The Department also did not adequately segregate duties in the preparation of daily work reports, which contain the supporting documentation for payments made to the contractor.

### **Chapter 2-A**

## **The Department Reviewed Payments and Ensured That Reports Included Required Elements**

The Department correctly calculated the quantity of work performed to prepare the monthly payments to the contractor for all samples tested. Auditors selected 11 major items of work that covered 6 monthly pay periods and 31 daily work reports. The Department based the quantities on information that inspectors enter into the daily work reports in SiteManager, the Department's automated project management system. Auditors also



determined that the area engineer's office approved all 47 monthly payments to the contractor as required.

In addition, the five daily work reports auditors tested contained all information required by the Department's *Construction Contract Administration Manual*. Department policy requires all work and activities that occur for each working day during which time is charged to the project to be recorded in the daily work reports.

Chapter 2-B

**Construction Was Completed 17 Months after the Original Time Line Due to Delays Caused by Both the Department and the Contractor**

The construction phase for the contract audited experienced some significant schedule delays. According to the initial contract, construction was supposed to be completed in 28 months. Instead, it took the contractor 45 months to complete construction. Delays were caused by both the Department and the contractor and included the following:

- The contractor did not comply with the contract requirements to submit monthly updated progress schedules as specified in the contract. Although the Department requested that information from the contractor on at least 5 occasions, the contractor provided only 16 (38 percent) of the 42 required schedule updates. For its monthly schedules, the contractor prepared a critical path method (CPM) progress schedule. CPM is a graphical representation of the planned sequence of the work necessary to execute a construction project. A properly prepared CPM schedule can help the Department and the contractor identify and quantify events that will affect a project's scheduled completion date.
- The Department was not able to complete the acquisition of all rights of way prior to the start of construction. In the contract documents, the Department stated that it did not anticipate that the acquisition activities would delay the contractor; however, time extensions could be given to the contractor if delays occurred due to right-of-way acquisitions. The Department determined that the project would not be negatively affected if it cleared the right-of-way issues by April 2009. However, the acquisition of three parcels of land was completed between two and five months later than anticipated due to extended negotiations with property owners.
- Power lines had to be relocated by the utility company that owned the lines, which added 11 working days to the project schedule.
- Unforeseen site conditions caused some delays and extra costs. Those conditions included:

- ♦ Determining the cause and developing a solution for underground water leaking in a traffic detour work area and relocating a buried fiber optic cable in that location, which added 48 working days to the project schedule.
- ♦ Completing additional work caused by 3 buried foundation structures from the previous highway overpass that the contractor was not able to straddle as originally planned during installation of foundation work, which added 26 working days to the project schedule.
- ♦ Repairing damage caused by traffic accidents, drainage work, and other conditions that required work beyond the original scope, which added 9 working days to the project schedule.

For project delays, the Department initially assessed the contractor \$640,500 in liquidated damages (based on 305 days at \$2,100 per day). As of April 2013, the Department was in the process of approving a change order to pay the contractor \$331,720 for 124 days of overhead cost due to delays determined not to be the fault of the contractor. The Department uses a standard formula to calculate a daily rate for a contractor's overhead if it determines that compensation is due. Under that same change order, the Department is also reimbursing the contractor \$30,000 for 5 months of barricade rental cost.

### Recommendation

The Department should enforce contract provisions that require the contractor to submit monthly progress schedules and identify specific actions that would help to ensure contractor compliance with requirements to submit those schedules.

### Management's Response

*The Dallas District will adopt an escalating notification response to contractors who fail to meet the requirements of the specification for CPM schedule, regardless of the version of schedule required (whether bar chart, CPM or other). The first notification of failure to submit a timely update should be verbal, immediately followed by written notification. The next failure to meet schedule update requirements will result in withholding of the monthly estimate until schedule is submitted. Further failure will result in the implementation of Item 8.6, and notification of the surety.*

*Responsible Party: Director of Construction – Dallas District*

*Date: December 31, 2013*

## The Department Should Improve Its Documentation of Quality Assurance Testing Reports and Contractor Payments

Each state transportation department is required to develop a quality assurance program that will help ensure that the materials and workmanship incorporated into each federal aid highway construction project on the National Highway System conforms to the requirements of the approved plans and specifications, including approved changes. Auditors identified weaknesses in the Department's processes for recording and documenting the results of quality assurance testing and preparing documents required to support payments to the construction contractor. Specifically:

- The Department did not adequately segregate duties for its quality assurance materials testing. While the Department performed and recorded all 101 material tests sampled by auditors, not all test forms were complete. Specifically:
  - ♦ For 22 (22 percent) of the 101 quality assurance tests sampled, the tester and authorizer was the same individual.
  - ♦ Of the 101 quality assurance tests sampled, 10 (10 percent) did not contain either the name of the individual who performed the test or the name of the individual who selected the material samples to test. For 2 of the 10 tests, all individuals were identified, but the information had been deleted from the Department's database. As a result, auditors could not verify the accuracy of that information for those two tests.

In a January 11, 2012, memorandum to all district engineers, the Department required that the tester and authorizer be different individuals. A lack of segregation of duties for testing and reviewing responsibilities increases the risk that the Department may not detect project deficiencies that could affect safety and project costs. This issue had been previously identified in *A Report on the State of Texas Compliance with Federal Requirements for Selected Major Programs at the Department of Transportation for the Fiscal Year Ended August 31, 2012* (State Auditor's Report No. 13-022, February 2013).

- Auditors were unable to determine whether the testers were certified to perform the material tests due to the time that had passed since the material tests were performed. Neither the Department's Construction Division nor the District was able to provide historical documentation to support that the tester was certified at the time the test was performed for this project. According to the District, when a tester renews his/her qualifications, the District replaces the previous effective period with the updated period in the tester qualification data in SiteManager.

- The Department completed daily work reports for each day that auditors tested for this project as required by the Department's policies. However, 54 (8 percent) of 648 daily work reports tested were created and authorized by the same individual. A Department policy memorandum dated December 12, 2012, required one individual to create the daily work report and a different individual to verify the accuracy and authorize the report. That segregation of duties is important because the information in the daily work reports is used to calculate and generate monthly pay estimates to the contractor.
- The Department did not consistently retain detailed materials on hand reports (see text box) to support monthly contractor payments. The Department's Dallas District did not retain detailed materials on hand documentation for 4 (33 percent) of 12 monthly estimates reports tested. However, auditors did not identify any errors in the items for which documentation was available. Payments to the contractor for materials on hand totaled \$2,040,818 over 47 payment periods. It is important to maintain records of all items for which the Department pays the contractor and to verify that (1) payments are made for allowable items, (2) payments are accurate, and (3) the materials on hand are not paid for more than once (i.e., in addition to the associated line item on the monthly pay estimate).

#### Materials on Hand

With proper documentation and approvals, the Department will pay a contractor the actual invoice cost for nonperishable material that has been sampled for quality, is properly stored, and is to be used on the project. Amounts paid for materials on hand are deducted from future pay estimates when the material is installed.

Source: Department policies and procedures.

## Recommendations

The Department should:

- Adequately segregate the duties for its quality assurance materials testing to help ensure that the tester is not the same individual who reviews and approves the test.
- Ensure that the tester and the reviewer are identified on the material test results documentation.
- Ensure that the individual who creates the daily work report is not the same individual who reviews or approves the report.
- Complete and retain all required materials on hand documentation.

## Management's Response

### From the Department's Construction Division:

- *The Department should adequately segregate the duties for its quality assurance materials testing to help ensure that the tester is not the same individual who reviews and approves the test.*

*SiteManager currently has no application controls to segregate duties for its material quality assurance testing. Staff will add coding to correct this issue, which will be included in the next release, due September/October 2013.*

- *The Department should ensure that the tester and the reviewer are identified on the material test results documentation.*

*SiteManager currently has no application controls to segregate duties for its material quality assurance testing. Staff will add coding to correct this issue, which will be included in the next release, due September/October 2013.*

- *The Department should ensure that the individual who creates the daily work report is not the same individual who reviews or approves the report.*

*SiteManager has been updated, and there is currently an application control to disallow the DWR creator from authorizing his/her own DWR.*

- *The Department should complete and retain all required materials on hand documentation.*

*This is a district responsibility. No action for CST. This is a district responsibility, and monitoring is performed by Construction Field Engineering staff during their reviews. Communication of the exceptions identified will be communicated to field engineering staff to ensure appropriate diligence in performing the reviews, due October 31, 2013*

*Responsible Party: Director of Construction Division, TxDOT*

*Date: October 31, 2013*

From the Dallas District Office:

- *The Department should adequately segregate the duties for its quality assurance materials testing to help ensure that the tester is not the same individual who reviews and approves the test.*
- *The Department should ensure that the tester and the reviewer are identified on the material test results documentation.*

*The district agrees with recommendations. This problem has been identified and addressed with Area Office personnel and was the subject of a memo sent out by the Construction Division January 11, 2012. This was corrected on test reports completed after that time as well as subsequent projects. This matter is expected to be addressed in future upgrades to the Site Manager program.*

*Responsible Party: N/A – Action Completed*

*Date: N/A – Action Completed.*

- *The Department should ensure that the individual who creates the daily work report is not the same individual who reviews or approves the report.*

*The district agrees with the recommendations. This problem has been addressed with Area Office personnel and included in the District Newsletter. Recent upgrades to the Site Manager program no longer allows for the person who created a DWR to also have authorizing capabilities.*

*Responsible Party: N/A – Action Completed*

*Date: N/A – Action Completed.*

- *The Department should complete and retain all required materials on hand documentation.*

*The district agrees with the recommendation. MOH forms 1914 & 1915 were not required to be submitted to the Area Office by the contractor when there was no change in MOH from the previous month. This practice will not be allowed in the future and a Zero Change report will be required for each month after the initial request for MOH until all quantities are used and removed from the estimate.*

*Responsible Party: Director of Construction – Dallas District*

*Date: December 31, 2013*

## The Department Properly Reviewed and Supported Change Orders to the Contract

The Department had processes in place to help ensure that change orders were executed and approved as required by its *Construction Contract Administration Manual*. All 20 approved change orders associated with the project audited were executed and approved in compliance with Department policy. The 20 approved change orders totaled \$586,902, and one pending change order totaling an additional \$361,720 was awaiting final approval as of April 2013. The \$948,622 in total change orders was 3.8 percent of the total awarded amount, which is within the Department's current goal to limit change orders to no more than 5 percent of the original award amount.

However, the Department did not consistently follow its policy requiring change orders containing original signatures be sent to and maintained at the Department's Construction Division. Three (15 percent) of the 20 approved change orders tested were not sent to the Construction Division to be maintained in the original contract file as required by policy. According to Construction Division employees, the Department no longer enforces that policy because all change orders are stored in the SiteManager database.

### Recommendation

The Department should enforce its policy that change orders with original signatures be sent to the Construction Division after approval or update its policies to match its processes.

### Management's Response

#### From the Department's Construction Division:

*CST will revise current policy as outlined in the Construction Contract Administration Manual (CCAM) to allow electronic copies of executed change orders.*

*Responsible Party: Director of Construction Division, TxDOT*

*Date: May 31, 2014*

#### From the Dallas District Office:

*The District agrees with the recommendations.*

*In the past change orders (CO) containing original signatures were sent to Austin by office mail. The project files typically contained copies of the COs.*

*Recently, the Construction Division requested the district scan all change orders and send in by email to be stored in the Site Manager electronic database. As a result, the audit revealed that the district inadvertently failed to transmit three original CO's to the Construction Division. The district will be more diligent in sending change orders with original signatures to the division.*

*The district also recommends that the policy be updated to allow change orders be stored in an electronic database to eliminate the need to transmit originals, allow originals to be kept with the project files and streamline this effort.*

*Responsible Party: Director of Construction – Dallas District*

*Date: May 31, 2014*



## ***The Department Generally Planned, Procured, Formed, and Monitored the Design Services According to Its Policies and Procedures***

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The Department generally followed its processes related to planning, procuring, forming, and monitoring the design services for the reconstruction of an interchange on State Highway 352. The design of a highway component is an early piece in the Department's overall transportation project process. The final step in the planning phase of a transportation project is the development of plan specifications and estimate documents. Major components of those documents include plan sheets, standard and special specifications, general notes, special provisions, cost estimate, and project agreements.

The Department has documented processes through which it identifies the need for design services, selects contractors based on qualifications, ensures that it develops the required terms of a contract for design services, and monitors the payment and progress of the design contractor throughout the project.

The Department planned the design phase of the project in compliance with applicable laws and policies.

Auditors verified that the interchange reconstruction project audited was included in the Department's 2008-2011 *Statewide Transportation Improvement Plan*, the North Central Texas Council of Government's 2008-2011 *Transportation Improvement Plan*, and the 2030 *Regional Transportation Plan*, as required by the Department's documented processes. Auditors also verified that the preliminary design and cost estimate, as well as the environmental studies, right-of-way determination, route studies, and public involvement activities were completed as required.

The primary deliverable from the design contract audited consisted of a set of plans, specifications, and estimate documents as required.

The Department performs engineering design using either its design staff or a contracted engineering design consultant. The engineering design for the interchange reconstruction project audited was performed by a consultant procured under Texas Government Code, Chapter 2254, and requirements in Title 43, Texas Administrative Code, Chapter 9.

### **Indefinite Deliverable Contract**

An indefinite deliverable contract is a contract containing a general scope of services that identifies the types of work that will later be required under work authorizations, but does not identify deliverables, locations, or timing in sufficient detail to define the provider's responsibilities under the contract.

Source: The Department's *Engineering, Architectural, and Surveying Services Manual*.

The Department followed both the State's requirements and its process for selecting a qualified consultant. The consultant selected for the project audited had been one of multiple vendors awarded a \$4.00 million "indefinite deliverable contract" for various engineering and design services (see text box for a definition of indefinite deliverable contracts). Of that \$4.00 million award, the Department authorized \$1.17 million for design services specifically for the interchange at

State Highway 352. The contracts awarded to the other vendors that went concurrently through the Department's multiple award selection process resulted in multiple contracts ranging from \$3.00 million to \$5.00 million.

#### State Letter of Authority

A state letter of authority documents that the following have been addressed:

- Status of right-of-way and utility clearance and necessary permits have been finalized and obtained.
- Project has environmental clearance.
- Design aspects meet project requirements.
- Design/agreement/permit conditions have been placed on project letting and/or award.
- Project has been cleared to proceed for advertisement for letting.

Source: Department *Project Development Process Manual*.

The Department's Design Division approved the state letter of authority, as required, allowing the construction contracting phase of the project to begin (see text box for more information about a state letter of authority). The state letter of authority issued in October 2008 for the interchange reconstruction project audited noted that several parcels of the right of way still needed to be acquired and utility adjustments still needed to be made. However, the acquisition of three parcels of land was not completed in a timely manner, which resulted in a schedule delay during the construction phase (as discussed in Chapter 2).

The Department included contract terms and provisions in the design contract that held the engineer accountable for producing the required deliverables at the contracted price.

The Department uses a standard "boilerplate" contract for engineering services – lump sum with work authorizations that includes all required elements of a contractual agreement. Auditors compared the executed engineering design contract and attachments to the boilerplate contract and determined that the engineering design contract contained all of the required elements and provisions. In addition, the Department's engineering design contract was not required to comply with the *State of Texas Contract Management Guide*; however, that contract contained all essential terms and provisions from the *State of Texas Contract Management Guide*.

The Department performed the required monitoring of the contractor.

The Department has extensive requirements through its policies and procedures to monitor and enforce the terms of its contracts. Those requirements include regular communication with the engineer, the submission of monthly progress and sub-provider reports, and reviews of payment requests. The Department followed the required monitoring activities for the engineering design contract.

# Appendices

## Appendix 1

### ***Objectives, Scope, and Methodology***

---

#### **Objectives**

The objectives of this audit were:

- To determine whether the Department of Transportation (Department) procured selected contracts for goods and services in accordance with applicable statutes, rules, Office of the Comptroller of Public Accounts requirements, and state entity policies and procedures to help ensure that the State's interests were protected.
- To determine whether the Department managed and monitored selected contracts for goods and services to help ensure that contractors performed according to the terms of the contracts and that contractor billings were valid and supported, in accordance with applicable statutes, rules, Office of the Comptroller of Public Accounts requirements, and state entity policies and procedures.

#### **Scope**

The scope of this audit included reviewing the Department's procurement and contract management processes for one highway construction project that was active between September 1, 2008, and December 31, 2012. Auditors selected two contracts: a highway construction contract for the reconstruction of an interchange on State Highway 352 in the Department's Dallas District and the related engineering design contract for that project. The audit concentrated on all phases (planning, procurement, contract formation, and contract oversight) of the contracting process.

#### **Methodology**

The audit methodology included collecting information and documentation from the Department and reviewing procurement and contract management documents for compliance with federal and state requirements, as well as the Department's internal policies and procedures. The selection methodology for the highway construction project was based on contract dollar amount, the number of days over the original contract schedule time allowed, the dollar amount of liquidated damages charged to the contractor, the number and dollar amount of change orders, the complexity of the project, and the dollar amount and number of projects a contractor had with the Department. The Department's contract for engineering design on this project was also selected to review under the same audit objectives. The construction contract had not

been closed out as of April 2013, and construction for the project ended late in 2012.

Auditors also reviewed procurement and contract management documents and interviewed Department employees. Auditors tested the following for compliance with policies and procedures: (1) samples of material testing results from quality assurance tests that the Department's Dallas District performed at the Department's laboratories, (2) payments made to the contractor, and (3) daily work reports that the District's inspectors prepared. Auditors conducted testing at the Department's Construction Division, Design Division, and the Dallas District.

Information collected and reviewed included the following:

- Department policies and procedures.
- Department internal audit reports.
- Contracts, change orders, and work authorizations.
- Observations of the Department's construction bidding process.
- Project bidding data from the Department's mainframe.
- Quality assurance testing results reported by the Dallas District.
- Payments made to the contractors.
- Selected daily inspection reports for the project audited.
- Progress schedules submitted by the construction contractor.
- Correspondence and various files from the Dallas District office and the Dallas District area engineer's office that managed the contracts, the Construction Division, and the Design Division pertaining to the consultant design engineer, right-of-way acquisitions, utility relocations, construction contractors, and other consultants that contributed to the project.

Procedures and tests conducted included the following:

- Interviewed key employees at:
  - ♦ The Department's Construction Division.
  - ♦ The Department's Design Division.
  - ♦ The Department's Transportation Planning and Programming Division.

- ♦ The Department's General Services Division.
- ♦ The Department's Project Management Office.
- ♦ The Department's internal audit office.
- ♦ The Department's Dallas District office and area engineer's office.
- ♦ The Federal Highway Administration.
- Analyzed the accuracy of payments made to contactors from the Department's automated project management system, SiteManager, and its Financial Information Management System and compliance with Department invoice review and approval requirements.
- Tested and analyzed samples that included:
  - ♦ To test compliance with payment monitoring requirements for the design contract, auditors used a random number generator to select 7 of the 21 invoices related to the design services for the contracts audited. In addition, auditors non-statistically selected the invoice with the largest dollar amount from the 21 invoices. Auditors also non-statistically selected the largest invoice of five invoices from a supplemental work authorization. In total, auditors tested 9 of 26 invoices to obtain at least 47 percent coverage of the dollar amount.
  - ♦ To test compliance with materials on hand requirements, auditors used a random number generator to select 12 of 47 contractor payment requests to obtain at least 25 percent coverage. Auditors then selected individual materials on hand line items based on high dollar amounts from each payment request to conduct detailed testing.
  - ♦ To assess compliance with quality assurance requirements, auditors non-statistically selected one of each of the required quality tests for all line items the Department defined as "major items." That yielded a total of 286 sample items. Auditors tested 101 of the 286 items before determining that documentation was not available to allow testing to be completed. Additionally, to test compliance with quality monitoring requirements for tests not performed at the district level, auditors non-statistically selected one of each of the seven unique quality monitoring tests performed at the Department's Construction Division's materials and pavement lab.
  - ♦ To test compliance with payment processing and daily work report segregation of duties requirements, auditors non-statistically selected one month of payments for each major item previously identified. Auditors reviewed specific line items and work reports for each major

item. That yielded samples of 6 estimates, 11 line-items, and 30 daily work reports for testing.

- ♦ Additionally, auditors non-statistically selected five daily work reports to verify that the reports contained all required elements.
- ♦ Auditors used non-statistical sampling methods to select the samples. The test results from the samples selected cannot be projected to the entire population.

Criteria used included the following:

- Code of Federal Regulations, Title 23.
- Texas Administrative Code, Titles 34 and 43.
- Texas Transportation Code, Chapter 223.
- Texas Government Code, Chapter 2254.
- *State of Texas Contract Management Guide (Version 1.9)* (used only for best practices).
- The Department's policies and procedures including:
  - ♦ *Construction Contract Administration Manual.*
  - ♦ *SiteManager Contract Administration User Manual.*
  - ♦ *Letting Manual.*
  - ♦ *Plans, Specifications, and Estimates Preparation Manual.*
  - ♦ *Project Development Process Manual.*
  - ♦ *Consultant Management and Administration Manual.*

## Project Information

Audit fieldwork was conducted from February 2013 through April 2013. This performance audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The following members of the State Auditor's staff performed the audit:

- Lucien Hughes (Project Manager)
- Adam Wright, CPA, CFE, CGAP, CIA (Assistant Project Manager)
- Michael Gieringer, MS, CFE
- Frances Anne Hoel, CIA, CGAP
- Israel Weingarten
- Michelle Ann Duncan Feller, CPA, CIA (Quality Control Reviewer)
- Cesar Saldivar, CGAP, CICA (Audit Manager)

## ***The Department of Transportation's Organizational Structure***

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The Department of Transportation (Department) has a highly decentralized organizational structure that consists of:

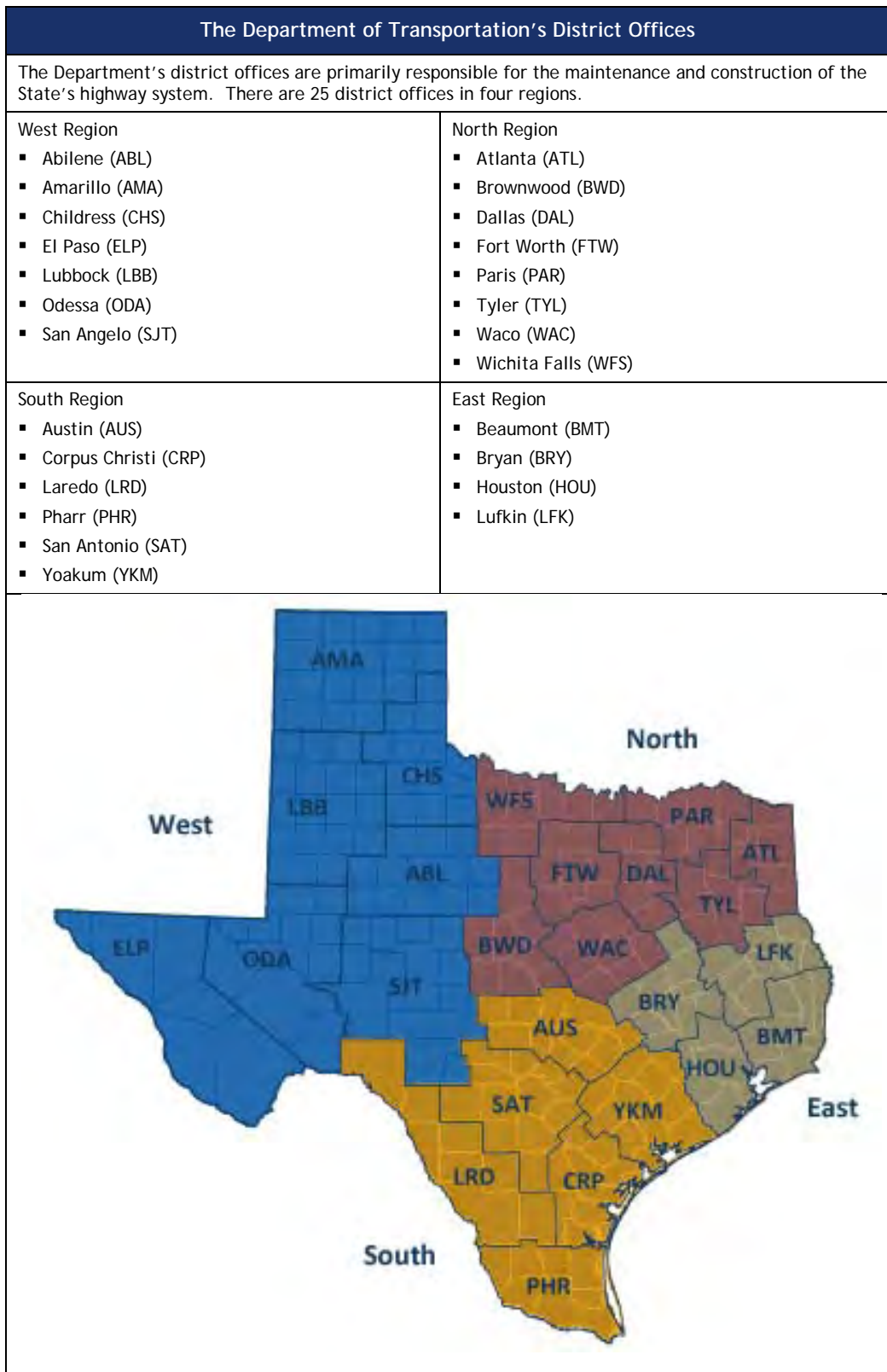
- A five-member Texas Transportation Commission appointed by the Governor.
- An executive director hired by the Texas Transportation Commission.
- Five “chief” department officials and 20 divisions. Each division is located in Austin.
- Twenty-five district offices across the state (see Figure 1 on the next page) that are under the deputy executive director/chief engineer. Construction decisions are made and carried out at the district level, with certain division-level oversight and support.

Two divisions were primarily responsible for developing the two contracts audited. Those two divisions were:

- **The Construction Division**, which performs inspection and testing and provides administrative oversight for all of the Department’s construction contracts. The Construction Division is responsible for contractor pre-qualification, bid proposal issuance, and awarding (letting) construction and maintenance contracts. It also provides consultation to districts on project management, administration, inspections, and testing throughout the project life cycle.
- **The Design Division**, which guides the development of construction projects from conception to the release of detailed plans for construction bidding. On average, the Design Division prepares 800 construction contracts for bid in most areas of highway design—from roadway geometrics to landscape design. It also develops design policies and roadside safety criteria, provides hydraulic design expertise, oversees selection of professional services consultants, and manages landscape programs.



Figure 1



Source: The Department's Web site.

## Statistical Comparison of Department of Transportation Districts

Table 1 lists statistical information by each Department of Transportation (Department) district. The information in Table 1 is taken from the Department's *DISCOS - District and County Statistics*, which, according to the Department, is prepared, published, and electronically distributed annually by the Department's Funds Management Section.

Table 1

Statistical Comparison of Department of Transportation District Offices September 1, 2011, through August 31, 2012						
District Name	Total Square Miles in District	Percent of Total Statewide Square Miles	Total Centerline Miles in District <sup>a</sup>	Percent of Total Statewide Centerline Miles	Total Lane Miles in District <sup>b</sup>	Percent of Total Statewide Lane Miles
Abilene	11,805	4.52%	3,741.352	4.66%	8,438.528	4.33%
Amarillo	17,848	6.83%	4,041.300	5.04%	9,393.267	4.82%
Atlanta	5,341	2.04%	2,678.622	3.34%	6,437.355	3.30%
Austin	9,473	3.63%	3,380.615	4.21%	9,268.253	4.76%
Beaumont	6,653	2.55%	2,384.925	2.97%	5,852.732	3.00%
Brownwood	8,629	3.30%	2,686.098	3.35%	5,862.057	3.01%
Bryan	7,710	2.95%	3,143.520	3.92%	7,136.329	3.66%
Childress	11,193	4.28%	2,507.635	3.13%	5,472.437	2.81%
Corpus Christi	7,820	2.99%	2,902.591	3.62%	7,177.540	3.68%
Dallas	5,444	2.08%	3,684.975	4.59%	10,847.337	5.57%
El Paso	21,700	8.31%	1,928.051	2.40%	4,877.228	2.50%
Fort Worth	6,949	2.66%	3,319.354	4.14%	8,830.746	4.53%
Houston	5,856	2.24%	3,205.955	4.00%	10,361.352	5.32%
Laredo	15,052	5.76%	2,277.501	2.84%	5,109.845	2.62%
Lubbock	15,861	6.07%	5,265.220	6.56%	12,131.840	6.23%
Lufkin	7,113	2.72%	2,882.411	3.59%	6,514.588	3.34%
Odessa	18,343	7.02%	3,410.360	4.25%	8,143.673	4.18%
Paris	6,146	2.35%	3,325.732	4.15%	7,249.702	3.72%
Pharr	8,812	3.37%	2,362.515	2.94%	6,287.555	3.23%
San Angelo	19,061	7.30%	3,256.224	4.06%	7,330.233	3.76%
San Antonio	12,241	4.69%	4,277.231	5.33%	10,974.095	5.63%
Tyler	6,596	2.52%	3,694.618	4.60%	8,834.063	4.53%
Waco	7,589	2.90%	3,433.608	4.28%	7,778.265	3.99%
Wichita Falls	8,091	3.10%	2,856.768	3.56%	6,426.642	3.30%
Yoakum	9,907	3.79%	3,586.116	4.47%	8,151.428	4.18%
Totals	261,230	100.00%	80,233.297	100.00%	194,887.090	100.00%

Statistical Comparison of Department of Transportation District Offices  
September 1, 2011, through August 31, 2012

District Name	Total Square Miles in District	Percent of Total Statewide Square Miles	Total Centerline Miles in District <sup>a</sup>	Percent of Total Statewide Centerline Miles	Total Lane Miles in District <sup>b</sup>	Percent of Total Statewide Lane Miles
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<sup>a</sup> A centerline mile is a measure of the total length (in miles) of highway and highway infrastructure in place or proposed, as measured along the highway centerline.

<sup>b</sup> Lane mile is a measure of the total length of traveled pavement surface. The number of lane miles is equal to the centerline length (in miles) multiplied by the number of lanes.

Source: Department of Transportation's *DISCOS - District and County Statistics*, 2012. According to the Department, some calculations may be carried to eight or more decimal places; therefore, there may be small differences in the column totals due to rounding.

## Analysis of Engineer's Estimates and Winning Bids

Texas Transportation Code, Chapter 223, requires the Department of Transportation (Department) to award highway construction contracts to the lowest qualified bidder. Prior to contract bidding, the design engineer for the project develops an estimate for the expected cost of the project. If the lowest bid for a construction contract exceeds the engineer's estimate by 20 percent or higher and the Department still wishes to award the contract, the Department is required by its *Letting Manual* to submit an "over/under justification" outlining why the bid amount was higher than expected and why the contract should be awarded. The Texas Transportation Commission also must approve the award. According to the Department's Construction Division, some reasons for a higher-than-expected lowest bid include fewer contractors in rural districts, material cost variances by district, and other unaccounted for circumstances that may affect a contract's price.

Auditors analyzed all construction and routine maintenance contracts the Department bid from September 1, 2008, through January 9, 2013, and determined that the lowest winning bids were, on average, 7.8 percent lower than the engineers' estimates. For 71.9 percent of the contracts analyzed, the lowest winning bid was less than or equal to the engineer's estimate. Only 6.0 percent of all contracts had a winning bid that exceeded the engineer's estimate by 20 percent or more (see Tables 2 and 3).

Table 2

All Construction Contracts Bid September 1, 2008, through January 9, 2013	
Description	Amount
Total Number of Contracts	5,888
Total Amount of Engineers' Estimates	\$20,229,340,104
Total Amount of Winning Bids	\$18,656,080,106
Total Percentage Difference Between Engineers' Estimates and Winning Bids	7.8%

Source: Auditors' analysis based on unaudited data the Department provided.

Table 3

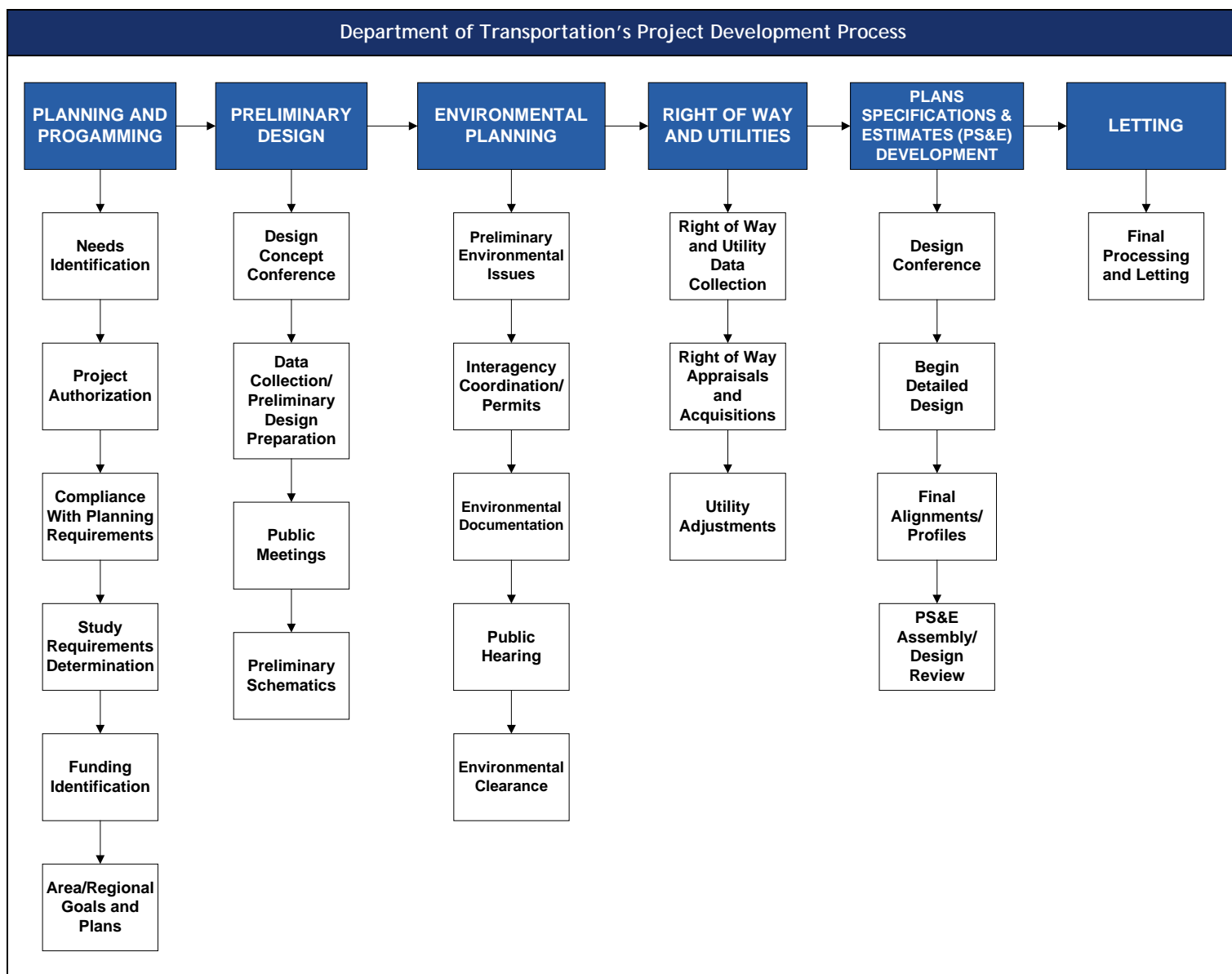
All Construction Contracts Bid September 1, 2008, through January 9, 2013		
Description	Number of Contracts	Percent of Total Contracts
Winning Bid Was Less Than or Equal to the Engineer's Estimate	4,235	71.9%
Winning Bid Exceeded the Engineer's Estimate By Less Than 20 Percent	1,300	22.1%
Winning Bid Exceeded the Engineer's Estimate By 20 Percent or More	353	6.0%
<b>Totals</b>	<b>5,888</b>	<b>100.0%</b>

Source: Auditors' analysis based on unaudited data the Department provided.

## The Department of Transportation's Project Development Process

The Department of Transportation (Department) has a comprehensive project development process that begins with preliminary planning and ends with project letting (providing notice, issuing proposals, receiving proposals, and awarding contracts). Figure 2 shows the six overall steps in the Department's project development process. The steps are arranged in chronological order from left to right.

Figure 2

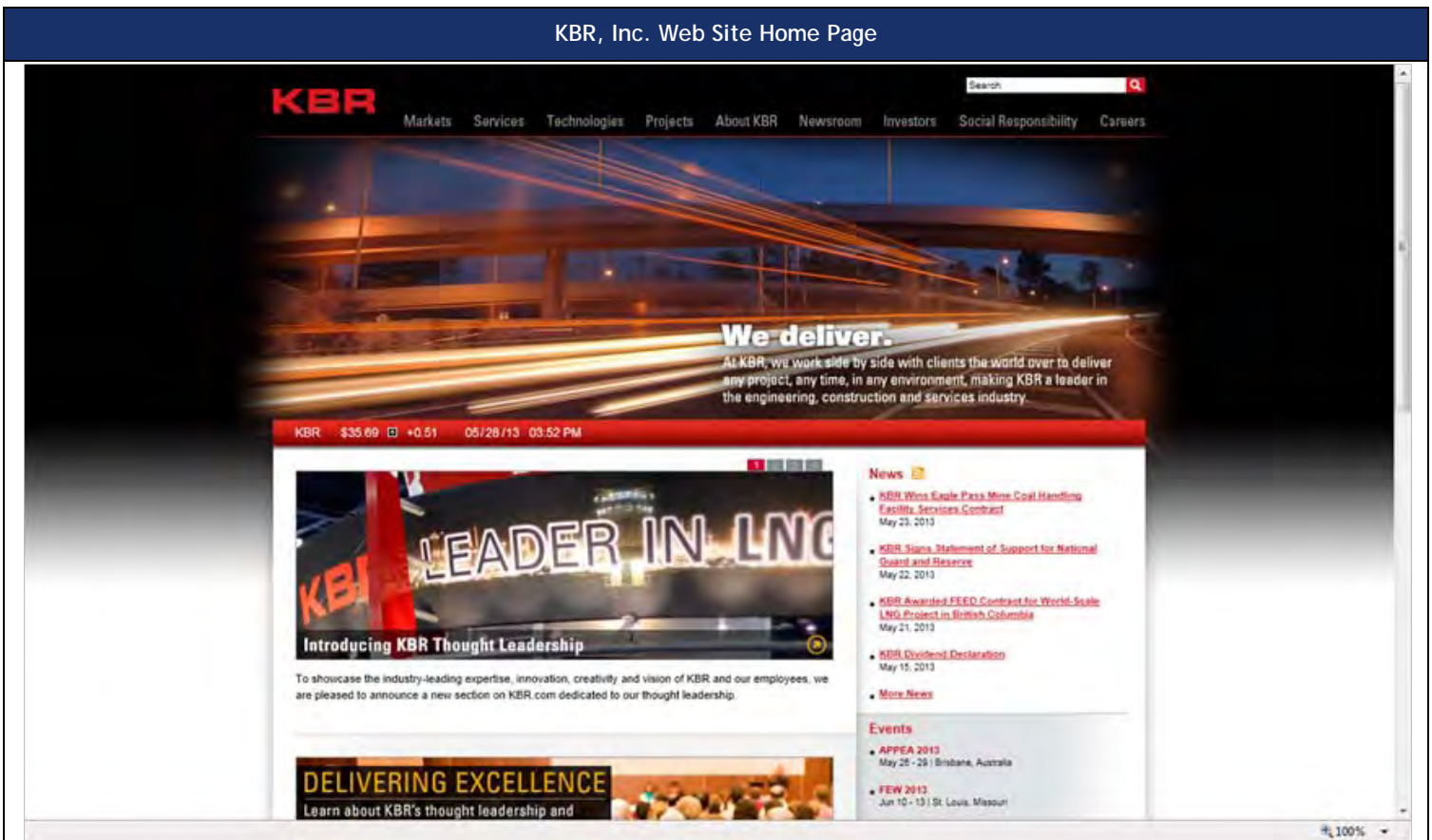


Source: Auditors created the figure based on information from Department's *Project Development Process Manual* and information from Department management.

## Contractor Information

The Department contracted with KBR, Inc., formerly Kellogg Brown and Root, to design the reconstructed interchange on State Highway 352. KBR, Inc. is a Houston-based engineering, procurement, and construction company. It has approximately 27,000 employees in more than 70 countries on 5 continents. Figure 3 shows a screenshot of the KBR, Inc. Web site home page.

Figure 3



Source: KBR Inc. Web site at [www.kbr.com](http://www.kbr.com).

W. W. Webber, LLC is a Houston-based infrastructure company with approximately 2,000 employees. It was awarded the construction contract for the reconstruction of the interchange on State Highway 352. Figure 4 shows a screenshot of W. W. Webber, LLC Web site home page.

Figure 4



Source: W. W. Webber, LLC Web site at <http://wwwebber.com/about-us/>.



## Related State Auditor's Office Work

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Related State Auditor's Office Work		
Number	Product Name	Release Date
13-022	A Report on State of Texas Compliance with Federal Requirements for Selected Major Programs at the Department of Transportation for the Fiscal Year Ended August 31, 2012	February 2013
13-016	A Report on the Audits of the Fiscal Year 2012 Financial Statements of the Department of Transportation, the Central Texas Turnpike System, and the Texas Mobility Fund	January 2013
12-049	An Audit Report on Performance Measures, Implementation of Prior Audit Recommendations, and Trends at the Department of Transportation	August 2012
12-020	A Report on State of Texas Compliance with Federal Requirements for Selected Major Programs at the Department of Transportation for the Fiscal Year Ended August 31, 2011	February 2012
12-555	State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2011	February 2012
12-014	A Report on the Audit of the Central Texas Turnpike System's Fiscal Year 2011 Financial Statements	January 2012
12-010	A Report on the Audit of the Texas Mobility Fund's Fiscal Year 2011 Financial Statements	December 2011

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The Honorable Joe Straus III, Speaker of the House, Joint Chair

The Honorable Thomas “Tommy” Williams, Senate Finance Committee

The Honorable Jim Pitts, House Appropriations Committee

The Honorable Harvey Hilderbran, House Ways and Means Committee

### **Office of the Governor**

The Honorable Rick Perry, Governor

### **Department of Transportation**

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Mr. Jeff Austin, III

Mr. Jeff Moseley

Mr. Fred Underwood

Mr. Victor Vandergriff

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# Transportation Funding Overview

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## Testimony before the House Appropriations Committee

February 18, 2015

Capitol Extension E1.030

## Introduction

The Texas Department of Transportation's (TxDOT) mission is to work with others to provide safe and reliable transportation solutions for Texas. To accomplish this mission, TxDOT has established four goals: maintaining a safe system, addressing congestion, connecting Texas communities, and becoming a best in class agency. TxDOT can best achieve our goals when we can rely on long-term, sustainable funding sources.

TxDOT manages and maintains a vast and comprehensive transportation system that includes:

- Approximately 80,325 centerline miles and 195,300 total lane miles, of which over 82% are in good or better condition
- Nearly 500 million vehicle miles traveled on the state system each day
- More than 53,000 bridges in Texas, of which over 80% are in good or better condition
- 292 airports, the largest air system in the nation
- 406 miles of the Gulf Intracoastal Waterway, which is approximately 40% of GIWW total miles; it is the nation's 3<sup>rd</sup> busiest inland waterway, and it plays a critical role in the state's economy
- Over 2,900 transit vehicles in operation that receive capital funds through TxDOT
- 2.1 million customers served by Travel Information Centers

## Safety

Safety is the highest priority at TxDOT—both for the driving public, as well as TxDOT employees. To promote the agency's safety first commitment, TxDOT launched its Mission Zero Campaign, an internal and public outreach program designed to reduce work zone incidents, injuries, and fatalities. Mission Zero is intended to encourage department employees to make a personal commitment to be safety conscious on and off the job. Safety drives TxDOT employees' decisions, takes precedence over schedule, includes accountability, and becomes a way of life. We expect the initiative to continue gaining momentum as department incident rates continue to decrease and approach zero. In fact, TxDOT closed Fiscal Year 2014 at the end of August with the best safety record in its history:

- Lowest number of injuries on record (53% rate reduction from FY 2007 to FY 2014)
- Lowest number of lost-time injuries on record
- Lowest number of vehicle incidents (62% rate reduction from FY 2007 to FY 2014)

We attribute this milestone to placing a higher emphasis on safety, allocating more resources for safety training, and raising our internal standards by expanding accountability among the department's management and supervisors.

TxDOT's Traffic Operations Division oversees the design and placement of signs, signals, pavement markings, lighting, and intelligent transportation systems for the safe operation of the state highway system. It also develops traffic safety initiatives aimed at reducing fatalities and serious injuries from motor vehicle crashes by educating the traveling public. In addition, the division manages the collection and analysis of crash data used to develop highway safety and educational programs to promote safe driving practices.

Many in the Legislature are familiar with the safety improvements our District Engineers and staff provide to local communities. They work tirelessly to respond quickly and effectively to constituents' safety concerns by conducting speed studies, widening highways, installing grade separations, improving intersections, and many other important safety projects.

Due to the importance we attribute to safety, TxDOT would like to thank the Legislature and the Governor's office for recently approving the Texas Transportation Commission's request for the use of approximately \$201 million in previously unappropriated State Highway Fund (SHF) dollars to support critical safety improvements across the state.

TxDOT is also grateful for the persistence of the Legislature in assisting the department with funding energy sector road improvements. Financing these projects has been a challenge in previous biennia due to a variety of factors, including method of finance and budget transfer limitations. Providing much needed improvements to energy sector roads will serve to protect the safety of area residents, energy company employees, and the traveling public. The table below illustrates the growing safety concern for energy sector regional populations.

**Reportable Serious Motor Vehicle Traffic Crashes<sup>1</sup>  
In Energy Sectors  
Calendar Years 2009 and 2013**

Energy Sector	2009 Fatal & Injury Related Crashes	2014 Fatal & Injury Related Crashes	% Change
Eagle Ford Shale	2,839	3,449	21.49%
Permian Basin	3,754	4,411	17.50%
Granite Wash	28	26	-7.14%
Barnett Shale	13,977	15,679	12.18%
Haynesville/Bossier Shale	1,603	1,510	-5.80%
Cline Shale <sup>2</sup>	468	778	66.24%

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<sup>1</sup> Reportable serious motor vehicle traffic crashes involve fatalities or serious bodily harm.

<sup>2</sup> The Cline Shale Region is a subset of the Permian Basin Region.

## Energy Sector Improvements

Most members of the Legislature are aware that energy production from wind, oil, and natural gas has increased dramatically in recent years. Although these activities greatly contribute to the economic vitality of the state, the associated increased road use is having a tremendous impact on our transportation infrastructure. Energy production requires large numbers of heavy trucks, including many classified as oversize and/or overweight vehicles. Over time, large volumes of heavy truck traffic damage roads and bridges and reduce their service-life. The problem is particularly acute on highways, roads, and bridges that were not designed or constructed to accommodate heavy loads or oversize vehicles. A great deal of the exploration and production occurs in rural areas where most of the roads and bridges were designed for lower traffic volumes and lighter vehicle weights. While the economic activity associated with energy-development is a substantial benefit to the state, TxDOT and local governments must ensure that the roads are well-maintained and safe. The Texas A&M Transportation Institute (TTI) has estimated that energy production impacts on the state highway system, especially on farm-to-market roads, create an annual additional need of approximately \$1 billion.

The Legislature has taken several significant steps to allocate funding to roads affected by energy sector activity in the current biennium. In total, over \$900 million has been specifically appropriated to support energy sector road improvements in FY 2014-2015. Last session's Supplemental Appropriations Bill, House Bill 1025 (83<sup>rd</sup> Legislature, R.S., 2013), appropriated \$225 million to TxDOT to repair or rehabilitate parts of the state highway system located in counties where there has been increased energy-related activity.

Senate Bill 1747 (83<sup>rd</sup> Legislature, R.S., 2013), established the County Transportation Infrastructure Fund Grant Program and authorized the department to distribute \$224.5 million among eligible counties that applied for funding. Counties will receive reimbursements for eligible expenditures. The bill included an allocation formula based on data determined by the Texas Comptroller of Public Accounts, the Texas Department of Motor Vehicles, and the Texas Railroad Commission.

Most recently the Legislative Budget Board and the Office of the Governor approved TxDOT's use of approximately \$201 million in previously unappropriated SHF dollars for the purpose of funding planned energy sector projects. In addition, the Joint Committee on the Economic Stabilization Fund (ESF) Balance met in December 2014 and set the ESF sufficient balance at \$7 billion, resulting in TxDOT being able to obligate another \$261 million of Proposition 1 funding towards energy sector improvements.

## Proposition 1 Update

TxDOT has recently begun collecting feedback on an initial group of [201 road projects](#) that staff presented to the Commission on January 30, 2015. The new construction and maintenance projects will be advanced due to Proposition 1 dollars approved by Texas voters last November.

In December, \$1.74 billion was deposited to the SHF and the LBB approved TxDOT distributing the funds in this manner:

- 40% to metropolitan planning organizations (MPOs) for congestion (\$696 million)
- 30% to TxDOT districts to address connectivity (\$522 million)
- 15% to TxDOT districts to address maintenance needs (\$261 million)
- 15% to TxDOT districts for roads in the energy sector (\$261 million)

Please see Appendix A for a detailed Proposition 1 funding distribution to TxDOT Districts. The public is invited to comment on the projects until February 23rd, before the Commission votes on them at the February 26th Commission meeting. Comments may be submitted via email to [TPP\\_UTP@txdot.gov](mailto:TPP_UTP@txdot.gov), by phone at (800) 687-8108, or by mail to Texas Department of Transportation, attention: James Koch - UTP, P.O. BOX 149217, Austin, TX 78714-9217.

## HB 1 Overview

The following testimony provides an overview of the effects of HB 1, 84<sup>th</sup> Legislature, Regular Session (HB 1) on TxDOT's project plans, discusses the challenges facing the state with respect to infrastructure funding, summarizes the status of transportation debt programs, and discusses the steps taken by the department in anticipation of these challenging times.

### *Base Budget*

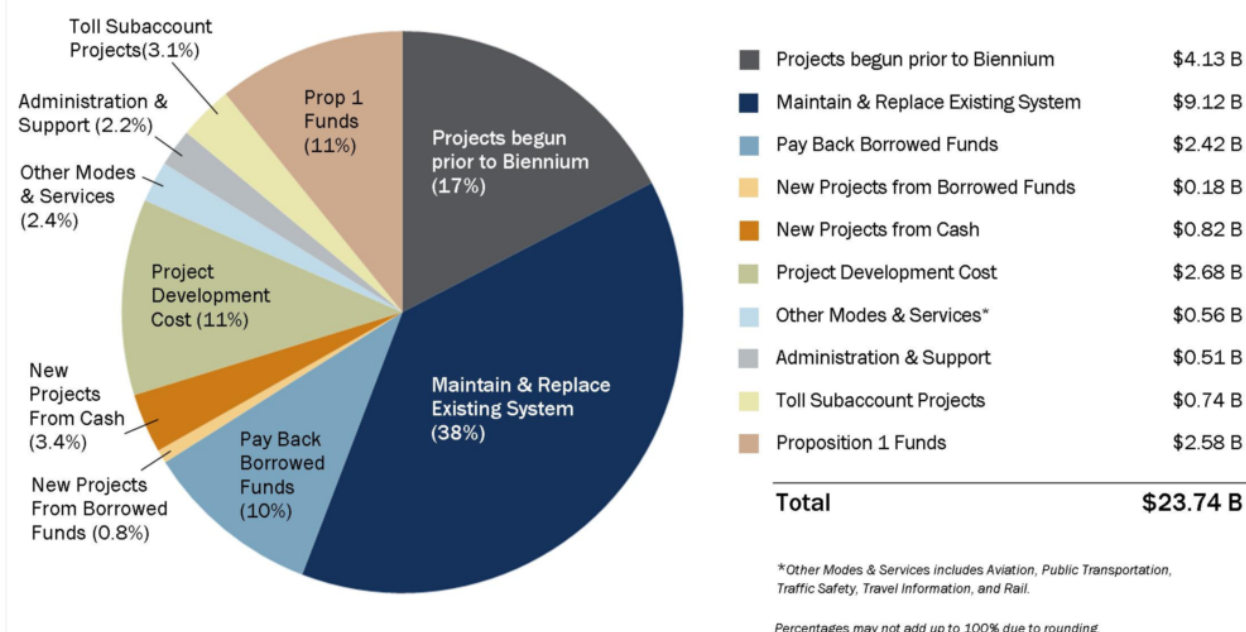
TxDOT developed its appropriations request by projecting expected available revenue in the SHF in Fiscal Years 2016 and 2017. From this amount of funding, the department deducted the same level of SHF dollars that were appropriated to other state agencies in the current biennium. The remaining amount of the SHF was requested in TxDOT's exceptional item list. HB 1 grants this exceptional item request by freeing up SHF dollars which had been appropriated to other state agencies.

HB 1, as introduced, closely tracks the Commission's baseline appropriations request and includes another exceptional item, which is very important to the delivery of additional non-tolled highway improvements. The bill pattern for HB 1 creates a line item with an estimated total of \$2.58 billion in Proposition 1 funds to TxDOT's budget.

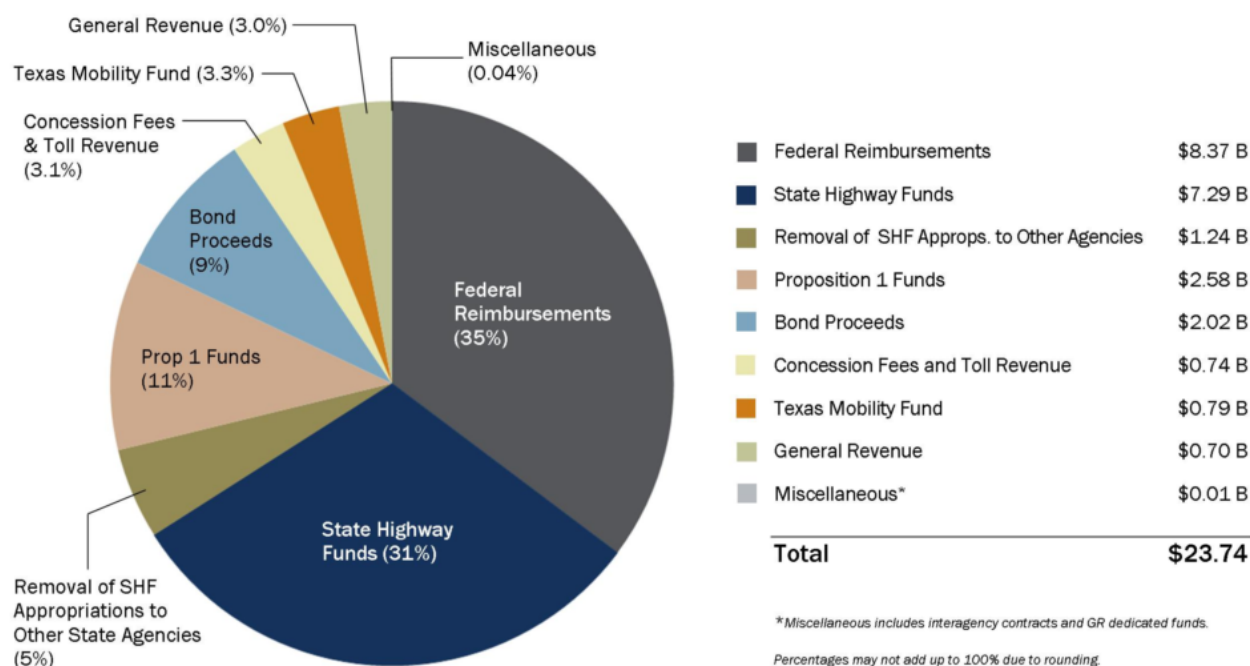


The following chart collapses HB 1's line items of appropriations into broader, more easily identifiable functions. The second chart collapses HB 1's Method of Finance into broader, more easily identifiable funding sources.

## HB1 Introduced: TxDOT Appropriation



## HB1 Introduced: TxDOT Method of Finance



## *HB 1 Riders*

Article IX, Section 7.12 of HB 1, 84<sup>th</sup> Legislature, Regular Session, is an important and timely rider, which will have a notable impact on the department. The rider requires state agencies to provide written notice to the LBB, the Governor, State Auditor, and various Legislative committee chairs when the agency expects to award a contract that exceeds \$10 million. While the majority of TxDOT letting contracts are less than this, an average of 70 projects each fiscal year exceed the \$10 million threshold specified in the rider. Appendix B categorizes letting contracts exceeding \$10 million over the course of 4 fiscal years.

Notifying and receiving approval from the Legislature for the majority of TxDOT contracts would burden Legislative staff, create duplicative paperwork for the department, and unnecessarily delay many road maintenance and construction projects. For this reason, TxDOT requests that the Legislature consider making an exception in this rider for road projects.

## **Funding Challenges**

Texas and other states across the nation are facing serious challenges with respect to transportation funding including:

- Decreasing purchasing power of highway funds
- Rising fuel efficiency
- Increasing uncertainty of federal funding

Over the last dozen years the Legislature has responded to these challenges by providing TxDOT with new funding mechanisms, which have allowed TxDOT to respond quickly to growing transportation challenges. Some of the mechanisms have a finite financial capacity that is being reached.

## **Traditional Funding**

Understanding TxDOT's budget and payment processes helps reveal why the need for reliable and sustainable revenue is so vital. Some state DOTs operate on a pay-as-you-go, encumbrance-based method of funding road projects, which requires their DOTs to have all of the cash necessary for specific projects on hand and held in reserve before they begin building or repairing roads. As soon as payments for these contracted projects become due, these state DOTs will draw from the projects' specific accounts and use their cash held in reserve to make payments on incoming invoices.

Although TxDOT primarily operates under a pay-as-you-go system, its payments have always been managed on a cash flow basis, rather than the encumbrance-based method described

above. For example, a \$30 million contract award will typically take anywhere from 2-5 years to pay out. However, TxDOT will not have \$30 million in cash for a project when it is awarded, but rather forecasts the monthly payments needed for this project, along with all other active and planned projects, and ensures the projected revenues will cover the projected payments over the life of the contract. Knowing the amount of revenue that will be available in the future allows us to start the maximum amount of projects today rather than waiting until enough cash has been accumulated and held in reserve to start projects. This allows Texas to advance more projects to construction sooner, providing more value to the taxpayers.

A reliable and sustainable funding source also adds certainty to the planning process and allows TxDOT to efficiently work with its partners to develop projects to be awarded in the future. Many development activities including environmental studies, ROW acquisition, and design, must begin years in advance of a project being awarded to a contractor. To ensure the appropriate level of development activities are taking place today for those future projects it is important to be able to reliably forecast the amount of funds that will be support future contract awards.

## State Tax on Motor Fuel

State and federal motor fuel taxes historically represent the most robust and predictable funding sources for transportation projects. Unlike transportation bonds, revenue generated from motor fuel taxes is likely to be available for years to come. Texas began taxing motor fuel in 1923, almost 10 years prior to the federal collection of fuel tax. Three-fourths of the collected revenue was deposited into the SHF and the remaining amount was placed in the Available School Fund. In 1946, this practice was codified in Article VII, Section 7-a of the *Texas Constitution*. For many years, state and federal motor fuel taxes provided sufficient revenue for the construction and maintenance of transportation projects. Increased demand for roads, inflation, stagnant tax rates, and rising fuel efficiency have all greatly contributed to the necessity for finding new, reliable revenue sources, cost saving measures, and innovative practices in order to maintain project output levels.

Significant Changes in State Motor Fuel Tax			
(amounts listed in cents per gallon)			
Year	Gasoline	Diesel	Liquefied Gas
1923	\$0.01	N/A	N/A
1927	\$0.03	N/A	N/A
1929	\$0.04	N/A	N/A
1941	\$0.04	\$0.08	\$0.04
1951	\$0.04	\$0.06	\$0.04
1955	\$0.05	\$0.07	\$0.05
1984	\$0.10	\$0.10	\$0.10
1987	\$0.15	\$0.15	\$0.15
1989	\$0.15	\$0.15	\$0.15
1991	\$0.20	\$0.20	\$0.15

### Increasing Fuel Efficiency

Rising fuel efficiency in vehicles has a major impact on motor fuels tax revenue. A flat \$0.20 state fuel tax is levied on each gallon sold. It does not rise or fall with the price of fuel. As fuel efficiency increases, less fuel is purchased on a per-vehicle mile basis and, therefore, less revenue is collected per vehicle mile. As more vehicle miles are driven on Texas roadways, congestion and degradation of the network increase, but due to the improved fuel efficiency of the fleet it does not generate a proportionate increase in revenue.

### Inflation

One of the most significant challenges we face is the declining purchasing power of the SHF. In Texas, construction inflation has increased 150 percent since the state motor fuel tax was last increased in 1991. Federal fuel tax rates have not been raised since 1993. While

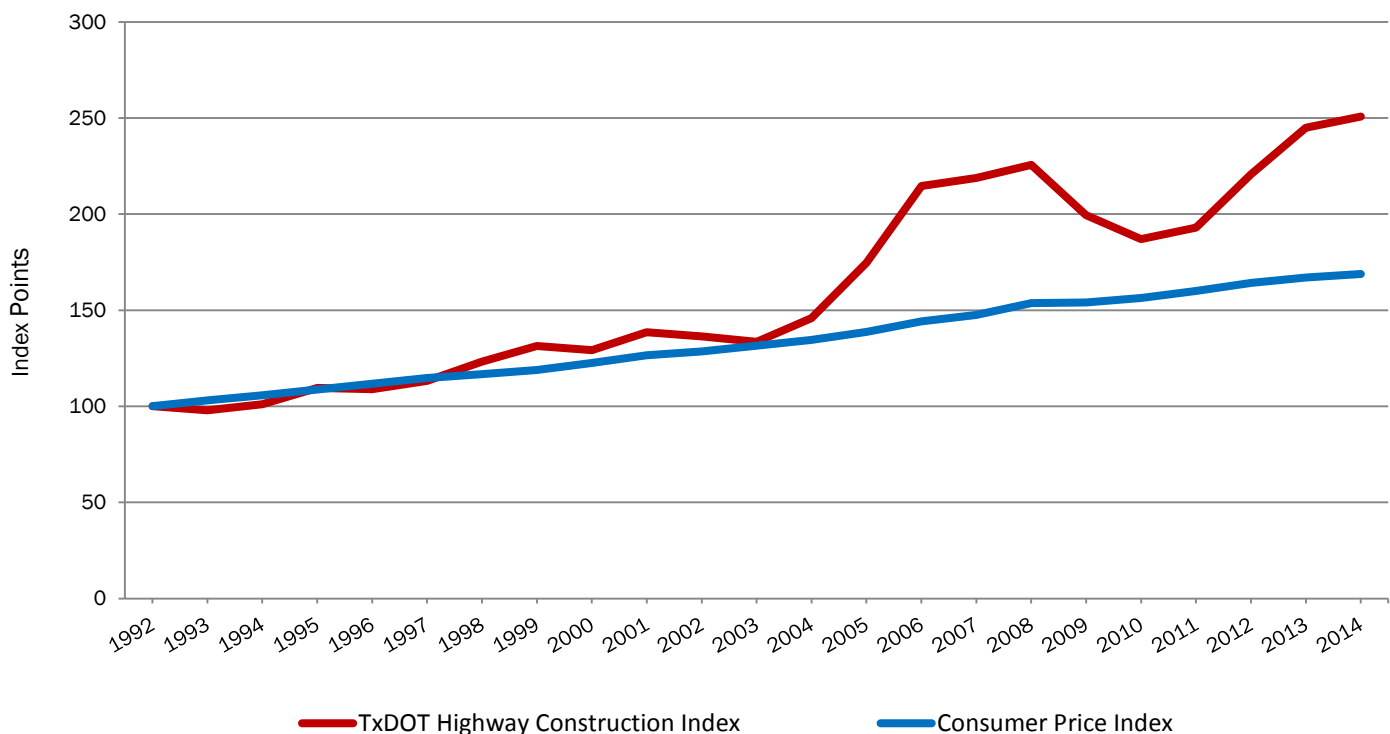
motor fuel tax revenue has generally risen over the years as more people move to and drive in Texas, highway construction costs have risen to the point that current motor fuel tax revenue buys far less than it did when the state tax rates were last adjusted.

In FY 2014, the SHF received deposits of state motor fuel tax totaling \$2.4 billion. If state motor fuel taxes been indexed to inflation beginning in 1991, those revenues would have increased by \$1.6 billion to total nearly \$4 billion. The cumulative cost of not indexing the state gas tax to inflation represents a total of \$17 billion. If state motor fuel taxes had been indexed to highway construction inflation rates, that amount would have been \$6 billion—a \$3.7 billion increase. Had the state motor fuel tax been indexed to the HCI, the state would have collected over \$31 billion.

Motor vehicle registration fees are another significant source of revenue to the SHF. These fees brought in \$1.4 billion in FY 2014. If motor vehicle registration fees had been indexed to inflation, the total would have been \$2.3 billion and the cumulative amount over time would have been \$8 billion. Had the fees been indexed to highway construction inflation, those amounts would have been even higher at \$3.4 billion and the cumulative amount would have yielded \$14.9 billion.

The figure below illustrates the nearly two-thirds rise in consumer inflation over the last two-plus decades. Highway construction inflation rates have clearly been more volatile. The

### Inflation vs. Construction Inflation



costs of highway construction materials, such as steel and concrete, play a large role in our ability to maximize our funding dollars. The rise in the global demand for highway construction materials has increased department costs in Texas by 150 percent since the last increase in the state motor fuel tax rate.

The Texas Legislature has provided TxDOT an array of funding sources. Federal reimbursements from the Highway Trust Fund (HTF), funded by the federal gas tax and in recent years a transfer of federal general funds, comprise the largest percentage of TxDOT's budget. SHF funds come from state motor fuel tax, motor vehicle registration fees, and other, smaller fees. Bond proceeds have contributed to about 20 percent of TxDOT's current FY 2014-2015 budget. As the capacity of these borrowing programs is consumed, it is important that new, reliable funding sources are considered by the Legislature.

### *The Uncertainty of Federal Funding*

Approximately 35-40 percent of TxDOT's revenue comes from federal funds. The Federal-Aid Highway Program is a reimbursement system in which the federal government allows states the ability to obligate federal funds for projects. As project expenditures occur over time, federal funds are used to reimburse the state for these expenses. For decades, federal assistance for highways was adequately supported by federal motor fuel tax and fee revenue deposited to the federal Highway Trust Fund (HTF).

Since the beginning of the Federal-Aid Highway Program, Congress approved HTF spending, which was in line with or below the overall revenue collected. For a time, revenue collections exceeded expenditures and the HTF was able to accumulate unspent balances. In 2005, Congress made the decision to increase funding to states in an effort to spend down the balance of excess funds in the HTF. However, at that same time, cars were becoming more fuel efficient and people were driving less, which brought in less motor fuel tax revenue into the account.

Congress chose not to reduce funding levels to the states to bring them back into line with actual revenue coming into the HTF, and therefore, a shortfall in available funding to states occurred. Congress chose, rather, to respond to the shortfall by transferring general funds into the HTF. According to the Federal Highway Administration (FHWA), Congress transferred \$18.4 billion in general funds and other funds to the HTF in FFY 2014 alone.

Most likely, the HTF will need an additional infusion of funds in FFY 2015 to be able to reimburse states at currently authorized levels. This means that absent another transfer of federal general funds from Congress, many state DOTs would receive reimbursements at a slower pace or at a lower amount until the HTF is replenished from current fuel taxes. The Texas Legislature has provided TxDOT with the tools to handle short-term funding shortages for this exact type of situation. TxDOT has the ability to borrow funds needed to pay our

contractors for work on a timely basis and therefore we are not expected to stop or delay any active projects because of any temporary HTF shortfall.

Adding further uncertainty to the federal funding picture is the fact that the current surface transportation authorization act, Moving Ahead for Progress in the 21<sup>st</sup> Century (MAP-21), is set to expire on May 31, 2015. If history is to be our guide, it is likely that Congress will pass multiple extensions of the authorization legislation until a new piece of legislation can be agreed upon. Due to the fact that these extensions are short-term in nature, Texas will not know the outcome of its full, yearly authorized spending levels. Therefore, to be fiscally prudent, TxDOT will only be able to program and forecast funds in the amount of revenue directly tied to the federal motor fuels taxes that are estimated to be contributed to the HTF. In the baseline appropriations request, TxDOT does not estimate transfers of general funds or new transportation revenue that has not been authorized by Congress.

TxDOT's Legislative Appropriations Request for FY 2016–2017 includes a fiscally constrained projection in the federal funds method of finance. As the schedules for the specific projects selected by our local partners to utilize this funding become more definite, it is likely that the projected payout will need to be updated during the biennium. For this reason, TxDOT has included an exceptional item in its LAR to account for the uncertainty of federal actions regarding MAP-21. We anticipate needing additional appropriation in federal funds of \$202 million in FY 2016 and \$404 million in FY 2017 should Congress decide to continue funding the federal program at its current level by continuing to transfer general funds to the HTF or by some other mechanism. While the continuation of current MAP-21 funding levels would equate to an additional \$606 million of annual federal obligation, the expenditure and reimbursement of those funds would occur over several years as the projects pay out.

### *Debt Financing*

Bond issuance grew more prominent as a transportation funding tool nationally in the early 21<sup>st</sup> century. This was due to a number of factors, including low interest rates and a perceived lack of support for increasing taxes and fees. Bonding has allowed TxDOT to award additional mobility projects aimed at addressing congestion sooner rather than later. Bonding authority came as Texas continued to experience its enduring economic expansion. Bond interest rates have been slightly lower than the Highway Construction Inflation over the same period of time. These debt financing tools have allowed TxDOT and the state to receive the benefit of funding for additional mobility projects to be delivered at a time when these projects were most needed.

TxDOT has a variety of borrowing programs available to advance the construction of transportation projects. Some programs are payable from future deposits to the SHF. Others are payable from general revenue and other dedicated revenues. A significant



portion of TxDOT's current budget is comprised of borrowed funds and debt service. The following provides an overview of each of these programs.

### *State Highway Fund Revenue Bonds (SHF Revenue Bonds, or Proposition 14)*

The Texas Transportation Commission is authorized by law to issue \$6 billion in bonds under the Proposition 14 program for highway improvement projects. Debt service payments are secured by all revenues of the SHF. Projected debt service may not exceed 10 percent of the prior year's deposits to the fund. Current credit ratings for these bonds are Aaa by Moody's and AAA by S&P.

### *Texas Mobility Fund (TMF)*

The Texas Mobility Fund was authorized by voters in 2001 to advance transportation projects. The Legislature identified revenues to be dedicated to the fund in 2003 to advance transportation projects. The maximum maturity of these bonds may not exceed 30 years.

Debt service payments are secured by revenues of the fund and are further backed by the full faith and credit of the state. The projected revenues in the TMF in any year must be forecasted by the Comptroller to be at least 110 percent of debt service before bonds can be issued.

Ninety-eight percent of the revenue deposited to the TMF comes from motor vehicle inspection fees, driver's license fees, driver record information fees, and certificate of title fees. Funds may be used for state highways, publicly owned toll roads, and other public transportation projects. Current credit ratings for TMF bonds are AAA by Fitch, Aaa by Moody's, and AAA by S&P.

### *Highway Improvement General Obligation Bonds (Proposition 12)*

In 2007 Texas voters approved a constitutional amendment to allow the legislature to authorize the Texas Transportation Commission to issue up to \$5 billion in general obligation bonds to pay for highway improvement projects. The bonds are payable from the general revenues of the state. Current credit ratings are AAA by Fitch, Aaa by Moody's, and AAA by S&P.

### *Short-Term Borrowing Capability*

Transportation Code Section 201.115 authorizes the Commission to borrow money to carry out TxDOT's functions. The term of short-term borrowing is limited to two years and may not exceed an amount that is two times the average monthly revenue deposits to the SHF in the



prior 12 months. The Commission has authorized TxDOT to enter into short-term lending agreements to facilitate efficient, uninterrupted cash management operations.

Circumstances, primarily related to the timing of deposits into and expenditures out of the SHF, may lead to fluctuations in the cash balance of the fund. Pursuant to the authorization of short-term borrowing, TxDOT entered into note purchase agreements with Wells Fargo Bank and Citibank to obtain direct loans in the combined aggregate principal amount of up to \$750 million.

The chart on the following page shows TxDOT's total bonding capacity for TMF bonds, SHF bonds (Proposition 14), and Highway Improvement General Obligation bonds (Proposition 12) to be \$19.3 billion. This is the maximum amount of bonds TxDOT may currently issue. To date, TxDOT has issued \$16.2 billion of the \$19.3 billion. Although the full capacity of bond issuance has not been reached at this time, TxDOT has awarded contracts and allocated the full capacity of these bonds to projects. As progress payments on these obligations become due, TxDOT will issue the remaining available amounts. Once TxDOT issues all bonds, the repayments on the bonds will total \$30.8 billion and will be paid over the next 30 years.

# TxDOT Bond Program Summary

As of January 2015

Total Bonding Capacity				
	TMF	Prop 14	Prop 12	Total
Par + Premium	\$7,390,629,619*	\$6,000,000,000	\$5,000,000,000	\$19,300,000,000
Total Repayments	\$14,100,000,000	\$9,000,000,000	\$7,700,000,000	\$30,800,000,000
Projected MADS	\$545,000,000	\$400,000,000	\$330,000,000	
Repayment Fund	Texas Mobility	State Highway	General Revenue	
Bond Capacity Used				
	TMF	Prop 14	Prop 12	Total
Par + Premium	\$7,390,629,619	\$5,299,851,213	\$3,557,991,860	\$16,248,472,692
Total Repayments	\$14,100,000,000	\$8,060,000,000	\$5,423,436,887	\$27,583,436,887
WAC	3.91%	3.54%	3.15%	

\*TMF capacity is determined by the Comptroller's certification of revenues dedicated by the Legislature for the payment of TMF debt service and market interest rates.

Notes:

- Figures reflect net debt service for those bonds issued as Build America Bonds and assume full future subsidy is received.
- TMF and Prop 12 are limited to a maximum maturity of 30 years; Prop 14 is limited to 20 years.
- MADS = maximum annual debt service; assumes BAB subsidy is received in full
- WAC = weighted average cost
- Future debt issuances have assumed interest rates; actual results will vary.

TxDOT continually monitors its financing programs for opportunities to reduce debt service costs through refunding, restructuring, refinancing, or defeasing existing debt. Since 2012 the Commission has achieved debt service savings in excess of \$800 million in present value that would have been paid through 2042 by refunding bonds at a lower interest rate.

TxDOT Refunding Bond Transactions for Savings (2012 - Present)				
	TMF	SHF/Prop 14	CTTS	TOTAL
Gross Savings	\$323,091,285	\$101,762,469	\$1,161,099,768	\$1,585,953,522
Present Value (PV) Savings	\$236,371,826	\$82,894,031	\$493,869,320	\$813,135,177
PV Savings as % of Refunded Par	11.32%	9.58%	18.78%	14.56%
Value of Refunded Bonds	\$2,088,430,000	\$865,055,000	\$2,630,107,244	\$5,583,592,244
Number of Refunding Transactions	2	1	2	5

## **Texas Department of Transportation Funding**

TxDOT's budget request for the FY 2016-2017 biennium illustrates our commitment to maintain our transportation system and build new capacity. Administrative costs are kept low relative to the multi-billion dollar output of TxDOT. Maintaining the quality of the state's existing 195,300 miles on the transportation system is understandably the greatest expense for TxDOT, which accounts for 38% of TxDOT's HB1 funding.

### *Letting Projections*

Starting in 2001 the Texas Legislature provided several valuable tools that have allowed TxDOT to accelerate and finance projects. The Texas Mobility Fund, SHF Revenue Bonds, Highway Improvement General Obligation Bonds, comprehensive development agreements, and pass-through financing helped get projects to construction more quickly than what would have otherwise been possible.

After 2015, when bond funds and toll-project subaccount funding will be substantially lower, lettings are projected to drop to levels not seen since before the innovative financing tools took effect ten plus years ago. The state is rapidly approaching the end of what was a temporary spike in our contracting levels. The state's transportation program is settling back upon its reliance on fuel tax revenues and vehicle registration fees. Proposition 1 funds from oil and gas severance taxes will provide TxDOT with a substantial funding boost in the near term, but unfortunately, due to their volatility, bring with them questions as to their reliability and sustainability as a long-term funding solution. More information about the future reliability of funding and the need for increased transportation funding will be discussed in the next section.

### **Future Reliability of Funding**

Throughout this testimony we have discussed the decreased purchasing power of our funds, the uncertainty of future funding for new roads and the increased strain on our existing transportation infrastructure. This section explains the methodology behind TxDOT's need for permanent funding solutions in its goal of maintaining the road system at 2010 standards.

### *Stewardship of Taxpayer Dollars*

The Texas Transportation Commission and TxDOT have anticipated the current funding challenges discussed throughout this testimony for many years. In response, TxDOT has made every effort to reduce operating costs before reducing any transportation programs. As TxDOT's work program has been expected to ramp down in coming years, so have our staffing levels. In 2011 the full-time equivalent (FTE) employee cap was 14,067. TxDOT requested a lower level for the FY 2012 - 2013 biennium, and the FY 2014 - 2015 version

of the General Appropriations Act maintains that cap of 12,087 total FTEs. Our FY 2016-2017 appropriations request further reduces the cap by 187 FTEs for a total 11,900 FTEs.

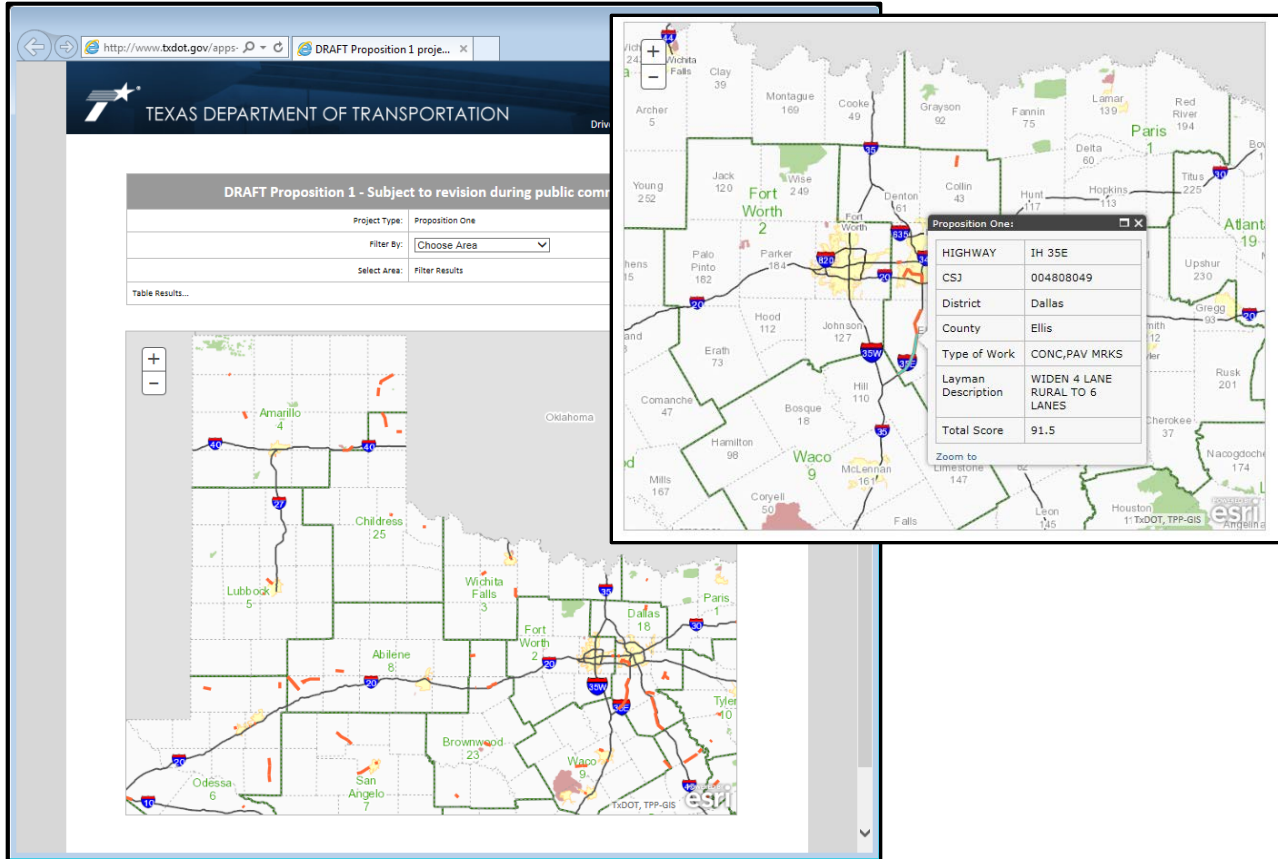
Additionally, the department has instituted a more rigorous process to capture cost savings. TxDOT recognizes that savings opportunities are identified not only at the top, but also by front-line employees, by researching best practices from similar entities, and by consistently revisiting and understanding our customer requirements. With this perspective in mind, TxDOT employees at all levels can unearth opportunities for cost savings.

### *Unified Transportation Program*

Given the size and scale of the Texas transportation system, along with the recent and projected population influx to the State, currently available revenues are inadequate to meet transportation needs and growing demand. In a fiscally constrained environment with needs that outweigh available resources, funding decisions and project selections must result in performance-based outcomes. Through this process, projects selected and programmed through TxDOT's plans and programs such as the Unified Transportation Program (UTP) and the Statewide Transportation Improvement Program (STIP), are being objectively evaluated and provided for public information prior to project funding decisions being made final.

As part of the UTP, TxDOT is developing systems to more effectively manage and maintain project information for use in project evaluation. Furthermore, the department is working to ensure project information is available and accessible to planning partners, like our metropolitan planning organizations, and to the general public. This involves the development of web-based applications, as was recently provided for the consideration and approval of projects related to Proposition 1, that outline funding information, project details and scoring projects considered for Proposition 1 prior to Commission action to approve those projects. This tool is illustrated on the figure below and available on TxDOT's web page by searching for 'Proposition 1.'

## Proposition 1 Project Information Web Page



### *The \$5 Billion Funding Gap*

The past chair of the Texas Transportation Commission, Deirdre Delisi, appointed the 2030 Committee, comprised of business leaders, local elected officials, and transportation experts, to assess the state's transportation system. The committee's 2011 report, *It's About Time: Investing in Transportation to Keep Texas Economically Competitive*, assessed the state's transportation needs through the year 2035. According to the committee, in order to maintain roads and keep capacity at 2010 levels with a "B" rating, the state must invest a total of \$270 billion in its highway system over the next 25 years.

This estimate addresses funding needed for materials, workforce, right of way, and other direct expenses related to building and maintaining roads and bridges. It does not include all of the administrative costs associated with overseeing contracts, payment processing, human resources, and other functions. It also does not account for debt service or funding needs for other transportation modes, such as rail, aviation, and waterborne transportation. It does, however, account for the majority of TxDOT's overall budget.

One of the reasons the committee calls for funding transportation needs at a B-rating level is to ensure that rural roads are adequately supported. The figure below shows that funding at an F-rating level would provide zero funding for rural roads. While this is the highest estimate given by the 2030 Committee, this amount preserves the current transportation system and reduces future costs of replacing our past investments.

Over the 25 year period of the report, the \$270 billion total reflects a need for \$10.8 billion in highway investment each year. TxDOT's FY 2014-15 appropriations for construction and maintenance costs—excluding bond funding and toll project subaccounts—amount to approximately \$6.2 billion per year. Finally, TxDOT and other energy sector stakeholders have identified an additional annual need for \$1 billion for highway maintenance in areas affected by energy development activities. This need brings the current transportation infrastructure funding gap to just over \$5 billion a year.

### 2030 Committee Assessment of Transportation Needs<sup>3</sup>

Period	System Element	Scenarios			
		F Unacceptable Conditions	D Worst Acceptable Conditions	C Minimum Competitive Conditions	B Continue 2010 Conditions
2011 to 2015	Pavement	\$5.8	\$10.6	\$10.8	\$14.5
	Bridge	\$2.3	\$2.7	\$2.7	\$2.9
	Mobility	\$18.1	\$16.5	\$32.4	\$30.6
	Rural	\$0.0	\$0.8	\$1.5	\$1.6
	<b>Total</b>	<b>\$26.2</b>	<b>\$30.6</b>	<b>\$47.4</b>	<b>\$49.6</b>
2016 to 2019	Pavement	\$5.1	\$10.1	\$10.3	\$13.6
	Bridge	\$1.8	\$2.2	\$2.2	\$2.4
	Mobility	\$13.7	\$15.3	\$17.3	\$27.5
	Rural	\$0.0	\$0.7	\$1.2	\$1.3
	<b>Total</b>	<b>\$20.6</b>	<b>\$28.3</b>	<b>\$31.0</b>	<b>\$44.8</b>
2020 to 2035	Pavement	\$9.9	\$39.5	\$40.3	\$46.8
	Bridge	\$7.3	\$8.6	\$8.6	\$9.4
	Mobility	\$36.0	\$64.2	\$85.5	\$114.5
	Rural	\$0.0	\$2.7	\$4.7	\$5.1
	<b>Total</b>	<b>\$53.2</b>	<b>\$115.0</b>	<b>\$139.1</b>	<b>\$175.8</b>
<b>2011 to 2035</b>	<b>Grand Total</b>	<b>\$100</b>	<b>\$174</b>	<b>\$217</b>	<b>\$270</b>

If transportation investments continue to be made using historical funding allocations, the condition and performance of the state's integrated transportation system would decline over the long-term. The \$1.7 billion for FY 2015 and approximately \$2.6 billion for the FY 2016-2017 biennium in Proposition 1 funds will address strategic capacity enhancements and the immediate backlog in highway asset infrastructure.

<sup>3</sup> It's About Time: Investing in Transportation to Keep Texas Economically Competitive. 2030 Committee. 2011.

If \$5 billion in transportation funds becomes available for integrated transportation and those funds are invested under an allocation strategy similar to that which is used today, the condition of the system's assets (pavements, bridges, and transit) would remain as "good." Subsequently, congestion and mobility in urban areas would be slightly worse than today's levels, and congestion and mobility in rural areas would be comparable to today's levels.

To support greater public understanding of the gap between needs and available funding, TxDOT developed a bilingual, interactive planning scenario tool, called MetroQuest. It enables users to visualize the systemic impacts and trade-offs in performance that result from shifting financial resources from one transportation investment priority to another (e.g., from system preservation to roadway expansion). The user could also evaluate what a given level of investment "buys" in terms of various performance levels and then build their own transportation budget to reflect personal preferences for resource allocation and system performance. MetroQuest is available online at the following URLs:

English: <http://p1.txdot.metroquest.com/>

Spanish: <http://spanish.p1.txdot.metroquest.com/>

The chart below represents the previously unfunded portion of the \$5 billion funding gap. TxDOT's cumulative funding gap represents the difference between this estimated need and the actual and projected funding over time.

## **Exceptional Item Requests**

The following requests are in line with the department's mission of providing a safe and reliable transportation system and do not appear in the introduced version of HB 1.

### *Safety/Maintenance/Energy – Energy Sector Safety*

The Department is requesting \$1 billion in additional funding to support communities and improve the safety of roadways impacted by increased energy-sector activity. The commission requests \$1 billion per year in FYs 2016 and 2017 to repair and reinforce existing infrastructure in these communities. The maintenance and repair of these roads are essential for two reasons: the safety of citizens that live in the oil boom affected areas and the reliability of drive times for businesses to provide optimal, efficient, and predictable service. Predictable transportation timing is the greatest service we can provide to accommodate energy-related business activity. Predictable drive times allow Texas communities to remain economically competitive in the energy market. This \$1 billion of need was identified subsequent to the work of the "2030 Committee" as they completed their work prior to the tremendous growth of activity in the energy sector.

### *Unfunded Maintenance Projects*

To address the annual funding gap recognized by the Transportation Commission-appointed "2030 Committee," TxDOT requests additional funding of \$1 billion per year of the biennium



over the baseline for maintenance projects. Delaying road maintenance projects results in faster and more expensive deterioration of existing roads. Poorly maintained roads create increased personal vehicle maintenance costs, as well as freight delivery costs, which in turn are passed on to the consumer. This exceptional item ensures that the state's already substantial highway infrastructure investment remains preserved.

#### *Unfunded Mobility and Preservation Projects*

The remainder of the gap between the recommended expenditure level of the 2030 Committee and current expenditures is \$3 billion per year for mobility. TxDOT requests additional funding of \$3 billion per year of the biennium over the baseline for mobility projects. Mobility projects increase capacity and decrease congestion in urban areas. Increased capacity reduces the time Texans spend in their cars each day, which can cut down on fuel costs required to drive in stop-and-go conditions.

#### *Emerging Transportation Technologies Research*

The Department is requesting \$10 million per year of the biennium in general revenue in order to position the state of Texas to achieve the full benefits of emerging technologies to be integrated into the operation and delivery of the transportation network for the economic development of the state and quality of life of its citizens. The purpose of the research will be innovative vehicle technology development, aka connected, autonomous, automated, smart, self-driving, and driverless vehicles. This includes wireless communications from vehicle-to-vehicle (V2V) and vehicle-to-infrastructure (V2I) on roadways. This work is evolutionary, building on previous national research outcomes during the past 10 or more years and impacts potentially all modes of transportation and the distribution of goods and services.

#### *Veteran Toll Discount Program*

TxDOT is requesting \$2.4 million in 2016 and \$2.6 million in 2017 from general revenue funds to pay for the cost of providing exemptions to veterans who choose to utilize the department's toll roads. In central Texas, disabled veterans and recipients of the Purple Heart or membership in the Legion of Valor who display a specialty license plate will be able to utilize Loop 1 managed lanes, SH 45 North, SH 45 Southeast and the portion of SH 130 (Segments 1-4) operated by TxDOT, free of charge. Qualified veterans will also not be tolled on the Camino Colombia toll road near Laredo, also known as SH 255.

#### *Rail*

TxDOT is requesting funding to rehabilitate state-owned facilities as well as private line support. This funding will provide critical improvements to Class I rail lines. TxDOT requests \$160.6 million in FY 2016 and \$347.4 million in FY 2017 to upgrade deficient infrastructure which will enable continued operation, improved safety, increased capacity, and economic development.



### *Gulf Intracoastal Waterway (Dredging Texas Waterways and Channels)*

Texas waterways and channels function as marine highways, the backbone of waterborne transportation that efficiently and effectively move cargo via barge on shallow draft waterways and via ships on deep draft channels. Waterborne transportation benefits the entire transportation system by lowering the amount of rail cars and trucks on roadways thus reducing congestion, air emission, fuel consumption, as well as providing safer roadways to the traveling public. Well-maintained Texas channels also ensure commerce continues to move in and out of the state, creating jobs and contributing to the economy, including the state and local tax base. A key aspect of maintaining waterways and channels is dredging in order to maintain an adequate depth for post-panamax ships and barges that play a key role in energy sector exploration and production.

TxDOT is requesting \$30 million per year of the biennium in general revenue funds for use in conjunction with federal and local partner funding for dredging and widening navigational channel projects identified in the Water Resources Reform and Development Act, the annual Energy and Water Appropriations Act, or other legislation under US Army Corps of Engineers authorized projects.

### *Texas Ports*

Texas ports serve as gateways to the state economy and play a vital role in creating jobs for Texans. Texas is the nation's leading export state and a leader in waterborne trade. In order to maintain this position and remain competitive in the future, funding for capital improvements and infrastructure is needed. Texas is in a unique position facing four major influences that will drastically impact the state and in particular, the maritime industry: the state's continued population boom, the dramatic growth of oil and gas production, the expansion of the Panama Canal, and Mexico's expanding economy. These dynamic factors benefit the Texas economy, but they also increase demand on our ports.

TxDOT is requesting \$15 million per year of the biennium in general revenue funds to make needed capital improvements, such as infrastructure and multiple mode connectivity enrichments. Many Texas ports have exhausted their funding tools and are beginning to fall behind competitor ports. Funding for port capital improvement projects would be made in compliance with Transportation Code, Chapter 55 – Funding of Port Security, Projects, and Studies.

Several counties, however, have expressed concern stating that advanced county road signs provide guidance for local residents and 911 responders. In an effort to assist the counties' requests to place advanced county road signs on Texas highways, TxDOT is requesting \$10 million in general revenue for costs of reinstating the practice of fabrication, installation and maintenance of the advanced county road signs.

### *Truck Discount Toll Program on SH 130 (Segments 1-4)/SH 45 SE*

In order to continue the toll discount pilot program for large trucks on TxDOT operated segments of SH 130/SH 45 Southeast, TxDOT seeks \$20 million in general revenue for each year of the biennium. This program has successfully attracted large trucks away from IH-35 to SH 130/SH 45 SE, which assists in reducing congestion along one of the largest economic corridor segments in the state. This program would not include funding for the portion of SH 130 that is operated by a private firm through a Comprehensive Development Agreement.

### *Federal Funding*

The Department has included this item to highlight the uncertainty of federal actions regarding MAP-21. We anticipate needing additional appropriation in federal funds of \$202 million in FY 2016 and \$404 million in FY 2017 should Congress decide to continue funding the federal program at its current level by continuing to transfer general funds to the HTF or by some other mechanism. While the continuation of MAP-21 funding levels would equate to an additional \$606 million of annual federal obligation per year, the expenditure and reimbursement of those funds would occur over several years as the projects pay out. The requested funding represents the payouts associated with \$54.5 million for right-of-way, \$36.4 million of consultant engineering and \$515.1 million of project letting.

### *Rural and Small Urban Public Transit*

TxDOT administers a variety of federal and state transit grant programs, which focus on the mobility needs of Texans in rural and small urban areas of the state. As inflation, population growth and increased costs of basic business operations have grown over the past decade; state funding has fallen short of increased system demands. Rural and small urban transit systems have deferred vehicle replacement and maintenance to sustain their current service levels. TxDOT is requesting \$18 million in each year of the biennium in general revenue funds to be distributed via formula funding for general system operations and capital improvements, restoring per capita program funding levels to year 2000 amounts.

## **Rider Requests**

Article IX, Section 14 authorizes state agencies to transfer up to 20% of an appropriation item to another item of appropriation. However, TxDOT is no longer authorized to transfer appropriations among its core strategies without prior approval from the Legislative Budget Board (LBB) and the Office of the Governor. This has proven time-consuming and disruptive to TxDOT's customers, contractors, and vendors. Without question, the LBB should have authority for transfers that reflect major policy shifts, but requiring its approval for numerous routine transfers per year results in unnecessary delays and hampers the department's ability to efficiently fulfill its responsibilities.

The department develops its Legislative Appropriations Request far in advance of the beginning of each new biennium. In fact, it is three years between the date on which it is submitted until the end of the next biennium. Therefore, it is reasonable to expect that the department will need to transfer funds among strategies to accommodate project schedules. A wide variety of factors—from the weather, to cash flow, to shifting local priorities—can impact project timelines, which in turn affect expenditures and the timing of appropriations.

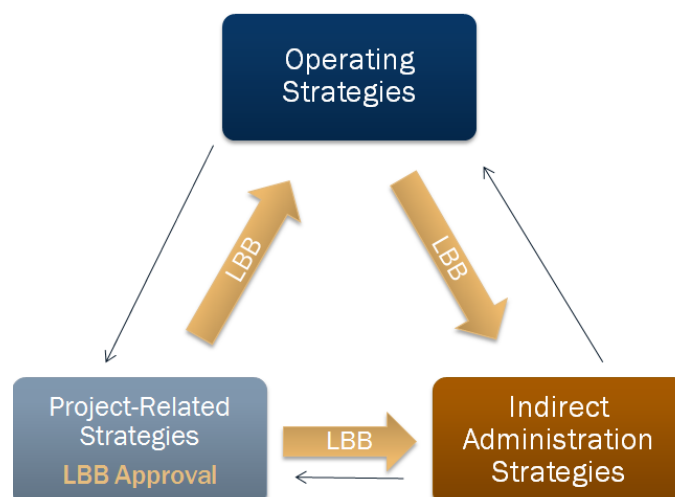
In light of the amount of time and complexity involved in developing and contracting for large scale capital improvements, TxDOT would benefit from having more flexible transfer authority.

TxDOT would greatly benefit from increased budget flexibility in the General Appropriations Act (GAA). The introduced HB 1 for FY 2016-17 limits TxDOT's budget flexibility in two ways: 1.) Rider 3 limits the Department's ability to transfer funds among certain project development and delivery contracting strategies in TxDOT's bill pattern without Legislative Budget Board (LBB) approval and 2.) Rider 18 limits the authority of the estimated feature as it applies to State Highway Funds.

TxDOT seeks to remove some—but not all—of the existing restrictions that limit budget flexibility. TxDOT's 2016-2017 Legislative Appropriations Request includes the proposed rider changes listed below.

#### *Rider 3 – Transfer Authority*

TxDOT's request to modify Rider 3 includes striking the prior written LBB approval required for transferring any of its funds among the major project development and delivery contracting strategies. The figure below illustrates the current authority of Rider 3. LBB approval is required to transfer any funds out of project-related strategies, which primarily include contractor payments. TxDOT only seeks to remove the restriction of transferring funds *among* the project-related strategies (funds inside the lower left grey box).



By granting greater flexibility in this rider, the Legislature will ensure road construction projects throughout the state are promptly paid as the priorities of local partners and demands shift.

#### *Rider 18 – Additional Funds*

TxDOT's request to modify Rider 18 includes striking LBB and Governor approval prior to using SHF revenues that may exceed the estimated appropriation levels. Improving funding flexibility will create efficiencies in project letting by allowing quick access to additional funds to be used for their constitutionally dedicated purpose. HB 1 adds Prop 1 funds to Rider 18, which will require TxDOT to request Prop 1 funds again if those funds exceed the Comptroller's Biennial Revenue Estimate. The department has worked diligently to be transparent and communicative about how Prop 1 funds will be spent. The department respectfully requests the freedom to spend excess revenue that comes in above the original budget estimates without LBB and Governor's approval.

#### *New Rider granting UB authority for Road Repairs in Energy Sectors (HB 1025)*

This rider was included in our LAR as a reminder that the funds appropriated by HB 1025 are only available for two years from the date of enactment and will expire in June of 2015. It is anticipated that all of the work will not have been performed by TxDOT and the counties by that time. Any remaining funds will need to be re-appropriated in order for TxDOT to be able to make progress payments and reimburse counties if work is performed after the current expiration. This re-appropriation should also occur in a supplemental appropriation bill for FY 2015 to ensure no disruption in payments to contractors or the reimbursement to counties. The Department also requests the addition of a new rider in the GAA to allow unexpended balances from certain energy sector projects to carry over seamlessly to the upcoming biennium.

## **Conclusion**

As indicated throughout this testimony, the transportation funding outlook remains uncertain. While traditional sources of funding remain stagnant, a number of funding initiatives have been approved by both the Texas Legislature, Texas voters, and the U.S. Congress. However, transportation funding that is provided in "fits and starts" does not substitute for a stable, long-term financing source. Transportation projects, particularly mobility projects, can sometimes take many years to develop from the time they are conceived to when they are put up for bid to contractors.

The members of the Texas Transportation Commission and TxDOT staff look forward to working with legislators on finding short and long-term solutions to meet the transportation needs of our state.

# **Appendix A**

**FY 2015 Proposition 1 Funding Distribution**  
**\$1,740,000,000**

Allocation %	40%	30%	15%	15%	
TxDOT District	Category 2	Regional Corridors	Category 1	Energy Needs	Total
Abilene		11,561,000	7,840,000	12,890,000	32,291,000
Amarillo		14,958,000	13,560,000	10,570,000	39,088,000
Atlanta		13,465,000	8,010,000	6,860,000	28,335,000
Austin		35,231,000	15,920,000	4,830,000	55,981,000
Beaumont		15,899,000	6,140,000	6,170,000	28,209,000
Brownwood		6,978,000	3,280,000	4,510,000	14,768,000
Bryan		15,621,000	9,240,000	8,870,000	33,731,000
Childress		6,209,000	3,980,000	6,210,000	16,399,000
Corpus Christi		16,352,000	16,170,000	15,710,000	48,232,000
Dallas		59,224,500	23,700,000	9,450,000	92,374,500
El Paso		13,458,000	4,240,000	4,020,000	21,718,000
Fort Worth		38,653,000	13,780,000	10,910,000	63,343,000
Houston		72,254,500	22,480,000	5,970,000	100,704,500
Laredo		10,378,000	10,250,000	21,290,000	41,918,000
Lubbock		15,250,000	10,180,000	15,300,000	40,730,000
Lufkin		11,262,000	6,680,000	5,230,000	23,172,000
Odessa		15,097,000	5,940,000	39,390,000	60,427,000
Paris		13,052,000	9,310,000	5,130,000	27,492,000
Pharr		18,712,000	8,920,000	5,910,000	33,542,000
San Angelo		9,599,000	4,510,000	13,970,000	28,079,000
San Antonio		44,460,000	21,500,000	12,910,000	78,870,000
Tyler		18,082,000	7,260,000	7,620,000	32,962,000
Waco		19,575,000	11,720,000	4,350,000	35,645,000
Wichita Falls		10,008,000	5,260,000	7,950,000	23,218,000
Yoakum		16,661,000	11,130,000	14,980,000	42,771,000
<b>Subtotal TxDOT District</b>		<b>522,000,000</b>	<b>261,000,000</b>	<b>261,000,000</b>	<b>1,044,000,000</b>
<b>TMA / MPO</b>	<b>Category 2</b>	<b>Regional Corridors</b>	<b>Category 1</b>	<b>Energy Needs</b>	<b>Total</b>
Abilene	3,984,000				3,984,000
Amarillo	6,337,000				6,337,000
Beaumont (JOHRTS)	15,686,000				15,686,000
Brownsville	5,630,000				5,630,000
Bryan-College Station	6,822,000				6,822,000
CAMPO - (Austin)	63,777,000				63,777,000
Corpus Christi	9,374,000				9,374,000
El Paso	21,392,000				21,392,000
Harlingen-San Benito	5,039,000				5,039,000
HGAC (Houston-Galveston)	178,040,000				178,040,000
Hidalgo	20,106,000				20,106,000
Killeen-Temple	14,132,000				14,132,000
Laredo	6,110,000				6,110,000
Longview	4,387,000				4,387,000
Lubbock	6,628,000				6,628,000
Midland-Odessa	10,689,000				10,689,000
NCTCOG (Dallas-Ft Worth)	211,910,000				211,910,000
San Angelo	2,471,000				2,471,000
San Antonio	68,420,000				68,420,000
Sherman-Denison	4,451,000				4,451,000
Texarkana	2,596,000				2,596,000
Tyler	8,854,000				8,854,000
Victoria	3,910,000				3,910,000
Waco	12,135,000				12,135,000
Wichita Falls	3,120,000				3,120,000
<b>Subtotal TMA / MPO</b>	<b>696,000,000</b>				<b>696,000,000</b>

# **Appendix B**

Construction Contracts Let Between September 2009 and December 2014									
Fiscal Year	CY	Month	Letting Amount	Letting Total	Contracts let above \$10M	Contracts Let Below \$10M	New Construction	Preservation	Mobility
2010	2009	SEPTEMBER	112	\$228,071,217	2	110	\$94,601,537	\$122,109,994	\$105,961,223
2010	2009	OCTOBER	73	\$213,850,772	4	69	\$51,235,006	\$112,310,187	\$65,428,445
2010	2009	NOVEMBER	57	\$245,144,804	4	53	\$129,441,025	\$108,748,588	\$129,784,685
2010	2009	DECEMBER	72	\$205,718,018	5	67	\$77,104,059	\$116,312,444	\$88,298,781
2010	2010	JANUARY	56	\$197,210,408	5	51	\$84,784,163	\$111,581,072	\$85,629,336
2010	2010	FEBRUARY	73	\$341,667,511	8	65	\$177,655,254	\$207,458,879	\$134,208,632
2010	2010	MARCH	78	\$266,642,784	6	72	\$174,684,518	\$89,414,669	\$175,685,981
2010	2010	APRIL	61	\$267,699,892	3	58	\$184,630,452	\$169,020,250	\$98,679,642
2010	2010	MAY	62	\$180,540,072	5	57	\$70,120,350	\$98,965,794	\$74,860,784
2010	2010	JUNE	67	\$134,379,135	3	64	\$50,736,907	\$76,165,377	\$56,317,328
2010	2010	JULY	136	\$507,319,699	8	128	\$270,669,826	\$365,130,065	\$137,585,066
2010	2010	AUGUST	226	\$547,504,571	8	218	\$100,358,904	\$374,042,686	\$119,629,223
2011	2010	SEPTEMBER	44	\$156,305,874	2	42	\$42,381,834	\$106,383,434	\$49,815,494
2011	2010	OCTOBER	61	\$175,724,538	2	59	\$21,736,228	\$160,404,670	\$15,242,336
2011	2010	NOVEMBER	58	\$138,923,541	3	55	\$28,876,621	\$109,220,702	\$29,632,767
2011	2010	DECEMBER	75	\$181,091,239	3	72	\$64,463,756	\$93,493,096	\$64,878,062
2011	2011	JANUARY	59	\$191,646,502	4	55	\$39,167,328	\$98,198,307	\$93,385,375
2011	2011	FEBRUARY	45	\$173,455,432	1	44	\$111,660,699	\$125,014,363	\$48,084,706
2011	2011	MARCH	48	\$207,513,656	4	44	\$133,836,399	\$53,530,306	\$153,983,350
2011	2011	APRIL	55	\$278,823,967	7	48	\$228,094,571	\$83,895,662	\$194,928,304
2011	2011	MAY	63	\$465,297,334	5	58	\$379,826,767	\$183,496,161	\$281,801,173
2011	2011	JUNE	97	\$335,402,258	6	91	\$176,942,363	\$257,987,799	\$76,986,304
2011	2011	JULY	120	\$780,249,822	13	107	\$462,838,531	\$332,922,847	\$429,945,836
2011	2011	AUGUST	147	\$408,641,148	10	137	\$141,890,598	\$280,032,578	\$128,405,502
2012	2011	SEPTEMBER	59	\$477,008,724	4	55	\$221,343,602	\$282,330,902	\$137,875,307
2012	2011	OCTOBER	34	\$243,170,996	4	30	\$132,120,421	\$189,308,546	\$53,862,449
2012	2011	NOVEMBER	38	\$174,108,173	4	34	.	\$102,431,803	\$7,104,690
2012	2011	DECEMBER	51	\$237,301,716	4	47	\$123,013,561	\$131,454,774	\$105,846,942
2012	2012	JANUARY	51	\$187,171,230	5	46	\$43,223,099	\$130,820,182	\$41,224,208
2012	2012	FEBRUARY	60	\$155,629,095	1	59	.	\$154,444,178	\$406,329
2012	2012	MARCH	52	\$111,395,141	.	52	.	\$108,972,127	\$848,936
2012	2012	APRIL	62	\$117,821,674	2	60	\$28,626,489	\$78,306,919	\$36,931,213
2012	2012	MAY	97	\$198,529,833	2	95	\$71,229,698	\$145,513,661	\$51,143,908
2012	2012	JUNE	49	\$291,625,155	10	39	\$132,142,545	\$195,740,325	\$94,856,517
2012	2012	JULY	56	\$430,928,049	12	44	\$161,967,009	\$217,303,981	\$131,003,987
2012	2012	AUGUST	90	\$500,317,263	14	76	\$236,301,403	\$287,834,629	\$203,486,359
2013	2012	SEPTEMBER	89	\$771,415,730	8	81	\$568,003,754	\$392,169,647	\$356,631,023
2013	2012	OCTOBER	57	\$436,297,681	7	50	\$216,298,860	\$236,242,404	\$198,117,601
2013	2012	NOVEMBER	47	\$308,214,529	6	41	\$139,483,109	\$159,659,767	\$124,810,383
2013	2012	DECEMBER	66	\$245,095,574	3	63	\$116,598,902	\$123,629,052	\$111,315,847
2013	2013	JANUARY	50	\$117,681,454	1	49	.	\$115,357,078	\$2,324,376
2013	2013	FEBRUARY	59	\$241,163,062	5	54	\$114,080,267	\$153,313,259	\$87,849,803
2013	2013	MARCH	62	\$223,573,836	3	59	\$130,416,850	\$109,133,669	\$112,116,884
2013	2013	APRIL	65	\$464,313,986	5	60	\$313,263,430	\$153,594,615	\$307,845,965
2013	2013	MAY	73	\$350,920,574	6	67	\$212,952,362	\$167,046,294	\$183,874,279
2013	2013	JUNE	56	\$265,766,046	9	47	\$90,826,992	\$145,479,710	\$117,520,389
2013	2013	JULY	92	\$542,020,468	13	79	\$195,702,045	\$282,596,040	\$233,339,044
2013	2013	AUGUST	99	\$412,792,035	14	85	\$166,412,197	\$223,194,665	\$176,227,084



2014	2013	SEPTEMBER	62	\$323,231,455	7	55	\$69,283,916	\$255,543,668	\$65,702,862
2014	2013	OCTOBER	52	\$290,095,073	9	43	\$106,706,701	\$207,337,011	\$70,328,049
2014	2013	NOVEMBER	41	\$477,604,589	10	31	\$311,615,240	\$187,461,591	\$289,794,739
2014	2013	DECEMBER	40	\$277,451,110	7	33	\$174,367,780	\$102,398,028	\$175,053,083
2014	2014	JANUARY	46	\$226,138,568	2	44	\$153,429,173	\$68,572,772	\$157,565,797
2014	2014	FEBRUARY	57	\$265,505,456	7	50	\$61,443,683	\$224,334,550	\$41,170,905
2014	2014	MARCH	62	\$173,177,030	4	58	\$69,675,325	\$117,796,759	\$54,245,861
2014	2014	APRIL	75	\$209,950,410	3	72	\$33,965,946	\$176,389,656	\$33,238,477
2014	2014	MAY	55	\$298,875,125	7	48	\$91,210,854	\$232,425,477	\$66,449,649
2014	2014	JUNE	108	\$286,862,098	4	104	\$28,197,772	\$239,999,903	\$46,347,195
2014	2014	JULY	87	\$496,678,737	14	73	\$136,774,732	\$288,076,956	\$195,402,883
2014	2014	AUGUST	82	\$564,733,107	10	72	\$170,115,095	\$207,516,056	\$356,469,865
2015	2014	SEPTEMBER	73	\$434,681,621	11	62	\$194,762,826	\$277,429,890	\$157,251,731
2015	2014	OCTOBER	43	\$277,025,397	3	40	\$167,755,492	\$108,414,923	\$168,245,124
2015	2014	NOVEMBER	42	\$200,451,156	3	39	\$62,718,460	\$132,940,179	\$67,510,978
2015	2014	DECEMBER	56	\$266,773,071	7	49	\$87,443,630	\$152,322,501	\$81,351,550
Total			4,440	\$19,402,320,217	371	4,069	\$8,631,210,916	\$11,100,678,080	\$7,741,850,607

Section 1

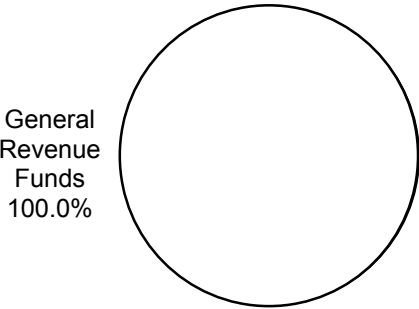
Department of Motor Vehicles  
Summary of Recommendations - House

Page: VII-13  
Whitney Brewster, Executive Director

Thomas Galvan, LBB Analyst

Method of Financing	2014-15 Base	2016-17 Recommended	Biennial Change	% Change
General Revenue Funds	\$218,258,845	\$300,666,347	\$82,407,502	37.8%
GR Dedicated Funds	\$0	\$0	\$0	0.0%
Total GR-Related Funds	\$218,258,845	\$300,666,347	\$82,407,502	37.8%
Federal Funds	\$1,351,184	\$0	(\$1,351,184)	(100.0%)
Other	\$112,573,433	\$0	(\$112,573,433)	(100.0%)
All Funds	\$332,183,462	\$300,666,347	(\$31,517,115)	(9.5%)

RECOMMENDED FUNDING  
BY METHOD OF FINANCING

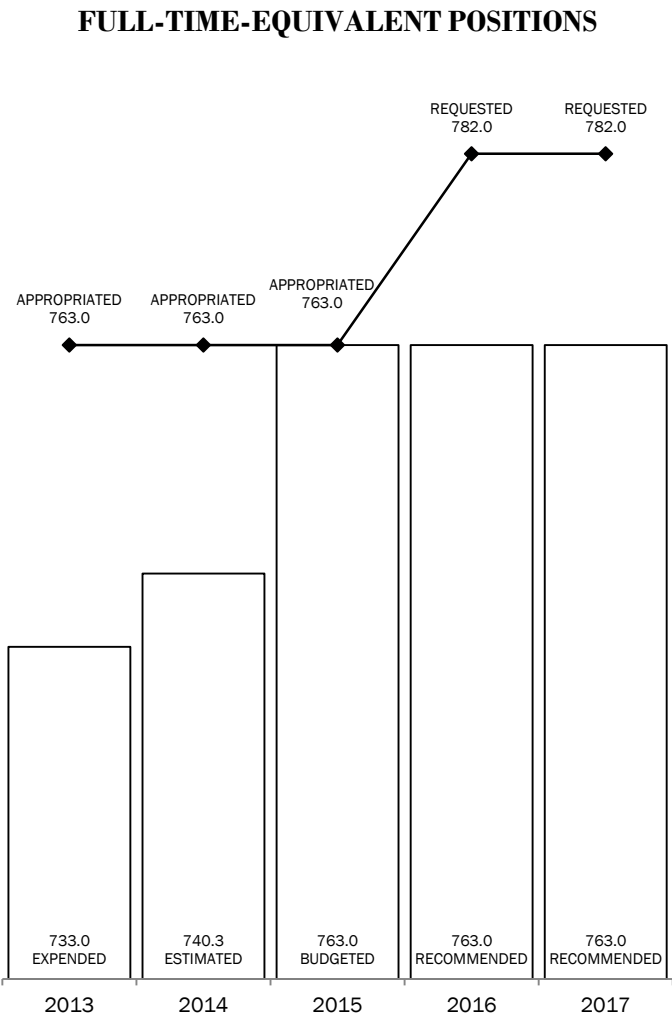
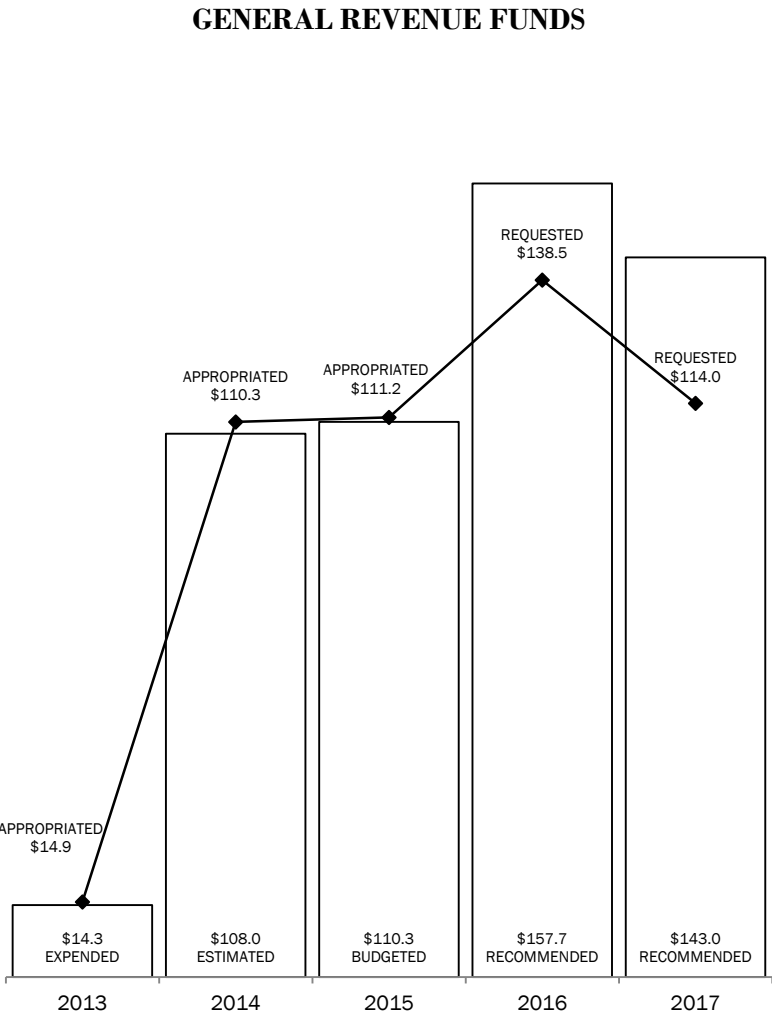
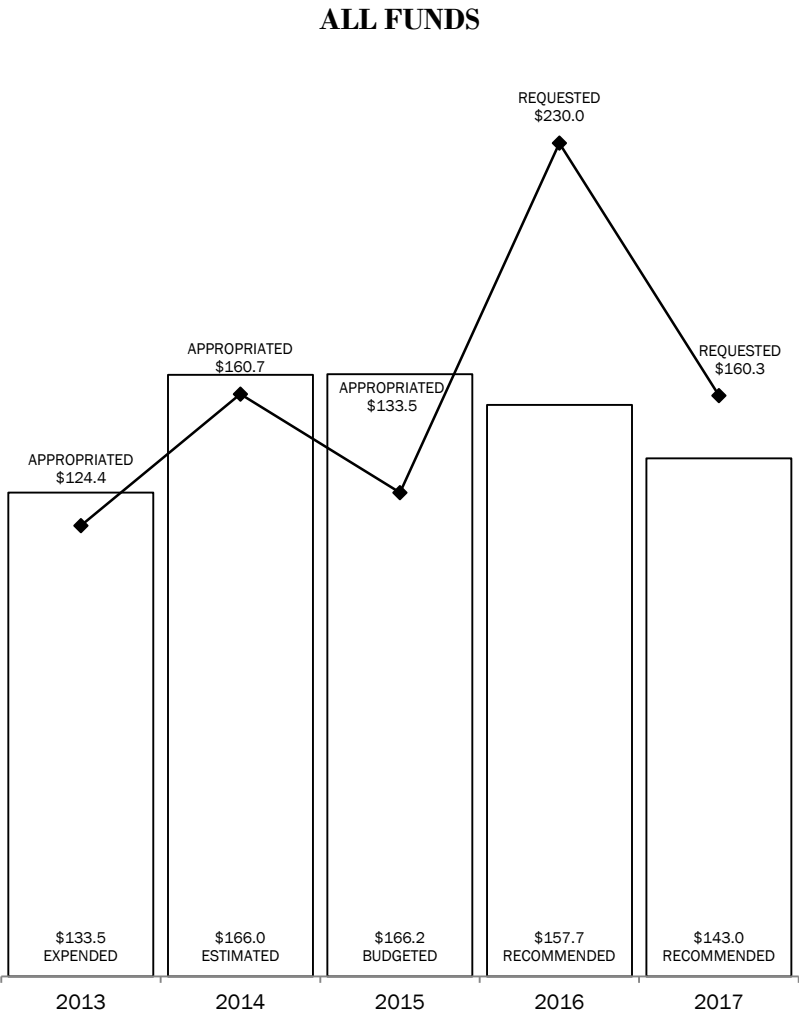


	FY 2015 Budgeted	FY 2017 Recommended	Biennial Change	% Change
FTEs	763.0	763.0	0.0	0.0%

The bill pattern for this agency (2016-17 Recommended) represents an estimated 100% of the agency's estimated total available funds for the 2016-17 biennium.

Section 1  
Department of Motor Vehicles  
2016-2017 BIENNIUM  
IN MILLIONS

TOTAL= \$300.7 MILLION



Section 2

Department of Motor Vehicles  
Summary of Recommendations - House, By Method of Finance -- ALL FUNDS

Strategy/Goal	2014-15 Base	2016-17 Recommended	Biennial Change	% Change	Comments
TITLES, REGISTRATIONS, AND PLATES A.1.1	\$133,711,606	\$146,197,036	\$12,485,430	9.3%	Recommendations include a net increase in General Revenue due to the following: • An increase of \$5,336,502 and a reallocation of \$2,975,628 to this strategy for increased license plate and registration materials production costs (see Selected Fiscal and Policy Issues #3).  • A reallocation of \$3,716,002 for utilities, rent, and other operating expenses from Strategy C.1.3.
VEHICLE DEALER LICENSING A.1.2	\$7,490,749	\$8,188,166	\$697,417	9.3%	Recommendations include a reallocation of funding to biennialize salaries and operating expenses at fiscal year 2015 levels.
MOTOR CARRIER PERMITS & CREDENTIALS A.1.3	\$20,150,842	\$16,737,784	(\$3,413,058)	(16.9%)	Recommendations include a net decrease in All Funds due to the following: • An All Funds decrease of \$1,700,000 (\$850,000 in General Revenue; \$850,000 in Federal Funds match) for the discretionary Commercial Vehicle Information Systems and Network grant project (see Selected Fiscal and Policy Issues #2e and Items not Included in Recommendations #7).  • A decrease of \$501,184 in Federal Funds for discretionary motor carrier safety grants that will be discontinued in 2016-17.  • A reallocation of \$1,211,874 in General Revenue to other strategies to account for changes in workload.
TECHNOLOGY ENHANCEMENT & AUTOMATION A.1.4	\$62,776,956	\$21,246,187	(\$41,530,769)	(66.2%)	Recommendations include a decrease of \$40,960,542 in All Funds for the TxDMV Automation System capital budget project (see Selected Fiscal and Policy Issues #2a) and a reallocation of \$570,227 to other strategies.
CUSTOMER CONTACT CENTER A.1.5	\$4,248,290	\$4,309,242	\$60,952	1.4%	
<b>Total, Goal A, OPTIMIZE SERVICES AND SYSTEMS</b>	<b>\$228,378,443</b>	<b>\$196,678,415</b>	<b>(\$31,700,028)</b>	<b>(13.9%)</b>	
ENFORCEMENT B.1.1	\$10,557,295	\$10,740,530	\$183,235	1.7%	
AUTOMOBILE THEFT PREVENTION B.2.1	\$29,751,588	\$29,824,012	\$72,424	0.2%	
<b>Total, Goal B, PROTECT THE PUBLIC</b>	<b>\$40,308,883</b>	<b>\$40,564,542</b>	<b>\$255,659</b>	<b>0.6%</b>	

Section 2

Department of Motor Vehicles  
Summary of Recommendations - House, By Method of Finance -- ALL FUNDS

Strategy/Goal	2014-15 Base	2016-17 Recommended	Biennial Change	% Change	Comments
CENTRAL ADMINISTRATION C.1.1	\$14,828,846	\$15,540,474	\$711,628	4.8%	Recommendations include a reallocation of General Revenue to biennialize salaries and operating expenses at fiscal year 2015 levels.
INFORMATION RESOURCES C.1.2	\$40,338,377	\$43,244,244	\$2,905,867	7.2%	Recommendations include a net increase in All Funds due to the following: <ul style="list-style-type: none"><li>• An increase of \$4,914,489 in General Revenue to maintain current obligations for Data Center Services (DCS) and a reallocation of \$1,539,298 from one-time Centralized Accounting and Payroll/Personnel System (CAPPS) costs retained for reimbursements to the Texas Department of Transportation (TxDOT) for DCS costs attributable to agency usage on shared servers owned by TxDOT (see Selected Fiscal and Policy Issues #2b).</li><li>• A decrease of \$3,518,586 in General Revenue from one-time CAPPS implementation costs in the 2014-15 biennium.</li></ul>
OTHER SUPPORT SERVICES C.1.3	\$8,328,913	\$4,638,672	(\$3,690,241)	(44.3%)	Recommendations include a reallocation of \$3,716,002 for utilities, rent, and other operating expenses to Strategy A.1.1, in alignment with the agency's request offset by a net increase of \$25,761 to biennialize salaries at the fiscal year 2015 level.
Total, Goal C, INDIRECT ADMINISTRATION	\$63,496,136	\$63,423,390	(\$72,746)	(0.1%)	
Grand Total, All Strategies	\$332,183,462	\$300,666,347	(\$31,517,115)	(9.5%)	Recommendations include a net decrease in All Funds primarily due to the following adjustments. <ul style="list-style-type: none"><li>• A net increase in General Revenue funding of \$82,407,507 for the following:<ul style="list-style-type: none"><li>• An increase of \$80,467,758 for a Method of Finance swap to replace State Highway Fund appropriations with General Revenue among strategies (See Selected Fiscal and Policy Issues #1).</li><li>• An increase of \$5,336,502 for license plate and registration materials production costs.</li><li>• An increase of \$4,914,489 in General Revenue to maintain DCS current obligations.</li><li>• An increase of \$634,712 to biennialize salaries at 2015 levels.</li><li>• A decrease of \$7,353,955 in General Revenue for the TxDMV Automation System project.</li></ul></li></ul>

Section 2

Department of Motor Vehicles  
Summary of Recommendations - House, By Method of Finance -- ALL FUNDS

Strategy/Gol	2014-15 Base	2016-17 Recommended	Biennial Change	% Change	Comments
					<ul style="list-style-type: none"><li>• A decrease of \$850,000 in state matching funds for a discretionary federal CVISN grant.</li><li>• A decrease of \$742,004 from one-time capital budget projects in 2014-15.</li></ul>
					<ul style="list-style-type: none"><li>• A decrease of \$1,351,184 in Federal Funds from federal grants scheduled to expire in the 2014-15 biennium and discretionary grants not included in the recommendations.</li></ul>
					<ul style="list-style-type: none"><li>• A decrease of \$112,573,433 in State Highway Funds (Other Funds); \$80,467,758 of this amount was replaced with General Revenue and represents the following relative to the 2014-15 base:<ul style="list-style-type: none"><li>• An increase of \$147,642 to biennialize salaries at 2015 levels.</li><li>• A decrease of \$891,705 from one-time biennial unexpended balance appropriations of state matching funds for federal grants.</li><li>• A decrease of \$879,341 for contract payments to the specialty license plate marketing vendor (MyPlates).</li><li>• A decrease of \$33,606,587 for one-time biennial unexpended balances appropriations for the TxDMV Automation System project. \$3,124,316 of this one-time funding is included and reallocated to the following:<ul style="list-style-type: none"><li>• A reallocation of \$2,975,628 for increases in license plate and registration material production costs.</li><li>• A reallocation of \$148,688 to maintain agency operating expenses at 2015 levels.</li></ul></li></ul></li></ul>

## Section 3

### Department of Motor Vehicles Selected Fiscal and Policy Issues - House

#### 1. Method of Financing.

- a. **Method of Finance Swap.** Recommendations include a method of financing (MOF) swap to discontinue funding from the State Highway Fund at the Department of Motor Vehicles (DMV). Recommendations provide \$300,666,347 in General Revenue for the 2016–17 biennium (increase of \$82,407,502), which includes an MOF swap of General Revenue for State Highway Funds totaling \$80,467,758 for the 2016-17 biennium. The MOF swap is contingent upon the enactment of legislation creating a new Texas Department of Motor Vehicles (TxDMV) Fund (Other Funds; see Item #1b, below). If the TxDMV Fund is created, the new fund would replace State Highway Funds at the DMV. If the TxDMV Fund is not created, \$80,467,758 in General Revenue included in the 2016–17 recommendations would be replaced with an equal amount of State Highway Funds. (See Rider Highlights, New #6.)
- b. **Funds Consolidation, Eighty-third Legislature.** The enactment of House Bill 2202, Eighty-third Legislature, Regular Session, 2013 (HB 2202) established the TxDMV Fund as a fund inside the State Treasury outside of the General Revenue Fund and required revenue from certain fees collected by or on behalf of TxDMV that were previously deposited to the State Highway Fund to be deposited to the new TxDMV Fund. However, the new fund and dedication of fee revenue to that fund under the provisions of HB 2202 were not exempt from the funds consolidation provisions of House Bill 6, Eighty-third Legislature, Regular Session, 2013, and the TxDMV Fund was abolished. As a result, fees that would have been dedicated to the TxDMV Fund began flowing into the General Revenue Fund in fiscal year 2014. Pursuant to Sec. 18.22, Contingency for HB 2202, and Sec. 6.17, Consolidated Funds, in Article IX, of the 2014–15 General Appropriations Act, \$191.7 million of the agency's method of financing for 2014–15 changed from State Highway Funds to General Revenue to reflect the change in the disposition of fees and revenue affected by HB 2202 and HB 6.

#### 2. Capital Budget Authority and Appropriations. Recommendations provide \$43,223,457 in capital budget authority for the 2016–17 biennium and include the following items and adjustments identified below (see Rider Highlights #2):

- a. **TxDMV Automation System.** Recommendations include \$16,078,201 in General Revenue funding (All Funds decrease of \$40,960,541 from the 2014–15 biennium) and capital budget authority in the 2016–17 biennium for continuation of current initiatives under the TxDMV Automation System project, including the Registration and Titling System (RTS) Refactoring project (scheduled to continue through fiscal year 2018) and the webDEALER – eTitles project. The recommendations maintain appropriation authority in the 2016–17 biennium for any unexpended balances of appropriations (estimated to be \$0) remaining at the end of the 2014–15 biennium for this project (see Rider Highlights #5).
- b. **Data Center Service Funding.** Recommendations include an increase of \$4,914,489 in General Revenue due to cost increases for current service levels identified by the Department of Information Resources for the Data Center Consolidation project. Recommended capital budget appropriations for the Data Center Consolidation project total \$14,246,260 in General Revenue for the biennium. The recommendations also include \$3,000,000 in non-capital General Revenue funding for the biennium to reimburse the Texas Department of Transportation (TxDOT) for Data Center Services billing attributable to TxDMV activity on shared servers owned by TxDOT (see Items not Included in Recommendations

## Section 3

#2 and #3).

- c. **Technology Replacements and Upgrades – Regional Support for County Tax Assessor-Collector Offices.** Recommendations maintain capital budget authority at the 2014–15 appropriated level of \$11,000,000 for ongoing information resource technology support for registration and titling system equipment located at the county Tax Assessor-Collector offices.
  - d. **Growth and Enhancements – Agency Operations Support.** Recommendations maintain capital budget authority at the 2014–15 appropriated level of \$1,898,996 for continuing agency-wide information resource technology support (see Summary of 10 Percent Biennial Base Reduction Options #6).
  - e. **Commercial Vehicle Information Systems and Network (CVISN).** Recommendations decrease funding and capital budget authority by \$1,700,000 in All Funds (\$850,000 in Federal Funds and \$850,000 in matching General Revenue matching funds) from the 2014–15 level for the acquisition and installation of commercial vehicle safety and identification equipment under a Federal Motor Carrier Safety Administration CVISN grant. CVISN is a discretionary federal grant program and is not guaranteed funding for the agency in the 2016–17 biennium (see Items not Included in Recommendations #7 and Summary of 10 Percent Biennial Base Reduction Options #5).
  - f. **Regional Office Remodeling.** Recommendations decrease General Revenue funding and capital budget authority by \$141,000 from the 2014–15 level for regional office remodeling.
  - g. **Other Capital Budget Authority.** Recommendations continue capital budget provisions authorizing the agency to spend appropriations on additional capital budget items not listed in Rider 2, Capital Budget, (excluding construction of buildings and facilities and acquisition of land and other real property). The Capital Budget rider requires the chair of the TxDMV board to submit a quarterly report to the Governor and the Legislative Budget Board if the agency transfers an amount into or out of a capital budget item in excess of 25 percent of the amount authorized for an item included in the rider or if the agency acquires any capital items that are not listed in the rider.
3. **License Plate and Registration Materials Production Costs.** Recommendations provide an additional \$8,312,130 in General Revenue (increase of \$5,336,502; reallocation of \$2,975,628) for the 2016–17 biennium to fund the agency’s estimated printing and production costs for license plate sets, placards, and registration stickers. The agency has experienced increased production costs due to increased demand for registration materials and increases in the costs of raw materials used in plate production.
4. **Agency Facilities.** TxDMV has occupied buildings and facilities owned by TxDOT since its establishment as a separate agency in fiscal year 2010. During the 2014–15 biennium, the agency was required to acquire new leased space for its Houston Regional Service Center due to TxDOT’s sale of the property on which the service center was located. TxDOT also notified the agency of its intent to sell the TxDOT Bull Creek campus in Austin, which includes a facility currently occupied by the Department of Motor Vehicles. TxDMV reports that TxDOT has committed to a two-year leaseback option as part of the Bull Creek sale contract, which would allow TxDMV to continue use of the facility until March 2017. After the relocation of the Houston service center in the current biennium (October 2014), the agency’s Austin headquarters and 11 regional service centers remain located on TxDOT property. (See Items not Included in Recommendations #1 and #8).



Section 4

Department of Motor Vehicles  
Performance Review and Policy Report Highlights - House

Reports & Recommendations	Savings/ (Cost)	Gain/ (Loss)	Fund Type	Included in Introduced Bill	Action Required During Session
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NO RELATED RECOMMENDATIONS

Section 5

Department of Motor Vehicles  
Rider Highlights - House

- 2. **Capital Budget.** Recommendations amend this rider and reflect changes to capital budget authority for the following items: (1) a decrease of \$141,000 in General Revenue for regional office remodeling projects; (2) provide capital budget authority of \$16,078,201 in General Revenue for the TxDMV Automation System to reflect the recommended funding level for fiscal year 2016; (3) a decrease of \$1,700,000 in All Funds (\$850,000 in General Revenue; \$850,000 in Federal Funds) for Commercial Vehicle Information Systems and Network; (4) a decrease of \$813,000 in General Revenue for a one-time regional office security project; (5) increase authority and General Revenue for Data Center Consolidation to reflect estimated costs to maintain current obligations; and (6) a decrease of \$5,057,884 in General Revenue for the Centralized Accounting and Payroll/Personnel System (CAPPS) implemented in the 2014-15 biennium. (See Selected Fiscal and Policy Issues #2.)
- 3. **Appropriation of Special License Plate Fees.** Recommendations amend this rider to specify the amount of appropriations from specialty license plate fees included in Strategy A.1.1, Titles, Registrations, and Plates, for the purpose of making contract payments to the vendor selected by the agency for the marketing and sale of personalized and specialty license plates. Recommendations also change the method of financing from State Highway Fund No. 006 to General Revenue to reflect the change in the disposition of revenue effected by House Bill 2202 and House Bill 6, Eighty-third Legislature, Regular Session, 2013 (see Selected Fiscal and Policy Issues #1b).
- 5. **Unexpended Balance and Capital Authority: TxDMV Automation Systems.** Recommendations amend this rider to reflect the current strategy to which funding for the TxDMV Automation System project is appropriated. (See Selected Fiscal and Policy Issues #2a.)
- 6. **(new) Contingency for Texas Department of Motor Vehicles Fund.** Rider would replace \$270.8 million in General Revenue Funds with an equal amount of funding from the Texas Department of Motor Vehicles Fund contingent on the enactment of legislation creating the new fund. If legislation creating the fund is not enacted, the rider would replace \$80.5 million in General Revenue Funds with an equal amount of funding from the State Highway Fund (see Selected Fiscal and Policy Issues #1).
- 6. **(former) Funding for Signs at Regional Office Buildings.** Recommendations delete this rider directing the use of appropriations for the one-time purchase of signs in the 2014-15 biennium.

Section 6

Department of Motor Vehicles  
Items not Included in Recommendations - House

	2016-17 Biennial Total			
	GR & GR-Dedicated		All Funds	
Agency Exceptional Items - In Agency Priority Order				
1. State Highway Funds and capital budget authority for acquisition of land and building construction to relocate agency headquarters. Includes an increase of 3.0 FTEs for facilities maintenance, grounds keeping, and security. (See Selected Fiscal and Policy Issues #4.)	\$	-	\$	58,665,467
2. General Revenue funding and capital budget authority for information technology asset updates under the TxDMV Automation System project and for the Application Migration & Server Infrastructure Transformation initiative to separate servers, infrastructure, and data from TxDOT. (See Selected Fiscal and Policy Issues #2a and #2b.)	\$	7,353,955	\$	7,353,955
3. General Revenue funding and capital budget authority for Data Center Services costs above amounts needed to maintain current obligations for additional agency initiatives, including the transfer of servers from the TxDOT shared environment to the consolidated state data center (See Selected Fiscal and Policy Issues #2b.)	\$	4,935,488	\$	4,935,488
4. General Revenue funding and capital budget authority for development of information technology (IT) infrastructure separate from Texas Department of Transportation (TxDOT). Includes \$1,098,508 for one-time capital purchases of IT equipment and \$323,000 for third-party managed security services (ongoing costs of \$160,000 each year).	\$	1,421,508	\$	1,421,508
5. General Revenue funding and an increase of 5.0 FTEs for additional motor carrier enforcement. Includes three Investigators, one Attorney, and one Administrative Assistant (salaries and wages equal \$538,400 for the biennium).	\$	610,617	\$	610,617
6. State Highway Funds and capital budget authority to replace 21 vehicles projected to exceed 150,000 miles and nine years of service during the 2016-17 biennium.	\$	-	\$	686,721
7. Federal Funds (\$500,000), General Revenue match (\$500,000), and capital budget authority for a new federal discretionary Commercial Vehicle Information Systems and Network (CVISN) grant in fiscal year 2016 (See Selected Fiscal and Policy Issues #2e and Summary of 10 Percent Biennial Base Reduction Options #5.)	\$	500,000	\$	1,000,000

Section 6

Department of Motor Vehicles  
Items not Included in Recommendations - House

	2016-17 Biennial Total	
	GR & GR-Dedicated	All Funds
8. General Revenue funding and capital budget authority for relocation of two regional service centers from locations currently owned by TxDOT. Includes \$871,500 in capital budget authority for one-time communications equipment and modular furniture setup (\$435,750 per location); \$40,000 for moving expenses (\$20,000 per location); and \$512,036 for ongoing rent and utilities expenses (\$256,018 per location each year). (See Selected Fiscal and Policy Issues #4.)	\$ 1,423,536	\$ 1,423,536
9. State Highway Funds and capital budget authority for 22 new vehicles. Includes \$719,422 in capital budget authority for the purchase of vehicles (\$32,701 per vehicle) and \$56,170 for one year of fuel and operating expenses.	\$ -	\$ 775,592
10. General Revenue funding and an increase of 8.0 FTEs for additional Vehicle Titles and Registration Division field representatives for county tax assessor-collector support and fraud prevention. Includes \$876,288 for salaries and wages for the biennium.	\$ 962,026	\$ 962,026
11. General Revenue funding for additional Automobile Burglary and Theft Prevention Authority (ABTPA) grants.	\$ 10,000,000	\$ 10,000,000
<b>Total, Items Not Included in the Recommendations</b>	<b>\$ 27,207,130</b>	<b>\$ 87,834,910</b>

Section 7

Department of Motor Vehicles  
Summary of 10 Percent Biennial Base Reduction Options - House

Biennial Reduction Amounts								
Priority	Item	Description/Impact	GR and GR-Dedicated	All Funds	FTEs	Potential Revenue Loss	Reduction as % of Program GR/GR-D Total	Included in Intro Bill?
1	Central Administration Program: Indirect Administration - Operating Expenses	This reduction would reduce funding for the agency's tuition reimbursement program and contingency funding for unanticipated costs.	\$412,736	\$412,736		\$0	2.6%	No
	Information Resources Program: Indirect Administration - Operating Expenses	This reduction would reduce funding for the agency's tuition reimbursement program and contingency funding for unanticipated costs.	\$65,160	\$65,160		\$0	0.2%	No
	Motor Vehicle Dealer Licensing and Enforcement Program: Indirect Administration - Operating Expenses	This reduction would reduce funding for the agency's tuition reimbursement program and contingency funding for unanticipated costs.	\$96,420	\$96,420		\$0	1.0%	No
2	Vehicle Titles, Registrations, and Plates Program: Deferred Capital Projects - County Growth & Enhancement	This reduction would reduce the amount of funding for the County Regional Technology Support capital project. This reduction could delay and/or defer replacement and repair of agency information technology equipment deployed at County Tax-Assessor Collector offices. Technology failures at the County Tax Assessor Collector offices could result in delays in processing registrations and negatively impact customer service.	\$6,095,840	\$6,095,840		\$0	4.2%	No
3	Information Resources Program: Deferred Capital Projects - Agency Growth & Enhancement/LACE	This reduction would eliminate funding for IT contractors for programming, database administration, and project management.	\$2,600,000	\$2,600,000		\$0	6.8%	No
	Motor Vehicle Dealer Licensing and Enforcement Program: Deferred Capital Projects - Agency Growth & Enhancement/LACE	This reduction would eliminate funding for IT contractors and delay implementation of an integrated system for the Licensing, Administration, Consumer Affairs and Enforcement (LACE) program. The LACE system manages the licensing of motor vehicle converters, manufacturers, distributors, representatives, dealers, lessors and lease facilitators; and manages complaints and tracks litigation.	\$2,400,000	\$2,400,000		\$0	25.8%	No
4	Vehicle Titles, Registrations, and Plates Program: Document Imaging, Plate Production, and Field Office Maintenance	This reduction would reduce the funding available for the scanning of title documentation such as applications for passenger vehicles and salvage titles. This reduction would also reduce the funding necessary for anticipated increases in the costs for plate production, and additional costs related to the maintenance of field offices.	\$4,573,353	\$4,573,353		\$0	3.2%	No

Section 7

Department of Motor Vehicles  
Summary of 10 Percent Biennial Base Reduction Options - House

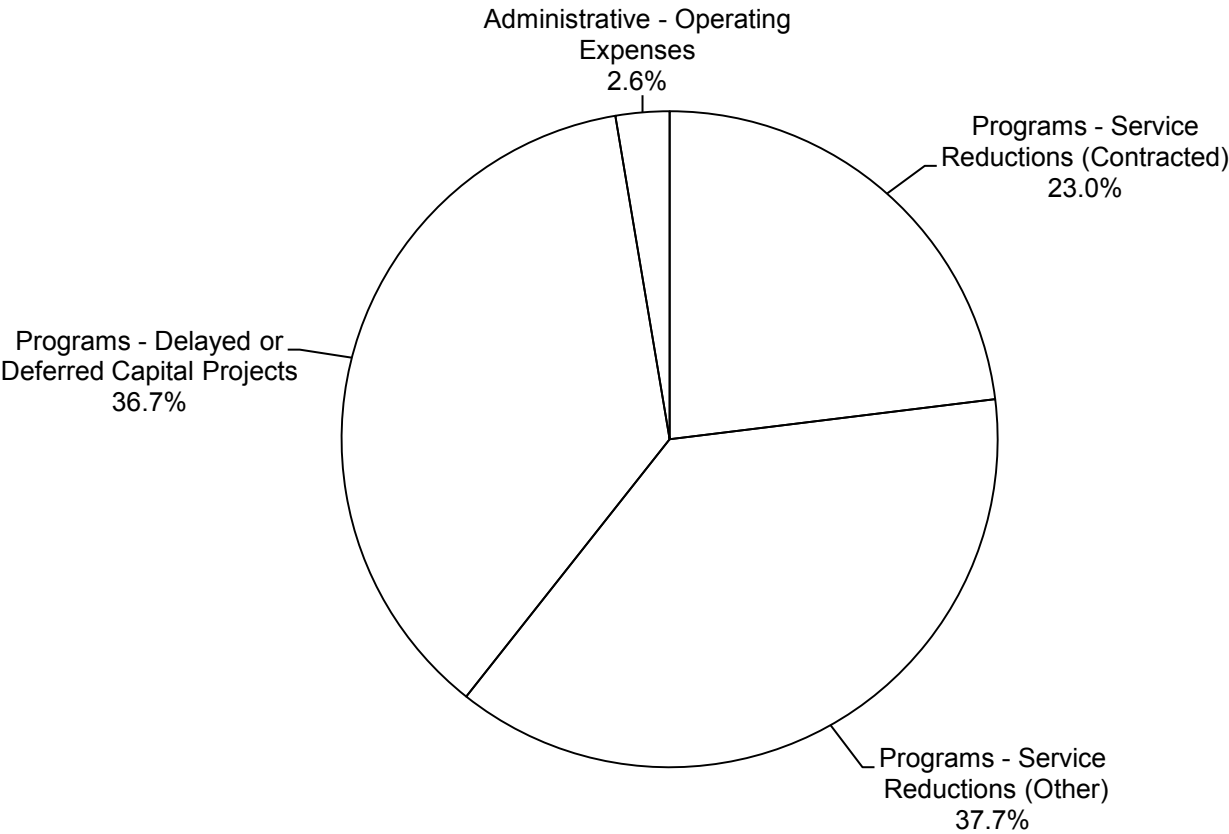
Biennial Reduction Amounts								
Priority	Item	Description/Impact	GR and GR-Dedicated	All Funds	FTEs	Potential Revenue Loss	Reduction as % of Program GR/GR-D Total	Included in Intro Bill?
5	Oversize/Overweight Vehicle Permitting and Enforcement Program	This reduction would eliminate state matching funds for the Commercial Vehicle Information System Network grant (CVISN), which the agency uses to purchase equipment such as automated license plate readers and over height sensors and for the deployment of virtual weigh stations. Elimination of funding for state matching funds would result in a loss of \$850,000 in Federal Funds and reduce programs related to safety and security for motor carriers and commercial vehicles.	\$3,582,376	\$3,582,376		\$850,000	22.4%	Yes*
6	Information Resources Program: Deferred Capital Projects - Agency Growth & Enhancement	This reduction would reduce the Growth and Enhancements - Agency Operations Support capital project. The project provides the annual agency funding for ongoing technology and information resource activities including the replacement of computers, laptops, printers, and computer peripheral devices; the replacement of telephone and network equipment; and the purchase of software and licenses.	\$1,866,910	\$1,866,910		\$0	4.9%	Yes*

TOTAL, 10% Reduction Options

\$21,692,795    \$21,692,795                    \$850,000

\* Recommendations include partial reductions related to the options identified above, including a reduction of \$850,000 related to Priority #5 and a reduction \$101,004 related to Priority #6.

Department of Motor Vehicles  
Summary of 10 Percent Biennial Base Reduction Options - House  
Agency 10% Reduction Options by Category of Reduction





Texas Department *of* Motor Vehicles

# FY 2016-2017 General Appropriations Act – Texas Department of Motor Vehicles Appropriations Request

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**Testimony before the  
House Appropriations Committee**

**Whitney Brewster  
Executive Director**

**February 18, 2015**



## Overview of Agency

The Texas Department of Motor Vehicles (TxDMV) was created by HB 3097 (81R). Effective September 1, 2009, the agency assumed responsibility for vehicle titling and registration, vehicle dealer and motor carrier regulation, and the Automobile Burglary and Theft Prevention Authority from the Texas Department of Transportation (TxDOT). Effective January 1, 2012, the Oversize/Overweight Permitting Program also transferred from TxDOT to TxDMV. In addition, with the passage of HB 1692 (83R), the agency established the Office of Administrative Hearings to conduct contested case hearings for warranty performance and “Lemon Law” disputes internally rather than referring such cases to the State Office of Administrative Hearings.

In fiscal year (FY) 2014, TxDMV oversaw the issuance of almost 24 million vehicle registrations and more than 7 million vehicle titles. Additionally, the agency licensed more than 38,000 dealers and other entities engaged in the sale and distribution of

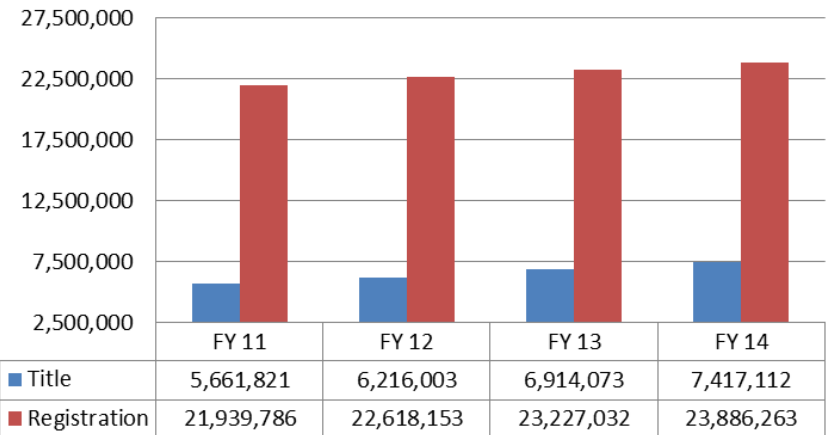
motor vehicles,

as well as regulating certain aspects of the salvage vehicle industry. The agency credentialed almost 60,000 motor carriers, issued more than 800,000 oversize/overweight permits, investigated more than 15,000 complaints against dealers and motor carriers, and responded to more than 435,000 customer inquiries.

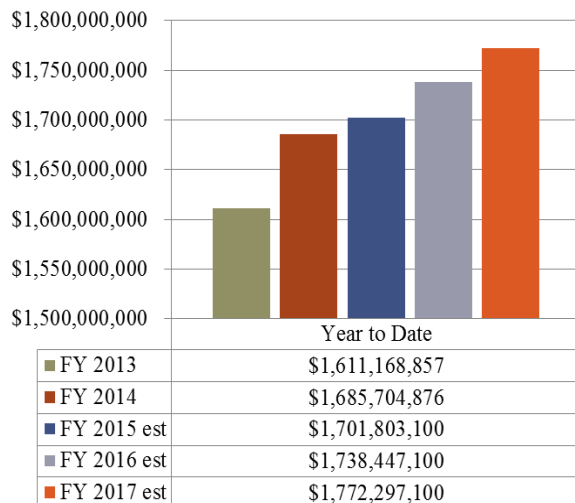
The state’s expected population growth combined with moderate economic growth contribute to the TxDMV’s estimate of continued growth in all areas of its responsibilities throughout the FY 2016-17 biennium.

In FY 2014, TxDMV collected approximately \$1.68 billion in total revenue for the state of Texas. This includes about \$1.45 billion for the State Highway Fund and around \$223 million to the General Revenue (GR) Fund. These collections are approximately \$75 million (or 4.6%) more than the previous year and are due to a 2.8% increase in registration related revenues, a 1.5% increase in oversize/overweight permitting revenue; and a 0.3% increase in titling, licensing, and other revenues. This equates to more than \$12 in revenue for the state for every dollar the agency spends.

### Title & Registration Trend



### TxDMV Total Deposits



*Estimated percentage growth for TxDMV deposits range from a modest rate of 1% to up to 2.5% depending on the type of revenue collected.*

## The TxDMV Fund

HB 2202 from last session created the Texas Department of Motor Vehicles Fund as a separate fund from the General Revenue (GR) Fund and State Highway Fund (Fund 6). The bill also dedicated several revenue streams to the new TxDMV Fund. The TxDMV Fund would allow the agency to separate its funding from Fund 6, thereby ending the appearance of a “diversion” from the State Highway Fund, and would further ensure statutorily dedicated fees were being used for their intended purposes, as well as provide more transparency in agency funding. The TXDMV would still be subject to the legislative appropriations process.

Although the bill creating the TxDMV Fund passed the legislature and was signed by the governor, HB 6, last session’s funds consolidation bill, did not exempt the TxDMV Fund from its provisions, and therefore the TxDMV Fund was abolished. The abolishment of the TxDMV Fund resulted in the revenues that would have been deposited to the TxDMV Fund instead being deposited to GR. That revenue amounted to more than \$121 million in FY 14. As a result, the agency went from being funded approximately 90% from Fund 6 to being funded from about 74% from GR and 26% from Fund 6. The introduced appropriations bill funds the agency completely from GR, but also has a contingency rider which would shift the agency’s funding entirely to the TxDMV Fund if the fund is re-created.

Disposition of Registration Revenue			
	Current FY 14-15		Proposed FY 16-17
Registration Fee	\$	50.75	\$ 50.75
County Retained	\$	(1.90) <sup>1</sup>	\$ -
Remitted to Fund 6	\$	48.85	\$ 50.75
Net Gain to Fund 6 Per Year <sup>2</sup>			46,600,000
1 - County commission will be paid from the Processing and Handling Fee authorized by HB 2202, 83(R).			
2 - Gain to Fund 6 is based on county commissions retained in FY 14.			

Also a part of HB 2202 is the authority for the TxDMV Board to set a processing and handling fee for vehicle registrations. This fee was intended to work together with the TxDMV Fund revenue dedications to provide the revenue necessary to fully separate TxDMV funding from Fund 6. The fee would be set in an amount to make up the difference between the TxDMV Fund’s dedicated revenues (again, more than \$121 million a year) and the agency’s appropriation amount (about \$150 million a year). Also, because of the fee’s statutory requirements, once adopted, almost 100% of registration fee collections would be deposited into Fund 6, a permanent increase of more than \$45 million a year in revenue to that fund. Additionally, the enactment of the fee would permanently free up almost \$30 million a year in revenue for GR. The adoption of the processing and handling fee, however, is dependent upon the re-creation of the TxDMV Fund and the re-dedication of its revenues.

Therefore, the TxDMV Board’s priority recommendation to the 84<sup>th</sup> Legislature is the re-creation of the TxDMV Fund and the rededication of revenue to that fund.

In consultation with the Texas Legislative Council and the Comptroller, the agency has identified two options for re-creating the TxDMV Fund:

1) The TxDMV Fund's re-creation and revenue re-dedication can be accomplished directly in this session's funds consolidation bill. This approach would accomplish all needed steps in one act: re-create the TxDMV Fund, re-dedicate the revenue, and exempt the fund and dedications from funds consolidation. However, this approach could result in a fiscal impact being assigned to the funds consolidation bill. The net effect on the budget, however, would be zero since any reduction in GR revenue would be offset with a reduction in GR appropriations to the agency.

OR

2) A stand-alone bill could be passed that re-creates the TxDMV Fund and re-dedicates the revenues. Additionally, the fund and its revenues would need to be exempted from funds consolidation. This approach requires two separate and distinct actions by the legislature: pass a bill and ensure the bill is exempted in the funds consolidation bill. Any fiscal impact of the revenue dedications would be shown on the stand alone bill, but the same offsetting as discussed above would still apply.

Because funds consolidation is controlled by the appropriations process, the agency requests that legislators consider allowing the TxDMV Fund be re-created and its revenues re-dedicated by ensuring that the TxDMV Fund is exempted from the funds consolidation bill or actually re-created/rededicated in that bill.

## **HB 1 Recommended Appropriations**

### **Revised Exceptional Items Requests**

**(In Priority Order)**

1. TxDMV HQ Move - \$58,665,467
  2. Restore TxDMV Automation System Capital - \$7,353,955
  3. Data Center Consolidation - \$4,935,488
  4. Cyber-security services - \$1,421,508
  5. Enhanced Enforcement Capability - \$610,617
  6. Replacement Vehicles – \$686,721
  7. Restore CVISN program - \$1,000,000
  8. Regional Service Center - \$1,421,536
  9. New Vehicles - \$775,592
  10. Enhanced County Support Services & Fraud Prevention - \$962,026
- 

1. ABTPA Grants (per ABTPA board) - \$10,000,000

Current HB 1 recommendations continue to fund the agency at the baseline of the current biennium for most of the agency's functions. The recommendation fully funds one exceptional item request and partially funded another. The additional funding the agency requested for the cost of additional license plate production to keep up with state growth is fully met in the current recommendation. Approximately half of the additional funding requested by the agency for Data Center Consolidation is included as well. Both of these funding increases will help ensure the agency can continue to perform some of its core functions.

However, the HB 1 recommendations also include a significant reduction to the current baseline for TxDMV Automation Capital funding (\$7.3 million) and the Commercial Vehicle Information Systems and Network (CVISN) grant (\$1.7 million).

This reduced automation funding will only allow the agency to continue two of its ongoing projects (the modernization/re-factorization of the Registration and Titling System and the expansion of the webDEALER system). All other automation projects would be stopped (*see Exceptional Item 2 below*). The loss of funding for CVISN will eliminate funds to purchase equipment (e.g. transponders to avoid "bridge hits" by heavy trucks). Of the eliminated appropriation of \$1 million, half would have come from a federal matching grant (\$500,000 state/\$500,000 federal) (*see Exceptional Item 7 below*).

In response to the funding recommendations in HB 1, the agency's request for additional funding has been modified. The original exceptional item request was for \$90.1 million. The revised request, which includes restoration of the above mentioned baseline items, is \$87.8 million.

## **Exceptional Items**

### **1. New Construction/Lease of TxDMV Headquarters (\$58.7/\$19.1 million)**

TxDMV headquarters is located on two TxDOT properties in Austin known as the Camp Hubbard Campus and the Bull Creek Campus. Additionally, the agency's Austin Regional Service Center (RSC) and approximately 2,500 square feet of secured and climate-controlled warehouse space in Austin is on TxDOT owned property. Because of changes to TxDOT's real estate and facilities portfolio, the need for TxDMV to plan for its own facilities has been accelerated.

First, TxDOT has sold the Bull Creek Campus (the sale should close this month, February 2015). The Bull Creek Campus houses about 120 TxDMV employees. A two-year lease-back was negotiated with TxDOT that will allow TxDMV to remain on the property until May 2017 to give TxDMV the opportunity to secure an appropriation for a new location. It is not possible to relocate these staff to the Camp Hubbard Campus because the site is considered beyond maximum capacity already. The Bull Creek employees will have to be relocated to new office space before the end of this biennium. Secondly, TxDOT has indicated that it may need the Camp Hubbard Campus for its own staff as soon as 2017. If TxDMV is required to leave the Camp Hubbard Campus, new office space for nearly 450 employees will need to be found.

The possible need to relocate the TxDMV's employees housed at Camp Hubbard coupled with the definite need to relocate the Bull Creek Campus before the end of the upcoming biennium prompted the TxDMV board to recommend the agency's entire Austin area operations be consolidated in a new location. The TxDMV is requesting funds in this exceptional item to purchase land and construct a new headquarters building or to lease a new headquarters facility. The exceptional item request also includes the re-location of the Austin RSC and TxDMV warehouse if the new headquarters facility is funded.

TxDMV worked with the Texas Facilities Commission to review space needs and provide the agency with updated cost estimates. In November 2014, the O'Connell Robertson architectural firm released new information regarding the acquisition of a new facility. The revised cost estimate is approximately \$9.1 million more than the original request of \$49.6 million. The difference is due primarily to two factors:

- The original cost estimate was based on 2012 data, which was the most current available at the time of the original request submission. The revised cost estimate uses the information from the most recent analysis, which identified an additional need for approximately 9,000 square feet of space.
- The revised cost estimate used specific geographic areas which allowed for more accurate determination of current market rates.

TxDMV's revised request totals approximately \$58.7 million for the purchase of land and the construction of a new headquarters. Another option would be leasing enough space for the headquarters operations at a biennial cost of approximately \$19.1 million. The agency currently receives no appropriations to pay for facilities on TxDOT property. Therefore, regardless of the decision made about the TxDMV headquarters facilities request, the Bull Creek Campus must be relocated in FY 2017, and the cost to do that (estimated to be \$1.12 million with \$551,000 in annual cost and \$574,000 in one-time costs) is something the agency cannot afford with current resources.

## **2. TxDMV Automation System Funding (\$7.4 million)**

TxDMV is requesting \$7.4 million over the biennium to restore the funding for TxDMV's Automation Project. In addition to continuing the separation of the agency's technology infrastructure from TxDOT, the Automation Project is modernizing TxDMV's IT systems and applications to streamline operations and provide better customer service. The recommended appropriations in HB 1 are insufficient to allow the Automation Project to continue for many of the agency's systems that agency stakeholders and the public utilize on a daily basis. This will create serious issues because the current infrastructure is out of date and subject to increasing service reliability problems.

Some of the key application systems requiring immediate upgrade to avoid service outages that will directly impact the public include:

- Electronic Tags
- Motor Carrier Credentialing System
- Electronic Lien Titling System
- Licensing, Administration, Consumer Affairs, and Enforcement (LACE)
- Legal Restraint Owner Retained Salvage Title System

The collection of a \$1 "automation fee" at the time of registration supports the TxDMV Automation Project. Beginning September 1, 2013, all revenue from the automation fee is deposited to the General Revenue Fund. The estimated collections for the fee for the 2016-17 biennium is approximately \$51.9 million. However, the recommended appropriation in HB 1 for the Automation Project is only \$16.1 million, \$35.8 million less than what the automation fee will generate. Approving this, and the below, exceptional item request will further ensure the "automation fee" is used for its intended purposes.

## **3. Data Center Consolidation (\$4.9 million)**

TxDMV is required by statute to participate in the Data Center Services (DCS) program managed by the Department of Information Resources (DIR). DIR operates the statewide technology centers and assesses a fee on state agencies for the services provided. TxDMV is requesting an additional \$4.9 million for the biennium to ensure the agency can complete the transfer of its servers from both TxDOT and other local data centers to the consolidated state data center. This funding is necessary to avoid paying penalties assessed by DIR for failing to consolidate servers. Penalties range from 50% to 300% of current server charges depending on the type of servers and level of disaster recovery preparedness. If this exceptional item request is not met, the actual cost to the agency will be even higher. It is estimated that the agency has 64 servers still needing to be consolidated.

## **4. Cyber Security Services (\$1.4 million)**

As part of TxDMV's continuing infrastructure separation from TxDOT, the agency is requesting \$1.4 million for cyber security services. These tools and services, some previously but no longer provided by TxDOT, are necessary to maintain the confidentiality and integrity of the personal information in motor vehicle records entrusted to the agency. The first layer of these protections are software and systems to monitor, block, and alert for known malware, data leaks, and compromised assets, and also mobile device security at the user interface level. Another layer of these protections are monitoring and analysis

services of security log and intrusion detection/intrusion prevention system events. These services report suspected malicious activity through alerting and initiating intervention as a first response in cyber security incident management. Additionally, in order to maintain the high level of customer service and minimize service interruption, updated network infrastructure and communications circuits will be needed to keep pace with evolving technologies and cyber security threats.

## **5. Enhanced Enforcement Capability (\$611,000)**

TxDMV is requesting funding in the amount of \$611,000 for the biennium for five additional FTEs for its Enforcement Division to address increased activity in the motor carrier sector.

Three of the FTEs would be oversize/overweight (OS/OW) investigators. Because the number of violations of OS/OW laws has increased, together with the number of OS/OW vehicles using the state's highways, particularly in the oil and gas exploration industry, more investigators are needed. Since 2011, OS/OW annual permit issuances have increased from 590,980 to 836,259 in FY 14, an increase of more than 40%. The department receives 4,000 to 5,000 citations per month from DPS that are reviewed to set up audits of motor carriers to determine compliance with the OS/OW laws. Based on those audits, the department initiated 254 contested cases in FY 2014, an increase from 196 filed in 2013. The department also investigated 23 "bridge hits" in FY 2014, and, to date in FY 2015, has investigated 13 incidents. Governments at all levels are concerned about road deterioration caused by OS/OW traffic. Additional investigators are needed to increase enforcement efforts to keep pace with increased OS/OW traffic and violations and to ensure compliance with OS/OW permitting laws.

Two additional legal personnel are requested. Currently, there is one attorney and one support employee handling, on an annual basis, more than 7,000 motor carrier cases (including insurance, credentialing and oversize/overweight permit violations). When the OS/OW enforcement functions were moved from TxDOT to TxDMV in 2012, legal and litigation support resources were not part of the transfer. While civil penalties collected from these type cases have increased from \$692,543 in FY 2012 to \$2,498,728 in FY 2014, completion times for these cases remain unacceptably high (an average of 255 days for OS/OW).

## **6. Replacement Vehicles (\$687,000)**

TxDMV is requesting \$687,000 to replace 21 fleet vehicles which will exceed 150,000 miles during the biennium. The vehicles to be replaced support the activities in the Regional Service Centers. The vehicles would be used to deliver daily bank deposits for the agency, travel to county offices to conduct training, audits, inventories, and emergency delivery of license plates, and allow enforcement personnel to travel to conduct investigations of licensee activities. The high mileage, usage and age of the vehicles result in increased maintenance costs to the agency. Additionally, as these vehicles age, out-of-service time becomes more frequent, impacting the ability of employees to perform their job duties.

## **7. Commercial Vehicle Information Systems and Networks Program (\$1 million)**

TxDMV is requesting \$1 million for the restoration of Commercial Vehicle Information System and Networks (CVISN) funds. Of this amount, \$500,000 would be state funds and the other \$500,000 would be a federal matching grant. CVISN is a one-for-one state and federal matching program that provides safety

information on a daily basis to and from all 50 states to get unsafe motor carriers off the road. In addition to TxDMV, three other state agencies participate in the program: the Comptroller of Public Accounts, the Department of Public Safety, and TxDOT. CVISN provides critical data both between and within agencies for use in identifying “out-of-service” carriers. The program funds the installation of the Advance Bridge Clearance Warnings Systems in Texas to reduce bridge hits. The program also develops methods to identify vehicles running without the required oversize/overweight permits and identifies “chameleon” carriers (unsafe carriers taken out of service but continue to operate under a different name). CVISN is a key component of the Federal Motor Carrier Safety Administration’s drive to improve commercial vehicle safety and safety on the highways and is an integral component of Texas’ Intelligent Transportation System.

## **8. Relocation of Regional Service Centers (\$1.4 million)**

TxDMV is requesting funding to relocate two Regional Service Centers (RSC) from TxDOT-owned facilities to independent TxDMV facilities at a cost of \$1,423,536 for the biennium. While the RSCs to be relocated have not yet been determined, the exceptional item would allow two mid-size facilities to be moved.

During FY 2014, TxDMV was required to relocate its Houston RSC when TxDOT sold the location the RSC occupied. In October 2013, TxDMV received official notification to vacate the property in Houston, which housed approximately 30 staff. The agency was provided a one year period to secure a new location and immediately engaged Texas Facilities Commission to assist in the endeavor. The Houston RSC relocation was unfunded because TxDMV was unaware of TxDOT plans to sell the property and did not have the opportunity to request funding for such a move during the 83<sup>rd</sup> session. Agency operating budgets were reprioritized to pay for the relocation itself and the on-going annual costs of approximately \$354,000 for the new Houston RSC location.

TxDMV anticipates that additional RSCs housed on TxDOT property may have to be vacated and relocated. As TxDOT moves forward with evaluating its real estate portfolio, TxDMV must develop plans to relocate additional RSCs to avoid what transpired with the Houston RSC.

## **9. New Agency Vehicles (\$776,000)**

TxDMV is requesting \$775,592 to purchase 22 new fleet vehicles, thereby increasing the agency’s fleet size to 65. Of the new vehicles, 21 will be used by field investigators. Currently, investigators are required to use their personal vehicles, or rent vehicles, in order to execute field investigations. The lack of access to vehicles has caused delays in investigations and raises safety concerns for investigators. Because investigations occur in high risk areas often with unlicensed operators in the various businesses the agency regulates, a marked, fleet vehicle represents to the public and local law enforcement that the driver is a state official. The other new vehicle will be for the agency’s motor pool. There are currently six motor pool vehicles shared among headquarters staff for out-of-town travel and for use by the newly created Office of Administrative Hearings to travel to case hearings across the state.

## **10. Enhanced County Support Services and Fraud Prevention (\$962,000)**

TxDMV is requesting \$962,026 for an additional eight FTEs to serve as field service representatives to review county operations in the 254 tax assessor-collectors’ offices across the state. The purpose of these field service representatives is to 1) ensure the integrity of the agency’s assets located within each



county tax office, 2) audit county operations for potential theft and fraud and 3) ensure the collection of state revenue. These activities improve customer service in the TAC offices by ensuring consistency in delivering title and registration services to the public.

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### **1. Automobile Burglary and Theft Prevention Authority (\$10 million)**

The Automobile Burglary Theft Prevention Authority (ABTPA) is part of the TxDMV but has its own, governor-appointed policy making board. The ABTPA Board recommended only one exceptional item request for an additional \$5 million per year of the biennium, for a total of \$10 million, to be used for grants. This additional funding will allow the ABTPA grantees to expand current activities throughout the state. Equipment needs for all grantees continues to rise, and the need for vehicles, surveillance equipment, license plate readers, and bait equipment is a growing across the state. The increase in funding would allow ABTPA to award grants for new equipment for law enforcement and for statewide auto burglary and theft prevention initiatives.

ABTPA is funded by a statutorily required fee of \$2.00 charged on automobile insurance policies in the state. The fee is paid by individual policyholders and collected by insurance companies. TxDMV estimates the fee will generate approximately \$40 million each year of the upcoming biennium. By law, 50% of each fee collected may be appropriated only for ABTPA purposes, but the HB 1 recommendation appropriates less than 75% of that amount. The requested funding increase ensures the fee is used for the purposes for which it was collected.

### **Conclusion**

The TxDMV appreciates this opportunity to further consider opportunities to meet the growing needs of Texans. All of our requests, including automation upgrades, data center consolidation efforts, cyber security services, additional enforcement capacity, and other items will help the agency maintain excellent customer service standards in a transparent, efficient, and accountable manner. The Texas Department of Motor Vehicles sets the standard as the premier provider of customer service in the nation, and we are here to serve, protect and advance the citizens and industries in Texas with quality motor vehicle related services. Thank you for your continued support to help Texans go, and help Texas grow.

**Section 5**

**Special Provisions Relating to All Business and Economic Development Agencies  
Rider Highlights - House**

- 2. **Federally Funded Projects.** Recommendations delete this rider. The provisions contained in Article IX, Section 6.10 Limitation on State Employment Levels, subsection (h)(1), provide the required guidance related to 100 percent federally funded full-time equivalents.