Transportation Planning Task Force
Transportation Funding Sources
August 6, 2003
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1. **Overview of Transportation Finance**
    a. Historical Perspective
        i. Originally all locally funded
        ii. Use of toll roads
        iii. Transition from local to federal-now returning to state/local
    b. History of the federal fuel tax
        i. Federal funding for highways originated in 1916
        ii. Federal funding was originally from the General Fund
        iii. First federal fuel tax was levied in 1932-not dedicated to roads
        iv. 1956-first time the federal fuel tax was dedicated to roads and highways
        v. Strong reliance on federal funds while building the interstate (1956-1990)
        vi. Cost to Complete-federal approach to funding the interstate
    c. Current trends
        i. Fewer projects are funded primarily from federal funds
        ii. More and more state and local funding
        iii. Higher use of toll roads
        iv. Some public-private partnerships
        v. Innovative finance-solution de jour (debt financing by any other name is still debt financing)
            1. GARVEE bonds (Grant Anticipation Revenue Vehicles)
            2. TIFIA notes (Transportation Infrastructure Finance and Innovation Act)
            3. Other debt instruments

2. **Observations of the current Federal funding situation**
    a. TEA-21 reauthorization
        i. Current status-no bill likely this year
        ii. Possible outcomes
            1. Continuing resolution
            2. One or two year bill
            3. Extension of the current bill
    b. Future Federal funding
        i. Shouldn't rely solely on federal funds
        ii. Competition continues to grow for federal funds

3. **Overview of transportation funding options-See Table 1**
    a. Fuel tax

b. Sales tax (state and local option)
c. Sales tax on transportation related products
d. Sales tax on fuel (state and local option)
e. Local option fuel tax
f. Property tax
g. Vehicle registration fees (fixed)
h. Vehicle registration fees (based on use)
i. Impact fees on development
j. Tolls
k. Indexing
l. HOT lanes
m. Taxes on tourism related activities (e.g. hotels, rental cars, restaurants, etc.)
n Redevelopment Agencies (RDA's)

4. Specific Examples of Transportation Funding Initiatives

a. California Self-Help Counties
    i. 18 counties participate
    ii. Raise their sales tax by referendum
    iii. Taxes imposed for a specified period of time
    iv. Revenues are committed to a specific list of projects
    v. Billions raised over 20 years
    vi. Most of the corridors are state
    vii. Counties couldn't wait for the state to raise the money to solve their problems
b. Florida Local Option Fuel Tax
    i. Counties have the option to raise the fuel tax up to 11 cents
    ii. All 67 counties have done so
    iii. Funds can be used for local or state roads-conditions vary by county size
    iv. State requires local match on projects
c. Arizona's ½% sales tax program
    i. Sales tax approved by voters in 1985
    ii. Raised $5.2 billion
    iii. Constructed 147 miles of freeways
    iv. Specific corridors and deliverables
d. Myrtle Beach-tourism tax
    i. 1% hospitality tax
    ii. .5% accommodations tax
    iii. Used for transportation and other purposes

Attributes of Newly Established Transportation Revenue Programs

a. Accountability
b. Programs are project specific
c. Fiscally constrained
d. Some have sunset provisions

e. Schedule specific
f. Mixture of funding sources
g. Trends (local vs. state vs. federal)

Table 1-Revenue Options for Transportation

Option/Application	Advantages	Disadvantages
Statewide fuel tax-Ranges from 7.5 cents in Georgia to 31 cents in Rhode Island. See Table 4 for a statewide comparison.	Nationally the most common means of raising transportation revenues. Considered a "user fee." High public acceptance. Natural price fluctuations at the pump result in little public recognition when this tax is changed or imposed.	Considered an inelastic tax in that it loses value every day due to inflation. For example, the 5-cent fuel tax imposed in 1997 will lose 26% of its value by 2009.
Sales Tax (state and local)- A portion of the statewide sales tax that is dedicated to transportation purposes. See Tables 2 and 3.	Provides a revenue stream that grows with the economy. The revenue reflects current economic trends without further legislative action.	Distribution formulas need to address the rural/urban split of available funds. Competition with other programs and agencies who believe they should have first rights to sales tax revenues because transportation already gets the gas tax funds.
Sales tax on transportation related products-Applied to automobile sales, parts, accessories, services, etc.	Tax revenues are directly related to transportation and its related products and services.	Viewed as a loss of "taxing capacity" by those agencies and programs that rely on sales tax revenues for funding.

Option/Application	Advantages	Disadvantages
Sales tax on fuel (state)- statewide imposed sales tax on fuel (a percentage of the cost of the fuel versus a set amount per gallon under the normal fuel tax approach)	A revenue stream that grows with the economy and with the price of fuel. More elastic than the normal fuel tax.	Different sales tax rates now being applied to different products.
Sales tax on fuel (local option)-cities and counties establish a specific sales tax increment dedicated to transportation purposes.	Establishes local control and responsibility for raising transportation funds. Cities and counties can respond more specifically to their unique needs.	Differential rates from one entity to another may cause some consumer migration to “non-taxing” areas.
Local option fuel tax-cities and counties are allowed to raise the fuel tax to raise funds for transportation and other purposes.	Establishes local control and responsibility for raising transportation funds. Cities and counties can respond more specifically to their unique needs. Accountability at the local level.	Differential rates from one jurisdiction to another may cause some consumer migration.
Property tax-tax increment levied on property values dedicated to transportation purposes.	Recognizes that property value is directly related to transportation services and access. Equitable assessment based on value.	Strong public opposition to property tax levies. Rural/urban issues relating to funds generated and their distribution.

Option/Application	Advantages	Disadvantages
Vehicle registration fees (fixed)-fees assessed based on the value of a vehicle or set amount per vehicle.	Directly related to transportation.	
Vehicle registration fees (variable by use)-registration fees imposed based on actual use as reflected by the annual mileage.	Tax burden is directly related to how much a particular vehicle "uses" the transportation system. Vehicles that see little use on the state's highway are taxed at a lower rate. Strong equity arguments for those owning multiple vehicles that see low mileage usage.	Rural concerns relating to long distances traveled for basic services and employment. Rates would have to be adjusted to accommodate this equity issue.
Impact fees on development-assess one or more fees for new homes and other development. New development pays its share for infrastructure necessary to provide transportation services. Generally levied at the local level.	Provides an accurate reflection of the cost of development to the overall infrastructure of a community.	Raises the cost of new homes. Could be seen as regressive when applied to developments that are identified as "affordable housing."
Tolls-A variety of fees levied through tolls and other assessment.	Represents the truest form of a user fee. Those who access a certain facility are those who pay for it. Technology allows for ease of collection and avoidance of toll booths.	Public acceptance. Feeling that people have that they have already paid for a facility.

Option/Application	Advantages	Disadvantages
Indexing-a means to allow for the adjustment of a revenue stream based on a generally accepted means such as the Consumer Price Index (CPI).	Allows the revenue stream to adjust for inflation and removes much of the inelasticity from such revenue sources as the fuel tax. Does not require a referendum or vote of the governing body to initiate the adjustment each year.	Some do not like the notion of an automatic tax increase.
HOT Lanes-known as High Occupancy Toll lanes. Proposed variations include the use of existing HOV lanes as toll lanes for those who are willing to pay a toll. Current authorization is for new lanes. Some legislative issues relating to existing lanes. Prices are adjusted based on traffic volume to ensure the service level/speed of the lane.	Strong user fee implications and relationship between what is paid and the service received.	Perception of the "Lexus Lanes."
Tourism taxes-taxes levied on a variety of tourism services such as rental cars, hotels and restaurants.	Provides a means for those from out of state who use a state's infrastructure to contribute to its construction.	Some alleged impacts to tourism activity.
Redevelopment Agencies (RDA's)-a means whereby infrastructure improvements are accomplished through tax increment financing.	Development supports some the expense of consequential infrastructure needs.	Generally not a total solution for expenses incurred.