



# THE FUTURE OF HIGHWAY FUNDING

Office of Legislative Research and General Counsel

## SUMMARY

### THE PROBLEM

*Current state budget shortfalls, slow fuel tax revenue growth and increasing highway needs, has created a funding gap for highway projects.*

**What are the policy options to address the funding gap?**

1. Delay highway projects
2. Eliminate highway projects
3. Find new revenues, which may include:
  - periodically increasing fuel tax rates
  - creating an automatic rate adjustment on fuel taxes
  - imposing a sales tax on the sale of fuel

This briefing paper also addresses the following questions:

**Why consider raising fuel taxes?**

**Why does motor fuel tax grow more slowly than sales tax revenue?**

**How have fuel tax rates been raised in the past?**

**What is the current fuel tax burden to citizens?**

**How much money would be generated by a fuel tax increase?**

**How have other states addressed slow fuel tax revenue growth?**

### The Problem

Funding Utah's highway needs is a continuing challenge because inflation erodes the purchasing power of the fuel tax. In addition, current budget shortfalls have reduced the General Fund dollars going to the Centennial Highway Program. This reduction has created a funding gap between available monies and existing Centennial Highway Program commitments.

### What is the Centennial Highway Program?

- Initially a 10-year program (1997 - 2007), but it has been extended for additional years and has grown beyond its initial budget to \$3.5 billion
- Funded the I-15 reconstruction project and several other highway projects statewide
- Funds major highway projects not funded by the Transportation Fund
- General Fund commitment calls for an average of \$174 million annually over the next 5 years
- The revised FY 2003 budget reduced General Fund appropriations to the fund by \$66.4 million
- Beyond 2007, another \$2 billion in unfunded highway projects have been identified



## What are the policy options to address the problem?

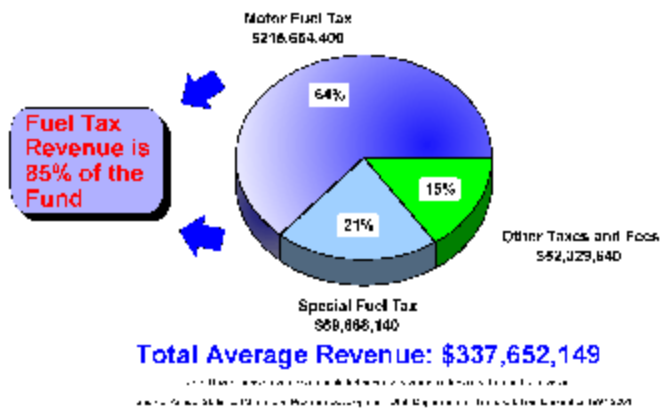
1. Delay highway projects
2. Eliminate highway projects
3. Find new revenue

If the Legislature chooses to find new revenue, and if fuel consumption is to remain the primary means of funding highways, options include:

- periodically increasing fuel tax rates
- creating an automatic rate adjustment on fuel taxes
- imposing a sales tax on the sale of fuel

## Transportation Fund Revenue

Five-Year Average - Fiscal Years 1997 - 2001

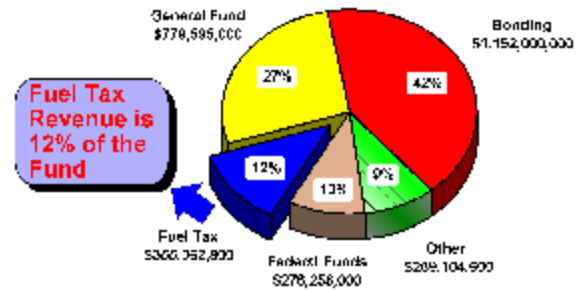


## Why consider raising fuel taxes?

- Fuel taxes are the primary source of highway funding and make up 85% of the Transportation Fund
- Because the Centennial Highway Fund relies on the General Fund for 27% of its funding, highway projects in this fund become vulnerable when there are budget shortfalls.
- In the first 7 years of the Centennial Highway Fund, fuel tax revenues made up only 12% of the fund.
- Because fuel taxes are highway-user taxes based on gallons of fuel used, those who use the highway pay for its use.

## Centennial Highway Fund Revenue

Fiscal Years 1997 - 2003



Total Revenue: \$2,862,320,359

Source: Paper of the Joint Committee on the Legislature, 1/19/02

## Why does fuel tax revenue grow more slowly than sales tax revenue?

- Fuel tax revenue has grown on average 7.5% per year over the last 19 years.
- Sales tax revenue has grown on average 9.2% per year over the same time period.

Sales tax revenue grows because of:

- a growing economy
- inflation

Fuel tax revenue grows because of increases in:

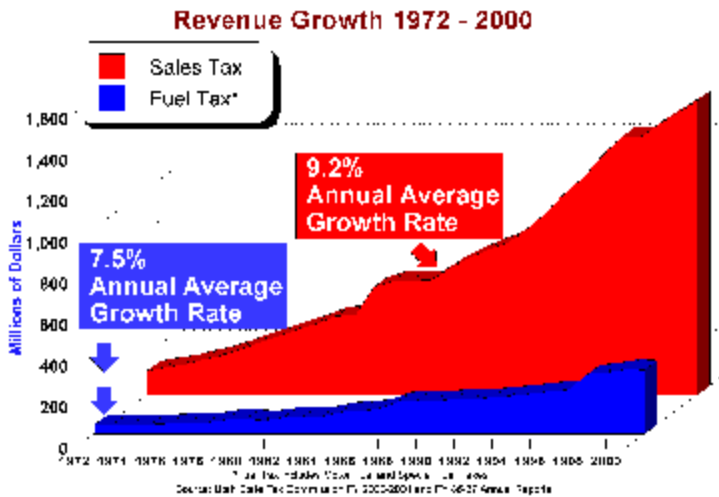
- fuel tax rates
- vehicle miles traveled
- motor fuel gallons taxed
- special fuel gallons taxed

Note that inflation is not a factor in fuel tax revenue growth. Instead, inflation only erodes the purchasing power of fuel tax revenue. More fuel efficient vehicles and increased alternative transportation also reduce fuel tax revenue growth.

## How have fuel tax rates been raised in the past?

- Between 1978 and 1987 the fuel tax rate was raised 4 times, increasing the tax from 7¢ to 19¢ per gallon.
- Since 1987, the fuel tax rate has been adjusted only once, in 1997, when it increased from 19¢ per gallon to the current rate of 24.5¢ per gallon. This increase included a transfer of the 1/2 cent environmental surcharge previously dedicated to the petroleum storage tank cleanup program.

## Sales Tax Vs. Fuel Tax Revenues



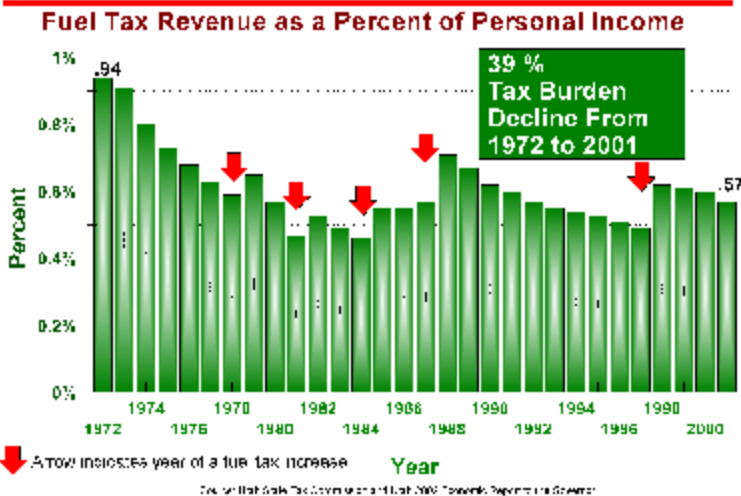
### What is the current fuel tax burden to citizens?

The percent of personal income that Utah taxpayers pay in fuel taxes has decreased 39% between 1972 and 2001.

### Approximately how much money would be generated by a fuel tax increase?

- A 1¢ increase in the motor fuel tax would raise about \$13 million.
- The last two motor fuel tax increases were 5¢.
- Another 5¢ increase would raise about \$65 million annually.
- Under current statute, 25% of the Transportation Fund revenue goes to counties and municipalities for their highways

## Utah Fuel Tax Burden

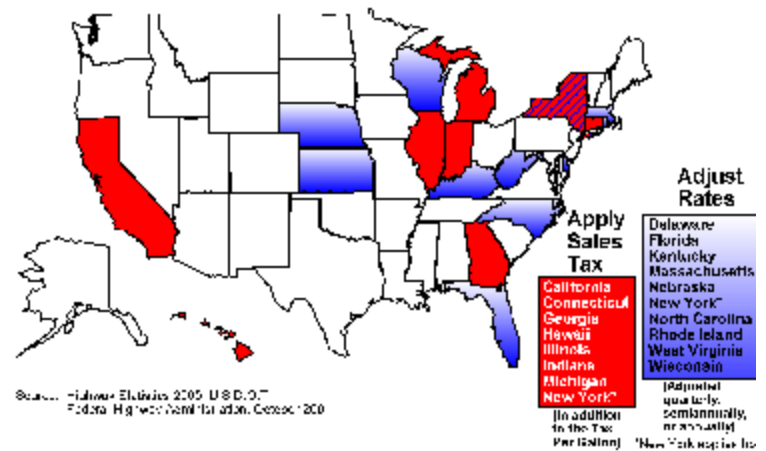


### How have other states addressed slow fuel tax revenue growth?

- 10 states impose automatic rate adjustments for fuel taxes
- 8 states impose a sales tax on the sale of fuel, in addition to the fuel tax
- 1 state imposes both

## States With Variable Fuel Tax Rates

Application of a Sales Tax or Automatic Rate Adjustments



### Conclusion

Utah's slower economy has reduced General Fund revenues going to the Centennial Highway Fund, exacerbating the continuing challenge of funding Utah's highways.

Present commitments to highway projects means the Legislature must solve a funding gap by:

1. Delaying highway projects;
2. Eliminating highway projects; or
3. Finding new revenues.

If new revenues are considered, options include:

- Periodically increasing fuel tax rates
- Creating an automatic rate adjustment on fuel taxes (tied to inflation)
- Imposing a sales tax on the sale of fuel



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