

## FUELING OUR FUTURE: OPTIONS FOR FINANCING MAJOR TRANSPORTATION PROJECTS

Utah, especially along the Wasatch Front, is facing a transportation crisis. Among the components of the crisis are a growing population, constrained geography, limited funding, and highway capacity moving toward increased congestion. This summary provides a snapshot of funding alternatives that could be employed to fill the projected funding gap, which may be as large as \$23 billion over the next 25 years.

Utah's population has grown dramatically over the last fifteen years. Current estimates indicate that by 2030, Utah will add another 1.5 million people, an increase of 68.9 percent. Much of this growth will occur along the urban and urbanizing Wasatch Front. In addition to increasing population, vehicle travel has also increased rapidly, even outpacing population growth. Total vehicle miles traveled (VMT) is projected to increase by 87 percent by 2030. This occurs as residents continue to increase vehicle ownership, drive farther for work trips, and make more non-work trips. A changing age structure and increasing female participation in the labor force also impact this trend. At current funding levels, the demand for highways and transit will soon exceed the state's ability to build and maintain new facilities.

Transit ridership has also shown dramatic increases in recent years. Over the last ten years, transit ridership has increased by 9.3 million trips. A significant component of current and future ridership is rail based, both light rail and eventually commuter rail. Transportation planners estimate that with improvements to the transportation system there could be additional annual ridership of nearly 50 million by 2030.

### HIGHWAY & TRANSIT FUNDING IN UTAH

In many ways, federal funding has historically been the key component of highway and transit funding strategies. However, under current federal law, state and local revenue generation has increased in importance. In Utah there are four key pieces to state and local highway and transit funding. These include: the state transportation fund, B&C road funds, Centennial Highway Fund, and transit funding. These revenues come from a range of state and local sources.

The Transportation Fund is separated from the state general fund to provide a separate funding structure for highway funding. The primary revenue sources for the transportation fund include motor fuel (gasoline) and special fuel (diesel) excise taxes. In FY 2004, the transportation fund received \$363 million in state generated revenue. This includes \$242 million in motor fuel and \$90.9 million in special fuel revenue. The remaining revenue comes from a variety of registration and other user fees.

The second major component is funding local B&C roads. B&C roads are county and city roads not designated as state highways. The B&C road account receives 25 percent of the total revenue from highway-user taxes and fees, less appropriations to other agencies. In FY 2004, the B&C road account received appropriations of \$115 million. These monies were allocated to cities and counties based on a weighted formula that includes population and miles of roads.

The third component is the Centennial Highway Fund (CHF). The fund was created to account for 11 years of highway projects that would not have been completed under previous funding constraints. The fuel tax was increased from 19 cents per gallon to 24.5 cents per gallon. The increase was earmarked for CHF projects. Registration fees were also increased and dedicated for CHF projects. The CHF program initially assumed general fund revenues of up to \$145

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million per year. However, in recent years a decline in state revenues has decreased the general fund contributions to about \$60 million for CHF projects, and increased the use of debt to fund these projects. Current estimates project that CHF debt payments will continue through 2017.

The final piece of transportation funding is for public transportation. Unlike the highway funding which has a major state component, transit funding focuses on local funding in each transit district. This brief description focuses specifically on the Utah Transit Authority (UTA). UTA is the largest transit system in Utah, covering a six county service area along the Wasatch Front. Revenue for UTA comes from three primary sources: passenger revenue, sales taxes, and federal grants. Federal grants cover planning, preventative maintenance, and capital expenditures. Sales tax revenues for transit are generated through a local option sales tax of ½ percent in Davis and Weber counties, a 7/16 percent rate in Salt Lake County, and a ¼ percent in the areas of Utah, Tooele, and Box Elder Counties that are part of the UTA system. In FY 2003 the local option sales taxes for UTA generated nearly \$103.9 million for transit uses. The other major local source is fare revenue. UTA has a goal of recovering 20 percent of operating expenditures through passenger fares. In FY 2003, UTA collected \$18.8 million in fares, recovering about 18 percent of operating related expenditures.

**EXPLORING FUNDING OPTIONS**

This section summarizes some of the different revenue sources explored in the main report. These revenues are all explored in light of several principles of sound revenue policy. The revenue should be able to produce sufficient revenue to fund the governmental services demanded by citizens. The revenue should interfere as little as possible with market decisions. Tax payers should not be encouraged or discouraged to engage in transactions simply because of positive or negative tax consequences. The revenue should be fair and equitable to taxpayers. The revenue should be easy and economical to administer. Finally, the revenue must provide accountability, it must be administered efficiently and fairly.

**EXCISE TAXES**

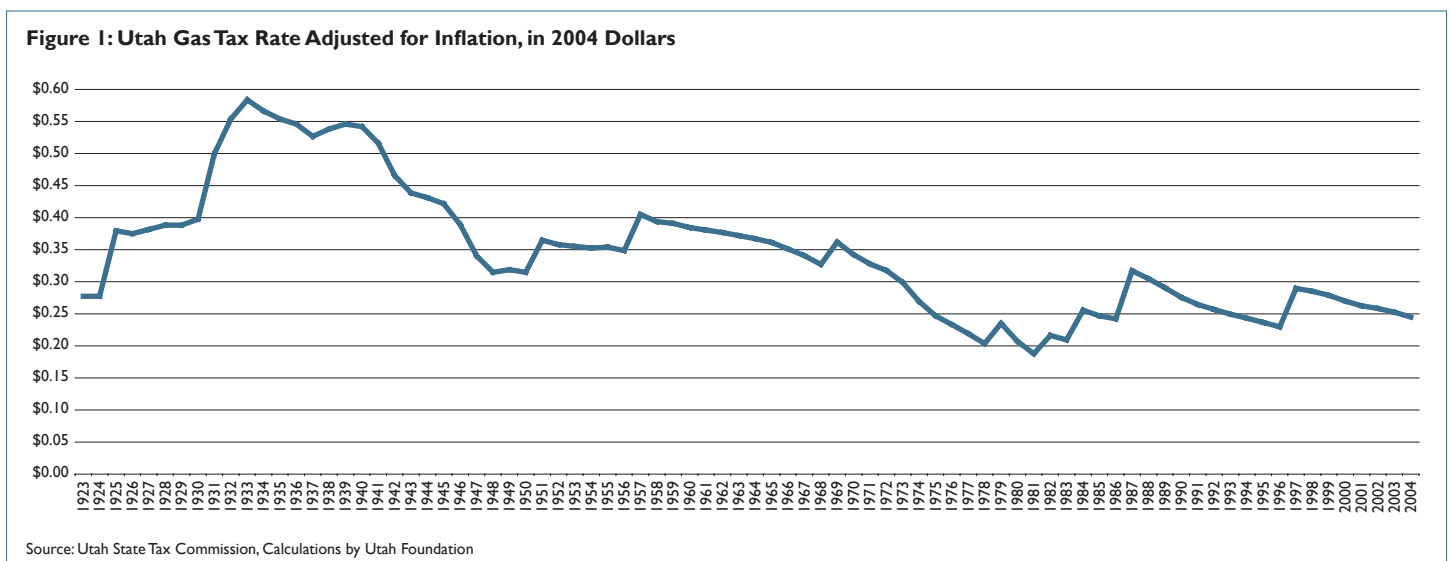
Excise taxes are the most significant source of current revenues for highway funding in Utah. Excise taxes as a source of revenue for highway and roads are levied primarily on gasoline and diesel fuels. The fuel tax is currently 24.5 cents per gallon. After controlling for inflation, the tax is near its lowest level in its eighty-one year history (see chart “Utah’s Gas Tax Rate). While fuel consumption has increased dramatically in recent years, the excise tax has declined in revenue production. This is because of inflation and increased fuel economy (see chart “Utah Gas Tax Revenue per Vehicle Miled Traveled”).

To raise additional revenue several options are available with fuel excise taxes. The rate could be increased, the rate could be automatically adjusted for inflation, or the rate could be adjusted for fuel economy. Currently every penny of fuel tax generates about \$13.8 million. If the fuel tax were increased five cents it would generate about \$68.7 million for gasoline and diesel fuel taxes. Alternatively, if Utah had instituted an adjustable gasoline and special fuel excise tax base on inflation starting in 1997, when the state instituted the current rate of 24.5 cents per gallon, the adjusted rate would be 28.7 cents per gallon in FY 2004. The adjusted rate would have yielded an additional \$57.6 million in the most recent fiscal year. If an adjustable rate tax were implemented in conjunction with a five cent increase it would generate about \$80.8 million in additional revenue.

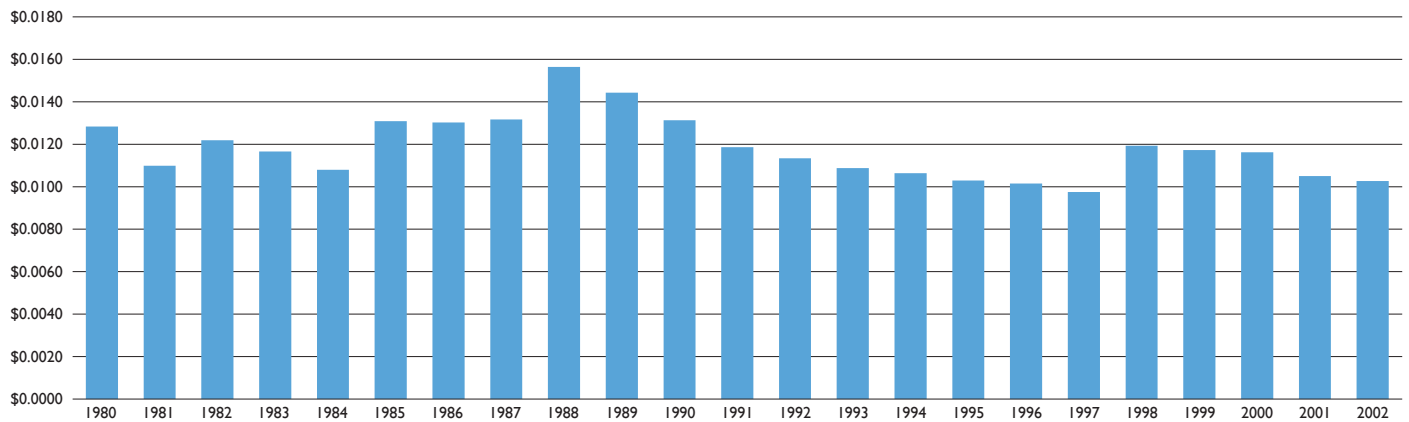
**SALES TAXES**

The sales tax is a tax levied at the point of sale on the value of the transaction. In Utah there is a general state sales tax of 4.75 percent, with several additional rates that may be imposed for specific purposes, several of which can be adopted for highway and transit funding.

Utah does not currently levy a sales tax on fuel sales. If Utah removed the exemption from fuel sales and levied the state sales tax on the average purchase price of gasoline and diesel during FY 2004, it would have raised approximately \$93.1 million in FY 2004. If Utah were to exclude state and federal excise taxes from the sales tax, this tax would have raised about \$64.8 million in FY 2004.



**Figure 2: Utah Gas Tax Revenue per Vehicle Mile Traveled, in 2004 Dollars**



Source: Ibid.

Utah currently has two public transit sales tax options. These are two ¼ percent taxes for transit systems, as noted by the rates above. If the tax rate were increased to ½ percent in UTA's entire service area the additional tax would raise an additional \$21.8.

If Utah were to implement a transportation sales tax statewide or along the four Wasatch Front counties it would generate substantial revenue. A tax rate of .25 percent would yield \$81.5 million statewide or \$63.3 million along the Wasatch Front for transportation purposes. Another approach to the sales tax would be to earmark all transportation related sales tax transactions for transportation related expenditures. Currently, the state sales tax on these transactions generates approximately \$279.8. These revenues are currently being collected and used in the general fund. If these revenues were earmarked for transportation funding the revenue would likely need to be replaced in the general fund through some other mechanism, such as broadening the sales tax base to include transactions not currently taxed.

### MOTOR VEHICLE REGISTRATION

Annually, vehicle registration fees in Utah generate about \$27.4 million for state highway funds. In 2004, there were 1.7 million registered passenger cars and light trucks in Utah. If these vehicles were subject to an additional vehicle registration fee of \$10 per year, regardless of the type or weight of vehicle, \$17.2 million would be generated. Alternatively, if registration fees were increased \$50 for these same vehicles, it would generate \$86.0 million in annual revenue. Another option would be to allow local governments to charge a local registration fee. A local fee of \$5 along the Wasatch Front would generate approximately \$6.6 million from vehicles registered in Weber, Davis, Salt Lake, and Utah counties.

### VEHICLE MILES TRAVELED TAX

One response to the erosion of the revenue productivity of fuel taxes is to switch to an alternative user fee structure. The vehicle mile traveled tax is one such alternative. Under this system a per mile charge is collected for every mile driven within the state. If Utah implemented a VMT tax to replace existing fuel taxes, the rate would be about

1.29 cents per mile. At this rate the VMT tax would generate about \$333.5 million.

### PROPERTY TAX

In Utah, the property tax is an ad valorem tax assessed on real property and personal property. The property tax is used by cities, counties,

**Figure 3: Summary of Major Revenue Sources**

Short and Long Term Transportation Revenue Estimates

	Additional Revenue FY 2004	Debt Supported	Cumulative Revenue 2006-2030
<b>Additional 5 cent fuel tax: motor fuel and special fuel</b>	\$68,678,139	\$575,803,060	\$2,388,797,748
<b>Inflation adjusted fuel tax</b>	\$57,597,431	\$482,901,516	\$6,422,502,397
<b>Combined inflation adjustment and 5 cent fuel tax</b>	\$80,767,313	\$677,159,676	\$10,776,828,637
<b>Motor fuel sales tax</b>	\$63,776,917	\$534,710,818	\$3,336,123,097
<b>Special fuel sales tax</b>	\$29,330,488	\$245,909,182	\$1,506,438,462
<b>Public transit sales taxes, create a uniform rate of 1/2 cent for all of UTA's service area</b>	\$21,809,194	NA	\$1,139,597,167
<b>Statewide transportation sales tax</b>	\$81,520,473	\$683,474,231	\$4,092,821,984
<b>Wasatch regional transportation sales tax</b>	\$63,281,429	\$530,556,612	\$3,177,111,394
<b>Earmarked sales tax base from auto-related sales</b>	\$279,834,272	\$2,346,153,134	\$10,813,616,680
<b>Motor vehicle registration -- additional \$10</b>	\$17,204,460	\$144,243,582	NA
<b>Motor vehicle registration -- additional \$50</b>	\$86,022,300	\$721,217,909	NA
<b>Local option registration fee -- \$5 Wasatch Front</b>	\$6,554,899	\$54,956,805	NA
<b>Statewide vehicle miles traveled tax \$0.0129 per mile</b>	\$333,470,000	\$2,795,839,404	\$11,975,940,832
<b>Regional vehicle miles traveled tax \$0.0129 per mile -- Wasatch Front</b>	\$207,813,317	\$1,742,323,626	\$7,425,083,316
<b>Additional \$5 drivers license fee</b>	\$1,500,000	\$12,576,121	\$61,685,415
<b>Property tax -- statewide .001 rate</b>	\$133,352,051	\$1,118,034,364	\$5,158,008,470
<b>Property tax -- Wasatch Front transportation district .001 rate</b>	\$81,541,212	\$683,648,101	\$3,153,984,180
<b>Property tax -- UTA capital debt .00113 rate</b>	\$95,080,022	\$797,158,580	\$3,567,156,108
<b>Per parcel fee \$25 -- statewide</b>	\$25,702,775	\$215,494,141	NA
<b>Per parcel fee \$25 -- Wasatch Front</b>	\$13,560,175	\$113,689,602	NA
<b>Impact fee \$1000 -- Wasatch Front</b>	\$11,966,000	\$100,323,910	NA
<b>Payroll tax -- statewide</b>	\$68,186,974	\$571,685,098	NA
<b>Payroll tax -- Wasatch Front</b>	\$57,021,774	\$478,075,160	NA

Each 2004 estimate assumes that the revenue source would have been collected during FY 2004. The debt supported estimate uses the 2004 revenue estimate to see how much debt would be supported on a ten year AAA rated bond issued at 3.34%. Give that there is a 25 year time horizon (2006-2030), the debt could be issues more than once. The cumulative revenue estimates take into account into inflation and other growth factors. NA indicates that long term estimate was not developed.

school districts, and a variety of special districts. Utah transit districts are authorized to use the property tax, but do not currently do so.

If a statewide property tax for highway or transit projects at a rate of 0.001 were levied, this would yield \$133.4 million in FY 2004 (\$644.4 million with a tax rate of 0.0005). If the property tax is limited to supporting transit operations at the .0004 rate allowed under state law, it would raise \$32.1 million annually. For capital funding, UTA estimates that they would not need to levy at the maximum rate to support debt financing of capital projects in the current Long Range Transportation Plans. If UTA were to levy at a rate of 0.00113, it would generate about \$95.1 million in 2004 to service the debt for their capital program. Another option would be to use the property tax to fund a Wasatch Front Transportation district. If the district had a rate of .0001, it would raise approximately \$81.5 million in 2004.

### PAYROLL OR INCOME TAX

Some communities across the U.S. use income or payroll taxes to support transportation funding. The transit tax is imposed directly

on the employer. Usually, all salaries, commissions, bonuses, fees, or other items of value paid to a person for services performed within the area or transit district are subject to transit district taxes. If a transportation payroll tax of .2 percent were in place for FY 2004, it would generate about \$57.0 million along the Wasatch Front or \$68.2 million if implemented statewide.

### CONCLUSION

The full research report reviews several revenue options for funding highways and transit primarily along the Wasatch Front. As policy makers choose among alternatives it is important to remember the principles of sound revenue policy. The revenue systems for highway and transit funding should provide adequate funding to meet citizen demands. The revenues should not alter economic decisions and should be fairly and equitably implemented. Additionally, the revenue should be easy to administer and provide accountability.

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