

Tennessee Transportation Funding: Challenges and Options



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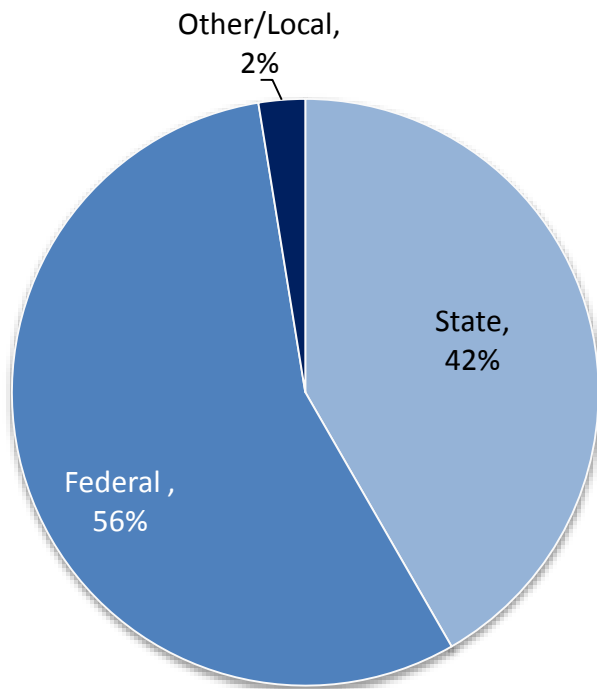
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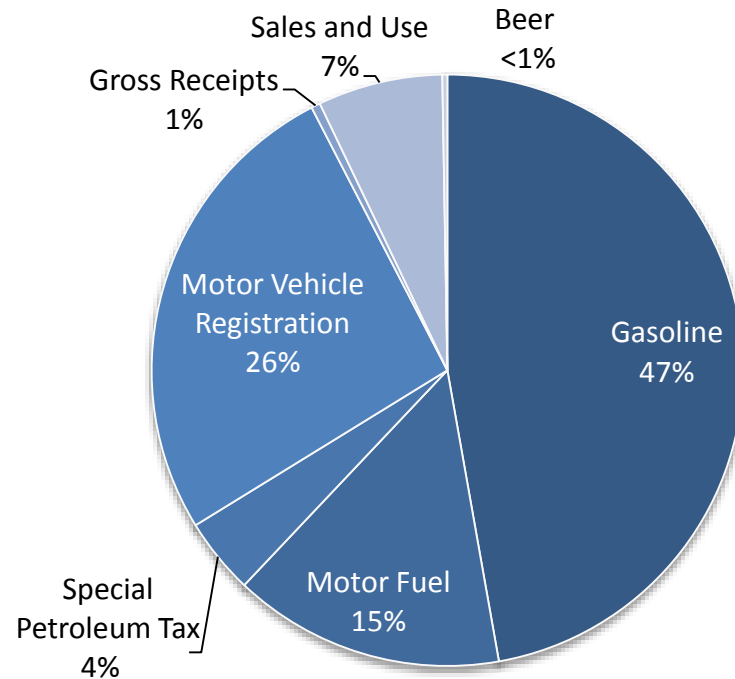
Scope

- ◆ Does not include recommendations
 - Resource document with objective analysis
 - Presents strengths and concerns for different options
- ◆ Does not address
 - Level of funding needed
 - How funds are or should be spent
 - Transportation modes other than highways

Background – State Road Funding



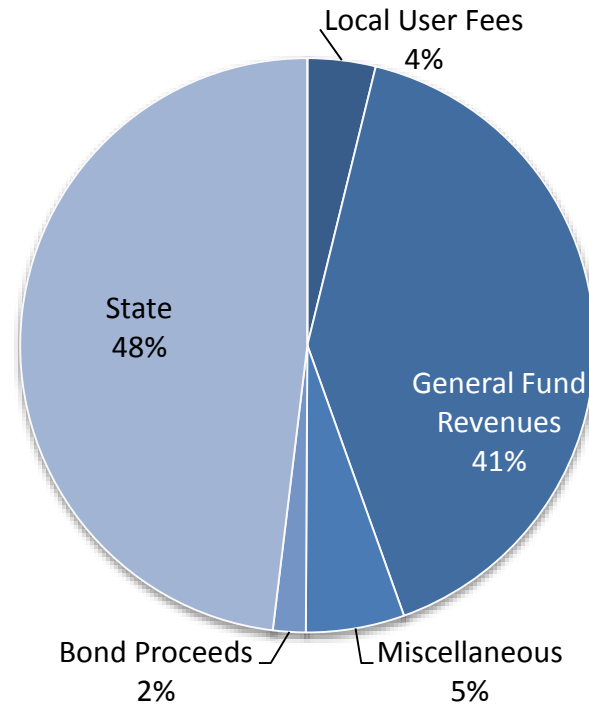
Total Revenue = \$1.83 billion



State Revenue = \$788 million

FY2014

Local Funding



Total Revenue = \$605.3 million
2012

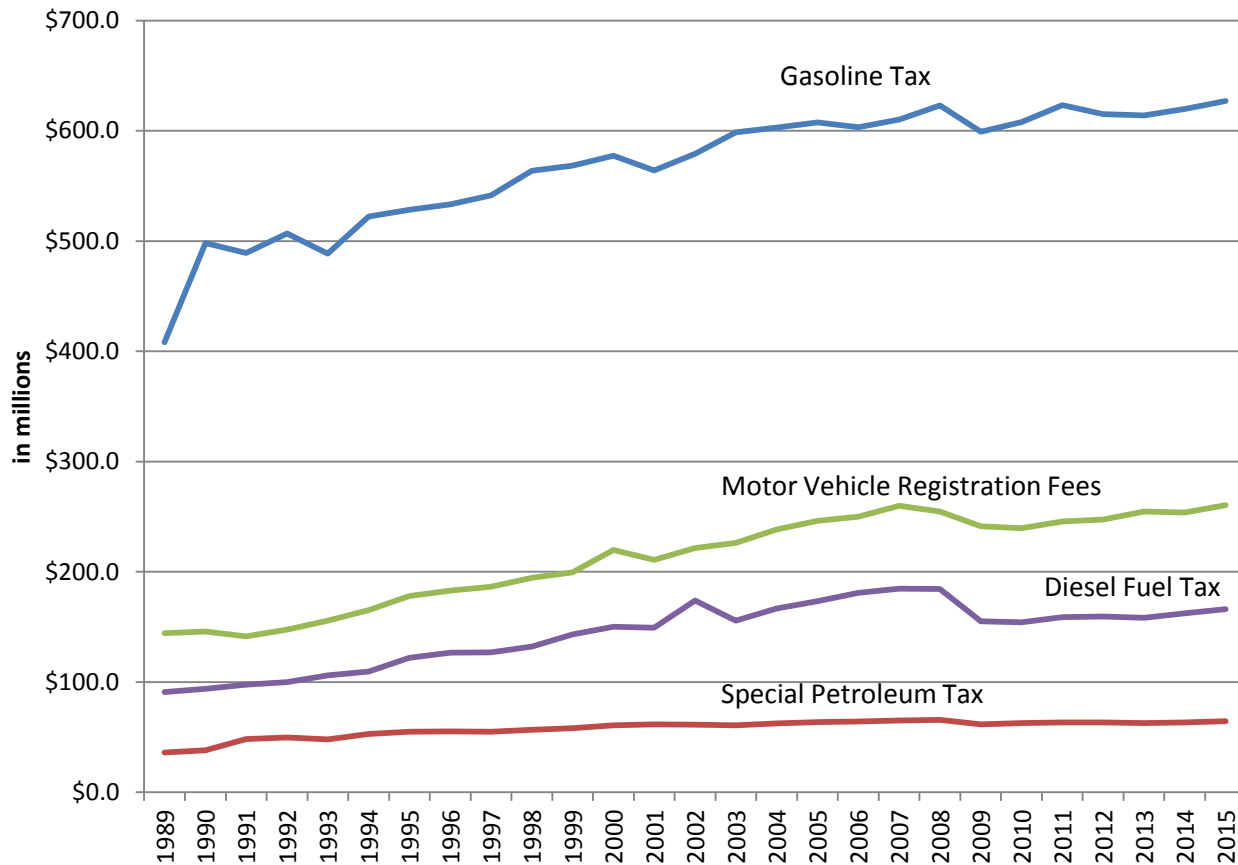
Comparison to Other states

- ◆ Tennessee revenue per capita to highways in 2010 (\$325.71) lowest in U.S. (Average = \$620.59)
- ◆ Tennessee relies more heavily on highway user taxes than other states
- ◆ Tennessee does not use debt financing, tolls, or general fund revenues for highways
- ◆ Tennessee roads generally rated as being of good quality

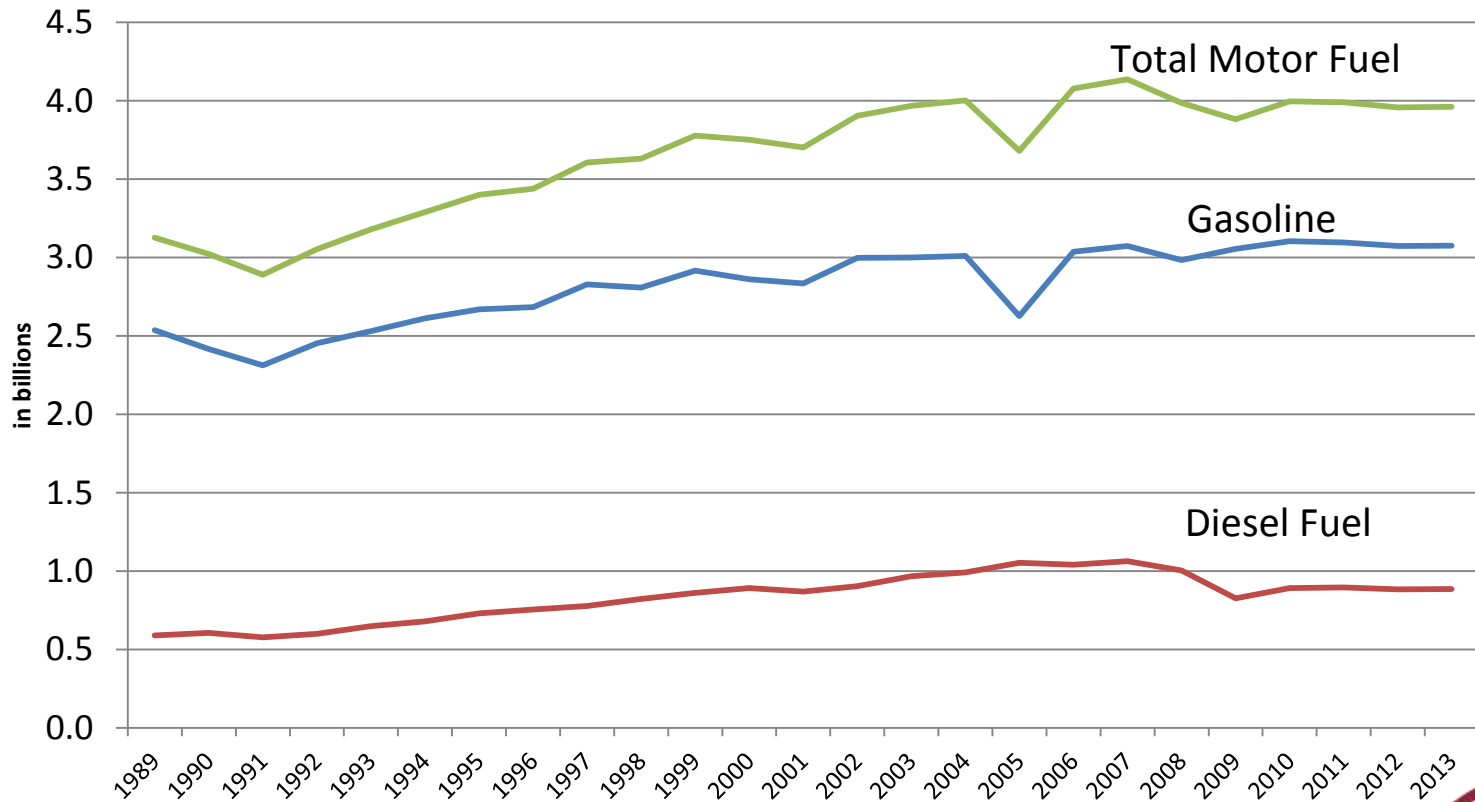
Challenges

- ◆ Transportation revenues in Tennessee are not expected to be sufficient to maintain existing highways and meet long-term transportation demand
- ◆ User fee revenues have stagnated and are not expected to increase without changes

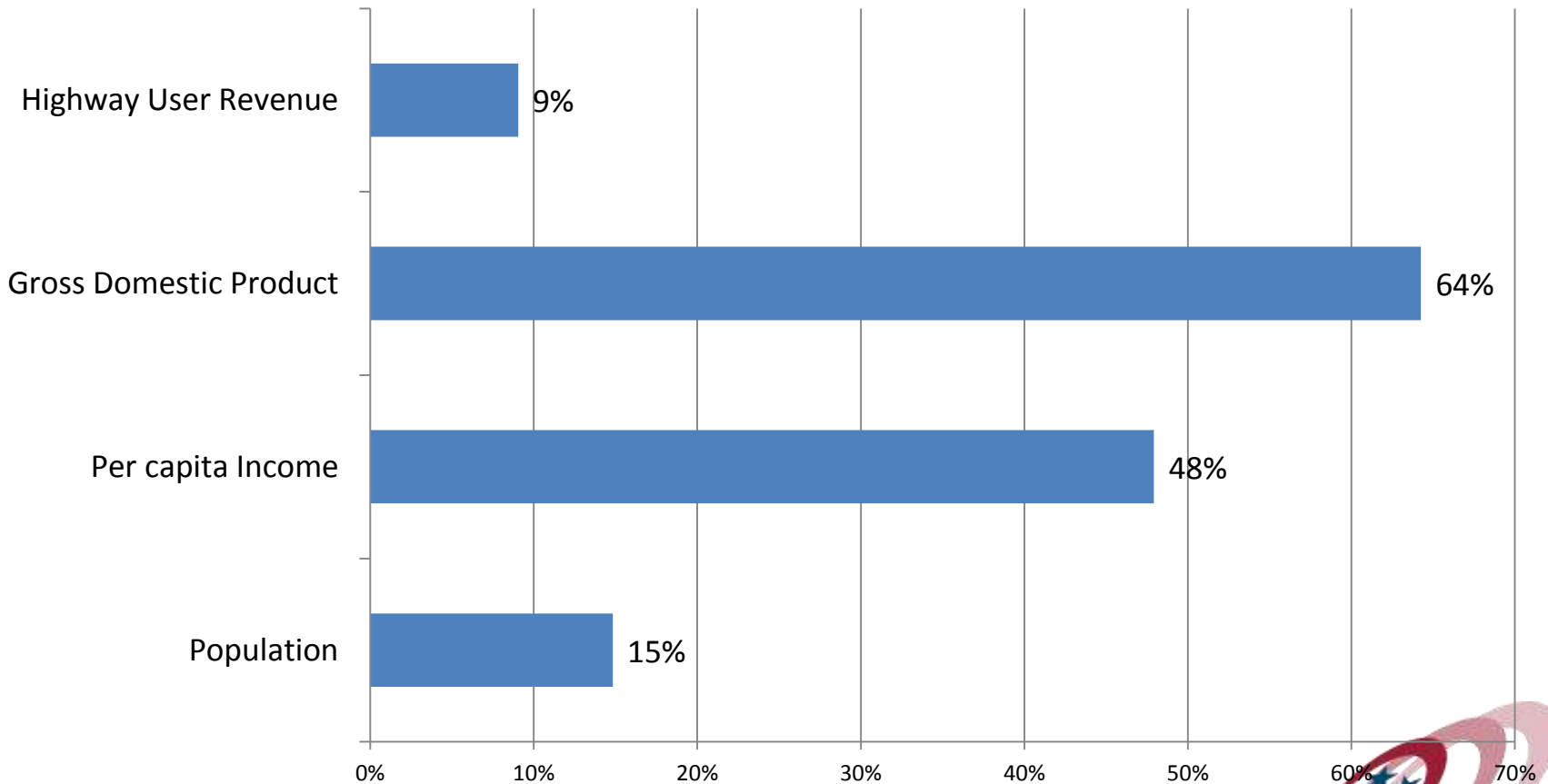
Tennessee Highway User Tax Revenues, 1989-2015



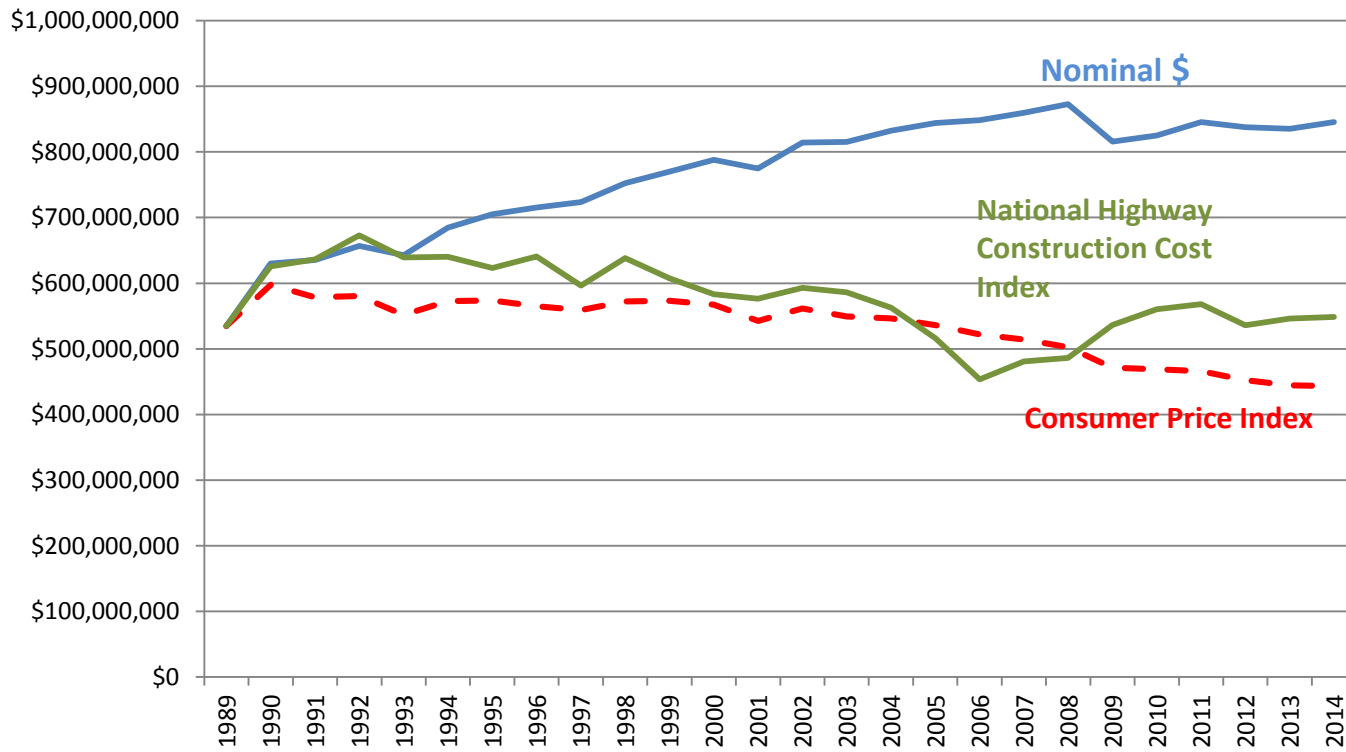
Tennessee Taxable Fuel Consumption, in gallons, 1989 through 2013



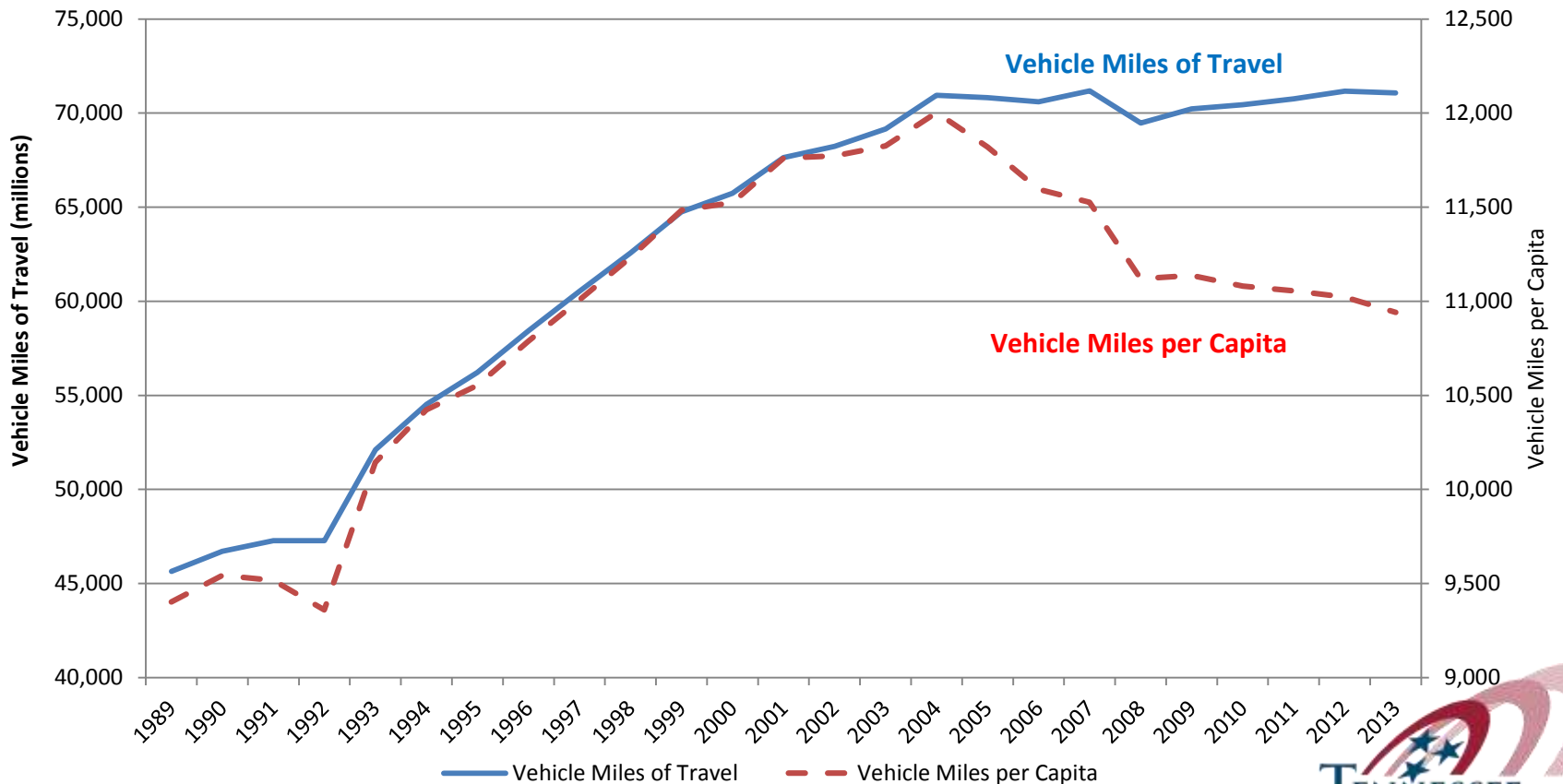
Percent Change Tennessee Highway-User Revenue Compared to Population and Economic Growth, 2000 through 2014



Tennessee Fuel Tax Revenue, Nominal and Inflation-adjusted Dollars, 1989 through 2014



Tennessee Vehicle Miles of Travel, 1989-2013



Estimated Average Fuel Economy of Light-Duty Vehicles under CAFE Standards, 2010 to 2025



Uncertainty of Federal Funding

- ◆ Shortfalls in federal HTF in recent years funded with General Funds
- ◆ No long-term solutions passed by Congress to address shortfalls in Highway Trust Fund

Local Government Highway Funding

- ◆ Face same challenges as state with stagnating revenue and increasing costs
- ◆ Local governments rely heavily on state-shared fuel taxes
- ◆ Locals also use other local revenues for highways and some borrow funds to varying degrees

Possible Revenue Options

- ◆ Current Tennessee highway taxes and fees
 - Increase fuel tax rates
 - Index fuel tax rates to inflation or price or fuel efficiency standards
 - Increase motor vehicle registration fees
 - ◆ Add a use tax for alternative fuel or high-mileage vehicles that pay little or no fuel taxes that support the up keep of roads

Options – cont.

- ◆ Used by other states
 - Apply sales tax to fuel purchases
 - Transfer General Fund revenue to highways
 - Use debt financing
 - ◆ General Obligation bonds
 - ◆ Public-private partnerships
 - Add weight distance taxes
 - Local Option highway taxes

Options – cont.

- ◆ Addressing structural issues with current taxes
 - Use of tolls
 - Mileage-based tax systems

Motor Fuel Taxes

◆ Strengths

- “User pays” tax
- Dedicated taxes are stable source of revenue
- Low administrative costs
- Out of state motorists pay
- A small change produces substantial revenue at a small cost to users
- Supports local roads under current distribution formulas

Motor Fuel Taxes

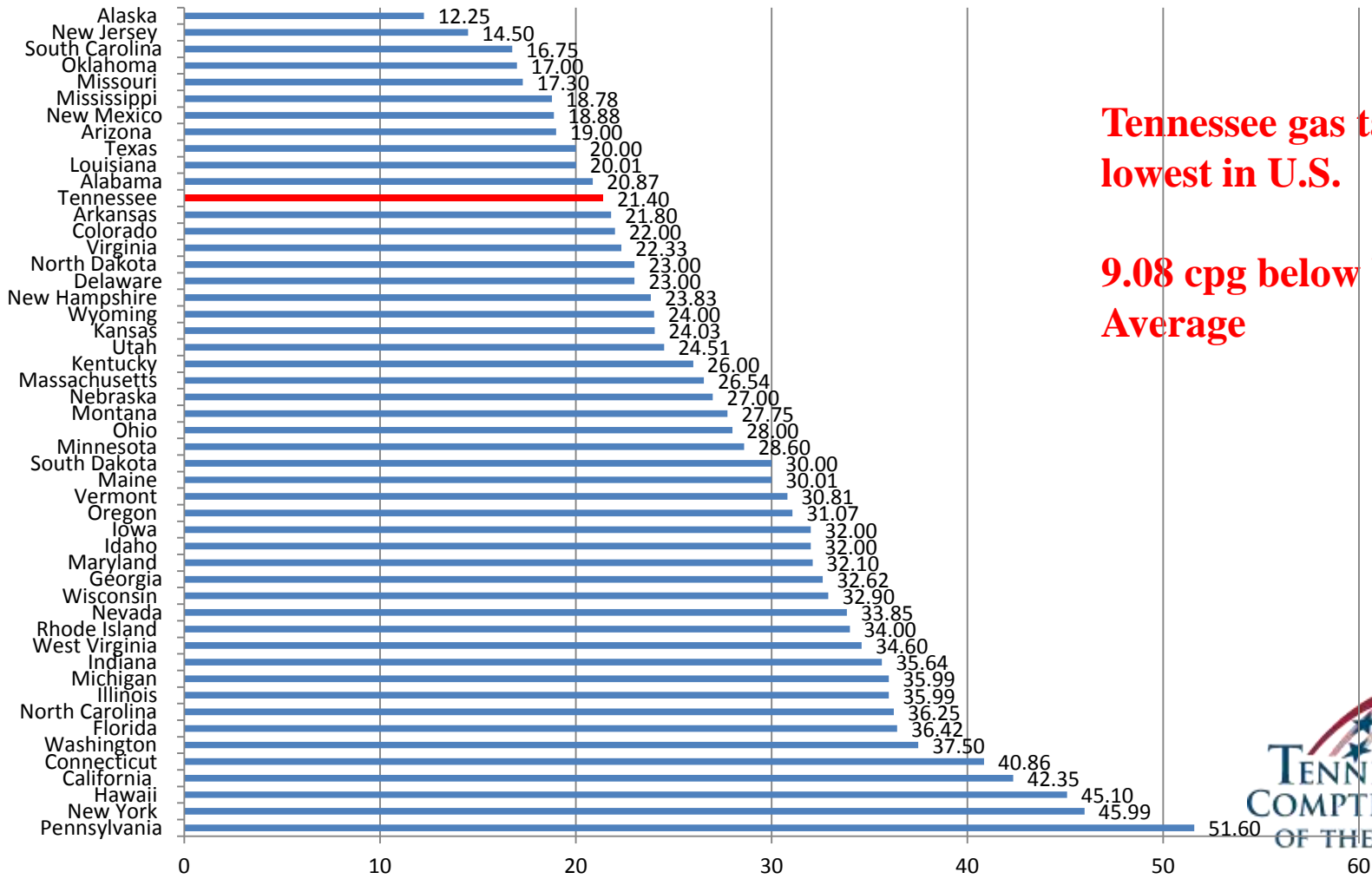
◆ Concerns

- Variation in fuel efficiency so taxes not tied as closely to road use
- Unless increased on regular basis do not grow with economy
- Not directly tied to pavement damage of vehicles

Other Considerations

- ◆ Tennessee gas tax last raised in 1989
TN gas tax 21.4 cents per gallon
- ◆ Tennessee diesel tax last raised in 1990
TN diesel tax 18.4 cents per gallon

Tennessee Gas Tax Rates (cents per gallon) Compared to Other States, 2015

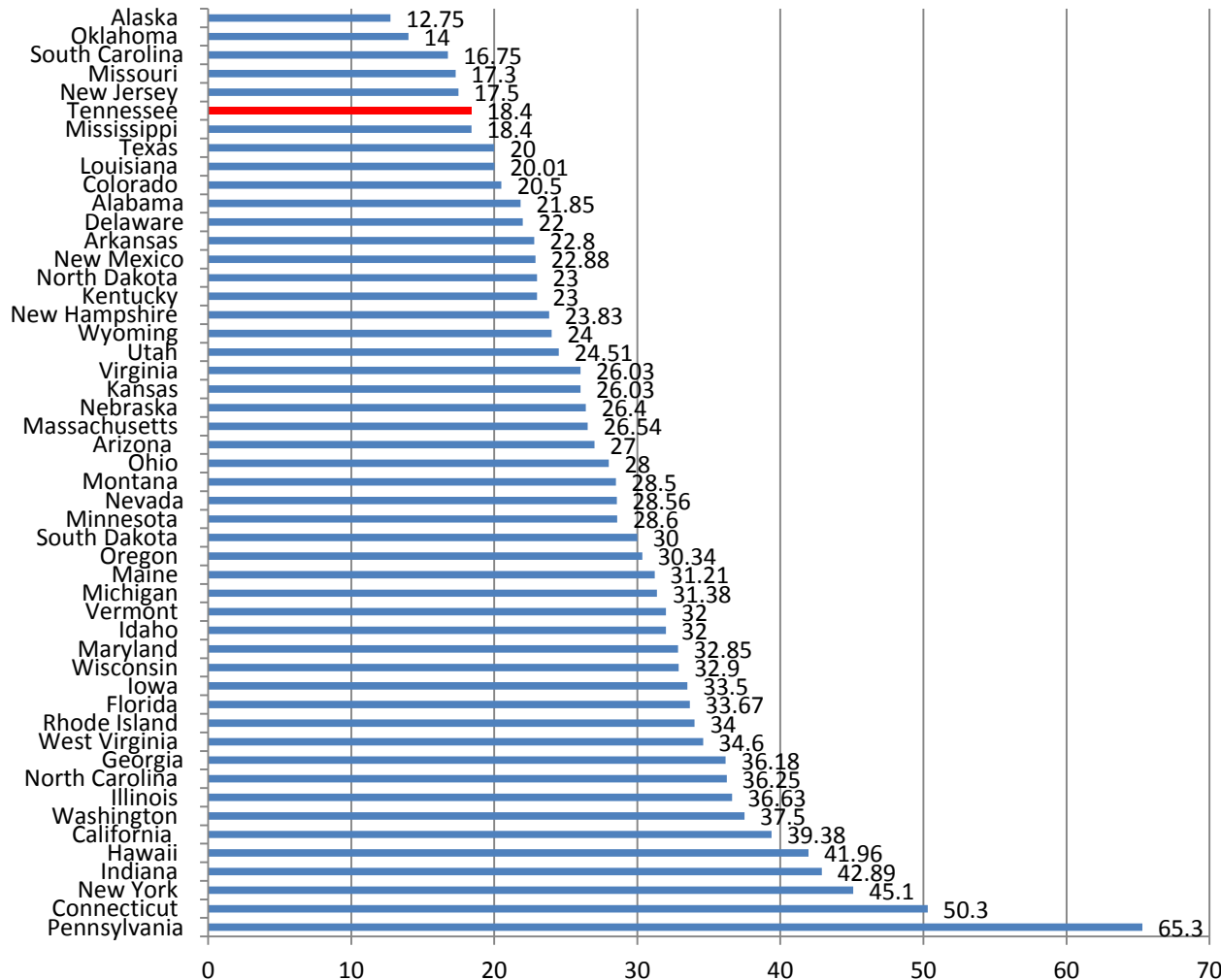


**Tennessee gas tax is 12th
lowest in U.S.**

**9.08 cpg below U.S.
Average**



Tennessee Diesel Tax Rates (cents per gallon) Compared to Other States, 2015



Tennessee diesel tax is 6th lowest in U.S.

11.71cpg below U.S. Average



Annual Gas Tax Paid – Common Passenger Vehicle

- ◆ Assumptions: 15,000 miles driven per year/
20 miles per gallon = **750 gallons of gas**

- ◆ **State Gas Tax**
 - 750 gallons X 21.4 cents per gallon = **\$160.50**
1.1 cent per mile

- ◆ **Federal Gas Tax**
 - 750 gallons X 18.4 cents per gallon = **\$138.00**
1 cent per mile

- ◆ **Total State and Federal Gas Tax = \$298.50**

- ◆ **One cent increase = \$7.50 per year**

Revenue projections

◆ Gas Tax

- 1 cent increase = \$30.9 million (+ 5%)

State Highway Fund (60%) \$18.54 m

Local Highways (38%) \$11.74 m

General Fund (2%) \$ 0.62 m

Revenue projection

◆ Diesel Tax

- 1 cent increase = \$ 9.6 million (+ 6%)

State Highway Fund (60%) \$ 6.91 m

Local Highways (38%) \$ 2.5 m

General Fund (2%) \$ 0.19 m

Variable Rate or Indexed Fuel Taxes

◆ Strengths

- Allows fuel taxes to better adjust to changes in the economy and purchasing power over time
- “User pays” tax
- Retains lower administrative costs if tied to current taxes
- Requires less frequent legislative action to change the rates

Variable Rate or Indexed Fuel Taxes

◆ Concerns:

- Volatility of index measures
 - ◆ Can include floors, ceilings, and change limitation to reduce volatility
- Limits public debate on changes
- What index to use to best reflect highway costs
- Still tied to fuel consumption

Variable Rate options

- ◆ Indexed to CPI from 1989
 - Gas tax = 20 to 38 cpg (\$556.2m FY15)
 - Diesel tax = 17 to 30 cpg (\$124.8m FY15)

- ◆ Index to Wholesale or Retail Price of Fuel

Variable Rate options

- ◆ Add current sales tax rates (9.5% average) to fuel
 - State \$1 billion (+186 %) Local \$368 million (+127%)
- ◆ Add 1% sales tax to fuel
 - \$147.1 million (+17.5%)
- ◆ Based on average fuel prices of \$3.453 per gallon for gasoline and \$3.77 for diesel fuel; sales tax revenue would fluctuate with the price of fuel.

Vehicle Miles Traveled Tax

◆ Strengths

- Enhances the “user pays” principle – tax based on miles driven, not fuel used
- Can use to address other policy goals such as reducing traffic congestion and vehicle pavement damage
- More feasible administratively with new technology

Vehicle Miles Traveled Tax

◆ Concerns

- Public acceptance low
- Concerns with privacy protection
- Increased administrative costs
- How to account for non-resident driving

Debt Financing

- ◆ Requires a commitment of dedicated recurring funds to repay any debt issued

◆ Questions or comments?

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