LOCAL TRANSPORTATION FUNDING PROPOSAL

**Background:**

Adequately funding transportation needs is one of the most significant and pressing challenges facing cities and counties across the state of Utah. Utah’s population is projected to nearly double in the next 30 years. In order to accommodate that growth in a way that enhances our economy, protects our air quality, and preserves our quality of life, policymakers will need to take a balanced, multi-modal approach to investing in transportation infrastructure. **Utah’s Unified Transportation Plan: 2011–2040** identifies additional state and local road and transit capacity that will be needed, along with active transportation options, such as bike and pedestrian pathways. Equally important is the need to maintain and operate Utah’s transportation system. While specific needs vary by community, this balanced approach is needed in all of our communities going forward. An effective and comprehensive approach to local transportation funding should address all of these areas, while providing flexibility to meet individual community needs. This local transportation funding proposal attempts to address multiple elements identified in the Unified Transportation Plan.

Historically, the state fuel tax has been the primary source of revenue to fund local roads. In recent years, however, a combination of rapid population growth, increased road construction and maintenance costs, and decreased buying power of the fuel tax has resulted in local governments having to rely heavily on their general funds to pay for critical transportation needs in their communities (statewide, approximately two-thirds of local road costs are now being covered with general funds). Routine maintenance needs are in many cases being deferred, leading to even higher capital costs, while regionally significant projects needed to serve growing mobility demands are being delayed. Without additional revenue, the transportation funding shortfall for cities and counties will grow, with serious implications for the safety and economic well being of Utah’s communities and residents.

Because the existing fuel tax is paid per gallon and is not indexed to inflation, it steadily loses buying power over time. The fuel tax currently comprises a smaller percentage of household income (0.4%) than at any time in the 90-year history of the tax in Utah. In addition, as vehicles become more fuel efficient and as alternative fuel and electric vehicles increase market share, users pump less fuel, further eroding revenues. The last time the state fuel tax was raised was in 1997 (from 19.5 cents per gallon to 24.5 cents per gallon), when the cost of a gallon of gas was just over $1. In the intervening years, the buying power of the fuel tax has declined approximately 40%, and is now equivalent to approximately 16.8 cents per gallon. This decline in buying power, coupled with increasing transportation costs, has resulted in a severe funding gap for Utah’s local communities.

Bridging that gap with general fund monies in our local communities is not good public policy and is not sustainable in the long-term. Funding the construction and maintenance of roads out of fuel taxes makes sense because the tax is a user-based fee – individuals who put the most wear and tear on the roads pay proportionately more tax at the pump. Municipal general funds, on the other hand, consist mainly of property and general sales tax revenues and should be reserved for residential and community services that benefit all property owners and residents of our...
Proposal:

**Funding for local roads:** The state should take legislative action authorizing counties to impose a 3% local option fuel user fee. The local option fuel user fee would have to be approved by the legislative body of a county prior to being levied in that county. County governments would have two opportunities to authorize the full 3% fee: if the authorization action was taken by June 30, 2014, the user fee would take effect on January 1, 2015; if the authorization action was taken by June 30, 2015, the user fee would take effect on January 1, 2016.

**100% of the proceeds of the local option fuel user fee would flow to local governments.** However, counties that do not opt in (and cities within those counties) would not receive any revenues from the local option fuel user fee. Revenues from opt-in counties would be allocated as follows:

- 50% of the local option fuel user fee revenues collected in a county would be pooled with revenues from other opt-in counties around the state and then allocated among and within those counties in accordance with the existing Class B & C road fund formulas.

- 50% of the local option fuel user fee revenues collected in a county would remain in that county and be allocated as follows:
  - In counties of the first and second classes, the county legislative body, in consultation with constituent municipalities, would allocate funds for selected projects within the county, including regionally significant projects identified in the Unified Transportation Plan / long range regional transportation plan adopted by the local metropolitan planning organization (MPO). The legislation would provide that these revenues flow to the levying county but not specify any local decision-making process for allocation, as that process should be flexible and locally driven and may vary from county to county.
  - In counties of the third through sixth classes, 50% of the funds would be allocated by the legislative body of the county and the other 50% would be allocated within the county in accordance with the existing Class B & C road fund formulas.

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1 For tax collection purposes, the State Tax Commission would on an annual basis convert the 3% rate to a per-gallon rate based on a 12-month weighted average, which would be applied at the distributor level.

2 There would be an administrative fee for the State Tax Commission for the costs associated with collection and auditing.

3 Class B & C allocation is based on 50% population and 50% weighted centerline miles.

4 For example, in Salt Lake County specifically, it has been suggested that a new county-wide legislative body be formed [by interlocal agreement] to allocate these funds. The body would be comprised of the mayors of each of the cities in Salt Lake County as well as one designated representative of the unincorporated areas of the County. Voting would be weighted according to the population represented by each board member. Technical assistance would be provided by the Wasatch Front Regional Council.
Funding for transit and active transportation: Utah’s Unified Transportation Plan identifies the need for a balanced, multimodal transportation system that includes transit and active transportation (trails, bicycle, and pedestrian infrastructure). There is a critical need for increased transit service and active transportation options, particularly in the more heavily populated areas of the State. These investments should focus on leveraging the projects just completed with the FrontLines 2015 Program, and improving the frequency, coverage, and connectivity of the bus system. Historically, transit funding has principally been generated through local sales taxes. There has been virtually no dedicated funding for active transportation. Active transportation that integrates with the Wasatch Front transit system increases the effectiveness of each mode, and both are key components of clean air and economic development for communities. Funding sources for transit and active transportation should be identified and secured, including additional opportunities for transit to be funded using traditional sources.

Additional information

While it would likely not appear in legislation, counties could require that some or all of the cities and towns within the county adopt resolutions endorsing the local option fuel user fee prior to the county actually imposing it.

A percentage-based transportation fuel user fee would address the decline in buying power that exists with a per-gallon rate. It would not address the impact on fuel tax revenues from increasing vehicle efficiency and growing market share for alternative fuel vehicles; that is a longer-term policy issue that impacts Utah and the nation as a whole, which should be discussed over time.

Pursuant to the state constitution, revenues from fees or taxes on fuel may only be used for certain prescribed purposes, including highway and road maintenance and construction. However, the revenues could be used for the road-related components of multi-modal transit or active transportation projects.

It is necessary to understand and address any logistical issues with tax collection and distribution that are associated with a local option fuel user fee. A technical working group has been established consisting of the Utah League of Cities and Towns (ULCT), the Utah Association of Counties (UAC), the Wasatch Front Regional Council (WFRC), and the Utah Department of Transportation (UDOT), and has begun consultations with the State Tax Commission and the Offices of Legislative Research and General Counsel and Fiscal Analyst.

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5 Utah State Constitution, Article XIII, Section 5, paragraph 6.