Legislative Research Council
SouthDakota

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Highway Needs and Highway Revenues

This past spring the Executive Board of the Legislative Research Council appointed an interim committee to study long term highway needs and the financial resources available to meet these needs. As a result its study, the Long-Term Highway Needs and Department of Transportation Agency Review Committee is recommending a highway funding bill, Senate Bill 1, to the 2010 Legislature. This issue memorandum will outline some of the more important information reviewed by the committee and review the recommendations of the committee. More detailed information can be found in the committee's minutes and committee's documents which can be found at the LRC website at: http://legis.state.sd.us/interim/2009/

What is the problem?

- **Highway needs greatly exceed existing highway funding.**

The highway revenues no longer cover the costs of highway construction and maintenance necessary to keep up with accruing highway needs. This fact was emphasized to the committee constantly by state and local transportation officials.

A study of local road needs conducted in 2008 concluded that there exists a shortfall of about $81 million per year for local highway officials to maintain their systems and to make improvements to those systems. A shortfall of about $50 million per year exists at the local level just to maintain the current condition of local highways.

At the state level, the Department of Transportation estimates it needs an additional $128.8 million a year to keep up with accruing needs on the state highway system. Of this amount, $72.3 million is needed for pavement preservation, $17.4 million is needed for bridge preservation, $25.0 million is needed for highway system expansion, $4.1 million is needed for highway field operations (snow removal, right-of-way maintenance, etc.), and $9.5 for capital assets (trucks, equipment, etc).

- **Lack of adequate highway funding is causing deteriorating highway conditions and increasing highway maintenance costs.**

The condition of local highways and bridges is deteriorating, especially the condition of county highways and bridges and township highways. Many of these bridges and highways were constructed in the 1930s or earlier and were designed for vehicles existing at that time. The size and weight of the vehicles being used on these highways and bridges today is more than most of these highways and bridges were designed to handle. Currently, about 35% of county road surfaces are in fair or poor conditions. Fifty percent of county secondary roads and township road surfaces are also in fair or poor condition.

Likewise, if current funding levels are maintained, the pavement conditions on the state highway system are projected to deteriorate. In 2009, 2% of the state highway system was in poor condition, 11% was in fair condition, 35% in good condition, and 51% in excellent condition. With no changes in revenues it is projected that by 2020, 19% of the state highway system will be in poor condition, 23% will be in fair condition, 27% will be in good condition, and 31% will be in excellent condition.

Unfortunately, pavement maintenance costs increase as a highway deteriorates. On the state system it costs $809 per year to maintain a mile of highway that is rated as excellent, $1,721 if that mile is rated good and $2,362 if that mile is rated fair. That is, it costs $1,553 more per year to maintain a mile of fair-rated highway versus a mile of excellent-rated highway.

- **Lack of adequate highway funding has lead to reduction and suspension of highway programs and highway services.**

State and local highway officials have been forced to find ways to stretch their budgets to keep up with highway needs. For the Department of Transportation, this has meant construction program changes and reductions in internal spending including a reduction for equipment purchases, reduction for building improvements, and a 10% across the board cut each of the last three fiscal years. One of the major results of these cuts is an increasing backlog of equipment needs.

The program to help maintain Game, Fish and Parks roads was decreased from $2 million a year to a half million dollars a year. A program to help counties and municipalities to develop highways for economic development expansion was reduced from $3.5 million to $1 million a year. Consequently, under this program no new grants have been issued for the last year while the backlog of previously awarded grants is being paid.

A program called the 90/10 SWAP program was suspended. This program allowed counties to swap federal highway dollars for state highway funds. This swap allowed the state to use the federal funds on state highways and counties to use the state funds, with no federal strings attached, with greater flexibility. Suspension of this program indirectly saves the DOT from $15 to $17 million each year, but it also means that counties must use the federal funds according to stringent federal criteria.

The department estimates it would need an additional $30 million a year to restore to previous levels the state-funded programs that have been reduced or suspended.

What is the cause of the problem?

- **Highway revenues have been declining**.

Revenue from the **motor fuel tax**, which is the primary source of revenue for the state highway fund, has been declining since 2005. The current state motor fuel tax is twenty-two cents per gallon. This rate has not changed since 1999. All moneys collected via the motor fuel tax go to the state highway fund. Local governments do not get a portion of the motor fuel tax. In FY05, $124.1 million was collected through the motor fuel tax. In FY09, $116.1 million was collected through the motor fuel tax. Declining miles of vehicle travel in the state and more fuel-efficient vehicles – both the result of increasing fuel prices – are the cause of this declining revenue. This is a trend that is not expected to change in the future.

Revenue from the **motor vehicle excise tax** peaked in FY08 and has been declining since then. The current rate of three percent on the purchase price of new and used motor vehicles has not changed since 1965. All moneys collected via the motor vehicle excise tax go to the state highway fund. In FY05, $57.9 million was collected through the excise tax. In FY09, $55.5 million was collected through the excise tax. Slowing new motor vehicle sales has stopped the growth of this revenue source.

Revenue from annual **motor vehicle license fees** has not increased significantly since 1999 – the last time motor vehicle license fees were raised. Outside of administrative costs, all revenue from motor vehicle license fees goes to local governments. South Dakota's noncommercial motor vehicle license fees are among the lowest in the nation.

- **Highway construction and maintenance costs are inflating at unprecedented rates.**

Since FY04, prices for gasoline and diesel fuel have more than doubled, the cost of de-icer has doubled, and the cost of sand has increased by 35%. This has lead to increased highway maintenance costs for both the state and local governments.

The average cost per mile for highway construction has more than doubled since 1999. It now costs about $1.3 million a mile to construct or reconstruct a two-lane roadway to concrete and about $1.1 million a mile to construct or reconstruct such a roadway to asphalt. Rising fuel prices are linked to these increasing highway construction costs. Asphalt binder has increased by about 80% and reinforcing steel has increased by about 30% since FY05.

Inflation has really impacted the purchasing power of highway revenues. At the state level, if the gas tax was adjusted to account for the inflation of road and bridge construction, the tax would have to be thirty-six cents per gallon, instead of the present twenty-two cents per gallon, that is fourteen more cents per gallon. To say it another way, a gas tax of twenty-two cents per gallon in 1999 adjusted for inflation has the purchasing power of a gas tax of thirteen and a half cents per gallon today. Similarly, at the local level, a dollar of highway revenue today will purchase only about 60% of what a dollar would purchase in 1998.

- **Future federal funding for highways is uncertain.**

Federal highway funds received by the state and by local governments can only be used for highway construction and reconstruction. The funds may not be used for highway maintenance.

The federal highway funding program SAFETEA-LU was to expire on September 30, 2009. It has since been extended four times since then for short periods of time. Funds appropriated under these extensions will possibly result in the state receiving 30% to 40% less than appropriated in the previous federal fiscal year. This decline has been offset in the short term by $183 million in federal economic stimulus funds for transportation projects in 2009 and 2010. As with federal highway dollars, these stimulus funds can only be used for highway construction and reconstruction.

For the long term, Congress is in the process of developing a long-term funding program which will determine how much the state will receive from federal highway funds for the next five years. Currently the state receives back about $2 for every $1 the state's citizens pay into the federal highway trust fund. The increasing demands for funds to help with traffic congestion and with public transit in more populated states could potentially reduce the amount of federal highway dollars received by the state under any new federal highway funding program.

What is being recommended to help alleviate the problem?

The interim committee, after consideration of the vast amount of information collected by the committee regarding highway needs, highway funding sources, transportation innovations, and transportation efficiencies, recommended that highway revenues should be increased. The committee's recommendations are embodied in Senate Bill 1.

Senate Bill 1 does the following:

- **Increases the motor fuel tax** – five cents on May 1, 2010, and another five cents on May 1, 2012. This would increase revenues to the state highway fund by $29.5 million a year beginning in 2010 and another $29.5 million a year beginning in 2012. The impact would be about $78 dollars a year per vehicle when the full ten cents are implemented.
- **Increases the motor vehicle excise tax** – one-half percent on May 1, 2010, and another one-half percent on May 1, 2012. This would increase revenues to the state highway by $9.5 million a year beginning in 2010 and another $9.5 million a year beginning in 2012.
- **Increases noncommercial license fees** – fees will be based on the weight of the vehicles. Fees would average 1.5 cents per pound for autos, pickups, and vans for each weight class. The fees for noncommercial trucks would average about 1 cent per pound based on the gross weight of the vehicle. The year at which noncommercial vehicles would receive a 30% reduction in fees would be increased from five years of age to ten years of age. With full

implementation of these increases, South Dakota would still have lower noncommercial license fees than any of our surrounding states. The proposal would increase highway revenue for local governments by about $15.3 million a year beginning on May 1, 2010, and that would increase to about $30 million a year beginning in 2012.

The $39 million a year which would be raised for the state beginning in 2010 would be a start towards meeting the $158.8 million a year needed by the Department of Transportation ($128.8 million in unfunded highway needs + $30 million to restore state-funded programs). The $15.3 million a year which would go to local governments would be a start towards meeting the $81 million a year in unfunded local highway needs.

Why act now?

- **Good highways are needed now to get farm and ranch products to market and to promote economic development in rural and urban areas of the state.**

The secretary of agriculture testified to the interim committee about farmers and ranchers needing good highways, both to transport farm and ranch products to market, and to transport goods and services needed by them to them in an efficient manner. The agricultural industry cannot progress without the necessary highways to support the vehicles and equipment being used. Unfortunately, highways and bridges designed for vehicles existing fifty or more years ago do not hold up to the strain caused by vehicles being used today.

Representatives of the cities of Sioux Falls and Rapid City and economic development representatives of other communities talked to the committee about the need for a good transportation system to attract new businesses to the state Those businesses looking at moving to the state are looking for good transportation systems, both for bringing incoming raw material, supplies, and equipment to the communities and to get their outgoing products to market.

- **Pay me now or pay me later.**

This is a phrase from an old Fram Oil Filter commercial that was repeated several times throughout the course of the committee's deliberations. The logic being: If you don't pay for maintaining highways now, you will be forced to pay a larger amount of money on deteriorated highways in the future.

The committee is recommending Senate Bill 1 as a step necessary to avoid paying predicted much larger expenditures for highway needs in the future.

This issue memorandum was written by David L. Ortbahn, Principal Research Analyst for the Legislative Research Council. It is designed to supply background information on the subject and is not a policy statement made by the Legislative Research Council.