



## Driving Kentucky's Future: The Road Fund



By Mike Helton

Kentucky's current and future transportation infrastructure, and I don't mean just the Ohio River Bridges Project, is in dire need of an influx of new cash to our state road fund to continue a strong program of new construction and to continue to rehabilitate and upgrade our existing roads and bridges. The future economic growth and prosperity of Kentucky—both in rural and urban areas—depends on our road system. If Kentucky is to be a place where business will locate and tourists will visit, we must demand and expand our road system. Our personal safety also depends on maintaining our road system as witnessed by the tragic collapse of an interstate highway bridge in Minnesota this year and the dangers of an over-loaded system of highways. The state's road fund taxes and our federal transportation funds are inadequate and it is time to do something about it.

Kentucky's Road Fund receives specific taxes and user fees that are dedicated solely to our highway program. Our road fund, like the state's general fund, is not sufficient to maintain our existing roads and bridges nor is it sufficient to meet the economic development growth needs of the future. We will need to increase our existing sources of revenue (meaning the gas and/or motor vehicle usage tax) to maintain an adequate transportation plan that includes maintaining existing roads and building new ones. We must also identify new, alternative revenue streams to meet the needs of "mega" projects like the Ohio River bridges here, Northern Kentucky and Henderson and other Interstate projects. It will not be a question of should we increase road revenue, but when, if the state is to continue economic growth and stay competitive with other states.

### The Funds

The state road fund is made up of the state motor fuels tax (gas and diesel), the motor vehicle usage tax (sales tax on vehicles), the weight distance tax and various license and registration fees. The state road fund generates about \$1.3 billion per year. The motor fuels or gas tax and the motor vehicle tax are the two largest contributors to the road fund.

The state gas tax, which generates about \$600 million annually, is revenue-shared with local governments at the rate of 48%, so nearly half of that money is returned to the cities and counties. The state motor fuels tax is currently 21.4 cents per gallon. It has increased by 6.1 cents (a penny-plus each year) over the last five years. The increase is due to an index on a portion of the tax that is based on the average wholesale price. The increase is limited to no more than 10% of the current tax. The limitation on the index has kept the increase from accelerating at the same rate as the average wholesale price. It generates nowhere near the amount required to keep up with accelerating road construction costs.

### **Change Is Critical**

We must increase our road fund revenues if we are to maintain an adequate road system. There is no way to do that without increasing the user fees. State Government has been caught in a “no new tax” environment since the beginning of this decade that is politically driven in all of our elections. We have a tendency to blame our elected officials when there is not enough money for projects and programs. We need only to look to ourselves. We must give our elected officials the support to generate the funding needed to continue the state’s economic growth.

One funding mechanism of which we have not taken advantage is the way the current gas tax is indexed. The index, because of the 10% cap, has not kept pace with the average wholesale price and the increase in the gas tax has been limited to slightly more than a penny per year. If the law were changed to calculate the index four times per year rather than annually, we could generate enough new revenue to bring our transportation plan current. The increase could be phased in over a two year period and, with prices fluctuating as they have been lately, we would hardly notice it. The total increase would be 8 cents per gallon (four cents per year) and generate as much as \$256 million in additional funds annually.

The funding of the mega projects are a different problem and requires thinking outside the box with alternative/creative funding mechanisms. The first step toward this type of funding is for the legislature to authorize the creation of local or regional authorities capable of managing the debt on the large projects. Revenue bonds could be sold with the state fronting the debt service for the bonds during construction. The authority could then take over long term funding by levying tolls or other user fees to pay the remaining debt service. After the bonds are eventually paid off, the tolls can come off.

I have not mentioned public transportation because its needs are so great it needs a whole separate article. Road funds are prohibited under our constitution from being used for public transportation as ridiculous as that sounds. The state spends 1.3 billion per year on our roads and bridges, but only 4.5 million on public transportation of which Jefferson County receives nothing. Enough said.

We made a tremendous investment in our transportation infrastructure and in the 70’s, 80’s and 90’s, opening up areas of the state that previously had not been that accessible. We cannot afford that investment to erode, or for lack of new investment to become an impediment to

Kentucky's future jobs and investment. We must come up with the funds to enable growth, facilitate transportation and continue to move the state forward.

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