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Research Brief

TO: Representative Shelley Hughes
FROM: Susan Haymes, Legislative Analyst
DATE: February 3, 2015
RE: Revenue Sources for Dedicated State Highway Funds
LRS Report 15.191

You asked about dedicated state transportation funds. Specifically, you wished to know the sources of revenue for these funds.

State governments are the primary entity responsible for owning, developing financing mechanisms for, and operating transportation assets. All states, except Alaska, restrict or dedicate use of fuel tax receipts and other transportation-related revenues to transportation purposes.¹ These dedicated funds may be established in the state's constitution or by statute. Some states, such as Arizona, South Carolina, Texas, and Washington, have constitutional and statutory transportation funds. More than half the states restrict fund revenues exclusively to highway and road purposes, while others restrict the use to general or multimodal transportation purposes.² Constitutional or statutory restrictions on the use of transportation funds and revenue can include explicit prohibitions on the diversion or transfer of this money to other purposes.³ States with such restrictions include California, Delaware, New Hampshire, Pennsylvania, Tennessee, and Wisconsin.

The main source of revenue for dedicated or restricted transportation funds in most states is the motor fuel tax. Other sources of revenue include sales tax on gasoline or diesel; sales tax on vehicle or rental cars; vehicle registration, license, and/or other fees; vehicle or truck weight fees; tolls; bond proceeds; general fund appropriations; and federal funds. We list revenue sources for transportation funds for 16 states in Table 1 on the following page. These sources are representative of the variety used in many states.⁴

In the face of declining fuel tax revenues and an uncertain federal highway funding program, states have taken a variety of approaches to maintain transportation funding.⁵ According to the National Conference of State Legislatures (NCSL), during the past two years the most prominent trend in transportation revenue legislation has been a move to a percentage-based fuel tax tied to the rate of inflation or the price of fuel rather than a fixed cents-per-gallon tax.⁶ In 2013, overall state gas taxes were increased in Maryland, Massachusetts, Pennsylvania, Vermont, Virginia, and Wyoming. Except for Wyoming, which raised the gas tax from 14 cents per gallon to 24 cents per gallon, all these states adopted a percentage-based tax. For example, Virginia replaced its 17.5 cents per gallon gas tax with a 3.5 percent tax on the wholesale price of gasoline, coupled with an increase in the state retail sales tax, which is partially dedicated to transportation. Another trend is to assess fees for

¹ Texas allocates one-fourth of its gas tax revenues to schools.

² According to the National Conference of State Legislatures, 23 states have a constitutional dedication of fuel tax revenues exclusively to highway and road purposes, while three states dedicate revenues exclusively to highway and road purposes by statute. The NCSL's report can be accessed at http://www.ncsl.org/research/transportation/transportation-governance-and-finance.aspx#Final_Report.

³ However, even states with existing constitutional or statutory prohibitions report diversions of transportation funds to other purposes. According to the NCSL, Arizona, Florida, Kentucky, Minnesota, New Jersey, North Carolina, and Wisconsin have reported recent diversions.

⁴ The NCSL provides transportation funding and finance information for each state at <http://www.ncsl.org/documents/transportation/STATE-PROFILES.pdf>.

⁵ Fuel tax revenues are declining not only because of inflation and less driving, but also because of the growing use of fuel-efficient and alternative fuel vehicles.

⁶ James B. Reed and Ben Husch, "Surface Transportation Funding: 2014 Update," NCSL *Legisbrief*, November 2014. The report is available at <http://www.ncsl.org/research/transportation/surface-transportation-funding-2014-update.aspx>.

drivers of electric vehicles, since they pay no gas tax. Colorado, Nebraska, North Carolina, Virginia and Washington have special annual fees for electric vehicles that range from \$50 to \$100.

Table 1: Sources of Revenue for Dedicated Highway Funds in Selected States

| State | Name of Fund | Sources of Revenue |
|----------------|---|---|
| Arizona | Highway User Revenue Fund (HURF)/State Highway Fund | HURF revenue sources include motor fuel taxes, motor-carrier taxes, vehicle license taxes, motor vehicle registration fees, and other miscellaneous fees. Funds from HURF are distributed to cities, towns and counties, and the State Highway Fund (50.5 percent). |
| Delaware | Transportation Trust Fund | Motor fuel taxes, Delaware Turnpike revenues, State Route 1 tolls, motor vehicle document fees and registration fees, miscellaneous sources, and federal funds reserved to support capital projects. |
| Florida | State Transportation Trust Fund | Motor fuel taxes (tied to the Consumer Price Index), motor vehicle/rental car sales tax, vehicle registration/license/title fees, tolls, interest income, a portion of documentary stamp revenue, and revenue bonds. |
| Georgia | State Public Transportation Fund | Motor fuel taxes. |
| Idaho | Highway Distribution Account | Motor fuel taxes, vehicle registration fees, plate fees, miscellaneous penalties, and fines. |
| Illinois | Road Fund/State Construction Fund | Motor fuel taxes, vehicle registration/licensing/title fees, and truck weight fees. |
| Kansas | State Highway Fund | Motor fuel taxes, vehicle registration/license/title fees, truck weight fees, and a portion of the state sales tax. |
| Maine | State Highway Fund | Motor fuel taxes, vehicle registration fees, inspection fees, fines, and interest income. |
| Michigan | Michigan Transportation Fund | Motor fuel taxes and vehicle registration/license/title fees. |
| Montana | Highway Fund | Fuel taxes and size- and weight-related vehicle fees. |
| New Jersey | Transportation Trust Fund | Motor fuel taxes, portion of state sales tax, and petroleum products gross sales tax. |
| New York | Dedicated Highway and Bridge Trust Fund | Motor fuels taxes, motor vehicle registration fees, auto rental tax, petroleum business tax, bond proceeds, vehicle registration and license fees, highway use tax, transmission tax. Nondedicated funds include transfers from the general fund and federal funds. |
| South Carolina | State Highway Fund/State Non-Federal Aid Highway Fund | Motor fuel taxes are deposited into the State Highway Fund. Fifty percent of revenues from sales, use and casual excise taxes on the sale use or titling of motor vehicle are credited to the non-federal account. |

Table 1: Sources of Revenue for Dedicated Highway Funds in Selected States (continued)

| State | Name of Fund | Sources of Revenue |
|------------|--|--|
| Texas | State Highway Fund/Texas Mobility Fund | Revenue for Highway Fund includes motor fuels tax, federal receipts (matched and unmatched), bond proceeds, special vehicle registration fees, toll revenues, motor lubricants sales tax, motor vehicle title certificates, motor vehicle registration fees, interest on state deposits, and tolls. Mobility fund revenue sources include motor vehicle inspection fees, driver license point surcharges, driver license fees, driver record information fees, court fines, and general funds. |
| Virginia | Transportation Trust Fund | Fuel taxes, motor vehicle sales and use tax, and a portion of state sales and use tax. |
| Washington | Motor Vehicle Fund (constitutional)/Multimodal Transportation Fund (statute) | Revenue sources for the Motor Vehicle Fund include motor fuel taxes, vehicle registration fees, and federal funds. Revenue sources for the Multimodal Fund include vehicle sales tax, rental car sales taxes, and passenger vehicle and motor home weight fees. |

Sources: National Conference of State Legislatures at <http://www.ncsl.org/documents/transportation/STATE-PROFILES.pdf>; Department of Transportation websites for each state.

We hope this is helpful. If you have questions or need additional information, please let us know.