



KEY BUDGET DRIVER FRAMEWORK

Maintaining Utah's competitive edge and quality of life requires that we proactively manage and address the multiple demands being placed on limited resources—the taxpayer dollar. Utah's growing and changing population along with new dynamics in our revenue streams places an increased demand on everything from infrastructure to education and the state's natural resources to our correctional system. Reacting to new demands and changes within the economy without a proactive approach to budget design and strategy could potentially leave Utah vulnerable to a diminished future prosperity.

*For Utah, there are six key elements that drive approximately 80 percent of expenditures: Corrections, Employee Compensation and Liabilities, Higher Education, Infrastructure (transportation, buildings, and debt), Medicaid, and Public Education. The ability to develop sound planning strategies and to resolve the challenges within these key areas is fundamental to a thriving economy. These planning strategies, or what we in GOMB refer to as **key budget drivers**, have been developed in consultation with subject-matter experts and key stakeholders.*

INFRASTRUCTURE: TRANSPORTATION

Objective

To develop transportation policy and funding decisions that:

- are fiscally responsible in the long-term and include the timely maintenance of existing infrastructure;
- provide sufficient infrastructure to support a well-functioning and mobile economy; and
- consider the full cost of Utah's transportation system, including both direct fiscal costs and external costs such as the impact to air quality.

Background

A well-functioning transportation system is critical to a well-performing economy. Utah's public roads currently expand over 45,000 miles. In addition, Utah's transportation system also includes a sizable mass transit system comprising of both rail and bus operations. With Utah's population projected to increase over 60% by 2040, there will be a significant need to fund new roads, highways, bridges, mass transit, and other methods of transportation.

The Unified Transportation Plan provides a road map for future needs within the transportation system, to include projected costs. While the plan is a useful tool for thinking about future needs, it assumes current and past behaviors, technology, and models for future construction. New and better tools and strategies are inevitable and will help to maximize capacity and create structures with potentially longer life-cycles. As a result, the Unified Transportation Plan should be viewed as an estimate, not a definitive statement of future need.

With a recent emphasis on new road construction, the Utah Department of Transportation (UDOT) has fallen behind on the maintenance of existing roads. Although the state may experience short-term savings, maintenance costs increase significantly over time as roads continue to deteriorate. UDOT estimates an annual shortfall of \$67 million for road and bridge maintenance. However, UDOT indicates that major bridge maintenance issues do not need to be addressed for five more years.

Transportation funding comes from several sources: sales and use tax earmarks, fuel taxes, bonds, federal funds, licenses, permits and fees, and various additional sources. For the most part, fuel tax revenues fund road maintenance and sales tax earmarks fund new construction.

Fuel Taxes. Due to increased vehicle fuel efficiency and changes in driving patterns, motor fuel and special fuel tax or “gas tax” collections have flattened at around \$360 million. A portion of these gas tax funds are allocated to local governments for local road maintenance. Despite this flat revenue trend, maintenance costs continue to increase as the population expands and more roads are built.

The Governor's budget proposes a more efficient collection of revenue by taxing gasoline at the refinery level or upon entry into the state for sale, use, or storage—similar to how diesel fuel is taxed. This is estimated to generate \$4.2 million in state revenue for maintenance and \$1.8 million in local revenue. The combined impacts of inflation along with more fuel-efficient vehicles have eroded the purchasing power of fuel tax revenues since the last fuel tax increase in 1997. It would take a fuel tax of 36.3 per gallon to maintain the same purchasing power as the 1997 fuel tax of 24.5 cents.

Sales and Use Tax Earmarks. In recent years, significant resources have been diverted from the General Fund for new transportation capacity projects through sales and use tax earmarks. Absent changes, General Fund transportation earmarks are projected to reach about \$517 million in FY 2016. Such earmarks reduce available funding for other priorities, including public and higher education.

Based on the negative impact to other important programs (including education), the Governor proposes to reform the practice of earmarking sales and use tax revenue for roads. To counteract the negative impact brought about through increased earmarks, the Governor's budget reinstates \$94.2 million in sales and use taxes to the General Fund so that other priorities, including education and air quality, can be funded. UDOT indicates that the agency will be able to handle existing road projects despite the funding shift. The Governor intends to work with the legislature to find sustainable ways of adequately funding transportation infrastructure needs, including maintenance.

Bonds. Bond proceeds account for a significant portion of revenue in any given year. However, this funding source can fluctuate if large projects are not initiated every year. The Governor's FY 2016 budget includes no additional bonding for roads.

Federal Funds. Although federal funding has historically been a relatively stable transportation revenue source, the federal fiscal situation and issues with the Federal Highway Trust Fund increase the uncertainty of this revenue source.

Guiding Principles

- Create stable, long-term funding solutions to meet current and future demands while moving away from sales tax transportation earmarks.
- Prioritize existing infrastructure maintenance by developing new roads, highways, and bridges only after appropriately preserving the existing infrastructure and enacting feasible solutions that optimize mobility.
- Focus on continuous improvement by ensuring the transportation system is maximizing current resources and is continually finding more efficient and effective ways to build and maintain the transportation system.
- Encourage increased transparency about the full costs of the transportation system to include air quality impacts.
- Increase public awareness by encouraging individuals to make sustainable and responsible transportation decisions.
- Seek ways to improve and achieve more efficiency in local mass transit systems.

Proposed Solutions

- Reduce sales and use tax earmarks so less General Fund revenue is used solely for new road development.
- Explore sustainable long-term transportation funding sources, including maintenance.
- Tax motor fuels at the refinery point and potentially reduce fuel tax evasion and Tax Commission administrative costs.
- Implement additional project management techniques such as Critical Chain Project Management to complete new transportation projects faster and more cost effectively.
- Reduce the retired risk so new capacity projects are completed ahead of schedule.
- Explore intelligent highway systems, congestion pricing, and other innovative methods to meet Utah's future transportation needs.