

The Road Ahead

County Transportation Funding and Financing



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ACKNOWLEDGMENTS

The authors want to thank the 52 state associations of counties and 30 state associations of county engineers that provided essential data and comments for the paper and the individual state profiles. Without them, this entire project would not have been possible. A big thank you goes to Brian Roberts, the Executive Director of the National Association of County Engineers (NACE) who engaged his members in this project. We are also indebted to John Horsley for his substantive comments on a draft of the report. Within the National Association of Counties, we are grateful to Matt Chase, Tom Goodman, Jessica Monahan, Beverly Schlotterbeck and Jim Philipps who made thoughtful and insightful contributions along the way. The authors also thank Kirk Heffelmire, Benjamin Kirby and Junyang Yuan for research assistance, Nicholas Lyell for creating the web interactive for this report, Emily Starr and Jack Hernandez for graphics design and Matthew Fellows for designing the webpage of the report.

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Executive Summary

Counties are an essential part of the nation's transportation system. They are responsible for building and maintaining 45 percent of the public roads, 230,690 bridges and are involved in a third of the nation's transit and airport systems that connect residents, businesses and communities. The impending expiration of the federal surface transportation funding law, Moving Ahead for Progress in the 21st Century Act (MAP-21), presents an opportunity for counties to discuss their role in the national transportation network.

An analysis of county transportation (roads and bridges only) funding sources, challenges and solutions across 48 states shows that:¹

1 – Federal and state funding for county transportation projects is increasingly inadequate.

Based on Federal Highway Administration data, the share of federal and state funding to local governments for highways decreased by 10 percent between 1998 and 2011. The latest federal surface transportation law, Moving Ahead for Progress in the 21st Century Act (MAP-21) further skewed the allocation of funds away from local governments. While local governments own 43 percent of the federal-aid highway system, local areas receive a suballocation that is equal to 16 percent of the MAP-21 National Highway Performance Program (NHPP) and the Surface Transportation Program (STP) funding for federal-aid highways. A combination of federal budget cuts, the effect of the recession on state government budgets and the fixed gas tax nature of state and federal highway funding are contributing to a widening gap in transportation funding available to counties.

2 – Counties face the dilemma of rising costs of transportation projects, increasing traffic volumes and limitations on their ability to generate revenue.

The cost of construction and materials increased by 44 percent between 2000 and 2013, more than the 35 percent rise in the overall rate of inflation. Among other factors, regulatory costs contributed to this trend, as shown by California counties. Fast changing economic environments put pressure on county transportation systems, especially in states with rapidly expanding oil and gas industries. At the same time, most states limit counties' ability to raise revenue. Forty-three (43) states have some type of limitation on the property taxes collected by counties, including 38 states that impose statutory limitations on property tax rate, property tax assessments or both. Only 12 states authorize counties to collect their own local gas taxes, which are limited to a maximum rate in most cases and often involve additional approvals for implementation.

3 – Counties have adopted additional funding and financing mechanisms, but they are not sufficient to cover the needs of their businesses and residents.

Counties increasingly use local option sales taxes to fund transportation projects, if allowed under state law. Twenty-nine (29) states allow counties to collect local option sales taxes for transportation purposes or general purposes including transportation. Over the years, county residents in 15 states voted for local option sales taxes for road capital projects. In addition, partnerships with state and local governments allowed counties in Pennsylvania and Ohio to pool resources and materials to save money on transportation projects. Counties in states such as Iowa, Missouri and Nevada implemented land value capture options such as tax increment financing, special assessment districts and development impact fees, linking transportation investments to the economic growth in their counties. For large and complicated capital projects, counties partnered with the private sector in Public-Private Partnerships (PPPs) such as Miami-Dade County's Port of Miami tunnel project.

Counties need the federal government to continue to work with them and the states in funding the U.S. surface transportation system.

Introduction

From miles of freight networks to connections into neighborhoods across the country, county roads and bridges keep Americans and the U.S. economy moving. Counties are responsible for building and maintaining 45 percent of the public roads and 230,690 bridges, which are essential in linking homes to jobs, schools and businesses. Interlocked in the national roadway system with roads and bridges owned by other governments, county roads and bridges now face a new set of challenges.

The impending expiration of the federal surface transportation law brings to the forefront the structure and challenges of federal funding for transportation. Moving Ahead for Progress in the 21st Century Act (MAP-21) was signed into law in July 2012 after three years of nine short-term extensions of the previous surface transportation law — Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU). MAP-21 did not address the core issue of declining receipts from the federal gas tax, but continued to transfer funding from the General Fund into the Highway Trust Fund. At the same time, it made changes to the National Highway System that altered the federal funding eligibility for some roads and bridges. While local governments own 43 percent of the federal-aid highways, local areas receive a suballocation that is equal to 16 percent of the MAP-21 National Highway Performance Program (NHPP) and the Surface Transportation Program (STP) funding for federal-aid highways. MAP-21 eliminated the Highway Bridge Program, which was essential to counties. Under the new statute, county bridges on the enhanced National Highway System are eligible to receive funding through a new National Highway Performance Program (NHPP), but it is up to states to allocate funding to these county bridges. All other local bridges are eligible to receive Surface Transportation Program (STP) funds, with dedicated allocations set aside for bridges that are not on the federal-aid highway system (“off-system” bridges).² Other changes at the federal level, such as federal budget cuts affected counties’, especially



rural counties' ability to maintain their roads. For example, 712 rural counties use funding through the Secure Rural Schools and Community Self Determination (SRS) Act for county road improvements in 2012. This funding stream, created in 2000, replaced the 25 percent of the revenues generated from timber sales from federal land located in a county with a guaranteed level of federal funding. Counties must use this federal funding for county roads and schools. There was a 40 percent reduction in SRS payments to counties in 2012 compared to 2008.³ These are generally small counties with large tracts of federal forest land that they cannot tax.

Counties are creatures of the state and this is apparent in county transportation funding. Since the recession, some states such as Maryland have diverted money from transportation to their general funds to balance their budgets. In addition, many states have not raised their gas taxes in more than a decade, resulting in diminished purchasing power of the revenues available to counties due to inflation. At the same time, states impose numerous limitations on counties' ability to raise revenue for transportation.

States impose numerous limitations on counties' ability to raise revenue for transportation.

Faced with rapidly increasing construction costs and traffic volumes — especially heavy traffic volumes from booming oil and gas industries, agricultural production and population shifts — counties are finding new funding and financing solutions for transportation. Often, these solutions involve partnerships with other jurisdictions, the private sector and most of all — county residents. In some counties with state authority to introduce local option sales taxes, voters approved local option sales taxes to fund county transportation projects in recent years.

However, these local solutions are not sufficient to fix the problems of a big share of the U.S. roadway system. Counties need the federal government to continue to work with them and the states in funding the U.S. surface transportation system. Absent this partnership solution, the result will be a piecemeal approach to an integrated network of roads and bridges. The U.S. transportation system is the “circulatory” system of the U.S. economy that requires a cohesive resolution for a strengthening economic recovery on the ground.

This study examines county funding for transportation projects, challenges and examples of funding and financing solutions to issues around county transportation. The report also analyzes the nature of county ownership and authority over transportation. This research analyzes only roads and bridges, given that other county transportation assets have different funding mechanisms. It also provides three case studies that allow a more in-depth view of the issues facing counties in funding transportation.

This report has a companion data tool the *Road Ahead* interactive and individual state profiles at www.naco.org/countytransportation.

The reader can access transportation funding data and information for counties in each of the 48 states with county governments: county ownership and financial authority over roads and bridges, funding sources, challenges and solutions with funding and financing transportation.

Background:

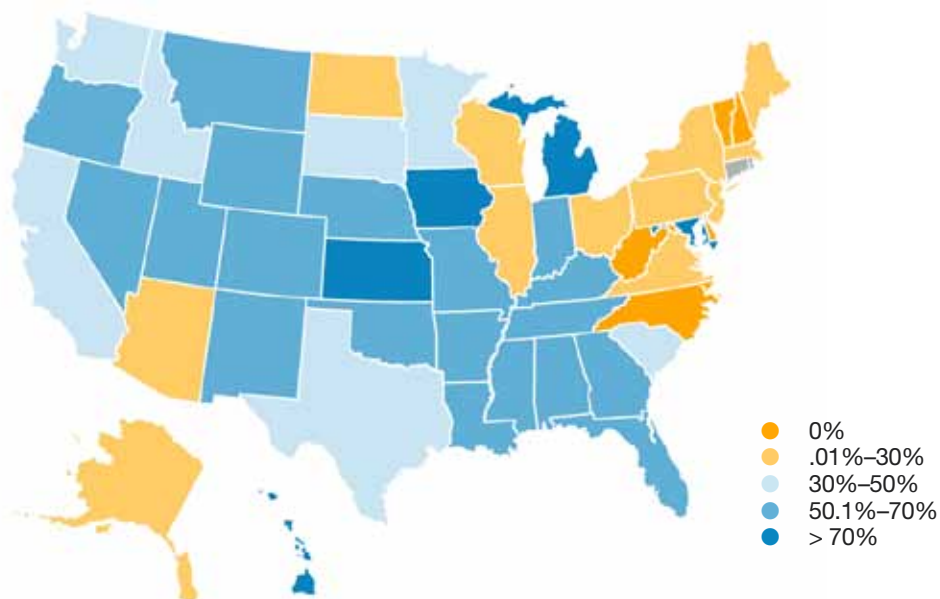
County Ownership and Authority Over Roads and Bridges

Counties are an integral part of the nation's transportation network, owning 45 percent of all public roads and 39 percent of all bridges.⁴ America's county governments are often responsible for the planning, engineering, construction, capital improvements and maintenance of roads and bridges. These duties can range from intermittent maintenance, such as snow plowing and storm debris cleanup, short term paving and surface repairs to maintenance of traffic safety and road signage and major long-term construction projects. The 3,069 counties spent almost \$25 billion on roads and bridges construction and maintenance projects in 2007, based on the latest available Census of Governments finance data.⁵

County Ownership and Authority over Roads. Counties are involved in road ownership in 43 states, with Delaware, North Carolina, New Hampshire, Vermont and West Virginia not providing authority over roads to any counties. Fifty-seven (57) percent of counties own and maintain more than half of all the roads located within their area. In three states (Massachusetts, Pennsylvania and Virginia), the majority of counties do not have authority over roads. For instance in Virginia, only Arlington County and Henrico County own roads.

The county road ownership varies significantly across the country. In 24 states, counties own and maintain the majority of public roads in the state (See Map 1). This is a varied group, including Western, Midwestern and Southern states. Counties have to maintain roads in a variety of environments, from highly populated states such as Florida to rural states such as Wyoming. Kansas counties hold the top spot in terms of roadways ownership, with 81 percent of public roads in the state. In addition, almost a quarter of the counties in Kansas own 90 percent or more of the public roads located within their area.

MAP 1. County Owned Roads, Share of Statewide Public Roads, 2011



Note: Connecticut and Rhode Island are marked in gray because they do not have county governments. They are not included in this study.

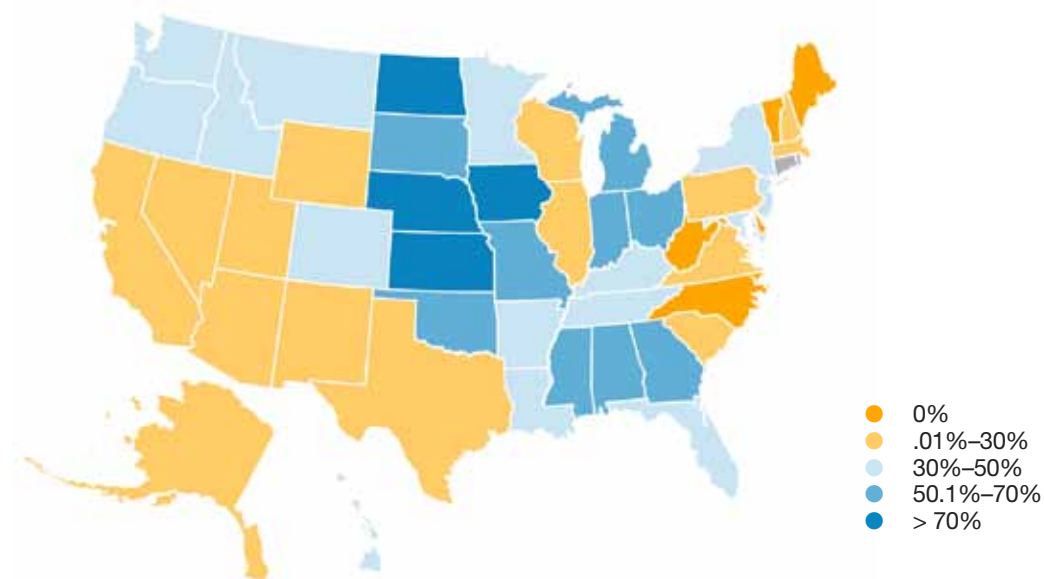
Source: NACO analysis of U.S. Department of Transportation (DOT), FHWA, Highway Performance Monitoring System data, 2011



While counties are local governments, they own much more than local roads. Based on their level of mobility and degree of land access, America's roads are grouped as arterials, collectors or local roads. A trip typically begins and ends on a local road, which allows access to surrounding neighborhoods and serves as a link to the larger roads – collectors and arterial roads. Twenty-five (25) percent of county owned roads are collectors and arterial roads, but in seven states (North Dakota, Illinois, New Jersey, Wisconsin, Minnesota, New York and Wyoming) they represent the majority of county roads.⁶ The functional classification is important not only from a transportation network perspective, but also from a funding point of view. Depending on road classification, federal government provides funding to roads. Almost 14 percent of all local roads are on the federal-aid highway system and only one percent of all local roads are on the enhanced National Highway System (See Sidebar: Key Terms Used in This Study).⁷ Some states – including Montana – base part of their allocation of highway funds to counties on the functional classification of their roads.⁸

County Ownership and Authority over Bridges. Counties own bridges in 43 states, with Delaware, Vermont, Maine, West Virginia and North Carolina not providing authority over bridges to any counties. Almost a third of counties own more than 100 bridges, with Harris County, Texas holding the top spot with more than 750 bridges. In four states (Alaska, New Hampshire, Massachusetts and Virginia), the majority of counties do not have authority over bridges. For example, in New Hampshire only one county (Belknap County) owns any bridges.

In 12 states, counties own the majority of bridges within the state (See Map 2). These counties are found in the Midwest and South. Iowa counties are responsible for nearly 80 percent of bridges statewide, the highest share among states. Twenty percent of counties in Iowa own 90 percent or more of the bridges within their jurisdiction. Besides the states in which counties have no authority over bridges, counties in states such as Virginia and Massachusetts own a very small share of bridges in the state.

MAP 2. County Owned Bridges, Share of Statewide Bridges, 2012

Note: Connecticut and Rhode Island are marked in gray because they do not have county governments. They are not included in this study.

Source: NACo analysis of U.S. DOT, FHWA, National Bridge Inventory data, 2012

In most states, counties are involved in both road and bridge ownership, but not to the same extent. Counties in Kansas are heavily involved in both roads and bridges, owning almost three quarters of all bridges and 81 percent of roads. In Pennsylvania, while county ownership of roads is minimal, counties are responsible for 2,815 bridges, which make up 12 percent of all bridges in the state.

Counties face specific issues with their bridges. County bridges are more likely to be structurally deficient than federal, state and municipal bridges, with 16 percent of all county owned bridges found to be structurally deficient in 2012.⁹ This is a higher rate than the national average of 11 percent. While not unsafe, they require frequent maintenance and repair, eventually needing major rehabilitation to address deficiencies and meet current engineering standards.

For data and information on county ownership and financial authority over roads and bridges, funding sources, challenges and solutions with funding and financing transportation for counties in each of the 48 states with county governments, please see the *Road Ahead* interactive and individual state profiles at www.naco.org/countytransportation.



KEY TERMS USED IN THIS STUDY

Transportation refers only to public roads and bridges for the purpose of this study. This report does not analyze funding and financing for county transit, air, rail or water transportation systems as these transportation assets often have different ownership and funding structures than roads and bridges.

Moving Ahead for Progress in the 21st Century Act (MAP-21) is the current federal surface transportation statute that was signed into law July 2012 and is set to expire September 30, 2014. The law authorizes the federal surface transportation programs at about \$105 billion for both fiscal years (FY) 2013 and 2014.¹⁰

The enhanced National Highway System (NHS) was created under MAP-21 and includes the Interstate System, all principal arterials (including some not previously designated as part of the NHS) and border crossings on those routes, highways that provide motor vehicle access between the NHS and major intermodal transportation facilities, the network of highways important to U.S. strategic defense and its connectors to major military installations.

Federal-aid highway system includes public roads functionally classified as rural and urban principal arterials, rural and urban minor arterials, all urban collectors and rural major collectors. It is comprised of the National Highway System and other federal-aid highways not on the NHS.

On-System bridges are located on a public road part of the federal-aid highway system.

Off-System bridges are located on a public road that is not a part of the federal-aid highway system. Most county owned bridges are off-system.¹¹

National Highway Performance Program (NHPP) is one of the core formula programs introduced in MAP-21 to support maintenance and construction of approximately 220,000 roadway miles part of the enhanced National Highway System (NHS) established by MAP-21. The program is authorized at about \$21.8 billion annually for FY 2013 and 2014.¹²

Surface Transportation Program (STP) is one of the core formula programs continued under

MAP-21 that can be used by states and localities for projects on any federal-aid highway, any public road bridge projects, facilities for nonmotorized transportation, transit capital projects and public bus terminals and facilities. Half of the STP funds a state receives must be distributed to areas based on population. Also an amount equal to 15 percent of the state's FY2009 Highway Bridge Program apportionment must be dedicated to bridges not on the federal-aid highway system (off-system bridges). The program is authorized at about \$10 billion annually for FY 2013 and 2014 with approximately \$700 million a year dedicated to off-system bridges.¹³

Structurally deficient bridges cannot carry high loads as a result of poor condition of some structural components of the bridge. Structurally deficient bridges are not unsafe and often remain open to traffic, with weight limitations that restrict the gross weight of vehicles travelling on the bridge to reduce further deterioration. They require significant maintenance and repair, and eventually need major rehabilitation or replacement to address deficiency.¹⁴

Highway user revenues (HURs) are revenues generated by motor fuel taxes, vehicle registration and license fees, tolls and wheel taxes. They are usually collected to fund highway and bridge improvements, but in some states can be used for mass transit or non-highway purposes.¹⁵

Motor fuel taxes are excise taxes imposed on the sale of motor fuels (gasoline, diesel and others). The gas tax can be imposed at a fixed rate per gallon (cents per gallon) or as a variable rate tax that is tied to inflation, often as a percentage of the price of gasoline. Fixed rate gas taxes are not tied to inflation and are only changed when lawmakers vote to change them.¹⁶

Wheel Taxes are fees based on the number of wheels of the vehicle, usually as a fixed amount per wheel, collected at the time of vehicle registration renewals.

Local option gas tax is a tax collected by a local government on the sale of gasoline within their jurisdiction, if the local government is granted the authority by the state. The revenues from this tax are used for transportation purposes. Besides

state authority, often the local government needs a local law or voter approval to implement the local option gas tax. To be considered a local option gas tax in this study, the state authority to collect the tax must be granted to counties; statewide and state collected gas taxes that do not require local approval are not considered local gas taxes.

Local option sales tax is a tax collected by a local government on the sale of any taxable goods within its jurisdiction, if the local government is granted the authority by the state. Besides state authority, often the local government needs a local law or voter approval to implement the local option sales tax. To be considered a local option sales tax in this study, the state authority to collect the tax must be granted to counties and the tax revenue used for transportation or for general purposes, including transportation. A local option sales tax differs from a local option gas tax through the tax base; the local gas tax only applies to the sale of gasoline, whereas a local option sales tax applies to the sale of any taxable goods within the county.

General funds are all funds that a government can use for any governmental purpose. In terms of county general funds, they often consist of broadly collected taxes such as property taxes, sales taxes, income taxes, charges and fees and state shared taxes that are not designated for a specific purpose.

Land Value Capture mechanisms are a type of public financing used by local governments where increases in land values generated by transportation investments are “captured” to repay the cost of the public investment. Types of land value capture mechanisms include Tax Increment Financing, special assessments and development impact fees.¹⁷

Impact fees are levied by counties and other public entities on a new or proposed land development project, with the goal of funding capital improvements required by that development.¹⁸

Tax increment financing (TIF) is a financing method used for current infrastructure improvements using future gains in tax revenues expected from the infrastructure improvements in the tax incremental districts (TID) established under the TIF.¹⁹

Public Private Partnerships (PPPs or P3s) are a financing arrangement that establishes a contractual agreement between a public agency and a private sector entity to collaborate on a transportation project. The format of the agreement can vary from the private party doing only the design and construction of the project to assuming financial and operational responsibilities. This is a financing method that requires a funding source for the project to reimburse the private party for its contractual obligations.²⁰



Findings

1. Federal and state funding for county transportation projects is increasingly inadequate.

How Counties Fund Transportation. Counties use a combination of state and federal funding for their roads and bridges, supplemented with their own local dollars. For example, counties in Indiana receive 61 percent of their highway and bridge funding from the state, 2 percent from the federal government and the remaining 37 percent comes from county raised revenues.²¹ Across the states, the state gas tax is the main source of funding for county transportation projects, but the state may dedicate a portion of the proceeds of other state taxes to county transportation. The states' ability to provide financial help to counties is facilitated by the federal support they receive through the Highway Trust Fund (HTF). Counties raise local revenue for transportation through a variety of sources including property taxes, personal property taxes (especially motor vehicle property taxes), local option sales taxes, local gas taxes, motor vehicle license and registration fees and assessments in special districts for transportation purposes. In the case of Indiana counties, counties derive supplemental funding for highways through county option income taxes, a gambling fund, permits, user fees and others.

The federal government provides some grant money directly to counties, but most federal funding for surface transportation flows to states based on an allocation formula from the Highway Trust Fund (HTF). States have the discretion over distribution of the funds to local governments, usually establishing formulas based on a combination of factors including local government owned road mileage and population. In addition, states may create their own project-based grant programs. For example, the state of Alabama created the Alabama Transportation Rehabilitation and Improvement Program (ATRIP), a federal-aid highway program administrated by Alabama Department of Transportation. Alabama counties can apply for funding of up to 80 percent of the construction costs of their local road projects through this program.²² The federal government provides discretionary funding for transportation to counties and other local governments through programs such as the Transportation Investment Generating Economic Recovery (TIGER) program.²³

Federal Challenges. Federal and state funding to locals for highways declined as a share of overall local revenues for highways by 10 percent between 1998 and 2011. When the Transportation Equity Act for the 21st Century (TEA- 21) was enacted, local governments were receiving 30.4 percent of their highway funding from the states and 2.3 percent from the federal government, based on U.S. Federal Highway Administration (FHWA) data.²⁴ By 2011 — the latest year of FHWA data available — the state share of the local highway funding decreased to 22.2 percent and the federal contribution declined to less than one percent.²⁵ As a result, locals had to increase their funding of highways — mainly through general funds — that crowded out other purposes of county investment.

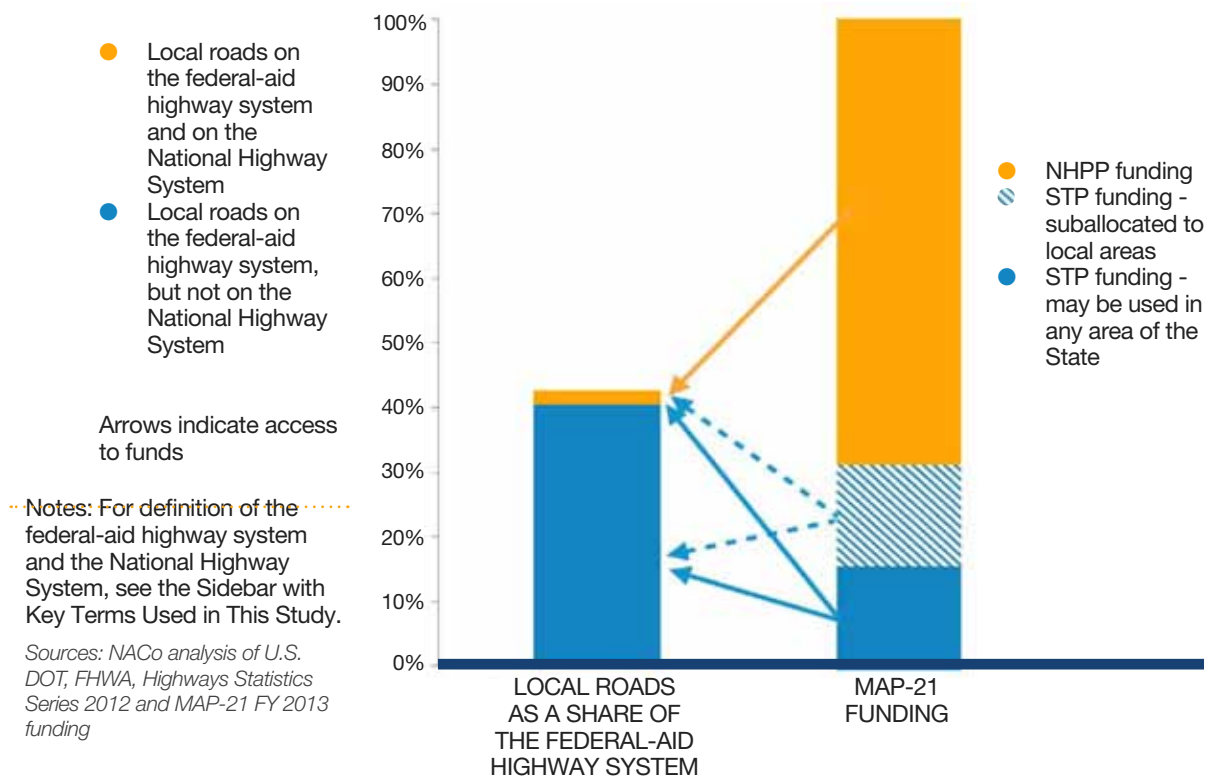
Moving Ahead for Progress in the 21st Century Act (MAP-21) further skewed the allocation of funds away from local governments. According to the FHWA data, local governments own 43 percent of the federal-aid highways (See Figure 1).²⁶ However, based on the new MAP-21 allocation, local areas receive a suballocation that is equal only to 16 percent of the amounts available for federal-aid highways through the National Highway Performance Program (NHPP) and the Surface Transportation Program (STP). This represents half of the reorganized Surface Transportation Program (STP), one of the two main federal sources of funding.²⁷ The bulk of MAP-21 funding — \$21.8 billion in FY 2013 — is distributed through the new National Highway Performance Program (NHPP).²⁸

The National Highway Performance Program places local government roads and bridges at a severe disadvantage in the federal distribution of transportation funding. Only road projects that are on the enhanced National Highway System (NHS) are eligible for this funding stream and just 5 percent of local roads on the federal-aid highways system qualify (See Figure 1).²⁹ Further, states decide which state or local projects will receive NHPP dollars, with no federal funding dedicated to local governments in this program. As a result, local roads that are on the federal-aid highway system but not on the NHS are left to vie for STP funding along with a wide range of other state and local projects.

MAP-21 also significantly altered the federal funding stream for bridges. The latest federal surface transportation statute eliminated several programs under the previous transportation law, SAFETEA-LU, including the Highway Bridge Program. Under the current statute, county bridges on the enhanced NHS are eligible to receive funding through NHPP. The funding is not dedicated, but distributed through the states that have flexibility which bridges, state or local, to fund. Most county bridges, however, are “off-system” bridges, not located on the federal-aid highway system. Under MAP-21, the Surface Transportation Program (STP) requires states to set aside at least 15 percent of the state’s FY 2009 Highway Bridge Program apportionment from STP funds for the funding of “off-system” bridges.³⁰ Counties are not the sole recipients of this funding; other owners of “off-system” bridges such as cities and the state are eligible to receive a portion of this funding. Similar with the roads situation, any county bridge that is “on-system” but not on the NHS will not be able to access federal funding through NHPP, but it will compete with other local projects under the STP.

A combination of federal budget cuts, the effect of the recession on state government budgets and the fixed gas tax nature of state and federal highway funding are contributing to a widening gap in transportation funding available to counties.

FIGURE 1. Local Roads Eligibility for FY2013 MAP-21 Funding through NHPP and STP



OREGON COUNTIES

Adapting to New Realities in Transportation Funding

Oregon counties are major players in transportation in the state. They own and are responsible for the maintenance of 32,956 miles of public roadways, or around 56 percent of all the roadway miles in the state.³⁶ Additionally, counties in Oregon are responsible for 3,420 bridges, or about 45 percent of bridges in the state, and about 7 percent of county owned bridges are considered structurally deficient.³⁷ The primary source of funding for roadway and bridge projects for many counties in Oregon is the state Highway Fund. Counties in Oregon are adapting to the new realities of transportation funding.

Like many counties around the country, Oregon counties face declining or stagnant support in state and federal funding for transportation. The state gas tax continues to decline in purchasing power, given the effect of inflation. Cuts to the federal budget affected federal funding for county transportation in Oregon. For example, 31 out of the 36 counties in the state rely on the federal

Cuts to the federal budget affected funding for county transportation in Oregon.

Secure Rural School (SRS) payments to fund road projects. Between 2008 and 2012, these counties lost \$70.8 million in payments, which was half of their total funding. As a result, 24 of these counties experienced budget shortfalls of more than 20 percent of either their discretionary general fund or road fund budgets in FY 2008-2009.³⁸ The latest reauthorization of the SRS program cut an additional 5 percent of the funding in 2013, further diminishing the available funding for transportation in these rural counties.³⁹

To overcome funding challenges, some counties use their own dollars to fund transportation projects. Some large urban counties have implemented gas taxes; Multnomah

County has a three cents per gallon gas tax and Washington County has a one cent per gallon gas tax.⁴⁰ Passing levies has proved difficult and sometime repeated tries have been unsuccessful, but occasionally residents supported new taxes if they are earmarked for transportation. For instance, in November 2013 the residents of Tillamook County voted to charge a Transient Lodging Tax on hotels and vacation rentals, with 30 percent of this tax revenue dedicated to road maintenance.⁴¹

In addition, the Oregon Department of Transportation (ODOT) is looking at new ways to overcome the decline in revenue from state gas taxes, such as charging a per-mile road user charge (RUC) tax to address growth in fuel efficiency. A RUC tax is a distance-based fee levied on motorists for their use of roadways, based on the distance driven on public roads. In 2006, ODOT completed a study of a RUC tax in Portland, Ore. This was a 12-month pilot program that tested the technological and administrative feasibility of implementing a RUC tax to raise additional transportation revenue. The pilot program was largely successful; 91 percent of participants said that they would consent to paying the RUC tax in lieu of gas taxes, if the program were extended statewide.⁴² Based on the positive outcome of the pilot program and a subsequent program, the Oregon Legislature has directed ODOT to implement a statewide RUC tax program beginning in 2015. The program will be strictly voluntary, with participants being charged a 1.5 cents per mile fee for their roadway use in lieu of gasoline taxes.⁴³

Oregon counties and ODOT are searching for new ways to fund road and bridge projects. Some counties introduced their own revenue sources for transportation and ODOT is exploring alternatives to the gas tax. These new funding mechanisms supplement the federal and state transportation funding to meet county roadway needs.



Federal Budget Cuts. Federal budget cuts over the last several years affected federal discretionary funding for transportation, especially funding for small and rural counties. For example, the U.S. Department of Agriculture provides funding used for county roads through the Secure Rural Schools and Community Self Determination (SRS) Act. This funding stream, created in 2000, replaced the 25 percent of the revenues generated from timber sales from federal land located in a county with a guaranteed level of federal funding. Counties must use this federal funding for county roads and schools. The 2012 SRS funding going to counties was 40 percent lower than the 2008 payments.³¹ For FY 2013, the full funding amount was almost \$329 million including the amount to be paid by the Bureau of Land Management to counties in western Oregon.³²

Cuts to the SRS program affected road funding in rural counties across the country. For example, the 34 eligible counties in Montana lost \$7.7 million in SRS payments between 2008 and 2012, which translated to a \$5.1 million loss in funding for rural roads maintenance.³³ Secure Rural Schools (SRS) payments to the Idaho counties with federal forest lands decreased by around 31 percent during the same time period.³⁴ Coupled with state limitations on counties' ability to raise revenue for transportation through property taxes, the cuts in federal SRS funding forced these Idaho counties to scale back on their road and bridge maintenance.³⁵ Oregon counties face the same challenge as their neighboring counties (See Sidebar on page 13: Oregon counties).

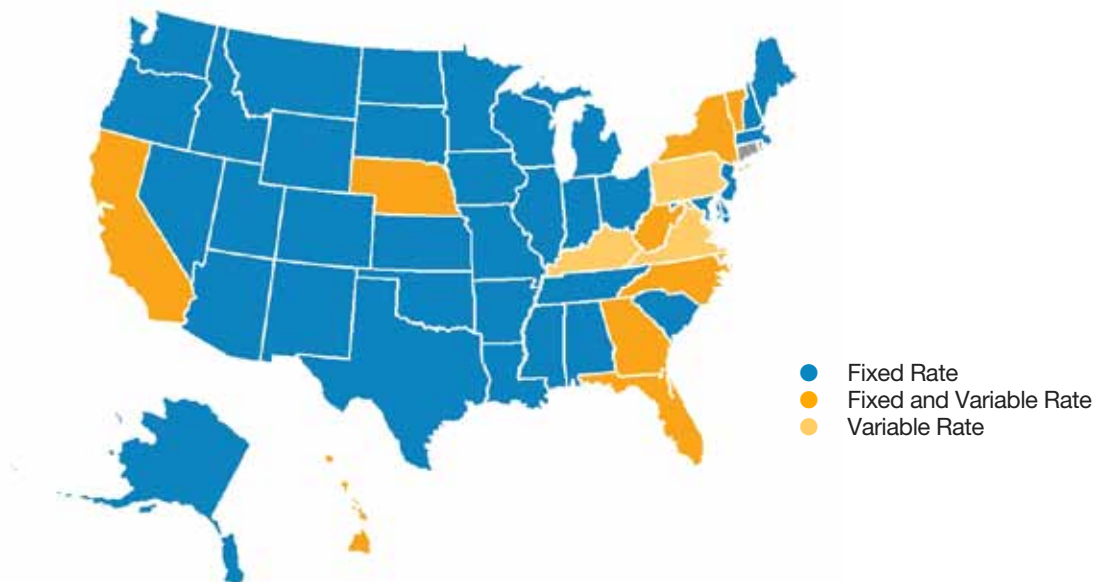
Effect of the Recession on State Budgets. Many states experienced significant budget shortfalls following the recession and some diverted money from transportation to their general funds to balance their budgets. This resulted in a smaller pool of state money available for county roads and bridges. For example, the state of Maryland registered budget shortfalls during the latest recession, reaching a deficit of 20.3 percent of the state's general fund budget in fiscal year (FY) 2010.⁴⁴ The same year, the state began diverting money from dedicated highway user revenues (HURs) – including the state gas tax and vehicle rental tax – to balance its general budget. In addition, it cut the share of state highway funding going to local governments from 30 percent to 9.6 percent. As a result, the total funds available to Maryland local governments for roads and bridges decreased from \$467 million in FY2009 to \$164 million in FY2010.⁴⁵ Through subsequent changes in the funding formula, also driven by state budget woes, these reductions have been

made permanent. Baltimore City now receives an allocation reduced by \$60 million compared to pre-recession levels, and the remaining 23 counties receive only \$26.2 million, down a staggering 90 percent from prior levels. Based on this allocation, Maryland counties lost around \$300 million in transportation funding in each year beginning in FY2009.⁴⁶

Inflation is Eroding Gas Tax Revenues. Gas tax revenues collected by all levels of government have been affected by inflation and increased car fuel economy. For highways, the federal government allocated \$35.2 billion to states from the Highway Trust Fund (HTF) in FY2012, consisting mostly of revenues from the 18.4 cents per gallon federal gas tax.⁴⁷ The federal gas tax has not been raised since 1993 and is not indexed to inflation. In addition, with increasing fuel economy of the cars on the road, the federal gas tax has not been generating sufficient revenue for the HTF since FY2008. Over the last five years, the federal government kept the HTF afloat through general funds transfers totaling \$41 billion between 2008 and 2013.⁴⁸ To supplement proceeds from highway-user taxes, MAP-21 made additional general fund allocations of \$10.4 billion scheduled for FY2014 for the highway account as well as \$2.2 billion for the mass transit account in FY2014.⁴⁹ Absent general fund transfers — which expire with MAP-21 in FY2014 — the HTF would become insolvent.⁵⁰

The funding that counties receive from the states is also affected by the eroding effect of inflation on fixed rate gas tax revenues. All states levy a gas tax, a portion of which is distributed to local governments for their transportation projects. Except for Kentucky, Pennsylvania and Virginia, all states collect some form of a fixed rate gas tax, in cents per gallon (cpg) rate. Thirty-six (36) states rely exclusively on a fixed rate (cpg) gas tax to fund transportation (See Map 3).⁵¹ Kentucky, Pennsylvania and Virginia have only a variable rate gas tax and nine other states levy a variable rate gas tax in addition to the fixed rate tax. The variable rate taxes are usually a per gallon rate that is adjusted based on the average wholesale price of gasoline, generating increasing revenues as gas prices go up (See Appendix A).⁵²

MAP 3. State Gas Tax Rates (Fixed or Variable), as of February 2014



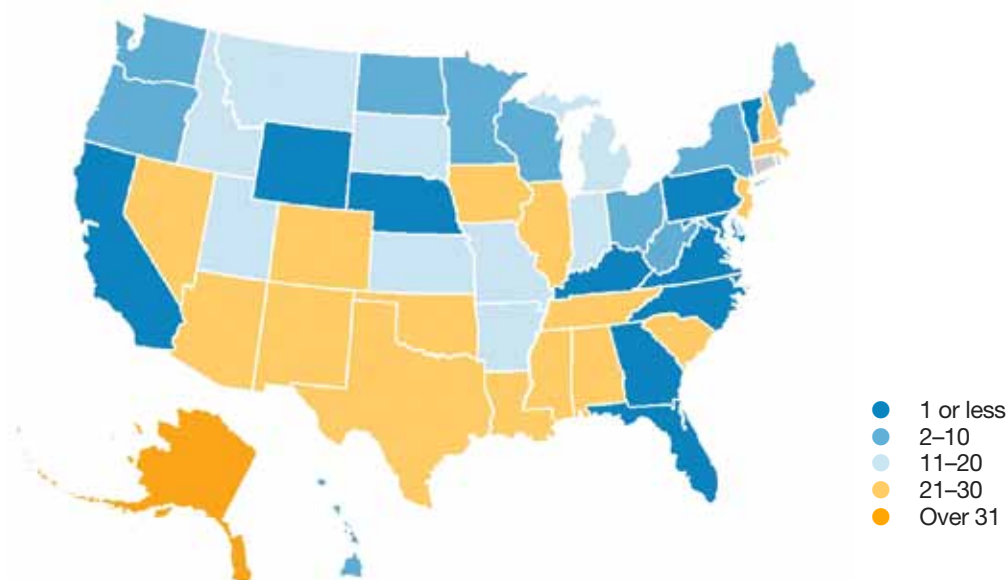
Note: Connecticut and Rhode Island are marked in gray because they do not have county governments. They are not included in this study.

Source: NACo analysis and update of Institute for Taxation and Economic Policy (ITEP), 2011

Twenty-seven (27) states have not raised their gas tax rates in over a decade, with 17 of those states having two decades or more without an increase (See Map 4). Alaska has gone the longest without an increase because the last time the gas tax rate was increased was in 1970. According to the Institute on Taxation and Economic Policy (ITEP), in 2011 New Mexico needed a 20.1 cent per gallon increase to return the real value of the state gas tax revenues to their 1995 level.⁵³

Short and long term trends affected the federal and state support for county transportation funding over the last decade. MAP-21 skewed even further the federal allocation of transportation funds away from counties and other local governments. Cuts in the federal discretionary funding for transportation, such as the SRS program, affected small and rural counties disproportionately. The latest economic recession pushed some states to focus on filling out their budget gaps at the expense of transportation funding. Long term trends, such as the eroding effect of inflation on fixed rate gas revenues coupled with the increase in car fuel economy affect the core structure of the U.S. transportation funding mechanism.

MAP 4. Number of Years since Last State Gas Tax Increase, as of February 2014



Note: Connecticut and Rhode Island are marked in gray because they do not have county governments. They are not included in this study.

Sources: NACo update of data from National Governors Association (NGA), *How States and Territories Fund Transportation*, 2009. Personal communication with Iowa State Association of Counties, February 10, 2014; Personal communication with County Supervisors Association of Arizona, December 23, 2013; Personal communication with Association of Oregon Counties, February 6, 2014; Personal communication with Association of County Commissioners of Alabama, October 28, 2013. Wenqian Zhu, "Eight states raise their gas tax," *CNN Money* (2013) available at <http://money.cnn.com/2013/07/02/news/economy/state-gas-tax-increase/> (February 11, 2014).

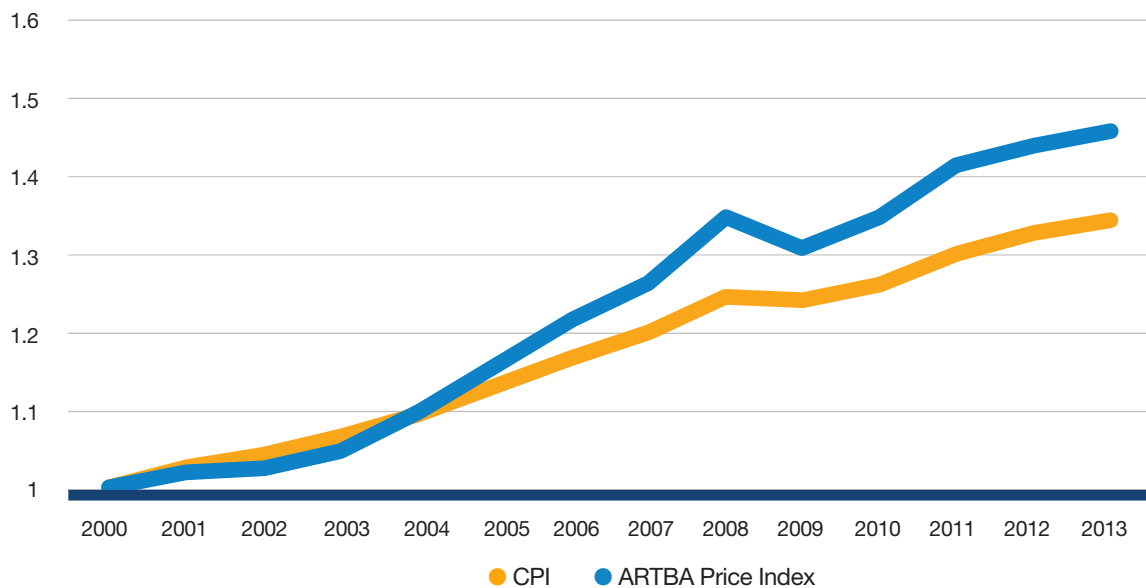
2. Counties face the dilemma of rising costs of transportation projects, increasing traffic volumes and limitations on their ability to generate revenue.

Besides the problems of securing federal and state funding for county transportation projects, counties are confronted with three other challenges: rapidly rising costs of building and maintaining transportation assets, high volumes of traffic and constraints on self-funding local transportation.

Rising Transportation Costs. Transportation project costs rose faster than overall inflation over the last decade, further diminishing the purchasing power of already limited county transportation funds. Based on the American Road and Transportation Builders Association's (ARTBA) highway construction price index, the cost of construction, materials and labor for highways and bridges increased by 44 percent between 2000 and 2013, outpacing the 35 percent increase in inflation (See Figure 2).⁵⁴ The rise in regulatory costs is one of the factors contributing to this result, as showcased by California counties (See Sidebar on page 18: California counties).

Soaring Heavy Traffic Volumes. Fast-growing industries, such as oil and gas or agriculture, put a lot of pressure on county transportation systems given the rapid rise in heavy traffic. For example, the energy boom in North Dakota led traffic – especially heavy truck traffic – to rise by 40 percent between 2000 and 2012.⁶³ Much of this traffic is on local roads that were not built to withstand such heavy loads. A 2012 assessment of North Dakota counties and other local road needs projected that the average number of daily truck trips on county roads in the four highest oil producing counties would increase 98 percent between 2012 and 2025.⁶⁴

FIGURE 2. The ARTBA Price Index and Inflation Index, 2000-2013



Notes: The ARTBA Price Index documents price increases in raw materials related to construction. The Consumer Price Index (CPI) is a measure that examines the weighted average prices of a wide range of consumer goods and is used frequently to show periods of inflation or deflation.

Sources: American Road & Transportation Builders Association (ARTBA) Price Index; Bureau of Labor Statistics, Consumer Price Index (CPI), 2013.

CALIFORNIA COUNTIES

Rising Costs and Caps on Revenue Capacity

California counties are deeply involved in building and maintaining the statewide transportation system. Counties own and maintain 37 percent of California's roads and are responsible for maintaining 7,238 county bridges or 29 percent of the statewide bridges.⁵⁵ Faced with increasing costs of transportation projects and limitations on their ability to generate revenue, California counties have trouble keeping up with the construction and maintenance of county roads and bridges.

In addition to increasing regulatory costs, California counties are hamstrung by Proposition 13.

One reason for the increasing construction costs for California counties is the rise in regulatory costs, which not only increases the overall costs of transportation projects, but also prolongs project delivery time. Environmental regulatory requirements in California are complex because many transportation projects are required to comply with the National Environmental Policy Act (NEPA) and with the California Environmental Quality Act (CEQA). Sometimes, CEQA has even more stringent environmental requirements than the federal policy. For example, CEQA requires the agency to implement mitigation measures identified

in documentation submitted for environmental review. In contrast, NEPA has no requirement for the agency to adopt the mitigation measures.⁵⁶ Many of the county transportation projects require compliance with both CEQA and NEPA regulations, which adds considerable time and costs to the project delivery process. According to estimations from the California State Association of Counties, for every dollar of construction costs, counties paid between 36 to 50 cents for environmental and other regulatory reviews in 2010.⁵⁷

In addition to increasing regulatory costs, California counties are hamstrung by Proposition 13, the main limitation on their ability to raise additional revenues for transportation projects. Proposition 13 caps property tax rates at 1 percent of the sale value and limits the increases in the base value of the property to 2 percent annually as long as the property does not change ownership.⁵⁸ Therefore, even though California's housing market was recovering in 2013, county tax revenues will not see as sharp an increase.⁵⁹ In addition, Proposition 13 also hinders the ability of counties to raise additional tax revenue for transportation projects because it places a high voter approval (two-thirds) requirement for any new tax by local governments for a special purpose.

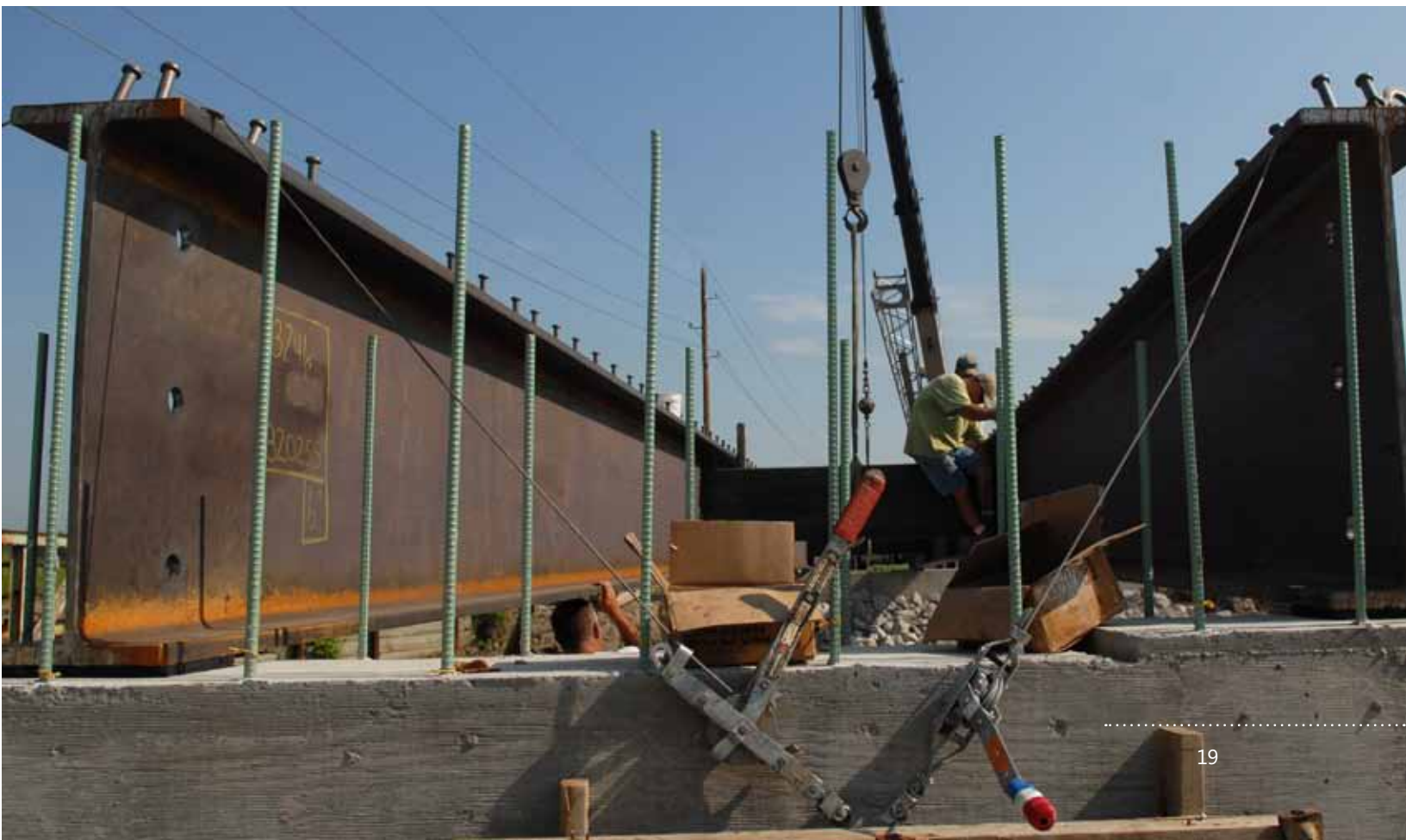
Despite the funding and regulatory difficulties, counties in California perform well in project delivery; in FY2011-2012, local projects achieved a 65 percent project delivery rate by delivering 116 of 178 scheduled projects.⁶⁰ The state of California is also finding innovative ways to streamline the regulatory process for counties and other local governments. One method that the state currently uses is to pool federal funding and allocate it to the fewest projects possible.⁶¹ This helps reduce regulatory costs and redundancies by minimizing the number of projects that must comply with both federal and state regulations. Counties are also proposing other methods to reduce regulatory constraints, such as the CEQA/NEPA reciprocity program, whereby the environmental document prepared pursuant to CEQA could satisfy both state and federal regulations.⁶²

Given the rising costs of transportation projects and significant challenges in raising additional revenue, California counties will continue working with the state and the federal government to find new ways to overcome these challenges and prevent further deterioration of the county transportation system.

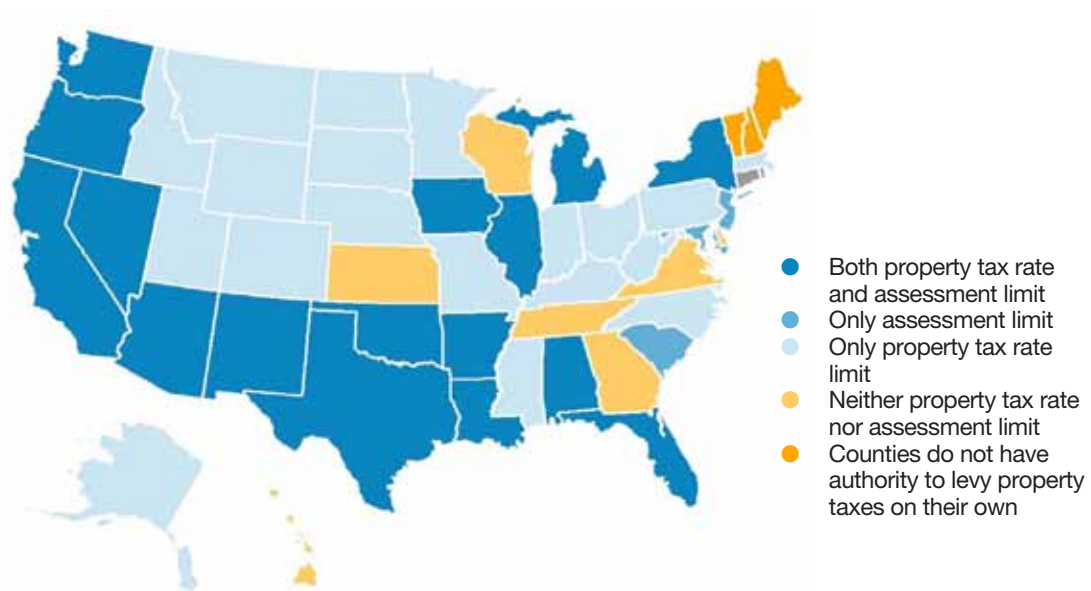
While the rise in traffic and oil production resulted in higher state gas tax revenues and oil proceeds, the county transportation needs far outpace the state funding allocated to counties. In FY2011-2013 counties received \$90.8 million for highways from the state highway tax distribution fund and an additional \$142 million in road reconstruction grants for oil producing counties and townships.⁶⁵ But the 2012 assessment of North Dakota counties and other local road needs estimated the demands for road improvements for FY2013 for oil-producing counties alone at \$521 million – more than half of which is needed for unpaved roads.⁶⁶

Mountrail County, N.D. is an example. The only county in the country with an economy that had no recession over the last decade across four indicators (economic output, jobs, unemployment and home prices) has a hard time keeping up with the needs of its transportation system.⁶⁷ The oil industry boom drove up the labor costs in the county, making it difficult to find reliable construction companies for county road projects and hard to complete projects on time. The state has been allocating more money for roads in oil producing counties, but the funding is fixed for a two-year budget cycle, while the costs and needs are rising rapidly every year. The amount of funding received from the state is just not adequate for the task at hand.

In some cases, counties are not able to collect revenues on the increased road traffic that accompanies shifts in the local economies. Counties in South Dakota experienced a 55 percent growth in the economic output of the agriculture sector between 2000 and 2010, expansion accompanied by additional heavy traffic on county roads, not suited for overweight trucks.⁶⁸ The state has a system of fees for overweight trucks, but the funding flows to school districts, not offsetting the costly repairs necessary for county roads. Furthermore, while 46 counties in South Dakota implemented a wheel tax, the state caps the tax at \$4 per wheel and it can only be collected on four wheels, not all the 18 wheels of the semi-trailer trucks that cause the most damage to county roads.⁶⁹



MAP 5. State Imposed Limitations on County Property Tax Rates and Property Assessment, as of February 2014



Note: Connecticut and Rhode Island are marked in gray because they do not have county governments. They are not included in this study. Maine and Vermont do not give counties the authority to levy any taxes, but counties may request an assessment from the state government based on estimates of the costs of county services. In New Hampshire, a county delegation composed of state representatives is responsible for levying taxes.

Sources: NACo update of National Conference of State Legislatures, *A Guide to Property Taxes: Property Tax Relief, 2009*; Personal Communication with Association County Commissioners of Georgia, January 14, 2014; Personal Communication with Wisconsin County Association, January 10, 2014; Personal communication with Police Jury Association of Louisiana, February 11, 2014.

State Limitations on Counties' Ability to Raise Revenue. The ability of counties to collect revenues may be limited by state imposed barriers and caps on property taxes, the main source of county general funding.

Forty-three (43) states have some type of county property tax limitation, ranging from property tax rate limits, property assessment limits, revenue rollbacks to expenditure limits and property tax freezes (See Appendix B). Most common caps are on the property tax rate, the property reassessment or a combination of the two (See Map 5). Thirty-five (35) states impose some form of property tax rate limitations, setting a maximum aggregate tax rate that a county can levy, which cannot be exceeded without a popular vote.⁷⁰ For example, in 2001 voters in Washington State approved an initiative which rolled back property values to their levels in January 1999 and capped annual assessment increases at 1 percent or the inflation rate, whichever is lower.⁷¹

In three additional states (Maryland, New Jersey and South Carolina), counties cannot increase property assessment, most often expressed as an allowable annual percentage increase in the assessment values. For example, the Homestead Credit in Maryland limits counties' taxable assessment increases to 10 percent per year.⁷²

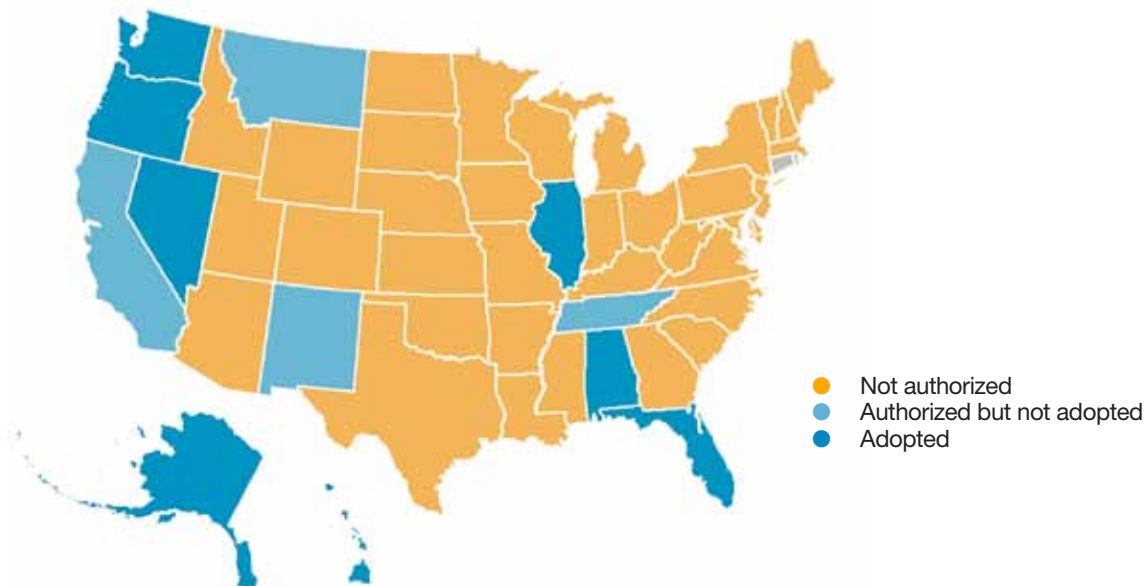
Sixteen (16) states impose the most binding combination of limitations on counties' ability to raise overall property tax revenues: on property tax rate and assessment rate. In 1997, voters in the state of Oregon approved Measure 50, limiting the amount of property tax revenues counties

can collect by imposing limits on increases in the assessment value and establishing permanent tax rate limits. Before Measure 50, the assessed value of properties in Oregon was current market value. Measure 50 redefined the assessed value to 90 percent of a property's 1995-1996 assessed value and limited the annual growth of the assessed values to 3 percent. Measure 50 further limited counties' ability to collect property tax revenues by implementing a permanent tax rate limit on counties' taxes used to fund general operations, which account for the largest component of their property tax revenues.⁷³

Local Option Gas Tax. Counties in states that allow local option gas taxes face additional limitations in using this authority granted by the state. Only 12 states authorize counties to collect their own local gas taxes, which are limited to a maximum rate in most cases and often involve additional approvals for implementation (See Map 6). Most counties in three states (Florida, Hawaii and Nevada) implemented the local gas tax and some counties in five other states adopted it (See Appendix C). Seven (7) of the states that authorize a local gas tax require counties to obtain approval through local referendum to use the tax. While allowed by the state, counties in Montana, Tennessee, California and New Mexico have not implemented a local gas tax that requires voter approval.⁷⁴

Counties' already limited funds continue to decrease in value as construction costs go up and the pressures on county roads and bridges are multiplying, especially with the current population growth and the energy boom in the United States. States impose numerous limits on counties' ability to raise revenue for transportation, on their main funding source — property tax or other, such as local gas taxes. Counties continue to search for ways to fund their transportation assets and deliver services to their residents.

MAP 6. States Allowing Counties to Collect Local Option Gas Taxes, as of February 2014



Note: Connecticut and Rhode Island are marked in gray because they do not have county governments. They are not included in this study.

Sources: NACo Analysis of Goldman and Wachs, 2003; American Petroleum Institute (API), *State Motor Fuel Taxes*, October 2013; Goldman, Todd; Corbett, Sam; Wachs, Martin. *Institute of Transportation Studies University of Berkeley. Local Option Transportation Taxes in the United States, Part One: Issues and Trends*. March 2001.



Counties are increasingly using local option sales taxes to fund transportation projects, if allowed under state law. Sales taxes have a broad tax base, collecting revenues on the total amount of retail goods and services sold within the county. Twenty-nine (29) states allow counties to collect local option sales taxes specifically for transportation purposes or general purposes including transportation (See Map 7).⁷⁶ Counties still need voter approval to introduce the tax. Over the years, counties in 15 states gained approval from voters to impose local option sales taxes for road capital projects. For example, most recently in 2013, Platte County, Mo. gained voter approval to renew a 0.375 percent sales tax for the next 10 years to fund transportation projects in the county. The county identified 15 bridge replacement projects that will be funded by revenues from the road tax over the next 10 years.⁷⁷

In some counties, residents support county measures to implement additional taxes to fund their communities' transportation systems. In 2012 and 2013, voters in 46 of the 159 counties in Georgia approved a special purpose local option sales tax (SPLOST) equal to 1 percent dedicated to capital improvement projects, which may include transportation.⁷⁸ For example, in November 2013, residents in Gwinnett County, Ga. approved the latest SPLOST referendum, which would result in \$498 million county funding over the following three years. The county dedicated 70 percent of this additional funding to roads, bridges, drainage, sidewalks, intersection improvements and other transportation projects.⁷⁹

Besides new additional sources of funding, some counties use variable gas tax rates, which are tied to some measure of price or inflation, to avoid the long-term problems with the federal and most state fuel taxes that are fixed. For example, counties in Nevada have authority from the state to impose a 9 cent per gallon county optional gas tax in addition to a 6.35 cent per gallon county mandatory gas tax. In 2009, newly passed state legislation allowed counties to introduce flexible rate gas taxes annually indexed for inflation.⁸⁰ In 2013, Clark County, Nev. approved a variable rate fuel tax set to add up to 10 cents per gallon over the next three years, on top of the existing 9 cent per gallon fuel tax. The fuel tax will fund road projects within the county and started at 3.24 cents per gallon in Jan. 1, 2014, increasing based on inflation over time.⁸¹

Cost Savings Measures. Counties implemented modernization and cost-saving measures to streamline processes and save money, in addition to revenue increasing measures. The state of Ohio allows counties to complete small transportation projects using their own employees, saving the counties money by not having to offer projects for bid and use private contractors.⁸² Pennsylvania counties implemented a series of cost savings measures in partnership with the Pennsylvania Department of Transportation (See Sidebar: Pennsylvania counties).

PENNSYLVANIA COUNTIES

Agility, Bundling and Partnerships

Faced with deteriorating infrastructure and rising construction costs, Pennsylvania counties and the Pennsylvania Department of Transportation (PennDOT) are working together to find innovative ways to save money on transportation projects. While most Pennsylvania counties do not own or maintain county roads — the exceptions are Philadelphia and Allegheny county that own and maintain a small number of local roads — all but four Pennsylvania counties have significant responsibilities for maintenance of bridges.⁸³ In total, Pennsylvania counties own and are responsible for the maintenance of 2,648 county bridges.⁸⁴

Overall, Pennsylvania counties rely on state funding for transportation, including bridge maintenance. The new state transportation act (Act 89 of 2013) moves the state funding exclusively to an increased oil company franchise tax (repealing the state gas tax) supplemented by increases in fines and registration fees.⁸⁵ The Act also gave counties the authority to locally levy a \$5 vehicle registration fee starting in 2015. The implementation of the local option fee needs the vote of the county board of commissioners.⁸⁶ Current state allocations to counties for bridge projects amount to \$40 million per year, short of the needs to repair county structurally deficient bridges. Thirty-six (36) percent of county bridges are structurally deficient and to repair them would require \$100 million per year in capital costs alone.⁸⁷

Pennsylvania counties are working with the state to solve the issue of repairing and maintaining the county bridges.

In 2013, Pennsylvania counties and PennDOT started an innovative Bridge Bundling program to help cut costs. The Bridge Bundling program is an ongoing pilot program of three counties: Luzerne, Washington and Blair. In this program, PennDOT proposes to counties projects that combine multiple bridges with similar designs in a bundled project for repair or replacement. PennDOT manages the project in a single contract, and counties are responsible for maintenance of the bridges after the completion of the project. The pilot Bridge Bundling program, which has recently been expanded to 500 bridges, is currently estimated to save counties money. The bridge bundling

program allows county bridge projects a quick turn-around, with a typical bridge replacement taking up to five years from engineering and permitting to opening, while bundled projects were turned around in one year. In addition, the County Commissioners Association of Pennsylvania estimates that the construction savings from the program would be 10 percent or more.⁸⁸

Another example is the Modular Bridge program, started by PennDOT. Through this program, counties save money by using state engineering standards, pre-approved and pre-manufactured materials to build their bridges, eliminating testing and engineering costs for counties.

Counties also participate in the PennDOT Agility program, which delivers savings for the state and its partners: counties, municipalities and community organizations. The Agility program is essentially a bartering program, in which PennDOT provides transportation services to local governments in exchange for other services of equal cost. No money is exchanged in the agreement. For example, PennDOT paved the driveway of a local fire department and in exchange, the fire department flushed PennDOT's bridges and inlets.⁸⁹ Since its creation in 1996, the Agility program attracted 2,600 similar partnerships that result not only in savings for transportation projects, but also in sharing of best practice and strengthening of state-local partnerships.⁹⁰

Pennsylvania counties are working with the state to solve the issue of repairing and maintaining the county bridges. Cost-saving programs such as the Bridge Bundling program, Modular Bridge program and Agility program help Pennsylvania counties address these challenges and save on costs of transportation projects.

County Transportation Financing. Counties also explored different ways to finance transportation. As with any infrastructure, many county transportation projects have long-term capital costs. Financing allows matching the life of the asset with the payment period. Most counties use municipal bonds to fund transportation capital projects. Between 2003 and 2012, counties, states, localities and state/local authorities invested almost \$200 billion in roads and bridges through municipal bonds.⁹¹ But counties also used land value capture measures, created infrastructure banks and engaged in Public-Private Partnerships.

Land Value Capture Options. Land value capture options – such as tax increment financing (TIF), special assessment districts and impact fees – link transportation investments and revenues directly to the area with the development project benefitting from the transportation project. These options allow counties to connect financing from new or existing land development to new or existing transportation.⁹² These financial mechanisms attract new businesses and development to a community and provide additional services to residents.

Tax increment financing (TIF) helps in the construction of a transportation project by borrowing against the future stream of additional tax revenue the project is expected to generate. The use of TIFs is authorized by legislation in 49 states and the District of Columbia, with more common use among local governments in Illinois, California, Florida and Texas.⁹³ Counties in Iowa used TIF districts tied to new developments of windmill farms to pay for road projects. For example, in 2009, Mitchell County Board of Supervisors approved one TIF on property with wind turbines, to help pay for 30 miles of road paving, estimated to cost between \$6 million to \$9.5 million.⁹⁴

Like other local governments, counties use the fees raised over special assessment districts to fund transportation projects, usually streetlights, repaving, sidewalks and other local transportation public works. For example, Missouri counties use transportation development districts (TDD), authorized by the state in 1990.⁹⁵ In 2001, St. Louis County used TDD to finance transportation improvements on Lindbergh Boulevard and St. John's Church roads linked with the development of a Costco Wholesale Corporation commercial development in the area.⁹⁶

Impact fees can be used to ensure that a new development pays for any new infrastructure required to support that new land development. Counties in Nevada use impact fees that developers pay towards road improvements based on the size of the road improvements that would serve the transportation



development district. For example, Nye County, Nev. adopted an impact fee on new developments within the Pahrump Regional Planning District in 2005 to finance improvements to streets, parks, police stations and fire stations. The streets and highways portion of the impact fees are based on a capital improvements plan (CIP) with an estimated cost of \$40.2 million for road improvements necessary to accommodate growth in the Pahrump Valley over a ten-year period, 2006-2015.⁹⁷

County Infrastructure Bank. In 2013, Dauphin County, Pennsylvania became the first county in Pennsylvania and one of the first in the country to create an Infrastructure Bank. This forward thinking concept leverages the county's share of the state gas tax revenue to create a more significant pool of funding to solve local transportation issues. The Dauphin County Infrastructure Bank (DCIB) provides low-interest loans for transportation projects to the county's 40 municipalities using a competitive application process. A maximum of \$30 million in low interest loans is available on a revolving basis.⁹⁸

The county's share of the state gas tax revenue is utilized to collateralize a Pennsylvania Infrastructure Bank Loan (PIB) and, in turn those PIB funds are loaned to municipalities on a competitive basis at low rates. The loans are repaid by municipalities and the funds are then re-purposed for other projects. This allows municipalities within the county to borrow funds at low rates and finance their transportation network. Since the transportation systems are connected, improvements to municipal roads within Dauphin County serve the residents and the economic development of communities across the county.

Public Private Partnerships (PPPs). Counties are exploring new collaboration forms with the private sector in transportation, through Public Private Partnerships (PPPs). The private sector involvement can vary from very limited engagement, just using the same private entity to design and construct a project – design-build (DB) model – to placing the risk and responsibilities of design-build-finance-operate-maintain (DBFOM) on the private entity. While PPPs may be a tool towards better sharing of risks and costs of transportation projects between the public and the private sector, they are not a new source of funding. The public entity or the users of the facility will provide funding for the project to compensate the private partner for its services.⁹⁹

Counties have been involved in a range of transportation PPP projects. In 2012, the Monmouth County, N.J. Board of Chosen Freeholders voted to transfer operations of four county-owned drawbridges to the private sector, expecting to save the county \$572,270 annually. The private company which submitted the winning bid of around \$1.5 million will operate the four bridges, which previously cost the county more than \$2 million.¹⁰⁰

Public-private partnerships can also encompass multiple levels of government coordinating with private agencies. For example, Miami-Dade County, the City of Miami and Florida DOT are working with several private firms functioning as contractors, operators and equity partners to design, build, finance, operate and maintain (DBFOM) the Port of Miami Tunnel. This complex project, set to open May 2014, will provide direct access from the seaport to interstate highways, relieving the congested downtown area of cargo truck traffic and supporting future economic development in Miami-Dade County.¹⁰¹ The total cost of design and construction of the tunnel is \$663 million, with the state paying 50 percent of the capital cost (design and construction), as well as all of the operation and maintenance. Miami-Dade County and the City of Miami paid the remaining 50 percent of capital costs.¹⁰² This partnership will keep the Port of Miami competitive, and will allow the downtown area to better accommodate the \$13 billion in new development and 60 percent increase in population it has experienced in the past decade.¹⁰³

Collaborating with other governments, private entities and with residents' support, counties raised their own funding for transportation, cut costs and found new ways to finance transportation projects. While a step forward, this is an insufficient solution to the larger needs of the county roads and bridges, a big part of the U.S. roadway system. The partnership with the federal government and the states should continue, fitted to the current challenges on the ground.



Conclusion

Counties are one of the stewards of the U.S. transportation system, owning and maintaining 45 percent of public roads and 39 percent of all bridges. As local governments created by states, counties rely on the partnership with the states and the federal government to support their transportation assets.

The federal transportation funding mechanism is at a crossroads, with MAP-21 expiring in September 2014. Federal gas receipts are dwindling and lessons could be learned from the MAP-21 changes. The current statute further tilted the allocation of funds away from local governments. In addition, federal budget cuts come at the expense of some of the counties that have the most need, such as the rural counties using SRS funding for road improvements.

As creatures of the state, counties' ability to fund transportation is deeply linked with state funding and state willingness to allow counties to develop their own funding sources. As some states struggled with their budget deficits over the recession, transportation funding became less of a priority and the funding available for county roads and bridges often fell through the cracks. Similar with the federal government, most states are not willing to deal with the dwindling gas tax receipts and adjust the gas tax. At the same time, many states have imposed numerous limitations on counties' ability to raise their own revenues for transportation, either through property taxes, local gas taxes or other options.

Facing these challenges, counties still often find ways to fund and finance to maintain roads and bridges and deliver services to residents. Counties have been supplementing transportation funds with their own general funds and local option sales taxes to pay for transportation projects. In partnership with states and other local governments, counties implemented modernization and cost saving measures to streamline processes and save money. With a long-term perspective, counties explored different financing mechanisms from land value capture options, infrastructure banks and partnering with the private sector for Public-Private Partnership projects.

Global competition and an increasing backlog of needs at all levels of government require strong federal-state-local and public-private collaboration and solutions. Americans driving home or U.S. businesses shipping goods to destinations want an efficient and well-maintained U.S. transportation system. They move between roads and bridges owned by different levels of government or between various types of roads, with little knowledge of the different segmentations or ownership conditions. A seamless network of roads and bridges needs consistency in construction and maintenance across the entire U.S. transportation system. All levels of government participating in this responsibility must also share funding and grant counties the ability to generate additional revenues. This requires all owners of roads and bridges to work together to maintain and improve the U.S. transportation network.

A seamless network of roads and bridges needs consistency in construction and maintenance across the entire U.S. transportation system.

Appendix A

Type of State Gas Tax and Number of Years Since Last Increase, as of February 2014

| State | Fixed Rate Excise Tax | Variable Rate Structure Tax | Number of Years since Last Increase |
|---------------|-----------------------|-----------------------------|-------------------------------------|
| Alabama | x | | 22 |
| Alaska | x | | 44 |
| Arizona | x | | 23 |
| Arkansas | x | | 13 |
| California | x | x | 1 |
| Colorado | x | | 23 |
| Delaware | x | | 19 |
| Florida | x | x | 1 |
| Georgia | x | x | 1 |
| Hawaii | x | x | 7 |
| Idaho | x | | 18 |
| Illinois | x | | 24 |
| Indiana | x | | 11 |
| Iowa | x | | 25 |
| Kansas | x | | 11 |
| Kentucky | | x | 1 |
| Louisiana | x | | 24 |
| Maine | x | | 6 |
| Maryland | x | | 1 |
| Massachusetts | x | | 23 |
| Michigan | x | | 17 |
| Minnesota | x | | 6 |
| Mississippi | x | | 27 |
| Missouri | x | | 18 |
| Montana | x | | 20 |
| Nebraska | x | x | 1 |
| Nevada | x | | 22 |
| New Hampshire | x | | 23 |
| New Jersey | x | | 26 |
| New Mexico | x | | 21 |
| New York | x | x | 5 |

| State | Fixed Rate Excise Tax | Variable Rate Structure Tax | Number of Years since Last Increase |
|----------------|-----------------------|-----------------------------|-------------------------------------|
| North Carolina | x | x | 1 |
| North Dakota | x | | 9 |
| Ohio | x | | 9 |
| Oklahoma | x | | 27 |
| Oregon | x | | 2 |
| Pennsylvania | | x | 1 |
| South Carolina | x | | 27 |
| South Dakota | x | | 15 |
| Tennessee | x | | 25 |
| Texas | x | | 23 |
| Utah | x | | 17 |
| Vermont | x | x | 1 |
| Virginia | | x | 1 |
| Washington | x | | 6 |
| West Virginia | x | x | 6 |
| Wisconsin | x | | 8 |
| Wyoming | x | | 1 |

Note: NACo recalculated the number of years since last increase based on the current year 2014 and updated some of the years of last increase of the state gas tax from the National Governors Association (NGA), How States and Territories Fund Transportation, 2009.

Sources: NACo analysis of Institute for Taxation and Economic Policy (ITEP), *Building a Better Gas Tax*, Appendix C: *Current State Gas Tax Structures*, December 2011; NACo update of National Governors Association (NGA), *How States and Territories Fund Transportation*, 2009. Personal communication with Iowa State Association of Counties, February 10, 2014. Personal communication with County Supervisors Association of Arizona, December 23, 2013. Personal communication with Association of Oregon Counties, February 6, 2014. Personal communication with Association of County Commissioners of Alabama, October 28, 2013. Wenqian Zhu, "Eight states raise their gas tax," CNN Money (2013) available at <http://money.cnn.com/2013/07/02/news/economy/state-gas-tax-increase/> (February 11, 2014).

Appendix B

State Limitations on Counties' Property Tax, as of February 2014

| State | No Limits in State | Property Tax Rate Limits | Assessment Limits | Limits on Property Tax Revenue (Levy) Increases | Expenditure Limits | Property Tax Freeze |
|----------------|--------------------|--------------------------|---------------------|---|--------------------|---------------------|
| Alabama | | X | X | | | |
| Alaska | | X | | | | |
| Arizona | | X | X | | X | X |
| Arkansas | | X | X | X | | X |
| California | | X | X | | X | |
| Colorado | | X | | | X | |
| Delaware | | | | X | | |
| Florida | | X | X | X | | |
| Georgia | X | | | | | |
| Hawaii | X | | | | | |
| Idaho | | X | | | | |
| Illinois | | X | X | | | X |
| Indiana | | X | | X | | |
| Iowa | | X | X | | X | |
| Kansas | | | | X | X | |
| Kentucky | | X | | X | | |
| Louisiana | | X | X | | | X |
| Maine | | | | | | |
| Maryland | | | X | | | |
| Massachusetts | | X | | | | |
| Michigan | | X | X | X | | |
| Minnesota | | X | | | | |
| Mississippi | | X | | | | |
| Missouri | | X | | X | | |
| Montana | | X | | X | | |
| Nebraska | | X | | | X | |
| Nevada | | X | X | | | |
| New Hampshire | | | | | | |
| New Jersey | | | X | | | X |
| New Mexico | | X | X | | | |
| New York | | X | X (Select Counties) | | | |
| North Carolina | | X | | | | |
| North Dakota | | X | | | | |
| Ohio | | X | | X (Local Option) | | |

| State | No Limits in State | Property Tax Rate Limits | Assessment Limits | Limits on Property Tax Revenue (Levy) Increases | Expenditure Limits | Property Tax Freeze |
|----------------|--------------------|--------------------------|-------------------|---|--------------------|---------------------|
| Oklahoma | | X | X | | | |
| Oregon | | X | X | | | X |
| Pennsylvania | | X | | | | |
| South Carolina | | | X | X | | |
| South Dakota | | X | | X | | X |
| Tennessee | | | | | | X (Local Option) |
| Texas | | X | X | X | | |
| Utah | | X | | | | |
| Vermont | | | | | | |
| Virginia | | | | X | | |
| Washington | | X | X | X | | X |
| West Virginia | | X | | | | |
| Wisconsin | | | | X | | |
| Wyoming | | X | | | | |

Notes: Maine and Vermont do not give counties the authority to levy any taxes, but counties may request an assessment from the state government based on estimates of the costs of county services. In New Hampshire, a county delegation composed of state representatives is responsible for levying taxes.

Property tax rate limits are the most common type of property tax limitations and can take several forms. One limits the overall property tax payment to a certain percentage of the property's market value. Another type restricts mill levies, or freezes mill levies. Local governments can usually override property tax rate limits with voter approval.

Assessment limits how much property values can increase annually for tax purposes. These limits can restrict a county from generating large increases in revenues from rapidly rising property values.

Limits on property tax revenue (levy) increases specify the maximum annual increase in revenue a county can generate using property taxes. Revenue rollbacks prevent an increase in overall property tax revenue by requiring that tax rates be adjusted after reassessment, if the assessments grow by more than a certain percentage.

Expenditure limits attempt to limit property taxes by limiting the growth of county spending. Most of these limits are tied to a growth factor, most commonly population growth and inflation.

Property tax freezes typically bar property taxes when certain conditions are met (usually when a homeowner reaches age 65).

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Appendix C

States Allowing Counties or other Local Governments to Collect Local Gas Taxes, as of February 2014

| State | Local Gas Tax | Year Enacted | Adoption process | Local Areas Imposing Tax for Transportation Purposes |
|----------------|------------------------------------|------------------------------|---|--|
| Alaska | Local Excise Tax | | | At least one borough |
| Alabama | Local Excise Tax | | County/local law | 23/67 Counties |
| Arkansas | | | | |
| Arizona | | | | |
| California | Local Excise Tax | | | No counties levy a local option gas tax |
| Colorado | | | | |
| Delaware | | | | |
| Florida | Local Sales and Excise Tax | 1941; 1983; 1972; 1990; 1991 | County/local Law; State Law; Popular Vote | All Counties |
| Georgia | | | | |
| Hawaii | Local Sales and Excise Tax | 1955 | County/local Law | 4/5 Counties |
| Iowa | | | | |
| Idaho | | | | |
| Illinois | Local Sales and Excise Tax | 1986; 1988; 1989 | County/local Law; Popular Vote | 4/102 Counties |
| Indiana | | | | |
| Kansas | | | | |
| Kentucky | | | | |
| Louisiana | | | | |
| Massachusetts | | | | |
| Maryland | | | | |
| Maine | | | | |
| Michigan | | | | |
| Minnesota | | | | |
| Missouri | | | | |
| Mississippi | | | | |
| Montana | Local Option Motor Fuel Excise Tax | 1995 | County/local Law or Voter Approval | No counties levy a local option gas tax |
| North Carolina | | | | |
| North Dakota | | | | |
| Nebraska | | | | |

| State | Local Gas Tax | Year Enacted | Adoption process | Local Areas Imposing Tax for Transportation Purposes |
|----------------|---|--------------|-----------------------------------|--|
| New Hampshire | | | | |
| New Jersey | | | | |
| New Mexico | County Gas Tax | 1978; 1986 | Popular Vote | No counties levy a local option gas tax |
| Nevada | Local Excise Tax | 1965 | County/local Law | All counties and 1 independent city |
| New York | | | | |
| Ohio | | | | |
| Oklahoma | | | | |
| Oregon | Local Excise Tax | | Referendum | 2/36 counties, 3 cities |
| Pennsylvania | | | | |
| South Carolina | | | | |
| South Dakota | | | | |
| Tennessee | Gasoline Tax for Local Transportation Funding | 1997 | Popular Vote | No counties levy a local option gas tax |
| Texas | | | | |
| Utah | | | | |
| Virginia | | | | |
| Vermont | | | | |
| Washington | Motor vehicle fuel tax | 1990;1991 | County/local Law and Popular Vote | 1 County |
| Wisconsin | | | | |
| West Virginia | | | | |
| Wyoming | | | | |

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The National Association of Counties (NACo) is the only national organization that represents county governments in the United States. Founded in 1935, NACo assists America's 3,069 counties in pursuing excellence in public service to produce healthy, vibrant, safe and resilient counties. NACo promotes sound public policies, fosters county solutions and innovation, promotes intergovernmental and public-private collaboration and provides value-added services to save counties and taxpayers money. For more information about NACo, visit www.naco.org.

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The Road Ahead

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