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Transportation Finance

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Colorado's highways are funded through a variety of sources which include the Highway Users Tax Fund, federal funds, and transfers from the state's general fund resulting from Senate Bill 97-1. This Issue Brief discusses these funding sources in greater detail.

The Highway Users Tax Fund. The state constitution requires the revenues from highway-related taxes and fees to be used only for the construction, maintenance, supervision, and administration of public highways. As a result of this constitutional requirement, the General Assembly established the Highway Users Tax Fund (HUTF). The majority of highway-related taxes and fees are deposited into this fund. In FY 1998-99, revenues to the HUTF will total \$651.5 million. Seventy-five percent of the money in the HUTF comes from motor fuels tax revenue, while 20 percent comes from registration fees. The remaining revenue is from drivers' license fees, interest earnings, and penalty assessments.

The Legislative Council Staff expects HUTF revenues to increase 4.4 percent in FY 1997-98 and 2.7 percent (a \$17.3 million increase) in FY 1998-99. Through FY 2002-03, the Legislative Council Staff predicts HUTF revenues to increase at a compound annual average rate of 2.6 percent.

What is Colorado's Gas Tax Rate? Colorado's gas tax, which ranks as the twelfth highest in the nation, is 22 cents per gallon (in addition to the 18.3 cents per gallon federal tax), while the diesel tax is 20.5 cents (plus the 24.3 cents per gallon federal fuel tax). A one-cent increase in these tax rates would raise approximately \$21 million annually.

The State Shares Taxes and Fees With Local Governments. The distribution of HUTF monies to the state, counties, and cities is established by statute. The distribution of the largest share of revenue, motor and special fuel taxes, is illustrated in Table 1.

**Table 1
Distribution of Gasoline and Other Fuel Taxes**

First 7 cents	Above 7 cents
A. "Off-the-top" deductions -----	A. All funds:
B. Remaining funds: 65% to State Highway Fund	60% to State Highway Fund
26% to counties	22% to counties
9% to cities	18% to cities

In addition to the motor fuel taxes, driver's license and registration fees also are distributed to the state, counties, and cities based on the formulas shown in the above table. In total for FY 1996-97, the state received \$310.0 million for highway construction and maintenance, counties received \$117.3 million, and the cities received \$75.9 million.

Off-The-Top Deductions. The phrase "off-the-top" deductions refers to appropriations made by the General Assembly from the HUTF for highway-related administrative functions of state agencies. In 1995, legislation was enacted that reduced the number of agencies that were eligible for off-the-top funding (from 10 agencies to two) in an effort to allocate more money for highway construction and maintenance. Prior to reducing the number of eligible state agencies, \$82.2 million (FY 1995-96) was allocated for the administrative functions of those agencies. For FY 1998-99, the maximum "off-the-top" amount that the Colorado State Patrol and the Ports of Entry (the two agencies that continue to receive this type of funding) will receive is \$63.3 million. These deductions are limited by statute to a maximum increase of 6.0 percent in any given fiscal year.

General Fund Support of Highways. Funding for highways has been augmented by general fund transfers. From FY 1979-80 through FY 1996-97, \$622.5 million has been transferred from the general fund through sales tax diversions or other transfers for highway-related spending. Transfers were made to the Capital Construction Fund from the General Fund for highway construction in FY 1995-96 (\$105 million) and FY 1996-97 (\$129 million). The monies were targeted for highway reconstruction, repair, maintenance, and in FY 1996-97, capacity expansion projects. The projects constructed with these transfers were prioritized by the Transportation Commission and submitted to the General Assembly's Capital Development Committee.

In the 1997 session, the General Assembly enacted Senate Bill 97-1, which will divert 10 percent of state sales and use tax revenue to the HUTF. Approximately \$858.2 million over five years will be allocated to address state highway construction needs (\$162 million in FY 1998-99). Unlike the other HUTF monies, which are shared with the counties and cities, this additional funding will be used only for state highways.

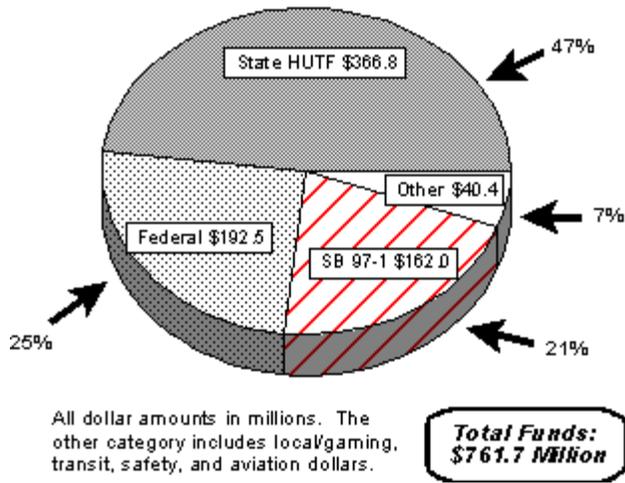
Federal Funding for Colorado's Transportation System. Federal revenue supplements state taxes and fees in financing Colorado's highway needs. The federal "Intermodal Surface Transportation Efficiency Act of 1991" (ISTEA) provides funding for highways, highway safety, and mass transportation. The federal program determines how these funds are distributed and how they can be spent. Under the federal law, Colorado hopes to receive \$192.5 million for FY 1998-99.

The outlook for federal transportation monies is uncertain, however, due to Congress' inability to arrive at a solution for reauthorizing the ISTEA legislation which expired on September 30, 1997. Both houses of Congress considered a wide variety of reauthorization plans but found themselves unable to reach agreement on a formula to distribute federal funds among the states. On November 12, one day before adjournment, a stopgap extension of transportation funds was enacted to keep federal dollars flowing to the states. Colorado's share of the budget distribution (\$117 million) should keep state construction projects going into the spring of 1998. However, the issue of how the state's funding distribution will be affected in the long term is still unclear; Congress has adopted a May 1, 1998 deadline after which states may not obligate federal funds unless a reauthorization bill has passed.

Anticipated Transportation Funding Shortfall. In its most recent 20-year transportation plan, the Colorado Department of Transportation (CDOT) identified \$27.4 billion in transportation needs over the FY 1994-95 to FY 2014-15 period. Based on Legislative Council Staff projections of available revenues, there will be a total transportation funding shortfall of \$5.5 billion, with \$4.6 billion occurring in the highway construction category. The CDOT projections indicate a similar shortfall over the 20-year period.

Total CDOT Revenue Sources. The chart below shows a one-year "snapshot" of the different sources of funds received by the CDOT. These funds from both state and federal sources will be used to address all modes of transportation, including the construction and maintenance of highways, transit, aviation, bicycle and pedestrian paths, and rail corridors.

CDOT Revenue Sources for FY 1998-99



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