

Transportation

Overview

Highway transportation needs of the state are financed in a variety of ways; a major portion coming from state and federal taxes on motor and special fuels. In recent years, the state has also supplemented highway financing with unrestricted General Fund and with sales tax revenue that by statute is diverted to highway financing.

Revenues from state taxes on motor and special fuels as well as revenues from truck and vehicle registration fees are deposited into the Transportation Fund and are divided between the state, cities and counties. The state receives 75% of the revenues deposited into the Transportation Fund; cities and counties receive 25%.

In addition to the 25% of transportation related taxes allocated to cities and counties, the state also distributes to cities and counties a 1/16 percent share of the state sales tax to be used for roads. This has been capped in recent years at \$18.7 million. Two programs, the corridor preservation program and the state park access program, each receive 3% of these funds. The remainder, approximately \$17.6 million annually, is distributed to local and county governments.

The state also receives federal money for transportation needs. This generally comes from the federal tax levied on motor and special fuels, which the federal government allocates to the states. The federal tax collected is distributed to the various states under highway bills passed by Congress. The most recent bill passed is entitled "The Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users" or what is commonly referred to as SAFETEA-LU. It was enacted on August 10, 2005 and authorizes spending for highways, highway safety, and transit for five years through 2009.

Once a state receives federal transportation money, it is required to spend this money on projects in a range of categories. These categories encompass a mixture of purposes such as recreational trails, metropolitan planning, bridge replacement, interstate maintenance, and the National Highway System.

Standard Transportation Program

Projects are programmed for construction by the Utah Department of Transportation (UDOT) and the Transportation Commission through the Statewide Transportation Improvement Program known as the STIP. This program includes highway and transit projects that are scheduled for construction in the next five years. The STIP contains a list of projects that have been approved by the Transportation Commission based on funding projections from various federal and state transportation revenue sources. Many critical projects are left off the STIP due to insufficient funding. These projects are commonly referred to as unfunded transportation capacity needs.

Centennial Highway Fund

Recognizing the need to provide additional funding for transportation needs, Governor Leavitt and the state legislature created the Centennial Highway Fund during the 1996 General Legislative Session. This fund, a special revenue fund, provides financing for the construction of 40 plus previously unfunded transportation projects throughout the state. The planned financing sources for the Centennial Highway Fund include General Fund appropriations, sales taxes, fuel taxes, registration fees, bonding, federal funds, local contributions, and department efficiencies.

This fund has been responsible for financing most of the larger new capacity projects constructed throughout the state. As of fiscal year 2005, approximately \$2.7 billion has been spent on highway projects since the funds inception. One successful Centennial Highway project was the reconstruction of Interstate 15 (I-15) through Salt Lake City. The I-15 construction project finished ahead of time and came in under the revised budget by \$32 million, an almost unheard of accomplishment for a project of its size.

Escalating Project Costs of the Centennial Highway Fund

In the 1997 General Legislative Session, the Governor and Legislature adopted a ten-year financing plan for the Centennial Highway Fund. Costs of constructing 42 projects were projected at \$2.6 billion and a financing plan was implemented using estimated future revenues and appropriations that would go into the Centennial Highway Fund through fiscal year 2007.

One Centennial Highway project was the reconstruction of I-15, originally estimated to cost \$1.36 billion, however with enhancements and changes in the program the total cost of the I-15 project escalated to \$1.59 billion or \$230 million higher than the original estimate of \$1.36 billion. The Governor, along with legislative leadership, decided to finance the additional \$230 million so other projects included in the Centennial Highway Fund program would not be cut.

In 1999, an additional project was added. This project provided an additional lane on each side of I-15 from North Salt Lake to the junction of U.S. 89 in Farmington and cost \$29 million. These additional lanes were completed in 1999 and have temporarily relieved the traffic needs in the Davis County corridor.

During the 2000 General Legislative Session, UDOT informed the legislature that estimated costs for many of the projects still to be constructed had grown by close to \$400 million. Since then, with the exception of Legacy Parkway, minor adjustments have been made to the estimated costs of the Centennial Highway Fund projects. The current cost estimated to complete all projects is now at \$3.62 billion, over \$1 billion more than originally estimated. It should be noted that the \$3.62 billion figure does not include debt service interest payments, which stand at over \$360 million to date.

Recent Developments of the Legacy Parkway

The Legacy Parkway was originally scheduled for construction at a cost of \$261 million. The scope of the project changed to include a nature preserve and the cost escalated to \$451 million. Work on the Legacy Parkway began in January of 2001 and continued until it was stopped by an injunction from the 10th Circuit Court of Appeals in Denver on November 16, 2001.

With the efforts of Governor Huntsman, an agreement in principle to settle the Legacy Parkway case outside of court was made with the plaintiffs in the Legacy Parkway lawsuit. This negotiated agreement was accepted by the legislature during a special session held on November 9, 2005 and has opened the way for construction to resume as early as Spring 2006.

Provisions of the agreement include a 55 mph speed limit, special noise-reducing pavement, the integration of unique parkway features and restrictions on certain types of large trucks.

The construction delay of the Legacy Parkway will cost the state upwards of \$250 million, as construction costs have escalated since 2001. The cost to complete this project is unknown at this time but could easily exceed \$700 million.

Financing of the Centennial Highway Fund

General Fund and Sales Tax. Total General Fund contributions through fiscal year 2005 total \$882 million. This is \$330 million less than the plan adopted by the 2001 legislature. Due to the downturn in the economy that began in the spring of 2001, the legislature reduced the ongoing General Fund appropriation to the Centennial Highway Fund by \$86 million in fiscal year 2003 and did not increase General Fund appropriations to the fund until fiscal year 2006. In fiscal year 2006, the legislature increased the appropriation to the Centennial Highway Fund by \$90 million each year from the General Fund.

In the 2005 General Session, the legislature dedicated \$59.6 million of sales tax revenue for highways; replacing an ongoing General Fund appropriation. As a result, \$59.6 million of sales tax revenue will go towards constructing highways each year.

In addition to this sales tax, the state's portion of the sales tax used for Olympic facilities, 1/64th percent of the sales tax, has been going into the Centennial Highway Fund annually. Revenue from this sales tax was \$5.5 million for fiscal year 2005.

Fuel Taxes and Vehicle Registration Fees. The Centennial Highway Fund receives collections from an additional five cent per gallon tax on motor fuels and special fuels and a half cent per gallon tax formerly collected for the Underground Storage Tank program that was implemented in 1997. This amount is increased annually by 3% despite the actual increase. In years when transportation revenues have not increased by 3%, funds that would normally have gone to the STIP program have been allocated to the Centennial Highway Fund.

The increase in registration fees for vehicles and trucks that passed in 1997 continues to be included in the Centennial Highway Fund.

Federal Funding. The Centennial Highway Fund was originally scheduled to get additional federal funding over and above what UDOT normally had received in years before 1997. The agreed upon amount by the legislature and governor was \$450 million over ten years. UDOT continues to put federal funds into the Centennial Highway Fund at sufficient amounts to reach the estimated \$450 million.

Bonding. The state has bonded for over \$1.3 billion to finance projects in the Centennial Highway Fund. Bonding of \$50 million was authorized for fiscal year 2005. No bonding was needed in fiscal year 2006. Unless additional General Fund revenue is appropriated to the Centennial Highway Fund, projected bonding to complete projects may exceed \$250 million in future years.

Other Funding and Department Efficiencies.

Departmental efficiencies of \$6 million per year are transferred from the operations of UDOT to the Centennial Highway Fund. This should end after fiscal year 2007, giving UDOT an extra \$6 million to program for STIP projects.

New Legislation Affecting the Centennial Highway Fund.

In 2005, legislation was passed to create the Transportation Investment Fund of 2005 to pay for the costs of maintenance, reconstruction, or renovation to state and federal highways. This bill re-designated the Centennial Highway Fund as a restricted account within the Transportation Investment Fund of 2005. It also provided that a portion of the sales and use tax revenue (\$59.6 million) should be deposited into the Centennial Highway Fund. When highway general obligation bonds are paid off and projects are completed, all revenue currently going to the Centennial Highway Fund will be deposited into the Transportation Investment Fund of 2005.

Current and Future Transportation Issues

Gasoline and Special Fuels Taxes

Gasoline and Special Fuel tax rates, as measured in cents per dollar, were last increased in July 1997. Revenue growth in this tax has only increased by 16% since fiscal year 1998, while highway and street construction prices have increased 32% over the same period. Most of the additional revenue has been used to fund increased costs of UDOT employee salaries and benefits as well as increased costs of maintaining the state's current road system. As a result, increases in state revenue received from current gas and special fuel collections is used mainly to support the current road system and is not used to finance projects that add capacity.

Growing Traffic Volumes

Since the early 1990s, vehicle miles traveled on Utah roads has risen more than 50%. The state highway system, which comprises 14% of total highway mileage in the state, serves approximately 70% of total vehicle miles traveled in the state.

UDOT has implemented a four-pronged approach to manage the growing traffic volumes with the resources currently available. The first strategic goal is to take care of the current state highway system. UDOT is focusing on pavement preservation, bridge preservation and maintenance efforts that will prolong the life of highways and improve safety. The second strategic goal is to make the current system work more efficiently. UDOT focus areas include: traffic management using signal coordination, ramp meters, incident management teams, etc., to improve the flow of traffic; and enhance traveler information through web sites, the 511 system, and media outlets. The third strategic goal is to improve highway safety for the traveling public. The final goal is to increase capacity by adding lanes to the transportation system and by working with organizations for multi-modal or shared solutions to traffic congestion.

The Growing Problem with Congestion

Transportation planning organizations, most notably the Wasatch Front Regional Council (WFRC) and the Mountainland Association of Governments, issued transportation capacity studies indicating growing congestion on Utah highways. These studies indicate congestion will continue to increase while transportation capacity improvements will be insufficient under current funding levels.

The WFRC predicted that the Wasatch Front region alone will need to raise \$4.1 billion to address critical transportation capacity needs in the next ten years. Under current state revenue sources approximately half of the needed funds can be raised, leaving an almost \$3 billion shortfall.

Growing Cost of Highway Construction

UDOT has expressed concern that materials to build highways are not as readily available as in times past due to the economic expansion that is currently happening around the world. UDOT has indicated that costs to build highways have skyrocketed in Utah. The latest information released by the Bureau of Labor Statistics indicated that highway and street construction prices have increased by 16% from October 2004 to October 2005.

Housing and land prices have also increased significantly throughout Utah. Purchasing right-of-way for highways, which includes raw land, homes, and businesses, has now become a major portion of highway construction costs.

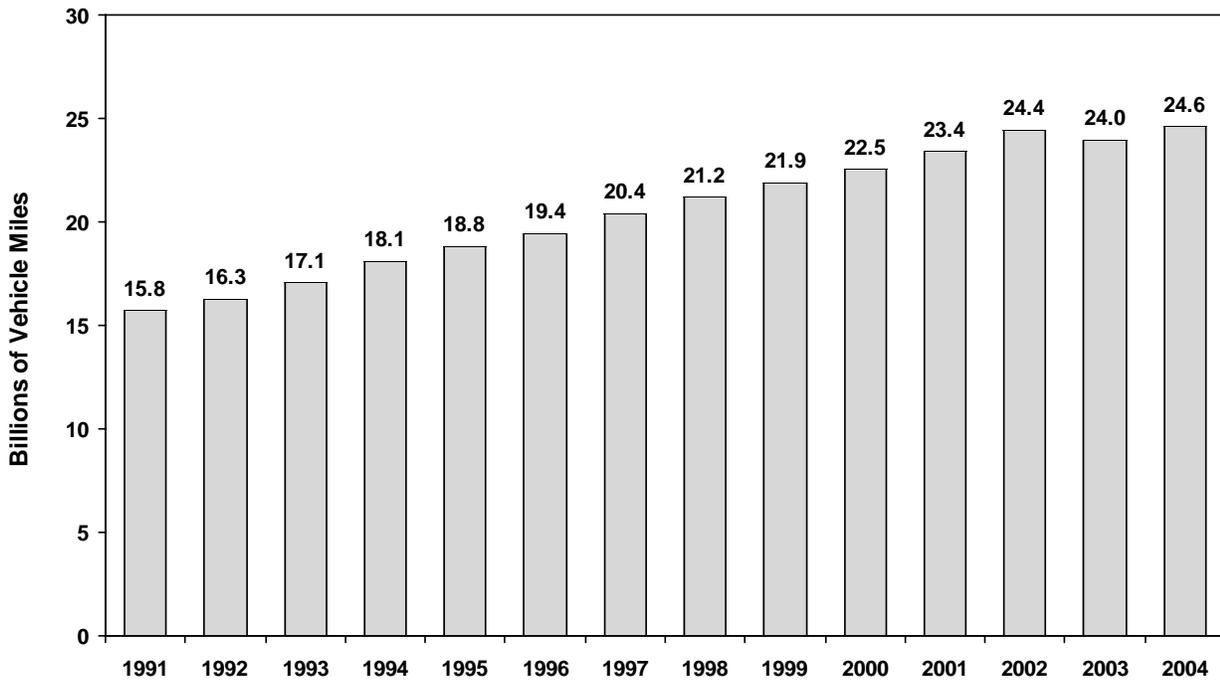
One example of rising costs is the Legacy Parkway. In 2001, costs to construct the project were estimated at \$451 million. UDOT had a contractor under bid and the project would have been built for close to the estimated cost. Now, the estimated cost is close to \$700 million, and UDOT had already purchased most of the right-of-way by 2001.

Outlook

Utah's economy is expanding and its population is growing. Even with past efforts to increase transportation funding by over \$3.6 billion through the Centennial Highway Fund, traffic congestion continues to be a major issue in Utah. Now, with rising construction and land costs, building needed highway infrastructure has become even more expensive.

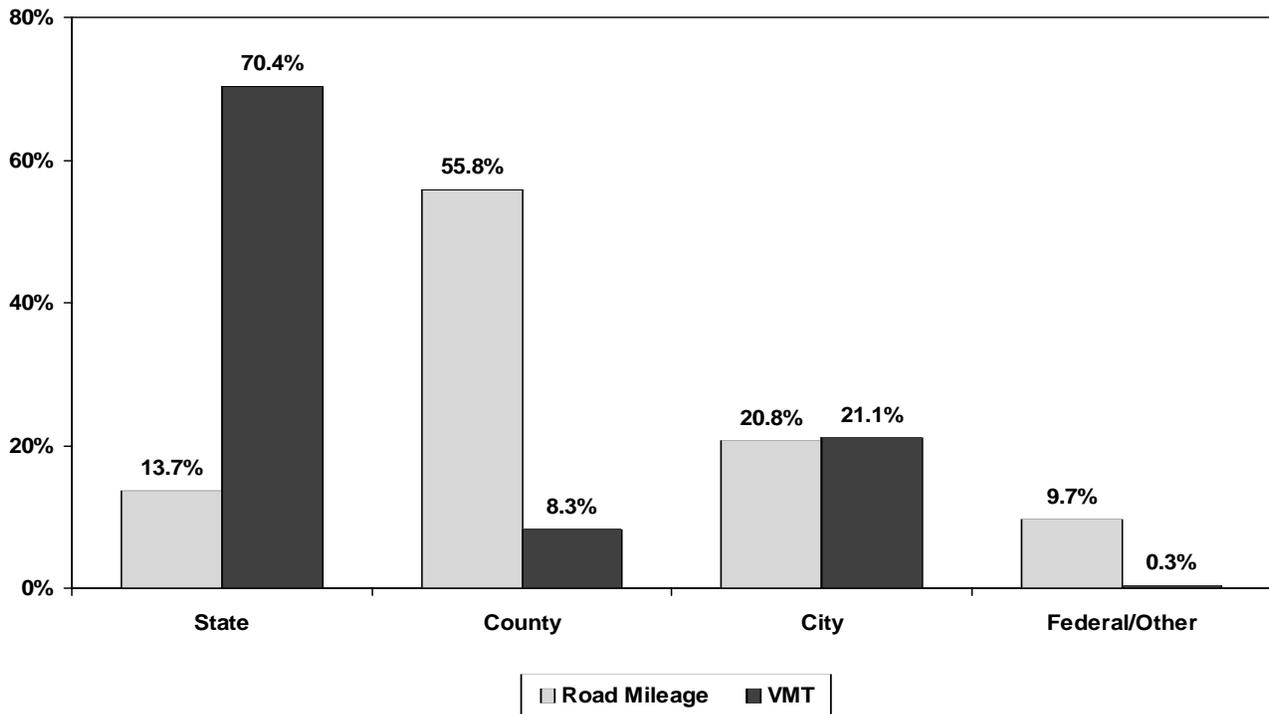
Governor Huntsman and Lt. Governor Herbert held a transportation summit in 2005 as well as smaller group meetings with legislators, local officials, and businesses to come up with a solution to Utah's growing congestion problem. The legislature is also taking an active role in trying to find alternative solutions to transportation funding. This 2006 legislative session should give the people of Utah some indication of how the governor and legislature will deal with transportation issues in Utah.

Figure 77
Vehicle Miles Traveled in Utah



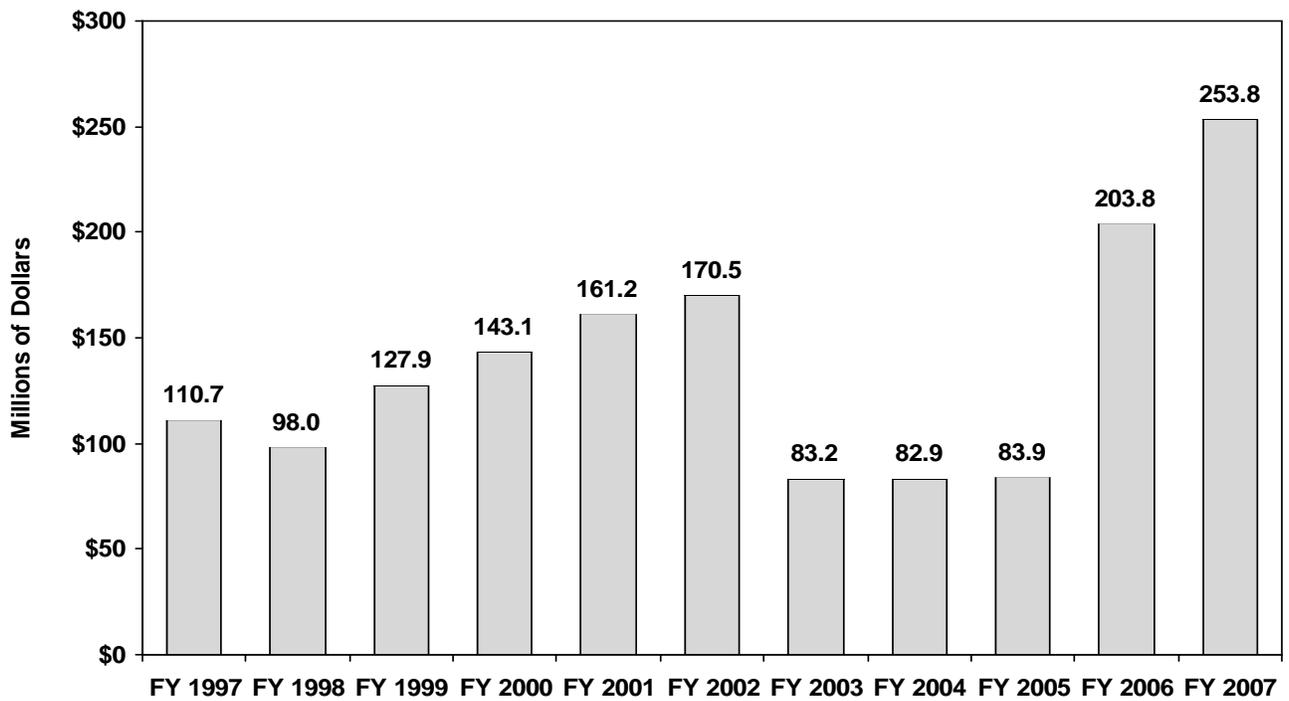
Source: Utah Department of Transportation

Figure 78
Utah Road Mileage to Vehicle Miles Traveled (VMT)



Source: Utah Department of Transportation

Figure 79
General Fund and Earmarked Sales Tax for Utah Roads



Source: Governor's Office of Planning and Budget

Table 93
Centennial Highway Fund (in Millions of Dollars)

| Annual Funding Available | Through | | | | | | | | | | | Total |
|---|----------------|--------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|--|----------------|
| | FY 2000 | FY 2001 | FY 2002 | FY 2003 | FY 2004 | FY 2005 | FY 2006 | FY 2007 | FY 2008 | FY 2009 | | |
| 1 Beginning Balance | 0.0 | 119.1 | 48.8 | 142.6 | 211.1 | 217.0 | 183.8 | 74.9 | 0.7 | 0.1 | | |
| 2 General Fund | 420.0 | 137.0 | 146.0 | 59.6 | 59.6 | 59.6 | 90.0 | 90.0 | 90.0 | 90.0 | | 1,241.7 |
| 3 General Fund I-15 Savings Transfer | 0.0 | 0.0 | -21.2 | -10.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | -32.0 |
| 4 General Fund Sales Tax (1/64 cent) | 2.8 | 5.4 | 4.9 | 4.8 | 4.6 | 5.5 | 5.5 | 5.6 | 5.8 | 6.1 | | 51.0 |
| 5 General Fund Sales Tax (2005 Legislature) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 59.6 | 59.6 | 59.6 | 59.6 | | 238.4 |
| 6 Transit Tax Revenue | 0.0 | 0.0 | 0.9 | 6.2 | 2.5 | 1.2 | 0.0 | 0.0 | 0.0 | 0.0 | | 10.8 |
| 7 Transportation Funds - Gas Tax 5.5 Cents | 170.5 | 60.0 | 61.8 | 63.7 | 65.6 | 67.6 | 69.6 | 71.7 | 73.8 | 76.0 | | 780.4 |
| 8 Department Contribution | 25.4 | 6.0 | 6.0 | 6.0 | 6.0 | 6.0 | 6.0 | 6.0 | 6.0 | 6.0 | | 67.4 |
| 9 Registration Fee Increase | 48.1 | 17.4 | 18.1 | 18.7 | 19.6 | 20.4 | 21.2 | 22.0 | 22.3 | 22.9 | | 230.7 |
| 10 Investment Income | 49.4 | 2.9 | 0.3 | 5.4 | 2.8 | 3.2 | 2.5 | 1.2 | 0.6 | 0.9 | | 69.2 |
| 11 General Obligation Bonds Issued | 908.0 | 0.0 | 126.3 | 151.6 | 95.3 | 47.0 | 0.0 | 0.0 | 0.0 | 0.0 | | 1,328.1 |
| 12 Premiums on Bonds Issued | 19.8 | 0.0 | 0.0 | 11.2 | 14.0 | 3.0 | 0.0 | 0.0 | 0.0 | 0.0 | | 48.1 |
| 13 Less: Issuance Costs | -4.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | -4.5 |
| 14 Less: Debt Service - Interest/Fees | -107.0 | -44.2 | -48.9 | -51.3 | -52.9 | -53.2 | -50.9 | -46.8 | -42.3 | -37.5 | | -534.9 |
| 15 Less: Debt Service - Principal | 0.0 | 0.0 | -33.8 | -35.6 | -47.8 | -72.5 | -77.6 | -81.5 | -91.4 | -99.1 | | -539.3 |
| 16 Federal Sources | 125.9 | 105.1 | 46.9 | 34.8 | 42.3 | 32.1 | 32.5 | 30.4 | 0.0 | 0.0 | | 450.0 |
| 17 Local Governments | 7.0 | 8.3 | -8.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | 6.9 |
| Recommended Bonding | | | | | | | | | | | | |
| 18 General Obligation Bonds | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 83.0 | 174.0 | 0.0 | | 257.0 |
| 19 Less: Issuance Costs | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -0.5 | -1.1 | 0.0 | | -1.6 |
| 20 Less: Debt Service - Interest/Fees | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -3.7 | -11.6 | -11.2 | | -26.5 |
| 21 Less: Debt Service - Principal | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -7.7 | | -7.7 |
| Total Annual Funding Available | 1,665.6 | 417.0 | 347.7 | 407.0 | 422.6 | 336.8 | 342.3 | 311.8 | 280.5 | 100.1 | | 3,633.3 |
| Project Expenditures | | | | | | | | | | | | |
| 23 I-15 Project Costs | 1,356.2 | 167.0 | 54.0 | 3.1 | 4.6 | 1.2 | 4.0 | 0.0 | 0.0 | 0.0 | | 1,590.0 |
| 24 I-15 Project Costs Savings | 0.0 | 0.0 | -32.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | -32.0 |
| 25 Other Projects | 190.2 | 201.3 | 183.0 | 192.9 | 201.0 | 151.8 | 263.4 | 311.2 | 280.3 | 86.9 | | 2,062.0 |
| Total Project Expenditures | 1,546.4 | 368.3 | 205.0 | 196.0 | 205.6 | 153.0 | 267.4 | 311.2 | 280.3 | 86.9 | | 3,620.0 |
| Ending Balance | 119.1 | 48.8 | 142.6 | 211.1 | 217.0 | 183.8 | 74.9 | 0.7 | 0.1 | 13.3 | | |
| Bond Debt Outstanding | 908.0 | 908.0 | 1,000.5 | 1,105.9 | 1,130.4 | 1,104.9 | 1,027.3 | 1,028.8 | 1,111.4 | 1,004.6 | | |

Source: Governor's Office of Planning and Budget