

July 2001

HIGHWAY FUNDING STUDY - BACKGROUND MEMORANDUM

Section 5 of Senate Bill No. 2159 (attached as Appendix A) provides for a Legislative Council study of highway construction and maintenance funding, including revenue sources and distribution formulas for the state, cities, and counties.

PREVIOUS STUDIES

The 1997-98 interim Budget Committee on Government Services studied, pursuant to Senate Concurrent Resolution No. 4019, the adequacy of transportation funding in North Dakota. The committee reviewed the North Dakota highway system; highway revenues and distributions; state, county, and city highway needs; federal highway construction programs; and public transportation programs. The committee made no recommendations regarding its transportation funding study.

The 1985-86 interim Transportation Committee studied, pursuant to House Concurrent Resolution No. 3069, the transportation system of the state and the ability of the system to provide for efficient transportation of people, services, and goods.

The study reviewed the highway system, the air system, and the railroad system in North Dakota. The committee made the following recommendations relating to the highway system:

1. Allow local jurisdictions to designate minimum maintenance roads and then be immune from liability for failure to maintain the roads to a higher standard.
2. Allow boards of county commissioners to change the listing of priorities in roads in older county farm-to-market road programs and remove the requirement of existence of federal funding for the program.
3. Require notice to be given to the State Highway Department of proposed construction of a building that would attract a high number of heavy vehicles.

All three recommendations were approved by the 1987 Legislative Assembly.

2001 LEGISLATIVE ACTION

The 2001 Legislative Assembly approved Senate Bill No. 2159, which increases motor vehicle registration fees by \$7 for each vehicle registered, excluding trailers. This increase is estimated to generate \$9.5 million for the 2001-03 biennium. The bill provides that for the 2001-03 biennium only, collections relating to \$2 of the \$7 increase be deposited in the highway fund rather than the highway tax distribution fund resulting in the state receiving an additional \$1 million of revenue during the 2001-03 biennium. Of the \$9,500,000 of additional revenue generated from the \$7 increase, \$7,021,000 will be deposited in the state highway fund, and the remaining \$2,479,000 will be distributed to cities and counties.

The 2001 Legislative Assembly approved Senate Bill No. 2112, recommended as part of the executive budget, authorizing the Department of Transportation to borrow funds from the Bank of North Dakota to match federal emergency relief funds that may become available for highway projects. If funding is unavailable to repay the loan by the end of the biennium, the department is to request a deficiency appropriation from the highway fund to repay the loan and accumulated interest. The department estimates receiving \$32 million of federal emergency relief funds requiring \$8 million of state matching funds during the 2001-03 biennium. The 2001 Legislative Assembly appropriated in Section 4 of Senate Bill No. 2012 \$31.8 million, \$4.3 million of which is from proceeds of a Bank of North Dakota loan for the remainder of the 1999-2001 biennium for emergency relief projects.

STRATEGIC TRANSPORTATION PLAN

Governor Hoeven has organized an effort to develop a strategic transportation plan for North Dakota involving state, county, city, and private sector representatives. A copy of the advisory council membership is attached as Appendix B. The plan will address road, rail, and air transportation systems. When completed, the plan will include:

1. Broad transportation goals, objectives, and policies.

2. Responsibilities of the various levels of government and private sector providers.
3. A detailed intermodal approach to transportation.
4. Various economic interests, such as agriculture, manufacturing, and tourism.

A draft of the plan is anticipated to be available by the fall of 2002.

STATE HIGHWAY FUNDING SOURCES

Article X, Section 11, of the Constitution of North Dakota provides:

Section 11. Revenue from gasoline and other motor fuel excise and license taxation, motor vehicle registration and license taxes, except revenue from aviation gasoline and unclaimed aviation motor fuel refunds and other aviation motor fuel excise and license taxation used by aircraft, after deduction of cost of administration and collection authorized by legislative appropriation only, and statutory refunds, shall be appropriated and used solely for construction, reconstruction, repair and maintenance of public highways, and the payment of obligations incurred in the construction, reconstruction, repair and maintenance of public highways.

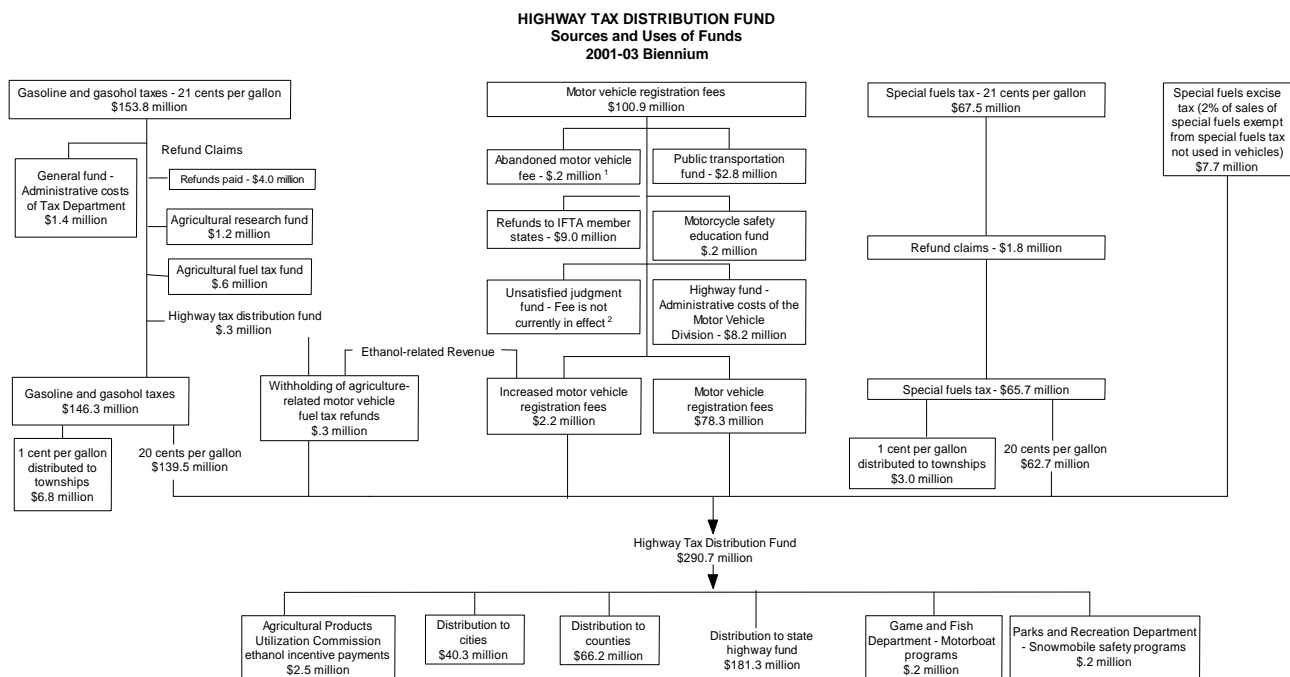
Revenue sources as dedicated in the constitution (motor vehicle fuel taxes and motor vehicle registration fees) provide the majority of funds used for state highway purposes.

These funds are deposited in the state highway tax distribution fund and distributed in the following proportions to the state, counties, and cities:

State	63%
Counties	23%
Cities	14%
Total	100%

In addition, other revenues are deposited directly in the state highway fund and are not considered “dedicated” for highway purposes. Those revenues are estimated to total \$34.4 million for the 2001-03 biennium and include truck regulatory fees, driver’s license fees, interest earned on the highway fund, and other miscellaneous revenues.

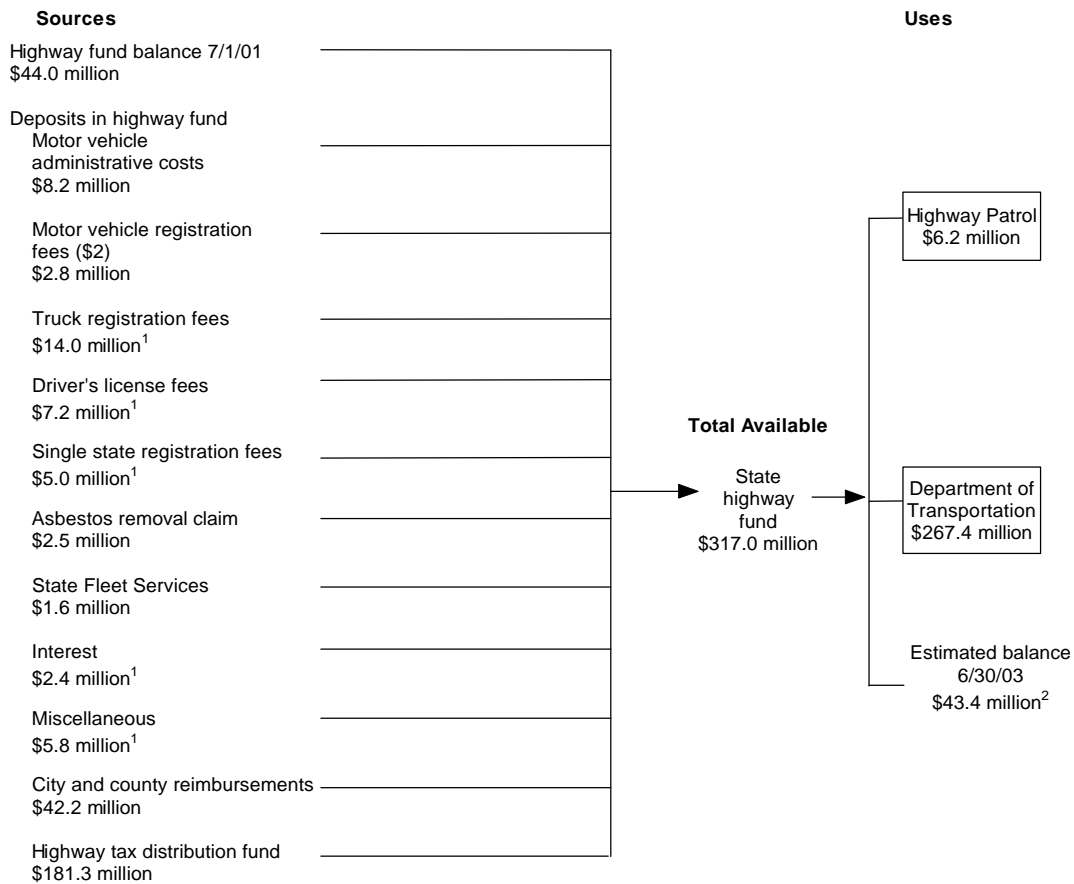
The following chart illustrates the sources, transfers, and uses of state highway funding for the 2001-03 biennium:



¹ The abandoned motor vehicle fee of \$2 on each initial North Dakota vehicle title is imposed only if the balance in the abandoned motor vehicle fund is \$100,000 or less. The fee is suspended when the fund balance is \$250,000 or more.

² An additional \$1 fee is imposed on motor vehicle registrations for a period of one year if the balance in the unsatisfied judgment fund is less than \$300,000. The fee is suspended for the following year if the balance in the fund is \$300,000 or more on July 1.

**STATE HIGHWAY FUND
Sources and Uses of Funds
2001-03 Biennium**



¹ "Nondedicated" highway revenues total \$34.4 million.

² Although the June 30, 2003, balance is estimated to be \$43.4 million, highway project commitments for the 2003 construction season will be paid from this amount.

FEDERAL HIGHWAY CONSTRUCTION FUNDS

Congress passed the Transportation Equity Act for the 21st century in 1998. Under this program, federal funds for highway construction are provided to North Dakota in the following major categories:

1. Interstate - For interstate highway projects.
2. National highway system - For highways in the state designated as major roads or principal arterials. Approximately 2,700 miles of North Dakota highways have this designation, including the interstates and all or portions of Highways 2, 5, 12, 13, 23, 52, 57, 81, 83, 85, 200, and 281.
3. Surface transportation program - For the remainder of the state highway system and for city and county roads.

The Transportation Equity Act for the 21st century is effective through federal fiscal year 2003. The schedule below presents federal funding available to North Dakota for highway construction projects and required matching funds.

ESTIMATED HIGHWAY CONSTRUCTION FUNDS (Amounts Shown in Millions)												
Federal Fiscal Year	State Projects		County Projects		City Projects			Total				
	Federal Share	State Share	Federal Funds	County Share	Federal Share	City Share	State Share	Federal Share	State Share	County Share	City Share	Total
1997	\$70.2	\$13.2	\$11.1	\$2.8	\$19.8	\$3.7	\$1.2	\$101.1	\$14.4	\$2.8	\$3.7	\$122.0
1998	\$93.3	\$17.5	\$17.4	\$4.4	\$19.6	\$3.7	\$1.2	\$130.3	\$18.7	\$4.4	\$3.7	\$157.1
1999	\$103.7	\$19.5	\$22.1	\$5.5	\$24.4	\$4.6	\$1.5	\$150.2	\$21.0	\$5.5	\$4.6	\$181.3
2000	\$110.4	\$20.7	\$19.3	\$4.8	\$28.8	\$5.4	\$1.8	\$158.5	\$22.5	\$4.8	\$5.4	\$191.2
2001	\$124.4	\$23.3	\$16.5	\$4.1	\$26.8	\$5.0	\$1.7	\$167.7	\$25.0	\$4.1	\$5.0	\$201.8
2002 estimate	\$128.0	\$24.0	\$17.5	\$4.4	\$26.5	\$5.0	\$1.6	\$172.0	\$25.6	\$4.4	\$5.0	\$207.0
2003 estimate	\$128.2	\$24.0	\$17.7	\$4.4	\$26.2	\$4.9	\$1.6	\$172.1	\$25.6	\$4.4	\$4.9	\$207.0

MOTOR VEHICLE FUEL TAXES AND REGISTRATION FEES

The schedule below provides motor vehicle fuel tax rates and collections and motor vehicle registration fee collections since 1992.

Fiscal Year	Motor Vehicle Fuel Tax Rate (Per Gallon) ¹	Motor Vehicle Fuel Tax Collections ²	Motor Vehicle Registration Fee Collections ³
1992	17¢	\$70,498,438	\$30,086,585
1993	17¢	\$72,490,271	\$32,466,529
1994	18¢	\$77,189,636	\$30,227,902
1995	18¢	\$80,762,335	\$32,440,251
1996	20¢	\$88,966,659	\$31,975,720
1997	20¢	\$97,846,402	\$32,420,082
1998	20¢	\$98,131,468	\$32,287,883
1999	21¢	\$96,651,826	\$32,833,217
2000	21¢	\$103,765,429	\$35,596,790
2001 estimates	21¢	\$103,328,967	\$34,319,904

¹ The 1993 Legislative Assembly increased the motor vehicle fuel tax from 17¢ to 18¢ per gallon for the period December 1, 1993, through December 31, 1995. The 1995 Legislative Assembly increased the rate to 20¢ for the period January 1, 1996, through December 31, 1997. In 1997 the Legislative Assembly provided for a 20¢ rate through December 31, 1999. The 1999 Legislative Assembly established the current rate of 21¢, effective July 1, 1999.

² Motor vehicle fuel tax collections include revenues from gasoline taxes, special fuels (diesel) taxes, the special fuels 2 percent excise tax, and gasohol taxes.

³ Motor vehicle registration fees remained the same from 1991 through 1999. The 1999 Legislative Assembly increased the motor vehicle registration fees by \$1 per year on motor vehicles, except for pickups 20 years or older and farm trucks which were not increased.

PROPOSED STUDY PLAN

The committee may wish to proceed with this study as follows:

1. Receive testimony from representatives of the Department of Transportation regarding highway funding, programs, and allocations to counties and cities and a progress report on the development of the strategic transportation plan.
2. Receive testimony from representatives of counties regarding the sources and uses of highway funding at the county level.
3. Receive testimony from representatives of cities regarding the sources and uses of street and road funding at the city level.
4. Receive testimony from other interested persons regarding North Dakota highway funding.
5. Consider alternative funding methods for financing North Dakota's highway system.
6. Develop recommendations and prepare any legislation necessary to implement the recommendations.
7. Prepare a final report for submission to the Legislative Council.