

# POLICY NOTES

## As Highway Costs Increase, Georgia Must Consider Revenue Options

*Calvin Gibson and Thomas J. Pavlak*

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With approximately 114,000 miles of roads that handle 265 million vehicle miles of travel per day, Georgia's highway system requires substantial investments for capital improvements and maintenance. To meet these capital needs, Georgia draws heavily on funds from the Federal Highway Administration, state motor fuel taxes and motor vehicle and motor carrier taxes, and appropriations from the state's general fund. Unlike many other states, Georgia is more dependent on federal funds and less dependent on revenues from motor fuel taxes. In 2000, for example, Georgia received 40 percent of its state highway revenues from federal funds, compared with 24 percent nationally, and only 21 percent from state motor fuel taxes, versus 33 percent nationally.

Historically, Georgia spends more than the national average for capital outlays and spends considerably less than the national average on road maintenance. The state's highway financing plan calls for using the federal government's Grant Anticipation Revenue Vehicle (GARVEE) bonding program to accelerate the Governor's Road Improvement Program (GRIP) construction schedule.\* Although this infusion of capital enables Georgia to move forward with much-needed road construction, it does not provide for the costs of future road maintenance. Recent studies have found that the costs of maintaining the state's growing highway infrastructure will soon outstrip the ability of existing revenue sources to keep pace. These studies suggest that state policymakers will need to consider alternative sources of revenue to fund transportation needs, especially road maintenance.

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At the request of the Georgia General Assembly, the Vinson Institute recently conducted a study to identify potentially promising transportation financing options (Gibson and Pavlak 2000). Based on a thorough review of the transportation financing literature and an examination of transportation financing mechanisms used in other states, the study offers a detailed assessment of the following options: weight-distance taxes, toll roads and "time-of-day" and congestion pricing, outsourcing, commercialization, privatization, and improvements and increases in motor fuel tax collections.

The weight-distance tax is a use tax that takes the place of a fuel tax for heavy vehicles. A typical weight-distance tax addresses this problem by collecting tax from owners of vehicles over 26,000 pounds on a sliding scale that varies by weight and the number of miles traveled within the state. Weight-distance taxes have become less popular since World War II, and several states have endured protracted litigation related to their weight-distance tax arrangements.

Toll roads suffer from legal limitations and require sufficient traffic volumes to generate significant revenue. A variation on the toll is time-of-day pricing, which seeks to control traffic volume by charging higher tolls during peak travel hours, encouraging drivers to use

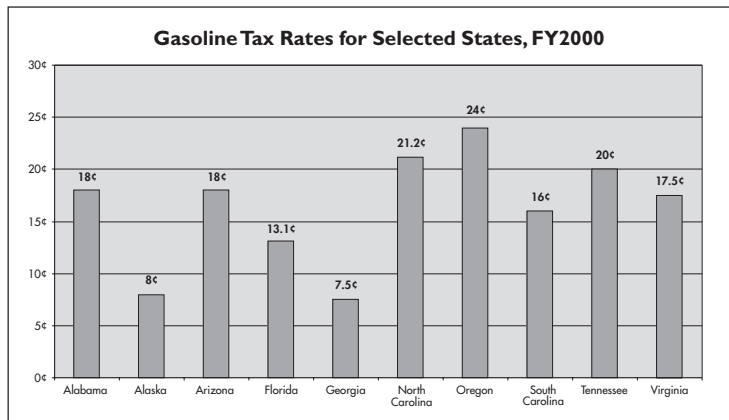
\*The GARVEE program is a funding mechanism that allows states to raise funds through bond issues that are repaid with future federal transportation "turnback" funds (from federal motor fuel taxes), plus state contributions, if necessary. GRIP targets a network of developmental roads and highways across Georgia.

alternate routes or mass transit. Another variant is congestion pricing, which charges fees for access to high-traffic volume areas, such as downtowns.

Commercialization, in which a highway is privately developed and users pay a toll to operators, has proved successful in some applications but would require modification of state and federal laws in order to be fully implemented. Similarly, privatization has proved successful in some settings, but general application of privatization principles would require changes in state and federal laws.

Improving tax collection by reducing motor fuel tax evasion represents a potentially useful option to maximize revenues without changes in state law, increases in tax rates, or significant increases in cost to the state. Conservative estimates indicate that Georgia may lose up to \$13 million per year to fuel tax evasion; a 50 percent increase in collections could therefore add \$6.5 million annually to the transportation budget.

An increase in the motor fuel tax rate, which for each penny increase would yield over \$50 million annually, is perhaps the best financing option. In addition to the potential revenue yield, it is arguably more equitable than other politically feasible revenue sources and would not add appreciably to the state's administrative costs. However, although Georgia's motor fuel tax rate (at 7.5 percent) is among the lowest in the nation according to the Federal Highway Administration (see the figure), state policymakers have repeatedly rejected proposals to increase the tax.



A primary reason for policymakers' reluctance to consider an increase in the motor fuel tax is the widespread belief that general public resistance makes it virtually impossible to successfully advocate even a modest increase. However, a recent poll that included a fuel tax component found that Georgia residents are not as adamantly opposed to a tax increase as many policymakers believe (Peach State Poll 2002). Given the state's need for additional revenue to maintain its growing road system, state policymakers should undertake a comprehensive review of transportation financing options, including revisiting the motor fuel tax.

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*Georgia's motor fuel tax rate of 7.5 percent is among the lowest in the nation; a rate increase is therefore the best financing option. A penny increase would yield \$50 million annually.*

*A recent poll that included a fuel tax component found that Georgia residents are not as adamantly opposed to a tax increase as many policymakers believe.*

## Select Sources

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## Contacts for More Information

### *Authors (706-542-2736)*

Calvin Gibson  
gibson@cviog.uga.edu

Thomas J. Pavlak  
pavlak@cviog.uga.edu

Research and Policy Analysis Division  
Carl Vinson Institute of Government  
University of Georgia

### *Series Editor (706-542-2736)*

Richard W. Campbell  
Carl Vinson Institute of Government  
University of Georgia