



SIOUX FALLS AREA  
CHAMBER OF COMMERCE  
*Progress is everyone's business*

## ISSUE BRIEF:

### *Highway Needs and Financing*

December 2014

#### **Background**

The summer of 2015 included a Legislative summer study titled "Highway Needs and Financing." The committee is chaired by Sen. Mike Vehle (R-Mitchell) with vice-chair Rep. Mary Duvall (R-Pierre). The first meeting was held in Pierre on June 17 and was followed by listening and input sessions in six communities across the state in July. The full committee met again on Aug. 26 & 27 in Pierre. The final meeting was held Nov. 6 in Pierre. The Chamber has actively participated in the process as we have a long history of interest in our State's road and bridge infrastructure.

The first meeting was information-rich as the committee and attendees heard detailed reports regarding road and bridge conditions in our state system, counties and townships. In addition, the Department of Revenue provided an in-depth look at user fees and taxes assessed and collected to support construction and maintenance of road and bridge infrastructure and the SDDOT provided insight into the status of the Federal Highway Trust Fund.

Each of the six input sessions was an invitation for local governments and citizens to present their needs as well as possible solutions to address those needs. They were all well attended with over 100 at the Sioux Falls session held at STI.

The second meeting included additional reports on the importance of our road systems to economic development, agriculture, tourism and Game, Fish and Parks. Representatives of the National Conference of State Legislatures and Council of State Governments presented their view of the issue from a federal perspective. Both the Department of Revenue and the SDDOT provided responses to the many questions that arose during and subsequent to the first meeting. Finally, public testimony from a variety of interest groups was invited including comments on behalf of the Sioux Falls Chamber.

#### The State Highway System

The presentation by Darrin Bergquist – Secretary SDDOT – included some 93 slides. Some of the highlights include:

- The state highway system includes about 8,850 miles or 10 percent of the total road in South Dakota
- The state system carries nearly 6.12 billion miles of vehicle traffic or 67 percent of the total in South Dakota
- The state system has about 28 percent of the bridge structures, but about 60% of the deck area
- The state system carries about 80 percent of the heavy vehicle traffic
  - One semi-tractor/trailer is equal to about 9,600 cars in terms of impact on roads
- 47% of the state system is in good condition with 42 percent in excellent condition. Nine percent are in fair condition and 2 percent in poor condition
  - The current favorable condition of state roads is a function of stimulus funding in 2009 that addressed many needs; however, the projected condition of state roads by 2024 declines sharply (27 percent fair, 25 percent poor, 25 percent excellent and 23 percent good)

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- State bridge structures are in similarly good condition
- Only three areas of the state are slated for future expansion of our state system – Sioux Falls, Rapid City and northern Hills
- The Federal Highway Trust Fund is on an unsustainable path
- State motor fuel tax collections in FY 13 equaled \$132.8 million compared to \$118.3 million in FY 06 or growth of only about 12.2 percent over this seven year period
- State vehicle excise tax collections (3 percent on sales) in FY 13 equaled \$237.5 million compared to \$199.9 million in FY 06 or growth of about 19 percent over this seven year period
- SD's motor fuel tax has been set at 22 cents per gallon since 1999 and its purchasing power today is about ½ what it was then

### County Road System

- County road systems make up about 42 percent of total roads in SD carry about 14.4 percent of the vehicle miles traveled in SD
- Overall rating of our paved county roads is 4.86 of 10 with 20 percent in failing condition and 19 percent in poor condition 32 percent in fair condition, compared with 21 percent in good condition and 9 percent in excellent condition
- Overall rating of our graveled county roads is 6.20 of 10 with 9 percent in failing condition and 17 percent in poor condition, 30 percent in fair condition, compared with 36 percent in good condition and 10 percent in excellent condition
- Major concerns noted –
  - Road systems are deteriorating faster than available resources can cover rehabilitation
  - Most asphalt surfaces are at the end of their useful life
  - Asphalt surfaces do not have the base strength for modern loads/equipment
  - Gravel surfaces are cheaper and easier to maintain, but people object to them
  - Costs have increased much faster than available resources
- The decade in which the most local bridges/structures were built in SD was the 1930s
- Bridge deficiency is a major concern

### Township Road System

- Township road systems make up about 37 percent of total roads in SD carry about 2.7 percent of the vehicle miles traveled in SD
- Overall rating of township roads shows about 27 percent in fair and 22 percent in poor condition with another 13 percent closed to traffic
- Bridges and structures on township roads are estimated to be as bad or worse than county conditions

The above bullets can be expanded upon by reviewing the presentations included as references at the end of this brief. It is obvious from the facts presented, however, that the condition of roads and thus the need for attention is most acute at the township and county levels today. It is equally obvious that the quality of our roads in the state system will decline over time. Finally, it is also clear from the presentations that revenue sources that worked quite well in the past will struggle to provide resources to address today's problems and future needs due to changes in vehicle technology, vehicle types and weights, miles traveled and the erosion of purchasing power.

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### Possible Legislative Proposals

At their meeting on August 27, the Committee began to narrow a wide range of options down to the ones that seemed to be most popular or possible in terms of solutions to address the problems identified. The following bullets are taken from the minutes and annotated with revenue estimates where they are available and known. Sen. Vehle began by suggesting the following:

- A benchmark made by the Department of Transportation showing the current conditions of the state roads and bridges and the condition expected over the next ten years; how many dollars it will take to get to these projections; and, if goals are not met, how much money will it take to reach the goal. He also suggested that an index of a 90 rating be used for bridges. If these goals are not met, he wanted to propose that no expansion of new roads be permitted during that time period.
- Raise the current 3% excise tax on motor vehicles by 1% to a new rate of 4%.
  - New revenue of about \$24 million annually
- Reduce the current motor fuel tax of \$0.22/gallon to \$0.20/gallon with a 2.5 percent yearly rate increase and place a 3 percent wholesale tax on the gas at the rack. Implement one percent at the start of 2015, an additional two percent in 2016, and the final one percent in 2017. The wholesale value of motor fuel could not be taxed at a value of less than \$2.50/gallon.
  - Initial year loss from reduction of current tax about \$12 million. Initial year gain at \$2.50 wholesale per gallon with one percent tax is \$16.5 million. Net first year, about \$4.5 million.
- Create a special local government bridge fund that would sunset in ten years.
  - Creates the place for dollars to land and be managed.
- Tax agricultural land by an additional \$0.20/\$1,000 valuation and deposit the revenue in a special local government bridge fund. This tax would sunset in ten years.
  - New revenue of about \$5.5 million annually
- Impose a tax on dyed diesel at \$0.07/gallon and allocate to a special local government bridge fund. This increase would sunset in ten years.
  - New revenue of about \$9.1 million annually
- Require all noncommercial trucks to be licensed at the same rate as commercial trucks, and continue to allow the seasonal registration.
  - New revenue of about \$14.3 million annually
- Increase registration and license plate fees by 10%. A committee could be formed to evaluate how the funds are currently allocated.
  - New Revenue of \$8.7 million annually
- Require all counties to collect a wheel tax of \$4.00/wheel for four wheels with the option for counties to collect the tax on additional wheels that may be on the vehicle.
  - New Revenue of \$7.7 million annually
  - No new revenue for Minnehaha or Lincoln Counties since they are currently have ordinances in place that impose a tax up to \$4.00/wheel
- In order to access dollars in the special local government bridge fund, counties must have a road plan similar to the Statewide Transportation Improvement Program (STIP) the South Dakota Department of Transportation implements. Money would be allocated for bridges

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based on a priority system with regard to need. A county must have the wheel tax implemented to access money from the special local government bridge fund.

### Governor Daugaard's Comments

Gov. Daugaard addressed the Downtown Rotary Club at their regular Monday meeting on Sept. 29. After his comments, he was asked something to the effect of "what about roads and bridges?" He alluded to the work of the committee this summer and also that his staff was looking into the issue as well. He noted, however, that during his campaign four years ago he purposefully ran on a 'no new taxes' platform as he planned to deal with the structural budget deficit without raising taxes. At Rotary he noted that he is not making that pledge in this campaign and will consider ideas that come forward to deal with road and bridge funding plans. Though there were no specific details regarding transportation funding expressed in his FY2016 budget address on Dec. 2, 2014, Gov. Daugaard applauded the interim study committee and stated every good discussion begins with a specific plan. He went on to add, "This is the year that we need to act to adequately fund our roads."

### Omnibus Legislation Approved Nov. 7, 2014

The legislative interim committee on Highway Needs and Funding concluded its series of meetings by approving on a 12-3 vote the introduction of a single omnibus bill to provide funding for the maintenance and construction of roads and bridges in the state, county and township road systems throughout South Dakota. The Committee met on three occasions in Pierre and conducted six statewide listening sessions to gather input and consider options. On Nov. 10 the Legislature's Executive Committee passed the bill on to the full legislature on a 13-1 vote. Neither vote should be considered an endorsement of the substance of the bill.

A single bill approach, as opposed to a one topic per bill approach, was developed with the goal of building a broad-based coalition to support the legislation. The bill attempts to spread the responsibility for paying for the state's road system across various interest groups. This is just the opening piece of what will be a session-long dialogue on this issue when the bill is introduced. If there are significant defections, other defections will surely follow and the bill will be in jeopardy. That will be the challenge for everyone involved with this bill.

The main revenue producing components of this bill and their estimated revenue are:

- An increase in the excise tax on motor vehicle sales from 3 percent to 4 percent. The revenue estimate is \$25.3 million per year and funds would go to the state highway fund.
  
- An increase in the tax rate for motor fuel of about 2.5 percent per year beginning in July 2016 with the last increase scheduled for July 2025. The rate would move from today's 22 cents per gallon to 28.16 cents per gallon. Each penny increase equals about \$6 million in revenue and funds would go to the State Highway Fund.

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- A new sales tax of 3 percent on the average wholesale price of motor fuel but not less than \$2.50 per gallon. The estimated annual revenue of \$50 million would be deposited in the State Highway Fund.
- An increase in the tax rate for ethyl and methyl alcohol fuels beginning in July 2015 by 2 cents per year from the current 8 cents until it reaches 22 cents. Each two-cent increment generates about \$750,000 and would be deposited in the State Highway Fund.
- A new tax on dyed special fuel of 7 cents per gallon. Dyed fuels are used in off-road equipment such as tractors, combines and construction equipment. This would generate \$9.1 million in revenue and the funds would be deposited in a newly-created local government bridge fund.
- An increase in licensing fees of about 10 percent across all vehicle and registration types. The estimated annual revenue of about \$8.7 million would be distributed in the same manner as fees are currently distributed, which mainly accrue to the benefit of counties and other local governments.
- Amend the license fee schedule for certain noncommercial vehicles and add a category for over 27 tons. The estimated annual revenue of \$9 million would be distributed as are the license fees.
- A new registration fee of \$80 on electric vehicles and \$40 on hybrid vehicles. Annual revenue of about \$190,000 would be distributed as are the license fees.
- A permissive increase in the wheel tax that would permit taxing up to 12 wheels at the current maximum \$4 per wheel rate. Revenue estimates would be modest, but were not estimated.

The total revenue generated in FY 16, would equal about \$103 million. This amount would increase substantially as the fuel and ethanol tax incremental increases are implemented in the following years.

The bill also includes some changes in the distribution of some revenues. In addition, and in order for counties to have access to certain funds, they would be required to impose a wheel tax and create and maintain a highway and bridge improvement plan.

The version the committee considered can be found at <http://legis.sd.gov/docs/interim/2014/documents/HNF11-06-14DraftPart1.pdf>, which is accurate except for the section on ethyl and methyl alcohol.

Finally, the bill requires the DOT to establish performance standards to measure the overall condition of the state road system and 10-year goals to meet the standards. If the goals are not being met, DOT may not add or build additional miles on the system. Since state system expansion is really only contemplated for the Sioux Falls area and

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the Rapid City/Black Hills area, those appear to be the areas in jeopardy from this provision.

Bills of this magnitude and complexity have a long way to go before becoming law. We anticipate many attempts to amend the bill. As Committee Chair Mike Vehle (R-Mitchell) consistently points out "Everyone likes good roads, but nobody likes to pay for them." We'll see if this adage rings true.

**Sources**

Summer Study agendas and minutes:

<http://legis.sd.gov/Interim/Documents.aspx?Committee=128&Session=2014>

State Highway System Presentation:

<http://legis.sd.gov/docs/interim/2014/documents/HNF06-17-14Final.pdf>

County Road System Presentation:

<http://legis.sd.gov/docs/interim/2014/documents/HNF06-17-14CountyRoadSystem-LegislativeUpdate.pdf>

Township Road System Presentation:

<http://legis.sd.gov/docs/interim/2014/documents/HNF06-17-14RoadDataStudyReduced.pdf>

August 26 & 27 minutes including prioritized possible solutions:

<http://legis.sd.gov/docs/Interim/2014/minutes/MHNF08272014.pdf>

"Statehouse - South Dakota Public Broadcasting." *Statehouse - South Dakota Public Broadcasting*. Web. 3 Dec. 2014. <<http://www.sdpb.sd.gov/statehouse/>>.