

**DEVOLUTION OF
FEDERAL AID
HIGHWAY PROGRAMS:
CASES IN
STATE-LOCAL RELATIONS
AND
ISSUES IN STATE LAW**



**Advisory Commission on
Intergovernmental Relations**

**M-160
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Acknowledgments

This report is one of a series of Commission studies on the devolution of non-Interstate federal aid highway programs. The reports issued previously are:

- *Devolving Selected Federal Aid Highway Programs and Revenue Bases: A Critical Appraisal*, September 1987 (A-108)
- *Local Perspectives on State-Local Highway Consultation and Cooperation: Survey Responses from State Associations of Local Officials*, July 1987 (SR-4)
- *State-Local Highway Consultation and Cooperation: The Perspectives of State Legislators*, May 1988 (SR-9)

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John Kincaid
Executive Director

Contents

Introduction	1
The Code Revision Survey	2
Major Findings	2
Background	3
Outline of the Report	4
1. Constitutional and Legal Issues	5
Methodology	5
Survey Results	6
Transportation Funds	6
Apportioning Transportation Funds	6
Automatically Picking Up the Federal Gasoline Tax	7
Debt and Equity	7
Tax and Expenditure Limitations	8
Summary	9
2. Case Studies: Highway Systems and State-Local Relations in Six States	11
Methodology	11
California	13
Florida	18
Illinois	24
Kansas	29
Maryland	34
Ohio	38
Conclusions	43
3. The View from the States: Issues and Controversies	45
Advantages and Disadvantages of the Turnback Proposal	45
Donors and Beneficiaries	45
Standards and Mandates	46
The State as Ultimate Provider	47
Efficiency and Decentralization	48
Timing of State Gas Tax Hike	49
4. Summary and Conclusion	51
Constitutional and Legal Issues	51
State-Local Cooperation	51
Financial Issues	52
The Federal Aid Highway Turnback Proposal	52

Introduction

This report addresses questions in state law and state-local relations arising from a March 1987 recommendation by the Commission that the federal government consider devolving non-Interstate federal aid highway programs and revenue bases to the states as a goal in reforming the federal system. In making its recommendations, the Commission noted a need to identify issues in state-local relations that might have to be addressed in formulating and implementing a program of devolution. In particular, some Commission members expressed concern that state-local relations in highway matters are not good and that local governments would fare poorly at the hands of states under a devolution of federal aid highway programs.

The following report presents the results of two of four research activities undertaken in 1987 and early 1988 for the purposes of assessing the state of state-local relations in highway policymaking and of identifying issues that would have to be addressed in the implementation of a devolution of federal aid highway programs and revenue bases. Specifically, the four research activities addressed basically the following questions:

1. What state constitutional and statutory issues might have to be addressed by states in implementing a devolution of federal aid highway programs and revenue bases, and do any of these issues pose an insuperable barrier to devolution or impose unreasonable legal burdens on states?
2. What is the current state of state-local relations in highway policymaking, and what issues of state-local relations might arise under a devolution of federal aid highway programs and revenue bases?

The first set of questions was addressed by conducting a mail survey of the state code and statute revision offices of the 50 state legislatures. Responses were received from all 50 states. Those responses are reported in this study. The second set of questions was addressed by conducting (1) a survey of state associations of local officials in the 50 states in early 1987; (2) a survey of selected state legislators in the 50 states in late 1987; and (3) case study research in six states—California, Florida, Illinois, Kansas, Maryland, and Ohio. The results of the first two surveys can be found in separate ACIR reports cited later in this study. This report presents the results of the case study research undertaken in six states in order to investigate aspects of state-local relations that cannot be captured in general mail surveys.

THE CODE REVISION SURVEY

In the mail questionnaire sent to the 50 state offices responsible for code and statute revision, the following questions were asked:

- *First*, are there any provisions in your state which affect the financing of state highway and road programs? If so, please cite and briefly describe.
- *Second*, are there any provisions which would impede or otherwise affect the ability of your state to access or implement a “turnback” of federal gasoline taxes? If so, please cite and describe.
- *Third*, who has the responsibility in your state to raise state gasoline taxes, the legislature or the electorate? Is a majority vote or a supermajority vote necessary to change the statute or constitution? Politically, how easy or difficult is it to raise gasoline taxes? Is it any more difficult to raise other taxes (e.g., income or sales taxes) for other state activities compared with gasoline taxes?
- *Fourth*, does your state impose a limit on the issuance of debt for highway purposes? If so, what is it? Is the limit established by the constitution or statute? What would be needed in order to change the relevant statutory or constitutional provision(s)? Politically, how easy or difficult is it to alter the state constitution or statute?
- *Fifth*, would any other legal issue need to be addressed if the “turnback” proposal were to be approved at the national level?

MAJOR FINDINGS

The principal findings of the code revision survey and case study research reported here can be summarized as follows:

- Except in one state, there appear to be no insuperable barriers in state constitutions or statutes to a devolution of federal aid highway programs and revenue bases. It does not appear that devolution would require radical changes in state constitutions or statutes, or changes that would impose an unreasonable legal burden on states.
- Under devolution, some states may have to, or wish to, amend provisions in law pertaining to debt and expenditure limits and alter formulas for distributing highway tax revenues among state, county, municipal, and other local governments.
- The principal issue that would have to be addressed by states under devolution would be whether or not to pick up a portion, or the entire amount, of any motor fuel tax relinquished by the federal government. In most cases, it would be politically difficult for states to pick up a relinquished tax if they had recently enacted an increase in the motor fuel tax on their own, although sufficient advance planning for devolution would obviate this problem.
- Certain tensions in state-local relations already exist and are being debated. These include tensions between states and rapidly growing localities, tensions between states and fiscally weak localities, desires on the part of local governments in some states to have more authority to levy taxes for highway purposes, and a general belief by both state and local highway officials that highway programs are underfunded.
- There is no way to predict with certainty whether devolution would spark new tensions in state-local relations or exacerbate existing tensions. However, it is reasonable to assume that any tensions that might arise under devolution would be resolved amicably in states where there is already a record of cooperative state-local relations—which is the case in most states.
- Although many state and local highway officials are critical of certain aspects of federal aid highway programs, many officials are basically comfortable with the existing arrangement and are not eager to support devolution. Uncertainty about the consequences of devolution inclines many state and local officials to prefer reform within the present federal aid system.
- Devolution is more likely to be supported by officials in states that contribute more to the federal Highway Trust Fund than they receive back from the fund. Officials in net beneficiary states are more likely to oppose devolution.
- Devolution is more likely to be supported by officials who give primary consideration to needs for economic efficiency and less likely to be supported by officials who give primary consideration to needs for national redistribution of funds.
- There is no one best way to promote good state-local relations in highway policymaking. Different states have developed different structures, processes, and traditions that work for them. Continuous and regular con-

sultation and responsiveness to local concerns appear to be salient factors in cooperative state-local relations. The case study research reinforces the findings of the earlier general mail surveys that state-local relations on highway matters are generally good.

BACKGROUND

In March 1987, the U.S. Advisory Commission on Intergovernmental Relations recommended, as a long-term goal, the devolution of non-Interstate federal aid highway programs and appropriate revenue bases to the states.¹ The Commission also recommended, as an immediate goal, the stabilization of highway financing under existing federal programs. The Commission further recommended, as an intermediate goal, that state and local governments work to improve state-local relations on highway matters.²

As part of a general process of sorting out federal-state-local responsibilities,³ a majority of Commissioners concluded that a devolution of non-Interstate federal aid highway programs and revenue bases would be a good start. Debates on the merits of specific devolution proposals raised questions of whether roads on the federal aid system serve a national or a local purpose, whether a more decentralized administrative and financing structure would be more responsive to state and local needs, whether preferences for highways can be matched more effectively with tax levels set by state agencies, and whether an equally efficient or more efficient system of transportation can be provided by states under a devolution arrangement.

A major question raised during debate, however, and a principal concern of local officials was whether local governments would continue to receive adequate funding and other support for roads and highways from their states under a devolution arrangement. Concern was expressed about the "state" of state-local relations, about whether state officials, particularly state legislators, could be trusted by local officials to be responsive to local road and highway needs, and about whether states would pick up enough of any relinquished federal highway tax base to meet state and local highway needs. Because of these concerns, the Commission elected to conduct research designed to assess the state of state-local relations and to identify key issues that would have to be addressed before there could be an effective state-local partnership in the development and administration of highway programs under devolution.

The Commission conducted two nationwide surveys intended to assess the state of state-local relations. The first, a mail survey of state associations of

local officials, found state-local relations on highway matters to be generally good to fair. Overall, state-local highway cooperation was rated as excellent by 10 percent of the respondents, good by 45 percent, fair by 35 percent, and poor by 10 percent. Eighty-six percent of the respondents also reported that the level of state-local cooperation on highway matters had either improved or stayed the same during the previous five years. Similarly, most of the respondents believed that local roads would fare better or about the same under ACIR's devolution proposal as they do under present funding arrangements.⁴

The second survey on state-local relations was a mail survey of selected state legislators in the 50 states, namely, house and senate majority and minority leaders and members of the finance, local government, and transportation committees. Overall, state-local cooperation on highway matters was rated as excellent by 7 percent of the respondents, good by 49 percent, fair by 34 percent, and poor by 7 percent. By a very large majority (89 percent), respondents also reported that the level of state-local cooperation had either improved or stayed the same during the previous five years. Furthermore, 75 percent of the legislators said that local government officials represent the highway needs of their jurisdictions very well or well. On the question of financing, 61 percent of the legislators believed that their state would pick up all or enough of a relinquished federal excise tax on motor fuels to meet highway needs in their states under ACIR's proposed devolution arrangement.⁵

Believing that surveys might not be adequate to identify key issues in state-local relations that might have to be addressed in implementing devolution, the Commission decided to conduct case study research in six states in order to look at the actual details and operations of state-local highway relations. Those case studies are presented in this report.

The Commission also recognized that there is very little information on whether there are any major state constitutional or legal obstacles to the implementation of a devolution of non-Interstate highway programs. Would state statutes or constitutional provisions need to be changed, and if so, which ones, and how difficult would be the process of change? Data on legal impediments would bear directly on the question of the ease of implementing devolution. Consequently, the Commission undertook research to identify the pertinent state constitutional and legal issues, the results of which are presented in this report.

Assuming the absence of insuperable legal barriers, if the ACIR turnback proposal were to be implemented, what obstacles—political and administrative—might the proposal confront in the states? As noted above, ACIR's earlier survey indicated that the directors of state associations representing the inter-

ests of local officials did not believe that roads and highways in their states would fare worse under a state-administered (turnback) system than under the current system.⁶ Nevertheless, apprehensions about and objections to the turnback proposal were raised in debate, and not all respondents to ACIR's mail surveys were optimistic about the health of local roads under devolution. The political obstacles might, in part, have something to do with the apprehension, so might the way in which a state has organized its highway system and its relations with local governments. What, then, is the state of state-local relations in the highway field and the issues affecting those relations?

Answers to these questions would provide evidence of legal, political, and administrative problems or obstacles that would require attention before effective implementation of the federal aid highway turnback proposal. In discussing the project, the legal question was deemed to be relatively uncomplicated. Either constitutional or statutory provisions forbade a turnback of the federal aid highway system, or made it a difficult proposition, or had no effect. Regardless, information from the states was needed to address the constitutional-legal issue.

The second question is more complex and problematic. First of all, the turnback goal, as recommended by ACIR, competes with other ideas for handling the numerous highway issues of the next century. It is one of many ideas being considered by citizens and public policymakers.⁷ Second, devolution is not yet a well-known proposal. Neither the Congress nor the Administration has formally introduced a turnback proposal (although there was discussion of a highway turnback in the early days of President Ronald Reagan's New Federalism). Consequently, there is a need to promote public discussion of the idea of devolution and to conduct research on the political and administrative implications of devolution.

This information report presents, therefore, the results of two research activities that were undertaken in late 1987 and early 1988 to address the above questions. The first research activity was a mail survey of the state code and statute revision offices of the 50 state legislatures. The survey asked respondents to identify constitutional and legal issues that might have to be addressed in their state if federal aid highway programs and revenue bases were to be devolved to the states. The second research activity involved case studies of highway systems and state-local relations in six states: California, Florida, Illinois, Kansas, Maryland, and Ohio. These case studies are intended to supplement, in a more in-depth and qualitative manner, ACIR's quantitative mail surveys (cited above) of state legislators and directors of state associations of local officials. The case studies were undertaken to shed light on issues and mechanisms of

state-local relations in highway policymaking and to uncover ideas and issues in ways that are not possible in mail questionnaires. The decision to study six states was determined in large part by available resources. Methodological details of the two research activities are presented in the text and Appendix A.

OUTLINE OF THE REPORT

Chapter 1 presents an analysis of the potential constitutional and legal issues that might have to be addressed by states in a devolution of federal aid highway programs. The analysis is based on results of the survey of state code revision offices.

Chapter 2 presents descriptive data on each case study state's highway system, finances, and state-local relations. Data were collected from the Federal Highway Administration of the U.S. Department of Transportation, each state's Department of Transportation and other state agencies, and personal interviews with state and local officials.

Chapter 3 examines views on highway devolution as expressed by respondents from the state code revision offices and by state and local officials interviewed in the six case study states. The chapter also identifies and examines key issues in state-local highway relations and other issues relevant to devolution.

Chapter 4 summarizes the previous sections. Its purpose is to distill from the case studies and the code office survey the salient dimensions of state-local relations, views on the ACIR turnback proposal, and key issues in state-local relations, especially those that reflect local concerns.

ENDNOTES

¹ U.S. Advisory Commission on Intergovernmental Relations (ACIR), *Devolving Selected Federal Aid Highway Programs and Revenue Bases: A Critical Appraisal* (Washington, D.C.: ACIR, A-108, September 1987), p. 2.

² *Ibid.*, p. 1.

³ ACIR, *Devolving Federal Program Responsibilities and Revenue Sources to State and Local Governments* (Washington, D.C.: ACIR, A-104, March 1986).

⁴ ACIR, *Local Perspectives on State-Local Highway Consultation and Cooperation: Survey Responses from State Associations of Local Officials* (Washington, D.C.: ACIR, SR-4, July 1987).

⁵ ACIR, *State-Local Highway Consultation and Cooperation: The Perspectives of State Legislators* (Washington, D.C.: ACIR, SR-9, May 1988).

⁶ ACIR, *Local Perspectives on State-Local Highway Consultation and Cooperation*, pp. 20-22.

⁷ The American Association of State Highway and Transportation Officials' (AASHTO) 2020 program is one of the more widely publicized and visible on-going debates about the future of America's highways. See also the discussion on highway responsibility and financing options in Alan Pisarski, *The Nation's Public Works: A Report on Highways, Streets, Roads and Bridges* (Washington, D.C.: National Council on Public Works Improvement, May 1987).

1

Constitutional and Legal Issues

All 50 states have different legal arrangements governing their transportation and highway programs. The purpose of this aspect of the research was to discover whether certain state statutes or constitutional provisions might inhibit effective implementation of any proposal to devolve federally aided highway programs and revenue bases to the states. A recent report identified legal constraints on the capacity of some states to invest in public works facilities.¹ It was found that nine states were limited by legal restrictions. Nevertheless, the effects of these legal restrictions on highways were not explicitly identified in that study.

METHODOLOGY

State code and statute revision offices in the 50 states were sent a survey asking them to identify any constitutional and statutory barriers that would possibly stand in the way of such a highway devolution program. A five-question survey was sent to the state offices on September 13, 1987. In states for which no responses were received, state-local advisory commissions (state ACIRs) were sent the same letter on October 20. Responses were received and tabulated from 32 states after this first effort. Additional letters were mailed and telephone calls made in April and May 1988. Responses were received from all 50 states. The primary purpose of the survey was to ascertain if there are any legal obstacles to the turnback proposal.

Five general questions were asked of the state code revision committees (or state ACIRs). The first question for the state code experts was very general and asked if there are any state constitutional or statutory provisions that affect the financing of state highway and road programs. The second question asked if there are any legal provisions that would impede or otherwise affect the ability of the state to assume and implement a turnback of federal motor vehicle fuel taxes. Third, in order to understand the ease or difficulty of adjusting the state excise tax on motor fuels, the experts were asked whether the legislature or the general electorate has the responsibility to raise state gasoline taxes. The fourth general question requested information about state-imposed debt ceilings for highway purposes. Finally, the state code experts were asked to identify any other legal issues that would need to be addressed in their state if the turnback proposal were approved by the federal government.

The responses from the state code revision offices are grouped according to several categories. Although few respondents could identify specific legal problems, many identified political problems (which will be discussed in Chapter 3). The following discus-

sion of issues or problems represents the major concerns of the survey respondents.² The important legal issues that were identified in the survey focused primarily on the establishment of trust funds, sharing highway user revenues with local governments, the automatic “pick up” of reduced federal gas tax rates, debt and revenue mix for highways, and tax and expenditure limitations. Only two states require more than a simple majority vote of the state legislature to alter the gasoline tax. Missouri, since passage of the Hancock Amendment, requires the electorate to vote on all tax and fee increases, even the excise tax on motor fuels. Delaware requires a super-majority (60 percent) to modify tax rates. The remaining 48 states can legally change the motor fuel tax rate with a simple majority vote of the legislature.

SURVEY RESULTS

Transportation Funds

Most states legally dedicate gasoline tax revenues and most other highway user-related taxes for highway purposes through a transportation (or highway) fund. Establishing a transportation fund to finance transportation programs is a fiscal measure intended to discourage the diversion of transportation-related tax revenues to nontransportation programs, but is not a guarantee that such diversion will not take place. For example, Maryland has instituted a Transportation Trust Fund. In FY 1984, however, \$29 million was transferred to the state’s General Fund through legislative action. Further, the legal uses of funds from a transportation fund vary by state. For example, Illinois is required to dedicate gasoline taxes (currently, 13 cents for gasoline and 15.5 cents for diesel fuel) for highway-related projects. However, the state uses some of those revenues to help finance state police and “environmental protection.” Colorado, likewise, funds its state police from gasoline tax revenues that are dedicated to highways. Of course, both state police and environmental protection are arguably related to highway matters.

New Jersey dedicates only a portion (2.5 cents) of its 8-cent gas tax to highways, but not less than \$88 million in any one year must be deposited in the fund. The balance of gas tax revenues is collected in the General Fund to be used for highways or other state services. Massachusetts allocates 15 percent of its gas tax revenues for mass transportation purposes. Rhode Island deposits fuel tax revenues in the state’s General Fund; the legislature then appropriates from the General Fund to the highway fund.

The implication of the extensive use of dedicated transportation funds is that under a turnback program, more than 80 percent of the states would probably not divert increases in the new gas tax to nontransportation uses. For many of these states,

however, distribution formulas require funds to be channeled to nonhighway functions, such as highway patrol, airports, and boating facilities. According to the Federal Highway Administration, 42 states dedicate nearly 100 percent of their motor fuel tax receipts for transportation purposes.³ In several states, it is difficult to trace the flow of fuel tax receipts because at least some of these revenues are deposited in the state’s general fund (Delaware, D.C., New Jersey, New York, and Rhode Island). Consequently, because state legislatures can either define “eligible” transportation projects or legally divert funds to other purposes, there are no guarantees that a transportation trust fund will be used solely for highway purposes. In other words, if the U.S. Congress relinquishes a majority of the federal gasoline tax to the states, the tax—if picked up by the state—might be used to fund nonhighway or even nontransportation programs.

The option to divert gasoline taxes to other state programs is clearly available. Before doing so, however, states would have to address issues of equity in assessing the consequences of any diversion. In most states, though certainly not all, transportation funds are self-supporting funds of the state. Gasoline taxes deposited in those funds can be used only for highway or transportation purposes; revenues to support the fund are derived from taxes levied on highway users, not from general tax revenues. The beneficiaries of programs supported by a transportation fund, then, are in general those who contributed to the fund. If monies were transferred from the transportation fund to other state programs unrelated to transportation, the beneficiaries of such a financial arrangement would not necessarily be those who bear the burden of paying a gasoline tax. States choosing to divert monies from the transportation fund to other programs would have to confront issues of equity that arise when funds contributed by highway users are used to support nonhighway programs. At the same time, issues of equity would have to be weighed against the desirability of redistributing revenues from highway programs to other programs.

In sum, then, diversion of transportation fund revenues to nontransportation programs is a distinct possibility in only eight states and should not, therefore, be a significant issue in any devolution of federal aid highway programs. Furthermore, to the extent that such diversions might occur more frequently than is already the case, they might very well serve beneficial purposes for state and local governments. That is, at certain points in time, nonhighway programs may be in greater need of funds than highway programs.

Apportioning Transportation Funds

Many states share revenues from the transportation fund or total gasoline taxes with their local juris-

dictions, according to formulas in the state's constitution or statutes. North Dakota, for example, is required to share 37 percent of its gas tax revenues with local political subdivisions; Florida shares its tax on a precise formula basis with counties and cities; Ohio shares its gas tax revenues on a prescribed proportional basis with counties, municipalities, and townships.

This tax sharing arrangement may present some problems in a turnback program, depending on the statutory or constitutional language in force. A state that must divide total highway or gas tax revenues proportionally according to law (e.g., 30 percent to counties, 25 percent to cities) would "lose" several cents of the relinquished federal gas tax because it would go directly to local jurisdictions. Of the 7 cents turned back to the state, the state might only see 3 or 4 cents for highway programs, while counties, municipalities, and townships would receive the balance. This, of course, assumes that the state does not alter the statutory or constitutional formulas now in force.

Nevertheless, unless states choose to increase the highway responsibilities of counties, there is reason to believe that states with a proportional distribution formula would alter the formula under a turnback arrangement. For example, Florida's constitution identifies the amount of each tax on a gallon of gasoline that is to be distributed. Each cent of the state's gas tax structure is specifically earmarked to a political subdivision. The county, for example, receives the "constitutional" fifth and sixth cent in addition to the county gas tax (the seventh cent); and local governments receive the municipal gas tax (the eighth cent) (see the Florida case study below). Any increase in the gas tax for the turned back highway segments, then, would probably go to the state highway system.

Automatically Picking Up the Federal Gasoline Tax

Automatic pickup by the state of any relinquished federal excise tax on motor fuels is a policy that most transportation officials would probably like to see implemented in all states. Arkansas, as an example, has a provision in its statutes stating that any decrease in the federal gasoline tax will automatically (without the vote of the legislature) be offset by an increase in the state's motor fuel tax. A turnback proposal, then, of 7 cents would result in the state immediately picking up the full amount. California recently placed such a statute on its books. A similar bill had been discussed during the last session of the Florida legislature, but no formal legislation was adopted. A bill failed to pass in North Carolina, where opponents feared that it would be unconstitutional.

An automatic pickup provision, however, does have potential drawbacks. An automatic pickup deprives state voters of an opportunity to pass judgment on the desirability of maintaining a tax relinquished by the federal government. The onus is not on state officials to convince voters of the desirability of maintaining the tax; the onus is on voters to convince state officials and fellow citizens of the possible desirability of not picking up the tax. In addition, where existing state and local taxes are sufficient or nearly sufficient for highway needs, an automatic pickup could result in waste, or diversions of transportation revenues to nontransportation programs without thorough public consideration of the consequences and implications of such diversions. Not having an automatic pickup provision could provide voters and legislators with an opportunity, even necessity, to examine revenue needs carefully.

Debt and Equity

Most of the states responding to the survey have constitutional or statutory provisions that allow their highway departments (or state departments of transportation) to issue revenue debt without restrictions on volume (if a sinking fund is fully funded). For example, Alabama, Georgia, Tennessee, Virginia, and Washington are permitted to issue as much revenue debt as the revenue from their gas tax systems can support. Other states use similarly flexible debt ceilings, tying the volume of highway bond issues to a percentage of the state's assessed property values (e.g., Nevada, Oregon, Utah) or to a percentage of General Fund revenues (e.g., Connecticut, Pennsylvania). A few states prohibit debt financing of their highway programs (e.g., Colorado, Oklahoma) or require voter approval for debt financing (e.g., Iowa, Maine, Missouri, West Virginia).

Many more states, on the other hand, impose specific constitutional or statutory restrictions on the volume of debt permitted in any one year or on total debt outstanding. Wisconsin, for example, has put its revenue debt ceiling at \$324.7 million for "transportation" purposes and at \$10 million for federal aid highway facilities. South Carolina limits debt for highway purposes to \$150 million plus an additional \$125 million for "Mobility and Safety." Ohio is limited to \$500 million, New Jersey to \$875 million, Maryland to \$950 million, Illinois to \$411 million for highways, Kentucky to under \$1 million, Montana to \$150 million (reached in April 1988), South Dakota to \$100,000, Arizona to \$500 million financed from the motor fuel tax and \$500 million financed from the sales tax, Nebraska to \$20 million, and Idaho to \$2 million.

Other state electorates make it difficult to issue any highway debt. Oklahoma's constitution forbids debt (except for the turnpike); Utah's constitution re-

stricts total state debt to no more than 1.5 percent of taxable property; Arkansas is permitted to issue revenue bonds, but has not done so for decades.

Although no state statute, except for Missouri's and Delaware's, precludes increasing state gasoline tax rates by a majority vote of the state legislature, increasing the volume of bond issues (revenue or general obligation) for highway purposes would be problematic for most states. The case of Ohio is illustrative. If Ohio assumed responsibility for the non-Interstate federal aid highway system within its borders and had to raise revenues to finance the increased responsibility, it could choose from a set of options. It could finance the entire system on a pay-as-you-go basis (current revenues). This option would only require the state government to increase gasoline taxes sufficiently in order to pick up the relinquished federal share to pay for more of the highway costs, including administrative costs.

A second option might be to mix current gas tax revenues and bond fund revenues to finance the highway system. The problem with this option for Ohio is that the state constitution prohibits outstanding highway debt from exceeding \$500 million. Given that the state has almost always approached that debt ceiling (at least in the past few years), additional debt—as a result of increased responsibilities—would not be feasible without a constitutional amendment. All “turned back” costs would have to be covered from current tax revenues. In other words, the turnback proposal for Ohio would mean virtually all additional responsibilities would have to be financed on a pay-as-you-go basis; additional debt would not be constitutionally possible, unless the constitution were amended to make it possible.

This scenario requires a digression into an analysis of an “optimal mix” of revenues for highway purposes. Debt represents future obligations and is premised on the fact that the debt-financed facility will be enjoyed (or “consumed”) by future taxpayers, not just current ones. If the state has an interest in ensuring intergenerational equity, bond issuances are a fiscal tool designed to meet that objective. Current gasoline tax revenues, on the other hand, represent only obligations by (and enjoyment of) current taxpayers, even though future taxpayers benefit. From a strict equity standpoint, capital facilities (including highways) should generally be financed with an appropriate burden being placed on future generations. The principal issue in debt financing is the maturity of the bond issue. A facility with a 10-year life should be financed with bonds that mature in 10 years, not 20.

Nevertheless, the political realities of state fiscal policies are such that no state finances highway construction solely from debt. A combination of current revenues (gas taxes) and debt is used by most states. It

appears that for many states the constitutional or statutory issue in a devolution arrangement can be defined on two levels: (1) equity, namely, the “turned back” authority would be financed with current revenues in most states, and (2) optimal revenue mix. If the federal aid highway turnback proposal results in raising the current gasoline tax rate for highway projects, the incidence of taxation, then, will be on current users—not on future users—of the highway system. To the extent state officials believe that their state currently operates with an optimal mix of revenue sources and at an optimally efficient point of matching discounted costs and benefits, states that can no longer borrow as a means of picking up the relinquished gas tax may be forced to operate at a sub-optimal point and with an inferior mix of revenues.

Even if state legislatures would be willing to raise additional debt rather than impose costs on current users only, a further issue should be addressed, namely, the political and administrative ease of altering existing state constitutions or laws governing the issuance of debt. Legislators may decide that the pre-turnback proportional mix of revenues should be retained, even if it means revising the state's laws or constitution. Although “willing” to pursue such a course of action, legislative behavior may be affected by the difficulty of implementing such a proposal. States that require voter approval of any debt issue would probably encounter political difficulties.

Tax and Expenditure Limitations

Respondents for only three states said that the turnback proposal would probably create serious difficulties for their state because of constitutional tax and expenditure limitations. South Carolina must limit its expenditure growth to the state's growth in income or to not more than 9.5 percent of total income. State highway expenditures are included in that total. If South Carolina decided to pick up the full amount of the relinquished federal gasoline tax, that action would virtually assure violation of the state's expenditure growth ceiling.

The second state, Missouri, is required by the Hancock Amendment to submit any increase in taxes and fees to the electorate for its approval. Although not strictly a legal limitation on the state to pick up the relinquished 7-cent gas tax, electoral approval of all tax measures in the state is certainly more restrictive on the legislative assembly compared to all other states.

Alaska's appropriations (excluding federal funds) are fixed at \$2.5 billion by a 1981 law and adjusted annually by the inflation rate. Any appropriation greater than the fixed amount would need the approval of the voters. Alaska paid only \$31 million into the Highway Trust Fund in 1985, but received payments in excess of \$171 million. Besides the po-

litical difficulty in raising the motor fuel tax to a level sufficient to recoup a loss of federal funds, the second question is whether the increase would exceed the appropriations limit. An official responded that Alaska's appropriation for FY 1988 was close to \$2.2 billion, implying that the turnback would not be affected by the legal appropriations limitation.

A first reading suggests that California might face a problem similar to South Carolina's. The state transportation department (CALTRANS) estimates that state expenditures financed by a 1-cent increase in the state gas tax would exceed the expenditure limits set by Proposition 4 by nearly \$500 million, assuming that all other expenditure items remained the same. It would be impossible for the state to raise the state motor vehicle fuel tax under the current law unless substantial cuts were made elsewhere to accommodate expenditures due to a gas tax hike. In a special referendum in June 1988, Californians rejected a proposition to remove state motor fuel taxes from the expenditure limitations (see the California case study below).

Although the state cannot legally raise the state gas tax, a recently approved statute exempts adjustments in the state gas tax in the event the federal government reduces its excise tax on motor vehicle fuels. In other words, a turnback proposal would not affect California as it would South Carolina. A 1-cent reduction in the federal tax would automatically and legally be increased by a 1-penny increase in the state gas tax without violating the Proposition 4 restrictions. California, then, cannot raise the state motor vehicle fuel tax without violating the expenditure limitations unless the action is in response to a reduction in the federal motor fuel tax.

The remaining states that have adopted tax and expenditure limitations explicitly exclude highway programs from those ceilings. For example, Arizona, Colorado, Oregon, Rhode Island, and Washington responded that the expenditure limitations did not include highway programs.

SUMMARY

The primary legal restrictions on the ability of states to assume complete financial and administrative responsibility for the federal aid highway system under a devolution program are of two varieties. First, limits on debt issuances would alter revenue mixes for highway spending; second, taxing and spending limitations have the potential of affecting only three states (South Carolina, Missouri, and Alaska)—most expenditure limitations, however, usually exempt highways.

In summary, the results of the survey of state code revision offices suggest that there are no insuperable barriers in state constitutions or statutes to a devolution of non-Interstate federal aid highway pro-

grams and revenue bases. A number of constitutional and legal issues would, of course, arise under devolution, particularly with respect to debt, tax, and expenditure limits; formulas for distributing highway tax revenues between the state and local jurisdictions (and among local jurisdictions); and the dedication of highway tax revenues to transportation funds. Nevertheless, it does not appear that devolution would require radical changes in state constitutions or statutes that would impose an unreasonable legal burden on states. Furthermore, one of the hallmarks of the modernization of state governments in recent decades has been constitutional change. States' electorates have been quite willing to change their constitutions to adapt to changing times.⁴

This survey of state constitutional and legal issues does, however, raise a basic value question. That is, are we to regard provisions in state constitutions and state statutes on such matters as debt, tax, and expenditure limits as barriers to effective devolution or as enhanced protections for citizens under devolution? Where such provisions would limit highway spending or limit the amount of the relinquished federal motor fuel tax that could be picked up by a state, then voters and legislators would, under devolution, be called on to debate these issues and to make choices about how much they wish to spend on highways and tax themselves to support their highway preferences. If, let us say, there were to be a prospect in many states that voters would not approve a state pick up of the full 7 cents of a relinquished federal excise tax for state and local highway programs, then should this prospect be viewed as an argument against devolution or as an argument for devolution in a democratic society? There are, of course, additional considerations, one of which is whether citizens in every state, particularly fiscally distressed states, would have an effective choice.

ENDNOTES

¹See Larry Ledebur, William Hamilton, and Roger Vaughan, "Changing State Roles in Public Works," prepared for the National Council on Public Works Improvement, September 11, 1987, pp. 19-20.

²Several relatively minor issues—which will not be pursued in this report—were identified by the respondents. Kentucky, for example, identified a potential problem in its biennial legislative sessions. The state decides on its two-year appropriations during even-numbered years. If the turnback proposal were to become effective after the legislature adjourns (typically in mid-summer), the state would be unable to respond to the turnback for one and one-half years without calling a special session. This is, however, an issue for which the state would most likely call a special session.

³U.S. Department of Transportation, Federal Highway Administration, *Highway Taxes and Fees: How They Are Collected and Distributed, 1986* (Washington, D.C.: U.S. DOT, 1986), Table MF-106, "Provisions Governing the Disposition of State Motor Fuel Tax Receipts."

⁴U.S. Advisory Commission on Intergovernmental Relations, *The Question of State Government Capacity* (Washington, D.C.: ACIR, A-98, January 1985), Chapter 3.

2

Case Studies: Highway Systems and State-Local Relations in Six States

Government provision of transportation networks is as old as the republic. Alexander Hamilton's *Report on Manufactures* (1791) and Albert Gallatin's *Report on Roads and Canals* (1808) called on all units of government to provide the transportation foundation for industrialization, the integration of state economies, and economic expansion. State and local governments financed many of the canals and turnpikes of the nineteenth century. With the advent of the automobile age, states created divisions and departments of transportation and highways. Finance schemes for highways, division of authority over roads and streets between states and their local governments, engineering design standards, and other aspects of highway planning, construction, and administration were issues confronting all states.¹

States' responses to the new transportation challenges of the automobile age reflected their own conditions, political cultures, and values. Instead of one approach to the provision of state and local highways, there developed many different approaches. In the twentieth century, however, with the development of federal aid programs and professionalism in highway policymaking, greater uniformity was introduced into road and highway construction. Standards that have stood the test of time are likely to endure, although a devolution of federal aid highway programs may introduce greater variability in state highway policies. This chapter describes six of the 50 state highway systems as they are today, and presents the views of state and local officials on the current state of state-local relations in highway matters. Each case study in this chapter is divided into three parts. The first part presents information on the size of the highway system, traffic volume, and division of authority between the state and local governments. The second part describes the finances of the state highway networks, recent changes in finances, and revenue sharing between state and local governments. The last section of each case study examines the current state of state-local relations in the highway policy arena.²

METHODOLOGY

Each case study is based on interviews with state and local officials and on state-specific highway data. Six states were chosen for in-depth analysis after consultation with numerous federal, state, and local officials. Because of the purpose of the study, the principal objective was to select states that would exhibit different patterns of cooperation and conflict in state-local relations. Two of the states had established formal state-local cooperative mechanisms for their highway programs, the others had not. The six were also chosen because they share financial or administrative characteristics similar to those of other

state highway systems. For example, three states allow local option motor fuel or sales taxes for local highways; three do not. Three states are net donors to the federal Highway Trust Fund; one is a net beneficiary; and two break even. Two are experiencing rapid population growth in most of the state; the others have relatively few growth centers. The six states were chosen, then, on the basis of demographics, region, local and state highway financing, administrative responsibility, their status in the Highway Trust Fund, and establishment of formal state-local cooperative mechanisms. The six states are California, Florida, Illinois, Kansas, Maryland, and Ohio.

Contacts in each state provided a list of individuals, state and local officials, and association officers who are knowledgeable about or involved in the highway selection and finance process of the state, or who are involved in the city, county, or township road system, or who represent interests of local governments. In each state, at least one person was interviewed from the state legislature (or staff), the department of transportation, the state municipal league, the county association (and township associations where applicable), and the state advisory commission on intergovernmental relations (where applicable).

Interviews were scheduled for one hour with each individual. In most cases, only one person was interviewed; in 19.2 percent of the interviews, two or three persons were interviewed as a group. Sixty-five people were interviewed in 52 separate interviews. The shortest interview lasted only 25 minutes; the longest lasted two hours. The average length of an interview was 66 minutes. Interview data were written up by the interviewer; no recording devices were brought to the interviews. Consequently, quotations in this report are, in most cases, paraphrases of the interviewees' responses. The interviewer has endeavored to maintain the integrity of the respondent's intent in the paraphrasing. Finally, state and local officials were asked if their responses could be quoted. Although most officials agreed to the request, some did not. Titles or other official designations are used in this report for those who agreed to

be quoted; confidentiality is protected for those who did not agree by not referring to their position or place of employment.

Two general sets of questions were asked of each respondent. The first set dealt with respondent perceptions and understandings of the state of state-local relations in highway policymaking. Respondents were asked to judge the quality of state-local relations and explain why they felt that way. Interviewees were asked to provide specific examples to support those perceptions. They were asked if mechanisms other than the required metropolitan planning organization (MPO) process were established in their state to process or deal with highway and bridge issues. They were also asked to comment on the breadth and scope of participation by local officials in state highway matters. Are local officials consulted before or after projects are selected? How are local governments notified of state action? Do local officials control the state highway process? Who, in general, makes the decisions regarding the state's highway program? What revenue-raising strategies are employed by local governments for street and bridge programs?

The second general set of questions focused on the non-Interstate federal aid highway turnback proposal. The interviewer described the major features of the turnback proposal to each respondent. Respondents were then asked to comment favorably and unfavorably on the proposal. After an objection or commendation of the proposal was presented, the interviewer probed the specifics of the response. For example, if an unfavorable response implied that the state legislature would not raise the state motor fuel tax on the heels of a recent tax increase, the respondent was asked if it would make any difference if the proposal were phased in over a number of years or delayed for several years. Respondents were asked whether and to what extent a turnback would affect the highway program in general, the relationship between state and local governments, and the programming and funding of highway programs.

California

The highway system in California faces a crisis. Rapid population growth and demand for increased highway capacity coupled with the inability of state and local governments to augment highway funding—because of the expenditure limitations imposed by Proposition 4—has created near-gridlock conditions in many parts of the state. Due to these pressures, state-local relations on highway issues appear to be strained at present.

To help alleviate gridlocked highway conditions, the state legislature recently has allowed counties to form separate transportation authorities and to finance those authorities with a local option sales tax. Consequently, state-local relations on highway matters have the potential for more strain by the increased supervisory responsibilities these special authorities place on state highway officials. At the same time, local option sales taxes are not viewed as helpful for slow-growth counties that are finding current highway revenues insufficient to support present systems.

No special coordinative mechanisms exist for the highway program. California is a net donor to the Highway Trust Fund, receiving only \$.90 for every dollar it contributes—compared with the historical average nationwide of \$1.15.

SYSTEM SIZE

The growth in California's highway system is nothing short of astounding. In 1963 the state was responsible for 14,173 center-line miles,³ carrying traffic that generated over 39 billion vehicle miles. By 1973, center-line miles had increased only marginally to 15,070 miles, generating over 69 billion vehicle miles. In 1985 the 15,183 center-line miles carried over 106 billion vehicle miles. Growth on the state system was accommodated primarily by increasing the state's highway capacity, namely, by adding lanes to the existing system. While center-line miles in-

creased only 1,000 miles (or 7.1 percent) between 1963 and 1985, lane-miles expanded by nearly one-third from 36,176 in 1963 to 48,096 in 1985.

The number of motor vehicles registered in the state more than doubled during the same time period, from 9.3 million in 1963 to 19.6 million in 1985. The volume of traffic per lane-mile registered a 60 percent increase, from 3,801 daily vehicle miles (DVM) per lane-mile in 1963 to 6,086 DVM per lane-mile in 1985.

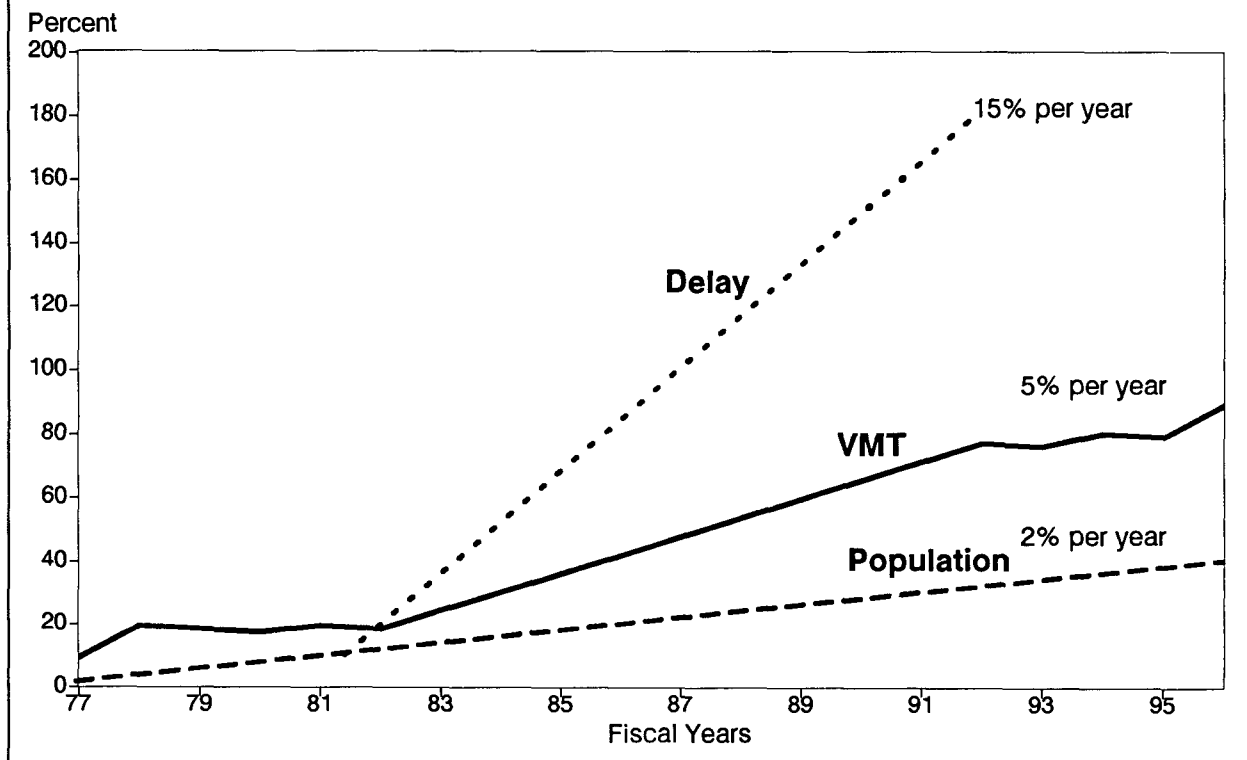
Transportation officials expect the state's population to increase from its current 26 million to over 32 million by the turn of the century. They also expect a "geometric increase in the 300,000 hours of delay that Californians spend on the urban freeways today." These data mean that the projected 2 percent annual population growth rate for the next 12 years is expected to trigger a 5 percent annual growth rate in vehicle miles traveled, which in turn is expected to cause an annual growth in delay of nearly 15 percent. The California Department of Transportation (CALTRANS) estimated the cost of congestion delay in 1986 to be about \$600 million. An increase in the cost is expected to approach \$100 million for each year for at least the next two decades (see Figure 1).

Total mileage of public roads and highways in California in 1985 was 174,081. Of that total, 41,774 miles are on the federal aid highway system or the "on" system. The state is responsible for 14,957 miles of federal aid highways, including all the Interstate mileage, virtually all of the Federal Aid Primary (FAP) system (10,955 miles), and minor portions of the Federal Aid Secondary (FAS) system (909 miles) and the Federal Aid Urban (FAU) system (782 miles). Counties are responsible for 9,903 miles of the FAS system and 3,204 miles of the FAU system, while cities are responsible for 13,383 miles of the FAU system and 103 miles of the FAS system. In addition to their responsibility for parts of the on system, counties are also responsible for 56,461 miles "off" the federal aid system, and cities are responsible for 41,911 off system miles. The remaining 33,000 miles of roads on the off system are the responsibility of the federal government (30,686 miles) and of state parks and forests (3,022 miles).

FINANCES

California's highway system is funded primarily through an excise tax on motor fuels. The tax is currently set at 9 cents per gallon and is divided between the state and local governments. The state disburses 4.4 cents of the tax to cities and counties. Counties receive 2.035 cents; the remainder is allotted to cities (although a small amount of the balance is set aside for county roads). In FY 1988 cities and counties were to receive \$587 million from the state motor vehicle fuel tax.

Figure 1
Comparison of Growth Rates in California



The state portion of the fuel tax revenues—approximately \$625 million in FY 1987—is dedicated primarily to the state highway system and deposited in the State Highway Account (minor amounts are reserved for a Bicycle Lane Account and a Parks and Recreation Fund). Funds from weight fees (estimated at \$347 million), investment income (\$71 million), and federal funds for the federal aid highway system (\$1.235 billion in 1987) are also deposited in the State Highway Account. After making the transfers for administrative expenses and other “exempt” purposes (e.g., local assistance, land, and buildings), CALTRANS is required by law to divide the total available funds for construction on state highways between the 15 southern counties of the state (which receive 60 percent of these revenues) and the 45 northern counties (which receive 40 percent). Not only are state-financed highway projects affected by the north-south division of revenues, but so also is the locally administered federal aid highway system (FAS and FAU).

The state’s sales tax, currently at 6 percent, is imposed on the sale of motor vehicle fuels at the same rate as on other retail sales. The state keeps 4.75 cents of the 6-cent sales tax on motor vehicle fuels in its General Fund; 0.25 percent is reserved for the state’s Transportation Planning and Development Account; and the remaining 1 cent is distributed to

city and county General Fund accounts. Revenues from the sales tax on motor vehicle fuels are not dedicated to transportation purposes by the state, nor by the city and county governments. It is important to note that even though the revenues are derived from taxes on the sale of motor vehicle fuels, they can be used for any purpose.

The state also derives revenue from a motor vehicle license fee, which is based on a 2 percent assessment on the market value of motor vehicles. Most of the revenues derived from this tax are distributed to local governments. In FY 1987-88 cities and counties were to receive approximately \$1.8 billion of the nearly \$2.0 billion collected from this fee.

Cities and counties in California appropriate funds for highway purposes from their General Fund. Like cities and counties in most states, they are enjoined from imposing a local option gas tax for transportation purposes (for exceptions, see the Florida and Illinois case studies below). Furthermore, the tax limitation movement in California has curbed state and local governments’ fiscal abilities to address effectively acute traffic congestion problems in the most urbanized California counties. The state’s spending limit (Proposition 4) approved in 1979 by the voters means that spending a 1-cent increase in the state gasoline tax would violate the expenditure limit (or, according to one state official, would re-

quire approximately \$500 million in counterbalancing cuts in other state services). While Californians' use of highways has continued to accelerate since passage of Proposition 4, the fiscal capacity of the state—and, consequently, city and county governments—to respond to such demand has remained stagnant. Not unexpectedly, then, gridlock and near-gridlock conditions characterize the highways and streets of many of the more urbanized, rapidly growing counties and cities. The combination of expenditure limitations and unabated growth in highway demand has forced local officials to pursue innovative financing options.

The most noteworthy change in financing California's highway program is the recently approved local option sales tax. This tax option was contemplated because of the limit on the gas tax. Unlike property or income tax rates, gasoline tax rates cannot be easily fine tuned to the state's fiscal situation; motor fuel tax increases usually assume the form of a one-half or full-cent increase. For the state to stay within the Proposition 4 limits, an increase would be minuscule and difficult to levy. A millage increase in property taxes or a 0.01 percent increase in the income tax could conform with the expenditure limits and be administered more easily than a 0.01 cent increase in the gas tax.

The history of the new local option sales tax law finds its origins in two counties experiencing highway gridlock, Orange and Santa Clara. In 1984 local officials declared their willingness to tax themselves and to pay for accelerating construction and improvements on the highway system. They asked the state legislature for this authority in the form of a one-half percent sales tax increase added on to the state sales tax only in those two counties. Revenues derived from the new local option sales tax were to be used to expand capacity on existing state highways and for other county transportation needs. Although the state would have maintenance responsibilities for the newly expanded state highway system, the availability of the new funds meant that construction could begin immediately rather than wait for ten or more years until the state had sufficient funds. By allowing local governments to have access to a tax tool that has historically been the sole province of the state, the legislature recognized the fact that Proposition 4 had hamstrung state highway programs.

The legislature agreed to grant the voters in Orange and Santa Clara counties the authority to decide on the local sales tax issue. The tax was approved in Santa Clara County (to be imposed for the subsequent 10 years) and defeated in Orange County. In 1986 four more counties requested the same authority. Two counties were successful in gaining voter approval (Alameda and Fresno for 15 and 20 years, respectively) and two failed (Contra Costa and

Tuolumne). In 1987 the legislature extended authority for the local option sales tax to all California counties. San Diego County became the fourth county to approve the tax in the fall of 1987.

Although the local option sales tax violates the equity principle that transportation should be financed with user fees, it certainly has considerable potential as a revenue generator. CALTRANS estimates that a one-half percent increase in the general sales tax rate (for highly urbanized counties) produces revenues that could have been generated only with a 20-cent increase in the motor vehicle fuel tax. The first four counties to impose a local option sales tax are expected to raise nearly \$2.5 billion for transportation purposes on the state highways and for transit and local roads until their statutory authorities expire. If the eight counties currently seeking voter approval are successful, CALTRANS estimates another \$3.7 billion could be added for state highway improvements.

The expenditure limitation in California, combined with rapidly increasing demand, has meant that traditional finances for state and local highways have not been able to keep pace with demand. The local option sales tax, in addition to local road and highway assessment districts and private contributions to roads and highways, are innovations in highway finance that escape at least part of the expenditure limitation's constraint. In June 1988 voters in the state were asked to repeal the part of Proposition 4 that includes motor vehicle fuel taxes and the sales tax on motor vehicle fuels as general tax items subject to the expenditure limitation. The proposal was defeated.

Another matter decided by the voters was the authorization to issue \$3.5 billion in general obligation bonds to finance prisons, education, and transportation projects (voter-approved bonds are exempt from the Proposition 4 limits). Governor George Deukmejian proposed in his January 1988 state-of-the-state message to spend, from those bond issues, \$700 million for state transportation projects and \$300 million for matching local funds for transportation projects. This fresh infusion of capital into the transportation system will help to accelerate work on the state highway system and on the gridlocked local or off system. It is also California's first state bond issue for highway purposes since 1916.

STATE-LOCAL RELATIONS

The volatile fiscal and demographic factors in California play themselves out in the local arenas as conflicts among Proposition 4, a population explosion, and highway gridlock. This combination has induced local governments to pursue some fairly specific objectives. The prevalent attitude among virtually all state and local officials is that the state's on

and off highway systems suffer and are likely to continue to suffer for the foreseeable future from an acute shortage of tax dollars. Proposition 4, in particular, has forced all units of government to consider creative and innovative revenue generating strategies. Developers, for example, have shown their willingness to contribute to the highway building process by agreeing to finance interchanges, lane widening, and other highway capacity building projects.

CALTRANS, acknowledging the financial squeeze on an overburdened system, attempts to work with local officials and developers in these developer-financed projects. The state also encourages the creation of special (infrastructure) assessment districts to fund highway projects. And, of course, county adoption of the local option sales tax is encouraged.

The California Association of Counties applauds the new financial development for relieving congestion and providing adequate highways and roads. Nevertheless, it also notes that road gridlock, overcrowding, and soaring property values are not representative of all counties within the state, nor of all areas within large counties. Many counties have rural qualities with slow population and economic growth, pockets of poverty, and poor tax capacity. It is in those counties that the innovative financing techniques (i.e., local sales tax, developer financing, and assessment districts) are not realistic options for local governments. Granting those local governments additional fiscal authority is of limited benefit to them. The highway needs of these counties are not similar to the congestion elsewhere. Their highest priority is to maintain and preserve the existing highway system, a priority that they feel cannot be met even with the new fiscal authority.

CALTRANS has responsibility for projects on the state highway system. Projects are identified on the five-year State Transportation Improvement Plan (STIP). The STIP coordinates state transportation projects and ensures cooperation with local authorities. The state's involvement in identifying and selecting projects on the county and city controlled segments of the federal aid highway system is minimal. These local governments are granted the authority to select projects even when pass-through funds from the federal government are involved. Likewise, selection of projects on the state highway system is generally the prerogative of the state. Both state and local governments respect each other's autonomy in the highway area. The process by which projects on the state highway system are selected relies on input from the metropolitan planning organizations (MPOs) and is developed by CALTRANS. Local officials are represented on the MPOs, but there is no other formal mechanism or forum in which local officials might get involved.

Nevertheless, even though no other cooperative highway mechanism appears to operate in the highway planning process, county and city officials did not single out this omission for criticism. Rather, their criticisms are directed at two integrated elements: money and autonomy. They need money to finance an overused and badly strained highway system, and autonomy to do not only what they want but also to tax themselves by whatever means and at whatever level they think appropriate.

A good example of local governments' demands for greater autonomy can be found in the local option sales tax. Counties that have adopted the local option sales tax are known as self-help counties. In order to stay within the spending limits imposed by the voters, these self-help counties create transportation authorities that are independent legal entities funded by the local option sales tax. These county transportation authorities develop and finance the augmented highway program for the county and its cities as well as negotiate with CALTRANS. Because much or all of the newly augmented county highway program is on the state highway system, CALTRANS must approve and oversee the engineering and pre-construction plans. Due to this expanded highway program, a new division in CALTRANS was established for this purpose, the Division of Special Funded Programs.

CALTRANS is responsible for the engineering work on all projects—that is, projects on the state highway system that are funded with the local option sales tax. A problem, according to county and city officials, is that understaffing at CALTRANS has meant that county projects have been delayed. Counties would like the authority to contract out the engineering work as a means of expediting highway construction; they want the autonomy to decide on and implement their highway program; they want little (or no) state interference. The state, of course, must maintain the integrity of the highway system. Furthermore, because most local sales tax financed highways are on the state system, CALTRANS has to be a partner. The apparent conflict is between the pressing highway needs of counties and cities and the state's equally pressing system-integrity needs. Counties would like greater autonomy in dealing with the problem. Another conflict is between the counties' excellent fiscal capacity to fund projects immediately and the state's need to prepare the engineering plans.

Indeed, as more counties agree to impose a higher sales tax on themselves to finance their highway needs, the potential for strained state-local relations may escalate. Currently, the state only has to monitor the activities of, and cooperate with, a small number of counties with local option sales taxes. The county transportation authorities are poised and

ready to target a massive infusion of fresh capital into the highway program. Yet, complaints are already heard about the red tape at CALTRANS. This situation, whether real or imagined, can only worsen as the state increases its administrative, planning, and engineering ties with new local transportation authorities. The state, then, finds itself in a situation in which it administers the state highway system (1) with its own revenues, which by its own admission are inadequate, and (2) with funds from local transportation authorities, which enhance the state's transportation system capacity. The state must also monitor the locally controlled off system and act as ombudsman with local governments and developers for highways in special assessment districts and privately financed highways. In sum, the proliferation of finance tools and administrative linkages with local governments has raised not only the possibility of significantly enhancing the highway system but also the possibility of bureaucratic system failure—or what city and county officials allude to as “red tape and a cumbersome process.” That the state is finally recognizing the transportation problem strikes local officials as laudatory, and its importance should not be underemphasized. Nevertheless, after many years of

what local officials term “frustration” with the state's highway policies and finances, optimism that the situation has improved significantly does not accurately describe their perspective either.

Most of the officials agreed that state-local relations on highway matters could be improved considerably. They also noted, however, that a great many of the state's transportation problems result from uncontrollable factors. For example, the nearly geometric growth in highway demand has outweighed the much slower growth in transportation revenues; the expenditure limitation has essentially taken a state gasoline tax increase out of the fiscal picture; and the highway gridlock situation in major urbanized areas has grown ugly. Further, slow-growth counties need additional revenues just to preserve their highway systems. The recently proposed state G.O. issuance, the governor's call for additional personnel at CALTRANS, and the state's granting of taxing authority to local governments, all denote the state's realization of a crisis. These factors, in addition to the need for new highway construction, expansion of existing highways, and preservation of old highways have combined to create what a county official called “strained” state-local relations.

Florida

Florida, like California, is experiencing very rapid population growth and substantial pressures for highway system expansion. Although the state motor fuel tax is one of the lowest in the nation, local governments have the authority to levy substantial local motor fuel taxes. Counties also can fund highways through development impact fees. Florida is a net donor to the federal Highway Trust Fund, receiving \$0.96 for every \$1.00 in payments—compared with the national average of \$1.15.

City-county relationships are at times strained because county officials have the authority to decide whether to impose the piggy-back taxes and the formula distributing its proceeds. Although state-local relations have been relatively smooth, new comprehensive planning legislation may create serious tensions in the future.

SYSTEM SIZE

Over 100,000 center-line miles of highways in the state of Florida generated over 88 billion vehicle miles in 1986. In just four years, the number of vehicle miles on the state highway system alone surged by nearly 30 percent, from 48 billion in 1982 to over 62 billion in 1986. The state assumes responsibility for 11,514 center-line miles (of which 1,334 center-line miles are on the interstate system); the 67 counties are responsible for 61,344 center-line miles; and cities have responsibility for 27,496 center-line miles.

Assignment of roads to one of the three units of government has become a rationalized process during the past decade. Under a 1977 state law, the Florida Department of Transportation (FDOT) is required to categorize roads and highways according to a functional classification system. The functional classification of a road segment then becomes the foundation for assigning authority among the state, counties, and cities. Roads are classified as “arterial,” “collector,” and “local,” depending generally on

whether they serve primarily long trip lengths and high volume traffic, medium trip lengths and moderate volume, and short trip lengths and community access. The state highway system consists of all rural and urban principal arterials, extensions of rural arterials, and the Interstate system. The county road system consists of all collectors and local roads outside municipal limits, all minor urban arterials, and urban extensions of rural collectors. The city street system consists of all urban collector and local roads, except urban extensions of rural collectors and the state road.

The functional classification statute means that the federal aid secondary, primary, and urban systems are assigned to governmental jurisdictions based on their classification as arterial, collector, or local. This is quite unlike other states that assign responsibility according to the federal government’s classification (e.g., Kansas assigns the FAS roads to counties, FAU to cities) or according to original intent (e.g., Florida, prior to 1977, assigned responsibility according to the purpose for which the road was originally designed).

The highway system’s functional classification is reviewed periodically. When a road’s classification changes, it is to be turned over to the appropriate jurisdiction for administration. Before roads are transferred from the state highway system to a local government, they must be upgraded to “good” condition, according to the statute. In the past Florida has transferred responsibilities for urban minor arterials based on the requirement that the state highway system contain urban minor arterial routes not less than 2 percent of the public road mileage of each urbanized area. The mileage transferred from counties to the state under this requirement rises as additional areas become urbanized areas. A limit of 11,300 miles was placed on the number of road miles (excluding the interstate system) that could be on the state highway system. Changes were made in the 1988 legislative session that would stop the automatic 2 percent transfer of responsibility for urban minor arterial routes from counties with urbanized areas to the state after completion of the route transfers currently in process. The bill also removes the mileage limit on the state highway system.

Florida is one of the fastest growing states in the nation. Between 1950 and 1960 the state’s population increased 78 percent, to nearly 5 million people. Although the growth rate slowed during subsequent decades, absolute growth did not. The 1970 census showed that the state’s population had increased to 6.8 million people. Florida’s population surged by 37 percent between 1970 and 1980 to a total of 9,746,324. By 1990 the population is expected to increase by more than 3 million, a growth rate during

the decade of 44 percent, and reach 15 million by 2000.

FINANCES

Prior to 1983, Florida's motor vehicle fuel tax was 8 cents per gallon. The proceeds were shared equally between the state and local governments, each receiving 4 cents. The state at that time decided to keep the local government portion of the 4-cent per gallon tax rate and replace the state portion with a 5 percent sales tax on the retail price of gasoline with a floor of 5.7 cents per gallon. Because of the 5.7-cent floor, the variable rate tax becomes effective only after the retail price exceeds \$1.148 per gallon; otherwise, the 5.7-cent floor tax is in force. Currently, Florida's 9.7-cent per gallon tax is one of the lowest state-imposed motor vehicle fuel taxes in the nation. The motor vehicle fuel tax is expected to generate approximately \$363 million in FY 1987-88 for the state transportation system (net of transfers) and approximately \$248 million for county and city transportation systems (net of transfers). The transfers are for a general revenue service charge for administrative expenses, miscellaneous refunds, collection fees, and aquatic weed control; these transfers are expected to account for \$65 million in FY 1987-88.

The state also levies a fee on motor vehicle licenses. The fee is based on vehicle weight. Of the \$311 million in revenues anticipated for FY 1988, approximately \$70 million will be transferred to fund the state's educational needs. The remainder, approximately \$241 million, is reserved for the state's transportation department.

Revenues from the state motor vehicle fuel tax are distributed in the following manner: counties receive revenues from 3 cents of the fixed 4-cent gas tax, cities from 1 cent of the fixed 4-cent tax, and the state receives proceeds from the variable tax (or 5.7 cents, whichever is greater). Of the counties' 3 cents, 2 cents are known as the "Constitutional Gas Tax" and may be applied to debt service for obligations secured by the state's issuance of county transportation bonds. The city portion, known as the municipal gas tax, is transferred to the Revenue Sharing Trust Fund for Municipalities and, therefore, is commingled with other nontransportation funds.

Distribution of the gas tax revenues to cities is based on a formula weighing three factors equally: population, sales tax receipts, and revenue-raising ability. The constitutional gas tax and the additional 1-cent county tax are distributed to counties on the basis of the following formula: population weighted 25 percent, area 25 percent, and tax collection within the county 50 percent.

Local governments in Florida are granted the authority to add significantly to the motor vehicle fuel tax. Beginning in 1972, counties could piggyback onto

the state gas tax and keep the associated revenues for transportation purposes. A majority vote of county commissioners is all that is needed to impose a local option motor vehicle fuel tax of up to 6 cents per gallon. A majority vote of the county residents can increase the county tax by another 1 cent per gallon (known as the voted gas tax). This means the effective (nonfederal) tax rate on motor vehicle fuels in Florida conceivably can reach 16.7 cents per gallon.⁴

Rather than ranking near the bottom in excise taxes on motor fuels, the state levy, together with local option gas taxes adopted by most of the counties, ranks considerably higher. Furthermore, the gasoline tax rate can vary by county. Currently, 40 of Florida's 67 counties have voted to impose the full 6 cents, and ten of those counties have levied the voted additional 1-cent tax. These counties account for nearly 90 percent of the state's population (see Table 1).

Revenues from this county local option gas tax must be shared with cities within the county according to an interlocal agreement. The state does not mandate how these funds should be shared. County and city officials must agree. However, a formula in the state statute can be used in the absence of an agreement. In FY 1987-88 the FDOT estimates revenues from the local option gas tax (excluding the voted gas tax) will reach \$351 million (net of transfers) and the voted gas tax will yield \$13 million (net of transfers). The transfers are general revenue service charges, collection fees, and refunds; they are expected to amount to \$30 million in FY 1987-88.

Local transportation can also be funded with revenues from two other sources. In 1987 the state granted counties the authority to impose a one-half or 1-cent local option sales tax for infrastructure purposes (transportation could be included) with the approval of the county electorate. At the time, the state sales tax rate was 5 percent. This meant that the effective sales tax rate for participating counties could have been 5.5 or 6 percent. The issue was to have been on the ballot in 27 counties, but in the wake of the repeal of the sales tax on services late in the year, the state increased its sales tax to 6 cents. Most counties saw the legislature's action as signaling the death knell for their sales tax efforts, so the issue was withdrawn from the ballots in all but ten counties. The counties plan to use the proceeds for landfills and jails, not for transportation.

The state also allows counties to establish ordinances for imposing local impact fees, a fee on the impact of development. This fee can be used for any purpose for which the county can identify a user impact on the capital facility. Florida courts have allowed impact fees as long as they can pass the rational nexus test linking the proposed development project to a public capital project. Although impact fees can be imposed for a variety of public capital facilities,

Table 1
Locally Imposed Motor Fuel and Special Fuel Taxes in Florida
 (cents per gallon)
Local Option Gas Tax

County	Voted Gas Tax (9th c/)	1983	1984	1985	1986	1987	Subtotal	Total	Revenue From* Each c/ (000)
Alachua	1	3		3			6	7	\$927
Baker					4	2	6	6	68
Bay				4			4	4	742
Bradford		4					4	4	116
Brevard				4	2		6	6	1,630
Broward		4		2			6	6	5,536
Calhoun							0	0	69
Charlotte		2		2		2	6	6	421
Citrus		4				2	6	6	404
Clay	1		4			2	6	7	419
Collier	1	2	2	2			6	7	653
Columbia	1	2		2	2		6	7	368
Dade		4		2			6	6	7,728
Desoto	1	4		2			6	7	112
Dixie			2		2		4	4	56
Duval					6		6	6	4,061
Escambia					6		6	6	1,298
Flagler						4	4	4	119
Franklin							0	0	57
Gadsden				4		2	6	6	204
Gilchrist				4			4	4	37
Glades					2		2	2	74
Gulf							0	0	57
Hamilton						2	2	2	265
Hardee		4		2			6	6	94
Hendry	1				2		2	3	107
Hernando		2		4			6	6	416
Highlands		2	2		2		6	6	332
Hillsborough	1	4		2			6	7	4,248
Holmes						5	5	5	148
Indian River				2	4		6	6	377
Jackson	1				5		5	6	396
Jefferson						2	2	2	161
Lafayette		2		2			4	4	20
Lake	1		2	2	2		6	7	650

such fees have figured most prominently in funding impacted highway systems. Developers are assessed a fee established by the county or the city to improve and upgrade the capacity of highway segments that are expected to be affected as a direct result of the developer's actions. Impact fees are not uniform throughout the state. Rather, they vary by county. According to a survey conducted by the Florida Advisory Council on Intergovernmental Relations (Florida ACIR), only 26 counties have enacted impact fee ordinances, and 12 have road impact fees. Of the 64

cities that impose impact fees, only eight impose a road impact fee. The Florida ACIR survey found that city and county road impact fees averaged \$458 per single-family home.

Consequently, depending on the county in which one purchases gasoline and consumer goods, the consumer could be charged a 6 or 7 percent sales tax, a motor vehicle fuel tax ranging from 9.7 to 16.7 cents per gallon, and a variable property price if developers pass the impact fees on to property owners or renters. In the same manner that the 50 states represent di-

Table 1 (cont.)
Locally Imposed Motor Fuel and Special Fuel Taxes in Florida
(cents per gallon)
Local Option Gas Tax

County	Voted Gas Tax (9th c/)	1983	1984	1985	1986	1987	Subtotal	Total	Revenue From* Each c/ (000)
Lee	1		4				4	5	1,446
Leon				4		2	6	6	981
Levy		2		2	2		6	6	168
Liberty							0	0	42
Madison						1	1	1	216
Manatee	1	4		2			6	7	893
Marion		2	2	2			6	6	1,200
Martin				4	2		6	6	420
Monroe		4		2			6	6	353
Nassau					2	4	6	6	371
Okaloosa						5	5	5	807
Okeechobee		4		2			6	6	190
Orange		4		2			6	6	3,718
Osceola	1	4			2		6	7	601
Palm Beach		2		2	2		6	6	3,606
Pasco		2	2		2		6	6	1,052
Pinellas				4		2	6	6	3,614
Polk		4			2		6	6	2,039
Putnam				4			4	4	311
St. Johns				4	2		6	6	543
St. Lucie				4		2	6	6	692
Santa Rosa					6		6	6	393
Sarasota		4			2		6	6	1,071
Seminole		4		2			6	6	1,138
Sumter		2				2	4	4	512
Suwannee		1		2			3	3	254
Taylor				4			4	4	166
Union			4				4	4	84
Volusia	1	2		4			6	7	1,619
Wakulla		4					4	4	66
Walton						5	5	5	213
Washington				4			4	4	85
Totals									\$61,236

*Net proceeds expected for local government, FY 1987-88 (Department of Revenue estimate).

Source: Department of Transportation, Division of Planning and Programming, Florida's Transportation Revenue Sources: A Primer (January 1988), p. 15.

iversity in fiscal policy across the nation, the 67 counties in Florida represent a microcosm of experimental diversity among local governments.

STATE-LOCAL RELATIONS

The fruits of rapid economic expansion in Florida are not distributed equally to all counties. The coastal counties in particular have reaped the lion's share of the benefits. Florida has decided to cope with uneven development by granting counties home rule authority. Counties have the legal authority to

raise substantial local revenues from the county gas tax, the local option sales tax for infrastructure, and the (variable) impact fees.

The state interacts with local governments in a fairly conventional style. The 22 metropolitan planning organizations (MPOs) provide the vehicle by which state and local governments discuss highway project priorities. Generally, however, the state programs its own projects on the state highway system with no extraordinary efforts to involve local governments. The city and county governments proceed in a

similar fashion. For the most part, this suits all parties. Projects on the state highway system tend to be the province of the seven DOT district offices. Under Florida's decentralization plan, responsibilities and control were shifted to the districts rather than retained in Tallahassee. District officials then interact with county officials, informing them of state projects.

A county official said that state-local relations on highway issues are "no better than average." At least two reasons explain the "average" but satisfactory state of state-local relations. In Florida those reasons are two sides of the same coin: local autonomy and state receptivity. The state recognized that the explosion in population, automobile ownership, and tourism would place severe hardships on local transportation systems. Yet the impact would not be uniform across all counties because some counties have not benefited from the rapid economic growth. The state's decision grants counties the authority to raise their own motor fuel tax rates to levels they feel appropriate, given their transportation needs. The counties experiencing the most dynamic growth want the authority to levy higher taxes. Their current revenue streams for transportation, according to city and county officials, are inadequate to meet needs. Indeed, rapid growth and increased demand for services have placed extraordinary pressure on some cities and counties to provide all kinds of services, not just transportation. As officials at the Florida ACIR said, a top priority for counties is the right to impose a 1-cent sales tax without a county referendum. The resulting revenues could fund any county activity, including transportation.

County and city officials appear to be largely content in their relationship with the state. The locus of conflict, to the extent there is any, rests in the county-city arena. The local option gas tax requires the county to negotiate with cities in working out a formula for the distribution of those funds. Although a *modus vivendi* has been reached, this should not imply that all parties are pleased with the arrangement for at least two reasons. First, a few cities in some counties that have not imposed the full 6 cents would like the local option gas tax to be raised. Only if they can convince their other city brethren can the issue be forced on the county; otherwise, control is vested in county commissioners. Second, cities believe they come to the negotiating table from a position of weakness. After all, the county commissions decide to levy the tax, not city officials. Strain in the intergovernmental system is more concentrated at the intralocal arena than in the state-local arena.

Nevertheless, the fairly comfortable relations between the state and local governments that have evolved over the years may be jeopardized, or certainly transformed, due to a recent legislative

mandate. In 1985 the legislature mandated the implementation of a comprehensive planning process for local governments. Local plans must set service levels for public facilities, identify capital projects to meet those service levels, and ensure that those projects can be funded by identifiable funding sources. Within one year of the plan's adoption, development orders and permits will be approved contingent on the availability of public services and facilities. Development orders and permits, then, cannot be issued if they result in a reduction in the level of services identified in the comprehensive plan.

The comprehensive plans must be submitted to, and approved by, the Department of Community Affairs after agreement has been reached among local officials. The first local comprehensive plans are due on July 1, 1988; the last local comprehensive plans will be submitted on July 1, 1991. The transportation portion of the plan will then be reviewed by the state DOT. The concern expressed by county and city officials is that the state's transportation plan may not square with the local transportation plans. State involvement thus far, they claim, has been slow to materialize. In the event of state-local disagreement, these local officials feel that the state will be negotiating from a position of superior power. Further, as a city official argued, changes in the comprehensive plan required at the state level will have a cascading effect on local transportation plans and the local comprehensive plan in general. For example, if the state decides to increase service levels on one of its roads—say, a road that the local government had not anticipated or desired—there is a very high probability that local service levels will be affected on adjoining roads. If those local service levels are changed, the transportation portion of the comprehensive plan will have to be altered too. New revenue sources will have to be identified or other highway projects postponed or abandoned.

The interlocking nature of the comprehensive plan, in which all levels of state and local government must interact, will force state and local officials into an intense negotiating posture that heretofore has been relatively unusual. The "hands off" approach that appears to characterize current project selection on the state highway system, the county highway system, and the city street system will be changed fundamentally. Increasing involvement and intrusion by all levels of government on each other's transportation plans will, in all probability, be a result of this comprehensive planning process. As one unit of government changes transportation plans and service levels, it may well alter service levels on the transportation system of another government.

In the intralocal arena, another issue confronts local officials. The Florida ACIR argues that "once this link [between development permits and public

facilities and services] is activated by adoption of a plan, local governments will face the choice of providing for their identified infrastructure needs or denying permits and development orders." This situation is not likely to endear the state government to local officials.

One other programmatic arena in which the state interacts with local governments is a program designed to accelerate construction on the state highway system. Rapidly growing regions of Florida experience situations in which highway demand on the state's highway system exceeds the highway's capacity to serve the demand. Because of insufficient resources, the state may not be able to respond to the

demand in a timely manner. As a means to expedite construction and modernization on the state highway system, the state has implemented an 80/20 program. The program requires a local match of 80 percent and a state match of 20 percent of project costs on the state highway system or for road projects that will alleviate congestion on the highway system. Counties wishing to participate in this program must have implemented at least 4 cents of the local option gas tax. Only 10 of the 67 counties fail to meet this requirement. Approximately \$5 million in state funds have been appropriated annually for the 80/20 program; in FY 1989 \$10 million in state funds were appropriated.

Illinois

Illinois' highway system is characterized by a tangled assignment of responsibilities stemming from happenstance and history. The state's financing arrangements are equally complex, and can lead to wide variations in motor fuel taxes within the state. In addition, the northeastern (Chicago) area is experiencing rapid economic growth while most of the rest of the state is experiencing slow growth.

Tensions between state and local government officials stem from the state's increased share of funds from a 1983 motor fuel tax increase, and the inability of the slow-growth townships to meet their highway funding needs in the face of declining property tax assessments on farms and the end of General Revenue Sharing. Illinois has received virtually the average apportionment from the Highway Trust Fund during the past 30 years—\$1.14 for each dollar contributed, compared with the national average of \$1.15.

SYSTEM SIZE

State and local governments in Illinois are responsible for 136,422 center-line miles of roads, streets, and highways. Annual vehicle miles of travel was 74.3 billion in 1986. Three types of local government share transportation responsibility with the state government: counties, municipalities, and townships. Most of the 1,470 townships in the state establish independent road districts which are granted taxing authority for township roads and bridges. The administrator of township roads is elected in most cases. Because of the extensive road network on the township system, the 102 counties maintain only a small amount of highway mileage (relative to other states), mostly on the federal aid system.

The state highway system consists of 17,296 center-line miles of highway, or 13 percent of the total, with traffic volume of 48.3 billion annual vehicle miles of travel (VMT) in 1986. Counties control

16,568 center-line miles of roads (12 percent of the total) with 7.7 billion VMT. The 29,096 center-line miles of streets and highways under the supervision of municipal governments account for 14.1 billion VMT. Finally, township governments are responsible for the largest highway network carrying the least amount of traffic. There are 73,462 miles of roads on the township street and road network (or 54 percent of the entire state system) with only 4.1 billion VMT.

Unlike Florida's ordered allocation of responsibility among governments according to functional classification, history and happenstance explain the allocation of highways to Illinois governments. A senior Illinois Department of Transportation (IDOT) official explained that agreements between the state and local governments were reached 30 to 50 years ago and have not been changed since then. The state highway system consists of the entire Interstate system (1,793 miles), 9,719 miles of the FAP system, 1,838 miles of the FAS system, 1,719 miles of the FAU system, and 2,227 miles of highway that are not on the federal aid system.

Counties control the largest share, 78 percent, of the FAS system (10,102 miles), but they also are responsible for 1,379 miles on the FAU system, 15 miles on the FAP, and 5,054 miles of nonfederal aid roads. The municipal highway system also shares control of all categories of federal aid highways, except for the Interstate highways. Cities, towns, and villages are responsible for 33 miles on the FAP, 182 miles on the FAS, 3,237 miles on the FAU, and 25,644 miles not on the federal aid system. Finally, even townships share in all levels of the federal aid system, with responsibility for three miles of the FAP, 798 miles of the FAS, 366 miles of the FAU, and 72,295 miles of nonfederal aid, local roads.

There are 25,384 bridges (greater than 20 feet) in the state. The state is responsible for 31.9 percent of those bridges, the counties for 15.1 percent, municipalities for 5.1 percent, "other" for 1.2 percent, and townships for 46.7 percent. In 1987, 7,582 bridges (or 29.9 percent of all bridges) were classified as structurally deficient or functionally obsolete. Nearly 62 percent of these bridges (or 4,701 bridges) belong to township or road districts. The state had 1,680 of these bridges (or 22.2 percent) on the state highway system. The balance was distributed on the county and municipal highway systems.

FINANCES

In 1983 Illinois raised its motor vehicle fuel tax by 5.5 cents to the present rate of 13 cents per gallon on all fuels except diesel, which is taxed at 15.5 cents per gallon. Revenues from the motor fuel tax are deposited in the Motor Fuel Tax (MFT) Fund. The state also imposes a sales tax of 5 percent on motor fuels. Receipts from the sales tax are collected by the state

and deposited in an account with all other sales tax revenues. The state then transfers 2.5 percent of all sales tax revenues to the MFT of IDOT. In FY 1986 the motor fuel tax generated over \$697 million and the sales tax \$83 million.

The funds in the MFT (\$781 million in FY 1986) are then distributed to the state and local governments on the basis of a complex, two-tiered formula. Before the 1983 tax increase was approved, the state allocated funds from the MFT in the following manner (approximately): first, the state (IDOT) received 1/15 of the MFT, then the remaining funds were distributed 34.82 percent to IDOT, 32.00 percent to municipalities, 10.91 percent to "counties over 1,000,000" (i.e., Cook County), 11.91 percent to all other counties, and 10.36 percent to townships. This allocation formula was unaltered by the 1983 motor fuel tax law. Rather, the state designed a second formula for the "new" funds from the tax increase. The 2.5-cent additional diesel tax is deposited in IDOT's "State Construction Account Fund" as are 70 percent of the revenues generated from the 5.5 cent increase in the motor fuel tax. The remaining 30 percent of the 5.5-cent increase is allocated in the following manner: 49.10 percent to municipalities, 16.74 percent to Cook County, 18.27 percent to counties under 1,000,000, and 15.89 percent to townships. Revenues from the sales tax are deposited in the MFT fund and distributed to the recipient governments on a pro rata basis.

MFT funds are allotted to cities on the basis of population. Counties receive MFT funds in proportion to the motor vehicle license fees collected within the county during the year. Township allotments are determined on the basis of road district mileage. This distribution formula has been unchanged for nearly 30 years. Table 2 presents data on the allocation of the MFT fund for FY 1986.

The state also receives all the revenues from license fees (a separate account) for transportation purposes. Local governments contribute additional funds for their own transportation purposes by levying a property tax. Contingent on the receipt of MFT funds, townships (or road districts) are required by the state to levy 8 mills for roads and bridges and to share half the levy with municipalities within the township.

Home rule jurisdictions (which include Cook County and most cities over 25,000) and any non-home rule city over 100,000 population are granted the option of imposing a local motor fuel tax as a means to supplement transportation revenues. Although only a handful of cities plus Cook County have exercised this option, nearly half of the state's population lives in jurisdictions imposing the local option gas tax. As of March 1987, the jurisdictions that imposed a 1-cent motor fuel tax were Joliet, Oak

Park, Rosemont, Springfield, Stone Park, and Rockford (a non-home rule city). Chicago's local motor fuel tax is 5 cents and Cook County's is 4 cents. Consumers of motor fuel in Chicago, therefore, pay 22 cents per gallon for state and local motor fuel taxes in addition to the 5 percent sales tax. Further, cities and counties can levy a local option sales tax for General Fund revenues, a tax that is imposed on sales of motor fuels as well as other products. Because of these local option taxes, the total tax on motor vehicle fuels levied by state and local governments, according to the state's Legislative Research Unit, can vary from 17.5 cents to 27 cents per gallon, depending on the point of purchase.

The local gas tax is not necessarily a dedicated tax. Home rule cities can use the revenues from the local option motor fuel tax for highway and bridge purposes or for any other governmental purpose. For example, one city uses its local option gas tax for the General Fund, another dedicates the 1-cent tax to retire a bond issue, and a third dedicates its penny to city streets.

Economic growth in Illinois as a whole cannot rival that of California or Florida. Nevertheless, the area around Chicago is experiencing rapid growth. Consequently, the transportation needs of northeastern counties are growing rapidly. In addition to imposing local levies for mass transit, counties are petitioning the state legislature for expanded taxing authority and for greater financial flexibility in order to meet burgeoning transportation needs. For example, in 1987 Lake and DuPage counties requested, and received, the authority to impose development fees for access to highways. These fees are generally to be used for highway capacity augmentation (e.g., lane widening, signalization, realignments). The state recently passed a law allowing counties the opportunity to pledge state MFT funds to secure county bonds. Counties are then able to accelerate highway projects by issuing debt today and retiring it over the next several years. Because of the high demand for land and the vibrant economy, this area of the state appears willing and financially able to tax itself in order to meet its transportation obligations.

The slow-growth areas of the state appear to take a different financial tack than the northeastern counties. State legislators and local officials from western Illinois, for example, argue that their area has been excluded from any major highway arteries. As a means to enhance western Illinois' economic development profile, they have been lobbying the state to build new roads. Unlike the Chicago area, the economy in this region cannot support a local tax of sufficient magnitude to construct the needed highway. Local officials, instead, solicit the state for those funds.

Table 2
Illinois Motor Fuel Tax Allotment Statistics

December 1, 1985, through November 30, 1986

		Percent Change from 1985
Motor Fuel Tax	\$697,923,512.26	
Sales Tax	<u>83,623,994.62</u>	
GROSS COLLECTIONS	\$781,547,506.88	+ 6.23%
DEDUCTIONS		
Vehicle Inspection Fund	\$11,331,390.44	
Secretary of State	378,651.00	
State Construction Fund	245,386,363.91	+ 13.80
Transferred to Road Fund	29,298,423.11	+ 0.87
Highway Administration	5,714,196.36	+ 8.08
Revenue Administration	10,889,787.72	0.40
Refunds	18,606,131.54	- 7.84
State Boating Act Fund	4,032,000.00	
Court of Claims	<u>3,039.41</u>	
	\$325,639,983.49	
	<u>325,639,983.49</u>	
	\$455,907,523.39	
ALLOCATIONS		
Department of Transportation (Road Fund)	\$125,081,353.57	\$125,081,353.57
Less Grade Crossing Fund	<u>11,500,000.00</u>	- 1.84
	\$113,581,353.57	
Municipalities	\$162,423,507.64	+ 2.44
Counties over 1,000,000 pop.	55,376,234.44	+ 2.44
All other Counties	60,447,739.08	+ 2.44
Road Districts	<u>52,578,688.66</u>	+ 2.44
	\$330,826,169.82	
	<u>330,826,169.82</u>	
	\$455,907,523.39	
ROAD DISTRICTS		
1986 Road Districts distribution per mile	\$738.61	
1985 Road Districts distribution per mile	<u>721.16</u>	
Increase	\$ 17.45	+ 2.42%

Source: Illinois Department of Transportation, Bureau of Local Roads and Streets, M.F.T. Funds, Source, Distribution and Uses by Townships, 1987, p. 5.

The rest of the state, whose wealth is considerably less than that of northeastern Illinois, seems to have adopted a preservation attitude toward highways. The highway and bridge system has been built, traffic is not increasing substantially, and officials need to be able to maintain or preserve the existing highway system in good condition. Furthermore, unlike the dynamic economy around Chicago, the outlook for increased industrial employment has not been promising, and agricultural land values have fallen sharply. Local economic conditions, according

to these local officials, are fragile at best. Consequently, local officials from areas outside the Chicago area would like the state to raise highway revenues and to redistribute them to the rest of the state (i.e., to the non-Chicago areas). At a minimum they do not want any erosion in state support of local highways.

STATE-LOCAL RELATIONS

Two highway planning and coordinating mechanisms coexist in Illinois. The 13 metropolitan planning organizations (MPOs) serving the 17 urbanized

areas have responsibility for all projects funded by the federal and state governments. The second mechanism was initiated and organized by IDOT in the last few years. A select group of representatives from the state municipal league, townships, and counties meet every other month with IDOT officials to discuss plans, problems, and strategies for the transportation system of the state.

Officials at IDOT believe that this formal process of compiling data and soliciting input from local highway officials has created good state-local relationships. Local officials tend to agree. A city representative said that the relationship between cities and the state is "excellent." The reason is in part due to the establishment of these formal IDOT forums. IDOT's Bureau of Local Roads and Streets has been given the authority to work with local officials on highway matters. Approximately 150 personnel are assigned to the bureau and work closely with local officials. Most bureau employees are assigned to the nine district offices so that they can be closer to local officials.

Local governments with authority over portions of the federal aid highway system are granted the right by the state to select and program projects without state interference. The Bureau of Local Roads and Streets distributes the federal funds on a formula basis, but it does not assume any responsibility for project selection. Although local governments appear to be granted full discretion over project selection and programming, projects that are financed with MFT funds must be approved by the IDOT district office. MFT funds must also be accounted for separately and are subject to audit by IDOT. Nevertheless, no local official expressed the opinion that IDOT was intruding on his territory or usurping local project selection responsibility.

However autonomous local governments are in selecting their own projects, the state seeks input from local officials for FAU projects on the state highway system. For all other projects on the state highway system, those projects are selected by the state and presented to the public and local officials after the five-year plan has been established. The state then informs the public of decisions it has already made. Regardless, there seem to be few surprises in the state plan because of constant state-local communications through MPOs, the regular IDOT meetings, the district offices, and the Bureau of Local Roads and Streets.

Because of the large number of local government agencies operating in Illinois (in 1982 the state had 6,468 governmental units, 1,200 more than the second highest state and more than six times more than the median state), a great deal of communication and coordination must take place among township, county, city, and state highway officials.

Potential points of conflict over project prioritization and selection are likely to be greater in Illinois than in most states (or than in states without township control of highways). State mechanisms in addition to the mandated MPOs for coordinating highway plans probably mitigate some of the potential conflict. Township, county, and city officials did not voice any complaints about their treatment by IDOT, nor about state intrusion into their highway and bridge selection and programming prerogatives.

In addition to project selection autonomy and coordination with the state IDOT, home rule cities also possess the authority to impose and raise motor fuel taxes, create special assessment districts for streets, and tax almost anything they desire for street and bridge purposes. The financial flexibility accorded home rule cities allows those cities to respond to changing transportation needs by raising revenues when such action is both necessary and politically acceptable. Chicago and Cook County in particular have exercised this authority by imposing fairly steep local motor fuel taxes.

The reverse side of the coin is that non-home rule cities and even home rule cities with weak fiscal bases are in precarious positions to meet their highway and bridge needs. These cities rely on the state MFT and on transfers from their cities' General Funds and dedicated property taxes. Such problems describe the situation for much of the state, save the northeastern corner and the economically strong cities. The strategy of this group of local government units quite obviously is to meet their highway needs by encouraging the state to raise its motor fuel tax rates and to share the proceeds. This coalition of cities, counties, townships, and IDOT tried to persuade the state legislature to do just that in the summer of 1987, but it was an unsuccessful effort.

Establishment and use of consultative and coordinative mechanisms and the broad taxing authority granted to home rule cities do not imply the absence of tension between state and local governments. Local government officials are still smarting from the 1983 motor fuel tax rate increase that effectively reduced their share of the MFT, even though the base was significantly larger. Prior to 1983, approximately 55 percent of the revenues from the motor fuel tax were distributed to local governments; after the tax increase, local governments received slightly less than half. By altering the distribution formula for the 5.5-cent increase in motor fuels (of which the state received 70 percent of this new tax), local officials felt the state was responding to its highway needs. However, local officials also believed that the state now felt less compelled to meet local government needs. IDOT and other proponents of raising the motor fuel tax rate in 1987 adopted a conciliatory posture toward

local officials by promising a “better” or more favorable local split of the new tax money.

A second area of dissatisfaction was expressed by township highway administrators. Townships have the authority to raise revenues for highway purposes by levying ad valorem taxes only. The problem is two-fold. First, General Revenue Sharing, a federal program that the township used to fund highway programs, was terminated in 1986. Second, farm assessments for most of the state have been declining. The taxable wealth is declining and federal funds are drying up. Furthermore, the economic well being of many townships has deteriorated to such a point that additional tax levies are unrealistic. Because the tax-

ing jurisdiction, a township, tends to have fairly homogeneous property values, a township is unable to tax the relatively wealthier areas to subsidize the poorer areas.

Townships in the northeastern part of the state, on the other hand, are relatively flush with funds. Property values have escalated and ad valorem property tax revenues have been sufficient to cover highway and bridge needs. The highly decentralized system of local governments in Illinois benefits the (township) road districts in those areas, but works to the financial disadvantage of road districts and counties in the areas of greatest fiscal need.

Kansas

Kansas is not experiencing significant population growth; however, travel on state and local roads has steadily increased during recent decades. Consequently, the state has placed an emphasis on maintaining the existing highway system. No new major highway segments are planned. Kansas, like Illinois, receives the historical average apportionment from the Highway Trust Fund compared with all other states; it is, therefore, neither a net donor nor a net beneficiary. Local governments are not allowed to levy local highway user taxes, such as a motor fuel tax, for street purposes.

There are cordial, but arms-length, relationships between state and local highway officials, due in large part to the state's use of objective, nonpolitical standards in allocating highway funds to local governments and also due to each level of government jealously guarding its autonomy over project selection and funding.

SYSTEM SIZE

Kansas' highway system is neatly divided into the state system and the off (or local) system. The Interstate highway system and the FAP system are the responsibility of the state department of transportation (KDOT). The state highway system contains over 10,000 center-line miles. Nearly 21,000 of the 22,589 miles of the FAS system are the primary responsibility of the counties. The state has jurisdiction over approximately 1,600 miles of the FAS. Kansas state and local governments are responsible for over 25,000 bridges. On the federal aid system, there are 10,699 bridges; off the federal aid system, there are 15,046 bridges. Approximately 13,500 of all bridges in Kansas are structurally deficient or functionally obsolete, or about 5.5 percent of all U.S. bridges in these categories.

The FAU in Kansas is the responsibility of local governments. Further, city governments have the re-

sponsibility for state highway segments that pass through cities and that connect to the state on system (FAP). These highway segments are called city connecting links and receive special state funding when maintained by a city. Cities are responsible for only 339.2 center-line miles, or 1,085 lane-miles, of the approximately 807.6 center-line miles, or 2,547 lane-miles, of highway classified as city connecting links; the balance passes through small towns and is maintained by KDOT. Statutory authority grants KDOT the option to maintain a route or allow it to be maintained by a city for the special payment amount.

Travel on Kansas' highways has increased steadily over the past four decades. Between 1950 and 1960, annual vehicle miles increased by 38 percent from 7.6 billion to 10.5 billion; travel increased about 26 percent in the next decade, 30 percent in the 1970s, and by another 11.5 percent between 1980 and 1985 to a current annual total of approximately 19.3 billion vehicle miles.

FINANCES

Kansas finances its highway programs from a variety of funding sources. Motor vehicle fuel taxes account for the largest source of funds. The tax has increased by 3 cents in the past decade. The last increase was in 1984 when the tax on gasoline was raised to 11 cents per gallon, diesel to 13 cents, gasohol to 11 cents, and liquid petroleum fuel to 10 cents. Beginning July 1, 1985, Kansas implemented an indexation method of calculating motor vehicle fuel tax rates. The tax rate is set at 10.5 percent of the unweighted average price per gallon of premium unleaded gas and regular motor vehicle fuel sold during the month of November of the previous year, and can be increased by increments of whole cents. The state is limited by statute to no more than one increase in the excise tax on motor fuels of 1 cent every year. However, the tax on gasoline could not be set less than 11 cents per gallon. Indexation, then, would take effect once the price of gasoline exceeded \$1.14 per gallon. A change of one cent in the gasoline tax rate will also increase the tax rates for gasohol, diesel and liquid petroleum by one cent, and increase trip permit costs by 50 cents.

Due to a combination of higher pump prices, lower demand, and more fuel efficient vehicles, motor fuel tax receipts between 1979 and 1983 fluctuated slightly between \$114 million and \$118 million per year. After an increase in motor fuel taxes took effect in 1984, receipts increased substantially, reaching \$151 million in 1986 and nearly \$160 million in 1987 and 1988. Because the state shares approximately 40 percent of its motor fuel taxes with counties and cities, there was a surge in the state's Special City and County Highway Fund between 1983 and 1984 from \$33 million to \$58 million, a level that was

Table 3
Distribution of Kansas Motor Fuel Tax Receipts, 1977-88
(in thousands of dollars)

Fiscal Year	To the State			Subtotal	Special City and County Highway Fund	County Equalization and Adjustment Fund	Refund	Total Gross
	General Fund	Highway Fund	Freeway Fund					
1977	2,249	61,173	18,142	81,564	34,937	2,500	9,544	128,545
1978	2,313	64,347	18,729	85,389	36,093	2,500	9,548	133,530
1979	2,372	66,836	19,174	88,382	37,312	2,500	8,838	137,032
1980	0	63,732	18,172	81,904	34,502	2,500	8,596	127,502
1981	0	61,490	17,426	78,916	33,217	2,500	7,767	122,400
1982	0	62,599	17,591	80,190	33,725	2,500	6,781	123,196
1983	0	62,117	17,300	79,417	33,369	2,500	6,112	121,398
1984	0	66,036	16,434	82,470	58,276	2,500	6,009	149,255
1985	0	72,258	16,293	88,551	57,774	2,500	6,796	155,621
1986	0	73,630	16,603	90,233	58,919	2,500	7,306	158,958
1987 Est.	0	77,500	17,500	95,000	62,100	2,500	6,600	166,200
1988 Est.	0	79,500	18,000	97,500	63,800	2,500	6,800	170,600

Source: "Comparative Statement of Taxes and Fees Received During June" for the years 1977 through 1986 by the Kansas Department of Revenue.

HIGHLIGHTS:

- a) Tax receipts for regular motor fuel include \$360,892 inventory tax in FY 1977; and \$790,010 in FY 1984.
- b) Tax receipts for special fuels include \$7,397 inventory tax in FY 1977; and \$11,837 in FY 1984.
- c) Tax receipts for gasohol include \$48,346 inventory tax in FY 1986.

maintained for the subsequent three years. In addition to the share of the motor vehicle fuel tax, a 5 percent motor carrier property tax, which is assessed annually on motor vehicles registered in the state, is also transferred to the Special City and County Highway Fund and distributed to local governments. Receipts are modest, totaling \$7 million in 1986; this is expected to increase to \$9 million in 1988. The Fund is then distributed as follows: 57 percent to the counties (\$5,000 per quarter then the balance is distributed half on motor vehicle registration fees collected in the county and half on average daily vehicle miles traveled, excluding interstate travel) and 43 percent to the cities (based entirely on population). Table 3 presents historical data on the distribution of motor fuel tax receipts between the state government—identified under the "subtotal" column—and county and city governments.

Kansas statutes allow counties to levy and dedicate property taxes for transportation purposes. Counties are not allowed to levy a local option excise tax on motor vehicle fuels. County commissioners have the legal authority to dedicate up to 5 mills for a road and bridge fund. The county electorate may add up to 5 mills for a special road and bridge tax, and

county commissioners can impose a 2-mill special bridge tax. These property tax levies must legally be expended for the county's highway and bridge programs.

Receipts from vehicle title and registration fees, drivers' license fees, and other fees, which are not as volatile as the motor vehicle fuel tax, finance the state highway fund; they have increased at an average annual rate of less than 1.25 percent since 1980. This revenue source accounts for over \$73 million. Since 1984 a portion of the state sales tax has been transferred from the state general fund to the highway fund. In 1986 the sales tax transfer amounted to \$16 million.

The primary focus of KDOT's efforts is on maintaining and preserving the existing highway system. Because the state has experienced slow population growth during the past decade, new major highway segments are not planned. A secondary and controversial focus of the state is on enhancing the economic development potential of an underdeveloped region (southeast Kansas) by augmenting the highway capacity in that region. Indeed, a special legislative session was called by the governor during the summer of 1987 for the purpose of substantially im-

proving the southeast Kansas highway system, along with other designated routes, and providing additional funding for maintenance of the existing system. The plan was to have been financed by raising the gasoline tax, but the legislature did not approve the plan.

STATE-LOCAL RELATIONS

In general, decisions affecting the state highway system are made internally by KDOT and other state officials. Decisions about the off state system are made locally. It appears that neither governmental unit (state or local) has much input or discretion over projects on the other governmental unit's system. State highway decisions are communicated to local officials, usually the county engineers or administrators, every year at district KDOT meetings. The purpose of these annual meetings is to communicate highway and road problems and issues to local officials, as well as to relay the list of approved projects within the KDOT district. County and city officials perceive the annual meeting as a forum for discussing highway and transportation problems and only rarely as a mechanism for input into the selection process.

The state administers two major formula-driven programs: a modernization program and a resurfacing program. Nearly three-fourths of the 1987-91 highway improvement program's funds (or approximately \$633 million) are dedicated to these two programs (see Table 4). The remainder is reserved for expansion projects (Interstate completion and state freeway projects) and other programs. The two major formula programs on the state system are identified and selected via complex formulas that principally stress pavement condition and need. These objective indicators, according to officials at KDOT, reduce and practically eliminate the political element in project identification.

The weighting schemes in the formulas were developed in the early 1980s through a Delphi process, which involved input and advice from numerous quarters. The resulting formula for the modernization program has been altered to separate road projects from bridge projects. The formula is used regularly and apparently with little controversy. The relative weights assigned to the "attributes" of roadways include pavement structural evaluation, observed condition, lane width, substandard horizontal curves per mile, volume/capacity ratio, and several other factors. "Adjustment factors" are then applied to these attributes to account for each road section's functional classification, traffic volume, accident ratio, posted speed limit, shoulder type and width, and whether the section is divided or undivided.

The resurfacing program, or what KDOT calls its 1-R program, is an ambitious effort to resurface 1,000 miles each year—the equivalent of 10 percent of the

Table 4
Kansas Highway Improvement Program, FY 1987-91

Program	Budgeted Amount (in millions)	Per- cent of Total
Preservation		
1,000 Mile Resurfacing	\$ 174.2	20.5
KLINK 1R Set-Aside	8.5	1.0
Bridge Preservation	17.9	2.1
Total	200.6	23.6
Modernization		
Roadway Modernization	372.4	43.9
Bridge Modernization	87.0	10.2
KLINK 3R Set-Aside	12.7	1.5
Safety Set-Aside	1.3	0.2
Total	473.4	55.8
Expansion		
Interstate Completion	86.4	10.2
Freeway Projects	78.1	9.2
Economic Development Set-Aside	10.6	1.2
Total	175.1	20.6
Total	849.1	100.0

Source: Kansas Legislative Research Department, August 10, 1987.

total state highway system. Total 1-R outlays for FY 1988 are expected to be \$33 million. Pavement condition on all road segments in the six KDOT districts are rated as "good," "deteriorating," or "deteriorated." A weighting scheme is applied to each category of mileage in the district (e.g., miles rated in "good" condition are given a rating of 1, "deteriorating" given a rating of 2, and "deteriorated" a rating of 3). Mileage is then prorated among the six districts, and 1-R funds are allocated on the basis of prorated mileage. For example, in FY 1986, District 6 had more mileage in the "deteriorated" category than did the other districts. Even though District 6 is responsible for 1,548 miles of state road (nearly the average for all districts), its weighted mileage was by far the greatest—2,867 miles. As a consequence, nearly 20 percent of 1-R funds were allocated for resurfacing nearly 200 miles of District 6 roads.

Counties and cities, like their state counterpart, develop their highway project lists with little, if any, input from the state. Even though the state distributes FAS funds to the counties, the state does not control, or attempt to exercise control over, the county's selection of projects. Nor does the state involve itself in the selection of projects on the FAU program. The resulting state-local highway system ap-

pears to proceed along two autonomous tracks: the on (or state) highway system is developed almost exclusively by the state, and the off (or local) highway system is developed almost exclusively by county and city officials.

The state does provide highway and bridge funds for local governments, as a conduit from federal programs and as a special state program. FAS and FAU funds are available to fund county and city road and street projects. Bridge replacement funds (a federal matching program) are distributed equally to counties and cities, each receiving 22.5 percent of the total pool of funds. The state retains the remaining 55 percent. The amount granted to a city or county is determined by available obligation authority.

The Kansas city connecting link program provides participating cities with \$1,250 per lane mile for maintaining segments of the state highway that pass through the city. Cities sign a maintenance agreement with the state in return for the funds. Maintenance funds, according to both state and local sources, are inadequate for maintaining those city connecting links in good condition. Reimbursement to participating cities has not changed from the current \$1,250 per lane mile since 1978. In FY 1980, the state supplemented the maintenance program by establishing a resurfacing program, analogous to the 1-R program, for cities participating in KDOT's city connecting link program. This program is called the KLINK program and matches city funds on a 50/50 formula basis, up to a maximum of \$100,000. Projects are awarded on a competitive basis. In FY 1987 this program provided \$1.8 million in state matching funds to cities. All projects submitted to KDOT were approved.

Another source of state funds for city connecting links is the Geometric Improvement Program. It provides up to \$2.5 million statewide for curvature, rights-of-way, pavement widths, shoulders, channelization of traffic, and highway appurtenances (e.g., guard rails) to existing city connecting links. This program is also a matching grant program with a sliding scale based on population. For example, cities under 2,500 population contribute nothing to a project; cities between 5,000 and 25,000 contribute 10 percent with a maximum of \$230,000; and cities over 100,000 population match at least 25 percent of project costs up to a maximum of \$300,000. In FY 1987 this competitive program funded only about one-third of the requests.

Finally, KDOT's Economic Development program provided nearly \$4 million to cities and counties in FY 1987 for the purposes of upgrading the capacity of existing roads on the federal aid highway system. Highway projects are selected on the basis of their contribution to a region's economic development potential.

Except for the Metropolitan Planning Organizations (MPOs), Kansas does not seem to have developed any formal mechanisms for dealing with state-local highway issues. The annual district meetings are not designed for soliciting input into state projects and plans, but principally for communication purposes. Nevertheless, the absence of any additional state or KDOT coordinative mechanism appears not to portend poor relations. In fact, city and county officials identified their relations with the state as being quite satisfactory. In part this good relationship may be a function of the fact that local governments received a handsome share of the recent increase in state motor vehicle fuel taxes.

Good state-local relations also appear to be related to four other factors. First, clear lines of highway authority in Kansas keep local and state officials at arm's length from each other. Both jealously guard their autonomy in selecting and programming their respective highway segments. Neither appears to intrude, or to feel the need to intrude, in the highway affairs of the other. This is not to say that they insulate themselves completely from each other. In fact, frequent informal contact and communication in addition to the annual district meetings result in very cordial and personal relations. Rather, state officials demand control over the on system without local government involvement, and local officials insist on the same type of control over their road and bridge systems.

Second, the formulas for the modernization and resurfacing program reflect professional, objective, and unbiased values in project selection on the state system. Local officials know that if road segments or bridges in their jurisdictions are not programmed, more "needy" projects must have been identified elsewhere. "Politics" is not viewed as the critical selection factor.

Third, competition for highway funds between state and local governments and between KDOT districts excludes, in general, new roads, highway segments and bridges—save the special legislative session called during the summer of 1987. Kansas' system of highways and bridges is fairly complete. The major goal of KDOT is to preserve the existing system, not to add to it in any significant amount. Consequently, competition is focused on distributing funds in a manner that maintains and preserves the highway system. New projects are rare. State and local officials, then, need not enter the arena of potential conflict created by new project needs.

Finally, local officials expressed no animosity toward KDOT or KDOT programs. They felt that KDOT was genuinely concerned about and sympathetic to local highway problems and was not about to jeopardize its relations with local governments. As one official said, the highway program in Kansas

originally began with the overriding goal of “getting the farmers out of the mud.” Now that most farm roads are paved or substantially improved, project selection and distribution of funds have begun to favor centers of population and areas of greatest need. Unlike the early years of the state highway program, cities and urbanized areas generally feel that they are receiving their fair share of state highway funds.

One potential area for conflict between the state and city is the city connecting link program. Nominally on the state highway system, maintenance of city connecting links is the responsibility of cities. Except for the not insignificant complaint from city officials that the reimbursement rate per lane mile is

woefully inadequate, city officials expressed support for the program. As one city engineer explained, city residents do not usually separate street problems into state and local issues. Complaints about potholes, snow removal, and the like on streets located within city limits are directed to the city, not to the state. So, he continued, the cities “should control these highway segments.” However, because a substantial amount of state traffic is carried on these routes, city officials are quick to add that the costs ought to be shared with the state. A higher level of reimbursement per lane mile would alleviate what appears to be the only objection to the program, and the only identifiable problem in state-local highway relations.

Maryland

Maryland's highway system and its financing are state dominated. Local governments in general do not have the authority, nor do they lobby for the authority, to impose local option taxes for highway purposes. Except for a few impact fees levied by rapidly growing counties near the Washington-Baltimore urban corridor, most funds are raised by the state.

A highly developed communication and consultative state highway planning process has produced a high degree of local acceptance and support. Maryland is a net beneficiary of federal Highway Trust Fund revenues, receiving \$1.61 for every dollar contributed. Only 13 states historically have received more apportionments in relation to their payments into the trust fund than Maryland.

SYSTEM SIZE

The Maryland Department of Transportation (MDOT) maintains 5,200 miles of highways carrying 70 percent of the vehicle miles of travel on roads and highways in the state. County governments are responsible for 17,873 miles of road, while municipalities maintain 2,122 miles of streets. Of the more than 4,600 bridges in the state, the state is responsible for 2,300.

In 1966 Maryland's state and local highway system carried 17 billion vehicle miles of travel (VMT). In 1975 the volume of traffic increased by nearly 50 percent to 25 billion VMT. By 1985 the figure was over 33 billion VMT.

FINANCES

Maryland funds most of its highway programs from an excise tax on motor fuel, titling taxes, license and registration fees, and a portion of the corporate income tax. These funds are deposited into the Transportation Trust Fund (TTF) and are then

shared with cities and counties.⁵ Based on a complex formula governing the distribution of each revenue source, the state eventually retains approximately 71 percent of total TTF receipts and shares the remaining 29 percent with local governments.

Maryland raised the excise tax on motor vehicle fuels by 5 cents, from 13.5 cents to 18.5 cents per gallon in June 1987, making it one of the highest excise taxes on motor fuels in the country. Thirty percent of the receipts from this revenue source are shared with local governments; the state retains the balance. Of the local share, Baltimore City receives half. Receipts are distributed to counties and municipalities on the basis of two equally weighted factors: population and motor vehicle registrations within the jurisdiction. Before the most recent tax hike, the excise tax on motor fuels generated net state revenues of \$302 to \$332 million between FY 1984 and FY 1987, an annual increase of between 2 and 3 percent. Receipts are projected to jump nearly 35 percent in FY 1988 to \$450 million as a result of the 5-cent per gallon tax hike and to increase by 1 or 2 percent for the next five years, according to estimates made by the Department of Fiscal Services.

Vehicle titling taxes are imposed at a rate of 5 percent of the purchase price of a new or used vehicle. Because this tax is sensitive to the market price of vehicles, revenues increased substantially (approximately 14 or 15 percent per year) during the late 1970s and early 1980s when the excise tax on motor fuels was increasing slowly (around 1 to 3 percent per year). One percent of the 5 percent titling tax is credited to the TTF account and distributed 76 percent to MDOT, 10 percent to Baltimore City, and the remainder to counties according to population (with each county receiving at least 1 percent of available funds). The remaining 4 percent of the 5 percent titling tax is distributed 65 percent to MDOT, 17.5 percent to Baltimore City, and 17.5 percent to counties and municipalities based on road mileage and vehicle registration, each weighted equally. In FY 1987 titling tax revenues generated \$339 million, which was more than the motor fuel taxes and is expected to increase to only \$340 million in FY 1988.

Still important but of less monetary significance to the Transportation Trust Fund are fees generated from motor vehicle registration and operators licenses. After deductions for certain programmatic expenses, receipts from this revenue source are distributed 65 percent to MDOT, 17.5 percent to Baltimore City, and 17.5 percent to cities and counties (weighing equally population and vehicle registrations). Receipts from motor vehicle registration and licenses increased by about 3 to 4 percent each year for the past several years, generating approximately \$92 million to \$115 million annually. In 1987 the legislature increased the vehicle registration tax by 35

Table 5
Maryland Transportation Trust Fund Revenue Forecast,
Fiscal Years 1987-89
(in millions)

Revenue Source	FY 1987 Actual	FY 1988 MDOT Estimate*	FY 1988 DFS Estimate	Percent Increase 87 vs 88	FY 1989 MDOT Estimate*	FY 1989 DFS Estimate	Percent Increase 88 vs 89
Motor Fuel Taxes	\$332.0	\$447.0	\$449.7	35.5%	\$441.0	\$453.9	0.9%
Titling Tax	339.5	312.0	340.0	0.1	322.0	349.5	2.8
Corporate Income Tax (Transportation Share)	81.3	93.0	92.9	14.3	94.0	110.1	18.5
License & Registration	92.7	141.0	141.6	52.8	146.0	145.1	2.5
Decals & Permits	13.8	14.0	14.1	2.2	14.0	14.4	2.1
Other Fees	29.0	31.0	29.7	2.4	29.0	28.2	-5.1
Operating Revs	184.0	189.0	189.0	2.7	197.0	197.0	4.2
General Fund Payback	15.0	30.0	30.0	100.0	36.0	36.0	20.0
Total Revenues	1,087.3	1,257.0	1,287.0	18.4	1,279.0	1,334.2	3.7
Local Share	252.3	293.0	300.7	19.2	295.0	308.5	2.6
Highway user	229.0	270.0	277.0	21.0	272.0	284.0	2.5
Trans Rev Sharing	23.3	23.0	23.7	1.7	23.0	24.5	3.4
To Other State Agencies	25.6	30.0	31.0	21.1	31.0	32.0	3.2
Net to MDOT	809.4	934.0	955.3	18.0	953.0	993.7	4.0

*MDOT June 1987 Preliminary Forecast

Source: Department of Fiscal Services (DFS), Spending Affordability Committee Recommendation to the 1988 General Assembly (Annapolis: November 1987), p. 54.

percent. Receipts in FY 1988 are expected to reach \$141 million, a 53 percent increase over FY 1987 receipts of only \$92 million. Table 5 presents revenue forecasts for the TTF according to MDOT's and the Department of Fiscal Service's projections.

The fiscal implication of increases in the motor fuel tax and the registration tax on the TTF is enormous. In FY 1987 (which included only one month of the tax increase) revenues from the excise tax were \$332 million. In FY 1988 total receipts should rise by over 35 percent to \$450 million and climb gradually by only 1 percent annually over the next five years. The substantial increase in tax revenues will have a noticeable effect on highway projects undertaken by MDOT and local governments. In FY 1985 the local share of the TTF was \$216 million, in FY 1986 \$231 million. The local share of the TTF in FY 1987 was \$252 million and is expected to soar by 19 percent in FY 1988 to \$300 million. MDOT estimates that local governments will receive \$283 million in additional revenues as a result of the tax increases for the five-year planning period, FY 1988-93.

Maryland cities and counties spend some General Fund revenues for transportation purposes. Maryland's local governments are also permitted to issue general obligation bonds for transportation purposes. Counties also have the opportunity to pledge their share of the state motor fuel tax to support revenue bonds issued by the state.

STATE-LOCAL RELATIONS

The state of state-local relations on highway matters in Maryland can be summarized in a few words: frequent communication and local fiscal dependence on the state. The former results in meaningful input into the state's decisionmaking process concerning highway project selection, programming, and funding. The latter means that proposals for local option taxes for transportation purposes are rarely, if ever, entertained seriously. Each year MDOT stages its annual program tour, or what local officials call "the dog and pony show." The tour or road show has been a regular feature of MDOT for nearly 20 years and, since 1982 has been required by state statute. The road show is a formal process of presenting MDOT's priority list of projects for the upcoming fiscal year in each of Maryland's 23 counties. The road show allows public input into MDOT's highway and bridge program, that is to say, projects on the state highway system. Local and state officials claim that no project will be undertaken without the consent of the affected county. For example, a county transportation planner told the story of how an interchange on an interstate project could have altered land values and was inconsistent with county plans. Consequently, the county opposed it. The state obliged by moving the interchange to another, more agreeable location in the county.

Prior to staging the actual event, state highway officials actively encourage the participation of local officials in the highway plan. Members of the General Assembly, county councils, and city officials are consulted in drawing up the highway plans. The state highway administrator explained that local planning officials are frequently consulted by the state highway planners. By the time the actual road show occurs, there are usually few surprises. The consultative process theoretically preempts many sharp conflicts and disagreements over project priorities. Nevertheless, because the road show unveils projects on the state highway system, the state ultimately has the final word. The important item to remember, said county transportation officials, is that even though the state has every right to do whatever it wants, the state solicits ideas and discusses projects before they become final. Projects do not appear unexpectedly.

The state's reliance on this consultative mechanism implies that agreement on the state highway plan is necessarily and essentially political. Elected officials, then, involve themselves in the selection process along with technically trained professionals. Even though the state does employ objective indicators of pavement and bridge condition, use, and need, the selection process is more overtly political than, say, a pure formula-based approach in which the factors selected for the formula drive the decisions.

This is not to suggest that objective indicators of need and formulas do not matter in Maryland. Resurfacing projects, minor bridge and highway repairs, and other projects are programmed according to these objective indicators. Nevertheless, involvement by state and local elected officials is so strongly desired and valued that project priorities selected by objective formula can be, and are, rearranged on the basis of political assessments.

At least one county has taken the consultative mechanism one step further and adapted it to the local arena. Prince George's County formed a Transportation Oversight Committee composed of two senators, two delegates, two county council members, the county executive, and three private citizens. This committee meets on a regular basis, either monthly or bimonthly, to discuss transportation-related needs and issues. The purpose of the committee is to work out problems and disagreements so that a unified front can be presented to MDOT. Consequently, argued a member of the committee, MDOT listens to the transportation needs of the county as articulated by the committee and is, therefore, that much more responsive to the county's needs. One senator referred to the county process as "the ongoing and necessary meetings that precede the road show and provide input into the road show."

Another state program that has gained the support of local governments is the "in lieu of" program.

It offers a mechanism to keep down bureaucratic costs and minimize mandates. The state has FAS roads on the state highway system, just as counties have FAS roads on their highway systems. All federal funds for the FAS system and the FAU system that would have been funneled to counties are kept by the state. In lieu of the share that would have been transferred to county governments for work on FAS and FAU projects, the state grants those counties equivalent state funds. The result of the "in lieu of" program, and reasons for its popularity are: (1) that a bureaucratic layer is eliminated (no federal involvement is required to monitor the FAS pass-through funds to counties) and (2) federal mandates do not apply to those county roads because federal funds are not used. This program amounted to \$3.5 million in FY 1987.

A second characteristic of state-local relations makes Maryland considerably different from its rapidly growing counterparts. The strategy for meeting mounting highway needs as a result of brisk population growth in California and Florida places the onus on local governments. In those states, counties have been pressing for greater local taxing authority. Maryland's cities and counties, even the rapidly growing ones, opt for a more traditional strategy. That strategy essentially requires local governments to pressure the state government so that transportation needs can be addressed by state action. The demand is not only for state imposition of taxes but, of equal importance, for sharing the proceeds of state taxation. Hence, the state motor vehicle fuel tax is raised substantially and shared with local governments, and the state registration fee, also increased, is a shared funding source. Both of these programs were actively supported by county and city officials. One official explained that elected city and county officials want the state to levy the taxes so that taxpayer hostility can be deflected from the local to the state arena. State legislators concurred with the assessment and further argued that it should be that way.

This traditional strategy also means that county and city officials focus their political strategy on the formula for distributing state funds to local governments. These local officials need the assurance that general state revenue increases will be shared fairly and equitably between local governments and between the state and local governments. No official—state or local—quarreled with the distribution formula in the TTF. The special mention of Baltimore City in the TTF formulas, in which Baltimore's share is as much as all other local governments combined, did not cause interviewees to raise equity issues. Indeed, they were quick to defend Baltimore's share as essential for a hub city with massive transportation needs.

One overriding concern dominated discussions about local option taxes on motor fuels or retail sales. That concern was expressed as a fear that once the state began to share its taxing authority, competition with local governments would ensue. This competition, viewed by both state and local officials as an unhealthy event, might begin to erode the state's taxing and spending authority. Currently, residents expect certain state services at a given state tax price. If the power to levy the tax is shared with local governments, the consumer (taxpayer) will become confused as to which services are provided by which government, according to respondents. Tradition in Maryland dictates that the motor vehicle fuel tax be a state tax; taxpayers understand it; and to avoid confusion, authority to levy the tax should not be shared.

On the one hand, then, local officials have substantial control over project selection on both the state and local (county and city) highway systems. In addition, they can avoid blame for insufficient funding, since that is primarily a state responsibility. On the other hand, regardless of growth potential, needs, and so on, local governments depend on the

state to provide adequate funding. The state only recently raised the motor fuel and registration taxes rather substantially; local government coffers for transportation benefited handsomely. Local officials are, needless to say, pleased that many of their most pressing transportation needs will be met with an infusion of new capital. But dependence on the state's patrimony does not necessarily indicate resolution of mounting transportation needs. Reliance on state taxing authority for transportation needs in a state in which rapid economic growth characterizes well-defined and narrow regions is a double-edged sword.

To be sure, rapidly growing counties in Maryland have pursued innovative means of financing their transportation needs. Creation of assessment districts and imposition of impact fees are two notable examples. The point is that the other rapidly growing states surveyed in this report not only pursue impact fees and assessment districts; they also clamor for more local taxing authority. Local governments in Maryland, on the other hand, appear to be content with the current arrangement.

Ohio

Ohio's population and highway demand have remained fairly stable for the past decade. There are only a few growth areas in the state. As a consequence, the highway program is oriented primarily toward preserving and replacing the existing system rather than expanding or building more highways. Historically, the state has contributed more to the federal Highway Trust Fund than it has received—the ratio is \$0.93 received for every dollar contributed.

Finances for the local highway and street system are derived from a shared state motor fuel tax and the authority to levy a local option registration fee. Although no formal coordinative highway planning mechanism exists between the state and local governments (except the metropolitan planning organizations), state-local relations are considered to be good.

SYSTEM SIZE

Ohio's network of roads and highways extends 111,754 lane-miles. Over 27,000 lane-miles are on the federal aid highway system. Responsibility for the highway system of the state is divided among the state, the 88 counties, municipalities, and townships. The state highway system is comprised of 19,252 lane-miles of which only 1,307 miles are not on the federal aid highway system. The state is responsible for 1,318 lane-miles of interstate highways, 6,594 lane-miles of FAP roads, 8,463 lane-miles of FAS, and 1,570 lane-miles of FAU roads.

The counties and townships control 69,495 lane-miles of roads and highways. The counties are responsible for 2,980 lane-miles of FAS roads and 1,820 lane-miles of FAU roads. Townships control over 39,000 lane-miles of roads. Municipalities are responsible for 23,007 lane-miles of streets and highways, 157 lane-miles of which are on the FAS, 4,416 lane-miles on the FAU, and 18,434 lane-miles of nonfederal aid streets.

Responsibility for bridges in Ohio follows an unusual pattern. All bridges on township roads are the responsibility of the county in which the township road is located; they are not a township responsibility. Moreover, bridges on segments of the state highway system which pass through municipalities are not the responsibility of either the state or the municipality, but of the county. Consequently, Ohio's counties are responsible for 26,836 bridges. A 1986 survey conducted by the County Engineers Association of Ohio revealed that 15,085 bridges, or 56 percent of all county bridges, needed to be repaired or replaced. The survey concluded that a \$1 billion repair backlog on county highways and bridges would result without additional funding. Because of the acute financial hardships of counties, Governor Richard Celeste formally proposed in his 1988 annual budget message that the state assume full repair and reconstruction costs of bridges in municipalities.

FINANCES

The principal funding sources for the state's nearly \$1 billion transportation budget are the motor vehicle fuel tax, bond revenues and federal funds. In each of the past three fiscal years (FY 1985-87) the state's share of the 12-cent per gallon fuel tax generated between \$410 million and \$430 million in revenues. The state authorizes the issuance of bonds for transportation purposes, with a \$500 million debt ceiling—a frequently used revenue source. Fees, permits, investment income, and other items contribute a relatively minor amount to the state's transportation budget.

The 12-cent fuel tax was raised in July 1, 1987, to 13.7 cents. The distributional formula for the state fuel tax is fairly complex, but essentially means that the state receives 75 percent of the receipts while all local governments (county, municipality, township) share the remaining 25 percent. The formula in force prior to 1987 remained unchanged after the increase in the fuel tax. Counties receive slightly less than 10 percent of the motor fuel tax revenues, cities slightly more than 10 percent, and townships receive 5 percent. The county portion of the motor fuel tax revenues is distributed equally among all 88 counties; the municipal portion is distributed on the basis of motor vehicle registrations within the municipal corporation; and the township portion is shared equally among the 1,318 townships.

One recent attempt to alter the county-municipal-township distribution formula was soundly defeated. In 1986 the County Commissioners Association of Ohio proposed a 1-cent increase in the state motor fuel tax to be distributed solely to the counties. Because of resistance by the state legislature to alter the existing formula and opposition from other local governments, the proposal failed. Indeed,

representatives from all three types of local governments argued convincingly for additional highway revenues, but each concluded that higher revenues would not be realized through an adjustment to the “traditional” gas tax sharing formula.

Although each fuel tax penny generates nearly \$50 million in revenues, or approximately \$12 million per each cent for the local government share, the principal revenue source for local governments’ streets and highways is the motor vehicle license tax that was enacted in 1967. Each county levies an annual \$20 license tax. Historically, the municipalities’ share of these revenues has amounted to approximately one-fourth, while the county’s share is slightly more than 70 percent. Townships have received 5 percent of those revenues. Prior to 1987, each county was permitted to levy an additional \$5 license tax, the revenues of which were to be shared between the county and the municipalities within the county on the basis of motor vehicle registrations. If the county did not exercise the motor vehicle license tax option, municipalities were allowed to do so. Cities in 35 counties took advantage of the permissive license tax, and 43 counties levied the tax (see Table 6).

The state in 1987 expanded the \$5 permissive motor vehicle license tax. Under the new law, counties may enact an additional, or what is referred to as the “first,” new \$5 license tax by April 1, 1989. After that deadline, municipalities may levy the tax. Revenues from the first new \$5 tax must be distributed to the county, municipalities, and townships. Revenues from registrations within incorporated municipalities are shared 50-50 between the county and the municipality. Revenues from registrations within the unincorporated areas are shared 30 percent to townships and 70 percent to the county.

Revenues from the “second” new \$5 county license tax—which can be enacted only if the first new tax is levied—is distributed in a different manner. Revenues derived from municipalities are retained by the municipalities; revenues from registrations in unincorporated areas are shared between the townships and county in an identical fashion to the first new tax. Finally, the “third” new \$5 tax may be levied by municipalities and by townships, regardless of whether any other license tax has been levied previously. The revenues from this municipality/township permissive tax are not shared with any other government.

Expansion of the permissive motor vehicle license tax means that depending on one’s place of residence, an owner of a motor vehicle in Ohio can pay \$20 per vehicle or more in increments of \$5 up to a maximum of \$40 per vehicle. Revenues from the motor vehicle license tax are strictly for local purposes; the state is not permitted to share in this revenue source (except to defray administrative costs).

Local governments in Ohio have opted to pursue a highway revenue enhancement strategy that falls between the aggressive local option strategy adopted in California and Florida and the centralized state approach in Maryland. All officials interviewed in state and local government agree that local governments have pinned their highway revenue hopes on the license tax and a (relatively small) share of the motor fuel tax; in return the state reserves its share of the motor fuel tax as its exclusive domain and concedes the license tax to local governments.

Local officials, therefore, pursue only two courses of action to address their street and highway needs. One is to pressure the legislature to raise the fuel tax and to share some of the increased revenue with local governments. This approach was successful in 1983 when the state gas tax was raised from 7 cents to 12 cents per gallon and again in 1987 when the tax was raised from 12 to 13.5 cents. The second approach, which is much more lucrative to local highway coffers, is to pressure the state legislature to allow a local option license tax. Such a tax was approved in 1987 after several years of intense negotiation. Local officials argue that the license tax involves no political risk on the part of state legislators. As an Ohio Municipal League official argued, “Let us do it [decide whether or not to impose the license tax] and take the [political] heat.” But no one seemed to believe that the same logic could apply to a local option motor fuels tax. Ironically, the perspective that local officials should be responsive to their own voters extended only to the license tax, not to a gasoline tax. A state legislator believed that “tradition” would not allow local governments the option of taxing motor fuels—an argument made by Maryland officials as well. Others claimed that confusion in the public’s mind would hinder the state’s ability to raise the tax when the need arose; as a consequence, a local option gas tax is “off limits.”

In Ohio the strategy of targeting the permissive license tax as a revenue potential, like the local option strategy adopted in Florida and California, is seen as both a help and a hindrance, according to officials. The more urbanized counties and the growing counties have pursued the permissive license tax strategy very aggressively; officials from the rural and economically depressed counties are much more reluctant to impose additional taxes. As a consequence, according to a county official, the poorer counties—whose highway needs are escalating—have not adopted the permissive license tax; most of the urbanized and rapidly expanding counties or municipalities within those counties—also with escalating highway needs—have done so.

STATE-LOCAL RELATIONS

The state of state-local relations concerning highway and bridge programs appears to be fairly

Table 6
1987 Local Motor Vehicle Tax List, Ohio Counties and Municipalities

Adams County Manchester Peebles Seaman West Union Winchester	Cuyahoga County Darke County Arcanum Gettysburg New Madison Union City Versailles Wayne Lakes	Huron County Jackson County Jackson Oak Hill* Wellston	Madison County Mahoning County* Marion County Medina County Brunswick Lodi Medina Wadsworth	Putnam County Richland County Plymouth
Allen County Ashland County Ashtabula County* Athens County Auglaize County Belmont County	Defiance County Delaware County Delaware*	Jefferson County Adena Amsterdam Brilliant Dillonvale Empire Mt. Pleasant Rayland Richmond Smithfield Steubenville Tiltonsville Toronto Wintersville Yorkville	Meigs County Middleport Pomeroy Miami County Pleasant Hill	Sandusky County Seneca County Attica Green Springs Tiffin
Brown County Hamersville Higginsport	Erie County Bay View Castalia Huron Sandusky Vermilion	Knox County Lake County	Monroe County Montgomery County Morgan County Stockport	Shelby County Stark County Summit County
Butler County	Fairfield County Baltimore Bremen Carroll Lancaster* Lithopolis Pickerington Stoutsville Sugar Grove	Lawrence County South Point	Morrow County Cardington	Trumbull County Cortland Girard McDonald Newton Falls Niles Warren West Farmington
Carroll County Magnolia Malvern Minerva	Fayette County Franklin County Fulton County Geauga County Green County Hamilton County Hancock County Hardin County	Licking County Logan County Lakeview Russells Point	Muskingum County Ottawa County Paulding County Perry County	Tuscarawas County Bolivar Dennison* Parral
Champaign County	Harrison County Adena Cadiz Freeport Jewett New Athens Scio	Lorain County Amherst Avon Avon Lake Eylria Grafton Lorain North Ridgeville Oberlin Rochester Sheffield Lake South Amherst Vermillion Wellington	Pickaway County Ashville Circleville New Holland South Bloomfield	Union County Plain City Richwood
Clark County Enon New Carlisle South Charleston Springfield	Henry County Hocking County Laurelville	Lucas County Maumee Oregon Sylvania Toledo Waterville	Pike County Beaver Piketon Waverly	Warren County Washington County Wayne County Williams County
Clermont County Bethel Felicity Loveland Milford New Richmond Newtonsville Williamsburg	Holmes County		Portage County Aurora Kent Mogadore* Ravenna Streetsboro Windham	Wood County Custar Cygnet Grand Rapids Jerry City Millbury Milton Center North Baltimore Perrysburg Portage Tontogany Waldbridge Wayne Weston
Clinton County			Preble County Camden Eldorado Gratis Verona West Alexandria* West Manchester	Wyandot County Nevada* Upper Sandusky*
Columbiana County East Liverpool Rogers Salineville Wellsville				
Crawford County Bucyrus* Cretline Galion New Washington				

*Denotes new counties and municipalities levying permissive tax

Taxed Counties: 43

Partially Taxed Counties: 35

Nontaxed Counties: 10

good, cooperative, and constructive. Local officials feel their views generally are considered by state highway officials, that state highway officials are willing to talk with them about local highway concerns, and that each seems to respect the input and professionalism of the other. Nevertheless, communications, input, and recommendations to the state are not channeled through a formal process. The identification and selection of highway projects and consultation are realized in an informal atmosphere.

The perception of fairly good state-local relations by both state and local highway officials can be attributed to three factors: the recent success of several highway-related proposals; an open-door policy at ODOT; and a tradition of hands-off relationships. In 1982 and again in 1987 the state approved hefty increases in the motor vehicle fuel tax. Also in 1987 the state approved a set of permissive taxes on motor vehicle registration. The result of those two actions has begun to be felt during the current fiscal year (FY 1988) as counties, cities, and townships receive gas tax revenues from the state and as they levy, or at least contemplate the possibility of imposing, the registration tax.

In addition, two other recent, noteworthy events have met the approval of local officials. The first event was passage of Issue 2 last November by the electorate, which authorized the state to issue \$1.2 billion in general obligation bonds over a ten-year period for infrastructure purposes (including streets and bridges). The state is to issue approximately \$120 million in G.O. bonds during each of the next ten years. Funds from Issue 2 bond sales are to be allocated only to local governments on a competitive basis. The second event is a proposal for ODOT to assume repair and replacement costs of state bridges in cities. Under current law, counties are responsible for major repair and renovation of bridges on the state highway system that are located within incorporated municipalities. The proposal, presented by Governor Richard Celeste in his state-of-the-state speech in January 1988, will require the state to relieve the county governments of the financial burden.

Consequently, local government officials feel that they have been receiving the state's attention on highway matters fairly regularly for the past year. These events have not only played well with the local officials as reflected in their assessment of state-local relations, but they agree that in highway matters the state has been genuinely responsive to their needs and concerns. The state has listened to local governments and has raised revenues (the gas tax and Issue 2 funds), granted the legal authority for local governments to raise revenues (increased the permissive license tax authority), and altered responsibility (assumed county bridge reconstruction responsibil-

ity) in a manner that relieved a significant fiscal burden.

The second factor for the perception of fairly good state-local relations can be characterized as cordial, personal relationships between state and local transportation officials. One ODOT official called it their "open-door policy." Because no formal mechanism exists (other than the metropolitan planning organizations) that would bring these two levels of government together in the highway planning and selection process, ODOT claims (and local officials seem to agree) that if there are concerns about any transportation-related issue on which the state can help, they may call on the good offices of ODOT at any time. Local officials, indeed, regard ODOT as accessible and helpful. The county engineers' representative argued that county engineers are in frequent contact with the district offices of ODOT as well as with township highway officials. All officials seemed to agree that this "informal" relationship worked well enough for their purposes. None decried the lack of a formal highway process, such as Maryland's.

Furthermore, local officials believe not only that ODOT's staff helps them but also that there is trust in their personal relations. One local official claimed that the reason for such good, cooperative working relations rests on the perception that both state and local highway officials "are in the highway business together." There is no reason or room for mistrust and second-guessing each other's motivations. Like the relations between state and local highway officials in Kansas, Ohio highway officials have tried to nurture an environment of close and cooperative working relations. Should personalities change significantly, those relationships may be in jeopardy. For now, however, there is no negative perception about the general state of working relations.

The third factor that appears to influence positive perceptions of a cooperative state-local relationship is the traditional hands-off relationship between the two levels of government, or respect for each other's autonomy. This factor, however, is a double-edged sword. If a local government is granted the legal authority by the state to levy the taxes it wants for street and highway programs (or to develop a fiscal policy appropriate to their jurisdiction), and if the tax base of the local government is adequate to support such highway programs, the local government's autonomy is jealously guarded and defended as a right granted to local jurisdictions in a home rule state. Indeed, that viewpoint seemed to dominate the interviews with local officials (and was concurred with by state officials); let those local governments design their own fiscal policy for highways. But recognition by state and local officials that not all local govern-

ments have similar tax capacity meant that there was some caution in accepting this principle as an absolute.

Rural counties or counties experiencing rapid out-migration cannot expect to raise adequate revenues on their own. The size of the highway and bridge network does not change in response to demographic shifts. As taxpayers leave a jurisdiction, the highway and bridge facilities cannot be maintained at lower levels; the physical size of the facilities cannot be reduced commensurately. As a consequence, the jurisdiction is faced with a declining tax base but not necessarily declining facility maintenance needs.

This perspective, that not all jurisdictions benefit under a hands off policy, was somewhat muted in interviews with state and local officials. In part this can be attributed to the very recent successes of Issue 2, the gas tax hike, and the likely passage of the bridge turnback bill. All of those actions will relieve local governments—especially jurisdictions in dire fiscal straits—of onerous highway responsibilities. For the moment, then, much state action during the past fiscal year has benefited all local governments, even those with deteriorating fiscal capacity.

Nevertheless, pleas for state financial support from jurisdictions with low tax capacity indicate that the hands-off relationship is not always supported. When the legislature was asked by the counties in 1985 to raise the state gas tax by one cent and dedicate all proceeds to counties on a proportional basis, the proposal was intended to benefit the poorer, less-urbanized counties. The several hundred thousand dollars that each county was to have received amounted to a tiny fraction of highway budgets in urbanized counties, but a large amount to the rural (poorer) counties.

Together, these three factors—the recent fiscal events, an open door policy, and a hands-off attitude—have worked during the past fiscal year to the (financial) advantage of local governments. These factors also have a strong influence on local government officials' perceptions of the state of state-local relations. The relationship is perceived as cooperative, helpful, and unobtrusive. Even though formal mechanisms to regulate state-local highway cooperation are not in place, personal relations among the highway actors are considered good.

These same factors that local officials identify as indicators of cooperative relations contain the seeds of potential future problems. Actions taken by the state were strongly supported by all local governments, but they fought for more revenues and revenue authority than were approved by the state. Local perceptions that more needs to be done to financially support local highway programs might surely escalate in the near future. Second, the open-door policy and personal relations are not codified. Future administrations might decide on another tack, one with which local officials will be less enamored. Without a formal mechanism—like Maryland's which is codified in law—guarantees of accessibility are subject to change. Finally, as discussed above, and in the California, Florida, and Illinois case studies, local governments with vibrant and healthy economies are more likely to want the state to maintain a hands-off policy than jurisdictions with faltering economies.

However, even though potential problems can be identified, the reality of state-local relations on highway matters in Ohio at this time appear to be good, cooperative, and friendly.

Conclusions

Results from the research in the six case study states suggest that there are at least two principal contributors to cooperative state-local relations in the area of highway programs. These include consultation or participation, and state responsiveness and receptivity to local concerns.

When local and state officials complain of conflict in highway relations, the source of conflict was frequently a specific situation over which the state could exert little immediate control or whose consequences it could not foretell precisely, namely, population booms (e.g., California) or depressed farm economies (e.g., Illinois). Conflict is frequently caused by socioeconomic developments rather than by defects in the structure of relations between the state and its localities. Outside pressures, events over which the state has little control, are often the triggers to conflict. Thus, state-local conflicts tend to be situational and to require issue-specific negotiations between state and local governments. Where developments, such as growth, have long-term consequences, structural changes are sometimes made in state-local relations, such as increasing local taxing authority.

One clear indicator of good state-local relations evident from the interviews is the need for states to consult with local government highway officials on a continuous basis. Less clear is a need for consultation to take the form of a formal mechanism. Although Maryland and Illinois employ such a formal consultative mechanism in their highway programs for the express purpose of ensuring smooth, cooperative, and productive relations between the state and local governments, the other states do not. Nevertheless, local officials in states without a formal consultative structure argue that they receive ample warning of coming events because of constant informal contact with the state. Both state and local highway officials communicate frequently and regularly with each other.

In some cases, the consultation is nothing more than informational. Kansas, for example, informs county highway administrators of changes in formulas, selection of highway segments for resurfacing, and the latest news from Washington. In other cases, Maryland, for example, not only are local officials informed, they are also encouraged to provide input into the state highway selection process. In other words, consultation can assume the form of actual participation in highway policy making. District offices of state transportation or highway departments are quite instrumental in soliciting the input and advice from county, municipal, and township highway administrators, engineers, and elected representatives.

If one theme dominated the discussions with local officials as the key to understanding their assessment of state-local relations, it is their portrayal of the state government as a responsive and receptive partner in the highway program. For California, Florida, and the growing corridors of Illinois (and, to a lesser extent, of Maryland), the receptivity of the state to granting local governments the authority to levy new taxes was the dominant theme. For Kansas, Maryland, Ohio, and the more economically depressed areas of Illinois, local officials urged the state to be responsive to their highway needs by levying additional statewide taxes and sharing those taxes with local governments. When the state is viewed as a "good" partner, it receives high marks in the area of state-local relations. When the state is not viewed that way, local governments bewail their dependence on an uncaring state.

From the point of view of states, the more responsive and receptive their posture, the greater the risk that their taxing powers will erode. In other words, granting the authority to levy local option motor fuel taxes or local sales taxes on motor fuels or other local highway-user related taxes is not without costs and risks to the state. State officials recognize that once the taxing authority is granted, or the proceeds of a tax shared, the more difficult it will be for the state to raise taxes for its own highway and bridge needs. Public perception of highway needs, according to state and local officials, does not distinguish a state highway from a local one (or from a local street). The public may know that taxes have been raised for highway purposes, but not know that the increased revenue was used only for local streets. Such public perceptions could erode the state's ability to raise taxes for state highway needs.

State fears and assessments of risk can be summarized as follows: state responsiveness and receptivity to local highway needs and concerns might erode the fiscal capacity of the state to meet state highway needs. The decision, therefore, is not made lightly; it carries important implications for state-local relations and for meeting both state and local highway needs.

ENDNOTES

¹See, for example, Joel Tarr, "The Evolution of the Urban Infrastructure in the Nineteenth and Twentieth Centuries" in Royce Hanson, ed., *Perspectives on Urban Infrastructure* (Washington, D.C.: National Academy Press, 1984); and Mark Aldrich, "A History of Public Works in the U.S." in CONSAD Research Corporation, *A Study of Public Works Investment in the United States*, prepared for U.S. Department of Commerce (Pittsburgh, PA: March 1980).

²For a case study on state-local relations in the highway policy field, see R. Allen Hays, "State-Local Relations in Policy Implementation: The Case of Highway Transportation in Iowa," *Publius: The Journal of Federalism* 18 (Winter 1988): 79-95.

³A center-line mile is defined as a mile of road regardless of the number of lanes; a lane-mile is a mile of a single-lane road. One mile of a four-lane highway is one centerline-mile or four lane-miles.

⁴Actually, the gas tax could be 20.7 cents per gallon for urbanized counties that create a metropolitan transportation authority (MTA). Among the powers granted to MTAs is the authority to levy a 1 mill ad valorem tax and a 4-cent motor vehicle fuel tax to fund arterial highway needs. A detailed highway plan must be submitted to the voters before the MTA can levy those taxes.

Currently, the MTA 4-cent per gallon tax has not been approved by any set of eligible counties. The urbanized area around Orlando attempted to implement this plan in 1986, but the voters in the three-county urbanized area defeated it.

⁵In 1985, the state borrowed \$100 million from the TTF and transferred the proceeds to the Maryland Deposit Insurance Fund. The MDIF used the revenues to help bail out failed savings and loan banks. The legislature scheduled a payback of the borrowed funds (in addition to \$29 million borrowed earlier) beginning January 1987 and continuing to 1990.

3

The View from the States: Issues and Controversies

Advantages and disadvantages of the proposal to turn back the non-Interstate federal aid highway program could be identified by most state and local officials interviewed for this study and by respondents to the code office survey. In fact, some respondents in the case study interviews expressed views favorable to both sides of the question. Quite a few declined to discuss the issue because they believe that the Congress will never consider a diminution in control over a popular and profitable program, especially given the size of the federal deficit. The controversies and complexities are described below.

In none of the six case study states did all of the interviewees wholeheartedly endorse or reject the turnback proposal. In fact, opinions about the merits of the turnback proposal were dispersed widely across the states. Rather than present a state-by-state summary of opinions on the turnback idea, this section summarizes the major themes across the six states that represent the general views of the respondents.

Broad categories of advantages and disadvantages could be culled from the interviews and the code revision office responses. The less numerous categories fall under the “advantages,” or the pro-turnback, side of the ledger. These respondents usually cited excessive design standards, their state’s donor status to the Highway Trust Fund (HTF), or efficiency reasons for supporting devolution. Those opposed to the turnback idea offered a broader variety of responses, many of which paralleled the pro-turnback arguments. For example, some cited the need for federal design standards. Others feared mistreatment by the state.

The responses are discussed below according to the conceptual reasoning undergirding the opinions of the respondents. The responses are grouped under the following rubrics: donor or beneficiary status under the Highway Trust Fund; standards and mandates; the national purpose of a federal aid highway system; state assumption of the program; efficiency concerns; and the timing of the turnback proposal.

ADVANTAGES AND DISADVANTAGES OF THE TURNBACK PROPOSAL

Donors and Beneficiaries

A major factor influencing sentiment for and against the turnback proposal is a state’s status as a net donor or a net beneficiary of the Highway Trust Fund. Since the creation of the Highway Trust Fund in 1956, states have contributed tax revenues to it. The Highway Trust Fund apportions revenues to the states. The Federal Highway Administration reports that since 1957, 39 states and the District of Colum-

bia received more apportionments from the fund than they contributed in highway-user taxes (which excludes interest on earnings).¹ Between 1957 and 1985, the average ratio of fund apportionments to state payments into the fund was \$1.15. For purposes of separating states into the categories of net donor and net beneficiary, the 18-year average of \$1.15 was used. In other words, the average apportionment to each state was \$1.15 for each \$1.00 in highway user taxes paid into the fund. The 30 states and the District of Columbia that historically have received more than \$1.15 are considered beneficiary states; the other 20 are donor states.

A state's donor or beneficiary status was identified as an issue by only a few respondents to the code revision survey, but a number of respondents in the case study states raised this issue during interviews. For example, Wisconsin, apparently an early and ardent supporter of a federal aid highway turnback, estimated more than nine years ago that it received less than 80 percent of the gas tax revenues which it contributed to the federal highway trust fund. Consequently, Wisconsin actively supported enactment of the provision in current law requiring that a minimum of 85 percent of a state's contribution to the federal Highway Trust Fund be returned to the state. Still a net donor, it stands committed politically in support of the turnback.

North Dakota, on the other hand, receives two federal dollars for every one state dollar in gas tax revenues. Consequently, the state estimates that it would lose money under a 7-cent turnback. In other words, if the state picked up the relinquished 7 cents, it would have to add another 7 cents to the relinquished gas tax in order to maintain current revenue levels. The real turnback cost, then, might be closer to 14 cents. Idaho, a sparsely populated beneficiary state, expressed the same concern. Alaska, a state that has received historically \$8.69 for every \$1.00 in payments into the Highway Trust Fund, likewise feared the financial implications of the turnback proposal.

A state's Highway Trust Fund status as donor or beneficiary also appears to be important in explaining state legislators' perspectives on the turnback proposal.² A state's trust fund status helps explain legislators' perspectives concerning the amount of the 7-cent relinquished federal gas tax that their state would likely pick up.³ In the ACIR survey of state legislators, the most significant response to the turnback question, however, was found at the "pick up none" level. Some 15 percent of all legislators in donor states did not believe their state would pick up any of the relinquished federal gas tax; less than 3 percent in beneficiary states selected that option.

During the case study interviews, Florida DOT officials referred almost exclusively to the state's do-

nor status in the Highway Trust Fund as reason for supporting the turnback proposal. Given that Florida has historically received considerably less HTF revenues than it has contributed, DOT argued in support of the turnback in the name of equity. "We need the money here! Why send it to other states," complained the officials, "if Florida's highway needs are not met?" Florida and other donor states would not have to increase the state gas tax rate by the full 7 cents in the event of a turnback. Their highway programs could be financed at a higher level if the full 7-cent federal tax were replaced.

A state legislator in Maryland and a legislative staff member in Illinois argued against the turnback for precisely the same reason, except from the viewpoint of beneficiary states. The turnback would hurt them because they would have to increase motor fuel taxes by more than the relinquished 7 cents just to maintain current highway outlays. Even if their legislatures could be persuaded that the 7 cents is a replacement tax, not a new tax, no one was convinced that the legislatures would consider increasing the gas tax by more than 7 cents to replace lost funds. In other words, replacing a 7-cent *federal tax* would be more palatable and politically acceptable for beneficiary states than raising the state gas tax above the 7-cent replacement level so as to replace lost *federal dollars*.

The issue of donor or beneficiary status cannot be separated analytically from the redistributive nature of the program. Officials representing state and local governments and from four case study states (including Florida) argued that the federal aid highway network, including the FAP, FAS and FAU, serves a national purpose and therefore qualifies as a redistributive program. Provision of a uniformly sound highway network, then, implied redistribution. On the other hand, respondents who took the pro-turnback position replied that much of what has passed as a federally supported highway or bridge project could in no way be understood as anything more than a project with local benefits. "That traffic light," said a Kansas transportation official pointing across the street, "was financed with federal dollars; I can't see any national purpose" that it serves.

Standards and Mandates

Design standards on federally assisted highway and bridge projects as mandated by the U.S. Department of Transportation have been attacked from many quarters for quite some time. A Congressional Joint Economic Committee report in 1984 identified rigid and inappropriate design standards as a non-cost-effective federal mandate.⁴ DOT officials in Kansas, Florida, and Maryland agreed that federal design standards are not appropriate for many projects. A county engineer from Kansas complained

that although he needed federal funds to reconstruct a bridge on a rural county road, and that without federal funds the bridge could not be rebuilt, the engineering design standards apply to high volume bridges, not to his rural, seldom-used bridge. Many federal design standards escalate construction costs, when lower standards—which still emphasize structural integrity and safety—would suffice.

Design standards are one mandate or “string” that is attached to the receipt of federal aid. Other mandates were also singled out by the respondents. County officials in one state felt that the minimum-wage (Davis-Bacon) provisions, minority business enterprise set-asides, and environmental impact statements are unwarranted federal mandates that have the primary effect of escalating project costs. Presumably, state assumption of the federal aid highway program would not require mandates as onerous as those imposed by the federal government.

Based on analogous reasoning, other local officials reached a diametrically opposed conclusion. A county official in Maryland and a Florida DOT official raised the concern that without “strings” attached to a lucrative program, such as the federal aid highway program, states and local governments would not have an economic incentive to “do good.” What, they asked, would induce a state or local government to regulate clean air or protect ecologically fragile zones? The carrot of highway dollars serves to modify behavior and, thereby, assures compliance with good national policy.

As states become increasingly locked in competition for the fruits of economic growth, these “good” mandates of federal programs might be eliminated by individual states under a turnback. Costs of doing business in a state would vary by the cost of mandates (as well as other factors). By “leveling the playing field” with federal mandates, no state has a cost advantage over another because of policies, such as clean air, environmental impacts, and minimum wages. Mandates, from the view of these officials, should be tied to the receipt of federal aid. The philosophical defense of mandates should not be confused with support for all mandates. Interviewees who supported tying federal aid to compliance with mandates were careful in arguing that many mandates are not “doing good” and are too costly.

Interviewees also discussed the metropolitan planning organizations that are mandated by federal legislation to coordinate transportation plans for metropolitan areas. Although many states may still find value, under a devolution arrangement, in continuing to fund a state-local coordinative mechanism, such as the MPOs, other states may conclude that they can and should perform the planning and coordinating functions unilaterally (without local participation). Transportation decisionmaking, then, might be

moved from a consultative style to an approach that emphasizes centralized control and management by the state.

The mandates and standards issues, then, are acknowledged by all respondents to be costly. The divisiveness over this issue hinges on the normative question of whether the federal government ought to impose mandates or “strings” on the receipt of aid, and whether the states would adopt similar standards to replace federal mandates. Several of the respondents were not sanguine about the latter possibility. Although they acknowledged that some federal mandates are too restrictive (e.g., engineering design standards in particular), the fear that a turnback might result in abolishing “good” mandates led them to question the value of the turnback idea.

The State as Ultimate Provider

Despite the controversial nature of the turnback proposal, a surprising number of local officials or representatives of local governments did not believe that the turnback proposal would affect highway financing, project selection, or state/local relations in any way. If anything, these officials predicted that efficiency would be improved because one bureaucratic layer (the federal government) would have been removed. The respondents voicing this view from the six case study states—city officials from three states, a township road administrator, most state DOT officials, and one state ACIR official—all identified the same contributing factor to their perceptions: the lack of friction between state and local governments. They argued that the “state treats us well,” or there would be “no administrative problem” in the turnback proposal, or “[cities] wouldn’t get a raw deal.” All state DOT officials shared those views.

Nevertheless, most of those local officials who felt that they have been treated well by the state still did not support the turnback proposal. Although they felt that they would not “get a raw deal” today, they attributed that attitude to personalities and dispositions of current state officials, not to permanent and enduring features of state government. Once the personalities change in the administration, they might “get a raw deal.” The turnback proposal offers no guarantees of what local officials consider to be appropriate state behavior—defined in terms of the status quo—and considerable risk that state power and control would be unchecked by another agent, the federal government.

County officials in Florida, Maryland, and Kansas also argued that even though they are treated fairly well by the state, a highway turnback might be accompanied by other federal and state mandates and responsibilities. One county official thought that in exchange for the state agreeing to replace the 7-cent federal tax, the replacement might be tied to

reductions in funding for other programs or for local assumption of a state function. Other local officials expressed similar concerns, arguing that their states have been shifting, or trying to shift, more responsibilities to counties and cities. The turnback proposal might be a Trojan horse for devolving additional state responsibilities. Most state officials disagreed with this assessment, although one elected representative in Maryland thought that local officials' fears might not be unwarranted.

A turnback proposal would force state legislatures to confront the revenue issue as well as the responsibility issue. Some local officials predicted that the need to confront both issues could open a Pandora's Box. For example, a state DOT official feared that part of an increased state motor fuel tax would be diverted to mass transit purposes; a state legislator argued that it should. Furthermore, not only would the level of funding need to be addressed (i.e., how much of the relinquished tax should be imposed by the state), but also the issue of which government should control particular road segments. Should sections of the "old" FAS system under county control still be allowed access to the noncounty funds (formerly FAS funds) collected by the state? Or, is it possible that the state will impose the full replacement tax and keep the receipts for its own highway system? Under that scenario, counties and other local governments would continue to bear responsibility for road segments that are no longer eligible for federal (FAS) funding (due to the turnback), nor for state funding.

That scenario was identified as certainly plausible by almost all city and county officials, leading most local officials to argue against the turnback idea. As one local official said, "under the current highway system, we can at least appeal to another level [the federal government]." Under a turnback proposal, argued another, "we would be at the mercy of the state." A city official from Florida summed up the view by stating that if a turnback were ever implemented, local officials "must be assured that the new program is composed of equal [his emphasis] partnership of cities, counties, and the state." Otherwise, an air of contention and distrust would pervade the highway program.

In every case study state but one, the level of funding and financial adequacy issues were the most frequently identified arguments by local officials against the turnback idea. Although a few believed that their state legislatures would replace all or most of the relinquished 7-cent federal gas tax, most were skeptical. The exception is California where a state statute automatically increases the state gas tax when the federal tax declines. Most of the local officials in the other five states voiced the concern that their legislators view a tax as a tax. An official in Kansas said a "replacement tax is indistinguishable from additional

taxes" to the state legislators. Considerable skepticism was voiced by local officials and a few DOT officials concerning the possibility of levying a replacement tax.

Some state legislators and their staff agreed, even though they knew that the total motor fuel tax would not change. They pointed out that even though the media would probably distinguish between a replacement tax and a new tax levy, their constituents and anti-tax groups would probably view a replacement tax as a tax increase. Consequently, several state officials who were interviewed agreed with the assessment of local officials. Most state officials (including legislators and their staffs), however, disagreed, arguing that the legislature "definitely" would replace the relinquished gas tax precisely because the total pump price would be unaffected.

Efficiency and Decentralization

An overriding implication of the arguments presented above is the idea that *efficiency matters*. How much it matters seems to influence the acceptance or rejection of the turnback proposal. The more cost efficiency was seen as the overriding concern of the federal aid highway program, the more likely the turnback idea was supported; the more likely cost efficiency was perceived as only one, and not necessarily the most important, element of the federal aid highway program, the more likely the turnback idea was found unacceptable.

The county official in Kansas who complained about the inappropriate, yet required, engineering design standard for a bridge asserted that bridge replacement funds (a federal program) are used inefficiently. Nevertheless, he contended that even the county bridge serves a national purpose by reducing the transportation costs of grain for national markets. His support of the current federal aid highway system was unswerving. So was the support from a transportation official in Maryland who, in the interview, presented data on the inefficiency in the current administration of the federal aid highway program. His argument was that efficiency must be and can be improved by streamlining the U.S. Department of Transportation, but he could not support a turnback because he viewed the federal aid highway program as a redistributive program. Some states could afford to participate in a national highway network more easily than others. The federal government, therefore, has a role to play.

Illinois DOT officials complained about the "pork" in the 1987 reauthorization of the *Federal Highway Act*, the (mis)use of the Highway Trust Fund for federal budget-balancing purposes, and the unpredictable nature of Congress in appropriating funds in a timely manner—each issue was identified by state and local officials in the other case study states as well. However, the Illinois state highway officials further felt that a devolution of federal aid

highway programs is not the way to resolve these problems.

Some officials from each state argued that the current federal aid highway program is inefficient. Red tape, bureaucratic levels, division of responsibility, federal pork-barrel projects, and other factors make the program cost inefficient and beyond control of state and local officials. Closer scrutiny over public funds could be accomplished if the financing and programming decisions were made at the level of government closest to the beneficiaries. People would not "put up with waste" if they were financing a highway project, according to these officials. If the project is financed with federal dollars, they continued, local taxpayers become disinterested.

Some of these officials also argued that federal "strings" drive up the cost of projects. Standards should be set by state or local governments to ensure safety and comfort. State and local standards would likely be tailored to the conditions of the state and, therefore, be less onerous and less costly than exist-

ing federal mandates. Fewer tax resources than are currently appropriated, then, would be needed to finance the same amount of highway projects.

Support for the federal aid highway turnback idea by state and local officials appears to depend in large part on the salience of the cost efficiency criterion. To the extent that additional factors, such as the redistributive nature of the highway program and its national purpose, contribute substantially to one's assessment of the current federal aid highway program, support for the turnback appears to wane. This assessment was not confined to local officials—although they generally identified several other salient factors—but also was expressed by some state DOT officials and legislators and their staffs.

Timing of State Gas Tax Hike

Officials in several states said that it would be politically difficult to raise gas taxes if there had been a recent gas-tax hike, even though the state would, in effect, only be replacing a relinquished federal gas

Table 7
State Tax Rate Changes in 1987, as of October 30

State	Effective Date	New Rate (cents/gallon)			
		Gasoline	Diesel	L.P.G. ¹	Gasohol
Alabama	10-1				11.0
Connecticut	7-1	19.0	19.0	19.0	19.0
Delaware	9-1	16.0	16.0	16.0	16.0
Florida	7-1		14.7		
Iowa	1-1		18.5		
Kansas	7-1	11.0	13.0	10.0	11.0
Maryland	6-1	18.5	18.5	18.5	18.5
Massachusetts	7-1			4.2	
Mississippi	7-1	15.0	15.0	8.0	8.0
Missouri	6-1	11.0	11.0	11.0	11.0
Montana	7-1	20.0	20.0	20.0	20.0
Nebraska ²	1-1	18.2	18.2	18.2	15.2
	4-1	19.0	19.0	19.0	16.0
	7-1	17.6	17.6	17.6	14.6
Nevada	7-1	16.0	17.0	17.0	16.0
New Mexico	7-1	14.0	16.0	16.0	0.0
North Dakota	7-1	17.0	17.0	17.0	9.0
Ohio	7-1	14.7	14.7	14.7	
Oklahoma	6-1	16.0	13.0	16.0	16.0
Oregon	1-1	12.0	12.0	12.0	12.0
South Carolina	7-1	15.0	15.0	15.0	9.0
Texas	1-1	15.0	15.0	15.0	11.0
Utah	4-1	19.0	19.0	19.0	9.0
Virginia ³	1-1	17.5	16.0	16.0	17.5
Wisconsin	8-1	20.0	20.0	20.0	20.0

¹Liquid petroleum gas.

²Subject to change quarterly.

³3.5 cents/gallon surcharge for all vehicles with 3 or more axles; therefore, virtually all diesel fuel is taxed at 19.5 cents/gallon.

Source: Federal Highway Administration, unpublished data.

tax. According to data from the Federal Highway Administration, 23 states raised their gasoline, diesel, and/or gasohol taxes in 1987. Montana and Wisconsin raised their motor fuel taxes to 20 cents per gallon from 17 and 18 cents, respectively, ranking them at the top in the category of excise tax on motor fuels. Utah and Connecticut both raised their motor fuel taxes to 19 cents from 14 and 17 cents, respectively, to take possession of second place. Maryland's rate, third highest in the country, is now 18.5 cents, due to a 5-cent increase. Data summarizing 1987 increases in state excise taxes on motor fuels appear in Table 7.

Several state code revision office respondents commented on their state's lack of success in raising the gas tax recently and predicted that, as a result, their state might not be able to enact pickup legislation at the present time. For example, New Jersey recently defeated the governor's proposal to increase the gas tax to 13 cents. The governor of New Hampshire promised to veto any legislation in 1987 that would raise the state gas tax. The state of Washington was unsuccessful in raising its gas tax in 1987.

The recency of these efforts, according to many of the respondents to the code revision survey, makes it highly unlikely that a proposal to increase state gas taxes would be entertained any time soon. In fact, skepticism about raising taxes soon after they had just been raised—even as a “replacement” tax—was a prominent theme in the interviews (four of the six states studied raised their excise taxes on motor fuels

in 1987). State legislators expressed similar views in their survey responses. Legislators in the 23 states that had raised their motor fuel taxes in 1987 and legislators in the 27 states that had not raised the tax agree that gas taxes could not be increased soon if they were raised recently.⁵

ENDNOTES

¹U.S. Department of Transportation, Federal Highway Administration, *Selected Highway Statistics and Charts, 1985* (Washington, D.C.: U.S. DOT, October 1986), Table SS85-8, “Federal Highway Trust Fund, Fiscal Years 1957-1985.”

²See U.S. Advisory Commission on Intergovernmental Relations, *State-Local Highway Consultation and Cooperation: Perspectives of State Legislators* (Washington, D.C.: ACIR, May 1988).

³Chi-square = 10.499, d.f. = 3, p = .015, n = 192. For survey data, see *ibid.*

⁴National Infrastructure Advisory Committee, *Hard Choices: A Report on the Increasing Gap between America's Infrastructure Needs and Our Ability to Pay for Them*, prepared for the U.S. Congress, Joint Economic Committee (Washington, D.C.: the Committee, 1984). For a more recent discussion of the engineering design standard mandates, see National Council on Public Works Improvement, *Fragile Foundations* (Washington, D.C.: National Council on Public Works Improvement, 1988).

⁵Chi-square = 0, d.f. = 1, p = .999, n = 190. See survey data in U.S. Advisory Commission on Intergovernmental Relations, *State-Local Highway Consultation and Cooperation: Perspectives of State Legislators* (Washington, D.C.: ACIR, SR-9, May 1988).

4

Summary and Conclusion

The non-Interstate federal aid highway turnback proposal, which has been recommended as a long-term goal by the U.S. ACIR, would significantly change the current federal aid highway program and the nature of participation by federal-state-local governments. The purpose of this study was to identify probable legal, political, and administrative issues involved in implementing this turnback idea within states. The summary section is organized around the four major themes of the study's findings: legal, state-local cooperation, financial issues, and the turnback question.

CONSTITUTIONAL AND LEGAL ISSUES

No insuperable legal obstacles to devolution were identified by the 50 states that responded to the survey of code revision offices. State legislatures (except Missouri and Delaware) possess the constitutional authority to raise motor vehicle fuel taxes by simple majority vote. Only two legal issues were mentioned as being of some import. First, states with legal expenditure limitations could be affected adversely. However, South Carolina (and to a lesser extent, Alaska) appears to be the only state that falls into this category. Second, states with fixed debt ceilings would have to change their debt ceiling or change their mix of financial resources for state highway programs by relying more on current revenues to finance highways. Most states employ some debt financing tools to fund their highway and bridge programs, and most states place debt ceilings on such issues. States with the greatest flexibility under the turnback proposal are those that have no ceiling or those that link debt issues to motor fuel revenues. The remaining states would be required to alter their revenue mixes for highways if they did not raise debt ceilings.

Another issue to be considered is the state distribution formulas for motor fuel taxes. If the states did choose to pick up some or all of the relinquished federal motor fuel tax as a state motor fuel tax, most of those revenues would in all likelihood fund highway programs. In 42 states, diversion of state gas taxes to nontransportation state activities is prevented through establishment of transportation or highway funds. Further, in the event of a non-Interstate federal aid highway devolution program, states that share their motor fuel tax revenues with local governments would face the need to adjust the distribution formula to match new state and local highway responsibilities.

STATE-LOCAL COOPERATION

The current state of state-local relations in the highway policy field seems to be in part related to the pressures of economic growth and unrelated to the

existence of a formal cooperative mechanism. Maryland's "road show" and Illinois' transportation forum—mechanisms designed to enhance state-local communication and cooperation—are widely supported by local officials. State and local officials single out such mechanisms as important vehicles in the decisionmaking structures of those states; many credit the mechanisms as the primary reason for good state-local relations. On the other hand, local officials in Florida, Kansas, and Ohio—states without such mechanisms—also rate their relations with the state, in general, as good. Officials from these states point to a variety of reasons for this assessment, including good personal relations with DOT officials (e.g., Kansas, Ohio), with DOT officials from the district offices (e.g., Florida), and with a strong MPO process (e.g., California). In addition, a number of officials—especially in California—argued that highway issues for local officials pale in comparison with other, more pressing problems, such as health care, welfare, and economic conditions.

Tension in state-local relations appears to be closely associated with economic growth factors. Regions of states at the vortex of economic expansion and rampant population growth are under pressure to provide and expand a sound, rational, and efficient transportation system. Because the demand for local transportation services follows economic growth, state and local governments face extreme pressure and demands to respond quickly. Local officials from high-growth areas (e.g., California, Florida, northwestern Illinois) seem to feel that the state hinders rather than expedites the process of highway provision. Traffic problems and highway gridlock result frequently from this condition. The state administrative apparatus or "politics" is frequently blamed.

Slow-growth regions focus their efforts on preserving and maintaining their extant highway and bridge network. The physical conditions of those facilities can be assessed by standardized measures, such as pavement condition ratings. Preservation and repair projects can be programmed on the basis of these objective indicators of need. Even though local officials from these slow-growth areas may believe that their city or county needs more funds to preserve their roads and bridges, they appear to understand that a reasonably objective, unbiased formula for distributing highway funds is fair and generally politically neutral; consequently, they can accept the funding constraint. Although local officials would certainly welcome more funds, they do not blame a lethargic bureaucracy or politics for failing to provide them. Tension in state-local relations appears to be less in the slow-growth regions than in the rapidly growing areas.

FINANCIAL ISSUES

All state and local officials believe that highway programs are underfunded. As a means of addressing

highway needs, local officials have adopted one of two strategies. One strategy is to lobby for additional local authority. Among the states included in our case studies, Florida and California localities have been quite successful in gaining local option taxing authority. Because the transportation needs of Florida's regions vary considerably, the state has adopted the view that localized transportation needs should be financed from a local tax rather than a tax transfer from other regions. California has moved to a local option approach because of the Proposition 4 expenditure limitations. For all intents and purposes, the state cannot raise the state motor fuel tax even if the proceeds are to be transferred to counties and cities. Therefore, granting taxing authority to newly created local transportation authorities is the strategic response adopted by the state.

The other strategy identified in the case study states compels the states to retain their taxing authority and address transportation needs through augmentation of state taxes. This strategy, adopted by Kansas and Maryland, for example, and to a lesser extent by Ohio, means that local government lobbying efforts are focused on increasing the state excise tax on motor fuels and other state revenue-producing techniques. The locus of debate between the state and local governments is the distribution formula, that is, the distribution of revenues between city, county, and state highway programs.

THE FEDERAL AID HIGHWAY TURNBACK PROPOSAL

Opinions, problems, and prospects about the non-Interstate federal aid highway turnback proposal varied by respondent. Respondents within each state expressed varying views. In some instances, an individual expressed both support for and opposition to the federal aid highway devolution proposal. Nevertheless, a few themes predominated. For example, supporters of the turnback proposal identified their state's donor status to the Highway Trust Fund, or onerous and costly mandates and engineering standards, or their perspective that nothing would change, as sufficient justification for the turnback. Opponents of the turnback proposal argued that the federal aid highway system serves a national purpose, or that mandates are appropriate and justifiable incentives as conditions for receiving federal aid, or that a turnback might not guarantee that local governments would not suffer financially or administratively under a new fiscal relationship with their state.

The implication in the supporting and opposing arguments, it seems, is that efficiency matters. How much efficiency matters seems to influence the respondents' acceptance or rejection of the turnback idea in the case study states. The more cost efficiency was seen as the overriding concern in the respon-

dents' evaluation of the current federal aid highway program, the more likely the turnback proposal was supported; the more likely cost efficiency was perceived as only one, and not necessarily the most important, element of the federal aid highway program, the more likely the turnback proposal was found unacceptable.¹

Support for the federal aid highway turnback idea by state and local officials, then, appears to depend in large part on the salience of the cost efficiency criterion. To the extent that additional factors,

such as redistribution and a national purpose, contribute to one's assessment of the current federal aid highway program, support for the turnback appears to wane.

ENDNOTE _____

¹It is not possible to report that specific percentages of interviewees supported or opposed the turnback idea because a number of officials had genuinely mixed feelings, some would not commit one way or the other, and none were pressed to give a definitive yes or no. The purpose of the research was to elicit issues, ideas, and views through in-depth interviews.

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As a continuing body, the Commission addresses specific issues and problems, the resolution of which would produce improved cooperation among the levels of government and more effective functioning of the federal system. In addition to dealing with important functional and policy relationships among the various governments, the Commission extensively studies critical governmental finance policies and practices. One of the long-range efforts of the Commission has been to seek ways to improve federal, state, and local governmental practices and policies to achieve equitable allocation of resources and increased efficiency and equity in the federal system.

In selecting items for the research program, the Commission considers the relative importance and urgency of the problem, its manageability from the point of view of finances and staff available to ACIR, and the extent to which the Commission can make a fruitful contribution toward the solution of the problem.

After selecting specific intergovernmental issues for investigation, ACIR follows a multistep procedure that assures review and comment by representatives of all points of view, all affected levels of government, technical experts, and interested groups. The Commission then debates each issue and formulates its policy position. Commission findings and recommendations are published and draft bills and executive orders developed to assist in implementing ACIR policy recommendations.