Funding Needs

“Our projected funding…”

The Kentucky Transportation Cabinet is confronted by a significant fiscal challenge. In recent years, the Cabinet has experienced an enormous short-term benefit resulting from its shift from an obligation basis to a cash basis in its fiscal management of revenues. Much, if not most, of this one time cash infusion was targeted toward transportation system expansion, i.e. upgrading existing facilities and development of new facilities to add capacity.

In order to transition to this new environment, the Cabinet has further adopted a rigorous fiscal discipline to ensure that its present obligations are prudent and consistent with projected future cash balance levels. However, even with a severe cutback in administrative spending, KYTC cannot address the escalating needs of the transportation system with a continuing decrease in road fund revenues coupled with increasing costs of inflation.

Kentucky’s transportation funds total about $1.7 – 1.8 billion annually and are a combination of State Road Funds, State General Funds, State Restricted Funds and Federal Funds. The percentage of funds by source is as follows:

- $ Road Funds: 63.0 %
- $ General Funds: 0.3 %
- $ Restricted Funds: 6.0 %
- $ Federal Funds: 30.7 %
Kentucky State Road Funds are receipts from motor vehicle usage tax, vehicle and boat registration, motor vehicle operator’s licenses, motor fuels tax, tolls, and interest. Road Funds are used for road construction, maintenance, operations, engineering, planning, and research, and the majority of administrative functions within the KYTC. The Kentucky Constitution prohibits the use of Road Funds on non-highway related uses.

State General Funds are collections of taxes on sales and use, income, corporations, coal severance, property and lottery receipts. State General Funds may be used on any area of state responsibility, but are used primarily by KYTC to match federal dollars for the public transit and aviation programs.

Restricted State Funds are monies received from fees, sales, bond proceeds, licenses, investment income, and other miscellaneous receipts. Restricted funds are used to fund the respective program for which the revenue is collected.

Federal Funds are derived from the Federal Highway Trust Fund, public transit, federal aviation administration funds, and other various grants and earmarks.

The lack of state funding is due in part to the inability of the Road Fund revenues to keep up with the growth experienced in other areas. The Road Fund experienced fairly consistent growth for years. However, since FY 2002, the Kentucky Road Fund revenues have remained relatively flat.

The Road Fund revenues are increasing at an average rate of only 0.66 percent per year, less than inflation, and lag behind the 3.2 percent annual rate of growth in the General Fund.
While the Consumer Price Index (CPI) has increased 17.1 percent since Fiscal Year 2000, the Road Fund revenues have increased only 6.8 percent for this same six-year period.

Inflation is also eroding the state gasoline tax’s purchasing power, meaning it doesn’t buy what it did back in 1986, the last year the tax was increased. A project that required $1 million to complete in 1987 now requires over $1.6 million.

Further, it is interesting to note that thirty-nine states have a higher motor fuel user fee than Kentucky.

Kentucky’s gasoline tax is 19.7 cents per gallon, five cents lower than the average of surrounding states. The adjacent states of Illinois, Indiana, Ohio, West Virginia and Tennessee all have higher gas tax rates, ranging from 21.4 cents per gallon to 29.8 cents per gallon.

When today’s dollars are adjusted for inflation, Kentucky’s gas tax of 19.7 cents per gallon is worth less than one dime per gallon today.
The graph below illustrates the percent growth in the daily vehicle miles traveled in Kentucky for the period of 1990 – 2003, compared to the state-maintained miles of roadway and the maintenance costs for those same roadways. The level of maintenance expenditures shown for the same period illustrates quite well the fact that the Kentucky Road Fund, maintaining a flat revenue stream, cannot possibly continue to maintain the state highway system at a level which would be acceptable or even feasible over a prolonged period of time.

The federal reauthorization bill, SAFETEA – LU did improve Kentucky’s rate of return of federal taxes paid over the previous federal authorization bills of ISTEA and TEA-21. The rate of return (federal tax dollars) for Kentucky will increase from 90.50 percent in FY 2003 to 96.14 percent in FY 2009.

While Kentucky is encouraged by this increased rate of return, the question remains as to whether it will be enough to pay for Kentucky’s most critical needs. A comparison of the average annual funding for Kentucky under TEA-21 and SAFETEA-LU shows an increase of approximately 30.32 percent or $147,205,000. However it should be noted that these are not “final” figures and Kentucky anticipates that the actual annual increase will likely be less than this figure.