

This chapter addresses the key issues that must be faced to determine the appropriate financing plan for Mississippi's transportation system. The issues are discussed one at a time to provide an understanding of what has happened in the past and what could happen in the future concerning transportation revenues.

The financing discussion concentrates on the highway portion of the multimodal plan since this element represents the majority of overall needs and directly impacts more Mississippians than any other mode.

OVERALL SETTING

MDOT is in the midst of an ambitious construction program that began in 1987 with the Four-Lane Highway Program - a pay-as-you-go initiative to provide approximately 1,700 miles of four-lane or improved highways. As of June 2005⁽¹⁾, 912.8 miles of new four-lane highway are in use by the public.

Vision 21, a needs-based highway program passed by the Mississippi Legislature during the 2002 session, provides for the completion of Phase I, II and III of the 1987 Four-Lane Highway Program, prioritization of Phase IV of the Program and the Gaming Roads Program on a "needs" basis, and special projects that are contingent upon federal or other funding sources, such as the proposed Interstate Highway 69 project. *Vision 21* legislation allows MDOT the flexibility to maximize the use of federal funding by allowing the substitution of federal funds for state funds on gaming and maintenance projects. *Vision 21* is a pay-as-you-go program, drawing upon existing revenue sources.

Besides these special programs, there is the routine, but equally important, need to improve and/or preserve the existing roadway system. Financial support for that purpose should be continued.

There is no immediate let up of activity on the horizon. As more roadway lanes are added to the system, maintenance needs will increase. So, while new construction needs may decline, maintenance needs will rise. At the same time, population growth in the metropolitan areas is going to result in urban area needs exceeding local revenue capabilities.

With ever increasing demand, it is important to clearly understand where transportation revenues come from, where they go, and what could change in the future. The following discussion provides the insight necessary to understand the major transportation financing issues facing Mississippi.

Funds for transportation can be classified into three groups -- those generated by federal, state, or local sources, as reflected in **Table 5-1**.

⁽¹⁾ Vision 21, Looking A.H.E.A.D. (Advocating Highways for Economic Advancement and Development), Mississippi DOT, June 2005.

Table 5-1: Transportation Funding Overview – Source of Funds

System	State	Federal	Local
Public Transportation		Federal Transit Administration <ul style="list-style-type: none"> • Section 9 • Section 18 • Section 16 (b) (2) • Section 3 	Property and Other Local Taxes Transit Fares
Aviation	Aviation Fuel Tax	Federal Aviation Administration <ul style="list-style-type: none"> • FAA Grants 	Property and Other Local Taxes Airport Revenues
Ports	Port Revitalization Revolving Loan Fund	Army Corps of Engineers	Property and Other Local Taxes Port Revenues
Railroads	Locomotive Fuel Tax	Federal Railroad Administration <ul style="list-style-type: none"> • Local Rail Freight Assistance 	Property and Other Local Taxes
Bicycles and Pedestrians		Federal Highway Administration <ul style="list-style-type: none"> • Surface Transportation Program 	Property and Other Local Taxes
Highways	Motor Fuel Taxes Tag Fees Privilege Taxes General Fund (Gaming Revenue)	Federal Highway Administration <ul style="list-style-type: none"> • Interstate Maintenance • National Highway System • Surface Transportation Program • Bridge Program 	Personal Property Taxes Real Property and Other Local Taxes

CURRENT HIGHWAY FUNDING SITUATION

STATE SOURCES

Transportation finance at the state (MDOT) level in Mississippi is dominated by a series of user-based revenues. The most prominent of these revenues are the state motor fuel tax, tag fee and privilege tax. Mississippi also receives contract authority in the form of federal-aid apportionments as authorized by the ISTEA, and successor legislation (TEA-21 and SAFETEA-LU).

MDOT shares state-generated user fees with local governments. Counties receive a significant portion of the state motor fuel tax and the state privilege tax, while municipalities receive a small share of the state motor fuel tax. Counties and municipalities also share federal funds (STP and HBRRP) with MDOT. A substantial share of local transportation funding is derived from portions of local real estate property taxes, bonds and the Personal Property Tax.

Table 5-2 illustrates the distribution of funding sources for MDOT's Highway System and major sources of transportation revenues are briefly discussed on the following page.

Table 5-2: Funding Sources for MDOT's Highway System

Source of Funding		2002	2003	2004
State	Motor Fuel Tax	\$280.7	\$261.8	\$265.0
	Tag Fees, Lubricating Oil Tax and Contractor's Tax	\$17.5	\$18.7	\$21.0
	Truck and Bus Privilege Taxes/Fees	\$49.9	\$52.2	\$53.6
	Gaming Tax	\$36.0	\$17.8	\$39.1
	Miscellaneous	\$71.6	\$45.4	\$27.5
	Subtotal	\$455.8	\$395.8	\$406.2
Federal	Interstate Maintenance	\$46.6	\$59.6	\$63.2
	National Highway System	\$45.7	\$60.7	\$75.7
	Surface Transportation Program	\$148.8	\$90.4	\$9.4
	Bridge Replacement	\$63.6	\$71.3	\$62.4
	Subtotal	\$304.7	\$281.9	\$210.6
Total for State Highway Projects		\$760.5	\$677.7	\$616.9
Source		2002	2003	2004
State	Motor Fuel Tax	37%	39%	43%
	Tag Fees, Lubricating Oil Tax and Contractor's Tax	2%	3%	3%
	Truck and Bus Privilege Taxes/Fees	7%	8%	9%
	Gaming Tax	5%	3%	6%
	Miscellaneous	9%	7%	4%
	Subtotal	60%	58%	66%
Federal	Interstate Maintenance	6%	9%	10%
	National Highway System	6%	9%	12%
	Surface Transportation Program	20%	13%	2%
	Bridge Replacement	8%	11%	10%
	Subtotal	\$40.0	42%	34%
Total for State Highway Projects		\$100.0	100%	100%

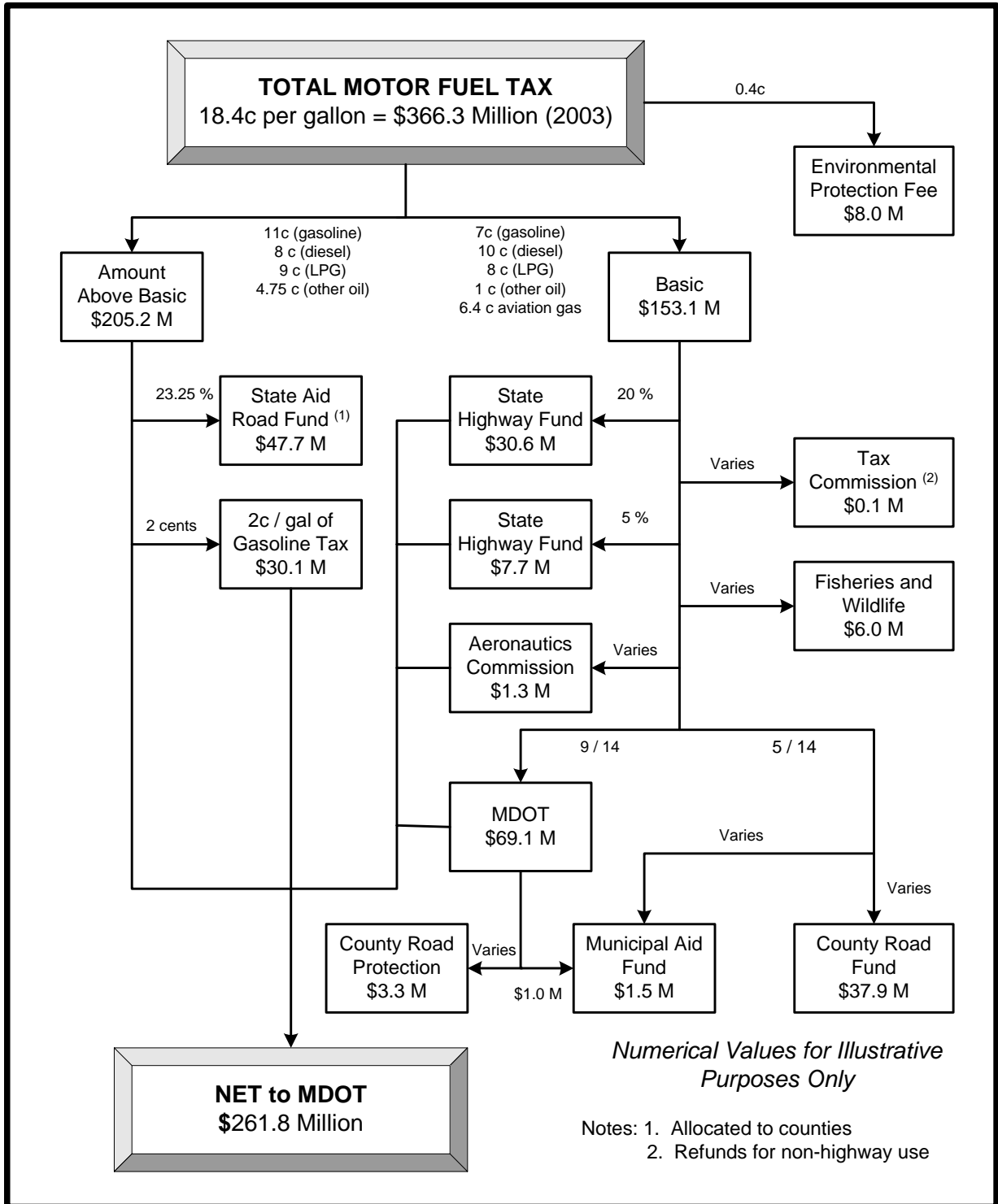
In general, MDOT relies heavily on state funds, which between FY 2002 and FY 2004 ranged from 58 percent to 66 percent of total revenues for state highway projects. Within state revenues, the primary revenue source continues to be the motor fuel tax.

Fuel Taxes

Mississippi's motor vehicle fuel taxes include an 18.4-cents/gallon gasoline and diesel tax and a range of 17 to 18.4-cents/gallon tax on special fuels (e.g., gasohol and LPG). In FY 2003, Mississippi fuel taxes yielded more than \$366 million.

Mississippi's fuel tax proceeds are allocated to MDOT, local government and other State programs through annual appropriation by the Mississippi Legislature. For example, in FY 2003 MDOT received \$262 million in these funds, or about 70 percent of total fuel tax revenues. Mississippi counties and cities receive most of the remaining fuel tax revenues. In 2003, over \$100 million in fuel tax revenues was allocated to either local governments for road purposes or for non-highway purposes. **Figure 5-1** illustrates the allocation of fuel tax revenues.

Figure 5-1: Illustration of Allocation of Fuel Tax Revenues



Registration, Tag Fees and other Motor Vehicle/Carrier Taxes

The second largest source of state transportation funding in Mississippi is raised through a series of vehicle-related charges and fees. These fees are split between MDOT, local governments and the General Fund. For example, Counties retain 50 cents per vehicle as a collection fee and MDOT receives \$5 per vehicle (\$13 million in FY 2003). The remainder of tag fee proceeds is deposited in the Mississippi General Fund.

A host of other sources provide funding for MDOT. These sources include minor sources, such as the Lubricating Oil Tax (approximately \$1 million per year), the Contractors Tax (approximately \$5 million per year), and interest on cash balances (approximately \$1 million per year).

Gaming Funds

The Gaming Fund Program, once a significant source of funding for MDOT, was phased out in FY 2005 and thus no longer provides revenues for MDOT projects.

Miscellaneous Revenue

A significant amount of funding (\$25 million to \$100 million per year) historically has been provided by other fees. This level is expected to drop to under \$25 million in future years.

Interlocal Contributions

A newly established MDOT innovative financing program (authorized by statute) known as the Highway Enhancement through Local Partnerships (HELP) Program allows MDOT to enter into cooperative agreements with cities or counties to accelerate the completion date of scheduled highway construction projects. The enabling legislation allows a city or county to issue bonds to pay for a highway construction project. MDOT will then pay the notes on the bonds until they are retired. While the program is just being established and has not yet generated new revenues for MDOT, it is anticipated the program could add \$70 million per year to MDOT's future resources. However, since this is essentially a loan that must be repaid, contributions from this source will not be considered in the revenue analysis.

FEDERAL SOURCES

MDOT receives apportionments from the federal government from a variety of federal programs, including those identified in Table 5-2. Additional federal funds are received by MDOT, but the totals reflected in the table are those used for capital projects. Between FY 2002 and FY 2003, federal funds accounted for 34 percent to 42 percent of total MDOT revenue for state capital projects.

LOCAL SOURCES

Local sources are difficult to quantify since dedicated funds are not established. The MULTIPLAN analysis focus is on State needs and thus revenues that MDOT receives for State projects. However, sources of local funds are indicated below.

Personal Property Taxes

Mississippi's counties and municipalities levy personal property taxes on resident-owned vehicles on an annual basis. Because the tax is based on the vehicle's value it is also called the "Ad Valorem" Tax. The tax millage rate is determined at the local level and collected at the county level; the local agencies retain all personal property taxes collected.

Real Estate Property Taxes

Like most states, local governments in Mississippi tax real property for a variety of uses. This is a significant revenue stream in the state, especially for the municipalities. Many units use proceeds from the Real Estate Property Tax to also finance local transportation.

Local Bonding

Local agencies in Mississippi are also authorized to issue and sell bonds to finance certain transportation improvements. All issues are general obligations since there are no toll facilities in the state.

COMPARISONS WITH OTHER STATES

A comparison of Mississippi user tax rates with the other states provides meaningful information that can serve several purposes. First, the comparison helps policy makers assess the user tax burden in Mississippi. Second, the information can be used to develop future alternative revenue packages. The comparisons in this chapter examine the user fee costs to operate a vehicle in each state on an annual basis. They assume the vehicle has been owned and operated in the state for at least one year, thus excluding the one-time fees charged when a vehicle is purchased.

Assumptions and Definitions

Two major sources were used to compile the supporting information. The Federal Highway Administration's Highway Taxes & Fees, *How They Are Collected and Distributed 2001* ⁽²⁾ provided basic motor fuel tax rates, registration fees and sales tax rates. 2001 was the latest year for which this document was published. State motor fuel tax rates were updated to 2005, based on information provided by the Federation of Tax Administrators ⁽³⁾.

⁽²⁾ Highway Taxes and Fees, How They Are Collected and Distributed 2001, Office of Highway Policy Information, FHWA, Publication No. FHWA-PL-01-029, June 2001.

⁽³⁾ Federation of Tax Administrators, www.taxadmin.org.

- The comparison by State is for a basic mid-size automobile, assuming a fuel efficiency of 25 mpg and 15,000 miles traveled annually;
- The U.S. average price of gasoline as of January 2005 was \$1.745 per gallon, including federal and state taxes;
- Several states have local option sales and gasoline taxes that are levied in a limited number of local jurisdictions. These are not incorporated into this discussion;
- Every state charges a vehicle title fee when the vehicle is purchased. These title fees are not presented; and
- Many states have other taxes levied at the time a vehicle is purchased. These range from state sales taxes to one-time personal property taxes to other one-time charges. These fees are excluded from this discussion.

Key Findings

Tables 5-3 and 5-4 list gasoline tax rates and annual vehicle registration fees for all fifty states and the District of Columbia.

Only Mississippi's state motor fuel tax and tag/registration fees are directly earmarked for transportation, although a share of the personal property tax is also used by local governments for transportation purposes.

Motor Fuel Tax - Mississippi's 18.4-cent state gasoline tax (and no state sales tax on gasoline) places it 40th in the nation for motor fuel taxes. A motorist driving the typical vehicle will pay \$110.40 in taxes for the year. The state with the highest annual motor fuel tax burden of \$221.26 is West Virginia, as a result of the 27-cent gasoline tax and a 6 percent sales tax⁴. Alaska's 8-cent per gallon tax is the lowest. The U.S. average annual fuel tax burden is \$135.66, which is 23 percent higher than Mississippi.

Registration Fees - State registration fees range from a low of \$8 (Arizona) to Minnesota's \$125.00. Mississippi's Tag Fee/ Registration Fee of \$23.75 for the typical passenger vehicle places the state 35th in the nation. This fee is 67 percent of the national average of \$35.25.

Personal Property Tax - Mississippi is one of 25 states that have annual personal property taxes on motor vehicles. This tax overshadows the state motor fuel tax and registration fees, and represents more than 75 percent of the total user fee burden in Mississippi. Important to the overall dialogue on user fees is the fact that this tax is entirely local and discretionary; it can be used for any number of local budgetary purposes. The state (MDOT) receives no share of the personal property tax revenues.

Comparison with Neighboring States

Table 5-5 compares what Mississippi residents are paying compared with what its neighbors pay in annual gasoline taxes and registration fees. In terms of gas tax and registration fees, there is not much difference in the five states, with all of them being ranked nationally between 36th and 42nd. However, Mississippi residents pay more than their neighbors when property taxes on motor vehicles are included.

⁴ Federation of Tax Administrators, www.taxadmin.org/fta/rate/motor_fl.html.

Table 5-3: State Gasoline Tax Rates

State	State Tax (cents / gal.)			Rank	Annual Tax Cost (3)
	Fuel (1)	Sales (2)	Total		
Alabama	18.00	0.00	18.00	41	\$108.00
Alaska	8.00	0.00	8.00	51	\$48.00
Arizona	18.00	0.00	18.00	42	\$108.00
Arkansas	21.50	0.00	21.50	29	\$129.00
California	18.00	11.80	29.80	6	\$178.78
Colorado	22.00	0.00	22.00	27	\$132.00
Connecticut	25.00	0.00	25.00	17	\$150.00
Delaware	23.00	0.00	23.00	23	\$138.00
Dist. of Columbia	22.50	0.00	22.50	26	\$135.00
Florida	14.50	11.95	26.45	13	\$158.68
Georgia	7.20	5.08	12.28	50	\$73.70
Hawaii	16.00	6.71	22.71	25	\$136.27
Idaho	25.00	0.00	25.00	18	\$150.00
Illinois	20.10	10.26	30.36	3	\$182.19
Indiana	18.00	9.88	27.88	10	\$167.26
Iowa	20.50	0.00	20.50	33	\$123.00
Kansas	24.00	0.00	24.00	20	\$144.00
Kentucky	17.40	0.00	17.40	44	\$104.40
Louisiana	20.00	0.00	20.00	34	\$120.00
Maine	25.20	0.00	25.20	16	\$151.20
Maryland	23.50	0.00	23.50	22	\$141.00
Massachusetts	21.00	0.00	21.00	31	\$126.00
Michigan	19.00	9.88	28.88	8	\$173.26
Minnesota	20.00	0.00	20.00	35	\$120.00
Mississippi	18.40	0.00	18.40	40	\$110.40
Missouri	17.03	0.00	17.03	45	\$102.18
Montana	27.00	0.00	27.00	11	\$162.00
Nebraska	26.30	0.00	26.30	14	\$157.80
Nevada	23.00	0.00	23.00	24	\$138.00
New Hampshire	19.50	0.00	19.50	38	\$117.00
New Jersey	14.50	0.00	14.50	48	\$87.00
New Mexico	18.90	0.00	18.90	39	\$113.40
New York	23.20	7.11	30.31	4	\$181.88
North Carolina	26.85	0.00	26.85	12	\$161.10
North Dakota	21.00	0.00	21.00	32	\$126.00
Ohio	26.00	0.00	26.00	15	\$156.00
Oklahoma	17.00	0.00	17.00	46	\$102.00
Oregon	24.00	0.00	24.00	21	\$144.00
Pennsylvania	30.00	0.00	30.00	5	\$180.00
Rhode Island	31.00	0.00	31.00	2	\$186.00
South Carolina	16.00	0.00	16.00	47	\$96.00
South Dakota	22.00	0.00	22.00	28	\$132.00
Tennessee	21.40	0.00	21.40	30	\$128.40
Texas	20.00	0.00	20.00	36	\$120.00
Utah	24.50	0.00	24.50	19	\$147.00
Vermont	20.00	0.00	20.00	37	\$120.00
Virginia	17.50	0.00	17.50	43	\$105.00
Washington	28.00	0.00	28.00	9	\$168.00
West Virginia	27.00	9.88	36.88	1	\$221.26
Wisconsin	29.10	0.00	29.10	7	\$174.60
Wyoming	14.00	0.00	14.00	49	\$84.00
Average	20.99		22.61		135.66

Notes: (1) January 2005, Federation of Tax Administrators: www.taxadmin.org

(2) Estimated State Sales Tax

(3) Based on 15,000 miles / yr and Jan 2005 \$1.745 per gallon regular gas

Table 5-4: State Annual Automobile Registration Fees

State	Fee For Typical Vehicle	Rank
Alabama	\$24.25	31
Alaska	\$68.00	6
Arizona	\$8.00	51
Arkansas	\$17.00	45
California	\$28.00	25
Colorado	\$26.60	27
Connecticut	\$70.00	5
Delaware	\$20.00	41
District of Columbia	\$55.00	9
Florida	\$35.10	14
Georgia	\$20.00	42
Hawaii	\$88.70	3
Idaho	\$29.25	24
Illinois	\$48.00	11
Indiana	\$12.75	50
Iowa	\$75.00	4
Kansas	\$27.25	26
Kentucky	\$14.50	49
Louisiana	\$15.00	47
Maine	\$23.00	36
Maryland	\$35.00	15
Massachusetts	\$30.00	19
Michigan	\$58.00	8
Minnesota	\$125.00	1
Mississippi	\$23.75	35
Missouri	\$24.00	32
Montana	\$15.25	46
Nebraska	\$17.50	44
Nevada	\$33.00	16
New Hampshire	\$31.20	18
New Jersey	\$25.00	29
New Mexico	\$23.00	37
New York	\$24.85	30
North Carolina	\$20.00	43
North Dakota	\$60.00	7
Ohio	\$22.25	39
Oklahoma	\$100.25	2
Oregon	\$30.00	20
Pennsylvania	\$24.00	33
Rhode Island	\$30.00	21
South Carolina	\$24.00	34
South Dakota	\$30.00	22
Tennessee	\$23.00	38
Texas	\$50.80	10
Utah	\$21.00	40
Vermont	\$42.00	13
Virginia	\$26.50	28
Washington	\$33.00	17
West Virginia	\$30.00	23
Wisconsin	\$45.00	12
Wyoming	\$15.00	48
Average	\$35.25	

Source: Highway Taxes and Fees, How They Are Collected and Distributed, Office of Highway Policy Information, FHWA, June 2001

Table 5-5: Comparison of Gas Tax and Registration Fees with Neighboring States

State	Typical Annual Costs			National Rank	Property Tax on Motor Vehicles
	Gas Tax	Registration Fee	Total		
Alabama	\$108.00	\$24.25	\$132.25	42	YES
Arkansas	\$129.00	\$17.00	\$146.00	38	YES
Louisiana	\$120.00	\$15.00	\$135.00	40	NO
Mississippi	\$110.40	\$23.75	\$134.15	41	YES
Tennessee	\$128.40	\$23.00	\$151.40	36	NO

ARE CURRENT STATE REVENUES BEING USED FOR TRANSPORTATION?

Overall, Mississippi is using its transportation-related revenues for transportation purposes. In general, the following descriptions hold true:

- The only non-transportation use of motor fuel tax revenues is the \$6 million allocated to the Department of Wildlife, Fisheries and Parks. Since some motor fuel sold would be for boating, this is an appropriate diversion of funds.
- MDOT only receives about half the tag fee revenues, with approximately \$9 million being deposited in the state General Fund each year.
- Mississippi allows wholesale fuel dealers a 2 percent shrinkage refund where 2 percent of the gallons of fuel sold are not taxed. This results in over a \$5 million loss of revenues each year.

SO, WHAT DOES THE FUTURE HOLD?

The next step is to estimate future revenues and to compare revenues to needs to see what the future may hold. The following key assumptions are used to develop state and Federal revenue available to MDOT for 2003 through 2030.

- Motor Fuel Taxes – Between 1992-2004 the compound annual growth rate in consumption of taxable fuel was 2.58 percent; between 2002-2004, it was 1.55 percent. Use 2 percent per year from 2003 to 2030 to reflect continued fuel efficiency;
- Tag Fees – Between 1992-2004 the compound annual growth rate for tag fee revenues was 3.32 percent; between 2002-2004 it was 9.63 percent due to changes in fees. Use 2.5 percent per year from 2003 to 2030;
- Truck/Bus Privilege Tax/Fee - Between 1992-2004 the compound annual growth rate in revenue was 4.30 percent; between 2002-2004, it was 3.67 percent. Use 3.5 percent per year from 2003 to 2030; and
- Gaming Tax – no more revenue after 2004.
- HELP – not a revenue source since it needs to be repaid.

Using the assumptions noted above, the estimate of future revenue to MDOT for capital projects totals \$23.6 billion in current dollars, 58 percent of which is from state sources. **Table 5-6** presents this information in seven-year incremental time periods.

Table 5-6: Future Gross Revenue Estimates – Current Dollars

Revenue to MDOT for Capital Projects (millions)			
Time Period	State	Federal	Total
2003-2009	\$2,756.88	\$1,822.10	\$4,578.98
2010-2016	\$3,107.68	\$2,149.01	\$5,256.70
2017-2023	\$3,611.90	\$2,643.02	\$6,254.91
2024-2030	\$4,209.72	\$3,250.58	\$7,460.30
Total	\$13,686.18	\$9,864.70	\$23,550.89

The debt service (repayment of bonds) on previous bonds continues to 2010. An estimate of the payment by time period is shown in **Table 5-7** that indicates a total estimate of future revenue in current dollars of \$23.4 billion.

Table 5-7: Future Net Revenue Estimates – Current Dollars

Revenue to MDOT for Capital Projects (millions)			
Time Period	Gross Total	Debt Service	Net Total
2003-2009	\$4,578.98	\$189.58	\$4,389.40
2010-2016	\$5,256.70	\$0.12	\$5,256.57
2017-2023	\$6,254.91	\$0.00	\$6,254.91
2024-2030	\$7,460.30	\$0.00	\$7,460.30
Total	\$23,550.89	\$189.70	\$23,361.18

Before taking the final step, which is to compare revenues and needs, one last adjustment needs to be taken. Traditionally, needs are not inflated because it is difficult to estimate exactly when they will be built. There is more certainty in when revenues will occur. So to take the impact of inflation into account, these revenue estimates are brought back to constant dollars, in this case constant 2002 dollars, which is what the needs are expressed in. **Table 5-8** reflects that the revenue estimate that is to be compared to the needs is \$15.1 billion, assuming an annual inflation rate of 3 percent from 2002 onwards.

Table 5-8: Future Net Revenue Estimates – Constant 2002 Dollars

Revenue to MDOT for Capital Projects (millions)		
Time Period	Net Total	
	Current Dollars	Constant 2002 Dollars
2003-2009	\$4,389.40	\$3,941.99
2010-2016	\$5,256.57	\$3,832.40
2017-2023	\$6,254.91	\$3,707.76
2024-2030	\$7,460.30	\$3,595.58
Total	\$23,361.18	\$15,077.72