Rural Road News

Bulletin No. 2 October 1997

Study Outlines Innovative Financing Methods for County Road Funding

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Financing the maintenance of rural road networks is an ongoing problem for local governments. With traditional funding sources no longer adequate, counties must explore innovative methods to increase revenue and/or decrease costs. What are the advantages and disadvantages of these alternatives in our region?

County engineers and road supervisors in eight states, including Colorado, Iowa, Minnesota, Montana, North Dakota, South Dakota, Utah, and Wyoming, were surveyed to identify current and potential sources for road funding. In addition, respondents rated those revenue sources based on five criteria: ease of collection, revenue certainty (predictability), inflation sensitivity, public acceptance and user equity.

Significant Innovative Financing Methods

Road superintendents identified nine innovative financing methods that could potentially increase revenue for rural roads. Four of these methods were identified as making significant contributions, more than 5 percent, to the total county road budget.

Sales Tax: Counties can administer a county sales tax if residents approve a political measure allowing the tax.

+ fairly consistent source of revenue
+ inflation sensitive
+ ease of administration
– not considered equitable

Special Ownership Tax: This tax is imposed on owners/operators of specific items (e.g., mobile homes).

+ revenue certainty as long as there is demand for item being taxed
+ inflation sensitivity, if tax is based on percentage of purchase price
+ ease of collection, if revenue is collected with sales tax
– unpopular with those purchasing the taxed items
– may be considered inequitable or viewed as regressive

Wheel Tax: South Dakota counties use the wheel tax to generate revenue. Counties may charge up to $4 per tire per vehicle, up to a maximum of $16 for all vehicles. The first $2 of each wheel tax goes toward road and bridge funds, with additional revenue used to reduce property taxes.

+ secure revenue source
+ ease of collection
– flat-based fee, not inflation sensitive
– somewhat controversial
– questions about user equity

Rural Improvement & Special Assessment Districts: Rural improvement/special assessment districts in growing rural developments and subdivisions can finance road improvements and maintenance.

+ ease of collection
+ equitable forms of taxation
– may be opposed by some residents of districts

Other Innovative Financing Methods

Respondents identified five other potential innovative methods for generating roadway revenue, contributing less than 5 percent to the road budget in each county.

Severance Tax: This tax is based on the extraction of minerals (e.g., coal, oil or even gravel), compensating the county for extra wear and tear on roads.

+ high revenue potential
+ user equity
+ low administrative cost
– only applies to counties where minerals can be extracted and sold
– demand and supply may be seasonal or sporadic

Bonds: Bonds guaranteed by county government and secured by general revenue are used in a few counties.

+ stable revenue source
+ county maintains control over road program while financing improvements
– reduce flexibility of future revenue
– increased interest payments reduce funding available for other projects

Cost Participation: In cost participating, the county board adopts projects and agrees with other agencies to pay toward total costs. For example, counties may contract with municipalities to help cover the cost of work such as drainage or storm sewers.

+ counties share in both costs and benefits of improvements

Traffic Violations: Some counties direct funds from traffic fines to the county road budget.

+ low administration fee
– no revenue certainty
– counties with low population may receive little revenue from fines

Telephone Tax: A city-owned phone company contributes a certain percentage of the tax it collects to the county road fund.

+ some revenue certainty
– generated revenue could be redirected to other avenues

Cost-Reducing Strategies

In addition to finding new funding sources, reducing costs by managing services and resources more efficiently is another strategy to consider. County road officials listed 14 service and management strategies they've used to reduce costs.

Service Strategies:

- chip seal
- use of soil stabilizers
- reduce level of maintenance
- blade roads less
- shorten width of road
- close roads
- close bridges
- convert paved roads back to gravel

Management Strategies:

- consolidate use of equipment
- reduce number of employees
- share county engineers
- improve management practices
- joint projects between cities and counties
- require cost benefit analysis for each project

Conclusion

Before implementing new road financing strategies, counties must carefully consider key criteria: ease of collection, revenue certainty, inflation sensitivity, public acceptance and user equity. It is important that the public be made aware of the need for increased financing to maintain rural roads, so citizens can make informed decisions about raising revenues through taxation.

In addition to considering new funding sources, officials should look at cost-reducing strategies. By managing services and resources more efficiently, counties can make more funds available for needed road projects.

A copy of the full report, "Innovative Financing Methods for Local Roads in the Midwest and Mountain-Plains States" (MPC Report No. 97-74), is available from the Upper Great Plains Transportation Institute. Contact: Jill Hough (701) 231-8082.