



New Hampshire

Highways

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A Legislative Call to Action:

**Commission Report
Reveals Crippling
Deficits in the
Highway Fund**

A Legislative Call to Action:

Commission Report Reveals Crippling Deficits in the Highway Fund

On November 1, 2010 the **Commission to Study Future Sustainable Revenue Sources for Funding Improvements to State and Municipal Highways and Bridges** released its final report. While the purpose of the Commission is aptly described in its name, it remains to be seen how our elected officials will respond to the Commission's findings during the new legislative session beginning January 5, 2011.

What follows is the Executive Summary of this report in its entirety. To facilitate constructive and open dialogue about an issue that all New Hampshire residents should be concerned about, the New Hampshire Good Roads Association asked several individuals—elected officials and industry leaders—to comment on the Commission's findings. These comments are included throughout the Executive Summary.

We encourage members of the New Hampshire Good Roads Association—and all concerned New Hampshire residents—to make their voice heard by contacting their elected officials (see page 34) early in this new legislative session when funding and budgetary issues will be debated.

The full report can be found at the NHGRA website (www.nhgoodroads.org). The members of the Commission are listed on page 21.



Executive Summary

Pursuant to HB 2, Chapter 144:291, I, Laws of 2009, what follows is the Executive Summary of the Final Report of the **Commission to Study Future Sustainable Revenue Sources for Funding Improvements to State and Municipal Highways and Bridges**.

Over the course of 16 months and 18 meetings, the Commission extensively explored the issues surrounding its charge, that is clearly spelled out in its name: the Study of Future *Sustainable* Revenue Sources for Funding Improvements to *State and Municipal* Highways and Bridges. The Commission looked at a wide variety of financial tools and funding mechanisms to pay for the State's highway and bridge infrastructure.

The Situation

Long-Term Revenue Problem. It is clear to the Commission that New Hampshire faces a serious long term problem in finding sustainable revenue to adequately fund its highway system in the coming years, because of gradually increasing fuel efficiency (*see Exhibit 2*); little or no growth in miles driven (*see Exhibits 3 and 4*); and the declining sales of gallons of fuel sold in NH (*see Exhibit 1*).

Average MPG will continue its upward trend as the proportion of more fuel-efficient cars in the national fleet grows. Electric cars will also negatively affect this revenue number in the long term. Therefore, the existing model in which rising revenues have covered the rising costs of highway construction and repair no longer will work in the future.

Short-Term Revenue Problem. In the meantime the State faces an immediate problem. If nothing is done to address the shortfall between revenues and current highway system costs, projections show that the highway fund will have a *\$1.2 billion cumulative deficit* in 10 years. (This assumes: current rates, gallons sold increases at an average of .5% per year—which is better than during this recessionary period, and that costs rise only 3% per year.).

In other words, this isn't just a cyclical phenomenon. The longer the Legislature delays taking action, the more difficult it becomes to solve the problem.

Immediate Revenue Problem. The newly elected 2011 General Court will have some

(Continued on page 11)

Exhibit 1: Road Toll Gallonage Over the Past Decade

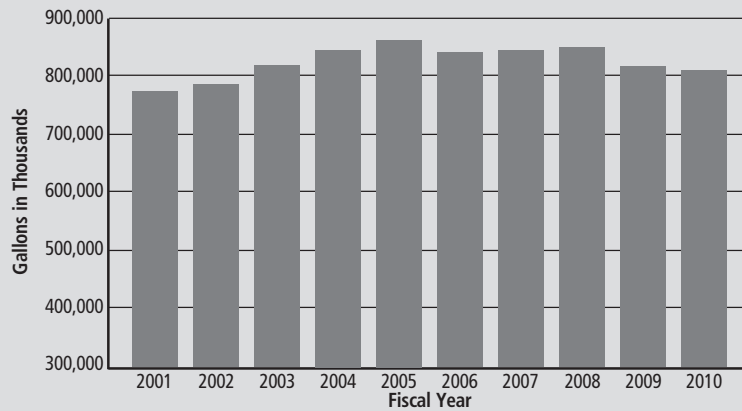


Exhibit 2: Fuel Efficiency of U.S. Passenger Cars

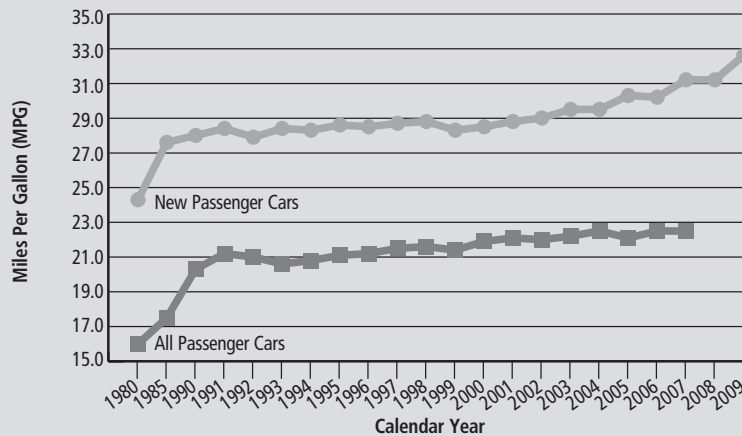


Exhibit 3: National Mileage 1999–2008

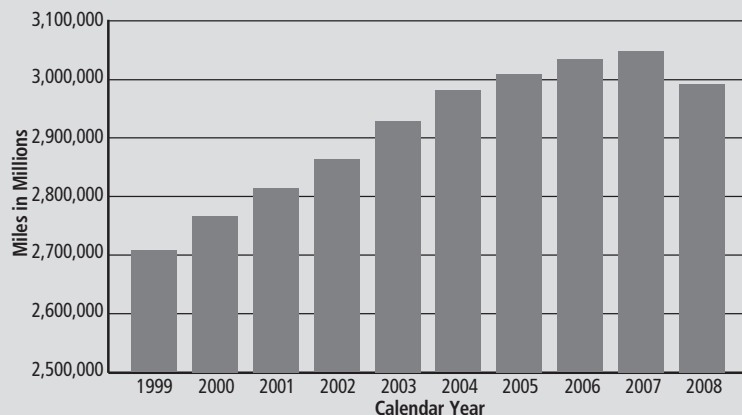
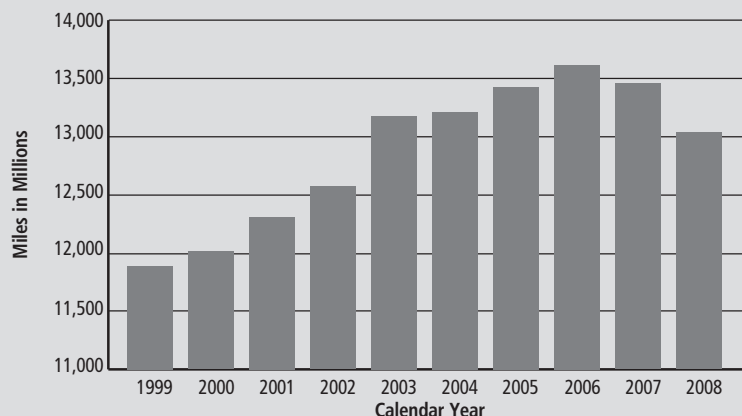
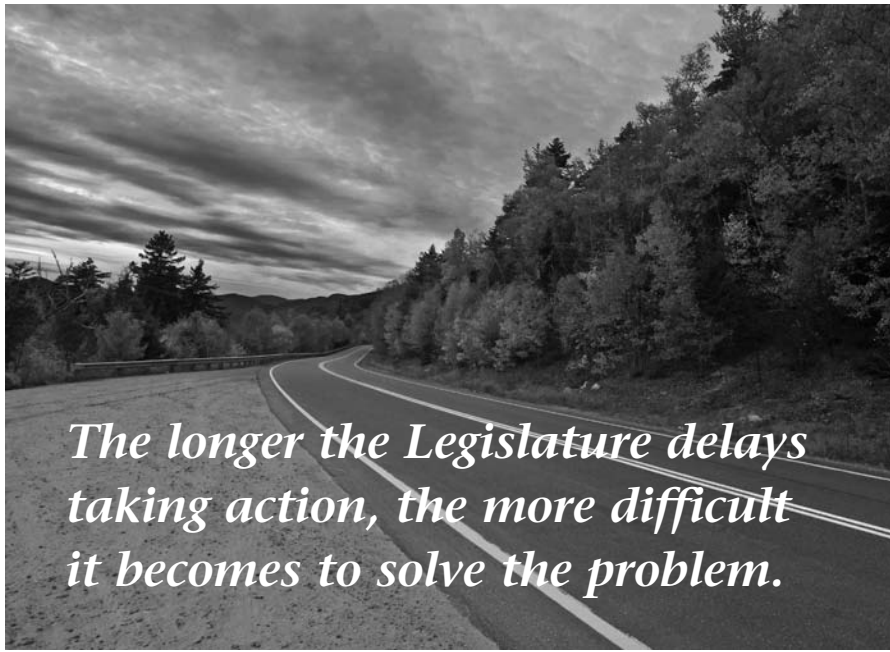


Exhibit 4: New Hampshire Mileage 1999–2008





The longer the Legislature delays taking action, the more difficult it becomes to solve the problem.

immediate and critical decisions to make regarding the funding of NH's roads and bridges, as well as the Departments of Transportation and Safety. In the 2009 session, a motor vehicle fee surcharge was the compromise between the proponents of raising the gas tax and those favoring aggregation.

That temporary motor vehicle surcharge (which raised the average cost of registering a passenger vehicle by \$30) will expire at the end of the current fiscal year on June 30, 2011. That surcharge raised approximately \$86 million for the biennium. This revenue will have to be replaced, *and an additional \$38 million raised* in order to fund the following:

- a) the current level of critical road and bridge maintenance;
- b) the highway construction projects currently listed in the scaled back Ten Year Transportation Improvement Plan;

c) the current operating budgets for the Departments of Transportation and Safety.
(See page 22 and 60 [of the full report].)

This "level funding" scenario will leave the Legislature's number one priority, *the widening of I-93, underfunded by \$230 million. It assumes the use of highway toll credits* instead of cash for federal highway match money (see page 35 [of the full report]), the effect of which is 20% less actual construction and maintenance work on NH roads and bridges. It also assumes GARVEE bonds (bonds issued in anticipation of future federal payments) will be issued for I-93 and the two bridges into Maine (see pages 27–28 [of the full report]), the cost of which will

reduce the amount of state money available for all of NH's other roads and bridges by approximately 20%.

The Consequences of the FY 2012–13 Highway Fund Shortfall of \$124 Million. Without revenue to fill the \$124 million dollar projected shortfall in the *next biennium*, there will have to be severe cuts in the budgets of Departments of Transportation (about \$93 million) and Safety (about \$29.7 million), that would drastically change the scope of services provided—and in the case of DOT—probably alter its fundamental structure and mission. (See pages 59–60, 69, 71 and 82 [in the full report].)

DOT Cutbacks. To make up such a deficit, DOT would have to consider layoffs, delaying or eliminating many capital projects in the Ten Year Plan, shutting down Rest Areas, major cutbacks in summer maintenance (foliage

(Continued on page 13)

The NH House and Senate are the exclusive stewards and custodians of the state's 4,300 miles of roads and 2,100 bridges. It is not possible to erase roads or bridges from the map. Therefore, the challenge facing legislators is to cost *effectively and fairly fund* the maintenance and repair of existing infrastructure, and to determine what new projects promote safety and economic growth. To neglect or defer regular highway maintenance only inflates the cost of repairs—exponentially in the case of bridges. To neglect or defer critical new projects, not only increases costs, but also threatens public safety and the state's ability to compete for businesses and jobs. A safe and sound transportation infrastructure is absolutely necessary for the vitality of our tourism industry and to support both existing and new businesses. Good roads and bridges allow our citizens to efficiently and safely commute to and from work and school; and enhance the quality of our everyday lives and the overall economy of New Hampshire.

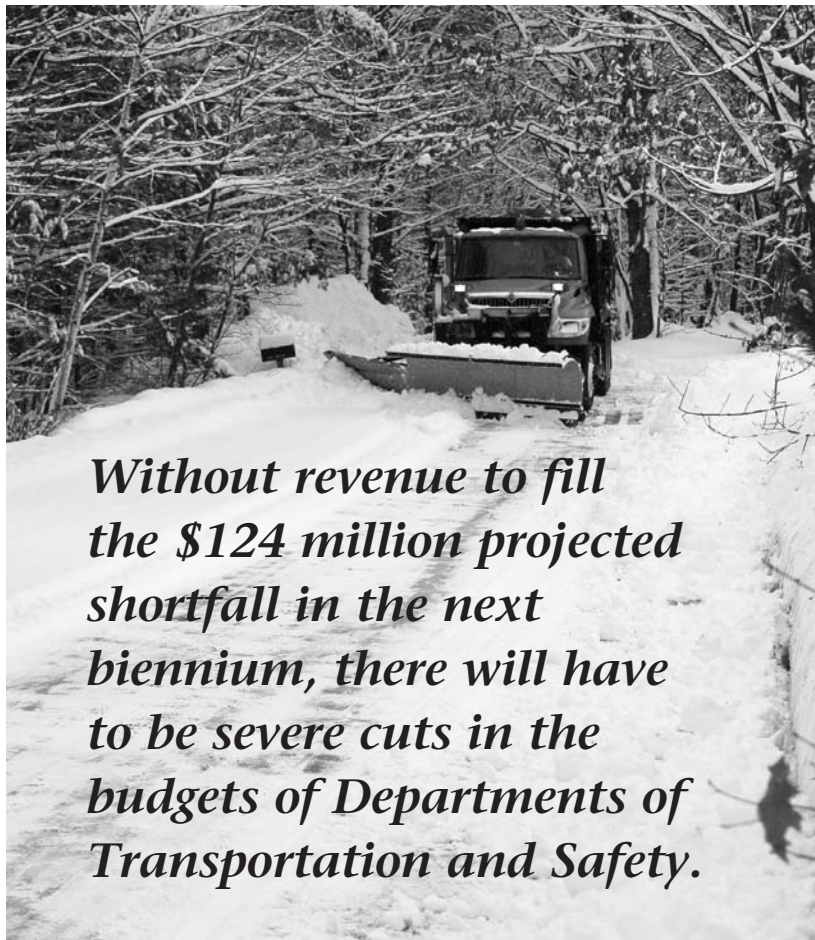
—Rep. David B. Campbell, Nashua
Vice Chair of the Commission

cutting and mowing), bridge maintenance and preservation and guardrail repair (see pages 72–73 [of the full report]).

Without touching the approximate \$82 million annual cost of winter plowing and road maintenance, DOT would also have to severely cut Betterment (the funding of state road maintenance throughout the six DOT districts), cutback or eliminate two major municipal programs: State Aid Highway and State Aid Bridge, and the Legislature would have to decide whether or not to restructure the long-standing formula of distributing 12% of the Highway Fund revenues to the Towns and Cities (see pages 68–71 [of the full report]).

These measures would have the effect of *downshifting major costs to the municipalities* and onto the shoulders of local property taxpayers.

DOS Cutbacks. A \$29.7 million dollar budget reduction in the Department of Safety would result in the loss of 22 State Troopers, 12 Motor Vehicle personnel, the closing of some DMV locations and major cutback in the state's Forensic Lab. (See page 82 [of the full report].) Also the rotational replacement of vehicles for the aging State Police Fleet would have to be postponed once again, driving up maintenance costs and pushing off a major one-time expense into the future. (See pages 76–78 [of the full report].) The result would be a major reduction in the state's ability to provide safe roads and adequate public service.



Without revenue to fill the \$124 million projected shortfall in the next biennium, there will have to be severe cuts in the budgets of Departments of Transportation and Safety.

In addition to addressing traditional safety and capacity issues, it is important that the transportation network “needs” of the business community are heavily weighted in order to create the most favorable climate for economic vitality and investment.

—Christopher Bean, NHGRA Vice President
President, CLD Consulting Engineers, Inc.,
Manchester

Overview [Where the money comes from today]

The Highway Fund. New Hampshire's 4,300 miles of state roads and 2,129 state bridges are built and maintained through the Highway Fund. The state's Highway Fund and federal funds are the exclusive sources for funding the maintenance of the state's highway infrastructure, as well as the highway and bridge construction projects contained in the State's Ten Year Transportation Improvement Plan. Pursuant to current law, the Highway Fund is apportioned in the following percentages:

- NHDOT (not less than 68.5%);
- The Department of Safety (not to exceed 30%) and;
- The Court System (not to exceed 1.5%).

The issue of “diversion” of Highway Funds for non-highway purposes has been addressed by the Legislature in each of the last two sessions and is fully discussed on page 11 [of the full report].

The *sources of revenue* for the state Highway are:

- a) The Road Toll (familarly, but incorrectly referred to as the Gas Tax)
- b) Motor Vehicle related fees and surcharges.

Also, under State statute Towns and Cities collectively receive 12% of the gross amount of revenue collected annually by the Highway Fund.

The Turnpike Fund. The NH Turnpike system consists of about 89 miles of highway and 164 bridges and various toll plazas, including I-95 from Seabrook to the Maine Border; NH Rt. 16 from the Portsmouth Circle to Rochester; the F.E. Everett Highway from Nashua to Bedford; and I-93 to Concord (see page 31 [of the full report]).

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The sole source of revenue for the Turnpike Fund is the toll monies collected at the toll plazas.

- The sale of highway assets (such as all or part of the Turnpike system, including toll plazas)
- The formation of Private Public Partnership (PPP). (See pages 37–39 [in the full report].)

The recent legislatively approved sale of the 1.2 mile stretch of I-95 (between the Portsmouth Traffic Circle and the Maine border) from the Turnpike system to the general Highway Fund for \$120 million dollars is an example of a “sale of assets.” It was noted that this sale was a transfer or redistribution of state assets, not new revenue, and was treated as such by the state’s auditors.

However, the sale of assets to a third-party could raise a large amount of *new one-time* revenue. Again, this is *not a sustainable* revenue source.

The Commission agreed that Private/Public Partnership options must be evaluated on a case-by-case basis and deal more with possible cost savings and efficiencies, rather than actual revenue.

Bonding. The Commission heard testimony and extensively discussed the issue of bonding highway and bridge improvements, including Revenue Bonds (bonds issued in anticipation of toll revenue, commonly used in the Turnpike funding) and GARVEE bonds (bonds issued in anticipation of Federal revenue).

The State Treasurer, representatives for Morgan Stanley Bank, and others, explained that while bonding can be a useful financing tool, it is by definition *unsustainable* since the bonds have to

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New Sources of Revenue

The Committee received information on possible new or future highway revenue sources such as Vehicle Miles Traveled (VMT) (see pages 40–41 [in the full report]).

The Commission was of the unanimous opinion that these other sources are impractical at the present time, because they are either technologically premature (as in the case of VMT), or unreliable (e.g., future federal fund increases through grants or increased distribution).

Sale of Assets and PPP’s. The Commission also discussed two other possible new sources of revenue:

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revenue source.*

FOR SALE

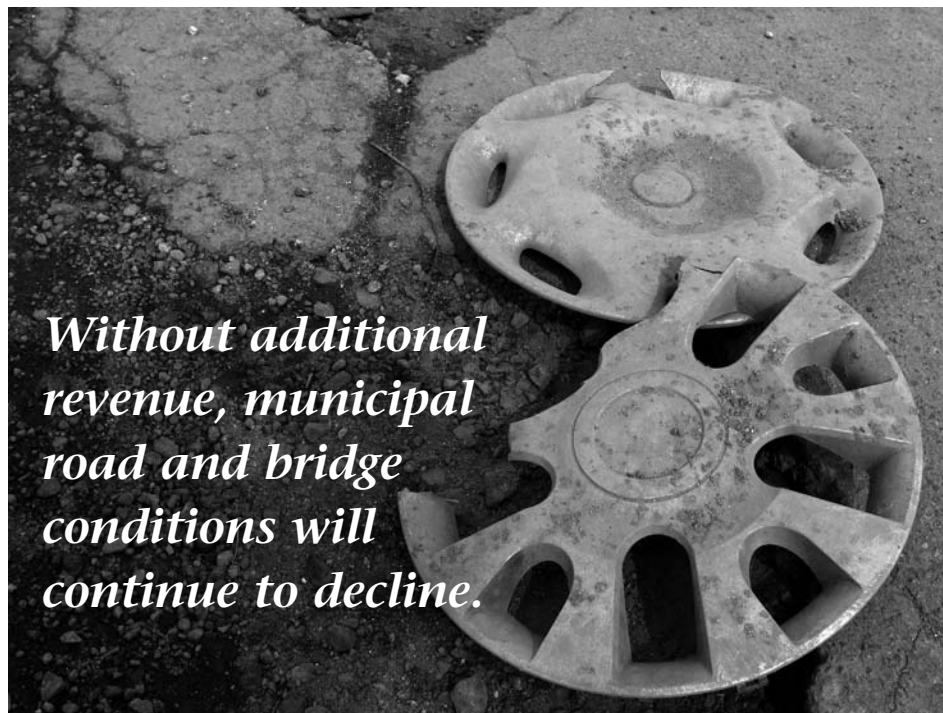
be paid back, and ultimately tied to *sustainable revenue sources* (see pages 25–30 [in the full report]). This led the Commission back to the three sustainable revenue sources:

- Motor vehicle fees
- The road toll (gas tax)
- Toll plaza revenue

Municipal Revenue and Sustainable Revenue Sources. New Hampshire’s municipalities have 12,000 miles of roads and over 1,600 bridges. Municipal roads are generally in worse condition than state roadways, and 366 local bridges are red-listed bridges in need of repair (see page 12 [in the full report]).

Cities and towns have only *two sources of revenue* to maintain and improve this infrastructure:

- State Aid from the Highway Fund
- Local Property Taxes.



Without additional revenue, municipal road and bridge conditions will continue to decline.

As noted above, municipalities share 12% of the amount of annual revenues raised through the Highway Fund, which are generated by the Gas Tax and Motor Vehicle Fees. Under current law, the only way for local communities to get more revenue is it to receive more state aid from the Highway Fund. The only way to increase the revenue in the Highway Fund would be to raise the Gas Tax and/or the Motor Vehicle Fees.

The only alternative available for towns and cities to raise additional revenue is to increase the local property taxes. Without additional revenue, municipal road and bridge conditions will continue to decline.

The Study’s Findings. After an exhaustive accumulation of information enclosed in the Final Report, the Commission came to the conclusion that, at the present time—and for the next 10 to 15 years—there are only

three *sustainable* and constitutionally allowed revenue sources available to the State of New Hampshire:

- 1) Motor vehicle fees and surcharges, including licensing and vehicle registration;
- 2) The Road Toll/Gas Tax; and,
- 3) Toll Booths (through toll collection and/or the construction of new toll plazas.)

The detailed pros and cons are outlined in the Report for each of the three forms of sustainable revenues (see pages 16, 21 and 32 [of the full report]). These three revenue sources are further discussed for their immediate and long term financial implications below.

Motor Vehicle Fees

As stated, the current surcharge on the various classes of motor vehicles will raise approximately \$86 million over the current biennium. To raise the necessary

money (*through Motor Vehicle fees alone*)—in order to “level fund” the \$124 million in the current biennial budgets of DOT and DOS in the *next biennium*—these fees would have to be raised another 40% over the present surcharge.

For the average passenger vehicle this would mean annual registration fees would have to increase another \$12 per year on top of the present surcharge of \$30 more per year. The current surcharge is higher for heavier vehicles, SUV’s, and trucks and would be increased proportionately. Depending on the vehicle class and weight this means a minimum surcharge of \$42 per vehicle per year and up to \$57 for SUV’s and trucks.

Towns and cities *do* benefit by the increases in Motor Vehicle Fees in the Highway Fund. Their 12% share increased the overall municipal distribution by \$5 million annually as a result of the current surcharge, and they would proportionately share in any other increases.

The Road Toll/Gas Tax

The Road Toll/Gas Tax is currently 18 cents per gallon and has not been raised since 1992, when the price per gallon for regular unleaded was \$1.13 per gallon—less than half of what it is today.

For every penny increase it raises about \$7.3 million for the State and about \$1 million for the Municipalities.

To raise the biennial shortfall of \$124 million dollars *solely through the Gas Tax*, it would have to be raised

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about 8 cents. This would also raise (annually) about \$8 million additional dollars for municipalities.

For an average NH motorist who drives 10,000 miles per year and gets 22 miles per gallon, this 8 cent per gallon increase would translate to \$36 more per year.

Toll Plazas and Toll Revenue

The money raised from toll collection is another sustainable revenue source. Under current law, toll rates are set by a vote of the Governor and Council. The location of toll plazas is decided by the Legislature. The toll rates were raised system wide in 2008 by 22% and the Hampton Toll was raised another 50 cents in 2009 to pay for the recently installed overhead tolling.

Also under current law—and since the inception of the turnpike system—all revenue raised by tolls exclusively funds the NH Turnpike's operating budget, including all of its construction, improvements and maintenance.

The current toll structure only supports the present Turnpike budget and the programmed capital construction projects. Furthermore, without some statutory change, the Turnpike system will lose \$6 million annually upon the opening of the Manchester Airport off ramp with the current configuration of the toll booths.

Therefore, toll revenue is not a viable solution to filling the \$124 million dollar deficit projected for the



Highway Fund in the next biennium.

In the long term, tolling could pay for general Highway Fund needs, but this will require either an aggregation or consolidation of the Turnpike system (see pages 37-38 [in the full report]) with all or part of the State Highway system, and the construction of additional toll plazas in the southern tier of the state and/or toll increases.

Under a proposed consolidation, the Turnpike system would be combined with some section of the highway system, therefore, reducing those maintenance and improvement costs and likewise reducing the Highway Fund financial requests, provided all is in accordance with bond covenants.

Conclusion

Recognizing that Department of Transportation and the Department of Safety will continue to pursue steps to maximize savings in operations, the Commission explored various alternatives—including asset sales and GARVEE bonds—as the state transitions to the future.

Under current operating and capital budgets, there is an **immediate \$124 million dollar shortfall** in the Highway Fund projected for the next biennium. In terms of sustainable Highway Funds revenue to meet the current and projected needs, the newly-elected

(Continued on page 21)

Spending money on transportation and public works projects in a down economy only makes sense. It creates jobs, and helps the local economy because contractors tend to buy materials and hire help in the vicinity of each job. The money for these projects is spent several times within the economy, going from owner to general contractor, and on to subcontractors, suppliers and all of their employees.

—John Bousquet, NHGRA Director
Vice President, R.M. Piper, Inc., Plymouth

To meet the projected ten-year \$1.2 billion Highway Fund combined operating and capital budget — all three sustainable revenue sources are potentially available to the Legislature



General Court has three choices:

- 1) To raise the additional revenue from permanent registration fee increases;
- 2) To raise the additional revenue by increasing the road toll/gas tax rate; or
- 3) Some combination of 1 and 2.

In the longer term, to meet the projected ten-year \$1.2 billion Highway Fund combined operating and capital budget deficits (which does not include the \$230 million I-93 widening) all three sustainable revenue sources are potentially available to the Legislature. Toll revenues could indirectly fund the Highway Fund deficit through consolidation.

The sale of assets, public-private partnerships, the acceleration of payments on the I-95 transfer are all possible partial solutions but they are not sustainable overall revenue sources.

The alternative and the consequences to not replacing the registration fee surcharges that expire on June 30, 2011 are severe and deep cuts to the Department of Safety and to the DOT's operating, capital, and maintenance budgets that will dramatically alter the way both departments have historically operated.

The New Hampshire Highway and Bridge system is a part of the movement of people and products in New Hampshire. Highway users expect the system to be safe and timely for adequate travel. If new revenues are needed to maintain and improve the existing system then I support the recommendations of this commission who worked diligently on the legislative assignment.

—Councilor Raymond S. Burton
Executive Council

***Editors Note:** The full Commission report noted throughout this Executive Summary can be found at the NHGRA website (www.nhgoodroads.org). See page 24 for the response from New Hampshire Good Roads Association leadership, and page 34 for how you can get involved and make a difference!*

Commission to Study Future Sustainable Revenue Sources for Funding Improvements to State and Municipal Highways and Bridges

(HB 2, Chapter 144:29,I, Laws of 2009)

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