The Tennessee Advisory Commission on Intergovernmental Relations

226 Anne Dallas Dudley Blvd., Suite 508
Nashville, Tennessee 37243-0760
Phone: (615) 741-3012
Fax: (615) 532-2443
www.tn.gov/tacir

MEMORANDUM

TO: Commission Members

FROM: Cliff Lippard
Executive Director

DATE: 18 June 2026

SUBJECT: Public Chapter 438, Acts of 2025 (Transportation Infrastructure Funding)—Draft Report for Review and Comment

---

The attached draft commission report is submitted for your review and comment. It was prepared in response to Public Chapter 438, Acts of 2025, sponsored by Senator Massey and Representative Vital, which directs the commission to study and prepare a report with recommendations for establishing sustainable funding sources that meet the state's future long-term transportation infrastructure needs. In addition, in response to a request from Representative Howell in September 2025, the commission has entered into a contract with the Center for Transportation Research at the University of Tennessee to develop an economic model that estimates the effects of congestion, as well as the economic impacts of current investment levels, minimum estimates to maintain the transportation network, and investment targets for future maintenance, expansion, and modernization of the network. That analysis will not be completed until after this report but will serve to refine and expand upon the commission's own research.

Tennessee's transportation network—which includes more than 95,000 miles of state and local roadways and interstate highways—performs well overall compared to most other states and ranks highly for the cost-effectiveness of its management of state-owned roads. While the state is doing well overall, population growth, tourism, and economic development put growing pressures on Tennessee's road network, and increased congestion and highway fatalities are reasons for concern.

TACIR staff found that state and local transportation infrastructure needs are increasing. To both maintain the state's existing roads and bridges and continue current levels of investment in capacity improvements, the state needs approximately $3.6 billion in fiscal year 2027-28. The cost to continue investing at this level will increase annually and likely total approximately $7.8 billion in fiscal year 2054-55, adding up to $87 billion worth of construction and additional maintenance over that period while providing new capacity needed to meet the demands resulting from the state's growing population and economy. The recurring cost to only meet the state's goals for maintaining existing pavement and bridges in good condition, along with necessary department operations, is approximately $1.6 billion in fiscal year 2027-28, a figure that could grow to $3.5 billion in fiscal year 2054-55. Local governments also have transportation infrastructure needs. According to data from the commission's public infrastructure needs inventory, counties and cities reported $11.4 billion in locally owned transportation infrastructure needs that will be in some stage of development between July 1, 2024, and June 30, 2029.

State and local governments rely on federal (approximately 29% of total road funding), state (approximately 58%), and local (approximately 13%) sources of revenue. Within these, the three largest sources of recurring (earmarked) revenue are (1) federal fuel taxes, which along with other federal revenue are typically restricted for use on highways that are part of the federal-aid system; (2) state fuel taxes, from which some of the revenue is shared with local governments; and (3) vehicle registration fees, which are not shared with local governments. Unfortunately, none of these revenue sources is keeping pace with transportation funding needs—the costs to build and maintain critical transportation infrastructure are increasing, and at the same time, improvements in fuel economy and the potential for future electrification of vehicles are limiting growth of revenue. As a result, a gap is growing between flattening revenue and increasingly costly needs. The General Assembly has made efforts to reduce the funding gap in recent years using one-time general fund transfers.

To maintain Tennessee's existing road network, the state will need to address its existing diminishing highway funding revenue streams by either continuing to make one-time transfers from the general fund or through a combination of creating new sources of revenue and enacting higher rates on existing revenue sources. If the state wishes to increase the capacity of its current transportation network to remain economically competitive, the need is even greater. There is no single revenue source—no silver bullet—that will close the state's transportation funding gap.

Therefore, the commission finds that the General Assembly could increase funding for transportation using a mixture of revenue sources, including increases to existing sources and adoption of new revenue sources to ensure that any tax increases are not borne solely by one group of taxpayers. Additionally, to ensure continued state support for local transportation projects, the commission recommends that any increases in existing shared revenue sources continue to be shared in the same manner and that the state designate a portion of any other new transportation revenue sources to be shared with local governments for local transportation projects.

The commission analyzed a menu of alternatives for increasing or shifting state transportation revenue. As directed by Public Chapter 438, Acts of 2025, that analysis included alternatives for increasing existing sources of recurring revenue and alternatives that would earmark new sources of revenue for transportation. The commission assessed each of the potential alternatives based on several criteria. These included (1) the amount of revenue the alternative could likely generate, (2) how well the revenue source will appreciate over time, (3) how closely the revenue source is tied to road use and the extent to which road users from other states will contribute to it, and (4) whether there could be administrative challenges to implementing the alternative. Tennessee has traditionally relied on revenue sources that either approximate road use (e.g., fuel taxes) or are paid by vehicle owners (e.g., registration fees), which has meant that, historically, transportation funding comes primarily from people who use the roads, generally in proportion to the extent of their use.

Strategic state borrowing and the continued or increased use of public-private partnerships could help the state expedite important infrastructure projects. Tennessee is one of the few states that does not use state debt to help fund state transportation projects, relying instead on a pay-as-you-go model—though some local governments in Tennessee have used debt financing for local transportation projects. This approach has allowed the state to avoid long-term debt obligations but can delay the delivery of major infrastructure projects which, over long periods of time, can significantly increase construction costs. Tennessee is also beginning to use public-private partnerships to expedite major projects. Both alternatives have the potential to cost-effectively deliver much-needed infrastructure improvements.

Tennessee is proud of its pay-as-you-go model, strong financial position, and AAA credit rating. Several other states with AAA credit ratings, however, including Florida, Georgia, Missouri, North Carolina, Texas, and Virginia, use transportation debt financing while maintaining their states' credit ratings. A 2024 report from the University of Tennessee Center for Business and Economic Research said that Tennessee could feasibly and strategically increase its debt load while maintaining its status as a low-debt state with top credit ratings. There are additional benefits to accelerating the completion of important state projects. For example, it allows road users to benefit from things like reductions in congestion and improvements in safety. These potential savings in time and reductions in risk can be considered when determining which projects are strategically important enough to borrow for. Bond financing also spreads the cost of improvements among both current and future road users.

Given the potential benefits of accelerating delivery of strategically important projects and the possibility that Tennessee could take on debt without negatively affecting its credit rating, if done judiciously, **the commission finds that Tennessee would likely benefit from using debt to help finance the construction of strategically important projects that aren't good candidates for public-private partnerships.**

Based on an analysis of needs and both existing and potential new revenue sources, as well as strategic borrowing, TACIR staff developed three scenarios to help guide policymakers as they make decisions. The commission is not recommending or endorsing any specific scenario or combination of revenue sources. Rather, the scenarios show how potential changes in revenue sources or the use of borrowing could affect the amount of funding available for transportation projects. The following revenue sources are included in the scenarios:

- Fuel taxes: increasing and indexing for inflation
- Vehicle registration fees: increasing and indexing to inflation
- Weight-based registration fees for passenger vehicles
- Vehicle miles traveled tax
- Rideshare tax
- Delivery fee
- General fund revenue
- Strategic borrowing

Each scenario shows a different combination of changes:

- Scenario 1: This scenario increases existing sources of revenue and adopts several new sources of revenue while limiting use of the general fund.
    - It phases-in increases to the state's gas and diesel taxes and registration fees and indexes each to inflation.
    - It adds rideshare fees, delivery fees, a weight-based registration fee for passenger vehicles, and a weight-based per-mile tax on heavy commercial vehicles.
    - It earmarks the existing rental car tax and increases the tax rate.
    - And it earmarks revenue from the single article sales tax on the sale of new and used vehicles.
- Scenario 2: This scenario makes greater use of general fund dollars to impose fewer increases and new taxes.

    - It also phases-in increases to the state's gas and diesel taxes and registration fees and indexes each to inflation.
    - It adds a rideshare fee but allows for a portion of the proceeds to be shared with local governments.
    - It earmarks the existing rental car tax for state highway purposes and increases the rate to distribute to local governments.
    - It does not earmark single-article sales tax, impose higher registration fees on heavy passenger vehicles, impose a retail delivery fee, or create a new per-mile tax on heavy commercial vehicles.
    - Instead, it establishes a recurring transfer from the general fund to the state highway fund in an amount equal to TDOT's projected personnel expenses.
- Scenario 3: This scenario applies the effect of strategic borrowing discussed above. It increases the amount of funds available for construction and completes projects early to avoid inflation.
    - It spreads the cost of construction among both current and future road users.
    - It borrows a total of $10 billion from fiscal years 2028-37 to front-load construction of the most needed long-term capacity and safety projects while construction costs are lower.
    - It borrows $1.2 billion yearly from fiscal years 2028-32, and some of the revenues collected are used to service debt.
    - It borrows $0.8 billion yearly from fiscal years 2033-37, and continues early project delivery but slows borrowing.
    - It does no new borrowing from fiscal years 2038-55, and debt servicing continues; the needs are lower than they would otherwise have been as some projects were already built.