TACIR INSIGHT

Tennessee Advisory Commission on Intergovernmental Relations
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ASSESSING TENNESSEE'S TRANSPORTATION NEEDS AND LONG-TERM SOURCES OF FUNDING

Background

As Tennessee's growth puts pressure on the state's transportation infrastructure, construction costs are rising and revenue from fuel taxes has become limited by more fuel-efficient and electric vehicles. To address concerns about the growing gap between funding and needs, Public Chapter 438, Acts of 2025, directed the commission to study and prepare a report with recommendations for establishing sustainable funding sources that meet the state's long-term transportation infrastructure needs.

Findings and Recommendations

Currently, the state needs $3.6 billion to fund highway operations, maintenance, and improvements, a figure that increases to $7.8 billion in fiscal year 2054-55. Existing revenue sources provide $3.2 billion, leaving a $400 million gap that could grow to $3.0 billion in fiscal year 2054-55. **Because no single revenue source will be enough to close this gap, 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.** Rather than recommend any specific scenario or combination of sources, this report describes several options to choose from:

- Increase existing sources of funding, for example by increasing existing fuel tax rates and registration fees for passenger and commercial vehicles and indexing them for inflation or by continuing to make transfers to the highway fund from the general fund.
- Introduce new sources of revenue that have been implemented in other states, which could include but are not limited to a weight-distance tax on heavier commercial vehicles (KY); a rideshare tax (GA, KY, NC); or a retail delivery fee (CO, MN).
- Begin using borrowing to accelerate the delivery of strategically important transportation projects that aren't good candidates for public-private partnerships.

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 also 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.

See TACIR's full report at https://www.tn.gov/tacir/tacir-publications.html for additional information.