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Summary, Findings, and Recommendations: Funding Transportation Infrastructure

As population growth, tourism, and economic development put growing pressures on Tennessee's road network, the costs to build and maintain critical transportation infrastructure are increasing. At the same time, improvements in fuel economy and the potential for future electrification of vehicles are limiting growth of fuel tax collections that the state has historically relied upon to fund necessary maintenance, repair, and modernization projects, resulting in a growing gap between flattening revenue and increasingly costly needs. The Tennessee Advisory Commission on Intergovernmental Relations' 2022 report, *Electric Vehicles and Other Issues Affecting Road and Highway Funding in Tennessee*, described how construction cost inflation and increased fuel economy combine to undercut future gas tax revenue needed to fund transportation projects. In response to recommendations in that report, the General Assembly increased the state's registration fee on electric vehicles (EV) and added a lesser fee for hybrid electric vehicles (commonly referred to as just "hybrids") to help offset the revenue lost from state fuel taxes that those vehicle owners do not pay. The General Assembly has in recent years also made one-time transfers to the state's highway fund from its general fund to increase funding for transportation projects. But concerns remain that revenue dedicated to maintaining and improving the state's transportation infrastructure will decline as time goes on.

Seeing an opportunity to address these concerns, Senator Massey and Representative Vital introduced legislation in the 114th General Assembly that became Public Chapter 438, Acts of 2025, directing 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 (see appendix). 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.

To simply maintain Tennessee's existing road and bridge 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. As the cost to meet the state's goals for maintaining existing pavement and bridges in good

There is a growing gap between flattening revenue and the increasing costs of building and maintaining Tennessee's critical transportation infrastructure.

Without additional revenue, officials will be forced to choose between delaying maintenance of existing infrastructure or delaying much needed improvement projects.

condition increases, less state-generated revenue remains available to take advantage of federal support for capital improvement projects. If the state wishes to increase the capacity of its current transportation network to remain economically competitive, the need to generate additional revenue is even greater. Without it, transportation officials will be forced to choose between delaying maintenance of existing infrastructure or delaying much needed improvement projects. Strategic state borrowing and the continued or increased use of public-private partnerships could help the state expedite important infrastructure projects.

Tennessee's transportation network is performing well in many ways, but continued growth is driving up needs for long-term investment.

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. According to an annual report from *Reason* magazine, Tennessee's highway system ranks 12th in the nation in overall cost-effectiveness and condition—ahead of neighboring Kentucky and Mississippi but behind Georgia, North Carolina, and Alabama. Tennessee also scored well for pavement and bridge conditions, ranking in the top 15 for interstate pavement condition and having the 12th-lowest percentage of structurally deficient bridges. But only 42% of bridges are in good condition, and the Tennessee Department of Transportation (TDOT) says it will need additional funding for bridge construction to maintain their condition.

Rapid growth throughout Tennessee is beginning to strain state and local road networks. The state's population has increased by nearly one million people since 2010—ninth most of any state. Tennessee is also uniquely positioned to be within a day's drive of more than two-thirds of the United States and, according to the Tennessee Department of Tourist Development, welcomed a record 147 million visitors in 2024. Because of this central location, the state is also a major commercial freight hub and corridor. Tennessee's rising population, increasing number of visitors, and increasing commercial traffic are putting more people on the road, causing greater wear and tear, and affecting resurfacing needs on the state's roads and bridges.

While the state is doing well overall, increased congestion and highway fatalities are reasons for concern. According to the *Reason* report, Tennessee ranks 36th out of the 50 states in urban traffic congestion. The American Transportation Research Institute reports that eight of the country's worst trucking bottlenecks are in Tennessee, tied with California for third-most and behind Georgia (9) and Texas (12). Tennessee also scores poorly for road safety. According to the National Highway Traffic Safety Administration,

Tennessee tied for the sixth-worst traffic fatality rate in 2023 and had the sixth-greatest increase since 2015. The *Reason* report ranks Tennessee's rural fatality rate 20th and its urban fatality rate near the bottom at 47th.

State and local transportation infrastructure needs are increasing.

To identify state and local transportation needs, TACIR staff relied on several resources. Staff were unable to comprehensively evaluate individual transportation projects because to do so would have required engineering and technical analysis beyond the scope of the commission's capabilities and resources. Instead, TACIR staff used existing planning documents from TDOT, including but not limited to the department's 10-year work program and its federally required asset management plan; correspondence with TDOT staff; TDOT presentations to the General Assembly; and data reported by local officials for the commission's annual public infrastructure needs inventory (PINI).

Based on this information, 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 funding needed 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. At a minimum, the amount needed to fund the state's required share of federally funded programs, meet the state's goals for maintaining existing pavement and bridges in good condition, and fund necessary department operations, will be approximately \$1.9 billion in fiscal year 2027-28, a figure that could grow to \$3.8 billion in fiscal year 2054-55.

Local governments also have transportation infrastructure needs. According to data from PINI, 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.

Federal and state fuel taxes and state vehicle registration fees are the primary recurring sources of transportation funding in Tennessee, but they aren't keeping pace with the state's needs.

State and local governments rely on federal (approximately 29% of total road funding), state (approximately 58%), and local (approximately 13%) sources of revenue for transportation funding. Within these, the three largest sources of recurring (earmarked) revenue are (1) federal fuel taxes, which along with other federal revenue are typically restricted

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.

Inflation is significantly decreasing the purchasing power of fuel tax revenue collected and is the primary reason why revenues are not keeping pace with needs.

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, nearly all of which are retained by the state. Unfortunately, none of these revenue sources is keeping pace with transportation funding needs, mostly because of the combined effects of increased fuel efficiency, vehicle electrification, and rising construction costs.

Federal and State Fuel Taxes

Federal and state fuel taxes account for the majority of road funding in Tennessee, and each is calculated on a cents per gallon basis.

- Federal funding, which comes primarily from federal fuel taxes on gas and diesel, accounts for approximately 40% of TDOT's annual revenue—approximately \$1.2 billion per year. Neither the federal gas tax (18.4¢ per gallon) nor the federal diesel tax (24.4¢ per gallon) has been increased since 1993.
- Tennessee's state fuel taxes account for approximately 30% of TDOT's annual revenue—approximately \$820 million per year. Tennessee's fuel tax rates, set at 27¢ per gallon for gasoline and 28¢ per gallon for diesel (including a 1¢ tax on all petroleum products that applies to both), were last increased in 2020 as part of the multiyear phase in of the 2017 IMPROVE Act.

But neither the federal fuel taxes nor the state fuel taxes are keeping pace with the increase in transportation infrastructure needs. Total revenue from these taxes is growing by approximately 1.5% each year, while construction costs have increased at a much higher rate, 12% annually from 2021 to 2025.

Because both the federal and state fuel taxes are set at a per-gallon flat rate and are not indexed for inflation, their revenue does not increase when prices increase. As the commission found in its 2022 report on EVs and road funding, inflation is significantly decreasing the purchasing power of fuel tax revenue collected and is the primary reason why fuel tax revenues are not keeping pace with needs. Additionally, increases in the fuel efficiency of vehicles are reducing the amount of fuel drivers would otherwise purchase, further reducing growth in fuel taxes over time. The extent to which consumers adopt EVs in future years could also reduce future fuel tax revenue. As a result, fuel taxes, though they are currently a large source of revenue, will likely appreciate at slower rates going forward.

Vehicle Registration Fees

Vehicle registration fees are the third largest source of revenue for transportation funding in Tennessee. They account for approximately 11%

of TDOT's funding—approximately \$330 million annually. In Tennessee, registration fees vary by vehicle type and were last increased by the IMPROVE Act in 2017. TACIR staff analysis shows that registration fees are likely to appreciate faster than fuel taxes over time as more people move to Tennessee and register their vehicles. But the fees are not indexed for inflation.

To make up for the lack of fuel tax contributions from drivers of EVs, the IMPROVE Act created a new \$100 annual fee to be paid by the owners of these vehicles in addition to the regular registration fee. In 2022, TACIR studied the state's intergovernmental funding structure for road construction and maintenance. The commission recommended that (1) the state increase its EV fee to more closely align with what Tennessee's average driver pays in fuel taxes, (2) the state adopt a reduced EV fee applied to plug-in-hybrid vehicles (PHEV), and (3) revenue from both fees should be shared with local governments in the same proportion as the gas tax. The Transportation Modernization Act of 2023 (TMA) raised the EV fee to \$200 as of January 1, 2024, added a \$100 fee for PHEV and traditional hybrid electric vehicles, and required the state to share more than a third of the proceeds from both fees with city and county governments. The TMA also established that the full EV fee will increase to \$274 in 2027 and that both fees will be adjusted annually for inflation starting in 2028, with increases capped at 3% per year.

Current and Future Funding Gaps

Currently, there is a gap between the revenue generated by the primary sources of recurring transportation funding in Tennessee and what the state needs to both maintain its existing road and bridge network and make capacity improvements. In fiscal year 2027-28, the state's existing recurring sources of revenue are expected to bring in \$2.6 billion. This leaves a billion-dollar gap between recurring revenue and the \$3.6 billion in funding needed, though as discussed below, one-time funding, including transfers from the state's general fund and increased federal support, have been used to close the gap in recent years.

If the state continues to rely on existing revenue sources, this gap will likely grow. In fiscal year 2047-48, TACIR staff estimate that existing sources of recurring revenue could generate approximately \$3.6 billion. This could leave a gap of approximately \$2.5 billion between revenue and the \$6.1 billion in funding needed to both maintain the existing road and bridge network and continue current levels of investment in capacity improvements.

Transportation Funding for Local Governments

Local governments in Tennessee rely on fuel tax revenue shared with them by the state to help fund local transportation needs. Counties receive

To make up for their lack of fuel tax contributions, drivers of electric and hybrid vehicles pay additional annual registration fees: \$100 for hybrid vehicles (with or without plug-in capability) and \$200 for full EVs.

In January 2027, the EV fee will increase to \$274; in 2028, both fees will be adjusted annually for inflation.

Although one-time transfers can provide TDOT with substantial additional revenue, moving funding from the general fund pulls resources from other state priorities.

approximately 22% of the revenue from the state's fuel taxes and cities receive approximately 12%, with the state retaining the rest. That shared fuel tax revenue is usually not enough to cover local governments' road expenses, with most jurisdictions relying on their local sales and property taxes to fund the rest of their needs. Shared revenue from additional registration fees for hybrid and electric vehicles currently adds a small amount, but that revenue will grow as more Tennesseans choose EVs and hybrids. County highway departments for the state's 95 counties spent \$794 million in fiscal year 2023-24, of which \$296 million came from state-shared fuel taxes. TACIR staff analyzed revenue and expenditures data from fiscal year 2023-24 for 331 cities and identified approximately \$584 million in street-related spending. These cities received approximately \$80 million from state-shared fuel taxes. There are other state aid programs available to counties and cities for transportation funding.

The General Assembly has made efforts to reduce the funding gap in recent years using one-time general fund transfers.

In addition to increases in state fuel taxes and registration fees resulting from the IMPROVE Act and the increase in EV fees resulting from the Transportation Modernization Act, Tennessee has invested in its road network through one-time general fund transfers in several recent years. In fiscal year 2022-23, the General Assembly appropriated more than \$600 million from the general fund for TDOT projects while, through the Transportation Modernization Act, it established the Transportation Modernization Fund—a new interest-bearing account for TDOT to manage a \$3 billion general fund appropriation in fiscal year 2023-24—and provided an additional \$300 million in state aid for county resurfacing projects. Another \$1 billion general fund transfer was approved for fiscal year 2025-26, followed by \$400 million for fiscal year 2026-27.

Although one-time transfers like these can provide TDOT with substantial additional revenue, moving funding to TDOT from the general fund pulls resources from other state priorities. And relying on one-time, non-recurring transfers can also make it more difficult for TDOT to carry out long-range planning, according to TDOT staff.

The state could instead look to a combination of revenue sources to meet current and future needs.

There is no single revenue source—no silver bullet—that will close the state's transportation funding gap. By way of example, to increase state transportation funding by \$900 million solely by increasing the state's existing fuel taxes would necessitate increasing the gas and diesel taxes to 56¢ per gallon and 60¢ per gallon, respectively. Additionally, it seems

unlikely that the federal government will increase recurring federal sources of revenue in the near future.

Instead, 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 (see exhibit at the end of summary section for a comparison of alternatives). 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.

Fuel Taxes: Increasing and Indexing for Inflation

Tennessee's existing fuel tax rates on gas (27¢ per gallon) and diesel (28¢ per gallon) are less than the average rates among neighboring states (gas tax rates in Tennessee's eight neighboring states range from 21.4¢ to 41.6¢—31.3¢ on average; rates for diesel range from 21.4¢ to 42.7¢—32.3¢ on average). Although the revenue generated by these taxes is still increasing each year, its growth has slowed as the fuel efficiency of vehicles increases and will likely start decreasing in the next two decades if current trends continue. Because the tax rates are not indexed for inflation, the buying power of the tax has been decreasing in recent years.

Had the IMPROVE Act indexed the state's fuel tax rates to the consumer price index (CPI) to grow with inflation, the gas tax rate could have been 32.5¢ per gallon and the diesel tax rate 33.8¢ per gallon in fiscal year

Historically, transportation funding comes primarily from people who use the roads, generally in proportion to the extent of their use.

Increasing fuel taxes and indexing them for inflation could generate a substantial increase in transportation funding that would be borne by both in-state and out-of-state drivers and reduce the extent to which inflation undercuts the buying power of the taxes.

2025-26. Increasing both fuel taxes to where they would likely be for fiscal year 2027-28 had they been indexed (34.2¢ and 35.5¢) would increase state transportation funding by \$191 million in fiscal year 2027-28, with corresponding increases of \$70 million for counties and \$35 million for cities. To help ensure that revenue generated by state fuel taxes keeps pace with inflation, the state could also index its fuel tax rates to the CPI going forward. Assuming average annual inflation of 2.5%, the rates would be 56.1¢ and 58.2¢ per gallon for fiscal year 2047-48, which could increase state transportation funding by approximately \$587 million, with increases of \$210 million for counties and \$105 million for cities.

The benefits of increasing fuel taxes and indexing them for inflation are that it could generate a substantial increase in transportation funding, and the tax increase would be borne by both in-state and out-of-state drivers. Indexing the tax rates would also reduce the extent to which inflation undercuts the buying power of the taxes and will help ensure that the revenue appreciates more going forward. But even with these changes to the structure of the state's fuel taxes, they would not appreciate as fast as other sources of revenue because of increases in fuel efficiency.

One potential challenge with indexing fuel taxes or any of the other taxes assessed below is that it could be perceived as an automatic tax increase by taxpayers. The General Assembly could address this concern by setting a cap on the potential annual increase in these tax rates, for example 3%. If inflation were to increase by a greater percentage in any given year, the tax rates would not increase more than the cap unless legislative action were taken.

Vehicle Registration Fees: Increasing and Indexing for Inflation

Tennessee's flat registration fee of \$26.50 for passenger vehicles is lower than rates in many neighboring states and not indexed for inflation. Had the IMPROVE Act indexed the state's vehicle registration fees to the CPI to grow with inflation, the fee could have been \$33.50 for fiscal year 2025-26. The state's registration fees for commercial vehicles, which vary by weight, are also not indexed for inflation. Increasing registration fees for passenger and commercial vehicles to where they would likely be for fiscal year 2027-28 had they been indexed for inflation (\$35.00 for passenger vehicles, \$99.75 to \$1,911.75 for commercial) would increase state transportation funding by \$129 million in fiscal year 2027-28. To help ensure that revenue generated by registration fees keeps pace with inflation, the state could also index them to CPI going forward. If the state were to increase the existing fees for all vehicle types for fiscal year 2027-28 and index them,

this could increase revenue in fiscal year 2047-48 by approximately \$560 million.¹

Increasing vehicle registration fees and indexing them for inflation could generate an increase in transportation funding, though not as significant as an increase in fuel taxes. Indexing the tax rates would also reduce the extent to which inflation undercuts the buying power of the taxes and could help ensure that the revenue appreciates more going forward. The state has already indexed the additional registration fees paid by owners of EVs and hybrids. Registration fee revenue is likely to appreciate faster than the gas tax if population continues to grow because it is not affected by fuel efficiency. But any increase in registration fees for passenger vehicles would be borne only by Tennessee residents. Drivers of commercial vehicles that travel in and through Tennessee but are registered in other states pay mileage-apportioned registration fees, meaning that a portion of those fees are paid by non-residents.

Weight-based Registration Fees for Passenger Vehicles

Heavier vehicles have been shown to cause greater wear and tear on roadways. Currently, Tennessee charges weight-based registration fees only to commercial vehicles. Some states also apply weight-based registration fees to passenger vehicles. In Virginia, for example, the registration fee for vehicles up to 4,000 pounds (gross vehicle weight) is \$30.75; it costs \$35.75 for vehicles between 4,001 and 6,500 pounds, and \$44.75 for cars over 6,500 pounds. If Tennessee were to apply weight-based registration fees to passenger vehicles with gross vehicle weight ratings (GVWR, which is the maximum weight the vehicle can carry including the vehicle itself) greater than 6,000 pounds, it could increase state funding by \$58 million in fiscal year 2027-28 and \$122 million in fiscal year 2047-48. The increased fee would apply to approximately 30% of passenger vehicles.

Adopting weight-based registration fees for passenger vehicles would generate an increase in transportation funding, though not as significant as other revenue sources. Similar to changes that would increase and index registration fees discussed above, revenue from weight-based registration fees would likely appreciate faster than the gas tax, but any increase would be borne only by Tennessee residents.

Tennessee's vehicle registration fees are lower than fees in many neighboring states and are not indexed for inflation. Had the IMPROVE Act indexed registration fees to grow with inflation, it could increase state transportation funding by \$129 million in fiscal year 2027-28.

¹ Of the state's \$26.50 flat vehicle registration fee on passenger vehicles, \$22.40 is earmarked for the state highway fund, with the remainder divided between the Tennessee Department of Revenue, supplemental police pay, license plates, and the general fund. TACIR staff applied its inflation analysis only to the portion of the fee earmarked for the state highway fund. Similar calculations were made for commercial vehicles in each weight class.

A weight-based, per-mile tax on heavy commercial vehicles, which cause greater wear and tear on roadways, would increase transportation funding and be collected from both in-state and out-of-state companies.

Vehicle Miles Traveled Tax

Some states have implemented or tested the use of vehicle miles traveled (VMT) taxes. These taxes charge drivers a per-mile fee for use of the state's roads. Implementing a similar VMT tax on passenger vehicles in Tennessee could come with several administrative challenges. Unless other states, especially our surrounding states, have adopted similar programs, it would be difficult to apply the tax to visitors traveling to Tennessee, so most of the revenue from a passenger vehicle VMT tax would be raised solely from Tennesseans. Privacy considerations could also create an administrative challenge, as many residents may balk at sharing driving data with the state. Additionally, the primary example of another state that has adopted a VMT tax for passenger vehicles, Oregon, levies the tax in lieu of other taxes rather than in addition to them. Oregon has implemented a voluntary VMT tax—vehicle owners who opt into the program can use the per-mile tax to offset what they would otherwise pay in gas tax, and owners of fuel-efficient vehicles or EVs can use the tax to reduce their registration fees.

Other states levy per-mile taxes on heavy vehicles. Kentucky receives approximately 5% of its highway revenue (\$86 million) from a 2.85¢ per-mile tax on vehicles 60,000 pounds and above. Connecticut, New Mexico, New York, and Oregon also charge weight-based mileage fees.

Applying a VMT tax solely on heavier commercial vehicles could be less administratively challenging to the extent that many of these vehicles are already reporting mileage to the state for interstate registration and fuel tax purposes. In Tennessee, combination trucks (tractor-trailers) accounted for 6.3 billion vehicle-miles traveled in 2024. A 3¢ per-mile tax on these trucks could potentially generate \$190 million annually—roughly the equivalent to a 4¢ fuel tax increase—much of which could be collected from trucking companies based in other states.

A weight-based per-mile tax on heavy vehicles would generate an increase in transportation funding, though not as significant as other revenue sources. The extent to which it appreciates over time would depend on changes in VMT for heavy vehicles subject to the tax. Revenue would be collected from both in-state and out-of-state companies.

Rideshare Tax

Several states, including some of Tennessee's neighbors (Georgia, North Carolina, and Kentucky), impose taxes on rideshare services. These taxes are usually structured either as gross receipts taxes or a per-trip fee. Georgia's tax, which started at 50¢ per trip in 2020, was indexed for inflation and is now 64¢ per trip. TACIR staff estimate that a 50¢ per trip tax in Tennessee could generate approximately \$45 million in fiscal year 2027-28 and approximately \$268 million at 82¢ per trip in fiscal year

2047-48 if current trends in use of these services continue and the tax is indexed for inflation.

Rideshare taxes would not generate as much funding as other revenue alternatives, though they could appreciate over time if indexed for inflation and to the extent that use of these services increases. Rideshare users would pay these taxes regardless of whether they are Tennessee residents or visiting from other states.

Retail Delivery Fee

Two states have enacted retail delivery fees on deliveries of taxable goods. Colorado's fee is 31¢ per delivery and is indexed for inflation. Minnesota has a 50¢ fee that applies only to deliveries valued at \$100 or more. Legislators in both states have attempted to repeal the fees. TACIR staff estimate that a 30¢ fee per delivery that is indexed for inflation like Colorado's could generate \$88 million in fiscal year 2027-28 and could increase to \$159 million in fiscal year 2047-48.

Delivery fees would not generate as much funding as other revenue alternatives, though they could appreciate over time to the extent that use of home-delivery increases. The fees would be paid primarily by Tennessee residents though they would apply to any delivery within the state.

General Fund Revenue

Tennessee could continue to use general funds to increase state funding for transportation through one-time transfers, as it has done in several recent years, or do so on a recurring basis either with a flat dollar amount or by earmarking a portion of recurring state revenue. Using the general fund can provide TDOT with substantial additional revenue, but it pulls resources from other state priorities.

Recent one-time transfers have varied but have been sizeable. Since fiscal year 2022-23, the General Assembly has transferred nearly \$6 billion to TDOT from the general fund, including \$3 billion appropriated in fiscal year 2023-24 to establish the Transportation Modernization Fund, a new interest-bearing account to be used to fund transportation projects throughout the state. Additional transfers of \$1 billion and \$400 million were appropriated for fiscal years 2025-26 and 2026-27, respectively, but relying on future one-time transfers can make it difficult for TDOT to carry out long-range planning.

Beyond the one-time transfers, the General Assembly enacted Public Chapter 508, Acts of 2025, which earmarks 5.5% of the 7% state sales tax on new and used tires to the state highway fund. But there have been implementation challenges because retailers now must report tire sales separately, which they were not previously required to do. Collections for

Revenue generated by a rideshare tax could appreciate over time if indexed for inflation and to the extent that use of these services increases; some would be paid by visitors from other states.

The General Assembly could earmark additional sources of existing revenue for the state highway fund or choose to allocate a recurring flat amount.

fiscal year 2025-26 are estimated to be approximately \$25 million—much less than the \$80 million originally anticipated.

Going forward, the General Assembly could earmark additional sources of existing revenue for the state highway fund. For example, in the 114th General Assembly, Senate Bill 1642 by Senator Walley and House Bill 1683 by Representative Hawk would have earmarked almost all state sales tax revenue from the sale of new or used motor vehicles and new or used tires for the state highway fund, with a small portion reserved for cities. According to the bill's fiscal note, it would have earmarked approximately \$1.1 billion for the state highway fund in fiscal year 2027-28 and subsequent years. Other existing taxes could also be candidates for use, though they don't always raise as much revenue. The state's 3% tax on gross proceeds from rental car businesses generates approximately \$20 million annually, which currently goes to the general fund. But as stated above, earmarking existing revenue sources pulls resources from other state priorities.

To avoid taking existing funding from other programs, the General Assembly could increase one or more taxes, for example the sales tax, and earmark the new revenue for the state highway fund. A 0.25% increase in the state's general sales tax could generate approximately \$520 million in fiscal year 2027-28. But it should be noted that Tennessee already has one of the highest average combined state and local sales tax rates in the nation. The extent to which any of these general fund alternatives might appreciate over time depends on the revenue sources that are used and whether the state chooses to simply allocate a recurring flat amount to TDOT or a percentage of a recurring revenue source. Depending on the revenue sources that are used, revenue could come both from Tennesseans and visitors from other states.

Public-private partnerships and debt financing can help expedite needed transportation 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 (P3) to expedite major projects. Both alternatives have the potential to cost-effectively deliver much-needed infrastructure improvements.

Tennessee is using public-private partnerships to leverage private investment and preserve state funds for other priorities.

P3s allow governments to enter into agreements with private sector investors to build and operate new roadway infrastructure. This allows governments to leverage private capital in support of public needs, while freeing government resources for other projects. Additionally, according to the National Governors Association, the main benefit of P3s is their ability to accelerate projects, reduce costs, and foster innovation. The Transportation Modernization Act gave TDOT the authority to use P3s for the first time, which it is using to develop price-managed lanes—publicly referred to as choice lanes—to reduce congestion on the state's busiest interstates by pricing access to those new lanes based on traffic conditions. The state will own the choice lanes—which drivers can choose to pay a fee to use—and the private sector partner will finance, design, build, operate, and maintain the lanes in exchange for the user fees. Currently, there is one P3 project in development on the I-24 corridor between Nashville and Murfreesboro.

While P3s can be effective, they rely on having a private partner willing to finance a project. There may be transportation projects that are important for the state to complete but that don't make financial sense for private sector partners. In these cases, strategic borrowing by the state is an alternative that could provide the up-front financing needed to complete large projects as quickly as possible.

Strategic state borrowing could allow Tennessee to more proactively fund large projects while maintaining a top credit rating.

Tennessee is proud of its strong financial position and AAA credit rating. To keep this strong rating, the state has long used a pay-as-you-go model for road funding. 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. The key is borrowing within the state's means. 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. Further, according to the Center on Budget and Policy Priorities,

States and localities rarely fail to repay bondholders, but there is some risk that they might borrow so heavily that their debt obligations begin to crowd out other parts of the budget. Because each decision to issue a bond will affect the state for decades, guidelines are needed to prevent one generation's decisions from pre-empting those of the next.

Tennessee's pay-as-you-go approach has allowed the state to avoid long-term debt obligations, but delaying the delivery of major infrastructure projects can, over long periods of time, significantly increase construction costs.

In cases that don't make financial sense for private sector partners, strategic use of debt financing could provide the up-front funding needed to help the state accelerate the completion of some of its most important projects.

States use several methods to limit their indebtedness, usually by setting a cap on total debt as a share of the state's economy or a cap on annual interest payments as a share of state revenues. (Some states, however, have no such limits; on the other hand, a few states are prohibited from issuing general obligation debt.) Because policymakers need flexibility if the state faces unusual capital needs resulting from natural disasters, aging infrastructure, or other challenges, these limits should be guidelines rather than rigid caps. States and localities should also regularly perform a formal debt affordability analysis and make this information public.

According to the Federal Highway Administration (FHWA), "Although bond financing imposes interest and other debt-related costs, bringing a project to construction more quickly than otherwise possible can sometimes offset these costs." TACIR staff looked at a sample of four projects from its 2024 Public Infrastructure Needs Inventory that dated back to 2010, with a combined cost originally estimated at \$222 million. By 2024, those estimates had grown to \$576 million—an increase of 160% after 14 years of inflation averaging 7% annually. If bonds had been issued in 2010 to finance the four projects, they could have been completed for a total cost of approximately \$356 million, including \$134 million in interest, potentially saving \$220 million by avoiding inflation-related cost increases. This doesn't necessarily mean that the state will complete *more* projects over a multi-decade period. But strategic use of debt financing could help the state accelerate the completion of some of its most important projects, or the state could use this funding to prioritize strategically important categories of infrastructure.

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. Tennessee's fiscal strength and superior credit rating give the state access to borrow money at the lowest possible costs. Borrowing to finance long-term infrastructure, using bonds and other debt financing tools allows states to distribute costs over time while addressing multiple infrastructure priorities concurrently. Relying solely on current revenue to fund projects places the entire burden on current users, when the long-term benefits of those completed improvements will be enjoyed by other users well into the future. As described by the Center on Budget and Policy Priorities, infrastructure projects including road projects "are used for decades but entail large upfront costs; borrowing

enables the state to spread out those costs. As a result, taxpayers who will use the infrastructure in the future help pay for it, which promotes intergenerational equity.”

TACIR staff developed an example to illustrate strategic borrowing for long-term needs. In table 1, the analysis assumes a level annual payment structure in which the principal amount is repaid over approximately twenty years on an aggregate basis rather than tracking individual bond issuance. From the analysis, borrowing \$10 billion between fiscal year 2027-28 and fiscal year 2036-37 to deliver fiscal year 2037-38 to fiscal year 2054-55 projects early could help avoid about \$7.3 billion in inflation-related cost escalation, before accounting for debt service. Accelerated project delivery could help offset some of the costs associated with debt service, and it also allows the project to deliver benefits earlier than pay-as-you-go financing. But the estimates used in this analysis are not project specific, and it should be noted that the timing of the implementation is an important factor in determining whether debt financing is an appropriate funding strategy. Traditionally, debt financing is done by issuing bonds on the private market to be paid back from toll revenues, state fuel tax revenues, general funds, or other sources. Having a dedicated revenue stream earmarked for debt service payments helps avoid the need to divert funding away from other needs.

Table 1. Strategic Borrowing for Long-Term Capacity and Safety Needs

Description	Amount
Total Strategic Borrowing	\$ 10,000,000,000
Projects Delivered Earlier	\$ 10,000,000,000
Future Cost if Delayed to Fiscal Year 2045-46 at 4% Inflation Rate	\$ 17,316,764,476
Inflation Avoided	\$ 7,316,764,476
Maximum Annual Debt Service	\$ 920,000,000
Interest Cost	\$ 5,580,000,000
Benefit: early benefits like congestion relief, safety improvements, and economic development are not included	\$ 1,736,764,476

Source: TACIR staff analysis based on the state's long-term capacity and safety needs and strategic borrowing assumptions.

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.**

Borrowing \$10 billion between fiscal year 2027-28 and fiscal year 2036-37 to deliver fiscal year 2037-38 to fiscal year 2054-55 projects early could help avoid about \$7.3 billion in inflation-related cost escalation.

Examples of Potential Revenue Scenarios for Funding Transportation Infrastructure Needs

Based on an analysis of needs and both existing and potential new revenue sources, as well as strategic borrowing, TACIR staff developed the following 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 following have been developed to show how potential changes in revenue sources or the use of borrowing could affect the amount of funding available for transportation projects.

Scenarios developed by TACIR staff are examples meant to help guide policymakers by showing how different combinations of potential revenue changes could affect the amount of funding available for transportation projects.

The commission is not recommending or endorsing any specific scenario or combination of revenue sources.

For each of the scenarios, TACIR staff projects TDOT will have approximately \$3.2 billion available from existing state and federal sources in fiscal year 2027-28, falling \$407 million short of the projected amount needed to both maintain the state's existing road and bridge network and continue current levels of investment in capacity improvements. Without additional revenue, the annual projected gap could grow to \$2.5 billion in fiscal year 2047-48 and \$3.0 billion in fiscal year 2054-55. Each of the scenarios include federal funds, but states are limited in how they can use federal funds. These projections assume both that future rules for federal programs remain similar to those currently in place and that the state can use additional state revenue to maximize federal assistance for capital improvements while allocating amounts needed to meet its goals for regular maintenance and preservation.

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 for 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 that can be shared with local governments.
 - 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 for 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 includes an amount of strategic borrowing in addition to the alternatives shown in scenario 2. 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 includes total borrowing of \$10 billion from fiscal year 2027-28 to 2036-37 to front-load construction of the most needed long-term capacity and safety projects while construction costs are lower.
 - It includes \$1.2 billion yearly borrowing from fiscal year 2027-28 to 2031-32, and some of the revenues collected are used to service debt.
 - It includes \$0.8 billion yearly borrowing from fiscal year 2032-33 to 2036-37 and continues early project delivery but slows borrowing.
 - It does no new borrowing from fiscal year 2037-38 to 2054-55, and debt servicing continues; the needs are lower than they would otherwise have been as some projects were already built.

Revenue Scenario 1: Increased User Fees and Minimal Use of General Fund Dollars

This scenario provides \$14.1 billion more in total funding for state transportation through fiscal year 2039-40 than existing sources are projected to provide, allowing for more investments to be made in new projects that reduce the backlog of long-term needs. It still, however, falls approximately \$1.3 billion short of total TDOT needs over the final years of the projection. The scenario assumes both that future rules for federal programs remain similar to those currently in place and that the state can use additional state revenue to maximize federal assistance for

Scenario 1 increases existing sources of revenue and adopts several new sources of revenue while limiting use of the general fund.

Scenario 2 makes greater use of general fund dollars to impose fewer increases and new taxes.

Scenario 3 includes an amount of strategic borrowing in addition to the alternatives shown in scenario 2.

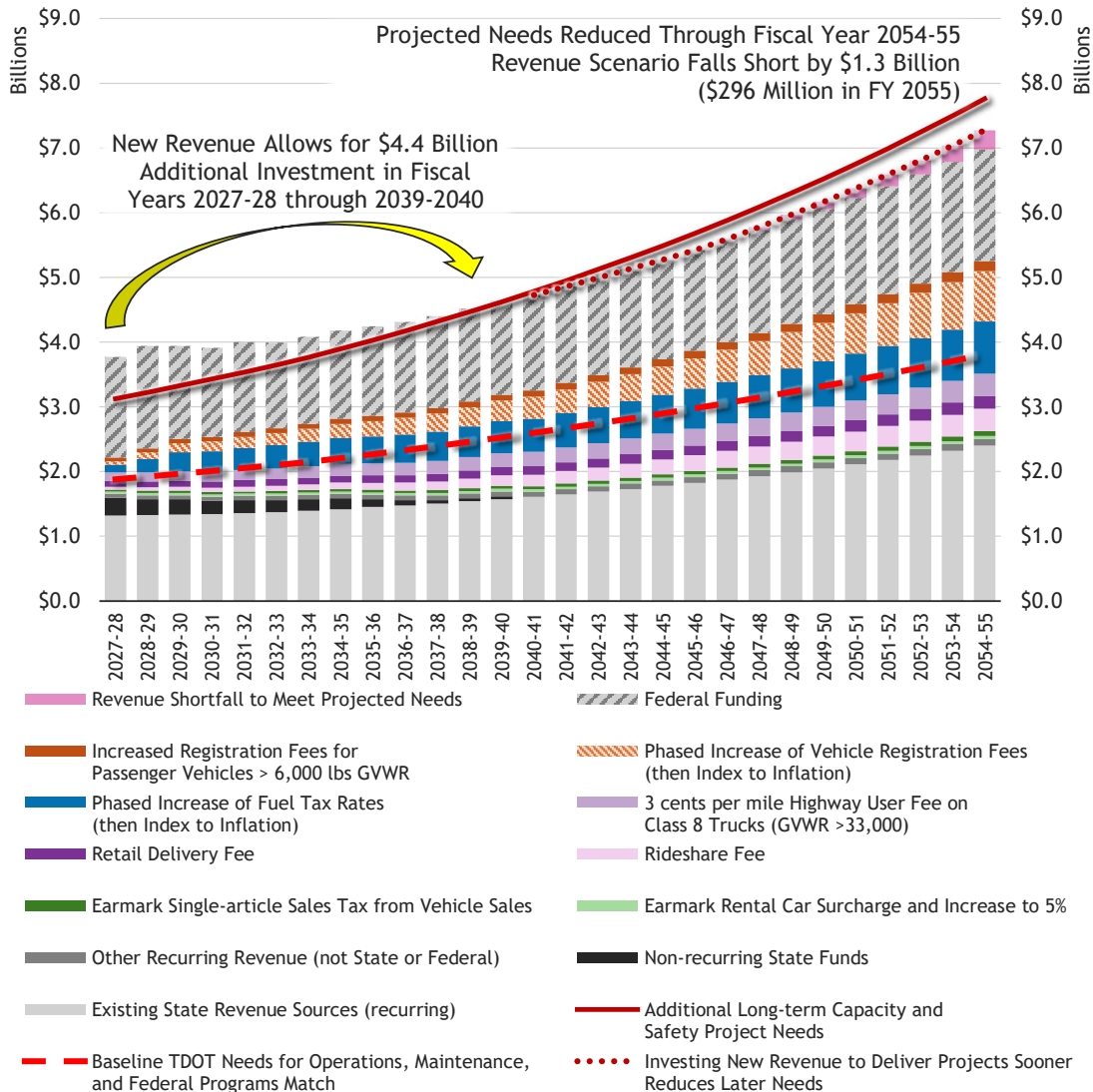
capital improvements while allocating amounts needed to meet its goals for regular maintenance and preservation. See table 2 and figure 1.

Table 2. Funding Sources and Revenue Projections for Scenario 1

Description	Shared	Indexed	Fiscal Year 2027-28 (millions)	Fiscal Year 2039-40 (millions)	Fiscal Year 2054-55 (millions)
Fuel Taxes: 30¢/31¢ (gas/diesel FY28); 33¢/35¢ (FY29); 36¢/38¢ (FY30); adjusted for inflation annually thereafter	Yes	Yes CPI	\$ 117.1	\$ 496.4	\$ 811.9
Vehicle Registration Fees: all types, phased increases FY28-FY30; adjusted for inflation annually thereafter	No	Yes CPI	53.1	318.6	777.4
Vehicle Registration Fees: higher fees for passenger vehicles 6,001-8,000 lbs, 8,001-10,000 lbs, and >10,000 lbs GVWR	No	n/a	58.2	92.7	155.9
Rideshare Fee: 50¢ per trip; adjusted annually for inflation	No	Yes CPI	45.3	161.4	351.3
Retail Delivery Fee: 30¢ per delivery; adjusted annually for inflation	No	Yes CPI	87.6	125.8	195.0
Highway User Fee: 3¢/mi for Class 8 Trucks (GVWR >33,000); adjusted for inflation	Yes	Yes CPI	135.1	214.6	341.3
Tax on Rental Cars: earmark from general fund and increase rate from 3% to 5%	No	n/a	34.3	39.6	46.1
Single-article Sales Tax: earmark tax collected on sales of new and used vehicles for state highway fund	No	n/a	32.0	45.6	71.1
Additional fiscal year revenue for state transportation			\$ 562.7	\$ 1,494.7	\$ 2,750.1
Cumulative revenue for state transportation			\$ 562.7	\$ 14,139.8	\$ 46,133.8
Fiscal year general fund reduction for transportation			\$ (52.6)	\$ (69.4)	\$ (98.7)
Additional fiscal year revenue for counties			\$ 90.7	\$ 253.4	\$ 408.8
Additional fiscal year revenue for cities			\$ 46.4	\$ 128.5	\$ 207.2

Source: TACIR staff projections based on existing revenue, future growth, and analysis of potential alternatives implemented in other states. Total revenue for state transportation includes revenue from new sources plus existing revenue earmarked from the general fund. Amounts shown for sources shared with local governments are only the state's portion.

Figure 1. Revenue Projections from Existing and Additional Sources with Projected Costs to Maintain and Improve Transportation Infrastructure (Scenario 1) State Fiscal Years 2027-28 through 2054-55



Source: TACIR staff projections based on existing revenue, future growth, and analysis of potential alternatives implemented in other states.

Revenue Scenario 2: Recurring Transfer from General Fund to Cover TDOT Employee Payroll and Benefits

This scenario provides \$15.1 billion more in total funding for state transportation through fiscal year 2039-40 than existing sources are projected to provide, allowing for even more investments to be made sooner for new projects and allowing portions of new revenue to be shared with local governments. By spreading that spending out evenly over time, this scenario only falls \$9 million short of projected total needs

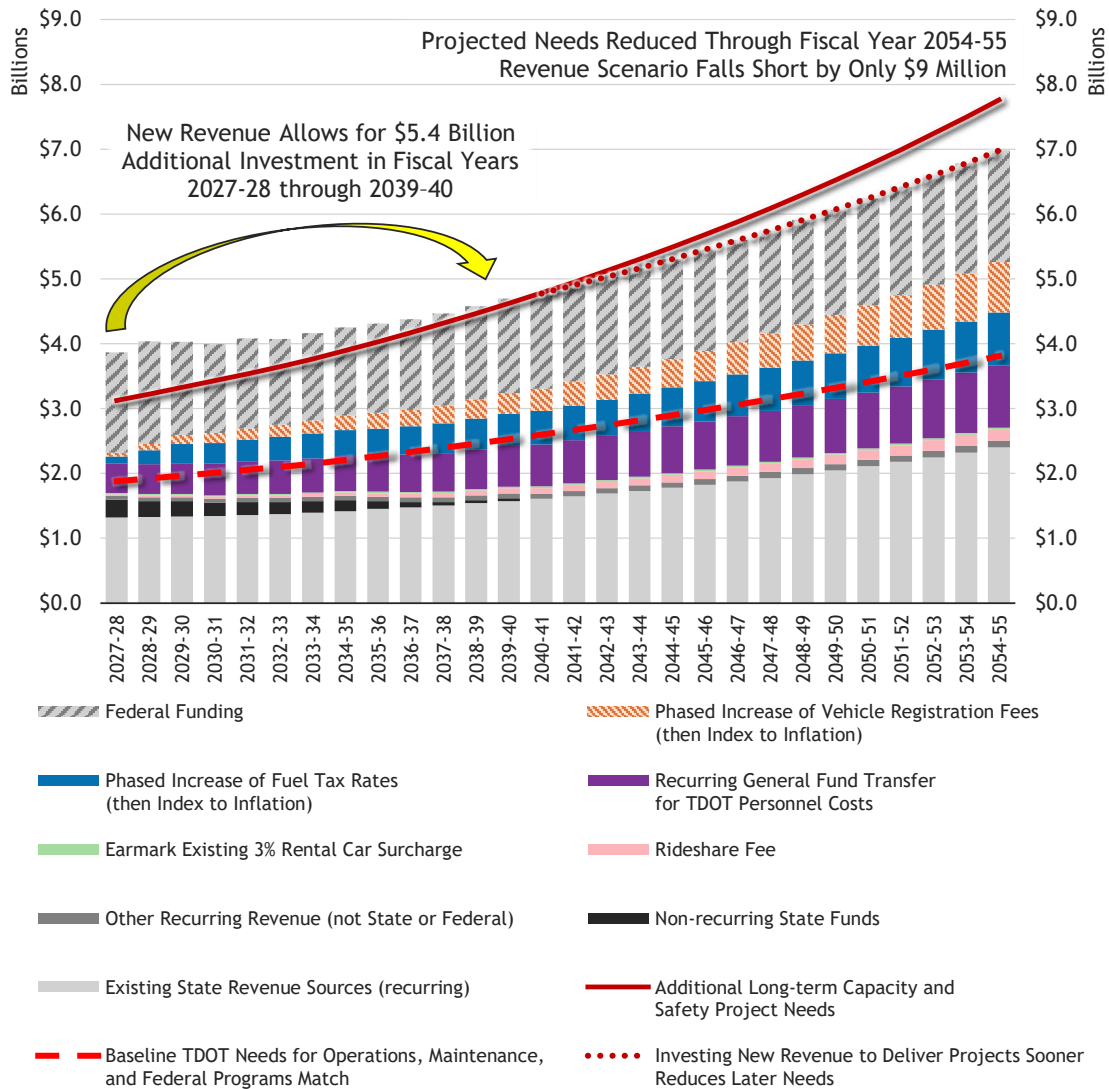
but does require the transfer of nearly \$1 billion from the general fund in fiscal year 2054-55. The scenario assumes both that future rules for federal programs remain similar to those currently in place and that the state can use additional state revenue to maximize federal assistance for capital improvements while allocating amounts needed to meet its goals for regular maintenance and preservation. As mentioned above, any shift from the general fund means less money is available for other state programs. See table 3 and figure 2.

Table 3. Funding Sources and Revenue Projections for Scenario 2

Description	Shared	Indexed	Fiscal Year 2027-28 (millions)	Fiscal Year 2039-40 (millions)	Fiscal Year 2054-55 (millions)
Fuel Taxes: 30¢/31¢ (gas/diesel FY28); 33¢/35¢ (FY29); 36¢/38¢ (FY30); adjusted for inflation annually thereafter	Yes	Yes CPI	\$ 117.1	\$ 496.4	\$ 811.9
Vehicle Registration Fees: all types, phased increases FY28-FY30; adjusted for inflation annually thereafter	No	Yes CPI	53.1	318.6	777.4
Rideshare Fee: 50¢ per trip adjusted annually for inflation; 50% to state, 25% to counties, 25% to cities	Yes	Yes CPI	22.7	80.7	175.7
Tax on Rental Cars: earmark from general fund and increase rate from 3% to 5%; distribute increase to counties and cities	Yes	n/a	20.6	23.8	27.7
General Fund Transfer: recurring transfer in an amount equal to TDOT's projected personnel expenses	No	n/a	447.6	628.0	959.8
Additional fiscal year revenue for state transportation			\$ 661.0	\$ 1,547.4	\$ 2,752.4
Cumulative revenue for state transportation			\$ 661.0	\$ 15,145.3	\$ 47,460.0
Fiscal year general fund reduction for transportation			\$ (468.2)	\$ (651.7)	\$ (987.4)
Additional fiscal year revenue for counties			\$ 61.1	\$ 225.7	\$ 385.0
Additional fiscal year revenue for cities			\$ 39.7	\$ 137.1	\$ 241.3

Source: TACIR staff projections based on existing revenue, future growth, and analysis of potential alternatives implemented in other states. Total revenue for state transportation includes revenue from new sources plus existing revenue earmarked from the general fund. Amounts shown for sources shared with local governments are only the state's portion.

**Figure 2. Revenue Projections from Existing and Additional Sources with Projected Costs to Maintain and Improve Transportation Infrastructure (Scenario 2)
State Fiscal Years 2027-28 through 2054-55**



Source: TACIR staff projections based on existing revenue, future growth, and analysis of potential alternatives implemented in other states.

Revenue Scenario 3: Incorporating Strategic Borrowing

The options presented in scenario 1 are not enough to fully fund long-term capacity and safety project needs identified by TDOT, and scenario 2 does so only by transferring significant amounts from the general fund. As shown in table 1, borrowing \$10 billion between fiscal year 2027-28 and fiscal year 2036-37 to deliver fiscal year 2037-38 to fiscal year 2054-55 projects would have an estimated benefit of \$1.73 billion excluding other early benefits like congestion relief, safety, and economic development over the entire period, which would allow for earlier completion of those

projects, less reliance on the revenue sources in scenarios 1 and 2, or both. See table 4.

Table 4. Funding Sources and Revenue Projections for Scenario 3

Description	Shared	Indexed	Fiscal Year 2027-28 (millions)	Fiscal Year 2036-37 (millions)	Fiscal Year 2039-40 (millions)	Fiscal Year 2054-55 (millions)
Annual Borrowing	No	n/a	\$ 1,200.0	\$ 800.0	\$ -	\$ -
General Fund Transfer: recurring transfer in an amount equal to TDOT's projected personnel expenses	No	n/a	447.6	577.0	628.0	959.8
Fuel Taxes: 30¢/31¢ (gas/diesel, FY28); 33¢/35¢ (FY29); 36¢/38¢ (FY30); adjusted for inflation annually thereafter	Yes	Yes CPI	117.1	435.2	496.4	811.9
Vehicle Registration Fees: all types, phased increases FY28-FY30; adjusted for inflation annually thereafter	No	Yes CPI	53.1	256.9	318.6	777.4
Tax on Rental Cars: earmark from general fund and increase rate from 3% to 5%; distribute increase to counties and cities	Yes	n/a	20.6	23.0	23.8	27.7
Rideshare Fee: 50¢ per trip adjusted annually for inflation; 50% to state, 25% to counties, 25% to cities	Yes	Yes CPI	22.7	60.3	80.7	175.7
Revenue reduction for annual debt service			(128.4)	(920.0)	(830.0)	-
Additional fiscal year revenue for state transportation			\$ 1,732.7	\$ 1,232.4	\$ 717.5	\$ 2,752.5
Cumulative revenue for state transportation			\$ 1,732.7	\$ 14,852.3	\$ 16,715.3	\$ 41,880.0
Fiscal year general fund reduction for transportation			\$ (468.2)	\$ (600.0)	\$ (651.7)	\$ (987.4)
Additional fiscal year revenue for counties			\$ 61.1	\$ 193.7	\$ 225.7	\$ 385.0
Additional fiscal year revenue for cities			\$ 39.7	\$ 115.2	\$ 137.1	\$ 241.3

Source: TACIR staff projections based on existing revenue, future growth, and analysis of potential alternatives implemented in other states. Total revenue for state transportation includes revenue from new sources plus existing revenue earmarked from the general fund. Amounts shown for sources shared with local governments are only the state's portion.

Other revenue alternatives have been proposed.

The mixture of revenue sources included in the scenarios presented in this report were chosen based on Public Chapter 438, Acts of 2025—either because they were named in the Act or because they met criteria listed in

the Act, for example, revenue sources tied to road usage—but they are not the only alternatives available to Tennessee. Other potential sources of revenue were discussed during the commission's June 2026 meeting, including recent proposals introduced in the 114th General Assembly. In the 2026 session, Senate Bill 2569 by Senator Haile and House Bill 2326 by Representative Williams would have earmarked 10% of the investment income earned by the state pooled investment fund each fiscal year for the state highway fund, estimated at \$75 million annually. Senator Haile and Representative Williams also introduced Senate Bill 2568 and House Bill 2493, which would have applied the state's sales tax to the purchase of advertising services when purchased by businesses with more than \$100 million in annual revenue, generating an estimated \$50 million to \$200 million. In 2025, Senate Bill 921 by Senator Campbell and House Bill 703 by Representative Behn would have authorized limited cultivation and use of marijuana by adults, making the sale of marijuana products subject to state and local taxes and directing a portion (an estimated \$29 million annually) to the state highway fund. Members also discussed a tax on parking facilities and the potential for future toll roads.

System management and other strategies can ease growing demands on Tennessee's road network.

The addition of new routes and roads may initially improve travel time and allow drivers more choice when it comes to their transportation needs, but research has shown that those better driving conditions also encourage more road usage, reducing the long-term effectiveness of expansion. System management and demand reduction strategies can relieve pressure on existing infrastructure and ease needs for expanded capacity. Examples of system management include traffic incident management through help trucks and dynamic message boards, traffic signal coordination, ramp metering, and pricing tools. Travel demand management strategies "attempt to address congestion at the root of the problem by reducing the number of vehicles on the road" and can create capacity when alternatives to travel are viable. Examples include multimodal alternatives such as bike and pedestrian facilities, working with area employers to encourage flexible work schedules, compressed workweeks, telecommuting, and satellite work centers to reduce the need to travel.

Furthermore, the expansion of intercity bus service in Tennessee has the potential to work in tandem with the Transportation Modernization Act to improve the state's transportation system in an effort to ensure continued economic growth and the success of the state's residents and businesses. For example, incentivizing intercity buses to use choice lanes developed under the Transportation Modernization Act by exempting them from fees for using those lanes—as is already the case for city buses and other public transit vehicles—could lower trip times, reduce congestion, and increase intercity mobility. But according to TDOT staff, there has been some

System management improvements can relieve pressure on existing infrastructure and ease needs for expanded capacity.

Demand management strategies attempt to address congestion at the root of the problem by reducing the number of vehicles on the road.

pushback against intercity expansion from public transit operators. And while TDOT is moving forward with the required assessment for 2027-2029, adequate demand to support intercity buses “is not there.”

Coordination among all levels of government may be beneficial for the development and success of efficient and effective transportation plans. Structural factors such as land use considerations and transit capacity contribute to development pressures shaping travel behavior and the range of solutions needed to address them.

Exhibit. Potential Revenue Source Comparison

Revenue Sources		Revenue Generation (short-term)	Appreciation (long-term)	Tied to Road Users	Tied to Out-of-State Road Users	Ease to Collect
Fuel Taxes - raise and index	Gasoline	Small increases to the tax initially generate a lot of revenue.	Revenue flattens out over time, even with indexing.	Vehicle drivers are buying gas and paying the tax.	If out-of-state drivers buy gas in Tennessee, they pay the tax.	The system is already in place and works well.
	Diesel	Small increases to the tax initially generate a lot of revenue.	Revenue flattens out over time, even with indexing.	Vehicle drivers are buying diesel and paying the tax.	If out-of-state drivers buy diesel in Tennessee, they pay the tax.*	The system is already in place and works well.
Registration Fees - raise and index		Small increases to the tax initially generate a lot of revenue, but not as much as increases to fuel taxes.	If population growth continues, with indexing, source is likely to appreciate faster than fuel taxes.	Vehicle drivers pay registration fees.	Out-of-state drivers of passenger vehicles don't pay Tennessee registration fees; commercial vehicles pay based on mileage.	The system is already in place and works well.
		Small increases to the tax initially generate a lot of revenue, but not as much as increases to fuel taxes.	If population growth continues, with indexing, source is likely to appreciate faster than fuel taxes (already indexed).	Vehicle drivers pay registration fees.	Out-of-state drivers of passenger vehicles don't pay Tennessee registration fees; commercial vehicles pay based on mileage.	The system is already in place and works well.
		Small increases to the tax initially generate an increase in revenue, but not as much as increases to other revenue sources.	If population growth continues, with indexing, source is likely to appreciate faster than fuel taxes. However, heavier vehicles may fluctuate in popularity.	Vehicle drivers pay registration fees.	Out-of-state drivers of passenger vehicles don't pay Tennessee registration fees; commercial vehicles pay based on mileage.	The system is already in place and works well.

Revenue Sources	Revenue Generation (short-term)	Appreciation (long-term)	Tied to Road Users	Tied to Out-of-State Road Users	Ease to Collect
Delivery Fee	Would not generate as much as other revenue sources.	If indexed and if home-delivery increases over time, would appreciate.	People who receive deliveries pay.	Fee would primarily be paid by Tennessee residents.	Would need to implement a new system similar to rental car or rideshare fee.
Transportation Network Company (Rideshare) Fee	Would not generate as much as other revenue sources.	If indexed and if use increases over time, would appreciate.	People who use rideshares pay.	People from out-of-state pay when they use rideshares in Tennessee.	Would need to implement a new system similar to rental car or retail delivery fee.
Vehicle Miles Traveled	Could be high depending on amount charged per mile and whether it is in lieu of fuel taxes.	Depends on how much people are driving.	Drivers pay and if vehicle weight was factored in, the amount they pay would be connected to the wear to roads caused by their vehicle.	Out-of-state drivers wouldn't pay unless there was a law requiring other states to have similar programs.	Would need to implement a new system and more difficult to collect than fuel taxes.

Revenue Sources	Revenue Generation (short-term)	Appreciation (long-term)	Tied to Road Users	Tied to Out-of-State Road Users	Ease to Collect
Rental Car Fee	Would not generate as much as other revenue sources.	If indexed and if rental use increases over time, would appreciate.	People who rent cars pay.	People from out-of- state pay when they rent a car in Tennessee.	The system to collect taxes is already in place.
Tire Sales Tax	Low in the short term.	Tire sales would likely increase over time.	People who drive cars and buy tires pay the tax.	Generally not connected to out-of- state road users.	In the first year, retailers have not all been reporting tire sales separate from sales of other products, so collection has been low. But it could improve with education and simplification of the process.
Vehicle Sales Tax	Medium in the short term.	Vehicle sales would likely increase over time.	People who buy cars pay the tax.	Generally not connected to out-of- state road users.	Collection would likely be easier than tire sales tax because there aren't as many locations that sell vehicles.
Allocation to the State Highway Fund	Could be a large allocation from the general fund.	Sales tax revenue and general fund should increase over time.	Not clearly connected to road users.	Not connected to out- of-state road users.	Tax collection and fund distribution systems are already in place and work well.
Investment Income Earned by the State Pooled Investment Fund	Low in the short term.	Earnings are not estimated to increase.	Not clearly connected to road users.	Not connected to out- of-state road users.	The system is already in place and works well.
General Fund (recurring reallocation of funds, not new revenue)					

Revenue Sources	Revenue Generation (short-term)	Appreciation (long-term)	Tied to Road Users	Tied to Out-of-State Road Users	Ease to Collect
Advertising Services Sales Tax	Low in the short term.	Revenue is not estimated to increase much.	Not clearly connected to road users.	Not connected to out-of-state road users.	Tax collection and fund distribution systems are already in place and work well.
Marijuana Tax	Low in the short term.	Revenue is not estimated to increase after the first year.	Not clearly connected to road users.	Not connected to out-of-state road users.	Tax collection and fund distribution systems are already in place and work well. Some changes would be necessary for a new marijuana tax.
Parking Sales Tax	Low in the short term.	Depends on rates and number of parking lots.	Vehicle drivers pay for parking.	Vehicle drivers pay for parking.	Tax collection and fund distribution systems are already in place and work well.
Toll Roads	Low in the short term.	Depends on road usage and how tolls are structured.	Vehicle drivers pay in proportion to the amount they use the road.	Vehicle drivers pay in proportion to the amount they use the road.	Would need to develop and implement a new electronic collection system.
Strategic Borrowing	Could borrow to pay for and complete large projects sooner.	Would pay debt service each year.	Road users do not pay directly; all Tennesseans pay through tax collections.	Not connected to out-of-state road users.	The system to issue bonds is already in place.

*Operators of commercial vehicles over 26,000 pounds who drive in more than one state must pay fuel taxes through the International Fuel Tax Agreement.

Source: TACIR staff analysis.

Analysis: Assessing Tennessee's Transportation Needs and Long-term Sources of Funding

Transportation infrastructure plays a critical role in keeping our society moving—both figuratively and literally. Safe and reliable roads and bridges facilitate the movement of goods, services, and people while enabling the growth of business and overall success of the economy.² This is true, too, across Tennessee's more than 95,000 miles of highway and roads and more than 20,000 bridges.³ The state, through the Tennessee Department of Transportation (TDOT), is responsible for maintaining about 15% of highway and road mileage statewide, primarily the interstates and state highways that handle 74% of daily traffic throughout the state.⁴ The remainder of the state's network of local streets and connecting roads are maintained by county highway and municipal street departments. Less than half (8,500) of the bridges in the state are part of the state's highway network while the rest are locally owned.⁵

Integral to Tennessee's patchwork of state and locally owned pavement and bridges is the addition of new transportation projects and the maintenance and preservation of our existing transportation infrastructure, none of which is possible without adequate transportation funding. In recent years, fuel taxes—the primary source of revenue used to fund road and bridge projects in Tennessee—have not grown at the same rate as the state's needs, largely because of increased fuel efficiency and inflation, and as a result are failing to keep up with rising construction costs.⁶

Senator Massey and Representative Vital introduced legislation in the 114th General Assembly with these concerns in mind. Public Chapter 438, Acts of 2025 (see appendix), directs the Tennessee Advisory Commission on Intergovernmental Relations to conduct a study and prepare a report with recommendations for establishing sustainable funding sources that meet the state's future, long-term transportation infrastructure needs, including

1. identify the critical, long-term highway and bridge infrastructure needs of this state, the annual highway and bridge infrastructure funding gap, and the amount needed to fund the maintenance, repair, and modernization of existing highways and bridges across the state;
2. identify the recurring expenditures associated with the state highway fund, including, but not limited to, salary increases for employees of the department of transportation;

² American Society of Civil Engineers 2025.

³ Tennessee Department of Transportation "Transportation System Overview."

⁴ US Department of Transportation Federal Highway Administration 2025b.

⁵ Tennessee Department of Transportation "Transportation System Overview."

⁶ Tennessee Advisory Commission on Intergovernmental Relations 2022.

Through TDOT, the state is responsible for maintaining about 15% of the more than 95,000 miles of highways and roads in Tennessee and approximately 8,500 of the state's more than 20,000 bridges; the majority are maintained by county highway and municipal street departments.

The Center for Transportation Research at the University of Tennessee is developing an economic model to estimate the effects of congestion, the economic impacts of transportation investments, and targets for future needs.

3. include a comprehensive review and analysis of appreciated sources of revenue that have the potential to grow over time and that will meet the critical, long-term highway and bridge infrastructure needs of this state, including, but not limited to, the following:
 - a. road usage fees;
 - b. rental car fees;
 - c. transportation network company fees;
 - d. retail delivery fees;
 - e. commercial vehicle road usage charges;
 - f. highway impact fees for heavy trucks;
 - g. dedicated state funds consisting of revenues from the collection of state sales tax from the sale of new or used vehicles and new or used tires in this state; and
 - h. other options that are based on variables, including, but not limited to, vehicle weight, or that account for variations in road usage and degree of damage caused to transportation infrastructure by vehicles of different sizes and configurations;
4. estimate the amount of revenue generated in this state from the sources of income identified above;
5. assemble information concerning the stakeholders affected by the appreciated sources of revenue identified above, including, but not limited to, the trucking industry, automobile dealers, and rental car, delivery, and transportation network companies; and
6. survey appreciated sources of revenue successfully used by at least three (3) other states to address their challenges in establishing sustainable transportation infrastructure funding.

In addition, in response to a request from Representative Howell in September 2025, the commission 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. The model will also estimate 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.

Identifying Tennessee's Peer States for Comparison

Tennessee is one of only two US states (Missouri being the other) that borders eight other states.⁷ Each of these neighboring states is similar to Tennessee in some ways and different in others. To compare states' transportation networks and policies, differences in geography, economic conditions, population, and other factors need to be considered. Each year, the Federal Highway Administration (FHWA) provides a table of selected measures for identifying peer states to help make equitable comparisons. TACIR staff used this data to see how comparable Tennessee is to its neighboring states and to identify other non-neighboring peer states. See table 5.

Table 5. Tennessee's Neighbor and Select Peer States

Neighbor States	Similarity Score	Rank	Select Peer States	Similarity Score	Rank
Georgia	0.70	1	Indiana	0.67	5
North Carolina	0.68	2	Ohio	0.59	6
Missouri	0.68	3	Texas	0.46	10
Kentucky	0.55	7	South Carolina	0.30	15
Alabama	0.53	8	Florida	0.28	16
Arkansas	0.46	13			
Mississippi	0.36	14			
Virginia	0.18	19			

Criteria chosen for comparison: rural and urban land area, rural and urban population, population density, personal income and gross state product per capita, annual vehicle miles traveled (VMT) in rural and urban areas, truck percentage of VMT, and highway lane miles in rural and urban areas. Indiana and Ohio were selected as peers over 4th-ranked Wisconsin for their proximity and more comparable climate, as were South Carolina and Florida selected over Pennsylvania (11th) and Michigan (12th). Texas was selected over 9th-ranked Louisiana because Tennessee often uses Texas for comparison purposes.

Source: TACIR staff analysis of data from US Department of Transportation Federal Highway Administration 2026g.

Transportation infrastructure is a priority for the state of Tennessee, but the system is strained.

As the state has grown, both in population and economically, transportation infrastructure has remained a priority so that Tennesseans, the state's visitors, and goods can safely and efficiently travel to their destinations. According to an annual report from *Reason* magazine, Tennessee's

⁷ Pariona 2017.

Tennessee's transportation system is being strained by population growth, economic development, and tourism, causing greater wear and tear on the state's roads and bridges.

highway system ranks 12th in the nation in overall cost-effectiveness and condition—better than Kentucky's (15th) and Mississippi's (24th), but worse than Georgia's (2nd), North Carolina's (4th), and Alabama's (8th).⁸ Tennessee scored well for pavement and bridge conditions, ranking in the top 15 for both urban and rural interstate pavement conditions and 12th for lowest percentage of bridges rated “structurally deficient” (4.4%).⁹ But additional data shows Tennessee ranks 21st for bridges in “good” condition (42.3%),¹⁰ and TDOT says it will need additional funding to prevent the condition of the state's bridges from deteriorating.¹¹

Tennessee's growth is outpacing the capacity of its transportation infrastructure.

While it has generally held up well, the state's transportation system is being strained by population growth, economic development, and tourism. Tennessee's rising population and increasing numbers of visitors are putting more people on the road, causing greater wear and tear and affecting resurfacing needs on the state's roads and bridges. From 2010 to 2025 the state saw a 15% increase in population, gaining nearly one million people.¹² Tennessee is also “uniquely positioned to be within a day's drive of more than two-thirds of the United States,”¹³ and tourism has grown 15% since 2021.¹⁴ According to the Tennessee Department of Tourist Development, the state welcomed a record 147 million visitors in 2024.¹⁵

Because of its central location, the state is also a major commercial freight hub and corridor. From 2010 to 2023, while vehicle miles traveled (VMT) on US roadways increased by 9.2%, VMT grew twice as fast (18.4%) in Tennessee.¹⁶ And with this rapid increase in VMT, congestion is getting worse on Tennessee's roadways, particularly in Middle Tennessee, which has seen some of the state's fastest growth.¹⁷ According to the *Reason* report, Tennessee overall ranks 36th out of the 50 states in urban traffic congestion.¹⁸ The American Transportation Research Institute reports that eight of the country's worst trucking bottlenecks are in Tennessee, tied with California for third-most behind Georgia (9) and Texas (12).¹⁹

⁸ Feigenbaum et al. 2026.

⁹ Ibid.

¹⁰ US Department of Transportation Federal Highway Administration 2025a.

¹¹ “TACIR Funding Analysis Summary” provided via email from Erica McKenney, assistant to CFO Natalie Krysztof, Tennessee Department of Transportation, March 31, 2026.

¹² US Census Bureau 2011 and 2026.

¹³ Tennessee Business Leadership Council 2023.

¹⁴ Tennessee Department of Tourist Development 2025a.

¹⁵ Tennessee Department of Tourist Development 2025b.

¹⁶ US Department of Transportation Federal Highway Administration 2026i.

¹⁷ Pishue 2025.

¹⁸ Feigenbaum et al. 2026.

¹⁹ American Transportation Research Institute 2026.

Tennessee also scores poorly for road safety. According to the National Highway Traffic Safety Administration, Tennessee was ranked as having the 6th worst traffic fatality rate based on the number of deaths in 2023 and had the 6th greatest increase since 2015.²⁰ The *Reason* report ranks Tennessee's rural fatality rate 20th and its urban fatality rate near the bottom at 47th.²¹

The General Assembly and TDOT have worked to support the state's growing infrastructure needs and address the backlog of infrastructure projects.

In 2017, the General Assembly passed the Improving Manufacturing, Public Roads and Opportunities for a Vibrant Economy Act (IMPROVE Act), increasing fuel taxes and annual vehicle registration fees to help fund 962 transportation projects identified in the Act.²² To make up for the lack of fuel tax contributions from drivers of electric vehicles (EVs), the IMPROVE Act also created a new \$100 annual fee to be paid by EV owners in addition to the regular registration fee. In 2023, the General Assembly passed the Transportation Modernization Act, which appropriated approximately \$3.3 billion from the general fund to help TDOT jump-start critical transportation projects.²³ The Transportation Modernization Act also increased the EV fee to \$200 effective beginning in 2024, and it is scheduled to increase again to \$274 in 2027.²⁴ Beginning in 2028, the EV fee will automatically adjust annually for inflation. A \$100 fee for hybrid electric (commonly referred to as just "hybrids") and plug-in hybrid electric vehicles (PHEV) was also added in 2024, and it too will be adjusted annually for inflation starting in 2028.²⁵

Between 2020 and 2025, TDOT added 244 lane miles to the state's pavement network, an annual increase of approximately 0.1%, and expanded the state's bridge infrastructure by approximately 0.9% each year. The department expects to deliver at a similar rate over the next 10-year period.²⁶ Since adopting its current 10-year plan in 2024, "TDOT has delivered 48 capacity-adding projects across rural, suburban, and urban communities, totaling \$2.73 billion of investment in Tennessee's transportation network."²⁷ In total, 446 of the original 962 IMPROVE Act projects (46%) have been completed or are under construction as of June 2026. While these investments have been significant, 312 IMPROVE Act projects (32%) are still in the early stages of development, making their

The General Assembly passed the IMPROVE Act in 2017 to help fund a backlog of 962 transportation projects, but less than half have been completed or are under construction as of June 2026.

²⁰ National Highway Traffic Safety Administration "Fatalities and Fatality Rates by STATE, 1994 – 2023."

²¹ Feigenbaum et al. 2026. Ranking 1st was the state with the best (lowest) fatality rate.

²² Public Chapter 181, Acts of 2017.

²³ Tennessee Office of the Governor 2023.

²⁴ Public Chapter 159, Acts of 2023.

²⁵ Eggers 2023.

²⁶ Tennessee Department of Transportation 2025b.

²⁷ Tennessee Department of Transportation 2026b.

way through preliminary engineering and right-of-way acquisition before additional work and construction can be budgeted. And another 204 (21%) have not been started at all.²⁸

The state needs roughly \$1.9 billion in fiscal year 2027-28 just to maintain its existing infrastructure and \$3.6 billion to make improvements as Tennessee continues to grow.

To identify state and local transportation needs, TACIR staff relied on several resources. Staff were unable to comprehensively evaluate individual transportation projects because to do so would have required engineering and technical analysis beyond the scope of the commission's capabilities and resources. Instead, TACIR staff used existing planning documents from TDOT, including but not limited to the department's 10-year work program and its federally required asset management plan; correspondence with TDOT staff; TDOT presentations to the General Assembly; and data reported by local officials for the commission's annual public infrastructure needs inventory (PINI).

Based on this information, the amount needed to fund the state's required share of federally funded programs, meet the state's goals for maintaining existing pavement and bridges in good condition, and fund necessary department operations, will be approximately \$1.9 billion in fiscal year 2027-28, a figure that could grow to \$3.8 billion in fiscal year 2054-55. If, in addition to this spending, the state were to continue current levels of investment in additional capacity improvements, the total amount of funding needed would be approximately \$3.6 billion in fiscal year 2027-28. The amount needed 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.²⁹

Cities and counties own and maintain the majority of transportation infrastructure throughout the state.

The state is not the only level of government responsible for building and maintaining roads and bridges. Local governments own and maintain approximately 85% of all public roadways in the state,³⁰ including 700 lane miles and 101 bridges on the National Highway System (NHS).³¹ State and local dollars can be used by counties for public roads within their borders

The amount needed to fund the state's transportation needs, including the required share of federally funded programs, will be approximately \$1.9 billion in fiscal year 2027-28, a figure that could grow to \$3.8 billion in fiscal year 2054-55.

²⁸ Email from Preston Elliott, deputy commissioner of planning, Tennessee Department of Transportation, June 17, 2026.

²⁹ TACIR staff projections based on analysis of data for fiscal years 2014-15 through 2024-25 provided by TDOT, fiscal year 2025-26 and fiscal year 2026-27 budget documents, other TDOT publications, and interviews with TDOT staff.

³⁰ Spears 2023.

³¹ Tennessee Department of Transportation 2025b.

that are not state highways, interstates, and municipal roads.³² Cities can access federal, state, and local dollars for all public roads within their boundaries that are not part of state highways. According to data from PINI, cities and counties reported \$11.4 billion in locally owned transportation infrastructure projects that will be in some stage of development between July 1, 2024, and June 30, 2029. Projects in construction total \$1.3 billion, projects in the planning and design stage total \$6.1 billion, and projects in the conceptual stage total \$3.9 billion.³³ See table 6.

Table 6. Local Government Infrastructure Projects by Stage of Development, Between July 1, 2024, and June 30, 2029

Project Stage	City	County	Joint	Total
Construction	\$ 989,177,334	\$ 308,873,044	\$ 45,382,608	\$ 1,343,432,986
Planning & Design	3,640,133,126	2,159,143,428	317,547,994	6,116,824,548
Conceptual	2,182,285,262	1,636,852,511	75,024,037	3,894,161,810
Total	\$ 6,811,595,722	\$ 4,104,868,983	\$ 437,954,639	\$ 11,354,419,344

This data includes road, bridge, sidewalk, signalization, and intelligent transportation system (ITS) projects. Five of the joint projects (\$28.3 million) are co-owned with TDOT or US DOT.

Source: TACIR Public Infrastructure Needs Inventory.

The majority of transportation funding in Tennessee comes from user fees like fuel taxes and vehicle registration fees, supplemented with transfers from the general fund.

Federal, state, and local governments fund road infrastructure and maintenance primarily through a combination of taxes on motor fuel and fees on vehicles (referred to as “user fees”). These taxes and fees have, historically, worked well together to ensure that roadway expenditures are largely funded by the people who use the roads, generally in proportion to the extent of their use.³⁴ State and local governments rely on federal (approximately 29% of total road funding), state (approximately 58%), and local (approximately 13%) sources of revenue for transportation funding.³⁵ Within these, the three largest 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, nearly all of which are retained by the state. Unfortunately, none of these revenue sources is keeping pace with transportation funding needs.

³² Spears 2023.

³³ TACIR Public Infrastructure Needs Inventory.

³⁴ Spears 2017.

³⁵ US Department of Transportation Federal Highway Administration 2026c, 2026e, and 2026f.

Federal and State Fuel taxes

Federal and state fuel taxes account for the majority of road funding in Tennessee, and each is calculated on a cents per gallon basis.³⁶ Federal fuel taxes on gas and diesel account for approximately 40% of TDOT's annual budget—approximately \$1.2 billion per year.³⁷ Neither the federal gas tax (18.4¢ per gallon) nor the federal diesel tax (24.4¢ per gallon) has been increased since 1993.³⁸ Tennessee's state fuel taxes account for approximately 30% of TDOT's annual revenue—approximately \$820 million per year.³⁹ Tennessee's fuel tax rates, set at 27¢ per gallon for gasoline and 28¢ per gallon for diesel, were last increased in 2020 as part of the multiyear phase-in of the 2017 IMPROVE Act.⁴⁰ Many stakeholders shared their apprehension that the gas tax, as it exists now, is unsustainable long term,⁴¹ and Tennessee's fuel taxes are lower than peer and surrounding states, which average around 33¢ per gallon for gasoline and 35¢ for diesel.⁴² See table 7.

Table 7. Neighbor and Select Peer State Fuel Tax Rates

Neighbor States	Gas Tax	Diesel Tax	Select Peer States	Gas Tax	Diesel Tax
Virginia	\$ 0.4160	\$ 0.4270	Indiana	\$ 0.5350	\$ 0.6200
North Carolina	\$ 0.4125	\$ 0.2140	Florida	\$ 0.4010	\$ 0.4097
Georgia	\$ 0.3405	\$ 0.2999	Ohio	\$ 0.3850	\$ 0.4700
Alabama	\$ 0.3100	\$ 0.3805	South Carolina	\$ 0.2875	\$ 0.2875
Missouri	\$ 0.2999	\$ 0.2880	Texas	\$ 0.2000	\$ 0.2000
Kentucky	\$ 0.2640	\$ 0.2340			
Arkansas	\$ 0.2500	\$ 0.4125	Tennessee	\$ 0.2740	\$ 0.2840
Mississippi	\$ 0.2140	\$ 0.3275			
Neighbor State Average	\$ 0.3134	\$ 0.3229	Neighbor + Peer Average	\$ 0.3320	\$ 0.3516

Source: US Energy Information Administration 2026c.

³⁶ Mattson and Potts 2015.

³⁷ Based on data for fiscal years 2014-15 through 2024-25 provided in an email from Natalie Krysztof, deputy commissioner and chief financial officer, Tennessee Department of Transportation, February 19, 2026.

³⁸ Congressional Research Service 2016.

³⁹ Data provided in an email from Natalie Krysztof, deputy commissioner and chief financial officer, Tennessee Department of Transportation, February 19, 2026.

⁴⁰ Tennessee Department of Transportation "History of Tennessee's Gas/Fuel Tax Rates."

⁴¹ Interviews with Michael Skipper, executive director, Greater Nashville Regional Council, November 19, 2025; Brett Howell, executive director, Tennessee County Highway Officials Association, May 6, 2025; Dan Howell, state representative, District 22, September 23, 2025; Kent Starwalt, executive vice president, Tennessee Road Builders Association, November 12, 2025; and TACIR commission member Calvin Clifton, business development and recruiting manager, Mattern & Craig Engineers, January 14, 2025.

⁴² US Energy Information Administration 2026c.

The International Fuel Tax Agreement (IFTA) “is a tax collection agreement by and among the 48 contiguous states and Canadian provinces bordering the United States to simplify the reporting and collecting of motor fuel taxes used by commercial carriers operating in more than one jurisdiction.”⁴³ Operators of commercial vehicles over 26,000 pounds who drive in more than one state must have an IFTA license and decals issued by their base jurisdiction. These must be renewed annually, and drivers are required to file quarterly reports of their mileage and fuel use. By having vehicle owners report fuel and distance data to their base jurisdiction, states can collect and distribute appropriate fuel taxes due to other jurisdictions automatically based on net fuel consumption, regardless of where the fuel is purchased.⁴⁴

Vehicle Registration Fees

Vehicle registration fees are another user fee that contributes to the state's highway fund, paid by vehicle owners when they register their personal or commercial vehicles with their county. These fees vary depending on the type of vehicle, location, and other specific circumstances. In Tennessee vehicle owners are charged state registration fees, local wheel taxes (where applicable), title fees, and various processing charges.⁴⁵

Registration Fees for Personal Vehicles

Tennessee's flat registration fee of \$26.50 for passenger vehicles is lower than rates in many peer and neighboring states and last increased with the passage of the IMPROVE Act in July 2017.⁴⁶ It also does not vary based on vehicle weight, unlike registration fees for personal vehicles in some peer and neighboring states, where drivers of heavier vehicles are charged higher fees to account for greater roadway wear and tear. In Virginia, for example, the registration fee for vehicles up to 4,000 pounds (gross vehicle weight) is \$30.75; it costs \$35.75 for vehicles between 4,001 and 6,500 pounds and \$44.75 for cars over 6,500 pounds.⁴⁷ Comparing registration costs in different states is not straightforward. In most of Tennessee's peer and neighbor states, when vehicle owners need to renew their registration, they must pay annual local property taxes on the value of their vehicle in addition to their state's annual registration fee. Total costs for individual

Tennessee's flat registration fee of \$26.50 for passenger vehicles is lower than rates in many peer and neighboring states and last increased with the passage of the IMPROVE Act in 2017. It also does not vary based on vehicle weight, unlike fees in some peer and neighboring states.

⁴³ Tennessee Department of Transportation “International Fuel Tax Agreement.”

⁴⁴ TruckLogics “What Is IFTA and How Does It Work?”

⁴⁵ See Title 55, Tennessee Code Annotated. For county privilege tax (wheel tax), see Tennessee Code Annotated, Section 5-8-102.

⁴⁶ Tennessee Comptroller of the Treasury 2017. Of the state's \$26.50 flat vehicle registration fee on passenger vehicles, \$22.40 is earmarked for the state highway fund, with the remainder divided between the Tennessee Department of Revenue, supplemental police pay, license plates, and the general fund.

⁴⁷ Commonwealth of Virginia Department of Motor Vehicles 2026.

vehicles can vary based on factors like age, weight, use, and the city or county in which it is registered.⁴⁸ See table 8.

Table 8. Estimated Annual Registration Costs Among Neighbor and Select Peer States

Neighbor States	State Renewal Fee	Typical Local Fees and Taxes	Estimated Total Cost to Renew	Select Peer States	State Renewal Fee	Typical Local Fees and Taxes	Estimated Total Cost to Renew
Kentucky	\$ 111.00	\$ 209.65	\$ 320.65	Texas	\$ 67.25	\$ 10.00	\$ 77.25
North Carolina	\$ 46.25	\$ 175.00	\$ 221.25	Ohio	\$ 59.00	\$ 20.00	\$ 79.00
Virginia	\$ 35.75	\$ 437.68	\$ 473.43	Florida	\$ 45.60	\$ 4.00	\$ 49.60
Missouri	\$ 33.25	\$ 450.00	\$ 483.25	Indiana	\$ 36.35	\$ 154.00	\$ 190.35
Mississippi	\$ 27.75	\$ 171.03	\$ 198.78	South Carolina	\$ 20.00	\$ 331.50	\$ 351.50
Alabama	\$ 24.25	\$ 167.50	\$ 191.75				
Arkansas	\$ 23.50	\$ 200.00	\$ 223.50	Tennessee	\$ 26.50	\$ 25.00	\$ 51.50
Georgia	\$ 20.00	\$ -	\$ 20.00				
Neighbor State Average	\$ 40.22	\$ 226.36	\$ 266.58	Neighbor + Peer Average	\$ 42.30	\$ 179.26	\$ 221.56

TACIR staff estimated an annual cost to renew an existing registration for a 2019 Ford F-150—a commonly registered vehicle in Tennessee—among peer and neighbor states. In states where local property taxes are required, actual costs often vary greatly from jurisdiction to jurisdiction. Staff looked for average or the most common local rates to the extent each state's data was available.

Source: TACIR staff analysis of each state's motor vehicle laws.

In an effort to compensate for lost fuel taxes on more fuel-efficient vehicles, at least 42 states, including Tennessee, have implemented special registration fees for one or more types of battery-electric, hybrid, or alternative fuel vehicles. Of those, 35 assess a registration fee for either PHEVs or non-plug-in hybrid electric vehicles with combustion engines. Fees for battery-only EVs range anywhere from \$70 to \$290, and Tennessee's current fee of \$200 will increase following fiscal year 2027-28, when it will go up to \$274 and be indexed for inflation thereafter. PHEV registration fees range from a low of \$30 to a high of \$150.⁴⁹ Tennessee's current PHEV fee is \$100 and indexed to adjust for inflation beginning in 2028. See table 9.

Fees for non-plug-in hybrid vehicles with combustion engines (not shown in table 9) range from a low of \$22 to a high of \$100 in several states, including Tennessee.⁵⁰

⁴⁸ For vehicle tax examples, see Alabama Department of Revenue "Property (Ad Valorem) Tax"; and North Carolina Department of Motor Vehicles 2026.

⁴⁹ In Georgia, PHEV owners must pay the same fee as BEV owners (currently \$238.59) if they choose to get an alternative fuel license plate. Otherwise, there is no additional fee for a PHEV.

⁵⁰ National Conference of State Legislatures 2026. Source says fees "range from a possible low of \$38 in Utah to a high of \$100 in several states." However, Utah Code Annotated, Section 41-1a-1206, says the fee is \$21.75, which has been rounded here to \$22.

Table 9. Special Registration Fees for Electric and Plug-in Hybrid Vehicles Among Neighbor and Select Peer States

Neighbor States	BEV	PHEV	Select Peer States	BEV	PHEV
Georgia*	\$ 238.59	\$ 238.59	Indiana	\$ 242.00	\$ 81.00
North Carolina	\$ 214.50	\$ 107.25	Ohio	\$ 200.00	\$ 150.00
Alabama	\$ 203.00	\$ 103.00	Texas	\$ 200.00	No Fee
Arkansas	\$ 200.00	\$ 100.00	South Carolina [%]	\$ 60.00	\$ 30.00
Missouri	\$ 159.00	\$ 84.00	Florida	No Fee	No Fee
Mississippi	\$ 150.00	\$ 75.00			
Virginia**	\$ 135.63	\$ 100.00	Tennessee [†]	\$ 274.00	\$ 100.00
Kentucky	\$ 126.00	\$ 126.00			
Neighbor State Average	\$ 178.34	\$ 116.73	Neighbor + Peer Average	\$ 163.75	\$ 91.91

* Georgia's PHEV fee applies only if owners have chosen an alternative fuel vehicle license plate.

** Virginia charges a highway use fee on all vehicles rated over 25 mpg; PHEV TACIR staff estimate.

[%] Most registration fees in South Carolina are paid every two years; amounts shown here are half of the two-year cost.

[†] On January 1, 2027, the registration fee for BEVs in Tennessee will increase from \$200 to \$274, and beginning January 1, 2028, BEV, PHEV, and hybrid fees will be adjusted for inflation each year.

Source: National Conference of State Legislatures 2026; and individual state laws.

Commercial Vehicle Registration

Fees to register “freight motor vehicles” — those used to carry property; i.e., commercial vehicles — in Tennessee vary based on weight. At the low end, registration fees for commercial vehicles with a declared maximum gross weight, including vehicle and load, of up to 9,000 pounds are \$68.50 per year, and at the high end, fees for commercial vehicles weighing more than 74,000 pounds and no more than 80,000 pounds are \$1,352.50 per year.⁵¹

Some of Tennessee's peer and neighboring states have higher maximum fees for commercial vehicles. North Carolina, for example, has a maximum fee of \$2,205.⁵² Unlike with personal vehicle registration fees, a portion of Tennessee's revenue from commercial vehicle registration comes from owners of vehicles registered in other states through the International Registration Plan (IRP), “a cooperative agreement among the contiguous United States, the District of Columbia, and Canadian provinces designed to facilitate the registration of commercial vehicles that operate across multiple jurisdictions.” Under the IRP, operators register their vehicles and pay registration fees in their home state, and the amount paid is based on distance driven in each jurisdiction where the vehicles travel, according to each jurisdiction's fees; each state then receives its share of the overall

⁵¹ Tennessee Code Annotated, Sections 55-1-103, 55-1-118, and 55-4-113(a)(2).

⁵² North Carolina General Statutes, Section 20-88. Property-hauling vehicles.

Tennessee is below average for revenue per capita generated by state highway user fees (\$230 in 2024) and collects less per capita than 27 other states.

amount paid.⁵³ Tennessee collected over \$100 million through the IRP in fiscal year 2024-25.⁵⁴

General Fund Transfers

Tennessee is below average for revenue per capita generated by state highway user fees (\$230 in 2024) and collects less per capita than 27 other states.⁵⁵ Tennessee has not adjusted its fuel tax rates or vehicle registration fees to compensate for inflation in the four years following the commission's 2022 report on electric vehicles and road funding.⁵⁶ Instead, the General Assembly has supplemented the transportation budget with revenue from the general fund.

The General Assembly has authorized transfers from the general fund to supplement transportation funding in the past. Along with other transfers in the last decade, in fiscal year 2022-23, the General Assembly appropriated more than \$600 million to TDOT from the general fund, and it approved the Transportation Modernization Act, which transferred \$3 billion into a new interest-bearing account—the Transportation Modernization Fund—to be used by TDOT to fund transportation projects. The Act also provided an additional \$300 million in state aid for county resurfacing projects. For fiscal year 2026-27, the General Assembly appropriated another one-time transfer of \$400 million to TDOT from the general fund. See table 10.

⁵³ International Registration Plan "About IRP"; and Tennessee Code Annotated, Section 55-4-122.

⁵⁴ Tennessee Department of Revenue "Archive - Monthly & Fiscal Year Tax Collections."

⁵⁵ US Department of Transportation Federal Highway Administration 2026h; and US Census Bureau 2026.

⁵⁶ TACIR staff review of legislation.

**Table 10. General Fund Transfers for Transportation
Fiscal Years 2015-16 through 2026-27**

Fiscal Year	Amount	Purpose
2015-16	\$ 130,000,000	No earmark (\$100M); State Aid (\$30M)
2016-17	147,635,900	No earmark (\$121M); State Aid (\$12M); Foothills Pkwy. (\$15M)
2017-18	85,000,000	State Aid (\$55M); Aeronautics (\$30M)
2018-19	20,500,000	Aeronautics (\$20M); Oak Ridge (\$500K)
2019-20	6,100,000	Aeronautics (\$6M); Civil Air Patrol (\$100K)
2020-21	-	No general fund transfer
2021-22	337,000,600	Ford (\$200M); Rail Equity (\$85M); Air Equity (\$52M); \$600 for memorial signage
2022-23	835,806,100	State Partnership (\$266M); Rural Interchanges (\$176M); Registration Fee Moratorium (\$111M); IMPROVE projects (\$100M); Economic Development (\$77M); Transportation Equity (\$85M); other projects (\$22M)
2023-24	3,417,200,000	Transportation Modernization Act (\$3B regional projects, \$300M local aid); Air Carriers (\$56M); General Aviation (\$20M); other projects (\$34M); Transportation Equity (\$7M)
2024-25	113,300,000	Air Carriers, Commercial Airports, General Aviation (\$100M); Transportation Equity (\$7M); other projects (\$7M)
2025-26	1,165,331,350	Additional projects, pavement, bridges, safety (\$1B)
2026-27	400,000,000	Capacity projects (\$200M); Bridge Preservation (\$150M); Maintenance (\$50M)
Total	\$ 6,657,873,950	

Source: Information for fiscal years 2015-16 through 2024-2025 provided in an email from Natalie Krysztof, deputy commissioner and chief financial officer, Tennessee Department of Transportation, February 19, 2026. Also see Sauter 2026; and Tennessee Department of Transportation 2025a and 2026b.

Infusions from the general fund are not enough to fill the transportation funding gap for the state's long-term needs. Although one-time transfers like these can provide TDOT with substantial additional revenue, moving funding to TDOT from the general fund pulls resources from other state priorities. Relying on one-time transfers can also make it more difficult for TDOT to plan and fund long-term projects.⁵⁷ Many states have relied on the reallocation of general funds, fee adjustments, or other singular and short-term measures to address the challenge of transportation funding. There are concerns that these options are unsustainable, leaving states open

⁵⁷ Interview with Natalie Krysztof, deputy commissioner and chief financial officer, and Erica McKenney, assistant to CFO Natalie Krysztof, Tennessee Department of Transportation, April 8, 2026.

Local governments say they can't make big projects like construction of new routes happen without state funding. Instead, they focus their limited funds on maintaining existing pavement and bridges.

to “ongoing shortfalls that could undermine transportation investments” and limiting improvements in transportation infrastructure.⁵⁸

The revenue generated by existing sources is no longer enough for building and maintaining highways and bridges.

Currently, there is a gap between the revenue generated by the primary sources of recurring transportation funding in Tennessee and what the state needs to maintain its existing road network and make capacity improvements. In fiscal year 2027-28, the state's existing recurring sources of revenue are expected to bring in \$2.6 billion. Independent of other funding, these existing revenue sources leave a billion-dollar gap between revenue and the \$3.6 billion in funding needed to both maintain the existing road network and continue current levels of investment in needed projects. TACIR staff estimate TDOT will have an additional \$600 million from the Infrastructure Investment and Jobs Act (IIJA) and Transportation Modernization Act (TMA) available to spend in fiscal year 2027-28, bringing total funding to an estimated \$3.2 billion and the fiscal year 2027-28 gap to approximately \$400 million.

If the state continues to rely on existing revenue sources, this gap will likely grow. In fiscal year 2047-48, TACIR staff estimate that existing sources of recurring revenue could generate approximately \$3.6 billion. This could leave a gap of approximately \$2.5 billion between revenue and the \$6.1 billion in funding needed to maintain the existing road and bridge network. And it could leave a \$4.5 billion gap between revenue and the \$8.1 billion needed to both maintain its existing road network and make capacity improvements.

Local governments are facing their own funding gaps.

Each region of the state has its own transportation infrastructure needs. For example, where fast-growing Middle Tennessee struggles with congestion, rugged East Tennessee has a lot of bridge needs.⁵⁹ Without funding from TDOT, local government stakeholders said that big projects, including the construction of new routes, simply cannot happen. Instead, local governments focus their limited funds on maintaining existing pavement (roads) and bridges.⁶⁰ According to a representative for county officials, county governments are cautious about increasing budgets for their highway funds because of maintenance of effort laws, but capital

⁵⁸ Halpern, Gullett, and Yousofi 2025.

⁵⁹ Interview with TACIR commission member Calvin Clifton, business development and recruiting manager, Mattern & Craig Engineers, January 14, 2025.

⁶⁰ Interview with Andrew Ellard, city administrator, and Larry Clark, assistant city administrator, city of Morristown, Ryan McReynolds, deputy city manager, and Michael Thompson, public works director, city of Kingsport, February 9, 2026.

projects funds, which are often used to finance larger transportation projects, are not subject to maintenance of effort. Local governments can also borrow for roads, bridges, and paving through their ability to issue debt instruments like bonds and capital outlay notes at low interest rates.⁶¹ Some stakeholders suggested that local governments should be encouraged to borrow money to fund transportation.⁶² Others said that counties want more flexibility to implement or raise local taxes,⁶³ a local option gas tax, for example, could help local governments because they don't want to issue debt for paving.⁶⁴

Local governments in Tennessee rely on fuel tax revenue shared with them by the state to help fund local transportation needs. Counties receive approximately 22% of the revenue from the state's fuel taxes, and cities receive approximately 12%, with the state retaining the other 66%.⁶⁵ Shared fuel tax revenue is usually not enough to cover local governments' road expenses, with most jurisdictions relying on their local sales and property taxes to fund the rest of their needs. Shared revenue from additional registration fees for hybrid and electric vehicles adds a small amount, but that revenue will grow as more Tennesseans choose EVs and hybrids. County highway departments for the state's 95 counties spent \$794 million in fiscal year 2023-24, of which \$296 million came from state-shared fuel taxes.⁶⁶ TACIR staff analyzed revenue and expenditures data from fiscal year 2023-24 for 331 cities and identified approximately \$584 million in street-related spending. These cities received approximately \$80 million from state-shared fuel taxes.⁶⁷ There are other state aid programs available to counties and cities for transportation funding. The Transportation Modernization Act also included a \$300 million boost in state aid for local governments.⁶⁸

Local governments in Tennessee rely on fuel tax revenue shared by the state to help fund local transportation needs, but it is usually not enough to cover local governments' road expenses.

⁶¹ Interview with David Connor, executive director, Tennessee County Services Association, May 6, 2025.

⁶² Interview with Michael Skipper, executive director, Greater Nashville Regional Council, November 19, 2025.

⁶³ Interview with David Hawk, state representative, District 5, August 12, 2025.

⁶⁴ Interviews with Andrew Ellard, city administrator, and Larry Clark, assistant city administrator, City of Morristown, Ryan McReynolds, deputy city manager, and Michael Thompson, public works director, City of Kingsport, February 9, 2026.

⁶⁵ University of Tennessee Municipal Technical Advisory Service 2025.

⁶⁶ TACIR staff analysis of data received in emails from Jacob Kennedy, database consultant, University of Tennessee County Technical Advisory Service, February 19, 2026; Jon Boghozian, assistant chief of local programs, Nashville Department of Transportation and Multimodal Infrastructure, Metropolitan Government of Nashville and Davidson County, May 29, 2026; Brandon Mauracher, director, Hamilton County Highway Department, June 3, 2026; Samantha Chittum, director of budgeting and administration, Engineering and Public Works, Knox County May 12, 2026; and Darren Sanders, administrator, Roads, Bridges & Engineering, Shelby County, May 14, 2026.

⁶⁷ TACIR staff analysis of data received in email from Nathan Abbott, investigative technology officer, Division of Investigations, Tennessee Comptroller of the Treasury, May 12, 2026.

⁶⁸ Hill 2023.

The stability of the federal Highway Trust Fund, which pays for state highway and public transportation infrastructure, is uncertain.

States receive money from the Highway Trust Fund (HTF) to help pay for many of their roads. It is mostly for capital projects, not maintenance, on federal-aid highways, including interstates, state routes, and other non-local roads.⁶⁹ It is mostly funded by taxes on motor fuels, set at 18.3 cents per gallon on gasoline and 24.3 cents per gallon on diesel.⁷⁰ Despite the changing landscape of transportation, including better fuel efficiency, Congress has not raised fuel taxes since 1993. Funds in the HTF have not been sufficient to meet funding needs for some time. Beginning in 2001, HTF revenues could no longer outpace transportation spending, and since 2008, Congress has used transfers from the Treasury general fund to keep the HTF stable.⁷¹ These infusions of funding from the general fund to the HTF are not sustainable, though, and according to the Congressional Budget Office without additional funding the HTF could be depleted by 2028.⁷²

Money from the federal Highway Trust Fund is mostly used for capital projects, not maintenance, on federal-aid highways, including interstates, state routes, and other non-local roads.

Despite the changing landscape of transportation, including better fuel efficiency, Congress has not raised federal fuel taxes since 1993.

Congress delivers transportation and related infrastructure funding to the states through legislation and multi-year surface transportation authorizations.⁷³ Past examples included Moving Ahead for Progress in the 21st Century Act (MAP-21) and the Fixing America's Surface Transportation Act (FAST Act). MAP-21 was signed into law in 2012 and provided over \$105 billion in funding for transportation for fiscal years 2012-13 and 2013-14.⁷⁴ The FAST Act authorized \$305 billion over fiscal years 2015-16 through 2019-20 until it was replaced by the 2021 Infrastructure Investment and Jobs Act (IIJA).⁷⁵ The IIJA, the latest round of surface transportation funding, is the largest federal funding package for transportation passed in recent history and made significant changes to the funding mechanisms available for highway and public transportation infrastructure. The IIJA authorized a total of \$1.2 trillion for transportation and infrastructure spending, including approximately \$350 billion for federal highway programs and \$108 billion for federal public transportation programs.⁷⁶

Since the 1950s federal funding for highways has been distributed to states using formulas based on land area and population, along with the needs of the interstate highway system. The IIJA included a process for local

⁶⁹ Shirley 2023.

⁷⁰ Lohman 2025.

⁷¹ Ibid.

⁷² Halpern, Gullett, and Yousofi 2025.

⁷³ Bland 2024.

⁷⁴ US Department of Transportation Federal Highway Administration 2018.

⁷⁵ US Department of Transportation Federal Highway Administration 2022.

⁷⁶ US Department of Transportation Federal Highway Administration "Funding"; US Department of Transportation Federal Transit Administration 2025; and Government Finance Officers Association "Infrastructure Investment and Jobs Act (IIJA) Implementation Resources."

governments to apply for some funds through programs like Safe Streets and Roads for All, but the majority of federal funding is delivered to states. This state-led model of funding has contributed to tensions between local governments and states, increasingly so as some of the grant funds awarded to cities through the IIJA have been clawed back.⁷⁷

The IIJA is unique compared to previous surface transportation reauthorizations because it directly appropriates funds for fiscal years 2021-22 through 2025-26.⁷⁸ These funds were originally seen as one-time increases in areas of critical need, and IIJA appropriations made up a considerable portion of total US Department of Transportation grant funding. IIJA funding is set to expire in September of 2026,⁷⁹ at which point Congress will have to pass another funding authorization, but given the current fiscal landscape, it is unlikely that Congress will continue the sort of appropriations provided by the IIJA.⁸⁰

Increased fuel efficiency and rising construction costs are outpacing the existing transportation funding streams.

In its 2022 report *Electric Vehicles and Other Issues Affecting Road and Highway Funding in Tennessee*, the commission described two main trends affecting the future of funding for the maintenance and improvement of the state's transportation infrastructure network—trends affecting states and local governments across the country. First were the combined effects of increased fuel economy and the projected replacement of gas-powered vehicles with EVs, which reduces the amount of revenue generated by traditional fuel taxes. Second, “beyond this potential for reduced [fuel] tax revenue,” the report said that “inflation significantly decreases the purchasing power of revenue collected.”⁸¹

Increased fuel efficiency and electrification reduce revenue generated by fuel taxes.

Fuel economy improvements affect fuel tax collections. The more fuel-efficient vehicles are, the less fuel people need to buy, and less revenue is collected. And fuel economy is expected to continue improving in coming years. In 2025, the average fuel economy of the US light-duty vehicle stock—on-road efficiencies for all personal and fleet vehicles, including medium-duty trucks under 10,000 pounds (Class 2B)—was 22.5 miles per gallon (mpg) of gasoline. For vehicles classified as cars, average fuel economy was 27.8 mpg; for light trucks it was 20.3 mpg.⁸² In its baseline

The combined effects of increased fuel economy and the projected replacement of gas-powered vehicles with EVs reduces the amount of revenue generated by traditional fuel taxes.

⁷⁷ Brey 2025a and 2025b.

⁷⁸ Lohman 2026a and 2026b.

⁷⁹ Brey 2025a and 2025b.

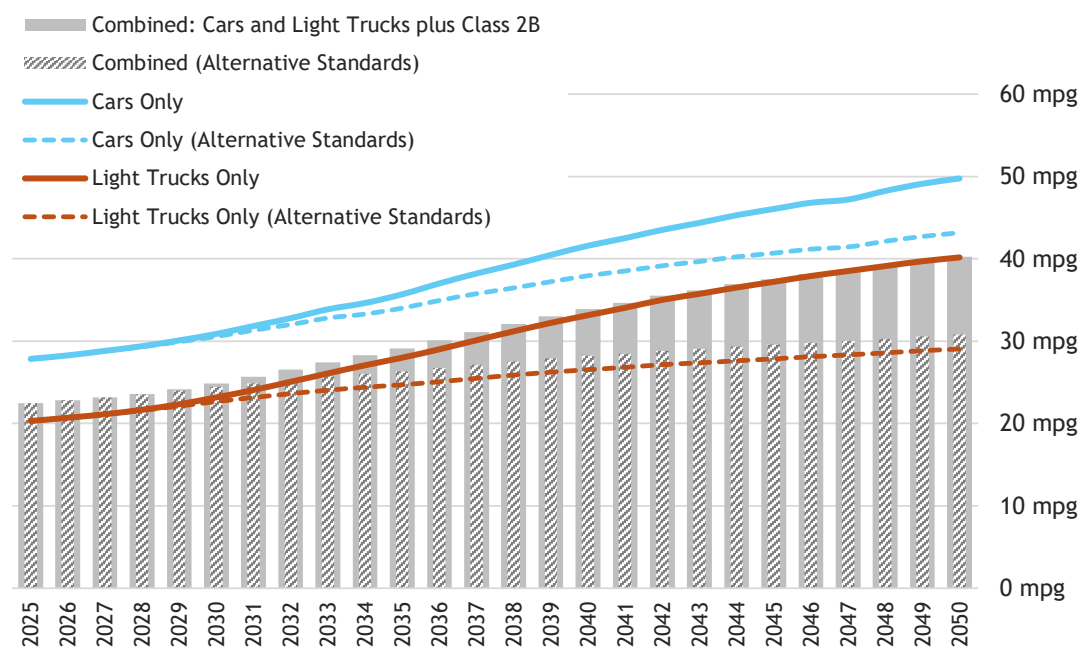
⁸⁰ Blongewicz 2026; and JPC Engineering 2026.

⁸¹ Tennessee Advisory Commission on Intergovernmental Relations 2022.

⁸² US Energy Information Administration 2026a. Table 40. Light-Duty Vehicle Miles per Gallon by Technology Type.

case, which assumes that laws and regulations in place as of December 2025 remain, the US Energy Information Administration (EIA) forecasts a combined average fuel economy of 40.2 mpg for light-duty vehicle stock in 2050. See figure 3.

Figure 3. Projected Average Fuel Economy for Light-Duty Vehicle Stock 2025 through 2050

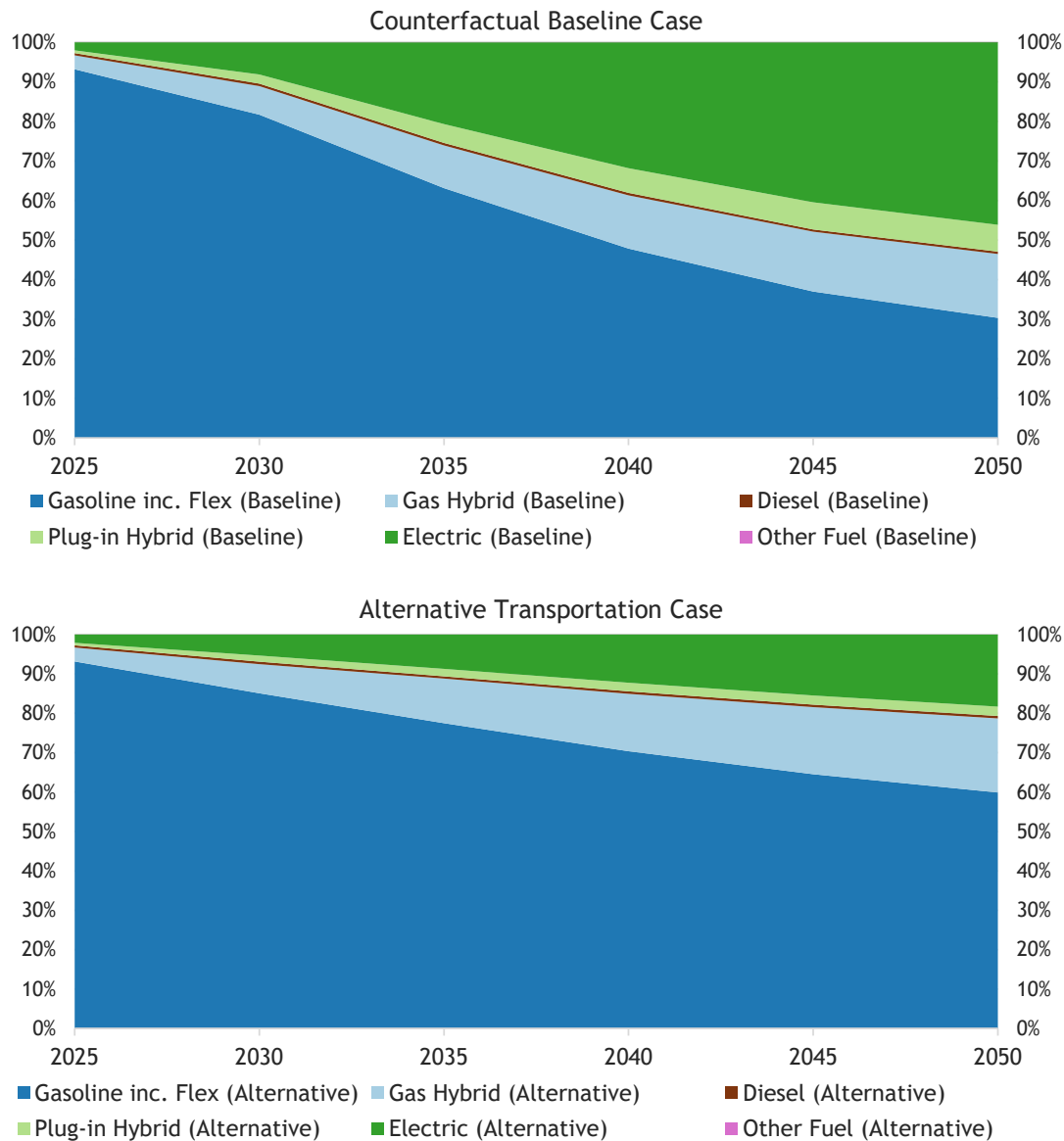


Source: US Energy Information Administration 2026a. Table 40. Light-Duty Vehicle Miles per Gallon by Technology Type.

The forecasted increase in average fuel economy, however, is affected by the rate at which hybrid and electric vehicles replace those fueled by gasoline. Conventional (not plug-in) gas/electric hybrid cars are expected to get 65 mpg on average by 2050. Plug-in hybrids are treated as the equivalent of 111 mpg and fully electric cars as 156 mpg equivalent.⁸³ Also shown in figure 3 are projections for an alternative scenario that removes the most recent EPA tailpipe greenhouse gas standards for light-duty vehicles after model year 2027. Under those circumstances, the EIA assumes a much lower rate of EV adoption, as auto makers are less incentivized to increase EV production to meet higher federal fuel economy requirements. See figure 4 for a comparison of projected vehicle stock by fuel type under both scenarios.

⁸³ Ibid.

Figure 4. Projected Light-Duty Vehicle Stock by Fuel Type, 2025 through 2050
Counterfactual Baseline (Reference) and Alternative Transportation Cases



Source: US Energy Information Administration 2026a (Table 39. Light-Duty Vehicle Stock by Technology Type.); and 2026b. In prior AEO editions, the Counterfactual Baseline case was known as the Reference case. It assumes energy markets would operate through 2050 under laws and regulations as of December 2025 under evolutionary technological growth assumptions.

In either regulatory scenario, passenger vehicles fueled only by gasoline will continue to be more fuel-efficient. In 2027, new gas-powered cars get an average of more than 42 mpg, and new light trucks get an average of 31 mpg. Over time, those vehicles will replace older, less efficient models, even for those who choose not to switch to an EV. The EIA forecasts that the average fuel economy of new gasoline cars will increase to 45.7 mpg in

2040, a 10.0% improvement; average fuel economy for new light trucks is expected to improve to 32.7 mpg (+7.9%) in 2040.⁸⁴

The average fuel efficiency of new gasoline- and diesel-fueled freight trucks is also projected to improve. New light-medium (Class 3) and medium-duty (Classes 4 through 6) trucks fueled by gasoline get an average of 12.1 and 9.2 mpg, respectively, in 2027. By 2035, those numbers are projected to improve to 12.7 and 10.0 mpg, after which it appears no further gains are expected through 2050. New light-medium diesel trucks get an average of 14.9 mpg in 2027, new medium-duty diesels get 10.6 mpg, and heavy-duty (Classes 7 and 8) get 7.3 mpg. Efficiency is projected to improve for new diesel-fueled trucks in all three groups through 2035, reaching 15.7, 11.6, and 8.2 mpg, respectively. Beyond 2035, further gains are expected only for new light-medium diesel trucks, which reach an average of 17.5 mpg in 2050.⁸⁵

In addition to increased fuel economy, lighter vehicles and alternative fuels are expected to comprise a much greater share of freight vehicle stock over time. Light-medium class trucks represented approximately 37% of all freight trucks in 2025, medium classes were 26%, and heavy classes were 37%. In 2050, those percentages are expected to have shifted in favor of light-medium class trucks: 44%, 21%, and 35%, respectively. See table 11.

Table 11. Fuel Economy of New Freight Vehicles and Freight Vehicle Stock by Weight Class Category in Selected Years

New Vehicle Class / Fuel Type	Model Year 2027 (mpg)	Model Year 2035 (mpg)	Model Year 2050 (mpg)
Light-medium / Gasoline	12.1	12.7	12.6
Light-medium / Diesel	14.9	15.7	17.5
Medium / Gasoline	9.2	10.0	10.0
Medium / Diesel	10.6	11.6	11.7
Heavy / Diesel	7.3	8.2	8.2
Vehicle Class as Percentage of Total Freight Vehicle Stock	Model Year 2027	Model Year 2035	Model Year 2050
Light-medium	37.7%	40.3%	44.3%
Medium	25.7%	23.6%	21.1%
Heavy	36.6%	36.1%	34.6%

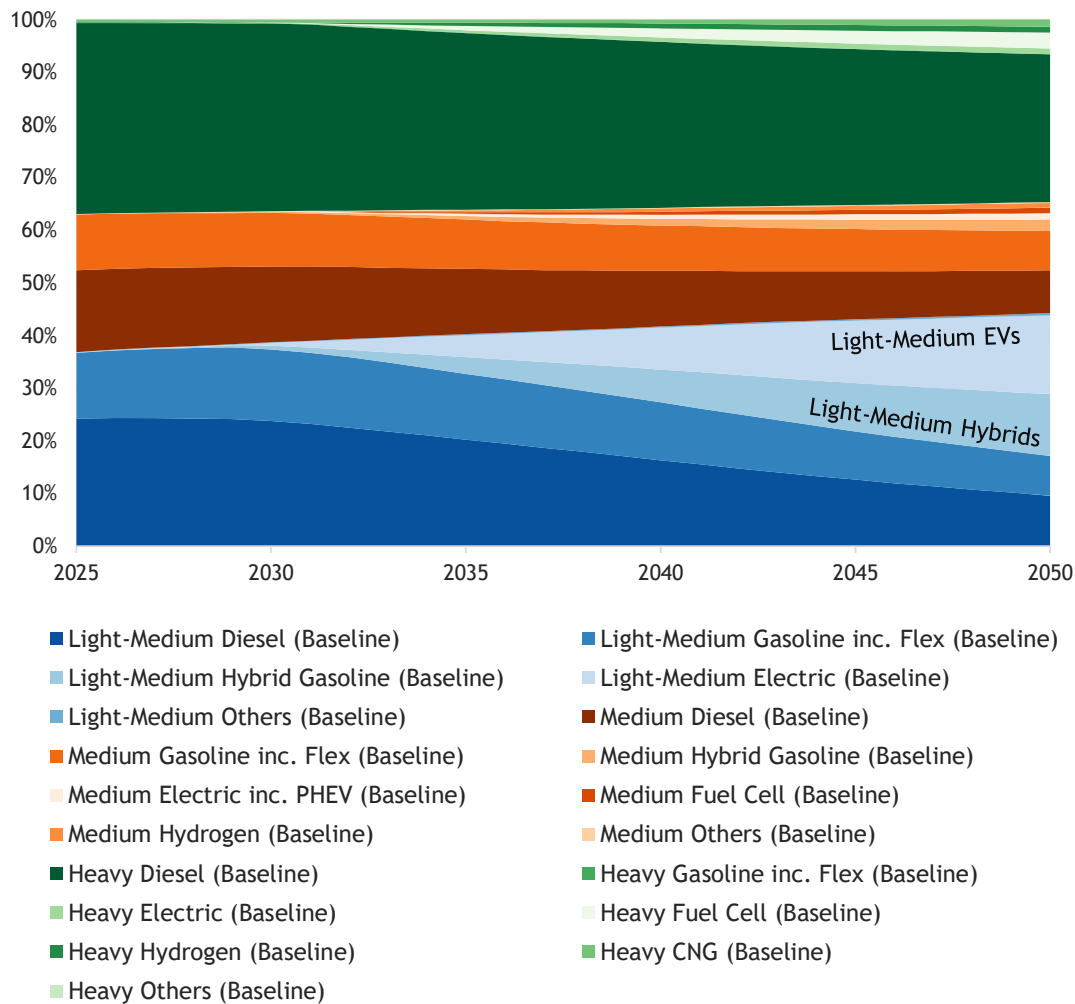
Source: US Energy Information Administration 2026a. Table 49. Freight Transportation Energy Use.

⁸⁴ Ibid.

⁸⁵ US Energy Information Administration 2026a. Table 49. Freight Transportation Energy Use.

Electric vehicles, hybrids, and vehicles powered by other alternative fuel types made up less than 1% of freight vehicles in 2025; under the EIA's baseline scenario they could be nearly 40% in 2050 (see figure 5).⁸⁶ Under the alternative regulatory case (not shown), the share of vehicles powered by alternative fuel types in 2050 is only 20%, a shift that would still have a significant effect on fuel consumption and tax revenue.

**Figure 5. Total Freight Truck Stock by Weight and Fuel Type
2025 through 2050**



Source: US Energy Information Administration 2026a. Table 49. Freight Transportation Energy Use. Light Medium, Medium, and Heavy contain Class 3, Classes 4-6, and Classes 7-8, respectively.

⁸⁶ Ibid.

Price volatility for materials like asphalt and petroleum and a decline in bidder competition were two factors increasing construction costs during and after the COVID-19 pandemic, as contractors also sought to mitigate future risk with higher bids.

Construction costs increased significantly during and after the pandemic, and future volatility remains a concern.

Because federal and state fuel taxes are set at a per-gallon flat rate and neither fuel taxes nor vehicle registration fees are indexed for inflation, revenue from these user fees does not increase when prices increase. Total revenue from the state's current user fees is growing by approximately 1.5% each year, while construction costs have increased at a much higher rate, significantly decreasing the purchasing power of the revenue collected and the primary reason why user fee revenues are not keeping pace with needs. In 2022, the commission reported that "road construction costs (3.8% compound annual growth rate) have risen faster than overall inflation (2.5% compound annual growth rate) in the past decade. If construction costs continue to increase at that rate, they would increase 35% by 2030 and 96% by 2040."⁸⁷ Since that report was completed, construction cost inflation has continued. From the first quarter of 2022 through the most recent data currently available (fourth quarter 2025), the Federal Highway Administration's seasonally adjusted National Highway Construction Cost Index (NHCCI) has gone up an additional 42%.⁸⁸

Much of the recent increase in the NHCCI can be tied to the economic effects of the COVID-19 pandemic and its immediate aftermath. Prior to the pandemic, the NHCCI grew at an average annual rate of approximately 3% and tracked closely with other measures of construction costs. Then, from mid-2020 through mid-2024, the NHCCI jumped 78%, compared to a 36% increase in producer prices (PPI).⁸⁹ Industry experts and economists cite several reasons for the cost increases and divergence between the NHCCI and other measures. In particular, price volatility for materials like asphalt and petroleum and a decline in bidder competition were two factors increasing construction costs during and after the pandemic.⁹⁰

Other researchers have concluded that "when inflation first hit as a result of the pandemic supply shocks, the NHCCI trailed behind the PPI, as bids remained low and contractors were losing money on what they were charging for materials."⁹¹ Those losses may have "contributed to increasing bids for construction projects, as contractors sought to account for, or mitigate potential risk of further, future increases or volatility."⁹² Moreover, as costs have risen across the board, Tennessee road builders

⁸⁷ Tennessee Advisory Commission on Intergovernmental Relations 2022.

⁸⁸ US Department of Transportation Federal Highway Administration 2026d.

⁸⁹ US Bureau of Labor Statistics, "Producer Price Indexes by Commodity for Construction Materials, New Nonresidential Building Construction, and Final Demand Construction." See also US Department of Transportation Federal Highway Administration 2026d.

⁹⁰ Email from Kevin Heaslip, director, Center for Transportation Research, Boyd Center for Business and Economic Research, University of Tennessee, Knoxville, July 10, 2026; interview with Kent Starwalt, executive vice president, Tennessee Road Builders Association, November 12, 2025; and US Department of Transportation Federal Highway Administration 2024a.

⁹¹ Truslow 2025.

⁹² Ibid.

and highway officials have noted that project costs can vary significantly throughout the state. Geography plays a significant role in the design and materials needed. For example, soil stability is an issue in West Tennessee, and contractors have to use more expensive limestone base materials instead of cheaper gravel used in other areas.⁹³

The rapid increase in the NHCCI during and immediately following the pandemic appears to have tapered off in recent years. Throughout 2024 and 2025, the NHCCI fluctuated only slightly; in fact, the index decreased 3.8% from its most recent peak in the third quarter of 2024 through the fourth quarter 2025.⁹⁴

Increases in fuel efficiency and construction costs reduce the purchasing power of fuel tax revenue.

Fuel economy improvements and increasing replacement of traditional fuels with electric batteries will reduce fuel tax collections, and inflation means getting less done with that diminishing revenue. Figure 6 shows the projected effects that the combination of inflation, fuel economy, and electrification could have on fuel tax revenue in Tennessee.

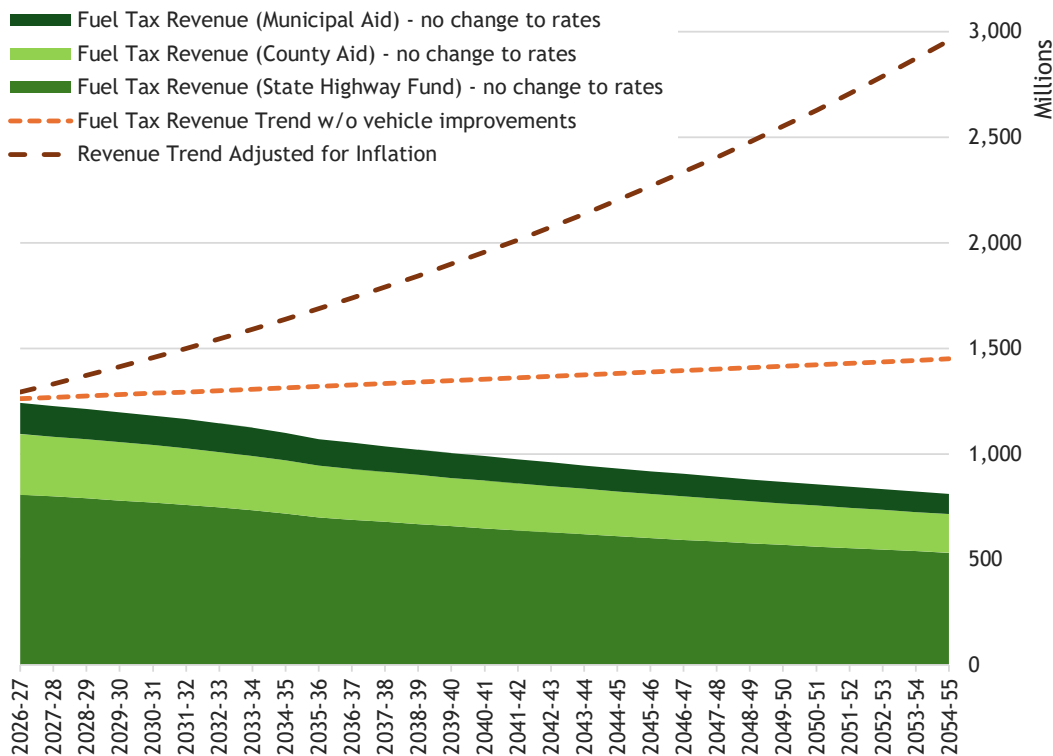
The first dashed line above the bars shows that total annual revenue from fuel taxes would continue increasing somewhat, from just under \$1.3 billion to more than \$1.4 billion, if tax rates and fuel economy remained the same. The stacked bars show how, with no changes to rates, fuel tax revenue will decline over time as fuel economy improves, to less than \$820 million in fiscal year 2054-55. Then above, another dashed line illustrates how, adjusted for 3% annual inflation, it would take nearly \$3 billion in revenue in fiscal year 2054-55 to have the purchasing power of \$1.3 billion collected in fiscal year 2026-27.

Project costs can vary significantly throughout the state, as geographic conditions affect project design and materials needed.

⁹³ Email from Brett Howell, executive director, Tennessee County Highway Officials Association, July 14, 2026; and interview with Kent Starwalt, executive vice president, Tennessee Road Builders Association, and Suzie Alcorn, executive director, Tennessee Infrastructure Alliance, November 12, 2025.

⁹⁴ US Department of Transportation Federal Highway Administration 2026d.

Figure 6. Projected Fuel Tax Revenue and the Effects of Inflation, Fuel Economy Improvements, and Vehicle Electrification through Fiscal Year 2054-55



Source: TACIR staff projection based on historic tax collections data, fleet characteristics of registered vehicles, projected construction cost inflation (NHCCI), and US Energy Information Administration 2026a projections for fuel economy.

Filling the tank will require a mix of higher rates on existing taxes and fees, new taxes or fees, or the dedication of currently unmarked portions of other taxes and fees.

There is no single revenue source—no silver bullet—that will close the state's transportation funding gap. By way of example, to increase state transportation funding by \$900 million solely by increasing the state's existing fuel taxes would necessitate increasing the gas and diesel taxes to 56¢ per gallon and 60¢ per gallon, respectively. Additionally, it seems unlikely that the federal government will increase recurring federal sources of revenue in the near future.

The commission analyzed a menu of alternatives for increasing state transportation revenue. Staff included alternatives for increasing existing sources of recurring revenue and alternatives that would earmark new sources of revenue for transportation as directed by Public Chapter 438, Acts of 2025.

The commission then 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.

Fuel Taxes: Increasing and Indexing for Inflation

Tennessee's existing fuel tax rates on gas (27¢ per gallon) and diesel (28¢ per gallon) are less than the average rates among neighboring states (gas tax rates in Tennessee's eight neighboring states range from 21.4¢ to 41.6¢ per gallon—31.3¢ per gallon average; rates for diesel range from 21.4¢ to 42.7¢ per gallon—32.3¢ per gallon average).⁹⁵ Although the revenue generated by these taxes is still increasing each year, its growth has slowed as the fuel efficiency of vehicles increases and will likely start decreasing in the next two decades if current trends continue. Because the tax rates are not indexed for inflation, the buying power of the tax has been decreasing in recent years.

Had the IMPROVE Act indexed the state's fuel tax rates to the consumer price index (CPI) to grow with inflation, the gas tax rate could have been 32.5¢ per gallon, and the diesel tax rate could have been 33.8¢ per gallon in fiscal year 2025-26.⁹⁶ Increasing both fuel taxes to where they would likely be for fiscal year 2027-28 had they been indexed (34.2¢ and 35.5¢ per gallon) would increase state transportation funding by \$191 million in fiscal year 2027-28, with corresponding increases of \$70 million for counties and \$35 million for cities. To help ensure that revenue generated by state fuel taxes keeps pace with inflation, the state could also index its fuel tax rates to CPI going forward. If the state were to increase the existing rates to 32.5¢ per gallon for gas and 33.8¢ per gallon for diesel and index them, the rates would be 56.1¢ and 58.2¢ per gallon for fiscal year 2047-48. This could increase state transportation funding by approximately \$587 million in fiscal year 2047-48, with increases of \$210 million for counties and \$105 million for cities, assuming average inflation of 2.5% annually.

The benefits of increasing fuel taxes and indexing them for inflation are that it could generate a substantial increase in transportation funding, and the tax increase will be borne by both in-state and out-of-state drivers.

Had the IMPROVE Act indexed the state's fuel tax rates to the consumer price index to grow with inflation, the gas tax rate could have been 32.5¢ per gallon, and the diesel tax rate could have been 33.8¢ per gallon in fiscal year 2025-26.

⁹⁵ US Energy Information Administration 2026c; and Tennessee Department of Revenue "Due Dates and Tax Rates."

⁹⁶ US Bureau of Labor Statistics "CPI Inflation Calculator."

Several neighboring and peer states have implemented different indexing mechanisms to help fuel taxes keep pace with inflation, construction costs, and improvements in fuel efficiency.

Indexing the tax rates will also reduce the extent to which inflation undercuts the buying power of the taxes and will help ensure that the revenue appreciates more going forward. But even with these changes to the structure of the state's fuel taxes, they will not appreciate as fast as other sources of revenue because of increases in fuel efficiency.

One potential challenge with indexing fuel taxes is that it could be perceived as an automatic tax increase by taxpayers. The General Assembly could address this concern by setting a cap on the potential annual increase in these tax rates, for example 3%. If inflation were to increase by a greater percentage in any given year, the fuel tax rates would not increase more than the cap unless legislative action were taken.

Many other states have indexed their fuel taxes. According to the National Conference of State Legislatures, 26 states and Washington, DC, already use some form of variable rate or indexed gas tax. Neighboring and peer states have implemented different indexing mechanisms to help fuel tax keep pace with inflation, construction costs, and improvements in fuel efficiency. Examples include the following:

- Alabama's fuel tax is indexed annually to the NHCCI.
- Arkansas's fuel tax is based on the average wholesale price of gas and diesel with a floor and a ceiling.
- Florida and Virginia fuel taxes vary based on the CPI.
- Georgia indexes its motor fuel tax based on vehicle fuel efficiency and CPI.
- Indiana's fuel tax varies based on inflation, and sales tax applies to gas.
- Kentucky's fuel taxes are based on gas prices.
- Mississippi's fuel tax increases every two years (maximum of 1¢) based on increases in the annual average of NHCCI.
- North Carolina's fuel tax changes with population and CPI.⁹⁷

Vehicle Registration Fees: Increasing and Indexing for Inflation

Vehicle registration fees are the third largest source of revenue for transportation funding in Tennessee. They account for approximately 11% of TDOT's funding—approximately \$330 million annually. Registration fees vary by vehicle type and were last increased by the IMPROVE Act in 2017. Tennessee's flat registration fee of \$26.50 for passenger vehicles is lower than rates in many neighboring states and not indexed for inflation. Had the IMPROVE Act indexed the state's vehicle registration fees to the CPI to grow with inflation, the fee could have been \$33.50 for fiscal year

⁹⁷ National Conference of State Legislatures 2025.

2025-26.⁹⁸ The state's registration fees for commercial vehicles, which vary by weight, are also not indexed for inflation. Increasing registration fees for passenger and commercial vehicles to where they would have been had they been indexed for inflation—\$35.00 for passenger vehicles and \$99.75 to \$1,911.75 for commercial—would increase state transportation funding by \$129 million in fiscal year 2027-28. To help ensure that revenue generated by registration fees keeps pace with inflation, the state could also index them to CPI going forward. If the state were to increase the existing fee for passenger vehicles to \$35.00 for fiscal year 2027-28 and index it, along with equivalent increases to fees for all vehicle types, this could increase revenue in fiscal year 2047-48 by approximately \$560 million.⁹⁹

The benefit of increasing vehicle registration fees and indexing them for inflation is that it could generate an increase in transportation funding, though not as significant as an increase in fuel taxes. Indexing the tax rates will also reduce the extent to which inflation undercuts the buying power of the taxes and could help ensure that the revenue appreciates more going forward. And the state has already indexed the additional registration fees paid by owners of EVs and hybrids. Registration fee revenue is likely to appreciate faster than the gas tax if population continues to grow because it is not affected by fuel efficiency. But any increase in registration fees for passenger vehicles will be borne only by Tennessee residents. Drivers of commercial vehicles that travel in and through Tennessee but are registered in other states pay mileage-apportioned registration fees through the International Registration Plan, meaning that a portion of those fees are paid by non-residents. While detailed traffic data by vehicle registration state is not readily available, a TDOT analysis of location data for 6.3 million truck journeys in and through Tennessee over a 12-month period found that 20% of journeys were pass-through trips that both started and ended outside Tennessee. Another 31% had either their origin or destination in Tennessee, inbound or outbound. Some of those vehicles were likely registered in Tennessee, but many traveled in and out from home states elsewhere.¹⁰⁰

Increasing registration fees to where they would have been had they been indexed for inflation by the IMPROVE Act would increase state transportation funding by \$129 million in fiscal year 2027-28, and future indexing could increase revenue in fiscal year 2047-48 by approximately \$560 million.

Weight-based Registration Fees for Passenger Vehicles

Heavier vehicles have been shown to cause greater wear and tear to roadways. Currently, Tennessee charges weight-based registration

⁹⁸ US Bureau of Labor Statistics "CPI Inflation Calculator."

⁹⁹ Of the state's \$26.50 flat vehicle registration fee on passenger vehicles, \$22.40 is earmarked for the state highway fund, with the remainder divided between the Tennessee Department of Revenue, supplemental police pay, license plates, and the general fund. TACIR staff applied its inflation analysis only to the portion of the fee earmarked for the state highway fund. Similar calculations were made for commercial vehicles in each weight class based on registration data provided in an email from Derek Powell, special projects consultant, Tennessee Department of Revenue, April 7, 2026.

¹⁰⁰ Email from Andrew Barlow, director of traffic design division, Tennessee Department of Transportation, August 10, 2026. The analysis looked at the origins and destinations of 6.3 million chained journeys longer than a mile made by class 5-8 commercial vehicles (10,001 lbs. GVWR and above) on Tennessee roads from August 1, 2025, to July 31, 2026.

Weight-based registration fees for passenger vehicles with gross vehicle weight ratings over 6,000 pounds—approximately 30% of registered vehicles in Tennessee—could increase state funding by \$58 million in fiscal year 2027-28 and \$122 million in fiscal year 2047-48.

fees only to commercial vehicles. Some states also apply weight-based registration fees to passenger vehicles. In Virginia, for example, the registration fee for vehicles up to 4,000 pounds (gross vehicle weight) is \$30.75; it costs \$35.75 for vehicles between 4,001 and 6,500 pounds and \$44.75 for cars over 6,500 pounds.¹⁰¹ If Tennessee were to apply weight-based registration fees to passenger vehicles with gross vehicle weight ratings—the maximum weight the vehicle can carry including the vehicle itself—greater than 6,000 pounds it could increase state funding by \$58 million in fiscal year 2027-28 and \$122 million in fiscal year 2047-48. The increased fee would apply to approximately 30% of passenger vehicles.¹⁰²

Adopting weight-based registration fees for passenger vehicles would generate an increase in transportation funding, though not as significant as other revenue sources. Registration fee revenue is likely to appreciate faster than the gas tax if population continues to grow, because it is not affected by fuel efficiency. But any increase in registration fees for passenger vehicles will be borne only by Tennessee residents.

Vehicle Miles Traveled Tax

Some states have implemented or tested the use of vehicle miles traveled (VMT) taxes. These taxes charge drivers a per-mile fee for use of the state's roads. Implementing a similar VMT tax on passenger vehicles in Tennessee could come with several administrative challenges. Unless other states, especially our surrounding states, have adopted similar programs, it would be difficult to apply the tax to visitors traveling to Tennessee, so most of the revenue from a passenger-vehicle VMT tax would be raised solely from Tennesseans. Privacy considerations could also create an administrative challenge, as many residents may balk at sharing driving data with the state. Additionally, the primary example of another state that has adopted a VMT tax for passenger vehicles, Oregon, levies the tax in lieu of other taxes rather than in addition to them. Oregon has implemented a voluntary VMT tax—vehicle owners who opt into the program can use the per-mile tax to offset what they would otherwise pay in gas tax, and owners of fuel-efficient vehicles or EVs can use the tax to reduce their registration fees.¹⁰³

Other states levy per-mile taxes on heavy vehicles. Kentucky receives approximately 5% of its highway revenue (\$86 million) from a 2.85¢

¹⁰¹ Commonwealth of Virginia Department of Motor Vehicles 2026.

¹⁰² TACIR staff estimates from registration data provided in an email from Derek Powell, special projects consultant, Tennessee Department of Revenue, April 7, 2026.

¹⁰³ Oregon Department of Transportation "OREGO: Oregon's Road Usage Charge Program."

per-mile tax on vehicles 60,000 pounds and above.¹⁰⁴ Connecticut, New Mexico, New York, and Oregon also charge weight-based mileage fees.¹⁰⁵

Applying a VMT tax solely on heavier commercial vehicles could be less administratively challenging to the extent that many of these vehicles are already reporting mileage to the state for interstate registration and fuel tax purposes. In Tennessee, combination trucks (tractor-trailers) accounted for 6.3 billion vehicle-miles traveled in 2024.¹⁰⁶ A 3¢ per-mile tax on these trucks could potentially generate \$190 million annually—roughly the equivalent to a 4¢ fuel tax increase—much of which could be collected from trucking companies based in other states.

A weight-based per-mile tax on heavy vehicles would generate an increase in transportation funding, though not as significant as other revenue sources. The extent to which it appreciates over time would depend on changes in VMT for heavy vehicles subject to the tax. Revenue would be collected from both in-state and out-of-state companies.

Rideshare Tax

Rideshare companies, also called Transportation Network Companies (TNCs), have become a fast-growing part of the transportation sector throughout Tennessee and across the country. According to S&P Global Mobility, rideshare services are expected to grow significantly in the US to a projected 15 billion rideshare trips in 2040.¹⁰⁷ With increased use of rideshare services, however, there is an associated increase in congestion. Rideshare taxes can help address congestion-related impacts and also provide a dedicated transportation funding source.¹⁰⁸

According to National Center for Sustainable Transportation, for a TNC fee to be effective in reducing congestion and emissions, it should meet these three criteria:

1. Fees should differentiate between shared and solo rides; namely, they should charge significantly lower fees on shared riders and significantly larger fees on solo riders. Importantly, the fees charged per vehicle should be equal to or less than charged on solo rides.
2. Fees should be large enough to motivate individuals to use shared rides or public transit. These should be determined by rigorous

A 3¢-per-mile tax on combination trucks (tractor-trailers) traveling in Tennessee could potentially generate \$190 million annually—roughly the equivalent to a 4¢ fuel tax increase—and would be collected from both in-state and out-of-state companies.

¹⁰⁴ Kentucky Office of State Budget Director 2025; and Kentucky Transportation Cabinet “Kentucky Weight Distance (KYU).”

¹⁰⁵ Connecticut Department of Revenue Services “Highway Use Fee Information”; New Mexico Motor Vehicle Division, Commercial Vehicle Bureau “Weight Distance”; New York Department of Taxation and Finance “Highway Use Tax”; and Oregon Department of Transportation “Weight-Mile Tax Program Enrollment.”

¹⁰⁶ TACIR staff analysis of US Department of Transportation Federal Highway Administration 2026b and 2026i.

¹⁰⁷ Muller 2025.

¹⁰⁸ Fuller et al. 2021.

Several states, including Georgia, North Carolina, and Kentucky, impose taxes on rideshare services; a 50¢ per trip tax in Tennessee could generate approximately \$45 million in fiscal year 2027-28.

travel demand modeling. But fees should not be so high on shared rides as to shift individuals toward the use of personal vehicles in the longer term.

3. Fees should directly target deadheading, as this portion of TNC rides constitutes, at a lower bound, approximately 41% of VMT.¹⁰⁹

Several states, including some of Tennessee's neighbors (Georgia, North Carolina, and Kentucky), impose taxes on rideshare services.¹¹⁰ These taxes are usually structured either as gross receipts taxes or a per-trip fee. Georgia's tax, which started at 50¢ per trip in 2020, was indexed for inflation and is now 64¢ per trip. TACIR staff estimate that a 50¢ per trip tax in Tennessee could generate approximately \$45 million in fiscal year 2027-28 and approximately \$268 million at 82¢ per trip in fiscal year 2047-48 if current trends in the use of these services continue and the tax is indexed for inflation. Cities and states across the country are reviewing fees or taxes on TNC platforms, such as Uber and Lyft for various objectives including but not limited to traffic congestion, emissions mitigation, and revenue generation.¹¹¹

Rideshare taxes would not generate as much funding as other revenue alternatives, though they could appreciate over time if indexed for inflation and to the extent that use of these services increases. Rideshare users would pay these taxes regardless of whether they are Tennessee residents or visiting from other states. Table 12 shows states that dedicate some portion of transportation network company revenue for transportation purposes.

¹⁰⁹ Ibid.

¹¹⁰ Transportation Investment Advocacy Center 2024.

¹¹¹ Shinkle 2024; and Fuller et al. 2021.

Table 12. Examples of Transportation Network Company Fees in Other States

State	Fee Structure	State or Local Government	Main Use
California	Flat 10¢ fee, cities impose a separate assessment fee	State/Local	Disability Services
Colorado	Flat 62¢ fee (32¢ for zero-emission vehicles)	State	Transit and Fleet Electrification
Georgia	Started at 50¢ per trip in 2020, was indexed for inflation, and in 2026 it is 64¢ per trip	State	Transit
Illinois	\$3 flat fee for trips within Chicago downtown and \$1.25 outside downtown, rates vary from one city to another	Local	Transit
Kentucky	6% excise tax on gross receipts	State	General Fund
Maryland	Localities may impose up to 25¢ per-trip	Local	Transportation Purposes
Massachusetts	Flat 20¢ fee	State/Local	Transportation Infrastructure
Nevada	3% fee on ride fare	State	Highway Fund/General Fund
New York/New York City	Flat fee plus percentage fees; New York City (NYC) imposes both flat and percentage fees. The city imposes a flat \$2.75 fee for non-shared rides and a 75-cent fee for shared rides as well as an 8% fee.	State/Local	Transit/General Fund
North Carolina	1.5% for non-shared rides and 1% for shared rides	State	Highway Fund
Washington, DC	6% fee on ride fare	Local	Transportation Network Company Regulation/Transit

Source: Metropolitan Area Planning Council 2024.

Retail Delivery Fees

Delivery fees would not generate as much funding as other revenue alternatives, though they could appreciate over time to the extent that use of home-delivery increases. The fees would be paid primarily by Tennessee residents, though they would apply to any delivery within the state. Only two states have enacted retail delivery fees on deliveries of taxable goods—Colorado and Minnesota—and legislators in both states

A 30¢ fee per retail delivery in Tennessee could generate \$88 million in fiscal year 2027-28 and, if indexed for inflation, could increase to \$159 million in fiscal year 2047-48.

have attempted to repeal the fees. Colorado’s fee is 31¢ per delivery made by motor vehicle within the state and is indexed for inflation.¹¹² The fee is charged once per sale, not per package, even if the order is shipped in multiple boxes. Retailers or marketplace facilitators that collect the sales tax are responsible for remitting the delivery fee. TACIR staff estimate that a 30¢ fee per delivery that is indexed for inflation like Colorado’s could generate \$88 million in fiscal year 2027-28 and could increase to \$159 million in fiscal year 2047-48.

Minnesota has a 50¢ fee that applies to deliveries of clothing and tangible personal property subject to sales tax valued at \$100 or more. The retail delivery fee applies once per transaction, collected from the buyer and remitted by the seller. The fee applies to specific transactions involving retail deliveries such as deliveries by third-party shippers, couriers, and company vehicles. But retailers with less than \$1 million in retail sales in Minnesota and marketplace sellers with less than \$100,000 in sales are exempt from the fee. The fee also does not apply to tax-exempt purchasers, restaurant and food deliveries, curbside pickup orders, and deliveries made outside Minnesota.¹¹³

Rental Car Fees

Tennessee’s tourism industry is growing, and according to the Tennessee Department of Tourist Development, the state’s tourism industry set a record in 2024 by welcoming 147 million visitors and generating \$31.7 billion in total direct visitor spending, including \$6.7 billion in transportation spending (see table 13).¹¹⁴ Visitor spending has grown by 36.6% since 2018, more than double the national average of 17.4%, and it generated \$3.3 billion in state and local tax revenue in 2024.¹¹⁵

Table 13. Visitor Transportation Spending in Tennessee 2020 through 2024

Calendar Year	Visitor Volume (Millions)	Transportation Spending* (Billions)
2020	100.81	\$ 3.95
2021	127.55	\$ 5.35
2022	140.76	\$ 6.31
2023	144.36	\$ 6.50
2024	146.70	\$ 6.66

*Transportation includes both ground and air transportation.

Source: Tourism Economics 2024.

These trends suggest continued travel demand across Tennessee, which supports industries that serve visitors, including rental car companies. Rental car users, especially tourists and visitors, use state highways

¹¹² Colorado Department of Revenue “Retail Delivery Fees Rates.”

¹¹³ Minnesota Department of Revenue “Retail Delivery Fee.”

¹¹⁴ Tennessee Department of Tourist Development 2025a and 2025b.

¹¹⁵ Ibid.

and other transportation infrastructure, yet many are nonresidents who contribute little in the way of state fuel taxes towards the cost of building and maintaining that infrastructure. Also, major car rental companies are expanding their fleets to include electric vehicles (EVs) and more fuel-efficient vehicles that offer lower operating costs,¹¹⁶ which may increase demand for rental cars while reducing fuel consumption. Rental car fees will allow the state to recover a portion of transportation costs, as well as export some of the taxes. This revenue source is expected to grow as car rental transactions are closely associated with tourism, airport activity, and economic growth.¹¹⁷ Tennessee imposes a 3% auto rental surcharge on the gross proceeds from motor vehicle rentals of 31 days or less, and revenue from the surcharge is deposited into the state general fund.¹¹⁸ TACIR staff estimate increasing the rate from 3% to 5% and earmarking it for transportation funding would generate \$34.3 million in additional revenue in fiscal year 2027-28 and \$46.1 million in fiscal year 2054-55. Table 14 shows the tax rate on a \$250 car rental for five days in 2025; Tennessee ranks 19th countrywide with an average tax rate of 13.19%.¹¹⁹

Table 14. Average State and Local Percentage Tax Rate on a \$250 Car Rental for Five Days in 2025

State	Rate (Percent)
Alabama	3.20
Florida	11.02
Georgia	8.66
Indiana	11.85
Kentucky	12.31
Mississippi	11.00
North Carolina	10.48
Ohio	7.37
Tennessee	13.19

Source: Hoffer and Macumber-Rosin 2025.

Increasing Tennessee's auto rental surcharge from 3% to 5% and earmarking it for transportation funding could generate an estimated \$34 million in fiscal year 2027-28 and \$46 million in fiscal year 2054-55.

General Fund Revenue

Tennessee could use general funds to increase state funding for transportation either through one-time transfers, as it has done in recent years, or as a recurring flat dollar amount or by earmarking recurring

¹¹⁶ Schmidt 2024.

¹¹⁷ Grand View Research 2025.

¹¹⁸ Tennessee Department of Revenue 2021.

¹¹⁹ Hoffer and Macumber-Rosin 2025.

Using the general fund for transportation pulls resources from other state priorities, and relying on one-time transfers can make it difficult for TDOT to carry out long-range planning.

state revenue. Using the general fund can provide TDOT with substantial additional revenue, but it pulls resources from other state priorities, and relying on one-time transfers can make it more difficult for TDOT to carry out long-range planning.¹²⁰

Beyond the one-time transfers, the General Assembly enacted Public Chapter 508, Acts of 2025, which takes 5.5% of the 7% state sales tax on new and used tires from the general fund and earmarks it for the state highway fund. But there have been implementation challenges because retailers now must report tire sales separately, which they were not previously required to do. Collections for fiscal year 2025-26 are estimated to be approximately \$25 million.

Going forward, the General Assembly could earmark additional sources of existing revenue for the state highway fund. For example, in the 114th General Assembly, Senate Bill 1642 by Senator Walley and House Bill 1683 by Representative Hawk would have earmarked almost all state sales tax revenue from the sale of new or used motor vehicles and new or used tires for the state highway fund, with a small portion reserved for cities. According to the bill's fiscal note, it would have earmarked approximately \$1.1 billion for the state highway fund in fiscal year 2027-28 and subsequent years. Representative Hawk offered a similar proposal as an amendment to the IMPROVE Act in 2017. Other existing taxes could also be candidates for use, though they don't always raise as much revenue. The state's 3% tax on gross proceeds from rental car businesses, for example, generates approximately \$20 million annually and currently goes to the general fund.

To avoid taking existing funding from other programs, the General Assembly could increase one or more taxes, for example the sales tax, and earmark the new revenue for the state highway fund. A 0.25% increase in the state's general sales tax could generate approximately \$520 million in fiscal year 2027-28. But it should be noted that Tennessee already has one of the highest average combined state and local sales tax rates in the nation.

The extent to which any of these general fund alternatives might appreciate over time depends on the revenue sources that are used and whether the state chooses to simply allocate a recurring flat amount to TDOT or a percentage of a recurring revenue source. Depending on the sources used, revenue could come both from Tennesseans and visitors from other states.

¹²⁰ Interview with Natalie Krysztof, deputy commissioner and chief financial officer, and Erica McKenney, assistant to CFO Natalie Krysztof, Tennessee Department of Transportation, April 8, 2026.

Tennessee is exploring alternative methods of financing to expedite needed transportation 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 (P3) to expedite major projects. Both alternatives have the potential to cost-effectively deliver much-needed infrastructure improvements.

Tennessee's current pay-as-you-go transportation funding model can prolong the time it takes to deliver major infrastructure projects. Delays in construction can increase costs in various ways: inflation, increased travel time, freight delays, fuel wastage, and deferred economic development. A 2024 report from the University of Tennessee Center for Business and Economic Research, *Tennessee State Government Debt in Context*, said that "Tennessee could feasibly and strategically increase its debt load while maintaining its status as a low-debt state with top credit ratings."¹²¹ According to the Center on Budget and Policy Priorities,

States and localities rarely fail to repay bondholders, but there is some risk that they might borrow so heavily that their debt obligations begin to crowd out other parts of the budget. Because each decision to issue a bond will affect the state for decades, guidelines are needed to prevent one generation's decisions from pre-empting those of the next.

States use several methods to limit their indebtedness, usually by setting a cap on total debt as a share of the state's economy or a cap on annual interest payments as a share of state revenues. (Some states, however, have no such limits; on the other hand, a few states are prohibited from issuing general obligation debt.) Because policymakers need flexibility if the state faces unusual capital needs resulting from natural disasters, aging infrastructure, or other challenges, these limits should be guidelines rather than rigid caps. States and localities should also regularly perform a formal debt affordability analysis and make this information public.¹²²

"Tennessee could feasibly and strategically increase its debt load while maintaining its status as a low-debt state with top credit ratings."

University of Tennessee
Center for Business and
Economic Research *Tennessee
State Government Debt in
Context*

¹²¹ Bruce and Taylor 2024.

¹²² Center on Budget and Policy Priorities 2018.

Bond financing spreads the cost of improvements among both current taxpayers and those who will use the infrastructure in the future, creating intergenerational equity.

Bond financing also spreads the cost of improvements among both current and future road users. Tennessee’s fiscal strength and superior credit rating give the state access to borrow money at the lowest possible costs. Borrowing to finance long-term infrastructure using bonds and other borrowing tools allows states to distribute costs over time while addressing multiple infrastructure priorities concurrently.¹²³ Relying solely on current revenue to fund projects places the entire burden on current users, when the long-term benefits of those completed improvements will be enjoyed by other users well into the future. As described by the Center on Budget and Policy Priorities, infrastructure projects including road projects “are used for decades but entail large upfront costs; borrowing enables the state to spread out those costs. As a result, taxpayers who will use the infrastructure in the future help pay for it, which promotes intergenerational equity.”

TACIR staff developed an example to illustrate strategic borrowing for long-term needs. In table 1 (reposted), the analysis assumes a level annual payment structure in which the principal amount is repaid over approximately 20 years on an aggregate basis rather than tracking individual bond issuance. From the analysis, borrowing \$10 billion between fiscal year 2027-28 and fiscal year 2036-37 to deliver fiscal year 2037-38 to fiscal year 2054-55 projects early could help avoid approximately \$7.3 billion in inflation-related cost escalation, before accounting for debt service. Accelerated project delivery could help offset some of the costs associated with debt service, and it also allows the project to deliver benefits earlier than pay-as-you-go financing. But the estimates used in this analysis are not project specific, and it should be noted that the timing of the implementation is an important factor in determining whether debt financing is an appropriate funding strategy.

Table 1 (reposted). Strategic Borrowing for Long-Term Capacity and Safety Needs

Description	Amount
Total Strategic Borrowing	\$ 10,000,000,000
Projects Delivered Earlier	\$ 10,000,000,000
Future Cost if Delayed to Fiscal Year 2045-46 at 4% Inflation Rate	\$ 17,316,764,476
Inflation Avoided	\$ 7,316,764,476
Maximum Annual Debt Service	\$ 920,000,000
Interest Cost	\$ 5,580,000,000
Benefit: early benefits like congestion relief, safety improvements, and economic development are not included	\$ 1,736,764,476

Source: TACIR staff analysis based on the state’s long-term capacity and safety needs and strategic borrowing assumptions.

¹²³ The Pew Charitable Trusts 2021.

States that strategically borrow issue low interest bonds to offset inflation costs from delaying projects to future years.¹²⁴ Accelerated project delivery could also help offset some of the costs associated with debt service and deliver economic benefits earlier than pay-as-you-go financing, creating a stimulus to the state's economy. Traditionally, debt financing is done by issuing bonds on the private market to be paid back from toll revenues, state fuel tax revenues, the general fund, or other sources. When existing revenue sources are used, more future funds would go towards servicing debt instead of new construction and will create financial uncertainty within the road construction industry, especially when long-term repayment obligations could limit future project flexibility.¹²⁵ Having a dedicated revenue stream earmarked for debt service payments helps avoid the need to divert funding away from other needs.

According to the Federal Highway Administration (FHWA), "Although debt financing imposes interest and other debt related costs, bringing a project to construction more quickly than otherwise possible can sometimes offset these costs."¹²⁶ TACIR staff also looked at a sample of four projects from the commission's 2024 Public Infrastructure Needs Inventory that dated back to 2010. Table 15 shows how delaying transportation projects over long periods of time can significantly increase construction costs.

Table 15. Increases in Estimated Transportation Project Costs from 2010 to 2024

Project Description	Estimated Cost 2010	Estimated Cost 2024	Estimated Increase Because of Delay
Widen Cherokee Trail interchange from four lanes to six lanes	\$ 39,600,000	\$ 155,788,941	\$ 116,188,941
Reconstruct State Route 4/US Route 78 as a six-lane divided roadway from Shelby Road to the Mississippi state line	56,400,000	88,500,000	32,100,000
Widen Lamar Avenue interchange from four lanes to six lanes	93,100,000	228,600,000	135,500,000
Modify interchange at Crump Boulevard	33,035,000	103,200,000	70,165,000
Total	\$ 222,135,000	\$ 576,088,941	\$ 353,953,941

Source: TACIR Public Infrastructure Needs Inventory.

¹²⁴ Michigan Department of Transportation "Bonding."

¹²⁵ Interview with Kent Starwalt, executive vice president, Tennessee Road Builders Association, and Suzie Alcorn, executive director, Tennessee Infrastructure Alliance, November 12, 2025.

¹²⁶ US Department of Transportation Federal Highway Administration "Federal Program Financing Tools."

Users benefit from the accelerated completion of important transportation projects, and those benefits can be considered when determining which projects are strategically important enough to borrow for.

While some of the projects listed have since been completed and others remain unconstructed, the cost comparison highlights the potential impact of delaying projects. If bonds were issued in 2010 to pay for the four projects, the state could have raised enough money to complete the projects at a cost of \$222 million and avoided approximately \$354 million in inflation-related cost increases. Interest would have added approximately \$135 million, putting the cost to retire the bonds at around \$356 million—a potential savings of \$220 million compared to the estimated \$576 million the projects could have cost in 2024. This doesn't necessarily mean that the state will complete *more* projects over a multi-decade period. But strategic use of debt financing could help the state accelerate the completion of some of its most important projects, or the state could use this funding to prioritize strategically important categories of infrastructure.

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.

Other innovative debt-financing strategies include the use of bonding instruments such as Grant Anticipation Revenue Vehicles (GARVEEs) and private activity bonds; federal credit assistance from the Transportation Infrastructure Finance and Innovation Act (TIFIA); and state infrastructure banks.¹²⁷ GARVEEs allows states to issue bonds backed by future federal-aid highway funding to accelerate construction and spread the cost over the project's useful life rather than just the construction period.¹²⁸ TIFIA provides states with low-interest federal credit assistance to help finance large transportation projects, which can then be repaid using project revenues or other dedicated funding sources.¹²⁹

Tennessee is using public-private partnerships to leverage private investment and preserve state funds for other priorities.

The Transportation Modernization Act changed the way TDOT delivers projects by expanding alternative delivery methods and giving TDOT the authority to enter into public private partnerships.¹³⁰ P3s allow governments to enter into agreements with private sector investors to build and operate new roadway infrastructure.¹³¹ This allows governments to leverage private capital in support of public needs, while freeing government resources for other projects. While often put forward as a solution to constrained public finances, the main benefit of P3s, according

¹²⁷ Burwell et al. 2021.

¹²⁸ US Department of Transportation Federal Highway Administration "Grant Anticipation Revenue Vehicles (GARVEEs)."

¹²⁹ US Department of Transportation Build America Bureau 2026.

¹³⁰ Tennessee Department of Transportation "Transportation Modernization Act."

¹³¹ Tennessee Department of Transportation "Public Private Partnerships (P3)."

to the National Governors Association, is their ability to accelerate projects, reduce costs, and foster innovation.¹³² Through P3s, TDOT is using choice lanes to reduce congestion on the state's busiest interstates. Choice lanes are new lanes that drivers pay to use for a faster trip and are built alongside regular free lanes—access to the new lanes is priced based on traffic conditions. The state will own the choice lanes, and the private sector partner will finance, design, build, operate, and maintain the lanes in exchange for the user fees.¹³³ Tennessee could further expand the choice lanes program by selectively issuing bonds and using revenue generated by these lanes to repay the bonds.

A successful P3 project is typically one that addresses a critical infrastructure need or capital plan priority, faces a funding shortfall, seeks to accelerate delivery while reducing costs and improving performance, involves significant public-sector risk, and has a dedicated long-term revenue stream to support project financing.¹³⁴ The proposed Interstate 24 (I-24) Southeast Choice Lanes project on I-24 between Nashville and Murfreesboro is a P3 project. The US Department of Transportation allocated up to \$2 billion in Private Activity Bonds (PABs) to finance I-24 Southeast Choice Lanes construction.¹³⁵ PABs are tax-exempt bonds issued to help private partners borrow money at lower interest rates than comparable taxable bonds.¹³⁶ These financing tools allow states to accelerate major congestion relief projects and repay costs over time rather than relying solely on pay-as-you-go.

While P3s can be effective, they rely on having a private partner willing to finance a project. There may be transportation projects that are important for the state to complete but that don't make financial sense for private sector partners. In these cases, strategic borrowing by the state is an alternative that could provide the up-front financing needed to complete large projects as quickly as possible.

Most other states issue debt to complete transportation projects and improvements.

According to the Federal Highway Administration, many states have used transportation bonding to finance major highway and bridge projects.¹³⁷ Tennessee is proud of its AAA credit rating. But several states with AAA credit ratings, including Florida, Georgia, Missouri, North Carolina, Texas, and Virginia have all used transportation debt financing to accelerate

A successful public-private partnership addresses a critical infrastructure need, faces a funding shortfall, seeks to accelerate delivery while reducing costs and improving performance, involves significant public-sector risk, and has a dedicated long-term revenue stream to support project financing.

¹³² National Governors Association 2025.

¹³³ Tennessee Department of Transportation "Interstate 24 Southeast Choice Lanes."

¹³⁴ Tennessee Department of Transportation "TDOT 25-Year Long-Range Transportation Policy Plan Financial Revenues & Fiscal Outlook Policy Paper."

¹³⁵ US Department of Transportation Build America Bureau 2025a and 2025b.

¹³⁶ Ibid.

¹³⁷ US Department of Transportation Federal Highway Administration 2023 and "Grant Anticipation Revenue Vehicles (GARVEEs)."

Several of Tennessee's peer and neighboring states use debt financing to accelerate delivery of major projects while maintaining their states' AAA credit ratings.

delivery of major highway and infrastructure projects while maintaining their states' credit ratings:¹³⁸

- Florida has used Turnpike Revenue Bonds to finance the acquisition and construction of major toll and express lane expansions, including projects within the Florida Turnpike. Revenues collected from the Turnpike system are dedicated to repayment of revenue bonds.¹³⁹
- Georgia has issued general obligation bonds to fund new construction projects¹⁴⁰ and utilized P3s to construct projects like the Northwest Corridor Express Lanes in the Metro-Atlanta area.¹⁴¹
- Missouri has used Federal Reimbursement State Road Bonds to expedite major bridge improvements, including portions of the Safe and Sound Bridge Improvement Program.¹⁴²
- North Carolina has used general obligation bonds, revenue bonds, PABs, and GARVEE bonds to finance its highway projects. In 2018, the North Carolina legislature authorized Build NC Bonds for road projects to be repaid from the state's highway trust fund.¹⁴³
- Texas has strategically issued transportation bonds backed by State Highway Fund revenues to finance highway improvement and safety projects, enabling the state to deliver major infrastructure projects sooner while spreading costs over time.¹⁴⁴
- Virginia has used GARVEE bonds and TIFIA loans to support large-scale projects such as the I-81 Corridor Improvement program.¹⁴⁵

These examples show how states have used strategic borrowing to deliver major transportation projects earlier and avoid inflation related costs, while managing repayment over time using dedicated transportation revenues and other sources. Table 16 summarizes the 2024 highway indebtedness status of all levels of government within the states with AAA credit rating, including toll authorities. Among the states, Tennessee had the lowest debt.

¹³⁸ US Department of Transportation Federal Highway Administration 2025c.

¹³⁹ Florida Division of Bond Finance "Bond Programs: Transportation - Toll Facilities – Turnpike."

¹⁴⁰ Governor Brian P. Kemp Office of the Governor 2021.

¹⁴¹ Georgia Department of Transportation "Public-Private Partnerships (P3) Program."

¹⁴² US Department of Transportation Federal Highway Administration "Project Profile: Missouri Safe and Sound Bridge Improvement Program" and "Project Profiles."

¹⁴³ NC FIRST Commission 2020.

¹⁴⁴ Texas Department of Transportation 2014 and "Investor Relations."

¹⁴⁵ Virginia Association of Counties 2025.

Table 16. Long-Term Highway Obligations for All Units of Government

State	Obligations Outstanding at the End of 2024* (Thousands)
Florida	\$ 17,591,002
Georgia	\$ 1,313,130
Missouri	\$ 1,849,626
North Carolina	\$ 10,722,011
Tennessee	\$ 199,054
Texas	\$ 42,455,365
Virginia	\$ 7,564,327

* State government highway finance data may be either fiscal or calendar year at the option of the individual state's highway agency.

Source: US Department of Transportation Federal Highway Administration 2026a.

A mix of different funding sources could help the state complete transportation projects and maintain existing infrastructure.

Based on an analysis of needs and both existing and potential new revenue sources, as well as strategic borrowing, TACIR staff developed the following 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 following have been developed to show how potential changes in revenue sources or the use of borrowing could affect the amount of funding available for transportation projects.

For each of the scenarios, TACIR staff projects TDOT will have approximately \$3.2 billion available from existing state and federal sources in state fiscal year 2027-28, falling \$407 million short of the projected amount needed to both maintain the state's existing road and bridge network and continue current levels of investment in capacity improvements. Without additional revenue, the annual projected gap could grow to \$2.5 billion in fiscal year 2047-48 and \$3.0 billion in fiscal year 2054-55. Each of the scenarios include federal funds, but states are limited in how they can use federal funds. These projections assume both that future rules for federal programs remain similar to those currently in place and that the state can use additional state revenue to maximize federal assistance for capital improvements while allocating amounts needed to meet its goals for regular maintenance and preservation.

TACIR staff developed three scenarios to present as examples of how revenue from a mixture of sources, including increases to existing sources, adopting new revenue sources, transfers from the general fund, and strategic borrowing could be used to maintain and improve transportation infrastructure, but the commission is not recommending any specific combination.

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 for 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 that can be shared with local governments.
 - 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 for 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 includes an amount of strategic borrowing in addition to the alternatives shown in scenario 2. 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 includes total borrowing of \$10 billion from fiscal year 2027-28 to 2036-37 to front-load construction of the most needed long-term capacity and safety projects while construction costs are lower.

- It includes \$1.2 billion yearly borrowing from fiscal year 2027-28 to 2031-32, and some of the revenues collected are used to service debt.
- It includes \$0.8 billion yearly borrowing from fiscal year 2032-33 to 2036-37 and continues early project delivery but slows borrowing.
- It does no new borrowing from fiscal year 2037-38 to 2054-55, and debt servicing continues; the needs are lower than they would otherwise have been as some projects were already built.

Revenue Scenario 1: Increased User Fees and Minimal Use of General Fund Dollars

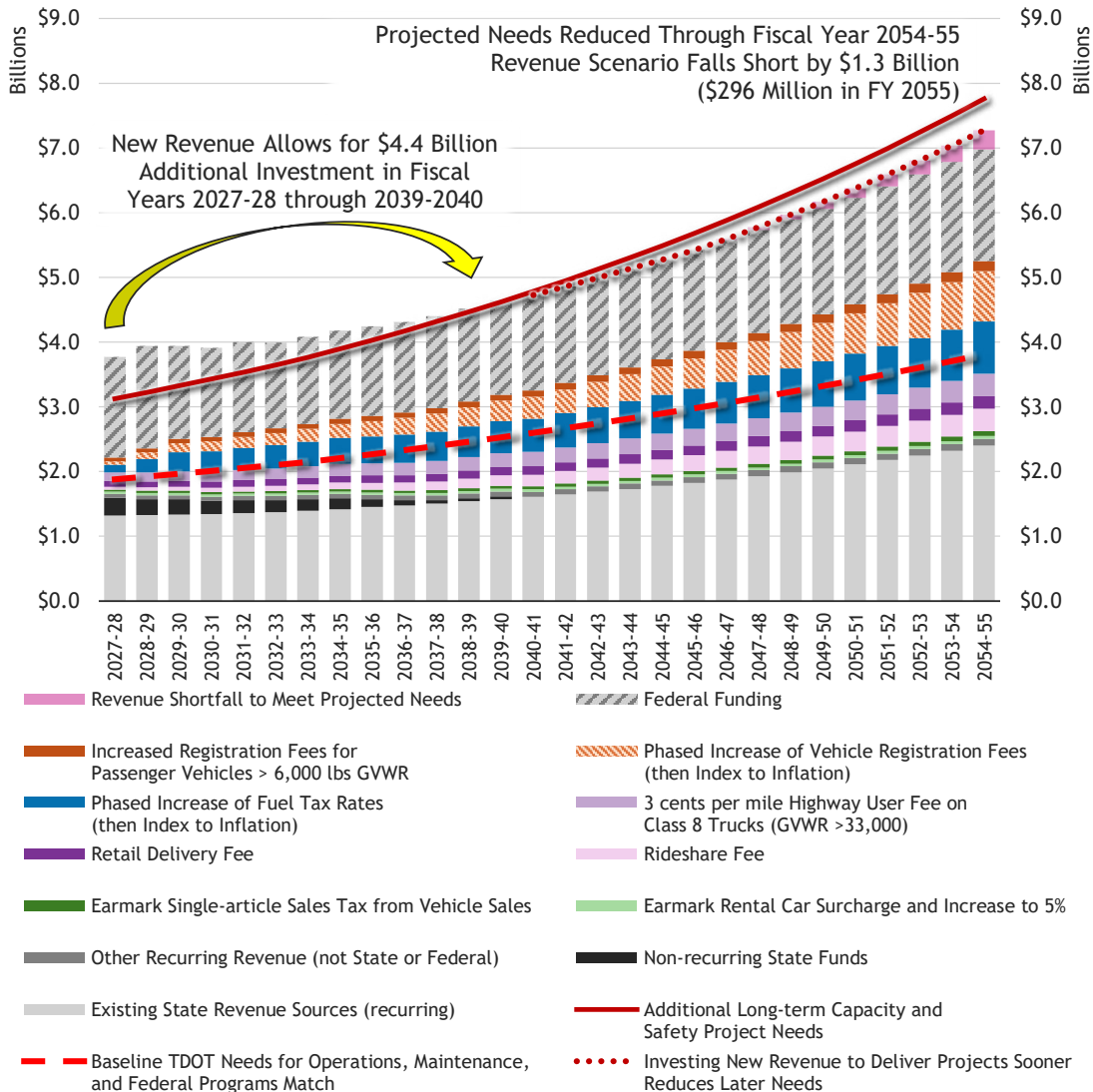
This scenario provides \$14.1 billion more in total funding through fiscal year 2039-40 than existing sources are projected to provide, allowing for more investments to be made in new projects that reduce the backlog of long-term needs. It still, however, falls approximately \$1.5 billion short of total needs over the final years of the projection. The scenario assumes both that future rules for federal programs remain similar to those currently in place and that the state can use additional state revenue to maximize federal assistance for capital improvements while allocating amounts needed to meet its goals for regular maintenance and preservation. See table 2 (reposted) and figure 1 (reposted).

Table 2 (reposted). Funding Sources and Revenue Projections for Scenario 1

Description	Shared	Indexed	Fiscal Year 2027-28 (millions)	Fiscal Year 2039-40 (millions)	Fiscal Year 2054-55 (millions)
Fuel Taxes: 30¢/31¢ (gas/diesel FY28); 33¢/35¢ (FY29); 36¢/38¢ (FY30); adjusted for inflation annually thereafter	Yes	Yes CPI	\$ 117.1	\$ 496.4	\$ 811.9
Vehicle Registration Fees: all types, phased increases FY28-FY30; adjusted for inflation annually thereafter	No	Yes CPI	53.1	318.6	777.4
Vehicle Registration Fees: higher fees for passenger vehicles 6,001-8,000 lbs, 8,001-10,000 lbs, and >10,000 lbs GVWR	No	n/a	58.2	92.7	155.9
Rideshare Fee: 50¢ per trip; adjusted annually for inflation	No	Yes CPI	45.3	161.4	351.3
Retail Delivery Fee: 30¢ per delivery; adjusted annually for inflation	No	Yes CPI	87.6	125.8	195.0
Highway User Fee: 3¢/mi for Class 8 Trucks (GVWR >33,000); adjusted for inflation	Yes	Yes CPI	135.1	214.6	341.3
Tax on Rental Cars: earmark from general fund and increase rate from 3% to 5%	No	n/a	34.3	39.6	46.1
Single-article Sales Tax: earmark tax collected on sales of new and used vehicles for state highway fund	No	n/a	32.0	45.6	71.1
Additional fiscal year revenue for state transportation			\$ 562.7	\$ 1,494.7	\$ 2,750.1
Cumulative revenue for state transportation			\$ 562.7	\$ 14,139.8	\$ 46,133.8
Fiscal year general fund reduction for transportation			\$ (52.6)	\$ (69.4)	\$ (98.7)
Additional fiscal year revenue for counties			\$ 90.7	\$ 253.4	\$ 408.8
Additional fiscal year revenue for cities			\$ 46.4	\$ 128.5	\$ 207.2

Source: TACIR staff projections based on existing revenue, future growth, and analysis of potential alternatives implemented in other states. Total revenue for state transportation includes revenue from new sources plus existing revenue earmarked from the general fund. Amounts shown for sources shared with local governments are only the state's portion.

Figure 1 (reposted). Revenue Projections from Existing and Additional Sources with Projected Costs to Maintain and Improve Transportation Infrastructure (Scenario 1)
State Fiscal Years 2027-28 through 2054-55



Source: TACIR staff projections based on existing revenue, future growth, and analysis of potential alternatives implemented in other states.

Revenue Scenario 2: Recurring Transfer from General Fund to Cover TDOT Employee Payroll and Benefits

This scenario provides \$15.1 billion more funding in total funding through fiscal year 2039-40 than existing sources are projected to provide, allowing for even more investments to be made sooner for new projects. By spreading that spending out evenly over time, this scenario does not fall short of projected total needs but does require the transfer of nearly \$1 billion from the general fund in fiscal year 2054-55. The scenario assumes both that future rules for federal programs remain similar to those currently in place

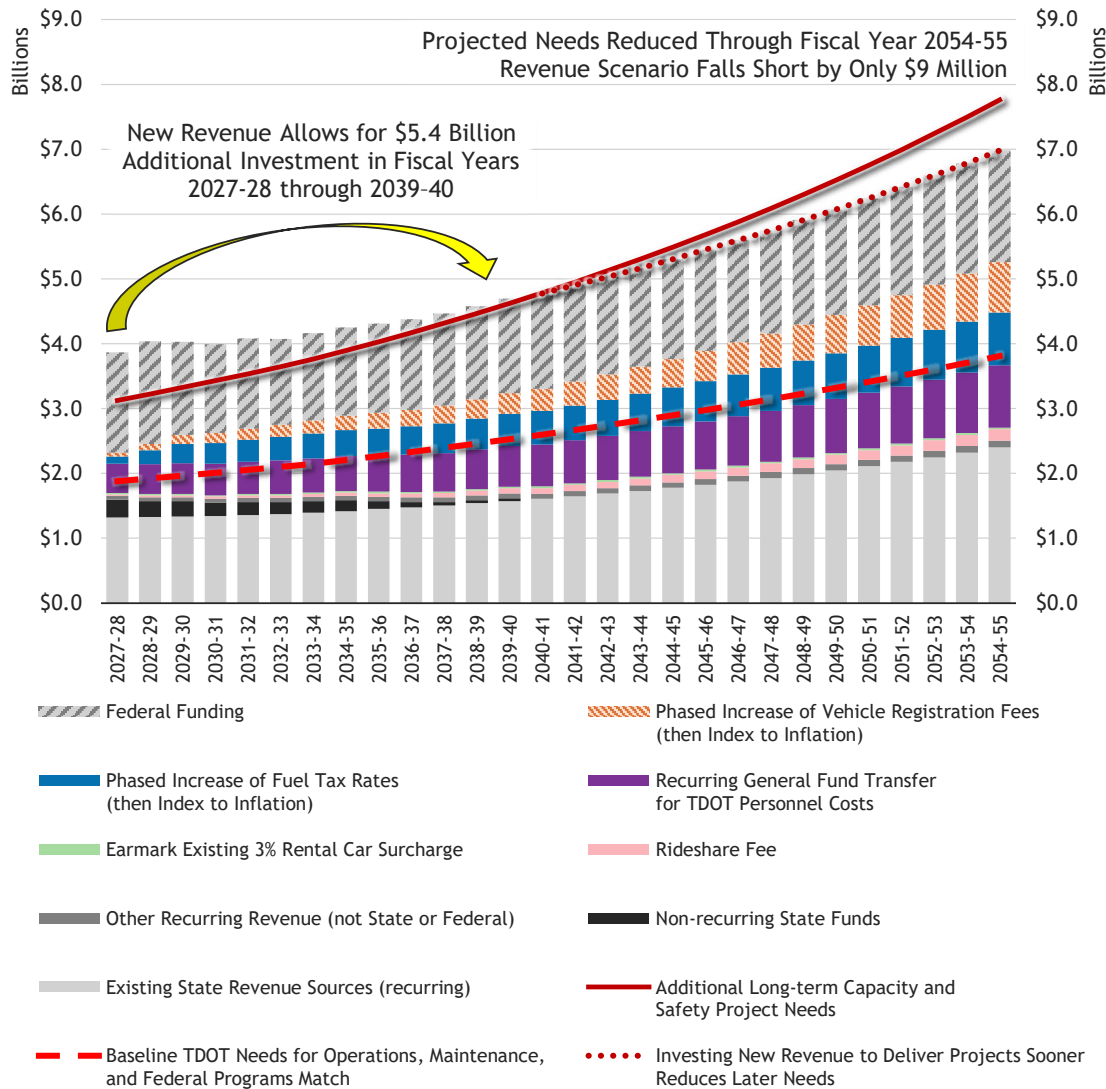
and that the state can use additional state revenue to maximize federal assistance for capital improvements while allocating amounts needed to meet its goals for regular maintenance and preservation. As mentioned above, any shift from the general fund means less money is available for other priorities. See table 3 (reposted) and figure 2 (reposted).

Table 3 (reposted). Funding Sources and Revenue Projections for Scenario 2

Description	Shared	Indexed	Fiscal Year 2027-28 (millions)	Fiscal Year 2039-40 (millions)	Fiscal Year 2054-55 (millions)
Fuel Taxes: 30¢/31¢ (gas/diesel FY28); 33¢/35¢ (FY29); 36¢/38¢ (FY30); adjusted for inflation annually thereafter	Yes	Yes CPI	\$ 117.1	\$ 496.4	\$ 811.9
Vehicle Registration Fees: all types, phased increases FY28-FY30; adjusted for inflation annually thereafter	No	Yes CPI	53.1	318.6	777.4
Rideshare Fee: 50¢ per trip adjusted annually for inflation; 50% to state, 25% to counties, 25% to cities	Yes	Yes CPI	22.7	80.7	175.7
Tax on Rental Cars: earmark from general fund and increase rate from 3% to 5%; distribute increase to counties and cities	Yes	n/a	20.6	23.8	27.7
General Fund Transfer: recurring transfer in an amount equal to TDOT's projected personnel expenses	No	n/a	447.6	628.0	959.8
Additional fiscal year revenue for state transportation			\$ 661.0	\$ 1,547.4	\$ 2,752.4
Cumulative revenue for state transportation			\$ 661.0	\$ 15,145.3	\$ 47,460.0
Fiscal year general fund reduction for transportation			\$ (468.2)	\$ (651.7)	\$ (987.4)
Additional fiscal year revenue for counties			\$ 61.1	\$ 225.7	\$ 385.0
Additional fiscal year revenue for cities			\$ 39.7	\$ 137.1	\$ 241.3

Source: TACIR staff projections based on existing revenue, future growth, and analysis of potential alternatives implemented in other states. Total revenue for state transportation includes revenue from new sources plus existing revenue earmarked from the general fund. Amounts shown for sources shared with local governments are only the state's portion.

**Figure 2 (reposted). Revenue Projections from Existing and Additional Sources with Projected Costs to Maintain and Improve Transportation Infrastructure (Scenario 2)
State Fiscal Years 2027-28 through 2054-55**



Source: TACIR staff projections based on existing revenue, future growth, and analysis of potential alternatives implemented in other states.

Revenue Scenario 3: Incorporating Strategic Borrowing

The options presented in scenario 1 are not enough to fully fund long-term capacity and safety project needs identified by TDOT, and scenario 2 does so only by transferring significant amounts from the general fund. As discussed above, borrowing \$10 billion between fiscal year 2027-28 and fiscal year 2036-37 to deliver fiscal year 2037-38 to fiscal year 2054-55 projects would have an estimated benefit of \$1.73 billion excluding other early benefits like congestion relief, safety improvements and economic

development over the entire period, which would allow for earlier completion of those projects, less reliance on the revenue sources in scenarios 1 and 2, or both. See table 4 (reposted).

Table 4 (reposted). Funding Sources and Revenue Projections for Scenario 3

Description	Shared	Indexed	Fiscal Year 2027-28 (millions)	Fiscal Year 2036-37 (millions)	Fiscal Year 2039-40 (millions)	Fiscal Year 2054-55 (millions)
Annual Borrowing	No	n/a	\$ 1,200.0	\$ 800.0	\$ -	\$ -
General Fund Transfer: recurring transfer in an amount equal to TDOT's projected personnel expenses	No	n/a	447.6	577.0	628.0	959.8
Fuel Taxes: 30¢/31¢ (gas/diesel, FY28); 33¢/35¢ (FY29); 36¢/38¢ (FY30); adjusted for inflation annually thereafter	Yes	Yes CPI	117.1	435.2	496.4	811.9
Vehicle Registration Fees: all types, phased increases FY28-FY30; adjusted for inflation annually thereafter	No	Yes CPI	53.1	256.9	318.6	777.4
Tax on Rental Cars: earmark from general fund and increase rate from 3% to 5%; distribute increase to counties and cities	Yes	n/a	20.6	23.0	23.8	27.7
Rideshare Fee: 50¢ per trip adjusted annually for inflation 50% to state, 25% to counties, 25% to cities	Yes	Yes CPI	22.7	60.3	80.7	175.7
Revenue reduction for annual debt service			(128.4)	(920.0)	(830.0)	-
Additional fiscal year revenue for state transportation			\$ 1,732.7	\$ 1,232.4	\$ 717.5	\$ 2,752.5
Cumulative revenue for state transportation			\$ 1,732.7	\$ 14,852.3	\$ 16,715.3	\$ 41,880.0
Fiscal year general fund reduction for transportation			\$ (468.2)	\$ (600.0)	\$ (651.7)	\$ (987.4)
Additional fiscal year revenue for counties			\$ 61.1	\$ 193.7	\$ 225.7	\$ 385.0
Additional fiscal year revenue for cities			\$ 39.7	\$ 115.2	\$ 137.1	\$ 241.3

Source: TACIR staff projections based on existing revenue, future growth, and analysis of potential alternatives implemented in other states. Total revenue for state transportation includes revenue from new sources plus existing revenue earmarked from the general fund. Amounts shown for sources shared with local governments are only the state's portion.

Other potential revenue sources have been proposed.

The three revenue scenarios described in this report do not include an exhaustive list of all potential revenue sources. TACIR staff did not

attempt to analyze every possible revenue source or scenario combination. Some were specifically included by Public Chapter 438, and others met the criteria that options be tied in some way to road usage. Several additional alternatives were discussed by commission members during the June 2026 meeting, including the following bills, each from the 114th General Assembly:

- Senate Bill 2569 by Senator Haile and House Bill 2326 by Representative Williams would have earmarked 10% of the investment income earned by the state pooled investment fund (SPIF) each fiscal year for the state highway fund. The bill's fiscal note estimated the annual amount earmarked for the highway fund would be approximately \$75 million while noting that SPIF earnings "are dependent on investment performance and fluctuate on a year-to-year basis." The bill did not pass.
- Senate Bill 2568 by Senator Haile and House Bill 2493 by Representative Williams would have applied the state's sales tax to the purchase of advertising services but only when purchased by businesses with annual revenue of \$100 million or more. The bill's fiscal note estimated a range of \$50 million to \$200 million could be collected annually, depending on how businesses respond to the change. While the bill, which did not pass, didn't specify how that revenue would be used, Representative Williams said road funding is "where the money would be going."¹⁴⁶
- Senate Bill 921 by Senator Campbell and House Bill 703 by Representative Behn would have allowed and regulated limited cultivation and use of marijuana by adults. The bill would have made the sale of marijuana and marijuana products subject to state and local taxes; local governments would have been authorized to impose a local sales tax of up to 5%. In addition, a 15% marijuana tax would have been established, with 75% of the revenue from the tax allocated to the highway fund. The fiscal note estimated \$14.7 million would have gone to the highway fund in fiscal year 2026-27 and approximately \$29 million in subsequent years. The bill did not pass, and bill sponsors plan to introduce legislation again in 2027.¹⁴⁷ As of January 2026, 23 states have legalized and tax recreational marijuana use,¹⁴⁸ and most states dedicate some of the tax revenue to specific programs.¹⁴⁹ As of 2022, two states earmarked it for transportation: Arizona for state and local transportation programs and Michigan for repair and maintenance of roads and bridges.¹⁵⁰

Other proposals to increase transportation funding have included earmarking earned income from the state's pooled investment fund, applying sales tax to the purchase of business advertising services, and the regulation and taxation of marijuana products.

¹⁴⁶ Sher 2026.

¹⁴⁷ Stockard 2026.

¹⁴⁸ Macumber-Rosin and Hoffer 2026.

¹⁴⁹ Tax Policy Center 2024.

¹⁵⁰ Auxier and Airi 2022.

While there are no toll roads currently in Tennessee and no plans to toll existing lanes, the state plans to construct new, price-managed choice lanes on some interstates.

In response to a commission member's request that staff consider the potential effect of a tax on parking fees, TACIR staff did not find any states with statewide parking taxes.¹⁵¹ The Federal Highway Administration suggests parking benefit districts as a way to help fill funding gaps for local improvements but does not give examples of any state-level applications.¹⁵² Tennessee already includes commercial parking as a taxable retail service,¹⁵³ subject to state and local sales taxes. According to the Tennessee Department of Revenue, the state collected \$18.3 million in fiscal year 2025-26 from businesses categorized as parking lots and garages.¹⁵⁴ The General Assembly could choose to earmark that revenue for transportation in the same manner as it has done with revenue from retail tire sales. An additional tax could also work as a form of congestion pricing, using variable fees to help reduce demand and congestion and encourage other options, like carpooling and the use of public transit.¹⁵⁵

Additionally, members discussed the possibility of toll roads. Currently, there are no toll roads in Tennessee, and there are no plans to toll existing lanes, though the choice lane program could result in the construction of new lanes that would be price-managed on some interstates. Toll roads have been an idea since before the creation of the interstate system in the US; it is considered a true "user fee"—people who don't use the roads don't pay the tolls, and those who do use the roads pay in proportion to the amount they use them.¹⁵⁶ As of 2026, 34 states have toll roads or bridges.¹⁵⁷ But the revenue generated from tolls typically isn't enough to pay for the road, and not everyone agrees they are a fair or efficient funding mechanism.¹⁵⁸ Tennessee has generally not been in favor of tolling, although it has been considered.¹⁵⁹ In 2007, the Tennessee Tollway Act was signed into law, which would have allowed a pilot project to toll one bridge and one highway in the state. TDOT studied eight potential candidate projects—four highway and four bridge projects—but found none fully met the criteria set forth by the Tollway Act, so no pilot was selected.¹⁶⁰ Lawmakers have discussed tolling as an option more recently as well,¹⁶¹ although no new legislation has been introduced.

¹⁵¹ Comments at commission meeting by Paige Brown, mayor, city of Gallatin, June 18, 2026.

¹⁵² US Department of Transportation Federal Highway Administration "Value Capture Techniques in Practice: Parking Benefit Districts, State of Practices in the United States."

¹⁵³ Tennessee Code Annotated, Section 67-6-205(c)(2).

¹⁵⁴ Email from Courtney Swim Boynton, deputy commissioner/COO, Tennessee Department of Revenue, July 20, 2026.

¹⁵⁵ Dutzik, Weissman, and Baxandall 2015.

¹⁵⁶ Dutzik, Davis, and Baxandall 2011.

¹⁵⁷ World Population Review 2026b.

¹⁵⁸ Dutzik, Davis, and Baxandall 2011; and Schaper 2018.

¹⁵⁹ Gainey 2022; and TollGuru 2026.

¹⁶⁰ Tennessee Department of Transportation "Tollway Feasibility Studies."

¹⁶¹ Gainey 2022.

System management and demand reduction strategies can relieve pressure on existing infrastructure and ease needs for expanded capacity.

The addition of new routes and roads may initially improve travel time and allow drivers more choice when it comes to their transportation needs, but research has shown that those better driving conditions also encourage more road usage, reducing the long-term effectiveness of expansion.¹⁶² Transportation officials at all levels of government share a goal “to get the most performance out of the transportation facilities we already have.”¹⁶³ As the commission found in its 2023 report *Back on Track? Intercity Passenger Rail Options in Tennessee*, transportation system operations and management strategies like video monitoring and incident response can improve mobility even when capacity is constrained.¹⁶⁴ Moreover, demand management strategies, which can include providing multimodal alternatives like pedestrian, bicycle, and transit options, can help lessen the growing demand on our roads, maintain pavement conditions, reduce congestion, and increase driver safety.¹⁶⁵

Transportation Systems Management and Operations (TSMO)

The FHWA defines TSMO as “a set of strategies that focus on operational improvements that can maintain and even restore the performance of the existing transportation system before extra capacity is needed.”¹⁶⁴ In 2022, TDOT developed a comprehensive TSMO program plan with the goal “to advance a cross-discipline, collaborative, and integrated program of TSMO strategies that improve the safety, reliability, and efficiency of Tennessee’s transportation system as a whole.”¹⁶⁵ Through its traffic operations division, TDOT is maintaining and expanding the state’s intelligent transportation systems (ITS), called TDOT SmartWay. Traffic management centers across the state use cameras and sensors to monitor traffic conditions, and electronic message boards provide urgent messages to help drivers avoid incidents and congested areas on highways. Currently, Memphis, Nashville, Chattanooga, and Knoxville have fully integrated TDOT SmartWay systems.¹⁶⁶ With the help of federal funding, ITS is being incorporated into projects throughout the state, addressing needs identified in the 2022 TSMO plan. For example, an \$11.2 million federal grant helped fund the installation of 143 miles of fiber optic cable along Interstate 40 between Nashville and Memphis, which will improve TDOT’s ability to monitor and communicate about highway conditions.¹⁶⁷

Transportation systems management and operations strategies “focus on operational improvements that can maintain and even restore the performance of the existing transportation system before extra capacity is needed.”

¹⁶² Davis 2021; and Litman 2026.

¹⁶³ US Department of Transportation Federal Highway Administration 2024b; and Tennessee Department of Transportation “Transportation Systems Management & Operations (TSMO).”

¹⁶⁴ US Department of Transportation Federal Highway Administration 2024b.

¹⁶⁵ Tennessee Department of Transportation 2022a.

¹⁶⁶ Tennessee Department of Transportation “Intelligent Transportation Systems.”

¹⁶⁷ Tennessee Broadband Association 2020.

Demand management initiatives seek to reduce traffic “by encouraging people to make fewer single-occupancy trips, use transit and non-motorized travel options, and travel in off-peak hours when possible, and support land use policies that reduce the demand for automobile transportation.”

TDOT is also using state funding to expand another TSMO program—the Highway Emergency Local Patrol (HELP) service truck program. As of June 2026, rural HELP service is fully deployed statewide to cover more than 870 miles of rural interstate.¹⁶⁸ By responding to incidents, these vehicles help keep traffic moving to avoid delays and congestion.

Systems management is also being implemented at the local level. There were 171 transportation projects in the construction, planning and design, or conceptual stage reported under ITS and Signalization subtypes for TACIR’s 2024 public infrastructure needs inventory, with a total estimated cost of \$602 million. One example is a \$3.6 million intelligent transportation system project in Lebanon that included the construction of a traffic management center at the city’s public works complex. Funded by a federal grant, the first phase was completed in 2023, with a second phase underway to “loop in additional traffic signals and cameras throughout the city.”¹⁶⁹ Shelby County is making signal improvements to 50 intersections throughout the county, upgrading vehicle detection sensors as part of a \$3.9 million congestion management project.¹⁷⁰ Of the 52 projects (\$174 million) reported in the construction phase, 45 (\$81 million) were projects owned by cities or counties. Another 79 city- or county-owned projects (\$178 million) were in planning and design. Meanwhile, investment continues to be made in state-owned projects, with seven (\$93 million) reported in the construction phase and 23 (\$235 million) in planning and design.

Demand Management Strategies

Travel demand management strategies free roadway capacity when alternatives to travel are viable. Examples include multimodal alternatives such as bike and pedestrian facilities, working with area employers to encourage flexible work schedules, compressed workweeks, telecommuting, and satellite work centers to reduce the need to travel.¹⁷¹ Demand management programs “attempt to address congestion at the root of the problem by reducing the number of vehicles on the road.” These initiatives seek to reduce traffic “by encouraging people to make fewer single-occupancy trips, use transit and non-motorized travel options, and travel in off-peak hours when possible, and support land use policies that reduce the demand for automobile transportation.”¹⁷²

Congestion action plans developed by TDOT in 2022 for the state’s largest urban areas included recommendations for a variety of highway widenings and reconfigurations, along with several demand management

¹⁶⁸ Tennessee Department of Transportation “HELP Program,” 2022a, and 2026a.

¹⁶⁹ Ashman 2023.

¹⁷⁰ TACIR Public Infrastructure Needs Inventory.

¹⁷¹ Texas A&M “How to Fix Congestion.”

¹⁷² Greater Nashville Regional Council 2026.

strategies and TSMO solutions.¹⁷³ Project recommendations included proposals to support programs that encourage walking and biking, increase transit usage, and establish or improve car- and vanpool groups for commuters; “Non-motorized strategies were framed as a key method to reduce vehicle trips,” the executive summary points out, while noting that “making transit a viable alternative to single occupancy vehicles requires capital improvements and operational support for transit providers to deliver service that is competitive, attractive, consistent, and widely available.”¹⁷⁴ The state supports these strategies through several grant programs. Since 1992, TDOT has distributed more than \$400 million in federal transportation alternatives grants to local governments “to build sidewalks and bike lanes, update ADA accessibility, and renovate historic transportation facilities and other transportation-related structures.”¹⁷⁵ The 2017 IMPROVE Act created a transit investment grant program intended to increase ridership and safety by providing state funding to transit-related projects. Since its inception, “nearly 100 capital transit projects have been awarded,” including \$21 million in state funding for fiscal year 2025-26.¹⁷⁶ The department also manages a state-funded multimodal access grant program “created to support the transportation needs of pedestrians, bicyclists, and transit users through infrastructure projects that address existing gaps along state routes.” These projects are state-funded at 95%, up to a total project value of \$1.25 million.¹⁷⁷

TDOT routinely evaluates the adequacy of intercity bus service in Tennessee, pursuant to funding requirements of the Federal Transit Administration.¹⁷⁸ TDOT’s 2024 comprehensive assessment of statewide intercity bus mobility needs found that intercity bus needs are being adequately met throughout the state relative to the needs of rural public transit agencies and users, citing that over 80% of Tennessee residents live within 25 miles of an intercity bus station, and all 95 counties have access to public transit. Based on surveys conducted as part of the assessment, TDOT developed recommendations on how bus service might be improved, including improvements to access to transit centers and other public facilities for intercity buses—such as ensuring that bus stops are convenient and centrally located—to better facilitate intercity bus use and make taking the bus a more accessible option.¹⁷⁹ Expansion of intercity bus service in Tennessee has the potential to work in tandem with the Transportation Modernization Act to improve the state’s transportation system to support continued economic growth and the success of the state’s residents and businesses. For example, incentivizing intercity buses to use

“Making transit a viable alternative to single occupancy vehicles requires capital improvements and operational support for transit providers to deliver service that is competitive, attractive, consistent, and widely available.”

Tennessee Department of Transportation (2022)
Tennessee Congestion Action Plans

¹⁷³ Tennessee Department of Transportation “Congestion Studies” and 2022b.

¹⁷⁴ Tennessee Department of Transportation 2022b.

¹⁷⁵ Tennessee Department of Transportation “Transportation Alternatives Program.”

¹⁷⁶ Tennessee Department of Transportation “IMPROVE Transit Investment Grant.”

¹⁷⁷ Tennessee Department of Transportation “Multimodal Access Grant.”

¹⁷⁸ 49 U.S.C. 5311. Transit operations refer to the planning, management, and delivery of public transportation services across the state, covering both urban and rural areas.

¹⁷⁹ Tennessee Department of Transportation 2024.

In addition to the focus on capacity expansion, coordination of state and local land use considerations, demand management strategies, transit capacity, and multimodal investment needs are also important to any discussion of solutions to the state's funding challenges.

choice lanes developed under the Transportation Modernization Act by exempting them from fees for using those lanes—as is already the case for city buses and other public transit vehicles—could lower trip times, reduce congestion, and increase intercity mobility.¹⁸⁰ But according to TDOT staff, there has been some pushback against intercity bus expansion from public transit operators. And while TDOT is moving forward with the required assessment for 2027-2029, adequate demand to support intercity buses “is not there.”¹⁸¹

Coordination among all levels of government may be beneficial for the development and success of efficient and effective transportation plans. TDOT's Office of Active Transportation is responsible for a Statewide Active Transportation Plan, pedestrian road safety initiatives, and multimodal access grants to local governments.¹⁸² Through its Office of Community Transportation (OCT), TDOT also works to coordinate state transportation planning with local land use decisions and community visions. OCT has community transportation planners in each of the four TDOT regions to ensure that TDOT stays well informed of regionally significant developments and to evaluate how local land use decisions could affect the state's transportation system.¹⁸³

According to TDOT staff, focusing solely on capacity expansion for vehicle traffic may not fully reflect development pressures shaping travel behavior or the range of solutions needed to address them. Integrating land use considerations, demand management strategies, transit capacity, and multimodal investment needs are also important to any discussion of the state's funding challenges.¹⁸⁴

¹⁸⁰ Under Tennessee Code Annotated, Section 54-3-108(c), “Multiple-passenger vehicles operated by a public transit authority” are exempt from payment of a user fee.

¹⁸¹ Comments on the commission's draft report received in an email from Daniel Pallme, assistant bureau chief of planning and director of passenger transportation, rail and freight, Tennessee Department of Transportation, June 11, 2026.

¹⁸² Tennessee Department of Transportation “Office of Active Transportation.”

¹⁸³ Tennessee Department of Transportation “Community Planning.”

¹⁸⁴ Email from Preston Elliott, deputy commissioner of planning, Tennessee Department of Transportation, June 11, 2026.

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Tennessee Independent Auto Dealers Association

Don Bruce, Randy and Jenny Boyd Distinguished
Professor and Director
Boyd Center for Business and Economic Research
University of Tennessee, Knoxville

Randy Byers, Director of Retail Operations and
Marketing
Isaacs Enterprises: DBA Fastop Markets

Jason A. Carder, Principal / Head of Transportation
Division
Mattern & Craig

Des Carlisle, Chief of Staff
Kimbrow Oil

Kim Carpenter, Branch Manager
Tax & Financial Processing Branch
Division of Motor Carriers
Kentucky Transportation Cabinet

Rebecca Childers, Administration
Division of Motor Carriers
Kentucky Transportation Cabinet

Samantha Chittum, Director of Budgeting and
Administration
Engineering and Public Works
Knox County

Larry Clark, Assistant City Administrator
Morristown, Tennessee

Alison Cleaves, Assistant Treasurer for Legal,
Compliance, and Audit
Tennessee Department of Treasury

Calvin Clifton, Business Development and
Recruiting Manager
Mattern & Craig

Kathy L. Combs, Freight Planning and State Safety
Oversight Team Lead
Tennessee Department of Transportation

David Connor, Executive Director
Tennessee County Services Association

Megan Cooper, Tennessee Public and Government
Relations Consultant
The Auto Club Group

Dave Covington, Interstate 81 Program Delivery
Director
Virginia Department of Transportation

Katelyn Croghan, Taxpayer Services Specialist I
Office of Sales and Excise Taxes
Kentucky Department of Revenue

Mathew Cushing, Transportation Planning
Manager
Greater Nashville Regional Council

Will Dean, Chief Financial Officer
Dean Oil Company Inc.

Joe Deering, Bureau Chief
Field Operations and Maintenance
Tennessee Department of Transportation

Brian Derrick, Director of Accounting
Tennessee Department of Treasury

Rick DuBray, Deputy Treasurer
Support Services
Tennessee Department of Treasury

David A. Duncan, Director of Statewide Program
Managers & Concepts Office
Tennessee Department of Transportation

Lisa Dunn, Transportation Manager
Tennessee Department of Transportation

Andrew Ellard, City Administrator
Morristown, Tennessee

Preston Elliott, Deputy Commissioner
Planning Bureau
Tennessee Department of Transportation

Allen England, Tennessee Highway Patrol Captain
Commercial Vehicle Enforcement and Pupil
Transportation
Department of Safety and Homeland Security

Donna England, President and Chief Executive
Officer
Tennessee Trucking Association

Carol Foster, Administrative Coordinator
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Josh Frazier, Analyst
Budget Office
Tennessee Department of Finance and
Administration

Debbie Gazzaway, Senate Research Analyst
Tennessee General Assembly

Randall Gibson, Director
Government Affairs and Advocacy
Tennessee Chamber of Commerce and Industry

Trent Gifford, Chief Executive Officer
Independent Car Rental Association

Jason Gilliam, Administrative Manager
Tennessee Department of Commerce and
Insurance

Holly Haney, Junior Business Analyst
International Registration Plan, Inc.

Romany Hanna, Supervisor
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Tennessee Department of Revenue

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Transportation Research and Professor
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Tennessee Department of Revenue

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Tennessee County Highway Officials Association

Dan Howell, State Representative
District 22, Tennessee

Brian Hurst, Statewide Program Manager
(Highway Program & Unstable Slope)
Tennessee Department of Transportation

Rod Isaacs, President
Isaacs Enterprises, Inc.

Chad Jenkins, Deputy Executive Director and
Senior Director of Government Relations
Tennessee Municipal League

Phillip Jones, Interim Director
Nashville Department of Transportation and
Multimodal Infrastructure
Metropolitan Government of Nashville and
Davidson County

John Kahle, Transportation Manager Tennessee
Department of Transportation

James D. Kelley, Chief of Program Delivery
Tennessee Department of Transportation

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University of Tennessee
County Technical Assistance Service

Jacob Kennedy, Database Consultant
University of Tennessee
County Technical Assistance Service

Jay Klein, Director of Legislative Affairs
Tennessee Department of Transportation

Natalie Krysztof, Deputy Commissioner and Chief
Financial Officer
Tennessee Department of Transportation

Jennifer Lanfair, Assistant Director
Vehicle Services
Tennessee Department of Revenue

Lori Lange, Assistant Chief of Engineering
Tennessee Department of Transportation

Denise Lawrence, Executive Director
Tennessee Motor Vehicle Commission
Tennessee Department of Commerce and
Insurance

Don Lefevre, Executive Director
American Car Rental Association

Emily LeRoy, Executive Director
Tennessee Fuel and Convenience Store Association

Siya Mai, Director
Transportation Network Company Division
Massachusetts Department of Public Utilities

Ashley E. Hunter Mason, Team Lead
Planning Data Staff
Tennessee Department of Transportation

Becky Massey, State Senator
District 6, Tennessee

Brandon Mauracher, Director
Hamilton County Highway Department

Tom McDaniel, Director
Division of Motor Carriers
Kentucky Transportation Cabinet

Daniel McDonell, Director of Transportation
Infrastructure
Greater Nashville Regional Council

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Chief Financial Officer
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First Tennessee Development District

Karen Morgan, Public Policy Consultant
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Tiffany Morgan, Executive Director
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Derek Powell, Special Projects Consultant
Financial Control
Tennessee Department of Revenue

Will Reid, Commissioner
Tennessee Department of Transportation

Daniel Rose, Manager, Federal Funding
Tennessee Department of Transportation

Darren Sanders, Administrator
Roads, Bridges & Engineering
Shelby County

Justin Satterwhite, Senior Project Director
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Tim Slattery, President
Tennessee Automotive Association

Jim Snowden, Senior Director
Engineering and Public Works
Knox County

Kent Starwalt, Executive Vice President
Tennessee Road Builders Association

Michael Thompson, Public Works Director
Kingsport, Tennessee

Guy Thorpe, President
Tennessee Independent Auto Dealers Association

Stephanie Thorpe, Board Member
Tennessee Independent Auto Dealers Association

David Thurman, Director
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Tennessee Department of Finance and
Administration

Duple' Travillion, Senior Government Affair
Representative
FedEx

Justin Underwood, Director
Asset Management Division
Tennessee Department of Transportation

Brooklyn Vizard, President
Tennessee Fuel and Convenience Store Association

Page Walley, State Senator
District 26, Tennessee

Rayna Ware, Assistant Director
Tennessee Department of Revenue

Jona Coppola White, CEO Executive Assistant and
Board Administrator
Tennessee Chamber of Commerce and Industry

Latasha Williams, Assistant Director
Division of Motor Carriers
Kentucky Transportation Cabinet

Appendix: Public Chapter 438, Acts of 2025



State of Tennessee

PUBLIC CHAPTER NO. 438

SENATE BILL NO. 703

By Massey, Campbell, Seal, Hatcher

Substituted for: House Bill No. 736

By Vital, Howell, Hawk, Bricken, Littleton, White

AN ACT to amend Tennessee Code Annotated, Title 4; Title 9; Title 54 and Title 55, relative to transportation infrastructure funding.

WHEREAS, transportation is a priority to the State of Tennessee, and depleting revenue is a vital problem; and

WHEREAS, due to new vehicles becoming more energy efficient, it is taking less gas to drive the same distance, and therefore, less gasoline tax is being collected; and

WHEREAS, the cost of building and maintaining roads is ever increasing; and

WHEREAS, the State's population is rising and visitors to the State are putting more people on the road, causing greater wear and tear and affecting resurfacing needs on the State's roads and bridges; and

WHEREAS, it is imperative that alternative sources of funding be established to supplement the decreases in transportation infrastructure funding due to vehicles becoming more fuel efficient or using no fuel and due to inflation-related increases in road construction and maintenance costs; now, therefore,

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF TENNESSEE:

SECTION 1.

(a) The Tennessee advisory commission on intergovernmental relations (TACIR) shall conduct a study and prepare a report on recommendations for establishing sustainable funding sources that meet this state's future, long-term transportation infrastructure needs.

(b) The study and report must:

(1) Identify the critical, long-term highway and bridge infrastructure needs of this state, the annual highway and bridge infrastructure funding gap, and the amount needed to fund the maintenance, repair, and modernization of existing highways and bridges across the state;

(2) Identify the recurring expenditures associated with the state highway fund, including, but not limited to, salary increases for employees of the department of transportation;

(3) Include a comprehensive review and analysis of appreciated sources of revenue that have the potential to grow over time and that will meet the critical, long-term highway and bridge infrastructure needs of this state, including, but not limited to, the following revenue sources:

(A) Road usage fees;

(B) Rental car fees;

(C) Transportation network company fees;

SB 703

(D) Retail delivery fees;

(E) Commercial vehicle road usage charges;

(F) Highway impact fees for heavy trucks;

(G) Dedicated state funds consisting of revenues from the collection of state sales tax from the sale of new or used vehicles and new or used tires in this state; and

(H) Other options that are based on variables, including, but not limited to, vehicle weight, or that account for variations in road usage and degree of damage caused to transportation infrastructure by vehicles of different sizes and configurations;

(4) Estimate the amount of revenue generated in this state from the sources of income identified pursuant to subdivision (b)(3);

(5) Assemble information concerning the stakeholders affected by the appreciated sources of revenue identified in subdivision (b)(3), including, but not limited to, the trucking industry, automobile dealers, and rental car, delivery, and transportation network companies; and

(6) Survey appreciated sources of revenue successfully used by at least three (3) other states to address their challenges in establishing sustainable transportation infrastructure funding.

(c) All appropriate state departments and agencies shall provide assistance to TACIR in connection with the study required by subsection (a).

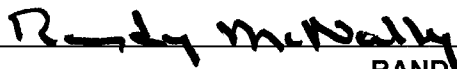
(d) On or before September 30, 2026, TACIR shall report its findings and recommendations, including any proposed legislation, to the chair of the committee of the house of representatives having jurisdiction over transportation matters, the chair of the transportation and safety committee of the senate, and the legislative librarian.

(e) It is the legislative intent that this study must be conducted from TACIR's existing resources.

SECTION 2. This act takes effect upon becoming a law, the public welfare requiring it.

SENATE BILL NO. 703

PASSED: April 21, 2025


RANDY McNALLY
SPEAKER OF THE SENATE


CAMERON SEXTON, SPEAKER
HOUSE OF REPRESENTATIVES

APPROVED this 9th day of May 2025


BILL LEE, GOVERNOR