Fueling Transportation Revenues

By

Sean Slone [1]

Tuesday, June 6, 2017 at 09:52 AM

If the recent pattern holds, 2017 could end up being a big year for state transportation funding efforts. In 2013, six states approved major transportation packages. In 2015, eight states followed suit. The intervening even-numbered years saw less activity, perhaps owing to shorter legislative sessions in some states and re-election concerns. But transportation policy analysts are confident this year won’t buck the odd-number year trend for a simple reason: It’s time.

“A large group of states have been procrastinating on updating their gas tax rates for years or even decades, so there’s a lot of catching up to do in order to restore the purchasing power of the gas tax back where it used to be,” said Carl Davis, research director at the Institute on Taxation and Economic Policy, or ITEP. “We’ve seen the amount of construction and maintenance that can be funded through the gas tax reduced significantly both because construction has become more expensive and because cars have become more fuel efficient.”

Despite some concerns about the future of the gas tax, it’s likely to remain the transportation revenue mechanism of choice for states in 2017, Davis said.

“I think in the short and medium term the gas tax is the best option that states have available,” he said. “It’s easy to administer and there’s a traditional linkage there between gas taxes and transportation funding ... that just makes sense and I think that resonates with lawmakers across the political spectrum.”

According to Davis, gas taxes aren’t the only thing being talked about in 2017.

“We’re seeing vehicle registration fees, particularly on electric vehicles, being discussed and we’re seeing sales taxes in some states,” he said. “We’re also seeing transfers of money away from education and health and other parts of the budget toward infrastructure instead. But with 19 states having introduced gas taxes in just the last few years and over a dozen talking about it right now, it’s also clear that the gas tax is probably the central feature in these transportation funding debates at the state level.”

Gas Tax Indexing

Davis said it is not enough to simply increase a state gas tax and call it a day. If a state wants to enact a forward-focused funding solution, they must also think about indexing the tax so that it adjusts on a periodic basis.

“If all you’re doing is boosting a tax by a flat amount, you set up a situation that’s going to be unsustainable in the long term,” Davis said. “We have good models from other states like Georgia or
Utah or Maryland showing how a gas tax can be better designed with a longer-term outlook and an aim toward funding infrastructure long term."

Joung Lee, policy director for the American Association of State Highway and Transportation Officials, or AASHTO, said states are taking some creative approaches when it comes to indexing.

“I think it’s interesting what Georgia has done in their most recent revenue package from 2015, where they will look back for the past year at vehicle registrations in Georgia, calculate the fuel efficiency (of those vehicles) and then index their fuel tax to that,” said Lee.

Davis cautioned though that indexing can be a tough fight politically.

“It was voted down in Massachusetts, and Maine and Wisconsin repealed it a number of years ago,” he noted. “But at the same time we’re seeing it get traction in states across the political spectrum. Indiana’s bill that passed out of the House has an indexing component. New Jersey switched over to a formula that varies the rate.”

Electric Vehicle Fees

California, Indiana, Kansas, Montana, New Hampshire, Oklahoma, South Carolina and Tennessee are among the states considering adding fees for electric and/or hybrid vehicles this year. Last year, Michigan became the 10th state to levy such fees. Analysts say the idea is to start to capture revenue from drivers who don’t pay gas taxes.

“Even though the number of electric vehicles or hybrid vehicles is relatively modest right now compared to the entire U.S. fleet, we know that’s going to be a fast-growing area in terms of those vehicle purchases and sales,” said Alison Premo Black, senior vice president for policy and chief economist at the American Road and Transportation Builders Association. “So I think states are really smart to look at that right now and get those dynamics in place so they can have some equity and parity with (other) vehicles.”

AASHTO’s Lee agreed that equity is the goal.

“Certainly as a matter of public policy, you would send a message that we shouldn’t have ‘free riders’ here, that every user of the system benefits ... and should pay into the system to some equitable degree,” Lee said.

Keys to Success

For states hoping to pass transportation funding measures in 2017, there are plenty of case studies from states that have been successful in recent years. But for many of them, this may prove the hardest mile.

“I think that for many of these states there are some additional challenges,” Black said. “If it were easy to get done, they might have done it in 2013 or 2015. ... In some states, it’s a multi-year approach. It can take a lot of time. Every state is different.”

Black said some keys to success for states include having a governor that champions the cause, making an effort to bridge any differences on funding priorities between urban and rural areas, having a list of specific projects to tout in making the case for investment, and having a well-honed message that focuses on something important to that state such as the potential for job creation or the deteriorating condition of the infrastructure.
“I think you have to be able to come up with a value proposition,” Lee said. “What are the concrete benefits that the taxpayers would gain in relatable terms? ... And then on the flip side, how much additional contribution would this mean if you put it in terms of say the cost of a cup of coffee at Starbucks. ... That seems to be something that more and more states are trying to do a better job of rather than talking about ‘we have billions of dollars of needs’ that nobody can relate to.”