Issue: Seven states (CA, IN, MT, OR, SC, TN and WV) raised gas taxes in 2017 while Utah modified its gas tax formula to allow for more robust revenue growth. Other states including Colorado, Idaho, New Hampshire, Utah and Wisconsin approved one-time transportation funding. Wyoming, which raised its gas tax in 2013, increased vehicle registration and other fees. Ten states approved new fees for electric and/or hybrid vehicles in 2017. Meanwhile states like California, Oregon and Washington continued their experiments with mileage-based user fees, which some believe could one day replace gas taxes. Will 2018, an election year in most places, continue to see state activity on the state funding front and how will a change in philosophy from Washington influence states?

What the States Did in 2017

The workhorse of state transportation funding—the gas tax—was back in a big way in 2017 despite lingering concerns about its long-term sustainability. States also borrowed and tapped into surpluses and rainy-day funds to tackle infrastructure needs. Ten states approved new fees for electric and/or hybrid vehicles.

The American Road and Transportation Builders Association estimated that states approved a total of more than $69 billion in new funding for transportation during the 2017 legislative sessions. Since 2012, more than 30 states have enacted some kind of increase in transportation funding.

States increasingly are concluding that just raising the gas tax is not enough as well. They also need to be indexed to automatically adjust over time. Twenty states now have variable gas tax rates.

Here’s a look at what happened—and in some cases didn’t happen—in a number of states in 2017:

- California approved a $52 billion plan to repair roads and bridges. The state raised its base excise tax on gasoline by 12 cents. A price-based excise tax will increase by 8 cents starting in 2019. The base diesel fuel excise tax was increased 20 cents. The 1.75 percent diesel fuel sales tax will increase to 5.75 percent. The combined gasoline excise tax and the base diesel fuel excise tax will be adjusted for inflation beginning in 2020. Californians will pay a new “transportation improvement fee” that will range from $25 to $175 depending on the value of their vehicle. That fee will also be adjusted for inflation in 2020. A new “road improvement fee” of $100 will be charged for zero emission vehicles starting in 2020 with indexing starting in 2021.

- Colorado initially had big plans for an ambitious sales tax measure that appeared to have bipartisan support. But when that fell apart, lawmakers ended up approving a $1.8 billion bond measure for road work over the next 10 years. At least 25 percent of that—around $450 million—is required to be spent on projects in counties with fewer than 50,000 residents.

- Idaho did several things in 2017. They did not increase their gas tax; they did that back in 2015. But lawmakers did provide $52 million from the budget surplus for emergency road funding, to be used for counties that have received a gubernatorial disaster declaration. And in a separate bill they approved some one-time funding—$300 million in GARVEE bonds, borrowing against future federal
highway allocations. In addition, they extended the surplus eliminator for another two years and created a new Transportation Expansion and Congestion Mitigation Fund using a 1 percent share of the state sales tax and rerouting cigarette taxes currently being directed to the Idaho Transportation Department’s strategic initiatives program.

- Indiana is raising its gas tax in two steps, starting with a 5-cent increase in July 2017 followed by another one in 2018. The diesel tax is going up by 6 cents in two steps. Both will be subject to annual inflation index increases of up to a penny a gallon for six years starting in 2019. The state also increased various registration fees, including a 50 percent increase in the decal fee for alternative fuel vehicles. In addition, Indiana added a $150 supplemental registration fee on electric vehicles and a $75 fee for alternative fuel vehicles. They also raised the fee on the sale of new vehicle tires. The aviation fuel tax is going up by 10 cents a gallon as well. Also, the legislation allows the Indiana Department of Transportation with the governor’s approval to seek a federal waiver in order to toll interstate highways and provides for a tolling feasibility study.

- Montana approved a 6-cent gas tax increase and a 2-cent diesel tax increase phased in by 2023. They increased the vehicle registration fee and put in a new tax on cars and recreational vehicles worth more than $150,000.

- In New Hampshire, Gov. Chris Sununu had hoped to create a permanent infrastructure trust fund to be capitalized with general fund revenues. He ended up settling for the one-time transfer of $38 million in surplus funds from the revenue stabilization reserve account to the highway and bridge betterment account. Of that $38 million, $6.8 million will go to the state DOT for critical bridge work and the rest to cities and towns.

- Oregon approved a 4-cent gas tax increase that will take effect in 2018 and the state is going to gradually add another 6 cents. They also increased vehicle fees, approved a new tax on new vehicle sales, put in a payroll tax for transit and a bike tax.

- In South Carolina, the Legislature overrode the veto of the governor to enact a 12-cent gas tax increase that will be phased in in 2-cent increments over six years. The measure will also raise fees on driver’s licenses and vehicle registrations, increase vehicle sales taxes, and set a new one-time fee for vehicles purchased out of state and later registered in South Carolina. There are new fees on electric or hydrogen-powered vehicles and new fees on hybrids as well. And there is a new “road use fee” on large commercial vehicles that will start in 2019.

- Tennessee will phase in its 6-cent gas tax increase and 10-cent diesel tax increase over three years. They’re going to increase vehicle registration and other fees as well.

- Utah lawmakers approved $1 billion in bonding over the next four years to speed up projects. They did their gas tax increase in 2015. But in 2017 they also modified the gas tax formula to allow for more robust revenue growth.

- West Virginia increased their variable minimum wholesale gas tax, did a vehicle sales tax increase, increased tolls and tolling authority, and sent a ballot referendum to voters to allow them to issue $1.6 billion in bonds. The referendum was approved in October.

- Wisconsin struggled with a months-long standoff over the budget. They ended up borrowing $400 million for transportation, but the budget actually cuts funding for major highway projects outside southeastern Wisconsin by 15 percent. Highway rehabilitation project funding was also cut. The budget calls for eliminating 200 workers at the Wisconsin Department of Transportation. Wisconsin was one of the 10 states that imposed new registration fees for electric and hybrid vehicles—in their case $100 for EVs and $75 for hybrids. Gov. Scott Walker used his line-item veto to nix a study of tolling federal highways in the state.

- Wyoming, which enacted a gas tax increase in 2013, increased vehicle registration fees, commercial vehicle weight fees and DMV license fees in 2017.

**Future of State Transportation Funding**

In addition to falling back on trusted transportation revenue mechanisms, there was also fresh
evidence of states contemplating the future of transportation funding in 2017:

- As mentioned above, 10 states approved new fees for electric and/or hybrid vehicles. In addition to an effort to add additional revenues to state coffers, the fees are a recognition that climbing electric vehicle sales mean less gas tax revenues for the future and drivers of such vehicles should pay their “fair share” for upkeep of the nation’s transportation system.

- States such as California, Oregon and Washington continued to experiment with the concept of mileage-based user fees, which some advocates hope can one day replace gas taxes if concerns about administrative costs and privacy implications can be overcome. All three states received grants in the latest round of funding from the Federal Highway Administration’s Surface Transportation System Funding Alternatives program, established under 2015’s FAST (Fixing America’s Surface Transportation) Act. Colorado, Delaware and Missouri were also awarded funding.

Other states took moves in 2017 to look to the future when they too might consider increasing revenues for transportation. Connecticut and Delaware both took steps towards enacting lockbox measures to prevent the use of transportation funds for other budget purposes. There were also three states that enacted measures to empower localities to seek additional tax revenues for transportation in the future.

**States to Watch in 2018**

While many states have had success in recent years in increasing transportation revenues, some that have faced political struggles could be on deck to give it another go in 2018. The 2017 legislative sessions also set in motion studies and advisory committees in a number of states that could bear fruit for 2018.

Among the states to watch for on the transportation funding front in 2018 based on early indications: Alabama, Arkansas, Louisiana, Mississippi, Missouri and Ohio.

Missouri and Utah—a state that has increased revenues in recent years—both had task forces in place in 2017 to study transportation project funding needs and make recommendations to the legislature and/or governor prior to the 2018 legislative sessions.

Other states, notably Connecticut, Indiana, Massachusetts and Minnesota, are in the process of studying how expanded tolling could help them fund transportation in the years ahead.

**What Impact Will Trump Infrastructure Plans Have**

All of this state activity could prove pivotal if President Donald Trump’s vision for infrastructure investment comes to pass. That vision could expect states and localities to play substantially different roles from the ones they’ve become accustomed to. While the President had yet to offer a comprehensive infrastructure plan by the end of 2017, the priorities he offered in June included the suggestion that federal funds in the future could be used to encourage states that help themselves.

At an event in May 2017, U.S. Secretary of Transportation Elaine Chao described the shift this way: “This administration wants to retain the primacy of state and local spending and use federal funding as leverage to increase the total amount of funding available for infrastructure. ... States and localities that have secured some funding or financing of their own for infrastructure projects will be given higher priority access to new federal funds.”

It remains to be seen what this could mean for things like the Highway Trust Fund and the formula-based federal funding states have become accustomed to. Despite states increasing their available transportation revenues in recent years, many continue to rely heavily on those federal dollars for a
substantial portion of their overall transportation spending. Many of the states that have authorized
the collection of additional state revenues have done so not with the idea of replacing federal dollars,
but to meet their matching dollar requirements in order to use all available federal funds or to pay for
needed road system improvements that federal funds don’t stretch far enough to cover. It’s clear that
any decrease in the federal share of dollars available for new transportation projects could challenge
state governments in significant ways. Even those that have successfully advanced their own
transportation funding solutions in recent years.

Even as the Trump administration advocates a “self-help” philosophy, some states may also have to
gird themselves for battle with factions seeking to undo recent transportation revenue measures in
2018 and beyond. In California, some Republican policy makers, business groups and construction
companies are supporting proposed November 2018 ballot measures that would undo that state’s
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CSG Resources

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