# PAIN AT THE PUMP

## Are gas taxes in the future of transportation funding?

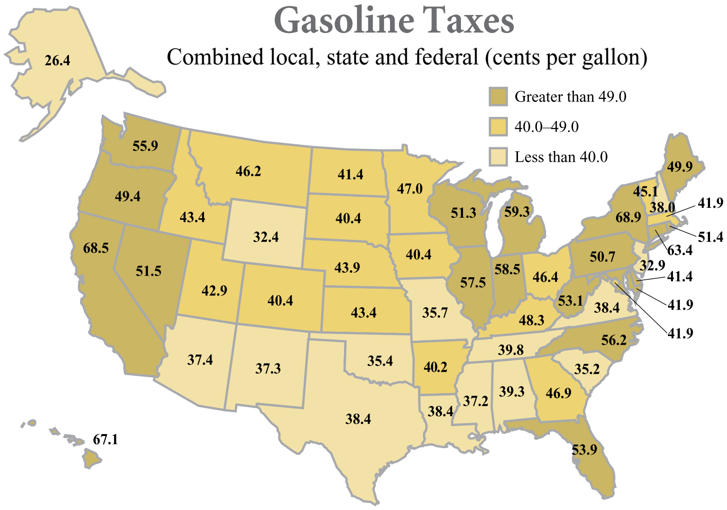
BY JAIME RALL

Widening gaps between transportation revenues and needs make it painfully clear that traditional ways of paying for transportation projects are falling short. Years of underinvestment, aging systems, a growing demand and the effects of the recession have all added to the infrastructure crisis.

The most significant factor, however, is the nation's decades-long reliance on gas taxes, which is now under serious scrutiny. State lawmakers are leading the way, debating how to make gas taxes work—or what they can replace them with—to maintain and improve our world-class transportation system well into the future.

### Gasoline Taxes

Combined local, state and federal (cents per gallon)




*Source: American Petroleum Institute, April 24, 2013.*

### Coming to Depend on Gas Taxes

Oregon was the first state to enact a gas tax, in 1919. Colorado, New Mexico and North Dakota followed the same year, and by 1929, all 48 states had enacted gas taxes.

The federal government followed the states' lead by passing a gas tax in 1932 at the rate of a penny per gallon. Intended as a short-term budget fix, the tax instead has remained in effect, funding transportation systems since President Eisenhower signed the Federal-Aid Highway Act of 1956 to build the new Interstate System.

Today, state per-gallon tax rates on gasoline range from 8 cents in Alaska to about 51 cents in New York, with the national average around 30 cents per gallon, according to the American Petroleum Institute. On top of state taxes, drivers also pay a federal gas tax of 18.4 cents per gallon.

Gas taxes are the single largest source of revenue for highway projects in about half the states. They provide close to 40 percent of state revenues for highways, and more than 90 percent of gross revenues for the federal Highway Trust Fund, which supports highway and transit projects nationwide.

*Jaime Rall covers transportation issues for NCSL.*

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> —OREGON SENATOR BRUCE STARR (R)

### A Faltering Revenue Source

For nearly a century, gas taxes have helped build America's transportation system. But today, gas tax revenues are dropping, and there is simply not enough money to pay for desperately needed infrastructure projects.

Americans are reducing their gas consumption by driving less, and when they do drive, they are hopping into fuel-efficient and alternative-fuel vehicles more frequently. "The traditional per-gallon gas tax is not a long-term sustainable funding source," says Virginia Speaker of the House William Howell (R). "With

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> —ARIZONA SENATOR STEVE FARLEY (D)

## By the Mile, Not the Gallon

One of the most promising ideas to tackle the declining revenue from the gas tax may be fees based directly on the number of miles motorists drive. This kind of per-mile user fee would eliminate the impact on revenues that comes from the growing popularity of alternative-fuel and high-efficiency vehicles.

At least 18 states have studied per-mile user fees, but no state has actually put them in place. That may change soon. So far in 2013, at least five states—Arizona, Massachusetts, New Jersey, Oregon and Texas—have introduced bills to establish mileage-based fees. Oregon was the first state to charge a per-gallon gas tax, and may become the first state to start replacing it with a per-mile fee. House Bill 2453 would assess per-mile usage charges on vehicles that get 55 miles to the gallon or better, starting in 2015.

"States are going to continue to look for creative ways to fund transportation, and that's going to take all kinds of different forms depending on the state," says Senator Bruce Starr of Oregon, chair of the state's Road User Fee Task Force, which has studied these fees since 2001. "What we did in Oregon is to look at options beyond the gas tax."

Oregon just wrapped up a second pilot project that focused on addressing drivers' concerns about privacy that came up during the first study. The public was leery of government tracking how much—and where—they were driving. "Oregon has now created a menu of options so users can choose how to pay their road charge," says Starr. Drivers can choose GPS-powered Smartphone apps, or simple, non-GPS devices, or to opt out and pay an annual flat fee instead. Oregon has also limited the program's costs and bureaucracy by working with private vendors.

Many legislators hope per-mile fees can offer a viable way to pay for transportation infrastructure well into the future, and the pilot projects have shown that per-mile fees are possible with today's technology. Still, it may take some time before drivers who are used to easy-to-pay, anonymous, almost invisible gas taxes are ready to switch over to something so unfamiliar—and for public policy to catch up.

"It's not a technical problem," said Joung Lee of the American Association of State Highway and Transportation Officials at a recent NCSL meeting. "It's a political problem. There's no question about it."

higher efficiency standards and alternative-fuel vehicles, government cannot continue to rely on the gas tax as a revenue source."

*Senator Bruce Starr (R) Oregon*

Senator Bruce Starr of Oregon (R) concurs. "There is no question that the fuel tax as a funding source will not work in the future. We have more and more vehicles that are getting higher miles per gallon and we have Congress mandating higher corporate average fuel efficiency standards across the fleet," says Starr. "Even without alternative-fuel vehicles, the fuel tax won't keep pace and the system just won't work."

It's not just that cars are using less gas. In most states, the same flat cents-per-gallon amount is collected on a gallon of gas year after year, despite inflation and climbing construction costs. Also, most states haven't raised their gas taxes in years, or even decades. State gas taxes are now a smaller part of American household expenses than they have been in about 80 years—on average, about $115 per vehicle per year, according to the Institute on Taxation and Economic Policy and the American Road & Transportation Builders Association.

*Senator Steve Farley (D) Arizona*

Arizona Senator Steve Farley (D) has witnessed this dynamic in his state and knows that the gas tax is "no longer generating what we need to maintain our transportation system."

"Our state tax of a flat 18 cents per gallon has not increased since 1990," he says, noting that inflation has driven up costs dramatically and people have cut back on driving because of high gas prices.

The same problem is playing out at the federal level. Revenues from the federal gas tax have lost a third of their value since the tax was last increased in 1993. If current trends continue, the federal Highway Trust Fund will face insolvency sometime in 2015.

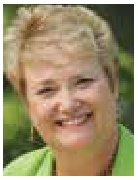
Most everyone agrees the nation is spending half or even less of what is needed to repair, maintain and upgrade our transportation infrastructure. Roads, bridges and mass transit systems are falling further into decline and disrepair. The cost of letting things go is steep, as U.S. households and businesses face growing costs from wasted fuel, car repairs, medical treatment and lost productivity due to crashes, traffic jams, and poor road, bridge and transit conditions.

### States Taking the Lead

What's the good news? States are once again taking the lead in figuring out immediate and long-term solutions to this nationwide crisis. Since the 2013 legislative sessions began, at least 35 states have introduced legislation to fund and finance transportation projects.

State lawmakers have proposed various approaches to match transportation revenues with current needs as well as the anticipated needs in the future. In recent years, many have considered raising gas taxes to fill transportation funding gaps. There has been little appetite for tax hikes, however, and the bills have stalled.

Then this February, Wyoming—with one of the lowest gas taxes in the country—became the first state in four years to increase its gas tax. House Bill 69 raised the tax by 10 cents, to 24 cents a gallon, a move expected to raise some $70 million annually for transportation investments.



*Representative Judy Clibborn (D) Washington*

Other states are looking at a variety of different revenue streams, while keeping gas taxes as part of the mix. "In the long term, as vehicles become more efficient, we will likely continue to see less money brought in by the gas tax," says Representative Judy Clibborn (D), chair of the House Transportation Committee in Washington state. "The gas tax will always play a role in funding our transportation system, but eventually we will have to look at more stable sources as well."

This year, Clibborn and other committee members unveiled a 10-year, $10 billion transportation package called "Connecting Washington." Along with raising the gas tax, the package proposes an array of other taxes, fees and bonds to pay for projects to alleviate congestion, perform needed maintenance, fund bicycle and pedestrian improvements, and provide aid to local governments for safety and transit programs. "While not a final product," says Clibborn, "this proposal is an important start to a dialogue about how to ensure our transportation system is adequately funded."

Other state legislatures are considering eliminating reliance on the traditional gas tax altogether. In February, Virginia became the first state to repeal its cents-per-gallon gas tax.

"Virginia has taken a huge step away from the traditional gas tax and shifted to a hybrid approach that includes a percentage-based gas tax and a slightly higher sales tax dedicated to transportation," explains Howell. "This is a sustainable revenue source that will grow with economic activity and allow Virginia to make much-needed investments in its infrastructure. All told, we will invest more than $3.5 billion in our roads, highways, rail and transit network over the next five years."

Other states looking to move away from gas taxes altogether are exploring fees based on the number of miles driven, instead of the number of gallons of gas purchased. Per-mile user fees have been widely studied and may offer a way to unlink transportation funding from gas purchases, making it possible to pay for transportation projects while increasing the nation's use of high-efficiency and alternative-fuel vehicles.

## Looking Ahead

The nationwide transportation funding crisis keeps getting worse, and it's not clear whether Congress will help.

"With gridlock at the federal level surpassing even the gridlock on our highways," says Clibborn, "states will play an increasingly significant role in transportation funding. It will be challenging, given our own budget difficulties, but states that invest in their transportation infrastructure will be at a competitive advantage."

Starr agrees that state lawmakers will be a critical part of the solution. "State legislators, as stewards of the transportation systems in each of their states, need to look to the future to figure out what steps they need to take today to create viable transportation funding for the next 10, 20 or 50 years."

"The gas tax worked great in the 20th century, but we need new solutions for the way we live in the 21st," says Farley. "Our parents and grandparents sacrificed to build and bequeath us the best transportation system in world history. We must not be the generation that allows the system to crumble because we are not creative enough to figure out how to pay for its maintenance under today's changed circumstances."

## Virginia Lawmakers Take Road Less Traveled

Not far from the gridlocked beltway in Washington, D.C., some 100 miles south in Richmond, members of the Virginia General Assembly appear to have learned what ***not*** to do from Congress.

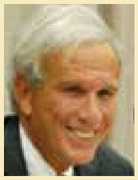
In a short session that ended February 23, this iconic citizen legislature accomplished something that had eluded it for 28 years. It found a way to accomplish a deal on transportation funding.

*Speaker William Howell (R) Virginia*

Lawmakers came to a "very politically challenging compromise … but in the end, a truly bipartisan effort," on transportation funding, says Virginia Speaker William Howell (R).

The enacted legislation repeals the cents-per-gallon gas tax and replaces it with one that is a percentage of wholesale gas prices, plus general sales tax revenue. It also imposes a $64 annual registration fee on hybrid, alternative-fuel and electric vehicles. It's expected to generate $5.9 billion in the next five years, according to the governor's office.

Over the years, finding enough funding for the state's basic transportation needs had pitted House against Senate, Republican against Democrat, region against region. An avalanche of legislation covered the Capitol. But in the end, the key negotiators—including leaders from the House, the Senate and the governor's office—took the path to common ground, overcoming hurdles dealing with how to distribute the funds, which new revenue sources to tap and how to get the most out of the additional dollars.



*Senate Minority Leader Dick Saslaw (D) Virginia*

Like most complex and challenging issues, this one had its share of potholes. "We got to where we needed to be by taking a circuitous route," says Senate Minority Leader Dick Saslaw (D). It was a "road map to avoid raising the gas tax—at least for the time being," he says.

Circuitous but successful. "We had a problem, we needed to find a solution and, unlike Washington, we did," says Speaker Howell. "Both sides came to the table, but not everyone loved it. As with any compromise, you have parts you don't like and parts you embrace."

After amendments from the governor, the bill became law in April and goes into effect this summer.

*—Jon Jukuri*