Shifting Gears

The federal FAST Act might help states find more sustainable transportation revenue.

BY KEVIN PULA and BEN HUSCH

LEARN MORE ON THIS TOPIC AT THE SUMMIT

Kevin Pula is a policy associate in NCSL's Environment, Energy and Transportation Program; Ben Husch is a committee director in NCSL's State-Federal Relations Division.

Congress surpassed the expectations of many state lawmakers and transportation officials last year by passing a five-year comprehensive transportation bill. The Fixing America's Surface Transportation Act ensures states a few years of federal financial support for transportation projects. More promising, a provision in the FAST Act, as it's known, might be the catalyst for states to move past traditional transportation revenue streams, such as the gas tax, and find new, innovative and more sustainable funding sources.

Although all 50 states and the federal government impose gas taxes—typically levied on a cents-per-gallon basis—they are not the reliable source of income they once were. Rising road and highway construction and maintenance costs, political reluctance to raise taxes and the improving fuel economy of America's vehicles are some of the reasons gas taxes can't keep up with the growing need for road and highway improvements.

Over the next five years, Section 6020 of the FAST Act will provide $95 million in competitive grants to support state efforts to develop alternative transportation funding options. Although the law does not specify a certain type of revenue mechanism, it is widely believed that states pursuing road-use charges will be the primary beneficiaries of the funds. It's an "opportunity to further explore long-term user-fee solutions to keep the highway trust fund solvent," says Jim Tymon, chief operating officer of the American Association of State Highway and Transportation Officials.

With road-use charges, or mileage-based user fees, motorists pay for every mile they drive rather than every gallon of gas they buy. Odometer readers and global positioning systems track the miles driven.

In March, officials at the Federal Highway Administration formally announced the new funding opportunity and invited states to apply for the grants individually or in groups. Three types of applications will be accepted through May 20:

- A new demonstration project,
- An extension or enhancement of an existing

demonstration project, or

- An activity that is a prerequisite to a planned demonstration project that begins within 18 months of the award.

Time to Test

NCSL worked closely with transportation officials and other national organizations to encourage Congress to include the grant funding in the final version of the federal law. The Mileage-Based User Fee Alliance, a nonprofit organization that promotes user fees, was a leader in ensuring the landmark grant program came to fruition.

Barbara Rohde, the alliance's executive director, says the program gives states a chance to test-drive user fees. She believes the information gleaned from pilot programs funded by the grants will help government officials and other decision-makers shape "the future of transportation finance worldwide."

Paying for What You Use

At least 10 states have passed legislation since 2013 to study alternative transportation funding and the feasibility of road-use fees.

Several more legislatures have commissioned studies, and a handful have created pilot programs to test the concept of road fees. Conversations in statehouses, along with FAST Act grants, likely will lead to further state activity this year and beyond.

Oregon launched the largest user-fee pilot program to date in July 2015.

The OreGo program is building a cadre of volunteers who agree to receive a monthly rebate for the gas taxes they pay at the pumps in exchange for a bill based on the miles they drive. At a rate of 1.5 cents per mile, a vehicle with a fuel efficiency of 20 mpg would break even under the new program by not having to pay the state's 30-cent-per-gallon fuel tax.

Officials tried to anticipate public concerns by letting volunteers choose from a couple of mileage-tracking options: an in-car GPS unit, self-reporting based on odometer readings or a monthly set mileage fee. Private, third-party companies are administering the program to alleviate privacy and data-collection worries.

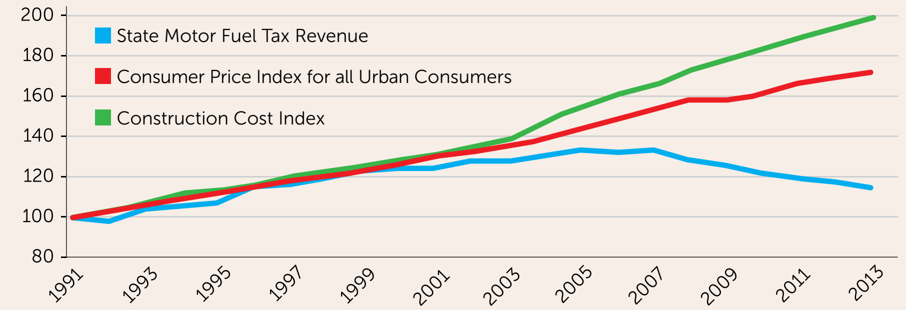
"Ultimately, the goal of this public-private partnership is to pave the way for reform by removing the uncertainty surrounding a workable road-user charge," says Bruce Starr, a former Oregon senator and past NCSL president. "Our program is voluntary, users have choices, it's transparent and the private sector is collecting the fee—all necessary for a successful pilot."

Former Senator
Bruce Starr
Oregon

OreGo has been lauded by transportation experts around the country. Other states are watching closely while developing programs of their own.

California is rolling out the Road Charge Pilot Program, a voluntary effort that relies heavily on Oregon's experience. The program was created by the Road Charge Technical Advisory Committee established by

State Motor Fuel Tax Revenue Compared to Consumer Price Index and National Constructions Cost Index



Source: Chicago Metropolitan Agency for Planning, Illinois Department of Transportation, U.S. Bureau of Labor Statistics, and Engineering News Record.

ROAD FEES
By the Numbers

15
States that haven't increased gas taxes in more than 20 years.

21 cents
Average state tax on a gallon of gas.

19
States with a variable, rather than a fixed, gas tax rate.

5,000
Number of volunteers wanted by OreGo program to test road user fees.

1 in 5
Number of states that impose an additional registration fee for hybrid or electric vehicles.

$200
Georgia's electric vehicle fee, the largest in the nation.

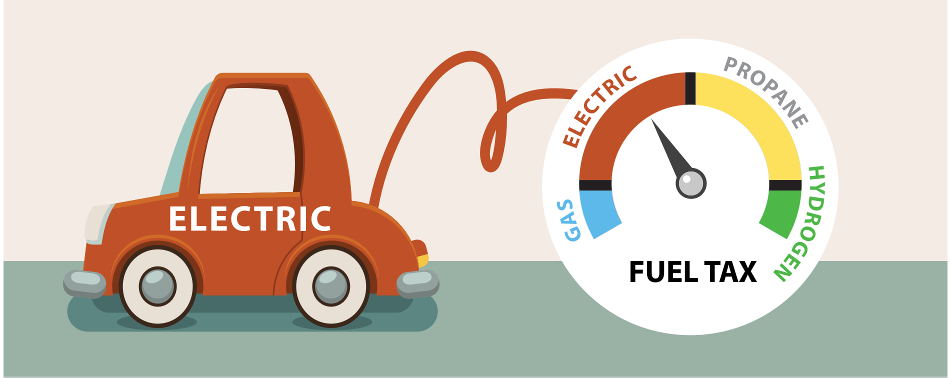
–9% vs. +44%
Decrease in real spending on US infrastructure vs. Increase in nominal spending, since 2003.

31%
Portion of state transportation funding provided by gas taxes.

45+
Number of funding sources states have for transportation, in 2011.

40%
State share of the total investments in Highways and Transit.

Electric Vehicle Fees



Road-use charges are not the only emerging transportation funding mechanism being considered in statehouses. Fees on electric and certain plug-in hybrid vehicles have become a hot topic as well.

Although electric vehicle sales remain low—they make up less than 1 percent of total vehicle sales—falling vehicle costs and state incentive programs may continue to drive consumers to these technologies, resulting in potentially even lower gas-tax revenues.

Last year, Georgia, Idaho, Michigan and Wyoming enacted fees on certain hybrid and electric vehicles—the most in one year to date. In total, 10 states currently impose fees as a way to recapture lost gas-tax revenue.

So far this year, lawmakers in at least 11 states—Alabama, California, Hawaii, Illinois, Indiana, Kansas, Kentucky, Louisiana, New Hampshire, Tennessee and West Virginia—have introduced legislation to establish special registration fees on hybrid or electric vehicles.

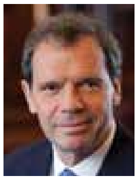

Senator Joe Bowen Kentucky

If passed as introduced, Illinois, Kansas and West Virginia would adopt fees greater than or equal to Georgia's $200 annual fee—currently the country's highest.

In addition, Idaho and Missouri have introduced measures that would remove or decrease their existing fees on hybrid vehicles, and legislation passed in Wyoming changes the one-time decal fee for electric vehicles, established last year, into an annual charge.

"It is a bill about fairness. It is a bill that is about being proactive," says Kentucky's bill sponsor, Senator Joe Bowen (R). "It is a bill that in time will help our challenged road fund."

legislation in 2014 to study user fees and lay the groundwork for a statewide pilot program.


Senate President John Cullerton Illinois

In Illinois, Senate President John Cullerton (D) says he's eager to address the shortcomings of the state's current transportation funding system, which he says relies too much on motor-fuel taxes to finance infrastructure projects—like most states.

"That system never envisioned today's high-efficiency vehicles," he says, "let alone the growing use of hybrid and electric vehicles, which inflict the same wear and tear on the roadways but use less—or no—gas."

Replacing the gas tax with a system based on paying for what you use would bring some "self-sustainability and fairness to our road-building program," he says. "I'm encouraged by the pilot programs we've seen around the country and hope to make Illinois the first to implement such a system statewide." Cullerton introduced a bill to do just that—fully implement a road-use fee for all vehicles in the state, going a step beyond the California and Oregon programs.

Illinois is a step ahead already with several years of experience administering a mileage-tax registration program that bases vehicle fees on their weight and adds charges for excessive mileage.

Driven by Disparity

Establishing a new revenue source presents several challenges, though in this case technology isn't one of them. Recording drivers' mileage and road use is actually relatively easy. The biggest hurdle with road fees might be convincing American drivers to pay an amount that is much more visible than the relatively hidden tax included in the price of gas.

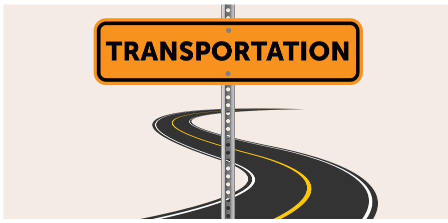
Proponents of road-use charges point out that people think they pay more in gas taxes for transportation infrastructure than what they actually do.

Compared with other monthly consumer costs, the average amount paid in gas taxes is small. A recent analysis from California found that, annually, the average Golden State driver pays about $1,500 for cable TV, $1,200 for cell phone service, $1,100 for Internet access, but only $310 in gas taxes.

There are other concerns, namely privacy and fairness. The new technology being used to record the miles drivers' travel may be able to track where they go and when as well. And rural residents and truckers question whether user fees are fair to those who have no choice but to travel long distances.

Despite these issues, the potential benefits of this new revenue source are acknowledged by many. And most agree that America's infrastructure crisis is intensifying. As it does, transportation stakeholders—from lawmakers to truckers, and chambers of commerce to state departments of transportation—are watching closely to see how these pioneering states fare with their experiments.

If history is any indication, Oregon may again blaze the trail. It was there, in 1919, that the nation's first gas tax was imposed.



Want to dive deep into the details of transportation funding? Go to SL Online and click on the Transportation Deep Dive banner on the right.