

States consider higher gas taxes as infrastructure crumbles



David M. Kall | Saturday, January 10, 2015

According to a 2011 report by the non-profit Institute on Taxation and Economic Policy (Institute), a state's gas tax is one of the least sustainable, but most important sources, of transportation funding within the control of state lawmakers.

The report characterizes the gas tax as one that is built to fail in 36 states because, as a fixed rate tax, it returns the same amount on every gallon of fuel purchased, year in and year out. As prices of labor and materials like asphalt and concrete increase, states are not collecting enough in gas taxes to keep up. The Institute predicts that if states updated their gas tax rates to maintain purchasing power, gas tax revenues would be \$10 billion higher per year than present collections.

Inaction is the problem

The non-profit blames the shortsightedness of state lawmakers for failing to plan for the inevitable rise in transportation construction costs; most states have not increased its gas tax rate in a decade. The report points to estimated \$300 million losses in Iowa and Oklahoma, and \$500 million losses in Maryland and New Jersey.

Massachusetts is another example of a state that is falling behind. As we [wrote](#) in November, voters in the midterms repealed annual gas tax adjustments, so the gas tax rate will remain at 24 cents until lawmakers change it. According to a Tax Policy Center brief, *Reforming State Gas Taxes*, if voters had kept the adjustments in place, Massachusetts would likely have collected an additional \$360 million in revenue.

The Tax Policy Center argues that federal inaction also contributes to the states' predicament. The highway trust fund faces insolvency concerns because the last time Congress increased the federal excise

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tax rate on gasoline to the current 18.4 cents per gallon was in 1993. Other factors contributing to the insolvency concerns relate to decreases in the number of miles motorists drive and more fuel efficient vehicles. The excise tax rate remained constant even though gas prices have increased by 136 percent between 2000 and 2013.

Solutions

Both the Institute and the Tax Policy Center agree that gas tax increases in the short-term and overhauls of gas tax policy in the long-term offer a solution. By the Institute's calculations, a 10 cent per gallon increase would generate \$4.31 per month in additional revenue from the average driver. As for long-term reformation, the Institute suggests linking the gas tax rate to transportation cost growth, inflation, or the price of gas.

Some states are either following this path or have come up with other ways to solve their infrastructure problems. On the other hand, other state officials refuse to consider a gas tax, leaving their states to struggle until they figure out an alternative.

Michigan

A recent *Detroit News* article described a flurry of legislative activity at the end of December, which lawmakers anticipate will raise \$1.2 billion for road funding. The approved legislation includes the following:

- House Joint Resolution UU: A proposed constitutional amendment asking voters to increase the six percent sales tax to seven percent during the May 2015 general election.
- HB 5477: Replaces the current 19 cent per gallon gas tax and 15 cent diesel tax with a 14.9% wholesale fuel tax. This will be offset by exempting fuel sales from the state sales tax. As set forth in HB 4539, eliminating the sales tax on motor fuels will phase in over a six-year period. Both HB 5477 and 4539 are tied to the constitutional amendment vote, so neither will be enacted unless voters approve the sales tax increase.
- HB 4630: A measure to increase vehicle registration taxes on trucks and cars more than three years old, and electric vehicles. Vehicle owners would pay approximately \$95 million more each year if the bill goes into effect. HB 4630 is also tied to the constitutional amendment vote in May 2015.

Iowa

Businessweek.com reveals that Iowa Rep. Josh Byrnes, the Republican chairman of the House Transportation Committee, is "optimistic that Iowans are ready to support a funding proposal dedicated to transportation." In the last two years, Iowa has seen a shortfall of \$215 million in annual transportation funding, but voters have declined to raise the gas tax, which has not changed since 1989.

In part, Rep. Byrnes' optimism stems from the fact that he was elected with 63 percent of the vote despite his enthusiasm for raising revenue.

New Jersey

A Quinnipiac Poll finds that New Jersey voters oppose increasing the gas tax to finance road and mass transit improvements, by a margin of 58 percent to 39 percent. However, voters support the construction of a new rail tunnel between New Jersey and Manhattan, by a similar margin 53 percent to 37 percent.

Businessweek.com reported Republican Gov. Chris Christie, who has opposed raising the gasoline tax, as

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being “open to all options.” The governor even went so far as to put a Democrat in charge of transportation spending. Nevertheless, the poll suggests that New Jersey is not likely to see a gas tax increase any time soon. The issue of “how to bail out the broke transportation trust fund crosses the double white line for a head-on collision with a cardinal rule of New Jersey politics: Don't hike the gas tax.”

Ohio

The Plain Dealer reports that Gov. Kasich is not inclined to use gas taxes to fix Ohio's infrastructure. Instead, the paper points out that his strategy involves a \$1 billion bond issue by the Ohio Turnpike combined with a toll increase. Citing the fact that the state “is coming off the biggest construction season in [the Ohio Department of Transportation's] history,” the administration is confident that it need not punish taxpayers by way of an increase in the current gas tax of 28 cents per gallon. According to the Tax Policy Center brief, this figure has grown seven percent since 1993.

While all states impose a gas tax, the Tax Policy Center brief reflects considerable variations in both rates and rate increases over time:

States with the highest gas tax	States with the lowest gas tax
California: 46.5 cents per gallon, a 30.5% increase since 1993	Alaska: 8 cents per gallon, a 0% increase since 1993
Pennsylvania: 40.7 cents per gallon, an 18.4% increase since 1993	Virginia: 11.1 cents per gallon, a 6.4% reduction since 1993
North Carolina: 37.75 cents per gallon, a 15.9% increase since 1993	New Jersey: 14.5 cents per gallon, a 4% increase since 1993
Washington: 37.5 cents per gallon, a 14.5% increase since 1993	South Carolina: 16.75 cents per gallon, a .8% increase since 1993
West Virginia: 37.5 cents per gallon, a 15.4% increase since 1993	Hawaii and Oklahoma: 17 cents per gallon, 1% and 6% increases respectively since 1993

Next steps

The Tax Policy Center brief applauds 15 states and the District of Columbia that have tied some portion of their gas tax to the actual cost of gas, either at the pump or wholesale. Under this kind of scheme, gas tax revenues increase automatically, producing a more predictable revenue stream. Those that have done this, or something similar, include: California, Hawaii, Illinois, Kentucky, Michigan, Missouri, Nebraska, North Carolina, Oregon, Pennsylvania, and Virginia.

In 2012, the Council on Foreign Relations endorsed these and numerous other options, including bond issues and toll increases, as seen in Ohio, master limited partnership, and real estate investment trusts. Though some of these would only be possible through federal action, the council insisted that the country's “infrastructure debacle” needs attention. Moving into 2015, more attention may be focused on this problem.



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Team member bio