Transportation Revenue Shortage

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Are Local Governments Rolling Up Their Sleeves Again?

By: Sam Yaghmaie PE, LEED AP,
Market Director, Harris & Associates, Bellevue, WA
APWA National Sustainable Transportation Subcommittee Chair
APWA WA Construction Management Committee Chair

Are you really paying $1.25 for a gallon of gas these days? This was the gas price in 1993, when gas tax was raised by federal government for the last time.

Reduction of gas tax purchasing power in United States was 37% in 2012 and will be 52% in 2023[1]. The adverse effect of inflation on the cur ent gas tax value and reduced gas consumption in the age of fuel efficiency a e two key reasons that local governments are facing the most critical challenge in our history. Passenger vehicles with 100 percent electric motive power and plug-in hybrid vehicles entered the market in 2010 and 2012, respectively, and will continue to grow and will most likely phase out gas fueled vehicles in long term future.

Federal government role

The Highway Trust Fund's accounts are normally filled by evenue collected through the 18.4 cents per gallon federal gas tax. However, the fuel levy is not indexed to account for inflation. The gas tax has not been increased since 1993, but infrastructure expenses have outpaced receipts from the fuel levy by as much as $15B per year. Since 2008, over $53.3B has been transferred from General Fund to Highway Trust Fund to temporarily fix the problem, but the average gap is estimated to grow $15.6B each year between 2015 and 2023[1].

Are we facing a bankruptcy in the Department of Transportation's Highway Trust Fund?

Lawmakers have been extremely slow in reaching a mutual agreement amongst themselves since 2008. We are also facing a September 30 deadline for renewing the federal government's authorization to collect the gas tax. Members of congress are reluctant to think and streamline in a timely manner and are even promoting "shouldn't spend money" policy without realizing the criticality of this national problem. "As soon as July, just a few months from now, the Department of Transportation predicts the Highway Trust Fund will reach a critically low level. If this isn't resolved, construction projects to improve our roads and bridges could shut down," Senator Patty Murray said.

Even if they reach a mutual agreement in authorization of the gas tax, the shortage of money to fix our transportation infrastructu e remains at large. The federal gas tax rates have not been raised in 18 years. Currently, after adjusting to account for the rising construction cost the real value of gas and diesel rates fall by 41 percent[2], that would require rate increases of 12.6 cents per gallon to return the federal gas tax to its purchasing power as of 18 years ago.

Local government role

States provide about the other half of all surface transportation funding through different funding sources such as sales

Transportation Funding Summit, Pre-Conference Workshop
Tuesday October 7, 9:00-4:00, Wenatchee Convention Center
(see page 14 for more information)

taxes on fuel and suppliers, motor vehicle and rental car sales tax, vehicle registration/license/title fees, tolls, vehicle weight fees, general funds, interest income, and others. Again, state gas sales tax is the most important source of transportation funding for the local governments. Unfortunately, 36 states levy a fixed-rate tax (no indexing), henc effective gas tax rates have plummeted by 29%, or 9.5 cents per gallon since they were last increased[2]. This translates to $10B a year of lost revenue for states each year. Consequently, putting transportation construction projects on hold by local governments is not an isolated case these days.

What to do now

To look positively at funding shortage! It is hoped that this would initiate out-of-the-box thinking amongst local state agencies. Meaning, prior to exhausting all our efforts in finding new sou ces of money, focus on **maximizing** the potential of the transportation money that is already being collected. Some key ideas, of many, that requires public agencies to embrace new cultural mind-shifts are:

1. First and upmost is to implement a phasing out plan of commonly practiced “borrow and spend” and change internal policies to promote “tax and spend” business practice. Spending upfront through bonding will not only put a heavy burden on tax payers for a longer period, but also cost them many times more. It will definitel discourage communities to support any new tax initiatives proposed by local governments. Some public agencies even use borrowed money to pay their employees. A few examples of “borrow and spend” bad practices and tools (practiced by over 45 states) are: Toll on new construction projects, general obligation or revenue bonds, GARVEE bonds, and Private Activity bonds. Relatively better practices and tools include TIFIA federal credit assistance, state infrastructure banks, public-private partnership, and design-build.

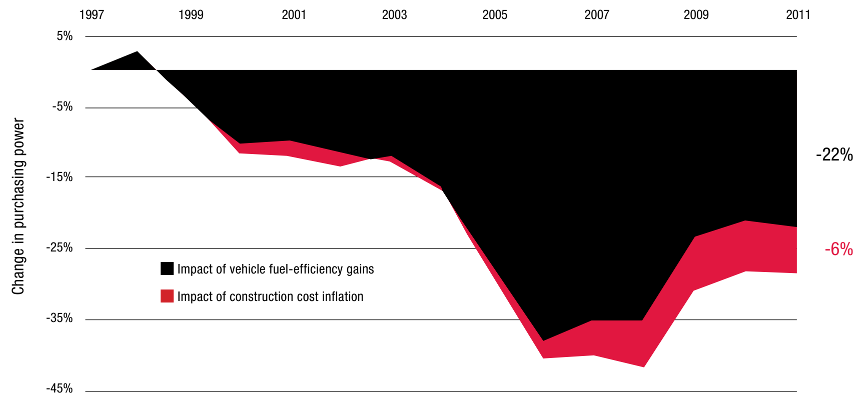
2. Maximize spending money on maintenance, preservation, and restoration of our existing transportation infrastructure – not on building new roads that uses most of the not-enough-revenue for a structure that we can’t even afford to keep up in the longer term. US infrastructure is rated D+ and requires $87B annual funds necessary to significantly improve conditions and performance of roads and bridges. A plan needs to be crafted to deal with worst cases of maintenance and preservation to ensure public safety and longer life of our transportation infrastructure.

3. Enforce accountability of elected and appointed officials for the long term viability and sustainability of the investment programs which should lead to support of transportation agency’s “performance-based” programs.

4. Revise FHWA additional rules, documentation, reviews, and compliance requirements on smaller federal-aid projects (the majority of current projects receiving federal aid are indeed in the smaller project category). GAO (US Government Accountability Office) has prepared a report[3] that was published in January 2014. The report includes examples of two similar projects constructed in Florida one federally funded, and one not, with a huge gap between their cost and construction schedule, see below. In this report GAO recommends that FHWA “explore administrative flexibilities and potentia dollar thresholds under which it may not be cost effective for local agencies to administer federal-aid projects.”

Figure 1: Purchasing power of the gas tax has dropped 28 percent since 1997

Decline is due mostly to construction cost inflation



Source: ITEP analysis of data from the Federal Highway Administration (FHWA)

What local governments have initiated so far?

In addition to such required cultural and business practice changes, time is of essence. Since congress is unlikely to enact the President’s corporate tax reform proposal (or any other tax reform proposal) this year, some states have already started to find other fundin sources. Recent State Transportation funding proposals have included:

- Raising fuel taxes (15 states)
- Sales taxes on fuel (14 states)
- Vehicle registration fees (7 states)

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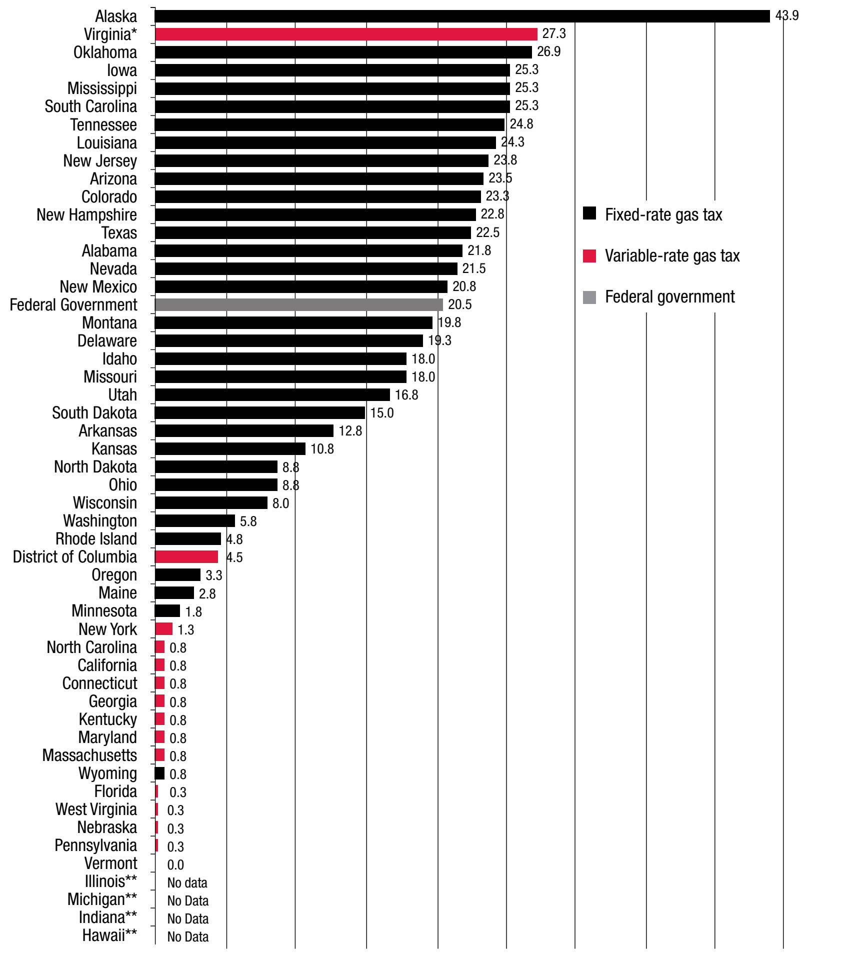
Figure 2: Years since last gasoline tax increase

As of April 1, 2014



* Virginia's gasoline tax was converted to 3.5 percent of wholesale gas prices effective in 2013, but this resulted in a decrease in the gas tax rate.

** These four states' gas tax rates change frequently because they apply their general sales tax to retail gas prices. Looking just at the gasoline excise tax, the number of years since the last gas tax increase took effect in these states is 24.3 in Illinois, 16.7 in Michigan, 11.3 in Indiana, and 6.8 in Hawaii.

- Vehicle miles traveled fee, VMT Pilot Studies (1 state)
- Vehicle miles traveled fee, VMT Framework for Pilot Studies (4 states)
- Special fees or taxes for electric or alternative fueled vehicles (4 states)
- Directing gas tax proceeds to direct transportation uses (2 states)
- State sales tax toward transportation (4 states)
- Reducing gas tax but increasing other taxes for a net increase for transportation (2 states)
- Tolls (15 states)

AASHTO has calculated some illustrative rates (2014) that the ten top revenue funding mechanisms could generate for the local governments as surface transportation revenue options, these suggesting increases are:

VMT on light duty vehicles (2-cent/VMT) ($53.8B), Sales tax on fuel-gas (7.5% of sales) **($33.5B)**, Freight charge-All Modes (0.5-cent/Ton-mile) **($23.7B)**, Income tax (personal (partial deduction) (1% of taxes) **($15B)**, Sales tax on fuel-Diesel (10% of sales) **($13.8B)** Excise tax on gas (increase) (10-cent/gal) **($12.8B)**, Freight bill (All modes, 1% of sales) **($8.3B)** Freight bill (truck only 1% of sales) **($7.2B)**, Freight charge (truck only) (0.5-cent/Ton-mile) (**$6.9B**), Harbor maintenance tax (0.5%) **($6.6B)**.

Clearly, the top two considerations are VMT and gas tax increase.

What is H.R. 3636?

H.R. 3636 is *The Update, Promote, and Develop America's Transportation Essentials (UPDATE) Act*. This bill would phase in a 15 cent/gallon federal tax increase over the next three years on gasoline and diesel. If approved, it would raise around $150B over 10 years and could temporarily relief some pressure off of local governments.

Will VMT replace Gas Tax?

The fact that Americans are driving less and fuel efficiency will continu to improve makes the gasoline tax an unsustainable funding source. Instead of using gas tax to fund transportation infrastructure, a VMT fee charges motorists based on their road usage measured in mileage. VMT could, in the long term, phase out the gas tax mechanism. Some have expressed concern that VMT could be an invasion of their privacy, as location information is utilized. However, as any data collection system poses a risk to private information of users, VMT pilot programs across the country have explored various options to protect the privacy of participants.

VMT charges can be either a flat fee (e.g., a fixed number of cents per mile regardless of where or when the travel occurs) or a variable fee based on considerations such as time of travel, congestion levels on a facility, type of road, type and weight of the vehicle, vehicle emission levels, and owner's financial capabilit . Or it can be a combination of flat and variable fees There are different ways a VMT fee can be implemented. In a broad sense, the application of VMT fees is envisioned through the use of a vehicle device to capture the distance driven by GPS or other technology, which could involve payments at the gas pump, billing, or automatic deductions for a prepaid customer account. GPS units on a vehicle can record distance, assign it to the appropriate taxing jurisdiction, and calculate the amount owed. Only the final billing information would have to be released outside the unit, to protect privacy.

In the United States, a VMT fee currently exists as part of a limited pilot program for 5,000 volunteers in Oregon and for trucks in Illinois. Internationally, Germany, Austria, Slovakia, the Czech Republic, Poland, Hungary and Switzerland have implemented various forms of VMT fees, limited to trucks.

Figure 3	**Locally funded** Sun 'N Lakes Sidewalk 	**Federal-aid** Sun 'N Lakes Sidewalk 
Sidewalk properties	Concrete sidewalks 5 feet wide, 4 inches thick 6,575 linear feet	Concrete sidewalks 5 feet wide, 4 inches thick 6,929 linear feet
Design by	Highlands County	Highlands County
Construction by	Same local paving company	Same local paving company
Materials and testing specification	Florida Department of Transportation Standard Specifications for Road and Bridge Constructio	Florida Department of Transportation Standard Specifications for Road and Bridge Constructio
Quality of construction	No difference in quality of construction according to county officials' inspections and testin	No difference in quality of construction according to county officials' inspections and testin
Project duration	11 months	38 months
Project cost	$135,000	$299,000

Source: GAO analysis of Highlands County, Florida documentation.

New Zealand also has such a system applying to all heavy vehicles and diesel-powered cars. France, Belgium and Russia all have truck based systems under development.

What is H.R. 3638?

Road Usage Fee Pilot Program Act of 2013 Directs the Secretary of the Treasury to establish the Road Usage Fee Pilot Program to make competitive grants to state or local governments, or metropolitan planning, regional transportation planning, or tribal organizations to conduct pilot studies on implementing mileage-based fee systems as a method for funding transportation highway projects. The state of Oregon started its pilot program in 2006 and will be followed soon by Washington and Wisconsin. Since 2008, 46 VMT-related bills have been introduced in 18 states.

Aging infrastructure, uncertainty of federal program, national and international recession, inflation, an political reluctance to raise gas tax has made declining gas tax revenue a huge national problem. Change is coming at the state level, just as the gas tax did in 1919. We are all responsible to educate congressional members and staff on value of federal investment and encouraging them to address our national hardship. We all need to be supportive of their actions that bring in a long-term solution to this daunting problem. H.R. 3636 & 3638[4] are both a good start. Especially now, primarily because we have a president who is in the last few years of his term, who has the ability to escape the political damage that could come from a gas tax increase.

1. AASHTO, 2013 AASHTO Official Annual Meeting Presentation, *www.transportation.org*
2. Building a Better Gas Tax- an ITEP Report, *www.itepnet.org*
3. GAO-14-113 report: January 2014, FHW Could Further Mitigate Locally Administered Risks
4. H.R. 3636 & H.R. 3638, *http://thomas.loc.gov/cgi-bin/query/z?c113:H.R.3636*: *http://beta.congress.gov/bill/113th-congress/house-bill/3638*

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Sam Yaghmaie can be reached at syaghmaie@harris-assoc.com, *206-898-5594.*