

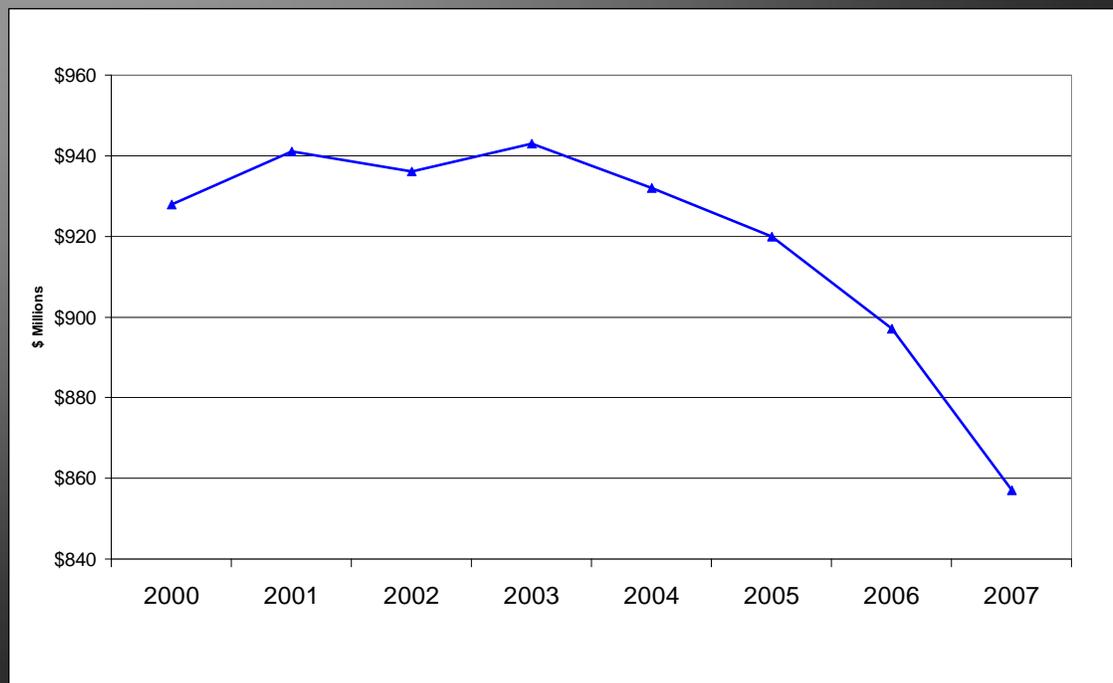
Alternative Funding Strategies for Critical Transportation Investments

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Immediate Problems

- \$13 billion in backlogged projects
- Declining revenue base
- Most recent tax increase eaten away by inflation
- Can be addressed by moderate tax increase
 - Proposal: 3 cents a year for 3 years

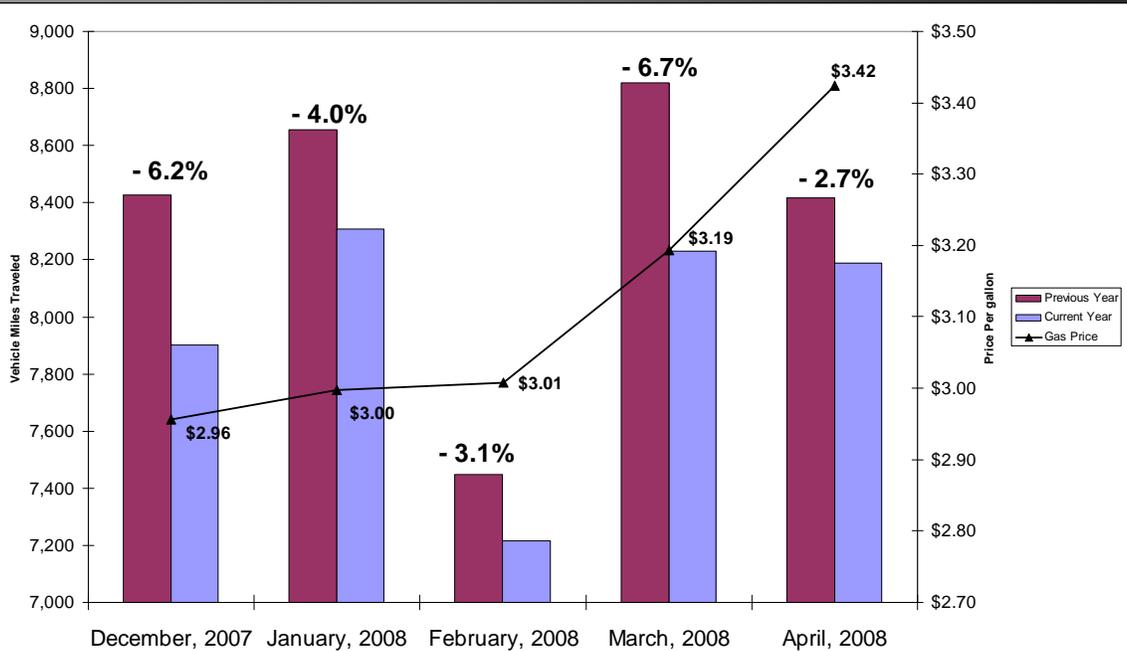
Declining Gasoline Tax Revenues



Sources of Revenue Decline

- Unit-based nature of gasoline tax
- Reduced consumption
 - Increased prices
 - Environmental sensitivity
- Increasing vehicle efficiency

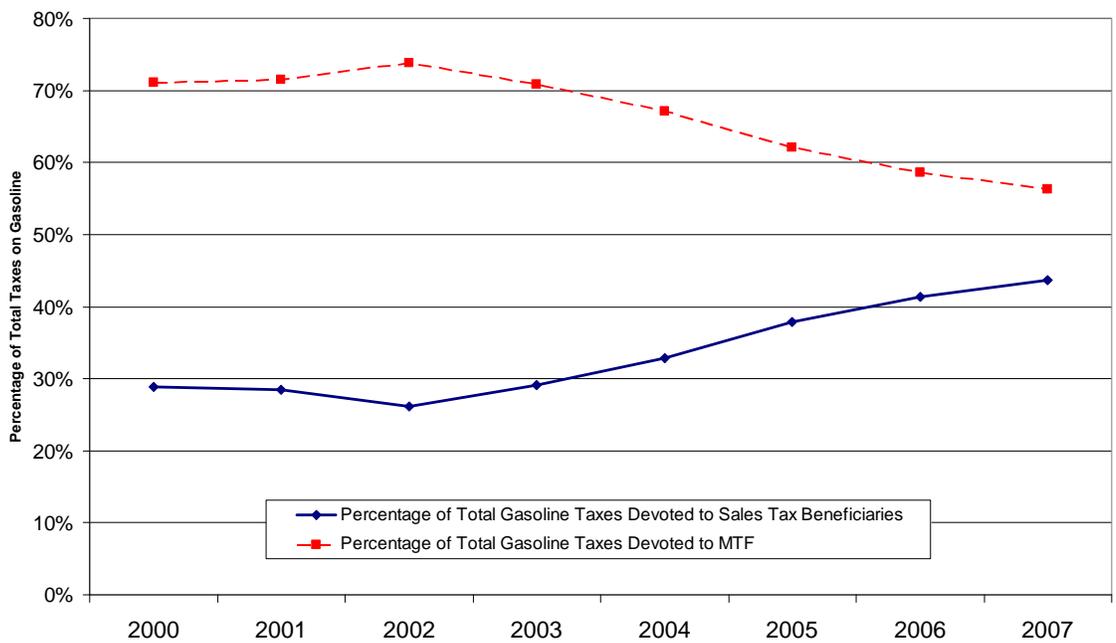
Declining Vehicle Miles Traveled



Increasing Tax Burden on Consumers

- Despite declining revenues for transportation projects, the tax burden on gasoline purchasers is going up
- Result of percentage sales tax on gasoline
- Revenues from sales tax do not primarily fund transportation projects

Revenue Is Shifting Away From Transportation



Long-Term Funding Problem

- Per-unit taxation is incompatible with shifting consumer demand
- Cannot adjust to increased prices or decreased demand
- Requires fundamental reforms

Needed Reforms

- **Flexibility:** The ability for the tax to take into account changing consumer behaviors
- **Stability:** The ability of the tax to return an expected amount of revenue into the state's transportation system

Revenue Neutral Shift

- **First:** Repeal the gasoline tax
- **Second:** Exempt gasoline purchases from the sales tax
- **Third:** Institute a new *ad valorem* tax on the wholesale price of gasoline that is equal to the current tax burden on consumers.
- **Fourth:** Split revenues from new tax in the same manner as 2001 revenues from taxes on gasoline

Effects of Proposed Shift

	2003	2007	Proposal
Total revenue 2007 (millions)	\$1,330	\$1,521	\$1,521
Transportation Fund (millions)	\$943	\$857	\$1,078
Sales tax beneficiaries (millions)	\$387	\$664	\$443
Effective tax rate	19.45%	12.35%	12.35%

SOURCE: Public Sector Consultants Inc., 2008

Effects on Sales Tax Beneficiaries

Beneficiary	2003	Proposal	Proposal (2003 Dollars)
School Aid Fund	\$283.8	\$324.6	\$285.9
Revenue Sharing	\$38.7	\$44.3	\$39.0
Transportation Fund	\$18.0	\$20.6	\$18.1
Balance (General Fund)	\$46.5	\$53.2	\$46.9

SOURCE: Public Sector Consultants Inc., 2008

Conclusion

■ Key points

- Must address short-term construction backlog
- Cannot solve long-term problem with only a tax hike
- Fundamental structure of tax must be changed