



TESTIMONY

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FUNDING TRANSPORTATION WITH DIVERTED SALES AND USER TAX REVENUE

By Joseph Miller

Testimony before the House Transportation Committee

To the Honorable Members of This Committee:

Thank you for the opportunity to testify. My name is Joseph Miller, and I am a policy analyst at the Show-Me Institute, a nonprofit, nonpartisan Missouri-based think tank that advances sensible, well-researched, free-market solutions to state and local policy issues. The ideas presented here are my own. This testimony is intended to summarize research that analysts for the Show-Me Institute have conducted and reviewed regarding proposals to impose new taxes or divert existing taxes to pay for Missouri's transportation infrastructure.

Upon the legislature's and voters' approval, Missouri House Joint Resolution 33 (HJR 33) would divert 0.1 percent of existing state sales tax revenue (currently \$63,167,469)¹ to the State Road Fund, which funds the Missouri state highway system. The

amount diverted would then increase by 0.1 percent per year, assuming 3 percent general revenue growth, until the total amount diverted reached 0.5 percent (\$315,837,346 annually).²

Missouri needs adequate infrastructure investments. However, the Missouri Department of Transportation (MoDOT), the agency tasked with building and maintaining most of our state's transportation infrastructure, has an unsustainable funding trajectory. Despite cuts to staff and other cost-saving measures, cash available for MoDOT's construction projects have been cut considerably in past years, preventing the department from adding any new projects to the State Transportation Improvement Project (STIP).

By 2017, MoDOT will not have enough funds to maintain the system as it currently exists, much less improve it.³ This situation is the result of a gradual erosion of the user-

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targeted taxes that were designed to fund the majority of Missouri's transportation infrastructure. The impact is being felt now because state-issued bonds and federal aid allowed necessary investment to temporarily increase. With those short-term funding sources exhausted, Missouri policymakers have an obligation to put the state's transportation funding on a sustainable path. However, diverting a portion of the state's general sales tax is a highly questionable policy solution. It is economically unsound, fundamentally unfair, and takes Missouri further down the road of unsustainable, taxpayer-subsidized transportation funding.

Missouri's different modes of transportation all have variable funding methodologies. Since Missouri's State Road Fund revenues must be spent on the state roads, all diverted sales tax revenue would have to go toward roads and bridges. Approximately 66 percent of the dedicated funding for state roadways comes from state and federal gas tax proceeds today. The motor vehicle sales tax and revenue from permits provide most of the remaining funding.⁴ Unlike general sales taxes, these are indirect user fees. The gas tax charges drivers who actually use the roads. That money is then spent on improving road and bridge infrastructure in the state. The gas tax creates a connection between funding for roads and the demand for roads. If the gas tax is at an adequate level, as Missourians drive more, MoDOT would receive more money to maintain and construct the roads.

This system has broken down primarily because at both the federal and state levels the gas tax has not increased. The gas tax in Missouri has remained at 17 cents per gallon since 1996, and the federal gas tax has not changed since 1994.⁵ If we

account for inflation, Missouri's gas tax has lost a third of its purchasing power. At the same time, road design specifications have improved and material costs have increased faster than inflation, making project construction more expensive.⁶ In addition, higher fuel efficiency in motor vehicles means that Missourians consume more road while paying less tax. Therefore, MoDOT has seen its costs rise and its revenue fall.

MoDOT avoided having to deal with funding issues for the last decade because Amendment 3 to the Missouri Constitution authorized billions of dollars in bonds, and the state received federal stimulus dollars.⁷ Thus, MoDOT could increase its transportation spending even as its long-term tax base eroded. Essentially, Missouri drivers received new or repaired roads and bridges without being asked to create a system to pay for their construction or long-term maintenance.

The better policy moving forward is for Missouri to modernize its user-pay model so it can fund necessary transportation infrastructure into the future. This means, if necessary, raising the gas tax and implementing tolling on major roads and bridges throughout the state.

The gasoline tax in Missouri is relatively low compared to other states. As of Jan. 1, 2015, Missouri had the fifth-lowest gasoline tax and the fourth-lowest diesel fuel tax in the nation.⁸ While having a low tax is not a bad thing, it is irresponsible when the expenditures it is designed to cover are being paid for through debt, federal aid, and now, potentially, general sales taxes. Furthermore, raising the gas tax is a feasible solution to MoDOT's funding problems. The decline of the effectiveness of gas taxes can be overstated.

Simply raising the gas tax to its inflation-adjusted 1996 level (\$0.26 per gallon) could bring in an extra \$230 million per year to MoDOT, assuming there are no significant changes in driving habits.⁹ The increase in the cost of fuel would also marginally reduce demand for driving, reducing MoDOT's construction and maintenance costs.¹⁰ Furthermore, fuel tax increases are the simplest option for the legislature to take, as it may raise this tax by around two to three cents immediately without having to go to a vote of the people under the Hancock Amendment.¹¹

Long-term, using gasoline taxes to fund road infrastructure may not be the best model.¹² But for now and the near future, gas taxes remain an effective way to fund transportation in Missouri. License and registration fees also could be increased to help ensure that cars with extremely high gas mileage pay for using the roads. As the gas tax remains an effective funding tool, it is difficult to justify making bicyclists and pedestrians pay the same or more for highways as truckers through general sales taxes when the gas tax could be increased instead.

The state also could explore tolling, which basically is not used in Missouri. Tolling connects the act of using the road, bridge, or port to the method of paying for it. In 2008, the Show-Me Institute released a policy study examining how tolling could increase the use of public-private partnerships (PPPs) in addressing Missouri's transportation needs.¹³ Tolling will not be the right solution for many of the transportation needs that the state faces, but for some larger projects, tolling can provide the necessary financing in a fair and economically sound manner.

For example, MoDOT's proposals for replacing and expanding I-70 are expected

to cost anywhere from \$2 billion to \$4 billion depending on the final design.¹⁴ Barring a very large increase in general taxes or fuel taxes, that level of investment might be beyond the financial capabilities of MoDOT. However, paying for the replacement of I-70 with tolls will allow the state to immediately bond against future toll revenue to pay for the project. That construction cost will then be recouped from those who directly benefit from the highway, and in proportion to their benefit. In other states, anywhere from one-third to one-half of such revenue is derived from trucks, which do disproportionate damage to the roadway. Other large projects aside from I-70 could also be rebuilt using tolls, including the \$200 million plan to improve the aging Broadway Bridge in Kansas City, which itself was operated as a toll bridge from 1956 to 1991.¹⁵

Tolling does not just provide the means to build better infrastructure, it also creates a reliable user-based revenue stream for regular maintenance. When toll road revenue is spent, most states prioritize toll road improvements before diverting funds to the rest of the highway system or mass transit. As a result, major toll roads averaged over \$100,000 of maintenance spending per mile in 2011. Missouri's interstates receive less than \$50,000 per mile.¹⁶

Toll roads can also be used to control congestion and promote traffic-free movement on Missouri's highways. New toll roads use open-road tolling technology, allowing drivers with multi-state compatible transponders to pay tolls without ever stopping at a booth, eliminating a source of traffic that once characterized toll roads.¹⁷ Furthermore, many states, like California and Virginia, use variable pricing on some of their toll

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roads to guarantee free-flowing traffic, even in rush hour.¹⁸ When traffic begins to increase on the road, prices increase to ensure free flow; prices fall when traffic does. A study on high-occupancy toll lanes in California found that tolls tend to push non-work-related traffic to non-rush hour periods, giving quicker rides to higher time-opportunity cost travel.¹⁹ ²⁰ If Missouri used variable price tolls on its highways in major cities, it could use road pricing to encourage rush hour free flow.

Some argue that general taxes should be used to pay for roads because we all benefit from goods moving on state highways. While infrastructure investment creates indirect benefits, there is no reason that benefit cannot be internalized into the cost of goods. For example, trucks are needed to deliver goods to consumers, even to those consumers who rarely drive on the roads. By increasing the cost of transporting these goods, which an increase in gasoline taxes or tolling would do, the sellers of these goods can pass some of this cost increase onto consumers.²¹ Thus, these consumers, who could derive indirect benefits from increased infrastructure investment, will indirectly pay for the investment.

Unlike tolling and gasoline taxes, HJR 33's proposed general sales tax diversion does not connect the act of using the road, bridge, or port to the method of paying for it. This approach is not economically sound. If people pay for roads and bridges based on how much they shop and not how much they drive, it will make driving look comparatively cheap, pushing people to drive more at any gasoline price, thereby increasing congestion, pollution, and urban sprawl.²² The subsidized increase in driving will force MoDOT to spend more money on highway expansion and road

maintenance.

HJR 33 will also act as a subsidy to interstate trucking companies and producers and consumers in other states. According to MoDOT, 61 percent of Missouri's truck freight by value simply passes through the state.²³ If Missouri relies on user fees to fund its highways, producers and consumers in other states can jointly invest in Missouri's infrastructure, from which they benefit. Using sales taxes precludes this possibility and distorts the freight market toward trucking and away from rail or water modes, which might otherwise be cost competitive.

While HJR 33 may be written as a tax diversion rather than a tax increase, it could very easily require ancillary tax increases or service cuts for other public services that rely on the general funds that would be diverted. Should the annual diversion reach 0.5 percent after five years, the state's general fund would see an annual loss of more than \$315 million. That is more than the state's entire budget for Health and Senior Services.²⁴ It is unclear whether Missourians would need to pay higher taxes elsewhere or receive fewer services to handle this diversion, but Missouri residents should be told how the state plans to deal with the loss of general revenue.

The state should determine which projects deliver the greatest benefits for its residents and find the means to finance these projects in a manner that causes the least amount of harm to taxpayers. Analysts for the Show-Me Institute have commended the general assembly for considering tolling in the past. Tolling and gas tax increases may be unpopular, but the state is best served by policies that allow the delivery of state services

in the least economically harmful way. If Missouri pays for transportation bonds via a general sales tax, people who do not drive will be paying the same amount for roads and bridges as long-distance commuters, and in many cases more. Even if drivers and non-drivers both derive benefits from the increased infrastructure investment, that does not mean they derive an equal benefit. Furthermore, both groups will feel the negative externalities of an inefficient transportation system. People who commute two miles to work should not be paying the same for roads as someone who commutes 40 miles. Producers and consumers in Illinois and Kansas should not be subsidized by Missouri taxpayers. That is not good public policy.

It is appropriate for Missouri to issue bonds to invest in transportation and to provide a dedicated funding source to pay for those bonds. However, it would be better public policy if Missouri transportation leaders did not focus on general sales taxes simply because it is the least contentious source of funds. A better alternative is to seek PPPs and tolling authorization. Short of that, gasoline tax and registration fee increases are preferable to fund the bonds and strengthen the transportation infrastructure in Missouri.

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NOTES:

¹ MoDOT, “Financial Snapshot: Oct. 2014,” 20

² Ibid.

³ MoDOT, “Bleak Financial Forecast for MoDOT,” <http://www.modot.org/newsandinfo/District0News.shtml?action=displaySSI&newsId=192529>.

⁴ For a full breakdown of MoDOT revenue, see “MoDOT 2014 CAFR,” 26-29, http://www.modot.org/about/general_info/documents/FY14MoDOTCAFRFINAL.PDF.

⁵ MoDOT, “Financial Snapshot: Oct. 2014,” 14.

⁶ MoDOT, “A Vision For Missouri’s Transportation Future,” 34.

⁷ MoDOT, “2014 CAFR,” 122-123.

⁸ American Petroleum Institute, “State Motor Fuel Taxes,” <http://www.api.org/-/media/files/statistics/state-motor-fuel-taxes-report-january-2015.pdf>.

⁹ MoDOT, “Financial Snapshot: Oct. 2014,” 19.

¹⁰ Kent M. Hymel, Kenneth A. Small, and Kurt Van Dende, “Induced Demand and Rebound Effects in Road Transport,” University of California-Irvine, http://www.iaec.org/en/students/best_papers/Gillingham.pdf. The study suggests that a 1 percent increase in the price of fuel leads to a long-term 0.24 percent decrease in vehicle miles driven, on average. An impact study from Yale found the effect to be a 0.22 percent decrease.

¹¹ Joseph Miller, “Highway Funding in Missouri: The Fuel Tax Option” (Essay, Show-Me Institute, 2014).

¹² Virginia Department of Transportation (VDOT), “Vehicle Miles Traveled (VMT) Tax: An Alternative to the Gas Tax for Generating Highway Revenue,” <http://vtrc.virginiadot.org/rsb/rsb19.pdf>.

¹³ David C. Stokes, Leonard Gilroy, and Samuel Staley, “Missouri’s Changing Transportation Paradigm” (Policy Study, Show-Me Institute 2008).

¹⁴ MoDOT, “Tolling Options for I-70, Independence to Wentzville,” <http://www.modot.org/i70tollinganalysis/documents/A-14-12-29I-70TollWhitePaper.pdf>.

¹⁵ Associated Press, “KC Wants State to Replace Broadway Bridge, Access” (Nov. 18, 2013).

¹⁶ FHWA, “11.4.3.9. Disbursements of State toll road and crossing facilities: 2011,” FHWA: “11.4.3.6. State capital outlay and maintenance, classified by functional system and area 2010-2012.”

¹⁷ E-ZPass Group, “About Us,” <http://www.e-zpassiag.com/about-us/members>.

¹⁸ Leonard Gilroy, and Amy Pelletier, “Hot Lanes: Frequently Asked Questions,” <http://>

reason.org/files/6196f532a4d75327fb15c8a9785edceb.pdf.

¹⁹ Edward Sullivan, “Continuation Study to Evaluate the Impacts of the SR 91 Value-Priced Express Lanes Final Report,” 99.

²⁰ Anthony R. Crane, “Technical Report: Considering Land Use and Pricing in Metropolitan Transportation Planning,” <http://www.tongji.edu.cn/~yangdy/landuse/ufti/ch4.htm>.

²¹ The amount of the increase in prices passed along to the consumer due to higher transportation costs depends on demand elasticity, elasticity of supply, and market competition of the goods in question. For example, see Maritime Administration, U.S. Department of Transportation, “Impact of High Oil Prices on Freight Transportation: Modal Shift Potential In Five Corridors Technical Report,” 13-15.

²² Dan Brand, “Impacts of Higher Fuel Costs,” <http://www.fhwa.dot.gov/policy/otps/innovation/issue1/impacts.htm>.

²³ MoDOT, “Missouri State Freight Plan,” 6-2, <http://www.mofreightplan.org/wp-content/uploads/2015/02/Missouri-Freight-Plan-Chapters-FINAL-small.pdf>.

²⁴ <http://oa.mo.gov/budget-planning>.



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