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Why Now May Be the Time to Implement Higher Gas Taxes

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By [Kelly Davis](#), Midwest Regional Director at ITEP | [Permalink](#) |



Earlier this year, copious potholes on highways and roads due to severe winter weather conditions exposed the harsh truth about our nation's transportation funding: there's not enough of it, and potholes and other crumbling infrastructure could become the norm if the states and the federal government don't address the issue.

[Twenty-four states](#) have gone a decade or more without increasing their gas tax, and [16 states](#) have gone two decades or more without an increase. The last time Congress increased the [federal gas tax](#) was in 1993.

A [blog in Wednesday's Washington Post](#) pondered whether now is the time for the federal government to raise the tax since gas prices have dropped to levels last seen four years ago. While there will not be any movement on the federal level in the short term, a couple of states are weighing increases.

South Carolina Gov. Nikki Haley and a majority of House members have historically refused to increase the state's gas tax, but [The State](#) newspaper reported that lawmakers are increasingly recognizing that the South Carolina's transportation infrastructure needs are woefully underfunded. Perhaps a [hike](#) in the gas tax isn't that unrealistic. A state Department of Transportation report released earlier this year found that the state needs to generate an additional [\\$43 billion](#) over the next 25 years to meet those needs.

South Carolina's gas tax is one of the [lowest in the country](#) (PDF) and hasn't been [raised](#) in more than 25 years. After adjusting for inflation, ITEP [found](#) that the state's current gas tax is lower today than at any point in history – going all the way back to the tax's creation in 1922. For example, while the 2 cent gas tax that South Carolina levied in 1922 may sound very low to today's drivers, in the context of the 1922 economy it was actually higher than the 16 cent gas tax South Carolina levies today. In fact a 2-cent tax in 1922 is roughly equivalent to a 28.3-cent tax in today's dollars. Simply restoring the South Carolina gas tax to the same inflation-adjusted levels would represent a big step toward fully funding the state's transportation needs. More and more states [are realizing](#) that undoing inflationary tax cuts is the most straightforward way to keep their infrastructure from crumbling beneath their feet.

In Michigan, Governor Rick Snyder is putting [pressure](#) on the House of Representatives to follow in the footsteps of the Senate and pass legislation that would replace both the state's current 19-cent gas tax and 15-cent tax on diesel with a tax on the average wholesale price of gas. Based on current gas prices the tax rate would increase to [44 cents in 2018](#) and raise an additional [\\$1.2 billion](#) for transportation by 2019. The Governor [admits](#) this is asking representatives to take a "tough vote", but it's one that the Senate already took by a nine-vote margin (23-14). Gov. Snyder said of the state's infrastructure crisis, "Every day that passes it's only going to get worse. Pothole season isn't going to be any better next year."

Because this legislation links the gas tax to the wholesale price of gas the state is putting itself in a better position to ensure that transportation funding keeps up with inflation overtime.

Policymakers in South Carolina and Michigan aren't alone in their quest for dealing with infrastructure woes. ITEP's [report](#) *State Gasoline Taxes: Built to Fail, But Fixable* concludes that the poor design of gas taxes "has resulted in sluggish revenue growth that fails to keep pace with state infrastructure needs." ITEP recommends raising gas taxes especially in states that haven't increased their taxes in [several years](#), restructuring gas taxes to take into account increased fuel efficiency and construction costs, and offsetting regressive gas tax hikes with targeted low-income tax relief.

In this political environment, tax increases may be a tough sell. But roads aren't going to fix themselves, and the [D-grade results](#) of inadequate transportation funding will only get worse. States and the federal government should present and consider serious policy proposal for raising gas taxes to repair our nation's roads and

Cheap Gas, Crumbling Infrastructure Spark Fuel Tax Talk

December 01, 2014

By Elaine S. Povich

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AP

A customer pumps gas in Pittsfield, Mass., where gas prices have fallen below \$3 per gallon. Falling gas prices have taken a toll on states that link their gas taxes to the price of fuel, rather than assessing it by the gallon. (AP)

While consumers rejoice at [lower gasoline prices](#), states with fuel taxes that increase or decrease with the wholesale price of gasoline or the inflation rate are struggling to deal with declining revenues. Even in states with a per-gallon tax, fuel-efficient cars and reduced driving have combined to lower revenues from gas taxes, which are often dedicated to road maintenance and construction. With infrastructure crumbling across the country, even some tax-averse Republicans are considering raising gas taxes. Cheap gasoline makes such levies more politically palatable, since consumers are less likely to notice the extra burden when they are filling up.

Florida, Maryland and New Hampshire allow gas taxes at the pump to rise or fall with inflation based on the Consumer Price Index. Massachusetts was set to do so this year, but voters last month scrapped that idea. Maine used to adjust for inflation, but that was repealed in 2012. Kentucky, North Carolina, Virginia, West Virginia and the District of Columbia adjust for inflation on the wholesale price of gasoline.

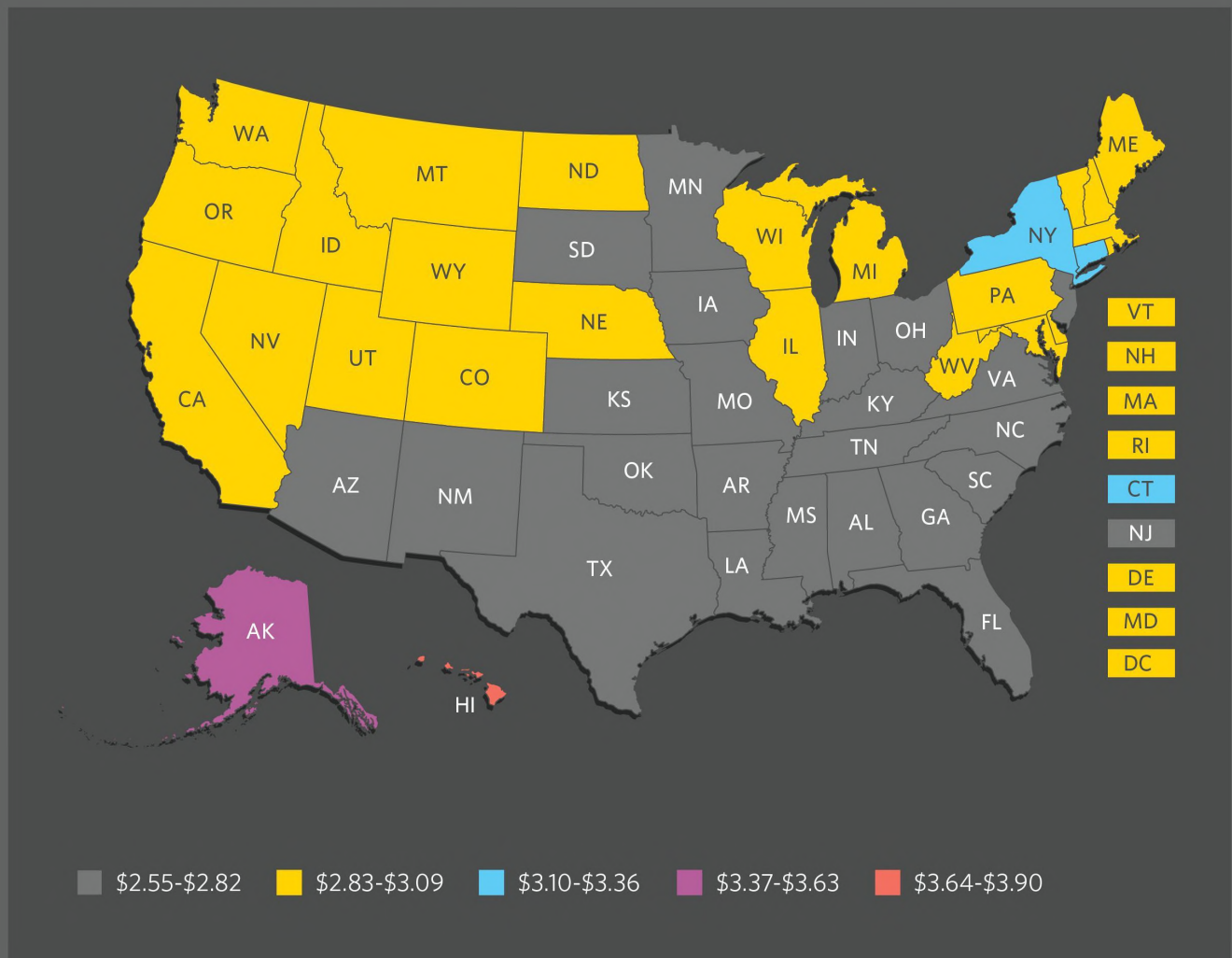
Most states have a separate gasoline tax, so they don't apply regular sales taxes to gasoline. But Hawaii, Illinois, Indiana, and Michigan collect some or all of their gasoline tax revenue with a sales tax on purchases. California applies a partial sales tax on gasoline on the wholesale price and most counties in the state also impose a separate transportation sales tax. In New York, the state collects local sales taxes on gasoline.

Most states and the federal government tax gas by the gallon. But even under that system, inflation erodes the value of the revenue. For example, the federal motor fuels tax, 18.4 cents per gallon, generates one-third fewer dollars in real purchasing terms than when it was last increased in 1993, according to an estimate by the [Tax Foundation](#), a nonpartisan research organization.

"At the state and local levels, gas taxes cover less than half of state and local transportation spending," said Tax Foundation economist Joseph Henchman. He said proposals to cut mass transit funding or relax federal salary standards for laborers on public works projects won't solve the underlying problem, which is that "every year we're spending a little more and taking in a little less."

Average Regular Gasoline Prices

Gasoline prices have dropped precipitously in recent weeks. Here is the average price for a gallon of regular in the states as of 11/25/14.



Source: AAA

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Imperfect Indexing

Indexing the tax to inflation was supposed to help ease that problem. And it did, almost every year of the past 20, as gas prices rose. But this year, gasoline prices have dropped precipitously. With that decline, revenues also have gone down in the states where the tax is indexed.

Nowhere is that more apparent than in Kentucky, where fuel tax revenues have declined in four of the last five quarters, according to Chuck Wolfe, public affairs director for the state's [Transportation Cabinet](#).

The biggest single decline was in the first quarter of this year, when the excise tax dropped 1.5 cents per gallon, Wolfe said. But in the quarter that begins New Year's Day it will go down 4.3 cents a gallon.

In December, 2013, the excise tax portion of the levy was 25.9 cents a gallon, plus a "supplemental" tax of a nickel a gallon for gasoline and 2 cents a gallon for diesel. With the latest drop in the price of gas, the variable excise tax will go to 21.2 cents a gallon in January.

With the nickel a gallon supplemental tax and an "underground petroleum tank fee" of 1.4 cents a gallon, the total state tax paid by motorists for gasoline will be 27.6 cents a gallon in January, down from the current total of 31.9 cents a gallon.

Last year, Gov. Steve Beshear, a Democrat, proposed that the legislature restore some of that year's drop in the tax and set a floor, below which the tax could not fall. The Democratically-controlled House approved the bill, but the GOP-led Senate did not.

The issue surfaced in the recent election campaign, with Republican House incumbents touting the fact that they "voted against the \$60 million gas tax," adding up what they thought the restoration of the 1.5 cents would mean to motorists. While the ad was powerful, the split in the legislature remained, with Democrats retaining a slim majority in the House.

Despite the current problems, Wolfe said Kentucky transportation officials have considered themselves fortunate to have a motor fuel tax that is indexed. "We're envied by other states for having that," he said. "But when you do have an indexed tax, you do have this other side of the coin, which is something that will have to be dealt with."

Kentucky Senate Transportation Committee Chairman Ernie Harris, a Republican, [said the tax decrease](#) will subtract \$24 million from the state's transportation fund between now and the end of June. He said there are two ways to fix the problem. Currently, state law says the tax can only rise by a maximum of 10 percent a year, regardless of what the price of gas does. One suggestion is to limit the drop in taxes to 10 percent annually as well, which would ease the problem but not fix it. The other idea is to establish a floor below which the tax can never fall.

"I think we have to stabilize the gas tax by one method or the other," he said. But he was not sure whether either idea could muster enough support to pass. "For the long term, it would be good to establish a floor ... but some view that as a tax increase so we may not have the votes for that."

According to David Brunori of [Tax Analysts](#), a nonprofit provider of tax news and analysis, inflation-adjusted gas taxes are viewed as an alternative to the "politically messy" idea of raising taxes. "But they result in rates going up without political accountability," Brunori said. "That is not good; indeed, it is bad government. We should expect leaders to make the case for higher taxes when necessary."

Average Regular Gasoline Prices

Gasoline prices have dropped precipitously in recent weeks. Here is the average price for a gallon of regular in the states as of 11/25/14.

State	Average regular gasoline price	State	Average regular gasoline price
Alaska	\$3.54	Montana	\$2.94
Alabama	\$2.64	North Carolina	\$2.75
Arkansas	\$2.65	North Dakota	\$2.92
Arizona	\$2.74	Nebraska	\$2.88
California	\$3.08	New Hampshire	\$2.88
Colorado	\$2.87	New Jersey	\$2.72
Connecticut	\$3.14	New Mexico	\$2.64
District of Columbia	\$3.05	Nevada	\$3.00
Delaware	\$2.83	New York	\$3.20
Florida	\$2.81	Ohio	\$2.81
Georgia	\$2.73	Oklahoma	\$2.62
Hawaii	\$3.90	Oregon	\$3.05
Iowa	\$2.81	Pennsylvania	\$2.97
Idaho	\$3.06	Rhode Island	\$2.96
Illinois	\$2.90	South Carolina	\$2.57
Indiana	\$2.81	South Dakota	\$2.82
Kansas	\$2.68	Tennessee	\$2.60
Kentucky	\$2.78	Texas	\$2.60
Louisiana	\$2.63	Utah	\$3.01
Massachusetts	\$2.93	Virginia	\$2.64
Maryland	\$2.84	Vermont	\$3.07
Maine	\$2.94	Washington	\$3.09
Michigan	\$2.90	Wisconsin	\$2.84
Minnesota	\$2.71	West Virginia	\$2.92
Missouri	\$2.55	Wyoming	\$3.04
Mississippi	\$2.57		

Source: AAA

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More Money in Michigan

In Michigan, Republican Gov. Rick Snyder is making that case, with some success. The state Senate [voted](#) last month to increase gas taxes by 20 cents a gallon in steps over the next four years, in an effort to raise more than \$1 billion to fix crumbling roads and bridges. The tax is based on the wholesale price of gasoline. The wholesale tax would begin at 9.5 percent on April 1, and gradually increase to 15.5 percent on Jan. 1, 2018. The House still has to vote on the measure and it could be altered at any step in the process. The Legislature hopes to finish it by the end of the year. Dave Murray, Snyder's deputy press secretary, said the governor is backing the tax hike because he believes the state needs to invest in its infrastructure. "It's long overdue and it's been neglected for decades," he said. Murray noted Snyder worked earlier in his term to cut the budget, and now is concentrating on getting \$1 billion for road and bridge maintenance. Cheap gas may make the job of raising the tax easier, Murray said. But he emphasized that Snyder is well aware that it's only a

matter of time before gas prices increase again.

The situation is different in New Jersey, which is also grappling with dwindling gas tax revenues and crumbling infrastructure. In that state, Republican Gov. Chris Christie is caught between a possible run for president—and possibly being tarred with a “tax raiser” brush in GOP primaries—and New Jersey’s infrastructure needs.

At a town hall meeting this summer in New Jersey, Christie [highlighted](#) his opposition to a proposed gas tax increase advanced by some Democrats in the legislature (though not very hard). “They wanted to raise the gas tax by \$2.4 billion. We said no to that,” said Christie.

Now, with the state’s transportation fund running out of money, the issue has come to a head again. The gas tax and a dedicated portion of the state sales tax generated about \$1.2 billion for the fund in the current fiscal year, but that’s only about enough to service the fund’s debt. Without new revenues, New Jersey officials say, the debt payments will consume the entire fund by the time the new fiscal year starts in July.

Patrick Murray, director of the [Polling Institute](#) at Monmouth University in New Jersey, said there is a consensus, particularly among industry representatives, that the state’s infrastructure is in dire need of repair. “New Jersey would be fine with a tax and I think he could sell it because every industry rep across the board is behind it,” he said.

To avoid paying a heavy political price, Murray said Christie and state lawmakers are considering raising additional revenue by “extending” the sales tax, or by pursuing some other strategy other than creating a new tax. “You can’t run for president and have a bridge collapse in your state when you are doing it,” Murray said. “But you can’t sign anything that’s called a tax.”

Tracking SC Highway Money - Why Some Areas Got More

*Posted: Nov 25, 2014 5:21 PM EST**Updated: Dec 09, 2014 5:21 PM EST*

By Robert Kittle, Reporter



COLUMBIA, S.C. -

South Carolina lawmakers will be looking next year for more money for state roads. But before talking about any possible tax or fee increases, a lot of taxpayers want to know where the road money goes the state already has.

Roscoe Wilson, Jr. of Columbia says the poor condition of our roads is costing all of us money. He was driving on I-77 between Columbia and Charlotte when he hit a pothole that tore up his car's suspension. He turned in a claim to the South Carolina Department of Transportation, which paid for the repairs to his vehicle. That money does not come out of the roads budget; it comes from a state insurance fund. But Wilson says our road problems cause more problems than just broken suspensions, bent rims, and blown tires.

"You're talking about accidents," he says. "You're talking about death, you know? If that was a motorbike and would have hit that pothole, the rider would've been thrown a hundred feet; killed him."

We looked through hundreds of pages of SCDOT records and plans, all of which detail exactly where your tax dollars go. From January 2002 through December 2011, the SCDOT spent almost \$7.9 billion dollars on roads and bridges.

Deciding where the money goes is dictated by Act 114, a law the South Carolina legislature passed in 2007. One of its goals was to take politics out of the equation and decide which roads and bridges get funded based on objective standards.

Act 114 says the SCDOT will decide which projects to fund based on nine things:

1. Cost, including estimated maintenance and repair costs over the life of the project

2. Public safety
3. Potential for economic development
4. Traffic volume and congestion
5. Truck traffic
6. Pavement quality
7. Environmental impact
8. Alternative transportation solutions
9. Consistency with local land use plans

Because of all of those factors, the busiest roads don't always get repaved, widened, or upgraded first.

There are seven DOT districts in the state. The money going to each district and the amount of traffic in each district don't always match.

For example, looking at vehicle miles traveled, or VMT, for each district and comparing that to the money each district got over 10 years, District 5 in the Pee Dee got the most money (\$1.7 billion) but had only the fourth-highest VMT.

District 1 in the Midlands had the second-highest VMT but got only the fourth most money.

The busiest roads were in District 6 in the Lowcountry, and it got the second most money.

District 3 in the Upstate (Oconee, Pickens, Greenville, Spartanburg) matched up, with the third-highest VMT and the third most money.

District 2, also in the Upstate (Abbeville, Anderson, Laurens, Newberry, McCormick, Greenwood, Edgefield, Saluda) got the fifth most money even though it had the lowest VMT.

District 4 (Cherokee, Union, York, Chester, Chesterfield, Fairfield, Lancaster) got the sixth most money and had the fifth-highest VMT.

District 7 (Aiken, Allendale, Bamberg, Barnwell, Calhoun, Clarendon, Hampton, Orangeburg) got the least money had the sixth-highest VMT.

SCDOT deputy secretary for planning Mark Lester says the numbers don't match up for several reasons. One is that the numbers are always changing. For example, upgrading the intersection of I-85 and I-385 in Greenville just got started and will be a large, expensive project. Since the project is just now starting, that money is not counted in the total for District 3 looking at January 2002 through December 2011.

Projects in the Midlands that are underway now are also not included in those dollar amounts.

He says the Act 114 guidelines prevent politics from coming into play when deciding where your tax money goes. "We develop priority lists in accordance with that criteria and those lists are adopted by the (SCDOT) commission. And we put those out for public comment, so it makes for a very transparent process. And, again, in accordance with Act 114, we proceed with projects in their priority order, knowing that some projects are more complex and they're going to take longer to deliver than projects that are more simple," he says.

Related:

[You can see the SCDOT's plans for 2010-2015 here.](#)

[You can see the updated plan for 2014-2019 here.](#)

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