

# CALIFORNIA SENATE COMMITTEE ON TRANSPORTATION & HOUSING INFORMATIONAL HEARING

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TESTIMONY OF MARTIN WACHS  
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# MAP21 Expires in May 2015; a series of short-term extensions likely

"Prospects of returning to robust national investment are uncertain at best. States that want to continue investing will have to explore new ways to raise funding for transportation on their own,"

....James Corless, T4America's Director

# We cannot look to Washington; Devolution is a long-term trend

Since the federal gas tax was last adjusted in 1993," 42 states have raised their rates. ...These states range from the brightest red to the deepest blue. Somehow, all those governors and state legislators figured out a way to pay for needed transportation improvements."

.....Steve Heminger, Executive Director, MTC

# In 2015

- 18 states have taken steps to raise transportation revenue this year.
- 90 transportation funding bills are awaiting action in 26 state legislatures
- Almost all are simple in concept (maybe difficult politically)
  - 
  - raise gas tax (MI, UT, SC, WA, IO)
  - raise tolls on turnpikes (OH)
  - approve bond issue (CT, NC)
  - raise annual registration fees (SD)
  - index motor fuel tax
- I will concentrate later on more novel approaches

# California Has Done a Lot But it Won't Be Enough

**Measure 1B** in 2008  
approved voters  
provided for \$4.5 billion  
in bonds...  
these must be repaid  
with interest & we need  
new sources of  
“revenue” rather than  
we need to borrow more

The **Gas Tax Swap** in  
2010 was complicated  
& not transparent to  
voters; it stopped  
“leakage” but also did  
not provide new  
revenue and now  
revenue is declining

Speaker Atkins proposals suggest directions & discussions will expand

# Strategic Questions for Legislature

- Should CA continue to rely on “user fees” or should we fund transportation from general fund?
- Should CA concentrate on raising money for statewide programs or on empowering localities (counties, cities, MPOs)?
- To address these questions I will
  - Review some history
  - Pose some issues
  - Lessons learned from other states

# Local Streets; County Roads; Transit

- Financed largely by property taxes on residential and commercial land . . . and local sales taxes ought to be
- Benefits come from “access” to property: postal delivery, ambulance, fire, police, water, sewer, telephone service
- Access gives value to property & value should be “recouped”
- Local streets & county roads carry tiny % of all traffic but are most (90%++) of the surface area of the system

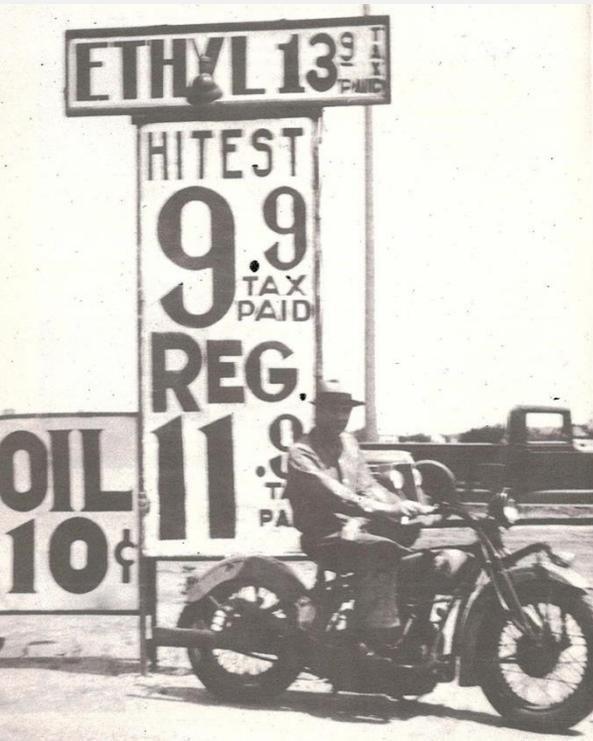
# History of Highway Finance



- State highways bankrupting CA in 1915-25: fastest growth of autos and roads ever . . . led to innovation of “user fees”
- Tolls most desirable user fee, in principle
- Motor fuel taxes and various “car taxes” adopted as “second best” but workable

# History of Highway Finance

- Motor fuel taxes were popular
- Supported by wide variety of constituencies
- Adopted in CA in 1922; every state by 1940
- Federal motor fuel tax in thirties
- Fundamental finance mechanism for Interstate System in fifties

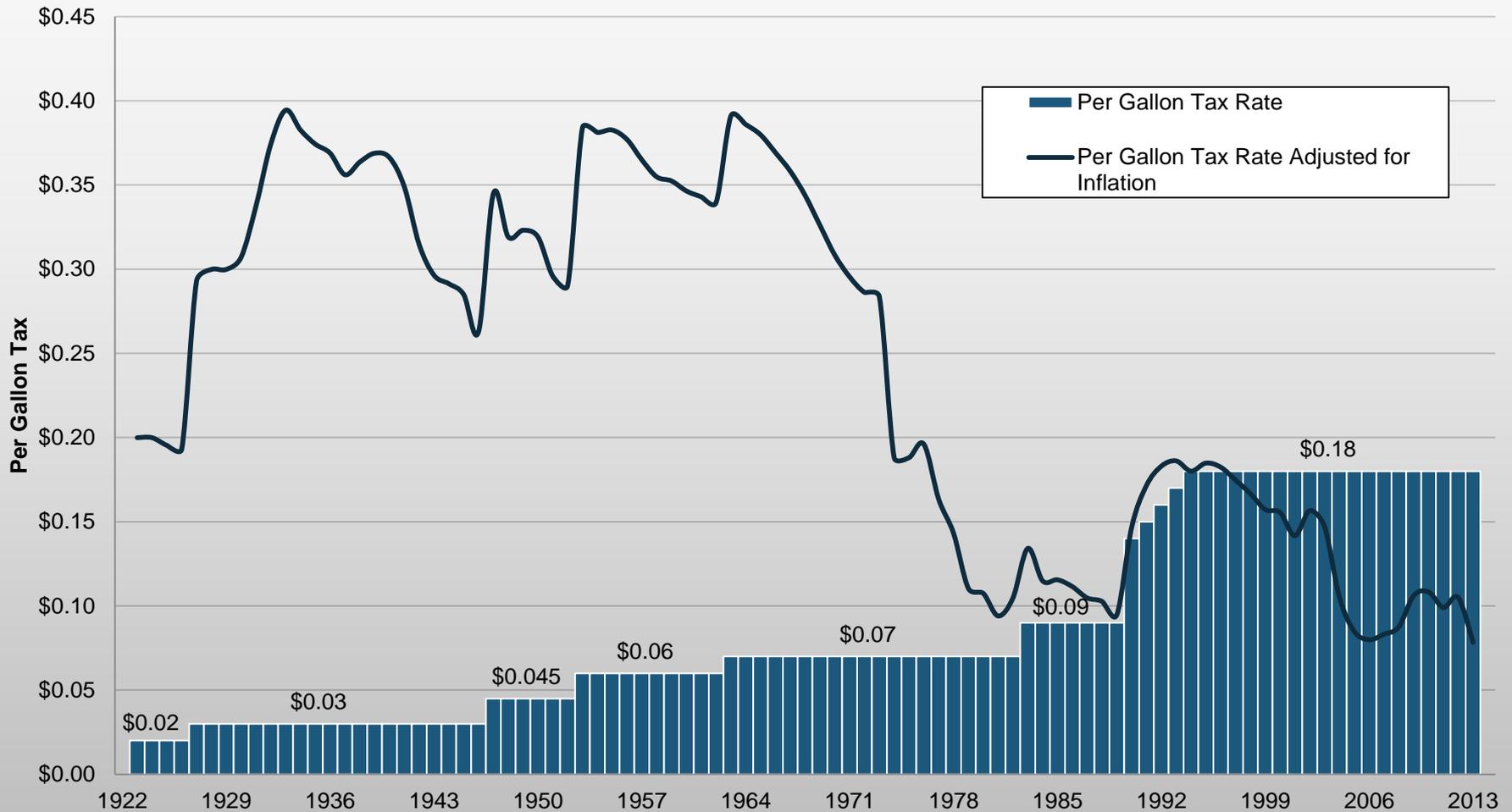


# Motor Fuel Excise Taxes



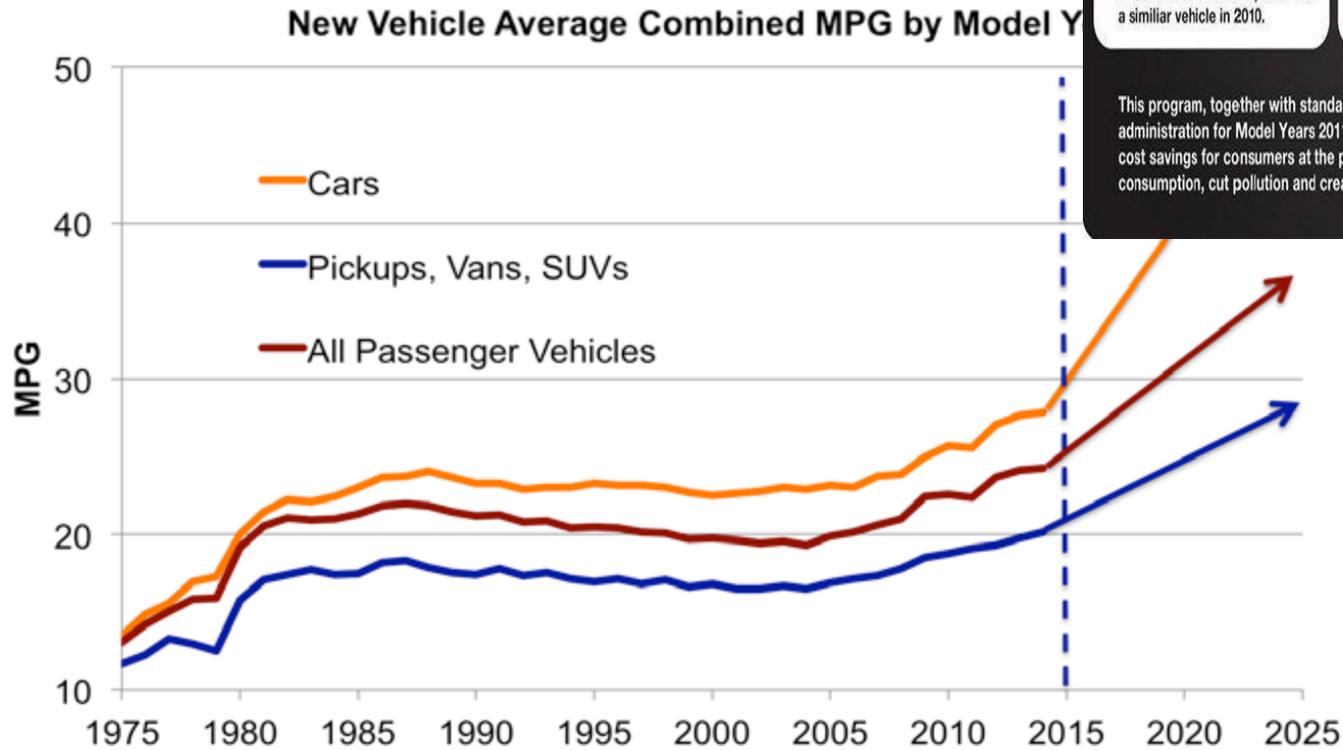
- Levied on a per gallon basis
- Very low administrative cost – collected at small number of wholesale outlets and passed on to retailers
- Low rate of evasion - - fuel is dyed when tax paid
- Revenue deposited in trust funds
  - In principle use restricted to projects that benefit those paying the fees – Protected in CA by Article XVIV
  - Over time, interpretations of this principle have changed

# Value of Motor Fuel Tax Lowest in History



Source: Board of Equalization. Escalation based on California State Highway Construction Cost Index and Consumer Price Index

# Fuel Economy Improvement will steadily reduce revenue in relation to road use



Source: Environmental Protection Agency, Light-Duty Automotive Technology, Carbon Dioxide, and Fuel Economy Trends: 1975-2014

The fleet-wide average will be **54.5 MPG**

Consumers will have saved **\$1.7 TRILLION** at the pump over the life of the program.

A family that purchases a new vehicle in 2025 will save **\$8,200** in fuel costs when compared with a similar vehicle in 2010.

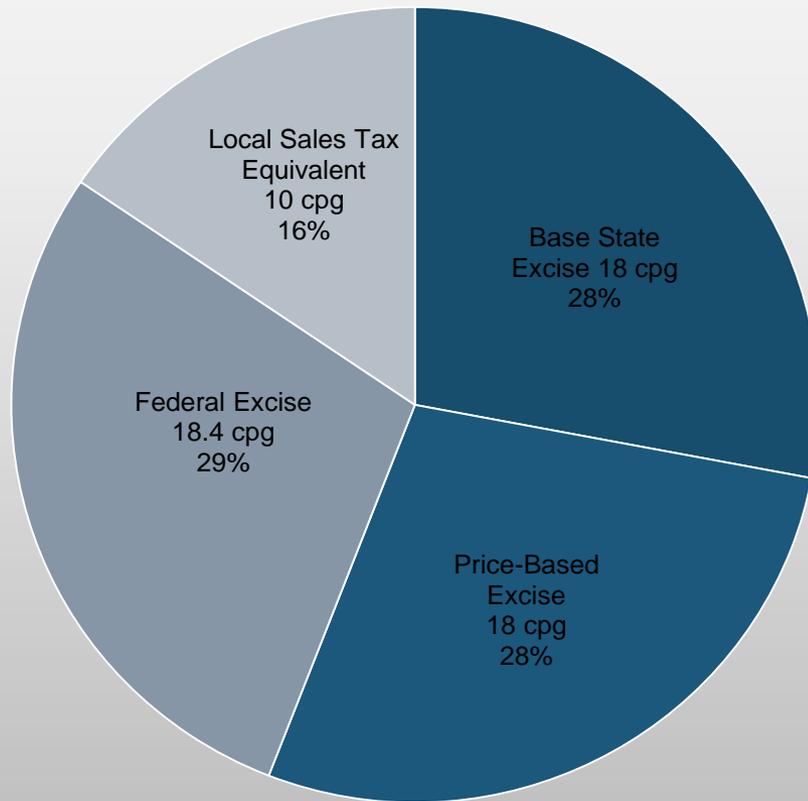
Over the life of the program, the standards will:

- Save **12** billion barrels of oil.
- Eliminate **6** billion metric tons of carbon dioxide pollution.

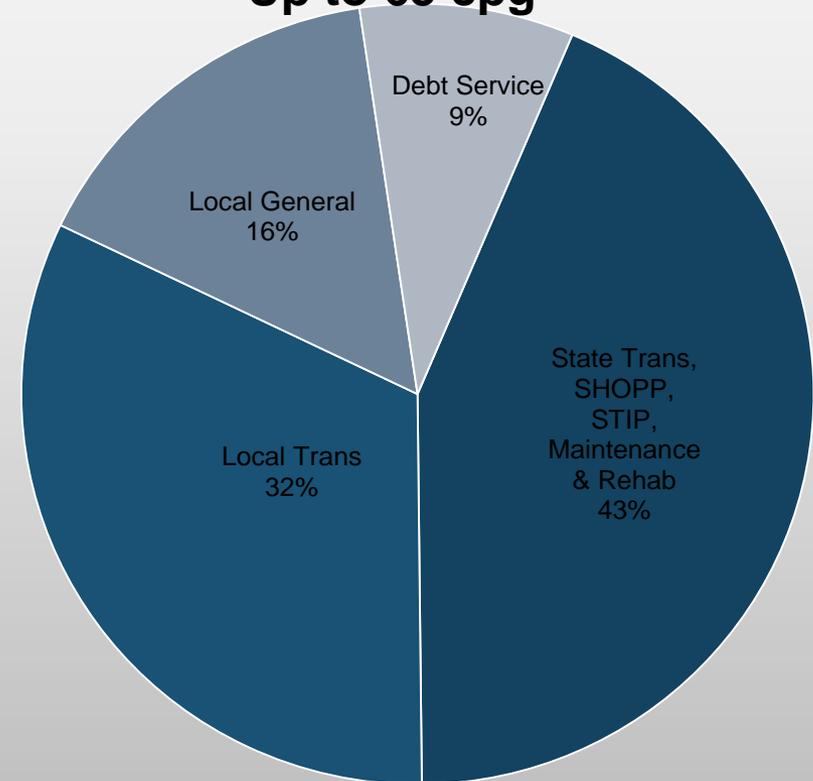
This program, together with standards already put into place by this administration for Model Years 2011-2016, will result in significant cost savings for consumers at the pump, dramatically reduce oil consumption, cut pollution and create jobs.

# Sources and Uses of Fuel Taxes on Gasoline

## Components of Tax on Gasoline Up to 65 cpg



## Uses of Tax collected on Gasoline Up to 65 cpg



\* Local sales tax equivalent estimated at 3 percent of \$3.75 price per gallon

\*\* Total tax collection based on 12 month gasoline consumption (Oct. 2013 to Sep. 2014)

Note: Price-Based Excise reduced to 18 cpg effective July 1, 2014

# Local Option Sales Taxes

- Are NOT User Fees
- Very popular and highly successful though supermajority required.
  - Lists of specific projects
  - Sunset dates and reauthorization
  - Administered locally but many projects have statewide significance
- 20 counties and collectively will raise \$95 billion during the life of measures already approved
  - \$.3 – 4 Billion per year

**VOTERS DO QUITE OFTEN CHOOSE TO TAX THEMSELVES  
IN CA and THROUGHOUT THE US**

# Transportation Ballot Measures Do Well

- 2014                    61 Measures in 18 States
  - 42 passed    19 failed                    69%
- 2013                    15 Measures in 8 States
  - 11 passed    4 failed                    73%
- 2112                    62 Measures in 17 States
  - 49 passed    13 failed                    79%



# USER FEE or General Revenue?

## User Fee

- Those who benefit pay
- Those who impose costs pay
- We have technology today to charge users more precisely & that could manage traffic flow

## General Revenue

- Broad base so low tax rate produces a lot
- In 1922 users were 12% of hh, but today nearly 100%

# User Fee: Insights from Other States

- Mileage Based User Fees---OR, WA, CA (26 states considering)
  - An “ideal user fee since charge can vary with road type, vehicle type, location
  - Expensive to implement; Will take decades; Opposition based on privacy
- Tolls
  - Tax on nonresidents in some states (DE, OH)
  - Less regressive than taxes because users pay directly for benefits
  - Preferred by economists; despised by media and public
  - Evidence that people prefer tolls when they know where the money is spent---HOT LANES is a live option

# HOT (High Occupancy/Toll) lanes are a Promising Innovation

- Add new lanes to existing freeways & charge to use new capacity: allow single occupancy drivers to pay tolls while carpools are free
  - Tolls vary with demand to keep lanes free-flowing
  - Transit can also use express lanes
- Experience to date – 15 projects in service; 18 being planned
- Los Angeles, San Diego, Houston, Denver, Minneapolis, Toronto all successful
  - Reduce delay, increase reliability
  - Viewed as providing additional travel choices



# User Fee: Insights from Other States

- Raise or Transform Motor Fuel Taxes – Viable for 20 years as they slowly lose value – Complement AB 32 & SB 375
- Convert Excise Tax to Ad Valorem Tax (Gas Tax Swap in Reverse) – VA did this; GA and MN considering now
  - Tax on wholesale transactions; or gross receipts, or retail sales
  - When consumption and price of fuel rise, revenue does too – more likely to rise than fall but may fall
- Index Motor Fuel Tax – but be careful
  - Seven states have repealed indexing

# Empower Counties & MPOs

- Lower threshold for passage of LOSTS from two-thirds
  - Enable “regional” (multi-county) as well as county LOSTS
- Empower local governments to levy local fuel taxes (FL)
- Empower local governments to levy local registration fees(IL)



# A Combination Likely to be Needed

- User fees (for roads?) & general funds (for transit?)
- Statewide, regional, and local empowerment

