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Virginia may start an end to gas taxes

Consumption, revenue fizzle

By Valerie Richardson - January 30, 2013

Even though traffic often grinds to a standstill on some of its biggest highways, Virginia is suddenly attracting intense nationwide attention.

With states across the country facing growing mismatches between their gas-tax revenues and the bills they face to build and repair roads and bridges, Virginia Gov. Bob McDonnell's proposal to junk the state's gas tax altogether — coupled with an increase in the state's sales tax rate — represents a radical turn.

"Virginia's proposal is, by and large, unprecedented," said Jaime Rall, senior transportation policy specialist at the National Conference of State Legislatures in Denver. "I think by putting forward such a bold proposal, this has the potential to increase attention on the national crisis in transportation funding."

Look for other states to keep tabs on how the Virginia experiment pans out as they wrestle with their own highway-funding shortfalls. All 50 states have gas taxes, which provide about 40 percent of highway funds — but many are scrambling in the face of a fiscal squeeze: With modern cars getting more miles per gallon and Americans on average driving 6 percent less miles per year than they did a decade ago (23 percent less for drivers younger than 35), the traditional tax on gas at the pump isn't bringing in what it once did, even as the nation's infrastructure bills increase.

That has governors and state legislators in both parties rethinking the economics of the gas tax. Michigan Gov. Rick Snyder, a Republican, is proposing a \$1.2 billion increase in gas taxes and higher auto registrations, a tack also taken by Massachusetts Gov. Deval Patrick, a Democrat, who called on lawmakers to more than double the Bay State's gas tax from 21 cents to 51 cents a gallon.

In New Hampshire, Democratic state lawmakers are backing an increase in the state gas tax from about 19 cents a gallon to 30 cents, to bring an estimated \$115 million a year for state and local road building and maintenance.

Provoking debate

Mr. McDonnell's idea to march in the other direction already has provoked a sharp debate.

Pro-tax liberals argue that the plan, which advanced in a House committee Wednesday, abolishes a needed source of government revenue while harming the environment by encouraging more driving. They also object to the governor's proposed tax on vehicles that run on electricity or natural gas, calling it the "Prius tax."

Anti-tax conservatives, meanwhile, point out that the proposal fails to ease the net tax burden on Virginians, given that the governor wants to replace the state's "outdated gas tax revenue model" by increasing the 5 percent sales tax to 5.8 percent.

Even advocates of greater highway spending and investment aren't thrilled with the proposal. "It just seems a little wild," said Greg Cohen, president of the American Highway Users Alliance in Washington.

That may be the best thing about the Republican governor's proposal: Whatever its flaws, the \$3.1 billion plan is so headline-grabbing that it has thrust critical but unexciting transportation and infrastructure issues to the policy forefront.

Mr. McDonnell doesn't need everyone to embrace his idea, just a majority of Virginia state legislators. Several key players, including the House leadership, already are on board.

"By investing over \$3.1 billion into our transportation system over the next five years, we can finally fix transportation in Virginia once and for all," House Speaker William J. Howell and his three top lieutenants said in a statement. "We fully support this proposal and will work hard for its passage in the House of Delegates."

Broken model

States have struggled in recent years to fund road-building as revenue from the longtime gas-tax model comes up short. Analysts attribute the declining revenue to the growing popularity of vehicles that run on alternative fuel and that get more mileage.

Mr. McDonnell's plan calls for eliminating the state gas tax of 17.5 cents per gallon, which already is about 30 cents lower than the national average. The state tax on diesel fuel would remain in effect, as would the federal gas tax of 18.4 cents per gallon.

The plan also would hike the state's vehicle registration fee by \$15 and tack on a \$100 fee for alternative-fuel cars, the rationale being that their drivers "pay no motor fuels tax at the state or federal level and thus do not contribute to the primary means of funding roads," according to the governor's office.

Mr. McDonnell also is counting on funding from the federal tax on Internet commerce to reach the \$3.1 billion figure. That is a hefty sum for badly needed road construction and repairs, but Mr. Cohen worries that eliminating the gas tax will weaken the argument for highway improvements.

"The problem with replacing it with the sales tax is that you're disconnecting the whole 'user-pay' principle," Mr. Cohen said. "Highway users are proud. We're willing to pay our own way and don't really want to be subsidized. If you take that away, we're just another special interest looking to the state legislature for money."

Critics argue that a simpler solution would be to index the gas tax to inflation, which several states do. Among the states that have not raised their gas tax rate in two decades or more are Virginia, Massachusetts and New Hampshire.

Virginia also does not allow local governments to levy their own gas taxes in order to fund county and city road projects.

In Maryland, the idea of allowing counties to impose their own gas taxes was broached by the Senate president last week. Sen. Thomas V. Mike Miller Jr., Prince George's Democrat, proposed allowing counties to levy up to 5 cents per gallon on top of the state gas tax, which hasn't been increased since 1992.

Jerry Taylor, senior fellow at the free-market Cato Institute, said he favors eliminating the federal gas tax and replacing it with a system of toll roads, which offer a more direct link between user and fee.

"You can make the argument that state dollars are fungible and dedicated charges are a nice fiction, and since the gas tax is not a very precise way to charge for road use, to heck with the whole process," Mr. Taylor said. "But the idea that the people who use the roads should pay for them is a good one."

The biggest beneficiaries of Mr. McDonnell's plan presumably would be residents of the District, Maryland and North Carolina who would be able to fill their tanks on the cheap with a trip to Virginia without necessarily incurring the state's higher sales tax.

Virginia's gas tax is already lower than those of Maryland and the District, which charge 23.5 cents per gallon of gasoline, according to the Federal Highway Administration.

"I live in the District, and I guess I would buy my gas out of state if that happened," Mr. Cohen said.