MEMORANDUM

Date: May 11, 2017

To: The Honorable Chair and Members
Pima County Board of Supervisors

From: C.H. Huckelberry
County Administrator

Re: ***Governing*** **Magazine Article Regarding Raising the Gas Tax in Other States**

Attached is another transportation revenue-related article that appeared in *Governing* magazine on May 8, 2017. The article discusses states that have already passed transportation financing laws and increased gas taxes in the past five years and the number of states that are likely to follow suit.

As you know, the County has advocated the Arizona Legislature increase the statewide gas tax for the last three to four years. We have had no success. This year, the Legislature had some initial discussions regarding legislation that would have referred a gas tax to the voters of Arizona or even allowed counties to impose a local gas tax. This proposed bill failed.

It is inevitable Arizona will follow suit with other states in raising transportation revenues through gas taxes, taxes on alternative fueled vehicles, or other actions. However, it is also likely these measures will not be successful for the next two to four years if a voter referral is part of the approval process. Hence, any road repair and pavement preservation relief for Pima County must be locally funded.

CHH/anc

Attachment

c: Carmine DeBonis, Jr., Deputy County Administrator for Public Works
Nanette Slusser, Assistant County Administrator for Public Works
Priscilla Cornelio, Director, Transportation Department

Raising the Gas Tax Is No Longer Taboo In Many States

Nearly half the states have increased fuel taxes in the past five years, suggesting it's perhaps not the political risk it was once thought to be.

BY: Daniel C. Vock | May 8, 2017

While raising the gas tax is still a politically treacherous idea in Washington, lawmakers in state capitals are increasingly coming around to it. Already this year, governors in California, Indiana and Tennessee signed laws to raise fuel taxes, meaning a total of 22 states have passed laws imposing higher gas taxes in the past five years. Chances are also good that the list will grow even longer this year.

"It is such an unusual thing to see nearly two dozen states boosting taxes in such a short amount of time," says Carl Davis, the research director for the left-leaning Institute on Taxation and Economic Policy (ITEP). But the reason so many states have gone ahead with fuel tax increases is because of support from business groups. "They're viewing [gas tax hikes] as economic development initiatives," he says.

Ratings agency analysts agree with the assessment. "These states' actions address investment needs that are critical to preserving and expanding their economies," wrote researchers at Moody's Investors Service last week. "Increasingly, states are moving to close the gap created by flat federal spending on transportation, mounting needs, more fuel efficient vehicles and the erosion of per-gallon gas taxes amid inflation."

For many of these states, the increases mark the first adjustment to fuel taxes in a generation. Indiana had gone 14 years without a change and Tennessee, 27 years. California passed a "fuel tax swap" that took effect in 2013, but it was not designed to bring in more revenue. This latest hike would be the first in 23 years.

The federal government has also gone a record-breaking 23 years without raising its gas tax. That lagging revenue has helped persuade state officials that they cannot depend on federal support to shore up their funding for roads, bridges, transit and other major transportation projects.

Indeed, the recent state-level embrace of higher gas taxes is a significant change from previous years. In the immediate wake of the Great Recession and the rise of the Tea Party, legislators didn't want to anger tax-averse voters.

But those fears may have been overblown. A new analysis by an industry group of roadbuilders shows that legislators rarely lost an election after voting to increase gas taxes. In fact, 91 percent of lawmakers who voted for gas tax hikes were re-elected in the next general election in the 16 states that increased fuel taxes between 2013 and 2015, according to the American Road and Transportation Builders Association.

Gas taxes won approval in a variety of political environments, the group noted. Nine of the 16 states were under all-Republican control, four had all-Democratic control and the rest were a mix. Republican lawmakers who backed the measures fared just as well running for re-election as their party colleagues who opposed them; 95 percent of both groups were re-elected. For Democrats,

the difference was small: gas tax supporters won 89 percent of the time, compared with 86 percent for opponents.

Those trends seem to be playing out again this year, as the gas tax hikes have come from all corners of the country.

California

Democratic Gov. Jerry Brown may be known as having a standoffish relationship with the legislature, but this year Brown immersed himself in the legislative process to get a 10-year, $54 billion transportation package to his desk. Because it raises taxes, the legislation required a two-thirds majority in both chambers. Brown pushed it along as he testified in committee, lingered outside a last-minute Assembly Democratic caucus meeting and brokered a deal to get the support of a Republican senator at the governor's mansion. The four-term governor made a total of $1 billion in side deals, but they resulted in a law that raises the gasoline tax by 12 cents a gallon and diesel taxes by 20 cents a gallon.

Despite Brown's efforts, the hike isn't without its critics. A Republican lawmaker has already filed the paperwork to start a bid to repeal the law through a ballot measure in 2018. Meanwhile, a conservative radio host is trying to spearhead a recall effort against a first-term Democrat who supported the tax measure.

Indiana

When Republican Gov. Eric Holcomb succeeded Mike Pence in the Indiana Statehouse, the prospects of a gas tax hike dramatically improved. Before Pence became vice president, he spoke out against a GOP-led effort in the legislature to raise the gas tax. This year, though, Holcomb backed a wide-ranging measure that would initially increase gasoline taxes by a dime a gallon, with penny increases each of the next seven years. The package also includes higher registration fees, particularly for electric vehicles, and the green light for the state to get federal permission to toll existing interstates.

Opponents of the deal came from both the right and the left. Democrats in the legislature wondered why Republicans wanted to raise taxes on consumers after years of cutting income taxes. The tax-averse Americans for Tax Reform, led by Grover Norquist, singled out Holcomb and nearly two dozen state legislators for violating the group's no-new-taxes pledge. Gas station owners even tried rallying their customers against the legislation.

Tennessee

Fuel tax hikes in Tennessee became law in large part because they were coupled with other tax breaks. Gov. Bill Haslam, a Republican, championed legislation that raised gas taxes by 6 cents a gallon and diesel taxes by 10 cents. The same law also reduced sales taxes on groceries and gave tax breaks to manufacturers. The overall effect was to decrease state revenues, which was covered by Tennessee's budget surplus. That's one reason Norquist and his group didn't make noise about the measure. But the Americans for Prosperity, a conservative group funded by the billionaire Koch brothers and their network, still objected to it.

And there was some resistance coming from both Democrats and Republicans along the way. But most Democrats in the legislature eventually voted for the measure, and the chair of the Democratic Party in one suburban Nashville county even suggested sending hand-written thank-you notes to the GOP lawmakers who supported it.

What's next?

Montana Gov. Steve Bullock, a Democrat, has repeatedly called for the GOP-led legislature to deliver him an infrastructure bill. Legislators responded by sending him a bill to raise the gas tax by 8 cents a gallon. Bullock has not yet signed the measure.

Davis, the ITEP analyst, is also keeping his eye on states like Alaska, Louisiana, Oklahoma, Oregon, South Carolina, West Virginia and Wisconsin. "There is a potential for this to be a very active year," he says.

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