

To: Transportation Committee
Transportation Subcommittee

From: Jennifer Carrier, Director of Transportation Planning

Date: January 16, 2018

Subject: Transportation Revenue Options

There is an immediate \$44.6 million need in Fiscal Year 2019 (starting July 1, 2018) to ensure the Connecticut Department of Transportation (CTDOT) services and transportation capital projects continue as planned this year. The need increases each year, resulting in a total need of over \$850 million over the next four years. If tolling is put in place in the state, tolling revenues would not become available until after 2022.

Attached to this memorandum is information that provides an overview of the Special Transportation Fund (STF), and potential impacts to the Connecticut Department of Transportation (CTDOT) 5-year Capital Plan if revenue options are not realized by July 1, 2018, when the STF will be in a deficit. We have also included a summary table of what other states have done to raise additional transportation revenue.

Revenue Options

Given the significant number of projects that DOT “indefinitely postponed” until new revenue is appropriated to the STF, CRCOG needs to consider short-term revenue options, until longer term options, such as tolling, can be understood. Two items to consider: a gas tax increase and motor vehicle sales tax modifications.

Gas Tax Increase

Connecticut’s gasoline excise tax is currently 25 cents per gallon, compared to 39 cents per gallon prior to the roll-backs that started in 1997. The table to the right identifies the gasoline excise tax rates and the total state taxes and fees charged for neighboring states. The total state taxes and fees amount is the sum of the state excise tax and other taxes (e.g. sales taxes, environmental fees) charged on gasoline, if any.

Gasoline Taxes of Nearby States		
State	State Excise Tax	Total State Taxes & Fees
Connecticut	25.00	39.30
Maine	30.00	30.01
Massachusetts	24.00	26.54
New Hampshire	22.20	23.83
New Jersey	10.50	37.10
New York	8.05	43.65
Pennsylvania	0.00	59.30
Rhode Island	33.00	34.00
Vermont	12.10	30.46

Reported from American Petroleum Institute (as of 11/1/2017)

The Governor’s Transportation Finance Panel completed a report in January 2016 that identified a number of recommendations to address the short-term and long-term transportation funding challenges. Included in these recommendations was an increasing of the gas tax by 2 cents a year for 7 years, bringing the tax back to 39 cents. It is CRCOG’s

understanding that the immediate need would be to increase the gas tax by 4 cents in FY2019, followed by 5 cents in FY2020 and 5 cents in 2021, for a total of 14 cents. [*This gas tax increase is expected to yield \\$55-60 million in FY2019 and \\$70-\\$75million in each 2020 and 2021 for a total of \\$195 and \\$210 million.*](#) This approach would put us in a similar total fees structure as New York in the first year and approaching the fee structure that Pennsylvania has in the longer term. All other neighboring states are lower than Connecticut's taxes and fees.

Considering more fuel-efficient vehicles, electric / hybrid fleets and driving / quality of life trends, the state's ability to meet transportation needs will not be sustainable in the long term with a gas tax revenue stream only.

Sales Tax – Motor Vehicles

State legislation was passed in 1998 to commit a portion of the taxes collected on motor vehicle sales to the STF. These revenues include motor vehicle sales tax revenues generated from "casual" sales or sales of automobiles between private individuals. The revenue generated from this averages approximately \$75 million per year however it only represents a small portion of the total taxes collected on car sales each year. A majority of the vehicle sales come from private dealers who remit the motor vehicle sales tax directly to the general fund (we understand this amounts to approximately \$350-\$400 million per year). In 2017 legislation was passed to begin phasing in all motor vehicle sales taxes into the STF starting in FY2021.

Considering this sales tax is already earmarked for the STF in the long term and there is an immediate transportation need, a modification of the legislation to dedicate the tax to the STF starting in FY2019 may be worth exploring. This funding would need to be replaced in the state General Fund which is also currently and projected to be in deficit. [*If a portion of the motor vehicle sales tax \(15% of an estimated revenue of \\$375 million\) was earmarked to the STF in FY2019, it is estimated this could generate approximately \\$56 million.*](#)

Staff Recommendation

Given the immediate need for STF revenue, funding options are limited. CRCOG staff feels the solution should be multi-faceted, including tax considerations, a lockbox, and program adjustments (e.g. privatization of rest stops) in the near term.

CRCOG's Executive Committee also generally discussed consideration of options that may also assist municipalities or benefit our region. One community also developed a 'road-use fee' structure that may warrant further discussion by a working group.

To further develop these transportation revenue options, CRCOG staff recommends forming a working committee to further develop these recommendations.

Attachment

Special Transportation Fund (STF)

The State's transportation system, including CTDOT operating costs and the services it provides, is financed with funds from the Special Transportation Fund (STF). Starting July 1, 2018 the STF will be in a deficit. A few of the factors that contributed to this strain include:

- A reduction of the gas tax in 1997 (resulting in a cumulative loss of \$4 billion)
- A decline in vehicle miles traveled and fuel efficient vehicles
- A diversion of \$37.5 million out of the STF to the 2016-2017 budget
- The amount of annual debt service is increasing significantly as repayment obligations on previously issued bonds are due

STF revenues are derived from a number of state transportation taxes, fees and income on motor vehicle fuels and motor vehicle sales. The first draw-down on these revenues is used for debt service on Special Tax Obligation (STO) bonds and to pay for certain transportation projects. Remaining funds must be used to pay for general obligation (GO) bonds issued for transportation projects and then to pay for budget appropriations for the CTDOT, Department of Motor Vehicles (DMV), and four other state agencies.

Since 2015 a few corrective actions were taken, such as the dedication of a one-half a percent (1/2%) of the state sales tax to the STF, a redirection of revenues from the state's sales tax on car sales to the STF (starting in 2021), and 'lockbox' legislation (scheduled to go to voters in November 2018).

The largest source of revenue for the STF is motor vehicle fuel taxes which includes taxes on gasoline, diesel, gasohol, propane or any combustible gas or liquid that generates the power needed to propel a motor vehicle. Revenues from these taxes average approximately \$500 million per year. The make-up of the current state motor fuel tax consists of: 25 cents per gallon tax on gasoline; 25 cents per gallon tax on gasohol; 41.7 cents per gallon tax on diesel fuel; 26 cents per gallon tax on natural gas or propane.

Potential Impacts

Given the condition of the STF, the Connecticut Department of Transportation (CTDOT) will have to revise its operating budget and its five-year capital plan drastically. A few of the DOT operating budget impacts include: a 15% reduction in DOT staffing, a complete closure of the rest areas, bus and rail fare increases, transit district cuts, and a reduction in Shoreline East. A few of the significant impacts to our region include:

- Local Transportation Capital Improvement Program (LOTICIP) revision to STP-Urban Program in 2019-2022
- Greater Hartford Transit District (GHTD) Union Station Improvements in Hartford
- Hartford Line (Design and Construction Phases for double tracking including additional station design and construction
- Charter Oak Bridge at Interchange 29
- Interstate 84 Viaduct Project
- Interstate 84 Operational Lane Construction in West Hartford
- Town Aid Road payments to towns (portion from STO Bonds)
- Local Bridge projects without a fully executed agreement
- Community Connectivity Program

Table 8.1: Successful State Plans to Raise Additional Transportation Revenue, 2012-2017

State	Year Enacted	Type of Revenue	Details
Arkansas	2012	General obligation bonds ½ cent statewide sales tax (for 10 yrs.)	State can issue \$1.3B in new general obligation bonds, mostly for a 4-lane state highway network. A portion of these revenues will be given to city and county governments to repair rural and local roads. The voters approved an increase in the statewide sales tax (half a penny) to repay the bonding. Bonds must be repaid in 10 years at which time the sales tax is rescinded. Intended for roads, and specifically a four-lane state highway network.
California	2017	Gas tax Diesel tax Vehicles fees	Raises \$52B in new transportation revenue by raising the gasoline tax by 12 cents (to 30 cents per gallon), increasing diesel taxes by 20 cents (to 36 cents per gallon) and creating a new annual fee on almost all vehicles based on value. It directs \$7.5B to transit capital and operations, \$1B into the state's Active Transportation Fund and reserves \$4B for bridge repair.
Delaware	2013	Tolls	Tolls on State Route 1 were raised by \$1 on weekends, which will generate \$20 million annually. The new funds will avoid cuts for the Community Transportation Fund which pay for local transportation projects, and will help raise revenue for road maintenance. Intended for state highways, road maintenance.
Delaware	2015	Vehicle fees License fees Vehicle sales tax	Generate \$23.9 million annually by increasing several vehicle and license fees, including a 0.5-percentage-point increase in the vehicle sales tax.
Florida	2014	Leased ROW near cell phone towers Tolls	Broad transportation package that includes new revenue from leasing right-of-way for cell phone towers near state roads and advertisements on state nature and recreational trails. It also calls for more toll roads. Intended for roads, and an increase of maintenance revenue.
Georgia	2015	Fuel excise tax Diesel tax Registration fee for electric vehicles Heavy vehicle impact fee Short-term lodging fee Local option sales tax	Increases fuel excise tax to 26 cents per gallon (29 cents per gallon for diesel). Indexes the excise fuel tax rates to both average vehicle fleet efficiency and the consumer price index (used until July 2018). Exempts fuel from current sales tax, except for the 1% that counties impose. Imposes new registration fees for electric vehicles (\$200/yr. for noncommercial, \$300/yr. commercial). Heavy vehicles registered in Georgia pay a highway impact fee annually of \$50 for vehicles between 15,500-26,000 lbs. and \$100 for weights greater than 26,000 lbs. Institutes a \$5-per-night fee for short-term lodging, made exclusively for transportation purposes in the state. Gives the ability to counties and groups of counties to impose a limited duration transportation purpose local option sales tax of up to 1% by ballot.
Idaho	2015	Gas tax Vehicle registration fees Hybrid/electric vehicle fee	Raises the state gas tax by 7 cents per gallon (to 32 cents per gallon) and increases annual registration fees to \$21 for cars, \$10 for motorcycles and \$25 for commercial and farm vehicles. Hybrids and electric cars now face an additional fee of \$75 and \$140, respectively, which will be distributed into the highway account. The bill also dedicates some excess dollars from the general fund to statewide roads projects. In total, the bill will increase revenues for transportation by \$94 million per year.

State	Year Enacted	Type of Revenue	Details
Iowa	2015	Fuel tax Vehicle registration fees	Increases fuel taxes by 10 cents per gallon and increases vehicle permit fees to raise \$215 million for roads and highways annually.
Indiana	2015	Fuel tax Truck registration fee Hybrid/electric vehicle fee Tolls	Increases fuel taxes by 10 cents per gallon and indexes rates to inflation (but limits increase to one cent per gallon per year). Adds a \$15 registration surcharge on large trucks. Adds a \$150 annual fee on electric vehicles and \$50 fee on hybrids. Dedicates revenue from sales tax on fuel to state highway accounts rather than the general fund. Repeals restriction on tolling and directs Indiana DOT to seek a waiver from USDOT to allow tolling on Interstate highways. The law will generate an estimate \$854 million in new annual revenue for state and local road projects.
Kentucky	2015	Fuel tax	Raises the floor on the assessed wholesale fuel price, setting the minimum tax to 24.6 cents per gallon. The current rate is 27.5 cents per gallon but the rate was expected to fall to 22 cents per gallon on the April 1 automatic adjustment date due to falling gas prices, so this act prevented a \$292 million cut in revenue.
Maryland	2013	Gas tax Transit fares	Indexes the gas tax to inflation starting immediately (with a ceiling of no more than 8% in any given year.) Adds a 3% sales tax at the pump, phased in over a period of three years starting summer 2013. Requires indexing transit fares charged by the MTA to inflation via the consumer price index. The sales tax on gasoline will increase to 4% if the congressional ban on internet sales tax is lifted, otherwise, the tax goes up 5% if Congress does not lift the ban. Modes aren't defined, but it does fund the unified state transportation trust fund which funds ALL modes. This will raise \$4.4 billion over six years, which includes borrowing ability against future revenues.
Massachusetts	2013	Gas tax Vehicle sales tax Tobacco product tax	Raises the gas tax 3 cents and indexes it to inflation. Requires MassDOT and MBTA to raise a greater portion of their costs—up to an additional \$229 million per year—from tolls, fees, fares and other sources and from efficiencies. Dedicates other state funds—including all proceeds from vehicle sales taxes—to transportation. Increases taxes on cigarettes and tobacco products
Michigan	2015	Gas tax Diesel tax Vehicle registration fee Hybrid/electric vehicle fee	In 2017 gas taxes will increase 7.3-cents-per-gallon and diesel taxes will increase 12.3-cents-per-gallon to bring both 26.3-cents per gallon. Fuel tax rates will be indexed to future inflation. Fuel tax increases are estimated to bring in \$400 million in new revenue. Another \$200 million in new revenue will come from a 20% increase in vehicle registration and new fees on hybrid and electric vehicles, also beginning in 2017. Additionally, the package dedicates general fund money to the highway fund, beginning with \$150 million in 2018 and ramping up to \$600 million per year from 2020.
Montana	2017	Gas tax Diesel tax	Increases gas tax 6 cents per gallon and diesel tax 2 cents per gallon by 2023 to raise \$27 million in additional annual revenue. Thirty-five percent of new funding (or at least \$9.8 million) is allocated to state highways and the remainder is allocated to local governments through a new construction and maintenance matching fund for local road, street and bridge projects.

State	Year Enacted	Type of Revenue	Details
Nebraska	2015	Gas tax	Raises the per-gallon gasoline tax by 6 cents over four years to a total of 31.6 cents per gallon. The tax would generate an additional \$25 million annually for the state and \$51 million for cities and counties once fully implemented.
New Hampshire	2013/2014	Gas tax Alternative fuels tax	Increases the per gallon tax by 4 cents. The funds raised are dedicated to rehabilitation and bridge repair projects for the next two years. It also adds bonds for the widening of I-93. (2013) Extends fuel taxes to fuels used by alternative fuel vehicles. (2014)
New Jersey	2016	Fuel tax Earned income tax credits	Increases fuel tax by 23 cents per gallon. The fuel tax hike will add \$1.23 billion annually to the state's transportation fund to pay for road and transit maintenance and construction projects. The bill also reduces the state's general sales tax by three-eighths of a percent, eliminates the estate tax, increases earned income tax credits.
North Carolina	2015	Gas tax	Reduces the gas tax in North Carolina from 37.5 cents to 34 cents per gallon by the end of 2016, but it amounts to a higher tax than what would have been calculated with the drop-in fuel prices and no changes to its calculation. Beginning in January 2017, the gas tax is automatically adjusted based 75% on population increases and 25% on changes in the Consumer Price Index. The result is a \$13.5 million reduction in transportation revenues in the short-term, but a \$400 million gain from changes in the calculation in the gas tax.
Ohio	2013	Tolls	Biennial state transportation budget: A plan that would authorize the Ohio Turnpike Authority to issue \$1.5 billion in new debt over 6 years to finance (roads-only) projects around the state. The debt would be repaid with increased turnpike tolls, and a large share of funds will be spent in Northern Ohio. (Though debts would be repaid with greater turnpike tolls, tolls for locals will be frozen for the next ten years. EZ pass transponder required.)
Oregon	2017	Fuel tax Vehicle sales tax Vehicle registration fee High-miles-per-gallon/electric vehicle fee Bicycle purchase tax Employee payroll tax	Raises \$5.3 billion over ten years for all types of transportation projects. The law increases the state fuel tax by 2 cents per year for a total increase of 10 cents per gallon. It adds a vehicle sales tax of 0.5 percent, increases vehicle registration fees and adds additional fees on high-MPG and electric vehicles. It also adds a \$15 tax on adult bicycle purchases. The law introduces a new 0.1% employee payroll tax with revenues dedicated to transit. This tax is expected to generate \$103 million annually.
Pennsylvania	2013	Gas tax Vehicle registration fee Licensing fee Truck weight fee Moving violation fines	Raises an additional \$2.3 billion per year, including \$1.65 billion for highways and \$476 million for transit. Establishes a first-of-its-kind, \$144-million-per-year Multimodal Transportation Fund for local economic development. Will allocate an additional \$220 million to local governments (a 60% increase). Eliminates the per-gallon gas tax. Increases the sales tax on gas assessed at the wholesale level (by gradually eliminating the cap on taxable value and replacing it with a floor) Increases vehicle registration, licensing and truck weight fees and moving violation fines

State	Year Enacted	Type of Revenue	Details
Rhode Island	2014	Vehicle fee Rental car tax Gas tax	Directs revenues from vehicle fees and rental car taxes to the state highway maintenance fund, increases the gas tax by approximately one cent in 2015 and sets it to inflation for future years, and calls for a statewide referendum to approve issuing \$35 million in bonds to fund multi-modal transit hub infrastructure which was approved in November 2014.
South Carolina	2017	Fuel tax Vehicle registration fee Hybrid/electric vehicle fee	Increases fuel tax by 12 cents per gallon, phased in over the next six years. Increases registration fee by \$16, add \$60 biannual fee on hybrid vehicles and \$120 biannual fee on electric vehicles. When fully implemented, the new taxes and fees will bring in approximately \$730 million annually for road construction and maintenance projects across the state.
South Dakota	2015	Fuel tax Vehicle sales tax Vehicle registration fee Vehicle weight fee Local option property tax Local option county vehicle registration fee	Increases motor fuels taxes by six cents-per-gallon (to 28 cents per gallon) to raise an extra \$40.5 million annually; increases vehicle sales tax by one percentage point, for an extra \$27-\$30 million annually; increases vehicle registration and weight fees; expands abilities for counties and townships to levy local option property taxes for road and bridge repair and construction (with approval by voter referenda) and increases optional county vehicle registration fees; and creates a local bridge improvement competitive grant fund.
Tennessee	2017	Gas tax Diesel tax Vehicle registration fee Electric vehicle fee Local option sales tax, business tax, car rental tax, hotel/motel tax, residential development tax, wheel tax, or transit tax	Raises the gas tax by 6 cents per gallon to 27.4 cents per gallon and raises the diesel rate 10 cents to 28.4 cents per gallon, increases registration fees, and adds a new fee for owners of electric vehicles, bringing in \$350 million per year for road projects. From the new revenue, \$250 million will go to state highway projects and \$100 million will be directed to cities and counties for local road projects. Cuts the sales tax rate on groceries from 5 to 4 percent, and cuts the franchise and excise tax on manufacturers. The law also allows the most populous cities and counties to increase local sales tax, business tax, car rental tax, hotel/motel tax, residential development tax or wheel tax, with approval through a voter referendum. A local government must approve a detailed transit improvement plan before levying a local transit tax.
Texas	2015	State sales tax	Sets aside future state sales tax revenue to fund highways. Specifically, \$2.5 billion of the state sales tax revenue will be reserved for transportation, so long as overall sales tax receipts are at least \$28 billion (approximately the collections this year). Additionally, 35% of revenue growth from taxes on vehicle sales and rentals will be set aside for transportation beginning in 2020, netting \$250 million to \$350 million annually. All revenues under this amendment would be dedicated to constructing non-toll highways (or servicing debt for such construction).

State	Year Enacted	Type of Revenue	Details
Utah	2015	Gas tax Diesel, natural gas, hydrogen tax Local option ¼ cent sales tax	Raises the tax on gas from 24.5 cents per gallon to a 12% assessed rate beginning January 1, 2016, with a floor on the gas tax rate 5 cents per gallon higher than today and able to increase up to an assessed tax of 40 cents per gallon. On diesel, natural gas, and hydrogen it incrementally increases the tax rate to 16.5 cents by July 1, 2018, (an increase of 8 cents per gallon for diesel and natural gas and a new 16.5 cents per gallon equivalent tax applied to hydrogen). A road-usage charge revenue system will be studied for potential future implementation in the state. The bill also enables counties to raise a quarter-cent local sales tax to fund local roads, transit, bicycle or pedestrian infrastructure or other transportation projects. This package will increase state transportation revenue by \$76 million by FY2017.
Vermont	2013	Gas tax Diesel tax	Raises \$28 million annually by adding new 2% sales tax assessment to gasoline, reducing gas tax from 20 cents to 19.2 cents and issuing a \$9 mil. bond to be repaid with existing revenues. Passed through a transportation budget bill, goes into effect on May 1, 2013. Diesel per gallon tax will rise three cents over two years, starting July 1, 2013.
Virginia	2013	Sales tax Local tax in 2 regions Sales tax Real estate transfer tax Hotel tax Gas tax Vehicle registration fee Hybrid vehicle fee Internet sales tax	Sales taxes: Directs 0.175% of existing sales tax revenues to transportation; raises sales tax by .3% with 1.25% of the increase dedicated to transit and passenger rail. (Statewide sales tax increases from 5% to 5.3%). Local taxes: Imposes mandatory taxes in two regions: in Northern Virginia, increases sales tax by .7% and adds 15 cents per \$100 assessed value to real estate transfer tax along with a 2% increase in hotel tax); in Hampton Roads it increases sales tax by .7% and adds a 2.1% wholesale tax on gasoline. Gas tax: Eliminates the cents per gallon tax on gasoline and diesel; adds a 3.5% wholesale tax on gasoline and 6% on diesel (wholesale tax increases by 1.6% in 2015 if the Internet sales tax ban is not lifted). Vehicle fees: Adds a \$64 fee on hybrid vehicles and raises the motor vehicle sales and use tax by 1.15%. Other fees: Direct a portion of internet sales tax receipts to transportation if Congressional ban is lifted, which would raise \$1.13 billion over five years.
Washington	2015	Fuel tax Vehicle weight fee License fee Vehicle sales tax Sales tax Property tax Local option vehicle fee	Raise \$16.1 billion by increasing the fuel tax by 11.9 cents per gallon over two years and increasing vehicle weight and driver's license fees. Directs \$8.8 billion to new state and local highway construction projects, \$1.4 billion to road repair, and \$1 billion to transit, pedestrian, and bike projects. Allows Sound Transit to impose a vehicle tax of up to 0.8%, an additional 0.4% sales tax, and/or a property tax of 25 cents per thousand dollars by referendum; increase the cap on local option vehicle fees from \$20 to \$40 (if the local district has imposed a \$20 fee for at least two years, up to \$50 if the district imposed a \$40 fee); allow transit benefit districts to impose a sales and use tax of up to 0.3% by referendum; and allow for the creation of passenger ferry funding districts.
West Virginia	2017	Fuel tax Vehicle sales tax Vehicle registration fee	Raises the floor on the variable-rate fuel tax by 3.5 cents per gallon (from 11.7 cents to 15.2 cents per gallon), increases the motor vehicle sales tax from 5 percent to 6 percent and increases various motor vehicle fees. The law will raise an additional \$140 million annually for road projects.



State	Year Enacted	Type of Revenue	Details
Wyoming	2013	Gas tax	Raise \$70 million annually by increasing the gas tax ten cents per gallon. Intended for highways only.

Source: *Transportation for America*.