

**TESTIMONY OF
STEVEN JEFFREY
VERMONT LEAGUE OF CITIES AND TOWNS
SENATE TRANSPORTATION COMMITTEE
WEDNESDAY, JANUARY 28, 2015
TEMPORARY GAS TAX FOR MUNICIPAL/STATE
TRANSPORTATION FUNDING NEEDS**

Good morning and thank you for the opportunity to testify on a possible funding source to meet some urgent transportation needs Vermont municipalities and the state are facing.

The idea is the imposition of a temporary gas tax to be in effect only during the period that gasoline costs continue to be at low levels unseen since the depths of the Great Recession.

The Proposal

The concept is to add a two-cent increase in the gasoline tax for the period during which the tax-adjusted retail price drops below a series of price points. That price is defined in statute and is the trigger you currently use for determining the base price for the transportation infrastructure assessment and the fuel tax assessment. The draft bill provided (no pride of authorship on my part), would have the first two-cent temporary tax trigger on when the tax-adjusted price for the previous quarter dropped below \$2.75 (it is currently at \$2.736). The draft bill calls for two more, two-cent temporary tax levels -- one if the price falls below \$2.50 and then the other if it falls below \$2.25.

The tax-adjusted price reached its recent peak in June of 2012 at \$3.419. If you were to enact the VLCT proposal, Vermonters would pay two-cents more for the \$.68 price drop that we are already reaping the benefits of, and if the price continues to go down pay two-cents in taxes of each \$.25 the price drops for a possible total of six-cents, if we can be so lucky.

According to the Joint Fiscal Office's Fiscal Facts, the gas tax is estimated to bring in \$3.2 million per penny. The first two-cent tax could generate \$6.4 million if we were lucky enough to have the price below \$2.75 for a year and \$19.2 million a year if we go below a \$2.25 tax-adjusted price. If demand picks up due to the price drop, we could see even higher revenues. That amount could make a nice down payment on the Governor's plan to clean up Lake Champlain, help fund other municipal grant programs for which there is tremendous demand and -- with the fix of putting a floor on the TIB assessment -- could close the funding gap that has opened in the Transportation Fund for FY16.

Just in case we are lucky enough for prices to stay down semi-permanently, I have included a sunset date of June 30, 2020 so that it is indeed a temporary tax as advertised. You are free to adjust that date, along with the rest of the bill, in case you need my permission.

The Need

The first need is to assist municipalities make improvements in their highways to aid in the cleanup of Lake Champlain and our other impaired waterways. The *Act 138 Water Quality Remediation*,

Implementation, and Funding Report was presented by the VT Department of Environmental Conservation (VDEC) to the legislature on January 14, 2013. The second clean water priority need identified in the Report after "developed land stormwater runoff" is the following:

1.2. Unregulated Stormwater Runoff from Road Networks

Annual Cost: \$10.5 Million

There are over 14,000 miles of public roads in Vermont, nearly all of which require ditches and culverts for water drainage. If these structures are not properly constructed and maintained, there is significant potential for erosion of sediment into the drainage network and adjoining streams.²⁴ Sediment erosion and the associated nutrient loading from roads and their drainage networks can be reduced through implementation of good erosion control and water quality protection practices during road construction and maintenance. About 80 percent of the public road miles in Vermont are maintained by towns. Municipalities need increased technical and financial assistance to help them install water quality protection structures and implement practices for their road drainage networks. This cost estimate needs to be informed by the municipal stormwater infrastructure "Needs Survey," referred to in Section 1.15.

Actions Needed

- *Provide outreach and training to towns in road management practices for water quality protection.*
- *Provide state grant funding to towns to implement road management practices for water quality protection and to comply with the water quality and flood protection practices in the Vermont Agency of Transportation's Town Road and Bridge Standards.*

That report estimated that the \$10.5 million annual cost will be required for ten years.

The second area of need is to increase assistance for two very effective state grant programs for towns -- the structures and the Class 2 roadway programs. As the following charts show, these programs are chronically under-funded:

Structures (FY)	Funded (\$)	Demand (\$)	% Funded
2015	7,873,440.75	16,307,490.49	48%
2014	7,143,618.21	14,732,847.96	48%
2013	5,895,913.10	20,169,300.94	29%
2012	4,980,186.09	12,369,236.93	40%
2011	5,678,055.31	15,751,512.92	36%

Class 2 (FY)	Funded (\$)	Demand (\$)	% Funded
2015	7,775,232.25	23,300,405.28	33%
2014	7,044,270.54	23,767,843.59	30%
2013	7,473,308.68	26,141,476.43	29%
2012	7,086,130.11	26,017,149.57	27%
2011	7,157,194.72	27,683,139.69	26%

Lastly, I heard a figure of about \$6 million that the Transportation Fund might be short for FY16, due to the absence of a floor for the gas price on which the TIB assessment is made. That fix

needs to be made regardless, but some of the proceeds of this temporary gas tax could make up for any revenue lost prior to the floor going into effect.

What the draft bill proposes is that one-third of the revenue goes to towns to improve their roadways to reduce sediment runoff, one-sixth goes to each of the structures and Class 2 roadway programs and the balance (the other third) go toward state Transportation Fund needs:

VLCT Temporary Gas Tax Beneficiaries	Two-cent Tax	Four-cent Tax	Six-cent Tax
Total (in millions)	\$6.40	\$12.80	\$19.20
Town Highway Lake Cleanup Activities	\$2.13	\$4.26	\$6.39
Structures Grant Program	\$1.07	\$2.14	\$3.21
Class 2 Roadway Grant Program	\$1.07	\$2.14	\$3.21
State Transportation Needs	\$2.13	\$4.26	\$6.39

The Time is Now

As mentioned above, Vermont gas prices have dropped twenty percent in 18 months. The state economists project that Vermonters will save more than \$600 million in reduced energy costs in 2015.

Vermont's gas taxes are relatively high -- \$.5037 according to the American Petroleum Institute and is 13th highest state but that is only two cents higher than the \$.48.29 average in the U.S.

Governors and legislators in many other states, regardless of party affiliation are proposing to address their transportation infrastructure backlogs -- the Michigan governor and legislature has put a ballot item before the people in May. Maryland, Virginia and Pennsylvania raised theirs effective January 1. Seven other states had already joined Vermont in raising their over the past two years. Iowa, South Dakota, Nevada, Utah, New Jersey and Louisiana legislators and governors are all discussing raising their gas taxes this year.

Lower prices may stimulate increased driving and the potential for people returning to buying fuel inefficient vehicles. A temporary gas tax would help dampen that potential demand and the increases in our carbon footprint that would generate.

The New York Times opined a week ago Sunday, stating that "the results of [a federal gas tax increase] could only be beneficial: for the nation's roads, bridges and transit systems, which badly need repair; for the budget; and, to the extent that higher taxes encourage greater fuel efficiency, for the climate.

We Can't Wait for the Feds

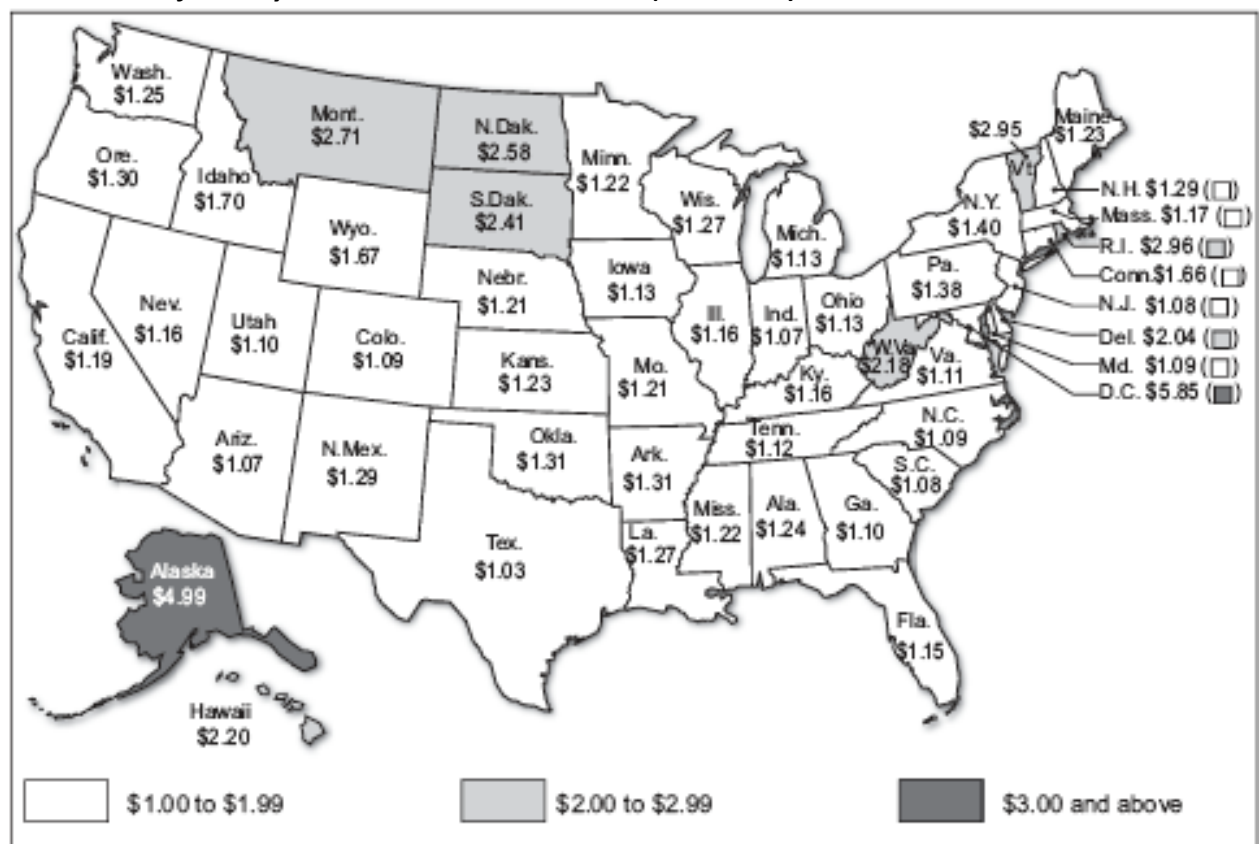
President Obama and House Speaker Boehner have both voiced skepticism about a federal gas tax increase, despite a Republican Senator from South Dakota proposing one.

The current gridlock in Washington makes anything more difficult for passage, particularly new taxes. This stalemate over the federal Highway Trust Fund predates this current issue and is based on the knowledge of "donor" and "receiving" states under any formula the feds may finally land on.

The map below is from the Vermont Transportation Funding Option Section 40 report presented to you in 2013. You see that during the period 2005 to 2009 Vermont received \$2.95 for every dollar we sent to DC. That went down during the most recent reauthorization and will only get worse from Vermont's perspective if it is reauthorized again.

Looking at the map, it is no wonder that a senator from South Dakota would lead the charge for more revenues for the federal program. Being from the majority party, he has more of a chance of preserving his return ratio.

States' Return for Every \$1.00 Contributed to the HTF (2005-2009)¹



Dollars we send to DC, come back with all sorts of strings attached and a myriad of set asides for projects that only tangentially benefit the users of our highways and bridges. The dollar that comes back is a lot smaller than the one we send down there.

Waiting for Washington to act gives us less of a window to take advantage of the low prices.

The VLCT Board of Directors voted on Thursday to support this proposal and we hope to work with you on this soon.

Thank you.