

# ISSUE BRIEF

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## Virginia and Maryland's Transportation Plans Fuel Tax Hikes, Not Mobility

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The federal government's ultimate goal for transportation should be to devolve the resources and decision making to the states, who know their transportation needs better than Washington does.<sup>1</sup> Embracing devolution, however, does not equate to an endorsement of ill-conceived, misguided policy prescriptions. Two such examples are the plan recently passed by the Virginia General Assembly (HR 2313) and originally proposed by Governor Bob McDonnell (R) and the Transportation Infrastructure Investment Act of 2013 (HB 1515) under consideration in Maryland, a variation of Governor Martin O'Malley's (D) "Transportation Investment Plan."

Instead of trimming their budgets or reevaluating and reprioritizing their transportation spending, McDonnell and O'Malley have opted for tax hikes to fuel enormous transportation spending sprees, including on transit. Both governors plan to impose massive tax hikes on motorists and taxpayers, but they fail to address one big, lurking problem: wasteful deployment of resources, especially to programs that do not improve mobility. This flawed approach will only harm their state economies and further wring taxpayers' pocketbooks.

**Both Plans Raise Taxes.** Both the federal government and states are finding it a challenge to pay for legitimate transportation projects during this time of constrained budgets. The federal per-gallon gas tax has not been raised since 1993, and inflation has decreased the purchasing power of the revenue collected; many state gas taxes similarly have been left unchanged. Federal fuel tax revenues, for example, are projected to decrease and plateau, particularly as fuel-efficient vehicles and higher mileage standards lead to less fuel consumption.<sup>2</sup>

States and the federal government also divert a share of these revenues to a variety of programs that do little or nothing to reduce congestion, including transit but also bike paths and nature trails. Thus, Washington and the states are increasingly unable to cover highway and bridge maintenance costs, much less capital costs for adding capacity to reduce congestion.

McDonnell's and O'Malley's plans adopt a zealous approach to raising new revenue. Consequently, they have failed to consider whether the money would fund projects that cost-effectively move goods and people or benefit those funding them. Both plans consist of huge tax hikes, are tremendously complex, and contain provisions that rely on Congress passing flawed legislation.<sup>3</sup>

**Failure to Fix the Transit Problem.** Simply raising fuel and sales taxes—only to allow costly, ineffective programs, including subsidized transit, to bleed those new revenues—fails to solve the underlying problem of misguided spending.

Virginia's new plan will send 58 percent of revenues from the 0.3 percent sales tax increase to its Highway Maintenance and Operating Fund, but the

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TABLE 1

## Virginia and Maryland: State Taxes in Transportation Funding

VIRGINIA (PASSED)	POLICY	MARYLAND (PROPOSED)
<b>Yes.</b> Up to \$3.5 billion in new revenue over five years.	Overall tax increase?	<b>Yes.</b> Up to \$3.4 billion in new revenue over five years.
<b>Yes.</b> Eliminates 17.5 cents-per-gallon tax.	Eliminate gas tax?	<b>No.</b> But reduces the 23.5 cents-per-gallon tax on gasoline by 5 cents to 18.5 cents and then indexes it to the Consumer Price Index (CPI) to adjust to inflation.
<b>Yes.</b> Replaces gas tax with a 3.5 percent wholesale tax on motor fuels that will rise with inflation.	Addition of motor fuels tax?	<b>Yes.</b> Imposes a phased-in wholesale tax on motor fuels of 2 percent in July 2013 and then increases it to 4 percent in July 2014.
<b>Yes.</b> Increases sales tax on nonfood items from 5 percent to 5.3 percent.	Change to state sales tax?	<b>No.</b>
<b>Yes.</b> Dedicates more general fund revenue to transportation.	Reallocate general revenues?	<b>No.</b>
<b>Yes.</b> Increases sales tax to 6 percent in Northern Virginia and Hampton Roads, with the new revenue going only to transportation in those areas.	Impose regional sales tax?	<b>No.</b>
<b>No.</b>	Index transit fares?	<b>Yes.</b> Indexes the Maryland Transit Authority fares to CPI.
<b>Yes.</b> Requires a portion of new revenue to go to transportation. Backup plan would trigger a 5.1 wholesale tax instead of 3.5 percent.	Tax Internet sales?*	<b>Yes.</b> Requires a portion of new revenue to go to transportation. Backup plan would trigger a 6 percent wholesale tax instead of 4 percent.
<b>Yes.</b> Doubles fee for electric cars from \$50 to \$100, and applies the fee to alternative fuel and hybrid vehicles as well.	Increase registration fees for electric and similar vehicles?	<b>No.</b>

\* These revenues depend on congressional passage of the Marketplace Fairness Act (H.R. 684 and S. 336). Each state plan has a backup trigger to increase revenue if Congress does not pass this legislation. For information on this issue, see David S. Addington, "Congress Should Not Authorize States to Expand Collection of Taxes on Internet and Mail Order Sales," Heritage Foundation *Backgrounder* No. 2676, April 6, 2012, <http://www.heritage.org/research/reports/2012/04/congress-should-not-authorize-states-to-expand-collection-of-taxes-on-internet-and-mail-order-sales>.

**Sources:** Virginia Legislative Information System, "HB 2313 Revenues and Appropriations of State; Changes to Revenues Collected and Distribution, Report," <http://lis.virginia.gov/cgi-bin/legp604.exe?131+sum+HB2313> (accessed March 14, 2013); and news release, "Governor O'Malley, Senate President Miller, House Speaker Busch Propose Transportation Investment Plan," Maryland Department of Transportation, March 4, 2013, [http://www.mdot.maryland.gov/News/Releases/2013March4\\_Transportation\\_Investment\\_Plan.html](http://www.mdot.maryland.gov/News/Releases/2013March4_Transportation_Investment_Plan.html) (accessed March 14, 2013).

1. See Emily Goff, "Transportation and Infrastructure Policy: More State and Less Federal Control," Heritage Foundation *Issue Brief* No. 3875, March 13, 2013, <http://www.heritage.org/research/reports/2013/03/transportation-and-infrastructure-policy-more-state-and-less-federal-control>.
2. Congressional Budget Office, "Projections of Highway Trust Fund Accounts Under CBO's February 5, 2013 Baseline," February 2013, [http://www.cbo.gov/sites/default/files/cbofiles/attachments/43884\\_HighwayTrustFundAccounts\\_0.pdf](http://www.cbo.gov/sites/default/files/cbofiles/attachments/43884_HighwayTrustFundAccounts_0.pdf) (accessed March 22, 2013).
3. See David S. Addington, "Congress Should Not Authorize States to Expand Collection of Taxes on Internet and Mail Order Sale," Heritage Foundation *Backgrounder* No. 2676, April 6, 2012, <http://www.heritage.org/research/reports/2012/04/congress-should-not-authorize-states-to-expand-collection-of-taxes-on-internet-and-mail-order-sales>.

remaining 42 percent will be diverted to mass transit.<sup>4</sup> This means a lower-income citizen in southwestern Virginia, for example, would be subsidizing with every nonfood purchase his more affluent Northern Virginia neighbors' commutes. Forcing this transfer of income will not serve the state well.

While it is unclear how much of its new revenue Maryland would funnel into transit, past experience suggests that future diversions are likely. From 2008 to 2012, the Maryland Department of Transportation spent about 50 percent of its highway and transit funding on transit, even though as of 2012, transit accounted for only 9 percent of the state's commuting and 4 percent of all travel.<sup>5</sup> O'Malley and state lawmakers have also diverted money from the Transportation Trust Fund to shore up the general fund, including \$370 million in fiscal year 2010 alone. Though the plan under consideration contains a provision to bar future transfers, it would be via statute and not the state constitution, making it easier to open and raid the transportation funding "lockbox."

Both McDonnell and O'Malley would continue such diversions, partly because their states are scrambling for funds necessary to secure federal grants for planned multi-billion-dollar Metrorail system extensions: the Silver Line to Dulles Airport, the new Purple Line, and the Baltimore Red Line extension.

This proposed spending is particularly unwise; the new line to Dulles, for example, would lead to a negligible and fleeting reduction of traffic congestion—at a huge cost to taxpayers.<sup>6</sup>

Metro is already plagued by poor management and high operating costs, and it has resisted

competitive contracting that would reduce costs and lead to better service. Equipment breakdowns and driver error often interrupt Metro service. Given the system's high costs and history of budget and performance problems, expansions such as those Virginia and Maryland are considering would make these problems worse.

Moreover, transit in general, even after decades of subsidies, has failed to reduce traffic congestion or air pollution or provide low-income citizens with *practical* transportation alternatives to access jobs.<sup>7</sup>

**What About "User Pays?"** McDonnell and other lawmakers view the gas tax as outdated and increasingly ineffective. The gas tax is not a perfect funding method, but it is easy to collect and largely links the system's users to its costs. By contrast, Virginia's new sales tax—borne by all citizens—has minimal relationship to roads. As transportation expert Ronald D. Utt warns, which modes receive funding "will be determined by politics, not consumer choice, and the influential unions and environmentalists will be in a much better position to shift spending from cost-effective roads to costly and heavily subsidized and underutilized trolleys, trains, buses and bicycles."<sup>8</sup>

An overhaul of transportation funding may be necessary, but the sales tax hike is hardly the panacea some lawmakers would make it out to be.

**Better Solutions to Pursue.** Lawmakers could better use public funds and achieve the levels of mobility needed to facilitate economic growth by pursuing the following reforms:

- **Dismantle barriers to public-private partnerships (P3s).** State and federal lawmakers

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4. "H 2313, approved," Virginia Legislative Information System, <http://lis.virginia.gov/cgi-bin/legp604.exe?131+ful+HB2313ER> (accessed March 15, 2013).

5. Wendell Cox and Ronald D. Utt, "Rethinking Maryland's Proposed Gas Tax Increase," Maryland Public Policy Institute, February 1, 2012, [http://mdpolicy.org/docLib/20120314\\_RethinkingMDProposedGaxTax.pdf](http://mdpolicy.org/docLib/20120314_RethinkingMDProposedGaxTax.pdf) (accessed March 19, 2013). See also Wendell Cox and Ronald D. Utt, "A New Transportation Plan for Maryland," Maryland Public Policy Institute, March 18, 2013, [http://www.mdpolicy.org/docLib/20130318\\_ANewTransportationPlanForMaryland.pdf](http://www.mdpolicy.org/docLib/20130318_ANewTransportationPlanForMaryland.pdf) (accessed March 21, 2013).

6. Wendell Cox and Ronald D. Utt, "Dulles Rail Boondoggle Exposes Flaws in Federal Transportation Policy," Heritage Foundation *WebMemo* No. 1824, February 25, 2008, <http://www.heritage.org/research/reports/2008/02/dulles-rail-boondoggle-exposes-flaws-in-federal-transportation-policy>.

7. Wendell Cox, "Transit Policy in an Era of the Shrinking Federal Dollar," Heritage Foundation *Background* No. 2763, January 31, 2013, p. 1, <http://www.heritage.org/research/reports/2013/01/transit-policy-in-an-era-of-the-shrinking-federal-dollar>.

8. Ronald D. Utt, "Governor McDonnell's Seppuku Transportation Plan," BearingDrift.com, January 9, 2013, <http://bearingdrift.com/2013/01/09/governor-mcdonnells-seppuku-transportation-plan/> (accessed March 15, 2013).

should act to end federal tolling restrictions on interstate highways, allowing states to expand P3 usage and leverage private-sector dollars for a small-scale upfront investment.

- **Phase-out the federal transit program.** Congress should end rich federal subsidies by returning decision making and funding to the states on a five-year “glide-path”; states should then introduce cost-saving measures in their transit programs or fund more affordable and effective programs.
- **Commit to living within their means.** While difficult, budget constraints can force lawmakers to prioritize their spending and

fund only those programs that improve mobility and safety and reduce congestion.

**Rethink Transportation Funding.** In addressing transportation funding challenges, lawmakers should avoid saddling their citizens with onerous tax increases. Instead, they should examine current spending and rethink costly, underperforming programs in order to efficiently deploy resources while living within their means.

The onerous tax hikes that Virginia and Maryland would impose on their motorists, consumers, and businesses do not meet this test.

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