Funding Indiana's Roads for a Stronger, Safer Tomorrow

Task Force Report

Information Brief

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Summary

The Task Force believes Indiana's road transportation system is underfunded, there is an immediate need to upgrade the interstate, state and local roads/bridges and that it will require increases in taxes and other user-related fees to pay for the improvements. Several members of the Task Force estimated the need for new funding is about $1 billion per year.

Introduction

Funding Indiana's Roads for a Stronger, Safer Tomorrow Task Force was commissioned in House Enrolled Act 1001 (2016), a comprehensive measure to increase state and local road funding. Among other things, the act:

- Allowed local governments to impose a motor vehicle excise surtax and/or wheel tax;
- Released early more than $500 million in local option income tax reserves;
- Transferred excess state revenue to a new local road and bridge matching fund;
- Established local assessment plans to determine and prioritize projects and funding.

The FIRSST Task Force included 16 members, half of them legislators. The others represented local governments, industry and transportation-related interest groups. The Task Force met five times beginning in July and took testimony at all but the last meeting today. More than 20 people testified, including national, state and local transportation experts. The full committee report is available at: http://iga.in.gov/legislative/2016/committees/roads_for_a_stronger_safer_tomorrow_task_force_indianas

The Task Force was ordered to review state highway and bridge needs, verify those needs at the local level, develop a long-term plan for state highway and major bridge needs, which included sources for sustainable funding. The 12-page final report was adopted by a 10-1 vote today. It will be used as the basis for legislation to be introduced in the 2017 General Assembly.

Task Force Findings

The entire report is predicated on the philosophy that users should bear the costs related to any projects contemplated by the General Assembly. "A quality network of roads and bridges is critical to Indiana's economic success and that the continuous improvement of our transportation infrastructure is a necessary and appropriate cost that must be borne by the beneficiaries of the system in proportion to their use," the report noted.

Current funding levels are in sufficient to meet the "critical transportation and infrastructure needs" of the state. Lawmakers must identify new sources of revenue to meet the needs, at both the state and local levels.

The Indiana Department of Transportation presented a 20-year plan the Task Force called a good proxy for its priorities, although the report emphasized the final priorities will be determined by careful reviews including a data-driven formula determine need and priority.

The INDOT plan estimates it will take $390 million a year to bring 95 percent of Indiana's roads to a "fair" or better rating at the end of 20 years. It will take another $400 million to upgrade bridge needs to similar levels. The was no estimate of the costs necessary to do the same work to local roads and bridges maintained by counties, cities and towns.

In making its pitch, the task force stressed "delivering value to the users of Indiana's transportation infrastructure is of utmost importance and should be emphasized," and that "the public must be assured that any additional fees assessed for the use of Indiana's roads and bridges will be used to improve those roads and bridges in the most efficient and effective manner possible." Clearly Task Force members sensitive to raising taxes among other means to pay for the program want to make sure the public understands why it's happening.

A dozen potential revenue sources are identified. A toll on the number of miles a vehicle travels is not among them. Currently Oregon is the only state to use a VMT, although studies indicate it is the surest way to connect road use with a fair share of cost.

The 12 revenue sources suggested as options by the Task Force are:

1. Increase the 18-cents per gallon gas tax, which was last increased in 2003.
2. Increase the 16-cents per gallon special fuel tax assessed on suppliers of diesel, bio-diesel and natural gas product, which was last increased in 1988.
3. Increase the 11-cents per gallon motor carrier surcharge assessed on the total amount of fuel used by carriers, which was last increased in 1988.
4. Index the rates of these three taxes on an annual basis.
5. Implement road use fees on alternative fuel, electric and other vehicles.
6. Explore tolling on state-controlled highways and interstates.
7. Implement a per-vehicle fee on all vehicles registered in Indiana
8. Increase the tire-disposal fee.
9. Shift more revenue from the sales tax on gasoline from the general fund to dedicated transportation funds.
10. Improve overweight truck enforcement through electronic monitoring of weights and permits.
11. Increase fees related to the International Registration Plan
12. Consider limited debt financing of projects.

Analysis

By tying road and bridge improvements to user-related taxes and fees, the Task Force is taking the first step in selling the public on a comprehensive transportation improvement plan. This plan is a long time coming. The 1993 adoption of gambling in Indiana and the 2005 Major Moves plan in large part reduced the imperative for a comprehensive transportation plan. These milestones injected billions of dollars into the transportation system, which reduced pressure to implement a comprehensive plan.

Legislation has been introduced in the House of Representatives over the last several sessions, however, to consider a comprehensive plan. Those ideas are included in HEA 1001 that was enacted in the General Assembly's last session and are the foundation of the Task Force's report issued today. Barring unforeseen complications, it's highly likely the General Assembly will approve, and Gov.-elect Eric Holcomb will sign, a comprehensive long-term transportation improvement plan this session.

While the report provides clear guidance on the scope of work and revenue potential available on the state level, it is less so on the local level. It is likely lawmakers will wait to see how changes enacted in HEA 1001 perform before making any more changes to local funding sources.

On the project side, the INDOT's recommendations include adding lanes to Interstates 65 and 70 from border-to-border, upgrading U.S. 30 between Fort Wayne and Valparaiso, an Interstate 69 bridge across the Ohio River in Evansville, finishing I-69 between Martinsville and Indianapolis, and continuing improvements on U.S. 31 between South Bend and Indianapolis.

While the Task Force report embraced the INDOT projects, it suggested final choices should rest on "a data-driven, comprehensive and sustainable long-term plan." The report urges the General Assembly to direct INDOT to:

- Develop road and bridge metrics that consider condition, congestion, safety and economic contribution;
- Benchmark Indiana's roads and bridges against other states;
- Develop "clearly articulated goals" regarding condition, congestion-mitigation, safety improvement and economic impact that's measurable and reported regularly'
- Create a multi-variant statistical model to prioritize projects and predict future funding needs. The model should be used as a "guide and not a mandate" so INDOT will still be able to meet unforeseen or unexpected needs.

The Task Force promoted these conditions to show users, whether they're Hoosiers or those from out of state who use the state's transportation system, that there is a justifiable plan in place to use the additional revenue.

The most significant revenue increases would occur from raising the gasoline tax and the motor carrier surcharge and then tying it to an economic indicator like the Consumer Price Index. By doing this, lawmakers will not have to vote again to raise the taxes. Fewer than 10 states currently index their gasoline taxes, according to the Tax Foundation.

While legislators increased rates on the major fuel taxes at least five times during the 1980s, they've been loathe to change them in recent years. Indiana's total fuel taxes are slightly above the national average.

If the gasoline tax had risen with inflation since it was last increase, it would be 23 cents per gallon today, which would have generated about $230 million more than was collected in FY 2015. If the motor carrier surcharge had increased with inflation since its last increase, it would be 22 cents per gallon, or double the current rate. That would mean about $100 million more than the state collected in FY 2015.

While there was general consensus to raise the fuel taxes among those who spoke at the Task Force's meeting today, the report's other recommendations had at least one detractor. The per-vehicle registration fee, for instance, may be linked to the despised excise tax that lawmakers bought down with gambling tax revenue during the 1990s. Other means, such as improved enforcement of truck weights and permits regulations, could be handled administratively.

Conclusion

The Task Force report clearly is the first mile of a long road ahead for a comprehensive plan for road and bridge improvements in Indiana. The Task Force believes it has made the case for the need to act, what needs to be fixed and offered ideas to pay for it. It will be interesting to note the many twists and turns ahead before lawmakers finish in late April.

About the Author

John Ketzenberger is president of the Indiana Fiscal Policy Institute. Ketzenberger has studied and written about Indiana's fiscal policy since 1991.