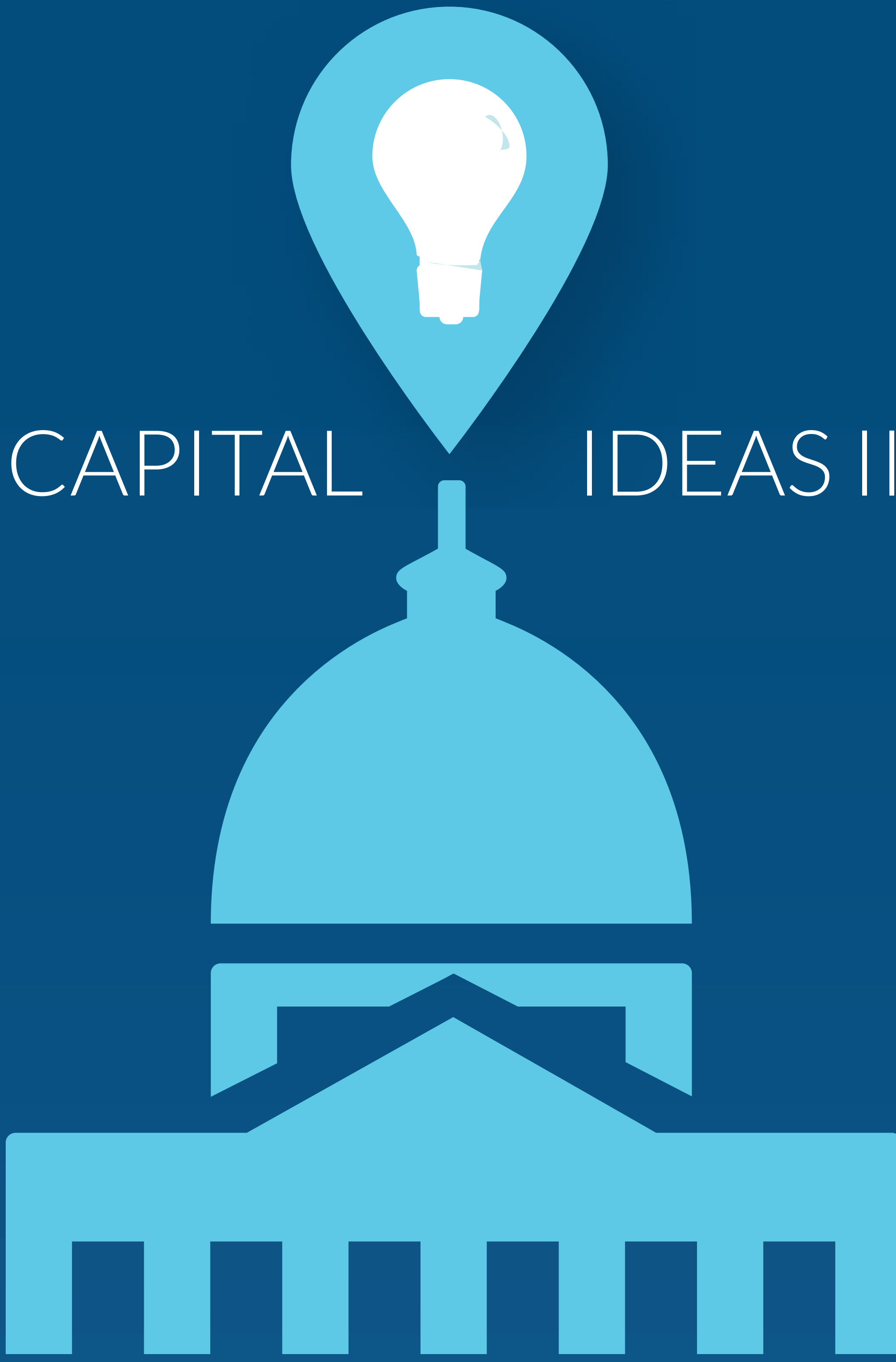
Transportation for America

CAPITAL IDEAS II



STATE TRANSPORTATION FUNDING
LESSONS FROM 2015 — CHALLENGES FOR 2016

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This report was released in December 2015

Transportation for America is an alliance of elected, business and civic leaders from communities across the country, united to ensure that states and the federal government step up to invest in smart, homegrown, locally-driven transportation solutions — because these are the investments that hold the key to our future economic prosperity. t4america.org

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Transportation for America

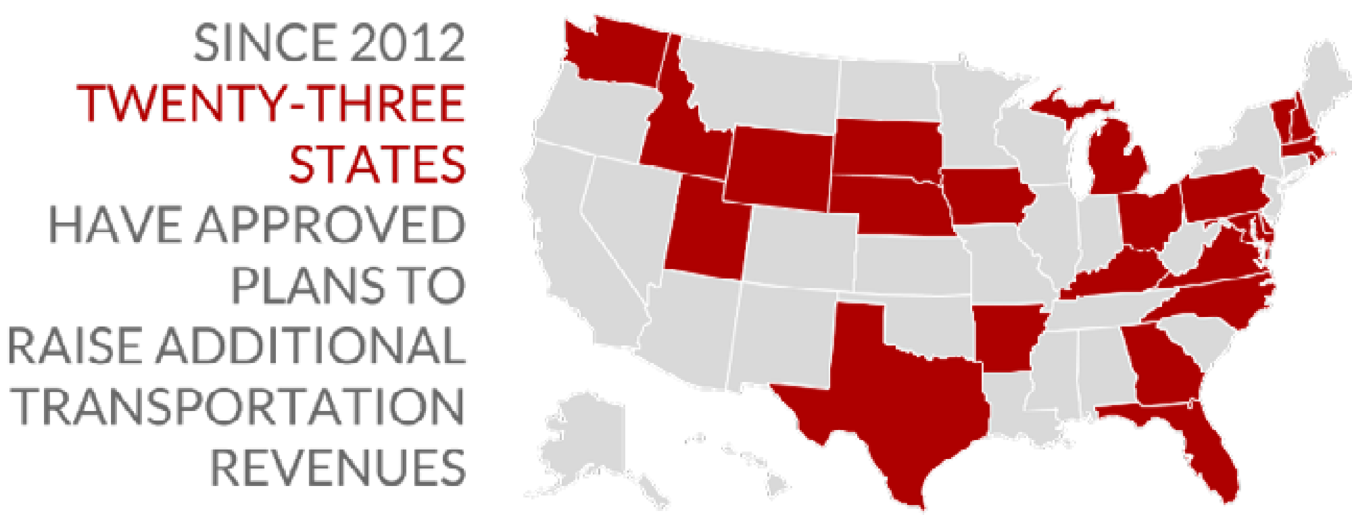
INTRODUCTION

After years of inactivity on the issue, transportation funding has increasingly become a critical issue in states both red and blue and elected state representatives have responded by moving to raise new funding at the state and even local level. With 12 states successfully taking action this year, 2015 had the largest number of successful increases in state transportation funding since Transportation for America began tracking this phenomenon several years ago.

For decades, the federal government was a dependable partner for states, guaranteeing billions of dollars in reimbursements primarily to state governments to fund highway and public transit projects. Americans drove more year after year and the resulting gas tax receipts steadily increased. But over the past decade, the total amount of driving plateaued (though it recently began to increase once again), per capita driving rates decreased, and our vehicle fleet became more fuel efficient, reducing by billions the revenue the federal government receives annually from the 18.4 cents-per-gallon gasoline tax. With the federal gas tax unchanged for more than two decades, inflation in construction costs further eroded the value of these already-dwindling funds.

Congress did not increase the gas tax in the recently passed transportation authorization law — the FAST Act — which required a transfer of more than $73 billion in general funds to the Highway Trust Fund (HTF) to pay for the nearly flat-funded program over the next five years.[1] This came on the heels of extended congressional inaction resulting in 35 short-term policy extensions since 2008 to keep the federal transportation program solvent, causing great uncertainty for states and local governments planning and funding projects.

The same factors decreasing federal revenues have had the same effect on most states' transportation budgets. Like the federal government, nearly all states have relied on static, cents-per-gallon gas taxes to fund their transportation systems. But this revenue gap is even more urgent for states because nearly all are



1 http://t4america.org/2015/12/02/think-fast-the-good-the-bad-and-the-ugly-in-congress-new-five-year-transportation-bill/

constitutionally or statutorily required to balance their budgets.

This funding crisis has spurred many states to action to plug the gaps and attempt to keep up with the dwindling federal and state revenues. Since 2012, 23 states have raised new revenue for transportation. 12 states did so in 2015 alone.

Members of T4America's **State Transportation Advocacy, Research & Training (START)** Network played key roles in these efforts, helping to pass transportation funding or policy legislation in 2015 in **Iowa, Utah, Georgia, Washington, Idaho,** and **Louisiana**. Launched in 2014 at the first-ever Capital Ideas conference, the START network provides peer-to-peer information sharing and expert policy support for members, which includes state legislators, chambers of commerce, local elected officials and advocacy organizations throughout the country.

STATE
TRANSPORTATION ADVOCACY,
RESEARCH & TRAINING

A project of Transportation for America

THE START NETWORK

Transportation for America supports efforts to produce and pass state legislation to increase transportation funding, advance innovation and policy reform, empower local leaders and ensure accountability and transparency. We offer unique, easily accessible resources that arm decision makers and advocates with template policies, research and case studies from leaders nationwide.

Join the network: http://bit.ly/joinT4Astatenetwork

The first half of this report summarizes this year's overall state legislative action on transportation funding packages and policies enacted. In the second half, we examine two specific funding proposals closely on the merits to see how they compare to both T4America's policy platform and the critical strategies for successful funding campaigns outlined in T4America's first Capital Ideas report released earlier in 2015, **Capital Ideas: Winning State Funding for Transportation, Lessons from Recent Successes.**[1] Were the proposals in **Utah** and **Michigan** good ones for those states' residents? Did the coalition of supporters choose a winning strategy? This second half of this report wraps up with a close look at a policy-oriented bill in **Virginia** to institute a transparent and accountable process to redirect existing transportation funds to the projects that will deliver the greatest return.

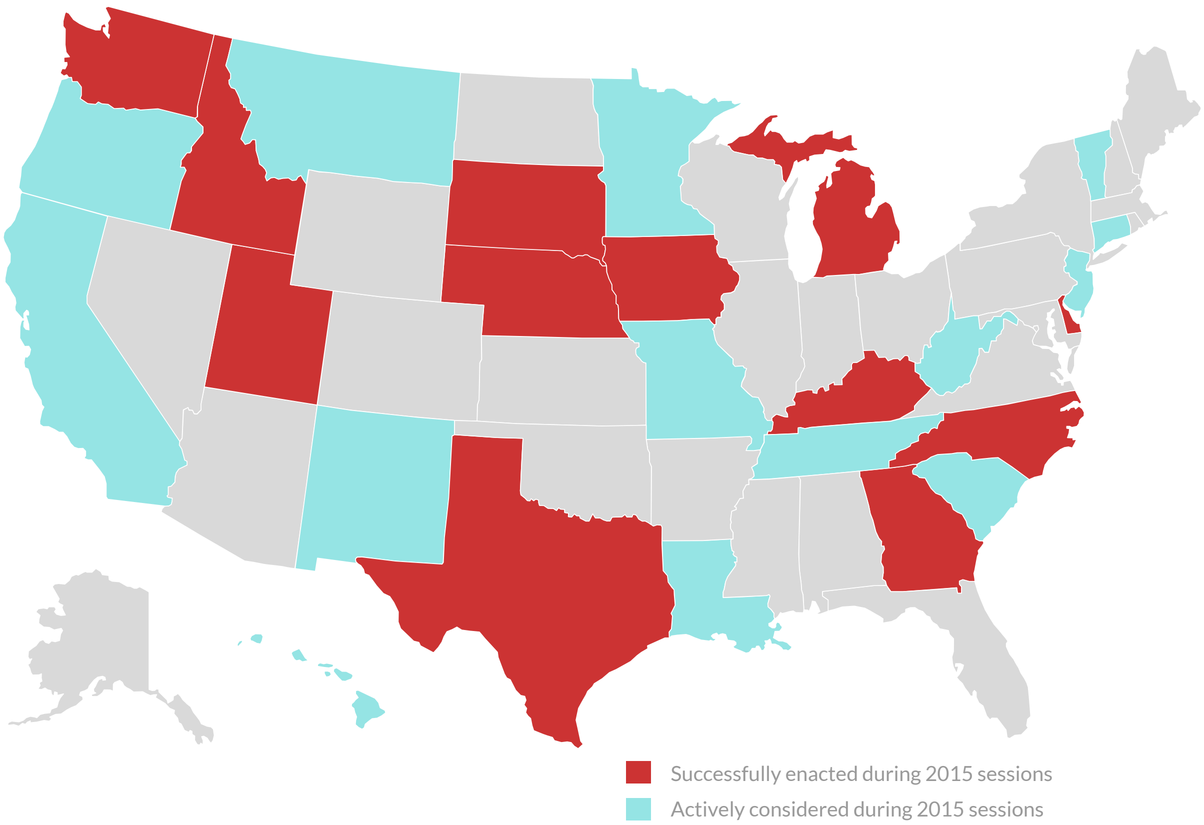
1 http://t4america.org/maps-tools/state-transportation-funding/2015-report

PART ONE
STATE TRANSPORTATION LEGISLATION YEAR IN REVIEW

AN OVERVIEW OF THE TRENDS AND LESSONS OF 2015

Legislatures convened in all 50 states this year and closing the gaps in transportation funding was at the top of the priority list for many. In 2015 state legislators in 26 states introduced legislation and 12 states succeeded in passing bills to raise new funding.

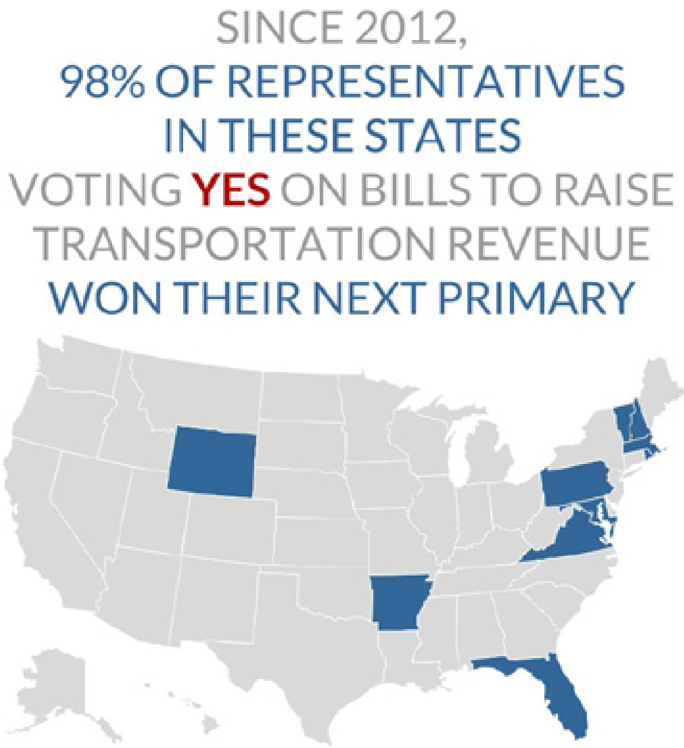
2015 state legislation to raise additional transportation revenue



Fuel taxes still the dominant form of funding

As in previous years, changes to fuel taxes were one of the most common changes to revenue sources: 9 of 12 states raising new revenue did so through adjustments to fuel tax rates. Rather than straight-ahead rate increases, several states enacted — and many more debated — new rates that would track future fuel price increases, construction cost inflation, or increasing vehicle efficiency. Georgia, Kentucky, North Carolina and Utah each enacted new variable rate taxes or adjusted variable rates this year.

Legislators this year were bolstered by T4America's own research that found in the 10 states that raised transportation revenue from 2012 to 2014, 98 percent of representatives who supported those proposals — regardless of party — won their next primary.[1]



A new focus on selecting projects that deliver preferred outcomes

Limited funding and uncertain federal support are also forcing states to critically evaluate how they select, design and build projects. Along with raising new funds, many states have passed policies to ensure their transportation investments are achieving the public's desired outcomes and getting the most benefit from every dollar spent.

When gas tax revenues were increasing every year, as they did for decades, there was little impetus to improve the processes to ensure that money gets spent wisely or on the most cost-effective projects. But that's no longer the case. (Even in these states moving to raise money now, due in large part to federal funding levels that haven't grown in any meaningful way in years now, many are just filling the gaps of lost revenue and purchasing power.)

These funding challenges have helped catalyze a greater focus on getting the most bang for the buck by improving how we select projects and aiming the billions invested annually at projects with more measurable, quantifiable benefits that matter to transportation users. While this is one of the areas in which T4America would like to see more progress made — few meaningful reforms passed in 2015. Improving transparency and accountability to restore the trust of citizens in a process that they think is murky, mysterious and wholly political is a smart way to get them on board with raising taxes or fees in any way to invest.

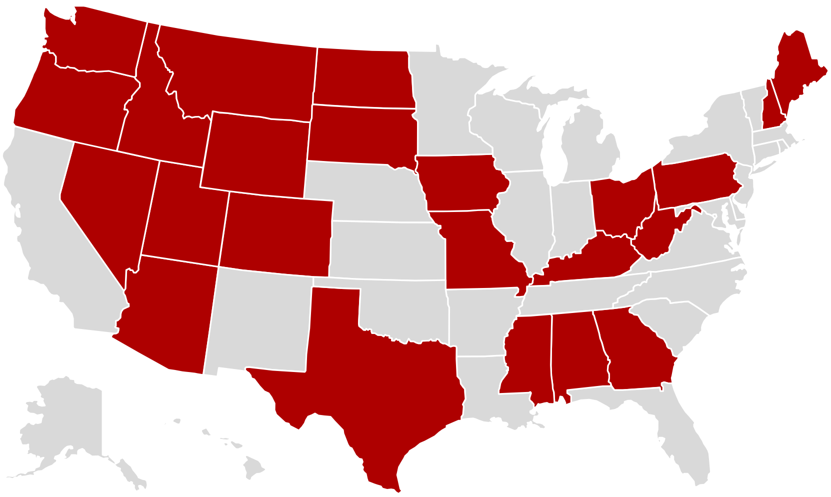
Voters want to know the money will be spent well before they commit to giving their decision makers any more of it.

Louisiana's HB342 — led by START Network member, Speaker Pro Temp Walt Leger (D-New Orleans) — creates a new, more transparent, merit-based process for the state to select transportation projects. Similarly, Texas' HB20 directs the state's transportation commission to develop new criteria and metrics for evaluating projects. In Wisconsin, the legislature, through the authority of the Joint Legislative Audit Committee, initiated an audit of the transportation projects in the state's planning pipeline to ensure that those projects on the list meet the current and realistic needs of the state.(Virginia's policy-oriented bill is profiled at length in the second half of this report.)

1 http://t4america.org/maps-tools/state-transportation-funding/gas-tax-votes/

More local funding power and responsibility

Faced with increasingly constrained transportation budgets, state legislators are looking for new sources of funding to limit the tax increases which they must impose. To allow for more funding to flow to transportation projects — particularly projects like local streets, transit, sidewalks and bike routes — legislatures are granting local governments new authority to raise money to finance them.



23 STATES HAVE CONSTITUTIONAL RESTRICTIONS BARRING GAS TAX REVENUES FROM SUPPORTING PUBLIC TRANSPORTATION

Data from National Conference of State Legislatures and AASHTO Center for Excellence in Project Finance. http://www.transportation-finance.org/pdf/50_State_Review_State_Legislatures_Departments_Transportation.pdf And the Council of State Governments Knowledge Center, "Transportation Trust Funds and Lockbox Protections." http://knowledgecenter.csg.org/kc/content/transportation-trust-funds-and-lockbox-protections

Legislation in Utah, South Dakota, Washington and Georgia leaves certain projects for local governments to cover and gives these governments new options for raising local revenue.

Utah's HB362 (profiled at length in the second half of this report) uses a new percentage gas tax increase to fund state highway projects, while allowing counties, with voter approval, to raise local sales tax revenue for transit, local streets, bike and pedestrian projects, or other local needs. South Dakota's SB1 lets counties and townships raise local property taxes to fund road and bridge repair. Georgia's HB170 includes new ways for counties or multi-county regions to raise new local option sales taxes to fund packages of local projects. Washington's SB5987 package allows the Seattle region's Sound Transit to put new regional sales taxes, property taxes, or vehicle fees before voters, allowing the agency to raise $15 billion to fund the next phase of the region's transit plan. This issue is expected to be on the ballot in 2016.

States that raised revenues in 2015, sorted by date passed

State	Vote	Leg. party	Gov. party	New revenue per year when fully enacted	Mode restricted?	Sources of revenue	Enables new local funding?	*Years since last gas tax increase
Iowa	Senate: 28-21, House: 53-46	split	R	$215 million	Highways only	10¢-per-gallon gas tax increase; increase in overweight vehicle permits		26
South Dakota	Senate: 29-5, House: 55-11	R	R	$85 million	Highways only. Includes dedicated fund for local bridge repair.	6¢-per-gallon gas tax increase; 1 percentage point increase in vehicle excise tax; 20% increase in vehicle registration fee	Allows counties to raise property taxes for local road repair	16
Kentucky	Senate: 29-9, House: 67-29	split	D	n/a	Highways only	Set new 24.6¢-per-gallon floor on the variable rate fuel tax, preventing an automatic cut to 22¢-per-gallon on April 1, 2015		0 [variable rate]
Utah	Senate: 20-8, House: 44-29	R	R	$76 million	Highways only	5¢-per-gallon fuel tax increase; future increases come via new 12% wholesale fuel tax.	Allows counties to raise raise sales tax 0.25% by referendum for transit and local transportation projects	18
North Carolina	Senate: 41-8; House: 79-39	R	R	n/a	No	Reduce fuel tax to 34¢-per-gallon (from 37.5¢) in the short term but set it to automatically increase with future inflation and population increase		0 [variable rate]
Idaho	Senate: 26-9, House: 51-19	R	R	$94 million	Highways only	7¢-per-gallon fuel tax increase; increase vehicle registration fees and impose new hybrid and electric vehicle fees		19
Georgia	Senate: 42-12; House: 129-41	R	R	~ $730 million first year	Highways only	Eliminates 4% sales tax on fuel and replaces it with an 18.5¢-per-gallon fuel tax increase, double indexed to inflation and vehicle efficiency. Adds a new $200 annual fee on electric vehicles and $300 for electric commercial vehicles and $5-per-night hotel tax, with revenue dedicated to transportation.	Expands ability of counties or groups of counties to impose a local option sales tax of up to 1 percent	0 [variable rate]

* Institute on Taxation and Economic Policy, "How Long Has it Been Since Your State Raised its Gas Tax?" July 2015. http://itep.org/itep_reports/2015/02/how-long-has-it-been-since-your-state-raised-its-gas-tax-2.php#.VnGc-WQrJL-

State	Vote	Leg. party	Gov. party	New revenue per year when fully enacted	Mode restricted?	Sources of revenue	Enables new local funding?	*Years since last gas tax increase
Nebraska	30-16 (veto override)	non-partisan	R	$76 million ($25m for state, $51m for counties & cities)	No	6¢-per-gallon fuel tax increase		0 [variable rate]
Washington	Senate: 37-7; House: 54-44	split	D	~ $700 million	No	11.9¢-per-gallon fuel tax increase. Also increases vehicle weight fees and drivers license fees.	Allows Sound Transit to raise $15 billion through a vehicle tax up to 0.8%, an additional 0.4% sales tax, and/or a property tax of 25¢ per $1000. Increases cap on local option vehicle fees to $50; allows transit benefit districts to impose a sales and use tax of up to 0.3% by referendum; and allows for the creation of passenger ferry funding districts	7
Delaware	Senate: 15-6, House: 25-16	D	D	$23.9 million	No. DOT to focus funds on road and bridge repair	0.5 percentage point increase in vehicle sales tax; increase in several other vehicle fees		20
Michigan	Senate: 20-18, House: 54-53	R	R	$600 million	No (on any new revenue.) General funds are restricted to highways	7.3¢-per-gallon gas tax increase and 11.3¢-per-gallon diesel tax increase (to bring both 26.3¢ per gallon in 2017). Fuel tax rates will be indexed to future inflation. 20% increase in vehicle registration and new fees on hybrid and electric vehicles, also beginning in 2017		18
Texas	Senate: 31-0, House: 142-1	R	R	$2.9 billion	Highways only	Dedication from general sales tax and tax on vehicle sales and rentals		24

Detailed information on all 12 states that raised funding in 2015 can be found in the appendix at the end of this document. For the full list of states that considered legislation in 2015, details on each proposed bill, and states that were successful, please refer to our full, up-to-date, online resource tracking state transportation funding:

STATE TRANSPORTATION FUNDING

http://t4america.org/maps-tools/state-transportation-funding/

PART TWO:
THREE NOTABLE FUNDING AND POLICY PACKAGES

UTAH, MICHIGAN AND VIRGINIA

As part of the work of our START network, T4America tracked and reviewed all state legislation proposed this year to raise new revenue to fund transportation, along with a wide array of legislation to reform the way these funds are spent. In this report we evaluate and highlight three specific bills that show how states can find success by building legislative packages and campaigns that stick to proven keys to success.

The first two bills from **Utah** and **Michigan** are funding-related, and the last is a policy-oriented bill in **Virginia.** We provide a more detailed overview of each bill, an overview of the road that led to passage and then evaluate each of the three bills against a combination of:

1. T4America's guiding policy principles.[1]
2. T4America's overall recommendations for successful state funding or policy legislation identified in our first Capital Ideas report.[2]

T4America's policy platform

Capital Ideas report from February 2015.

1 http://t4america.org/policies/
2 http://t4america.org/maps-tools/state-transportation-funding/2015-report

FUNDING: A QUALIFIED SUCCESS

Utah's HB 362

Utah's bipartisan funding bill guaranteed an increase in state and local road funding and created a mechanism for local governments to ask voters for an increase in sales taxes to fund multimodal needs, including transit — something that just over one-third of Utah counties subsequently approved in November 2015.

Utah was the third state to raise new transportation funding through legislation in 2015. The new law, passed in March, will generate approximately $76 million annually by replacing the cents-per-gallon gas tax with a new percentage tax. On January 1, 2016, the law will replace Utah's former fixed 24.5 cents-per-gallon rate with a new rate of 12 percent of the statewide wholesale gasoline price that will rise and fall in per-gallon terms with the price of gas. Additionally, diesel, natural gas and hydrogen will see an incremental rise in their taxes until they reach 16.5 cents per gallon (an eight-cent increase for diesel and natural gas). All fuel tax revenues follow the current formula that allocates 70 percent to UDOT and 30 percent to cities and counties.

Due to a constitutional restriction common to many states, any revenue generated by the gas tax can only be used on roads. So while road funding was guaranteed by this particular legislation, local governments had to request funds from voters for other needs, including public transit. Though the state's Unified Transportation Plan includes numerous critical transit projects, the state has never had a strong role in funding transit. Because of both that history and the significant challenge of altering the constitution, legislators and supporters faced an uphill battle to raise new funds for transit at the state level — though no region in the country has invested more in transit per capita over the last 15 years than the Salt Lake City region.

UDOT "bridge farming" on I-15. 70 percent of new gas tax revenues will be controlled by the state and dedicated to road projects. Flickr photo courtesy of Shaan Hurley https://www.flickr.com/photos/btl/2700839269

While T4America believes that states should also raise multimodal funding at the state level, the move by legislators to include the local option taxing authority provided counties with the choice of raising additional local sales taxes which could be invested in roads, transit, biking and walking or almost any pressing local need — an option that will now be permanent. Of the 17 counties that chose to put measures on the November 2015 ballot, 10 were successful in 2015 and will raise millions in new, flexible revenue that can be invested in any local need. In counties with existing public transit systems, thanks to a strong legislative effort to require that at least 40 percent of the sales tax increase go directly to transit, those counties will see immediate improvements in service, or planned expansions moving ahead.

EVALUATING THE BILL — HOW DOES IT STACK UP?

Policy and funding principles

Investment

The bill is projected to raise an additional $76 million each year at the state level and an estimated $27.5 million annually in total for the 10 counties that passed their local option tax in November, according to the Utah League of Cities and Towns. Though the bill overall affirms the multimodal needs of the state, the funds generated by the gas tax are restricted to roads and highways. The legislation eliminates the fixed 24.5-cents-per-gallon rate and replaces it with a new rate of 12 percent of the statewide wholesale gasoline price, beginning January 1, 2016. That new rate cannot dip below the equivalent of 29.4 cents per gallon (i.e. a floor mechanism) or climb above 40 cents per gallon (i.e. a cap mechanism), though the floor and cap are indexed to inflation once the wholesale gasoline price exceeds $2.45. Taxes on diesel, natural gas and hydrogen incrementally rise until they reach 16.5-cents-per-gallon, an eight-cent increase for diesel and natural gas.

> Reminder: this section is a comparison of each bill against a combination of T4America's guiding policy principles and T4America's overall recommendations for successful state funding or policy legislation identified in our first Capital Ideas report.

Local control

The bill directly increases funding for local highway needs through the existing 70/30 state/local funding split. It enabled all counties to raise additional funds for any multimodal local need through a 0.25 percent sales and use tax, with approval by voter referendum. (This provision is permanent, so counties that did not approve it this year can go back to the ballot again in the future.) Revenues from these county sales taxes would be split between the county (20 percent), cities (40 percent) and a county's transit agency (40 percent). If a transit service area doesn't exist in the county, the money is split between the county (60 percent) and cities (40 percent).

Daybreak Parkway UTA light rail station. Flickr photo by Steven Vance. https://www.flickr.com/photos/jamesbondsv/6060708835

Accountability & performance

The bill does not include specific accountability or performance measures or changes to the project selection process. However, the existing Unified Transportation Plan — a plan developed cooperatively by the state DOT, transit agencies and metropolitan planning organizations — will help govern where money is spent. During the legislative effort and subsequent ballot measure campaigns, UDOT and other local agencies promised to voters that they planned to focus funds on maintenance and upkeep of existing assets, though there are no legislative or statutory provisions requiring that they do so.

Local governments that increase sales taxes are required to submit a detailed report of revenues received from the bill. Funds dedicated to public transit have to be spent on service or capital costs, and language was included to ensure that local governments don't supplant current general spending on transportation with new revenues

— resulting in a net increase in total local transportation investment.

Innovation

The bill directs the Utah DOT to explore a mileage-based road usage charge (RUC) as an alternative to the gasoline tax. The DOT is to consider conducting a pilot program and deliver recommendations to the legislature on the potential of a RUC program in Utah.

Options & access

Local communities can use their 30 percent share of new fuel tax revenue on projects that incorporate active transportation elements like bike lanes or sidewalks, as long as those projects are within the right-of-way. Legislators provided counties with the option of increasing local sales taxes to fund any type of project through local option taxes. The bill does not specifically prioritize projects that enable access to jobs. The Unified Transportation Plan identifies projects needed to connect a growing population to job centers.

Additional recommendations from Capital Ideas for a successful measure

Bridging the urban-rural divide

The bill drew broad support, including from legislators representing urban and rural areas, and the inclusion of local option taxes — though they still required approval by voters — allow different regions of the state, whether urban or rural, to address their unique needs.

Leadership from governor

Governor Gary Herbert (R) was a strong, vocal supporter of increasing multimodal transportation-related revenue in 2015.

Building a broad coalition

Utah Transportation Coalition, a group that has diverse representation and includes the Salt Lake Chamber, the Utah League of Cities and Towns, the Utah Association of Counties and countless other business and trade organizations, ran a tight, coordinated campaign that began its work far before the start of this session.

Developing effective messages and messengers

The coalition conducted two years of studies to develop data, messaging and the necessary coalition needed for a successful campaign and focused the debate on the need to invest in Utah's future and economic prosperity and the returns that would come from an increase in overall transportation investment. The coalition pointed to studies showing for every dollar invested in the Unified Transportation Plan, $1.94 was returned to taxpayers through economic gains. They also highlighted that declining revenues and rapid population growth would not allow the state to keep up the same approach to financing transportation.[1]

> "We worked together, we were all in lockstep together, we knew our message, stayed on message. We worked really hard to be the voice in the community and in the legislature about transportation, why it was so important for our economy, for our quality of life, to our healthcare."
>
> *Abby Albrecht, Director of the Utah Transportation Coalition and Public Policy Area Director for the Salt Lake Chamber.*

1 www.utahtransportation.org/downloads/Economic_Benefits_and_Impacts_of_Utahs_Unified_Plan.pdf

THE STORY OF THEIR SUCCESS

Political compromises on the way to passage

After several failed efforts in 2014, legislators prioritized raising Utah's gas tax right from the start of the 2015 session. Gov. Gary Hebert called for new revenue to fund transportation with his budget proposal.[1] The Speaker of the House, Rep. Greg Hughes (R-Draper), wanted to drop the per-gallon excise tax and replace it with a percentage tax, which would enable the tax to rise and fall with gas prices. Senate President Wayne Niederhauser (R-Sandy), however, felt that tying the gas tax to fluctuating gas prices was too risky. Prices could rise and fall dramatically, he said, subjecting Utah drivers to suddenly higher gas prices, or revenues could fall dramatically below projections if gas prices were low. To eliminate the uncertainty, Sen. Niederhauser preferred a straight increase to the gas tax.

Hughes, however, didn't believe that representatives in the House would pass a straight tax increase, fearing political fallout. Pegging the tax rate to gas prices would allow the state to eventually see revenues increase as gas prices rise without the political risk of imposing taxes immediately. The legislature agreed to a compromise approach, whereby the bill utilized a percentage-based approach at a level that represented an immediate increase in funding. The compromise carried through to the final bill signed into law by Governor Herbert.

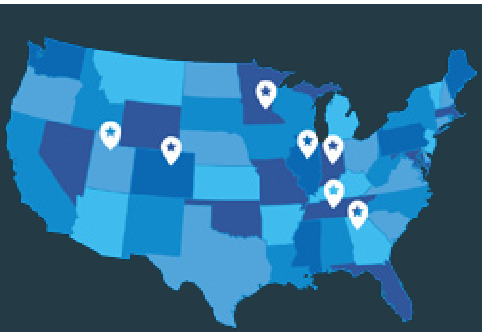
The importance of including the local option sales tax

Legislative leadership and transportation chairs of both houses instructed key stakeholders including the business community, cities, counties and public transit agencies to actively collaborate on a desired local option measure to allow counties to increase sales taxes for transit and other local priorities. Including this local option provision led to a broader base of support for the overall bill and helped secure broader political support that helped ensure final passage.

Messaging

In a conservative state like Utah, supporters found that economic arguments worked best for convincing legislators and the public that transportation is a worthwhile investment. Their economic development argument was two-pronged: first, a state with a good transportation network can more easily attract businesses, which need solid transportation infrastructure to attract talent, get their employees to work and ship their goods; second, that waiting to repair critical transportation infrastructure will make maintenance cost more in the long run.

This section is excerpted and modified from our [longer, detailed profile from our website on the legislation](). For more on Utah's ambitious plans to invest in transportation and transit specifically, [read our Can-Do profile of Utah and Salt Lake City](). one in a series of longer profiles of similar places across the country.



Supporters educated both the public and elected officials about why more funding was necessary overall and why Utah's communities need to be able to raise funds for and invest in multimodal transportation projects.

A focus on air quality, an issue of great focus to Utah residents, was one of the reasons that the governor and legislature sought a multimodal approach that included transit and specifically authorized use of the funds for active transportation.

Unified Transportation Plan – unifying interests from across the state

Utah's Unified Transportation Plan was the key focus of their singular message. It's a statewide transportation plan synthesized from the metropolitan planning organizations' regional plans and plans from the state DOT and the Utah Transit Authority — the transit authority for the Wasatch Front region. The unified statewide plan prioritizes those needs and outlines the agreed-to $11.3 billion priority projects throughout the state. Having a statewide plan in which everyone could see their needs reflected helped develop a holistic vision for the state's future instead of regions competing against each other for limited funds.[1] That unity of purpose across the state helped bring legislators on board.

On to the ballot box

Passage of the bill secured a projected $76 million in new annual funding for state and local road projects. However, additional investment in local streets, transit and bike and pedestrian projects still had to win additional approval from county commissions and voter referenda.[2] Commissions in 17 of 29 counties chose to place a local option sales tax measure on the November 2015 ballot. Voters in 10 counties approved the local funding measure, raising an estimated $24.5 million annually, according to the Utah League of Cities and Towns. However, voters in Salt Lake and Utah counties, the two most populous counties in the state, rejected the plan. Distrust in UTA, the region's transit agency, was a major factor in the defeat according to the agency's chairman.[3]

Lessons learned

This year's move by the legislature was a key example of bipartisan cooperation and compromise, undergirded by the clear vision for investment that local leaders and civic groups have bought into. As a result of their work, the state will see an increase in transportation funding in 2016. Though they were only able to guarantee funding for state and local roads via the gas tax increase, legislators supported local leaders' requests for multimodal transportation funding needs through local enabling legislation — permanently giving all counties more flexibility to fund these local priorities, Though it's a challenge to upend a historical lack of transit funding at the state level paired with a constitutional restriction, the fact that the local option was only approved in a third of all counties shows the perils of failing to guarantee state funding for all modes of transportation.

1 www.fhwa.dot.gov/planning/regional_models/case_studies/utah/index.cfm
2 http://t4america.org/2015/10/01/local-communities-in-utah-and-beyond-will-decide-their-transportation-funding-fate-this-november/
3 www.deseretnews.com/article/865641463/UTA-chairman-says-backlash-hurt-sales-tax-increase-proposal-in-SL-Utah-counties.html?pg=all

FUNDING: THE TOUGHEST LESSON LEARNED

Michigan

Michigan's four-year push to raise new transportation funding, led by Governor Rick Snyder, ultimately resulted in $600 million in new revenue and a commitment to rearrange $600 million in future general fund revenue, totaling $1.2 billion. A resounding defeat by the voters along the way, however, should be instructive for other states about the perils of overly complicated ballot measures, a lack of accountability and low trust in the state's ability to produce a return on investment.

Gov. Rick Snyder, photo courtesy of the Michigan Municipal League

Spanning 2011 to 2015 and one unparalleled defeat at the ballot box, Gov. Snyder and Republican legislators finally assembled and approved a complicated package of bills in November 2015 that combines a per-gallon gas tax increase (7.3¢ on gas and 11.3¢ on diesel), a 20 percent increase in vehicle registration fees and a future diversion of $600 million in general fund dollars annually to total roughly $1.2 billion in additional transportation investment.

But there are a few caveats: only half of the total funding will come from new revenues via fuel tax and vehicle fee increases; the new revenue won't begin phasing in until 2017 (after the next election) and won't be fully implemented until 2021; and the transfer of general funds doesn't begin until October 2018 and is supposed to come from yet-to-be-identified cuts to other programs. Additionally, only the new revenue will be distributed through the existing transportation formula that sets aside portions of the money for rail and transit projects. The other $600 million in general fund dollars can only be used for roads, bridges and highways.

Further complicating the math surrounding the availability or viability of the $600 million general fund transfer to transportation are two unrelated tax breaks in the package to appease weary legislators: a $200 million homestead tax credit that will take effect in 2019 and an income tax rollback that takes effect in 2022 — so long as the general fund grows by more than the rate of inflation plus 1.425 percent.

Despite the constant drumbeat from Gov. Snyder and MDOT over the last four years, the administration's call for $1.2 billion or more in new revenue rang hollow for many legislators and a crushing ballot measure defeat for a sales tax increase for transportation showed that it was not resonating with voters, either. The legislature, with Governor Snyder's support, were unwilling to stand up for an immediate boost in funding. And because the general fund transfers to transportation (taken from yet-to-be-decided programs) won't begin until October 2018 and won't fully phase in until 2021, legislators passed the buck on the hard decisions about what programs to cut to pay for transportation. [1]

1 Michigan's 2014 and 2015 funding packages consisted of a number of bills. They are listed here: 2014: HJR UU, HB4251, HB4539, HB4630, HB5167, HB5460, HB5477, HB5492, HB5493. 2015: HB4614, HB4616, HB 4738, SB414, HB4370, HB4736 and HB4737.

EVALUATING THE BILL — HOW DOES IT STACK UP?

Policy and funding principles

> Reminder: this section is a comparison of each bill against a combination of T4America's guiding policy principles and T4America's overall recommendations for successful state funding or policy legislation identified in our first Capital Ideas report.

Investment

The package raises $600 million through fuel tax and vehicle registration increases. Another $600 million is promised from future general funds, but without any dedicated source identified to cover that cost. New revenues don't kick in for two years and the general fund transfers won't begin until October 2018 and won't fully phase in until 2021, after many legislators and the governor have left office.

Local control

A token flexibility measure allows the city of Detroit to use 20 percent of its earmarked highway funds for transit. Existing funding formulas set aside most of the new transportation revenue for county highways and city streets.

Accountability and performance

Despite clear distrust from voters of the state's process for selecting projects — evidenced by a crushing ballot measure defeat — provisions that would have reformed the project selection process to be more transparent and performance-based were not included in the final negotiations.

Innovation

The bill did little to promote innovation.

Options and access

New revenues will flow through an existing allocation formula that reserves a portion of funds for transit, rail and other modes. However, legislators bypassed this multimodal distribution with general fund dollars and dedicated that money exclusively to for roads, bridges and highways.

Additional recommendations from Capital Ideas for a successful measure

Bridging the urban-rural divide

Transit investments are a priority for many metro Detroit legislators, and the agreed-to transit funding level won the necessary support from a few members to reach agreement with the highway focus from rural legislators.

Leadership from governor

Governor Rick Snyder (R) has championed additional funding for transportation since October of 2011 and was a central negotiator on the agreed-to proposal. However, the final package that he agreed to was far removed from the original proposal he put forth.

Building a broad coalition

There was a strong coalition for a transportation funding bill that included construction industry interests, labor groups and the Michigan Environmental Council, Michigan Municipal League, Michigan Farm Bureau, Michigan Public Transit Association (MPTA), Rails-To-Trails Conservancy, AARP, Michigan Statewide Independent Living Council and Transportation for Michigan (Trans4M).

Developing effective messages and messengers

Support for additional transportation revenue was focused on the state's repair needs — ubiquitous potholes or bridge repair needs, though considering the lack of bipartisan and voter support, it's unclear how effective that message proved to be, especially when heard alongside the reality of planned mega-expansion projects.

A FOUR-YEAR ODYSSEY TO INCREASE TRANSPORTATION FUNDING

For years, Governor Rick Snyder (R) and other leaders in Michigan have been pushing for additional transportation funding to address a growing backlog of needed repairs and to widen and expand highways.

Governor Snyder spent his first four years in office highlighting Michigan's infrastructure needs.[1] Roads, bridges and other infrastructure across the state face serious repair needs and funding for repair and other priorities hasn't kept up. A 2014 report from the state's Asset Management Council found just 20 percent of highway miles were considered to be in "good" condition.[2] A 2012 bipartisan legislative report concluded that the state would need an additional $1.5 billion each year to bring its highways up to a state of good repair.[3] The state DOT's message focused on repair needs and how little the state invested compared to neighboring Ohio and other states.[4]

A long and bumpy process to a compromise

In his State of the State address in January 2014, Governor Snyder jump-started funding discussions by reiterating his call for more than $1 billion in additional annual transportation funding. Throughout the 2014 legislative session, disagreement between the Republican controlled House and Senate and the governor's office proved challenging to overcome, and the House, Senate and Governor all backed different options for increasing transportation funding.

In the Senate, Appropriations Committee Chair Roger Kahn (R-Saginaw Township), along with Senate Republican leadership, unveiled two alternative plans that would have raised $1.6 billion per year, either by replacing the gas tax with a two percent increase in the state sales tax, or an increase in both gas taxes and

1 www.mlive.com/politics/index.ssf/2011/10/from_registration_fees_to_fuel.html
2 www.freep.com/story/news/local/michigan/2015/03/28/michigan-roads-rate-poorly/70608358/
3 www.annarbor.com/New%20Transportation%20WorkgroupReport.pdf
4 www.michigan.gov/som/0,4669,7-192-26847-327372--,00.html; www.michigan.gov/documents/mdot/MDOT_RealityCheck4_-_Investment_454578_7.pdf

registration fees.[1] The governor's proposal backed a "user fee" approach that would have raised an additional $1.2 billion per year through a similar approach to the Senate's first option: replacing the gas tax with a wholesale tax and increasing registration fees. The House offered up a slimmer package that would have directed $450 million in general funds to transportation and replaced the gas tax with a comparable wholesale tax. House Speaker Jase Bolger (R-Marshall) noted the limited appetite in the House for significant tax increases, but considered the package a viable way to begin addressing the funding need.[2]

Leaders could not reach a compromise throughout 2014. It wasn't until after the November 2014 elections, with legislators freed from immediate electoral pressure, that they acted, however — though voters would have the ultimate say. The Senate passed a package that eliminated the 19 cents-per-gallon fuel tax, replacing it with an increase in the percentage wholesale tax that would have equated to 25 cents per gallon in 2015, rising to 41 cents per gallon in 2018.[3] The House alternatively proposed taking existing revenue from the sales tax on gasoline currently directed to local governments and schools and dedicating it to the state highway account. The funds raised by this proposal would have bypassed the state's multimodal funding formula, denying new funding to transit and other non-highway projects.[4]

In a last-minute, late-night agreement on December 19, 2014, the legislature passed a funding package but chose not to decide the critical issue of raising revenue. The package included a proposed amendment to the state constitution to increase the state's sales tax from 6 percent to 7 percent, which requires voter approval. The agreement that shifted the decision to voters and raised no immediate revenue received strong bipartisan support, passing the House 94-16 and the Senate 26-12.

If supported by voters in the May 2015 ballot measure, the package would replace the per-gallon fuel tax with a percentage-based wholesale tax, repeal the sales tax levied on fuel and increase the sales tax from 6 to 7 percent on all other goods to make up the revenue (which is partially dedicated to municipal aid and K-12 schools). Overall, this was projected to bring in an additional $1.2 billion for transportation, including $456 million each for state highways and county roads, $254 million for local transportation needs; and $130 million for transit statewide.

Reform and demonstrating "value for money"

With the ballot measure looming in the spring of 2015 and Gov. Snyder was using the bully pulpit to ask for funding and educate the public about the state's need. However, in January the state DOT received bad press when it was discovered that millions of dollars were spent on railcars that had been sitting idle for many years, raising questions and sowing doubt in the public's mind. Unfortunately, the state had no answer to restore confidence in the process of how the state spends money. [5]

Further compounding the public mistrust was the poor condition of the system vis-a-vis the state's misplaced priorities. Dollars for repairing state highways and local streets were so hard to come by that one town held a

1 www.mlive.com/politics/index.ssf/2013/02/sales_tax_or_gas_tax_michigan.html
2 www.mlive.com/lansing-news/index.ssf/2014/05/road_funding_package_rolls_thr.html
3 www.mlive.com/lansing-news/index.ssf/2014/11/michigan_road_funding_senate_b.html
4 http://trans4m.org/2014/12/29/2014-year-in-review-part-i-the-fight-for-transportation-funding/
5 www.freep.com/story/news/politics/2015/01/31/mdot-costly-idle-rail-passenger-cars/22655363/

bake sale to raise a portion of the funding needed to replace a bridge that serves as the vital link to the village center.[1] But at the same time, MDOT was still planning to spend $2.9 billion to widen I-94 through the center of Detroit, a project that has been on the shelf for 30 years. [2,3]

Several legislators championed reform measures aimed at directing limited funding to the most important projects. Rep. Jim Townsend (D-Royal Oak), a START Network member, with support from T4America and other START members, championed a measure demanding that projects prove "value for money" through objective performance measures and project selection criteria that match the goals for the transportation program. It would have directed MDOT to score and rank projects and report to the public on their benefits before funding a project, adding a layer of accountability and ensuring that the new funds would help achieve the public's desired outcomes. That measure drew significant bipartisan support in last minute negotiations on the funding package in 2014 that produced the deal, but with the very short timeline for negotiation in the post-election lame duck session, that proposal and many other good ideas were left on the cutting room floor.

Following the end of the 2014 session, Rep. Townsend has continued to work with transportation stakeholders to refine the process to one that works best for the state. This type of reform is critical for realizing long-term benefits for transportation investments, and is enormously influential on building public support for additional transportation investment. Put another way, more public confidence in an improved system results in more public support for providing that system with more money. And without that confidence, voters are often hesitant to support new revenue, as evidenced by the 2015 ballot measure.

Voter rejection

Throughout the winter and early spring of 2015, Governor Snyder and transportation interests worked to make the case for transportation funding. The Safe Roads Yes campaign raised more than $9 million — more than half of that from the construction industry — to turn out supportive voters.[4] The statewide Michigan Chamber of Commerce did not weigh in on the proposal, while the Detroit Regional Chamber of Commerce was a big supporter. The largest group opposing the measure raised just $500,000.[5]

On May 5, 2015, voters overwhelmingly rejected the complicated measure, 80 percent to 20 percent, setting a new record for opposition in the process.

Aside from the lack of trust, the ballot measure suffered most from its complexity and the short time frame that supporters had to explain the measure and mobilize support — just five months between legislative passage and the decision at the ballot. The decision for voters was incredibly complicated, with various tax increases tied to transportation, education, local government funding and low-income tax credits. T4America has often noted that voters are most likely to support a ballot measure for transportation funds when the measures are simple and direct, when voters have a clear idea of how the funds will be spent and how the planned projects

1 www.mlive.com/news/grand-rapids/index.ssf/2015/01/muir_bridge_river_35_million.html
2 www.michigan.gov/documents/mdot/I-94PMDisplayBoards_FINAL-ss_494917_7.pdf
3 www.michigan.gov/mdot/0,4616,7-151-9621_11058_53088_53115---,00.html
4 http://miboecfr.nicusa.com/cgi-bin/cfr/sum_pg.cgi?doc_seq_no%3D408101%26doc_stmnt_year%3D2015%26com_id%3D517218%26doc_date_proc%3D++++++++++%26doc_type_code%3DG2
5 www.freep.com/story/news/politics/2015/05/05/angry-voters-reject-proposal-michigan-roads-await-viable-fix/26950451/

will meet their communities' needs. In contrast, Michigan's ballot measure asked voters to endorse a tax hike for unspecified projects across the state, mixed up the issue with education funding — always a hot-button topic — and included no mechanisms for improving transparency and accountability for the new money.

Blank checks can be hard for voters to stomach.

Back to the drawing board

The voters' rejection was resounding, but the needs hadn't waned. With the 2014 measure now dead, legislators returned to finding a way forward on new funding for transportation throughout the 2015 session. The debate in Lansing centered on whether to raise new revenue or cut other programs in order to add funding for transportation, and the legislature ended up splitting the difference in a compromise package.

The Senate revisited ideas considered in 2014, and in July 2015 the chamber narrowly passed a new package to raise fuel taxes to 34-cents-per-gallon and shift $700 million from the state general fund to transportation.[1,2] The proposal passed 20-19, receiving only one Democratic vote and relying on the Republican lieutenant governor to break the tie. The House narrowly passed a package directing $1.1 billion to highways by drawing nearly $800 million from the general fund and cutting earned-income tax credits, largely avoiding raising any actual new revenues.[3,4] This package passed on several close votes, with near exclusive support by Republicans.

Legislators adjourned for a summer recess leaving a wide gap between the competing proposals, but bipartisan and bicameral negotiations picked up again in the fall. House negotiators reportedly moved considerably closer to the Senate's revenue proposal, but top-line numbers and tax policy disagreements led to a public breakdown in these negotiations.[5] From there Republicans — who hold sizable majorities in both chambers and the governorship — ran negotiations. The resulting package passed very narrowly, including just one vote each from the Democratic minorities in each chamber.

The final package

Only half of the funding in the package passed will come from new revenue. The package will increase the gas tax by 7.3-cents per gallon and 11.3 cents per gallon, bringing both rates to 26.3-cents-per gallon — but not until 2017, well after the next election. The rates will then be indexed to future inflation. The new rates will bring in an estimated $400 million more annually. Additionally, vehicle registration fees will increase 20% and hybrid and electric cars will face new fees, together generating $200 million in new revenue, though these fees also don't kick in until 2017.

Another $600 million will be transferred from the state general fund, from yet-to-be-identified cuts to other programs or from a budget surplus if one exists, beginning in October 2018.

1 www.mlive.com/lansing-news/index.ssf/2015/07/15b_road_funding_plan_approved.html#incart_story_package
2 HB 4612 S-2, HB 4613 S-3, HB 4615 S-1 and HB 4616 S-1
3 www.mlive.com/lansing-news/index.ssf/2015/06/michigan_house_approves_11b_ro.html
4 HB 4605 through 4616
5 www.detroitnews.com/story/news/politics/2015/10/13/michigan-roads/73870236/; www.freep.com/story/news/local/michigan/2015/10/13/gov-snyder-michigans-road-funding-talks-impasse/73869510/

The new tax and fee revenue will be distributed through the existing transportation formula, which sets aside portions of the money for rail and transit projects. However, the $600 million in general revenues will be sent directly to the road fund and can only be spent on highway projects.

Lessons learned: accountability is crucial for enduring support

Even with the Governor leading the charge from his bully pulpit, he could not overcome the skepticism of the legislature or the public about the need to raise new transportation revenues. Skeptical legislators handed the decision to voters who rejected it resoundingly.

The package meets — on paper — the governor's request for an additional $1.2 billion per year for transportation. But the package ramps up new funding slowly — full funding won't be in place until 2021, and (future) legislators will still have to decide how to cover the $600 million general fund cost via other cuts.

The long ramp-up and reliance on general fund dollars mean that citizens, advocates, elected leaders and the business community in Michigan will have to continue making the case for additional investment to future legislators.

To rebuild public trust in how any current (or future) funds are spent, the state must continue working to reform the way it prioritizes and allocates funds, and the legislature should find ways to increase the transparency and accountability of this process. (And communicate about the reforms to the public.) They'll be much better equipped in the future if they can show that any new money generated will truly flow to the most pressing needs across the state.

Leaders in Michigan should heed the lessons learned in other states: voters will support transportation investments — and reelect legislators who support increases in transportation funding — if they know up front that new dollars will be spent with more transparency and accountability on glaring repair needs and other local priorities.

POLICY: PAIRING NEW FUNDING WITH IMPROVED TRANSPARENCY AND ACCOUNTABILITY

Virginia's HB1887

Following the 2013 bipartisan legislative effort that scrapped the state's gas tax and replaced it with a wholesale fuel tax and sales tax hike to raise billions in new transportation funding, Virginia has taken notable policy-focused steps in 2014 and now in 2015 to improve the process for selecting projects and awarding funds, all in an effort to direct the new money to the best, most cost-effective projects with the greatest bang for the buck.

This year's policy-oriented bill (HB1887) reforms the confusing, outdated and complicated funding formulas that determined how money is distributed, and supports the state's move to award more funds competitively.

Virginia's changes show a smart path forward for other states still relying on old formulas directing percentages of the state's funds to primary, secondary and urban highways, with other amounts reserved for priority projects, Interstate highway and bridge repair and paving rural roads. Those formulas are difficult to understand and make it challenging to track where and how funds are being spent — let alone if the projects receiving funds make fiscal sense.

Under the new formula, 45 percent of all funds will be reserved for maintenance and repair. The remaining 55 percent will be split evenly between priority state projects picked through the new, objective, performance-based ranking process established by 2014's HB2; and priority local projects selected through regional competitions. Additionally, HB1887 shifts $40 million annually to transit projects from highway, aviation and ports, upping the commonwealth's commitment to the growing demand for transit in metro areas.

HB1887 is the latest step for Virginia's process of transforming its program to match the goals and results demanded by the public, directing a greater share of transportation dollars to the top-ranking projects, while still setting aside adequate resources to maintain existing roads, bridges and rail.

For more about Virginia's 2013 and 2014 legislation — and the campaigns to get this funding and reform passed — see Transportation for America's report from February 2015, Capital Ideas: Winning State Funding for Transportation: Lessons from Recent Successes.

EVALUATING THE BILL — HOW DOES IT STACK UP?

Policy and funding principles

Reminder: this section is a comparison of each bill against a combination of T4America's guiding policy principles and T4America's overall recommendations for successful state funding or policy legislation identified in our first Capital Ideas report.

Investment
Virginia raised new funding via legislation in 2013. This bill does not raise any new funding, but redirects existing funds to projects that deliver the greatest return through a transparent and accountable process.

Local control
The bill sets aside a portion of transportation funds for regional competitive grants accessible to local governments, funding only the projects that are proposed by locals.

Accountability and performance
HB 1887 improves accountability by removing overt political influence and building a transparent, merit-based process for directing funds and choosing transportation projects that best achieve the public's goals.

Innovation
Competition at the regional and state level will right-size project scopes, leverage multiple funding sources and invest in projects that are able to achieve multiple goals.

Options and access
HB2, enacted in 2014, objectively ranks a project's ability to improve accessibility to jobs for all income levels and provides funding for all transportation options. This year's HB1887 redirects $40 million annually from highways, ports and aviation to transit investments, upping the state's commitment to transit.

Additional recommendations from Capital Ideas for a successful measure

Bridging the urban-rural divide
The bill directs funds to each region of the state, but rather than ending the process there, they are awarded to the best projects in each region, proposed by local governments, through regional competitions.

Leadership from governor
Gov. Terry McAuliffe's (D) administration championed the reform.

Building a broad coalition
The legislative effort was led by a bipartisan coalition of state elected officials and the administration.

Developing effective messages and messengers
With HB 2, the administration and state legislators focused on how the new objective process would build accountability, take politics out of the selection process (and improve public confidence and trust in the

process). This year's bill puts a stronger focus on equitable distribution of the state's funding, which won near unanimous bipartisan support in both House and Senate.

CONTINUING THE WORK STARTED BY THE 2013 FUNDING BILL

Attempting to take politics out of project selection through new reforms

HB1887 follows dedicated efforts over two administrations (a Republican and a Democrat) and two legislative sessions.

Former Governor Bob McDonnell (R) led a bipartisan legislative effort in 2013 to scrap the state's gas tax and replace it with a percentage tax on wholesale fuel sales and a hike in the state general sales tax. To address the needs of the two largest metropolitan regions, higher sales, fuel and property taxes are now levied in the Northern Virginia and Hampton Roads regions, with revenues controlled by regional bodies for local and regional projects. (This scheme still denies the Hampton Roads region true local control, however: the legislature specifically restricted all of Hampton Roads' funds to road, bridge and tunnel projects, leaving out priority transit, rail or freight projects.)

With new money flowing into the state's coffers for transportation, legislators knew they would have to prove results. To direct these public dollars to the strongest investments, the legislature followed up the 2013 funding bill by adopting HB2 in 2014, with unanimous votes in each chamber. That new law requires the Virginia DOT to screen and rank projects based on five priority outcomes important to Virginians, including reducing congestion, improving access to jobs and delivering economic benefits. Projects expected to produce the outcomes desired would score well and receive funding, and those that don't would be sent back to the drawing board to improve or get scrapped altogether.

This year's bill (HB1887) passed overwhelmingly (34-4 in the Senate and 94-1 in the House), shifting highway funds to a new, simple formula.

Additional reforms in this law aim to limit the role that politics plays in project selection and further ensure that funds go to the projects that will deliver real benefits. Specifically, the law will prevent the governor from removing members of the Commonwealth Transportation Board (CTB), the body with authority over selecting projects and establishing administrative policies for the state.

The transparent and objective project ranking and selection processes instituted by HB 2 and the simpler formulas and political independence offered by HB 1887 should result in the state's transportation funds — including the new funds raised through the 2013 funding package — going to the projects that best meet local needs.

The legislation was backed by the state department of transportation, whose secretary sought the rankings and local competitions as a way to meet local needs and steer funds to projects that were truly state priorities.

“We always had more projects and needs than we had money. It became very political,” Secretary of Transportation Aubrey Layne told the Roanoke Times. “You don’t get the best results doing it that way.”[1]

Virginia legislators and other decision makers could have simply stood pat after raising new transportation funding in 2013. Yet they worked year after year to prioritize those funds to the most critical state and local projects and ensure those funds get spent as wisely as possible. Other legislatures should take note of Virginia’s focus not just on a sudden budget gap, but on smart, often overdue policy reforms to allow the system to meet the needs of these constituents.

“Pouring more and more concrete, adding more and more capacity and building more and more mass transit is the 20th century solution. The old solutions will not work forever. We cannot continue to think that adding one more lane, or building one more bypass will magically cure our transportation woes. Instead, we need a new way of thinking about transportation.

To tackle the transportation challenges of the 21st century, I believe Virginia must do three things.

First, we must harness technology, innovation and new ideas...

Second, we must create a consumer-based model that focuses on congestion relief, safety and economic development. Transportation should no longer be about how much asphalt we pour or how much money we spend, but instead how much time we can save commuters, how many accidents we can prevent and how many jobs we can create.

Third, we must ensure that every step we take is measured by its return on investment. Resources are too scarce and taxpayer dollars too precious to be thrown away on poorly planned transportation projects. Projects should have clearly defined goals and metrics that can be measured in an objective fashion. A “good idea” is not good enough anymore.”

– Speaker William J. Howell, Remarks on the Future of Transportation, Sept. 13 2013.

1 www.roanoke.com/news/politics/virginia-rethinks-approach-to-transportation/article_5d7518b5-5c77-5457-806d-37-ed5f294594.html

CONCLUSION

LESSONS LEARNED IN 2015

In addition to the recommendations detailed in our first Capital Ideas report, successes and failures from the 2015 state legislative sessions provide illustrative lessons, especially for those states looking to take the issue up in 2016.

Continually and persuasively make the case.

Legislators and stakeholders must continually engage in critical transportation issues. It's a challenge to ramp up and pass a bill in a short timeframe when no one has actively been making the case and educating the decision-makers and public in the time preceding.

Necessary reforms should be part of new funding legislation.

Legislators should enact reforms to make state transportation funding decisions more transparent and show how the state will spend money to meet public needs and goals. Effectively demonstrating the value of investing in transportation will help build the case for more funding for transportation, but new funding laws that fail to steer funding to today's critical needs or help people see the tangible, measurable benefits of transportation investments are a huge hindrance to building support for any new transportation spending. The best time to enact these reforms may be before a campaign for new funding (as with this year's bill in Louisiana). But critical reforms can also come with new funding, or following (as it has in Virginia) to show taxpayers that the new funds are being well-spent on the best possible projects.

Strong champions paired with a diverse coalition are a winning recipe.

States are most likely to succeed in changing transportation funding and policy when they have strong champions who are willing to spend political capital, backed by a diverse coalition that makes transportation a priority year after year.

Confidence in the system equals support for new revenue.

Investing in transportation is more popular when voters have faith in how the funds are spent and see the improvements made. Voters approve 70 percent of transportation-related ballot measures and 98 percent of legislators in 10 states that voted to increase transportation funding since 2012 won their next primary. If public confidence is low, lawmakers have a vested interest in improving transparency and accountability to improve confidence and build support for new revenue. For example, Virginia's active steps to improve how new revenues are spent could be paid back tenfold if they need to raise revenue again in the coming years.

CHALLENGES AND OPPORTUNITIES AHEAD IN 2016 AND BEYOND

Increasing fuel taxes — even indexing them to inflation — still isn't a long-term solution.

While dozens of states have moved to raise new revenue and many have deliberately pegged rates to inflation or the increasing price of fuel to help ensure that revenues don't stay static, the fundamental shift in our vehicle fleet's efficiency and how much we drive means that fuel taxes based only on consumption or driving amounts won't be enough to cover our needs over the long term. Many of the recent funding increases are just a first step to make up years of lost revenue due to static tax rates and neglected investment in transportation by the states.[1] With vehicle fuel economy climbing to 54 mpg by 2025 under new federal rules and greater use of other non-car options, the trend of drivers buying less gas will only accelerate.

Fees on alternative fuel vehicles will likely continue.

Charging electric vehicle owners a flat fee is politically easy due to the small number of electric vehicle drivers affected (in comparison to a gas tax increase), but this fee still doesn't offer a sustainable or balanced way to raise revenue from drivers of alternative fuel vehicles. If this market does rapidly expand states must consider comprehensive alternatives such as road usage charges or vehicle-miles-traveled fees. On the plus side, in states with a constitutional requirement that gas tax funds go only to highways, revenues from this fee can often be spent on any type of need. For example, in Washington electric vehicle fee revenue is going to a new electric vehicle charging station infrastructure bank.

There's still a long way to go on rethinking old formulas and instituting reforms.

Though some places have made progress on this count and it's one of our keys to a successful funding package, it's clearly still a challenge for legislators to address the ways these funds are spent. Funding formulas in many states have been on autopilot for decades and lack transparency or accountability for state dollars. Virginia's reform bill that passed this year — along with recent reform measures in Louisiana, Texas, Tennessee and Massachusetts — offer models for states to adopt.

States should fund all of the needs in their states, not just highways.

Most of the packages this year involved funds largely dedicated to highway projects. While many states have outdated restrictions that limit certain fuel tax or related revenues to spending on roads, legislatures must find ways to use state funds to finance the multimodal transportation system they need to stay economically competitive. States that ignore this do so at their long-term economic peril. While T4America supports the concept of states enabling local voters to tax themselves for transportation and transit specifically, states should not neglect their urban and rural transit needs by pushing all responsibility to local government or local voters. Moving people from place to place and connecting them to jobs and opportunity — whether by a highway or a transit line — is always in the state's interest and new funding or policy legislation should reflect that.

1 http://www.pewtrusts.org/en/research-and-analysis/analysis/2015/02/24/funding-challenges-in-highway-and-transit-a-federal-state-local-analysis

States should find ways to reward innovation and efficiency by increasing competition.

State lawmakers should find ways to direct funds to ambitious and innovative projects led by local governments large and small, awarded on the merits and return on investment. Competitive grant programs — like the federal TIGER program, **Pennsylvania**'s multimodal fund created in their 2013 funding legislation, **Virginia**'s regional competitions for funds and **Oregon**'s ConnectOregon program — are models for investing state funds in the best locally-driven projects.

APPENDIX: SUCCESSFUL LEGISLATION PASSED IN 2015

For the full list of states that considered legislation in 2015, details on each proposed bill, and states that were successful, please refer to our online resource tracking state transportation funding: http://t4america.org/maps-tools/state-transportation-funding/

Delaware

HB 140 – Enacted 7/1/15

The bill will generate $23.9 million annually by increasing several vehicle and license fees, including a 0.5-percentage-point increase in the vehicle sales tax. DelDOT leadership has indicated the agency will focus these new funds on road repair and maintenance.

Georgia

HB 170 – Enacted 5/4/2015

HB 170 will Increase fuel excise tax to 26 cents per gallon (29 cents per gallon for diesel), index the excise fuel tax rates to both average vehicle fleet efficiency and the consumer price index (used until July 2018), and exempts fuel from current sales tax — except for the 1 percent that counties impose. It 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. It institutes a $5-per-night fee for short-term lodging, made exclusively for transportation purposes in the state. It will also amend the local option sales tax (T-SPLOST) law to allow any county to raise a local sales tax of up to 1 percent with approval of the county commission and voter referendum. Mayors or other local government leaders in the county would identify road, bridge, transit, rail, port and airport projects to be funded before the tax was put to approval by the county commission and voters. Counties would be allowed to bond against this revenue. Under the existing law which this bill would amend, a local option sales tax referendum could only be held at a date set by the legislature and only across a region defined by the legislature. The timing and the size of the district were cited as factors in the notable defeat of the Atlanta region T-SPLOST in 2012.

Idaho

HB 312 – Enacted 4/10/2015

HB 312 will raise the state gas tax by 7 cents per gallon (to 32 cents per gallon) and increase 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 will also dedicate some excess dollars from the general fund to statewide road projects. In total, the bill will increase revenues for transportation by $94 million per year.

Iowa

SF 257 – Enacted 2/24/15

Increases fuel taxes by 10 cents per gallon and increases vehicle permit fees to raise $215 million for roads and highways annually. It was passed through a bipartisan legislature and signed by Governor Terry Branstad (R).

Kentucky

HB 299 – Enacted 3/25/2015

Raises the floor on the assessed wholesale fuel price, setting the minimum tax to 24.6 cents per gallon. The existing rate was 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.

Michigan

HB4614, HB4616, HB4370, HB4736, HB4737, HB 4738, SB414 – Enacted 11/10/15

In 2017 gas taxes will increase 7.3-cents-per-gallon and diesel taxes will increase 11.3-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 percent 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.

Nebraska

LB 610 – Enacted 5/14/2015

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. Governor Ricketts vetoed the bill but the legislature overrode his veto.

North Carolina

SB 20 – Enacted 3/31/2015

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 de facto tax due to the drop in fuel prices with no changes to its calculation. Beginning in January 2017, the gas tax is automatically adjusted based 75 percent on population increases and 25 percent on changes in the Consumer Price Index. The result is a $13.5 million reduction in transportation revenues in the short-term, but a long-term gain from changes in the calculation in the gas tax.

South Dakota

SB 1 – Enacted 3/30/2015

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.

Texas

SJR 5 – Enacted (approved by voters)

This amendment will set 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 percent 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). The measure was approved by Texas voters, 83-17 percent.

Utah

HB 362 – Enacted 3/27/2015

HB 362 raises the tax on gas from 24.5 cents per gallon to a 12 percent 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). The law commissions a study of a road-usage charge revenue system 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.

Washington

SB 5987 – Enacted 7/15/2015

The package will raise $16.1 billion over 16 years by increasing the fuel tax by 11.9 cents per gallon over two years and increasing vehicle weight and drivers license fees. The package 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. It will allow Sound Transit to impose a vehicle tax of up to 0.8 percent, an additional 0.4 percent sales tax, and/or a property tax of 25 cents per thousand dollars by referendum. It also increases 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); allows transit benefit districts to impose a sales and use tax of up to 0.3 percent by referendum; and allows for the creation of passenger ferry funding districts.

You can read more about Sound Transit's referendum on T4America's blog.[1]

1 http://t4america.org/2015/10/29/seattle-making-smart-decisions-today-to-continue-their-citys-renaissance-tomorrow/