

Transportation Development Association



Issue Paper #8

Gas Tax Indexing Works for Wisconsin

*This is the eighth in a series of issue papers on key
transportation topics facing the state of Wisconsin*

State budget watchers recently breathed a collective sigh of relief over new quarterly tax collections showing that General Fund revenues had grown more than 3%, hoping it was a sign Wisconsin was on course to meet this fiscal year's projected 5.1% increase in revenues. The additional revenue from the two primary General Fund taxes – income and sales – comes despite a 2003-05 budget that made no changes in these tax rates.

Transportation advocates statewide were also relieved when Governor Doyle and legislative leaders recently voiced their support for gas tax indexing, which automatically adjusts the gas tax rate so that the main source of transportation revenue can also grow with the economy like General Fund taxes.

Gas tax indexing, which includes both regular gas and diesel fuel, was enacted in 1983 to stabilize funding to meet the growing needs of Wisconsin's multimodal transportation system. In the 15 years prior to indexing, high inflation and decreasing fuel consumption resulting from more fuel efficient vehicles had decimated the purchasing power of gas tax revenues. Because the gas tax provides nearly 64% of state transportation revenue used to fund all transportation programs, policymakers took action to ensure the long-term stability of this vital revenue stream. Despite the transportation funds generated by indexing, current revenue is still not sufficient to meet the growing needs of the state's multimodal transportation system.

How Indexing Works

Under indexing, Wisconsin's gas tax (currently 28.5 cents per gallon) is adjusted each April 1 by a formula based upon the Consumer Price Index.

The original indexing formula adjusted the gas tax based upon inflation measured by the Highway Maintenance Cost Index and overall fuel consumption. The consumption factor was included to compensate for fuel efficient vehicles that used less gas while traveling more miles putting more strain on the system. In 1991, the legislature replaced the Highway Maintenance Cost Index with the Consumer Price Index. The indexing formula was further modified in 1997 when the legislature removed the consumption factor.

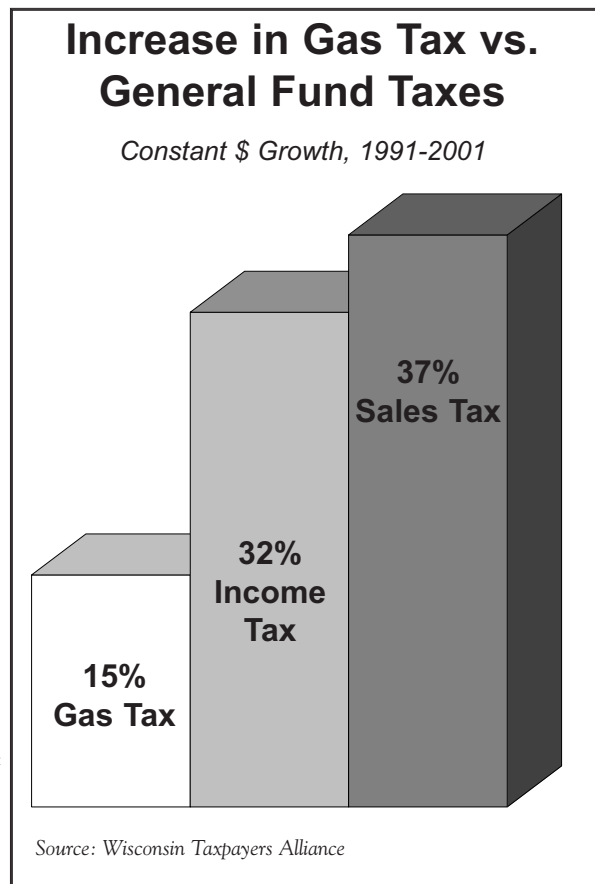
While indexing typically increases the gas tax rate, the change is negligible when compared to the frequent price fluctuations at the pump. The average

annual indexing increase since 1985 has been less than one-half cent, while the price consumers pay for gas has fluctuated as much as 34 cents per gallon from one year to the next. In fact, since indexing was implemented there have been three years where the rate actually decreased or stayed the same.

Gas Tax vs. General Fund Taxes

Wisconsin's gas tax rate per gallon is fixed and does not rise or fall relative to short-term changes in the price of gas. Adjustments due to indexing have had far less impact on taxpayers than the income and sales taxes they pay as their salaries and the price of goods increase.

During the 1990s, Wisconsin income tax and sales tax revenues grew 32% and 37% respectively, *without any rate increases* at the state level (the income tax rate actually decreased in the 1990s). During the same period gas tax revenues grew only 15%, which included annual rate adjustments associated with indexing and a one-cent per gallon increase adopted by the legislature in 1997.



Comparing the taxes associated with the purchase of a new vehicle highlights the growth disparity between General Fund taxes and the gas tax. In 1990, the average price of a new vehicle was approximately \$12,000. Today, that price is closer to \$22,000. With no change in the state's 5% sales tax, the taxpayer would have paid \$600 into the General Fund in 1990 and approximately \$1,100 this year – an increase of 83%.

The growth rate is much lower for gas tax revenues. While the average car's fuel efficiency has remained constant at about 28 miles per gallon since 1990, indexing has allowed gas tax revenues to at least keep pace with inflation. At 28 miles per gallon, a vehicle uses 429 gallons of fuel to travel 12,000 miles. That means the motoring taxpayer would have paid \$92 in 1990 (429 x 21.5 cents/gallon) and \$122 today (429 x 28.5 cents/gallon), an increase of 33%.

Indexing Repeal Devastating

Because the gas tax is Wisconsin's primary source of state transportation revenue, a repeal of gas tax indexing would have negative consequences for every transportation program in the state. An analysis

done by the Department of Revenue on a recent proposal to eliminate indexing in Wisconsin pointed out that the Transportation Fund could lose as much as \$59 million in FY 2006 and \$82 million in FY 2007. The cumulative revenue loss to the Transportation Fund between FY 2003 and FY 2007 would be more than \$200 million if the proposal were enacted.

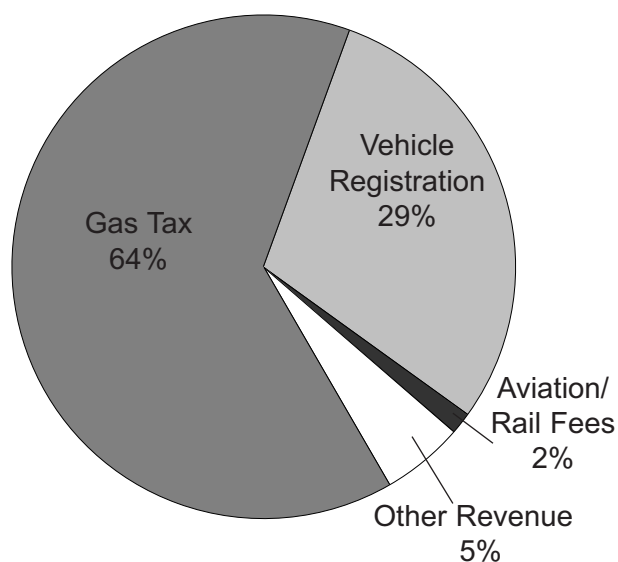
This reduction would be particularly harmful at a time when the state is looking for ways to finance major transportation projects like the Marquette Interchange and Southeast freeway reconstruction, as well as local roads, transit systems, rail projects, and airport expansion.

Transportation investments create jobs and provide for economic growth. Recent economic analyses have shown that Wisconsin realizes a return of \$3 for every \$1 invested in transportation. As a state, we should be looking to maximize this return by protecting the gas tax user fee system and developing new sources of revenues to broaden the base of the transportation fund.

How Wisconsin Funds Transportation

- Wisconsin is unique nationally relying almost exclusively on the gas tax and vehicle registration fees to fund the state's portion of all transportation programs.
- The gas tax and vehicle registration fees make up more than 90% of state transportation user fees.
- Indexing allows Wisconsin to keep pace with inflation in all transportation programs.

2003-05 State Transportation Revenue





Transportation Development Association

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#2 The Cost of Transportation Fund Bonding: Cash or Charge?

#3 Transportation Funding: How Does Wisconsin Compare?

#4 Public Transit Critical to Balanced Transportation

#5 Warning: Traffic Congestion Ahead

#6 Moving Forward: The Benefits of Commuter Rail

#7 Local Roads: Wisconsin's Everyday Connection

The Transportation Development Association of Wisconsin is a statewide, nonprofit organization working for an efficient transportation system for Wisconsin that addresses safe mobility and economic growth. To receive a copy of previous issue papers or for further information, please contact the TDA office:

(608) 256-7044 or general@tdawisconsin.org

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www.tdawisconsin.org

Transportation Development Association of Wisconsin
131 West Wilson Street, Suite #302
Madison, WI 53703