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## **Spaulding proposes gas-tax increase**

By Peter Hirschfeld Vermont Press Bureau

MONTPELIER – Steep budgetary shortfalls threaten to undermine the state's transportation system unless Vermont levies a new tax on gasoline and diesel purchases, according to a report issued by State Treasurer Jeb Spaulding.

The recent decline in transportation revenue has exacerbated a funding gap that jeopardizes the state's ability to keep pace with transportation needs, the report found. A 5-cent-per-gallon tax on unleaded gasoline and diesel, Spaulding said Wednesday, would raise \$20 million per year and provide the financial wherewithal to resolve a backlog of infrastructure projects.

"What's abundantly clear is we're going backwards in terms of our ability to remediate the situation with regard to aging bridges," Spaulding said.

"... What my office is suggesting is 5 cents a gallon that would go into a restricted fund to be used for debt service for bonding aimed at bridge rehabilitation and replacement."

Spaulding prefers to call his proposal a "Motor Fuels Distributor Infrastructure Assessment" as opposed to a gas tax, but the semantic maneuvering is unlikely to win over a Douglas administration that has long opposed any increase in the gas tax.

David Dill, secretary of the Agency of Transportation, said he's in favor of generating revenue for the ailing transportation budget. But he said alternate streams are preferable to Spaulding's new proposal.

"I'm not real enthused about that," Dill said. "We believe adding this tax hurts the average Vermonter who is struggling with energy costs."

Spaulding said the transportation situation demands medicine, however sour, and that failing to raise additional revenues now could require the need for "more draconian measures in the future."

The scope of Vermont's funding shortfall varies widely, depending on who's crunching the numbers. A report prepared by the Legislature's Joint Fiscal Office found that, at current funding levels, Vermont faces a deficit of \$109 million annually over the next 20 years for bridge replacements and repairs.

According to Agency of Transportation's own figures, the state needs between \$900 million and \$1.1 billion over the next 10 years to meet its "structural performance goals" with regard to bridges. Using those more conservative figures, Spaulding said, Vermont is eyeing an annual funding gap of between \$30 million and \$50 million.

The figures include only costs for bridges, not roads and pavement expenses.

"The fact is that bridges are getting further and further into disrepair, and it's going to cost us more and more to fix them if we let the situation deteriorate further," Spaulding said. "With the current revenue stream going down, we've got a recipe for disaster."

Spaulding said revenues from the new tax would cover payments on a bonding package that would raise roughly \$150 million for new projects.

Bonding for road projects has had qualified support in the Statehouse – last session, Gov. James Douglas proposed and ultimately passed a five-year, \$50 million bonding package.

But Spaulding said Vermont cannot "borrow its way out of the problem." Any additional bond packages, he said, must include new revenue streams to cover the debt service.

"If we borrow, we have to pay it back, and since we already have declining revenue streams, to borrow without figuring out where the debt service is going to come from seemed inappropriate ... to me."

Spaulding prepared the report at the behest of the Legislature, which passed a bill last year directing him to analyze infrastructure needs and the wisdom of bonding. He worked over the summer and fall with financial analysts from Citi and Morgan Stanley.

Spaulding said he considered other revenue streams, including tolling, vehicle taxes, impact fees, sales taxes and mileage-based options. None of the concepts, he said, worked as effectively and seamlessly as a per-gallon increase in the gas tax. The state gas tax of 20 cents has remained flat since 1997.

"This is incredibly simple to administer," Spaulding said. "If you take into account the significant amount of gas sold to out-of-staters, that has a significant advantage in terms of costs being passed on."

Spaulding stressed that the tax revenues would go directly into a restricted fund to be used only for bridge costs. The guaranteed revenue, he said, would mitigate any adverse impact that increased bonding might have on the state's flawless credit rating.

Spaulding said now is a good time to bond. With interest rates "on the lower end of the spectrum," he said, bonding would allow the state to move forward on much-needed projects while avoiding inflationary pressures that will balloon project costs in the future.

Dill said his agency has already proposed alternate revenue streams, notably a fee increase at the Department of Motor Vehicles that would raise some \$12 million annually. He also said that federal action – be it in the form of a stimulus package early next year or the federal transportation reauthorization bill slated for next fall – could alleviate much of the financial pressure.

Dill also said he wants to eliminate the T-Fund raid, in which tens of millions of dollars are funneled annually from the Transportation Fund to the General Fund. Dill said he is also eager to discuss a proposal contained in Spaulding's report that would dedicate the whole of the purchase and use tax to the Transportation Fund. That revenue is now split between the transportation and education funds.

"We have some infrastructure problems we need to deal with," Dill said. "... The question then becomes what revenue options do people agree are the least burdensome on Vermonters."

Spaulding said he wants to Legislature to pass his proposal at the outset of the new biennium. The quick timetable, he said, would get money out the door for projects next spring and summer, providing jobs and other financial benefits during an economic downturn.

Spaulding's proposal to increase the gas tax is not without precedent. Just two years ago, a proposal to increase the gas and diesel tax made it through the House before failing in the Senate.

Any revived proposal is almost sure to meet with similar resistance. Sen. Phil Scott, a Washington County Republican who sits on the Senate Transportation Committee, said he cannot support an increase in the gas tax until the annual transfer from the Transportation Fund to the General Fund is eliminated.

He also wants to see whether congressional action at the federal level might resolve the problem.

"I think there's a possibility we would not have to tap taxpayers any further if all the stars are aligned just right," Scott said. "But time will tell. It really is a big question mark."

Spaulding said new federal funding is unlikely to solve the problem on its own. Vermonters, he said, are coming to understand the gravity of the situation, and will recognize the necessity of financial sacrifice.

"I think Vermonters understand that there is no free lunch out there," he said. "... I'm confident you can tell the truth and people can understand it."