

Indexing the Gas Tax to Inflation

by James Quintero
Policy Analyst, Center
for Fiscal Policy

Key Points

- Indexing the statewide gas tax to inflation, as measured by the Producer Price Index for street and highway construction, sets tax increases on autopilot.
- In three of the last five years, the annual percentage growth in the Producer Price Index has grown by double digits meaning that taxpayers are that much more likely to face the maximum permissible increase in fuel taxes.
- Alternatives exist for raising additional transportation revenue without increasing taxes.

Some lawmakers at the state Capitol are calling for indexing the motor fuels tax rate to changes in the Producer Price Index (PPI)* citing a loss of buying power since the last time diesel and gas taxes were raised to 20 cents per gallon in 1991.

While it's true that inflation has diminished the value of a dollar to an extent, that is no reason to overreact by putting tax increases on autopilot into the foreseeable future.

Tax Increases on Autopilot

As it stands today, the committee substitute to House Bill 9[†] links the motor fuels tax to increases or decreases in the Producer Price Index for highway and street construction.

Under this methodology, as the price index increases from one fiscal year to the next, the state's motor fuels tax rate automatically adjusts—up to three cents per biennium. And as the price index declines from one fiscal year to the next, the state's motor fuels tax rate also decreases; the one stipulation being that the tax rate cannot fall below the current level of 20 cents.

However, by linking the amount motorists pay at the pump with the growth (or decline) in PPI, Texans are likely to see the maximum permissible motor fuels tax increase every biennium. That's because the index is prone to increase more so than it is to decrease.

Over the last five years, the annual percentage changes in the PPI have never decreased, but have increased significantly.

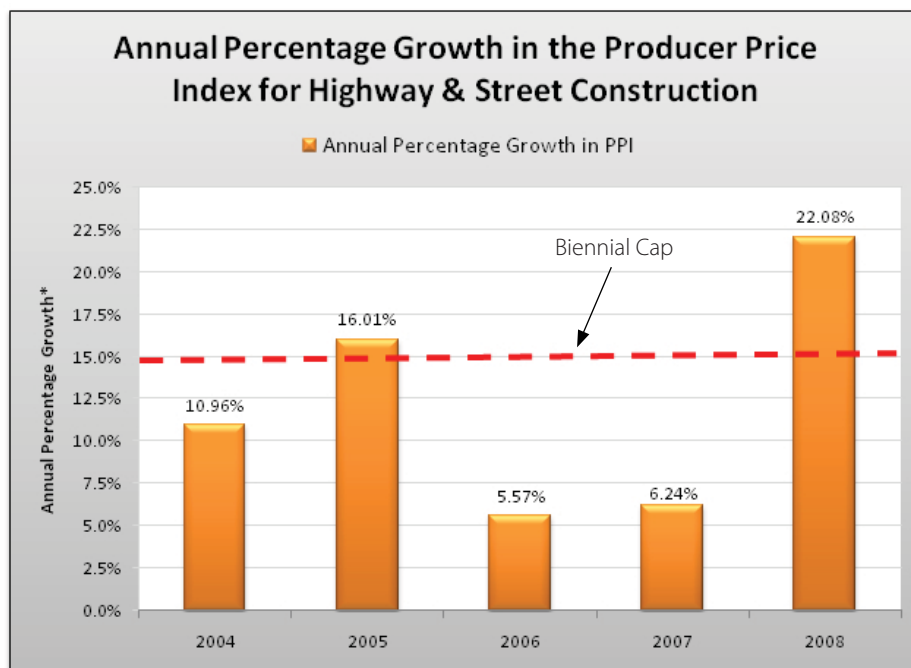
According to the Bureau of Labor Statistics, 2004, 2005, and 2008 saw double digit growth in this inflation as measured from September 1 to September 1 of the preceding year. If this trend continues, it is very likely that Texans will hit the biennial cap in one year's time.

Under House Bill 9, the maximum permissible amount of fuel tax increases that can occur in one biennium is three cents—which is roughly 15 percent of the current 20 cent per gallon rate.

As illustrated in Figure 1 (on back), annual inflation increases in the PPI twice exceeded the biennial percentage growth limit of 15 percent laid out in House Bill 9, in 2005 and 2008. That means higher

* According to the Bureau of Labor Statistics, the Producer Price Index is a family of indexes that measures the average change over time in the selling prices received by domestic producers of goods and services. PPIs measure price change from the perspective of the seller.

† As the legislative process moves forward, it is likely that House Bill 9 will be combined with Senate Bill 855 to produce a comprehensive transportation tax bill.



Source: Bureau of Labor Statistics

*Percentage growth is measured from September 1 to September 1 of the preceding year.

prices at the pumps and motorists with less money in their pocket as we continue through uncertain economic waters.

If the Legislature finds it is necessary to create new funding opportunities for transportation, then it should heed the Foundation's suggestions in the newly released study: The Existing Local Option for Transportation.

Bottom line: by linking the motor fuels tax to changes in the PPI, legislators are likely setting up Texans for a three cent per gallon increase in the motor fuels tax every two years until 2022. ★

