

The Effect of Higher Gas Taxes on Texas Motorists

by The Honorable
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KEY POINTS

- If the Legislature approves a gas tax rate increase this session, it could mark the fourth time since the mid-1980's that Texas motorists will have to pay higher taxes at the pump.
- If the two transportation bills are adopted, motorists in the state could potentially see a 125 percent rate increase.
- Additional funding for transportation-related projects could be made available using existing revenue if local officials would reprioritize spending, use existing taxing capacity, and end the practice of diversions.*

Texas motorists will soon pay much more to commute, if some lawmakers get their way.

Two measures working their way through the House—Senate Bill 855 (SB 855) and House Bill 9[†] (HB 9)—would allow select counties to impose a voter-approved 10¢ per gallon local option gas tax and index the statewide motor fuels tax to inflation[‡].

Proponents of the measures argue that transportation funding is in a state of “crisis” and that without additional tax increases, money to build rail and roadways will soon run out.

However, as the Foundation’s research[§] and legislative testimony** have shown, the transportation funding issues that plague Texas stem from a matter of spending priorities, not insufficient revenues.

Many local communities have chosen to fund economic development programs or public safety initiatives—at the expense of traffic congestion—by spending money that could have been used for transportation projects instead. In addition, the state diverted close to \$1.6 billion¹ during the 2008-09 biennium to supplement the budgets of the Historical Commission, the Lufkin Tourist Information Center, the Commission on the Arts, the Department of Public Safety, and others.

Nonetheless, gas tax proponents continue to argue that the state has not had a gas tax increase since 1991, and, as such, “it’s time.”

Proposed Gas Tax Increase Would Mark Fourth Rate Increase Since Mid-1980s

While the Legislature has not approved a gas tax increase since 1991, taxpayers have still seen three rate increases since the mid-1980s that have quadrupled the taxes motorists pay at the pump.

According to the Texas Department of Transportation (TxDOT), the gas tax rate was doubled in 1984 from 5¢ per gallon to 10¢ per gallon; then again in 1987, the per gallon tax rate rose from 10¢ to 15¢; and finally in 1991, the rate per gallon was pushed to 20¢, as seen in Figure 1 (page 2).

Now the Legislature is seriously considering SB 855, which would allow most Texas counties to call an election to increase the gas tax rate by an additional 10¢ per gallon, pushing the total rate to 30¢ per gallon starting in 2014.

If the rate increase is approved, it will mark the fourth time in 25 years that Texans will be forced to pay more to the state government when they fill up.

* For additional information on alternative methods to increase transportation funding, <http://www.texaspolicy.com/pdf/2009-04-21-transtax-testimony-jkSOURCED.pdf>.

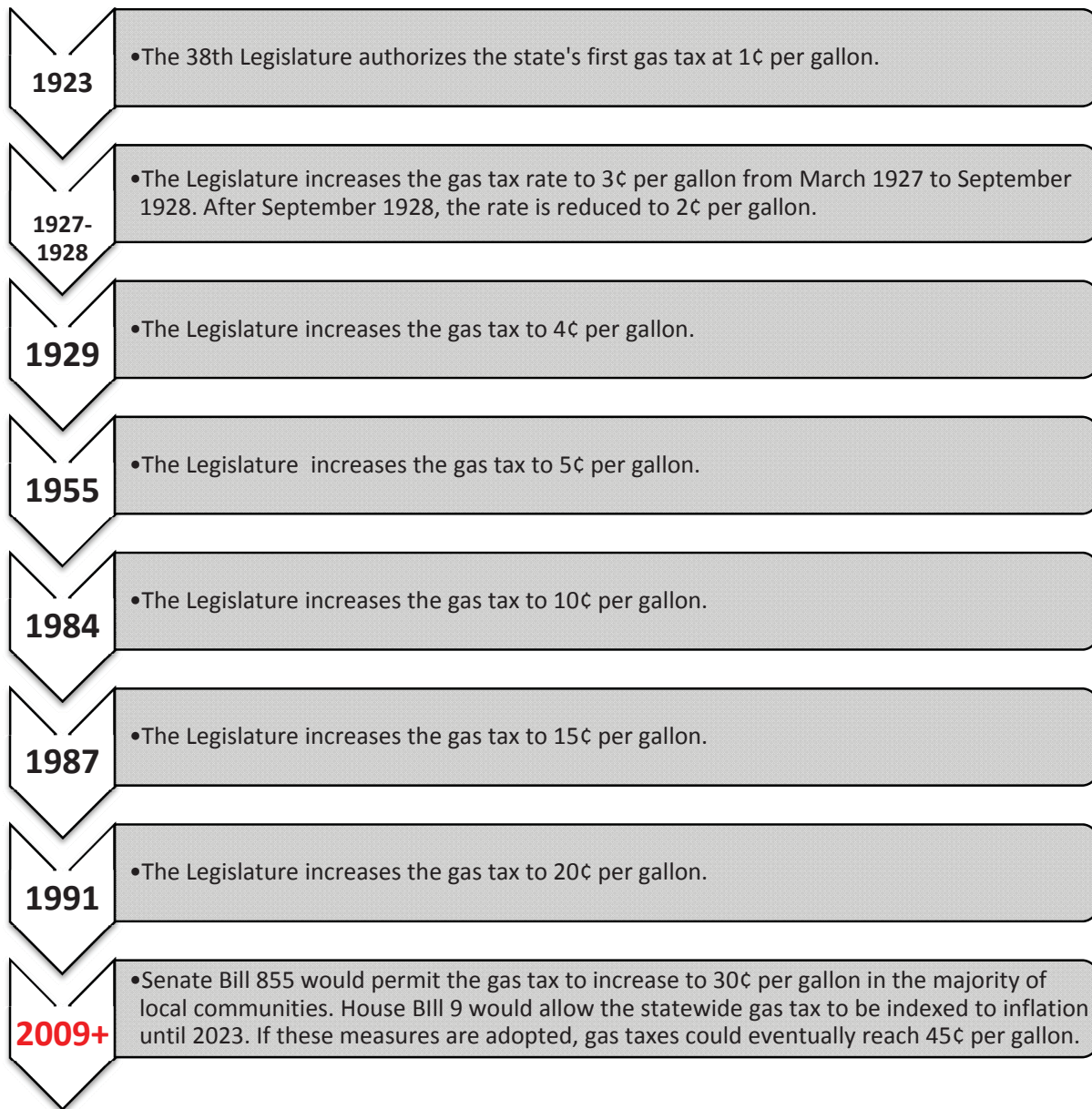
[†] As the legislative process moves forward, it is expected that House Bill 9 will be folded into SB 855 to produce one large transportation tax increase bill.

[‡] As it is currently written, the committee substitute to House Bill 9 indexes the motor fuels tax to changes in the Producer Price Index (PPI) for highway and street construction as published by the Bureau of Labor Statistics.

[§] The Foundation’s research on alternative transportation funding options can be found at: <http://www.texaspolicy.com/pdf/2009-04-PP13-transtax-jq-thSourced.pdf>.

** The Foundation’s testimony to the Texas Legislature on the perils of increased transportation taxes can be found at: <http://www.texaspolicy.com/pdf/2009-03-TransTax-testimony-packet-jk.pdf>.

Figure 1: A Brief History of the Gas Tax in Texas



Source: The Texas Department of Transportation

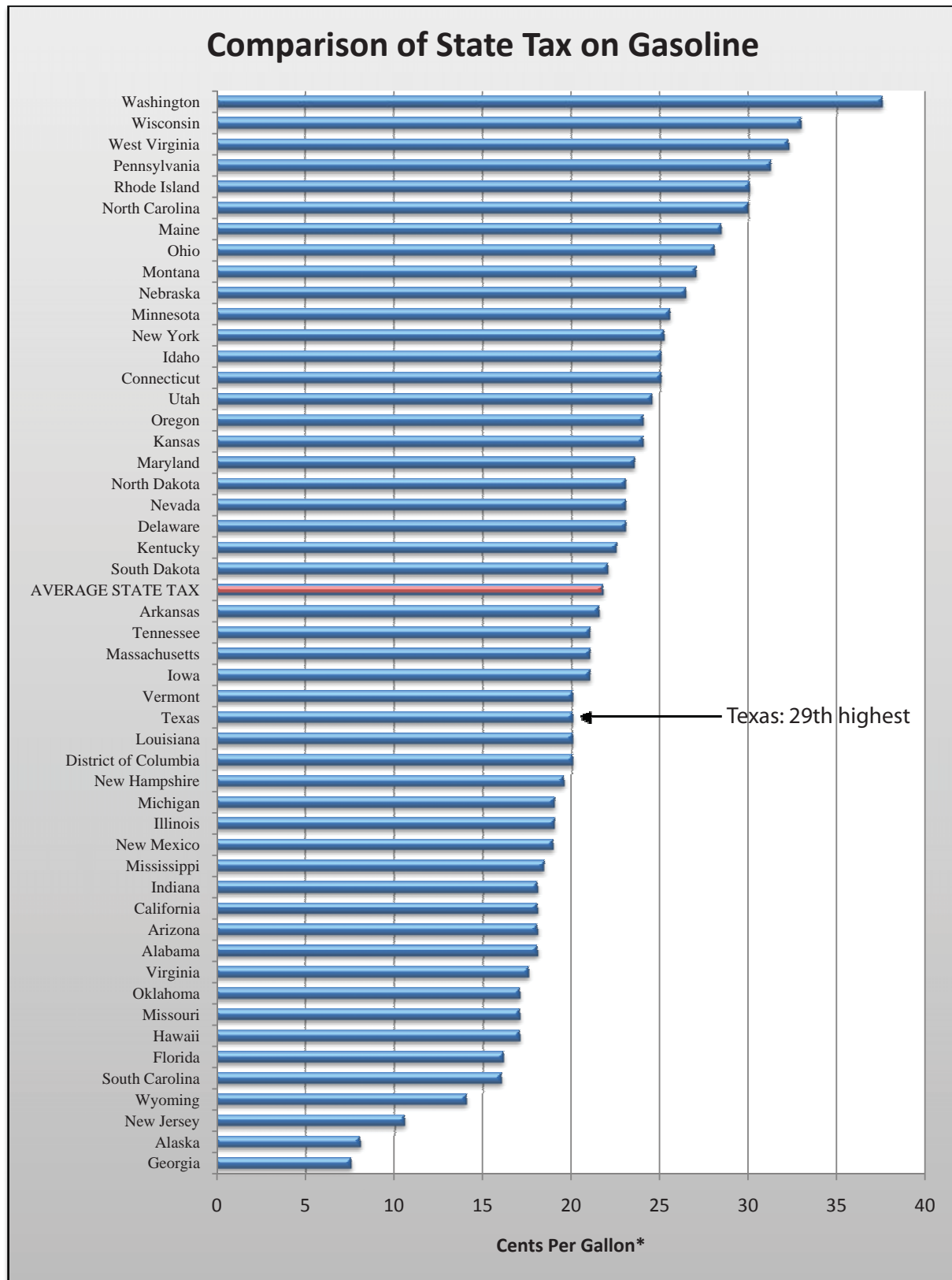
As the timeline demonstrates, the state has gone much longer periods without a tax increase. From 1929 to 1955, the state went through a 26 year period without a rate increase. From 1955 to 1984, motorists went almost 30 years without seeing a tax increase.

State Gas Tax: On Par with Rest of Nation

Even though Texas has avoided an increase in the motor fuels tax since 1991, the levy is, by comparison, still on par with the rest of the nation. According to the Energy Information Administration (EIA),* the average state gas tax is 21.72¢ per gallon;² slightly higher than Texas' current 20¢ gas tax rate.

* The Energy Information Administration (EIA), created by Congress in 1977, is the statistical agency of the U.S. Department of Energy and provides unbiased energy data, analysis, and forecasting. By law, EIA's products are prepared independently of the Administration's policy considerations.

Figure 2: Comparison of State Gas Taxes



Source: Energy Information Administration

*Local option fuel taxes are permitted in Alabama, California, Florida, Georgia, Hawaii, Illinois, Mississippi, Missouri, Montana, Nevada, New York, Oregon, South Carolina, and Washington.

As compared to other states across the nation, Texas’ state gasoline tax is tied for 29th. Were indexing and the local option to occur immediately, the state could easily rank in the top five states with the highest motor fuels tax.

Indexing Puts Gas Tax Increases on Autopilot

As the Foundation’s research illustrated in its May 2009 Policy Brief, “Indexing the Gas Tax to Inflation,” House Bill 9 puts Texas on course for a 3¢ rate increase nearly every biennium due to the growth in the Producer Price Index (PPI) for highway and street construction.

This means that if both tax measures are adopted, Texans could potentially face an additional gas tax rate increase of 25¢ per gallon by 2023 on top of the 20¢ they currently pay.

As illustrated in Figure 3, the total gas tax rates could potentially reach 45¢ per gallon in little more than a decade.

Should the tax on motor fuels reach 45¢ per gallon, it would represent a 125 percent increase over current rates.

These increases are being proposed despite the fact that revenue growth from the motor fuels tax has matched or exceeded population growth in most years since 1991, as shown in Figure 4.

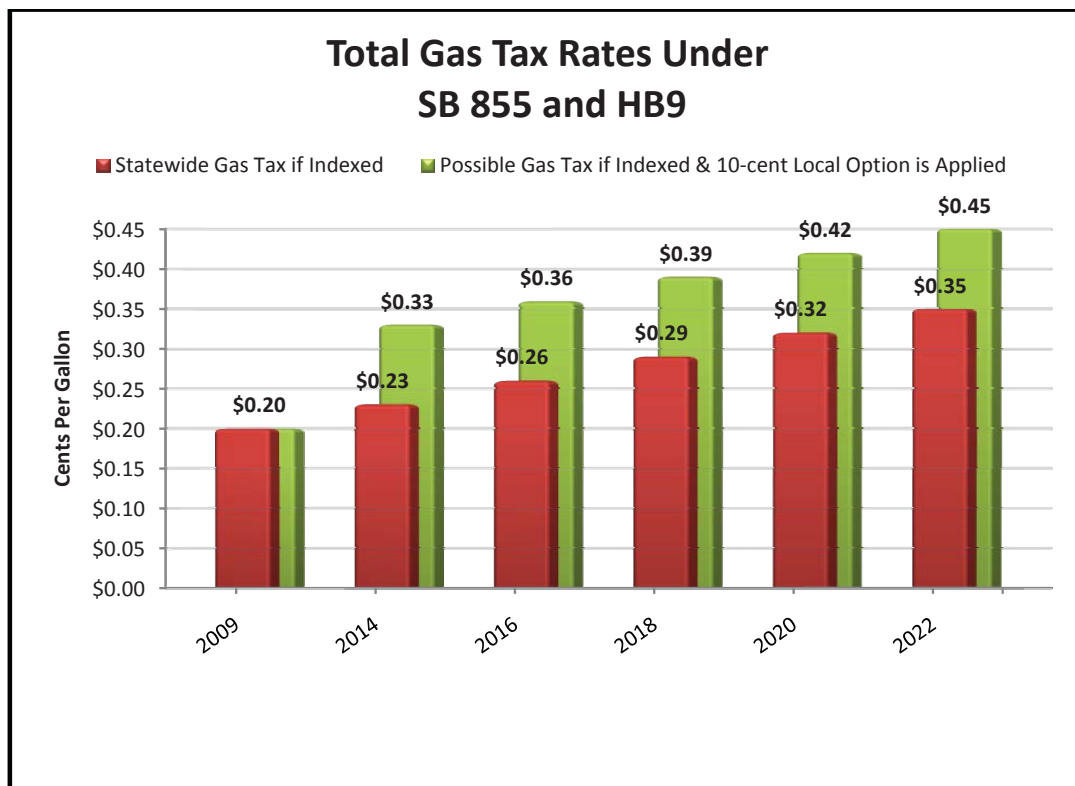
In 13 of the last 18 years, growth in revenue from the motor fuels tax has matched or exceeded the growth in population. While not all of the revenue collected has gone to pay for transportation, that decision is based on policy and is not a sign that revenue has been unable to keep pace with population.

Furthermore, many cities have chosen not to use sales tax capacity for transportation, as identified in “The Existing Local Option for Transportation: An Analysis of Existing Local Transportation Funding Tools.”

Impact on Taxpayers: Per Vehicle Costs

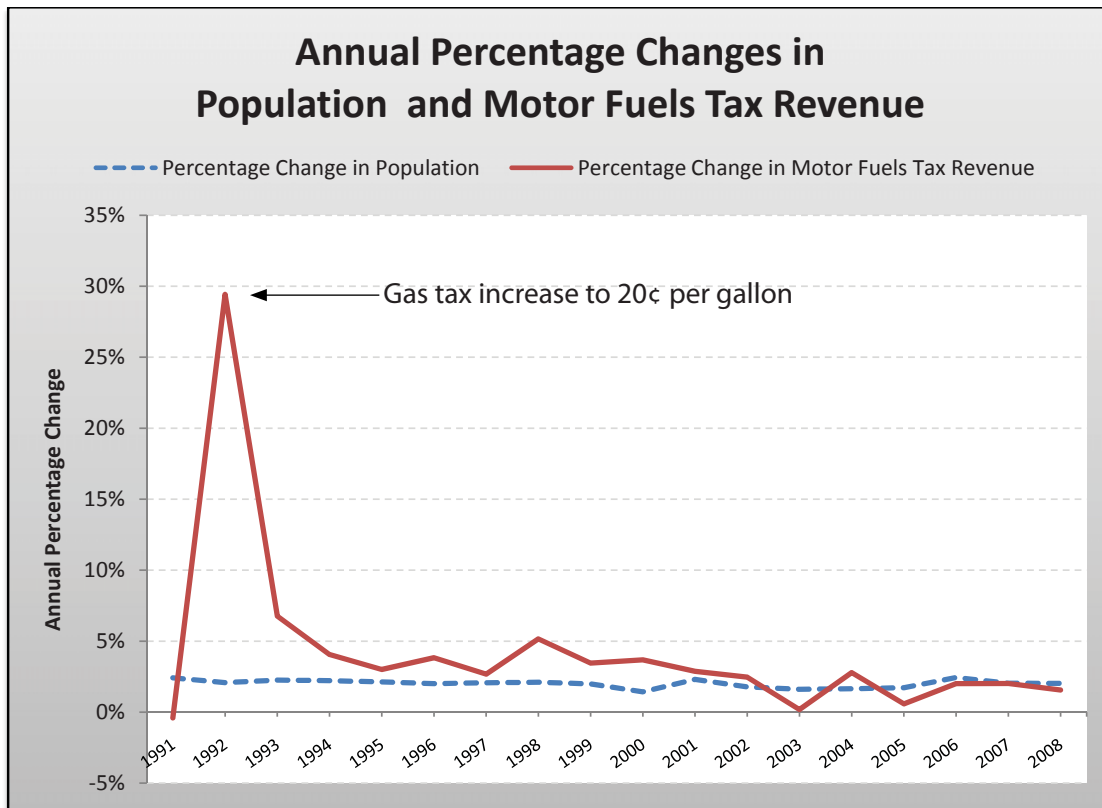
Too often the case for raising gas taxes is made from the perspective of the state—how much revenue *the state* needs or to what degree a tax increase/decrease would result in a revenue gain/loss for *the state*.

Figure 3: Growth of Texas’ Gas Tax Rates under SB 855 and HB 9



Note: Calculations assume a 3 cent biennial increase for the duration of House Bill 9

Figure 4: Comparison of Population and Motor Fuels Tax Revenue



Source: U.S. Census Bureau, Texas Comptroller of Public Accounts

The question that should be on the forefront of every legislator’s mind, however, is what impact will higher gas taxes have on taxpayers?

Texans struggling to keep their jobs do not need the additional burden of wondering how they are going to afford paying to get there. But that’s exactly what raising taxes in today’s economy will do.

By using the average number of highway miles driven divided by the average miles per gallon multiplied by the actual (adjusted) statewide gas tax average, the Foundation calculated what the cost increase to a single motorist might look like under the provisions of SB 855 and HB 9.

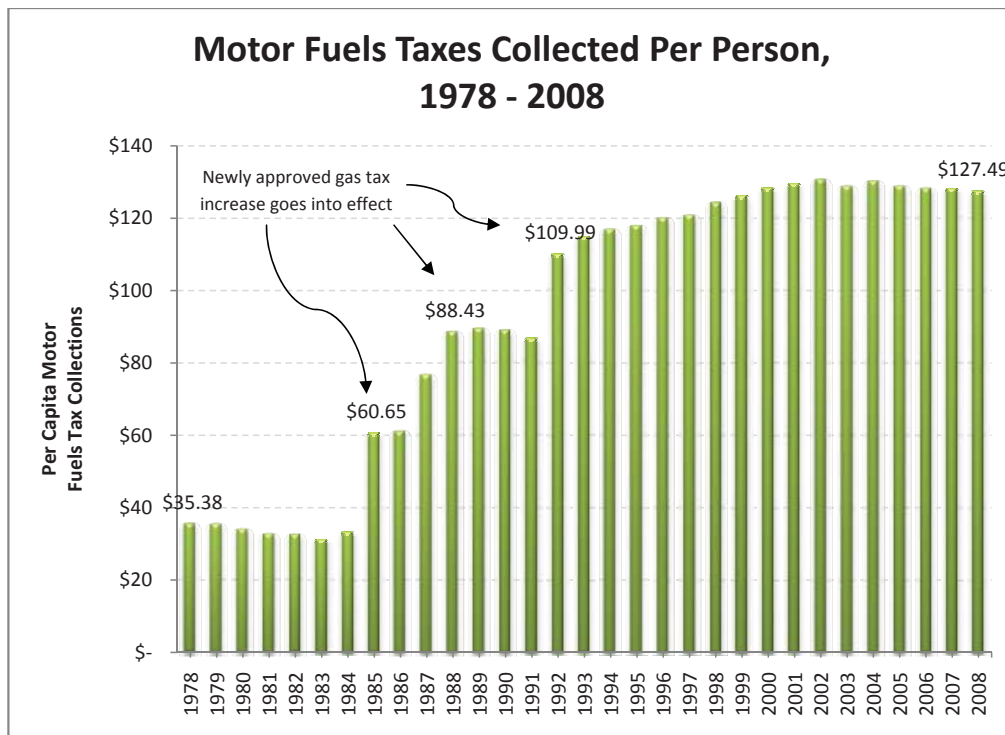
The results should concern those living on a tight budget.

Table 1: Impact of a Gas Tax Increase per Vehicle

WITHOUT SB 855 & HB 9		WITH SB 855 & HB 9	
Average Number of Highway Miles Driven ³	10,135	Average Number of Highway Miles Driven	10,135
Average Miles Per Gallon ⁴	÷ 17	Average Miles Per Gallon	÷ 17
Average Number of Gallons Used	596.2	Average Number of Gallons Used	596.2
Actual Statewide Price Per Gallon ⁵	x 2.21	Adjusted Statewide Price Per Gallon	x 2.46
Average Annual Gasoline Bill	\$1,317.60	Average Annual Gasoline Bill	\$1,466.65

Source: Calculations based on information provided by the Texas Department of Transportation; assumes the maximum permissible increase of 3 cents every biennium

Figure 5: Per Capita Motor Fuels Tax Collections



Source: Texas Comptroller of Public Accounts, Census Bureau

Under the complete provisions of SB 855 and HB 9, the average Texan would see his/her total gas tax bill increase from \$1,317.60 to \$1,466.65—an annual increase of about \$150 per vehicle.

Impact on Taxpayers: Per Capita Costs

On a per capita basis, Texans would see their gas tax bills increase significantly.

Using the three most recent gas tax increases—in 1984, 1987, and 1991—Texans can expect a per capita increase of up to \$30 the year after a tax increase is passed, if SB 855 and HB 9 are adopted. In 1985, per capita tax collections rose by \$27.43; in 1988, per capita tax collections rose an additional \$11.89 over the previous year; and in 1992, tax collections increased \$23.24.

Since the last time the gas tax was raised, per capita motor fuels tax collections have increased from \$109.99 to \$127.49.

Conclusion

Texans are worried about keeping their jobs—they shouldn't be worried about getting there.

The two proposals that the Legislature is now considering—SB 855 and HB 9—jeopardize the pocketbooks of those trying to get to and from work, school, and everywhere in between.

There are alternatives to raising the gas tax, as shown in the Foundation's research and testimony. However, as the Legislature comes to a conclusion on this issue, the tipping point on their decision making should be the impact these two proposals will have on taxpayers, and not on the revenue gain they could potentially have.

As we have demonstrated above, the impact of these two pieces of legislation will be onerous and burdensome, not to mention unnecessary. The state's gas tax rates are right on par with the rest of the nation and revenue growth has kept pace with population growth; however, a major problem is that significant amounts of state and local revenue have been diverted to other places—and the negative impact on the taxpayers income will be significant.

The Legislature should reject these proposals and, instead, end diversions, re-examine state and local budgets for waste, and redirect existing local resources to fund transportation if the state and local communities are in such dire straits. ★

Endnotes

- ¹ Legislative Reference Library, General Appropriations Act for Fiscal 2008-09, <http://www.lrl.state.tx.us/citizenResources/ApproBillSections.cfm?billID=60463>.
- ² Energy Information Administration, "Federal and State Motor Fuels Taxes," *Petroleum Marketing Monthly* (May 2009) http://www.eia.doe.gov/pub/oil_gas/petroleum/data_publications/petroleum_marketing_monthly/current/pdf/enote.pdf.
- ³ Bureau of Transportation Statistics, "State Transportation Statistics 2007: Highway Vehicle-Miles Traveled (VMT)" (2007) http://www.bts.gov/publications/state_transportation_statistics/state_transportation_statistics_2007/html/table_05_03.html.
- ⁴ Association of Texas Metropolitan Planning Organizations, "Funding the Future: A Forecast of Transportation Finance" (24 Apr. 2009) <http://www.nctcog.org/trans/committees/sttc/Item8.sttc042409.pdf>.
- ⁵ American Automobile Association, "AAA's Daily Fuel Gauge Report: Current State Averages" (18 May 2009) <http://www.fuelgaugereport.com/sbsavg.html>.

About the Authors

The Honorable Talmadge Heflin is the Director of the Texas Public Policy Foundation's Center for Fiscal Policy. For 11 terms, Talmadge served the people of Harris County as a state representative. Well regarded as a legislative leader on budget and tax issues by Democratic and Republican speakers alike, he for several terms was the only House member to serve on both the Ways and Means and Appropriations committees.

In the 78th Session, Talmadge served as chairman of the House Committee on Appropriations. He navigated a \$10 billion state budget shortfall through targeted spending cuts that allowed Texans to avoid a tax increase.

James Quintero is a fiscal policy analyst at the Texas Public Policy Foundation. He joined the Foundation's Center for Fiscal Policy in March 2008 and contributes to the following issues: restricting the growth of taxation; appropriations reform; increasing governmental transparency at both the state and local level; and instituting expenditure limits.

Prior to joining the Foundation, James completed his Master's of Public Administration degree with an emphasis in Public Finance at Texas State University–San Marcos. His Applied Research Project, "Regional Economic Development: An Economic Base Study and Shift-Share Analysis of Hays County, Texas" is currently featured on the TSU website. During the course of his graduate studies, he also worked as a Graduate Research Assistant for the university's Scholarships and Financial Aid Administration Department.

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