

West Virginia Legislature
Joint Standing Committee on Finance
2006 - 2007 Interims

Senate Members

Senator Walt Helmick, Chair
Senator William R. Sharpe, Vice-Chair
Senator Billy Wayne Bailey
Senator Edwin Bowman
Senator Truman Chafin
Senator Larry Edgell
Senator Shirley Love
Senator Brooks McCabe
Senator Robert Plymale
Senator Roman Prezioso
Senator John Unger
Senator Donna Boley
Senator Karen Facemyer
Senator Jesse Guills
Senator Sarah Minear
Senator Vic Sprouse
Senator John Yoder

House Members

Delegate Harold Michael, Chair
Delegate John Doyle, Vice-Chair
Delegate Brent Boggs
Delegate Richard Browning
Delegate Sam Cann
Delegate Eustace Frederick
Delegate Nancy Houston
Delegate K. Steven Kominar
Delegate Margarette Leach
Delegate Corey Palumbo
Delegate Bill Proudfoot
Delegate Doug Stalnaker
Delegate Sally Susman
Delegate Ron Thompson
Delegate Scott Varner
Delegate H.K. White
Delegate Larry Williams
Delegate Bill Anderson
Delegate Bob Ashley
Delegate Larry Border
Delegate Mitch Carmichael
Delegate Allen Evans
Delegate Mike Hall
Delegate Christopher Wakim
Delegate Gil White

FINAL REPORT OF

THE JOINT STANDING COMMITTEE ON FINANCE

TO THE JOINT COMMITTEE ON GOVERNMENT AND FINANCE

January 9, 2007

Your Joint Standing Committee on Finance was assigned the interim study of the following topics during the 2006-2007 legislative interim period:

- SCR 77 - Requesting Joint Committee on Government and Finance study vehicle privilege tax exemption for new residents.
- Tax Reform and proposals put forth by the Governor on the subject
- SCR 47 - Requesting Joint Committee on Government and Finance study current and future highway financing.

Your Committee reports that it has received and adopted the reports and recommendations of its subcommittees on those matters. In addition, during the interim period, your Committee, with the approval of the Joint Committee on Government and Finance, commissioned the preparation of a study and report on the financing of West Virginia's highways. Pursuant to the commission, the West Virginia University Bureau of Business and Economic Research ("the Bureau") has prepared and submitted to your Committee its report documenting the following:

1. An update of relevant portions of the Bureau' 2004 report of the its comprehensive study of the financing of West Virginia's highways.
2. An update of long-term forecasts of the United States and West Virginia economies.
3. An explanation of additional funding options and revenue projections.
4. A review and summary of how other states are responding to the fiscal challenges associated with higher fuel prices.

All of those reports and recommendations are submitted with this report to the Joint
Committee on Government and Finance for its consideration.

Respectfully Submitted,

Senator Walt Helmick
Co-Chairman

Delegate Harold K. Michael
Co-Chairman

West Virginia Legislature
Joint Standing Committee on Finance
2006 - 2007 Interims
Subcommittee A

Senate Members:

Senator Ed Bowman, Chair
Senator Roman Prezioso
Senator John Unger
Senator Karen Facemyer
Senator John Yoder
Senator Walt Helmick, *Ex Officio*

House Members:

Delegate Margarette Leach, Chair
Delegate Bill Proudfoot, Vice-Chair
Delegate Nancy Houston
Delegate Sally Susman
Delegate Scott Varner
Delegate Larry Border
Delegate Mitch Carmichael
Delegate Chris Wakim
Delegate Harold Michael, *Ex Officio*

FINAL REPORT OF
SUBCOMMITTEE A

TO THE JOINT STANDING COMMITTEE ON FINANCE
January 9, 2007

Your Subcommittee A was appointed following the 2006 Regular Session of the 77th Legislature and assigned the following topics for study during the interim period:

SCR 77 – Requesting Joint Committee on Government and Finance study vehicle privilege tax exemptions for new residents.

During the 2006-2007 legislative interim period, Subcommittee A met and received information on these topics of study from state agencies, political subdivisions and other sources.

Subcommittee A REPORTS as follows:

On the issue of the vehicle privilege tax exemptions for new residents, representatives from the Wood County Assessor's Office, the Berkeley County Assessor's Office, West Virginia Division of Motor Vehicles and West Virginia University's Bureau of Business and Economic Research. The

Subcommittee examined information provided by those and others, including but not limited to, information providing:

–local issues related to non-compliance with vehicle registration laws, financial information related to the motor vehicle privilege tax, information regarding new resident privilege tax collection issue and a report “Financing West Virginia's Highways: An Update.”

Due to the lack of a quorum, there are no recommendations out of the committee.

Respectfully Submitted,

Senator Edwin Bowan
Co-Chair

Delegate Bill Proudfoot
Vice-Chair

West Virginia Legislature
Joint Standing Committee on Finance
2006 - 2007 Interims
Subcommittee B

Senate Members:

Senator Walt Helmick, *Chair*
Senator Bill Sharpe
Senator Brooks McCabe
Senator Bob Plymale
Senator Donna Boley
Senator Vic Sprouse

House Members:

Delegate John Doyle, *Chair*
Delegate Sam Cann
Delegate Corey Palumbo
Delegate Douglas Stalnaker
Delegate Larry Williams
Delegate Bob Ashley
Delegate Mike Hall
Delegate Gil White
Delegate Harold Michael, *ex officio*

FINAL REPORT OF

SUBCOMMITTEE B

TO THE JOINT STANDING COMMITTEE ON FINANCE

January 9, 2007

Your Subcommittee B was appointed following the 2006 Regular Session of the 77th Legislature and assigned the following topics for study during the interim period:

Studying Tax Reform and proposals put forth by the Governor on the subject.

During the 2006-2007 legislative interim period, Subcommittee B met and received information on these topics of study from state agencies, political subdivisions and other sources.

Subcommittee B **REPORTS** as follows:

Representatives from the West Virginia Department of Revenue, West Virginia Association of Counties, various county and municipal officials, Center on Budget & Policy Priorities, and the West Virginia State Certified Public Accountants Society addressed the Subcommittee on the following subjects: West Virginia's Economy, Budget and Tax Structure; Tax Modernization; an

update on U.S. Steel Mining Co. et. al. v. Helton; proposals to increase certain taxes and dedicate the proceeds to municipal police departments; and updates on the Streamline Sales and Use Tax Agreement, WV Tax Modernization - Local Issues and Combined Reporting - A Key to a Robust and Fair State Corporate Income Tax in West Virginia.

In November, the Governor called the Legislature into Extraordinary Session to deal with tax measures. The proposals put forth by the governor were introduced at that time and members of Subcommittee B studied the proposals and made recommendations. The result of the session was passage of ten tax bills.

Your Subcommittee B **RECOMMENDS** that the Legislature continue to study the issue of tax reform.

Your Subcommittee B **FURTHER RECOMMENDS** passage of a bill or resolution addressing the implementation of Combined Reporting for Corporate Net Income Tax in West Virginia during the 2007 Regular Session.

Respectfully Submitted,

Senator Walt Helmick
Co-Chair

Delegate John Doyle
Co-Chair

West Virginia Legislature
Joint Standing Committee on Finance
2006 - 2007 Interims
Subcommittee C

Senate Members:

Senator Billy Wayne Bailey, *Chair*
Senator Truman Chafin
Senator Larry Edgell
Senator Shirley Love
Senator Sara Minear
Senator Jesse Guills
Senator Walt Helmick, *Ex Officio*

House Members:

Delegate Steve Kominar, *Chair*
Delegate Brent Boggs
Delegate Richard Browning
Delegate Eustace Frederick
Delegate Ron Thompson
Delegate H. K. White
Delegate Bill Anderson
Delegate Allen Evans
Delegate Harold Michael, *Ex Officio*

FINAL REPORT OF

SUBCOMMITTEE C

TO THE JOINT STANDING COMMITTEE ON FINANCE

January 8, 2007

Your Subcommittee C was appointed following the 2006 Regular Session of the 77th Legislature and assigned the following topics for study during the interim period:

SCR 47 - Requesting Joint Committee on Government and Finance study current and future highway financing.

During the 2006-2007 legislative interim period, Subcommittee C met and received information on these topics of study from state agencies, political subdivisions and other sources.

Subcommittee C **REPORTS** as follows:

Representatives from the West Virginia Division of Highways, Division of Motor Vehicles, Contractors' Association of West Virginia, and West Virginia University Bureau of Business and

Economic Research presented information to the subcommittee on the topic of the future of West Virginia's Highway Systems and the analysis of the State Road Fund and policy options.

Your Subcommittee ***RECOMMENDS*** that the Legislature support legislation proposed by the Division of Highways which increases funding for the road fund and includes, but is not limited to: a public-private transportation facilities act; legislation eliminating funding the public service commission from the road fund; legislation directing proceeds from various highway related sales tax to the road fund; legislation transferring the courtesy patrol to DHHR or Division of Tourism; legislation imposing utility fees; legislation increasing driver's license fees and trip permit fees; and legislation allowing the Division to transfers funds between accounts and combining many DMV accounts into a master fees account.

Your Subcommittee ***RECOMMENDS*** that the Legislature continue to study the issue of highway funding.

Respectfully Submitted,

Senator Billy Wayne Bailey
Co-Chair

Delegate K. Steven Kominar
Co-Chair

**Financing West Virginia Highways:
An Update**

**Prepared for:
Joint Committee on Finance
West Virginia Legislature**

**Prepared by:
Dr. Tom S. Witt, Director
Bureau of Business and Economic Research
College of Business and Economic Research
West Virginia University**

January 9, 2007

Table of Contents

1.0	Introduction and Overview	4
2.0	Update of the 2004 Report	6
3.0	Public Goods and Taxation: The Case for General Revenue Funding	21
4.0	Long-Term Forecasts of the U.S. and West Virginia Economies	22
5.0	Forecasts of Current State Road Fund Revenue Sources and Policy Options	32
6.0	Additional Funding Options Available in West Virginia	36
7.0	Review of Other States' Responses to Fiscal Challenges Associated With High Fuel Prices	44
	Appendix A State Motor Fuel Excise Taxes and Other Rates American Petroleum Institute	46
	Appendix B Revenues Used by States for Highways	54

1.0 Introduction and Overview

In 2004 Bureau of Business and Economic Research released a comprehensive study on the financing of West Virginia's highways. ¹ This report detailed the structural changes affecting traditional user fee-based funding of highway systems, evaluated the adequacy of present revenues in the West Virginia State Road Fund, and outlined policy options for the future funding of West Virginia's highway system.

Since the release of the 2004 report, oil prices have escalated to over \$70 per barrel, causing domestic fuel prices to surpass \$3.00 a gallon. Consumers have responded by reducing their fuel consumption as well as shifting their purchases of new and used vehicles to more energy efficient vehicles. While the 2004 report documented the impact of inflation on the 'real value' of the State Road Fund, recent events have placed continued upward pressures on construction and maintenance costs, particularly for fuel, steel, concrete, and asphalt. The net result has been deterioration in the ability of the West Virginia State Road Fund to provide adequate levels of construction and maintenance, let alone engage in new construction of highways and bridges. The West Virginia Legislature's Joint Standing Committee on Finance has requested the Bureau of Business and Economic Research to prepare a report documenting the following:

Update relevant portions of the 2004 report including:

Changing characteristics of U.S. vehicles over time including motor vehicle mileage, fuel consumption and fuel rates

Update revenue yields associated with gasoline and whole fuel tax, registration fees, and privilege tax and adjust for changes in the federal-aid highway construction price index.

Update West Virginia State Road Fund revenues per vehicle miles traveled.

Update state fuel tax rates as of January 1, 2006 and any announced changes since that time.

Update long-term forecasts of the U.S. and West Virginia economies

Study will reference updated long-term forecasts of the West Virginia economy to be released by the BBER in late summer 2006.

Forecasts of crude oil, gasoline and diesel fuel will be updated from the Energy Information Administration, U.S. Department of Energy

Based upon long term forecasts, projections of the following revenue sources in nominal and inflation adjusted amounts will be provided.

Gasoline and wholesale tax

Registration fees

Privilege tax

Additional revenue forecasts will be provided for policy options including

Shift of the privilege tax to a 5 and 6 percent consumer sales tax

Reauthorization of the wholesale fuel tax

¹ Patrick C. Mann, Mehmet S. Tosun and Tom S. Witt, Financing of West Virginia's Highway System: A Comprehensive Analysis of the West Virginia State Road Fund and Policy Options, Bureau of Business and Economic Research, West Virginia University, August 2004.

Revenue loss due to deferral of growth in average wholesale cost of motor fuel (that divergent with WVC §11-14c-5) during calendar year 2006; and, if continued, 2007; and analysis of the short-term tax savings to households resulting from this deferral

Alternative rates for the fuel tax (to be established in consultation with the Subcommittee leadership and staff)

Examination of additional funding options and revenue projections including:

Local option taxes (sales and excise on fuel) as well as other local option taxes or infrastructure fees dedicated to highway and bridge construction and maintenance.

Innovative ways of pricing road usage through dedicated global positioning satellites

Privatization of toll roads

Review and summarize how other state are responding to the fiscal challenges associated with higher fuel prices

2.0 Update of the 2004 Report

The 2004 report documented the changing characteristics of vehicular fuel consumption and use of the highway system, both nationally and in West Virginia through 2002. Table 1 presents updated information on the U.S. motor vehicle mileage, fuel consumption and fuel rates per mile through 2004, the latest data available. This data clearly indicates the continued growth in energy efficiency of passenger, vans, pickups, SUVs, and trucks.

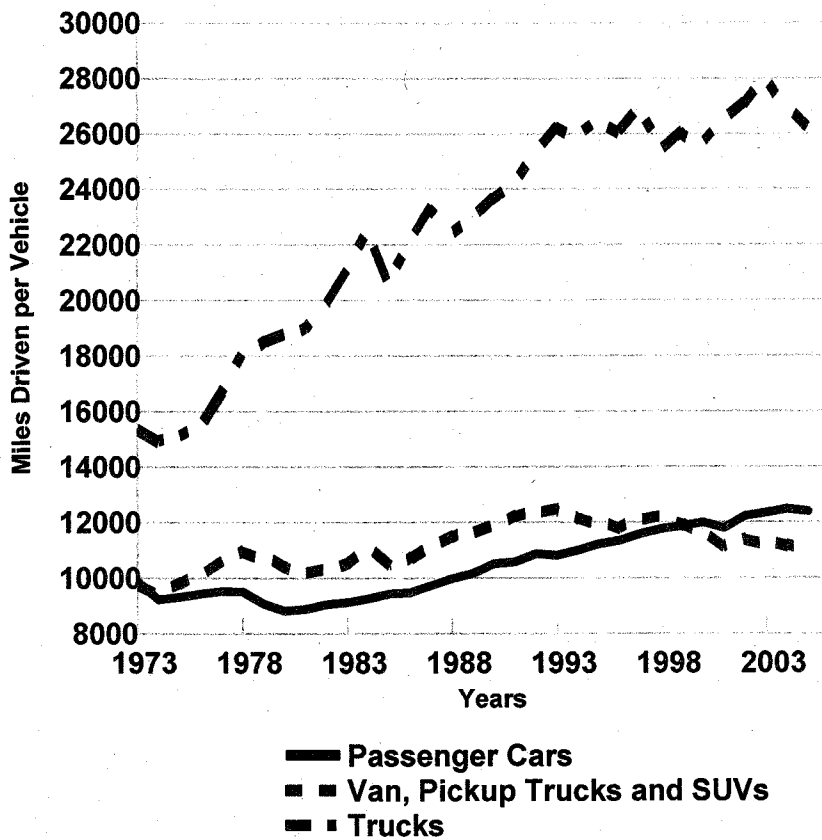
Chart 1 provides a graphical view of the growth in energy efficiency using the data provided in Table 1. Chart 2 provides a graphical view of the fuel consumption rates (miles per gallon) using the data from Table 1. Chart 3 provides a graphical view of the fuel consumption (gallons per vehicle) using the data from Table 1.

Table 1
The Changing Characteristics of U.S. Vehicles Over the Years
Motor Vehicle Mileage, Fuel Consumption and Fuel Rates

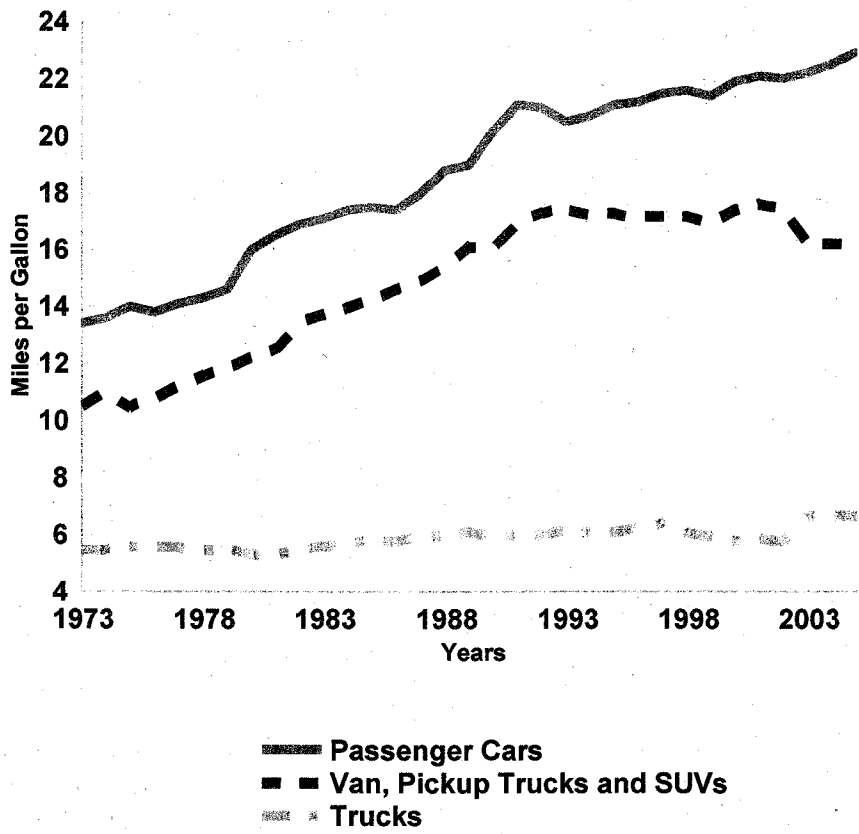
CY	Passenger Cars			Van, Pickup Trucks and SUV's			Trucks			All Motor Vehicles		
	Mileage miles/vehicle	Fuel Use gallon/vehicle	Fuel Rate miles/gallon	Mileage miles/vehicle	Fuel Use gallon/vehicle	Fuel Rate miles/gallon	Mileage miles/vehicle	Fuel Use gallon/vehicle	Fuel Rate miles/gallon	Mileage miles/vehicle	Fuel Use gallon/vehicle	Fuel Rate miles/gallon
1973	9,884	737	13.4	9,779	931	10.5	15,370	2,775	5.5	10,099	850	11.9
1974	9,221	677	13.6	9,452	862	11.0	14,995	2,708	5.5	9,493	788	12.0
1975	9,309	665	14.0	9,829	934	10.5	15,167	2,772	5.6	9,627	790	12.2
1976	9,418	681	13.8	10,127	934	10.8	15,438	2,764	5.6	9,774	800	12.1
1977	9,517	676	14.1	10,607	947	11.2	16,700	3,002	5.6	9,778	814	12.3
1978	9,500	665	14.3	10,968	948	11.6	18,045	3,263	5.5	10,077	816	12.4
1979	9,062	620	14.6	10,802	905	11.9	18,502	3,380	5.5	9,722	776	12.5
1980	8,813	551	16.0	10,437	854	12.2	18,736	3,447	5.4	9,458	712	13.3
1981	8,873	538	16.5	10,244	819	12.5	19,016	3,565	5.3	9,477	697	13.6
1982	9,050	535	16.9	10,276	762	13.5	19,931	3,647	5.5	9,644	686	14.1
1983	9,118	534	17.1	10,497	767	13.7	21,083	3,769	5.6	9,760	686	14.2
1984	9,248	530	17.4	11,151	797	14.0	22,550	3,967	5.7	10,017	691	14.5
1985	9,419	538	17.5	10,506	735	14.3	20,597	3,570	5.8	10,020	685	14.6
1986	9,464	543	17.4	10,764	738	14.6	22,143	3,821	5.8	10,143	692	14.7
1987	9,720	539	18.0	11,114	744	14.9	23,349	3,937	5.9	10,453	694	15.1
1988	9,972	531	18.8	11,465	745	15.4	22,485	3,736	6.0	10,721	688	15.6
1989	10,157	533	19.0	11,676	724	16.1	22,926	3,776	6.1	10,932	688	15.9
1990	10,504	520	20.2	11,902	738	16.1	23,603	3,953	6.0	11,107	677	16.4
1991	10,571	501	21.1	12,245	721	17.0	24,229	4,047	6.0	11,294	669	16.9
1992	10,857	517	21.0	12,381	717	17.3	25,373	4,210	6.0	11,558	683	16.9
1993	10,804	527	20.5	12,430	714	17.4	26,262	4,309	6.1	11,595	693	16.7
1994	10,992	531	20.7	12,156	701	17.3	25,838	4,202	6.1	11,683	698	16.7
1995	11,203	530	21.1	12,018	694	17.3	26,514	4,315	6.1	11,793	700	16.8
1996	11,330	534	21.2	11,811	685	17.2	26,092	4,221	6.2	11,813	700	16.9
1997	11,581	539	21.5	12,115	703	17.2	27,032	4,218	6.4	11,107	711	17.0
1998	11,754	544	21.6	12,173	707	17.2	25,397	4,135	6.1	12,211	721	16.9
1999	11,848	553	21.4	11,957	701	17.0	26,014	4,352	6.0	12,200	732	16.7
2000	11,976	547	21.9	11,672	669	17.4	25,617	4,391	5.8	12,164	720	16.9
2001	11,766	532	22.1	11,140	633	17.6	26,431	4,491	5.9	11,800	692	17.1
2002	12,202	555	22.0	11,364	650	17.5	27,071	4,642	5.8	12,171	719	16.9
2003	12,325	556	22.2	11,287	697	16.2	28,093	4,215	6.7	12,208	718	17.0
2004	12,460	553	22.5	11,184	690	16.2	27,023	4,057	6.7	12,200	714	17.1
2005	12,375	541	22.9	11,114	686	16.2	26,272	3,944	6.7	12,084	704	17.2

Source: Federal Highway Administration, Highway Statistics (Table VM-1).

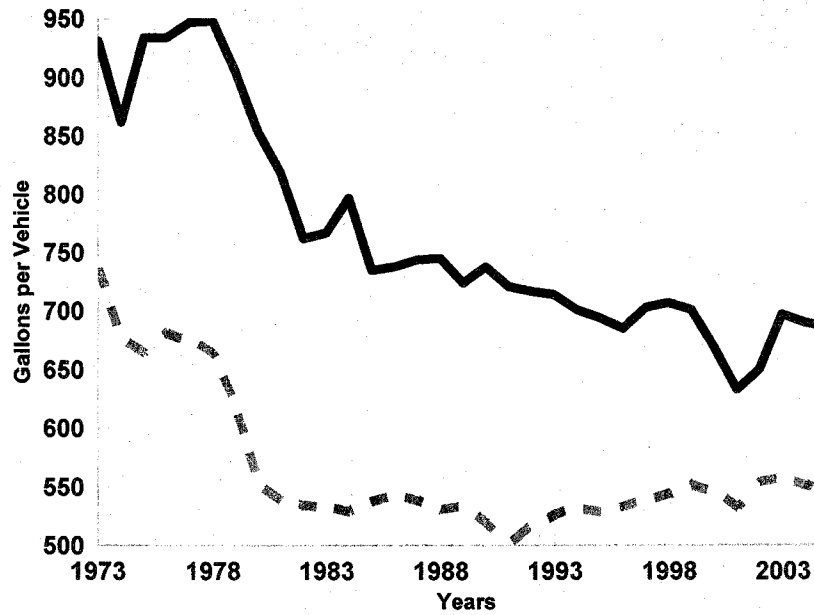
**Chart 1. Changing Characteristics of U.S. Vehicles Over the Years:
Motor Vehicle Mileage (Miles Driven Annually per Vehicle)**



**Chart 2. Changing Characteristics of U.S. Vehicles Over the Years:
Fuel Consumption Rates (Miles per Gallon)**



**Chart 3. Changing Characteristics of U.S. Vehicles Over the Years:
Fuel Consumption (Gallons per Vehicle)**



■ ■ Passenger Cars
— Van, Pickup Trucks and SUVs

Table 2
West Virginia State Road Fund Tax Revenue Sources
(Excludes Highway Little Control Fees and Industrial Access Transfer Revenues)

FY	Gasoline Tax (thousands \$)	Wholesale Tax (thousands \$)	Registration Fees (thousands \$)	Privilege Tax (thousands \$)	Total Dedicated Tax Revenues (thousands \$)
1970	49,501	N/E	26,107	11,376	86,984
1971	61,873	N/E	26,192	14,968	103,033
1972	66,265	N/E	28,157	24,239	118,661
1973	69,059	N/E	33,579	29,048	131,686
1974	72,850	N/E	30,718	28,049	131,617
1975	73,097	N/E	34,430	32,387	139,914
1976	81,858	N/E	36,884	41,572	160,314
1977	79,522	N/E	36,880	46,021	162,423
1978	84,333	N/E	39,556	53,085	176,974
1979	111,194	N/E	49,712	61,070	221,976
1980	102,802	N/E	48,484	52,699	203,985
1981	97,320	N/E	46,223	48,111	191,654
1982	99,284	N/E	51,097	54,539	204,920
1983	103,891	7,520	53,239	55,029	219,679
1984	101,834	54,759	53,026	67,770	277,389
1985	98,832	54,790	54,296	77,195	285,113
1986	99,586	54,835	55,113	81,604	291,138
1987	107,787	57,667	57,593	87,556	310,603
1988	110,279	62,902	55,779	87,678	316,638
1989	116,833	60,650	60,733	93,208	331,424
1990	157,830	60,131	60,807	94,911	373,679
1991	151,792	61,483	64,738	89,528	367,541
1992	155,540	60,754	67,396	90,166	373,856
1993	165,426	63,252	68,819	97,775	395,272
1994	214,858	63,152	70,413	111,925	460,348
1995	212,554	64,889	70,047	122,489	469,979
1996	206,363	64,234	76,418	120,450	467,465
1997	203,313	67,466	75,297	126,140	472,216
1998	221,726	68,073	81,543	133,712	505,054
1999	227,078	68,779	79,788	143,506	519,151
2000	224,256	69,671	87,483	155,598	537,008
2001	224,426	71,265	77,440	154,370	527,501
2002	230,141	73,230	85,929	172,472	561,772
2003	221,338	67,835	86,238	167,723	543,134
2004	272,398	36,920	83,146	177,000	596,464
2005	311,625	0	88,074	176,495	576,194
2006	320,757	0	86,976	171,479	579,212

Source: West Virginia Department of Transportation, Division of Highways.

1970 - 1981 digest of revenue sources in West Virginia (fiscal year 2002)

1982 - 1987 analysis of receipts and expenditures (where all your tax dollars goes) produced yearly by the State Auditor's Office

1988 - 1993 Office of State Auditor revenue as of 6/30/xx

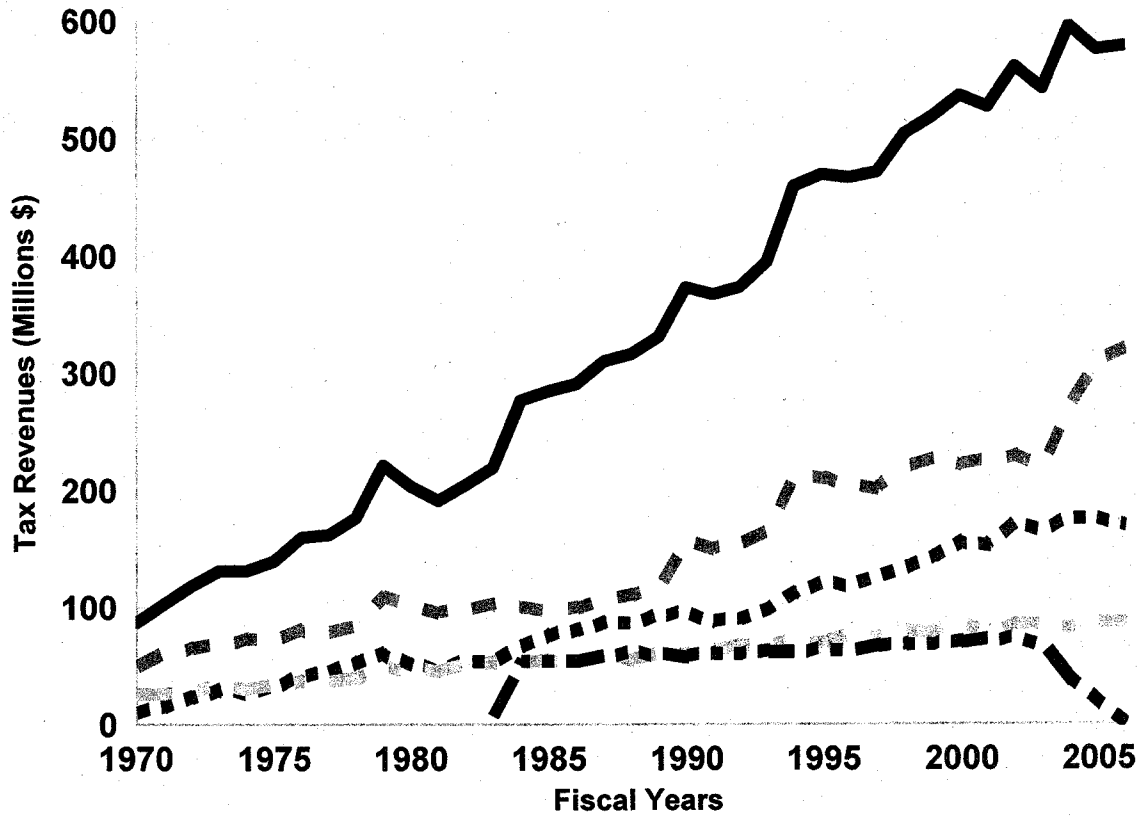
1994 -2005 State of West Virginia Financial Information Management System Revenues as of 6/30/xx (issued by State Auditor)

Notes: There was not a Wholesale Tax prior to 1983

N/E Non Existent

On January 1, 2004 the regular gasoline tax and wholesale tax were combined into one reported amount (per tax at the rack legislation).

**Chart 4. West Virginia State Road Fund Tax Revenue Sources
FY 1970 - FY 2006**



- Gasoline Tax
- ◆ Wholesale Tax
- Registration Fees
- ◇ Privilege Tax
- Total Dedicated Tax Revenues

**Chart 5. Main West Virginia State Road Fund Tax Revenues
by Major Source (Percent)**

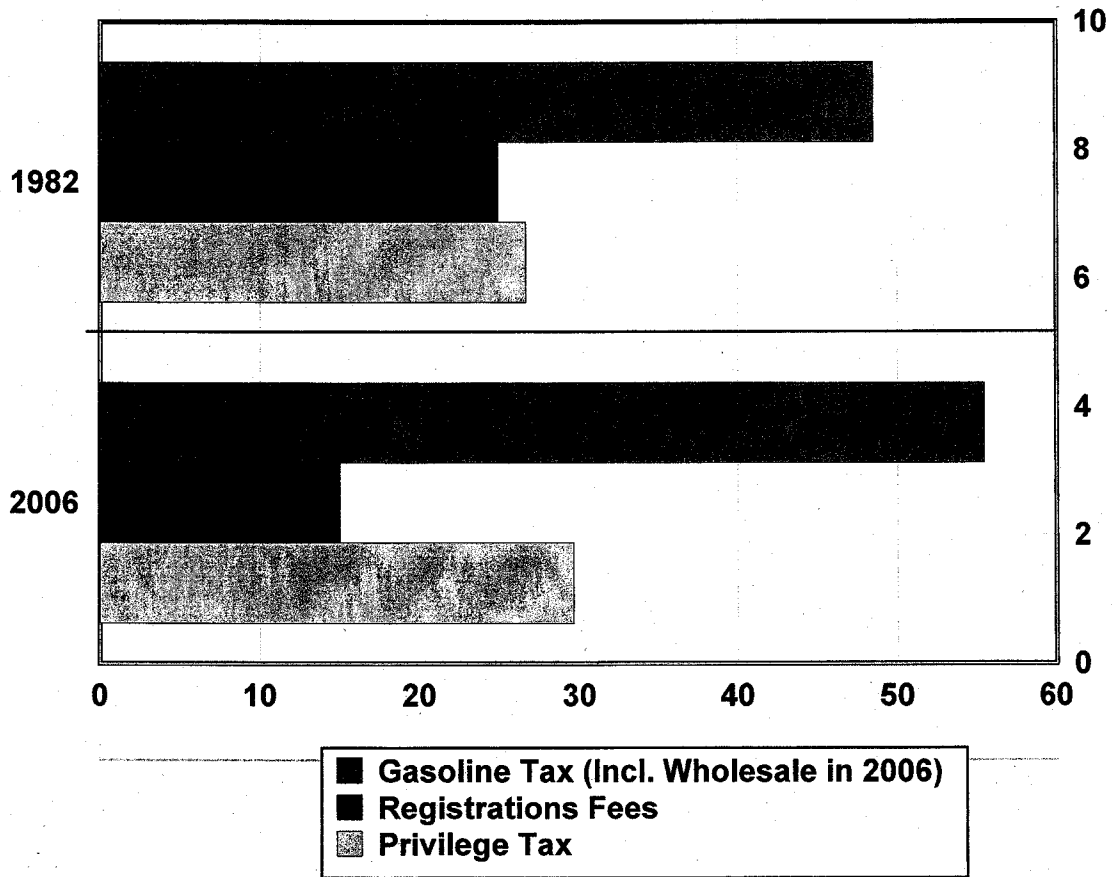


Table 3
West Virginia State Road Fund Tax and Revenue Sources

Fiscal Year	Gasoline Tax (thousands \$) (% of total)	Wholesale Tax (thousands \$) (% of total)	Registration Fees (thousands \$) (% of total)	Privilege Tax (thousands \$) (% of total)	Highway Litter Control (000's \$) (% of total)	Ind. Access Transfer (000's \$) (% of total)	Miscellaneous Revenues (thousands \$) (% of total)	Total (thousands \$) (% of total)
1982	\$99,284 48.5%	N/E N/E	\$51,097 24.9%	\$54,539 26.6%	N/E N/E	N/E N/E	N/A N/A	\$204,920
1985	98,832 33.9	54,790 18.8	54,296 18.6	77,195 26.5	N/E N/E	N/E N/E	6,087 2.1	291,200
1990	157,830 42.2	60,131 16.1	60,807 16.2	94,911 25.4	745 0.2	-1,716 -0.5	1,645 0.4	374,353
1991	151,792 41.1	61,483 16.7	64,738 17.5	89,528 24.3	1,384 0.4	-1,667 -0.5	1,899 0.5	369,157
1992	155,540 41.2	60,754 16.1	67,396 17.9	90,166 23.9	1,391 0.4	-1,105 -0.3	3,005 0.8	377,147
1993	165,426 40.8	63,252 15.6	68,819 17.0	97,775 24.1	1,403 0.3	-2,112 -0.5	10,870 2.7	405,433
1994	214,858 45.1	63,152 13.3	70,413 14.8	111,925 23.5	1,427 0.3	-344 -0.1	14,881 3.1	476,312
1995	212,554 44.4	64,889 13.6	70,047 14.6	122,489 25.6	1,454 0.3	-2,142 -0.4	9,433 2.0	478,724
1996	206,363 43.1	64,234 13.4	76,418 16.0	120,450 25.2	1,633 0.3	-3,408 -0.7	13,135 2.7	478,825
1997	203,313 41.8	67,466 13.9	75,297 15.5	126,140 25.9	1,490 0.3	-3,487 -0.7	16,030 3.3	486,249
1998	221,726 43.1	66,073 13.2	81,543 15.8	133,712 26.0	1,616 0.3	-3,466 -0.7	11,661 2.3	514,865
1999	227,078 42.7	68,779 12.9	79,788 15.0	143,506 27.0	1,574 0.3	-217 0.0	10,772 2.0	531,280
2000	224,256 41.0	69,671 12.7	87,483 16.0	155,598 28.4	1,580 0.3	-1,562 -0.3	10,395 1.9	547,421
2001	224,426 41.8	71,265 13.3	77,440 14.4	154,370 28.8	1,483 0.3	-4,346 -0.8	11,770 2.2	536,408
2002	230,141 40.5	73,230 12.9	85,929 15.1	172,472 30.4	1,744 0.3	-3,511 -0.6	7,802 1.4	567,807
2003	221,338 40.3	67,835 12.4	86,238 15.7	167,723 30.6	1,595 0.3	-2,294 -0.4	6,461 1.2	548,896
2004	272,398 47.4	36,920 6.4	83,146 14.5	176,700 30.8	1,578 0.3	-2,948 -0.5	6,603 1.1	574,397
2005	311,625 53.4	0 0.0	88,074 15.1	176,495 30.3	1,856 0.3	-2,425 -0.4	7,364 1.3	582,989
2006	320,757 55.5	0 0.0	86,976 15.6	171,479 29.7	1,691 0.3	-3,005 -0.5	N/A	577,898

Notes: N/E Non Existent
N/A Not Available

Sources: 1982 - 1987: Analysis of Receipts and Expenditures (Where All Your Tax Dollars Goes); produced yearly by the State Auditors Office.
1988 - 1993: Office of the State Auditor, Revenue as of 6/30. 1994 - 2003: State of West Virginia Financial Information Management System Revenue as of 06/30 (Issued by State Auditor). 2004-2005 State Dollar Report produced yearly by the State Auditors Office.

Table 4
Price and Cost Trends in U.S. Highway Construction

Federal-Aid Highway Construction Price Index

CY	2002 CY=100	Annual % Change	FY	2002 FY=100	Annual % Change
1969	21.0				
1970	23.6	12.9	1970	22.3	
1971	24.7	4.7	1971	24.2	8.5
1972	26.1	5.7	1972	25.4	5.2
1973	28.7	10.0	1973	27.4	7.9
1974	39.1	36.2	1974	33.9	23.7
1975	39.3	0.5	1975	39.2	15.6
1976	38.1	-3.1	1976	38.7	-1.3
1977	40.4	6.0	1977	39.2	1.4
1978	47.8	18.3	1978	44.1	12.4
1979	57.8	20.9	1979	52.8	19.7
1980	65.7	13.7	1980	61.8	17.0
1981	63.7	-3.0	1981	64.7	4.8
1982	59.8	-6.1	1982	61.8	-4.6
1983	59.2	-1.0	1983	59.5	-3.6
1984	62.6	5.7	1984	60.9	2.4
1985	69.0	10.2	1985	65.8	8.0
1986	68.4	-0.9	1986	68.7	4.4
1987	67.6	-1.2	1987	68.0	-1.0
1988	72.1	6.7	1988	69.8	2.7
1989	72.8	1.0	1989	72.4	3.7
1990	73.4	0.8	1990	73.1	0.9
1991	72.7	-1.0	1991	73.0	-0.1
1992	71.1	-2.2	1992	71.9	-1.6
1993	73.2	3.0	1993	72.1	0.3
1994	77.8	6.3	1994	75.5	4.6
1995	82.4	5.9	1995	80.1	6.1
1996	81.3	-1.3	1996	81.8	2.2
1997	88.3	8.6	1997	84.8	3.6
1998	85.8	-2.8	1998	87.1	2.7
1999	92.3	7.6	1999	89.0	2.3
2000	98.4	6.6	2000	95.4	7.1
2001	97.9	-0.5	2001	98.2	2.9
2002	100	2.1	2002	99.0	0.8
2003	101.9	1.9	2003	101.0	2.0
2004	106.5	4.5	2004	104.2	3.2
2005	135.7	27.4	2005	121.1	16.2

Source: Federal Highway Administration; Office of Highway Program Administration and Bureau of Labor Statistics.

Note: The FY index is obtained by adding the two adjacent CY indices and dividing by 2.

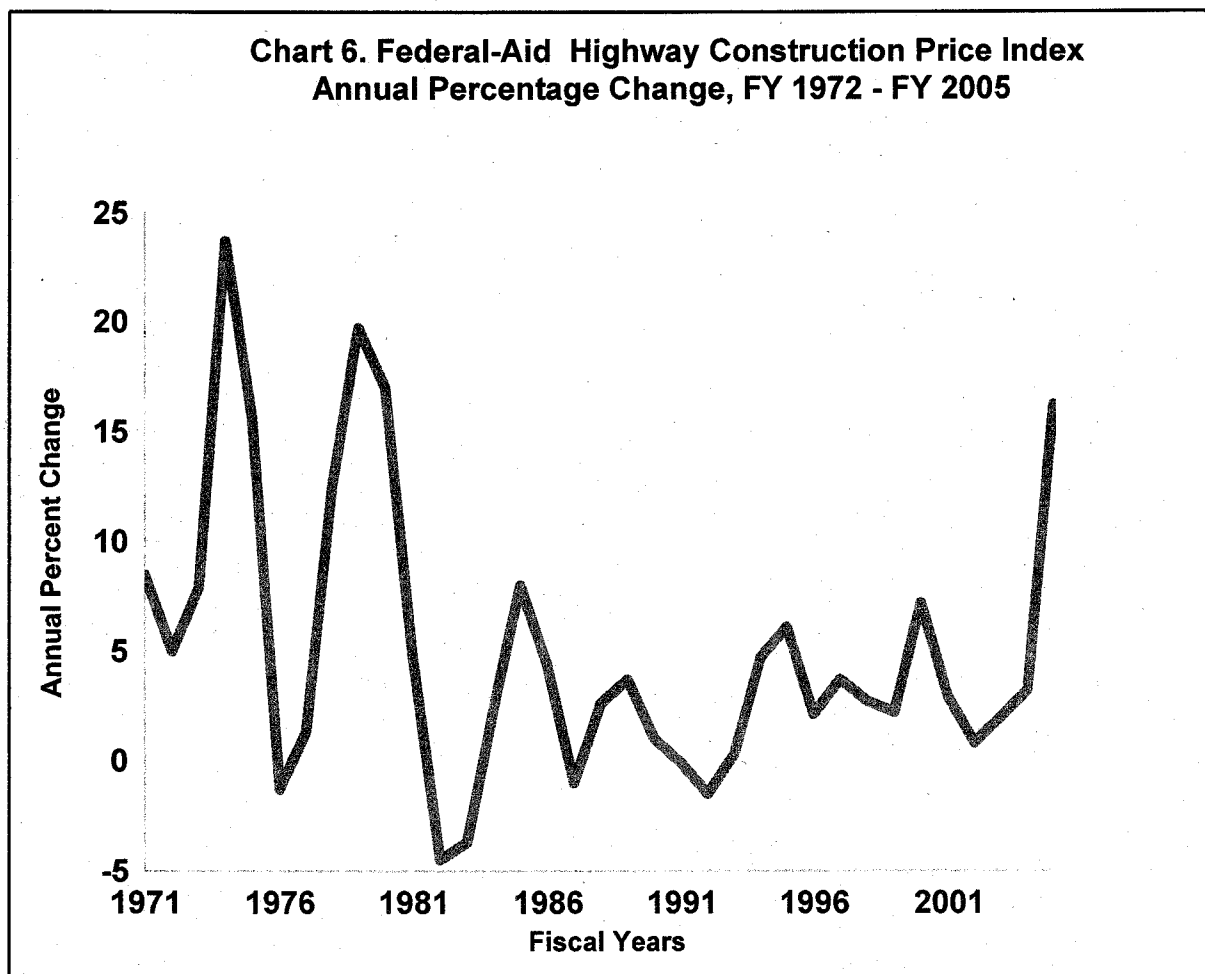
For example, (CY1980+CY1981)/2=FY 1981.

Since the latest published data is through fourth quarter, 2005, no estimate was available for fiscal year 2006.

The escalation of the Federal-Aid Highway Construction Price Index during 2005 was due in part to the higher energy prices experienced by many in the construction industry. The Federal Highway Administration identified a number of diverse factors contributing to higher construction costs and bid prices.² These include:

- Localized material shortages for specific construction projects
- Consolidation in the highway industry (number of prime contractors, ownership of quarries)
- Larger transportation construction programs with the same number of contractors
- Increased construction market opportunities in other areas such as hurricane recovery reconstruction programs
- Downsizing of workforce due to instability of transportation funding prior to August 2005
- Spot shortages of skilled labor
- Regulator restrictions, such as environmental permits for plants and quarries
- Increased technical requirements in contracts
- Bankruptcies

Throughout 2005 and part of 2006, some construction material prices had dramatic increases in prices beyond normal inflation. These included Portland cement, copper, gypsum and PVC pipe.



² See <http://www.fhwa.dot.gov/programadmin/contracts/price.cfm>.

Table 5
Major West Virginia State Road Fund Tax Revenue Sources
Inflation Adjusted (2002 \$)

FY	Gasoline Tax (thousands \$)	Wholesale Tax (thousands \$)	Registration Fees (thousands \$)	Privilege Tax (thousands \$)	Total Dedicated Tax Revenues (thousands \$)
1970	221,978	N/E	\$117,072	\$51,013	\$390,063
1971	255,674	N/E	108,231	61,851	425,756
1972	260,886	N/E	110,854	95,429	467,169
1973	252,040	N/E	122,551	106,015	480,606
1974	214,897	N/E	90,614	82,740	388,251
1975	186,472	N/E	87,832	82,620	356,923
1976	211,519	N/E	95,307	107,421	414,248
1977	202,862	N/E	94,082	117,401	414,344
1978	191,231	N/E	89,696	120,374	401,302
1979	210,595	N/E	94,152	115,663	420,409
1980	166,346	N/E	78,453	85,273	330,073
1981	150,417	N/E	71,442	74,360	296,219
1982	160,746	N/E	82,681	88,251	331,586
1983	174,607	12,639	89,477	92,486	369,208
1984	167,215	89,916	87,071	111,281	455,483
1985	150,201	83,267	82,517	117,318	433,302
1986	144,958	79,818	80,223	118,783	423,782
1987	158,510	84,804	84,696	128,759	456,769
1988	157,993	90,117	79,913	125,613	453,636
1989	161,372	83,771	83,885	128,740	457,768
1990	215,910	82,259	83,183	129,837	511,189
1991	207,934	84,223	88,682	122,641	503,481
1992	216,328	84,498	93,736	125,405	519,967
1993	229,440	87,728	95,449	135,610	548,227
1994	284,580	83,645	93,262	148,245	609,732
1995	265,361	81,010	87,449	152,920	586,740
1996	252,278	78,526	93,421	147,249	571,473
1997	239,756	79,559	88,794	148,750	556,858
1998	254,565	78,155	93,620	153,515	579,855
1999	255,144	77,280	89,649	161,243	583,316
2000	235,069	73,030	91,701	163,101	562,901
2001	228,540	72,571	78,859	157,200	537,170
2002	232,466	73,970	86,797	174,214	567,446
2003	219,147	67,163	85,384	166,062	537,756
2004	261,418	35,432	79,795	169,866	572,422
2005	257,328	0	72,728	145,743	475,799

Source: West Virginia Department of Transportation, Division of Highways and author calculations

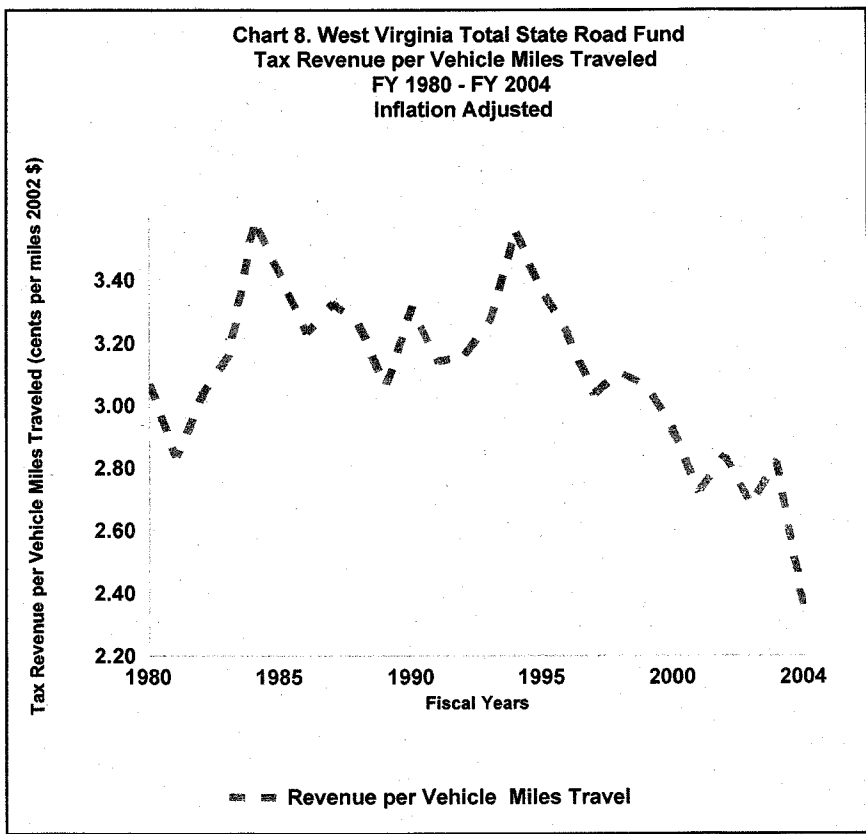
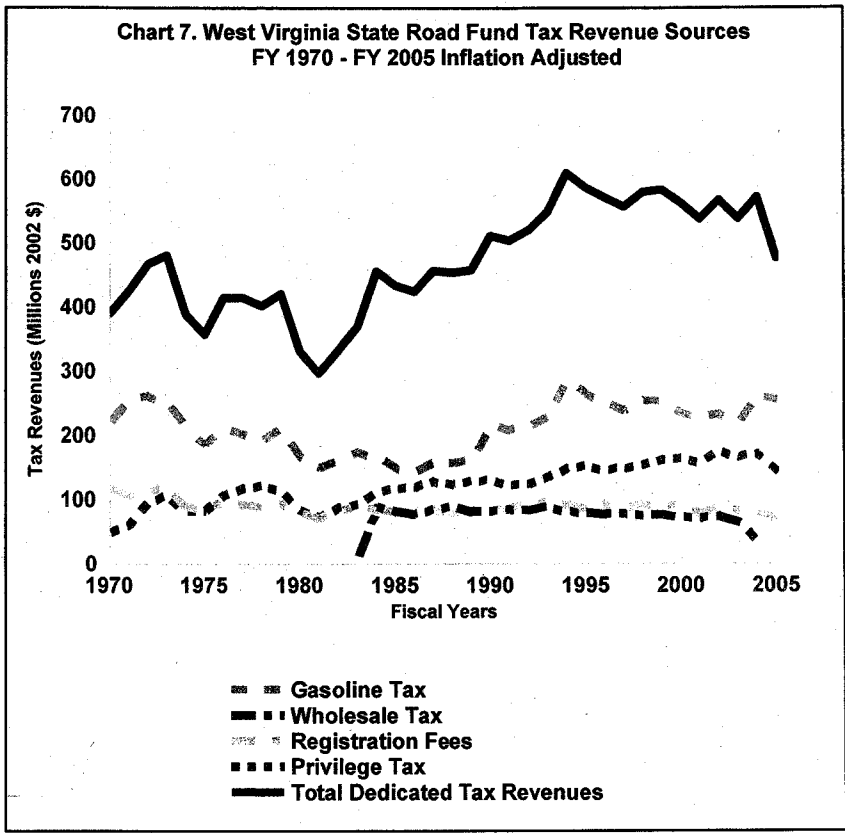


Table 6
West Virginia State Road Fund Tax Revenue
per Vehicle Miles Traveled
Inflation Adjusted (2002\$)

FY	Vehicle Miles Traveled (millions)	Revenue per Vehicle Miles Traveled (\$ per VMT)
1980	10,746	\$ 0.0307
1981	10,440	0.0284
1982	10,932	0.0303
1983	11,696	0.0315
1984	12,671	0.0359
1985	12,664	0.0342
1986	13,101	0.0324
1987	13,742	0.0332
1988	13,884	0.0327
1989	14,940	0.0306
1990	15,418	0.0332
1991	16,026	0.0314
1992	16,478	0.0316
1993	16,778	0.0327
1994	17,112	0.0356
1995	17,421	0.0337
1996	17,693	0.0323
1997	18,324	0.0304
1998	18,666	0.0311
1999	19,033	0.0306
2000	19,242	0.0293
2001	19,714	0.0273
2002	20,005	0.0284
2003	20,082	0.0268
2004	20,302	0.0282
2005	20,523	0.0234

Source: Table 10 and Table VM-2, Federal Highway Administration,
Highway Statistics.

Table 7. Tax Rates on Gasoline Motor Fuel
(as of October, 2006)

State	Tax Rate (Cents)
Delaware	23
Kentucky	18.5
Maryland	23.5
North Carolina	30.2
Ohio	28
Pennsylvania	32.3
West Virginia	27

Chart 9. West Virginia Fuel Taxes

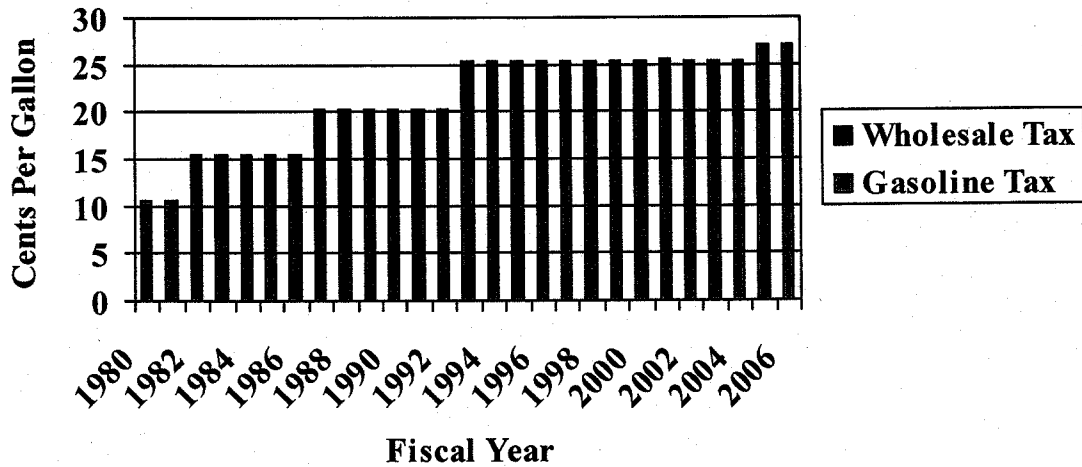


Table 8
West Virginia Fuel Rates

FY	Gasoline Tax Rate ¢ per Gallon	Wholesale Tax Rate ¢ per Gallon ¹
1980	10.5	N/E
1981	10.5	N/E
1982	10.5	N/E
1983	10.5	4.85
1984	10.5	4.85
1985	10.5	4.85
1986	10.5	4.85
1987	10.5	4.85
1988	15.5	4.85
1989	15.5	4.85
1990	15.5	4.85
1991	15.5	4.85
1992	15.5	4.85
1993	20.5	4.85
1994	20.5	4.85
1995	20.5	4.85
1996	20.5	4.85
1997	20.5	4.85
1998	20.5	4.85
1999	20.5	4.85
2000	20.5	4.85
2001	20.5	5.15
2002	20.5	4.85
2003	20.5	4.85
2004	20.5	4.85
2005	27	
2006	27	
January 2007	31.5	

Source: West Virginia Department of Tax and Revenue.

Notes: The Wholesale Tax rate was instituted in 1983 and combined with Gasoline Tax starting in January 2004

¹ 5 percent of wholesale price with \$0.97 floor.

3.0 Public Goods and Taxation: The Case For General Revenue Funding

Highways or roads have some characteristics of a public good. Economists define a public good as a good that has non-rival and non-excludable properties. A non-rival good does not suffer from congestion, which means that additional users do not diminish the quantity available for existing users. A good is non-excludable if it is too costly or simply impossible to prevent other people from consuming it. Roads are partially non-rival until too many users cause congestion. Also, it might be very costly to prevent drivers from using some roads.

Highways can be provided both privately and publicly. There are numerous private toll roads in the United States that charge drivers user fees. However, conventional economic theory argues that public goods are going to be underprovided by the private sector because entrepreneurs cannot effectively charge all consumers a fee

and prevent all non-paying beneficiaries of public goods from consuming them. This leads to a socially suboptimal provision of roads due to the inability of the private sector to capture in prices all highway related benefits and externalities.

A public sector provision of highways could, in theory, result in a more optimal capture of these benefits and externalities through taxes or user fees. For example, motorists pay for their usage of highways and roads in motor fuel or gasoline taxes and fees that can be spent on road maintenance, safety, and clean up. These revenues could be used to compensate for highway related externalities such as pollution, noise, and accidents³. Ideally, one would want to tax motorists, businesses, and residents in proportion to the benefits they receive from the publicly provided transportation infrastructure and compensate them for road noise and pollution.

While motor fuel taxes and fees might approach this ideal tax instruments with respect to motorists, they omit businesses and residents who might be affected by highway related externalities. For instance, a motor fuel tax may not capture the benefits of economic development that might accrue to the local businesses and residents from a new road or highway construction in their area. The ability of motor fuel taxes and fees to accurately target highway "consumers" will be further compromised as alternative sources of energy become available. A more comprehensive highway financing strategy is needed in order to allocate the financial burden in accordance with benefits received. This comprehensive highway financing strategy would have to look beyond motor fuel taxes and user fees. For example, general revenue funds, local option sales and property taxes could be used to finance highway construction and maintenance in addition to motor fuel taxes. The benefits to business and residential areas from a new road or highway construction could be captured with tax increment financing (TIF), for example.

Many states recognize that user fees and taxes are insufficient for the funding of public highways. Appendix B provides a comparison of the revenues used by states (including the District of Columbia) in 2004 for the construction and maintenance of highway systems.⁴ The following are some key findings from this table:

1. In 2004 35 states reports using appropriations from general revenue funds for highway uses. The amount report represents gross general fund appropriates reduced by the amount of highway-user revenues placed in the State General Fund. In part, these appropriations may reflect recognition of the public benefits accruing beyond the highway user revenues dedicated to highways.

In 2004 32 states reported other state imposts in support of highways.

In 2004 all states and the District of Columbia reported miscellaneous revenues in support of highways. In the case of West Virginia these funds may have come from miscellaneous revenues (maps sales, etc.) and possibly interest income.

Based upon the data, it is apparent that nearly all states supplement highway user fees (motor fuel taxes, motor vehicle and motor carrier taxes and road and crossing tolls) with other revenue sources.

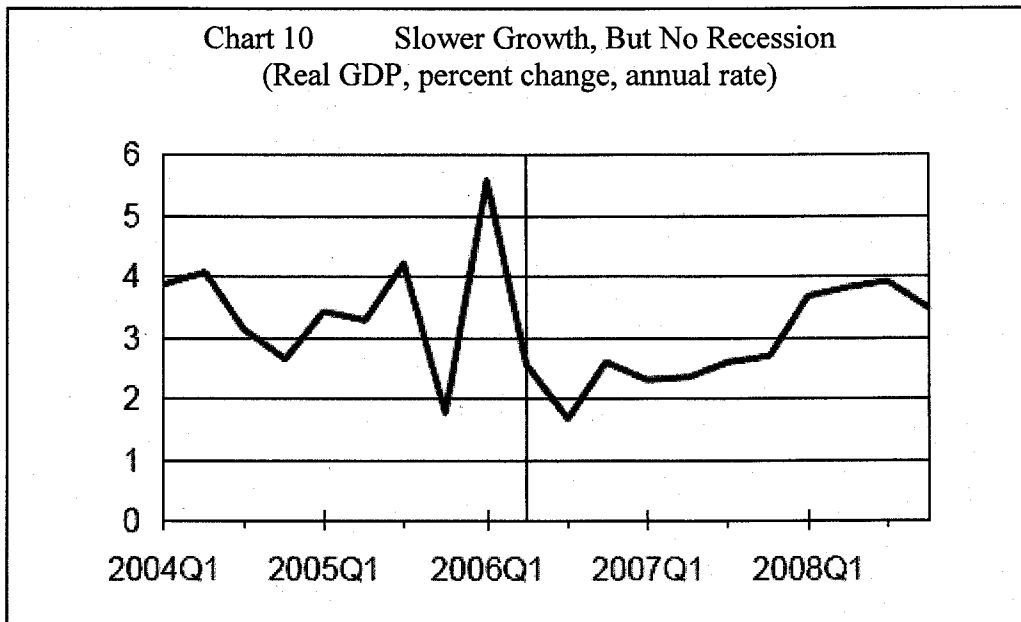
³ Gillen, D., D. Levinson, and A. Kanafani (1998). "The Social Costs of Intercity Transportation: A Review and Comparison of Air and Highway," *Transport Reviews*, Vol. 18, pp. 215-240.

⁴ Federal Highway Administration, *Highway Statistics 2004*, Table SF-1. Available from www.fhwa.dot.gov.

4.0 Long-Term Forecasts of the U.S. and West Virginia Economies

The economic future of the West Virginia economy is very dependent upon national and international developments. An examination of the long-term forecasts of the U.S. and West Virginia economies is essential to the estimation of revenue yields associated with the current West Virginia State Road Fund. This section reviews long-term national economic forecasts and related forecasts for the West Virginia economy. The national forecasts are provided by Global Insight under a contract with the West Virginia State Tax Department and are current as of October 2006.⁵

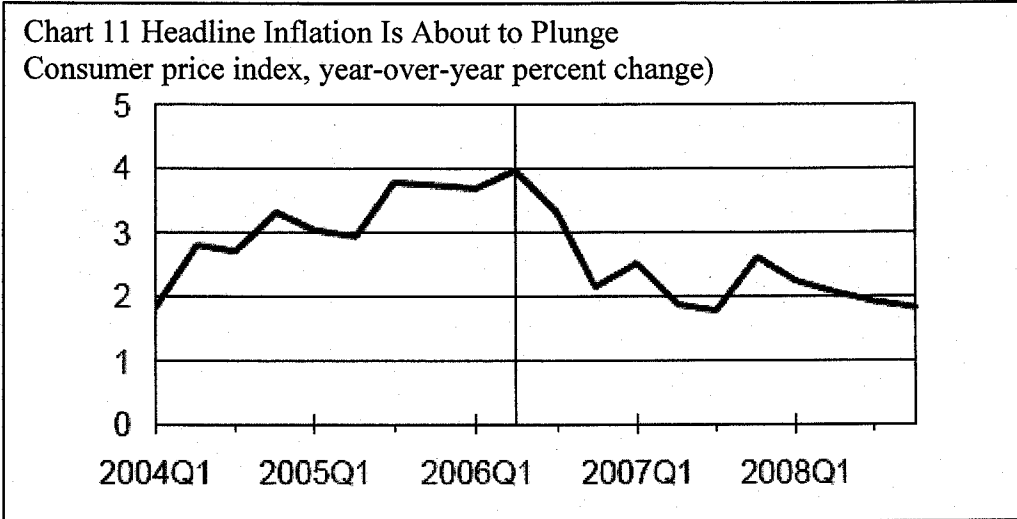
4.1 U.S. Economic Forecast



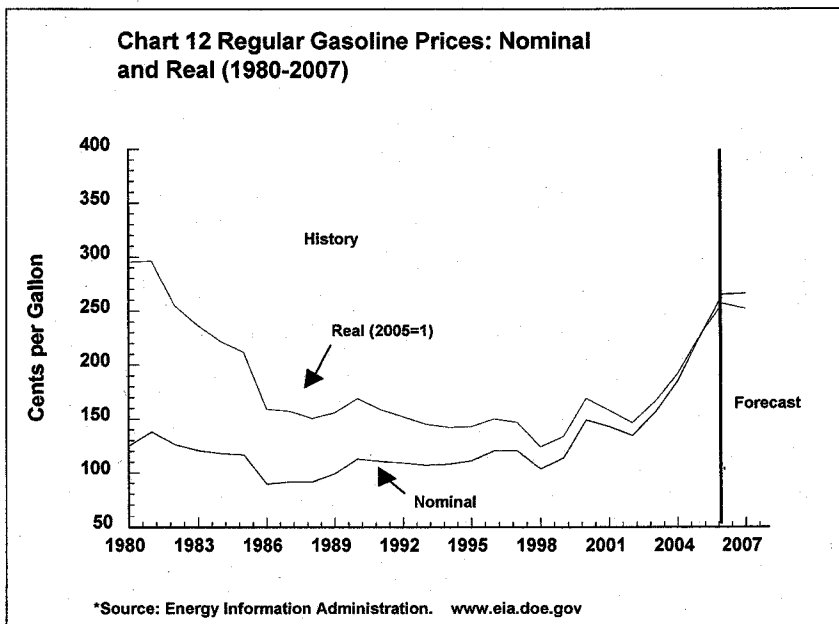
The U.S. economy is slowing. Global Insight forecasts GDP growth averaging just 2.2% from mid-2006 to mid-2007. On an annual basis, growth averages 3.3% this year but only 2.4% in 2007.

Oil prices have receded but still remain above levels experienced several years ago. This reduction is providing some relief to consumers this fall, possibly making the upcoming holiday season better than last year. Inflation has probably topped out. Headline CPI inflation, recently above 4% year-on-year, will slide below 2% by October, as lower gasoline prices lead to month-on-month CPI declines.

⁵ Available from the Global Insight website <http://www.globalinsight.com>.

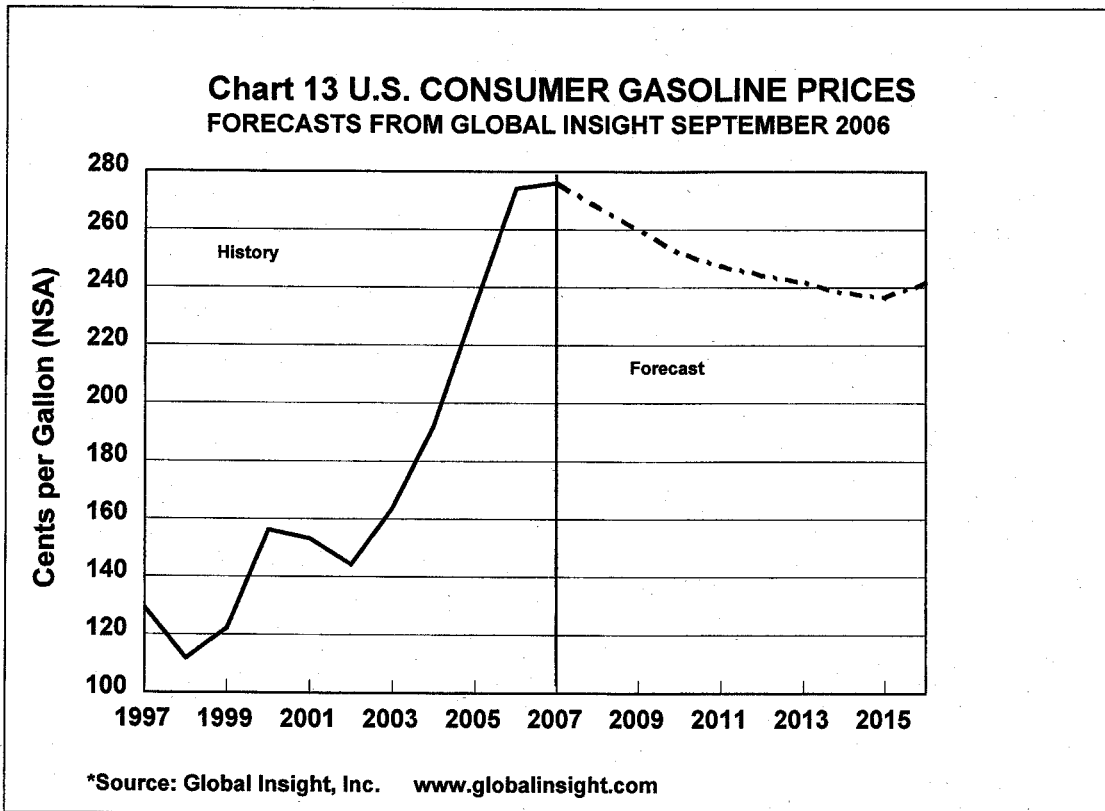


One key variable affecting the economic forecasts of the State Road fund is the price of crude oil and its derivatives, particular gasoline. Before we turn to the forecasts, it is instructive to examine the history of gasoline prices in the U.S. as evidenced in Chart 12.



While prices during 2005 and early 2006 have risen to historic levels as measured in 'real' dollars, there has been some deterioration in prices since mid-summer. One now finds gasoline as low as \$2.15 per gallon in West Virginia and the expectation of the federal Energy Information Administration (EIA) is that prices will continue to be 'soft' until mid-winter when prices start increasing again. Of course, these expectations assume no major international incidents or terrorist attacks, both of which will increase risk premiums for crude oil, and subsequently gasoline.

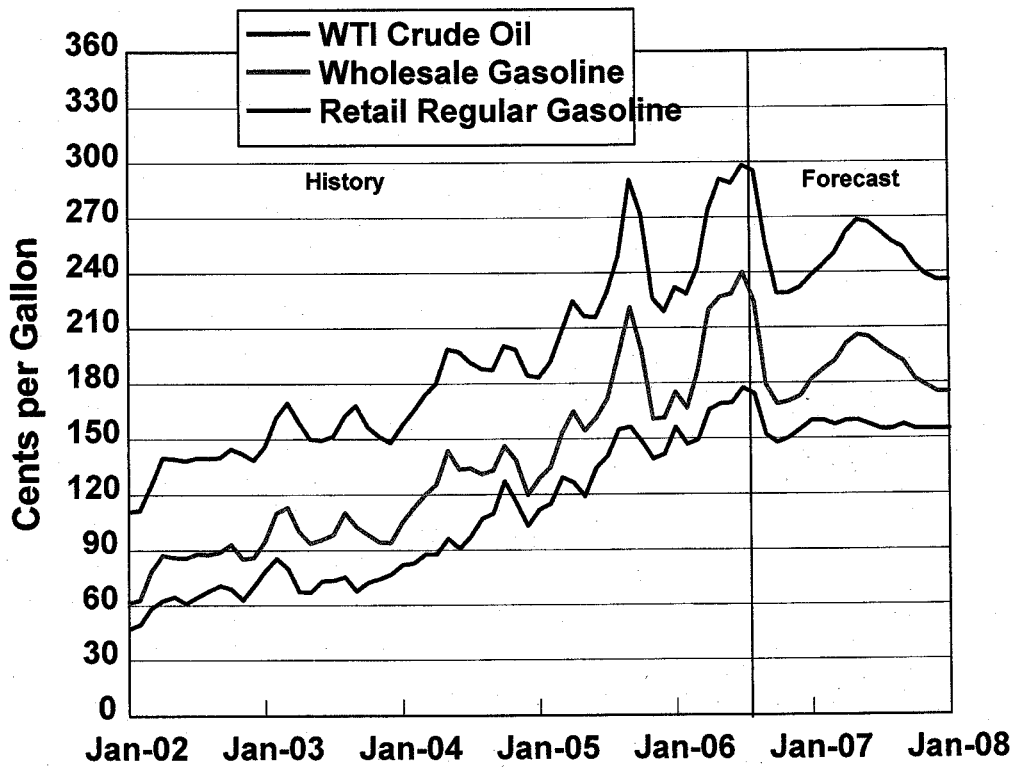
For the purpose of this report, Global Insights and EIA forecasts of future crude and gasoline prices are essential for forecasting State Road Fund Revenues. Chart 13 presents the most recent forecast of consumer gasoline prices through 2015. Of particular note, is the slow decline on an annual basis through 2015; however, within a year there are expected to be seasonal swings in prices, in part due to changes in demand by consumers (summer driving season) and refinery product mixes. Nevertheless, gasoline prices are not expected to return to the low prices experience in the late nineties and early part of this century.



EIA short-term forecasts are provided in Chart 14. These forecasts include the declines in crude oil and gasoline prices through January 2007 and a rebound in these prices through the summer of 2007, followed by seasonal declines.

Chart 14 U.S. GASOLINE AND CRUDE OIL PRICES (2002-2008)

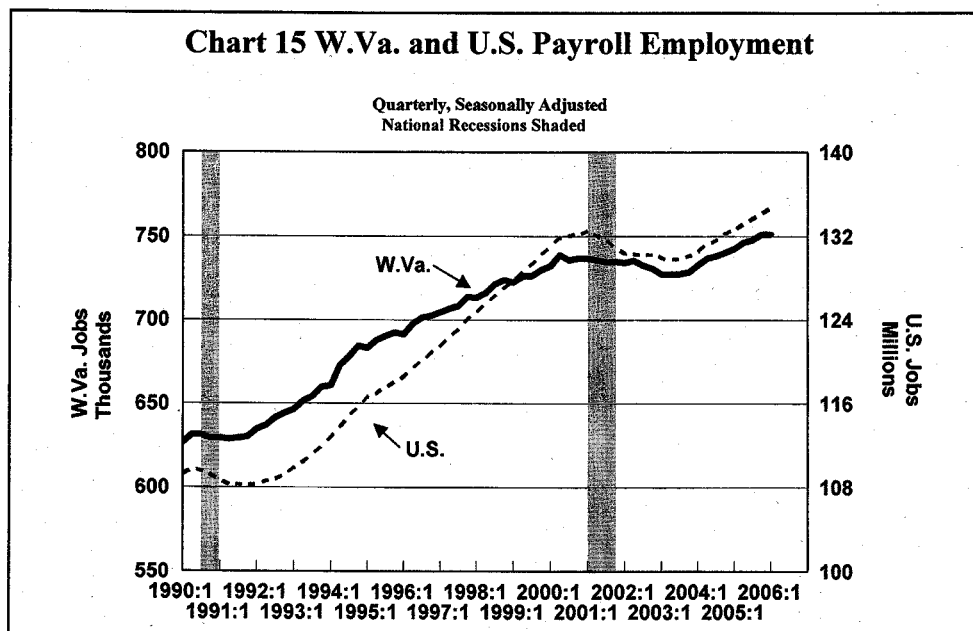
EIA FORECASTS SEPTEMBER 2006



Source: Short-Term Energy Outlook, EIA, www.eia.doe.gov

4.2 West Virginia Economic Outlook

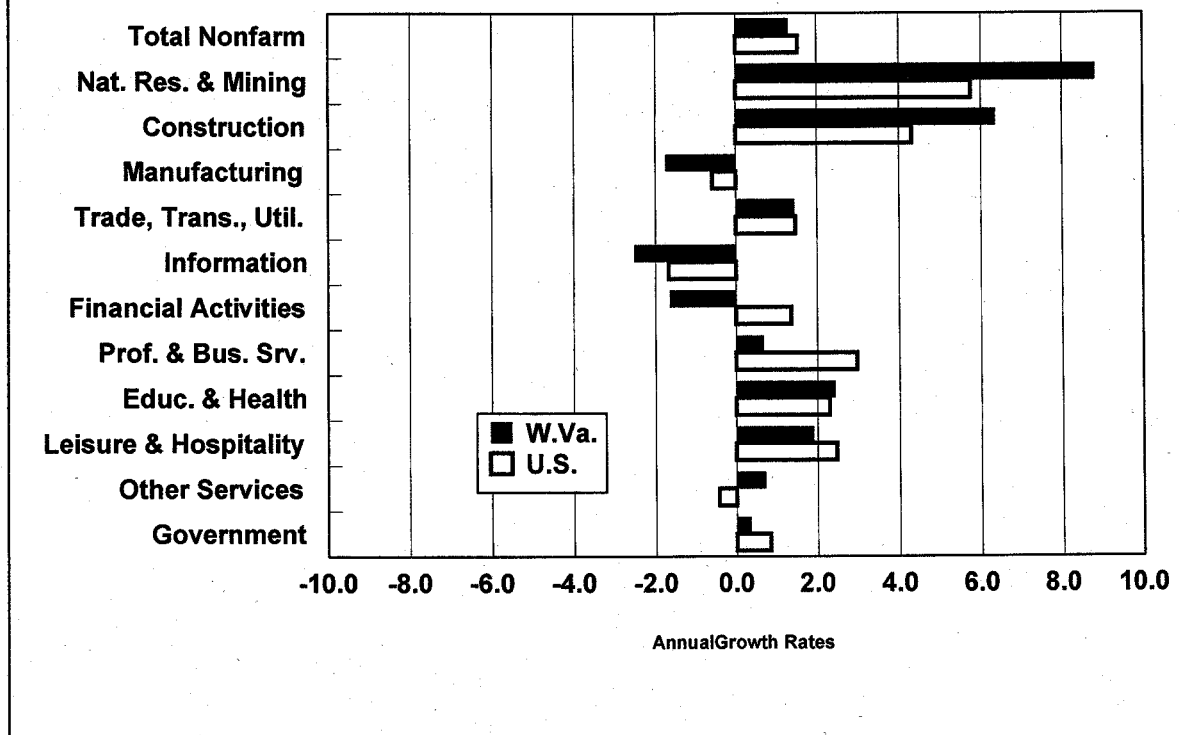
The West Virginia University Bureau of Business and Economic Research released its Long-Term Forecast Update 2006 in July 2006.⁶ The following charts and highlights are extracted from that publication.



- Both the state and nation began adding jobs again in mid-2003, as the jobs recession finally drew to a close
- Since the second quarter of 2003, West Virginia has added 23,900 jobs and is once again hitting new highs in employment
- West Virginia job growth has averaged 1.2 percent at an annual rate since mid-2003, well below 1990s growth, which averaged 1.6 percent per year.
- West Virginia's job growth since mid-2003 has also fallen below the national rate of 1.4 percent at an annual rate

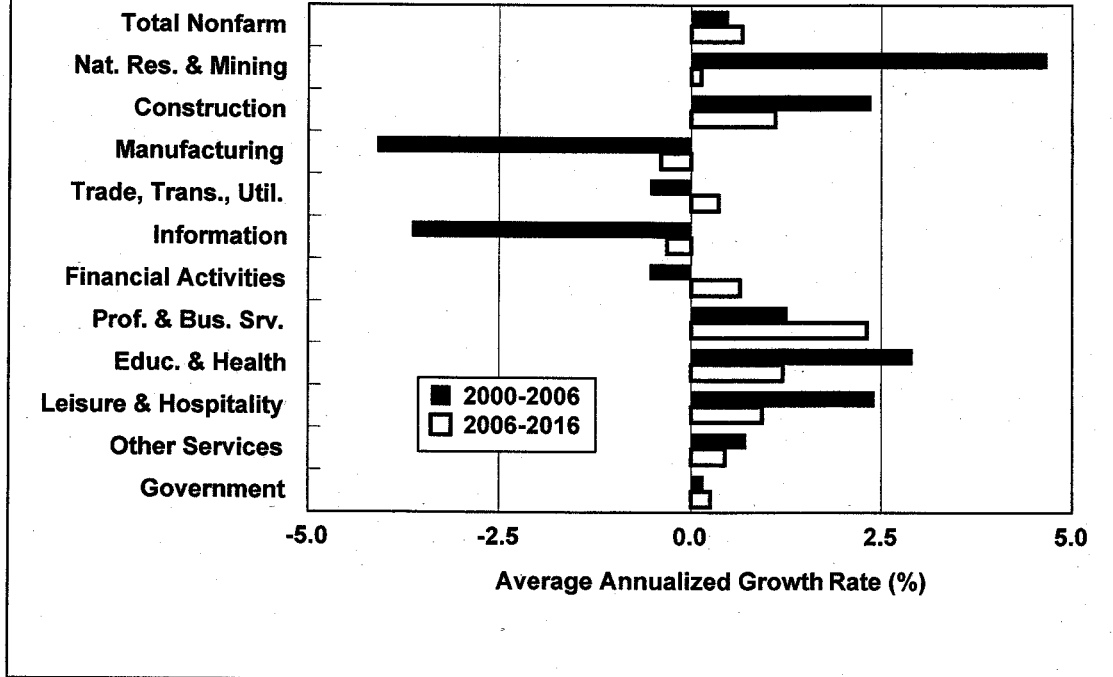
⁶ George Hammond, West Virginia Long-term Forecast Update 2006, July 2006. Available from the Bureau of Business and Economic Research website <http://www.bbber.wvu.edu>.

Chart 16 W.Va. Job Growth Continues To Bounce
Back From The Recession, 2004-2005



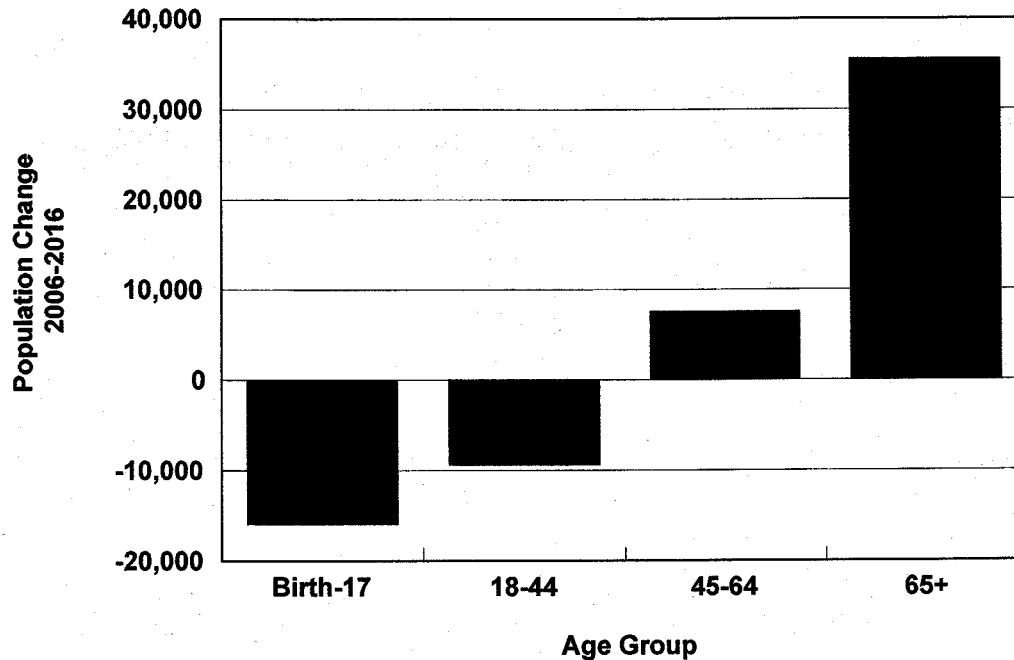
- In 2005, West Virginia posted its fastest year-to-year job growth since 2000.
- West Virginia added 9,700 jobs in 2005, compared to 2004, which translates into a 1.3 percent increase.
- The nation added jobs at a faster growth rate last year, recoding a 1.5 percent growth rate in 2005.
- Natural resources and mining (which includes coal mining and goal and gas) and construction combined to add 4,300 jobs last year.
- Trade, transportation, and utilities; health care; leisure and hospitality combined to add 6,000 jobs to the state economy.

Chart 17 W.Va. Job Growth Remains Slow During the Forecast



- State job growth averages 0.7 percent per year during the next decade (which translates into 5,200 jobs per year, close to the national rate of 0.9 percent per year).
- Goods-producing jobs rise a little during the forecast, while service-providing jobs drive job gains.
- Mining jobs remain around 17,000-18,000 during the forecast.
- Construction job gains slow as rising interest rates slow construction activity.
- Manufacturing losses slow, with continued layoffs concentrated in chemicals and steel. Wood products, transportation equipment, and plastics generate job gains during the forecast.
- Health care; leisure and hospitality; and professional and business services generate most of the job gains in the state during the forecast.

**Chart 18 West Virginia's Population Aging
Gains Speed During the Forecast**



- With slow job gains and steady income growth, the forecast calls for the state's population to rise a little during the next decade.
- The state is forecast to continue losing residents in the younger age groups (birth-17 and 18-44 age groups) and to gain residents in the older age groups (45-64 and 65+ age groups).
- The transition of the baby-boom generation into the 65-and- older age group is now visible in the forecast.
- The state is forecast to add 36,000 residents in the 65-and-older age group during the next decade, particularly after 2011.
- By 2016, the forecast calls for 17.1 percent of the state's residents to be in the 65- and-older age group.

While the WVU Bureau of Business and Economic Research doesn't release forecasts on new vehicle sales, Global Insight includes these forecasts in its short- and long-term forecasts of the West Virginia economy.

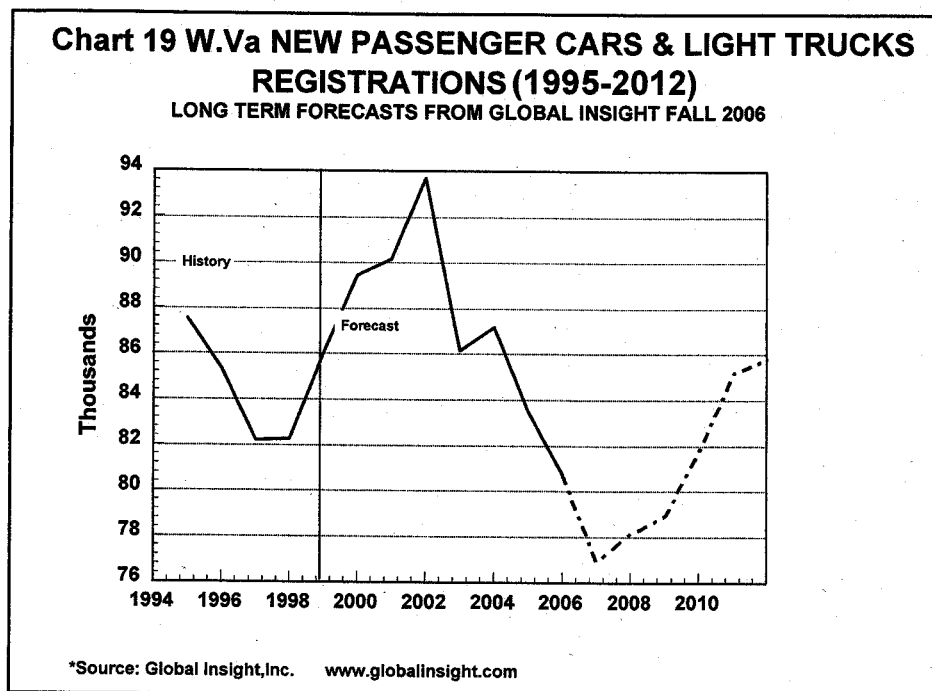


Table 8
West Virginia New Passenger and Light Truck Registrations (Thous.)

Year	Number	Percent Change From Previous Year
2000	89.4	
2001	90.1	+0.8%
2002	93.7	+4.0
2003	86.1	-8.1
2004	87.1	+1.2
2005	83.4	-4.2
2006	80.7	-3.2
2007	76.9	-4.7
2008	78.1	+1.6
2009	78.9	+1.0
2010	81.8	+3.7
2011	85.2	+4.2
2012	85.8	+0.7

Italicized numbers are forecasted. Source: Global Insights, Fall 2006 Long Term Forecasts.

5.0 Forecasts of Current State Road Fund Revenue Sources and Policy Options

Given the economic forecasts for the U.S. and West Virginia economies, attention is next directed towards the generation of revenue forecasts in nominal and inflation adjusted forms for the gasoline and whole tax, registration fees and privilege tax. Each of these will be examined in terms of its actual revenue yield over the past five fiscal years as well as the forecast revenue yield over the next three years.

Motor Fuel Excise Tax

West Virginia's motor fuel excise tax is composed of two elements. First is a basic tax rate of 20.5 cents per gallon imposed upon every distributor, producer, retail dealer, importer or user, based on the quantities of all gasoline or special fuel sold or used in the state. This basic rate is composed of two parts: (1) base rate of 15.5 cents per gallon and (2) an addition rate of five centers per gallon set to expire on August 1, 2007. The ideal would be a combined rate of 20.5 centers per gallon, representing no incremental income but eliminate any statutory language mandating a roll back.

The second component of the rate is a consumer sales and use tax on the sale of gasoline and special fuel, imposed at the wholesale level on distributors and importers. The average wholesale price of gasoline is determined annually based on sales data supplied by distributors and other information. The average wholesale price is the single statewide average wholesale price per gallon, rounded to the third decimal, exclusive of state and federal excise taxes, but not less than \$0.97 per gallon, times the rate of five percent. This tax was enacted in 1983 and was equivalent to 4.85 cents per gallon in 2004. This was raised to 6.5 cents per gallon in 2005.

In November 2005 the Tax Department reported that the final average wholesale price on gasoline and special fuel for the period July 1, 2005 through October 31, 2005 was \$2.01 per gallon, an increase of \$0.71 from the \$1.30 average for 2004. This increase was due to the substantial increase in gasoline prices following Hurricane Katrina, among other things. Under West Virginia law, this increase would have resulted in an increase in the wholesale component from 6.5 cents per gallon to 10.05 cents per gallon, resulting in a total motor fuel tax rate of 30.55 cents per gallon. A projection of the additional revenue accruing to the State Road Fund if the higher rate went into effect would be at least \$50 million over the period February 2006 through January 2007 due to the one month lag in collections. Gov. Manchin issued an executive order freezing the rate at the rate of 6.5 cents per gallon for 2006.

In November 2006 the Tax Department reported that the final average wholesale price on gasoline and special fuel for the period July 1, 2006-October 31, 2006 was \$2.206 per gallon, an increase of almost \$0.20 from the 2005 average. The Tax Commissioner issued Administrative Notice 2006-22 announcing that the wholesale component would now be 11.0 cents per gallon, making the motor fuel excise tax 31.5 cents per gallon, effective January 1, 2007. The additional funds from this tax increase would begin in February 2007. The estimated additional funds accruing annually to the State Road Fund from this increase of 4.5 cents per gallon are estimated to be around \$63 million.

In estimating tax yields it is assumed that each cent of tax levied generates \$11 million for the retail and \$14 million for the wholesale components of the motor fuel tax. The difference in the yield is based upon a broader tax base for the wholesale tax.

Tax holidays, such as enacted in West Virginia, have been examined in detail by economists.⁷ These temporary measures are very popular with consumers and lawmakers; however, they introduce costly economic distortions

⁷ Jonathan Williams and Andrew Chamberlain, "Temporary Gasoline Tax Holidays: Relief for Motorist or Poor Tax Policy?" State Tax Notes, August 21, 2006, pp.531-533.

by temporarily shifting tax burdens from some industries and products to others temporarily. In addition, such holidays may introduce unnecessary instability in tax laws and in some instances, may have increased administrative costs.

In 2003 the West Virginia Legislature passed S.B. 496, which became effective January 1, 2004. This bill modified various portion of state code pertaining to the gasoline and special fuel excise tax and the wholesale motor fuel tax. The legislation replaced the two taxes with a single fuel tax reporting structure known as the motor fuel excise tax. The tax is imposed as the fuel enters the state or is removed from a terminal with the state rather than when it is pumped at the retail level. This is now known as the 'tax at the rack'.

Table 9 provides the historical and forecasts for revenues generated by the motor fuel excise tax. In developing the forecasts it was assumed that the regular gasoline tax (inclusive of the motor carrier tax) would continue at the rate of 20.5 cents per gallon and that the volume of fuel purchased would be the same. This assumes that the growth in the vehicular fleet fuel efficiency continues, almost completely offsetting the growth in the number of miles driven until the end of the forecast period. This may even be overly optimistic given the significantly higher prices of fuel expected in the future compared to the past. It is also assumed that the wholesale tax component would continue at an average annual rate of 10.5 cents per gallon during the forecast period FY2007-FY2011. This assumption is based on continued expectations of crude oil prices in the \$60-65 per barrel over the forecast period. The Federal-Aid Highway construction index is assumed to grow at an annual rate of four percent beginning in FY2007.

Table 9 Motor Fuel Tax Receipts, Actual, Forecast and Real (2002\$)				
FY	Motor Fuel Tax (thousands \$)	Wholesale Component Tax (thousands \$)	Total Motor Fuel Tax Receipts (thousands \$)	Total Motor Fuel Tax Receipts (2002\$) (thousands \$)
2003	\$221,338	\$67,835	\$289,173	\$286,310
2004	272,398	36,920	309,318	296,850
2005	311,625	0	311,625	257,328
2006	320,757	0	320,757	259,000a
2007	347,500	0	347,500	269,000
2008	384,000	0	384,000	287,000
2009	384,000	0	384,000	276,000
2010	384,000	0	384,000	263,000
2011	384,000	0	384,000	2523,000

aThe federal-aid highway construction price index for the fiscal year is assumed to be the same as for the calendar year 2005, namely an index value of 124. Numbers in italics are forecasted.

Due to the lack of growth in the consumption of motor fuels, it appears that the real value of these revenues will continue to decline after FY 2007.

One additional issue involves the definition of special fuels. The Office of Tax appeals hearing examiner has ruled that special fuels definition excludes propane, thereby denying the State Road Fund of taxes levied on propane fueled vehicles. The Tax Department is currently appealing this ruling.

5.2 Privilege Tax

West Virginia's motor vehicles privilege tax is imposed upon the privilege of effecting the certification of title of a motor vehicle in the amount equal to five percent of the value of the vehicle at the time of such certification. A certificate of title indicates ownership of a vehicle. The value of the vehicle is determined as either (1) the actual purchase price or consideration of the purchasers, if the vehicle is new, or (2) the present market value at the time of transfer or purchase, if the vehicle is used. The minimum privilege tax levied by DMV is \$25 based on a book value of \$500 or less.

Table 10 provides actual privilege tax receipts in nominal and real (2002\$). These were derived using the forecasts of new car and light truck registrations from Global Insights and assuming a 2.5 percent annual increase in the privilege tax yield per new vehicle registrations and a four percent annual inflation in the federal-aid highway construction price index.

FY	Privilege Tax (thousands \$)	Privilege Tax (2002\$) (thousands \$)
2003	\$167,723	\$166,062
2004	177,000	169,866
2005	176,495	145,743
2006	171,479	138,290
2007	168,800	130,900
2008	170,200	127,000
2009	176,700	127,100
2010	185,400	127,000
2011	197,400	129,900

The federal-aid highway construction price index for the fiscal year 2006 is assumed to be the same as for the calendar year 2005, namely an index value of 1.241. Numbers in italics are forecasted.

One option for raising more revenues would be an increase of one percentage point in the rate, to six percent. This would make the privilege tax at a rate comparable to the general sales and use tax and would yield an additional \$28.5 million based upon FY 2006 collections.

Another option would be to change the privilege tax to a dedicated sales tax. In FY 2005 and FY 2006 federal income tax filers were able to choose between deductibility of the income tax or sales and use taxes paid. While Congress has not renewed this deductibility this year, some observers believe a bill authorizing the extension may be passed after Congress returns from its General Election break.

5.3 Registration Fees

A variety of registration fees are administered by the Division of Motor Vehicles. These include annual registration fees, drivers' licenses, and permits. The following are some of the options:

1. Adjustment of selected registration fees. For example, a 10 percent increase in the annual passenger vehicle registration fee could generate as much as \$6 million in additional revenues. Doubling the title fee from \$5 to \$10 could generate as much as \$3 million in additional revenues. Other fees could have some increases, bringing them in line with other states.
2. Adjustment of annual fees by the annual increase in the Consumer Price Index or Federal-Aid Highway Construction Price Index. This option would permit an orderly adjustment in registration fees at the beginning of the fiscal year. This would avoid the shock of a dramatic increase and would keep the fees increasing in line with inflation.

Estimates of revenues under various alternatives can be generated; however, due to the wide variety of alternatives possible, none are provided at this time.

In the course of this research it was found that the state currently has no late fee on expired registrations. For example, if a registration expires in August and is not renewed until October, a new registration is issued at the regular price for a year beginning in October. This results in a significant issue of unregistered vehicles utilizing West Virginia's highways and bridges. It is suggested that a late fee be imposed on expired registrations, say at \$10 per month up to a maximum of \$50 after six months. Expired registrations would pay the penalty and registration fee, receiving in turn a registration as of the expired month. In consultation with the Tax Department, it appears this change in late registrations would generate an additional \$800,000 in revenue to the State Road Fund. If the registrations were coordinated with county assessors, then additional personal property tax revenue would accrue to the counties.

6.0 Additional Funding Options Available in West Virginia

6.1 Local Option Taxes and fees

There are a number of additional funding options available for the construction and maintenance of West Virginia's highway system. In the 2004 study (Witt, Tosun and Mann) local option taxes were presented as a major potential revenue source, particularly for parts of the state most affected by transportation bottlenecks and needs. In particular, they argued:

A major trend in state highway financing is the shift from highway user fees to other local government revenue sources. Wachs⁸ argues that states reacted to rising highway spending needs and declining gasoline tax revenues by encouraging local transportation taxes and increasing highway-related borrowing. He recommends that states should increase the gasoline tax instead of delegating highway-financing responsibility to local governments. Goldman and Wachs⁹ address the rising responsibility of local governments in state highway financing by giving a detailed review of local option transportation taxes (LOTT). The authors call the growing reliance on LOTTs a "quiet revolution" in highway financing. They define a LOTT as "a tax that varies within a state, with revenues controlled at the local or regional level, and earmarked for transportation-related purposes".¹⁰ The five major types of local taxes that Goldman, Corbett and Wachs¹¹ and Goldman and Wachs¹² examine are fuel taxes, vehicle taxes, property taxes, sales taxes and income, payroll, and employer taxes. While, presently, these are not options available within West Virginia, there is a trend towards new local financing initiatives. A new Senate Bill (SB 701) in 2004 passed by the West Virginia legislature authorizes five new municipal taxes. Among these, a 1 percent municipal sales and service tax in lieu of the existing municipal Business and Occupation tax is particularly noteworthy; however, to date no municipality has opted for this new tax.

These studies also present the trends in the adoption of LOTTs by states in different time periods. They assert that LOTTs have become widely popular among local governments across the nation starting in the 1970s and mostly throughout the 1980s and 1990s. The previously mentioned studies highlight the significance of the shift in fiscal responsibility for state highway financing from federal and state governments to local governments. Hence, it would be useful to examine some of the local revenue sources that are used currently by other states.

A local gasoline tax is a revenue option that is used currently by a number of states. Details regarding jurisdiction affected are included in Appendix A. State gasoline taxes are more widespread, and they are earmarked for state highway financing. Thus, a local gasoline tax can be earmarked for street and other transportation expenditures of municipal governments.

A local gasoline tax, however, raises many issues regarding equity and revenue adequacy. While it is considered a fair tax from a benefits-received perspective, it is also argued that it may intensify fiscal disparities between regions¹³. It would favor cities that are close to major roads and highways.¹⁴ Thus, the local gasoline

8 Wachs, Martin. *Improving Efficiency and Equity in Transportation Finance*. Center on Urban and Metropolitan Policy. The Brookings Institution Series on Transportation Reform. April 2003.

9 Goldman, Todd and Martin Wachs. 2003. "A Quiet Revolution in Transportation Finance: The Rise of Local Option Transportation Taxes," *Transportation Quarterly*, 57 (1): 19-32.

10 Ibid, pp.21.

11 Goldman, Todd, Sam Corbett and Martin Wachs. 2001. "Local Option Transportation Taxes in the United States (Part One: "Issues and Trends)," Research Report UCB-ITS-RR-2001-3. Institute of Transportation Studies, University of California at Berkeley.

12 Goldman and Wachs, op.cit.

13 National Conference of State Legislatures. 1997. *Critical Issues in State-Local Fiscal Policy: A Guide to Local Option Taxes*. Washington, D.C.: National Conference of State Legislatures

tax may lead to regional inequities. In terms of revenue adequacy, the local gasoline tax has the same weakness as other excise taxes like beer tax and cigarette tax. It is levied on a per-gallon basis and is subject to revenue erosion due to inflation.

Impact fees are defined as "one-time payments from property developers to municipal, county or school district governments for off-site improvements necessitated by new development."¹⁵ Impact fees differ from user charges in that they finance capital expenditures rather than current consumption. Impact fees are a relatively new revenue instrument that has become particularly popular in Arizona, California and Washington. The main advantage of impact fees is that they allow new developments to pay for their own infrastructure including transportation improvements. They create inequities, however, between existing and new residents. All residents benefit from site improvements that are funded by impact fees; however, the incidence of these fees is only on new homebuyers, landowners or homebuilders. Thus, existing property owners get an indirect subsidy. In addition, it is argued that low and middle-income households are negatively affected by higher housing prices due to the existence of impact fees. Nevertheless, 29 states passed impact fee authorizing legislation in 1998.

Local income taxes have been adopted by many cities.¹⁶ A local income tax can take the form of a local personal income tax or a local business income tax. Local income taxes have many advantages. Their relatively broad base can enhance revenue generation. At the same time, they can increase the progressivity¹⁷ of the local tax systems particularly when they replace an existing business tax such as the B&O tax. Besides, they can be imposed on top of the state personal income or corporate income taxes as "piggy back" taxes, which mean that they can be collected as a share of the total state tax liability. The piggyback method has the advantage of decreasing the administrative costs of these taxes and makes the implementation easier for cities. Since West Virginia already has high personal income and corporate income tax rates compared to its neighbors,¹⁸ the piggyback method may create substantial personal income and corporate income rate differentials with West Virginia's neighboring states.

It is argued that local income taxes vary substantially with the level of economic activity.¹⁹ Thus they may not be as stable as some existing local taxes like the property tax. Local income taxes also raise inter-jurisdictional issues. They may fuel intense local competition between jurisdictions. Taxation of commuters is also problematic since persons may be taxed both in the jurisdiction in which they live and also in the jurisdiction in which they work.²⁰

Local sales and use taxes are considered the most popular among the local option taxes.²¹ They can work similar to a state sales tax, and like local income taxes, they can take the form of a piggyback tax in which a portion of the state sales tax is reserved for cities and other local governments. A local sales tax can enhance revenue generation and ranks high in revenue adequacy due to its stable and broad tax base, but it raises serious equity issues. Sales taxes are considered to be regressive because low-income households spend a larger portion of their incomes on general consumption items compared to higher-income households. A local sales tax imposed as a piggyback tax on the state sales tax would increase the regressivity²² of both the

14 NCSL (1997) argues that these cities would have an additional benefit of exporting the local gasoline tax to non-residents. On the other hand, cities that are not strategically located would not benefit from the same strong tax base and their residents would bear the burden of this tax.

15 National Conference of State Legislatures. 1999. *The Appropriate Role of User Charges in State and Local Finance*. Washington, D.C.: National Conference of State Legislatures.

16 Other local authorities that impose local income taxes are counties and school districts. See NCSL (1997) for more on the local implementation of income taxes.

17 A tax is classified as progressive if the tax as a proportion of income increases as income increases.

18 Tosun, Mehmet S. 2002. "A Comparative Assessment of West Virginia's State Tax System," *West Virginia Public Affairs Reporter*, 19 (3): 2-7.

19 Goldman, Corbett and Wachs, op.cit.

20 This arises when the income tax takes the form of a local payroll tax which taxes income based on the place of employment rather than residence.

21 National Council of State Legislatures, op.cit., 1977.

22 A tax is classified as regressive if the tax as a proportion of income decreases as income increases.

municipal revenue system and the total state and local tax system. This is particularly important for West Virginia because there is no sales tax exemption for food products and clothing.

An additional complication occurs due to the ownership of the highway system by the State of West Virginia. Provision of local funds from supplementary sales taxes for construction and maintenance of state roads may complicate the ownership of the roads.

West Virginia municipalities levy and collect special charges on various transportation related services. Some of these are:

- Parking facilities
- Street cleaning
- Street lighting
- Street maintenance and improvements
- Parking meters and off street parking

Tosun²³ showed that these together with other municipal charges and fees comprise the second largest revenue source for municipalities. Comparing West Virginia municipalities to those in other Appalachian states, he also showed that West Virginia municipalities have the highest share of charges and miscellaneous general revenue in total revenue in the Appalachian region. Thus, expanding or increasing these charges and fees may make localities less competitive and at the same time increase the regressivity of local revenue systems.

6.2 Tax Increment Financing

One development tool that could be used by local agencies or municipalities for financing highways is tax increment financing (TIF). Conceptually, a local highway or development authority would issue bonds to finance a highway or road project with the tax increment ensuing from the increase in property values then captured by the highway authority to retire the bonds. The local government must cover any shortfall in the tax increment from the rise in property values. TIF is a funding mechanism in which property tax revenues are dedicated to funding economic development. It is appropriate only for local or regional governments and requires the establishment of a local development (or highway) authority.

In its basic form, a TIF program commences when a local taxing authority (e.g., a municipality) designates a specific geographical area as the TIF district. In this TIF district, the existing property tax base is frozen. The TIF becomes operational when the authority issues bonds and undertakes a project in the area. Presumably, the project (e.g., a new highway) increases property values and the difference between the new tax base and the old tax base in each future year is labeled the incremental valuation and is used to pay interest on the bonds as well as retire the bonds.

TIF does have its advantages. TIF provides local governments flexibility in financing infrastructure projects. In addition, TIF does not directly involve new tax increases and provides municipalities or other local taxing agencies with an improved tax base after the TIF debt is paid.

There are also disadvantages to TIF. For example, TIF creates an important risk since debt repayment depends entirely upon future increments of property tax revenues. If the tax base does not increase as anticipated, debt repayment is at risk. In addition, TIF can be costly to administer and the credit ratings of the municipalities can

²³ Tosun, Mehmet S. 2003. *Municipal Financing in West Virginia: Forging a Course for Fiscal Stability*. West Virginia Public Finance Program Policy Report, August 2003.

be affected adversely if the TIF debt is defaulted. Finally, in the case of financing a highway, the local taxing authority will encounter significant difficulties in designating a specific geographical area as the TIF district.

In sum, the key to a successful TIF is having one or more of three prerequisites. The three prerequisites are an existing high property tax per assessed property value, a low property tax base, and high potential growth in assessed property valuation.

Tosun and Yakovlev²⁴ (2002) mention population losses in West Virginia as one of the major risks to the successful implementation of TIF programs in West Virginia. This is due to the evidence from other states that growing cities may be more likely to use TIF compared to cities experiencing population losses. The authors also mention potential problems with the revenue-generating capability of the TIF mechanism in West Virginia. Due to property tax rate limits imposed by the Tax Limitation Amendment and the uncertainties surrounding the actual property value growth in cities that used TIF in the past, revenue generation required for bond retirement would be in jeopardy.²⁵ Thus, municipalities should approach this financing method with skepticism.

Another option for generating additional highway revenues in West Virginia is increasing local government debt or borrowing. Applying the evaluation criteria of economic efficiency, equity, stability, administrative feasibility, and practicality, the criterion that may present the biggest problem is that of practicality. This option is restricted by the borrowing or debt capacity of local taxing agencies. Constraints on this capacity can be both legislative and financial. Similar to state debt financing, local debt financing shifts the burden of highway costs from present users (beneficiaries) of highways to future users (beneficiaries) of highways. Local highway debt can be backed by general taxes paid by future taxpayers, taxes on future highway users, toll revenues, or property taxes and special assessments. Some of the concerns associated with local highway debt financing include a potential decrease in government bond credit ratings (thus producing difficulties encountered in capital or bond markets) and the increasing financial and risk burden on future taxpayers and future highway users.

In sum, similar to TIF, the use of local government debt to generate additional highway revenues is an option that is both restricted and involves substantial risk to local taxing authorities.

A Public-Private Partnership (PPP) is a contractual agreement between a public agency (federal, state or local) and a private corporation. Through this agreement, the skills and assets of the public and private sectors are shared in delivering a service or facility for the use of the general public.

In addition to supplementing public funding sources, other benefits of PPPs include flexibility, higher efficiency, and lower cost. There are various types of PPPs, including Build-Own-Operate, Buy-Build-Operate, Contract Services, Design-Build, Design-Build-Operate, and Lease/Purchase.

One example of a PPP is the Route 895 Connector project -- the first capital project under the Virginia Public-Private Transportation Act of 1995. This legislation allows for innovative financing, including tax-free bond financing of projects on which private developers and the state collaborate. The 2003 Oregon Legislature passed the Oregon Innovative Partnerships Program within the Oregon Department of Transportation. ODOT has broad authority to enter into contractual relationships in the form of partnerships with private sector firms and units of government. In California, the SR 125 South project was a key element in enhancing the surface transportation system in the San Diego area. In Virginia, the Dulles Greenway is a 14-mile privately owned toll road connecting Leesburg to Dulles Toll Road and Dulles Airport area.

²⁴ Tosun, Mehmet S. and Pavel Yakovlev. 2002. *Tax Increment Financing and Local Economic Development*, West Virginia Public Finance Program Policy Report, October.

²⁵ The exclusion of excess property levies from the TIF may further weaken the revenue flow (Tosun and Yakovlev, 2002).

In general, however, the use of private sector sponsorship of major public projects has been limited. A recently completed General Accounting Office study examined six major partnerships – five toll roads and one transit project.²⁶ The GAO found that state and local governments might be wary of such projects due to the greater political costs associated with the limited ability to improve competing publicly owned roads.

6.3 Innovative Ways of Pricing Road Usage

An alternative to the traditional collection of revenues for road maintenance and construction involves the use of dedicated global positioning satellites. In Oregon, the Department of Transportation's Office of Innovative Partnerships and Alternative Funding is testing a mileage-monitoring system that would tax drivers by the distance they travel on state roads instead of the amount of fuel that they consume. Using global-positioning satellites and wireless technology, the Oregon Road User Fee Pilot Project tracks vehicles in transit and then captures their mileage data when they stop to refuel. An onsite computer at each gas station calculates the distance tax and adds it to the fuel bill and deducts the state gas tax at the same time.

To implement this alternative source of revenues, significant upfront costs would be incurred and the rate taxed on mileage would have to meet the current amount of revenues collected with gasoline taxes. The system has been estimated to cost \$33 million to implement at Oregon's 2,000 gas stations and would be applied only to new cars, which are commonly equipped with GPS technology. In Oregon's test the tax rate being used is 1.2 cents per mile with a goal to achieve revenue parity with the amount generated by Oregon's gas tax, which is currently at 24 cents per gallon and accounts for 86 percent of funds used for road construction, maintenance, and repair. However, there is debate in charging different rates for travel in particular areas or at certain times of the day. These options would give drivers an incentive to avoid rush hours or high-maintenance roads. Also, the satellite tracking that would be implemented in Oregon would count in-state mileage only, so that drivers would not be taxed for trips on roads the taxes do not support.

One main objection to this form of alternative funding outside of the initial cost to develop such a plan involves the undeniable "Big Brother" aspect to having the government count your mileage. In Oregon's case, the system does not track where the driver goes but rather how far he or she has traveled. This means that no location information is being gathered so there is no threat to privacy and because the radio transmitter that sends data from a car's electronic odometer to the receiver on a gas pump has a range of only a few feet the stealing of driver information is highly unlikely.

6.4 Privatization of Toll Roads

West Virginia has considerable experience with the use of tolls on one major highway: the 88-mile-long West Virginia Turnpike from Charleston to Princeton. The West Virginia Turnpike is operated by the West Virginia Parkways, Economic Development and Tourism Authority. Tolls are collected at three main-line barriers with the following rates:

Cars, motorcycles and pickup trucks - \$1.25 per barrier,
Small motor homes - \$2 per barrier,
Three-axle or greater trucks with single trailer - \$4 per barrier, and
Trucks with twin trailers - \$6 per barrier²⁷

18 United States General Accounting Office, *Highways and Transit: Private Sector Sponsorship of and Investment In Major Projects has Been Limited*, GAO-04-419, March 24, 2004.

²⁷ Source: http://www.wvdot.com/11_wvdot/11e1_highways.htm

The total revenues from the West Virginia Turnpike tolls were \$58.9 million in 2005, compared with \$55.2 million in 2000.²⁸ Efforts at increasing toll revenues through increases in tolls were unsuccessful in 2005.

Relying on additional revenues from road and crossing tolls to finance highways may not be a viable option for West Virginia. West Virginians have relatively low per capita incomes and are less able to pay for toll roads; on the other hand, out of state travelers using selected highways for interstate travel may have higher incomes and a greater willingness to pay higher tolls. The success of the West Virginia Turnpike is attributable to the high volume of through interstate traffic versus local traffic. In general, the state has relatively low population densities, which further reduces the projected vehicular traffic on current or planned highways. For these reasons, imposition of tolls on existing 'free' highways is probably not a viable policy alternative, particularly since, it is prohibited by West Virginia State Code.

Many states are examining the use of tolls for the construction and maintenance of their highway systems, particularly in light of shortfalls in transportation financing, increased demand for financing new highways, and requirements for congestion management.²⁹ The GAO report suggests that three strategies adopted by states facilitate the expansion of tolling in those states:

First, some states have developed policies and laws that facilitate tolling. For example, Texas enacted legislation that enables transportation officials to expand tolling in the state and leverage tax dollars by allowing state highway funds to be combined with other funds. Second, states that have successfully advanced tolling projects have provided strong leadership to advocate and build support for specific projects. In Minnesota, a task force was convened to explore tolling and ultimately supported and recommended a tolling project. Finally, tolling approaches that provided tangible benefits appear to be more likely to be accepted than projects that offer no new tangible benefits or choices to users. For example, in California, toll prices on Interstate 15 toll facility are set to keep traffic flowing freely in the toll lanes.³⁰

GAO found³¹ of the 50 states and the District of Columbia have or are planning toll roads. On the other hand, many states are re-examining the operation of public toll roads and are either 'selling' or 'leasing' toll roads to private operators, in exchange for significant payments that are targeted for additional highway construction and maintenance. One of the earliest such ventures was the 99 year lease of the Chicago Skyway. A detailed case study of this lease has been conducted by the National Conference of State Legislatures.³¹ In 2005 the city of Chicago signed a 99 year lease of the Skyway for \$1.83 billion with the Cintra-Macquarie Consortium, composed of Cintra Concesiones de Infraestructuras de Transporte, S.A. of Spain and Macquarie Investment Holdings, Inc. of Australia. This consortium made a single, up-front payment to the city of Chicago, in exchange for the right to collect tolls for 99 years. The lease is detailed and lays out operating requirements to protect public interests.

Indiana has entered into a lease of the Indiana Toll Road to the Cintra-Macquarie Consortium for \$3.8 billion over 75 years. The last hurdle to the lease was removed in June 2006 when the Indian Supreme Court rejected claims that the deal was unconstitutional. The funds received will be used to fund more than 200 road and bridge projects over the next 10 years.

Other states examining the privatization of tolls roads include Texas, New Jersey, Maryland and Pennsylvania. Trans-Texas Corridor development plans have been detailed by the Texas Department of Transportation³² A

²⁸ Source: <http://www.wvturnpike.com/>, 2005 Financial Report.

²⁹ United States Government Accountability Office, *Highway Finance: States' Expanding Use of Tolling Illustrates Diverse Challenges and Strategies*, GAO-06-554, June 2006.

³⁰ GAO, *ibid*, executive summary.

³¹ National Conference of State Legislatures, *Surface Transportation Funding: Options for States*, May 2006.

³² San Antonio Express-News, September 29, 2006.

portion of the Trans-Texas Corridor development plan, a \$7.5 billion 330 mile toll road, will be built by private developers Cintra of Spain and Zachary Construction Corp. of San Antonio. The initial stage calls for a private sector investment of \$2.7 billion in cash, low-interest federal loans, and bond sales. There would also be a payment of \$2 billion to the state for the right to collect tolls for 50 years. Motors would pay \$0.15 per mile for cars and \$0.58 per mile for trucks in 2014, with rates increasing with growth in gross state product in the state.

In New Jersey, Governor Jon Corzine requested recommendations from U.B.S. financial Services for the privatization of state assets as a way to fund state budget deficits.³³ Among the topics expected to be considered is the sale or lease of assets such as the New Jersey Turnpike, considered to be one of the most valuable state assets. Also under consideration are naming rights to state rest areas, and the sale or lease of the Garden State Parkway and the Atlantic City Expressway to private firms or consortiums.

The Maryland Transportation Secretary, Robert L. Flanagan, announced that an solicitation of proposals will be sought this month for the financing of major projects, including the Capital Beltway and the Interstate 270 corridor.³⁴ These public-private partnerships entail the state providing land for a transportation project and the private sector bear part of the construction and operations costs in exchange for a portion of the tolls levied on the project. Maryland is exploring the use of congestion pricing and the use of express lanes, along with expansion of public transportation.

In the case of Pennsylvania, Gov. Ed Rendell is exploring the leasing of the 531-mile Pennsylvania turnpike to a private operation. At the end of December 2006, 48 firms, both U.S. and foreign, had submitted expressions of interest in leasing the turnpike.³⁵ It has been estimated that the amount of funds generated could range upwards of \$10 billion depending on the terms and conditions associated with the lease. The Pennsylvania Department of Transportation is now analyzing the solicitation responses to ascertain the benefits and costs associated with the proposals.

6.5 Other Options

In section 2.0 it was argued that appropriations from general revenue funds may be appropriate for funding highway construction and maintenance if one recognizes the public goods nature of the highway system. An additional case can be made for general revenue transfers to enhance public and homeland security.

In the case of the West Virginia General Revenue Fund, there are funds collected that could be appropriately transferred to the State Road Fund. Examples include:

- At the present time there is no sales and use tax exemption for purchases by contractors for specific use in state transportation projects. The Tax Department estimates that around \$3.7 million is collected annual from current projects bid by the Division of Highways. The amount paid annually could be estimated and transferred back to the State Road Fund.
- Sales and use taxes are current paid for tires, batteries, and vehicle repairs. The Tax Department estimates \$30.5 million is collected annually on tires and battery purchases with another \$19.3 million for vehicle repairs. A portion of the nearly \$50 million in sales and use taxes could be transferred to the State Road Fund.

³³ New York Times, October 10, 2006.

³⁴ Baltimore Sun, October 5, 2006.

³⁵ Reuters, December 26, 2006.

In the 2004 report by Witt, Tosun and Mann, it was suggested that programs currently funded out of the State Road Fund could be transferred to the General Revenue Fund. These programs and current costs include:

- West Virginia State Police- \$5.4 million
- Public Service Commission Weight Enforcement-\$4.6 million

Their report also documented the growth in the cost of the Division of Motor Vehicles and suggested that efficiencies in operation might be able to curtail costs currently funded out of the State Road Fund.

A longer term issue is the development of alternative user fee funding options for alternative fuel and hybrid vehicles. The continued growth of these vehicles will result in fewer motor fuel tax revenues due to their increased fuel efficiency.

7.0 Review of Other States' Responses to Fiscal Challenges Associated With High Fuel Prices

Many states have found challenges in financing highways as a result of the escalation in fuel prices and the resulting deterioration in traditional revenue sources that were user fee based. Coupled with escalating construction costs, the next result has been a decline in highway construction and maintenance in many jurisdictions.

Appendix A lists the current fuel taxes in all states and the District of Columbia as of July 1, 2006. As noted in the table, Connecticut, Iowa, Nebraska, Maine and Washington increased their rates since the table was last produced on March 26, 2006. New York State reduced its rate.

Press reports compiled by the American Association of State Highway and Transportation Officials indicate that many states have experienced significant increases in construction costs as well as diminished highway user revenues. Idaho and Pennsylvania exemplify the recent experiences of many states.

Idaho

The Idaho Statesman newspaper (10/2/2006) reported that the Connecting Idaho program (6 major projects selected by lawmakers) is \$622 million short of the \$1.6 billion needed. In part the shortfall was due to a lack on information of the cost of all stages of projects and a lower limit to the amount of bonds that would be issued to finance the projects.

Pennsylvania

Governor Edward Rendell issued Executive Order 2005-1 creating the Transportation Funding and Reform Commission that was charged with the following major areas of investigation³⁶:

1. Identify opportunities for cost efficiencies, revenue enhancement, and service improvements for selected transit agencies.
2. Recommend appropriate funding sources and levels for transit and state owned highways and bridges.
3. Assess relationship with growth patterns in order to potentially reduce congestion and improve transit access.

The commission has issued a report detailing three levels of additional investment over existing funding levels and is in the process of identifying funding options to achieve these investments. Legislation has introduced in the Pennsylvania House and Senate permitting private groups to buy or engage in long-term leases on state-owned roads and bridges. The legislation would also permit private firms to build highways and bridges, with tolls dedicated for this purpose.

Paralleling these efforts, the Pennsylvania Economy League, released a study on October 12, 2006, outlining the use of regional taxes to fund improvements in roads, bridges and mass transit within regions³⁷. The League also made funding recommendation in the areas of long-term borrowing, public-private partnerships and indexation of various taxes and fees.

In addition, the National Conference of State Legislatures has explored current issues in its recently released publication, *Surface Transportation Funding: Options for States*. Among the topics explored in more detail are:

³⁶ For details visit the Commission's homepage <http://www.wvturnpike.com>.

³⁷ Pennsylvania Economy League, *Investing in Transportation: A Benchmarking Study of Transportation Funding and Policy*, October 2006. Website: <http://www.issuespa.net/publications/17673>.

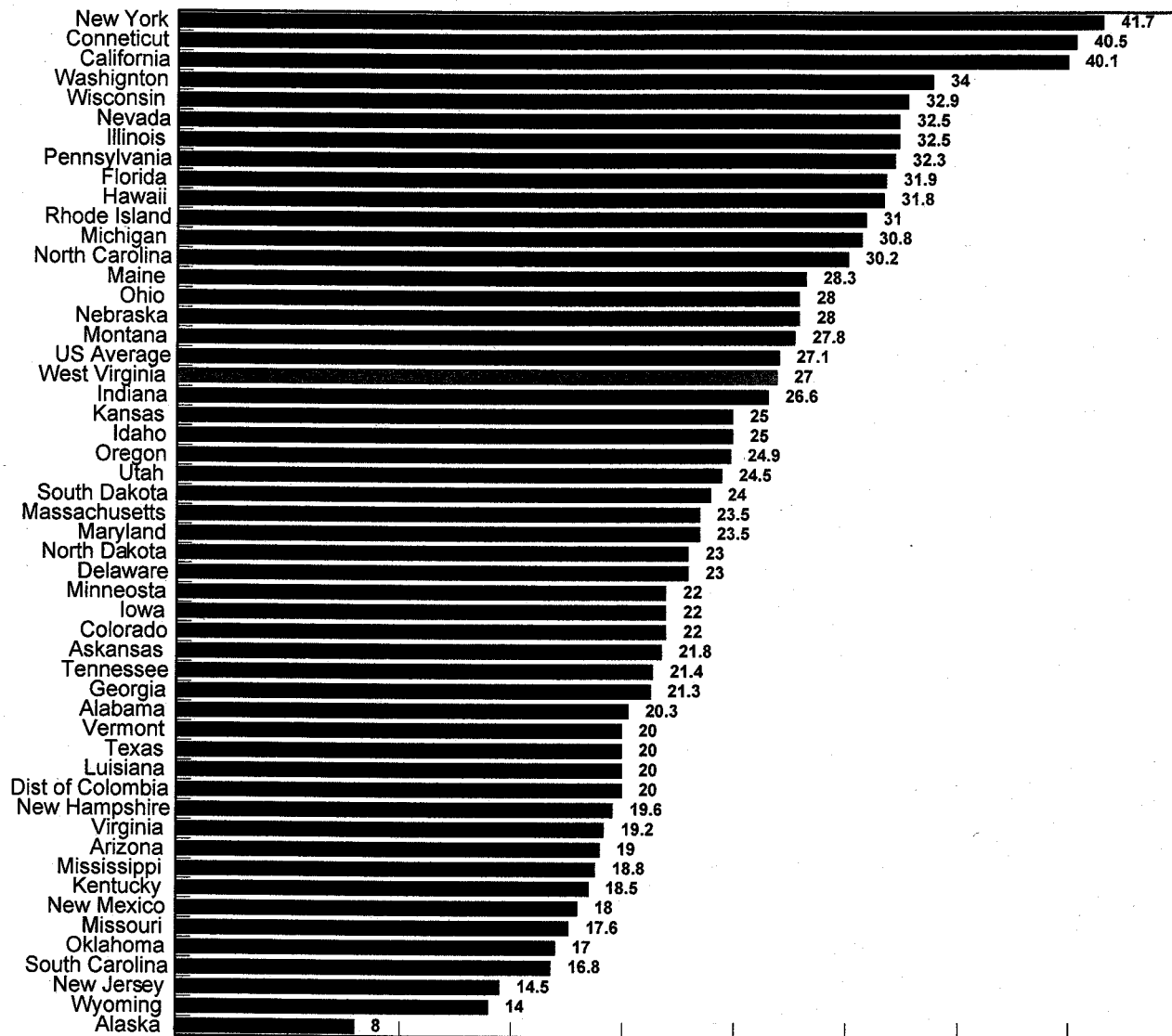
- Greater interests in public-private partnerships
- Increased use of bonding and debt financing
- Greater interest in tolls
- Exploration of use of vehicle-miles traveled fees
- Greater amounts of oversight and accountability, including performance measures, for transportation agencies

Appendix A

State Motor Fuel Excise Taxes and Other Rates American Petroleum Institute³⁸

³⁸ Available from the American Petroleum Institute website <http://www.api.org/aboutoilgas/gasoline/>.

Local and State Motor Gasoline Taxes as of October 2006



NOTES TO STATE MOTOR FUEL EXCISE AND OTHER TAX RATES

10/10/2006

Changes from 7/1/06: Changes in local taxes in New York; Wisconsin repealed gas tax indexing. Certain fees in New Hampshire and Rhode Island changed or were dropped from chart as not applicable to motor fuel. Other decreases reflect the decreased price of fuel since 7/06.

State	Gasoline State Excise	Gasoline Other Taxes	Gasoline Total State Taxes	Gasoline Total State and Federal	Diesel State Excise Taxes	Diesel Other Taxes	Diesel Total State Taxes	Diesel Total State and Federal	Explanatory Notes for "Other Taxes" on Gasoline and/or Diesel
Alabama	16.0	4.3	20.3	38.7	17.0	4.3	21.3	45.7	Includes a 2-cpg inspection fee. Counties can levy up to 5 cpg with approval of the state legislature. Cities and counties can levy additional tax—rates range from .5 cpg to 4 cpg. An additional 1 cpg UST/AST Trust Fund Environmental Transport Fee is levied at the wholesale level to cover remediation costs.
Alaska	8.0		8.0	26.4	8.0		8.0	32.4	There is a .06 per gallon tax credit for gasohol used during a mandated control period in a CO non-attainment area. However, there are currently no areas in non-attainment. The motor fuel tax rate for marine use is 5 cents/gallon; aviation gas is 4.7 cents/gallon; and jet fuel is 3.2 cents/gallon.
Arizona	18.0	1.0	19.0	37.4	18.0	10.0	28.0	52.4	Includes a 1 cpg UST tax. Use class vehicles pay an additional 9 cpg on diesel (with an exemption for vehicles under 26,000 gw).
Arkansas	21.5	0.3	21.8	40.2	22.5	0.3	22.8	47.2	Plus .3-cpg environmental assurance fee assessed at the wholesale level for underground storage tank fund.
California	18.0	22.1	40.1	58.5	18.0	23.9	41.9	66.3	Includes a 6% state sales tax and 1.25% county, plus additional local sales taxes and 1.2 cpg state UST fee.
Colorado	22.0		22.0	40.4	20.5		20.5	44.9	--
Connecticut*	25.0	15.5	40.5	58.9	26.0	13.8	39.8	64.2	Includes gross receipts earnings tax collected at wholesale. Pursuant to SB 2000 passed in 2005, the gross receipts earnings tax increased by .5 cpg, from 5.8% to 6.3% on 7/1/06. Future increases are as follows: from 6.3% to 7% on 7/1/07, from 7% to 7.5% on 7/1/08 and from 7.5% to 8.1% on 7/1/13.
Delaware	23.0		23.0	41.4	22.0		22.0	46.4	An additional .9% gross receipts tax for the state hazardous substance cleanup fund is also assessed at the wholesale level after yearly exclusions are met. (Title 7: 9114)
D.C.	20.0		20.0	38.4	20.0		20.0	44.4	--

State	Gasoline State Excise	Gasoline Other Taxes	Gasoline Total State Taxes	Gasoline Total State and Federal	Diesel State Excise Taxes	Diesel Other Taxes	Diesel Total State Taxes	Diesel Total State and Federal	Explanatory Notes for "Other Taxes" on Gasoline and/or Diesel
Florida*	4.0	27.9	31.9	50.3	4.0	23.9	27.9	52.3	The gasoline statewide tax is 14.9 cpg which includes sales tax (10.9 cpg) and excise tax (4 cpg). Gasoline sales tax rate increased 0.4 cpg on 1/1/06 with annual change based on CPI. Other taxes include 2.2 cpg tax/fee for environmental inspection purposes (5 cents/barrel tax for the Water Quality Assurance Trust Fund, 80 cents/barrel for the Inland Protection Trust Fund, 2 cents/barrel for the Coastal Protection Trust Fund, and 1/8 cpg for weights and measures inspection fee). Gasoline 14.9 cpg also does not include taxes varying by counties including the State Comprehensive Enhanced Transportation System Tax (SCETS), which increased 0.2 cpg to 6 cpg (Franklin County is 5 cpg) based on CPI and county local option taxes ranging from minimum 10.0 to maximum 18.0 cpg. Depending on the county, state and federal gasoline taxes vary from 45.5 to 53.5 cpg. The 27.9 cpg for diesel is flat across all Florida counties and includes sales (10.9 cpg), excise (4 cpg), SCETS (6 cpg), and various local option taxes (7 cpg). Based on CPI, the diesel sales tax increased 0.4 cpg and SCETS 0.2 cpg.
Georgia	7.5	13.8	21.3	39.7	7.5	16.7	24.2	48.6	Includes 4% sales tax and local option sales taxes which range from 1% to 4%.
Hawaii	16.0	15.8	31.8	50.2	16.0	28.1	44.1	68.5	Includes 4% sales tax and additional county taxes and 0.12-cpg environmental response tax. Effective 4/2/06 state law requires 85% of gasoline sold in the state to contain 10% ethanol. Actual sales reflect 99% of gasoline sold in Hawaii contains 10% ethanol. Ethanol-blended gasoline is exempt from the state's 4% excise tax on retail sales through 12/06 and is reflected in chart.
Idaho	25.0		25.0	43.4	25.0		25.0	49.4	--
Illinois	19.0	13.5	32.5	50.9	21.5	22.0	43.5	67.9	Includes 6.25% sales tax and \$0.003 per gallon tax for underground storage tank fund, and other local sales and gasoline taxes. Diesel fuel taxes are 27.5 cpg for commercial highway users.
Indiana	18.0	8.6	26.6	45.0	16.0	23.5	39.5	63.9	Includes 6% sales tax and \$0.008 per gallon inspection fee. For diesel, there is an 11-cpg surcharge paid on a quarterly self-reporting basis.
Iowa	21.0	1.0	22.0	40.4	22.5	1.0	23.5	47.9	Includes 1 cpg UST fee. Iowa tax on gasoline is based on percentage of ethanol sales compared to total motor fuel [gasoline] sold. Tax on regular gasoline increased on 7/1/06 from 20.7 cpg to 21.0 cpg, until 6/30/07. Rate is based on the percentage of ethanol blended fuel sold during the previous calendar year. The tax on ethanol blend of 10 % is 19 cpg and the tax on E-85 is 17 cpg.

State	Gasoline State Excise	Gasoline Other Taxes	Gasoline Total State Taxes	Gasoline Total State and Federal	Diesel State Excise Taxes	Diesel Other Taxes	Diesel Total State Taxes	Diesel Total State and Federal	Explanatory Notes for "Other Taxes" on Gasoline and/or Diesel
Kansas	24.0	1.0	25.0	43.4	26.0	1.0	27.0	51.4	Includes 1 cpg environmental fee.
Kentucky*	17.1	1.4	18.5	36.9	14.1	1.4	15.5	39.9	Ten cents of the excise tax is indexed to the Average Wholesale Price not to exceed 10% of the tax in any year. Excise tax includes 5 cpg supplemental highway user tax. Includes 1.4 cpg fee collected for the underground storage tank fund. Supplemental highway user tax is 2 cpg for special fuels. Commercial carriers pay surtax via a quarterly report of 2.2 cpg on gasoline and 5.2 cpg on special fuels.
Louisiana	20.0		20.0	38.4	20.0		20.0	44.4	--
Maine	26.8	1.5	28.3	46.7	27.9	0.7	28.6	53.0	Includes for gasoline: .07 cpg for Coastal and Inland Water fund, 1.38 cpg for Groundwater Fund and 40 cpg/10,000 gallons for Petroleum Market Share Act. Includes for diesel: .07 cpg for Coastal and Inland Water Fund and .6 cpg for Groundwater Fund. Governor signed legislation in 2002 to index gasoline tax beginning 7/03. Based on indexing, tax increased .9 cpg 7/1/06.
Maryland	23.5		23.5	41.9	24.3		24.3	48.7	--
Massachusetts	21.0	2.5	23.5	41.9	21.0	2.5	23.5	47.9	Includes 2.5 cpg UST fund tax. (UST tax increased from .5 cpg on 4/1/03).
Michigan	19.0	11.8	30.8	49.2	15.0	15.6	30.6	55.0	Includes 6% sales tax and 0.875 cpg for environmental regulation fee for refined petroleum fund.
Minnesota	20.0	2.0	22.0	40.4	20.0	2.0	22.0	46.4	Includes periodic 2 cpg UST cleanup fee at wholesale level which fluctuates depending on the fund balance. UST (Petro-fund) fee currently in effect from 10/1/05 to 1/31/06.
Mississippi	18.0	0.8	18.8	37.2	18.0	0.8	18.8	43.2	Includes 0.4 cpg Environmental Protection Fee. In Hancock, Harrison and Jackson counties there is an additional 3 cpg Seawall tax.
Missouri	17.0	0.6	17.6	36.0	17.0	0.6	17.6	42.0	Governor signed legislation in 2002 that included removal of the 2008 expiration date of the 6 cpg temporary tax increase adopted by voters in 1992. Does not include additional .05 cpg agriculture inspection fee and .5 cpg transportation load fee.
Montana	27.0	0.8	27.8	46.2	27.8	0.8	28.6	53.0	Includes 0.75-cpg fee assessed at the pump to go toward the state cleanup fund.
Nebraska*	27.1	0.9	28.0	46.4	27.1	0.3	27.4	51.8	Variable -- 12.5-cent base plus 14.6 cpg variable rate. Includes 0.9-cpg release prevention fee for gasoline and 0.3-cpg release prevention fee for diesel and other fuels. Variable rate increased from 13.6 cpg to 14.6 cpg for the period 7/1/06 to 12/31/06.

State	Gasoline State Excise	Gasoline Other Taxes	Gasoline Total State Taxes	Gasoline Total State and Federal	Diesel State Excise Taxes	Diesel Other Taxes	Diesel Total State Taxes	Diesel Total State and Federal	Explanatory Notes for "Other Taxes" on Gasoline and/or Diesel
Nevada	23.0	9.5	32.5	50.9	27.0	1.6	28.6	53.0	Includes up to 10-cpg county tax on gasoline, 0.75-cpg-cleanup fee, and .055 cpg inspection fee.
New Hampshire	18.0	1.6	19.6	38.0	18.0	1.6	19.6	44.0	Includes 0.125 cpg for oil pollution control fund and 1.5 cpg for oil discharge and disposal fund.
New Jersey	10.5	4.0	14.5	32.9	13.5	4.0	17.5	41.9	Includes 4 cpg Petroleum Products Gross Receipts Tax.
New Mexico	17.0	1.0	18.0	36.4	18.0	1.0	19.0	43.4	Includes 1 cpg loading fee.
New York	8.0	33.7	41.7	60.1	8.0	33.2	41.2	65.6	Excise tax rate does not include Petroleum Business Tax of 15.9 cpg for gasoline and 14.15 cpg for diesel (rate increased .7 cpg 1/1/06), a spill tax of 0.3 cent per gallon collected on gasoline and diesel and a petroleum-testing fee of 0.05 cent per gallon levied on gasoline (only). Includes a statewide volume weighted average sales tax of between 8 and 8.75 cpg. Effective 7/1/06, 14 counties and 2 cities opted to cap local sales taxes on a cpg basis. For other localities, local option sales taxes are still calculated under the percentage method ranging from 3.25% to 5.75%.
North Carolina*	29.9	0.3	30.2	48.6	29.9	0.3	30.2	54.6	Includes 0.25-cpg inspection tax. Rate increased 2.8 cpg 1/1/06. It consists of a 17.5 cpg flat rate plus a variable rate of 12.4 cpg wholesale component based on 7% average wholesale price component based on prices from 4/1/05 and 9/30/05 (the average price for that period was 1.7755 cpg).
North Dakota	23.0		23.0	41.4	23.0		23.0	47.4	Legislation passed in 2005 (HB 2012) increased state gasoline tax by 2 cpg effective 7/1/05. Also, effective 7/1/05, E85 blends taxed at 1 cent per gallon until \$250,000 grant allocated for ethanol is depleted, then E85 will be taxed at 23 cpg. The E85 subsidy ended 5/1/06. Effective 5/1, the E85 tax rate will be 23 cpg, the same as for gasoline and ethanol.
Ohio	28.0		28.0	46.4	28.0		28.0	52.4	Per 2003 legislation, rate increases 6 cpg in 2-year increments. First increase took effect 6/30/03. 7/1/04 rate increased another 2 cpg (to 26 cpg) and 7/1/05, rate increased an additional 2 cpg (to 28 cpg). Surcharge of 3 cpg for commercial vehicles.
Oklahoma	16.0	1.0	17.0	35.4	13.0	1.0	14.0	38.4	Includes 1 cpg per gallon UST fee.
Oregon	24.0	0.9	24.9	43.3	24.0	0.3	24.3	48.7	Includes additional optional county gasoline (ranging from 1 to 3 cpg) and city gasoline and diesel taxes (ranging from 1 to 5 cpg).

State	Gasoline State Excise	Gasoline Other Taxes	Gasoline Total State Taxes	Gasoline Total State and Federal	Diesel State Excise Taxes	Diesel Other Taxes	Diesel Total State Taxes	Diesel Total State and Federal	Explanatory Notes for "Other Taxes" on Gasoline and/or Diesel
Pennsylvania	12.0	20.3	32.3	50.7	12.0	27.2	39.2	63.6	Includes 19.2 cent per gallon oil company franchise tax on liquid fuels (primarily gasoline) and 26.1 cpg oil company franchise tax on fuels (primarily diesel) and a 12 cpg tax liquid fuels tax rate. Also includes 1.1 cpg UST fee paid by retailers on gasoline and diesel. Franchise tax based on the average wholesale price of gasoline during a 1-year period and revised on 1/1 annually. Oil franchise tax increased 1.2 cpg for gasoline and 1.7 cpg for diesel on 1/1/06.
Rhode Island	30.0	1.0	31.0	49.4	30.0	1.0	31.0	55.4	Includes 1 cpg environmental protection regulatory fee for UST program.
South Carolina	16.0	0.8	16.8	35.2	16.0	0.8	16.8	41.2	Includes a 0.25 cpg inspection fee for inspection program and 0.50-cpg environmental fee for UST cleanup. Assessed on all petroleum products at the wholesale level.
South Dakota	22.0	2.0	24.0	42.4	22.0	2.0	24.0	48.4	Includes 2 cpg Tank Inspection Fee. Ethanol is taxed at 20 cents per gallon. E85 and M85 are taxed at 10 cpg.
Tennessee	20.0	1.4	21.4	39.8	18.0	0.4	18.4	42.8	Includes 1-cent special petroleum tax for gasoline and .4 cpg environmental assurance fee.
Texas	20.0		20.0	38.4	20.0		20.0	44.4	--
Utah	24.5		24.5	42.9	24.5		24.5	48.9	--
Vermont	19.0	1.0	20.0	38.4	25.0	1.0	26.0	50.4	Includes 1 cpg license fee for UST fund.
Virginia	17.5	1.7	19.2	37.6	16.0	1.9	17.9	42.3	Includes 0.6-cpg petroleum storage tank fee and 2% sales tax on motor fuels in localities that are part of the Northern Virginia Transportation District or localities in a transportation district contiguous to that district.
Washington	34.0		34.0	52.4	34.0		34.0	58.4	Per 2005 legislation (SB 6103) rate increased 3 cpg 7/1/05, another 3 cpg on 7/1/06, 2/cpg on 7/1/07 and 1.5 cpg on 7/1/08. Per legislation passed in 2003, rate increased 5 cpg effective 7/1/03.
West Virginia	20.5	6.5	27.0	45.4	20.5	6.5	27.0	51.4	Includes a 5% variable wholesale tax, presently 6.5 cpg, based on statewide average wholesale price of gasoline with a minimum price of \$1.30 per gallon. Variable wholesale tax increased 1/1/05 from 4.85 cpg to 6.5 cpg.
Wisconsin	30.9	2.0	32.9	51.3	30.9	2.0	32.9	57.3	Includes 2-cpg UST fee on gasoline and diesel. Annual gasoline tax indexing repealed effective 4/1/07.

State	Gasoline State Excise	Gasoline Other Taxes	Gasoline Total State Taxes	Gasoline Total State and Federal	Diesel State Excise Taxes	Diesel Other Taxes	Diesel Total State Taxes	Diesel Total State and Federal	Explanatory Notes for "Other Taxes" on Gasoline and/or Diesel
Wyoming	13.0	1.0	14.0	32.4	13.0	1.0	14.0	38.4	Includes 1 cpg to the environmental cleanup costs.
United States Averages	18.2	8.9	27.1	45.5	18.2	9.9	28.1	52.5	Reflects volume-weighted averages.

* = Variable Tax (adjusted by state based on factors such as CPI, wholesale prices, or other policy considerations).

cpg = cents per gallon

Note: Federal excise taxes are 18.4 cpg for gasoline and 24.4 cpg for diesel.

Appendix B

Revenues Used by States for Highways³⁹

³⁹ Source: Federal Highway Administration, *Highway Statistics 2004*, Table SF-1. Available from www.fhwa.dot.gov.

