HB 1002: Investing in Indiana's Future

A Higher Road for a Better Tomorrow

MIDWEST ECONOMIC POLICY INSTITUTE

The Hoosier State has made significant economic accomplishments in recent years and can boast a strong, thriving economy. Considered the best in the Midwest for businesses, Indiana exemplifies a pro-growth environment with a balanced budget, reduced regulations, and low taxes. The state has the lowest unemployment rate out of its Midwestern neighbors and is lower than the national rate; this is further represented by a record setting level of private sector employment in July 2015.[1] Indiana's noteworthy economic accomplishments position it to take bold steps towards improving the state's transportation infrastructure, providing further investment in the network that support business growth and a thriving economy.

HB 1002: ADDRESSING INFRASTRUCTURE SHORTFALLS

Economic growth is dependent on adequate infrastructure, yet the United States at large is letting infrastructure deteriorate due to insufficient funding.[2] In Indiana alone, over half of all bridges owned by the state are in their last 25 years of life and over 10 percent were declared structurally deficient in 2014.[3] HB 1002 takes the needed steps to address these issues and help maintain Indiana's economic success by laying out a long-term transportation funding strategy for the state.

FUEL TAXES

Fuel taxes are the principal source of transportation funding throughout the United States and account for 57 percent of the Indiana Department of Transportation's (INDOT) revenue.[4]

- Motor fuel taxes serve as a transportation user fee, generating revenue from those who directly utilize the transportation system; those who travel more, pay more.[5]
- Because fuel taxes are a tax per unit, vehicle fuel efficiency and inflation reduce its purchasing power and fuel tax revenues decrease over time.[6]
- Indiana's 2003 fuel tax rate of $0.18 per gallon was at a ratio of 11.3 percent of the national average price of a gallon of gas at that time ($1.59). If that ratio remained constant over time, the state motor fuel tax would be $0.28 per gallon in 2015.[7]
- The increased gasoline and diesel fuel taxes would rank Indiana at 20th and 28th in the nation for gasoline and diesel taxes, respectively, and, with the exception of Illinois, be within $0.02 of its neighbors' gasoline prices and will have lower diesel prices than two of its neighbors.[8]

SALES TAX DIVERSION

The redistribution of the sales tax collected on motor fuel will result in a funding shortage in the general fund. HB 1001 proposes this to be rectified by implementing an additional $1.00 surcharge on a standard pack of cigarettes.

- Indiana's new cigarette tax will be comparable to three of its four neighbors. Michigan's rate will remain above Indiana's and Illinois' rate will only be $0.015 higher than Indiana's.
- Approximately 70 percent of Hoosier voters support an increase of $1.50 per pack of cigarettes.[9]
- Smoking costs Hoosiers $3.17 billion in lost productivity and $2.9 billion in health care expenses.[10]

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[1] Indiana Economic Development Corporation (IEDC). (2017). *Economic Incentives & Compliance Report 2017*.
[2] American Society of Civil Engineers (ASCE). (2016). *Failure to Act*.
[3] American Council of Engineering Companies of Indiana (ACEC). (n.d.) *The State of Indiana's Infrastructure: Advancing Our Economy*.
[4] Cambridge Systematics. (2015). *Study of Indiana Transportation Infrastructure Funding Mechanisms.*
[5] Craighead, Mary and Jill Manzo. (2016). *Gas Taxes in the United States and Globally: Failing to Address Transportation Infrastructure*.
[6] Cambridge Systematics.
[7] U.S. Department of Energy (DOE). (2016). *Average Historical Annual Gasoline Pump Price, 1929-2015*.
[8] Federation of Tax Administrators. (2017). *State Motor Fuel Tax Rates.*
[9] Spehler, Dan. (2017). "IN Focus: Higher taxes on gasoline, cigarettes?" *Fox 59*.
[10] Tobacco Free Indiana. (2017). Raise it for Health.

TOLLING AND PUBLIC-PRIVATE PARTNERSHIPS

In addition to raising revenues from existing transportation funding sources, Indiana must also consider new, innovative sources, like public-private partnerships (P3s).

- HB 1002 minimally expands upon Indiana's tolling strategies by directing INDOT to request a waiver from the Federal Highway Administration to allow tolling on interstates, repeals certain restrictions on potential tolling projects, and establishes additional public participation requirements related to tolling.[11]
- Guidelines related to P3s should also be expanded upon, as Transportation Secretary Elaine Chao recently specified that the Department of Transportation will be looking towards innovative funding strategies, including P3s and tolling.[12]
- Engaging in P3s will allow Indiana to offset bonding and upfront capital expenditures by pushing much of the upfront costs to private investors; under a P3 arrangement the state continues its conservative approach of offsetting taxpayer risk to private investors.
- Indiana should further pursue P3 legislation, similar to Illinois' Public-Private Partnerships for Transportation Act of 2011, in order to take advantage of future federal funding strategies.

MOVING FORWARD WITH HB 1002

Transportation funding for both the nation and Indiana is currently at a crossroads. New funding must be generated in order to maintain a prosperous economy. The Trump Administration and Transportation Secretary Chao both favor private financing and P3s, and Indiana must prepare to take advantage of these potential federal funding strategies. With the following minor alterations, HB 1002 can help lead Indiana to a successful future.

- **Roll-Back Taxes in the Future**: It will take years for P3 projects to be constructed and tolling to begin generating revenues. Fuel tax increases and the sales tax diversion will provide adequate funding in the meantime. While sunset clauses already dictate a cutoff of 2024 for the fuel tax increases, the sales tax diversion can also be truncated following an increase in revenues from tolling.
- **Public-Private Partnerships:** Language in HB 1002 should be tweaked to promote the creation of P3 regulations and guidelines and specify input from the General Assembly prior to the creation of tolling facilities, similar to what Illinois developed in 2011. Additional language should also be added to clarify that current transportation revenue generators, including fuel taxes and sales tax diversions, can cease following adequate revenues from tolling.

Transportation funding is on the cusp of a transformation and Indiana is poised to act. The state must act now and strongly consider HB 1002 so that it can take advantage of potential federal funding when it becomes available. It is time for Indiana to step up and be a leader in creating transportation infrastructure investment that will secure the state's future economy.

[11] H.R. 1002, 120th Indiana General Assembly. (2017) *Transportation Infrastructure Funding*.
[12] Halsey, Ashley. (2017). "Chao says U.S. drivers may face more tolls to raise infrastructure funds." *The Washington Post*.