



COMMONWEALTH of VIRGINIA

Office of the

SECRETARY of TRANSPORTATION

***Examining the Long-term Viability of Motor the Fuels
Tax and Possible Alternatives
Part 2 - An Interim Option***

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Background

- **The Virginia Transportation Research Council (VTRC) concurred with the national experts that a robust mileage-based tax is at least a decade out because of unresolved issues:**
 - **Technology**
 - **Drivers' privacy concerns**
 - **Collection costs and administrative burden**
 - **Security and enforceability**
- **Transportation construction and maintenance costs will continue to outgrow revenues**

Objectives

- **Provide a follow-up to the VTRC study**
- **Develop a mileage-based tax option that can be implemented in the near-term (2 to 5 years)**

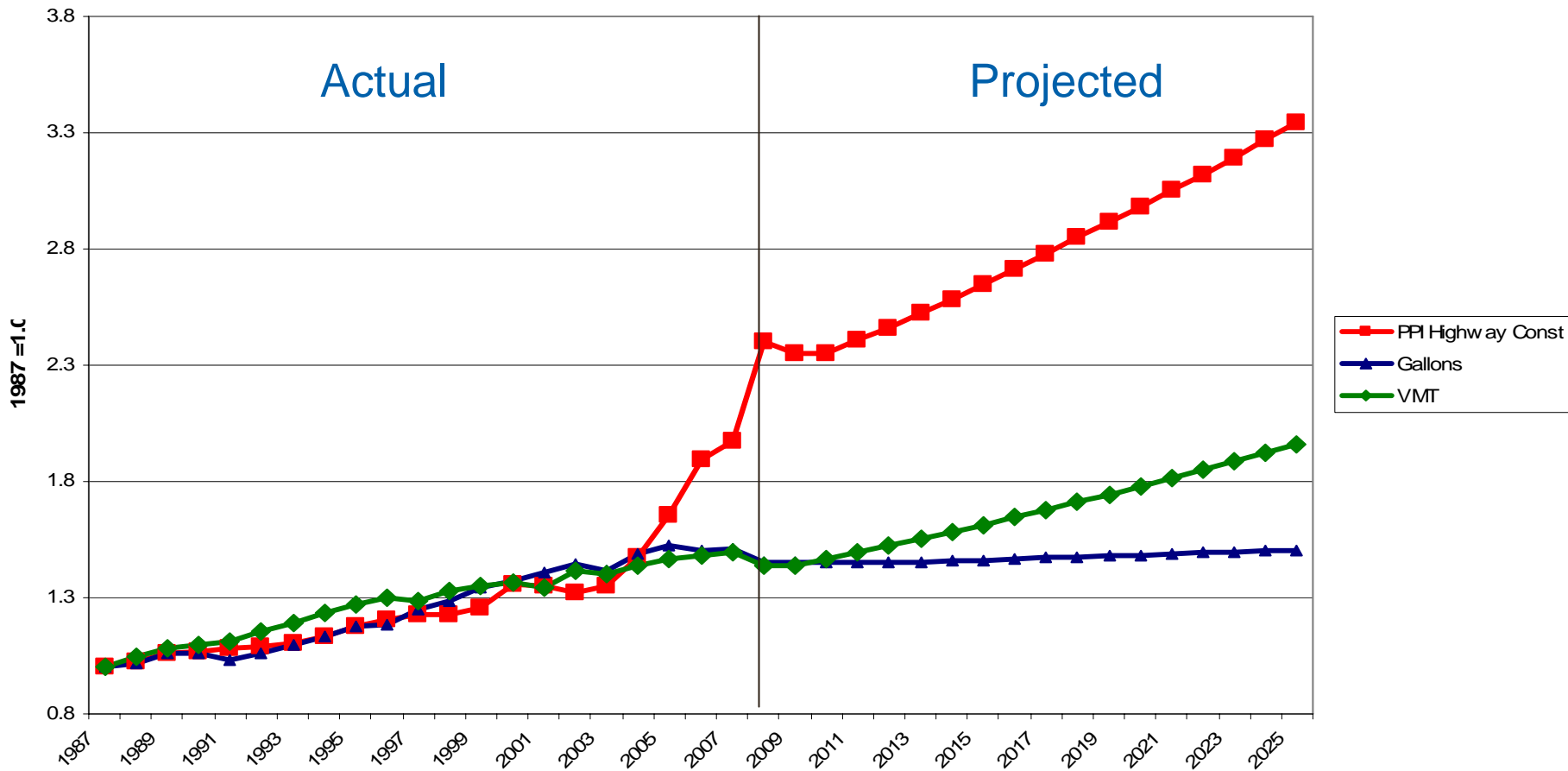
Mileage-Based Tax Myths

- **Mileage-based taxes eliminate tax base erosion**
 - Revenue neutral mileage-based taxes will generate the same revenues same as gasoline tax*
 - Inflation and/or periodic adjustments will be needed
- **Mileage-based taxes are not subject to economic fluctuations and fuel price increases as are fuel taxes**
 - VMT and gasoline sales declined in 2008
 - VMT is a function of gasoline prices, income, population, etc.

* A mileage-based tax will be subject to less erosion in the future as more fuel efficient vehicles are added to the fleet

Historical and Projected Trends

PPI Highway Construction, Fuel Gallons and VMT



Mileage-Based Tax Option

- Index gasoline tax rate to % change in aggregate statewide vehicle miles traveled
- Establish a VMT floor (e.g. 2000 level) *
- Create a “mileage tax” by adjusting the gasoline tax rate on an annual basis for the % change in VMT from the base level
- Include an inflation factor

* A VMT tax rate floor is also an option

Mileage-Based Tax Option - Sample

| | |
|---|--|
| Baseline VMT (millions) | 74,801 (2000 level) |
| Gasoline Tax Rate | \$0.175/gallon |
| Gallons (millions) | 5,037 |
| 2007 VMT (millions) | 82,007 |
| Mileage Tax | $(82,007/74,801)-1) \times \\$0.175 =$ \$0.0169/gal |
| Mileage Tax Adjusted for Inflation | $\\$0.0169 \times (207.3/172.2) = \\$0.0203/gal$ |
| Gasoline Tax Plus Inflation Adjusted Mileage Tax | $\\$0.175 + \\$0.0203 = \\$0.1953/gal$ |
| Additional Revenues | $\\$0.0203/gal \times 5,037 = \\102.2 million |

Benefits of the Option

- **Can be implemented in the near term (2 to 5 years)**
- **Directly related to highway use (i.e. highway use tax)**
- **Mimics tax imposed on individual mileage without privacy, technology, administrative and other concerns**
- **Minimal costs to administer**
- **Applies to both in-state and out-of-state travelers**
- **Limited public burden**

Drawbacks to Option

- **It is a tax increase**
- **Does not account for alternatively fueled vehicles**
 - Tension between promoting alternative fuels and funding transportation
- **Does not provide a means to tax based on location, time-of-day, etc.**

QUESTIONS?