OHIO MUNICIPAL LEAGUE

Partnering for Stronger Cities and Villages

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Transportation Infrastructure Funding Statement

February 25, 2019

INTRODUCTION

This Transportation Infrastructure Funding Statement supports significant and actionable state transportation infrastructure funding policies that enhance the funding of municipal roadway and bridge maintenance and improvement. This staged strategy is being offered as Governor Mike DeWine proposes his first Ohio Department of Transportation (ODOT) operating budget (FY 2020-2021), which includes a proposed 18-cent per gallon increase in the motor vehicle fuel tax effective July 1, 2019. The tax, which is constitutionally earmarked for road and bridge related use, is Ohio's central source of transportation infrastructure funding — funding which also benefits local governments, including municipalities.

Governor DeWine has stated that: "Investing in Ohio's transportation network is also an investment in the future of Ohio's high-performance economy … We must ensure that our transportation system is not only safe and reliable, but that it also strengthens our economy by offering accessibility for current and new businesses."

Ohio municipalities, our state's economic engines, share this view just as they support the Governor's proposed motor vehicle fuel tax increase. Municipalities have this perspective because they are home to over 8.5 million citizens and over 80 percent of Ohio businesses. Our citizens and businesses understand that municipal roadways provide critical first and last mile connections for employment, commerce, social services, education, culture and recreation. Municipal roadways also connect first responders to the public they serve and citizens to hospitals and health services they need.

This municipal transportation infrastructure is part of a statewide roadway network that spans over 250,000 lane miles and 44,000 bridges with over 300 million vehicle miles traveled annually.

Municipalities maintain over 70,000 lane miles and 2500 bridges and have an annual count of over 100 million vehicle miles traveled. About 21,000 of these municipal lane miles, including local connectors and arterials and state highways maintained by municipalities, carry over a quarter of all vehicle miles traveled in Ohio. Greater investment in the municipal roadway system will promote economic vitality, serve our first responders, and make these roads safer.

MUNICIPAL INFRASTRUCTURE FUNDING NEEDS

There is a growing mismatch between documented transportation infrastructure funding needs (state and local) and the estimated revenues in place to pay for these growing costs. According to ODOT's 2014 *Access Ohio 2040* report, highway revenues generated between 2014 and 2040 will lose more than 30 percent of their value based on the CPI index. The same report estimates a funding shortfall of $14 billion, which is the net of a projected $55 billion state need and only $41 billion to pay for this cost. This is for the state-only portion of Ohio's transportation infrastructure. If this 25 percent state funding gap was applied to the ODOT estimated cost for maintaining locally owned roads for the same period, which is $41 billion; and for public transit, which is $15 billion, the local funding gap would be significant. It would be $14 billion for local roadways and $3.75 billion for public transit.

According to the Tax Foundation, Ohio's motor vehicle fuel tax rate of 28 cents per gallon ranks 29th nationally and the lowest of our neighboring states. Yet Ohio ranks 6th nationally in total vehicle miles traveled thus an unsustainable mismatch of revenues and roadway wear and tear.

Ohio's motor vehicle fuel tax ("gas tax"), is experiencing slow revenue growth due to a variety of economic realities, including greater use of more fuel-efficient vehicles, including alternative fuel vehicles. The weakness in gas tax revenues is so significant that it would take approximately an eight-cent per gallon increase in this flat, 28 cent per gallon tax just to provide an inflationary adjustment since the tax was last increased in 2005.

These fiscal challenges are compounded at the state level by the recent use of Ohio Turnpike Commission bond funds ($1.5 billion), which served as a temporary fiscal bridge for state projects. Meanwhile, approximately 14 percent of motor vehicle fuel revenues are being devoted to debt service.

This and growing infrastructure needs has led to the reality that state and local governments can barely pay for essential maintenance and thus have little, if any, additional funds for major roadway and bridge improvements. A 2018 OML member survey revealed a strong pattern of underfunding of basic local transportation infrastructure maintenance and necessary improvement projects.

These fiscal problems mean that ODOT's FY 2020-2021 operating budget, which must be introduced and passed by April 1, 2019, would provide less funding than the current budget if it did not include a motor vehicle fuel tax increase. And, without this proposed new funding, the resources that would be in place would need to prioritize maintenance and related safety needs and therefore there would be no funding for major new projects. For their part, municipalities, which receive approximately 13 percent of the motor vehicle fuel tax ($243 million in FY 2017), would also receive essentially no new funding for the next two years because motor vehicle fuel tax revenues are not projected to grow.

This is why ODOT Director Jack Marchbanks estimated that ODOT needs an additional $1 billion per year to meeting current transportation infrastructure needs, consisting of $500 million for maintenance, and $250 million for safety projects and $250 million for major new projects. Additionally, recent estimates of local transportation infrastructure needs pegs this aggregate cost in the $1 billion range annually.These estimates align with growing evidence in Ohio and nationally that America's transportation infrastructure is not well maintained and not keeping pace with growing demands. These patterns can be seen in the American Society of Civil Engineers' *2017 Infrastructure Report Card*. It rates the nation's public infrastructure as being in poor condition rating a D+ overall. The same report card gives American's roads a D rating and the nation's bridges a C+. The report card also reveals that the most recent estimate puts the country's backlog of highway system improvements at $836 billion. If Ohio's population-based portion of these costs were estimated, the state's backlog of highway system improvements would total approximately $30 billion.

OML TRANSPORTATION FUNDING STRATEGY INCLUDES SUPPORT FOR GOVERNOR DEWINE'S PROPOSED 18-CENT PER GALLON MOTOR VEHICLE FUEL TAX INCREASE

Despite strong evidence that additional resources are needed, the OML is supporting Governor Mike DeWine's call for an 18-cent per gallon increase in the motor vehicle fuel tax. This support is based on OML member input and a related assessment of municipal roadway and bridge maintenance and improvement needs and the inability for most municipalities to pay the complete cost of these essential needs. The organization is also supporting the Governor's recommendation that this flat, per gallon tax be indexed for inflation. The OML's position on these and the related funding policies outlined below amounts to a staged strategy for addressing public infrastructure challenges that are so large that they can only be addressed in stages.

1. Support Motor Vehicle Fuel Tax Increase And Indexing As Follows:

- **INCREASE OHIO'S 28-CENT PER GALLON MOTOR VEHICLE FUEL TAX BY 18- CENTS PER GALLON.**
  By raising the motor fuel tax by 18 cents per gallon, Ohio would, first, restore the buying power lost since it was last raised in 2005. This would equate to an increase of 8 cents per gallon, which, at $67 million per one-cent increase, would produce approximately $536 million per year. The additional 10 cent per gallon increase would produce an additional $670 million per year beyond the inflationary adjustment and allow state and local leaders to target these new resources towards maintenance and improvement projects on the busiest and most critical state and local roadways and bridges. And since the state of Ohio receives approximately 60 percent of motor vehicle fuel tax revenues, this $1.2 billion increase would provide over $720 million per year for the state and the rest, or about $475 million, would be earmarked, in the proportion it is today, for local governments.

  The OML supports July 1, 2019 implementation of the proposed 18-cent per gallon motor vehicle fuel tax increase. The current municipal share of this tax (13%) should be maintained with this increase. This percentage would generate approximately $156 million annually while still having a tax rate that is at a competitive level regionally and nationally.

  Leading municipal examples of why these funds are needed are outlined below in #2 below. Importantly, the cost of just these examples exceeds the 13% share of the proposed 18-cent per gallon motor vehicle fuel tax increase.

- **SUPPORT INFLATIONARY INDEXING OF MOTOR VEHICLE FUEL TAX.** On a going forward basis, index the gas tax to reflect cost-of-living (consumer price index) adjustments so that its buying power grows. This approach is used by Florida, Maryland, North Carolina and Rhode Island. Michigan ties its gas tax to the state's inflation rate. And, in 2015, Georgia became the first state to link its gas tax to the efficiency standards of motor vehicles, potentially alleviating any lost revenue because of more fuel-efficient cars. All in all, twenty states have some form of variable rate gas tax.

- **CREATE FEE FOR ALTERNATIVE FUEL VEHICLES TO PAY THEIR FAIR SHARE OF TRANSPORTATION INFRASTRUCTURE COSTS.** As is already the case in twenty states, require e-vehicles and other alternative fuel vehicles to pay an annual state user fee. As estimated by ODOT, a fee of $275 per year for e-vehicles and $75 for hybrid vehicles would only generate $2.5 million per year; however, the revenues from these fees will grow significantly over time as more and more individuals use alternative fuel vehicles.

2. Create A Partnership To Prioritize Investment In Well-Traveled And Critical Roadways.

Understanding that Ohio is not in a position to meet every state and local transportation need, we should focus on ways to partner on the state-local roadway network that link citizens to work and companies to markets, including:

- ROADWAY INVESTMENT:
  Maintenance needs of these critical roadways will vary, so, municipalities propose that local governments work with the state to create a 10-year maintenance program for "well-traveled" state highways and local arterials and connectors shouldering over a quarter of all vehicle miles traveled in our state. It also would include critical roadways outside these designations that provide access to critical police, fire, ems, hospital, education, key community services, and employers.

OML TRANSPORTATION FUNDING STRATEGY INCLUDES SUPPORT FOR GOVERNOR DEWINE'S PROPOSED 18-CENT PER GALLON MOTOR VEHICLE FUEL TAX INCREASE CONT...

A ten-year maintenance program covering these lane miles would treat about 2100 lane miles per year. This would assure that every line mile of this important system is maintained appropriately. *The estimate for the municipal portion of this need is $400 million a year.*

- BRIDGE INVESTMENT:
  Local governments maintain over two-thirds of the state's 44,000 bridges. Although counties maintain most of these bridges, municipalities maintain 2453 bridges. *The needs estimate for a 30-year maintenance program for these municipal bridges is about $50 million a year.*

- TRAFFIC MANAGEMENT AND SMART TECHNOLOGY:
  More funding to install, operate and maintain traffic management and emerging smart technology would improve safety and efficiency and reduce congestion on the high use roadways. Since the life cycle costs of these systems are evolving rapidly, best practice research will establish the installation and maintenance cycle of these new systems. *The initial estimate for the municipal portion of this need is $50 million a year.*

- TRANSPORTATION PLANNING AND EMERGING TECHNOLOGY BEST PRACTICE TRAINING:
  There also is a need for good planning and training to help localities make the best infrastructure investment decisions, like establishing effective pavement condition ratings and best practice training for managers and line staff on traffic management and emerging smart transportation matters. *Funding for this need would be developed and paid for within the budgets of the above three components.*

3. Expand Support For Public Transit.

Ohio ranks 41st in public transit funding in the face of growing urban and rural needs, including in 27 counties that have no public transit. Ohio should begin to address this problem with an increase in state GRF funding for public transit to the prior higher watermark of $43 million/year. Additionally, permissive authority should be given to municipalities and counties to expand parking taxes to help pay for transit.

4. Restore Local Government Fund Cuts.

Support restoration of Local Government Fund cuts — which totaled nearly 50 percent ($450 million/year) since FY 2012. Local governments use these funds for general government purposes, including transportation infrastructure. Additionally, as was recently allowed for counties, municipalities should be allowed to expand the permissive vehicle license fee by $5 to help fund local transportation projects, including public transit.

5. Expand Sales Tax Base Per U.S. Supreme Court Decision. Use Portion of Revenue For Smart Transportation Technologies.

Ohio should expand the state sales tax to out-of-state, online sales. The legality of this approach has been approved by the recent U.S. Supreme Court decision in the "Wayfair" case. The Government Accounting Office has estimated that Ohio could generate over $200 million annually in new revenue, but only if it passes a state law that implements this Supreme Court decision. This action should betaken in 2019 and the new revenues should be used primarily to finance "smart" transportation technology projects, such as signalization modernization in municipalities. These needed investments, which OML estimates preliminarily to cost $50 million per year, will improve traffic congestion, vehicle mileage and public safety.

6. Create Long-Term Transportation Funding Study Commission.

Support the creation of a Long-Term Transportation Funding Study Commission to analyze and make policy recommendations that address the ongoing shift away from gas fueled vehicles to alternative fuel vehicles and greater use of public transportation and information technology, including online work, all of which diminish gas tax revenue growth and related transportation funding. Consideration of a vehicle miles traveled tax should be included in this analysis. Require report and recommendations to Governor and legislature by June 30, 2020.

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