

# Study of Indiana Transportation Infrastructure Funding Mechanisms

*prepared for*

**Indiana Department of Transportation**

*prepared by*

**Cambridge Systematics, Inc.**

*and*

**D'Artagnan Consulting, LLP**

**Indiana University**



October 2015

# Guide to Key Themes

This report summarizes Indiana’s transportation needs and options for funding them. ....	1
Achieving a sustainable transportation funding structure is complex. ....	2
Funding transportation is a two-step process – decide what Indiana should buy, and decide how best to pay for it.....	3
There is no one answer to how much money is needed for transportation in Indiana. It depends on what Indiana wants to buy. ....	4
Local transportation funding needs are also pressing, but harder to quantify.....	5
Transportation funding is expected to decline over the next 20 years. ....	6
The cost of what Indiana could buy for its transportation system is extensive. But there are lower cost options. ....	7
There are a variety of ways to fund transportation. But there is no one correct answer to which is best for Indiana. ....	8
The financial impact of the potential mechanisms varies greatly, and only a few have significant revenue potential. ....	9
Tolling in key corridors could provide significant revenue, but with some restrictions.....	13
To decide how to fund transportation going forward, it is also important to understand the public’s perception of transportation funding.....	14
This report supports a two-step revenue discussion process – decide what Indiana should buy, and then decide how best to pay for it. ....	15
Appendix. Assessment of Potential Revenue Mechanisms.....	17



# This report summarizes Indiana's transportation needs and options for funding them.

Indiana's leaders want to evaluate options for providing sustainable funding to meet current and future roadway needs. Through House Bill 1104, the Indiana General Assembly charged the Indiana Department of Transportation (INDOT) with completing this study of potential revenue mechanisms for transportation.

Maintaining and preserving Indiana's roadways requires sustainable funding. Investing early and often in our roads saves taxpayers money and prevents a slow decline of our transportation system. While current transportation funding supports the maintenance of roadway conditions, Indiana has an opportunity to invest in a more sustainable and forward-looking preventative maintenance program for roads, ultimately giving greater return on investment for taxpayers.

This study provides the analysis needed for the General Assembly and Governor to develop transportation policies that will enable Indiana to support mobility, improve quality of life, provide access to education and jobs, and advance economic growth. The study answers the following questions:

- **How much funding is needed to serve the statewide transportation needs of Indiana?** To answer this question the study team began with an assessment of transportation preservation needs over the next twenty years.
- **How can INDOT engage with local governments so they receive adequate resources to manage their road networks?** To answer this question the study team reached out to local governments for their input.
- **What revenue mechanisms could be used to fund state and local transportation needs?** To answer this question the study team assessed potential revenue mechanisms in terms of:
  - Potential revenue yields;
  - Ease of implementation and enforcement;
  - Revenue sustainability and predictability;
  - Public support; and
  - Business climate friendliness.



This report summarizes the overall findings of the study. Greater technical detail on each topic is available through a series of technical memoranda.

# Achieving a sustainable transportation funding structure is complex.

Following are the key findings from this study. Each finding is discussed in greater detail throughout this document.

- There is no one answer to how much money is needed to adequately fund transportation projects. It depends on the level of service the State provides Indiana's citizens and businesses.
- Local transportation funding needs are also pressing, but are harder to quantify.
- Transportation funds are expected to decline over the next 20 years, if tax revenues and tax rates remain unchanged.
- State and local transportation needs are expected to exceed available funds if no changes are made to the current funding structure.
- There are a variety of funding mechanisms available. However, only a few can significantly increase revenue:
  - Viable options include increasing fuel taxes or sales taxes, and introducing road user charges.
  - Tolling could be used on key corridors.
- According to a public survey conducted as part this study, the general public overestimates how much it pays for transportation.
- Resolution of these funding issues is a two-step process.
  - Decide what Indiana should buy.
  - Decide how best to pay for it.



# Funding transportation is a two-step process – decide what Indiana should buy, and decide how best to pay for it.

---

This report is designed to support discussions regarding transportation funding in Indiana. In evaluating revenue options, it is important to consider the following two steps:

## *Step 1. Decide what Indiana should buy*

A key principle throughout this study is that revenue should be tied to needs. Indiana should not create a wish list of needs that it cannot fund, and it should not generate revenue without knowing how it will be used. There is no single answer to what Indiana should buy when it comes to maintaining its transportation system. For example, what condition should Indiana's pavements and bridges be in? What projects should Indiana build? Answering these questions requires decision-makers to understand what Indiana can buy, how much it would cost, and how much Indiana is willing to pay for it.

Pages 4 through 7 of this report present information related to this step. They present options for what Indiana could buy in order to maintain and/or improve the State's transportation network. They show the relationship between funding and the condition of the State highway system. They define other potential priorities. They discuss the transportation funding needs of local agencies throughout Indiana. They present a series of scenarios that illustrate what Indiana may want to buy.

## *Step 2. Decide how best to pay for it*

The result from Step 1 is a cost. This cost is fixed, regardless of who pays for it and how. Step 2 is to determine how to generate the necessary revenue. There is also no single answer to this question. Determining how to fund transportation requires decision-makers to understand the pros and cons of potential funding options.

Pages 8 through 37 of this report present information related to this step. They summarize potential revenue options in terms revenue potential, revenue sustainability/ predictability, business climate friendliness, ease of implementation/ ability to enforce, and public acceptance. They also provide examples of potential revenue streams.



# There is no one answer to how much money is needed for transportation in Indiana. It depends on what Indiana wants to buy.

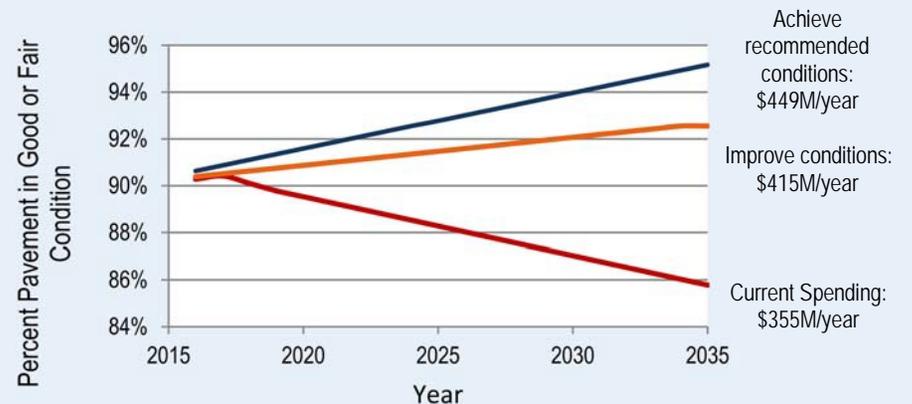
INDOT maintains a roadway network that serves 6.6 million people and supports an annual GDP of \$246 Billion. It includes over 30,000 lane miles of roads, including highway ramps, and nearly 6,000 bridges. INDOT has analyzed the funding needed to maintain and improve this system over the next 20 years. Key points to understand include:

- Indiana's roadways are aging. Over half of State-owned bridges are in their last 25 years of life.
- The goals of INDOT's asset management program are to achieve a state of good repair while minimizing life cycle costs.
- To achieve these goals, INDOT recommends allocating a total of \$449M/year to pavements and \$290M/year to bridges.
- Spending less money will lead to worsening conditions and increased long term costs.
- In addition to preserving existing roadways, INDOT has obligations for operations, debt service, and ongoing projects.
- Looking beyond current obligations, the 2014 *Blue Ribbon Panel on Transportation Infrastructure Report to Governor Pence* identified additional statewide transportation priorities.
- Regional and local agencies also have additional priorities for State-owned roadways.

Transportation funding involves tradeoffs. Among all of these needs, what are the priorities? What level of transportation service should Indiana provide? There is no single correct answer.

## The Link Between Annual Spending and Roadway Condition

Over the next 20 years, INDOT expects its pavements to deteriorate under current spending levels. This chart shows the relationship between funding and pavement conditions.



INDOT has done a similar analysis for bridges. At current spending levels, INDOT expects its bridges to deteriorate from 7% poor to 9% poor over the next 20 years. INDOT currently spends about \$215M/year on bridges. In order to achieve recommended levels INDOT would need to spend about \$290M/year. This level of funding would result in bridge conditions improving to 3% poor.



## Local transportation funding needs are also pressing, but harder to quantify.

The needs described on the previous page only tell part of Indiana's transportation story. Cities and counties also manage an extensive local transportation network. The study team assessed needs and funding at the local level through a survey of local agencies. Key findings include:

- It is extremely difficult to estimate the cost of maintaining Indiana's local roadway system. This is because local agencies assess pavement and bridge needs in a variety of ways.
- The needs of the local roadway system are extensive, as reported by local agencies. They face significant challenges in keeping up with roadway maintenance due to dwindling funds and increasing traffic.

Therefore, a critical first step in addressing funding for Indiana's local transportation system is to develop a robust approach for assessing its needs. This will provide context for subsequent revenue discussions. Over time, the focus can then shift towards applying asset management techniques to improve the allocation of available funding, with the overall goal of achieving a state of good repair for the lowest long term costs.

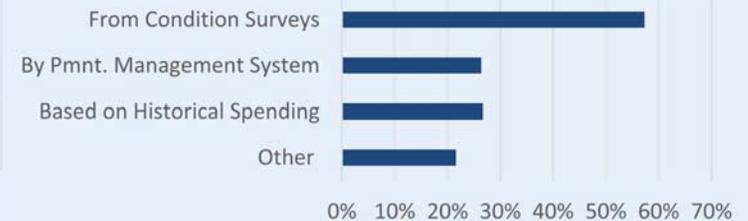
Options for addressing local transportation needs include:

- Develop a standard statewide system for assessing needs and prioritizing local pavement and bridge projects.
- Develop asset management systems to help analyze these data.
- Provide training for local agencies on applying asset management techniques in order to optimize the use of existing funds.
- Consider the benefits for local agencies as new funding mechanisms are evaluated.

### Snapshot of Survey Results

We surveyed over 350 local agencies in February of 2015. We received responses from cities, towns, urban and rural counties, and others.

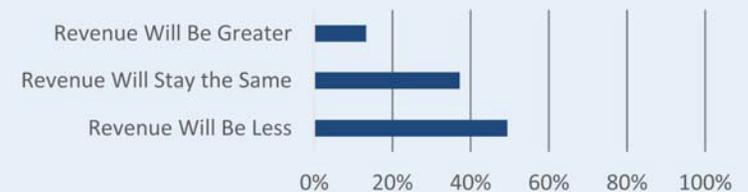
#### How does your agency assess pavement preservation needs?



#### Are your current revenue sources adequate to maintain your roadways?



#### How do you expect local transportation revenues to change over the next 10 years?



# Transportation funding is expected to decline over the next 20 years.

In Indiana, the State and local transportation systems are funded primarily from two sources: State revenues collected through taxes and fees related to cars and commercial trucks, and Federal funds. Federal funds account for nearly 40% of INDOT's budget. The remaining portion consists of State transportation revenues. The largest source of State revenues is motor fuel taxes, which account for nearly 57 percent of INDOT's revenue. Vehicle fees contribute 17 percent. Toll proceeds account for another 17 percent. The remaining 9 percent come from a wide range of miscellaneous fees. Local transportation funds include a portion of both State revenues and Federal funds.

Revenue for transportation is not at crisis levels right now. Current transportation funding is sufficient to address urgent maintenance issues on the State system. However, the buying power of revenues is projected to fall over time due to inflation. In addition, vehicle fuel efficiency is expected to improve over time. As vehicles require less fuel, fuel tax revenue decreases.

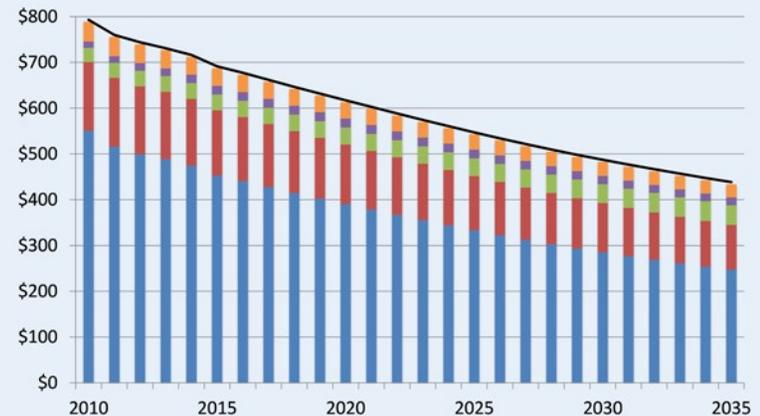
## Revenue Projections from State Sources

Over the next twenty years, INDOT projects stable revenues. However, when a decline in purchasing power due to inflation is factored in, the available revenue to address the State's transportation needs is projected to decline.

Net INDOT Revenue from State Sources (Millions)



Net INDOT Revenue from State Sources (Millions, Accounting for Inflation)



# The cost of what Indiana could buy for its transportation system is extensive. But there are lower cost options.

The study team developed four example scenarios to illustrate how transportation needs vary depending on what Indiana wants to buy.

1. **Taking Care of What We Have** – includes funding for maintaining State-owned pavements and bridges at recommended levels, completing ongoing projects and INDOT operations.
2. **Scenario 1 plus Tier 1 Projects** – would also enable INDOT to complete the Tier 1 priority projects identified in the 2014 *Blue Ribbon Panel on Transportation Infrastructure Report to Governor Pence*.
3. **Scenario 2 plus Tiers 2 and 3 Projects** – adds Tier 2 and 3 projects from the *Blue Ribbon Panel Report*.
4. **Scenario 3 plus Regional Priorities** - adds the priorities of regional and local agencies for the state highway system that INDOT has compiled.

This table shows the average annual cost over the next 20 years to fund these scenarios. The costs focus on INDOT costs, which were the focus of this analysis. Local agency needs are also significant, but as described above, very difficult to quantify.

State Transportation System Need Scenarios

	1. Take Care of What We Have	2. Scenario 1 plus Tier 1 Projects	3. Scenario 2 plus Tiers 2 and 3	4. Scenario 3 plus Regional Priorities
<b>Take care of what we have</b>				
Recommended pavement conditions	√	√	√	√
Recommended bridge conditions	√	√	√	√
<b>Finish what we started</b>				
Ongoing statewide priorities	√	√	√	√
<b>Plan for the Future</b>				
Tier 1 projects		√	√	√
Tier 2 projects			√	√
Tier 3 projects			√	√
Regional priorities				√
<b>Other Operations</b>				
Current operating costs	√	√	√	√
<b>Average annual funding needs</b>	<b>\$1.5B</b>	<b>\$1.9B</b>	<b>\$2.1B</b>	<b>\$3.2B</b>



# There are a variety of ways to fund transportation. But there is no one correct answer to which is best for Indiana.

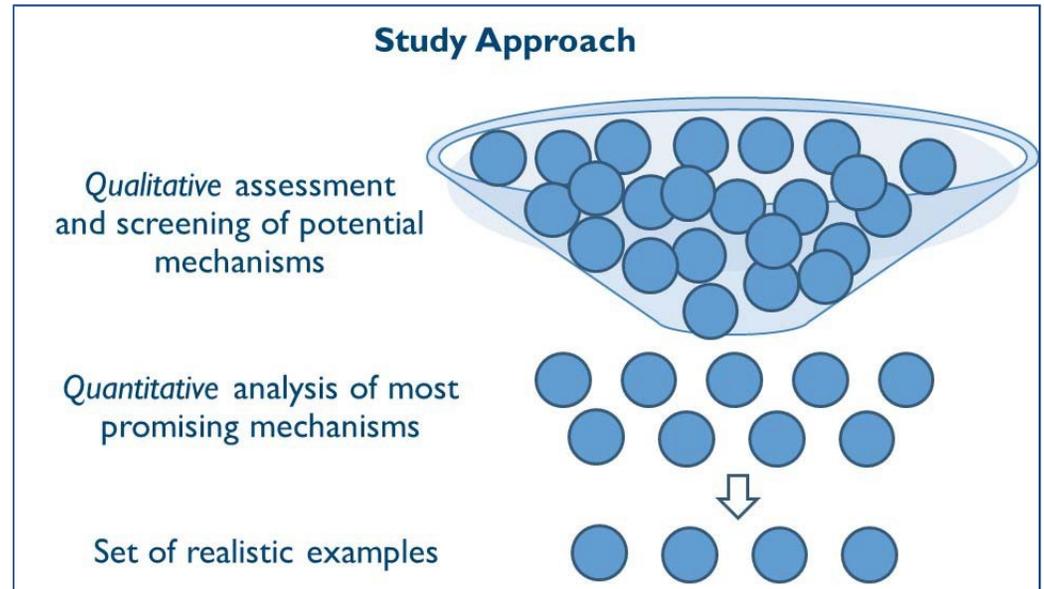
The study team reviewed over 50 traditional and innovative funding mechanisms in terms of:

- Revenue potential;
- Revenue sustainability/ predictability;
- Business climate friendliness; and
- Ease of implementation/ ability to enforce.

It then eliminated mechanisms that did not fare well in terms of these criteria, and performed a detailed quantitative analysis of the remaining 17. One of the most important lessons that emerged from this effort is that there is no one correct answer to transportation funding. Addressing the long term funding needs for Indiana's transportation system will not be possible with small adjustments or minor changes.

The Appendix of this report provides a detailed snapshot of the potential funding mechanisms.\* The following information is provided for each mechanism:

- A description;
- Its current status in Indiana;
- Its strengths and weaknesses
- Its use in other states; and
- Examples of how much revenue could be generated with it.



\*Tolling is not included as one of the statewide mechanisms. Tolling is addressed separately, later in the report. Tolling was handled differently because it is tied to specific corridors and specific projects, rather than as a funding mechanism for region or statewide needs.

# The financial impact of the potential mechanisms varies greatly, and only a few have significant revenue potential.

---

The study team developed a detailed financial model for the following mechanisms.

- Fuel tax
  - Increase existing taxes (gasoline, diesel, surtax)
  - Index existing taxes
  - Add sales tax to fuel purchases
- Road use taxes
  - Light-vehicle distance charge
  - Commercial truck weight-distance charge
  - Commercial truck size-distance charge
  - Commercial truck damage-distance charge
  - Oversize/overweight fees
- Vehicle & driver taxes
  - Driver license fees
  - Vehicle registration fees
  - IRP
  - Vehicle excise tax
  - Electric vehicle fee
  - Sales tax on auto sales
  - Tire tax
  - Vehicle law enforcement fee
  - Rental car sales tax
- General taxes
  - Dedicate existing sales tax
  - Increase sales tax
  - General fund transfers
- Property taxes
  - Tax increment financing
  - Development exactions
  - Special assessment districts
  - Impact fee

The model projects annual revenues over a twenty year period, taking into account evasion rates and the cost of collections. It estimates the amount of funds that each mechanism could generate for INDOT and local agencies. Key takeaways from this analysis include:

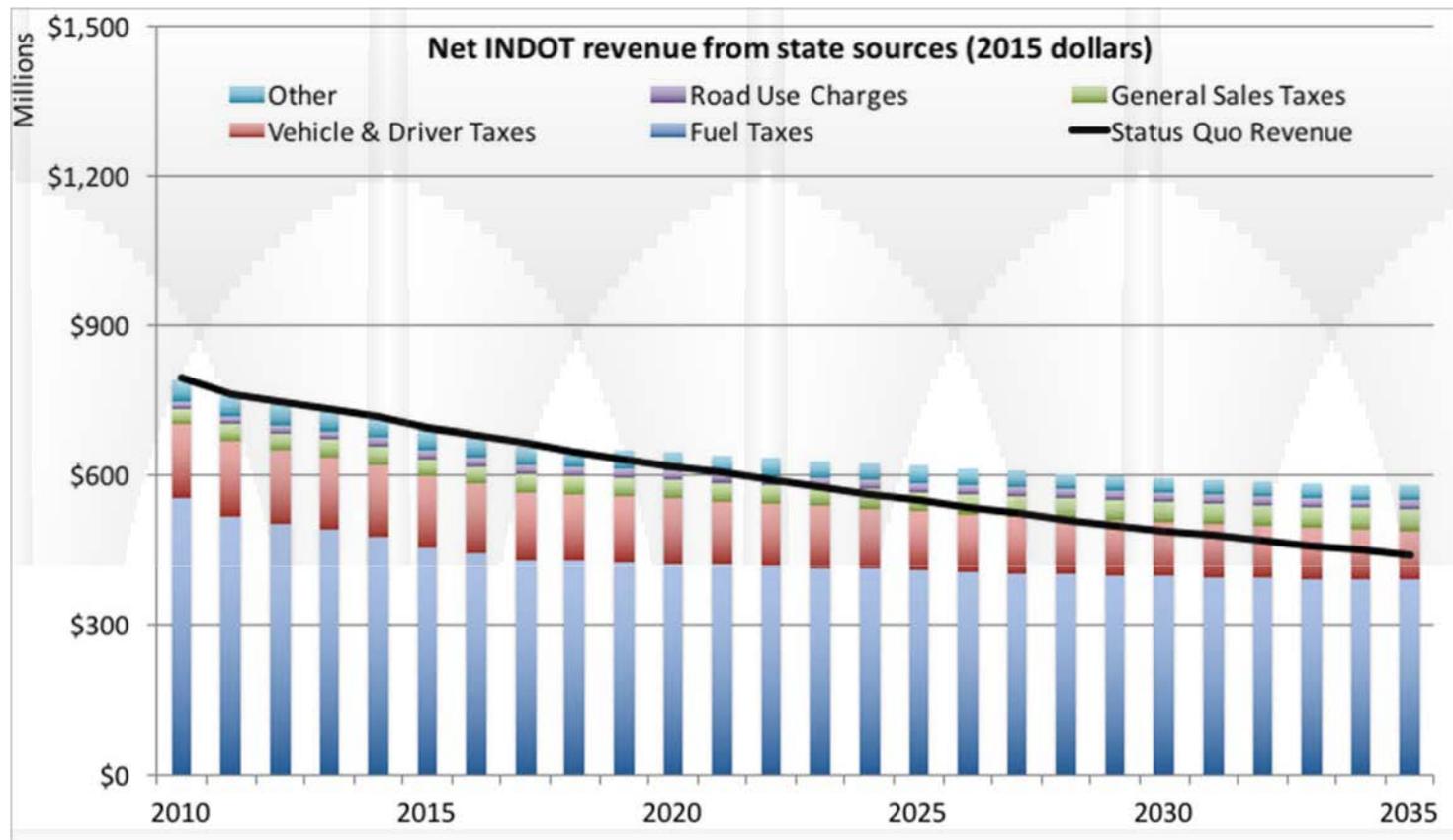
- Several mechanisms are expected to generate a relatively small amount of new revenue. These include rental car sales taxes, tire taxes, electric vehicle taxes, and driver license fees. (See Appendix for specific revenue examples.)
- The mechanisms with the higher potential in terms of revenue generation include: increased fuel taxes, increased sales taxes, road user charges in which drivers pay based on distance driven on Indiana roads, and distance/damage fees in which commercial trucks pay based on their weight, axle configuration, and distance traveled.

The following pages present four detailed examples of what various combinations of these mechanisms could look like. They help to illustrate that Indiana's preferred revenue solution may be a combination of mechanisms.



# Example 1. Index Fuel Taxes

In this example, existing fuel excise tax rates (gasoline, diesel, and surtax) are indexed to inflation (based on the Consumer Price Index, assumed to average 2.5 percent annually).



Average Change in Annual INDOT Revenue: + \$78 M<sup>1</sup>

Average Change in Annual Local Agency Revenue: + \$54M

Average Change in Monthly Cost per Household: + \$2.90

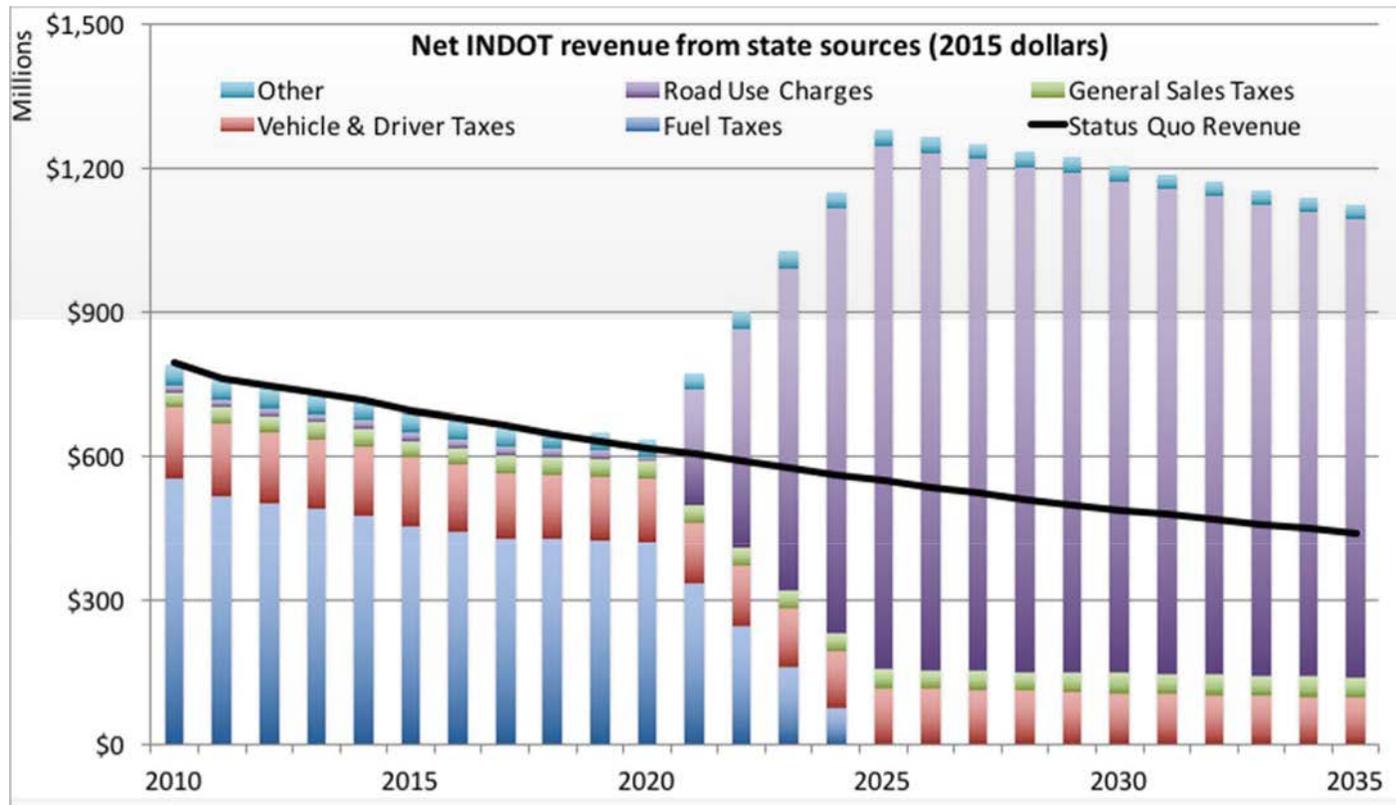
Average Change in Monthly Cost per Commercial Truck: + \$24



<sup>1</sup> All revenue figures in this report represent straight annual averages from 2017 to 2035.

## Example 2. Index Fuel Taxes and Transition to Road User Charge & Weight Distance

In this example, fuel taxes are indexed to inflation. Then beginning in 2020, there is a five-year transition from fuel taxes to road user charges for passenger vehicles and weight-distance fees for commercial trucks. From 2020 to 2025, passenger vehicles would gradually stop paying taxes based on each gallon of fuel purchased, and start paying taxes based on each mile travelled at a rate of 2 cents per mile. Commercial trucks would stop paying taxes based on the number of gallons of fuel purchased, and start paying based on the extent of damage done to the roadway.



Average Change in Annual INDOT Revenue: + 498 M

Average Change in Annual Local Agency Revenue: + 320 M/year

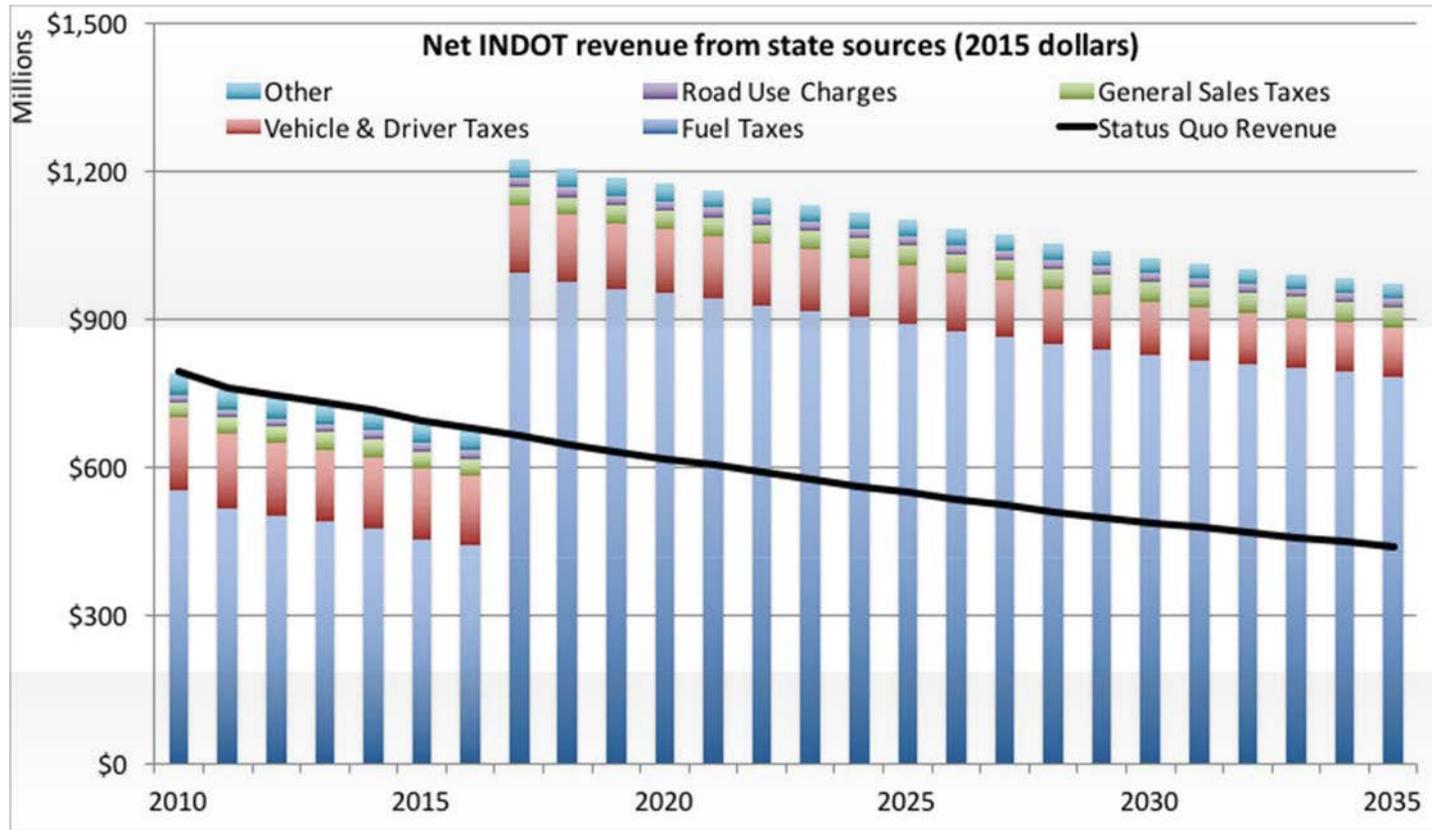
Average Change in Monthly Cost per Household + \$21

Average Change in Monthly Cost per Commercial Truck: + \$127



## Example 3. Index Fuel Taxes and Increase Sales Tax on Fuel from 7% to 12%

In this example, the fuel tax is tied to inflation. In addition, the sales tax on fuel is increased from 7% to 12%.



Average Change in Annual INDOT Revenue: + \$551 M/year

Average Change in Annual Local Agency Revenue: + \$54M/year

Change in Monthly Cost per Household + \$20

Average Change in Monthly Cost per Commercial Truck: + \$24



## Tolling in key corridors could provide significant revenue, but with some restrictions.

The study team conducted a preliminary feasibility assessment of the revenue potential of implementing tolling on three of the priority projects identified in the 2014 *Blue Ribbon Panel on Transportation Infrastructure Report to Governor Pence*:

- Widen I-65 to a minimum of 3 lanes in each direction. Options included tolling all lanes and tolling only the new lanes. (Tolling only the new lanes is referred to as a managed lane option.)
- Widen I-70 to a minimum of 3 lanes in each direction. Options include tolling all lanes and tolling only the new lanes.
- Improve the I-69 Ohio River crossing. Options include building a new bridge, or using the existing U.S. 41 after upgrading it to meet Interstate standards. The U.S. 41 option is referred to as the single bridge option.

The study team identified the optimal tolling rates that would maximize revenue while limiting the amount of traffic that diverts to other routes.

Tolling these three corridors could provide an excellent revenue stream. After the costs of toll collection are factored in, a combination of the two full tolling projects plus a new I-69 bridge could yield up to \$1 billion annually. These figures do not consider initial construction costs.

Under current transportation law, these funds would have to be used for the operation and maintenance of these corridors. However, they would enable INDOT to reallocate funds it currently spends on these corridors to other facilities.

### Tolling Projections for Different Projects and Scenarios

Project and Scenario	Revenue Maximizing Weighted Average Toll Rate (2015 Dollars)	Total Revenue from 2020-2050 (Millions of 2015 Dollars)	Percent Traffic Diverted (All Vehicle Classes)
I-65 Full Toll	\$0.196 per mile	Gross* Revenue: 22,529 Gross Revenue Per Mile: 86.2	19
I-70 Full Toll	\$0.16 per mile	Gross Revenue: 11,112 Gross Revenue Per Mile: 71.0	17
I-69 Single Bridge	\$6.49 per trip	Gross Revenue: 3,964	13
I-69 New Bridge	\$1.45 per trip	Gross Revenue: 426	19
I-65 Managed Lane	\$0.073 per mile	Gross Revenue: 3,775 Gross Revenue Per Mile: 14.4	5
I-70 Managed Lane	\$0.07 per mile	Gross Revenue: 1,551 Gross Revenue Per Mile: 9.9	5

\*Gross Revenue includes both Toll and Surcharge revenue. It does not factor in the costs of collection.



<sup>2</sup> This tolling assessment is a preliminary feasibility study of tolling options. Before implementing any of these options, a more detailed analysis would be needed to address issues such as required changes in the law, government waivers, detailed cash flow analysis, limitations on the use of revenues, and further analysis of traffic projections.

## To decide how to fund transportation going forward, it is also important to understand the public's perception of transportation funding.

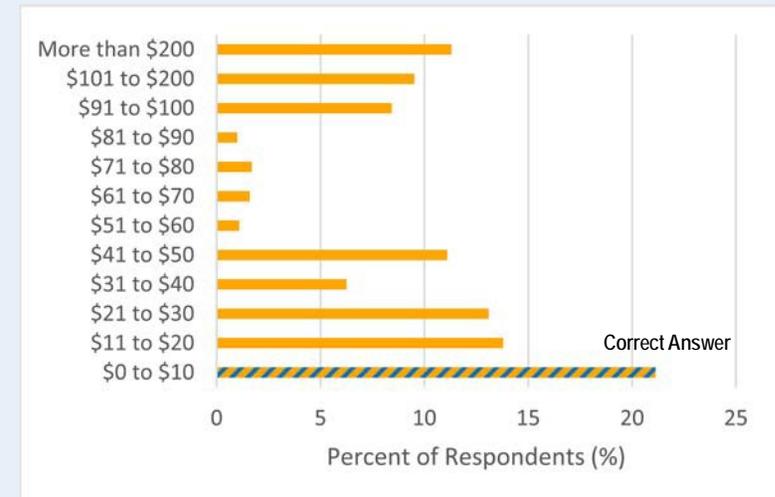
To learn more about the public's perception of the various revenue mechanisms, the study team conducted three focus groups and an online survey of 1,000 Hoosiers. Participants provided feedback on the quality of Indiana's roads, the estimated monthly fuel tax bill of the average Indiana driver, and their willingness to support potential revenue mechanisms.

Following are the key takeaways from this effort:

- The public generally feels that road quality is poor or insufficient. There is demand for improved and new or expanded roads.
- Hoosiers are generally not aware of current State fuel tax rates, or how much they pay monthly in fuel taxes. They significantly overestimate both.
- The public generally believes that everyone should contribute to paying for the cost of roads. Roughly a third of respondents believe the number of miles driven should be taken into account when distributing this cost.
- For the revenue mechanisms under consideration, there is a clear preference for weight-based fees and fees that shift the tax burden to "others." The majority of respondents find general fund transfers to be the most acceptable policy; however, they were not told that such transfers could result in spending reductions in other areas like health care and education.
- General sales tax and road user charges tend to be more polarizing. The share of respondents who find them acceptable is equal to the share who find them unacceptable.
- The public believes fairness is the most important factor to consider when choosing a transportation revenue policy.

### Public Understanding of What They Currently Pay

How much does the average driver pay monthly in fuel taxes to the State of Indiana? (Responses from an online survey of over 1,000 Hoosiers.)



The average driver pays about \$10 a month in Indiana fuel taxes. This figure goes up to \$17 a month if the Indiana sales tax is included, and \$24 a month if Federal fuels taxes are included. More than half of the respondents reported estimates of over \$30 a month.



# This report supports a two-step revenue discussion process – decide what Indiana should buy, and decide how best to pay for it.

This report is designed to support discussions regarding transportation funding in Indiana. It provides a structure for exploring funding options that involves two key steps. The table to the right provides an example of how these two steps should be considered together.

- **Step 1. Decide what Indiana should buy.** The table focuses on the cost of Scenario 1 – *Take Care of What We Have*. This scenario includes funding to maintain State-owned pavements and bridges at recommended levels, finish ongoing projects, and fund INDOT operations.
- **Step 2. Decide how best to pay for it.** The table shows some example tax rates for funding these needs. They assume that all other existing transportation revenue streams remain intact as is. These are just examples. There are numerous other ways Indiana could pay for this scenario.

This example illustrates how these two steps go hand in hand. Several iterations of these steps may be necessary to reach an acceptable funding solution for Indiana.

The Indiana General Assembly can rely on this research report, the more detailed technical memorandums available from INDOT, and other resources in identifying the best possible path forward for Indiana’s transportation system.

## Examples to Fund Scenario 1 – Take Care of What We Have

	1. Take Care of What We Have	Annual New Revenue for Local Agencies
Annual Needs for the State System	\$1.5B	unknown
1. Increase fuel taxes by...	\$0.17	\$250 M
2. Chain fuel taxes to inflation and increase by...	\$0.10	\$250 M
3. Chain fuel taxes to inflation, increase fuel taxes by 10 cents, and transition to a cost/mile for autos of...	2.5 cents per mile	\$230 M
4. Chain fuel taxes to inflation, increase fuel taxes by 10 cents, transition to distance/damage fee for commercial trucks, and transition to a cost/mile for autos of...	0.9 cent per mile	\$280 M
5. Chain fuel taxes to inflation, and increase sales tax on fuel from 7% to...	9.9%	\$66 M



# Appendix

## Assessment of Potential Revenue Mechanisms



# 1. Gasoline Tax, One Time Increase

## ■ What Is the Current Status of this Mechanism?

Indiana currently has a gasoline excise tax of \$0.18/gallon. The last Indiana gasoline tax rate increase was in 2003, adding \$0.03/gallon (a 20% increase). The tax is paid by fuel suppliers and passed on to drivers who purchase fuel in Indiana. INDOT receives approximately 57% of the revenue generated. The remaining 43% is used for local roadways.

## ■ What Could this Mechanism Look Like?

This funding mechanism would be a one-time, flat, per-gallon increase to the existing gasoline excise tax.

## ■ What Are the Strengths of this Mechanism?

Relative to the other mechanisms, this mechanism has the potential to generate higher revenues. The gasoline tax is established and easy to collect.

## ■ What Are the Weaknesses of this Mechanism?

With only a one-time increase of the gasoline tax, purchasing power will continue to decline due to inflation. Increasing vehicle fuel efficiency will also reduce future fuel consumption and cause overall revenues to decline. The gasoline tax is also regressive, as it results in drivers of older, low MPG vehicles (relatively lower income and more rural) to cross-subsidize funding of roads for drivers of newer, high-MPG and electric cars (relatively higher income and more urban).

## ■ What Are Other States Doing?

In 2015, Iowa, Idaho, Utah, Nebraska, South Carolina, New Hampshire, and Washington all passed fuels tax increases. Michigan's Senate passed a fuels tax increase that needs to be reconciled with the House's version of the transportation bill.

## Analysis Snapshot

### Key Evaluation Criteria Performance

Revenue Stability	Business Climate	Ability to Enforce	Public Acceptance <sup>1</sup>
●	●	●	●

● = Good, ● = Fair, ● = Poor

### Potential Rates of Change

Rate	New Annual Revenue <sup>2</sup>
\$0.18 / Gallon	status quo
\$0.35 (+\$0.17)	\$179 M
\$0.53 (+\$0.35)	\$368 M
\$0.71 (+\$0.53)	\$557 M
\$0.90 (+\$0.72)	\$757 M

1. Based on public survey.

2. Estimated new average annual revenue between 2017 and 2035 for INDOT.



## 2. Gasoline Tax, Periodic Increases OR Increases Indexed to Inflation

### ■ What Is the Current Status of this Mechanism?

Same as described under one time increase.

### ■ What Could this Mechanism Look Like?

Instead of a one-time increase to the gasoline tax, Indiana could choose to do periodic increases to the gasoline tax, or index the gasoline tax to inflation. Periodic increases would include set flat-rate increases to the gasoline tax at specified time intervals. Indexing the gasoline tax to inflation would result in annual percentage increases to the per-gallon tax rate based on an inflation index, such as the Consumer Price Index (CPI).

### ■ What Are the Strengths of this Mechanism?

In addition to the strengths identified under a one-time increase, if Indiana were to index the gas tax to inflation it would no longer lose its purchasing power. Periodic increases to the gas tax may offset some public and political resistance to a large one-time tax increase.

### ■ What Are the Weaknesses of this Mechanism?

While periodic increases to the gas tax may seem more palatable, the same issues facing the gas tax under a one-time gas tax increase would apply here as well, with the gas tax continuing to lose its purchasing power over time due to increasing fleet fuel economy. If the tax is indexed to inflation, constituents may be averse to having a tax that increases automatically without a legislative vote for each increase.

### ■ What Are Other States Doing?

Seven states index fuel taxes to inflation, but none has implemented such a policy recently. Indexing to inflation has been discussed in various states, in particular Michigan where an indexing bill passed the House, and at the federal level.

### Analysis Snapshot

#### Key Evaluation Criteria Performance

##### Periodic Increases

Revenue Stability	Business Climate	Ability to Enforce	Public Acceptance <sup>1</sup>
●	●	●	●

● = Good, ● = Fair, ● = Poor

##### Increases Indexed to Inflation

Revenue Stability	Business Climate	Ability to Enforce	Public Acceptance <sup>1</sup>
●	●	●	●

● = Good, ● = Fair, ● = Poor

#### Potential Rates of Change

Rate	New Annual Revenue <sup>2</sup>
\$0.18/gallon	status quo
+ \$0.02/year	\$ 182 M
+ \$0.04/year	\$ 365 M
+ \$0.06/year	\$ 547 M
+ \$0.09/year	\$ 821 M

1. Based on public survey.

2. Estimated new average annual revenue between 2017 and 2035 for INDOT.



### 3. Diesel Tax and Surtax, One Time Increase

#### ■ What Is the Current Status of this Mechanism?

Indiana currently has a diesel fuel tax of \$0.16/gallon. The State also levies a Motor Carrier Fuel Use Tax of \$0.16/gallon, intended to levy revenues on diesel purchased out-of-state that is used for travel by motor carriers within the State of Indiana. In addition, the state instituted a Motor Carrier Surtax with motor carriers paying an additional \$0.11/gallon based on total fuel consumed and the carrier's share of travel within the state. These rates have not increased since 1988. In 2014, the diesel taxes generated a net revenue of around \$180 million, and the motor carrier surtax generated \$101.2 million, with all proceeds dedicated to transportation.

#### ■ What Could this Mechanism Look Like?

This funding mechanism would be a flat rate one time increase to the existing diesel taxes. Indiana could choose to institute one time increases to all three taxes (diesel tax, use tax, and surtax) or each one separately.

#### ■ What Are the Strengths of this Mechanism?

Relative to the other mechanisms, this mechanism has the potential to generate higher revenues. The taxes are also linked to travel within the state of Indiana.

#### ■ What Are the Weaknesses of this Mechanism?

While a large one-time increase will initially bring in substantial revenues, the taxes will continue to lose purchasing power over time due to inflation.

#### ■ What Are Other States Doing?

In 2015, Iowa, Idaho, Utah, Nebraska, South Carolina, New Hampshire, and Washington all passed fuels tax increases. Michigan's Senate passed a fuels tax increase that needs to be reconciled with the House's version of the transportation bill. Kentucky and Virginia are the only other states with a diesel surcharge.

#### Analysis Snapshot

##### Key Evaluation Criteria Performance

Revenue Stability	Business Climate	Ability to Enforce	Public Acceptance <sup>1</sup>
●	●	●	●

● = Good, ● = Fair, ● = Poor

##### Potential Rates of Change

Rate	New Annual Revenue <sup>2</sup>
\$0.16/gallon and \$0.11/gallon (diesel and surtax)	status quo
\$0.27/gallon and \$0.19/gallon (1.7x increase)	\$ 104 M
\$0.54/gallon and \$0.37/gallon (3.4x increase)	\$348 M
\$0.82/gallon and \$0.56/gallon (5.1x increase)	\$ 604 M
\$1.00/gallon and \$0.69/gallon (6.3x increase)	\$ 773 M

1. Based on public survey.

2. Estimated new average annual revenue between 2017 and 2035 for INDOT.



## 4. Diesel Tax & Surtax, Periodic Increases OR Increases Indexed to Inflation

### ■ What Is the Current Status of this Mechanism?

Same as described under one-time increase.

### ■ What Could this Mechanism Look Like?

Instead of a one-time increase to the diesel tax, use tax, and surtax, Indiana could choose to do periodic increases to the taxes, or index the taxes to inflation. Periodic increases would include set flat-rate increases to the taxes at specified time intervals. Indexing the taxes to inflation would result in annual percentage increases to the taxes based on an inflation index, such as the Consumer Price Index (CPI).

### ■ What Are the Strengths of this Mechanism?

In addition to the strengths identified under a one-time increase, if Indiana were to index these taxes to inflation they would no longer lose their purchasing power. Periodic increases to these taxes may offset some of the industry and political resistance to increasing the taxes.

### ■ What Are the Weaknesses of this Mechanism?

While periodic increases to the diesel tax, use tax, and surtax may seem more palatable, the same issues facing the taxes under a one-time increase would apply here as well, with the taxes continuing to lose their purchasing power over time. If the tax is indexed to inflation, constituents may be averse to having a tax that increases automatically without a legislative vote for each increase.

### ■ What Are Other States Doing?

Seven states index fuel taxes to inflation, but none has implemented such a policy recently. Indexing to inflation has been discussed in various states, in particular Michigan where an indexing bill passed the House, and at the Federal level.

### Analysis Snapshot

#### Key Evaluation Criteria Performance

##### Periodic Increases

Revenue Stability	Business Climate	Ability to Enforce	Public Acceptance <sup>1</sup>
●	●	●	●

● = Good, ● = Fair, ● = Poor

##### Increases Indexed to Inflation

Revenue Stability	Business Climate	Ability to Enforce	Public Acceptance <sup>1</sup>
●	●	●	●

● = Good, ● = Fair, ● = Poor

#### Potential Rates of Change

Rate	New Annual Revenue <sup>2</sup>
\$0.16/gallon and \$0.11/gallon (diesel and surtax)	status quo
+ \$0.02 and \$0.01/gallon per year	\$ 155 M
+ \$0.04 and \$0.03/gallon per year	\$ 369 M
+ \$0.07 and \$0.05/gallon per year	\$ 631 M
+ \$0.09 and \$0.06/gallon per year	\$ 786 M

<sup>1</sup> Based on public survey.

<sup>2</sup> Estimated new average annual revenue between 2017 and 2035 for INDOT.



## 5. Sales Tax on Motor Fuel

### ■ What Is the Current Status of this Mechanism?

Effective July 2014, Indiana transitioned from a 7 percent sales tax to a 7 percent use tax, which is now estimated based on the average gas price (excluding tax) for the preceding month and then applying the 7 percent use tax. Instead of collecting the revenues from retail merchants, the tax is now collected from distributors. The gasoline use tax may bring upwards of \$445 million in 2015, however these revenues are deposited into the general fund and are not fully dedicated to transportation.

### ■ What Could this Mechanism Look Like?

There are two options for this funding mechanism. The first would dedicate all, or a portion, of the use tax on motor fuel collections to transportation purposes, instead of the general fund. The second option is to increase the use tax on motor fuel with revenues from the increase being dedicated to transportation.

### ■ What Are the Strengths of this Mechanism?

Relative to the other mechanisms, this mechanism has the potential to generate higher revenues. It is already in place, making an increase or a change in revenue distribution relatively easy to implement and administer.

### ■ What Are the Weaknesses of this Mechanism?

Fuel prices are volatile, making this funding mechanism less stable relative to an excise tax. It is adjusted on a monthly basis, so it is also subject to seasonal changes in fuel prices.

### ■ What Are Other States Doing?

In 2013, Virginia passed landmark legislation that transitioned the state from an excise tax to a sales tax on motor fuel. In 2015, Utah added a 12% tax on motor fuel at wholesale, in addition to the excise tax.

### Analysis Snapshot

#### Key Evaluation Criteria Performance

Revenue Stability	Business Climate	Ability to Enforce	Public Acceptance <sup>1</sup>
●	●	●	●

● = Good, ● = Fair, ● = Poor

#### Potential Rates of Change

Rate	New Annual Revenue <sup>2</sup>
7%	status quo
8.8% (+1.8%)	\$ 170 M
10.7% (+3.7%)	\$ 350 M
12.6% (+5.6%)	\$530 M
15.1% (+8.1%)	\$ 766 M

<sup>1</sup> Based on public survey.

<sup>2</sup> Estimated new average annual revenue between 2017 and 2035 for INDOT



## 6. Operator (Driver) License Fee

### ■ What Is the Current Status of this Mechanism?

The fee and duration for an operator's license varies based on the type of use of the vehicle and age of the driver. The most common is a 6-year license with fee of \$17.50 (which equals \$2.92 per year). Commercial drivers pay different rates based on the type of use (for-hire vehicles such as limousines, heavy combination trucks, etc.). Revenues from operators' license fees are earmarked for transportation purposes.

### ■ What Could this Mechanism Look Like?

This funding mechanism would be a flat rate increase to the existing Operators' License Fees.

### ■ What Are the Strengths of this Mechanism?

Revenues from the fees are stable from year to year. Increases to existing fees are relatively easy to implement and administer.

### ■ What Are the Weaknesses of this Mechanism?

Even large increases to the fees do not generate a substantial amount of revenue. The fees are also regressive. Given that Indiana drivers currently may renew their licenses for up to 6 years, a large increase in the price could create payment difficulties. For example, a 10x increase would result in a 6-year license costing \$175. Many drivers may be unable to make one-time payments that large. In addition, out-of-state users of Indiana roads and bridges would not pay these fees.

### ■ What Are Other States Doing?

Various states, such as Alabama, have recently increased driver license fees; however, we are not aware of any states that have dedicated these increases to roadway uses. Such fees are typically used to fund DMV operations (i.e., to cover the cost of issuing the license itself) and sometimes police/enforcement activities.

### Analysis Snapshot

#### Key Evaluation Criteria Performance

Revenue Stability	Business Climate	Ability to Enforce	Public Acceptance <sup>1</sup>
●	●	●	●

● = Good, ● = Fair, ● = Poor

#### Potential Rates of Change

Rate	New Annual Revenue <sup>2</sup>
\$2.92/year	status quo
\$5.84/year (2x increase)	\$ 7 M
\$11.68/year (4x increase)	\$ 21 M
\$29.20/year (10x increase)	\$ 62 M
\$73/year (25x increase)	\$ 166 M

<sup>1</sup>. Based on public survey.

<sup>2</sup>. Estimated new average annual revenue between 2017 and 2035 for INDOT.



## 7. International Registration Plan (IRP)

### ■ What Is the Current Status of this Mechanism?

Through the International Registration Plan (IRP), interstate motor carriers pay an apportioned fee based on fleet distance traveled in Indiana as a proportion of total distance traveled in the U.S. and Canada. Vehicle registration fees for IRP are determined according to the weight of the vehicle and the distance driven within the state for the preceding year.

### ■ What Could this Mechanism Look Like?

Funding would be derived from an increase in the rate table for commercial truck registration fees, and a concurrent increase in the amount paid by commercial trucks that travel in Indiana.

### ■ What Are the Strengths of this Mechanism?

The IRP mechanism is already in place, and it includes collection of fees from out-of-state commercial trucks.

### ■ What Are the Weaknesses of this Mechanism?

Flat registration fee increases do not capture revenue based on increased usage. Also, increases in rates tend to affect largely or entirely in-state commercial trucking operations disproportionately, since IRP fleets only pay a proportion of the total fee based on the proportion of their total fleet miles traveled in Indiana.

### ■ What Are Other States Doing?

The 48 continental states and 10 Canadian provinces participate in IRP. Rate changes are frequent but typically modest. In 2015, Indiana is one of ten jurisdictions to update its rates. Some jurisdictions change rates less frequently.

### Analysis Snapshot

#### Key Evaluation Criteria Performance

Revenue Stability	Business Climate	Ability to Enforce	Public Acceptance <sup>1</sup>
●	●	●	●

● = Good, ● = Fair, ● = Poor

#### Potential Rates of Change

Rate	New Annual Revenue <sup>2</sup>
Schedule of rates based on vehicle weight	status quo
25% increase	\$ 10 M
50% increase	\$ 20 M
100% increase (double)	\$ 40 M
300% increase (quadruple)	\$ 120 M

1. Based on public survey.

2. Estimated new average annual revenue between 2017 and 2035 for INDOT.



## 8. Sales Tax on Auto Sales

### ■ What Is the Current Status of this Mechanism?

A sales and use tax of 7 percent is imposed on the purchase of a new or used vehicle in Indiana, which is the standard sales tax rate on all goods. For vehicles purchased at an auto dealership, the tax is collected by the dealer and remitted to the state. For privately purchased vehicles, the new owner pays the tax to BMV at the time the vehicle title is transferred. As with sales tax revenues on other goods, the proceeds from the sales tax on auto sales are deposited into the state's general fund.

### ■ What Could this Mechanism Look Like?

This funding mechanism increases the sales tax for automobiles by creating an additional tax on vehicle sales above the standard state sales tax rate. New revenues would be dedicated to transportation purposes.

### ■ What Are the Strengths of this Mechanism?

Revenue tends to increase with the rising price of vehicles. Existing processes are already in place for collection, making it easy to implement and administer.

### ■ What Are the Weaknesses of this Mechanism?

The tax would be applied equally to all passenger and light duty vehicles. Out-of-state drivers would not pay the tax, there is no direct connection to roadway impacts, and no effect on externalities. Auto sales were thought to be historically stable, but the 2010 recession saw a major decline in auto purchases, which resulted in a concurrent decline in sales tax revenue.

### ■ What Are Other States Doing?

The only known *differential* sales tax on auto sales (0.3% additional for auto sales) was passed in Washington State in 2003, and has not been increased since then. Texas recently enacted a law dedicating a portion of existing motor vehicle sales tax revenue to transportation, subject to voter approval in November 2015.

### Analysis Snapshot

#### Key Evaluation Criteria Performance

Revenue Stability	Business Climate	Ability to Enforce	Public Acceptance <sup>1</sup>
●	●	●	●

● = Good, ● = Fair, ● = Poor

#### Potential Rates of Change

Rate	New Annual Revenue <sup>2</sup>
7%	status quo
8.4% (+1.4%)	\$ 177 M
9.8% (+2.8%)	\$ 354 M
11.5% (+4.5%)	\$ 569 M
13.1% (+6.1%)	\$ 771 M

<sup>1</sup> Based on public survey.

<sup>2</sup> Estimated new average annual revenue between 2017 and 2035 for INDOT.



# 9. Tire Tax

## ■ What Is the Current Status of this Mechanism?

Indiana has two different taxes related to tires (or wheels). The first is a \$0.25 waste tire disposal fee that is collected on all new tires sold at retail, and on tires installed on new vehicles in Indiana. Waste tire disposal fees are remitted to the State. The second tax is the wheel tax, which is a local-option transportation tax that can be imposed by counties on heavy commercial trucks (greater than 11,000 pounds) based within the county.

## ■ What Could this Mechanism Look Like?

A new tire tax would be a fixed fee on the sale of new tires. This fee would apply to both light duty passenger vehicles and heavy commercial trucks. The tire tax would be in addition to the current waste tire disposal fee of \$0.25 and would be collected by retailers in the same manner.

## ■ What Are the Strengths of this Mechanism?

Enforcement and collection mechanisms are already in place.

## ■ What Are the Weaknesses of this Mechanism?

Relative to the other mechanisms, this mechanism generates lower revenues. A flat per-tire fee does not reflect inflation and will require legislative action for any future increases. The fee tends to be regressive and there is a risk of evasion if the tax rate greatly exceeds neighboring state rates. Tire taxes, depending on how high they are set, could also discourage proper tire replacement, which represents a safety risk.

## ■ What Are Other States Doing?

Several states, including Illinois and Virginia, have added Tire Use Fees in recent years. However, revenue from these fees is used to support recycling and/or disposal of tires, and not dedicated to roadway funding. The Federal government taxes commercial truck tire purchases as one source of Highway Trust Fund revenues.

## Analysis Snapshot

### Key Evaluation Criteria Performance

Revenue Stability	Business Climate	Ability to Enforce	Public Acceptance <sup>1</sup>
●	●	●	●

● = Good, ● = Fair, ● = Poor

### Potential Rates of Change

Rate	New Annual Revenue <sup>2</sup>
\$0.25	status quo
\$1.25 (5x increase)	\$ 6 M
\$2.50 (10x increase)	\$ 12 M
\$5.00 (20x increase)	\$ 24 M
\$25.00 (100x increase)	\$ 118 M

1. Based on public survey.

2. Estimated new average annual revenue between 2017 and 2035 for INDOT.



# 10. Vehicle Law Enforcement Fee

## ■ What Is the Current Status of this Mechanism?

Indiana does not currently have this funding mechanism.

## ■ What Could this Mechanism Look Like?

The Motor Vehicle Law Enforcement Fee is a flat fee applied to every vehicle insured in the state, with the proceeds dedicated to highway law enforcement activities and other highway purposes. The fee would be administered and collected by insurance companies and would apply to insured vehicles instead of vehicle owners.

## ■ What Are the Strengths of this Mechanism?

The number of registered and insured vehicles in the state trends slightly upward making this revenue source relatively stable. Existing mechanisms for enforcing the state's mandatory auto insurance laws could be used to enforce this mechanism.

## ■ What Are the Weaknesses of this Mechanism?

The fee is unresponsive to inflation and requires legislative action to increase it. The funding mechanism is also regressive and insurance companies may object to having to collect the fee.

## ■ What Are Other States Doing?

The only state known to have this mechanism is New York. Created as a \$1 fee in 1992, New York raised the fee to \$10/vehicle/year in 2009. About 95% of the revenue goes to the New York State Police, while the remainder goes to the Department of Criminal Justice Services. All revenues are supposed to be used to fight auto theft and insurance fraud. None of it goes to support roadway construction/maintenance.

## Analysis Snapshot

### Key Evaluation Criteria Performance

Revenue Stability	Business Climate	Ability to Enforce	Public Acceptance <sup>1</sup>
●	●	●	●

● = Good, ● = Fair, ● = Poor

### Potential Rates of Change

Rate	New Annual Revenue <sup>2</sup>
\$0	status quo
\$5	\$ 21 M
\$10	\$ 42 M
\$25	\$ 105 M
\$50	\$ 209 M

<sup>1</sup> Based on public survey.

<sup>2</sup> Estimated new average annual revenue between 2017 and 2035 for INDOT.



# 11. General Sales Tax

## ■ What Is the Current Status of this Mechanism?

Indiana currently has a standard sales tax of 7 percent on all goods. The State dedicates 1 percent of gross sales tax revenues to transportation. In 2014, this set-aside generated \$63.7 million for the Motor Vehicle Highway Account (MVHA).

## ■ What Could this Mechanism Look Like?

There are two potential options for this funding mechanism. The first option is to increase the overall sales tax rate, with the proceeds from the increase being dedicated to transportation purposes. The second option is to keep the general sales tax rate the same, but increase the portion of the revenue collected from the sales tax that is dedicated to transportation purposes.

## ■ What Are the Strengths of this Mechanism?

The general sales tax generates substantial revenue and revenues automatically adjust for inflation as the price of goods increase. Methods for enforcement and collection of the sales tax are already in place.

## ■ What Are the Weaknesses of this Mechanism?

The sales tax is highly regressive, unrelated to road impacts, and has no influence on travel behavior. Redirecting existing revenue collections to transportation may face political and public opposition if it results in cuts elsewhere.

## ■ What Are Other States Doing?

Virginia's 2013 transportation bill increased general sales taxes, with all revenues going to road projects. In 2015, Texas passed a bill that would dedicate \$2.5 billion of existing general sales tax revenues to road uses if approved by voters in a referendum in November, but does not raise sales taxes.

## Analysis Snapshot

### Key Evaluation Criteria Performance

#### Increase the Sales Tax Rate

Revenue Stability	Business Climate	Ability to Enforce	Public Acceptance <sup>1</sup>
●	●	●	●

● = Good, ● = Fair, ● = Poor

#### Increase the Amount of Sales Tax Dedicated to Transportation

Revenue Stability	Business Climate	Ability to Enforce	Public Acceptance <sup>1</sup>
●	●	●	●

● = Good, ● = Fair, ● = Poor

### Potential Rates of Change

Rate	New Annual Revenue <sup>2</sup>
7%	status quo
7.3% (+0.3%)	\$ 169 M
7.7% (+0.7%)	\$ 395 M
8.0% (+1.0%)	\$ 565 M
8.4% (+1.4%)	\$ 791 M

1. Based on public survey.

2. Estimated new average annual revenue between 2017 and 2035 for INDOT.



## 12. Road User Charge – Automobile

### ■ What Is the Current Status of this Mechanism?

Indiana does not currently have this funding mechanism.

### ■ What Could this Mechanism Look Like?

This mechanism would replace the current gasoline taxes with a road user charge. Instead of a per-gallon charge, road user charges would be based on vehicle miles traveled and a set fee of a fixed number of cents per mile. The transition to the road user charge would be a phased approach, with the transition starting in 2020 and ending in 2030. After 2030, there would be no more gas taxes. Initial rates for a road user charge are typically set to be revenue neutral with existing gas taxes.

### ■ What Are the Strengths of this Mechanism?

Road user charges are resilient to increasing fuel economy, and apply equally regardless of engine type/technology. These two advantages would give road user charges greater reliability than fuel taxes in the long run. They also improve the correlation between road usage and taxes paid.

### ■ What Are the Weaknesses of this Mechanism?

Road user charges are substantially more expensive to implement and administer than the gas tax, but at scale, they are much less expensive to implement than tolling. Moving to a road user charge may require new technology and public outreach to educate the general public about the mechanism.

### ■ What Are Other States Doing?

Oregon's opt-in Road User Charge began on July 1, 2015. California plans a large pilot test of a Road User Charge in 2016-2017. The Western States Road Usage Charge Consortium has 12 members actively studying and piloting various approaches to this concept. An Illinois proposal for a Road Charge was not taken up in 2015 but seems to have some support and could return in 2016.

### Analysis Snapshot

#### Key Evaluation Criteria Performance

Revenue Stability	Business Climate	Ability to Enforce	Public Acceptance <sup>1</sup>
●	●	●	●

● = Good, ● = Fair, ● = Poor

#### Potential Rates of Change

Rate	New Annual Revenue <sup>2</sup>
None	status quo
1.5 cents/mile	\$ 147 M
2.9 cents/mile	\$ 369 M
4.3 cents/mile	\$ 590 M
5.7 cents/mile	\$ 812 M

1. Based on public survey.

2. Estimated new average annual revenue between 2017 and 2035 for INDOT.



# 13. Road User Charge – Commercial Trucks (Distance – Damage)

## ■ What Is the Current Status of this Mechanism?

Indiana does not currently have this funding mechanism.

## ■ What Could this Mechanism Look Like?

This mechanism is similar to the previously described road user charge except it applies to truck travel. This mechanism would replace diesel taxes with a tax based on the distance that commercial trucks travel and the damage they do to the roadways. The per-mile fee would vary based on the gross vehicle weight rating of the truck. The transition to this funding mechanism would be a phased approach, with the transition starting in 2020 and ending in 2030. After 2030, there would be no more diesel taxes. Initial rates are typically set to be revenue neutral with existing diesel taxes.

## ■ What Are the Strengths of this Mechanism?

The fee is collected from all commercial trucks that travel in the state. It is a direct fee on roadway use, based on mileage and load impact, providing excellent correlation to system use and heavy vehicle damage.

## ■ What Are the Weaknesses of this Mechanism?

Historically, the record of taxable distances traveled has been based on the paper logbook kept by the vehicle operator. Cost of collection is high for paper-based fees, and auditing of paper records is required and may be burdensome. Recent implementation of electronically-recorded travel records may help offset these weaknesses. However, new IT system capabilities may be needed to process the fees.

## ■ What Are Other States Doing?

Distance/Damage charges currently exist in Kentucky, New York, New Mexico, and Oregon. Laws to create such charges in other states, such as Tennessee, have recently been proposed, but not acted on. Oregon has recently added electronic charge collection for drivers who choose it.

## Analysis Snapshot

### Key Evaluation Criteria Performance

Revenue Stability	Business Climate	Ability to Enforce	Public Acceptance <sup>1</sup>
●	●	●	●

● = Good, ● = Fair, ● = Poor

### Potential Rates of Change

Rate	New Annual Revenue <sup>2</sup>
None	status quo
Kentucky KUT Rate Schedule (10 year phase-in)	\$ 33 M
Purdue Cost Allocation Study-Based Rate Schedule (10 year phase-in)	\$ 173 M
Oregon WMT Rate Schedule (10 year phase-in)	\$ 223 M
Oregon WMT Rate Schedule (2 year phase -in)	\$ 343 M

1. Based on public survey.

2. Estimated new average annual revenue between 2017 and 2035 for INDOT.



# 14. Oversize/Overweight Vehicle Fee

## ■ What Is the Current Status of this Mechanism?

Special vehicle permits allow vehicles in excess of maximum size or weight limits to travel on Indiana highways. The permits are issued by DOR for single trips, although some permits may be granted for additional periods (90 days or an annual fee). The permit fees vary considerably, depending upon the variance sought by the applicant. All revenues are deposited into the State Highway Fund to be used for transportation purposes.

## ■ What Could this Mechanism Look Like?

This would be a percentage increase to the existing fees, such as increasing all fees by 10% or 50%.

## ■ What Are the Strengths of this Mechanism?

These are existing fees with enforcement and collection mechanisms already in place.

## ■ What Are the Weaknesses of this Mechanism?

These fees are unresponsive to inflation and require legislative action to increase them. Even substantial increases to the existing fees do not generate substantial new revenue. Research indicates the possibility that existing oversize/overweight permits are evaded frequently.

## ■ What Are Other States Doing?

Delaware DOT just increased oversized vehicle fees substantially, with all revenues dedicated to roadway maintenance and repair. A similar fee increase was considered in 2014 in Michigan, but was voted down in the legislature.

## Analysis Snapshot

### Key Evaluation Criteria Performance

Revenue Stability	Business Climate	Ability to Enforce	Public Acceptance <sup>1</sup>
●	●	●	●

● = Good, ● = Fair, ● = Poor

### Potential Rates of Change

Rate	New Annual Revenue <sup>2</sup>
Variable	status quo
25% increase	\$ 5 M
50% increase	\$ 9 M
100% increase (double)	\$ 19 M
300% increase (quadruple)	\$ 56 M

<sup>1</sup> Based on public survey.

<sup>2</sup> Estimated new average annual revenue between 2017 and 2035 for INDOT.



# 15. Rental Car Excise Tax

## ■ What Is the Current Status of this Mechanism?

Vehicle rental taxes in Indiana are charged on rentals of vehicles weighing 11,000 pounds or less when the rental period is less than 30 days. The current tax is 4 percent of the gross retail income from the rental transaction, collected by the merchant and remitted to the State of Indiana in the same manner as the sales tax. The current 4 percent rental tax generates approximately \$11 million per year. The proceeds of the tax are not dedicated to transportation and can be used for any governmental purpose.

## ■ What Could this Mechanism Look Like?

The existing mechanism would be increased by a set percentage, such as 2 percent or 4 percent for a total of 6 percent or 8 percent, with the proceeds from the 2 percent or 4 percent increase dedicated to transportation.

## ■ What Are the Strengths of this Mechanism?

The tax is largely paid by out-of-state residents. Methods for enforcement and collection are already in place.

## ■ What Are the Weaknesses of this Mechanism?

Revenue may vary from year to year since the tax is heavily dependent on tourism. Relative to the other mechanisms, this mechanism would generate lower revenues.

## ■ What Are Other States Doing?

Most states have rental car taxes, but we are not aware of any whose

any rental car tax increases in recent years with revenues dedicated to roadway repair and maintenance.

## Analysis Snapshot

### Key Evaluation Criteria Performance

Revenue Stability	Business Climate	Ability to Enforce	Public Acceptance <sup>1</sup>
●	●	●	●

● = Good, ● = Fair, ● = Poor

### Potential Rates of Change

Rate	New Annual Revenue <sup>2</sup>
4%	status quo
6% (+2%)	\$ 4 M
8% (+4%)	\$ 7 M
10% (+6%)	\$ 11 M
15% (+11%)	\$ 20 M

<sup>1</sup> Based on public survey.

<sup>2</sup> Estimated new average annual revenue between 2017 and 2035 for INDOT.



# 16. General Fund Appropriations

## ■ What Is the Current Status of this Mechanism?

Current general fund appropriations to INDOT go to support intermodal operations (\$42.6 million) and account for about 2 percent of the agency's total budget.

## ■ What Could this Mechanism Look Like?

This funding mechanism is a dedicated set-aside from the general fund for transportation purposes. For example, the set-aside for transportation purposes could be set at 1% of total general fund resources.

## ■ What Are the Strengths of this Mechanism?

Revenue sources into the general fund, such as sales, income and property taxes are responsive to inflation. Since 2000, general fund revenues have grown an average of 3.4% per year. This is an existing mechanism.

## ■ What Are the Weaknesses of this Mechanism?

The major issue with a highway program that relies too heavily on general fund appropriations is the uncertainty of how much funding would be appropriated in light of competition with other governmental priorities (such as education, healthcare and others), and the difficulty of planning and implementing a multi-year highway program under such uncertainties.

## ■ What Are Other States Doing?

Several states, including Louisiana and New Mexico, have appropriated general funds for transportation uses just this year (2015). California has many counties ("Self-Help Counties") that use local-option sales taxes to fund local transportation.

## Analysis Snapshot

### Key Evaluation Criteria Performance

Revenue Stability	Business Climate	Ability to Enforce	Public Acceptance <sup>1</sup>
●	●	●	●

● = Good, ● = Fair, ● = Poor

### Potential Rates of Change

New Portion of General Fund Allocated to Statewide Transportation	New Annual Revenue <sup>2</sup>
No change	status quo
+ 0.5%	\$ 65-85 M
+ 1%	\$ 130-165 M
+ 2%	\$ 260-335 M
+ 4%	\$ 525-665 M

1. Based on public survey.

2. Estimated new average annual revenue between 2017 and 2035 for INDOT.



# 17. Local Revenue Options: Value Capture

---

Value capture includes a range of beneficiary-based revenue sources, i.e., sources in which those who pay are those who benefit most financially. In contrast to a user-fee revenue source, such as Road User Charge, a beneficiary-based revenue source levies fees or taxes on a defined and generally localized group(s) of beneficiaries that are expected to receive a benefit from a particular transportation facility or resource. The feasibility of implementing value capture tools as a revenue option for the State Highway Fund is limited due to the generally low yield, and the scope and extent of revenues (mainly local). However, value capture revenues could be leveraged if considered as part of a funding package for specific projects (i.e., it is a local funding source appropriate for local projects).

Three common types of value capture options are discussed below: tax-increment financing, development exactions, and special assessment districts.

## ■ Tax-Increment Financing (TIF)

Tax increment financing (TIF) is a tool commonly used by local governments to revitalize urban areas. Bonds are issued to pay for infrastructure improvements in the TIF district—a neighborhood or other portion of the urban area near the improvements—to help revitalize the area and spur redevelopment. Bonds are serviced from the ensuing incremental property tax revenue increases in the district. Thus, the TIF district captures the revenues produced by increases in property values resulting from redevelopment, and uses these revenues to pay for the bonds issued to construct the infrastructure improvements.

Public roadways are eligible to be funded with TIF revenues; however, TIF application is limited typically by law to areas in need of redevelopment (“blighted areas”) and revenue uses may be limited to capital projects only. TIFs may also be controversial and can reduce resources for other local taxing bodies. Application to major state road construction may be limited, if not ineligible, under Indiana’s current TIF statute.

## ■ Development Exactions

Development exactions are transfers of goods or services made by individuals or groups who benefit substantially from a specific infrastructure project. They can take the form of land donations or in-kind donations, such as construction of public infrastructure, parks, or the provision of public services. They are project specific, and negotiated and agreed upon as part of the permitting process of a new development. Development exactions may not be suitable for addressing the major revenue needs of the State Highway Fund, or for supporting major statewide transportation needs.

## ■ Special Assessment District

Special Assessment Districts are self-imposed by residents and/or business owners to support infrastructure needs. The cost of infrastructure is paid for by a special assessment on properties in the district which are deemed to benefit from the improvements. Revenues from special assessments are adequate for providing funding for capital improvements, but are generally not suitable as long term funding sources for transportation system operations and maintenance. Application to major state road construction may be limited, if not ineligible under current statute.

