

*Subsection 7.6: Resolution F – Indexing*

On December 13, 2016, the Governor’s Task Force on Transportation unanimously adopted the following resolution to recommend indexing the investment in transportation infrastructure to prevent loss of purchasing power over time:

*WHEREAS, attendees of regional meetings expressed support for investing in transportation infrastructure in a manner that addresses the State’s long-term needs; and*

*WHEREAS, attendees of regional meetings agreed that the current excise motor fuel tax has lost over half of its purchasing power since established at the current levels in 1990; and*

*WHEREAS, attendees of regional meetings agreed that a successful business model for any organization accounts for increases in costs over-time, and that such a model is not in place for transportation in Louisiana; and*

*WHEREAS, independent experts testified before the Task Force that highway construction costs and vehicle fuel economy have increased 62.3 percent and 17.2 percent respectively since 1990; and*

*WHEREAS, increases in highway construction costs and fuel economy are outside the control of the State but have a direct impact on the purchasing power of the State’s investment in transportation infrastructure; and*

*WHEREAS, no adjustment to the State’s investment in transportation infrastructure has been made since 1990; and*

*WHEREAS, if adjusted for inflation, the current 16 cent motor fuel tax established in 1984 would currently be approximately 37 cents today; and*

*WHEREAS, failing to adjust the motor fuel tax has resulted in the 16 cent motor fuel tax having the purchasing power of approximately only 7 cents today; and*

*WHEREAS, 19 states currently rely on different indexing methods in levying a variable rate motor fuel tax to mitigate or prevent the loss of purchasing power over time without creating short-term volatility; and*

*WHEREAS, failing to index increases in revenue for transportation infrastructure will, in the future, as now, result in the State being unable to adequately meet its transportation needs; and*

*WHEREAS, the Task Force is charged with making investment recommendations that address the long-term transportation needs of this State.*

*THEREFORE BE IT RESOLVED, that the Governor's Task Force on Transportation Infrastructure Investment does hereby recommend indexing the investment in transportation infrastructure to prevent loss of purchasing power over time; and*

*BE IT FURTHER RESOLVED, the indexing method selected should provide for long-term gradual increases over time without creating short-term volatility; and*

*BE IT FURTHER RESOLVED, special consideration should be given to managing the rate of indexed increases, including, but not limited to the timing of allocating the index, limitations on the frequency of the index, allocation of a floor and ceiling to the index, and a system of executive and legislative oversight; and*

*BE IT FURTHER RESOLVED, a copy of this resolution and additional information supporting the findings contained herein shall be included in the submission to the Governor by January 1, 2017.*

As articulated in Section 3, Louisiana's motor fuel tax has consistently lost purchasing power since established at its current rate. To be clear, the loss of purchasing power has occurred on many different fronts. The most inclusive way to review the impacts of inflation is by studying CPI. According to the U.S. Department of Labor's Bureau of Labor Statistics, CPI has increased 131.25 percent since 1984 when the State's 16 cent motor fuel tax was established. From this perspective, the 16 cent motor fuel tax has the purchasing power of less than 7 cents today. In order to have not lost purchasing power based on CPI, the rate would have needed to gradually increase over time to 37 cents today.

While CPI is the most inclusive inflationary measurement, a review of increases in highway construction costs over time is very impactful to DOTD's purchasing power. According to the Institute on Taxation and Economic Policy (ITEP), highway construction costs have increased 62.3 percent since 1990. Assuming a consistent annual rate of inflation over time, from this perspective the 16 cents established in 1984 has the purchasing power of 7.5 cents today. To have lost no purchasing power based only on highway construction cost, it would have needed to gradually increase over time to approximately 33.4 cents today. Future construction costs are expected to increase an additional 11.4 percent by 2025 for a total increase of 73.7 percent, which would require an increase to 36.9 cents to prevent a loss of purchasing power.

With the effects of increased fuel economy having a direct impact to per capita fuel consumption that drives motor fuel revenue generation, DOTD has lost considerable purchasing power due to fuel economy alone.

According to the ITEP, shown in Graphic P, fuel economy has increased 17.2 percent since 1990. Assuming a consistent annual rate of inflation over time, from this perspective, the 16 cents established in 1984 has the purchasing power of 12.9 cents today. To have lost no purchasing power based only on fuel economy, the rate would have needed to gradually increase over time to approximately 19.7 cents today. Future fuel efficiency requirements are expected to

increase an additional 33.6 percent by 2025 for a total increase of 50.8 percent, which would require an increase to 25.3 cents to prevent a loss of purchasing power.

All of this is very important because it demonstrates how the past decision not to index motor fuel taxes has put Louisiana in its current position of being unable to deliver the transportation system that is needed. Any amount of revenue that is increased for transportation will immediately lose value if not accompanied by an indexing method. There is no perfect way to index; however, many mechanisms exist to prevent volatility such as floors and ceilings and the establishment of systems of accountability to create a checks and balances system. The practice of indexing is becoming common across the United States as other states learn from the same mistakes that we have made in Louisiana.

**Graphic P: It Costs More to Build a Highway and Better Fuel Economy Has Drivers Investing Less**

