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Fuel-Efficient Cars Dent States' Road Budgets

 By **ROBERT GUY MATTHEWS**
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Cars and trucks are getting more fuel-efficient, and that's good news for drivers. But it's a headache for state highway officials, who depend on gasoline taxes to build and maintain roads.

The Federal Highway Administration estimates that by 2009 the tax receipts that make up most of the federal highway trust fund will be \$21 billion shy of what's needed just to maintain existing roads, much less build new roads or add capacity. Trying to compensate for highway-budget shortfalls, a handful of states are exploring other, potentially more lucrative ways to raise highway money.

"In 10 years, we are going to be in an intolerable financial position, and we need to start fixing it now before the problem starts," says James Whitty, manager of an alternative funding project in the Oregon transportation department.

Full Tank			
Tax rates for the five states that consumed the most gasoline in the first six months of 2006			
State	Volume, in billions of gallons	Tax rate (cents/gallon)	Effective date
California	7.85	18.00	1994
Texas	5.83	20.00	1991
Florida	4.42	14.90	2006
New York	2.83	23.95	2006
Illinois	2.57	19.00	1990

Source: Department of Transportation

In a year-long pilot program overseen by Mr. Whitty, the cars of 260 volunteers were outfitted with Global Positioning Systems and electronic odometers that recorded the number of miles driven. The drivers bought gasoline at specially equipped service stations, where computers on the pumps subtracted the 24-cents-a-gallon gasoline tax and added a 1.2 cent fee for every mile driven.

The pilot program ended last month. State officials are reviewing the results to determine whether the system would raise more revenue than the gasoline tax. The initiative likely will be revived and expanded when a few


bugs are worked out, says Mr. Whitty.

If the program is fully implemented at some point, Oregon would likely have to keep dual tax methods. Out-of-state drivers, whose cars wouldn't be equipped with the required mileage devices, would continue to pay the gas tax, while Oregon drivers would be switched to the mileage-based fee.

In Minnesota, Gov. Tim Pawlenty has set aside \$5 million for a similar pilot program. The state legislature is currently debating the governor's plan. Kenneth Buckeye, a program manager for the state's alternative highway-funding projects, says Minnesota wants to "refine the technology to make it user-friendly and to prove the viability of that whole concept."

Supporters of such programs say that mileage fees are fairer than gasoline taxes because they directly

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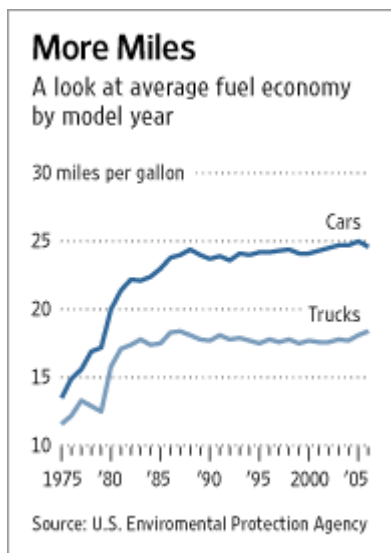
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reflect drivers' actual use of roads and highways, regardless of whether the cars get 10 or 50 miles per gallon. But critics argue that mileage fees penalize owners of fuel-efficient vehicles and take away the financial incentive to buy them.

Some critics also say they are uneasy about having the government monitor the movement of private vehicles. But program advocates say such privacy concerns are misplaced.



The technology has no ability to track drivers' movements, says Oregon's Mr. Whitty. He stresses the difference between "tracking miles and counting miles," adding, "We don't use the 'tracking' word here because it is inaccurate and upsets people who are worried about their privacy."

LeRoy Younglove, a retired residential real-estate manager, answered an ad last year in the Portland newspaper to participate in the program. He gives it mixed reviews. "I think it is a fairer way because it is based on miles your wheels go over the road," he says. But he says he ran into some technical glitches. A few times, he says, the gas-pump device that was supposed to read his car's mileage didn't work properly.

Virginia is planning a different route to raise highway money: It's researching various way to penalize drivers for violating driving rules. The penalty would be in addition to the regular fees and fines. For

example, a driver with several points against his license might have to pay an additional \$1,000 just to keep driving. This month, the Virginia legislature, after years of debate, is allowing the state's two most populous areas -- one in northern Virginia/Washington and the other in the southeast around Virginia Beach -- to establish specialized taxing districts to pay for roads and underwater tunnels.

Federal excise taxes dedicated to highways grew 10% between 2000 and 2005, according to the Treasury Department, and are forecast to grow an additional 11.6% through 2011. State receipts increased 12% from 2000 to 2005, according to the U.S. Transportation Department. But most of the revenue growth reflects an increase in the number of miles that each car travels.

In 1990, the average car on the road traveled about 11,107 miles a year. In 2005, each car traveled about 12,084 miles annually. More miles traveled leads to faster deterioration of highways and a greater need for repairs. More traffic also leads to increased congestion -- and to calls for more roads.

U.S. Transportation Secretary Mary Peters says that the federal highway trust fund will lack sufficient funding from taxes beginning in 2009. She has been pressing states to look for alternatives to gasoline taxes.

"The bottom line is that we are spending more than we take in, and we have nearly run through the balances that had built up in the fund," Ms. Peters told Congress in February. "The highway funding problem is not going to go away, nor can we put it off until the last minute."

The highway-fund shortage could be exacerbated if Congress raises fuel-economy standards to curb pollution and reduce reliance on foreign oil. Cars with higher fuel economy can travel longer without refueling.

Cars already are more fuel-efficient than they used to be. Two decades ago, passenger cars got an average of about 14 miles per gallon, according to the Department of Transportation. Now that number is 17 mpg -- in part because people are trading in older cars for new ones with greater fuel-efficiency. The number

would be higher had the fuel economy of vans, pickup trucks and SUVs improved, but it has stayed about the same at just over 16 mpg.

Some states are imposing more tolls on highways to raise money. In 2005, states' income from tolls was \$5.9 billion, up from \$4.1 billion in 1998. In the past two years, 10 more states have begun the process of putting more tolls on new or existing roads.

The bulk of highway and road funding, about 55%, comes from a combination of state and federal gasoline taxes. The rest generally comes from vehicle registrations, drivers' license fees, bonds and other public borrowing.

Most states levy gasoline taxes of 10 to 20 cents a gallon. Voters are reluctant to increase the tax; as a result, some states have the same rate they did two decades ago.

Oregon's gasoline tax, for example, has remained at 24 cents per gallon since 1993, Minnesota's at 20 cents since its inception in 1988 and Virginia's at 17.5 cents since 1986. The federal gasoline tax, which is 18.4 cents per gallon, hasn't changed since 1997.

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