Indiana’s gasoline tax is up 3.1 cents a gallon. Truck fees are 25% higher. A new tax on interstate carriers will bring in about $10 million this year. And counties have the option of adopting their own vehicle taxes.

All of this since 1980. We’ve come a long way in a short time. The General Assembly certainly can’t be accused of not being responsive to highway needs.

This being the case, why are we back at the old stand again, looking for ways to pump more money into our road and street budgets? The fact is that, despite this new revenue, there will only be a very modest net increase in road and street funds in 1982 compared with the previous few years.

The reason is that, during the seven-year period from 1975 through 1981, the General Assembly was transferring $290 million from the general fund to our state and local road programs.

Our highway-user taxes are expected to produce $394 million this year—up $54 million from 1981. But last year’s pot was sweetened with the final $25 million general fund transfusion. This means the actual increase will be only $28 million, or 7½%.

When we spread $28 million over 91,000 miles of roads and streets, it makes a pretty thin layer—$308 a mile, to be exact. This winter’s snow removal and road damage costs will wipe most of that out.

Going back a bit further, this year’s revenue will only be 14% more than was provided for our road and street programs in 1976—an average annual increase, over seven years, of only 2%. At the same time, highway construction and maintenance costs were going up 10% a year.

Nor is this the entire story. Somebody apparently leaked the word to Washington that Indiana hoped to have $28 million more to spend on its highways this year. Before long, Congress came up with a new formula that just happens to reduce Indiana’s share of federal-aid funds for fiscal 1982 by $29 million.
And the White House has already requested that the federal-aid highway program be cut another $300 million in fiscal 1983. That’s on top of a $750 million reduction this year.

Then there is President Reagan’s new federalism plan that calls for the phase out of all non-interstate federal-aid highway programs by the end of the decade. That would leave Indiana with full responsibility for 18,400 miles of highways that are now part of its F-A Primary, Secondary and Urban systems.

This shift of highway funding responsibility from Washington to the states isn’t anything new. We’ve gotten a lot of new rules and regulations as to how we can spend the federal highway tax dollars we sent to Washington. But we haven’t gotten any more money. In fact, we’re getting less.

Indiana is just one of 22 states that increased its highway-user taxes last year. The average state gasoline tax is twice what it was in 1959. The 4-cent federal gasoline tax hasn’t been changed since 1959.

On the other hand, the de-emphasis of federal assistance for other surface transportation modes is a fairly recent development. And, as it accelerates, it will tend to put even more traffic on our highways while, at the same time, increasing the competition for state and local tax dollars.

Nearly 1,100 miles of rail lines have been abandoned in Indiana in the past eight years. Seventy per cent of our communities are now without rail service. This has already shifted a tremendous amount of heavy bulk transport to our rural roads.

Unless private industry, and state and local government, step in, this rail abandonment tide will roll on.

And, assuming the federal government continues to pull the plug on public transportation assistance, Indiana’s 26 transit companies will have two choices: get trade-off dollars from state and local revenue sources, or go out of business.

Presently, they’re getting about 32% of their costs from the fare box. That may not sound like enough. But, like it or not, the percentage probably can’t be pushed much higher before it reaches the point of diminishing returns.

The reason for this prolonged prologue is, as I said earlier, to set the stage . . . and to get three points across.

Number one, the General Assembly has put some fine highway money bills on the books in the past two years. Without them, the theme of this year’s Road School might well have been, “Up the Wabash Without a Paddle.”

Number two, Washington would like to get at least one foot out of the boat—keeping the Interstate and Primary systems, and letting the
states and local government do the “rowing” for all of the other highway programs.

The tax trade off that Transportation Secretary Drew Lewis is proposing is similar to one that Indiana has been talking about for years. The federal government would initially impose an increased gasoline tax with four cents earmarked for highways and a penny for mass transit. As the federal-aid secondary and urban systems and other programs are turned back to the states, the federal fuel tax for these programs would be phased out, allowing states to impose an equivalent user fee — I must remember to call it that — without increasing the total levy on motor fuel.

It’s an intriguing idea, and it could work very strongly to Indiana’s advantage. We’re promoting it. But it will be a couple of years, at the earliest, before it hatches. In the meantime, as I said, we’ll be lucky if our federal-aid funds aren’t cut again.

The third point is that we must take a coordinated, multi-modal approach to Indiana’s transportation problems. This doesn’t mean that we should cease to be zealous about the dedicated, user-pays concept for highway funding.

But the agencies responsible for our rural roads and bridges have to be concerned about the steady decline in rail freight service. And our municipal officials understand the need for good public transit. It has to be an integral part of their transportation planning.

Now, what are some of our road-funding options — present and future?

Our gas tax is now at 11.1 cents per gallon, and it doesn’t look as though it will be indexed upward again for quite some time. If fact, were it not for a very important provision in our law which prevents the tax from being reduced, last month’s average retail price of gasoline would have triggered a drop in the tax rate of at least a half-cent a gallon next July.

Three other states: Kentucky, Massachusetts and Washington, with variable taxes and no “floor” such as ours, got caught in this and had their tax rates reduced.

Just think how much money one could have made two years ago, when this tax was enacted, betting that gasoline prices would be under a dollar, any place, in 1982. But it actually happened, last week, for a few hours in Indianapolis and some other cities. And, the way things are going, it may happen again.

Unless there’s a turn-around in this trend, and it doesn’t appear likely in the near future, we’ll have to live with our 11.1-cent gallonage rate at least through mid-1983. As for the Legislature remediying this situation by again raising the tax base, as it did last year, that will be a tough sell. It’s also doubtful that they would want to change the index-
ing formula, despite its current no-growth results. If they do consider this, Ohio has a couple of good alternatives. Their tax is based on the federal highway operating and maintenance cost index, and includes a provision that automatically raises the rate when fuel consumption declines. Along with the usual objections, there are two reasons why the General Assembly will be chary about adjusting the gasoline tax for a while. For one thing, our total gas tax rate is now one of the highest in the nation. That's because Indiana is one of only eight states that collects a sales tax on motor fuel. Furthermore, and this is a key point, I don't think many legislators will be standing in line to vote for additional state-imposed highway taxes until more counties put their oar in the water, adopting their own vehicle taxes. To date, only three counties, Perry, Dubois and Rush, have exercised this option. That means there has been no action in eight of the 10 southwestern counties that can become eligible for $10 million in interest-free Distressed Road Fund loans, or can implement their own road bonding programs, by putting these optional local taxes on the books.

When we talk about revenue sources, the county excise surtaxes and wheel taxes have to be the first order of business. Statewide, they could generate over $30 million a year. That's as much as all of Indiana's counties, cities and towns would realize from another 2-cent hike in the gasoline tax. And, equally important, adoption of these taxes will show good faith, "home rule" effort on the part of local government to share in solutions for these problems. That's an important signal to send to the General Assembly. If, on the other hand, there are still only a handful of counties with optional taxes on the books when the Legislature convenes next January, it's not going to do much good to march on the Statehouse, bedecked with banners and buttons telling about the terrible road conditions back home. And the potential for assistance may be there, even without an increase in our present highway-user fees. It appears inevitable that the state budget will need an injection. The most likely donor is the sales tax. If it is raised, that may be our last chance for a long time to start transferring the gasoline sales tax receipts to our road and street programs. These revenues total about $140 million annually—all paid by highway users. But, unless we count the general fund transfers of past years, not a penny of this money goes on the highways. The shift could be phased in, 1% a year, for example—to ease the drain on the general and property tax relief funds.

Another approach could be to use the gasoline sales tax money to finance the State Police, Bureau of Motor Vehicles and other agencies whose budgets are now underwritten, all or in part, with off-the-top tax collections going into the Motor Vehicle Highway Account. This would free up about $50 million annually for road maintenance and
improvement. If Hoosier motorists are going to pay top dollar in motor fuel fees, then they deserve to have that money invested in this transportation systems, rather than nearly 30% of it going into the general and PTR funds. Obviously, this can't happen until there's an increase in the sales tax. Even then, the switch of gasoline sales taxes to our highway programs is less likely to happen unless, in the meantime, more counties have done their part by adopting optional vehicle tax ordinances. State vehicle registration and license fees, Indiana's other major provider of road funds, generated $63.8 million last year—up $13 million from 1980. This reflects the 25% increase in truck fees enacted two years ago. Automobile license fees have remained unchanged since 1969. But, having opened up vehicle taxes as a supplemental source of revenue at the local level, the General Assembly won't go to this "well" again for some time. This leaves, among other currently available sources of money, the county cumulative bridge funds, municipal bonding, Barrett Law assessments, and federal funds. As for the cumulative bridge funds, less than a third of Indiana's counties were at the maximum rate when the freeze was clamped on. And the freeze won't be lifted until there is an entire restructuring of the property tax relief program. It would be even more imprudent to expect the Washington pipeline to open up, whether we're talking about direct federal highway aid, or the general revenue sharing and community development block grant programs. Defederalism is rapidly becoming a reality. Governor Orr, State Highway Director Gene Hallock and others are working very hard with our congressional delegation to prevent Indiana from being short-changed again when revised formulas are developed for the allocation of future federal-aid highway funds. Historically, Indiana has never been very good at this. Last year, only two states, Florida and Texas, got back fewer total federal dollars, per capita, than Indiana.

What other sources do we have? Now that the precedent has been set, the Legislature may be amenable to bonding authority for all counties that adopt their optional vehicles taxes. This could produce a lot of up-front road and street money. But I seem to recall an informal poll at an Association of Indiana Counties meeting which indicated that most commissioners and council members wouldn't opt for the bonding route, even if the roadblocks are removed. The same mind-set will probably always prevent Indiana from indulging in any non-toll bond financing of its state highway program—a source in other states for about $2 billion annually in "quick bucks" for transportation.

Critics say this prevents Indiana from investing in its own future—from doing what a lot of Hoosier citizens do when they borrow money to buy a house, start a business, buy a new tractor or combine, or send their kids to Purdue University. We could argue the pros and
cons of this for hours, too. But it won't get the state constitution changed. There is good reason, on the other hand, to consider resurrecting some of the toll road proposals of recent years. This may be the only way in the foreseeable future to build a thruway to serve the southwest quadrant of the state, for example, or to construct some needed "mini-turnpike" urban connector routes. A severance tax on the extraction of coal and other minerals is another revenue possibility. Thirty-one states collect about $2 billion a year from such taxes. But only six, including Kentucky, earmark a major portion of the money for highways.

Even further down our feasibility scale are such exotic schemes as Arizona's plan to partially underwrite a $6 billion, 10-year road-building program with an estimated $70 million it expects to realize from a new state lottery. We can make book that this will never happen in Indiana. My alternative is a 5% reciprocity tax on every two-dollar bet placed by these same Hoosiers every year at all of the race tracks in Kentucky, Illinois, Ohio and Michigan. As soon as we figure out how to collect this, we can go after the casinos in Las Vegas, Reno and Atlantic City.

I expect, at one time or another, quite a few of us here have tried our luck at places such as Las Vegas. The odds aren't the greatest—but they're a lot better than the chances of finding any quick and painless cures for our road and street financing problems.

We like to pride ourselves on our self-reliance. It wasn't coincidence that President Reagan came to Indiana when he was launching his new federalism plan. This is the hot bed of home rule.

Now more than ever, that reputation is being put to the test. We will have to "bootstrap" more highway money, first at the local level with the optional taxes and then, at the Legislature, with a convincing campaign to transfer gasoline sales tax money to our highway programs. If we do a good job of explaining to the public that this tax money is going to stay in the counties, and stay in the state, with all of it being used to make their roads better and safer, they will be with us. It's a great opportunity to practice the home rule that we preach—and get the results we need.