

TEMPORARY GAS-TAX FREEZE DOESN'T ADDRESS REAL PROBLEM

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The governor and the state Legislature missed a golden opportunity during the recent special session to address West Virginia's energy future.

Instead of considering solutions to fix the long-term problem of dependence on high-priced gasoline, state leaders opted to freeze the state gas tax for one year. Unfortunately, this is a short-term solution that does not guarantee West Virginians any real savings and leaves them vulnerable to future increases in gasoline prices.

The one-year freeze does not necessarily mean that West Virginians will save the money they have been promised at the pump. The state gas tax is levied on vendors who then incorporate the tax into pump prices. Since the vendors pay the tax and set the price per gallon of gasoline, the savings promised assume that they will pass the tax cut on to consumers. While there will be initial savings, it is unlikely that consumers will see the full value of the tax freeze.

According to a recent study, when Illinois and Indiana both suspended 7 cents of their state gas taxes in 2000, prices fell an average of only about 4 cents. The remainder of the tax-cut benefit went to gas vendors via higher profits.

Consequently, of the millions of dollars in revenue West Virginia will lose during the suspension, only a portion may benefit consumers.

Suspending the gas tax also fails to consider the impact of losing substantial state revenue and the small role state gas taxes play in the final price of gasoline. In order to offset a portion of the revenue that will be lost during the gas-tax suspension, \$40 million will be transferred from the General Revenue Fund to the Road Fund. The General Revenue Fund raises money primarily through income and sales taxes; this means that non-drivers are helping subsidize both West Virginians who drive and the many non-West Virginians who use state roads.

This is \$40 million that could be spent on developing alternative forms of transportation to end West Virginia's dependence on gasoline.

In addition, gas taxes are not the cause of increasing gasoline prices. According to the U.S. Department of Energy, federal and state taxes accounted for only 15 percent of the price of gasoline in 2007. The remainder consisted of payments to crude-oil producers (58 percent) plus the costs of refining (17 percent) and distributing and marketing (10 percent).

The marginal role that gas taxes play in the final gas price can be illustrated by comparing costs in West Virginia with those in Virginia. Virginia's state gas tax is 17.5 cents per gallon, nearly half of West Virginia's. However, the price per gallon is very similar to West Virginia's. According to AAA's fuel gauge report, 20 gallons of regular gasoline in West Virginia costs on average \$81.74, while in Virginia it costs \$79.64.

Gas-tax revenue serves as a primary source of funding for the State Road Fund, which is used to construct and maintain the state's network of roads. Recently, the Department of Highways projected that

available state revenue will be inadequate to "satisfactorily achieve its mission of maintaining a safe and efficient highways system" and that "system preservation needs are not being met."

The construction and maintenance of these roads helps businesses in every sector of the state economy. According to a recent West Virginia University study, "for every \$1 million of highway construction, there are fifteen jobs created, with \$485,000 in employee compensation, and an additional \$900,000 of business sales in the state." Highway projects also bring the state millions of dollars in federal funding that would otherwise not enter West Virginia's economy.

Instead of suspending a tax that represents only a small share of the total price of gasoline and that will cost the state substantial losses in revenue and employment that it cannot afford, state policymakers should recognize that better options exist to address high gasoline prices.

The state should develop an easily accessible mass-transit system like a regional rail to connect the state's economy, promote energy independence and provide commuters with an alternative to driving long distances to work.

Pay As You Drive Auto Insurance is a form of car insurance that several states currently promote. The purpose is to encourage consumers to decrease the number of miles they drive by charging premiums based on the number of miles driven. The state could encourage insurers to offer PAYD by granting them tax credits.

Finally, West Virginia could provide refundable tax rebates to working families with low and moderate incomes, based on their estimated gasoline-tax expenditures.

In addressing West Virginia's gas problem, the governor and the Legislature have used a Band-Aid to cover a broken leg. While the suspension of the state gas tax may bring slight short-term relief to some West Virginians, when the freeze ends in one year, the problem will remain: West Virginians will still be at the mercy of high gas prices.

The state needs to develop long-term policy initiatives that can help West Virginians adjust to a world of \$4-a-gallon gasoline. To do this, state leaders must step away from short-term solutions and commit to policies that invest in creating alternatives to driving and incentives to drive less.

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