The District's Dime
Going Beyond the Budget Book

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Changing DC's Gas Tax to Strengthen It

By Jenny Reed

If you care about the condition of DC's roads, then you should care about DC's gas tax. The gas tax is the main local revenue source for the city's Highway Trust Fund, in which $1 spent generally draws $4 in federal funds. Today, DCFPI testified in favor of a proposal that would change the structure of the tax to make it a more viable revenue source for roads and other transportation infrastructure in the long-term, without raising how much consumers pay in the near-term.

Right now, DC gets 23.5 cents for every gallon pumped in the city, but there are problems with structuring the tax in this way. The cost of road projects rise from year to year due to inflation, yet gas tax revenues are unlikely to rise because the tax per-gallon doesn't change. In fact, because gas consumption may go down over time, especially as the fuel efficiency of cars improves, there is a risk that gas tax collections will fall over time.

That is, in fact, what is happening in in the District. Revenue collections from DC's gas tax have eroded, falling 35 percent over the past decade, adjusting for inflation. This is a clear sign that continuing to rely on a per-gallon tax that is not adjusted for inflation will weaken the city's ability to generate revenues to support transportation infrastructure.

A provision of the Budget Support Act for fiscal year 2014, and the subject of today's hearing, replaces the 23.5 cents per gallon tax with an 8.3 percent tax on the wholesale price of gas. This would improve the long-term viability of gas tax collections because fuel prices tend to rise over time.

DCFPI supports strengthening the gas tax in this way, and there's still room to improve upon it. Because the price of gas is volatile over time, as any driver knows, the amount of tax collected can go up or down too. In order to prevent a big drop, the proposal for the gas tax puts in place a cents-per-gallon revenue floor to maintain tax collections in case wholesale prices drop dramatically. DCFPI recommends that the new tax be amended to also place a *ceiling* on the amount of any increase in the cents-per-gallon equivalent of the tax from year to year, so that if fuel prices jump significantly, the tax would not spike at the same time.

Our testimony can be found here.