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API GAS TAX POSITION PAPER



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PART I - THREE GUIDING IMPERATIVES

To be clear up front, the Alabama Policy Institute (API) supports an increased investment in Alabama’s infrastructure. US Supreme Court Justice Oliver Wendell Holmes famously said that “taxes are what we pay for a civilized society.” The Alabama Policy Institute freely acknowledges that infrastructure is neither free nor is it unwanted. No rational voice would debate the need for a strong system of roads, bridges, ports and e-commerce. API also acknowledges with candor that there is no question that the cost of maintenance and construction of vital infrastructure has increased over time while Alabama’s chief source of state generated infrastructure revenue, the gas tax, has not increased one cent since 1992. But none of these candid admissions should be construed to mean that API suggests that conservatives should propose or accept a bare-bones tax increase as the only solution. The current governing majority must consider how best to govern in this revenue-depleted environment in such a way as to inspire confidence in their constituent consumers. API suggests that such confidence can be generated by considering certain conservative imperatives in the gas tax debate.

Within the context of Alabama’s present budget processes, the Alabama Policy Institute is advocating that three “imperatives”, or guiding principles, form the basis for any debate on a potential tax increase.

I. Imperative number one for conservatives is that taxes should always be the option of last resort. Despite the apparent triteness of imperative one, it is nonetheless too often given mere lip service in the midst of campaign promises. No conservative elected official should opine that there is just no other way to handle revenue struggles than to raise taxes. API believes that government should always look first to the goal of realigning the existing balance between current expenditures and resources before asking for taxpayers to sacrifice more.

II. Imperative number two for conservatives is that any tax increase should be accompanied by reform. Alabama’s budget processes are archaic and filled with misaligned appropriations. There is no better time for a conservative to negotiate for hard-fought change than when their vote is suddenly needed on a revenue measure. API believes that government should always strive to better its processes, increase its transparency, and mitigate waste. Conservatives must answer this call to increase gas taxes with a concerted effort for real reform. By hinging their support for any tax increase on bona fide substantive fiscal reform, conservatives can carve out victory on multiple levels.



III. Imperative number three for conservatives is that any tax increase should be contemporaneously offset by a comparable tax decrease in order to minimize the impact to the taxpaying public. API acknowledges that government cannot provide essential services without the revenue to pay for those services. At the same time, however, there is a responsibility to be measured in the collection of revenue from the public. President Calvin Coolidge, famous for his fiscal hawkishness, said that “collecting more taxes than is absolutely necessary is legalized robbery.” As demonstrated by our sister State to the north, it is possible to lower one tax in order to gain revenue elsewhere. The Tennessee legislature set a fiscal example that API applauds when it raised its own gas tax but coupled that increase with a decrease in the State’s grocery tax. That same process should be repeated in Montgomery.

API appreciates Alabama’s elected officials. There are few higher callings, and no more thankless ventures, than to serve in public office. The API call is for those same elected officials to vigorously pursue the gas tax debate in the context of these three imperatives. Alabama is a conservative state with a conservative elected majority. We cannot sacrifice that position in the national political arena by acquiescing to the most liberal of political agendas, that of unfettered tax-and-spend governance. If, however, API’s conservative allies in the State House and Senate will pursue alternatives to new taxes, or at the very least couple any gas tax legislation with reforms and offsets, then we will show the world once again that Alabama is a harbinger for conservative policies that are worthy of export to other States.

(This is the first in a two part series. Part two will outline API’s example of how the “3 imperatives” can be implemented for the funding of Alabama’s infrastructure needs)

PART II – A POTENTIAL PLAN BUILT ON THE THREE IMPERATIVES

The Alabama Policy Institute is keenly aware that the pending Regular Session of the Alabama Legislature is likely to be dominated by a serious call to increase the current amount that is paid at the pump in the form of an increased gas tax. To be fair, API acknowledges that the existing gas tax has not increased in over a quarter of a century, while the cost of the infrastructure that it pays for has increased substantially. In essence, the proponents of the tax increase are correct when they say that Alabama is not matching its increased need with increased resourcing. How much funding can a gas tax generate, though? The Legislative Fiscal Office reviewed the potential for tax increases in 2017 and found that a four cent increase at the pump could result in an additional \$124 million in revenue to the Alabama Road and Bridge Fund. Using LFO’s math each additional two cent increase would net approximately \$62 million in future infrastructure funding.



API is not content, however, to merely acquiesce to a simple call to raise taxes. Throughout its thirty-year history, the Alabama Policy Institute has championed conservative principles of governance and now is no different. With that in mind, API has recently touted three imperatives for conservative policymakers: 1. Taxes should always be the last resort, 2. Taxes should never be raised without reforms, and 3. No tax should ever be raised without an equal decrease in other taxes. In offering the following example of revenue enhancing legislation, it is important to note that API does not care if these examples become the actual measure taken, as long as the imperatives themselves are applied by the legislature in their final version. API therefore offers the following proposed legislative action in the form of two companion Bills to travel concurrently in the State House and Senate as one example of how the three imperatives can be implemented to increase revenue for infrastructure.

Bill number one should be designed as a creature solely of legislative action, albeit one of conservative statesmanlike action. The first half of this companion Bill must address reform measures that are desperately needed to stop a siphoning of funds from the current Road and Bridge Fund. For years, funds have come in the front door of the Road and Bridge Fund from the existing gas tax and then walked right out the back door in the form of [\\$63 million](#) in realignment appropriations to ALEA and the state's court system. This must be corrected first. To be clear, those two entities deserve their measure of state funding. We cannot faithfully tell the public that we cannot afford infrastructure, however, while still spending infrastructure funding on unrelated matters. Thankfully, the Alabama Legislature proactively developed sound principles over the past ten years that can solve this funding issue. As a direct result of streamlining the collection of existing online sales and use taxes, the state is expected to experience [an additional increase of \\$85 million](#) in revenue which should be used to give ALEA and the Courts their own standalone appropriation. By doing so, the state would experience an immediate \$63 million increase in funds available for infrastructure without raising a penny of new taxes.

In similar fashion, the legislature must stop the constant practice of [rebating gas taxes](#) to organizations that nonetheless use our roads and bridges. By way of example, the State Department of Education [reports](#) that over 9,000 school buses travel a total of 87.9 million miles annually. That's equal to two school buses traveling on every bit of [the state's public roads](#) daily. Despite that inordinate use of the roadways, the various public school systems may receive a full rebate of the taxes that are paid at the pump. This is a cross-pollination of the two-budget system by having dollars paid into the state's Road and Bridge Fund in the General Fund Budget then paid back out to the estimated sum of \$2.4 million annually to stakeholders in the Education Budget (this sum was determined by multiplying the state's tax on diesel fuel, \$.19, by the total gallons school buses use as [reported](#) by the ALSDE). It is an uncomfortable truth and will likely



cause contentious debate, but this practice of rebates must stop. By doing so, the legislature would again ensure millions in additional funding for infrastructure without raising new taxes.

The second half of bill number one should legislatively create an offset to the taxpayers by reducing the state portion of the existing grocery tax. Alabama is [one of only seven states](#) nationwide that fully taxes grocery sales, and one of only twelve that taxes groceries at any level. To be sure, the four cents levied on groceries generates an estimated \$365 million dollars annually. A grocery tax, however, is considered by experts to be one of the most regressive of all tax measures. Everyone, regardless of their income level, must eat and feed their families. By maintaining one of the few full-fledged grocery taxes in the nation, we tell the poorest among us that they are not being considered in this debate. The State of Tennessee recently went through its own legislative machinations to raise their internal gas tax rate. In doing so, the conservative members of the Tennessee State Legislature chose to do so only after [lowering the State's grocery tax](#). The effect of lowering one tax before raising another garnered the applause of Grover Norquist's organization, Americans for Tax Reform, who [cited](#) Tennessee's efforts as being fully compliant with ATR's Taxpayer Protection Pledge. Similar measures were lauded in New Jersey and South Carolina. Creating an offset to a new tax in the form of a reduction of an oppressive existing tax is a statesmanlike move that would garner support from all sides.

The final reform for bill number one should be directed to the ability of the general public to see where and how infrastructure dollars are spent. The Joint Legislative Transportation Committee should be given the ability to review and approve 5-10 year infrastructure plans that are set by well-reasoned criteria. Projects should also be ranked by a multi-tiered system of prioritization that would give confidence that small town projects would not be lost in major statewide efforts. Too often asphalt becomes weaponized in Alabama's politics. But if the citizens of this State are going to be asked to pay more, they should also be given the respect of being shown when and how they will see the benefit of their tax dollars at home in every community.

Bill number two represents the long game in infrastructure funding. The public should made aware of the little known fact that Alabama has a trust fund that currently holds in excess of [\\$3.2 billion](#) generated by offshore oil and gas exploration. The Alabama Trust Fund belongs to no one else but the people of this state. API's recent conversations with members of Alabama's U.S. congressional delegation lead to the proposal that there should be an immediate lobbying of the Trump administration to extend the State's offshore boundaries by an additional 5-10 miles. The extended maritime limits would create additional revenues from oil and gas. These revenues could then be appropriated, by a vote of the citizens of this State in the form of a constitutional amendment, to fund infrastructure. There is no given here. The potential for alternative funding through a measure of this sort is fully reliant upon a cooperative federal partner and a resultant vote of the people. Nonetheless, the Alabama Trust Fund's existence in and of itself gives historical credibility to this course of action.



In summary, API believes that there is a better mousetrap to be made here in the form of two bills running concurrently and designed in conservative fashion upon the three imperatives of conservative policy in tax debates. Bill number one should institute reforms by ending the drainage of the Road and Bridge Fund to outside agencies and by eliminating the practice of rebating gas tax revenues. Those two reforms would recoup a net estimate of at least \$65 million in funds for infrastructure. At the same time, the Legislature should reduce the State's portion of the grocery tax by two cents, but raise the gas tax by five cents per gallon. The net effect of this increase coupled with the aforementioned reforms would draw in \$223 million to the Alabama Road and Bridge Fund while offsetting the amount paid by the average citizen by a cumulatively near-equal amount in food taxes. Bill number two should seek an expansion of offshore oil and gas revenues through an extension of Alabama's maritime limits and a vote of the people.

It is possible to be a conservative and still debate an increase in taxes. The Alabama Policy Institute believes that a package like that proposed, or something of equally creative measure, is very possible. In all humility, it doesn't have to be this plan, but it should be something that resembles it and leans upon the three imperatives. API is concerned that if the conservative members of the conservative majority ignore these imperatives, they will cease to be viewed as conservatives at all and Alabama will cease to be known as a conservative state. API calls upon the Alabama Legislature to take such a statesmanlike position in this most difficult debate. If conservative measures such as those proposed are put into action, then API stands ready to put its full support behind its allies in the Alabama House and Senate.

