

## NEW FUNDING SOURCES FOR FUTURE CONSIDERATION

The region is approaching a crossroads about how we fund transportation. While trends in vehicle fuel efficiency, electrification of the vehicle fleet, shifts towards online shopping, and other innovations provide significant regional environmental, economic and other benefits, they will also place pressure on the traditional funding sources identified above. The following examples illustrate the revenue potential of several new funding sources as well as some of the policy considerations associated with them.

Estimates of potential annual gross revenues from the sources above are shown in the following table.

Potential revenue sources	Potential annual gross revenues (\$M)		
	Kansas	Missouri	Total
Regional investment district sales tax (0.5%) <sup>1</sup>	\$73.0	\$81.9	\$154.9
Road user charge (1.7 cent per mile) <sup>2</sup>	\$61.5	\$64.4	\$125.9
Internet sales tax (1%) <sup>3</sup>	\$14.6	\$16.4	\$31.0
Local motor fuels taxes (1 cent per gallon) <sup>4</sup>	\$3.7	\$8.1	\$11.9
Sales tax on motor fuels (4%) <sup>5</sup>	\$2.3	\$4.9	\$7.1

### Regional investment district sales tax

Legislation currently exists in Missouri to allow creation of a special funding district to collect up to a ½ cent sales tax for public transit purposes (MO Rev Stat § 70.515-70.545), although it has not been implemented. Similar legislation would need to be enacted in Kansas and county-wide elections in one or more counties would be required to levy and collect the tax.

#### Pros

- Pool funds raised across the region to pay for improvements that are regional in nature
- Benefit residents throughout the metro area

#### Cons

- As with other sales taxes, these would have a higher impact on low-income households as an overall percent of their incomes than on higher-income households.

<sup>1</sup> Kansas and Missouri Departments of Revenue 2018 sales

<sup>2</sup> MARC travel demand model

<sup>3</sup> Kansas and Missouri Departments of Revenue 2018 sales

<sup>4</sup> U.S. Energy Information Administration

<sup>5</sup> Kansas and Missouri Departments of Revenue. Sales subject to sales tax only. Does not include use tax.

### **Road user charges**

Road user charges (RUC) are distance-based taxes or fees typically calculated based on vehicle miles traveled (VMT). Under this concept, motorists would pay fees based on distance driven and, perhaps, on other costs. The methods of collecting these charges could range from electronic transmittal of mileage data directly from vehicles to manual reporting of each vehicle's odometer reading, perhaps taken during an annual inspection.

There is federal debate on merits associated with implementing a road user type charge nationally. MoDOT received a grant from FHWA (Surface Transportation System Funding Alternatives in 2020 to evaluate miles-based user fees and road user charges. Road user charges would require new federal or state legislation. The estimates below are based on current annual estimates of regional VMT and a 1.7 cent per-mile tax or fee, consistent with pilot RUC programs in Oregon and other states.

#### **Pros**

- RUC would provide a direct connection between user payments and use of the system.
- RUC could provide pricing signals to users via variable pricing or congestion, to promote public benefits such as congestion mitigation and emission reductions.
- Basic per-mile charge could be adjusted based on any number of factors, such as the time of day a trip is taken, the place of travel, the weight of the vehicle, and the emissions of the vehicle's engine.

#### **Cons**

- Public concerns about personal privacy.
- Higher collection and enforcement costs (estimates range from 5% to 13% of collections); the administrative challenge of collecting the charge

### **Internet sales tax**

One way of increasing transportation revenues is to create an internet sales tax for transportation. The concept is based on an idea that internet sales cause additional use/stain of the transportation system and there should be an additional cost to support that use. The revenue estimates below assume that approximately 10 percent of all sales are online internet purchases.

#### **Pros**

- Would capture revenue from online sales which require transportation infrastructure for deliveries.
- Would partially mitigate one competitive disadvantage of local brick and mortar retailers verses out of region on-line sellers.

#### **Cons**

- At times internet business appear to operate from ambiguous locations increasing regulatory cost for identification and enforcement.
- As with other sales taxes, these would have a higher impact on low-income households as an overall percent of their incomes than on higher-income households.

### **Local motor fuels taxes**

Traditional fuel tax on gasoline, diesel and the Leaking Underground Storage Tank fee are not indexed to inflation. Increase in fuel tax revenue is based on an increased in total gallons consumed. Assumes a one cent per gallon tax.

Pros

- Higher gas tax rates prompt some people to drive less resulting in benefits for society and the environment.

Cons

- Unless indexed for inflation, future purchasing power could decline with inflation and reduced fuel consumption.
- As with sales taxes, these would have a higher impact on low-income households as an overall percent of their incomes than on higher-income households.

**Sales tax on motor fuels**

Legislation introduced in Missouri in 2019 (HB 1157) would have created regional transportation funding districts with the capacity to collect sales taxes on motor fuels at the local level above the per-gallon motor fuels taxes collected at the state level. These would require authorization by counties and local elections to allow creation of the authority and collection of the tax. Since these would be based on the value of fuel sold, sales tax revenues on fuel could rise from year to year even if consumption does not increase. Conversely, however, a decline in motor fuel prices could lead to a reduction in sales tax revenue. Possible annual revenues based on a four percent motor fuels tax.

**Other potential sources**

In addition to the area-wide funding sources described above, other funding and financing tools may be applicable for specific projects. These include the potential to toll certain bridges or roadways at fixed or variable rates based on demand, value-capture methods where transportation investments increase the value of adjacent land or property, public-private partnerships to share risk and accelerate project delivery where project revenues are available.