MEPI/ILEPI Economic Commentary #4 January 10, 2014

Increasing Horizontal Construction through the Gas Tax

Benefits to Clinton County, IA

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A Higher Road for a Better Tomorrow

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PURPOSE

The objective of this brief Economic Commentary is to demonstrate that Iowa has a clear and present need to invest in its horizontal infrastructure to benefit workers, businesses, and families. The report further contends that the users of public roads, rather than the general taxpayer, should pay for road construction improvements.

THE NEED FOR HORIZONTAL INFRASTRUCTURE IMPROVEMENTS IN IOWA

Today, Iowa's infrastructure is inadequate. According to the American Society of Civil Engineers, 26.7 percent of Iowa's bridges are either considered structurally deficit or even functionally obsolete. Additionally, Iowa's roads are in dire need of repair. 46 percent of Iowa's 114,348 public road miles are in poor or mediocre condition.[1] Unfortunately, the Iowa Department of Transportation estimates that there is an annual $215 million backlog in critical infrastructure needs due to lack of funds, meaning that the quality of roads will continue to deteriorate unless new funding is procured.[2]

Meanwhile, more Iowa workers drive on local public roads every day than the national average. According to estimates from the U.S. Census Bureau, 89.0 percent of the Iowa workforce commutes to work by car, truck, or van, averaging 18.7 minutes one-way. In comparison, just 86.1 percent of workers in the national economy drive to work.[3] Moreover, the average Iowan traveled an estimated 10,291 highway vehicle-miles in 2009, ranking the in the middle, at 25th, in the nation.[4]

Iowa is also a thoroughfare for intermodal economic activity. The state's roads facilitate the efficient transportation of goods and agricultural products for private businesses in Iowa, increasing market access to the particularly large economies of Chicago, Minneapolis, Kansas City, Omaha, Indianapolis, and Denver. If the state were to neglect infrastructure investment and maintenance, many Iowa firms could decide to relocate and do business elsewhere. For Clinton County, the most important road construction project that must be carried out is the widening of Route 30, which not only directly connects to the Cities of Cedar Rapids and Ames but also links the County to both the Omaha and Chicago metropolitan areas. Completion of the I-74 Mississippi River bridge reconstruction project in Scott County to the south would also drive economic growth, as that interstate connects the region to Indianapolis, Indiana as well as to Bloomington and Champaign in Illinois.

The long-term outlook of revenues dedicated to transportation and infrastructure improvements, however, is negative. First, the State cannot continue to rely heavily on federal support because federal stimulus money from the American Recovery and Reinvestment Act is waning. In 2010 and 2011, the federal government contributed an average of $406.7 million to the Primary Road Fund in Iowa (Figure 1).[5] In 2012, however, federal support declined by 15.4 percent to $343.9 million. In addition, automobiles will become more fuel efficient over the next two decades. Corporate Average Fuel Economy (CAFE) Standards for passenger cars had been held constant at 27.5 miles per gallon (mpg) for 21 consecutive years until 2011. CAFE Standards rose to 30.2 mpg for passenger cars in 2011 and are to be raised significantly by 2025, to 61 mpg for passenger cars that

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[1] American Society of Civil Engineers. (2013). "2013 Report Card for America's Infrastructure: Iowa." Available at http://www.infrastructurereportcard.org/iowa/iowa-overview/.

[2] Mike Wiser. (December 29, 2013). "Road Funding on the Line for Iowa Lawmakers." *Quad-City Times*. Available at http://qctimes.com/news/local/government-and-politics/road-funding-on-the-line-for-iowa-lawmakers/article_e5dcdd45-b311-5b1a-b02c-e4a8c85f1b15.html.

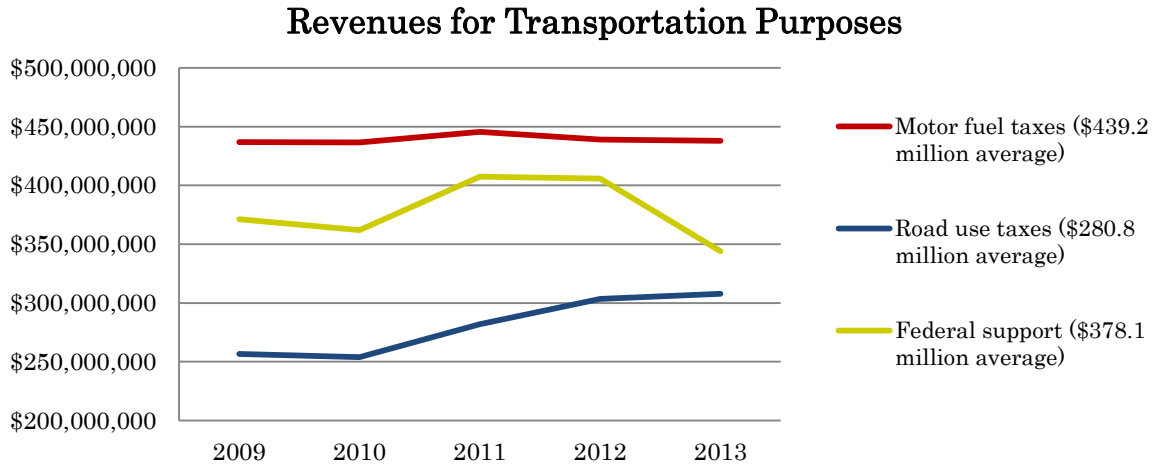
[3] 2008-2012 American Community Survey 5-Year Estimates. (2013). United States Census Bureau. Available at http://factfinder2.census.gov.

[4] *Ibid*. 1, ASCE.

[5] Iowa Department of Administrative Statistics. *Comprehensive Annual Financial Reports* for 2009 to 2013. Available at http://das.sae.iowa.gov/financial_reports/.

are 41 square feet or smaller and 46 mpg for passenger cars that are 55 square feet or larger. As automobiles become more fuel efficient, revenues from motor fuel taxes are projected to decline.

Figure 1: Revenues Designated for "Transportation Purposes," State of Iowa, 2009-2013



Source: Iowa Comprehensive Financial Annual Reports from 2009 to 2013.

Over the past five years, the State has generated an average of $719.9 million annually in road use taxes and motor fuel taxes.[6] The U.S. Census Bureau estimates that there were 1.22 million households in Iowa during that time.[7] Using these figures, it is estimated that the average household spends $588 each year on taxes which are dedicated to road construction, or $49 per month (Figure 2). To put that into perspective, in 2012, the average cost of expanded basic cable service was $740 each year ($62 per month).[8] Iowans also spent $1,084 each year ($90 per month) on electricity.[9] Given that the user cost of driving on the roads to the average Iowa household is small relative to other goods and services, new or increased user fees may be a feasible option to improve horizontal infrastructure.

Figure 2: Iowa Household Expenditures on Goods, 2013

Good or Service	Annual Expenditures Per Household	Monthly Expenditures Per Household
Iowa		
Road and Motor Fuel Taxes	$588	$49
Cable TV: Expanded Basic Service	$740	$62
Electricity	$1,084	$90

Source: Iowa Comprehensive Financial Annual Reports from 2009 to 2013, the "Report on Cable Industry Prices" by the Federal Communications Commission (2013), and "2009 RECS Survey Data" from the U.S. Energy Information Administration.

The Job Creation Impacts of Horizontal Infrastructure Projects

The State needs infrastructure improvements now to connect its economy with regional markets, to improve worker access to jobs, and to increase the efficient transportation of goods. But the State also needs to create jobs in counties where the labor market lags behind. Figure 3 presents county unemployment rate estimates of select eastern Iowa counties from the Bureau of Labor Statistics of the U.S. Department of Labor. The data are from

[6] *Ibid.* 5, CAFRs.

[7] United States Census Bureau. (December 17, 2013). "State & County QuickFacts: Iowa." U.S. Department of Commerce. Available at http://quickfacts.census.gov/qfd/states/19000.html.

[8] Federal Communications Commission (June 7, 2013). "Report on Cable Industry Prices." http://hraunfoss.fcc.gov/edocs_public/attachmatch/DA-13-1319A1.pdf.

[9] United States Energy Information Administration (December 14, 2012). "2009 RECS Survey Data." Residential Energy Consumption Survey (RECS). Available at http://www.eia.gov/consumption/residential/data/2009/.

November 2013, the latest month for which county-level estimates are available. Unfortunately, the unemployment rates for Clinton County and its neighbors are all worse than the state's unemployment rate. Additionally, each county-level unemployment rate has improved by a smaller amount than the state over the past twelve months.

Figure 3: County unemployment rates, November 2013, not seasonally adjusted

County	Current rate	12-month change
Iowa		
Clinton	4.7%	-0.4%
Jackson	4.3%	-0.3%
Scott	5.7%	-0.2%
Statewide	*4.0%*	*-0.6%*

Source: U.S. Department of Labor Bureau of Labor Statistics "databases and tools" feature: "Local Area Unemployment Statistics Map.

One "high-road" economic development strategy which would pay long-term dividends and spur immediate job creation for the Jackson-Clinton-Scott region is to invest in horizontal infrastructure. Indeed, the Midwest Economic Policy Institute estimates, through an economic impact analysis using IMPLAN modeling software, that raising construction employment by 1,000 jobs in Iowa stimulates the creation of 354 *indirect* jobs from purchases by the construction industry and 669 *induced* jobs from increases in consumer spending by those who are newly employed. Similarly, a previous estimate in 2009 found that employing 1,000 construction workers on a new horizontal construction project (a bridge) in Iowa would create 1,657 additional new jobs.[10] The sectors which experience the largest employment gains as a result of construction industry spending and increased consumer demand include: architectural and engineering services, retail, food and beverage establishments, and hospitals and physician's offices. Since markets do not stop at state boundaries, economic growth in Iowa would also have a positive effect on the Illinois economy, especially for the counties which border Iowa.

POLICY SOLUTION: INCREASE THE MOTOR FUEL TAX

To improve Iowa's roads and bridges, directly create construction jobs and spur employment in other industries, and grow the economy, the State needs to increase infrastructure investment now. The Midwest Economic Policy Institute recommends a 6-cent increase per gallon in the state's motor fuel tax. For gasoline, the rate would increase from $0.21 per gallon to $0.27 per gallon. The new diesel and ethanol per-gallon taxes would be $0.285 and $0.25, respectively. MEPI predicts that a 6-cent increase would generate $122.3 million in new annual revenue for Iowa, closing over half (56.9 percent) of the annual construction backlog. This 6-cent increase would come at a very small cost to the average Iowa household: a mere $8.33 extra each month (or $100 more per year). A new per-household annual price of $688 to use the roads for free is *still* less than the average cost of expanded basic cable.

A gas tax hike is a fair way to raise revenue for road construction. Not only does it cost a marginal $2 each week per household, it distributes the cost of infrastructure to the users of the roads, aligning funding with motorist usage. Passersby, travelers, and truckers from other states also pay the tax as well, ensuring that an Iowa taxpayer who may not drive very frequently does not have to pay for an amenity that he or she does not use. Motor fuel taxes– like other user fees– provide ongoing, reliable streams of revenue which allow for longer-term planning. While a 6-cent motor fuel tax increase would have to be paired with other, creative revenue-generating policies to fully close the $215 million deficit, it would go a long way toward improving Iowa's infrastructure and making it an excellent place for companies to do business.

[10] Iowa Department of Transportation. "Burlington Bridge Replacement Project: Appendix B." BNSF Railway. Available at http://www.iowadot.gov/recovery/tiger/pdfs/BNSF%20Burlington/BNSF%20TGR%20Burlington%20Bridge%20Application%20Final.pdf. Direct employment was actually 429 jobs per year on average and those stimulated were 711. Estimates are proportionately scaled up to a direct creation of 1,000 construction jobs for comparability.