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Testimony Neither For Nor Against LD 210, "An Act Making Unified Appropriations and Allocations from the General Fund and Other Funds for the Expenditures of State Government and Changing Certain Provisions of the Law Necessary to the Proper Operations of State Government for the Fiscal Years Ending June 30, 2025, June 30, 2026 and June 30, 2027"

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Good Afternoon, Senators Nangle and Rotundo, Representatives Crafts and Gattine, and members of the joint standing committees on Appropriations and Transportation. My name is James Myall and I'm a Policy Analyst at the Maine Center for Economic Policy. I'm here today to offer testimony on an issue that is not listed in the subject block this afternoon but remains an ongoing concern to us at MECEP - the continuing diversion of revenue from the general fund to the highway fund.

MECEP agrees with the need to have adequate and sustainable revenue sources for the state's highway fund. When our infrastructure is in poor repair, it hurts our economy by making commerce slower and more expensive. And at the individual level, it costs Maine families more money to repair the vehicles they rely on to get to work if they keep having to navigate potholes.

However, we believe that the allocation of sales tax dollars from vehicle sales to the highway fund is the wrong solution. Instead, we suggest that your committees work together to find alternate sources of funding and repatriate that money to the General Fund.

Bonding remains a reasonable solution to the current highway fund deficit. Infrastructure is a textbook example of an investment for which it is appropriate to borrow money. Because investing in infrastructure creates economic growth, those returns can help pay for the interest cost. Bonds also spread out the cost of investment so that the future road users who benefit from the spending are paying it back - rather than putting all the responsibility on today's taxpayers.

Other states have also tried a additional methods to raise road revenues, including delivery fees for large retailers, surcharges on luxury vehicles, and road use fees for electric vehicles which don't contribute as much via the gas tax. I believe some of these options will come before you as bills this session and I urge you to give them due consideration.

Given Maine's status as a tourism destination, with millions of out-of-state vehicles using our roads each year, it is especially important for us to find ways to have these visitors contribute to the funding of our infrastructure. One way to do so might be to increase tolling on the Turnpike for non-residents and send that money to the Highway Fund.

Finally, I do want to mention the traditional source of highway funding, which is the gas tax. As I'm sure you know, Maine's gas tax has not been increased in 14 years. Since then its value has declined by approximately 30%.[1] This is the primary reason for the deficit in the highway fund, because as costs of road repairs have increased, the value of the gas tax has remained flat. By MECEP's calculations, if the gas tax had been indexed to inflation, as the law used to require, the highway fund would have received $588 million more since 2011. Additionally, in the current biennium, revenues would be $241 million higher than projected, virtually closing the structural deficit in the Highway Fund.

The gas tax is not a perfect revenue source. It is regressive - because low-income folks spend a bigger portion of their paycheck on gas than those with higher incomes. However, it does have the advantage of exportability approximately 40% of the gas tax is paid by tourists and commercial vehicles from out-of-state.[2] There are also ways to reduce the impact of a gas tax increase on residents. For example, with tax credits like the sales tax and property tax fairness credits that are already in place.

With the General Fund facing a significant structural deficit that threatens core services like health care and education, we believe it is important to find ways to repatriate the vehicle sales tax money to the General Fund.

Thank you for your attention. I'm always happy to answer questions or have further conversations with you as your committees consider funding questions this year.

[1] MECEP projection using historic Consumer Price Index data and Congressional Budget Office projections as of February 2024. If indexing had remained in place, Maine's gas tax is estimated to be 42.7 cents per gallon, rather than the current 30 cents per gallon.

[2] MECEP calculation based on Maine Revenue Forecasting reports and Maine Office of Tourism studies.