

NJ SPOTLIGHT

NEWS, ISSUES AND INSIGHT FOR NEW JERSEY

AS GAS CONSUMPTION SAGS IN NJ, STATE TAX ON IT SET TO RISE NEXT MONTH

JOHN REITMEYER | SEPTEMBER 17, 2018

Further increases are possible, linked to maintenance of funding for transportation and infrastructure projects



Photo credit: NJ Spotlight

New Jersey's gas tax will soon go up by nearly a nickel thanks to a relatively new state law that now links the tax rate to annual consumption, which has been sagging.

The pending increase, which will push the per-gallon rate to 41.4 cents starting October 1, comes just a few years after the tax was hiked by more than 20 cents to rescue the state's then-broke Transportation Trust Fund.

And making matters worse for motorists is the potential for future increases that would be triggered automatically unless recent consumption trends are reversed, or lawmakers rewrite the gas-tax law.

Part of the blame for the increase falls on the popularity of more fuel-efficient vehicles that let motorists drive more miles before they must fill up. But hikes in the tax are also eroding what used

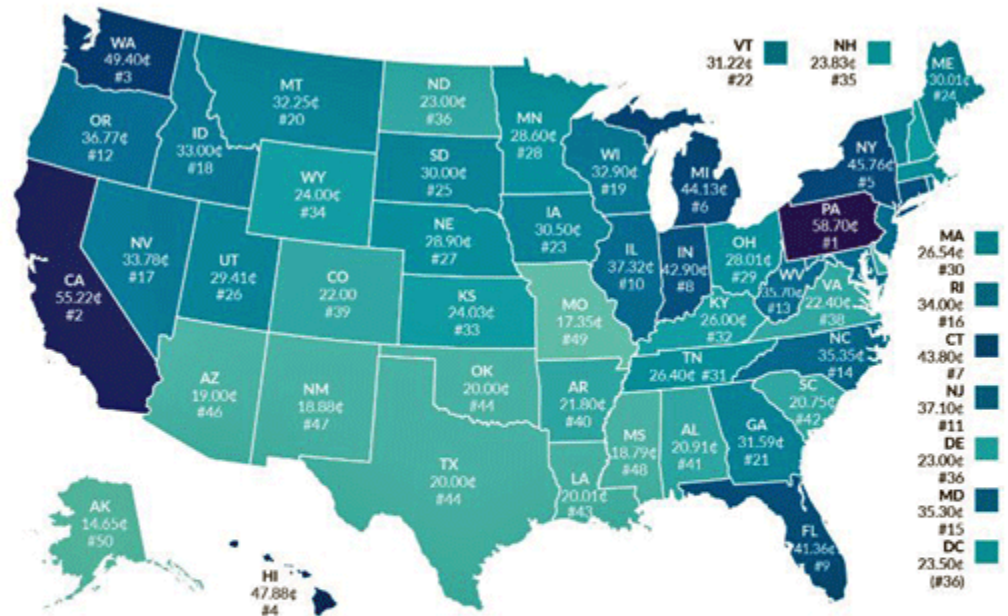
to be New Jersey's wide competitive advantage over other states in the region, something that helped to drive up gas consumption in the state, and in turn, revenue from the gas tax.

"We've created a spiraling effect," said Sal Risalvato, executive director of the New Jersey Gasoline and Convenience Store Association.

Once among lowest rates in country

How High Are Gas Taxes in Your State?

Total State Taxes and Fees on Gasoline, as of July 2018 (cents per gallon)



Notes: These rates do not include the 18.40 cent/gallon federal excise tax on gas. The American Petroleum Institute (API) has developed a methodology for determining the average tax rate on a gallon of fuel. Rates may include any of the following: excise taxes, environmental fees, storage tank taxes, other fees or taxes, and general sales tax. In states where gasoline is subject to the general sales tax, or where the fuel tax is based on the average sale price, the average rate determined by API is sensitive to changes in the price of gasoline. States that fully or partially apply general sales taxes to gasoline are California, Connecticut, Georgia, Illinois, Indiana, Michigan, and New York. D.C.'s rank does not affect states' ranks, but the figure in parentheses indicates where it would rank if included.

Source: American Petroleum Institute.



Photo Credit: NJ Spotlight

It was just a few years ago that New Jersey had one of the lowest gas-tax rates in the entire country, at 14.5 cents. It was one of the few bragging rights for a state that is generally known for sky-high taxes.

But lawmakers voted to increase the gas tax by nearly **23 cents in 2016** to rescue the Transportation Trust Fund, which is used to finance an annual program of road and rail infrastructure improvements all across the state. At the time, the TTF was deep in debt and there was no money available to fund new projects.

The 22.6-cent increase revived the TTF for another eight years, while also allowing for annual capital spending on transportation projects to be increased from \$1.6 billion to \$2 billion. But largely overlooked at the time of that increase – which then-Gov. Chris Christie approved – was language inserted into the law that called for additional, automatic gas-tax hikes if future consumption didn't

produce enough revenue to sustain the TTF's \$2 billion in annual spending. By the same token, the law also allows for rate reductions if the consumption generates more than the amount of revenue that's needed to keep up with the TTF's current financial plan.

Fast forward two years and gas-tax revenues have been lagging the targets set in the 2016 law, coming up a combined **nearly \$170 million short**. That's forced the administration of Gov. Phil Murphy, who took office earlier this year, to take action to comply with the 2016 law.

'Beyond the control' of Murphy administration

State Treasurer Elizabeth Maher Muoio broke the bad news in a pre-Labor Day announcement, saying an increase of 4.3 cents must be instituted on October 1 to keep gas-tax revenues at the legally required amount.

"The precise change in the gas-tax rate is dictated by several factors, all of which are beyond the control of the current administration," Muoio said.

The tax increase will ensure that, despite the lagging gas consumption, spending on statewide transportation projects will remain uninterrupted – a key issue for a state that has been getting near-failing grades from civil engineers in annual infrastructure ratings. But it also highlights how the 2016 law has exposed motorists to future increases thanks to the decision to link the gas-tax rate to revenue collections driven by consumption.

Overall, U.S. gasoline consumption dropped slightly last year, marking the first decrease since 2012. A Bloomberg analysis, published earlier this year, blamed rising gas prices and a change in driving habits among undocumented residents in the wake of President Donald Trump's hardline immigration policies as reasons for the drop.

The U.S. Energy Information Administration, which has been tracking rising consumer interest in more fuel-efficient cars and trucks, plug-in hybrids, and electric vehicles, is predicting a sizable decline in gas consumption in the country over the next 30 years.

Fuel-efficient vehicles a factor

Jeff Tittel, director of the New Jersey Sierra Club, pointed to the popularity of fuel-efficient vehicles as a key reason for the decline in gasoline sales in New Jersey. While electric vehicles produced by manufacturers like Tesla are grabbing headlines, he said the technology for hybrid engines that are powered by both gasoline and electric has also improved in recent years and is a major factor.

"I fill up every other week now for \$20," Tittel said.

Risalvato, the leader of the gasoline-retailer group, said state analysts attempted to bake the impact of fuel-efficient cars and electric vehicles into their consumption projections in 2016. A bigger reason for the flagging sales in New Jersey, he said, is the loss of the state's clear competitive edge with neighbors like New York and Delaware.

Motorists from New York who live along New Jersey's northern border don't have to drive over toll bridges or pay to use tunnels to find cheaper gas, and they were coming into New Jersey when the price difference was over 30 cents. Meanwhile, long-haul truck drivers are also now planning their fill-ups in Delaware as that state's 23-cent gas tax is now significantly lower than New Jersey's levy, Risalvato said.

"The hit that we took from the 23-cent increase was much greater than was anticipated," he said.

Once New Jersey's latest increase goes into effect, the margin with New York will fall to less than a nickel, according to rates tracked by the Washington, D.C.-based Tax Foundation. Risalvato

predicts a “death spiral” of new increases could occur in New Jersey as the competitive edge is further eroded. At some point, it could even flip in the other direction.

“It’s conceivable our tax could be higher than New York’s at some point,” Risalvato said.