

**From:** Ellis, David [mailto:d-ellis@TTIMAIL.TAMU.EDU]  
**Sent:** Wednesday, March 21, 2007 1:21 AM  
**To:** Rifeline  
**Subject:** Tax Rate Estimates

Lynda,

Attached is a file with four tables. They are as follows:

Flat fuel tax rate required assuming all revenue spent on transportation;  
Flat fuel tax rate required assuming  $\frac{3}{4}$  of revenue spent on transportation;  
Indexed fuel tax required assuming all revenue spent on transportation;  
Indexed fuel tax required assuming  $\frac{3}{4}$  of revenue spent on transportation.

As an aside, I used VMT produced previously in your estimates, but substituted fleetwide MPG numbers that we believe are a little more reflective of current trends.

As I mentioned earlier today, the size of the problem increases significantly by 2030 because of increases in construction costs – up from \$12.7 billion in to \$19.6 billion by 2011. Costs continue to rise throughout the 2011 to 2030 period based on projections of the Highway Cost Index.

The bottom line is that my estimate is that using a flat tax and assuming all of the money used on transportation, the estimated tax rate would need to be \$1.39 cents per gallon in order to fund \$28 billion in improvements (the \$28 billion is the total cost of the original \$19.6 billion in improvements escalated by projected increases in construction costs). Assuming  $\frac{3}{4}$  of the tax went to transportation and  $\frac{1}{4}$  went to education, the estimated tax rate would need to be \$1.86 cents per gallon. In this instance, the total revenue raised would be \$37.5 billion assuming  $\frac{1}{4}$  of the revenue went to education and accounting for projected construction cost increases.

Using an indexed tax scenario and assuming all revenue went to transportation, the estimated initial tax rate is estimated to be \$0.99 cents per gallon, escalating to \$1.86 by 2030. Using an indexed tax scenario and assuming  $\frac{1}{4}$  of the revenue goes to education, the initial rate is estimated to be \$1.31 cents per gallon, escalating to \$2.46 cents per gallon.

A key point here, to me anyway, is that it is a very expensive proposition to make the residents of only one area, using only one funding mechanism, pay for improvements when the benefits of the improvements directly and indirectly accrue to everyone in the State.

The key change from the estimates ya'll produced is in actual cost - which drives the resulting tax rate necessary to cover the rising costs.

One other note – I didn't calculate any reduction in revenue resulting from tax evasion, which at these rates, would be significant I believe.

Hope this is what you were looking for.

Thanks.

David

Ellis, David [d-ellis@TTIMAIL.TAMU.EDU]

**Sent:** Sunday, March 25, 2007 10:55 PM

**To:** Rifeline

**Subject:** RE: Tax Rate Estimates

Lynda,

Based on the sales and property tax numbers you provided me, my calculations show that in order to solve a \$19.62 billion problem between 2011 and 2030 (the initial amount is \$12.2 billion), it would take a sales tax increase of 5.62 percentage points (or a total tax of 13.87 percent). In terms of a property tax, if the \$19.62 billion problem were address exclusively through property taxes, the county property tax rate would need to be increased by \$0.98 cents per \$100 valuation in each of the three counties.

David