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To: Assembly Transportation and Independent Authorities Committee
From: Eric Blomgren, Chief Administrator & Director of Government Affairs
New Jersey Gasoline, Convenience Store, Automotive, Association

Re: Concerns with A-4011, "Revises 'New Jersey Transportation Trust Fund Authority Act,' revises calculation of gas tax rate, and establishes annual fee for zero emission vehicles."

The rate increase is too high

Summaries of the impact of the bill have been describing a 1.9¢ a year increase for five years, leading to a net increase of 9.5¢ a gallon for gasoline and diesel motor fuel. Our position relative to our neighboring states is delicate and does not leave us much room to increase the rate higher without losing more gallons of fuel. Losing those gallons to stations in New York and Pennsylvania not only costs the state all the current taxes it is collecting, but it also hurts the operators of our local gas stations, many of which are small businesses owned by independent operators. When they have fewer customers, it means the state collects less from them in income and sales taxes.

<u>Our gas tax rate is now only about 4¢ a gallon less than New York's and about 15¢ less than Pennsylvania</u>. The tax rate on diesel fuel in Delaware is already 26.3¢ a gallon less than in New Jersey, which has created a powerful incentive for commercial trucks coming up the northeast corridor to fill up before crossing our borders.

Those stations near the borders with Pennsylvania and upstate New York took a hit after the substantial increase in the tax rate in 2016. The size of that rate increase led to much less revenue collected than had been projected, which forced a further 4.3¢ a gallon increase in the fall of 2018 just to meet the target revenue number. Many stations near the PA border lost volume after the 2016 tax increase even though NJ gas was still notably cheaper. The smaller the gap in prices, the less likely motorists are to go out of their way to purchase from an NJ station.

Unlike our neighbors, or any other state, New Jersey also has a legal mandate that requires every gallon of gasoline sold at retail in the state to be pumped by a paid station employee. That expense increases the price of gas here, but not in our neighboring states.

One suggestion of how to reduce or eliminate completely the fuel tax increase called for by this bill is to use revenue from the <u>sales tax</u>. The state constitution already requires $200 million in annual sales tax collections be dedicated to the TTF, and there is nothing stopping the Legislature from contributing more of that money to the TTF annually at its discretion. The Legislature could also amend the constitution to increase that number in order to ensure it is a guaranteed contribution.

There is a logical connection between the sales tax and the TTF; basically everything that consumers are paying sales tax on involved our roads—whether it's a delivery to their home, traveling to the store, or the store getting its products delivered. A potential sales tax increase could be criticized as a 'regressive tax', but there's no doubt that increasing the gas tax is also a regressive tax. This will become even more true as EV adoption continues to be driven by higher income households, while lower- and middle-income families are more likely to remain with gas-powered cars for the future. The increase in diesel fuel taxes will also increase the costs of delivery, raising prices for groceries and clothes (which are exempt from sales tax).

We are already in the top ten of highest motor fuel tax rates in the country, this bill will move us into the top five. Most other states have been able to fund their road programs, including states with many more miles or roadways.

Actual rate increases will be higher than reported

While reports describe this increase as 1.9¢ a year, 9.5¢ overall, that is not an accurate description of the bill. The bill sets in law a target for the amount of revenue to be collected from motor fuel taxes, and gives the Treasurer the power to set the tax rate at whatever rate they feel is necessary to collect that amount of revenue.

The projection for 1.9¢ a year appears to be based on the state selling basically the same amount of motor fuel it currently is for the next five years. I would suggest that is highly unlikely. For many years we have seen motor fuel consumption steadily decline in this state, driven mostly by the increased vehicle mileage rates of new gas-powered cars. Every year, old cars are scrapped and a generation of new cars join the roadways, those new cars are substantially more fuel efficient than the 16+ year old vehicles that are coming off the road. In the last few years there has also been an increase in battery electric vehicles (which purchase no gas) and hybrids (which purchase substantially less than their new internal combustion engine equivalents).

From 2017 (the first year after the last gas tax increase took effect) through the end of 2023, there was a 9.4% decline in the number of gallons of motor fuel sold per year in the state. That is about a 1.56% decline per year on average; projecting that outward over the coming five years suggests that in order to meet this bill's mandated revenue targets future increases in the tax rate will need to be higher every year than 1.9¢, at least after the second year. That shift alone would increase the aggregate tax increase by about a cent per gallon beyond the 9.5¢ projection.

I would also expect that our tax rate comes to surpass New York's and encroaches on Pennsylvania's, will see added declines beyond what we've seen over the course of the current TTF program, which even if those losses are less than half what we lost after the 2016 22.6¢ increase, and do not begin to be felt until the third year, could still further increase the net hike by a half cent a gallon.

Additionally, the revenue projections in the just released Budget in Brief suggest the increase for this year will need to be higher than 1.9¢. The revised projections for the current fiscal year project total motor fuel tax collections will fall below the Revenue Target by about $26 million. The projections for FY 2025 collections are expected to be below the current revenue target as well. Combined it's a shortfall of about $67 million, which means if this bill is not acted upon there will still need to be an increase of about 1.5¢ a gallon. Add in the fact that this bill increases the Revenue target by $84 million in the new fiscal year, and the adjustment for this year would probably need to be 3.5¢ a gallon, perhaps more.

Combined, the actual net increase from this bill seems closer to 12.5¢ a gallon, while it could be less were there to be some meaningful increase in motor fuels sold, it seems more likely that we will see a steeper decline, especially in the latter half of the program if EV adoption comes anywhere near what the DEP has called for in its adoption of the California Advanced Clean Cars II (ACCII) mandate.

One possible way to solve this uncertainty would be by capping the annual rate of increase, saying that the annual adjustment shall never be more than X.X¢ over the previous year's rate.

Fee on EVs is good policy, should be expanded to include hybrids

The Department of Environmental Protection's recent adoption of the ACCII rule has theoretically set the state on a course for a future in which motorists no longer pay any gas taxes because they are no longer purchasing gasoline. Nevertheless, road maintenance will still need to be funded.

New Jersey is right to follow the lead of 32 other states, including California, Colorado, Illinois, Michigan, Minnesota, Oregon, Washington, and Wisconsin and charge EV owners an annual registration fee that is at least the equivalent of what the average motorist pays in annual gas taxes. If anything, the fee should be higher than the average gas tax payment since EVs are on average 30% heavier than their gas-powered equivalents, and thereby put more stress on the roads requiring more frequent repairs.

It would also be wise to follow the lead of many other states, and impose a partial fee on hybrids, since while these vehicles pay some gas tax, they pay significantly less per mile than gas-powered vehicles. Most states set a fee that is half the rate charged on EVs.

Revenue from the EV fee should be included in the annual adjustment calculation

Under the current language of the bill, when the Treasurer is calculating what the annual adjustment to the fuel tax rate should be, they are only accounting for the revenues from the motor fuel taxes in determining whether the total revenue goal was met. The bill should include a requirement that the revenue collected from the fee on EVs be factored in by the Treasury when calculating whether the State has collected enough money to meet the annual “Highway Fuels Revenue Target”.

Without the revenue from that fee being factored in, the gas tax rate could automatically skyrocket over the coming years as more motorists switch to EVs and hybrids. Under the ACCII rules the DEP has adopted, a majority of new passenger vehicles sales are supposed to be EVs in the last two years of this program, up from 9% now. Without the legal ability to count revenue from that fee, the Treasurer will be forced to artificially make the fuel tax rates higher than necessary.

Given the higher price of EVs and the desire for so many to charge at their house, adoption is being driven by wealthier homeowners. Those who cannot afford the switch are disproportionately lower- and middle-income families. It will fall on their backs to generate $2.4 billion a year in fuel tax revenue—unless the Treasurer factors in the revenue collected from a fee on EVs. Even with the small share of cars on the road now (95,101 according to the State), the revenue from those fees could shave a half cent a gallon off the coming fuel tax increase.

Given these concerns, we respectfully ask you not move forward with this bill at this time. Thank you for your consideration.