

As Electric Vehicle Growth Squeezes Gas Tax Revenues, Data Helps States Prepare

Long-term projections can help policymakers assess scope of challenge, identify alternatives

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Forecasters expect sales of electric vehicles (EVs), already at record levels, to [grow at a breakneck pace in the years ahead](#). This transition from gasoline to electric-powered vehicles matters not only for car buyers and climate goals, but also for state governments. In the aggregate, fuel taxes provide nearly 40% of the revenue that states direct to their transportation funds—special accounts for transportation spending. Much of that could vanish in the coming decades.

Despite the attention on EVs, their sales remain a modest share of total vehicle sales. Still, state policymakers will need data to inform decisions about how to fill the funding gap that's expected once sales increase. By producing long-term projections of gas tax revenue, state analysts can provide critical estimates for how quickly and how far gas tax revenue will fall. And that will help states implement sustainable transportation funding sources.

State projections already point to the potentially challenging road ahead. For example, a [long-term plan](#) published by West Virginia's Department of Transportation in 2021 [showed fuel tax revenue falling by 11% to 20% through 2030](#), and as much as 52% from 2031 through 2050. In some states, gas tax revenue is already declining, or will soon. And that's before accounting for the tax's declining purchasing power as transportation projects become more expensive because of inflation and other factors.

Projections from the New York State Division of the Budget show [gas tax revenue peaking in fiscal year 2024](#) and then declining slightly each year through fiscal 2027. Likewise, a 2021 analysis from Connecticut's Office of Policy Management showed that [fuel tax revenue had declined 4.2% over the last decade](#) and projected a continued slide through 2026.

Recent developments add new urgency. With gas prices high and automakers aggressively marketing expanded electric options, EV sales [grew by 66% year over year in the second quarter of 2022](#), even as overall new vehicle sales declined. Actions by state, federal, and international policymakers, as well as changing consumer preferences, stand to drive sales higher. In August, as part of the Inflation Reduction Act, Congress approved new financial incentives to encourage consumers and governments to buy EVs. Meanwhile, California regulators [adopted rules that forbid sales of new gasoline-powered vehicles starting in 2035](#), a timeline that squares with the [European Union's planned regulations](#) and some automakers' own plans to [phase out these vehicles](#).

States have long recognized that the growing fuel efficiency of gas-powered vehicles and the eventual popularization of EVs would place pressure on gas tax revenues. As early as 2001, Oregon lawmakers created a panel known as the [Road User Fee Task Force](#) to explore fuel tax substitutes. One of the most discussed is a tax based on vehicle miles traveled (VMT), an option that would collect revenue from drivers whether they buy gasoline or not. Today, at least three states (Oregon, Virginia, and Utah) have implemented opt-in VMT taxes—drivers can choose to participate to receive breaks on other taxes or fees—while several pilot projects have explored the concept elsewhere.

None have yet adopted a mandatory VMT tax, as states have grappled with [concerns about privacy](#), technological feasibility, environmental tradeoffs, and administrative costs. Instead, policymakers have approved piecemeal approaches to bolster road funding, including raising gas taxes and boosting other transportation revenue sources, such as vehicle registration fees. More than half of states have also adopted [special registration fees](#) for EVs to ensure that their owners pay something toward road maintenance.

As the pace of EV adoption changes, states should regularly and frequently update their gas tax projections to ensure that they reflect the latest information. Oregon's projections demonstrate the value of doing so. The state's Department of Transportation typically publishes new revenue [forecasts twice a year](#), including eight years' worth of gas tax revenue projections. The April 2022 [report forecast that average fuel efficiency would rise faster](#) than what was projected in the October 2021 report, which had forecast that fuel efficiency would rise faster than what was shown in the April 2021 report. These "accelerating" fuel

efficiency gains were one reason Oregon lowered gas tax revenue projections in the April 2022 analysis.

States should also avoid considering gas tax revenue trends in isolation and, instead, should place these forecasts in the context of broader revenue and spending projections. Research from The Volcker Alliance, a nonprofit that studies state fiscal practices, shows that as of 2019, [32 states projected revenue collections at least three years into the future](#). However, many of these analyses focus only on general fund revenue sources—such as income taxes and sales taxes—and not gas taxes, which are typically directed to separate transportation accounts. Projections of fuel taxes and other transportation-specific revenue sources are often produced and presented separately. But when states study general funds and transportation funds together, policymakers are more likely to recognize the interconnectedness of these accounts.

In some instances, shortfalls of transportation revenue place pressure on the general fund. Colorado's latest [Long-Range Financial Plan](#), for example, notes that weak gas-tax revenue growth has led policymakers to turn to other sources of money to pay for transportation costs. That includes a total of more than \$1 billion from the general fund in the last five years. In other cases, states have redirected transportation funds to the general fund to balance budgets. Lawmakers tapped money from the Kansas Department of Transportation for years before ending the practice this year. As gas tax revenue weakens, states may be less able to rely on transportation dollars as a backstop.

These interactions between gas tax revenue and overall budget conditions show that the future of the gas tax isn't just a challenge for transportation funding, but also for state fiscal health as a whole. High-quality, long-term revenue projections can help policymakers understand the timing and magnitude of the problem—and guide them as they begin the process of finding solutions.

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