Ohio Transportation Revenue Program Case Study

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Background

In April of 2003, the State Legislature approved one of the largest transportation tax increases in Ohio history. It was decided that between July 1, 2003 and 2005, the tax on motor fuel in Ohio would increase by 2 cents per gallon each year (totaling 6 cents). Once fully implemented, this tax increase raised about $300 million annually for ODOT. The state’s 22-cent per gallon gas tax had not increased since 1993.

The same bill lowered the legal threshold for drunken driving from a blood alcohol content of 0.10 to 0.08. Additionally, the fees for a driver’s license would increase by $12 and fees for vehicle registration in Toledo would increase by $11. Then Governor Bob Taft wanted to increase driver’s license fees and vehicle registration fees so gas tax money wouldn’t be used to pay for Ohio Highway Patrol operations. House and Senate legislators passed this bill by nearly 2-1 margins.

Local governments receive 25% of the gas tax and the Ohio Department of Transportation (ODOT) receives the remaining 75%. Since this initiative also freed up an additional 3 cents per gallon previously allocated to the State Highway Patrol that was transferred in full to local governments, the local governments actually received 50% of the overall fuel tax revenues. (Proctor) While ODOT needed funding for capacity, the localities were focused on preservation and maintenance.
This initiative was timely because it was part of a larger effort to stem the economic downturn. This bill was instrumental in funding Governor Bob Taft’s Jobs and Progress Plan. During the next decade, this $5 billion plan would help stimulate Ohio’s economy and create new jobs by investing in the highway network. As stated in the 2004 ODOT Annual budget, “Jobs and Progress was promised to generate more than 4,000 jobs, ease freeway congestion, improve road safety and connect rural regions.”

**Development**

**Demonstrated Need**

There was a strong case for the need to increase funding for state and local infrastructure projects. In December of 2002, the Motor Fuel Tax Task Force created by Ohio’s General Assembly completed a study on the adequacy and distribution of the motor fuel tax in Ohio. This and other studies clearly identified millions of dollars worth of unfunded lifecycle and capacity projects and complimentary statistics. Examples include:

- More than 50 percent of the pavements on Ohio’s general and urban highway systems falling into the deficient category
- More congested roadways, as the daily number of vehicle miles traveled (VMT) had increased 27 percent since 1990 and highway expansion had not kept pace
- Over 6,000 bridges were reaching the end of their design life
- A local highway system in need of $527 million lump sum for critical repairs, which doesn’t include general maintenance needs or annual expenses
- The Ohio Department of Transportation’s (ODOT) new construction program was falling from $490 million in Fiscal Year (FY) 2002 to less than a third of that amount in FY 2004, and no monies available for new construction beginning in FY 2005 and beyond.
Construction costs had increased over 50 percent since 1993 while gas tax and license revenues had risen only 29.5 percent in the same time, and had actually decreased since 1999. Although the Ohio Department of Transportation (ODOT) had an annual budget in excess of $2 billion dollars, the vast majority of those funds were used for basic maintenance and operations. ODOT had spent an annual average of about $350 million for system expansion between 1996 and 2002. Although a significant amount of money, it was enough to expand the highway network by only one-third of one percent annually.

The amount of money ODOT devotes to system expansion or new construction is the residual amount left after ODOT has met its system preservation goals and it has passed through the funds it provides to local government. The combination of the “Major New Projects,” or non-maintenance projects, totaled approximately $5.1 billion.

In the years prior to 2003, Gordon Proctor, former ODOT Director, consistently communicated the fact that ODOT was going to need a new source of funding by 2003. While Jerry Wray, the ODOT Director that served before Proctor, built a culture of change and efficiencies in ODOT, Proctor put performance measures in place and communicated this need. Julie Ray, Deputy Director of Finance & Forecasting, stated “We were able to analyze data, use that data to make decisions, and then communicate all of this to legislators, newspaper boards, and districts. This was more communication than was ever done before.”

In addition to communicating the project needs across the State, Proctor also utilized many graphics that communicated the importance of Ohio’s highway system. Ohio has “an inordinately large transportation network because of its status as the crossroad for America’s manufacturing and agricultural heartland. Fifty percent of North America’s population and 60-70 percent of the manufacturing capacity lie within a 600-mile radius of Ohio’s borders.” Proctor often showed maps of the United States that showed the nation’s highway freight density and manufacturing capacity locations to stress this point.

(Boldgreve)

**Bill Development**

The passing of the fuel tax bill was relatively uncontroversial and uneventful. Promoted as a “user fee” as opposed to a tax, this tax increase was generally understood and accepted. ODOT had established its need and there was very little discussion on how additional funding would be spent due to general acceptance of the priorities and process established by the Transportation Review Advisory Council (TRAC). TRAC was established by the Ohio General Assembly in 1997, and charged with developing and overseeing a project selection process for new transportation capacity projects. This controlled the fiscal outlay
and demonstrated a project’s worth based on an agreed-upon project scoring process. (Howard Wood) Proctor stated, “Everyone was using the vernacular of TRAC; it was widely accepted.” Since the TRAC criteria emphasized macro corridors and economic competitiveness, equity across the state occurred naturally.

Even though the foundation was built over the course of many years, the actual bill development and communication occurred over the course of only two months, which left very little time for controversy. There was a 90-day referendum when the public could have voiced opposition, but no one did. (Holdgreve) Additionally, Proctor stated “the timing was optimal.” In 2003, then-Governor Bob Taft was in the first year of his second term and still relatively popular, and there were consecutive terms of same-party (Republican) ruling.

Then-Governor Taft was supportive of the fuel tax bill due to its ability to promote economic development. Taft stated “After 9/11 and the stock market crash, there was a clear awareness in Ohio, that a key issue was job generation and economic development. It was also understood that there was a close relationship between our economy and good transportation. We lost manufacturing jobs, so good transportation access was really important for economic development.”

Additionally, Steve Buehrer, former State Representative for Ohio’s 82nd District and co-chair of the Motor Fuel Tax Task Force, stated “We kept our bill pretty pure. It wasn’t about a lot of other things.” Proctor credited Governor Taft with his willingness to let ODOT pursue a fuel tax increase without associating it with many other tax increases or legislative changes. While the vehicle registration fee increase and other changes did stir up some controversy, this was minimal. (Holdgreve)

Simultaneous to the fuel tax bill being pursued, Proctor and the Governor were also pursuing increases in Federal funding. Ohio legislators have always challenged Ohio’s status as a donor state in the payment of federal highway taxes. Additionally, legislators were fighting for a change to the ethanol tax formula. In order to ensure that ODOT did not receive excessive funding due to the state fuel tax increase occurring at the same time as federal funding increases, the fuel tax bill included a “trigger clause.” The trigger clause stated that there would be no 2 cent fuel increase in 2006 if Ohio achieved a 95% return on federal highway taxes [addressing the donor/donee issue] and if the ethanol issue was resolved favorably. The trigger clause was never enacted.
Sponsors and Stakeholders

This funding initiative had many champions and few opponents.

Proctor was consistently identified as being instrumental in this initiative’s passing. Michelle Holdgreve, former ODOT Deputy Director for Legislative Services, raved, “Gordon was at every single meeting, which was rare for a Director...he was so accessible and articulate.” “Gordon was like the conductor of an orchestra,” Ray stated. Former Governor Taft acknowledged that one of his reasons for supporting this bill was due to Proctor: “I had such tremendous confidence in Gordon and his ability to communicate. He had done so much homework to lay a foundation for this plan.” Both Ray and Taft believed his background both as a journalist and ODOT planner were crucial to his success.

Likewise, former Governor Taft was identified as another key champion. Proctor stated, “The Governor was instrumental in the passing of this bill.” In 2002, Taft supported legislation that funded the Motor Fuel Tax Task Force and then, in 2003, in his State of the State Address, he publicly announced his support of a motor fuel tax increase. (Holdgreve) While Taft acknowledged that Proctor and his staff did most of the legwork, all interviewees agreed that Taft’s support was necessary.

Proctor pointed out that many of the legislators were extremely supportive of the fuel tax. Since half of the fuel tax revenues were designated for local governments, their municipalities had a lot to gain. Additionally, the MIS process for major projects generated a lot of local champions as a natural outgrowth of the planning for these projects. This created relationships and supporters for individual projects, which translated into supporting the funding. (Proctor) Additionally, Buehrer pointed out that the county engineers really advocated well for their members’ support.

As expected, there were many industry groups that were supporters. The Ohio Petroleum Marketers Association had an interest in seeing that the State Highway Patrol did not receive any fuel tax revenues. Even though the Ohio Contractors’ Association had a vested interest in this initiative, Proctor stated that he probably kept them in the dark more than necessary in order to prove there was no collaboration. Buehrer pointed out that a regional group, the Transportation Advocacy Group of Northwestern Ohio (TAGNO), was actively championing this tax increase.

On the other hand, all of the interviewees struggled to remember any opponents. While the State Highway Patrol had reason to oppose the initiative due to losing funding, the agency worked for the Governor within the executive branch, so this was not an option. Their union and individuals within the group expressed their concerns to legislators, but this was barely problematic.
All of the interviewees agreed that ODOT’s strong reputation and credibility during this time period was a necessity for the success of this initiative.

Ray noted that this foundation took about 10 years to fully develop. In the early 1990s, then-Governor Voinovich began many cost cutting and efficiency improving initiatives. The savings from these measures were put towards improving ODOT’s asset management practices. During Proctor’s service as Director, ODOT developed performance measures that showed significant improvements in most areas, including % of deficient pavement, bridge conditions, etc. Through these improved asset management practices, ODOT was able to show strong improvement as well as well-documented state transportation needs. (Howard Wood) Proctor began his communication campaign with statistics such as these:

- Despite being 23 percent smaller in workforce size, the number of miles of deficient pavement on the freeway system were reduced by 66 percent.
- Despite being 23 percent smaller, the percentage of damage or deficient guardrail has been cut 60 percent.
- Despite being 23 percent smaller, the percentage of structurally deficient bridges has been cut by one half, and
- Despite being 23 percent smaller, sign deficiencies have been reduced by 29 percent, pavement striping deficiencies were reduced by 27 percent.

In fact, ODOT seemingly did everything in its power to stretch existing funds as far as possible. Before 2003, ODOT reduced its employees from 7800 to 6031 (the 23% reduction), held operating expenses to a 2 percent growth for 8 years, and utilized these cost savings to leverage additional bonding authority of $220 million for 5 consecutive years. Holdgreve stated “we cleaned our house.”

According to Brian Burgett, former Contractors Association president, “the level of spending and the excellence of Proctor [ODOT Director] and his staff are the envy of other state transportation directors.”

**Communications/Marketing**

"None of us like the fact that we have to have the tax,” said Sen. Bill Harris, R-Ashland. "But this is a tax we understand. What this bill does is give us a chance to put dollars to work to correct (roadway) problems.”

This quote reflects the general public and legislators’ perspective on the fuel tax. Former Governor Taft stated “It was so easy for the legislators and the public to understand where the money was going.” Ray believes that much of this was due to Proctor’s ability to communicate simply and meaningfully. She pointed out that he “made sure that all of the legislators understood that all of their constituents would benefit from the fuel tax increase. He worked hard about how the message was delivered.” Ray explained that Proctor had a
way of communicating to the average person and this forced everyone in ODOT to think this way.” Examples of some public-friendly brochures and reports that were published to address the state of Ohio’s roadways and funding include:

- “Seeing Red – An Overview of Ohio’s Highway Condition” was published in 2002 by the Ohio Construction Information Association. The report warned that more than half of Ohio's highways were "falling into the deficient category," that over 6,000 bridges were reaching "the end of their design life" and that Ohio's highway system needed $527 million for "critical repairs."
- “Rough Road Ahead: Ohio's County Highways: 2003” by the County Engineers Association of Ohio

Not only did Proctor spend time convincing the legislators of the bill’s importance, he took the time to communicate with the Agency staff as well. Proctor held executive meetings and webcasts on a regular basis where he would explain the Agency’s goals and point out his concerns. (Ray) The Agency staff buy-in was important because, under Proctor’s guidance, they developed strong visuals in a public-friendly format that communicated a convincing story with statistics to support it. (Holdgreve)

Proctor utilized the media effectively too. Holdgreve pointed out that he met with newspaper boards and he would speak on television and radio shows whenever an opportunity arose. Holdgreve stated, “He was very forthcoming and he had the data to back himself up.” He also educated his District deputy directors so that his message was communicated consistently to the media. Proctor thought the media was helpful and Holdgreve agreed that the initiative was covered extensively as either positive or neutral.

Even though no projects were earmarked in this bill, the legislators had a good idea of which projects would be funded. Proctor was quoted as saying, “If the legislature approves the gas-tax increase and the federal government provides $200M, the state likely can complete several projects – including the new U.S. 24, and improvements to I-75 and I-475 in Toledo in the next decade.”

**Lessons Learned**

All of the interviewees believed that this was, in general, a very successful initiative. The following is a list of the key success factors as identified by the interviewees:

- Over a period of 10 years, ODOT proved that available funding was being utilized as effectively as possible and there was still tremendous need. Based on available data, ODOT had solid data to show how effective ODOT had become and how additional funding would be spent, if made available.
• The TRAC provided a transparent, criteria-based project selection process that created a geographically-balanced, bi-partisan project list reflecting no political agenda.
• Proctor was actively involved and engaged in this initiative and he could communicate effectively.
• The Governor, who was generally popular and moderate, openly supported this bill.

The interviewees did, however, identify a few key lessons learned.
Even though this bill did not have any earmarking, Proctor did, to some extent, promise the completion of certain projects. Many of these projects were not fully developed and the cost estimates did not anticipate the double-digit inflationary increases that occurred in subsequent years. (Wood). Proctor stated that this “put later ODOT executives on the hook for over-promised projects.” Ray pointed out “It would have been wiser to use more conservative estimates.” Howard Wood, former ODOT Deputy Director Planning, stated, “ODOT is losing some of its past credibility.”

• There are political implications to vocalizing support of any initiative. Buehrer pointed out that his opponents of the last 2 elections spent around $200,000 - 300,000 attacking his support of the fuel tax increase. Buehrer stated “I believe I’d be in the U.S. Congress now had I not supported it, but I felt strongly about it, so I do not regret this decision.” On the other hand, the construction industry rewarded Buehrer for his leadership, “contributing nearly $100,000 of the $632,000 Buehrer has received in campaign contributions since 2003.”

• One of the interviewees reflected on how important it is to understand your supporters’ motives. A vocal group that was in support of the fuel tax initiative was the concrete industry. Even though they had a lot to gain from this initiative’s success, the concrete industry took this as an opportunity to raise the concrete vs. asphalt pavements issues and attempted to insert language favoring the use of concrete pavements. This distracted the legislators from the fuel tax initiative.
• Both Proctor and Ray pointed out that this bill would need to be multi-modal if it were to be passed today.
Additional References
Taft, Bob (former Ohio Governor). Personal interview.
Wood, Howard (former ODOT Deputy Director of Planning). Personal interview.
Ray, Julie (ODOT Deputy Director of Finance & Forecasting). Personal interview.
Proctor, Gordon (former ODOT Director). Personal interview.
Holdgreve, Michele (ODOT Deputy Director for Legislative Services). Personal interview.
Buehrer, Steve (former State Representative for Ohio's 82nd District, Co-chair for the Motor Fuel Tax Task Force). Personal interview.

2 Ohio Department of Transportation Employee Newsletter, April, 2003.
6 Julie Ray (Deputy Director, Ohio Department of Transportation) presentation to the International Right of Way Association titled “Transportation Finance Plan” in June, 2003.