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CIGARETTE TAXES PUSH SMOKERS TO ROLL THEIR OWN

By Brian Tumulty
Post Crescent (WA)
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Americans' smoking habits experienced "sizable market shifts" since federal tobacco taxes were increased in 2009, a new government report concludes.

Sales of pipe tobacco and large cigars, which are taxed at a lower rate, have skyrocketed as smokers have adjusted their buying habits to the new price structure.

Pipe tobacco is increasingly used to make relatively inexpensive cartons of roll-your-own cigarettes. The Fox Valley has several shops with roll-your-own machines available for customers.

Kim Schafer of Appleton Souvenir and Cigar Co. said she's noticed changing trends in tobacco use.

"Actually, a few more people are picking up pipe smoking," Schafer said.

Monthly sales of pipe tobacco increased twelve-fold, from about 240,000 pounds in January 2009 to more than 3 million pounds in September 2011, the General Accounting Office found. Monthly sales of large cigars more than doubled, from 411 million pounds to more than 1 billion pounds over the same period.

Congress increased taxes on both roll-your-own tobacco and packs of cigarettes in April 2009, making them equal. Lawmakers enacted a smaller tax increase for pipe tobacco, which has become a substitute for roll-your-own tobacco. In Wisconsin, state cigarette taxes have increased by a $1.75 per pack since the end of 2007 to the current $2.52, making roll-your-own tobacco a cheaper alternative to manufactured cigarettes.

Likewise, Congress began taxing small cigars at the same rate as cigarettes. In response, manufacturers of small cigars fractionally increased the weight of many of their products so they would qualify as lower-taxed large cigars, even though they often are just slightly larger than cigarettes and often have filters.

Premium handmade large cigars retail for $3 to $20 and more each, but “smaller factory-made cigars that meet the legal definition of a large cigar can cost as little as 7 cents per cigar,” the GAO reported.

The market shift has cost the federal government an estimated $615 million to $1.1 billion in uncollected tax revenue between April 2009 and September 2011, the report said. It did not estimate how much individual states may have lost in uncollected taxes.

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HIGHWAY BILL ENTERS LEGISLATIVE HOMESTRETCH

By Joan Lowy
Associated Press
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Defying expectations, Congress has reached the homestretch on a major overhaul of federal transportation programs that is critical if the nation is to avoid steep cutbacks in highway and transit aid.

The bill is driven partly by election-year politics. Both Congress and President Barack Obama have made transportation infrastructure investment the centerpiece of their jobs agendas. But the political imperative for passing a bill has been complicated by House Republicans' insistence on including a mandate for federal approval of the Keystone XL oil pipeline. The White House has threatened to veto the measure if it retains the Keystone provision.

And there are other points of disagreement between the GOP-controlled House and Democratic-controlled Senate, including how to pay for transportation programs and how much leverage the federal government should have over how states spend their aid money. Transportation Secretary Ray LaHood has said it's unlikely Congress will pass a final bill until after the November elections.

Despite LaHood's pessimism, lawmakers and transportation lobbyists said they believe prospects are improving for passage of a final bill by June 30, when the government's authority to spend highway trust fund money expires. The fund, which pays for roads and transit, is forecast to go broke sometime next year.

A House-Senate conference committee is scheduled to begin formal negotiations May 8.

It has taken Congress years to get this far. Work on a transportation overhaul began before the last long-term transportation bill expired in 2009. The Senate finally passed a $109 billion bill with broad bipartisan support in March. The bill would give states more flexibility in how they spend federal money, step up the pace of road construction by shortening environmental reviews, impose a wide array of new safety regulations and boost funding for a federal loan guarantee program to encourage private investment for major infrastructure projects.

House Republicans, after failing to corral enough votes to pass their own plan, recently passed a placeholder bill that allows them to begin negotiations with the Senate. That bill included the Keystone provision, as well as provisions limiting the public's ability to challenge transportation projects on environmental grounds and taking away the Environmental Protection Agency's power to regulate toxic coal ash.

"I feel like people are worn out on this issue and would like to get something done," said Jeff Shoaf, a lobbyist with the Associated General Contractors of America, a trade association for the construction industry. "I think the prospects are good."

Winning approval of the Keystone provision, which would give federal regulators no choice but to approve a pipeline to transport oil from Canada's tar sands, appears to be House Speaker John Boehner's top priority, lawmakers and transportation lobbyists said.

Republicans portray Obama's delay in the pipeline as a contributor to high gasoline prices. "Boehner wants to push Keystone as hard as he can because he sees it as a political winner," said Joshua Schank, president and CEO of the Eno Center for Transportation, a nonprofit foundation dedicated to improving transportation.

Senate Democratic conferees on the bill appear to have enough votes to block inclusion of the Keystone provision in the final product. Sen. Jay Rockefeller, D-W.Va., one of four Senate committee chairmen responsible for a portion of the bill, has announced he'll oppose Keystone and other House environmental provisions.

An open question is whether House Republicans will balk on an overall transportation bill if they can't get Keystone. Similarly, despite their public statements, it's unclear whether Senate Democrats would be willing to sacrifice the bill in order to block a Keystone provision, and whether Obama would follow through on his veto threat, especially if the Keystone language were softened in negotiations.

The president painted a bleak picture of America's infrastructure in a speech Monday to union workers in the construction industry, saying U.S. highways are clogged, railroads are no longer the fastest in the world and airports are congested. A transportation construction bill would boost employment and the economy, but "the House Republicans are refusing to pass a bipartisan bill that could guarantee work for millions of construction workers," Obama said, referring to the Senate bill.

"Instead of making the investments we need to get ahead, they're willing to let us all fall further behind," he said.

The transportation bill "is incredibly important to the president," said Ed Wytkind, president of the transportation trades department of the AFL-CIO.

Both sides ultimately must decide whether they want an issue to be used as a campaign weapon or an accomplishment they can tout to voters.

Dave Bauer, a lobbyist for the American Road and Transportation Builders Association, cautioned against reading too much into what congressional conferees say at this point.

"Before they even get to a conference table, some seem to be trying to make this all about Keystone, and it's not," he said.

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CAN ROAD REPAIRS EVER PAY FOR THEMSELVES?

By Brad Plumer
Washington Post's Wonkblog
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It's no secret that America's roads need fixing. Of the nation's highways, 17.4 percent, or some 164,000 miles, were in poor or mediocre condition in 2008, according to the Federal Highway Administration. They needed repaving or more substantive repairs. But how big a deal is this, really?

Here's one way of looking at it, courtesy of Bloomberg's Andrew Zajac. Poor roads increase the cost of owning a vehicle. They can tear up suspensions, wear out tires prematurely, and increase fuel consumption. The numbers are fairly dramatic. Careful modeling work by Karim Chatti, an engineering professor at Michigan State University, has found that poor roads cost U.S. drivers an extra $15 billion to $25 billion each year in vehicle damages. (Other groups have pegged the number even higher, at $49 billion per year.)

To put that number in perspective, the House and the Senate are currently wrangling over a two-year transportation bill. One of the big sticking points is that the gas tax doesn't raise enough money to cover the nation's transportation needs. There's a shortfall of about … $15 billion per year.

This suggests that drivers could, conceivably, recoup at least a portion of the costs of a higher gas tax if the money was used to fix and repave current roads. Gas taxes go up, vehicle damage goes down. Everyone's happy. Right?

Except that's a big "if." Right now, most transportation money isn't actually used to fix existing roads and highways. Politicians always prefer to build shiny new roads — there's a big ribbon-cutting, and drivers don't get inconvenienced by orange cones and repair crews. Currently, 57 percent of all state highway funding goes toward new construction, even though this represents just 1.3 percent of the overall system.

UCLA economist Matthew Kahn and the University of Minnesota's David Levinson have made a more detailed case for a "fix-it first" strategy for transportation spending in this paper. Right now, they note, federal highway spending doesn't usually get subjected to a strict cost-benefit analysis, and there's usually pressure to build new roads and bridges rather than maintain existing ones. What's more, Kahn and Levinson find, this doesn't make good economic sense — it's usually much cheaper to fix a road earlier on than to wait for it to deteriorate into "poor" or "serious" condition.

The Senate's version of the two-year transportation bill would try to change this. It requires states to spend at least 60 percent of their funds on highway repair. The Department of Transportation would also establish "minimum condition" standards for roads, with states facing penalties if their roads fell into decrepitude. These changes wouldn't reverse the bias toward new road construction, but they would begin a shift. (The House transportation bill does not have these requirements.)

If Chatti's research is correct, these sorts of "fix-it first" tweaks could save drivers more money in the long run. Of course, they wouldn't be good news for everyone. As Bloomberg's Zajac reports, Washington D.C.'s auto repair shops are quite satisfied with the current state of affairs. "I can definitely tell you that bad roads cause extra damage to cars," says one mechanic, happy that business is booming.

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