

ALL ROADS LEAD TO FEDERAL FUNDING: THE ORIGINS OF NEVADA'S GAS TAX

Dana R. Bennett

Early in the 20th century, Americans quickly fell in love with the new automobile, and by 1918, almost five million vehicles of various types scooted around the country, driving the necessity for more and better highways. The Good Roads Movement ensured that “[g]raded and graveled rural highways became the primary good offered by the state to their citizens,” and the number of road miles in the U.S. rose almost 240 percent between 1904 and 1925.¹ Many states, especially those like Nevada with small populations and tax bases, looked to the federal government for road-building assistance. In 1916, the Federal Aid Act provided matching funds to states with highway departments. The next year, the Nevada Legislature instituted the Highway Department, but had difficulty raising the state’s portion of the funding match.

A Lack of Taxes Diminishes Federal Match

Nevada, like most states, relied on property taxes to provide the necessary revenue to support state government in the nineteenth century; by the end of that century, it was clearly not a sufficient mechanism. In his message to the Nevada Legislature in 1921, Governor Emmet Boyle lamented that “some 40% of our citizens pay no very substantial tax on property.”² Actually, he understated the percentage of Nevadans paying property tax: during the 1920s, 53 percent of Nevadans did not own their own homes.³ Additionally, the small number of registered motor vehicles in the state limited the usefulness of licensing fees.⁴ Boyle advocated, among other tax reforms, the passage of a gasoline tax to pay for road construction and maintenance.

On February 15, 1921, Senator E.W. Griffith, Clark County Independent and Senate President Pro Tempore, introduced the measure that would have imposed a two-cent excise tax on each gallon of gasoline sold in the state. Senate Bill 63, the subject of significant legislative maneuvering, was referred to two different committees, amended, tabled, and eventually replaced by a substitute, which would have imposed a one-cent tax. On the 58th day of the 60-day session, success appeared assured when the bill passed the Senate on a vote of 11 to six. Supporters were quickly disappointed, however, when venerable floor leader D.J. Fitzgerald, Democrat from Nye County, rose to move for reconsideration. Late in the afternoon of the 59th day, the final blow came as six Senators switched sides and killed the bill on a vote of five to 12. The prevailing opponents included mining operators and gas station operators throughout the state.⁵ Later that year, however, the U.S. Congress approved a bill that would cause those legislators to reconsider their opposition to the gas tax.

The Federal Highway Act, approved in November of 1921, provided a funding formula more friendly to states with small populations and large swaths of public land, like Nevada. The new law specified that states could receive 50 percent of the total estimated costs to construct or reconstruct up to seven percent of their roads. In addition, a state could receive federal funding correlated to “the percentage which the area of the unappropriated public lands in such State bears to the total area.” The kicker, however, turned out to be the new road system’s maintenance, which the Act specified was the responsibility of each state. Federal dollars would fund the initial construction of roads, but if their maintenance was inadequate, the federal government would reduce the amount of funding available for future construction.⁶ Nevada salons now had a powerful incentive to direct state money toward roads.

The Gas Tax Is Instituted

In January 1922, the Reno City Council mulled the possibility of imposing a one-cent tax on gasoline sold within the city limits to pay for street maintenance.⁷ It did not come to fruition, but two months later, Carson City leaders approved the implementation of such a tax, causing “a fight among the local gas sellers” and resulting in “juice for flivvers [being] about the cheapest little thing to be found in and about the capital city.”⁸ These local efforts paved the way for state action.

Toward the end of 1922, staff from the Nevada Department of Highways surveyed other highway departments and found many enjoying a levy on gasoline, an option already exercised by Oregon and Arizona.⁹ Although he was near the end of his final term, Governor Boyle met in San Francisco with other area governors to discuss the use of a gas tax for highway funding and found great support for it as

long as the money was clearly earmarked for roads. By then, 16 states had implemented such a program; by the end of 1923, 19 states would join them.¹⁰

As the 1923 Legislative Session began, most legislators already favored the imposition of the gas tax at two cents for each gallon of motor vehicle fuel sold, but differed about its disbursement. Some legislators joined Governor James Scrugham in supporting the state's retention of the revenues, estimated by the Nevada Public Economy League (soon to be re-named the Nevada Taxpayers Association) to be \$120,000 annually, half of which was expected to be paid by tourists; others advocated a fifty-fifty split between the state and county highway funds.¹¹ Declared supporters for the two-cent tax included the League, despite its earlier declaration that "the increases in state and county taxes in Nevada during the last twenty years have been startling," and Reno Automobile Dealers' Association, "providing the money ... is to be spent for maintenance of good roads within the counties where it is collected."¹²

Even with such support, the proposal faced an uphill battle in the Republican-dominated Legislature. Major livestock and mining interests demanded a commensurate reduction in the state property tax rate in exchange for their support of the gas tax, but their threat was not successful. That rate actually rose five cents.¹³ The Senate proposed to divert the revenues to the general fund at which Reno business owners balked, complaining loudly that the change would "result in the heavily tax-burdened automobile being the 'goat' for class taxation."¹⁴ An editorial in the *Nevada State Journal* (under the ownership of former Governor Boyle) opposed the shift and opined that car owners could protest the gas tax under the state's constitutional requirement for equal taxation. Send the money to the Highway Department, urged the editor, and "leave the motorist with the pleasant feeling that special taxes levied on his rolling stock are solemnly dedicated to the purpose for which he pays them." Concluding, the editor mused that "there may be an intelligent reason for the general fund theory in connection with this tax but it does not occur to us."¹⁵

The 1923 Legislature ultimately passed two measures that concerned the gas tax. The first was Senate Bill 20, which was introduced on the 10th day of session by Senator J. Sheehan, an Independent from Humboldt County and the Chairman of the Senate Committee on Taxation. Referred to two separate committees, amended, and eventually replaced completely, the Senate Substitute for S.B. 20 left the Senate on the 38th day with a vote of 14 to two and with language to deposit the proceeds in the general fund. Five of the Senators who had opposed the tax in 1921 now voted in favor. In opposition this time were first-year Senators Noble Getchell (R-Lander County and a mine owner) and E.E. Smith (D-Clark County). Beginning at around 4:30 of the 51st day of the session, the Assembly engaged in an energetic and protracted debate about the measure. Nearly half of the members, including Assemblywoman Alice Towle (R-Churchill County and a University of California graduate in economics and political science), gave remarks on the several amendments and procedural motions. Finally, the vote was called, and the bill passed, 24 to nine (six Republicans, two Democrats, and one Independent). Assemblyman George A. Whiteley (R-White Pine County and a Rhodes Scholar) quickly gave notice that he would ask for a reconsideration of the vote. Instead, two days later, he moved for the appointment of a conference committee. On the 55th day of the session, the conference committee met and agreed to the Assembly amendments. Both houses adopted the report, and the bill was sent to the Governor shortly before the Legislature adjourned *sine die*. In its final version, the bill imposed a two-cent gas tax with \$60,000 allocated to the State Highway Department and the balance distributed to the counties whose apportionments were based on the number of registered cars in each jurisdiction. In a nod to ranching and mining interests, refunds were made available for tractors and stationary gas-powered engines.¹⁶ The tax became effective with Governor Scrugham's signature on March 20, and the price of gas in Reno immediately rose almost 10 percent, from 23.5 to 25.5 cents per gallon.¹⁷

The second bill proposed to increase the gas tax rate to three cents on January 1, 1924. Senate Bill 92 was introduced by Senator Fitzgerald on the 30th day, and its substitute was passed without comment and unanimously very late on the 59th day. The Assembly, having less than 24 hours to review the measure, engaged in another long and lively debate, then "with much doubt," approved the additional tax by a vote of 31 to four (all Republicans).¹⁸ Supporters argued that the increase could be studied during the interim, "so that the next legislature can profit by the observation."¹⁹ Despite Governor Scrugham's veto of S.B. 92, the next Legislature clearly observed the success of the tax and raised the rate to four cents in 1925. The Legislature also changed the distribution formula, sending 50 percent to the State Highway Department and allocating 50 percent among the various counties.²⁰

State Revenues Rise on Federal Funding

The predictions for the new tax's production proved overly modest. In the first nine months alone, collections totaled over \$110,000. Revenues continued to accumulate, especially as the rate increased, and by the end of the decade, they were shooting past the \$700,000 mark. In 1923, the gas tax provided three percent of the state's revenue; in 1929, 11 percent, all of which was sent to state and county highway accounts. Federal funding ensured that road construction crews were busy throughout the state; gas tax revenue ensured that maintenance workers were not far behind them. Between 1921 and 1929, the number of completed highway miles more than doubled from 1,750 to 3,553.²¹

Throughout the twenties, federal highway and other funds significantly augmented Nevada's budget. In 1919, the State Treasurer reported that all receipts from the Federal Government represented only two percent of total revenues. In mid-decade, when federal highway funds reached their highest mark, that item alone was nearly identical to the state's entire revenue in 1919. By 1929, federal sources provided 27 percent of the state's total receipts, and total state revenues exceeded those of 1919 by 315 percent.²²

Dana Bennett is a PhD student in history at Arizona State University. A related article, "The Up-Growth of New Industries': Transformation of Nevada's Economy, 1918-1929," will be published in a forthcoming issue of the Nevada Historical Society Quarterly.

Notes

¹ R. Rudy Higgins-Evenson, "Financing a Sound Era of Internal Improvements: Transportation and Tax Reform, 1890-1929," *Social Science History Association* 26 (Winter 2002): 624.

² *Message of Gov. Emmet D. Boyle*, 7.

³ Nevada State Library and Archives, "Trends in Nevada's Population and Housing, 1900-2000," <http://dmla.clan.lib.nv.us/docs/nsla/sdc/Centurychanges.htm>.

⁴ In 1918, Nevada had the smallest number of registered vehicles (6,885) of all 50 states. Richard F. Weingroff, "Vol. I, No. 1 – The First Issue of Public Roads, May 1918" *Public Roads* 63 (May/June 2000).

⁵ "Gas Tax Measure To Come Up Again," *Reno Evening Gazette*, December 16, 1922.

⁶ *Federal Highway Act of 1921*, Public Law 87, *U.S. Statutes at Large* 119 (1921): 214.

⁷ "The Gasoline Sales Tax," editorial, *Reno Evening Gazette*, January 24, 1922. After failing to get a portion of the state gas tax approved by the 1923 Legislature, Reno reconsidered a city gas tax in 1924. It, too, failed.

⁸ "1 Cent 'Gas' Tax Passed By Carson," *Reno Evening Gazette*, March 21, 1922.

⁹ John Chynoweth Burnham, "The Gasoline Tax and the Automobile Revolution," *The Mississippi Valley Historical Review* 48 (December 1961): 346.

¹⁰ "Governor Boyle Is Back From Parley," *Nevada State Journal*, November 25, 1922; "Gasoline Motor Tax For Roads Spreading Over The Country," *New York Times*, July 22, 1923.

¹¹ "Gasoline Tax Question Looming As Big Problem At Legislature," *Reno Evening Gazette*, January 15, 1923.

¹² "Nevada's Taxation Startling Says League," *Reno Evening Gazette*, December 30, 1922; "Gas Tax Measure To Come Up Again," *Reno Evening Gazette*, December 16, 1922; "Dealers May Fight Two Cent Tax On Gas," *Reno Evening Gazette*, January 20, 1923.

¹³ Assembly Bill 290 (Chapter 151, *Statutes of Nevada 1921*, 226) set the state ad valorem tax rate at 62 cents per "each \$100 of taxable property" for 1922. A.B. 235 (Chapter 153, *Statutes of Nevada 1923*, 267) established 67 cents as the rate for both 1923 and 1924.

¹⁴ "Talk Law Control Body For Future," *Nevada State Journal*, February 22, 1923.

¹⁵ "The Gas Tax," editorial, *Nevada State Journal*, February 23, 1922.

¹⁶ *Journal of the Assembly 1923*; "Gas Tax Measure Gets Approval Of Assembly," *Nevada State Journal*, March 7, 1923.

¹⁷ Senate Substitute for Senate Bill No. 20, Chapter 180, *Statutes of Nevada 1923*, 317-320; "Gasoline Tax Hits Motorists Of Reno," *Nevada State Journal*, March 22, 1923.

¹⁸ *Journal of the Assembly 1923*; "Additional Tax Is Placed On Petrol," *Nevada State Journal*, March 16, 1923.

¹⁹ "Additional Tax Is Placed On Petrol," *Nevada State Journal*, March 16, 1923.

²⁰ Assembly Bill 32, Chapter 131, *Statutes of Nevada 1925*, 214-216.

²¹ *Message of Gov. Emmet D. Boyle*, 15; *Message of Gov. F.B. Balzar*, 1929, 20; *Message of Gov. James G. Scrugham*, 1925, 16.

²² Ed Malley, *Annual Report of the State Treasurer* (Carson City, Nevada: State Printing Office, annually, 1919-1926); George B. Russell, *Annual Report of the State Treasurer* (Carson City, Nevada: State Printing Office, annually, 1927-1929).