



Lee Munnich, director, State and Local Policy Program, Humphrey School of Public Affairs, University of Minnesota

Civic Caucus, 8301 Creekside Circle #920, Bloomington, MN 55437

October 14, 2011

Notes of the discussion

Present : Verne Johnson (chair), Paul Gilje, John James, Sallie Kemper, Dan Loritz, Tim McDonald, Jim Olson (phone), Wayne Popham (phone), Clarence Shallbetter

A. Welcome and introductions - Lee Munnich is a Senior Fellow at the Humphrey School of Public Affairs, University of Minnesota, where he is director of the State and Local Policy Program. He focuses on transportation policy and finance, congestion pricing, rural road safety, regional economic development, and industry clusters.

Munnich has more than twenty-three years of experience with state and local governments, including positions at the Minnesota Department of Trade and Economic Development, Minnesota Business Partnership, Minnesota House of Representatives, Midwest Research Institute's Center of Economic Studies. He has served as executive director of the Minnesota Tax Study Commission. He was elected to the Minneapolis City Council twice, in 1973 and 1975.

Munnich received a bachelor's degree in economics from Georgetown University in 1967 and has done postgraduate work in economics and computer science at the University of Minnesota.

During the discussion Munnich presented a report from the Center for Transportation Policy: <http://tinyurl.com/3fz3vds> .

B. Discussion - During the course of the discussion the following points were raised:

The gas tax is not a sustainable source for road funding.

Two commissions set up by Congress arrived at the same conclusion independently, Munnich said. Both federal commissions determined that the gas tax is not a sustainable source of revenue

sufficient to offset necessary road maintenance costs. In recent years the federal stimulus funding has offset the some of the effect of the shortfall, but the trend is clear: Cars are becoming more fuel efficient, and as a result they are requiring less gas and paying less gas tax which funds road maintenance. Yet they are still using the road, and from the viewpoint of the overall transportations system they are getting the same or greater benefits.

"As cars become more fuel efficient the model of using a fuel tax to fund road maintenance falls apart," Munnich said.

While the system is not sustainable, revenue is becoming politicized.

The system is frozen in time, Munnich said, precisely in the year 1956 when the federal gasoline tax went into effect. The state highway funds are basically stuck with this cents-per-gallon funding model, while the federal fund has needed to be bailed out a couple of times. There is limited appetite for added taxes. However, a problem emerges as both fuel efficiency and the price of fuel increase causing fuel consumption to decline and, thus, causing tax revenue to decline as well with no corresponding decline in road maintenance costs. Since the tax is not indexed to the rise in fuel prices, but rather to the actual gallons consumed, price fluctuations do not directly affect tax revenue, except as they influence demand for fuel.

It used to be that this topic was bi-partisan, he added, but it's becoming less so because, in a way, it has become reliant on federal debt financing, which takes the issue in the direction of an entirely different debate.

Move toward a mileage-based fee model.

Discussing the Humphrey School report, which was funded through the ITS Institute of the University of Minnesota's Center for Transportation Studies, Munnich concluded that "if you agree the system should be a user-financed system, then you look to mileage driven, not gallons consumed, as being the right basis for taxation."

Yet there are two fundamental challenges facing such a proposal: (1) privacy, or the need to monitor an individual's driving habits, and (2) technology, or figuring out how to meter cars for mileage.

There is limited political appetite for this proposal at the federal level, Munnich said. Obama won't go near it. There are some Senators interested in it.

Minnesota is doing a pilot test right now of putting a monitoring device in a car, in Wright County. The technology could be used for other things too, such as tracking congestion. Private insurance companies are interested in its possible application in pricing insurance policies more in line with mileage and travel behavior.

One of the other aspects Munnich said of the mileage-based tool for revenue is the transparency. Right now people don't know what they're paying in gas taxes and don't know how it's being spent. There are questions regarding how the whole system works at present that might be answered with a restructuring based on mileage.

The gas tax is convenient to administer.

Introduced in Oregon in 1919, the gas tax was eventually adopted by the federal government to finance the construction of the interstate highway system. These are cheap and convenient taxes to collect, Munnich said—it's not even done at the pump, but at the wholesaler, based on the gallons sold to retailers.

At the Federal level Congress decides how money is spent on transportation. Every six years there's an authorization bill passed that includes how the revenue from gas taxes will be spent. In recent years, the authorization legislation has been delayed due to the funding problems, and Congress has simply extended the existing authorization level rather than updating the law.

In addition, there are formulas for distribution of money earmarked for transportation to the states, to local agencies and regional planning entities. This money tends to be used for capital costs.

The decisions on spending for maintenance and operations are done at the state level. Minnesota is now in the higher end of the spectrum for taxes on gas—around 21st in the country, Munnich said.

Analysis of fuel taxes vs. mileage-based user fee.

Munnich ran through the pros and cons for fuel taxes and mileage-based user fees with the group. Both options have been assessed by the Humphrey School's State and Local Policy Program (SLPP) on the basis of their ability to achieve five transportation finance principles: efficiency, equity, revenue adequacy and sustainability, environmental sustainability and feasibility:

	Fuel taxes	Mileage-based user fee
Efficiency*	Weak	Strong
Equity	Moderate	Strong
Revenue	Moderate	Strong
Environmental Effect	Moderate	Moderate
Feasibility	Strong	Weak

*Efficiency is defined as the extent to which users pay for the system.

This assessment indicates that mileage-based user fees would have a greater ability to achieve the financing principles laid out in the CTS study.

A participant asked who would come out better or worse as a result of the change. Munnich said that would depend on how the fees were structured.

"There's an argument now that heavy truckers are not paying their fair share for the wear they have on the road." Those with higher gas-mileage cars contribute less to the construction, operations and maintenance of roads. "Is that fair?" Munnich asked, "I don't know."

Another consideration is that a mileage-based system would take away an incentive for more fuel-efficient vehicles, though the fuel tax represents only a small portion of the price of gas.

Oregon is a leader in rethinking the fuel tax.

Oregon was the first state in the country to implement the fuel tax, Munnich said, and has been the first to think about how to replace the fuel tax. The Oregon legislature has given the governor the authority to develop alternative proposals and the state has conducted a pilot study for transitioning to mileage-based fees paid for at the pump.

"We're working with a task force at the Minnesota Department of Transportation, testing a mileage-based approach using GPS technology, and will bring a representative out from Oregon to visit Minnesota with to share ideas on this approach," Munnich said.

Cost of implementation

The cost of implementing the gas tax now is about 1-2 percent of the tax. Any mileage-based system that might be adopted will cost 5-15 percent, but there may be offsetting safety benefits and other user benefits with GPS technology in the vehicle. During a transition period there would likely be some combination of a mileage-based and a gas-based tax.

Momentum

There is now in place a task force at MNDOT studying the issue, and transportation committees in the legislature are considering taking it up. "I'm not sure whether people are pushing this particular idea," Munnich noted, "but people are seeing that something needs to change if we intend to meet the funding needs of our transportation system."

C. Conclusion

"You can't just talk about needing more without talking about what kind of a system best meets our needs," Munnich said in closing. "This may mean a wholesale review of transportation priorities in the state, including rural vs. metro-area, roads vs. mass transit, and many other conflicting priorities. Then we will also need to decide whether we want to continue with gas-based revenue, or transition to a mileage-based system."

This is still in the policy development stage, he added, with only a few transportation policy experts seriously investing in the research. Right now transportation is a couple of levels down on the priority

list of both the country and the state-but it is a system with a major funding shortfall that will need to be addressed, and now is the time to begin working on it.

Thank you to Lee Munnich for a good visit.