

The Minnesota Gas Tax Bill

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Introduction

In February of 2008, a governor veto was overridden in Minnesota in order to pass Minnesota House File 2800 – the transportation bill. While this bill covered many aspects of transportation funding for the state, one of the hottest topics in the public eye was the increase in the state gasoline tax. As with any increase in taxes, there was opposition to the idea of paying even more at the pump that Minnesotans were already doing as fuel costs rose from forces outside the realm of governmental decisions.

Yet, the bill passed. Not only did the bill pass, it overcame a veto from Governor Pawlenty as bipartisan support guided what would have been previously seen as a partisan bill.

The context of these events is inarguably pivotal to the outcome of this policy change. In this paper, we introduce a brief history of gas taxes in Minnesota and the United States. We then take the reader through some of the issues surrounding this particular gas tax bill and summarize the contents. Finally, we discuss some of the contextual components of the passage of the gas tax bill and question the potential alternative if the context had been different.

History

Before the year of 1919, property taxes, poll taxes, and labor levies were the main sources for road funds (Burnham 1961). After assembly line was invented by Ford in 1913, automobiles were manufactured in large scale, which put forward great challenge to transportation as many vehicles poured into narrow roads and traffic congestion became severe. With the rapid increase in vehicle usage across the nation, the need to build roads to handle cars was great. The roadways had to be wide enough to match with the size of cars, rather than horse carriages and the government had to spend a large amount of money to build long broad roads. Despite efforts, the speed of road construction could not keep up with the growth of automobile usage.

Thus began the long history of conflict from roads and automobiles, as tax levies were used to pay for roads (Williams 2007).

In 1919, Oregon became the first state to levy gas tax all over the country, with initial amount of 1 cent per gallon. Minnesota residents had to pay tax for usage of gas beginning in 1925. By 1959, every state had enacted its own gas tax.

Table 1 Early Gasoline Taxes in the States

State	Year of Enactment	Initial Rate
Oregon	1919	1¢
Colorado	1919	1
New Mexico	1919	1
North Dakota	1919	1
Louisiana	1920	1
Kentucky	1921	1¢
Arizona	1921	1
Arkansas	1921	1
Connecticut	1921	1
Florida	1921	1
Georgia	1921	1¢
Montana	1921	1
North Carolina	1921	1
Pennsylvania	1921	1
Washington	1921	1
Maryland	1922	1¢
Mississippi	1922	1
South Carolina	1922	2
South Dakota	1922	1
Alabama	1923	2
California	1923	2¢
Idaho	1923	2
Indiana	1923	2
Maine	1923	1
Nevada	1923	2

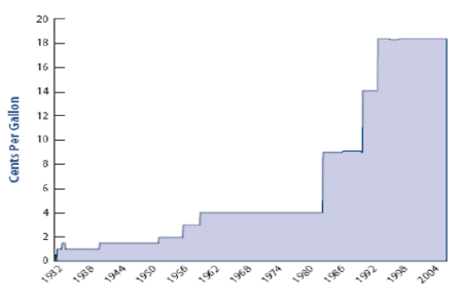
New Hampshire	1923	1¢
Oklahoma	1923	1
Tennessee	1923	1
Texas	1923	1
Utah	1923	2.5
Vermont	1923	1¢
Virginia	1923	3
West Virginia	1923	2
Wyoming	1923	1
Delaware	1924	2
Iowa	1925	2¢
Kansas	1925	2
Michigan	1925	2
Minnesota	1925	2
Missouri	1925	2
Nebraska	1925	2¢
Ohio	1925	2
Rhode Island	1925	1
Wisconsin	1925	2
Illinois	1927	2
New Jersey	1927	2¢
Massachusetts	1928	2
New York	1929	2
Hawaii*	1959	5
Alaska*	1959	5

* Before becoming states, Hawaii adopted a tax on gasoline in 1932 and Alaska followed suit in 1946.
Source: Tax Foundation, American Petroleum Institute

Over time, gas tax rates have been increased greatly in all the states: from 1 cent to today's average of 46.9 cents per gallon (this includes federal, state and local charges and accounts for about 30% of the gas price).

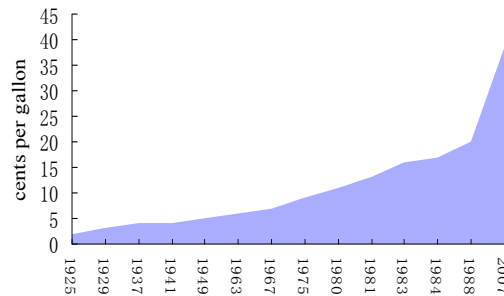
Figure 1: The Growth in Gasoline Taxes

The Growth in Federal Gasoline Taxes.



Source: Congressional Research Service, Tax Foundation.

the Growth in Minnesota Gasoline Tax



Source: Minnesota Tax Handbook (2006 Edition)

Gas Tax Today in Different States

As shown in Table 2, California levies the highest gas tax with more than 60 cents per gallon, while residents in Alaska have the lowest with the rate at less than 30 cents per gallon. The states that have the highest gas taxes are mostly distributed in the west of America and around the Five Great Lakes as seen in Figure 2.

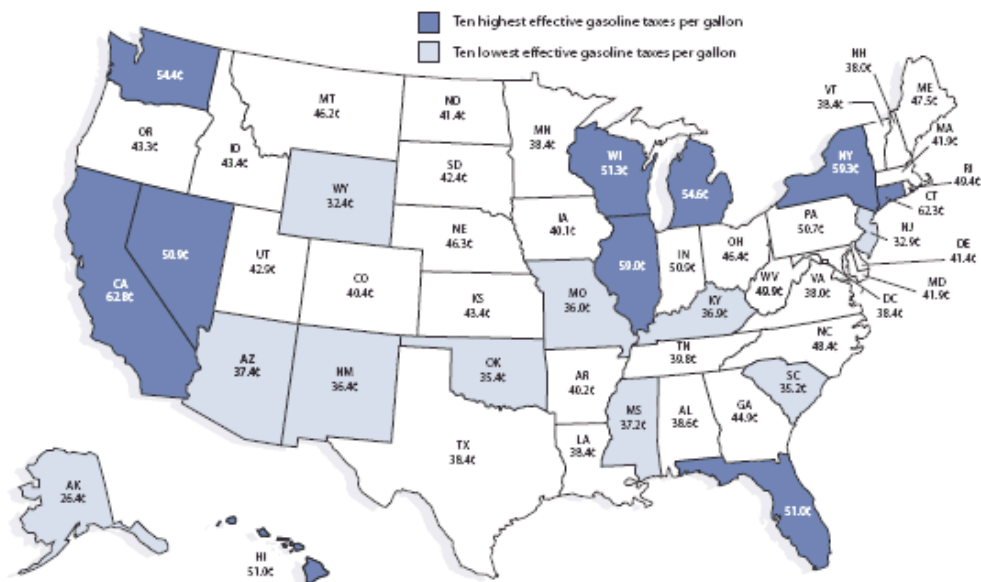
Minnesota has a gas tax of less than 40 cents per gallon and ranks 36th in the U.S.

Table 2 Total Tax Rates on Gasoline by State, July 2007
Federal Rate Plus State Rate Plus Average Local Rate (Cents per Gallon)

Rank	State	Gas Tax Rate
1	California	62.8¢
2	Connecticut	62.3
3	New York	59.3
4	Illinois	59.0
5	Michigan	54.6
6	Washington	54.4¢
7	Wisconsin	51.3
8	Florida	51.0
9	Hawaii	51.0
10	Nevada	50.9
11	Pennsylvania	50.7¢
12	Indiana	50.0
13	West Virginia	49.9
14	Rhode Island	49.4
15	North Carolina	48.4
16	Maine	47.5¢
17	Ohio	46.4
18	Nebraska	46.3
19	Montana	46.2
20	Georgia	44.9
21	Idaho	43.4¢
22	Kansas	43.4
23	Oregon	43.3
24	Utah	42.9
25	South Dakota	42.4
26	Maryland	41.9¢
27	Massachusetts	41.9
28	Delaware	41.4
29	North Dakota	41.4
30	Colorado	40.4
31	Arkansas	40.2¢
32	Iowa	40.1
33	Tennessee	39.8
34	Alabama	38.6
35	Louisiana	38.4
36	Minnesota	38.4¢
37	Texas	38.4
38	Vermont	38.4
39	New Hampshire	38.0
40	Virginia	38.0
41	Arizona	37.4¢
42	Mississippi	37.2
43	Kentucky	36.9
44	New Mexico	36.4
45	Missouri	36.0
46	Oklahoma	35.4¢
47	South Carolina	35.2
48	New Jersey	32.9
49	Wyoming	32.4
50	Alaska	26.4
Dist. of Columbia		38.4¢
US Total		46.9¢

Source: Tax Foundation, American Petroleum Institute.

Figure 2 Combined Local, State and Federal Gasoline Taxes, July 2007



Source: American Petroleum Institute, Tax Foundation

Gas Tax in Different Countries

At present, more than 130 countries in the world levy the gas tax, including Germany, Holland, Norway, Great Britain, Canada, Australia, and New Zealand.

It is worth noting how much each country charges on gasoline to put gas tax rates in the U.S states in perspective. Compared to the amount of the tax in other countries, the U.S. has the lowest gas tax in the world. The gas tax in Great Britain (50 pence per liter) is equivalent to \$2.80 per gallon, which is three times the wholesale pre-tax price (Wachs 2003). Although British residents complain of the high gas tax, the government insists on it and regards gas tax as an efficient way to limit the usage of automobiles, which can reduce traffic congestion and greenhouse gas emissions.

In early in 1934, Congress passed the Haydon-Cartwright Act to clarify the purpose of gas tax. It stated:

“Since it is unfair and unjust to tax motor vehicle transportation unless the proceeds of such taxation are applied to the construction, improvement or maintenance of highways, after June 30, 1935, Federal aid for highway construction shall be extended only to those States that use at least the amounts now provided by law . . . for the construction, improvement and maintenance of highways and administrative expenses in connection therewith. . . and for no other purpose” (Dunn 1978).

Today, gas tax is distributed into two Funds, and is divided into three parts: the Leaking Underground Storage Tank Fund, and the Federal Highway Trust Fund, including the Highway Account and the Mass Transit Account.

Take federal rates in 2007 for example. One tenth of the gas goes into the Leaking Underground Storage Tank Fund for clean-up at gas station sites. Among the Federal Highway Trust Fund, the highway account receives 15.44 cents for each gallon of gasoline, while the mass transit account receives 2.86 cents.

Concerning whether gas tax should be raised, advocates and opponents have their own reasonable explanations.

Martin Wachs listed eleven main reasons why the government should raise gas tax, as follows:

	Reason	Detailed Explanation
User Fee	Fuel Taxes Are User Fees That Send "Price Signals" To Motorists To Use The Transportation System More Efficiently	1) motor fuel tax revenues are used to support subsidies to public transportation 2) support subsidies to public transportation 3) carpool 4) switch to public transit
Fairness	Fuel Taxes Are Fairer Toward The Poor Than The Alternatives Currently Available	1) those whose poverty precludes them from driving are not charged 2) to the extent that fuel taxes are "diverted" to transit expenditures, lower income people are the primary beneficiaries 3) sales taxes are paid by people whether or not they use highways
Demand Elasticity	Drivers Show Remarkable Tolerance For Fuel Price Changes	The cost of fuel is only a small part of the total cost of driving. The fixed costs of insurance and the capital cost of the vehicle are higher for most drivers
	Motor Fuel Taxes Are Lower Now Than In The Past	1) Had state gasoline taxes grown with the consumer price index, the average for the fifty states would today be 9.7 cents higher than it is. 2) roads carry more goods and passengers than they did a few decades ago, over time fuel economy has steadily improved
	Fuel Taxes Are Well Below Levels In Other Countries	1) gas tax in Britain (fifty pence per liter) is equivalent to \$2.80 per U.S. gallon. 2) the tax on fuel in the United States is approximately one-third of the wholesale price of gasoline, in England the tax is three times the wholesale pre-tax price
	Fuel Taxes Are Well Below Their Theoretical Optimum	considering externalities (congestion, air pollution, accidents), optimal fuel tax in the United States should be about \$1.01 per gallon, tax in Britain should be about \$1.34 per gallon. In other words, their findings suggest while the optimal that the American tax on motor fuels is far too low, while the British tax rate is much too high
	The Cost Of Transportation Projects Continues To Rise Faster Than Revenue	
	Congestion Is Growing In Part Because We Are Not Spending Enough On New Capacity	
	Relative Declines In Fuel Tax Revenues Increase Reliance On Non-Transportation Related Taxes To Support Transportation Projects	
	The Relative Decline In Fuel Tax Revenues Is Increasing Borrowing For Transportation Projects And Programs	
	Fuel Taxes Have Low Collection Costs And Are Relatively Fraud Proof	Fuel taxes can be collected from a reasonably small number of fuel wholesalers or at the refineries, with the charges being passed along to the retailers and ultimately their customers. This keeps costs low and it also reduces prospects for fraud or evasion

From an economic standpoint, gas tax is regarded as leverage to balance market failure. One reason for fuel market failure is that Americans are very insensitive to the gas price. Fuel is indispensable, like other everyday necessities. On the other hand,

during the process of using gas, a lot of tail gas is emitted and the atmosphere is heavily polluted. In order to control these kinds of malign externalities, every driver who contribute to the pollution much be charged. Since the market cannot allocate this exhaustible natural resource efficiently, the government must intervene in the usage of gas.

Compared to other fees or taxes, gas tax is the best and easiest way to deal with this issue. The level of sales taxes is greatly affected by the economy. It falls in the face of economic recession and rises when the economy is poor. It is a big problem for transportation agencies because they are unable to predict how much money they will receive from taxes (especially when one transportation project lasts for a very long time and experiences different economic conditions).

On the contrary, gas tax is not very volatile. When one fills the oil tank with fuel, a constant fee is charged at the same time. As for users, gas tax is relatively fair. That is why gas tax has been acceptable for a long time.

There are also a couple of reasons to object to an increase in gas tax:

“To say that the government can improve on markets outcomes at times does not mean that it always will. Public policy is made not by angels but by a political process that is far from perfect. Sometimes policies are designed simply to reward the politically powerful. Sometimes they are made by well-intentioned leaders who are not fully informed” (Mankiw 1999).

Gas tax has contributed to funds for road construction and maintenance throughout history. Yet, many are reluctant to see an increase in taxes to fund further maintenance of our now-mature transportation system.

The case of the Minnesota gas tax shows the importance of context when it comes to support for this kind of funding.

Current Issues in Minnesota

If the relatively low gas tax rates for U.S. states are any indication of the social and political will to raise them, it is no surprise that the Minnesota transportation bill remained on the backburner for some time. However, in August of 2007, the 35W Bridge over the Mississippi collapsed – a story which reverberated across news headlines nationwide. This even changed the context for policy-makers. Social, economic and political climates changed and dealing with transportation funding in Minnesota became a new game.

“A special session to deal with the aftermath of the bridge collapse is now likely and is almost certain to produce a gas tax increase”, Minnesota spokesman said. “The funding would help whittle down the state's massive \$1 billion-a-year backlog in road and bridge construction and maintenance.”

After the occurrence of bridge collapse in Minnesota, the government focused on construction and maintenance of fixed infrastructures, which requires a large amount of money. Thus, raising gas tax was placed on the agenda.

On the other hand, a question was also asked: If the revenue collected from gas tax has not been properly used on road and bridge construction and maintenance to improve taxpayers' mobility and secure their transportation safety, where is the gas tax going now? Thus, lawmakers must scrutinize carefully the use of revenues from gasoline tax. Drivers pay for their usage of roads and bridges, but what kinds of results did they finally get in August of 2007?

The Minnesota Gas Tax

The Bill

The gas tax bill of Minnesota was a part of the CHAPTER 152--H.F.No. 2800 bill which was passed in February 2008. The bill appropriates \$284 million for fiscal year 2008 and FY 2009. It allocates money to many transportation areas including aid to the 35-W bridge repair, research, rail and transit, and money for county, state and municipal roads. The bulk of the money will go to state roads.

The gas tax section says the gasoline tax will be raised from 20 cents per gallon to 25 cents per gallon. The Legislature provided a tax credit for those in the lowest income bracket (Farber 2008).

It should be noted that "this provision amends the current apportionment of the fund by allocating 2 percent of the proceeds received from the gasoline tax and registration fees to administrative costs incurred by the state Department of Transportation to carry out the county state-aid highway system; 1 percent for a disaster account; one-half of 1 percent for a research account; three-quarters of 1 percent to a state park road account; and a revolving county state-aid highway loan account" (Farber 2008).

The Discussion

The state of Minnesota participates in gas taxation policy much like other states in the U.S. Although driving is not necessarily a partisan issue, the means for funding our transportation infrastructure has been, at least until recently. It is important to look at the history of the Minnesota gas tax as well as where Minnesota stands in relation to other states so we can have a grasp on our position today.

Minnesota had not (until 2008) raised the gas tax of 20 cents per gallon since 1988. In comparison to other states this is both historically and monetarily important. The current average for gas tax per gallon of 28.6 cents per gallon gives you an idea of

where Minnesota sits in relation to the rest of the nation. This also shows that the gradual increase that has been passed for the coming years will not put us much above the average (API 2008). Many other states act similarly in regards to raising their gas tax (not frequently). As Table 3 shows, the Federal Gasoline Tax has activity at times where there was great need for transportation financing. For example in 1956, when Eisenhower instituted the interstate highway system, gas taxes were raised from 2 to 4 cents per gallon over the course of the year to compensate for this growth in infrastructure (Tax Foundation 2008). An impetus in the form of need really helps drive the system to action in raising the gas tax but there is no arguing the fact that much of gas tax legislation is political.

It is necessary to look at the issue of politics: particularly the issue of partisan politics in Minnesota. Taxation policy in legislature up until 2008 has been stagnant. Governor Pawlenty (and consequently the GOP in general) takes the standpoint to not raise taxes for transportation. He vetoed a gas tax increase in 2005 (as a matter of course) asking, "How dumb can they be?" (Lopez). It is said that votes in the past in regards to the bills that included the proposition for a gas tax increase was only passed because of the DFL majority in the Legislature (Khoo 2005). To compound the problems in regards to transportation funding increases, dissent in the senate was only one layer of a complex problem.

Given the partisan political climate surrounding the gas tax, it is no surprise that a dramatic change of context was necessary for the bill to get off the ground.

However, looking into the slightly more subtle dynamic of this issue is the change that became apparent in 2005 within the legislature. Epitomized in the championing of a gas tax bill by Ron Erhardt (R-Edina), it is possible to see that even several years before any real tragedy; people were beginning to be concerned about the issue of transportation spending. In addition to Erhardt, republican Steve Sviggum is in favor of the bill, but didn't vote for it for fear of being confrontational (Khoo 2005).

On the other hand, it seemed as though the GOP had their platform made for them by the current crisis in the Middle East. Now whether that or our ailing economy is to blame, the fact of the matter is that citizens of the U.S. are paying more at the pump than they ever have in the past. Although this trend is obvious the repercussions of not passing a transportation bill have simply been ignored due to current monetary suffering. The result of this public pressure only served to heighten the stagnation of the transportation funding bill.

However in April of 2008, all the partisan banter became a thing of the past. In August of 2007, the 35W Bridge collapsed in Minneapolis, killing 11 people. There was immediate action taken to resolve the issue of deteriorating infrastructure. The Senate quickly pushed through a \$6.6 billion transportation bill with two-thirds majorities in both the Senate and House (Kaszuba 2008). The governors' office fired

back with an official statement saying, "The DFL controlled legislature's override of this veto shows they're clearly out of touch with Minnesotans who are facing rising gas prices..." (Tim Pawlenty). The only problem with this particular statement is that fact that Minnesotans currently pay less by county (even with a 5 cent increase) than almost every county in the states surrounding Minnesota (Collins 2008).

Yet another factor in the political climate change was the appointment of Carol Molnau, the former commissioner of transportation. Her poor leadership destroyed credibility and public support for transportation funding. She started off by cutting 160 jobs from MnDOT, and continued through her tenure by cutting nearly 600 (Olson 2008). This has been a hotly debated topic in as much as some see her decision making as tough but fair in addition to saving money for the state.

Her grasp on project funding (another decidedly important aspect of the job), is another shortcoming. An example of this would be her proposed funding system for the Highway 62 project. Her approach was to have the contractors work on the project at their own expense, and once it was completed, they would receive reimbursement (Olson 2008). This resulted in the rather comical/serious result of no contractors submitting bids. This clearly shows that her grip on funding for civil engineering projects was backwards and needed adjustment. Though it is easy to see that the road she treaded on was rocky, she maintained her position for 5 years, only to be removed by the senate as a result of the 35W bridge collapse. This point is of course debatable in that, the bridge collapse couldn't have been her fault directly. The other side of the argument is of course that her mismanagement of MnDOT would have manifested itself somehow sooner or later. Regardless of whether you find either of those things to be the case, it is not debated by many that the decision was political given the clear partisan dichotomy in the vote of 44-22 in favor of her removal (Brunswick 2008).

Often after catastrophic events in which a historic or landmark decision is reached, both sides will come to an agreement. However in this case as illustrated by Governor Tim Pawlenty and Tom Emmer (quoted below) there is a side of hard line politics that cannot be dulled.

"There is no relationship between the greatest tax increase in [modern] Minnesota history and the tragedy that occurred last summer."

-Tom Emmer, R-Delano

On the other hand for those who are most directly affected by the tragedy there can be drastic changes that enable the overall change to occur.

"The bridge went down on August 1, and a gentleman from my district died. If you're asking me, is his life worth a nickel a gallon [state gas tax increase, as the plan calls for], I'm telling you it is."

-Shelley Madore, DFL-Apple Valley

Conclusions

The controversy surrounding the gas tax prior to the 35W Bridge collapse which served as an impetus for action made the issue of a gas tax increase was a radical proposal. The public seemed to treat it as though it were so drastic as to appear to be a proposed magic bullet. But really, the tax increase is just a piece of the puzzle.

The gas tax plays a role in the financing of transportation in Minnesota, but it is clearly just one component of the funding. While the gas tax seems to be an incremental step to financing transportation in Minnesota, the media seemed to treat it is a magic bullet for fixing a financing problem. Despite this twist on the circumstances, the bill passed. The major contributions to the passage of the bill relied heavily on the geographic, economic, social and political context.

The way it was framed after the 35W bridge collapse is closely tied to the geographic, economic, social and political context. During a time when high fuel costs appearing at the pump, in homes, and in food prices, the public is reluctant to commit to any more financial burdens seeping into their daily life. Unless, of course, there is an emergency.

Because of the drastic and immediate change in the social and political context, opposition was overridden. Socially, there was an obligation to unite behind tragedy. We're all in this together with the bridge collapse as well as the daily financial troubles.

The gas tax has been great contribution in roads construction and maintenance in history, since stable revenue from gas tax can provide strong funding foundation for the local, state and federal government in transportation projects. From the perspective of a student in transportation engineering, however, the desire to relieve traffic congestion by increasing gas tax may seem an impractical fantasy, which is put forward by someone who is not specialized in transportation. Instead of decreasing usage of vehicles, people will not give up buying and using cars. What they may be adjusted to the hike in gas tax is to buy small, fuel- efficient cars in replace of luxurious, gas-guzzling cars. In this case, traffic condition will not be improved so much.

In conclusion, debate mainly focuses on whether market price of gasoline can efficiently coordinate relationship between demand and supply, and whether consumers have enough demanding elasticity to the gas.

So we ask the question: is the gas tax really going to solve our planning problem? The context of the bill and the gas tax was ripe for radical change – one that could override a governor's veto. But the event that surrounded this bill was an event that

occurred in a mature system: the interstate highway system. The tragedy of the bridge collapse occurred within a mature system that limits that number of innovation options. Was the increase in the gas tax an incremental step toward a more revolutionary school of thought in which the current road system of transportation with fuel-dependency as not a given right but a high cost commodity/amenity? Or is it an incremental change in a mature system that we will be stuck in for awhile?

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