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Subject: MN DBF – Fuel Tax Credit Assessment Options

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BACKGROUND

The Minnesota Department of Transportation (MnDOT) is conducting a Distance Based Fee (DBF) Demonstration to address administrative, technological, and operational issues associated with assessing and collecting a DBF. The Demonstration is in partnership with shared mobility (SM) providers, specifically carsharing providers, a service that provides customers the ability to rent a vehicle by the hour.

An overarching goal of the Demonstration is to determine whether a DBF can address funding shortfalls in Minnesota's Highway Users Tax Distribution Fund (HUTDF). These funding shortfalls are caused by:

- A lack of consistent increases to the per gallon state excise motor fuel tax, which funds 45% of the HUTDF, to keep pace with inflation;
- An increase of vehicle miles traveled combined (i.e. an increase in use and wear of transportation infrastructure) with declining purchasing power for transportation improvement projects; and
- An increase in vehicle fuel efficiency, the influx of electric vehicles and the adoption of shared mobility services such as ridehailing and carsharing which reduces fuel purchases and thus motor fuel tax revenues.

ASSESSING A DBUF AND FUEL TAX CREDIT

As part of the Demonstration, MnDOT is developing a DBF assessment mechanism that uses existing in-vehicle technologies in shared mobility fleet vehicles to send and receive data to existing state agency tax collection systems which will then assess a DBUF.

In theory, assessing a DBF is simple: A vehicle owner is charged a per-mile rate for each mile of road the vehicle travels. However, because many vehicles are powered by diesel or gasoline fuel, part of assessing a fair DBF is to credit the federal and state motor fuel taxes that are paid by the vehicle owner when purchasing fuel. Without a fuel tax credit, a vehicle owner could be overcharged through a DBF program because a vehicle owner would pay both the DBF and the motor fuel taxes for their use of the roads. In the Demonstration, the Minnesota Department of Revenue (Revenue) assesses a fuel tax credit using fuel purchase records submitted by the shared mobility provider for each participating vehicle.

However, operational nuances of the carsharing business have posed challenges to assessing a fuel tax credit. Specific to carsharing, the customer purchases fuel for the vehicle they have rented using a charge card provided by the shared mobility provider. However, in the course of normal business operations, carshare providers will sometimes deactivate or remove charge cards from vehicles in cases of fraud, theft or the card itself becoming lost. When carshare companies remove the charge card, a customer must use personal means to purchase the fuel required to power the vehicle and subsequently request reimbursement from the carshare provider. The information needed by SM Providers to reimburse the customer may not be the same information required to accurately assess a fuels tax credit in a DBF program. Thus, the SM provider would be overcharged, by paying both the DBF and the motor fuel tax. Overcoming this operational issue is necessary to assess a fuel tax credit and a fair DBF and successfully implement a DBF program in partnership with SM providers.

Three potential options to addressing this operational nuance are presented below for consideration, each with its own benefits and pitfalls to consider based on the goals of a DBF program.

OPTION 1: ASSESS THE FUEL TAX CREDIT USING ONLY REPORTED FUEL PURCHASES

Calculate fuel tax credits based only on fuel purchase reports submitted. If a fuel purchase is not reported – either by error or because a customer used their personal payment method to purchase fuel and the fuel purchase information was not reported to the SM Provider in a way that they could use it to report fuel purchases to the State.

This would put the onus of reporting missing fuel purchases on the SM Provider. If they did not report a fuel purchase, they would not be reimbursed for that fuels tax paid.

While this method would be the simplest as it requires no estimation for missing reports, it would likely result in a lower than actual fuel tax credit and thus an overcharge in the DBF for each vehicle with missing fuel records. Although this method would put emphasis on shared mobility providers to accurately and consistently report the necessary information, this method is at odds with the goal of this Demonstration to minimize the operational burden on shared mobility providers of a DBF.

OPTION 2: ASSESS FUEL TAX CREDITS USING VEHICLE MILES TRAVELED AND REPORTED FUEL PURCHASES TO FILL REPORTING GAPS

The fuel tax credit could be estimated by using submitted fuel purchase reports to estimate the fuel tax credit for missing fuel purchase reports. Assessing the fuel tax credit in this way would be done as follows:

1. Identify submitted fuel purchase reports and associated information
2. Identify probable missing fuel purchases
3. Estimate missing fuel purchase amounts by comparing miles traveled in previous months to fuel purchases in previous months and making an assumption of when and how much the vehicle refueled based on the miles traveled until the next reported fueling
4. Based on the fuel purchase amount, calculate the motor fuel tax associated with the fuel purchase. The fuel tax credit is equal to the estimated motor fuel tax paid

While this method could be fairly accurate by using historical data, it would place an operational burden on the MnDOT and Revenue when calculating the fuel tax credit. This could increase administrative costs which is at odds with the goal of this Demonstration to minimize administrative costs and burden of a DBUF.

OPTION 3: ASSESS ALL FUEL TAX CREDITS USING VEHICLE MILES TRAVELED AND THE VEHICLE'S US EPA MILES PER GALLON RATING

The fuel tax credit for each vehicle could be assessed using the United States Environmental Protection Agency (US EPA) miles per gallon (MPG) ratings for each participating vehicle. The method for assessing the fuel tax credit is as follows:

1. Identify each vehicle's US EPA MPG rating
2. Calculate each vehicle's estimated fuel consumption by dividing each vehicle's total miles traveled during the reporting period by the US EPA MPG rating
3. Calculate the estimated fuel tax credit for each vehicle by multiplying the estimated fuel consumption by the per-gallon motor fuel tax rate. The fuel tax credit is equal to the motor fuel tax paid.

Of the options available, this method is the most accurate to assess the fuel tax credit when fuel purchase information is missing. In alignment with the Demonstration's goals, this method is also the easiest method for both MnDOT, Revenue, and the shared mobility providers to adopt.

However, this method could create confusion caused by discrepancies between vehicles that have submitted fuel purchase records and the estimated fuel tax credit for these vehicles using the above method. Second, fuels tax credits are typically assessed on fuel purchases rather than fuel consumption. Because this method uses fuel consumption, additional discrepancies could be created. Finally, there is also potential for overcharging given that actual vehicle fuel performance could be less than the US EPA MPG rating for each vehicle. Thus, more fuel would be purchased relative to the vehicle miles traveled estimated by this method which would result in an undervalued fuel credit and thus an overcharged DBF.

Given that there are similar discrepancies in all options, this method meets the goals of the Demonstration to minimalize the impact and increase administrative efficiency to State of Minnesota agencies and shared mobility providers in their daily operations.