

October 16, 2012

Loren Smith
loren.smith@capalphadc.com
202-548-0466

VMT Boosters Look to the States

- A vehicle-miles-traveled (VMT) tax, also called a mileage-based user fee, is gathering mindshare among transportation policy stakeholders as a potential replacement for the federal gas tax.
- Such a system could boost auto technology suppliers while shoring up Highway Trust Fund revenues.
- Because a VMT is currently a political nonstarter, advocates are hoping for demonstration projects at the state level and in Europe to chart the course. Meanwhile, the November 6 elections could determine whether the 2014 Highway Bill cycle might include a study of the issue.

Strategy: Start Small

Backers of a VMT seem realistic about the difficult prospects facing federal action. Many seem hopeful that state-level demonstration projects could bear fruit in Oregon, Minnesota, and elsewhere. Such projects could eventually suggest a means to allow a mileage-based user fee system to grow over time.

One factor easing the cost of such a transition, potentially: car manufacturers and federal regulators are quietly ramping up tracking data in new cars, potentially rendering the cost of a VMT tracking system negligible. We're specifically watching to see if the National Highway Traffic Safety Administration embarks on a vehicle-to-vehicle communication rulemaking next year, which could set up data streams potentially creating fertile ground for an eventual VMT.

Election Impact

The GOP-controlled House of Representatives passed an appropriations amendment earlier this year that would prohibit DOT from studying a possible VMT. The amendment died when the House and Senate agreed to scrap the appropriations process in favor of a continuing resolution, or CR, that simply extends spending from this year. But it laid down a marker that the House is strongly opposed.

Should Mitt Romney be elected on November 6, such an amendment could well be adopted in 2013. Meanwhile, the next Highway Bill, likely to be passed in 2014 or 2015, would likely include no reference to such an idea.

Should President Obama be reelected, however, we could see a more wide-ranging discussion of financing alternatives, potentially allowing the feds to conduct a study of a VMT.

Today VMT Is a Dead Letter. Tomorrow?

A vehicle-miles-traveled tax (VMT), also called a mileage-based user fee (MBUF) by many supporters, continues to percolate in Washington policy discussions as a possible successor to the gas tax. The basic idea, as the name suggests, would be

Relevant Stocks

*ASTE, VMI, MLM, VMC,
GVA, CAT, MTW, DE, SHAW,
NUE, URS, ACM, KBR, TPC,
TEX, IR, OSK, GE, GLDD, and
KEX*

to track vehicle movements and charge a fee, or tax, for road maintenance. Most likely, the tracking would be done by an onboard device, which could be manufactured by any of the players in the GPS market or the auto manufacturers themselves.

Such a tax would have the virtue of sidestepping potential developments in alternative fuels. It would also potentially allow for greater data collection regarding which roadways are receiving the heaviest traffic, which could be used in a variety of ways. And such a system could be used across jurisdictions, allowing drivers to move from state to state, from privately- or publicly-owned roadways, or even internationally.

However, a VMT is a dead letter in Washington in the current decade, and perhaps longer. Among members of Congress of *both parties*, the concept of tracking individual vehicles suggests an invasion of privacy, though Republicans seem somewhat more in opposition. Technical approaches for implementation have been suggested that could leave privacy concerns moot - the GPS system allows devices to determine their own location; it doesn't track the location of devices. Also, restrictions could be placed on the devices and on the dissemination of information gathered by them. Still, however, concerns are unlikely to dissipate anytime soon.

Bipartisanship on the VMT - For and Against

It's also the case that while a VMT has bipartisan resistance, it also has bipartisan support. With the severity of the revenue crunch facing the Highway Trust Fund, members of Congress of both parties are in flux searching for a solution. A simple increase in the gas tax enjoys a significant level of support - though still a minority. But a VMT has gained mindshare as a possible eventual destination for federal highway financing.

Big Brother, Meet 250 Million Little Brothers

One major obstacle for a federal VMT is purely practical. The federal gas tax is currently gathered from a couple hundred facilities when the gasoline emerges from the bulk storage terminals, known as "breaking bulk." When the fuel has been delivered to the terminal via pipeline, tanker, or barge and is prepared to leave by truck or rail, the tax is applied. The 18.4 cents/gallon for the feds is then collected and built into the price at the pump.

A VMT would force the federal government to interact with each one of more than 250 million vehicles. Cheating would be difficult to police. What's more, the impact on individual drivers would present a political challenge, even if the requirement and costs were levied on manufacturers.

Open Support from Stakeholders

Formed in 2010, the Mileage-Based User Fee Alliance (MBUFA) includes [25 members](#) - companies (including **ACM**, **IBM**, and Parsons Brinckerhoff), departments of transportation (including Oregon, Minnesota, California, and New York City), trade associations (the International Bridge, Tunnel, and Turnpike Association), and assorted other groups (including the Reason Foundation, a libertarian think-tank). MBUFA hopes to "advance the state of the practice of Mileage-Based User Fees" through education and coordination.

We'll be curious to see how, if at all, MBUFA's membership changes over time and if that may be an indicator of the VMT's staying power as a concept for transportation finance.

Previous Notes on This Topic

- [Transportation: Enviro Streamlining Delay; Sequestration Impact](#) - October 9, 2012
- [Transportation: Post-Election Gas Tax Increase?](#) - October 7, 2012
- [DC Perspectives on GE Investor Day](#) - September 27, 2012
- [Transpo Infrastructure: IG Report Highlights Challenges on Spending](#) - September 24, 2012

Relevant Stocks

CUB, ASTE, VMI, MLM, VMC, GVA, CAT, MTW, DE, SHAW, NUE, URS, ACM, KBR, TPC, TEX, IR, OSK, GLDD, and KEX. Relevant industries: Construction & Engineering, Industrials & Materials, Electrical Equipment, Construction Machinery, Transportation Infrastructure, Environmental & Diversified Services, and Dredging.

Analyst Certification

The following analysts hereby certify (1) that their views about any and all of the subject companies and securities discussed in this report are accurately expressed and (2) that no part of their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this report: James Lucier, Joseph Engelhard, Loren Smith, Charles Gabriel, Byron Callan, Kim Monk, Rob Smith, Robert Kaminski.

Important Disclosures

This publication is for private circulation and distribution in its entirety; it is provided to you for information purposes only. This is not an offer to buy or sell or the solicitation of an offer to buy or sell any security/instrument or to participate in any particular trading strategy. Capital Alpha Partners, LLC makes every effort to use reliable, comprehensive information, but we do not represent or warrant that it is accurate or complete. The views in this publication are those of Capital Alpha Partners, LLC and are subject to change without notice. Capital Alpha Partners, LLC has no obligation to update its opinions or the information in this publication. Neither Capital Alpha Partners, LLC, nor any respective officers, directors, partners, employees, or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this publication or its contents. Analysts may own securities of the issuers discussed herein.

© Copyright Capital Alpha Partners, LLC (2012). All rights reserved. No part of this publication may be reproduced, sold, or redistributed without the prior written permission of Capital Alpha Partners, LLC.
