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Maine's gouging gas tax

By J. Dwight , *Populist Economics*
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We all complain about the increasing cost of gasoline, and wonder why it's so high.

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"Those greedy oil companies are making huge profits," some say. Others blame their local gas station for gouging consumers. They prompt the attorney general to investigate. He did, and found no evidence of gouging.

Others point to demand from "emerging markets" like India or China. And, of course, there are the evil commodity speculators. (Which are not stereotypical rogue traders, operating for individual profit. University endowments, for example, are now major commodity investors.)

But which one, among all the forces, is making the most money on the gas Maine consumers put in their tank?

Actually, none of them. The biggest profiteer on gasoline prices in Maine is state government.

Surprised?

The state gets 27.4 cents per-gallon as its gasoline tax (28.4 cents for diesel). To add insult to injury, this tax is scheduled to rise July 1, to an estimated 28.5 cents per-gallon. The federal gasoline tax is only 18.4 cents. State government rakes in about $151 million from fuel taxes, according to the Office of Fiscal and Program Review.

Meanwhile, a major Maine gas station owner tells me their company lost money on each gallon sold during the last month. This is how it worked as of May 23:

• This company buys gasoline from terminals in Bangor or Portland, and trucks it around the state. In Bangor, gas was purchased from the Bangor Mobil terminal for $3.6893 (which includes 27.4 cent tax, transportation and credit card fees) and was sold at the company's Bangor location for $3.869 per gallon.

A loss of 0.023 cents per gallon! (Before other expenses, of course.)

• The same company also purchased gasoline at the Portland terminal at $3.92 (again including the tax, etc.), and sold it at their Augusta location for $3.839 per-gallon, a net loss of 0.081 cents.

The reason this company sells at a loss is competition holding the price down, and that gasoline is a "loss-leader" that brings traffic to their retail stores, which actually make a profit.

As Mark Twain says, "It is no wonder that truth is stranger than fiction. Fiction has to make sense."

Now, compare Maine's per gallon tax to what our neighbors pay as state gasoline taxes: New Hampshire (19 cents), Massachusetts (21 cents), and Connecticut (19 cents), Vermont (20 cents), and Rhode Island (31 cents).

Most are lower, while one is higher. But the key difference is all of the other states' fuel sales taxes are not scheduled to increase. Only Maine indexes its tax according to inflation.

This is why, on July 1, the state's gasoline tax will automatically adjust upward about 1.12 cents per gallon (about 4.1 percent). The Maine Turnpike Authority may as well put banners on the York toll booth telling tourists, "Warning: you are entering a high gas-tax zone."

If Maine cut its gas tax to the average of the three lowest New England states, to about 20 cents per gallon, and stopped indexing to inflation, Maine taxpayers would save an estimated $47 million per year.

Additionally, lower gasoline prices could encourage out-of-state tourists to come to Maine rather than visiting, say, New Hampshire or simply staying home. So, while it's easy, it's unfair to accuse local gasoline stations of gouging.

It's really state government doing that.

There's another problem too. It's unclear where this tax revenue is going.

Transportation officials all, exactly how much revenue MDOT received, from what sources, and how much this revenue is spent on Maine roads. None could give me a clear answer; the best I got was the state spent $365 million on state agency roads in 2007.

Before going any further (and since this is my first column), let me introduce myself.

My day job is as a registered investment advisor, so I'm accustomed to reading and understanding corporate annual reports and financial statements. I abide by a rule about financial statements: if I can't understand them, I do not buy shares of the company, or, if a client already owns the stock, I sell it.

This rule saved me - and my clients - from owning Enron.

Maine's financial reporting reminds me of Enron - simple conclusions from muddy financial machinery.

By comparison, New Hampshire is like, say, Berkshire Hathaway - consistent, clear and candid.

The New Hampshire Department of Transportation publishes an annual report detailing sources and expenditures. The Granite State spent $627 million on its roads in 2007. The latest report is available on the Web site of NHDOT - just click on media publications. Annual reports since 2001 are also easily accessible.

A similarly transparent report of revenues and expenses is unavailable from the OFPR, the state treasurer's office, or MDOT. One might conclude they like it that way.

But such obfuscation amounts to lying to the people of Maine.

Regardless of reason, this lack of clarity only underscores why Maine's fuel tax should be reduced to around 20 cents per gallon, and indexing should suspended. There must be better accounting of how much revenue is being generated from the fuel tax.

And, most important, how it's being spent.

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