

### **What is the Road User Fee Task Force all about?**

Expecting the fuel tax on gasoline to be a declining revenue source for Oregon's road system, the 2001 Legislative Assembly sought to address the long term viability of Oregon road finance by the passage of House Bill 3946, mandating formation of the Road User Fee Task Force. Oregon Governor John Kitzhaber, Speaker Mark Simmons and Senate President Gene Derfler appointed the members to the Road User Fee Task Force. A list of task force members is attached.

### **What is the purpose of the Road User Fee Task Force?**

The legislature adopted the following statutory purpose for the Road User Fee Task Force:

“To develop a design for revenue collection for Oregon's roads and highways that will replace the current system for revenue collection.”

### **Why is it necessary to replace the fuel tax on gasoline as the principal source for funding our roads?**

The state of Oregon is heavily dependent upon fuel tax revenues. For the year 2002, state and federal fuel taxes were 70 percent of total state revenue for roads. Our ability to pay for roads is at risk when fuel tax revenues begin to flatten or decline. Fuel efficiency of Oregon's automobile fleet has eroded fuel tax revenues over the past 30 years.

Further improvement of automobile fuel efficiency, particularly with the adoption of the hybrid electric vehicle engine, will have an even more dramatic effect on fuel tax revenues in the not-too-distant future. The expectation is for a gradual decline of fuel tax revenues beginning in about ten years. This situation could accelerate if gas prices rise significantly due to world events.

### **Why not simply raise the fuel tax on gasoline rather than go to an entirely new revenue mechanism?**

From 1981 through 1991, the Oregon legislature passed several rate increases for the gas tax to solve pressing problems resulting from declining gas tax revenues owing to inflation and increased vehicle fuel efficiency. A growing population in the 1990s created severe stress on the road system. The legislature and Oregon voters rejected proposals to raise the gas tax to pay for needed improvements and delayed maintenance. While the Road User Fee Task Force is not proposing automatic inflation adjustments to the road revenue system, the task force believes that any new revenue system should be designed to eliminate the future effect of dramatic automobile fuel efficiency improvements of Oregon's statewide vehicle fleet.

### **What has the Road User Fee Task Force accomplished so far?**

The Road User Fee Task Force presented a preliminary report to the Legislative Assembly on September 30, 2002, outlining the possible alternatives to the current system of taxing highway use through motor vehicle fuel taxes.

The Road User Fee Task Force met eight times from November 30 through November 15, 2002. In addition, the task force has held three public hearings – Pendleton, Portland and Coos Bay, and has taken public testimony at several regular meetings.

During this time, the Road User Fee Task Force considered over 25 different funding mechanisms to ultimately replace the fuel tax on gasoline. The task force chose several characteristics for design of any new revenue system.

### **What has the Road User Fee Task Force decided are the characteristics of the new road revenue system?**

- *User Pay System* - Any future revenue collection system should be a “user pay” system.
- *Acceptable to Public* - A new revenue system must be acceptable to the public.
- *Transparent to the Public* - A new revenue source should be visible to the taxpayers and not confusing.
- *Support Entire Public Highway and Road System* - A new revenue mechanism should be designed to support the operation, maintenance and preservation of the highway and road system for state, cities and counties in all parts of the state as the fuel tax does today.
- *Revenue Sufficiency* - The sources comprising the new system must collectively have the ability to raise revenue sufficient to ultimately replace the fuel tax on gasoline as the primary revenue source for Oregon’s roads.
- *Minimal Non-Governmental Burden* - A new revenue source should not impose substantial financial burdens on taxpayers or the private sector.
- *Enforceability* - A new revenue source must be enforceable to ensure tax evasion is not substantial.
- *Non-Local Government Revenue Source* - Revenue sources that are traditionally and primarily the province of local governments should not be usurped by the state.

### **What new revenue mechanisms are under consideration by the Road User Fee Task Force to replace the fuel tax on gasoline?**

The task force discussed a wide variety of potential revenue mechanisms and set most of them aside. The task force concentrated analysis and developmental efforts in four areas. The broad-based tax mechanism under extensive examination is a mileage fee for vehicle miles traveled within Oregon (“VMT fee”). Other more narrow revenue mechanisms under study to address specific transportation problems are congestion pricing, new facility tolling and studded tire use permits.

### **Why does the task force want a user fee?**

The thinking of the Road user Fee Task Force is, “If you use the roads, you ought to pay for them.”

### **Isn't the gas tax a “user pays” system?**

The fuel tax on gasoline used to operate like a user fee, but not any more. Back in the 1960s, nearly all vehicles achieved the same approximate gas mileage, about eight to ten miles per gallon. If a person drove more, they paid more for the additional burden placed on the road system.

With the coming of more fuel-efficient vehicles after 1975, things changed. Some drivers began to pay much less than their fair share for their use of the roads. Vehicle fuel efficiency increased from an average of 11.8 miles per gallon in 1970 to nearly 20 today.

The future outlook follows the same trend. Fuel-efficient vehicles now entering the marketplace will further increase the average miles per gallon. While beneficial from an environmental and energy conservation perspective, this severely hampers the ability to fund the maintenance, preservation and modernization of our roads.

### **Why is the Road User Fee Task Force examining a fee for mileage traveled?**

The task force found a mileage-based fee would be a logical and natural replacement for the fuel tax on gasoline. In fact, in the early 1960s, the fuel tax on gasoline functioned as a mileage-based fee because almost every vehicle had similar fuel efficiency rates of eight to ten miles per gallon. If people drove more, they paid more tax to pay for the additional road needs. This changed during the 1970s and 1980s as more fuel-efficient cars entered the marketplace. No longer did the amount of revenue raised by the driving directly relate to the additional burden a vehicle placed on the road system. This situation will get worse as new vehicle propulsion systems, such as hybrid-electric engines and fuel cells, become ubiquitous on our roads.

## **What is a Vehicle Miles Traveled Fee?**

A vehicle miles traveled fee is a set charge per mile driven within the state. The task force found it is now technologically feasible for a vehicle to contain a device to calculate mileage driven and transmit that data to a computer for application of a fee rate per mile.

## **Why is the Vehicle Miles Traveled Fee a good user fee?**

The Road User Fee Task Force believes the best user fee is related to the amount of use of a facility. In this case, the number of miles a person drives on Oregon roads is the best indicator of the amount of road use. This makes sense. The more one drives, the more one demands of the road system. With more people driving more miles, more choke points develop in the road system that need smoothing out, and more maintenance of the roads is required.

## **How did the Road User Fee Task Force design the vehicle miles traveled fee?**

In designing a fee based on miles traveled, the task force made the following policy recommendations.

- *Accuracy* - The technology used should enable accurate fee calculation.
- *Reliability, Security and Technological Feasibility* - The technology used must be reliable, secure and technologically feasible.
- *Minimal Evasion Potential* - The technology and administration mechanisms should allow minimal opportunities for evasion or fraud.
- *Not Count Mileage Outside of Oregon* - A fee should not apply to mileage traveled by Oregonians outside the borders of Oregon.
- *Minimal Burden Upon Private Sector* - The required capital expenditures and the costs of collection should minimally burden the private sector.
- *Retrofitting Affordability* - Any retrofitting of new technology into older vehicles should be affordable.
- *Seamless Transition* - Transition should be essentially seamless with no more than an incidental loss of gas tax revenue.

*Privacy* - Oregonians must be assured the technology used cannot violate the level of privacy expected by the general public.

**How would the state determine how many miles a person drove for a period of time?**

Every passenger vehicle in Oregon would be equipped with an electronic means to calculate miles driven over specific time periods. A device would transmit the number of miles driven since the last reading to a reader at a central location or a service station.

**How would electronic calculation of mileage work?**

While numerous technological devices are available to count miles driven, the task force has chosen two as the best possibilities. One, is a simple version of the global positioning system (GPS). The other possibility is an Odometer Tag, an electronic sensor connected to the odometer. Either device would eliminate out-of-state mileage from fee calculation. The mileage data would be downloaded in wireless fashion over a short distance via radio frequency. The download of mileage data would be transmitted no farther than a few feet to a local reader.

**Would there be a phasing in of the mileage fee?**

The task force wants to keep the level of expense for implementing the new system relatively inexpensive. At this point, outfitting older vehicles with new electronic devices to calculate mileage may be too expensive to implement. The new system may need to be phased in beginning with new vehicle purchases only. People driving older vehicles without the mileage calculation devices would continue to pay the gas tax.

**How long would it take to phase in a mileage fee?**

Requiring the new GPS technology on new vehicles only would require at least a twenty-year phase in for full market penetration. During any phase in period, the state would have to run two revenue systems at once – the new mileage fee and the current fuel tax on gasoline. Drivers would pay only one or the other and not both.

**Where would the mileage fee be paid?**

The Road User Fee Task Force has not yet settled on where payment of the mileage fee would occur. Options for fee payment include an independent collection center, DMV and service stations. If the mileage fee were paid at an independent collection center or DMV, the vehicle owner would receive a periodic billing for payment, perhaps once a month. If the mileage fee were paid at service stations, the vehicle driver would pay the fee as part of refueling, much like the gas tax is paid now.

**What would the tax rate be for a vehicle miles traveled fee?**

The mileage fee rate would be about 1.25 cents per mile, a level similar to the existing gas tax. The task force considered numerous rate adjustment possibilities such as vehicle weight, length or fuel efficiency. For simplicity, the Road User Fee Task recommends only one rate adjustment; for time-of-day mileage pricing in specific areas to solve congestion problems and support congestion reduction programs.

**Why should fuel-efficient vehicles pay the same mileage fee rate as gas guzzlers?**

This issue must be looked at from two perspectives. One is environmental and resource conservation. The other is transportation revenue. From the environmental perspective, the Road User Fee Task Force agrees it makes sense to encourage the proliferation of more fuel-efficient vehicles on to the roads as quickly as possible. On the other hand, from the transportation revenue perspective, fuel-efficient vehicles produce less fuel tax revenue because they consume less gasoline.

While it is good policy to preserve our environment and our resources, it is not good policy to let transportation revenues decline so that the transportation system cannot be properly maintained or modernized. This may sound like a policy contradiction but it need not be. The Road User Fee Task Force believes both perspectives must be considered in making policy. The task force prefers a strict user fee for transportation revenue while encouraging purchases of fuel-efficient vehicles, such as hybrid electric vehicles, with income tax credits.

**Would a driver's privacy be invaded by the mileage counting device placed in the vehicle?**

Privacy issues are of great concern to the task force. No one has any desire to allow the government the ability to track the movement of vehicles, either concurrently or retrospectively. The Road User Fee Task Force is looking at several devices to electronically calculate mileage and each of these devices can be configured in such a way that will not allow tracking of a car's movements.

**Will someone be able to track a vehicle's location and movements if GPS devices are used?**

No, a GPS device only knows where it is; no one else does. For anyone to be able to get data out of a GPS device, the device must be equipped with a transmission mechanism. Rental car companies outfit GPS devices with cellular transmission over a wide area so that the rental company can track the vehicle's movements. The Road User Fee Task Force is exploring transmission via radio frequency and not cellular. A radio frequency signal travels only a few feet and the data transmitted would only be summary mileage data. There would be no capacity for the transmission of

vehicle location for purposes of tracking movements. Specific location data would not be recorded, so it would not be available to transmit. Thus, no privacy issue exists.

**Why can't a simple car odometer be used to calculate mileage driven since all cars already have them?**

The current vehicle odometers are not able to turn off when a driver travels out of Oregon. The Road User Fee Task Force does not want to charge Oregonians for driving outside Oregon. This type of mileage reporting also would be paper intensive and time consuming for drivers.

**How will drivers from other states pay road taxes in Oregon?**

Nonresident drivers will continue to pay the gas tax until other states adopt a vehicle miles traveled fee similar to Oregon's.

**Is the Road User Fee Task Force examining other road finance mechanisms?**

Yes, the Road user Fee Task Force has proposed legislation for a studded tire use fee. The task force is also recommending to the Oregon Legislative Assembly that the new road finance system include congestion pricing and new facility tolling.

**Why does Oregon have to be the first state to experiment with a new fee on mileage to replace the gas tax?**

The Road User Fee Task Force recognizes that new tax or fee structures have a myriad of implementation issues. Oregon has never shied away from figuring out tough issues without another state's model for comparison. In fact, Oregon implemented the first gas tax in 1919 in order to pay for the building of the state's first statewide public road system. There were difficult implementation issues then, and a new fee structure today will be no different. While other state's wait until other more imaginative states wade in to solve difficult problems, Oregon's way is to take the problems head on and put the effort forth to resolve them.

**What is a "studded tire use permit?"**

In keeping with the philosophy to charge user fees to pay for road needs, the task force explored the damage caused by studded tires to road surfaces in the state. The task force learned that the use of studded tires reduces the useful life of road surfaces in the amount of \$11 million per year. The task force found that currently, under Oregon's cost allocation policy, the cost of studded tire damage repair is spread across all passenger vehicles whether they use studded tires or not. The task force prefers that this subsidy should end. The task force recommends an annual studded

tire use permit, loosely based on the Sno-Park Permit Program, to raise sufficient revenue to cover the annual cost of repairing Oregon roads for studded tire damage. The studded tire permit rate would differ between northwestern Oregon and southern and eastern Oregon. The task force believes regional variation in the permit rate is justifiable for the reason that studded tire use in the northwestern western region does more damage to the roads than does studded tire use in the southern and eastern region.

### **What is congestion pricing?**

The task force recommends congestion pricing as an option for certain geographic regions where traffic congestion is prevalent. If Oregon has a vehicle miles traveled fee (VMT fee) in place, the fee rate could be adjusted for congestion pricing. All that would be necessary to implement congestion pricing is application of a higher VMT fee rate when a vehicle travels within a congested area during congested time periods. This is called, “area pricing.” The dollars raised from congestion pricing would be used for highway modernization within the area in which they were generated. The difficulty of area pricing is that, for reasons of constitutional law, area pricing could not be implemented until every vehicle subject to congestion pricing contains the necessary equipment. This could take at least 20 years.

Another possibility is “Facility Pricing.” Under facility pricing, designated roadways would have a special rate added to the VMT fee rate during congested periods of the day.

### **What is “new facility tolling?”**

While tolling roads and bridges is common practice in other states and nations in the industrialized world, Oregon currently has no toll roads and only two toll bridges. Research indicates that Oregonians support tolling, if at all, only on new projects providing some transportation advantage not currently existing. Experience elsewhere indicates the most likely candidate projects for tolling from an economic perspective are large bridges and highly traveled limited-access highways. The task force believes that construction of some of the more expensive and complex transportation projects in Oregon are more likely to be built and on a shorter timeframe if they are tolled. The task force recommends tolling new facilities wherever practicable.

### **What are the future activities of the Road User Fee Task Force?**

House Bill 3946 (2001) requires the Road Use Fee Task Force to propose to the 72<sup>nd</sup> Legislative Assembly options for the design of a revenue collection system for Oregon’s roads and highways that would replace the current system for revenue collection. At this point, the broad replacement mechanism appears to be the VMT fee. On November 15, 2002, the task force adopted a scenario for the VMT fee that will enable pilot testing.

HB 3946 requires the Oregon Department of Transportation (ODOT) to begin to implement pilot programs by July 2003 to test alternatives for feasibility and acceptability to the public. The pilot is shaping up as a two step process for testing a VMT fee. The first step will test the technical operation of the technology to support a VMT fee. The second step will field test the new VMT fee across a broad section of the motoring public.