

Road User Fee Task Force Meeting Minutes – July 12, 2002

On September 6th, 2002, the Road User Fee Task Force, with quorum present, formally adopted the following minutes of the work group meeting held on July 12, 2002 in Coos Bay, Oregon as official actions and deliberations of the Road User Fee Task Force.

Members Present: Representative Bruce Starr, Representative Joanne Verger, Mayor Jim Torrey, John Watt, John Charles, Dr. Chris Bell.

Members Absent: Representative Joanne Verger, Senator Gary George, Senator Susan Castillo, Roger Hinshaw, Commissioner John Russell, Commissioner Randy Pape.

Staff Members Participating: Jim Whitty, Rachel Knowles, Jack Svadlenak, Victor Dodier.

As a quorum was not present, the assembled members decided to hold a work group meeting. Chair Bruce Starr called the work session to order.

? ? ?

Mayor Torrey moved to recommend the minutes of the May 3, 2002 meeting be approved at the next task force meeting with a quorum present. The motion was seconded and the recommendation was adopted.

? ? ?

Presentation: Congestion Pricing Overview. In preparation for the work group session, Jack Svadlenak gave an overview of congestion pricing (also called peak hour pricing). He explained that in order to satisfy the terms of the grant from the Federal Highway Administration, an Oregon pilot project must contain a congestion pricing element.

? ? ?

Presentation: Research Prospectuses. Jack Svadlenak provided a brief description of the research prospectuses that are currently out for review by several universities within the Oregon system.

? ? ?

Work Group Session

Presentation: Six Scenarios for a Mileage Based Fee. Jim Whitty recalled the preferences made by the task force to date, made some staff observations and described

each of six scenarios for a mileage-based fee. He said the scenarios are differentiated by the manner of data and fee collection contained within each scenario. Whitty explained that current information indicates an accurate mileage-based fee that relies upon global positioning system technology to compute mileage is too expensive to implement over a short time frame because retrofitting of older vehicles is cost prohibitive. If a mileage-based fee were imposed only on newer vehicles, the phase in could take over 20 years as it takes that long for a fleet to turn over. During the phase-in period, two revenue collection systems must be maintained with a credit of one against the other for those who pay both.

Whitty described the process for the work group. First, the work group would select a preferred scenario for a mileage-based fee from the six presented. Then the task force would put the scenario together by selecting preferred options covering the issue areas. The work group may select the preferred congestion pricing scenario by selecting among preferred options.

Discussion: Six Scenarios for a Mileage Based Fee. The work group then debated the merits of the various scenarios.

On the issue of a credit for gas tax paid, Watt said, “If you are going to have to figure out some kind of a tax credit system or a return system, that makes our exercise almost ridiculous to continue because it is hard and complicated. You want to make these things as invisible to the end user as possible and if I am going to have to start thinking about whether I am going to get a gas tax credit at the end of the year and how does that work, that seems to be a huge obstacle to overcome. So, my question is, why can’t you have a VMT pump and a gas tax pump?”

Whitty responded that scenario three has a similar element to it.

Charles offered, “I view the entire administration of any of this at the pump as a nightmare and I don’t want to even go that route. To me whatever happens at the pump has to be a straight transaction and what we do to replace the gas tax with a fee needs to operate around that. Paying the VMT fee at the pump is too complex.”

Watt this new system has to be kept as simple as absolutely possible. “To include service stations, it is going to reflect an added burden to those retailers and small business people. It is going to reflect confusion and added burden to the end user and it would be my preference to just say that is not a road that we should go down unless we absolutely have to.”

Vergier said, “My concern is that if you don’t go to something that is already established, what kind of bureaucracy now are going to start building if you go to a new system, and I worry about the administrative cost. I know that you are right about the burden on the station owner in that it is a little different system, but I think we have to be really careful of the administrative costs of a brand new kind of system.”

Whitty then described the advantages and disadvantages of each of the six scenarios.

Torrey said, "One of the questions I keep asking myself is this better than a modified gas tax and I am not saying it isn't better, we will just need to prove that before we make any decisions. Perhaps we can take the gas tax, without an increase, and say that if gasoline usage goes down, we ask the voters to automatically put an increase into the gas tax based on a reduction on the amount of gas that is consumed. It doesn't take care of electric engines and all of the fancy new improvements that may take place in the future, vehicle miles traveled does that. I want to let the people in Oregon understand what we are struggling with right now.

Starr asked, "On the administration of this first scenario, do we have an estimate of what the administrative cost would be for a system like this?"

Whitty answered, "We do not and that is why we are putting that question out for research."

Starr said, "The other obvious one is the cost of technology -- \$300 per GPS device is too high. If we were able to create a new technology for a lot less then obviously that changes things. The other thing is as the fleet improves, manufacturers improve their capabilities and use the technology that is already built into the vehicles. I could just see the GPS systems that are in high end cars now and going to become more affordable and will become more standard options in cars down the road."

Torrey asked about the objective of the task force in testing the technology.

Whitty responded, "We need to discover the preferred system so that we know what kind of pilot to design. If you have a collection center, as in scenario one, the pilot is designed one way. If the fuel station is involved, the pilot is designed a different way. Knowing what the task force ultimately wants as a new system is important for determining what kind of a pilot should be designed.

Torrey expressed concern about the cost of implementation for some of the scenarios.

Whitty responded if a scenario proved expensive to implement, it will necessarily have a long phase period. Nearly anything can be implemented if the marketplace is going to take care of the technology eventually. "If a shorter phase in period is desired, that is where cost becomes an issue."

Watt suggested an estimated mileage fee system based on past usage, like the power companies do. For power, I pay an estimated fee based on what my annual usage in the previous year has been. "In order to solve that phase in problem, can't we think about estimated miles traveled and put that in the research?"

Starr responded, "I think your suggestion, John, fits under several of the VMT scenarios. It is just a matter of how you collect it."

Selection of the Preferred Scenario for a Mileage-Based Fee.

Whitty asked each member to indicate their first choice for preferred scenario as well as a second choice.

Charles – “By process of elimination, I want to delete anything having to do with complicated selections at the pump, so really my preference would be some version of scenario one, a VMT fee. I actually don’t see a big difference between scenario one and statewide tolling (scenario six). I prefer a private data collection center that includes a reduction of the gas tax that is visible and makes the roads self supporting.

Bell – “I don’t see scenario one being that much different than scenario five, just a different collection agency. I don’t like anything that is involving gas stations. My preference is scenario one or scenario five, I don’t really see any difference, they are equal in my mind. Number six would be my number two pick.”

Watt – “For the purposes of a pilot program only, my preference would be number one. I have no interest in even looking at options that include service stations. As far as scenarios five and six, there are some similarities.”

Torrey – “I can go with scenario five as long it was a private sector receiving entity but really my preference for a pilot would be four.”

Whitty offered, “I want to explore the pilot and what the purpose of it is. We have to come as close to what we think the ultimate system will be because that determines what we test. If you just want to go test some technology you can do that but it won’t give us what we need. One of the problems is uploading. The data is in the car, it goes somewhere and how does it get there? If we upload data from the car to a center then we don’t know how to do it at this point. It could be cellular, but we are learning cellular may be a troubled mechanism from a security standpoint. If we choose a service station the data upload could be short distance electronic RF. What we think the ultimate system might be is important to determine what we are going to test. We can’t test one thing and then say later on that we would rather look at something else.”

Verger – “One of the reasons I like scenario two is that you are seeing a drop in gasoline usage due not just from the hybrid, but also more efficient cars. Now you add the hybrid, you have a part of the private sector that is really in threat and that is your service station owners. We have service stations that are going out of business and doing everything to stay in business, and I know there is resistance here, but I think that the service stations should be one pilot somehow and I think that it should be to the advantage of the service station to be a participant in this. Scenario one worries me because the costs are so high. I would rather see a more simplistic and less expensive system and much simpler for the

public to be able to use and to adjust to. So, I have to go with number two. There may be some options in scenario one that I might find more desirable as we go through the discussion, but I think 2 and 4 have some appeal.”

Starr – “I like scenarios one and six. The expense is a concern. We are talking \$900 million dollars if the cost to retrofit is \$300 per vehicle. I can’t imagine that it would be \$900 million to install toll readers around the state. I don’t know what it would be. If there was a way to mitigate what it did to local streets and how we funded local streets and county roads. It is the most simple administratively to do. You could immediately reduce the gas tax for the portion of the toll that you collected on the state highway system. I think that that is important. Whatever we do, people that use the new system should see a tax reduction immediately. I am also concerned about burdening gas stations with new technology costs, retraining employees. I think that we should stay away from the gas stations if we possibly can and I think if we can do the collections, and process privately great. If DMV has to reprogram their computers to do this, I know there are costs involved there, but does it cost more than having a private firm do it, I am open to discussion on that.”

Vergier asked about the burden on gasoline dealers of scenarios two, three and four.

Whitty – “With two, three and four we have tried to design them so that data collection and fee payment can be done electronically so that payment would be much like today with the gas tax.

Dodier added that we may not have full service fuel stations in the future. We may have self service someday and whatever system we end up with must be able to work under that possibility.

Selection of Options for Scenario One.

- Data Collection.

The task force selected global positioning system (GPS) as the data collection technology.

- Data Uploading.

Whitty described two options: one for cell phone upload to a center and the other for uploading by radio frequency to a service station for forwarding to the center by telephone data lines.

Bell offered this would be very much like the green light project for trucks where you pass by a reader and not a lot of information can be transferred at full speed, but in the city at 20 to 25 miles an hour you can transfer quite a bit of information just on passing by.

Svadlenak explained that, “With cell phone technology, ideally and conceptually the idea was to have the cell phone automatically call and download data in the middle of the night once a month or so. With radio frequency upload through service stations, it would be done automatically when you pull into a gas station and fill up with fuel.

Torrey asked, “So the service station attendant is not doing it, but there is a reader at the service station and it automatically goes up every time you get gas.”

Starr added, “Except some cars that don’t have to go to the service station. The electric car doesn’t go to the service station, but a fuel cell car doesn’t go to the gas station. The readers would have to be at freeway entrances or someplace people go frequently.”

The work group recommended the alternative option of data retrieval through radio frequency transmission primarily at service stations, although we will let the research guide us on data transmission as we go along.

- Phasing.

Whitty – “Phasing problems eliminate the ability to reduce the gas tax to correspond with introduction of a mileage based fee. Phasing creates problems because during the first year or two of the phase-in only five to eight percent of vehicles will have the necessary devices. If the state were to reduce the gas tax, the gas tax would drop on 90 plus percent of people that would still pay only the gas tax. The state must therefore run two systems as once, a VMT fee and the gas tax, during the phase in period. This requires a crediting of gas tax paid by those who also pay the VMT fee because the gas tax payers pay no VMT fee and both sets of payers must be treated fairly in relation to each other.”

Starr – “This would be a mandatory phase in for new vehicles so they don’t have a choice. If they want to get their gas tax refunded they would need to provide a documentation of how many gallons of gas that they bought over the period and have them deduct it off of their income tax.”

Whitty – “You have just described the second option, to have gas taxes refunded as a tax credit against income taxes. The general fund would be reimbursed by the state highway fund.”

The work group recommended that VMT fee payers would have gas taxes refunded as an income tax credit.

- Enforcement.

Whitty described the need for an enforcement mechanism for those VMT fee payers choosing not to pay the fee under scenario one. If the initial VMT fee rate is set at a level that is revenue neutral compared to the gas tax rate, then roughly half of the VMT fee payers will pay more VMT fee than gas tax and the other half will pay less VMT fee than

the gas tax. For those paying more VMT fee than gas tax, an enforcement mechanism must be established to ensure payment of the VMT fee.

Svadlenak added that the collection center would be sending a bill to the VMT fee payers and if they refuse to pay the bill, the state needs to enforce bill payment somehow.

Starr – “Eventually everyone is going to pay the VMT fee. So this enforcement issue is something we have to deal with for everyone.”

Torrey, Watt and Starr expressed support for a penalty of withholding registration for failure to pay the VMT fee.

Dodier compared the non-payment of VMT fee situation with those who currently do not carry legally mandated automobile insurance. Somewhere between ten and 13 percent do not carry insurance and some drive with suspended licenses.

Watt – “This gets to the issue that we discussed in the legislature for about two decades now which is forfeiture. You are driving down a road and ultimately we will lien the car or put a boot on the car and you will forfeit your car. This gets back down to that argument that we have not been able to come to conclusion during the legislative process.”

Starr – “I think we tag the registration and we will have to dig into this deeper later on.”

Watt expressed interest in putting a lien on the car for non-payment.

Whitty – “A lien for non-payment of the VMT fee is built into the first option because of access to the private collection system. But private collection is an expensive mechanism for collecting these small amounts and we should another mechanism to better motivate payment. We should involve the registration fee. I also suggested having some kind of a traffic fine so that running without paying the VMT fee could result in a ticketed if are stopped.”

Starr – “That would be information that the police office could have if you get pulled over. If they see you aren’t paying your VMT tax it would be a double whammy.”

Whitty – “Yes, the mechanism would be the similar to driving without payment of the registration fee.”

The work group decided to recommend the staff recommendation of a combination of private collection, traffic fines and suspension of vehicle registration for nonpayment..

- Retrofitting.

Whitty – “The staff recommendation is that there be no retrofitting of older vehicles and that the necessary GPS device be mandated for new vehicles only. So we would have

roughly 150,000 vehicles in the first year that would have the device that we would apply the VMT fee to, as compared with about three million vehicles total in the state.

Watt – “Where is the new car dealer going to be on that?”

Starr – “I think it is more of a question for the manufacturers.”

Whitty – “What is most likely to happen is that Oregon might band together with a number of other states, mostly likely those from the Minnesota pooled funds study, and approach the manufacturers together to negotiate a deal.”

The work group decided to recommend option one, the staff recommendation, together with providing the option for vehicle owners to install the necessary GPS device and thereby access the new VMT fee system.

- Privacy Protections.

Whitty – “Privacy protection is an issue of sensitivity to public perception. What level of protection can be provided where the motoring public will feel comfortable they are not going to be tracked by the state. There are two options here, one is a design limitation so that we design into whatever we have a computer system where it cannot happen. The other one is the legal prohibition. Legal prohibition would prohibit anyone from tracking individual movements using the GPS device. A law would have to be passed to prohibit any one from using the technology as a tracking device. Penalties would be associated with that.”

The work group decided to recommend a combination of both options.

- Non-Resident Fee Payments.

Whitty said that if a long phase-in is necessary, it could be that the state will not have to address the issue of non-resident payment early on because the gas tax will still be in place. If Oregon successfully implements the VMT fee, other states will be intrigued and probably adopt something similar. Ultimately, there will be an interstate compact similar to the other transportation taxes and the problem will be solved that way.

Dodier indicated a problem with relying on an interstate compact. “If Oregon went wholly to a VMT tax that everyone paid and no one else in the nation went to a VMT tax we would have a problem, but this is a distracting issue at this point.”

Whitty – “The alternative is to continue the gas tax indefinitely. At the end of the phase-in, the only payers of the gas tax would be non-residents. It is not a bad option, but there will be problems with imposing upon service stations to collect that tax.”

The work group decided to recommend combining the interstate compact option with the option for continuing the gas tax.

- Rate Adjustments.

Whitty – “For rate adjustments possibilities to the basic VMT fee rate, the task force has already indicated preference at the May 3rd meeting for a congestion pricing overlay to the basic VMT fee for those locations desiring that capability.

Torrey asked, “The intent for congestion pricing is to raise new revenues, to be able to build new facilities or to change the use?”

Starr responded, “Congestion pricing is get the best use for the facility that we know how and then it provides the market incentives to drive various times and provide good information about where we need new facilities built.”

Charles – “It would be an enabling option for those areas that have a congestion problem to piggy back on the infrastructure to do peak hour pricing. By definition it would not effect most cars in the state.”

The work group decided to recommend congestion pricing as an allowable rate adjustment overlay to a VMT fee.

- Fuel Efficiency Rate Adjustment.

Whitty – “At the June 4th public hearing, it became obvious that a fuel efficiency rate adjustment would become a political football and potentially damage the success of any VMT fee. How the fuel efficiency adjustment issue is resolved could ultimately determine whether a VMT fee could even survive the legislative process. I also have the concern that putting forth a recommendation without a fuel efficiency adjustment damage the concept with certain powerful interest groups and with the public. I would like to see a rate adjustment for fuel efficiency.

Starr responded, “The problem is that a fuel efficient car and a less fuel efficient car both use the road and are both taking up space and causing wear and tear on the highways. Both should pay their fair share for the use of that facility. To give one vehicle a tax break because of something that is unrelated to the wear and tear and use of the highway, flies in the face of a road user fee.

Whitty answered, “I am proposing is a VMT fee half a flat rate and half a gas tax rate. Those operating vehicles with high fuel efficiency would pay the flat VMT fee rate; those operating vehicles with low fuel efficiency would pay at the gas tax rate. Under this proposal, a motorist operating a vehicle with fuel efficiency above the fleet average would pay the flat VMT fee. If the motorist’s vehicle is below the fleet average for fuel

efficiency, a motorist's gas tax rate will always be higher than the VMT fee and thus the gas tax payment will always cover the VMT fee amount. This would work to encourage those with lower efficiency to get higher efficient vehicles."

Watt responded that the task force is dealing with a road user fee and it should be the same for everyone.

Starr – "There are lots of ways that we can encourage fuel efficient vehicles that do not involve collecting the road use fees for using the roads. We do it today through a tax credit for a hybrid car (that no one seems to recognize and understand). The legislature stepped up to the plate and said we think these are good investments go out and buy one and we will give you \$1500 as a tax credit if you do it. No one seems to recognize that.

Whitty – "While I understand the logic of your position, but what a flat rate VMT fee does is give the most inefficient vehicle the largest advantage under the new system. I just want you to understand that that is what you are doing."

Charles – "I think we should be rigorously value neutral on fuel consumption, which is, we don't care if you are running your car on salt water, it does not matter. This is a road user fee. The environmental agenda is to harass motorists not help us. I think we have to call our bluff. There is a tax credit, but not on a road user fee."

Torrey – "If we focus on how to maintain the infrastructure for all vehicles regardless of how they are powered, then we could make a side statement that says that we understand that there are going to implications related to the more efficient vehicles. But that is not the task of this committee and if the legislature chooses to do something from a social standpoint later, do it. But we want to show what it takes to run this efficient highway system."

Watt – "I would move that that statement be included in our report to the legislature."

Starr – "We need to make that statement."

The work group decided not to recommend a rate adjustment for fuel efficiency.

- Geographic Rate Adjustment.

Starr – "The next question is whether it makes sense to have a lower VMT fee for folks that live in rural areas that may have to drive further."

Svadlenak reviewed data from a survey on commuting times in Oregon. "The survey indicates that for many areas, in what you would think would be rural areas, those commuting times are quite low. A large proportion of those fall in the 0-5 minutes or 6-10 minutes ranges to get to work. The conclusion is that at least in terms of the amount of time that people are travelling to get to work in rural areas, we simply don't see a correlation. If you roughly equate time to travel distance, it actually seems to be less in the rural areas of the state."

Charles – “If you are on a remote road that has no traffic, you are probably driving a lot further in less time.”

Svadlenak responded, “That may be true, but we have looked at a couple of other things as well, they have the same problems; they are indicators. One estimates of VMT on state highways by county and if you adjust out for the existence of interstate highways it was slightly more, about 10% higher in rural counties than in urban counties as far as our VMT estimates. “

Charles – “It would be nice if someone made an argument similar to the studded tire argument that we have talked about showing damage, that gives me a rational basis for having a graduated fee. As adults, we make choices and those choices have consequences and if you live in a place that involves a lot of driving and you have chosen to do that then you pay what the cost is. My general proposition is to have each driver pay the same rate.”

Watt – “Everyone should be required to pay the same amount of money for the same amount of damage that they do to the roads. Just keep it at a flat fee.”

Torrey – “I am inclined to go along with the flat rate because, if you go along with the congestion pricing system, where are we going to apply congestion pricing? We are going to apply it in the heavy congested areas. The rural areas are not going to be impacted.

The work group decided not to recommend a rate adjustment overlay for geography.

- Setting the Rate.

Whitty – “The issue with setting the rate is that we have worked up to this point with a VMT fee rate of 1.25 cents per mile. The 1.25 cents per mile rate is based on the average fuel efficiency for the statewide fleet and the gas tax rate. The question is whether this rate should be raised? For instance, should the rate be raised to cover the administrative overhead figure, which will be much higher than for the existing gas tax (which has a ¼ of one percent overhead)? For illustration, if the administrative overhead is 2 ½ percent, that would necessitate a 24 ½ percent gas tax or a 1.28 cents VMT fee to cover it, plus whatever capital expenditures are necessary. The staff recommendation is for a revenue neutral option for purposes of going forward -- recognizing everyone here wants more money for the road system -- plus whatever the overhead figure is determined to be. The alternative option is to do that plus any additional revenue if you want to do that.

Starr – “I think we maintain revenue neutrality. Whatever system we come up with we ought to recognize what kind of obstacles are there in front the legislature to increase the tax, but I am not sure that this task force should come out with something that can be branded as just another way to raise taxes.”

Torrey – “When the legislature put this task force in place, they did it for the purpose of replacing what we knew to be a system that wasn’t going to continue to work at sometime into the future. In order to be revenue neutral, you must pick a point in time and establish a benchmark rate. It gives you a good reference point saying for demonstrating what is going to happen in the future if we don’t act.

The work group recommends the staff recommendation of revenue neutrality plus cost recovery.

? ? ?

Congestion Pricing.

- Implementation Configuration.

Whitty – “The first question is whether we have a stand alone system or a rate-based system. Since we chose scenario number one for the mileage-based fee, we are able to choose the option for a rate adjustment to a VMT fee.

The work group decided to recommend a rate adjustment to a mileage-based fee as the preferred implementation method.

- Technology Configuration

The work group determined the pricing technology issue was already decided by the earlier choice of scenario one for a mileage-based fee – the “simple” global positioning system (GPS).

- Types of Pricing Strategies.

Svadlenak explained that the type of pricing strategy is, to a certain extent, pre-determined by the type of technology selected. Since the work group chose scenario one for a mileage-based fee that is based on a “simple” GPS technology, the options open for use of a GPS-based pricing strategy.

Whitty - ”We recommend the area tolling pricing strategy. In area pricing, a motorist driving within a defined area during certain times of day, pays an added price for driving mileage during the congested period, even if it is on the local street. The amount paid would vary with the number of miles driven. Someone driving a short distance to the grocery store would pay very little additional above the standard VMT rate, but someone driving all the way downtown or across town would pay a lot more. There would be no problem with getting off of a main route onto a side route because every mile in the same area is charged the same additional rate for congestion pricing.”

Torrey – “This actually helps the congestion on city streets because there isn’t a benefit to getting off of 217 and going on the side streets.”

Charles – “The strategy wouldn’t necessarily involve two prices. I am aware of two other facilities in the country that have 14 different prices. There is a peak, there is a shoulder of the peak and at 2:00am you are driving practically for free.

Charles – “I personally prefer that freeways be priced at the highest rate because your cost of congestion you impose on a facility that is carrying a lot of people is by definition higher.”

Starr – “But under this scenario for area pricing, it is not possible to do that.”

Charles – “I don’t know, I presume it is one of the things to would investigate. Under ubiquitous pricing with GPS, can you price not only by time of day and direction of travel but can you identify different types of facilities and price differentially for them? I personally don’t know the answer to that.”

Whitty – “Area pricing seems to be the best option. Under cordon pricing, drivers crossing a line are charged. A driver moving within the line and never crossing it will not be charged. The trouble with cordon pricing is where is the line set. Setting the line will have land use implications.”

The work group agreed to recommend area pricing for purposes of going forward with a pilot project.

- Allocation of Congestion Pricing Funds.

Whitty – “The staff recommends allocation of congestion pricing funds by category of roadway, state, city or county. All funds generated above the base VMT fee would go toward modernization of particular roadways within the defined area. The allocation would be based on VMT within the area. A state highway would get its share based on the VMT for the area, the city would get its share and the county would get its share.

Torrey added “Only those people who participate in the congestion pricing program would get an allocation of revenue. If the Portland metro area is the only area that does congestion pricing, they are the only people to get the revenue.”

Starr – “The key word I see in this is modernization and I think that is the crux between congestion pricing and modernization. Modernization to me means expansion and new capacity. Congestion is capacity and this money goes to capacity.