

Financing Oregon's Highways with Cost Responsibility

An Oregon Tradition

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Principles of Oregon Highway Finance

- Those who use the roads should pay for them.
- Road users should pay in proportion to the road costs for which they are responsible.
- Road user fees should be used for constructing, improving, maintaining and operating roads.

What is Cost Responsibility?

- Cost responsibility is apportioning the cost of highway work to the vehicles that cause it.
- Users pay their “fair share” -- in proportion to the costs (expenditures) for which they are responsible.
- Cost responsibility is therefore the implementation of the fundamental user pay policy of the State of Oregon.

Oregon Highway Cost Allocation Studies

- Oregon has a long history of conducting highway cost allocation (or responsibility) studies and basing its system of road user taxation on the results of these studies.
- Sixteen studies have been completed, the first in 1937 and most recent in 2009. Work is now progressing on two studies for presentation to the 2011 Legislature.

Oregon Highway Cost Allocation Studies

- In 1998, responsibility for the studies was transferred to the Department of Administrative Services (DAS) Office of Economic Analysis.
- With the exception of the 2003 Study, all biennial studies since 1999 have been performed by consultants, with oversight by DAS and technical assistance from ODOT.

Studies Are Both Constitutionally- and Statutorily-Mandated

- Oregon Constitution, Article IX, Section 3A requires a study be conducted biennially and highway user tax rates be adjusted, if necessary, to ensure “fairness and proportionality” between light and heavy vehicles.
- SB 474 enacted by the 2003 Legislature further specifies that DAS has responsibility for the biennial studies and the results must be presented to the legislative leadership by January 31 of each odd-numbered year.

Basic Approach of Studies

- Allocate costs/expenditures to vehicle classes.
- Attribute revenues (projected tax/fee payments) to vehicle classes.
- Calculate equity ratio (revenues/costs allocated) for each class or group of vehicles:
 - $ER < 1$: Class or group will be underpaying its fair share.
 - $ER = 1$: Class or group will be paying its fair share.
 - $ER > 1$: Class or group will be overpaying its fair share.

Major Results of Recent Studies

- Last couple studies have found light (1-10,000 pound) vehicles responsible for approximately $2/3^{\text{rds}}$ of total expenditures allocated and heavy (over 10,000 pound) vehicles approximately $1/3^{\text{rd}}$.
- Attributed revenue shares for light and heavy vehicles as a whole have been close to the responsibility shares so that the calculated equity ratios have been relatively close to 1.

A New Requirement This Biennium

- HB 2001 (Section 30) requires, for the first time ever, two separate studies be performed this biennium and the results of both be presented to the 2011 Legislature:
 - A “Traditional HCAS”, to be performed in essentially the same manner as all previous Oregon studies.
 - An “Efficient Fee Study” to estimate and allocate to the vehicle classes the actual (economic) costs highway users impose on the system (pavement wear and tear, traffic congestion, pollution costs, etc.).

So What Does All This Mean (in Practical Terms)?

- All transportation funding measures considered by the Legislature must pass a cost responsibility “filter”, with the component tax/fee increases structured to maintain a cost responsible division of revenues between light and heavy vehicles.
- Results of studies may also be used to recommend adjustments in tax rates even in legislative sessions in which no funding measure is being considered.