October 2019 Revenue Forecast - Transit Payroll Tax, Vehicle Privilege Tax, Vehicle Use Tax, and Bike Excise Tax

Background

The 2017 Oregon Legislature passed House Bill 2017, marking a significant investment in transportation to promote a clean environment, strong communities with good quality of life, a vibrant economy with good jobs, and safe, healthy people. This effort is referred to as Keep Oregon Moving. In addition to increasing the traditional Highway Fund taxes and fees, three new taxes were introduced to provide additional funding for Keep Oregon Moving:

1. **Statewide Transit Payroll Tax** for investments in public transportation
2. **Vehicle Privilege Tax** (on new vehicles purchased and registering in Oregon) dedicated to the Connect Oregon program and to promote electric vehicle sales. New vehicles purchased outside of Oregon and registering in Oregon are subject to a similar tax called **Vehicle Use Tax**. However, these funds go to Highway Fund and thus are treated as a separate line item.
3. **Bike Excise Tax** also dedicated to the Connect Oregon program to provide grants for bicycle and pedestrian projects.

The Vehicle Privilege/Use Tax and Bike Excise Tax were implemented January 2018. The Transit Payroll Tax went into effect in July 2018.

This document provides revenue forecasts through Fiscal Year 2025 for all three of these new tax programs. Summary of the **Net Tax Revenue** forecast to ODOT (total revenue minus collection costs minus transfer of privilege tax funds to DEQ) by tax program is provided in Table 1 below. Table 2 at the end of this publication provides a more detailed look at the total tax collections, collection costs, transfers to DEQ, and net tax revenues to ODOT. Forecasts are based on accrual method (period for which tax is due) rather than cash method (cash collected and available for distribution). The exception is Table 3, where the estimates are based on the distribution period to qualified entities of the Transit Payroll Tax.

Table 1: Net Tax Revenues to ODOT by Tax Program (Millions of Dollars)

<table>
<thead>
<tr>
<th></th>
<th>Actual</th>
<th>Forecast</th>
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<tbody>
<tr>
<td></td>
<td>BI 2017-19</td>
<td>BI 2019-21</td>
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<tr>
<td>TRANSIT TAX</td>
<td>$94.3</td>
<td>$213.4</td>
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<td>VEHICLE PRIVILEGE TAX</td>
<td>$16.0</td>
<td>$27.9</td>
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<tr>
<td>VEHICLE USE TAX</td>
<td>$11.8</td>
<td>$16.7</td>
</tr>
<tr>
<td>BIKE EXCISE TAX</td>
<td>$0.9</td>
<td>$1.3</td>
</tr>
<tr>
<td>TOTAL NET TAX REVENUE</td>
<td>$123.0</td>
<td>$259.3</td>
</tr>
</tbody>
</table>

Note: Individual amounts may not add up to the total due to rounding.
Transit Payroll Tax

Transit Payroll Tax, the largest of these taxes, is a statewide payroll tax. The tax, at the rate of one-tenth of one percent, is imposed on the wages of employees who are Oregon residents regardless of where they work as well as residents of other states who work in Oregon. The revenue from this tax will primarily be shared with the transit agencies in Oregon. The vast majority, 90 percent, will be distributed by formula to the statutorily defined Qualified Entities.

At a gross level the current forecast method is a simple one since we have very limited historical data to help predict future revenues. Payroll data from The Oregon Employment Department (OED) is multiplied by growth rates from the Oregon Office of Economic Analysis (OEA) forecasted growth in Oregon wages and salaries. These values are multiplied by the payroll tax rate to produce the estimated gross quarterly payroll tax, assuming the OED payroll is equivalent to the total transit payroll tax liability.

However, since these are two different payroll programs, the payroll totals will likely not be completely comparable. To adjust for this, a ratio was created measuring the share of transit payroll tax liability to total OED payroll. Over the first four quarters where we have actual data, the ratio was 91%, 93%, 95%, and 92% respectively. Since these numbers are within a tight range and we still only have four quarters of actuals, for this forecast we are assuming the ratio repeats itself in a similar pattern over the forecast years.

Figure 1. Transit Payroll Tax Collections - Forecast Comparison (Quarterly Collections, Accrual)
The current gross transit payroll tax forecast is higher than our December 2018 forecast (Figure 1). The forecast for wage and salary growth is almost identical to the prior forecast, so the increase is due to the ratio of actual transit tax payroll to OED payroll coming in higher than previously thought. As mentioned above, these quarterly ratios are repeated out into the forecast. The biggest change from the prior forecast is over the first few years as the prior forecast had a lower ratio assumption. However, the prior forecast assumed the ratio would increase over a few years to values close to the current expected ratios, closing the gap in the two forecasts.

Collection costs are expected to be lower in the current forecast. The drop in collection costs from fiscal year 2019 to fiscal year 2020 is due to the onetime costs associated with the program startup that were paid in 2019 only. Going forward costs grow as DOR costs increase, ranging from $4.5 million in the current biennium, to $5.1 million in the 2023-25 biennium. Total net revenues from this tax equaled $94.3 million in fiscal year 2019 and is expected to grow to $133.0 million by the 2025 fiscal year.

Table 3 at the end of the publication summarizes by fiscal year the revenue each Qualified Entity is projected to receive, based on when the funds will be distributed, not the accrual period. These estimates are based on employer withholding, which will be slightly different from what is actually transferred, because of refunds and late payments that can affect the transfer from DOR to ODOT. In addition, the transfers to each qualified entity are based on having an approved plan, the values in the table assume each qualified entity has an approved plan and will receive all the funds available to them.
Vehicle Privilege and Use Taxes

Vehicle Privilege and Use Taxes only apply to manufacturer or dealer vehicle sales: private vehicle sales are excluded. The tax amount of 0.5% of vehicle’s sale price is assessed on the following vehicle types: passenger vehicles, trucks, trailers (except 1,800 lbs. or less), travel trailers, motor homes, campers, motorcycles, mopeds, buses, bus trailers, and fixed load trailers. Only vehicles with odometer reading of 7,500 miles or less (if there is an odometer) and gross vehicle weight rating of 26,000 pounds or less are subject to this tax. If the sale occurred in Oregon, the vehicle dealer is required to pay the Privilege Tax. If an Oregon resident purchases a new vehicle out of state they would pay the Use Tax. The rates are the same for both taxes, the nuance is that Use Tax revenue is Highway Fund revenue while Privilege Tax revenue is dedicated to the Connect Oregon and electric vehicle rebate programs.

The current forecast is developed using DMV’s forecast for New Light Vehicle Titles and six quarters of available data from the Privilege and Use Tax. The quantities of subject vehicles are forecasted first and then the total revenue collections are estimated by multiplying the vehicle quantity by the price using National Average Light Vehicle Price forecast from IHS Markit, multiplied by the tax rate of 0.5 percent. Figure 2 below compares current forecast with our previous (December 2018) forecast for Vehicle Privilege Tax and Figure 3 shows the forecast comparison for Vehicle Use Tax.

Figure 2. Vehicle Privilege Tax - Forecast Comparison (Quarterly Collections, Accrual)
The prior forecast of the Vehicle Privilege Tax has been overpredicting sales the last two quarters. Some of this overprediction is from the general slowdown in new light vehicles sales. Another part is due to substitution from instate to out of state sales. There wasn’t enough quarters of data in the previous forecast to make an accurate prediction of what share of new vehicle sales are instate, (Privilege Tax) versus out of state, (Use Tax). More vehicles were sold out of state than expected in the last forecast, which bumps up the Vehicle Use Tax revenue.

Over the forecast period, the Privilege Tax is lower compared to the prior forecast. This is primarily due to weaker than expected sales in the first two quarters of 2019. In addition, the average price of a new light vehicle has stagnated over the last couple quarters rather than increase as expected in the prior forecast. This has brought the average price down over the forecast, resulting in slower revenue growth. This is particularly evident in the Use Tax forecast, where the first two quarters of 2019 have been stronger than the prior forecast, but over the forecast period revenues closely match the prior forecast.

**Figure 3. Vehicle Use Tax - Forecast Comparison (Quarterly Collections, Accrual)**

Table 2 provides summary of expected total revenues, collection costs, transfers to DEQ (for electric vehicle rebates and promotions), and net revenues to ODOT. The collection costs are higher for the first biennium due to start-up costs and are expected to level out in the forecast. The transfers of Vehicle Privilege Tax to DEQ will end in CY 2024, at which point the net revenue to ODOT will increase by $24 million starting with 2023-25 biennium.
**Bike Excise Tax**

The Oregon bicycle excise tax is a flat tax of $15, collected at the point of sale starting January 1, 2018. Revenue from the bicycle excise tax goes into the Multimodal Active Transportation Fund to provide grants for bicycle and pedestrian transportation projects. This tax initially applied to bicycles with a wheel diameter of 26-inches or larger and excluded electric-assist bicycles. However, during the 2018 Legislative Session, these restrictions were removed (HB 4059) and now all new bicycles of $200 and higher are subject to the tax. While the tax is a liability of the purchaser, the seller is ultimately responsible for collecting it, filing quarterly returns with Department of Revenue, and making payments.

The forecast is developed using six quarters of available data from Department of Revenue. The quantity of bikes sold is adjusted for seasonality based on the six quarters. It is then forecasted using Oregon population growth rates, seasonally unadjusted and multiplied by $15 to generate a gross revenue forecast. Figure 5 below compares the current forecast to the prior one. Stronger than expected sales over the last six quarters have bumped the forecast up.

Collection costs for the Bike Tax program are small, scaled to the revenue collected. Although like the other taxes, fiscal years 2018 and 2019 experienced some one-time costs that bumped up collection costs for those years. Going forward, we expect collection costs to average between $20,000 and $30,000 per year.
Summary

In summary, net tax revenues to ODOT for all three taxes totaled $122.3 million during the 2017-19 biennium. This is 14.5% ($15.5 million) higher than the December 2018 forecast, due to the transit payroll tax revenue coming in stronger than expected. We expect more than double that amount ($257.9 million) in the 2019-21 biennium and growing to $335.6 million in 2023-25 as the DEQ transfer sunsets. With the sunset of this transfer, the $50 million threshold should be reached each biennium, triggering a competitive Connect Oregon program. However, readers need to be aware that the forecasts are based on limited historical data. Over time, the data will improve and the forecasts will become more stable and accurate.

Table 2: Total & Net Tax Revenues (Millions of Dollars)

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<thead>
<tr>
<th></th>
<th>Actual FY 2018</th>
<th>Actual FY 2019</th>
<th>Forecast FY 2020</th>
<th>Forecast FY 2021</th>
<th>Forecast FY 2022</th>
<th>Forecast FY 2023</th>
<th>Forecast FY 2024</th>
<th>Forecast FY 2025</th>
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<td>$165.2</td>
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Note: Individual amounts may not add up to the total due to rounding.
Table 3: Estimated Transit Payroll Tax Revenue Distributed by Fiscal Year (based on when the funds will be distributed)

<table>
<thead>
<tr>
<th></th>
<th>FY 2020</th>
<th>FY 2021</th>
<th>FY 2022</th>
<th>FY 2023</th>
<th>FY 2024</th>
<th>FY 2025</th>
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<td>TOTAL</td>
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<td>4% for community connections</td>
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<td>$116,964,192</td>
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**QUALIFIED ENTITIES:**

- Baker County
- Basin Transit Service District w/out of district
- In district
- Out of district
- Benton County
- Burns Paiute Tribe
- Columbia County
- Confederated Tribes of Coos, Lower Umpqua and Siuslaw
- Confederated Tribes of Grand Ronde Community of Oregon
- Confederated Tribes of Siletz Indians
- Confederated Tribes of the Umatilla Indian Reservation
- Confederated Tribes of Warm Springs
- Coos County
- Coquille Indian Tribe
- Cow Creek Band of Umpqua Tribe of Indians
- Curry County
- Deschutes County
- Douglas County
- Gilliam County
- Grant County Transportation District
- Harney County
- Hood River County Transportation District
- Jefferson County
- Josephine County
- Klamath Tribes
- Lake County
- Lane Transit District w/out of district
- In district
- Out of district
- Lincoln County
- Linn County
- Malheur County
- Morrow County
- Rogue Valley Transportation District w/out of district
- In district
- Out of district
- Salem Area Mass Transit District w/out of district
- In district
- Out of district Marion County
- Out of district Polk County
- Sherman County
- Sunset Empire Transportation District
- Tillamook County Transportation District
- Tualatin Valley Community Transportation District
- Tri County Metropolitan Transportation District w/out of district
- In district
- Out of district Clackamas County
- Out of district Columbia County
- Out of district Multnomah County
- Out of district Washington County
- Umatilla County
- Union County
- Walla Walla County
- Wasco County
- Wheeler County
- Yamhill County

**Out of district:**

- Washington County
- Clackamas County
- Polk County
- Marion County
- In district
- Out of district