

April 2021 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).

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

	Actual	Forecast		
	BI 2017-19	BI 2019-21	BI 2021-23	BI 2023-25
TRANSIT TAX	\$95.8	\$205.6	\$223.7	\$252.5
VEHICLE PRIVILEGE TAX	\$16.4	\$32.0	\$35.6	\$63.5
VEHICLE USE TAX	\$12.0	\$13.5	\$18.6	\$19.8
BIKE EXCISE TAX	\$0.9	\$1.5	\$1.6	\$1.6
TOTAL NET TAX REVENUE	\$125.1	\$252.7	\$279.6	\$337.5

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

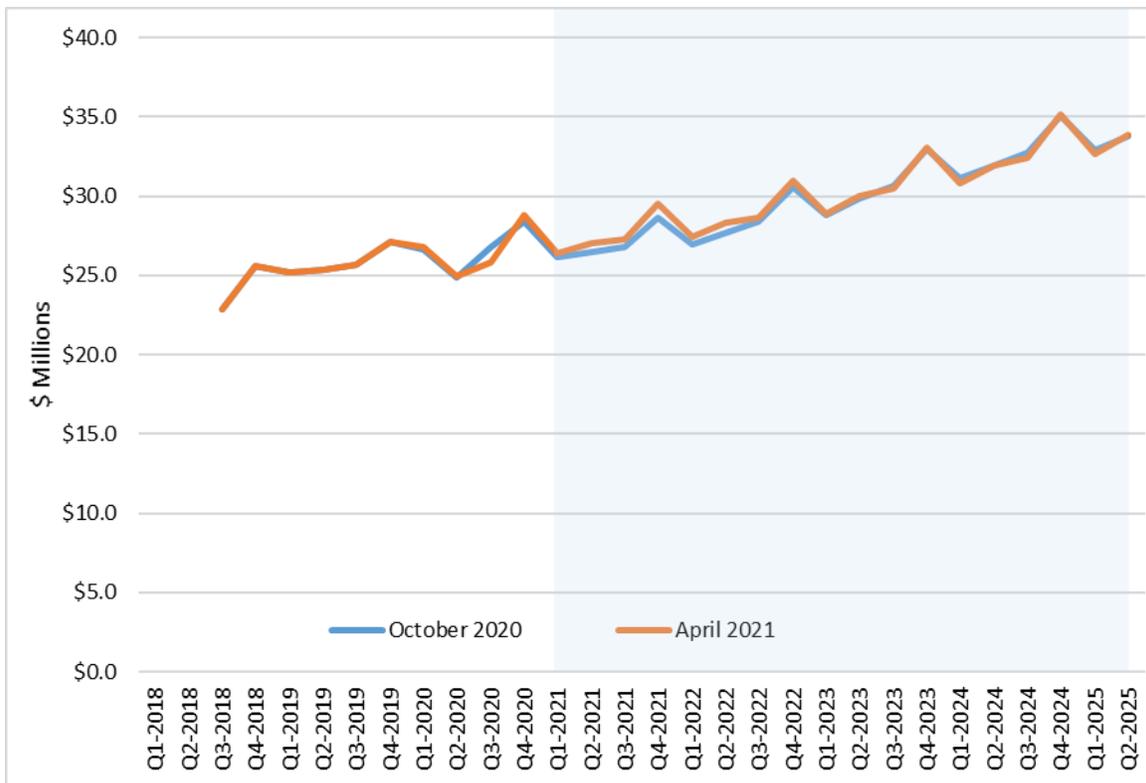
Transit Payroll Tax

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. The ratio is about 96%. Another feature of this data is that the most recent actuals will continue maturing as entities pay the past due tax. Because of that, the Q4-2021 data is considered preliminary and our forecast makes an adjustment to it based on historic data and how it matures over time. The forecast has been tracking well against the actuals. The current forecast is slightly higher for this and next biennia, mainly due to stronger recovery from COVID-19 pandemic impact.

Figure 1. Transit Payroll Tax Collections - Forecast Comparison (Quarterly Collections, Accrual)



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.

Typically the forecast is developed using DMV's forecast for New Light Vehicle Titles. However, due to DMV office closures back in Mar-Apr of 2020 from the COVID-19 pandemic, and consequent backlog of title transactions, these series have not been very reliable for forecasting vehicle privilege and use taxes. DMV is anticipating to catching up on the backlog by the end of summer of 2021. In the meantime we are using other methods to estimate vehicle privilege and use taxes, including limited history that we have so far compiled. 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 (October 2020) forecast for Vehicle Privilege Tax and Figure 3 shows the forecast comparison for Vehicle Use Tax. The expected revenues for 2021 and beyond are higher than what was previously forecasted due to much stronger new light vehicle sales forecast, higher average vehicle sales prices and overall economic outlook. However, there are some short term issues around vehicle supplies, which presents some risks to this forecast.

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.

Figure 2. Vehicle Privilege Tax - Forecast Comparison (Quarterly Collections, Accrual)

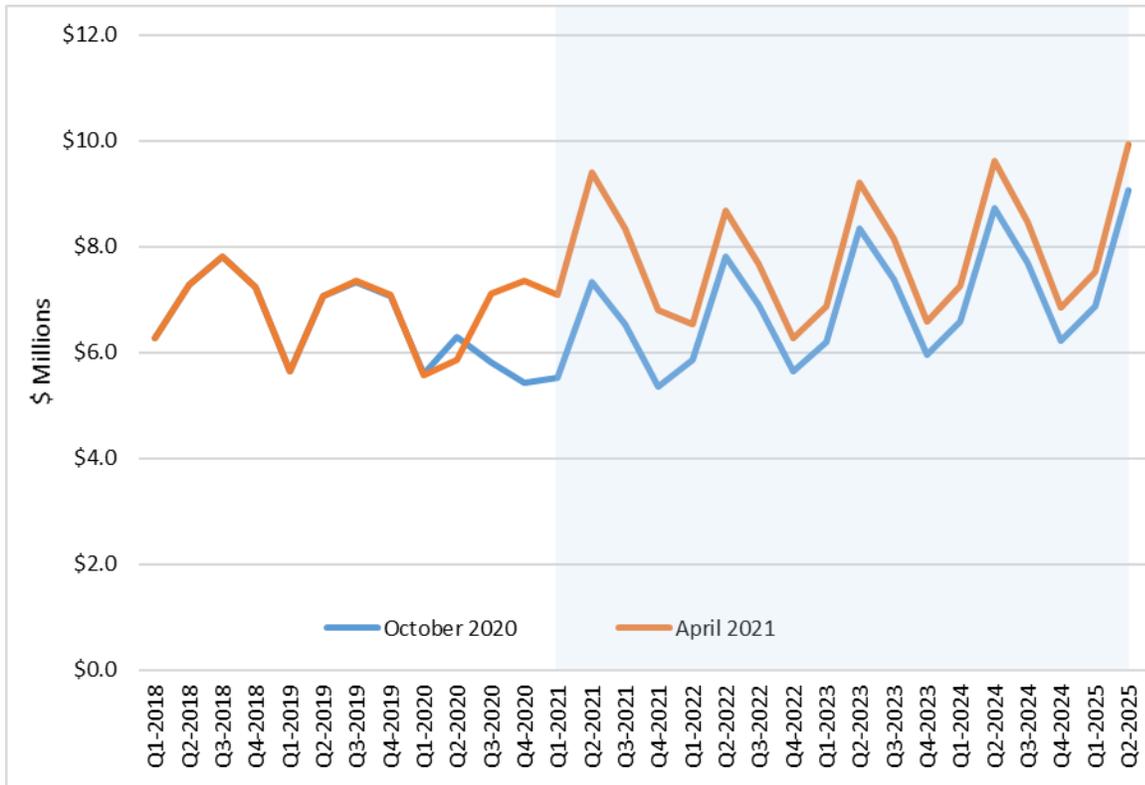
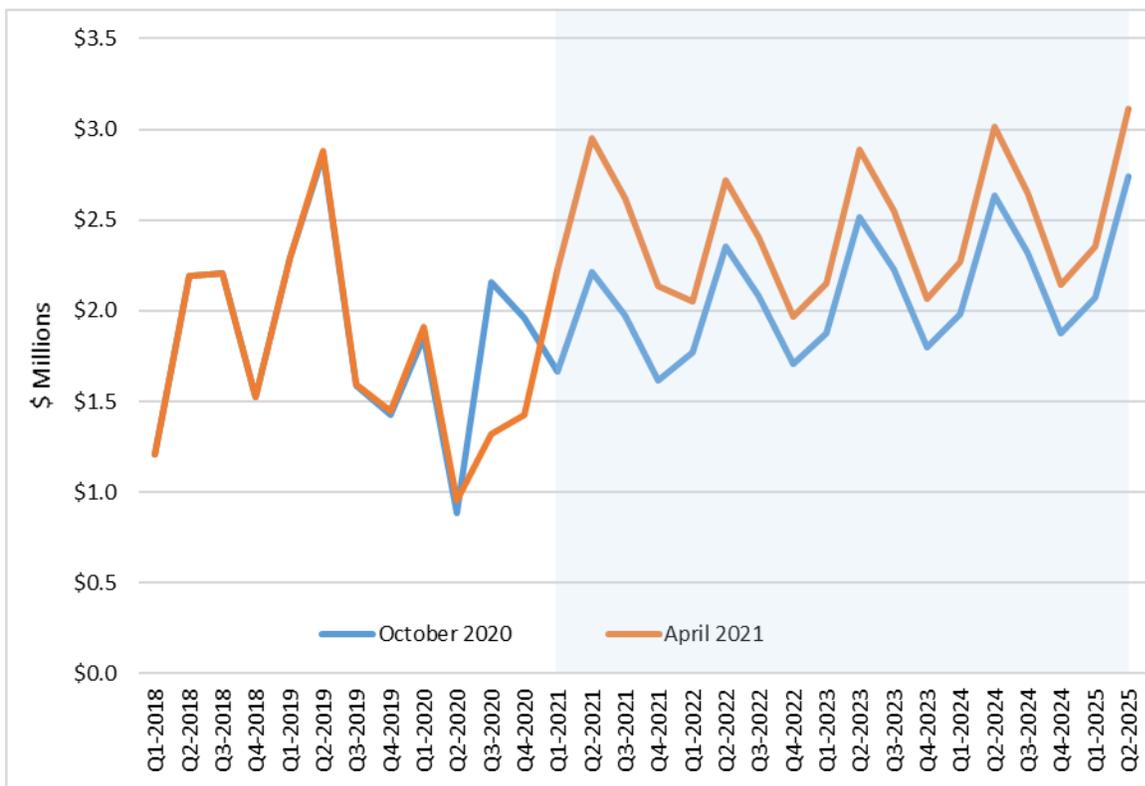


Figure 3. Vehicle Use Tax - Forecast Comparison (Quarterly Collections, Accrual)

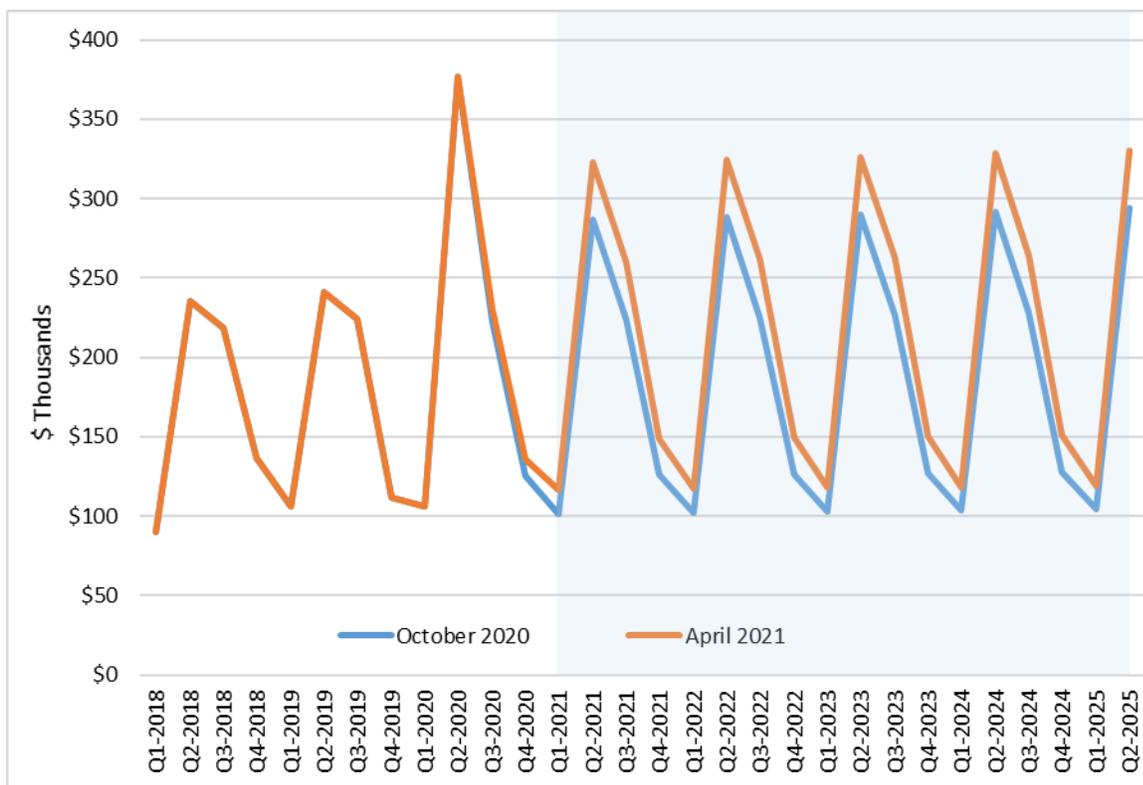


Bike Excise Tax

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 historical data from the Department of Revenue and Oregon population growth rates. There was an unexplained increase in bicycle sales in the second quarter of 2020. We were not expecting any big impacts on this forecast due to COVID-19, however, to our surprise, we found a big positive impact. It's too early to know if this increase was a result of COVID-19 pandemic or if this is due to increased reporting, stimulus money people received, or a beginning of a new trend (Figure 5). Future data will provide more answers and insights into this forecast. The overall current forecast is a bit stronger than the previous forecast.

Figure 5: Bicycle Excise Tax Collections – Forecast Comparison (Quarterly Collections, Accrual)



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 \$42,000 per year.

Summary

In summary, net tax revenues to ODOT for all three taxes totaled \$125 million during the 2017-19 biennium. For 2019-21 biennium we anticipate a net revenue of \$252.7 million which is 2.9% (\$7.1 million) more than October 2020 forecast. Revenues for 2021-23 biennium are up 5.4% (\$14.3 million) compared to the previous forecast and revenues for 2023-25 biennium are up 2.4%. This is mainly due to a lesser negative impact of COVID-19 on payroll and vehicle sales compared to earlier forecasts.

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

	Actual			Forecast					Actual BI 2017-19	Forecast		
	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025		BI 2019-21	BI 2021-23	BI 2023-25
TAX COLLECTIONS												
TRANSIT TAX	\$0.0	\$99.0	\$104.6	\$108.1	\$112.5	\$118.5	\$126.4	\$134.1	\$98.99	\$212.71	\$231.05	\$260.44
VEHICLE PRIVILEGE TAX	\$13.6	\$27.8	\$25.9	\$31.0	\$30.4	\$30.0	\$31.6	\$32.8	\$41.36	\$56.82	\$60.43	\$64.36
VEHICLE USE TAX	\$3.4	\$8.9	\$5.9	\$7.9	\$9.5	\$9.4	\$9.9	\$10.3	\$12.30	\$13.84	\$18.94	\$20.16
BIKE EXCISE TAX	\$0.3	\$0.7	\$0.8	\$0.8	\$0.9	\$0.9	\$0.9	\$0.9	\$1.03	\$1.62	\$1.71	\$1.73
TOTAL TAX COLLECTIONS	\$17.3	\$136.4	\$137.2	\$147.8	\$153.3	\$158.8	\$168.7	\$178.0	\$153.7	\$285.0	\$312.1	\$346.7
Change from Previous Forecast	\$0.0	\$0.0	-\$0.1	\$7.2	\$9.1	\$5.1	\$4.0	\$3.8	\$0.0	\$7.1	\$14.3	\$7.8
COLLECTION COSTS:												
TRANSIT TAX	\$0.0	\$3.2	\$3.6	\$3.5	\$3.6	\$3.7	\$3.9	\$4.0	\$3.23	\$7.12	\$7.37	\$7.90
VEHICLE PRIVILEGE TAX	\$0.3	\$0.7	\$0.4	\$0.4	\$0.4	\$0.4	\$0.4	\$0.4	\$0.93	\$0.78	\$0.79	\$0.85
VEHICLE USE TAX	\$0.1	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2	\$0.33	\$0.31	\$0.32	\$0.34
BIKE EXCISE TAX	\$0.1	\$0.1	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.12	\$0.08	\$0.08	\$0.09
TOTAL COLLECTION COSTS	\$0.4	\$4.2	\$4.2	\$4.1	\$4.2	\$4.4	\$4.5	\$4.7	\$4.6	\$8.3	\$8.6	\$9.2
TRANSFER TO DEQ:												
VEHICLE PRIVILEGE TAX	\$12.0	\$12.0	\$12.0	\$12.0	\$12.0	\$12.0	\$0.0	\$0.0	\$24.0	\$24.0	\$24.0	\$0.0
NET TAX REVENUES TO ODOT												
TRANSIT TAX	\$0.0	\$95.8	\$101.0	\$104.6	\$108.9	\$114.8	\$122.5	\$130.0	\$95.8	\$205.6	\$223.7	\$252.5
VEHICLE PRIVILEGE TAX	\$1.3	\$15.1	\$13.5	\$18.6	\$18.0	\$17.6	\$31.2	\$32.3	\$16.4	\$32.0	\$35.6	\$63.5
VEHICLE USE TAX	\$3.3	\$8.7	\$5.8	\$7.8	\$9.4	\$9.2	\$9.7	\$10.1	\$12.0	\$13.5	\$18.6	\$19.8
BIKE EXCISE TAX	\$0.3	\$0.6	\$0.8	\$0.8	\$0.8	\$0.8	\$0.8	\$0.8	\$0.9	\$1.5	\$1.6	\$1.6
TOTAL NET REVENUES TO ODOT	\$4.9	\$120.2	\$121.0	\$131.7	\$137.1	\$142.5	\$164.2	\$173.3	\$125.1	\$252.7	\$279.6	\$337.5
PRIOR FORECAST NET TAX REVENUES												
TRANSIT TAX	\$0.0	\$95.8	\$100.7	\$104.3	\$106.5	\$113.9	\$122.8	\$130.5	\$95.8	\$205.1	\$220.5	\$253.4
VEHICLE PRIVILEGE TAX	\$1.3	\$15.1	\$13.9	\$11.7	\$13.2	\$14.7	\$28.2	\$29.4	\$16.4	\$25.6	\$27.9	\$57.6
VEHICLE USE TAX	\$3.3	\$8.7	\$5.6	\$7.8	\$7.6	\$8.0	\$8.5	\$8.8	\$12.0	\$13.4	\$15.6	\$17.3
BIKE EXCISE TAX	\$0.3	\$0.6	\$0.8	\$0.7	\$0.7	\$0.7	\$0.7	\$0.7	\$0.9	\$1.5	\$1.4	\$1.4
CHANGE FROM PRIOR FORECAST												
TRANSIT TAX	\$0.0	\$0.0	\$0.2	\$0.3	\$2.4	\$0.8	-\$0.3	-\$0.5	\$0.0	\$0.5	\$3.2	-\$0.8
VEHICLE PRIVILEGE TAX	\$0.0	\$0.0	-\$0.4	\$6.9	\$4.8	\$2.9	\$3.0	\$2.9	\$0.0	\$6.4	\$7.8	\$5.9
VEHICLE USE TAX	\$0.0	\$0.0	\$0.2	-\$0.1	\$1.8	\$1.2	\$1.3	\$1.3	\$0.0	\$0.1	\$3.1	\$2.5
BIKE EXCISE TAX	\$0.0	\$0.0	\$0.0	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.0	\$0.1	\$0.2	\$0.2

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