Oregon
Kate Brown, Governor

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TO: Road User Fee Task Force Members
FROM: ODOT Office of Innovation Staff
SUBJECT: Extending Registration Exemption to 40+ MPG Vehicles Participating in OReGO
DATE: May 30, 2018

Executive Summary

The 2017 transportation package (HB 2017) created the option for fully electric vehicle owners enrolled in OReGO to be exempt from paying the enhanced registration fees. At the February 2018 Road User Fee Task Force (RUFTF) meeting, members asked ODOT staff to analyze the revenue impacts of extending the exemption option to other highly efficient vehicles, such as those that get 40+ MPG. RUFTF also asked whether the additional registration fees set by HB 2017 were set at levels to incentivize vehicles to opt into OReGO rather than pay the enhanced registration fee.

This memo addresses how this potential policy change might affect OReGO enrollment numbers, the impact of additional vehicles on OReGO program costs, and overall forecasted net revenue if more vehicles owners chose this option.

Even with the new enhanced registration fees on fuel efficient vehicles set by HB 2017, fuel efficient vehicles will still pay less in total fuels tax and registration fees than less fuel efficient vehicles. Further, under HB 2017 a highly fuel efficient vehicle that drives an average number of miles will pay less than they would pay if they were subject to a per-mile road usage charges. As a result, each fuel efficient vehicle that enrolls in OReGO will increase gross revenue.

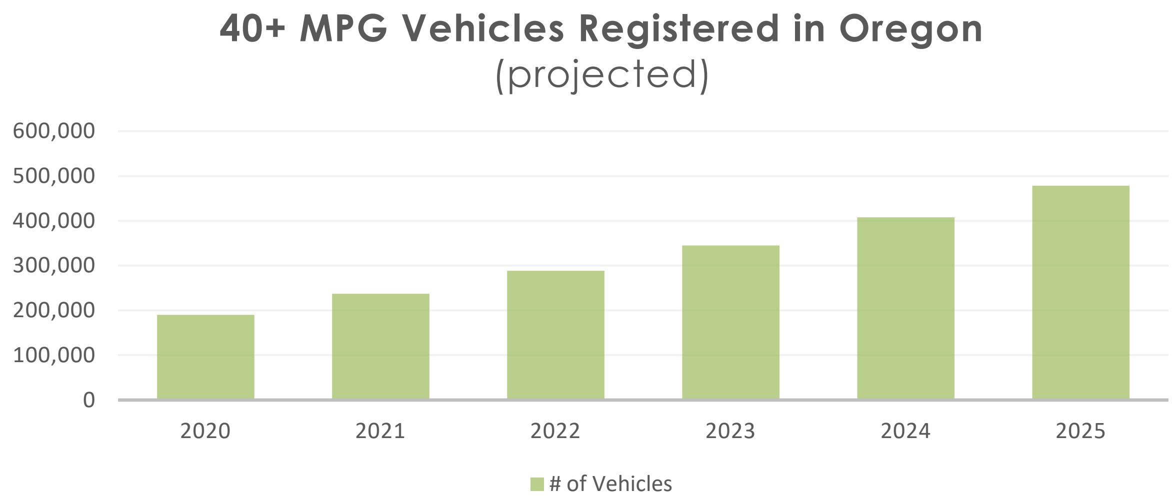
Therefore, even at low levels of increased participation, losses in fuels tax and vehicle registration revenue are offset by the potential gains in RUC revenue, meaning the net impact to the Highway Fund would be positive relative to the status quo. More technically, gross RUC revenue will outpace the rate of program cost increases resulting in a better net revenue position for the state if the current exemption is expanded to 40+ MPG vehicles. Additionally, the new registration fees created in HB 2017 do not adequately reflect the cost of average road usage, and therefore may not be an effective OReGO participation incentive.

Discussion

How many vehicles could this affect?

While the number of 40+ MPG vehicles currently registered in Oregon represents a small minority of the fleet, it's a rapidly growing segment that's projected to reach close to 200,000 vehicles by 2020, and nearly 500,000 vehicles by 2025 (see Figure 1).

Figure 1

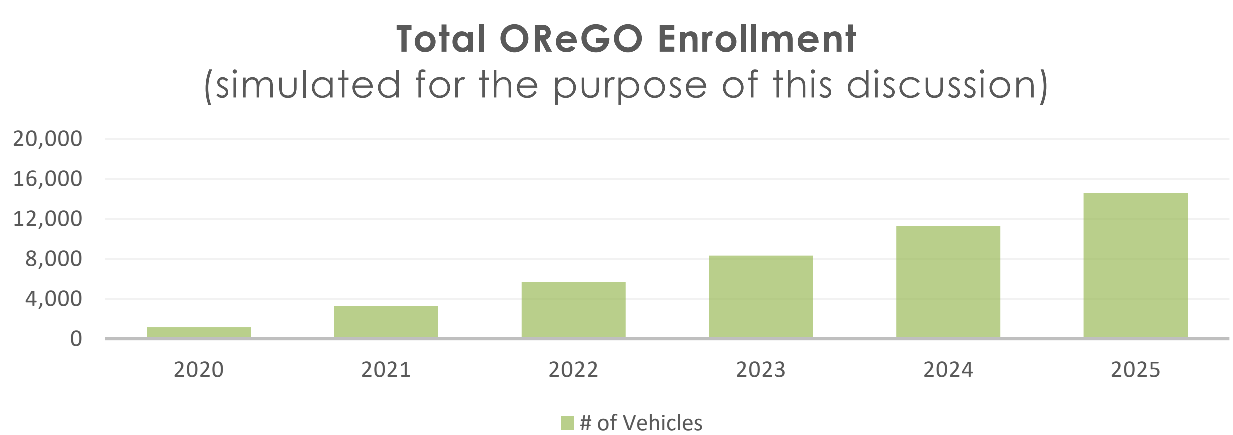


An expanding market for high-efficiency vehicles, coupled with the value-added services provided by OReGO account managers, may increase participation. To better understand the potential impact to program costs, ODOT economists took a balanced approach to simulating future enrollment figures. For this analysis, the model relies on the following assumptions:

- Existing registration renewals: One percent of previous year's 40+ MPG vehicles will enroll in OReGO beginning January 1, 2020.
- Enrolling in OReGO at point of sale beginning January 1, 2021: Five percent of new 40+ MPG vehicles will enroll in OReGO at the dealership.
- Beginning in 2021, OReGO will experience a three percent attrition rate of new enrollees.

Figure 2 shows the effect that extending exemptions to the 40+ MPG category may have on OReGO enrollment figures.

Figure 2



How will an increase in enrollment from extending the registration exemption to 40+ MPG affect OReGO administrative costs?

ODOT staff for OReGO will remain static over the short-term, increasing slightly as vehicle enrollment exceeds 10,000. This results in a corresponding step up in OReGO collection costs in 2024 (light blue line, Figure 3). Otherwise, administrative costs increase linearly over the forecasted period because of account manager compensation costs and general inflation.

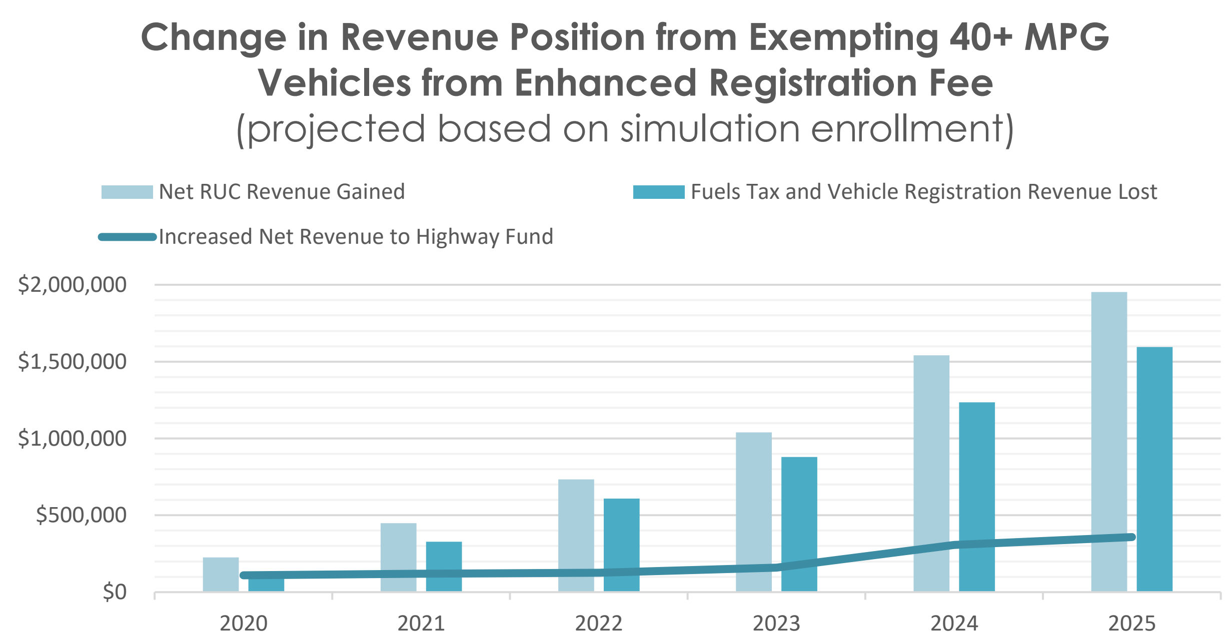
The model shows that increases in gross RUC revenue collection outpace increases in administrative and collection costs. The margin between administrative costs and revenue grows as more vehicles enroll in the OReGO program due to economies of scale. Since this is a developing market, the administrative cost projections used in this analysis are intentionally conservative. ODOT staff expects that we will continue to see reductions in administrative costs as the technology scales beyond Oregon.

How would this concept affect net revenue for the Highway Fund?

Revenue analysis of the net impact of enrolling vehicles in the OReGO program must consider fuels tax revenue lost and vehicle registration revenue lost.

Figure 3 shows the forecasted net revenue impact to ODOT if the exemption is extended to 40+ MPG vehicles. Losses in fuels tax and vehicle registration revenue are offset by gains in RUC revenue. This means the net impact to the Highway Fund will be positive compared to current program.

Figure 3

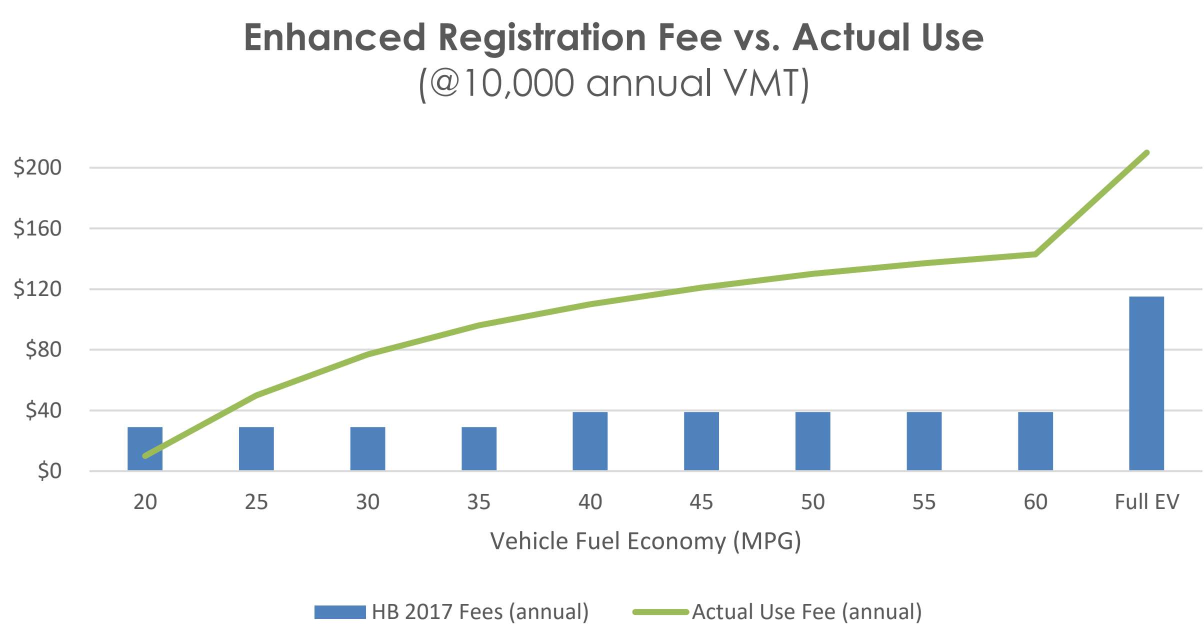


Given this information, are the enhanced registration fees from HB 2017 at the right levels to incentivize OReGO participation?

If 40+MPG vehicles are able to opt in to OReGO, the state is projected to take in more revenue through voluntary OReGO participation than through enhanced registration fees.

Currently, the enhanced registration fees do not equitably account for vehicle owners' use of the roads. In response to RUFTF's request for additional information, ODOT analyzed what value of enhanced registration fee would be required in order for RUC costs to be economically preferred (Figure 4). All values provided reflect full implementation of related HB 2017 provisions, effective January 1, 2024.

Figure 4



This analysis looks at vehicles in 5 MPG increments, assumes individuals drive 10,000 miles annually (approximate statewide average), and compares what a vehicle owner would pay in fuels tax to what they would pay in RUC. The difference is the minimum value at which an enhanced registration fee would need to be set in order for the vehicle owner to pay less in RUC than through fuels tax (assuming all OReGO participants were exempt from the enhanced registration fees).

For example, an owner of a vehicle that gets 45 MPG will pay an additional $39 per year when the fees are fully implemented. If that vehicle owner drove 10,000 miles in a year, the amount to be commensurate with the associated road use would be $121. If the vehicle owner drives more than 10,000 miles that value goes up, and if they drive less the value goes down. What ODOT staff found is that, above 20 MPG, vehicles will pay less than they would under a RUC because the enhanced registration fee is not adequately accounting for a driver's use of Oregon's roads relative to a fuels tax system.

Conclusion

As seen in this memo, the enhanced registration fees to do not adequately account for road use. Further, if owners of 40+ MPG vehicles take advantage of this enhanced registration exemption option, more funds will be available in the Highway Fund.

RUFTF has the goal of investigating options for generating sustainable funding for Oregon's transportation system and the Task Force has confirmed its support for an eventual mandatory RUC program for the state of Oregon. Expanding OReGO in this way will likely increase participation in the program and allow for ODOT to prepare for a potential mandatory RUC scenario.