NATURAL RESOURCES DEFENSE COUNCIL

Date: November 18, 2020

For: Chair Craig Dirksen
Representative John Lively
Members of Roadway Users Funding Task Force

From: Angus Duncan, PNW Consultant, NRDC

Subject: Proposed RUFTF Report to the Legislature

I will spare Task Force Members a repetition of my comments of October 28, and simply incorporate them by reference here.

I will, however, express my appreciation to the Task Force for its responsiveness to several of the comments I and others submitted, especially where the edits reflected in the current draft recommendations have resulted in a less prejudicial outcome for vehicles that emit fewer greenhouse gas and criteria pollutants. These changes reflect credit on the Task Force both for its openness to meritorious stakeholder comment and its sensitivity to the exigencies of climate outcomes.

That said, I regret the Task Force was unable to avoid taking the fateful step backward of abandoning a road user funding approach -- the existing gas tax -- that effectively includes the "polluter pays" principal, and proposing to substitute an alternative approach – the simple VMT charge – that does not.

Drivers currently paying a gas tax are paying for the pollution they release, a consequence of their fuel efficiency, as well as for the pavement they require, reflecting the miles they drive. Under a simple VMT charge, they would only be paying for the latter. Stepping back from the polluter pays principle is not an approach NRDC can support, especially when we and others have described to the Task Force at least two alternatives that can as reliably raise transportation system revenues while reinforcing State pollution policies and aspirations, including those most recently enunciated by the Governor in Executive Order 20-04.

The Task Force may wish to consider the recent experience of the Nevada legislature where a VMT-simple bill, opposed by the environmental community among others, failed in the Legislature because it abandoned the pollution price signal inherent in Nevada's prevailing gas tax. These stakeholders, including business and environmental organizations – and the Nevada Trucking Association (see position letter, attached below) –

are now working constructively with legislators on an alternative that would simply index the existing gas tax to assure durable funding without attenuating the pollution pays cost signal.

As promising as are the recent modifications the Task Force has thus far made to its draft recommendations to the Legislature, I sincerely hope it can regroup and reconsider how to complete its task of reinforcing Oregon's transportation funding mechanism consistent with State policies aimed at reducing airshed and greenhouse gas pollutants. That would be an outcome we would be very pleased to support in the Legislature.

June 19, 2020

Legislative Committee on Energy 401 S Carson Street
Carson City, Nevada 89701

Re: SCR 3 Transportation Funding Recommendations

Dear Chair Monroe-Moreno and Vice Chair Brooks,

Thank you for leading a thoughtful process to develop much-needed solutions to Nevada's transportation infrastructure challenges, which have been exacerbated by the current public health crisis in its impact on state revenues. To place the state on the road to recovery and ensure stable funding in the future, the same issues that prompted the formation of the SCR3 working group remain. The working group's dialogue revealed one solution that can address those issues and that aligns with the principles described in this letter—indexing the gas tax to inflation and total fuel consumption and extending it to other fuels on an energy equivalent basis.

The full committee's recommendation should start by identifying the real problems. Historically, inflation has been the biggest source of transportation funding losses in the state. By indexing to inflation, Clark and Washoe addressed that problem, but those local measures result in discrepancies across county lines, and after Clark County's "Fuel Indexing for the Future" expires in 2026, inflation will once again be the main source of revenue erosion in the state. Relative to inflation, improved fuel economy and electric vehicle (EV) adoption have not resulted in significant revenue erosion, but they could result in future losses if not addressed.

Nevada should avoid the red herring solution embraced by some states that have singled-out EVs with punitive fees under the pretense of addressing their larger transportation funding issues. As Consumer Reports notes in a report titled *Rising Trend of Punitive Fees on Electric Vehicles Won't Dent State Highway Funding Shortfalls but Will Hurt Consumers*, those EV fees "will not make a dent in declining revenues, generating only an average of 0.04 percent of current state highway funding, and only increasing to 0.3 percent by 2025." Going after the cleanest vehicles on the road ignores 99 percent of the problem and could create obstacles for Nevada's air quality, public health and climate goals. Instead, the Legislative Committee on Energy should recommend a comprehensive solution that encompasses EVs, while also addressing the real sources of revenue loss.

The committee's consideration of proposed solutions should be informed by the following principles:

- *User pays:* Taxation should vary in proportion to wear-and-tear that varies by vehicle weight, use of road capacity that varies by vehicle size, and total miles driven.
- *Polluter pays:* Taxation should reflect the social, economic and public health damages caused by vehicular pollution.
- *Efficiency:* Improvements in efficiency that reduce consumer expenditures on fuel and avoid pollution (and its related costs on public health infrastructure and lives) should be encouraged.
- *Technological neutrality:* Technology-specific taxation unfairly skews the market and should be avoided.
- *Equity:* Reducing combined tax and fuel bills should be prioritized to provide much-needed relief to households, especially in disproportionately affected communities of color, that spend a larger share of disposable income at the fuel pump.
- *Alignment with other state goals:* The collection of revenue needed to maintain the transportation system should encourage emissions reductions in the transportation sector (the single-largest source of emissions in the state) without which the state cannot meet its climate and air quality goals.
- *Administrative efficiency:* Especially at a time when the state's budget is strained, Nevada cannot afford to waste human resources or revenue on administrative inefficiencies.

Only one solution vetted through the SCR3 working group process advances all these principles and would forever stabilize Nevada's transportation funding. The state should:

- Index state and local motor fuel taxes to both inflation and total fuel consumption, and
- Tax vehicles not otherwise subject to motor fuel taxation (such as EVs) as if they drove on conventional motor fuel based upon their individual annual mileage as already reported to the DMV and their individual fuel economy ratings as published on *fueleconomy.gov*.

Nevada does not need to pilot this solution because the gas tax is already in operation and Clark and Washoe counties have already demonstrated that inflation indexing is effective. The modest extension of that existing solution to also account for total fuel consumption is also a proven solution. It has been working for over 30 years in another major portion of the U.S. economy — the power sector. Decades ago, utilities and efficiency advocates realized that if they wanted to pursue energy efficiency that lowers total household bills, they had to break the link between the volume of electricity and natural gas sold and the recovery of revenue needed to maintain the electric and gas systems. They began indexing utility rates to fuel consumption via "revenue decoupling mechanisms," which adjust utility rates up or down automatically to ensure utilities collect no more or no less than their authorized revenue requirements. This simple accounting mechanism has been working ever since, allowing for investments in energy efficiency that lower total household bills without compromising the collection of revenue needed to maintain the electric and gas systems. Thirty-three states now have revenue decoupling mechanisms in place. The Public Utilities Commission of Nevada approved revenue decoupling for the state's primary single-fuel utility, Southwest Gas, in 2009, and the measure has been in place since 2010.

Across the nation, it governs more than $110 billion in annual power sector revenue. If it did not work, shareholders and creditors would have fled the sector. Instead, utilities that have adopted this solution are viewed as an even safer financial bet. The math behind that solution does not care whether the units in play are kilowatt-hours of electricity, therms of natural gas, or gallons of gasoline.

Indexing the gas tax to inflation and total fuel consumption would result in small, automatic, annual adjustments that would be relatively unnoticeable compared to the volatility of underlying gasoline prices, and at the same time stabilize Nevada's transportation funding stream.

Extending that indexed gas tax to electricity is relatively simple, since Nevada's DMV already requires EV drivers to report their mileage. Simply dividing the annual miles driven by the mile-per-gallon equivalent rating of an EV and multiplying that result by the state's gas tax results in a vehicle registration fee that is the same as what an EV driver would pay if he or she drove a gasoline vehicle of equivalent efficiency. Just like the existing gas tax, drivers of more efficient EVs would pay less and drivers of less efficient EVs would pay more. And it's future-proof. Because those registration fees are tied to the state's indexed gas tax, even if the entire vehicle fleet in the state were to gradually become all electric, the state would still collect the exact same amount in total revenue in real dollars.

This simple tweak to the existing system avoids novel taxes, fees, or administrative processes that have never been proven at a statewide scale, and instead builds upon the inflation indexing that has already been successful in Clark and Washoe counties and the information and vehicle registration fees the DMV already collects. The current system is not fundamentally broken; it only needs some minor tweaks to align with the state's long-term goals and provide stable funding in perpetuity.

Sincerely,

/s/ Max Baumhefner
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Natural Resources Defense Council

/s/ Paul Enos
Paul Enos
Chief Executive Officer Nevada Trucking Association

/s/ Katherine Stainken
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