Highway Cost Allocation Study
2019-2021 Biennium Results

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Highway Cost Allocation in Oregon

For over 70 years, Oregon has based the financing of its highways on the principle of cost responsibility:

- Cost responsibility is the idea that users of public roads should pay in proportion to the road costs for which they are responsible

- This is Oregon's 21st study; the first was in 1937 by Conde McCullough

- Since 1999, Oregon's constitution requires a study biennially, and adjustment of rates if necessary (IX section 3a, ORS 366.506)

- The 2017-19 HCAS study was prepared by ECONorthwest, under the guidance of a Study Review Team comprised of stakeholders and academics.

Study Review Team

Consists of eight members who review methods, data, and results:

- Mark McMullen, Office of Economic Analysis (chair)
- Jerri Bohard, Oregon Department of Transportation
- Jana Jarvis, Oregon Trucking Association
- Mazen Malik, Legislative Revenue Office
- Mike Eliason, Association of Oregon Counties
- Tim Morgan, AAA Oregon/Idaho
- Don Negri, Willamette University
- Gerik Kransky, The Street Trust

Research purpose

The purpose of the biennial Oregon Highway Cost Allocation Study (HCAS) is to:

- Determine the share that each class of road user should pay based on their respective share of costs for Oregon's highways, roads, and streets
- Recommend adjustments (if needed) to tax rates and fees to ensure equity between payments and responsibilities for each vehicle class
- Explore topics related to highway cost allocation through issue papers

Issue papers for the 2019 study

Cap-and-Invest

- ECONorthwest explored the potential interaction between the proposed C&I legislation and highway cost allocation

- Majority of carbon allowance revenue will derive from light vehicles, but the impact on equity ratios will depend on the expenditure allocation.

Pavement Cost Allocation in Oregon

- Roger Mingo summarized the procedures and data inputs that affect pavement cost assignment results.

- Distribution of vehicle-miles traveled has the largest impact on overall pavement cost assignments; typically needs to be revised throughout the study.

Research outcome

To answer the question, we calculate **equity ratios** for each weight class -- each vehicle class's share of attributed revenues divided by its share of allocated expenditures

- Ratio = 1.0 means perfect equity
- Ratio > 1.0 means paying more than fair share
- Ratio < 1.0 means paying less than fair share

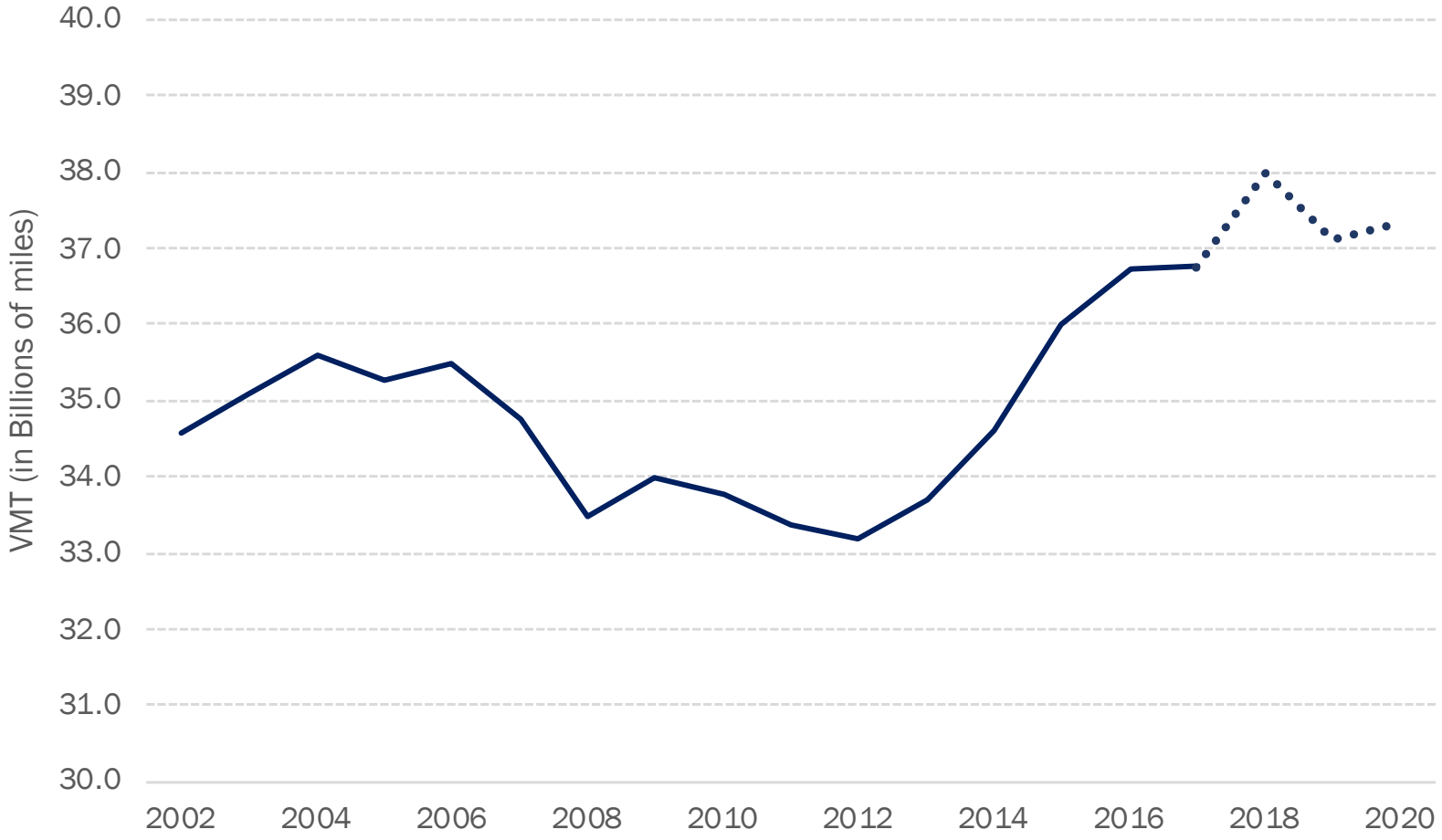
Oregon's approach to cost allocation

Oregon's HCAS is prospective, with equity ratios predicted for upcoming biennium based on:

- Vehicle miles traveled (VMT) are forecasted by ODOT as part of their revenue forecasting process

Oregon VMT trend and forecast

For 2020, ODOT's VMT forecast predicts 37.3 billion miles per year for all vehicles in Oregon



Oregon's approach to cost allocation

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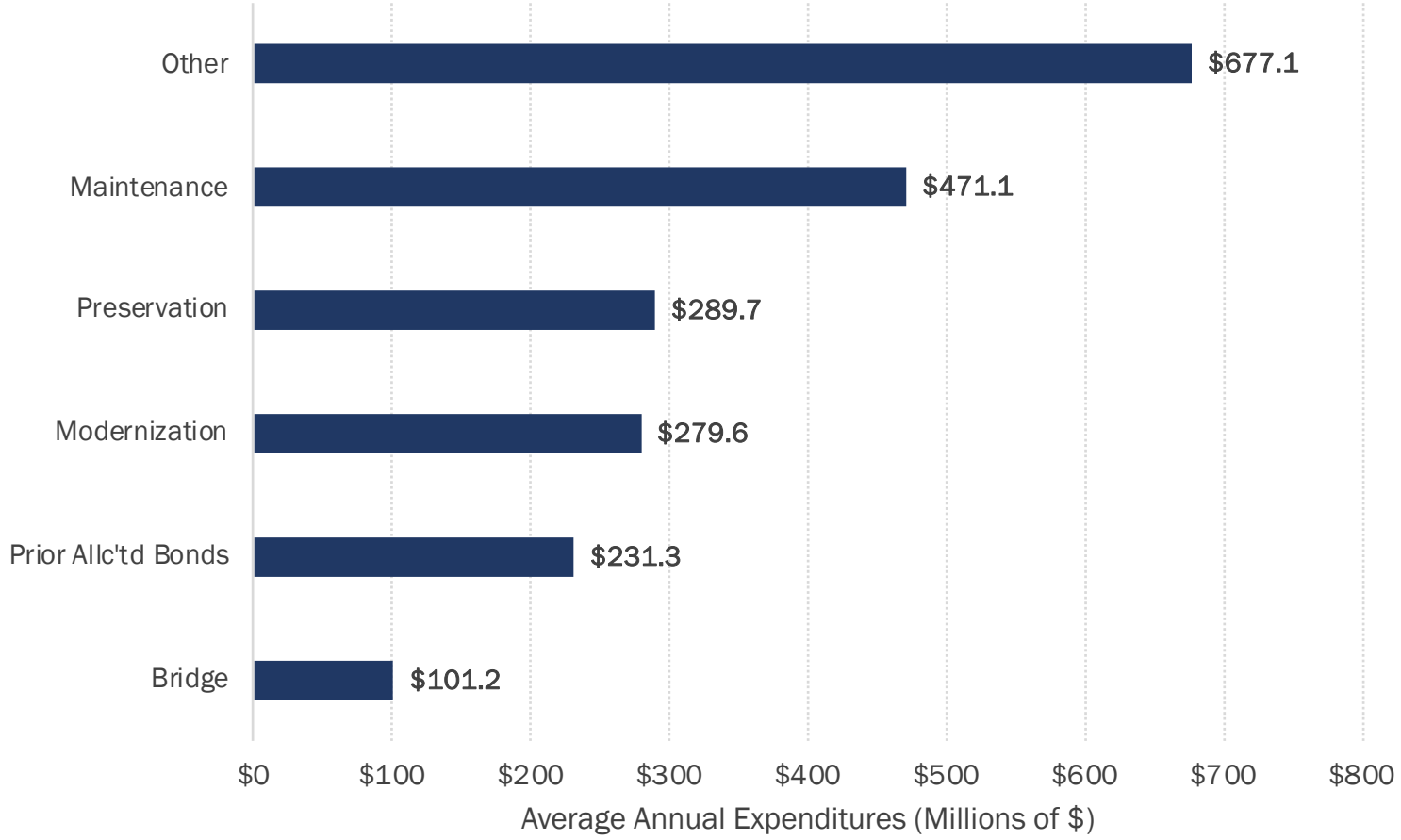
- Vehicle miles traveled (VMT) are forecasted by ODOT as part of their revenue forecasting process

- Expenditures as forecasted by agency budget requests

Composition of highway expenditures

Projected average annual expenditures total $2.1 billion, up 6.2 percent (nominally) compared to expenditures in the 2017 study



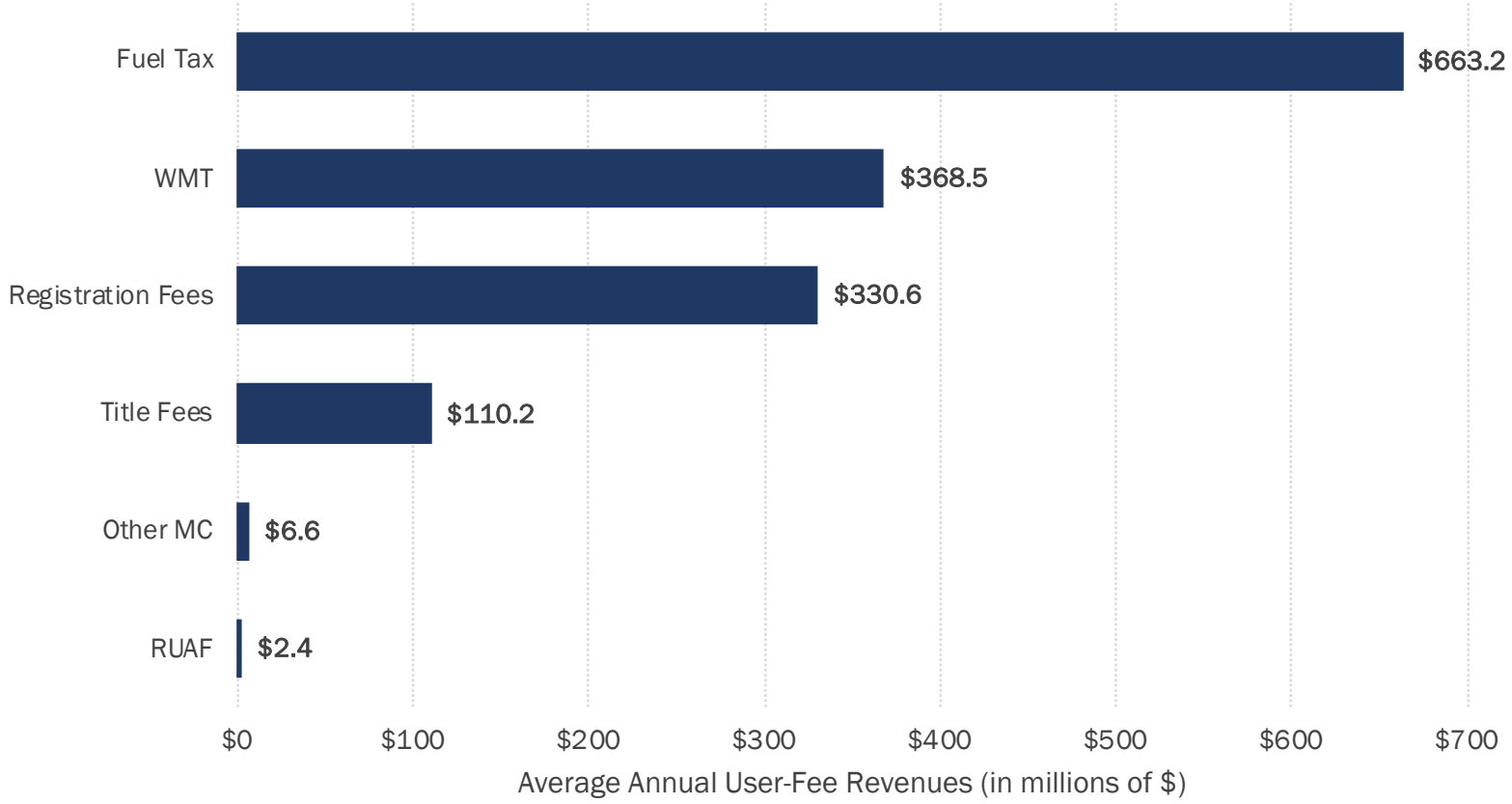
Oregon's approach to cost allocation

Oregon's HCAS is prospective, with equity ratios predicted for upcoming biennium based on:

- Vehicle miles traveled (VMT) are forecasted by ODOT as part of their revenue forecasting process
- Expenditures as forecasted by agency budget requests
- Revenue forecast, which assumes current-law instruments and rates

Composition of highway revenues

Projected average annual revenues for the biennium are $1.5 billion, with WMT and registrations accounting for a larger share of revenues compared to 2017 study



Accounting for alternative fees

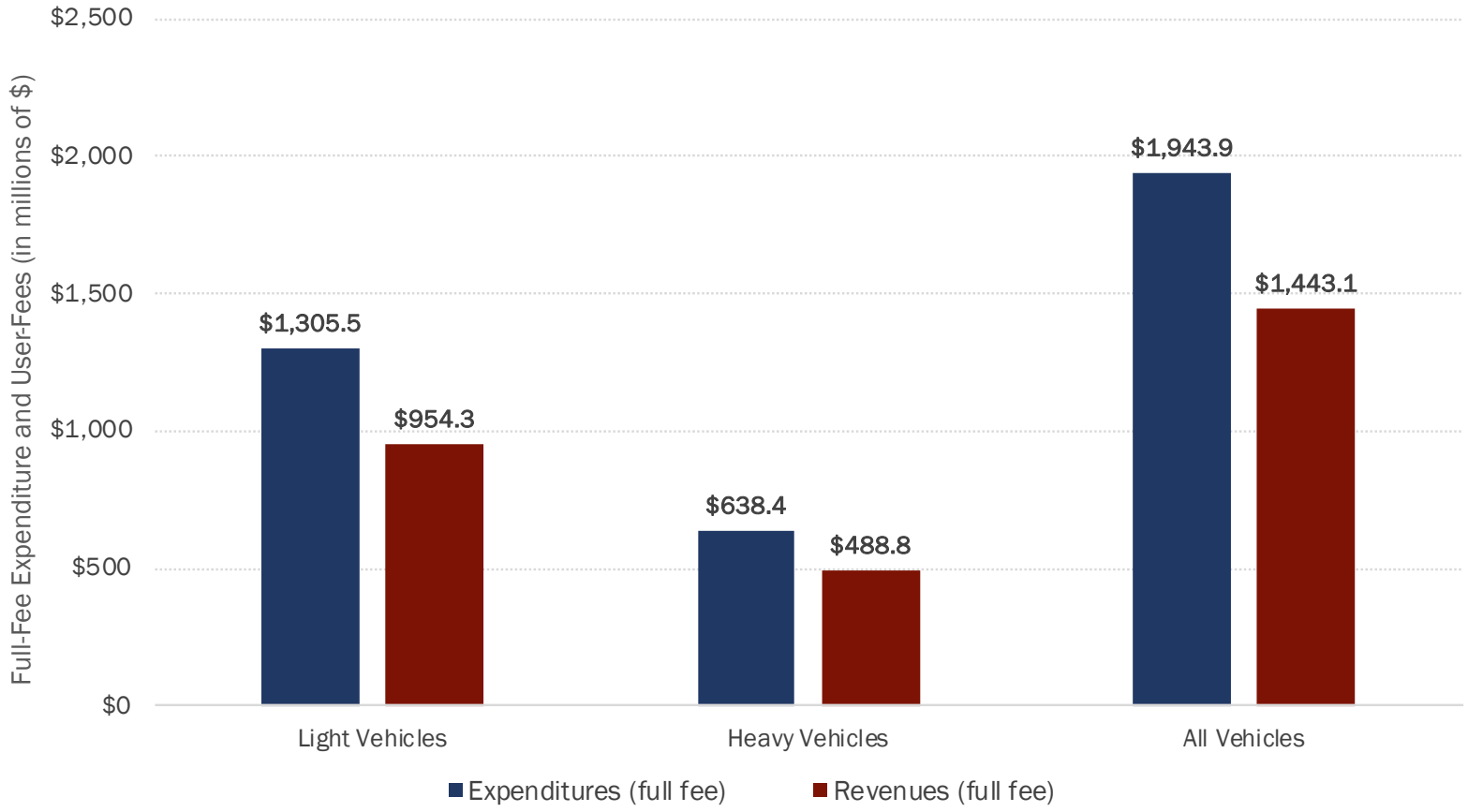
Under Oregon's existing highway taxation structure, some vehicles are exempt from fees or qualify to pay according to alternative-fee schedules

- Primarily publicly owned vehicles and farm trucks

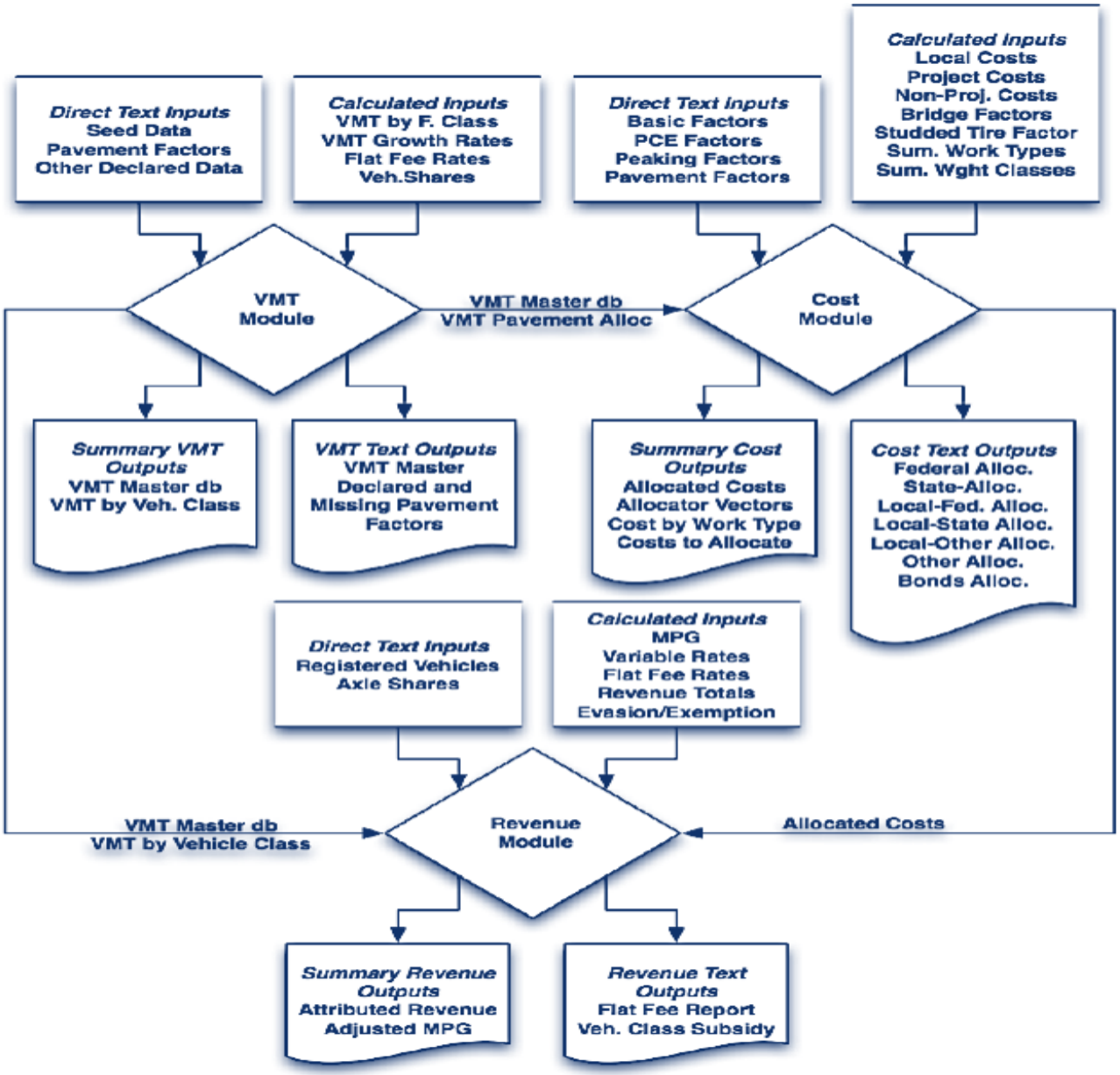
- Since the 2013 HCAS, final results are calculated for full-fee paying vehicles (but alternative-fee totals are reported)

Comparison of full-fee revenues and expenditures

Average annual "full-fee" expenditures are projected to be $1.9 billion and full-fee revenues $1.4 billion - these are the totals allocated for equity ratios



Oregon's HCAS model



Summary results

The table below displays the average annual full-fee VMT, revenues, and expenditures (in millions) allocated to vehicle weight classes.

Declared Weight	VMT	Cost Responsibility	User Fees	Equity Ratio
1 to 10,000	33,478	$1,306	$954	0.985
10,001 to 26,000	706	$75	$60	1.082
26,001 to 78,000	336	$69	$43	0.834
78,001 to 80,000	1,184	$278	$275	1.329
80,001 to 104,000	219	$84	$49	0.790
104,001 to 105,000	264	$110	$60	0.728
105,001 and up	3	$22	$3	0.154
Total	36,191	$1,944	$1,443	1.000

Conclusions

For the 2019 – 2021 biennium:

- Light vehicles are projected to **underpay** by 1.54 percent, while heavy vehicles are projected to **overpay** by 3.14 percent

- User fees don't need to be adjusted for equity in the upcoming biennium

Light Vehicles

Equity ratio: 0.9846
Revenues: 66.1 percent
Costs: 67.2 percent

Heavy Vehicles:

Equity ratio: 1.0314
Revenues: 33.9 percent
Costs: 32.8 percent