Oregon
Tina Kotek, Governor

Department of Transportation
Office of the Director
355 Capitol St, NE MS 11
Salem, OR 97301

February 22, 2024

Senator Chris Gorsek, Co-Chair
Representative Susan McLain, Co-Chair
Senator Brian Boquist, Co-Vice Chair
Representative Shelly Boshart Davis, Co-Vice Chair
Joint Committee on Transportation

Dear Chairs Gorsek and McClain, Vice Chairs Boquist and Boshart Davis, and members of the Joint Committee on Transportation,

Below, ODOT offers background information on highway cost responsibility and options illustrating how the legislature could address the current imbalance.

Background

Oregon's Constitutional Requirement

Oregon's Constitution requires "fairness and proportionality" in highway cost responsibility between heavy and light vehicles—meaning what drivers of these vehicles pay in state highway fees and taxes must be proportionate to the costs they impose on the highway system. [1]

Weight Mile Tax

To ensure cost responsibility, the Legislature created a weight-mile tax, just one of three across the country, that charges heavy trucks based on their weight and the distance they travel. While most trucks pay weight-mile tax at the 80,000-pound level, there are over 80 weight mile tax rates.

Highway Cost Allocation Study (HCAS)

As directed in the Constitution, every two years the Department of Administrative Services (DAS) Office of Economic Analysis performs a biennial HCAS to evaluate the proportionality of costs and revenues by light and heavy vehicles (all vehicles over 10,000 pounds).

HCAS analyzes projections of future revenues from each class of vehicle and compares it to the share of projected expenditures for each class of vehicle. Revenue is assigned to light or heavy classes based on the fee or tax source. Expenditures are assigned to work types (68 total) and summed into four main categories: modernization, preservation, maintenance and operations, and other (administration, bike/ped, safety, Preliminary Engineering, Right of Way acquisition).

Each work type has a specific allocation for how much of the expenditure is allocated to light versus heavy vehicles. Changes in the mix of investments across these four categories impact

[1] Oregon Constitution, Article IX, Section 3a.

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cost responsibility due to the different allocations by work type– for example, more "preservation" investment shifts costs to heavies; more "other" shifts toward lights.

Recent HCAS Results

Both the 2021-23 HCAS and 2023-2025 HCAS found an imbalance in cost responsibility with light vehicles underpaying and heavy vehicles overpaying.[2] The reasons for the imbalance are that the mix of expenditure investments have changed, revenues have shifted, and more precise information exists regarding pavement factors. While each factor alone only contributes a limited amount to the overall imbalance, all three factors taken together are currently causing greater imbalance, resulting in the substantial imbalance that exists in the 2023-2025 study.

Passenger Vehicle Cost Responsibility Study

HB 2017 (2017) required ODOT to conduct a study to determine the proportional amounts various highway users should be paying toward cost responsibility and whether they are actually paying that share. The study concluded that:

- Light vehicles with higher fuel efficiency are not paying their fair share toward highway costs.
- Raising registration fees on vehicles with fuel economy ratings of 20 mpg or higher could help achieve parity.
- Future, periodic rate refinements will be needed to ensure equity because vehicles with higher fuel efficiency and alternative power sources will comprise a greater share of the vehicle fleet.
- A motive-power-based registration system could be simpler and reduce revenue losses resulting from vehicle misclassifications based on fuel efficiency.
- A different funding mechanism, such as a road usage charge, could address future challenges in ensuring equity across different vehicle classes as adjustments to fuels tax rates and registration fees become increasingly complex due to improvements in vehicle fuel efficiency.

HCAS Lookback Report

During the 2023 legislative session, the legislature passed HB 3406, which directs DAS to reexamine at least the last three HCAS and evaluate how equity estimates aligned with actual outcomes. A report must be submitted to the Joint Committee on Transportation by September 15, 2024 and could inform the methodologies and solutions the legislature considers to rebalance cost responsibility.

[2] Light vehicles provided 63.9% of revenue while being responsible for 72.7% of expenditures, producing an equity ratio of .88. Heavy vehicles provided 36.1% of revenues while being responsible for 27.3% of expenditures, for an equity ratio of 1.32.

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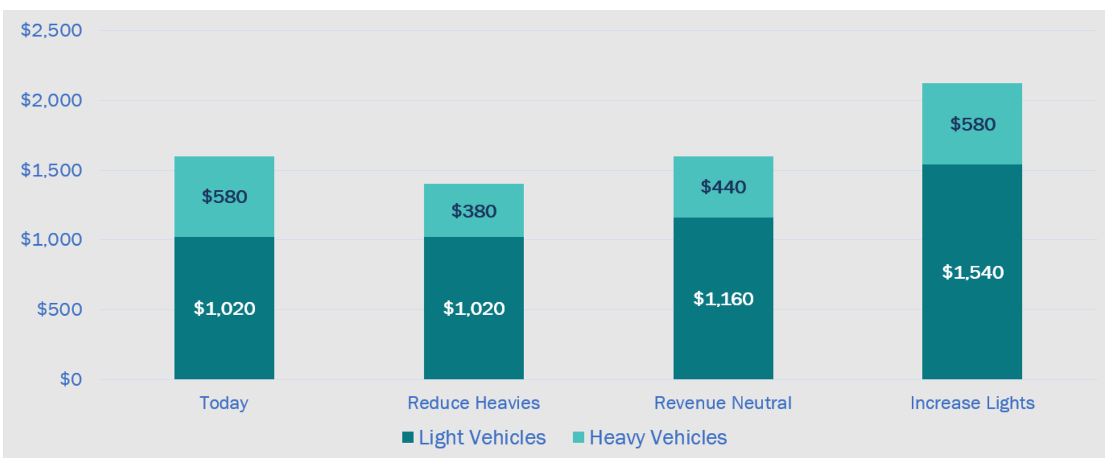
Legislative Rebalancing Options

There are three general options for rebalancing cost responsibility. ODOT summarizes each below and provides the approximate revenue adjustments needed for each. These options are purely illustrative and do not in any way constitute the final, official analysis, or a proposal to rebalance responsibility. These options are based on the 2023-25 HCAS, would need to be updated in light of any future HCAS results, and require additional analysis to account for complex expenditure variables, among other things.

- **Reduce heavy vehicle rates only.** Heavy revenue would have to be reduced by about $200 million per year. Lowering heavy vehicle rates only would reduce overall revenue, impacting ODOT and local governments that rely on these funds to pay for transportation maintenance, operations, and improvements.
- **Increase light vehicle rates only.** The light vehicle contribution would have to increase by more than $500 million per year—a revenue increase equivalent to the size of HB 2017.
- **Reduce heavy rates and increase light rates.** In a revenue neutral option, heavy vehicle rates would need to be reduced by about $140 million per year and light vehicle rates would have to increase by the same amount.

Rebalancing Options (in millions of dollars)



Sub-options for Light Vehicle Rate Increase

If the legislature raises light vehicle rates, there are additional options for how to apportion that increase across motor fuels taxes and registration fees. An illustrative, non-exhaustive set of examples is offered below.

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Scenario: Light-only Increase[3]

- **Only raising the motor fuels tax to fully rebalance** would require a roughly 80% increase from the current rate of $0.40/gallon to $0.72/gallon.
- **Only raising light vehicle registration fees to fully rebalance** would require approximately a 190% increase from the current rate of $144 to $418 for a two-year registration.
- **Raising a combination of both** motor fuels tax and light vehicle registration fees to fully rebalance could be achieved through a 50% increase on the fuels tax and a 70% increase on registration fees, from the current rate of $0.40/gallon to $0.60/gallon and the current rate of $144 per two-year registration to $244 respectively.

Scenario: Revenue Neutral[4]

- **Only raising the motor fuels tax** would require a roughly 20% increase from the current rate of $0.40/gallon to $0.48/gallon.
- **Only raising light vehicle registration fees** would require approximately a 48% increase from the current rate of $144 to $210 for a two-year registration.
- **Raising a combination of both** motor fuels tax and registration fees could be achieved through a 10% increase on the fuels tax and a 28% increase on registration fees, from the current rate of $0.40/gallon to $0.44 /gallon and the current rate of $144 per two-year registration to $184 respectively.

A solution that increases light vehicle registration fees could also include a further increase in registration fees for vehicles with higher fuel efficiency to address the inequities highlighted in the Passenger Vehicle Cost Responsibility Study.

Sub-options for Heavy Rate Decreases[5]

If the legislature chose to only implement a uniform, flat-rate reduction in the weight-mile tax, rates would need be reduced by roughly 40%. If the legislature chose to pursue a revenue-neutral option (increasing light vehicle fees while reducing heavy vehicle fees), the heavy fee reduction would need to be approximately 30%.

[3] These are examples of light vehicle increases that could balance cost-responsibility in a scenario where the legislature chooses only to raise taxes and fees on light vehicles.

[4] These are examples of light vehicle increases that could be included in a revenue-neutral option that includes increased light vehicle rates and decreased heavy vehicle rates.

[5] Heavy vehicle revenue includes more than just the weight-mile tax. Reducing these other charges, like heavy vehicle registration fees, is another option that could be incorporated into a heavy-rate reduction solution. Reductions in these other heavy vehicle costs alone would not be enough to rebalance cost responsibility.

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The legislature could also remedy the current cost-responsibility imbalances between the various 2,000 lb. weight classes by adjusting each rate to reflect their unique costs imposed on the highway. This could help in achieving overall cost responsibility depending on the changes made.

Summary

According to the HCAS, Oregon's constitutional highway cost responsibility requirement is out of balance; heavy vehicles are overpaying while light vehicles are underpaying. The legislature has several options to correct the imbalance. All the options would benefit from additional analysis and the insight that will come from the HCAS Lookback Report. ODOT can provide additional calculations and more specific options and sub-options at the request of the legislature.

As always, please let me know if I can answer additional questions or provide more information.

Thank you,

Lindsay Baker
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