

LC 2 STAFF MEASURE SUMMARY

Joint Interim Committee on Transportation Funding

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Meeting Dates: Monday, August 25

WHAT THE MEASURE DOES:

The measure increases a number of transportation taxes and fees and applies audit requirements to the Oregon Department of Transportation (ODOT). It expands the OReGO road usage charge program and repeals the Oregon Transportation Commission toll program.

Detailed Summary

Section 1 – Audits: Directs the Secretary of State Audits Division to conduct **biennial performance audits** of the ODOT related to capital projects and use of State Highway Fund moneys. Specifies that audit results are to be reported to appropriate legislative committees.

Sections 2-4 - ODOT Director: Transfers **appointment and removal authority of ODOT Director** to the Governor from the Oregon Transportation Commission. Specifies serving Director governed by statute as existed before measure's effective date.

Sections 5-6 – Continuous Improvement Advisory Committee: Modifies membership and duties of **Continuous Improvement Advisory Committee** (CIAC), effective January 1, 2026. Adds requirement that CIAC report quarterly to both Oregon Transportation Commission (OTC) and Joint Committee on Transportation (JCT) on key performance measures, and quarterly to JCT on ways ODOT and OTC may execute their duties more efficiently. Requires monthly CIAC meetings.

Sections 7-8 – Duties of Joint Committee on Transportation: Modifies duties of JCT related to **major projects** to include review of scope, schedule, changes and budget of transportation projects costing at least \$250 million, and to review requests for project scope expansion from cities and counties on highway projects of up to \$25 million with requested increase of 10 percent or requested increase of five percent on projects exceeding \$25 million. Directs JCT to make recommendations regarding appropriation and funding to Joint Committee on Ways and Means or Emergency Board, as applicable. Directs JCT to provide legislative oversight of **Oregon Department of Aviation**.

Sections 9-10 – Outside Performance Audit: Requires Director of Legislative Policy and Research Office (LPRO) to **contract for performance audit** of ODOT operations, including departmental management and how it addresses recommendations from the management review conducted per Senate Bill 5550 (2025). Sunsets authority related to performance audit January 2, 2027.

Section 11-15 – Highway Cost Allocation Study: Specifies **Highway Cost Allocation Study** (HCAS) must include an examination of the most recent study period to determine the results' accuracy. Specifies that, beginning January 1, 2030, if Legislative Assembly does not take action to achieve an equity ratio less than 1.05 between light and heavy vehicles within 120 days of receiving the HCAS report, the Department of Administrative Services (DAS) shall adopt rules adjusting the per-mile rates and/or fuel tax to achieve an equity ratio of 1.045, while maintaining revenue neutrality to the extent possible; any such rule adopted shall be repealed once DAS determines that the

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Legislative Assembly made the necessary adjustments to achieve equity. Directs DAS to review HCAS methodology and provide recommendations for updates by report submitted to JCT by June 30, 2026. Sunsets authority related to methodology review January 2, 2027.

Sections 16-17 – Fuel Taxes: Increases the **state gasoline tax** from 40 cents (set there since 2024 per the third and final step increase from House Bill 2017 (2017)) to 46 cents, effective January 1, 2026.

Section 18 – Vehicle Registration Fees: Increases **vehicle registration fees** as follows:

- Passenger Vehicles from \$43/year to \$85/year;
- Utility/Light Trailers from \$63/year to \$105/year;
- Mopeds/Motorcycles from \$44/year to \$86/year;
- Low-Speed Vehicles from \$63/year to \$105/year;
- Medium-Speed Electric Vehicles from \$63/year to \$105/year.

Section 19 – Vehicle Title Fees: Increases **title fees for passenger vehicles** from \$77 to \$216.

Sections 20-23 – Distribution of Increased Fuel Tax, Registration Fee, and Title Fee Revenues: Specifies that **revenues** from increases in taxes and fees from sections 16-19 be allocated as follows:

- 50 percent to the Department of Transportation;
- 30 percent to counties (of which 1.37 percent goes to small counties with fewer than 200,000 registered vehicles based on ratio of road miles maintained by each county to registered vehicles);
- 20 percent to cities.

Increases from \$2.5 million to \$3 million the annual allocation from the State Highway Fund, and from \$2.5 million to \$3 million from the city share of the State Highway Fund, that is deposited annually into the Small City Allotment.

Sections 24-25 – Transit: Increases the **employee payroll tax** from one-tenth of one percent to two-tenths of one percent, effective January 1, 2026, for distribution through the Statewide Transportation Improvement Fund (STIF). [NOTE – moneys from payroll tax increase will accrue to the Statewide Transportation Improvement Fund created by House Bill 2017 (2017)).

Sections 26-42 – Road Usage Charge Program: Repeals the **voluntary road usage charge program** effective July 1, 2031. Requires enrollment of used electric vehicles (beginning July 1, 2027), new electric vehicles (beginning January 1, 2028) and hybrid electric vehicles (effective July 1, 2028) in road usage charge program; assesses electric and hybrid electric vehicles at five percent of the per-gallon fuel tax rate, per mile, at the time of assessment. Sets alternative flat fee for participation in road usage charge program at \$340/year. Clarifies that vehicle rental companies may not assess on customers a surcharge that exceeds a reasonable estimate of the company's cost in paying the road usage charge with respect to the subject vehicle. Specifies that, for purposes of ODOT contracting with service providers for the road usage charge, retaining of administrative costs more than 10 percent of any per-mile road usage charges collected is prohibited.

Sections 46-48 – Registration Fee Fuel Efficiency-Related Surcharges: Modifies annual **registration fee surcharge based on mile-per-gallon (MPG)** rating of passenger vehicles as follows:

- 0-19 MPG rating – retains existing \$20 surcharge;
- 20-39 MPG rating – retains existing \$25 surcharge;
- 40+ MPG rating – increases fee from \$35/year to \$65/year;

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-- Electric Vehicles – increases fee from \$115/year to \$145/year.

Repeals fuel efficiency based surcharge on electric vehicles effective July 1, 2031.

Sections 49-52 – Local Government Registration Fees: Clarifies that **vehicle registration fees assessed by a county or district** are not affected by exemption provided for vehicle registration surcharge under ORS 803.442.

Section 53 – Operative Dates.

Sections 54-57 – **Repeals Toll Program** established by House Bill 2017 (2017).

Section 58 – Roadside Rest Areas: Increases annual July 1 allocation from State Highway Fund to Travel Information Council for management, maintenance, improvement, and development of **roadside rest areas** from \$9.16 million to \$12.16 million.

Sections 59-91– Administration of Diesel Fuel Tax and Motor Carrier Regulation: Adds diesel fuel to definition of “motor vehicle fuel” rather than a use fuel. Exempts dyed diesel from definition of motor vehicle fuel. Revises inspection of premises and records authority of ODOT over enforcement of motor vehicle fuel taxes. Authorizes ODOT to deny any international fuel tax agreement (IFTA) license based on reasonable grounds and eliminates \$650 maximum fee, but maintains requirement that fee not exceed the cost to Department. Revises list of offenses for which motor carrier enforcement officers may issue citations to include two new offenses: failure to comply with IFTA, or improper use of dyed diesel (designates both as Class A traffic violations). Establishes circumstances under which a person may operate or maintain a motor vehicle on state highways with dyed diesel and requirements for doing so; establishes civil penalties ODOT may impose for highway use of dyed diesel, not to exceed the greater of \$10 per gallon capacity or \$1,000, plus the amount of unpaid tax. Requires valid fuel trip permits for out-of-state vehicles not licensed under IFTA. Limits number of trip permits that may be issued to any single vehicle to three per year, with each permit good for up to three consecutive days, and allows ODOT to set fee rate by rule. Permits ODOT to require operator of vehicle combination to submit to inspection of the fuel supply tank, designating violation as a Class B misdemeanor. Repeals provision allowing credit for motor fuel tax paid against weight-mile tax assessed.

Sections 92 - 100 – Heavy Vehicle Taxes: Simplifies the number of tables based on declared combined truck weight and sets rates for those categories. Creates new Table E for electric vehicles subject to the weight-mile tax that are not issued an annual variance permit to operate at weight above 26,000 pounds. Revises fee levels for the following:

- for log/pole/peeler trucks, decreases the annual fee per 100 pounds declared weight from \$11.60 to \$10.50, effective July 1, 2027; increases fee from \$10.50 to \$10.94 for electric vehicles, and reduces fee to \$7.57 for non-electric vehicles, effective July 1, 2029 ;
- for dump bodies used for sand, gravel, dirt, or other bulk materials, increases the annual fee per 100 pounds declared weight from \$11.50 to \$16.98, effective July 1, 2027; increases fee from \$16.98 to \$17.69 for electric vehicles, and reduces fee to \$12.25 for non-electric vehicles effective July 1, 2029.

Section 101 – Captions.

Section 102 – Establishes effective date of 91st day following adjournment sine die.

ISSUES DISCUSSED:

EFFECT OF AMENDMENT:

BACKGROUND:

Oregon was the first state in the United States to adopt a motor vehicle fuel tax (one cent per gallon, adopted in 1919). Since that time, the fuel tax has been increased a number of times, the two most recent examples being major transportation funding packages: House Bill 2001 (2009) increased the tax from 24 cents per gallon to 30 cents per gallon; House Bill 2017 (2017) increased it in four steps, over four biennia, to 40 cents per gallon, the most recent increase taking effect January 1, 2024. In both cases, a significant portion of the new revenues were used for the construction of numerous small, local improvement projects, as well as some statewide projects. Each increase in the gasoline tax has been accompanied by commensurate increases in the state's weight-mile tax to ensure cost equity, which is how heavy trucks pay for the use of Oregon roads in lieu of taxes on diesel. Some of the latter group of projects included in earlier transportation packages (including the Interstate 5 Rose Quarter project, the Abernethy Bridge, the Interstate 205 widening and seismic project, later phases of the Newberg-Dundee Bypass, and the Center Street Salem Bridge) remain unfunded or underfunded.

The Oregon Department of Transportation (ODOT) reported to the Joint Committee on Transportation before the 2024 session that the agency would soon be facing a critical shortfall that would degrade the Department's ability to carry out its mission and duties. For more than two decades, Oregon has studied the state's reliance on the motor fuel tax (combined with the weight-mile tax for heavy trucks) after determining it was a source of declining efficacy, as steadily improving vehicle mileage ratings, combined with a growing percentage of electric and hybrid vehicles, were reducing the amount of revenue taken in per vehicle mile traveled, during a time when inflation was also increasing the cost of both labor and materials for construction and maintenance activities. ODOT estimates that these factors, combined with past bonding of certain transportation revenues for project delivery, lack of action to increase funding at the federal level, and some miscalculations, resulted in an estimated departmental shortfall of nearly \$1 billion per year.

LC 2 includes increases to fuel taxes, revisions to weight-mile tax tables and flat fee rates, increases to passenger vehicle registration fees and title fees, and includes a requirement that plug-in electric and hybrid vehicles participate in the road usage charge program. The measure also increases the statewide employee payroll tax that provides funding for transit services throughout the state. LC 2 also increases the annual allotment from ODOT to the Travel Information Council for maintenance and operation of roadside rest areas, repeals the toll program established by House Bill 2017 (2017), and treats diesel fuel as a motor fuel rather than a use fuel.