# Testimony
# Road Usage Charge Day

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Citizen

Good evening, Chairs and Co-chairs, my name is James Whitty and I am pleased to have the opportunity to testify before the Joint Committee on Transportation on RUC Day.

I am an Oregon citizen, born and currently living in Portland and raised in Coos Bay. I practiced law in this state and spent many years lobbying the Oregon legislature on behalf of the business community. Later in my career, I was hired by ODOT to administer the Road User Fee Task Force and conduct the per-mile road usage charge visioning and research and development that led to creation of OReGO, Oregon's RUC program. I closed out my career last year as a consultant working with other states and nations on the per-mile charge.

## FINANCIAL BASIS FOR ROAD USAGE CHARGING

A road usage charge is necessary because it directly ties the use of the roads to what we pay for them. Once upon a time, the motor fuel tax did this too. But today, with hybrid, high MPG vehicles, and electric cars, the amount we each pay in motor fuel tax for the same amount of road usage varies widely. Some drivers pay nothing for road use.

Reliance on the motor fuel tax creates two problems for transportation funding. First, the tax base–motor fuel consumption–is shrinking. Meanwhile, demand for the road system continues grow, and cost of labor and materials continues to increase. Public agencies responsible for upkeep and repair of our roads cannot be expected to do so with a declining revenue source. Historically this revenue source has grown as fuel consumption increases. But for improvements in vehicle fuel economy, it would continue to grow. However, the growth in fuel economy and electrification of the passenger fleet will create an ever-widening budgetary gap for transportation agencies that depend on gas taxes.

One way to address this gap is to raise the per-gallon rate of the motor fuel tax, but this highlights the second problem: fairness. The tax base is not only shrinking, it is concentrating, with the fuel-per-mile-driven disproportionately consumed by low-income and rural households who tend to drive older, less fuel-efficient cars. Increasing the motor fuel tax rate will only serve to exacerbate the tax burden carried by these households.

## BACKGROUND

It's important to remember the impetus behind OReGO's creation. In 2001, the Oregon Legislature passed into law HB 3946 for a 12-member Road User Fee Task Force with the mission to

> "Develop a design for revenue collection for Oregon's roads and highways that will replace the current system for revenue collection."

This mission shows the legislature had a moment of prescience, seeing a future when the types of vehicles on the state's roads would change and the main source of revenue for road funding—the motor fuels tax—would slowly and steadily fail to meet road funding needs. Fast forward to 2025, the nature of the vehicles on Oregon's roads has changed and we now find ourselves in the future the legislature envisioned 24 years ago.

After reviewing the alternatives, the task force recommended to the legislature a per mile road usage charge as the best alternative road funding method for either replacing or augmenting the gas tax when the legislature found it necessary to do so.

## FINDING THE SYSTEM FOR COLLECTION

The 2001 law directed ODOT to find a realistic way to collect the per-mile charge. We started without a model for guidance. No state or government had gone beyond theory to do the R & D necessary to launch a new revenue payment system for vehicle owners. We tested a *pay-at-the pump* method that was successful and received a lot of attention, nationally and in the media, but proved too difficult and expensive to implement on a large scale.

The good news was that the public weighed in with concerns ODOT could address. The primary concern was use of GPS technology. For years, I advocated for the use of GPS, declaring ODOT could protect the mileage data, but kept running into, "No." A key moment occurred during a talk I gave before the Oregon architects. I thought these architects will understand. They treated me very politely and during Q & A said they supported the per-mile charge, then asked, "Does the government have to use GPS?" I knew that idea was finished.

Driving home I pondered why I had lost the case. I looked at my cell phone and Blackberry laying in the passenger's seat. Both devices had GPS chips. Millions of people used them anyway. The difference was that those devices were provided by private companies and people chose to use them. Then clarity hit me! The government should not choose the technology. The government should not require use of GPS units. If drivers wanted to use devices with GPS chips, the private sector would have to provide them.

With these lessons in mind, the objectives became clear. Oregon needed a per-mile charge system that was accurate, cost efficient and protects the driver's privacy. The new RUC system must encourage the evolution of the data gathering and payment system and have the ability to scale up from a starter system to potentially millions of vehicles.

Most government procurements hire one private sector entity to provide prescribed services. That would not work for RUC. Because in 2013 the manner of collection for mileage data was in its infancy, the new system needed the creativity and risk-taking abilities of the private sector to discover the best ways to collect mileage data and RUC payments. The system had to be open. No single private entity could own it. The system needed a competitive market with more than one account manager available to motorists. ODOT's role would be to set outcome-based standards and certify private sector companies for operation.

Under an open system, private sector account managers would offer whatever methods and technologies they could devise that met ODOT's standards. Drivers could choose a commercial account manager—and which one--or the government account manager. If a motorist chose the government, they would choose odometer-based mileage reporting, not GPS. This open system would evolve over time and scale with the growth in number of payers. ODOT tested the open system approach in a demonstration with several members of the legislature participating.

The success of the demonstration inspired the Oregon Legislature to enact SB 810, creating the OReGO program for volunteer motorists.

It is important to note that SB 810 prohibits all mileage data and personal information from use for any purpose other than calculating and paying the road usage charge. This law denies the Oregon government access to location data. This law establishes payer rights for access to information, rectification of errors and erasure of sensitive information. This law provides remedies for violations.

ODOT launched OReGO in July 2015. OReGO currently has two competing commercial account managers under contract. These account managers provide several methods for collecting mileage data—plug-in devices, both GPS and non-GPS, in-vehicle telematics and self-reported odometer readings. The choices a commercial account manager offers depends on vehicle type and the company's business plan. ODOT ensures there is a provider of last resort for the difficult payers and that the commercial account managers comply with the law and contractual obligations.

Since the launch of OReGO ten years ago, ODOT and the legislature have made several positive refinements.

First, ODOT has exercised and matured the market. The three private sector account managers in place when the program launched have since exited the market, but several others have entered the market. ODOT has helped navigate these transitions and learned important lessons about continuity even when there are market changes.

Second, ODOT has conducted extensive R&D to prepare the state for transitioning to a larger-scale program. Examples include collaboration with other states to test multi-state mileage reporting, testing of local-option RUC on the OReGO platform, and certification of new methods of mileage reporting offered by private sector providers that were not available when the program launched in 2015.

Third, ODOT has engaged with auto dealers to explore initial enrollment in OReGO at vehicle purchase.

COST OF COLLECTION

There may be some concern that collecting RUC on a larger scale may be too costly. OReGO is designed to become cost efficient as it grows. Currently the commercial account managers are paid 40 percent of the revenue they collect. This is too high but understandable for a small program. Imagine the cost to collect the fuel tax from only 1000 vehicle owners. OReGO's commercial account managers have design and set-up costs to recoup and annual management and operating costs to cover which will dramatically reduce as the number of drivers in the system grows larger. The cost to add each additional vehicle is very small. Consider the cost of purchasing one roll of paper towels compared to buying in bulk from Costco. In other words, growth of the program will solve the cost of collection issue.

Commercial account management for RUC was created to be an open market, meaning private sector entities can come and go. When there are more drivers paying the per-mile charge, the number of account managers will grow. Competition improves efficiency of operations, fosters evolution of technologies and reduces the cost of collection, over time conceivably to near zero.

Commercial account management also minimizes the government footprint. OReGO already has minimal FTEs, only six or so at this point, to audit, ensure compliance with law and contract, and procurement. I understand scaling up to tens or hundreds of thousands of motorists paying the road usage charge will require only a few more FTEs because the private sector companies do the bulk of the work. The government involvement does not need to be anything but skinny.

Let's look at context. The cost to operate the gas tax is very low. The gas tax is a rare tax that way. The cost of other tax systems is much higher, tending to range from 5% to 20%.

The cost of collecting a road usage charge should be less than 10 percent, especially since ODOT's administrative costs will be low. The larger the RUC system, the lower the state can negotiate commercial account managers costs.

Down the road, interstate coordination on RUC systems could result in multistate agreements with commercial account managers, lowering costs further. Perhaps most impactfully, there is also the ability of using automaker telematics installed in vehicles for data reporting. Encouraged by ODOT, The Society of Automotive Engineers recently adopted a technology standard for using in-vehicle telematics as a mileage data collection and payment platform for RUC. It's called J-3217/R. With more and more vehicle owners paying RUC, use of this standard becomes more likely as automakers add paying a per-mile charge to their other in-vehicle telematics services and offerings.

## WHAT IS HAPPENING ELSEWHERE IN THE UNITED STATES

Oregon was the first state to launch a road usage charge voluntary program in 2015. This map depicts the states working on RUC that year. Minnesota and Nevada had demonstrations. California and Washington engaged in formal research. Oregon joined with Washington and other western states to form the Western Road Usage Charge Consortium or RUC West to conduct collaborative research.

Jumping to 2025, Utah, Virginia and Hawaii have joined Oregon with voluntary per-mile charge programs. Washington, California, Colorado, Nevada, Minnesota, Kansas, Oklahoma, Maine, Pennsylvania, Delaware, New Jersey, Maryland, North Carolina and Georgia have undertaken demonstrations. Wyoming, Wisconsin, Michigan, Ohio, and Vermont are engaged in serious research. Seventeen additional states participate in multi-state per-mile charge research. RUC West renamed itself RUC America and has taken on additional members. The Eastern Transportation Coalition began its multi-state per-mile charge research effort along the eastern seaboard.

Utah's per-mile charge program is voluntary and much like Oregon's. Utah electric vehicle drivers must pay either a flat fee or a per-mile charge. Utah's program started data collection with plug-in devices then evolved to telematics built into the vehicle and self-reporting via odometer image, as other options. Reports from Utah say the program breaks even financially.

Virginia's voluntary per-mile charge program is open to all vehicles rated at 25 MPG or more. Data reporting options include plug-in devices and telematics. Drivers choose between a flat fee and the per-mile charge, both on a sliding scale based on vehicle fuel economy rating.

Hawaii's voluntary per-mile charge program is unique. Set to launch this summer, the state applies mileage data already recorded at annual vehicle safety inspections. Drivers will pay either a flat fee or a per-mile charge. In 2028, state law requires all electric vehicle operators to pay the per-mile charge.

While Vermont does not have a voluntary road usage charge program nor operated a demonstration, its legislature has already passed all the components of a mandated RUC program. All that Vermont lacks is a rate for the charge. The state legislature may adopt the rate this year. Vermont's per-mile charge program will operate like Hawaii's.

CLOSING

Oregon's Road User Fee Task Force determined in 2002 that a per-mile road usage charge was the best alternative for assuring that every vehicle driver pays for our road system. Since then, four states have adopted road usage charge programs; 14 other states have conducted RUC pilot programs; 24 more states have undertaken research on RUC or are planning for implementation. Since 2002, no state has discovered a more viable user fee alternative to the gas tax for our roads than the per-mile road usage charge.

12-years ago, I explained to an audience the method I personally expected to choose one day for paying my road usage charge. I would set up my telematics system built into my car to automatically report my mileage and set up auto-pay through my bank account or credit card. It would be simple. I wouldn't have to do anything more. Everything would happen automatically. I could just drive. That method did not exist 12-years ago, but I am happy to say, because of OReGO's open system and its innovative private sector account managers, it does now.

The time has come. After ten years of refinement for OReGO, the state of Oregon is ready for a broadly applied per-mile road usage charge. This legislative session can be the beginning.

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