ROAD USER FEE TASK FORCE

Report to the Oregon Legislative Assembly

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Oregon
Department
of Transportation

ROAD USER FEE TASK FORCE

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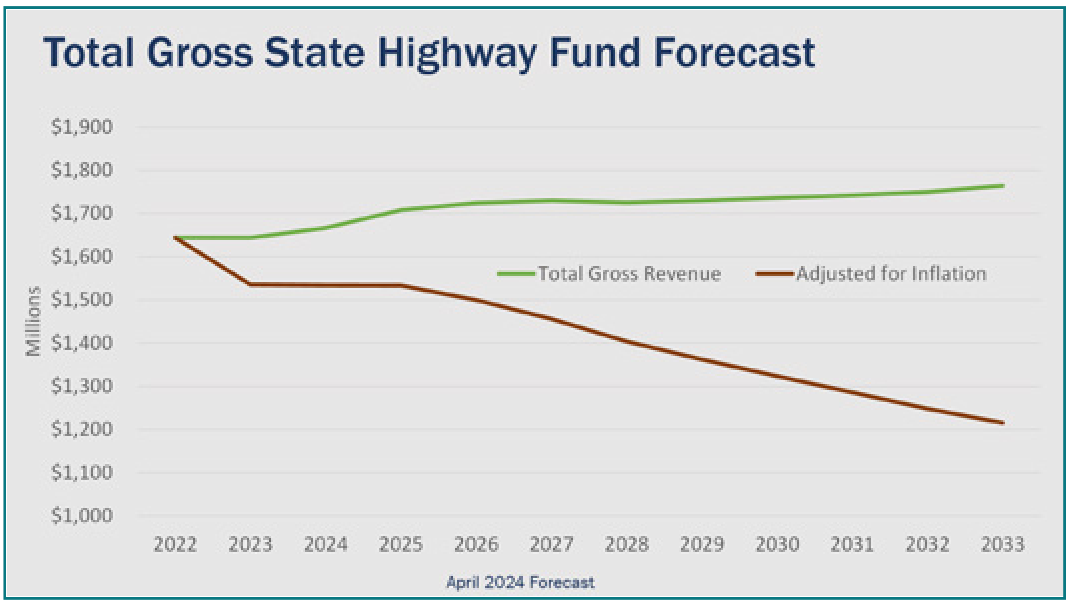
Crosswalk of Terms

Term	**Meaning**
Agency	Oregon Department of Transportation
AOC	Association of Oregon Counties
CPI	Consumer price index
DAS	Oregon Department of Administrative Services
DEQ	Oregon Department of Environmental Quality
DMV	Oregon Driver and Motor Vehicle Services
EV	Electric vehicle
HCAS	Highway Cost Allocation Study
HDV	Heavy-duty vehicle
ICE	Internal combustion engine
kWh	Kilowatt-hour
LDV	Light-duty vehicle
LOC	League of Oregon Cities
MDV	Medium-duty vehicle
ODOT	Oregon Department of Transportation
OReGO	ODOT's road usage charge program
OTC	Oregon Transportation Commission
PHEV	Plug-in hybrid electric vehicle
RUC	Road usage charge / road usage charging
RUFTF	Road User Fee Task Force
SHF	State Highway Fund
WMT	Weight-mile tax

INTRODUCTION

When the Road User Fee Task Force was created in 2001, policymakers recognized that fuel taxes would decline as a sustainable long-term funding source for transportation system maintenance, improvements, and construction. This is largely due to automobiles becoming increasingly fuel efficient, with drivers purchasing less fuel and thus paying less in fuel taxes, which are the largest single funding source for building and maintaining roads and highways. As vehicles continue to become more efficient, and as electric vehicles (EVs) become increasingly common, the problem will intensify.

Compounding this is the fact that fuel taxes—like other road taxes and fees—are set at a flat rate that is continuously eroded by inflation. If the fuels tax had kept up with inflation since 1993, it would be approximately 55 cents per gallon rather than the 40 cents per gallon it is today. Inflation and fuel efficiency are a one-two punch that has the potential to knock the fuels tax out as a major funding source in the coming years.



Source: ODOT Budget, Economics, and Debt Services Division

As fuel tax revenue is projected to decline in coming years, the Oregon Department of Transportation (ODOT) and local governments that rely on the State Highway Fund find themselves in a challenging financial landscape. ODOT faces a $354 million budget shortfall in the 2025-2027 biennium that will only be exacerbated by declining fuels tax revenues, and local governments are also struggling to pay for basic road maintenance. The problem will not be addressed by a single policy; it will require exploring and implementing several funding solutions.

Moreover, meeting Oregon’s climate commitments will require a rapid shift away from burning fossil fuels as the motive power source for transportation; this will require a similar commitment to shifting away from taxes on fossil fuels as the main way to pay for the transportation system. Making this shift will ensure sustainable funding for transportation as we also make the transportation system more sustainable.

The Task Force has, in recent years, focused on developing policy related to road usage charging (RUC), in which drivers pay per mile driven rather than gallons of fossil fuel burned. RUC remains an important component in the overall funding equation, but it largely addresses revenue reliability – shoring up a major revenue stream to ensure it does not decline precipitously. It alone cannot provide sufficient revenue to make the necessary investments to operate, preserve, and maintain Oregon's transportation infrastructure. The path forward requires a holistic examination of multiple transportation revenue mechanisms.

The Task Force, consisting of members of the Oregon Transportation Commission, legislators, city and county officials, and at-large members representing various industries within the transportation sector, met six times in 2024 to review, analyze, and make recommendations regarding several revenue options. RUFTF approached this process with the goal of ensuring that users of the transportation system pay their fair share to ensure sufficient and reliable funding for Oregon's roads; it adopted a vision statement and objectives that reflected this approach.[1]

Across the conversations, workshops, and deliberations featured throughout the slate of 2024 meetings, the Task Force identified the importance of both near-term and long-term actions – decisions that can help shore up revenue in the immediate future as well as making structural changes to ODOT's funding model to address the impacts of diminishing fuel tax revenue. Near-term actions include raising and indexing fuel taxes and registration fees, whereas long-term considerations include transitioning to a road usage charge system and developing new revenue sources.

As the Road User Fee Task Force is a legislatively chartered body tasked with exploring revenue collection from a statewide perspective, most of its focus was concentrated on statewide revenue options. That said, local governments in Oregon rely on the State Highway Fund (SHF) for a significant portion of their funding, with counties receiving nearly 30 percent and cities receiving nearly 20 percent of net SHF funding. As increasing fuel efficiency and inflation diminish the SHF revenue sources, local governments experience similar impacts as the state. Accordingly, RUFTF also examined options for providing city and county governments with additional flexibility to raise revenue for local transportation investments.

1 See Appendices A and B for the 2024 RUFTF membership list and adopted vision statement

SUMMARY OF RECOMMENDATIONS

Over the course of its meetings, RUFTF reached general consensus on the steps that will be needed to ensure sufficient and reliable funding for Oregon's road system.

In the near term:

- Increase fuel taxes and vehicle fees to the levels required to achieve the investments the Legislature determines are necessary to provide a transportation system that supports Oregon's economy and quality of life. This will be necessary to make up some of the ground lost to inflation.
- Index existing transportation taxes and fees to a measure of prices to ensure that these fees keep pace with future inflation.
- Increase the supplemental registration fees on efficient vehicles to ensure they pay their fair share for use of the roads and to achieve parity with the amount that average internal combustion engine vehicles pay for use of the transportation system, consistent with legislative intent in creating these fees in 2017. Increases in the supplemental registration fees should be paired with policies that mitigate their impact.
  - In order to make these fees less burdensome on low-income households and those purchasing efficient vehicles, the Legislature might consider shortening the registration period, currently four years for a new vehicle and two years for a registration renewal, to reduce the upfront payment required.
  - The OReGO program can continue to be available as an option for efficient vehicle owners who do not wish to pay the supplemental registration fee. ODOT needs to make opting into OReGO seamless at the point of sale and when vehicle registration is due so people can easily opt out of paying the supplemental registration fee. ODOT must also address issues related to the transfer of vehicles, as currently OReGO customers who sell their vehicle or end their lease before the end of the registration period must pay the full supplemental registration fee.
- Continue to incentivize the purchase of electric vehicles by ensuring the EV rebates are fully funded, particularly for low- and middle-income households, until the upfront and lifecycle cost of EV ownership is competitive with other vehicles. In the near term, this will help to offset any increase in annual registration fees for high-efficiency vehicles.
- Eliminate preemptions in state law that limit the ability of local governments to raise their own supplemental transportation revenue.
- Maintain the current distribution of the State Highway Fund among the state, counties, and cities.
- Diversify the revenue portfolio, considering new sources of revenue to supplement declining sources like the fuels tax.

In the medium term:

- Continue developing the OReGO road usage charge program as a long-term replacement for the fuels tax and supplemental registration fees for fuel-efficient vehicles. This should include working to build participation in the program through marketing and education, streamlining enrollment, reducing administrative costs by exploring new technologies like in-vehicle telematics and odometer readings, and simplifying the program.
- Undertake analysis of policy options for whether and how road usage charging can improve socioeconomic equity, increase adoption of efficient vehicles, reduce congestion, and capture revenue from out-of-state drivers traveling on Oregon roads.
- Conduct additional work on development of a weight-mile tax or road usage charge for medium-duty vehicles.

In the long term:

- Shift vehicles toward paying a per-mile road usage charge as reductions in administrative costs allow it to produce significant net revenue, with a focus on initially enrolling high-efficiency vehicles that pay little or no fuels tax and eventually shifting all vehicles to a RUC.

STATEWIDE REVENUE OPTIONS

Indexing Transportation Taxes & Fees to Inflation

OVERVIEW

Most taxes – including property, sales, income, and payroll taxes – rise over time as property values, prices, and incomes increase. Currently, no State Highway Fund sources are indexed to inflation in any way. This includes the fuels tax, heavy truck taxes and fees, and DMV fees. Instead, transportation tax and fee rates are generally set by the Legislature in statute, are infrequently increased over time, and have typically been tied to large transportation packages. For example, the Oregon fuels tax rate remained constant from 1993 to 2011 before increasing from 24 cents to 30 cents per gallon. However, over this same time period, general inflation as measured by the consumer price index (CPI) increased over 50 percent.

In addition to the impact on prices and the cost of labor and materials, the fuels tax has been further eroded by the increasing fuel efficiency of the light- and medium-duty vehicle fleets. In Oregon, passenger vehicles have seen an increase in average fuel efficiency of about 25 percent between 2009 and 2023, which means a vehicle can travel about 25 percent farther on the same amount of fuel today than it could in 2009. As a result, people are paying less in real terms for every mile they drive, and these two factors have an additive impact on the overall ability of the fuels tax to remain a stable source of revenue.

Twenty-four states and Washington, D.C. have moved to address the impact of inflation on the fuels tax using a variety of methods.[2] Fourteen states and Washington, D.C. index the tax rate directly to some kind of price index like the CPI, while the other ten tie the rate to fuel price changes. In addition, seven of the states combine either the price index or fuel price with an additional index. Examples of the additional index include fuel efficiency, personal income, and population.

In Oregon, if the 1993 rate were indexed to inflation using the CPI, the rate in 2024 would be approximately 55 cents per gallon rather than the 40 cents per gallon statutory rate. For just calendar year 2023 alone, this would have produced almost $270 million more in revenue. Looking ahead, indexing to the CPI by itself

2 National Conference of State Legislatures – Variable Rate Gas Taxes

would yield, on average, about a one-cent increase in the tax rate per year. If the entirety of the State Highway Fund were indexed to inflation, it would add about $60 million in revenue on an annual basis.

There are several indices – Consumer Price Index (CPI); Producer Price Index (PPI); National Highway Cost Construction Index (NHCCI) – that could be argued for as the index of choice. A combination of these could be used, but that would result in a more complicated methodology.

The Legislature might also consider imposing a cap that limits how much the taxes and fees can increase on an annual basis to avoid significant escalations during periods of high inflation. The National Highway Construction Cost Index, for example, has increased by over 80 percent since 2017; a cap would help prevent intense upsurges while still ensuring that rates increase. While rarer, the Legislature might also consider imposing a floor to prevent decreases in the event of deflation or negative rates. Lastly, the Legislature might consider granting itself the authority to suspend any increase for a given year due to extenuating economic circumstances.

RUFTF DELIBERATIONS

Task Force members generally agreed that the Legislature should index transportation taxes and fees; one member objected. The Task Force declined to recommend any specific index, leaving that decision to the Legislature.

In indexing taxes and fees, decision makers would need to identify the year from which the fees would be indexed. While the Legislature could look backwards to index to a previous year – such as the 1993 CPI example in the section above – the Task Force favored the approach of increasing taxes and fees as deemed appropriate by the Legislature and then setting a date in the near future in which those fees would be indexed. For example, implementing fuel tax and supplemental registration fee increases beginning January 1, 2026, with the variable rate increase from indexing beginning January 1, 2027.

Road Usage Charging

OVERVIEW

A road usage charge (RUC), in which users of the transportation system pay for the miles they drive as opposed to taxes on the fuel they consume, is an option for generating transportation revenue that presents an opportunity to transition away from the existing fuels tax system in favor of one that is not dependent on the purchase of fossil fuels. In contrast to options such as supplemental registration fees, a RUC is directly linked to each driver's actual use of the roads, so those who use the roads more pay more and those who use them less pay less.

An increasing number of states are exploring and implementing pay-per-mile programs. Oregon launched the nation's first active RUC program, known as OReGO, on July 1, 2015. In addition to Oregon, Utah and Virginia also currently operate active RUC programs, and at least 12 states considered RUC-related legislation in 2023.[3] Hawaii passed RUC legislation in 2023 in which the program will begin as voluntary for EV drivers before becoming mandatory in July 2028.

For drivers of highly efficient vehicles that enroll in the OReGO program at the time that registration is due, the supplemental registration fee is waived, thus reducing the upfront cost of the initial vehicle purchase or subsequent

3 National Conference of State Legislatures – Shifting Gears to Find a Gas Tax Alternative and Fight Impaired Driving

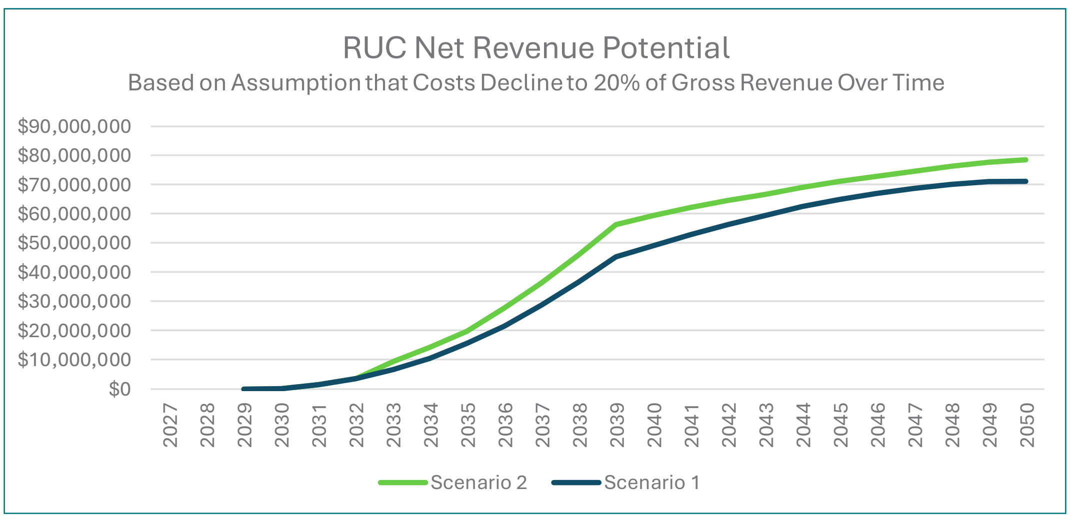
registration. The program serves not only as an alternative option for Oregon drivers who do not wish to pay the high upfront cost of registration fees but also as a fairer system based on actual use of the state's roads and highways.

While RUC addresses revenue reliability by preventing ODOT's main revenue source from fading away, a road usage charge by itself will not solve the state's transportation funding challenges. Still, the transition to RUC will be necessary over the long term as the fuels tax is further eroded by a combination of increasing vehicle efficiency and inflation. In the near term, while ODOT continues to improve and enhance the OReGO program, supplemental registration fees will remain an important revenue mechanism.

While the fuels tax is proving unsustainable as a source of funding, it remains a very efficient tax from an administrative perspective – it is extremely inexpensive to collect, as only a handful of fuel wholesalers remit almost all of the tax. A RUC will be significantly more expensive to collect, at least at the outset of an expanded program, as it requires gathering mileage information from hundreds of thousands and eventually millions of passenger vehicles. Even as those costs come down, a RUC will be comparatively more expensive to administer than the fuels tax. As such, a RUC will not produce significant net revenue in the near future.

The following graph projects the revenue potential of RUC in the near and long terms.

- ***Scenario 1*** *requires all vehicles over 30 MPG to pay a RUC starting with model year 2030 vehicles in 2029.*
- ***Scenario 2*** *includes all of those vehicles and also requires existing efficient vehicles to start paying a RUC in 2033.*



ODOT is committed to working with its private sector business partners, the Legislature, and other state departments of transportation to identify opportunities to drive down the cost of administration. The agency is currently undertaking a project in collaboration with vehicle dealers across the state to improve and streamline the process of enrolling a vehicle in OReGO at the point of sale. ODOT also continues to add certified account managers to the program, resulting in more options for customers so that they can make the choice of service provider that best suits their wants and needs. Efforts like these should help in reducing the costs of administering an expanded RUC program.

Currently, the most common option for reporting mileage in the OReGO program is a mileage reporting device (MRD) that plugs directly into the on-board diagnostic port of a participant's vehicle. However, MRDs can be easily removed from the port, and they are comparatively expensive because they require installing a device in every car and entail data transmission costs. A large-scale mandatory program likely requires a different technology—either lower-tech, such as manual reporting of odometer readings, or higher-tech, such as direct access to vehicle telematics data. While telematics systems are installed in most new cars, they are not included in older models. What's more, automobile manufacturers have not shown willingness to voluntarily provide telematics data to government agencies; legislative direction will likely be necessary to access these data.

To ensure that there is internal capacity within the agency, ODOT anticipates needing to acquire a commercial back-office system (CBOS) to manage enrollments and process data. ODOT would likely need a customer service center (CSC), as well.

A RUC system will need enforcement mechanisms in place for those who do not comply with reporting their mileage. For example, any vehicle required to pay RUC that failed to report miles or pay their required charges could be defaulted into a flat annual fee that would be set at a relatively high level to incentivize compliance. Other enforcement mechanisms, such as refusing to register vehicles that fail to pay and assessing civil penalties, could also be considered. An appeal process that ensures due process would also need to be implemented.

RUFTF DELIBERATIONS

RUFTF dedicated a considerable amount of time to discussing and analyzing policy options and implementation topics related to RUC during the 2024 meetings. As a trail blazer in this area, Oregon is often confronted with the challenges associated with being at the forefront of designing and implementing a new, innovative revenue program. Topics that were considered included items related to which vehicles should be subject to RUC; whether RUC should be a replacement for or in addition to the fuels tax; and technology options for mileage reporting, among others. Four overarching approaches to implementing a RUC were contemplated by RUFTF. All options assumed that the fuels tax and supplemental registration fees would be increased in the immediate future during the transition period to a RUC.

Option 1 – Keep OReGO voluntary for the foreseeable future

The first option entailed keeping the OReGO program voluntary, as it is today, in combination with higher supplemental registration fees on efficient vehicles. Given that drivers of highly efficient vehicles can have their supplemental registration fees waived by enrolling in OReGO, an increase in those fees would likely serve as an incentive for more drivers to enroll their vehicle(s) in the program. In the interim, ODOT would continue to identify and implement strategies for reducing RUC administrative costs and enhancing program offerings.

While some Task Force members found merit in this approach given that it would provide additional time for ODOT to refine the program ahead of a mandate, others expressed concern that it would not address the agency's structural revenue challenges and that it would result in a missed opportunity in the 2025 legislation session to establish a date in which the program would become mandatory.

Option 2 – A mandatory program with a focus on new, highly efficient vehicles

The second option resembled similar legislative efforts from 2021 and 2023, in which vehicles of a specified model year and later, rated at 30 MPG or better, would be required to enroll in OReGO. As this approach is based on the efficiency of the vehicle, it would capture all types of motive power, including highly efficient ICE vehicles. Over time, as the fleet turns over to vehicles manufactured after the specified model year, an increasing number of vehicles would become subject to the RUC mandate. Newer vehicles would also present the opportunity to rely more on the use of telematics data for mileage reporting, which will help bring down costs. Older, less-efficient vehicles would continue to pay the fuels tax and supplemental registration fees, if applicable. Leaving vehicles rated at less than 20 miles per gallon on the gas tax would mean that they would continue to pay more than highly efficient vehicles on a RUC, providing a continued modest incentive in the tax structure to move toward a more efficient vehicle. This option could also add in older highly efficient vehicles at some point in the future to grow the scale of the RUC program.

Among the options for a mandatory RUC, the Task Force favored this approach over the others, citing the benefit of establishing a mandate that, unlike Option 3, includes highly efficient internal combustion engine vehicles. The Task Force also found value in the fact that newer vehicles would be more likely to have telematics systems, allowing for streamlined mileage reporting.

Option 3 – A mandatory program focused on all non-internal combustion engine vehicles

The third option considered requiring enrollment in RUC for all new and existing vehicles not powered by internal combustion engines – that is, all hybrid, plug-in hybrid electric, and battery electric vehicles. This approach would not capture highly efficient ICE vehicles, but it would feature a greater number of initial enrollments given that it would apply to non-ICE vehicles currently on the road.

The Task Force saw some benefit to the simplicity of this approach. However, Task Force members rejected this option due to the fact that it would not capture highly efficient internal combustion engine vehicles and appeared to single out the most efficient vehicles, particularly EVs.

Option 4 – A road usage charge as an additional fee on all vehicles

The last option represented a seismic shift in how the transportation system would be funded by implementing RUC as an additional fee on all vehicles. Vehicles that use traditional fuels would continue to pay the fuels tax and highly efficient vehicles would continue to pay supplemental registration fees. This option would provide a substantial increase in revenue but would also involve implementation challenges, as bringing all vehicles – including low-efficiency vehicles – into a road usage charge program would be a significant undertaking and entail higher administrative costs.

The revenue potential of this option was seen as a positive, but the Task Force expressed clear opposition based on administrative costs, complexity of implementation, and anticipated political obstacles.

Ultimately, RUFTF expressed strong support for a long-term transition to a road usage charge. The Task Force discussed moving forward with this in multiple phases:

- In the near term, the Legislature would increase supplemental registration fees so that high-efficiency vehicles pay approximately the same amount in transportation taxes and fees as the average vehicle rated at approximately 20 miles per gallon, consistent with legislative intent in creating these fees. This would likely drive higher enrollment in OReGO as more people would choose to pay by the mile over time rather than pay a large upfront registration fee; scale would help spread costs across more vehicles and lower the percentage of revenue that would go to administrative costs. ODOT would continue to develop the OReGO program, simplify and grow enrollment, and reduce administrative costs.
- In the medium term, a road usage charge would become mandatory on highly efficient new vehicles. With a mandate on these vehicles, the scale of the program would grow, helping drive down the administrative costs and generate positive net revenue from the program. ODOT would continue to explore low-cost options for obtaining access to telematics data.
- In the long term, over the course of a decade or more, the number of vehicles on RUC would grow until RUC became the predominant way of paying for roads, though the gas tax could remain in place for legacy gasoline-powered vehicles.

Supplemental Registration Fees for Efficient Vehicles

OVERVIEW

As electric and hybrid vehicles gain an increasing share of light-duty vehicle sales, many states have responded by implementing supplemental registration fees – in addition to the base registration fees for all passenger vehicles – on highly efficient vehicles. At least 32 states impose a supplemental registration fee for battery electric vehicles, and 19 states also impose a fee on plug-in hybrid electric vehicles.[4] EV fees range from a low of $50 per year to a high of $250 per year. In some cases, revenue from these supplemental registration fees is allocated specifically for EV infrastructure investment.

Oregon is among the states that impose a supplemental registration fee on EVs and other highly efficient vehicles; Oregon also charges higher title fees for hybrids and EVs. Every class of vehicle within the state's efficiency-based structure is subject to a supplemental registration fee for each year of the registration period, on top of a base registration fee of $43 per year for all passenger vehicles:[5,6]

- For vehicles that have a rating of 0-19 MPG: $20
- For vehicles that have a rating of 20-39 MPG: $25
- For vehicles that have a rating of 40 MPG or greater: $35
- For electric vehicles: $115

Vehicles rated at 40 MPG or greater and EVs can have the supplemental registration fee waived if they are enrolled and remain in the OReGO program through the duration of the registration period.

The supplemental fees, implemented by HB2017 (2017), were intended by the Legislature to achieve parity in taxes paid between efficient vehicles and ICE vehicles. The rates were estimated based on data available at the time, in which EVs were more limited in their range and use than they are today. At the current rates, an EV or hybrid driving about 9,600 miles a year—the average miles driven by a passenger vehicle in Oregon—would pay a lot less in total taxes and fees than a vehicle that gets average fuel efficiency.

4 National Conference of State Legislatures – Special Fees on Plug-In Hybrid and Electric Vehicles

5 ORS 803.420 (6)(a) – Registration fees

6 ORS 803.422 (3) – Registration fees based on miles per gallon

Total Taxes and Fees for Vehicles that Drive 9,600 Miles per Year

Motive Power	Fuel Economy (e.g.)	Gallons of Fuel Consumed	Annual Fuels Tax Paid	Annual Registration Fees	Total Annual Road Taxes & Fees
ICE	20 MPG	480	$192	$68	$260
Hybrid	55 MPG	175	$70	$78	$148
EV	115 MPGe	N/A	N/A	$158	$158

An equity gap still exists between what EVs pay in annualized supplemental registration fees and what a less-efficient ICE vehicle pays in annual fuels tax, as the additional $95 an EV pays in supplemental registration – compared to a 0-19 MPG vehicle – does not make up for fuels tax not paid. To achieve tax equity, Oregon's supplemental registration fee for highly efficient vehicles would need to be increased, consistent with the original legislative intent in creating these fees.

In 2023, ODOT conducted what is known as the HB2017 Section 75 Study, which analyzed cost responsibility across vehicle efficiency categories within the passenger fleet.[7] The study found that the highest efficiency classes (40+ MPG & battery electric) underpay relative to the lower efficiency classes (0-19 MPG & 20-39 MPG) despite being subject to higher registration fees.

Based on the findings of the Section 75 Study, the Oregon Transportation Commission made several recommendations, including:

- Increase vehicle registration fees to balance payments across vehicle classes
- Simplify the tiered fee structure by eliminating the tiered title fee
- Regularly update the Section 75 Study, or include it in the Highway Cost Allocation Study (HCAS)
- Evaluate the conversion to a motive power registration structure
- Maintain a per-mile road usage charge for efficient vehicles as an opt-out option to higher registration fees
- Ensure the totality of vehicle taxes, fees, and rebates incentivizes the purchase of highly efficient vehicles

It is important to emphasize that final bullet, as Oregon remains committed to incentivizing the transition to EVs by providing rebates for purchases, investing in charging infrastructure, and implementing other supportive policies. Rebates help incentivize the transition to zero-emission vehicles while registration fees and road usage charging help disincentivize free use of roads and highways. In that vein, stabilizing funding for Oregon's Clean Vehicle Rebate Program,[8] which has been suspended several times in recent years due to a lack of available funds, would aid in achieving that balance.

7 Oregon Transportation Commission – HB2017 Section 75 Study

8 Oregon Department of Environmental Quality – Clean Vehicles

Supplemental registration and title fees on efficient vehicles are already in place and increasing them would be relatively simple, quick, and inexpensive to implement, but they are not an accurate proxy for actual road usage and vehicle impacts compared to other revenue mechanisms. A road usage charge is a better system for charging drivers for their actual use of the road network.

Oregon DMV imposes a tiered title fee based on the efficiency of the vehicle. A title fee, however, is meant to serve as a certificate of ownership rather than a fee for accessing the transportation system. As such, the Legislature might consider repealing the tiered title fee in favor of a flat title fee, as recommended by the OTC following the Section 75 Study.

In order to make these fees less burdensome on low-income households and those purchasing efficient vehicles, the Legislature might consider shortening the registration period, currently four years for a new vehicle and two years for a registration renewal, to reduce the upfront payment required.

The OReGO program can continue to be available as an option for efficient vehicle owners who do not wish to pay the supplemental registration fee. ODOT needs to make opting into OReGO seamless at the point of sale and when vehicle registration is due so people can easily opt out of paying the supplemental registration fee. ODOT must also address issues related to the transfer of vehicles, as currently OReGO customers who sell their vehicle or end their lease before the end of the registration period must pay the full supplemental registration fee.

RUFTF DELIBERATIONS

The Task Force generally agreed on the need to achieve parity in transportation taxes and fees paid by vehicles of varying efficiencies, though there were differing opinions on how best to accomplish that goal. Highly efficient vehicles were recognized as underpaying for use of the transportation system relative to less-efficient vehicles, but there were concerns that raising the supplemental registration fee on efficient vehicles to a high level would create barriers to purchasing EVs and have equity implications for lower-income households looking to buy or lease an efficient vehicle.

Task Force members emphasized the importance of continuing to offer and promote the OReGO program as an alternative to the supplemental registration fee. Some members also stressed the importance of stabilizing funding for the Clean Vehicle Rebate Program – particularly for low- and middle-income households – to help bring down the purchase cost of an efficient vehicle as a counter to the higher registration fee, though three members objected to continuing to fund rebates for the purchase of EVs.

The Task Force recommended that the Legislature determine and set supplemental registration fees in a manner that ensures highly efficient vehicles pay a fee that is approximately the same amount in transportation taxes and fees as the average vehicle rated at 20 miles per gallon, consistent with legislative intent in creating these fees. However, one member objected to increasing fees on efficient vehicles until pollution or carbon costs are charged to fossil fuel vehicles and EV rebates are guaranteed adequate funding.

A Mileage-Based Fee for Medium-Duty Vehicles

OVERVIEW

Oregon has had a weight-mile tax for heavy-duty vehicles (26,001 pounds and above) in place since 1947, in which those vehicles pay fees based on their weight and distance traveled in the state (along with their axle configuration for trucks above 80,000 pounds). Medium-duty vehicles (10,001 to 26,000 pounds), like light-duty vehicles, primarily pay for their road use through fuel taxes and registration fees.

Medium-duty vehicles (MDVs) in fleets present a compelling use case for electrification: fleets of vehicles operate out of a central hub, drive a relatively limited number of miles conducting pickups and deliveries or making service calls within a defined service territory, and later return to their hub, where they can be charged overnight. Fuel cost savings for companies transitioning to electric vehicles could be significant. Amazon has announced its intention to have 100,000 electric delivery vans on the road by 2030 and already has more than 15,000 such vehicles across the United States.[9]

Beyond the potential cost savings for businesses, regulatory policies and rules adopted by the state aim to hasten the transition, as well. The Oregon Environmental Quality Commission adopted the Advanced Clean Trucks Rule in 2021, which will require manufacturers of medium- and heavy-duty vehicles to sell a certain percentage of zero-emission vehicles beginning with the 2025 vehicle model year.[10]

To avoid significant revenue loss as MDVs shift from fossil fuels to electricity, these vehicles could also be subject to a mileage-based tax. If both the light- and heavy-duty fleets are paying by the mile in the future, there is policy justification for shifting medium-duty vehicles to paying by the mile, as well, through a weight-mile tax or road usage charge.

There are a relatively limited number of registered medium-duty vehicles – approximately 131,000 – compared to the number of passenger vehicles – approximately 3.6 million – on Oregon's roads. As such, implementation would likely be easier than for passenger vehicles, as most of these vehicles are operated by businesses and are considered commercial motor carriers subject to safety and regulatory requirements. However, while the number of MDVs is much smaller than the number of passenger vehicles, it could be challenging to ensure compliance with a mileage-based tax compared to heavy-duty vehicles, as ODOT

9 Everything you need to know about Amazon's electric delivery vans from Rivian (Updated July 10, 2024)

10 Oregon Department of Environmental Quality – Oregon's Rules for Medium- and Heavy-Duty Vehicles and Engines

currently sees a higher rate of failure among MDVs in complying with registration requirements. Implementation could be facilitated by ongoing federal efforts to improve safety and regulation of this class of vehicles.

In Oregon, heavy-duty commercial motor vehicles pay a weight-mile tax that ranges from 7.64 cents per mile for a 26,001 – 28,000 pound vehicle to 25.12 cents for a 78,001 – 80,000 pound vehicle; those over 80,000 pounds also pay by the mile based on their axle configuration. A mileage-based fee on MDVs would likely be set between the current passenger vehicle RUC rate (2 cents per mile) and the bottom end of the weight-mile tax (7.64 cents per mile) in recognition of the moderate impact medium-duty vehicles have on roads.

ODOT has relatively limited data on mileage driven by medium-duty vehicles, but based on recent trends in home delivery, the agency expects the number of miles traveled by this segment of the fleet to grow, meaning that there could be significant revenue potential in a medium-duty mileage fee.

RUFTF DELIBERATIONS

The Task Force agreed that further exploring a mileage-based fee for medium-duty vehicles is a logical next step given that ODOT is advancing RUC policy for the passenger vehicle segment and the fact that the MDV fleet could electrify rapidly. The Task Force indicated that additional research and data were needed before any definitive policy options could be recommended. Topics identified for further analysis related to items such as commercial vs. personal use, administrative costs, and compliance.

The Task Force recommended that the Legislature state the intent of transitioning the medium-duty vehicle fleet to a mileage-based fee and direct the Department of Administrative Services to incorporate and analyze options for implementation of a weight-mile tax or road usage charge for MDVs in the process of developing future versions of the Highway Cost Allocation Study. RUFTF could also be tasked with additional policy work to develop a medium-duty weight-mile tax.

Retail Delivery Fees

OVERVIEW

With significant economic activity taking place via purchases made online, an increasing number of states are beginning to explore the idea of assessing fees on the delivery of retail purchases to help fund their transportation systems. As of July 2024, two states – Colorado and Minnesota – have implemented a delivery fee on retailers that ship and deliver products to customers in those states. The fees are imposed on retailers, which can choose to absorb the cost or collect the fee from customers.

State	Rate	Implementation Date	Additional Information
Colorado[11]	$0.29 per sale	July 2022	The total retail delivery fee is made up of six individual delivery fees that fund specific accounts, such as the clean fleet enterprise and statewide bridge enterprise Fee increased from $0.28 in FY24 to $0.29 in FY25 Applies to deliveries by motor vehicle with at least one item of tangible personal property subject to state sales or use tax The retailer or marketplace facilitator that collects the sales or use tax on the item is liable for remitting the retail delivery fee Exemptions exist for business whose retail sales in Colorado totaled $500,000 or less the previous year
Minnesota[12]	$0.50 per sale	July 2024	Applies to transactions where charges for tangible personal property subject to sales tax or clothing equal or exceed $100 Does not apply to drugs; medical devices, accessories, and supplies; food, food ingredients, or prepared food; items delivered electronically (e.g. computer software); utilities delivered through wires or pipes (e.g. natural gas and electricity). Certain baby products are also exempt from the fee Does not apply to deliveries made by a food and beverage service establishment Exemptions exist for retailers whose Minnesota retail sales that totaled less than $1,000,000 the previous calendar year

11 Colorado Department of Revenue – Retail Delivery Fee

12 Minnesota Department of Revenue – Retail Delivery Fee

Washington State commissioned a comprehensive analysis of a retail delivery fee, published in June 2024, that explores revenue potential across several scenarios.[13] Other states, including Nevada, Ohio, and New York have also studied retail delivery fees.

Colorado's retail delivery fee generated approximately $75.9 million in FY23 and had raised $69.7 million through the end of March 2024 in FY24.[14] Minnesota has estimated that its retail delivery fee will raise $59 million in FY25 and $64.8 million in FY26.[15] Based on Colorado's revenue, ODOT estimates that a similar tax could raise $50-60 million annually in Oregon.

It is important to note that the states that have implemented a retail delivery fee have existing sales and use tax systems that they are able to leverage in the implementation of their retail delivery fees. As a state with no sales tax, implementation of a retail delivery fee would likely be a more complicated endeavor in Oregon.

Whether a retail delivery fee is subject to Oregon constitutional restrictions on transportation revenue would need to be explored and would likely depend on how the tax is constructed. A retail delivery fee designed as a tax on the impact of commerce and deliveries on the transportation system would likely qualify as a tax or fee on the ownership, operation, or use of a motor vehicle and thus would be subject to the constitutional requirement. A business licensing tax on the privilege of delivering packages in Oregon might not be subject to the constitutional requirement.

RUFTF DELIBERATIONS

As a relatively new concept, Task Force members were generally intrigued by retail delivery fees. However, the Task Force identified other mechanisms – increasing the fuels tax and supplemental registration fees; indexing taxes and fees to inflation – as higher priorities that could be more quickly and easily implemented.

Task Force members noted that local governments in Oregon might wish to explore a retail delivery fee within their jurisdictional boundaries to help fund local transportation investments.

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13 Washington State Joint Transportation Committee – Retail Delivery Fee Analysis

14 Washington State Joint Transportation Committee – Retail Delivery Fee Analysis (p. 7)

15 Minnesota Department of Revenue – Sales and Use Tax: Retail Delivery Fee (Revised Description)

A Tax on Electricity Used for Charging EVs at Public Charging Stations

OVERVIEW

While EVs do not use traditional fuels and thus do not pay fuels tax, they do rely on electricity to charge their batteries, providing for the potential to tax electricity used for vehicle charging. Several states have passed laws that establish a per kilowatt-hour (kWh) or similar tax on public charging stations. These taxes are relatively new, with implementation generally only occurring in recent years, so there is limited information on how much revenue they are generating. At this time, the revenue potential appears minimal, as the tax rates are relatively low – typically between $0.026 and $0.03 per kWh – and relatively little charging takes place at public stations.

Iowa has begun to report on kWh tax collections within the state. Based on monthly fuel tax reports for 2024, an average value of $18,393 in electric fuel taxes were remitted per month through July; this would amount to roughly $220,700 on an annual basis.[16] Wisconsin, as a recent state to pass legislation on this topic, produced recent revenue projections. The DOT estimated annual revenue in FY25 to be between $211,400 and $317,000 and in FY26 to be between $285,100 and $427,600.[17]

Data from Oregon's section of the West Coast Electric Highway (WCEH) provides an opportunity to simulate this type of tax in Oregon.[18] In must be noted, however, that the WCEH is only a portion of Oregon's public charging network, so this example does not capture all public charging. In 2023, a total of 644,274 kilowatt-hours were used to charge EVs across Oregon's WCEH, with an average of 19.08 kWh per session. An average of 19.08 kWh multiplied by $0.03 per kWh produces an average tax paid per charging session of $0.57. A total of 644,274 kWh for the year multiplied by $0.03 per kWh produces total revenue of $19,328.

It is important to emphasize that most of the policies implemented by other states only intend to tax electricity used at public charging stations, the rationale being to capture revenue from out-of-state EV drivers. Taxing residential EV charging, at this stage of EV adoption, would likely be difficult to differentiate and enforce. Most EV charging in Oregon tends to take place at private residences. A 2018 study conducted by the Transportation Research and Education Center at Portland State University found that "[j]ust under two-thirds of respondents reported that 100% of their weekly charging takes place at home."[19]

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16 Iowa Department of Revenue – Fuel Tax Monthly Reports

17 Wisconsin Department of Administration – Fiscal Estimate – 2023 Session

18 ODOT – Oregon's West Coast Electric Highway

19 MacArthur, John, Michael Harpool and Daniel Scheppke. Survey of Oregon Electric Vehicle & Hybrid Owners. Portland, OR: Transportation Research and Education Center (TREC), 2018. p. 29

Current trends may differ given that the study is several years old and has not since been updated. For example, as EVs gain an increasing share of new vehicle sales and as federal funds are deployed to build additional EV infrastructure, public charging might come to be seen as a convenient and reliable option. Moreover, with a more comprehensive charging network, range anxiety among existing and prospective EV owners may decrease, resulting in longer trips that require charging at a public station, which could capture both in-state and out-of-state drivers.

Conversely, more households might opt to install Level 2 chargers for at-home charging and, depending on their driving habits, may not need to utilize public charging stations. A tax on public charging might not impact those who own a home and are able to install personal charging equipment, but renters and those living in multifamily housing might be more likely to be subject to a public charging station tax, depending on whether property owners provide EV charging infrastructure at those dwellings.

Another consideration for implementing a kWh fee on public charging stations is the matter of who pays the fee – the EV owner, the charging station owner/operator, or the electric utility. Not all charging stations bill by kWh, which could require changes to the charging infrastructure (e.g. installation of meters) and/or point-of-sale billing systems. If charging station owner/operators are responsible for remitting the tax, processes would need to be developed and communicated to the variety of entities that own and/or operate public charging stations in order to report usage and remit the tax.

RUFTF DELIBERATIONS

The Task Force noted that this option may help raise a relatively small amount of money from out-of-state EV drivers visiting Oregon who would otherwise not pay for using Oregon's roads. There was concern among several members, however, related to adding costs to station owners and/or Oregon EV drivers at this stage of adoption, and at least one RUFTF member voiced opposition to this option. Others noted that it may be more challenging to implement a tax on a more comprehensive network of stations in the future compared to the near term.

Given the limited revenue potential, RUFTF members expressed some interest in this revenue source but did not place a high priority on it as a likely solution to Oregon's transportation funding challenges. RUFTF members recommended that the Legislature empanel a group to further explore this concept, though one member dissented from this recommendation.

Local Government Transportation Revenue Options

OVERVIEW

As the Road User Fee Task Force is a legislatively chartered body tasked with exploring revenue collection from a statewide perspective, most of its focus was concentrated on statewide revenue options. That said, local governments in Oregon rely on the State Highway Fund (SHF) for a significant portion of their funding, with counties receiving nearly 30 percent and cities receiving nearly 20 percent of net SHF funding. For Fiscal Year 2023, this amounted to $371,824,904 for counties and $246,201,089 for cities.

As increasing fuel efficiency and inflation diminish the SHF revenue sources, local governments experience similar impacts as the state. Cities and counties do, fortunately, have additional options at their disposal for sourcing transportation revenue, such as local option fuel taxes and vehicle registration fees, transportation utility fees, and system development charges. Each of these funding sources could also be leveraged – individually or jointly – as pledged revenues to support a bonding program.

Local Option Fuel Taxes

Local governments are permitted under ORS 319.950 to implement local option fuel taxes. However, under this statute, local governments are required to hold a public vote to approve a fuels tax. Thirty cities and two counties in Oregon levy a local option fuel tax.[20] ODOT's Fuels Tax Group collects taxes on behalf of most of these local governments, totaling about $34 million annually. While local option fuel taxes remain a viable option in the near term, they – similarly to the state fuel tax – face diminishing returns over the long term as the vehicle fleet becomes increasingly efficient and electric.

Local Option Registration Fees

Three counties in Oregon—Multnomah, Washington, and Clackamas—impose a registration fee for vehicles that reside in those counties. These are collected by Oregon DMV at minimal cost to the counties. Currently, at the local level, only counties are able to impose registration fees – cities do not have the authority to do so. However, counties must provide for payment of at least 40 percent of moneys from the registration fee to cities, with the exception of Multnomah County as provided in ORS 801.044. Under ORS 801.041, the governing body of a county with a population of 350,000 or more may enact a registration fee, but the voters must approve a registration fee in counties with a population less than 350,000.

20 Oregon Department of Transportation – Current Fuel Tax Rates

Metro Counties Local Option Registration Fees

County	Registration Fee (Annual)	Approx. Total Collections (Annual)
Multnomah	$56	$32 million
Clackamas	$30	$12 million
Washington	$30	$16 million

Transportation Utility Fees

Also referred to as a street utility fee, some local governments have implemented a fee that is assessed on customer utility bills (e.g. water/sewer) and dedicated to maintaining and improving transportation infrastructure. Over 30 cities in Oregon utilize a transportation utility fee. Monthly fees, for a single-family residential account, range from $2.50 to $16.30.[21] Some local governments do not, however, own and operate their own utility systems, which makes this option more complicated.

System Development Charges

System development charges (SDCs) are "one-time charges on new development and certain types of redevelopment to help pay for existing and planned infrastructure to serve that development."[22] In Oregon, SDCs may be used by cities, counties, and special districts for capital improvements to various types of infrastructure, including transportation. SDCs may be used for capital costs but are ineligible for ongoing maintenance and operation costs. Moreover, a reasonable connection must exist between the fee paid and benefits received by the developer.

Other Local Funding Options

Additional options available to local governments for raising road revenue include:

- Transient lodging tax
- Parking meters and fines
- Franchise fees
- Sales tax
- Road and service districts
- Local improvement districts (LID)

21 City of Bend – Transportation Fee

22 State of Oregon Legislative Policy and Research Office – System Development Charges Issue Brief

RUFTF DELIBERATIONS

The June 2024 RUFTF meeting featured a presentation by and discussion with representatives from the Association of Oregon Counties (AOC) and League of Oregon Cities (LOC). AOC and LOC emphasized the importance of the State Highway Fund to local governments and indicated that maintaining the 50/30/20 formula was a priority for both organizations, and RUFTF generally agreed with maintaining this distribution. Also identified as a priority was removal of existing preemptions and limitations on opportunities for local governments to raise their own supplemental revenue.

The Task Force, in discussion with AOC and LOC and after consideration of various local funding sources, agreed that local governments should have the maximum flexibility to raise revenue for their transportation systems as they see fit. The Task Force recommended that the Legislature eliminate existing preemptions and limitations on opportunities for local government to raise their own supplemental transportation revenue.

APPENDIX A

RUFTF – 2024 Membership

Lee Beyer, *Chair*
OTC Commissioner

John Lively, *Vice Chair*
House Member (D)
Oregon State Legislature

Jeff Baker,
OTC Commissioner

Rick Lewis,
House Member (R)
Oregon State Legislature

Steve Uffelman, City Official
City of Prineville

Dan Dorran, County Official
Umatilla County

Jeff Allen, At-Large
Forth

Marie Dodds, At-Large
AAA Oregon

Keith Wilson, At-Large
Titan Freight Systems

Bruce Zimmerman, At-Large
Confederated Tribes of the Umatilla Indian Reservation

APPENDIX B

Road User Fee Task Force
Vision Statement
2024

PURPOSE

The Oregon Legislature created the Road User Fee Task Force in 2001 to develop a revenue collection system that would fund Oregon's roads and highways. Because fuel taxes have not kept pace with inflation, and in recognizing that vehicle efficiency ratings have steadily improved over several decades, legislators anticipated that revenues for maintaining and improving the state's road system would soon start to decline and ultimately fail to keep pace with state transportation needs.

Per ORS 184.843, the purpose of the task force is to develop a design for revenue collection for Oregon's roads and highways that will replace the current system for revenue collection. The task force shall consider all potential revenue sources.

VISION

A revenue collection structure that is equitable and ensures sufficient and reliable funding to operate, maintain, and modernize Oregon's transportation system.

OBJECTIVES

- Preserve and enhance equity, including socioeconomic equity, horizontal and vertical tax equity, and urban/rural equity.
- Encourage the efficient use and operation of the transportation system.
- Support the decarbonization of the transportation system through the adoption of high-efficiency vehicles.

APPROACH

The Oregon Legislature and Oregon Transportation Commission, through their policymaking processes, determine and define what constitutes sufficient levels of funding. The Road User Fee Task Force, as an advisory board, provides input and recommendations to the Oregon Department of Transportation, Oregon Transportation Commission, and Oregon Legislature on revenue options for achieving those sufficient levels of funding.