

Oregon Department of Transportation

Response to Questions from Joint Committee on Ways and Means,  
Subcommittee on Transportation and Economic Development  
April 13, 2015

### ***Background on the Road Usage Charge Program and Senate Bill 810***

The volunteer Road Usage Charge Program, created by the 2013 Legislature in SB 810, is the result of over a decade and a half of legislative investment in finding a better way to fund Oregon's transportation system. With vehicles rapidly becoming more fuel efficient and a growing number of alternative fuel vehicles on the road, de-coupling transportation funding from the purchase of fuel is becoming more and more important to the long-term viability of Oregon road financing.

In 2001, concerns about fuel efficient vehicles reducing fuel tax revenues led Oregon decision-makers back to the drawing board to create a more reliable source of revenue. To develop a better way to fund Oregon's roads and highways the Oregon Legislature convened an independent body of state legislators, transportation commissioners, local government officials and citizens called the Road User Fee Task Force. The Road User Fee Task Force researched 28 potential mechanisms for raising state transportation funding revenue. It ultimately found that a road usage charge would be fair, sustainable, and follow Oregon's long-standing "user pays" principle of charging vehicle owners for their use of the state's roadways. The task force originally envisioned a 20-year phase-in period where it would be necessary for the state to operate both the fuel tax and the road usage charge. No Oregon motorist would be responsible for both.

Twelve years and two small pilot programs later, the legislature in 2013 passed SB 810 to create the Road Usage Charge (RUC) Program. SB 810 authorized the Oregon Department of Transportation to assess a per-mile charge for up to 5,000 volunteer vehicles. The 5,000 vehicles allows for up to 1,500 vehicles rated at less than 17 mpg and up to 1,500 rated from 17 to less than 22 mpg.

Oregon is the first state in the U.S. to adopt a road usage charge program; however, we are not alone in our search for a more sustainable transportation funding source. In addition to Oregon, several other states are developing pay-per-mile programs. California recently passed a bill authorizing its own road usage charge demonstration program. The State of Washington is studying and testing concepts similar to Oregon's program. Elsewhere in the nation, Indiana, Wisconsin, Michigan, Illinois, Maine, Delaware and Florida are studying or investigating per-mile charging for roads.

The 5,000 vehicle volunteer program begins operation July 1, 2015 and represents a significantly scaled up pilot from the previous two that included 285 vehicles and 88

vehicles respectively. Interested citizens can sign up on an interest list on the program's website prior to deciding to volunteer starting July 1. The road usage charge is set at 1.5 cents per mile. Volunteers will have their choice of three secure mileage-reporting options offered by ODOT's private-sector partners (account managers), and volunteers' personal information will be kept secure and private.

***Q: What are the account managers? Why this concept?***

Account managers are private-sector partners who, through a contract with ODOT, will offer road usage charge services similar to how cell phone providers, utility providers or insurance providers offer services.

There are two different types of account managers in the Road Usage Charge Program:

- Commercial account managers may provide value-added services along with the mileage reporting device and RUC account services. Value-added services include monitoring your driving habits to lower your insurance rates, tracking the actual fuel consumption of your vehicle, or reading the "check engine" light on your dashboard and accurately diagnosing the problem before you have it repaired.
- An ODOT account manager provides no value-added services, and its mileage reporting device will not record the participant's location. This is the basic no frills option for volunteers that is required under SB 810.

ODOT has contracted with two commercial account managers: Verizon Telematics and Azuga. ODOT has also contracted with Sanef to represent the State of Oregon as the ODOT account manager. Sanef also submitted a proposal to be a commercial account manager but has not completed negotiations with ODOT and is not under contract as a commercial account manager. The commercial account managers will offer a device that uses GPS technology; the ODOT account manager will not.

Oregon law and ODOT's contracts require all account managers to protect the volunteers' personally identifiable information. This includes a provision to destroy location and metered use records within 30 days after payment processing, dispute resolution or non-compliance investigation. Volunteers can consent to allow the commercial account managers to retain their information for other services.

***Why this concept?*** Using the private sector significantly enhances choices for the volunteers. The private sector also already has expertise in electronic vehicle data reporting and transactions processing. Additionally, the private sector has greater ability to keep up with technology changes. Public acceptance of the volunteer program is vital to Oregon's ability to shift towards a more modern and sustainable transportation

financing solution. Choices and optional value added services, along with positive volunteer user experience, are critical to a successful volunteer program.

Oversight is a key component of contracting and partnering with the private sector. To administer the program, which includes overseeing account managers, ODOT developed a system that interfaces between the account managers and other government systems. These systems include ODOT's fuels tax system, its accounting system, Treasury, and DMV's registration database. The ODOT-developed system also keeps record of volunteer and vehicle information along with aggregate mileage information. This system is scalable and can be expanded to handle a larger program, if approved by the legislature. This is the IT component of the implementation.

ODOT also requires account managers to become certified in order to offer services. Certification is the process used to ensure account managers can meet statutory and contractual obligations, such as protecting the volunteers' personally identifiable information and destroying location and metered use records appropriately, while administering the road usage charge. Certification requires account managers to meet more than 270 requirements. These requirements include:

- Business requirements related to the vendor's policies, processes and procedures used to implement and administer the ODOT Road Usage Charge Program.
- System requirements related to the security and overall capabilities of the systems used to administer in the ODOT Road Usage Charge Program. Systems include, but are not limited to, mileage reporting devices, servers, communications, websites, firewalls, etc.
- Mileage reporting device and data collection requirements specific to the capabilities of the mileage reporting device to collect mileage and fuel data, determine location (when applicable) and transmit collected data to the account management system for processing.
- Account management operations requirements specific to the capabilities of the account management system to manage volunteer accounts, calculate the road usage charge, bill the volunteers and accept payments, report aggregated data to ODOT and make payments to the Oregon Treasury for taxable miles.

**Q. What are the account managers doing? Describe duties and responsibilities of account managers.**

ODOT contracted with account managers to manage volunteers' accounts in the Road Usage Charge Program. All account managers go through an extensive certification process to ensure they can meet statutory and contractual obligations. Overall, it is the goal of the Road Usage Charge Program to provide a seamless volunteer experience. Account managers serve a number of purposes.

*Attract Volunteers*

Each commercial account manager is actively marketing to get volunteers into their system. Being true to the idea of an open market established in SB 810, they want to grow their business and expand their product offerings. RUC is one part of what they are offering the Oregon market. Other value-added services include improved insurance rates, engine diagnostics and more. Account managers create their own marketing strategies and execute them in coordination with ODOT. They will launch marketing campaigns in mid-May or June 2015, so they do not lose momentum by July 1, 2015.

*Enroll Volunteers*

Once a volunteer chooses an account manager, the account manager is responsible for enrolling them in the program. Account managers must:

1. Provide a web portal. This will allow volunteers to learn more about the general program, administration of the program, value-added services, and terms and conditions before they enroll.
2. Operate an easy-to-use sign up page. Volunteer enrollment should be user friendly.
3. Confirm that the vehicle is eligible for the program. Account managers will pre-screen volunteers and vehicles to ensure they meet requirements as defined by SB 810.
4. Provide a certified mileage reporting device (dongle) to enrolled volunteers along with instructions on how to install it. Account manager customer support will be available during this time to help volunteers if needed.
5. Verify the device is installed and transmitting information to their systems.

*Manage Volunteer Accounts*

The primary responsibility of the account manager is to manage volunteer accounts. This entails:

1. Receiving mileage messages, and if applicable, fuel consumption data from installed devices. This includes ensuring all devices are operating and transmitting accurate data.

2. Calculating net taxes due, which is road usage charge (as determined by miles travelled) minus fuels tax credits (as determined by the fuel consumption of the vehicle or the average miles per gallon (MPG) of the vehicle per Environmental Protection Agency (EPA)).
3. Settling accounts. This includes issuing account statements to volunteers, accepting payments and/or issuing refunds.
4. Reporting to ODOT. ODOT stipulates four reports that account managers must submit on a weekly, monthly, and quarterly basis in order to monitor the program.
5. Providing on-going customer support, which includes:
  - a. Providing on-line access to volunteers to monitor their accounts, view invoices, make payments, and view transactions reports;
  - b. Creating processes to timely and accurately respond to and solve volunteer questions and issues via email, phone and postal mail.

### *Un-enroll Volunteers*

The current Road Usage Charge Program is a volunteer system. Volunteers may leave at any time and for whatever reason. Like the enrollment process, account managers have created streamlined processes for closing volunteer accounts and retrieving the device.

### **Q. What is OReGO?**

OReGO is Oregon's voluntary road usage charge program. The OReGO name provides a way to talk about the program in plain language for a citizen audience and includes a website, live and working today, to connect potential volunteers to the program at [www.myOReGo.org](http://www.myOReGo.org). On the website, you can:

- Read volunteer user experiences from the previous pilots.
- Calculate your estimated OReGO payment (road usage charge) and compare it to your current monthly fuel tax cost.
- Sign up for the interest list to become a volunteer on July 1.
- Volunteer starting July 1, at which time you can chose a provider (account manager) and a device that provides the level of service, security and privacy you are comfortable with for you to participate in the program.

### **Q. How much did it cost to build? Why did the fiscal change? What will it cost to run? Break down into Personal Services and other costs (FTE, S & S, Account Managers compensation).**

There is a cost to build a new system and to collect the road usage charge. Over time, the cost to collect a road usage charge per vehicle would decline if the number of participants grows and the system realizes economies of scale.

In 2013, the Department received a \$2,828,339 increase in expenditure limitation and 8.7 FTE for the 2013-2015 biennium to implement and administer the 5,000-vehicle road usage charge program. The breakdown of the proposed budget for this increased limitation is shown below:

Personal Services	\$1,549,149
Services & Supplies	<u>\$1,279,190</u>
TOTAL	\$2,828,339

The increase in limitation reflected an estimate of costs, informed by the previous two small pilots, to implement the volunteer road usage charge program and the variable costs associated with processing road usage charge payment transactions. What was not included in SB 810 was budget to cover the costs associated with the account managers, publicizing the program to obtain the account managers or paying for other operational expenses.

Following the passage of SB 810, the department began work, initiating the implementation project to create the volunteer Road Usage Charge Program. The road usage charge is a new method of taxation; there are neither existing procedures to automate nor existing systems to support collecting the road usage charge. The current volunteer program has the potential for significantly more vehicles than the two previous pilots, which had fewer participants and were small enough to use basic tools such as Excel and manual processes for determining eligibility.

As part of obtaining contracts for the account managers, CH2M Hill provided professional services. These services included helping obtain interest, development of the request, development of the bidding specifications, and assisting with the final contract. Those expenditures are \$942,393, which are included in the budget table below.

After early work to attract account managers, in July 2014, the department dedicated a project manager and a project team to the Road Usage Charge Program. The project team baselined the scope, schedule and budget for the implementation of SB 810 to gain a realistic view of what it would take to successfully develop a program in partnership with the private sector with the capacity to provide services to 5,000 volunteers. To implement everything mandated in SB 810, the project team estimated that the baseline budget for the implementation project would be about \$8 million in total through the end of the current biennium and the first six months of the 2015-2017 biennium.

**Table 1: Road Usage Charge Program Budget for Implementation and Operations**

Implementation		Operations	
2013-2015 Biennium		2015-2017 Biennium	
Personal Services	\$2,132,025	\$470,737	\$783,283
Professional Services	\$3,914,224	\$20,000	\$1,422,068
IT Professional Services	\$160,400	\$135,366	-
Technology	\$30,565	\$20,000	\$62,750
DOJ	\$75,049	\$75,000	\$225,000
Outreach/Incentives	-	-	\$900,000
Rent	\$123,325	\$80,000	\$144,000
Future Operational	-	-	\$500,000
Other Program S&S	47,495	\$25,000	\$75,000
Total S&S	4,351,058	\$355,366	\$3,328,818
Total	6,483,083	\$826,103	\$4,112,101
2013-2015 Biennium Total: \$6,483,083		2015-2017 Biennium Total: 4,938,204	
<b>Implementation Total: \$7,309,186*</b>		<b>Operations Total: \$4,112,101</b>	

*\*Currently, we anticipate coming in slightly under our projected \$8 million budget for implementation. Operations overlap with implementation for the first 6 months of the 2015-17 Biennium.*

The increase in personal services reflects the addition of staff to the project team, which included both IT and business staff. The bulk of the increase is in services and supplies, which includes payments to the account managers to implement the open market concept required in SB 810. Outreach and incentives are the costs associated with obtaining and maintaining interest in the program. Future operational costs would cover

the costs associated with bringing devices with additional features into the program, such as Bluetooth-enabled devices.

The department signed contracts with three private sector vendors. The certification process to provide proper oversight of the firms involves the department working with all three vendors to ensure they have the systems in place to appropriately provide the services.

**Table 2: Projected payments to the account managers**

Payments to Account Managers Biennium Expenditure by Task				
Account Managers	2013 -2015 Biennium		2015 - 2017 Biennium	
	Task 1	Task2	Task 3	Task 4
	Formal Certification	Operational Trial Support	Ongoing Operations	Live Telephone Customer Support
<b>Sanef</b> Oregon Account Manager Work Order Contract #1	\$747,500	\$110,500	Assume 800 volunteers \$309,568	Two years of service \$120,000
<b>Azuga</b> Commercial Account Manager Work Order Contract #1	\$325,000	\$16,000	Assume 1400 volunteers \$201,600	Three months of service \$15,000
<b>Verizon</b> Commercial Account Manager Work Order Contract #1	\$370,000	\$80,000	Assume 1400 volunteers \$201,600	Three months of service \$2,700
<b>Sanef</b> Commercial Account Manager Work Order Contract #1 (Negotiated/not signed)	\$325,000	\$69,200	Assume 1400 volunteers \$201,600	Three months of service \$15,000

*Note: Sanef and ODOT have concluded negotiations, as noted above. The contract is in the process of being signed.*

**Q. What are the functions of the staff in operations?**

In ODOT, five business people will operate the entire program:

1. Program Manager
2. Program Administrative/Accounting Support
3. Account Manager Coordinator
4. Volunteer Coordinator
5. Compliance Specialist



These five staff will be doing the following:

- Overseeing the account managers, which includes ensuring they are filing tax reports on time and processing accounts accurately
- Addressing issues that may arise with DMV records not matching applications
- Performing accounting functions such as reconciling tax reports with Treasury statements
- Ensuring new devices meet certification standards
- Managing the contracts with the account managers
- Responding to questions from volunteers, account managers and the public
- Maintaining the website ([www.myOReGO.org](http://www.myOReGO.org))
- Working to evaluate operations
- Ensuring that account managers remain certified to provide services

Most of the staff involved in operations will have been part of the project team.

***Q. Define implementation and operations; split costs between these functions for each biennium.***

Implementation is the process of building the road usage charge program, including system and policy development. Operations is the process of operating the road usage charge program after the implementation project has been closed out. There is overlap in the activities to facilitate the hand-off from implementation to operations. This includes activities such as confirming that account managers have addressed punch list items, certifying the last commercial account manager, verifying the tax reports are processed timely through the fuels tax system, and documenting lessons learned. For example, the first tax reports will be filed in October 2015. The first six months will also be a time to refine all processes.

There have been 23 people involved in the implementation, in total approximately 8.4 FTE. Some of these resources are no longer with the project because they retired or were redeployed after they completed their portion of the work. The implementation project will end on December 31, 2015. Expenditures through December 31, 2015 for implementation are projected to be \$7,309,186 (see Table 1, page 6).

Once the project implementation ends on December 31, 2015, there will be 5 FTE devoted to the operational effort and program expenditures for operations for the remainder of the 2015-2017 biennium are projected at \$4,112,101 (see Table 1, page 6).

The total expenditures for the program for both the implementation project and the operations phase are projected at \$11,421,287 for the current and next biennium combined.

**WSDOT led a study that examined inter-jurisdictional issues related to road usage charges through the Western Road Usage Charge Consortium. Below is an excerpt regarding out-of-state drivers.**

- The State of Washington's legislature directed the Washington State Department of Transportation (WSDOT) to partner with other transportation agencies located in the western region of North America to develop strategies and methods for reporting, collecting, crediting, and remitting road usage charges resulting from inter-jurisdictional travel.
- WSDOT's Public-Private Partnerships Office led the study through the Western Road Usage Charge Consortium (WRUCC), carried out with the state DOTs of California, Colorado, Montana, Oregon, and Texas as joint funding partners.
- The study found that there is a wide range of policy and operational approaches for states with road usage charges to consider when addressing visitors, including charging visitors to use the roads through shadow charges, time-based fees, or mileage based fees.
- Charging across state boundaries (and internationally) requires considering:
  - Individual circumstances and unique issues for each jurisdiction
  - Policy basis for charging visitors and corresponding operational concept(s) to implement the policy.
  - Multijurisdictional coordination for reconciliation of motorist payments.
- Multijurisdictional coordination can take many forms
  - Bilateral agreements on a case-by-case basis.
  - Multilateral agreement(s) among jurisdictions, with a clearinghouse that handles either:
    - Partial reconciliation (data only).
    - Full reconciliation (data and funds transfers).
- Enforcement can be coordinated across jurisdictions as well.

### **Inter-jurisdictional Issues**

Leaving the fuel tax in place for visitors is the easiest and most cost-effective way to address payment of road usage charges by out of state travelers.

- There is a wide range of policy and operational approaches for states with road usage charges to deal with visitors:
  - Not all solutions are feasible or desirable.
  - It is likely that some combination of approaches is optimal, and there will be evolution over time.
    - In particular, the easiest approach at the start would be to leave fuel tax in place for visitors.
  - Precedents such as the International Fuel Tax Agreement (IFTA), and European e-vignette can inform the design of a solution.

- Consideration of equity issues is important in designing a policy solution:
  - Treatment of residents versus visitors.
  - Treatment of visitors versus visitors.
- Tax arbitrage (buying fuel in one state to avoid high fuel taxes in another) and evasion incentives also need to be considered.

**Possible Next Steps:**

- Through the Western Road Usage Charge Consortium, WSDOT plans to conduct Phase II of the study to:
  - Define cost estimates of various approaches.
  - Explore specific issues for international crossings.
  - Test approaches as part of a multistate demonstration (e.g., CA-OR-WA).