

Appendix A: Financing transportation in Oregon: A menu of options

Built upon the transportation investment principles, the Vision Panel identified a “menu of options” to finance Oregon’s transportation system. This menu incorporates near-term, mid-term, and long-term options for consideration by policymakers.

Near-term options

- Increase state gas taxes
- Temporary gas taxes
- Increase driver and vehicle fees
- Electric vehicle registration fees
- First-time title fees on new vehicles
- A new vehicle excise tax
- State gas tax indexing
- Local gas tax and registration fees
- Studded tire tax
- Modify State Highway Fund distribution
- Bonding
- Lottery revenue
- Statewide property tax
- Employer/employee payroll tax
- General fund dedication
- Cigarette, alcohol, & cannabis tax
- Bicycle excise taxes
- Increase state and federal bicycle & pedestrian dedication
- Establish a ‘next generation’ revenue task force

Mid-term options

- Roadway tolling
- Public private partnerships
- Carbon taxes
- Per-mile road user charges

Long-term options

- Act on recommendations of a ‘next generation’ revenue task force
- Establish a transportation utility commission

Near-term options for consideration

In the near-term, Oregon can stem the immediate transportation funding crisis by passing a transportation funding package. A number of funding options are available, including increasing the traditional suite of user taxes and fees, as well as creating new fees where appropriate to ensure equitable contributions by transportation system users. Local governments can also be given greater ability to raise money for their transportation needs. Providing additional funding for non-highway modes is also critical.

New state investment in transportation funding can have the added benefit of reducing administrative and regulatory costs for local transportation jurisdictions. Through the use of 'fund exchange', federal funds can be exchanged with state funds to reduce administrative and regulatory costs to local jurisdictions that deliver transportation projects. This exchange would be easy to implement but requires increased state funds to exchange with federal funding.

Increase existing taxes and fees

In the short term, the most productive option for raising money for the road system is to increase the fuel tax and other established driver and motor vehicle fees—particularly since gas prices are currently low and Oregon has the lowest driver and motor vehicle fees of any state in the nation.¹ Driver-related fees (such as driver license issuance) should also be sufficient to cover the cost of providing the service through the DMV. Options include:

- Increase the state fuel tax (currently 30-cents per gallon)
- Increase vehicle registration fees
- Increase driver license fees

Take advantage of low gas prices to enact a temporary fuel tax for maintenance

With fuel prices expected to stay low for some time, an opportunity exists to channel some of the savings consumers enjoy into infrastructure investment through a temporary fuel tax increase. This temporary gas tax could supplement a general gas tax increase, and help address the current backlog of maintenance on local and state roads. The Legislature could set a target price for fuel, and then direct a portion of the cost savings below that level into the State Highway Fund. For example, if the target gas price were set at \$2.50 per gallon and the portion to be directed into infrastructure investment were set at 25%, a gas price of \$2.00 would direct 12.5 cents per gallon into the highway fund. The Legislature could also set a cap on this temporary fuel tax increase.

Create new vehicle fees to ensure fairness

The Legislature should consider creating new vehicle-related fees to ensure fairness:

- A supplemental registration fee on high efficiency vehicles that pay little or no gas tax would ensure they pay their fair share for the use of the roads; this could serve as a precursor to shifting high efficiency vehicles to a per-mile road usage charge once such a system is implemented.
- A first-time title fee on the purchase of new vehicles could be levied either as a flat fee or a percentage of vehicle purchase price. This would ensure that higher income individuals, who are more likely to buy new vehicles, pay according to their ability.

¹ "Car-Ownership Costs Ranked By State | Bankrate.com," *Car-Ownership Costs Ranked By State | Bankrate.com*. <http://www.bankrate.com/finance/auto/car-ownership-costs-by-state.aspx>

see also: *Rough Roads Ahead: The Cost of Poor Highway Conditions to Oregon's Economy, 2014*, Oregon Department of Transportation. <https://www.oregon.gov/ODOT/COMM/Documents/RoughRoads2014.pdf>

- A new vehicle excise tax could be levied as a percentage of a new vehicle purchase price.

Index taxes and other user fees to inflation

Most tax revenue—including income, property, and sales tax revenue—rises over time as prices, incomes, and property values increase. The fuel tax and driver/motor vehicle fees that are the foundation of road funding in Oregon remain flat, so over time their revenue streams are eroded by inflation. Indexing existing taxes and fees to inflation would ensure we don't continue losing ground. Options include:

- Index state fuel tax rates to inflation.
- Index driver and motor vehicle fee rates to inflation.

Local funding options

Even though they receive half of new State Highway Fund resources and a substantial share of Oregon's federal highway funding, local governments still fall significantly short of the resources they need to maintain and improve their local transportation systems. The lack of a sales tax and property tax restrictions have forced local governments to be creative in raising transportation funding—or go without resources needed to meet basic needs. The Legislature should unshackle local governments, making it easier to raise the money needed for local infrastructure across all modes. Local options are particularly needed in the Portland metro region where maintenance, safety enhancements, and improved capacity is needed across the entire transportation system. Options include:

- Allow elected city councils and county commissions to enact gas tax increases rather than requiring they be sent to voters.
- Allow elected city councils and county commissions to enact registration fee increases rather than requiring they be sent to voters in counties with populations under 350,000.
- Structure an opportunity for a vote on an increase in user fees or other taxes across the entire Portland metro region that would allow for comprehensive regional transportation investment. *Provisions could be included that ensure local governments are using transportation funding appropriately and efficiently.*

Create a permanent *ConnectOregon* fund

The *ConnectOregon* program has proven to be a vital source of funding for aviation, marine, rail, transit, and bicycle/pedestrian capital projects that can't be funded through the State Highway Fund. This program should grow in size and be made permanent in order to ensure sustainable and predictable funding for these modes. With adequate funding, *ConnectOregon*, which currently only provides capital funding for projects, could also include a component to help pay for operating transit and passenger rail. Options for funding the program include:

- Permanently dedicate a portion of lottery revenues to transportation.
- Establish a statewide property tax with revenue dedicated to transportation.

Increase state support for transit operations

The State of Oregon provides relatively little support to transit operations. Many systems across the state struggle to provide service, and many can't even use all their federal funding due to lack of matching funds. The state should provide additional dedicated funding for transit operations and also provide additional tools for local districts to raise funds. Options include:

- An additional *employee* payroll tax for transit districts currently levying an *employer* payroll tax.
- Enhanced *employer* or *employee* payroll tax authority for smaller transit districts.
- Establish a statewide *employer* or *employee* payroll tax.

- Establish a statewide property tax.
- Establish a *net income tax* that would include other forms of income in addition to employee payroll.
- Continue and enhance state general fund dedication to transit.

Increase support for passenger rail

Oregon faces the potential for cessation of the Amtrak Cascades service between Eugene and Portland because the state has inadequate dedicated funding for passenger rail operations costs. Options for providing sustainable funding to address this shortfall include:

- Dedicate a small portion of a statewide payroll tax, statewide property tax or lottery revenues for passenger rail operations.
- Dedicate a portion of new local payroll taxes for transit (e.g., TriMet and LTD) toward passenger rail operations.
- Create a special district among the counties served by Cascades to fund passenger rail capital projects and operating costs.

Fund bicycle/pedestrian infrastructure

The draft Oregon Bicycle/Pedestrian Plan lays out a need for \$100 million in annual investment in active transportation infrastructure, far more than available funding streams currently provide. Oregon has a number of options to begin closing the gap:

- **Implement a bicycle excise tax.** To ensure that bicyclists are contributing to the infrastructure they use, the Legislature should consider creating a new tax on the sale of bicycles. Relative to bicycle registration or licensing which would have high administrative costs relative to potential revenue, a bicycle excise tax of 5-10% could raise substantial funding for bicycle infrastructure, and create opportunities to leverage additional federal dollars that require a local match.
- **Increase the share of the State Highway Fund dedicated to active transportation.** In conjunction with a state transportation funding package, the Legislature should consider increasing the 1% set-aside of State Highway Fund resources to 1.5% or 1.75%.
- **Dedicate additional federal funds.** Legislative approval of additional state revenue would allow ODOT to increase its investment of federal funds in active transportation, particularly in trails outside the road right of way that can't be funded from the State Highway Fund.

Cigarette, alcohol, and cannabis taxes

Currently, \$0.02 per pack of cigarettes is dedicated by statute to special transportation for senior citizens and people with disabilities. While this is a declining revenue source, the cigarette tax and amount dedicated to transportation could be increased. Additionally, new taxes on alcohol and cannabis (which often lead to impaired driving) could help fund non-roadway transportation such as public transit. A tax on these could not only provide more stable operations revenue for existing public transit, but could potentially contribute to reductions in impaired driving by helping to fund enhanced transit service.

A studded tire excise tax

Vehicles with metal tire studs cause about \$4 million per year in damage to Oregon's state highways and additional damage to local roads.² An excise tax or other fee on the sale or use of studded tires could help recover some of the costs of this damage.

² <http://www.oregon.gov/ODOT/COMM/Documents/StuddedTireReport2014.pdf>

Near-term administrative actions for consideration:

Modify State Highway Fund distribution formulas to ensure equity among local governments

Current formulas for distributing State Highway Fund resources among cities and counties are based on population and vehicle registrations, respectively. These formulas should be more aligned with need and ownership of the road system to ensure that resources flow to where they are needed and to ensure greater equity. *Modifications to distribution could include provisions that ensure local governments are using road funding efficiently.*

Bond proceeds to address immediate needs

Taking out a mortgage allows a family to buy a house faster than if they had to save up enough cash to cover the cost; similarly, bonding allows the state to “buy” transportation projects more quickly than if we had to save up cash to build projects. The Oregon Legislature has successfully used bonding to leverage additional transportation funding into immediate projects. While ODOT’s debt service has grown in recent years, it remains at a reasonable and prudent level that has kept the department’s credit rating high and its cost of borrowing low. Additional bonding will require new sources of revenue, and prudent financial management would limit new debt service to one-third of any additional revenue. As a result, the Legislature should use bonding primarily for projects for which the state would derive an immediate and significant benefit and leave most of any new revenue to ensure long-term sustainable transportation funding.

Establish a “next generation” transportation revenue task force

Transportation technology and mobility needs will likely look very different in 30 years than they do today, and revenue mechanisms will need to evolve with these changes. In order to develop and explore next generation funding and rate-setting mechanisms (see below), the Legislature should create a standing body that identifies and develops ‘next generation’ transportation funding mechanisms.

This task force should look for opportunities to develop additional or replacement fees that direct some of the economic value created by the transportation system into its preservation and improvement. These could shift the current system from its heavy reliance on taxing system *users* to generating additional revenue from those who *benefit* from transportation investments. These could include land value capture, value-based freight fees, and income tax gain share. Because current transportation user fees are largely regressive, an effort should be made to ensure that those who derive significant wealth due to public investments in transportation pay a larger share of costs than they currently do to ensure equity.

Mid-term and long-term options for consideration

In the mid term and long term, new revenue options to supplement traditional user fees should be explored to stabilize state trust funds and provide funding for all modes of transportation. As Oregon looks to future funding options, it should explore modifications to the state constitutional dedication that limits Oregon’s ability to invest in non-highway transportation modes.

Tolling for large-scale projects

Oregon should explore tolling options as a strategic tool for large-scale bridge and congestion relief projects, particularly in urban areas. Criteria for the appropriateness of tolling should consider the potential for traffic diversion, local system impacts, administrative costs, and geographic fairness.

Per-mile road usage charges

Oregon has led the nation in developing a per-mile road usage charge to ensure that fuel efficient vehicles—particularly electric vehicles that pay no fuel tax—don't cause transportation funding to crash. Now, after a successful pilot with the OReGO program proving the concept can work, the Legislature should consider a road usage charge to ensure sustainable funding. In the short term a road usage charge could focus on new, more fuel efficient vehicles; in the long run it could spread to all vehicles and potentially be used for time of day pricing of roads that could help address congestion.

A carbon tax

A carbon tax could help Oregon meet our greenhouse gas emissions reduction goals. Due to the state constitution's requirement that any revenue derived from taxes on the use of an automobile go toward roads, a carbon tax applied to motor fuels would direct substantial resources to the State Highway Fund. Every dollar levied on a ton of carbon would be approximately equivalent to a 1 cent per gallon gas tax increase. To reduce greenhouse gas emissions, funding from this source could pay for road projects that have a positive or neutral impact on emissions—such as bikes lanes and sidewalks, road and bridge maintenance and intelligent transportation systems that smooth traffic flow and cut the amount of fuel wasted idling in congestion. The Legislature could also direct carbon tax revenue from non-motor fuel sources to non-highway modes that could help shift trips to less polluting modes or modify the constitutional restriction to allow for a portion of a carbon tax on motor fuels to go to these modes. If combined with a road usage charge, a carbon tax could ensure that people pay a fair amount both for their use of the roads and for the pollution they emit.³

Act on recommendations of a “Next Generation” transportation revenue task force

In the long term, Oregon could act up on the recommendations of a 'Next Generation' transportation revenue task force (*see above*)

Develop a transportation utility commission concept

Like energy and water, transportation is largely financed by charging those who use the infrastructure. However, in the utility sector, rates are set by an impartial body based on levels determined to adequately preserve and improve infrastructure needed to effectively deliver service. A transportation utility commission empowered to determine the necessary levels of investment and required user fees could help address this challenge. Because the Legislature cannot delegate its tax-setting authority, such a commission would be charged with recommending investment levels and the resulting taxes and fees to the Legislature for potential action.

³ For further details on the economic and emissions impacts of a carbon tax in Oregon, see: “*Economic and Emissions Impacts of a Clean Air Tar or Fee in Oregon*,” State of Oregon Legislative Revenue Office, December 2014. <https://www.oregonlegislature.gov/lro/Documents/RR%204-14%20SB%20306%20Clean%20Air.pdf>