Joint Committee on Transportation

Update from the Task Force on Supporting Businesses in Reducing Diesel Emissions

December 10, 2020

HB 2007 Summary

- The bill will **phase out old diesel engines** in trucks in **Multnomah, Clackamas and Washington counties**.
- **By 2029**, all **diesel-powered medium-duty trucks** and publicly owned heavy-duty trucks must run on an engine that is **2010 or newer** and all privately owned **diesel-powered heavy-duty** trucks must run on an engine that is **2007 or newer**.
- **As of 2025**, the bill will **stop the purchase** in Multnomah, Clackamas and Washington counties of engines **older than 2010 for medium-duty** trucks and **engines older than 2007 for heavy-duty trucks**.
- Requiring that for **state-funded construction projects** counties costing $20 million or more, **at least 80% of the vehicles and equipment be clean** (with truck engines that are 2010 or newer and **off-road engines meet Tier 4**, the highest standards).

Task Force Legislative Mandate HB 2007

The task force shall:

Consider public funding strategies for supporting businesses in reducing emissions from diesel engines used in the course of conducting business activities. **Evaluate and develop recommendations related to funding strategies** that shall include, but need not be limited to:

- Taxes;
- Fees;
- Contract requirements or funding set-asides; and Strategies employed by other states to accrue funds for diesel emissions reduction
- programs.

The Ground Covered

- Current fleet makeup (on-road in-use heavy and medium duty and in-use non-road)
- Approaches to clean diesel in other states, CA, WA and TX
- Technology options to Reduce Diesel Emissions (retrofits, replacement, natural gas, hydrogen, electric, etc.)
- VW Settlement and Rule Making
- Perspectives of fleet owners
- Discussions of programmatic options
- Discussions of revenue options

PROGRAMMATIC OPTIONS

Geographic Preference

While funding should be available to any eligible business or organizations in the state, the program should prioritize those that are located in the parts of the state where **concentrations of diesel particulate matter are the highest** and those businesses **subject to regulation** under HB 2007.

Small Businesses

Businesses with **50 or fewer employees** should receive a preference under the program.

Equipment Type

Pre-2010 On-Road medium and heavy-duty trucks, and **Pre-Tier 4 non-road** diesel equipment (>25 hp) should receive a preference under the program.

Technology Type

The program should **allow businesses to determine** which types of technology are most suitable for their business needs, including retrofits, repowers, replacement. Replacement or repower for alternative fuel types should also be allowed. Retrofits are unlikely to be preferred by most businesses.

Replacement Type

The program should allow for the replacement of older equipment with **newer used equipment** that is on-road model year 2010 and newer or non-road tier-4.

Subsidy Level

Subsidies should be set to incentivize the transition to cleaner equipment with allocations roughly in line with current subsidy levels for the DERA program (**25% of replacement cost, 50% of repower cost, 100% of retrofit cost**).

Scrappage

When receiving an incentive to replace an older piece of equipment, the old equipment should be s**crapped or otherwise rendered inoperable** as a condition of the subsidy.

REVENUE OPTIONS

Under Consideration

Scope & Scale

Designing a program to retrofit or replace all diesel equipment is likely beyond any feasible revenue source.

6,828 pieces of tier 0, 1, and 2 construction equipment

✖

$15,000 retrofit

=

$102,420,000

Tire Sale Privilege Tax

Can be structured as a flat-fee applied to the sale of any tire type, or could target specific types of tires, and/or be scaled as a percentage cost of the tire, tire use, maximum load capacity, etc.

The annual average revenue from a surcharge of a $1 per tire is about $3.1 million growing by the rate of population growth of 1.2% per year.

To determine the annual revenue the Task Force would need to agree on a proposed approach to taxation.

If all the revenue generated from the tire surcharge is used for debt service, then:
A 10-year bond could yield $24 million; a 15 years bond could yield $32 million; a 20-year bond could $38 million.

Surcharge on purchase, lease & rental of off-road equipment

The state of Texas imposes a 1.5% surcharge on the sale price or lease/rental amount of off-road diesel equipment sold, rented, or leased (a surcharge is also applied to the storage, use, or consumption of this equipment in Texas). The state of Texas collects about $65 to $70 million annually from that surcharge. The funds from this source are expended primely to aid and incentivize the off-road equipments to reduce their diesel emissions. In essence a very strong nexus.

Using an adjusted base of about 13.56% of Oregon transactions relative to Texas, A similar surcharge (1.5%) in Oregon is likely to produce about $9 million annually. That translates to about **$3 million of each 0.5%**.

Heavy-duty new-vehicle sales privilege tax

Oregon’s existing new sales privilege tax applies to most vehicles and trucks less than 26,000 lbs. GVWR. The tax is assessed at 0.5% of the retail sales price.

The tax is assessed on the privilege of selling vehicles in Oregon at 0.5% of the retail sales price. If this tax is extended to Heavy Trucks, then the Privilege tax is likely to produce **$4.6 million annually**.

The equivalent Use Tax (on sales from outside Oregon, but titled in Oregon, in the same fashion as light vehicles are treated), is likely to generate **$1.45 million per year**, and would be dedicated to the construction and maintenance of highways.

Red-Dye-Diesel Fuel Tax

Red-Dye-Diesel is diesel fuel used for non-road uses and is currently not taxed.

The revenue amounts per $0.01 would be about $1.7 million annually. If the tax is set at $0.10 cents, then revenue would be about $17 million annually.

Possible considerations: exempting agriculture and logging equipment. Agriculture and logging constitute about 30% of the non-Road diesel. Thus, if a tax of 40 cents a gallon (equivalent to gasoline tax) is levied with the exemption of AG & Logging, then the revenue is likely to reach $47 million each year. If no exemptions are considered, the revenue would be $67 million annually.

Other Considerations

- Bond against the revenue source to increase the impact early on
- Include a sunset provision on the source of revenue
- Tax credits
- Recommend that VW funding be used to prioritize engines regulated by HB 2007
- Congestion Mitigation and Air Quality (CMAQ) Funding