REVENUE IMPACT OF PROPOSED LEGISLATION

83rd Oregon Legislative Assembly
2025 1st Special Session
Legislative Revenue Office

Bill Number:	**HB 3991 - 17**
Revenue Area:	**Transportation**
Economist:	**Mazen Malik**
Date:	**08-30-2025**

Only Impacts on Original or Engrossed Versions are Considered Official

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Measure Description:

Makes various changes to transportation related taxes and fees described in detail below

Revenue Impact ($Millions):

The bill increases and changes various taxes and fees as well as the distributions of the new revenue. Summary impacts are in the table below.

New Revenue in $ Millions

		2025-27	2027-29	2029-31	2031-33	2033-35
Light Vehicles						
FUELS (Gas& Use)	**L/M**	$144.8	$186.7	$178.8	$174.5	$171.8
Vehicle Reg	**L**	$261.1	$361.8	$380.6	$352.8	$362.5
Titles	**L/M**	$188.7	$259.7	$263.3	$259.9	$262.1
Light Vehicles Subtotal		**$594.6**	**$808.2**	**$822.6**	**$787.2**	**$796.4**
RUC System						
RUC Payments	**L**	$0.0	$90.4	$267.4	$392.5	$485.3
Forfeited Gas Rev	**L**	$0.0	($17.6)	($66.8)	($95.5)	($104.7)
Forfeited Reg Rev	**L**	$0.0	($90.2)	($156.8)	($170.7)	($216.7)
Revenue from Gas Indexing	**L**	$0.0	$0.0	$0.0	$0.0	$0.0
Account Mnagers CC	**L**	$0.0	($18.8)	($33.5)	($39.3)	($48.5)
ODOT RUC Costs	**L**	($3.6)	($6.4)	($7.1)	($7.2)	($7.4)
RUC Subtotal		**($3.6)**	**($42.6)**	**$3.2**	**$79.8**	**$108.1**
Heavy Vehicles						
Diesel Tax (Hybrid System)	**H**	$0.0	$0.0	$319.2	$317.6	$316.2
Diesel Tax ODOT CC	**H**	($3.3)	($9.7)	($10.8)	($11.0)	($11.3)
WM-Simplification CC/Saving	**H**	($0.4)	$0.7	$0.7	$0.6	$0.5
Heavy (Weight Mile &FF&RUAF) reduction	**H**	$0.0	$0.0	($291.2)	($300.2)	($307.9)
Heavy Vehicles Subtotal		**($3.7)**	**($9.0)**	**$17.9**	**$6.9**	**($2.5)**
Total Highway Fund		**$587.3**	**$756.6**	**$843.8**	**$874.0**	**$902.0**
Fuel Transfers to Non-Highway Uses		$7.1	$9.9	$10.2	$10.5	$10.4
Payroll Tax (STIF)		$196.6	$340.4	$374.9	$411.4	$448.2
Grand Total for Measure		**$791.0**	**$1,106.8**	**$1,228.8**	**$1,295.9**	**$1,360.6**

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The new revenue is distributed as shown in the following tables.

Distribution of Revenue	$ Million	2025-27	2027-29	2029-31	2031-33	2033-35
Total Highway Fund Net New Revenue		**$587.3**	**$756.6**	**$843.8**	**$874.0**	**$902.0**
New distributions percentages						
State	50.0%	$294.4	$398.6	$419.3	$396.1	$396.0
Counties	29.6%	$174.8	$236.5	$248.7	$235.0	$234.9
Counties (Small)	0.41%	$2.4	$3.3	$3.5	$3.3	$3.3
Cities	20.0%	$117.2	$158.8	$167.1	$157.8	$157.8
Cities (Small)	100.0%	$2.0	$2.0	$2.0	$2.0	$2.0
RUC revenue (existing law %) Distributions						
State	50%	($1.8)	($21.3)	$1.6	$39.9	$54.0
Counties	30%	($1.1)	($12.8)	$1.0	$23.9	$32.4
Cities	20%	($0.7)	($8.5)	$0.6	$16.0	$21.6
Total (City/ County/ State) Highway Fund Distributions						
State (ODOT)		$289.7	$371.3	$414.9	$430.0	$444.0
Counties		$173.8	$223.7	$249.7	$258.9	$267.3
Counties (Small)		$2.4	$3.3	$3.5	$3.3	$3.3
Cities		$116.5	$150.3	$167.8	$173.8	$179.4
Cities (Small)		$2.0	$2.0	$2.0	$2.0	$2.0
Travel Information Council (TIC)		$3.00	$6.00	$6.00	$6.00	$6.00
Subtotal Highway Fund Distributions		**$587.3**	**$756.6**	**$843.8**	**$874.0**	**$902.0**

Non Highway Funds	2025-27	2027-29	2029-31	2031-33	2033-35
Fuel Transfers to Non-Highway	$7.1	$9.9	$10.2	$10.5	$10.4
Payroll Tax (STIF)	$196.6	$340.4	$374.9	$411.4	$448.2

Grand Total Funds Distributed	**$791.0**	**$1,106.8**	**$1,228.8**	**$1,295.9**	**$1,360.6**

Impact Explanation:

Fuel Taxes: The measure increases per-gallon state motor vehicle fuel tax (section 16) and use-fuel tax (section 17) by 6 cents to 46 cents. Although the effective date for this increase (section 23) is 91 days after sine die, this analysis assumes the revenue will be recognized by the state in January 2026.

In Sections 56 through 91, the measure imposes a **new tax on Diesel** (used by heavy vehicles), by modifying the definition of diesel fuel to be administered and taxed in a comparable fashion to the motor vehicle fuel tax paid by light vehicles. This approach is a major part of what is known as the "hybrid system" of taxation for heavy vehicles. In this hybrid system, the traditional taxing instrument of heavy vehicles, the Weight Mile taxes, are augmented by a Diesel tax which is equivalent in rate, point of taxation, and method of collection to the fuel (Gas) tax. Consequently, the new tax on diesel generates revenue from the consumption of fuel by heavy and some medium-heavy vehicles. Diesel tax payments by interstate heavy vehicles are administered in partnership with IFTA (International Fuel Tax Agreement). IFTA is a clearing house for states (with Canada and Mexico) to collect appropriate taxes commensurate with miles driven in each state. The tax on Diesel fuel becomes operative at the beginning of state Fiscal Year (FY) 2030 on July 1, 2029.

Vehicle Registration Fees: The measure increases annual fees on registration of passenger vehicles by $42. The increase in the base registration fee is reflected in Section 18 of the measure, which shows annual vehicle registration fees going from $43 to $85. For mopeds and motorcycles, the measure also increases the registration fees from $44 to $86. Low-speed vehicles, light trailers, and medium-speed electric vehicles go from $63 to $105. Vehicles typically renew registration for two years, while new vehicles can register for four years.

Surcharge Fees established in HB 2017 (2017 session) are adjusted for two of vehicles classes (tiers). The EV (tier) surcharge is increased by $30 to $145 (Section 46) before it is repealed in FY 2032 by Section 47 of the measure. At that time, EV taxation and contribution to road use expenses is expected to be mostly administered through the RUC (Road User Charge) program. The second tier that is increased by $30 is the class of vehicles with a combined MPG rating greater than 40 MPG. This class of vehicles encompasses many of the Hybrid and Plugin Hybrid vehicles. This surcharge continues with no sunset date.

Title fees: The measure increases title fees by $139 to the total of $216 (Section 19). The increase mostly spans the title certificates for light vehicles, with about 7% of the revenue coming from the medium duty vehicles weighing between 10,001 lb. to 26,000 lb. The title fee increase is also effective 91 days after sine die, this analysis however, assumes the revenue to be recognized by the state on cash basis during January 2026.

Road User Charge (RUC): The measure begins the transition to the per-mile Road Usage Charge (starting in Section 26) by gradually adding different vehicle classes to the mandatory RUC program as it takes effect. The mandatory RUC program is implemented on an expedited transitional fashion. It starts with requiring existing EVs, at the time of their registration renewal with the DMV, to be enrolled in the RUC program starting 7/1/27. New EV's (registering and titling) will start enrolling on 1/1/28. Finally, new and renewing Hybrid vehicles and Plug in Hybrid Vehicles (PHEV) will be enrolled starting 7/1/28. Although the DMV will reduce registration fees for electric and fuel-efficient vehicles when they enroll with the RUC program (Section 34), they can also choose to pay an annual flat fee of $340 instead of the per mile charge. The RUC program is likely to be administered by private contractors known as Account Managers (AM). The AM expenses reduce the net revenue transferred to ODOT and are eventually capped by the measure in Section 42. Starting in FY31 the allowed expense for the AM is specified to not exceed 10% of the revenue collected. Prior to that, this analysis assumes AM costs to start at 24% and go down gradually to reach the statutory cap. AM's costs, however, do not include

ODOT's administrative expenses which starts up at $3.6 million in the 2025-27 biennium and $6.4 million in 2027-29. After that, ODOT costs are assumed to grow by 1% per year. Both cost categories are represented in the revenue tables as reductions.

The RUC system charges for miles driven in Oregon for passenger vehicles is set at 5 percent of the rate of the per-gallon fuel tax (2.3 cents). Vehicles enrolled in RUC are not subject to the enhanced portion of registration fees. That registration surcharge was intended to increase road cost recovery from vehicles that paid less in gasoline tax (as designed in HB 2017). Revenue from the RUC program is presented in the revenue tables as payments, while revenue from registration and fuel taxes (that will no longer be collected) are presented as forfeited revenues. Forfeited gas tax revenue would be compensated to drivers though the RUC system true up process, while forfeited registration revenue is likely to appear as lower revenue from the DMV registration function. By the end of 2031, all electric vehicles would be enrolled in the RUC program, thus the enhanced registration fee for EV's will no longer be necessary, and it will be repealed on 7/1/2031 (Section 48). Sections 49 to 52, however, exclude county (and other taxing districts) registration fees from being revoked for RUC enrolled vehicles.

The RUC program estimates are subject to several risks, including the ability of the AM (Account Managers) to keep collection costs under the assumed limits, particularly if they must distinguish and charge payments for miles driven in Oregon only. Another risk would be the ability of the program to meticulously launch under the expedited timeline proposed in the measure. Additionally, finding a suitable AM to administer the program might prove challenging.

Heavy vehicle Payments: The heavy payment category is traditionally dominated by the **Weight-Mile (W-M)** tax, **Flat Fee (FF)** payments, and the **Road Use Assessment Fees (RUAF).** This measure delays any changes in these taxes and fees until July 2027 (FY 28). At that time, the measure introduces the new abbreviated Weight-Mile tables (simplified W-M). Then in FY 30 it introduces the Diesel tax and reduces the W-M Rates (Hybrid system). The system changes are detailed as follows.

1) At the beginning of the 27-29 biennium the weight mile rate tables are abbreviated (in section 92) to ten gradually increasing rates **(Simplified W-M)**. The new first nine rate increments increase every 6,000 lb. starting from 26,000 lb. until weights reach 80,000 lb. These nine rates essentially replace the current (2,000 lb. increments) Table-A of the weight mile tax. The tenth increment of the simplified table spans all trucks weighing between 80,001 to 105,000lb. This broad single 25,000 lb. weight increment essentially replaces all of Table-B of the current W-M tax rates. It is worth noting that the current Table-B contains different (adjusting) rates of tax relative to the number of axels that a truck (of a certain weight class) uses. Table-B was initially developed to encourage vehicles with heavier weights to use more axels. Distributing weights on a higher number of axels reduces damage to the roads and pavement. Although the new table appear to be revenue neutral, the new simplified system will likely need more thorough study and research to align its effectiveness to the results and research of the Highway Cost Allocation Study (HCAS) process.

2) On 7/1/2029 (FY 2030) the measure introduces the "**Hybrid System**" by introducing the diesel tax discussed above while reducing the rates of the "simplified" version (Section 93) to achieve approximately the same revenue outcome. Currently heavy vehicles (above 26,000 lb.) generate about 2.3 billion VMT in an average year, which would translate to approximately $140 million in revenue (considering current fuel tax rate and MPG). In theory, diesel consumption and tax payments increase for heavier trucks as they consume more fuel, however, this increase is not commensurate with the damage imposed on the roads by the heavier weight vehicles. Thus, the W-M segment of the hybrid system (if calibrated correctly) is supposed to shoulder that damage difference. This hybrid system needs to be studied and researched more thoroughly to align its effectiveness and character with the Highway Cost Allocation Study (HCAS) process.

By FY 2030, the measure initiates the diesel tax at the same fuel tax rate (<u>46 cents per gallon</u>) and reduces the new abbreviated W-M rate structure <u>by 27.88%</u> (Section 93). The resulting revenue approximately offsets the increases and decreases ($150 million/year) to stay effectively at no new payments for heavy vehicles, especially after considering the costs of collection and savings by ODOT.

The measure also introduces table (E) for electric trucks (Section 93), which do not consume diesel, and do not contribute to their cost responsibility through diesel tax payments. Heavy electric vehicles are not common currently but might start coming into service in the coming years. Hybrid trucks, when they become available, are not considered in the new structure and would not pay table E rates.

The measure maintains the non-divisible load permits, Road Use Assessment Fees (**RUAF),** that are in current law until the other heavy vehicle taxes and fees come online in FY 30. At that time rates for RUAF will go down to <u>7.9 cent per ESAL/mile</u> (Section 98).

Flat Fees for commodity haulers are not adjusted in the 2025-27 biennium (to reflect the results of the Flat Fee study) from current rates. Log Haulers, however, will decrease on 7/1/2027 <u>to $10.50</u> while Sand & Gravel, will increase <u>to $16.98</u> (section 96).

On 7/1/29, Log Haulers will increase for E-vehicles <u>to $10.94</u>, and decrease <u>to $7.57</u> for Diesel vehicles, while Sand & Gravel, will increase to <u>$17.69</u> for E-Vehicles, and decrease <u>to $12.25</u> for Diesel vehicles (Section 97). Other commodity rates were repealed for the lack of use.

Highway Cost Allocation (HCAS) Implications: The Weight Mile taxes are customarily adjusted to achieve the required constitutional biennial balance reflected by the HCAS ratios. However, this measure only reformulates the Weight-Mile taxes (FY 28), introduces Diesel tax (FY30), then reduces the Weight-Mile tax by 27.9% in a fashion that does not produce any additional significant heavy payments into the system. Very little of the revenue generated by the measure comes from vehicles over 26,000 lb.

The separate revenue contributions of heavy and light vehicles are shown in the tables below.

Highway Fund Revenue $ Million	2025-27 BN	2027-29 BN	2029-31 BN	2031-33 BN	2033-35 BN
Light Payments					
FUELS (Gas& Use)	$142.1	$183.2	$175.4	$171.3	$168.6
Vehicle Reg	$261.1	$361.8	$380.6	$352.8	$362.5
Titles	$175.5	$241.6	$244.8	$241.7	$243.8
RUC Payments	$0.0	$90.4	$267.4	$392.5	$485.3
Forfeited Gas Rev	$0.0	($17.6)	($66.8)	($95.5)	($104.7)
Forfeited Reg Rev	$0.0	($90.2)	($156.8)	($170.7)	($216.7)
Account Mnagers CC	$0.0	($18.8)	($33.5)	($39.3)	($48.5)
ODOT RUC Costs	($3.6)	($6.4)	($7.1)	($7.2)	($7.4)
Total Light	**$575.1**	**$743.9**	**$804.0**	**$845.6**	**$882.9**
percentage Light Payments out of Total Revenue	97.9%	98.3%	95.3%	96.8%	97.9%
Heavy Payments	**2025-27 BN**	**2027-29 BN**	**2029-31 BN**	**2031-33 BN**	**2033-35 BN**
FUELS (Gas& Use) heavy	$2.7	$3.5	$3.4	$3.3	$3.2
Heavy-Med Titles	$13.2	$18.2	$18.4	$18.2	$18.3
WM-Simplification CC/Saving	($0.4)	$0.7	$0.7	$0.6	$0.5
Diesel Tax	$0.0	$0.0	$319.2	$317.6	$316.2
Diesel Tax ODOT CC	($3.3)	($9.7)	($10.8)	($11.0)	($11.3)
Weight Mile/FF/RUAF	$0.0	$0.0	($291.2)	($300.2)	($307.9)
Total Heavy	**$12.2**	**$12.6**	**$39.7**	**$28.4**	**$19.1**
percentage Heavy Payments out of Total Revenue	2.1%	1.7%	4.7%	3.2%	2.1%
Total Highway Fund (Light and Heavy)	**$587.3**	**$756.6**	**$843.8**	**$874.0**	**$902.0**

In its latest iteration, the 25-27 HCAS projected an over payment of $182 million by heavy vehicles for the biennium. This overpayment is remedied in this measure by considering the first $450.4 million payment by light vehicles as an offsetting balance to that heavy overpayment. After accounting for that, payments by light vehicles in the 25-27 biennium result in a $39 million overpayment by light vehicles. In the general scheme of about $4 billion highway fund payments, this would be generally acceptable as balanced. Over the five biennia reflected in this analysis, the slight imbalance between the vehicle classes is a result of the weight mile taxes, and other heavy fees being kept at the same level of payments (revenue neutrality) as the current structure.

HCAS is predicated upon allocating the revenue raised to specific expenditure categories to achieve balanced allocation of payments between vehicle classes. Assuming the expenditures of new revenues will continue to be distributed to the categories specified by ODOT and the general local government expenditures, these general expenditure categories are assumed to cover ODOT budget rebalance in the 2025-27 biennium and carry to the 2027-29 and the following biennia. ODOT is assumed to direct 58.9% of revenue to Maintenance, 19% to Operation & Admin, 21% to Preservation, and 2% to rehabbing Facilities. Adding to that mix, the expenditure categories of local government expenditures results in light vehicles responsibility (for all light payers) of 71.22%, and heavy vehicles (all heavy payers) responsibility of 28.78%. However, the risk to the revenue estimates stems from the lack of specificity (in the measure) for those intended expenditure categories (of the revenue generated). Because expenditures are not specified in law, as it has been done in previous packages, the assumed expenditure profile can change at any one biennium during the coming 10 years, requiring further future adjustments of tax rates.

Comparison of revenue and relative balance of over and (under) payments for the general broad classes of heavy (10,000 lb. and above) and light (below 10,000 lb.) vehicles are shown in the table below. Naturally light vehicle payments would be the mirror image (opposite sign) of what heavy payments are.

HCAS Balance	**2025-27 BN**	**2027-29 BN**	**2029-31 BN**	**2031-33 BN**	**2033-35 BN**
Bring 25-27 HCAS to Balance **($182 million heavy overpayment)**					
Light Payments from Package	$575.1	$743.9	$804.0	$845.6	$882.9
light payments balanced by Heavy credit	**($450.4)**	**($450.4)**	**($450.4)**	**($450.4)**	**($450.4)**
Light payments left in need of balance after (25-27) adjustment	**$124.7**	**$293.5**	**$353.7**	**$395.2**	**$432.5**
Heavy payments needed to balance Light (@ 28.78 CR ratio)	($51.2)	($118.6)	($142.9)	($159.7)	($174.8)
Heavy Revenue payments from package	$12.2	$12.6	$39.7	$28.4	$19.1
Subtotal (needed amount- package payments)	**($39.0)**	**($106.0)**	**($103.2)**	**($131.3)**	**($155.7)**
Cost Responsibility Balance	**2025-27 BN**	**2027-29 BN**	**2029-31 BN**	**2031-33 BN**	**2033-35 BN**
Total Heavy (under) / over payments	**($39.0)**	**($106.0)**	**($103.2)**	**($131.3)**	**($155.7)**
Total Light (under) / over payments	**$39.0**	**$106.0**	**$103.2**	**$131.3**	**$155.7**

The package seems to reflect a slight increasing imbalance with light vehicles overpaying their cost responsibility. This is true after allowing for $182 million of credits for heavy vehicles to remedy a structural overpayment in the revenue system. The overall highway fund payments by light vehicles (with this package) would reach $3 billion by the 2029-31 biennium, Thus the amounts of overpayments are relatively small.

Section 12 (7)(a) of the measure (-17 amendment) delegates to DAS the task of reducing tax rates if the legislature does not act within 120 days (from receiving HCAS results) to remedy overpayment of any one class. The threshold for adjusting tax rates is that the Equity Ratio (ER) for one class exceeds 1.05. Thus, providing the legislature does not act, this is the minimum action “door stopper” that would be taken to remedy the over payment to lower the imbalance to 1.045 Equity Ratio. Section 12 of the measure is prescriptive enough to entail an attempt to estimate the reduction in tax rates when an overpayment is forecasted to occur after 2030. However, at this time the lack of expenditure specificity in the measure and the other risks mentioned would require numerous assumptions to be made that do not permit enough confidence to conclude that the light vehicle equity ratio would exceed the 1.05 threshold in any biennium after 2030.

It is important to note however, that the approach of reducing rates for one side without increasing a balancing amount from the other side will result in reducing the total revenue available. Henceforth, the amounts of expenditures (program and budget) need to be reduced accordingly, which changes the base program and creates new imbalances. The one way this could work (with no further impacts) is for ODOT to keep a large enough projected (unobligated) ending balance that could be reduced without an impact to the planned program that defined HCAS estimates. To date HCAS has interpreted and worked with the constitutional requirement (Article IX, section 3a (3)) in a way that considers costs incurred as the fixed part of the equation, and the revenue adjusts to balance the payments of those costs. ORS 366.506 further specifies covering the costs as the requirement for adjusting revenue sources. Therefore, the (program) costs considered by the study are assumed to be given and used as the fixed input amount to which revenue payments must proportionally adjust. If the revenue is reduced (by tax cuts to one side) then the program is reduced accordingly, which alters the program structure. In that case, the HCAS ratios might no longer be applicable to those costs which HCAS was based on. On the other hand, if costs are assumed not to be fixed as specified above, then tax cuts (revenue reductions) to one side are likely to cascade into further cuts and changes to the program. This will most probably alter the proportionality that HCAS has determined and would require multiple new HCAS estimates and new proportions to be determined as more cuts iterate through the process.

Highway Fund Distributions: The measure used an adjusted 50-30-20 formula for distributions of some of the new highway fund revenue. This adjusted formula directs a fixed amounts ($1 million) to the small city programs, and a percentage (1.37% of the total county share) to the small county distributions. Additionally, the measure increases the amounts allocated to rest areas (Travel Information Council) by $3 million per year. The RUC revenue however is distributed strictly on existing (current) law 50-30-20 apportionments. The impact tables section of this RIS (Revenue Impact Statement) shows the specific dollar amounts going to all the different uses, however, the table below shows the overall distribution for the new revenue generated by the measure.

Highway Fund Distributions %	2025-27	2027-29	2029-31	2031-33	2033-35
Other Programs (TIC)	0.5%	0.8%	0.7%	0.7%	0.7%
State	49.3%	49.1%	49.2%	49.2%	49.2%
Counties	30.0%	30.0%	30.0%	30.0%	30.0%
Cities	20.2%	20.1%	20.1%	20.1%	20.1%

Distributions of fuel revenue to **nonhighway uses** occur under current law provisions. The increase in fuel taxes increases the revenue of the off-highway fuel consumption. Different funds receive those fuel tax revenues, such as ATV fund, Snowmobile fund, Aviation, TOF, and the Marine board.

Payroll Tax: The measure increases the employee payroll tax from 0.1 percent to 0.2 percent (Section 24 and 25) effective January 1, 2026. The revenue realized is lagged by a calendar quarter for the purpose of showing the cash amounts being realized in the relevant timeframe. However, by 2032 the tax raises around $200 million per year. All the resulting net revenue from those increases still go to the STIF (Statewide Transportation Improvement Fund).

Creates, Extends, or Expands Tax Expenditure: Yes ☐ No ☒