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Referendum Petition 2026-302 Financial Estimate

To: Joint Special Committee on Referendum Petition 2026-302

From: Chris Allanach, Legislative Revenue Officer

Amanda Beitel, Legislative Fiscal Officer

Date: February 10, 2026

REVENUE AND FISCAL ANALYSIS

The attached Revenue Impact and Fiscal Impact Statements (RIS and FIS) prepared for HB 3991 (2025 first special session) provide the detailed analysis of the revenue and fiscal impacts to government units affected by the provisions of the measure. This includes provisions that are referred by Referendum Petition 2026-302 (RP 2026-302) for approval or rejection, specifically the increases in the fuels tax, vehicle registration fees, title fees, and payroll tax. For reference purposes, the HB 3991 estimates are shown on page 1 of the RIS in the rows labeled “Fuels (gas & use)”, “Vehicle Reg”, “Titles”, “Diesel Tax (Hybrid System)”, and “Payroll Tax (STIF)”.

Consequence of a ‘Yes’ vote

A ‘Yes’ vote on RP 2026-302 would increase the fuels tax, vehicle registration fees, vehicle title fees, and the payroll tax. The revenue raised would be less than the amounts shown on the RIS for the following three reasons: (1) the increases would be delayed by approximately six months, starting in July instead of January; (2) the registration fee increase in Sections 46 and 47 of HB 3991 are not in RP 2026-302; and (3) most of the new diesel tax revenue comes from the new application of the tax to heavy vehicles, which is current law; passage of RP 2026-302 would simply increase the rate of taxation from 40¢ per gallon to 46¢ per gallon. In total, through the 2033-35 biennia, the delayed implementation means the fuel and title revenue raised by RP 2026-302 would be approximately 95 percent of the total estimates shown in the RIS. Due to the delay and the partial implementation, the registration fee revenue raised by RP 2026-302 would be approximately 82 percent of the total estimate shown in the RIS. Similarly, the increase in the tax rate for diesel from 40¢ to 46¢ per gallon would be 13 percent of the amount shown in the RIS.

The proposed increase in the payroll tax is limited to two years. The six-month delay would result in collections of approximately 75 percent of the estimated revenue shown in the RIS.

In annual terms, fuels tax collection would increase by an annual average of $104 million for fiscal years 2027 through 2035. Registration fee revenue would increase by an annual average of $157 million for fiscal years 2027 through 2035. Title fee revenue would increase by an annual average of $130 million for fiscal years 2027 through 2035. Fuel taxes, vehicle registration fees, and title fees are deposited in the State Highway Fund (SHF) and allocated 50% to the Oregon Department of Transportation (ODOT), 30% to counties, and 20% to cities. ODOT's allocation of projected SHF revenues will be used to support existing positions and expenditures within the agency's budget.

Payroll taxes would increase by $118 million in Fiscal Year 2027 and by $124 million in Fiscal Year 2028. Increased payroll tax revenues are deposited in the Statewide Transportation Improvement Fund (STIF) and would support additional distributions to qualified entities for public transportation services.

Consequence of a 'No' vote

Fuels taxes, vehicle registration fees, and title fees would not be increased. The payroll tax would not be increased. ODOT's adopted budget includes positions and expenditures funded by SHF revenue raised in HB 3991. Absent increased revenue, the Department's budget will require position and expenditure reductions to balance to available resources.

Highway Cost Allocation System (HCAS)

Under either scenario, revenue to the SHF would be less than assumed in the RIS. The likely result is some degree of imbalance in cost equity compared to the revenue structure in HB 3991. This balance depends on the sources of revenue and corresponding decisions on expenditures. The degree of imbalance cannot be determined within the current deadlines. Section 12 of HB 3991 includes a process for the Department of Administrative Services (DAS) to reduce the weight-mile tax rates or the fuel tax rates to address an imbalance, should the Legislature not adjust tax rates or fees.

DRAFT ESTIMATE OF FINANCIAL IMPACT

A 'Yes' vote on the measure has the following effects.

For Fiscal Years 2027 through 2035, fuels tax collections would increase by an annual average of $104 million, registration fee revenue would increase by an annual average of $157 million, and title fee revenue would increase by an annual average of $130 million. Increased revenues result in additional average annual allocations of $196 million to the state, $117 million to counties, and $78 million to cities.

Payroll tax collections and public transportation service expenditures would increase by $118 million in Fiscal Year 2027 and by $124 million in Fiscal Year 2028.

REVENUE IMPACT OF PROPOSED LEGISLATION

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

Bill Number: HB 3991 - A
Revenue Area: Transportation
Economist: Mazen Malik
Date: 08-31-2025

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)
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	$123.5	$0.0	$0.0	$0.0
Grand Total for Measure		**$791.0**	**$889.9**	**$853.9**	**$884.5**	**$912.4**

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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**

Fuel Transfers to Non-Highway Uses	$7.1	$9.9	$10.2	$10.5	$10.4
Payroll Tax (STIF)	$196.6	$123.5	$0.0	$0.0	$0.0
Grand Total for Measure	**$791.0**	**$889.9**	**$853.9**	**$884.5**	**$912.4**

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 (46 cents per gallon) and reduces the new abbreviated W-M rate structure by 27.88% (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 7.9 cent per ESAL/mile (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 to $10.50 while Sand & Gravel, will increase to $16.98 (section 96).

On 7/1/29, Log Haulers will increase for E-vehicles to $10.94, and decrease to $7.57 for Diesel vehicles, while Sand & Gravel, will increase to $17.69 for E-Vehicles, and decrease to $12.25 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, the additional tax is repealed on January 1, 2028, where the payroll tax goes back to being 0.1 percent. 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 ☒

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

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Date: August 31, 2025

Bill Title: Directs the Division of Audits to conduct performance audits of the Department of Transportation.

Government Unit(s) Affected: Oregon Liquor and Cannabis Commission, Information Technology, Department of Forestry, Counties, Department of Aviation, Department of Revenue, Judicial Department, Legislative Policy and Research Office, Parks and Recreation Department, Special Districts, Cities, Department of Agriculture, Department of Fish and Wildlife, Department of Transportation, Metro, Secretary of State, Department of Administrative Services, Department of State Police, Marine Board, School Districts, Oregon Military Department, Department of Justice, Employment Department, Department of the State Fire Marshal, Department of Education, Oregon Lottery Commission, District Attorneys, Public Defense Commission, Department of Corrections

Summary of Fiscal Impact

2025-27 Biennium	General Fund	Lottery Funds	Other Funds	Federal Funds	Total Funds	Positions	FTE
Oregon Department of Transportation	$ -	$ -	$ 204,370,725	$ -	$ 204,370,725	18	11.00
Secretary of State	$ -	$ -	$ 479,446	$ -	$ 479,446	2	1.50
Department of Administrative Services	$ 500,000	$ -	$ -	$ -	$ 500,000	-	-
Legislative Policy and Research Office	$ 300,000	$ -	$ -	$ -	$ 300,000	-	-
Total Fiscal Impact	**$ 800,000**	**$ -**	**$ 204,850,171**	**$ -**	**$ 205,650,171**	**20**	**12.50**

2027-29 Biennium	General Fund	Lottery Funds	Other Funds	Federal Funds	Total Funds	Positions	FTE
Oregon Department of Transportation	$ -	$ -	$ 132,737,314	$ -	$ 132,737,314	31	21.63
Secretary of State	$ -	$ -	$ 639,263	$ -	$ 639,263	2	2.00
Department of Administrative Services	$ -	$ -	$ -	$ -	$ -	-	-
Legislative Policy and Research Office	$ -	$ -	$ -	$ -	$ -	-	-
Total Fiscal Impact	**$ -**	**$ -**	**$ 133,376,577**	**$ -**	**$ 133,376,577**	**33**	**23.63**

- There is an additional indeterminate impact for school districts, local governments, and state agencies that have fleets, which will have additional costs due to the changes in vehicle fees, fuel taxes, and the road usage charge under this measure.

- The total fiscal impact for the Oregon Department of Transportation includes both operational costs to implement the measure as well as Other Funds expenditure limitation necessary to expend additional payroll tax revenues deposited in the Statewide Transportation Improvement Fund.

Measure Description
This measure makes a variety of changes to regulations related to transportation.

Transportation Funding
As of the effective date of the measure, taxes for motor vehicle or aircraft fuel are increased from 40 to 46 cents per gallon. Certain Oregon Department of Transportation (ODOT) vehicle titling fees and vehicle registration fees are also increased.

As of January 1, 2026, the payroll tax is increased from 0.1% of employee wages to 0.2%, and then reverted back to 0.1% of employee wages on January 1, 2028.

Starting July 1, 2027, a per-mile usage charge begins to phase in for vehicles that are not wholly fuel powered. The per-mile road usage charge (RUC) is 5% of the rate of the per-gallon license tax in effect at the time the charge becomes due. The charge is to be phased in starting with used electric vehicles beginning July 1, 2027; new electric vehicles beginning January 1, 2028; plug-in hybrid and hybrid electric vehicles beginning July 1, 2028; and then all vehicles currently subject to a road use charge before July 1, 2031. In lieu of the per-mile charge, vehicle owners or lessors of vehicles may pay a flat annual fee of $340. ODOT is currently able to contract for administration and collection of the RUC, but starting July 1, 2030, agreements with certified service providers may not permit the provider to retain more than 10% of RUC revenues collected.

As of July 1, 2027, and July 1, 2029, modifications are made to the weight-mile tax. Certain carrier fees and road use assessments are also changed.

As of July 1, 2029, diesel is added to the list of fuels subject to the motor vehicle fuel tax. Diesel is defined to include biodiesel, renewable diesel, and other diesel fuel blends; dyed diesel is not subject to the tax.

As of January 1, 2030, the measure makes changes to the use of the highway cost allocation study conducted by the Department of Administrative Services (DAS). Under specified circumstances, DAS may adopt rules to lower the per mile carrier tax rates and the motor vehicle and aircraft fuel tax rates on or after September 1 of each odd-numbered years so that whichever vehicle class is estimated to have an equity ratio of 1.05 or greater will be adjusted to have an equity ratio of 1.045. DAS is to repeal these rules if the Legislative Assembly adjusts revenue sources in line with Constitutional requirements after the rules are adopted.

All revenues generated by this measure, including fee revenues, will be addressed in the Revenue Impact Statement (RIS) produced by the Legislative Revenue Office (LRO).

Allocation of Funds
The amounts attributable to the increase in fuel taxes and increased registration and title fees, are to be allocated 50% to ODOT, 30% to counties, and 20% to cities.

Of the amounts provided to counties, 1.37% of the 30% is for distribution to small counties. By July 31 of each year, moneys for small counties are to be distributed proportionally to counties with less than 200,000 registered vehicles based on a ratio of road miles maintained by each county to registered vehicles.

The measure increases the amounts available to small cities, from $5 million to $6 million, for use on roads that are within or under the jurisdiction of cities of 5,000 or less people. Of the $6 million, $3 million is from the revenues allocated to cities, and $3 million is from the State Highway Fund.

The amount allocated to the Travel Information Council from the State Highway Fund for roadside rest areas is increased from $9.16 million to $12.16 million.

<u>Oregon Department of Transportation Operations and Oversight</u>
The measure specifies that the Director of Transportation is to be appointed by the Governor, where previously the director was appointed by the Oregon Transportation Commission (OTC) in consultation with the Governor.

The measure requires the Secretary of State (SOS) Audits Division to conduct a biennial performance audit on the use of moneys in the State Highway Fund and capital projects carried out by the Department. Audits are to be submitted to an appropriate standing or interim committee of the Legislative Assembly, though the measure does not specify how or when the audits should be reported.

The Legislative Policy and Research Office (LPRO) is to enter a professional services contract for a performance audit of ODOT operations, including ODOT management, and whether and how the Department addresses recommendations from a management review that was conducted under SB 5550 (2025). The measure does not specify how or when the audit should be reported, but the requirement is repealed January 2, 2027.

The membership of the existing ODOT Continuous Improvement Advisory Committee is specified, and the Committee is directed to meet monthly and to report quarterly to OTC and the Joint Committee on Transportation (JCT) on Key Performance Measures and with recommendations on ways the Commission and Department can be more efficient. These requirements take effect January 1, 2026.

JCT's responsibilities are expanded to include legislative oversight of the Oregon Department of Aviation. JCT is also to review transportation project expenditures and perform a quarterly review of changes and budget updates to major projects. The Committee is to make recommendations related to transportation and appropriation of funding to the Joint Committee on Ways and Means, Emergency Board, or Joint Interim Committee on Ways and Means.

JCT is to review requests for certain project scope expansion requests submitted by cities and counties for highway improvement projects after the expansion request has been approved by OTC. These are defined as state highway projects that ODOT may use federal transportation funds for, in which the city or county is not covering the costs of the expanded scope, and the project cost will increase by at least 5% for projects over $25 million, and at least 10% for projects of less than $25 million. The Committee may submit recommendations for appropriations to cover the costs of the expanded scope.

The measure modifies ODOT's operations in the following ways as of July 1, 2029:

- Repeals ORS 319.665, requiring a seller of fuel for use in a motor vehicle to collect taxes.
- Repeals ORS 825.486, providing a credit for fuel taxes.
- Permits ODOT to inspect records and equipment of dealers and brokers during business hours, to assess compliance with statutes governing fuel taxes; and to assess civil penalties for noncooperation.
- Authorizes ODOT to deny an international fuel tax agreement license and removes the cap for fees that ODOT may charge for these agreements.
- Permits a weighmaster or motor carrier enforcement officer to arrest or issue citations to persons operating certain vehicles without driving privileges, failing to comply with an international fuel tax agreement, and improper use of dyed diesel.

- Requires out-of-state motor carriers not licensed under an international fuel tax agreement to obtain a valid fuel trip permit from ODOT under specified circumstances and directs ODOT to set the fee for permits by rule.
- Permits ODOT representatives to inspect fuel supply tanks at test or inspection sites.
- Allows assessment of civil penalties by ODOT for failure to adhere to dyed diesel requirements, with revenues going to the State Highway Fund.
- Deposits any sums collected from International Fuel Tax Agreement (IFTA) member jurisdictions into the Motor Carrier Account.

Other Measure Elements
The measure directs DAS is to undertake a review of all aspects of the methodology for the highway cost allocation study and may provide recommendations to update the study methodology in order to improve outcomes and ensure proportionate revenue and costs for each class of vehicle. DAS is to submit a report to JCT by June 30, 2026.

The measure repeals the tolling program in ORS 383.150, which authorizes assessment of tolls on Interstates 5 and 205 in the Portland metro area.

As of July 1, 2029, the measure establishes Class A traffic violations and a Class B misdemeanor.

Fiscal Analysis
The fiscal impact to implement this measure is $9.8 million total funds, which includes $800,000 General Fund, $9 million Other Funds, and 20 positions (12.50 FTE) in the 2025-27 biennium. The estimated impact in the 2027-29 biennium is $16.6 million Other Funds and 33 positions (23.63 FTE). An Other Funds expenditure limitation increase of approximately $195.8 million in the 2025-27 biennium will also be necessary to permit ODOT to expend additional payroll tax revenues deposited in the Statewide Transportation Improvement Fund (STIF). For the 2027-29 biennium, the amount of additional expenditure limitation for the STIF is reduced to $116.7 million to reflect three quarters of estimated payroll tax revenues due to the sunset date of January 1, 2028, for the increased rate.

Oregon Department of Transportation
The estimated fiscal impact for ODOT to implement the measure is $8.6 million Other Funds in the 2025-27 biennium and $16 million Other Funds in the 2027-29 biennium. In the 2025-27 biennium, this includes $2.9 million in personal services, $236,940 in position-related services and supplies, $5.4 million in other services and supplies costs, and 18 positions (11.00 FTE). In the 2027-29 biennium, costs include $5.5 million in personal services, $440,214 in position-related services and supplies, $10.1 million in other services and supplies costs, and 31 positions (21.63 FTE). An increase of Other Funds expenditure limitation totaling approximately $195.8 million in the 2025-27 biennium will also be necessary to permit ODOT to expend additional payroll tax revenues deposited in the STIF, with this amount reduced to $116.7 million in 2027-29 due to the payroll tax increase sunset date. These amounts only include what is required for implementation of this measure's provisions and do not include existing positions and expenditures within ODOT's budget that will be funded by additional projected revenues generated under this measure.

Other Funds are primarily sourced from the State Highway Fund, though positions associated with administering funding from the payroll tax are also paid for with these funds. Positions administering the RUC will be paid for from State Highway Funds until sufficient RUC funding becomes available.

ODOT's estimated costs are broken down by category below. All positions are permanent and full-time unless noted otherwise.

General Operations
General Operations costs include two positions (1.50 FTE in the 2025-27 biennium and 1.00 FTE in the 2027-29 biennium) with $411,680 for personal services and $32,934 for position-related services and supplies in the 2025-27 biennium and $312,007 for personal services and $24,961 for position-related services and supplies in the 2027-29 biennium. Positions include:

- One Operations and Policy Analyst 4 to staff the Continuous Improvement Advisory Committee and support reporting to the JCT on major projects.
- One limited duration Program Analyst 2 to establish a process for local governments to request to expand the scope of a highway improvement project.

Statewide Transportation Improvement Fund
An increase of $195.8 million Other Funds expenditure limitation in the 2025-27 biennium is needed for the distribution of increased STIF funding to qualified entities including mass transit districts, transportation districts, tribes, and counties without mass transit or transportation districts.

Additionally, four positions (3.00 FTE in the 2025-27 biennium) and $725,197 for personal services and $58,016 for position-related services and supplies in the 2025-27 biennium are included for STIF administration. Positions include:

- One Program Analyst 3 position to serve as a statewide coordinator for STIF work with qualified entities and public transit service providers.
- Two Program Analyst 2 positions, one to ensure compliance with STIF regulations, and one to support reporting, fund management, and process improvement work.
- One Fiscal Analyst 2 to provide financial management and administer grant contracts related to the increase in STIF revenues.

These positions would continue into the 2027-29 biennium for six months (1.00 FTE) to reflect the increased payroll tax sunset date, with costs totaling $241,732 for personal services and $19,339 for position-related services and supplies.

Road Usage Charge
Road Usage Charge implementation costs include 10 positions (5.00 FTE) in the 2025-27 biennium and 17 positions (15.88 FTE) in the 2027-29 biennium with $1.4 million for personal services and $109,610 for position-related services and supplies in the 2025-27 biennium and $3.9 million for personal services and $315,403 for position-related services and supplies in the 2027-29 biennium. Costs also include $1.1 million for information technology (IT) costs each biennium, primarily for system development to accommodate program enrollment, as well as $1 million each biennium for public outreach related to the RUC.

Positions include:

- Two Information Systems Specialist 7 positions to work on IT projects related to the RUC.
- One Business Operations Manager 2 to oversee the road user fee program.
- One Project Manager 3 to manage RUC business programs and projects.
- One Public Affairs Specialist 3 to direct public outreach and communications activities.
- Two Operations and Policy Analyst 3 positions to develop the program and account manager processes, identify and coordinate process improvements, and to coordinate RUC administrative, policy, program, and management operations.
- Two Operations and Policy Analyst 2 positions, one to certify RUC account managers, and one to audit account managers and manage data and reporting for the RUC.
- One Compliance Specialist 2 and one Compliance Specialist 3 to support revenue collection and compliance processes for the RUC.

- Two Program Analyst 1 positions to provide customer service support for the RUC.
- One Accounting Technician 2 and one Accountant 2 to administer RUC funds.
- One Fiscal Analyst 2 to provide financial reporting and analysis.
- One Executive Support Specialist 2 to provide program administrative support.

Diesel Tax
Diesel Tax administration costs include two positions (1.50 FTE) in the 2025-27 biennium and 14 positions (8.00 FTE) in the 2027-29 biennium with $454,751 for personal services and $36,380 for position-related services and supplies in the 2025-27 biennium and $1.7 million for personal services and $136,223 for position-related services and supplies in the 2027-29 biennium. There are also estimated costs of $2.9 million in the 2025-27 biennium and $7.9 million in the 2027-29 biennium to replace the current Carrier Information Computer System and develop a new Commercial Vehicle Information Exchange Window for reporting related to the IFTA; current systems are unable to connect to IFTA systems as required for participation in the IFTA.

Positions include:
- One Business Operations Manager 3 to manage IT updates related to the diesel tax.
- One Operations and Policy Analyst 3 to assist with IT updates related to the diesel tax.
- Four limited duration Transportation Service Representative 2 positions, one permanent Transportation Service Representative 2, and one limited duration Transportation Service Representative 1 position to support increased development, testing, and implementation of the diesel tax system, and to provide ongoing customer service support.
- Six Motor Carrier Enforcement Officer 1 positions to conduct roadside compliance checks for fuel tax evasion.

Weight-Mile Tax
Weight-Mile Tax simplification includes both IT costs, as well as savings with a projected reduction in positions:
- $400,000 in the 2025-27 biennium and $95,000 in the 2027-29 biennium for contract costs to reprogram the agency’s weight-mile tax system.
- A reduction of five positions (4.25 FTE) in the 2027-29 biennium, which is estimated to reduce costs by a total of $752,099, due to the measure’s simplification of the weight-mile tax system and corresponding anticipated reduction in customer service calls, allowing for elimination of three Transportation Service Representative 1 positions, and two Office Specialist 2 positions.

A total of $639,263 is estimated in the 2027-29 biennium to pay for the SOS performance audit, which is included in the SOS section of this fiscal impact statement.

Additionally, ODOT vehicles and equipment would be subject to the fuel tax increases under this measure. There could be additional costs for ODOT due to these increased prices, though the amount is indeterminate at this time. There is also the potential for increased contract costs, though it is not possible to estimate the degree of this impact.

While the measure directs an audit of ODOT’s progress in implementing recommendations from a recent management review, the measure does not explicitly direct ODOT to implement these recommendations. Any associated costs with implementation of those recommendations are not included in this fiscal analysis.

The scope and magnitude of the IT components of the measure may require ODOT to comply with the state’s IT investment oversight policies, procedures, and process. The estimated fiscal impact of this component is therefore preliminary and subject to change when the agency begins this process, which requires the following steps: (1) analysis of business requirements; (2) business case development; (3) establishing a project management team or other professional staff resources; and (4) developing foundational project management plans and updated cost estimates. Depending on various cost or risk factors, including but not limited to the scope and complexity of the IT work or contract(s) that may be required, ODOT may also be required to contract for additional independent quality management services in compliance with ORS 276A.223.

Secretary of State
SOS costs are estimated at $479,446 Other Funds in the 2025-27 biennium, and $639,263 Other Funds in the 2027-29 biennium. The agency would hire two full-time, permanent positions (each 0.75 FTE in the 2025-27 biennium and 1.00 FTE in the 2027-29 biennium), a State Senior Auditor and a State Principal Auditor. These positions would complete the biennial ODOT performance audit directed under this measure with assistance from other auditors.

Other Funds in the 2025-27 biennium will be sourced from statewide government service charges that are paid by all state agencies, as well as some direct charges to ODOT. SOS is limited in the amount that can be directly charged to ODOT in the 2025-27 biennium since that amount is capped biennially. In subsequent biennia, SOS will likely directly charge ODOT for the full costs of the required audits.

Department of Administrative Services
Costs for the DAS review of the methodology for the highway cost allocation study are estimated at $500,000 General Fund in the 2025-27 biennium based on DAS' past experience with contracting for this type of work. DAS is to submit a report to JCT by June 30, 2026. Given the scope of work required, it may be difficult for DAS to contract for and complete this study within the required time frame.

There may be additional costs related to the increase in fuel taxes and vehicle fees under this measure, which are discussed in more detail below.

Legislative Policy and Research Office
LPRO costs to contract for a performance audit of ODOT operations and management are estimated at $300,000 General Fund in the 2025-27 biennium. This amount assumes that LPRO will be reporting to the Legislature on the performance audit in December 2026, as the measure does not specify when or how LPRO is to communicate the results of the performance audit. This amount could vary based on the vendor proposals received, or if LPRO is expected to report on the outcomes of the performance audit earlier in 2026.

Other Entities
There is an indeterminate fiscal impact for school districts. The State School Fund (SSF) is one of the state's largest General Fund expenses. The SSF Transportation Grant reimburses school districts 70% of eligible transportation costs. As of the 2024 school year, there were 15,942 buses statewide, with 10,158 running on diesel, 3,965 on gas, and 1,699 on propane. The remaining 120 buses were either electric or hybrid electric. School districts will have increased costs due to the increased fuel taxes, as the majority of school buses statewide are diesel-fueled. Most costs would occur in the 2029-31 biennium when fuel taxes for diesel take effect, which is beyond the two biennia scope of this fiscal impact statement. Any increase in school district's transportation costs related to bus routes or academic travel would directly impact the State School Fund, and consequently the General Fund. Increased fuel expenses related to travel for sporting events and non-academic fieldtrips will directly impact school district budgets. There is an additional indeterminate impact due to the increases in some fees under this measure.

Other state agencies and local government entities with substantial fuel use or large fleets may be impacted by the increase in fuel taxes and title fees, as well as the new RUC. Government-owned vehicles are exempt from the registration fee increases. While costs for these agencies are anticipated to be absorbable at present, they may be reflected in future budgetary adjustments. These agencies include DAS, which provides vehicles for most state agencies and anticipates purchasing 600 vehicles next biennium that would be subject to increased title fees, any additional costs due to the increase in fuel taxes, and the new RUC for certain fleet vehicles. The Oregon Department of Forestry (ODF) has a large number of vehicles and other fuel-powered equipment and is likely to be impacted by increased fuel costs, though the exact impact is indeterminate at this time and will partially be driven by variable fire season costs. Other agencies with substantial fuel use, such as Oregon State Police (OSP), could also have budgetary impacts due to the increase in fuel taxes. Numerous other agencies have their own fleets and could be impacted by the taxes and fees under this measure. However, these fleets are generally on a smaller scale than DAS, and with relatively less fuel usage than agencies such as ODF and OSP. These include the Oregon Department of Fish and Wildlife, Oregon Department of Agriculture, Oregon Department of Education, Department of Corrections, Oregon Military Department, Department of the State Fire Marshal, Oregon State Lottery, Oregon Parks and Recreation Department (OPRD), and other agencies that may use DAS services only in part for their fleet needs.

There is an indeterminate impact for the Oregon Liquor and Cannabis Commission (OLCC). OLCC contracts with private companies that deliver distilled spirits. Increased weight-mile and fuel costs may impact contract costs for delivery.

There is an indeterminate revenue impact for the Oregon State Marine Board and OPRD. Both agencies receive a portion of fuel tax revenues based on the amount of fuel used for recreational boating and the number of all-terrain vehicle permit holders.

There is an indeterminate, but anticipated to be minimal, impact for the Oregon Judicial Department (OJD), district attorneys, and the Public Defense Commission. There will be one-time costs for updates to OJD's case management system. There will also be additional cases filed in circuit courts due to new and expanded infractions under this measure, as well as the potential for additional liens on vehicles that violate fuel tax requirements. Increases in licensing and vehicle fees may result in more traffic violations in circuit courts. A minimal number of additional tax court appeals, and Court of Appeals case filings may also occur.

There is minimal fiscal impact for the Department of Revenue and Department of Justice.

There is no fiscal impact for the Department of Aviation and Oregon Employment Department.

Relevant Dates
The measure takes effect on the 91st day after the 2025 special session of the 83rd Legislative Assembly adjourns sine die.

Other dates are included in the Measure Summary.