



Transportation Revenue Workshop

In spring of 2024, the Governor announced that tolling would be paused, simultaneously we knew that the Oregon Department of Transportation (ODOT) was facing current and future budget shortfalls, and the Joint Committee on transportation announced a Road Show to help inform a prospective legislative transportation funding package in the 2025 session. In response, the Westside Economic Alliance (WEA) convened a six-month workshop series to better understand ODOT's funding needs and consider options that would allow Oregon to transition from a declining gas tax to a more advanced form of transportation revenue generation. From May until October of this year WEA brought together a small group of diverse members including transportation consultants and engineers, business owners and CEOs, and public sector transportation specialists to hear from experts about everything from large scale public-private transportation projects to road user charges. At the conclusion of the series of workshops, WEA staff hosted two webinars to share learnings and to seek input on the thinking developed over the previous half-year.

We started from the premise that in order for our state transportation system to function in good repair, the state needs revenue mechanisms beyond the declining gas tax. As vehicles become more fuel efficient, and inflation continues to reduce the purchasing power of our gas tax (which is currently not indexed to any type of inflation), the revenue mechanisms that our state highway fund relies on need to change.

This memorandum summarizes the funding challenges of our state highway system as presented by ODOT, the content of the workshop series, recommendations that WEA has for a future transportation package, as well as some notes from the workshop we hope legislators will consider.

The ODOT funding need

ODOT's expressed funding gap traces back to the diminishing returns of the gas tax as a revenue generating tool. The gas tax has operated as one of the primary pillars of funding for the state's transportation system since the early 1900s. But with the increase in fuel efficiency, and the growing popularity of EVs, the gas tax has been less able to cover the operations and maintenance to keep our transportation system in good repair. This downward trend has only further been exacerbated by Oregon's gas tax not being indexed to any type of inflation, further reducing the tax's purchasing power in recent years.

Currently, ODOT is expecting a budgetary shortfall of \$354 million¹ in the next year (2025). That means if no new money were added to the state highway fund, ODOT would be forced to lay off an estimated 1000 workers and reduce maintenance schedules significantly in order to account for this shortfall in the state highway fund. Put differently, \$354 million in additional funding would allow ODOT to maintain its current state of maintenance and operations for 2025.

But what we learned is that the \$354 million is not enough. Covering this budgetary shortfall would maintain our current system, however, it would not solve the other issues that affect our state highways now.

For example, ODOT does not consider our state transportation system to be in a good state of repair. To solve this, they have forecasted a funding need of an additional \$1.8 billion a year to address the issues that face Oregon's current state highway system².

The Joint Committee on Transportation is expected to address these budgetary shortfalls in the 2025 legislative session; we expect the funding package will offer short-, mid-, and long-term funding solutions.

WORKSHOP OUTCOMES

The workshops yielded several insights among its' members, including:

- A deeper understanding of the shortcomings of the gas tax.
- Exploration of innovative revenue-collection methods for transportation.
- Awareness of the challenges posed by new technologies, with a focus on minimizing negative impacts on various demographics and geographic areas.
- Recognition of the need to prioritize low administrative costs and to leverage existing systems for efficiency.

Marketing and Public Messaging

A reoccurring topic that was brought up by workshop members was the need for better public communication from ODOT. ODOT is one of the most public facing agencies in the state, with the average Oregonian having daily interface with their facilities. The work they do to maintain roads and increase safety means delays and detours for drivers getting kids to school and trying to make their morning meeting. Add to that the complicated nature of funding, the layered taxing systems, as well as legislatively directed initiatives, like tolling, that provide policy direction that have direct effects on driver's pocketbooks and business bottom line.

¹ <https://www.koin.com/news/oregon/odot-354m-budget-shortfall-job-cuts-funding/>

² Another number our workshop heard often in presentations was \$450 million. This number refers to just the maintenance and operations "slice" of the \$1.8 billion "pie". It is a part of that greater figure

This all makes for communications challenges. WEA encourages ODOT to invest energy in providing clear communications to help bring the public along on some of these vital services and policy updates. And we stand ready to act as a connector and convenor to help ODOT test, fine tune and push out critical messaging about budget needs, project costs, and funding mechanisms.

Replacing the Gas Tax

The workshop aimed to identify actionable solutions to replace the declining gas tax with mechanisms that can be implemented in the short term while launching mid- and long-term solutions. We encourage the legislature and ODOT to embrace the more complex path forward which requires all accepted solutions to move simultaneously. We can launch easier, short-term solutions while working to get mid- and long-term planning under way.

Ultimately, we are seeking to propose viable solutions that will garner support from WEA's membership.

Workshop Summary:

Meeting 1 (May. 30, 2024) – Introduction & ODOT Funding Tools and Forecasts

This first workshop discussed why the workshop came to be. The group discussed the goal for these workshops, who should be invited to these discussions, and what topics and speakers would be most beneficial. The group heard a presentation from ODOT which helped members understand the funding need, the current funding tools available to ODOT, what they are forecasting, why new funding needs to be considered, and what new tools they are beginning to consider in a new package.

What we learned: Going into 2025, ODOT is forecasting a \$354m budget shortfall. Meaning if \$354 million are not added to the system, Oregon can expect slower road repair schedules and hundreds, if not thousands, of layoffs going into the future. As it stands, ODOT forecasted that they need a \$1.8 billion increase in the State Highway fund to address this shortfall and, importantly, to bring Oregon's State Transportation system up to a good state of repair, which many consider it to not be in currently.

Meeting 2 (Jun. 20, 2024) – P3s and West Coast Infrastructure Exchange: Tom Rinehart

The second workshop focused on Public/Private Partnerships (P3s) as a source of funding for transportation projects in the state, as well as what benefits there could be from working in the West Coast Infrastructure Exchange (CA, OR, WA).

What we learned: The examples for this type of funding worked best with new larger transportation infrastructure projects but did not provide much in the way of ongoing maintenance of transportation

facilities (Primary example of a successful P3 project: The MAX Red Line project in the 1990s was a public-private partnership to build a light rail line to Portland International Airport [Sept 2001]).

Meeting 3 (Jul. 18, 2024) – State Highway Funding & Options: Daniel Porter, ODOT Finance & Budget

This third workshop was presented by ODOT's economist and allowed workshop members to dig deeper into the various funding mechanisms currently in place. It was also an opportunity to begin to understand what level of increase to current taxes and fees would be needed to be to achieve a hypothetical \$100 million per year in revenue. One hundred million was chosen as a baseline number for workshop members to begin to get a handle on the size and scope of the shortfall.

What we learned: This analysis began the discussion of the most impactful existing revenue sources that OFOT has at its disposal vs. those that wouldn't make significant contributions to the shortfall, even when the "dial" is turned all the way up. This was a very important presentation in allowing for the workshop to get an idea of what actions could be taken to address the funding need of ODOT in the short term.

Meeting 4 (Aug. 15, 2024) – Road Usage Charges: Trey Baker, WSP, President of RUC America

This fourth Transportation Revenue Workshop focused on educating members on Road Usage Charge (RUC) systems. RUCs are fees that drivers pay based on distance traveled in miles. This presentation was given with the intent of reviewing the viability of RUC systems as a source of transportation revenue for the state. Trey Baker, of WSP USA, presented on existing RUC systems throughout the country, where they are being implemented today, and various methods of collecting mileage records. The group went onto discuss the impact RUC systems would have on rural communities, electric vehicle registration, and the need for further research to address concerns related to technology and administrative cost.

What we learned: The Road User Charge, in particular a Vehicle Miles Traveled fee, could be a very smart way to move away from gas tax. It would allow Oregon to include zero emission vehicles to ensure they are paying their fair share for road usage, and it could also be formulated to ensure those with the lowest ability to pay are taken into consideration. Currently there are no states who have fully scaled this revenue model.

Meeting 5 (Sep. 19, 2024) – Drafting the WEA Transportation Funding Webinar

This meeting brought the summarized learnings of the workshop to the participating membership to share our new understanding about ODOT's funding need and to share short-, mid-, and long-term solutions that could be implemented to address that need. WEA staff also prepared slides to provide hypothetical short-term funding solutions that were aimed at generating \$1b in revenue for the state by increasing existing funding tools like the gas tax, car registration, title fees, etc. Staff also presented mid- and long-term solutions like retail delivery fees, Road User Charge systems and what it might look like to consider a long-term adoption of some P3s to build and/or maintain the transportation facilities.

Webinar No. 1 (Oct. 21, 2024) – Transportation Revenue Webinar for All WEA Membership

Webinar No. 2 (Oct. 29, 2024) – Transportation Revenue Webinar for All WEA Membership

Meeting 6 (Oct. 31, 2024) – Review of the Work of the Workshop and Discuss Next Steps

This meeting was held to discuss the success of the webinar, as well as reflect on the work of the workshop as a whole. We also discussed next steps in the process, noting that the work of this workshop was not done. The legislative session that would be deciding upon the 2025 transportation funding package is to be held in the spring, and we want to be sure to inform our membership as well as possible about the issue so that we can see positive results from the state's policy proposals. The workshop discussed the possibility of WEA crafting a survey to send out to membership that would educate about the topic, as well as garner important opinions from business on the westside about the status of our current system and proposed funding options. We believe this survey will not only serve as a good tool to inform WEA membership and westside business on state transportation needs, but also as an informative temperature check to relay towards state legislators to inform them of where business is in this discussion.

WEA's Thoughts for a Transportation Package:

On behalf of the dedicated members of our Transportation Revenue Workshop, we present the following thoughts to consider for a future transportation package.

We have categorized these into short-, mid-, and long-term solutions, and believe strongly that solutions from all of these categories should be pushed forward by elected officials. To address both the immediate shortfall at ODOT and consider the long-term need to modernize the funding of our transportation system, we implore the Joint Committee and their colleagues in the legislature to take the harder route of working on short-, mid-, and long-term solutions at the same time.

As with other challenging policy areas, we believe that we can do the hard things, and that we should not shy away from new ways of thinking. Importantly, we also think that we can make progress on these issues without having to lean into overly complicated technical solutions. We see a path forward using 'analog', low-tech solutions and encourage decision-makers to adopt a similar approach.

Short-term Solutions:

The obvious starting point for short-term solutions is to consider what taxes and fees are already in place and how we might right-size these to meet the challenges of the modern transportation system.

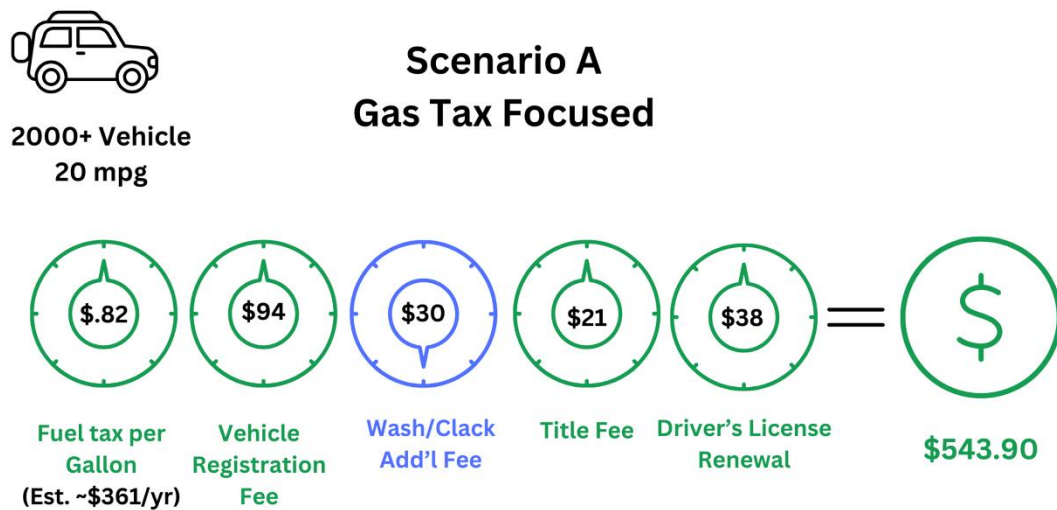
One of the challenges of today's gas tax is that it has not been indexed to any measure of inflation. We recommend a modest increase to the gas tax and then indexing it to an inflationary measure. While we did not land on a concrete recommendation, we expect that there should be a proposal on the table to moderately 'turn the dials' on other standard licensing and registration fees.

Example:

Below is the expected expense of an Oregonian driver that registers their car in Washington or Clackamas County and who drives a post-2000 build car that gets 20mpg:



Below is the estimated expense that the same driver would have to pay each year if the state were to raise \$500m in revenue for the state highway fund from these short-term funding tools:



WEA is also interested in testing how fee increases would land with our membership. Compared to our neighboring state Washington, the average Oregon driver pays roughly 24% less in gas tax. The gas tax in Washington sits at 49.4 cents per gallon, while Oregon's is at 40 cents per gallon.

Mid-term Solutions:

We are aware that a retail delivery fee is being considered to generate some revenue in the state. Currently only two other states, Colorado and Minnesota, have put this new fee in place. Colorado imposes a Retail Delivery Fee on deliveries by motor vehicle to a location in Colorado with at least one item of tangible personal property subject to the state's Sales or Use Tax³. While Minnesota charges a flat \$0.50 per delivery over \$100⁴.

While the workshop members have not taken a hard stance against this fee, we did note that the political battle that might ensue over such a fee may not be worth the revenue that would be expected to be generated. Below you will find a projection from ODOT on what a retail delivery fee could produce if implemented similarly to an existing fee in Colorado⁵.

	Colorado	Washington (studied)		Oregon (estimated Gross Revenue)
Fee	\$0.27	\$0.30		\$0.30
Per-penny Yield	\$2.8M	\$3.2M	\$3.5M	\$1.9M
Revenue Generated (FY2023)	\$75.9M	\$95.4M	\$103.7M	\$56.5M

This estimate from ODOT assumes that if the average consumer were to get 50 deliveries a year at \$0.30 per delivery, they would be incurring an average cost of \$15/yr. While WEA is encouraging our members to keep an open mind to all proposals brought forward by the Joint Committee, we are aware that other business organizations are already leaning in strongly against such a proposal. With an almost \$2 billion gap to close in the coming years, a politically difficult battle for a fee that might only generate roughly \$60 million annually is one we hope can be avoided.

Long-term Solutions:

It is our current understanding that the 2025 transportation package will propose to scale up Oregon's existing Road User Charge (RUC) pilot program, OReGo. The Road User Charge Task Force, currently being led by State Senator Lee Byer, is going to make a recommendation to follow an ODOT forecasted plan of enrolling all EVs into the program that are sold in the state past 2030.

WEA believes this is an opportunity for Oregon to lean into substantive change, while generating real revenue, by requiring all Zero Emission Vehicles registered in the State of Oregon to move to a road user charge, in this case a Vehicle Miles Traveled fee, starting in 2026. We believe this would be achievable with a low-tech approach that we think could make this program easily administered. Every two years Oregon drivers already file a new registration for their car. For those with mandated DEQ checks, where an odometer check can be completed, the vehicle owner could pay their two-year fees

³ <https://tax.colorado.gov/retail-delivery-fee>

⁴ <https://www.revenue.state.mn.us/retail-delivery-fee>

⁵ [https://www.oregonlegislature.gov/committees/202311-JCT/WorkgroupDocuments/Presentation%20-%20Medium%20&%20Long-term%20Funding%20Options%20-%20Daniel%20Porter%20\(ODOT\).pdf](https://www.oregonlegislature.gov/committees/202311-JCT/WorkgroupDocuments/Presentation%20-%20Medium%20&%20Long-term%20Funding%20Options%20-%20Daniel%20Porter%20(ODOT).pdf)

on the spot or opt for a monthly payment program. For others, a simple odometer check with a local DMV could provide the same, low-tech option for tracking their biennial mileage.

Rather than waiting for a larger, more technical approach, we encourage our partners at the state to move quickly while looking for smart approaches – in this case – using a system we already have in place, vehicle registration, and adding on a quick and simple extra step, checking mileage.

It is also worth noting that some workshop members theorized certain groups, especially businesses that cross state borders frequently, may be wary of a RUC program that did not consider geographic position. For example, a driver has a vehicle registered in Oregon but has a large portion of its miles driven in Washington, Idaho, or California, such as a border community commuter. The owner of such a vehicle may feel like they should not have to pay Oregon for their miles driven in other states, considering they are not using Oregon's transportation system for those activities. This may be especially important to businesses that cross the border regularly in vehicles that are not commercially licensed. While this could be an issue that certain groups have with an analog RUC reporting system (a simple odometer reading), it is also worth noting that the gas tax expense that drivers incur currently has no geographic consideration on miles driven in other states.

As with so many programs, for those whose ability to pay is limited, an equity consideration could be applied either through a level of a sliding scale or a tax refund.

CONCLUSION

For those who have taken the time to participate in our first-ever summer workshop series, we thank you for your time and commitment. For those of you who have taken time to review our recommendations, we thank you. We will be reporting more information on our membership stances in the coming weeks.