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Increases Gas Tax from Seven to Nine Cents Per Gallon (State Measure No. 4)

City Club of Portland (Portland, Or.)

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REPORT ON
INCREASES GAS TAX FROM SEVEN TO NINE CENTS PER GALLON
(STATE MEASURE NO. 4)

Purpose: "Measure proposes an increase in the tax on motor vehicle and aircraft fuels from seven to nine cents per gallon, and an increase in weight-mile and flat-rate taxes on commercial vehicles using fuel other than gasoline. ~ Increase would be effective January 1, 1981."

To the Board of Governors,
The City Club of Portland:

I. INTRODUCTION

State Measure 4, if approved by the voters in November 1980, will increase the state tax on motor vehicle fuel from 7 cents to 9 cents per gallon (28 percent) and increase the weight-mile tax on motor carriers approximately 14 percent, effective January 1, 1981. A similar tax is imposed on aircraft gasoline to avoid diversion of such fuel to motor vehicles. Fuels actually used in aircraft are taxed at a lower rate and the proceeds used for aeronautical purposes. The Committee's study is limited to motor vehicle fuel taxes.

II. BACKGROUND

Oregon's system of streets and highways is financed primarily with taxes and fees imposed on the ownership and use of motor vehicles.

The major user fees are:

- 1) A motor vehicle fuel tax, of 7 cents on each gallon of motor vehicle fuel sold;
- 2) A weight-mile tax applied to commercial vehicles, with fees assessed according to the vehicle's weight and the number of miles traveled in the state. For example, a heavy truck (40 tons combined weight) now pays a weight-mile tax of 6.5¢ per mile;
- 3) A vehicle registration fee of \$10 per vehicle and an additional fee of \$5 for each 2000 pounds of weight.

Motor fuel taxes are paid almost exclusively by passenger cars and light trucks (hereinafter referred to as "light vehicles"). The weight-mile tax is imposed on all vehicles operated by common and contract carriers and, with minor exceptions, all vehicles over 8,000 pounds operated by private carriers (collectively referred to as "heavy vehicles"). In the case of gasoline-powered heavy vehicles, the weight-mile tax rates are adjusted to reflect fuel taxes paid.

There are other, small sources of user fee revenues such as overload fines and bridge tolls. Drivers license fees support administrative costs and designated driver programs but do not fund highway programs.

A summary of the projected revenues for the 1979-81 biennium (excluding increases proposed by Measure 4) and the share each represents are shown as follows:

GROSS HIGHWAY FUND REVENUES 1979-81 BIENNIUM

	<u>\$Millions</u>	<u>Percent</u>
Highway User Revenue		
Fuel taxes	203.4	47.3
Vehicle Registration and Driver Licensing Fees	104.9	24.4
Weight/Mile Tax	118.9	27.7
Other Revenues (fines, etc.)	2.8	.6
	<u>430.0</u>	<u>100.0</u>
Other Income (bridge tolls, bond sales, etc.)	37.0	
Gross State Revenue	<u>467.0</u>	

(Figures provided by the Oregon Department of Transportation)

After administrative and collection expenses, distributions to cities and counties, and allocations to certain specified programs, approximately \$283 million is available in the current biennium for general state highway programs. If Measure 4 is enacted, about \$66 million additional revenues would be collected in the 1981-83 biennium, of which \$13 million would go to counties, \$8 million to cities, and \$45 million for state highway programs.

In 1942 Oregon voters approved a constitutional amendment dedicating road user taxes to highway related purposes (Highway Fund) and have rejected proposals since then to use the fund for other purposes.

The voters approved in the spring 1980 election an amendment to the Constitution, proposed by the 1979 Legislature, to limit use of highway user funds to the construction, repair, and maintenance of highways and roadside rest areas (and for the cost of administering such taxes). Before amendment, the Constitution allowed the use of such funds to finance police, and park and recreation programs. The effect of this change was to increase the amount available for highways by approximately \$55 million for the 1979-81 biennium.

A portion of highway user revenues are paid to counties and cities for local roads and streets. Existing statutes allocate 20.07 percent of the net user revenue (after costs of collection) to counties and 12.17 percent to cities on a per capita basis. In the 1979-81 biennium, counties are expected to receive \$74 million and cities \$45 million. The three metropolitan counties received 36 percent of the total county allocation.

In addition, local governments use revenue from other sources for streets and roads. Multnomah and Washington Counties impose local one-cent per gallon fuel taxes. Local governments' needs for additional funds for streets and roads vary greatly depending on alternative revenue sources and the rates of growth of their road responsibilities.

Oregon's highway finance structure began to evolve as early as the late 1800's when "local property assessment, poll taxes, and forced labor were the primary methods of paying for public roads." (For a complete history, see Historical Overview of Motor Vehicle Taxation in Oregon, Ore. Dept. of Transportation.) Throughout the past 75 years, this evolution has been guided by three persistent principles: 1) that those

who benefit from public roads should pay for them; 2) that road users should pay a large part of the cost of public roads and should do so in proportion to the road costs for which they are responsible (i.e., the cost responsibility principle); and 3) that road user taxes should be utilized primarily for constructing, improving and maintaining highways.

Road user taxes in Oregon began in 1913 with registration fees, followed in 1917 by additional fees on trucks based on vehicle capacity. In 1919, Oregon became the first state in the nation to charge a tax on gasoline, a true "user tax" -- road users paid in direct proportion to the amount of use.

However, registration fees and gasoline taxes did not entirely identify the cost responsibility of various sized vehicles. A ton-mile tax on for-hire vehicles and a passenger-mile tax on buses was put into effect in 1925 and applied to private carriers in 1933. Beginning in 1935, a series of studies have been undertaken to determine the cost responsibility of various types of vehicles. Following a 1945 study, the state imposed its first incremental weight-mile tax on commercial vehicles effective in 1947. The weight-mile tax schedule has been adjusted by the legislature four times since 1947 as a result of cost responsibility studies conducted by the Oregon Department of Transportation (ODOT). Although then considered burdensome by the trucking industry, the tax received the support of voters by a 2-1 margin in 1952.

Generally, all vehicles using Oregon roads are subject to road user taxes. Farm vehicles and publicly owned vehicles are among certain classes of vehicles that have been granted exemptions or options which have lowered their share of costs. An exemption for log trucks was eliminated by the 1979 Legislature.

Oregon has one of the lowest gasoline tax rates and the lowest license tax rates of the 50 states, and has one of the highest tax rates on truck use of any of the 50 states. However, Oregon does not impose a general sales or property tax on vehicles or fuel.

Since the last increase in the fuel tax in 1967, maintenance and repair costs have increased faster than revenues. The 1975 Legislature referred to the voters a one-cent per gallon increase, and the 1977 Legislature referred a two-cent increase and a 14 per cent increase in weight-mile taxes. In both years, the increases were recommended by the City Club and rejected by the voters. The 1977 Legislature did enact a separate 14 per cent increase in weight-mile taxes, which is still in effect.

Between 1967 and 1979, the cost of highway construction (as measured by a U.S. DOT Index) increased over 200 per cent compared to an overall increase in consumer prices of 125 per cent. ODOT's Oregon Construction Cost Index increased 300 per cent.

The primary reason highway costs have increased more rapidly than consumer prices is that the prices of asphalt and fuel for highway equipment are directly related to increases in petroleum prices. Since 1973 the price of asphalt has quadrupled.

Highway revenues have failed to keep pace with these rising costs, in part due to improved fuel economy. Revenues from gasoline sales

increased only 18.1 percent from 1973 to 1979 (from \$84.1 million to \$99.3 million). Revenues from all user fees increased only 34.8 percent over the 1973-1979 period (from \$148.1 million to \$199.7 million) in part because of the 1977 increase in weight-mile taxes.

In each month since March 1979, gas tax receipts have been lower than the same month of the prior year. May 1980 gasoline consumption was 6.6 per cent below that of May 1979 and 10.2 per cent below that of May 1978. Although some of this reduction may be a temporary reaction to gasoline shortages in 1979, most of the decline in consumption is due to sharply higher gasoline prices and the resulting shift to more fuel efficient vehicles. ODOT's econometric model predicts that fuel consumption will continue to decline even though the number of vehicles will continue to increase. Weight-mile taxes continue to contribute increasing revenue although the rate of increase is projected to decline somewhat.

The average design life of a paved roadway surface is estimated to be about 20 years. In order to continue the existing highway system, approximately 375 miles of Oregon's highways must be rehabilitated each year (7,500 miles of highways over 20 years). In 1979 ODOT identified 4,400 miles of state highway that were deteriorated and in need of preservation measures. Of these, 1,288 miles were extremely deteriorated and in need of immediate repair.

III. ARGUMENTS ADVANCED IN FAVOR OF THE MEASURE

1. Costs of maintenance have gone up, and revenues have declined.
2. An adequate highway system is essential to Oregon's economy.
3. There is an urgent need for preventative maintenance to avoid having to rebuild highways at greater costs.
4. Even with elimination of the diversion of funds to non-highway use (police, parks, etc.), insufficient funds are available for strictly highway use.
5. Highway use taxes are the most fair method of raising the needed revenue for repairs and maintenance, by equitable apportionment between autos and trucks.
6. Without an increase in revenues the state Department of Transportation cannot take full advantage of federal matching funds.
7. Deteriorated roads are unsafe, require more fuel and contribute to costly auto repair expense.
8. Cities and counties need additional revenues for streets and roads.

IV. ARGUMENTS ADVANCED AGAINST THE MEASURE

1. Highway deterioration is not apparent to the average driver. The roads are good enough.
2. Too much money is spent on unnecessary highway projects.
3. Taxpayers do not want to pay any more taxes.
4. Trucks are not paying a fair share.
5. The federal government should help to maintain highway systems.
6. Cutting out state police and parks has allowed more funds for highway maintenance.
7. The age of the auto is over. Highway construction encourages auto use. The money should be spent on mass transportation systems.
8. The amount of the proposed increase is insufficient.

V. DISCUSSION

It is a fact that highway revenues have been relatively fixed while costs have increased. Before 1973 a tax based on gallons of gasoline sold was a steadily increasing source of funds. Every year more vehicles drove more miles while gas mileage decreased. Meanwhile highway costs increased moderately. Proponents of other programs looked enviously at the Highway Fund and tried to get their share. Some were successful (police, parks and bicycle paths), others less so (mass transit).

With sharply increasing petroleum prices the present user fees are no longer a sufficient source of revenue. First, high gasoline prices have caused consumption to stop increasing and in some years (1974, 1979 on) to actually decline. Second, highway costs have increased directly because the increased cost of asphalt and fuel for highway equipment, and indirectly because of general inflation. With inflation rates of at least 8.5 percent likely for the next few years, such factors are likely to continue at varying degrees..

ODOT has responded to the changing circumstances. It has emphasized maintaining and preserving the existing highway system. During 1975-77 a major staff reduction eliminated 220 engineer and 150 maintenance positions. The legislature (and the voters) eliminated the diversions of the Highway Fund to police and parks, funding these activities from the General Fund.

Much opposition to increased user fees is directed to new construction. ODOT's response is that the main construction activities are completion of long standing projects such as I-205, and that these projects are financed primarily with federal funds (92 percent in the case of I-205 and 80 percent in the case of the Banfield Freeway). The state share of the Banfield Light Rail project was financed from the General Fund. One-half billion dollars is available from the abandonment of the Mount Hood Freeway but state and local matching funds (of varying amounts) are required. ODOT does not have sufficient state funds to match all the available federal money.

A more difficult question is which users should pay. Under Measure 4, as noted above, the increase for light vehicles is 28 percent while rates for heavy trucks will increase 14 percent. The Committee was very concerned by this apparent disparity.

Since 1919 Oregon's highways have been financed on the principle that the cost of the highway system should be borne by those using the system. The most recent ODOT cost responsibility study, completed in 1974, concluded that heavy vehicles should pay 35 percent of the costs of the highway system. ODOT is conducting a new cost responsibility study which is to be available before the 1981 Legislature convenes. Similar studies have been conducted by other states and the federal government.

Some significant changes have occurred since the earlier studies. In 1974 the maximum vehicle weight was increased from 18,000 to 20,000 lbs. per axle. The number of miles driven by heavy trucks has increased much more rapidly than for other vehicles, while private auto use is declining.

Although there has been general agreement over the last 25 years on the 1/3 - 2/3rd ratio, actual tax rates and the resulting revenue has varied. In 1967 the gas tax was increased one cent without a proportionate increase in weight-mile taxes. In 1977 the weight-mile tax was increased and as a result approximate parity was re-established. The relative shares for 1978 were 65.1 percent for light vehicles and 34.9 percent for heavy trucks.

At the time the Legislature was considering this Measure, ODOT forecasts were for light vehicle user revenue to increase 1.1 percent per year over the next six years, while weight-mile revenues (heavy trucks) would increase at an annual rate of 4.8 percent. At that time it appeared that if tax rates were increased proportionately, by 1985 heavy trucks would be paying 40 percent of the total.

However, current projections (5/5/80) are that light vehicle revenues will decline about 2 percent per year (more in the early years, somewhat less in later years) but heavy truck taxes will increase only slightly less than assumed. Therefore, at current tax rates heavy vehicles would be contributing over 40 percent of user revenues in 1982 and 43 percent by 1985. Even with the differential contained in Measure 4, in 1982 heavy vehicles would be contributing 39 percent of user revenue and by 1985, 41 percent.

It appears that approximately half of the current decline in gas consumption is due to reduced driving, particularly recreational driving and tourism. At least part of this reduction may be temporary. The balance is due to improved fuel economy, partly because of the 55 mph limit but primarily because of a changing vehicle mix. Oregonians are not only purchasing new high-mileage cars but multiple car families seem to be using the more efficient vehicle at the expense of larger cars, vans and campers. This factor is expected to have an increased effect in future years with the replacement of older vehicles.

Past studies by ODOT indicated an average of 13 miles per gallon for light vehicles. Current consumption and mileage indicates an average of 17 mpg. This change not only reflects improved mileage by new vehicles but also changes in use of existing vehicles. Federal regulation of manufacturers will require an average of 27.5 mpg for new vehicles by 1985. Present consumer choices indicate these requirements will actually be exceeded.

The increase in average gas mileage means that for the same number of miles driven, the typical driver's contribution has declined approximately 23 percent (for example, for 12,000 miles per year, the gas tax is reduced from \$65 to \$50 per year). Passage of Measure 4 would increase the typical driver's contribution to a total of \$63.50. As average gas mileage moves to the federal standard with the retirement of older vehicles, the per vehicle contribution will decline a further 38 percent assuming no change in the number of miles driven (the tax would decline to \$31 per year at present rates). Although some reduction in highway cost may occur with a reduction in vehicle miles (although ODOT disputes this), no reduction in costs can be identified simply because vehicles are more fuel efficient. The relevant measure with light vehicles is miles driven, not fuel used.

VI. CONCLUSIONS

Your Committee concludes that the Oregon Department of Transportation, and Oregon cities and counties, need increased revenue in order to maintain the existing highway system adequately. The increases in user taxes authorized by Measure 4 will only offset a portion of the existing revenue deficiency. Because of inflation, similar increases will be required every few years simply to maintain the system in its current condition.

The Committee further concludes that the highway system continues to be essential to Oregon's economy. For most of the state there is no reasonable alternative means of transportation.

Your Committee believes that the cost of the highway system should be borne by those using and benefiting from the system. Allocation of costs between different classes of users is a complex and controversial task; in fact, competent and objective analyses can produce substantially different results depending on the methods and assumptions used. Given the strong financial interests involved, objectivity may be difficult to achieve. Ultimately the answer may be more political than technical.

The Committee is unqualified to make any detailed judgment about such studies. However, given the changing mix of highway use, we do believe that in the future the portion of cost which should be borne by heavy vehicles will increase. Because of the decline (both in percentage and absolute amounts) of revenue from light vehicles, we have concluded that the differential increase proposed by Measure 4 is reasonable. We do not believe that the historic ratio between cars and trucks should be continued indefinitely.

VII. RECOMMENDATION

Your Committee recommends a YES vote on State Measure 4 at the November 4, 1980 general election.

Respectfully submitted,

John L. Blackwell
JoAnn L. Lippert
Marion H. Thompson
Charles E. McGinnis, Chairman

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APPENDIX A

PERSONS INTERVIEWED BY THE COMMITTEE

George Burgess, Supervisor, Financial Planning and Economics, Oregon
Department of Transportation

Kathleen Carr, Safety and Public Relations Director, Automobile Club of
Oregon

H. Scott Coulter, State Highway Engineer

Fred B. Klaboe, Director, Oregon Department of Transportation

Robert Knepper, General Manager, Automobile Club of Oregon

Norm Smith, State Representative

APPENDIX B

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