

5-12-2000

Ballot Measure 82: Gas Tax Increase and Weight-Mile Tax Repeal

City Club of Portland (Portland, Or.)

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ballot measure

82

gas tax increase and weight-mile tax repeal
published in the City Club of Portland *Bulletin*,
vol. 81, No. 50, May 12, 2000.

Your committee found:

Oregon absolutely needs to properly fund its overburdened and under-funded roads. This issue must be addressed very soon or the state will suffer consequences that will last for a generation. The majority of your committee feels that Measure 82 holds hostage funding for Oregon's roads in exchange for abandoning a progressive system of taxation on trucks. The majority believes the legislature should properly fund Oregon's roads by raising gas taxes, but not erode the fundamental fairness of Oregon's system of motor vehicle taxation.

The majority recommends a "NO" vote on Measure 82.

The minority of your committee is not confident the legislature will take action during the next session to increase funding for Oregon's roads. However regrettable it might be to lose a progressive method of taxation on trucks, Measure 82 will deliver badly needed funding for Oregon's roads.

The minority recommends a "YES" vote on Measure 82.

The City Club membership will vote on this report on Friday, May 12, 2000. Until the membership vote, the City Club of Portland does not have an official position on this report. The outcome of this vote will be reported in the City Club *Bulletin* dated May 26, 2000.

I. INTRODUCTION

Ballot Measure 82 will appear on the ballot as follows:

Caption:	Repeals truck weight-mile tax; establishes and increases fuel taxes.
Result of "Yes" Vote:	"Yes" vote repeals truck weight-mile tax; establishes diesel tax; increases gas tax, registration fees.
Result of "No" Vote:	"No" vote retains weight-mile highway tax on trucks; rejects increasing gas tax, registration fees.
Summary:	Currently, motor carriers pay highway tax based on truck weight, miles driven. Measure repeals weight-mile tax. Establishes diesel fuel tax (29 cents per gallon). Increases gasoline tax by five cents to diesel tax rate. Raises vehicle registration fees. Additional revenue to be used primarily for road and bridge modernization, maintenance, and preservation. Requires licenses for diesel fuel suppliers, distributors, others. Requires recordkeeping, monthly tax reports by licensees. Authorizes transportation department to enforce requirements. Provides remedies for violations, including fines, penalties, criminal sanctions. Other provisions.

(The language of the caption, question, and summary was prepared by the Oregon Attorney General.)

How much to spend on Oregon's highway system and how to share the cost between passenger cars and trucks have been hotly contested issues in Oregon for decades. The current focus of this debate is Measure 82, which would increase the gas tax on passenger cars and would significantly alter the way trucks are taxed. The City Club Board of Governors appointed our study committee to help Club members and the public better understand the important issues this measure raises.

Our committee met every week for two months. Committee members were screened prior to their appointment to ensure that no member had an economic interest in the outcome of the study or had taken a public position on the subject of the measure. The committee interviewed the major proponents and opponents of Measure 82 and a number of other individuals knowledgeable about issues relevant to the measure. The committee also reviewed wide range of articles, reports, and other materials.

Measure 82 was originally passed by the 1999 Oregon Legislature as House Bill 2082. A signature gathering campaign led by the American Automobile Association Oregon/Idaho (AAA) referred the measure to the voters.

Measure 82 raised many more questions and issues than we could address in the short time period available to us. We have attempted to highlight the major issues in this report. We have also included in the appendix a list of additional issues or questions we believe are worthy of further examination.

What Would Measure 82 do?

Measure 82 is long, complex, and linked to a number of other pieces of legislation (HB 3344, SB 1284, HB 2197, HB 2567 and SB 5511). Some portions of these pieces of legislation will only take effect if Measure 82 passes, others will take effect only if Measure 82 does not pass.

If Measure 82 passes:

- The tax on gasoline would increase from 24 cents to 29 cents per gallon. (A two-cent increase starting July 1, 2000 and an additional three-cent increase on September 1, 2000.)
- Registration fees on cars, vans and light trucks would increase from \$30 to \$40 for every two-year period.
- Counties would be authorized to impose a \$10 per year car registration fee by a vote of the majority of a county's county commissioners.
- The weight-mile tax on vehicles and trucks with a registered gross weight over 26,000 pounds would be repealed.
- The weight-mile tax would be replaced by a diesel fuel tax of 29 cents per gallon (trucks currently are exempt from the diesel tax).
- Registration fees for most heavy vehicles would increase.
- The Oregon Department of Transportation would be authorized to issue highway bonds up to \$600 million for capital projects in the 1999—01 biennium; the bonds must be approved by the Emergency Board; the bonds would be repaid by a portion of the gasoline tax increase.
- Revenues generated by Measure 82 would be distributed as follows:
 - To cities and counties to fund preservation and maintenance of local roads and bridges—three cents of the gas tax increase plus the

- proportionate increase in truck taxes;
- To the state for preservation and maintenance of state highways and bridges—one cent of the gas tax increase plus the proportionate increase in truck taxes; and
- To pay the principal and interest on the up to \$600 million in bonds—one cent of the gas tax increase, the auto registration fee, and the proportionate increase in truck taxes.
- A system would be created to license diesel fuel distributors, suppliers, and others.
- The state would be prohibited from requiring heavy vehicles to be equipped with transponders that allow trucks to be tracked electronically.

If Measure 82 passes, elements of HB 3344 will take effect to:

- sunset the new diesel fuel tax and the increase truck registration fees on January 1, 2006; and
- change the repeal of the weight-mile tax in HB2082 to a suspension, and reinstate the weigh-mile tax on January 1, 2006.

If Measure 82 does not pass:

HB3344 would reduce the weight-mile tax for trucks to the level determined by the 1999 Highway Cost Allocation Study. Overall truck taxes will be reduced whether voters approve or reject Measure 82.

Measure 82 raises some key questions that Oregon legislatures and voters have wrestled with for decades: do we need more revenue for highways, how much of the highway-related costs should be born by cars and how much by trucks, and what is the most appropriate way to collect truck taxes?

II. BACKGROUND

The State of Oregon has led the nation in the past in the development of new methods of motor vehicle taxation. Oregon was the first state to adopt a general gasoline tax and the first state to develop and adopt a weight-mile tax for trucks.

Before the early 1900s, Oregon roads were the responsibility of the counties. The counties shifted the burden of road construction and maintenance literally upon their citizens. Every man between 20 and 50 was required to work on the roads two days a year, or pay a fine, or go to jail. General taxes soon supplemented this manual labor, first a poll tax of \$3, then county road construction levies, then property taxes levied by road districts.

Decision makers soon decided that people who use the roads should pay for them. In 1919, Oregon enacted the first gas tax in the nation. The new one-cent-per-gallon tax applied equally to all types of vehicles. The tax introduced the principle of "cost responsibility"—highway users should pay for roads in proportion to their use of the road system.

It then became clear that larger, heavier vehicles generate more wear on the road system than lighter vehicles and passenger cars. In 1925, the legislature enacted "ton-mile" tax that applied a flat rate to a vehicle's gross weight multiplied by the number of miles traveled. The tax quickly proved to have limitations. A 30-ton vehicle that traveled one mile paid the same as a 3-ton vehicle that traveled 10 miles, even though the heavier vehicle caused more wear on the roads.

In 1935, the state engaged in a number of studies to determine share of road construction and maintenance that should be borne by different types of vehicles. The legislature then set up an interim committee to devise a method of taxing accordingly.

In 1945, after 10 years of study, a proposal was made for a new incremental "weight-mile tax." The new tax was based on two factors: (1) miles traveled, and (2) the weight of the vehicle. Trucks were divided into a number of classes based on weight. Each weight category was assigned a different tax rate. The heavier the truck and/or the more miles traveled, the greater the tax.

The Oregon Legislature adopted the weight-mile tax in 1947 in place of the ton-tax. Many other states followed Oregon's lead and adopted similar taxes. Since then, the Oregon Legislature has adjusted the weight mile tax rates for different classes of trucks based on periodic studies of the proportion of the cost of road construction and maintenance that is required to accommodate trucks.

Oregon collects highway revenue from three primary sources:

- **fuel taxes:** cars and other light vehicles (trucks are exempt)
- **weight-mile tax:** trucks and heavy vehicles
- **registration fees:** all vehicles

Cost Responsibility: Different types of vehicles require different levels of road construction and repair. For instance, roadbeds and bridges need to be built much stronger to accommodate trucks than accommodate cars alone. Trucks pay the difference between what would be constructed to accommodate cars and the additional investment needed to accommodate trucks and other heavy vehicles.

Periodic "highway cost responsibility studies" determine how costs are assigned to cars and different classes of trucks in the following categories:

- New construction or expansion,
- Major rehabilitation of existing pavements, bridges, and other facilities,
- Routine maintenance of pavements, bridges, rest areas, signs, and other facilities, and
- Administration of highway programs and highway tax collection.

The 1999 Highway Cost Allocation Study determined that cars should pay 64 percent of the cost of planned highway expenditures, while trucks should pay the remaining 36 percent. Truck taxes are calculated by first adding up the amount of highway revenue from fuel and registration taxes on cars. The legislature then calculates the total target revenue—given that the revenue from cars should represent 64 percent of the final total revenue—and determines the revenue needed from trucks to make up the difference. The legislature then sets specific rates for the many different classes of trucks to reflect the proportional costs imposed by each of these truck classes.

Any increase in the gas tax on cars automatically requires increases in truck taxes to maintain the appropriate balance between cars and trucks.

Highway Fund Revenue: Oregon's highway fund revenue comes from three primary in—state sources—fuel taxes, weight-mile taxes, and registration fees. Oregon also receives transportation funds from the Federal government. In Fiscal Year 1999, Federal funds accounted for 27 percent of the Oregon Department of Transportation's (ODOT) total revenue of \$1.1 billion. Of the 1999 in-state revenue sources: 47 percent came from fuel taxes (primarily gasoline and diesel); truck weight-mile taxes contributed 27 percent, and car and truck vehicle registration fees contributed 11 percent. (Source: *ODOT FY 1999 Comprehensive Annual Financial Report and Summary of Operations.*)

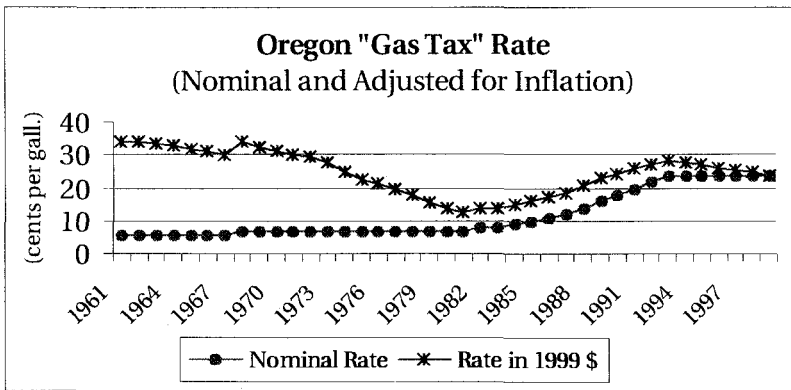
Gas Tax: Oregon's "gas tax" applies to both gasoline and diesel. Trucks that pay the weight-mile tax are exempt from fuel taxes. The legislature has increased the gas tax 17 times since it was established in 1919. Voters have had four opportunities to vote on state gas tax increases—they rejected each of them. The most significant increases in the gas tax happened during the 1980s and early 1990s, when the legislature increased the tax by one or two cents nearly each year. The last gas tax rate increase was in 1993.

Oregon Fuel Tax Rates—1919 to the present

Year	Tax Rate	Year	Tax Rate	Year	Tax Rate
1919	1 cent	1968	7 cents	1988	14 cents
1921	2 cents	1982	8 cents	1989	16 cents
1923	3 cents	1984	9 cents	1990	18 cents
1929	4 cents	1985	10 cents	1991	20 cents
1933	5 cents	1986	11 cents	1992	22 cents
1949	6 cents	1987	12 cents	1993	24 cents

Source: Past City Club studies and the Oregon Legislative Revenue Office.

While the gas tax has risen dramatically in nominal terms, the chart below shows that regular increases are needed just to keep up with inflation. The frequent rate increases of the 1980s began to restore the buying power of the tax. The lack of further increases during the latter 1990s allowed the buying power to erode again. Oregonians today are paying a tax rate that has only 70 percent of the buying power of the much lower nominal rate in the early 1960s.



Source: Portland-Salem Consumer Price Index, 1961 to 1999, Office of Economic Analysis, Oregon Department of General Administration.

Weight Mile Tax: Oregon's weight-mile tax applies to commercial vehicles with a registered gross weight over 26,000 pounds. Trucks with a registered gross weight between 26,000 and 80,000 pounds pay a per-mile tax. The legislature sets a different, and progressively higher, tax rate per mile for each of 27 weight categories (26,000 to 28,000 pounds, 28,000 to 30,000 pounds, etc.) Trucks with a registered gross weight over 80,000 pounds are divided into similar classes and pay per mile tax rates determined by their weight and the number of axles. Since its implementation, the legislature has adjusted the weight-mile tax 11 times in response to increases in the gas tax and to maintain the appropriate balance between what cars pay and what trucks pay. The rates at the different weight classes are determined based on the most recent highway cost accountability study.

The weight-mile tax has been put to voters only once, and that was with not one measure but two on the ballot in 1952. One measure, sponsored by the trucking industry, would have amended the state constitution to require that road taxes be "assessed equitably and fairly in order that each type of vehicle shall pay its proportionate share of highway costs." The measure also would have eliminated the still new weight-mile tax and returned to a system limited to a fuel tax and registration fees. The trucking industry also referred to voters legislation passed by the 1951 Oregon Legislature to increase weight-mile tax rates on trucks based on an Oregon Highway Department cost study. Oregon voters rejected the weight-mile tax repeal by 3 to 1 and reaffirmed the legislature's increase of the weight-mile tax rates by 2 to 1.

1999 Legislative Session: House Bill 2082, which became Measure 82, was approved on the final day of the 1999 session after a tortured history in a legislature under considerable pressure to do something about the roads. Nothing had happened in more than five years of stalemates, in large measure because of disputes about the weight-mile tax. The original, amended bill (HB2082) passed the House as a 6-cent gas tax increase; it emerged from the Senate as a 5-cent tax increase, with the weight-mile repeal, and numerous other provisions, attached. The American Automobile Association Oregon/Idaho challenged the legislation on grounds that it would shift an unfair highway finance burden from trucks to cars. Others simply opposed the tax increase. Opponents mounted a successful referendum campaign, and thus House Bill 2082 became Ballot Measure 82.

The 1999 Oregon Legislature also referred Measure 76 to the November 1999 ballot. Measure 76 added to the state constitution the requirement that the share of motor vehicle fuel taxes and fees paid by cars and trucks must be "fair and proportionate to costs incurred for the highway system because of each vehicle class." The measure also requires the legislature to adjust taxes

and fees every two years to preserve this balance. Measure 76 proponents argued that putting this language into the state constitution would ensure that trucks pay their fair share if Measure 82 passes and the weight-mile tax is repealed. Voters approved the measure 54 percent to 46 percent.

Our committee members were struck with the similarity between the 1952 measures and 1999 Measure 76 and 2000 Measure 82.

Past City Club Reports on Motor Vehicle Taxation

Since 1942, the City Club has studied and taken positions on eleven ballot measures that sought to change motor vehicle taxation in Oregon. (See Appendix B for a full list of the studies.) As a result of these studies, the City Club has consistently supported the principle of cost responsibility and has supported the weight-mile tax as a sound method for ensuring that trucks pay their fair share of highway taxes. City Club has also supported the development of a comprehensive and balanced transportation system for the state that would include funding for mass transit and other forms of transportation in addition to road construction and maintenance.

Since the early 1970s, the City Club has repeatedly found that highway revenues were insufficient to meet the transportation needs of the state. During that time, Oregonians had four opportunities to vote on ballot measures to increase the gas tax. (In 1976, a gas tax increase passed by legislature was referred to voters by citizen petition. In 1978, 1980, 1982, the legislature referred gas tax increases to voters). The City Club supported each of these measures. Oregon voters rejected all four.

III. ARGUMENTS PRO AND CON

Our committee heard the following arguments from proponents and opponents of Measure 82.

Arguments Advanced by Proponents

1. Vehicle miles traveled on Oregon roads increased 38 percent between 1987 and 1997 leaving 44 percent of the state's urban freeways congested. Increased use and deferred maintenance has left 35 percent of Oregon's roadways in mediocre or poor condition, with 22 percent rated fair.
2. To remain economically competitive, Oregon requires a competitive highway infrastructure to move people and products effectively.

3. Current funding levels are insufficient and will not permit significant highway construction or addition of more lanes where increased capacity is needed. Measure 82 will underwrite financing of \$600 million for highway projects that will improve safety and help relieve the rate of congestion.
4. Elimination of the weight-mile tax will relieve truckers of a burdensome administrative chore that only five states in the nation impose upon truckers.
5. The current weight-mile tax system does not encourage efficiency in fuel consumption by heavy trucks, but a diesel tax would.
6. The system for paying diesel taxes—the International Fuel Tax Agreement—is already in place in Oregon and will guarantee that out-of-state truckers pay their fair share of taxes regardless of where they buy fuel.
7. Measure 82 will not change the effect of Measure 76, passed by voters in 1999. The cost responsibility for taxing trucks and cars will be shared proportionately.
8. Measure 82 will reduce evasion of the weight-mile tax by some truckers, and the state will save \$3 million it now spends on auditing truckers for evasion.
9. The legislature can adjust the statutes if necessary, or let the measure expire in 2006 and the state will return to the weight-mile tax automatically.

Arguments Advanced by Opponents

1. Measure 82 is unfair to motorists who will pay \$100 million per year more through the gas tax while out-of-state truckers will get a \$50 million per year tax break.
2. Oregon already has the tenth highest gas tax in the nation and frequently the highest gas prices.
3. Measure 82 is unfair to operators of lighter trucks. The tax load among truckers will shift from heavy trucks to lighter trucks, yet the cost of accommodating heavy trucks on Oregon's roads (e.g., building and maintaining roadbeds that will not collapse under heavy weight) is proportionately higher.

4. Measure 82 abandons a taxing system that has been refined and working well for more than 40 years.
5. Out-of-state trucks could avoid paying Oregon's diesel tax by filling up outside the state and simply passing through without ever purchasing fuel in Oregon.
6. Measure 82 would not relieve truckers of much administrative paperwork. Much of the record-keeping required for Oregon's weight-mile tax is required by other states and the federal government for other reasons.
7. The legislature defined no framework for making decisions about how the funds raised by Measure 82 should be spent. The resulting projects will lead to urban sprawl, more congestion and will encumber the state with even more funding obligations to maintain a bloated inefficient network of roads.
8. Measure 82 makes little or no contribution to addressing the land-use planning and mass-transit needs in the state.
9. The \$600 million for studies and construction projects contemplated by Measure 82 will be created by selling bonds thereby locking up in road projects much of the state's borrowing capacity.

IV. DISCUSSION

The Need For A Gas Tax

From 1987 to 1997, Oregon's population increased by 16 percent and vehicle travel on Oregon's roads increased by 38 percent. Increased traffic has created severe congestion on the state's highways, particularly in urban areas, and concern over the safety of Oregon's roads. Congestion can have a negative effect on the state's economy by driving up transportation costs and serving as a disincentive to businesses considering Oregon as a place to locate new facilities. On the other hand, congestion is cited by some as an indicator that land-use and mass-transit planning deserve at least as much attention as road maintenance and construction.

The condition of Oregon's roads is deteriorating. Even as they are accommodating more vehicles, 35 percent of Oregon's roads have slipped into what the Oregon Department of Transportation (ODOT) acknowledges as mediocre or poor condition. The Oregon Transportation Commission

reports that ensuring the safety and structural integrity of the state's transportation infrastructure will remain a priority whether or not Measure 82 passes. Nevertheless, each year since 1993, funding for new projects has decreased resulting in a backlog of deferred highway maintenance and construction projects ranging up to \$2 billion. If this trend continues, Oregon will have no funds available for new construction beyond 2003.

Revenues from registration fees, gas taxes, and weight-mile taxes have not kept pace with the need for expenditures on maintenance and construction of Oregon's roads. Since the last gas tax increase in 1991, the purchasing power of revenue collected from the gas tax, registration fees and weight-mile tax has been significantly eroded by the rising costs of road construction and maintenance. At the same time, the increased fuel efficiency of automobiles has reduced the tax collected per miles traveled (although the popularity of fuel inefficient sport utility vehicles in recent years may neutralize this trend). These factors have resulted in a net decrease of funding from highway users for maintenance and construction of Oregon's roads when adjusted for inflation.

Measure 82 is projected to raise an additional \$690 million of highway revenue over the next five years. The table below compares the estimated revenues if Measure 82 passes with the estimated revenues if Measure 82 fails and no action is taken to increase income.

Revenue Impact of Measure 82
(Dollars in Millions)

	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05
M 82 Passes	688	830	805	816	862	873
M 82 Fails	688	678	683	696	709	720
Difference	0	-152	-122	-120	-153	-153

Source: Oregon Legislative Revenue Office.

Because part of the revenue generated by Measure 82 will be used to underwrite \$600 million in highway-construction bonds, the passage of Measure 82 has the potential to increase *spending* by more than \$1 billion over the next five years (roughly a 30 percent increase over current spending). Your committee heard testimony that even at this rate of spending, Oregon will still be falling short of satisfying the accumulated needs of the state's roads.

Some critics question whether many of the planned road projects in Oregon that would be funded through Measure 82 are appropriately designed or

desirable. They say that many of these projects were designed years ago under very different land use and transportation assumptions and values. Critics like 1000 Friends of Oregon have suggested that the majority these projects, as they are currently designed, may exacerbate urban sprawl and take money away from more appropriate and needed projects that are more in keeping with the state's land use goals and a true comprehensive multi-modal transportation strategy.

City and county governments have a large stake in the outcome of Measure 82. For instance, state motor vehicle taxes are the primary funding source for the City of Portland Office of Transportation (PDOT). Portland will receive \$23 million from the state highway fund in Fiscal Year 1999-2000. (Portland will also receive \$19.3 million of Multnomah County's highway revenue allotment). The City uses these funds to maintain and improve the street system, bridges and structures, the traffic signal system, traffic signs and striping, and to develop and construct capital improvement projects including local and neighborhood street improvements, commercial and industrial projects, traffic safety projects, and multi-modal projects including bicycle and pedestrian, and for transportation planning.

A PDOT representative told us that transportation costs have risen in Portland because of more people, more roads, increased use, an increasingly complex transportation system, and growing need for maintenance as roads reach the end of their useful lives. At the same time, inflation and a booming economy have eroded the purchasing power of that revenue (construction costs have risen 41 percent since 1991). Whether Measure 82 passes or not, the legislature will reduce Portland's highway fund allocation by \$9.6 million over next five years, based on the recent 1999 Highway Cost Allocation Study. The City estimates it will need an additional \$30.4 million, over that time, just to maintain existing services.

If Measure 82 passes, the City of Portland estimates it would receive \$46.7 million in new revenue from 2000 to 2005. After subtracting \$9.6 million for the cost allocation study adjustment and the \$30.4 million to maintain current services, \$6.7 million would be available for new road and bridge expenditures. If voters reject Measure 82, City representatives say they will have to eliminate, or significantly cut back, a wide range of programs and services, including capital projects, traffic calming, signal timing projects, and transportation planning.

Cost Shifting, Evasion, and Other Concerns

Measure 82 proposes to raise revenue from automobiles by increasing taxes collected on the sale of gasoline and increasing vehicle registration fees. This

does not constitute any change in the method of raising revenue from automobiles. By comparison, Measure 82 dramatically changes the method of raising revenue from trucks. The current system of taxing trucks is a combination of relatively low registration fees (6 percent of revenue collected from trucks) and high weight-mile charges (94 percent of revenue collected from trucks). Presently trucks pay no tax on the diesel fuel they purchase in Oregon. Measure 82 proposes to change the current system of taxing trucks by raising registration fees (to 60 percent of revenue collected from trucks), imposing a tax on diesel fuel (40 percent of revenue collected from trucks), and eliminating the weight-mile tax.

AAA argues that abandonment of the weight-mile tax will result in underpayment of about \$205 million per year by heavy trucks over a six-year period, while the Legislative Revenue Office (LRO) projects an overpayment by heavy trucks of about \$67 million over the same period. Your committee found merit in both studies, but did not determine that either study trumped the other. Opponents of Measure 82 argue that it would unfairly shift costs of roads onto automobiles and grant truckers a windfall. However, an important fact to bear in mind when considering any analysis of the fairness of Measure 82 is the effect of 1999 Measure 76.

Measure 76 locked into Oregon's constitution a "cost responsibility" requirement. The concept of cost responsibility calls for trucks and automobiles to pay a fair share of the costs associated with Oregon's roads. Cost responsibility takes into consideration the fact that trucks require deeper roadbeds, bridges and overpasses engineered for heavier loads, wider turning radiuses, higher clearances, and other accommodations that cost more to build and repair. In 1999 the state performed a highway cost allocation study and concluded that trucks are responsible for 36 percent of the costs associated with roads and automobiles 64 percent. As per the cost responsibility requirement, trucks pay taxes in proportion to automobiles—no more and no less. In fact, trucks have overpaid their portion of state transportation taxes by \$25.5 million in recent years. Measure 82 will not change the cost responsibility policy in the state constitution.

Even as the cost responsibility policy ensures automobiles and trucks each pay their fair share to support Oregon's roads, your committee found that cost shifting will occur within the trucking industry itself. Lighter trucks and small companies that operate within the state will wind up paying more of the trucks' share of costs through a tenfold increase in registration fees and a new diesel tax.

Proponents of Measure 82 argue that the International Fuel Tax Agreement (IFTA)—in which all states and provinces of Canada participate—requires

truckers to account for all the miles they travel in each state or province. Revenues from diesel taxes are transferred between states based on the miles traveled in each state regardless of where the fuel was purchased. In this way, trucks will not be able to avoid paying diesel taxes in Oregon by fueling up in states with low tax rates and driving through the state without stopping for fuel. Nevertheless, as compared to Oregon's current weight-mile tax, the IFTA system will permit heavy trucks to pay less tax. This is because IFTA will use the average rate of diesel consumption per mile for a trucking company's entire fleet multiplied by the miles a truck travels in the state to determine Oregon's revenue. The fleet average will not segregate trucks by weight class—as if to suggest the costs associated with heavy trucks are equal to the costs associated with lighter trucks. By comparison, Oregon's weight-mile tax system collects more revenue from the heaviest trucks commensurate with the higher costs of road construction and maintenance associated with them. Oregon will not collect as much revenue from heavy trucks under the diesel tax proposed by Measure 82 as it does presently with the weight-mile tax. One of the virtues of the weight-mile tax is it assigns more tax to the trucks that cost the state more.

Your committee heard testimony asserting that as compared to other states, trucks in Oregon pay about twice the national average tax per vehicle mile, which creates an incentive for evasion of the weight-mile tax. The Oregon Transportation Commission says it is impossible to accurately estimate the rate of evasion, but suggested a range of 4 percent to 20 percent. This is roughly comparable to the LRO's estimated rate of evasion of the diesel-fuel tax at 14.9 percent should Measure 82 pass.

The LRO maintains that underreporting of registration fees is low under the current weight-mile system. However, the current registration fee is very low by comparison with other states. Under Measure 82 registration fees would escalate dramatically and will create some incentive for evasion. Heavy trucks that log many miles will pay proportionately less in registration fees on a per mile basis while lighter trucks will pick up proportionately more of the trucks' cost responsibility.

ODOT estimates it might realize annual saving of \$3 million per year it spends on auditing truckers for the weight-mile tax should Measure 82 pass. ODOT maintains there would be little administrative savings to truckers if the measure passes because truckers would continue to collect data required by IFTA and other federal requirements. Testimony your committee heard from representatives of truckers counter that they would reap significant savings of time and resources by eliminating the weight-mile tax. Because many of the larger trucking companies have automated their

clerical functions, the incremental cost of weight-mile reporting requirements may already be quite low. Furthermore, technology employing transponders installed on trucks has already made tracking the miles trucks travel less expensive. When fully implemented this technology may greatly reduce the administrative burdens to both the state and truckers. Measure 82 would prohibit the state from requiring trucks to be equipped with this technology.

Although it falls short of elimination of the weight-mile tax, the legislature has guaranteed truckers some tax relief if Measure 82 fails. In 1999 the legislature passed House Bill 3344 as a contingency plan in the event that Oregon keeps the weight-mile tax. HB 3344 will become law in September 2000 and will decrease weight-mile tax rates by 12.3 percent if Measure 82 fails. HB 3344 also ensures that future adjustments to the trucks' cost responsibility will be made in registration fees. The net effect will be lower weight-mile tax collections from trucks and lower revenues overall for Oregon's roads.

V. FULL COMMITTEE CONCLUSIONS

Your committee found there is a need for increased revenue to fund maintenance and improvement of Oregon's roads. Increasing registration fees and the gas tax is the most appropriate way to raise the funds necessary to meet the need. Oregon absolutely needs to properly fund its roads and can ill afford any further delays to increasing the gas tax. If Measure 82 were only an increase in gas tax, this report would have been much shorter and your committee would have issued a unanimous recommendation to support it. However, Measure 82 also calls upon voters to choose between two methods of taxing trucks: the weight-mile tax and a combination of diesel tax and increased registration fees.

The weight-mile tax ensures fairness by holding individual trucks responsible for the cost of road construction and repair. The diesel tax proposed under Measure 82 holds classes of trucks responsible for an estimated cost of road construction and repair. Using the average of miles traveled by a fleet of trucks—most of which may have never traveled through Oregon—to assign a share of responsibility, is what your committee found most troubling about this method of taxation.

Replacing the weight-mile tax with a diesel tax and high registration fees on trucks represents a significant step away from Oregon's bias toward progressive tax policy. Under Measure 82, trucks that log many miles and large trucking companies will pay a proportionately smaller percentage of

tax per mile traveled than under the weight-mile system. This gives an advantage to heavy inter-state trucks over smaller companies and trucks that operate exclusively in Oregon. This inequality will exist even while trucks as a whole continue to meet their cost responsibility obligations.

Proponents of Measure 82 have argued that if the measure fails, the legislature will be too intimidated to propose any further increase in gas taxes. Opponents argue that the legislature will take action on this issue during the next session citing that every attempt to increase the gas tax through a plebiscite has failed and that the Oregon Legislature has chosen to increase gas taxes on its own seventeen times in the past. The stakes are very high when the implications of overburdened, under-funded roads are fully considered. Oregon must address this issue very soon or suffer consequences that will last for a generation.

Neither the need for additional highway revenue or the trucking industry's opposition to the weight-mile tax are going away. Either the legislature or voters will need to consider these issues again. Changing or eliminating the weight-mile tax and increasing gas tax are two different subjects and should be considered separately. These subjects should be de-linked and each considered on its own merits by the legislature in the next session.

VI. MAJORITY STATEMENT

The majority of your committee feels that Measure 82 holds hostage the promise of meeting the needs of Oregon's roads in exchange for abandoning a progressive tax. The majority is unwilling to trade away a fair, progressive system of taxation for increased revenues for Oregon's highways. The majority believes the legislature should do the right thing by properly funding Oregon's roads by raising gas taxes and not erode the fundamental fairness of Oregon's system of taxation.

VII. MAJORITY RECOMMENDATION

The majority of our committee recommends a "NO" vote on Measure 82.

Respectfully submitted,

Jeannie Burt
James D. Harris, Jr.
Tom Stimmel
Jonathan Hart, vice chair
Jay Formick, chair

Jane Cease, Research Advisor
Paul Leistner, Research Director

VII. MINORITY STATEMENT

The minority is not confident the legislature will take action during the next session to increase funding for Oregon's roads. Recent history suggests that the legislature's resolve to fund Oregon's roads has been in decline, and the stakes are too high to test it again in 2001. The minority believes that however regrettable losing the weight-mile tax and its progressive nature might be, it does not represent a retreat from Oregon's commitment to fair taxation. Going to a diesel tax brings Oregon in line with most other states. Registration fees and taxes on gas and diesel are more akin to user fees and are not comparable to income or other taxes that have broad public policy implications.

VIII. MINORITY RECOMMENDATION

The minority of our committee recommends a "YES" vote on Measure 82.

Respectfully submitted,

Jim Gorter
Marcus Simantel

VII. APPENDICIES

A. WITNESSES TO THE COMMITTEE

Patrick Balducci, economist, Cambridge Systematics, Inc.

Craig Campbell, lobbyist, AAA Oregon/Idaho

Pat Cooney, public information, Oregon Department of Transportation

Lanny R. Gower, license supervisor, CNF Transportation, Inc.

Roger Graybeal, executive director, AAA Oregon/Idaho

Henry Hewitt, chair, Oregon Transportation Commission

Mark Lear, Portland Office of Transportation

Mazen Malik, economist, Oregon Department of Transportation

Gus Mattersdorff, economist, Lewis and Clark College

Pat McCormick, McCormick, Conkling and Fiskum

Ann O'Ryan, government relations, AAA Oregon/Idaho

Robert Russell, lobbyist, Oregon Trucking Association

Tom Walsh, former member, Oregon Transportation Commission

B. RESOURCE MATERIALS

AAA Oregon/Idaho. *History and Development Oregon's Weight-Mile Tax*,
March 1997.

Fair Funding for Better Roads. Campaign Packet including a number of
different fact sheets, March 2000.

Hibbard, Tom and Negri, Don. *Cost Responsible Taxation of Heavy Trucks: An
Analysis of HB 2082 and HB 3344*, January 26, 2000.

Jones, Barnie, Ph.D. *Policy Implications of Eliminating Oregon's Weight-Mile
Tax*, Transportation Development Branch, Oregon Department of
Transportation, June 1995.

Lear, Mark. Memo to committee regarding "Request for City of Portland Gas
Tax Information," February 16, 2000.

Mayer, James. "Mistrust makes gas tax a tough sell," *Oregonian*, April 9, 2000.

- Nevada Department of Transportation, Operations Analysis Division. *1999 Highway Cost Allocation Study: Fourth Draft*, May 14, 1999.
- Oregon Department of Transportation. "ODOT Sources and Uses of Funds, 1999-2001 Biennium" (provided to the committee by Henry Hewitt)
- Ibid. *Chronology of Road User Taxation and the Highway Fund in Oregon*, 1988
- Ibid. *Historical Overview of Motor Vehicle Taxation in Oregon*, 1977
- Ibid. *ODOT FY 1999 Comprehensive Annual Financial Report and Summary of Operations*
- Ibid. *Oregon Road User Taxation*, 1994
- Oregon Legislative Assembly. *Senate Joint Resolution 44 (Measure 76)*, 1999.
- Oregon Legislative Revenue Office. "Measure 82: Referendum on HB 2082, The Effect on Transportation Funding," Research Report # 2-00, February 2000.
- Oregon Legislative Revenue Office. "Oregon Highway Revenue, An Introduction" Research Report #-4-95, December 12, 1995.
- Oregon Tax Research. *Oregon's Fuel Tax: Issues and Options*, March 1999.
- Rufolo, Anthony, Ph.D., and Balducci, Patrick. *Analysis of HB 2082-D (Measure 82) Revenue Impact Estimates*, February 2000.
- Schulz, John D. "National weight-distance tax study recommended by GAO in new report," *Traffic World*, June 27, 1994.
- Video tape. AAA Oregon/Idaho Press Conference, February 29, 2000.
- City Club of Portland Reports:**
- "Report of the Gas Taxes Use Committee," Bulletin, Vol. 23, No. 23, Oct. 16, 1942.
- "Constitutional Amendment Providing Equitable Taxing Method for Use of Highways," Bulletin, Vol. 33, No. 19, Oct. 17, 1952.
- "Referendum Petition Referring Motor Carrier Highway Transportation Tax Act," Bulletin, Vol. 33, No. 19, Oct. 17, 1952.
- "Enabling County-City Vehicle Registration Tax," Bulletin, Vol. 50, No. 53, May 19, 1972.

- "Highway Fund Use for Mass Transportation," Bulletin, Vol. 54, No. 52, May 17, 1974.
- "Authorizes Vehicle Tax Mass Transit Use," Bulletin, Vol. 56, No. 52, April 22, 1976.
- "Auto Registration Fee Credit for Transit," Bulletin, Vol. 56, No. 52, April 22, 1976.
- "Increase Motor Fuel, Ton-Mile Taxes," Bulletin, Vol. 57, No. 21, October 22, 1976.
- "Highway Repair Priority, Gas Tax Increase," Bulletin, Vol. 58, No. 53, Oct. 16, 1942.
- "Constitutional Amendment Limits Use of Gasoline and Highway User Taxes," Bulletin, Vol. 60, No. 47, April 11, 1980.
- "Increases Gas Tax From Seven to Nine Cents Per Gallon," Bulletin, Vol. 61, No. 16, Sept. 19, 1980.
- "Raises Taxes on Commercial Vehicles, Motor Vehicles Fuels for Roads," Bulletin, Vol. 62, No. 54, May 5, 1982.

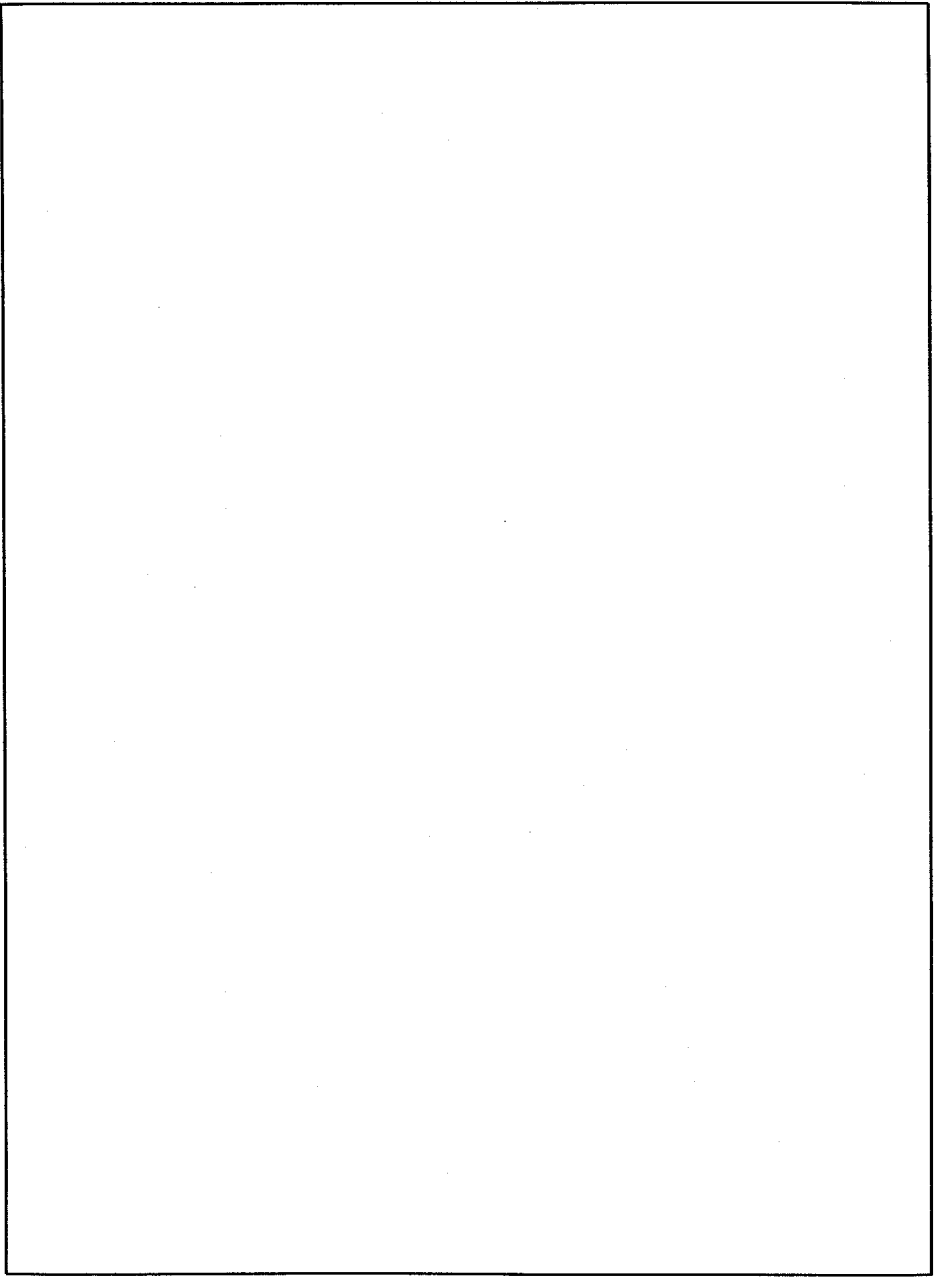
C. ADDITIONAL ISSUES AND CONCERNS

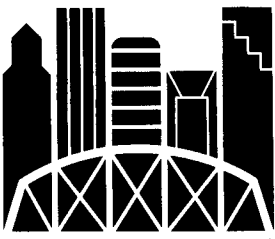
Our committee identified a number of important issues and questions that we were unable to address within the limited scope of our study.

1. Your committee did not conduct a comprehensive assessment of the needs of Oregon's roads. Different witnesses asserted different levels of need, but all agreed the need is bona fide and increased revenue for roads is necessary. It is prosaic to argue that Oregon's roads need more revenue when there appears to be no integration of the elements of new road construction, maintenance, land use planning and mass transit. None of these elements exists in isolation from the others (as several City Club reports have asserted), yet the projects funded by Measure 82 are strongly biased toward new construction. Oregon needs to fund a comprehensive transportation system plan that prioritizes the projects in the context of all the elements mentioned above.
2. Under the weight-mile tax system, ODOT imposes tight audit controls on trucks and conducts audits monthly. Measure 82 will scale back the audit controls and require quarterly audits. ODOT feels this relaxed control leaves more room for noncompliance and evasion. Nevertheless,

our committee felt that any measures that make the weight-mile tax less onerous for trucks should be explored including making reporting requirements and schedules conform more closely to reporting for IFTA and other national requirements. Furthermore, transponder technology for Oregon's weight-mile tax needs to be fully exploited.

3. Your committee heard concerns that county and city governments can divert their allocation of gas tax revenue away from roads or permit the funds to go unused while collecting interest for other purposes. We did not determine to what extent this occurs, but this subject bears further examination.
4. Despite the passage of Measure 76 in 1999, there is no guarantee that the cost responsibility formula in Oregon will not be tinkered with to the advantage of one group at the expense of another. Great care must be taken when assessing cost responsibility to maintain its veracity.
5. The weight-mile tax may not be the only way to maintain equity between heavy trucks and lighter trucks, but it has succeeded so far at assigning fairly the cost responsibility to lower mileage, light trucks and high-mileage, heavier trucks. However the state calculates cost responsibility there should be no penalty for being a small, in-state-only trucking company. A weight-mile tax would certainly work best if it were national in its scope rather than applied on a state by state basis.
6. The legislature should consider measures that would use the marketplace to ameliorate the impact of increased gas taxes such as lifting the ban on self-service gas stations in Oregon. The current ban drives up the cost of gas and compels all consumers to pay for services that many may choose to do themselves. Another step would be to place a tax on studded tires and chains in accord with the damage they do to roads.
7. The legislature might consider elimination of the diesel tax exemption for trucks while adjusting the weight-mile tax. This measure would not reduce the reporting burden on trucks for the weight-mile tax, but it would eliminate channels of evasion and encourage fuel conservation.





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