Transportation Finance Subcommittee:
Outline of Concepts for Further Consideration* (DRAFT)

**The following represents concepts identified by the Transportation Finance Subcommittee for further discussion and consideration. The Finance Subcommittee will be extending its work into January and February 2016*

Summary of Concepts for Further Consideration:

Short Term Actions (0 – 5 years)

- Pass a transportation funding package that address the immediate funding crisis for state, county, and city roads by increasing existing user fees *(e.g., gas taxes, registration fees)* and consider new vehicle fees and *(e.g., electric vehicle registration fees)*
- Consider indexing user fees to inflation
- Explore increasing bicycle/pedestrian infrastructure funding by dedicating additional federal funds, increasing the share of the State Highway Fund dedicated to active transportation, and creating a bicycle excise tax
- Make it easier for local governments to raise their own resources *(e.g., local transit funding options, etc.)*
- Consider modifications to State Highway Fund distribution formula to ensure equity and better match need *(e.g., rural jurisdictions with high asset ownership relative to population)*
- Dedicate lottery funds to non-highway transportation capital projects *(e.g., freight, rail, and marine)*
- Consider increasing state support for transit and passenger rail operations *(e.g., identify sustainable state funding sources and/or enhanced local funding options)*

Mid-Term Actions (5 – 15 years)

- Explore tolling for large-scale projects
- Meet the challenge of inequity in roadway cost responsibility. Consider implementation of a per-mile road usage charge
- Explore the efficacy of a carbon tax as a funding mechanism for both road infrastructure and non-highway modes, including transit and passenger rail operations

Long Term Actions (15 – 30 years)

- Consider developing a transportation utility commission concept for adequate and sustainable funding
- Study next generation transportation taxes and user fees that better reflect the value that the transportation system creates

Short Term Actions for Consideration (0-5 years)

In the short term, the Legislature should stem the immediate transportation funding crisis by passing legislation that relies on increasing the traditional suite of user taxes and fees, as well as creating new fees where appropriate to ensure equity among users. Local governments should also be given greater ability to raise money for their transportation needs, and distribution formulas should be modified to focus more on need. Providing additional funding for non-highway modes will also be a critical piece of this.

Increasing existing taxes and fees
In the short term, the Legislature should seek to raise more money for the road system by increasing the gas tax and existing driver and motor vehicle fees—particularly since Oregon has the lowest driver and motor vehicle fees in the nation. In fact, many driver-related fees (such as driver license issuance) don't even cover the cost of providing the service through the DMV.

Creating new vehicle fees to ensure fairness
The Legislature should consider creating two new vehicle-related fees to ensure fairness:

- A supplemental registration fee on high efficiency vehicles that pay little or no gas tax would ensure they pay their fair share for the use of the roads; this could serve as a precursor to shifting high efficiency vehicles to a per-mile road usage charge once such a system is implemented.
- A first-time title fee on the purchase of new vehicles could be levied either as a flat fee or a percentage of vehicle purchase price. This would ensure that higher income individuals, who are more likely to buy new vehicles, pay according to their ability.

Indexing taxes and fees to inflation
While most taxes— including income, property, and sales taxes—rise over time as prices increase, the fuel tax and driver/motor vehicle fees that are the base of road funding in Oregon remain flat, so over time their revenue streams are eroded by inflation. Indexing existing taxes and fees to inflation would ensure we don't continue losing ground.

Funding bicycle/pedestrian infrastructure
The draft Oregon Bicycle/Pedestrian Plan lays out a need for $100 million in annual investment in active transportation infrastructure, far more than available funding streams currently provide. Oregon can begin closing the gap through a number of actions:

- ***Dedicating additional federal funds.*** Legislative approval of additional state revenue would allow ODOT to increase its investment of federal funds in active transportation, particularly in trails outside the road right of way that can't be funded from the State Highway Fund.
- ***Increasing the share of the State Highway Fund dedicated to active transportation.*** In conjunction with a state transportation funding package, the Legislature should consider increasing the 1% setaside of State Highway Fund resources to 1.5% or 1.75%.
- ***Implementing a bicycle excise tax.*** To ensure that bicyclists are contributing to the infrastructure they use, the Legislature should consider creating a new tax on the sale of bicycles. An excise tax of 5-10% could raise substantial funding.

Unshackling Local Governments
Even though they receive half of new State Highway Fund resources and a substantial share of Oregon's federal highway funding, local governments still fall significantly short of the resources they need to maintain and improve their local transportation systems. The lack of a sales tax and property tax restrictions have forced local governments to be creative in raising transportation funding—or go

without resources needed to meet basic needs. The Legislature should unshackle local governments, making it far easier to raise the money needed for local infrastructure across all modes—particularly in the Portland metro region.

Modifying State Highway Fund distribution formulas to ensure equity
Current formulas for distributing State Highway Fund resources among cities and counties are based on population and vehicle registrations, respectively. These formulas should be more aligned with need and ownership of the system to ensure that resources flow to where they are needed and to ensure greater equity.

Dedicating lottery funds to non-highway transportation
The *Connect*Oregon program has proven to be a vital source of funding for port, rail, aviation, transit, and bicycle/pedestrian capital projects that can't be funded through the State Highway Fund. This program should grow in size and be made permanent, with a dedication of a portion of lottery revenues to transportation, in order to ensure sustainable and predictable funding for these modes.

Increasing state support for transit operations
The State of Oregon provides relatively little support to transit operations, so many systems across the state struggle to provide service, and many can't even use all their federal funding due to lack of matching funds. The state should step up, providing additional dedicated funding for transit operations and also provide additional tools for local districts to raise funds.

Mid-Term Actions for Consideration (5-15 years)

In the mid-term, new revenue options to supplement the traditional user fees can be implemented to provide funding for all modes of transportation, and efforts can be made to develop additional revenue options.

Tolling for large-scale projects
Oregon should explore tolling options as a strategic tool for large-scale bridge and congestion relief projects, particularly in urban areas. Criteria for the appropriateness of tolling should consider the potential for traffic diversion, local system impacts, administrative costs, and geographic fairness.

Implementing a per-mile road usage charge
Oregon has led the nation in developing a per-mile road usage charge to ensure that fuel efficient vehicles don't cause transportation funding to crash. Now, after a successful pilot with the OReGO program proving the concept can work, it's time to implement a road usage charge to ensure sustainable funding. In the short term a road usage charge should focus on new, more fuel efficient vehicles; in the long run it could spread to all vehicles and potentially be used for time of day pricing of roads that could help address congestion.

Implementing a carbon tax
A carbon tax could help meet Oregon's greenhouse gas emissions reduction goals. Due to the state constitution's requirement that any revenue derived from taxes on the use of an automobile go

toward roads, a carbon tax applied to motor fuels would direct substantial resources to the State Highway Fund. Every dollar levied on a ton of carbon would be approximately equivalent to a 1 cent per gallon gas tax increase. To reduce greenhouse gas emissions, funding from this source should pay for road projects that have a positive or neutral impact on emissions— such as bikes lanes and sidewalks, road and bridge maintenance and intelligent transportation systems that smooth traffic flow and cut the amount of fuel wasted in congestion. The Legislature could also modify the constitutional restriction to allow for a portion of a carbon tax on motor fuels to go to non-highway modes that could help shift trips to less polluting modes. If combined with a road usage charge, a carbon tax could ensure that people pay a fair amount both for their use of the roads and for the pollution they emit.

Creating a task force to develop "next generation" transportation revenue mechanisms
In order to develop and explore next generation funding and rate-setting mechanisms (see below), the Legislature should create a standing body including legislators, members of the Oregon Transportation Commission, local elected officials, and stakeholders—or perhaps repurpose the Road User Fee Task Force once road usage charges are implemented.

Long Term Actions for Consideration (15-30 years)

With development in the mid-term, new transportation funding models can be implemented in the long term that will ensure adequate funding for all modes.

Developing a Transportation Utility Commission concept
Like energy and water, transportation is largely financed by charging those who use the infrastructure. However, in the utility sector, rates are set by an impartial body based on levels determined to adequately preserve and improve infrastructure needed to effectively deliver service. A transportation utility commission empowered to determine the necessary levels of investment and required user fees could help address this challenge. However, because the Legislature cannot delegate its tax-setting authority, such a commission would only be able to recommend investment levels and the resulting taxes and fees to the Legislature for potential action.

Developing next generation transportation taxes or user fees that tap the value the transportation system creates
In the long-term, policymakers should look for opportunities to develop additional or replacement fees direct some of the economic value created by the transportation system into its preservation and improvement. These could shift the current system from its heavy reliance on taxing system *users* to generating additional revenue from those who *benefit* from transportation investments. These could include land value capture, value-based freight fees, and income tax gain share. Because transportation user fees are largely regressive, an equity effort should be made to ensure that those who derive significant wealth due to public investments in transportation pay a larger share of costs than they currently do.