

**To:** Sam Haffner, Governor’s Transportation Vision Panel Project Manager

**From:** Transportation for Oregon’s Future Steering Committee:  
Chris Hagerbaumer, Oregon Environmental Council  
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Vivian Satterfield, OPAL Environmental Justice Oregon  
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Rob Zako, Better Eugene Springfield Transit

**Re:** [Draft Outline of Transportation Finance Subcommittee Concepts for Further Consideration](#)

**Date:** March 3, 2016

We appreciate the work of the subcommittee and the opportunity to comment.

As we reviewed the outline, we kept the following values and considerations in mind:

- 1) **Fair taxes:** Transportation-related taxation should be as progressive as possible. Regressive taxation impacts low-income people disproportionately, while **progressive taxation** places a fair share on those who can most afford it. For example, flat taxes and sales taxes are highly regressive while the property tax is more progressive and a graduated income tax is the most progressive. In practical terms, regressive taxation results in low-income households paying a greater portion of their income than high-income households.
- 2) **Account for all costs:** “User fees” (paying for what one uses) make sense in the transportation context, but if applied without considering the external costs of different transportation modes, user fees can undermine state goals. To illustrate, consider the full costs of driving:
  - The cost to the driver (ownership, operation and vehicle-related taxes)
  - The cost to government (infrastructure and auto-related services not covered by user fees plus the opportunity cost of land devoted to roads and parking)
  - The cost to society broadly, borne by families, government, and the environment (pollution, health impacts due to inactivity, inefficient land use, traffic congestion, impervious surface run-off, and other “external costs” like federal expenditures to defend foreign oil supplies)

The latter two bullets constitute subsidies for driving: consider the fact that many local governments fix their roads with property tax and general fund revenues, and consider the health costs to families and the state associated with air pollution. Bicycling, walking

and transit have far lower external costs. These active transportation modes are serving us all by keeping our air cleaner; reducing congestion on our roadways; keeping waterways cleaner; providing the young, elderly, disabled and poor with a way to get around; and more.

User fees must be considered in the broader context and should account for all **internal and external costs** of a given service. The [Efficient Fee Highway Cost Allocation Study 2011-2013 Biennium](#) discusses this approach.

- 3) **Prices influence behavior:** As noted above, fees can **influence behavior** in ways that optimize use of the transportation system or accomplish other goals. For example, value pricing (aka congestion pricing) can keep a freeway moving freely and avoid the humongous cost of adding more lane miles. Likewise, fees can also work against the state's goals if not applied carefully, for example by discouraging non-driving modes, which results in more traffic and pollution.
- 4) **Focus on large pots:** Oregon needs **substantial funding** for transportation, so very small funding streams may be of little utility.
- 5) **Constitutional restrictions:** Oregon's **constitutional restrictions** deserve special mention in that many funding streams are blocked from increase (e.g., sales tax and compression on property tax), and others (motor-vehicle user-fees) cannot be used for non-roadway transportation investment.

### **Comments on Suggested Short-Term Actions for Consideration (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 (e.g., electric vehicle registration fees)*
- *Consider indexing user fees to inflation*

**Registration fee vs. gas tax:** We wholeheartedly agree that the state needs to pass a transportation funding package as soon as possible. Regarding funding roads, we agree with increasing existing user fees and indexing user fees to inflation. However, as decision-makers consider raising the gas tax against raising the registration fee they should consider that a registration fee places a greater burden on low-income households because it must be paid as a lump sum. In addition, registration fees do not vary by how much a person drives and are therefore not true "user" fees. A gas tax can still burden low-income households who increasingly are living in areas with limited transportation options as displacement and housing instability continue to grow in our state. We should work to ensure that any funding mechanism is considered alongside demographic and economic data, and strive to lift burdens on lower-income households, particularly by ensuring that we invest more in historically underserved communities.

**Studded Tire Fee:** The state should implement a studded tire fee. Studded tires accelerate the need to repair roads, adding significantly to road maintenance costs, and there's a large carbon footprint associated with having to replace asphalt. If the state is concerned about impacts of a studded tire fee on rural drivers who live in snowy regions of the state, the fee could vary by location. Since comparable non-studded traction tires are available, another option would be to simply ban studded tires and prevent the stud-caused road damage in the first place.

**Electric vehicle registration fee:** EVs should certainly pay their fair share for the use of the road system, but this is an instance where the internal and external costs both need to be considered. Given that EVs are zero emission vehicles and given that we need to significantly accelerate the adoption of EVs to meet the state's greenhouse gas reduction goals, we suggest that the state wait to increase the registration fee until a certain number of EVs are registered in the state. That number could be determined in consultation with the Oregon Global Warming Commission.

**Vehicle purchase fee:** One possible new revenue source is a fee on the percentage of the purchase price for all new vehicles; this would be a progressive fee.

- *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*

**Bike/ped:** While dedicating additional federal funds to bike and pedestrian infrastructure could be helpful, federal funding remains anemic, and federal requirements can substantially increase the costs of relatively small-scale bike and pedestrian projects compared with using only state and local money. A statewide strategy to mitigate the increased costs of "federalized" projects could help. There are plenty of in-roadway needs related to bike and pedestrian safety and networks that are eligible for State Highway Fund dollars, so an increase in the set-aside of that fund going to bike and pedestrian projects would be welcome. While a "bicycle excise tax" is perhaps the least problematic bicycle user fee, given that administrative costs might be fairly low, it constitutes a new sales tax, which Oregonians have shown no willingness to support in the past. A new sales tax on bikes would also be regressive; adding even \$40 to the cost of a serviceable daily commuter bike (which can cost around \$400) is likely to reduce the number of people who switch to bike commuting. Remember that bike commuters reduce congestion and pollution.

- *Make it easier for local governments to raise their own resources (e.g., local transit funding options, etc.)*

**Local flexibility:** Local jurisdictions should have latitude to raise funds through a variety of sources, including local gas taxes and employer payroll taxes for transit.

**Employee payroll tax vs. income tax:** In the 2015 and 2016 legislative sessions, the idea of an employee payroll tax was floated. We raised concerns about this idea because it is a regressive tax. The income of poor and working class households comes almost exclusively from wages,

while a larger share of income comes from non-wage sources in more affluent households. In effect, a wage tax places a tax burden on nearly the entire household income of poor and working class families, while only placing a tax burden on a portion of the income of wealthier residents. As an alternative to an employee payroll tax, the two largest transit agencies in Oregon – TriMet and Lane Transit District – already have the statutory authority to implement a residential “net income tax” to fund transit in their service area. This authority allows transit agencies to collect taxes on all forms of taxable income – such as interest, dividends, rental payments, capital gains, and other forms of income that are not derived from wages paid by an employer. This existing tax authority also has the additional benefit of being easily implemented and administered, as it may be collected as surtax on state income taxes.

**Property tax:** Property tax is frequently used by local jurisdictions elsewhere in the country for transportation funding, is eligible for non-roadway uses in Oregon, and is relatively progressive. However Oregon Measure 5 renders it ineffective and more regressive due to “compression.” It’s time to consider whether this constitutional restriction could be revised.

- *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)*

**Meaning of “equity”?** The term “equity” should be defined in this context. We assume it’s meant to be equity between levels of government, but many people read the term equity as socio-economic or racial equity. It has been some time since the 50/30/20 split was considered. Looking at existing lane-miles or some other measure of existing infrastructure (such as current condition of roadways or registered vehicles in the jurisdiction) might make sense for funding that is purely dedicated to state-of-repair; but for enhancement of the system, Oregon should determine where the needs are and direct funding in ways that maximize return-on-investment. Ultimately, this section is more of a policy question than a funding question, and perhaps shouldn’t be in this particular outline.

- *Dedicate lottery funds to non-highway transportation capital projects (e.g., freight, rail, and marine)*

**ConnectOregon:** We support continuing *ConnectOregon*, and remain committed to the inclusion of bicycle and pedestrian projects among those eligible to receive funding from the program, however lottery funds are limited and shrinking. Even if we manage to tap more funding from this source, we need to secure other more sustainable funding solutions. The lottery is also a regressive funding mechanism.

- *Consider increasing state support for transit and passenger rail operations (e.g., identify sustainable state funding sources and/or enhanced local funding options)*

**Transit & rail:** We heartily support this goal since the state contributes only 3% of transit operations funding compared with 24% state support nationally. The challenge is how to do it. We believe a net income tax for transit would be a progressive-taxation funding source that

does not run afoul of the constitutional restriction on motor-vehicle user fees. An income surtax for transit could mirror Oregon's state income tax system – which includes an exemption for households making below a certain income threshold and a graduated tax structure based on income brackets as opposed to the flat-tax structure. This would ensure that higher-income households are paying a slightly larger and more just amount of the tax relative to lower-income households, and could easily be implemented as a simple surtax on state income taxes.

## **Comments on Suggested Mid-Term Actions for Consideration (5-15 years)**

- *Explore tolling for large-scale projects*

**Tolling:** Toll financing is a way to approach road financing in a business-like manner. If drivers don't want a road project enough to pay for it through tolls, the project likely isn't cost-effective. And if road users expect to pay tolls to cover the cost of a highway investment, they may press more vigorously for an efficient investment than if it were paid for merely out of gas tax revenues. In fact, trying to estimate road "needs" without accurate pricing is like judging how hungry a person is at an all-you-can-eat buffet...appetites are invariably exaggerated when additional portions are free. In 1999, legislation was passed that requires ODOT to use willingness-to-pay as one of the criteria for selecting which projects get built under the Statewide Transportation Improvement Program. It's unclear that this analysis is being done or being presented to decision-makers.

- *Meet the challenge of inequity in roadway cost responsibility. Consider implementation of a per-mile road usage charge*

**Mileage-based fees:** We support the state's exploration of mileage-based fees. To date, however, the state has piloted only flat fees that do not take into account external costs or other social goals. We suggest "overlays" on the mileage fee that represent these external costs or other social goals. For example, the amount paid per mile could vary by how fuel-efficient the vehicle is, thus capturing the external cost of carbon pollution. Likewise there could be a congestion surcharge that could optimize use of roadway space and improve traffic flow in congested areas. Another idea would be to charge rural residents who have no other transportation options a slightly lower per-mile charge. All of these ideas need to be considered as the state moves toward mileage-based fees.

- *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*

**Carbon pricing:** A carbon pricing system, be it a carbon tax or a cap and invest program, would generate significant revenue for transportation. Although the proceeds would be constitutionally restricted, they could be used for important purposes, not only roads, but facilities for pedestrians and bicyclists wherever a road, street or highway is built or rebuilt; Intelligent Transportation Systems (ITS) operations programs that improve traffic flow; roadway improvements that facilitate bus rapid transit, and more.

**Constitutional restrictions:** That said, given that all of the proposed mid-term actions run up against the constitutional restriction on motor-vehicle user fees, making it difficult to apply the best solution to our transportation problems, it's time reexamine the constitutional restriction. For example, the constitutional restriction could be revised to remove not all, but some of the restrictions on vehicle-related fees.

### **Comments on Suggested Long-Term Actions for Consideration (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*

These concepts are worth exploring and sooner than 15 years out. What's important from our perspective is to screen them from a social equity, environmental protection, land use stewardship, and health perspective. In other words, decisions should be made not only in the context of transportation system benefits, but also the other important goals of a safe, healthy, economically strong, equitable and resilient Oregon.

*If you have questions about our comments, please contact Chris Hagerbaumer, Oregon Environmental Council Deputy Director, at [chrish@oeconline.org](mailto:chrish@oeconline.org) or 503-222-1963 x102.*