MILEAGE BASED TRANSPORTATION FUNDING TASK FORCE

Minutes of the 2nd Meeting
of the 2019 Interim

September 9, 2019

Call to Order and Roll Call

The 2nd meeting of the Mileage Based Transportation Funding Task Force was held on Monday, September 9, 2019, at 1:30 PM, in Room 171 of the Capitol Annex. Senator Jimmy Higdon, Chair, called the meeting to order, and the secretary called the roll. The minutes from the August 19, 2019 meeting were approved.

Present were:

Members: Senator Jimmy Higdon, Co-Chair; Representative Ken Upchurch, Co-Chair; Senators Gerald A. Neal and Albert Robinson; Representatives Terri Branham Clark and Sal Santoro; Jim Oliver, Jason Siwula, and Bryan Sunderland (via teleconference.)

Guests: Maureen Bock, OReGO Program Manager, Office of Innovation Manager, Oregon Department of Transportation (via teleconference), Dr. Cameron Kergaye, Research Director, Utah Department of Transportation (via teleconference)

LRC Staff: John Snyder, Brandon White, Dana Fugazzi, and Christina Williams

Maureen Bock, OReGO Program Manager, Office of Innovation Manager, Oregon Department of Transportation, stated Oregon's first gasoline tax was implemented in 1919, the first weight-mile tax for heavy vehicles was implemented in 1947, and the first operational Road User Charge (RUC) program was implemented in 2015. Oregon's Road User Fee Task Force was created in 2001 due to a legislative mandate that required a development of a design for revenue collection for Oregon's roads and highways that will replace the current system for revenue collection. By 2012, two Oregon RUC pilots had been established. In 2013, the first RUC bill passed in Oregon. In 2015 Oregon launched a fully operational OReGO Program. In 2017 Oregon allowed electric vehicles (EV) the option of using a RUC or paying fees. Also in 2017, Utah implements a RUC for alternative fuel vehicles. In 2019 Oregon demonstrated a local area RUC. Also in 2019, RUC West implemented a California-Oregon pilot. Going forward, MS. Bock predicted a possible federal call for a nationwide RUC pilot, telematics to be implemented with a RUC, and eventually state mandates to implement a RUC.

Ms. Bock explained the RUC concept. In Oregon they collect fuels tax as a prepayment of RUC. The miles are counted and multiplied by the RUC rate. Then the net tax is collected or the overage paid is refunded.

Ms. Bock stated the fuel tax rate is $0.34 and the RUC rate is 5% of the fuel tax rate (1.7 cents per mile) and it is based on the average efficiency of the fleet at the time of adoption. The registration surcharge is waived for efficient vehicles if they are enrolled in OReGO.

Ms. Bock stated the need for a road usage charge was due to unsustainable fuel tax revenues due to more efficient vehicles and increasing construction costs. Also because of pavement degradation being the same for all vehicles, regardless of fuel type, a need for a road usage charge was expressed. A flat fee registration cost pays for access and a road use charge pays for actual usage of the road. Ms. Bock also added that a fuel tax is unsustainable and a road usage charge is fair. She added that a RUC offers additional benefits.

In evaluating the evolving transportation model, Ms. Bock utilized a chart that showcased what Minnesota is using to tell its story and vision of the future. Currently in individual ownership, the perception is "my car, my privacy, and no mileage tracking". The relationship with transportation is that my vehicle serves me, and the user pays gas tax. In the emerging possibility of shared mobility, the perception is "using my smartphone I'm tracking a car I will use as I need it". The relationship with transportation in a shared mobility mentality is that "a fleet of vehicles serve my community" and the user pays a used based fee per mile.

While discussing the public opinion issues, Ms. Bock stated some citizens feel the adoption of a RUC is unfair, and it discourages the adoption of electric vehicles due to the disproportionate road mileage usage. She stated that good roads are good for all vehicles, and there are other ways to encourage the purchase of electronic vehicles such as rebate programs. She stated higher registration fees are electronic vehicles results in disparate treatment between those who drive a lot of miles and those who only drive a few. She added that a RUC is only as unfair as fuel taxes are, if you are paying either fuel tax or road usage charge, but not both, then it is actually less regressive than increasing the fuel tax. She also stated that one public opinion is that it penalizes rural drivers. She stated that studies have shown that rural drivers might actually benefit from a RUC because they tend to drive less efficient vehicles so with a gas tax they are already paying more per mile to use the roads than urban drivers.

Ms. Brock stated the RUC differs from other funding methods because all users pay the base rate similar to fuel taxes. A RUC is not variable by the time of day unlike congestion pricing. She also stated that a RUC is applicable to the entire system unlike tolling. Ms. Brock stated some future challenges include business disruptions, rapidly changing technologies, and impacts on revenue.

Ms. Brock stated Oregon has joined the national discussion on RUC by being a part of the Mileage Based User Fee Alliance (MBUFA) which developed a framework for a national pilot program. She added a significant amount of time has been spent discussing the I-95 corridor Coalition concerning an intersection of RUC and tolling and interoperability. Also she discussed that Oregon is a member of RUC West which focuses on interoperability between states and testing clearinghouse requirements. Ms. Brock stated Oregon also likes to stay current with the states that are receiving FAST Act grants.

Ms. Brock stated Oregon is engaging the public by explaining the funding problem and the solution, inspiring people to think and learn more about the issue. Communication tools will be utilized such as videos, print materials, presentations and the website https://keeporegonconnected.org/ beginning next year.

To further drive home the point of the need for the OReGO program, Ms. Brock stated after 2020, 70 bridges in Oregon will become structurally deficient each year and without an increase in federal funding, state road funds will decrease by 30% in 2020 as well. She added that Oregon has 74,000 miles of highways, streets, and roads and over 8,000 bridges to preserve and maintain. The cost to rebuild one mile of one lane can cost up to $1.5 million. Early preservation techniques for the same lane mile only costs $200,000. Many key transportation facilities are 50 to 80 years old; therefore, increased maintenance and preservation investments are necessary to keep these older facilities safe and operational.

In conclusion, Ms. Brock stated Oregon continues to work on outreach and interoperability of the program as well as sharing the mobility marketplace vision. That vision includes providing the latest technology solutions, administering accounts, providing interoperability and delivering an integrated user experience.

In response to a question asked by Chairman Higdon, Ms. Brock stated the OReGO program is a voluntary program which has a participation rate of approximately 1,600 people. The program has been received very well.

In response to a question asked by Chairman Higdon, Ms. Brock stated Oregon uses two third party vendors to track mileage usage and for billing purposes.

In response to a question asked by Chairman Higdon, tracking and charging is not utilized if a car has not gone out of the state of Oregon unless the driver does not have a GPS device. If a GPS device is not utilized, all miles driven are presumed to be driven in Oregon.

In response to a question asked by Chairman Higdon, Ms. Brock stated currently 40% of the revenue collected from the program goes to the third party vendors. When more vehicles are added to the program, the percentage should decrease.

In response to a question asked by Chairman Higdon concerning advice for Kentucky, Ms. Brock stated consulting the public has been a major help in deciding to move forward with a RUC program. Having a RUC task force helped tremendously.

Dr. Cameron Kergaye, Research Director, Utah Department of Transportation presented a history on gas tax. Oregon was the first to implement a gas tax closely followed by Utah in 1923. He added the national gas tax purchasing power has had a decline due to cars becoming more fuel efficient.

Mr. Kergaye stated that more drivers are driving more miles creating more demand on a roadway system. He provided a chart that showed in Utah that approximately 32 billion miles are being traveled in 2018 with a projected 51 billion miles to be traveled in 2040. More drivers are driving more miles creating more demand on the roadway system.

Mr. Kergaye stated a road usage charge (RUC) is a usage fee that is charged in proportion to miles driven, similar to usage charges with utilities such as water, natural gas, or electricity. The RUC is being considered in Utah as a replacement of existing gas tax, not a new tax.

Mr. Kergaye stated RUC systems work by having an in-vehicle mileage counter that transmits miles driven to a private-sector account manager. Then mileage fees are deducted from a pre-paid wallet managed by an account manager. A vehicle owner then adds funds to the wallet when it gets low. The account manager sends road usage charge collections to the state of Utah. The state of Utah contracts with (and oversees) the account manager.

Mr. Kergaye stated when considering a RUC to generate transportation revenue, it is important to consider that a registration fee does not scale with a vehicle miles traveled fee and does no align with a user pays principle. A gas tax provides some link to usage but increasingly less so. A road usage change scales with vehicles miles traveled and aligns with a user pays principle scenario.

Some RUC challenges include limited understanding of transportation funding by citizens, enforcement, technology issues and advancements, accuracy of data collected, out-of-state driving issues, privacy protection, and administrative costs. Mr. Kergaye stated that there are 14 states as that are members of RUC West, 17 states that are members of the I-95 Coalition, seven states that have completed RUC pilot programs, and only two states that have ongoing RUC programs. He also explained that interoperability and integration between states will be a key policy consideration going forward.

Mr. Kergaye stated rural and low-income households benefit from RUC. He added that 94% of Utah households are urban and 6% are rural. While 47.7 is the average daily miles an urban household drives, 52.6 is the average daily miles a rural household drives.

The average fuel efficiency per urban household is 22.8 miles per gallon, while in a rural household it is 21.1 miles per gallon. He also presented a calculation which estimates that while the average urban driver would pay $1 more a year with a RUC, the average rural driver would pay $19 less.

Charts were provided of data showing the share of the market of electronic vehicles by state and a change of the new sales market share from 2017 to 2018. A chart was also provided that showcased the size and growth of Utah's vehicle fleet. The chart showed that 89.5% of total registered vehicles in Utah are gasoline powered vehicles. Diesel powered vehicles account for 8.5%, gas hybrid vehicles account for 1.5%, electric vehicles account for 0.2%, plug-in hybrid electric vehicles account for 0.1% and other alternative fuel vehicles account for 0.2% of all registered vehicles in Utah. He added that electronic vehicles, plug-in hybrid vehicles, and gas hybrids are growing rapidly. The electronic vehicle growth averaged 47% per year from 2015-2018, and 54% from 2018 to 2019. Hybrids are growing less rapidly, but are still far outpacing growth of gasoline and diesel cars.

Mr. Kergaye stated owners of different types of vehicles currently pay a wide range of state and federal gas tax each year. Electric vehicles do not pay any gas tax. A semi-truck driving the average number of miles pays $1,409 annually in gas taxes. The average Utah sedan owner pays approximately $300 per year in state and federal fuel taxes.

In 2018 Senate Bill 136 was enacted in Utah and set basic direction for the Utah Department of Transportation (UDO) to study and provide recommendations for an alternative fuel vehicle RUC system. The RUC study recommendations included setting up a RUC Advisory Committee, provide a RUC alternative to paying flat fees for electronic vehicles, plug-in hybrid electric vehicles, and gas hybrid vehicles. Also recommended was to consider privacy, methods for reporting road usage, and options for administering the system. The study recommended implementing the initial system by January 1, 2020, and to submit annual reports of findings, and allow room for future pilot projects.

Senate Bill 72 was passed in 2019 and gave basic structure and direction to UDOT for how to implement the alternative fuel vehicle RUC program. Senate Bill 72 includes privacy and security protections, UDOT and DMV information sharing. It allows owners and lessees of EVs and PEHVs to opt into a RUC or pay an annual fee. Senate Bill 72 includes a RUC rate setting process where the Transportation Commission authority is to set rates with advice from UDOT. Also included is rulemaking authority for UDOT that allows for contracting CAM and administering the program, implementing enforcement mechanisms such as registration holds, as well as other enrollment components.

Mr. Kergaye stated at the November 2018 meeting of the RUC Advisory Committee, there was a set of discrete recommendations that was presented based on the work of the Committee and its technical groups during the previous six months. The recommendations were included in the development of the new system.

A CAM will operate Utah's RUC system. Participants will set up a prepaid wallet tied to electronic payment information and fees will then be deducted from the wallet as miles are driven. Monthly statements will be sent to participants so that they can see how many miles they are driving, fees that have been deducted, and where their annual cumulative fees stand in comparison to the annual cap. Participants can access their account either through the smartphone app or a web portal.
Utah will be the first state to integrate its RUC system with a state DMV. We will have a real-time link between our CAM and the DMV. This link will be beneficial for enrollment, enforcement, and customer user convenience.

Beginning in January 2020, owners of alternative fuel vehicles in Utah will have a choice about how to pay for their contribution to road funding. They may either pay a flat fee independent of how much they drive, or enroll in the RUC program and pay by the mile. The flat fees are specific to vehicle type. They are lower for the vehicles that already purchase the most gasoline (and are therefore already paying fuel tax) and higher for EVs that don't require gasoline at all. The per-mile RUC fees are capped annually at the flat fee amount applicable to each vehicle type. The annual flat fee for electric vehicles will be $120, plug-in hybrid electric vehicles will be $52, and gas hybrid vehicles will be $20. The usage-based fee will be 1.5 cents per mile.

Mr. Kergaye summarized the range of RUC elements being incorporated into Utah's initial RUC system beginning in January 2020. Privacy will be protected in several ways. The first is that joining the RUC program is completely optional. Anyone uncomfortable with even a minimal level of data collection can simply pay the flat fee. The default length of time that the Commercial Account Manager (CAM) will only store location data is 30 days following the end of each month to prevent date from being kept for a prolonged length of time. Raw location data will never be shared with the state except in narrowly defined cases related to dispute resolution or system audits. The data may at a future time be anonymized, aggregated, and shared with the state and potentially other entities, but Utah is still developing standards for data protection. It's vital that robust protocols be put into place in order to protect data privacy. The user agreement participants fill out when they enroll in the program will clearly describe privacy components.

Utah's initial RUC system is only open to electric, plug-in hybrid, and gas hybrid vehicles and the enrollment process will occur online. Participants will be required to enter their VIN number so that the CAM can verify through the DMV interface that the vehicle is eligible for the program. Participants will also be required to submit an odometer photo through the smartphone app in order to provide a starting odometer value and benchmark initial mileage. The DMV interface will also be used as an enforcement mechanism of last resort. If a participant is violating program terms or not paying RUC fees, the CAM will be able to request a registration hold be placed on the subject vehicle.

Mr. Kergaye stated 26 states have adopted annual flat fees for alternative fuel vehicles and 15 states have considered annual flat fees. Some fees, such as Utah's, are graduated such that the fees ramp up over a few years to an ultimate value. The ranges and averages quoted in the chart provided use the ultimate values for states that have graduated fees. He also added that some states have higher fees for commercial and heavy alternative fuel vehicles than they do for passenger-sized alternative fuel vehicles. The ranges and averages quoted on the chart provided only use the passenger-sized fee values.

The Utah Department of Transportation issued an RFP in February 2019 to hire a CAM to operate Utah's alternative fuel vehicle RUC program. Four proposals were received. A chart was provided that shows the cost ranges associated with the four proposals for the different cost categories required in the bid, as well as the total price proposals. The sum of the upper and lower bound does not equal the total cost of any one individual bidder due to line item variations. The financial model was provided that predicts that by 2025 the system will reach a point where RUC revenue matches expenses for operating the RUC system. Expenses capture both the external vendor cost as well as the internal costs associated with employee labor and consultant staff support. Vendor bids all provided rate reductions per vehicle each year as the enrollment grows.

In conclusion, Mr. Kergaye explained why a person might choose to enroll in the RUC program instead of paying the annual flat fee. Enrolling in RUC system saves money if enrollees don't drive many miles per year, they may save money relative to the annual fee. Enrollees may pay as they go instead of paying the annual fee. And lastly, enrollees may be curious about the RUC program and want to try it out.

In response to a question asked by Chairman Higdon, Mr. Kergaye stated the RUC program in Utah will launch in January 2020 and will admit vehicles according to the month that their vehicle registration is due. He added there are approximately 60,000 vehicles that can be part of the program, and approximately 6,000 of the 60,000 are electric vehicles. He does not anticipate very many hybrid vehicles to join the program. Mr. Kergaye estimated 500 to 1,000 vehicles will be a part of the program within the first year and should increase in the future.

In response to a question asked by Chairman Higdon concerning the program's billing cycle, Mr. Kergaye stated the participants will be billed monthly.

In response to a question asked by Chairman Higdon, Mr. Kergaye stated all miles will be considered initially, including out-of-state miles. He added that charging out of state drivers who come into Utah and having their home state charge them, would prove to be a very difficult task, and can only foresee that happening if there was a nationwide RUC program.

In response to a question asked by Chairman Higdon, Mr. Kergaye stated the advice he would give to Kentucky as members are looking into a mileage-based transportation fee, is to work with the public in informing them totally on all aspects of the program. Setting up an advisory committee of different interested groups, stakeholders, and legislators has been helpful. He also stated there is a wealth of information and resources to be taken advantage of given that other states have piloted programs as well.

In response to a question asked by Chairman Higdon, Ms. Bock stated there are two interstates that pass through Oregon. Mr. Kergaye stated there are four that pass through Utah.

In response to a question asked by Co-Chair Upchurch, Ms. Bock stated Oregon did not apply for the FAST Act federal grant program to implement the RUC program, because FAST Act was implemented after Oregon's program had already gone live. Mr. Kergaye stated that Utah did apply for one of the FAST Act grants and received the grant. He added they applied for $2.5 million where half of that money is state match funding.

With no further questions to come before the Committee, Chairman Higdon adjourned the meeting at 2:30 P.M.