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Inside this Brief

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Background Brief on…

Roads and Highways

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History

Overland travel in Oregon progressed from private wagon roads and ferries during settlement days to a network of stage roads by 1890. The state began investing in roads in the early part of the 20th Century, instituting a $5 vehicle registration fee in 1905. The State Highway Commission was created in 1913. Oregon imposed the nation's first gas tax (one cent per gallon) in 1919. By 1920, Oregon had 620 miles of paved roads, 297 miles of plank roads, and a population of 783,000.

The most traveled routes in the state today were designed and built in the 1960s and 70s, a period known as the "Interstate Era." A 55 percent increase in travel over the past decade, including substantially more truck travel, has led to more areas of congestion and a backlog of preservation and maintenance needs. An anticipated population increase of nearly a million people over the next 20 years means these trends are likely to continue.

Existing Infrastructure

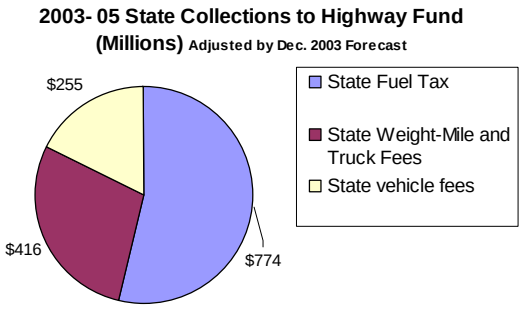
The Oregon Department of Transportation **(ODOT)** refers to the state's existing highway system as a "90-year, $60 billion investment by state taxpayers." In order to maintain and operate the system for commerce, commuters, and travelers, the department operates and maintains about 7,500 miles of road and 2,650 bridges. These numbers include interstates, U.S. highways, and state highways. State-maintained highways make up about 10 percent of the road mileage in the state, but carry about 60 percent of the estimated 33 billion vehicle miles traveled in the state each year. The rest of the traffic is carried on the local road system – 27,000 miles of county roads and 9,300 miles of city streets. The state and local system annually carries over 2 billion truck miles and 250-300 million tons of freight.

ODOT periodically surveys pavement conditions on state highways and rates sections as very good, good, fair, poor, or very poor. In 2003, 16 percent of state-maintained highway miles were rated as poor or very poor. (also see Bridges Background Brief)

Sources of Highway Revenue

Oregon pays for the construction, maintenance, and operation of the state highway system primarily through user fees. Principal sources of revenue are federal funds, state fuel taxes, state weight

mile taxes on trucks, and state vehicle registration and title fees. The taxes and fees collected by the state are shared with Oregon cities and counties and are constitutionally dedicated to use on highways[1]. The state does not use General Funds on highways. The chart below shows collections for this biennium after subtracting collection costs, but before distribution to cities and counties.

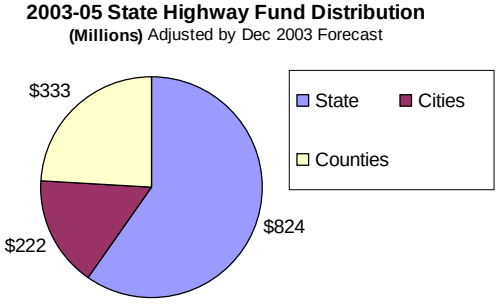


Other States

The chart above illustrates Oregon's policy of charging highway users based more on *use* of the system rather than on *vehicle ownership*. This is not the policy in many states. Most states have sales taxes or other fees that apply to vehicles and some states base fees on the value of the vehicle. Such charges can substantially increase the cost of owning a vehicle. Oregon has relatively low registration fees and comparatively higher fuel and truck use taxes.

City and County Share of Highway Fund

The next chart shows forecasted distribution to cities and counties based on the statutory distribution formulas and special programs.



After this split, funds are distributed to individual cities by population and to counties based on the number of vehicles registered in each county.

Local Funding Variation

On a statewide basis, roughly half of local highway revenue comes from the state Highway Fund. Individual cities and counties vary significantly as to the proportion of their revenues that are generated locally. They also vary as to local funding sources.

Local sources of revenue include property taxes, system development charges, traffic impact fees, maintenance fees, parking fees and fines, lodging taxes, franchise fees, interest, county fuel taxes (Multnomah, Washington counties), and city fuel taxes (Pendleton, The Dalles, Tillamook, Woodburn, Stanfield). Static state tax rates over the past ten years have increased pressure on local sources.

***Federal Forest Revenues*:** Thirty of Oregon's 36 counties receive federal payments in lieu of property taxes. These revenues, dedicated to schools and roads, represent a substantial share of highway revenue in some counties. The roads portion for the thirty counties totaled nearly $97 million in fiscal year 2003.

Federal Funds

Most states, including Oregon, depend on federal funds for a significant portion of their highway revenue. Oregon's legislatively adopted budget for the state highway system this biennium is 60 percent state revenue and 40 percent federal revenue. Federal highway funds derive mainly from an 18.4-cent federal gas tax, a 24.4-cent diesel tax, and other fees on trucks.

Federal transportation programs are adopted on a six-year cycle through "authorization" bills. These bills set anticipated funding levels over the six years, define categories of funding, and set formulas and program criteria under which states receive funds. Negotiations are underway in Congress on new authorizing bills. Actual funding depends on the annual appropriations process in Congress and is traditionally short of the authorized level.

Federal funding comes in one of three forms: (1) formula grants; (2) discretionary funds; or (3) earmarked funds. Because most federal funding is distributed through formula grants, congressional delegates attempt to negotiate formulas into authorization bills that favor their states. They also attempt to get funds earmarked for specific projects in

[1] Oregon Constitution, Article 9, section 3a.

their districts. Federal discretionary funds are controlled by the U.S. Department of Transportation under program categories. State and local highway agencies compete by submitting projects.

For the most part, federal funds are received as reimbursement after state funds are spent on a project. Typical state or local match requirement is ten percent (20 percent on earmarked projects).

Weight-Mile Taxes

Oregon uses a weight-mile tax to assess trucks for use of state and local highways. Under this system, the tax rate for a truck increases with its weight and the rate is paid per mile of operation in the state. Most states levy a diesel tax on trucks operating on their roads, but Oregon assesses the weight-mile tax instead. A weight-mile tax more accurately assesses trucks for road wear than a fuel tax does.

The weight-mile tax has been opposed by many in the trucking industry because of the level of assessment on companies that have heavy trucks operating high numbers of miles in the state. The tax is also criticized due to higher collection/audit costs, additional paperwork, and the potential for evasion.

***Exemptions from the weight-mile tax*:** Farm vehicles, unless they are hauling for hire, are exempt from weight-mile taxes (they pay fuel taxes instead). Trucks carrying logs, wood chips, and rock products have the option of paying "flat fees" instead of weight-mile taxes. These fees vary with weight but are "flat" because they do not vary with mileage. The flat fee option is available to these trucks because they often operate seasonally, make shorter trips, and mix taxable and non-taxable (non-highway) miles. These factors make mileage reporting and auditing more difficult.

In 1999, the American Trucking Association **(ATA)** sued the state over flat fees and the farm vehicle exemption. The ATA asserts that since the flat fee option is only available for certain commodities and can benefit intrastate carriers, it is anti-competitive and in violation of the Interstate Commerce Clause and the Equal Protection Clause. The case is still in the courts.

Setting Tax Rates

Rates for the state fuel tax, registration fee, and weight-mile tax are all set in statute. The Oregon Constitution requires adjustment of tax rates to ensure fairness and proportionality between classes of vehicles[2]. State economists perform periodic studies (Highway Cost Allocation Studies) to determine appropriate rates to recommend to lawmakers. They study how the burden of highway expenditures should be shared between cars and trucks, and between different types and weights of trucks. The studies determine proper rate adjustment between users, they do not attempt to determine appropriate levels of total revenue.

Highway Taxes and the Cost of Driving

The state fuel tax costs drivers about 1.2 cents per mile (based on fuel use of 20 miles per gallon). The cost increases to 2.3 cents per mile if state registration fees and federal fuel taxes are included. The 2.3 cents per mile, combined with revenue from truck charges, finances the state and interstate system and about half of the city and county road system. This cost is roughly six percent of the cost of driving based on Internal Revenue Service allowance of 36.5 cents per mile. Trucks are charged from 4 to 18 cents per mile in state weight-mile taxes depending on their weight.

Road Use Taxes - Recent History

***Fuel Taxes*:** The state fuel tax was last increased by the 1991 Legislature. The phased increase took the tax from 20 to 22 cents in 1992 and from 22 to 24 cents in 1993. Prior to that, the 1989 Legislature passed a two-cent increase and the 1987 Legislature passed a six-cent increase phased in over three years.

Most recently, the 1999 Legislature referred a five-cent fuel tax increase to voters. The measure also would have replaced the truck weight-mile tax with a diesel tax and higher truck registration fees. The measure was defeated at the polls.

***Registration fees*:** Registration fees, currently $27 per year for cars, were increased (from $15) in 2003. Truck registration fees vary from $169 to $636 per year and were also increased in 2003.

***Weight mile taxes*:** Weight-mile taxes were increased nearly ten percent by the 2003 Legislature.

Studded Tire Damage

One factor that has increased the proportion of costs attributed to cars in the last few Highway Cost Allocation studies is studded tire damage. The ruts created by studded tires on some highly-traveled routes

[2] Oregon Constitution, Article 9, section 3a.

can affect driving, and if they fill with water, can worsen spray and hydroplaning conditions.

Unmet Needs

Estimates of unmet needs on the state portion of the highway system are in the tens of millions annually for maintenance and preservation and in the hundreds of millions for capacity-increasing modernization projects.

City and county circumstances vary, but most also report high levels of unmet need. High-growth areas and popular tourist areas are unable to fund capacity improvements to handle overwhelming increases in vehicle travel. At the same time, sparsely populated counties do not receive enough in state-shared highway revenues to cover basic maintenance costs on the many miles of road network that link their communities.

Oregon Transportation Investment Act

The 2001 and 2003 Legislatures passed funding bills known as Oregon Transportation Investment Act or **OTIA**. The 2001 bill authorized $500 million in bonding authority for state and local highway improvement projects. The bill increased vehicle title fees to provide a means of bond repayment.

The 2003 bill (HB 2041) raised title fees further and also increased registration fees and truck weight-mile taxes to help finance a ten-year $2.5 billion highway improvement program. $1.6 billion of the total is dedicated to bridge repair and replacement, including $300 million for city and county-owned bridges (see Bridges Background Brief).

Oregon has traditionally been a "pay as you go" state, not bonding to the extent of many states. This policy is based on the reasoning that pledging future revenue to bond repayment leaves less money for future projects. The decision to bond OTIA projects was based on low interest rates, a source of new revenue dedicated to bond repayment, and a backlog of critical projects.

I-5 Partnership Study

ODOT's estimates of unmet need do not include several high-cost projects under discussion for the I-5 corridor between Portland and Vancouver, Washington. This small area has become a major bottleneck for the Northwest's principal east-west and north-south highway, rail, and shipping corridors. A bi-state committee has developed a strategic plan for adding highway, transit, light rail, and rail capacity, but has not identified a source of funds for the larger projects.

Preservation First

Through policies and budget decisions, the Oregon Transportation Commission, the Governor, and recent legislatures, have made preservation of the existing system their highest priority for use of available funds. Because of tight funding they also stress strategies of demand management and operational efficiency to extend the useful life of transportation facilities.

Maintenance Agreements

Agreements between governments for road maintenance offer substantial savings in labor, equipment, and facilities. Existing agreements are widespread and varied, from joint purchasing and training, to sharing equipment, co-locating facilities, and contracting with one another for activities such as ditching, lane striping, mowing, snow removal, and vehicle maintenance. Current agreements involve city, county, and state maintenance operations.

Road User Fee Task Force

The 2001 Legislature passed legislation creating a Road User Fee Task Force. The bill directed the task force to study revenue options and to recommend a replacement for the current tax system. The task force was created out of concern that the gas tax is a declining revenue source, especially over the long term, given fuel efficiency improvements, hybrid-electric vehicle usage, and inflation. Inflation reduces buying power by approximately one cent of fuel tax a year. The legislation also gave ODOT authority to implement pilot programs. One of the pilots will test collection technology for a mileage-based fee and is expected to start in 2005 with volunteers in a small test area.

Continuing Issues and Challenges

***Congestion*:** Over 50 percent of urban freeways in Oregon are considered congested. Annually, traffic congestion causes millions of dollars worth of delays for motorists and trucks, and contributes substantially to fuel consumption and air pollution.

***Freight*:** All modes of freight have seen tremendous growth in the past 20 years, straining the capacity of port, highway, rail, and airport facilities. Moderate economic growth over the next 20 years is expected to double tonnage of import/exports nationwide and to increase domestic freight tonnage by 70 percent. Transportation delays affect the competitiveness of state and regional companies.

***Traffic Safety*:** Oregon traffic safety laws are relatively strict, including restrictions on teen drivers and a child booster seat requirement. When many states raised speed limits and relaxed motorcycle helmet requirements, Oregon retained them. A combination of laws, safer cars, better engineered roads, education, enforcement, and citizen behavior helped bring annual traffic fatalities in the state below 500 for four consecutive years, but the death toll in 2003 was 511. For nearly 20 years, the state tallied between 500 and 700 deaths a year. Though recent progress is notable, the death toll is tragic and preventable. From 1999 to 2003 Oregon averaged 168 annual alcohol-related vehicle deaths, 202 annual speed-related deaths, and 135 annual fatalities who were not wearing seat belts.

The 2003 Legislature authorized ODOT to increase speed limits up to 70 miles per hour on stretches of interstate highway where a thorough analysis indicates safety would not be compromised.

***Highway Patrol*:** Law enforcement is one of the keys to reducing loss of life and preventing the delays and costs attributed to traffic accidents. Patrol officers serve multiple roles: sanctioning violators; responding to crash and crime scenes; and deterring law breakers by raising the perceived chance of being ticketed. Of continuing concern is the reduction in numbers of State Police highway troopers due to increasing demands on the state General Fund. Trooper levels declined from 665 in 1980, to 512 in 1990, and to 329 in 2003.

Planning, Environment, Public Involvement: Passage of environmental and land use laws in the 1970s, and growth pressures over two decades have added new dimensions to highway planning. Additional time and resources are directed to environmental safeguards and decision-making, including planning, public involvement, and interagency coordination. Transportation agencies are required to balance numerous opposing interests and priorities.

***Traffic Management and Demand Management*:** Transportation planning requires strategies that increase highway capacity as well as those that increase efficiency and reduce demand, especially peak-period demand. Traffic management strategies include incident clearance, ramp metering, traveler information, and high-occupancy vehicle lanes. Demand management activities included promoting other modes of travel, ride-sharing, telecommuting, flex-hours, transit-oriented development, and efficient, inter-modal connections for freight and passengers.

***Access Management*:** Controlling the number of points of access to a highway is a proven way to move high volumes of traffic safely and efficiently. Interstate highways are examples of access controlled facilities. Many state highways, however, function simultaneously as principal through-ways and as streets handling local traffic on local trips. In many cases, efforts to increase flow through a city have reduced local livability. In other cases, local development approvals have attracted traffic that overwhelms an existing state highway or interchange and seriously impairs its function. Access management includes a range of activities aimed at balancing the need for access to properties adjacent to a highway with efficient and safe traffic movement on the highway

Deferred maintenance: Deferring maintenance on any type of facility creates higher costs in the long run. This is especially true for road pavements, because the surface layer protects underlying layers from water and freeze damage. ODOT estimates that if a section of pavement falls to a rating of "poor," it is four to five times more costly to bring it to a "good" rating than it is to bring pavement in "fair" condition to a "good" rating.

Innovative Finance

The Oregon Innovative Partnerships Program was formed at ODOT to foster the development of public-private transportation projects both through solicitation of projects and response to project proposals developed by the private sector or other units of government. Creation of the program was recommended by an advisory committee established by the 2001 Legislature. Legislation passed in 2003 (SB 772) gave ODOT specific authority to solicit proposals and to enter into agreements with private and public entities. The bill also outlined rights and restrictions under such agreements.

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