

## HOUSE REVENUE COMMITTEE

APRIL 27, 1999 at 8:15 A.M. - HEARING ROOM A - STATE CAPITOL BUILDING

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Members Present: Rep. Ken Strobeck, Chair

Rep. Deborah Kafoury

Rep. Jeff Merkley

Rep. Diane Rosenbaum

Rep. Max Williams

Members Absent: Rep. Anitra Rasmussen, Vice Chair

Rep. Lane Shetterly

Rep. Jim Welsh

Rep. Bill Witt

Staff: Paul Warner, Legislative Revenue Officer

Richard Yates, Economist, Legislative Revenue Office

Barbara Guardino, Committee Assistant

Witnesses: Robert Russell, Oregon Trucking Associations, Inc.

Steve McCoid, Oregon Grocery Industry Association

Don Miner, Oregon Manufactured Housing Association

Kristan Mitchell, Oregon Refuse and Recycling Association

Robert McKellar, Oregon Forest Products Transportation Assoc.

Bill Stuart, Oregon Warehouseman Association

**TAPE 150, SIDE A**

005 Chair Strobeck Called meeting to order at 8:20 a.m. Opened public hearing on HB 3344.

**PUBLIC HEARING n HB 3344**

009 Richard Yates HB 3344 establishes a new tax, diesel fuel tax. Currently, Oregon has gasoline tax and use fuel tax. Began slide show (**EXHIBIT 1**).

Page 1:

Motor Fuels

HB 3344 Diesel Tax

066 Yates Page 2:

Sections 2-8: 25 cents Per Gallon

102 Sections 9 & 10: Refunds

125 Yates Page 3:

Sections 11 & 12: Licenses

148 Sections 13 n 15 & 79: Licensing

175 Yates Page 4:

Sections 16 & 17: Revocation

187 Sections 18 & 19: Records

216 Yates Page 5:

Section 20: Reports

239 Sections 21 to 34: Payment

290 Yates Page 6:

Sections 35 to 38: Refunds (Referred to bill, page 19, suggested review)

342 Sections 39 to 41: Miscellaneous

363 Yates Page 7:

Road Use Assessment Fee

379 Sections 43 & 44: Permits

414 Yates Page 8:  
Registration Fees: Commercial

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038 Yates Page 8 (continued):  
Sections 48 to 71: Conforming

042 Yates Page 9:  
Sections 73 to WMT Audit  
Section 80: Inventory Tax

072 Yates Page 10:  
Sections 81 to 84: Tax Rate

100 Section 85: Temporary

105 Yates Section 86: Repealed Sections

113 Rep. Merkley Questions concerning Sections 81-84, Revenue neutral adjustment mechanism. Does this process of annual adjustments, in order to maintain revenue neutrality, continue past the 2001 time frame?

122 Yates No. The rate that is set on Jan. 1, 2002 becomes the permanent rate. Envisions a continual biennial highway cost allocation study to determine cost responsibility share of heavy vehicles. Would also adjust fuel tax rate and registration fees to achieve heavy vehicle share.

136 Rep. Merkley How is revenue neutrality obtained on the registration side?

139 Yates To obtain revenue neutrality, state chooses a benchmark to represent the existing system's total revenues, then change the system and calculate total revenues from the new system. Adjustments in administrative costs. Reduction of administrative costs reduces the amount of revenue necessary to reach "revenue neutrality". Increased registration fees are not revenue neutral, but truckers don't pay weight mile tax, so it balances out.

190	Robert Russell	Introduced colleagues who represent various trucking associations that support HB 3344.
214	Steve McCoid	Spoke in support of the measure on behalf of the Oregon Grocery Industry Association. Industry wants out from under burden of weight-mile tax, but does not want to cause a tax shift.
227	Don Miner	Spoke in support of the measure on behalf of Oregon Manufactured Housing Association. Industry pays weight mile when loaded, pays IFTA (International Fuel Tax Agreement) when driving out of state, pays use fuel tax when unloaded. Oregon has the most difficult reporting system of any state that the industry operates in.
227	Kristan Mitchell	Spoke in support of the measure on behalf of Oregon Refuse and Recycling Association. Low-mileage, high fuel users. Association has worked with Oregon Trucking Associations on weight mile repeal.
251	Bill Stuart	Spoke in support of the measure on behalf of Oregon Warehousemen Association. Household good carriers, operate lower weighted trucks and low miles.
257	Bob McKellar	Spoke in support of the measure of behalf of Oregon Forest Products Transportation Association. Industry hauls logs, chips, and lumber. Most members are small companies who are largely in-state. This bill does not adversely affect these truckers.
283	Russell	The Oregon Tow Truck Association is in support of this bill, although the spokesman, Al Elkins, is testifying in another committee at present.
285	Chair Strobeck	Asked McKellar if his members are affected by the registration increase.
290	McKellar	Yes, but the committee working on this bill crafted the registration fee in a way that each trucking segment is affected approximately the same as the way they are presently operating. To achieve achieve that, for example, a log trucker pays lower registration fee than an interstate truck. That, in addition to the fuel tax, puts log trucking business in approximately same taxing situation as currently. Log trucks would pay a higher registration fee, but total tax under this bill would be the same as present.
349	Russell	Began section-by-section review of notebook: The Oregon Trucking Industry's Diesel Fuel Tax Plan ( <b>EXHIBIT 2</b> ). The trucking has a problem: the current taxing system. It also has a solution: diesel fuel tax.

#### Tab 1 ñ Uniformity

Lack of Uniformity: Oregon is the only state and Canadian province that does not have a diesel fuel tax for heavy trucks. This is to Oregon's detriment.

390 Russell Gave brief history of the International Fuel Tax Agreement (IFTA). Oregon is a member of IFTA. However, Oregon collects no revenues that stay in Oregon.

**TAPE 150, SIDE B**

048 Russell Discussed page 2 of "Uniformity": Trucking Permit Guide, State Fuel Tax Rates. This is a comparison of diesel and gasoline taxes in all states and provinces.

057 Russell Tab 2 ñ Efficiency

Lack of Efficiency: Oregon's weight-mile tax is one of the most complicated taxes in existence. It has 85 different tax rates. Trucks change their configuration several times a day. Truckers have to keep track of these changes, and are often inaccurate. Illustrated administrative burden by showing a three-inch stack of papers that Oregon truckers must fill out quarterly; much smaller stack with IFTA, and it covers operation in 15 states.

122 Russell In an analysis to compare Washington and Oregon tax burdens, determined that Oregon has 188 more state employees to collect taxes from trucks than has Washington. Yet, Washington collects more total revenue from the trucking industry. Oregon Dept. of Transportation (ODOT) could reduce its work force by 106 employees, saving \$12.4 million per biennium. After the initial transition, additional savings could total \$20 million per biennium. ODOT has already terminated 48 positions and will try not to lay people off.

Bill would also save the trucking industry administrative costs.

169 Russell A Preliminary Estimate of Staff Reductions Potentially Available as a result of a change from Weight Mile Tax to a Diesel Fuel Tax in Oregon

Premise: Administrative staffing requirements are substantially reduced in a fuel tax scenario as compared to a weight mile tax scenario.

205 Russell Tab 3 ñ Evasion

Lack of Compliance or The Level of Tax Evasion. Oregon's weight-mile tax is self-reported, and has a high level of evasion. Diesel fuel taxes are paid at the pump.

275 Russell The New York State Ton-Mile Tax: Evasion Analysis and Economic Implications

Discussed federal diesel fuel dyeing program. Government dyed diesel fuel red and imposed stiff fines to assure truckers used fuel that was taxed. States that have done this have increased their taxes by 25% without raising rates.

311 Russell Public Utilities Commission conducted an evasion study in 1995 on Oregon's weight mile tax, and concluded evasion was 3-7 %. This study was more of a performance evaluation

of state's collection mechanism than an evasion study. It was in reality, an evaluation of the performance of the auditors. Deregulation of trucking industry has encouraged people to evade tax.

374 Russell At same time, Oregon did a study on diesel fuel tax, even though Oregon did not have a diesel fuel tax. Study indicated that evasion would be about 24%. However, the person who conducted the study later revised his figures to 12%.

415 Rep. Shetterly What is the estimated evasion rate now?

420 Russell Difficult to say, but approximately 25% in Oregon. It is not mostly the Oregon truckers that are evading the weight mile tax because they fear being audited. It is out-of-state truckers. Some trucking companies pay truckers a bonus to avoid Oregon's weigh scales. Out-of-state evasion rate is higher than in-state.

#### **TAPE 151, SIDE B**

034 Russell Summarized problem: Not uniform with other states, complex and administratively burdensome, rate of evasion is high.

039 Russell Began discussion on solution.

#### **Tab 4 - Revenue Neutrality**

Revenue neutrality means that the trucking industry will pay the same amount for Oregon's highways, roads, and streets under a diesel fuel tax as it does under the existing weight-mile tax.

060 Russell Reviewed Report # 10, Oregon Department of Transportation Plate County by Weight Groups (**EXHIBIT 3**), part of ODOT's "box of numbers."

78% of total trucks are at 80,000 pounds. Additional 9% operates over that amount, for a total of 87%.

084 Russell Page 2 indicates that these trucks pay 87% of total weight-mile tax. National legal limit for truck weights is 80,000 pounds. Every state must allow a truck to operate with 5 axles at 80,000 pounds. States have made regulations for trucks that weigh more.

118 Russell Discussed Heavy Vehicle Tax Revenues chart. (For a blow-up of this chart, see **EXHIBIT 4**). This is the most recent analysis. Compares four calendar years, 2000-2003. Revenues projected under present system.

Reviewed chart line-by-line.

Existing Taxation for Heavy Vehicles

Proposed Diesel Tax Replacement

218	Russell	<p>Continued line-by-line review.</p> <p>Proposed Increase in Truck Registration Fees:</p> <p>Road Use Assessment Fees</p> <p>Registration Fees: Would increase dramatically under the new system. They would become the principle source of revenue. Registration fees are the most heavily enforced tax in the transportation system.</p>
242	Russell	<p>Heavy trailer registration fees</p> <p>Miscellaneous fees and penalties</p>
304	Russell	<p>Less Adjustments for Changes in Registration Fees</p> <p>Estimated more than \$256 million above revenue neutrality will be collected due to adjustments. In order to get to this level, there would be a significant increase in truck registration fees.</p>
347	Russell	<p>"Registration Fees ñ Draft". Focusing on 80,000-pound truck, current registration fees are \$320. Under proposal, they would be \$652.</p>
362	Russell	<p>Tab 5 ñ Tax Equity</p> <p>Tax Equity Within the Trucking Industry</p> <p>The trucking industry has made a commitment that the diesel fuel tax will not shift the burden for financing Oregonís highways.</p>
395	Russell	<p>Associated Oregon Industries did a survey on all Oregon-based trucking companies. Trucking industry assisted.</p> <p>Preliminary Results (Draft):</p> <p>77% of Oregon-based trucking companies operate in interstate commerce. This is a significant change since deregulation in 1995. Most weigh 80,000 pounds and above. 51% of companies are relatively small. 73% favor this proposal. Believes this is an "overwhelming mandate from the trucking industry." More than half said they would save administrative costs.</p>

024	Russell	Whenever a change is made to a tax system, there will be winners and losers. Trucking industry hasn't found any segment of the trucking industry that is being treated unfairly. Competitive equity is paramount in the trucking industry. Believes the diesel fuel tax achieves this.
057	Rep. Rosenbaum	Does this proposal take revenue neutrality this into account?
067	Russell	Trucking industry supports HB 2082. Neutrality would be achieved by changing the registration fees and diesel fuel tax.
079	Rep. Shetterly	Some trucking companies would pay less. Does that mean those paying more would pay substantially more? Follow-up questions.
085	Russell	The revenue neutral analysis is a survey in progress. Increased registration fees on highway trucks would change the distribution and get the industry closer to parity. Additional changes in registration fees are yet to come. These results are preliminary. Doesn't know what final rates will be.
119	Russell	<p>Tab 6 – Cost Allocation</p> <p>Purpose of cost allocation is to balance the books between trucks and cars. Car travel is largely discretionary, so is highly impacted by the cost of gasoline. Trucking industry is not subject to discretionary travel, is not influenced by the cost of diesel. It is influenced by changes in the economy. Trucking industry supports continued cost allocation.</p>
151	Russell	<p>Discussed Cost Allocation chart, <b>EXHIBIT 5</b>. This is an analysis of allocation of administrative and overhead costs at ODOT. Trucking used to pay 100% of cost of motor carrier administration. Total cost allocation under the new study has trucking industry paying 36.1% for total cost of highways. Chart shows industry is to pay 42% of administrative costs. This is an unfair share.</p> <p>Cost allocation study is still a work in progress. New figures are still coming in.</p>
226	Russell	<p>Tab 7 – HB 3344 Highlights</p> <p>Believes this is the best diesel tax system in the nation. Incorporated best features of diesel fuel tax systems across the nation into Oregon's bill.</p>
254	Russell	<p>Tab 8 – Policy Issues</p> <p>Trucking industry is revenue neutral, committed to cost responsibility, equity. There continues to significant debate on this issue. Why?</p> <ol style="list-style-type: none"> <li>1. In 1995, Congress deregulated intrastate trucking. This changed the trucking industry in a lot of ways. Prior, PUC regulated trucking industry, and it became more</li> </ol>



- competitive. This increased efficiency.
2. Deteriorating Oregon roads put Oregon trucking industry at a disadvantage. Weight-mile tax is inefficient, and an increase would render Oregon trucking industry at an even worse disadvantage.
  3. Oregon has a tradition of how highway use taxes work. The system is arcane and hard for legislators to understand and results in poor policy-making. Diesel fuel tax is easier to understand.

Questions and discussion interspersed.

**TAPE 153, SIDE A**

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| 039 | Russell        | Concluded: Trucking industry is not asking legislature to take a leap of faith in making this change. Oregon is the only state that doesn't have a diesel fuel tax. Industry has studied this and believes this proposal is the best diesel fuel tax in the country. Asked committee for support on bill. |
| 062 | Chair Strobeck | Adjourned meeting at 10:40 a.m.   |

Submitted by, Reviewed by,

Barbara J. Guardino Kim T. James

Committee Assistant Revenue Office Manager

Exhibit Summary:

1. HB3344, Yates, slide show, Motor Fuels, 11 pp.
2. HB 3344, Russell, The Oregon Trucking Industry's Diesel Fuel Tax Plan, 63 pp.
3. HB 3344, Russell, Report # 10: Oregon Department of Transportation Plate Counts, 2 pp.
4. HB 3344, Russell, Heavy Vehicle Tax Revenues, 1 p
5. HB 3344, Russell, Exhibit 1A, 1 p.