

HOUSE REVENUE COMMITTEE

MAY 3, 1999 ñ 8:15 A.M. - HEARING ROOM A - STATE CAPITOL BUILDING

Members Present: Rep. Ken Strobeck, Chair

Rep. Anitra Rasmussen, Vice Chair

Rep. Deborah Kafoury

Rep. Jeff Merkley

Rep. Diane Rosenbaum

Rep. Lane Shetterly

Rep. Jim Welsh

Rep. Max Williams

Rep. Bill Witt

Staff: Paul Warner, Legislative Revenue Officer

Richard Yates, Economist, Legislative Revenue Office

Barbara Guardino, Committee Assistant

Witnesses: Tom Hibbard, Willamette University, Salem

Don Negri, Willamette University, Salem

Don Thompson, Roseburg

Kenny Evans, Boardman

Alan Pliska, Used Equipment Source

Larry Campbell, AAA Oregon/Idaho

Craig Campbell, AAA Oregon/Idaho

Kevin L. Campbell, AAA Oregon/Idaho

TAPE 164, 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

030 Tom Hibbard Three reasons for testifying today:

1. Summarize principle findings of study on HB 3344
2. Update numbers in that study due to subsequent amendments
3. Respond to questions about study

Oregonis system of highway taxes is designed to collect from those who are responsible for the costs. Believes this is fair.

053 Hibbard Began slide show by Tom Hibbard and Don Negri. See Slide 1: Evaluation of OTA's Proposal to Change Heavy-Truck Highway Taxes (**EXHIBIT 1**).

Slide 2: The proposal would favor heavier trucks compared to lighter trucks

Slide 3: Tax Revenue: Intrastate Truck 60,000 OR miles (Current tax; proposed tax)

084 Hibbard Slide 4: The proposal would shift highway taxes from high-mileage trucks to low-mileage trucks

Slide 5: Tax Payments: Intrastate 78-80,000 lb. Truck (Current tax; Proposed tax)

Slide 6: The proposal favors interstate trucks over intrastate trucks

Slide 7: Comparing Intra & Interstate Trucks

125 Hibbard Slide 8: The proposal tends to favor interstate trucks based out of Oregon compared to interstate trucks based in Oregon Legislative Administration Committee

Slide 9: Truck Mileage

Slide 10: TAX: Current System

165 Hibbard Slide 11: TAX: Proposed System

186 Don Negri Slide 12: The proposal will reduce the Oregon Highway taxes on 80,000 lb. trucks by approximately \$44 million per year.

Slide 13: Tax Revenue Comparison: 80,000 lb. Trucks.

218 Negri Slide 14: Tax Shifting for Revenue Neutrality

248	Negri	<p>Slide 15: The proposal will reduce annual Oregon Highway Taxes for one larger interstate trucking firm by \$1.59 million or 48%</p> <p>Slide 16: Revenue Comparison</p>
288	Negri	<p>Slide 17: The proposal reduces the incentive to add axles</p> <p>Slide 18: Savings from Adding 6th Axle for 88-90,000 lb. Truck (Current, Proposed)</p>
330	Negri	<p>Slide 19: The special tax break for low-weight, low-mileage trucks encourages owners to take measures to fall within the favored category</p> <p>Slide 20: Additional Tax for 30,000th Mile</p> <p>Slides 21-23: Key Conclusions</p>
368	Rep. Rosenbaum	<p>Asked who commissioned this study.</p>
371	Negri	<p>Was commissioned by AAA, Associated Oregon Industries, trade associations, and utilities.</p>
380	Rep. Witt	<p>Current tax system is based on variable factors, whereas proposed tax system balances fixed factors and variable factors by raising registration fee. Isn't it true that the proposed tax system better reflects Oregon Dept. of Revenue's costs, which are balanced between fixed and variable costs?</p> <p>Follow-up questions.</p>
393	Negri	<p>The amount of tax collected on fixed basis versus variable basis is now heavily weighted toward variable, and proposed system makes those two closer. But, it unbalances it in terms of costs that using the highway system involves.</p>

TAPE 165, SIDE A

010	Rep. Shetterly	<p>Questions concerning slide 14: Tax shifting for revenue neutrality.</p>
016	Hibbard	<p>At the time of the study, the best data available was on 78-80,000 pound class, which is the dominant class. By analyzing it, one can get an idea of what is happening. Study did not analyze whether it is revenue neutral.</p>

027	Rep. Williams	With so much emphasis on increased registration fee, would there be a market response that could affect the number of trucks or how registration would work?
038	Hibbard	Study did not get into how trucking firms would respond. Whether this is revenue neutral will be affected by behavioral responses.
051	Rep. Williams	Asked if Hibbard reviewed revenue neutrality spread sheet produced by proponents. Would appreciate a response to this sheet.
067	Hibbard	Studies by proponents and opponents assumed no behavioral change because the issue of behavioral response is so complex. When prices go up people buy less. Expects substantial behavioral responses, but this study does not estimate the magnitude of it.
075	All	More questions and discussion concerning behavioral responses, revenue neutrality.
153	Kenny Evans	Spoke in opposition to the measure. Small business owner. Bill will increase registration costs seven times. Analysis didn't take into account the low-mileage users. This bill is a way for big truckers to get rid of the small trucking companies. Big companies will be able to run for about \$10 per day per truck in registration fees. Including diesel fuel tax, that cost will be about \$35. Large trucks will save about \$35 per truck per day, while costs for small truckers will increase. Has one truck, runs under 5,000 miles per year.
214	Don Thompson	Spoke in opposition to the measure. Small general contractor with three trucks. 1998 mileage totaled 5,200. His increase in fees will be \$4,800. Currently, it costs him only \$25-30 in administrative fees per quarter.
268	Alan Pliska	Spoke in opposition to the measure. Small company uses two diesel trucks. In the past two fiscal years, neither has traveled over 5,000 miles. He will be forced to sell one truck or reduce weight category. This will reduce efficiency. Two previous witnesses would be beneficiaries of the diesel fuel tax. Yet they testified against the bill. Small mileage operators in Washington and California have one advantage over Oregon. They can modify the registration fees by buying older equipment. Current proposal doesn't have this option.
315	Pliska	Believes there will be a great deal of behavior modification under this bill.
369	Pliska	Private carriers will turn to commercial carriers. Revenue neutrality will not occur. The move away from cost responsibility sets a dangerous precedent. Small companies will begin to use common carriers. Large companies know this.
411	All	Questions and discussion concerning how small companies can justify owning large trucks. Witnesses said it is cheaper than contracting out.

TAPE 164, SIDE B

040	All	Questions and discussion continued.
050	Pliska	Believes compliance is far higher under current system. Does not know of any carriers who try to avoid the weight mile tax. Carriers can avoid federal tax on diesel fuel.
066	Rep. Rosenbaum	This is contrary to other testimony because of dyes that are poured into diesel fuel. Asked Pliska to elaborate.
074	Pliska	ODOT is pushing the use of transponders to collect data based on the weight. Before this, data collection was done by observation. Believes previous testimony has come from proponents. Dyed diesel fuel will be available through the black market. Does not believe compliance would be higher under diesel tax system.
124	Chair Strobeck	Bill is not geared to the small companies.
136	Pliska	True, but small truckers will pay the consequences.
149	Larry Campbell	<p>AAA Idaho Spoke in opposition to the measure. Directed membersi attention to Presentation in Opposition to HB 3344 (EXHIBIT 2).</p> <p>Began overview of presentation: Sections 1-7 deal with why administrative cost savings claimed by the proponents are greatly over-stated. Under HB 3344, cost responsibility would be a thing of the past. \$47.6 million cost shift will devastate Oregonis in-state trucking companies. There are about 5,500.</p>
189	Larry Campbell	<p>Introduction (verbatim). HB 3344 is about who is going to pay for Oregon highways and how much. Current system is fair. Diesel fuel tax eliminates cost responsibility and replaces it with a system designed to give large tax breaks to large trucking companies and increase tax on small companies and the public. HB is not cost responsible, and is not revenue neutral.</p>
220	Craig Campbell	<p>Spoke in opposition to the measure.</p> <p>Section 1: Administration (verbatim). Refuted proponentsi claims that one purpose of bill is to eliminate high administrative costs, and HB 3344 would substantially reduce the burden. Administrative requirements under other currently used systems are almost identical as weight mile tax. Suggested lawmakers should be working on reducing administrative costs, not on eliminating the tax.</p>

316 Kevin Campbell Section 2: **Cost Responsibility** (verbatim). HB 3344 is clearly not cost responsible. It does not reflect the use of the road and the wear and tear caused by the user. It reduces the level of taxes to trucks that do the most damage. Discussed graph, page 3, Breakdown of Revenue by Source

380 Craig Campbell Section 3: **Cost Shift** (verbatim). HB 3344 will create a substantial shift in the tax burden from one class of trucks to another. With HB 3344, truck that does the shortest number of miles pays more than fair share. Interstate trucking companies pro-rate registration fees. Intrastate trucks pay the whole fee in Oregon. Heavier trucks get a reduction; lighter trucks pay more.

-

TAPE 165, SIDE B

024 Craig Campbell **Company Analysis:** Gave specific examples of 18 trucking companies that represent a broad spectrum of winners and losers. See chart, page 4: Impact of OTA (Oregon Trucking Association) Proposal on Actual Trucking Firms Operating in Oregon. Biggest winners are large interstate trucking firms. Biggest losers are small Oregon truckers with low mileage.

082 Kevin Campbell Section 4: **Revenue Neutrality** (verbatim). HB 3344 is not revenue neutral, not now or in the future. Small Oregon trucking companies are hard-pressed to make up the shortfall. If they go out of business, there will be a revenue reduction to the highway fund.

AOI Revenue Neutrality Assumptions (page 2): Any shortfall would have a substantial impact on the highway fund. The proponents claim that 188 Oregon Dept. of Transportation (ODOT) positions would be eliminated; AAA claims it is only 60 positions, and they are being eliminated anyway.

202 Craig Campbell Clarified elimination of ODOT positions ñ 60 positions are in HB 3344 and are impacted by this bill. The remaining 48 positions have nothing to do with this bill.

227 Larry Campbell Section 5: **Polling** (verbatim). Discussed two surveys conducted in relation to this proposal. Associated Oregon Industries (AOI) and Oregon Trucking Association (OTA). Those who would pay less taxes supported the proposal; those who would pay more did not.

271 Larry Campbell AAA also sent out a survey 10 days after the AOI survey deadline. Sent to smaller truck operators. Provided a form to allow truckers to figure out their own results. 15% concluded they would pay less; 77% said they would pay more. In 1997, AAA conducted a scientific poll. 75% said they would prefer commercial trucks to pay taxes based on wear and tear of highway system.

362 Rep. Witt Is it true that the cost that taxpayers face is much broader than just the damage done to roads? Administration, construction, repair, etc. If that is the case, why should truck taxes be totally related just to road damage?

Follow-up questions.

- 375 Craig Campbell This is not true. Certain fees are worked into the tax rate. For example, cost of road signs is spread among the vehicles. Cost responsibility study must take these things into account. A registration fee doesn't reflect damage to the road, but use of the road. Registration fee would not be a good way to respond to these costs.
- 425 Rep. Shetterly Fixed fees are taken into account in establishing cost responsibility. Asked staff to elaborate.
- 444 Richard Yates Question is how to allocate fixed costs. Basic assumption in cost responsibility study is that they should be allocated according to cost responsibility of vehicles for the maintenance and construction cost, or on per mile of use. It makes more sense to charge a vehicle for its use rather than just its existence.

TAPE 166, SIDE A

- 026 Chair Strobeck Recessed meeting at 10:10 a.m.; reconvened meeting at 10:15 a.m.
- 060 Craig Campbell Section 6: **Evasion** (verbatim). Described how evasion occurs under each system. In Oregon there has never been a problem with registration fee evasion because it has been so low. Evasion is kept low because of auditing. HB 3344 would cause Oregon to rely on other states for auditing.
- Diesel fuel tax evasion is a serious and lucrative business. Dangers involve blackmail and extortion. Ways to evade diesel tax include:
1. Trucker Cocktailing
 2. Distributor Cocktailing
 3. Import Export Schemes
- 209 Craig Campbell **Evasion Studies** (page 5). 1996 Diesel Fuel Fee Non-Compliance Report; Oregon weight-mile tax study; 1998 New York State Ton Mile Tax.
- 330 Larry Campbell Section 7: **Summation** (verbatim).
- Nevada** ñ It has been important for AAA to compare Oregon's system with other states. Noted, copy of Nevada's 1994 cost responsibility study.
- This study, Nevada's most recent, concludes that trucks as a whole were paying \$297 million per year less than their obligation under cost responsibility.
- 378 Larry Campbell **Arizona** ñ Eliminated its weight mile tax. Bill was intended to eliminate state's diesel tax surcharge. Weight mile tax evasion was 37%. Arizona eliminated surcharge, weight-mile tax and doubled registration fee. Increase in revenue was due to an upswing in Arizona's economy.

Placing a large portion of revenues into registration fees causes Oregon to rely upon other states. ODOT has proposed staff additions to handle the diesel fuel tax.

TAPE 167, SIDE A

- 026 Larry Campbell **Conclusion** (verbatim): HB 3344 is not cost-responsible. It creates a severe shift onto Oregon's small trucking businesses, and it is not revenue neutral. This bill is a national attempt to eliminate weight mile tax all over the United States. New technologies will make reporting requirements for trucking companies and the Dept. of Transportation almost non-existent. Those same technologies will eliminate the ability of trucks to evade their tax obligations. Urged committee not to pass this bill.
- 057 Chair Strobeck Adjourned meeting at 10:50 a.m.

Submitted by, Reviewed by,

Barbara J. Guardino Kim T. James

Committee Assistant Revenue Office Manager

Exhibit Summary:

1. HB 3344, Hibbard/Negri, Evaluation of OTA's Proposal to Change Heavy-Truck Highway Taxes, 23 pp.
2. HB 3344, Campbell, Presentation in Opposition to HB 3344, 36 pp.