



Memorandum

Date: 02.03.15 *RE:* Finance Committee
February 10, 2015

To: Finance Committee: Commissioners Avalos (Chair), Mar (Vice Chair), Campos, Cohen, Kim and Wiener (Ex Officio)

From: Amber Crabbe – Assistant Deputy Director for Policy and Programming *Ac*

Through: Tilly Chang – Executive Director *TAC*

Subject: **INFORMATION** – State Road Usage Charge Pilot Program Update

Summary

In September 2014 the Governor signed Senate Bill (SB) 1077 (DeSaulnier) into law, directing the California State Transportation Agency and the California Transportation Commission to: establish a Road Usage Charge (RUC) Technical Advisory Committee to study RUC alternatives to the gas tax, make recommendations to the Secretary of Transportation on the design of a pilot program, and implement a pilot by January 1, 2017. A Road Usage Charge is a charge assessed per mile a vehicle travels and is meant to either replace or supplement the more traditional gas tax and to serve as a true user fee where every driver pays for his or her use of the road. To date the gas tax has been the primary source of transportation funding at both the state and federal levels. The over reliance on the gas tax has resulted in chronic under funding of transportation due to the combination of decreasing gas tax revenues in real dollars - since the gas tax hasn't been raised to keep pace with inflation - and increasing fuel efficiency of modern vehicles. A RUC would also address the growing inequities in road use fees that arise from growth in hybrid- and electric vehicles that do not use fuel and don't pay fuel taxes. At the Finance Committee meeting, we will provide an overview of SB1077; general background on RUCs; key considerations on the design of a pilot program (e.g., technology, privacy, equity); and lessons learned from RUC pilots in other states such as Oregon. We anticipate bringing updates to the Committee periodically to disseminate information and seek input from the Committee. We are seeking guidance from the Committee. **This is an information item.**

BACKGROUND

There is a crisis in transportation funding. The federal highway trust fund, which is funded by the federal gas tax, is on the edge of bankruptcy and revenues from the gas tax will only continue to decline. State funding, including state fuel taxes but also other revenue measures such as vehicle registration fees, has also not kept up with inflation and is woefully inadequate to support our transportation needs, including state of good repair, safety, livability, and other capacity investments. This undermines not just our safety and everyday experience of the transportation system but our nation's economic competitiveness.

One reason for this crisis is that the federal and state gas taxes historically lose real value over time unless indexed to inflation. While some states have indexed their gas taxes, California has not and the federal gas tax has been set at its current rate since 1993. What was worth 18.4 cents per gallon in the early nineties is now worth just 11.2 cents per gallon. The other significant contributing factor is the increasing popularity of fuel efficient vehicles (a desired environmental trend). Furthermore, as hybrid- or fully electric vehicles use little to no fuel, and pay less or no gas tax, continued reliance on the gas tax also presents an equity concern about the use of the gas tax as the main form of road user charge in California.

A Road Usage Charge (RUC), also known as a Vehicle Miles Traveled Fee or a Mileage-Based User Fee, is a charge assessed per mile a vehicle travels and is meant to either replace or supplement the more

traditional gas tax. Both the RUC and the gas tax represent a user fee model of revenue generation where the funds raised are used to benefit those paying (i.e. drivers). However, the increasing popularity of fuel efficient vehicles (which pay little to no gas tax) means that the gas tax is no longer serving as the road use proxy it once did. States, regions, and the federal government have all begun to discuss the possibility of shifting to a RUC model for funding our transportation system, in part to keep up with inflation and in part to ensure drivers of fuel efficient vehicles pay their fair share to use the road.

In 2007, two congressionally established surface transportation commissions considered the viability of a RUC as a replacement of the federal gas tax. After discussion, the idea was set aside due to a number of concerns. Privacy was cited as the most prominent concern, as were any potential government mandates about the technology that would be used to administer the system.

That left exploration of a RUC to the states. The state of Oregon was the pioneer in studying mileage-based fees, beginning in 2003, and has since undertaken initial pilots and legislative efforts toward developing a statewide system. In recognition of lessons learned from Oregon and the experience of other states, the California State Transportation Agency's (CalSTA's) recent California Transportation Infrastructure Priorities report included a proposal to "explore a voluntary pilot program to study, review, and consider the viability of a Mileage-Based User Fee in California." There has also been local interest in the RUC, which was studied, and ultimately rejected, as a revenue source in Plan Bay Area, the region's Sustainable Communities Strategy.

In September 2014 the Governor signed Senate Bill (SB) 1077 (DeSaulnier) into law, directing the CalSTA and the California Transportation Commission to establish a RUC Technical Advisory Committee (TAC) to study RUC alternatives to the gas tax and to make recommendations to the Secretary of Transportation on the design of a pilot program. Last week, Assembly Speaker Toni Atkins also expressed support for a RUC for California as part of a package of transportation infrastructure funding pay for needed repair for the state's highways, bridges, and roads. SB1077 requires CalSTA to implement a pilot program to identify and evaluate issues related to the potential implementation of an RUC program in California by January 1, 2017. On January 25, the TAC met for the first time, and will meet monthly moving forward. TAC membership is listed in Attachment 1.

DISCUSSION

Three key considerations when considering a RUC are technology, privacy and equity. To address these, RUCs have been studied and piloted in several states. The recent pilot in Oregon serves as the most relevant study for California, especially since Oregon is planning to launch a more extensive pilot in mid-2015.

Technology and Implementation: Technology has finally made a RUC a feasible replacement for the gas tax. The gas tax was initially implemented as a proxy for road use since it is easy to measure and collect. With advances in technology it is now possible to directly measure and charge for road use itself. Options for implementing the RUC and collecting miles traveled data include: Global Positioning System (GPS) on-board units, on-board units that just track mileage, mandatory odometer readings, and flat fees for the use of the road.

The public has begun to accept this type of tracking in real life. For instance, insurance companies have begun to offer pay-as-you-go auto insurance and on-board navigation units are included in most new vehicles. Other possible co-benefits to the RUC could be its use as a navigational device, the provision of real-time messaging for traffic or road hazards, its replacement of the FastTrak system for tolling, and its collection of data valuable to transportation planning. RUC fees could also vary by corridor or time

of day, serving a tool for congestion pricing and management.

Privacy: Privacy arises as a top concern with respect to RUCs. However, some collection methodologies are less invasive than others with the GPS device being the most invasive and a flat fee requiring no reporting as the least invasive. Younger generations seem less concerned about privacy issues, but a carefully designed system with different choices available for users can address the concerns of the majority of the population and at the same time resolve other hurdles such as the fee's administration, implementation, and equity.

Equity: The RUC principle of "paying as you go" is more equitable than the existing gas tax. Currently those who drive older, less fuel-efficient vehicles and who cannot afford newer low- or no-emission vehicles, pay disproportionately higher gas taxes than those who can afford a new Tesla, Volt, or Prius. With a RUC, drivers of fuel efficient vehicles still pay less in overall fuel consumption compared to those driving less fuel efficient vehicles, but pay their fair share in taxes commensurate with their wear and tear on the roads.

Northwest Road Usage Charge Pilot Program (Oregon, Washington, Nevada): From November 2012 to February 2013, three states collaborated on the RUC Pilot Program. This built upon a similar pilot from 2007 and was able to incorporate the subsequent significant technological improvements to address some of the public's outstanding concerns, mostly around privacy. The four major goals of the program targeted at gaining public acceptance were:

- Ease of use;
- Motorist choice;
- Open systems; and
- Private sector administration.

The 88 volunteers for the pilot (44 of which were in Oregon) included legislators, locally elected officials, members of the Oregon Transportation Commission, a representative of the AAA, and members of the public. Drivers were charged 1.56 cents per mile and were given four options on how to report, ranging from a flat monthly fee to a smart device that tracks mileage on eligible roads via GPS. The Oregon volunteers were given a rebate for gas tax paid. Volunteers from Washington and Nevada were not actually charged a fee or given a rebate; instead for those participants the pilot was a simulation. In the end, participants felt the pilot was for the most part a positive experience and revenues from the RUC program exceeded what would have been collected from the gas tax by 28%.

Oregon's SB 810 Establishes a More Extensive Mileage-Based Revenue Program: As noted above, Oregon is now at the forefront of RUC development. With the passage of SB810, the Oregon Department of Transportation (ODOT) was authorized to implement the next phase of the RUC Program, to be operational by July 1, 2015. The program will include up to 5,000 initial volunteer participants and charge 1.5 cents per mile while providing users with a rebate of gas tax paid. 50% of the revenues will go to ODOT, 30% will be distributed to counties and 20% will be distributed to cities.

The path from the initial studies and pilots to the passage of SB810 was a long process that involved extensive study, public outreach, and education. While members of the public and legislators were resistant at first, they became more accepting once they understood the need for the transition to the RUC, the ways the program protected their privacy, and the fact that the program would not represent an unreasonable burden. Gaining acceptance of its RUC required that ODOT carefully design a program that responds to the users' personal and practical concerns. The goals of the program address

apprehensions that any jurisdiction implementing the fee will have to face:

- Implement a cost-effective and transparent system for collecting the RUC.
- Provide drivers with choices regarding reporting, invoicing, and payment.
- Provide at least one option that doesn't involve location technology.
- Protect the privacy of motorists.
- Only charge Oregon residents for in-state travel and travel on public property.
- Provide credits or refunds for fuel taxes paid for vehicles subject to the RUC.
- Ensure efficient and convenient account management operations.
- Provide a viable audit trail to track mileage and payments.
- Promote compliance and minimize evasion.
- Base the system design on an open architecture using common standards for system components and processes.

ODOT and others also have to consider pressing political concerns, namely the question of who will be responsible for implementing the RUC and how the revenues will be used. To date, participation in the program has been voluntary and relatively small in numbers. It remains to be seen what additional efforts are needed as the program transitions to cover more of the general population.

We are pleased to see strong leadership at the state level in addressing California's transportation funding crisis and the accelerated schedule for developing a RUC pilot. We will actively monitor the RUC TAC meetings and will provide input into the process when appropriate. We anticipate bringing updates on the development of the California RUC pilot back to the Finance Committee periodically, both to disseminate information and to seek Committee input. **We are seeking guidance from the Committee on this item.**

ALTERNATIVES

None. This is an information item.

CAC POSITION

The CAC will be briefed on this information item at its February 25 meeting.

FINANCIAL IMPACTS

None. This is an information item.

RECOMMENDATION

None. This is an information item.

Attachment:

1. RUC TAC Membership

Attachment 1
Road Usage Charge Technical Advisory Committee Membership

- Jim Madaffer (Chair) - Commissioner, California Transportation Commission (CTC)
CTC Representative
- Stephen Finnegan (Vice Chair) - Manager of Government & Community Affairs, Automobile Club of Southern CA
Highway User Group Representative
- Senator Jim Beall - California State Senate
Senate Legislative Representative
- Assemblymember David Chiu - California State Assembly
Assembly Legislative Representative
- David Finigan - Supervisor, Del Norte County
Regional Transportation Agency Representative
- Scott Haggerty - Supervisor, Alameda County
Regional Transportation Agency Representative
- Gautam Hans - Director and Policy Counsel, Center for Democracy and Technology Data
Security and Privacy Representative
- Loren Kaye - President, Foundation for Commerce and Education
Business and Economy Representative
- Richard Marcantonio - Managing Attorney, Public Advocates, Inc.
Social Equity Representative
- Pam O'Connor - Councilmember, City of Santa Monica
Regional Transportation Agency Representative
- Eshwar Pittampalli - Director of Market Development, Open Mobile Alliance
Telecommunications Industry Representative
- Robert Poythress - Mayor, City of Madera
Regional Transportation Agency Representative
- Eric Sauer - Vice-President of Policy & Government Relations, California Trucking Association
Highway User Group Representative
- Lee Tien - Senior Attorney, Electronic Frontier Foundation
Privacy Rights Advocacy Representative
- Martin Wachs - Professor Emeritus, UCLA Luskin School of Public Affairs
National Research and Policy Representative