



Oregon Department of Transportation – Rail Division

## **Oregon Rail Study Appendix M**

### **Rail Funding Options**

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## **MEMORANDUM**

**To:** Kelly Taylor, Oregon Department of Transportation – Rail Division  
**From:** Jeffrey Ensor, Parsons Brinckerhoff  
**Date:** October 29, 2008  
**RE:** Rail Funding Options Table

### **Summary**

This memorandum provides an overview of the information contained in the Potential Rail Funding Sources table. This table was developed to help Oregon consider its options for funding rail investments with specific taxes or fees that might be implemented at the state level.<sup>1</sup>

### **Table Description**

The attached table identifies sixteen potential sources of revenue for the Oregon rail program. Each potential tax or fee is listed under one of two headings: (i) sources that already exist for rail, or (ii) other options. The eleven sources that have been used by states to fund rail investments are listed first; they are followed by five sources that states have not yet used for rail but might be considered in Oregon. The table's second column provides a short description of each source.

Revenue generation potential is a key consideration for any tax or fee. Accordingly, the available data was used to develop an order-of-magnitude estimate of the yearly revenue that each source might generate for a given tax/fee rate. For many of the sources that are already used to fund state rail programs, a similar tax/fee rate was assumed. For the remaining sources, the financial analysis used a flat rate that allows for incremental amounts of taxation/revenue to be calculated easily (e.g., if a one-cent charge generates \$2 million/year, a two-cent charge might generate \$4 million/year).<sup>2</sup> The figures presented in (the third column of) the table assume that all the revenue generated by the tax or fee would be devoted to state rail investments.

Administration and equity are also important considerations in the selection of taxes or fees. Within the Administration column of the table, the entities that are most likely to collect the tax or fee are identified. To the extent possible, the Equity column identifies the party(s) would that ultimately pay for the cost of the tax or fee.<sup>3</sup> Further, the use of the revenues can also have equity implications. For example, a tax on freight railroads to fund passenger rail improvements is likely to encounter considerably more opposition than if the revenues were used to fund improvements that primarily benefited freight railroads. To capture this

<sup>1</sup> While lottery funds might not be characterized as a tax or fee, they are included in the list because a portion of their revenues has been used to fund Oregon multimodal and rail investments in the past.

<sup>2</sup> This methodology is valid for relatively small changes in the price of the good or service.

<sup>3</sup> Some fees (e.g., port fees) would require detailed study to assess the extent to which costs might be "passed on" to other parties such as producers (e.g., farmers) or end consumers.

consideration, the Modal Applicability columns identify (with an 'x') whether freight rail or intercity passenger rail would be a traditional use of such funds.

Finally, the last two columns identify examples and outline the Oregon context for each source. The examples include several states that have used the tax or fee to help fund state rail programs. For most examples, the rate of the tax/fee and the amount of revenue generated per year is also identified. To the extent that legislative obstacles or economic competitiveness considerations have been identified, these have been noted in the far right column.

**Potential Rail Funding Sources**

Source	Description	Finance	Administration	Equity	Modal Applicability		Examples	Notes
		Estimated Oregon Revenue Yield*	Assessment & Collection	Who Pays	Freight	Passenger	Where in Use for Rail	(Oregon Context)
<b>Sources that Already Exists for Rail</b>								
Freight Car Fee (Volume-Based)	Fee on rail cars based on cargo by weight or volume; or a per box fee; corridor or facility specific usually	\$2 fee applied to all carloads statewide → \$2M-\$3M/yr; \$2 fee applied to just carloads originating or terminating → \$1M-\$2M/yr	Fee assessed on railroads by authority or port	Shippers if strong market; else, carriers	x		Alameda Corridor (\$18/loaded maritime TEU + \$5/empty maritime TEU + \$9/other rail cars → ~\$90M/yr); Shellpot Bridge, DE (decreasing toll with add'l volume [\$5-\$35/car] → ~\$1M/yr); Sheffield Flyover, MO	There may be more alternatives in OR than in notable case studies--investments would need clear railroad benefits to keep freight traffic from diverting to other modes or routes.
Freight Car Fee (Revenue-Based)	Fee on rail cars based on cargo by value or revenue	\$0.001 fee per dollar gross (railroad) revenue → \$0.6M/yr	Assessed on gross revenue of either railroads or owners/operators of freight cars	Freight car owners/operators or (passed-through to) shippers	x		Oklahoma (4% of gross revenue derived from the use or operation of freight cars within state [but railroads are exempt] → \$800k/yr).	Several small shippers in Oregon; also, question about whether LNG could be taxed if transported by rail. Would require legal analysis to determine any legal implications or prohibitions.
RR Diesel Fuel Tax	Fuel tax on railroad engine diesel fuel	\$0.05 / gallon → ~\$3M/yr	State revenue dept. collects from fuel vendors in TN; ODOT might assess railroads on a Gross Ton Mile basis	Shippers if strong market; else, carriers	x		Tennessee (5.5% tax → \$11M/yr);	
Rental Car Tax	Surcharge or tax on rental vehicles	5.9% tax → \$8M-14M/yr	Collected by state revenue dept. through rental car businesses	Auto renters, many of which are out-of-town visitors	x	x	Virginia REF (3% → \$25M/yr); Washington (5.9% → \$23M/yr); Maine Downeaster (5% → \$2.5M/yr);	Already assessed by some local entities. Unclear whether a tax on car rentals would be constitutionally dedicated.
Lottery Funds	Used by ConnectOregon now, a dedicated share of lottery receipts targeted for rail improvements	OR earns ~\$670M/yr in lottery funds, spread among many uses. ConnectOregon → ~\$100M/yr for multimodal investments with some to rail	State collection mechanism already in place in OR	Lottery participants	x	x	Oregon (~\$100M/yr for multimodal with some to rail through Connect Oregon).	Many programs are supported by Oregon Lottery funds, including Connect Oregon. Connect Oregon may continue but unlikely that additional Lottery funds could be tapped for increases in Connect Oregon funding levels.
Motor Vehicle Sales & Use Tax	Retail sales, leases, and transfers of motor vehicles are subject to a sale & use tax	0.3% tax → \$19M/yr	Collected by vendor (dealer) at time of sale; if not paid at time of sale, collected by DMV	Motor vehicle purchasers	x	x	Washington (0.3% tax → \$36M/yr for Multimodal Account [some to rail])	Would require Constitutional change to use for rail. No state sales tax in place.
Passenger Vehicle Weight Fees	Fee in addition to annual license fee. Amount based on vehicle scale weight, with greater amounts due for heavier vehicles.	\$10 fee/yr on most vehicles → ~\$28M-\$32M/yr	Collected by DMV	Passenger vehicle owners	x	x	Washington (Most vehicles pay \$10/yr fee → \$54M/yr [most goes to Multimodal Acct; some to rail])	Would require Constitutional change to use for rail.
Motor Home Weight Fees	Flat fee paid in addition to annual license fee. Associated with average weight of motor homes.	\$75/yr fee → \$4M/yr	Collected by DMV	Motor home vehicle owners	x	x	Washington (\$75/yr fee → \$6M/yr [Multimodal and Freight Accts; some to rail])	Would require Constitutional change to use for rail. Projections estimate a decline of about 1.5%-7% each year in motor home registrations.
Motor Vehicle Title Fees	Flat fee that applies to any vehicle title transaction (i.e., new, replaced/lost, or transferred titles)	\$5/transaction fee → \$5M/yr	Collected by DMV	Purchasers of motor vehicles or owners who need a new copy	x	x	Washington (\$5 for any title transaction → \$11M/yr [some to Multimodal account; some to rail])	Would require Constitutional change to use for rail.
Title Transfer Penalty Fees	Penalty fee for not transferring a vehicle title within 15 days of a private-party vehicle sale.	If similar to WA (\$25 after 15 days; +\$2/day thereafter up to \$100 max) → \$1M-2M/yr	Collected by DMV	Motor vehicle owners that don't meet vehicle registration requirements	x	x	Washington (\$25-\$100 fee → \$3M/yr for Multimodal Account [some to rail])	May require Constitutional change to use for rail. Evasion is an issue.
Motor Vehicle Fuel Tax	A tax assessed on the sale of motor vehicle fuel.	\$0.01 increase → ~\$17M/yr	Usually collected at the "terminal rack" (bulk storage) level of supply chain	Motor vehicle (weighing <26k lbs in OR) drivers	x	x	North Carolina	Would require Constitutional change to use for rail.
General Sales Tax	A tax on the sale of most items		Consumers	Collected by vendors (e.g., retailers)	x	x	Indiana (0.033% → \$1.3 M/yr)	Oregon does not have a state sales tax. Should Oregon adopt a sales tax, the rate should be sufficiently high enough to justify the collection and administration costs.
<b>Other Options</b>								
Auto Insurance Fee	Additional fee or tax assessed on auto insurance	\$24/yr fee on coverage above mandated liability → \$12M/yr	Collected through insurers	Motor vehicle drivers	x	x	Not in current use for rail	Governor proposed a similar fee in 2007 for state police
Intercity Rail Station Passenger Facility Charge	Charge on tickets for Intercity rail usage	\$2.50 PFC/Departure → \$1M/yr	Collected by intercity service provider (e.g., Amtrak)	Intercity passenger rail riders		x	Not in current use (considered for NY Penn Station)	May not generate additional revenue beyond required operating subsidy.
Forest Products (Timber) Harvest Tax	Tax based on the value or amount of timber harvest	\$1 tax / 1,000 board-feet → \$4M/yr	Collected by Dept. of Revenue (mechanism already in place)	Timber producers	x		Not in current use for rail	OR ships 60% more lumber/wood products by rail than any other state. Tax already in place for other (forest) uses; scheduled to expire 12/31/08.
Port Fees (on Bulk Tonnage)	Fee on all bulk cargo traveling through Port of Portland	\$1 / ton on all bulk cargo → \$9M/yr	Assessed at port processing center	Consignee for bulk commodities	x		Not in current use for (non-port) rail	Portland is the largest wheat exporter in the U.S.; largest mineral bulk port on the U.S. west coast.
Port Fees (on Containers/Autos)	Fee on containers and autos traveling through Port of Portland	\$3 / container or auto → \$2M/yr	Assessed at port processing center	Shippers	x		Not in current use for (non-port) rail	

\* Revenue yields are order-of-magnitude preliminary figures; further detailed study is required to refine estimates. All revenue are assumed to go to rail. Assumptions documented on the "calcs" worksheet.