COMMON SENSE INSTITUTE

JUNE 2025

THE ECONOMIC IMPACT OF OREGON'S PROPOSED TRANSPORTATION PACKAGE

WHAT WE CAN EXPECT FROM HB2025

AUTHORS: MARK MCMULLEN, SERRA KIRSCH & THOMAS YOUNG, PH.D.

ABOUT THE AUTHORS

Mark McMullen brings a wealth of expertise to CSI, having served as the longest-tenured Chief Economist for the State of Oregon under three governors. Serving under a fourth governor as interim Chief Economist his first year, Mark accumulated 14 years of invaluable experience in the governor's office. Before joining CSI, Mark held prominent roles, including Director of Consulting at Moody's Analytics and researcher at the Congressional Budget Office. He earned his undergraduate degree from Pomona College and completed his graduate studies at the University of Pennsylvania.

Serra Kirsch recently earned a Master of Science in Economics from Portland State University, where she specialized in empirical macroeconomics and international finance. Before that, she spent two years conducting research in health economics, focusing on the impact of tobacco control policies. She completed her undergraduate education in Industrial Engineering and Economics in Istanbul, Turkey.

Growing up in Istanbul, she developed a strong interest in working on emerging market economies. In her free time, she enjoys rock climbing and scuba diving.

Thomas Young, Ph.D. brings a wealth of experience at the touch points of economics including economic forecasting, public policy and public finance, econometrics, investing, survey research, and cost-benefit analyses to name a few. He received his Ph.D. in Business Economics, Industrial Organization, Econometrics, and Finance from the University of Utah. Thomas currently lives in Salt Lake City, Utah with his wife and four wonderful daughters.

ABOUT COMMON SENSE INSTITUTE

Common Sense Institute is a non-partisan research organization dedicated to the protection and promotion of Oregon's economy. CSI is at the forefront of important discussions concerning the future of free enterprise and aims to have an impact on the issues that matter most to Oregonians. CSI's mission is to examine the fiscal impacts of policies, initiatives, and proposed laws so that Oregonians are educated and informed on issues impacting their lives. CSI employs rigorous research techniques and dynamic modeling to evaluate the potential impact of these measures on the Oregon economy and individual opportunity.

TEAMS & FELLOWS STATEMENT

CSI is committed to independent, in-depth research that examines the impacts of policies, initiatives, and proposed laws so that Oregonians are educated and informed on issues impacting their lives. CSI's commitment to institutional independence is rooted in the individual independence of our researchers, economists, and fellows. At the core of CSI's mission is a belief in the power of the free enterprise system. Our work explores ideas that protect and promote jobs and the economy, and the CSI team and fellows take part in this pursuit with academic freedom. Our team's work is informed by data-driven research and evidence. The views and opinions of fellows do not reflect the institutional views of CSI. CSI operates independently of any political party and does not take positions.

TABLE OF CONTENTS

About the Authors **1**

About Common Sense Institute **2**

Teams and Fellows Statement **2**

Introduction **4**

Key Findings **6**

Background **8**

Revenue Side Impact **9**

Revenue Side Economic Impact **10**

Price Impact 10

The Modern Transportation Funding Component 11

Spending Side **15**

Spending Side Economic Impact **16**

Important Points to Consider **17**

Parts of the Proposal Come Out as Losers **18**

Using Payroll Tax to Pay for Current and Expanded Transit 18

Transportation-related Income Tax May Provide a Faster Growing and Functioning Revenue Source 19

Conclusion **20**

Appendix A **21**

Gasoline Demand Elasticity and Revenue Forecasting 21

Revenue Forecasting Under Different Elasticity Assumptions 22

References **23**

INTRODUCTION

Oregon is currently facing the most challenging environment for transportation funding in its history. Local governments have been unable to maintain their current infrastructure, and traditional sources of state transportation financing are becoming less effective over time. Making matters worse, federal funding sources for the largest infrastructure investments are increasingly at risk.

Having kicked the can down the road for several years, Oregon's transportation infrastructure is in desperate need of investment and has forced policymakers to focus on triage rather than investments that stand to generate the largest returns. In addition, transportation funding has become increasingly inequitable, with the sources of funds not matching where the benefits are accrued.

State policymakers have not enacted a comprehensive transportation package since 2017. Many of the investments called for in that package have yet to materialize, with project costs having risen significantly in the eight years since its enactment. During the current legislative session, state policymakers and stakeholders have been forced to focus on how to maintain the current transportation system, and fulfill the promises made in 2017, leaving out any consideration of new investments that have the potential to generate substantial benefits over many years. In hindsight, significant investment opportunities have been lost in recent years as borrowing and construction costs have risen significantly.

Even after the state digs its way out of the current investment hole, resources will remain constrained for the foreseeable future in the absence of major reforms. The primary issue on the revenue side is the eroding effectiveness of traditional fuel taxes. Growth in vehicle miles traveled over time is no longer the norm, and the fuel efficiency of the vehicle fleet continues to improve rapidly. As a result, fuel tax revenues have been unable to keep up with the costs of maintaining and improving the transportation system, with the resource gap sure to widen going forward.

During the current legislative session, policymakers have floated a wide range of revenue increases in addition to higher fuel taxes to support transportation investment. Many of these have been included in HB2025 (HB2025 2025 Regular Session - Oregon Legislative Information System) which has now passed out of committee. On the spending side, most of the proposed funding has been dedicated to operations, maintenance and preservation with relatively few investments in new capacity aside from completing projects that were authorized in the last transportation package in 2017.

The package also includes additional funding for public transit funded by additional payroll taxes. However, these investments remain controversial as some policymakers have argued that Oregon's limited funds should be spent on roadways, with fewer investments made in public transit, climate adaptation, and pedestrian/bicycle projects.

Major reforms of the transportation funding system will likely need to wait for now. Oregon has done extensive research on road usage charges, tolling, congestion pricing and the like. However, all these alternatives face significant opposition among voters and stakeholders. In part, many Oregonians are calling for a more direct connection between such revenues and the projects that they will be devoted to.

While the overall revenue shortfall is daunting, Oregon faces the additional challenge of maintaining equity in its highway financing system. Oregon's constitution requires that revenues generated from light versus heavy vehicles match the costs that different vehicle classes impose on the system. Since 2017, the system has become inequitable, with heavy vehicles paying more than the costs that they impose on the system. In addition to generating enough revenue to fund the overall system, policymakers will need to adjust revenue sources and/or the pattern of investments to better serve heavy vehicles.

With little time left in the legislative session, the nature of the potential transportation package is now taking shape. However, some parts of the legislation could still change as policymakers debate the scope and nature of the package in order to ensure its passage. The following report does not attempt to advocate for any specific policy solutions. Instead, it details dynamic economic impacts of some of the core proposals being considered in HB2025 in an effort to better inform Oregonians about the return on investment in the challenging funding environment.

KEY FINDINGS

- Oregon's Transportation ReInvestment Package (TRIP), legislatively known as House Bill (HB) 2025, has large economic impact potential, with negative and positive economic impact components. On net – when considering both the tax increase and spending portions – by 2030 the proposal generates:
  - An increase of 5,094 jobs.
  - A $1.1 billion increase in GDP.
  - A $635 million increase in Personal Income (mostly workers' income), including a $214 million increase in Disposable Personal Income.
  - A $1.8 billion increase in business sales (Output).
  - Prices rise marginally, by 0.36% in 2030.
- Portions of the proposals have positive returns compared to others that turn out to be losers when viewed from the lens of Oregon's future economic position.
- Of the three main components – expanded highway construction and maintenance, maintaining existing rail service and expansion to select areas, and public transit, the highway portion is responsible for the return on investment.
  - On the payroll tax/transit component: Overall, using the payroll tax to pay for current/expanded transit services reduces employment by 457 jobs, business sales by $29 million, and disposable personal income by $352 million. The downside effect from higher payroll taxes outweighs the potential positive effects from transit construction. Most of the downside impact is felt through reduced disposable personal income.
  - Like the payroll tax – transit relationship, the REMI results for using the Vehicle Privilege Tax to pay for existing rail and selected improvements produce a loss (in 2030) of 248 jobs, lower business sales by $88 million, and a drop in disposable personal income by $24 million.
  - The state may want to consider using some of the *growth* in personal income tax derived from transportation-related activities to fund some or all of the proposed projects. For instance, the current General Fund revenue biennium revenue forecast made in March 2025 suggests total revenue collected of $28.0 billion. A 6% growth rate on top of the $28.0 billion would be $1.68 billion in new, biennial revenue. Presuming approximately 17% of the $1.68 billion stems from transportation-related sectors, then $286 million of the tax increase could be avoided by simply shifting growth to more productive resources, such as expanding the economic infrastructure in the state. This is especially relevant given declining population growth and less demand for other government services.

- The *Modern Transportation Funding* component has at least one consequence that appears counter productive. By calling for raising the gas tax when inflation and (generally) gas prices are high, it has the effect of making inflation worse. Generally, when inflation is a problem, governments typically don't want to be in the business of making inflation worse. HB2025 does soften the potential annual increases by putting 3% ceiling on the amount the tax rate can grow each year.
  - 25 states use some type of inflation-indexing for their gasoline tax rates.
- Given that development is typically a one-time component, and that population may shift from growth to decline in the coming two decades, policymakers may be best served aligning the desired development spending with one-time rather ongoing tax revenue increases. Of course, a portion of the proposal includes an ongoing maintenance component that would be best served with ongoing funding.
- Given the significant increase in fuel taxes included in the proposal, additional equity considerations arise. It is likely that rural and low-income households will bear a relatively high burden from taxation.

BACKGROUND

The Transportation Reinvestment Package (TRIP) (HB2025) currently under consideration by the Oregon Legislature requires Oregonians to contribute more to transportation-related taxes and fees. The clearest impact will be on fuel prices at the pump. Oregon's state gasoline tax is currently $0.40 per gallon: under TRIP, this will incrementally increase to $0.50 by January 1, 2026 and to $0.55 by January 1, 2028 and thereafter rise with inflation. This $0.15 per gallon rise – implemented in increments of 10 cents and 5 cents per gallon beginning on January 1, 2026 - means drivers will pay more when they fill up. For example, a commuter who purchases 500 gallons of gas a year would eventually pay an extra $75 annually once the $0.15 increase is in effect by 2028.

In addition to the gas tax increase, the proposal includes price increases on motor vehicle registrations, title transfers, vehicle purchases, tax increases on when businesses use the roads, and an increase in the employee payroll tax.

In exchange for higher prices at the pump, at the registration desk, and for businesses, TRIP includes spending on projects deemed high priority by the Oregon Transportation Commission.[i] Among the list of priorities are I-5 Rose Quarter, Abernethy Bridge, Interstate 205 widening, Newberg-Dundee Bypass, State Highway 22/Center Street Bridge retrofit, and the remaining infrastructure improvements allocated through the standard 50/30/20 formula (state/counties/cities)[ii] Additionally, the package earmarks 1.37% of the county share for small county distribution and modifies the distribution, effective July 1, 2027, to include $125 million to the Great Streets Fund, $25 million for Safe Routes to Schools Fund, and $5 million to the Wildlife-Vehicle Collision Reduction Fund, among other allocations.

REVENUE SIDE IMPACT

The most recent documents on TRIP – contained in HB2025[iii] – includes on the revenue side:

- An increase in the fuels tax of $0.15 per gallon with staggered implementation:
  - January 1, 2026: +10¢/gallon
  - January 1, 2028: +5¢/gallon
  - January 1, 2029: Rate of inflation, with a floor so that the tax rate never decreases and a ceiling so that the tax rate never increases more than 3% each year.
- An net increase in the motor vehicle registration fees of (after making the base-fee and MPG surcharge adjustments):
  - For passenger vehicles, from $43 to $113 ($70)
  - For mopeds and motorcycles, from $44 to $110 ($66)
  - Low speed vehicles, from $63 to $129 ($66)
  - Medium-speed electric vehicles, from $63 to $129 ($66).
- An increase in the title fee of:
  - For new titles, from $77 to $182 ($105).
  - For salvage vehicles, from $27 to $44 ($17).
- A change in the Weight-Mile fee.
- A 1% use fee (appears to be similar to a sales tax) on the price of a used vehicle and 2% on a new vehicle.
- An increase in the payroll tax from 0.1% to 0.18% on January 1, 2026 (for transit operations and development). The proposal includes further payroll tax increases to 0.25% on January 1, 2028 and a third increase to 0.30% on January 1, 2030.
- An increase in the Vehicle Privilege Tax from 0.5% to 1.0%.
- Adjustments to the Road Usage Charge.
- Increases in several DMC and CCDE fees as cost recovery fee increases.

From 2026 through 2040, the current proposal **increases tax revenue by approximately $3.2 billion by the 2033-35 biennium ($2.1 billion in the 2027-29 biennium).**

REVENUE SIDE ECONOMIC IMPACT

Looking at the revenue-side economic impact from the currently-proposed $2.6 billion biennium (2027-2029) tax revenue increase for transportation infrastructure projects, the proposal results in (Figure 1):

- A 16,392 decrease in jobs by 2030 (all numbers in this list are 2030).
- A $2.5 billion decrease in GDP.
- A $1.7 billion decrease in Personal Income (mostly workers' income).
- A $4.2 billion decrease in business sales (known as Output).

FIGURE 1

Economic Impact from Tax Increase Portion

In a silo, the tax increase portion of the proposal lowers employment by 14,252 by 2035 and business sales (Output) by $4.3 billion.

$ figures in '000s

Year	Total Employment	Private Non-Farm Employment	Population	Gross Domestic Product	Output	Personal Income	Disposable Personal Income	PCE-Price Index (%)
2026	(3,528)	(3,360)	(1,708)	(446,394)	(794,564)	(278,433)	(283,514)	0.10
2030	(16,392)	(15,153)	(16,992)	(2,467,248)	(4,241,122)	(1,740,710)	(1,806,286)	0.28
2035	(14,252)	(12,833)	(26,582)	(2,522,349)	(4,328,586)	(2,075,402)	(2,240,608)	0.25

Source: REMI, CSI Modeling

Price Impact

The decrease in economic activity stems from rising prices at the pump, when one registers their vehicle, when one buys a vehicle, and when businesses use Oregon's roads for transportation. When not accompanied with increased productivity, higher prices generally lead to slower economic growth.

The Modern Transportation Funding Component

EXPERIENCES WITH GAS TAX INDEXING IN OTHER STATES

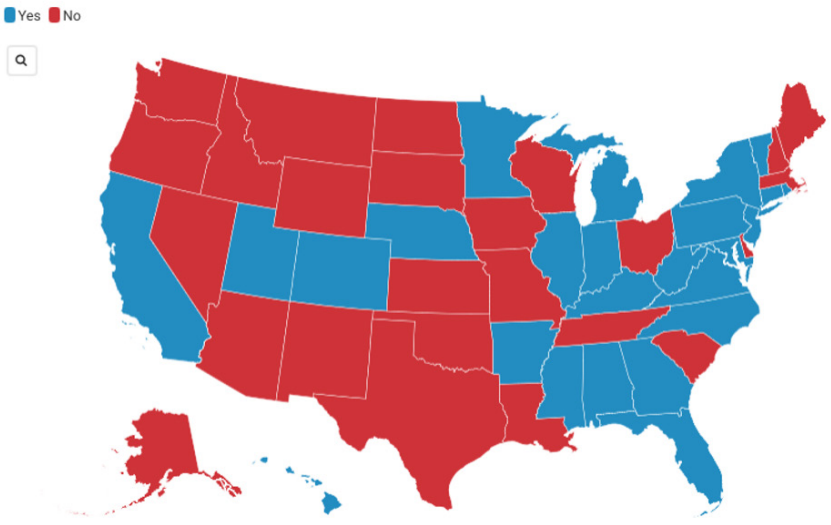
Many U.S. states have moved away from fixed gas taxes, opting for variable-rate taxes that adjust automatically. As of the mid-2020s, 25 states plus Washington, D.C. use formulas that periodically raise fuel tax rates with inflation or fuel prices without new legislation. This, in theory, helps revenues keep up as construction costs rise and vehicles become more fuel-efficient. For example:

- Florida has indexed its gas tax to the Consumer Price Index (CPI), causing small annual penny increases that preserve purchasing power
- Maryland implemented CPI-based adjustments starting in 2013. As a result, Maryland's per-gallon tax now rises automatically each year with inflation.
- California recently began yearly inflation adjustments as well (since 2020). In 2023, California's state gas tax climbed to about 68¢/gal – partly due to these built-in CPI increases
- Michigan and Virginia similarly enacted laws to index fuel taxes. Michigan's 2015 road funding package, for instance, scheduled annual inflationary hikes (capped at 5% per year) beginning in 2022. Virginia shifted to a CPI-adjusted gas tax in 2020.
- New Jersey uses a formula tied to consumption: if gas sales (and thus revenue) fall short of targets, the per-gallon rate is increased annually to compensate. (NJ raised its gas tax by 2.6¢ in 2025 under this mechanism)
- A few states have tried and then reversed indexing. Massachusetts briefly adopted CPI indexing in 2013, but voters repealed it in 2014 amid concerns about "automatic" tax hikes. Maine had indexed its fuel tax in the 2000s but repealed the policy in 2011. These cases highlight the political sensitivity of indexing, even as many peers embrace it.

FIGURE 2

State Gas Tax Structures: Fixed vs. Variable Rates

States shown in blue have gas tax structures that adjust automatically over time — whether based on inflation (CPI), wholesale fuel prices, or revenue formulas. States shown in gray require legislative action to change gas tax rates.



Source: National Conference of State Legislatures, Variable-Rate Gas Taxes.

EXPERIENCES WITH ROAD USAGE CHARGES (RUCS)

Oregon has been a pioneer in road usage charging. In 2015, it launched OReGO, the nation's first voluntary per-mile fee program for light vehicles. Participants pay a set rate per mile (currently about 1.9 cents per mile) and receive credit for any fuel tax paid at the pump. The concept is to eventually charge drivers based on miles traveled rather than gallons consumed, ensuring even electric and high-MPG vehicles contribute to road upkeep.

However, participation in OReGO has remained limited, with approximately 800 active enrollees as of early 2025. This low enrollment highlights challenges around scaling voluntary road usage charge programs — including public awareness, administrative complexity, and driver willingness to opt in.

Under TRIP, Oregon proposes to transition RUC from a voluntary to a mandatory system for electric vehicle fleets and for plug-in electric vehicles and plug-in hybrid vehicles.

Several other states are testing or implementing RUCs:

- Utah has operated a voluntary RUC program for EVs and hybrids since 2020.[iv] Under the program, owners of electric or alternative-fuel vehicles have a choice: either pay an annual flat annual fee ($142.25) or enroll in RUC and pay about 1.11 cents per mile, with total charges capped at the amount of the flat fee. This structure allows flexibility while encouraging a shift toward mileage-based funding EV adoption grows.
- California, Washington, Colorado, Hawaii and others have conducted pilot projects simulating how a road charge might work for drivers of all vehicles. California's Road Charge Pilot program involved over 5,000 participants tracking their mileage through in-vehicle devices, smartphone apps, or odometer readings.[v] These pilot programs explored different technological systems and gauged public acceptance, generally finding that mileage fees can be calculated and collected, though privacy and administrative costs are frequent concerns
- RUC America (formerly RUC West) is a consortium of 19 state transportation agencies collaborating on road usage charge development. As of 2020, it includes not just western states but also a growing number of states across the country interested in mileage-based fees. The growing membership – including states like Pennsylvania and Texas - signals rising nationwide interest in moving beyond the traditional gas tax model.

THE ECONOMIC IMPACTS OF GAS TAX INCREASES AND RUCS

New revenue measures invariably raise questions about economic impact: Will higher fuel taxes or new mileage fees drive up inflation? Are they regressive – burdening low-income households disproportionately? How might they affect small business or the broader economy?

Inflation and Consumer Prices

Although it has become a popular component of some transportation funding packages, indexing the gas tax to inflation has at least one unintended drawback. Essentially, when gas prices are high and/or

inflation is high, indexing the gas tax rate to inflation tends to make inflation higher. Generally, when inflation is a problem for consumers, governments don't want to be in the business of making inflation worse by raising the price at the pump.

As an example, the following graphic (Figure 3) shows the price of gasoline and general inflation from 2010 through 2024.

To counter this concern, HB2025 places a ceiling the tax rate increase of 3% each year, while the rate would be statutorily prohibited from dropping if inflation declined.

FIGURE 3

Inflation and the Price of Gasoline

By indexing the gas tax rate to inflation, the proposal suggests increasing the price at the pump when consumers are already paying higher prices, making inflation worse in years of high inflation.

Source: AAA, Energy Information Administration, Bureau of Labor Statistics

REGRESSIVITY AND EQUITY

Both fuel taxes and RUCs are often critisized as regressive - meaning that they take up a larger share of income from low-income households than from high-income ones. This happens because the tax amount is the same per gallon or per mile, regardless of income level. Whether you earn $20,000 or $200,000 a year, you still pay the same extra cents at the pump. For example, a Massachusetts analysis found that a 10¢ gas tax hike would take a noticeably larger **percentage of income** from low-income drivers than from wealthier ones.[vi] Even though wealthier households may buy more fuel overall, it represents a much smaller portion of their total budget. Flat-per-mile RUCs work similarly — the rate doesn't vary with income, so lower-income drivers end up paying a larger share of their income. The regressivity and equity consideration is also present when considering the rural and urban divides in the state.

That said, the degree of regressivity can **vary depending on context.** Interestingly, higher-income households often drive newer, more fuel-efficient vehicles — hybrids or electric cars — which means they pay less per mile under the current gas tax structure. In contrast, lower-income households are more likely to drive older, less efficient vehicles and therefore pay **more per mile** in taxes. A flat RUC, which charges the same amount per mile regardless of fuel type, could **equalize this imbalance.**

In fact, a recent Oregon analysis compared a 1.5¢-per-mile RUC to the current gas tax and found that while both were still regressive overall, the RUC was **slightly less skewed** in some areas. For example, in the North Willamette Valley — home to many high-income, high-MPG commuters — the switch to RUC resulted in those drivers contributing **more** to the system, making the cost distribution a bit more equitable.[vii]

Policy design matters. There are ways to soften the burden on low-income drivers. Some ideas include exempting the first few thousand miles per year (to cover essential trips), offering low-income rebates, or expanding programs like the Earned Income Tax Credit to offset the impact. While not all of these tools are implemented in practice, they offer **clear ways to reduce regressivity.**

As Oregon moves forward with TRIP, policymakers may want to consider these **offsets or adjustments** to ensure that the tax system is fair — that "everyone pays," but not at the expense of those least able to afford it.

CONSUMER RESPONSE TO INDEXED VS. ONE-TIME CHANGES

How a fuel tax is implemented — all at once or gradually over time — plays a big role in how consumers respond (see Appendix A on revenue forecasting and elasticity for a discussion). Research consistently shows that consumers react more strongly to **tax-induced price increases** than to equivalent changes in gas prices from the market.

One study by Li, Linn, and Muehlegger (2014) finds that a 5-cent tax hike reduced gasoline consumption by around **0.86%,** while a 5-cent price increase from oil market shifts reduced consumption by only **~0.3%.**[viii] The difference is due to two key factors: persistence and salience. Tax hikes are often seen as permanent, and they receive more media and political attention than market price swings. This makes them more noticeable to drivers — and more likely to change behavior.

That said, Oregon's proposed gas tax increase under TRIP 2025 isn't a sudden hike. It's **phased-in in two steps** — 10 cents in 2026, followed by 15 cents in 2028, and **indexed to inflation thereafter,** rising slightly each year based on the Consumer Price Index (CPI).

This **gradual implementation** changes the behavioral response. Smaller increases spread over time are likely to be less salient to drivers. Each adjustment may fly under the radar, especially after the CPI-based indexing becomes routine. That means drivers may not immediately alter habits — but the **persistence** of the policy could still influence long-run decisions, like buying more fuel-efficient cars or adjusting commute patterns.

In sum, gradual tax increases like those in TRIP 2025 may not trigger sharp short-term behavioral changes. But over time, as drivers internalize the steady upward trend in fuel prices, their behavior will likely shift — and that has important implications for both **gasoline consumption** and **tax revenue** in the long run.

SPENDING SIDE

Higher prices generally harm economic activity unless there is some form of measurable boost to productivity. Acknowledging that, the spending (some of which may turn into productivity-enhancing economic benefits) generates at least short-term benefits to the economy in terms of employment and business revenue. The spending side includes (based on the current version of HB2025):

- An increase to transit development and operations, which includes[ix]:
  - Continuing current transit service levels.
  - Expanding service levels.
  - Expanding Youth Pass.
  - Expanding rural transit developments.
  - Expanding Veterans Passes.
- Completion of prior development projects.
- Roads construction and maintenance ($2.1 billion in the first two years less the commitment to prior development projects)
- Continuation of certain rail operations and expansion to new areas ($47 million)
  - Continuing Amtrak operations in certain locations ($17 million).
- Other ongoing operations/maintenance and capital improvements ($20 million)[x].

SPENDING SIDE ECONOMIC IMPACT

Looking at the economic impact from spending side aspect of the currently proposed $2.46 billion biennium tax revenue increase (2027-2029) for transportation infrastructure projects, the spending side generates (Figure 3):

- A 21,583 increase in jobs by 2030.
- A $3.6 billion increase in GDP.
- A $2.4 billion increase in Personal Income (mostly workers' income).
- A $6.1 billion increase in business sales (Output).

FIGURE 4

Economic Impact from Construction and Maintenance Portion

In a silo, the additional spending increase portion of the proposal increases employment by 22,476 by 2035 and business sales (Output) by $7.5 billion.

$ figures in '000s

Year	Total Employment	Private Non-Farm Employment	Population	Gross Domestic Product	Output	Personal Income	Disposable Personal Income	PCE-Price Index (%)
2026	4,215	3,372	2,518	569,493	959,616	346,639	291,238	0.00
2030	21,583	16,972	26,667	3,627,798	6,079,080	2,390,235	2,032,724	0.08
2035	22,476	17,084	45,094	4,455,635	7,474,433	3,335,872	2,883,171	0.09

Source: REMI, CSI Modeling

IMPORTANT POINTS TO CONSIDER

Two important assumptions are relevant to the results.

First, the results assume that the road, transit, and other expansions have no crowding out effect on the private sector. Essentially, on net, the results suggest that the construction, development, and maintenance will be complementary to existing private sector activities.

Second, the results assume that the construction and development activity will have an amenity impact, meaning the newly built projects will appear more desirable to current/future residents.

Should these two assumptions change, the results would change.

PARTS OF THE PROPOSAL COME OUT AS LOSERS

On net, as it currently stands, the proposal shows an increase in jobs and business sales, at least in the short run. Components of the proposal fail to generate a positive return.

Using Payroll Tax to Pay for Current and Expanded Transit

It's readily transparent that there's a mismatch between the payroll tax and using it to pay for transit. The incentive is for employers to shift employment outside of areas where the payroll tax is present. Additionally, optimal tax policy suggests transparency in tax collection at the time of the transaction. A payroll tax for transit violates this optimal tax policy. If you want more employment, it's not optimal to increase the tax on it.

Overall, in 2030, using the payroll tax to pay for current/expanded transit services reduces employment by 457 jobs, business sales by $29 million, and disposable personal income by $352 million.

FIGURE 5

Transit and Payroll Tax Portion

When considering using the payroll tax to pay for existing and expanded transit service, the net result is a loss in jobs, GDP, business sales, and personal income by 2030.

$ figures in '000s

Year	Total Employment	Private Non-Farm Employment	Population	Gross Domestic Product	Output	Personal Income	Disposable Personal Income	PCE-Price Index (%)
2026	(51)	(150)	(39)	(1,610)	4,673	499	(50,816)	0.00
2030	(457)	(1,012)	(561)	(45,253)	(29,242)	(19,775)	(352,411)	0.00
2035	39	(652)	(682)	40,131	136,092	33,116	(428,297)	0.00

Source: REMI, CSI Modeling

Transportation-related Income Tax May Provide a Faster Growing and Functioning Revenue Source

A road usage charge, raising the gas tax, increasing registration fees, expanding the payroll tax, and other proposed revenue changes are options to raise revenue.

Instead of opting for large tax increases, the state may want to consider another option: Shift the growth in personal income tax related to roads and transit towards covering some of the funding structure for the expanded infrastructure projects.

For instance, the current General Fund revenue biennium revenue forecast made in March 2025 suggests total revenue collected of $28.0 billion.[xi] A 6% growth rate on top of the $28.0 billion would be $1.68 billion in new, biennial revenue. Presuming approximately 17% of the $1.68 billion stems from transportation-related sectors, then $286 million of the tax increase could be avoided by simply shifting growth to more productive resources, such as expanding the economic infrastructure in the state.

Shifting revenue growth towards higher-yielding transportation infrastructure is especially relevant given declining demand for government services in other sectors in the coming years.

CONCLUSION

The increased taxes and fees included in HB2025 will create a significant drag on economic activity in Oregon. In addition, given the wide range of tax instruments included in the package, there is not a tight connection between which households will benefit from the investments, and those who are asked to fund them.

That said, the long-running lack of investment in Oregon's transportation infrastructure has led to a drastic need for more to be done. With such a great need, many proposed transportation projects will lead to large returns on investment. Over time, it is likely that the benefits of these investments will outweigh the economic drag of taxation on net.

Given that policy is focused on addressing the dire needs of Oregon's current transportation infrastructure, it is unlikely that HB2025 is composed of the potential projects that stand to generate the largest returns. Also, while the package is expected to create some long-run value overall, it will clearly result in winners and losers among those who benefit most from the projects and those who are asked to pay the most for them. Furthermore, the package reflects a stop-gap solution, doing little to address the long-run transportation funding gap that will worsen going forward.

APPENDIX A

Gasoline Demand Elasticity and Revenue Forecasting

Economists use the term *price elasticity of demand* to measure how much consumers reduce their purchases when prices go up. Gasoline is a good example: it's essential for most people's daily life, so demand doesn't drop sharply when prices rise — at least not right away. This is called *inelastic* demand. But over time, as people find alternatives (like fuel-efficient cars or public transit), demand becomes more responsive — or *elastic*.

This time horizon matters for tax policy. In the short run, people can't instantly change their habits, so a gas tax hike mostly boosts revenue. But **in the long run, as driving behavior and vehicle choices shift, fuel use declines — and so do tax collections.**

Recent studies show this pattern clearly. Short-run elasticity of gasoline demand is around –0.2 to –0.4. That means a 10% price increase would reduce fuel use by just 2% to 4% at first — allowing most of the added tax to flow in as revenue. But long-run elasticity estimates are closer to –0.5 or even –0.6, meaning fuel consumption could eventually fall by 5% to 6% or more in response to the same price change. That's a big deal for revenue forecasts.

For example, Levin, Lewis, and Wolak (2016) used detailed gas station data and estimated short-run elasticity between –0.27 and –0.35.[xii] Kilian and Zhou (2023) found similar values using national data, and pointed out that newer vehicles and high gas prices make people more price-sensitive over time. Older studies had lower estimates because they used coarse or outdated data.

What does this mean for TRIP 2025? In the early years, Oregon's phased 15¢ fuel tax increase is likely to generate revenue growth. Most drivers will keep filling up, even if they grumble at the pump. But long term, the base of taxable fuel — the number of gallons sold — is expected to shrink, especially as electric and high-MPG vehicles become more common. That could flatten or even reverse revenue gains, despite ongoing tax hikes.

Revenue Forecasting Under Different Elasticity Assumptions

To estimate how gasoline tax revenue might respond to the TRIP 2025 increase, we modeled consumption and tax collections under several price elasticity assumptions. We used 2021 data from the U.S. Energy Information Administration (EIA), which reported Oregon's gasoline consumption at approximately 4,008.2 thousand gallons per day. This equates to about 1.46 billion gallons annually. We assumed a baseline gasoline price of $4.00 per gallon and modeled the full $0.20 per gallon tax increase once fully phased in.

The table below shows the estimated number of gallons sold, the resulting tax revenue, and the revenue loss compared to a baseline scenario where demand is perfectly inelastic (i.e., fuel use stays constant at 1.46 billion gallons). The final column shows how much less revenue would be collected due to behavioral responses — for example, under long-run elasticity of –0.6, fuel consumption is expected to fall by about 2.5%, reducing annual revenue by roughly $8.8 million even with the higher tax rate.

To walk through one case: under short-run elasticity of –0.2, fuel use declines slightly to 1.448 billion gallons. At 20 cents per gallon, this yields $289.7 million in tax revenue — just $2.9 million less than the baseline. In contrast, long-run elasticities lead to larger drops in consumption and revenue.

This exercise underscores a crucial point: even modest long-run changes in driving habits or vehicle efficiency can significantly erode the taxable fuel base. Our simulation, based on 2022 gasoline sales volumes, shows that higher price elasticity over time leads to meaningful revenue losses — even with small price increases like Oregon's planned 20-cent hike. While short-run revenue gains may look solid, they are unlikely to hold. In fact, Oregon's gasoline consumption has already been trending downward over the past decade, and that trend is expected to accelerate with rising EV adoption and stricter fuel economy standards.

Put simply: tax revenue from gasoline is likely to decline over time — not because the rate isn't high enough, but because there will be fewer taxable gallons. Policymakers should be cautious about assuming stable collections from fuel taxes, even with inflation indexing. Long-run elasticity and structural shifts in transportation mean that the revenue base is shrinking — slowly but surely.

FIGURE 6

Elasticity Scenario	Price Elasticity of Demand	Estimated Gallons Sold (millions)	Tax Revenue ($ millions)	Revenue Loss vs. Baseline (E=0) ($ millions)
Short-run (low)	0.2	1448.36	$289.67	-2.93
Short-run (high)	0.4	1433.73	$286.75	-5.85
Long-run (low)	0.5	1426.42	$285.28	-7.31
Long-run (high)	0.6	1419.10	$283.82	-8.78

REFERENCES

i. https://www.oregon.gov/ODOT/STIP/Pages/Current-Future-STIP.aspx

ii. HB2025 2025 Regular Session - Oregon Legislative Information System

iii. HB2025 2025 Regular Session - Oregon Legislative Information System

iv. https://www.roadusagechargeutah.org/

v. https://dot.ca.gov/-/media/dot-media/programs/road-charge/documents/rcpp-final-report-a11y.pdf

vi. https://www.massbudget.org/reports/pdf/Gas%20tax%20MassBudget%202019.pdf

vii. https://www.oregon.gov/odot/Programs/ResearchDocuments/SPR774_RoadUsageCharge_Final.pdf#:~:text=averages%20for%20both%20revenue%20sources,any%20region%20in%20the%20state

viii. Li, Shanjun, Joshua Linn, and Erich Muehlegger. 2014. "Gasoline Taxes and Consumer Behavior." *American Economic Journal: Economic Policy* 6 (4): 302–42.DOI: 10.1257/pol.6.4.302

ix. Based upon the linked Congressional Budget Office report, transit spending was split 65/35 between ongoing maintenance/operations and capital development: https://www.cbo.gov/system/files/2025-02/60874-InfrastructureSpending.pdf.

x. As with transit, the split was 65/35 for ongoing operations/capital development.

xi. https://www.oregon.gov/das/oea/Documents/revenue0325.pdf

xii. Laurence Levin & Matthew S. Lewis & Frank A. Wolak, 2017. "High Frequency Evidence on the Demand for Gasoline," American Economic Journal: Economic Policy, American Economic Association, vol. 9(3), pages 314-347, August

xiii. Kilian, L and X Zhou (2023), 'DP17804 Heterogeneity in the Pass-Through from Oil to Gasoline Prices: A New Instrument for Estimating the Price Elasticity of Gasoline Demand', CEPR Discussion Paper No. 17804. CEPR Press, Paris & London. https://cepr.org/publications/dp17804