
Business Case Update

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Agenda Item #11

TAC Meeting #7, July 24, 2015

South Lake Tahoe, CA



SB 1077 Requires Consideration of Road Charge Administration Costs

In developing recommendations on the design of a pilot program, the technical advisory committee shall take into consideration the ease and cost of administering the collection of taxes and fees as an alternative to the current system of taxing highway use through motor vehicle fuel taxes.



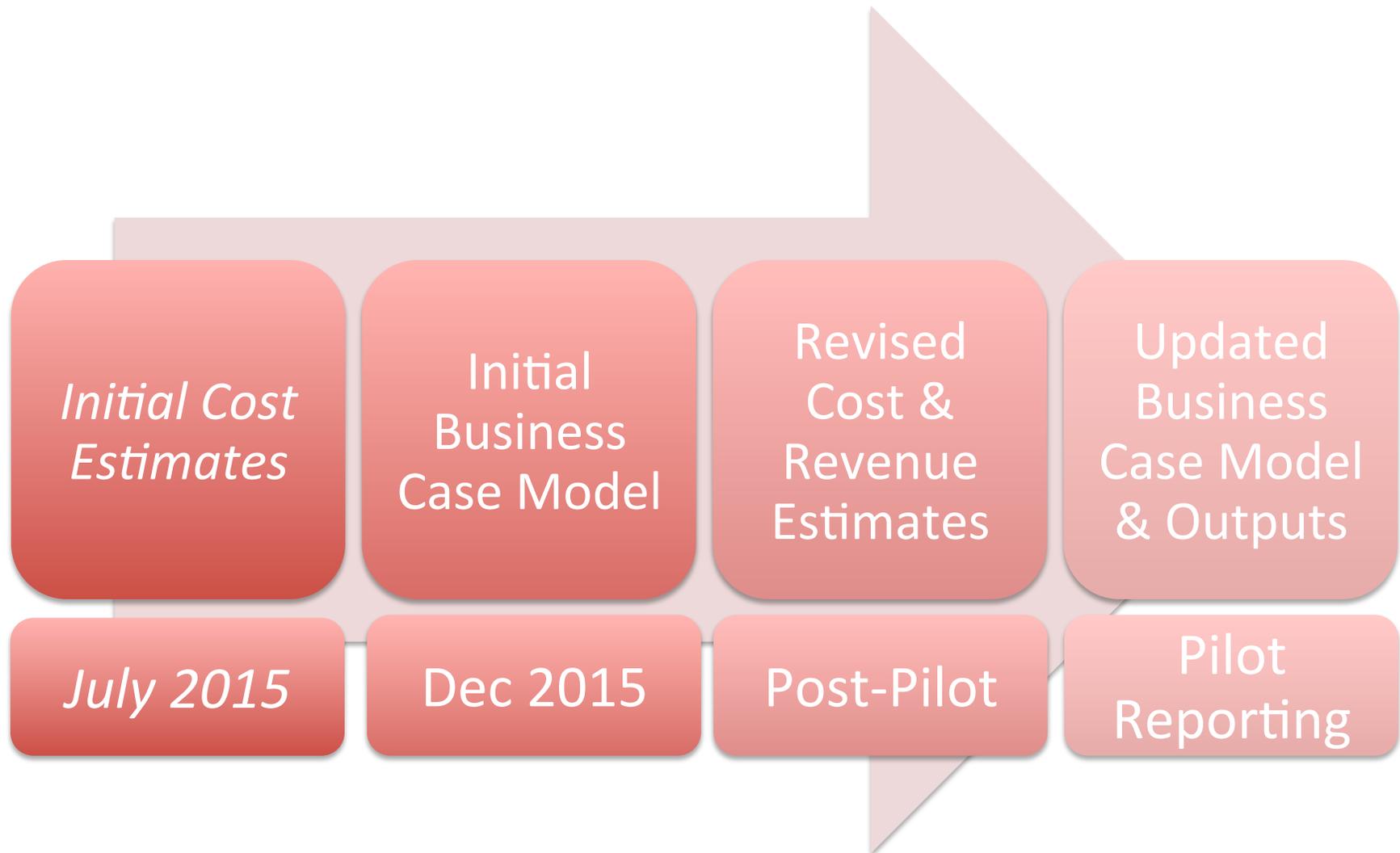
Fuel Tax Collection Process & Costs Introduced in May



- ◆ Annual cost of collection \$33.3 million (2015-2016)
- ◆ Activities
 - ✦ Account management (including refunds)
 - ✦ IFTA
 - ✦ Audit
 - ✦ Enforcement and collections
 - ✦ IT
 - ✦ Overall program administration

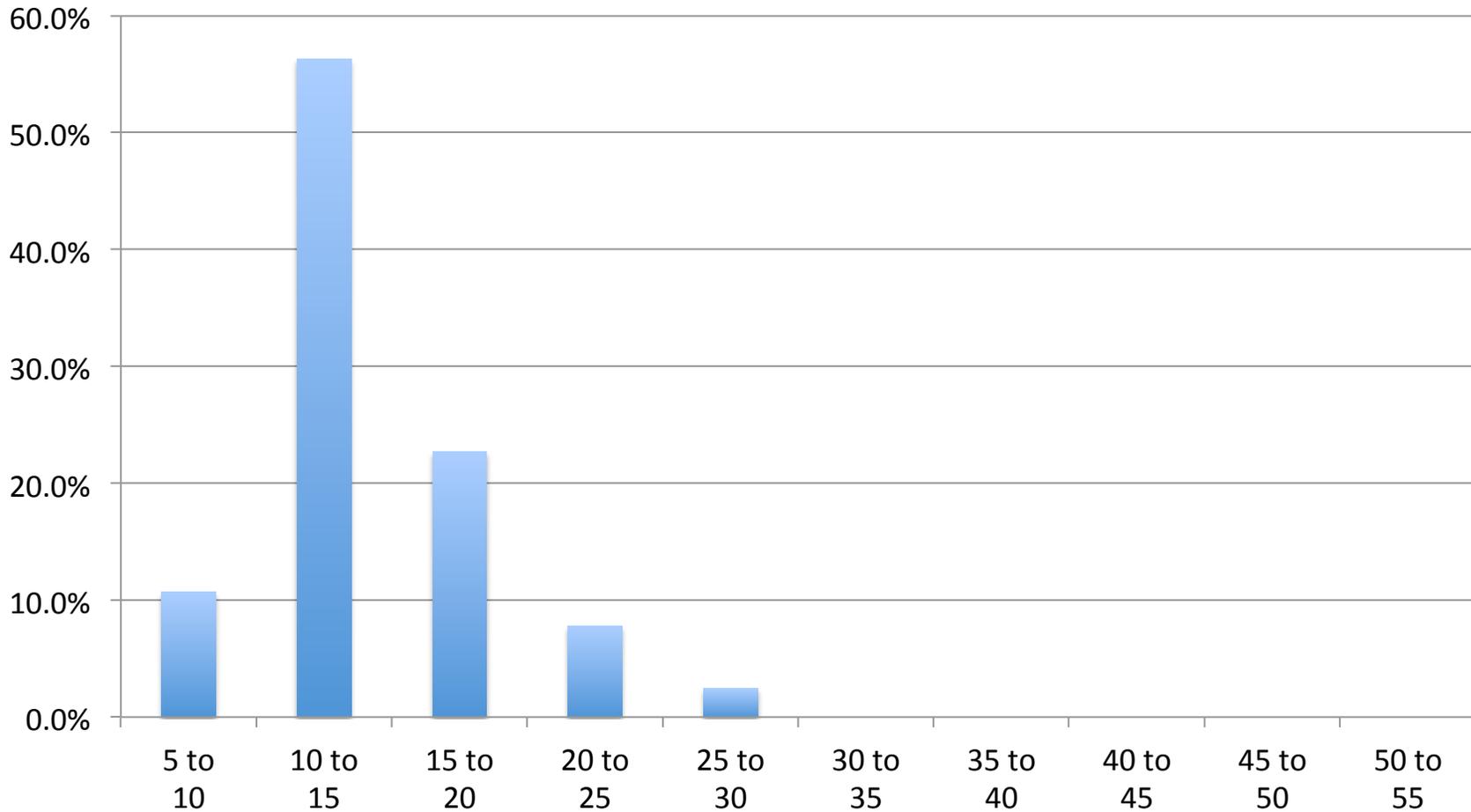


Schedule of Business Case Work Stream



Evolution of Light-Duty Fleet Fuel Economy

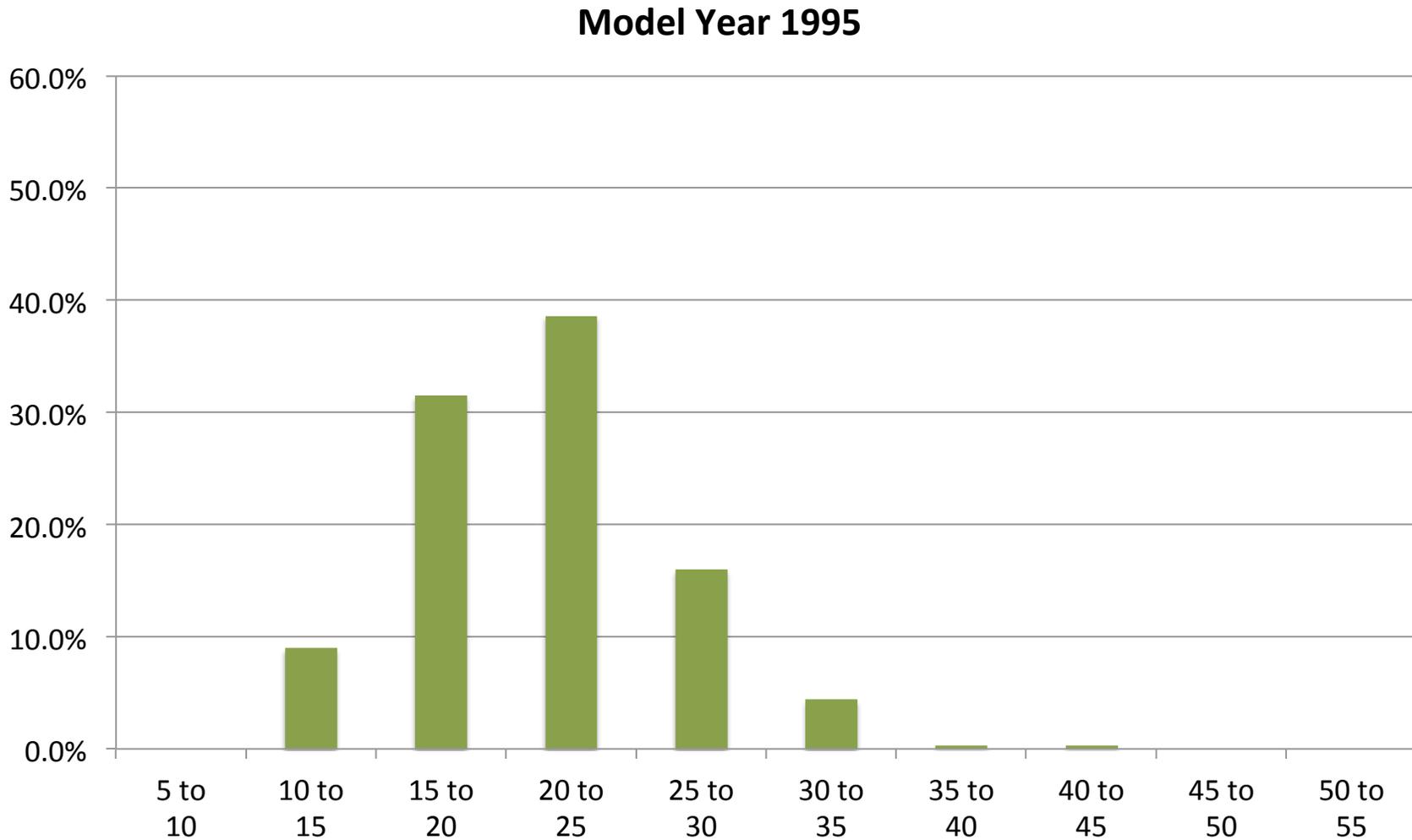
Model Year 1975



Source: EPA, Light-Duty Automotive Technology, Carbon Dioxide Emissions, and Fuel Economy Trends: 1975 Through 2014



Evolution of Light-Duty Fleet Fuel Economy

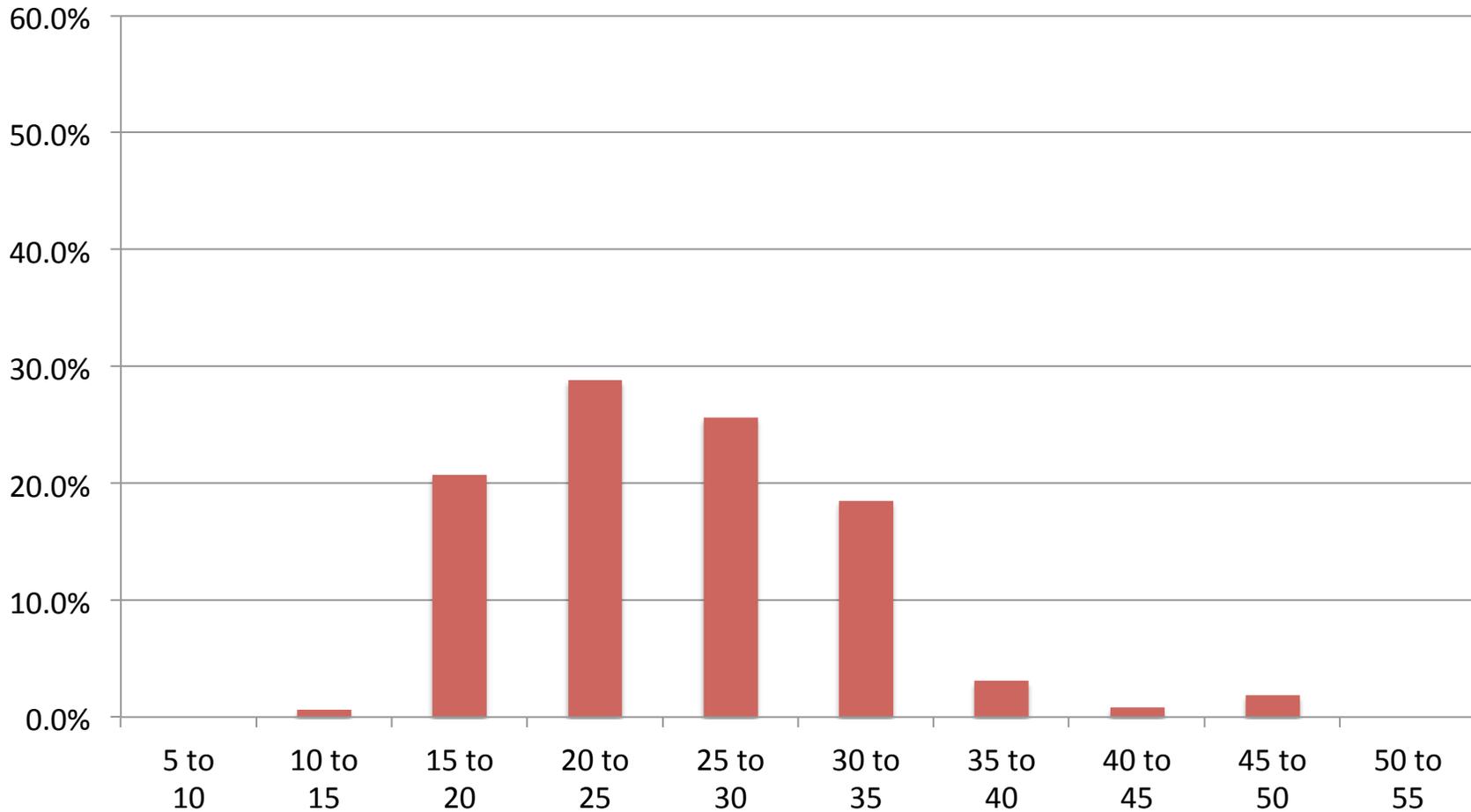


Source: EPA, *Light-Duty Automotive Technology, Carbon Dioxide Emissions, and Fuel Economy Trends: 1975 Through 2014*



Evolution of Light-Duty Fleet Fuel Economy

Model Year 2014

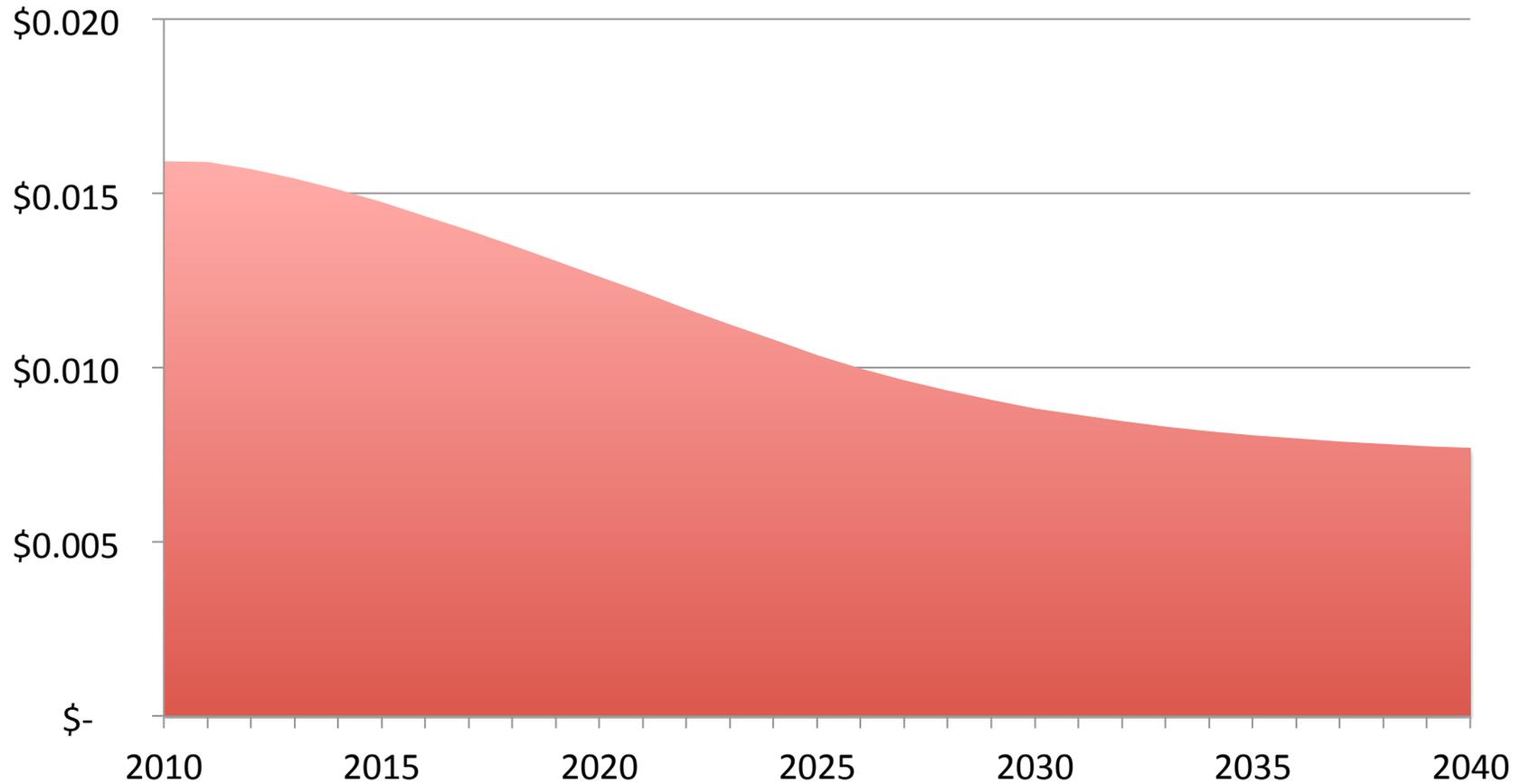


Source: EPA, Light-Duty Automotive Technology, Carbon Dioxide Emissions, and Fuel Economy Trends: 1975 Through 2014



Per-Mile Fuel Excise Tax Revenue Projection

Light Duty Vehicle Fuel Excise Tax Revenue Per Mile Driven
Nominal dollars at \$0.30/gallon



Source: Consultant analysis based on light duty vehicle fleet fuel economy forecast from California Air Resources Board



Cost Estimate Assumptions and Caveats

- ◆ Initial estimates, presented today, will be updated during and after the pilot
- ◆ Estimates reflect a portion of the total cost of road charge administration (account management) for comparative purposes
- ◆ Estimates reflect operational concepts recommended by the TAC
- ◆ Estimates represent costs only, not leakage
- ◆ Average cost values are based in part on assumptions about payment locations, frequencies and methods informed by DMV data



Road Charge Administrative Cost Categories

Category	Potential cost savings from commercial account managers	Included in initial estimates?
Account management	Large	✓
Audit	Small	X
Enforcement and collections	Medium	X
IT	Medium	X
Overall program administration	Large	X



Examples of Choices That Influence Costs



Policy

- ◆ Subject vehicles
- ◆ Enforcement



Design

- ◆ Open system
- ◆ Operational concepts



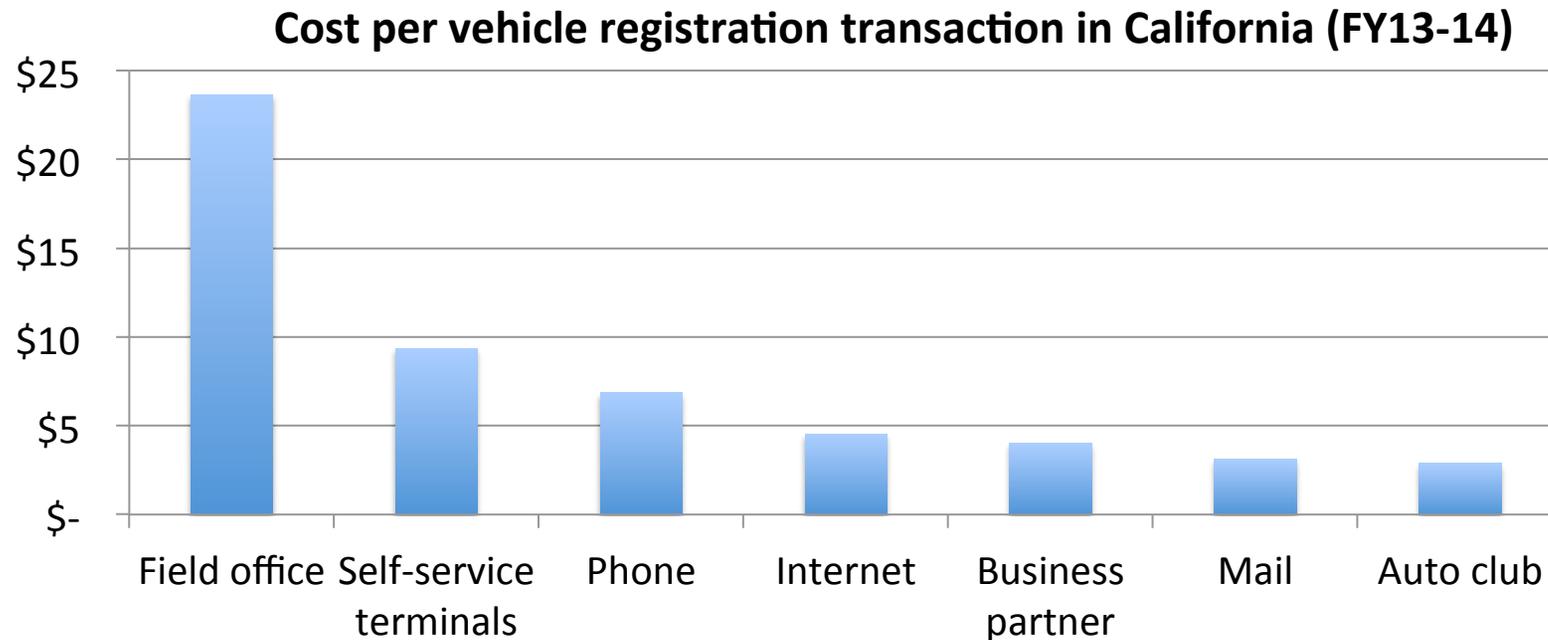
Consumers

- ◆ Operational concept choice
- ◆ Payment frequency



Factors That Drive Account Management Costs

- ◆ Payment frequency
- ◆ Payment method
- ◆ Payment location
- ◆ Technology requirements
- ◆ Device communications costs
- ◆ Customer support required

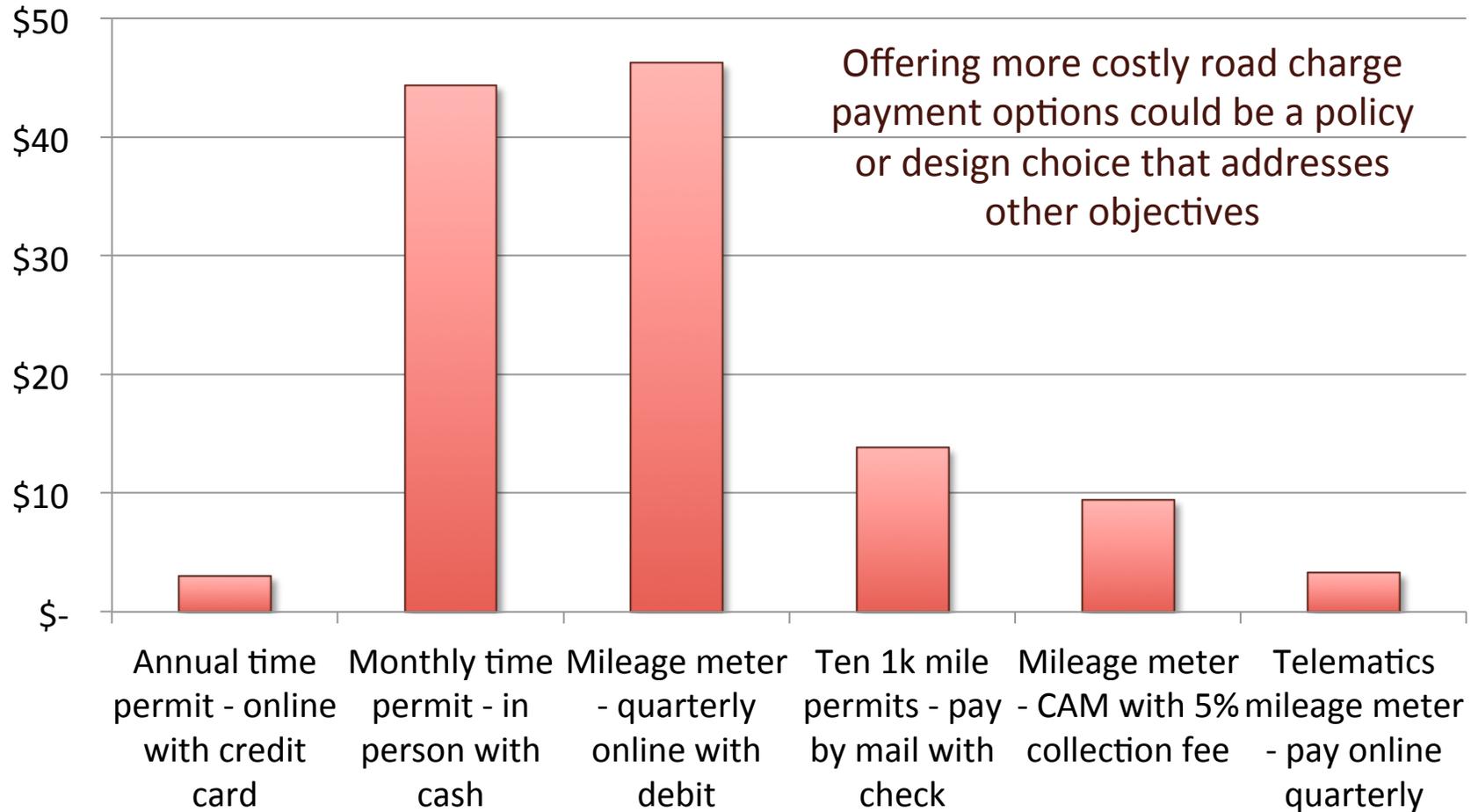


Source: Department of Motor Vehicles



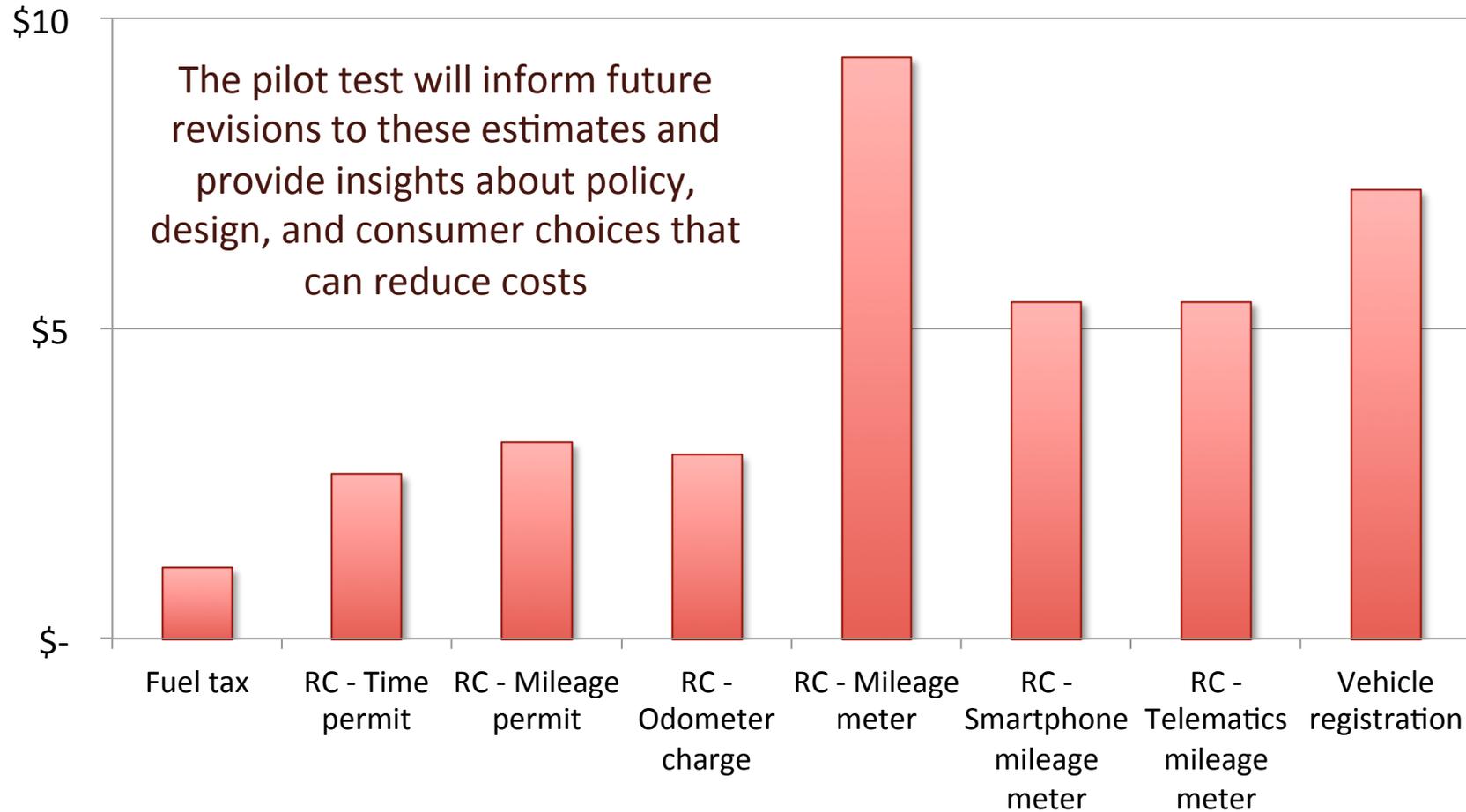
Policy and Design Choices Impact Transaction Costs

Annual Cost Estimates for Example Road Charge Transaction Types



Initial Road Charge Account Management Cost Estimates

Average Annual Near-Term Account Management Costs Per Vehicle



Three Scenarios

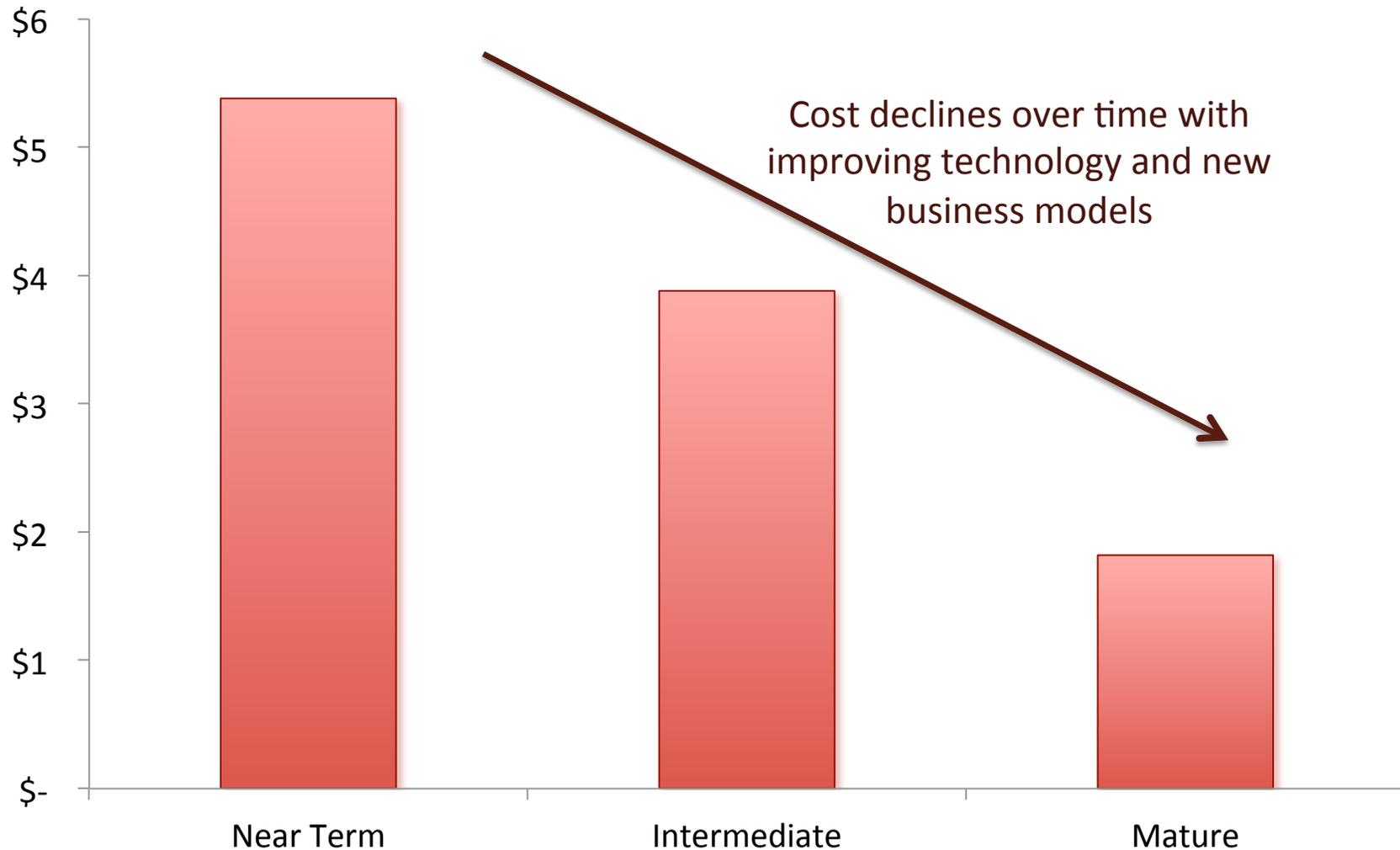
- ◆ Scenario 1: Near-Term Road Charge
 - ✧ 40% mileage meter, 35% smartphone mileage meter, 5% everything else
 - ✧ Payment locations and methods break down same as DMV today

- ◆ Scenario 2: Intermediate Road Charge
 - ✧ 25% telematics, 25% mileage meter, 30% smartphone mileage meter, 5% everything else
 - ✧ Online payments increase to 75% of total

- ◆ Scenario 3: Mature Road Charge
 - ✧ 90% telematics
 - ✧ Online payments increase to 90% of total

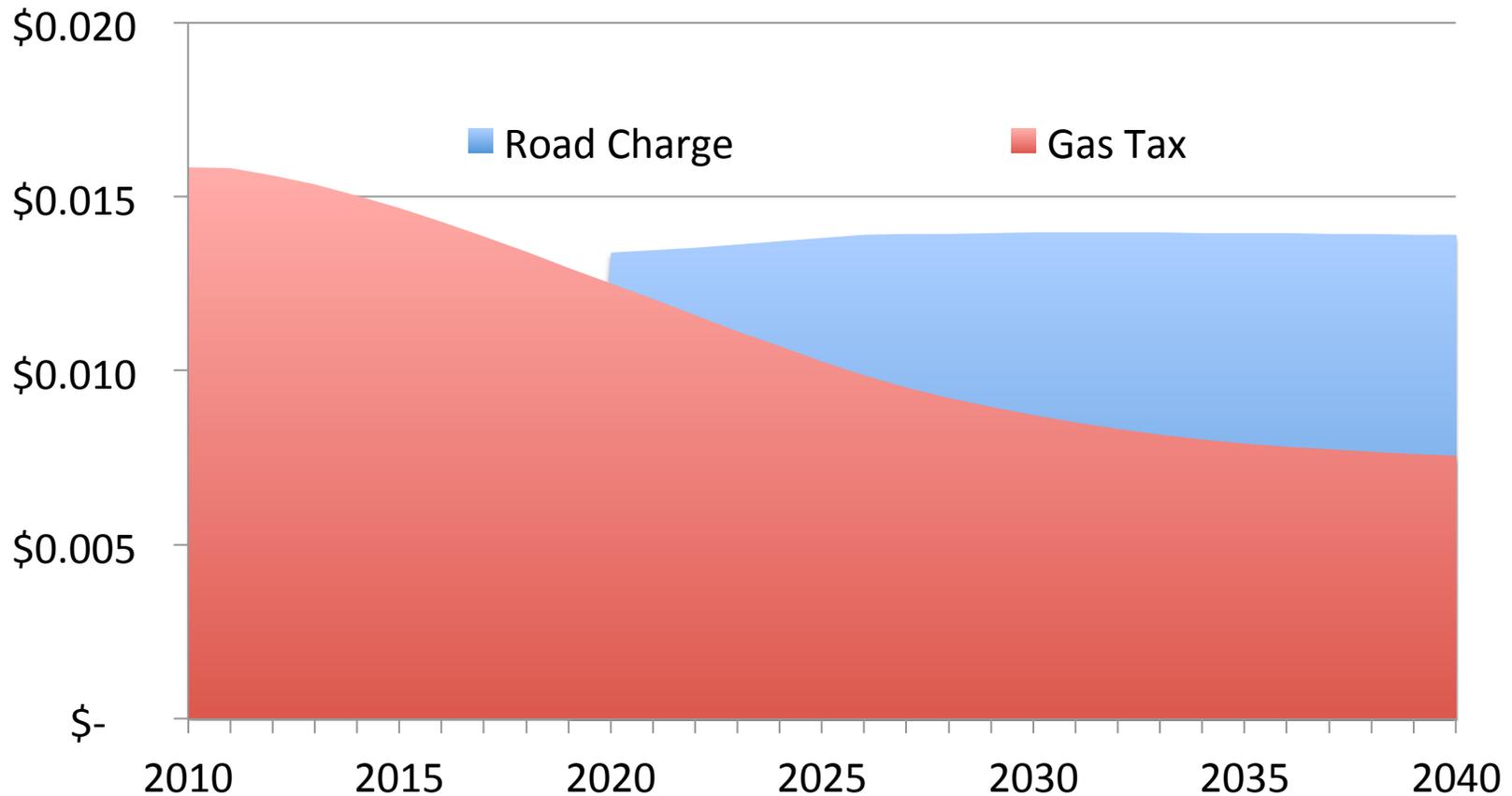


Initial Road Charge Account Management Cost Estimates for Three Scenarios



Preview of Next Steps: Net Revenue Analysis

If implemented, a road charge could stabilize net revenues without rate increases, despite higher collection costs



**assumes Road Charge begins in 2020 at 1.4 cents/mile (gross revenue neutral with gas tax in 2016/2017)*

