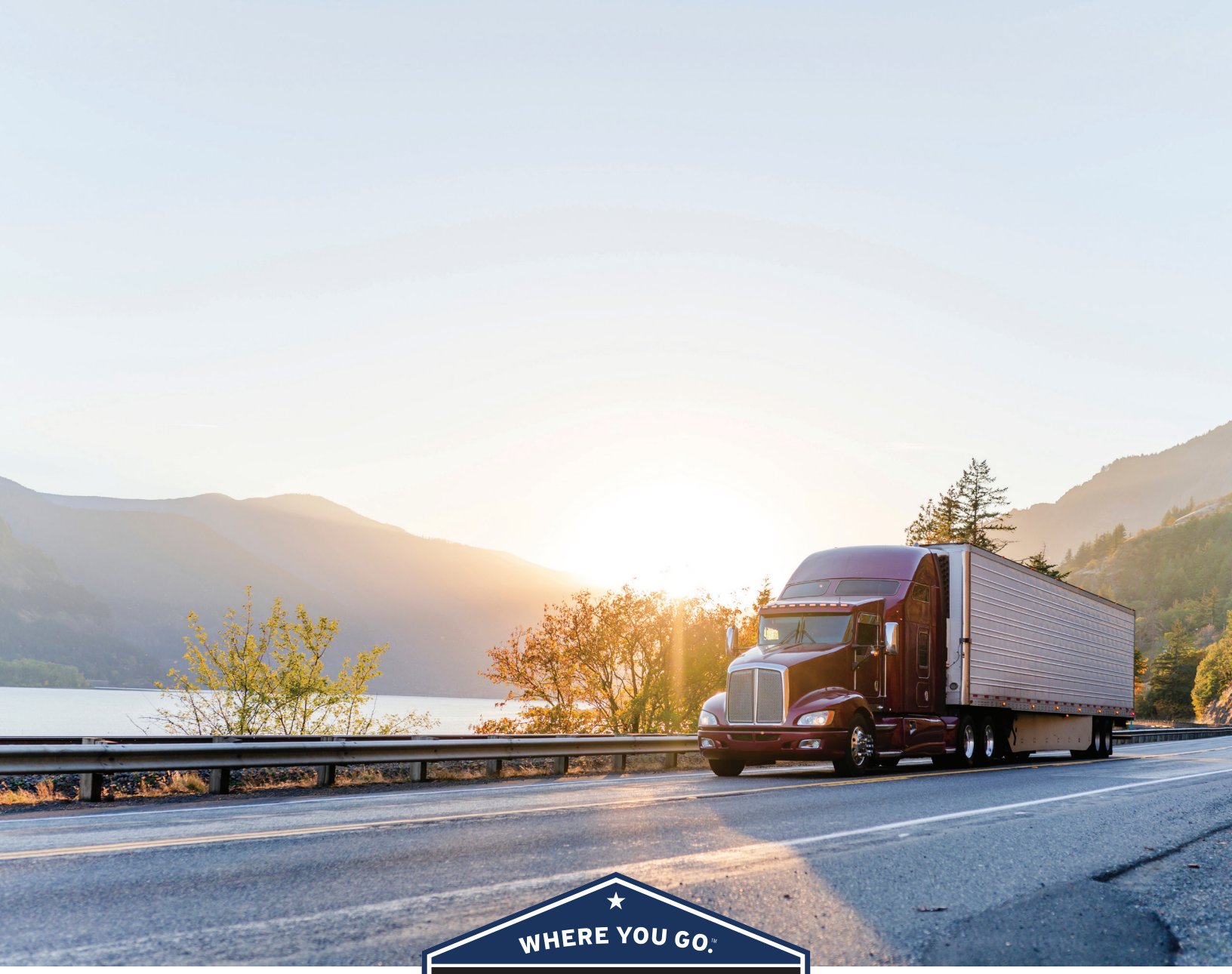

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BESTPASS®

ROAD USER CHARGING:
A Look at What's Ahead

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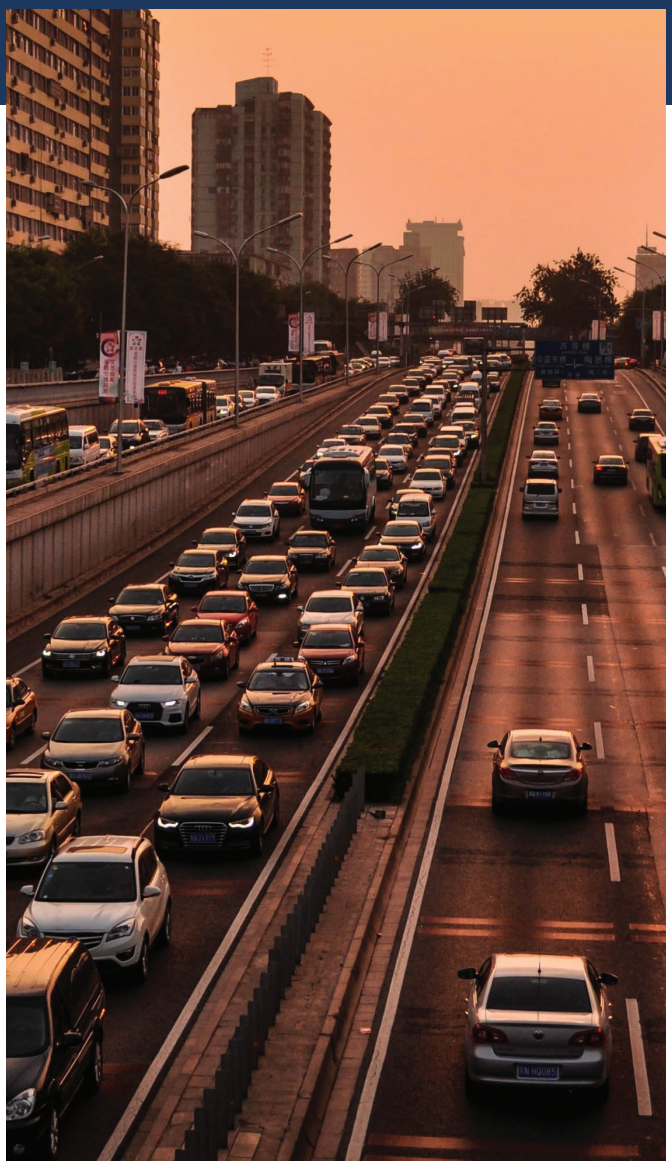
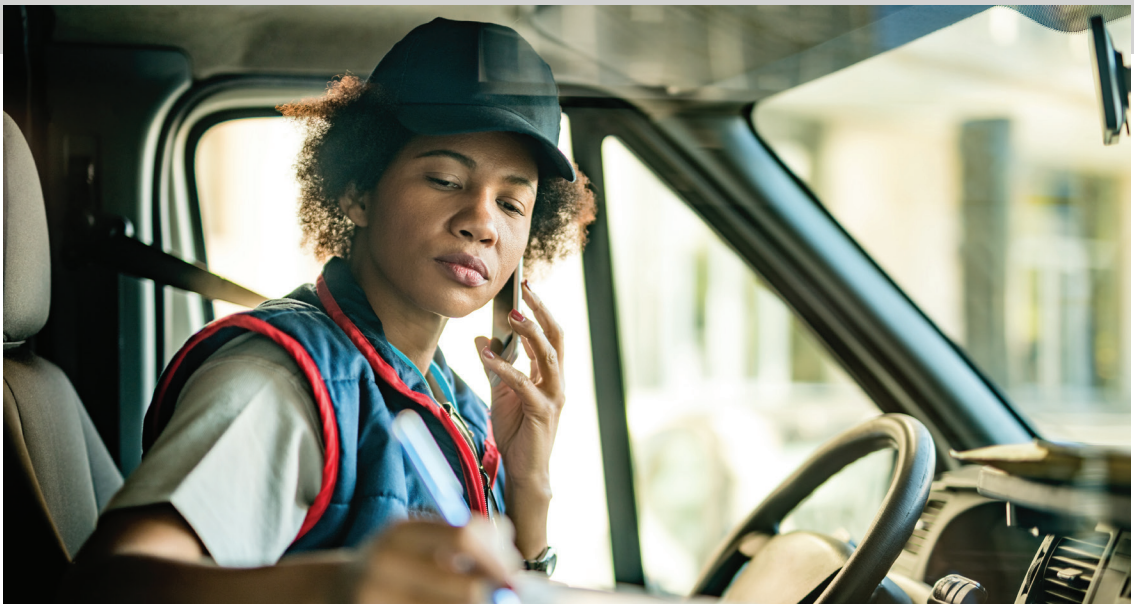


About Bestpass

Bestpass is a comprehensive payment platform provider and leader in toll management solutions for commercial fleets of all shapes and sizes. We ensure data accuracy, consolidate payments, and save users time and money. Founded in 2001 by truckers for truckers, we are a trusted partner on the road and in the back office for customers and tolling authorities.



Whether you're a fleet manager or a professional driver, if you make your living in the trucking industry it's likely you've heard about a new fee collection strategy on the horizon. It's sometimes referred to as road user charging (RUC), although that concept is a broad umbrella for several different strategies that municipalities can employ. There's a fair amount of confusion about the topic, and even some controversy. Not surprisingly, many in the industry don't quite know what to expect. That's why toll management solution provider Bestpass put together this whitepaper — both to shine a bit of light on the subject and to offer support to those whose financial bottom line is likely to be dramatically impacted by what's coming.

And make no mistake: It's very likely that road user charging is coming, or, more accurately, changes are coming to the RUC programs that are already out there — and sooner than you may think. In fact, new strategies are already being rolled out in some places through pilot testing programs, and funding to study new implementation possibilities is tucked into the infrastructure law (also known as the Infrastructure Investment and Jobs Act, or IIJA) that recently made its way through congress and was signed into law in mid-November 2021.

What's happening?

So, what exactly is road user charging? In its simplest sense, RUC is a way of charging for the use of roads. The familiar practice of tolling on selected stretches of road is one type of RUC, and it is practiced all over the world to fund new construction and the maintenance of existing roads, tunnels and bridges. But there are other RUC strategies as well, which may be less familiar In the United States. These include programs such as vehicle miles traveled (VMT), which is a fee assessed on the number of miles driven, and congestion pricing, which is designed to curb congestion by increasing fees for travel at specified times.

These strategies have been successfully utilized in other countries. In New Zealand, for example, drivers of heavy vehicles and diesel-powered vehicles purchase "distance licenses" in 1000-kilometer units (equivalent to around 620 miles). Some European countries use "vignettes" to measure road use in time, instead of distance; stickers or electronic signatures linked to registration plates are purchased for road use for a specified period, such as a day, a month or

a year. In London, a “congestion charge zone” designated for travel within the city center during specified days and times is enforced by automatic number-plate recognition. That system, along with a similar one in Stockholm, was inspired by the decades-long success of the Electronic Road Pricing (ERP) in Singapore — the world’s first city to address congestion via an electronic toll collection system.

Meanwhile, America may soon become more familiar with both VMT and congestion pricing, as their potential rollout is supported by the new infrastructure law. There is no mandate for either program or any specific time frame for implementation. However, the legislation does outline required time frames for the development of programs which are closely related, such as strategies for carbon reduction, and actively encourages the incorporation of new RUC strategies to achieve those goals.

Why is it happening?

Road user charging strategies like tolling and VMT can be used to cover infrastructure costs. They may also be focused on environmental concerns like decreasing air and noise pollution, a primary catalyst for introducing congestion pricing. One common denominator is that an increased number of vehicles translates to greater impact, whether on the roads or in the atmosphere. As with taxes imposed on gasoline, the degree of impact can be offset by raising the cost of whatever fuels it. Seen in that context, you might even think of gasoline taxes as another type of RUC — which helps explain the need for a change in strategy.

Electric vehicles are on the rise, and fuel tax revenues are down as a result. According to the International Energy Agency (IEA), more than 10 million electric cars were on the world’s roads in 2020. Registrations of electric cars increased despite the COVID-19 pandemic; even as conventional vehicle registrations were falling. More recently, the steep rise in gasoline prices driven by factors like the war in Ukraine has increased consumer interest in electric vehicles, as TIME Magazine reported. Presuming these trends continue, the ability of fuel taxes to offset the impact costs of road use will continue to decrease. Moreover, as the International Bridge, Tunnel and Turnpike Association (IBTTA) notes, most fuel tax revenues in the United States are based on fixed amounts per gallon and are not tied to inflation — so they have not come close to keeping pace with the dramatic increase in fuel prices seen during much of the last two decades.

The bottom line is that policymakers are liable to turn to other RUCs to compensate for the loss of gas tax revenues. Strategies like VMT and congestion pricing offer a viable solution.

Where is it happening?

RUC pilots and studies are currently underway in numerous states, with a focus on major cities. Even before the IIJA was passed, the Fixing America's Surface Transportation (FAST) Act incentivized states for looking into what it calls "user-based alternative revenue mechanisms" as a way of ensuring the long-term soundness of the Highway Trust Fund.

Oregon is among the pioneers for VMT systems in America, beginning operations of its OReGO program in 2015. The program offers incentives to drivers to enroll their light-duty passenger vehicles on a volunteer basis. Fuel tax paid at the pump (currently $0.38 per gallon in the state) is treated as a prepayment for road use charges, which are assessed at a fraction of that amount ($0.019) for each mile driven. Drivers of fuel-powered vehicles are also rewarded with credit toward emissions testing costs, while those with electric vehicles are eligible for reduced registration fees.

Meanwhile, New York City has been gearing up to implement a congestion-pricing strategy since the passage of the state's 2019 budget — although politics, the pandemic and public outcry have all slowed its progress. The plan would charge tolls to drivers in Manhattan's central business district to reduce traffic and to raise funds for improved public transportation alternatives. As in other world cities where congestion pricing has taken root, the measure allows for "variable tolling" to be charged at different days and times depending on traffic conditions.

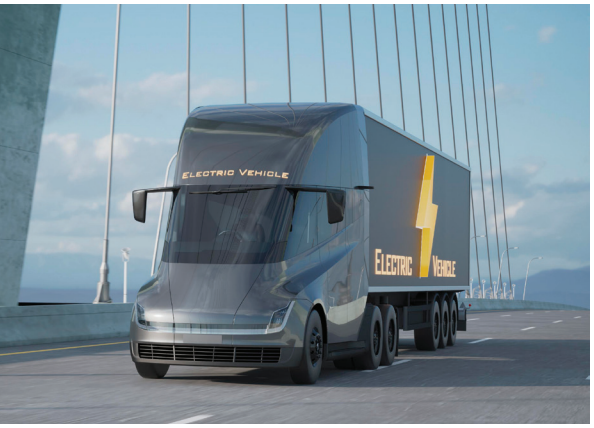
One of the NYC program's most controversial aspects centers around the topic of who should be exempt from increased charges: emergency vehicles are a no-brainer, but what about city residents who may be less to blame for congestion woes? Too many exemptions could undermine the system's purpose, as a recent article from The City points out. At present, most sources are reporting that the plan will likely take effect by the end of 2023 — though many details have yet to be worked out.

Who will it impact?

First, let's clear up a common misconception about the burden that new RUC strategies will place on the trucking industry: VMT is not planned as a "trucks-only" fee, even though this was notion was briefly discussed during Senate deliberations. Social media users latched onto this idea long after it was dismissed, sharing an image of a "driving tax" that kept the controversy pot bubbling.

That said, however, trucks are liable to bear a greater burden of RUC almost by definition. Unlike passenger cars that largely stay within the borders of their home states, trucking is designed as an interstate operation involving routine travel into major cities. This gives the industry greater exposure to VMT and congestion pricing implementation. In addition, while those who travel by car for whatever reason may be able to make alternate plans to limit their exposure — planning to arrive late at night for a visit, for example, to avoid the congestion pricing window — the trucker's mission of delivering goods is not so flexible. Built into the system is the incentive to arrive quickly at final destinations, regardless of time of day.

Going back to the NYC scheme for a moment, it's worth noting that long-haul trucks don't always deliver goods into the city; their manifests could be transferred instead to final-mile service vehicles. Yet fleets will still feel the impacts generally, especially if such service vehicles are included in their ranks. The bottom line is that trucks are likely to be charged more for their travels than other types of vehicles, and trucking companies will need to spend more to deliver goods.



There are those who may say that trucks should bear a heavier burden of RUC costs, because they create a heavier burden on the roads and the environment. Yet this overlooks the fuel tax factor mentioned above: Electric cars are on the roads now, adding to congestion and highway wear-and-tear without contributing cost offsets in the same way as gasoline-powered vehicles. Electric trucks, by contrast, are still largely a future-facing proposition — particularly in terms of long-haul. Even if the distances required become viable for electric vehicles, the necessary charge times are likely to be long — and, like the limitations of flexibility around delivery times, the current system is not designed to support this: Drivers only get paid when they're driving, and charging time is not factored into that equation.

How will it be done?

The mechanics for rolling out new RUC strategies is still largely an open question, although it's likely that strategies will model themselves after ones that have proven successful in pioneering states or in other parts of the world. It's also likely that fees will be assessed with different mechanisms from those that are currently used for tolling, which were designed before alternative types of RUC entered the conversation.

That said, Bestpass is poised to be an authoritative source on the subject. The tolling management solution provider will continue to monitor and provide updates on the evolving landscape, along with introducing strategies for its customers to avoid pitfalls — like being double-charged in error when multiple RUC systems are present. Founded in 2001, the company is committed to ensuring data accuracy, delivering industry expertise and saving its users time and money.

We hope this whitepaper has helped to clear up some of the confusion about road user charging. For more information on Bestpass, visit www.bestpass.com or call 888.410.9696.