
Next Steps: A Potential Path for an Interoperable Commercial Road Use Charge System Through the International Fuel Tax Agreement

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Introduction and Background

The history of interoperability is as old as the Highway User Trust Fund itself. The ability of states, in a regional or national model, to exchange and make use of data to ensure that revenues are divided and shared based on the proportion that a user spends driving in a given state is at the core of interoperability. State motor fuel taxes were initially adopted by the Oregon Department of Transportation in 1919 and then, subsequently, other states followed suit. A federal motor fuel tax was not implemented until many years later. Since the states often serve as laboratories of invention that federal policy can learn from and ultimately mimic, it's a natural progression of policy development.

Road use charging, the collection of mileage-based taxes or fees, is a potential model for future funding sustainability that could follow a similar path as the motor fuel tax. Three states (Oregon, Utah, and Virginia) have already implemented operational road charging systems for some personal passenger vehicles. In July 2023, Hawaii passed the first state legislation for a mandatory road use charge program, requiring all vehicles to transition from paying a gas tax to a road use charge by 2033. Five states (Oregon, Connecticut, Kentucky, New Mexico and New York) have mileage fees assessed on interstate commercial vehicles with rates that vary based on weight of the vehicle, with Indiana recently passing legislation as well. A federal system and associated national operational framework for road use charge interoperability will likely only occur once more states have implemented road use charge systems. However, road use charge policy development, specifically as it pertains to interoperability, has the benefit of lessons learned from decades of policy refinement associated with the motor fuel tax.

One of these lessons learned is the undeniable need for interoperability that leads to revenue reciprocity among states. The modern era of surface transportation is defined by the increase of mobility amongst users of the system. Increased safety and fuel economy features within vehicles allow users to traverse the surface transportation system with relative ease. This often times means crossing state lines. Since states collect fuel tax individually at the rack, if a user of the particular state's transportation network doesn't purchase fuel in that state, an unfunded burden to the state to maintain the system (otherwise known as the free-rider dilemma) emerges. Mitigating this dilemma is the primary impetus for interoperability and revenue reciprocity. There are widely adopted models that currently serve very well for fuel tax interoperability and revenue reciprocity: the International Fuel Tax Agreement (IFTA) and the International Registration Plan (IRP). IFTA focuses on fuel tax interoperability and reciprocity, whereas IRP focuses on registration interoperability and reciprocity, for heavy duty vehicles that transport goods or property, and either weigh greater than 26,000 pounds with at least two axles or have three or more axles (weight no longer a factor).

IFTA¹ is a reciprocity agreement between the 48 contiguous states and 10 Canadian provinces², referred to as “jurisdictions”, which enables motor carriers to report their usage of the surface transportation system by state. This information is then used to calculate motor fuel tax paid at the point of purchase (e.g., gas stations) and then estimate the amount of fuel consumed on the road in each state. In order to operate as a motor carrier that crosses state lines, motor carriers are required to apply for an IFTA license through their base jurisdiction, which is the state or province that registers the fleet vehicles. This license ensures that motor carriers are reporting their usage of the system and location of fuel purchase. It is a mechanism to provide reciprocity amongst states as motor carriers travel the country, across state lines, to deliver goods. Jurisdictions use state law enforcement to conduct roadside enforcement. If a motor carrier is found to be in violation of IFTA requirements, its IFTA license is suspended, which affects its entire fleet. Law enforcement verifies the status of an IFTA license when a fleet vehicle goes through a weigh station check or is stopped for a traffic violation. If there is an IFTA license violation, such as fuel tax owed, then the vehicle can be seized until the tax is paid.

Each commercial vehicle entity (i.e., fleet manager / taxpayer) with an IFTA license files a single tax return on a quarterly basis with the jurisdiction where they are licensed. These returns contain mileage and fuel use information (on a fleet basis). Each jurisdiction sends the summary of all carrier information to IFTA. Once all transmittals are received from the member jurisdiction, IFTA “nets” these transmittals to determine whether a jurisdiction is due money for the quarter or owes money for the quarter. These results are sent to the member jurisdictions. If the jurisdiction owes the Clearinghouse that month, they remit a payment, otherwise they will receive a refund once the funds are collected from the member jurisdictions who owe and are redistributed.

IRP is a reciprocity agreement between the 48 contiguous states, the District of Columbia (Washington D.C.), and 10 Canadian Provinces, which requires motor carriers to register an eligible vehicle with a given state, also known as their base jurisdiction, where they can demonstrate that they have established place of business or residency. IRP registration fees consider the distance an eligible vehicle travels in other member jurisdictions and apportions the registration revenues appropriately. The vehicle travel information required to be kept for IRP audit review is the same as the vehicle travel information that IFTA requires, except that no fuel tax information is needed for IRP reporting. Unlike IFTA, which is reported quarterly, IRP is reported once per fiscal year and is based on mileage incurred.

The passage of the Intermodal Surface Transportation Efficiency Act (ISTEA) in 1991 marked a turning point in the U.S. transportation policy by creating the need for planning requirements that would ensure a consistent approach to surface transportation and transit investment. Prior to the establishment of these agreements, processes and requirements varied from state to state. Interstate carriers had difficulty managing reporting and compliance. Interoperability is enabled in this sense by having uniform requirements using the “base jurisdiction” concept as a single

¹ For an in-depth look at the history and structures of IFTA and IRP, please see the Eastern Transportation Coalition’s excellent paper: <https://tetcoalitionmbuf.org/wp-content/uploads/2022/02/IFTA-IRP-Tech-Memo-1.pdf>

² The nonmember jurisdictions are Mexico; Alaska, Hawaii, and the District of Columbia (DC); and Canada's Nunavut, Yukon Territory, and Northwest Territories.

reporting point for interstate carriers. State agencies act as the account manager with IFTA and IRP systems providing clearinghouse services.

By 1996 the law had created the mandate for states to uniformly issue vehicle registration and collect motor fuel tax that conformed to IFTA and IRP. While IFTA and IRP were in place prior to ISTEA, the law paved the way for national adoption of these models and their corresponding practices. These models have served as an insightful way to collect the data needed to equitably distribute transportation funding among states and ensure revenue reciprocity.

Due the effectiveness of the IFTA and IRP agreements, states are naturally reviewing the agreements to determine if they could also be used as part of a road use charge system. Due to the similarities of collection and the need for interstate revenue reciprocity between the motor fuel tax and road use charge, IFTA and IRP are, in fact, viable models that could be utilized in a regional or national road use charge system. The Eastern Transportation Coalition recently completed a pilot test with both IFTA and IRP, demonstrating the feasibility of utilizing these existing systems to support interoperable commercial road use charging.³

Stakeholder discussions have shown a consistent preference among trucking industry users for interoperable systems. Trucking businesses fear that staggered implementation of road use charge among the states will lead to a fragmented national system where users must enroll in different systems for interstate travel. Commercial vehicle fleets and associations that represent the trucking industry have been adamant that any road use charge system should not result in additional regulatory burden or cost to the trucking community. The IFTA and IRP agreements ensure that these pitfalls are avoided. Regional and national interoperability will be necessary in the future as state road use charge systems come online and these agreements provide a model for states to consider due to its familiarity among the commercial motor carrier market and state agencies that would be responsible for administering a road use charge, existing governance structures, and their adherence to common standards which allow for consistency in interstate revenue reciprocity.

The standardization of commercial vehicle road use charge reporting among states is a critical step in pursuit of regional and national road use charge interoperability. IFTA and IRP have created this level of standardization through the development of their agreements and national legislation (ISTEA) which led to widespread conformity, while allowing for state sovereignty, in commercial vehicle registration and motor fuel tax reporting required throughout the contiguous 48 states. The standards that IFTA and IRP have put forward include:

³ https://tetcoalitionmbuf.org/wp-content/uploads/2023/09/TETC_Phase-IV_Final-Report_91123_FINAL.pdf

Table 1: IFTA/IRP Terms and Definitions

Term	Definition	Entity
Base Jurisdiction	The Member Jurisdiction, selected to which an Applicant applies for apportioned registration under the Plan or the Member Jurisdiction that issues apportioned registration to a Registrant under the IRP Plan.	IRP
Base Jurisdiction	The member jurisdiction where qualified motor vehicles are based for vehicle registration purposes: <ul style="list-style-type: none"> • Where the operational control and operational records of the licensee's qualified motor vehicles are maintained or can be made available; and • Where some travel is accrued by qualified motor vehicles within the fleet. The commissioners of two or more affected jurisdictions may allow a person to consolidate several fleets that would otherwise be based in two or more jurisdictions. 	IFTA
Clearinghouse	Responsible for the maintenance and administration of licensee demographic and transmittal data transmitted by participating members. The clearinghouse is also responsible for providing a mechanism for the exchange of Interjurisdictional Audit Reports.	IFTA
Jurisdiction	A state of the United States of America, the District of Columbia, a province or territory of Canada, or a state of the United Mexican States.	IFTA
Licensee	A person who holds an uncanceled Agreement license issued by the base Jurisdiction.	IFTA
Member Jurisdiction	A Jurisdiction that has applied and has been approved for membership in the IRP Plan.	IRP
Registrant	Person in whose name a Properly Registered Vehicle is registered.	IRP
Repository	The Repository shall compile the necessary information elements for calculating Apportionable Fees in accordance with the Plan. The Repository shall also keep Member Jurisdictions apprised of the status of the Plan in the manner determined by the Board to best accomplish this purpose. The other duties of the Repository shall be as set forth in the Plan and as determined by the Board.	IRP

- IFTA requires tax returns to be filed quarterly by the Licensee with the Base Jurisdiction. The Licensee is required to report all distance traveled and fuel purchased by its qualified vehicles during the reporting period (January-March; April-June; July-September; and October-December).
- Registration and motor fuel tax information, along with the funds exchanged between the Licensee and Registrant and the Base Jurisdiction, are transmitted monthly to the appropriate Clearinghouse. Member jurisdictions do not have to participate in the Clearinghouse but are encouraged to do so.
- Transactions from all member jurisdictions are netted together monthly by IFTA through the Clearinghouse. The Clearinghouse notifies the member jurisdictions of the monthly netting results. If the jurisdiction owes the Clearinghouse that month, they remit a payment, otherwise they will receive a refund once the funds are collected from the member jurisdictions who owe and are redistributed.
- IRP collects registration fees based on the percent of

distance traveled in each jurisdiction with the reporting period of July 1 – June 30 that consists of the total distance traveled in all jurisdictions supplied once a year at the time of renewal.

IFTA and IRP are governed by their respective Board of Trustees (IFTA) and Board of Directors (IRP). Their respective governance documents are subject to amendment and change by their member jurisdictions. The following section demonstrates the ballot process for document amendment for both IFTA and IRP.

IFTA's multijurisdictional agreement is governed by their Articles of Agreement, Audit Manual, and Procedures Manual. Individual member jurisdictions, the Audit Committee, the Agreement Procedures Committee, the Clearinghouse Advisory Committee, the Law Enforcement Committee, the Program Compliance Review Committee, the Alternative Fuels Committee or the Board of Trustees of the Association can propose amendments to the agreement; however, any change to the agreement requires a 3/4 affirmative yes vote from eligible members. Amendments are considered in two categories, substantive and non-substantive changes. Non-substantive changes are those that are considered not to change the original meaning of the Articles of Agreement, Procedures Manual, or Audit Manual. Substantive, or ballot proposals, must be submitted to the Repository at least 60 calendar days before an open meeting of the commissioners. Then, the Repository will circulate the proposed amendment as a ballot proposal to all member jurisdictions and the standing committees for a 30-calendar-day comment period. At the end of the 30-calendar-day comment period, the ballot proposal must be submitted to the Repository for consideration at the next open meeting of the commissioners. Ballot proposals must be discussed at an open meeting of the commissioners. Ballot proposals may be voted on at the meeting and be adopted in accordance with IFTA Articles of Agreement Section R1630 with a 3/4 affirmative yes votes of eligible members who voted.

IRP is governed by a Board of Directors that is responsible for overseeing all items that relate to the governance of the IRP Plan and the adoption of bylaws. In the IRP model, member jurisdictions, at the direction of the Board of Directors, are responsible for voting by ballot to resolve issues. Ballots are sent by the Repository to each of the member jurisdictions, which are each allowed a single vote.

As demonstrated in the Eastern Transportation Coalition pilot, both systems have the potential to be adapted to support road use charging for commercial vehicles. This paper looks only at exploring the steps necessary to move from concept to implementation of a system through IFTA, which with its existing quarterly reporting of mileage may be the smallest adjustment for both the system and the trucking industry. In short, IF IFTA is the chosen path to support an interoperable commercial road use charge system, what actions need to take place to make the transition happen?

Steps Necessary to Implement a Commercial Vehicle Road Use Charge through IFTA

The potential migration from the motor fuel tax to a road use charge system, specifically the implementation of a commercial vehicle road use charge, will require multiple entities (IFTA, the States, and Congress) to take meaningful action to ensure interoperability and revenue reciprocity.

Steps IFTA Needs to Take

In order to transition from the motor fuel tax to a road use charge system, there are several meaningful steps that IFTA should consider. These include updating agreements with jurisdictions, analyzing audit rates, IT updates, assessing staff impacts, and timeline and fee changes potentially needed.

With the passage in Indiana of House Bill 1050 in 2023, IFTA is already in the process of making many of these changes and will allow the reporting of road use charges for electric commercial vehicles driving through Indiana beginning in January of 2024. HB 1050 added electricity, hydrogen and hythane as alternative motor vehicle fuels and calculated their per-mile tax rate for those fuels based on the Indiana diesel tax rate. In most practical aspects, IFTA will have a basic interoperable structure for a commercial RUC ready for states to consider joining in 2024.

Update Agreements with Jurisdictions

In 1991, IFTA and IRP were created using a paper-based system; over the past three decades, the filing system has become more electronic with credentials and payments. According to the Eastern Transportation Coalition (ETC), “Both IRP⁴ and IFTA⁵ presented ballots in 2021 to adjust the time it takes to make changes to the governing documents⁶”. The importance of these ballots is to adapt the core framework of having an archaic paper-based foundation to having the ability to exchange and process information using computer systems.

This was a meaningful step forward for IFTA and will likely prove invaluable because the transition away from the motor fuels tax to a road use charge system will likely entail the transition of both passenger vehicles and commercial vehicles into an interoperable road use charge system. If this is the case, IFTA would need to update their agreement and create a standing IFTA committee to work on considerations and policy implications. The committee would also identify needed changes to the agreement including the taxing methodology

⁴ [IRP Proposed Ballot Number 441](https://cdn.ymaws.com/www.irponline.org/resource/resmgr/irp_ballots/Ballot_441.pdf)

https://cdn.ymaws.com/www.irponline.org/resource/resmgr/irp_ballots/Ballot_441.pdf

⁵ IFTA Full Track Preliminary Ballot Proposal (FTPBP) #3 2021

⁶ The Eastern Transportation Coalition, *The International Fuel Tax Agreement (IFTA) and International Registration Plan (IRP)*, February 2022, [IFTA-IRP-Tech-Memo-1.pdf \(tetcoalitionmbuf.org\)](#).

(mileage-based tax system), audit requirements, record keeping requirements, standard technology requirements, peer reviews of jurisdictions, return format, and uniformed data.

The current definitions for Qualified Motor Vehicles are within both the IFTA and IRP agreements, as follows:

- Has two axles and a gross vehicle weight or registered gross vehicle weight exceeding 26,000 pounds or 11,797 kilograms, or
- Has three or more axles (power unit only), regardless of weight, or
- It is used in a combination that has a combined or registered gross vehicle weight of more than 26,000 pounds or 11,797 kilograms.

The member jurisdictions must vote to amend the agreements in order to expand the vehicles currently included within IFTA processing, such as for commercial vehicles weighing between 26,001 pounds, those that only travel within state boundaries, or for passenger vehicles. Getting consensus from all member jurisdictions in the 48 contiguous states and the 10 Canadian provinces on these changes to the definition of “Qualified Motor Vehicle” may be a challenge but does not require any legislative change. Alternatively, a federal legislative directive may become necessary to have all members accept a change to process an expanded set of vehicles within their jurisdiction.

The five states that have commercial vehicle mileage fee programs (Oregon, Connecticut, Kentucky, New Mexico and New York) require fleet carriers to submit separate returns directly to each individual state. As more states consider mileage programs for commercial vehicles, they may become more willing to expand IFTA so the freight industry can benefit from filing just one “mileage tax return” that covers all their interstate travel just like IFTA does for their fuel taxes now.

Audit Rates

Base jurisdictions currently handle IFTA-related audits of account holders with a frequency of audits averaging three percent of licensee (IFTA)/ registrants (IRP) annually. Licensees report at the fleet level, but distance must be maintained by the individual unit for audit purposes for both IFTA and IRP.

The shift from the fuel tax system to a road use charge is a change from a pre-pay system to a post-pay system. With this increase in the risk of tax evasion, an increase in the required audit rate might be appropriate. If audit rates should increase under a road use charge system, IFTA would have to create a ballot to adjust the governing documents to include road use charge and adjusted audit rates. The timeline of implementation of the change could be an additional 12-18 months from the time of approval. One key benefit to utilizing IFTA is the existing membership base of 58 jurisdictions, all of which are in a cooperative agreement. This means that once the agreement is changed, member jurisdictions will comply with one uniform approach. Changes to include road use charge and change the audit rates could each have staffing implications to the member jurisdictions, further discussed in Section 3.3.

IT Updates

There are two possible approaches to the IT system upgrade necessary to support a commercial vehicle road use charge program.

Approach 1 – Update existing system, business processes, and framework

The clearinghouse system and framework IFTA has in place is already providing the basic functionality that would be needed by a commercial vehicle road use charge data and financial clearinghouse. The IFTA clearinghouse enrolls and manages user accounts (e.g., participating jurisdictions), and reconciles the information and associated funds that should be allocated to each non-base jurisdiction. How and when data flows in to the IFTA clearinghouse would not need to change significantly to serve as a commercial vehicle road use charge clearinghouse.

Where there might need to be significant changes is at the business process and database level⁷. Data level validation and business processes are interwoven to provide an audit before files are loaded into the production database. Database primary keys, foreign keys, and constraints would need to be analyzed and impacts would need to be determined to fully understand required system changes.

With the data audit being integrated into the data load process (an example being batches process files and move data from one folder to another and file size can denote error records) the entire existing business processes would need to be reviewed in detail for changes and impacts. New business rules, validations, and audits would need to be written to follow any updates to policies and rules adopted by all member jurisdictions. Business rules pertaining to how to deal with member jurisdictions that only have a road use charge vs only a fuel tax and those that have a combination of both may need to follow any new decisions made by all member jurisdictions. In addition, a road use charge can and would be assessed on all available fuel types in parallel with the fuel tax (at least for a transition period). The IFTA system would need to be able to accommodate and be able to differentiate this situation.

Approach 2 – IFTA System Modernization

The clearinghouse system and framework IFTA has in place is due for a modernization. A consultant-run project could be funded by a federal funding, by state contributions, or by increased jurisdiction fees.

This approach would build a cloud-based solution with modern technologies and business processes to replace the existing IFTA system. It would ensure backwards compatibility with existing member jurisdictions by allowing existing file formats and business processes (flat file over Secure File Transfer Protocol (SFTP)). It would also build more robust interfaces for the member jurisdictions willing and able to upgrade to modern APIs to streamline and improve data flow and decrease errors.

⁷ The Eastern Transportation Coalition explored some of these necessary changes with IFTA in their recent pilot. https://tetcoalitionmbuf.org/wp-content/uploads/2023/09/TETC_Phase-IV_Final-Report_91123_FINAL.pdf

Having a cloud-based IFTA system offers significant advantages over the existing system in terms of scalability, cost-effectiveness, security, flexibility, and ease of system enhancements.

A cloud-based migration project would include high level project phases such as:

- Defining the business requirements
 - Evaluating the cloud service providers
 - Planning the migration strategy
 - Building a proof of concept
 - Deploying the cloud-based solution for testing
 - Migrating data and applications over
 - Testing and optimizing the cloud solution
 - Developing training and implementation plan
 - Training users and administrators
- Plan for a 6 month monitor and evaluation period for system enhancements

Staff Impacts

Gaining a firm understanding of the potential staff impacts to the implementation of a commercial vehicle road use charge will play a critical role ensuring that States and IFTA are in the most advantageous position to execute road use charge for commercial vehicles. From an IFTA perspective, the largest staff impacts would come through the management and expansion of the IFTA database of commercial vehicles if additional categories of vehicles are included. Additional IT and database management staff would be needed to support expanded operations. Also, additional administration positions would be needed to provide additional staff to support program operations. It is estimated that IFTA would need an additional 5-10 staff. Currently, IFTA operates with an annual budget of around \$1 million and eight full-time staff, supported by annual fees from each member jurisdiction of \$17,000. The additional staff would require an increase in annual fees of \$5,000 to \$10,000 per member.

It is currently challenging for some States to meet the 3 percent audit requirement of its IFTA licensees. The risk associated with a shift to a post-pay system is likely large, resulting in a significant increase in state audit personnel. Some states are experiencing challenges recruiting and retaining auditors. Consideration could be given to a robust IFTA-wide audit selection that relies on data to select the most beneficial audits rather than an arbitrary percentage of the accounts in each jurisdiction.

Timeline Needed

How quickly could IFTA be ready to implement a commercial vehicle road use charge? There are several elements of timing to consider:

- Ballot changes: How long would the necessary changes to the IFTA agreements discussed above take? Ballot timelines are based on IFTA Articles R1610, Submission of Ballot Proposals for Comment, and R1620, Ballot Proposal Procedures. It typically takes approximately 6 months to develop, circulate for review, and vote on a ballot to change procedures. Each ballot can contain one change, or multiple changes, and multiple ballots can be processed concurrently. However, there is typically a desire to limit the number of

issues that can be presented on an individual ballot. It is recommended that changes to the IFTA bylaws would limit one issue per ballot to create efficiency in voting process. Membership votes on two separate items for each ballot. First is the ballot language and second is the alternative effective date which could impact the implementation date. If a ballot fails, it can be amended and resubmitted and the process starts over again. According to Article R1615, Ballot Proposal Requirements, there is no language in regard to all changes being made on one ballot.

- IT updates: Once funding for system upgrades is identified, it takes IFTA 3 to 6 months to develop and execute IT consultant contracts. Project execution will take approximately 1 to 2 years. This process could happen concurrently with the ballot change process in most cases. One key exception would be if the funding for this upgrade came from a fee increase, in which case that ballot would have to be approved before the IT contract process could move forward. However, IFTA has a planned membership due increase in 2024.
- Training: Once ballot changes and IT upgrades are in place, IFTA staff will need to provide training to key staff from jurisdictions to assist with the rollout of the changes through their learning management system and in-person training sessions at conferences. Additionally, many jurisdictions use third party vendors to provide training which could accelerate the process. This would take approximately 6 to 12 months.
- IT Industry changes: One potential mitigating factor surrounding the efficient and successful implementation of IT upgrades are changes within the IT industry. In-vehicle telematics have already penetrated most vehicle markets. Innovations like these will continue to occur. Flexible IT systems that accommodate future industry changes will mitigate risk and allow implementation to continue.
- Jurisdiction implementation: States would need time to make changes to internal processes to implement changes. This takes approximately 18 to 24 months for the implementation.
- Law Enforcement: In order for the IFTA model to be successful, identification of registered vehicles through the use of decals, special license plates, or digital identification systems will be needed. This will allow for specific enforcement of IFTA registered vehicles.

Overall, IFTA estimates it would take 3 to 5 years to fully implement a commercial vehicles RUC program as described in this section. But as noted, IFTA has already begun implementing some elements and basic interoperability for a commercial vehicle RUC will already begin in January of 2024 for commercial electric vehicles traveling through Indiana.

Membership Fee Changes Needed

There are a number of fees associated with the administration of existing IFTA and state practices that would likely need to evolve with the migration to a road use charge program. For example, IFTA currently requires a \$17,000 membership fee on an annual basis. The inclusion of a broader spectrum of vehicles at the state level would result in those fees being raised, but the extent to which would depend upon composition of vehicles included within their scope (e.g., commercial vehicles only, commercial vehicles differentiated by weight (< 10,000 lbs., 10,001 – 26,000 lbs.,

> 26,000 lbs.). Another element impacting the IFTA membership fee would be the growth of existing staffing levels or IT upgrades needed to operate an expanded program.

Steps Congress Needs to Take

Statutory changes required to make IFTA-based interoperability work will require both state and federal action. This section details the steps that Congress should take to ensure the successful implementation of the IFTA agreements in the road use charge context and include an assessment of international participation, specifically at border crossing, vehicle class definitions, as well as helpful, but not critical, statutory changes.

Required Statutory Changes

Interoperability and interstate revenue reciprocity serves as the primary impetus for the use of the IFTA agreement. However, managing international border travel is also a benefit provided in this agreement. IFTA currently has 10 member jurisdictions from Canadian provinces which will be part of any cooperative agreement that is developed for a road use charge system. While Mexican states can join IFTA, at present they have not chosen to. This means that the southern U.S. border will be a hard border rather than an interoperable one, and federal direction on how to manage this hard international border is needed. This is of particular importance to California, Arizona, New Mexico, and Texas.

Potentially Helpful Statutory Changes

Congress can consider a statutory change to the ISTEAA legislation that created the mandate for all jurisdictions to join IFTA. Although IFTA can change their agreement without alteration of the law, as jurisdictions understand the benefits of maintaining this cooperative agreement, having amended ISTEAA language would take a top down approach to ensuring that all jurisdictions join together in a uniform approach.

[IFTA Article R245](#) could be changed to expand vehicle definition to include the 10,001 – 26,000 lbs vehicles. Existing legislation, ISTEAA⁸, grants IFTA the global authority to create the definition of a qualified motor vehicles, but further legislative action could be needed to change the definition of, “consumption” in the context of fuels (both organic and electric). “Consumption” conventionally referred to the consumption of motor fuels; however, with the emergence of fuel diversification (CNG, LNG, etc.), and the electrification of the national fleet, a renewed definition of consumption could be a helpful clarification in statute. The IFTA ballot facilitates this process if member jurisdictions agree. Vehicle classification definitions are a step that Congress could take to further delineate and define what constitutes a passenger and commercial vehicle. While expansion to vehicles below 26,000 pounds can be done through the existing IFTA governance process, Congress could also choose to enact it into law.

⁸ Section – 4008 – Participation in international registration plan and 49 USC 11506 International Fuel Tax Agreement, Part K (Definitions), Section 1 – Commercial Motor Vehicle.

Beyond the expansion of applicable vehicles, Congress could also consider establishing different federal RUC rate categories based on vehicle class, weight, or type. The Eastern Transportation Coalition has explored several rate structures that Congress could consider. While states would still have the right to set their own rates for state-level RUCs, just as they do with state gas taxes, having a federal structure in place early on could facilitate greater similarity of rate structures across the country since states would have an existing example to look to.

Should Congress wish to pass a federal level commercial road use charge, the IFTA process can also support the collection of a federal road use charge. As demonstrated by the Eastern Transportation Coalition's pilot, either the U.S. government or the Canadian government can be added as additional "jurisdictions" for which states collect fees and the IFTA clearinghouse sorts to the proper recipient. Under this system, the administrative cost for the federal government is extremely low, as the work of collection falls on states, as discussed in the following section. One question would be whether the federal government would also delegate auditing to the states, which might require federal oversight of state audit programs, or if the federal government would directly audit accounts. If Congress were to consider moving in this direction, it may wish to provide funding or grants to states to facilitate or speed implementation.

Steps States Need to Take

Statutory Changes

In order for States to implement a commercial vehicle RUC, they will need to consider several types of legislative changes to their state laws. Many states will need to change their statute to allow for a Road Usage Charge in place of, or as addition to, their Fuel Use Tax, or rates and regulations on petroleum-based fuels and alternative fuels such as electric or hydrogen motive power. In order to avoid any possible Compact Clause issues, the changes should be embedded in their motor fuel and fuel use tax statute and reflect the fact that the road usage charge is a "consumption" tax and does not run afoul of ISTEA. Currently, fuel tax reporting and license requirements for carriers vary depending on where the vehicle travels, what type of fuel is used to power it, and the weight of the vehicle. Each State is different, so a careful review of current relevant state laws is necessary. Statutory changes to consider include: updating definitions of "Qualified Motor Vehicle" and "Interstate User" to address vehicles in the 10,000 to 26,000 pound range and commercial vehicles of all weights that only travel within state boundaries (both of which are also require IFTA ballot votes to update the definition), conforming existing commercial vehicle licenses with a commercial vehicle road use charge, and potential road use charge rate increases for inflation.

Program Administration

States will have several decision points that will affect the efficiency and approach to a state's RUC program rollout in an IFTA context. First and foremost, states should identify the lead state agency that assumes programmatic administrative responsibility (i.e. Department of Motor Vehicles, Department of Revenue, Department of Transportation, etc.). The diversity of state

governance structures likewise yields diversity in road use charge organizational structures. Once established, each agency's (lead and supporting) roles and responsibilities can be identified and fulfilled. Typically, choosing the state agency that is currently handling IFTA reporting will minimize the changes needed for both the state government and taxpayers. Depending on the rate of program growth and prevailing state practice, private-sector support may be needed, potentially until the proper organizational and staffing changes can be made.

State IFTA Administering Agencies

Currently, the state agency each State has identified to administer IFTA handles processes such as:

- Processing and handling of online registration for an IFTA licensee
- Annual renewal of the State's IFTA licensees
- Cancellation, revocation, and reinstatement of licenses
- Processing Quarterly IFTA returns through its internal system and transmission to the IFTA Clearinghouse
- Management of penalties and interest on taxes
- Auditing of distance records for qualified motor vehicles and fuel receipts, at 3% per year.
- Order the yearly decals that are distributed to the licensees
- Roadside compliance enforcement
- Handle Licensees' Appeals
- Collections of accounts receivable and delinquent returns
- Processing refunds
- Alternative Fuel Accounts

These processes already exist, so functionally speaking if a state agency also handles a commercial vehicle road use charge the primary needs would be increased staffing and appropriate IT upgrades. If the IFTA qualified motor vehicle definition changed to include commercial vehicles from 10,001 to 26,000 lbs then there could also be a significant increase in the number of fleet accounts that a state agency would be required to process as well.

Audit Rate

With the potential expansion of reporting commercial vehicles below 26,000lbs this would also lead to an increase to the number of audits that would need to happen every year. Currently, under IFTA's articles of agreements base jurisdictions are held accountable for audits and are required to complete audits of an average of three percent of the total number of their licensees, per year. In addition to this the selection of audits has two requirements where:

- At least 15 percent of each member jurisdiction's audit requirement shall involve low-distance accounts. (A low-distance account is the 25 percent of the previous year's licensees who had the lowest total number of miles/kilometers reported.)
- And at least 25 percent of each member jurisdiction's audit requirement shall also involve high-distance accounts. (A high-distance account is the 25 percent of the

previous year's licensees who had the highest total number of miles/kilometers reported.)⁹

If new commercial vehicles from 10,001 to 26,000 lbs were required to report under IFTA in a commercial vehicle RUC, then an increase in auditing will need to occur to ensure compliance with IFTA requirements, which means increased state staff.

Additionally, there is the question of whether the current IFTA requirement of three percent is sufficient for a road use charge system. Motor carriers have already paid fuel taxes when reporting to IFTA - currently pre-paid their taxes in essence. In contrast, a road use charge is paid after the road usage. This increases the motivation for tax evasion and fraud and could thus merit an increase in the audit rate. Such an increase would also require additional state staff.

Cash Flow and Quarterly Returns

A transition away from the motor fuels tax towards an operational commercial road use charge system will inevitably create a litany of impacts to state agencies. A successful operational road use charge program will require accurate and timely collection of road use charge revenues. Gas taxes are currently deposited monthly or continuously. The IFTA model currently operates on a quarterly basis, so the state would likely need to assess how this model could affect revenues, cash flow, and expenditures.

State Agency Staff Impacts

There are several categories of potential staff impacts. These include, but are not limited to auditing, administrative, IT, database management, and enforcement practices through state agencies. For example, the administering agency would likely have a large increase in the number of accounts it would need to manage if the categories of commercial vehicles were expanded. The Highway Patrol, in conjunction with Department of Motor Vehicles and others, would have increased impacts from various enforcement practices.

As mentioned in Section 3.3.3. - Audit Rates, there are a number of functions that an IFTA administering state agency currently maintains and would be impacted through the implementation of a commercial vehicles road use charge. If an introduction of more reporting vehicles under IFTA were to occur, the burden on the administering agency and all the processes they handle will increase. This report contemplates the possibilities of both increasing the population and increasing the audit percentage requirement. Workload is highly dependent on the number of IFTA license accounts that the administering agency has to manage and is not easily correlated to vehicle population. Fleets may vary in size from hundreds of vehicles on one IFTA license account down to just one vehicle on an IFTA account. Each State will have its own average number of vehicles per IFTA account, which can be used as a starting place to estimate projected growth in staffing. For purposes of this paper, readers could use an initial ballpark average of three or four vehicles per account to calculate a rough estimate of administrative staff costs.

⁹ Source: IFTA Audit Manual (<https://www.iftach.org/manuals/auditmanual.php#Introductions>)

Conclusion

The current IFTA structure is a viable option for States and the Federal government to consider as a foundation for an interoperable commercial vehicle road use charge system. Its particular appeal is in its existing governance structure, which balances national conformity and state sovereignty and has an established process for States to agree to necessary changes as technology and needs adapt. It already requires the reporting of miles on a quarterly basis, and so has minimal adjustments for the trucking industry to absorb.

As of January 1, 2024, IFTA is able to support the reporting of commercial road use charges for interstate vehicles over 26,001 pounds that state legislatures may pass, if ISTEA-conforming language in their fuel use tax law is used. For a full system that includes all commercial vehicles, political decisions need to be made to include vehicles between 10-26k pounds and those that are only traveling in state. There are two paths through which these decisions could be made: 1) an IFTA ballot could be passed to amend the definition of qualified motor vehicles for all member jurisdictions, or 2) Congress could pass federal legislation including these vehicles in a qualified motor vehicle definition, which would, however, reduce the current adaptability of the IFTA governance process.

Manageable changes and minimal funding will be needed for IFTA to absorb road use charge reporting. Minimal action will be needed by Congress to support the shift either, and the system has the ability to support the collection of a federal commercial road use charge at a low administrative cost for the federal government. Most of the statutory changes and staffing adjustments will need to be made by States as they each consider road use charges as potential transportation revenue sources.