



Technical Memorandum #9

DATE: November 11, 2016

TO: Corvallis TSP Project Management Team and Stakeholders

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SUBJECT: **Corvallis Transportation System Plan Update**
Tasks 4.3 TSP Funding Assumptions

The purpose of this memorandum is to review how the City has collected transportation funds for investments in the past, and to describe the funding framework assumed to be used in the future. The type and scale of funding assumptions that we make will be important for establishing realistic expectations for making community transportation investments. It also informs discussions about transportation project prioritization and whether new or expanded funding sources will be needed to attain the community's objectives.

The guidance provided herein is only intended as a starting point for the conversation. We anticipate that this work will evolve throughout the planning process as input is received from the Steering Committee, elected officials, and the general public.

Key Findings

- The majority of Corvallis' \$4.4 million annual transportation revenues are collected from the State Highway Fund, which includes motor vehicle registration fees, and state and federal fuel taxes.
- The State Highway Fund monies are not tied to an inflation index, and over time, their value decreases relative to construction costs.
- The City's transportation maintenance fee and the Transportation System Development Charge are indexed to adjust with construction cost inflation.

Current Revenue Sources

The City uses three primary revenue sources to fund transportation expenses:

- State Highway Fund distributions
- Local transportation maintenance fee
- Transportation System Development Charges (SDCs)



Other revenue sources include accrued interest and other service charges. The chart below summarizes the transportation revenues over the past five fiscal years at the City of Corvallis. The average for that period is \$4.4 million.

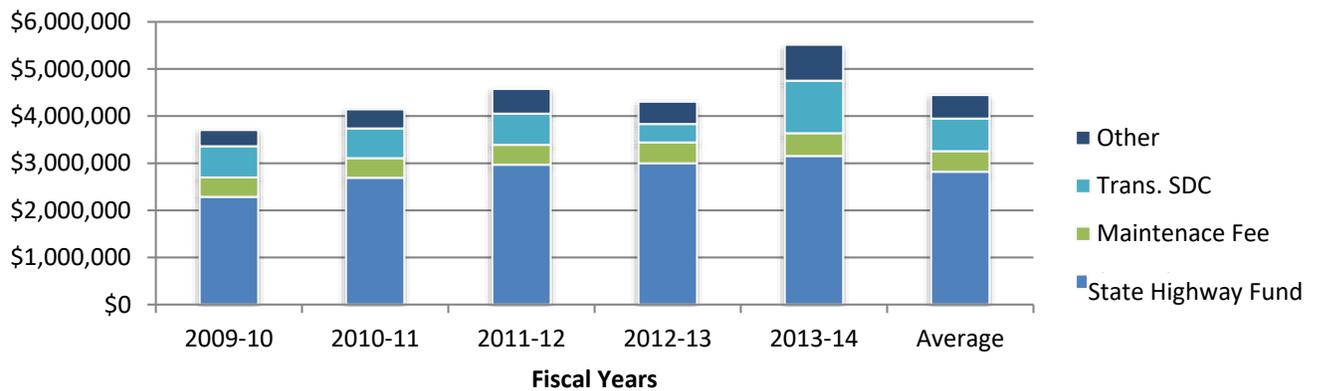


Figure 1: Corvallis' Recent Transportation Revenue

State Highway Fund

The State Highway Fund generates revenues primarily through the state motor vehicle fuel tax, vehicle registration fees, and truck weight-mile fees. It also receives distributions from the federal Highway Trust Fund, which is largely funded from the federal fuel tax. The state revenue sources are generally dedicated to debt service, highway maintenance (which could include projects on state highways in Corvallis), and agency (ODOT) operations.

Federal funds flow to states through the Surface Transportation Block Group Program (STBGP) by formula, and are distributed to a variety of programs for specific purposes¹. ODOT relies on these distributions to fund many of the safety, highway, and bridge improvement projects identified in the Statewide Transportation Improvement Program (STIP), and the majority of federal funding goes to state highways. A portion of STBGP funding is allocated to the Corvallis Area Metropolitan Planning Organization (CAMPO) which is then distributed to its member agencies including Corvallis for use in improving and maintaining its collector and arterial street system. Total funding channeled through CAMPO is generally guaranteed every five years, however the allocation between member agencies and between new projects vs. maintenance is not guaranteed.

A portion of these State Highway Trust Fund monies is allocated on a per capita basis to local cities including Corvallis. By statute, the money may be used for any road-related purpose, including walking, biking, bridge, street, signal, and safety improvements. State law requires that a minimum of one percent of the state fuel

¹ Formerly known as the Surface Transportation Program (STP), it was renamed as part of the Federal 2015 FAST Act.



tax and vehicle registration funds received be set aside for construction and maintenance of walking and bicycling facilities.

In an effort to offset the declining revenue to the State Highway Trust Fund, Oregon House Bill 2001, also known as the Oregon Jobs and Transportation Act (JTA) was passed in 2009. The JTA increased transportation-related fees including the state fuel tax and vehicle registration fees, effective January 1, 2011. The state fuel tax is currently 30 cents per gallon. Oregon vehicle registration fees are collected as a fixed amount at the time a vehicle is registered with the Department of Motor Vehicles. Vehicle registration fees in Oregon are currently \$43 per vehicle per year for passenger cars, with higher fees for other heavy vehicle classifications.

The federal and state fuel tax funds have previously failed to keep up with cost increases and inflation. With improved vehicle fuel efficiency, changes in travel behavior, and policies aimed at reducing vehicle miles traveled, the real revenue collected has gradually eroded over time. Even with increases from the JTA, these fees and taxes are not indexed to general cost inflation, and, over time, the value of the revenues will decline as costs to deliver services increase.

Transportation Maintenance Fee

Corvallis has a transportation maintenance fee that is collected with utility bills monthly from property owners and businesses in the city. The current rate is \$0.074 per trip end generated, which works out to a total single-family residential bill of \$0.71 per month. The annual average fee collected over the past five years is about \$435,000. The fee program began in 2006 as a way to augment declining state fuel tax funds. Starting in 2012, the fee is reviewed annually to adjust for construction cost changes, based on the published Engineering News Record Construction Cost Index for Seattle. The revenue collected from the transportation maintenance fee must be applied toward pavement preservation. There is no sunset provision for the program; however, it will be reviewed every five years to evaluate the success of activities and appropriateness of the fee. For more information, refer to the City's web site at:

<http://www.corvallisoregon.gov/index.aspx?page=169>

Corvallis additionally has a Sidewalk Maintenance Fee, also collected with utility bills, that generates approximately \$150,000 annually. This money is dedicated to paying for repairs to structural defects on public sidewalks.

Transportation SDC

System development charges (SDCs) are one-time fees collected from new development and used as a funding source for capacity adding projects for the transportation system. Capacity adding projects include the construction of new turn lanes, bike lanes, and traffic signals. SDCs cannot be used to maintain the existing street system. The transportation SDC rate is indexed to construction costs and land values and was increased in 2014 to approximately \$282 per daily vehicle trip. A typical single-family home that was to be built in the city would be charged about \$2,800 for the transportation SDC fee. For more information, refer to the City's web site at: <http://www.corvallisoregon.gov/index.aspx?page=381>



Transportation Revenue Summary

The recurring sources described above form the core revenue sources for transportation funding. Table 1 summarizes the average transportation revenues for the City of Corvallis over the last five years. The City of Corvallis divides transportation funds into two separate funds. The Street SDC Fund is a dedicated account which receives SDC revenue and funds SDC-eligible projects. The Street Operations Fund includes all other funding sources and provides for all other transportation expenditures, including personal services and regular maintenance and operations costs.

Table 1: Corvallis Transportation Recurring Revenues Summary (2014 dollars)

Revenue Source	Annual Average
Street Operations Fund	
State Highway Fund – Streets	\$2,792,000
State Highway Fund – Bicycle & Pedestrian (1%)	\$28,000
Transportation Maintenance Fee	\$435,000
Sidewalk Maintenance Fee	\$150,000
Federal/State Discretionary Funding	\$541,000
Other Charges for Services, Permits, and Interest	\$315,000
Total Street Operations Fund Revenues	\$4,261,000
Street SDC Fund	
System Development Charges	\$692,000
Miscellaneous Income and Interest	\$37,000
Total Street SDC Fund Revenues	\$729,000

Note: Annual average is based on 5-year history from fiscal year 2009/10 to fiscal year 2013/14.

The City occasionally collects additional revenues from discretionary funding sources to supplement the revenues from recurring sources. These grants are won through a competitive process and the amounts won vary significantly year to year. The average for the past five years was \$541,000, however this includes major one-time funding from the American Recovery and Reinvestment Act of 2009 (ARRA) during fiscal year (FY) 2009-10 and FY 2010-11. The average amount for FYs 2011-14, which better represents typical annual grant funding, was just over \$112,000. Refer to the following section on Project-Specific funding for more details on discretionary and other non-recurring sources of revenue.

It is also important to note that new streets are constructed and paid for by developers as part of new developments. The City does not need to provide funding for these projects. It is the City's responsibility to create and administer road standards that ensure streets are safe and functional for all users, and to maintain the integrity of transportation system assets currently valued at over \$165 million.



Current Expenditures

The expenditures incurred for the City to operate, maintain, and improve the transportation system include:

- Personal Services
- Materials & Services
- Capital Outlay
- Debt Service
- Transfers Out

Capital improvement expenditures may include projects that expand the existing transportation system (new transportation facilities or intersection improvements) or maintain it (repaving). Expenditures from the SDC fund must be for eligible projects that increase the transportation system capacity.

Table 2: Corvallis Transportation Expenditures Summary (2014 dollars)

Expenditure Type	Annual Average
Street Operations Fund	
Personal Services	\$1,808,000
Materials & Services	\$2,088,000
Capital Outlay	\$99,000
Debt Service	\$83,000
Transfers Out	\$188,000
Total Street Operations Fund Expenditures	\$4,266,000
Street SDC Fund	
Materials & Services	\$58,000
Capital Outlay	\$435,000
Transfers Out	\$11,000
Total Street SDC Fund Expenditures	\$504,000

Note: Annual Average based on 5-year history from fiscal year 2009/10 to fiscal year 2013/14.

In recent years, the Street Operations Fund has spent slightly more than revenues. In general, this is due to lower revenues than expected, and is balanced year-to-year by cutting capital costs. Revenues and expenditures for the Street SDC fund are more difficult to compare; because there is a 10-year window for paying fees, the project costs and funding sources may be dispersed over multiple fiscal years. However, by design the SDC fund can only spend as much as SDC fees have provided.



Project-Specific Funding

In addition to the recurring sources of revenues described previously, Corvallis may expect to receive discretionary project-specific funding through federal or state programs. This type of external funding is not received annually by formula, but is often relied upon to complete critical transportation improvements.

The most significant funding opportunity for transportation improvement projects in Oregon is the Statewide Transportation Improvement Program (STIP). ODOT modified the process for selecting projects that receive STIP funding in 2012. The new process follows a jurisdictionally blind approach, meaning local agencies can receive funding for projects off the state system. Projects have recently focused on those that enhance system connectivity and improve multi-modal travel options. With the updated TSP, the City will be better prepared to compete for STIP funding. ODOT generally rotates emphasis on different types of projects between funding cycles, so having a broad portfolio of projects puts the City in the best position to compete for STIP funding. However, Corvallis is only eligible for a small portion of overall STIP funds, and there is no guarantee of STIP funding generally.

Another potential discretionary funding source is the ODOT All Roads Transportation Safety (ARTS) Program, funded through the Federal Highway Safety Improvement Program (HSIP)². Oregon's funding under the HSIP includes direction from the Federal Highway Administration to address safety challenges on all public roads. Safety funding is distributed to each ODOT region, which then collaborate with local governments to select projects that can reduce fatalities and serious injuries, regardless of whether they are located on a local road or a state highway. The ARTS program has identified recommended locations for "Hotspot" projects that are implemented in specific locations and "Systemic" projects that are low-cost and can be used consistently throughout a wide area.

While a specific funding source has not been determined, it is reasonably likely that some discretionary grant or aid programs will make funding available through the TSP horizon year of 2040. Based on past trends and available information about current state and federal transportation funding, for the purposes of this study it is reasonably likely that approximately \$40 million in project-specific discretionary funding could be available through the year 2040³. Based on this, the annual average from grants to fund specific projects would be approximately \$1.6 million. However, the availability of funding from grants is far less reliable than from recurring sources such as fuel taxes and the transportation maintenance fee.

² ODOT All Roads Transportation Safety Program.
<http://www.oregon.gov/ODOT/HWY/TRAFFIC-ROADWAY/Pages/ARTS.aspx>

³ The Oregon Department of Transportation has provided this funding forecast for planning purposes only. The availability of these funds are uncertain and no commitments have been made to fund future projects in Corvallis beyond the current Statewide Transportation Improvement Program (2015-2018).



City of Corvallis Funding Projection

Over the last five years, Street Operations revenues have been slightly exceeded by Street Operations expenditures in Corvallis. Street SDC revenues have been sufficient to maintain the Street SDC expenditures. The historical funding and expenditures are used together with assumptions about growth to estimate the available funding for transportation projects through 2040.

Projected Revenues

Current revenue sources are estimated to provide a total of about \$130 million through 2040 for operations and just under \$23 million for SDC projects (see Table 3). State fuel tax revenues are dependent on many factors including fuel prices, fuel consumption, and the City's population relative to other urban areas in the state. For the purposes of this estimate, these relationships were assumed to stay constant throughout the forecast horizon and the same levels of annual funding for those sources are assumed through 2040. Actual revenues could potentially be less than the estimates presented here. It should be noted that technological advances might further improve vehicle fuel efficiency, potentially resulting in lower revenues unless funding methodologies are modified.

Preliminary estimates of system development charges through 2040 indicate approximately \$21.8 million for SDC-eligible transportation improvements may be available (based on forecasted population and employment growth through 2040)⁴.

Estimates of the available funds from Transportation Maintenance Fees indicate that with forecast population and employment growth through 2040, approximately \$12.4 million will be available for pavement preservation projects.

⁴ Oregon Revised Statutes sections 223.205 through 223.295 (Bancroft Bonding Act) provide property owners with a deferred financing option for SDC's up to 10 years. As a result, the City may not realize the full SDC revenue estimated until several years beyond 2040



Table 3: Revenue Projection 2014 through 2040 (26 years in 2014 dollars) ⁵

Revenue Source	Total (in Millions of Dollars)
Street Operations Fund	
State Highway Fund - Streets	\$72.6
State Highway Fund - Bicycle & Pedestrian (1%)	\$0.7
Federal/State Discretionary Funding ⁶	\$40.0
Transportation Maintenance Fee	\$12.4
Sidewalk Maintenance Fee	\$3.9
Other Charges for Services, Permits, and Interest	\$0.8
Total Street Operations Fund Revenues	\$130.4 million
Street SDC Fund	
System Development Charges	\$21.8
Miscellaneous Income and Interest	\$1.0
Total Street SDC Fund Revenues	\$22.8 million

Note: System development charges and transportation maintenance fee estimates are based on population and employment growth estimates.

Projected Expenditures

City expenditures for maintenance, operations and management of the transportation system are expected to top \$111 million through 2040 (based on expenditures over the past five years). The funding expenditures estimate includes maintenance, sweeping, and capital projects that preserve the existing transportation system or improve safety. Basic bicycle and pedestrian services provided by the City fulfil a portion of the State Highway Fund requirement for bicycle and pedestrian spending. Also included are departmental, administrative, contractual and service costs associated with managing, operating and maintaining the transportation system. Transportation projects that increase the capacity of the current transportation system are not included, as these would be paid from the SDC fund.

⁵ The Oregon Department of Transportation has provided funding forecasts for planning purposes only. The availability of funds is uncertain and no commitments have been made to fund future projects in Corvallis beyond the current Statewide Transportation Improvement Program (2015-2018).

⁶ Restrictions exist for spending of STBGP funds, depending on federal street classification. Funds need to be “defederalized” at a rate of \$0.94 per \$1.00 if used for projects on streets that are not classified as Federal Aid Urban (FAU) streets, or for projects where other federal funding sources have been identified. Most streets that have a City functional class of collector or arterial are included in the list of FAU Streets.



Table 4: Expenditure Projection through 2040 (in 2014 dollars)

Expenditures	Total (in Millions of Dollars)
Street Operations Fund	
Personal Services	\$47.0
Materials & Services	\$54.3
Capital Outlay	\$2.7
Debt Service	\$2.2
Transfers Out	\$4.9
Total Street Operations Fund Expenditures	\$111.1 million

It is important to note that the cost of maintaining the transportation system may increase in the future beyond what has been projected. This could be due to escalating costs of any deferred maintenance, a growing amount of infrastructure to maintain, the need to increase staff to maintain that growing system, or simply a local desire for higher quality of service.

Funding Balance from Recurring Revenue Sources

Overall, Corvallis is reasonably likely to have about \$42.1 million available to fund transportation solution projects and strategies through 2040. Of this amount, \$22.8 million is from SDC funds and must be used for projects that increase the capacity of the transportation system⁷. Additionally, some portion of State Highway Fund revenue may be required to be spent on bicycle and pedestrian projects, if basic bicycle and pedestrian services provided by the City do not account for at least 1% of State Highway Fund expenditures.

The remainder of the available balance would likely come from a portion of the Federal/State Discretionary Funding⁸.

Assuming a comprehensive list of projects in the final TSP, the City may need to consider expanding its funding options in order to provide a more robust base to use for constructing the desired improvements in a timely manner over the TSP planning period.

⁷ Other limitations exist for projects funded fully or partially by System Development Charges, and any improvements paid for with SDC funds would need to be compliant with the City of Corvallis SDC Ordinance and Oregon Revised Statute (ORS) 223.297 – 223.314. For more information, see <http://www.corvallisoregon.gov/index.aspx?page=381>

⁸ The Oregon Department of Transportation has provided funding forecasts for planning purposes only. The availability of funds is uncertain and no commitments have been made to fund future projects in Corvallis beyond the current Statewide Transportation Improvement Program (2015-2018).



Potential Additional Funding Sources

New transportation funding options include local taxes, assessments and charges, and state and federal appropriations, grants, and loans. All of these resources can be constrained based on a variety of factors, including the willingness of local leadership and the electorate to burden citizens and businesses; the availability of local funds to be dedicated or diverted to transportation issues from other competing City programs; and the availability of state and federal funds. Nonetheless, it is important for the City to consider available opportunities for enhancing funding for the transportation improvements that will be identified in the TSP as the current sources will not be sufficient to meet the identified need.

The following sources have been used by other cities to fund the capital and maintenance aspects of their transportation programs. There may be means to begin to or further utilize these sources, as described below, to address needs identified in the TSP.

Local Fuel Tax

Seventeen cities and two counties in Oregon have adopted local fuel taxes ranging from one to ten cents per gallon of gasoline or diesel.⁹ Distributors of fuel pay the taxes to the City monthly. Some cities, such as Newport, have implemented a seasonally adjusting fuel tax rate that increases during the summer months to place more of a burden on visitors. This means non-residents would share some of the costs for the transportation improvements in the city.

While Corvallis' motor vehicle traffic decreases significantly with the end of the university term in June, traffic nonetheless is higher in the summer months on the state highways, reflecting tourist travel on routes leading to the coast. The process for presenting such a tax to voters would need to be consistent with Oregon State law as well as the laws of the City.

It is important to consider that if the City alone were to implement a local fuel tax, there could be significant "leakage" of the potential taxes if drivers switch to buying fuel outside the city. If the City can partner with other jurisdictions to create a regional fuel tax, this would be less of a concern.

Local Hotel/Lodging Tax

Corvallis currently imposes a local hotel tax, also known as a transient room tax. Per section 8.04.190 of the Municipal Code, the transient room tax funds may be used for visitors' information centers, convention promotion and support, the administration of the tax, and any other municipal purposes, which can include transportation projects. This tax places more of the cost burden for transportation improvements in the city

⁹ Includes Portland's recently approved temporary 4-year tax at 10 cents a gallon, the highest in the state. For other jurisdictions, see Current Oregon Fuel Tax Rates at http://www.oregon.gov/odot/cs/ftg/pages/current_ft_rates.aspx



on non-residents, but using this revenue for transportation needs would divert it away from other City programs.

General Fund Revenues

At the discretion of the City Council, the City can allocate General Fund revenues to pay for its transportation program (General Fund revenues primarily include property taxes and any miscellaneous taxes and fees imposed by the City). This allocation is completed as a part of the City's annual budget process, but the funding potential of this approach is constrained by competing community priorities set by the City Council. General Fund resources can fund any aspect of the program, from capital improvements to operations, maintenance, and administration. Additional revenues available from this source are only available to the extent that either General Fund revenues are increased or City Council directs and diverts funding from other City programs.

Currently all franchise fees, paid by franchised utilities for their impact on the public right-of-way, is directed toward the general fund. In fiscal year 2013-14, franchise fees totaled nearly \$5.5 million. Many communities choose to dedicate this revenue, or a portion thereof, to street operations funds. Corvallis may want to consider this option.

Local Improvement Districts

Local Improvement Districts (LIDs) can be formed to fund capital transportation projects. LIDs provide a means for funding specific improvements that benefit a specific group of property owners. LIDs require owner/voter approval and a specific project definition. Assessments are placed against benefiting properties to pay for improvements. LIDs can be matched against other funds where a project has system wide benefit beyond benefiting the adjacent properties. LIDs are often used for making improvements to unimproved streets that provide local benefit to residents along the subject street.

Debt Financing

While not a direct funding source, debt financing can be used to mitigate the immediate impacts of significant capital improvement projects and spread costs over the useful life of a project. Though interest costs are incurred, the use of debt financing can serve not only as a practical means of funding major improvements, but is also viewed as an equitable funding strategy, spreading the burden of repayment over existing and future customers who will benefit from the projects. The obvious caution in relying on debt service is that a funding source must still be identified to fulfill annual repayment obligations.

The Oregon Transportation Infrastructure Bank (OTIB) is a potential source for cities to borrow funds for transportation improvement projects. The OTIB is a statewide revolving loan fund. Projects eligible to receive funding include roadway improvements, bicycle and pedestrian access, and transit capital projects. Potential projects are rated by OTIB staff along with a regional advisory committee and require approval from the Oregon Transportation Commission¹⁰.

¹⁰ Oregon Transportation Infrastructure Bank, <http://www.oregon.gov/ODOT/cs/fs/Pages/otib.aspx>