



Technical Memorandum #6 – Draft

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TO: Philomath TSP Project Management Team and Stakeholders

FROM: John Bosket, PE, DKS Associates
Ben Chaney, EIT, DKS Associates

**SUBJECT: Philomath Transportation System Plan Update
Task 4.2 Transportation Funding Assumptions**

This memorandum details the transportation funding that is expected to be available through 2040. The funding assumptions will help prioritize the investments the City can make in the transportation system, and will be used to develop reasonable budgeting assumptions when selecting a set of transportation improvements to meet identified needs through the next 20 years.

Current Funding Sources

The City uses five general funding sources for transportation, including funds from the federal Surface Transportation Program (STP), State Highway Trust Fund, Street Utility Fees, Franchise Fees, and a System Development Charge (SDC).

Federal Surface Transportation Program

The current federal surface transportation funding law, the Fixing America's Surface Transportation (FAST) Act, was signed into law in December of 2015, and provides a five-year allocation of funds through various programs. The FAST Act distributes money from the Federal Highway Trust Fund, which receives money from federal motor vehicle fuel tax, truck-related weight-mile charges, and through Congressional transfers from the General Fund of the US Treasury.

Federal Highway Trust Funds from the Surface Transportation Program (STP) flow to the states that use them primarily for safety, highway, and bridge projects. Philomath receives a portion of these funds based upon actual population.

State Highway Trust Fund

The State Highway Trust Fund makes distributions from the state motor vehicle fuel tax, vehicle registration fees, and truck weight-mile fees on a per capita basis. Cities and counties receive a share of



State Highway Trust Fund monies, and by statute may use the money for any road-related purpose, including walking, biking, bridge, street, signal, and safety improvements.

The state gas tax funds previously have failed to keep up with cost increases and inflation. With increased fuel efficiency of vehicles and the State’s emphasis on reducing vehicle miles traveled, the real revenue collected has gradually eroded over time. In an effort to offset the relative decline in contribution of state funds, the 2009 legislature passed the Oregon Jobs and Transportation Act (Oregon House Bill 2001). It increases transportation-related fees including the state gas tax and vehicle registration fees as a fixed amount at the time a vehicle is registered with the Department of Motor Vehicles. Vehicle registration fees in Oregon increased from \$27 to \$43 per vehicle per year for passenger cars, with similar increases for other vehicle types. The gas tax in Oregon increased on January 1, 2011 by six cents, to the current rate of 30 cents per gallon, the first increase in the state gas tax since 1993.

Franchise Fees

The City of Philomath collects franchise fees from companies that utilize the public right-of-way to provide their services. Franchise fees can be used for any legal purpose. Currently, franchise fees collected from Comcast (cable and internet provider), Pioneer (telephone provider), and Republic Services (recycling and waste) are deposited into the City’s street fund. After 2016, franchise fees from Comcast will be deposited into the City’s general fund and will not be available for street projects. To make up for lost revenue, the City will double the street utility fee rates.

Street Utility Fee

A street utility fee is a recurring monthly charge that is paid by all residences and businesses within the city to support the provision and maintenance of the local street system. The City collects the fee through its regular utility billing. The City bases the fee on number and type of residential units, with category-based flat rates for non-residential customers. Rates will be increasing in 2016, to compensate for lower franchise fees as discussed above. Philomath’s Street Utility Fee structure is shown in Table 1.

Table 1: Philomath Street Utility Fee Rates (2015 Dollars)

Customer Type	Monthly Rates (2015)	Monthly Rates (2016+)
Single Family House	\$2.00/each	\$4.00/each
Duplex	\$3.50/each	\$7.00/each
Multi-residential	\$1.60/unit	\$3.20/unit
Non-Residential (fees depend on user category)	\$6.80 - \$22.75	\$13.60 - \$45.50



Existing law places no express restrictions on the use of street utility fee funds, other than the restrictions that normally apply to the use of government funds. However, The City of Philomath has established clear guidance for program administration that defines the amount, composition, and use of revenues from the street utility fee in authorizing Resolution No. 03-13. Funds collected shall be dedicated and used exclusively for street maintenance and reconstruction to provide a safe and functioning street system. The overall amount collected by the fee shall be equal to the amount of additional revenue needed to accomplish a reasonable pavement management program. The street utility fee structure is designed so that residential developments account for 75% of total revenue, and non-residential developments account for 25% of total revenue.

System Development Charges

The City of Philomath collects system development charges (SDCs) from new developments, which are intended to offset the burden of development on the transportation system. The funds collected are kept in a dedicated SDC fund, apart from the City's general-purpose street operations, maintenance, and capital improvements fund. State law restricts the use of SDC funds to capacity-adding projects, generally for constructing or improving portions of roadways impacted by applicable development. The SDC is a one-time fee. The vehicle SDC rate is currently \$4,440 per equivalent dwelling unit.

Estimated Future Funding Levels

The funding sources above provide relatively stable revenue for the City of Philomath. Based on recent and expected expenditure levels, this section discusses funding assumed to be available for the projects that will be recommended in the Transportation System Plan update. Calculations presented here include impacts of a 24% total increase in population over the next 25 years, based on the regional travel forecasting model for the MPO area. Estimated Philomath transportation funding is summarized in Table 2.



Table 2: Current and Projected Philomath Transportation Funding (2015 Dollars)

Revenue Source	Funding Restrictions	Average Annual Amount	Estimated Amount Through 2040
Surface Transportation Program (STP) and State Gas Tax and License Fees (for general use)	Unrestricted	\$285,200	\$7,130,000
Bikeway/Walkway (1% of State Gas Tax and License Fees)	Bikeway / Walkway	\$2,300	\$57,500
ODOT Surface Transportation Improvement Program (STIP)	Improvements that Benefit State Highway Corridors	-	\$2,000,000
Street Utility Fees	Operations and Maintenance	\$120,500	\$3,012,500
Franchise Fees	Unrestricted	\$40,500	\$1,012,500
System Development Charge	Capacity Projects	\$76,500	\$1,912,500
Miscellaneous Income	Unrestricted	\$3,500	\$87,500
Total Revenues (5-year Average)		\$528,500	\$15,212,500
Expenditures	Funding Eligibility	Average Annual Amount	Estimated Amount Through 2040
Personnel Services	Operations and Maintenance	\$187,000	\$4,675,000
Materials and Services	Operations and Maintenance	\$203,500	\$5,087,500
Capital Outlay	Capacity Projects	\$89,500	\$2,237,500
Total Expenditures (5-year Average)		\$480,000	\$12,000,000
Expected Funds for City Capital Improvements	Funding Type	Average Annual Amount	Estimated Amount Through 2040
Revenue minus Operations and Maintenance	Unrestricted Funds	\$59,200	\$1,480,000
System Development Charges	Capacity Projects	\$76,500	\$1,912,500
Dedicated for Active Transportation Construction or Maintenance	Bikeway / Walkway	\$2,300	\$57,500
ODOT Surface Transportation Improvement Program (STIP)	Improvements that Benefit State Highway Corridors	-	\$2,000,000
Total Expected Funds		\$138,000	\$5,450,000



Revenues

The current transportation revenue sources are estimated to provide over \$15 million through 2040 (see Table 2). This estimate is based on the assumption that the average amounts received over the previous five years will continue to be received at that per capita rate through 2040. Some annual estimates have been adjusted from the five-year average based on discussions with City staff. These adjustments reflect anticipated changes in franchise fee participation, increased street utility fee rates, and recent growth over historically low levels of development that pay SDCs.

State law requires that the City must set aside a minimum of one percent of the state gas tax and vehicle registration funds received for construction and maintenance of walking and bicycling facilities. In Philomath, this represents up to \$2,300 per year or \$57,500 through 2040. While shown to be available for capital improvements, it is likely that this will only be used on maintenance of walking and bicycling facilities, given the low amount of these funds.

System development charges likely will provide nearly \$2 million for transportation capacity improvements through 2040, contingent on actual levels of future development. The Oregon Revised Statutes sections 223.205 through 223.295 (Bancroft Bonding Act) provide property owners with a deferred financing option for SDC's. Since residents can defer SDC payments up to a period of 10 years in accordance with the state law, the City may not realize the full SDC revenue until several years beyond 2040. The City will continue to receive deferred payments from residents who chose this payment method from previous years, however, so estimates of the SDC revenue estimate are roughly the same through 2040.

ODOT has indicated that approximately \$2 million in additional discretionary state and/or federal funds may be available to invest in Philomath over the next 20 years for system modernization and enhancement projects that benefit state highway corridors.¹

Expenditures

Expenditures will be \$12 million through 2040, assuming the same rate of expenditures as over the past five years. The City will spend the majority of the funds (over \$5 million through 2040) on materials and services. In addition, the City will spend over \$4.6 million on personnel services. Together, this represents almost \$10 million providing for street operations and typical maintenance. An additional \$2.2 million will be spent on capital outlay, providing a foundational funding supply for major projects.

¹ The State has not committed any future funding for projects in Philomath. This assumption is for long-range planning purposes only. The estimate is based on assuming that Philomath will receive a reasonable share of the state/federal funding projected to be available over the 20-year planning horizon in Region 2 and based on ODOT sustaining their current revenue structure. It is used to illustrate the degree of financial constraints faced by ODOT as of the writing of this document. Actual funding through discretionary state and federal sources may be higher or lower than this estimate, which does not include projects that the federal Highway Safety Improvement Program (HSIP) could fund.



Funding Summary

Based on current funding levels, the City expects to have \$5.45 million available through the year 2040 to fund the projects that will be recommended as part of the TSP. Some funds have usage restrictions, as described in Table 2 above. It is likely that, when identified, the total project list will exceed the amount of funding expected to be available. Therefore, the City may wish to consider expanding its funding options in order to fund more of the desired improvements in a timely manner.

Potential Additional Funding Sources

New transportation funding options include local taxes, assessments and charges, and state and federal appropriations, grants, and loans. Factors that constrain these resources include the willingness of local leadership and the electorate to burden citizens and businesses with taxes and fees; the portion of available local funds dedicated or diverted to transportation issues from other competing City programs; and the availability of additional state and federal funds.

The City should consider all opportunities for providing or enhancing funding for the transportation improvements to be included in the TSP. Other cities have used the following sources to fund the capital and maintenance aspects of their transportation programs.

Local Gas Tax

Seventeen cities and two counties in Oregon have adopted local gas taxes ranging from one to ten cents per gallon.² The fuel distributors pay collected taxes to the jurisdictions monthly. Some cities increase the local gas tax during the summer months to place more of a burden on visitors than on year-round residents. Philomath also may want to implement a local gas tax. The process for presenting such a tax to voters would need to be consistent with Oregon State law (ORS 319.950) as well as the laws of the City. As an example, the City of Sandy has a local gas tax that generates approximately \$150,000 annually for each cent per gallon tax. Philomath, with about half the population and half the highway traffic, might expect to generate \$50,000-\$100,000 annually for each cent per gallon tax.

It is important to consider that if the City were to implement a local gas tax alone, 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 gas tax, this would be less of a concern.

ODOT Statewide Transportation Improvement Program (STIP) Enhance Funding

ODOT has modified the process for selecting projects that receive STIP funding to allow local agencies to receive funding for projects off the state system. Projects that enhance system connectivity and improve multi-modal travel options are the focus. The updated TSP prepares the City to apply for STIP funding.

² Includes Portland’s recently approved temporary 4-year tax at 10 cents per 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



ODOT Highway Safety Improvement Program (HSIP) Funding

With significantly more funding under the HSIP and direction from the Federal Highway Administration to address safety challenges on all public roads, ODOT has committed to increase the amount of funding available for safety projects on local roads. ODOT distributes safety funding to each ODOT region, which then collaborate with local governments to select projects that can reduce fatalities and serious injuries, regardless of whether they lie on a local road or a state highway.

ODOT's All Roads Transportation Safety (ARTS) Program includes two separate processes for location-specific hot spots and wide-application systemic projects. The 2016-2018 selection cycle projects have been selected, and the 2019-2021 selection cycle is in progress.

Federal Competitive Grant and Loan Programs

The FAST Act authorizes a number of competitive grant and loan programs, the most prominent of which is the Transportation Investment Generating Economic Recovery (TIGER) grant program. Competitive grant and loan programs would require the City to complete an application that makes a compelling case for a specific project, often multi-jurisdictional. Some of these programs focus on a particular outcome or mode of transportation. For example, the new FASTLANE grants focus on freight movement.

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, use taxes, and any other miscellaneous taxes and fees imposed by the City. As a part of the City's annual budget process, competing community priorities set by the City Council constrain the funding potential for transportation projects, and recently City Council has not chosen to transfer General Funds for use on street projects. However, General Fund resources could 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 the City Council either increases general fund revenues or directs and diverts funding from other City programs to transportation.

Local Improvement Districts

Local Improvement Districts (LIDs) can fund capital transportation projects that benefit a specific group of property owners. LIDs require owner/voter approval and a specific project definition. Assessments against benefiting properties pay for improvements. LIDs can supply match for other funds where a project has system wide benefit beyond benefiting the adjacent properties. LIDs are often used for sidewalks and pedestrian amenities that provide local benefit to residents along the subject street. Property owners pay fees through property tax bills over a specified number of years.



Transient Room Tax

The Transient Room Tax, also known as a lodging tax, is a tax paid by occupants of hotels, motels, and other short-term rental. This allows the City to offset the impact of visitors on the transportation system, similar to the way street utility fees offset the impact of residents and SDCs of new development. The State of Oregon and the City of Corvallis both impose a transient room tax. While this is a valid option for revenue generation, with few lodging options in Philomath, it may not be very effective.

Federal Lands Access Program

The Federal Lands Access Program (FLAP) was established in 23 U.S.C. 204 to improve transportation facilities that provide access to, are adjacent to, or are located within Federal lands. The program provides grants to supplement state and local resources for public roads, transit systems, and other transportation facilities, with an emphasis on high-use recreation sites and economic generators. Projects are selected by a Programming Decision Committee (PDC) established in each state. The PDCs request project applications through a call for projects. The frequency of the calls is established by the PDCs.

Types of projects generally accepted include:

- Capital Improvements: construction and rehabilitation of roads and bridges, safety improvements, widening, surfacing, etc.
- Enhancements: viewpoints, kiosks, adjacent parking areas, rest areas, trailheads, pedestrian and bicycle provisions, etc.
- Surface Preservation (limited): chip sealing, crack sealing, etc.
- Transit: construction of transit facilities and limited duration operation/maintenance of transit services and facilities
- Planning: engineering studies, corridor management planning, bicycle/pedestrian and alternative modes planning that could inform future FLAP proposals
- Research: evaluating solutions that enhance access, safety, or sustainability - must be broad-based and applicable to multiple Federal Land Management Areas

Given Philomath's location as a gateway to the Siuslaw National Forest, applying for FLAP grants may be a feasible transportation revenue source for select project types, especially if pursued in partnership with other jurisdictions such as Benton and Lincoln Counties and the cities of Alsea and Waldport.

Debt Financing

Cities can use debt financing to pay for significant capital improvement projects by spreading costs over the useful life of the projects. This equitable funding strategy spreads the burden of repayment over



existing and future customers who will benefit from the projects. Debt service must have a funding source to fulfill annual interest and repayment obligations.