

MEMORANDUM

Date: November 7, 2017 Project #: 21266.0

To: Gerald Fisher and Dan Huff, City of Molalla
 Gail Curtis, Oregon Department of Transportation, Region 1

From: Matt Bell and Nick Gross, Kittelson & Associates, Inc.

Project: Molalla Transportation System Plan (TSP) Update

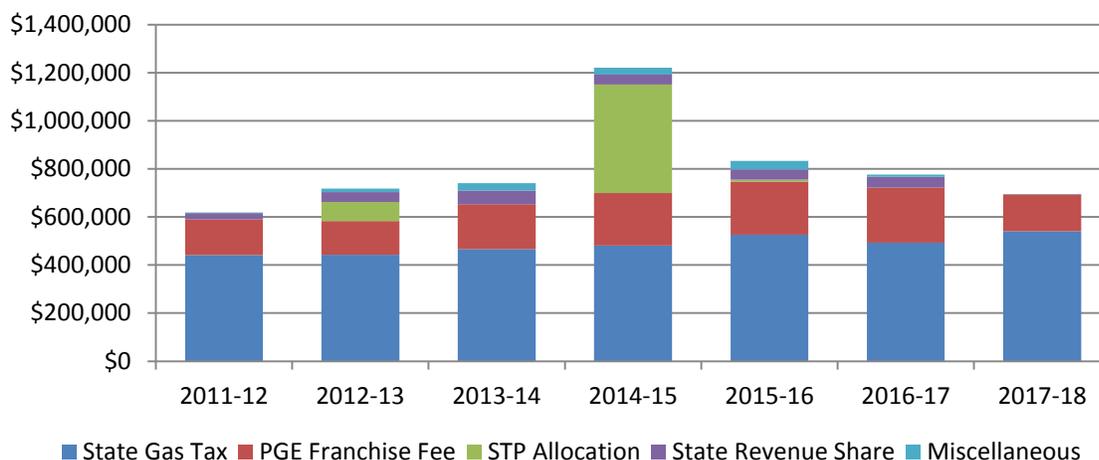
Subject: Draft Tech Memo 3: TSP Financial Forecast (Subtask 2.3)

This memorandum documents historical and potential future sources of transportation funding for implementation of the Molalla Transportation System Plan (TSP) update. Information from the City’s Street Fund and System Development Charge (SDC) Fund provides context for evaluating projects and defining project priorities that will allow Molalla to use all available funding opportunities and maximize current resources to preserve and improve the transportation system.

HISTORICAL REVENUE SOURCES

Historical revenue sources that have contributed to transportation funding for Molalla over the last five years includes the state gas tax, Portland General Electric (PGE) franchise fee, surface transportation program (STP), and miscellaneous funds. System Development Charges have also contributed to transportation funding for Molalla, although SDCs primarily fund transportation system improvements related to growth within the city. Chart 1 illustrates the historical revenue sources for Fiscal Year (FY) 2011-12 through FY 2015-16 and includes estimates for FY 2016-17 and projections for FY 2017-18.

Chart 1: City of Molalla Historical Revenue Sources



As shown in Chart 1, transportation funding has increased steadily from FY 2011-12 to FY 2014-15 followed by a significant increase due to the FY 2014-15 STP allocation. Subsequent to FY 2014-15, historical revenue sources have minimally decreased due to the static STP allocation associated with City population and the reallocation of state revenue share to the park fund. The following summarizes additional information related to historical revenue sources. A detailed summary of historical revenue sources can be found in **Attachment A**.

State Gas Tax

State gas taxes are comprised of proceeds from excise taxes imposed by the state and federal government to generate revenue for transportation funding. The proceeds from these taxes are distributed to Oregon counties and cities in accordance with Oregon Revised Statute (ORS) 366.764, by county registered vehicle number, and ORS 366.805, by city population. The Oregon Constitution states that revenue from the state gas tax is to be used for the construction, reconstruction, improvement, maintenance, operation and use of public highways, roads, streets, and roadside rest areas.

Based on data provided by the City, total revenue from the state gas tax has increased steadily over the last five years. The sharp increase between FY 2014-15 and FY 2015-16 reflects an adjustment in the population estimate used by the state to determine the amount of funding to distribute to the City. While the population is expected to continue to increase by approximately 2.7 percent¹ per year over the next several years, discussions with City staff indicate that revenue from the state gas tax is not expected to increase beyond the next fiscal year. Per city staff, all residentially zoned property within the city's Urban Growth Boundary (UGB) is generally built out and all developable property is zoned commercial or industrial. Therefore, the projections provided below reflect a 2.7 percent increase in the state gas tax over the next year followed by 0.0 percent through FY 2040-41.

Portland General Electric (PGE) Franchise Fee

The Portland General Electric (PGE) franchise fee is a fee paid by PGE to the City of Molalla for use of the public right-of-way. The fee is a legal authorization set by the State of Oregon that allows the utility to operate within the city limits and includes payment of up to five percent of the utility's locally generated revenue as compensation for the utility's use of the city's streets and other public property. Revenues collected through franchise fees goes directly into the funding support of a city's public safety system, transportation system, street maintenance, and community orientated projects.

Based on data provided by the City, total revenue from the PGE franchise fee has increased steadily over the last five years. The decrease in the projections for 2017-18 reflects a decision by City council to allocate a portion of the funds to parks and movement of those funds from the Street Fund to a new fund for parks. Per discussions with City staff, revenue from the PGE franchise fee is expected to

¹ Population Forecasts prepared by: Population Research Center, Portland State University, June 30, 2017.

increase by approximately 0.05 percent per year over the next several years. Therefore, the projections provided below reflect a 0.05 percent increase in the PGE franchise fee per year through FY 2040-41.

Surface Transportation Program (STP) Allocation

The surface transportation program (STP) provides flexible funding that may be used by States and local municipalities for projects to preserve and improve the transportation system by reconstructing any Federal-aid highway, bridge, and/or tunnel projects on public roads, pedestrian and bicycle infrastructure, and transit capital projects, including bus terminals. ODOT distributes STP funds to municipalities based on population. The funds may be distributed on an annual basis or may be saved up and distributed all at once for larger projects. Based on data provided by the City, STP funds were allocated to the City in FY 2012-13, FY 2014-15, and FY 2015-16 in varying amounts. Also, no funds are expected in FY 2016-17 or projected for 2017-18. Per discussions with City staff, the city cannot rely on STP funds. Therefore, the projections provided below do not include STP funds.

State Revenue Share

The state revenue share is a fund created for the receipt and expenditures of monies received from the State of Oregon under Senate Bill 11 (Engrossed). Based on data provided by the City, the state revenue share has contributed to the street fund over the last several years; however, no revenue is projected for FY 2017-18. Per discussions with City staff, the revenue will be reallocated to the parks fund. Therefore, the projections provided below do not include state revenue funds.

Miscellaneous

Miscellaneous includes all historical revenue sources that do not directly fall under state gas tax, PGE franchise fee, or STP allocation. Miscellaneous also includes revenue from plan review and permit fees; however, these fees have been separated into their own revenue source for projected FY 2017-18. Per discussions with city staff, revenue from these sources is expected to remain relatively flat over the next several years. Therefore, the projections provided below reflect a conservative \$1,000 per year estimate for miscellaneous revenue and \$9,000 per year for plan review and permit fees.

System Development Charges

System Development Charges (SDCs) are fees assessed on developments for impacts to public infrastructure. All revenue is dedicated to transportation capital improvement projects designed to accommodate growth. The City can offer SDC credits to developers that provide public improvements beyond the required street frontage, including those that can be constructed by the private sector at a lower cost. For example, SDC credits might be given for providing off-site improvements, such as sidewalks and bike lanes that connect the site to nearby transit stops. Molalla uses the revenue from SDCs on eligible projects that cannot be funded by other means.

Based on data provided by the City, revenue from SDCs has varied from year to year; however, the city received an average of \$85,000 per year between FY 2011-12 and FY 2015-16 and is estimated to

receive \$432,000 in FY 2016-17 and is projected to receive \$32,000 in FY 2017-18. Therefore, the projections provided below reflect a conservative \$32,000 per year through FY 2040-41.

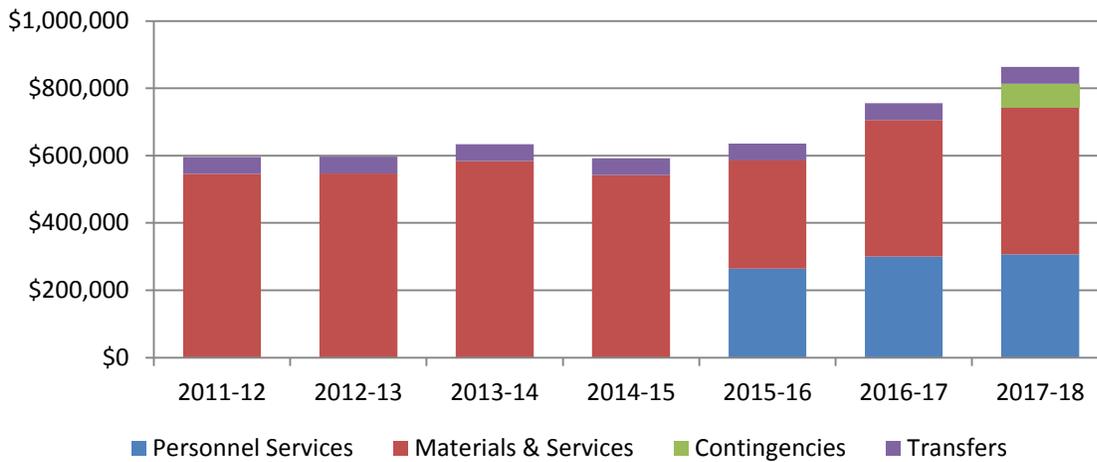
Summary of Historical Revenues

Overall transportation funding has increased over the last five years and is projected to continue to increase through FY 2040-41. State gas tax and PGE franchise fees have experienced increases over the five year period; however, the state gas tax revenue is expected to plateau in future years due to the build out of residential units reaching its maximum zoning potential.

HISTORICAL EXPENDITURES

The City organizes historical expenditures into five categories, including personnel services, materials and services, capital improvements, fund transfers, and contingencies. The city’s historical expenditures also include capital improvements; however, capital improvements are not accounted for in the projections; the projections are intended to determine the amount of funds available for capital improvements in the future. Chart 1 illustrates the City’s historical expenditures for FY 2011-12 through FY 2015-16 and includes estimated for FY 2016-17 and projections for FY 2017-18.

Chart 2: City of Molalla Historical Expenditures



As shown in Chart 1, transportation spending has increased steadily over the last five years with the exception of FY 2014-15. The decrease in FY 2014-15 reflects a reallocation of time city staff spends on transportation versus other disciplines. The following summarizes additional information related to historical expenditures. A detailed summary of historical expenditures is provided in **Attachment A**.

Personnel Services

Personnel services consist of personnel salaries and associated payroll costs. Historically, personnel services was categorized under materials and services. However, in FY 2015-16, personnel services was moved to its own expenditure and is anticipated to remain as a designated expenditure moving forward. Based on data provided by the City, total expenditures on personnel services is expected to

increase by approximately five percent per year over the next several years. Therefore, the projections provided below reflect a five percent increase in personnel services per year through FY 2040-41.

Materials and Services

Materials and Services consist of items that need to be purchased and one-time expenses including small equipment, tools and supplies, personnel training, street maintenance, sidewalk maintenance, insurance, and more. Based on data provided by the City, total expenditures on materials and services is expected to increase by approximately five percent per year over the next several years. Therefore, the projections provided below reflect a five percent increase in materials and services per year through FY 2040-41.

Capital Improvements

Capital improvements consist of improvements to the transportation system that are funded by the Street Fund between FY 2011-12 and FY 2016-17 and will be funded through transfers to the capital projects fund in FY 2017-18 and beyond.

Contingency

The contingency is a sum of money set aside by Molalla for the purpose of having available cash in case of an emergency. The City has not expended any funds from the contingency over the last five years, however, the amount allocated for FY 2017-18 is approximately \$70,500, which is short of the recommended three months of operating costs, currently \$185,000.

Transfers

Transfers have consisted primarily of funds allocated to replacing aging city vehicular fleets. On average, the City has expended approximately \$50,000 per year over the last five years.

Summary of Historical Expenditures

Overall transportation expenditures have increased over the last five years and are projected to continue to increase through FY 2040-41. Personnel services and materials and services represent the largest portion of the expenditures along with contingencies, while the remainder of all available funding is spent on sidewalk and street repair, capital improvements, and transfers.

PROJECTED TRANSPORTATION FUNDING

Revenue estimates from each of the historical revenue sources were combined and projected out over the next 5, 10 and 23 year period to determine the total revenue that is estimated through 2040. A detailed summary of growth assumptions can be found in **Attachment A**. Table 1 provides a summary of the potential future funding (in year 2017 dollars) through 2040.

Table 1: Future Transportation Funding Projections

Revenue Source	FY 2017-18	5-Year Forecast	10-Year Forecast	Estimated Through 2040
State Gas Tax	\$540,000	\$2,772,900	\$5,545,800	\$12,755,340
PGE Franchise Fee	\$154,000	\$855,202	\$1,946,680	\$6,412,195
Miscellaneous	\$1,000	\$5,000	\$10,000	\$23,000
Plan Review & Permit Fee	\$9,000	\$45,000	\$90,000	\$207,000
System Development Charge	\$32,000	\$160,000	\$320,000	\$736,000
Total	\$736,000	\$3,838,102	\$7,912,480	\$20,133,535

Estimated expenditures were also combined and projected out over the next 5, 10, and 23 year period. Table 2 provides a summary of the potential future expenses (in year 2017 dollars) through 2040.

Table 2: Future Transportation Expenditures Projections

Revenue Source	FY 2017-18	5-Year Forecast	10-Year Forecast	Estimated Through 2040
Personnel Service	\$307,000	\$1,781,187	\$4,054,484	\$13,355,114
Materials and Services	\$435,609	\$2,527,365	\$5,752,995	\$18,949,862
Contingency	\$70,523	\$430,855	\$980,748	\$3,230,498
Transfers	\$50,000	\$250,000	\$500,000	\$1,150,000
Total	\$863,132	\$4,989,407	\$11,288,227	\$36,685,474

As shown in Tables 1 and 2, the projected funding from now through FY 2040-41 is approximately \$20,133,535, and the projected expenditures are approximately \$36,685,474. Based on the information provided in Tables 1 and 2, the City is expected to have deficit of approximately \$16,551,939 over the next 23 years. This suggests the City will need to identify other potential revenue sources to fund transportation, including implementation of the TSP projects.

The following section identifies potential funding sources for the City to consider. One of the potential funding sources discussed below, street utility fees/road maintenance fees, is currently being reviewed by the City. This potential funding source could provide the City with an additional dollars over the 23 year period to cover pavement maintenance and repair costs. The funding forecast will be revisited throughout the TSP update process to add any updated funding sources that are approved by the City.

POTENTIAL ADDITIONAL FUNDING SOURCES

The projected transportation funding analysis shows that Molalla will likely have very little funds that can be dedicated to transportation-related capital improvement projects over the next 23 years. As such, the City will likely rely upon transportation improvements grants, partnerships with regional and state agencies, and other funding sources to help implement future transportation-related improvements. A list of potential grant sources and partnering opportunities for the City are identified below.

Federal Sources

Fixing America's Surface Transportation (FAST) Act

Fixing America's Surface Transportation (FAST) Act) funds surface transportation programs, including, but not limited to, Federal-aid highways. The FAST Act is the first long-term surface transportation authorization enacted in a decade that provides long-term funding certainty for surface transportation. The FAST Act improves mobility on highways by establishing and funding new programs to support critical transportation projects to ease congestion and facilitate the movement of freight on the Interstate System and other major roads. The FAST Act authorizes \$226.3 billion in Federal funding for FY 2016 through 2020 for road, bridge, bicycling, and walking improvements.

More information is available at: <https://www.fhwa.dot.gov/fastact/summary.cfm>

Congestion Mitigation and Air Quality (CMAQ)

The Congestion Mitigation and Air Quality (CMAQ) program provides funding for projects that help reduce emissions and meet national air quality standards, such as transportation demand management programs, bicycle and pedestrian improvements, transit projects, diesel retrofits, and vehicle emissions reductions programs. States are required to provide a non-Federal match for program funds (which has not been the case historically for Federal lands highway funding).

More information is available at: http://www.fhwa.dot.gov/environment/air_quality/cmaq/

Surface Transportation Block Grant (STBG)

In 2015, the FAST Act amended the Surface Transportation Program (STP) and changed the program name to the Surface Transportation Block Grant Program (STBG). STBG funds are contract authority. STBG funds are available for obligation for a period of 3 years after the last day of the fiscal year for which the funds are authorized. Thus funds are available for obligation for up to 4 years. The Federal share is generally 80 percent and 90 percent for projects on the Interstate System unless the project adds lanes that are not high-occupancy-vehicle or auxiliary lanes. For projects that add single occupancy vehicle capacity, that portion of the project will revert to 80 percent. Safety improvements may have a Federal share of 100 percent.

More information is available at: <https://www.fhwa.dot.gov/specialfunding/stp/160307.cfm#c>

Highway Safety Improvement Program (HSIP)

The Highway Safety Improvement Program (HSIP) is a core Federal-aid program with the purpose of achieving a significant reduction in traffic fatalities and serious injuries on all public roads, including non-State-owned public roads and roads on tribal lands. Under the MAP-21, approximately seven percent of total Federal-aid highway funding is provided for HSIP, amounting to \$2.2 billion each year. Highway safety improvement projects can be either infrastructure or non-infrastructure projects. All highway safety improvement projects must meet HSIP eligibility criteria. The HSIP program requires a

local match for projects where HSIP funding will be used. For Oregon, this local match is 7.78 percent of the project cost.

More information on the HSIP Program is available at: <https://safety.fhwa.dot.gov/hsip/>

State Sources

All Roads Transportation Safety (ARTS)

The All Roads Transportation Safety (ARTS) program (formerly known as Jurisdictionally Blind Safety Program) is intended to address safety needs on all public roads in Oregon. By working collaboratively with local jurisdictions (cities, counties, MPO's and tribes) ODOT expects to increase awareness of safety on all roads, promote best practices for infrastructure safety, compliment behavioral safety efforts and focus limited resources to reduce fatal and serious injury crashes in the state of Oregon. The program is *data driven* to achieve the greatest benefits in crash reduction and should be blind to jurisdiction. The ARTS program primarily uses federal funds from the HSIP with a required local match of 7.78 percent of the project cost

More information is available at: <http://www.oregon.gov/ODOT/HWY/TRAFFIC-ROADWAY/Pages/ARTS.aspx>

Connect Oregon

Connect Oregon is an initiative to invest in air, rail, marine, and bicycle/pedestrian infrastructure to ensure Oregon's transportation system is strong, diverse, and efficient. As a result of the passage of House Bill (HB) 2017, the following important changes have been made to Connect Oregon. Public transit projects are no longer included in Connect Oregon, Connect Oregon now has a portion of the new vehicle dealer private fee and the new \$15 bicycle excise tax in addition to lottery-backed bonds as funding sources², and the Oregon Transportation Commission is directed to distribute Connect Oregon funds to four specific projects:

- Mid-Willamette Valley Intermodal Facility (\$25 million)
- Treasure Valley Intermodal Facility (\$26 million)
- Rail expansion in east Beach Industrial Park at the Port of Morrow (\$6.55 million)
- Brooks rail siding extension (\$2.6 million)

As a result of the allocated funds associated with the projects listed above, the ODOT does not anticipate available funding in the 2017 – 2019 biennium for projects that would have previously been competitive for Connect Oregon program funds. After the four projects listed above have been funded, and if funding is available, ODOT will announce next steps for the competitive grant process which is expected to occur in the 2019 – 2021 or 2021 – 2023 biennia. Project's eligible for competitive grant funds may receive up to 70 percent of the project cost through Connect Oregon. A minimum of 30

² Bicycle excise tax will only go towards bicycle/pedestrian projects.

percent cash match is required from the recipient for all grant funded projects (with the exception of Class I Railroads which has a 50 percent cash match). Project eligible for funding from state fuel tax revenues are not eligible for Connect Oregon funding.

More information is available at: <http://www.oregon.gov/ODOT/Programs/Pages/ConnectOregon.aspx>

Statewide Transportation Improvement Program

The Statewide Transportation Improvement Program (STIP) is ODOT's four-year transportation capital improvement program. It is the document that identifies the funding for, and scheduling of, transportation projects and programs. It includes projects on the federal, state, city, and county transportation systems, multimodal projects (highway, passenger rail, freight, public transit, bicycle and pedestrian), and projects in the National Parks, National Forests, and Indian tribal lands. STIP project lists are developed through the coordinated efforts of ODOT, federal and local governments, Area Commissions on Transportation, tribal governments, and the public.

The STIP is divided into two broad categories: Fix-It and Enhance. The Enhance category funds activities that enhance, expand, or improve the transportation system. The project selection process for the Enhance category has undergone significant changes in the last few years and reflects ODOT's goal to become a more multimodal agency and make investment decisions based on the system as a whole, not for each mode or project type separately. The agency has requested assistance from its local partners in developing Enhance projects that assist in moving people and goods through the transportation system. The projects are selected through a competitive application process. The Fix-it category funds activities that fix or preserve the transportation system. These projects are developed mainly from ODOT management systems that help identify needs based on technical information for things like pavement and bridges.

More information is available at: <http://www.oregon.gov/ODOT/TD/STIP/Pages/default.aspx>

House Bill (HB) 2017 Transportation Investments

In August 2017, Governor Kate Brown signed an eight-year transportation tax increase to raise roughly \$5 billion for roads, bridges, mass transit, electric vehicles, and other transit options. House Bill (HB) 2017 affects drivers, bicyclists and payroll employees by increasing the gas tax, weight-mile tax, and other transportation-related fees such as excise tax on the sale of bicycles, new vehicles, and instituting a statewide payroll tax equivalent to 1/10th of 1 percent of wages, deducted by employer from payment to employee. Though this funding source is one that can be used to finance multitude of project types, the City has stated that additional funds received from HB 2017 will be primarily allocated to *Materials and Services* i.e. maintenance of existing transportation facilities and operations.

More information is available at: <http://www.oregon.gov/ODOT/Documents/HB2017-FAQ.pdf>

Local Sources

Economic Improvement Districts (EIDs)

Transportation improvements can often be included as part of larger efforts aimed at business improvement and retail district beautification. Economic Improvement Districts collect assessments or fees on businesses in order to fund improvements that benefit businesses and improve customer access within the district. Adoption of a mutually agreed upon ordinance establishing guidelines and setting necessary assessments or fees to be collected from property owners is essential to ensuring a successful EID.

Local Improvement Districts (LID)

Local Improvement Districts (LIDs) are most often used to construct projects such as streets, sidewalks, or bikeways. Through the LID process, the costs of local improvements are generally spread out among a group of property owners within a specified area. The cost can be allocated based on property frontage or other methods such as trip generation. The costs of an LID project are borne primarily by property owners, moderate administrative costs must be factored in, and the public involvement process must still be followed. If the cost of the local improvement is not 100 percent funded by property owners, the City is required to contribute the remaining unfunded portion of the improvement.

Urban Renewal District

An Urban Renewal District (URD) is a tax-funded district within the City. An URD is normally funded by property taxes that are increased incrementally, which is a type of funding that has been used in Oregon since 1960. The taxes are increased as a result of construction of applicable improvements. The incremental taxes are used, rather than fees, to fund different types of improvements. Transportation projects are one type of potential funding use.

Local Bond Measures

Local bond measures, or levies, are usually initiated by voter-approved general obligation bonds for specific projects. Bond measures are typically limited by time, based on the debt load of the local government or the project under focus. Funding from bond measures can be used for right-of-way acquisition, engineering, design, and construction of transportation facilities. Transportation-specific bond measures have passed in other communities throughout Oregon. Though this funding source is one that can be used to finance a multitude of project types, it must be noted that the accompanying administrative costs are high and voter approval must be gained. In addition, local bonds for transportation improvements will compete with local bonds for other public needs, such as fire and rescue, parks and recreation, schools, libraries, etc.

Optional Tax

Optional taxes are taxes that a taxpayer elects to pay to fund projects and improvements. Usually not a legislative requirement to pay the tax and paid at the time other taxes are collected, optional taxes are

usually less controversial and easily collected since they require the taxpayer to decide whether or not to pay the additional tax. The voluntary nature of the tax limits the reliability and stability of the funding source. In addition, optional taxes for transportation improvements will compete with optional taxes for other public needs, such as fire and rescue, parks and recreation, schools, libraries, etc.

Local Fuel Tax

A local tax assessed on fuel purchased within the jurisdiction that has assessed the tax. The taxes are paid to the city monthly by distributors of fuel. Voters would need to pass the tax, and the process for presenting such a tax to voters will need to be consistent with Oregon State law as well as the laws of the City. Nearby locations with a gas tax includes Milwaukie (two cents per gallon), Canby (three cents per gallon), Tigard (three cents per gallon), Multnomah County (three cents per gallon) and Washington County (one cent per gallon).

User Fees

Fees tied to the annual registration of a vehicle to pay for improvements, expansion, and maintenance to the street system. This may be a more equitable assessment given the varying fuel efficiency of vehicles. Regardless of fuel efficiency, passenger vehicles do equal damage to the street system. The cost of implementing such a system could be prohibitive given the need to track the number of vehicle miles traveled in every vehicle. Additionally, a user fee specific to a single jurisdiction does not account for the street use from vehicles registered in other jurisdictions.

Street Utility Fees/Road Maintenance Fee

The fee is based a flat fee charged to each property, on the number of trips a particular land use generates, or some combination of both and is usually collected through a regular utility bill. For the communities in Oregon that have adopted this approach, it provides a stable source of revenue to pay for street maintenance allowing for safe and efficient movement of people, goods, and services. As indicated previously, the city is currently considering implementation of a street utility fee, which could provide the City with an additional funding over the 23 year period.

General Fund (GF) Revenues

Revenue from the City's GF can be allocated to transportation funding at the discretion of the City Council during the annual budget process. GF revenues primarily include property taxes, use taxes, and any other miscellaneous taxes and fees imposed by the City. GF resources have the potential to fund any type of transportation expenditures but would only be available if it had increased revenues or if the City Council directs funding that is traditionally allotted to other City expenditures and programs, such as Police Departments and other GF programs.

Attachment A Revenue and Expenditure Data