

Federal, State, and Local Funding Sources

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This memorandum provides an overview of federal, state, and local transportation funding sources. Those sources are listed in Figure 1 and described in more detail in the sections that follow.

Figure 1. Bend MTP and TSP Funding Sources

Funding Source	MTIP	TSP	Both
Federal			
ARRA One time Recovery Act – all funds already obligated		X	
Bend Metropolitan Planning Organization (BMPO) STBG funds	X		
Community Development Block Grants (CDBG)	X		
Emergency Relief program (ER)	X		
Federal Lands Access Program (FLAP)	X		
FTA Section 5303	X		
FTA Section 5307	X		
FTA Section 5309	X		
FTA Section 5310	X		
FTA Section 5311	X		
Highway Safety Improvement Program (HSIP)	X		
Metropolitan Planning	X		
Moving Ahead for Progress in the 21st Century – now the FAST Act		X	
National Highway Performance Program (NHPP) funds	X		
Secure Rural Schools and Community Self-Determination Act	X		
Statewide Planning and Research (SPR)	X		
Statewide Transportation Improvement Program (STIP)		X	
Surface Transportation Block Grant program (STBG)	X		
Surface transportation program (STP) funds (this is now STBG funds-changed named in FAST Act)		X	

FEDERAL, STATE, AND LOCAL FUNDING SOURCES

Funding Source	MTIP	TSP	Both
TIGER		X	
Transportation Alternatives Program (TAP) N/A anymore, part of STBG	X		
State			
Connect Oregon (temp closed as funds pre-specified by HB 2017)		X	
Gas tax revenue	X		
Immediate Opportunity Fund (IOF)	X		
JTA (Closed, last bonds issued June 2017)		X	
Oregon Highway Fund	X		
OTIA (Closed, last bonds issued in OTIA III)		X	
Special Public Works Fund (SPWF)	X		
Special transportation fund (STF)	X		
Traffic control projects	X		
Local			
Cascade East Transit	X		
City of Bend	X		
Deschutes County	X		
Developer contributions/ Developer extractions		X	
Fairbox revenue	X		
Franchise fees			X
General fund allocation		X	
General obligation bonds			X
Local parking fees	X		
Local vehicle registration fee			X
Potential new sources (still TSP)		X	
Property taxes / Local option levy	X		
Public-private partnerships			X
Revenue bonds	X		
Special assessments/Local Improvement Districts (LIDS)			X
Special road districts	X		
Street utility fees	X		
Transient Room Tax (TRT)	X		
Transportation system development charges			X
Transportation system development charges		X	
Urban renewal funding			X

Federal

The Federal government has been and will continue to be a major source of funding for state and local transportation and transit infrastructure.¹ A majority of that funding gets transferred to state and local governments through federal programs funded by the federal Highway Trust Fund (HTF). In recent years, however, the HTF has not been able to keep pace with funding needs; it has been shored up by cash infusions from the General Fund of the U.S. Treasury.

While it is unlikely that the HTF would ever fail to meet its obligations, it is not impossible that its revenues could decline. Local governments should have some understanding of the sources of revenues and programs for local spending so that they can make informed estimates of the amount of federal funding that will be available for their local transportation investments. Understanding the flow of funds in the HTF means understanding (1) the *sources of the revenues* that create the HTF, and (2) the *federal policies and programs* that dictate how those funds will get distributed to states, regions, and local governments. The names of programs that have distributed funds for the last 15 years sometimes change, but funding continues to be distributed at similar levels in similar programs, despite the apparent insolubility of the HTF.

Money In: How the federal government get funds to spend on transportation

Current funding sources

The bulk of federal revenue and expenditures on surface transportation flow through the HTF. The HTF spends on the order of \$50-60 billion per year on highways and transit. The HTF is composed of the Highway Account, which funds highway and intermodal programs, and the Mass Transit Account, which funds transit. In March 2018, the closing balance of the Highway Account was \$38 billion, and the closing balance of the Mass Transit Account was \$14 billion.²

The Federal Transportation Act authorized the collection and disbursement of the funds in the Highway Trust Fund. In December 2015, Congress passed the Fixing America's Surface Transportation (FAST) Act, which authorized over \$305 billion in spending from the Highway Trust Fund for the five years from fiscal year (FY) 2016-2020 (expiring September 30, 2020) for highway and transit programs.³ The FAST Act extends highway-user taxes (fuel taxes) through 2022 with no changes to the tax rates.

The FAST Act replaced the previous Federal Transportation Act, the Moving Ahead for Progress in the 21st Century (MAP-21) program which was in place from 2012 to 2015. MAP-21, in turn, had replaced the previous Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU), which had determined Federal funding from 2005 to 2012. With the passage of each of these acts, assumptions for local transportation funding changes. The basic allocation structure under the FAST Act, however, is roughly the same as the structure under MAP-21.

In summary, and as rough approximation: (1) the FAST Act is the congressional authorization that allows transportation (highways and transit) to be funded with federal funds, and (2) the HTF is the fund that provides most of that funding, the exception being the FTA Capital

¹The federal government supplies about one-quarter of funding for all public spending on highways and transit. <https://www.heritage.org/transportation/report/highway-trust-fund-basics-primer-federal-surface-transportation-spending>

² <https://www.fhwa.dot.gov/highwaytrustfund/>

³ <https://www.fhwa.dot.gov/fastact/summary.cfm>

Investment Program (CIG) which is funded from the general fund. As a result, the CIG competes with other funding priorities, which makes allocations less predictable.

Traditionally, the HTF has three main sources of income:

- Fuel/gas taxes. Federal gas taxes are the major source of income. Federal gas tax rates have been unchanged since 1997: 18.4 cents per gallon on gasoline, and 24.4 cents per gallon on highway diesel fuel. With neither tax indexed to inflation, the purchasing power of the revenue has continued to decline.⁴ In 2016, these gas taxes generated \$31.1 billion in receipts.
- Other federal taxes on truck users. These include taxes on heavy vehicle use, tire tax, and retail sales tax on truck and trailers. In 2016 these additional taxes generated about \$5.9 billion of revenue for the Highway Trust Fund. Total receipts collected via these excise taxes in 2016 were \$36.06 billion.⁵
- Interest on invested balances. The HTF must invest in public debt securities any balance in the HTF beyond that which is needed to cover current expenses of programs funded from the HTF. In June 2017, interest amounted to a little less than \$125 million.⁶

For decades, these sources of funds have fully funded the HTF, and the funds have been adequate for moderately increasing levels of expenditures on transportation.

But recently, the solvency of the HTF and both the Highway Account and Mass Transit Account is of concern. Since fiscal year 2008 and in all subsequent years, the HTF has spent more than it has received in revenues. Since 2008, \$114.7 billion dollars have been transferred into the HTF, primarily from the General Fund of the Treasury.⁷

Where does the General Fund get its money? About half of the revenues to the federal government come from personal income tax, and a third from payroll taxes (which go into a Social Security Fund); the rest comes from business income taxes and other taxes. Thus, transfers to the HTF come primarily from personal income taxes paid to the IRS.

At the close of FY 2015, the Highway Account held \$9 billion, with \$64 million in unpaid commitments against the HTF, and declining revenue projections. Therefore, the authorization passed by Congress that year had two one-time transfers from the General Fund of the Treasury, \$51.9 billion to the Highway Account and \$18.1 billion into the Mass Transit Account to address the general issues of the fund. At the federal level, the commitments against the HTF's expected resources (revenues) set the level of apportionments. Thus, in order to not further reduce apportionments, cash infusions were required.

Future funding Assumptions

Is there any compelling evidence that the amount of federal funding for transportation is going to get much larger or much smaller than a continuation of past trends would suggest?

As a starting point, the HTF has arrived where analysts have for years predicted it would: its traditional sources of funding are now generating less than its annual expenditures. But spending needs have been covered by general fund transfers. In the future, federal priorities and policies will play an outsize role in the availability of transportation funds:

⁴ <https://www.fhwa.dot.gov/fastact/factsheets/htffs.cfm>

⁵ All financials found in "Status_federalhighwayfund_2016" spreadsheet provided to ECONorthwest by ODOT

⁶ All financials found in "Status_federalhighwayfund_2016" spreadsheet spreadsheet provided to ECONorthwest by ODOT

⁷ <https://www.fhwa.dot.gov/policy/olsp/fundingfederalaid/07.cfm>

- The HTF is only able to maintain its current allocations via subsidy from the general fund, and this is agreed only through 2020, so Congress could choose not to maintain this, though it seems unlikely it would choose this route.
- President Trump’s Budget for 2018 included a new infrastructure plan, one that pursued greater leverage of federal dollars for matching dollars. But only \$200 billion of his proposed \$1.5 trillion is to come from federal spending: it assumes the rest is from a \$4 to \$1 match of federal funds from other sources. But Congress recently indicated they were unlikely to get to the budget plan this year.
- The historical trends notwithstanding, as the funding situation gets more critical, maybe Congress will be able to agree on the simple expedient of raising the fuel tax. Adjusted for inflation, the 18¢ of gas tax adopted in 1993 buys on the order of 10¢ of goods and services in 2018. Raising the tax by 1¢ would generate about \$1.5 billion per year.⁸ If federal fuel tax rates had been indexed for inflation since 1993, the current tax on gasoline would be about 31¢ per gallon and the tax on diesel fuel would be about 42¢ per gallon. In Oregon and Washington, fuel taxes on all types of transportation fuels are on the order of 30¢ and 50¢ per gallon. Federal revenue from the tax on all fuel sources is on the order of \$35 billion per year. If Congress were to double the tax on all fuels, it could raise another \$35 billion per year, and fuel would still cost less, in real terms, than in 1993.

Given that the last few federal authorization programs were extended multiple times before a new authorization act was passed, a defensible (and probably most likely) baseline assumption is for federal funding to stay at the same levels through the early 2020s. After that, Congress will likely have to either increase the gas tax or find a revenue source, such as a vehicle mile travel system, to make the HFT sustainable over the long-term.

Money Out: Programs through which federal transportation funds get to state and local governments

Federal funds for transportation are authorized through transportation programs and appropriated by Congress on an annual basis. These funds may be spent directly by the federal government, passed on to states, distributed directly to regional planning organizations, and in some cases, granted directly to cities. This section gives an overview of these options, explaining allocation methods and disbursement programs.

Highways (Federal Highway Administration)

The FAST Act authorizes the level of federal investment over the life of the act and Congress must appropriate the funding each year. A total amount for each year for all the combined highway programs is apportioned to each state (described below), and then each state’s amount is divided among the following six formula programs, there are guidance and formulas that must be followed for the distribution of the funding in these programs:⁹

1. National Highway Performance Program (NHPP)
2. Surface Transportation Block Grant Program (STBG)
3. Highway Safety Improvement Program (HSIP)
4. Congestion Mitigation and Air Quality Improvement Program (CMAQ)

⁸ Kile, Joseph. 2015. “The Status of the Highway Trust Fund and Options for Paying for Highway Spending,” Testimony before the US Senate Committee on Finance, Washington, DC, June 18.

⁹ <https://www.fhwa.dot.gov/fastact/factsheets/apportionmentfs.cfm>

5. Metropolitan Planning
6. The new National Highway Freight Program (NHFP).

National Highway Performance Program (NHPP)

The Federal National Highway Performance Program incorporates Interstate Maintenance, the National Highway System (NHS) and the Highway Bridge Program for bridges that are on the NHS. Projects eligible for NHPP funding include: construction, reconstruction, resurfacing, restoration, rehabilitation, and preservation of highways and bridges; bridge and tunnel inspection and evaluation; safety projects; environmental restoration and mitigation; intelligent transportation systems (ITS); and bicycle and pedestrian infrastructure.¹⁰ The program also requires states to develop a performance-based plan for preserving and improving the condition and performance of the National Highway System to ensure investments in Federal funds in highway construction are directed to support progress towards achieving the targets set in a State's asset management plan.

Surface Transportation Block Grant (STBG) Program

The FAST Act converted the Surface Transportation Program (STP) into the STBG program. This shift recognized that this program has the most flexibility in eligibility and aligned the name with how it is administered.¹¹ STBG flexible funding is awarded to States and localities for various projects, including highways, bridge projects, and transit capital projects and facilities. A portion of the STBG funding is allocated for the Metropolitan Planning Organizations (MPOS), some of which is distributed to its member agencies, including cities, for use in improving and maintaining its collector and arterial street systems. While these funds are the most flexible, projects do have to be a part of the region's transportation plan, its Metropolitan Transportation Improvement Plan (MTIP) and State's Transportation Improvement Plan (STIP) in order to quality.

The following are to be set aside from the state's STBG apportionment:

- Funding for Transportation Alternatives (TA details, see below)
- 2% for State Planning and Research
- Funding for bridges not on Federal-aid highways (15% of the State's FY 2009 Highway Bridge Apportionment Program)¹²

The percentage to be sub-allocated (after set-asides for the Transportation Alternatives) grows over the period of the FAST Act (51% in FY 2016; 52% in FY 2017; 53% in FY 2018; 54% in FY 2019; 55% in FY 2020). That percentage of a State's STBG apportionment is to be obligated in the following areas in proportion to their relative shares of the State's population:

- *Urbanized areas with population greater than 200,000*—This portion is to be divided among those areas based on their relative share of population, unless the Secretary approves a joint request from the State and relevant MPO(s) to use other factors.
- *Areas with population greater than 5,000 but no more than 200,000*—The State is to identify projects in these areas for funding, in consultation with regional planning organizations, if any.

¹⁰ <https://www.fhwa.dot.gov/specialfunding/nhpp/>

¹¹ <https://www.fhwa.dot.gov/fastact/summary.cfm>

¹² <https://www.fhwa.dot.gov/fastact/factsheets/stbgfs.cfm>

- *Areas with population of 5,000 or less.*

With the SBTG program is a set-aside of funds for Transportation Alternatives: funding for programs and projects defined as transportation alternatives, including on- and off-road pedestrian and bicycle facilities, infrastructure projects for improving non-driver access to public transportation and improved mobility, community improvement activities such as historic preservation, environmental remediation, recreational trail program projects, and safe routes to school projects. This replaced the prior Transportation Alternatives Program (TAP).

Highway Safety Improvement Program (HSIP)

The Highway Safety Improvement Program provides funding to implement engineering countermeasures to reduce fatal and serious injury collisions. This program is designed to fund projects meant to achieve reductions in traffic fatalities and injuries on public roads and bike paths. The program requires that states program and spend safety funds according to their strategic highway safety plan.

Congestion, Mitigation and Air Quality Improvement (CMAQ)

CMAQ provides funding for transportation projects and programs to meet the requirements of the Clear Air Act. Funding is available to reduce congestion and improve air quality in areas that do not meet National Ambient Air Quality Standards (NAAQS).¹³ These funds can be spent in any of a state's particulate matter maintenance areas and could fund high-occupancy vehicle (HOV) lanes, park and ride lots, carpool programs and other projects that help improve air quality. Put broadly, these funds support alternative mode and demand management programs and can be spent in any non-attainment area if the projects and programs will contribute to achieving NAAQS.

Metropolitan Planning

Funding for the State's Metropolitan Planning program from the state's base apportionment and apportionment of the National Highway Freight Program. These funds cannot be transferred to other programs. The FAST Act continues to require metropolitan transportation plans and transportation improvement plans (TIPs) for most programs.¹⁴

National Highway Freight Program

The new National Highway Freight Program is to improve the movement of freight on the National Highway Freight Network (NHFN). Goals include strengthening economic competitiveness, reducing congestion, improving safety/security/efficiency and state of repair of the NHFN.¹⁵

Transit (Federal Transit Administration)

The Federal Transit Administration (FTA) Programs, similar to the FHWA funding are authorized in the FAST Act and require appropriations each year by Congress. All major investments in transit systems in large cities in the US are made in coordination with, and with financial backing from, the FTA.

¹³ <https://www.fhwa.dot.gov/fastact/factsheets/cmaqfs.cfm>

¹⁴ <https://www.fhwa.dot.gov/fastact/factsheets/metropolitanplanningfs.cfm>

¹⁵ <https://www.fhwa.dot.gov/fastact/factsheets/nhfpfs.cfm>

Capital Investment Grants (Section 5309), including New Starts/Small Starts

FTA Capital Investment Grant (CIG) program are competitive and consist of three separate, but related programs: New Starts, Small Starts, and Core Capacity. Agencies that want these grants, which cover part of a new system's cost, must demonstrate their project performs well on the criteria FTA uses to evaluate proposals.

The FTA's Capital Investment Grant Program is a discretionary grant program and the primary grant program for major transit capital investments, including rapid rail, light rail, bus rapid transit, commuter rail, and ferry capital projects. The distinction between the programs are as follows:

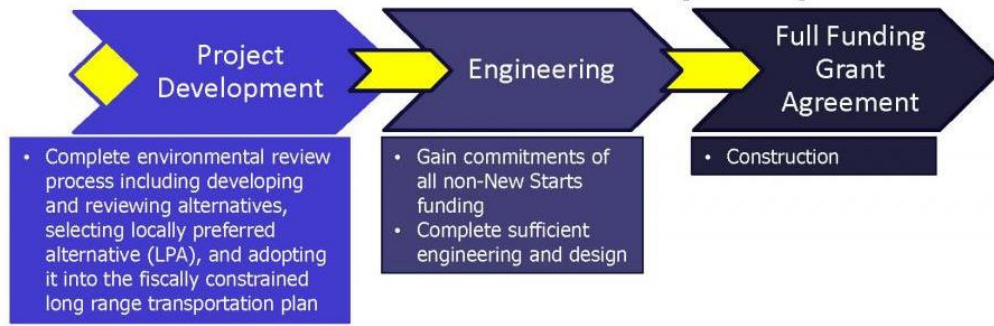
- **New Starts:** New Starts projects are those with a total estimated capital cost greater than \$300 million or that are seeking \$100 million or more in Section 5309 CIG program funds.
- **Small Starts:** Small Starts projects are those with a net capital cost under \$300 million, and the project's request is under \$100 million or less in Section 5309 CIG program. ¹⁶
- **Core Capacity:** Core capacity project must be, "a substantial corridor-based capital investment in an existing fixed guideway system." Therefore, FTA requires projects to be corridor specific rather than multiple corridors packaged together or system-wide improvements. FTA considers improvements along a trunk line with several branches to be an eligible core capacity corridor project. Additionally, FAST specifies:
 - The proposed project corridor must be at or over capacity currently or will be within five years.
 - The proposed project must be a substantial, corridor-based capital investment in an existing fixed guideway system that increases the capacity of a corridor by not less than 10 percent.
 - The proposed project does not include project elements designed to maintain a state of good repair
 - The proposed project cannot include elements to improve general station facilities or parking, or acquisition of rolling stock alone.

The time frame for applying and required steps to secure federal approvals and funding vary slightly between the three programs.

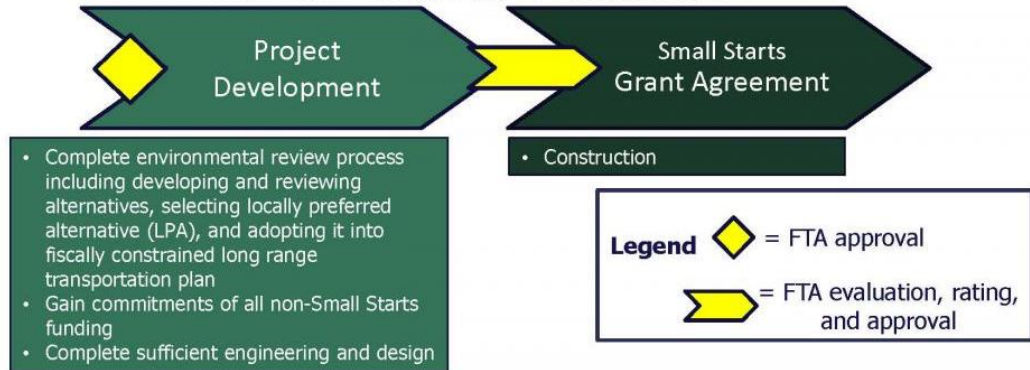
¹⁶ <https://www.transit.dot.gov/grants>

Exhibit 1. Capital Investment Grants Process Summary

New Starts and Core Capacity Process



Small Starts Process



Source: <https://www.transit.dot.gov/funding/grant-programs/capital-investments/capital-investment-grants-program>

Prior to submission of a completed application proposal to the FTA for evaluation and rating a project must formally request entry into the “Project Development” phase. The time a project is in “Project Development” will vary based on the complexity of the project and CIG program. Entry into “Project Development” also makes certain activities/expenditures eligible for reimbursement if successful in securing federal assistance from a CIG program. Once a project formally submits its application for evaluation and rating by the FTA, submittals typical occur in the fall of each year it will take a minimum of 12 months to know if funding has been included in an approved appropriation bill and an additional 12 months to execute a funding agreement with the FTA.

In addition to these CIG funding programs, the FTA offers a funding option that provides additional flexibility called the “Program of Interrelated Projects”. The program of interrelated projects is defined as the simultaneous development of any combination of two or more fixed guideway and/or core capacity capital projects. This program allows interrelated projects, which are being simultaneous development to be bundled together for grant seeking purposes.

Additional information on the Capital Investment program can be found at [https://www.transit.dot.gov/sites/fta.dot.gov/files/docs/FAST_Updated_Interim_Policy_Guidance_June percent20_2016.pdf](https://www.transit.dot.gov/sites/fta.dot.gov/files/docs/FAST_Updated_Interim_Policy_Guidance_June%20percent20_2016.pdf)

Urban Areas Formula Grants

Grants from the FTA Urban Area Formula Grants program are awarded to Urbanized Areas (more than 50,000 people) for public transportation capital projects and planning, as well as job access and reverse commute projects. The grants also fund operating costs (up to certain

limits) for areas with over 200,000 people and that operate no more than 100 buses in fixed-route service. The FTA covers 80% of capital costs, 50% of operating costs, and 80% for ADA non-fixed route paratransit service total costs. Funding from other government agencies/departments can be used as a local match. The FTA Urban Area Formula Grant funding can be used in combination with other funding sources, like New Starts/Small Starts funding.

- Urbanized Area Formula Grants – Section 5307
 - The Urbanized Area Formula Funding program (49 U.S.C. 5307) makes federal resources available to urbanized areas and to governors for transit capital and operating assistance in urbanized areas and for transportation-related planning. An urbanized area is an incorporated area with a population of 50,000 or more that is designated as such by the U.S. Department of Commerce, Bureau of the Census. Provides funding to public transit systems in Urbanized Areas (UZA) for public transportation capital, planning, job access and reverse commute projects, as well as operating expenses in certain circumstances.
- State of Good Repair Grants – Section 5337
 - The State of Good Repair Grants Program (49 U.S.C. 5337) provides capital assistance for maintenance, replacement, and rehabilitation projects of high-intensity fixed guideway and bus systems to help transit agencies maintain assets in a state of good repair. Additionally, SGR grants are eligible for developing and implementing Transit Asset Management plans. Funding is allocated to a High Intensity Fixed Guideway program and High Intensity Motorbus program.
- Grants for Buses and Bus Facilities Formula Program – Section 5339
 - The Bus & Bus Facilities Infrastructure Investment Program (49 U.S.C. 5339) makes federal resources available to states and direct recipients to replace, rehabilitate and purchase buses and related equipment and to construct bus-related facilities including technological changes or innovations to modify low or no emission vehicles or facilities. Funding is provided through formula allocations and competitive grants. A sub-program, the Low- or No-Emission Vehicle Program, provides competitive grants for bus and bus facility projects that support low and zero-emission vehicles.

Enhanced Mobility of Seniors & Individuals with Disabilities (Section 5310)

This program provides formula-based funding for transportation for older adults and people with disabilities, e.g. Paratransit.

Formula Grants for Rural Areas (Section 5311)

These funds are similar to Section 5307, except eligible places are those with less than 50,000 people in population.

Metropolitan & Statewide Planning & Nonmetropolitan Transportation Planning (Sections 5303, 5304, and 5305)

These grants provide funding for multimodal transportation planning in metropolitan areas and states. Eligible recipients include state DOTs and regional MPOs.

Additional FTA Grants

There are a variety of FTA grants that are available for specific projects and types of purposes including capital investments, bus infrastructure, planning, ferry programs, safety, enhancing

mobility, and lowering emissions, to name just a few. Depending on the type of project, FTA grants should be investigated in detail to assess what may be appropriate and available.¹⁷

BUILD Transportation Discretionary Grants

The U.S. Department of Transportation's (DOT) Transportation Investment Generating Economic Recovery program (TIGER) will be replaced by Better Utilizing Investments to Leverage Development (BUILD) Transportation Discretionary Grants. This is a new program starting in 2018 through the U.S. Department of Transportation. Similar to the TIGER program, funds are available for roads, bridges, transit, rail, ports or intermodal transportation, and grants may be awarded to any public entity including municipalities, counties, port authorities, and MPOs. However, 30% of funds are dedicated to rural areas.

Within urban areas, these grants may be more competitive than TIGER grants because the funds available to urban areas may be smaller. It is important to understand the evaluation criteria used for BUILD grants. The program gives special consideration to rural areas, and are based on "criteria that include safety, economic competitiveness, quality of life, environmental protection, state of good repair, innovation, partnership, and additional non-Federal revenue for future transportation infrastructure investments."¹⁸

Other Federal Grant Funding Opportunities

Environmental Protection Agency

The Environmental Protection Agency provides grants to states related to transportation including:¹⁹

- Multipurpose Grants
- Air Grants
- National Clean Diesel Campaign Grants
- Pollution Prevention Grant Program
- Office of Air and Radiation Grants and Funding
- Community Action for a Renewed Environment (CARE)
- Environmental Education Grant Program
- Smart Growth Transportation Funding

Department of Energy

The State Energy Program and the Office of Energy Efficiency and Renewable Energy offer funding for transportation projects related to energy efficiency.²⁰

Summary of implications for Federal transportation funding

In the near-term, the baseline assumption that federal funding will stay at the same levels for the next few years is defensible (and probably most likely) given a long history of (1) federal authorization programs being extended multiple times before a new authorization act was passed, and (2) relatively stable and moderately increasing (in nominal terms) levels of federal funding for transportation. However, the long-term viability of gas tax as a source of revenue is constantly in question. Thus, Bend MPO should not plan on real increases in federal transportation from this source as a baseline forecast.

¹⁷ For a full listing of the FTA's grant programs see: <https://www.transit.dot.gov/grants>

¹⁸ <https://www.transportation.gov/BUILDgrants>

¹⁹ <https://www.epa.gov/state-and-local-transportation/grants-and-funding-state-and-local-transportation>

²⁰ <https://www.epa.gov/state-and-local-transportation/grants-and-funding-state-and-local-transportation>

For federal grant programs changes are most likely to happen via legislation. Competitive programs are often closed when funds are exhausted and formula grants can be changed to reflect the priorities of legislators or executive branch, as with the newly created BUILD Transportation Discretionary Grant program. With this in mind, grant programs are a good source of funds when specific short and medium-term projects are being identified, such as improvements related to the RREP. These grants may not be appropriate to be considered as a stable long-term source, though.

State

State transportation revenue collection and funding disbursement is administered by the Oregon Department of Transportation (ODOT). ODOT's funds come from Federal and State sources. Fuel taxes are the largest source of both Federal and State funding. ODOT distributes its funds to all levels of government in Oregon, most to be spent on what are ultimately local transportation projects or programs: to ODOT itself, to regional Metropolitan Planning Organizations (MPOs) and transit agencies, and to cities and counties.

For all types of transportation investments (e.g., roadways, transit, bike lanes, sidewalks) at all levels of government, some funds are raised and spent on that level, and some funds are channeled to other organizations via a variety of programs. There are required plans that prioritize how funds will be allocated and spent. Understanding where and how funds are raised helps predict the short-, medium-, and long-term outlook for the amount of funding from these sources that will reach a particular local government. Understanding the programs that allocate these funds helps predict the likelihood of how changes in structure could impact future revenues.

This section explains how the State and the regional MPOs get funds to spend on transportation, how they allocate those funds, and the programs and methods used to disburse the funds. A separate memorandum explains locally generated sources of transportation revenue.

Money In: How the state and regional governments get funds to spend on transportation

ODOT Funding

The State of Oregon, and ODOT, budget on a two-year (biennium) basis. Federal and local government typically budget on an annual basis. In the 2017-2019 biennium, total revenue coming into ODOT will be approximately \$5.3 billion in revenue: 23% comes from federal sources, and 77% from state sources (which include both revenues and bond proceeds). For reference, in the 2015-2017 biennium, 18% came from federal revenue, and 82% from state sources.

The state serves as both a final stop and as a conduit for federal funding. Federal funds come from the Highway Trust Fund, disbursed through its programs to ODOT, primarily for ODOT's Highway Division, but with smaller amounts for Transportation Safety, Transportation Program Development, and Public Transit programs.²¹ But federal gas tax revenues have declined in real purchasing power—states are increasingly choosing to implement or increase their own gas taxes to raise revenue.

Oregon's gas tax is 34.1¢ per gallon.²² The highest state (Pennsylvania) charges 58¢ per gallon; Washington State charges 49¢; the lowest state (Alaska) charges 12¢. These figures do not include the federal gas tax of 18.4¢ per gallon. "In fiscal year 2013, however, gas taxes, tolls, and motor vehicle license fees covered just 41.4 percent of state and local road spending. That percentage is falling over time as state gas tax rates in many states are not indexed for inflation, so the revenue they accumulate has weaker purchasing power each year. Of course, cars are also becoming more fuel-efficient all the time, and that makes for less gas tax

²¹ ODOT 2017-2018 Budget p. 92

²² <http://www.oregon.gov/ODOT/Data/Documents/auto-tax-comparison-jan-18.pdf>

collections each year as well.²³ Note that the passage of HB 2017 by the Oregon State Legislature in 2017 increased the gas tax by \$0.04 immediately and includes three \$0.02 step increases provided ODOT comply with certain performance standards.

Exhibit 2 shows ODOT's budget for the 2017-2019 biennium. ODOT's funds *from state sources* come from:

- Revenue from taxes on motor fuels including gas taxes and diesel taxes. In the 2017-2019 budget this was projected to be \$1.274 billion, or 24% of total available budget.
- Taxes on heavy trucks including weight mile and truck registrations: 16% of total available budget.
- Driver/vehicle fees including licenses and vehicle title/registrations: 16% of total available budget.
- Other funds come from agency transfers to ODOT, from the general fund, lottery proceeds, bond sales, and other miscellaneous sales and charges for service: 12% of total available budget.

Those state-generated sources sum to about 68% of ODOT's total available budget. The rest comes from federal sources (23%) and a beginning balance (about 9%).

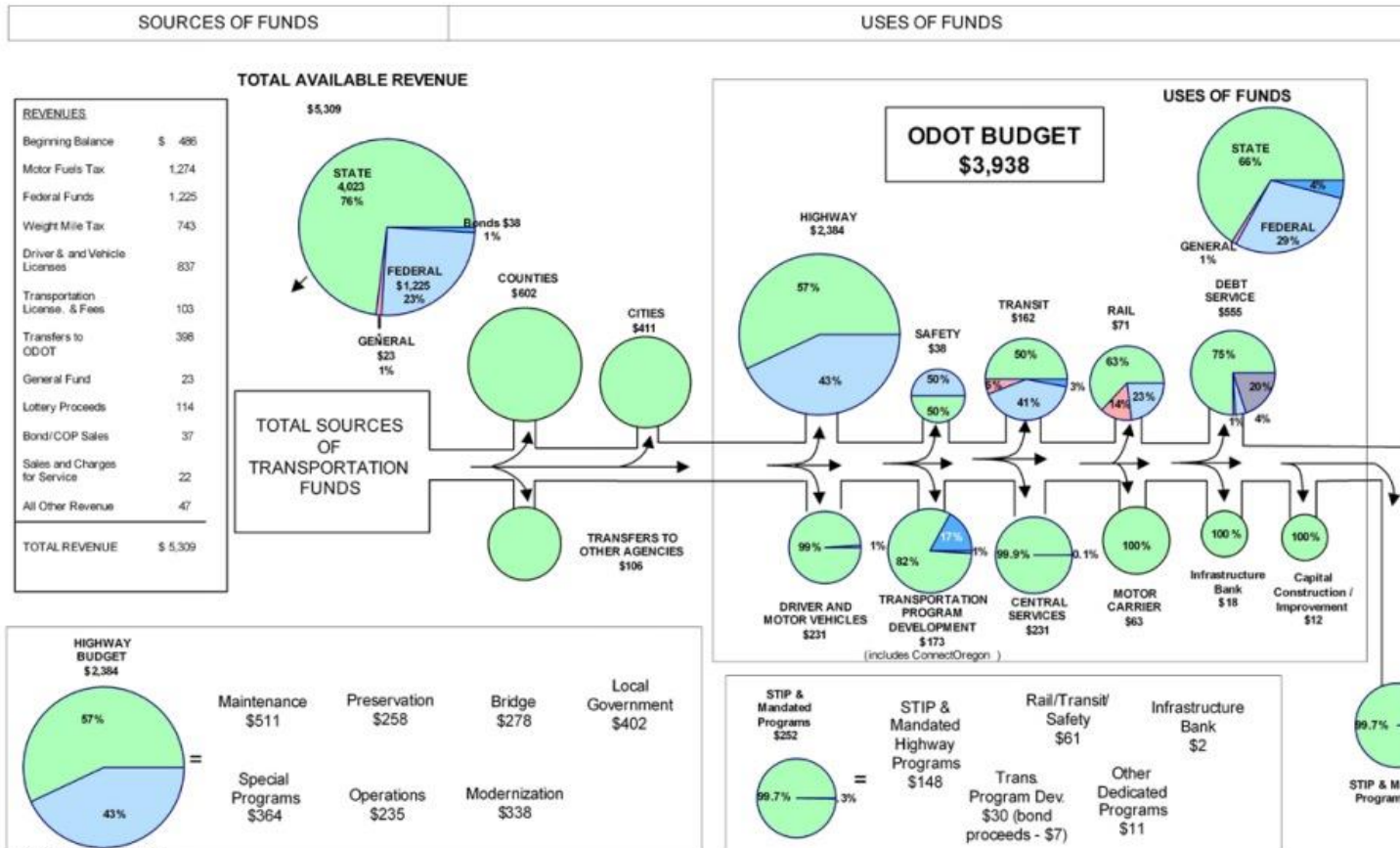
²³ <https://taxfoundation.org/gasoline-taxes-and-user-fees-pay-only-half-state-local-road-spending>

Exhibit 2: ODOT's uses and sources of funds, 2017 - 2019

SOURCES AND USES OF FUNDS

DEPARTMENT OF TRANSPORTATION

2017-2019 Legislatively Adopted Budget



Dollar amounts are in millions
Updated 10/27/17

According to ODOT sources, it distributes about 30% of federal revenue to local governments, and “about \$1 billion (19 percent) of total revenue flowing through ODOT is distributed to Oregon cities, counties and other agencies.”²⁴

New Oregon Statewide Funding: House Bill 2017

In 2017 the Oregon Legislature passed HB 2017, *Keep Oregon Moving*, providing a significantly larger investment in transportation systems development. The bill includes many things, most notably for this discussion:

- Surcharges on vehicle registration fees in 2018, converting to a system based on vehicle fuel efficiency and type starting in 2020.
- Surcharges on title fees that began immediately and increases in 2020 again in 2022.
- Increases the gas tax 4 cents/gallon in 2018, with conditional increases in the gas tax of two cents/gallon in 2020, 2022 and 2024.

For cities, counties, and MPOs, this means that future budget projections from ODOT are different based on assumptions: one set of projections includes only the guaranteed revenue; the other includes the conditional gas taxes in 2020 and onward. The additional 6 cents of gas tax increases go into effect only if the Oregon Transportation Commission (ODOT’s governing body) meets accountability and reporting requirements, including a new website showing whether ODOT is meeting time and budget goals for projects and reporting on the conditions of roads and bridges. It seems likely that ODOT will meet these accountability goals.

Transit Funding

The Public Transit Division (PTD) of ODOT administers transit program funds. Transit program funds come from federal grants from the Federal Transit Authority (FTA) and the Federal Highway Administration. These funds can only be used for transit. Typically, state funding has provided a lesser share of revenue relative to federal funding. Smaller agencies in the state, however, are more dependent on state funds than larger one.

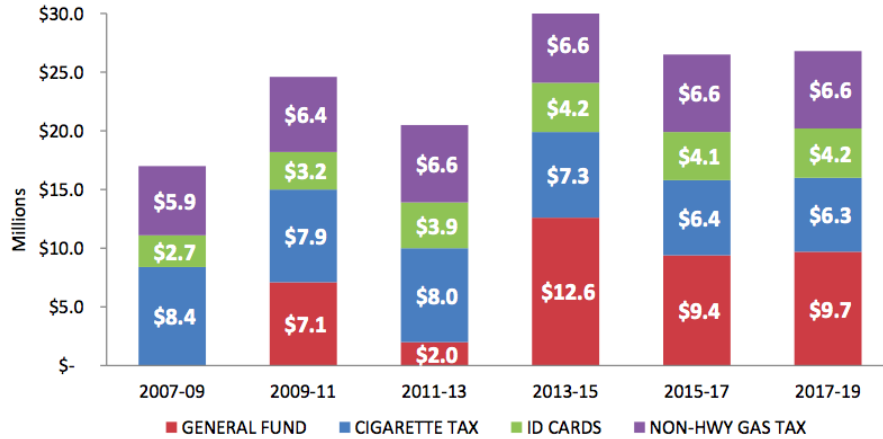
The 2017-2019 budget for transit included \$99.4 million in total funds, of which \$9.7 million came from General Funds, \$28.2 million from Other Funds, \$61.4 million from Federal Funds. This budget is a 10.2% increase over the previous biennial budget.²⁵ When “policy option packages” are added (\$63 million) the total budget comes to about \$163 million (Figure 10).

PTD receives state money from the General Fund to provide financial support for transportation services benefitting older adults and those with disabilities. Other funds come from ODOT transfers, Cigarette tax, ID card revenue, and interest income. All of these funds are known as the Special Transportation Fund (STF): see Exhibit 3.

²⁴ <http://www.oregon.gov/ODOT/About/Pages/Transportation-Funding.aspx>. ECONorthwest’s reading of Figure 9 does not lead to the same numbers. The State Highway Fund totals \$2.85 B for the 2017-19 biennium: cities and counties get 40% (\$1.14B) as a direct allocation. Federal revenues are \$1.23 B. If cities and counties get 30% as a direct allocation, that would be \$0.37 B. The total is about \$1.5 B, which is a little over 30% of the ODOT revenues for the biennium (not counting the beginning balance). Exhibit 1 shows cities, counties, and other agencies receiving about \$1.2 B (\$602 M + \$411 M + \$106 M).

²⁵ ODOT 2017-2019 Budget p. 16. Notes a budget of \$105.5 million, which includes a \$6.1 million adjustment for newly awarded Federal Lands Access grants and for increased payout on public transit projects.

Exhibit 3: Special Transportation Fund in Oregon, 2007-2019



Beginning in 2019, State Transportation Improvement Funds (STIF) will become available through grant agreements with local transit providers—the addition of the STIF will be a nearly 10-fold increase in State funding for transit and a dedicated source of public transportation funding.²⁶ STIF revenues will be derived from the statewide collection of a payroll tax amounting to 1/10 of 1% of wages.

Regional Funding

This memorandum uses the term “regional funding” to mean funds dispersed to regional or local projects by a Metropolitan Planning Organization (MPO). Those funds can get to an MPO from federal, state, or regional / local sources.

Federal funds arrive via the Surface Transportation Block Grants program and the Congestion Mitigation/Air Quality program. State sources include the State Highway Fund and Special City Allotment. MPOs receive funding for planning and programming. They also develop Metropolitan Improvement Plans to allocate federal and state monies towards specific projects and uses for roads or transit.

Some MPOs run regional transit systems, whose funding comes from a combination of federal and state funds, supplemented by local fares, and typically payroll taxes. Alternatively, there may be a county agency or transit district running the transit system that is distinct from the MPO. This is the case in Bend, where Cascade East Transit is operated by the Central Oregon Intergovernmental Council.

While the precise combination of those funds varies by region, smaller regions may have 50% or more of their transit budget derived from federal grants, while larger regions payroll taxes may make up almost 50% of the budget, with federal and state grants composing only 10-15% of the budget. The ability to generate passenger revenue and raise funds via payroll taxes determines the necessity of federal and state grants for a regional transit operating budget.

Money Out: Programs through which state and regional transportation funds get to local governments

State funding is allocated by formula, and by Oregon’s Statewide Transportation Improvement Program (STIP), the 4-year capital improvement program for state and federally-funded highway and transportation projects. Regional funding is allocated by the metropolitan transportation improvement program (MTIP).

²⁶ Transit Funding in Oregon. P. 4

Oregon's State Highway Funds are distributed by statute as follows: 50% to the state, 30% to the County based on vehicle registrations, and 20% to Cities based on population. The Public Transit Division of ODOT distributes funds in three ways:

1. Formula based on service-area population
2. Formula based on the number of rides given and miles traveled
3. Through a biennial discretionary grant solicitation that combines sources of federal and state funding.

City / County formula allocations

ODOT is a conduit to Oregon cities and counties for two sources of transportation funds that are allocated to them by law. About 30% of the federal funds that ODOT receives (primarily from the Highway Trust Fund, via FHWA and FTA) go to local governments: in the 2017-18 budget, that would be the equivalent of around \$180 M *per year*. Oregon's State Highway Funds are distributed to cities in proportion to their population, and to counties in proportion to vehicle registrations: 20% of the SHF goes to cities; 30% to counties (ODOT receives 50%). In the 2017-18 budget, that would be the equivalent of around \$570 M *per year*. This funding allocation is separate from the STIP process.

STIP and funding allocation

Oregon's Statewide Transportation Improvement Program (STIP) is its 4-year capital improvement program for state and federally-funded highway and transportation projects. The STIP identifies the funding for, and scheduling of, transportation projects and programs. It distributes funding between programs and chooses the projects to be included. The STIP is typically updated every two to three years, the current one covers transportation projects from 2018-2021.

The STIP is adopted by the Oregon Transportation Commission (OTC) and is approved by the Federal Highway Administration (FHWA) and the Federal Transit Administration (FTA) as required by federal law. ODOT and the OTC develop the STIP in coordination with a wide range of stakeholders and the public. ODOT describes its major categories of STIP programs as follows:²⁷

- **Fix-It** programs fund projects that fix or preserve the state's transportation system, including bridges, pavement, culverts, traffic signals, and others. ODOT uses data about the conditions of assets to choose the highest priority projects. In recent STIPs the Commission has allocated most funding to Fix-It programs.
- **Enhance** programs fund projects that enhance or expand the transportation system. Area Commissions on Transportation recommend high-priority investments from state and local transportation plans in many of the Enhance programs. This program is also called the "Modernization Program".
- **Safety** programs reduce deaths and injuries on Oregon's roads. This includes the All Roads Transportation Safety program, which selects projects through a data-driven process to ensure resources have maximum impact on improving the safety of Oregon's state highways and local roads.
- **Non-highway** programs fund bicycle and pedestrian projects and public transportation. Area Commissions on Transportation often help recommend these projects to the Commission.

²⁷ <http://www.oregon.gov/ODOT/STIP/Pages/About.aspx>

- **Local government** programs direct funding to local governments so they can fund priority projects.

Other state programs (non-STIP)

The State Highway Fund, in addition to the STIP, funds the following programs and funds: Snowmobile Fund, Winter Recreation Fund, and Special City Allotment.

Other programs funded by the state include the Transportation Operating Fund and Transportation Safety Division.

The Public Transit Division funds programs including General Public Transit, Intercity Passenger Program, the Enhanced Mobility/Special Transportation Fund, and Transportation Options.²⁸

State transportation grants

The State provides grant funds to local jurisdictions to conduct transportation studies, improve bicycle and pedestrian facilities, and participate in State-sponsored transportation activities.

Connect Oregon I through VI

From 2005 through 2017 over 282 projects in air, rail, marine, and bicycle/pedestrian infrastructure were invested in. The program was changed as a part of HB 2017 and public transit projects can no longer be included. The Oregon Transportation Commission is also directed to distribute the Connect Oregon Funds to four specific projects, meaning that there is no funding for a competitive grant process in the upcoming years, though that may revert back in future funding cycles.

Special Public Works Fund (SPWF)

Administered by Business Oregon, the SPWF provides funds for publicly-owned facilities that support economic and community development in Oregon. Funds are available for public entities including cities, counties, and ports and funds can be used for planning, designing, or improving publicly-owned facilities. Funds are distributed as loans up to \$10 million or as grants up to \$500,000.²⁹

Immediate Opportunity Fund

The Modernization, or Enhance, Program provides the funds for this program, in partnership with Business Oregon, which provides grants to communities that create jobs or retain jobs. The use is limited to road improvements to influence the location or retention of a firm in Oregon.

Transportation Safety Division

There are more than 550 grants and contracts per year to plan and implement statewide transportation safety programs.³⁰

Safe Routes to School

This is a matching grant program that can be used to improve sidewalks, crosswalks, bike lanes and traffic signals within one mile of schools.

MTIP and funding allocation

²⁸ ODOT 2017-2019 Adopted Budget p. 16

²⁹ <http://www.orinfrastructure.org/Infrastructure-Programs/SPWF/>

³⁰ ODOT 2017-2017 Budget p. 111

Metropolitan Planning Organizations (MPOs) create the metropolitan transportation improvement program (MTIP) for each metropolitan area/region. The MTIP serves as the federally required schedule of transportation investments administered by an MPO, ODOT, and local government. Each MTIP is included in the STIP directly or by reference after approval of a TIP by the MPO and Governor. An MTIP is comprised of three components: the transportation funding allocations administered by ODOT, transit agencies, and the MPO itself.

Funding allocation at the regional level is done by project and type, with the specific funds being allocated for transit operations, capital improvement, and road/highway/safety projects.

Summary of Implications for state funding to Bend

Levels of state and regional funding in general

In general, the *short-term* stability of state and regional funding sources is probably assured: the federal FAST Act is approved through 2020, and Oregon HB 2017 increases revenues at the state level. Mid-term and long-term outlook is less certain.

Smaller regions with less ability to generate fare revenue receive most of their funding from federal and state sources, acting as a conduit for funds, and are particularly susceptible to fluctuations in funding. Changes in funding for transit seems inevitable in the medium to long term. However, with upcoming increases in funding for public transit at the state level, the ability to stabilize any losses in federal dollars seems plausible.

A quarter of state transportation revenues come from motor fuels taxes, and though there are upcoming conditional increases, overall these revenues are not indexed to inflation. The long-run historical relationship is that vehicle miles traveled grow and shrink with the economy, shifts in propulsion technology, including increasing usage of electric vehicles, could affect fuel taxes as a funding source. In the last three adopted ODOT budgets, though the makeup of revenue sources has varied, the commitment to maintaining current levels of spending has been demonstrated by the passing of additional motor fuels taxes, vehicle registrations, and title fees, as well as occasional transfers from the general fund.

Overall, the ability for states and regions to receive funds and generate revenue should remain unchanged in the short- to medium-term, though the methods by which those funds are disbursed will change.

Levels of distributions

State and regional sources of funding have continued to diversify and HB 2017 provides the revenues for maintaining similar levels of funding into the near-term future, with moderately different outcomes depending on the conditional gas tax revenues. However, even with increases in fuel taxes, these amounts are not indexed to inflation. Additionally, state funds for highways are primarily being spent on maintenance and preservation via the Fix-It program, with lesser amounts for modernization and local government needs. State funding for transit will increase as a whole and as a growing percentage of overall budget with a dedicated funding stream in the STIP, likely allowing for investment in new infrastructure and expansion, or to offset declining FTA funds.

Regional funding is subject to changes in federal and state programs. Dependence upon federal and state grants for transit depends in large part on the region's size and therefore its ability to generate the necessary payroll taxes and passenger fares to be self-sustaining. Size of region, ability to generate other revenues, and dependence upon federal and state dollars should be analyzed closely in forecasting future transportation funds at the regional level. However, for the most part the federal and state government have worked to maintain current levels of funding, even if it entails transferring from the general fund. The odds of continuing to do so remain high,

and state funding appears likely to remain stable, with the exception of the conditional gas taxes. Only long-term outlook in changes in gas consumption are likely to impact revenues.

Local

Local mechanisms for funding transportation funding are those that can be applied at the city, county, or regional level. These mechanisms can typically be put into action without needing state or federal approval, though many require approval of local voters. The obvious tradeoff for local government is that the ability to implement the mechanism and generate revenue is within its control, but the burden of the payments that generate the revenue fall more directly on local taxpayers, ratepayers, households, and businesses.

Local sources can take a variety of forms, with varying levels of revenue-generating capability and usefulness, and varying effects on different groups. This section groups all local funding mechanisms in one of three categories:

- **Funding Mechanisms Tied to Use of the Transportation Systems.** The connection between use and payment can be stronger or weaker. In the US, consumers are used to the idea of paying businesses for products or services they want: houses, appliances, cell phone service, admission to a concert. In the public sector, they pay for some facilities and services as users (e.g., water and electric service), but others they pay for indirectly, even if they are not primary users (e.g., taxes for schools, libraries, and parks). Examples of direct or indirect user fees in transportation are transit fares, tolls and road user fees, local gas taxes, street utility fees, vehicle miles traveled (VMT) taxes, weight mile taxes, vehicle registration fees
- **Funding Mechanisms Tied to Value Capture.** Underlying theories of urban and real estate economics is reasonable assumption that transportation affects land value. At the extreme, land has low value if it is in accessible. Efficient urban transportation projects and services should increase accessibility, and do so at a cost that is less than the benefits of that accessibility. If so, then value has been created for property owners. Funding mechanisms in this category are ones that require local property owners to pay for some the transportation improvements and services that are increasing property value. They try to “capture” some of that new value. Examples of these mechanisms are special or local improvement districts, urban renewal or tax-increment financing districts, and income-tax sequestration.
- **Other Funding Mechanisms.** There are many ways that local governments can raise money that are only loosely connected (or not connected at all) to the transportation facilities and services that the money will be spent on. Examples are property tax and general-obligation bonds, income tax, sales tax, payroll tax, transient lodging tax, impact fees, construction excise tax, business license fee, passenger facility charge, revenue stream options, real property transfer

Note that all of the funding mechanisms included in this summary are public ones: taxes, fees, and other charges. While the ultimate source of funding for these tools may be the private sector, the funds are collected through an official mechanism that is administered by the public sector. An alternate approach is to have the private sector directly fund a project (in part or whole), in a public/private partnership. This appendix does not address the various ways the public-private partnerships can be structured.

Funding Mechanisms Tied to Use of the Transportation Systems

Road-User Fee: Toll, Road Pricing, and Congestion Pricing

Autos, buses, and bikes all use roads. The large majority of the use is by automobiles. Most travelers use vehicles and fuel that is bought privately to travel on public roads. Instead of charging taxes on autos and fuel to fund road construction and maintenance, the public sector could charge travelers when and where they use the roads.

Tolls are the most familiar form of a transportation access charge. Transportation access charges are most appropriate for auto-oriented, high-speed, limited-access corridors that serve high-demand corridors, and bypass facilities to avoid congested areas.

Full road pricing (sometimes called congestion pricing), where drivers are charged for the trips they make based on location and time of day, is the most efficient policy for dealing with congestion. It not only generates revenue for maintenance and improvements, but also decreases congestion and the need for capital improvements by increasing the cost of trips during peak periods. Tolling is allowed on Oregon roads to fund transportation projects. However, the political acceptability of this in Oregon is low, as toll roads remain nonexistent, though discussed, and likely would not receive public support unless the benefits (improved access, safety, or decreased travel times) were clearly perceived by users.

Transit Fares

It is universally accepted for passengers using public transit to pay fares. This method of collection can provide capacity of funding, is flexible in terms of timing and administrative ease, and is a generally predictable mechanism.

Local Gas Tax

A local gas tax is a tax on the sale of gasoline and other fuels, levied as a fixed dollar amount per gallon, over the course of a pre-determined length of time. Typically, the use of local gas tax revenues is limited to transportation projects. The benefit is that it can be directed to specific maintenance and new transportation projects. The drawback is that it would require a public vote which takes, time, money, and political will.

Vehicle Miles Traveled (VMT) Tax

Fees on vehicle miles traveled (VMT) are generally viewed as an alternative to the gas tax. The VMT tax has garnered more interest as the fuel economy of vehicles continues to improve, reducing the capacity of the gas tax. The VMT tax, however, would be a longer-term option, since it would require significant investment in technology to accurately track the movement of vehicles on state roads. There would also be difficulties tracking out of state drivers, and concerns with privacy. VMT tax could be weighted by fuel economy, weight, emissions, or other factors to support other policy goals. Establishing such a system at the local level, without simultaneous adoption of a statewide system would be prohibitively costly, and politically contentious. Other political and technical obstacles to implementation of a VMT tax include: privacy concerns, and the difficulty charging non-local vehicles. Drawbacks of this method are that it could increase costs for rural households disproportionately as well as have adverse effects on low income households.

Oregon SB 810 creates a program that allows up to 5,000 drivers to pay a per-mile charge of 1.7 cents per mile, and provides credits for the state's fuel taxes. in lieu of the current state fuel tax.³¹

Local Weight-Mile Tax

Oregon first enacted a statewide weight-mile tax in 1925. Heavy vehicles pay the weight-mile tax instead of the gas tax. The tax rate increases with the weight of the truck, and is assessed per mile traveled in Oregon. The tax is considered fairer than a gas tax, since the weight of a vehicle and distance traveled are more directly tied to the amount of wear and tear that a vehicle imposes on the transportation system. In Oregon, the tax rate varies the cents per mile, depending on vehicle weight.

³¹ <http://www.myorego.org/frequently-asked-questions/>

Vehicle Registration Fee

Vehicle registration fee is a recurring charge on individuals that own cars, trucks, and other vehicles. The State charges standard passenger vehicles an amount in vehicle registration fee every year, with funds restricted to statewide transportation projects.

In Oregon, counties (but not cities) can implement a local vehicle registration fee. Fees are limited to \$43 per vehicle, charged every two years. The fee would operate similar to the state vehicle registration fee. A portion of a county's fee could be allocated to local jurisdictions. One possible twist on the registration fee concept, is to move from a flat fee of \$43 per vehicle, to a variable fee based on the value of the vehicle.

Utility Fee

A utility fee is a fee assessed to all businesses and households in a jurisdiction (or in a sub-geography within the jurisdiction) for use of specified types of infrastructure or public utilities, based on the amount of use (either measured or estimated). Many jurisdictions charge water and sewer utility fees, but utility fees can be applied to other types of government activities as well (both capital projects and operations and maintenance). For example, nationally there are examples of jurisdictions that charge street utility fees to pay for transportation projects.

A street utility fee applies the same concept to city streets. A fee is assessed to all businesses and households in the jurisdiction for use of streets, based on the amount of use typically generated by a particular use. For example, a single-family residence might, on average, generate 10 vehicle trips per day compared to 130 trips per 1,000 square feet of floor area for retail uses. Therefore, the retail use would be assessed a higher fee based on higher use. Street user fees are typically used by jurisdictions to pay for maintenance rather than for capital projects.

Systems development charges (SDCs) / Transportation Impact Fees

SDCs are fees paid by land developers and are intended to reflect the increased capital costs incurred by a municipality or utility as a result of a development (in most states, they are called "impact fees"). Enabling legislation (ORS 223.297-223.314) provides a uniform framework that all local governments must follow to collect SDCs. SDC revenue can only be used to fund capital improvements for water supply, waste water collection, drainage and flood control, transportation, or parks and recreation. Local jurisdictions must adopt a method for calculating the charges that sets the fee to reflect the actual cost of the needed capital improvements to which the fee is related. SDCs typically vary by the type of development. SDCs are used by many counties and cities throughout Oregon.

Parking Fees

Parking revenues can be raised from both operations (e.g., parking meters or publicly owned parking lots) and fines. Parking fees generally score relatively high using our evaluation criteria, but the amount of funding that can be raised by parking fees ultimately depends on the place.

Funding Mechanisms Tied to Value Capture

Special Improvement District (SID) / Local Improvement District (LID)

A SID/LID is a special assessment district where property owners are assessed a fee to pay for capital improvements, such as streetscape enhancements, underground utilities, or shared open space. Property owners within the district are assessed based on their benefited share of improvements.

LIDs can be used to fund specific capital improvements for transportation. To establish an LID, local jurisdictions would meet with property owners expected to benefit from a proposed transportation improvement. Once an agreement is reached on the portion of funding to come

from the LID, the jurisdiction would sell bonds to finance the project, and the bonds would be repaid through annual payments by affected property owners within the LID. The amount of funding raised through LIDs would depend on the specific capital projects they would fund. Capital projects including all modes of transportation are eligible to receive funding from LIDs.

Drawbacks are that setting up the payments for the variety of property owners to be involved and at different distances from the improvement can be quite challenging.

Urban Renewal / Tax Increment Finance (TIF)

Urban renewal diverts property tax revenues from growth in assessed value inside an urban renewal area (URA) for investment in capital projects within the URA to alleviate blight. Transportation projects are frequently included in urban renewal plans, as investments that help to alleviate blight. Funding is constrained by the ability to increase assessed values within the URA to generate sufficient tax increment finance (TIF) to service debt on long-term bonds. TIF revenues are generated by the increase in total assessed value in an urban renewal district from the time the district is first established. As property values increase in the district, the increase in total property taxes (i.e., city, county, school portions) is used to pay off the bonds. When the bonds are paid off the entire valuation is returned to the general property tax rolls. Urban renewal funds can be invested in the form of low interest loans and/or grants for a variety of capital investments.

Benefits of this method include that it is a flexible source of funding, and can have a single project-based TIF district. The drawbacks are that it diverts property tax accumulation by the City and County until the URA expires or the bonds are paid off. It is also a complex process requiring extensive involvement and community support. It can also be politically contentious due to the impact of funds available to overlapping tax districts, and because of the perception that school districts are adversely impacted. Lastly, investing over \$750,000 in TIF directly into a new or rehab private project triggers prevailing wage requirements, which can increase overall project costs 10-20%.

Income Tax Sequestration

Income tax sequestration is a more targeted use of income tax, where a specific subset of income tax is diverted from its usual purpose, and dedicated to a specific project. For example, all income tax paid to or by individuals and businesses along a corridor could be sequestered to pay for transportation investments along that corridor. Income tax sequestration, however, is only feasible if there is an income tax to begin with, and at a level that could support a specific project.

Other Funding Mechanisms

Property Tax and GO bonds

Property tax is a relatively broad funding source that could be applied through a variety of financing options: (1) local option levy, (2) general obligation bond, and (3) new taxing district.³²

Local option levies are temporary property tax increases, approved by voters, to fund operations of local government services. Local option levies cannot exceed six years (10 years for capital projects), though they can be reviewed and extended indefinitely at six-year intervals, if the public continues to vote in favor of the levies. Typical examples of successful local option levies include schools, libraries, and public safety services. It is possible that a local option levy for

³² Technically existing jurisdictions general funds include a significant amount of property tax revenue from their current permanent tax rates, and thus general funds could be categorized as a fourth financing option for property tax use. Urban renewal and local improvement districts also are primarily funded through property taxes, but these tools are described separately in this document, as they have specific requirements, limitations, and benefits.

maintenance and operations of transportation systems could be passed, which could free up other revenue sources.

Similar to local option levies are general obligation (GO) bonds, which are a temporary increase in property tax rates. GO bond proceeds can only be used for capital projects, as opposed to local option levies, which fund ongoing operations. Bonds requiring a tax rate for 10 years or less can be approved directly by cities and counties. Bonds requiring a tax rate for more than 10 years require approval by voters in a general election. GO bond levies typically last for 20 to 30 years for transportation projects and therefore must be approved by a public vote. Bend's charter requires a public vote for any new tax, regardless of the term.

A new taxing district would allow for a permanent (and therefore more stable) revenue source. Oregon allows for a variety of types of "special" taxing districts to be created, ranging from cemeteries, to vector control, to libraries. Some of these types of special districts can be used to fund transportation projects, including: mass transit districts, metropolitan service districts, special road districts, road assessment districts, and transportation districts.

Income Tax

Income tax is a tax on income, typically applied to individuals and/or businesses. They can complement or replace other local revenue sources like property, business, sales, or tourist taxes. Unlike property taxes, local income taxes can also be applied to nonresidents. While most local income tax rates are low (1% to 3 percent), they generally have broad bases and are difficult to avoid. However, state and local officials need to ensure that these taxes do not discourage economic development or drive out mobile workers and businesses.

Sales Tax

A tax on retail sales, typically added to the price at the point of sale. Oregon does not currently have a sales tax, though nothing precludes cities from adding one of their own.

Payroll Tax

A tax on wages and salaries paid by employers or by employees as a payroll deduction. A payroll tax generates revenue from people who work inside an area, even if they live outside of the area in which the tax is applied. Low rates (<1%) have potential to generate substantial levels of revenue. Payroll tax revenue is used for operations and maintenance expenses associated with the transit systems. The State of Oregon currently levies a payroll tax to fund transit services.³³

Transient Lodging Tax (TLT)

Transient lodging tax is a fee charged to customers for overnight lodging, generally for periods of less than 30 consecutive days. The fee is a percentage of lodging charges incurred by the customer, though some jurisdictions levy a flat fee per room night. Typical tax rates range between 3% and 9% (note that Bend's is 10.4%). Oregon has a statewide TLT of 1.8% and cities and counties can also charge a local TLT subject to certain limitations. Alternatively, some cities have an agreement for the county to impose the tax and cities share in a percent of the revenue. Oregon Revised Statutes has restrictions on the percent of TLT that must be used for tourism promotion. The state regulations governing lodging taxes in Oregon can be found in ORS 320.300 to 320.350.

Construction Excise Tax

Construction excise tax is a charge on new construction, typically charged on either the basis of value or square feet of new construction, and assessed by local cities or counties. The tax is

³³ <http://www.oregon.gov/EMPLOY/Businesses/Tax/Pages/Current-Tax-Rate.aspx>

assessed as a percent of the value of the improvements for which a permit is sought, unless the project is exempted from the tax. Note that a construction excise tax does function very similarly to an impact fee or SDC, but the basis of the tax is not necessarily related to the specific impacts that would be generated by the new development. Bend's affordable housing fee sets the stage for the construction excise tax. Any new fee would be in addition to the affordable housing fee of 1/3 of 1% of building valuation.

Business License Fee

There are a variety of ways that jurisdictions could choose to charge fees on businesses, including a flat one-time fee, to an annual fee based on sales, number of employees, size of building, amount of parking, or other factors. License fees can apply to all businesses or only certain businesses such as automobile dealers or service stations. Bend currently has a business license fee of \$50.

Real Estate Transfer Tax (RETT)

RETT is a tax levied on the sale price of real property transfers. In other words, a sales tax on the value of homes, applied whenever there is a transfer of title for real property. However, legality is low as RETT is currently not allowed by Oregon Statutes.

Conclusions

Local sources used will depend on the scale, necessary revenue or capacity of the source, timing of when revenues are available, stability/predictability, flexibility, legality, fairness and political acceptability of the source. While a full evaluative analysis of all of these factors is outside the scope of this descriptive memo, these ideas should be in mind as local sources are considered. Additional analysis of funding sources will be prepared for future meetings.