LPRO: Legislative Policy and Research Office

FUNDING TRANSPORTATION

BACKGROUND BRIEF

FUNDING TRANSPORTATION OVERVIEW

Oregon pays for the construction, maintenance and operations of its transportation services and infrastructure in a variety of ways. What resources are available and used depends on what activity or facility is being supported and which entity offers the service or owns the facility.

Airports and Aviation:
Oregon's system of commercial and public-use airports is supported by passenger facility charges, landing fees, aircraft registration fees, lease payments from facilities located on airports and federal and state grants. The Oregon Department of Aviation **(ODA)** operates 28 state airports. ODA is supported by jet fuel and aviation fuel taxes, federal funds, aircraft registration fees and pilot license fees. Revenue from pilot license fees pays a portion of the cost of air search and rescue.

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Bicycle and Pedestrian:
Bike paths and sidewalks within highway, road and street rights-of-way are an eligible use of State Highway Fund money. The state highway program requires counties and cities to spend at least one percent of their annual State Highway Fund receipts on bike paths and sidewalks. Bike paths, trails and other facilities that are not within a right-of-way are funded with locally raised revenues, state lottery revenues, and federal and state grants.

Highways, Roads and Streets:
User charges (fuel taxes, vehicle title and registration fees, heavy vehicle mileage taxes/fees and driver fees) are the primary revenue sources for the State Highway Fund.

The State Highway Fund is a shared resource for the state highway program, county roads and city streets. The state and local governments also receive significant federal highway funding for roads. Counties and cities raise additional revenue from timber severance taxes, federal payments, property tax system development charges and transportation utility fees.

Marine Ports:
Oregon's 23 ports provide recreational, commercial and economic services to residents and businesses in Oregon. Each port is unique in terms of the services that it provides. Each is financed by a mix of lease payments, fees for services, taxes, and federal and state grants. Channel dredging and jetty maintenance is a responsibility of the federal government, although bonds backed by the state lottery have paid for deepening of the Columbia River channel and the Coos Bay channel.

Passenger and Freight Rail:
The Cascades passenger rail service in the Pacific Northwest Rail Corridor between Eugene and Seattle is jointly sponsored by the Oregon Department of Transportation **(ODOT)** and the Washington State Department of Transportation **(WSDOT)**. Cascades service is operated by Amtrak. Passenger ticket sales pay a portion of the operating expense. In Oregon, revenues from custom license plate sales, the Transportation Operating Fund, General Funds and federal funds pay the balance of operating costs attributable to the Eugene to Portland portion of the route. In addition, *Connect*Oregon grants have financed improvements to the signal system and sidings to allow Cascades trains to operate at higher speeds on the Union Pacific mainline in the Willamette Valley. Federal grants have paid for upgrades at the stations.

Freight rail is primarily operated by private companies that pay both operating and capital expenses out of their gross revenue. *Connect*Oregon has assisted railroads with money for track replacement and improvements in their rail yards.

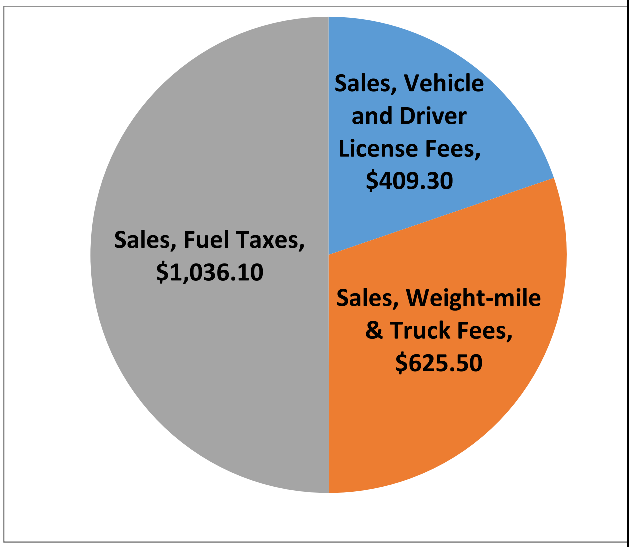
Public Transportation:
Local governments (mass transit, transportation and county service districts, counties and cities) provide public transportation service. TriMet, the Lane Transit District and some transportation districts are financed with a payroll tax. Salem Area Transit and most other transportation districts and city-operated services are financed with property taxes. The state's Elderly and Disabled Special Transportation Fund **(STF)** supports the operation of Oregon's special transportation services for seniors and people with disabilities. The STF is financed by a portion of the cigarette tax, revenue from ID card fees and General Fund appropriations. Federal grants play a key role in financing transit capital improvements and in support rural public transportation service.

SOURCES OF HIGHWAY REVENUE

State fuel taxes, state weight-mile taxes on trucks, state vehicle registration and title fees, and federal funds pay for the construction, maintenance and operation of Oregon's state highway system. The taxes and fees collected by the state are shared with Oregon cities and counties and are constitutionally dedicated to use on highways. The state has rarely used General Funds to finance highway improvements. The chart below shows anticipated State Highway Fund revenue for the 2015-2017 biennium, after subtracting collection costs and transfers, but before distribution to cities and counties and set-asides for debt service.

2015—2017 State Highway Fund Revenue

($ millions)



Source: *December 2015 Transportation Economic and Revenue Forecast*

OTHER STATES

The chart above illustrates Oregon's policy of charging highway users based more on *use* of the system rather than on *vehicle ownership*. Most other states have sales taxes or other fees that apply to vehicles and some states base fees on the value of the vehicle. Such charges can substantially increase the cost of owning a vehicle. Oregon has the lowest vehicle fees in the nation and comparatively higher fuel and truck use taxes.

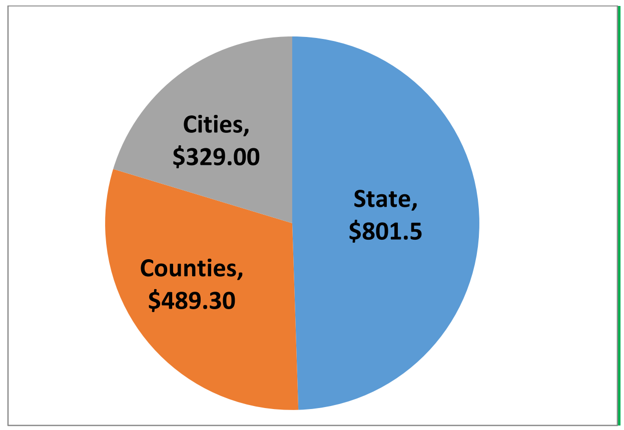
CITY AND COUNTY SHARE OF FUND

The following chart shows forecast distribution to cities, counties, and the state highway program after set-asides for debt service for the 2015-2017 biennium. The distribution is made using statutory formulas. Generally, approximately 50 percent of funds are distributed to the state, 30 percent to counties and 20 percent to cities.

Funds are distributed to individual cities in proportion to population. Funds are distributed to counties in proportion to the number of vehicles registered in each county.

2015—2017 State Highway Fund Revenue

($ millions)



Source: *December 2015 Transportation Economic and Revenue Forecast*

LOCAL FUNDING VARIATION

Roughly half of all local highway revenue used by cities and counties comes from the distribution of State Highway Funds, as shown above. However, the mix of state, local and federal money used by individual cities and counties varies significantly. The remainder of local road revenue is locally generated or of federal origin.

Local sources of road revenue include property taxes, system development charges, traffic impact fees, maintenance fees, parking fees and fines, lodging taxes, franchise fees, accrued interest, county fuel taxes (Multnomah and Washington counties) and city fuel taxes (Astoria, Brookings, Canby, Coburg, Coquille, Cornelius, Cottage Grove, Dundee, Eugene, Hood River, Milwaukie, Newport, Oakridge, Phoenix, Portland, Reedsport, Sandy, Sisters, Springfield, The Dalles, Tigard, Tillamook, Troutdale, Veneta, Warrenton and Woodburn).

Federal Forest Revenues:
Of Oregon's 36 counties, 32 receive federal payments in lieu of property taxes. These revenues are dedicated to schools (25 percent) and roads (75 percent). Since 2000, the federal Secure Rural Schools and Community Self Determination Act has supported the payments at higher levels than can be sustained by the reduced amount of timber harvest from federal lands. A four-year extension authorized payments through federal fiscal year 2011, with declining levels of support each year.

Federal timber payments accounted for about $76.5 million (19 percent) of $397.1 million in county road program revenue reported during fiscal year 2011. Timber payments for fiscal years 2012 and beyond could be in the range of $6 – 10 million, depending on the amount of timber harvested.

FEDERAL FUNDS

Most states, including Oregon, depend on federal highway funds for a significant portion of their highway revenue. Oregon's legislatively adopted budget for the state highway system for the 2015-2017 biennium is 82 percent state revenue and bond proceeds and 18 percent federal revenue, although federal funds make up a very significant portion of ODOT's capital construction budget. Historically, federal highway funds were derived mainly from an 18.4-cent federal gas tax, a 24.4-cent diesel tax and other fees on heavy trucks. More recently, Congress has made several transfers of general fund revenues into the Highway Trust Fund to ensure its solvency in the face of ever-declining fuel tax revenues. These revenues are deposited in the federal Highway Trust Fund, which distributes funds from the Highway Account to states and local governments and from the Mass Transit Account to transit agencies. Federal highway funds are used for capital construction projects on state highways (including the Interstate) as well as planning and can be used for transit and bicycle/pedestrian capital projects.

For the most part, federal funds are received as reimbursement after state funds are spent on a project. State or local matching requirements for federally funded projects in Oregon are currently about 10 percent.

Federal transportation programs are typically adopted on a multi-year cycle through authorization bills. These bills set anticipated funding levels over a multi-year period, define categories of funding, and establish formulas and program criteria under which states receive funds. The most recent authorizing bill, Fixing America's Surface Transportation Act (FAST Act) which was enacted in 2015, authorized the program for five years. The FAST Act will expire on September 30, 2020.

Federal funding comes primarily from formula grants, as well as from some discretionary funds. In the past, some funding came to Oregon in the form of congressional earmarks. However, Congress reformed its transportation funding process and is not making earmarks. Because most federal funding is distributed through formula grants, members of Congress attempt to negotiate formulas into authorization bills that favor their states. The U.S. Department of Transportation (**USDOT**) makes federal discretionary funds available in several different program categories; state and local highway agencies must submit project applications and compete for funding.

The federal gas tax has not been increased in more than two decades, and because of rapidly increasing fuel economy, the federal Highway Trust Fund is taking in substantially less in revenue than it is paying out for highway and transit projects. As a part of the FAST Act, Congress included a substantial general fund contribution to the Highway Trust Fund. While Congress created a small grant program in the FAST Act to test and demonstrate alternative revenue collection methods, it did not make any serious attempts in the legislation to address the long-term fundamental financial imbalance in the Highway Trust Fund. As a result, current projections show the Highway Trust Fund exhausting its balances at the end of federal fiscal year 2020.

WEIGHT-MILE TAXES

Oregon uses a weight-mile tax to assess trucks for use of state and local highways rather than the diesel tax that is used by most other states. Under this system, the tax rate for a truck increases with its weight and the rate is paid per mile of operation in the state. The rationale is that a weight-mile tax more accurately assesses trucks for road wear than a fuel tax.

Farm vehicles, unless they are used for hire, are exempt from weight-mile taxes and pay fuel taxes. Truck owners carrying logs, wood chips and rock products have the option of paying "flat fees" instead of weight-mile taxes. These fees vary with weight but are "flat" because they do not vary with mileage traveled. The flat fee option is available for these trucks because they are often operated seasonally, make shorter trips, and mix taxable and non-taxable (non-highway) miles.

SETTING TAX RATES

Rates for state fuel taxes, registration fees and weight-mile taxes are all set in statute. The Oregon Constitution (Section 3a, Article IX) requires adjustment of tax rates to ensure fairness and proportionality between classes of vehicles. State economists perform a biennial Highway Cost Allocation Study to determine how the burden of highway expenditures should be shared between cars and trucks, and between different types and weights of trucks. The study determines proper balance of tax rates between classes of highway users but does not attempt to determine appropriate levels of total revenue. Study results are presented to the House and Senate Committees on Revenue that determine what legislative action is appropriate.

PROJECT SELECTION

The Statewide Transportation Improvement Program (**STIP**) is Oregon's four-year capital improvement program for major highway and public transportation projects in Oregon. The STIP identifies the funding for, and scheduling of, transportation projects and programs. The STIP 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.

The STIP is typically updated every two to three years. The Oregon Transportation Commission (**OTC**) begins the update process by setting funding levels and approving project selection and prioritization criteria. OTC ends the update cycle about two years later by adopting a STIP. The STIP is then approved by the USDOT through both the

Federal Highway Administration and the Federal Transit Administration. This approval also includes the programs and projects in the metropolitan planning organization's transportation improvement programs.

Many agencies and groups participate in the STIP development process. These include: Area Commissions on Transportation **(ACTs)**, cities, counties, transit districts, port districts, federal agencies, Indian tribal governments, the Freight Advisory Committee, Oregon Bicycle and Pedestrian Advisory Committee, the Public Transit Advisory Committee, metropolitan planning organizations **(MPOs)** and advisory committees for ODOT programs.

While previous editions of the STIP have been developed around funding dedicated to transportation modes and specialty programs, OTC directed ODOT to put the program into two broad categories for the approved 2015-2018 STIP, as well as the 2018-2021 STIP, which is under development: "Fix-It" for projects intended to preserve the existing transportation system and "Enhance" for projects intended to add capacity or new features to the transportation systems. The Fix-It and Enhance processes prioritize taking care of existing critical transportation assets while providing a measure of funding to enhance the state and local transportation system in a multimodal way.

The Fix-It project selection process is similar to prior iterations of the STIP. Fix-It projects are developed mainly from ODOT's management systems that help identify needs based on technical information for things like pavement and bridges.

The Enhance process is a significant change for the future 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. This new process provides several benefits, including:

- Local governments and ODOT Regions can submit one type of application for a variety of Enhance projects;
- ACTs and others can more fully participate in the STIP development process by helping to select all Enhance projects;
- The same information is available for all kinds of Enhance projects, including anticipated benefits;
- Different investments and modes can be compared and considered together; and
- ACTs can prioritize all Enhance projects important to the area.

ODOT began the process for the 2018-2021 STIP in May 2014 with a review of the materials and process used for the 2015-2018 STIP update. This included a review of project selection criteria by the STIP Stakeholder Committee. The committee advises OTC about project selection criteria as required by statute. The development of the 2018-2021 STIP is anticipated to be completed by the fall of 2016 and then will be submitted to the Federal Highway Administration **(FHWA)** and the Federal Transit Administration **(FTA)** for approval.

UNMET NEEDS

The Oregon Transportation Plan was approved by the OTC in September 2006. The Plan's needs-analysis identified an approximately $1.3 billion (in 2004 dollars) annual gap in the funding needed to adequately maintain and expand the publicly funded transportation modes over the 2005 to

2030 timeframe. The analysis included the needs of the public and privately owned components of the state, regional and local transportation systems for the following:

- Air freight and passenger services;
- Intermodal connectors;
- Local roads and bridges;
- Natural gas and petroleum pipelines;
- Ports and waterways;
- Public transportation;
- Rail freight and passenger services; and
- State highways, including state bicycle and pedestrian facilities.

City and county circumstances vary, but most also report high levels of unmet need. High-growth areas and popular tourist areas are unable to fund capacity improvements to handle overwhelming increases in vehicle travel. At the same time, sparsely populated counties do not receive enough in state-shared highway revenues to cover basic maintenance costs on the many miles of road network that link communities.

ROAD USAGE CHARGES

The legislature in 2001 created a Road User Fee Task Force **(RUFTF)** with the passage of House Bill 3946. The RUFTF was created out of concern that the gas tax is a declining revenue source, especially over the long term, given fuel efficiency improvements and plug-in hybrid and electric vehicle usage. The RUFTF developed the road usage charge concept as the most viable broad-based alternative to the gas tax. The concept integrated a mileage-based fee with gasoline tax collections.

ODOT conducted an initial pilot test of this concept in 2006 that proved it was technically feasible. In 2012, ODOT redesigned the mileage fee collection system in response to public comment following the first pilot. The new design featured an *open technology platform* where motorists chose their method of reporting mileage traveled and, if desirable, on-vehicle technology—provided by third-party providers—and manner of invoicing and payment. This allowed for charging plug-in electric vehicles that pay no fuel taxes and gave motorists choices for privacy protection.

In 2013, the legislature enacted Senate Bill 810, directing ODOT to implement a program with up to 5,000 volunteers, who are given a choice of methods to use for calculating and reporting their taxable miles driven. At least one reporting option available to participants in the voluntary program does not use GPS. The program, called OReGO, became operational July 1, 2015.

ODOT has addressed concerns about privacy by developing a system that allows motorists the opportunity to choose: (1) the method of reporting; (2) from whom they acquire the mileage reporting device; and (3) to whom they report the information.

The volunteer program is a full implementation of this broad-based alternative to the gas tax. The program deposits money into the state highway fund and serves a broad range of vehicles across the state. RUFTF is developing a recommendation on how to implement this tool to address the concern that the gas tax is a declining revenue source.

CONTINUING ISSUES AND CHALLENGES

Long-Term Multimodal Transportation Funding:

Oregon faces significant challenges in funding both highway and non-highway transportation modes. In recent years, the primary sources of State Highway Fund revenue have been declining for various reasons. Neither user fees nor fuel taxes are tied to inflation – which means the revenue from these sources is eroded each year as labor and materials costs continue to increase over time. In addition, increased fuel efficiency and alternative fuel availability continually reduce the amount of fuel purchased every year, further diminishing an already declining revenue source without also reducing the overall number of miles traveled.

Non-highway investments are also limited due to the constitutional limitation set forth in Article IX, Section 3a of the Oregon Constitution, which requires all money raised by fuel taxes and user fees to be spent solely on construction, improvement, maintenance, operation, and use on Oregon's highways, roads, streets and rest areas.

The federal surface transportation program invests well over half a billion dollars in Oregon highway and transit projects each year. However, because the federal gas tax has not been raised since 1993, federal expenditure levels for U.S. highways and transit programs is about $15 billion more per year than the Highway Trust Fund takes in. On a number of occasions over the past decade, Congress has transferred general fund revenues into the Highway Trust Fund to ensure its solvency. As a result of a $70 billion transfer, including the FAST Act, the Highway Trust Fund is currently expected to remain solvent through Federal Fiscal Year 2020. Upon the expiration of the FAST Act in 2020, ODOT has factored in a reduction in federal highway funding of ten percent into the STIP, pending federal or state action, to address the expected shortfall.

The Governor's Transportation Vision Panel, created by Governor John Kitzhaber and subsequently renewed by Governor Kate Brown, recently embarked on a year-long effort to analyze these continuing issues and challenges. Members of the Vision Panel included legislators, business owners and civic leaders from throughout Oregon. The Vision Panel's mission was to assess the current conditions of Oregon's transportation system, develop a long-term vision for the future of the system, and create a series of recommendations which could be enacted in the near term. After hosting eleven regional forums throughout Oregon, the Vision Panel identified three key themes repeated from region to region: Seismic preparedness, congestion concerns and transit improvement. Funding currently available for these improvements is scarce, yet they remain a significant concern for Oregonians across the state.

Freight:

All modes of freight transportation have seen tremendous growth in the past 20 years, straining the capacity of port, highway, rail and airport facilities.

Looking forward, freight traffic in Oregon is expected to increase in volume by 60 percent by 2035. With the loss of container service at Terminal 6 at the Port of Portland, an increasing number of heavy trucks are moving freight by road, resulting in $15.1 million in increased trucking costs since closure of the terminal.

Planning and Public Involvement:

Passage of environmental and land use laws in the 1970s and growth pressures over two decades have added new dimensions to highway planning. Oregon's population is expected to grow by nearly 25 percent by the year 2035. This future population may interact with the transportation system differently than is the case today. An aging population means that nearly 20 percent of Oregonians will be over the age of 65 by 2035. More young people are choosing to live in compact and mixed-use developments today than at any time in the modern era, expressing preference for access to walking, biking and transit options. Technological shifts may result in increased reliance on car-sharing, automated vehicles, platooning, or other advances which may impact the way investments in transportation infrastructure are made. With these concerns in mind, additional time and resources are directed to decision-making, planning, public involvement and interagency coordination.

Clean Fuels, Clean Air:
Thirty-nine percent of Oregon's greenhouse gas (GHG) emissions come from the transportation sector. As a result, the state's GHG emission reduction planning, a major initiative involving state agencies and local governments, has significant implications for transportation. Previous legislative actions, such as House Bill 2001 (2009) and Senate Bill 1059 (2010), laid the foundation for GHG reduction efforts by formulating reduction targets for light vehicles within Oregon's metropolitan areas. More recently, the legislature enacted Senate Bill 324 (2015), which allowed the Department of Environmental Quality (**DEQ**) to fully implement the Clean Fuels Program, also known as the low carbon fuel standard (**LCFS**). The Clean Fuels Program requires fuel importers and blenders to meet carbon intensity requirements. These requirements will continually reduce carbon intensity in Oregon fuels, with the ultimate goal of a 10-percent carbon intensity reduction from 2015 levels by the year 2025. The Program aims to improve air quality and public health, but also complicates the already delicate area of fuel tax revenue through potentially increased fuel prices.

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