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Background Brief on ...

Funding Transportation

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) owns/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.

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, counties, and cities are required to spend at least one percent of their annual State Highway Fund receipts on 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 revenue, and federal and state grants.

Highway, Roads, and Streets - User charges (fuel taxes, vehicle title, and registration fees, heavy vehicle mileage taxes and 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. Counties and cities raise additional revenue from timber severance taxes, federal payments, property taxes,

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, and federal funds pay the balance of operating costs attributable to the Eugene to Portland portion of the route. In addition, *ConnectOregon* 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. *ConnectOregon* has assisted shortline railroads with money for track replacement and improvements in their rail yards.

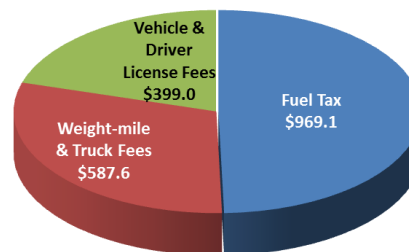
Public Transportation - Local governments (mass transit, transportation, and county service districts, counties, and cities) provide public transportation service. TriMet, the Lane Transit District, and some transportation districts are financed with a payroll tax. Salem Area Transit and most other transportation 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 supporting rural public transportation service.

Sources of Highway Revenue

The sources described earlier (state fuel taxes, state weight-mile taxes on trucks, and 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 does not use General Funds to finance highway improvements. The chart below shows anticipated revenue for the 2013-2015 biennium after subtracting collection costs and transfers, but before distribution to cities and counties and set-asides for debt service.

2013—2015 State Highway Fund Revenue
(\$ millions)



Source: December 2013 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

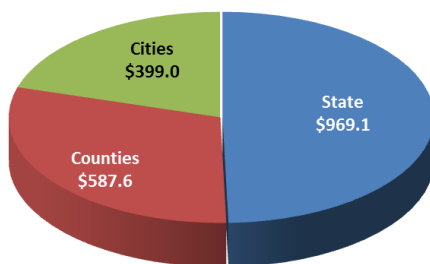
vehicle. Oregon has relatively low registration and title fees and comparatively higher fuel and truck use taxes.

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 2013-2015 biennium. The distribution is made using statutory formulas.

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.

2013—2015 State Highway Fund Revenue (\$ millions)



Source: December 2013 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 the state Highway Fund 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, Canby, Coburg, Coquille, Cottage Grove, Dundee, Eugene, Hood River, Milwaukie, Newport, Oakridge, Pendleton,

Sandy, Sisters, Springfield, Stanfield, The Dalles, Tigard, Tillamook, Veneta, Warrenton, and Woodburn).

Federal Forest Revenues: Thirty-two of Oregon's 36 counties 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 funds for a significant portion of their highway revenue. Oregon's legislatively adopted budget for the state highway system for the 2013-2015 biennium is 77 percent state revenue and bond proceeds and 23 percent federal revenue. Federal highway funds are derived mainly from an 18.4-cent federal gas tax, a 24.4-cent diesel tax, and other fees on heavy trucks. 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.

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, Moving Ahead for Progress in the 21st Century (**MAP-21**) was enacted in 2012, and authorized the program for two years. MAP-21 will expire May 31, 2015, after Congress extended it in 2014.

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.

Because the federal gas tax has not been increased in more than two decades, the federal Highway Trust Fund is taking in substantially less than it is paying out for highway and transit projects. As a result, the Highway Trust Fund will exhaust its balances sometime in or before May 2015. In addition to extending MAP-21, Congress is considering how to address the imbalance between revenues and payouts by finding additional resources for transportation or cutting the federal highway and transit programs by about one-third.

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.

Weight-Mile Taxes

Oregon uses a weight-mile tax to assess trucks for use of state and local highways. 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. Most states levy a diesel tax on trucks operating on their roads but Oregon assesses the weight-mile tax instead. The

rationale is that a weight-mile tax more accurately assesses trucks for road wear than does 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 3(a), 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 biennially. The Oregon Transportation Commission (**OTC**)

begins the update process by setting funding levels and approving project selection and prioritization criteria. The Commission ends the update cycle about two years later by adopting a STIP. The STIP is also approved by the U.S. Department of Transportation.

Many agencies and groups participate in the STIP process. These include: area commissions on transportation (ACTs), cities, counties, transit districts, port districts, federal agencies, Indian tribal governments, the Freight 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, the Commission directed ODOT to put the program into two broad categories for the 2015-2018 update: “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 process ensures that the department can take care of existing 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.

Final review and approval of the 2015-2018 STIP will be completed between October and December 2014. ODOT will submit the 2015-2018 STIP to USDOT for approval in December 2014, along with transportation improvement programs from Oregon’s metropolitan planning organizations.

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.

Unmet Needs

The Oregon Transportation Plan was approved by the Oregon Transportation Commission 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 User Fees

The 2001 Legislative Assembly 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 task force developed the Oregon Mileage Fee concept as the most viable broad-based alternative to the gas tax. The concept integrated a mileage-based fee with gasoline tax collections.

Oregon's year-long pilot test in the Portland area, beginning in March 2006, demonstrated that an electronically collected mileage fee could be technically feasible and might also be an efficient system for replacing the gas tax as the principal way the state funds the road system. For the test, an onboard device within the vehicles of 299 volunteer participants connected with the odometer to tally miles driven within predetermined geographic zones. This mileage data was transmitted wirelessly at the fuel pump to a central computer where the fee was applied. Motorists paid mileage fees, in lieu of the gas tax, with their gasoline purchase. The bulk of the pilot program – 75 percent – was financed through a six-year, \$2.1 million federal grant.

ODOT recently redesigned the mileage fee collection system in response to public comment. The new design features an *open technology platform* where motorists choose their method of reporting mileage traveled and, if desirable, on-vehicle technology—provided by third-party providers—and manner of invoicing and payment. This allows for charging plug-in electric vehicles that pay no gas tax and gives motorists choices for privacy protection

and therefore increases the likelihood of public acceptance.

In 2013, the Legislative Assembly enacted Senate Bill 810, directing ODOT to implement the program with 5,000 volunteers, who will have a choice of which method to use to calculate and report their miles driven. That program will be operational in 2015. There must be at least one reporting option available to participants in the voluntary program that does not use GPS (global positioning system).

Through interactions with the general public during more than 25 presentations statewide before the 2013 legislative session, ODOT learned that motorists are, for the most part, comfortable generating and reporting mileage information to an entity if they have 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 fully operational road usage charge system the State of Oregon is implementing will provide motorists these options.

Innovative Finance

The Legislative Assembly created the Oregon Innovative Partnerships Program (**OIPP**) in 2003 as an alternative procurement program to foster the development of public-private transportation projects both through solicitation of projects and responding to project proposals developed by the private sector or other units of government.

Through OIPP, ODOT can contract for private-sector services in transportation projects without the prescriptive conditions required by the regular government contracting requirements with two exceptions (overtime and prevailing wage for construction). OIPP contracting flexibility allows ODOT and a private firm to share assets and risks.

Projects recently pursued under the authority of the Oregon Innovative Partnerships Program include:

- Outsourcing of maintenance for a section of OR 219;
- Three solar highway projects;
- Train set purchase;
- Electric vehicle charging network; and
- Three toll roads, one in Yamhill County and two in Clackamas County.

Continuing Issues and Challenges

Adequate Long-Term Funding for All Modes of Transportation: In 2012 and beyond, the transportation capital program will fall \$400 million below current levels. By 2015, the capital program will be reduced to minimal paving and bridge repair, as well as a handful of Jobs and Transportation Act (**JTA**) projects. By 2012, ODOT will be paying about \$200 million a year out of the State Highway Fund for debt service for the OTIA and JTA programs, which will significantly constrain spending.

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 funding levels for U.S. highways and transit programs is about \$15 billion more per year than the Highway Trust Fund takes in. ODOT has factored a reduction in federal highway funding of about 20 percent into our STIP.

Oregon also faces significant challenges in funding non-highway modes. Limitations on use of state and federal resources preclude investing in the rail system or in operating transit service. Governor Kitzhaber appointed the Non-Roadway Transportation Work Group to review needed investments in aviation, bicycle and pedestrian, marine ports, passenger and freight rail, and public transportation and to review potential revenue sources that might be used to meet those needs. The Work Group identified a broad range of methods used around the nation, but was unable to identify any that would be acceptable for use in Oregon, could raise enough revenue to meet the needs, and were not already being used for some other purpose.

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. The 2011 Oregon Freight Plan projects an 88 percent increase in freight tonnage moving into, out of, and within Oregon will place additional demands on the Oregon freight system. This number does not take into account the impact of “through” tonnage, which is also growing. As a comparison, the United States freight system is expecting a 93 percent increase in total tonnage between 2002 and 2035.

Highway Patrol: Law enforcement is one of the keys to reducing loss of life and preventing delays and costs attributed to traffic crashes. Patrol officers serve multiple roles such as sanctioning violators, responding to crash and crime scenes, and deterring law breakers by raising the perceived chance of being ticketed. Of continuing concern is the reduction in numbers of State Police highway troopers due to increasing demands on the state General Fund. In addition, county sheriffs’ offices have reduced traffic patrol services due to reductions in federal timber payments.

Planning, Environment, 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. Additional time and resources are directed to environmental safeguards and decision-making, including planning, public involvement, and interagency coordination. Transportation agencies are required to balance numerous opposing interests and priorities.

The 2009 Jobs and Transportation Act (House Bill 2001) includes a number of planning and environmental initiatives. This paper has touched on two above (STIP Stakeholder review of project selection criteria and the congestion pricing pilot program). Other initiatives include:

Least-Cost Planning - a process of comparing the direct and indirect costs of transportation demand and supply options to meet transportation goals, policies, or both, where the

intent of the process is to identify the most cost-effective mix of options. ODOT worked with stakeholders to develop a least-cost planning model, called Mosaic, to support the decision-making process. The Mosaic tool is now being tested and evaluated.

Environmental Stewardship – ODOT is incorporating environmental performance standards into the design and construction of all state highway construction projects, including local government projects funded by the department. In addition, the department will continue to improve the environmental permitting process.

Efficient Fee Study - The Efficient Fee Study is an alternative approach to the biennial Highway Cost Allocation Study (**HCAS**). The HCAS was conducted in two ways: through the traditional approach and using an alternative, efficient fee approach. The Efficient Fee Study covers actual costs that users impose on the highway system, such as highway replacement cost, traffic congestion cost, and cost associated with greenhouse gas emissions. The Department of Administrative Services, Office of Economic Analysis, conducted the Efficient Fee Study in 2011 in addition to the traditional Highway Cost Allocation Study.

Greenhouse Gas (GHG) Emission Reduction Planning - GHG reduction planning is a major initiative involving state agencies and local governments. Through House Bill 2001 (2009) and Senate Bill 1059 (2010), the Oregon Legislature required the Land Conservation and Development Commission (**LCDC**) to develop GHG emission reduction targets for vehicles weighing less than 10,000 pounds (light vehicles) in all of Oregon's metropolitan areas. LCDC adopted the reduction targets in May 2011. The emission reduction targets for light vehicles will help Oregon achieve the statewide GHG emission reduction goals for all sources set by the Legislative Assembly for 2050. Metro, the metropolitan service district in the Portland area, has developed a range of land use and transportation scenarios that will achieve the goals for light vehicle emission reductions.

Metro, in collaboration with local partners, will further design and evaluate the scenarios to incorporate goals and strategies from local and regional planning efforts. Metro will then select one preferred scenario and begin working with the local governments within its jurisdiction to amend land use and transportation plans.

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