City of Madras

Transportation Utility Formation Study
Citizen Advisory Committee

AGENDA: MEETING #2

1. **Continued Discussion on Issue Paper #1: Local Transportation Funding Options**
    - **Utility Fee**
    - **Franchise Fee**
    - **Gas Tax**
2. **Discussion on Issue Paper #4: Local Gas Tax**
3. **Preliminary Revenue Capacity**
4. **Scheduling / Next Steps**

ISSUE PAPER #1

LOCAL TRANSPORTATION FUNDING OPTIONS

Issue

The City of Madras ("City") is reviewing its options for recovering the costs of local transportation needs. This paper analyzes funding options for city transportation programs in Oregon and provides a recommendation based on that analysis.

Alternatives

Funding options that are most relevant to City transportation programs in Oregon are listed below:

- State Highway Fund
- General fund
- Franchise Fees
- Transportation utility fee
- Local gas tax
- System development charges
- Local improvement districts
- Urban renewal districts
- Special programs
- Debt

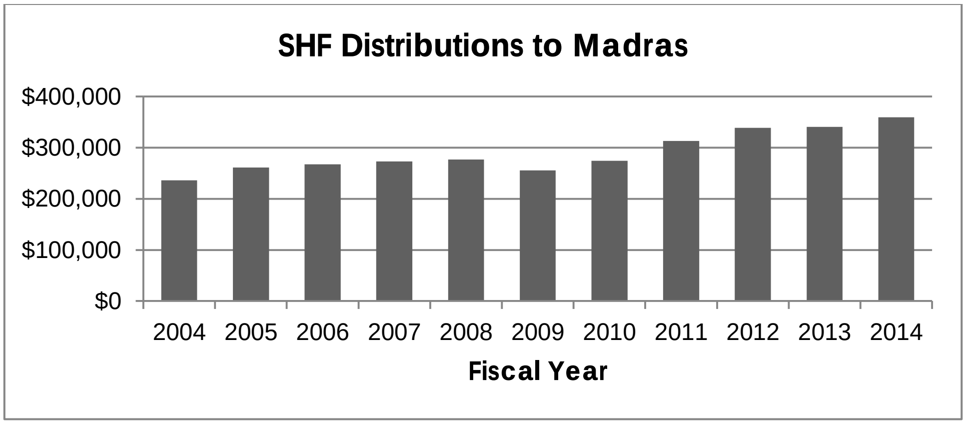
We briefly analyze these options below. [It should be noted that the City also receives revenue for transportation from Federal Surface Transportation Program (STP) fund allocations for cities and State liquor tax revenue sharing to cities.]

Analysis

State Highway Fund

For cities and counties in Oregon, distributions from the State Highway Fund (SHF) are a primary source of revenue for transportation needs. These distributions, based on population, represent each local government's share of the State's fuel tax, weight-mile tax, and vehicle registration fees.

According to the Oregon Department of Transportation (ODOT), the SHF distributed $359,487 to the City during fiscal year (FY) 2013-14. As shown in the chart below, the City's share of distributions has grown every year. The increase in FY 2010-11 is largely due to an increase in the State's fuel tax, which had been constant since 1993.



General Fund

At the discretion of the City Council, the City can allocate general fund (GF) revenues to pay for any portion of its transportation needs. However, because GF monies are discretionary, they compete with a broad range of community priorities and are scarce. In fact, the City by policy allocates general fund balances 95% to public safety and 5% to parks. The City has not regularly provided GF monies on street operations in the past several years.

Franchise Fees

The City currently collects franchise fees from specific non-City owned services and distributes incoming revenue evenly between the police department and transportation operating fund. In order to increase transportation funding for needs under current franchise fee charges, the City can raise franchise fees, which would be passed on to customers, or raise the allocation of fee revenue toward the transportation operating fund.

In addition to raising current franchise fees, the City can also extend franchise fees to its own utilities. The water utility is expected to generate just over $450,000 in rate revenue in FY 2015 and the sewer utility just over $2.6 million in rate revenue in FY 2015. The City could impose a franchise fee on those revenues, effectively increasing water and sewer rates to fund transportation needs. Note that franchise fees can only be applied to utility revenue generated from in-City customers.

According to a League of Oregon Cities survey in 2012 about franchise fees, cities levy a fee of between 3 percent and 10 percent of revenue, with an average of about 5 percent. We recommend the City obtain legal advice about what maxima might apply in its specific situation.

Transportation Utility Fee

Like a water or sewer utility, a transportation utility recovers a specific set of operating and/or capital costs by charging a fee to users. Since the same set of residences and businesses typically use the water, sewer, and transportation systems, the transportation utility fee is usually added to an existing utility bill.

A transportation utility can be formed by the City Council without voter approval. Fees generated by the utility can finance operating and capital costs directly, as well as secure revenue bond debt that is used to finance capital costs. To date, more than 20 Oregon cities have created a utility to provide dedicated revenue for transportation needs.

Local Gas Tax

According to ODOT, 14 Oregon cities and two counties have adopted local gas taxes that are administered by ODOT. These taxes range from $0.01 per gallon (three jurisdictions) to $0.05 per gallon (Eugene). Eleven cities and Multnomah County impose a tax of $0.03 per gallon.

A local gas tax can be particularly advantageous to cities on highways with significant pass-through traffic. Such a tax is an effective way of recovering costs from those who use the City's infrastructure but do not reside within the city limits.

ORS 319.950 states that local gas taxes may be imposed or raised only with voter approval.

System Development Charges

ORS 223.297 to 223.314 authorizes local governments to impose system development charges (SDCs) for capital improvements related to transportation. SDCs are one-time fees imposed on new development or certain types of major redevelopment. They are intended to recover a fair share of the costs of existing and planned facilities that provide capacity to serve growth. Consequently, SDC revenues may only be used as a funding source for capital projects and cannot be used for operation or routine maintenance. The City currently imposes a transportation fee of $3,355 per peak-hour trip.

Local Improvement Districts

ORS 223.387 to 223.401 authorizes local governments to establish local improvement districts (LIDs) and levy special assessments on benefited property to pay for capital improvements. The City currently has a LID in place for transportation improvements on I & Marshall Street.

Urban Renewal Areas

ORS Chapter 457 authorizes cities and counties to establish urban renewal areas (URAs) in which a dedicated revenue stream is created for capital improvements. This revenue stream is known in statutory language as "division of taxes." When a URA is formed, the assessed value within the area's boundaries is frozen for the incumbent taxing jurisdictions. To the extent that the assessed value rises above that frozen base, the URA receives the property tax revenue that all overlapping jurisdictions would have otherwise received.

Revenues generated in this manner can be substantial but by no means quick. For that reason, capital improvements within a URA are typically financed with debt, and the tax increment is used to service that debt.

Special Programs

The following special programs are funding sources that use a competitive process. Note that each of these programs are intended for capital improvements and cannot assist with operations and maintenance.

- **Oregon Transportation Investment Act (OTIA)**. The goal of OTIA is to provide a boost to the state's economy, ensure efficient delivery routes for products and services, and help solve City and county transportation challenges. More than half of the $2.46 billion included in OTIA III, signed into law in July 2003, is designated for repairing or replacing bridges. However, $361 million has been reserved for county and City maintenance and preservation over 10 years. Funds are distributed by a formula: 40 percent to cities and 60 percent to counties. Local governments will select individual projects for City and county roads.
- **TGM Planning Grants**. The State of Oregon TGM Grant Program provides grants for the planning costs related to transportation improvements. Under Category 1 of the program, projects can include system modeling to determine needs, planning for arterials and collectors, bicycle and pedestrian plans, and public transportation plans. Category 2 includes grants for integrated land use and transportation planning projects. This category includes corridor plans, specific development plans, and redevelopment plans for urban redevelopment districts. However, TGM funds cannot be used for actual construction costs or for ongoing maintenance costs.
- **Oregon Transportation Alternatives Program**. Through the Oregon Transportation Alternatives Program, communities can obtain funds to carry out a variety of pedestrian, bicycle, streetscape and other improvements that promote alternative transportation or environmental mitigation.
- **Federal programs**. The federal government offers a variety of grant and loan programs for transportation-related capital projects. As with all special assistance programs provided by the state and federal governments, funding for specific projects is highly competitive. Two programs currently offered are the Transportation Investment Generating Economic Recovery Program, which provides grants for eligible projects, and the Transportation Infrastructure Finance and Innovation Act, which provides loans and other forms of credit assistance for projects.

Debt

Finally, debt financing can be used to mitigate the immediate impacts of significant capital improvement projects and spread costs over the useful life of a project. Though interest costs are incurred, the use of debt financing can serve not only as a practical means of funding major improvements but also as an equitable funding strategy that spreads the burden of repayment over existing users as well as future users who will benefit from the projects.

- **General obligation bonds**. Subject to voter approval, the City can issue general obligation (GO) bonds to finance capital improvements. Debt service for GO bonds is provided by a bond levy that increases property taxes outside the limitations of Measure 5. Depending on the criticality of the planned projects and the willingness of the electorate to accept increased taxation for transportation improvements, voter-approved GO bonds may be a feasible funding option for specific projects. Proceeds may not be used for ongoing maintenance.

- **Revenue bonds**. Revenue bonds are a capital financing option if the City enacts a charge, such as a transportation utility fee, that produces a reliable revenue stream. Revenue bonds do not require voter approval, but they do require adherence to covenants such as minimum debt service coverage ratios. Revenue bonds are slightly riskier for investors than GO bonds and therefore require a modestly higher yield.

Recommendation

We recommend the City consider establishing a transportation utility to recover those transportation costs that exceed distributions from the SHF and the franchise fee allocation. We further recommend the City use its existing utility billing system and schedule to collect the transportation utility fee.

In those communities where it has been implemented, a transportation utility provides a reliable source of dedicated funding available for street maintenance. Most other available sources noted are restricted to capital projects.

While transportation utility funding source does not require voter approval, we recommend a vigorous campaign of public engagement before implementing any new City fees.

We also recommend that the City consider a local gas tax as an additional funding option because of its ability to capture revenue from those non-residents who use the City's infrastructure but would not be subject to a utility fee.

ISSUE PAPER #4

LOCAL GAS TAX

Issue

The City of Madras ("City") is reviewing its options for recovering the costs of local transportation needs. One of the options mentioned in Issue Paper #1 was a local gas tax. This paper provides further analysis of a local gas tax and the revenue that may be derived therefrom.

Analysis

Legal Requirements

State law governs both the imposition of local gas taxes and the expenditure of their revenue.

ORS 319.950 governs the imposition of a local gas tax:

> **319.950 Local tax on fuel for motor vehicles.** A city, county or other local government may enact or amend any charter provision, ordinance, resolution or other provision taxing fuel for motor vehicles after submitting the proposed tax to the electors of the local government for their approval.

This means that the city council must draft an ordinance establishing a local gas tax at a specific tax rate and then refer that ordinance to voters. If voters approve the ordinance, the city council may then enact it. Furthermore, we believe that this statute precludes local governments from enacting an automatic escalation of its tax rate. Any change in tax rate—even a downward change—must be submitted to voters.

An ordinance to establish a local gas tax should specify which fuel(s) are to be taxed. Most cities with a local gas tax include both gasoline and diesel. However, a city can choose to tax only one of these fuels. If a city chooses to tax diesel, tax can be collected even on sales to vehicles that are exempt from the state use fuel tax because they pay the weight-mile tax. Payment of the state weight-mile tax does not exempt the fuel from local taxation.

Expenditure of local gas tax revenue is subject to the same legal requirements as expenditure of the state gas tax. These requirements are found in Article IX, Section 3a of the Oregon Constitution:

> **Section 3a. Use of revenue from taxes on motor vehicle use and fuel; legislative review of allocation of taxes between vehicle classes.** (1) Except as provided in subsection (2) of this section, revenue from the following shall be used exclusively for the construction, reconstruction, improvement, repair, maintenance, operation and use of public highways, roads, streets and roadside rest areas in this state:
>
> > (a) Any tax levied on, with respect to, or measured by the storage, withdrawal, use, sale, distribution, importation or receipt of motor vehicle fuel or any other product used for the propulsion of motor vehicles; and

(b) Any tax or excise levied on the ownership, operation or use of motor vehicles.

(2) Revenues described in subsection (1) of this section:

(a) May also be used for the cost of administration and any refunds or credits authorized by law.

(b) May also be used for the retirement of bonds for which such revenues have been pledged.

(c) If from levies under paragraph (b) of subsection (1) of this section on campers, motor homes, travel trailers, snowmobiles, or like vehicles, may also be used for the acquisition, development, maintenance or care of parks or recreation areas.

(d) If from levies under paragraph (b) of subsection (1) of this section on vehicles used or held out for use for commercial purposes, may also be used for enforcement of commercial vehicle weight, size, load, conformation and equipment regulation.

Because the expenditure restrictions for a local gas tax are identical to those for distributions from the State Highway Fund, revenues from both sources can be safely commingled in the same fund.

Cost-Effective Collection

As shown in the table below, 20 cities in Oregon have a local gas tax. Of these, only six cities administer their own tax. The other 14 cities contract with ODOT for tax collection.

Cities That Contract with ODOT		Cities That Administer Their Own Tax
Astoria	Milwaukie	Dundee
Canby	Newport	Oakridge
Coburg	Springfield	Sandy
Coquille	Tigard	Stanfield
Cottage Grove	Veneta	The Dalles
Eugene	Warrenton	Tillamook
Hood River	Woodburn	

Source: ODOT, http://www.oregon.gov/ODOT/CS/.

The Fuels Tax Group at ODOT offers cities the ability to use its existing tax-collection infrastructure for the collection of their own fuel taxes. In return, cities agree to have a fee withheld from their remittances that represents the time spent by ODOT employees administering the local tax. Based on our conversation with a representative of the Fuels Tax Group, we estimate that ODOT's fee would be approximately $5,000 per year for Madras. We assume that the City would be hard-pressed to develop its own tax-collection infrastructure at a similar cost.

Comparative Data and Revenue Estimate

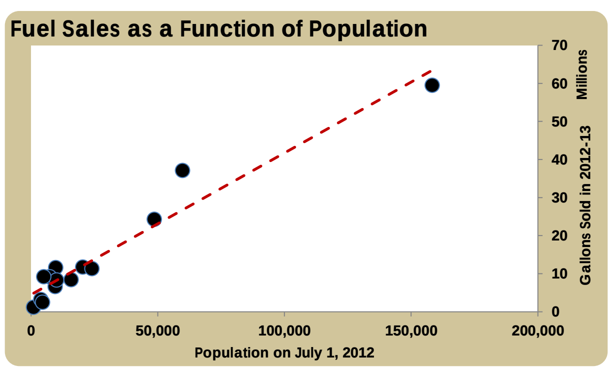
The table below summarizes the most recently available data for cities with an ODOT-administered local gas tax. All of these local gas taxes were established before voter approval became a requirement.

Cities with a Local Gas Tax	Gallons Sold in 2012-13	Population on July 1, 2012	Gallons Sold per Capita	Current Tax Rate per Gallon
Astoria	6,598,960	9,555	691	$0.03
Canby	8,391,087	15,865	529	$0.03
Coburg	1,125,432	1,045	1,077	$0.03
Coquille	3,181,358	3,870	822	$0.03
Cottage Grove	11,568,077	9,770	1,184	$0.03
Eugene	59,480,556	158,335	376	$0.05
Hood River	9,146,002	7,375	1,240	$0.03
Milwaukie	11,689,464	20,435	572	$0.02
Newport	8,312,416	10,150	819	Seasonal
Springfield	37,101,862	59,840	620	$0.03
Tigard	24,261,498	48,695	498	$0.03
Veneta	2,457,062	4,610	533	$0.03
Warrenton	9,167,003	5,090	1,801	$0.03
Woodburn	11,289,895	24,090	469	$0.01

Source: ODOT, Fuels Tax Group; Portland State University, Population Research Center.
Note: Coburg does not tax diesel. All other cities do.

To estimate the amount of revenue that a local gas tax would raise, we must first estimate the number of gallons of fuel that will be sold. Ideally, we would base this estimate on the historical volume of fuel sales in Madras. Unfortunately, sales data are available only for jurisdictions that have a gas tax.

Instead, we must estimate volume in Madras based on the experience of cities with an ODOT-administered tax. Using the data above, we developed a regression model in which the independent (x) variable is population on July 1, 2012, and the dependent (y) variable is the number of gallons sold in fiscal year 2012-13. We present this model graphically below:



We use this model to estimate that, based on Madras's population of 6,260 on July 1, 2012, dealers sold 6.8 million gallons of gasoline and diesel in Madras during fiscal year 2012-13. This estimate is equivalent to 1,089 gallons per capita, which would make Madras most similar to Coburg and Cottage Grove on a per-capita basis.

In addition to this base-year volume estimate, we must also estimate how sales volume will change each year. Based on the five years of statewide data shown below, we estimate that sales volume will decline by 0.74 percent each year:

Statewide Gasoline Consumption	Gallons
2008-09	1,509,324,369
2009-10	1,528,877,617
2010-11	1,510,927,969
2011-12	1,478,619,114
2012-13	1,465,243,756

Source: ODOT, Fuels Tax Group.

This (negative) growth rate allows us to estimate sales volume and tax yield for any future year, as shown below:

Estimated Tax Yield in Madras	Gallons Sold	Revenue per Penny of Tax
2015-16	6,665,802	$ 66,658
2016-17	6,616,475	$ 66,165
2017-18	6,567,513	$ 65,675
2018-19	6,518,913	$ 65,189
2019-20	6,470,673	$ 64,707
2020-21	6,422,790	$ 64,228
2021-22	6,375,262	$ 63,753
2022-23	6,328,085	$ 63,281

Source: FCS Group.

Based on this estimated yield, a local fuel tax imposed at the statewide average rate of three cents per gallon would yield $194,974 in fiscal year 2015-16 after deduction of ODOT's administrative fee.

Recommendation

We recommend that the City consider a local gas tax as one additional revenue source because of its ability to capture revenue from those non-residents who use the City's infrastructure but would not be subject to a utility fee. However, because (1) a local gas tax is a declining (rather than escalating) revenue source and (2) a local gas tax can be initially adopted and subsequently changed only by a vote of electors, we further recommend that the City also pursue a transportation utility fee as an additional revenue source.