CLACKAMAS COUNTY BOARD OF COUNTY COMMISSIONERS

Study Session Worksheet

Presentation Date: April 21, 2015 **Approx Start Time:** 1:30 pm **Approx Length:** 60 min.

Presentation Title: The Road Ahead: Financial Analysis and Funding Options

Departments: Transportation & Development

Presenters: Barbara Cartmill, Director, DTD; Diedre Landon, Administrative Services, DTD; Nick Popenuk, ECONorthwest

Other Invitees: Randy Harmon, Warren Gadberry, Transportation Maintenance; Mike Bezner, DTD; Ellen Rogalin, PGA/DTD; Amy Kyle, Gary Schmidt, PGA; Chris Storey, County Counsel

WHAT ACTION ARE YOU REQUESTING FROM THE BOARD?

None at this time; this is background information to help with future policy decisions.

EXECUTIVE SUMMARY:

This study session will focus on options for increasing revenue for transportation operations and maintenance. In the attached document from ECONorthwest, the revenue options are evaluated based on the following four criteria:

- Legal authority
- Efficiency
- Fairness
- Political acceptability

The potential funding options reviewed are: gas tax, vehicle registration fee, road utility fee and road district.

FINANCIAL IMPLICATIONS (current year and ongoing):

The current annual gap between the amount of available federal and state revenue and maintenance needs is more than $17 million. That gap has grown approximately $660,000 per year since 2007. It is anticipated that the gap will continue growing at a steady pace.

LEGAL/POLICY REQUIREMENTS:

Reviewed in attached document.

PUBLIC/GOVERNMENTAL PARTICIPATION:

PGA and DTD staff continue to work to plan, create and implement outreach and education activities.

RECOMMENDATION:

None at this time.

SUBMITTED BY:

Division Director/Head Approval ____________

Department Director/Head Approval ____________

County Administrator Approval ____________

ATTACHMENTS:

What are the options for increasing transportation operations and maintenance revenues? (pages 10-15 of a memo in process) -- ECONorthwest, April 2015

The Road Ahead: Clackamas County Board Update -- ECONorthwest April 2015 (PowerPoint)

For information on this issue or copies of attachments, please contact Diedre Landon @ 503-742-4411

The Road Ahead:
Clackamas County Board Update

April 21, 2015

Nick Popenuk

ECONorthwest

ECONOMICS • FINANCE • PLANNING

Agenda

- Project Schedule Reminder
- Scope of the Problem – Overview
- Revenue Sources
  - Overview
  - Input from County Board

ECONorthwest Project Schedule

- April
  - Completing technical evaluation
  - Focus Group work
- May
  - Polling analysis
  - Identify top three funding packages
- June
  - County Board decision

Scope of the Problem

- Physical issues
  - Amount and condition of infrastructure
- Financial issues
  - Historic, current, and needed spending level
  - Existing funding
  - Funding gap
  - **Options for filling the gap**
- Public opinion issues
  - What might the public support?

Financial issues: revenue sources

Evaluation criteria:

- Legal authority
- Efficiency
  - Revenue capacity
  - Administrative cost
  - Stability/Predictability
  - Potential for growth
  - Revenue flexibility
- Fairness
- Political acceptability

Financial issues: revenue sources

Top four revenue options

- Gas tax
- Vehicle registration fee
- Road utility fee
- Road district

Financial issues: revenue sources

Key decision-making issues:

- Consideration of incorporated areas
- Process for implementation
- Political acceptability

Gas Tax

Strengths

- Fairness
- Revenue from non-residents

Weaknesses

- Low growth
- Consideration of incorporated areas

Other considerations

- Need $0.12 per gallon countywide to raise $17.65 M
- Requires public vote

Vehicle Registration Fee

Strengths

- Consideration of incorporated areas

Weaknesses

- Revenue sharing with cities

Other considerations

- Maximum fee ($43/year) raises only $8.9 M for County
- Can be adopted by County ordinance

Road Utility Fee

Strengths

- Efficiency

Weaknesses

- Complicated formulas
- Administrative cost

Other considerations

- Rate to raise $17.65M
  - $5/household* countywide
  - $11/household* unincorporated
- Can be adopted by County ordinance
- Incorporated areas

*With comparable revenue from business/commercial/industrial users based on the amount of use.

Road District

Strengths

- Efficiency

Weaknesses

- No key weaknesses to emphasize for the County decision-making process

Other considerations

- Rate to raise $17.65M
  - $0.42 countywide
  - $0.96 unincorporated area only
- Requires public vote
- Incorporated areas

Financial issues: revenue sources

Input from County Board

- Questions or comments on sources?
- Initial preferences?
- Countywide vs unincorporated?

2.4 What are the options for increasing transportation operations and maintenance revenues?

The County has multiple options for collecting revenue to fill the funding gap. None of these options, however, are a silver bullet; each option has different strengths and weaknesses that the County will need to consider. Ultimately it may take more than one funding tool to completely solve the funding gap.

2.4.1 Evaluation criteria

Before delving into the list of potential sources, it helps to have an agreed upon set of criteria to evaluate those sources. Based on our previous experience helping municipalities adopt new revenue streams, we have identified four broad categories of criteria: (1) legal authority, (2) efficiency, (3) fairness, and (4) political acceptability. Each is described below.

Legal Authority

An essential part of the assessment of a funding source is determining the legality of the source. If the source is currently prohibited by State statute, then there is a very big administrative hurdle to be surmounted up front. All the benefits of a funding source are moot if the source is not legal or cannot become legal within the desired timeframe. Even if a source is legal, it may have legal restrictions on where it can be used, what it can be used for, and who can use it. These legal restrictions may preclude some funding sources from further considerations.

Efficiency

This category covers everything related to creating and maintaining net revenues. We break efficiency into five sub-criteria: (1) revenue-generating capacity, (2) administrative costs, (3) revenue stability, (4) potential for growth, and (5) revenue flexibility.

- **Revenue-generating capacity** considers how much money the source can generate. Note that for some sources, there is no technical limit on the amount of revenue; tax rates could be raised infinitely higher to raise infinitely more revenue. A more practical way to evaluate revenue-generating capacity is how much revenue can be generated at a rate that is deemed practical and politically viable.
- **Administrative cost** considers the portion of gross revenues that will be spent on administration. The easier it is to administer the tax or fee, the more of the gross revenue collected that will be available as net revenue for transportation operations and maintenance.
- **Revenue stability and predictability** considers whether the source is likely to avoid large fluctuations each year and whether the amount raised is likely to be close to the forecasts.
- **Potential for growth** considers whether or not the revenue is forecast to grow over time, and if so, at what rate? Is there an ability to influence this growth rate, by indexing it to the rate of inflation?

- **Revenue flexibility** considers limitations on the types of projects that can be funded with a given source. A funding source may be a little less useful to jurisdictions if its use is limited to certain types of projects.

Fairness

Fairness, also referred to as equity, can be defined in many ways. In the context of transportation funding, the key question related to fairness is "who pays?" A standard definition of fairness in public finance is that the charges that fund the transportation system are tied to the users who receive benefits from (or impose costs on) the transportation system.

Political acceptability

Political acceptability considers whether elected officials and the public at large are likely to support the funding source. This depends to a large extent on the issues above: if a revenue source is legal, efficient, and fair, then it may be more likely to get political support from the public, advisory groups, and decision makers, but that is not always the case.

2.4.2 Potential funding mechanisms

Although there are dozens of potential funding sources that could be used to fund County transportation operations and maintenance, most funding sources boil down to variations on just a few core concepts: sales tax, property tax, income tax, head tax, or user fee. Previous analysis by the County considered numerous funding mechanisms, and narrowed the search down to the four most likely candidates: (1) gas tax, (2) vehicle registration fee, (3) street utility fee, or (4) Road District (property tax).

We agree with the County's previous analysis that these four funding sources are logical choices to consider for filling the County's transportation funding gap. Other potential funding sources are either unrelated to transportation, logistically or technically infeasible, legally restricted, or incapable of generating sufficient revenue.

Below, we provide a brief description of the four tools that are under consideration, highlighting the important strengths and weaknesses of each tool that will be central to the County's decision on which tool(s) to pursue. **This is not an exhaustive list of all the pros and cons of each funding source. Instead, we have limited the number of issues to just those that we believe are most important to the County decision-making process.**

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, or as a percentage-based sales tax.

Key Strengths

- **Fairness**: A gas tax is a tax on users of the transportation system. In theory, the more a person travels on roads, the more gas they will purchase, and the more tax they will pay. Of the four options under consideration, gas tax is the only option that is a true user fee, where the amount paid is based on the amount of direct use.
- **Revenue from non-residents.** Of the four options under consideration, gas tax is the only option that collects a significant portion of revenue from residents and businesses located outside of the County. This often helps with political acceptability of the tool.

Key Weaknesses

- **Potential for growth**: Statewide, gasoline consumption has remained essentially flat for the past 20 years. The gas tax rate would need to be indexed to the rate of inflation, or else based on a percentage price of gasoline in order to keep pace with rising inflation for transportation maintenance and operations costs.
- **Consideration of incorporated areas**: The cities of Canby and Milwaukie already have local gas taxes ($0.03 per gallon and $0.02 cents per gallon, respectively). This may negatively affect the political acceptability of a gas tax for residents of those communities.

Other considerations

- **Revenue capacity**: Preliminary estimates indicate a countywide tax rate of $0.12 cents per gallon would be necessary to generate $17.65 million per year. This tax rate is significantly higher than other local gas taxes adopted in Oregon, and is likely politically unacceptable. No jurisdiction in Oregon has adopted a local gas tax rate higher than $0.05 per gallon. Thus, a gas tax would likely need to be pursued in combination with other funding sources, if it is to be a part of the funding gap solution.
- **Process for implementation**: Requires public vote.

Vehicle registration fee

In Oregon, counties (but not cities) can implement a local vehicle registration fee. Fees are limited to no more than the State vehicle registration fee amount, which is currently $43 per vehicle per year (charged as $86 every two years). The fee would operate similar to the state vehicle registration fee.

Key Strengths

- **Consideration of incorporated areas**: Since the vehicle registration fee can only be adopted by Counties, there is no overlap with local jurisdictions charging a similar fee. Additionally, the State enabling legislation requires a portion of the revenue (40%) be shared with cities in the County, which is likely to garner additional political support from incorporated areas.

Key Weaknesses

- **Revenue sharing:** State legislation requires a portion of the revenue (40%) be shared with cities within the County. Although this should help garner additional political support from incorporated areas, it is also a weakness, as it limits the revenue potential for the County.

Other considerations

- **Revenue capacity:** Preliminary estimates indicate that the maximum allowed fee of $43.00 per vehicle per year would generate $14.8 million per year total revenue, with $8.9 million available for the County, and the remaining $5.9 million shared with cities. This rate is insufficient to generate the full amount of the funding gap. Thus, a vehicle registration fee would likely need to be pursued in combination with other funding sources, if it is to be a part of the funding gap solution.
- **Process for implementation:** Can be adopted by a County ordinance, however, it is subject to referendum.

Road utility fee

Most jurisdictions charge water and sewer utility fees. A road utility fee applies the same concept to County roads. A fee is assessed to all businesses and households in the jurisdiction for use of roads, based on the amount of use typically generated by a particular use.

Key Strengths

- **Efficiency:** A utility fee is highly stable and predictable, can be indexed to keep up with inflation, and allows a significant amount of flexibility in how the funds can be spent.

Key Weaknesses

- **Complicated formulas:** Utility fees are typically based on the assumed average daily trips (ADT) generated by different land uses. This may be viewed as unfair for individuals whose use of the transportation network differs from the assumed norm. These ADT formulas can become particularly thorny when considering non-residential uses. Certain large businesses are estimated to generate thousands of ADT, resulting in potentially very large fees. A recent effort in the City of Portland to adopt a street utility fee suffered substantial pushback from the business community over objections to the formulas for calculating the fee amount for non-residential uses.
- **Administrative costs:** The other three revenue sources have systems in place at the State or County level to collect the revenue. Therefore, those three sources would have relatively low administrative costs for the County. A utility fee, however, would require a unique system for collection countywide, since the County does not currently charge any other utility fees to all residents and businesses of the County.

Other considerations

- **Consideration of incorporated areas**: The utility fee could be applied countywide, or only in unincorporated areas, depending on the revenue needed, and the level of support from incorporated areas. Multiple cities within Clackamas County have already adopted local transportation utility fees, including Canby, Lake Oswego, Milwaukie, West Linn, Wilsonville, and Oregon City, including fees as high as $11.20 per household per month. If the County seeks approval for a transportation utility fee in these incorporated areas, the combined city and County charges would be relatively high, negatively impacting the political acceptability of this tool.
- **Revenue capacity**: If the utility fee were adopted countywide, preliminary estimates indicate a rate of approximately $4.85 per household per month would generate sufficient revenue to cover the $17.65 million estimated funding gap (assuming an equal amount of revenue is generated from non-residential uses). If the fee were applied only to the unincorporated areas of the County, the monthly fee to cover the entire gap would rise to $10.77 per month. These fees are in the range of those charged by other jurisdictions.
- **Process for implementation**: Can be adopted by a County ordinance, which makes it easier to combine with other sources as part of a funding package without putting multiple measures on the ballot.

Road District

There are ways the County could use non-general fund property tax revenue to pay for transportation operations and maintenance, including a local option levy or a general obligation bond levy. A more permanent method of collecting property tax revenue is the creation of a special road district.

Key Strengths

- **Efficiency**: Road district revenue is highly stable and predictable, generally grows at a rate comparable to cost increases for transportation maintenance and operations, has low administrative costs, and allows a significant amount of flexibility in how the funds can be spent.

Key Weaknesses

- None. Although no funding source is perfect, and all have their drawbacks, there are no specific weaknesses of a Road District that we call out as central to the decision-making process for the County.

Other considerations

- **Consideration of incorporated areas**: Requires city council resolution for each city to be included in the taxing district. The process for securing these city council resolutions could be time consuming, and there's no guarantee all cities would agree to participate.
- **Revenue capacity**: If the tax were adopted countywide, preliminary estimates indicate a rate of $0.42 per $1,000 of assessed value would generate sufficient revenue to cover the $17.65 million estimated funding gap. If the tax were applied only to the unincorporated areas of the County, the rate would raise to $0.96 per $1,000.
- **Process for implementation**: In addition to resolutions from city councils, a road district requires a public vote to implement the property tax rate.

Summary potential funding mechanisms

All four of the potential funding mechanisms have the ability to generate most or all of the revenue needed to fill the County's transportation funding gap. None of the tools stand out as an obvious solution that is clearly better than the other tools. The County will need to weigh the pros and cons of each tool, and determine which tool or combination of tools they want to pursue. Although there are multiple evaluation criteria that can be used, a few key issues rise to the surface when comparing these four specific funding tools:

- **Consideration of incorporated areas**: A major policy decision is whether or not to pursue funding tools that are applied countywide versus only in unincorporated areas of the County. Certain tools like a utility fee are likely to face significant pushback from voters in incorporated areas that already have local versions of the same tool. However, residents of incorporated areas may include demographic profiles that are more likely to support tax increases in general. Also, tools that are applied only to unincorporated areas of the County generate less than half of the revenue that could be generated if the same tool were applied Countywide.
- **Process for implementation**: Some of the sources require a public vote (Road District and gas tax). Other tools can be implemented by County ordinance (utility fee and vehicle registration fee). If the County were to pursue a funding package that included both a Road District and a gas tax, it would require two separate ballot measures in the same election, which could negatively impact the chance of either ballot measure succeeding. Any other combination of funding tools would allow the County to put only one measure on the ballot, while adopting the other tool(s) by County ordinance.
- **Political acceptability**: Ultimately, the question of which revenue source(s) to pursue hinges on political acceptability. The County has sought voter approval of transportation funding tools in the past, and has seen those efforts soundly defeated at the ballot box. Focus group findings and polling information will be critical input to determine which funding tools have the greatest chance of success at what dollar amounts, and in what geographies.