TECHNICAL MEMORANDUM

Clackamas County TSP

White Paper #5.2a - DRAFT
National Funding and Financing

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This memorandum presents a Draft White Paper on National Funding Financing, a deliverable for Task 5.2.

Introduction

This paper provides an overview of national transportation funding and financing as it relates to Clackamas County, and how this may impact alternatives planning development during the County's Transportation System Plan (TSP) process. The paper identifies key initiatives, trends over the short-, mid- and long-term timeframes, and concludes with recommendations for the County to consider in creating its vision and goals for the TSP.

Initiatives

National initiatives are grouped below into funding sources and financing sources. Each is briefly described to convey generally how each source functions and what these functional characteristics mean for Clackamas County.

FUNDING SOURCES

Highway Trust Fund (HTF). The HTF is comprised of a combination of fuel taxes, truck and trailer sales taxes, truck tire tax, and heavy vehicle use tax sources. It is the mainstay of highway programs and a major contributor to transit funding, and is expected to continue in this role over the next 20 years. Motor fuel taxes account for most of the Federal revenues used for Federal highway and transit programs and for almost half of the revenues used by States to fund highway needs. However, the HTF currently suffers from a significant funding gap. Starting off relatively balanced from its inception in 1957, revenues and expenditures diverged sharply in 2002, and since then the balance within the fund has declined to the lowest levels since the mid-1970s. Two key issues have contributed to the funding gap. First, Federal motor fuel taxes have lost about one-third of their purchasing power to inflation: the tax was last raised in 1993[1]. Second, increased fuel efficiency in motor vehicles has reduced fuel consumption in line with national environmental and energy-security goals. In addition, the recent economic recession has reduced driving nationally, adding to the general slowing in gasoline consumption.

Vehicle-related revenue. A broad range of driver and vehicle-related taxes, fees, and charges are used at state and local levels to generate significant shares of dedicated transportation revenue. These include vehicle registration and licensing fees; drivers' license fees and surcharges; and various vehicle-related sales taxes and fees. The revenue generated in this manner is substantial. As an example of the funding strength of this source, a Federal flat-rate annual vehicle registration fee of, say, $1 for light-duty vehicles and $2 for trucks would yield approximately $366 million per year[2]. It is important to note that this example is for illustrative purposes only, since a Federal flat-rate annual vehicle registration fee, as described, does not currently exist. In Oregon, as in most states, a weight-mile tax is already in place for heavy trucks, or those with a gross weight over 26,000 pounds. The tax is based on a combination of weight, number of miles traveled, and axle configuration. In 2010 weight-mile and flat fee revenues in Oregon were $204.2 million. Between 2012 and 2015, weight-mile taxes are projected to be $55 - $60 million higher (annually) than in previous years.[3]

1 In 1993 the Federal motor fuel tax was raised by 4.3 cents per gallon.

2 Paying Our Way (February 2009) National Surface Transportation Infrastructure Financing Commission, accessed online August 2011 at http://financecommission.dot.gov/ Documents/NSTIF_Commission_Final_Report_Mar09FNL.pdf

3 Summary of Transportation Economic and Revenue Forecasts (September 2011), accessed online October 2011 at http://www.oregon.gov/ODOT/CS/EA/reports/Sept_2011_Forecast.pdf

Current research and commentary identifies some important areas for increasing the revenue-generating potential of the funding sources identified above, including:

- *Indexing the motor fuel tax.* Indexing gasoline taxes is not currently done but has been researched by a number of organizations[4]. Indexing involves adjusting excise motor fuel tax rates to some measure of inflation, such as the consumer price index, retail gasoline prices, or to an inflation index gauging changes in the highway construction and maintenance costs.
- *Other motor fuel-related taxes*. Other ways that have been suggested to generate revenue through Federal taxes on motor fuels include a carbon tax (cap and trade programs), a tariff on imported oil, and/or a sales tax on motor fuel.
- *Truck-related taxes and fees*. Trucks and heavy vehicles could face additional Federal fees in the form of truck and trailer sales taxes, a truck tire tax and/or a heavy vehicle use tax. Increases in these taxes and fees are generally seen as strong revenue-generating options that reflect use of the system, but are typically met with popular opposition.
- *Freight-related Taxes & Fees*. Revenue options related to freight activity include new mechanisms such as a national container fee and a freight-related sales tax, as well as expansion or diversion of existing sources such as customs duties and the harbor maintenance tax. Some portion of the revenues from any or all of these sources would likely be dedicated to freight projects and programs.
- *Mileage-based user fee.* These fees are not currently charged for drivers on most highway networks. Under this system, fees can be charged in a number of ways based on the amount of individual roadway use. The charges have the potential to replace motor fuel taxes as a way to directly relate revenues to the use of the transportation network while also supporting goals of increased fuel efficiency, equity and reduced congestion. Mileage-based fees would also be an effective way to address the increasing number of hybrid and fully electric vehicles within the vehicle fleet, all of which pay little to no gas tax due to their fuel type. Mileage-based fees are often considered likely to be collected and spent at the state-level, and several trial phases have been studied. In 2006, the Oregon

[4] National Surface Transportation Infrastructure Financing Commission (2009) "Paying Our Way". Accessed online August 2011 at http://financecommission.dot.gov/Documents/NSTIF_Commission_Final_Report_Mar09FNL.pdf.

Department of Transportation (ODOT) conducted the Oregon Mileage Fee Concept as directed by the Road User Fee Task Force. The Oregon Mileage Fee Concept pilot project sought to explore replacement of the state gas tax with a mileage-based fee (on miles driven in Oregon) collected at fueling stations, and to explore collecting congestion fees. Findings showed that a mileage fee is viable and able to be paid at fueling stations; additionally, it is possible to establish different pricing zones electronically, so this system could be used for collecting local revenues in specific zones as well.[5] .

FINANCING SOURCES

Common transportation project financing tools for local communities include credit assistance and bonds. Credit assistance allows project sponsors to borrow money or access credit from the Federal government. Bonds are debt instruments issued by state and local governments, providing access to the capital markets. In recent years, there has been an increase in private equity investment in surface transportation through Public-Private Partnerships (P3), with financing packages that combine public and private debt, equity, and public funding. Some of the more important and frequently-used financing tools are described in more detail as follows:

- *Transportation Infrastructure Finance and Innovation Act*. The Transportation Infrastructure Finance and Innovation Act (TIFIA) enables the Federal government to provide loans, loan guarantees, and lines of credit directly to public and private sponsors[6] of major surface transportation projects. Any type of project eligible for Federal assistance through existing surface transportation programs (both highways and transit) is eligible for TIFIA assistance. The amount of Federal credit assistance may not exceed 33 percent of total eligible project cost, and the project cost should be no less than $50 million[7]. TIFIA project sponsors may be public or private entities, including state and local governments, special purpose authorities, transportation improvement districts, and private firms or consortia. Toll road projects have benefited from TIFIA credit assistance,

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[5] *Oregon's Mileage Fee Concept and Road User Fee Pilot Program* (November 2007), accessed online October 2011 at http://www.oregon.gov/ODOT/HWY/RUFPP/docs/RUFPP_finalreport.pdf?ga=t

[6] TIFIA project sponsors may be public or private entities, including state and local governments, special purpose authorities, transportation improvement districts, and private firms or consortia.

[7] For ITS projects, the minimum cost is $15 million.

due to the flexibility of TIFIA on repayment terms. TIFIA also has been instrumental in attracting private capital and advancing P3 projects, as well as transit projects.

- *Rail Rehabilitation and Improvement Financing*. The Rail Rehabilitation and Improvement Financing program provides direct loans and credit assistance to both public and private sponsors to acquire, improve, or rehabilitate intermodal or rail equipment or facilities, including track, components of track, bridges, yards, buildings, and shops. Direct loans can fund up to 100 percent of a railroad project with repayment terms of up to 35 years and interest rates that are not marked-up by the government. Loan size has ranged from $2 million to $233 million.
- *Other Potential Tools.* The funding and financing tools described below have been proposed at the Federal level. While none of these currently exist, they are potential alternatives to finance transportation projects in the long-term timeframe.
    - National Infrastructure Innovation and Finance Fund, or "I-Fund" would provide grants, loans, or a combination in order to leverage non-Federal resources for high-value projects that have a regional or national impact. I-Fund resources would be allocated to projects across modes and build an outcome-oriented, performance-based program.
    - National Infrastructure Bank concepts have emerged to address large scale projects, of national and regional significance. The National Infrastructure Bank Act (introduced 2007) would establish an independent National Infrastructure Bank to issue general purpose and project-based infrastructure bonds for qualifying transit, public housing, water, highway, bridge, or road infrastructure projects. The National Infrastructure Development Bank Act (introduced in 2009) would issue bonds, make loans and offer loan guarantees, and purchase and sell infrastructure-related loans and securities on the global capital market.
    - Public-private partnerships (P3s) are contractual agreements between a public agency and a private entity. These agreements allow a sharing of responsibilities, risks, and revenue between public sector owners of transportation facilities and private sector partners. P3 agreements already exist nationwide, and Federal programs may further support P3 development, creating near- and long-term opportunities for local transportation agencies to leverage private investment.

Trends

The paragraphs above summarize key parts of today's national transportation funding and financing revenue sources. These sources are likely to change over the timeframe of the Clackamas County TSP, and the following section describes generally-expected trends in this regard. The information is culled from a variety of public and private sources and is presented below in short-, mid- and long-term timeframes.[8]

SHORT-TERM: 1-2 YEARS

Over the short-term, motor fuel taxes will continue to provide revenue as transportation funding is extended through the political process in the traditional manner. However, with a fixed tax rate, the purchasing power will continue to weaken even in the short-term. Increases in, or additions to any Federal taxes will be unpopular, as taxes continue to be subject to national debates with an uncertain future[9]. Thus, we expect the existing deficits in HTF expenditures to remain and even worsen over the short term.

Near-term Federal funding changes may include an oil tariff, although this will directly affect consumer prices as well. Further complicating such a tariff is that effects on international trade lessen it as a long-term revenue source. Vehicle-related taxes would be relatively simple to implement over the short term, but again face significant political hurdles. Within the one- to two-year horizon of this short-term assessment, therefore, we do not expect any significant changes to either the types of funding sources or to the amount of annual revenue they generate.

MID-TERM: 5-10 YEARS

In the mid-term, an increase in the Federal motor fuel tax is likely, covering at least part of the near- and mid-term funding gap in the HTF. While this option provides a strong short-term base for flexible transportation funding under existing funding programs, it does not address inflation, the short-term economic recession and the long-term need to shift away from a reliance on gasoline. New capital funding programs, tied more directly to performance measures, are likely to be presented as part of the new transportation authorization bill. Examples suggested are funding for combined

[8] For more information see a brief bibliography at the end of this paper.

[9] According to the National Surface Transportation Infrastructure Financing Commission, a $15 per-ton tax on carbon dioxide emissions would raise gasoline prices by 14 cents per gallon.

transportation and land use projects, high-speed rail and innovative technologies. However, the amount of Federal funding available for transportation is likely to be much less than the forecasted need. As a result, we expect the issue of identifying a sustainable transportation funding source to rise in visibility and become a significant part of the public debate during the mid-term period 5-10 years from now, with new funding systems ultimately implemented and revised over this period.

LONG-TERM: 10-20 YEARS

Over the long-term, increased fuel efficiency and new motor fuels will reduce potential proceeds to levels that won't sustain existing maintenance and operating activities. These trends will effectively force local, state, and federal governments to identify new and/or alternative revenue sources not tied to motor fuels. Sources discussed earlier as long-term sources include mileage-based fees, vehicle taxes, and road pricing or tolling. The political and technological requirements are expected to be high but there are no apparent and politically expedient alternatives that are as fair and sustainable as these options. In addition, P3s will likely increase in sophistication and reach as logistical issues are addressed, such as equity and accountability, including action by the Federal government to further develop policy that delineates government roles in P3s, and supports local regulations and restrictions to ensure transparency and accountability to the public.

Recommendations

Clackamas County will need to take an active role in participating in local and regional planning efforts to prepare for future funding and financing possibilities. Based on current expectations by national agencies, advisors and advocates, we believe the County will be best served by following the brief recommendations provided below.

- Do not assume significant decreases or increases in federal allocations, even if mechanisms for the funding changes. Reauthorization of the Federal transportation bill and economic stimulus spending may provide new opportunities for local agencies to access capital and operating funds in the near-term. However, it appears that the new legislation is expected to set funding levels similar to that of the last transportation authorization bill.
- Explore local measures to raise needed operating funds for roadways and public transportation (see Attachment "A" for local funding tools), paying special attention to use-based and performance-based fees wherever possible. Federal funding continues to focus on capital investments, pushing the need for operations spending to the states and

local communities. Although some Federal sources generally intended for capital expenditures have been used for operating expenses, operating funding has been increasingly covered by states and local communities. Analysis in 2010 by the Center for Transportation Excellence found an upward trend in the success rate of local ballot measures to raise funds for local transportation spending, with property taxes leading the way.[10]

- Continue to facilitate projects and plans to prepare for competitive funding opportunities at the Federal level (e.g., TIGER grants).
- Explore and research the application of public private partnerships. Examples of successful projects are available across the nation, and provide important information and improvements to ensure successful project delivery at the local level. The County can begin outreach to potential partners and the public now, to ensure participation and full consideration of costs and benefits.
- Develop and enhance performance-based investment decision-making processes at the local level, and participate in broad regional performance tracking programs. Building capacity on performance measures at the local level will serve the County well as Federal funding is tied more to performance measures.

[10] "Trends and Results from 2010 Transportation Ballot Measures" (2010) The Center for Transportation Excellence, Washington, DC. Accessed online September 5, 2010 at http://www.cfte.org/CFTE%20Post-Election%202010%20Webinar%20PPT.ppt.

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