

1 Funding Analysis

1.1 Purpose

Ultimately, the TRIP97 process hopes to produce an agreed upon set of improvements to Highway 97, with reasonable alternatives for funding those improvements. This section of the report describes the funding options for the TRIP97 improvements. Its purpose is to identify a long list of potential funding sources that could be used to fund improvements to the TRIP97 Corridor, to evaluate those sources against a common set of logical criteria, and to suggest hypothetical funding simulations that demonstrate options for funding the local share of TRIP97.

1.2 Framework

Methods

The list of funding sources in this memorandum was compiled through a review of national literature, relevant documents and prior studies, serving as the foundation of the list of funding sources for TRIP97. This list was refined based on the sources identified in the Transportation System Plans (TSPs) for local jurisdictions that are involved in the TRIP97 project. To ensure the list of funding sources was current (since the availability of funding sources changes over time), we reviewed up-to-date lists of funding sources from national sources, spoke with representatives of Representative Blumenauer’s office, and distributed a draft of this document for review by experienced transportation practitioners on staff with the jurisdictions that the TRIP97 Partnership comprises.

Concepts

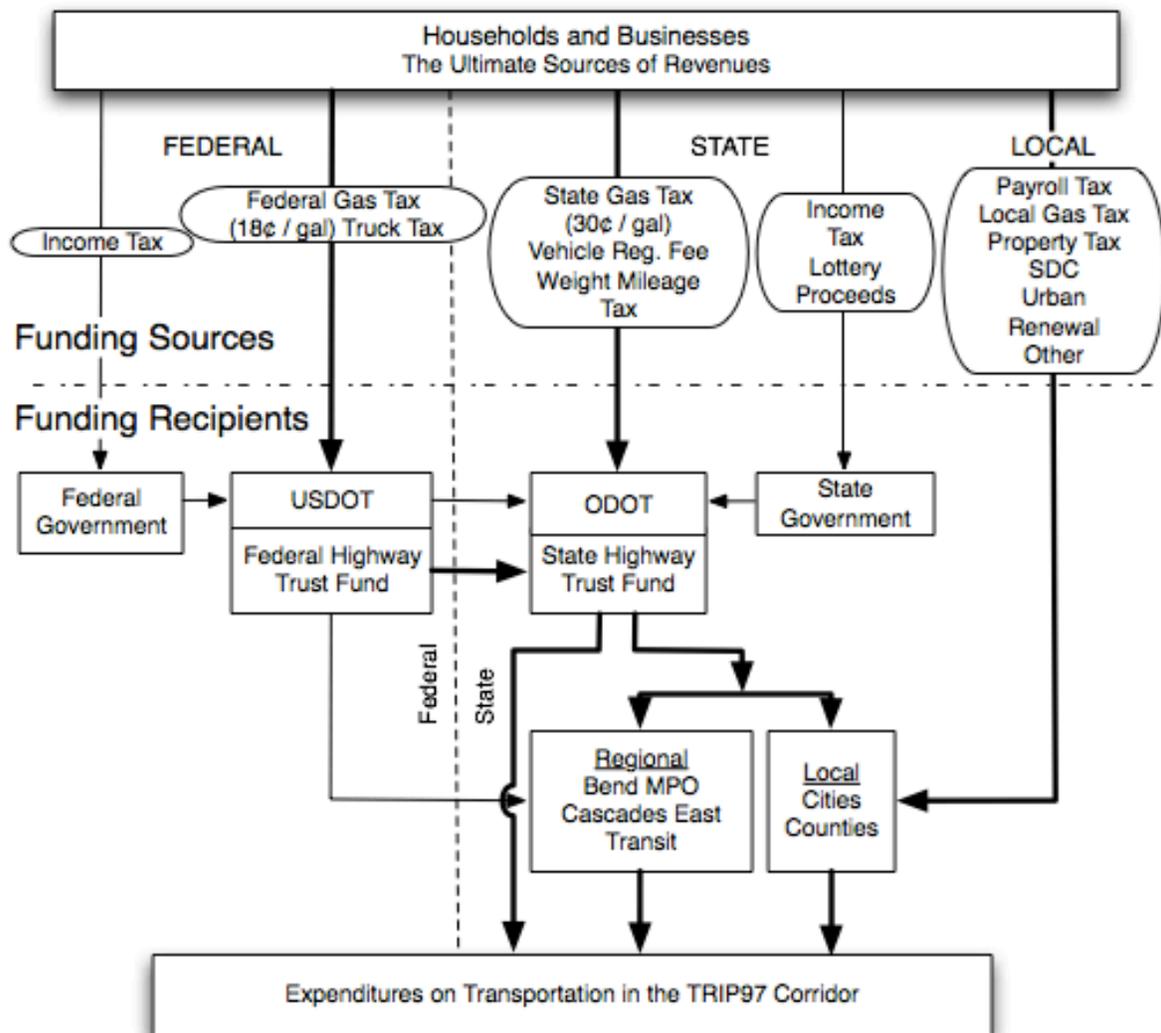
Funding vs financing

We make a distinction between the terms “funding” and “financing,” which often are used interchangeably. Providing transportation facilities and services costs money, and somebody has to pay for these costs. The ultimate source of revenue for these costs is funding. Funding comes from households and businesses that pay taxes and fees that give money to the various levels of government. Examples of funding mechanisms are tolls, fuel taxes, registration fees, systems development charges, and property taxes. For each of these mechanisms, one can determine who is paying. When the funds for transportation costs are borrowed and paid back over time, then these costs have been financed. The ultimate source of funding for financed costs is not the financing instrument itself—e.g., bonds—but rather the revenue sources used to repay the borrowed funds.

Overview of funding sources

Funding for transportation projects along the TRIP97 Corridor would come from three levels of government: (1) federal, (2) state, and (3) local. Exhibit 1 illustrates how funding from these three levels of government are combined to fund local transportation improvements. We assume that local jurisdictions will do their best to maximize their allocation of state and federal sources for qualifying projects, and therefore we provide the greatest level of detail on local sources—those revenues that jurisdictions within the TRIP97 Corridor have direct authority for collecting or allocating.

Exhibit 1. Diagram of state, federal, and local funding sources



Evaluation Criteria

A list of criteria for evaluating local funding sources was developed, with four broad categories: (1) legal authority, (2) efficiency, (3) fairness, and (4) political acceptability. Each is described below.

Legal Authority

An essential part of an assessment of the ease of implementing 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.

Efficiency

This category covers everything related to creating and maintaining net revenues. We break efficiency into four subcategories: (1) revenue-generating capacity, (2) administrative costs, (3) revenue stability, and (4) revenue flexibility.

- **Revenue-generating capacity** considers how much money the source can generate.
- **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 projects and programs in the corridor.
- **Revenue stability and predictability** considers whether the source is likely to avoid large fluctuations each year and whether the source is likely to be close to the forecasts analysts might make.
- **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 should get political support from the public, advisory groups, and decision makers. Ultimately, for this analysis, we evaluate whether a source is politically acceptable using two

connection between the funding source and the benefits received? For political acceptability, we ask: who pays? Predominantly locals or non-locals?

Exhibit 3. Alternative summary of local funding sources

VMT Tax (Narrow)	Tolls or Weight-Mile Tax throughout T97 Corridor Tax sequestration and SDCs on property in T97 Corridor	Tolls on Hwy 97 at edge of region
For property in T97 Corridor LID or BID Street Utility Fee Regional VMT Tax Street Utility Fee Vehicle Reg. Fee	Taxes on: Gasoline Car Sales Studded Tires Bicycles Other Trans. Goods	Rental Car Tax
Property Tax Income Tax Real Estate Transfer Tax Construction Excise Tax Business Licenses Fee Payroll Tax SDCs (Broad) Most other local sources	Broad Sales Tax	Hotel Tax
Mostly Local	Mix	Mostly Non-Local
Who Pays?		

1.4 Potential funding simulations

Creating a full-fledged funding package is beyond the scope of the analysis. The ultimate funding package will be informed as much by politics as by the technical analysis. In the absence of a thorough political debate with local elected officials, we cannot presume to know which funding sources will be most politically desirable. However, we can put together several hypothetical funding simulations, that we believe are reasonable, given our technical analysis, and political input provided by the TRIP97 Project Management Team.

These funding simulations show how different funding tools could be combined to provide sufficient funding to implement TRIP97 Projects. These funding simulations are based on the total project costs estimated for the TRIP97 Starting

Point Package of Transportation Improvement Strategies, which totals \$150,200,000.

Local funding sources will not need to fund the entirety of the project costs, as some level of state and federal funding should be assumed. For the purposes of our analysis, we have used a conservative assumption that the TRIP97 Partners would need to raise 40% of project costs from local sources. Given the total project costs of \$150,200,000, if 40% of costs came from local sources, it would require \$60 million in local funding. Ideally, local jurisdictions would ultimately be able to secure a larger share of project costs from state and federal sources, reducing the amount of local funding required.

Although these projects would like be built incrementally, phased in over many years as funds become available, we have insufficient information to make any assumptions on project phasing. Thus, our analysis assumes all projects would be built immediately, using revenue bonds to be repaid over the next 30-years with the various local revenues identified in each funding simulation. For the purposes of our analysis, we have assumed these bonds would have a 30-year amortization period, with a 6% interest rate, and that a minimum coverage ratio of 1.25x debt service would be required. Based on these financing assumptions, local sources would need to contribute \$5,450,000 per year to finance the \$60 million capital costs.

Funding Simulation #1. Emphasis on Fair, Feasible, and Non-Local

As shown in Exhibit 3, only one local funding source scores highly on the criterion of fairness while collecting a substantial amount of revenue from non-locals: tolls. If traditional tolls were implemented at the edge of the TRIP97 Corridor, where other state highways connect with Highway 97, then a relatively large number of vehicles could be tolled, with a relatively small amount of tolling infrastructure, and with a reasonable amount of lost revenue from diversion.

A toll of \$0.70 per vehicle entering the TRIP97 Corridor via each of these State highways would generate gross revenues of \$8,163,000 per year. Assuming one third of revenues would be lost to diversion, net revenues would be \$5,469,000 per year. This one revenue source would be more than sufficient to cover the local share of project costs for TRIP97.

Funding Simulation #2. Value Capture and Development Pays

Value capture is a philosophy gaining a lot of attention as a guiding principle for transportation infrastructure funding. Not only are value capture mechanisms fair in concept, but they can also be politically acceptable, as they shift the financial burden to new development in a small geographic area.

In the context of TRIP97, value capture means property tax sequestration, income tax sequestration, and a Local Improvement District. While these value capture tools can generate a substantial amount of local funding, it is less than the \$5.45 million per year that is the target of these funding simulations.

For the purposes of our analysis, we have assumed that tax sequestration would be applied to new development in urban growth boundary (UGB) expansion areas in the region, and that these areas would accommodate 30% of regional growth in the future. Rather than sequester all of the tax revenue from development in UGB expansion areas, we assume 20% of tax revenue would be sequestered with 80% of tax revenue going to the State and local taxing districts as usual.

To bolster the local revenue generated by tax sequestration and an LID, we turn to complementary sources, inline with the philosophy of “development pays.” Funding sources rooted in this philosophy tend to be politically acceptable, since they do not raise taxes on current residents. We have included a construction excise tax and a dedicated TRIP97 SDC as part of this funding simulation

Exhibit 4 shows the revenue raised by these funding sources. At the tax rates shown in Exhibit 4, these sources would collectively generate \$5,449,000 per year. Enough to finance the debt service for the \$60 million local share of capital costs for TRIP97 projects.

Exhibit 4. Funding Simulation #2: Value Capture and Development Pays, Summary of local revenue sources

Funding Source	Geography	Rate	Units	Avg. Annual Revenue
Property Tax Sequestration	UGB Expansion Areas	\$ 12.00	\$ per \$1,000 of AV / yr	\$ 1,388,000
Personal Income Tax Sequestration	UGB Expansion Areas	6.50%	percent of income	\$ 1,567,000
LID or BID	1/8 Mile of Hwy 97	\$ 1.00	\$ per \$1,000 of AV / yr	\$ 1,097,000
Construction Excise Tax	Region-wide	0.60%	percent of spending	\$ 674,000
SDCs	Region-wide	\$4.00	\$ per \$1,000 of AV	\$ 734,000
Total				\$ 5,460,000

Funding Simulation #3. Small Bites from Many Sources

The third and final simulation that we ran is based on the philosophy of taking “small bites from many sources.” Rather than looking for just one or two revenue sources that have sufficient capacity to fund the entire local share of funding for TRIP97, this funding simulation looks at using a variety of sources, collecting relatively small amounts of revenue from each, to spread the financial burden.

Exhibit 5 shows this funding simulation. We use seven different revenue sources to generate sufficient revenue to fund the local share of TRIP97 project costs. This simulation has some similarities with the previous simulation, including the use of property and income tax sequestration, and LID, and SDCs. We have assumed lower rates for the LID and SDCs, which puts less of a financial burden on property along Highway 97, and on new development, and should act as less of a

disincentive for new development. Other revenue sources shown in Exhibit 5 include rental car tax, hotel tax, and vehicle registration fee.

Exhibit 5. Funding Simulation #3: Small Bites from Many Sources,
Summary of local revenue sources

Funding Source	Geography	Rate	Units	Avg. Annual Revenue
Property Tax Sequestration	UGB Expansion Areas	\$ 12.00	\$ per \$1,000 of AV / yr	\$ 1,388,000
Personal Income Tax Sequestration	UGB Expansion Areas	6.50%	percent of income	\$ 1,567,000
LID or BID	1/8 Mile of Hwy 97	\$ 0.25	\$ per \$1,000 of AV / yr	\$ 274,000
Rental Car Tax	Region-wide	5.00%	percent of sales	\$ 612,000
Hotel Tax	Region-wide	0.50%	percent of sales	\$ 495,000
Vehicle Registration Fee	Region-wide	\$ 8.50	per vehicle (every 2 years)	\$ 953,000
SDCs	Region-wide	\$1.00	\$ per \$1,000 of AV	\$ 184,000
Total				\$ 5,473,000

1.5 Implications and next steps

The point of the analysis contained in this memorandum is not to definitively identify a short list of preferred funding sources, but to facilitate a conversation about the relative merits of each funding source available to the TRIP97 project. Its intent is to inform the TRIP97 Partners as they develop a TRIP97 Funding Strategy in later phases of the project.

Two-dozen local funding sources were evaluated. None is perfect. All have some limitations, and many have low scores for political acceptability. This means that for TRIP97 to have the best shot at implementation, (1) state and federal funds will be vital, (2) projects will need to be affordable, (3) political decision makers and the general public will need to make TRIP97 a high-priority, and (4) some presumably unpopular local funding sources will likely need to be approved to supplement state and federal funds.

When considering the universe of potential local funding sources described in this memorandum, and the specific combination of funding sources described in the funding simulations, it is evident that there is significant funding capacity, from a technical perspective. But what is possible *technically and in theory* may not be possible *politically*.

The real question isn't about *technical* capacity, but rather *political* capacity. How much are residents, businesses, and visitors to the TRIP97 Corridor willing to pay for improved transportation infrastructure? The answer to this question will require an earnest conversation with local policy makers.

In subsequent phases of this project, the TRIP97 Partners will need to more fully evaluate a subset of these funding tools that have the most promise for contributing meaningfully to the TRIP97 Funding Strategy, including refining our estimates of revenue capacity, and matching those revenues to specific projects on the TRIP97 project list.