

SALEM

RIVER · CROSSING

# Funding the Salem River Crossing Project

*An overview of available  
funding and potential new  
funding sources*

*March 2008*



## Funding the Salem River Crossing Project

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### Why is funding important?

Funding is essential to pay for design and construction costs associated with any alternative or solution for the Salem River Crossing project. Understanding the financial context and available funding for a project is important when considering potential solutions. This booklet provides an overview of available funding for the Salem River Crossing project and evaluates potential funding sources, including local sources. Large transportation projects are typically funded using a mix of federal, state and local funds. The Salem River Crossing project is expected to be no different. A sound path to funding the project is a mix of funding including locally generated sources. In addition to discussing federal funding sources, this document discusses the following locally generated sources:

- ◆ Municipal Bond Financing
- ◆ Local Fuel Taxes
- ◆ Vehicle Registration Surcharges
- ◆ Property Tax Levy
- ◆ Tolls

The following locally generated sources were considered, but will not be evaluated as a primary funding source. Explanations for these funding sources are also included.

- ◆ Transportation Utility Fees
- ◆ System Development Charges

### Next Steps

#### Develop a Funding Strategy

The project team, with the aid of public input including a funding workshop, will be developing a funding strategy for the Salem River Crossing project.





## #1 Available Transportation Funding for the Project

This section provides an overview of the transportation funding scarcity that faces Oregon and of options to pay for the Salem River Crossing (SRC) project. Costs for the project will be expensive, and funding for transportation projects is limited. Funding shortfalls have caused all levels of government to delay critical maintenance of the existing transportation system, resulting in unmet needs that are becoming increasingly costly.

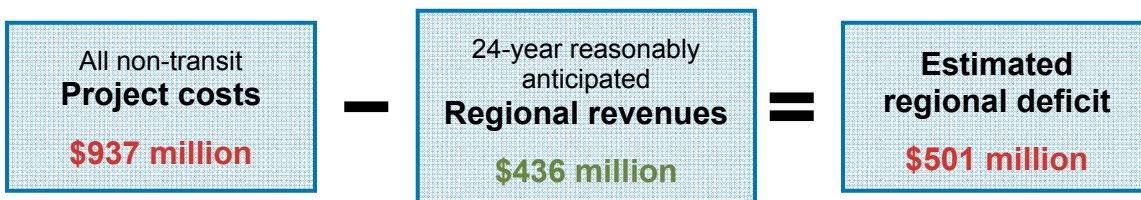
Large transportation projects are usually funded using a mix of federal, state, and local funds. A sound path to funding is a mix of funding that includes locally generated sources.

### What about federal dollars allotted to the Salem-Keizer region?

For a transportation project in a metropolitan area to obtain federal funding, the federal government requires it to be included in a financially constrained, long-range transportation plan. The regional long-range plan is the *Salem-Keizer Area Transportation Study (SKATS) 2031 Regional Transportation System Plan (RTSP)*, which anticipates transportation system improvements over a 24-year planning horizon. As the region's first step, the RTSP commits \$20 million to acquire the property or right-of-way needed for the SRC project. The results of the Salem River Crossing Environmental Impact Statement (EIS) will need to be incorporated into future updates of the RTSP.

The RTSP contains a list of projects for which funding is reasonably anticipated over the 24-year life of the plan. A significant funding shortfall is anticipated.

#### Regional Transportation Funding Shortfall



The SRC project is not included in the above equation because costs are not yet known. Additional revenue sources will be needed to pay for the SRC project.

### How can federal funds help?

Across the state, local jurisdictions have been delaying needed maintenance because of funding shortfalls, creating an overwhelming need for maintenance. Maintaining the existing transportation system is a priority over building new facilities. Local jurisdictions have been integrating federal funds into their local plans, leaving no funding available for the SRC project unless the state or local jurisdictions develop other funding sources that would free



up federal funds. The region has two ways to receive federal funding, through *Programs* and *Earmarks*.

### Federal Program Funds

Federal *Programs* are distributed to the Oregon Department of Transportation (ODOT) for distribution to local governments. The three core programs are the Surface Transportation Program (STP), the National Highway System (NHS), and the Bridge Program.

STP funds are flexible. NHS program funds are for the maintenance and improvement of NHS routes, which include the existing Salem bridges. Bridge Program funds are restricted for replacement, rehabilitation, and preventive maintenance of existing bridges, not for new facilities.

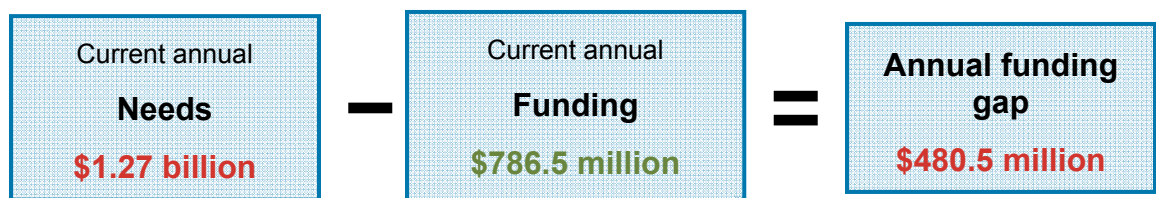
### Federal Earmarks

*Earmarks* are funds designated for specific projects and can be allotted in addition to federal Program funds. Earmarks have provided a portion of the funding for the Salem River Crossing EIS, but there are no earmarks currently available for design or construction of the SRC project. Unless an earmark has already been funded, federal rules prohibit designating it as a source of funds in a project's required Financial Plan. Earmarks usually require a local match of at least 10 percent.

### Transportation Funding and Needs at the State Level

ODOT conducted a *Transportation Needs Analysis*<sup>1</sup> that compares needs to current available funding levels for highway-related programs statewide. Needs are based on maintaining the existing system in ways like replacing infrastructure within a reasonable life cycle and bringing facilities up to standards. The analysis considers all funding sources available to the state, which includes federal funds allocated to Oregon.

#### State Transportation Funding Shortfall<sup>2</sup>



In addition to needs, the *Transportation Needs Analysis* identifies other critical investments to maintain and improve Oregon's transportation system. The list of other critical investments does not include the SRC project. If additional funding becomes available, it is unlikely to fund all of the critical investments identified by ODOT, leaving little chance for substantial state funding for the SRC project.

<sup>1</sup> Oregon Department of Transportation. 2005. *Transportation Needs Analysis: 2005-2030 Summary Report*.

<sup>2</sup> For all highway-related programs in 2004 dollars.



## #2 Paying for the Project Using Municipal Bonds

Bonds are a way to leverage revenues from a funding source to obtain the money needed for a project.

### What is municipal bond financing?

Municipal bonds allow local governments to borrow money from investors for infrastructure projects. Municipal bonds are attractive to investors because they are relatively low risk and are exempt from federal income tax and sometimes local taxes. Local governments issue municipal bonds for projects such as the SRC project, and promise to pay back the borrowed money with a pledge of "full faith and credit." This means they pledge to charge taxes or generate other revenue sources sufficient enough to pay back investors.

The local government pays back investors through a series of annual payments over time, usually 20, 30, or 40 years. The amount borrowed plus interest is divided over the repayment period to equal the annual payment. After the series of annual payments is made over the repayment period, the local government has repaid the debt in full.

Municipal bonds can be backed by different revenue sources. In Oregon, General Obligation bonds are backed by property taxes. Municipal bonds can be backed by other revenue sources such as fuel taxes, vehicle registration surcharges, or tolls.

### Using municipal bonds to pay for the project

What would it cost to finance the project using municipal bonds? Preliminary project cost estimates for alternatives range between \$270 million and \$674 million. If 30 year municipal bonds were used to borrow \$500 million to pay for the project, an annual payment of \$30.7 million would need to be made every year.

**Hypothetical  
amount  
borrowed**

**\$500 million**

At an interest rate of 4.5%, and with a  
30-year repayment period, the  
**Required annual payment**

**\$30.7 million**

We will evaluate potential funding sources for their ability to make this annual payment.





## #3 Local Fuel Taxes

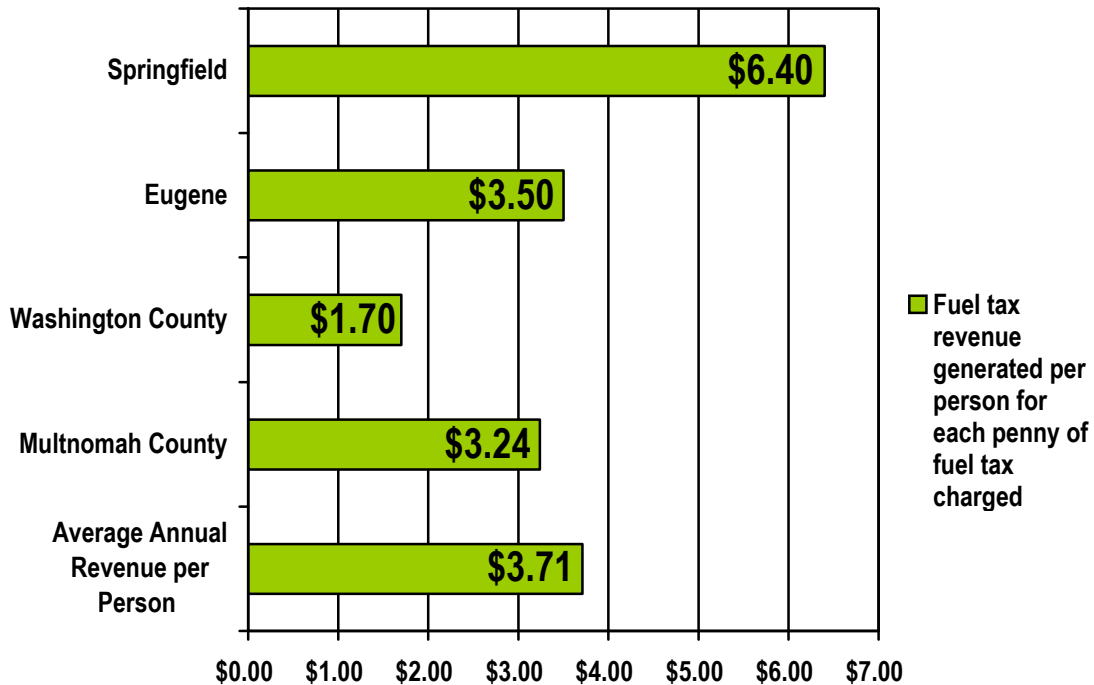
### What are local fuel taxes?

A local fuel tax can be charged in addition to state and federal fuel taxes. A fuel tax is a relatively stable revenue source, which is good for funding major transportation projects.

### Where are local fuel taxes charged today?

In Oregon, local fuel taxes are charged in Springfield, Eugene, Washington County, and Multnomah County. The chart below shows how much annual revenue is generated per person for one penny of fuel tax.

The amount of annual revenue generated per person in the jurisdiction for one penny of fuel tax.



Source: ODOT Fuel Tax Group. Calculation of revenue per person per penny of fuel tax by ECONorthwest. Note: Average annual revenue per person is based on per person annual revenue per penny of fuel tax for Springfield, Eugene, Washington County, and Multnomah County. Fuel tax rates vary between Springfield (\$0.03/gallon), Eugene (\$0.05/gallon), Washington County (\$0.01/gallon), and Multnomah County (\$0.03/gallon).



## How much revenue could a local fuel tax generate?

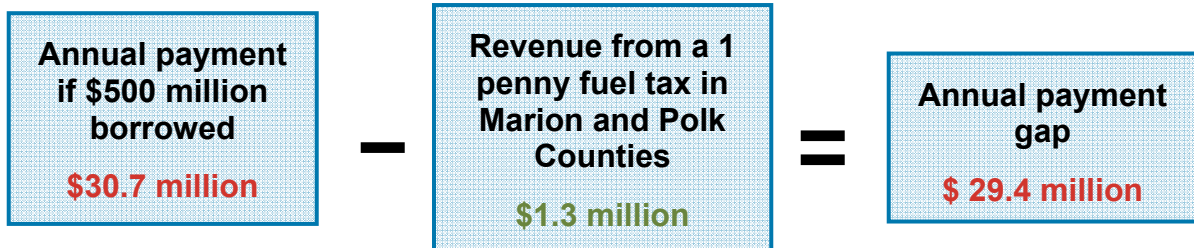
To calculate potential revenue from a one penny fuel tax in the Salem-Keizer region, cities that have a local fuel tax with similar development patterns were selected as a way to approximate revenue generation potential. Eugene was chosen for Salem and Marion County because it too has a statewide destination; Salem and Marion County have State government, and Eugene has a university. Washington County was chosen for Keizer and Polk County because they have similar levels of urbanization.

**For a 1-penny fuel tax, the potential revenue for Salem, Keizer, Marion County, and Polk County**

Jurisdiction	Comparable Jurisdiction	Revenue Per Person	2005 Population	Potential Tax Revenue (\$ millions)
Salem	Eugene	\$3.50	147,250	\$0.5
Keizer	Washington County	\$1.70	34,735	\$0.1
Marion County	Eugene	\$3.50	302,135	\$1.2
Polk County	Washington County	\$1.70	65,670	\$0.1

Source: Population from Population Research Center, Portland State University.

Comparison of potential revenue for one penny fuel tax and the annual payment needed if \$500 million were borrowed using municipal bonds:



Every additional penny of fuel tax charged in Marion and Polk Counties would increase the amount generated by \$1.3 million. A 2 penny fuel tax would generate \$2.6 million, and a 3 penny fuel tax would generate \$3.9 million.

## Who pays and who benefits?

Local fuel taxes are charged to everyone who fuels up in the jurisdiction charging the tax, regardless of whether they use the facility funded by the tax. In this example, drivers who fuel up in areas outside of Marion and Polk Counties may benefit from use of the funded facility, but would avoid payment. Drivers who both use the funded facility and fuel up in Marion and Polk Counties would both pay and benefit.



## #4 Vehicle Registration Surcharge

### What are vehicle registration surcharges?

Counties in Oregon can assess a surcharge on vehicle registrations that is in addition to the 2-year, \$54 vehicle registration fee charged by the state. The highest a county may charge is \$54 every 2-years.

### Where are vehicle registration surcharges used today?

At this point, no Oregon counties are using vehicle registration surcharges.

### How much revenue could vehicle registration surcharges generate?

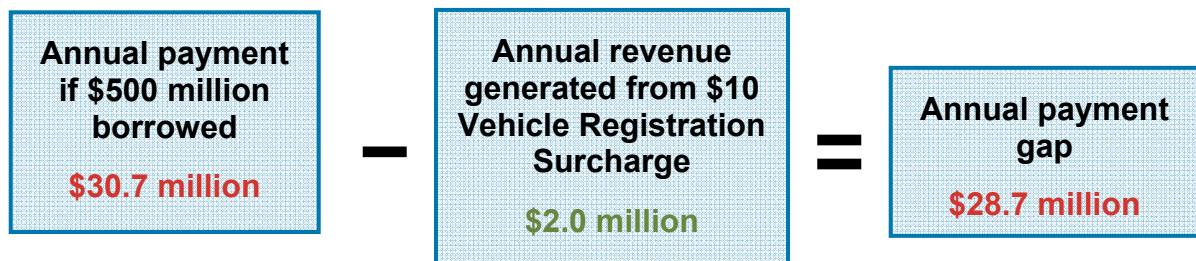
If Marion and Polk Counties charged a \$10 vehicle registration surcharge, they would generate annual revenue of \$1.9 million, based on the number of vehicles currently registered in the two counties.

**Potential revenue generated from a \$10 vehicle registration surcharge in Marion and Polk Counties**

County	Number of Registered Vehicles	Vehicle Registration Surcharge	Potential Annual Revenue (\$ millions)
Marion	309,642	\$10	\$1.6
Polk	71,377	\$10	\$0.4

Source: Oregon Department of Transportation, Driver and Motor Vehicles Division.

Comparison of potential revenue from a \$10 vehicle registration surcharge in Marion and Polk counties if \$500 million were borrowed using municipal bonds:





## Who pays and who benefits?

In this scenario, all drivers registering their vehicles in Marion and Polk Counties would incur the \$10 vehicle registration surcharge, regardless of their use of the funded facility. Drivers registering their vehicles outside of these two counties may benefit from the funded facility, but would avoid the surcharge.

## #5 Property Tax Levy

### What is a property tax levy?

A property tax levy is the amount to be raised from property tax, which applies to the value of real property as determined by local and state laws. It is often referred to as a dollar amount per \$1,000 of assessed value.

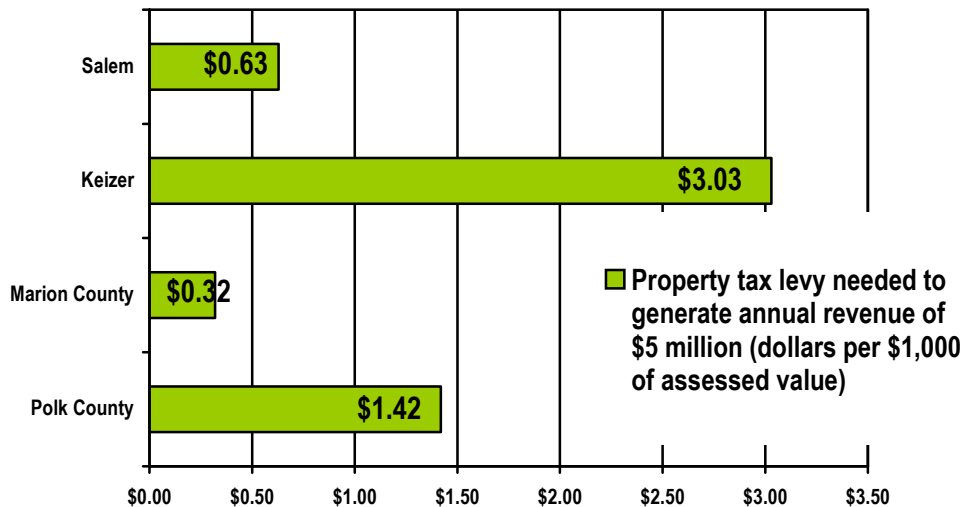
### Where are property tax levies used today?

A 2001 study found that in Oregon, 19 counties and 16 cities have dedicated property taxes for roads with an average per person rate of \$ 16.70<sup>1</sup>. Voters in Salem have approved two General Obligation (GO) bond programs backed by property taxes for transportation. In 1995, voters approved a GO street bond program for \$34 million dollars to fund “Streets Near Schools.” In 1992, voters approved a GO street bond program for \$28 million to fund priority transportation projects.

### How much revenue could a property tax levy generate?

The chart below shows the property tax rate needed to generate \$5 million of annual revenue based on \$1,000 of assessed property value.

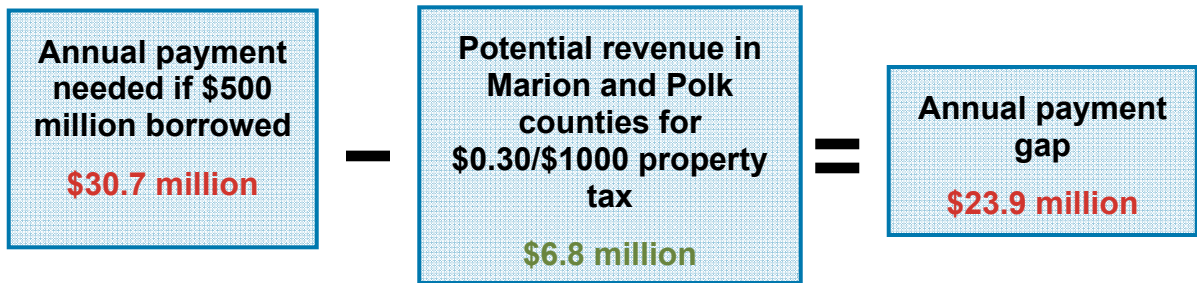
Property tax levy need to generate annual revenue of \$5 million. Property tax levied in a given county would apply to properties in a city within that county.



<sup>1</sup> Goldman, Corbett, Wachs. 2001. *Local Option Transportation Taxes in the United States: Part One*. <http://repositories.cdlib.org/its/reports/UCB-ITS-RR-2001-3>

If a property tax of \$0.63 per \$1,000 of assessed value were levied in Salem, the owner of a home with an assessed value of \$200,000 would pay an additional \$126 in property taxes for the SRC project.

Comparison of potential revenue if a property tax of \$0.30 per \$1000 of assessed value were levied in Marion and Polk counties and the annual payment needed if \$500 million were borrowed using municipal bonds:



## Who pays and who benefits?

Property owners within a jurisdiction that passes a property tax levy for the project would pay whether or not they use the funded facility. Those using the funded facility who are outside of the jurisdiction that levies a property tax levy may benefit from using the facility, but would not pay.

## #6 Tolls

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### What is a toll?

Tolls are charges to users of a transportation facility. Tolls are often used to fund bridges because of the high cost to design and construct a bridge, and they cross a barrier at a single point, making it easy to control access and charge users. The discussion below uses a bridge as an example.

Tolls can be a fixed rate at all times, or can be variable depending on the level of congestion. Tolls could be higher during peak travel periods, like morning and evening commuting hours, when demand for bridge use is high. Higher tolls could be justified during these periods because, 1) additional capacity is usually needed to accommodate traffic during peak periods of travel, and 2) each additional driver who chooses to drive onto the bridge contributes to congestion. Congestion pricing is a form of tolling with lower tolls or no tolls during off-peak periods and higher tolls during periods of peak use.

### Where are tolls used today?

Tolls have historically been used in Oregon to pay for new bridges. The I-5 Bridge between Oregon and Washington had a toll of \$0.20 between 1960 and 1966. More recently, Washington Transportation Commission approved a cash toll rate of \$3.00 and an electronic transponder toll rate of \$1.75 for cars for the Tacoma Narrows Bridge.

### Tolling the New Bridge Only or Tolling Both Bridges

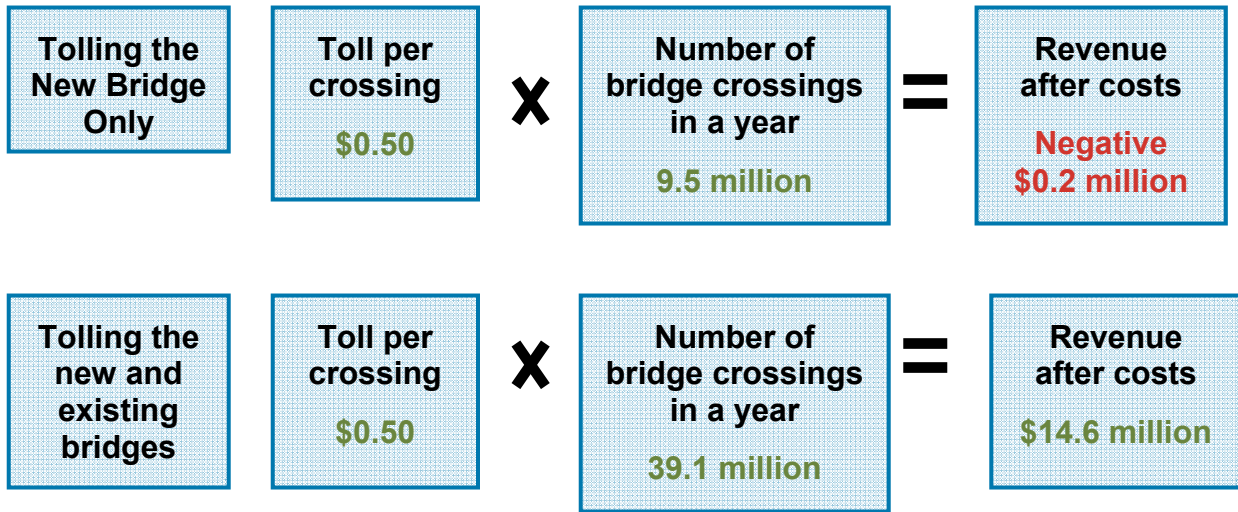
If a toll is assessed on a new bridge, a toll could possibly be assessed on the existing bridges too. Why? If the new bridge is tolled and existing bridges are not, drivers may divert to the free, existing bridge. Tolling analysis shows that if the new bridge only were tolled, the revenue the toll may not be enough to pay for the cost to collect the toll. If tolls higher than \$0.50 per crossing were charged on the new bridge alone, and the existing bridge was free, drivers would use the existing bridge. Revenues generated from tolling the new bridge only at \$0.50 per crossing may not be enough to pay for the cost to collect.

### How do tolls relate to public-private partnerships?

The State of Oregon has established the Oregon Innovative Partnership Program (OIPP), which allows ODOT to enter into partnerships with private-sector businesses and local governments to study, design, fund, construct, and operate transportation facilities, including bridges. A private-sector business would need a return on its investment, and tolls are the most likely source of revenue.

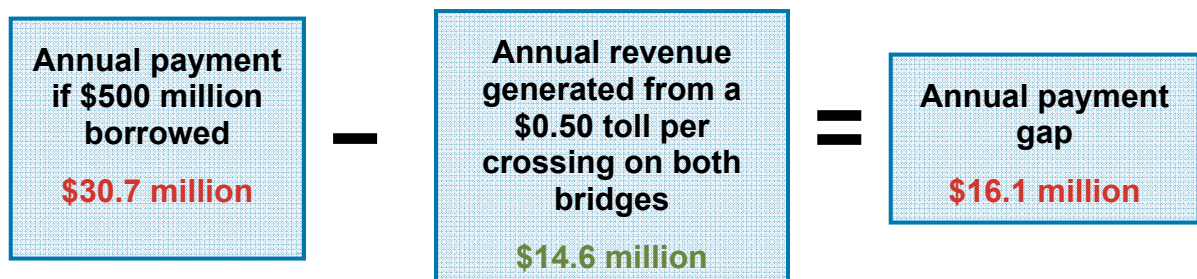
## How much revenue could a toll generate?

We'll assume a toll of \$0.50 per crossing (\$1 round trip) charged on the new bridge only or both bridges minus the cost to collect in the examples below.



Estimates of toll revenue and costs need to be refined through further study.

Assuming a \$0.50 toll charged on both bridges, below is a comparison with the annual payment needed if \$500 million were borrowed using municipal bonds:



## Who pays and who benefits?

Unlike other funding options, a toll has a direct and proportional connection between those who use the bridge and those who pay the toll.

## # 7 Transportation Utility Fees

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### What are Transportation Utility Fees?

A Transportation Utility Fee (TUF) is a monthly charge assessed on occupants of homes and businesses based on the average number of trips that type of land use generates. TUF revenues usually pay for maintenance and preservation projects for the existing transportation system only, not for new transportation facilities.

### Why are TUFs not being evaluated as a primary funding source?

- ◆ Historically this fee has only been used for street maintenance and preservation, not for new facilities.
- ◆ Most jurisdictions have a backlog of deferred maintenance because of funding shortfalls. If a TUF were adopted, most or all of the revenue would go towards addressing the backlog of deferred maintenance, and not new facilities.

For these reasons, TUFs are not considered a realistic funding source for the SRC project.



## #8 System Development Charges

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### What are System Development Charges?

Many local governments charge new developments a one-time fee called a System Development Charge (SDC) for the transportation facilities needed to serve them. The SRC project is needed partly because of expected growth in the region, so SDCs could be charged to pay for a portion of project costs. However, the use of SDCs is limited. Oregon Revised Statutes prohibit local governments from using SDCs to cover anything more than the cost of transportation improvements attributable to growth, and can't be used for the entire cost of a facility.

### Why are SDCs not being evaluated as a primary funding source?

- ◆ Revenue generation potential for SDCs is limited. Prior estimates of SDC revenue generation potential show that SDCs could generate roughly \$1.8 million per year if charged in Salem and Marion County over a 25 year period, but SRC is not currently in the set of projects that determine SDC rates. Increasing SDCs by 50 percent would generate less than \$1 million per year in revenue. Establishing an SDC in other jurisdictions could add additional revenue from this source.
- ◆ Evaluating revenue generation potential for SDCs would require assuming charges for various types of developments and assumptions about how development would occur over time. Given the limited revenue generation potential for SDCs and the significant number of assumptions that need to be made to estimate revenues, SDCs are not being evaluated as a primary revenue source.

