

**Date:** November 18, 2014

**To:** ODOT Project Management Team

**From:** Richard Seals, Chief Financial Officer

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**Subject:** Technical Memorandum No. 4: Forecast Funding/Local Funding Sources

## Purpose

## This memorandum documents the City of West Linn’s existing and expected sources of transportation revenues and expenses between 2014 and 2040. The City’s 2014-2015 biennial budget and five year forecast provide the basis for the information herein.

**Background**

## West Linn’s economy is closely linked with the economy of the Portland Metropolitan Area, which is based on manufacturing, national and international trade, and service industries. Primarily a residential community, West Linn has a low level of industry and retail-based commercial activity. The City’s population has grown steadily but has leveled off in recent years. In 1860, West Linn was home to just 225 residents, growing to 1,628 by 1920. The population grew to 2,923 in 1960, and by 1970, West Linn had grown to more than 7,000. The City’s population has continued to grow each year. Currently, the City’s population, as estimated by the Portland State Population Research Center is 25,250.

**Fiscal Management Policies**

The City’s adopted budget includes a summary of our financial policies regarding revenues, operating budgets, management of capital assets, debt and financial reserves. Below is a summary of these policies.

**Revenue Policy.** The City relies on user charges to fund 100 percent of the direct costs associated with new development. System development charges (SDCs) fund street, water, sewer, storm water and park improvements necessary to serve a growing population. It is the City’s policy to maximize the use of these fees in lieu of taxes and subsidies from other City funds, for services that are directly related to new construction.

**Operating Budget Policy.** It is the City’s policy to adopt an operating budget that does not exceed available resources. Operating resources will be sufficient to support current operating expenditures, transfers, reserves, and contingencies. Additionally, recurring annual revenues will not be less than recurring annual operating expenditures.

**Capital Asset Management Policy.** The City adopts a Capital Improvement Plan (CIP) and updates it periodically. The CIP outlines the City’s near-term capital investment priorities and provides details on future projects including, estimated costs, sources of financing, and a full description of (a) the need for the project and (b) the expected results if the project is approved and implemented. Operating expenditures are programmed into each capital project plan, including the cost of implementing the plan and all continuing labor, operating and capital outlay costs.

**Debt Policy.** Capital projects financed through the issuance of debt will not be financed for a period which (a) exceeds the expected useful life of the project and (b) is less than 30 percent of the expected useful life of the improvements.

**Reserve Policy.** The City establishes a contingency reserve to accommodate unanticipated expenditures of a nonrecurring nature. In accordance with local budget law, the contingency reserve must be equal to at least 10 percent of the Fund’s annual operational expenditures.

**Transportation Funding Sources**

In large part, roadway funding is a user fee system; users of the system pay for infrastructure through motor vehicle fees (such as gas tax and registration fees) or transit fares. The construction, operation, and maintenance of transportation projects are derived from five main revenue sources: state gas tax and license fees; roadway maintenance fees; franchise fees; miscellaneous revenues; and, system development charges. Improved vehicle fuel efficiency and increasing transportation capital and maintenance costs have combined to significantly limit available revenues for transportation projects.

**State Fuel Tax and Vehicle License Fee.** Approximately 19 percent of the City’s revenue is derived from intergovernmental revenue sharing. State gas tax and license fees are distributed to municipalities by the State of Oregon. By statute, the money must be used for any road-related purpose, with one percent dedicated to bicycle path development. The State of Oregon Highway Trust Fund collects taxes and fees on fuel, vehicle licenses, and permits. A portion is paid to cities annually on a per capita basis. Oregon gas taxes are collected as a fixed amount per gallon of gasoline served. The gas tax in Oregon was increased in 2011, from $0.24 per gallon to $0.30 per gallon. The tax does not vary with gas price changes, nor is there an adjustment for inflation. The net revenue collected from this source has gradually eroded as the cost to construct and repair transportation systems has increased and as new vehicles become increasingly fuel efficient.

Oregon vehicle registration fees are collected as a fixed amount at the time a vehicle is registered with the Department of Motor Vehicles. Vehicle registration fees in Oregon have recently increased to $172 per four year term for new light vehicles, and $86 per two year term for light vehicle renewals. There is no adjustment for inflation tied to registration fees. If revenues received from the state increase in future years, then the anticipated need for other revenue sources explained in this chapter (e.g. fees, etc.) can be decreased.

The City’s 2014-2015, budget forecasts a total of $2.8 million in street fund revenues from shared revenue sources (fuel tax and vehicle license fee). Since 2009, these revenues have increased an average of 1 percent per year. The City expects that a 1 percent increase per year from this source is likely through 2040.

**Roadway Maintenance Fee.** Charges for water, sewer, surface water, park maintenance and street maintenance are charged to all users in the City of West Linn. These fees are established through the City’s fees and charges resolution which is updated annually. The City Council approves rates based on the cost to provide services. Since 2010, the City’s street fee has increased, on average, five percent annually. In 2014, the City increased the residential street fee by 75 percent and is considering increasing the commercial street fee cap by 75 percent as well.

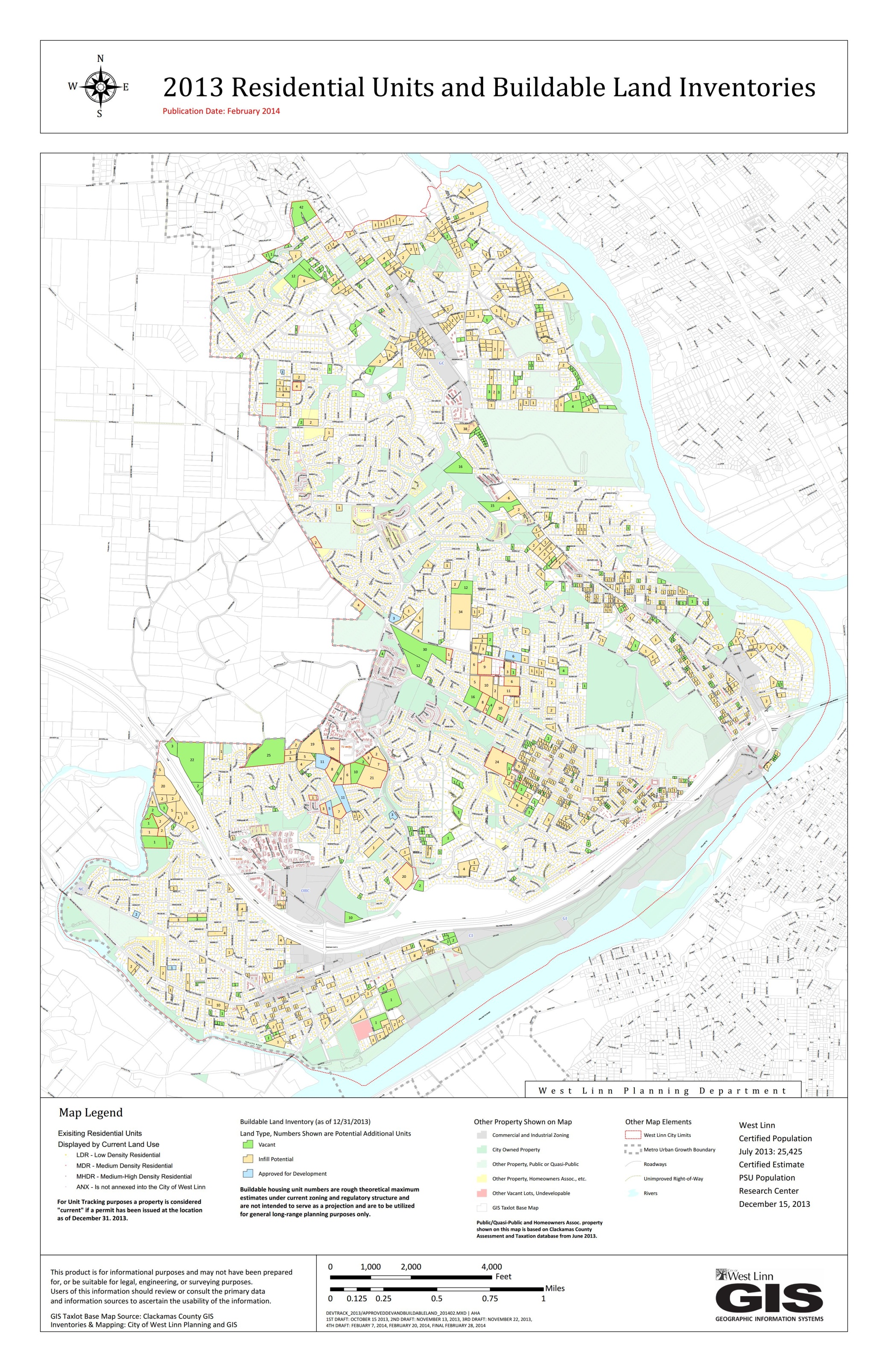
The 2014-2015 budget includes a five percent Street Maintenance Fee rate increase in each year of the biennium. This increase, combined with the increase in the state fuel tax two years ago, allows the City to maintain its current, yet mediocre, Pavement Condition Index of 61 (on a scale of 0-100). The City predicts that more than $2 million in street maintenance revenues will be available through the 2014-2015, biennium and that funding for street maintenance will be adequate for the next five years.

**Franchise and Miscellaneous Fees.** The City of West Linn receives seven percent of its revenue from franchise fees for the use of public rights of way for utilities, solid waste and recycling collection, and similar purchases. Fees are paid for the right to this access. The City’s Solid Waste franchise fees are receipted to the Street fund on the rationale that garbage trucks impact street condition. The 2014-2015 budget anticipates a total of $248,000 in street fund revenues from franchisees. Since 2010, street fund revenues collected from this source have increased by about 4.5 percent annually.

Prior to fiscal year 2009, franchise fee revenue from the City’s electrical-power franchise agreement (approximately $500,000) was receipted to the Street fund. Because franchise fee revenue is discretionary, funds were reallocated to another fund in fiscal year 2009. The City adopted a Roadway Maintenance Fee in 2008 to fill the funding gap that was created when the discretionary electrical-power franchise fee revenues were allocated to another fund. The Roadway Maintenance Fee currently generates $1.3 million per year with a planned five percent increase annually. Miscellaneous funds include interest, reimbursement charges, and other revenues. These revenues total $30,000 in FY 2014 and are forecast to increase by two percent annually through 2040.

**System Development Charges.** System Development Charges (SDC) can be used to acquire needed property and improvements related to capacity required for growth as development occurs. For nearly the past two decades, construction of new streets in West Linn has been completed almost exclusively in conjunction with new development. SDCs for streets are used as a funding source for projects that add capacity to the transportation system. The SDC is collected from new development based on the proposed land use and size, and is proportional to each land use’s potential PM peak hour vehicle trip generation. The current SDC rate (updated July 2014) per PM peak hour trip is $7,292, which includes $4,846 towards improvements and $2,262 in reimbursements.

While the City of West Linn is expected to have relatively limited commercial development, household growth is projected to increase by approximately 1,532 units by the time the existing supply of buildable land is expended[[1]](#footnote-1). Based on current zoning allocations, future residential development is expected to be comprised of 24 percent multi-family and 76 percent single-family dwellings. The 2014-2015 biennial budget forecasts $457,000 in SDC improvements. The City’s Finance Department assumes a 3 percent annual rate of growth to SDC revenues. When projected to the year 2040, SDC revenues total $9.18 million for street, bicycle and pedestrian projects. Total SDC revenues collected are reduced to $4.55 million if build-out occurs in 2029.

Figure 2013 Residential Units and Buildable Lands Inventory

**Exactions.** These are improvements that are obtained when development is permitted. Developers are required to improve their frontage and, in some cases, provide off-site improvements depending upon their level of traffic generation and the impact to the transportation system. Off-site mitigation measures can include, but are not limited to, Master Plan projects identified in the TSP. Based on the City’s buildable lands inventory, completed in 2014, the map in Figure 1 illustrates parcels in the City with potential for development or redevelopment. Exactions resulting in transportation improvements are likely to occur during the development and redevelopment of these parcels.

**Reserves.** Reserves are the funds that are left over after all revenues and expenditures are projected for budget purposes. There are three types of reserves used for different purposes. Contingency reserves are for unexpected or unforeseen items which may arise during the course of a budget period which were not specifically identified when the budget was adopted. Unappropriated ending fund balance reserves are used to carry funds forward for some future project, to cover the following year’s operating costs until November property taxes arrive, or to be utilized if a City emergency is declared. Finally, debt covenant reserves vary by bond issue and depend upon specific covenants pledged when selling the bond issue in the market place. They typically come in the form of at least one year’s annual debt service. The 2014-2015 budget includes $1.015 million in street fund reserves, $845,000 more than the required reserve policy minimum for this fund.

**Grants and Loans.** Historically, State and Federal grants have been a key source of revenue for major transportation capital projects. Dwindling State and Federal transportation revenues however, have limited the number of grant funded projects and have increased competition among state and local agencies. Because of the uncertainty in acquiring grant funds, these potential transportation funding sources are not accounted for in the City’s revenue forecast. Grant sources that are currently available for transportation-related projects include, but are not limited to:

* *Metro Regional Flexible Funds.* Every two years, the Metro Council and the Joint Policy Advisory Committee on Transportation select programs and projects for federal flexible funds. These funds come from three federal grant programs: the Surface Transportation Program, the Congestion Mitigation/Air Quality Program and the Transportation Alternatives Program. These programs allow greater discretion on how the monies are spent which allows for greater focus on local priorities and innovative solutions to transportation challenges.
* *Transportation Investment Generating Economic Recovery (TIGER) Discretionary Grants*. These monies are used to invest in road, rail, transit and port projects that promise to achieve critical national objectives. In 2014, $600 million in TIGER funds were awarded to projects nationwide. To highlight the high degree of competition for these funds and strong demand and need for additional transportation investments nationwide, in 2014, 797 eligible grant applications were received requesting a total amount of more than $9 billion.
* *Transportation Infrastructure Finance and Innovation Act (TIFIA).* While not a grant, these funds provide federal credit assistance in the form of direct loans, loan guarantees, and standby lines of credit to finance surface transportation projects of national and regional significance. The goal of this program is to leverage Federal funds by attracting substantial private and other non-Federal co-investment in critical improvements to the nation’s surface transportation system. Projects eligible to receive TIFIA funding include international bridges and tunnels; intercity passenger bus and rail facilities and vehicles; publicly owned freight rail facilities; private facilities that provide public benefit for highway users; and, service improvements on or adjacent to the National Highway System.
* *Transportation and Growth Management (TGM) Grant.* The Oregon Department of Transportation (ODOT) in cooperation with the Oregon Department of Land Conservation and Development (DLCD) sponsor an annual grant program that supports communities planning for streets and land use in a way that leads to more livable, economically vital, and sustainable communities and that increases opportunities for transit, walking and bicycling. TGM grants may be used for transportation system planning or integrated land use and transportation planning. West Linn’s 2014 TSP Update is funded in major part through this program.
* *Transportation, Community, and System Preservation Program (TCSP).* The TCSP program is a comprehensive initiative of research and grants to integrate transportation, community and system preservation plans and practices that improve the efficiency of the transportation system of the U.S.; reduce environmental impacts of transportation; reduce the need for costly future public infrastructure investments; ensure efficient access to jobs, services, and centers of trade; and examine community development patterns and identify strategies to encourage private sector development patterns and investments that support these goals.
* *Surface Transportation Environment and Planning Cooperative Research Program (STEP).* The general objective of the STEP is to improve understanding of the complex relationship between surface transportation, planning and the environment. It is anticipated that approximately $12.8 million will be available each year from this revenue source.
* *Safe Routes to Schools Program (SRTS).* SRTS encourages children to walk and bicycle to school; to make walking and bicycling to school safe and more appealing; and to facilitate the planning, development and implementation of projects that will improve safety, and reduce traffic, fuel consumption, and air pollution in the vicinity of schools. Funding is available for a variety of programs and projects that encourage children and their parents to walk to school.

Table Local Transportation Revenues, 2014

|  |  |
| --- | --- |
| **Revenue** | **FY 2014 Amount** |
| State fuel tax and vehicle license fees | $1,414,000 |
| Roadway maintenance fee | $1,319,000 |
| Franchise fees | $120,000 |
| SDC improvements and reimbursements (streets and bicycle/pedestrian SDC funds) | $345,000 |
| Miscellaneous | $30,000 |
| **Total** | **$3,228,000** |

**Funding Outlook**

Other communities in the Portland Metropolitan region have been adding shopping and business opportunities in an effort to allow their citizens to have fulfilling lives without having to jump in a car and drive for necessary items. In the most recent community survey, 90 percent of the respondents agree that the City of West Linn should actively encourage economic development in existing commercial areas in the City (City of West Linn, 2014).

Table 1 summarizes the current and expected transportation revenues the City will collect between now and 2040.

Table Forecasted Transportation Plan Revenues

|  |  |  |
| --- | --- | --- |
| **Revenue** | **FY 2014 Amount** | **Estimated Through 2040** |
| State gas tax and license fees | $1,414,000 | $42,155,000 |
| Roadway maintenance fee | $1,319,000 | $75,251,000 |
| Franchise fees | $120,000 | $6,425,000 |
| SDCs | $345,000 | $4,552,000[[2]](#footnote-2) |
| Miscellaneous | $30,000 | $1,131,000 |
| **Total** | **$3,228,000** | **$129,514,000** |

Table 2 provides a summary of the expenses expected to be associated with transportation related improvements through 2040. Accounting for personal, materials, and debt service, transfers to other funds and new equipment and vehicles, the City anticipates a balance of $44.825 million for transportation improvements between now and 2040.

Table Forecasted Street Fund Expenses

|  |  |  |  |
| --- | --- | --- | --- |
| **Expenses** | | **FY 2014 Amount** | **Estimated Through 2040** |
| Personal Services | | $582,000 | $26,775,000 |
| Materials and Services | | $498,000 | $20,289,000 |
| Debt Service | | $152,000 | $2,280,000 |
| Transfers to other Funds | | $660,000 | $26,311,000 |
| Capital Outlay | Street Capital Projects | $993,000 | $49,690,000 |
| Equipment and Vehicles | $147,000 | $1,541,000 |
| Reserve | | $162,000 | $7,060,000 |
| **Total** | | **$3,162,000** | **$133,946,000** |

**Appendix**

*Roadway Capital Improvement Projects*

The City of West Linn’s Capital Improvement Plan (CIP) involves a process through which the City develops a multi-year plan for major capital expenditures that matches available resources with project needs. The CIP lists each proposed capital project, the estimated timeframe in which the project needs to be undertaken, the financial requirements for the project, and proposed methods of financing. It also attempts to identify and plan for all major capital needs, and addresses capital items that are different from those covered under the capital outlay category in each department’s budget.

CIP improvements include construction and acquisition of new buildings, additions to or renovations of existing buildings, construction and reconstruction of streets, water and sanitary sewer improvements, drainage improvements, land purchases and major equipment purchases.

Table 3 provides a summary of the current CIP, which includes eight funded and four unfunded streets projects.

Table Streets CIP Projects

| **Project Name** | **Source** | **Funded** | **Total (thousands of dollars)** | **FY 2014** | **FY 2015** | **FY 2016** | **FY 2017** | **FY 2018** | **FY 2019** |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Median Island Restoration | Fees | Y | 50 | 50 |  |  |  |  |  |
| Sidewalk Projects | Fees | Y | 273 | 73 |  | 50 | 50 | 50 | 50 |
| Street Crack Seal Program | Fees | Y | 282 | 47 | 47 | 47 | 47 | 47 | 47 |
| Street Pavement Maintenance Program | Fees | Y | 3,770 | 550 | 720 | 625 | 625 | 625 | 625 |
| Street Pavement Marking | Fees | Y | 158 | 23 | 23 | 28 | $28 | 28 | 28 |
| Street Slurry Seal Program | Fees | Y | 1,369 | 250 | 250 | 250 | 119 | 250 | 250 |
| Transportation System Action Plan Projects | Fees | N | 3,025 |  |  | 723 | $45 | 767 | 790 |
| 10th St./I-205 Corridor Improvements | Grant | N | 4,445 |  |  |  |  |  | 4,445 |
| 10th St./I-205 Corridor Improvements | SDC | N | 785 |  |  |  |  |  | 785 |
| Transportation System Action Plan Projects | SDC | N | 3,637 |  |  | 861 | 892 | 925 | 959 |
| Transportation System Action Plan Projects | SDC | Y | 1,300 | 450 | 50 | 200 | 200 | 200 | 200 |
| Transportation System Plan | SDC | Y | 200 | 200 |  |  |  |  |  |
| **Subtotal** |  |  | **19,294** | **1,643** | **1,090** | **2,784** | **2,706** | **2,892** | **8,179** |

*Fiscal Management Policies*

**Revenue policy**

* + SDCs shall be established to fund the costs of improvement to service additional increments to growth, such as street, water, sewer, surface water, and park and recreation facilities.
  + The City will maximize user charges in lieu of ad valorem taxes and subsidies from other City funds, for services that can be identified and where costs are directly related to the level of service provided.
  + Charges for providing utility services shall be sufficient to finance all operating, capital outlay and debt service expenses of the City’s enterprise funds, including operating contingency and reserve requirements.
  + User charges shall fund 100 percent of the direct cost of development review and building activities. User charges include land use, engineering inspection, building permit and building inspection fees.
  + Park recreation programs shall be funded by user charges. Annual revenues raised by participant fees shall cover at least 100 percent of the program’s cost with no assessment made for administration. No one shall be denied access to park recreation programs due to their lack of ability to pay for the full participant fee.
  + Other reimbursable work performed by the City (labor, contracted services, equipment and other indirect expenses) shall be billed at actual or estimated actual cost, including indirect overhead.
  + Charges for services shall accurately reflect the actual or estimated cost of providing a specific service. The cost of providing specific services shall be recalculated periodically, and the fee adjusted accordingly. The City shall maintain a current schedule of fees, showing when the fees were last reviewed and/or recalculated.

**Operating Budget Policy**

* + The City shall prepare, adopt and amend its operating budget in accordance with Oregon Local Budget Law.
  + The City shall maintain a budget system to monitor expenditures and revenues on an ongoing basis, with thorough analysis and adjustment periodically if required.
  + The City shall not adopt an operating budget that is greater than the amount of resources available to fund it. Current operating resources will be sufficient to support current operating expenditures, transfers, reserves, and contingencies.
  + Annual recurring revenues (including interfund transfers) shall not be less than annual recurring operating expenditures (total annual budget, minus capital outlay, transfers, reserves, and contingencies).
  + Unless otherwise authorized by City Council, general unrestricted revenues shall not be earmarked for specific programs, activities or services.
  + Long-term debt or bond financing shall only be used for capital purposes and shall not be used to finance current operations.

**Capital Asset Management Policy**

* + The City shall adopt a Capital Improvement Plan (CIP) and update it periodically. Prior to adopting a CIP, the City shall hold public meetings and a public hearing on the contents of the CIP. The document shall provide details on each capital project plan, its estimated costs, sources of financing and a full description, including a detailed statement identifying: (as) the needs, conditions and circumstances that have caused the project’s creation and (b) the expected results if the project is approved and implemented.
  + Operating expenditures shall be programmed into each capital project plan, including the cost of implementing the plan and all continuing labor, operating and capital outlay costs.

**Debt Policy**

* + Capital project financed through the issuance of debt shall not be financed for a period which (a) exceeds the expected useful life of the project and (b) is less than 30 percent of the expected useful life of the improvements.
  + The City shall use the most prudent methods of acquiring capital outlay items, including the use of lease-purchase agreements.
  + The City shall maintain its bond rating at the highest level fiscally prudent, so that future borrowing costs are minimized and access to the credit market is preserved.

**Reserve Policy**

* + The City shall establish a contingency reserve to provide for unanticipated expenditures of a nonrecurring nature to meet unexpected increases in service delivery costs. In accordance with local budget law n the State of Oregon, the contingency reserve must be an appropriated budget item, though funds may not be directly disbursed from the contingency reserve. Amounts must be reclassified into a spendable budget category through a supplemental budget process. Also, budget law does not allow for a contingency reserve to be budgeted in a debt service fund. The contingency reserve policy must be at least equal to 10 percent of the Fund’s annual operational expenditures (which includes Personal Services and Materials and Services line items and excludes Debt Service, Transfers, and Capital Outlay line items) with 15 percent for Public Safety, Library, and Parks and Recreation Funds.
  + The City shall maintain an unappropriated ending fund balance reserve to provide working capital for the post-budget period until sufficient revenues arrive to fund post-budget period operations. In accordance with local budget law in the State of Oregon, the unappropriated ending fund balance reserve is not appropriated and cannot be spent in the current year unless a state of emergency is declared by the City Manager. The unappropriated ending fund balance reserve policy must be at least equal to five percent of the Fund’s annual operations expenditures (which includes Personal Services and Materials and Services lines items and excludes Debt Service, Transfers, and Capital Outlay items).

Table Revenue and Expense Projections to FY40



1. Assuming the historic 1 percent rate of growth in households between 2001 and 2014, continues, the City will expend its current supply of buildable land around 2029 (14 years). [↑](#footnote-ref-1)
2. Based on 2029 build-out. [↑](#footnote-ref-2)