Our review began with PBOT's mission: "The City of Portland Bureau of Transportation is a community partner in shaping a livable city. We plan, build, manage and maintain an effective and safe transportation system that provides people and businesses access and mobility."

PBOT's mission is broad. Its reach extends beyond the technical exercise of managing right-of-way to move people and goods. For decades, Portland has managed its transportation system to advance desired land use goals. The recognition that transportation and land use are intertwined has served Portland well; cities across the nation now seek to emulate "the Portland way."

Supporting "the Portland way," however, is an antiquated 20th century transportation funding model that will not – cannot – deliver the quality and quantity of transportation services we've come to expect in a steady, predictable way. In short, we have thoughtful transportation policy; we need a funding structure that sustains it.

PBOT's Revenue Sources in a Snapshot: FY 12/13

Revenue Source	**Percentage of PBOT Revenue**	**Amount of Revenue (millions)**	**5-year trend (Inflation-Adjusted)**	**Decision-Making Entity**
State Highway Fund	17.3%	32.4	negative	state legislature
• *Fuels Tax*	• *8.8%*	• *16.5*	*negative*	*state legislature*
• *Weight Mile Tax*	• *5.0%*	• *9.4*	*negative*	*state legislature*
• *Driver and Vehicle Licenses*	• *3.5%*	• *6.5*	*negative*	*state legislature*
Multnomah County Gas Tax IGA	13.4%	25.0	negative	Resolution A
Parking Meters and Garages	16.6%	31.0	negative	city council
Grants	23.2%	43.3	negative	federal and state agencies
Fees	8.2%	15.4	flat	city council
City Bureaus	17.2%	32.1	flat	city council
City General Fund	4.1%	7.6	flat	city council

Developing sustainable funding models for community services is one of the most difficult tasks a citizenry can ask of its elected leaders. We appreciate the myriad challenges you face on our behalf and the reality that you have many needs competing for your time, energy and political capital.

We think it's important to acknowledge the inadequacy of funding for public services and infrastructure generally. The task of prioritizing renewed investment in the wide range of community needs is challenging and we appreciate your willingness to meaningfully engage these issues. As Oregonians we also acknowledge the fundamental need to reconsider our taxation model. We endorse efforts by the governor and legislators to explore a new, more stable approach to taxation and service delivery. We also call upon the city to tale a leadership role in pursuing alternative funding models both locally and statewide.

As we explored the inadequacy and structural deficiency of transportation funding, we reviewed a wide range of potential revenue streams (see Attachment A) and advanced those we think are most functional and plausible.

- Street maintenance fee
- City gas tax
- Inflation-indexed parking meter and Smart Park garage rates
- Performance pricing parking
- Commercial Parking Tax
- General Obligation Bonds

Additionally, three revenue streams are likely to be on the horizon and important to the City of Portland, though likely controlled by the state:

- Vehicle miles traveled tax
- Tolling
- Emission-based tax

We discuss the potential application of these alternative revenue sources in the overview we provide of PBOT's current funding model.

Our assessment of the adequacy of transportation funding began with historical context. A considerable portion of Portland's transportation infrastructure was built prior to 1950. Much of this infrastructure was funded privately (e.g. adjacent property owners' responsibility for sidewalks or land developers establishing historic streetcar lines) or with a pay-as-you-go method (e.g. tolling for bridges).

In the post-World War II era, the federal government asserted a leadership role in providing for transportation infrastructure – with a dominant focus on the automobile. Most of the infrastructure we rely on today was funded with federal dollars in this era based on the federal gas tax.

That funding model is not sustainable. The Congressional Budget Office forecasts the federal highway trust fund will be bankrupt by 2014 after three infusions of general fund dollars in the last five years.[1] The primary source of funding supporting the trust

[1] Further complicating matters, more than $1.5 billion could be cut from highway, transit and rail programs in 2013 if automatic budget cuts are enacted on January 2 as scheduled. "Elections, Lame Duck, New Congress, and Transportation Issues." Larry Ehl, Transportation Issues Daily.

fund – the federal gas tax – has remained at 18.3 cents/gallon since 1993. Adjusted for inflation, its value today is 12.8 cents and declining. Meanwhile, the infrastructure has aged and the costs of constructing and maintaining our network have increased. For example, the cost of our transportation system's primary asset, petroleum-based pavement, has more than doubled since 1993.

At the state level trend lines are similarly problematic. Oregon's gas tax of 24 cents/gallon remained stagnant from 1993 until 2009 when it was raised to 30 cents. Although the 2009 increase has produced new revenue, the initial revenue anticipated at the time of passage has not been realized.[2]

As anticipated dollars have declined in the face of revised projections, commitments to PBOT's share of those dollars have expanded. **[How much did Portland expect to receive in JTA dollars based on ODOT's original projections? How much has Portland actually received? What percentage of actual JTA-born receipts is committed to Sellwood and PMLRT debt service?]** Most of Portland's share of the state gas tax increase has been committed to our partner jurisdictions' capital projects, TriMet's Portland-Milwaukie Light Rail line, and Multnomah County's Sellwood Bridge replacement. **[Insert table showing large one-time commitments of discretionary revenue to projects of regional significance.]** At the local level, Portland has never established a city gas tax.[3]

Further eroding the relative value of the gas tax is increased fuel economy. The more efficient a vehicle, the less gas it consumes. Reduced gas consumption means fewer dollars generated through the gas tax. In 2009 the federal government increased the Corporate Average Fuel Economy standards to 54.5mpg by 2025. ODOT Director Matt Garrett concluded in a memo to the Oregon Senate Interim Committee on Business, Transportation and Economic Development that by 2025 "the gas tax will no longer be a viable funding source."

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[2] **[Insert reference to ODOT's 2009 and 2012 projections.]**

[3] Fifteen cities in Oregon have local gas taxes. For local city jurisdictions motor vehicle fuel includes gasoline and diesel fuel, except Coburg which does not include diesel, and is taxed at the following rates:

City of Woodburn	$.01 per gallon
City of Eugene	$.05 per gallon
City of Springfield	$.03 per gallon
City of Cottage Grove	$.03 per gallon
City of Veneta	$.03 per gallon
City of Tigard	$.03 per gallon
City of Milwaukie	$.02 per gallon
City of Coquille	$.03 per gallon
City of Coburg	$.03 per gallon
City of Astoria	$.03 per gallon
City of Warrenton	$.03 per gallon
City of Canby	$.03 per gallon
City of Newport (Nov 1 - May 31)	$.01 per gallon
City of Newport (June 1 – Oct 31)	$.03 per gallon
City of Hood River	$.03 per gallon

http://www.oregon.gov/ODOT/CS/FTG/pages/current_ft_rates.aspx#bm3

In summary, we know this about the gas tax, the City of Portland's largest single source of ongoing transportation revenue[4]:

- It has been eroding in real value for decades.
- At every level of government, we lack political will to raise the gas tax to a rate that would meet today's growing needs for transportation services.
- The nation's policy interests in fuel economy will make the gas tax unreliable as a primary means of transportation funding in little more than a decade. This is exacerbated in Portland as more citizens choose fuel efficient vehicles and/or non-auto travel modes.

The gas tax model is broken and it has no foreseeable "quick fix." However, a quick fix is not necessarily needed. In the long run, a transition to a statewide tax based on vehicle miles driven is likely.[5] The main appeal of a VMT model is that revenue generated would not be eroded by improved fuel efficiency. In the immediate term, we believe it's essential that council recognize the trend lines and take steps over time to cushion the city's reliance on gas tax.

Most critical and perhaps most important, we recommend that council immediately reengage its two previous efforts to establish a street maintenance fee. A street maintenance fee would be assessed monthly on a water/sewer bill to all property owners based on trip generation models derived from the Institute of Transportation Engineers' manual. Council should note some of its key advantages:

- Simple; everybody directly or indirectly relies on streets and accompanying infrastructure.
- Stable; it is based on property rather than consumption-based charges.
- Reliable in value; it is not subject to compression.
- Equitable; all property owners pay regardless of how they travel.

Twenty one cities and towns in Oregon have adopted street maintenance fees, e.g. Tigard,[6] Lake Oswego,[7] Oregon City,[8] West Linn.[9] Portland most recently considered a street maintenance fee in 2007; that effort would have generated $24 million annually (49 percent from residences, 51 percent from businesses).[10] Thirty five percent of businesses would pay $15/month or less.

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[4] State Highway Fund revenues, of which gas tax constitutes 51%, accounts for 19% of PBOT's FY 12/13 budget. The other 49% of Fund revenues are Portland's share of the state's weight/mile tax, and Portland's share of the state's vehicle registration fees.
[5] ODOT is considered a national leader in this effort and PBOT monitors ODOT's pilot efforts closely. We concur with the late Oregon Transportation Commission Chair Gail Achterman, who in 2011 said "there is no other choice" characterizing it as "the revenue source of the future" and "absolutely essential for the future you want."
[6] http://www.tigard-or.gov/city_hall/departments/public_works/engineering/street_maintenance/default.asp
[7] http://www.ci.oswego.or.us/publicworks/street-maintenance-fee
[8] http://www.orcity.org/publicworks/pavement-maintenance-utility-fee
[9] http://westlinnoregon.gov/finance/street-maintenance-fee-faq
[10] $24 million in 2007 adjusted for inflation would have brought in $25,794,020 in 2011.

[Suggestion to strike the possibility of a local gas tax, as it may be hard to justify in light of the previous articulation of its vulnerability.]

Accompanying a street maintenance fee could be a local gas tax established as an interim measure to reduce overreliance on federal and state dollars. Fourteen cities in Oregon have local gas taxes[11] ranging in scale from Eugene's five-cent/gallon to Newport's seasonal fluctuation between one and three cents in winter and summer respectively.

Some have suggested a local gas tax can redirect a customer to a neighboring city without an equivalent tax. Our own experience in the Metro region anecdotally suggests otherwise. Two of our neighboring cities, Milwaukie and Tigard, have local gas taxes of two and three cents/gallon respectively. Moreover, two of the three counties, Washington (one cent/gallon) and Multnomah (three cents/gallon),[12] have local gas taxes as well.

On-street and Smart Park garage priced parking is PBOT's next most important revenue stream.[13] Fortunately, demand for priced parking has been steady. Given its increasing importance to PBOT's bottom line, we recommend indexing rates to inflation. At the same time, we recognize the reluctance to index fees. If indexing is not feasible, we recommend adopting a performance pricing methodology.

From a resource management perspective, however, we believe the current pricing model, which has no correlation to consumer demand,[14] can improve with the adoption of performance pricing. Performance pricing sets the price of parking in a manner that is more responsive to market demand. Experience in Los Angeles, San Francisco, Seattle, and Vancouver, British Columbia shows that performance priced parking improves safety, provides better customer service, reduces emissions, encourages transportation options, and can benefit our transportation funding needs.[15]

As a practical matter, council could direct PBOT to adopt performance pricing and see immediate results. Per council directive, PBOT already applies performance pricing around Jeld Wen stadium during Timbers games. And PBOT's adoption of smart meter pay stations across the central city allows PBOT to apply performance pricing with very limited administrative expense.

[11] http://www.oregon.gov/ODOT/CS/FTG/pages/current_ft_rates.aspx#bm3

[12] Per Resolution A between Multnomah County and the City of Portland, Portland receives 80% of Multnomah County's gas tax receipts after a $3.71 million set-aside for the County's Willamette River bridges in exchange for Portland absorbing road maintenance responsibility for 2126 center-line miles of roads previously in the hands of Multnomah County.

[13] Parking revenues account for 14% of PBOT's budget in FY 12/13.

[14] $1.60/hour downtown and $1.25/hour in the Lloyd Center and Central Eastside irrespective of demand.

[15] **[Provide a more in-depth example of how performance pricing works in another city.]**

We also encourage council to consider adopting a commercial parking tax, akin to that of Seattle.[16]

Competitive grant funds from federal and state sources constitute PBOT's next largest revenue stream.[17] Reliance on grant funds is problematic in at least two important ways. First, federal and state grant dollars are in decline.[18] PBOT has a strong track record of leveraging grant dollars to multiply impact. However, as dollars available decline, PBOT's multiplier effect wanes.

Second, overreliance on grant dollars can create perceptions of inequitable service distribution. Grant dollars are non-discretionary in nature; they must be focused on a specific project and cannot be reallocated to a different need or location that may be a higher priority for PBOT, including basic maintenance.

As an example, the single largest line item in PBOT's FY 11/12 budget was $75 million in federal funds to complete the central eastside extension of the streetcar line. Some questioned why the central city received the benefit of streetcar expansion when other neighborhoods have no rail service at all. Unfortunately, the project would not have been competitive in the federal process anywhere else in the city. As the call for increased equity in city services grows, overreliance on grant dollars can unintentionally result in a perception that PBOT does not invest equitably across the city.[19]

It's also worth suggesting that PBOT's success over the last ten years – in particular the last five – in securing grant dollars for a few large-scale capital projects may have unintentionally clouded the reality of the structural insecurity within its current funding model. See Attachment B depicting PBOT's capital improvement project history from FY 1992/3 to current.

Interagency revenues – services PBOT provides to other city bureaus at a fee – is the next most important contributor to PBOT's budget.[20] As other city bureaus struggle with their own financial challenges, their demand for PBOT services tends to decline as well. For instance, PBOT's single largest interagency revenue source is the sewer cleaning work it provides for the Bureau of Environmental Services. BES has signaled to

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[16] The commercial parking tax is levied upon a person who pays to park a motor vehicle in a commercial parking lot within Seattle city limits. The tax is imposed upon the consumer, not the commercial parking business. However, the City ordinance requires the commercial parking business to collect the tax from its customers and remit it to the City. Effective January 1, 2011, the parking tax rate is imposed at 12.5% of the parking fee charged by the commercial parking business. http://www.seattle.gov/rca/taxes/CommParkingTax.htm

[17] In FY 12/13 grant funds comprise 11% of the PBOT budget.

[18] PBOT's reliance on competitive grant dollars is volatile: in FY 12/13 the percentage of grant funding to total budget was X%.

[19] We think it's worth noting that a review of PBOT's Capital Improvement Program budget over the last ten years

[20] Interagency revenues account for 10% of PBOT's budget in FY 12/13. The BES IA for sewer cleaning is worth 80% of all of PBOT's IAs in FY 12/13.

PBOT that the value of the IA will decline as a result of BES's own financial challenges. Interagency revenues fluctuate at the will of PBOT's customers, further eroding stability and predictability in the PBOT budget.

Fee-for-service work PBOT provides to the private sector, e.g. development review, constitutes 5 percent of PBOT's FY 12/13 budget. The good news is that this number is increasing as demand for development review services increases with the economic recovery. From a financial management perspective, however, this portion of the PBOT budget remains vulnerable to market volatility. Further, the fee structure is not indexed to inflation which means the real value of those fees will decline until council approves a fee increase – never a popular undertaking.

Moreover, PBOT's current fee structure does not include a capital reserve, unlike the Bureau of Development Services. We encourage council to consider indexing fees to provide predictability for both PBOT and its customers. We also encourage PBOT to establish within its fee structure a capital reserve akin to that of the BDS.

This review of PBOT's structure demonstrates an unstable and imbalanced platform that relies dramatically on external factors beyond its control – most of which trend in a negative direction. At the same time, Portlander's expectations for transportation services grow in nature and scope every year.[21] To cite just one example, the city council-adopted Portland Plan calls for 70 percent of all trips in Portland to be made by non single occupant vehicle modes by 2035, yet PBOT's single largest revenue stream, gas tax, can be spent per the Oregon constitution only on roadway maintenance and improvements and non-auto capital and maintenance needs have no dedicated revenue streams at all.

Transportation infrastructure and services are similar to a utility like the city's Water or Environmental Services – but without a stable rate structure that provides the predictability of ongoing investment in maintenance and capital needs Portlanders need and expect.

Suggestion to cut this paragraph:

[We recognize the city is retrofitting its transportation network to meet evolving expectations. Portlanders simultaneously need the existing transportation system to function as effectively as possible while we continue to make capital investments in a greater range of transportation choices to advance our economic competitiveness and quality of life. As a result, we defer to council to determine how best to invest in maintenance and capital needs.]

A more stable revenue structure would allow PBOT to articulate its ongoing investments in operations, maintenance, and capital more predictably, more strategically, and more equitably. Referencing the utility model, PBOT should be able to

[21] "Resident ratings of street maintenance, street smoothness, and street lighting all declined since 2008. During the same time frame, residents reported feeling better about the speed of vehicles traveling on neighborhood streets." City Auditor's 2012 Community Survey Results, Oct. 2012.

present a 5-year strategic plan that makes the right amount of investment in the right place at the right time.

To provide that level of clarity, we encourage council to pursue two new funding approaches in the next three years. First, allow PBOT to price parking based on actual demand. Second, establish a street maintenance fee that generates a predictable amount of revenue dedicated to a specific set of project improvements that the public can clearly see.

PBOT should also participate in ODOT's ongoing efforts to pilot a road fee based on vehicle miles traveled with congestion pricing.

In the next five to ten years, we encourage council to establish an equitable tolling mechanism within city limits. This could be done in partnership with Multnomah County for the Willamette River bridges, or with the state in another capacity.

[Insert General Obligation Bond possibility. See Jonas Biery's email.]

The vision we articulate here of future transportation funding necessarily involves a series of key decisions you and subsequent councils will make over time. We encourage you to reach out to the community with an articulation of realistic expectations in the current funding environment and what the public can reasonably expect as revenue sources are updated or added.

In conclusion, council faces important choices as it considers alternatives to the gas tax as the basis for transportation funding. As the community's expectations for transportation services grow in nature and scope, PBOT's revenue sources must evolve as well to ensure "the Portland Way" continues to serve Portland.

[Insert at the best location a graph depicting revenues vs. needs.]