TO: Albany City Council

VIA: Wes Hare, City Manager

FROM: Jeff Blaine, P.E., Public Works Engineering and Community Development Director
Chris Bailey, Public Works Operations Director CB

DATE: March 15, 2017, for the March 20, 2017, City Council Work Session

SUBJECT: Street Funding Alternatives

RELATES TO STRATEGIC PLAN THEME:
- Great Neighborhoods
- Safe City
- An Effective Government

Action Requested:

Staff recommends that Council receive staff's report on street funding alternatives and provide direction.

Discussion:

Scope of Discussion

As Council discusses street funding alternatives, it is important to remember that the financial needs presented herein are limited in scope. Current discussions are limited to capital costs and available funds for asset management of pavement infrastructure. Furthermore, the provided funding scenarios and revenue requirements are generalized estimates based on one point in time. As conditions change, so will revenue requirements. Presented results also rely on automated evaluation processes based on industry standards and typical failure modes for pavement infrastructure. The overall analysis is adequate for considering order of magnitude funding requirements, but should not be considered an exact representation of the anticipated performance (required cost to maintain) for each street.

Other needs not considered in this memo include capacity increasing improvements; safety improvements; bridge maintenance, transit, bike, pedestrian, and other multi-modal improvements; stand alone ADA improvements; and long term costs of basic operations and maintenance of the transportation system. It is also possible that significant increases in the amount of street capital work performed will trigger the need for additional staffing and previously unplanned investments in utilities to avoid cutting newly improved streets.

Depending on the scope of funding alternatives considered, Council may want to give further consideration to other priorities that could be funded through similar mechanisms. In summary, this memorandum serves as a preliminary screening tool with expanded discussions required for considering all of Albany's transportation related needs.

Background

The need for additional funding to maintain pavement infrastructure is something Albany and most other communities have struggled with for decades. In 1996, the Mayor's Task Force on Street Maintenance recommended a combination of funding strategies to increase revenues. The Task Force identified many of the same challenges that we face today regarding the substantial gap between needs and financial means. They concluded by recommending a series of general obligation bonds, implementation of a transportation utility, adoption of transportation SDC's, and creation of water and sewer in-lieu of franchise fees, among others. Many of the Task Force recommendations were put into action; however, only one general obligation bond was successful, a street utility was not pursued out of concern for overburdening rate payers, and other improvements were effectively undone by future budget modifications.

Council evaluated funding alternatives again in 2001 but ultimately decided not to move forward with any changes. In January 2017, staff reinitiated conversations at the request of Council.

At the February 6, 2017 Work Session, staff built on previous presentations regarding basic condition assessment and street maintenance strategies to provide detailed information on the condition of Albany's pavement infrastructure. It was reported that without additional financial resources dedicated to pavement maintenance, preservation, rehabilitation, and replacement, the condition of Albany's streets would continue to decline as shown in the Pavement Condition Index (PCI) table below. PCI is based on a scale of 0-100 with zero being the worst and 100 being the best street condition.

Projected PCI with No Additional Funding

Classification	Existing	+10 yrs	+20 yrs	+30 yrs
Arterial	70	51	29	26
Collector	63	47	33	27
Local	58	45	33	24

Financial needs assessments were also presented for various alternatives, including:

- maintaining the current system wide average PCI of 60, which is considered "Fair;"
- maintaining the system wide average PCI to 70, which is considered "Satisfactory;" and
- maintaining the system wide average PCI to the theoretical least lifecycle cost level of 80, which is approaching "Good" status.

Council requested that staff present options for closing the pavement management funding gap.

Desired Level of Service/Required Funding

In order to define the funding gap, the desired level of service must first be identified. To simplify the conversation, staff has focused the initial discussion on arterials and collectors as prioritized in Albany's Strategic Plan. These streets presumably have the most benefit to the City as a whole and, therefore, are a logical starting point. Local streets can be considered in subsequent discussions, which will be better informed by decisions made for arterials and collectors.

The City of Albany is responsible for approximately 33 centerline miles of arterial and collector streets of varying conditions as shown in the attached slides from the February 6 Work Session, provided as ***Attachment A***. The current system wide average PCI for only arterials and collectors is 68, slightly better than the entire system wide average of 60. If no additional funding is secured, the PCI is expected to drop to 53 within 10 years.

For the purposes of these discussions, staff has assumed that the City would like to meet the desired level of service for arterials and collectors in ten (10) years. Given the relatively good condition of these streets, in some scenarios it is actually more cost effective to meet level of service goals in ten years than it is to allow streets to deteriorate further and wait to meet targets in 20 or 30 years. Staff also thought that ten years was a reasonable initial target for consideration since community members may expect near term improvements in pavement infrastructure following implementation of new funding mechanisms.

Staff further assumed that it is not financially feasible in the near term to achieve a PCI of 80. Instead, scenarios were evaluated based on PCI's of 60 (Fair) and 70 (satisfactory). Scenarios were also run based on the Strategic Plan objective of each arterial and collector being maintained to the stated target, and for an average that met the target.

Four scenarios are provided below to help identify the desired level of service (revenue requirement) and facilitate discussions about potential funding alternatives. Two general types of funding are considered: large lump sum type investments, and reoccurring annual investments. Staff relied on these results to develop a recommended funding approach. Council may determine that these scenarios and staff's recommendation are not representative of their desired level of service or funding strategies and request that additional scenarios be considered at future meetings. Specific funding alternatives applicable to each of these general funding types are discussed in detail later in this memo.

Arterial & Collector Example Funding Requirements

	Each Street		System Average	
Scenario (10-year target)	PCI ≥ 70	PCI ≥ 60	PCI ≥ 70	PCI ≥ 60
Three lump sum investments @ 0, 5, & 10 years	$44M, $42M, $38M	$20M ea.	$18M ea.	$11M ea.
Annual reoccurring investment	$12M	$6M	$6M	$3M
Three $15M lump sum investments @ 0, 5, & 10 years, and annual reoccurring investment*	$8M	$1.4M	$400K	N/A
One lump sum investment @ 0, and annual reoccurring investments	$28M LS, $10M annual	$20M LS, $5M annual	-	-

*Values shown are for annual reoccurring investment and are in addition to the three $15M lump sum payments. The "N/A" result means that three $15M bonds are not required to achieve the desired target.

Current Available Funding

Albany's currently available funding for all street projects is approximately $1.6M per year and consists of In Lieu of Franchise Fees (ILFF) paid by the water and sewer funds, Surface Transportation Program (STP) from the state, and Transportation System Development Charge Reimbursement fees (TSDCr) paid by new or expanding customers. Of that amount, an average of $450,000 per year is restricted to arterial and collector streets. The restricted money is from the state STP, allocated to Albany through the Albany Area Metropolitan Planning Organization (AAMPO). There is no guarantee that AAMPO will allocate those funds to Albany projects each year over projects submitted by other AAMPO partners.

Staff surveyed several other Oregon cities to better understand how Albany's annual available funding compared to the level of investment other communities were making. The results are provided as

Attachment B. In summary, Albany's current level of investment is not significantly different from other similarly situated communities. However, all communities identified declining infrastructure, lack of adequate financial resources, and concern about their ability to meet their communities desired level of service over time.

Funding Alternatives

A number of street funding alternatives are available for Council consideration. ***Attachment C*** provides a discussion of each one that staff has identified. Council may have other funding strategies in mind that should also be considered. Each funding alternative has its own set of benefits and drawbacks. Some alternatives rely on further burdening Albany residents with increased fees or taxes while others rely on difficult internal budgeting decisions that could impact services that the community enjoys and has come to expect.

It is likely that a combination of alternatives will be needed in order to generate enough revenue to make meaningful improvements to pavement management strategies, especially as Council considers residential streets in future discussions.

Recommendation

Staff's recommendation is to generate enough revenue to maintain each arterial and collector street to a minimum PCI of 60. A PCI of 60 represents an achievable target where less costly maintenance strategies are still feasible. Staff does not recommend a system average target, as that would result in several arterials and collectors being in poor or very poor condition at any one time.

How best to achieve that goal is much less clear. On the surface, of the four options identified above, the three $15M bond scenario is the most appealing since Albany can already meet the required annual revenue target. However, this approach does not generate adequate annual revenue and therefore bonds would become the standard funding source into the future. This is likely not feasible.

Staff's opinion is that the best chance for a successful bond is to propose specific streets for improvement. Support would likely be greatest for the streets that are in such poor condition they require reconstruction. Based on current street conditions, this would require a $20M bond. Staff further suggests that annual revenue targets should be set to adequately maintain arterial and collector streets to avoid costly reconstruction in the future. That would require around $5M in annual revenue, in addition to the $20M bond. Based on current available revenues the annual funding gap is ~$3.5M per year.

To fill the funding gap, every annual funding strategy identified in ***Attachment C*** would have to be implemented, including a street utility. Alternatively, revenue generated from some of the identified sources could be increased to avoid pursuit of less desirable funding options. Staff recommends that Council identify their preferred funding strategies and consider a phased implementation schedule.

Conclusions

In 1996 the Mayor's Task Force on Street Maintenance recognized that additional street funding was necessary and made recommendations. Several of the Task Force's recommendations were put into place, some were unsuccessful, and others were undone based on competing citywide priorities over time. Over the years, construction costs have increased and regulatory requirements have grown.

Now, 21 years later, Albany finds itself in the familiar position of discussing the continued resource shortfall to meet the desired level of service.

Pursuing significant improvement will not be easy and will require community support. Implementation of each funding alternative has its own set of consequences and should be balanced against competing Council and community priorities. Staff recommends that Council answer the following questions:

- What is the desired level of service? Is maintaining each arterial and collector street above a PCI of 60 the appropriate target?
- What funding alternatives, if any, does Council want to consider?
- What is the desired implementation schedule?
- Does Council want to consider any other transportation needs (i.e. safety, bike/ped, etc.) in setting revenue targets?
- Does Council want to consider additional funding for residential streets at this time?
- What type of public outreach processes should be implemented?

Based on the direction received, staff will report again at future Council meetings with additional information and questions.

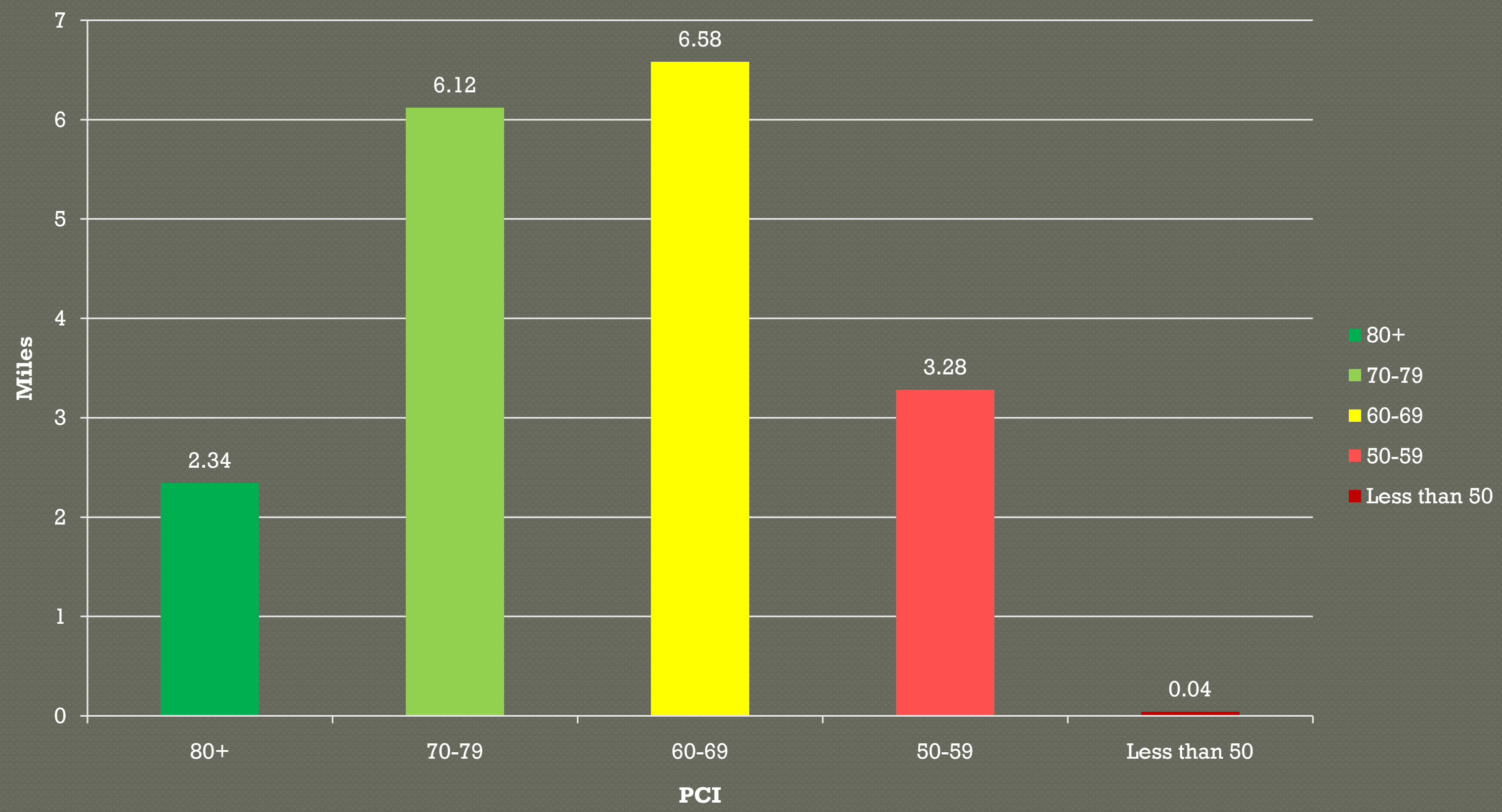
Budget Impact:

This memorandum is for discussion only.

JJB:rk
Attachments (3)
c: Jorge Salinas, IT Director (via email)
Jon Goldman, Transportation Superintendent (via email)
Jeff Babbitt, Public Works/Community Development Business Manager (via email)
Staci Belcastro, P.E., City Engineer (via email)
Guy Graham, P.E., Engineering Manager/Assistant City Engineer (via email)
Ronald G. Irish, Transportation Systems Analyst (via email)

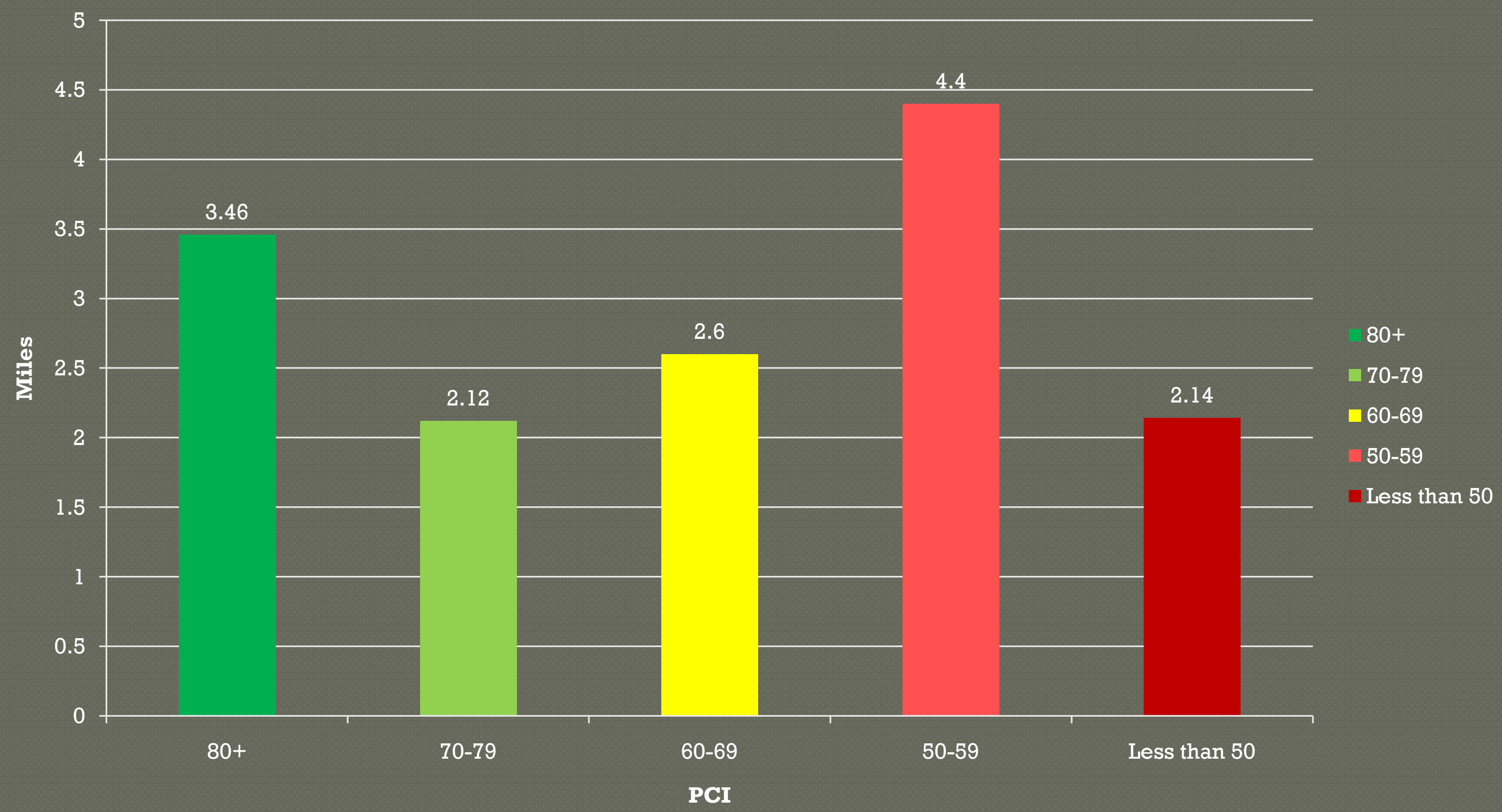
Attachment A

Current Condition - Arterials



Attachment A

Current Condition - Collectors



Annual Pavement Preservation Investments

City	Population	Typical Annual Investment*
Beaverton	95,385	$1,500,000
Corvallis	58,240	$500,000 to $1,800,000
Forest Grove	23,375	$300,000
Gresham	108,150	$1,250,000
Hillsboro	99,340	$3,000,000
Keizer	37,505	$800,000
Lake Oswego	37,425	$4,000,000
Lebanon	16,435	$175,000
McMinnville	33,405	$500,000
Oregon City	34,240	$1,000,000 to $1,300,000
Sherwood	19,145	$600,000 to $800,000
Springfield	60,140	$0 ($200K in past)
Tigard	49,745	$2,000,000
West Linn	25,615	$1,000,000
Woodburn	24,795	Unresponsive

*Pavement preservation only

Attachment C

Alternatives for Securing Additional Street Funds

Franchise Fees

The City of Albany receives approximately $5.3M in Franchise Fee revenue annually. Franchise fees are paid to the City of Albany by utilities such as the gas, power, and telephone companies for their use of the public right-of-way. Currently, Public Works manages day-to-day interactions with the franchise utilities, manages their permits, and coordinates all construction activities, but receives none of the revenues. Street cuts required for utility work can also reduce ride quality and increase risks of pavement failures that must then be addressed with street funds. Currently, all franchise fee revenue is used in the General Fund. Historically, 30% of electric and 40% of natural gas franchise fee revenue went to street maintenance activities. In 1996, The Mayor's Task Force on Street Maintenance recognized that additional revenues were needed and recommended that the water and sewer utilities be treated similar to franchise utilities and pay an annual fee, termed an in-lieu of franchise fee, to fund street improvements.

Council implemented the recommended sewer and water in-lieu of franchise fees but soon after found it necessary to redirect the previously dedicated electric and gas franchise fee revenue to the general fund. Thus, rather than an increase of $1.1M (2017 dollars) to street maintenance funds, the net impact of adding in-lieu of franchise fees while losing electric and gas franchise fees represents a loss to street maintenance of approximately $100,000.

Council could choose to again use a portion of franchise fee revenues to fund street work. There are clear impacts to streets and staffing costs related to franchise utilities that are currently unreimbursed to Public Works. However, redirecting these funds would come at a significant cost to the General Fund. There are no restrictions on how franchise fees can be used and franchise fee revenues represent 14% of the General Fund's total budget. Council would have to first choose how to manage those impacts to the General Fund before major changes could be implemented. Alternatively, Council could set a future target based on growth over time whereas a percentage of increased revenue could be redirected on an annual basis until the desired share in revenue is achieved.

If historic revenue sharing was restored, an additional **$1.2M per year** would be available for street preservation and restoration.

It is worth noting that most cities that Albany typically compares with do not rely on franchise fee revenue to fund pavement preservation activities. Staff surveyed 15 cities as shown in the table below.

City	Franchise Fees to Pavement Preservation
Beaverton	$0
Corvallis	$0
Forest Grove	Unresponsive
Gresham	$0
Hillsboro	$0
Keizer	$0
Lake Oswego	$2.5M
Lebanon	$0
McMinnville	$0
Oregon City	$0
Sherwood	$0
Springfield	$0
Tigard	$0
West Linn	$0
Woodburn	Unresponsive

General Fund

At the cost of other competing priorities, General Fund monies could be directed to street maintenance activities. While this is likely not feasible on a large scale, there are reasonable approaches to partner in costs for funding things like street lights.

Street lights serve multiple purposes that span both General Fund and Street budgets. Most notably, in addition to the transportation benefits, there are documented public safety benefits to street lights. In recognition of these benefits, the General Fund has a history of partnering to pay street light costs. In 2004, the General Fund contributed $320,000 to pay for street lights. From 2005 through 2011, the General Fund contributed $260,000 per year (56% of street light costs in 2011).

In 2012, as the City adjusted to impacts of the recession, the General Fund ceased transferring its share of street light costs to the street fund. As the economy has recovered and General Fund revenue has increased, this transfer has not been reinstated. This decision represents an annual reduction in street maintenance funding of $260,000, without considering inflation.

Council could chose to restore the street light funding combination that was suspended in 2011. This would result in the General Fund paying for approximately 50% of street light costs, which would result in approximately **$250,000 per year** being available for pavement preservation or restoration activities (based on FY 17-18 anticipated costs). Restoring the funding plan could also be phased in over time to minimize impacts.

It is also possible that new revenues related to marijuana taxes could be used to help offset impacts.

In-Lieu of Franchise Fees

Following a recommendation from the Mayor's Task Force on Street Maintenance, the City Council adopted sewer and water in-lieu of franchise fees in 1999. The fees were set at 5% of user receipts consistent with the rates being charged to other franchise utilities at the time. In today's dollars, this totals $1.1M, of which about $1M funds pavement preservation and restoration activities. Over the years many franchise fees have been increased to 7%. Council could choose to increase the water and sewer in-lieu of franchise fees to 7% to bring them in line with the original intent of matching franchising fees. This increase would generate an additional **$450,000 per year** for pavement maintenance and preservation activities but would either trigger 2% rate increases for sewer and water or would reduce the amount of work that can be accomplished for each utility. Similar to other internal tools, this could be phased in over time to minimize impacts.

Stormwater Service Charges

Until recently, the sewer and street utilities fully funded stormwater services provided by the City. In 2016, Council adopted stormwater service charges to be effective March 1, 2017. Revenues generated from the new service charges were envisioned to replace the sewer and street funds over time. In response, sewer rates were lowered by 6% and approximately $150,000 per year in street funds were freed up for other activities (reflected in the $1.6M estimated available for street preservation work). Council direction was to start the stormwater funding program as small as possible and expand over time. This approach relied on the assumption that, initially, street funds would continue to pay capital costs related to stormwater with each street project. Based on the amount of work completed with existing revenues, this equates to an average of $400,000 per year. Depending on the types of projects constructed, if the volume of street work increased, this subsidy would increase. However, as the City cycles through routine street maintenance this relationship would decrease over time.

The stormwater system is an obvious necessary component of the street network that benefits all residents. Stormwater rates could be raised to cover all, or a portion of, the capital costs for stormwater infrastructure constructed with street projects. As a starting point, Council could choose to phase in increases aimed at generating the current estimated **$400,000 per year**. This approach is what was envisioned in staff presentations for five-year forecasts on stormwater service charges. As the amount of street work increases over time, further adjustments could be considered.

Gas Tax

Local gas taxes are a common funding mechanism for Oregon communities. One of the main benefits is that revenues are generated from all road users who purchase gas in Albany, not just Albany residents. For an I-5 community such as Albany, this scenario can create significant local benefit. Albany tried, unsuccessfully, to create a local gasoline tax in 1982 and 1991.

Local gas tax rates vary by community. More than 25 cities in Oregon have gas taxes that range from $0.01 to $0.05 per gallon. The table below is a list of jurisdictions with gas taxes and their tax rate as reported by ODOT's Fuel Tax Group website.

Attachment C

Jurisdiction	Local Tax Rate Per Gallon
Portland	$0.10
Eugene	$0.05
Pendleton	$0.04
Astoria	$0.03
Canby	$0.03
Coburg	$0.03
Coquille	$0.03
Cottage Grove	$0.03
Hood River	$0.03
Multnomah County	$0.03
Newport (Jun - Oct)	$0.03
Oakridge	$0.03
Reedsport (May - Oct)	$0.03
Sisters	$0.03
Springfield	$0.03
The Dalles	$0.03
Tigard	$0.03
Veneta	$0.03
Warrenton	$0.03
Dundee	$0.02
Happy Valley	$0.02
Milwaukie	$0.02
Sandy	$0.02
Troutdale	$0.02
Tillamook	$0.02
Newport (Nov - May)	$0.01
Stanfield	$0.01
Washington County	$0.01
Woodburn	$0.01

The amount of revenue Albany could receive through a local gas tax is dependent on the amount of gas sold in Albany and the voter-approved tax rate. Accurate information regarding the amount of gas sold by community is not readily available. For estimating purposes, ODOT staff suggests relying on local gas tax data from the city of Springfield, which is a similarly sized community with a similar geographic relationship to Interstate 5. Based on that comparison, ODOT estimates that Albany could potentially receive around $250,000 per penny of tax.

As shown above, the most common rate is $0.03 per gallon. Portland voters recently approved Oregon's highest local gas tax at $0.10 per gallon, limited to a five-year term. If Albany were to pass a $0.03 per gallon gas tax, it could potentially generate around **$750,000 per year** in additional revenue for the street system.

There is a great deal of work that would need to be completed in order to ensure the best chance at a successful vote. At the July 11, 2016 Work Session, staff identified a number of questions recommended for consideration prior to putting a gas tax on the ballot.

Transportation Utility

Transportation utilities are another common funding mechanism for Oregon communities. Establishment of a transportation utility was recommended in 1996 by the Mayor's Task Force for Street Maintenance and considered by Council again in 2001 and 2003. However, implementation was not pursued out of concerns of overburdening rate payers. The League of Oregon Cities (LOC) reports that from their *2015 Gas Tax and Transportation Utility Fee Survey* the following 30 cities have a transportation utility in place:

Ashland	Myrtle Creek
Bay City	North Plains
Brookings	Oregon City
Canby	Philomath
Central Point	Phoenix
Corvallis	Sherwood
Eagle Point	Silverton
Florence	Stayton
Grants Pass	Talent
Hillsboro	Tigard
Hubbard	Toledo
La Grande	Tualatin
Lake Oswego	West Linn
Medford	Wilsonville
Milwaukie	Wood Village

If Council chose to consider creating a transportation utility, a significant amount of staff and Council time would be required. Staff estimates that it would require a two to three year process similar to the stormwater utility development process. The amount of revenue generated would be based on Council direction and would be the basis for establishing rates. A transportation utility can be established by ordinance with rates set by resolution, similar to Albany's other utilities.

General Obligation Bonds

General obligation (GO) bonds involve borrowing money by selling bonds and using property taxes to repay the debt over time (usually 10 to 20 years). Because GO bonds rely on the use of property taxes above and beyond those otherwise paid, they must be approved by a vote of the people.

Albany does have a history of pursuing GO bonds to fund street improvements. In 1995 a $10.8M GO bond was narrowly defeated. Following the recommendation of the Mayor's Task Force on Street Maintenance in 1996, Albany successfully passed a $10M GO bond for specified street improvements in 1998. An attempt to fund a second $10M street bond was defeated in 2000.

Based strictly on inflation, $10M in 1998 is now equal to approximately $15M. A $15M GO bond is estimated to cost the Albany voters $0.34 per thousand of assessed value for a 15 year bond ($68 per year for a $200,000 home).

Local Improvement Districts

Under a Local Improvement District (LID), the City would pre-fund construction of street improvements and then, once completed, assess benefiting properties their share of the improvements. A LID can be initiated by the City or by petition of property owners. Property owners can choose to pay their assessments in full or make arrangements to pay semi-annual payments, with interest, over a 10-year period. Staff does not recommend using LID's as a routine funding strategy for arterial and collector streets. However, LID's might be an important funding tool to consider for local street improvements as Council transitions to that discussion.