



TO: Albany City Council
VIA: Peter Troedsson, City Manager
FROM: Jeff Blaine, P.E., Public Works Engineering and Community Development Director
Chris Bailey, Public Works Operations Director *CB*
DATE: November 1, 2017, for the November 8, 2017, City Council Meeting
SUBJECT: Street Funding Alternatives, Continued

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

Action Requested:

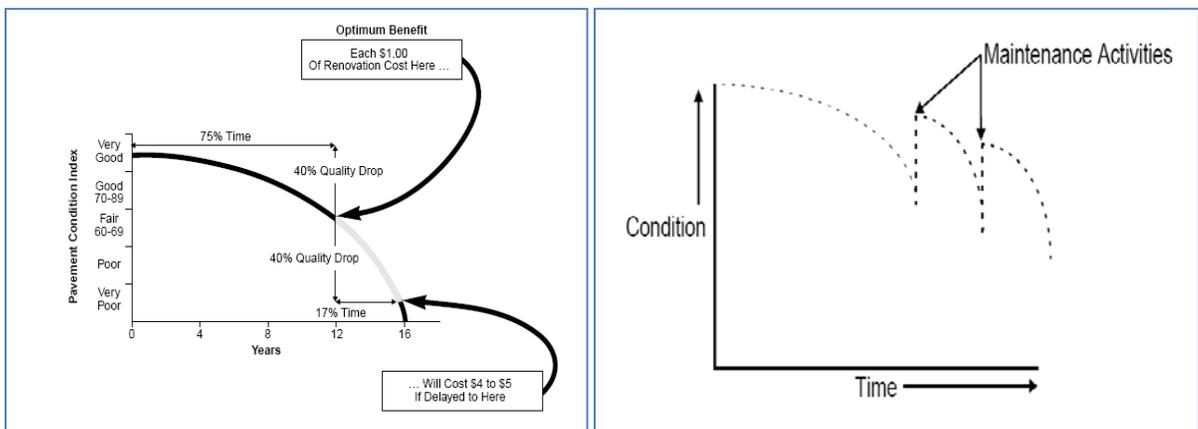
Staff recommends that Council receive staff's report and provide direction.

Discussion:

Background

Starting in January 2017, the Council received a series of presentations on the condition of Albany's streets, strategies for least life-cycle cost pavement preservation, gaps between needed and available pavement maintenance funds, and potential funding alternatives to close those gaps. Council considered pursuing a local gas tax but chose to defer further consideration following passage of HB 2017, which will raise state gas taxes and provide additional revenues to municipalities including Albany. Council also requested further discussion about the feasibility of reestablishing past Franchise Fee or General Fund contributions to pavement preservation prior to pursuing new funding sources.

At the March 20, 2017 Work Session, Council identified a goal of maintaining all arterial and collector streets in "Fair" or better condition (minimum PCI of 60). This target was selected by balancing desired levels of service, anticipated costs, and the fact that providing routine maintenance (i.e. overlays, etc.) represents the least life-cycle cost as depicted in the figures in the below.



Staff reported that a one-time \$20M lump sum investment (to reconstruct the arterials and collectors in the worst condition) and a \$5M annual reoccurring investment would be required to meet that goal. Current revenues available for pavement preservation were identified at \$1.6M, which leaves a \$3.4M gap (~\$3.8M if street funds are used to pay for related stormwater improvements). The recent passage of HB 2017 will help reduce that funding gap. ODOT has estimated that Albany will receive an additional \$350K in 2018, growing to \$1.7M by 2025.

Staff presented several funding alternatives at the March work session (see Attachment A). Council requested further discussion of alternatives that rely on internal budget decisions in fall 2017. This memorandum is intended to answer that request and provide a starting point for further discussion.

Internal Funding Alternatives

Attachment A identifies two internal funding decisions for Council consideration: Franchise Fees and General Fund. Restoring past street funding from Franchise Fees and the General Fund could generate an additional \$1.45M per year. However, the additional street revenue would come at significant cost to other general fund activities. For perspective, the entire Library budget is approximately \$2.8M. For additional perspective, \$1.45M can fund 12 firefighter positions.

In reviewing the current City budget, citywide unfunded needs, and the attached transportation funding alternatives, the City Manager notes that redirection of general fund revenues to pavement maintenance would require reductions in levels of services provided. Through the recent recession, known cost-saving measures with the least impacts to delivery of services have been implemented including reductions in staffing throughout the City. Any significant redirection of general fund revenues would have substantial impacts to general fund services.

Recommendations

The City Manager worked with staff to discuss potential next steps regarding transportation funding. Suggested steps include:

- Throughout 2018 – Raise community awareness through public outreach.
- Spring 2018 – As part of annual stormwater service charge discussions, consider recovering stormwater related costs for street projects (\$400K per year, see discussion in Attachment A).
- Fall 2018 – Consider raising Water and Sewer In-Lieu of Franchise Fees to match recent franchise utility rates (\$450K per year, see discussion in Attachment A).
- 2019 – Reconsider broader funding strategies such as local gas tax or transportation utility.
 - Discuss system-wide needs beyond pavement maintenance for arterial and collectors to define desired scope of services to be funded.
 - Consider impacts to staffing and other municipal utilities.

Raising Community Awareness – Staff recommends conducting a series of public outreach activities to raise awareness about the condition of Albany streets and pavement management strategies. Outreach methods would include an update of the City’s website, articles in City Bridges, and presentations to service clubs. Staff would conduct this effort throughout 2018 and it would be independent of pursuit of additional financial resources. Council involvement in public outreach efforts is recommended.

System Wide Funding Needs – Recent discussions have been limited to capital costs and available funds for asset management of pavement infrastructure on arterial and collector streets. Other needs not considered include pavement management of residential streets; 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. As Council discusses street funding alternatives, it is important to remember that the financial needs presented herein are limited in scope. Staff recommends considering some, or all, of these additional needs as part of the evaluation process of a comprehensive transportation funding program, which is more likely to provide the highest level of public service while achieving some economies of scale.

Increased street maintenance activities will also impact staffing levels and other municipal utilities. Additional staff will be required to manage, design, and inspect the capital projects funded through new revenues. Other City utilities will also be impacted. For example, if the City were to improve the 10 worst arterial and collector streets, there would be approximately \$8.5M in sewer and water improvements that would need to be considered at the same time to avoid cutting into the new street in the near future. This may represent a significant future decision point for Council; direct water and sewer funds at the highest priority for each respective utility, direct them toward active street projects to avoid cutting into newer streets for utility repairs, or some combination of the two. This decision does not need to be made now but should be noted for future funding discussions.

Staff requests that Council consider these suggestions and provide direction. If Council intends to consider major funding shifts in next year's budget it would be helpful for staff to understand that now, prior to initiating the budget process.

Budget Impact:

This memorandum is for discussion only. However, the intent of the discussion is to inform future budget deliberations and prioritization decisions.

JJB:rk

Attachments (1)

- c: Jorge Salinas, Assistant City Manager/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)
- Ron Irish, Transportation Systems Analyst (via email)

Attachment A

Alternatives for Securing Additional Street Funds

A number of street funding alternatives available to Council are identified below. Council should communicate any 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.

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.

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 ratepayers. 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. An LID can be initiated by the City or by petition of property owners. Property owners can choose to pay their assessments in full or arrange semi-annual payments, with interest, over a 10-year period. Staff does not recommend using LIDs as a routine funding strategy for arterial and collector streets. However, LIDs might be an important funding tool to consider for local street improvements as Council transitions to that discussion.