TRANSPORTATION FINANCE: ROLES AND ISSUES
September 24, 2004

Introduction

For state policy-makers, specific details on each local transportation provider are less important than general funding sources and jurisdictional roles. "Jurisdictional roles" refers to the relationships among federal, state, local, and increasingly, private entities. These roles differ by infrastructure type and purpose, and are summarized below. Additional to the jurisdictional role issues is the issue of how the necessary resources are raised. These have varied considerably over time and are heavily influenced by the availability of user fee revenue to support the desired services and current public perception of need for those services.

Developing up-to-date, specific data on <u>all</u> of the various modal and jurisdictional finance characteristics is a major research project. However, funding sources for major transportation providers are summarized below and provide context for transportation finance issues discussions.

Jurisdictional Roles

The state's original Oregon Transportation Plan (OTP, 1992) increased emphasis on non-highway modes and activities. That plan also introduced the concept of a fully integrated transportation system in which funding would flow to the highest priority needs regardless of mode or jurisdiction. However, under current arrangements, most non-highway transportation modes (e.g., transit, ports, major airports), as well as local roads and streets, are the responsibility of local governments.

In Oregon, the primary state role has been to construct and maintain the state highway system and to assist local government with funding of other modes (including local roads and streets). The state also has a role in filling gaps in intercity bus passenger services, significantly expanding intercity passenger rail services, and operating small general aviation airports. Expenditures in these areas have historically been very minor, but would grow significantly if major efforts were put into intercity passenger rail and commercial air service improvements.

In the high-profile areas of highways and public transit, the role of the federal government has been one of providing financial assistance to state and local governments. The Federal Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA) began moving decision-making for federal programs to states and regions and required regional cooperation in planning and project programming.

These changes were continued with the Transportation Equity Act for the 21st Century of 1998 and are expected to continue and evolve into the future. As noted previously, the transportation issues addressed by the OTP also require increased cooperation between state and local governments. These changes encourage reassessment of responsibilities and obligations for funding.

The federal role in other modes of transportation can be even greater than that with highways and transit. With exceptions, Amtrak is primarily a federal program. Its financial problems are requiring it to change. Exactly what those changes will be are not yet clear. At this point, greater financial participation by states and localities wanting Amtrak service seems likely. The maintenance of channels into shallow-draft coastal ports has historically been financed by the federal government. During times of large federal budget deficits, channel maintenance becomes much less reliable, and it is not clear how or whether this need will be addressed. The nation's air traffic control system has been proposed for privatization. At the same time, aviation security has become an over-riding issue that is continuing to evolve, with implications for federal and local roles and relationships.

Nationally, the role of the private sector in the provision of transportation infrastructure has been limited. A small number of recent, high-profile, public-private initiatives (e.g., construction of a light rail line to Portland International Airport) has stimulated interest in private sector participation. The Oregon Legislature approved Senate Bill 772 (2003), which gives the Oregon Department of Transportation broad authority to develop public-private initiatives.

These changing relationships have left three serious issues for state and local governments. First, there is no clear definition of state financial responsibility. At one time, the state operated on an informal consensus that it should provide one-half the match on federally funded local projects. No similar consensus exists today. The state's financial responsibility for transit, local airports and other local transportation infrastructure and services is unclear.[1]

A second problem created by changing relationships and changing project needs is the large block of assistance needed for specific projects, such as light rail. These create questions of regional equity. Regional equity may require consideration of all modes together, because different regions may have different modal needs and financing arrangements.

Finally, even if additional funding is directed toward local transportation, additional investment in state highways will be required to prevent their

[1] One exception appears to be Oregon programs designed to provide the elderly or disabled with transportation services. One of the most significant findings of the Oregon Transportation Initiative of 1996-97 was that the public believed the state should take on a large share of the financial responsibility for elderly and disabled transportation programs. The Legislature appears to have agreed, increasing funding for these programs in most subsequent legislative sessions.

deterioration and to meet the demands of growth. The state's capacity to meet the needs of the state highway system and simultaneously increase support of local transportation systems is extremely limited.

Trends, Philosophies, Sources and Issues

In public policy discussions, one of the most important distinctions of funding sources is whether the funding sources are user fee-based or non-user fee-based. User fee funding means those who use a product or service pay for that product or service. Non-user fee funding implies the use of tax revenue and competition for the use of that tax revenue with other priorities, and it means non-users must pay for the product or service.

After early reliance upon public subsidies, user fees now have emerged as the primary source for financing highways, aviation services and airports, and rail freight services and facilities.[2] The cost responsibility principle is the basis for determining how to charge various classes of highway users for the cost of maintenance and improvements. Freight railroad charges are based on variable operating costs, competition, and demand for service. Private aviation services set rates on the same basis as railroads. While publicly provided aviation facilities are funded by user fees, the fees are not based on the cost responsibility principle.

In the private sector, user fees are set by managers responding to market conditions. Over long periods of time (barring major market changes such as deregulation, new technology or a collapse in demand), these will increase along with the price of inputs.[3] In the public-sector, small boards or commissions often have similar authority over user fee charges. Highway user fees are a major exception. These are controlled by state legislatures and Congress. As a result, highway user fees are very slow to respond to increases in the cost of providing highway transportation. A four percent rate of inflation (for example) means costs are likely to double in less than 18 years. While fees on vehicle ownership were recently increased, Oregon's fuel tax has not increased since 1993.

Another problem with the fuel tax is the likelihood of dramatic improvements in the fuel efficiency of new vehicles. During the next 20 years, as these vehicles replace the current vehicle fleet, large reductions in fuel consumption per vehicle mile traveled (VMT) should be expected. This will result in reduced highway revenue, even when highway use increases. The manner in which this problem is addressed will have great implications for highway finance, both in Oregon and

[2] Local road and street systems (which primarily provide access to property) are financed with a combination of state user fees, local user fees, property tax revenues, federal funds, and miscellaneous other sources.
[3] I.e., labor, land, natural resources, office supplies, buildings and capital equipment.

nationally. An entirely new system of highway finance may be necessary. The Road User Fee Task Force is exploring this issue.

Transit services and passenger rail services have evolved in the direction opposite that of highways. After early private development and reliance on user fees for operating revenue, these services are now owned, operated, and heavily subsidized by the public. To the extent transit service is oriented to providing mobility to the transportation disadvantaged, user fees beyond those already charged by local providers may be impractical. To the extent transit service is intended to relieve highway congestion during peak travel periods, higher fares charged riders with access to an automobile tend to increase congestion.

No clear philosophy of the state role in providing transit services has emerged, and no clear philosophy on how the state should raise revenue in support of transit has been developed. The state has used General Funds, lottery funds, stripper well funds, cigarette tax revenue, non-highway fuel tax revenue, and other funds at various times to support transit service. These efforts have largely been targeted towards supplying one-half the required match to federal capital improvement grants.

A major issue is whether the state should be involved in financing transit operations. Other than financing for elderly and disabled transportation programs, the state has provided no operating funds. The state role has been one of granting authority to local governments to raise locally-generated operating revenue.

Intercity passenger rail service, while charging user fees, has required subsidization by the state. The state subsidized the experimental Willamette Valley Express Service in 1980-81. Beginning in 1994, the state has subsidized the extension of an Amtrak route to Eugene from Portland, and the addition of another Portland to Eugene round-trip in 2000.[4] The competition for state funding is fierce.

Local property taxes provide part of the funding for activities in most port districts. While every port district is different, generally, port districts operate within relatively modest tax bases. While the operations of many facilities are funded with user fees, major capital improvements often require public support from either federal, state, or local sources. Ports often find ways to fund capital projects that, after initial investment costs, can be self-supporting.

The federal government provides the bulk of the funding for channel maintenance. If, as a result of federal budget cuts, federally supported, small coastal port channel maintenance ends, it is unclear whether either the port

[4] Amtrak also operates the daily Coast Starlight train that moves through Oregon between Los Angeles and Seattle.

districts or the state would continue the program. If dredging is not continued, some port districts may cease their marine-based activities.

Revenue Sources of Major Providers

Revenue sources of major transportation providers are summarized in the tables below. Revenue categories can be identified in many different ways. Here, emphasis is on delineating user fee and non-user fee revenues and, where data is clear, identifying the jurisdiction supplying the revenue.

“User fee revenue” is defined broadly. For instance, rents received for use of state highway right-of-way is considered to be a user fee. Similarly, transit system advertising revenue is also considered a user fee. However, fees not charged direct consumers of a good or service (e.g., system development charges) are not considered to be user fees.

Table 1 shows revenues of the Oregon Highway Division during state fiscal year 2003. Over 98 percent of these revenues are derived from user fees. The remainder consists of non-tax revenues such as interest and asset sales. Federal funds obtained from federal user fees provide about 49 percent of total Highway Division revenues. Two fundamental points are clear: 1) major highways are almost entirely paid by user fees, and 2) the federal government plays a major role in funding and developing Oregon’s highway system.

TABLE 1

OREGON HIGHWAY DIVISION
ACTUAL REVENUE SFY 2003

Source	Revenue	Percent Share
State User Fee	$364,751,000	49.6%
Federal User Fee	$357,287,000	48.6%
Interest	$6,337,000	0.9%
Miscellaneous	$6,959,000	0.9%
Total*	$735,334,000	100.0%

*Includes funds for projects managed by ODOT on local governments' behalf ($89.2 million).
*Excludes revenue from issuance of refunding bonds.

Oregon county road fund revenues for fiscal year 2003 are shown in **Table 2**. User fees account for 45 percent of the total. If revenues supporting local projects but managed by the Oregon Highway Division were included, the user fee percentage (and total revenues) would be significantly higher. While federal revenues were nearly 29 percent of the total, the overwhelming majority came from national forest receipts. Local non-user tax revenues constitute only about 13 percent of total county road fund revenues. The primary purpose of county roads is to provide basic access to land. As a result, it is not surprising that a large proportion of county road revenue is derived from land-related sources (e.g., property taxes or national forest receipts).

TABLE 2

OREGON COUNTY ROAD & CITY STREET FUND REVENUES
SFY 2003

Source	County Revenue	Percent Share	City Revenue	Percent Share
State User Fee	$150,411,000	41.3%	$96,441,000	33.0%
Federal User Fee	$4,274,000	1.2%	$3,516,000	1.2%
Local User Fee	$9,758,000	2.7%	$29,508,000	10.1%
State Other	$11,009,000	3.0%	$22,676,000	7.8%
Federal Other	$99,772,000	27.4%	$6,773,000	2.3%
Local Non-User Tax	$47,042,000	12.9%	$49,605,000	17.0%
Land Sales & Rentals	$1,225,000	0.3%	$827,000	0.3%
Traffic Impact Fees/SDCs	$7,224,000	2.0%	$33,213,000	11.4%
Interest	$13,894,000	3.8%	$4,320,000	1.5%
Other Local	$14,951,000	4.1%	$37,206,000	12.7%
Private Contributions	$149,000	0.0%	$7,886,000	2.7%
Miscellaneous	$4,790,000	1.3%	$199,000	0.1%
Total*	$364,499,000	100.0%	$292,170,000	100.0%

*Excludes revenue from issuance of bonds, and receipts from cities and counties.
Also excludes funds for county and most city projects managed by ODOT.

Table 2 also shows Oregon city street fund revenues for fiscal year 2003. User fees account for about 44 percent of the total. As with counties, if revenues supporting local projects but managed by the Oregon Highway Division were included, the user fee percentage (and total revenues) would be significantly higher. Federal revenues constitute a very small share, less than four percent of the total. Local non-user tax revenues were 17 percent of the total. In contrast with state and county road programs, traffic impact fees and private contributions are much more significant revenue sources. Similar to counties, the primary purpose of city streets is to provide access to developed property. Therefore, it is not surprising that a large proportion of city street revenue is derived from property-related sources and payments associated with development.

Rule of thumb estimates indicate the Tri-County Metropolitan Transportation District (Tri-Met) accounts for over 80 percent of public transit revenues in Oregon. Tri-Met's fiscal year 2003 revenues are presented in **Table 3**. Less than 20 percent of Tri-Met's revenues are derived from user fees. The exact proportion of revenues attributable to federal funds is not clear. However, the overwhelming majority of both capital grants and maintenance and rehabilitation grants come from federal agencies. This implies that federal funds provide around 30 percent of Tri-Met's total revenue. State and other local jurisdiction funds make up the remainder of grant revenues. Local tax revenues provide about 44 percent of total revenue. Modest levels of state funding and relatively low levels of user fee receipts require greater support from local tax receipts and federal programs. As with major highways, the federal government plays a major role in funding and developing Tri-Met's public transit system.

TABLE 3

TRI-COUNTY METROPOLITAN TRANSPORTATION DISTRICT
FY 2003 REVENUES

Source	Revenue	Percent Share
User Fee	$72,759,000	19.5%
Payroll Tax	$155,160,000	41.5%
Property Tax	$10,871,000	2.9%
Interest	$2,187,000	0.6%
Maint & Rehab Grants	$38,116,000	10.2%
Capital Grants	$94,747,000	25.3%
Total*	$373,840,000	100.0%

*Excludes revenue from issuance of refunding bonds.
Also excludes state lottery bond payments for westside LRT
($7.3 million in FY 2003, $10.0 million annually through FY 2009).

The Willamette Valley Passenger Rail Program budget for the 2003-2005 biennium is presented in **Table 4**. This is a cooperative program that is primarily managed by Amtrak. In addition to paying normal operating costs, revenues are used to pay for capital costs as operating expenses through track rents and equipment leasing. About 50 percent of this program's revenues are derived from user fees, collected by Amtrak. State government provides the other 50 percent. Local governments have no direct role in financing rail operations, but do have an indirect role in planning and ensuring functional rail stations. Clearly, the federal government, through Amtrak, has a major role in intercity passenger rail programs. However, this role is likely to change substantially when Congress addresses Amtrak's long-term financial problems.

TABLE 4

WILLAMETTE VALLEY PASSENGER RAIL PROGRAM
BUDGETED REVENUE 2003-05 BIENNIUM

Source	Revenue	Percent Share
State General Fund	$3,914,816	20.5%
State Miscellaneous (non-user fee)	$5,650,000	29.5%
Estimated User Fee*	$9,564,816	50.0%
Total	$19,129,632	100.0%

*Collected by Amtrak.

In addition to its activities supporting marine shipping, the Port of Portland owns and operates Portland International Airport. The Port of Portland's revenues for fiscal year 2003 are presented in **Table 5**. User fees account for 88 percent of the $275.6 million total. Capital grants from the state and federal government provide 4.5 percent of the total. The remainder is derived from local sources. Port of Portland costs are almost all paid with user fee revenues. State, federal, or other local governments provide only small amounts of revenue. However, in the future, certain port-related projects such as deepening the Columbia River shipping channel are likely to require substantial amounts of state and federal financial assistance.

TABLE 5

PORT OF PORTLAND
FY 2003 REVENUES

Source	Airport Revenue	Percent Share	Marine & Other Revenue**	Percent Share
User Fee*	$169,550,000	95.7%	$73,013,000	74.2%
Land Sales	$0	0.0%	$6,171,000	6.3%
Property Tax	$0	0.0%	$6,660,000	6.8%
Interest	$3,271,000	1.8%	$4,336,000	4.4%
Capital Grants	$4,300,000	2.4%	$8,169,000	8.3%
Miscellaneous	$70,000	0.0%	$90,000	0.1%
Total	$177,191,000	100.0%	$98,439,000	100.0%

*Includes passenger facility charge revenue.
**Excludes a $29,688,000 extraordinary item.

Local financial resources are focused on local transportation infrastructure and services. In general, the state's financial resources are focused on infrastructure and services serving intercity, interstate and international transportation needs.[5] Finally, federal financial resources are broadly distributed among both modes and jurisdictions. In the case of city and county road programs, management by ODOT masks federal highway funds used for local projects.

Summary

- Federal transportation funds are broadly distributed among both jurisdictions and modes.
- The state's financial resources tend to be focused on infrastructure and services serving intercity, interstate and international transportation needs.

[5] While the state contributes a large proportion of city and county road revenues, it is reasonable to consider part of Highway Fund distributions to local governments as local revenue. It would be administratively inefficient to have all 36 counties, 240 cities, and the state collecting highway user fees at different rates. State collection avoids the problem of users paying fees in one location while traveling in another.

- The state's financial responsibility for public transit, local airports and other local transportation infrastructure and services is unclear.[6]

- Even if the state contributes new, high levels of resources to local transportation providers, additional investment in state highways is still required to prevent their deterioration and to meet the demands of growth.

- The state's capacity to meet the needs of the state highway system and simultaneously increase support of local transportation systems is limited.

- By its nature, the fuel tax is not inflation-sensitive. The fuel tax has been growth-sensitive, but recent advances in vehicle fuel efficiency are likely to reverse this effect. As a result, long-range financial strategies relying upon fuel tax revenue for increased funding are unlikely to succeed.

- Regional equity may require consideration of all modes and priorities together, because different regions may have different modal needs and financing arrangements.

- Some transportation sub-systems (e.g., state highways) are fully funded by user fees, but others are not. Fundamental policy issues are (a) why some sub-systems are fully funded by user fees and why others are not, (b) whether the answers can be changed by public policy, and (c) whether the answers should be changed by public policy.

- Those sub-systems that cannot be fully funded by user fees must compete for tax revenues paid by non-users. Such funding is limited.

- Local governments' have made great use of expanded authority to raise local revenues. This authority includes both taxes and user fees (e.g., passenger facility charges, payroll taxes, system development charges, etc.). If additional authority is granted local governments in the future, it is likely to be well utilized.

- Recent events have increased opportunities for private sector participation in publicly provided transportation projects. Whether these will actually result in greater private sector participation or significantly greater transportation investment is not yet clear.

[6] Non-financial aspects of state involvement in local transportation infrastructure development are addressed in the OTP.