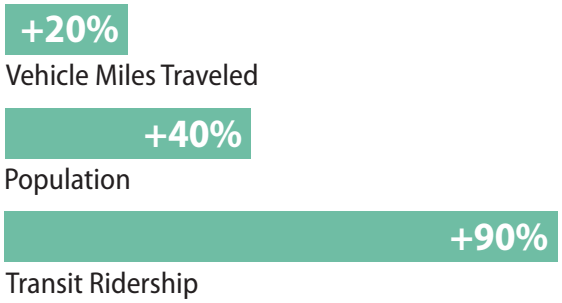
Executive Summary
Oregon Public Transportation Funding Options

There are 40 public transportation providers in Oregon, ranging from transit districts, regional government providers, ODOT, county and city providers, and the tribes. The use of public transportation is increasing statewide, outpacing increases in population and vehicle use and creating the need for additional financial support. The need is for both operational funding to support the transit service on the street as well as for capital funding to support investments such as new buses, passenger facilities, and development of high-capacity transit lines.

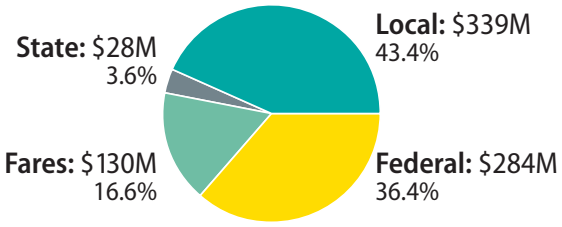
Statewide Increases, 1990–2015



Funding for public transportation is supported through a mix of federal, state and local sources. Federal funds are distributed either by "formula" based on factors such as population or level of transit service, or through a competitive selection process. Federal funds typically require matching funds, which can come from state or local sources.

Many states and their communities fund public transportation from sales tax and/or fuel tax and other vehicle-related fees. Oregon is one of only two states (New Hampshire is the other) that does not have a sales tax and constitutionally restricts the use of vehicle-related taxes and fees for public transportation uses. Without these options, Oregon has had to be creative in identifying funding for public transportation. This has resulted in a unique mix of public transportation funding sources, including funds generated from the cigarette tax, lottery-based bonds, fees from state-issued identification cards (not drivers licenses), and tax revenues from fuel purchases that are not used for motor vehicles. Local public transportation funding in Oregon communities include passenger fares, property tax, payroll taxes, and utility fees.

Estimated Oregon Public Transportation Funds by Source, 2014



State Funding Options

The base level of state funding for public transportation in Oregon, when one-time allocations are eliminated, is $15–$20 million per year. With the increased demand for public transportation, new state funding sources should be considered. The following options for additional public transportation funding resulted from an investigation of funding strategies from other states as well as consideration of expanded options currently used in Oregon.

General Fund

The state's general fund (GF), which is primarily derived from income taxes, has a great deal of flexibility in how it can be used, but also has tremendous pressure to fund a wide variety of programs. Public transportation is competing with many other statewide needs for these dollars.

Potential Revenue: Based on an $18 billion General Fund budget in the 2015–2017 biennium, a 0.2 percent allocation for public transportation would generate approximately $18 million per year.

Considerations: Given that public transportation supports many state priorities, such as economic development, access to work and school, and mobility for elderly and disabled residents, there is justification for GF support.

Fuel Taxes and Other Related Fees

Oregon has a constitutional requirement that fuel and other vehicle-related taxes and fees be used exclusively for roadway purposes. However, outreach conducted as part of the Governor's Transportation Visioning process showed strong support for public transportation from all parts of the state. There are also options for partial elimination of the constitutional restriction.

Potential Revenue: A one cent tax per gallon of gas would generate about $15 million per year. A $5 per vehicle registration fee would generate about $7.5 million per year.

Considerations: Options for partial elimination of the constitutional restriction, such as for a limited portion of the funds or applying to only certain vehicle fees, may be more palatable to voters.

Statewide Employer Payroll Tax or Employee Tax

This option would impose a statewide tax on all private employer payrolls or employee's pay that would be dedicated to transit. Since the state currently collects taxes from employers, administrative costs would be low. In addition, there is a "nexus" for this tax, since public transportation needs are linked to employment and getting people to jobs safely and efficiently.

Potential Revenue: Based on a $86 billion total state payroll, for every 0.1 percent tax on payroll ($1 per $1,000), about $86 million would be generated statewide. If the Portland and Eugene/Springfield areas that currently levy a payroll tax for public transportation are excluded, a 0.1 percent statewide tax would generate approximately $25.5 million in revenue. An employee tax of 0.01 percent could generate between $70 and $100 million of revenue.

Considerations: This is a potentially very good and stable source of funding for transit. Since the Portland and Eugene/Springfield areas currently have a payroll tax to support public transportation, consideration should be given to excluding them from an additional tax (in which case, they would not receive any of the additional revenue).

Motor Vehicle Sales Tax (MVST)

As used in Minnesota, the MVST is a tax placed on the purchase of new and used vehicles. This is distinguished from a general sales tax (which Minnesota also levies). The tax would be collected by dealers or upon registration of a used vehicle.

Potential Revenue: Based on proportional revenue based on the differences between Minnesota's and Oregon's population, a 0.5 percent tax on the sale of new and used vehicle dedicated to public transportation would yield about $35 million annually. A larger tax could be used to fund a multi-modal transportation program.

Considerations: It is unclear whether this would be considered a vehicle-related fee for purposes of Oregon's constitutional restriction limiting vehicle-related fees to highway uses. It is recommended that an Attorney General's opinion be obtained. If a MVST is deemed a vehicle-related tax, this limited encroachment of the constitutional restriction may be more palatable to voters.

Corporate Excise Tax/Income Tax

Currently, corporations doing business in Oregon pay a Corporate Excise Tax and corporations that generate income in Oregon pay a Corporate Income Tax. The combined Corporate Income Tax and Corporate Excise Tax, which is between 6.6 and 7.6 percent, resulted in approximately $600 million in revenue statewide in 2015. A corporate tax has a nexus with public transportation, since transit helps transport employees to work and customers to places of business.

Potential Revenue: A corporate tax increase of 0.1 percent (such as from 7.6 percent to 7.7 percent) would yield approximately $8 million per year.

Considerations: Public transportation funding could be part of a package for a larger corporate tax increase.

Rental Car Tax or Fee

Oregon is one of only six states that does not levy a statewide charge on rental cars or short-term vehicle rentals. Although Oregon does not have a statewide rental car tax/fee, some cities and counties do. At least five other states directly allocate a portion of rental car tax/fee revenues to public transportation.

Potential Revenue: To be determined.

Considerations: It is unclear whether this would be considered a vehicle-related fee for purposes of Oregon's constitutional restriction limiting vehicle-related fees to highway uses. It is recommended that an Attorney General's opinion be obtained.

Engine Displacement Tax

This tax is based on the engine displacement, with larger engines paying a higher tax, and would likely be collected as part of vehicle registration. This is similar to a carbon tax or emissions fee since engine size is generally correlated to emissions. This tax is not currently used in the United States, but has been used in some European countries and in Japan.

Potential Revenue: To be determined.

Considerations: It is unclear whether this would be considered a vehicle-related fee for purposes of Oregon's constitutional restriction limiting vehicle-related fees to highway uses. It is recommended that an Attorney General's opinion be obtained.

Marijuana Tax

Marijuana sales are expected to generate nearly $54.5 million in tax revenue in 2016, more than earlier estimates. Today, the state tax rate for recreational marijuana purchases is 17 percent. There is a nexus between public transportation and marijuana, since marijuana users should not drive while intoxicated.

Potential Revenue: A ten percent tax on marijuana sales dedicated to public transportation would generate approximately $5.45 million per year in revenue.

Considerations: In order to not reduce revenue to existing programs funded with the marijuana tax, the tax to support public transportation could be an additional tax.

Sales Tax

Oregon is one of five states that does not have a statewide sales tax. Sales taxes, primarily through locally levied additions to the statewide rate, are used in many states to fund public transportation. The absence of a statewide sales tax in Oregon eliminates a key potential statewide and local public transportation funding source. Previous attempts to impose a sales tax in Oregon have been soundly defeated, and there is little likelihood of passage of a sales tax in the foreseeable future.

Potential Revenue: Assuming the same items taxed as in Washington state and accounting for population differences, every 0.1 percent sales tax in Oregon would generate about $73.5 million. A 5 percent sales tax would generate about $3.7 billion in revenue.

Considerations: This funding option is very unlikely for the foreseeable future. Any effort to pursue a statewide sales tax in the future would almost certainly be based on a broad tax restructuring plan.

Public Transportation Funding: Options for Oregon Transit Providers

March 14, 2017

Oregon Department of Transportation

Public Transportation Advisory Committee

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1 INTRODUCTION

Funding for public transportation in Oregon is an ongoing concern. Use of transit is increasing, outpacing increases in population and vehicle use and creating the need for additional financial support. The need is for both capital investments, such as buses, passenger facilities, and high-capacity transit routes, and operational funding to provide transit service. Typically, securing adequate funding for operations has been the most problematic issue for Oregon's public transportation providers. The stability of operational funding is a key concern: transit providers need some assurance that new or expanded service can be maintained over time. An additional issue is the level of local operational funding can vary considerably from one community to another, which creates inequity in the provision of public transportation services.

Many states use sales tax and/or fuel tax and other vehicle-related fees to fund public transportation. Oregon is one of five states that does not have a sales tax, and one of 23 states that constitutionally restricts fuel taxes exclusively for roadway uses. It is one of only two states (New Hampshire is the other) that does not have a sales tax and has a constitutional restriction on the use of vehicle-related taxes and fees for public transportation. In response to these limitations, Oregon has developed a patchwork of diverse and innovative mechanisms to fund public transportation. Short of enactment of a state sales tax or the elimination of the constitutional restriction on the use of vehicle taxes and fees, additional funding for public transportation will need to continue to consider innovative and non-traditional sources.

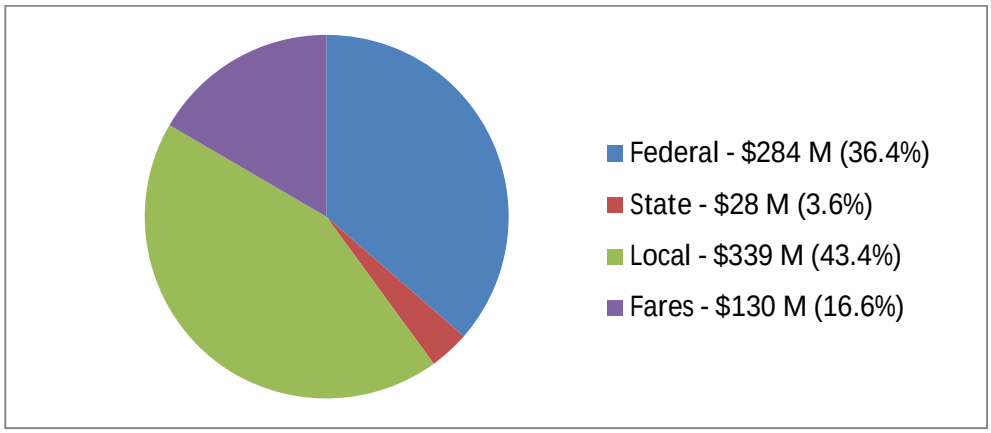
This report provides a summary of current public transportation funding in the state and reviews the sources and level of public transportation funding in other states, with more detailed analysis of two states that have similarities with Oregon. In addition, other potential funding sources, gleaned from funding options used in other states, are considered for possible application in Oregon. Based on this information, an assessment of potential new options for public transportation is provided.

This report is intended for the use of the Public Transportation Advisory Committee (PTAC). PTAC acts as advisory body to the Oregon Transportation Commission on a variety of public transportation issues. The information in this report can form the basis for a discussion between PTAC and the OTC on potential funding strategies for public transportation.

2 CURRENT PUBLIC TRANSPORTATION FINANCING IN OREGON

A variety of funding sources are used to provide for Oregon's public transportation capital and operating needs. Funds are sourced through federal, state and local programs and taxes. The 2014 break-down of public transportation funding sources is provided in Figure 1.

Figure 1. 2014 Estimated Oregon Public Transportation Funds by Source



Notes:
** This graphic includes local public transportation and intercity bus funds and an estimate of average FTA discretionary appropriations for the State of Oregon, but does not include intercity passenger rail funds and fares.*
**The percentage of funding from fares does not reflect farebox recovery because this chart includes all revenues, not just operations funding. Farebox recovery ratios reflect the percentage of operations costs that are recovered through passenger fares.*
Source: Estimates calculated by ODOT Planning from internal ODOT expenditure information, federal appropriations, and Secretary of State audits.

2.1 Federal Funding Programs for Public Transportation

Under the *Fixing America's Surface Transportation Act*, or the FAST Act, the Federal Transit Administration (FTA) and the Federal Highway Administration (FHWA) administer funding programs that support multimodal transportation investments. FTA administers six major funding programs that are authorized through the year 2020. With the exception of the Capital Investment Grants, the FTA programs are funded from the mass transit account of the Highway Trust Fund. Capital Investment Grants are funded from the general fund.[1] FHWA administers several flexible programs that allow states to allocate funds to multimodal transportation investments.

Most of the federal funding programs are for capital investments in public transportation systems. Examples include the purchase of new buses, construction of transit stations, and development of a bus rapid transit (BRT) or light rail transit (LRT) projects. Federal funds directed for everyday operations are limited and are often directed to supporting specific populations, such as the elderly or disabled populations or rural communities. Table 1 on the following page summarizes the FTA and FHWA funding programs. The sections below provide more information about the primary programs.[2]

[1] Congressional Research Service. April 2015. Federal Public Transportation Program: In Brief.
[2] Federal Transit Administration. 2016. FTA Program Fact Sheets under the FAST Act. https://www.transit.dot.gov/funding/grants/fta-program-fact-sheets-under-fast-act. Accessed December 2, 2016.

Table 1. Major Sources of Federal Public Transportation Funding in Oregon

Program/Source	Purpose	Allocation Method		Actual FY 2014 Funding
		USDOT	ODOT	
FTA §5303/4: Statewide and Non-Metropolitan Planning	Transportation planning	Formula to urban, states	Discretionary	$1.3 M
FTA §5307: Urbanized Area	Any in urban areas	Formula to urban areas		$52.3 M
FTA §5309: Fixed Guideway Capital	Major projects (New Starts, Small Starts)	Discretionary to urban areas		$189.4 M (One-time allocation)
FTA §5310/ODOT E&D: Seniors and Individuals with Disabilities[3]	Seniors and individuals with disabilities; often limited to capital projects	Formula to urban areas and states	Formula and discretionary to STF agencies[4]	$ 3.6 M
FTA §5311: Formula Grants for Rural Areas	Rural populations less than 50,000	Formula to states	Formula to rural providers	$10.1 M
FTA §5311(c): Tribal Transit	Any	Formula to tribal transit providers		$0.8 M
Intercity/Transit Network [5] - §5311(f)	Bus service over longer distances between cities and regions	Minimum 15 percent set-aside from 5311	Discretionary to intercity providers	$1.2 M
FTA 5329: Public Transportation Safety and Oversight	State safety oversight for passenger rail	Formula to states		$0.7 M
FTA §5337: State of Good Repair	Fixed guideways	Discretionary and formula to urban areas		$17.7 M
FTA §5339: Bus and Bus Facilities	Vehicles, facilities, equipment	Discretionary for urban, state	Discretionary rural and small urban via state	$6.6 M
FHWA CMAQ: Congestion Mitigation and Air Quality Improvement Program - 23 USC 149	Varies, includes public transportation that helps the area meet its air quality goals	Formula to states	Formula for local jurisdictions in air quality non-attainment or maintenance areas	$12.7 M[4]

[3] ODOT flexes FHWA STP funds into this program. The FTA funding portion is 12 percent and the FHWA STP is 88 percent of total 5310/E&D Program funding.
[4] 42 STF Agencies (transit districts, counties where no transit districts exist and nine federally recognized tribes) conduct local processes to prioritize expenditure of STF funding that is allocated either by formula to STF Agencies. ODOT also conducts discretionary processes.
[5] Majority of Intercity/Transit Network Program funding is FTA §5311(f): Rural Intercity.

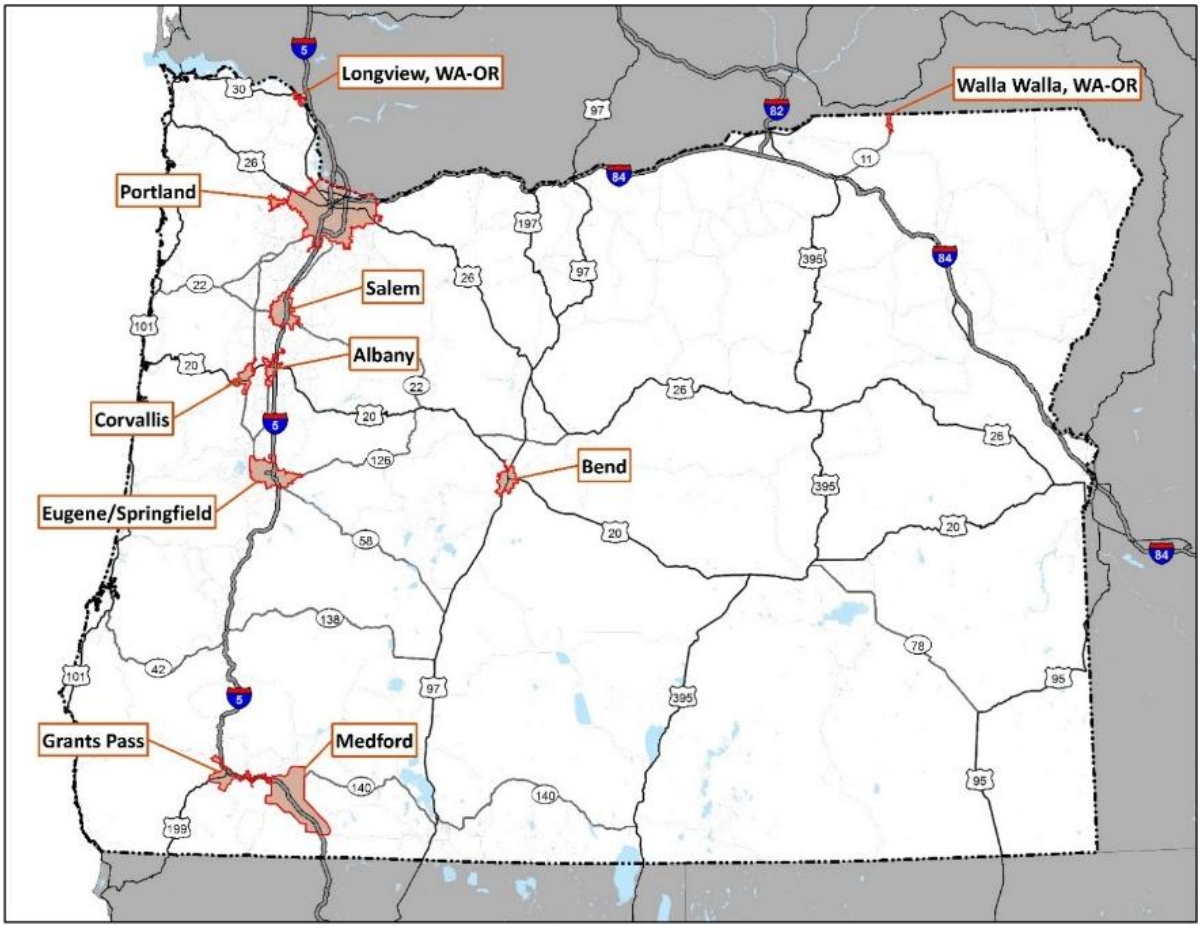
Program/Source	Purpose	Allocation Method		Actual FY 2014 Funding
		USDOT	ODOT	
FHWA STBG: Surface Transportation Block Grant Program - 23 USC 133 *ODOT E&D Program/ FTA §5310* [6]	Primarily capital, some portion for Transportation Options program	Formula to states	ODOT flexes a portion of STP funds into the 5310 program. Distribution is by formula and/or discretionary	$12.1 M
FHWA STBG: Surface Transportation Block Grant Program - 23 USC 133 *STIP Enhance*	Capital, such as transit centers and buses	Formula to states	ODOT flexes a portion of STP funds into STIP Enhance. Distribution is discretionary	$3.9 M for FFY 2015, not funded in 2014
FHWA STBG: Surface Transportation Block Grant Program - 23 USC 133 *Fix-it Non-highway Funds: Bus Replacements*	Capital, bus replacements	Formula to states	ODOT flexes a portion of STP funds into Fix-it Non-highway Funds: Bus Replacements. Distribution is discretionary	$2 M/year for mass transit bus replacements Additional $5 M/year for 2019-21
FHWA FLAP: Federal Lands Access Program - 23 U.S.C. 204	All transit purposes for services that access federal lands	Discretionary		Unknown, FHWA distributes directly to providers[7]

[6] Only includes CMAQ funds transferred to FTA, not funds administered through FHWA that have secondary transit benefits.
[7] Fewer than ten transit providers have received FHWA FLAP awards.

2.1.1 Urbanized Area Formula Program (49 U.S.C. §5307)

The Urbanized Area Formula Program is the largest program administered by FTA. This program provides funding for public transportation within designated urbanized areas. The Census Bureau designates these areas when a densely settled core of census tracts and/or census blocks has populations of 50,000 or more. Funds can be used for transit capital and operating assistance and for transportation-related planning.[8] Oregon has ten designated Urbanized Areas as mapped on Figure 2.

Figure 2. Oregon Urbanized Areas



For urbanized areas with populations of 200,000 or more, funds are apportioned and flow directly to a designated recipient selected locally to apply for and receive Federal funds. The formula to distribute funding is based on a combination of bus revenue vehicle miles, bus passenger miles, fixed guideway revenue vehicle miles, and fixed guideway route miles. For urbanized areas with populations between 50,000 and 199,999, funds are apportioned to the governor of each state for distribution. The legislative formula for apportionments for these areas is based on population and population density.

To receive urbanized formula funds, public transportation providers must identify between a 10 and 50 percent funding match of local or state (nonfederal) dollars based on the following restrictions.

[8] Federal Transit Administration. 2016. Grant Programs. https://www.transit.dot.gov/grants. Accessed November 2, 2016.

- Capital expenditures: federal portion cannot exceed 80 percent.
- Vehicle-related equipment attributable to compliance with the Americans with Disabilities Act and the Clean Air Act: federal share may be 90 percent.
- Operating assistance: federal share may not exceed 50 percent of the net project cost.

2.1.2 Fixed Guideway Capital Investment Grants (49 U.S.C. §5309)

The discretionary Capital Investment Grant (CIG) provides funding to support construction of new rail, bus rapid transit, and ferry systems and to expand existing systems. There are four categories of eligible projects under the CIG program: New Starts, Small Starts, Core Capacity, and Programs of Interrelated Projects. These are highly competitive discretionary grants that the transit agency must demonstrate how they meet statutorily defined criteria.

Table 2. Overview of FTA Capital Investment Grant Program

CIG Project	Total Project Cost Estimate	CIG Grant Request	CIG Share of the Total Project Cost	Max Federal Contribution
New Starts	$300M or more	$100M or more	Not to exceed 60%	80%
Small Starts	Less than $300M	Less than $100M	Not to exceed 80%	80%
Core Capacity	No restriction	No restriction	Not to exceed 80%	80%
Programs of Interrelated Projects	No restriction	No restriction	Not to exceed 80%	80%

2.1.3 Enhanced Mobility of Seniors and Individuals with Disabilities Program (49 U.S.C. §5310)

The Enhanced Mobility of Seniors and Individuals with Disabilities Program provides funding to support specialized public transportation for these population groups. This program distributes both formula grants and some limited discretionary funds. Table 3 details how formula funds are apportioned to each state based on adult population and individuals with disabilities.

Table 3. Enhanced Mobility of Seniors and Individuals with Disabilities Program Apportionment

Apportionment Requirements	Amount
Large urbanized areas with populations over 200,000	60%
Small urbanized areas with populations between 50,000 and 199,999	20%
Rural areas with populations under 50,000	20%

At least 55 percent of the program funds must be used on capital projects, such as bus or van purchases, or the provision of services. The remaining 45 percent is for nontraditional projects, such as volunteer driver programs or construction of accessible paths to a bus stop. Capital projects are limited to 80 percent from the Section 5310 funds, whereas operating assistance is limited to 50 percent for Section 5310 funds. Matching funds can sometimes come from other federal funds with prior approval of both federal agencies, therefore projects and operating expenses may be funded 100 percent through federal sources.

2.1.4 Rural Area Formula Program (49 U.S.C. §5311)

The Rural Area Formula Program provides funding to states and Indian tribes for public transportation in areas with populations of less than 50,000. It also provides funding for state and national training and technical assistance through the Rural Transportation Assistance Program. Funds are distributed to

States, Indian tribes or Alaskan Native villages, groups or communities identified by the Bureau of Indian Affairs (BIA).

- 83.15 percent of funds apportioned based on land area and population in rural areas.
- 16.85 percent of funds apportioned based on land area, revenue-vehicle miles, and low-income individuals in rural areas.

Funds may be used for planning, capital, operating, job access and reverse commute projects, and the acquisition of public transportation services.

Table 4. Overview of FTA Rural Area Funding Program

Funding Type	Max Federal Share
Capital Projects	80%
Operating Assistance	50%
Americans with Disabilities Act (ADA) non-fixed-route paratransit service, using up to 10 percent of a recipient's apportionment	80%

2.1.5 Public Transportation Safety Program (49 U.S.C. §5329)

FTA's role in public transportation safety was expanded significantly in 2012. FTA is required to develop a national public transportation safety plan, with safety performance criteria for all modes of public transportation and minimum performance standards for public transportation vehicles (except commuter rail vehicles, which are regulated by the Federal Railroad Administration, or FRA). FTA is also required to establish a certification training program for federal, state, and local employees who conduct safety audits or are responsible for safety oversight.

2.1.6 State of Good Repair Grant Program (49 U.S.C. §5337)

The State of Good Repair (SGR) Program provides funding primarily for repairing and upgrading rail transit systems, but also other fixed-guideway systems (such as passenger ferries and bus rapid transit) and bus systems that use high occupancy vehicle (HOV) lanes.

Funding is available to state and local government authorities in a census-defined urbanized area with fixed guideway and high intensity motorbus systems in revenue service for at least seven years. The statutory formula is based on revenue miles and route miles reported to National Transit Database (NTD). Funds may be used on maintenance, replacement, and rehabilitation projects. The federal portion of the cost may not exceed 80 percent of the net capital project cost.

2.1.7 Bus and Bus Facilities Grant Program (49 U.S.C. §5339)

The Bus and Bus Facilities Grant Program provides funding for capital expenses to purchase and rehabilitate buses and to construct bus-related facilities, such as maintenance depots. Oregon receives $1.75 million each year through a formula allocation. Competitive grants are also available. Funds may be used for capital projects to replace, rehabilitate and purchase buses, vans, and related equipment, and to construct bus-related facilities, including technological changes or innovations to modify low or no emission vehicles or facilities. The federal share is limited to 80 percent of the net project cost.

2.1.8 Surface Transportation Block Grant Program

The FAST Act renamed the long-standing Surface Transportation Program (STP) to the Surface Transportation Block Grant program (STBG) to reflect the flexibility of this federal-aid program offered. STBG promotes flexibility in State and local transportation decisions and provides flexible funding to best address State and local transportation needs. Projects that demonstrate that they incorporate innovative project delivery methods or provide for workforce development can use 100 percent STBG to fund the project; otherwise projects are required to provide a 10.27 percent match. A total of 55 percent of funding is allocated to urbanized areas with populations greater than 200,000 and are distributed through the Metropolitan Planning Organizations (MPOs).

Oregon is a "public lands state," meaning that a considerable portion of the state is occupied by publicly owned land, such as non-taxable Indian lands, national forest, and national parks and monuments. Therefore, projects that are not on the interstate system can apply a larger percentage of federal funds toward a project than the prescribed ratio. The prescribed ratio and Oregon's requirement is provided in Table 5.

Table 5. Oregon's Sliding Scale Rates of Federal-aid Participation (Rate for Projects not on Interstate System)

Ratio of designated public lands area to total area of State	Percentage of cost of Federal-Aid projects payable by Federal Government				
	50% Federal 50% State	70% Federal 30% State	75% Federal 25% State	85% Federal 15 % State	80% Federal 20% State
0.2317	61.59	76.95	80.79	88.48	84.63

Sources: https://www.fhwa.dot.gov/fastact/factsheets/stbgfs.cfm & https://www.oregon.gov/ODOT/COMM/Documents/FASTAct_Summary.pdf

2.1.9 Congestion Mitigation Air Quality (CMAQ) Funds

The Congestion Mitigation and Air Quality Improvement (CMAQ) Program is a federally-funded program of surface transportation improvements designed to improve air quality and mitigate congestion. The program is jointly administered by Federal Highway Administration (FHWA) and the Federal Transit Administration (FTA). CMAQ funds are apportioned annually to each State according to the severity of its air quality problems. Funding is available for areas that do not meet the National Ambient Air Quality Standards (NAAQS) for ozone, carbon monoxide levels or particulate matter ("nonattainment" areas) or have recently become compliant ("maintenance" areas). The Portland, Medford, Eugene/Springfield, and Salem metro areas as well as Oakridge and Klamath Falls are eligible for these funds (Eugene/Springfield and Salem were just recently made eligible).

2.2 State Funding Sources & Programs for Public Transportation

At the state level, funding for public transportation is challenged by the absence of a state sales tax and a constitutional restriction that prohibits use of vehicle-related fees and taxes for public transportation. Those two sources provide the majority of public transportation funding in many other states. Without the option for funding from fuel taxes or sales tax, Oregon has had to be creative in identifying funding for public transportation. This has resulted in a mix of unique funding sources for public transportation in the state.

The "baseline" level of state funding for transit operations is approximately $15 million annually. In addition, the state contributes to capital projects through the *Connect*Oregon program and one-time allocations by the state legislature, which can push the total annual state funding for public transportation to $30-$40 million. Figure 3 provides an overview of state level public transportation funding, by biennium, between 2007 and 2019.

Figure 3. Special Transportation Fund (STF) Trends: 2007-2019

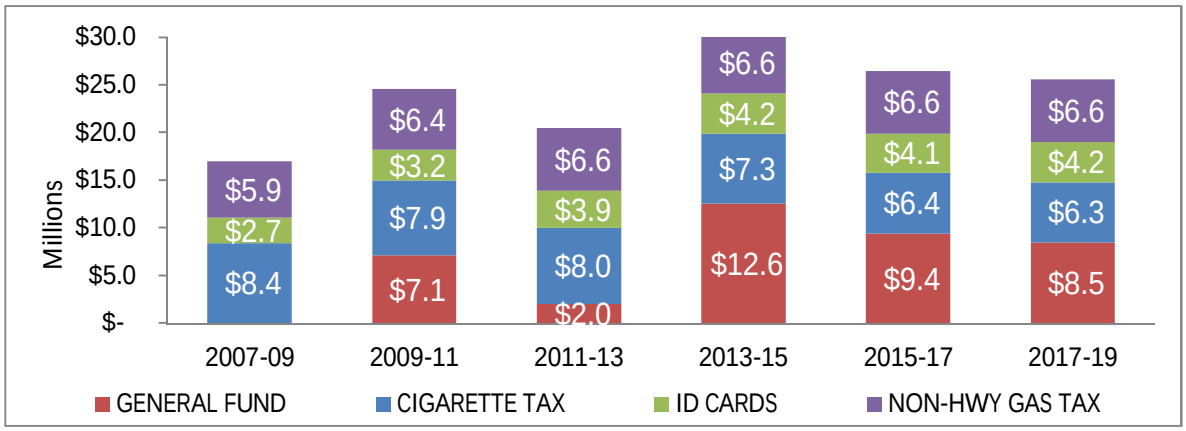


Table 6 below summarizes the major sources of Oregon state public transportation funding and lists program/source, method of distribution, and a description of the fund purpose. It excludes miscellaneous one-time funding sources for passenger rail, such as FHWA STP funds that were flexed into local funds with the assistance of local agency fund exchange. Key state revenue sources are explained more fully in the following sections.

Table 6. Major Sources of State Public Transportation Funding in Oregon

Program/Source	Purpose	Allocation Method	FY 2014 Funding
STF: Special Transportation Fund ORS 391.800 through 391.830	Seniors, people with disabilities	ODOT by formula and discretionary; STF agency discretionary local prioritization[9]	$11.7 M
Mass Transit Payroll Assessment[10] ORS 291.405 and 291.497	Any transit purpose	Department of Administrative Services formula	$10 M
***Connect*Oregon Program** Lottery backed bonds[11]	Capital	ODOT discretionary	$4.9 M

[9] 42 STF Agencies (transit districts, counties where no transit districts exist and nine federally recognized tribes) conduct local processes to prioritize expenditure of STF funding that is allocated by formula to STF Agencies. STF funds can be used for local match.

[10] Payroll tax fund collected and distributed by the Department of Administrative Services to public transportation districts that levy a public transportation tax and have state employees within their taxing district.

[11] Requires 30 percent local match.

Program/Source	Purpose	Allocation Method	FY 2014 Funding
Direct Legislative Appropriation Generally lottery backed bonds	Any, typically large capital projects	Discretionary as directed by legislature	$0 for FY14, $5.7 M in FY15[12]
Non-highway Gas Tax	Passenger rail	ODOT discretionary	$1.2 M
Custom License Plate fee	Passenger rail	ODOT discretionary	$3.6 M

2.2.1 Special Transportation Fund - Cigarette Tax and State ID Cards

The state of Oregon levies a tax of $1.32 per pack of cigarettes, with $0.02 per pack allocated for the Special Transportation Fund, which goes to elderly and disabled transportation. This funding source has tended to decline over time since smoking has decreased. Funds are distributed to public transportation providers through the Special Transportation Fund. In addition, fees on state-issued identification cards, which are not a vehicle-related fee and thus not subject to the constitutional restriction, have been allocated for public transportation and distributed through the Special Transportation Fund.

2.2.2 Mass Transit Payroll Assessment

The State of Oregon provides funding for transit service in certain areas based on the payroll of state employees. The funding is.006 ($6 per $1,000 of payroll) and is paid based on state employment in the Portland, Salem, and Eugene/Springfield metropolitan areas. This is, in essence, the state funding public transportation through a payroll tax on its own employees, in a similar fashion that a payroll tax is levied on private employers in the Portland and Eugene/Springfield areas. The funds collected may be allocated to transit operations or capital expenditures.

2.2.3 *Connect*Oregon Program

The Oregon constitution has been amended over the years to allow lottery funds to be used for economic development, public education and natural resources.[13] In 2005, the Oregon Legislature approved the creation of *Connect*Oregon which is a lottery-bond-based initiate to invest in air, rail, marine and transit infrastructure to ensure Oregon's transportation system is strong, diverse, and efficient.[14] This program has been reauthorized six times since its inception and has included pedestrian and bicycle projects in the last two rounds. Transit typically receives about 10 to 15 percent of the total *Connect*Oregon funding. However transit received nearly 30 percent of the *Connect*Oregon VI funding.

- *Connect*Oregon I through III - $100 million
- *Connect*Oregon IV - $40 million
- *Connect*Oregon V - $42 million
- *Connect*Oregon VI - $45 million

[12] $3.5 million for Salem Area Mass Transit District and $2.2 Million for Lane Transit District.

[13] Oregon Lottery. How Lottery Funds Are Allocated. https://www.oregonlottery.org/about/oregon-lottery-information/how-lottery-funds-are-allocated. Accessed December 6, 2016.

[14] Oregon Lottery. 2007-2009 Biennium Reports by County. https://library.state.or.us/repository/2009/200904171255315/2007-2009.pdf. Accessed December 6, 2016.

2.2.4 Direct Legislative Appropriation

The legislature can, and has, allocated funding to specific public transportation projects. These are generally large projects, such as light rail lines, BRT lines, or major transit centers, and are generally funded through lottery-backed bonds.

2.2.5 Non-Highway Gas Tax

Taxes on fuel purchases that are not used for motor vehicles are not constitutionally restricted to be used only for roadway purposes. Oregon allocates the taxes on fuel used for machinery such as lawn mowers for transit, passenger rail and other programs.

2.2.6 Custom Plate Fee

In Oregon, vehicle owners can chose to personalize their license plates for $50 per year. The revenues collected go to Oregon passenger rail programs.

2.3 Local Funding Sources for Public Transportation

Many Oregon transit providers generate local revenue to support public transportation services. The primary sources of local revenue are described below.

2.3.1 Passenger Fares & Other Directly-Generated Funds

Almost all transit agencies charge fares for use of their services. Some agencies also sell advertising space on their vehicles, transit stations and/or amenities, such as benches at transit tops. These funding sources are an important source of revenue, but, on average, cover less than 20 percent of the operating cost and may not be used to match federal funds.

2.3.2 Property Tax

Cities and counties may levy property taxes in support of transit. Seven transit districts in the state receive dedicated local revenue from a tax on real property, including Salem-Keizer Transit, Sunset Empire Transportation District, Tillamook County Transportation District, Lincoln County Transportation Service District, Rogue Valley Transportation District, Hood River County Transportation District, and Basin Transit Service Transportation District. The property tax rates that support public transportation vary significantly from community to community. Property taxes are limited by State Measures 5 (1990) and Measures 47/50 (1996/97), and can either be a permanent rate (part of the ongoing tax base) or a local option tax, which is temporary and subject to voter-approved renewals. Currently, all seven of the transit providers that are funded from the property tax are using a permanent tax base and do not have any supplemental temporary tax revenue.

2.3.3 Payroll Tax

In 1969, the state legislature granted the Portland and Eugene/Springfield metropolitan areas the ability to levy a tax on payroll (ORS 267.385). The tax is paid by employers on their gross payroll. The legislature later expanded the tax to include self-employed persons, and has increased the taxing limit to a current maximum of .008, or $8 per $1,000 of payroll (TriMet can levy a slightly higher tax).

Payroll tax is the primary source of operational funding for Lane Transit District, TriMet, City of Wilsonville, City of Sandy, South Clackamas Transportation District, and City of Canby. Since the tax is tied to payroll, it fluctuates with the economy. However, over the long term this tax has kept pace with inflation and has been a relatively good source of funding relative to other options in the state. For example, although the Eugene/Springfield and Salem/Keizer areas have similar population, Lane Transit District, with the payroll tax, offers 1.08 hours of fixed-route service per capita, while Cherriots, relying primarily on a property tax, provides 0.69 hours of fixed-route service per capita.[15]

2.3.4 Utility Fees

The City of Corvallis collects a monthly utility fee that is indexed to the average price of a gallon of gas. The City pays this fee to the transit provider. There is no fare charged for the transit service.[16]

3 State Funding for Public Transportation: Peer Review

Investigating other states for public transportation funding practices can reveal funding options that may be feasible for Oregon.

Table 7 lists every state, showing key data to identify states that are similar to Oregon in terms of urban and rural population, percent of federal land, total funding, and states that do not use sales tax as a primary source of funding. Orange cells highlight state characteristics that fall within the following criteria:

- States with total populations between 3 and 7 million.
- States with urban populations between 70 and 85 percent of the total population.
- States with non-taxable federal lands between 45 and 65 percent of the total land area.
- States that have total state transit funding greater than Oregon's of which most is not funded through sales tax.
- States that have between 30 and 60 transit systems with at least one urban system.

Many states use sales tax to provide funding to public transportation. Oregon's residents are highly unlikely to approve a sales tax initiative in the near future. States that fund public transit solely from sales tax were not considered for peer review.

[15] National Transit Data Base. 2015.

[16] City of Corvallis. Undated. *Bus Fares/Fareless*. Available at: https://www.corvallisoregon.gov/cts/page/bus-fares-fareless

Table 7. Population Composition, Statewide Public Transit Options and State Funding

State	2015 Population[1]	% Urban Population (2010)[2]	Federal Land[3]	Transit Systems[4]	Total State Transit Funding (FY 2014)[4]	% Funds from Statewide Sales Tax[4]	Local Sales Tax[4]
Oregon	4,028,977	81%	52.9%	40	$32,669,819	0%	N
Alabama	4,858,979	59%	2.6%	0	$0*	n/a	Y
Alaska	738,432	66%	61.2%	14	$187,652,905	0%	N
Arizona	6,828,065	90%	38.6%	0	$0*	n/a	N
Arkansas	2,978,204	56%	9.4%	17	$3,550,045	0%	N
California	39,144,818	95%	45.8%	139	$2,259,484,056	0%	Y
Colorado	5,456,574	86%	35.9%	41	$14,000,000	0%	Y
Connecticut	3,590,886	88%	0.3%	21	$465,086,221	0%	N
Delaware	945,934	83%	2.4%	1	$100,601,100	0%	N
District of Columbia	672,228	100%	21.0%	3	$507,890,000	0%	N
Florida	20,271,272	91%	13.2%	84	$229,673,093	0%	Y
Georgia	10,214,860	75%	4.0%	120	$3,342,964	0%	Y
Hawaii	1,431,603	92%	20.0%	0	$0*	n/a	N
Idaho	1,654,930	71%	61.6%	13	$312,000	0%	Y
Illinois	12,859,995	88%	1.1%	58	$3,118,234,749	82%	Y
Indiana	6,619,680	72%	1.7%	66	$57,909,867	14%	N
Iowa	3,123,899	64%	0.3%	35	$12,723,031	0%	N
Kansas	2,911,641	74%	0.5%	146	$11,000,000	0%	N
Kentucky	4,425,092	58%	4.3%	35	$1,867,907	0%	N
Louisiana	4,670,724	73%	4.6%	42	$4,955,000	0%	Y
Maine	1,329,328	39%	1.1%	22	$1,147,845	0%	N
Maryland	6,006,401	87%	3.1%	22	$767,338,593	2%	N
Massachusetts	6,794,422	92%	1.2%	16	$1,550,905,555	68%	N
Michigan	9,922,576	75%	10.0%	79	$245,125,303	0%	N
Minnesota	5,489,594	73%	6.8%	58	$418,061,000	0%	Y
Mississippi	2,992,333	49%	5.1%	21	$1,600,000	0%	N
Missouri	6,083,672	70%	3.7%	32	$3,417,258	0%	Y
Montana	1,032,949	56%	29.0%	40	$377,895	0%	N
Nebraska	1,896,190	73%	1.1%	64	$4,872,884	0%	N
Nevada	2,890,845	94%	84.9%	19	$0	0%	Y
N. Hampshire	1,330,608	60%	13.8%	16	$161,276	0%	N
New Jersey	8,958,013	95%	3.7%	0	$381,686,937	5%	N
New Mexico	2,085,109	77%	34.7%	27	$6,643,800	0%	Y
New York	19,795,791	88%	0.3%	114	$4,786,084,700	0%	Y
North Carolina	10,042,802	66%	7.7%	99	$79,356,533	0%	Y
North Dakota	756,928	60%	3.9%	33	$5,216,175	0%	N
Ohio	11,613,423	78%	1.2%	62	$7,300,000	0%	Y
Oklahoma	3,911,338	66%	1.6%	23	$5,750,000	0%	Y
Pennsylvania	12,802,503	79%	2.1%	37	$1,199,302,760	36%	N
Rhode Island	1,056,298	91%	0.8%	2	$55,819,226	0%	N
South Carolina	4,896,146	66%	4.4%	29	$6,000,000	0%	Y
South Dakota	858,469	57%	5.4%	25	$770,000	0%	Y
Tennessee	6,600,299	66%	4.8%	25	$49,889,987	0%	N
Texas	27,469,114	85%	1.8%	67	$30,341,068	0%	Y

State	2015 Population[1]	% Urban Population (2010)[2]	Federal Land[3]	Transit Systems[4]	Total State Transit Funding (FY 2014)[4]	% Funds from Statewide Sales Tax[4]	Local Sales Tax[4]
Utah	2,995,919	91%	64.9%	8	$0*	n/a	N
Vermont	626,042	39%	7.8%	10	$7,243,683	0%	N
Virginia	8,382,993	75%	9.9%	39	$251,381,851	0%	Y
Washington	7,170,351	84%	28.5%	31	$52,956,037	100%	Y
West Virginia	1,844,128	49%	7.4%	18	$2,677,058	0%	N
Wisconsin	5,771,337	70%	5.1%	75	$109,228,300	0%	N
Wyoming	586,107	65%	48.1%	39	$2,522,468	0%	N

Sources: (1) 2015 American Community Survey 1-Year Estimates. (2) U.S. Census Bureau, 2010 Census. (3) Congressional Research Service, 2014. (4) AASHTO, 2016.

** State does not provide state transit funding.*

Across the United States, the most common state funding sources used to support transit include:

- General funds (15 states)
- Gas taxes (14 states)
- Bond proceeds (12 states)
- Registration or license fees (8 states)
- Vehicle or rental vehicle fees (7 states)
- Sales tax (6 states). Note that this total does not include locally-levied sales tax for public transportation, which are more common.
- Trust funds (4 states)

Two states, Colorado and Minnesota, are examined more closely given their similarities with Oregon and the fact that they do not rely on sales tax for all their transit funding. In addition, individual public transportation funding options gleaned from other states were identified and are evaluated in Section 4.

3.1 State Peer Review Findings – Colorado

Colorado is similar to Oregon in several ways. The two states have similar total population, similar urban/rural population split with one large metropolitan area, and a similar number of transit providers. However, Colorado has a sales tax and allows fuel taxes and other vehicle-related taxes and fees to be used for public transportation. The following information is drawn from the March 2015 Colorado Statewide Transit Plan.

3.1.1 State Funding

Colorado's FASTER (Funding Advancement for Surface Transportation and Economic Recovery) program provides direct support for bridge, safety and transit projects. FASTER, which is funded by a portion of the gas tax, provides $15 million annually for statewide and local transit projects. Colorado Department of Transportation (CDOT) competitively awards $5 million in local transit grants, and $10 million for statewide, interregional, and regional projects. Local recipients are required to provide a minimum 20 percent local match. The $15 million cap for public transportation is not adjusted annually, so the buying power of the funding has and will continue to diminish over time, even while the overall FASTER program revenues increase.

In 2009, Senate Bill 09-228 was enacted to transfer 2 percent of general fund revenues to CDOT when certain revenue conditions were met. During the recent recession, the revenue targets were not met. However, it is estimated that about $100 million annually in additional transportation funding could be available between FY 2016 and FY 2020, assuming that the Colorado economy grows as projected. The legislation directed that, of these funds, "no less than 10 percent may be used for transit purposes or transit capital improvements."

3.1.2 Local Funding

The larger urban transit systems generate their own tax revenue, primarily through a local sales tax levy ranging from 0.4 percent to 0.8 percent. Local funding for Colorado's smaller systems are generally drawn from city or county general funds, which typically depend on sales tax, property tax, or other smaller sources of revenue such as gaming taxes, hotel taxes, and local vehicle registration fees.

In 1997, Colorado created the "Rural Transportation Authority Law" to enable local governments to create transportation authorities in rural areas. These authorities are empowered to develop and operate a transit system and may construct and maintain roadways. They are also allowed to impose dedicated taxes to fund investments and services.

Colorado counties also receive a share of the state Highway Users Tax Fund (HUTF), which is funded through revenues raised from statewide gas taxes, vehicle registration fees, license fees, and other user fees. As of 2013, SB 13-048 reinterpreted restrictions on this fund to enable local governments to flex HUTF dollars to transit-related projects. Local governments may expend no more than 15 percent of HUTF allocations for transit-related purposes.

3.1.3 Possible Lessons for Oregon

The allocation of general fund revenues for public transportation is certainly applicable to Oregon, since there are no restrictions on the use of those funds for public transportation. The method used in Colorado, whereby the funds are available only if specified revenue targets are met, can help address the stiff competition for general fund revenues in Oregon. However, the uncertain availability of funding with that condition can create problems for public transportation providers who need stability in their funding streams. An allocation similar to Colorado's (public transportation receives 10 percent of the 2 percent allocated for transportation), would yield about $18 million per year for public transportation in Oregon.[17]

The FASTER program is funded through a gas tax, so applying that to Oregon would require addressing the constitutional restriction limiting those funds in Oregon to roadway uses. It is interesting to note that Colorado "reinterpreted" restrictions on the Highway User's Tax Fund that allowed local governments to use the fund for public transportation projects.

[17] ODOT. September 2014. 2013-15 Biennium: Total Available Revenues by Agency. https://www.oregon.gov/transparency/pages/revenue.aspx#Money_Coming_In:__Revenue

3.2 State Peer Review Findings – Minnesota

Minnesota has similar population to Oregon and, like Oregon, has one large metropolitan area in the state. However, Minnesota contributes more than 10 times the funding for public transportation than does Oregon ($418 million vs. $33 million in 2015). This large amount of state funding is the result of the state assuming responsibility for funding operations of the smaller transit systems. Transportation funding in Minnesota is highly structured, with limited flexibility in the use of most funding streams.

3.2.1 State Funding

In Minnesota, only regional transit authorities are permitted to levy regional taxes for transit. Currently, there are three of those: Minneapolis/St. Paul; Duluth; and St. Cloud. All of the other approximately 60 transit providers in the state are funded through the Greater Minnesota Transit Fund. This transition is primarily due to a change that prohibited local property tax levies to be used for transit operations. Since many smaller systems relied on a property tax levy to fund their public transportation systems, this change required a shift to state support if those systems were to continue to operate. The Greater Minnesota Transit Fund receives revenue from:

- General Fund: Revenues are allocated on a biennial basis.
- A Motor Vehicle Sales Tax (MVST): This is a 6.5 percent tax applied to the sale of new and used vehicles. The tax is collected by dealers or upon registration. While the MVST is for transportation in general, constitutional language approved by voters in 2006 stipulates that at least 40 percent must go to public transportation.

3.2.2 Local Funding

As noted, only the three regional transit authorities are permitted to levy regional taxes for transit. The largest of these, Twin Cities Metro in Minneapolis/St. Paul, levies a local sales tax for a majority of its revenue. The agency also receives funding from the Motor Vehicle Sales Tax.

3.2.3 Possible Lessons for Oregon

The approach in Minnesota that only the larger transit agencies are allowed to collect local revenue for operations and the many other smaller providers are state supported is unique. A benefit of this approach is that allocation of funding and the corresponding level of transit service would be based on need rather than on the vagaries of local funding decisions. While the increase in state funding support would be offset to some extent by a reduction in local taxes, it is difficult from a practical and political standpoint to account for that offset.

The MVST is essentially a sales tax on vehicle purchases. It is unclear whether this would be considered a vehicle-related fee for purposes of Oregon's constitutional restriction limiting vehicle-related fees to highway uses. If is not subject to that restriction, this could be an option to consider. Note that in Minnesota, the Highway User Tax Distribution (HUTD) fund is constitutionally limited to roadways, the MVST, which helps funds the HUTD is not. Assuming proportional revenue based on population, a MVST in Oregon of 3 percent and with 10 percent of that tax revenue dedicated to transit (much lower than Minnesota) would generate about $ $200 million for statewide transportation needs, with about $20 million annually for public transportation.

4 CONCLUSIONS: POTENTIAL FUNDING OPTIONS

4.1 State Revenue Options

4.1.1 General Fund

The state's general fund (GF), which is primarily derived from income taxes, has a great deal of flexibility in how it can be used, but also has tremendous pressure to fund a wide variety of programs. Public Transportation is competing with many other statewide needs for these dollars. Given that public transportation supports many state priorities, such as economic development, access to work and school, and mobility for elderly and disabled residents, there is justification for GF support.

Many states, even those with sales tax and/or fuel taxes that can be used for public transportation, fund transit from their general fund. Colorado developed an option to provide a general fund contribution to transportation, including public transportation, based on hitting specified revenue targets. This has the advantage that the funding would only be triggered should there be sufficient funds for other budgeted needs. A disadvantage of this approach is that the funding is based on achieving revenue forecasts, so would tend to be unreliable, which would create difficultly for Oregon's transit providers to plan for service and capital investments. Consequently, conditional funding based on meeting or exceeding revenue projections may be most appropriate for discretionary allocation, where the funding would be used for specific capital needs rather than ongoing services that require a more stable funding source.

Potential Revenue: Based on an approximately $18 billion General Fund budget in the 2015-17 biennium, a 0.2 percent allocation of the state GF for public transportation (similar to Colorado's allocation) would generate approximately $18 million per year.

Recommendation: While the state GF is currently facing a shortfall and there is tremendous funding pressure from many directions, options for allocating a small portion of it for public transportation should be part of the discussion given the state's limited public transportation funding options and the fact that public transportation supports many state goals.

4.1.2 Fuel Taxes and Other Related Fees

Many states use gas tax and other vehicle-related fees to support public transportation. However, Oregon is one of 23 states that has some level of constitutional requirement that fuel and vehicle-related taxes and fees be used exclusively for roadway purposes. As a result, most expenditures for public transportation are not eligible for these taxes and fees. The constitutional restriction was passed in 1980. Four attempts to amend that restriction have been defeated:

- Measure 1 in May 1990 that would have allowed fuel and other vehicle-related taxes and fees to be used for public transportation was defeated with 48 percent in favor and 52 percent opposed.
- Measure 1 in May 1992 that would have allowed fuel and other vehicle-related taxes and fees to be used for police was defeated with 35 percent in favor and 65 percent opposed.

- Measure 2 in May 1992 that would have allowed fuel and other vehicle-related taxes and fees to be used for parks was defeated with 28 percent in favor and 72 percent opposed.
- Measure 80 in May 2000 that would have allowed fuel and other vehicle-related taxes and fees to be used for state police was defeated with 36 percent in favor and 64 percent opposed.

The community outreach conducted as part Governor's Transportation visioning process showed strong support for public transportation from every part of the state. Given this, it may be worth investigating if there is support for the elimination or revision of the constitutional restriction. It should be noted, however, that gas taxes have been declining in real dollars due to the greater fuel economy of cars and the increasing popularity of electric vehicles. In addition, gas taxes have been insufficient for roadway purposes, as evidenced by the large backlog of road maintenance needs. These issues raise questions as to the availability of these funds for public transportation, even absent a constitutional restriction. Should the constitutional restriction be addressed, use of vehicle-related taxes and fees for public transportation may need to be combined with an increase in the fuel tax rate or enactment of a different vehicle-related tax, such as a vehicle miles travelled (VMT) tax.

There are options for partial elimination of the constitutional restriction, which may be more palatable to voters. Examples of partial elimination include allowing only a specified percentage of gas taxes to be used for public transportation, or allowing vehicle registration fees to be used for public transportation, but not fuel taxes. Another option for partial elimination of the constitutional restriction would be that only new (additional) gas tax is exempt from the constitutional restriction.

Potential Revenue: Based on an average consumption of about $1.5 billion gallons of gasoline per year, a one cent tax per gallon of gas dedicated to public transportation would generate $15 million per year. Based on 1.5 million registered vehicles in Oregon, a $5 per vehicle registration fee dedicated to public transportation would generate about $7.5 million per year.

Recommendation: Investigate opportunities for elimination or revision of the constitutional restriction.

4.1.3 Statewide Employer Payroll or Employee Tax

As an employer payroll tax, this option would impose a statewide tax on all private employer payrolls that would be dedicated to transit. Since the state currently collects taxes from employers, administrative costs would be low. In addition, there is a "nexus" for this tax, since public transportation needs are linked to employment and getting people to jobs safely and efficiently.

There is also the option that the payroll tax could be levied on employees rather than employers.

Potential Revenue: Based on an $86 billion total state payroll, for every 0.1 percent tax on payroll ($1 per $1,000 of payroll), about $86 million would be generated statewide. Note that this calculation assumes that this tax increment would be added to the current payroll taxes levied in the Portland and Eugene/Springfield metro areas. If those areas are excluded from this additional payroll tax, a 0.1 percent tax would generate approximately $25.5 million in revenue, and it is assumed that if this restriction applied that the areas excluded from the additional payroll tax would not share in its

proceeds. A statewide employee tax of 0.01 percent would generate an estimated $70 to $100 million of tax revenues.

Recommendation: This is a potentially very good source of funding for transit, though it is likely to be controversial and has unknown legislative support.

4.1.4 Motor Vehicle Sales Tax (MVST)

As used in Minnesota, the MVST is a tax placed on the purchase of new and used vehicles. This is distinguished from a sales tax (which Minnesota also levies). The tax would be collected by dealers or upon registration of a used vehicle. A tax on vehicles sales to fund transit is also used in Missouri and New Jersey.

Potential Revenue: Assuming proportional revenue based on population, a MVST in Oregon of 3 percent with 10 percent of that revenue dedicated to transit (much lower sales tax and public transit percentage than Minnesota) would generate about $20 million annually for public transportation and about $200 million for other transportation needs. An alternative to that multi-modal approach would be to limit the funding to public transportation. A 0.5 percent tax on the sale of new and used vehicle dedicated to public transportation would yield about $35 million annually.

Recommendation: It is unclear whether this would be considered a vehicle-related fee for purposes of Oregon's constitutional restriction limiting vehicle-related fees to highway uses. If it is not subject to that restriction, this could be an option to consider. Note that in Minnesota, the Highway User Tax Distribution (HUTD) fund is constitutionally limited to roadways, but the MVST, which helps funds the HUTD is not. If a MVST is deemed a vehicle-related tax for purposes of the Oregon Constitution, then this limited encroachment of the constitutional restriction may be more palatable to voters.

4.1.5 Corporate Excise Tax/Income Tax

Currently, corporations doing business in Oregon pay a Corporate Excise Tax and corporations that generate income in Oregon pay a Corporate Income Tax. The tax collection is fairly complex and is determined by the type of corporation. The combined Corporate Income Tax and Corporate Excise Tax, which is between 6.6 and 7.6 percent, resulted in approximately $600 million in revenue statewide in 2015. A corporate tax has a nexus with public transportation, since transit helps transport employees to work and customers to places of business.

Potential Revenue: A corporate tax increase of 0.1 percent (such as from 7.6 percent to 7.7 percent) would yield approximately $8 million per year.

Recommendation: This is option should be considered further.

4.1.6 Rental Car Tax or Fee

Oregon is the one of only six states that does not levy a statewide charge, whether an additional tax or daily fee, on rental cars or short term vehicle rentals.[18] Although Oregon does not have a statewide

[18] National Conference of State Legislatures. March 2015. Rental Car Taxes. https://www.ncsl.org/research/fiscal-policy/rental-car-taxes.aspx

rental car tax/fee, some cities and counties do. In fact, Multnomah County has one of the highest rental car taxes in the country at 17 percent. Rental car tax/fees widely range from state to state from less than 2 percent to more than 19 percent. At least five states directly allocate a portion of rental car tax/fee revenues to public transportation; these states are listed in Table 8.

Table 8. Rental Car Tax/Fee Rates in States that Allocate a Portion of Fee to Public Transportation

State	Car Tax Rate
Arkansas	10%
Florida	$2/day
Maine	10%
North Carolina	8%
Virginia	10%

In Arkansas, the first $2.85 million in revenue is allocated to the Public Transit Trust Fund for use by the Arkansas State Highway and Transportation Department for the purpose of acquiring matching funds for the purchase of public transportation vehicles, public transit equipment or facilities (Arkansas State Senate Bill 581, now Act 949 of 2001). In Florida, 80 percent of the proceeds from the surcharge is directed to the Transportation Fund (Florida Revised Statue 212.0606(3)(A)). Of all the funds in Florida's State Transportation Trust Fund, a minimum of 15 percent are committed annually to public transportation projects (Florida Revised Statue 206.46(3)). It would need to be ascertained whether this would be considered a vehicle-related tax for purposes of the constitutional restriction.

Recommendation: Rental car taxes and fees are perceived as mostly targeting tourists, so may be more palatable than other taxing options. Assuming this fee is not subject to Oregon's constitutional restriction that vehicle-related fees cannot be directed to public transportation, this could be a new source of revenue for public transportation funds and could gather broad support.

4.1.7 Lodging Tax

Oregon currently levies a statewide tax on lodging at 1.8 percent (through July 1, 2020 at which point it will drop to 1.5 percent).[19] House Bill 4146 stipulates that the Oregon Tourism Commission must allocate most (95 percent) of the state transient lodging tax revenue as follows:

- No less than 65 percent must fund state tourism programs
- 10 percent must go toward a competitive grant program for projects that include tourism-related events and facilities
- 20 percent must go toward regional cooperative tourism programs

Local jurisdictions may administer their own lodging tax that do not have the same restrictions. An option is to increase that tax, with the additional revenue dedicated to public transportation.

[19] Oregon Department of Revenue. State Lodging Tax. https://www.oregon.gov/DOR/programs/businesses/Pages/lodging.aspx.

Potential Revenue: A 5 percent increase in the statewide lodging tax would generate approximately $0.9 million per year.

Recommendation: This option should be explored further. However, given the relatively small revenue generated from this potential tax, this funding option should not be considered a primary source of funding for public transportation. It may be more feasible as a local taxing option.

4.1.8 Engine Displacement Tax

This tax is based on the engine displacement, with larger engines paying a higher tax, and would likely be collected as part of vehicle registration. This is similar to a carbon tax or emissions fee since engine size is generally correlated to emissions. This tax is not currently used in the United States, but has been used in some European countries and in Japan. This fee is likely impacted by Oregon's constitutional restriction liming the use of vehicle-related fees to roadway uses.

Potential Revenue: The rate could be set as desired to generate a targeted revenue.

Recommendation: Since this fee is likely impacted by Oregon's constitutional restriction liming the use of vehicle-related fees to roadway uses, it could be considered as an option for a limited change in that restriction to put before voters.

4.1.9 Marijuana Tax

Marijuana sales are expected to generate approximately $54.5 million in tax revenue in 2016, more than earlier estimates. Currently, the tax funds are distributed as follows:

- 40%: Common School Fund
- 20%: Mental Health
- 15%: State Police Account
- 10%: Cities
- 10%: Counties
- 5%: Oregon Health Authority

There is a nexus between public transportation and marijuana, since marijuana users should not drive while intoxicated.

Potential Revenue: Ten percent of marijuana tax receipts dedicated to public transportation would generate approximately $5.45 million per year in revenue.

Recommendation: This option should be explored further. In order to not reduce revenue to existing programs funded with the marijuana tax, the tax to support public transportation could be an additional tax.

4.1.10 Sales Tax

Oregon is one of five states that does not have a statewide sales tax. Sales taxes, primarily through locally levied additions to the statewide rate, are used in many states to fund public transportation. The absence of a statewide sales tax in Oregon eliminates a key potential statewide and local public

transportation funding source. Previous attempts to impose a sales tax in Oregon have been soundly defeated, and there is little likelihood of passage of a sales tax in the foreseeable future. There is slightly better chance for a targeted sales taxes, such as the corporate tax (Measure 97) that was considered in November 2016, though that was defeated with 59 percent opposed and 41 percent in favor.

Recommendation: This funding option is very unlikely for the foreseeable future. Any effort to pursue a statewide sales tax in the future would very likely be based on a broader tax restructuring plan rather than an effort to fund public transportation.

4.1.11 Income Tax

Income taxes are a major source of tax revenue for the State's General Fund and are used to support a wide variety of state programs. Under this option, an income tax surcharge would be added to support public transportation.

Potential Revenue: Based on a total income tax revenue of approximately $6.6 billion, a 1 percent surcharge in the revenue (not a one percent increase in the income tax rate) would generate approximately $66 million.

Recommendation: This option should be explored further, although this option would need to address the concern that the existing income tax rate is perceived as high.

4.1.12 Additional Cigarette Tax/Other Tobacco Taxes

The state currently levies a tax of $1.32 per pack of cigarettes, with 2 cents per pack tax dedicated to public transportation. This tax could potentially be increased. In addition, taxes dedicated to public transportation would be added to other tobacco products. It should be noted that use of tobacco is declining, which means that these taxes will erode over time.

Potential Revenue: A doubling of the cigarette tax dedicated top public transportation, from 2 cents to 4 cents per pack, would generate an additional $3.5 million per year. A five percent tax on other tobacco products would generate approximately $3 million per year.

Recommendation: These options should be explored further. However, given the limited total revenue and the fact that this is expected to be a declining revenue source over time, this funding option should not be considered a primary, ongoing primary source of funding for public transportation.

4.2 Local Revenue Options

4.2.1 Passenger Fares

Passenger fares, while an important part of many transit agency's revenue, do not generally constitute a large percentage of needed operating funds for many transit providers. It may be possible to increase fares to generate additional operating funds. However, increasing fares will result in a reduction in ridership and will not result in a commensurate increase in revenue. While the impact of fares on ridership is complex, transit agencies have long used the Simpson-Curtin rule, which states that a 10 percent increase in fares will result in a 3 percent loss of ridership. In addition to the revenue impact,

the loss of ridership may also undermine community goals related to reducing dependence on single-occupant vehicles.

Recommendation: While the fare structure needs to be monitored and adjusted periodically, using large fare increases as a significant source of additional operating revenue is unrealistic and can have adverse consequences on ridership.

4.2.2 Local Area Payroll Tax

The payroll tax has been a good source of transit funding for the Eugene/Springfield and Portland urban areas. Those areas have benefitted from the relative stability of the revenue from the payroll tax and the fact that it tends, over time, to keep pace with inflation since it grows with increases in both employment and wages. Extending the payroll tax to other communities could provide a significant stable new local source of stable transit funding, but the tax can be met with opposition from the business community that would pay the tax. For example, a payroll tax of .0021 ($2.10 per $1,000 of payroll) was considered for the Salem metropolitan area in November 2015. This tax would have generated approximately $5 million per year for Salem-Keizer Transit. Although the proposed payroll tax rate would have been considerably lower than the payroll tax in the Portland and Eugene areas, many Salem area businesses opposed the tax and it was defeated by a 58 percent to 42 percent margin.

There is also the possibility that the payroll tax could be levied on employees rather than employers, or even a combination of employer/employee. Revenue estimates would depend on the rate charged.

Recommendation: A local payroll tax is a good source of public transportation funding in Oregon, and should be considered in other communities if there is adequate community and business support. It is likely to be a more feasible option in the larger urban areas.

4.2.3 Parking Fees/Tax

A parking fee could be an additional charge tacked onto parking fees, such as an extra dollar per month charged for monthly parking. This option would only apply in locations that charge for parking, such as downtown area of cities. Another option to levy a charge per parking space for non-residential (business) uses. Not only would these options provide revenue for transit, but they would increase the cost for using an automobile, and thus encourage transit use.

Chicago uses a parking surcharge (up to $2 for daily parking and up to $40 for monthly parking) to fund transit.

Potential Revenue: Assuming two non-residential, off-street parking spaces per capita, and a $10 per year charge per space, a community of 100,000 people would generate about $2 million per year.

Recommendation: This option should be considered as parking has a strong nexus with transit.

4.2.4 Local Option Income Tax

A local income tax could be levied and dedicated to public transportation. In Marion County, Indiana, (Indianapolis) voters supported a .25% income tax increase in November 2016 with revenues (estimated

at $56 million per year) dedicated to transit. The measure, which had broad community support (including the Chamber of Commerce), passed 59 percent to 41 percent, and authorizes the City-County Council to consider the tax. An income tax has the advantage that it is broadly based, but may be difficult to enact in Oregon communities given the state's already high income tax rate relative to others states. Linking the tax to specific transit improvements that the community desires could help generate support.

Potential Revenue: The revenue would need to be determined specific to each community and amount of tax levied.

Recommendation: This option could be explored in communities that have strong support for transit improvements. However, it would likely be very difficult to obtain voter support for an increase in local income tax.

4.2.5 Property Tax

Property tax is currently used in several Oregon communities to fund public transportation. While this broadly based tax could theoretically be increased to provide additional public transportation funding, the option has some significant hurdles. Measure 5 (1990) placed a cap on the property tax and Measure 47 (1996), which was later clarified by Measure 50 (1997) limited the maximum annual property tax increase and made it more difficult to pass a property tax levy. Many communities are at or near the property tax cap.

Potential Revenue: The revenue would need to be determined specific to each community and amount of tax levied.

Recommendation: Property tax increases to fund public transportation can be pursued where there is both tax capacity under the Measure 5 limit and when there is public support.

4.2.6 Advertising

Many transit agencies sell advertising on buses and/or passenger facilities such as bus shelters. In addition, naming rights for stations or transit lines (such as the Healthline in Cleveland, OH) are also sold by some transit providers, though these are less common. Some transit providers do not pursue advertising on buses and facilities due to concerns with aesthetics or the impact on the agency brand. While advertising can contribute to operating revenue, the amount is relatively minor and cannot be considered a significant revenue source. For example, TriMet, which has the greatest potential for advertising revenue given the larger population base, generates less than 1 percent of its revenue from advertising.

Potential Revenue: There is limited potential for significant additional revenue.

Recommendation: Sale of advertising should not be considered a significant source of operating revenue, but should continue to be pursued as a supplement to the operating budget.

4.2.7 System Development Charges (SDC)

Many communities charge SDC or utility fees associated with development permits to pay for infrastructure improvements associated with new development. Since new development often generates a public transportation need, there is a clear nexus in having some of the SDC charges go toward transit. Although these fees cannot be used for transit operations, they can help pay for passenger facilities such as shelters and other bus stop improvements.

Potential Revenue: The revenue would need to be determined specific to each community and amount of tax levied.

Recommendation: Transit providers should work with their local jurisdictions to identify opportunities to include funding for public transportation as part of an SDC.