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To: Portland City Council

From: City Club of Portland

Subject: City Club Report on Street Funding

For nearly 30 years, Portland has tried and failed to dedicate the revenue needed to keep roads in good repair, to stay current with legal requirements, and to meet the demands of an increasingly multi-modal populace. Portland is at the vanguard of this diversification of mobility and needs to adequately fund streets in order to maintain its position of leadership.

Facing a similar gap between tax revenue and transportation maintenance needs, other cities have raised additional revenue. Twenty-three Oregon cities and counties have enacted a local gas tax, 30 have implemented a transportation utility fee, and two have done both. Portland has done neither.

After decades of underfunding, many of Portland's roads, sidewalks and bike lanes have fallen into disrepair, adding up to an incredibly expensive – and still increasing – maintenance backlog. In order to make meaningful progress on addressing this vital issue, we encourage the city to take the following steps to ensure a functional, equitable and safe transportation system:

1. A local gas tax is easily implementable, closely tied to usage, and would provide an estimated \$64 million in new transportation revenue over four years. We urge the City Council to vote unanimously to place a 10-cent per gallon tax on the May 2016 ballot.
2. In January 2015, the City Council mandated that 50% of future budget surpluses go towards maintaining the city's infrastructure. We encourage the Council to maintain the fiscally responsible course by allocating a meaningful percentage of next fiscal year's projected \$11 million surplus to street preservation and safety improvements.
3. We also urge the city to identify new, long-term revenue streams, as closely tied to usage as possible, to meet the remaining maintenance and safety needs. We view a local weight-and-value-based vehicle registration fee, a commuter payroll tax on out-of-city employees, and new parking permits and fees as the most feasible and equitable solutions available.
4. Portland needs its state legislators to be leaders on the 2017 transportation bill. Increasing the state gas tax and securing legislative authority to implement new local revenue mechanisms, such as a weight-and-value-based vehicle registration fee, should be top priorities in the next biennium session.

Portland has long been known as a city capable of finding innovative solutions to complex challenges, and we have every confidence that we will once again live up to this reputation. We appreciate the Council's attention to this issue, and the opportunity to present the full findings and recommendations of our report.



Portland's Streets

End the funding gridlock

City Club of Portland Bulletin, Vol. 98, No. 8, September 9, 2015

City Club members will vote on this report between Friday, September 11, 2015 and Wednesday, September 16, 2015. Until the membership votes, City Club of Portland does not have an official position on this report. The outcome of the vote will be reported in the City Club of Portland Bulletin Vol. 96, No. 9, dated September 18, 2015, and online at pdxcityclub.org.

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We have to realize that a great many of the things we have to do to save our cities from falling apart are controversial, at least they are in the beginning and they are until they have proved themselves, but it does take bold action to keep our cities livable and to keep them in a position to continue to carry out the functions that they were designed to do.

Portland Mayor Dorothy McCullough Lee
Fourth National Businessmen's Conference on Urban Problems
June 1952

Majority Summary

Infrastructure maintenance and safety aren't sexy. When a government maintains its streets well, it spends money and ... *nothing happens*. Voters and politicians alike want to see something happen when they spend money. They prefer to see a shiny new bridge or streetcar appear, more police on the streets, more homeless people housed.

Maintenance is not only invisible, it is also a long-term endeavor. If one city council decides to defer maintenance in favor of more immediate spending priorities, it does not have to confront the results. Streets deteriorate slowly but steadily, and the neglect won't manifest until after council members leave office.

Well-maintained, safe streets benefit everyone in the community, but no advocacy group specifically promotes maintenance funding at every turn. Meanwhile, vocal interest groups fight for other spending priorities. Public officials hear those vocal groups, not the silent need. With neither political rewards for prioritizing street maintenance nor a dedicated constituency advocating for it, it is not surprising that spending on maintenance gets deprioritized and deferred, year after year.

Portland's street challenge

For nearly 30 years, Portland has tried and failed to dedicate the revenue needed to keep roads in good repair, to stay current with legal requirements, and to meet the demands of an increasingly multi-modal populace. Portland is at the vanguard of this diversification of mobility¹ and needs to adequately fund streets in order to maintain its position of leadership.

Most city revenue is dedicated to one thing or another before it is even collected. City Council only has discretion over the general fund, whose revenues comes primarily from property taxes, utility license fees and business fees. The general fund pays for many core city services such as police, fire, and parks. There is not enough general fund revenue to also pay for streets without significant cuts to those other priorities.

Facing a similar gap between tax revenue and transportation maintenance needs, other cities have raised additional revenue.² Twenty-two Oregon cities and counties have enacted a local gas tax, 30 have implemented a transportation utility fee, and two have done both. Portland has done neither.³ In two more cities – Bend⁴ and Troutdale⁵ – the city council has placed a gas tax on upcoming ballots for voters to consider.

In recent years, Portland's transportation budget has shifted away from maintenance and toward spending on capital project. Seven years ago, maintenance and operations were more than two-thirds of the Portland Bureau of Transportation's budget; today they are less than half because more money goes to new capital projects and debt service on past projects.⁶

Deterioration of roads accelerates when maintenance is put off, and expenses increase at an accelerating rate. Preventive maintenance on roads in very good condition costs about \$10,000 per lane-mile per year. Repairs to streets that have fallen into good-to-fair condition cost 10 times as much, and repairs to those that have fallen into very poor condition cost more than 10 times as much again – more than \$2 million per lane-mile.

After decades of underfunding, many of Portland's roads, sidewalks and bike lanes have fallen into disrepair, adding up to an incredibly expensive – and still-increasing – maintenance backlog. At a minimum, your committee estimates Portland needs \$205 million per year for at least the next decade to catch up and to make streets smooth and safe. Even with this year's budget surplus and "back-to-basics" budget, Portland spends only a tiny fraction of that.

To save current and future Portland taxpayers from staggering expense, Portland must act swiftly to contain and reverse ballooning street maintenance costs.

Everyone benefits from safe, well-maintained streets

All Portland residents and businesses depend on city streets to access goods and services. Local residents need safe, well-maintained streets to connect them to places they need to go, regardless of whether they walk, bike, ride transit, or drive a personal vehicles. Local businesses depend on streets to deliver and receive goods and to give customers access. Commuters, tourists, and non-local business also depend on Portland's streets to get around and to move goods.

Everyone therefore has a stake in keeping transportation infrastructure in good working order and in prudently avoiding unnecessary expenditures.

No consensus has emerged on how to equitably share the costs of a safe and well-maintained local street system. Some people view streets as a core public service – akin to schools, parks, and police – and believe they should be paid for through local taxes or flat fees. Your committee sees streets as more similar to a utility service, such as water, sewer, electricity, and natural gas. As such, they should be paid for with a combination of flat fees and user fees.

Most utility bills include a flat basic system charge meant to pay for the existence of the utility infrastructure, but the bulk of the bill is in the form of a user fee per gallon or kilowatt-hour used, meant to pay the materials and operations cost of providing those gallons and kilowatt-hours. If users paid primarily a flat fee, they would be incentivized to use more water or more electricity, driving up system costs for everyone.

Streets are similar. If users pay the same amount regardless of use, the fee would provide no incentive to constrain usage. User fees could encourage more efficient use of streets, keeping system costs down for everyone. They also link consumption to cost, so that those who use streets more pay more for their upkeep. Finally, they spread costs across all categories of users so that no single group has to bear the burden alone.

The committee minority endorses a transportation utility fee (TUF) that would charge a flat fee to residents on their water/sewer bill and a variable fee to local businesses. Yet because a TUF is not related to use, it would encourage over-use of streets. All residents would pay the same amount no matter how much or how little they choose to use the streets. Subsidized use would lead to more congestion, more pollution, and more crashes.

A TUF is the most regressive revenue option. It also would charge only local residents and businesses, forcing them to pay more because non-local street users such as commuters, visitors, and companies moving goods in trucks across Portland's streets would not pay a TUF.

The city has tried to pass a TUF four times in the past 15 years and has failed every time. This suggests that, in addition to being unrelated to use and the most regressive option, a TUF is not very politically possible.

For these reasons, the majority does not believe the city should try yet again to pass a TUF, but should instead pursue fees that bear some relation to street use. Use-related fees will spread costs across all categories of users and give people a modicum of control over how much they pay.

While there is no meter to measure transportation use in the way that electricity and water meters precisely measure use of those resources, a city gas tax, vehicle registration fees and parking fees are related to use. People and businesses driving cars and trucks on city streets, whether they reside in Portland or not, would pay gas taxes and parking fees and residents who own vehicles pay vehicle registration fees them. An even more-precise measure of use might emerge soon in the form of charging based on vehicle miles traveled. Systems for tracking actual vehicle miles travelled are currently undergoing testing.⁷ If they become broadly used they will be able to serve as a sort of transportation meter.

How to move forward

Deferring action allows the challenges – and the cost to fix them – to grow. Your committee therefore recommends that Portland do the following:

Immediately: The city should dedicate as much money as possible from the budget surplus and the general fund to contain costs and prevent streets from getting worse.

In the next 18 months: The city should improve voters' understanding of the deferred maintenance problem and trust in the city's solutions.

As soon as possible: The city should put a city gas tax on the ballot. The city should also implement other fees, including a commuter payroll tax on out-of-city employees, and new parking permits and fees.

As soon as possible: The city should lobby the state legislature for authority to charge a weight-and-value-based vehicle registration fee.

When the technology is vetted and available: the city should pursue a vehicle miles traveled (VMT) fee.

There is no silver bullet. No single source of revenue will solve Portland's transportation funding problem. An immediate infusion of cash from the current budget surplus and general fund will stave off some deterioration; a city gas tax could cover the bulk of routine maintenance costs; and commuter payroll taxes and parking permits and fees could provide a small amount of additional revenue.

Yet even all of those together would not provide sufficient funds to eliminate the large maintenance backlog and implement all the safety improvements the city needs. The city must implement additional fees, as closely related to use as possible, to ensure Portland's streets serve its residents and businesses safely and efficiently for decades to come.

Findings

1. Portland has been underfunding its streets for decades.
2. Poorly maintained streets cause costly wear and tear on vehicle suspensions and tires. Unsafe streets can lead to costly injuries and even deaths.
3. Portland needs at least \$50 million per year to keep streets from falling into further disrepair, at least \$75 million per year to repair streets that have fallen into disrepair, and at least \$80 million per year to repair and construct safety projects that benefit all modes of transportation, for a total of \$205 million per year.
4. In FY 2015-16, including allocations from the budget surplus, Portland will spend less than \$20 million on street maintenance.
5. Money is fungible. Even if a new revenue stream is dedicated exclusively to street maintenance and safety, it could displace existing spending, freeing the city to spend that money on other priorities.
6. Many people distrust the City of Portland's ability to ensure fiscally prudent city priorities are funded over the long term.
7. In the past several decades, the City of Portland has shifted money from the general fund to capital projects and debt service on capital projects.
8. In the past decade, Portland Bureau of Transportation has shifted its transportation spending away from maintenance to capital projects and debt service on capital projects.
9. Other Oregon cities have solved or mitigated their street funding problem by implementing transportation utility fees and city gas taxes. Some spend two to three times as much on maintenance per lane-mile as Portland does.
10. City Council has no budget to inform voters about the crisis of deferred maintenance or to campaign for voters to approve new funds for streets.
11. Issues of broad public concern benefit from advocacy groups that engage in the policy process. No advocacy groups in Portland work specifically on ensuring funding for transportation maintenance.
12. Low-income households depend more on walking, biking and transit and also spend a greater share of their income on transportation compared with wealthier households.
13. Street disrepair and safety issues are often worse in low-income neighborhoods.

Conclusions

1. Underfunding of infrastructure maintenance is a national problem not unique to Portland. This is due in part to the prosaic nature of maintenance and is exacerbated by the fact that the federal government offers matching funds for capital projects, but not for maintenance.
2. Portland has underfunded street maintenance for three decades and does not currently dedicate enough funds to prevent further deterioration of streets, much less address the spiraling costs of the maintenance backlog.
3. Deferring maintenance is fiscally irresponsible. It doesn't just kick the can down the road; it also increases the cost of the problem at an accelerating rate.
4. Portland needs money to fix its streets. The money must come from multiple sources because there is no plausible federal or state revenue stream large enough to fill Portland's need, none of the potential local funding mechanisms alone can fill the hole, and there is not enough money in the general fund to cover all costs.
5. Well-maintained and safe streets benefit all local residents and businesses as well as employees, visitors, and companies moving goods in Portland. However, overuse of streets can harm Portland's livability and inflate transportation costs.
6. For more than 10 years, polarized interest groups have been an obstacle to funding streets. Although all parties agree the city should spend more on streets, some opponents argue against new revenue sources without saying where the money should come from.
7. Polarized interest groups have the resources to refer new funding proposals to the ballot and run opposition campaigns, and they are able to wield the threat of a referral and opposition campaign to chill public efforts to raise new revenue for streets.
8. The city has not effectively communicated to voters the trends in city revenues and expenditures that have led to the need for new revenue.
9. Voters are resistant to new fees or taxes for transportation both because they don't believe they should have to pay new fees or taxes for transportation and because they don't trust that the city government will spend new revenue well. The mayor's recent decision not to take action for the next 18 months contributes to the public's perception that street maintenance is not a priority to the city government.
10. Because interest groups can refer any new fee to the ballot and voters are unlikely to approve any new fee or tax to fund transportation, City Council options for raising new funds for transportation are limited.

Recommendations

1. City Council should not wait until after the 2016 elections to act on street funding.
2. City Council should follow through on its commitment to use at least 50 percent of this year's (FY2015-16) budget surplus to maintain infrastructure and should dedicate the majority of it to street maintenance.
3. City Council should commit to dedicate at least 50 percent – and preferably up to 100 percent – of future years' budget surpluses or increased city revenues to street maintenance until Portland has addressed its maintenance backlog.
4. The city should reallocate as much money as possible from other spending priorities to streets.
5. The city should adopt an ironclad, fiscally responsible “fix-it-first” policy and prioritize maintenance and safety over new capital expenditures.
6. When proposing any new taxes or fees, the city should clearly communicate to the public the trends in revenues and expenditures that have led to the need for new revenue, and how the city will safeguard the new revenue going forward.
7. The city should immediately pursue a fee for use. At the moment, the most technically feasible fee is a city gas tax. A gas tax would generate revenue from most users – including those transporting goods across Portland streets and those who don't reside in Portland – and would discourage congestion and pollution.
8. Shifting money from the general fund, budget surpluses, and a city gas tax would not raise all the revenue Portland needs for street, so the city should also pursue the following fees:
 - Parking permits and fees,
 - Commuter payroll tax,
 - Weight-and-value-based vehicle registration fees (see Recommendation 9, below),
 - Vehicle miles travelled (VMT) fee (once practicable).
9. Portland should lobby the state Legislature to authorize cities to charge vehicle registration fees and to vary charges based on the weight and value of the vehicle.
10. Portland Bureau of Transportation and City Council should aim to implement users-pay fees on large transportation projects such as bridges, streetcars and light rail to pay for debt service on those projects, freeing up transportation funds to be spent on maintenance instead of on debt payment.
11. Portland should not saddle all taxpayers with the bill for capital projects that primarily or exclusively benefit a few people and businesses. Bridges primarily benefit the people driving across the bridge and streetcar projects primarily benefit the businesses located near the line. If those people and businesses are not willing to pay for the benefits they receive, the city

- should forego the project rather than siphon money away from things that benefit Portlanders more broadly, such as street maintenance and safety.
12. To promote a fix-it-first ethos, Portland should join other cities to lobby the Oregon Legislature to dedicate a larger percentage of state gas tax and vehicle registration revenue to fund local street maintenance instead of building new highways.
 13. The city should educate Portlanders about the depth of the deferred maintenance crisis and the current state of funding.

Minority Summary

The minority agrees with most of the majority report. Indeed, the only substantial point of disagreement centers on what is the most technically feasible, politically possible revenue source that creates a nexus between collection and use. The majority advocates a city gas tax and variable vehicle registration fee, but both are inferior to a Transportation Utility Fee (TUF). The TUF would be assessed as a moderate flat fee on residential households – collected through the water/sewer bill – and a variable trip-related fee on businesses.

The minority would urge City Council to adopt a TUF and refer a linked gas tax to voters.

As the majority notes, the city must not delay finding new sources of revenue to pay for the tremendous maintenance and safety needs that Portland confronts. Yet only a TUF could be implemented immediately by City Council. A gas tax would require a public vote, and a variable vehicle registration fee would require permission from the Legislature.

A TUF also is superior in its potential to raise money. Charging a moderate, flat-rate fee and a similar fee on businesses would generate more than twice what a gas tax and registration fee would raise combined.

Another TUF advantage is that all Portland residents would contribute something to street maintenance and safety because all Portland residents benefit from well-maintained, safe streets.

Finally, a TUF is no more regressive than the majority's preferred taxes and fees, and arguably it is less so.

The minority agrees with the majority that some combination of taxes and fees is necessary. No one mechanism can raise enough money for streets. A TUF is simply the lowest-hanging fruit after reallocating more money to maintenance and safety within the city's existing budget, especially if linked to a gas tax increase at the same time.

Alternative recommendations

Portland's streets deteriorate further every day. The minority therefore urges City Club members to prioritize a TUF and refer a linked gas tax to voters as the best, most expedient path forward. Specifically, the minority would replace the majority's Recommendations 7 and 8 with the following:

7. *City Council should immediately adopt a transportation utility fee, charging every Portland resident and businesses a modest amount through an existing collection method, such as sewer/water bills. The city should also immediately refer a city gas tax to voters. These proposals should be linked to offer the public a balanced fee and tax package that asks general residents and users to help pay for needed street maintenance and safety improvements.*
8. *Shifting money from the general fund and budget surpluses, and implementing a transportation utility fee and a city gas tax may not raise all the revenue Portland needs for streets, so the city should also explore the following users-pay street funding mechanisms:*
 - *Parking permits and fees*
 - *Commuter payroll tax,*
 - *Vehicle registration fees,*
 - *Vehicle miles travelled (VMT) fee (once practicable).*

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****For full report please visit:**

<http://www.pdxcityclub.org/streetfee>


City Club of Portland Street Funding presentation
(Presentation introduced by Commissioner Novick)

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