DATE: October 6, 2016
TO: Chris Maciejewski
FROM: Kate Macfarlane and Terry Moore
SUBJECT: Albany Area Metropolitan Planning Organization Regional Transportation Plan Tech Memo #12 –Transit Funding Assumptions

1 Introduction[1]

The Albany Area Metropolitan Planning Organization (AAMPO) is responsible for preparing a long-range Regional Transportation Plan (RTP) for the Albany metropolitan area. The RTP takes a "big-picture" look at future demand for all modes of transportation in the Albany region and how that demand might be accommodated by investments in infrastructure. The RTP is an initial step in developing the region's network of transportation facilities and services, and serves as a framework for more detailed project planning.

The rules of the Federal Highway Administration (FHWA) and Federal Transit Administration (FTA) require the RTP to be "fiscally constrained," meaning that the cost of projects included in the RTP cannot exceed the capacity of the region to fund the projects. This memo estimates the level of funding that jurisdictions in the AAMPO can reasonably expect to have available over the planning period for transit projects. Note that a separate memo, Tech Memo #11 – RTP Funding Assumptions, includes revenue forecasts for other modes of transportation. This memo focuses on estimating revenues that will be available over the next 25 years for transit operations and capital improvements in the region.

The remainder of this memorandum is organized into four sections:

- Framework: Describes overarching principles and concepts, provides definitions of key terms, and describes the methods used in the analysis.
- Revenue Forecasts: Provides a forecast of future transit revenues based on historical trends and future expectations.
- Potential New Funding Sources: Identifies a range of potential funding sources that could be used to fund transit service within the Albany metropolitan area.
- Conclusions: Summarizes the key findings from the analysis.

[1] ECONorthwest has extensive experience in the area of transportation planning, especially in forecasting transportation revenues that support long-range transportation plans. Thus, language in this memo, especially in the Introduction and Framework sections draws heavily from ECONorthwest's previous work, especially the Bend MPO MTP (2014), and Funding Sources for the Maryland Parkway Corridor, Regional Transportation Commission of Southern Nevada (2015 – Draft).

2 Framework[2]

2.1 Legislative framework

Transit systems in urban areas can be extensive and cross many jurisdictions. While transit systems within an urban area are typically operated by one entity, funding is often the joint responsibility of federal, state, and local governments. Efficiently building, operating and maintaining such a system requires planning to coordinate investments in multiple jurisdictions.

Urbanized areas over 50,000 in population are required by federal law to coordinate plans for transportation improvements at a regional level. The RTP serves this function by considering long-run transportation needs at a regional level and identifying policies, programs, and projects to meet these needs. The plans of local jurisdictions responsible for the transportation system in the Albany metropolitan area must be consistent with the policies, programs, and projects identified in the RTP.

A key requirement for regional transportation plans is that they be fiscally constrained—the cost of actions identified in the RTP cannot exceed the level of funding considered reasonably available in the region. The cost of all potential transit projects in a region almost always exceeds the financial resources considered reasonably available to pay for the projects. Thus, an important component of the RTP is forecasting future revenues for transit, to set reasonable expectations for what level of service can be provided in future years, and what service improvements (if any) can be afforded.

2.2 Transportation funding principles

Projects to improve the transportation system are funded through a mix of federal, state, and local revenues distributed through a variety of funding programs that dictate how this revenue can be spent. In addition to revenue generation and spending by multiple jurisdictions, revenue sharing among jurisdictions and cooperation among multiple jurisdictions on individual projects makes describing transportation funding complicated. In this section, we explain some key transportation funding principles, and provide definitions of key terms, with the intent of making this evaluation of transportation funding less complicated and easier to understand.

2.2.1 Funding vs. Financing

The terms “funding” and “financing” are often are used interchangeably; there is an important difference. Providing transportation facilities and services costs money, and somebody has to

[2] Much of the language in this framework section is an abridged version of the framework section found in Tech Memo #11 – RTP Funding Assumptions. Readers should refer to that tech memo for a more complete description of the framework.

pay those costs. The ultimate source of revenue for these costs is *funding*. Examples of funding mechanisms are tolls, fuel taxes, registration fees, impact fees, and property taxes.

When the funds for transportation costs are borrowed and paid back over time, then these costs have been *financed*. Public agencies finance costs for the same reasons that households and businesses do—to reduce the current out-of-pocket costs by spreading out payments over time. Since financed costs must be paid back over time, financing the costs cannot increase the total amount of funding available in an area over a long-term planning period.

This report is about funding. In the future, as local jurisdictions within the AAMPO pursue the implementation of specific transportation improvements, they may choose to finance those projects as a method of accelerating funding capacity. The details of any potential future financing arrangements are beyond the scope of this analysis.

2.2.2 Sources, Mechanisms, and Programs

"Source," "mechanism," and "program" are terms that are often used interchangeably when discussing funding, but each term is distinct for the purposes of this analysis:

- A *source* is the entity that pays for the funding. We look at sources of funding two different ways (1) the unit of government that provides funding directly to a project (government source), and (2) the group of persons or businesses that pay the money to the government (the ultimate source).
- A *mechanism* (also called a *tool*) is the method that is used to charge persons or businesses to generate the funding. Examples of funding mechanisms include gas tax, vehicle registration fees, and transit ticket sales.
- A *program* is an ongoing, well-defined approach for spending a specific sum of money, usually with a specified funding source, and with clear rules on what projects can receive funding, and what dollar amounts those projects can receive. The FTA Small Starts Program is an example of a funding program.

2.2.3 Capital vs. Operations and Maintenance

Our analysis looks at both capital and operations and maintenance:

- *Capital* costs are one-time, up-front costs associated with the construction and implementation of a project.
- *Operations and maintenance* (O&M) costs are long-term, ongoing costs associated with keeping a project in working order after the capital investment is complete.

Capital costs are frequently presented as a lump-sum number, whereas O&M costs are frequently presented as an average annual number. An important reason to separate these two types of costs is that some funding sources may only be available, or appropriate to use on either capital or O&M costs, but not both.

2.3 Definitions

Below we define key terms that appear throughout this memorandum.

- **Fiscal Year End (FYE)** denotes the completion of a one-year, or 12-month, accounting period. For example, FYE 2015 refers to the 2014-15 fiscal year, ending June 30, 2015.
- **Year of Expenditure (YOE)** denotes that dollar values are reported as nominal values, which increase over time due to assumed inflation rates.
- **Constant 2016 $** denotes that dollar values are reported in constant terms based on FYE 2016 values. These values remain constant over time, and do not reflect changes in value due to inflation.

2.4 Methods

The methods used in this analysis are simple to explain, though they can be challenging to apply. These methods are summarized below:

- Review historical trends in transportation expenditures in the AAMPO. The City of Albany operates the transit system in the AAMPO. The City was contacted and asked to provide historical data on transportation funding for FYE 2013 through FYE 2015, including specific categories of revenues and expenditures.
- Consult and confer with City staff. We followed up with staff at the City of Albany, as needed to ensure completeness of the historical data, and an understanding of likely future trends.
- Forecast future revenue sources. Based on the historical data, and input from staff at the City of Albany, we forecast future revenues from FYE 2016 through FYE 2040. The revenue forecasts in this memorandum are presented in both constant 2016 dollars, and nominal, year of expenditure dollars. To convert from constant to nominal dollars, we use the inflation index shown in Exhibit 1. This inflation index assumes 1.31% inflation each year. This assumption was provided by ODOT as part of its 2013 long-range revenue forecast.
- Review forecasts with ODOT staff. Much of the funding for transit service is channeled through ODOT to local transit providers. Thus, our forecasts were coordinated with ODOT staff to ensure they reflected ODOT projections of future State and federal revenues.
- Review forecasts with AAMPO staff and Technical Advisory Committee.

Exhibit 1. Assumed inflation index used in this analysis, FYE 2015 to 2040

FYE	Index
2016	1.0000
2017	1.0310
2018	1.0630
2019	1.0960
2020	1.1300
2021	1.1650
2022	1.2011
2023	1.2383
2024	1.2767
2025	1.3163
2026	1.3571
2027	1.3992
2028	1.4426
2029	1.4873
2030	1.5334
2031	1.5809
2032	1.6299
2033	1.6804
2034	1.7325
2035	1.7862
2036	1.8416
2037	1.8987
2038	1.9576
2039	2.0183
2040	2.0809

Source: ODOT Long-Range Revenue Tables 2013 v3

3 Revenue forecasts

3.1 Overview of Transit Service in Albany Metropolitan Area

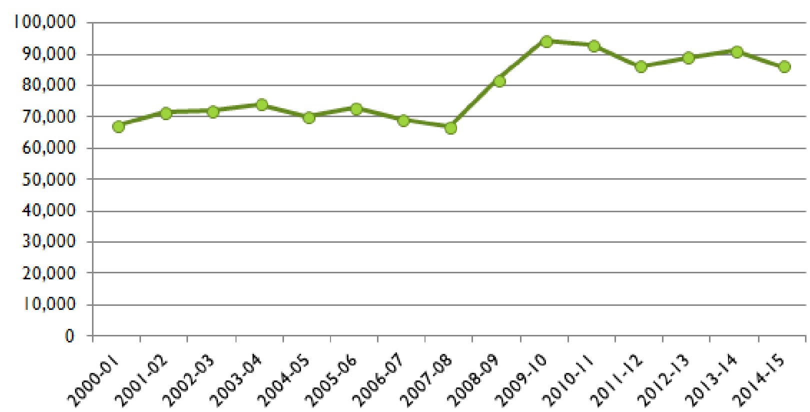
The City of Albany operates three transit programs that serve the Albany metropolitan area: Albany Transit Service (ATS), the Linn-Benton Loop, and Paratransit. The following section provides a brief summary of each program; see Technical Memorandum #5: Transit Existing Conditions for details regarding the operational characteristics (routes, schedules, fares, capital assets, ridership) of these three programs.

Albany Transit System (ATS)

ATS offers three fixed routes within Albany: (1) early morning, (2) regular service – east, and (3) regular service – west. ATS has approximately 85 designated stops, including 21 with shelters. One-way fares cost $1.00 per trip (transfers are free at designated points), with a discounted rate of $0.50 per trip for seniors, disabled, and youth passengers. Monthly passes are also available at a price of $30 for adults, and $15 for seniors, disabled, and youth passengers.

In FYE 2015, ATS brought in approximately $31,000 from bus fares—3% of total revenues. Ridership for the ATS fixed-route service is shown in Exhibit 2. ATS ridership peaked in FYE 2011 at 94,200 but has decreased to 86,100 in FYE 2015. These trends directly contribute to fluctuations in fare revenue, depending on the type of rider. A high number of Linn Benton Community College (LBCC) and Oregon State University (OSU) students use the ATS service, which contributes to higher ridership January through May as well as in October and November. Downturns in ridership occur during December and the summer months. OSU and LBCC students, however, do not have to pay fares.

Exhibit 2. Albany Transit System Fixed-Route Ridership FYE 2001-2015



Source: Albany Transit System

ATS capital expenditures are typically for transit vehicles and transit technologies. ATS has nine vehicles for fixed-route transit service that all use diesel fuel. ATS has implemented onboard security systems on new vehicles and is working with ODOT to update its Google Transit database to support a region-wide strategy for sharing transit trip planning information.

Paratransit

Albany Call-A-Ride is a paratransit service provided by the City of Albany, offering curb-to-curb transportation within the City of Albany and within ¾ mile outside city limits for seniors (60 and over) and citizens with disabilities. Albany Call-A-Ride also provides a special services senior medical-shopper shuttle that operates on a fixed-route between senior housing locations, retail stores, grocery stores, and medical facilities. To help contribute to lower operating costs, the Call-A-Ride program is staffed primarily by volunteer drivers and dispatchers. The City of Millersburg helps finance this service in exchange for providing Albany Call-A-Ride in Millersburg. The fare for each one-way trip is $2.00 per person.

Between 2003 and 2015, average annual Call-A-Ride ridership was about 16,750. In FYE 2015, ridership was 17,400, and Call-A-Ride collected $30,000 in fares.

Linn-Benton Loop

The City of Albany operates a regionally-funded inter-city service known as the Linn-Benton Loop. The Loop provides service between Albany, LBCC, downtown Corvallis, OSU, and Hewlett Packard. This service is a partnership between public agencies and private sector businesses including the City of Albany (designated operator), Linn and Benton counties, LBCC, OSU, and Hewlett Packard. Fares for the Loop service are $1.50 for adults; $0.75 for seniors, persons with disabilities, and youth; and free for LBCC, OSU, Samaritan Health Services, or Hewlett Packard ID cardholders.

In FYE 2015, annual ridership on the Linn-Benton Loop was 128,700. Pass programs and partnerships contribute a significant share of the program's revenue, totaling $225,200 in FYE 2015. The same year, the Loop collected $25,400 in bus fares

Regional and Connecting Services

There are several additional transit services that provide connections to the ATS service area. These service providers include: Coast to Valley Express, Linn Shuttle, Valley Retriever, Amtrak, and BoltBus. Additionally, there are two entities providing demand responsive services within Albany: Benton County Dial-A-Bus and Corvallis-Albany Connection. For details about these services see the "Additional Services" section in Chapter Two of Technical Memorandum #5: Transit Existing Conditions.

3.2 Historical revenues and expenditures

Exhibit 3 shows a summary of historical revenues and expenditures for all transit service provided by the City of Albany, including ATS, the Linn-Benton Loop, and Paratransit. Exhibit 4, Exhibit 5, and Exhibit 6 show the same information as Exhibit 3 broken out for each of the three transit programs: ATS, the Linn-Benton Loop, and Paratransit.

Exhibit 3. Historical annual transit revenues and expenditures, Albany Public Transit, All Programs, FYE 2013 to FYE 2015 (YOE $)

	FYE 2013	FYE 2014	FYE 2015
Resources			
Federal Funds	$ 490,701	$ 870,505	$ 1,376,920
FTA Section 5307	$ -	$ 543,473	$ 817,916
FTA Section 5309	$ -	$ -	$ 311,250
FTA Section 5310	$ 66,481	$ 327,032	$ 247,754
FTA Section 5311	$ 424,220	$ -	$ -
State Funds	$ 107,540	$ 16,002	$ 8,000
ODOT Operating Match Grant	$ 32,014	$ 8,002	$ -
STF - Benton County	$ 14,000	$ 8,000	$ 8,000
STF - Linn County	$ 41,601	$ -	$ -
STO - Linn County	$ 19,925	$ -	$ -
City of Albany	$ 436,100	$ 516,000	$ 554,700
General Fund	$ 436,100	$ 440,000	$ 466,700
Capital Equip. Fund	$ -	$ 76,000	$ 88,000
City of Millersburg	$ 3,556	$ 560	$ 788
Benton County General Fund	$ 10,000	$ -	$ -
Pass Programs	$ 235,786	$ 235,800	$ 245,200
Bus Fares	$ 77,941	$ 89,532	$ 86,140
Advertising	$ 5,338	$ 4,911	$ 7,004
Other	$ 7,903	$ 3,300	$ 1,907
Total Revenue	**$ 1,374,865**	**$ 1,736,610**	**$ 2,280,660**
Expenditures			
Personnel Services	$ 841,087	$ 948,768	$ 988,184
Materials & Services	$ 725,756	$ 532,208	$ 562,628
Capital Expenditures	$ -	$ 80,118	$ 752,087
Total Expenditures	**$ 1,566,843**	**$ 1,561,094**	**$ 2,302,899**
Annual Surplus (Deficit)	$ (191,978)	$ 175,516	$ (22,240)

Source: Revenue Status Reports provided by Jeff Babbitt, Public Works/Community Development Business Manager, City of Albany. City of Albany Adopted Budget 2016-2016, City of Albany Proposed Budget 2016-2017.
Note: This table includes revenues and expenditures for ATS, the Linn-Benton Loop, and Paratransit.

Exhibit 4. Historical annual transit revenues and expenditures, Albany Transit Service, FYE 2013 to FYE 2015 (YOE $)

	FYE 2013	FYE 2014	FYE 2015
Resources			
Federal Funds	$ 239,957	$ 218,015	$ 537,712
FTA Section 5307	$ -	$ 208,800	$ 529,539
FTA Section 5310	$ 6,000	$ 9,215	$ 8,173
FTA Section 5311	$ 233,957	$ -	$ -
State Funds	$ 61,423	$ 8,002	$ -
ODOT Operating Match Grant	$ 32,014	$ 8,002	$ -
STF - Linn County	$ 29,409	$ -	$ -
City of Albany	$ 180,900	$ 353,500	$ 417,200
General Fund	$ 180,900	$ 353,500	$ 329,200
Capital Equip. Fund	$ -	$ -	$ 88,000
Pass Programs	$ 20,000	$ 20,000	$ 20,000
Bus Fares	$ 27,483	$ 33,970	$ 30,696
Advertising	$ 1,339	$ 1,460	$ 3,376
Other	$ 392	$ (445)	$ (1,229)
Total Revenue	**$ 531,494**	**$ 634,503**	**$ 1,007,755**
Expenditures			
Personnel Services	$ 344,149	$ 362,982	$ 375,787
Materials & Services	$ 252,126	$ 212,062	$ 218,086
Capital Expenditures	$ -	$ -	$ 374,509
Total Expenditures	**$ 596,275**	**$ 575,044**	**$ 968,382**
Annual Surplus (Deficit)	$ (64,781)	$ 59,459	$ 39,373

Source: Revenue Status Reports provided by Jeff Babbitt, Public Works/Community Development Business Manager, City of Albany. City of Albany Adopted Budget 2016-2016, City of Albany Proposed Budget 2016-2017.

Exhibit 5. Historical annual transit revenues and expenditures, Linn-Benton Loop, FYE 2013 to FYE 2015 (YOE $)

	FYE 2013	FYE 2014	FYE 2015
Resources			
Federal Funds	$ 190,263	$ 277,843	$ 570,256
FTA Section 5307	$ -	$ 206,080	$ 188,285
FTA Section 5309	$ -	$ -	$ 311,250
FTA Section 5310	$ -	$ 71,763	$ 70,721
FTA Section 5311	$ 190,263	$ -	$ -
State Funds	$ 42,117	$ 4,000	$ 4,000
STF - Benton County	$ 10,000	$ 4,000	$ 4,000
STF - Linn County	$ 12,192	$ -	$ -
STO - Linn County	$ 19,925		
City of Albany	$ 36,300	$ 76,000	$ -
General Fund	$ 36,300	$ -	$ -
Capital Equip. Fund	$ -	$ 76,000	$ -
Benton County General Fund	$ 10,000		
Pass Programs	$ 215,786	$ 215,800	$ 225,200
Bus Fares	$ 25,695	$ 28,688	$ 25,444
Advertising	$ 3,999	$ 3,451	$ 3,628
Other	$ 1,333	$ (2,208)	$ 798
Total Revenue	**$ 525,493**	**$ 603,574**	**$ 829,325**
Expenditures			
Personnel Services	$ 252,149	$ 292,339	$ 297,823
Materials & Services	$ 382,271	$ 202,574	$ 223,824
Capital Expenditures	$ -	$ -	$ 377,578
Total Expenditures	**$ 634,420**	**$ 494,913**	**$ 899,225**
Annual Surplus (Deficit)	$ (108,927)	$ 108,661	$ (69,900)

Source: Revenue Status Reports provided by Jeff Babbitt, Public Works/Community Development Business Manager, City of Albany. City of Albany Adopted Budget 2016-2016, City of Albany Proposed Budget 2016-2017.

Exhibit 6. Historical annual transit revenues and expenditures, Paratransit, FYE 2013 to FYE 2015 (YOE $)

	FYE 2013	FYE 2014	FYE 2015
Resources			
Federal Funds	$ 60,481	$ 374,647	$ 268,953
FTA Section 5307	$ -	$ 128,593	$ 100,092
FTA Section 5310	$ 60,481	$ 246,054	$ 168,861
State Funds	$ 4,000	$ 4,000	$ 4,000
STF - Benton County	$ 4,000	$ 4,000	$ 4,000
City of Albany - General Fund	$ 218,900	$ 86,500	$ 137,500
City of Millersburg	$ 3,556	$ 560	$ 788
Call-A-Ride Revenue	$ 24,764	$ 26,874	$ 30,000
Other	$ 6,178	$ 5,953	$ 2,338
Total Revenue	**$ 317,878**	**$ 498,534**	**$ 443,579**
Expenditures			
Personnel Services	$ 244,789	$ 293,447	$ 314,574
Materials & Services	$ 91,359	$ 117,572	$ 120,718
Capital Expenditures	$ -	$ 80,118	$ -
Total Expenditures	**$ 336,148**	**$ 491,137**	**$ 435,292**
Annual Surplus (Deficit)	$ (18,270)	$ 7,397	$ 8,287

Source: Revenue Status Reports provided by Jeff Babbitt, Public Works/Community Development Business Manager, City of Albany. City of Albany Adopted Budget 2016-2016, City of Albany Proposed Budget 2016-2017.

Federal Funding

Federal funds are the largest source of revenue and those funds have increased substantially in recent years. That increase, however, is not anticipated to be a long-term trend, but instead is the result of a change in eligibility for the Albany area, regarding certain federal funds. The federal funds shown in Exhibit 3 -Exhibit 6 also include Federal Transit Administration (FTA) capital investment grants (e.g., Section 5309), which are not a reliable source of year-to-year revenue. These grant funds are included in Exhibit 3- Exhibit 6 for context, but they are not included in the future transit revenue projections due to their speculative nature.

FTA has numerous programs that provide funding for transit service. Between FYE 2013 and FYE 2015, the Albany area received funding from four FTA programs:

- **Section 5307.** The FTA Urbanized Area Formula Program provides funding for “urban areas,” defined as an incorporated area with population of 50,000 or more that is designated as such by the U.S. Census Bureau. These funds have a wide-range of eligible activities, including both capital and operations and maintenance.[3] Funding is allocated formulaically based on population and population density, which makes these funds more dependable than other FTA programs that may be allocated based on a competitive grant process.

[3] Section 5307 funds can be used for both capital and operations costs, but the required local funding match differs depending on the use. Capital expenditures require a 20% local match, while operations and maintenance expenditures require a 50% local match. This may impact how ATS chooses to program Section 5307 funds.

- **Section 5309.** The FTA Transit Capital Investment Program is a discretionary grant program for capital investment in transit systems. Section 5309 is FTA's main grant program for funding major capital improvements.
- **Section 5310**. The FTA Enhanced Mobility of Seniors and Individuals with Disabilities Program is a formula-based program that provides funding for transportation for older adults and people with disabilities (e.g., Paratransit).
- **Section 5311**. This program, formally known as FTA Formula Grants for Other than Urbanized Area, function similarly to 5307 funds, with minor differences in eligible uses of the funds. These funds, however, are available to jurisdictions with population less than 50,000. The allocation of these funds is still formulaic (based on non-urbanized population and land area), providing jurisdictions with dependability.

Of these, Section 5307 and Section 5311 are particularly important for understanding historical allocations of federal funds in the Albany area. The Albany Urbanized Area was designated following the 2010 decennial census, which determined that the urbanized area population exceeded 50,000. This designation resulted in Albany area transit programs being eligible to receive FTA 5307 funding for the first time in FYE 2014. Prior to FYE 2013, the primary source of federal funding for transit in Albany was Section 5311.

The designation of the Albany Urbanized Area in FYE 2014 corresponded with a 77% increase in federal transit formula funding for Albany that year, and an additional 22% increase in federal formula funding the following year.[4] Over that same time period, other revenue sources have remained relatively constant. The net impact has been an increase in annual federal formula grant revenues from $424,220 in FYE 2013 to $817,916 in FYE 2015.

Federal funds received in FYE 2015 also included $311,250 from a FTA Section 5309 grant. These funds were used for the acquisition of a new bus for the Linn-Benton Loop. The City of Albany's adopted budget for FYE 2016 (not shown in Exhibit 3), estimates $897,000 in total federal funding, mostly from FTA Section 5307. That funding amount is more in line with funding that the City received in FYE 2014, the first year in which it was eligible for 5307 funds.

State Funding

As shown in Exhibit 3 -Exhibit 6, the Albany metropolitan area receives transit funding from the State of Oregon through several programs:

- **Oregon Special Transportation Fund Formula Program (STF).** This program provides stable formula funding to counties (including Linn and Benton counties), transit districts, and Indian Tribes in Oregon. These designated STF recipient agencies can then distribute funds to subsidiary partners. STF funds can be used for operations, capital

[4] Formula funding includes Section 5307, Section 5310, and Section 5311. It excludes Section 5309, which is a discretionary grant program.

equipment, planning, or other transit-related uses. Between FYE 2013 and FYE 2015, Benton County distributed $30,000 of STF funds to the City of Albany for the Linn-Benton Loop and Paratransit. Over the same time period, Linn County distributed $41,601 of STF funds to the City of Albany for ATS and the Loop (with the total amount in FYE 2013 and no funds distributed in FYE 2014 or FYE 2015).

- **Oregon Special Transportation Fund Operating Grant (STO).** This program is also funded out of the Special Transportation Fund. However, unlike the STF formula funds, STO funds are discretionary and awarded through a competitive grant process. In FYE 2013, Linn County distributed $19,925 to the City of Albany for the Linn-Benton Loop.

State funding for transit in Albany decreased between FYE 2013 and FYE 2015. In FYE 2015, transit programs in the Albany metropolitan area received $8,000 from State sources (in the form of STF funds distributed by Benton County for Paratransit and the Loop).

Local Funds

Other than federal funds, the City of Albany's general fund provides the next largest source of revenue for transit in the Albany metropolitan region. The City's general fund contributed $466,700 in FYE 2015, and has experienced modest increases in funding in each of the past three years. Funds from the City of Albany principally go to ATS and Paratransit.

Benton County provided $10,000 from its general fund in FYE 2013 for the Linn-Benton Loop. Linn County's general fund did not provide transit revenue over the 3-year period.

The City of Millersburg provides funding each year to cover the cost of Paratransit service provided within the City limits. The City of Albany, which operates Paratransit, charges the City of Millersburg on a cost-per-ride basis. In FYE 2015, the City of Millersburg's share was $788.

Operating Revenues

Operating revenues, including bus fares, advertising, and pass programs contributed $338,344 in funding for transit services in FYE 2015, with pass programs generating $245,200 of that total. These pass programs include passes and partnerships with Oregon State University, Linn-Benton Community College, Samaritan Health, and Hewlett-Packard.

3.3 Projected revenues

Exhibit 7 shows projected annual revenues for transit for the City of Albany in year-of-expenditure (i.e., nominal) dollars. Projections for FYE 2016 were taken from the City of Albany's adopted budget. In future years, projections for federal funds were based on ODOT long-range projections for federal funding for transit, which assume 1.4% growth per year.[5] For other funding sources, we assumed revenues increase at a rate equal to inflation, based on ODOT's assumed long-term inflation rate of 3.1% per year. This is consistent with recent historical growth in transit revenues for the City of Albany, after adjusting for the one-time increase in funds for capital expenditures in FYE 2015.

Exhibit 7. Projected annual revenues, Albany transit programs, FYE 2016 to FYE 2040 (YOE $)

FYE	Federal Funds	City of Albany	Other State / Local	Operating Revenues	Total
2016	$ 897,400	$ 571,900	$ 114,600	$ 324,800	$ 1,908,700
2017	$ 909,964	$ 589,629	$ 118,153	$ 334,869	$ 1,952,615
2018	$ 922,703	$ 607,930	$ 121,820	$ 345,262	$ 1,997,715
2019	$ 935,621	$ 626,802	$ 125,602	$ 355,981	$ 2,044,006
2020	$ 948,720	$ 646,247	$ 129,498	$ 367,024	$ 2,091,489
2021	$ 962,002	$ 666,264	$ 133,509	$ 378,392	$ 2,140,167
2022	$ 975,470	$ 686,909	$ 137,646	$ 390,117	$ 2,190,142
2023	$ 989,127	$ 708,184	$ 141,909	$ 402,200	$ 2,241,420
2024	$ 1,002,975	$ 730,145	$ 146,310	$ 414,672	$ 2,294,102
2025	$ 1,017,017	$ 752,792	$ 150,848	$ 427,534	$ 2,348,191
2026	$ 1,031,255	$ 776,125	$ 155,524	$ 440,786	$ 2,403,690
2027	$ 1,045,693	$ 800,202	$ 160,348	$ 454,460	$ 2,460,703
2028	$ 1,060,333	$ 825,023	$ 165,322	$ 468,556	$ 2,519,234
2029	$ 1,075,178	$ 850,587	$ 170,445	$ 483,075	$ 2,579,285
2030	$ 1,090,230	$ 876,951	$ 175,728	$ 498,048	$ 2,640,957
2031	$ 1,105,493	$ 904,117	$ 181,171	$ 513,476	$ 2,704,257
2032	$ 1,120,970	$ 932,140	$ 186,787	$ 529,392	$ 2,769,289
2033	$ 1,136,664	$ 961,021	$ 192,574	$ 545,794	$ 2,836,053
2034	$ 1,152,577	$ 990,817	$ 198,545	$ 562,716	$ 2,904,655
2035	$ 1,168,713	$ 1,021,528	$ 204,699	$ 580,158	$ 2,975,098
2036	$ 1,185,075	$ 1,053,211	$ 211,047	$ 598,152	$ 3,047,485
2037	$ 1,201,666	$ 1,085,867	$ 217,591	$ 616,698	$ 3,121,822
2038	$ 1,218,489	$ 1,119,551	$ 224,341	$ 635,828	$ 3,198,209
2039	$ 1,235,548	$ 1,154,266	$ 231,297	$ 655,544	$ 3,276,655
2040	$ 1,252,846	$ 1,190,067	$ 238,471	$ 675,876	$ 3,357,260

Source: Calculated by ECONorthwest based on the following sources: ODOT Long-Range Revenue Tables 2013 v3., City of Albany, Budget FY 2015-16.
Note: "Other State / Local" includes Linn County STF, Benton County STF, and City of Millersburg. Operating revenue includes LBCC and OSU pass programs, advertising revenue, bus fares, and call-a-ride revenue.

Exhibit 8 shows the same information as Exhibit 7, but adjusted for inflation and presented in constant 2016 dollars. This shows federal funds slowly decreasing over time, while other

[5] The ODOT Long-Range Revenue Tables 2013 v3 include forecasts of federal funds for each public transit provider in the State, including the City of Albany. The ODOT forecast for Albany called for $1,042,000 in funding in FYE 2016, which is 16% higher than what is forecast in the City of Albany adopted budget. To provide a more conservative revenue forecast, instead of using the ODOT forecast values, we start with the City of Albany's adopted budget number for FYE 2016 and apply the assumed ODOT growth rate for future years.

funding sources remain constant. The decline in federal funds in 2016 dollars is due to the expectation that federal funding will fail to keep pace with inflation.

Exhibit 8. Projected annual revenues, Albany transit programs, FYE 2016 to FYE 2040 (Constant 2016 $)

FYE	Federal Funds	City of Albany	Other State / Local	Operating Revenues	Total
2016	$ 897,400	$ 571,900	$ 114,600	$ 324,800	$ 1,908,700
2017	$ 882,603	$ 571,900	$ 114,600	$ 324,800	$ 1,893,903
2018	$ 868,018	$ 571,900	$ 114,600	$ 324,800	$ 1,879,318
2019	$ 853,669	$ 571,900	$ 114,600	$ 324,800	$ 1,864,969
2020	$ 839,575	$ 571,900	$ 114,600	$ 324,800	$ 1,850,875
2021	$ 825,753	$ 571,900	$ 114,600	$ 324,800	$ 1,837,053
2022	$ 812,147	$ 571,900	$ 114,600	$ 324,800	$ 1,823,447
2023	$ 798,778	$ 571,900	$ 114,600	$ 324,800	$ 1,810,078
2024	$ 785,600	$ 571,900	$ 114,600	$ 324,800	$ 1,796,900
2025	$ 772,633	$ 571,900	$ 114,600	$ 324,800	$ 1,783,933
2026	$ 759,896	$ 571,900	$ 114,600	$ 324,800	$ 1,771,196
2027	$ 747,351	$ 571,900	$ 114,600	$ 324,800	$ 1,758,651
2028	$ 735,015	$ 571,900	$ 114,600	$ 324,800	$ 1,746,315
2029	$ 722,906	$ 571,900	$ 114,600	$ 324,800	$ 1,734,206
2030	$ 710,989	$ 571,900	$ 114,600	$ 324,800	$ 1,722,289
2031	$ 699,281	$ 571,900	$ 114,600	$ 324,800	$ 1,710,581
2032	$ 687,754	$ 571,900	$ 114,600	$ 324,800	$ 1,699,054
2033	$ 676,425	$ 571,900	$ 114,600	$ 324,800	$ 1,687,725
2034	$ 665,268	$ 571,900	$ 114,600	$ 324,800	$ 1,676,568
2035	$ 654,301	$ 571,900	$ 114,600	$ 324,800	$ 1,665,601
2036	$ 643,503	$ 571,900	$ 114,600	$ 324,800	$ 1,654,803
2037	$ 632,889	$ 571,900	$ 114,600	$ 324,800	$ 1,644,189
2038	$ 622,440	$ 571,900	$ 114,600	$ 324,800	$ 1,633,740
2039	$ 612,173	$ 571,900	$ 114,600	$ 324,800	$ 1,623,473
2040	$ 602,069	$ 571,900	$ 114,600	$ 324,800	$ 1,613,369

Source: Calculated by ECONorthwest based on the following sources:
ODOT Long-Range Revenue Tables 2013 v3.
City of Albany, Budget FY 2015-16.
Note: "Other State / Local" includes Linn County STF, Benton County STF, and City of Millersburg. Operating revenue includes LBCC and OSU pass programs, advertising revenue, bus fares, and call-a-ride revenue.

For context, Exhibit 9 shows the percentage of each revenue category that the three programs receive under the City of Albany's adopted FYE 2016 budget. ATS, the Linn-Benton Loop, and Paratransit do not receive equal shares of these revenue categories.

Exhibit 9. Budgeted share of funds by revenue category by ATS, Linn-Benton Loop, and Paratransit, FYE 2016

	Federal Funds	City of Albany	Other State/Local	Operating Revenues
FYE 2016	$ 897,400	$ 571,900	$ 114,600	$ 324,800
ATS	25%	73%	0%	14%
Linn-Benton Loop	36%	0%	49%	76%
Paratransit	39%	27%	51%	9%
Total	100%	100%	100%	100%

Note that the revenues projected in Exhibit 7 and Exhibit 8 do not include speculative future funding for capital projects. The nature of capital funding for transit depends on discretionary or competitive grants from the federal government, with a smaller amount of matching local funds. These funds are unpredictable and depend on the specific types and costs of planned future capital improvements.

These revenue forecasts are for planning purposes. Any forecast that extends 25 years into the future is inherently uncertain. This uncertainty is amplified in the case of AAMPO, by the recent designation as an urbanized area, changing the region's eligibility for different federal funding programs. Additionally, our forecast of future federal funding for transit is provided by ODOT, but that underlying ODOT forecast was last updated in 2013, when Albany was still receiving FTA Section 5311 funds, rather than the 5307 funds for urbanized areas.

Further complicating the forecast is the political system by which federal transit funding decisions are made. The FTA relies on Congress to pass periodic transportation funding packages which can change, eliminate, or restructure federal transportation funding programs. For example, from 2005 to 2012, federal transportation funding was determined by the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU), and various temporary extensions to that act. In 2012, SAFETEA-LU was replaced by Moving Ahead for Progress in the 21st Century (MAP-21). In December 2015, MAP-21 was replaced by the Fixing America's Surface Transportation (FAST) Act, which authorizes transportation expenditures for five years, through September 30, 2020.

With the passage of each of those acts, assumptions for local transportation funding change. In many cases, these changes are minor, but on some occasions they can be substantial. The effects of the FAST Act have yet to be reflected in allocations of federal funds to the State and local levels. Initial input from ODOT on the FAST Act indicates that it is unlikely to have a substantial impact on transit funding for the Albany region. The FAST Act continues to fund Sections 5307, 5309, and 5310, of which ATS has been a recipient in recent years. However, in 2020 and beyond, Congress will need to pass new transportation appropriations bills, which adds uncertainty to revenue projections beyond the 2020 horizon.

4 Potential New Funding Sources

The previous section presents future revenues projections for Albany transit programs based on historical revenue trends. It assumes no new funding sources or major changes in revenue trends. However, it is highly probable that the funding sources and total revenues for transit in the Albany metropolitan area will change over the next 25 years. As the region grows, demand for transit service will increase, as will expectations about level of service. This section identifies a range of potential funding sources that could be used to fund transit service within the Albany metropolitan area.

Exhibit 10 on the following page provides a brief summary of key funding tools and programs organized by originating level of government: local, state, federal, and private. Local governments typically have a preference for funding sources from the latter three categories, which do not increase the tax burden on local citizens and are thus more politically acceptable. However, finding stable funding sources that do not use the resources of local citizens—through taxes, fees, or user charges—is difficult.

The list of tools and programs evaluated in Exhibit 10 includes those most commonly used to fund transit and transportation in Oregon, but it is not intended to be exhaustive.[6] The table also provides ECONorthwest's assessment of each tool's potential funding level for AAMPO. For four tools (payroll tax, property tax, utility fee, and gasoline tax), we provide a rough quantitative estimate of annual revenue-generating capacity. Appendix A provides more detail about the methods and assumptions used for these estimates. For the other tools and programs in Exhibit 10, we provide a qualitative assessment (e.g., low – high) of funding capacity.

Revenue-generating capacity is one important criteria for evaluating potential funding sources, but there are other criteria that policymakers will need to consider. These include: legal complexity, governance structure, administrative costs, fairness, and political acceptability. Exhibit 10 does not attempt to address these criteria.

[6] To compile the list of revenue sources presented here, ECONorthwest reviewed previous studies on transportation funding options, including those conducted for the Bend region, Clackamas County, and the City of Woodburn.

Exhibit 10 excludes FTA 5307 and 5310 funds, as they are formula-based federal grants that already provide funding for transit in the Albany area, because the purpose of the table is to highlight tools and programs that could provide potential new revenue for transit funding.

Exhibit 10. Potential Sources of New Revenue for Transit Service

TOOL OR PROGRAM	DESCRIPTION	POTENTIAL TO GENERATE NEW REVENUE FOR ALBANY AREA TRANSIT
Local Taxes and Fees		
Payroll Tax	A payroll tax is a tax on wages and salaries paid by employers or by employees as a payroll deduction A payroll tax generates revenue from people who work inside, but live outside of the area in which the tax is applied. Low rates (<1%) have potential to generate substantial levels of revenue. Payroll tax revenue is used for operations and maintenance expenses associated with the transit systems. Examples of the use of payroll tax to fund transit in Oregon include: • TriMet: 0.73% • Lane Transit: 0.71% • Canby Area Transit: 0.6% • Sandy Transit: 0.6% • Wilsonville SMART: 0.5% • South Clackamas: 0.5% The mechanism of payroll tax is not restricted to mass transit district and transportation districts. A payroll tax can be levied by a city (as with the Cities of Sandy, Canby, and Wilsonville), or it could be levied by a mass transit district or transportation district (as with TriMet and Lane Transit). However, a payroll tax on the entire AAMPO urbanized area would require the creation of a new mass transit district or transportation district.	**HIGH** A payroll tax of 0.5% ($5 per $1,000) on covered employment payroll in the UGBs of Albany, Jefferson, Millersburg, and Tangent could generate approximately $4.97 million per year.
Property Tax	Property tax is a relatively broad funding source that could be applied through a variety of financing options: (1) local option levy, (2) general obligation bond, and (3) new taxing district. The first two are temporary tax increases that do not require the formation of a new taxing district. A new taxing district would allow for a permanent (and therefore more stable) revenue source. Oregon allows for a variety of types of "special" taxing districts to be created, ranging from cemeteries, to vector control, to libraries. Two of these types special districts can be used to fund transit projects: mass transit districts and transportation districts. Although each of these different options have their differences, this memorandum is focused on funding sources, not financing or governance strategies, and thus we evaluate the overarching funding source of property taxes here. Salem-Keizer Transit District uses a property tax to fund transit. In FYE 2016 the rate in was 0.7609 per $1,000 of AV.	**HIGH** A property tax of $0.50 per $1,000 of assessed value in the cities of Albany, Jefferson, Millersburg, and Tangent could generate approximately $1.9 million per year.

TOOL OR PROGRAM	DESCRIPTION	POTENTIAL TO GENERATE NEW REVENUE FOR ALBANY AREA TRANSIT
Local Gasoline Tax	A local gas tax is a tax on the sale of gasoline and other fuels, levied as a fixed dollar amount per gallon. Typically, the use of local gas tax revenues are limited to transportation projects. Gas taxes are an attractive funding mechanism because motorists already pay federal, state, and local taxes on motor fuel so the levy would not impose a new type of tax. Using a gas tax to fund transit has merit because gas taxes reduce the externalities associated with automobile travel (e.g., congestion, pollution) and induce drivers to use vehicles that are more fuel-efficient. Gasoline tax funds could be used for capital and operating expenses. However, as with other new taxes, political acceptance could be challenging. Other jurisdictions in the Willamette Valley have a local gasoline tax, including: Coburg ($0.03 per gallon), Cottage Grove ($0.03), Eugene ($0.05), Springfield ($0.03), Veneta ($0.03), and Woodburn ($0.01). Under ORS 319.950, a local gasoline tax may be levied by a city, county, or other local government after a public vote.	**HIGH** A gas tax of 3 cents per gallon in Albany, Jefferson, Millersburg, and Tangent could generate approximately $650,000 per year.
Utility Fee	Utility fee for transit (or transit access fee) operates similarly to a water or sewer utility fee. A fee is assessed to all businesses and households in the jurisdiction based on the amount of use typically generated by a particular use. These revenues could be used for operations, administration, and capital expenses. The City of Corvallis uses a utility fee to fund transit, at a rate of $2.75 per month per single-family residence and $1.90 per apartment per month. Commercial properties are charged based on the estimated number of trips generated per month. For example, a medical office might be charged about $9 per month, while a fast food restaurant would be charged $66 per month.	**MODERATE** A utility fee based on a flat charge of $2 per household and $10 per business in the cities of Albany, Jefferson, Millersburg, and Tangent could raise about $195,000 per year.
Systems Development Charges (SDCs)	SDCs are fees paid by land developers and are intended to reflect the increased capital costs incurred by a municipality or utility as a result of a development (in most states, they are called “impact fees”). Enabling legislation (ORS 223.297-223.314) provides a uniform framework that all local governments must follow to collect SDCs. SDC revenue can only be used to fund capital improvements for water supply, waste water collection, drainage and flood control, transportation, or parks and recreation. Charging SDCs for transit projects is not common practice but is legally permitted.	**LOW** SDC funds can only be used for the portion of project costs to increase capacity to accommodate new development, and must be used for capital projects, not operations. This limits the applicability of SDCs as a revenue source for transit service in Albany.

TOOL OR PROGRAM	DESCRIPTION	POTENTIAL TO GENERATE NEW REVENUE FOR ALBANY AREA TRANSIT
Local Improvement Districts (LIDs)	Value capture is a means to generate revenue from those that are directly benefiting from a project, such as nearby property owners. One way to implement this is through an LID on landowners close to the transit improvements. LIDs can be used to fund specific capital improvements for transportation. To establish an LID, local jurisdictions would meet with property owners expected to benefit from a proposed transportation improvement. Once an agreement is reached on the portion of funding to come from the LID, the jurisdiction would sell bonds to finance the project, and the bonds would be repaid through annual payments by affected property owners within the LID. The amount of funding raised through LIDs would depend on the specific capital projects they would fund. Capital projects including all modes of transportation are eligible to receive funding from LIDs.	**MODERATE** LIDs must be used for capital improvement, not operations. The revenue capacity for LIDs is more of a political question than a technical question. Theoretically, if LIDs covered enough assessed value, and had high enough rates, then they could generate large amounts of revenue. But, due to political acceptability, LIDs tend to be fairly humble.
Urban Renewal	Urban renewal diverts property tax revenues from growth in assessed value inside an urban renewal area (URA) for investment in capital projects within the URA to alleviate blight. Transportation projects are frequently included in urban renewal plans, as investments that help to alleviate blight. Funding is constrained by the ability to increase assessed values within the URA to generate sufficient tax-increment financing (TIF) to service debt on long-term bonds. There are also statutory restrictions on the size of urban renewal areas (acres and assessed value), as well as the maximum indebtedness of urban renewal areas. TIF could only be used on capital transit projects that directly benefit the URA.	**LOW** TIF can only be used for capital projects that directly benefit the URA. TIF revenue depends on the amount of new development in the URA.
State Grants		
Oregon STF	STF provides financial support to designated counties, transit districts and Indian tribal governments for special transportation services benefiting seniors and people with disabilities. The majority of the STF money is allocated on a population-based formula. The remaining funds are distributed by the Public Transportation Discretionary Grant Program. STF funds can be used for transit operations, administration, and capital expenses. Designated STF agencies (counties, transit districts, and Tribes) can submit an application for discretionary STF funds to fund services for seniors and people with disabilities. The STF Discretionary Grant funds are distributed through a competitive grant program to projects of statewide importance, as defined by the Oregon Transportation Commission. AAMPO cannot directly apply for discretionary STF funds, but Linn or Benton County can apply on behalf of AAMPO. If AAMPO wants to apply for this grant, staff should discuss the Discretionary Grant process with Linn County, Benton County, and ODOT. If a mass transit district or a transportation district were formed for the AAMPO region, it would become a designated STF agency. At that point, it would be eligible to directly apply for discretionary STF funds.	**MODERATE** AAMPO can work with Linn and Benton Counties to apply for discretionary STF funds to fund services for seniors and people with disabilities. STF funds could be used for capital and operating.

TOOL OR PROGRAM	DESCRIPTION	POTENTIAL TO GENERATE NEW REVENUE FOR ALBANY AREA TRANSIT
Connect Oregon	ConnectOregon is a competitive grant program that uses lottery-backed bonds to support multimodal transportation other than highway. The latest version, ConnectOregon VI, awarded approximately $50 million in 2016 to 39 projects across the state. ConnectOregon requires a 30% local match.	**LOW/MODERATE** Funds from ConnectOregon VI have been allocated and it is not clear whether another round of funding will be available.
Federal Grants		
FTA Section 5309 - Transit Capital Investment Program	Section 5309 is a discretionary grant program for capital investment in transit systems. Section 5309 is FTA's main grant program for funding major capital improvements. Because of the competitive nature of grant processes, it is difficult to predict future funding amounts. The Linn-Benton Loop received about $311,000 from Section 5309 in FYE 2015.	**MODERATE** Section 5309 is for capital projects only.
FTA Section 5339 - Buses and Bus Facilities Grants Program	Section 5339 funds capital projects to replace, rehabilitate, and purchase buses and related facilities. It includes a formula-based component, competitive grants based on asset age and condition, and competitive grants for deployment of low and zero-emissions vehicles. Section 5339 funds are only eligible for capital costs. Use of these funds typically requires a 20% local match.	**MODERATE** Section 5339 is for capital projects only.
Private		
Partnerships and Pass Programs	Employer transit pass programs are partnerships between a transit agency and public institutions/private employers, which offers employers the opportunity to purchase a transit pass for all employees, often at discounted rates. The pass benefits the employees by allowing them to use the transit system free of charge. The company may be able to take a tax deduction on the cost of the transit pass and in some cases may receive service improvements. The benefit to the transit agency is an increase in ridership and in revenues from the purchase of the pass. ATS and Linn-Benton Loop both have pass programs or partnerships in place with major employers/institutions. In particular, partnerships and pass programs provide a significant revenue source for the Linn-Benton Loop, contributing $225,000 in FYE 2015 (more than a quarter of total revenue).	**LOW** ATS and the Loop already have partnerships/pass programs in place. This is probably unlikely to provide a major source of additional funding.

TOOL OR PROGRAM	DESCRIPTION	POTENTIAL TO GENERATE NEW REVENUE FOR ALBANY AREA TRANSIT
Advertising	Transit systems can raise revenues by selling advertising to businesses and non-profit organizations. Opportunities for advertising on buses include: (1) ads inside the bus, (2) ads on the outside of buses and (3) ads in stations or at stops. Successful advertising campaigns are usually facilitated by a third-party advertising vendor. Revenue from advertising is generally relatively small, generally accounting for less than 3% of revenues for small transit districts. Advertising revenues can be used for operations, administration, and capital expenses. Some potential issues with advertising include: (1) controlling the content of the advertising can be difficult and (2) some districts prefer to have a specific look to the outside of their bus, without advertisement.	**LOW** In FYE 2015, the Loop and ATS each generated about $3,500 in advertising revenue—less than 0.5% of total revenues. Expanding advertising is an option, but it is unlikely to result in a substantial new source of revenue for transit.
Naming Rights	Historically, the selling of naming rights to people or organizations that make a donation for a capital improvement was most common for large organizations, such as universities or hospitals. Selling naming rights has become more common among smaller organizations, and some transit agencies (mostly in larger cities) sell naming rights to vehicles, stations, or transit corridors. The Portland Streetcar sells naming rights to streetcar stops through its sponsorship program.	**LOW** Selling naming rights may provide a small amount of revenue for Albany area transit but is unlikely to produce a substantial amount of revenue over the long-term.
Public Private Partnerships	Public Private Partnerships (P3) are not a funding source, but an approach to financing and delivery of infrastructure projects. P3 encompasses a spectrum of partnerships between private and public partners, ranging from common design/build contracts, to more complex Design-Build-Finance-Operate-Maintain (DBOFM) agreements. Although P3 can result in the private-sector securing a portion of the upfront financing for a project sooner than public funding may be available, the ultimate source of funding comes from the public sector. The P3 approach has been used in numerous infrastructure projects across the country, though the application of DBOFM to transit projects is rare.	**LOW** Public private partnerships are unlikely to provide a source of new transit revenue for Albany

5 Conclusions

Our evaluation of transit funding for the Albany Area MPO yields the following conclusions:

- **Recent historical revenue growth is not indicative of a long-term trend**. From FYE 2013 to FYE 2014, annual revenues increased from $1.37 million to $2.28 million, an increase of 66%. This increase in revenue was due primarily to an increase in federal funding, which includes the City of Albany's transition from FTA 5311 to 5307 funding eligibility as a newly-recognized "urban area," as well as additional one-time federal funding in FYE 2015 for capital projects. The City's adopted budget for FYE 2016 anticipates a decrease in annual funding, from $2.28 million to $1.91 million.
- **Long-term revenue projections do not keep pace with inflation**. Beyond FYE 2016, federal funding is anticipated to increase at a rate of 1.4% per year, as forecast by ODOT. This growth is less than the 3.1% inflation predicted by ODOT. For other funding sources, such as operating revenues and City general fund contributions, recent historical trends suggest that these sources may be able to keep pace with inflation, but experience no growth over time in real terms, after adjusting for inflation and presenting in constant 2016 dollars. We forecast total revenues for transit in the Albany area to increase at an average annual rate of 2.38% (nominal, year-of-expenditure dollars), which equates to an average annual decrease of 0.70%, when adjusted for inflation and presented in constant 2016 dollars.
- **Funding for capital projects is uncertain and opportunistic**. The long-term annual revenue projections included in this memorandum do not include speculative future funding for capital projects. The nature of capital funding for transit depends on discretionary or competitive grants from the federal government, with a smaller amount of matching local funds. These funds are unpredictable and depend on the specific types and costs of planned future capital improvements.
- **There is inherent uncertainty in long-term transit funding forecasts**. These revenue forecasts are for planning purposes. Any forecast that extends 25 years into the future is inherently uncertain. This uncertainty is amplified in the case of Albany, by the recent designation as an urbanized area, changing the region's eligibility for different federal funding programs. Further complicating the forecast is the political system by which federal transit funding decisions are made. The FTA relies on Congress to pass periodic transportation funding packages which can change, eliminate, or restructure federal transportation funding programs.
- **There is a range of potential new funding sources that could be used to fund transit service within the Albany metropolitan area.** Although the revenue projections in this memo assume no new funding sources, it is highly probable that the funding sources for transit in the Albany metropolitan area will change over the next 25 years. Local taxes and fees—such as a payroll tax, property tax, gasoline tax, or utility fee—could provide stable sources of transit revenue but are likely to face political opposition.

Appendix A: Methodology for Revenue Capacity Estimates

This appendix provides additional detail on ECONorthwest's methodology for the revenue capacity estimates provided as part of Exhibit 10. ECONorthwest estimated revenue capacity for four funding sources:

- Payroll tax
- Property tax
- Gas tax
- Utility fee

Tax rates for this analysis were chosen based on the rates used by other jurisdictions in Oregon. We used the boundaries of Albany, Jefferson, Millersburg, and Tangent as the geographic extent of the taxation district. In each case, AAMPO could raise more revenue by 1) using a higher tax rate than shown here and/or 2) applying the tax to a larger geography.

ECONorthwest provides these revenue estimates in our role as a consultant to AAMPO for informational and planning purposes only.

Payroll Tax

A payroll tax of 0.5% ($5 per $1,000) on covered employment payroll in the UGBs of Albany, Jefferson, Millersburg, and Tangent could generate approximately $4.97 million per year. The revenue estimate shown in Exhibit 11 is based on 2014 private covered employment in each of the four cities.

Exhibit 11. Annual payroll tax estimate for Albany, Jefferson, Millersburg, and Tangent UGBs given 0.5% payroll tax

UGB	2014 Private Payroll ($2014)	Estimated 2016 Private Payroll ($2016)	Estimated Payroll Tax Revenue ($2016)
Albany	$731,876,750	$776,448,044	$3,882,240
Jefferson	$14,606,859	$15,496,417	$77,482
Millersburg	$153,850,862	$163,220,379	$816,102
Tangent	$37,139,380	$39,401,168	$197,006
Total	**$937,473,851**	**$994,566,008**	**$4,972,830**

Source: ECONorthwest analysis based on 2014 Quarterly Census of Employment and Wages (QCEW).
Notes: 2014 payroll includes only private businesses (it excludes government payroll).
Exhibit assumes 3.0% annual growth in payroll between 2014 and 2016. For reference, the average annual payroll growth rate over the 2000 to 2015 period was 3.6% for Oregon and 3.2% for Linn, Benton, and Marion counties.

This estimate assumes that the payroll tax would only apply to covered employees, i.e., employees covered by employment insurance. Examples of workers not included in covered employment are sole proprietors and some types of contractors (often referred to as "1099 employees"). A payroll tax would generate more revenue if it also applied to people who are self-employed. Existing transit payroll taxes in Oregon (including those for TriMet, Lane Transit District, and Wilsonville) do apply to self-employed workers.

We chose to evaluate a payroll tax rate of 0.5% because it is comparable to payroll taxes used to fund transit in other Oregon jurisdictions. As of September 2016, six jurisdictions used a payroll tax to fund transit:

- TriMet – 0.7337% tax rate
- Lane Transit – 0.71%
- Canby – 0.6%
- Sandy – 0.6%
- Wilsonville – 0.5%
- South Clackamas – 0.5%

Property Tax

As shown in Exhibit 12, a property tax of $0.50 per $1,000 of assessed value in the cities of Albany, Jefferson, Millersburg, and Tangent could generate approximately $1.9 million per year.

For reference, Salem Area Transit has a permanent tax rate of $0.7609 per $1,000.

Exhibit 12. Annual property tax estimate for Albany, Jefferson, Millersburg, and Tangent given rate of $0.50 per 1,000

	Taxable Assessed Value, 2015-2016	Estimated Amount Levied	Estimated Amount Raised, Adjusted for Compression Losses
Albany	$3,552,360,778	$1,776,180	$1,598,562
Jefferson	$145,382,152	$72,691	$72,691
Millersburg	$383,801,725	$191,901	$191,901
Tangent	$130,942,148	$65,471	$65,471
Total	**$4,212,486,803**	**$2,106,243**	**$1,928,625**

Source: ECONorthwest analysis based on data from Linn, Benton, and Marion County assessors.
Notes: Assumes 10% compression loss for Albany and 0% compression loss for other cities.

Property tax is a relatively broad funding source that could be applied through a variety of financing options including a local option levy or a new taxing district. A new taxing district would allow for a permanent (and therefore more stable) revenue source. In addition, a new taxing district would be less vulnerable to property tax compression than a local option levy.

Compression can occur as a result of the rate limits enacted by Measure 5. These rate limits apply to the real market value (RMV) of properties, rather than to the assessed value. If taxes to be raised on an individual property exceed the Measure 5 limits ($5 per $1,000 of RMV for education, or $10 per $1,000 of RMV for general government), then the tax bill for that property is reduced or "compressed." Compression loss means some properties pay less in taxes than are calculated by the product of the assessed value and consolidated tax rate. The components of the consolidated tax rate are not all compressed proportionately, but rather by a specific order of operations. Local option levies are compressed first. If all local option levies are reduced to zero, and the taxes still exceed the Measure 5 limits, then the revenues from the permanent tax rates are reduced proportionally, until the taxes imposed are within the Measure 5 limits. This protects all districts' permanent rate levies from being reduced if another district passes a local option levy.

At least two factors may cause compression rates to increase. First, because compression is calculated based on real market value, depressed real estate markets may result in more properties experiencing property tax compression. Second, the passage of new levies can increase the consolidated tax rate.

Any hypothetical transit property tax in the Albany metropolitan area would fall under the general government category for the purposes of computing Measure 5 compression. Thus, compression is only an issue if permanent and local option levies for general government activity—excluding education and GO bonds—total more than $10 per 1,000 of RMV for a particular property.

In Jefferson, Millersburg, and Tangent, the combined rates for general government activity are less than $10 per 1,000 of AV, and no compression occurred in FYE 2016. For these cities, we assume no compression loss.

In Albany, on the other hand, general government rates exceed $10 per 1,000 of RMV, and compression losses have occurred in recent years. In FYE 2016, compression losses in Albany's tax code areas totaled about $4.4 million, or 10% of taxes levied. However, as noted above, local option levies are compressed first. In Albany's case, the FYE 2016 compression loss was entirely borne by local option levies. (Out of the $4.4 million, compression loss to permanent taxing districts was less than $100.) Thus, if a new Albany transit property tax were structured as a local option levy, it would experience much greater compression losses than if AAMPO created a new permanent taxing district. For the purposes of this analysis, we have assumed compression loss of 10% in Albany.

Gas Tax

A gas tax in Albany, Jefferson, Millersburg, and Tangent could generate approximately $216,200 per penny per year. As shown in Exhibit 13, a tax rate of $0.03 per gallon could raise nearly $650,000 per year.

Exhibit 13. Annual gas tax revenue estimate for Albany, Jefferson, Millersburg, and Tangent with $0.03 per gallon gas tax

City	2015 population	Estimated gas tax revenue
Albany	51,670	$581,288
Jefferson	3,165	$35,606
Millersburg	1,620	$18,225
Tangent	1,200	$13,500
Total	**57,655**	**$648,619**

Source: ECONorthwest analysis based on data from PSU Certified Population Estimates and ODOT Motor Vehicle Fuel Monthly Tax Distribution Reports.
Notes: Assumes 375 gallons per person per year.

Exhibit 13 assumes gas sales of 375 gallons per person per year. This rate is similar to Eugene's average (378 gallons per capita) for July 2015-June 2016, and is slightly lower than the State's average (398 gallons per capita).

The tax rate evaluated here—$0.03 per gallon—is the most common rate among Oregon cities with a local gas tax.[7] Oregon jurisdictions with a gas tax include Eugene ($0.05 per gallon), Coburg ($0.03), Cottage Grove ($0.03), Springfield ($0.03), Veneta ($0.03), and Woodburn ($0.01). Voters in the city of Portland recently approved a temporary local gas tax of $0.10 per gallon.

Utility Fee

A utility fee based on a flat charge of $2 per household and $10 per business in the cities of Albany, Jefferson, Millersburg, and Tangent could raise about $195,000 per year.

[7] Oregon Fuels Tax Group, "Required Gasoline Disclosures." https://www.oregon.gov/ODOT/CS/FTG/pages/reqgasdiscl.aspx

Exhibit 14. Annual utility fee revenue estimate for Albany, Jefferson, Millersburg, and Tangent given $2/month fee for households and $10/month fee for businesses

City	2015 Population	2010-2014 Average Household Size	Estimated Revenue from Household Utility Fee	Number of Businesses	Estimated Revenue from Business Utility Fee
Albany	51,670	2.58	$480,651	1,438	$172,560
Jefferson	3,165	3.2	$23,738	43	$5,160
Millersburg	1,620	2.95	$13,180	84	$10,080
Tangent	1,200	2.75	$10,473	64	$7,680
Total	**57,655**		**$528,041**	**1,629**	**$195,480**

Source: ECONorthwest analysis based on data from 2015 PSU Certified Population Estimates, 2010-2014 American Community Survey, and 2014 QCEW

Corvallis uses a utility fee to fund transit, at a rate of $2.75 per month per single-family residence and $1.90 per month per apartment per month. In Corvallis, commercial properties are charged at a variable rate based on the estimated number of trips generated per month. For example, a medical office might be charged about $9 per month, while a fast food restaurant would be charged $66 per month.[8] For the sake of simplicity, the estimate presented here for Albany uses a flat rate for commercial properties, rather than the variable rate used in Corvallis.

[8] *City of Corvallis Transit Operations Fee,* August 2016. http://web1.ctaa.org/webmodules/webarticles/articlefiles/Corvallis_Tim_Bates.pdf