

Transportation

	2013-15 Actual	2015-17 Legislatively Approved*	2017-19 Current Service Level	2017-19 Governor's Budget
General Fund	12,710,074	22,585,257	54,291,838	51,858,051
Lottery Funds	92,643,018	107,484,140	120,644,222	120,644,222
Other Funds	2,975,118,635	3,342,266,797	3,362,591,825	3,576,866,416
Other Funds (Nonlimited)	1,440,960,350	110,194,010	18,158,214	18,158,214
Federal Funds	92,378,521	110,175,491	99,748,065	99,581,047
Federal Funds (Nonlimited)	20,053,968	21,621,529	21,575,775	21,575,775
Total Funds	4,633,864,566	3,714,327,224	3,677,009,939	3,888,683,725
Positions	4,569	4,510	4,504	4,500
FTE	4,462.48	4,400.89	4,403.11	4,398.79

*Includes Emergency Board and administrative actions through December 2016

Program Description

The Oregon Department of Transportation (ODOT) administers programs related to Oregon's system of highways, roads, and bridges; bicycle and pedestrian facilities; passenger and freight railways; public transportation services; transportation safety; driver and vehicle licensing; and motor carrier regulation. The five-member Oregon Transportation Commission, which establishes state transportation policy, and the ODOT director are all appointed by the Governor and confirmed by the Senate.

The largest portion of ODOT's revenues come from constitutionally dedicated motor fuel taxes, weight-mile taxes, vehicle taxes, and driver fees that must be used for highway projects. Bond revenues, Federal resources, Lottery Funds, and General Fund resources make up smaller shares of the budget. Lottery Funds pay for debt service on non-highway projects funded by the *ConnectOregon* grant and loan program. General Fund is used for debt service, rail, and senior and disabled transit. For the 2017-19 biennium, CSL revenue from all sources is projected to be \$4.7 billion. Of this amount, an estimated \$953 million will be transferred to local governments and other state agencies, leaving \$3.7 billion available for expenditure on state transportation programs.

CSL Summary and Issues

- Total funds decrease 1% compared to the 2015-17 legislatively approved budget. This decrease reflects the net change after all phase outs for completed projects and one-time costs, phase-ins for scheduled project payments in next biennium, and adjustments for debt service, inflation and government service charges.

- Debt service is driving the increase in General Fund and Lottery Funds spending. General Fund debt service payments total \$34.5 million, a 1,132% increase compared to the legislatively approved budget. This amount is comprised of payments for the State Radio Project (\$29.4 million), and various highway safety improvement projects authorized in 2016 (\$5.1 million). Lottery Funds debt service payments are projected to total \$120.6 million, a 12% increase. Most this amount (87%) is for the ConnectOregon and South Metro Milwaukie Extension projects.
- The CSL budget for Highway Division programs is \$2.2 billion (OF), an increase of \$156.5 million, or 7.6% compared to the 2015-17 legislatively approved budget. This reflects inflation and the schedule of payments for projects included in the Statewide Transportation Improvement Program (STIP). The STIP is the state’s transportation preservation and capital improvement plan. Highway Division programs account for 60 percent of total proposed spending. The table below shows proposed spending levels for these programs.

ODOT Highway Division: Comparison of 2015-17 LAB to 2017-19 CSL

Other Funds

	2015-17 Legislatively Approved*	2017-19 Current Service Level	Change	Program Description
Maintenance	486,560,811	517,543,681	30,982,870	Maintain and repair existing highways
Preservation	266,666,888	255,506,413	(11,160,475)	Resurface rough pavements on highways to add useful life and maintain safety
Bridge	205,101,610	211,982,702	6,881,092	Preserve and inspect 2,700 bridges, tunnels and culverts for safety
Operations/Safety	136,209,098	224,187,683	87,978,585	Landslide mitigation, traffic signaling, signage, and lighting improvements
Modernization	306,159,509	326,749,992	20,590,483	Build capacity improvements, such as new or widened lanes
Special Programs	264,364,980	292,447,658	28,082,678	Develop/maintain footpaths & bicycle trails, snowmobile facilities, and snow removal
Local Government	400,168,268	393,303,442	(6,864,826)	Non-mandated partnerships with cities, counties, and regional governments.
Total Funds	\$2,065,231,164	\$2,221,721,571	\$156,490,407	

* Includes Emergency Board and administrative actions through December 2016.

- The CSL budget maintains GF spending for public transit services to seniors and people with disabilities (\$9.7 million), and intercity passenger rail operations (\$10 million).

Policy Issues

- **Transportation Funding Package.** Legislative leadership has expressed a strong interest in developing a transportation funding package during the 2017 legislative session. To this end, the Joint Committee on Transportation Preservation and Modernization was

established to facilitate the development of a package. During the Summer and Fall of 2016, the Committee held a series of public hearings across the state to get public input on statewide transportation infrastructure needs and preferences. The Committee continues to meet, and is now working to formulate a funding package that addresses a range of issues including congestion relief, seismic readiness of highways and bridges, and the state’s need for a sustainable source of transportation funding with flexibility to support all modes of transportation.

- **Multimodal Transportation.** Multimodal transportation involves the movement of people and goods from an origin to a destination using more than one mode of transportation. It typically includes a mixture of movement by highway, air, rail, marine, public transit, bicycling, and walking. In public hearings held across the state by the Joint Committee on Transportation Preservation and Modernization, many Oregonians expressed a preference for investments in all modes of transportation. While the current mix of fund sources (Federal Funds, the State Highway Fund, and Lottery Funds) allows funding for all modes of transportation, support for non-highway uses generally has been inadequate, most notably for rail, public transit, ports and airports.
- **Sustainable State Transportation Funding.** There is a chronic structural gap between transportation needs and funding. The gas tax (and other sources of revenue) have not kept up with need for a variety of reasons, including changes in driving trends, improved vehicle fuel efficiency, and the availability of alternative fuel vehicles. Another problem with the gas tax as a source of funding for transportation is that the gas tax is assessed on a flat “cents-per-gallon” basis year after year regardless of inflation or construction costs. As such, the purchasing power of gas tax revenues decline each year while demand on the surface transportation infrastructure continues to grow with the state’s rising population. To address these issues, states have begun to consider a variety of fixes: (1) indexing the gas tax to inflation or gas prices; (2) implementing mileage based user fees or per mile fees; (3) adopting new fees; and (4) tolling to pay for construction.

Oregon has been a national leader in exploring new ways to fund the state’s transportation system. In 2001, the Legislature formed the Road User Fee Task Force. In 2013, the Legislature passed and the Governor signed SB 810 establishing the Road User Charge Program, the nation’s first mileage-based revenue program for light vehicles. The program officially began in July 2015 and is fully operational. As of March 15, 2017, there were 733 vehicles enrolled in the voluntary program.

Other Significant Issues and Background

1. **ConnectOregon VII.** Policy package #130 provides \$72 million (Lottery Bonds) for this program. *ConnectOregon* was created to advance Oregon’s multi-modal transportation system. Funding is used to support projects that are not eligible for highway funding. Project selection is ongoing and the Lottery backed funds granted for projects vary each biennium. Expected benefits from participating projects include reduced transportation costs for Oregon businesses, improved access to jobs and labor sources, and

improvements to critical links in the transportation system.

2. **DMV Service Transformation Program.** Policy package #110 provides \$27 million (SHF) for this work. The Service Transformation Program (STP) is a ten-year project to transform DMV business processes and replace obsolete technology to enable more online and self-service capabilities, reduce paper processes, and streamline transactions for DMV, partner agencies and the public. The focus of Phase I, in the current biennium, has been to establish organizational structures to administer and oversee the project, and hire key vendors to assist with independent quality assurance, documentation of business processes and needs, and employee readiness and to deliver the first module. The 2017-19 biennium marks the beginning of Phase II of STP. During Phase II, the department will work with the vendor, Fast Enterprises, to begin implementation of one or more commercially available technology solutions.
3. **Ona Beach Replacement Maintenance Station.** Policy package #182 provides \$6.3 million (SHF) to replace the current Ona Beach property. Due to its location, the Department has determined it is not in the best interest of public safety. ODOT has proposed to relocate the facility to the Toledo/Newport area, and share a facility with the Oregon Department of Forestry. This initial request is for property purchase, site development, and some construction. Subsequent construction will be funded by proceeds from the sale of the Ona Beach property and buildings.
4. **The State Radio Project (SRP) Debt Service.** The SRP replaced public safety communication systems statewide and brought the systems into compliance with Federal requirements. The system is primarily used by ODOT and the Oregon State Police. Due to constitutional restrictions on the use of State Highway Fund (SHF) monies, it is anticipated the total estimated project cost of approximately \$258 million (principal and interest) will be shared by the SHF and GF. ODOT's proposed use of \$29.4 million GF is intended to allocate a portion of the SRP debt service costs to other system users.

It should be noted that the *Co-Chairs' Existing Resources Budget Framework sets ODOT's GF reduction target at \$29.4 million*. Use of Highway Funds instead of GF to pay these costs will reduce the funds available for projects. If the goal is to achieve an approximate 50/50 split between the SHF and GF, all future debt service payments for the SRP would need to be from the General Fund.

5. **REAL ID.** The federal REAL ID Act of 2005 established national security standards for state driver's licenses and identification cards. States are not required to comply with the Act and there is no penalty for noncompliance, but residents of any state whose licensing does not meet the standards are not able to use their state identification for federal purposes, namely entry to federal facilities (effective 10/10/2015) and boarding commercial aircraft (effective 1/22/2018). Although state law prohibits implementation of the REAL ID Act absent any federal funds, Oregon, like many states, has received multiple extensions. The extensions effectively provide states more time to implement the law and spare residents of any related inconvenience.

In a September 2016 update to the Emergency Board, ODOT indicated that the window of opportunity to implement timely compliance with the Act is closing and that, absent changes in state law, the US Department of Homeland Security would be unlikely to grant Oregon further extensions. The Joint Ways and Means Committee directed ODOT to report back during the 2017 legislative session on options to mitigate the impact of REAL ID on state residents. In October, based in part of on the action of the Ways and Means Committee, Oregon was granted another extension good through June 6, 2017.

The *REAL ID Options* report provided by ODOT lays out four options with estimated total costs over the next three biennia ranging from \$8 million to \$16.5 million. These costs would be funded by the State Highway Fund. The report assumes the options are implemented using the existing legacy system. The agency recommends against this approach, however, as it would complicate and potentially delay the much larger Service Transformation Project. While ODOT does not provide an estimate of the cost to implement REAL ID as part of the new system, the department asserts the cost is likely to be significantly lower than using the legacy system. The agency further points out that the REAL ID implementation timeline is about the same -- July 1, 2020 at the earliest -- under the new system as compared to the legacy system.

Co-Chair’s Budget Framework

- The *Co-Chair’s Existing Resources Framework* sets ODOT’s General Fund reduction target at \$29.4 million. The table below shows the differences in proposed General Fund appropriations between the Co-Chairs’ budget framework and the current service level budget.

Comparison of Co-Chair Framework to Current Service Level			
<i>General Fund Only</i>			
ODOT 2017-19			
Item	Current Service Level	Co-Chair Framework	Difference
State Radio Project - Debt Service	\$29,408,239	\$0	-\$29,408,239
Highway Improvement - Debt Service	5,135,799	5,135,799	0
Senior and Disabled Transit ¹	9,747,800	9,747,800	0
Passenger Rail ²	<u>10,000,000</u>	<u>10,000,000</u>	<u>0</u>
Total	\$54,291,838	\$24,883,599	-\$29,408,239

1. GB reduces by \$1.2 million

2. GB reduces by \$1.3 million