Issue Paper # 1

Date: April 25, 2007

To: City of Hillsboro Ad-Hoc Transportation Finance Committee

cc: Tom Arnold, Tina Bailey, Brian Kennedy

From: DJ Heffernan, Project Manager

Re: City of Hillsboro Transportation Utility - Services and Strategies

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Problem Statement

The City of Hillsboro is in the process of establishing a municipal street utility to finance unmet transportation system needs. There are two significant transportation needs that revenue forecasts show cannot be met with existing resources. The first is financing the preservation, maintenance and operation of the city street system. The city street system includes paved public streets for which the City holds jurisdictional authority and the related traffic control devices for these streets, such as street signs and traffic signals. The street system also includes some multi-use trails. The City is not responsible for maintaining streets that are under the jurisdiction of Washington County or the state of Oregon.

The second unmet transportation need is the reconstruction of older city collector streets that are not built to city standards. Most do not have sidewalks or bike lands and many also have capacity constraints. This need is identified in City of Hillsboro Transportation System Plan, DKS Associates, 2003 (TSP). Because the majority of these streets are located in developed neighborhoods, improving them with Washington County transportation impact fees (TIF) is not allowed. The city needs to find an alternative funding strategy to rebuild these streets.

After considering a number of options for financing these unmet needs, including local improvement districts, a local gas tax, and general obligation bonds, the Hillsboro Transportation Committee directed staff to explore the development of a transportation utility. The Ad Hoc Transportation Finance Committee (TFC) is responsible for evaluating options concerning the formation of the utility and forwarding a recommendation to the Transportation Committee. Transportation utilities can provide a variety of services that are supported by a monthly service charge. The service charge is collected from all benefiting properties, just like a water or sewer utility. The transportation utility may only collect the amount of money needed to provide its defined service and the amount charged an individual customer needs to be proportional to the benefit or use of the service.

Future issue papers will discuss ways to calculate utility costs and benefit. . The following discussion provides additional information about the unmet transportation needs that the utility could finance either directly or indirectly.

Hillsboro Street Maintenance

As in most Oregon cities, Hillsboro relies on state and county gas tax revenue to pay for street maintenance. Each year, Hillsboro receives a share of state and county gas tax revenue based on a formula. The revenue comes into the City's general fund and the City Council decides how the revenue is spent. In addition to pavement repairs, funding street signs, traffic signals, roadway striping, street lighting fixtures and other operating costs have been funded with gas tax revenue.

The City has consistently funded street maintenance at a sustainable level based on gas tax revenues. The City also has funded street construction projects and other transportation services such as engineering and street lighting from this source. In the 1990's the city purchased a pavement management program (PMP) that uses pavement inspection and testing data to estimate the remaining service life for a particular street. The system tracks the pavement condition for all city streets and generates a schedule of needed repairs, ranging from relatively inexpensive crack sealing to more expensive but longer lasting, asphalt overlays or street reconstruction. The system is designed to help engineering staff select an optimal maintenance program for achieving a defined pavement condition goal. Hillsboro's system is designed to maintain the average pavement condition for city streets at or above 80% of their expected service life.

When the PMP was put in place, it showed that street maintenance was falling behind. The main contributor to this problem was a significant increase in maintenance on streets constructed in the boom years of the 1980s and 1990s. When first constructed, these streets required no maintenance but as they aged they began contributing to maintenance needs. The historic level of investment was not keeping pace with this growing need. The passage of the Oregon Transportation Investment Act III (OTIA) allowed the City to increase the amount of funding for street maintenance.

It should be noted that Hillsboro's gas tax revenues have been increasing but at a declining rate and they are not keeping pace with the increase in street maintenance and operating costs. Gas tax revenue has been increasing at about 1.5% per year (less than the rate of inflation) while maintenance costs have been increasing at 10% or more per year. Without the OTIA revenue, the city would not have been able to keep pace with maintenance costs. Even with the added OTIA revenue, however, the maintenance program will not keep pace with growing maintenance costs unless additional revenue is found.

Table I includes information generated from the PMP. It shows projected street maintenance needs for the next decade and the consequences for two investment scenarios: one with investment keeping pace with the need and one with investment held constant. It shows that if the city is able to increase revenue for street maintenance by 6% per year, the backlog of maintenance needs will gradually decline to around one-half million dollars by 2016. If the city holds the level of street maintenance constant, the backlog balloons to almost $9.5 million. In addition, the table does not show the affect that is likely to result from deferred maintenance. When maintenance is deferred, the average maintenance cost per mile increases. This happens because relatively inexpensive short term repairs that are deferred

lead to more expensive repairs in the future. A delay of even a few years can result in double the cost of a maintenance project. This finding has been borne out in studies of road maintenance programs across the U.S. and around the world. So the actual unfunded backlog is likely to be much higher that the PMP forecast.

Table I – Hillsboro Street Maintenance Needs: 2006 - 2016

Year	Annual Need (from PMP)	Revenue Target (6% annual rate)	Backlog Meeting Revenue Target	Backlog @ 2006 Revenue Level*
2006	$ 6,135,561	$ 1,800,000 *	$ 5,036,666	$ 5,036,666
2007	$ 1,723,549	$ 1,908,000	$ 4,338,565	$ 4,746,593
2008	$ 1,945,229	$ 2,022,480	$ 4,393,456	$ 4,734,580
2009	$ 2,128,479	$ 2,143,829	$ 4,175,681	$ 4,864,859
2010	$ 1,745,917	$ 2,272,459	$ 4,433,868	$ 5,625,186
2011	$ 1,918,237	$ 2,408,806	$ 4,428,105	$ 6,336,061
2012	$ 1,248,466	$ 2,553,334	$ 3,882,585	$ 6,677,540
2013	$ 1,689,154	$ 2,706,534	$ 3,626,806	$ 7,589,344
2014	$ 1,522,501	$ 2,868,927	$ 2,682,628	$ 8,045,556
2015	$ 2,459,608	$ 3,041,062	$ 2,226,263	$ 8,995,057
2016	$ 3,296,486	$ 3,223,526	$ 596,234	$ 9,457,720

In addition to this near-term funding concern, the PMP shows very large increases in the maintenance backlog beginning around 2020 because many newer roads constructed in the 1990's will begin to require more substantive maintenance. Without new revenues, the neglected backlog "explodes" to over $50 million by the end of the next decade. While the cost estimates for long-term spending are somewhat speculative at this point, the affect of the 1990's building boom on the city's maintenance obligations is not and action is needed to find a long-term financing source to address that need.

City Street System Improvements

In addition to "plugging" the deferred maintenance need, there are a number of unfunded city street improvement projects that cannot be financed with development fees. These projects largely remedy design deficiencies on collector streets in developed neighborhoods. In addition to street design deficiencies, a number of streets and intersections will need improvements between now and 2023 to handle the anticipated growth in city traffic. Some intersections need turn lanes or to be realigned to function correctly. Others need traffic signals. A summary of the cost for these improvements, which are itemized in the Hillsboro 2003 Transportation System Plan, is shown in Table II.

The $80 million shortfall in Table II, if spread over 20 years, represents an annual investment of about $4 million. That likely is more than the city can reasonably afford because there are other unfunded transportation needs but some level of investment in these local network projects is necessary to keep pace with growth and to remedy existing deficiencies. A formal recommendation for prioritizing the City's unfunded TSP projects is being developed by a separate advisory committee.

Table II - Hillsboro Unfunded "High Priority" Transportation Improvement Projects – Bicycle/Pedestrian Projects and Capacity Enhancement Projects

Location	Description	Cost	TSP Priority
2nd, 3rd, 4th, 5th Ave. - Downtown	Convert to 2-way operation	$800,000	II
Collector Reconstruction	Various locations not TIF eligible	$43,000,000	II
Intersection Improvements	Various locations not TIF eligible	$31,800,000	II
Traffic Signals	Various locations not TIF eligible	$4,500,000	II
Total		$80,100,000	

Source: City of Hillsboro 2003 Transportation System Plan, Table 1-4

Some of these needs may be addressed indirectly by the street utility if the City elects to replace gas tax revenue that is spent on street maintenance with transportation utility revenue. This would free up gas tax money for capital projects. For example, if the utility were set up to finance all street maintenance costs for some period of time it would provide around $1.8 million per year for capital improvement projects. Over time, as maintenance costs rise and the backlog of capital projects is reduced, gas tax revenue could be shifted back to the maintenance program. This would help offset transportation utility rate increases while providing revenue for capital projects in the near term.

Other allocation options are possible and a final decision does not need to be made at this time. The Ad Hoc Transportation Finance Committee may simply wish to make an initial recommendation to the City Council regarding a funding strategy with the understanding that the City Council will revisit this issue every year when it deliberates budget allocations.

Next Steps

There are a number of decisions that need to be made regarding how to structure a transportation utility for Hillsboro. The sequence of decisions is "iterative" and it is possible to revisit assumptions and preferences before a final recommendation is made. To guide the decision process, the consultant will present a series of issue papers to the TFC each accompanied by one or more decisions concerning the financial assumptions to carry forward in the analysis. The issue paper topics are summarized below. It is important that the committee decide how it wants to take decisions on these issues: formal votes, consensus deliberation, or some other process. At the end of the process, the committee may wish to present a single recommendation to the Transportation Committee or a majority recommendation with accompanying minority reports that present alternative views.

Future committee meetings will focus on the following topics:

- Utility Function and Services – the range of services financed by the utility
- Revenue Requirement – the amount of revenue to be generated each year
- Benefit Analysis – methods for measuring how customers benefit from the utility
- Rate Structure – the formulas for calculating how costs are allocated to customers

- Public Review – the process for soliciting public comment on the proposed utility
- Recommendation – the formal recommendation to the Transportation Committee
- Enabling Ordinances – the Committee may elect not to involve itself in this step