



TRANSPORTATION FUNDING: Revenues up, spending on maintenance down

January 2013

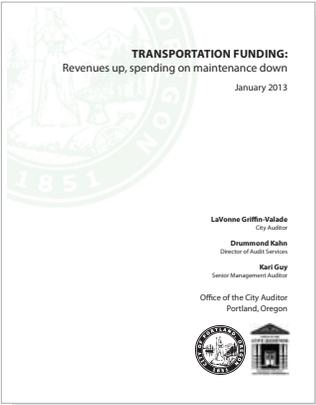
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CITY OF PORTLAND

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January 30, 2013

TO: Mayor Charlie Hales
Commissioner Nick Fish
Commissioner Amanda Fritz
Commissioner Steve Novick
Commissioner Dan Saltzman
Tom Miller, Director, Portland Bureau of Transportation

SUBJECT: Audit Report – *Transportation Funding: Revenues up, spending on maintenance down* (Report #436)

The attached report contains the results of our audit of transportation revenue and spending trends at the Portland Bureau of Transportation (PBOT). Our audit found that despite recent increases in discretionary transportation revenues, spending for transportation maintenance programs has been reduced, a reduction that puts the City's fiscal sustainability at further risk.

Our audit also found that the City has no long-term plan to reconcile competing transportation priorities. As a result, new transportation projects have displaced core services such as maintaining streets. We recommend that the City Council adopt an overall transportation strategy to identify how it plans to balance preservation of existing infrastructure against new transportation development.

We further recommend that PBOT develop routine reporting on transportation investments and outcomes consistent with the overall strategy. We also recommend that PBOT prepare a detailed risk assessment for new projects to identify the trade-offs inherent in assuming new funding commitments.

We shared an earlier version of this report with PBOT management. Bureau management stated that the report was accurate and on track from a PBOT perspective.

We ask the Bureau of Transportation to provide us with a status report in one year, through their Commissioner in Charge, detailing steps taken to address the recommendations in this report. We appreciate the cooperation and assistance we received from PBOT budget and finance staff as we conducted this audit.

LaVonne Griffin-Valade
City Auditor

Audit Team: Drummond Kahn
Kari Guy

Attachment

TRANSPORTATION FUNDING:

Revenues up, spending on maintenance down

Summary

Portland's transportation system includes streets, bridges, streetlights, traffic signals, and transit facilities – infrastructure to provide access and mobility throughout the city. The Portland Bureau of Transportation (PBOT) operates and maintains City transportation assets with a replacement value of over \$8 billion.

City Council adopted a number of aspirational plans to improve the pedestrian, streetcar, bicycle, and overall transportation system throughout the city, but has not identified how to reconcile and pay for these competing, and expensive, priorities. The new priorities also compete for funding with maintenance of existing assets. We reported in 2006 and again in 2008 that deferring street maintenance results in higher costs, and we are currently in the process of preparing a new report on street paving management. PBOT has identified a significant gap between current funding and the amount needed to maintain existing assets. We conducted this audit to identify trends in revenue and spending for the City's transportation system.

We found that although the discretionary revenue PBOT uses for operations (primarily from gas taxes and parking revenue) declined during the economic recession, this revenue has increased in recent years. This increase may be attributed to both an improving economy and increases in parking and gas tax rates.

Despite this increase in transportation revenue, spending for many transportation programs has been reduced, including street maintenance, traffic signals, and structural maintenance. Some of the reductions resulted from increased spending in other areas. Programs with increased spending include streetcar operations, downtown marketing, and transit mall upkeep. The amount of spending dedicated to debt payments is also up.

When these new projects were approved, the potential impact of the new projects on existing programs was not quantified. Instead, Council often relied on uncertain future revenues to fund the projects, such as new parking revenues from parking districts that had not yet been created, and development charges that were known to be volatile. While the City Council may not have intended for new projects to displace other transportation services, this has nonetheless been the result of these spending decisions. Over reliance on uncertain new revenues that did not then materialize decreased the funds available to maintain existing transportation assets.

We recommend that City Council adopt an overall transportation strategy to identify how it plans to balance preservation of existing infrastructure against new transportation development, to guide future funding decisions. Routine reporting of transportation investments and outcomes consistent with this strategy could then provide Council and the public with information to evaluate the outcomes and effectiveness of the transportation strategy. We also recommend that before embarking on major new projects, PBOT prepare a detailed risk assessment that identifies trade-offs inherent in assuming new funding commitments, including which programs Council would cut if expected new revenues fail to materialize. The City Budget Office has also recommended this in the past.

Background

The City's management and maintenance of existing transportation assets and construction of new transportation assets are funded by a variety of sources. Use of some revenue is restricted to specific projects or programs. Other revenues are discretionary and may be allocated by Council for a variety of transportation programs. The main revenue sources and uses are shown in Figure 1.

PBOT's use of dedicated revenue sources is limited to specific projects or purposes, such as major capital projects or defined permit programs. For example, City Council could not accept a federal grant to build a streetcar line and then use the grant funds for existing road maintenance. Similarly, PBOT cannot charge the Bureau of Environmental Services for the costs of maintaining stormwater systems and then not perform the work. These dedicated revenue sources, particularly grant funds, can change significantly from year to year.

Figure 1 Transportation revenue sources and uses

Sources	Uses
Discretionary transportation revenue	
State Highway Fund Multnomah County gas tax	State constitution restricts use to road maintenance and improvements
Parking fees and fines	No restrictions on use
Discretionary General Fund (Utility License Fees)	No restrictions on use
Dedicated transportation revenue	
Federal, state and local grants	Limited to specific projects identified in grant agreements
Interagency charges	Limited to services provided to other City bureaus, such as maintenance of stormwater system
System Development Charges (SDCs) on new construction	Limited to multi-modal transportation projects that increase system capacity, as identified in SDC plans
Permit and fee charges	Cost recovery for PBOT programs such as right-of-way use permits or land use reviews
Dedicated General Funds	Limited to programs defined by Council, primarily streetlight operations
Bond sales	Authorized for specific capital projects

Source: Audit Services Division and PBOT budget documents

Discretionary revenue, made up of State Highway Funds, County gas taxes, parking revenues, and some City General Funds, is the base budget allocated by Council in the annual City budget for core transportation operations. This discretionary revenue is the focus of this audit. The appendix provides more detail on the sources that make up PBOT's discretionary revenue.

Audit Results

Many transportation priorities compete for resources

Transportation spending decisions are guided by many different plans, including a Transportation System Plan, Pedestrian Master Plan, Streetcar System Plan, and the Bicycle Plan for 2030. Underlying these plans are financial policies that require the City to maintain existing assets before building new ones. The Portland Plan also includes goals to both maintain existing infrastructure and to encourage greater use of transportation alternatives.

Taken together, the projects in these plans and policies have costs far in excess of all available transportation revenues. However, the plans and policies do not rank or weigh the trade-offs between various alternatives, even though it would be impossible to accomplish all or most of them within forecasted revenues.

In the absence of a transportation strategy to reconcile competing priorities, Council and PBOT use a variety of criteria to establish the annual budget. In 2011, the PBOT Budget Advisory Committee established a ranking system for project spending, scoring each program based on the contribution to economic development, safety, maintenance, and public health/ livability. While PBOT managers told us this was a useful tool for prioritizing PBOT's proposed operating budget to Council, they also noted that the Budget Advisory Committee is not involved in early stages of most capital budget decisions.

Other criteria, such as safety or the availability of outside funding, may also drive spending decisions. In its most recent budget, PBOT further prioritized budget decisions based on "streets of citywide significance." With changing or evolving priorities, annual budget decisions may not reflect a cohesive long-term transportation strategy, and stated criteria may not be consistently used in planning and budgeting.

In addition, as new projects are authorized, the impact of the new priorities on existing transportation activities is not quantified. New projects, including the streetcar, new sidewalks, and Portland Milwaukie Light Rail line, assumed future revenues that have been

slow to materialize and then required cuts to other existing services. Identifying those potential cuts at the project approval stage could help inform decision making, allowing Council to better weigh alternatives and consider how new spending could be compared against continued spending on priorities like maintaining streets. While City Council may not intend for any given new project to displace maintenance work, that has been the outcome of these incremental transportation decisions.

The City Budget Office recommended that Council develop a detailed transportation strategy to provide a practical and usable template for annual project and program spending. The City Budget Office also recommended a more complete risk assessment of major new projects to help identify the reliability of the funding source and the programmatic cuts that would be necessary if the proposed new funding source did not materialize. These recommendations have not been implemented.

After declines during the recession, transportation revenues are increasing

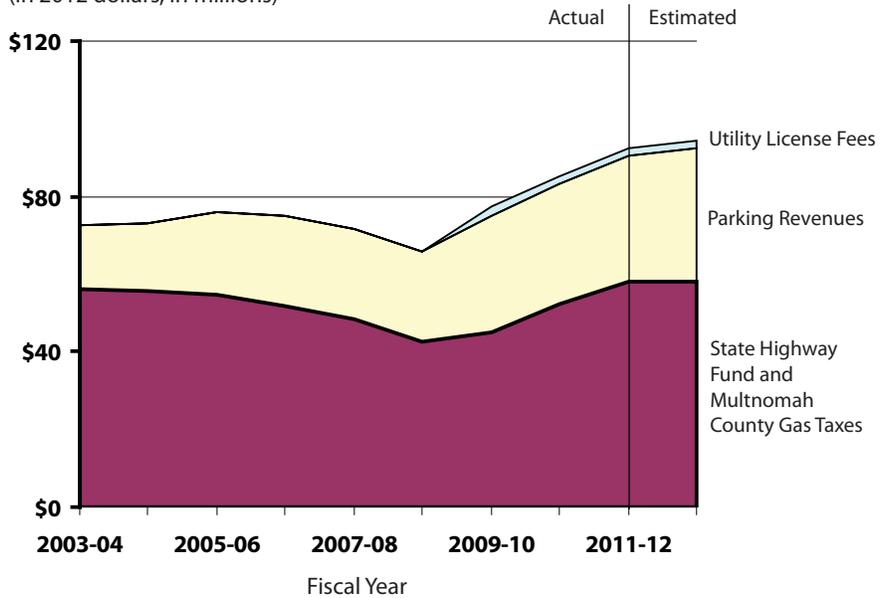
In the recession period from 2007 to 2009, gas taxes from Multnomah County, distributions from the State Highway Fund, and parking revenues declined. In addition, PBOT management notes that transportation inflation – the costs for paving materials and construction work – has historically been higher than consumer inflation, further decreasing the buying power of a transportation dollar. According to PBOT officials, there have been steep increases in liquid asphalt prices (300% increase) and labor costs over the past ten years, which they said has impacted the amount of paving they can do.

The State gas tax rate was flat from 1991 to 2011. In 2009, the Oregon Legislature authorized a 6 cent increase in the gas tax rate, effective in 2011. Also in 2009, the City Council increased parking rates, and expanded parking meter hours in some areas.

With the economy beginning to improve in 2009, and the increase in parking and gas tax rates, revenues increased. The trend in transportation revenue is shown in Figure 2.

Figure 2 Transportation discretionary revenue

(in 2012 dollars, in millions)



Source: Audit Services Division analysis of PBOT Financial Plans

While transportation revenues have grown faster than inflation, the composition of revenues has changed. Parking revenue increased from 23 percent of the total discretionary revenue in FY 2003-04 to a projected 36 percent in FY 2012-13.

PBOT has identified many trends that may make gas tax and parking fees unstable revenue sources in the long term. PBOT notes that cars are becoming more fuel efficient, fewer people are registering cars in Multnomah County, and overall fuel consumption in the Pacific Northwest is down. The result may be downward pressure on gas tax revenue.

However, in its financial forecast, PBOT estimates that both gas taxes and parking revenues will continue to rise through the end of the forecast period in FY 2016-17. PBOT bases the estimate of the City's gas tax/ State Highway Fund revenues on the Oregon Department of Transportation Gas Tax Forecast, which is conservatively discounted by 7 percent.

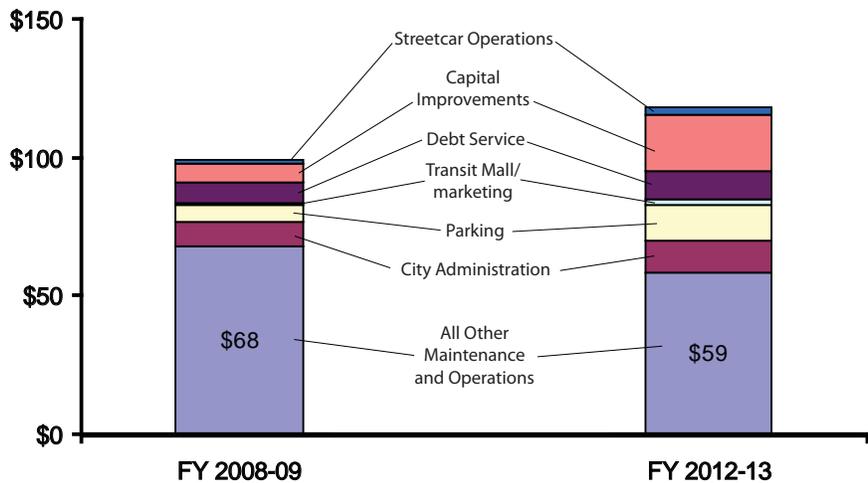
Despite increased revenue, spending for many services reduced

PBOT provided us with summaries of budgeted spending by PBOT program, such as street preservation, street lighting, and streetcar operations. To identify recent spending changes, we compared budgeted spending in the current fiscal year, FY 2012-13, to spending five years ago, in FY 2008-09.

PBOT plans to spend \$115 million of discretionary revenue in FY 2012-13, an increase of \$23 million (26 percent) from FY 2008-09. But even with this total spending increase, many maintenance programs have been reduced. For example, in the current fiscal year, this includes a \$4.7 million reduction in contract paving work and a \$2 million reduction to street maintenance. Other programs with reductions include street cleaning and traffic operations.

City Council also initiated or increased budgets for a number of projects between FY 2008-09 and FY 2012-13. Programs with an increasing share of PBOT discretionary revenues are shown in Figure 3.

Figure 3 Change in composition of budgeted spending
(in 2012 dollars, in millions)



Source: Audit Services division analysis of PBOT budget program summaries

Some examples of these new projects include the following:

Streetcar operations

In 2007, Council authorized the expansion of the Portland Streetcar to the east side of the city. The capital costs of the expansion were funded with a variety of dedicated funds, including federal grants, urban renewal funds, system development charges, and a local improvement district. The City intended to fund its share of operating costs for the streetcar with the creation of a new parking district on the east side, but the parking district had not yet been created when Council approved the streetcar expansion.

The east side streetcar line began operating in September 2012. However, the east side parking district was not approved by Council until June 2012, and will not have surplus revenue in the first year due to implementation costs. Until those parking revenues exceed the costs of parking district implementation and operation, streetcar operations will be subsidized with other discretionary transportation revenues.

Capital improvement projects

When the Oregon Legislature passed the state gas tax increase in 2009, estimates of State Highway Fund revenue to the City increased. The City looked to those revenues to fund new initiatives, and the Mayor committed to spending \$16 million on new sidewalks. The initial revenue estimates proved to be overly optimistic, and Highway Fund projections were decreased in PBOT's FY 2012-13 Financial Forecast. However, the City Council opted to reduce other transportation programs in the adopted budget rather than reduce funding for these new capital commitments for sidewalks. The FY 2012-13 budget includes a one-time allocation of \$16 million to fund new infrastructure, primarily sidewalks.

Debt service

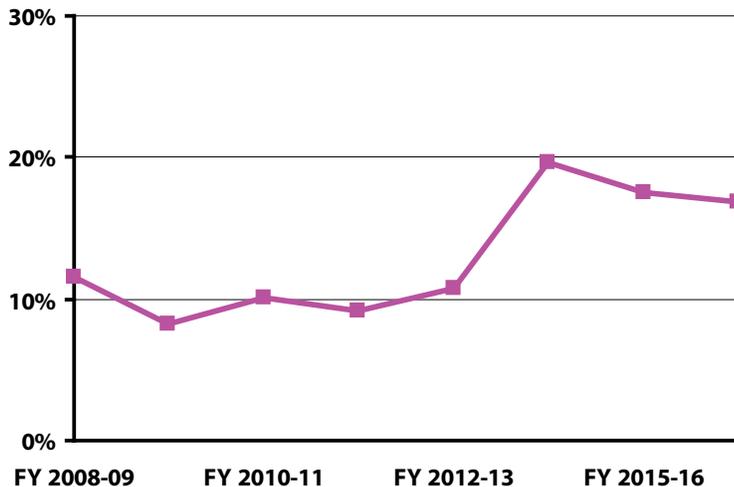
Discretionary transportation revenues pay the debt service on gas tax revenue bonds, some limited tax revenue bonds, and a portion of the City's pension obligation bonds. Adjusted for inflation, debt service payments increased 34 percent from FY 2008-09 to FY 2012-13, as PBOT began payments for 2007

transit mall bonds, a 2010 line of credit, and a 2011 gas tax bond. From FY 2012-13 to FY 2016-17, debt service payments are estimated to increase another 80 percent, as payments begin on bonds to fund the Portland Milwaukie Light Rail line and the Sellwood Bridge replacement.

While Council intended that payment of the Portland Milwaukie Light Rail line bonds be funded partially by dedicated System Development Charges (SDCs), according to Office of Management and Finance staff, those revenues are extremely volatile. PBOT financial managers told us they anticipate debt service for the light rail project will be paid out of other discretionary transportation revenues at least through the next five years. PBOT management noted that prior to the downtown transit mall and Portland Milwaukie Light Rail development, PBOT funds had not been used for transit development. Again, funding for this new project will displace existing core transportation services unless and until SDCs increase.

In total, these long-term debt service payments will place an increasing demand on future transportation revenues, decreasing the funds available for core services. Estimated debt service payments as a percentage of discretionary revenues are shown in Figure 4.

Figure 4 Estimated debt service payments as a percent of discretionary revenue



Other citywide priorities are also taking an increasing share of PBOT's discretionary revenue. Downtown initiatives, including transit mall debt service, maintenance of the transit mall, and the costs of downtown marketing totaled \$3.8 million in FY 2012-13, or 19 percent of all projected parking meter revenue for that fiscal year. Costs of some internal City projects, such as the new financial system or the new emergency coordination center, are shared among City bureaus and have increased the budgeted amount PBOT dedicates to City administrative costs. While the cost of each individual project decision may be minimal, together these decisions erode PBOT's ability to fund other services.

We relied on PBOT program-level budgets to identify transportation activities with increasing or decreasing shares of the budget. There may be other shifts *within* programs to focus resources on certain priorities, such as safety or improved bicycle infrastructure. However, PBOT managers told us that most projects and activities benefit multiple modes of transportation (automobile, bicycle, pedestrian, transit) or meet multiple priorities (safety, infrastructure preservation, economic development), so they do not track activities at a lower level. Without tracking the spending and reporting the outcomes, however, it is difficult to assess the results of transportation funding decisions. Better reporting on outcomes would make transportation funding decisions more transparent and improve accountability to the public.

PBOT managers told us they are working on a business plan with specific and measurable outcomes by program. If reported publicly, that would be a positive first step in improving the accountability and transparency of the City's transportation funding decisions.

Recommendations

Priorities for use of existing transportation funds are not clear, and commitments to new projects have reduced funds available for maintenance and other existing services. Without greater investment in infrastructure maintenance, the condition of those assets will continue to decline, requiring even more future spending to maintain basic assets. We agree with the City Budget Office that the City Council should clarify the City's transportation strategy and improve project-level risk assessment.

We recommend that the Commissioner in Charge of Transportation:

1. Develop, for City Council adoption, a transportation strategy that clearly states the City's overall transportation policy goals and objectives.

The strategy should identify and communicate the balance of infrastructure preservation and new transportation development, to guide future funding decisions. This strategy should also be plotted within available resources and not simply list all of the improvements the City may desire that exceed its existing transportation funding. General goals for broad topics like "safety" or "mobility" should be specific enough for policy-makers and the public to understand how competing priorities will be weighed.

2. Require PBOT to develop and report performance measures that support Council's transportation strategy.

This would provide City Council and the public information to evaluate the outcomes and effectiveness of the transportation strategy. A report on performance should be presented to Council annually. The performance measures currently being developed by PBOT may provide the base for this report.

3. For new projects, require PBOT to include analysis of planned revenues and identify the backup revenue stream.

If PBOT's discretionary revenue is the backup revenue stream, identify the programs that will be cut to finance the new project if the planned new revenues don't meet projections.

Objective, scope and methodology

The objective of this audit was to document trends in PBOT's discretionary revenues and expenditures. While we focused on discretionary revenues, we reviewed dedicated revenue sources to provide context for discretionary spending.

To accomplish this objective, we researched best practices in financial planning and budgeting. We reviewed state and national reports on transportation funding, gas taxes, and transportation agency performance.

To gather information on PBOT's revenue sources, budget process and financial reporting we interviewed staff and managers at PBOT, OMF Financial Planning, OMF Accounting, and OMF Debt Management. We also spoke with a member of the Transportation Budget Advisory Committee and staff at the Oregon Department of Transportation.

We used a combination of sources to document revenue history, including the City's Comprehensive Annual Financial Reports, the Transportation Operating Fund Five-Year Forecasts, and reports from the City's financial accounting system.

To document trends in spending, we relied on annual budget program summaries prepared by PBOT financial staff. We initially planned to present actual rather than budgeted expenditures, but due to the recent change in the City's accounting system, actual program expenditure information could not be reliably compared over time. We reviewed City Council records, PBOT budget proposals, bond statements, and the adopted City Budget for more information on program changes.

In order to account for inflation, we express most financial data in constant dollars. We adjusted dollars to represent the purchasing power of money in FY 2011-12, based on the U.S. Department of Labor's Portland-Salem Consumer Price Index for All Urban Consumers.

In addition to issues related to tracking actual spending, PBOT staff noted a number of other challenges in implementing the City's financial accounting system. Staff are not currently able to link budgeted activities to specific revenues, or easily allocate project costs by fund. Financial information was not readily available to respond to audit questions. PBOT staff told us they are now working with the Office of Management and Finance to tailor the financial accounting system to PBOT needs. Because PBOT staff is actively working with Office of Financial Management to resolve these issues, we did not extend the audit scope to address these issues at this time. However, the control, tracking, and reporting of PBOT revenues and expenditures could be the topic of a future audit.

We shared an earlier version of this report with PBOT management, and incorporated their suggested changes in the final report. PBOT management stated that the report is accurate and on track from a PBOT perspective.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX

APPENDIX

Discretionary Transportation Revenue Sources

The City's discretionary transportation revenue sources are described below. The four items described are collectively called "General Transportation Revenue" and include (1) Gas tax from the State and County, (2) Parking revenues, (3) Utility license fees /General Funds, and (4) Other available resources (including contingency and overhead). Gas tax and parking revenue make up the majority of discretionary transportation revenues.

State Highway Fund and Multnomah County Gas Tax

Often referred to as the "gas tax," the State Highway Fund includes revenue from state motor vehicle fuel taxes, as well as motor vehicle registration and title fees, drivers license fees, and a weight-mile taxes on heavy commercial vehicles. State Highway Funds are distributed to the Oregon Department of Transportation, to counties based on vehicle registration, and to cities based on population. The state gas tax was flat from 1991 to 2011, and is not indexed to inflation. In 2009 the State Legislature increased the gas tax rate by 6 cents per gallon, effective in 2011.

Multnomah County is one of two counties in the state to levy an additional tax on gas consumption, of \$.03 per gallon. In 1984, Multnomah County and the City of Portland signed an interagency agreement transferring all county roads within City boundaries to the City. The County would then transfer a portion of its State Highway Fund and County gas tax receipts according to a set formula.

To determine the City allocation, City and County gas tax road are pooled. A portion of the pooled total is allocated to Multnomah County for bridge maintenance and capital improvements, and the remainder is divided 80 percent to the City, 20 percent to the County.

The 80/20 split is based on the total centerline miles maintained by County and City. Whichever party received more than the determined share issues a check to the other. In practice, Multnomah County has always issued checks to the City on a quarterly basis.

The Oregon Constitution limits the use of highway fund revenue to the “construction, reconstruction, improvement, repair, maintenance, operation and use of public highways, roads, streets and roadside rest areas.” While PBOT considers gas tax funds part of its discretionary revenue, these gas tax funds cannot be used for transit or other non-road uses.

Parking Revenues

Parking revenues include revenues from parking permits, meters, fines, and an annual transfer of revenues from City-managed parking garages.

While there are no restrictions on use of parking revenues, there are both costs of collection and other agreements that limit use. New parking districts require new signage and meter purchases, and increase ongoing costs of operations and enforcement. The City’s parking policy states that the primary purpose of the parking districts is to improve the functioning of the parking and transportation systems. According to City policy, the majority of net meter revenues from new districts (outside the Central City) should support parking and transportation programs within the district. So while parking revenue is an important source of discretionary transportation revenue, other requirements on the use of funds and the costs of administration limit the total discretionary revenue available.

Utility License Fees/ General Funds

All utilities operating in the City pay a portion of gross revenues as a utility license fee that is deposited in the City’s General Fund. Beginning in 1988 the City Council identified this as a potential source of funding to meet the needs of the City’s transportation system, but there was no consistent allocation of funds. In 2008 Council voted to dedicate all utility license fee revenue above forecast levels to PBOT

for operations, maintenance, and safety. Council set a target of \$4.3 million annually, but actual revenues were lower. In 2011 Council revised the allocation to a set amount of \$2.2 million, and any revenue in excess of the forecasted amount, up to \$2.1 million additionally. There are no restrictions on the use of the general fund utility license fees transferred to PBOT.

Other Available Revenues – Fund Balance, Contingency, Overhead

In addition to external sources, PBOT may also have contingency funds or fund balance in the discretionary forecast. Beginning with the implementation of the new financial accounting system, PBOT can also identify the overhead PBOT receives on grant and inter-agency work. These funds are now included in PBOT's discretionary revenue forecast.

RESPONSE TO THE AUDIT



Office of Mayor Charlie Hales
City of Portland

January 22, 2013

Lavonne Griffin-Valade
City Auditor
1201 SW Fourth Avenue, Room 140
Portland, Oregon 97204

Dear Auditor Griffin-Valade:

Thank you for completing your audit of the Bureau of Transportation. I believe that the report, *Transportation Funding: Revenues Up, spending on maintenance down*, provides useful information to assist me and PBOT leadership in refocusing the bureau and ensure the City prioritizes appropriate maintenance of our existing transportation assets.

Sincerely,

Charlie Hales
Mayor
City of Portland

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Transportation Funding: Revenues up, spending on maintenance down

Report #436, January 2013

Audit Team: Kari Guy

This report is intended to promote the best possible management of public resources. This and other audit reports produced by the Audit Services Division are available for viewing on the web at: www.portlandoregon.gov/auditor/auditservices. Printed copies can be obtained by contacting the Audit Services Division.

LaVonne Griffin-Valade, City Auditor
Drummond Kahn, Director of Audit Services

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