Financial Forecast for the Funding of Transportation Facilities and Services, 2012-2040

Executive Summary

Prepared for:

Community Planning Association of Southwest Idaho

October 15, 2012

By:

Honey Creek Resources, Inc.
BBC Research and Consulting, Inc.

Executive Summary

The Community Planning Association of Southwest Idaho (COMPASS) prepares or updates a long-range transportation plan for Ada and Canyon Counties, Idaho, every four years. This plan is called *Communities in Motion.* This financial analysis will support *Communities in Motion 2040* (CIM 2040); an update to the current CIM plan that will plan to the year 2040. The analysis will provide estimates of funds available for future capacity and maintenance needs of the transportation systems within the COMPASS region. COMPASS serves as the Metropolitan Planning Organization (MPO) for Ada and Canyon Counties; federal rules require that MPO plans and programs be financially constrained[1], meaning that the plan can only include projects that have a reasonable chance of being funded. It is only those "likely to be funded" projects that can be used to demonstrate that the plan meets federal air quality regulations – a legal requirement. More important than the federal requirements, however, is the need for local and state officials and citizens of the region to understand the financial situation facing transportation over the next 25 years.

There are 15 different transportation agencies in Ada and Canyon Counties. The financial estimates provided in the report are made for these transportation agencies:

- Ada County Highway District/ ACHD Commuteride
- Canyon Highway District No. 4
- City of Caldwell
- City of Greenleaf
- City of Melba
- City of Middleton
- City of Nampa
- City of Notus
- City of Parma
- City of Wilder
- Golden Gate Highway District No. 3
- Idaho Transportation Department
- Notus-Parma Highway District No. 2
- Nampa Highway District No. 1
- Valley Regional Transit

The Idaho Transportation Department (ITD) recently completed several large road construction projects on Interstate 84 in Ada and Canyon Counties to add new lanes, new exits, and rebuild bridges. Now that those projects are complete, ITD does not have funding for any large expansion projects during the next 25 years; instead, they will focus on road maintenance.

Over the long term, a transportation agency must balance revenues (income) and costs, although in any given year, revenues may exceed costs or vice-versa. There are three cost categories:

- Operations - utilities, administration, fuel, driver and dispatchers (transit) insurance, etc.;
- Preservation and Rehabilitation – sweeping, pot hole patching, chip seals, equipment repair, overlays, replacement of bridge decks, replacement of obsolete equipment, etc. for the existing system and service levels; and
- Expansion - build new roads or bridges, expand current roads or bridges, or add new services and equipment (buses) for new services.

Operation costs are budgeted first, and then preservation/rehabilitation costs. So, if we can estimate future revenues (income), then subtract estimated future operations and maintenance

[1] Federal regulations regarding financial constraint under § 23 CFR 450.322(f) (10) can be viewed at http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&rgn=div5&view=text&node=23:1.0.1.5.11&idno=23.

(O&M) and preservation costs, we know if any is left for new roadway capacity, such as adding lanes.

Think of it as a simple budget for owning a home. If the homeowner knows her income (revenue), the cost to operate and maintain the home (mortgage, utilities, routine upkeep, etc.), and the cost to preserve/rehabilitate the home (e.g., big repairs such as replacing a broken furnace), she can figure out if there is enough money left to budget for something new or extra, such as remodeling the home or adding an additional room.

Homeowner Budget:

Income - Household operating costs - Household preservation costs = Money available to remodel the home

Transportation Budget:

Revenue - Operating costs - Preservation and rehabilitation costs = Money available for new or expanded services

Revenue Assumptions

Funds for transportation infrastructure and services (roads, bus service, etc.) come mainly from federal, state, and local taxes. Federal funds currently provide approximately 10 to 15 percent of the total funding for local roads in Ada and Canyon Counties combined; state funds provide approximately 30 percent, and local funds provide the remainder (55 to 60 percent). For local transit (e.g., bus services), federal funds provide about 35 percent total funding and various local sources provide the remaining 65 percent. There is little state funding for transit in urban areas.

- The federal fuel tax rate, fixed since 1993 at $0.184 per gallon for gasoline and $0.244 per gallon for diesel, funds the Highway Trust Fund, the primary source of federal assistance for local roads and many transit projects across the country. These funds typically require some level of local cost share ("match") but to varying degrees can be generally used for both O&M expenditures or capital expenditures (building or buying something). Based on an uncertain political climate, an apparent reluctance to increase federal fuel tax, and very modest increases in total fuel usage over time, this analysis anticipates a one percent increase in overall federal transportation funding allocated to Idaho over the period 2012 through 2040.

- Fuel taxes are also the primary source of state funding, fixed since 1996 at $0.25 per gallon for gas and diesel. The state fuel tax is the primary source of funding (67 percent) for the State Highway Distribution Account (HDA), which distributes money to ITD and local road agencies through a specific funding "formula" (equation). The remainder of funding for the HDA is provided primarily by vehicle registration fees on autos and trucks. This analysis assumes that state funding for local road agencies increases at a rate of approximately 1.7 percent per year, based on relatively modest anticipated increases in fuel usage and an estimated increasing proportion of the state's population living within

the two-county region. Revenues from the HDA have no restrictions on their usage for roads but cannot be used for transit services or other non-road projects.

- Property taxes are the single largest source of local funding for roads and are assessed directly by the highway districts. In Canyon County, the highway districts return a portion of the property tax revenue to the cities within their boundaries that have their own road department (Nampa, Caldwell, Middleton, Parma, Notus, Greenleaf, Wilder and Melba). The analysis assumes that property tax revenues will increase at a rate equal to the rate of increase in the communities' number of households, plus the rate of inflation or three percent, whichever is less. In addition to property taxes, the Ada County Highway District (ACHD) and the City of Nampa also collect and use development impact fees. ACHD also uses vehicle registration fees. Impact fee levels are allowed to increase with inflation but these revenues depend on a relatively volatile local construction market and can only be used for expanding the motor vehicle capacity of roads. Under Idaho law, impact fees can only recover "proportionate" costs associated with improving capacity and cannot be used for existing problems, repairs, safety, or non-capacity improvements such as sidewalks. In ACHD's Capital Improvement Plan, of a $520.5 million cost for roadway improvements, only $277.2 million was found eligible. The amount of the vehicle registration fee is fixed, so any growth in revenue comes from increasing the number of licensed vehicles and/or voter-approved decisions to increase the fee level (last changed in Ada County in 2008 and put into effect in 2009). The City of Nampa has also used proceeds from periodically-issued General Obligation bonds to supplement their transportation budget, and the city intends to continue this practice.

A Flawed User Fee System
Fuel taxes and registration fees make up half of the local roadway funding. Yet these sources are not closely tied to the state of the economy but are tied to unchanging fuel tax rates and very modest anticipated increases in fuel sales. For ITD nearly all of its funding comes from these sources.

Fuel consumption fell or held constant in Idaho from 1999 on—even with the boom prior to 2008. As a result, it is expected that future revenues will not keep pace with future needs.

- Local sources of funding for transit come from fares and contributions from local governments. Fares comprise about 10 percent of local transit operating revenues and are expected to increase over time at a rate approximately equal to inflation. Their share of operating revenues will likely stay at 10-12 percent. Payments from the cities are also expected to increase over time with inflation, with the share of each local government roughly tied to service levels within their areas.

Economic Recovery as a Solution?
The economic recession actually improved the situation by suppressing costs. A booming economy, combined with higher demand for oil, steel and concrete, could increase the financial problems facing transportation.

Of all the revenue sources, only property tax revenues, impact fees, and transit fares are likely to keep pace with inflation. Increasing other sources of revenues, such as gas taxes, requires congressional, legislative, city, or voter approval. These approvals appear unlikely due to current economic conditions. However, an improving economy may not help either.

Operations, Maintenance, and System Preservation Assumptions

The analysis assumes that O&M and reconstruction expenditures for roads and transit follow their historic trends into the future. However, this makes broad assumptions about the current condition of each road and it is unclear if historic spending patterns were adequate to keep roads in good condition. There is not yet a way to fairly evaluate and compare the range of conditions of all roadway systems in the region. As a result, the conclusions about system maintenance are based primarily upon discussions with the agencies themselves. Based on multiple meetings with the roadway and transit agencies, it appears reasonable to conclude that their systems are currently in good condition. However, there were areas of concern moving forward:

- One municipality was certain they were falling behind with respect to pavement conditions, particularly in the area of chip sealing and maintenance overlays. Other urban agencies had similar concerns with respect to local and collector roads. The Canyon County highway districts appeared to have fewer issues with pavement conditions than urban agencies.
- Specific programs to fund the rehabilitation or reconstruction of major structures such as bridges have not been developed. Although all agencies are committed to adequately maintaining their major structures as the needs arise, fewer have taken steps to ensure these maintenance expenditures don't come in unwelcome future "spikes" as needs come due.
- Valley Regional Transit will likely fall behind with respect to fleet replacements. Based on expected expenditures and the size and age of the current fleet, annual expenditures for bus replacements should be increased by a factor of two to three.

Inflation and Regional Growth Assumptions

Inflation assumptions depend on the nature of the expenditure.

- An inflation rate of four percent is assumed for fossil fuel-intensive future roadway O&M and reconstruction expenditures.
- An inflation rate of three percent is assumed for transit operating expenditures on the basis that their usage of compressed natural gas will result in lower future costs as compared to diesel fuel.

The Power of Compounding
While a 4% annual growth in costs may not seem to be much more than a 1.5% annual growth in revenue, the difference grows over time. Assuming costs initially match revenues, after 30 years, this difference in rate of increase would result in costs doubling revenues.

Available Funding for Funds for New Roadway Capacity

Based on the above assumptions, total funds available for new roadway capacity in Ada and Canyon Counties is shown below.

	Total funds available for roadway expansion, 2012-40 (million)
Ada County	$520
Canyon County	$45
Total	$565

Figure ES-1 shows future estimates of total revenues and operations, preservation, and reconstruction costs for the combined roadway agencies. As shown, these costs exceed revenues in approximately 2025, indicating that after this point some form of revenue enhancements, deferral of maintenance, or reductions in service will be needed to keep the system financially sound. Remaining funds available for growing the roadway system will be depleted at this point for all agencies except ACHD and the City of Nampa, whose impact fee revenues are reserved for projects directly benefiting new development, not maintenance of the existing roadway system.

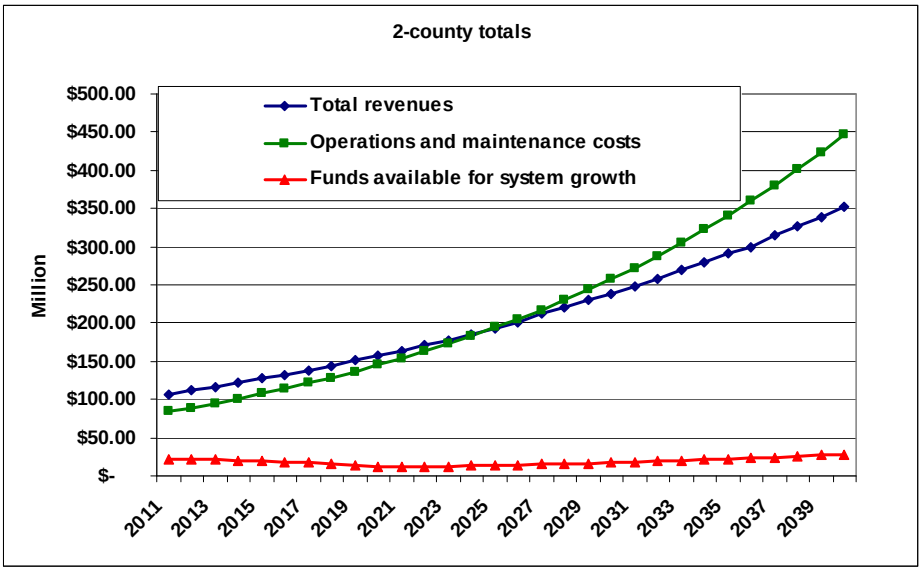

Figure ES- 1. Future revenues, expenditures, and remaining funds available for system growth, Ada and Canyon Counties combined, assuming four percent inflation

Figure ES-2 shows annual revenues for system growth over time, allocated to Canyon County agencies and Ada County, with payments broken-down between those originating from impact fees and from other revenue sources. It is apparent that impact fee revenues comprise the bulk of the estimated available funds after 2015.

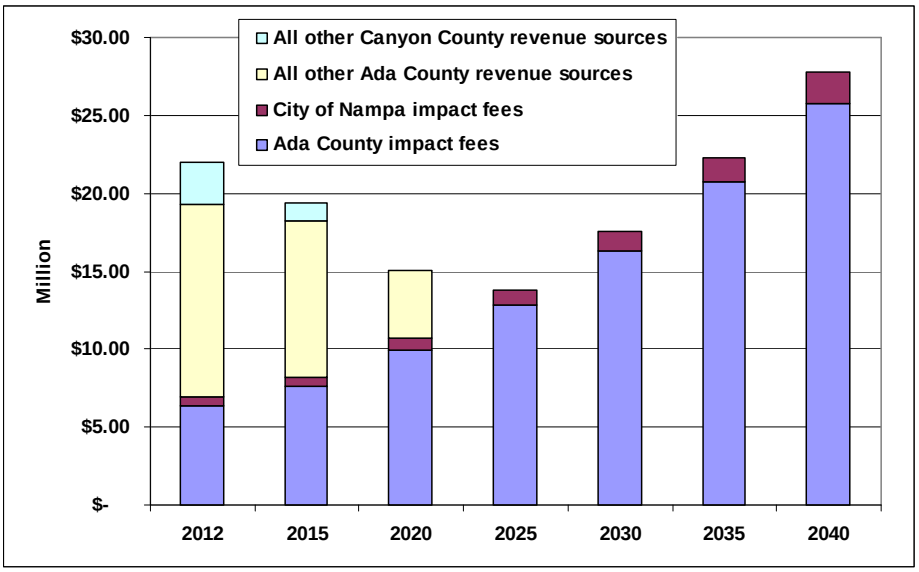

Figure ES-2. Estimated annual revenue available for roadway system expansion projects.

Available Funding for Transit Expansion

Valley Regional Transit (VRT) is the transit authority for Ada and Canyon Counties and operates the ValleyRide bus system. ACHD's Commuteride vanpool program operates in both counties as well, but all vanpool routes must connect to or through Ada County (that is, there is no Commuteride service between two destinations within Canyon County).

VRT plans to focus on maintaining current service levels, covering operation and maintenance expenditures, and maintaining their fleet and facilities. In any given year there may be carryover funds, but these funds will already be spoken for; either for meeting existing obligations or held as needed operating capital, so annual revenues equal annual costs with little leftover. There is no demonstrated source of additional funding that might accelerate major expansion of the system.

Federal Funding Futures
Federal transit revenues are assumed to grow at 1 percent per year – they could stay the same or be eliminated with nearly equal probability.

The analysis assumes local cities maintain their current levels of payments over time with annual adjustments for inflation. Regardless, costs are assumed to increase at a more rapid rate than these revenues, with the resulting deficit projections shown in Figure ES-3. Qualitatively, this result is similar to many roadway agencies, although the deficit is experienced earlier and with greater severity in relative terms. There are no funds anticipated to be left over for increasing the level of transit service. A relatively small deficit increases over time to an estimated annual level of $4.7 million in 2020 and $13.1 million in 2030.

Without additional revenues from existing or new revenue sources, a potential consequence of this gap could be reductions in transit service in order to match available funding.

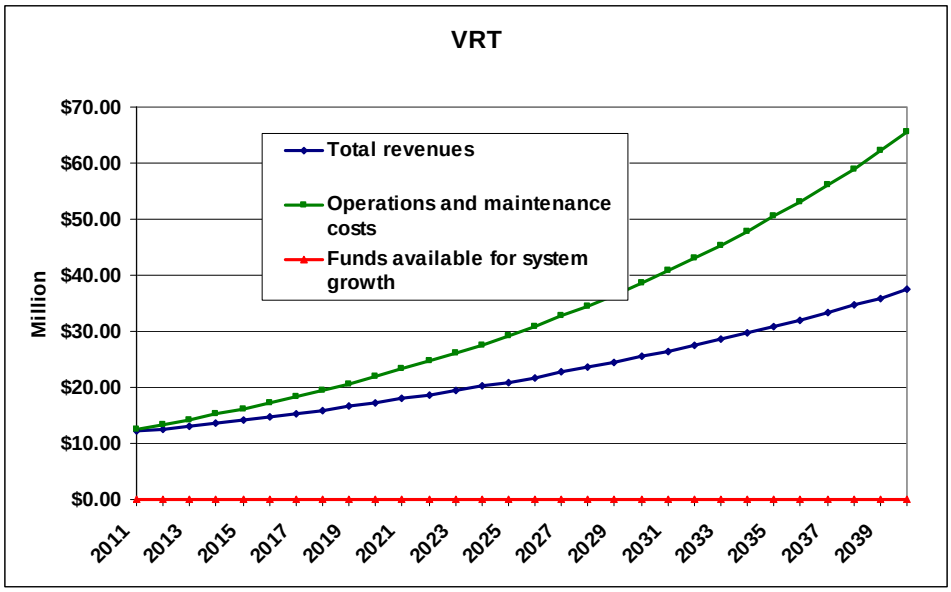

Figure ES-3. Annual transit revenues, O&M expenditures, and remaining funds available for increasing service levels.

Commuteride is in a more stable financial situation since 80 percent of its allocated base costs (vehicle replacement, fuel, maintenance, administration, etc.) are covered by user fares, which are adjusted periodically to cover increased costs. ACHD provides most of the remaining funds to cover basic costs. Expansion of the Commuteride program has been funded via federal dollars, and marketing programs to maintain ridership and replace commuters who drop out of the program is essential. From 2009 through 2013, actual and budgeted allocated costs for Commuteride amounted to $7.7 million, roughly $1.5 million per year with 97 vans in operation during 2012. The general conclusion is that Commuteride can sustain its existing level of services through its fares and a relatively modest contribution from ACHD, but there are insufficient resources within the program to expand services or add new facilities such as park-and-ride lots.

General Conclusion

$565 million results in annual investments of less than $9 million per year.

While revenues will increase over the next 25 years, costs for operations, preservation and rehabilitation will likely rise faster. This means that only agencies with funding dedicated to expansion—specifically impact fees—will have long-term capacity to expand. Across 29 years the $565 million in today's dollars results in annual investments of less than $9 million per year. To put this in perspective, widening Franklin Road for one mile (2 to 5 lanes) with sidewalk, curb and gutter will cost $10.9 million. Adding a signal to the intersection of Middleton Road and Flamingo will cost $280,000, and a roundabout at Middleton Road and Ustick will cost $950,000. A new bus route would cost $370,000 per year to operate not counting bus purchases. Changes in how existing funds are raised and/or new funding sources will be needed to provide for new transportation capacity and services.

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