

# Project Funding Strategy Memorandum

TO: Project Oversight Team  
FROM: Project Management Team  
DATE: March 6, 2015

## 1. Purpose

The intent of this memorandum is to document the conceptual funding strategy for the Salem River Crossing Project (SRC) Preferred Alternative that was developed by the Project Oversight Team (OT) on December 11, 2014.

## 2. Funding Requirements

The estimated cost of the SRC Project is approximately \$430 million<sup>1</sup>. While it would be preferable to construct the entire project at the same time, it may be constructed in phases over a longer period of time as funding became available. Recognizing that financial limitations may require phasing, the project has been divided into four possible major construction phases, summarized below:

### **Phase B Key Elements (Approximate Cost: \$300 million)**

- Construct new bridge and ramp connections on both east and west sides of river
- Realignment of Front Street and other street modifications in North Salem
- Widening of Wallace/Hope Avenue intersection
- Widening of Wallace/Orchard Heights intersection

### **Phase M-South Key Elements (Approximate Cost: \$20 million)**

- Construct southern section of Marine Drive (from Hope Avenue Extension to Glen Creek Road)
- Construct Beckett Street (new street opposite Narcissus Court)
- Extension of 5<sup>th</sup> Avenue NW between Cameo Street and Marine Drive

### **Phase M-North Key Elements (Approximate Cost: \$10 million)**

- Construct northern section of Marine Drive (from Hope Avenue Extension north to River Bend Road)

### **Phase R Key Elements (Approximate Cost: \$100 million)**

- Construct fly-over ramps from Marine Drive to Highway 22
- Construct Marine Drive at-grade section south from Glen Creek Road to fly-over ramps
- Modifications to Highway 22, including closure to westbound off-ramp at Rosemont Avenue (to be coordinated with possible relocation of this exit further west)

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<sup>1</sup> This cost estimate will be refined and updated for the Final Environmental Impact Statement.

Per Federal Highway Administration (FHWA) guidance (FHWA, 2014), the SRC Project, as a project with an estimated cost between \$100 million and \$500 million, would be required to prepare a Financial Plan. An initial Financial Plan would need to be submitted to FHWA prior to FHWA project authorization for construction; however, a Financial Plan is *not* required to be prepared during the Final Environmental Impact Statement (FEIS) process as a prerequisite to the project being issued a Record of Decision (ROD) by FHWA.

### 3. Funding Options

Transportation infrastructure projects such as SRC could be funded through a mix of federal, state, and local sources. However, with limited options for federal and state funds, discussions with the community have focused on identifying potential local sources of revenue.

Four local funding sources were identified as the most likely to be applicable to the SRC project: **1) gas tax, 2) vehicle registration fee, 3) property tax, and 4) tolls.**

The above local funding mechanisms were considered most likely to be applicable to the project based on the following criteria (ECONorthwest, 2014):

- **Legal authority.** A funding source must not be prohibited by State statute, or it must become legal within a desired timeframe. Even for legal funding sources, complicated legal requirements could result in legal challenges, extra administrative costs, and political uncertainty.
- **Efficiency.** An efficient funding source creates and maintains net revenues (net of collection costs) by providing sufficient revenue generating capacity, stability, and flexibility of use while minimizing administrative costs (i.e., the costs of collecting on the source).
- **Fairness.** In the context of transportation funding, fairness is achieved when infrastructure improvement charges are tied to the users who receive benefits from (or impose costs on) the transportation system. Definitions of fairness can be modified to allow for special dispensation of certain groups (e.g., low-income families, the elderly, and people with disabilities). In other cases people may benefit from transportation improvements that they do not personally use but nevertheless provides an indirect cost-savings, such as through more efficient (and cheaper) freight routes. Geography can also play a role in evaluating fairness, for example, if residents in one county pay all of the cost for a project that benefits residents in multiple counties.
- **Political acceptability.** Political acceptability considers whether elected officials and the public at large are likely to support the funding source. This depends to a large extent on the issues above: if a revenue source is legal, efficient, and fair, then it should get political support from the public, advisory groups, and decision makers. Generally, public opinion is against most new or increased taxes and fees. But, if the public believes the services or projects to be funded by these taxes and fees are important, then their opinion of the revenue source may change.

Two funding workshops were held on December 3, 2014 to gather input from stakeholders about which of the local revenue sources to utilize, and at what levels, in an overall funding

strategy. The afternoon workshop was held for elected officials, public agency staff, and interested stakeholders. The evening workshop was open to all members of the public.

At the funding workshops participants discussed the strengths and weaknesses of the four potential local revenue sources and performed a funding tool exercise that allowed them to create funding strategy scenarios.

## 4. Summary of Funding Strategy Discussion

On December 11, 2014 the OT held a meeting to consider the funding strategy feedback provided by workshop participants and to develop a conceptual funding strategy that would serve as a guiding framework for future funding efforts and decision-making. The OT also considered potential sequencing of construction phases with regard to funding.

The discussion began with the introduction of a funding strategy table containing four rows listing each of the construction phases and columns containing blank cells in which to allocate funding contribution amounts from each of the four local revenue sources as well as federal and state sources. OT members discussed the advantages and disadvantages of the respective revenue sources and the sequencing of construction phases. The OT considered ranges for each revenue source and discussed which revenue source made the most sense for particular construction phases and the project as a whole.

A first cut at the funding sources and amounts was provided by one of the OT members and is summarized in Table 1. This proposal was based on discussions that had taken place at the funding workshops and funding strategies that have been used to successfully fund other projects in the region. It was pointed out that the sum of all the funding amounts proposed exceeded the revenue needs of the project. It was clarified that the values placed in the table represented **upper ranges of revenue** that could potentially be raised for each of the funding sources. If one or more of the funding sources was not secured, it may be necessary to pursue increased funding from another source up to the maximum shown to meet the need. Or vice

Project Phase	Approx. Cost	Funding Source					
		FEDERAL	STATE	LOCAL	LOCAL	LOCAL	LOCAL
				Gas Tax	Vehicle Reg. Fee	Property Tax	Tolling
Phase B	\$300,000,000	\$20 M	\$75 M	\$65 M	\$65 M	--	\$175 M
Phase M-South	\$20,000,000					\$20 M	
Phase M-North	\$10,000,000					\$10 M	
Phase R	\$100,000,000	\$20 M	\$75 M	\$20 M	\$20 M		\$100M
<b>Total Project Cost</b>	<b>\$430,000,000</b>	<b>\$40 M</b>	<b>\$150 M</b>	<b>\$85 M</b>	<b>\$85 M</b>	<b>\$30 M</b>	<b>\$275M</b>

versa, funding amounts from one source may be reduced if more funding from another source is secured.

**Table 1: Initial Proposal for Funding Strategy**

M = Million

Key points discussed by OT members with respect to the development and selection of a conceptual funding strategy are paraphrased below:

- Based on a review of funding plans for other projects and the contribution those projects have received from federal and state funding sources, one OT member suggested that it was reasonable to anticipate project funding contributions being approximately 50% from local revenue sources and 50% from state and federal sources. This project has the same ability to affect the state as Pioneer Mountain-Eddyville (Hwy. 20), the Newberg-Dundee bypass, and the I-5 interchange area in Woodburn, which all received a high percentage of state funding.
- A goal of this discussion was to keep the initial funding strategy broad enough that future elected officials will have flexibility to propose politically viable options to voters.
- The point was emphasized that this is a conceptual funding strategy and no decisions regarding actual funding commitments are being made. The funding strategy being developed is just a framework to move forward.
- With regard to phasing, the OT agreed that the best scenario would be that all project phases would be constructed concurrently within a short time period. This is a regional project and all the proposed project elements are needed to create a safer, more efficient system and provide regional benefit.
- Using property tax as a revenue source was felt to have limited utility with the exception of funding Marine Drive, which could potentially be funded with a City of Salem property tax. Marine Drive has independent value, is already in the City's transportation system plan (TSP) and City residents have approved transportation improvement property taxes in the past (the most recent in 2008). Some private dollars may be collected from adjacent developments to contribute to the construction of Marine Drive.
- A source of state and federal funding discussed was the Statewide Transportation Improvement Program (STIP) which includes federal and state funds. The Mid-Willamette Valley Area Commission on Transportation (MWACT) has a role in recommending projects that would use these funds. It would take approximately three years to construct the bridge, another year for Marine Drive, and two years to construct the ramps, so that would allow six or seven years to accumulate funding through future potential recommendations by MWACT to set aside funds in the STIP for these projects. The last STIP allocation for MWACT was approximately \$17 million. Over three STIP cycles a potential of \$30-50 million could be allocated for the project. This is ODOT

Enhance Program money, but it is primarily federal dollars. If \$45 million in Enhance Program money was allocated to this project, that would break down to approximately \$5 million in state dollars and about \$40 million in federal funds. It was agreed that this money should be added into the initial funding strategy – it would be reasonable to anticipate this funding amount and it may be more reliable than some of the other local revenue sources.

- Raising more than a few million dollars of state funding would require state legislative action similar to the 2009 Jobs and Transportation Act (JTA), so some felt it may not be realistic to suggest that \$150 million of state funding could be secured, but the OT agreed that it should remain in the funding strategy as a source of revenue that should be pursued.
- Raising local revenue for this project through a gas tax and/or vehicle registration fee may be more successful if the project was part of a regional package of projects.
- Tolling allows for a broader funding base – the cost burden would not fall only on local residents. There should however be price reductions for seniors and low-income people if tolls were installed.
- It was suggested that a more reasonable revenue amount to be raised through tolling would be based on a toll of \$1.50, which would raise \$175 million. This funding could be used to construct the new bridge or some portion of the ramp connections to Hwy 22.

## 4. Recommended Funding Strategy

Following the discussion summarized in Section 3 of this memorandum, the funding strategy for the SRC Preferred Alternative was revised by the OT and is shown in Table 2.

**Table 2: Recommended Funding Strategy**

Project Phase	Cost	Funding Source					
		FEDERAL	STATE	LOCAL	LOCAL	City of Salem	LOCAL
				Gas Tax	Vehicle Reg. Fee	Property Tax	Tolling
Phase B	\$300,000,000	\$20 M*	\$5 M* \$75 M**	\$65 M	\$65 M	--	\$175 M
Phase M-South	\$20,000,000					\$20 M	
Phase M-North	\$10,000,000					\$10 M	
Phase R	\$100,000,000	\$20 M*	\$75 M**	\$20 M	\$20 M		
<b>Total Project Cost</b>	<b>\$430,000,000</b>	<b>\$40 M*</b>	<b>\$5 M*</b> <b>\$150 M**</b>	<b>\$85 M</b>	<b>\$85 M</b>	<b>\$30 M</b>	<b>\$175 M</b>
Tax/Fee/Toll necessary to generate revenue shown				\$.06/Gallon	\$25/Year	\$0.37/\$1K	\$1.50/crossing

M = Million

\*Potential MWACT STIP allocation

\*\* Would require legislative action

To reiterate, the sum of all the funding amounts proposed exceeds the revenue needs of the project and should be viewed as suggested maximum values that could potentially be secured with each of the funding sources. The development of financial plans for large transportation infrastructure projects such as this is an iterative process where the funding strategies are often modified based on the success or failure in securing funding.

## References

ECONorthwest. November 12, 2014. *Salem River Crossing Revenue Projections Memorandum*.

Federal Highway Administration (FHWA). December 18, 2014. *Major Project Financial Plan Guidance*.