



March 17, 2023

Oregon Joint Committee on Ways and Means Subcommittee on Transportation and Economic Development

Co-Chair Senator Aaron Woods

Co-Chair Representative David Gomberg

RE: House Bill 5040, ODOT FY 2023-25 Budget, Oregon Counties Support Solutions to Address State Operations and Maintenance Deficit and House Bill 2101 Sustainable State Fund Exchange Program

Co-Chair Senator Woods and Co-Chair Representative Gomberg and Members of the Committee:

On behalf of the Association of Oregon Counties (AOC) and Oregon Association of County Engineers and Surveyors (OACES), we thank you for your consideration of the Oregon Department of Transportation's (ODOT) budget proposal. House Bill 5040 provides \$5.35 billion for current service levels including: \$570.7 million in maintenance, \$2.5 billion for project delivery and support, and \$565.4 million in local government programs.

Counties are thankful for ODOT's concerted effort to work with local governments to find a collaborative solution to the State's impending operations and maintenance (O&M) budget deficit and our mutual desire to find a sustainable funding source for the Surface Transportation Block Grant (STBG) Fund Exchange Program and the State Funded Local Projects (SFLP) Program.

ODOT is reporting that highway fund revenues will be essentially flat, while expenditures—primarily agency operations and transportation system maintenance—will continue to grow due to inflation. ODOT has reported reduced expenditures of \$78.3 million in the current biennium, in part through a significant reduction to the Fund Exchange Program. While counties understand that legislative action to increase available revenue is needed for long-term budget stability, we remain very concerned of the burden of ODOT's budget deficit being passed onto small local governments. The Fund Exchange Program is a cost saver for ODOT as it alleviates the need to administer federal-aid delivery projects, and is a revenue generator as well. Local governments pay a 10 percent administrative fee to ODOT to exchange state and federal funds, which would provide ODOT with \$3.9 million in 2023 alone.

ODOT, AOC, and OACES have engaged in work group discussions over the last two years to better understand and mitigate the impacts of ODOT's O&M deficit on local programs. In 2020, cities and counties agreed to a four percent reduction to the Fund Exchange Program rate among other cost saving measures. Counties are eager to work with ODOT in partnership with local governments to find funding solutions to ODOT's long-term deficit challenge. Support for

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House Bill 2101, if included along with House Bill 5040, could avert a 50 percent reduction to the Fund Exchange Program, which provides \$36 million to Oregon's local transportation system annually, and benefits ODOT with decreased local federal-aid delivery oversight and a favorable exchange rate.

Fund Exchange programs exist in 11 states, and for approximately 40 years Oregon's Fund Exchange Program has been one of the most significant sources of road funding for local governments. On average the program is the third largest dedicated funding source, and for some county road departments, is over 10% of their annual operating budget. The program funds dozens of maintenance and operations projects and activities across the state.

Counties have engaged with ODOT on the agency's budget issues in good faith and will continue advocating to the Legislature for sustainable transportation funding that addresses the agency's systemic deficit. Unfortunately, HB 5040 in its current form, without the passage of HB 2101, or measures to generate revenue or reduce expenses, significantly impacts critical local government funding programs. Counties appreciate the time and effort ODOT has invested in the process to find a solution to the agency's impending budget deficit while maintaining the integrity of the STBG Fund Exchange Program. We look forward to continuing this partnership with ODOT to find collaborative approaches and sustainable solutions.

Sincerely,



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