REQUEST FOR COUNCIL ACTION

Title:	Surface Transportation Block Grant: Fund Exchange Program
Preferred Agenda:	March 23, 2021
Submitted By:	Trish Rice, Engineering Tech 2 Greg Springman, Public Works Director
Reviewed By:	Ray Towry, City Manager
Type of Action:	Resolution ___ Motion _X_ Roll Call ____ Other ____
Relevant Code/Policy:	n/a
Towards Council Goal:	Goal 1.1c Develop specific steps for implementation of the adopted infrastructure master plans (streets) Goal 2.5 5. Continue to implement strong financial best practices
Attachments:	Fund Exchange Program flier ODOT Fund Exchange Intergovernmental Agreement

Purpose of this RCA:

Staff requests authorization to enter into the ODOT Fund Exchange Intergovernmental Agreement (IGA) to exchange federal transportation funds for state transportation funds.

Background/Context:

Local governments receive annual transportation revenue from the Federal Surface Transportation Block Grant (STBG). Sweet Home receives about $100,000 per year of STBG funds, which are held by ODOT on our behalf until we spend it. However, federal funds have extensive requirements (environmental, archaeological, etc.) which can easily exceed the construction cost of local projects, and which make it infeasible for local governments to use STBG funds directly.

To remedy this hurdle for local governments, ODOT provides the Fund Exchange Program. It's a mutually beneficial program wherein we give our STBG funds to ODOT (who can use them much more efficiently on large projects) and we receive state highway funds (which we can use efficiently on local projects).

The program is optional but highly recommended. We don't have large enough street projects in our capital plan to justify the added expenses that come with using federal funds. Sweet Home has participated in the Fund Exchange Program many times to pay for street projects, most recently in 2015. Our annual allocations have accrued since 2015 and our current balance is $665,232 of federal STBG funds available to exchange.

There is an exchange rate. The current exchange rate is $0.94 of state funds per $1 of STBG funds (we have $625,318 spending power). As of January 1, 2022, the exchange rate will drop to $0.90 per $1 ($598,708 spending power). That is a difference of $26,610 in our spending power.

The attached IGA must be executed to participate in the program. After the City and ODOT have both signed the agreement, then we can request funds for eligible expenses. Eligible expenses are those for construction, reconstruction, improvement, repair, maintenance, operation and use of public highways, roads, and streets. (Oregon Constitution Article IX, Section 3a.)

Staff intend to use the exchange funds for overlay and/or chip seal projects as identified in the Capital Improvement Plan. Other maintenance and project expenses may also be eligible, such as streets maintenance staff wages and the City match funds for the 54th Ave – Riggs Hill Rd sidewalk project, pending further investigation.

The term of the IGA is through September 30, 2024. The IGA is not limited to one specific project as it was in previous years, and now is intended to cover all eligible projects in one agreement. Executing the IGA does not obligate us to any expenses. It is a mechanism to improve our access to an existing funding source. Staff will continue to present expenditures to Council for approval.

<u>The Challenge/Problem:</u>

How do we make efficient use of limited funds to complete needed streets projects?

<u>Stakeholders:</u>

- <u>Sweet Home Residents</u> – Residents deserve well-maintained City infrastructure that meets their needs and improves their quality of life.
- <u>Sweet Home City Council</u> – The City Council has a goal to provide viable and sustainable infrastructure that serves development and improves residents' quality of life.
- <u>Sweet Home City Staff</u> – City Staff have an interest in funding tools that empower them to meet the Council's goals.

<u>Issues and Financial Impacts:</u>

Executing the IGA does not obligate us to any expenses. It is a mechanism to improve our access to an existing funding source.

Currently our $665,232 balance is sitting in our account held by ODOT. By participating in the Fund Exchange Program, we can use that money to get projects done much more efficiently than if we don't participate in the program. With the exchange rate we have $625,318 spending power this year. If we don't use it, the new exchange rate in January 2022 will drop our spending power to $598,708.

Staff desires to exchange as much of our balance as possible during 2021 to take advantage of the higher exchange rate, potentially up to the full balance.

Although not explicitly stated in the IGA, ODOT's program coordinator has stated that funds must be spend within 1 calendar year of disbursement. Therefore, staff will plan carefully to make the maximum withdrawals this calendar year that we can reasonably spend within the City's approved 2021 and 2022 budgets. If the City can spend these funds before July 1, we would require a budget amendment by the City Council.

Exchange funds are no longer issued as strictly reimbursements, and now may be released upon request at any time during the term of the IGA. That allows us to withdraw exchange funds in 2021 for use in 2022. If it is possible for us to withdraw our full balance in 2021 to maximize our spending power, then we desire to do so.

<u>Elements of a Stable Solution:</u>

A stable solution will provide efficient completion of needed street maintenance and improvements.

Options:

1. *Option 1 – Do Nothing.* The STBG funds will continue to accrue. Our spending power/value will drop when the exchange rate is lowered January 2022.
2. *Option 2 – Spend STBG funds directly, without exchange.* This option is not cost effective for local projects due to the environmental studies and other requirements that come with using federal funds.
3. *Option 3 – Execute the IGA and authorize staff to exchange funds as eligible expenses are identified.* This option gives us the most spending power to get streets work done with these funds. Staff will withdraw exchange funds that can be reasonably spent within allowable timelines and within the City's approved budget. Staff will continue to present capital projects and other anticipated expenditures to Council for approval.
4. *Option 4 – Execute the IGA and save STBG funds for another year.* Our spending power will drop as of January 1, 2022 when the exchange rate changes. Since we are now allowed to withdraw funds prior to incurring the eligible expenses, there is no reason not to withdraw as much as possible as early as possible.

Recommendation:

Staff recommends *Option 3 – Motion to allow staff to execute the IGA and exchange funds as eligible expenses are identified.*