Puget Sound Regional Council
PSRC

2010 **DESTINATION 2030** PLAN UPDATE

DRAFT BACKGROUND ISSUES PAPER #3
Finance and Prioritization

Working Group Meeting
November 8, 2007

Destination 2030 is the long range multi-modal transportation action plan for the central Puget Sound region. The plan was adopted in 2001 and updated in 2007. **Destination 2030** sets regional transportation policies, lists regional transportation needs, describes a financial strategy to meet those needs, and discusses implementation and monitoring strategies. It was designed as a living document able to change to meet the evolving needs of the region. This year we undertook a minor update in response to changing state and federal requirements. The update was adopted in April.

We're now embarking on a major update of **Destination 2030**. Our schedule calls for the updated plan to be adopted in spring of 2010. Over the next two and a half years the Working Group will play a critical role in this update. Each month staff will bring information and decisions to the board for discussion and action. At your September and October meetings we've presented eight out of ten background reports. In November we will present the final two reports: Transportation Finance and Project Prioritization. These reports are designed to provide background information to accompany the PowerPoint slides staff will present at your meeting on November 8. All background issues papers will be published as draft reports, and will be updated throughout the plan update process. Please feel free to provide staff with your comments and edits.

The 2010 **Destination 2030** Plan Update is being managed by Mike Cummings, Program Manager in the Transportation Planning Department. He can be reached at (206) 464-6172 or mcummings@psrc.org.

For more information on the background papers, please contact staff (see each section below) or visit the project website at http://www.psrc.org/projects/mtp/index.htm.

1. Transportation Finance

TRANSPORTATION FINANCE AND VISION 2040

The draft **VISION 2040** has been crafted to serve as the long-range growth management, economic, and transportation strategy for the central Puget Sound region. **VISION 2040** is comprised of four parts: (1) the environmental framework, (2) the regional growth strategy, (3) multicounty planning policies, and (4) implementation. Under the Growth Management Act, multicounty planning policies provide a common region-wide framework for county and local planning in the central Puget Sound region. The draft policies include the following guidance on transportation funding:

MPP-T-25 Encourage public and private sector partnerships to identify and implement personal and freight mobility improvements.

MPP-T-28 Promote transportation financing methods that sustain investment and reflect the costs imposed by users.

BACKGROUND

SAFETEA-LU Requirements

The metropolitan planning statutes state that a long-range transportation plan must list “projects and programs” and that both the plan and the Transportation Improvement Plan (TIP) must include a “financial plan” that “indicates resources from public and private sources that are reasonably expected to be available to carry out the program.”[1] The purpose of the financial plan is to demonstrate fiscal constraint. These requirements are implemented in federal transportation planning regulations for the long-range metropolitan transportation plan, TIP, and Statewide Transportation Improvement Program (STIP). These regulations provide, in essence, that a long-range transportation plan can include only projects for which funding “can reasonably be expected to be available.”[2] Finally, the Clean Air Act’s transportation conformity regulations specify that a conformity determination can only be made on a fiscally constrained long-range transportation plan.[3]

The fiscal constraint requirement is intended to ensure that long-range metropolitan transportation plans, TIPs, and STIPs reflect realistic assumptions about future revenues, rather than being lists that include many more projects than could realistically be completed with available revenues. Given this basic purpose, compliance with the fiscal constraint requirement entails an analysis of revenues and costs.

If the projected revenues are sufficient to cover the costs, and the estimates of both revenues and costs are reasonable, then the fiscal constraint requirement has been satisfied. Ideally, the financial strategy that supports the long-range metropolitan transportation plan needs to reflect “…the estimated costs of constructing, maintaining and operating the total (existing plus

[1] 23 U.S.C. 134(g)(2)(B) and 134(h)(2)(B)(ii)
[2] 23 CFR 450.322(b)(11)
[3] 40 CFR 93.108

planned) transportation system,"[4] including portions of the system owned and operated by local governments.

Current Destination 2030

PSRC currently complies with the fiscal constraint and broader financial planning requirements relating to the development of the long-range metropolitan transportation plan. The **Destination 2030** financial strategy is built around a set of expectations about the development of new funding sources, which include new state and new regional revenues, and a presumption of the movement toward use-based financing and tolls.

The current **Destination 2030** plan (adopted April 5, 2007) addresses all financial planning requirements and contains new financial information developed since the plan's original adoption in 2001. A number of legislative and voter-approved changes to transportation finance have occurred over the past 6 years. The 2007 update to **Destination 2030** reflects up-to-date financial assumptions and an assessment of the continued viability of the plan's financial strategy. In large measure, this involves addressing the following:

- New revenue estimates for all transportation programs contained in the long-range metropolitan transportation plan.
- Updated historic & current financial information.
- Updated information about project schedules and cost estimates.
- Updated estimates of programmatic costs for maintenance, preservation, and operation of existing systems.
- Reinforced the previous transportation funding strategy.
- Authorized the staff to make necessary adjustments in the Strategy and Unprogrammed project list, consistent with the decisions of the RTID and Sound Transit Boards' actions leading up to the November 2007 Ballot measures and the actions of the Regional Governance Commission.
- Made the case for the development of new funding over the plan implementation period.
- Identified projects that may not be ready for implementation prior to the 2030 planning horizon due to financial constraints or other project readiness limitations, and placed them in an "Unprogrammed List."

FINDINGS

Successful implementation of **Destination 2030** will still be dependent upon fulfilling the expectations of the financial strategy. A key element of this success will be the realization of regional funding and project implementation through a joint Regional Transportation Investment District (RTID) and Sound Transit's Phase 2 transit package. But even success of the Roads and Transit funding package would not provide enough revenues to implement the entire 30-year plan. The region and state will need to be developing new and innovative approaches to project finance and implementation. These approaches will need to consider all reasonable ideas, including a more extensive use of toll financing and the possible involvement of private sector financing and project delivery.

- ***Future Fuel Taxes***

  In the face of inflationary pressures and alternately fueled vehicles, the future of a fuel tax based approach to highway finance may be limited. Alternate approaches to collecting user

[4] 23 CFR 450.322(b)(11)

fees have been contemplated for many years. Technical advances have revolutionized road user fee collection approaches, and may someday offer a replacement alternative for fuel taxes.

- ***Federal Funding***

  In the absence of congressional action, Federal revenues will be inadequate to meet SAFETEA-LU spending guarantees in 2009. SAFETEA-LU funding and spending levels were set with the intention of "spending down" the balance in the Highway Account. While spending can continue as new receipts are received, expenses will have to be reduced to match the revenue stream.

- ***Bond Financing***

  Capturing future value in order to make investments today is a significant issue in transportation planning and investment. Historically, transportation systems in the U.S. have been financed on a pay-as-you-go basis. This is no longer working well in high growth urban regions.

- ***Reliance upon Non-transportation Related Tax Sources***

  Tax based approaches to transportation finance, as differentiated from use fees, may often result in inadequate revenues relative to anticipated investment needs. This is largely due to the poor relationship between fee charged and the costs the users impose on the system. Increased reliance on non-transportation related revenue sources, such as the sales taxes and municipal general funds, exposes transportation systems to greater revenue uncertainty as well as fails to ration scarce transportation resources and services.

- ***Geographic Equity for Statewide and Regional Sources***

  Politics lends itself to geographic divides, and these divisions have been a source of debate relating to the question of whether transportation dollars are distributed fairly. The issue of regional return of statewide transportation revenues will continue to be a focus of discussion. This is also true of the sub-regional equity policy that is part of Sound Transit, RTID, and other local-program planning.

- ***Cost Burden Across User Groups***

  The question of who bears the costs of keeping our transportation system operational is an important question. It not only relates to issues of fairness and political viability, but also has implications for efficient transportation system management. Some users of the transportation system impose high costs on the system, and its other users. Heavy vehicles create more pavement and structural damage; commuters on busy roadways during the peak travel period impose delay on other users. The financial systems that support investments in transportation should reflect these cost structures.

- ***Investment Rules and Prioritization***

  Plan financial constraint implies that investments may need to be prioritized where there are insufficient revenues to make all desired investments. Lack of consistently applied approaches to project selection and prioritization can make developing a financially balanced plan a challenge. Historically, and especially in other parts of the world, benefit-cost analysis has been employed successfully for transportation project evaluation.

ISSUES AND OPPORTUNITIES FOR THE DESTINATION 2030 UPDATE

- ***A Balanced Financial Plan***

  In the end, the **Destination 2030** update must have a financial plan that provides reasonable assurance that the region can make all planned investments in its transportation system. A careful assessment of project and program costs, current law revenues, and new revenue opportunities, and a prioritization of investments, will be essential to this task.

- ***Tax "Appetite" or Capacity***

  Approximately 2 % of regional personal income, or 1% of gross state product, have been dedicated to investments in transportation systems in the central Puget Sound region over of the past 14 years. A question that needs answering is whether that is an appropriate level of investment. Our plans would require some real increase in these figures if all projects and programs are to be funded. Yet, over the past dozen years, investments have not deviated substantially from the above ratios, which raises the question: is our region prepared to increase its level of investment? Increases in transportation investment need to be weighed against other public investment that may be necessitated by our efforts to implement **VISION 2040**.

- ***Opportunities for Private Capital***

  It is possible that transportation systems could offer significant opportunities to take advantage of private capital for investment purposes. Private capital could help to complete investments in transportation facilities when public resources are unavailable, and might help manage financial risks associated with large infrastructure investments. However, private capital requires strong public oversight, will necessitate the use of tolling, and may require a number of institutional and legal reforms.

- ***Tolling***

  Tolling is a means for collecting revenues directly from users at the location and time that they are using the transportation system. Toll systems take on a broad range of fee structures and approaches, depending upon the goals being sought through the application of use fees. There is a range of policy questions that relate to the future possible application of toll financing and use fee management. At a broad enough scale the application of use fees may have an influence upon residential and business location decisions. In this case tolling could become an issue that relates specifically to the adopted growth vision for the region.

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2. Investment Prioritization

INVESTMENT PRIORITIZATION AND VISION 2040

VISION 2040 - upon its adoption in early 2008 - will set new regional Multicounty Planning Policies (MPP's). The MPP's articulate the region's broad priorities for transportation, growth, and economic development. For example, proposed new MPP T-9 states that the region should "prioritize investments in transportation facilities and services that support compact, pedestrian and transit-oriented land use development." [5] The remainder of this document describes the manner in which PSRC is authorized to adopt the MPP's as well as other factors that affect what PSRC must or may do in addressing questions of investment prioritization.

BACKGROUND

Prioritization Defined

Every potential plan update issue in this series of briefings included potential investment "priorities" for the region. However, a dictionary definition of "prioritization" is "to arrange or do in order of priority."[6] To prioritize is to make strategic (and often difficult) choices about what to do and what to postpone.

In the 2010 update to **Destination 2030** PSRC could choose to make planning and programming decisions that more systematically prioritize proposed regionally-significant transportation investments than its current practice. New methods of prioritization could help the region to realize its long-term vision even when existing resources are insufficient to fund all proposed investments. Even if the region acquires sufficient resources, there may be investments that would best be implemented earlier than others to better realize the region's adopted goals.

Decision-Making Environment

Decision-makers need to clearly understand the scope of PSRC's decision-making authority before it is productive to address the question of what prioritization decisions they might make. First, PSRC as the designated Metropolitan Planning Organization (MPO) under federal law and the designated Regional Transportation Planning Organization (RTPO) under state law plays a large role in both long-range planning and fund programming. However, unlike some MPOs, such as Portland Metro, PSRC is not authorized to collect revenue nor to own and operate transportation assets. PSRC is also bound by regional policies—and the interlocal agreements that enable them—that it itself adopts in the course of carrying out its MPO/RTPO responsibilities.

Among the requirements or responsibilities placed upon PSRC by federal or state statute, or by regional policy, the ones that most directly bear upon the concept of investment prioritization are:

1. The region must have a long-range growth plan (originally **VISION 2020**, and now being updated as **VISION 2040**) that sets forth Multicounty Planning Policies (MPP's) and must

[5] DRAFT VISION 2040 July 2007
[6] Dictionary.com

certify that within its jurisdiction local comprehensive plan transportation elements are consistent with those MPP's. [7]

2. Projects programmed for implementation in the regional TIP "…shall be consistent with the long-range transportation plan…" [8]
3. Long-range planning "...shall address congestion management..." [9]
4. The long-range plan must be based on Least-Cost Planning (LCP) methodologies that identify the most cost-effective facilities, services, and programs. [10]
5. Regionally significant transportation projects must be listed in the plan before funds other than "study" can be programmed for them in the TIP, and such projects must be approved by PSRC before they can be implemented. [11]
6. The region may designate certain investments to be included in the plan within the scope of its environmental review but outside the scope of its financial strategy; these are labeled "Unprogrammed" and are—implicitly—lower priority investments. [12]

The PSRC planning and programming functions listed above are greatly affected by decisions made by other agencies. First, many transportation funds sought by regional jurisdictions are legally constrained so that they may only be spent on certain types of projects. For example, CMAQ funds may only be spent on investments that improve air quality. Second, in a given year approximately 94% of the total transportation funds spent in the region are awarded through decisions made by agencies other than PSRC. For example, the state legislature explicitly chose which projects to fund with the 2003 "Nickel" funding and 2005 Transportation Partnership Act funding programs, and local agencies such as Sound Transit have their own authorizing and decision processes. Other recent examples include the "Transit Now" and "Bridging the Gap" measures approved by the voters of King County and the city of Seattle.

Peer MPO Prioritization Practices

Should PSRC decide to more explicitly set forth priorities in its long-range plan, several of its peer MPOs offer examples of how it might do so. The San Diego Association of Governments' *Mobility 2030* plan includes a prioritization system across multiple transportation modes and is noteworthy because it makes explicit the application of a Congestion Management Process to planning decisions. The Maricopa Association of Governments (Phoenix region) plan uses performance criteria to "schedule the implementation of transportation projects throughout the duration of the planning period" [13] and the Denver Regional Council of Governments' plan articulates a multi-tiered priority system for roadway investments. While these peer MPO's all share the same federal requirements, their state laws are different: some states other than Washington place more stringent formal prioritization requirements on - or explicitly grant more fund award authority to - their regional planning bodies.

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[7] RCW 36.70A.070 and RCW 47.80.023
[8] CFR 23 S 134 j.3.c
[9] 23 USC 134 (k) and 49 USC 5303 (k) also Federal Register Vol. 72, No. 30 February 14, 2007 p 7274
[10] RCW 47.80.30
[11] PSRC "Guidance for Major Capacity Investments" p. 3
[12] **Destination 2030** p. 26
[13] RTP 2007 Update p. 2-3 (per ARS 28-6354.B)

Existing PSRC Practices

There are three key points where explicit PSRC decisions are a meaningful part of the regional investment priorities process:

- Admitting investments to the regional plan;
- Programming investments in the TIP;
- Approving projects before they can be implemented.

The requirement that PSRC certify the transportation elements of local plans is another decision point that now touches—tangentially—upon specific transportation investment decisions.

These PSRC decisions interact with other agencies' decisions in an extremely complex environment. For example, many (but not all) fund award decisions made by other agencies include verifying that the investment in question is in the regional plan. This requirement functions as a "gatekeeper" for many regional transportation investment decisions. It is noteworthy that the process admitting investments to the regional plan does not now assess consistency with the MPP's or explicitly address congestion management questions.

The region met the Least Cost Planning (LCP) requirement during the original adoption of **Destination 2030** by applying the best cost analysis available at the time to the major plan alternatives studied in the plan's environmental impact statement (EIS). PSRC's LCP methodology continues to evolve.

Finally, as mentioned above, PSRC is authorized to decide how to award about 6% of funds (all of which are constrained) coming to the region. PSRC now articulates its "project selection process" for these funds in "policy framework" documents separate from the regional transportation plan, **Destination 2030**. The current TIP funding framework is based upon the MPP's in **VISION 2020**, and the application of this framework results in a rigorous project review and selection process. The current TIP framework gives funding priority to transportation investments which serve regional growth centers and connecting corridors, and for projects which support the Regional Economic Strategy. The centers policy establishes a direct connection to the adopted Regional Economic Strategy by recognizing the Strategy's five employment clusters as part of the centers focus. The ultimate decision on these funds is made by the PSRC Executive Board after projects are recommended through elected officials serving on countywide policy boards, and directly through state and regional agencies such as WSDOT, the Clean Air Agency, and Sound Transit.

FINDINGS

- **Destination 2030** does not now contain the type of systematic prioritization process that can be found in several peer regions' plans.
- In its existing operating environment the most important decision PSRC makes is admitting investments (projects and programs) to the regional plan. However, admission to the plan does not now include systematic prioritization methods, recognizable input from the region's Congestion Management Process, or an assessment of whether investment proposals are consistent with regional policies and goals (the latter now happens upon admission to the TIP).
- Surveys and assessments of the PSRC project approval process indicate that it does not well serve its original goals, and needs a revision (much of which could be done prior to the next plan update).

- Other bodies (i.e. WSDOT, Sound Transit, and the state legislature) make many of the decisions that specify regional transportation investments.
- The sheer number of potentially competing program areas makes it difficult to set priorities without some explicit ranking system.

ISSUES AND OPPORTUNITIES FOR THE DESTINATION 2030 UPDATE

PSRC has efforts in progress which offer opportunities to address several of these findings. These efforts could be focused in the following ways:

1) Enhancing the regional Congestion Management Process.
2) Developing a Benefit/Cost Analysis tool that will provide the technical means to improve Least Cost Planning methods and generate more explicit prioritization information for regional transportation planning decisions.
3) Preparing to respond to the fact that parts of the region are in or near to being declared non-attainment areas for certain airborne pollutants. This may trigger additional federal statutory requirements about transportation investment priorities.

In addition, the 2010 update could address how the region:

1) Makes its priorities clear and practically applicable by...
    - Deciding how regional priorities should be set to address climate change;
    - Clearly and consistently weighting and ranking the many competing "priorities" now or about to be articulated in regional policies so that they can be applied to investment decisions.

2) Applies its priorities to planning decisions by addressing how to...
    - Enhance the process of admitting projects and programs into the plan in ways that better promote regional priorities;
    - Meaningfully apply the new Congestion Management Process to investment decisions;
    - Best apply the new Least Cost Planning/Benefit Cost Analysis tools to investment decisions;
    - Revise the project approval process to better serve regional goals;
    - Refine the PSRC funds project selection process to better achieve regional goals as articulated in **VISION 2040** and the upcoming **Destination 2030** Update;
    - Examine PSRC's local Comprehensive Plan certification process for opportunities to better realize regional priorities;
    - Work with external decision-makers to improve coordination on the setting of regional priorities.

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