

***** Joint Meeting *****
TRANSPORTATION 2040 WORKING GROUP
and
PRICING TASK FORCE

Thursday, December 10, 2009
12:00 Noon-1:30 p.m.
PSRC Board Room

AGENDA

- | | |
|---|----------------|
| 1. Introductions | <i>5 min.</i> |
| 2. Public Comments | <i>5 min.</i> |
| 3. Summary of Joint T2040 WG and PTF Meeting held October 26, 2009* | <i>5 min.</i> |
| 4. Transportation 2040 | <i>65min.</i> |
| a. Summary of Board Actions | |
| b. Financial Strategy* | |
| 5. Other | <i>10 min.</i> |

** Supporting materials attached*

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 Meeting ID: 314-405-915

Joint Meeting
Transportation 2040 Working Group/Pricing Task Force

October 26, 2009
9:00 A.M.-12 Noon

Puget Sound Regional Council Conference Room

Meeting Summary

Attendance

Aubrey Davis, Chair, Pricing Task Force
Mayor Don Gerend, Chair, T2040 Working Group
Sue Ambler, Workforce Development Council of
Snohomish County/EDD Board (via phone)
Deputy Mayor Claudia Balducci, City of Bellevue
Dan Burke, Port of Seattle
Jessyn Farrell, Pierce Transit
Councilmember Jake Fey, City of Tacoma
Mike Flynn, Washington Association of Realtors
Senator Fred Jarrett, WA State Senate
Bill LaBorde, Transportation Choices Coalition
Chris Mudgett, Pierce County
David Munnecke, House Transportation Committee
(via phone)
Paul Parker, WA State Transportation Commission
(via phone)
Chris Picard, WSDOT
Ron Posthuma, King County DOT
Gary Predoehl, Pierce County
Beth Redfield, House Transportation Committee
(via phone)
Councilmember Dale Rudolph, City of Poulsbo/GMPB
Scott Rutherford, University of Washington
Councilmember Dave Somers, Snohomish County
Greg Walker, Sound Transit

Will Hall, Snohomish County
Jerry Hautamaki, Cascadia
David Hiller, Cascade Bicycle Club
Tom Jones, Cascadia
Will Knedlik, Eastside Rail Now (via phone)
Doug MacDonald
Jeannette McKague, Washington Realtors
Peggy Papsdorf, Suburban Cities Assn.

Sean Ardussi, PSRC
Ben Bakkenta, PSRC
Mike Cummings, PSRC
Jeff Frkonja, PSRC
Stephen Kiehl, PSRC
Marina King, PSRC
Matthew Kitchen, PSRC
Cheryl Saltys, PSRC

Call to Order and Introductions

Aubrey Davis, Chair of the Pricing Task Force, called the meeting to order.

Public Comment

None

Approval of Meeting Summary

The summary of the August 31, 2009, joint meeting of the T2040 WG and PTF was accepted as presented.

Transportation 2040

Mike Cummings provided a schedule update and described where we are in the process. He then reviewed changes to the Preliminary Preferred Alternative and guidance from the October 8th Transportation Policy Board meeting, including changes made to the list of projects and programs and to the Concepts part of the plan. He walked the group through the Draft Preferred Alternative performance in the areas of vehicle use and delay, greenhouse gas emissions, mobility benefits by type, mobility benefits by users, sub-regional benefits, and benefits and costs.

Next, Matthew Kitchen presented the financial strategy. He covered the following information:

- Review of previous finance topics
- Financial summary (2010-2040)
- Transportation expenditures and income
- Plan program summary
- Current law revenue (by source and decade)
- Constrained plan financial summary (by program and decade)
- Constrained plan costs beyond current law (by program and decade)
- Financial guidance (paraphrased)
- Evolution of user fees (modeled assumptions)
- Some key issues
- What will be in the plan's financial element

The total cost of the constrained plan (in year 2008 constant dollars) is \$191.75 billion, \$65.59 billion of which is beyond current law revenue. Mr. Kitchen presented two scenarios (A and B), each of which attempt to approximately fully fund the constrained plan. The scenarios, designed to help identify desirable funding strategies and issues, include at least three important dimensions: 1) Timing (of costs and revenues); 2) Sources (types of revenues); and 3) Uses (programs aligned with implementing agencies). The scenarios are not designed to resolve all issues, but rather foster conversation.

Mr. Kitchen walked through the assumptions for new revenue sources and a program summary for each scenario. Both scenarios rely on traditional tax financing, especially in the early years of the plan, and an increased reliance on tolls, phased in over time, but differ in that Scenario A would rely more heavily on traditional tax financing and would phase in reliance on tolls more slowly than Scenario B. Over the 30-year (2010-2040) life of the plan, Scenario A would yield \$62.887 billion of potential new revenues and Scenario B would yield \$64.060 billion.

Mr. Cummings concluded the briefing by walking the group through the recommended action that will be presented to the TPB on November 12 and the process for how the TPB will build a recommendation that will go to the Executive Board for action in December. He proposed that at the TPB meeting, a main motion will be made, then the TPB will go through each of the plan elements (congestion and mobility, safety, security, financial strategy, etc.), followed by the list of projects and programs, and then take action on the main motion. The group agreed with this approach for the recommendation process.

Discussion

- Jessyn Farrell expressed concern about assuming a 5% growth rate in sales tax revenues over the next decade, particularly in light of the current economic situation. Mr. Kitchen explained that long-run forecasting essentially ignores the business cycle, but he agreed this is an area of significant uncertainty and said it can be characterized as such in the plan.
- Several members pointed out the need to clarify terms when referring to highway, freeway and full system tolling. Mr. Kitchen agreed and said highways and freeways that are tolled should be referred to as "limited-access highways," distinct from "full system" which means all the rest, including arterials.
- Beth Redfield asked how having a VMT tax and highway system tolling at the same time would differ from full system tolling. Mr. Kitchen said the VMT tax would be a flat rate per mile charge wherever a person drives, and the limited-access highways would have certain variable tolls on each specific facility. Full system tolling would have tolls levied on each roadway uniquely and would also be extended to individual arterials. Revenues from a VMT tax would replace declining gas tax revenues.
- Councilmember Claudia Balducci didn't think that tolling arterials and having a VMT tax at the same time would be feasible, and that including full system tolling would complicate the ability to talk about the plan with citizens. Since the plan will be revised at least twice before such an approach would be implemented, she questioned why this should be included now instead of waiting until the region has had more experience with tolling.
- Chris Picard emphasized that Transportation 2040 is a 30-year plan and definitive answers to all questions are simply not available yet. Mr. Kitchen agreed there are huge areas of uncertainty, and said what is needed is a reasonable set of assumptions that reflect some thinking about these issues without attempting to predict with certainty what will happen.

- Bill LaBorde said the financial element of the plan should include a discussion of tolling revenues/surcharges for transit and local street needs, and address the equity issue especially as it relates to transit. He said funding transit service on corridors that are tolled would address the equity issue because high-frequency transit service would provide a lower-cost transportation option for those who can't afford to pay a higher toll.
- Mayor Don Gerend thought a regional impact fee of between \$5,000 and \$10,000 per unit could be a more viable funding option than tolling.
- There was general agreement among the group that rather than focusing on a single scenario, a better approach would be to include both Scenarios A and B in the financial strategy for the draft Transportation 2040 plan, without a lot more detail than there is now. This would allow some flexibility as we go forward to move from one scenario to the other or make adjustments up or down as needed.
- Dan Burke asked if it would be possible to show the costs different user types would pay under each of the two funding scenarios, in order to see the impact on various household types. Mr. Kitchen said this would mostly be a function of tolls and that information could be provided, but the rest would be based on assumptions and information that is not readily available.
- Aubrey Davis said toll rates should be shown.
- Ron Posthuma and Jessyn Farrell expressed concern about the assumptions for local transit revenues, particularly during the first 10 years of the plan. Ms. Farrell proposed that additional work should be done on the local transit piece, and that staff should consult with local transit agencies concerning longer term financial projections. Mr. Kitchen pointed out that if the revenue forecasts are lowered, more revenues will need to be found from other sources to make up the difference.
- Councilmember Dave Somers said the scenarios fill the funding gap but are not realistic. He said the critical assumptions need to be clearly stated, along with any problems such as the local transit revenue issue.
- Aubrey Davis said we should acknowledge that we're out of sync because of the state of our economy. He said the plan should include a strong statement that we recognize that the tax base is shrinking due to the economy and that the Legislature is trying to face the issue of what to do about transit finance, which is critical.
- Senator Fred Jarrett said the Joint Transportation Committee is doing a finance study which should be completed by the end of this year and will help guide the Legislature's next finance package in 2011. He suggested looking at significant gas tax and MVET for transit.
- Bill LaBorde and Aubrey Davis suggested that MVET for transit should be moved up from 2020 to 2012.
- Dan Burke said it could be helpful to show a scenario based on a flat fee for travel (\$65 billion divided by vehicle miles traveled), and separate the cost between transit users and vehicle users. Showing the cost of the plan in this way could be easier for the public to understand, compared to a complex combination of taxes, fees and tolls.

Summary of Decisions/Directions to Staff

- Need to understand the incidence of the burden by different segments of society.
- Explore the idea of having a general direction with a couple of example scenarios to fulfill the federal requirements for financial planning. Scenarios A and B would be used, with the following modifications/considerations:
 - Need to more fully explore near-term issues of transit costs and revenues.
 - Sales tax on fuel is problematic.
 - MVET earlier could help achieve targets for transit revenues.
 - Provide an example of how an individual charge (such as a VMT tax) could cover the cost of the plan, which would give citizens a point of reference for comparison when looking at the more complex pieces of the financial strategy.
 - There was no objection to freight-specific fees.
 - Earlier fare increase for transit.
 - Mayor Don Gerend suggested a substantially larger regional impact fee, and this received a mixed response from the rest of the group.
 - Deputy Mayor Claudia Balducci emphasized that it's important to pick what discussions the region wants to start having. She said the focus should be on the constrained portion of the plan and that discussion about full system tolling and expanded parking charges in the unprogrammed portion should not happen at this time. A number of others agreed. Mr. Kitchen pointed out that if

full system tolling is removed from the plan, the plan would need to be remodeled and the performance numbers for achieving GHG targets and congestion reduction would change. Senator Jarrett said it would be good to show the plan both ways as a means to compare system performance.

- Ron Posthuma asked for the vehicle license fee to be listed as a local revenue source, saying it might be more palatable than a large property tax increase.
- Deputy Mayor Claudia Balducci stressed that the assumptions need to be made clear to the TPB.
- Before agenda materials are sent to the TPB, staff will circulate to members of the T2040 Working Group and Pricing Task Force information for the financial strategy discussion, with a request for comments. Staff will also continue to work with local jurisdictions to make minor adjustments and corrections to the spreadsheets of projects and programs.

Other

Jerry Hautamaki, Cascadia Center for Regional Development, presented a PowerPoint presentation entitled *The Connected Vehicle – The Future of Toll Collection*.

Next Meeting

- Thursday, December 10, 2009 – 12 Noon-1:30 p.m. (following the Transportation Policy Board meeting)

DRAFT

Chapter 4: Finance

Under federal law, the regional transportation plan must make reasonable financing assumptions, accounting for existing or new revenue sources which can be expected to be available over the life of the plan (Title 23 USC 134). This chapter of Transportation 2040 outlines a set of financial principles, conditions and assumptions that constitute a financial strategy for plan implementation. The principal transportation tax bases traditionally have been retail sales, registered motor vehicles, taxable motor fuel consumption, and the taxable value of motor vehicles. The allowable uses of nearly all existing transportation funding sources in the region are restricted to specific uses, by source, by expenditure, and often by geography or jurisdiction.

Transportation infrastructure costs have been on the rise over the last few decades because of increases in material and labor costs, the costs of mitigating environmental impacts, and increased urban land values. Insufficient public resources have led to an increase in the unfunded backlog of maintenance projects, leading to higher overall costs in the future, and raising safety concerns. Meanwhile, existing transportation revenues are not keeping pace with travel demand, and the infrastructure investments needed to support this growing demand.

Metropolitan regions throughout the nation face increasing problems with urban congestion and lack of transit and other alternatives to driving. Their citizens want better (or, at least, not deteriorating) mobility. The costs of providing new transportation capacity are increasing, the effectiveness of that capacity is often quickly compromised by growing traffic, and the public appetite for funding that capacity is waning. Limited public financial capacity for transportation infrastructure investment has encouraged transportation professionals and regional policy makers to begin discussing the potential benefits associated with reforming the way society pays for and finances transportation. Business leaders, national experts, and state legislators are all coming to similar conclusions: traditional tax-based financing measures will not, by themselves, be sufficient to solve our transportation problems.

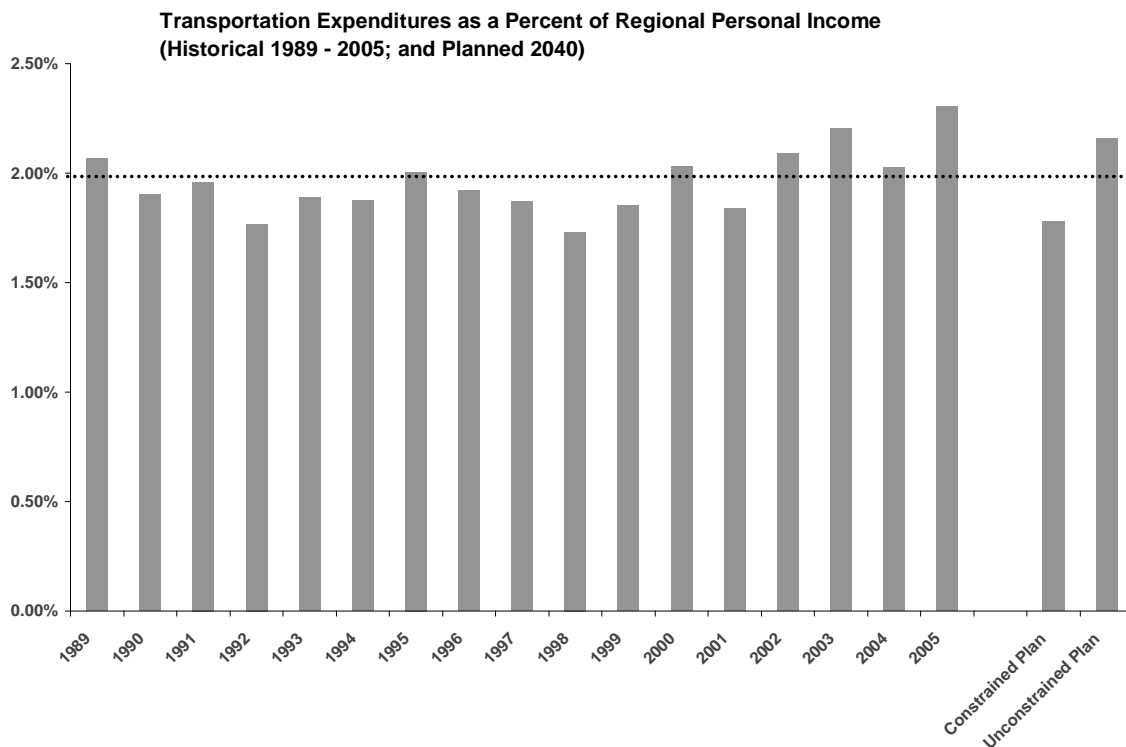
In the central Puget Sound region decision makers have been deliberately examining the problem of funding transportation through taxes and tolls that apply to users of the transportation systems and services. Transportation 2040 sets out broad direction that moves the region toward a sustainable future in which investments can be made when they are needed, in a predictable manner, with revenues generated from those who benefit from the investments. This change can not occur overnight, but rather will only be the result of many individual steps, including legislative actions at the state and federal level. The specific path to a more sustainable approach to transportation finance cannot be known in advance with certainty, but the broader goals and outcomes represent a shared vision. Transportation 2040 presents a general scenario for the future of transportation finance in the central Puget Sound region, but recognizes there are still many important unanswered questions in policy, and embraces the need for flexible thinking about how these changes may come about.

Growth and transportation funding

Investments in transportation infrastructure and services are strongly linked to growth in the broader economy. This is true in cases where transportation investments contribute to growth in economic activities, and in cases where economic growth engenders the need for transportation investment. As the central Puget Sound region grows over the next thirty years a central issue of importance will be ensuring

that there is the fiscal capacity to make investments in transportation systems. There is an intricate interplay between transportation investments, growth in economic activity, wealth generation, and public financial capacity. Getting the most out of transportation investments requires that this set of relationships shape the means through which the investments are financed.

But what level of investment is enough? While there may not be a single answer to this question, over a period of nearly twenty years the central Puget Sound region has dedicated approximately 2 percent of its personal income to outlays on public sector transportation, and considerably more on private investments in personal and freight mobility. Transportation investments should be made when their benefits exceed their costs, but in truth public sector budgets will define the limits of investment, so approximately maintaining this level of historical effort can be seen as a minimum target for a sustainable transportation investment program. In particular, the region's fiscal capacity must be suitable to support a number specific transportation needs associated with a growing regional economy.



As the region grows and matures, so do its transportation assets. Aging infrastructure requires predictable investments in maintenance, preservation, and operations. Much of the region's infrastructure was built many decades ago and will require significant efforts in preservation, or will need to be replaced over the next three decades. And system investments that were started need to be completed, such as pieces of the high-occupancy vehicle network, and missing links in the road system. And yet, new urban infrastructure is expensive and will only meet some of our needs. So providing new ways of moving freight and people around on existing infrastructure will be increasingly important as our region continues

to urbanize. In the end, it is the growing peak travel periods that will be most compromised by growth if we fail to address the underlying demand for business related movement of people and goods.

Within regions with relatively mature transportation systems, peak-period demand drives the need for new investments in roadway and transit infrastructure. Urban transportation systems are sized and built primarily in response to peak-period use. Serving and managing peak demand will require a broad range of approaches including strategic investments in new infrastructure, high-occupancy services, time-of-day tolling, land use coordination, and other innovative strategies. Each of these needs has its own unique set of funding requirements, and some will necessitate new approaches to funding transportation altogether.

Current state of transportation finance

- History of fuel taxes and other fees
- Local funded through general funds
- Transit services funded by tax on sales
- Highways funded by tax on fuels and other vehicle fees
- Ferries funded by mix of state funds and tariffs
- Current Law revenue estimates

Transportation funding in the central Puget Sound region draws mainly from a few primary tax bases. These include motor fuels sales, retail sales, motor vehicle market value, assessed property valuation, and vehicle registrations and licenses. In addition to taxes on these tax bases, transportation revenues are drawn from a combination of other sources, such as operating income and sources comprising city and county general funds. Actual transportation revenues that flow from the tax bases are not only a function of changes in tax base values over time, but also the applicable tax rates. Some tax bases, such as retail sales, reflect inflation. Other taxes, such as a tax on fuel sales, are flat rates and do not grow with the economy.

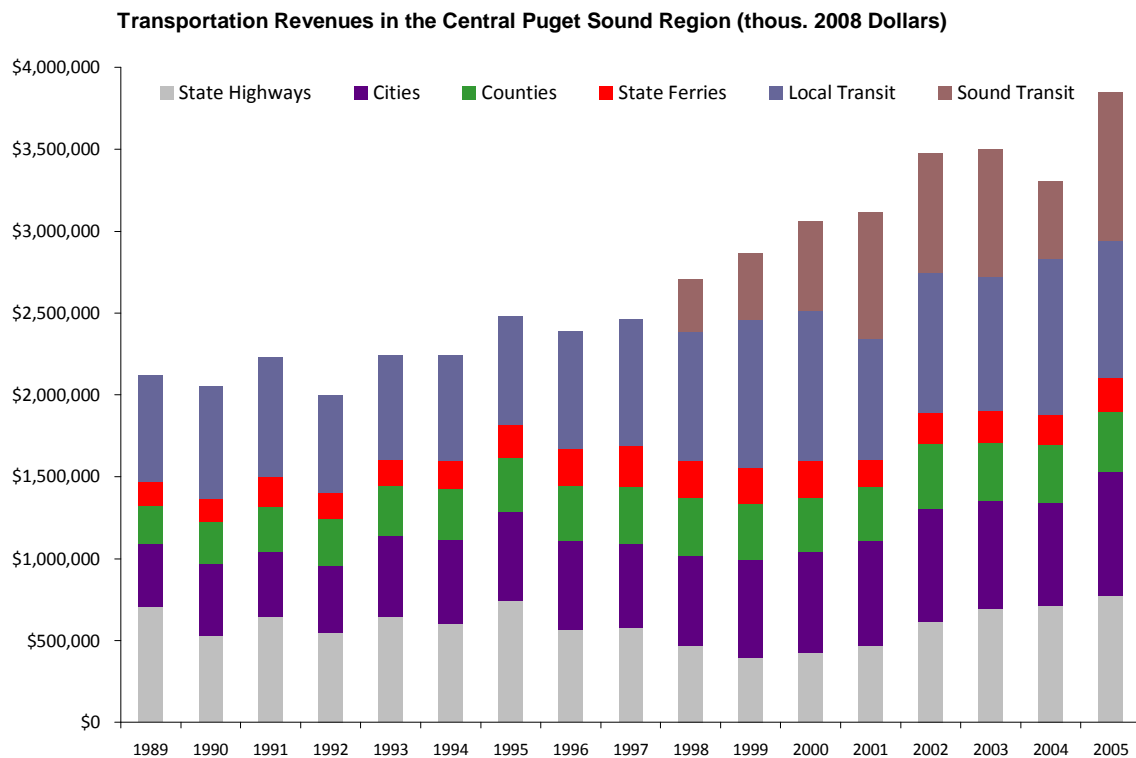
Taxes on motor vehicles and fuels have played an important role in the history of road finance. Early in the 20th century many roads were still built by private companies and financed through tolls. Often some public contributions were involved and financed through general taxes. In 1901 New York City imposed a vehicle registration fee, as private motor vehicles first began to impose costs on public infrastructure. By 1914 all states collect some form of vehicle registration fee. The federal government recognized a national role in highway finance early on, and the Federal Aid Road Act of 1916 provided grants to States to improve the public roads system and also prohibited tolls on Federal Aid facilities. This led to the formalization of State Road Authorities, and the implementation of fuel taxes. Oregon was the first state to implement a tax on motor fuels in 1919, but by 1929 all 48 states followed suit. Three year later, in 1932, the federal government levied a federal tax on fuel, solidifying the federated role in highway finance that persists today.

Cities and Counties support transportation investments from a wide variety of funding sources. A portion of state tax on fuels is distributed directly to local authorities, but a majority of local expenditures rely upon local sources, including city general fund contributions, county road district property levies, and an assortment of local authorized taxes and fees. The state legislature has authorized a number of transportation specific local option taxes that have, in many instances, proved difficult to implement. At

the same time a number of tax limiting initiatives, and other growing local demands for general fund dollars have made the historical local commitments to transportation a challenge to sustain.

Local transit authorities' primary source of funding is the sales tax. With the loss of Motor Vehicle Excise Tax revenues the local transit operators are increasingly dependent upon the sales tax, which is a less stable source of revenue; rising and falling with other economic factors. Revenues from fares and other operating revenues generally constitutes between 10 and 20 percent of transit operators' budgets. Sound Transit also is dependent upon sales tax revenues, supplemented by other taxes (e.g. Motor Vehicle Excise Tax) and operating revenues. Since Sound Transit has a comparatively larger capital program these revenues streams are leveraged through bond sales, where the long-term revenue trends are of particular importance.

The state programs include the Washington State Ferries and the Washington State Department of Transportation. The ferry system has also been affected by the loss of Motor Vehicle Excise Tax as well as the declining purchasing power of the fuel taxes. The result is an increasing reliance upon tariffs for operations and state budget allocation for capital investments. The highway program is heavily dependent upon fuel tax revenues, from both state and federal taxes. Historical revenue information for major transportation programs is displayed in Table XX below.



A number of substantial changes have occurred over the last decade that have had a significant influence on transportation finance. These changes include the passage of a number of tax-limiting citizen initiatives, legislative actions to secure additional transportation funds, and the voter approval of a number of transit tax measures.

A number of citizen initiatives placed limits on state and local taxes including most significantly, the elimination of the statewide Motor Vehicle Excise Tax (MVET), and the limitation of property tax collections to a 1% annual growth rate, resulting in a decline of property tax rates for most taxing districts.

The elimination of the MVET affected the state general fund and the Motor Vehicle Fund, which supports both highway and ferry funding. MVET funds were also used to support a city and county sales tax equalization program and were distributed directly to local transit providers and represented their second single largest revenue source after local sales tax revenue. The state Legislature provided a one time bridge funding allocation to local transit agencies to aid in addressing the immediate effects of the MVET loss, and raised the upper limit on the sales tax authorized to transit agencies from 0.6 percent to 0.9 percent to provide a structural means of improving the agencies' revenue positions. Since 2000, local transit agencies have successfully garnered voter support to pass increases in the local sales tax rates that generate revenues for their transit operations. The property tax limit affected the general funds of most political jurisdictions and County Road Districts, which are funded through revenue from the property value based county road levies.

In 2003, the State Legislature passed, and the Governor approved, a 10-year statewide transportation funding package that included a 5-cent fuel tax increase, a 15% increase in gross weight fees, and a .3 percent vehicle sales tax. The state funding package dedicated significant dollars to highway projects in the central Puget Sound region. In addition, the package included new ferry capital funds for auto vessel replacement and terminal improvements. In 2005 the legislature again passed a statewide spending package, funded through a phased increase in fuel taxes and vehicle registration fees. The package will result in direct expenditures on highway improvements in the central Puget Sound region, as well as other investments to be made with revenues generated through flexible funding sources.

Current Law Revenue Estimates

The starting point in the development of the Transportation 2040 financial strategy is an estimate of future revenues that will be available under current revenue law. When compared with plan investment costs, the current law revenue estimate provided the basis for determining the scope of new revenue strategies that need to be part of the plan.

Current law revenues derive from forecasts of the principal transportation tax bases and other variables that are used as proxies to estimate changes in general revenues. The principal transportation tax bases are retail sales, registered motor vehicles, taxable motor fuel consumption, and the taxable value of motor vehicles. Future annual values for these tax bases are forecast using a series of models that tie to the outputs of the regional economic model. Other values that are produced directly by the regional economic model, such as personal income, population, and the Seattle area consumer price index, are used to forecast revenues that are not dedicated to transportation purposes. The resulting forecasts of revenues generated by the region are then converted to program revenue estimates, taking into account: (i) the distribution of revenues to each program, due either to legislated dedications or allocations, or past practice; and (ii) the percent of generated revenues that are returned to this region. Table XX below displays current law revenue estimates by transportation program and decade.

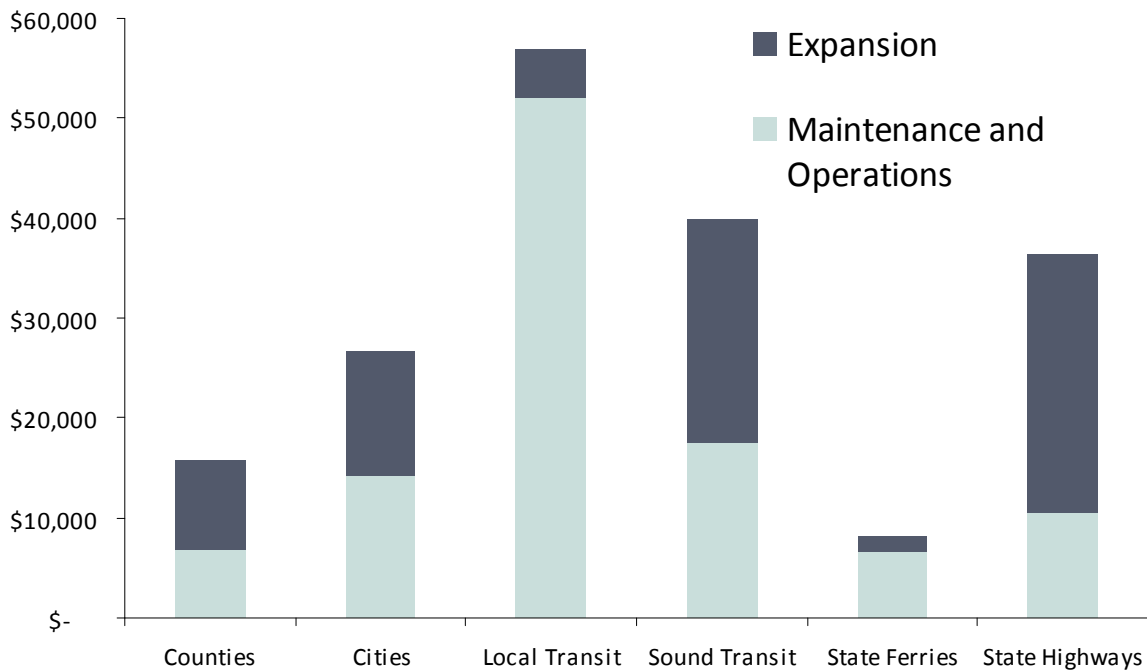
Current Law Revenues 2010-2040

(millions of year 2008 constant dollars)

PROGRAM	2010-2020	2020-2030	2030-2040	2010-2040
Counties	\$ 3,200	\$ 2,800	\$ 2,900	\$ 8,800
Cities	\$ 6,900	\$ 6,500	\$ 6,700	\$ 20,100
Local Transit	\$ 10,500	\$ 14,900	\$ 19,100	\$ 44,500
Sound Transit	\$ 15,100	\$ 7,200	\$ 10,100	\$ 32,400
State Ferries	\$ 1,900	\$ 1,700	\$ 1,900	\$ 5,400
State Highways	\$ 6,800	\$ 4,200	\$ 3,100	\$ 14,100
TOTAL	\$ 44,400	\$ 37,100	\$ 43,600	\$ 125,200

Plan Investment Needs

The transportation investments included in Transportation 2040 are described in some detail in Chapter X of this document. Cost information about these investments has been assembled from detailed cost estimation methodologies appropriate to both broad programs of investments and individual projects. Transportation 2040 contains a database of transportation projects, each with information about project costs and year of implementation. Programmatic estimates of the resources required to maintain and operate city, county, and transit programs have also been developed in a detailed manner that reflects the timing of these investment needs. Figure XX below presents investment needs for the major transportation programs identifying maintenance and operations as well as expansion needs, and Table XX below presents investment needs for the major transportation programs by decade.



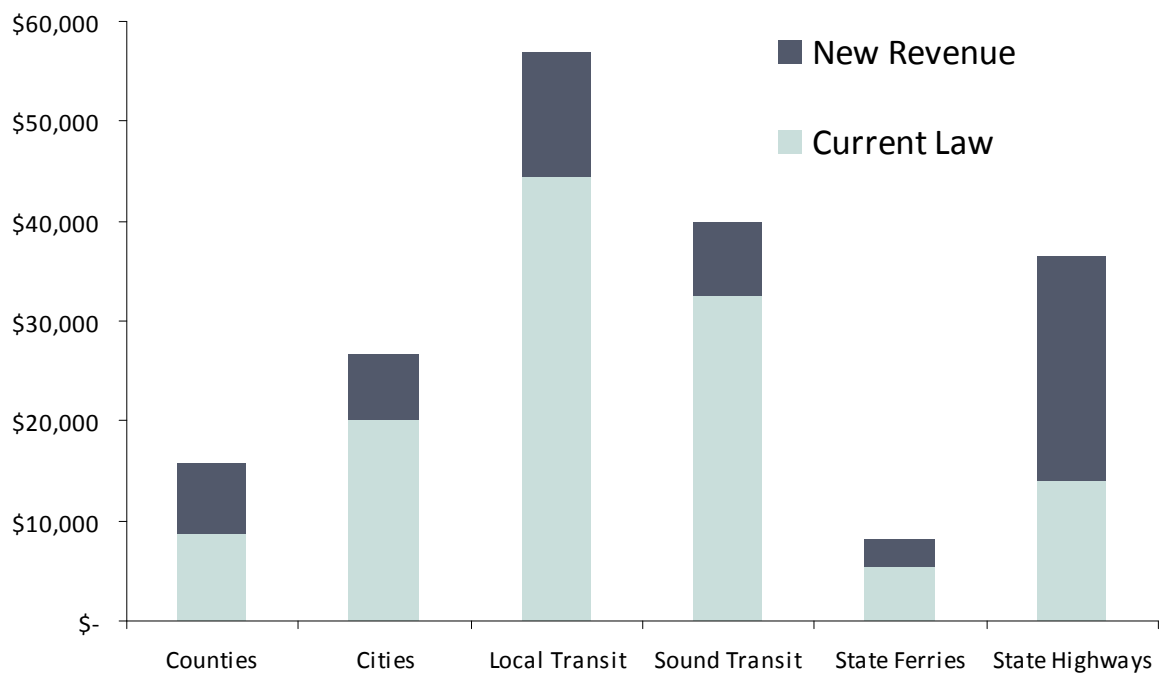
FINANCIAL SUMMARY 2010-2040

(millions of year 2008 constant dollars)

	PPA - FC 2010-2020	PPA - FC 2020-2030	PPA - FC 2030-2040	PPA - FC Total
Counties	\$ 4,400	\$ 5,100	\$ 6,200	\$ 15,700
Cities	\$ 9,000	\$ 9,300	\$ 8,900	\$ 27,200
Local Transit	\$ 11,200	\$ 17,300	\$ 28,500	\$ 57,000
Sound Transit	\$ 15,100	\$ 12,400	\$ 12,400	\$ 39,900
State Ferries	\$ 2,100	\$ 2,300	\$ 3,800	\$ 8,200
State Highways	\$ 17,500	\$ 8,000	\$ 11,000	\$ 36,500
Passenger-Only Ferries	\$ 200	\$ 200	\$ 200	\$ 500
ITS/Operations	\$ 500	\$ 500	\$ 500	\$ 1,400
Demand Management	\$ 700	\$ 400	\$ 400	\$ 1,500
Regional Non-motorized	\$ 200	\$ 100	\$ 100	\$ 300
Toll System	\$ 400	\$ 1,100	\$ 1,500	\$ 3,000
Other Subtotal	\$ 1,900	\$ 2,200	\$ 2,600	\$ 6,700
TOTAL	\$ 61,200	\$ 56,500	\$ 73,400	\$ 191,100

New revenue requirements

A comparison of plan investment needs with current law revenues provides a picture of the new revenue requirements across the various transportation programs. New revenue requirements by program are displayed in Figure XX below, while Table XX displays the new revenue requirements by decade.



New Revenue Requirements

(millions of year 2008 constant dollars)

	2010-2020	2021-2030	2031-2040	2010-2040
Plan Investment Needs	\$61,200	\$56,500	\$73,400	\$191,100
Current Law Revenues	\$44,400	\$37,100	\$43,600	\$125,100
New Revenue Requirements	\$16,800	\$19,400	\$29,800	\$66,000

Emerging Issues in Transportation Finance

Successful implementation of Transportation 2040 will be dependent upon fulfilling the new revenue expectations of the financial strategy. Success on this front will require addressing a range of underlying issues facing the future of transportation finance, and require the region and state to develop 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. Some crosscutting issues in transportation finance include the following:

- **The Future of 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 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. As the transportation sector strives to disentangle personal and freight mobility from carbon emissions taxes on motor fuels will become an even less viable means of funding future investments.
- **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 always 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 of the system impose. 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 returns to the regions of Washington State of statewide transportation revenues will continue to be a focus of discussion. This is also true of the sub-regional investment policy that is part of Sound Transit program planning.
- **Cost Burden Across User Groups.** 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 systems impose greater costs on the system and other users than others. 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 need to reflect these cost structures.

- **Investment Rules and Prioritization.** Plan financial constraint implies that investments may need to be prioritized if insufficient revenues become available to make all desired investments. Lack of consistently applied approaches to project selection and prioritization can make preserving financial constraint in plan a challenge. Historically, and especially in other parts of the world, benefit-cost analysis has been employed successfully for transportation project evaluation.

Road Tolling As a Critical Element of the Financial Strategy

In 1995 the PSRC created a Transportation Pricing Task Force to contribute to public dialogue about the long-range financing and pricing of transportation investments. The Task Force concluded that a transportation financing structure based on variable roadway charging could provide significant benefits to society. The Task Force suggests it is possible to better balance transportation supply and demand through price, much as is done in most other areas of our economic lives. It is specifically possible to devise a pricing system to 1) optimize throughput on priced transportation facilities, 2) minimize delay along otherwise congested corridors, and 3) raise substantial revenues for reinvestment in the transportation system. The Task Force recommended that the region should:

- Promote transportation financing methods that are based on use, and help optimize system efficiency with the long-term goal of introducing variable roadway pricing.
- Continue to explore and adopt transportation demand modeling improvements and other analytical tools that better assess traffic management strategies.
- Work with communities, WSDOT, and local authorities to plan, design and implement a demonstration program prior to 2006.
- Develop and help fund a detailed outreach effort which seeks to inform, engage and build regional consensus around implementation of transportation pricing.

Much has happened since 1995 in the area of road tolling, both in the central Puget Sound region, and nationally. But the underlying structural problems in transportation finance remain.

State and Federal sources of transportation funding are designed to meet a broad array of needs across diverse geography and are not always adequate to address the unique requirements associated with investing in growing urban regions. For example, the current system of highway finance relies heavily on flat fees: the motor-vehicle fuel tax (and licensing and registration fees). In rough terms, the charge to users is the same, per mile, regardless of which segments of the roadway are being used, and regardless of whether the travel occurs in the peak or the off-peak period for that particular roadway.

This system of flat fees necessarily has the effect of *undercharging* peak use, and *overcharging* off-peak use, at least in relative terms. The result is that:

- roads are overused and experience queuing (congestion) during the peak periods
- users lose valuable time sitting in congestion
- use of the roads by High Occupancy Vehicles (HOVs) such as carpools and buses is less than it would otherwise be

These problems, in turn, affect the investment incentives and fiscal balance of the road system. Congestion provides a misleading signal to road authorities as to which facilities or routes need more capacity, which, in turn, may cause road authorities to build some roadway capacity that the users themselves would not be willing to pay for. And revenue generated by non-peak users, users on other routes and users from other regions must be used to pay for capacity that is not self-financing.

Such a system of finance can remain solvent only if aggregate gasoline tax revenues are sufficient to permit cross-financing of projects. When such a system is applied across a state or the entire nation, cross-financing raises large-scale fairness questions. One solution to this fiscal dilemma is to raise gasoline tax or other broad revenue sources, which can exacerbate underlying issues of fairness. Another is to use congestion tolling to explicitly recognize the true, differential cost of different road segments. The latter solution differs from the former in that it leads to improved management of current and new investment at the same time it helps resolve the transportation fiscal problem.

A comprehensive congestion-based tolling system, in contrast, would institute a differentiated structure of fees, varying by time of day, type of road, and type of vehicle. Setting congestion prices correctly is important if the policy is to be fair and produce economic benefits. Congestion tolls should be viewed as tools for giving signals to people about the costs of their use of the system allowing them the opportunity to make sensible decisions based on those costs.

An economic principle for the efficient use of resources is that the users of those resources should pay their incremental or marginal cost. Applied to transportation, road users should bear the costs that their travel (use of the road resource) imposes on the roadway system.

Generally, the effectiveness of congestion tolling is the greatest with broad geographic coverage. Broader coverage, especially if it includes all competitive alternative routes, can reduce the problem of *diverted traffic*: traffic that is "tolled-off" the priced facility and now is using and congesting other roadways. A particularly bad form of this problem is *cut-through* traffic on local streets. Though barriers and policing can reduce the problem, the more efficient and fair way to deal with it is to correctly price the roadway and/or toll the alternative routes.

Making users pay, directly and immediately, for costs their use engenders encourages them to economize on costly activity. But implementing congestion tolling does not affect just price levels. The setting of tolls has to be coordinated with the highway investment process. Properly applied congestion tolling requires that the revenues be utilized in the most economically-efficient manner.

With tolling, there is a more direct relationship between the revenues and costs for individual road segments or projects, which facilitates doing feasibility analysis on a segment-by-segment basis. That makes it easier to rely on financial criteria to evaluate roadway projects since it will be clearer who pays and who benefits.

Congestion tolling, however, has the major disadvantage of not being a standard procedure. It is different, and raises new issues. Will it really work? Can the technology work reliably and at what cost? What about privacy: should government be trusted with information about where citizens (or at least their vehicles) are at a certain time? Does congestion tolling create opportunities that the rich can afford but the poor cannot, and, if it does, is that fair? The answers to these and other questions are starting to come take shape, but the next decade of experiences will provide a much better set of answers and public policies.

A general funding scenario

During the development of Transportation 2040 the PSRC convened a subgroup of its Transportation Policy Board (Pricing Task Force and Transportation 2040 Working Group) to develop a financial strategy. The committee reviewed federal guidance and requirements, methods for estimating project costs and revenue projections. The committee reviewed the costs of the various programs in the plan,

and compared these costs with projected revenues available under current legal authority estimated to be available for the different program areas. This group also deliberated over a variety of new revenue instruments and assumptions that could be included as a new regional financial strategy. The committee recommended that the financial strategy should describe a general scenario under which necessary revenues would become available, that would also retain the flexibility that allows specific new revenue actions to be defined and implemented by appropriate governmental bodies. In particular the committee worked under the following guidance:

- Securing funding to maintain and operate our current assets and services should be the highest priority. Approximately 60 percent of planned investments will simply maintain and operate the current system. This priority includes securing near-term revenue to maintain local transit operations, a growing backlog of local maintenance and preservation needs, and capital preservation needs of the state ferry and highway assets.
- Traditional tax financing (gas tax, etc.) will still play a central role in transportation finance, especially in the early years of the plan.
- There should be a nexus between new taxes, fees, or tolls and the uses to which the revenues are put. The revenue instruments should relate in some manner to the benefits the users receive and/or the costs that these users impose on the system and other users.
- There should be an increase reliance on road tolls that are phased in as new investments in capacity and alternatives are implemented, and as toll system technology and user acceptance evolves over time. To support this evolution, the tolls should be set in a manner that strives to improve travel benefits to all users (freight and people) of the transportation system, and the use of toll revenues should also evolve over time towards increasingly broader uses.
- The plan's financial element should be based on a "general scenario" that allows flexibility in implementation

The new revenue "general scenario" will require legislative action across a broad range of governments including, cities, counties, the state and the federal government. As the regional planning body for the central Puget Sound region, the PSRC will work collectively with its partners to advance appropriate legislative actions. The general funding scenario has three primary elements 1) early revenue actions that support state, local, and regional investments, 2) a phasing in of new revenue sources that are based on the use of the transportation system, and 3) guidance on the use of tolling revenues.

1. Early Action to Support State, Local, and Regional Investments

Within the first decade of the planning period it will be necessary to identify additional transportation revenues that can address near-term requirements across a broad array of transportation programs.

Cities and Counties will need to take action to increase transportation related taxes and will need viable new local options for transportation funding. Local actions could include road and property tax levy adjustments, impact and development fees, the implementation of taxes on parking and more coordinated parking pricing. Cities and Counties also will need to work with the state legislature to identify additional local option taxes and fees, and to secure a direct distribution of new state-wide transportation taxes in a manner consistent with past practice.

Local transit operators will face significant near-term challenges just to maintain existing service without additional funding. Some operators still have the option of locally approved sales tax increases, but others do not. And a continued reliance upon sales tax revenues as a nearly sole source of non-

operating revenues leaves these operators vulnerable to swings in the economic markets. Local transit operators will need to work with the state legislature to secure a stable source of supplemental funding. Also, operators could begin to raise fares in the near-term in an effort to provide a stronger operating foundation. In the near-term Sound Transit will be focused on the delivery of the Sound Transit 2 program of investments, with funding secured by a recent public vote. Sales tax revenue volatility will continue to be a monitoring issue for the Sound Transit capital program as well as for near-term operations.

In the near-term the state highway and ferry programs will also require additional funding beyond current law. The Washington State Ferries has a new long-range plan and long-term finance study. And while long-term capital requirements present the largest financial issues for the ferry system, the near-term still requires additional operating revenues and adjustments to state funding practices. The highway program has a large amount of capital investment in the initial decade of the plan. A number of important projects are partially funded, or largely unfunded. Additional state-wide funding, such as increases to the state fuel tax, will need to be identified in order to keep the highway program on track even as tolls and other users fees are being introduced.

2. The Phasing in of Tolls and Other User Fees

Transportation 2040 sets out broad direction that moves the region toward a sustainable future in which investments can be made when they are needed, in a predictable manner, with revenues generated from those who benefit from the investments. This change can not occur overnight, but rather will only be the result of many individual steps, including legislative actions at the state and federal level. The specific path to a more sustainable approach to transportation finance cannot be known in advance with certainty, but the broader goals and outcomes represent a shared vision.

The long-run viability of the fuel tax is in doubt. The future of the fuel tax has been explored by numerous studies¹, all with an eye toward identifying options for its eventual replacement. A general consensus is emerging around how best to address long-run issues in transportation finance that reaffirms the general principle of user financing, although the design of a specific tax or fee program is likely a number of years away.

In the central Puget Sound region significant early steps to begin to address this structure issue are underway, including the implementation of a high-occupancy lanes pilot project on state route 167 and plans to toll the existing SR 520 Bridge in an effort to help finance its replacement. The evolution of tolling will likely continue on this pathway, with additional high-occupancy toll lanes brought into operation in the first decade of the plan. Also, major highway capacity projects will be at least partially financed through tolls.

At some point in time fuel taxes may prove unsupportable due to losses in purchasing power and changes in the vehicle fleet. Vehicle charging technology is already available to allow a transition to another form of direct charging for road use. But many policy and program design issues remain unaddressed at this point. The central Puget Sound region and Washington State have some specialized experience with this topic. In 2006, the PSRC conducted a pilot project, the Traffic Choices study, to see

¹TRB Special Report 285: The Fuel Tax and Alternatives for Transportation Funding; Federal Surface Transportation Policy and Revenue Study Commission; Federal Surface Transportation Infrastructure Finance Commission.

how travelers change their travel behavior in response to variable charges for road use (variable or congestion-based tolling). The project observed driving patterns, but also learned about vehicle charging technology, some key policy issues and program design.

Eventually, in the later years of the plan the intent is to manage and finance the highway network as a system of fully tolled facilities. The idea that the variable tolling of roads can result in substantial improvements in traffic conditions is unfamiliar to most motorists. There is a natural skepticism about how this might work, and how individuals might be affected by such an approach to road financing. The Traffic Choices Study, however, has demonstrated that households and motorists faced with variable tolls do make the modest adjustments in their travel that will translate into large-scale reductions in roadway congestion. The sum total of individual decisions can be shown to result in important shifts in the time, amount, and mode of travel so as to minimize the amount of time the region's residents would be stuck in traffic.

2. Guidance on the Use of Tolling Revenues

A major portion of the benefits from any application of road tolling is locked up in the revenues that are generated. How these revenues are utilized is clearly a significant determinant of the value of the tolling program, and is an important part of gaining public approval.

Transportation 2040 advances the notion that road tolling must come with a strong commitment to dedicate revenues to the purpose of improving mobility, in the form of direct investments in transportation systems, or offsetting other existing transportation taxes and fees. Beyond this basic commitment, there are likely to be other specific constraints that get placed on the use of revenues from road pricing. Possibilities include at least the following:

- Limit the use of revenues to the corridor, or geography from which the revenues are generated.
- Constrain revenues to only road investments
- Allow revenues to be used to support transit or other high occupancy vehicle services
- Remit some, or all, revenues to users of the transportation system through a reduction in, or elimination of, other transportation related taxes and fees

All of the above uses of revenues provide direct benefit to some of the users of the transportation system. Some approaches are more supportive of the toll payers themselves; others provide additional incentives for people to modify their travel behavior away from paying tolls. A major conclusion, however, is that how revenues do get used has a profound effect upon most of the important dimensions of policy related to road tolling.

In the near-term tolling will take the form of high-occupancy toll lanes, and individual facility toll financing. In these instances toll revenues are essentially dedicated to making the investments in these corridors possible, and supporting the operations of these corridors directly, or indirectly. Supporting investments might include transit services within the corridor that provide an alternative mobility option.

In the longer-term, when a larger network of highway facilities are managed and finance with tolls, a broader consideration of possible uses for toll revenues may be warranted. It is even possible that it will be desirable to offset existing taxes and fees (say the elimination of a state tax on fuels, or vehicle fees) with toll revenues.

Table XX displays a representation of the general strategy for new transportation revenue that reflects the above assumptions and guidance. It should be noted that this is a general representation of a very large number of individual revenue actions that will be required to implement Transportation 2040. The timing and exact nature of each action can only be defined in strategic terms given the inherent uncertainty involved. Various risks associate with revenue strategies are explored in more detail in Appendix XX.

New Revenue General Scenario

(millions of year 2008 constant dollars)

Funding Category	2010-2020	2021-2030	2031-2040	2010-2040
Local Sources				
Road Levy (property tax)	\$900	\$1,000	\$1,100	\$3,000
Other Local Sources (parking, license, and impact fees)	\$2,300	\$2,500	\$2,800	\$7,600
Transit Specific Sources				
MVET (transit)	\$700	\$1,300	\$1,800	\$3,800
Sales tax increase for local transit	\$0	\$900	\$2,800	\$3,700
Sales tax increase for Sound Transit (bonded)	\$0	\$5,100	\$2,400	\$7,500
Increases in Transit and Ferry Fares	\$100	\$400	\$500	\$1,000
Fuel Taxes, State Fees and Fuel Tax Replacements				
State Fuel Tax and Bonding Net Proceeds	\$4,100	\$1,000	\$800	\$5,900
Fuel Tax Replacement	\$1,100	\$2,100	\$2,700	\$5,900
HOT Lanes and Facility Toll Revenues				
HOT and Facility Toll Proceeds	\$5,600	\$1,100	\$0	\$6,700
Highway System Tolls (various modeled)	\$0	\$2,700	\$24,700	\$27,400
Offsetting fuel tax	\$0	\$0	(\$6,500)	(\$6,500)
Total New Revenue	\$14,800	\$18,100	\$33,100	\$66,000

Table XX summarizes the financial information in a single table, with investment needs, current law revenues, and new revenues identified for each of the major programs.

FINANCIAL SUMMARY 2010-2040 (millions of year 2008 constant dollars)

	NEEDS			REVENUES			Unprogrammed Investments
	Basic Needs	Expansion	Total	Current Law	New Revenue	Total	
Counties	\$ 6,800	\$ 9,000	\$ 15,800	\$ 8,800	\$ 7,000	\$ 15,800	\$ 700
Cities	\$ 14,200	\$ 12,500	\$ 26,700	\$ 20,100	\$ 6,600	\$ 26,700	\$ 700
Local Transit	\$ 52,100	\$ 4,900	\$ 57,000	\$ 44,500	\$ 12,500	\$ 57,000	\$ 4,900
Sound Transit	\$ 17,600	\$ 22,300	\$ 39,900	\$ 32,400	\$ 7,500	\$ 39,900	\$ 18,600
State Ferries	\$ 6,700	\$ 1,500	\$ 8,200	\$ 5,400	\$ 2,800	\$ 8,200	\$ -
State Highways	\$ 10,600	\$ 25,900	\$ 36,500	\$ 14,100	\$ 22,400	\$ 36,500	\$ 9,000
Other Regional	\$ -	\$ 6,800	\$ 6,800	\$ -	\$ 6,800	\$ 6,800	\$ 2,000
TOTAL	\$ 107,900	\$ 82,900	\$ 190,800	\$ 125,200	\$ 65,600	\$ 190,800	\$ 36,000