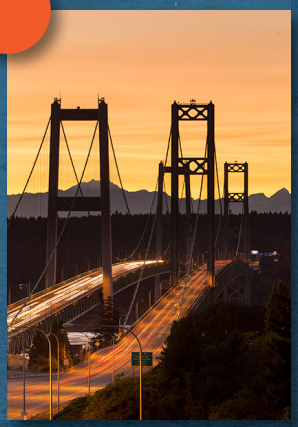
The Regional Transportation Plan — 2018



Appendix P

Financial Strategy Background

May 2018

Puget Sound Regional Council

May 2018

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APPENDIX P: Financial Strategy Background

Introduction

Financing Transportation Investments in a Growing Region

The Regional Transportation Plan presents a forward-looking strategy to address the sizable challenges associated with financing transportation investments. Structural issues inherent in current revenue sources, growing preservation and system improvement needs, equity considerations, and limited public financial capacity for revenue generation are driving transportation professionals as well as state and regional policy makers to develop new approaches to paying for projects and programs. Business leaders, local elected officials, and state legislators are all coming to similar conclusions that traditional tax-based financing measures will not, by themselves, be sufficient to meet the region's transportation investment needs or do so in a way that aligns with desired regional outcomes.

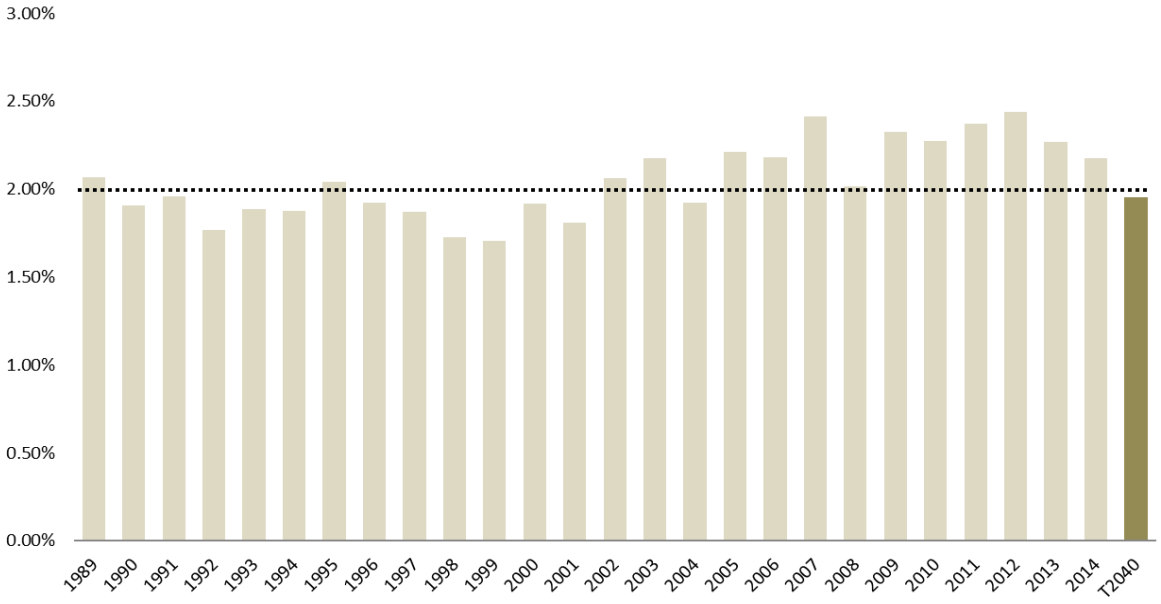
In the central Puget Sound region, decision makers have been deliberately examining the potential of funding transportation through fees and tolls that apply to users of the transportation systems and services. the plan sets out broad direction that moves the region toward a sustainable future in which investments can be made when they are needed, in a predictable manner, with revenues generated from those who benefit from the investments. This change cannot occur overnight, but rather will 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 Plan 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. The plan therefore embraces the need for flexible thinking about how these changes may be accomplished.

Investments in transportation infrastructure and services are strongly linked to growth in the broader economy. As the central Puget Sound region grows over the next 30 years it will be important to ensure that there is the fiscal capacity to make investments in transportation systems. Getting the most out of transportation investments requires that the interplay between transportation investments, growth in economic activity, wealth generation, and public financial capacity shape the means through which the investments are financed.

But what level of total investment is enough? Over a period of nearly 25 years residents of the central Puget Sound region has dedicated approximately 2% of their personal incomes 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 public sector budgets will define the limits of investment. 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 sufficient to support specific transportation needs associated with a growing regional economy.

Figure 1: Public Sector Transportation Expenditures as a Percentage of Regional Personal Income

Historical : 1989 - 2014
Planned: Average Annual Expenditures / Average Annual Personal Income



Emerging and Ongoing Issues in Transportation Finance

Successful implementation of The Regional Transportation Plan will be dependent upon fulfilling the new revenue expectations identified in the financial strategy. This will require addressing a range of underlying issues facing the future of transportation finance, and also require the region and state to develop new and innovative approaches to paying for, and implementing, projects and programs. Examples of these issues in include:

I. The Future of Fuel Taxes. Beyond the dedicated Nickel, TPA, and Connecting Washington accounts, base motor fuel tax receipts are fully committed to cities and counties, retiring debt from previous investments, and safely maintaining and operating the state's highway infrastructure, including transfers to the Washington State Ferry System. However, changes in vehicle technology, increasing capital costs, and inflation continue to compromise the purchasing power of fuel tax proceeds. This path is unsustainable and new sources of reliable funding must be developed and phased in over time. Alternate approaches to collecting user fees have been discussed for many years and technical advances have revolutionized road user fee collection 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.

II. Increasing Maintenance & Preservation Needs. The central Puget Sound region is currently facing a large and growing maintenance and preservation backlog due to historic underinvestment. Cities, counties, and WSDOT are responsible for addressing a broad array of needs ranging from the basic preservation roadways to managing stormwater runoff. As the public transportation system continues to mature, transit and ferry operators will be tasked with ensuring vehicles, vessels, and associated infrastructure remain in a safe and usable condition.

III. Diversification of Transit Operating Revenue Sources. The continued reliance upon economically volatile revenue sources such as the sales tax to support transit operations has impacted transit providers' ability to plan for long-term, stable growth. The region must look to diversify public transportation revenue sources if it is to achieve the mobility goals established in the plan

IV. Bond Financing. Capturing future value in order to make investments today is a significant and growing technique 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. However, states and other agencies that utilize structured financing must take care to account for future maintenance, preservation, and capital improvement needs.so that limited revenue streams are not over-leveraged.

V. 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 and perpetuates a system where revenues and benefits are disjointed.

VI. Tax Limitations. Several citizen initiatives placed limits on state and local taxes. Most significantly, the elimination of the statewide Motor Vehicle Excise Tax (MVET) affected the state funds that support both highway and ferry programs. 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. Further, the voter-approved limitation of property tax collections to a 1% annual growth rate has resulted in a decline of property tax rates for most taxing districts.

VII. Federal Contributions. The current trajectory of the Federal Highway Trust Fund is unsustainable. Beginning in federal fiscal year 2021, the Trust Fund will be unable to meet its obligations amid decreasing federal fuel tax revenues and increasing funding authorization for highway and transit programs first authorized with SAFETEA-LU and continuing with the current FAST Act.

VIII. Cost Burden Across User Groups/ Equity. 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 greater costs 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. Further, any revenue source must respect these users' ability to pay and be implemented in a way that allows for those who can pay more to do so, while at the same time limiting the financial impact on those with limited means.

Developing the Financial Strategy

The financial element of the plan provides a comprehensive picture of the financial requirements to maintain and improve the region's transportation system. The transportation improvements identified in the plan are estimated to cost approximately $197 billion (year 2018 constant dollars) between 2018 and 2040, including over $105 billion to operate, maintain, and preserve the existing system. Current-law revenues — defined as existing sources of funds at current tax rates — were found to be sufficient to fund the on-going needs of the current system, but inadequate to add new capacity needed to address existing deficiencies and facilitate anticipated economic growth. The Regional Transportation Plan financial strategy identifies the

importance of developing new statewide and regional sources of funding to support the plan's implementation.

The financial strategy reflects current financial assumptions and an assessment of the viability of existing and potential new revenue sources. Major steps in the development of the financial strategy included the following:

- Establishment of an oversight committee (Finance Working Group) comprised of a diverse set of elected officials and senior staff to guide the effort. This committee met between fall 2016 and summer 2017 to discuss technical aspects of financial strategy development, including key assumptions, and to make recommendations regarding future transportation finance policy with respect to existing and emerging issues and regional outcome goals.
- Employing updated tax-base forecasts to support financial estimates for all transportation revenue sources contained in the long-range regional plan. The 2015 Regional Economic Forecast was incorporated into all aspects of financial planning for the 2018 plan update.
- Forecasting current law revenues from existing sources with a new focus on integrating recently implemented revenue tools. Of particular importance, in terms of financial magnitude, were the Connecting Washington statewide transportation package, the Sound Transit 3 program, and a number of newly enacted city, county, and local transit revenue tools.
- Obtaining new information about investment schedules and cost estimates from operating agencies. In addition, staff developed new approaches for estimating costs of local maintenance and preservation programs, maintaining and expanding local transit services, and local system improvement needs.
- Developing the new revenue component. New revenues are defined as new sources that are not currently enacted that are "reasonably expected to become available" over the life of the plan. During the update process the Finance Working Group spent considerable time developing new revenue assumptions for the plan that reflect shifting momentum towards road user charges, the diversification of transit revenues, meeting local needs, long-term funding sustainability, and equity across user groups.
- Reporting all cost and revenue information in a constant dollar value, as well as report financial summary information in year of expenditure dollars. All future year costs, where inflation has been included in cost estimates, are reported in constant dollar terms that retain inflation risk premiums for specific project elements as appropriate.

Finance Working Group Policy Recommendations

The Finance Working Group reaffirmed policy guidance to be used as the region moves into a new approach for financing transportation:

- Secure funding to maintain and operate current transportation assets and services is the region's highest priority. This priority includes securing additional near-term revenue to maintain local transit operations and address a growing backlog of local and state maintenance, preservation, and operations needs.
- Traditional tax financing (gas tax, etc.) will still play a central role in transportation finance, especially in the early years of the plan.
- Create a nexus between new taxes, fees, tolls, or charges and the uses to which the revenues are allocated. 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.
- Increase reliance on tolls and road usage fees that are phased in as new investments in capacity are implemented, and as technology and user acceptance evolves over time.
- The plan's financial element should be based on a general scenario that allows flexibility in implementation.

Addressing Federal Requirements

Under federal law, the regional transportation plan must make reasonable financing assumptions that account for existing or new revenue sources which can be reasonably expected to be available over the life of the plan (Title 23 USC 134). The Regional Transportation Plan does this, and outlines a set of conditions and assumptions that represent the financial strategy for implementing the plan.

The fiscal constraint requirement is intended to ensure that metropolitan long-range transportation plans, TIPs, and STIPs reflect realistic assumptions about future revenues, rather than being lists that include more projects than could realistically be completed with available resources. Given this basic purpose, compliance with the fiscal constraint requirement entails an analysis of re venues and costs, which are defined as "…the estimated costs of constructing, maintaining and operating the total (existing plus planned) transportation system". The fundamental question to be answered is:

> *"Will the revenues (federal, state, local, and private) identified in the TIP, STIP, or metropolitan long-range transportation plan cover the anticipated costs of the projects included in this TIP, STIP, or metropolitan long-range transportation plan, along with operation and maintenance of the existing system?"*

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.

The financial component of the plan provides a comparison of revenues and investment needs over the entire planning period, as an aid to determining if the region has the financial capacity to implement the plan. Financial planning for the plan has been built upon previous efforts to design a framework for measuring the region's financial capacity, taking into account the unique circumstances of each program area — city streets, county roads, public transit, state highways, and state ferries.

Estimating Investment Needs by Program

Transportation investments are implemented by numerous agencies that, for the purposes of financial analysis, are organized by implementing agency type. These are the same agency types to which estimated revenues are allocated: city streets; county roads; local transit; Sound Transit; state ferries; and state highways. An "Other" category includes regionally significant capacity investments on public right of way that are sponsored by ports and tribes.

Investment costs in the Regional Transportation Plan are compiled using both project-level and programmatic cost estimates. Regional capacity project cost information is provided by project sponsors for discrete investments related to "regionally significant" facilities or services (see Appendix G). Programmatic costs are estimated for grouped investment types (e.g., maintenance, preservation, and operations) and projects or programs that are not on regional facilities such as local collector and distributor streets. This two-pronged approach captures the range of transportation investment need in the region and is consistent with federal guidance that directs the region to consider all appropriate costs regardless of where they are incurred on the regional network.

Programmatic Estimates

PSRC estimates programmatic costs for various investment types in the transportation system using a variety of methodologies designed to reflect the breadth and depth of need. Included in these estimates are programs addressing the maintenance, preservation, and operation of existing transportation assets as well as elements of system improvement for cities, counties, local and regional transit providers, ferry systems, and the state department of transportation.

For this update PSRC continued its effort to more accurately capture future costs associated with maintaining and preserving transportation assets and services by incorporating increasingly sophisticated methods to estimate these needs. The two primary goals for this effort were to: (1) estimate costs using an outcome-oriented approach, and (2) to develop processes that capture future needs rather than reflect extrapolations of historic levels of investment. Maintenance, preservation, and operation investments selected for additional focus during the 2018 update include:

- maintaining and preserving city and county roadway pavements and bridges;
- meeting federal stormwater requirements;
- maintaining local system operations and traffic control assets and programs; and
- maintaining existing levels of transit service and associated capital preservation needs.

A detailed description of new approaches used to estimate future costs for these asset classes can be found in Appendix M: Maintenance, Preservation, and Operations.

For asset bases not selected for additional emphasis, PSRC employed a more general approach for estimating future needs, which largely relies on historic investment information compiled in Washington State BARS (budgeting accounting and reporting system) data. This dataset includes annual transportation-related expenditure information reported to the State Auditor directly by cities and counties and represents the full costs of maintenance and preservation for a variety of city and county assets. The approach to estimate these needs is an extrapolation of the most recent year's cost information using annual average cost increases which have been calculated based on twenty-five years of historic expenditure data.

The plan also includes programmatic estimates of non-regionally significant multimodal capital improvements associated with the city and county programs. PSRC's previous method of capturing these investments was similar to the extrapolation method described above. However, for this update a new approach was developed that better reflects changing system improvement needs over time. For nearly a year, PSRC staff documented local multimodal improvements included in local comprehensive plans, capital improvement programs, and transportation improvement programs. This effort resulted in a new database containing over 4,200 projects and programs on which to base a regional estimate of local multimodal system improvement needs.

These projects and programs represent the breadth of local transportation infrastructure improvements and reflect communities' goals to complete multimodal and arterial networks, improve operations, efficiency, safety, and to meet environmental and economic development objectives. Average annual levels of investment were calculated for each year to arrive at a $13 billion estimate for local multimodal system improvements through the life of the plan. Local demand management and city/county shares of regional ITS investments were estimated independently. Advantages of this new approach include a better connection between local and regional planning and a general representation of the shift in costs between system improvement versus maintenance and preservation as local systems are built-out.

Local transit service needs for both maintaining existing, and expanding services, as well as supporting investments, are estimated programmatically using historic information in WSDOT's annual Summary of

Public Transportation, the National Transit Database, and assumptions provided by local transit operators. Improvements to PSRC's previous methodology were facilitated by the development of local operator long-range plans that outline future service assumptions, cost escalation policies, and a range of supporting investments necessary to implement each community's vision for transit service into the future. Each of these elements have been incorporated into the financial strategy, which again has created a better connection between local and regional planning.

In the case of state highways, Washington State Ferries, passenger-only ferry, and regional transit programs, the plan closely relies upon agency specific estimates of their programmatic needs for both maintenance and preservation as well as system improvements. A detailed representation of programmatic cost estimation approaches is contained in Table 1 below.

Table 1: Summary of Programmatic Cost Methodology

Element	Approach
(1) Local Pavement Preservation Backlog Costs	City and county pavement preservation backlog costs are now captured via a regional survey that was distributed to each jurisdiction. Estimated costs represent the level of effort necessary to bring arterials, collectors, and local roads up to a standard pavement condition index (PCI) of 70 or its equivalent. Additional information can be found in Appendix M.
(2) City & County Maintenance, Preservation, and Operations Costs	Maintenance, preservation, and operations costs are captured using a combination of survey instruments, new financial models and extrapolations of historic expenditures. Roadway maintenance and preservation and local traffic operations/ traffic control device needs have been captured using local surveys. Bridge preservation and culvert replacement estimates are calculated using a financial model that generally replicates a bridge management system analysis. Stormwater needs are captured using a new financial model that integrates assumptions of strengthening National Pollutant Discharge Elimination System (NPDES) requirements. For other assets and administration PSRC extrapolated historic costs from the Washington State Auditor's Office Budgeting, Accounting, and Reporting System (BARS) data. The latest available data year was used as the point of departure. Additional information can be found in Appendix M.
(3) Local System Improvement Costs	Future city and county transportation improvements that have not been captured on the regional capacity improvement project list have been estimated based on a review of each jurisdiction's recently adopted comprehensive plan, transportation master plan, capital improvement program, or other implementation plan. These estimates cover non-regionally significant roadway, bridge, traffic operation, and multimodal investments.
(4) Future Demand Management (TDM) and Intelligent Transportation System (ITS) Improvement Costs	Future ITS system improvements were derived from the Regional Intelligent Transportation System Implementation Plan (RITSIP) and allocated to city street and county road programs based on the share of lane mileage of the ITS arterial corridors located within each type of jurisdiction. New transportation demand management (TDM) levels of investment are estimated as an additional one percent of total system improvements.
(5) Local Transit Operations Costs	Costs to maintain existing transit operations through 2040 were calculated based on observed data and local operator assumptions. Starting with current service hours and total service cost, PSRC applied local operator assumptions of annual service hour cost increases. These service cost growth assumptions are reflected in local provider long-range plans. Administration and capital outlays were grown at inflation. This approach answers the question "what does it cost to maintain current transit service into the future?".

Element	Approach
	New transit service costs are a function of planned service hours, service hour costs, and service hour cost growth assumptions provided to PSRC by local transit operators. Each assumption is reflected in local operator long-range plans. Additional cost estimates include capital purchases and maintenance to support planned additional service. Transit supportive investments (roadway, speed & reliability, transit access, maintenance facilities, and passenger facilities) are also derived from local operator long-range plans.
(6) Sound Transit Operations and Capital Preservation Costs	Costs for maintaining and preserving service and capital included in the Sound Move program and expanding service and capital per ST2 and ST3 were provided directly by Sound Transit finance staff. Capital improvement costs are included in the regional capacity project list as discrete investments.
(7) State Maintenance and Operations Costs	Provide directly by WSDOT by program area. Capital improvement costs are reflected in the regional capacity project list as discrete investments.
(8) Passenger-Only Ferry (POF) Service and Capital Preservation	Maintaining and expanding POF service and capital investments have been provided directly by the King County Water Taxi and Kitsap Transit for their respective services. Operations and capital preservation costs are programmatic whereas discrete capital improvements are captured on the regional capacity improvement project list. POF investments have been incorporated with the local transit program for the 2018 T2040 update.

Regional Capacity Project List Estimates

The Regional Transportation Plan contains 312 “regionally significant” discrete capacity investments totaling approximately $44 billion (in 2018 constant dollars). These projects range from small scale investments to multi-billion-dollar highway and rail projects and are listed in the Regional Capacity Projects list (Appendix G). PSRC relies upon implementing agencies to provide project cost estimates. Given the dozens of implementing agencies, the broad scale of investments, and the various levels of project engineering represented, it is expected that project cost estimating approaches will also vary considerably. PSRC invests considerable resources in the recording of project details in cooperating with all the various responsible agencies. This process provides a greater level of consistency in the representation of projects and their costs, and also allows costs that are associated with various project implementation years to be characterized in constant dollar and year of expenditure equivalents. Larger projects, especially those implemented by the Washington State Department of Transportation and Sound Transit, have undergone exacting analysis of project implementation and cost risk and uncertainty. These methods are described in detail on the agencies’ web pages. Where these estimation efforts have captured inflation, or other cost risks associated with discrete aspects of the project, the “premiums” are retained even when project costs are converted to a constant dollar basis.

Table 2: Transportation 2040 Regional Capacity Project List

(in millions of $2018)

	2018 - 2025	2026 - 2040	2018 - 2040
Cities	$ 3,100	$ 1,100	$ 4,200
Counties	$ 700	$ 300	$ 1,100
Local Transit	$ 1,000	$ 800	$ 1,800
Passenger-Only Ferries	$ 100	$ -	$ 100
Sound Transit	$ 11,300	$ 11,200	$ 22,500
Washington State Ferries	$ 300	$ -	$ 300
State Highways	$ 7,300	$ 6,400	$ 13,700
Other Regional	$ 100	$ 300	$ 400
Total	**$ 24,000**	**$ 20,100**	**$ 44,100**

Timing of Investment Needs

The transportation investments included in the plan are described in Chapter 2 of the document. The plan contains investments that are covered under the plan's financial strategy, or the financially constrained plan. As described above, cost information about these investments has been assembled from detailed cost estimation methodologies appropriate to both broad programs of investments and individual projects. The plan database of transportation projects contains information about project costs and year of implementation. Programmatic estimates of the resources required to maintain, improve, and operate city, county, transit, ferry, and state highway programs have also been developed in a detailed manner that reflects a general understanding of the timing of these investment needs. Table 3 below presents investments that are covered under the financial strategy for the major transportation programs by period.

Table 3: Transportation 2040 Cost Summary

(millions of $2018)

	2018 - 2025	2026 - 2040	2018 - 2040
Cities	$ 14,200	$ 24,300	$ 38,400
Counties	$ 6,800	$ 7,400	$ 14,200
Local Transit	$ 12,900	$ 29,000	$ 41,900
Sound Transit	$ 19,800	$ 41,800	$ 61,600
Washington State Ferries	$ 2,300	$ 5,200	$ 7,500
State Highways	$ 14,700	$ 18,100	$ 32,800
Other	$ 100	$ 300	$ 400
TOTAL	**$ 70,800**	**$ 126,100**	**$ 196,800**

A General Funding Scenario

Projected current law revenues are supplemented with new revenue sources in amounts sufficient to cover the anticipated costs of the projects and programs identified in the metropolitan transportation plan, including the operation and maintenance of the existing system. In the near-term the plan calls for new increments of existing taxes and fees, as well as the implementation of new sources such as a carbon tax on fuel sales, to provide stable and reliable funding for local and regional transportation infrastructure. The assumed availability of these near-term new revenues is based on historical trends that demonstrate

the willingness of lawmakers and voters to raise transportation revenues necessary to implement projects with clear benefits to the region.

The backbone of the financial strategy is the phasing-in of user fees that are directly tied to the use of the system. While the exact timing of this transition is unclear, the Finance Working Group anticipates the transition to begin in the mid-2020s with revenues from the user fees supporting a wide range of transportation investments in the second phase of the plan (2026-2040). This assumption of timing is supported by recent momentum in Washington State to develop and implement a statewide road usage charge as a replacement for declining fuel tax revenues. Additional information about this project can be found at https://waroadusagecharge.org/.

Beyond the specific revenue sources, the Committee recommended that the financial strategy 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.

Updating the plan's financial strategy was based on the following principles developed by the Transportation 2040 Finance Working Group:

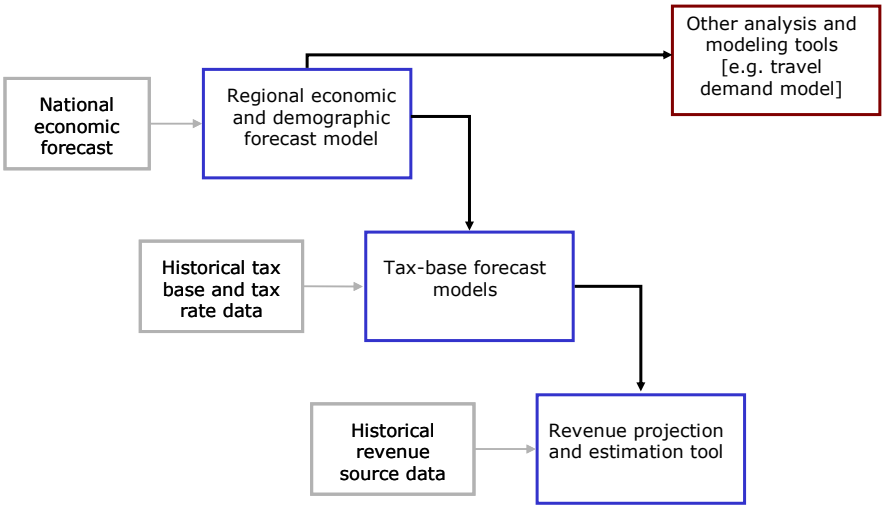
- Maintaining and increase currently available revenue sources, while transitioning to new user-based fees over the longer-term
- Better address the needs of cities, counties, and local transit in the near-term, using both current and new revenue tools
- Develop a solution to replacing the failing gas tax
- Use funding tools that support regional policy and performance objectives – including reduction of congestion and greenhouse gases
- Strive for equity in implementation, benefits, and impacts of existing and new revenue sources – particularly for underrepresented users

Estimating Current Law Revenues

The starting point in the development of the plan's financial strategy is estimating future revenues that will be available under current authority (current law revenue), which are forecast and collected using a variety of approaches. Previously, these revenues were estimated using a single regional model, however limitations of that model, recent action to implement new sources, and increasingly detailed financial forecasts from partner agencies has evolved forecasting regional current law revenue into a multi-faceted effort. This section outlines the approach PSRC used to estimate current law revenues for the financial strategy.

The Regional Transportation Revenue Model. The PSRC Regional Transportation Revenue Model is an Excel workbook that projects future revenues based on historic data, tax base forecasts from the regional economic model, and forecast distributions of employment and population. Each of these inputs were updated to support the development of the plan's financial strategy. Figure 2 depicts the general relationship between these elements.

Figure 2: Schematic of Transportation Revenue Model Inputs

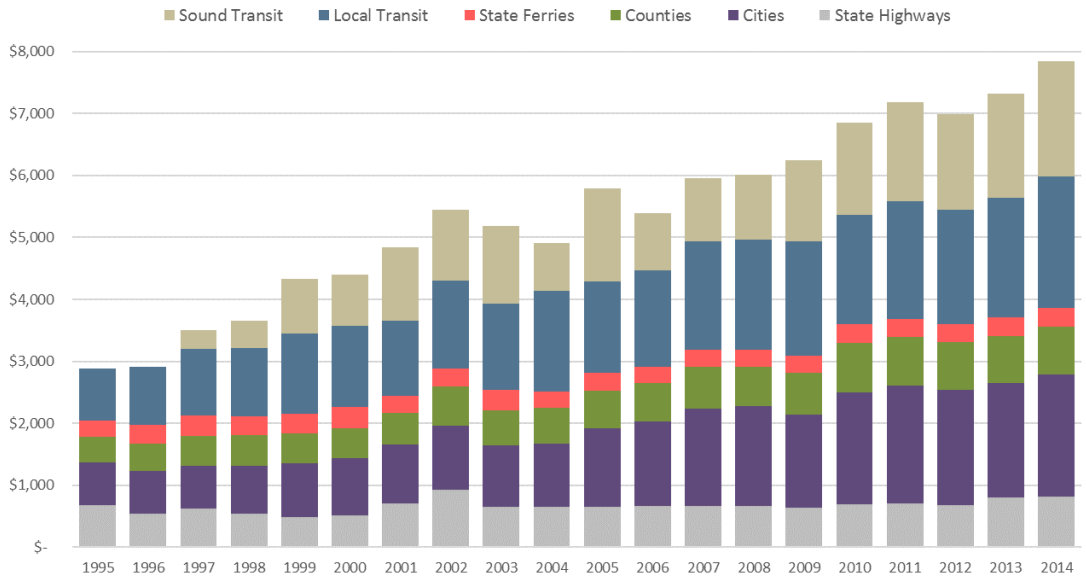


- Regional tax base forecasts were updated as a component of the 2015 Regional Economic Forecast. These bases include regional population and employment, fuel sales, motor vehicle registrations and sales, and retail sales. Regional tax base forecasts are then allocated to various geographies, which in turn serve as the foundation for revenue forecasts by program area. The Regional Economic Forecast also produces forecasts for the Consumer Price Index (CPI), which is the discount/compound factor PSRC utilizes to convert year-of-expenditure to constant dollars and vice versa.

- Population and employment distribution was allocated within the revenue model based on the most recent version of the PSRC Land-Use Vision (LUV). This dataset reflects the most recent city and county assumptions of how each jurisdiction will accommodate projected growth as documented in local comprehensive plans.

- The most recently available revenue information by source is added to the model's historic record and used as a point of departure, being tied to the growth in various tax bases to produce long-range forecasts of each source. PSRC compiled this historic record of sources and yields for city streets, county roads, local transit, state ferries, and state highways through 2014, from state reports. City street and county road data derive from the BARS accounting system described above while public transit data are drawn from the annual Summary of Public Transportation report prepared by WSDOT, based on input from each transit operator in the state. State ferry and state highway data are drawn from county-level allocations for revenues developed by WSDOT. WSDOT maintains a rolling ten-year history of these data. Historical revenue information for major transportation programs is displayed in Figure 3 below.

Figure 3: Transportation Revenues in the Central Puget Sound Region 1995-2014
(in millions of $2018)



Recent Voter Approval and Funding Source Implementation. Limitations of the transportation revenue model mean that PSRC staff must manually integrate forecasts of current law revenue sources that have been implemented in the region past the most recently available historic data. For this update PSRC staff researched funding tools that were enacted after 2014, as this the last available year for which historic revenues were available to be integrated into the transportation revenue model. This proved to be a valuable step due to the prevalence of new revenue sources that were implemented between 2015 and 2017. In 2015 the Governor signed the Connecting Washington Package, Snohomish and Kitsap County approved ballot measures expanding transit and passenger-only ferry services, several jurisdictions enacted local option transportation benefit district fees and taxes, and voters approved a series of property-tax ballot measures in support of local infrastructure improvements. Revenues from each of these sources were estimated based on financial models which, to the extent possible, integrated the same tax base forecasts as the transportation revenue model and recognized constraints unique to each revenue source.

Consistent Regional Financial Plans. PSRC directly incorporates revenue estimates from agencies that have prepared long-range forecasts to fund a specific set of investments. Within the region only Sound Transit and the region's passenger-only ferry providers have submitted such information. As such, the plan

directly reflects these agencies' revenue forecasts and classifies them as current law revenues because these are primarily voter-approved revenue sources.

Key Assumptions Underlying Current Law Revenue Forecast. The following table documents key assumptions impacting the plan's current law revenue forecast.

Source	Assumption
Connecting Washington	Connecting Washington funding will continue to be allocated to implementing agency types in the consistent with current approach.
Local Property Tax Levies	Current regional levels of property taxation in support of transportation investments will continue in perpetuity. If a levy expires and is not renewed, another will take its place in another jurisdiction.
State Nickel Funding	Nickel program will be reauthorized after bonds are retired and consistent levels of funding will be allocated to the PSRC region.
State Highway Rate of Return on Funds Generated within PSRC Region	Assumed that WSDOT will allocate 90% of the funds generated within the PSRC region towards investment in the PSRC region. This figure dropped to as low as 30% in previous version of the regional transportation plan.
City & County General Funds	Assumed that no more than 50% of city and county transportation funds will be attributable to general fund transfers.
Federal Contributions	2.5% annual growth in federal contributions across program areas. Consistent with historic growth of federal program as well as peer MPOs.

Table 4 displays broad categories of current law revenue by source and Table 5 displays current law revenue estimates by transportation program. Both tables show the estimated timing of current law revenue by period. Note that the two tables may not sum correctly due to rounding.

Table 4: T2040 Current Law Revenue Estimate by Source

(in millions of $2018)

	2018-2025	2026-2040	2018-2040
State Taxes on Motor Fuels	$ 6,800	$ 10,100	$ 17,000
Registration and License Fees (incl. weight fees)	$ 1,800	$ 2,800	$ 4,600
Other State Taxes and Fees	$ 200	$ 400	$ 600
Other Local Taxes	$ 2,600	$ 5,100	$ 7,700
Local General Funds			
Property Taxes (general or restricted)	$ 3,200	$ 5,400	$ 8,700
Development and Impact Fees	$ -	$ -	$ -
Fares, Tolls, and Operating Revenues	$ 6,300	$ 12,800	$ 19,100
Federal - FHWA	$ 2,300	$ 4,300	$ 6,600
Federal - FTA	$ 5,900	$ 5,900	$ 11,800
Sales Taxes	$ 17,000	$ 38,900	$ 55,900
Other Transit Revenue	$ 800	$ 8,100	$ 8,900
Parking Taxes	$ 300	$ 500	$ 700
Property Tax on Motor Vehicles (MVET)	$ 2,600	$ 3,300	$ 5,800
Port and Tribal Contributions	$ 100	$ 300	$ 400
Total Current Law Revenue	**$ 53,500**	**$ 103,400**	**$ 156,900**

Table 5: Transportation 2040 Current Law Revenue Forecast

(in millions of $2018)

	2018-2025	2026-2040	2018-2040
Cities	$ 7,800	$ 12,900	$ 20,700
Counties	$ 3,600	$ 6,300	$ 9,900
Local Transit	$ 11,100	$ 24,000	$ 35,000
Sound Transit	$ 19,800	$ 41,800	$ 61,600
State Highways	$ 9,400	$ 14,900	$ 24,300
WSF	$ 1,700	$ 3,300	$ 5,000
Other	$ 100	$ 300	$ 400
TOTAL	**$ 53,500**	**$ 103,500**	**$ 156,900**

Cities & Counties. In addition to state distributions of fuel tax revenue, cities and counties support transportation investments from a variety of funding sources, such as property tax levies, development impact fees, local option taxes and fees, state grants, federal contributions and general fund transfers. The state Legislature has authorized several local option taxes that have, in many instances, proved difficult to implement. At the same time, some tax-limiting initiatives and competing demands for general fund dollars have made local commitments to transportation a challenge to sustain. As dedicated local transportation revenues have dwindled, cities and counties have demonstrated their commitment to funding transportation programs and projects through increasing contributions from general funds, sometimes at the expense of other important local needs.

To reflect the unsustainable nature of increasing general fund transfers as local dedicated transportation revenues decrease, the percentage of these transfers has been held at current levels through 2040. Beyond the issues influencing dedicated local transportation revenue decisions, recent increases in the state fuel tax have been disproportionately allocated to state investment needs. This has meant that cities and counties have been receiving a declining share of statewide receipts over time. These issues highlight the

need for immediate action to identify stable new revenue sources for cities and counties. Figures 4 and 5 depict the city and county current law revenue forecasts by source.

Figure 4: City Current Law Revenue Forecast

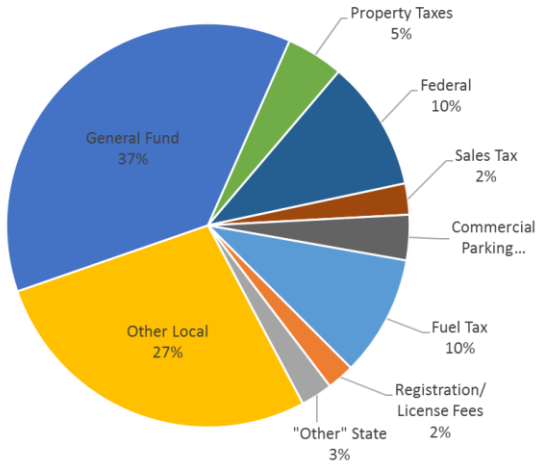
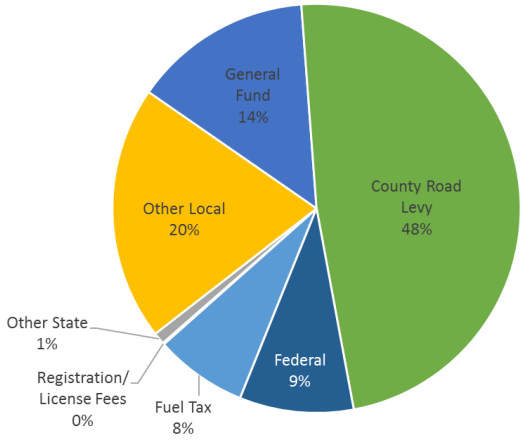


Figure 5: County Current Law Revenue Forecast



Local Transit. Local transit authorities' primary source of operating funding is the retail sales and use tax. Other sources include fare revenues, state grants, and federal contributions. With the loss of Motor Vehicle Excise Tax (MVET) revenues nearly two decades ago, local transit operators became dependent upon the sales tax, which is a volatile source of revenue that rises and falls with economic conditions. Although local transit agencies have successfully garnered voter support to pass increases in the local sales tax rates since 2000, these are the same taxes that have undermined the stability of local transit operating budgets.

Figure 6: Local Transit Current Law Revenue

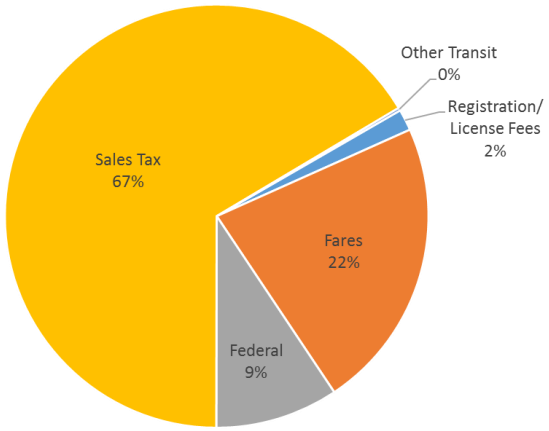
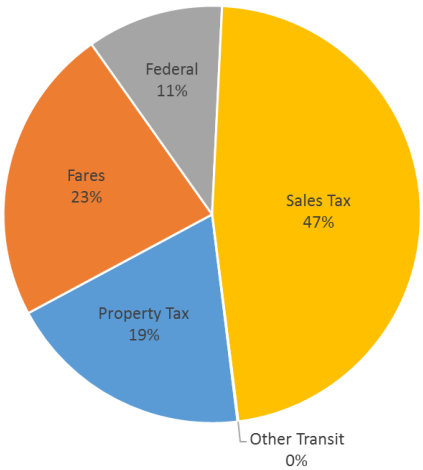


Figure 7: Passenger-Only Ferry Current Law Revenue Forecast



The negative effects of relying on this volatile source of funding for transit operations was clearly demonstrated during the depths of, and recovery from, the economic recession in the latter half of the 2000s and into the 2010s. To sustain operations many agencies to sought new sources of funding, underwent service cuts, and reorganized to align costs with reduced revenues. The volatility of the sales tax as a primary source of operating revenues is an important issue and points to the need to diversify funding sources for local transit operators.

Sound Transit. Sound Transit has twice been successful at the ballot box in the past 10 years. First, in 2008 Sound Transit 2 was approved by the voters followed by the Sound Transit 3 package in 2016. Each of these packages rely heavily on regional sales tax increases as well as the implementation of an MVET to support capital expansion of the regional transit system. ST3 also added a regional property tax to complete the light rail "spine". Current issues facing Sound Transit funding include the continued reliance on the volatile sales tax as well as concern over the vehicle valuation schedule on which Sound Transit MVET revenues are generated.

State Highways. The motor fuel tax is the primary source of transportation revenue at the Washington State Department of Transportation (WSDOT), and is supplemented with license and permit fees (LPF), user fees and federal contributions. Since 2000 the state fuel tax rate has increased three times to its current rate of 49.4 cents per gallon while the Federal fuel tax rate has remained unchanged since 1993 at 18.4 cents per gallon. These funding packages dedicated significant dollars to highway projects in the central Puget Sound region, however failed to provide additional resources to address growing maintenance and preservation needs or increase state funding allocations to cities and counties in support of local transportation infrastructure investment.

Washington State Ferries (WSF). Like local transit operators, WSF was significantly affected by the loss of MVET. Losing the primary source of capital funding combined with the declining purchasing power of the fuel tax, WSF has become increasingly reliant upon fares to support operations and state budget transfers for capital preservation and improvement needs. The increasing reliance upon these sources was highlighted in 2009 as WSF developed its long-range plan. To bridge anticipated revenue shortfalls WSF identified several stopgap measures, including regular fare increases and new fuel surcharges. Even with these additional revenues, WSF calculated a $1 billion shortfall in the capital program between 2009 and 2025, without identifying a permanent solution. If left unaddressed, the impacts of this shortfall will be significant vessel replacement deferrals and the delay of important capital improvements, potentially hindering the ability of WSF to maintain existing levels of service. The Regional Transportation Plan directly reflects these shortfalls in its forecast of current law revenue for state ferries and further addresses the issue in the new revenue scenario.

Figure 8: Sound Transit Current Law Revenue Forecast

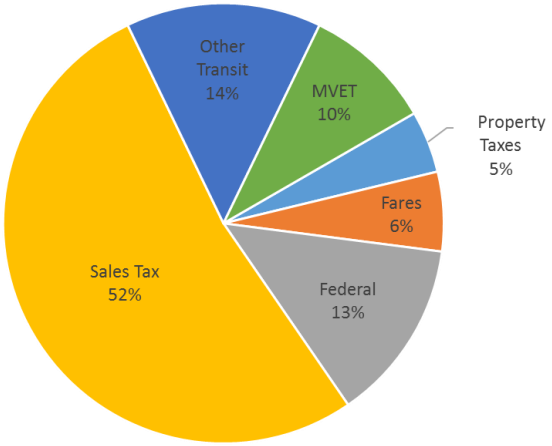


Figure 9: State Highway Current Law Revenue Forecast

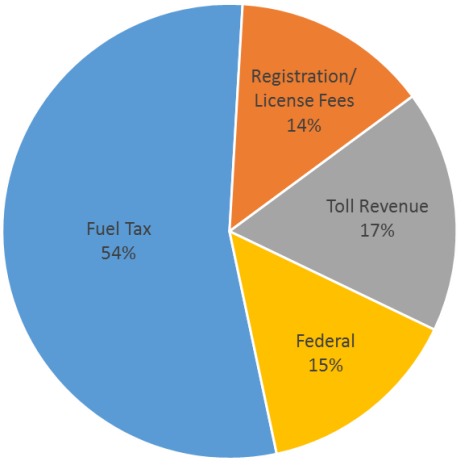
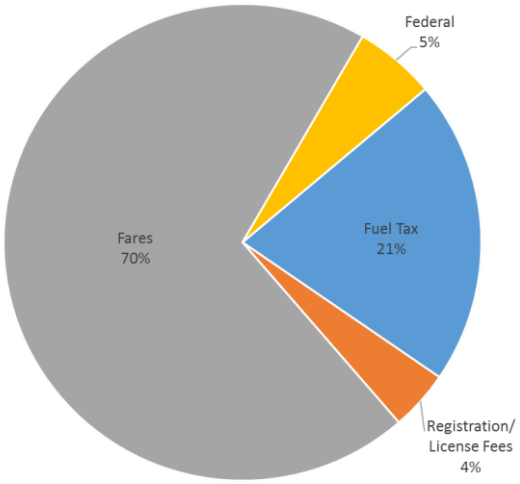


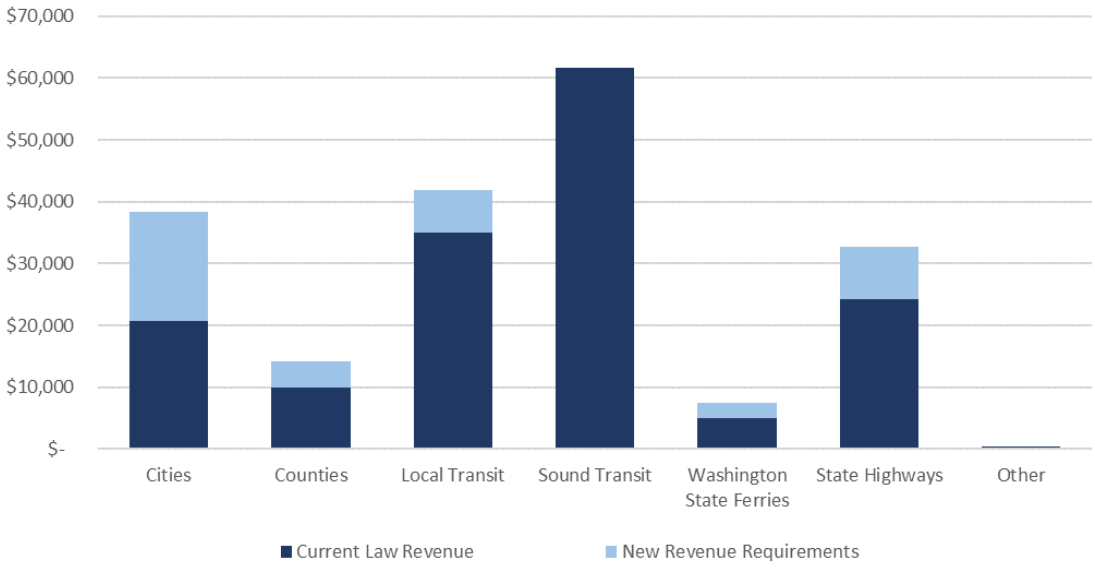
Figure 10: Washington State Ferries Current Law Revenue Forecast



New Revenue Assumptions and Estimates

To meet federal requirements, the Regional Transportation Plan must have a fiscally constrained financial strategy that balances costs of the investments contained in the plan with revenues expected to be available to support them. A comparison of plan investment needs with revenues available under current law sources provides an understanding of new revenue requirements across transportation programs, which is depicted in Figure 11. The following sections outline a general new revenue scenario that fills these gaps to fully implement the plan. In total, new revenue assumptions account for approximately $40 billion (in 2018 constant dollars) to be generated from potential future sources that have yet to be enacted, yet are reasonably expected to be available

Figure 11: Transportation 2040 New Revenue Requirements
(in millions of $2018)



New Revenue Risks and Uncertainty

Identifying new revenue sources involves considering the various aspects of funding risk and uncertainty associated with the authorization and administration of these sources. Estimating future yields from new sources is also a more uncertain exercise than estimating future yields from existing sources of revenue. The actual timing and magnitude of yields may vary from initial expectations. The sources of potential new funding noted above involve both the levying of new taxes on existing tax bases and the implementation of new approaches such a road usage (VMT) charges and tolling. Assumptions about the reasonableness of new revenues include both a political calculus and an analytical framework for the estimation of yields. PSRC worked with the Finance Working Group to create a new revenue strategy that reflects expectations about what new revenue authority would be needed and could be viable from a policy perspective. *Most new sources would involve some type of new legislative authority or approval. And as such the new revenue expectations should be taken as a blueprint for action and not a prescription of exact details relating to granting and implementation of revenue authority.*

In particular, new user fees represent less charted territory, but are also clearly the way forward in transportation finance. Existing limitations of tax yields and the limited viability of extending further existing taxes suggests that user fees will play an important role in the future. The central Puget Sound region and

Washington State have been carefully moving in a deliberate direction toward these approaches to finance, and have some demonstrable experience and knowledge about what will be involved in transitioning toward a user financed transportation system. A detailed description of all the design and implementation risks associated with this effort is beyond the scope of this document, but issues of public acceptance, governance, toll policy objectives, dispensation of revenues, fairness, privacy, and administrative burden are being actively considered and addressed as new user fees are implemented. Numerous materials developed by the PSRC, WSDOT and others provide a large body of research, public opinion findings, program design considerations, and policy analysis that are all relevant to the issues of how to minimize various risks and uncertainties associated with implementing future sources of new revenue.

Estimating New Revenue

As described above, estimating new revenues is an inherently uncertain exercise. Forecasting tools and approaches can help to minimize uncertainty and allow an explicit treatment of specific dimensions of risk, but can never eliminate the uncertainty altogether. As a result, an ongoing effort to monitor progress and track revenue yields from various sources is an important part of the planning process.

The Finance Working considered a range of potential new revenue sources to fill the identified revenue gaps when developing the plan's financial strategy. Revenue options considered included both state-wide and local tools, and addressed a broad array of expected uses. Particular attention was paid to the various practical and legal constraints that could limit the uses of each source. Other focus areas included expected revenue yield, the incidence of the tax burden on various user types, system management and greenhouse gas reduction potential, and implementation costs and challenges.

From a forecast perspective, potential new transportation revenue sources are of two basic types. The first are sources that are a tax or fee related to some general economic activity largely unrelated to transportation system performance. For example, taxes on retail sales or property values are indirectly related to how much or how people travel or how goods are moved about and through the region, if at all. The second type of revenue source derives its value from some performance characteristics of the transportation system itself. The clearest examples of this type of revenue are transit fares, tolls, and in the future, road usage charges. While the distinction is not exact it is still a useful generalization that can guide the estimation of revenues.

A range of new transportation revenues were estimated by adjusting or applying tax rates or fees to a tax base for which the PSRC has a forecast of future performance. These tax bases, and other general future expectations about the demographics of the region include population, employment, number of housing units, the value of the vehicle fleet, volume of fuel consumption, the value of retail sales, number of vehicle registrations, and others. Transportation revenues estimated through this general approach include:

- Fuel Tax Increases
- Title, Registration, and Service Fee Increases
- Weight Fee Increases
- Electric Vehicle Fee Increases
- Vehicle License Fee Increases
- New Motor Vehicle Excise Tax (MVET)
- New Employee Head/Payroll Tax
- Lifting County Road Levy Cap
- New Street Utility Fees
- New Sales Tax on Fuel
- New Carbon Tax on Fuel
- Transit and Ferry Fare Increases
- New Development Impact Fees
- Sales Tax Increases for Local Transit

In the case of tolls, road usage charges, and commercial parking taxes PSRC makes use of existing state revenue forecasts or travel demand model analytics to derive the revenue yield from various implementations of user fee policies. For example, in the specific case of road usage charges, the yield is a function of the user fee policy and consumer utilization of the network as a direct reflection of that policy. Where more specific forecasts of revenue derived from a specific tolled facility, PSRC directly incorporates this information as it becomes available.

Within the region, early steps toward the vision of user-fee-based financing are underway. The state has implemented tolls on the Tacoma Narrows Bridge, express toll lanes on SR 167 and I-405, and tolls on the Evergreen Point Floating Bridge (SR 520) to help finance its replacement. The plan assumes continued evolution along this path, with the conversion of existing high occupancy vehicle (HOV) lanes on I-5 and I-90 into express toll lanes in the mid-2020s. Alongside this network of express toll lanes, major highway capacity projects such as the replacement of the Alaskan Way Viaduct, expansion of I-405, and SR 509 Extension will be partially financed through tolls.

Additional user fee revenues that are estimated from travel modeling include road usage charges and commercial parking taxes, which are fees directly related to consumer behavior and vehicle use. The assumed rate for the road usage charge is 5 cents during the off-peak period and 10 cents during peak periods. PSRC assumes that as road usage charges are implemented, increments of existing revenue sources such as fuel taxes, sales taxes, excise taxes, or other licensing fees will be either rolled-back or replaced in the latter period of the plan.

New Revenue Assumptions by Program

New Revenues for Cities & Counties

The primary issue currently facing cities and counties is the availability of revenue tools that are adequate to address pressing maintenance, preservation, and local system improvement needs. Currently available tools do not generate sufficient revenues to have a meaningful impact on this large and growing problem. The Regional Transportation Plan includes recommendations that local jurisdictions maximize existing authority and implement an array of new tools in the near-term to generate additional revenues that will help local jurisdictions meet these challenges.

Even with the new revenue tools that have been identified, in the early years of the plan (2018-2025), cities and counties will be challenged to secure revenues sufficient to fund all anticipated projects. It is estimated that approximately $2.5 billion in local maintenance and preservation and system improvement projects may need to be deferred until more productive revenue sources are available. Longer-term (2026-2040), the implementation of user fees, such as a road usage charge, will supplement these additional fees to provide stable funding to support maintenance, preservation, operations, and system improvement investments.

Table 6 presents recommended new revenue sources for cities and counties.

Table 6: Summary of New Revenues Sources for Cities & Counties
(millions of year $2018 constant dollars)

	2018 - 2025	2026 - 2040	2018 - 2040*
Estimated Revenue Gap (over current law)	$ (9,600)	$ (12,500)	$ (22,100)

** May not sum due to rounding*

City & County New Revenue Sources	Assumed Rate	2018 - 2025 Revenue Potential	2026 - 2040 Revenue Potential	Total Revenue Potential*	Notes
2018 Transportation 2040 Update Draft New Revenue Scenario - July 13, 2017					
Index Existing Fuel Tax	Indexed to Inflation	$ 300	$ -	$ 300	• Requires state Legislative action • All proceeds from indexed fuel tax • Long-term fuel tax roll-back
Carbon Tax on Fuel	$20/Ton Indexed to Inflation	$ 1,700	$ 3,500	$ 5,200	• Requires state Legislative action & direction to program towards local needs • New $20/ton rate tied to inflation
Paid-Parking Surcharge	5%	$ 500	$ 2,200	$ 2,700	• Resistence to priced parking; Longterm impacts of vehicle automation to parking revenues
Vehicle License Fees	$40 Indexed to Inflation	$ 300	$ -	$ 300	• None • Long-term roll back of new increment
Motor Vehicle Excise Tax (city & county share)	2% ↑	$ 1,700	$ -	$ 1,700	• Requires state & local Legislative action & direction to program towards local needs • Increased rate to 2% and reallocated to apply more funding to cities/counties • Long-term roll back of new increment
Transportation Impact Fees (Residential & Non-Residential)	$2900/unit & $2.50/sq ft Indexed	$ 600	$ 1,800	$ 2,500	• Local implementation may vary
County Road Levy Lift	Lift Lid (3%)	$ 200	$ 1,000	$ 1,200	• Requires state & local Legislative action
Street Utility Tax	$2 Indexed to Inflation	$ 200	$ 600	$ 900	• Legal issues • Reduced long-term rate to $2 to balance
User Fees	.05 off-peak .10 peak	$ -	$ 8,900	$ 8,900	• Requires state Legislative action & direction to program towards local needs; • 30% of RUC revenue
Fuel Tax Roll-Back	All Fuel Tax Receipts	$ -	$ (1,600)	$ (1,600)	• Long-term fuel tax roll-back as road usage charge is phased in
TOTAL*		**$ 5,500**	**$ 16,600**	**$ 22,100**	

** May not sum due to rounding*

New Revenues for Local Transit Providers

Transit agencies were particularly hard hit by the 2007-2010 recession due to a continued and increasing reliance upon sales tax as the primary source of operating revenue. While retail sales tax can be a robust revenue source in a healthy economy, the underlying tax base can fluctuate significantly in times of economic uncertainty or distress. For local transit, the plan's primary objective is to develop a set of new revenue sources designed to diversify and stabilize local transit operating revenue in the future. In the near-term the plan includes an array of fees and taxes on vehicle ownership and employers that benefit from an efficient and reliable transit network. In the long-term, user fees, such as a share of road usage charges, are expected to be available to support not only transportation infrastructure investment, but also the provision of expanded transit service throughout the region. Table 7 presents the plan's local transit new revenue options.

Table 7: Summary of New Revenues Sources for Local Transit
(millions of year $2018 constant dollars)

	2018 - 2025	2026 - 2040	2018 - 2040*
Estimated Revenue Gap (over current law)	$ (1,900)	$ (5,000)	$ (6,900)

** May not sum due to rounding*

Local Transit New Revenue Sources		2018 - 2025 Revenue Potential	2026 - 2040 Revenue Potential	Total Revenue Potential*	Notes
2018 Transportation 2040 Update Draft New Revenue Scenario - July 13, 2017					
Motor Vehicle Excise Tax (transit share)	2% ↑	$ 1,100	$ 2,200	$ 3,300	• Requires state & local Legislative action • Increased rate to 2% and reallocated to apply more funding to cities/counties
Local Transit Sales Tax Increase	0.1%↑	$ 600	$ -	$ 600	• Requires state & local Legislative action • .1% ↑in near-term; rolled-back in long-term
Employee Tax (per employee per month)	$1 Indexed to Inflation	$ 100	$ 400	$ 500	• Local resistence
Fare Increase (Indexed)	10%↑ in 2020 10%↑ in 2030	$ 200	$ 1,000	$ 1,100	• Price elasticity of demand
User Fees		$ -	$ 1,300	$ 1,300	• Requires state Legislative action • 5% of RUC revenue
TOTAL*		**$ 2,000**	**$ 4,900**	**$ 6,900**	

** May not sum due to rounding*

New Revenues for WSDOT and Washington State Ferries

The 2015 Connecting Washington transportation revenue package represented a significant step forward in funding major transportation capacity investments in the central Puget Sound region. Long-standing priorities to complete missing links in the highway network and finish current projects were the primary focus of the investments included in the revenue package. While these critical infrastructure improvements were necessary, they did not reflect an exhaustive list of transportation investment need.

The central Puget Sound region also has extensive needs in key corridors that support much of the state's economy. For example, I-5 requires significant investments in repaving and seismic retrofits that were not fully funded in Connecting Washington. Preserving and expanding US 2, a key east-west link in Snohomish County, was not included. Neither was fully funding Washington State Ferries' growing list of vessel and terminal preservation needs. For these reasons, the plan includes recommendations to increase rates on current WSDOT licensing and weight fees to fund operations, preservation, and improvement investments in the near-term. Express toll lanes are also recommended as a critical tool to manage congestion on the interstate system. This system is assumed to be revenue neutral and thus, is not reflected as a new revenue source.

Even with the new revenue tools that have been identified, in the early years of the plan (2018-2025), the state will also be challenged to secure revenues sufficient to fund all anticipated projects. It is estimated that approximately $4 billion in state maintenance and preservation and system improvement projects may need to be deferred until more productive revenue sources are available. Longer-term (2026-2040), the implementation of user fees, such as a road usage charge, will replace the new increment of fees recommended in the early phase of the plan and provide stable funding to support maintenance, preservation, operations, and system improvement investments. Table 8 presents the plan's state highway and ferry new revenue options.

Table 8: Summary of New Revenues Sources for State Highways & Washington State Ferries

(millions of year $2018 constant dollars)

	2018 - 2025	2026 - 2040	2018 - 2040*
Estimated Revenue Gap (over current law)	$ (5,800)	$ (5,100)	$ (11,000)

** May not sum due to rounding*

New WSF & State Highway Revenue Sources	Assumed Rate	2018 - 2025 Revenue Potential	2026 - 2040 Revenue Potential	Total Revenue Potential*	Notes
2018 Transportation 2040 Update Draft New Revenue Scenario - July 13, 2017					
License & Registration Fee Increase	$30↑ (100%) Indexed to Inflation	$ 600	$ -	$ 600	• Requires state Legislative action • Refunded in the second decade
License Service Fee Increase (RCW 46.17.040 - dedicated to WSF capital replacement fund)	$10↑ (150%) Indexed to Inflation	$ 200	$ -	$ 200	• Requires state Legislative action • Refunded in the second decade
Weight Fee Increase	50%↑ Indexed to Inflation	$ 600	$ -	$ 600	• Requires state Legislative action • Refunded in the second decade
Ferry Fare Increases (2.5% Annual Increase)	10%↑ in 2020 10%↑ in 2030	$ 100	$ 300	$ 400	• State Legislative direction
Facility Tolls	various	$ 200	$ 200	$ 400	• State Legislative authorization
User Fees		$ -	$ 17,400	$ 17,400	• State Legislative authorization • 60% of RUC revenue
Fuel Tax Roll-Back	All Fuel Tax Receipts	$ -		$ (8,600)	• Long-term fuel tax roll-back as road usage charge is phased in
TOTAL*		**$ 1,600**	**$ 9,300**	**$ 10,900**	

** May not sum due to rounding*

Table 9: Summary of New Revenue Scenario

(millions of year $2018 constant dollars)

	2018-2025	2026-2040	Total
New Local Sources	**$ 5,470**	**$ 9,240**	**$ 14,720**
Index Existing Fuel Tax	*$ 260*	*$ -*	*$ 260*
Carbon Tax on Fuel	*$ 1,680*	*$ 3,490*	*$ 5,180*
Paid-Parking Surcharge	*$ 500*	*$ 2,220*	*$ 2,720*
Vehicle License Fees	*$ 330*	*$ -*	*$ 330*
Transportation Impact Fees	*$ 630*	*$ 1,840*	*$ 2,470*
County Road Levy Lift	*$ 160*	*$ 1,030*	*$ 1,190*
Street Utility Tax	*$ 230*	*$ 650*	*$ 880*
Motor Vehicle Excise Tax (local share)	*$ 1,690*	*$ -*	*$ 1,690*
New Transit/Ferry Specific Sources	**$ 2,290**	**$ 3,860**	**$ 6,150**
Employee Tax (per employee per month)	*$ 130*	*$ 370*	*$ 500*
Local Transit Sales Tax Increase	*$ 610*	*$ -*	*$ 610*
Transit Fare Increase	*$ 170*	*$ 960*	*$ 1,130*
Ferry Fare Increases	*$ 60*	*$ 320*	*$ 380*
License Service Fee Increase	*$ 190*	*$ -*	*$ 190*
Motor Vehicle Excise Tax (transit share)	*$ 1,130*	*$ 2,210*	*$ 3,340*
New Fuel Taxes, State Fees	**$ 1,180**	**$ -**	**$ 1,180**
License & Registration Fee Increase	*$ 570*	*$ -*	*$ 570*
Weight Fee Increase	*$ 620*	*$ -*	*$ 620*
Facility Tolls & User Fees	**$ 210**	**$ 17,650**	**$ 17,860**
Facility Tolls	*$ 210*	*$ 190*	*$ 400*
Road Usage Charge	*$ -*	*$ 27,600*	*$ 27,600*
Fuel Tax Roll-Back	*$ -*	*$ (10,140)*	*$ (10,140)*
TOTAL NEW REVENUE	**$ 9,200**	**$ 30,800**	**$ 39,900**

Financial Summary Information

The financial summary for the plan involves pulling together all the various aspects of the financial picture (estimation of current law revenues, estimation of programmatic and project cost estimates, and a representation of the plan's new revenue scenario) into a common framework. Table 10 summarizes the financial information in a single table, with investment needs, current law revenues, and new revenues identified for each of the implementing programs.

Table 10: FINANCIAL SUMMARY 2018-2040

(millions of year $2018 constant dollars)

	INVESTMENTS			REVENUES		
	Maintenance & Preservation	System Improvements	Total	Current Law	New Revenue	Total
Counties	$ 11,600	$ 2,600	$ 14,200	$ 9,900	$ 4,300	$ 14,200
Cities	$ 22,400	$ 16,000	$ 38,400	$ 20,700	$ 17,800	$ 38,400
Local Transit	$ 25,800	$ 16,100	$ 41,900	$ 35,000	$ 6,900	$ 41,900
Sound Transit	$ 19,200	$ 42,400	$ 61,600	$ 61,600	$ -	$ 61,600
State Ferries	$ 7,200	$ 300	$ 7,500	$ 5,000	$ 2,500	$ 7,500
State Highways	$ 18,900	$ 13,900	$ 32,800	$ 24,300	$ 8,400	$ 32,800
Other Regional	$ -	$ 400	$ 400	$ 400	$ -	$ 400
TOTAL	**$ 105,200**	**$ 91,700**	**$ 196,800**	**$ 156,900**	**$ 39,900**	**$ 196,800**

Year of Expenditure Financial Summary

As part of federal guidance on financial planning, regional plans are required to provide financial information in year of expenditure dollars. The reasoning behind this requirement is worth examining in more detail. Fiscal constraint can only be meaningfully addressed through an accounting of all costs and revenues associated with the transportation systems covered in the plan, and over the entire planning period. Given the diversity of revenue sources (e.g., taxes on quantities versus taxes on prices) and elements of costs (e.g., labor, materials, and services) associated with the plan, an evaluation of the temporal distribution of costs and revenues (along with a consistent treatment of inflation and inflationary risks) must also be part of the financial analysis. These objectives have already been met in the reporting of costs on a constant dollar basis. Temporal detail has been explicitly retained, as has any specific treatment of inflationary risk included as part of project cost estimation. Tables 11 through 14 display year of expenditure equivalents for various financial data included in the financial strategy, covering current law revenues, financial need by program, new revenue sources and an overall summary of financial information.

Table 11: Transportation 2040 Current Law Revenue Forecast

(in millions of YOE dolla

	2018-2025	2026-2040	2018-2040
Cities	$ 8,500	$ 18,600	$ 27,100
Counties	$ 3,900	$ 9,100	$ 13,000
Local Transit	$ 12,200	$ 35,000	$ 47,100
Sound Transit	$ 21,700	$ 60,000	$ 81,700
State Highways	$ 10,300	$ 21,400	$ 31,800
WSF	$ 1,900	$ 4,800	$ 6,700
Other	$ 100	$ 400	$ 500
TOTAL	**$ 58,600**	**$ 149,300**	**$ 207,900**

Table 12: Transportation 2040 Cost Summary

(millions of YOE dollars)

	2018 - 2025	2026 - 2040	2018 - 2040
Cities	$ 15,600	$ 35,200	$ 50,800
Counties	$ 7,500	$ 10,500	$ 18,000
Local Transit	$ 14,200	$ 42,600	$ 56,900
Sound Transit	$ 21,700	$ 60,000	$ 81,700
Washington State Ferries	$ 2,500	$ 7,700	$ 10,200
State Highways	$ 16,200	$ 25,300	$ 41,500
Other	$ 100	$ 400	$ 500
TOTAL	**$ 77,900**	**$ 181,700**	**$ 259,600**

Table 13: Transportation 2040 New Revenue Scenario

(in millions of YOE dollars)

	2018-2025	2026-2040	Total
New Local Sources	**$ 6,180**	**$ 13,530**	**$ 19,710**
Index Existing Fuel Tax	*$ 290*	*$ -*	*$ 290*
Carbon Tax on Fuel	*$ 1,890*	*$ 5,040*	*$ 6,930*
Paid-Parking Surcharge	*$ 560*	*$ 3,310*	*$ 3,870*
Vehicle License Fees	*$ 370*	*$ -*	*$ 370*
Transportation Impact Fees	*$ 710*	*$ 2,700*	*$ 3,400*
County Road Levy Lift	*$ 190*	*$ 1,530*	*$ 1,720*
Street Utility Tax	*$ 260*	*$ 950*	*$ 1,210*
Motor Vehicle Excise Tax (local share)	*$ 1,910*	*$ -*	*$ 1,910*
New Transit/Ferry Specific Sources	**$ 2,580**	**$ 5,600**	**$ 8,180**
Employee Tax (per employee per month)	*$ 150*	*$ 540*	*$ 690*
Local Transit Sales Tax Increase	*$ 680*	*$ -*	*$ 680*
Transit Fare Increase	*$ 190*	*$ 1,440*	*$ 1,630*
Ferry Fare Increases	*$ 70*	*$ 470*	*$ 540*
License Service Fee Increase	*$ 210*	*$ -*	*$ 210*
Motor Vehicle Excise Tax (transit share)	*$ 1,270*	*$ 3,140*	*$ 4,410*
New Fuel Taxes, State Fees	**$ 1,330**	**$ -**	**$ 1,330**
License & Registration Fee Increase	*$ 640*	*$ -*	*$ 640*
Weight Fee Increase	*$ 700*	*$ -*	*$ 700*
Facility Tolls & User Fees	**$ 230**	**$ 22,340**	**$ 22,560**
Facility Tolls	*$ 230*	*$ 250*	*$ 470*
Road Usage Charge	*$ -*	*$ 36,670*	*$ 36,670*
Fuel Tax Roll-Back	*$ -*	*$ (14,580)*	*$ (14,580)*
TOTAL NEW REVENUE	**$ 10,300**	**$ 41,500**	**$ 51,800**

Table 14: FINANCIAL SUMMARY 2018-2040

(millions of YOE dollars)

	INVESTMENTS			REVENUES		
	Maintenance & Preservation	System Improvements	Total	Current Law	New Revenue	Total
Counties	$ 14,600	$ 3,500	$ 18,000	$ 13,000	$ 5,000	$ 18,100
Cities	$ 29,600	$ 21,200	$ 50,800	$ 27,100	$ 23,700	$ 50,800
Local Transit	$ 34,500	$ 22,400	$ 56,900	$ 47,100	$ 9,700	$ 56,900
Sound Transit	$ 27,000	$ 54,700	$ 81,700	$ 81,700	$ -	$ 81,700
State Ferries	$ 9,900	$ 300	$ 10,200	$ 6,700	$ 3,600	$ 10,200
State Highways	$ 24,700	$ 16,800	$ 41,500	$ 31,800	$ 9,800	$ 41,500
Other Regional	$ -	$ 500	$ 500	$ 500	$ -	$ 500
TOTAL	**$ 140,200**	**$ 119,400**	**$ 259,600**	**$ 207,900**	**$ 51,800**	**$ 259,600**

Financial Strategy Action Plan

Implementing new revenues identified in the financial strategy 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, PSRC will work collectively with its partners to advance appropriate legislative actions to support the implementation of this financial strategy. The general funding scenario has three primary elements: (1) early revenue and implementation actions that support local and state 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.

Early Action to Support Local and State Investments

Within the first seven years of the plan 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 need additional transportation revenue to address rapidly expanding maintenance and preservation needs as well as to invest in system improvements necessary to support anticipated growth. The Regional Transportation Plan calls for jurisdictions to fully implement currently available revenue authority (including transportation benefit districts and other currently authorized sources) as well as coordinated state and local actions to authorize and implement new revenue tools. New sources could include addressing the current annual limitation on property tax increases, the implementation of a carbon tax on fuel purchases, new license and registration fees, development impact fees, or the implementation of a new street utility tax system. To implement these, and other new revenues proposed in the plan, cities and counties will need to work with each other and the state Legislature to clearly articulate needs and the most appropriate tools and strategies to address them.

Local transit operators are currently unable to make long-range service and infrastructure expansion plans due to the volatile nature of their primary source of operating revenue. A continued reliance upon sales tax leaves these operators vulnerable to swings in the broader economy, as clearly demonstrated in the aftermath of the economic downturn in 2008. If the region is to meet its mobility targets and performance outcomes transit providers must have the confidence that sustainable funding will be available to support an increasingly expansive system that provides ever more travel options for millions of people.

Local transit operators will need to work with the state Legislature to secure stable sources of supplemental funding. In the near-term, operators should adjust fares to maintain recovery rates as costs increase as well as continue to educate legislators and the public about the benefits transit provides to all users of the system. Local operators should also seek an additional increment of sales tax authority to immediately bolster operating revenues and implement near-term service growth plans as more diversified revenue source recommendations are developed and authorized over the next several years. In the longer-term, these diversified revenue sources should provide local operators with the confidence to implement service improvements that are a cornerstone of the region's vision for mobility in the years to come.

The Washington State Department of Transportation and Washington State Ferries are currently facing a significant revenue shortfall to simply maintain, preserve, and operate the current network of highways, bridges, ferries, and other infrastructure that are the backbone of the regional transportation system. WSDOT should continue to make the case to all stakeholders, particularly the state Legislature, that additional funding is necessary to maintain a safe and efficient system. At the same time, the state should develop recommendations for additional revenue sources that will meet the needs of both the highway and ferry programs. In the near-term, WSDOT should facilitate the continued transition to a transportation system financed by the users of that system by implementing all currently planned user fees, including tolls on the deep bore tunnel through Seattle, I-405 expansion between Bellevue and Renton, as well as the Gateway Project.

The Phasing in of Tolls and Other User Fees

The plan 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 cannot 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 more sustainable 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 studies[1], 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, significant early steps to begin to address this structural issue are underway. Completed projects include the implementation of express toll lanes on I-405 and SR 167 and the tolling of SR 520 and Tacoma Narrows Bridges to help finance their respective replacements. Planned toll facilities include completing the I-405 express toll lane corridor, the deep bore tunnel through Seattle, and the partially toll-financed Gateway project that will connect SR 509 with I-5 and extend SR 167 to Tacoma. The evolution of tolling along this path will continue with additional express toll lanes on I-5 and I-90 called for in the plan.

Eventually, in later phase of the plan the intent is to manage and finance the roadway network through the implementation of a road usage (VMT) charge. There is a natural skepticism about how this might work, and how individuals might be affected by such an approach to user-financing. In 2018, the Road Usage

[1]TRB 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.

Charge Taskforce will implement a pilot project to test a range of deployment approaches, user acceptance, and impacts of driver behavior. These results will directly inform road usage charge program implementation in the future.

Guidance on the Use of User Fees

One of the primary benefits of any application of user fees are the revenues that are generated. How these revenues are allocated is a significant determinant of the value of the program itself, and is an important part of gaining public approval.

The Regional Transportation Plan advances the notion that the implementation of user fees, ranging from express toll lanes to road usage charges, must come with a strong commitment to dedicate revenues generated from these programs to the purpose of improving mobility. This can come in the form of direct investment in the transportation system or possibly 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 fee payers themselves; others provide additional incentives for people to modify their travel behavior away from driving alone. 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 user fees.

In the near-term user fees will take the form of express 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. Supporting investments might include transit services within the corridor that provide an alternative mobility option. In the longer-term, as road usage charges become ubiquitous, a broader consideration of possible uses for 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 road usage charge revenues.

Table 9 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 the plan. The timing and exact nature of each action can only be defined in strategic terms given the inherent uncertainty involved.

Table 15: Summary of the Financial Strategy Implementation Plan

Implementing Agencies	Before 2025: Near-Term Wins & Actions	Beyond 2025: Long-term Strategies
Cities & Counties	• Implement currently available revenue authority • Work with the state Legislature and general public on financial issues facing local jurisdictions, and the need for additional dedicated resources to support maintenance and preservation programs and investments that improve mobility and facilitate growth and economic development • Develop specific revenue proposals and work with the Legislature to secure additional local authority, or increase local share of statewide revenues (refer to Table 6)	• Work with the State Legislature to authorize new local revenue tools • Work with all stakeholders to ensure the equitable distribution of new statewide revenue sources such as the road usage charge (RUC)
Local Transit Operators	• Monitor, evaluate and adjust fares to achieve fare recovery goals • Work with legislators and the public regarding the benefits of public transit, the volatility of revenue sources that currently support operating budgets, and the importance of diversification • Seek limited-term authority to increase sales tax • Work with state Legislature to identify, evaluate, and authorize new revenue tools to supplement and diversify current transit revenue sources (refer to Table 7)	• Work with all stakeholders to ensure the equitable distribution of new statewide revenue sources such as the road usage charge (RUC)
State Highways & Washington State Ferries	• Highlight preservation, safety, mobility, and structural funding issues facing WSDOT and WSF to educate legislators on the need for additional dedicated statewide funding • Complete authorized toll-financed projects • Work with state Legislature to authorize and implement new revenue sources (refer to Table 8)	• Lead efforts to phase out the gas tax and transition to user-fees approach for revenues (RUC)
All Implementers	• Monitor Washington State Transportation Commission (WSTC)'s RUC pilot program to understand issues, identify challenges/barriers to implementation, understand best practices and establish implementation strategies • Actively educate and inform the public and State legislators on the issues facing the traditional gas tax, the need to develop a solution, implementation timelines and proposed approach to transition to a user-fee approach • Convene and collaborate with regional stakeholders to identify and secure federal funding to advance user-fee/RUC implementation in the region	• Work with the State Legislature to authorize and implement the transition to user fees • Work with appropriate stakeholders to ensure equitable distribution of future user-fee revenues in ways that meet current and anticipated investment needs