APPENDIX C

Financial Forecast Sources, Assumptions and Methodologies

HORIZON 2040

Spokane Metropolitan Transportation Plan

APPENDIX C - Financial forecast sources, assumptions and methodologies

TRANSPORTATION REVENUE AND EXPENDITURE PROJECTION SOURCES

Below is a list of some of the sources consulted in the development of the Horizon 2040 Financial Plan:

- Transportation Resource Manual
  - Washington State Legislature Joint Transportation Committee
- Transportation Revenue Forecast Council
  - WA State Office of Financial Management
- Local Government Financial Reporting System
  - WA State Auditor's Office
- WSDOT County Roads and City Street Revenues and Expenditures 2000-2015
  - WSDOT's Budget and Financial Analysis Office
- WSDOT – Eastern Region revenue and expenditure forecasts
- STA Adopted Budget and Projections
  - 2017 update to Horizon 2040 - STA summary for review spreadsheet
- Others: MPO assumptions and forecasts, local, state and national data and research

FUNDING SOURCES

The following section describes many of the categories and sources of transportation revenues. The list is not meant to be all inclusive as there are additional funding mechanisms, especially at the local level. The Horizon 2040 Revenue Forecast focused on regional funding sources. SRTC recognizes that local jurisdictions may need to pursue new funding opportunities or tap into additional funding capacity in existing mechanism in order to fund local transportation needs.

Local Funding Sources

City and county revenue resources can be categorized as either restricted or unrestricted. Unrestricted revenue is available for transportation to the extent that transportation needs can compete with the many other local government needs. Restricted revenue is funding collected through specific enabling legislation limiting how much can be collected as well as how it can be spent.

General Funds

General funds include all local funds subject to appropriation by the governing body—property taxes, local option sales taxes, utility taxes, general state shared revenues, business license fees, etc. These funds may be used for transportation purposes; however, they are also available for all other general funds activities and therefore must compete against the balance of priorities for the community.

Restricted Funds

The State of Washington enables local jurisdictions to impose various local revenue options. The primary sources open to the Local Public Agencies (LPAs) are property taxes, local improvement districts (LIDs), and special levies such as local option sales tax and vehicle registration fees. Liability Insurance Tort is a lesser-known option. It would include funds where jurisdictions have sought restitution from parties that have damaged public property.

Special Property Taxes

Additional taxes can be authorized by voters, usually to finance projects through the purchase of general obligation or revenue bonds. If the proposed amount is above the statutory limitation for a jurisdictions' taxing rate, it must be approved by 66 percent of voters with 40 percent turnout. If it is below the legal limitation, a simple majority is sufficient (usually called a "lid lift"). The tax may be temporary or permanent. An example would be the City of Spokane's 10-year Street Bond levy in 2004. The $117 million street bond levy was approved by voters within the City for street reconstruction and rehabilitation.

The various local funding sources and options are as follows:

The **Arterial Street Fund (ASF)** is the state gasoline tax distribution to cities and towns. Distribution is on the basis of population.

Road levy property tax is a source for funding rural roads. Over one-third of revenues directed to county roads are generated from local property taxes.[1]

Real Estate Excise Tax (REET) is a tax on the sale of real estate. County treasurers collect the state and local taxes. The state tax rate is 1.28% of a property's full selling price. All cities are allowed to levy a 0.25% tax on property sales (REET 1), cities and counties that are planning under the GMA may also levy a second quarter percent tax (REET 2).

Local Improvement Districts (LIDs) are special taxing districts for transportation purposes that can be created by cities and/or counties. This allows for the acquiring, constructing, improving, providing, and funding of any city street, county road, or state highway improvement within the district. With voter approval, the District has authority to levy property tax and issue general obligation bonds.

Similar to LIDs, **Road Improvement Districts (RIDs)** may be formed to finance street improvements through a special assessment for benefited property owners.

The **Local Option Vehicle Registration Fee** is a local option of an up to $100 (the maximum allowed under RCW 36.73) annual vehicle registration fee for vehicles registered in Spokane County. The funds can be used for projects or programs that support local road construction, rehabilitation, maintenance, preservation, or the operation of local transportation systems. These funds can also be used for state highways, bridges, regional arterials, high capacity transportation, public transportation, and transportation demand management purposes.

The **Local Option Gas Tax** is an option that allows local jurisdictions to impose up to 10% of the State Gas Tax level. It is expected that successful implementation of these local financial options would be dependent on clearly defining a program of projects for which the funds would be expended, and an adequate public education program on the relationship between transportation choices and the need to support adequate transportation infrastructure investment.

The **Commercial Parking Tax (RCW 82.80.030)** is an option available to cities and counties. The tax is levied on gross parking proceeds or number of stalls owned by a commercial parking business, or on the customer (much like an admissions tax). In the past, this option has not been considered a likely option and has not been fully investigated for revenue potential.

[1] County Road Administration Board. http://www.crab.wa.gov/Funding/PropertyTax/property_tax.cfm

Tolls are paid by users and are limited to repayment of bonds to finance construction.

Parking fees can be used either for right-of-way (street parking) or for a specific facility (parking garage).

Various **development regulations** (especially subdivision ordinances) may require that certain facilities be constructed, frequently requiring developers to finance them.

Impact fees are available to address capital program needs identified for a general area to address growth and development. The fees must follow an established procedure and criteria that guard against duplication of fees for the same impact. These fees are only for system improvements that are "reasonably" related to the development and they are set to reflect the proportionate share of the system improvements costs directly impacted by the development.

Industrial Revenue Bonds (IRBs) are a special debt instrument under the IRS code allowing tax-free interest. Bonds are retired by revenue generated from the benefited property and can be used for street improvements. This power is limited by requirements in the IRS code.

Environmental mitigation is another local funding option. Public facilities, including streets, traffic signals, or additional lanes, may be required to mitigate adverse environmental impacts from development. As part of the development approval process, the municipality can require that impacts on public facilities caused by the development must be mitigated as a condition of approval. The two parties may agree to negotiate an agreement that determines the appropriate share of the funding, and establishes the developer's methods of payment for mitigation of direct impacts. A developer may agree to pay a monetary fee or to mitigate through donation of a right-of-way or completed facilities. Negotiated agreements are entered into voluntarily and are enforceable by the municipality.

Voluntary contributions can be made by the developer to facilitate their development. Contributions can be in the form of money, but often are in the form of donated right-of-way or even a completed facility. Contributions are subject to the same stipulations as a negotiated agreement; however, they are not enforceable by law.

Federal Funding Sources

On December 4, 2015, then President Obama signed the Fixing America's Surface Transportation (FAST) Act into law. The FAST Act is the first federal law in over a decade to provide long-term funding certainty for surface transportation infrastructure planning and investment. The FAST Act authorizes $305 billion over fiscal years 2016 through 2020. The Washington State Department of Transportation (WSDOT) administers the allocation of FAST Act funds that are not directly attributable to MPOs, Transportation Management Areas (TMAs) and the State generated gas tax funds to each urban and rural area.

The **Highway Trust Fund (HTF)** is the source of funding for most of the programs in FAST Act. The HTF is comprised of the Highway Account, which funds highway and intermodal programs, and the Mass Transit Account. The FAST Act extends the imposition of highway-user taxes through September 2022 with no change to the tax rates. Federal motor fuel taxes are the major source of income into the HTF. Although FAST Act implemented policy and programmatic changes, reform of the way highway programs are funded remains a challenge for the future.[2] Some of the relevant federal funding programs include:

National Highway Performance Program (NHPP) funding supports the condition and performance of the National Highway System (NHS), for the construction of new facilities on the NHS, and to ensure that investment of Federal-aid funds in highway construction are directed to support progress toward the achievement of performance targets established in an asset management plan of a State for the NHS.[3]

The **Surface Transportation Block Grant (STBG) Program**, formerly the Surface Transportation Program, provides flexible funding that may be used by States and localities for projects to preserve or improve conditions and performance on any Federal-aid highway, bridge projects on any public road, facilities for nonmotorized transportation, and public transit capital projects. STBG funds are apportioned to each State, divided between designated programs, and suballocated to urbanized areas as well as other areas based on population.[4]

The STBG Program has three set-asides from a State's STBG apportionment: Transportation Alternatives, 2% for State Planning and Research, and funding for bridges not on Federal-aid highways.

The **Transportation Alternatives (TA) set-aside** in the FAST Act replaces the Transportation Alternatives Program. The TA set-aside provides funding for a variety of smaller-scale transportation projects such as pedestrian and bicycle facilities, recreational trails, safe routes to school projects, community improvements such as historic preservation and vegetation management, and environmental mitigation related to stormwater and habitat connectivity.[5]

The FAST Act continues the **Congestion Mitigation and Air Quality (CMAQ) Improvement Program which** provides a flexible funding source to MPOs and TMAs for transportation projects and programs to help meet the requirements of the Clean Air Act. Funding is available to reduce congestion and improve air quality for areas that do not meet the National Ambient Air Quality Standards for ozone, carbon monoxide, or particulate matter (in nonattainment areas) as well as former nonattainment areas that are now in compliance (maintenance areas).[6]

The FAST Act also continues the **Highway Safety Improvement Program (HSIP)** which provides funding for strategies to achieve a significant reduction in traffic fatalities and serious injuries on all public roads, including non-State-owned public roads and roads on tribal lands. The HSIP requires a data-driven, strategic approach to improving highway safety on all public roads that focuses on performance. The Railway-Highway Crossings program is a set-aside from the HSIP. HSIP funds must be used for safety projects that are consistent with the State's strategic highway safety plan and that correct or improve a hazardous road location or feature or address a highway safety problem. The FAST Act limits HSIP eligibility to only those types of projects listed in

[2] https://www.fhwa.dot.gov/fastact/factsheets/htffs.cfm
[3] https://www.fhwa.dot.gov/fastact/factsheets/nhppfs.cfm
[4] https://www.fhwa.dot.gov/fastact/factsheets/stbgfs.cfm
[5] https://www.fhwa.dot.gov/fastact/factsheets/transportationalternativesfs.cfm
[6] https://www.fhwa.dot.gov/fastact/factsheets/cmaqfs.cfm

statute, mostly infrastructure safety improvements.[7]

The **Metropolitan Planning** program assists regions in meeting requirements for developing and updating long-range plans and short-term transportation improvement programs. The FAST Act continues MAP-21 requirements that the long-range plan incorporates performance measures to be used in assessing system performance and progress in achieving performance targets. The TIP must also be developed to make progress toward established performance targets and include a description of the anticipated achievements. There are some additional requirements from the FAST Act including: support for intercity bus and commuter vanpools; selection of MPO officials; tourism; and, expanding resiliency by reducing risk and vulnerability of infrastructure to natural disasters.[8]

The **Transportation Infrastructure Financing and Innovation Act (TIFIA)** program provides Federal credit assistance to eligible surface transportation projects.[9]

Another federal revenue source for local projects is the **Community Development Block Grant (CDBG)** program. These federal funds are available to cities and counties for a variety of public facilities including transportation improvements, housing, and economic development projects that benefit low to moderate income households.[10]

The **Urbanized Area Formula Program Grants** (Section 5307) is the largest of FTA's grant programs; this program provides grants to urbanized areas to support public transportation. Funding is distributed by formula based on the level of transit service provision, population, and other factors. The 5307 program now includes activities eligible under the former Job Access and Reverse Commute (JARC) program, which focused on providing services to low-income individuals for improving access to jobs.

The **Fixed Guideway Capital Investment Grants** program (Section 5309), also known as "New Starts / Small Starts," awards grants on a competitive basis for major investments in new and expanded rail, streetcars, bus rapid transit, and ferry systems.

The **Enhanced Mobility of Seniors and Individuals with Disabilities** (Section 5310) program provides formula funding to increase the mobility of seniors and persons with disabilities. At least 55 percent of program funds must be spent on public transportation projects planned, designed, and carried out to meet the special needs of seniors and individuals with disabilities when public transportation is insufficient, inappropriate, or unavailable. The remaining 45 percent may be used for: public transportation projects that exceed the requirements of the ADA; public transportation projects that improve access to fixed-route service and decrease reliance by individuals with disabilities on complementary paratransit; or, alternatives to public transportation that assist seniors and individuals with disabilities.

For a more complete listing and description of Federal Highway Administration and Federal Transit Administration programs see the following websites: https://www.fhwa.dot.gov/fastact/ and https://www.transit.dot.gov/FAST

[7] https://www.fhwa.dot.gov/fastact/factsheets/hsipfs.cfm
[8] https://www.fhwa.dot.gov/fastact/factsheets/metropolitanplanningfs.cfm
[9] https://www.fhwa.dot.gov/fastact/factsheets/tifiafs.pdf
[10] https://portal.hud.gov/hudportal/HUD?src=/program_offices/comm_planning/communitydevelopment/programs

State Funding Sources

State funding to local governments is primarily from the fuel tax revenue that is directly distributed to Spokane County and the cities and towns within the county. The State provides additional grant opportunities and revenues from taxes, fees, permits, bond proceeds or other sources. Several of these are described below:

The **Transportation Improvement Board (TIB)** was established by the Washington State Legislature to manage the **Transportation Improvement Account (TIA)**. The **TIA** provides funding for arterial street improvements that are coordinated among governmental agencies and encourage public/private participation. The Urban Program includes projects for jurisdictions with a population greater than 5,000 and a local match of 20% or greater is required. The Small City Program funds projects in cities and towns with a population under 5,000 and a local match of 5% or greater is required; jurisdictions with a population of under 500 need 0% local match.

The Washington State Legislature created the TIB to foster state investment in quality local transportation projects. The TIB is an independent state agency that distributes and manages street construction and maintenance grants to 320 cities and urban counties throughout Washington State. The funding for TIB's grant programs come from revenue generated by three cents of the statewide gas tax.

The **state Motor Vehicle Fuel Tax (MVFT)**, currently 49.4 cents/gallon, is shared among the cities, counties and the state Department of Transportation. This includes a dedication of a portion of the MVFT to grant programs managed by the County Road Administration Board (CRAB) and the Transportation Improvement Board (TIB).[11]

The **Freight Mobility Strategic Investment Board (FMSIB)** provides state or federal funds to be combined with partnership funding from freight mobility and freight mitigation projects along strategic freight corridors as approved by the Legislature and Governor.

The **County Road Administration Board (CRAB)** was created by the Washington State Legislature in 1965 to provide statutory oversight of Washington's thirty-nine county road departments. The agency is funded from a portion of the counties' fuel tax that is withheld for state supervision, and from a small portion of the two grant programs that it administers which are the **Rural Arterial Program (RAP)** and the **County Arterial Preservation Program (CAPP)**.

The **Construction Loan Program** provides low-interest loans for local governments to finance public infrastructure construction and rehabilitation. Eligible projects must improve public health and safety, respond to environmental issues, promote economic development, or upgrade system performance.

The state **Regional Mobility Grant program** supports local efforts to improve transit mobility. Examples of funded local projects include: new transit services that connect urban centers; park and ride lots and expansions; new buses; and, rush- hour transit service along congested corridors.

The state's **Consolidated Public Transportation Grant Program** uses state and federal monies to fund transit services within and

[11] http://www.crab.wa.gov/Funding/MVFT/mvft.cfm

between cities, purchase new buses and other equipment, provide public transportation service for the elderly and people with disabilities, and improve public transportation in and between rural communities.

The 2015 **Connecting Washington** funding package is a $16 billion investment that enhances the statewide transportation system and maintains critical infrastructure. Connecting Washington is a 16-year program, funded primarily by an 11.9-cent gas tax increase that was fully phased-in on July 1, 2016.

ASSUMPTIONS

The following assumptions were used in the development of the Horizon 2040 revenue forecast:

- Local & State: 1% growth
- Federal: 1% growth
- STA: 4% growth plus additional 3/10ths of one percent sales tax, federal funding (Section 5309 Small Starts, CMAQ), and grants (e.g., WA State Mobility Grant)
- WSDOT: 2% growth plus dedicated Connecting Washington funding as well as an assumption of future state funding programs
- Regional 3% growth for STBG, STBG set aside, and CMAQ funding
- No new revenue sources

The following assumptions were use to project expenditures:

- Local: 1% annual average cost growth
- STA: 4% increase (annual average)
- WSDOT: 2% annual cost increase
- Capital costs expressed in Year of Expenditure (YOE) dollars

METHODOLOGIES

As explained in Chapter 4, SRTC staff developed the financial forecasts for local, state and federal revenues based on historical data trends using the sources and assumptions above. SRTC analyzed several year bands from the historic data that reflected more typical funding levels. These averages were then compared to information from the Washington State Transportation Revenue Forecast Council[12] to develop reasonable revenue growth forecasts. Washington State Department of Transportation provided revenue forecasts which assumed a similar historical investment level for the planning horizon. WSDOT revenue projections also include dedicated funding for completion of the North Spokane Corridor and other projects included in the Connecting Washington program.

Spokane Transit also provided forecasts based on historical trends in Section 5307 funding and sales tax revenues. Revenue projections for 2014-2026 are based on Board adopted budget assumptions while 2027-2040 projections are based on an average 3% growth rate. The projected revenue for STA includes an additional 3/10ths of one percent in sales tax funding. STA currently uses 6/10ths of one percent of the local sales tax. They are enabled a total of 9/10ths of one percent under state statute (RCW 82.14.045). This is a reasonable assumption due to several successful public votes in the past to raise and sustain the increase in the sales and use tax rate. STA also anticipates fare increases in 2015 and 2018.

Table C.1 on the next page illustrates a funding breakdown by jurisdiction of general revenue categories. The revenues are projected using best available sources of information in close coordination with local jurisdictions, WSDOT and STA.

[12] http://www.ofm.wa.gov/budget/info/transportationrevenue.asp

Table C.1 Projected Revenues by Source 2018-2040

Jurisdiction	Source	Revenues	%
WSDOT	Connecting Washington dedicated funds	$ 931,900,000	9%
	Fuel tax	$ 528,700,000	5%
	Bond sales	$ 188,400,000	2%
	Federal funds	$ 428,500,000	4%
	Vehicle/driver licenses, permits and fees	$ 252,300,000	3%
	Tolls, fares and other state revenue/fees	$ 22,100,000	<1%
	Additional revenue from State Transportation bills past 2031	$ 421,200,000	4%
STA	Sales Tax	$ 2,595,300,000	26%
	Fare & Other Transit Revenue	$ 457,300,000	5%
	Federal Preventive Maintenance	$ 351,800,000	4%
	Federal/State Grants	$ 85,400,000	1%
	Misc.	$ 28,100,000	
Local Jurisdictions	Local	$ 2,370,400,000	24%
	State	$ 672,800,000	7%
	Federal	$ 352,000,000	4%
Regional	STBG	$ 188,000,000	2%
	CMAQ	$ 30,400,000	<1%
	STBG Set Aside	$ 20,700,000	<1%
Total		**$ 9,925,300,000**	**100%**

A similar approach was taken for projecting expenditures. The past 16 years of expenditures have been analyzed and the average increase or decrease for year bands during this period have been examined to determine appropriate rates of growth for the forecasted amounts. Local operations, maintenance and preservation expenditures are forecasted to increase an average of approximately 1% annually. STA provided expenditure projections based on their Board adopted budget assumptions and planned capital projects. Specific capital projects listed in Chapter 4 Tables 4.6 and 4.7 are expressed in year of expenditure costs.