Agenda Item VIII. B

MEMORANDUM

TO: Southwest Washington Regional Transportation Council Board of Directors

FROM: Matt Ransom, Executive Director

DATE: July 29, 2014

SUBJECT: **Regional Transportation Plan-Finance Plan, Background Assumptions**

AT A GLANCE - *INFORMATION*

The Regional Transportation Plan (RTP) for Clark County is being updated in 2014 to comply with federal requirements and to ensure continued consistency between federal, state, regional and local plans. This memorandum provides background information on the revenue assumptions for development of the Regional Transportation Plan (RTP) financial element. It includes information on the plan requirements, existing revenue sources, an outline of the forecasting approach, and future revenue trends.

INTRODUCTION

The RTP's financial plan element includes: 1) financial assumptions; 2) revenue sources and projections; and 3) cost estimates for transportation projects, and transportation system maintenance and operations.

The RTP Finance Plan element addresses federal, state and local revenue sources. The RTP must be "fiscally constrained" meaning there should be a *reasonable* expectation and forecast of revenues that will be available to provide for the list of projects identified in the twenty plus year time frame of the RTP as well as revenues needed to support the operations and maintenance of the multimodal transportation system.

The Finance Plan also provides a description of anticipated expenditures on operations and maintenance as well as capacity expansion projects and capital needs. Work is currently underway to develop a forecast of federal, state and local revenue and costs out to 2035.

In addition to the core finance plan requirements, other finance plan components consist of:

- The list of projects and costs for the highway, transit, pedestrian and bicycle improvements for the multimodal transportation system.
- Projects, strategies and costs for intelligent transportation system, transportation system management and operations, and transportation demand management improvements.
- Costs for other modes, such as mainline freight rail system improvements and inter-city passenger rail, are assumed to be met at the statewide or federal level or by private interests.
- A requirement that the financial plan address year of expenditure for costs and revenues.

CURRENT TRANSPORTATION REVENUE SOURCES

- The State Legislature enacted fuel tax increases in 2003 (Nickel Package) and 2005 (Partnership Package) which were paired with a fixed list of projects to be constructed over the next 10 to 15 years. The pre-existing state gas tax was 23 cents and with nickel and partnership taxes is currently at 37.5 cents per gallon. Current federal gas tax is 18.4 cents which has been unchanged since 1993.
- In 1999 the Motor Vehicle Excise Tax (MVET) was repealed resulting in reduction of funding for transit service. C-TRAN was faced with a 40% revenue reduction (about $12 million annually). In September 2005, voters in Clark County approved an increase in the sales tax rate of two-tenths of a percent to restore some of the funding for C-TRAN service. In November 2011, Clark County voters approved two-tenths of one percent sales tax increase to preserve core bus service and maintain service for C-VAN, C-TRAN's paratransit service.
- Local revenue for transportation varies by agency and can and come from sources such as property tax for road projects and general fund appropriations. Other revenues include monies from street use permits, state gas tax, utility permits, and impact fees. The WSDOT Finance Division compiles and publishes revenue data for individual cities and counties by funding source.

REVENUE FORECAST APPROACH

RTC is in the process of initiating the revenue forecast for the RTP financial plan and has been working with the Washington State Department of Transportation's Strategic Planning and Finance Division to compile historical and forecast transportation revenue information. Data is also being compiled from the Washington State Office of Financial Management (OFM) which provides support to the WSDOT's Finance Division.

<u>Federal and State Revenue</u>

- WSDOT's Finance Division is providing historical and forecast information on federal and state transportation gas tax revenues generated by and distributed to Clark County. Historical financial data is from 2003 to 2012.
- The estimation process needs to consider distribution of revenue to Clark County. From 2003 to 2012, Clark County has received 79% of the total state and federal gas taxes generated here. A return on investment factor will be applied to total revenue to estimate revenue available to Clark County.
- The 2003 to 2012 revenue sources are extrapolated into the future to provide an estimate of funding reasonably expected to be available. Revenue sources for Clark County will also be compared with statewide revenue trends out to 2027 as calculated by OFM.

- Variables affecting revenue such as population growth, debt service, flat gas tax, fuel costs and improved fuel efficiency of vehicles will be factored into the revenue forecast.
- Projected state gas tax is based on current law, with consideration of future law revenue.
- Federal revenue assumes continuation of the federal authorization (MAP-21) at current levels and accounts for anticipated direct grant appropriations to specific projects.
- Total federal and state revenue is being estimated for a 21-year period out to 2035 using the following approach: Calculate total revenue generated by Clark County from 2003 to 2012; determine average annual revenue; factor by 21-years to estimate total revenue generated by Clark County out to 2035.
- Forecast will account for revenue dedicated to funded projects and debt service. The gas tax revenue generated by the Nickel Package (5 cents/gal.) and the Partnership Package (9.5 cents/gal.) are committed to the SR-502 widening project and the south half of the I-205/18th Street Interchange. It is assumed that future revenue from these funds will go to debt service and would not be available for new projects.

<u>Local Revenue</u>

- The WSDOT Finance Division also provides information on historical transportation revenue and expenditures by category for Clark County and local cities for the years 2000 to 2012 which will be used to forecast future local revenue.
- Future local revenue is estimated in consultation with local agencies and will use the same basic methodology by calculating the annual average revenue and factoring it to 21 years.

<u>Transit Revenue</u>

RTC will coordinate with C-TRAN staff to review and update plan assumptions and will work with C-TRAN staff to forecast transit revenue and costs for the RTP.

REFLECTING ON THE 2011 RTP UPDATE

Since the 2011 update of the Metropolitan Transportation Plan (MTP), a large number of capital projects have been completed or will be completed this year. They include: the SR-500/St. John's Interchange Project, the SR-14 Camas-Washougal Widening and Interchange Project and the Salmon Creek Interchange Project (opening this fall). In addition, widening of SR-502 from I-5 to Battle Ground is underway and the south half of the I-205/18th Street Interchange will go to construction in 2015. In addition, other major projects completed since 2007 include the I-5/SR-502 Interchange; the I-5/SR-501/Pioneer Street Interchange, and the I-205/Mill Plain/112th Avenue Ramp. The common thread for all these projects is that they received funding primarily through the state's "Nickel" and "Partnership" packages amounting to $890 million dollars to this region.

The methodology used for the 2011 MTP update was similar to what will be used for the 2014 RTP. In 2011, the full MTP multimodal system cost was $2.843b. Current law revenue was $2.473b resulting in a shortfall of $471m, therefore, the financial forecast assumed the equivalent of a 10 cent gas tax increase for the fiscally constrained plan. Given future revenue trends, essentially unchanged since the 2011 update, there is likely to be a need to pare the 2014 project list or to identify new revenues to make a fiscally constrained RTP.

FUTURE REVENUE TRENDS

In considering forecast horizon and in order to make reasonable yet forward looking assumptions, the forecast will try to anticipate funding trends in the country and the state of Washington. Those trends indicate that revenue available for capital projects will be somewhat flat (not accounting for future direct project appropriations or new law revenue) because of several factors including: increasing preservation and maintenance costs, increasing fuel efficiency, and dwindling purchasing power of the gas tax as a source of transportation revenue.

- Gas tax is the prime revenue source for transportation system improvements. However, there are some major problems relating to this revenue source: gas tax is a flat tax that does not keep pace with inflation and more fuel efficient vehicles result in a decrease in gas tax revenues generated. The revenue forecast will account for the updated federal fuel efficiency standard to 54.5 mpg by 2025. This is a significant change since the 2011 MTP update when the fleet standard was 27.5 mpg.
- Current federal transportation revenue is based on the continued extension of funding levels authorized under MAP-21. Funding levels for the next 6-year federal Transportation Act authorization are likely to be limited to only gas tax revenue flowing into the Highway Trust Fund. If so, federal funding levels to Washington State could be reduced from $750m in FY 2014 to about $500m in future years.
- The amount of federal and state revenues available to Clark County is affected by the return on investment of revenue generated. Past ROI to the region was 79%, though this amount was boosted by the partnership and nickel packages which had a return on investment of 88% and 85%, respectively.
- Project preservation and maintenance costs are based on historical data; however, transportation agencies anticipate that maintenance and preservation needs may require a greater share of transportation revenues in the future due to expanded road miles to maintain and the cost of deferred maintenance. For example, according to an economic analysis of transportation infrastructure by the National Economic Council, 22% of Washington roads are in poor condition and 26% of bridges are deficient or obsolete, the 7th and 21st highest in the nation, respectively.

RTC staff will present additional information about these trends at the August 5th Board meeting.