MEMORANDUM

TO: Southwest Washington Regional Transportation Council Board of Directors

FROM: Matt Ransom, Executive Director

DATE: May 29, 2018

SUBJECT: **Regional Transportation Plan for Clark County - 2018 Update, Preliminary Review of Finance Plan**

AT A GLANCE

The Regional Transportation Plan (RTP) for Clark County is being updated in 2018 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 forecasts 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 2040.

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

Federal: Current federal gas tax is 18.4 cents which has been unchanged for 25 years.

State: Current state gas tax is 49.4 cents per gallon. In 2015, the Legislature approved the most recent increase of 11.9 cents under a transportation act called Connecting Washington. Connecting Washington funds are primarily for a designated set of state projects, although some funds are available for multimodal and local agency projects. Additional transportation related funds are generated at the state level from sources including: federal gas tax "pass-through" funds and from miscellaneous fees and charges.

Transit: C-TRAN's local sales tax assessment is equal to seven tenths of one percent sales tax. C-TRAN generated additional operating and capital from sources including: federal pass-through funds, competitive federal and state grants, and from miscellaneous fees and charges.

Local: Local revenue for transportation varies by agency and can come from sources such as property tax for road projects and general fund appropriations. Other revenues include monies from: locally assessed sales taxes, real-estate excise taxes, street use permits, state gas tax distributions, utility permits, and impact fees. The WSDOT Finance Division compiles and publishes revenue data for individual cities and counties by funding source.

Transportation Benefit District: RCW 36.73.020, established by the Washington State legislature in 2005, authorizes cities and counties to establish Transportation Benefit Districts (TBDs) for the purpose of 'constructing, improving, providing, and funding transportation improvements' and allows jurisdictions to pass an additional vehicle registration fee. Since the RTP 2014 update, Battle Ground and Vancouver have established TBDs. A $20 local registration fee for Battle Ground became effective on July 1, 2015. Vancouver adopted a $20 local registration fee effective in July 2016 with a scheduled increase to $40 on July 1, 2018.

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.

Federal and State Revenue

- WSDOT's Finance Division is providing historical information on federal and state transportation gas tax revenues generated by Clark County for 2013 to 2017. The estimation process needs to also consider distribution of revenue to Clark County. In the 2014 RTP analysis, Clark County received about 79% of the total state and federal gas taxes generated here. Return on contribution (ROC) data is currently not available for the 2018 analysis; therefore, a similar ROC factor will be applied to total gas tax revenue to estimate available revenue to the County.

- The 2013 to 2017 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 fuel tax revenue trends out to 2029, as calculated by OFM.
- Total federal and state revenue is being estimated for a 21-year period out to 2040 using the following approach: Calculate historical total revenue generated by Clark County over the last 5 years, determine average annual revenue, factor by 21 years to estimate total revenue generated by Clark County out to 2040.
- Variables affecting revenue such as population growth, debt service, flat gas tax, fuel costs, and improved fuel efficiency of vehicles will be also be factored into the revenue forecast.
- Projected state gas tax is based on current law rate of 49.4 cents per gallon.
- Federal revenue assumes continuation of the federal authorization (FAST Act) at current levels and accounts for anticipated direct grant appropriations to specific projects.
- Forecast will account for revenue already dedicated to funded projects and debt service. For example, most of the gas tax revenue generated by the Connecting Washington Package are committed to the following major Clark County projects: I-5/179th St Interchange, SR-14 widening from I-205 to 164th, I-5/Mill Plain Boulevard Interchange, SR-14 from 15th to 32nd Access Improvements, SR-501 from I-5 to the Port of Vancouver, Ridgefield Rail Overpass, and SR-502/Main Street Project Widening.

<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 2003 to 2016 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 as the state and local forecast by calculating the annual average revenue and factoring by 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 2014 RTP UPDATE

Since the 2014 update of the Regional Transportation Plan (RTP), a number of capital projects have been completed or will be completed this year. They include: the I-205/18th Street Interchange project with frontage roads, SR-502 widening from NE 10th Avenue to Battle Ground, I-5/La Center Interchange Improvements, and the West Vancouver Freight Access project. These projects received funding primarily through the Nickel and Partnership packages amounting to more than $200 million dollars to the region.

Other important regional projects include: opening of C-TRAN's Bus Rapid Transit on the Fourth Plain Corridor, expansion of the Fisher's Landing Park and Ride, and Clark County's improvements to segments of 119th Street between Salmon Creek Avenue and 87th Avenue.

The methodology used for the 2018 RTP update will be similar to what will be used for the 2014 RTP. In 2014, the full RTP multimodal system cost was $1.78b. Current law revenue was $1.63b, resulting in a shortfall of $150m; therefore, the financial forecast assumed the equivalent of a 4.5 cent gas tax increase for the fiscally constrained plan. Given future revenue trends, essentially unchanged since the 2014 update, there is likely to be a need to pare the 2018 project list or to identify new transportation revenues to make a fiscally constrained RTP.

While the 2014 financial analysis noted possible new revenue alternatives to the gas tax, the 2018 update will include expanded discussion of transportation revenue funding options for new capital projects including the consideration of tolling and mileage based road user charges.

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 2014 revenue forecast accounted for the new federal fuel efficiency standard set by the Obama Administration that increased average fleet standards to 54.5 mpg by 2025.
- Federal funding under the FAST Act for Washington State identified by the FHWA is $730.7m in FY2019. The change in federal funding beginning is FY2019 is based on the growth rate of fuel consumption in the state OFM forecast resulting in $800m in federal revenue in FY2029.
- The amount of federal and state revenues available to Clark County is affected by the return on investment of contribution generated. Past ROC to the region was 79%.
- Continuation of current federal mileage standard is uncertain. The Trump Administration has proposed freezing the standards that are currently set for 2021 which are well below the 2025 goals. In response, Washington, Oregon, California, and 15 other states, making up 40 percent of the population, are suing for the right to maintain current federal mileage standards.
- In addition, major automakers continue to accelerate the migration to electric/hybrid vehicles. Volvo will sell only electric or hybrid vehicles beginning in 2019. Toyota will sell only electric vehicles by 2025. General Motors is planning for an all-electric future with at least 20 all electric models available in 2023. The 2017 *Bloomberg Electric Vehicle Outlook Report* forecasts that US sales of electric vehicles will make up about 10% of new car sales by 2025, increasing to more than 50% by 2035.

- 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.

NEXT STEPS

RTC staff will begin the financial forecasting process with these and other parameters in minds. RTC will further engage partner agencies in regard to the details of their financial forecasts and confirm assumptions regarding existing and net-new revenue options that are currently or may be under consideration.

Additional refinement of partner agency project proposals for the Regional Transportation Plan will be concurrent with the financial forecasting process. RTC will compare the total project cost / finance needs to the revenue forecasts and will report back the status of this work in early fall. Additional discussion regarding future net-new revenue sources, and options may be needed should the total project needs compel further evaluation.