Puget Sound Regional Council

# REGIONAL TRANSPORTATION PLAN 2022–2050

## Appendix J: Financial Strategy

2022

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Puget Sound Regional Council

# REGIONAL TRANSPORTATION PLAN 2022–2050

Adopted May 26, 2022

# Regional Transportation Plan 2022-2050

## Appendix J – Financial Strategy

### Contents

## 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 (23 CFR 450.324). The 2022 Regional Transportation Plan (RTP) 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 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 requires an analysis of revenues and costs, which are defined as "…the estimated costs of constructing, maintaining and operating the total (existing plus planned) transportation 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 RTP 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 RTP has been built upon previous efforts to design a framework for measuring the region's financial capacity, considering the unique circumstances of each program area — city streets, county roads, public transit, state highways, and state ferries.

## Developing the Financial Strategy

The financial element of the RTP 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 $300 billion (year 2022 constant dollars) between 2022 and 2050, including nearly $170 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 approximately 86% of the identified need. The RTP financial strategy highlights the importance of developing new statewide and regional sources of funding to fill the 14% gap and 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:

### Current Law Revenue

- Forecasting current law revenues from existing revenue streams based on historic data from an array of sources, including the State Auditor's Office Budget and Accounting Reporting System (BARS) data for cities and counties.
- Employing updated tax-base forecasts to support financial estimates for all transportation revenue sources contained in the RTP. The 2018 Regional Economic Forecast was incorporated into all aspects of financial planning for the 2022-2050 RTP.
- Including integration of projected revenue from recently passed local initiatives.

### New Revenues

- 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.
- Applying new revenue assumptions for the RTP 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.

### Expenditures: Maintenance and Preservation

- Utilizing a range of methodologies to develop expenditure estimates for the various maintenance and preservation categories. For cities and counties this includes some outcome-oriented methodologies that incorporate existing conditions, and some methodologies based solely on the extrapolation of historic trends. For local transit, it includes using observed data from WSDOT's Summary of Public Transportation report combined with transit agency assumptions about growth. For the other program areas it involves engaging directly with WSDOT, WSF, and Sound Transit.
- More detail on the methodologies for developing maintenance and preservation expenditure estimates can be found in the Maintenance and Preservation appendix..

### Expenditures: System Improvement

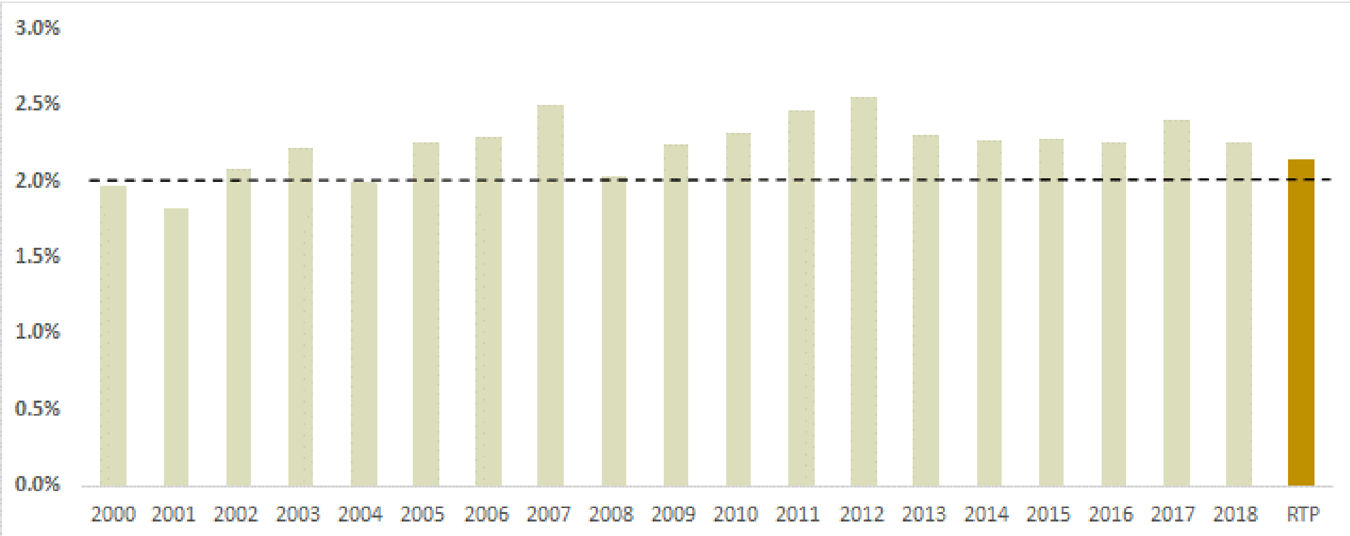
- Incorporating projects on PSRC's Regional Capacity Projects list (which includes the larger scale roadway, transit, bicycle/pedestrian and ferry projects planned to be completed in the region during the life of the plan) into the estimates. More information is found in Appendix D.
- Capturing programmatic system improvement expenditure estimates (i.e. everything not on the Regional Capacity Projects list) through the review of local comprehensive plans and BARS data, as well as direct engagement with various agencies and stakeholders.
- Incorporating costs associated with the maintenance and preservation of system improvement investments as best as possible.

## Transportation Expenditures as a Share of Regional Personal Income

To understand whether planned investments in the RTP are reasonable, past trends of regional personal income dedicated to outlays on public sector transportation were evaluated. Looking at a period of 18 years, residents of the central Puget Sound region have dedicated approximately 2% - 2.5% of personal incomes to outlays on public sector transportation, and considerably more on private investments in personal and freight mobility

Figure 1 shows public transportation expenditures as a percentage of Regional Personal Income. The 2000 – 2018 period is based on actual historical expenditures data. When comparing proposed expenditures in the RTP to these trends, the amount of planned investments as a percentage of projected regional personal income between 2022 and 2050 is consistent with the 2% - 2.5% trend seen in the 2000-2018 period.

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




## Financial Summary Information

The financial summary for the RTP involves pulling together all the various aspects of the financial picture into a common framework. Figure 2 summarizes the financial information in a single table, with investment needs, current law revenues, and new revenues identified for each of the implementing programs. This figure shows the information in $2022 constant dollars. Figure 3 shows the same information but adjusted for inflation, in nominal Year of Expenditure (YOE) dollars. (Federal guidance on financial planning requires regional plans to include financial information in YOE dollars.)

Figure 2
Financial Summary 2022 – 2050 ($2022 Constant)

(millions of $2022 dollars)

| | NEEDS | | | REVENUES | | |
|---|---|---|---|---|---|---|
| | Maintenance, Preservation and Operations | System Improvements | Total | Current Law | New Revenue | Total |
| **Counties** | $ 14,100 | $ 2,700 | $ 16,800 | $ 12,100 | $ 4,700 | $ 16,800 |
| **Cities** | $ 30,200 | $ 18,100 | $ 48,300 | $ 44,900 | $ 3,400 | $ 48,300 |
| **Local Transit** | $ 46,900 | $ 20,800 | $ 67,700 | $ 45,800 | $ 21,900 | $ 67,700 |
| **Sound Transit** | $ 40,200 | $ 71,000 | $ 111,300 | $ 111,300 | $ - | $ 111,300 |
| **State Ferries** | $ 16,100 | $ 100 | $ 16,200 | $ 9,900 | $ 6,400 | $ 16,200 |
| **State Highways** | $ 21,300 | $ 18,600 | $ 39,900 | $ 33,600 | $ 6,300 | $ 39,900 |
| **TOTAL** | **$ 168,900** | **$ 131,300** | **$ 300,200** | **$ 257,400** | **$ 42,800** | **$ 300,200** |

Figure 3
Financial Summary 2022 – 2050 ($YOE)

(millions of $YOE dollars)

| | NEEDS | | | REVENUES | | |
|---|---|---|---|---|---|---|
| | Maintenance, Preservation and Operations | System Improvements | Total | Current Law | New Revenue | Total |
| **Counties** | $ 17,700 | $ 3,400 | $ 21,000 | $ 15,100 | $ 6,000 | $ 21,000 |
| **Cities** | $ 37,700 | $ 22,700 | $ 60,400 | $ 56,900 | $ 3,500 | $ 60,400 |
| **Local Transit** | $ 60,100 | $ 26,600 | $ 86,700 | $ 59,200 | $ 27,500 | $ 86,700 |
| **Sound Transit** | $ 52,900 | $ 85,500 | $ 138,500 | $ 138,500 | $ - | $ 138,500 |
| **State Ferries** | $ 20,100 | $ 100 | $ 20,200 | $ 12,500 | $ 7,700 | $ 20,200 |
| **State Highways** | $ 26,900 | $ 20,200 | $ 47,100 | $ 41,900 | $ 5,200 | $ 47,100 |
| **TOTAL** | **$ 215,400** | **$ 158,500** | **$ 373,900** | **$ 324,100** | **$ 49,900** | **$ 373,900** |

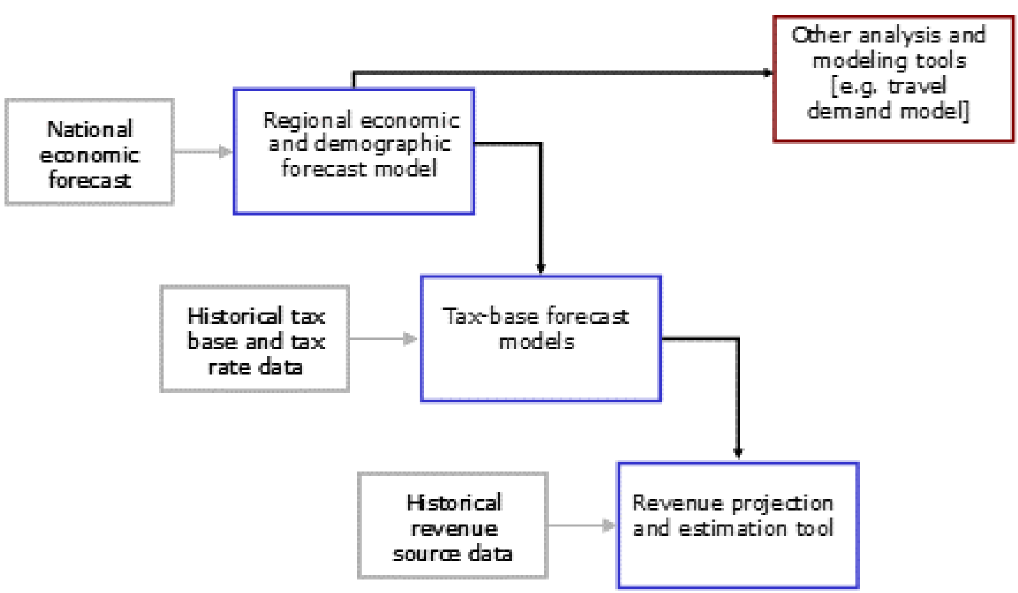
## Estimating Current Law Revenues

The starting point in the development of the RTP 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. 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 was updated to support the development of the RTP financial strategy. Figure 4 depicts the general relationship between these elements.

Figure 4
Schematic of Transportation Revenue Model Inputs



- Regional tax base forecasts were updated as a component of the 2018 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 UrbanSim Parcel-Based Land Use Model. This dataset reflects the most recent city and county assumptions of how each jurisdiction will accommodate projected growth as documented in local comprehensive plans.

### 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 2018, as this was the last available year for which historic revenues were available to be integrated into the transportation revenue model. 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.

### Current Law Revenue Sources

Figure 5 highlights estimated current law revenue by program area:

Figure 5
Current Law Revenue by Program Area

(millions of $2022 dollars)

| Program Area | Current Law Revenue |
|---|---|
| Counties | $ 12,100 |
| Cities | $ 44,900 |
| Local Transit | $ 45,800 |
| Sound Transit | $ 111,300 |
| State Ferries | $ 9,900 |
| State Highways | $ 33,600 |
| **TOTAL** | **$ 257,400** |

The sources that comprise current law revenue by program area include:

***Counties***

- County Road Levy
- General Fund
- Mitigation and Impact Fees
- Real Estate Excise Tax
- Other Local Fees
- Fuel Tax
- Other State Funds
- Federal Grants and Funds

***Cities***

- General Fund
- Vehicle License Fee
- Mitigation and Impact Fees
- Commercial Parking Tax
- Real Estate Excise Tax
- Property Tax
- Other Local Fees
- Fuel Tax
- Other State Funds
- Federal Grants and Funds

***Local Transit***

- Sales and Use Tax
- Fares
- State Funds
- Federal Grants and Funds

***Sound Transit***

- Sales and Use Tax
- Property Tax
- State Funds
- Federal Grants and Funds
- Motor Vehicle Excise Tax
- Other Transit Revenues

***State Highways***

- Fuel Tax
- Toll Revenue
- Registration/License Fees
- Federal Grants and Funds

***State Ferries***

- Fares
- Fuel Tax
- Registration/License Fees
- Federal Grants and Funds

## New Revenue Assumptions and Estimates

To meet federal requirements, the RTP 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 highlights the amount that must be filled by new revenue for each program area. This is portrayed in Figure 6 below.

Figure 6
New Revenue Gap by Program Area

(millions of $2022 dollars)

| Program Area | Total Need | Current Law Revenue | New Revenue Gap |
|---|---|---|---|
| Counties | $ 16,800 | $ 12,100 | $ 4,700 |
| Cities | $ 48,300 | $ 44,900 | $ 3,400 |
| Local Transit | $ 67,700 | $ 45,800 | $ 21,900 |
| Sound Transit | $ 111,300 | $ 111,300 | $ - |
| State Ferries | $ 16,200 | $ 9,900 | $ 6,400 |
| State Highways | $ 39,900 | $ 33,600 | $ 6,300 |
| **TOTAL** | **$ 300,200** | **$ 257,400** | **$ 42,800** |

## New Revenue Risks and Uncertainty

Estimating future yields from new sources is a more uncertain exercise than estimating future yields from existing sources of revenue. The sources of potential new funding involve both the levying of new taxes and fees and the implementation of new approaches such as 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. Most new sources would involve some kind of new legislative authority. 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 are likely to play a major role in the future of transportation finance, to replace existing sources that are projected to decline. For example, there is growing momentum for a transition to electric vehicles, which means a steady, long-term decrease in gas tax revenue can be expected, The central Puget Sound region and Washington State have been carefully moving in a deliberate direction toward these new 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.

At the State level, a lot of work is being done to prepare for the potential implementation of a Road Usage Charge (RUC). Following a successful 2018 RUC pilot study, in 2020 the Washington State Transportation Commission recommended enactment of a small-scale RUC program as a first step in a gradual transition away from taxing motor fuel to fund the upkeep of state roads and bridges. The State Legislature directed the Commission to further explore some specific aspects of a potential RUC program. See the Transportation Commission RUC website for more information.

The Transportation Commission's work is focused on near-term, state-level road usage charging. PSRC's long-term assumptions about the regional application of a road usage charge differ from the near-term, state-level approach and assumptions. The long-term, regional assumptions for road pricing would require additional policy, technology, and system considerations beyond what the Washington State Transportation Commission has researched.

## Estimating New Revenue

During the previous plan update, PSRC and stakeholders considered a range of potential new revenue sources to fill the identified revenue gaps when developing the RTP financial strategy. We are carrying this work forward as a continued reasonable strategy. In 2015-16, a blue-ribbon panel of leaders from the central Puget Sound region – the Transportation Futures Task Force – was convened to consider and evaluate the viability of current transportation revenue sources, as well as the need and potential for new revenue sources. 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, implementation costs and challenges, and political viability. The Transportation Futures Task Force Final Report contained recommendations on pursuing a wide variety of revenue sources. These recommendations were largely incorporated into the PSRC 2018 RTP, and reevaluated by the PSRC Transportation Policy Board during development of the 2022-2050 RTP. The TPB concluded that it continues to be reasonable to retain these new sources in the RTP Financial Strategy.

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 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.

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, any fuel tax revenue collection that overlaps with it will be rolled back.

## New Revenue Projections

Figure 7 shows the total amount of revenue projected to be generated by all identified feasible new revenue sources through the life of the plan. Revenue streams listed under “New Local Sources” are limited to local jurisdictions, “New Transit/Ferry Specific Sources” are limited to local transit and ferry service, and “New State Fees” are limited to WSDOT. PSRC assumes (as it did for the 2018 RTP) flexibility in the use of revenues generated by the Road Usage Charge to fund a wide variety of transportation improvements beyond roadways, without the constraints on current motor fuel taxes. Given these assumptions, there is an array of pathways in terms of how the revenue generated can be allocated across program areas to fill the gaps and meet the need identified in Figure 6.

Figure 7
Projected Revenue Generated by New Revenue Sources, 2022 – 2050

(in millions of $2022)

| | | Total |
|---|---|---|
| **New Local Sources** | **$** | **24,030** |
| *Index Existing Fuel Tax* | *$* | *580* |
| *Carbon Tax on Fuel* | *$* | *7,040* |
| *Paid-Parking Surcharge* | *$* | *5,570* |
| *Vehicle License Fees* | *$* | *580* |
| *Transportation Impact Fees* | *$* | *3,990* |
| *County Road Levy Lift* | *$* | *2,610* |
| *Street Utility Tax* | *$* | *1,400* |
| *Motor Vehicle Excise Tax (local share)* | *$* | *2,260* |
| **New Transit/Ferry Specific Sources** | **$** | **9,220** |
| *Employee Tax (per employee per month)* | *$* | *810* |
| *Local Transit Sales Tax Increase* | *$* | *910* |
| *Transit Fare Increase* | *$* | *2,450* |
| *Ferry Fare Increases* | *$* | *720* |
| *License Service Fee Increase* | *$* | *270* |
| *Motor Vehicle Excise Tax (transit share)* | *$* | *4,070* |
| **New State Fees** | **$** | **1,700** |
| *License & Registration Fee Increase* | *$* | *810* |
| *Weight Fee Increase* | *$* | *890* |
| **User Fees** | **$** | **36,530** |
| *Facility Tolls* | *$* | *200* |
| *Road Usage Charge* | *$* | *45,670* |
| *Fuel Tax Roll-Back* | *$* | *(9,340)* |
| **TOTAL NEW REVENUE** | **$** | **71,500** |

## County-Level Breakdown

PSRC developed county-level estimates for current law revenues and for all expenditure estimates (both maintenance and preservation and system improvement) for two program areas: Cities and Counties (respectively). The purpose of this first-time exercise was to identify if there were significant differences in funding gaps (to be filled by new revenues) between the different counties, both for the cities and for the unincorporated counties. Several members of PSRC's Transportation Policy Board expressed interest in seeing this more granular breakdown.

For current law revenues, separating the regional totals by county was a fairly straightforward process, since the county-level estimates were already established separately and then compiled to develop the regional estimates. Some of the expenditure estimates were also initially developed through the compilation of county-level data and were therefore simple to break down as well.

However, some of the expenditure estimates were developed by merging county-level data into regional data before applying the bulk of the methodology. In these cases, it was not possible to reverse engineer the methodologies and develop the county-level estimates that way, Instead, historic data was used to determine proportional ratios for that particular expenditure line item by county, and then those ratios were applied to the regional totals.

Figures 8 and 9 show the estimated county-level breakdowns for both the Cities and Counties program areas. For each county it shows the estimated expenditures, the estimated current law revenue, and then the percentage of expenditures covered by the current law revenue. The final column highlights the projected amount of the gap (to be filled by new revenues) for each county.

Figure 8

County-Level Summary of Financial Strategy, "Cities" Program Area

(millions of $2022)

| | Expenditures | Current Law Revenue | % Covered by CLR | Gap (New Revenues) |
|---|---|---|---|---|
| **King** | $ 34,700 | $ 33,300 | 96% | $ 1,400 |
| **Kitsap** | $ 1,700 | $ 1,100 | 65% | $ 600 |
| **Pierce** | $ 7,600 | $ 6,800 | 89% | $ 800 |
| **Snohomish** | $ 4,300 | $ 3,700 | 86% | $ 600 |
| **Region** | **$ 48,300** | **$ 44,900** | **93%** | **$ 3,400** |

Figure 9

County-Level Summary of Financial Strategy, "Counties" Program Area

(millions of $2022)

| | Expenditures | Current Law Revenue | % Covered by CLR | Gap (New Revenues) |
|---|---|---|---|---|
| **King** | $ 7,400 | $ 4,600 | 62% | $ 2,800 |
| **Kitsap** | $ 1,400 | $ 1,100 | 79% | $ 300 |
| **Pierce** | $ 3,400 | $ 3,300 | 97% | $ 100 |
| **Snohomish** | $ 4,600 | $ 3,000 | 65% | $ 1,600 |
| **Region** | **$ 16,800** | **$ 12,000** | **71%** | **$ 4,800** |

In order to better understand some of the key differences in terms of how the different jurisdictions obtain their revenues, Figures 10 and 11 highlight the revenue split across different categories by county for the cities and counties program areas, respectively.

Figure 10
County-Level Revenue Source Split, “Cities” Program Area

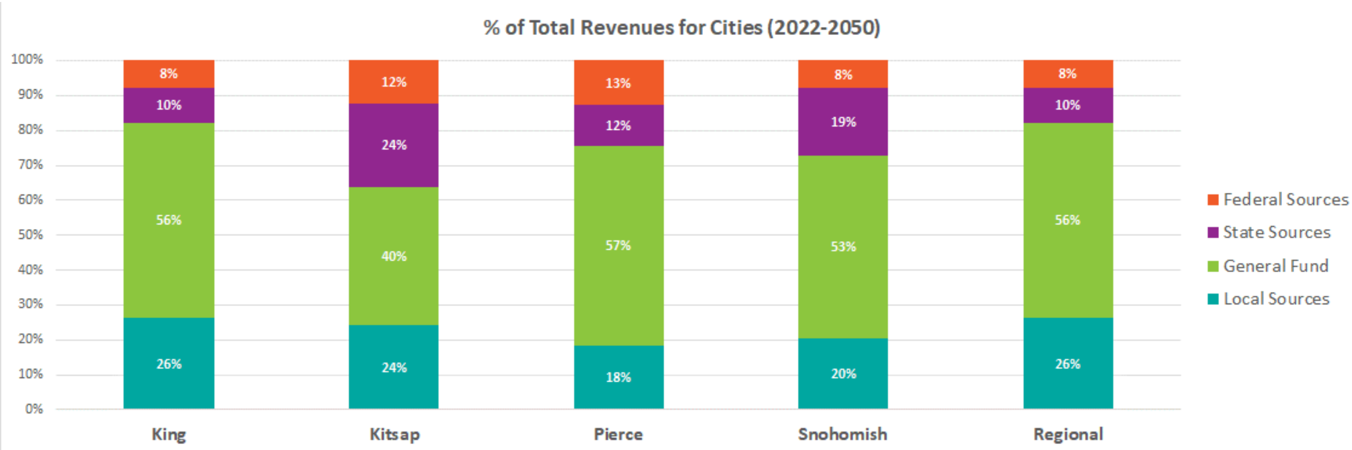
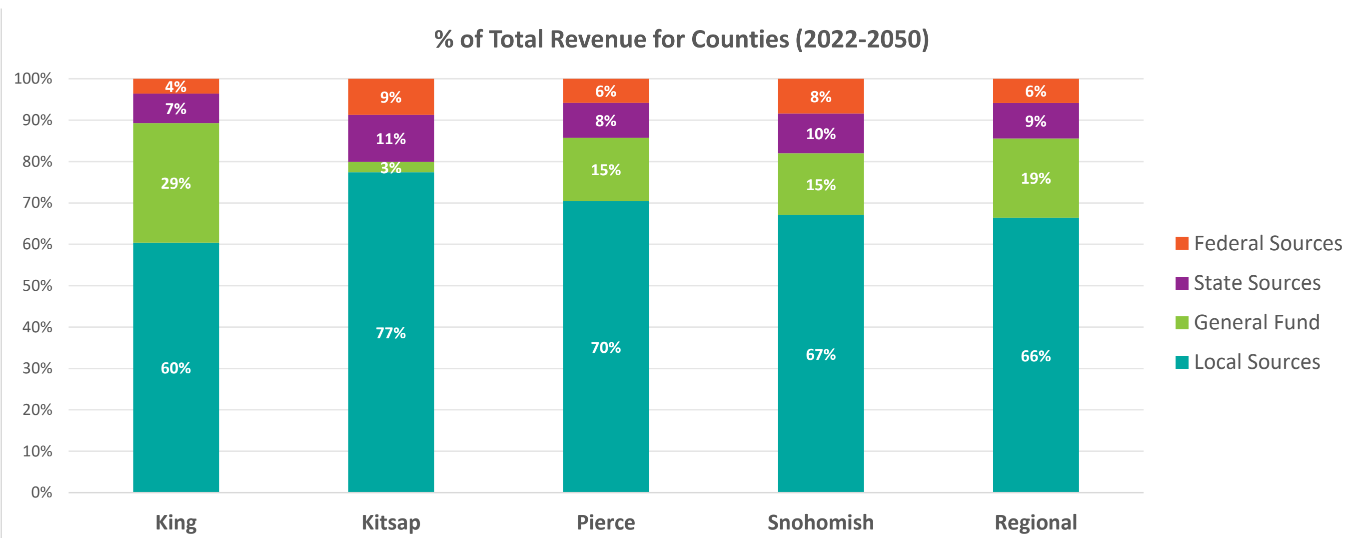



Figure 11
County-Level Revenue Source Split, “Counties” Program Area




## Next Steps

Evaluation of projected Current Law Revenues show that they can support approximately 86% of the investments contained in the RTP, leaving an approximately $43 Billion gap for proposed projects. There are various steps local and state agencies should take to ensure that new revenue sources can be deployed in a timely manner to address this gap and meet the region’s future needs. The types of new revenues in the menu of options will require different authorization steps, from local decisions, public votes, to the enactment of state and federal legislation.

- **Take early action to support state, local and regional Investments.** Cities, counties, and transit agencies should consider working with the state legislature as soon as possible to secure new funding tools. PSRC will support the enaction of a new state revenue package that addresses the needs of its members.

- **Continue laying groundwork for deployment of RUC during later years of the plan.** The state should continue to conduct studies, develop reports, lay out a business case, and educate the public about a Road Usage Charge to prepare for its possible rollout.
- **Make policy decisions on collection and distribution of user fees.** There are important policy questions regarding how RUC fees should be collected and distributed. PSRC members should advocate for flexibility in the application of RUC in the central Puget Sound area. The state should consider convening an inclusive group of local and state leaders, agency staff, and other stakeholders to have these discussions early.