MEMORANDUM

TO: Southwest Washington Regional Transportation Council Board of Directors

FROM: Matt Ransom, Transportation Director

DATE: September 30, 2014

SUBJECT: **2035 Regional Transportation Plan: Finance Forecast**

AT A GLANCE – Discussion

This memorandum describes the preliminary revenue forecast for the 2035 Regional Transportation Plan. It compares the revenue forecast to RTP capital costs for the regional system and summarizes the methodology and assumptions for the revenue estimate. It also describes the need to balance revenues and costs and an approach for new revenue that would match forecast revenue with RTP capital costs.

INTRODUCTION

At the August RTC Board meeting, RTC staff presented information on the requirements of the financial plan and the data sources used for forecasting revenue. The preliminary revenue forecast was presented and reviewed at the September RTAC meeting.

RTC has worked 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. As a reminder, the primary data sources for the revenue forecast consist of:

- Historical state gas tax revenue generated and received by Clark County from 2003 to 2012
- Historical federal gas tax revenue generated and received by Clark County from 2003 to 2012
- Receipts and expenditures report to the WSDOT Finance Division by Clark County and the Cities from 2002 to 2012
- State wide gross tax revenue forecast by the Office of Financial Management out to 2027

RTC has consulted with the Finance Division to review the methodology and assumptions for the state and federal forecast and sponsored a workshop of public works directors on September 26 to discuss and share information on the approach for developing the local revenue forecast. Their feedback on future debt service obligation and preservation and maintenance needs resulted in refining estimates of local transportation revenue.

SUMMARY OF METHODOLOGY

State gas tax revenue

Projected state gas tax is based on current law at 23 cents a gallon. It is currently bonded at 33% and is projected to go down to 7% by 2035. In addition, revenue from the nickel and partnership gas tax is dedicated to funded projects or debt service and is not available for RTP projects.

Another element affecting the amount of state gas tax available for projects is the return back to Clark County on the revenue that is contributed by the County. The historical return on contribution for Clark County is 76%.

Total pre-existing gas tax for 2003 to 2012 is annualized to calculate average annual revenue. Starting in 2013, annual revenue by year out to 2035 is calculated using year to year percent change from the OFM annual statewide gross tax. OFM forecast goes to 2027; therefore growth from to 2028 to 2035 is based on the annual growth rate from 2021 to 2027.

*State gas tax available for capital = total revenue - debt service * ROC - preservation and maintenance*

<u>Federal tax revenue</u>
Federal revenue assumes continuation of the federal authorization (MAP-21) at current levels. It uses the same basic methodology as state gas tax with growth out to 2035 based on OFM. The historical return on contribution for the federal gas tax is 71%.

*Federal gas tax available for Capital = total revenue * ROC – funds for freight/rail – preservation and maintenance*

<u>Local Revenue</u>
For Clark County and local cities the approach was to: calculate total revenue, debt service, preservation and maintenance, policing, state fuel tax, and other state funds and annualize for all categories; extrapolate annual percent change by year and calculate annual dollars by category by year out to 2035.

The primary factors affecting local revenue for capital projects are changes to debt service and maintenance and preservation. Attendees at the public works directors workshop felt that both debt service and preservation and maintenance as a proportion of total revenue would be similar to historical levels. The table below shows historical debt service and preservation and maintenance compared to the 2035 forecast.

Proportion of Total Local Revenue

	2000-2012	2015-2035
For Debt Service	*7.3%*	*7.0%*
For Preservation and Maintenance	*37.2%*	*38.0%*

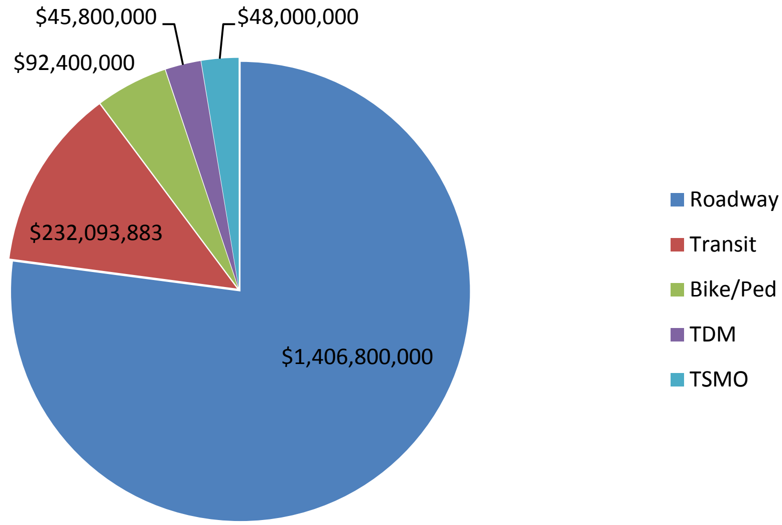
Local revenue available for capital = total receipts – debt service, preservation and maintenance, and policing. Allocate available dollars between regional and local system to determine revenue for the regional system.

PRELIMINARY FORECAST

As mentioned at the August RTC Board meeting, a key element of the RTP is that it must be fiscally constrained, which means that the financial plan must show that there is a *reasonable* expectation that the forecast of available revenues will provide for the list of projects identified in the twenty plus year time frame of the RTP. The revenue forecast shows that additional revenue is needed to fund the 2035 capital projects; therefore, projects in the plan would need to be deleted or new revenues identified to make a fiscally constrained RTP.

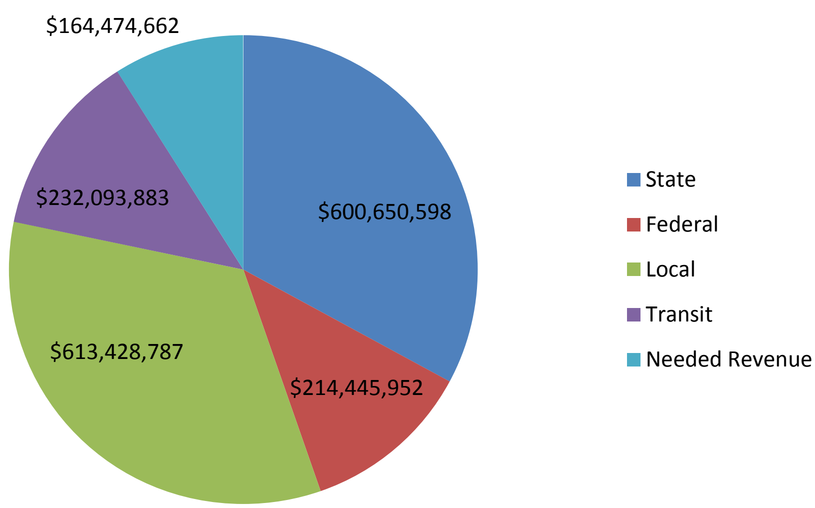
The charts below show capital costs and future revenues for the RTP:

RTP Capital Costs by Mode
(Total Cost Estimate: $1,825,093,883)



Project costs for all transportation improvement categories are $1.83 billion out to 2035, including transportation demand management and transportation system management and operations

Transportation Revenues Through 2035
(Total Revenue Estimate: $1,660,619,221)



A total of $1.66 billion is projected from federal, state, local and transit revenue sources over the next 21 years

BALANCING REVENUES AND COSTS

There is a revenue need of $164 million to fund the RTP capital projects as shown in the table below. This forecast recognizes the need for new transportation revenue to fund projects in the RTP and assumed new revenue that would be equivalent to a modest state gas tax increase of 4.5 cents a gallon implemented in 2016. Future new revenue is consistent with historical trends for the state, which has increased the gas tax five times since 1984.

Revenue Forecast Summary

RTP Capital Cost	Total Revenue	Revenue Need
$1,825,093,883	$1,660,619,221	$164,474,662

The new revenue equivalent could be manifested through several different funding strategies. The WSDOT Finance Division is analyzing a wide array of potential options being considered for new state transportation revenue including a new gas tax, gas tax linked to inflation, sales tax on gas, mileage based fees, and tolls.

If a future state funding package (which should include both new project starts and direct distribution of gas tax funds to city/counties) does not occur, additional revenue for the RTP would still be needed over the course of the planning horizon. Several regional funding tools are authorized under current law and can be made available to both city/county or a newly created regional agency. The most notable local and regional funding options include formation of a local or regional transportation benefit district, which facilitates assessment of certain fees and taxes for dedicated transportation purposes. During the planning horizon, a discussion of local/regional transportation revenue options should be convened as appropriate.

NEXT STEPS

RTC is working on final review of the preliminary forecast for the regional system and is currently in the process of developing the estimate of future preservation and maintenance costs for state and local roadways and transit facilities. Staff will also begin drafting the Financial Plan chapter of the Regional Transportation Plan.