SPOKANE REGIONAL LIGHT RAIL PROJECT
Assessment of Potential Funding Sources

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INTRODUCTION

PURPOSE AND SCOPE OF THIS REPORT

For the past few years, under the direction of a Steering Committee of local elected officials and citizens, the Spokane Regional Light Rail Project has explored alternative design concepts, modes and alignments in the corridor between downtown Spokane and Liberty Lake. Basic cost information has also been developed, but funding sources have yet to be decided upon. The purpose of this report is to review potential sources of funds available for the light rail project, discuss the constraints and limits of those sources, identify the most promising sources, and make some preliminary suggestions for possible approaches to financing the project. This information will assist the Spokane Transit Authority (STA) and the Spokane Regional Transportation Council (SRTC), in the selection of a preferred alternative and an appropriate plan to finance and implement that alternative.

THE FUNDING CHALLENGE

The project has developed a set of alternative transit concepts for the corridor, using varying lengths of alignments in railroad rights-of-way and street rights-of-way. These alternatives include some combinations of electrified, double track light rail transit (Full Corridor LRT); single track rail transit, using diesel-powered rail cars (U-City LRT); and bus rapid transit operations partly in reserved right-of-way and primarily in mixed traffic (BRT). The estimated cost of these alternative concepts varies significantly, ranging from a high of approximately $400-$650 million for double track LRT; to about $160 million for single track U-City LRT, with some BRT; to about $70 million for BRT alone. Cost and availability of funding are among the criteria that will be used by STA to select a preferred alternative.

Over the past 30 years, the most common source of funds for new U.S. rail transit projects has been federal 5309 “New Starts” funds, which have at times paid for up to 80% of the cost of those projects. However, because the demand for such funding has become much higher than available funds, projects now must compete nationally, and are typically being funded at only 50%, if they survive the competition. Congress has mandated the Federal Transit Administration (FTA) to annually compare all proposed projects for their relative cost-effectiveness, and ratio of “transportation system user benefits” to costs, along with a host of other factors. Generally, projects with higher costs and lower ridership have a markedly lower chance of obtaining federal New Starts funding.

TABLE 1
ESTIMATED TOTAL COST FOR ALTERNATIVES

Alternatives	Estimated Cost (2008 Dollars)
BRT	$70 Million
Full Corridor LRT	$400-650 Million
U-City LRT w/BRT	$160 Million

Of course, federal funding is not a given. The Federal Transit Administration subjects each project to a rigorous analysis that evaluates a number of factors including cost effectiveness and financial capacity of the region for both capital and operating costs. A transit operating agency must not only have the capital funds to build a new rail project, but also have a committed, reliable and continuing source of funds to pay for ongoing operations and maintenance of the system. In addition, the transit agency must have the ability to pay for the continuing background bus services that are necessary to make the rail project an effective part of a regional transit system

TRANSIT FINANCING IN SPOKANE.

Spokane area voters had originally approved creation of the Spokane Transit Authority in 1982 by a 72% vote, authorizing a secure funding base consisting of 0.3% sales tax, and an equivalent amount of funds from motor vehicle excise taxes (MVET). Since 1982, STA has operated on a pay-as-you-go basis, with no debt, and by 2001, had accumulated a sizeable capital reserve account for future capital and growth needs. However, as a result of the successful statewide Initiative 695 in 1999, the Washington Legislature rolled back motor vehicle excise taxes in 2001, removing them as an eligible source of funding for transit. That action resulted in the loss to STA of more than 40% of its funding base.

In 2002, STA asked area voters to approve replacement of the MVET funds with an additional 0.3% sales tax, but the proposition was narrowly defeated, by 51.8%. Since the loss of MVET, STA has been relying on its accumulated cash reserves to finance the MVET shortfall. A second referendum to levy the additional 0.3 % sales tax is now on the ballot for May 2004. STA has a contingency plan to dramatically reduce bus operations in July, if the May referendum should fail. The May referendum also contains a "sunset" provision, providing that the additional 0.3% sales tax, even if approved, will expire in four years unless reauthorized in another, subsequent referendum.

COMPETITION FOR USE OF FUNDING SOURCES

The light rail project is not the only proposed transportation project in the region in need of funding. The City of Spokane, and the downtown business community are currently interested in a "city streetcar" project to strengthen downtown. The region also has a major program underway with the Burlington Northern-Santa Fe (BNSF) and Union Pacific (UP) railroads to eliminate many grade crossings, called "Bridging the Valley." SRTC has noted that this region, like many others in the US, has a large and growing backlog of highway reconstruction needs resulting from deferred maintenance for streets, roads and bridges.

There are some new city, county and state highway projects that are proposed for funding. In addition to the obvious need for operating funds for STA bus operations, there are other transit capital needs (including bus fleet replacement) that must be met over the next 20 years. The total demand for transportation funding sources exceeds the funds currently available.

Competition also exists with respect to proposed new local sources of funds. There are only a limited number of potential new tax sources, and the Spokane region has needs for many non-transportation public projects and services. As a result, one can realistically expect that there will be some competition for the use of any potential *new* financing source.

It is in this context that potential funding sources for the Spokane Regional Light Rail Project must be evaluated.

ASSESSMENT OF CANDIDATE FUNDING SOURCES

Potential sources of funds for the Spokane Regional Light Rail Project fall into four general categories:

1) Federal funding sources;
2) State of Washington funding sources;
3) Spokane area local tax sources; and
4) Spokane area private sector funding sources.

This section of the report evaluates funding possibilities from each of these four categories, looking first at existing, authorized funding mechanisms; but also at select funding mechanisms that have been successfully used in other regions of the country, but are not presently authorized for use in Spokane.

For each potential funding source in each of the four general categories, there is a brief narrative discussion of its major characteristics, including, as appropriate, the following:

- Revenue yield
- Limits, if any, on applicability by type of project (e.g., rail, bus, highway, etc.), and by type of use (e.g., capital investment, operations, etc.)
- Current legal status, or requirements for implementation
- Stability/volatility
- Applicability to debt financing
- Public/political perception of its acceptability
- Competition with other needs

Table 2, summarizing the characteristics of the funding sources discussed in this section of the report can be found at the end of the report.

This section also includes a brief discussion of the limited role in financing that may be played by some innovative project delivery methods now being used around the country, including design-build, and design-build-operate-maintain (DBOM).

FEDERAL FUNDING SOURCES

The current structure of federal funding programs for transportation projects was first authorized by Congress in the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA), and continued in the follow-on authorization bill, the Transportation Equity Act for the 21st Century (TEA-21). The TEA-21 authorization recently expired, and Congress has renewed it only for a short term while debate continues on a new, long-term authorization bill. The following descriptions of the primary federal programs for transit funding are based upon TEA-21, but it is worth noting that the funding levels and requirements for these programs almost certainly will change during congressional action on the new authorization bill this summer. To the extent that the Spokane region can gain support from the Washington State congressional delegation and others in Congress to do so, there is at least some possibility of changes to the authorization bill that would improve the following evaluations of the current federal funding programs.

FTA Section 5307 Formula Grants

FTA allocates these funds to the urbanized regions of the country based upon a mandated formula, primarily population. Assuming continuation of the current funding levels and allocation formula, the Spokane region can expect to receive about $155 million of Section 5307 funds over the next 20 years, or about $8 million per year. These funds may be applied broadly, including public transportation capital projects, vehicle replacements, and operating assistance. The program requires a 20% local match (one local dollar for each four dollars of federal funding). Within the Spokane region, SRTC, the Metropolitan Planning Organization (MPO) allocates 5307 program funds. It is interesting to note that in some past years STA did not apply for all of the Section 5307 funds, and SRTC accordingly applied part of those funds to some street improvement projects on streets with heavy bus usage. However, given the current STA funding outlook, it is virtually certain that STA will apply for all available 5307 funds for annual operating assistance, bus replacement, or other crucial bus system capital needs.

FTA Section 5309 Discretionary Grants

The Section 5309 funds, unlike the 5307 funds, are not allocated by formula, but to meet needs as determined at the discretion of the FTA and approved by Congress. Under TEA-21, the 5309 program is divided into three parts:

> "(A) 40 percent shall be available for fixed guideway modernization [available to selected older systems only];
> "(B) 40 percent shall be available for capital projects for new fixed guideway systems and extensions to existing fixed guideway systems [the "New Starts" program]; and
> "(C) 20 percent shall be available to replace, rehabilitate, and purchase buses and related equipment and to construct bus-related facilities."

Of these three Section 5309 funds, only the fixed guideway modernization program is clearly not available for application by the Spokane region at this time.

The Spokane region is now using the first Section 5309 grants it has ever received. One for just under $1.5 million in federal funds, matched by $375,000 in local funds, is a Section 5309 Bus grant to STA for replacement of three current buses with new experimental hybrid electric buses. Additionally STA is executing $6.92 million in federal Section 5309 New

Starts grant funds, matched by about $1.73 million in local funds for preliminary planning and environmental assessment work in connection with the Spokane Regional Light Rail Project.

To understand the feasibility of obtaining substantial Section 5309 New Starts funds for implementation of the Spokane Regional Light Rail Project, it is necessary to briefly review how this program has come to be applied by FTA, and the important role that Congress plays in approving the funds. National interest in these New Starts projects greatly exceeds the level of funding authorized by Congress. As a result, while there are currently more than 100 projects in the planning and engineering pipeline, all hoping to be funded, only about a dozen projects are actually receiving "implementation funds," that is, funds eligible for final design, right-of-way acquisition, and construction (not planning and preliminary engineering funds like those now being used by the Spokane region and many other regions). As a result of this competition, Congress requires FTA to annually report to them on the status of all the projects in the pipeline, and to rate those in preliminary engineering or beyond on the basis of a set of criteria established by Congress. The FTA ratings currently being used are "highly recommended," "recommended," and "not recommended."

The most critical factors involved in the FTA ratings are:

1) Cost effectiveness, which is calculated under a complex formula that looks at ridership projections, at travel time savings for both transit users and for highway users that are projected to result from the project, and at capital and operating costs of the project. The result is known as the "transportation system user benefit," or TSUB.

2) Financial capacity, which rates the ability of the region to meet the local capital costs of the project, plus the long-term operating costs for both the project and for the rest of the transit system in the region.

3) Land use plans, which rates the actual adoption and application of land use policies in the region to support transit usage in general, and the growth of ridership on the project in particular.

Once a project has been rated as "recommended" by FTA, the applicant may negotiate with FTA for a federal "Full Funding Grant Agreement" (FFGA) that stipulates how much the project will cost, the time for implementation, the amount of federal funds expected, and promises that the local applicant will actually complete the project without additional federal funds, even if it costs more than estimated. Congress requires that a negotiated FFGA must be sent to them for a 60-day review period before it can be executed, and a project can be killed or delayed by Congress during this period. Further, no project in the country has proceeded during the past 20 years without actually having received a congressional "earmark" in annual appropriations bills. In other words, to receive Section 5309 New Starts funds, projects must not only pass the FTA screening criteria, but must receive strong congressional support. That support must be bi-partisan, because while the current leadership in both the House and the Senate is Republican, Senator Patty Murray is the sole representative from the Washington congressional delegation who currently has a seat on either of the two Transportation Appropriations Committees.

In the Spokane region, the $600 million estimated cost for the double track Full Corridor LRT alternative, together with the estimated 5,000 daily riders on that system, would result in a TSUB that does not meet the minimum required threshold for an FTA rating of "recommended." A less-costly project, such as the U-City LRT or BRT alternative, might conceivably be fine-tuned to receive a "recommended" rating.

Further, the current financial situation resulting from the STA need to secure additional sales tax funds to replace lost MVET funds, together with the sunset provision in the May referendum, suggest that any FTA financial capacity rating would be judged as unacceptable. Clearing up and strengthening the long-term financial outlook for STA is essential to receiving federal Section 5309 New Starts program funds.

Congestion Mitigation and Air Quality Funds (CMAQ)

These federal funds are intended to support the achievement and maintenance of national air quality standards, and are quite flexible in their application. They can be used for either highway projects that reduce congestion or for a wide variety of transit capital or operations purposes. Funds are allocated to the states, and to the regions within each state. Selection of projects within each region is made by the MPO, in consultation with the State Department of Transportation (DOT). SRTC has projected that some $40 million of CMAQ funds will be available to the region over the next 20 years, (approximately $2 million per year), with the actual amount depending upon federal appropriations, and on the status of air quality standards within the region. One important aspect of CMAQ funds, is that they can be counted as local matching funds for Section 5309 New Starts funds.

Surface Transportation Program Funds (STP)

These funds intended for use on the state highway system, as well as on certain functionally classified arterial roads and streets are allocated by formula to the states, (for statewide use) and to regions within the states (for use within each region). STP funds within the State of Washington are allocated 50% on the basis of population categories; 10% for safety projects; 10% for enhancement projects (including bikeways, pedestrian ways, highway beautification, railroad right-of-way preservation, and scenic and historic highways); and the remainder are available for use anywhere within the state, with projects being applied for with the approval of each MPO, and selected under a statewide selection process. It should be noted that these funds are very flexible in their application, and can be used for certain public transit projects as well as for roads and streets. SRTC projects that about $6 million per year, or $120 million total, will be available to the Spokane region over the next 20 years. As with CMAQ funds, because STP funds are block grant type funds, they can be counted as local match for other discretionary federal funds, such as Section 5309 New Starts funds.

Interstate Maintenance (IM) and National Highway System (NHS) Funds

These federal highway program funds are intended primarily for use on the major trunk highways of the nation, as designated on the National Highway System. However, they are also flexible in their use, and under certain conditions can be used for transit or transit-related highway projects. Washington State Department of Transportation (WSDOT) is the major user of these funds, and prioritizes and selects projects for funding in cooperation with the MPO. However, there are some precedents for limited transit use within the state, and the possibility still exists. These programs are funded at somewhat higher levels — it is estimated that about $750 million, or approximately $38 million per year, will be available to the Spokane region over the next 20 years, with almost $600 million for NHS, and about $150 million for IM. However this amount is small in comparison with documented reconstruction and new construction needs. For projects on Interstate highways, the matching ratio in Washington is 90.66% federal and 9.34% local. For non-Interstate projects, the ratio is 86.5% federal and 13.5% local.

Other Federal Funding Programs for Transit

Besides the major program categories under TEA-21 discussed above, there are some smaller federal programs for rural transit (FTA Section 5310 and 5311), and some provisions for indirect support of paratransit or transit projects under a wide variety of funding programs in a number of US Cabinet Departments. These include some transit support for housing projects under the Department of Housing and Urban Development; applying passenger fees for support of part of the cost of transit projects serving airports, under FAA; support for some paratransit costs in connection with access to medical services by the Department of Health and Human Services; and assistance with transit security by the Transportation Security Administration. However, these are all specialized, tend to be small in program size, and are of no value in funding a new transit capital project. However, some regions of the country have been able to make creative use of these diverse federal funding programs to enhance or supplement their major program funds for transit projects.

STATE OF WASHINGTON FUNDING SOURCES

The State of Washington collects motor vehicle fuel taxes, keeps a portion for use on state highways; allocates a portion to cities and counties by population; and allocates the remainder to special arterial highway accounts administered by a state Transportation Improvement Board. However, because of state constitutional restrictions, fuel taxes can be used only for highway purposes, and none of these fund accounts can be used for transit capital projects or transit operating costs.

Unlike some other states, the State of Washington provides no direct funding for local transit purposes. The state does support some interstate rail passenger services operated by Amtrak, and provides limited technical staff oversight and support to local transit agencies, working through the statewide association of transit operators. The state also acts as the collector for any locally authorized sales taxes (and previously, the MVET) for transit, and returns those tax collections to the local area. However, the state does not now have a statewide transit fund that can be drawn upon by local transit agencies for funding. The loss of MVET funding for transit has had a vast, negative effect on transit agencies in the state, and the legislature has discussed, but not yet enacted, some mechanisms to provide new options for local taxes, as discussed in the Local Funding Sources section of this report.

There are two very small funds established by the Legislature some years ago for general public works purposes related to economic development, which could provide some limited assistance to transit agencies:

- Community Economic Revitalization Board (CERB) was established to make loans and limited grants to help local governments finance public facilities that will stimulate private investment and jobs, reduce unemployment and foster economic development.

- Public Works Trust Fund (PWTF) is a loan program fund drawn from utility taxes, and administered by the State Department of Community Development to help local governments finance needed infrastructure projects.

To achieve any significant state funding for the Spokane Regional Light Rail Project, there would have to be action by the Washington Legislature, (which just ended its current session on March 12, 2004). The possibilities for such action in the next legislative session could perhaps be improved by cooperative action with legislators from Western Washington, who are struggling with some of the same issues on behalf of the transit agencies in the Puget Sound region. The alternatives for legislative action include:

1) A direct state appropriation to support the Spokane project;

2) Creation of a new statewide account for transit capital support; and

3) Creation of a new mechanism for the approval of local option taxes.

In the current legislative climate, the latter is the most likely. In fact, during the most recent session, there was significant discussion about allowing the creation of "regional transportation investment districts," such as the one now existing in the Puget Sound region, in other parts of the state.

SPOKANE AREA LOCAL TAX SOURCES

Locally authorized taxes are the most important single source of potential funds for the capital requirements of the Spokane Regional Light Rail Project. The prospective local tax sources currently authorized are described below:

Sales Tax

The Spokane Transit Authority was established under legislation authorizing the creation of Public Transit Benefit Areas (PTBA) in the State of Washington. That legislation allowed for the use of MVET and sales tax sources, when approved by voters within the benefit area. The 2001 legislative removal of MVET as a source leaves the sales tax as the only tax source. However, the PTBA legislation does permit STA to levy up to 0.9% sales tax, with local voter authorization.

Currently, STA only has authorization from the voters to levy 0.3% sales tax, and with the loss of the MVET tax, that is not enough to meet current operating needs. The 8.1% total sales tax now collected in the parts of Spokane County within the PTBA is comprised of the 6.5% statewide base rate, plus the 0.3% for STA, plus additional local levies for other items, such as the County Sheriff and the Public Facilities District.

Currently, each 0.1% of sales tax yields about $6.1 million annually to STA. If 0.3% were approved and collected for the Spokane Regional Light Rail Project, it would thus yield about $18 million this year, an amount that would grow with inflation. STA has very wide discretion in the use of sales tax funds collected, including operating cost, capital programs, and debt service for revenue bonds or other debt instruments.

While sales tax has been historically used for transit support in Washington, sales tax is also widely used for other general governmental purposes, and thus there is competition for its use. In fact, there is an initiative petition proposed for the ballot in Washington this coming November that would add one full penny to the sales tax, all earmarked for educational support.

General Property Tax

Under Washington State statutes, property taxes can be used for a wide variety of general purposes, including transportation capital expenditures, and O&M needs. Property taxes are also available to secure long-term and short-term debt, and have historically been used a great deal for bonding purposes. However, property taxes are used extensively for education and general governmental purposes. Some agencies of government which now rely upon property taxes as a primary source of revenue would probably view use of the property tax for transit capital with concern. Further, the property tax is politically something of a lightning rod for voters, who are very sensitive to increases. The legislature has accordingly placed a "lid" on the growth of property tax assessments.

Without creating a special taxing district, as discussed below, property taxes could be levied for the project only with great difficulty, by achieving a long-term agreement with each of the legislative bodies of Spokane County, the cities of Spokane, Spokane Valley, and Liberty Lake to annually levy an additional amount of property tax to meet the project capital needs, and then turn the funds thus collected over to the STA each year. That scenario has so many legal and political difficulties as to be essentially unworkable.

Transportation Benefit District (Property Tax)

There is current Washington State enabling legislation that permits establishment of a "Transportation Benefit District," and allows property tax levies for transportation capital projects. However, that statute, RCW 36.73, currently provides that such districts can only be used to provide funding for streets and highways. To use such a district for transit capital purposes, legislative amendment to RCW 36.73 would be required.

County Rail District

There is also current Washington State enabling legislation that permits county legislative bodies to create "County Rail Districts …… for the purpose of providing and funding improved rail freight or passenger service, or both," and to levy property taxes to pay for capital costs. However, that statute, RCW 36.60, would also require legislative amendment, because it currently is narrowly defined to cover only property that produces fruit crops or other agricultural goods that can be shipped by rail.

Port District

RCW 53.36 provides for the establishment of port districts in any county of Washington. Port districts are given very broad authority under the enabling statutes: They can be created either countywide, or in only part of a county. They can even be created where there is no body of navigable waters for port purposes but can be used for the other general purposes provided for port districts, including economic development. Port districts can own and operate freight and passenger railroads; and can construct physical facilities of a wide variety, including road, street, rail and other transportation improvements. They can contract with other public and private entities for the lease, use and/or operation of port-owned facilities. They can issue revenue bonds and general obligation bonds secured by property taxes, up to a total indebtedness of ¼ of 1% of the assessed valuation of property within the district, without a vote of the electorate; and can issue general obligation bonds up to a total debt of ¾ of 1% with a 60% vote of the electorate.

The 2003 assessed valuation of property within Spokane County is $22.15 billion; and the combined levy currently ranges from as low as 9 mills (0.9%) in rural areas of the county to as high as 18 mills. Most parts of the cities of Spokane and Spokane Valley are in about the 15 mill range. It is estimated that the PTBA represents some 85% of that assessed valuation. If that estimate is accurate, and a port district were created that closely followed the boundaries of the PTBA, the limit of ¼ of 1% of debt for that assessed value would be about $47 million; and the limit of ¾ of 1% would be about $141 million. To achieve an annual yield of $7 million, required to provide 30-year bonds for, say, a $100 million capital program, the additional assessment on property within a port district following the PTBA boundary would be about 0.378 mills (0.0378%). That would mean an additional $38 on the annual property tax bill for a $100,000 home. A port district smaller than the PTBA would, of course, require a proportionally larger assessment.

Establishment of a port district, however, is a complicated matter, requiring ballot approval by a simple majority of the voters in the proposed district. The county commission can place the creation of a port district on the ballot after receiving petition signatures of 10% of the voters who voted in the last county general election.

Other Taxes

Utility Taxes

Taxes are now levied on utility user charges, and provide an additional revenue source to local governments. With legislative authorization, these taxes could be increased to provide a revenue source for the light rail project. However, any reasonably likely revenue yield would be low, and there would be some difficulty in establishing a rational correspondence between those who paid and those who received the benefits.

Rental Car Fees

This source has been used by other transit agencies in the state (Sound Transit, in the Puget Sound region). However, these fees are also used at the present time by the Public Facilities District in Spokane to help pay for the Convention Center expansion, and there is a much better correlation between visitors and that purpose, than between visitors and the light rail project. Further, the revenue yield from such a charge would be low.

Luxury or "Sin" Taxes

Taxes on such items as beer, alcohol or cigarettes have already been levied by the state, and even if legislative authorization could be obtained to permit local authorities to levy an additional amount for the light rail project, the revenue yield would be low, and the probable opposition would be out of proportion to that yield.

Income Tax

The State of Washington has never had even a statewide income tax, much less a local income tax, and there is a historic resistance to income taxes. The probability that the legislature would authorize the imposition of a local income tax is extremely low; and even if authorized, the political will to levy such an unpopular new tax in the Spokane area is probably even lower.

Employment Tax

In Oregon, which has no sales tax, the legislature provided for a payroll tax to be levied within the three-county district of Tri-Met. In effect, each time employers pay their employees, they also write a check to Tri-Met, for 0.6% of their gross payroll. This tax source appears to be unique to Oregon, and probably would not be authorized by the Washington legislature unless all other means of funding transit failed. Although it is indexed to inflation, it is a somewhat volatile source, rising and falling with the economy and employment. As one might expect, it is not popular with the private sector.

Local Option Auto Tag Fees

Theoretically, this is possible under Washington statutes at the present time, but the recent fight in the legislature and the courts over Initiative 695, and the rolling back of MVET fees makes local approval highly unlikely for any added fees on auto license renewals to support the light rail project.

Sales Tax on Motor Vehicle Fuels

California, like Washington, constitutionally restricts the use of fuel taxes to highway purposes. However, in 1972, the California legislature authorized the application of the sales tax to gasoline and other motor vehicle fuels, and provided that the sales tax could be collected at the pump. Highway user groups challenged the tax, but the courts upheld it. Those funds, known in California as Transit Development Act funds, are allocated to each county, and the first priority for their use is for transit capital and operating uses. If there are no unmet transit needs in rural counties, those funds may be used for local roads. This potential source has been discussed from time-to-time with the Washington legislature, but has never been seriously pursued. In the most recent legislative session, the legislative committees exploring funding for transportation infrastructure needs did not mention this potential source in any of the committee reports.

Local Option Fuel Taxes

While fuel taxes cannot be used for transit purposes in the State of Washington, statutes do permit counties to increase the amount of fuel tax collected within their county to meet local highway needs. The only possible benefit to the light rail project from such an action would be to free up some of the more flexible funds now being used for roads and streets, enabling those more flexible funds to be applied to the transit project. However, the application of those other funds to the transit project would have to have the support of the local governments, acting through the MPO.

Dedicated Revenues

One way to raise money for transit is to identify government revenues and to dedicate that stream of revenue to the transit project. To help pay for its streetcar, the City of Portland increased the charges for both parking meters and city parking garages in downtown. Those revenues are used for both operations and to support revenue bonds issued by the City.

SPOKANE AREA PRIVATE SECTOR SOURCES

At the present time in the United States, there is a high level of interest in using private sector skills and funds to assist and support the implementation of public transportation infrastructure projects in a variety of ways, including public/private partnerships. The recently completed Washington State legislative session required WSDOT to produce a report, "Transportation Infrastructure Financing Alternatives" (TIFA), to explore how the private sector could assist the WSDOT highway programs. While the main thrust of this January 2004 report was *financing* projects (i.e., using borrowing to leverage available revenue streams), as opposed to *funding* projects, (i.e., securing the necessary revenue stream), it does contain a few suggestions that might apply to the Spokane Regional Light Rail Project.

A number of more traditional methods have been used to obtain some funds from the private sector to assist in the implementation of projects, where the project provides benefits to those private sector sources. These methods are also discussed here. However, it is important to note that private funds have never provided the basic funding for transit projects nationally, or even internationally. Such private sources, generally totaling less than 10% of total project costs, have been used primarily to supplement or enhance the basic transit projects, or to provide a revenue stream after the project has been built, to offset part of the ongoing operations costs.

Irrespective of the actual share provided by private sources, one of the major benefits of private funding is that it can transform a transit project into a public/private partnership and thereby induce additional public support for a major public investment.

Value Capture and Joint Development

Some private sector funding mechanisms fall under the broad, general category of "value capture." Value capture has been defined as any means that enables the transit agency to capture part of the increased value of land resulting from the improved accessibility provided to the land owner by the construction of the project. Those means include:

- Purchase by the implementing agency of land around stations as needed for project construction staging areas, or park and ride uses; then later sale of those lands when no longer needed for the project, at the higher land values resulting from project completion. If federal funds are involved in the initial purchase, there may be requirements for reimbursement of the federal government for their share of the costs.
- "Joint development" by the transit agency, in partnership with a private developer, of multi-family housing, commercial property or office buildings, on lands around stations obtained during project development or through sale or lease of air rights over the station area or the guideway corridor itself.

Property Owner Assessment

One of the methods used to finance the successful Portland Streetcar was the imposition of a property tax assessment on properties adjacent to the line. The policy basis is that those properties most directly benefited by the public's investment in light rail should pay something more than the public at large. The vehicle for such a special assessment is a Local Improvement District. (LID). A LID is formed by a local government. The assessment is effectively an additional property tax. The LID revenues create a stream of revenue that is typically used to back up the issuance of bonds.

Tax Increment Financing

Tax Increment Financing (TIF) is used in many states to fund capital construction. TIF "freezes" the property tax collected by all jurisdictions at the time the urban renewal district is created. As property within the district appreciates in value and higher taxes are generated, the incremental (or increased) tax revenues create a stream of revenue that is used to finance the issuance of bonds. The bonds typically may only be used to finance capital, but not operations. In the State of Washington, TIF was only authorized by the legislature in 2001, with some amendments in 2002. RCW 39.89 provides that cities, counties and port districts can initiate TIF projects – designated as "community revitalization financing" under the Washington statutes. Further, there are constraints upon the creation of tax increment areas. Fire districts have a veto power, and the taxing districts totaling 75% of the property taxes levied in the increment area must approve the proposed TIF.

There are numerous variations of the above scenarios for gaining "value capture" of some of the increase in property values resulting from the transit improvement, but experience has taught that private sources of funds are seldom available in amounts large enough to fund the majority of a project's implementation requirements. The cooperation and concurrence of the property owners is essential to making any of these ideas feasible. The amounts of such funds are generally small, when compared with total project costs. The value capture funds accruing to the agency around a station will typically be less than half the total cost of that station, for example. (In some very large urban areas, the access benefits to private landowners in particular cases have sometimes been sufficient to induce them to pay the construction cost of an entire station, or to donate the land for such a station. However, that is an unusual circumstance.)

Research and Development Demonstrations

In some transit projects, the opportunity to demonstrate a new transit technological innovation has resulted in the willingness of the owner of that technology to participate in part of the cost of implementation — if the technology is included in the project. In other words, because the initial application demonstrates the feasibility of the technology, and becomes a tool for marketing the technology to others, the owner of the technology considers the funds expended on the project as a cost of doing business. Examples of this have included Urban Transit Development Corporation, the owners of the "advanced light rail" technology used in the SkyTrain project in Vancouver, BC; Bombardier, developers of rail and railcar technology employed in the soon-to-be opened Las Vegas Strip monorail; and the initial willingness of Raytheon Corporation to participate in the proposed development of a Personal Rapid Transit (PRT) connection between O'Hare Airport and the Village of Rosemont, Illinois. (Raytheon subsequently withdrew from participation in that project, and the project did not proceed.)

Opportunities for such demonstrations in the Spokane Regional Light Rail Project appear to be limited. However, businesses within the Spokane region are working on alternative fuels for transportation purposes, including fuel cell research and bio-diesel (creation of diesel fuel from corn or similar plant products). It has been suggested that they might welcome the opportunity to demonstrate their technologies in connection with this project, and would put up some capital toward that end. Since the total cost of vehicles generally represents only about 10% of total project costs, and the energy/propulsion system for those vehicles represents only a small portion of the vehicle costs, it would not be expected that a large amount of project funds would come from this source. Such participation might be worthwhile to both the private business and to the public project sponsors, as an end in its own right, for economic development purposes, but should not be considered a likely major revenue source for the project.

Innovative Project Delivery Methods

In recent years, public agencies increasingly have been using new approaches to the implementation of capital projects that involve the private sector much more extensively than the old approach known as "design-bid-build," or DBB. Under DBB, the public agency designs the project in every detail, provides for all project financing, prepares plans and specifications, advertises for construction bids, awards to the lowest responsive and responsible bidder to build the project, then once built and accepted as complete, the public agency owns, operates and maintains the project.

Some of the new approaches include:

1) "Design-build," or DB, where the implementing agency contracts with a team to both design and construct the project;
2) "Design, Build, Operate and Maintain," or DBOM, where the agency contracts with a team to not only design and construct the project, but to operate and maintain the project for a period of time after completion; and
3) "Finance/DBOM," where the agency contracts with a team to handle all aspects of the project, including securing financing (loans or bonds), as well as design, construction and operation and maintenance.

There are numerous other variations of the above three methods of project delivery.

Private financing sometimes makes sense for a project that, once complete, produces revenue sufficient to pay off the construction debt, and provide for ongoing costs of operations and maintenance. Examples may include toll-financed roads and bridges, such as the Tacoma Narrows Bridge; or municipal water or sewer projects that will have user charges sufficient to cover all costs. However, transit projects throughout the world do not earn enough from fares to cover their capital and operations costs.

Many of these innovative project delivery methods may offer other advantages to the owner agency, including possible reduction in construction costs due to faster project delivery, and a transfer of some risks to the contractor. However, the old statement that "there is no such thing as a free lunch," is still true. It is important that the owner agency have realistic expectations about what can be achieved under these innovative project delivery methods, or there will be disappointment.

For example, while some private sector teams will strongly promote the advantages of private financing, it is a fact that public financing can almost always be arranged at lower cost than private financing. As part of the TIFA report prepared by WSDOT for the Washington legislature in January 2004, an appendix, "Financing Mechanisms Available Under Current Law," stated:

> "Some issues to consider when contemplating private financing:
> - Private bonds do not constitute public debt, and thus do not encumber state revenues.
> - Private bonds are, generally, more expensive than public debt. It is difficult to beat the full faith and credit of the state as a guarantee of payment.
> - Private bonds often entail additional financing costs, including coverage factors, and contingency reserves [not required with all public financing]."

In summary, the most that should be realistically expected from innovative project delivery of the proposed Spokane Regional Light Rail Project is some reduction in overall construction costs that might be achieved because of faster implementation under a design-build approach. Innovative project delivery methods do not mean that the private sector will provide a new source of funds to pay the costs of project implementation.

THE MOST PROMISING SOURCES OF FUNDS FOR THE PROJECT

Above, we have briefly described the major potential sources of funds for the Spokane Regional Light Rail Project, including federal funding sources, State of Washington funding sources, Spokane area local tax sources, and Spokane area private sector funding sources.

Many different sources of funds may ultimately be drawn upon to contribute to the project, but without at least one or two basic funding sources meeting certain criteria, a project will not be capable of implementation. The major criteria required of the basic project funding sources are:

- An annual revenue yield of at least $7 million for each $100 million of project cost to be funded from that source. The $7 million represents the approximate debt service for a $100 million bond.
- Certainty and stability of funding over time, thereby permitting them to be pledged for repayment of borrowed bonds.
- Achievability and political acceptability.
- Legal availability of the funds for the required uses and applications.

Experience in other projects nationally has taught that it may take several years to put the basic funding sources into place, but it is essential that sources meeting these criteria be available if the project is to be implemented.

In Table 2, at the end of this report, all of the potential funding sources in each of the four categories – federal, state, local, and private sector – are compared. Review of this table quickly shows that relatively few of the sources can meet the criteria required for basic funding sources. Those few that can meet the criteria are the most promising sources of funds for the project, and the ones upon which major efforts should be expended. Those sources include:

- An additional STA sales tax increment;
- A local option property tax, established under a port district, (or with legislative authorization, under a transportation benefit district or a county rail district); and
- Federal Section 5309 New Starts funding.

Each of these most promising sources is discussed below, including a description of some actions that are recommended for consideration, if that source is to be put into place over the next few years, and the relative level of funding that could be required for the different project alternatives, under various funding scenarios. Table 3, at the end of this report summarizes the information on potential funding scenarios for each alternative.

ADDITIONAL STA SALES TAX

Most of the rail transit projects built in the US over the past 25 years have relied upon sales tax as the basic local source of funds. Further, it has been the fundamental source of funds (along with MVET) for transit capital and operating needs for the transit agencies in the State of Washington for the past 25 years. A sales tax is currently authorized by the state for transit uses by STA in the Spokane region, and with voter approval, can be increased to provide for the capital costs of the light rail project. It has broad applicability, being available to cover both capital and operating needs, and to secure bonds for capital debt. It is fairly stable, and is by its nature indexed for inflation, growing as the economy grows.

However, the current financial distress of STA because of the legislative rollback of MVET funding provides an additional challenge in securing sales tax funding for the light rail project. The primary focus of STA right now is, understandably, preservation of the ability to provide fundamental bus services to the region. To do that, STA must pass secure voter approval this May for an additional 0.3% sales tax to replace the lost MVET funding. In addition, because of the sunset provision in that referendum, within four years STA must secure a second approval by the voters for continuation of that additional 0.3%. Whether to *also* ask voter approval for an added increment for project capital purposes – and if so, when – are important questions for STA to consider.

RELATIVE SALES TAX NEEDS FOR THE CORRIDOR ALTERNATIVES

According to the STA, it is possible that the 0.3% additional sales tax STA is seeking in the May referendum will be sufficient to meet bus system capital and O&M needs, and still provide up to $4 million per year in additional revenue. While that amount, together with some limited federal funds, would almost be sufficient to finance the $70 million for the BRT alternative in the corridor, it would not meet the requirements for either the U-City LRT or the Full Corridor LRT alternatives.

If STA could make $4 million from sales tax available to the project annually, *and* another local tax source of similar amount could be found, then, with some $50 million in federal funds, the U-City LRT alternative could just barely be financed without going to an additional STA referendum.

However, to finance $160 million for the U-City LRT alternative *without* another source of local tax funds, even with 50% federal matching funds, voter approval of some additional sales tax revenues for STA would be required. However, with 50% matching federal funds, only 0.1% of additional sales tax, not the full 0.3%, would be required. An increment of 0.1% would generate $6.1 million per year in 2004, growing with inflation thereafter. That would provide funds to service 30-year bonds for about $85 million in project capital costs. Federal matching funds at the 50% level (i.e., for the same amount) would cover the remainder of the total estimated cost of the U-City LRT alternative.

Finally, if the most expensive, $600 million Full Corridor LRT alternative were to be chosen, then it is clear that voter approval of the maximum sales tax allowed -- the full additional 0.3% -- would not be sufficient, by itself, to fund the project without another local tax source, together with significant federal funding. For example, if 50% federal funding could be obtained, $300 million would be needed from local sources. The added 0.3% sales tax would provide funds to service about $255 million in 30-year bonds, still leaving some shortfall. Also, as pointed out earlier in this report, obtaining federal Section 5309 New Starts funding for the LRT alternative in this corridor would be extremely challenging, because of the low cost-effectiveness of that alternative when compared with other projects with which it would be competing for federal funds.

ACTIONS RECOMMENDED TO SECURE SALES TAX FOR THE PROJECT

The full support and backing of the STA Board of Directors and management for the alternative selected in the corridor is clearly essential. The STA Board must be willing to undertake the project as the implementing agency; and, as the ultimate owner and operator of the system, must be willing to earmark the required annual portion of the STA sales tax revenues necessary to finance construction. Given that for some alternatives, voter approval of an additional STA sales tax increment to enable project financing may be required, then the Board must be willing to place the needed referendum on the ballot.

The timing and content of required sales tax referenda must be carefully considered. STA can ill afford to lose the voter approval needed after this May election, for a referendum to reauthorize that added 0.3% sales tax and (presumably) eliminate the sunset provision. STA should explore how best to achieve both that necessary voter approval, and also to achieve voter approval of any additional sales tax increment that may be required for the project capital needs, drawing upon advice from experienced voter campaign advisers, public opinion polls, and/or other techniques to test voter attitudes.

STA exploration of voter attitudes should probably also include determination of attitudes toward the project among those who do not live along the project corridor, as well as those who do, and consideration of means to secure voter approval from both groups.

For example, it might be important to consider a referendum that would provide for the sales tax increment to be used to fund a two-stage program – one that includes not only the initial project alternative chosen in the corridor between downtown and Liberty Lake, but a second stage that involves a similar alternative extending north from downtown, in the area of historical heavy transit use. Alternatively, a mix of capital improvements and expanded bus service might be the ticket to voter approval. In any event, the success of a referendum for approval of an additional STA sales tax increment to fund the project will require approval of voters throughout the PTBA boundaries, not just voters living in the initial project service area.

PORT DISTRICT (PROPERTY TAX)

When the Steering Committee of the Spokane Regional Light Rail Project selects a preferred project alternative for development in the corridor, a financing plan corresponding to that alternative should also be adopted. If that financing plan calls for basic project funding from another local tax source in addition to, or in place of sales tax funding, the most promising source after the sales tax increment discussed above, would be a new (incremental) property tax, levied through a county port district, pursuant to Chapter 53.36 RCW. Alternatively, with appropriate legislative amendments to existing authorizing statutes, a transportation benefit district, or a county rail district could be formed to levy property taxes for the project. (Still another alternative might result from legislative action – considered last session, but not enacted – to permit "regional transportation investment districts" to be established in other parts of the state, similar to the one now allowed in the Puget Sound region.)

Nationwide, the property tax is a less common source of funds for transit capital and operating needs. The initial Bay Area Rapid Transit District (BART) referendum to fund the starter 72 miles was based entirely on a property tax levy, and approval to sell bonds based on that property tax. Many urban transit systems in the eastern United States receive a portion of their operating funds from annual appropriations made to the transit agency by the local governments from general funds, generated mostly from property taxes. Examples include Pittsburgh, Chicago, Philadelphia, Columbus, Ohio, and other cities. However, because the transit agencies in those cities have to depend upon the annual appropriations of local governments, those funds are not reliable for long-term bonds to pay capital expenses.

The property tax, especially if approved for specific purposes for a committed period of time, would provide a stable, reliable source of funds that could be used for any purpose so approved, including service of bonds, or other debt. That would be the case for a port district, now permitted under existing state law. If the region should choose to pursue establishment of such a district by Spokane County, once a levy was established, the annual tax yield would grow, both from increases in property values; and from the general economic and population growth of the region.

However, the property tax is a matter of great political interest statewide (perhaps more so in western Washington than in Spokane County). In fact, Tim Eyman, the individual who sponsored Proposition 695 to roll back use of MVET for transit purposes in the state, is now seeking voter signatures for a new initiative to be placed on the ballot this coming November, placing significant new limits on property tax growth.

Successful establishment of a port district will rest on demonstrating to voters (many of whom are property owners) that they will receive a benefit from the project commensurate with their new tax burden.

RELATIVE PROPERTY TAX NEEDS FOR THE CORRIDOR ALTERNATIVES

It is estimated that a tax levy of 0.378 mills (0.0378%) on all real property within a port district having the same boundaries as the PTBA, would generate approximately $7 million annually in 2004. This would be enough to service 30-year bonds for $100 million in project capital costs at current (low) interest rates. That levy, for perspective, would represent about a $38 annual property tax payment for each $100,000 in property value. This would be more than sufficient to pay the costs for the $70 million BRT alternative, even with no other source of funds. However, to establish that levy for general obligation bonds would require a 60% approval by the voters in the district. A smaller levy could be approved by the port district legislative body without voter approval, but only up to ¼ of 1% of the assessed valuation of property within the district. For a district the size of the PTBA, that would mean a limit of about $47 million in bonds could be issued without voter approval.

If the $160 million U-City LRT alternative were chosen, and $60 million or more in federal funds could be obtained, the same 0.378 mill property tax levy would also be sufficient to cover the remaining cost of that alternative, with no other source of funds, with voter approval. It would also be possible to fund the U-City LRT alternative with a combination of 1) sales tax revenue available for capital purposes from a successful STA referendum in May, possibly up to as much as $4 million per year; 2) some federal funds; and 3) a much smaller property tax levy than the 0.378 mills described above, perhaps without voter approval being required.

However, to fund the full cost of the $600 million Full Corridor LRT alternative, even with the unlikely scenario of 50% federal funding, would require a property tax levy of 1.134 mills within the full PBTA boundary, (assuming no other local tax source); or a levy of 0.8127 mills, if STA were to contribute $4 million annually from their second 0.3% sales tax. Those levies would translate to an annual property tax assessment of $113 or $82, respectively, for each $100,000 of assessed valuation. That is far in excess of the maximum debt limitations for port districts in the current statutes, even with voter approval.

Under the more probable scenario of no federal funding for the Full Corridor LRT alternative, and even with contribution of $4 million annually from STA sales tax, a property tax levy of 1.947 mills would be required to repay the 30-year bonds floated to cover the rest of the cost. That would mean an annual property tax increment of $195 for each $100,000 of property value. If $4 million per year from sales tax were made available from a successful May referendum; *and* an additional full 0.3% sales tax just for transit capital purposes were approved in a subsequent STA referendum; the remaining unfounded portion of the project cost ($340 million) would require a property tax levy of 1.258 mills, or an additional annual property tax payment of $126 for each $100,000 of property value. Again, current limits on debt for port districts would be exceeded under this scenario.

ACTIONS RECOMMENDED TO SECURE PROPERTY TAXES FOR THE PROJECT

Establishment of a port district, as authorized under current state law, (or, alternatively, achieving legislative amendments to either of the statutes providing for transportation benefit districts and county rail districts; or extension of the statute creating a regional transportation investment district for the Puget Sound region) is the essential step toward obtaining property taxes for the project. Establishment of a port district would first require receipt and certification by the Spokane County Commission of a petition with signatures of 10% of the voters in the last county general election; then placement by the Commission of a proposition for creation of the district on the ballot for an upcoming special or general election; then passage by a simple majority of the voters in the proposed district..

As with the sales tax, it is strongly recommended that professional assistance be obtained to determine voter attitudes, through public opinion polls and other methods. That should help determine attitudes toward the project, the maximum levy that the public is likely to accept, and the boundaries of a port district most acceptable to the taxpayers. That information will also be essential information for the Spokane County Commission. As elected officials, they are very unlikely to take such a step if they have significant opposition from their constituents. They will want to see clear evidence of public support for the project, and willingness of property owners to pay some of the project costs in an annual property tax bill.

FEDERAL NEW STARTS FUNDS

Federal funds have been an important part of every new rail project developed in the United States since 1972, with the exceptions of the initial light rail lines built in San Diego and Sacramento. (All of the subsequent LRT extensions in San Diego and Sacramento *have* used federal funds). Going through all of the planning, environmental, and engineering steps required by FTA to obtain discretionary federal matching funds is widely viewed as time-consuming and difficult, yet necessary if that funding is to be secured. However, those steps also help to avoid project mistakes.

For that reason, as well as the obvious desire for an additional funding source, the region should make every effort to develop an initial U-City LRT or BRT alternative in such a way that it will be able to qualify for Section 5309 New Starts funds. The very process of going through the steps necessary to qualify the project for FTA funds will not only greatly increase the odds of actually obtaining funds, but it will also make the project a better one. Based on available information, it is probably not possible to obtain New Starts funds for the Full Corridor LRT alternative at this time. However, if an initial U-City LRT or BRT project were constructed, with or without actually using federal New Starts funds, but having followed the FTA requirements, the very fact that it was successfully completed will also improve chances for subsequent federal funding to help pay for upgrades or extensions of that initial project. Of course, if federal funds *can* be obtained for an initial project, even at a less than 50% matching ratio, that will ease the burden on local tax sources. Seeking to qualify an initial project for federal New Starts funds provides the further advantage of increasing the region's contact with and influence on the Washington congressional delegation. That increased contact will also increase the possibility that future changes in TEA-21 and annual appropriations bills will take into account the needs of the Spokane region.

IMPLEMENTATION/NEXT STEPS

In order to proceed with the project, several closely inter-related decisions will need to be made by the Steering Committee. These decisions include:

1) Selection of a preferred alternative,

2) Determination of whether that alternative is intended to be a one-time, stand-alone project, or the first stage in a longer-term program of sequential transit capital projects. (For example, selection of either the BRT or the U-City LRT alternative might be considered either as a fully sufficient project in its own right; or simply as the first step in a program leading eventually toward a double track light rail line, with possible future extensions of that light rail line to other corridors in the region. Having some sense of the longer-term possibilities should influence the choice of funding program.)

3) Determination of how best to provide for the long-term capital and operating needs of the project and/or the program.

NEED FOR REGIONAL CONSENSUS

Ideally, the above three decisions of the Steering Committee should be made with the full support of the policy bodies of the sponsor agencies, STA and SRTC; plus the support of the Spokane County Commission, and the City Councils of Spokane, Spokane Valley and Liberty Lake. Public support of the decisions is also needed from citizens at large, voters, bus riders, major employers, downtown property owners, region-wide business interests and other special interest groups. While the methods for obtaining this public support is beyond the scope of this report, such support is essential to reaching correct decisions about funding programs. A hard-earned lesson in other regions of the country is that regional consensus on the proposed project or program is a critical factor in long-term financing support from taxpayers.

DEVELOPMENT OF A FINANCIAL PLAN

This report is intended primarily to review potential sources of funding, and identify some of the most promising sources for consideration, not to prepare a project financial plan. However, some suggestions about how such financial plans have been successfully prepared elsewhere may be in order. Once the Steering Committee has made a general determination on a preferred alternative and the long-term program, has identified the major local tax source or sources, and determined whether to seek federal New Starts funds, then the work of preparing a financial plan should begin in earnest.

Even though at least one major local tax source is essential, that does not mean that some of the smaller sources of funds should be overlooked in the financial plan. They can be important to the overall plan. Some examples of smaller local sources:

- Federal “flexible” funds, such as CMAQ and STP funds, can be used as local matching funds to supplement local tax sources.
- In some rail transit projects around the country, by agreement, the transit agency has delegated station design and construction (and the associated costs) to the local governments in which those stations are located. Those station costs then count as local match to federal funds.
- In certain cases, local governments, the State DOT, or other entities such as a local university, have supplied some right-of-way (land) for a project, and all or part of the costs of that right-of-way has counted as local match. Perhaps, in Spokane, if the

Bridging the Valley project results in Spokane County ownership of some former UP right-of-way, and that right-of-way is made available to the project, the amount of any local funds the County contributed to the cost of acquiring that right-of-way might be counted as local match.

In the above three examples, any amount counted as local match has a double effect, because it not only reduces the cost to be paid by the transit agency for the overall project, it also generates some federal funds. However, even where such contributions cannot be used as local match (for example, use of a portion of already dedicated public streets or roads for construction of transit guideway or stations cannot be counted as a local match cost), the contribution reduces the overall cost of the project, making the financial plan that much easier.

In regions where a true consensus on the project has been achieved, a whole variety of mechanisms such as those above are possible to make the financial plan workable. Some other such mechanisms are possible through "trading funds," working through the MPO process, as described below.

USING THE MPO PROCESS

Joint action by a group of governmental entities, working together to achieve a shared vision for the long-range transportation plan of the region, provides much more effective results than each individual agency working in isolation. The MPO process is intended for just that purpose. However, it requires an ongoing, continued effort by the agencies, not just a pro-forma process of stapling together each agency's individual plan. The agencies have to come together, working through a set of tiered committees (policy level and technical level), and actually hammer out the priorities of each agency, and the priorities for the region as a whole, for both highways and transit. Then, ongoing dialogue has to continue, using that tiered committee structure to continually work together to actually achieve the highest priorities for all. SRTC cannot be expected to achieve that result by itself, but needs the active support of the local governments and WSDOT. Substantial work and thought and effort are required by every entity.

In regions where something like this has been done, there has been far more success in achieving both needed transit improvements and highway improvements, and there has generally been greater satisfaction by all the entities in the results. Unfortunately, not all regions of the country have been able to accomplish this. The examples that follow are exceptional, but are suggested as examples worth emulating in Spokane.

In Portland, the initial light rail project had a source of federal funds available, (Interstate Transfer funds), but Tri-Met did not have enough capital reserves or ongoing revenues to finance all of the local match requirements. Tri-Met therefore sought for a one-time, direct appropriation from the Oregon Legislature for the local match, even though most thought they had no chance in the rural-dominated state legislature. However, under the leadership of the Mayor of Portland, and working through the tiered committees of the MPO, the region began a strenuous effort to draw upon combinations of all transportation funds available to them to satisfy the highest priorities in all three counties and their constituent cities. Tri-Met agreed that the light rail project would use less of the available federal Interstate Transfer funds, so that some of those funds could be used for key road projects in the three counties; then the region gave up some of their federal aid urban funds to ODOT, to be used to meet some rural county needs throughout the state. This cooperation resulted in those rural counties supporting a one-time direct appropriation for Tri-Met by their legislators. The result was that all entities involved achieved their major transportation priorities.

That model proved to be so successful, that the active tiered committee approach in the MPO continues to be followed in Portland some 25 years later, even though the entire MPO governmental structure changed once during that period. A real and continuing effort at regional consensus has resulted in some significant highway and transit project funding for the region, through economic booms and busts. Where key local road and state highway needs could be met from state and local gas tax funds, more flexible funds, such as CMAQ and STP, have been used as part of the local match for transit projects, thus generating federal New Starts funds for the region.

This "trading" of many smaller funds among agencies in the region, in order to meet local priorities while generating more federal dollars for the region as a whole, has been very successful in Portland. The regional consensus has enabled strong, bi-partisan joint action by ODOT, Tri-Met, and the cities and counties of the region, acting through the MPO, to secure support from Congress for federal funds, and to support action in the legislature for use of state funds to meet priorities. Consensus has been the most important key to that success. It has achieved light rail construction in four corridors, with a fifth now beginning construction; the initial development of the Portland City Streetcar project, now being expanded; a commuter rail line soon to start construction; and major highway construction by both ODOT and local governments. However, it has required ongoing work by those involved, with both policy and technical representatives of the tiered committees meeting at least monthly, and as often as weekly, when required.

A similar approach in San Diego County, involving the MPO, the local governments and several transit agencies, has proven equally effective over the last 25 years. Last year, by regional agreement, the legislature authorized the MPO to take over all of the planning, design and construction responsibilities of the transit agencies, leaving those agencies with only operations and maintenance responsibility. Thus the MPO, working through tiered committees of technical staff, and a policy committee composed of local elected officials from the county and each city in the county, has policy control of the long-term planning and construction for transit in the region. Working with the State DOT, they also have a major influence on highway planning and construction as well.

In the four-county region including Salt Lake City, the MPO and the transit agency also have worked closely together for many years, with a tiered committee structure, resulting in funding of the initial light rail line, and two extensions, now completed. Late last year, the MPO policy committee, made up of very conservative elected officials from local governments struggling through a severe economic downturn, voted unanimously to seek referendum approval of an additional sales tax increment to expedite construction of three more LRT extensions, two commuter rail lines, three BRT lines, and some critical local road improvements in four counties.

In the Spokane region, the hard work now being done in connection with the Bridging the Valley Project and the Spokane Regional Light Rail Project has already provided some opportunities for shared uses and trading of funds, including light rail project use of UP right-of-way made available. Other opportunities may exist: Construction of the tracks on downtown streets needed for the city streetcar project desired by the business community in downtown Spokane might be funded by some combination of a business area LID, Spokane City general funds and STA sales tax funds, with the understanding that the tracks could also be used for later U-City LRT or Full Corridor LRT access to downtown. That would result in reducing the cost of the U-City LRT or Full Corridor LRT alternative by that amount, and would thus further both project priorities. If the region should at some time decide to have a local option gas tax to fund needed highway projects, it could free up flexible federal CMAQ and STP funds for use on transit projects, simultaneously leveraging more federal New Starts funds for the region. Other similar opportunities could no doubt be found.

SUMMARY

This report has provided some information about potential funding sources for the Spokane Regional Light Rail Project, to support later decisions by the Steering Committee about the preferred alternative, about the status of that alternative in the longer-term transportation needs of the region, and about the major elements of a financial plan for funding the preferred alternative.

Obtaining the funds necessary for the project will require continued effort by STA, SRTC, Spokane County and the Cities of Spokane, Spokane Valley and Liberty Lake, and at least the support of WSDOT. However, with regional consensus on priorities, it clearly is feasible to get at least a starter BRT or U-City LRT project constructed, drawing primarily on some combination of federal funds, STA sales tax funds, and/or property tax funds levied by a port district, or other special district that might be authorized by legislative amendments. With the major funding sources determined, some of the smaller sources of funds described in this report can be called upon to leverage those major sources, not only for the benefit of the project, but to assist with other regional transportation needs. Any new transportation funding resource can help with needs of more than one transportation priority.

Completion of an initial fixed guideway transit project in other regions has been found to increase voter support and build even greater regional consensus. There is no reason to believe that would not be true in Spokane as well. With a successful initial project, the potential for upgrading and/or extending that project is much greater. That could mean that a lower cost initial project could be considered more acceptable, while still looking forward to a more complete project in the future.

TABLE 2

SPOKANE REGIONAL LIGHT RAIL TRANSIT PROJECT

ASSESSMENT OF POTENTIAL FUNDING SOURCES

Summary Comparison of Existing and Potential Funding Sources

	Type/Control	Applicability	Availability/ Rate/Yield to Spokane Region	Short Term Stability/ Volatility
FEDERAL GRANT PROGRAMS				
FTA Section 5307	Formula grants to regions and operators.	Capital improvement and long-term maintenance. Transit and highway.	$8 million/yr	Overall program subject to annual appropriation. (Not a problem in practice.)
FTA Section 5309	Discretionary grant to project sponsors.	Capital improvement. Transit fixed guideway and bus capital.	Undetermined	Overall program subject to annual appropriation. (Not a problem in practice.)
Congestion Mitigation and Air Quality Improvement (CMAQ)	Formula grants to states and regions; discretionary at regional level.	Capital improvement and limited operations/maintenance (limited term). Transit and highway.	$2 million/yr	Highly uncertain until FFGA is in place.
Surface Transportation Program (STP)	Formula grants to states and regions; discretionary at regional level.	Capital improvement and long-term maintenance. Transit and highway.	$6 million/yr	Overall program subject to annual appropriation. (Not a problem in practice.)
National Highway System (NHS)	Formula grants to states.	Capital improvement and long-term maintenance. Highway and transit (transit use limited in practice).	$30 million/yr	Overall program subject to annual appropriation. (Not a problem in practice.)
Interstate Maintenance (IM)	Formula grants to states.	Capital improvement and long-term maintenance. Interstate highway and related.	$7 million/yr	Overall program subject to annual appropriation. (Not a problem in practice.)
STATE OF WASHINGTON PROGRAMS				
Community Economic Revitalization Board (CERB)	Discretionary loans and grants.	Public facilities that stimulate investment and employment.	Minor.	N.A.
Public Works Trust Fund (PWTF)	Discretionary loans (from utility taxes).	Local infrastructure projects.	Minor.	N.A.

TABLE 2

SPOKANE REGIONAL LIGHT RAIL TRANSIT PROJECT

ASSESSMENT OF POTENTIAL FUNDING SOURCES

Summary Comparison of Existing and Potential Funding Sources

	Long Term Uncertainty	Suitability for Debt Financing	Legal Status/ Authorization Need	Public/ Political Acceptability	Competition With Other Needs
FEDERAL GRANT PROGRAMS					
FTA Section 5307	Entire federal program reauthorized every 6 years.	Not suitable.	Same as under "Long Term Uncertainty."	Well accepted and supported.	High. Existing bus operations.
FTA Section 5309	Entire federal program reauthorized every 6 years.	Not suitable.	Same as under "Long Term Uncertainty."	Well accepted and supported.	Extremely high. Demand exceeds availability by 10X.
Congestion Mitigation and Air Quality Improvement (CMAQ)	Entire federal program reauthorized every 6 years.	Not suitable.	Same as under "Long Term Uncertainty."	Well accepted and supported.	High. Numerous local projects competing for funds.
Surface Transportation Program (STP)	Entire federal program reauthorized every 6 years.	Not suitable.	Same as under "Long Term Uncertainty."	Well accepted and supported.	High. Numerous local projects competing for funds.
National Highway System (NHS)	Entire federal program reauthorized every 6 years.	Not suitable.	Same as under "Long Term Uncertainty."	Use for transit not supported by state DOT.	Generally not available for local/regional transit projects.
Interstate Maintenance (IM)	Entire federal program reauthorized every 6 years.	Not suitable.	Same as under "Long Term Uncertainty."	Use for transit not supported by state DOT.	Generally not available for local/regional transit projects.
STATE OF WASHINGTON PROGRAMS					
Community Economic Revitalization Board (CERB)	N.A.	Not suitable.	Authorized.	Little or no precedent for transit use.	Extensive competition. Little or no precedent for transit use.
Public Works Trust Fund (PWTF)	N.A.	Not suitable.	Authorized.	Little or no precedent for transit use.	Extensive competition. Little or no precedent for transit use.

TABLE 2

SPOKANE REGIONAL LIGHT RAIL TRANSIT PROJECT

ASSESSMENT OF POTENTIAL FUNDING SOURCES

Summary Comparison of Existing and Potential Funding Sources

	Type/Control	Applicability	Availability/ Rate/Yield to Spokane Region	Short Term Stability/ Volatility
LOCAL SOURCES/MECHANISMS				
Sales Tax	Local dedicated tax.	All transit capital and operations/maintenance purposes.	0.3% Active 0.9% Authorized $6 million/yr (each 0.1%)	Moderate volatility. Budget must incorporate generous annual surplus to accommodate downturns.
Property Tax (Port District)	Local. Dedicated through Port District (TBD)	All transit capital and operations/maintenance purposes.	$19 million/yr (each 1 mill w/in PTDA area)	Very stable.
Utility Tax	Taxes now levied on utility charges; provide additional revenue source for local government. With legislation, could be increased to provide revenue for light rail project. Likely revenue yield low; would be difficulty in establishing a rational nexus between benefits and tax burden.			
Rental Car Fee	Has been used by other transit agencies in state (Sound Transit). Fees also used to help pay for the Convention Center expansion. Revenue yield from such a charge would be low.			
"Sin" Taxes	Taxes on alcohol or cigarettes already levied by the state. Not presently authorized for transit purposes. Revenue yield low, and probable opposition would be extensive.			
Income Tax	State of Washington has no income tax. Likelihood of enacting a tax for transit is essentially zero.			
Employment Tax	Employment taxes are used in other states for general government purposes and, in Portland, for transit. Strong employer resistance suggests the likelihood of enactment in Washington is very low.			
Auto Tag Fee	While theoretically possible, recent fight over Initiative 695 and MVET fees makes local approval highly unlikely.			
Sales Tax on Motor Fuel Sales	This source has been discussed but has never been seriously pursued. There is little basis to suggest that a new effort will succeed at this time.			
Fuel Tax	Fuel taxes cannot be used for transit in Washington State; however, counties can increase fuel tax collected to meet local highway needs. Such an increase could be used to free up flexible funds now being used for roads and streets, thereby enabling those flexible funds to be applied to transit.			
PRIVATE SECTOR PARTICIPATION				
Business Improvement District	Could be used to help fund station improvements and perhaps (through lease of transit property) some portion of operating expenses. Not robust enough for major capital needs.			
Research and Development Demonstrations	Some opportunity exists to leverage Spokane area business R&D, particularly in the area of hydrogen fuel cells. Magnitude of impact on project cost likely to be very slight.			

Integrated Project Delivery Structures	Can improve project delivery by minimizing unexpected changes, thereby reducing time and cost. In trade-off, the project sponsor has less control over project design and delivery. Overall impact on cost is modest.

TABLE 2

SPOKANE REGIONAL LIGHT RAIL TRANSIT PROJECT

ASSESSMENT OF POTENTIAL FUNDING SOURCES

Summary Comparison of Existing and Potential Funding Sources

	Long Term Uncertainty	Suitability for Debt Financing	Legal Status/ Authorization Need	Public/ Political Acceptability	Competition With Other Needs
LOCAL SOURCES/MECHANISMS					
Sales Tax	Current level is permanent. Term of future levies uncertain.	Suitable.	Existing 0.3% is permanent. Up to 0.6% increase authorized. STA Board action and public vote required.	Varies. Among most popular of local options.	Extensive competition with non-transit uses.
Property Tax (Port District)	In effect until terminated by local authority.	Very suitable.	Authority exists. Local approval required.	Volatile. Convincing case required.	General government purposes.
Utility Tax					
Rental Car Fee					
"Sin" Taxes					
Income Tax					
Employment Tax					
Auto Tag Fee					
Sales Tax on Motor Fuel Sales					
Fuel Tax					
PRIVATE SECTOR PARTICIPATION					
Business Improvement District					
Research and Development Demonstrations					
Integrated Project Delivery Structures					

TABLE 3
SPOKANE REBIONAL LIGHT RAIL PROJECT
FUNDING SCENARIOS FOR MAJOR PROJECT ALTERNATIVES
Potential Revenue Sources and Revenue Generated
(Dollar Figures In $Millions)

	Sales Tax (Annual Yield)			**PD Property Tax (Annual Yield)[1]**			**Federal Sec. 5309 Funds (N.A.)**
Alternative & Cost	**From 5/04 Referndm.[2] ($4.0)**	**0.1% Incrmnt. ($6.1)**	**0.3% Incrmnt. ($18.3)**	**0.378 Mills ($7.0)**	**0.813 Mills ($15.0)**	**1.947 Mills ($36.0)**	
Full Corridor BRT -- $70 million							
1. Existing Local Funding Plus Federal Funding	$57.0 (Bonds)						$13.0 (Grant)
2. New 0.1% Sales Tax w/No Federal Funding	$57.0 (Bonds)	$13.0 (Bonds; 15% of New Tax[3])					(No Fed Fnds)
U-City LRT/BRT - $160 million							
1. Existing and New 0.1% Sales Tax Plus Federal Funding	$57.0 (Bonds)	$87.0 (Bonds)					$16.0 (Grant)
2. New 0.1% Sales Tax Plus 50% Federal Funding		$87.0 (Bonds)					$80.0 (Grant)
3. Existing Sales Tax, New 0.378 Mill TBD Levy, and Fed. Funds	$57.0 (Bonds)			$100.0 (Bonds)			$3.0 (Grant)
Full Corridor LRT - $600 million							
1. Existing and 0.3% New Sales Tax Plus 50% Federal Funds[4]	$57.0 (Bonds)		$260.0 (Bonds)				$300.0 (Grant)
2. Existing and New 0.3% Sales Tax, New 0.813 Mill TBD Levy, and Federal Funds	$57.0 (Bonds)		$260.0 (Bonds)		$213.0 (Bonds)		$70.0 (Grant)
3. Existing Sales Tax, New 1.947 Mill TBD Levy, and Fed. Funds	$57.0 (Bonds)					$513.0 (Bonds)	$30.0 (Grant)

Notes

1. Form a new Port District (PD) with boundaries equal to those of the present PTBA. A smaller district would require higher levies to general funds needed for the project. However, limits on debt would apply, as discussed in the report text.
2. Based on STA forecast that $4 million/year may be available.
3. Remaining 85% of the 0.1% tax increment could be applied to operations or other capital needs, or spent pay-as-you-go.
4. Federal funding of 50% of the cost of the Full Corridor LRT alternative is highly improbable. Some federal "flexible funds" could potentially be used for the LRT project – perhaps up to $50 million over 6-10 years.