

DRAFT REPORT

**PUBLIC TRANSPORTATION
FISCAL HEALTH**

**AND COMPARING ITS FUNDING TO
STATE TRANSPORTATION FUNDING**

*Joint Transportation Committee
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DATA LIMITATIONS

This report was completed using available data. The data sets have limitations. Longer term graphs accurately portray trends, however, individual years or data points may reflect data error, or changes in data treatment. In addition, definitions of certain data may vary among transit systems, or have changed over time. Data in some cases is estimated, as in the case of transit ridership in the fare-free zone in the Seattle transit tunnel.

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Public Transportation Fiscal Health and Comparing Its Funding to State Transportation Funding

This study addresses the fiscal health of public transportation in Washington State, and provides a comparison between funding for public transportation and that for state transportation programs.

The study was authorized by ESHB 2190, the 2012 Supplemental Transportation Budget. It arose from discussions concerning the need for additional funding for public transportation, and questions about transit funding and reserves currently held by transit agencies. To inform future discussions, the budget proviso directed the Joint Transportation Committee (JTC) to evaluate the fiscal health of public transportation in Washington and make a comparison to the fiscal health of state transportation funding.

The study was conducted by staff of the Joint, House and Senate Transportation Committees, with oversight by the JTC Executive Committee.

Assessing Public Transportation Fiscal Health

Study staff engaged in numerous discussions to identify appropriate factors to evaluate fiscal health for public transportation. Three principles emerged from these discussions:

- 1. In many respects, fiscal health is in the eyes of the beholder.** Transit services and their cost are evaluated differently by different people with different perspectives. Some of the following factors may identify fiscal health to some people, but not to others.
 - Stable revenues and stable services?
 - Are services being delivered in a cost effective manner?
 - Are the services sufficient and acceptable to those being served? Frequent? Reliable? Safe?
 - To what extent should the farebox (a “user fee”) pay for the services delivered?
 - Does the cost to the community equal the benefits? Congestion relief? Safety-net services?
 - Do revenues pay for the services that the community wants? Is the service sustainable? Is there capacity for a voter-approved sales tax increase?
- 2. Metrics to measure fiscal health may conflict with one another.**
 - A high fare may result in a higher farebox recovery rate, but may discourage ridership.
 - Peak hour services generally are more expensive per hour than other fixed-route service.
 - Special needs transportation is vital to many people, but is more expensive than fixed-route service. Some federally-required services such as ADA paratransit is very expensive to provide and serves a relatively small population – a population that is predicted to increase as baby-boomers age.
 - Local sales tax revenues are a primary funding source, but they fluctuate with the economy, while the services transit systems provide don’t always similarly fluctuate.
 - Goals and expectations are determined by each local or regional community, and as a result, they vary greatly throughout the state.
- 3. A better assessment of transit fiscal health requires the use of several fiscal health metrics.** A more accurate assessment of fiscal health may best be accomplished by taking into account several metrics. Use of a single metric to assess a transit system may not provide an accurate picture of that system’s fiscal health, and can often be misleading.
 - Changes in local transit tax revenues may reflect changes in many factors including economic activity, population, changes in boundaries of the service (and taxing) area, or

capacity for increases in local tax rates.

- Overall revenue may vary with many factors including fares, tax receipts, and federal funds.
- Rising costs per rider means that costs are rising faster than ridership. Is this due to cost of service inputs (labor, fuel), reduced ridership, changes in productivity, changes in service levels or routes, congestion, or a combination of these and other factors?
- High transit ridership can mean additional tax subsidies are needed to add services. Is high ridership a good thing, even if it requires more funds to operate more services?
- What is the appropriate trade-off between operating and capital investments? For example, at what point does it make better fiscal sense to purchase a new bus rather than maintaining an older one?

Study Resources

The primary data resources used in this study include the following:

- The WSDOT Public Transportation Division's annual publication, *Summary of Public Transportation*;
- Federal Transit Administration's *National Transit Database*;
- Legislative Evaluation and Accountability Program (LEAP) expenditure data for state transportation programs;
- WSDOT program expenditure data for state transportation programs; and
- Other sources including transit agencies annual reports; Washington State Transit Association materials; FHWA's National Household Travel Survey; and past JTC and Legislative Transportation Committee (LTC) transit studies.

Study staff regularly consulted WSDOT Public Transportation Division staff during the course of this study. In addition, study staff consulted with the Federal Transit Administration, the Washington Policy Center, and the Washington State Transit Association (WSTA) on issues of inflation discount factors, transit reserve fund categorization and transit fleet condition measurement. Study staff also met with two Imperial College of London consultants who conduct transit performance assessment and improvement in the United States and throughout the world.

Analytical Approach

This study analyzes transit and state transportation funding and expenditures over a 21-year period, 1991-2011. Compared with a single point-in-time analysis, this long term data analysis better depicts the effect of economic fluctuations, and changes in state and local revenue, federal aid, and in costs and ridership. This time frame includes the period when the motor vehicle excise tax (MVET) was a significant funding source for transit and state transportation purposes, and the years after the MVET was eliminated.

For transit comparisons, the analysis focuses on changes over time. It does not compare individual systems to each other, nor to systems operating elsewhere in the United States. For certain graphs, dollars are adjusted for inflation, as noted on the graphs.

This report includes several trend and comparative graphs to help identify public transit fiscal health.

- Revenues including tax authority, fares, other sources
- Expenditures, including operating and capital
- Reserves, including breakdown by type
- Costs per hour of service delivered
- Ridership changes over time
- Costs per rider served

To analyze fiscal trends, Washington transit systems were grouped into categories based on populations in transit services areas. The groupings are below; the year of formation is in parentheses.

Urban Systems	
C-Tran (Clark; PTBA; pre-1991)	Spokane Transit (PTBA; pre-1991)
Community Transit (Snohomish; PTBA; pre-1991)	King County Metro (County; pre-1991)*
Everett Transit (City; pre-1991)	Sound Transit (RTA; 1996)**
Pierce Transit (PTBA; pre-1991)	

* For certain data analyses in this study, King County Metro (KC Metro) and Sound Transit (ST) are analyzed separately from the other urban systems. When looking at the six urban systems other than Sound Transit, KC Metro represents about 50 percent of urban systems' ridership, vehicle hours, and operating costs. As a result, including it in the urban systems data analysis tends to distort the analysis for other urban systems. So study staff have chosen to show KC Metro separate from other urban systems in some data analyses.

** Sound Transit is a unique type of transit system in the state, both by virtue of its size and revenue base, and the service it provides. It was formed in 1996 as a three-county system focused on a capital plan to develop a light rail system, commuter rail, and a support structure for regional express bus services. ST also contracts with local transit agencies to operate its service in King, Pierce and Snohomish counties, and light rail and commuter rail. ST is included in certain of the analysis when overall funding for public transportation is portrayed.

Small Urban Systems: Areas with 50,000-200,000 persons	
Asotin County PTBA (PTBA; 2004)	Link Transit (PTBA; Chelan-Douglas; pre-1991)
Ben Franklin Transit PTBA; pre-1991)	Skagit Transit (PTBA; 1993)
City of Selah Trans. Service (City; 2007)*	Union Gap Transit (City; 2007)*
Cowlitz Transit Authority (PTBA; pre-1991)	Whatcom Trans. Authority (PTBA; pre-1991)
Intercity Transit (Thurston; PTBA; pre-1991)	Yakima Transit (City; pre-1991)
Kitsap Transit (PTBA; pre-1991)	*Selah and Union Gap data shown in Yakima Transit for 2007

Rural Systems: Areas with fewer than 50,000 persons	
Clallam Transit System (PTBA; pre-1991)	Mason County Trans. Authority (PTBA; 1992)
Columbia County Public Trans. (CTA; 2004)	Pacific Transit (PTBA; pre-1991)
Garfield County Public Trans. (UTBA; 1999)	Prosser Rural Transit (absorbed by Ben-Franklin pre 1991)
Grant Transit Authority (PTBA; 1996)	Pullman Transit (City; pre-1991)
Grays Harbor Trans. Authority (CTA; pre-1991)	Twin Transit (Lewis; PTBA; pre-1991)
Island Transit (PTBA; pre-1991)	Valley Transit (Walla Walla; PTBA; pre-1991)
Jefferson Transit Authority (PTBA; pre-1991)	Whitman County (UTBA; no operations)

Public Transit System Overview

Governance

There are 31 public transportation systems providing service in 28 of Washington's 39 counties. These systems are locally-controlled, special-purpose municipal governments. Most systems operate within a single county, while three serve multiple counties: Link Transit (Chelan and Douglas Counties); Ben Franklin Transit (Benton and Franklin Counties); and Sound Transit (King, Pierce, and Snohomish Counties).

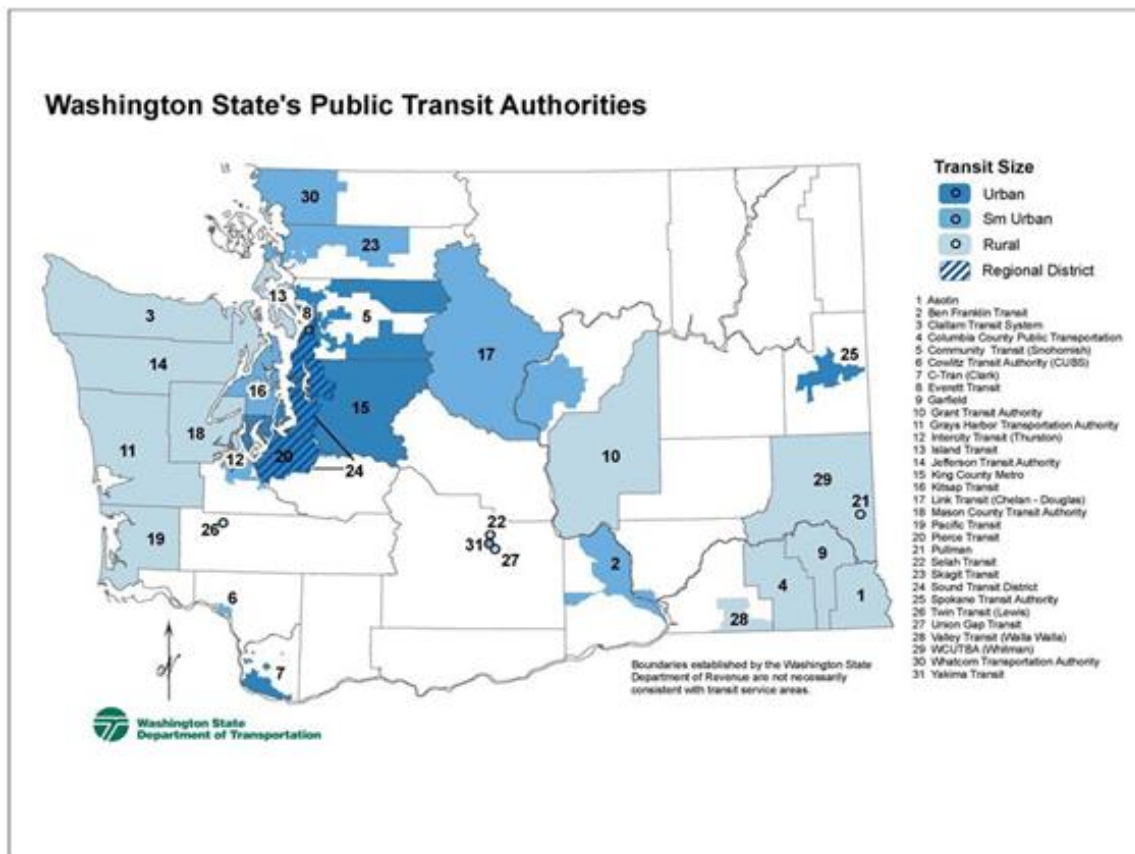
In 1991, there were 23 public transportation systems. During the time period analyzed in this study (1999-2011), nine more systems were created, and Benton City Transit was consolidated into Ben Franklin Transit, bringing the total to 31 today. These new systems include four rural systems (Columbia County, Garfield County, Grant and Mason County); four small urban systems (Asotin County, City of Selah, Skagit and Union Gap); and the largest transit system in the state, Sound Transit.

The following describes each of the transit system types authorized under current law.

- **Public Transportation Benefit Areas (PTBA) (RCW 36.57A)** are established within a single county or counties via a public transportation improvement conference convened by the county legislative authority. PTBAs include both incorporated and unincorporated areas. They are governed by up to fifteen elected officials selected by the legislative bodies of the county(ies) and the component cities. State law also authorizes citizen members to serve on the governing body of the Thurston County PTBA (no other governing bodies are authorized to add citizen members). In Mason County, the elected officials include school board members, fire district members, and public hospital district members. In PTBAs with labor organizations, the governing board also includes one non-voting labor representative chosen by the labor organizations. Twenty of Washington's transit systems are organized as PTBAs.
- **County transit systems (RCW 36.56)** are permitted in counties with a population of at least 210,000. Only one such system exists, King County Metro, created in 1991 when it assumed the responsibilities of a metropolitan municipal corporation (RCW 35.58). KC Metro is governed as an agency of King County (under the authority of the County Executive) and the service area is county-wide.
- **City transit systems (RCW 35.58.2721)** are established by elected city officials, and may operate within the city's corporate limits and up to 15 miles beyond. Five city transit systems operate in Washington: Everett, Pullman Selah, Union Gap, and Yakima.
- **County Transportation Authorities (CTA)(RCW 36.57)** are established by resolution of the county legislative body. The transit system's governing body is statutorily comprised of three county commission members and three mayors; the jurisdiction boundaries are county-wide. A CTA may contract for ambulance services; it may also be established to provide service to only persons with special needs. Only two of Washington's transit systems are organized as CTAs, and they are both rural systems – Columbia County and Grays Harbor.
- **Unincorporated Transportation Benefit Areas (UTBA)(RCW 36.57.100)** are formed by the county commission, and may operate in unincorporated areas only. Two UTBAs exist: the

Garfield County transit system which is currently operating, and the Whitman County system which has been formed, but is not providing service.

- A Regional Transportation Authority (RTA)(RCW 81.112.030)** is authorized only in the Puget Sound area, and there is just one -- Sound Transit. The governing board consists of 18 members: 17 are local elected officials appointed by the respective County Executives of the three member counties (King, Pierce and Snohomish) and the 18th is the State Secretary of Transportation. The local elected officials include mayors, city council members, and county executives and council members from within the three-county Sound Transit district. An RTA may operate or contract for commuter/express bus, commuter rail, and light rail service.



Types of Service

Most public transit service is operated on fixed routes and fixed schedules. Other service is provided through route-deviated service, vanpools, and paratransit service. Route-deviated service is a modified version of fixed-route service, with designated time points and potential deviations to pick up riders at other locations on an on-call basis. If a transit system provides route-deviated service, they are not required to provide the paratransit services described below.

General paratransit service serves people who cannot use fixed-route service (e.g., people who are older or who are disabled). Every transit agency that provides fixed-route service is required by the Americans with Disabilities Act (ADA) to provide origin-to-destination paratransit service within three-quarters of a mile of each fixed route when the effects of the disability prevent travel on an accessible fixed-route bus.

Funding Sources

State law provides most public transportation systems with three local tax options for funding transit service, all of which are subject to voter approval and under state law cannot be used concurrently with each other:

- Sales and use tax of up to 0.9 percent (utilized by 28 systems);
- Household tax of up to \$1 per month for each housing unit (utilized by no systems); and
- Business and occupation tax (utilized by one system, Pullman Transit; imposed via a two percent local utility tax).

Congestion reduction charge. In 2011, the Legislature authorized KC Metro to impose a congestion reduction charge of up to \$20 for certain vehicles. The tax is authorized for two years and expires June 30, 2014. The tax could have been imposed by either a majority vote of the people or a two-thirds vote of the county legislative authority. The King County Council imposed a \$20 dollar fee from June 1, 2012 through May, 2014 (RCW 82.80.055).

Sound Transit, operating under authority of an RTA, has some taxing authority distinct from other transit systems. As such, it is authorized to levy a sales and use tax of up to 0.9 percent, which it is now imposing, and an employer tax of up to \$2 per month per employee, which it is not currently imposing. Until the passage of Initiative 776 in 2002, Sound Transit also had the authority to levy a motor vehicle excise tax (MVET) of up to 0.8 percent. At the time Initiative 776 passed, Sound Transit had imposed a 0.3% MVET, whose revenue was pledged to the repayment of bonds. The Washington Supreme Court upheld its collection in *Pierce County v. State*, 159 Wn.2d 16 (2006), and as a result, Sound Transit will continue to collect 0.3% MVET until the bond debt is fully retired in approximately 2028.

Local Option Sales and Use Tax

In 2010, local option sales and use tax revenues provided over 64 percent of all funds for transit. Current law authorizes each transit system to seek local approval for up to 0.9 percent in sales and use tax support. Transit systems currently impose between 0.2 percent to 0.9 percent local option sales and use tax. The following table identifies the current breakdown of sales and use tax support for each transit system, as well as the type of system, the date of its last sales tax increase, and its service area population.

Of the 28 systems with sales and use tax support, 17 are at a 0.6 percent sales tax rate or higher. Five systems are at the maximum level of 0.9 percent: Community Transit, Island Transit, Jefferson Transit Authority, King County Metro, and Sound Transit, while Kitsap Transit and Intercity Transit are at 0.8 percent.

Since 2008, voters have approved sales tax increases for C-TRAN, Island Transit, Intercity Transit, Jefferson Transit, River Cities Transit (Cowlitz), Selah Transit, Skagit Transit, Sound Transit, Spokane Transit (vote removed sunset clause), Union Gap and Valley Transit. During the time period analyzed in this report (1999 – 2011), voters have approved sales tax increases for 25 of the 31 public transit systems, sometimes more than once for a given transit system. Since 2008, voters have rejected sales tax increases for Pierce Transit, C-TRAN and Whatcom Transit.

For the 17 transit systems that are at a sales tax rate of 0.6 percent or more, several such as Island Transit, Clallam Transit, and Skagit Transit are in areas without a major sales tax base. This means that their sales tax rate generates relatively less revenue than a similar sales tax rate in an area with a larger sales tax base.

Transit System	Authority	Sales Tax		Service
		Rate	Effective date of Last Increase	Area Population
1 Asotin County PTBA	PTBA	0.2%	4/1/2005	21,650
2 Ben Franklin Transit	PTBA	0.6%	7/1/2002	232,178
3 Clallam Transit System	PTBA	0.6%	1/1/2001	71,600
4 Columbia County Public Transportation	County	0.4%	4/1/2006	4,100
5 Community Transit (Snohomish County)	PTBA	0.9%	1/1/2002	524,954
6 C-TRAN (Clark County)	PTBA	0.7%	4/1/2012	362,175
7 Everett Transit	City	0.6%	1/1/2005	103,100
8 Garfield County Public Transportation	UTBA	0.0%	N/A	835
9 Grant Transit Authority	PTBA	0.2%	1996	90,100
10 Grays Harbor Transportation Authority	County	0.6%	2000	72,900
11 Intercity Transit	PTBA	0.8%	1/1/2011	161,407
12 Island Transit	PTBA	0.9%	1/1/2010	78,800
13 Jefferson Transit Authority	PTBA	0.9%	7/1/2011	30,050
14 King County Metro	County	0.9%	4/1/2007	1,942,600
15 Kitsap Transit	PTBA	0.8%	10/1/2001	253,900
16 Link Transit	PTBA	0.4%	1990	106,093
17 Mason County Transportation Authority	PTBA	0.6%	1/1/2001	61,100
18 Pacific Transit	PTBA	0.3%	1979	20,900
19 Pierce Transit	PTBA	0.6%	7/1/2002	747,861
20 Pullman Transit	City	0.0%	N/A	29,820
21 River Cities Transit (Kelso-Longview)	PTBA	0.3%	4/1/2009	48,650
22 City of Selah Transportation Service	City	0.3%	7/1/2007	7,205
23 Skagit Transit	PTBA	0.4%	4/1/2009	102,433
24 Sound Transit	Regional	0.9%	4/1/2009	2,762,363
25 Spokane Transit Authority	PTBA	0.6%	1/1/2008	399,304
26 Twin Transit (Centralia-Chehalis)	PTBA	0.2%	4/1/2005	23,750
27 Union Gap Transit	City	0.2%	4/1/2008	6,055
28 Valley Transit (Walla Walla)	PTBA	0.6%	7/1/2010	50,045
29 Whatcom Transportation Authority	PTBA	0.6%	2002	201,923
30 Whitman County UTBA (<i>not operating</i>)	UTBA	0.0%	N/A	14,980
31 Yakima Transit	City	0.3%	1980	91,630
Totals				5,847,118

The only operating transit system in the state not using sales tax for a revenue source is Pullman Transit, which uses a business and occupation tax. And while Whitman County UTBA has been formed by the county commission, it does not operate a system and does not impose any tax.

State and Federal Funding

The Washington State Department of Transportation (WSDOT) distributes a variety of state and federal grants to local transit systems to support public transportation programs. These grant programs include four federal grants (Federal Transit Administration Sections 5310, 5311, 5316, and 5317).

State funding and programs include the following:

- State Rural Mobility Grant Program (competitive grants);
- State Special Needs Grant Program (competitive grant for non-profit agencies and formula funds for public transit systems);
- Vanpool Investment Program (competitive grants for transits, cities, etc.);
- Regional Mobility Grant Program (competitive grants for transits, cities, etc., and described in more detail below); and
- Commute Trip Reduction Program (distribution criteria varies, goes to employers, transits, etc.).

In 2010, the State also created a Public Transportation Grant Program (operating funds for transits, distributed by formula). The total State funding for public transportation for the 2011-13 biennium is \$112 million; however, not all of those funds go to public transit systems. In 2010, for example, the total state investment for public transit agencies was \$36.6 million (operating and capital combined), which is about two percent of total transit funding in the state.

WSDOT uses a consolidated application process for those organizations applying for both state and federal public transportation grants. Applicants describe their projects and provide pertinent information. Based on this information, the appropriate type of funding when awarding projects is determined. Timelines for all state and federal funding awards are in line with the state biennium, so applicants need to submit their grant proposals once every two years. Most of the grant programs can be used for both capital and operating expenses, which may include operating assistance for paratransit or special needs transportation services, feeder bus service for an intercity network, mobility management, and a program to assist persons with riding transit.

The Regional Mobility Grant (RMG) program which competitive grants to local transit systems to deliver transit mobility projects that are cost-effective, reduce travel delay for people and goods, improve connectivity between counties and regional population centers, and are consistent with local and regional transportation and land use plans. Capital construction, equipment acquisition and operating projects are eligible expenditures. Projects are competitively evaluated and a ranked list is submitted to the Legislature for appropriation.

In addition to the federal grants distributed through the consolidated grant program referenced above, a variety of revenue sources are available directly from the USDOT, including the Federal Transit Administration (FTA) and the Federal Railroad Administration (FRA). The FTA Section 5309 "New Starts" and "Bus and Bus Facilities" grants are a significant funding source for local transit agencies. Agencies apply for these grant funds, and once awarded, discretionary funding is appropriated through the annual congressional appropriations process. Section 5307 formula funds are another significant source of federal funding for urban and small urban transit agencies. These funds are distributed on a formula basis, and as a result are considered a more reliable source of support for local transit agencies than competitive grants or discretionary funds.

Motor Vehicle Excise Tax

Until the year 2000, transit agencies collected significant revenues from a motor vehicle excise tax (MVET). State law permitted transit agencies to impose an MVET, which was then credited against the state MVET rate within the transit district. Thus, the MVET rate remained unchanged for a transit district resident registering a vehicle, but the transit agency received the MVET distribution and the state revenues were reduced. The transit MVET had to be matched by locally-generated transit tax revenues. MVET was a significant funding source for some but not all transit agencies, representing between zero and 50 percent of local transit tax revenues. In 1999, transit agencies received \$259 million in MVET revenues, which represented 31 percent of all locally-generated transit tax revenues.

Following the passage of I-695 in 1999, the Legislature repealed the MVET in 2000. In an effort to replace some of that lost funding, the Legislature authorized local transit agencies to impose up to an additional 0.3% local option sales tax. This increased the maximum voter approved sales tax rate for public transit agencies from 0.6% to 0.9%.

In 2002, statewide voters approved Initiative 776, which repealed MVET authority for Sound Transit and high capacity transit purposes. Prior to Initiative 776, Sound Transit was authorized to impose up to 0.8% MVET, and voters had approved a 0.3 percent MVET rate. That 0.3 percent MVET was pledged to repay bonds financing voter-approved capital expenditures. The Washington Supreme Court ruled in *Pierce County v. State*, 159 Wn.2d 16 (2006) that because the Sound Transit MVET was pledged to repay bonds, the MVET could be collected until the bonds were paid off, which is estimated to be in 2028.

Fares

Transit fares provide a significant amount of transit funding. Transit agencies have varying policies regarding fare-setting; some seek higher farebox recoveries to help cover costs, while others seek lower farebox recoveries to make service accessible to more people and increase ridership. Federal law requires that certain fixed-route bus trips serving those with special transportation needs be provided at one-half the bus fare.

The lower farebox recovery rates typically seen in demand-response services are due to reduced fare or fare free policies that support ridership among special needs populations, and federal and state policies and practices. Because of federal law, transits typically receive only one to one-and-a-half times the equivalent of a regular bus fare for ADA-required paratransit trips, which can cost over \$30 per trip. Under the state's broker and reimbursement system for Medicaid trips, transits typically receive the equivalent of a regular bus fare, even when the trip is on the more expensive demand response (paratransit) vehicles. These approaches skew the farebox recovery and also mean that local taxpayers are required to make up the difference between the bus fare and the actual cost of the trip. Systems serving larger populations often have higher farebox recovery ratios.

In 2010, transit farebox receipts were \$223 million, and with farebox recovery ranging from 2.2 percent for demand-response services to 22.8 percent for fixed-route services, and nearly 82 percent for vanpool programs. Fares have increased for many systems in the past five years, while other systems have maintained low fares or remain fare free. In 2010, fares (excluding vanpools) provided 12.5 percent of operating revenue; in 2011, fares provided 13.2 percent of operating revenue.

Annual Funding for All Systems Statewide

Funding for transit systems is shown in Figures 1-3. The table below summarizes the data in Figure 1.

<i>\$ in millions</i>	1991	2010
Retail sales tax	\$220	\$1,252
Fares	\$62	\$224
Vanpool revenue	\$0	\$20
MVET	\$128	\$66
Federal funds	\$47	\$362
Other local funds	\$74	\$78
State funds	0	35
TOTAL	\$531	\$2,037

A similar graph is shown in Figure 2, organized by transit system group, and summarized below.

<i>\$ in millions</i>	1991	2010
Rural	\$15	\$53
Small urban	\$49	\$180
Large urban	\$139	\$360
KC Metro	\$328	\$644
Sound Transit	\$0	\$800
TOTAL	\$531	\$2,037

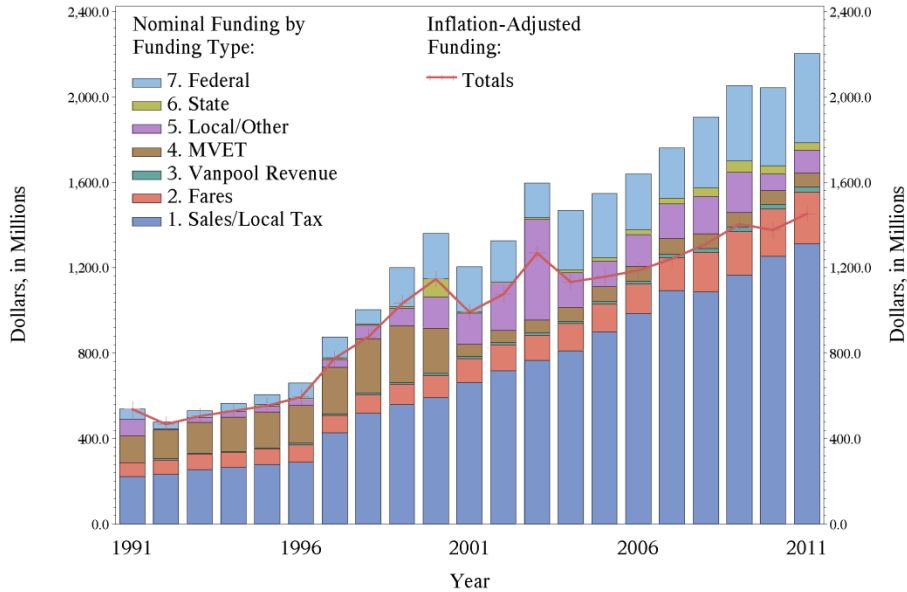
Figure 3 shows the change in the types of funding received. In 1992 (used due to an unusual amount of "other funds" in 1991), MVET represented more than a quarter of all funds received. In 2010, funding had shifted to sales taxes, fares, and federal funds, which together constituted almost 80 percent of all funding.

Observations

- Transit funding has grown by an average of 7.3%, annually since 1991. While much of the growth is due to increases in sales tax collections, (due to economic conditions, population growth, tax rate increases, or additional transit agencies), fares, federal funds, and other revenues have also grown.
- KC Metro and Sound Transit collect the largest share of transit revenues. In 1991, KC Metro received 62% of the statewide total. In 2010, KC Metro collected 32% and Sound Transit 39% of the statewide total, for a combined total of 71%.
- There was a drop in funding in 2000, related to the loss of MVET funds; and again in 2010, likely due to the effects of the recent recession.
- The local MVET was repealed by Initiative 776 in 2002, but Sound Transit continues to collect it. This is because the Washington Supreme Court ruled in *Pierce County v. State*, 159 Wn.2d 16 (2006) that Sound Transit may continue to collect the MVET pledged to pay off bonds that are expected to be retired in 2028.
- A significant portion of funding in the 2000's is categorized "local/other." This is largely attributable to funds received by Puget Sound transit agencies providing contracted services to Sound Transit, and the use of reserves.
- After the repeal, when the Legislature granted transit agencies additional sales taxing authority, voters in a number of communities approved additional taxes, and the statewide average rate rose from 0.44% in 2000 to 0.78% in 2010.

Figure 1

Annual Funding, for All Systems Statewide Nominal vs. Real (Inflation-Adjusted, 1991=100%) Funding

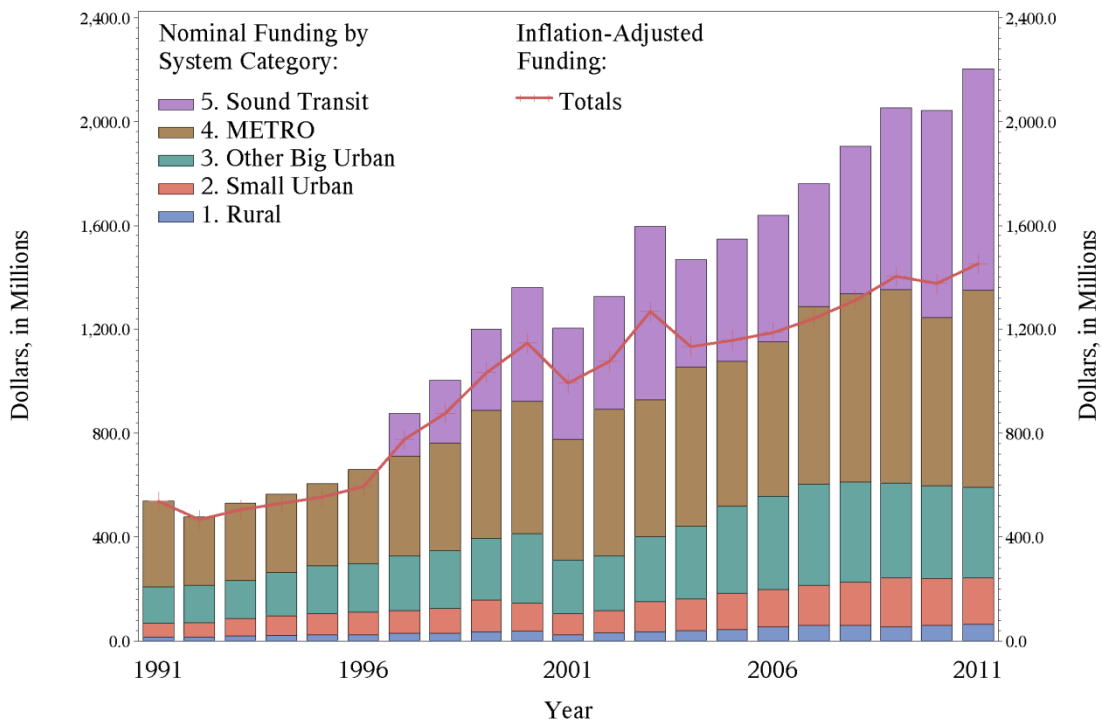


Produced by the Joint Transportation Committee and Legislative Committee Staff

Data Source: WSDOT Public Transportation Summary Reports, 1991-2011

Figure 2

Annual Funding, for All Systems Statewide Nominal vs. Real (Inflation-Adjusted, 1991=100%) Funding

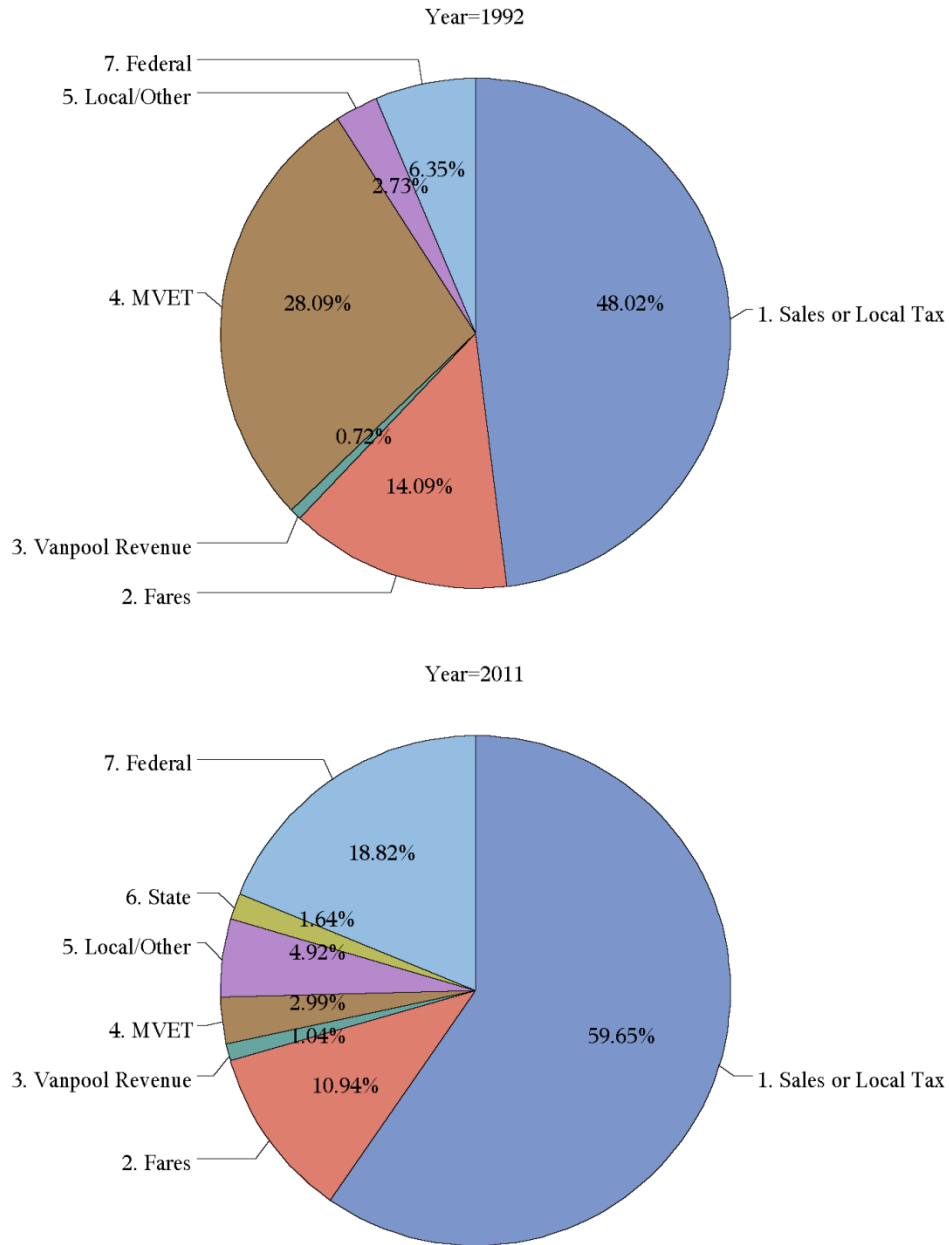


Produced by the Joint Transportation Committee and Legislative Committee Staff

Data Source: WSDOT Public Transportation Summary Reports, 1991-2011

Figure 3

Distribution of Total Funding for Selected Years For All Systems Statewide



Annual Expenditures for All Systems Statewide

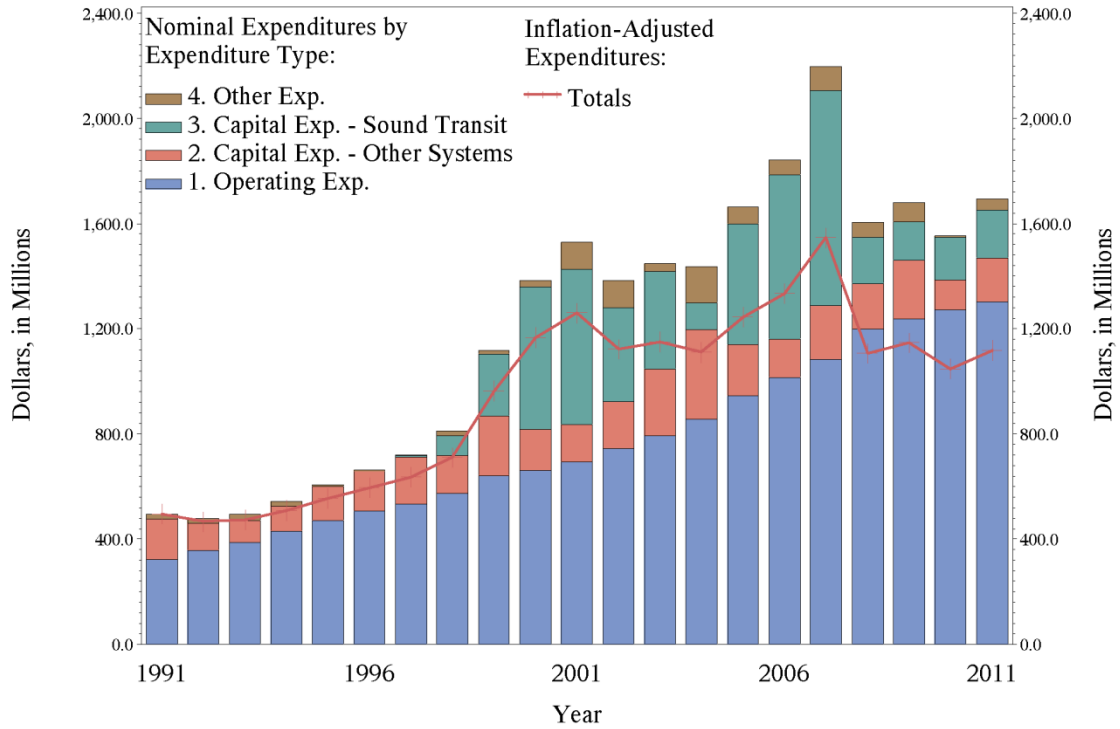
Funding for transit programs is spent primarily on operating and capital outlays. The distribution over time is shown in Figure 4. In 1991, out of total expenditures of \$552 million, operating expenditures were \$322 million (58%) and capital expenditures were \$212 million (38%). In 2010, out of total expenditures of \$1.9 billion, operating expenditures were \$1,270 million (67%) and capital expenditures were \$572 million (30%).

Observations

- Growth in operating expenditures was robust over the entire 1991-2010 period, 7.5 percent a year. Even during the periods of apparent fiscal stress, in 1999-2002 and 2008-2010, overall operating expenditures grew at annual rates of 5.3 percent and 3.0 percent, respectively.
- During this same 1991-2010 period, eight new transit systems were created, more than 25 sales tax rate increases have been approved by local voters to support transit, and passenger trips have grown from 124 million to 212 million.
- To some extent, operating expenditures are driven by factors outside the control of transit agencies, such as fuel prices.
- Transit agencies have responded to revenue reductions in a number of ways. These may include voter-approved tax increases, fare increases, service reductions or realignments, reductions in administrative staff and operators, and deferred vehicle replacement and other capital expenses.
- Outlays for capital varied from year to year; no steady pattern emerged. This may be because the capital needs and obligations of systems are "lumpy", meaning such obligations occur intermittently. Since most transits do not bond for capital expenses, they may need to save over a period of years before making the actual expense. Also, different cost drivers affect different kinds of capital expenses (e.g. bus purchases vs. construction projects).
- After the voters approved funding for the Regional Transit Authority in 1996, the majority of statewide transit capital outlays after this time are attributable to Sound Transit's ST1 and ST2 programs. From 1999 through 2010, almost two-thirds of transit agency expenditures for capital purchases were from Sound Transit.
- Comparing with Figure 1, total expenditures in 2007 exceeded incoming total funding for the year. This imbalance occurred and was made possible as Sound Transit drew down a substantial portion of its undesignated reserves in order to finance a number of large capital obligations, including the opening of Link Light Rail and boring the tunnel under Capitol Hill.

Figure 4

Annual Expenditures, for All Systems Statewide Nominal vs. Real (Inflation-Adjusted) Expenditures



Produced by the Joint Transportation Committee and Legislative Committee Staff

Data Source: WSDOT Public Transportation Summary Reports, 1991-2011

Revenue Vehicle Hours by Year

Revenue vehicle hours are the number of hours that vehicles are providing service to carry passengers and do not include dead-heading (such as a bus that is leaving the base to start service for the day, but has not picked up the first passenger of the day) or maintenance time, for example.

Figure 5 shows annual revenue vehicle hours for fixed-route and route-deviated services statewide by system group, and the data is summarized below.

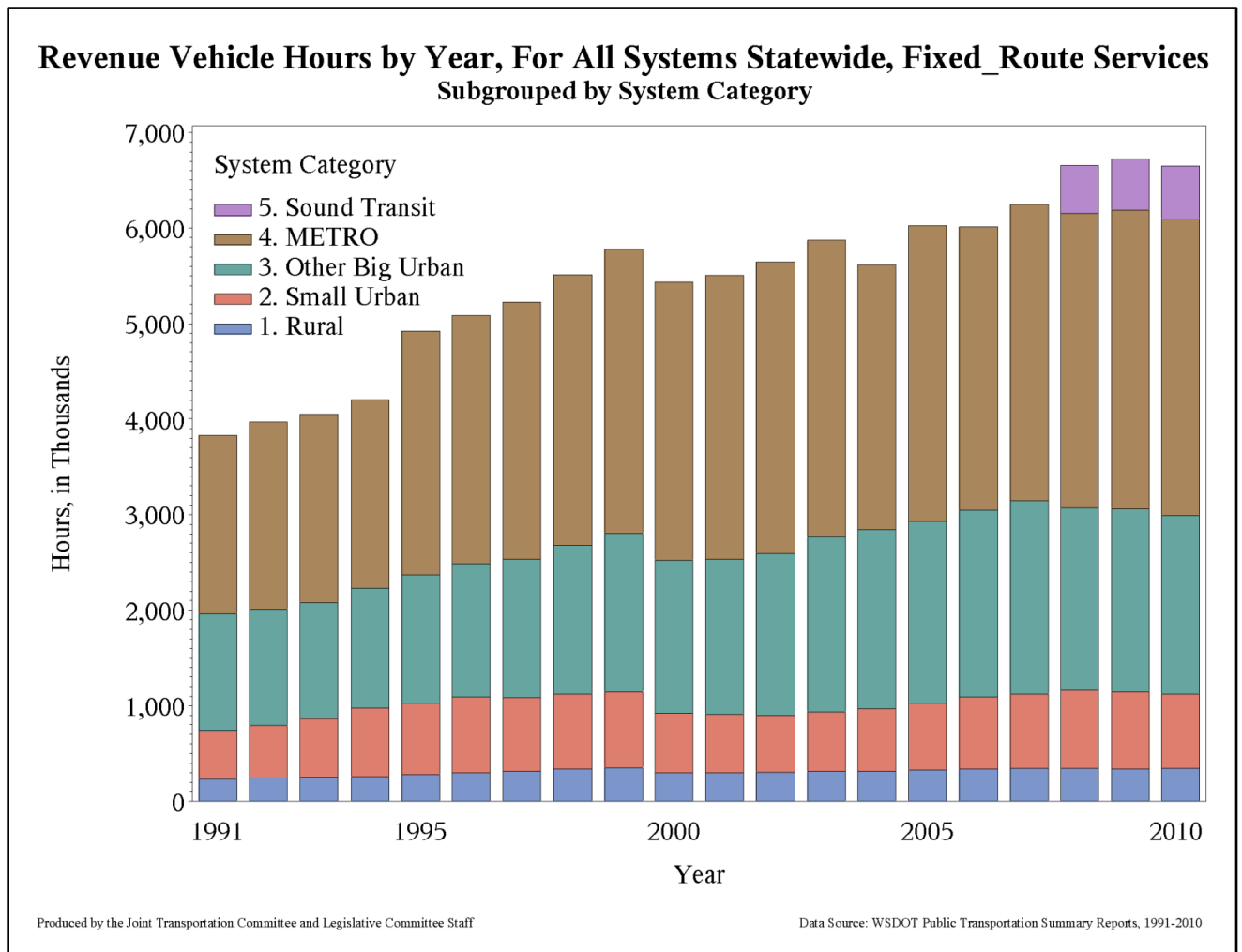
	1991 <i>Hours in thousands</i>	2010 <i>Hours in thousands</i>
Rural	236	331
Small urban	506	788
Big urban	1,222	1,678
KC Metro	1,866	3,106
Sound Transit*	NA	533
TOTAL	3,830	6,436

* Sound Transit contracted service routes

Observations

- From 1995 to 2010, transit service increased statewide by an average annual growth rate of 1.7 percent.
- From 1999 through 2002, average annual growth was -0.8 percent.
 - The implication is that agencies scaled back services, probably in response to the loss of MVET funding, which meant fewer routes and runs. Some transit agencies lost over 30 percent of their funding with the loss of MVET, leading to service cuts.
- Average annual growth from 2002 through 2008 was 2.8 percent. From 2008 through 2010, the average annual growth was flat (0 percent).
 - It appears that agencies have tried to maintain services, for the most part, during the recession period beginning in 2008.
- In 2008, the graph shows that Sound Transit offered contracted fixed-route services for the first time; however, this was a change in reporting required by the Federal Transit Administration where ST data was previously included in the reports for King County Metro, Pierce Transit, and Community Transit.
- The data underlying the graph shows differences between system groups during service reductions. For example, following the repeal of the MVET (1999 – 2002), rural and small urban systems scaled back services the most, with annual average growth rates of -9.5 percent and -4.3 percent respectively. This contrasts with KC Metro and other big urban systems, which grew at 0.8 percent and 0.9 percent, respectively, during the period.

Figure 5



Passenger Trips by Year

A passenger trip is identified as a one-way trip from an origin to a destination. If the person transfers to another vehicle, the second leg of the journey counts as a second trip.

Figure 6 shows the number of passenger trips for fixed-route and route-deviated services statewide by year, organized by system group. The data is summarized below.

	1991 <i>Passenger trips in millions</i>	2010 <i>Passenger trips in millions</i>
Rural	4.8	6.0
Small urban	12.2	18.8
Big urban	26.8	42.3
KC Metro	78.4	109.0
Sound Transit*	NA	13.1
TOTAL	122.2	189.2

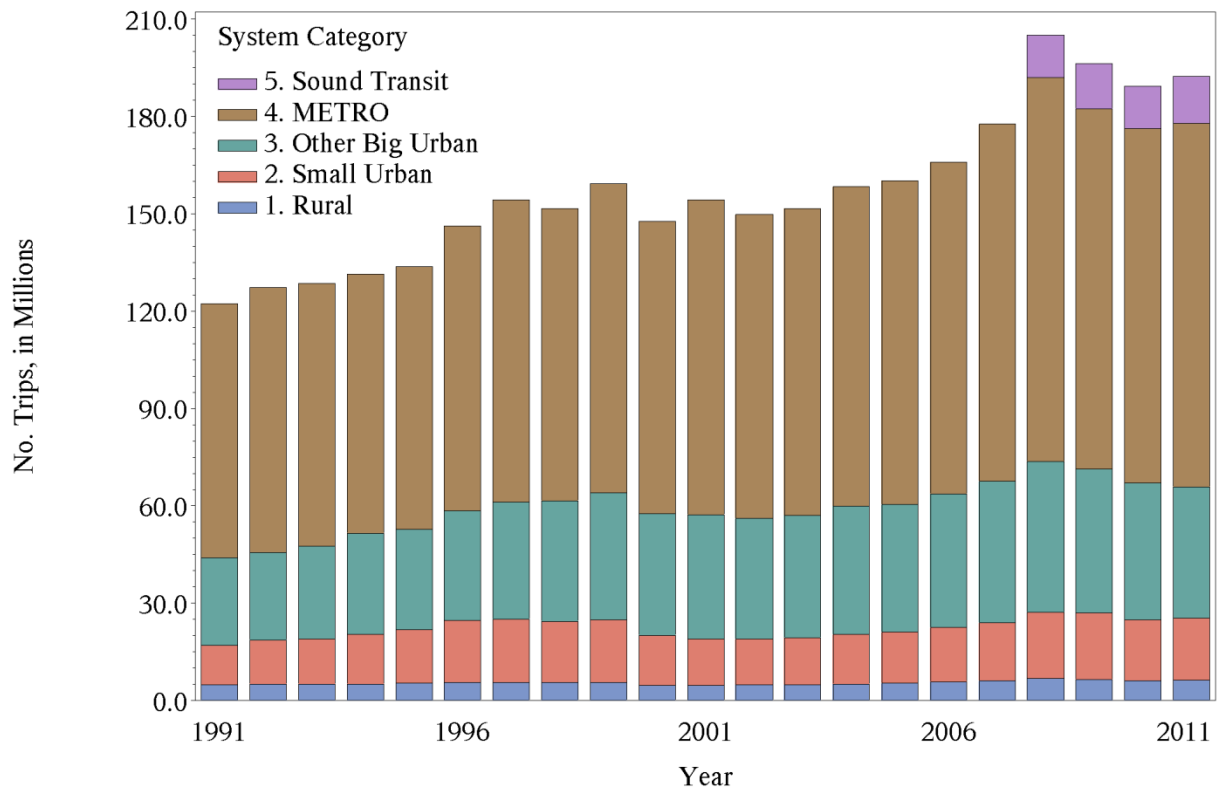
* Sound Transit contracted service routes

Observations

- Steady growth occurred in the 1990's across all groups, with average annual growth at 3.4 percent. The addition of eight new transit systems is also likely a factor in the growth in the number of trips.
- From 1999 through 2002, average annual growth was -2.1 percent.
 - As indicated by the trend in revenue vehicle hours, it appears that agencies scaled back services to respond to the loss of MVET funding. The reduction meant fewer riders during that period.
- Average annual growth from 2002 through 2008 was robust at 5.4%, and particularly strong in the later years of the period.
 - Sound Transit expanded service during this period, with the addition of express bus, commuter rail and light rail services.
 - Ridership grew in Central Puget Sound by 17 percent from 2003 to 2008.
 - It is possible that higher gasoline costs led more people to make transit trips in the later years of the period.
- Beginning in 2008, the recession years' average annual growth was -3.9%.
 - Data suggests that agencies have tried to maintain services, for the most part.
 - Economic activity and employment contribute to ridership numbers, and with the recession's job loss and reduced economic activity, transit ridership similarly declined.
- In 2008, Sound Transit appears to have riders on contracted fixed-route services for the first time; however, this was a change in reporting required by the Federal Transit Administration. Previously, their riders were included in the reports for KC Metro, Pierce Transit, and Community Transit.

Figure 6

Passenger Trips by Year, For All Systems Statewide, Fixed_Route Services Subgrouped by System Category



Produced by the Joint Transportation Committee and Legislative Committee Staff

Data Source: WSDOT Public Transportation Summary Reports, 1991-2011

Operating Costs per Revenue Hour

Performance indicators such as operating costs per revenue hour are monitored to evaluate the health of transit systems. This indicator is determined by dividing the total cost of the service provided by the number of hours the vehicles are in service.

Figure 7 shows, by system group, the operating costs per revenue hour for fixed-route and route-deviated services; the data is summarized below. The costs are adjusted for inflation ("real" costs) using the implicit price deflator for the gross domestic product.

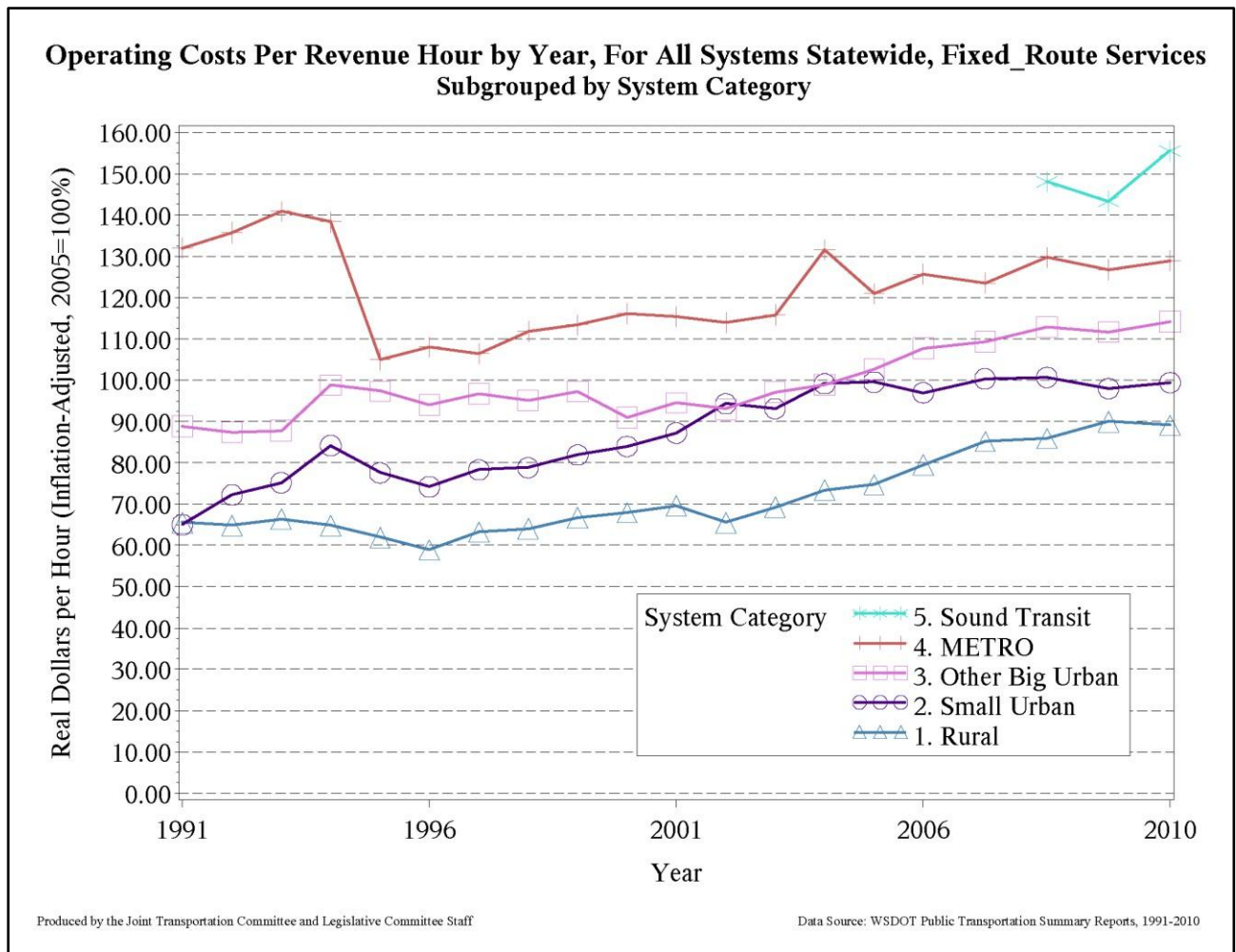
	1991	2010
Rural	\$66	\$89
Small urban	\$65	\$99
Big urban	\$89	\$114
KC Metro	\$132	\$129
Sound Transit*	NA	\$156

* Sound Transit contracted service routes

Observations

- For all system groups, the long term trend in real operating costs per revenue hour is upward. The average annual growth rates for the period (with KC Metro's beginning in 1995) were 1.6 percent for rural systems; 2.3 percent for small urban systems; 1.3 percent for big urban systems other than KC Metro; and 1.4 percent for KC Metro.
 - The upward trend in real operating costs per revenue hour suggests that the growth in operating costs for transit entities is exceeding the growth in general inflation.
 - In some cases, operating costs are driven by factors outside the control of transit agencies, such as fuel prices, health care costs, PERS, unemployment, L&I costs, increased driver hours associated with increased service, and wages set through binding arbitration.
- Operating costs per revenue hour are higher for urban systems than for rural.
- KC Metro appears to have become more efficient in the decade of the 1990's. However, it is believed that the way that the agency reported changed during that time period and that there was no substantive change in KC Metro's cost per hour.

Figure 7



Operating Cost per Passenger Trip

Operating costs per passenger trip for fixed-route and route-deviated services are shown in Figure 8. This performance indicator is calculated by dividing all the operating costs associated with providing fixed and route-deviated services by the number of passenger trips utilizing those services.

The graph in Figure 8 shows the indicator in real dollar terms (i.e., inflation-adjusted, with 2005=100 percent), using the IPD for GDP index. The data is summarized below.

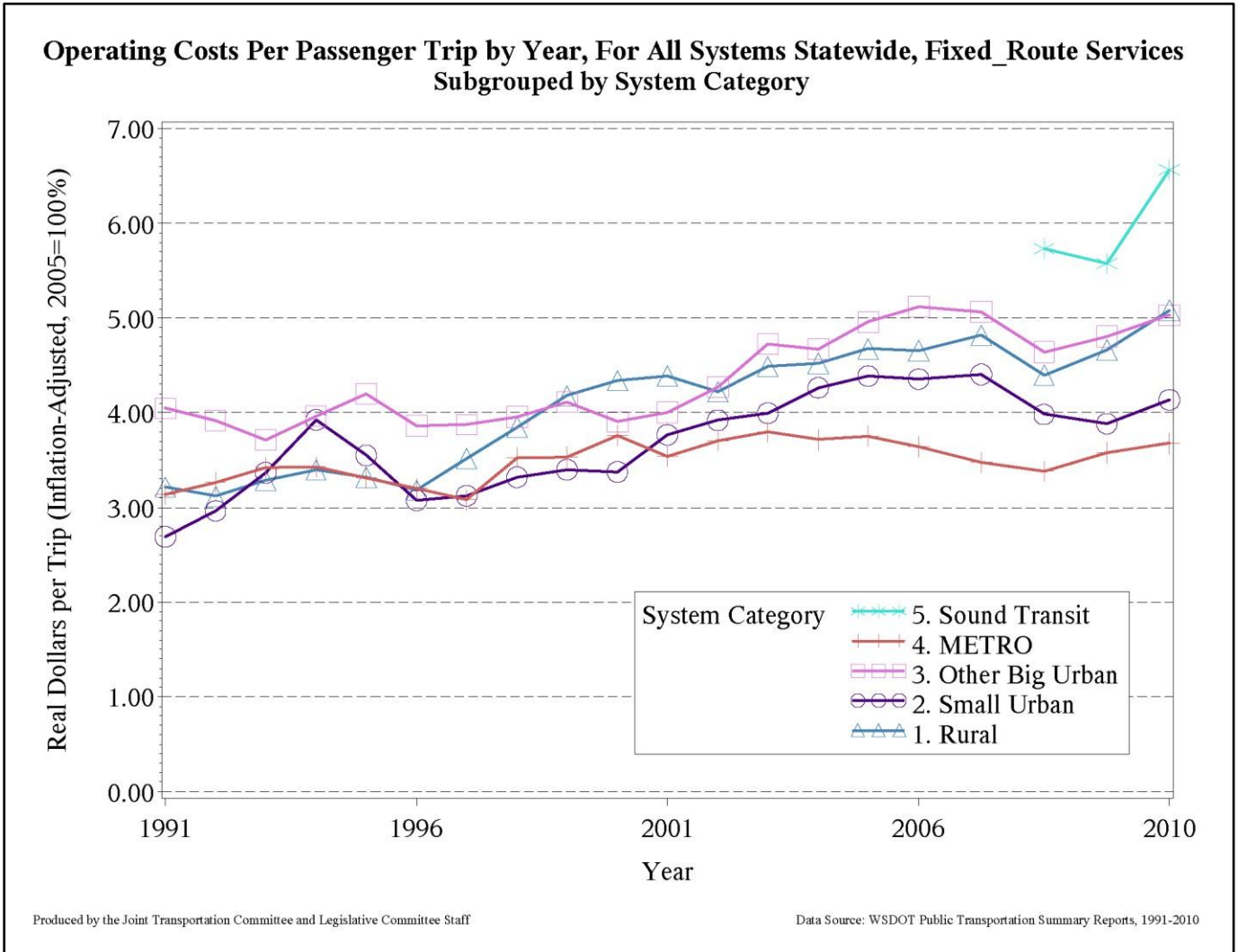
	1991	2010
Rural	\$3.22	\$5.08
Small urban	\$2.69	\$4.14
Big urban	\$4.05	\$5.03
KC Metro	\$3.14	\$3.68
Sound Transit*	NA	\$6.57

* Sound Transit contracted service routes

Observations

- All system groups experienced upward growth in real costs per passenger trip over the period. The average annual growth is shown below. As with operating costs per revenue hour, the implication is that costs per trip are rising faster than the general rate of inflation.
 - Rural, 2.4%
 - Small urban, 2.3%
 - Big urban, 1.1%
 - KC Metro, 0.8%
- In some cases, operating costs are driven by factors outside the control of transit agencies, such as fuel prices.
- Urban systems appear to have lower costs per passenger trip than do smaller urban systems and rural systems. This suggests that if costs are otherwise the same, urban systems are more efficient on a per-passenger basis because more passengers are served with an equivalent amount of service.
- Sound Transit's costs per trip are the highest of all transit systems. This can be attributed in to the fact that Sound Transit has the longest average passenger trip length of all big urban systems – 14.7 miles compared to 9.9 miles for Community Transit, and between 3 and 5 miles for the other systems. Trip length may also factor into Community Transit's high per trip costs.

Figure 8



Operating Cost per Revenue Mile

The operating cost per revenue mile performance indicator is somewhat similar to operating cost per revenue hour. The indicator is determined by dividing total operating costs of the service provided by the number of miles driven by the vehicles providing the service while in "revenue service." This is shown as real (i.e., inflation-adjusted) costs per revenue mile in Figure 9, by system group, and is summarized below.

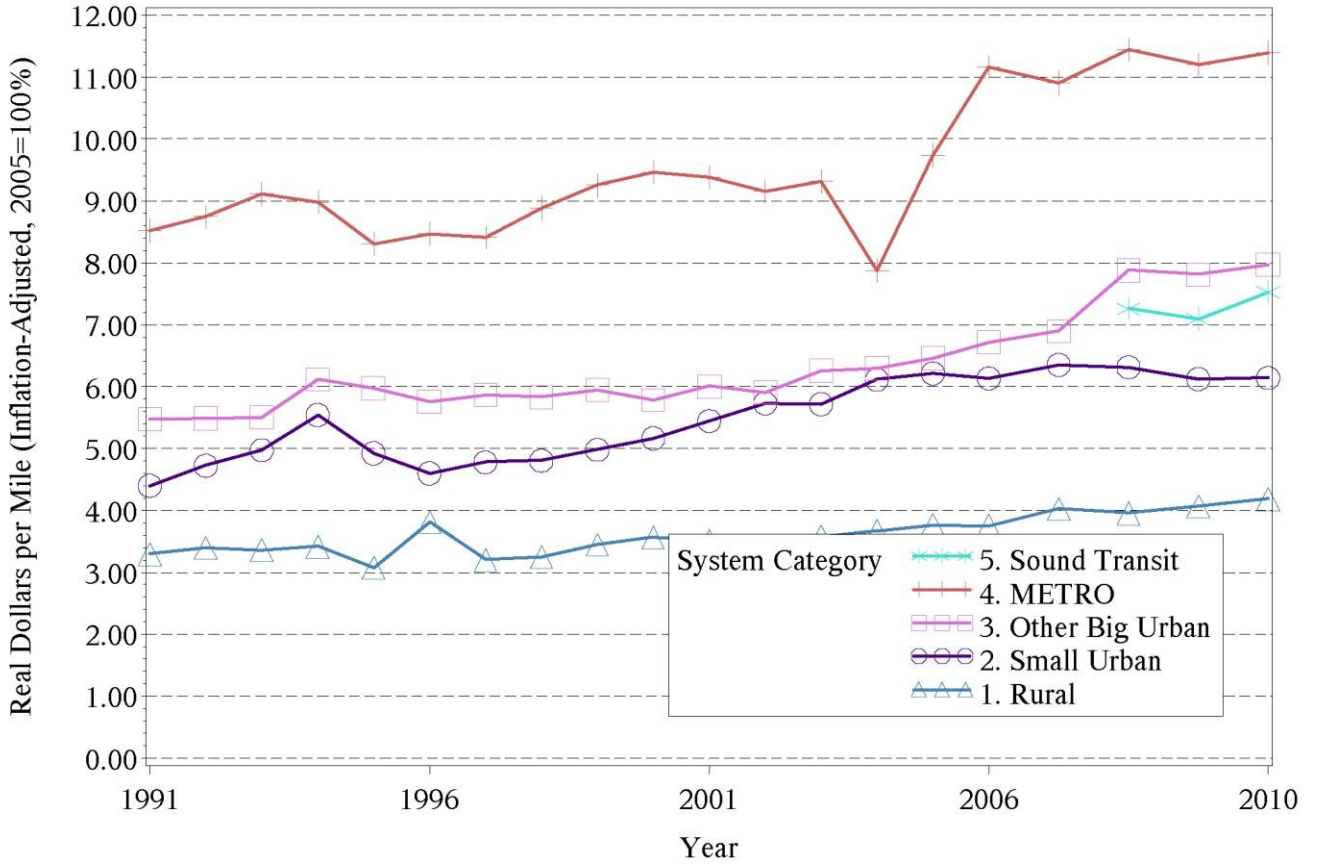
	1991	2010
Rural	\$3.30	\$4.19
Small urban	\$4.40	\$6.14
Big urban	\$5.48	\$7.97
KC Metro	\$8.53	\$11.40
Sound Transit	NA	\$7.53

Observations

- As with the other performance indicators relating to costs, this one shows an increasing trend over time for all system groups, with annual average growth rates as follows:
 - Rural, 1.3%
 - Small urban, 1.8%
 - Big urban, 2.0%
 - KC Metro 1.5 %
- Urban systems tend to have higher operating costs per revenue mile than do rural systems.
 - Congestion can drive higher costs.
 - Urban operating environments have higher costs due to lower speed limits.
 - Urban pay scales may be higher than rural pay scales.
- In some cases, operating costs are driven by factors outside the control of transit agencies, such as fuel prices.

Figure 9

Operating Costs Per Revenue Mile by Year, For All Systems Statewide, Fixed_Route Services Subgrouped by System Category



Produced by the Joint Transportation Committee and Legislative Committee Staff

Data Source: WSDOT Public Transportation Summary Reports, 1991-2010

Operating Cost by Type of Service

Much of the analysis has focused on fixed and route-deviated services, which comprise the majority of the service most transit systems provide to their customers. Transit systems also provide vanpool services, which are used by commuters travelling to and from work in a shared van. In addition, transit systems provide demand-response trips (sometimes referred to as “paratransit” trips), which is flexible transit service not provided on a typical fixed-route bus. Paratransit service and requirements vary depending on state and federal laws and practices, all of which affect operating costs and farebox recovery. For example:

- Some demand-response service is the federally-required Americans with Disabilities Act (ADA) service for people with disabilities who are not able to use fixed route service. This service typically is flexible, door-to-door service provided on small coaches or vans. Under federal law, transit agencies can only charge up to two times the fixed-route fare (in Washington, transits typically charge one to one-and-a-half of the fixed route fare) despite the fact that this service is the most costly service to operate.
- Some demand-response service is mandated to meet federal requirements to transport Medicaid patients. Washington State uses a broker system to deliver Medicaid transportation and, like the ADA-required paratransit, the fare for this service covers a relatively small portion of the cost to deliver this service.

Regardless of the type of paratransit service provided, the data shows that this type of service has a high cost per passenger relative to fixed-route service.

Figure 10 addresses operational costs as compared to passenger trips, for small urban systems. Using 1994 as an example, it shows the following:

- Demand-response service accounted for just 5.4% of trips but 19.1% of costs.
- Fixed-route service accounted for nearly 91% of trips but just 79.5% of costs.
- Vanpools accounted for 3.7% of trips but just 1.42% of costs.

By 2010, the disparity in cost for demand-response service was even greater.

- Demand-response service accounted for 6.4% of trips but 29.7% of costs.
- Fixed-route service accounted for 82.7% of trips but just 65.1% of costs.
- Vanpools accounted for 10.9% of trips but just 5.2% of costs.

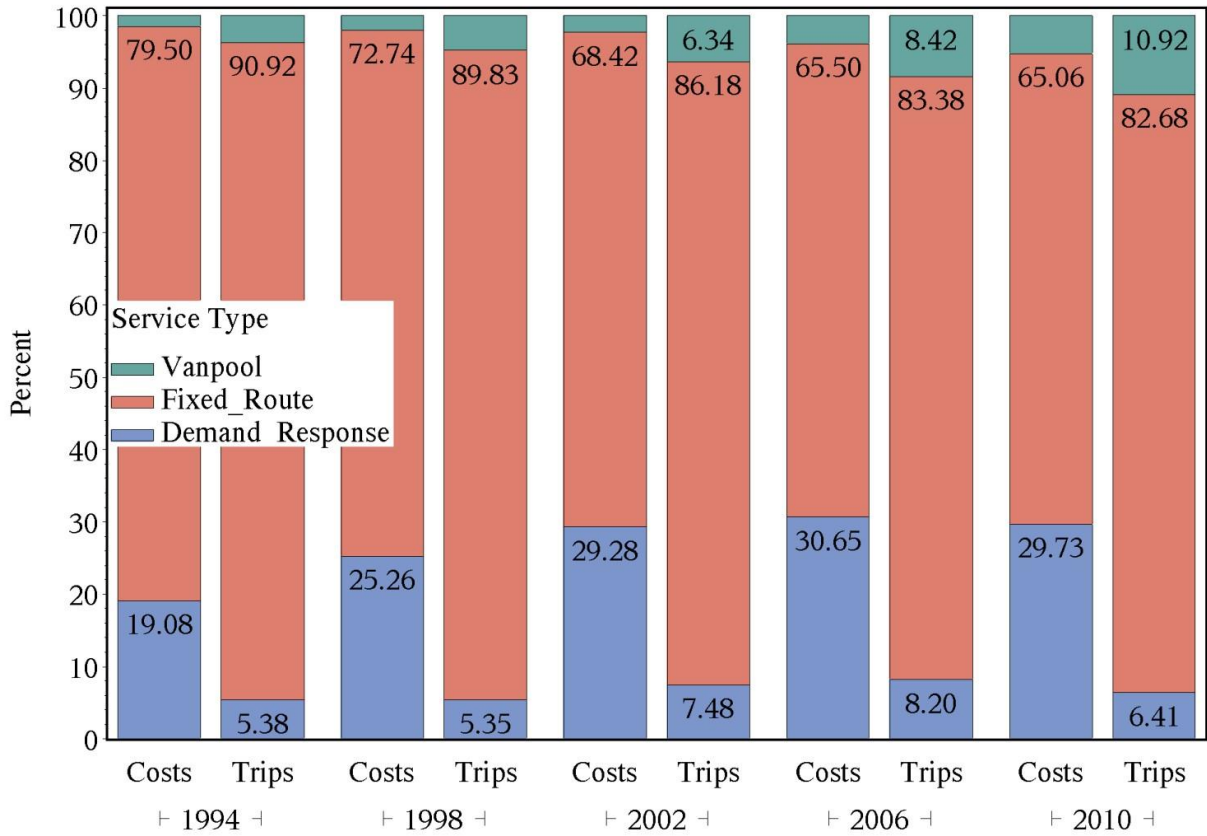
Figure 10 only includes cost comparisons for small urban systems. However, urban and rural systems are also greatly affected by the high cost of, and growth in demand for, demand-response service. For example, for C-TRAN, the cost of the ADA-required complimentary paratransit service is about \$35 per trip and makes up about 24 percent of C-TRAN’s operating budget, compared to 14 percent seven years ago.

Observations

- Demand-response services are relatively expensive compared to fixed-route and vanpool services.
- Demand-response and vanpool service is growing at a faster rate than fixed-route service for small urban systems.
- The cost of demand-response service is growing at a faster rate than other transit services.

Figure 10

Comparison of Operating Cost Distribution to Passenger Trip Distribution By Service Type, For Small Urban Systems



Produced by the Joint Transportation Committee and Legislative Committee Staff

Data Source: WSDOT Public Transportation Summary Reports, 1991-2010

Reserves

Figures 11 and 12 depict the amount of reserves held by all 31 transit systems, by year. Transit agencies maintain different categories of reserves for various reasons. Two major uses of reserves are for capital purchases and cash flow purposes. Most transit agencies do not issue bonds to pay for capital improvements. Rather, they set aside reserves from operating funds to pay for future capital replacement needs, and then pay cash for their capital purchases. Many transit systems also maintain reserves to address cash flow issues and to help them maintain operations during economic swings that reduce revenue collections.

For this analysis, reserves were grouped into three categories:

- Mandated reserves (those associated with servicing bonds, required for self-insurance, contracts, etc.);
- Designated reserves (funds associated with capital reserve, operating reserve, Board and management designated/earmarked, etc.); and
- Undesignated reserves (committed funds that are not included in the other categories and undesignated funds).

The graphs show that the amounts held in reserves have increased dramatically since 1991, and are summarized below.

	1991 <i>\$ in millions</i>	2010 <i>\$ in millions</i>
Rural	\$14	\$32
Small urban	\$36	\$77
Big urban	\$140	\$265
KC Metro	\$116	\$386
Sound Transit	NA	\$1,049
TOTAL	\$306	\$1,809

Most of the reserves held in the early 1990s were for specific purposes designated by transit boards, chiefly capital replacement purposes. However, once Sound Transit was established, much of its reserves (and thus much of the reserves held statewide) were held in an "undesignated" status. "Undesignated" does not necessarily imply "unplanned"; many of such reserves are actually committed to contracts and intended for future planned purposes.

Observations

- Data limitations make it difficult to draw firm conclusions from the reserves data. The reporting requirements for reserves have changed over time, and some transit systems still report all reserves in the "undesignated reserves" category, even though they include committed funds. Examples of committed funds held in undesignated reserves include local board requirements of up to three months' operating reserves, matching funds for state or federal grants, and "savings" for major capital expenses (since most transit agencies use cash and not bonds for major capital expenditures).
- The amount of reserves held by transit systems varies greatly. In 2010 Sound Transit and Metro maintained hundreds of millions of dollars in reserves each, while rural and small urban systems maintained much less, in some cases just several hundred thousand dollars.

- The level of reserves appears to depend on planned capital expenditures, and the state of the economy. For example, Sound Transit used significant portions of its reserves in 2006 and 2007 to help fund capital obligations. Other transit agencies drew down their reserves in 2008 through 2010 to help pay for capital obligations and operating costs.
- There is an error in the WSDOT data set concerning reserves that skews the graphs. In the WSDOT data summary from 2010, neither King County Metro nor Sound Transit reported any “Unrestricted Cash and Investments” in 2007, while in 2010, they reported a combined total of \$964 million in this category. If comparing the data for the two years, one might conclude that for all transit agencies, there was a huge growth in unrestricted cash and investments, while in fact the apparent growth is due to a reporting change by KC Metro and Sound Transit. In fact, the total unrestricted cash and investments for all other systems actually dropped from \$171 million to \$168 million from 2007 to 2010.

Figure 11

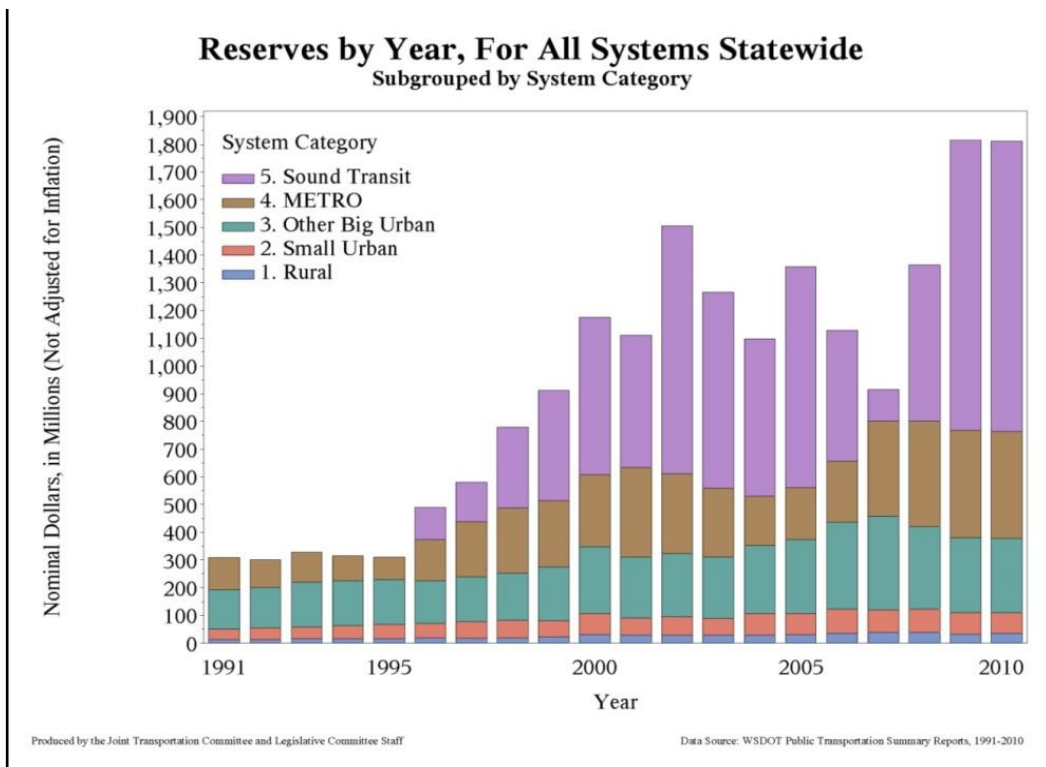
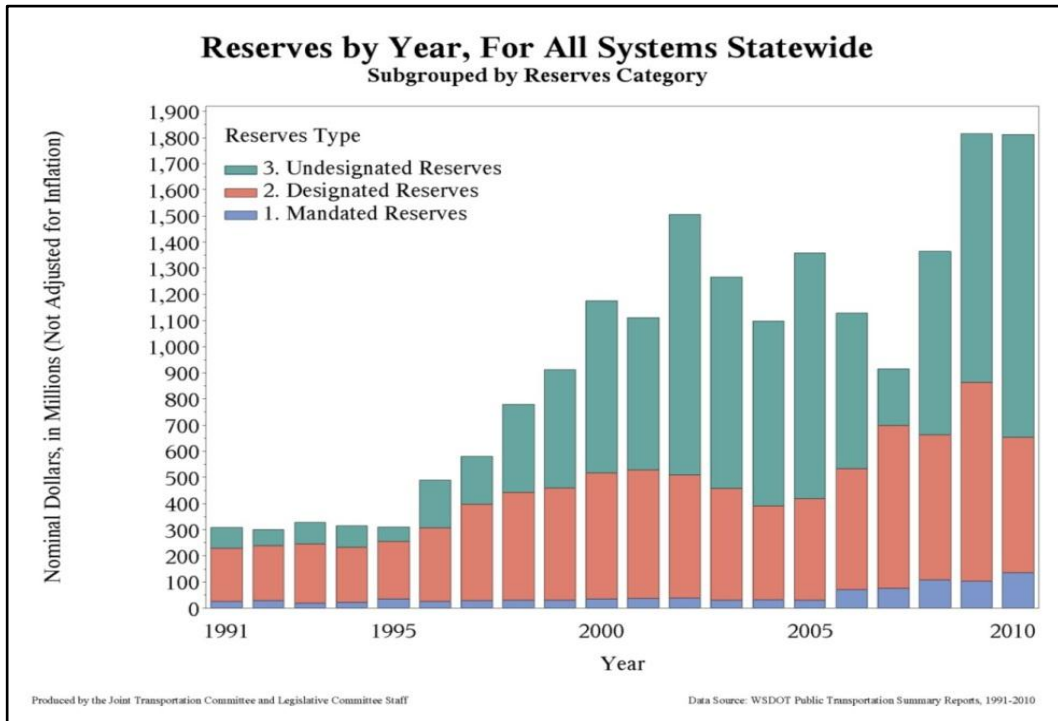


Figure 12



Average Age of the Fleet

One suggested indicator of transit system fiscal health is the average age of its active fleet. One might assume that transit agencies may defer capital acquisitions during times of fiscal stress, in order to maintain operating services. (However, it should also be noted that age alone does not provide definitive insight on vehicle condition. A number of agencies replace vehicles at an earlier age because the vehicles accumulate miles much more quickly than in other transit agencies.)

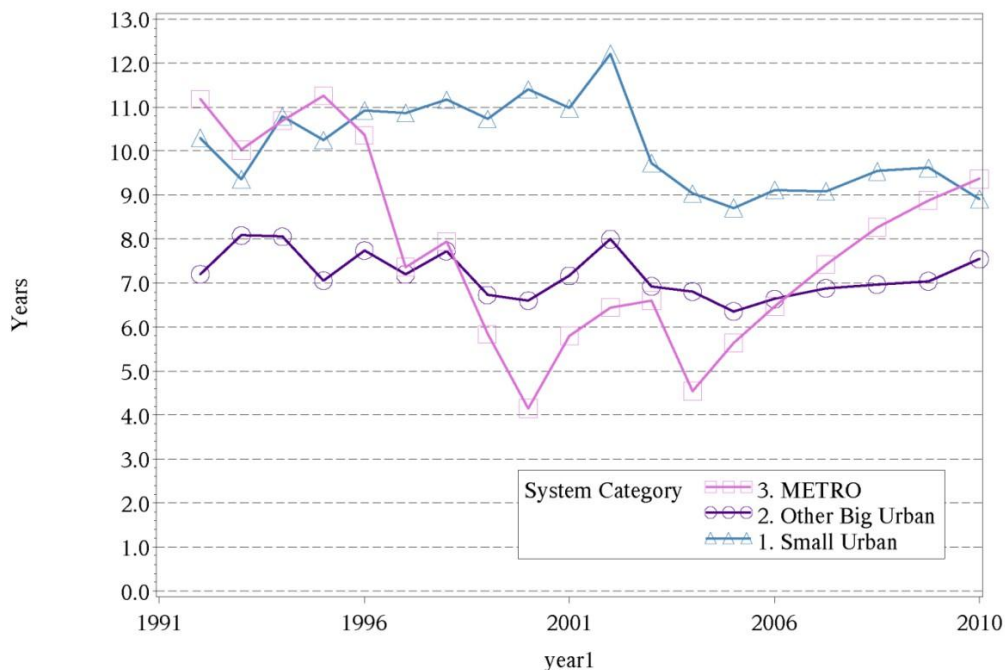
The National Transit Database contains vehicle age data for big and small urban systems. Figure 13 uses that data to show the average age of the active vehicle fleet for fixed-route services. The active vehicle fleet includes buses that are in revenue service during the course of the year. For the year 2010, the average age of vehicles in KC Metro's fixed-route service active fleet was 9.4 years, while for other big urban agencies it was 7.5 years and for rural systems 8.9 years.

Observations

- The average fleet age for small urban systems is two to three years older than for big urban systems, generally.
- The data does not appear to show a correlation between increased vehicle age and fiscal stress. This suggests that the average age of the fleet is more dependent on an agency's capital replacement program cycle and at what point it is in the cycle at any given time.
- No rural data is shown, due to the limitations of the National Transit Database.

Figure 13

Average Vehicle Age by Year, For Urban Systems Except Sound Transit, Fixed Route Services Subgrouped by System Category



Produced by the Joint Transportation Committee and Legislative Committee Staff

Data Source: FTA National Transit Database, 1992-2010

Transit System Overall Funding vs. Expenditures

Figure 14 shows the annual funding and expenditures for all transit systems statewide. Funding is shown in the bars, and is subgrouped by funding source (federal, state, and local). Expenditures are shown by the red line with cross-hatched data points.

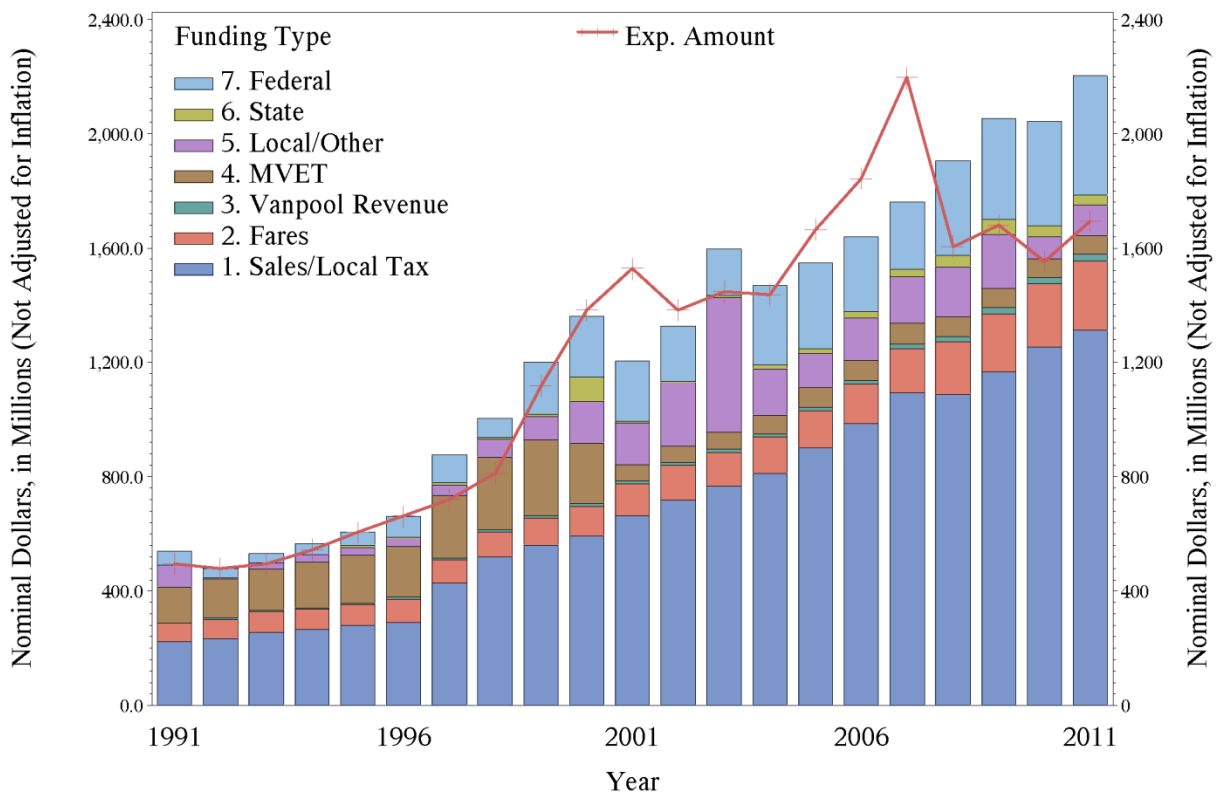
For 1991, local funding is just under \$500 million, while federal funding is about \$50 million. In 2010, local funding exceeds \$1.6 billion, federal component is more than \$350 million, and state funding is \$35 million. Regarding expenditures, the graph shows total expenditures of \$550 million in 1991 and over \$1.8 billion in 2010.

Observations

- At several points along the timeline, the amount of expenditures exceeds the amount of incoming funding for the year. In these years, the transit systems collectively funded outlays by drawing down reserves.

Figure 14

Overall Funding v Expenditures by Year, For All Systems Statewide Amounts Shown are Nominal (Not Adjusted for Inflation)



Produced by the Joint Transportation Committee and Legislative Committee Staff

Data Source: WSDOT Public Transportation Summary Reports, 1991-2011

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State Transportation Funding Overview

State Transportation Agencies

The omnibus transportation budget provides operating and capital funds to state agencies that provide a wide variety of transportation functions and services. The major agencies include the following:

- The Washington State Department of Transportation (WSDOT) is responsible for building, maintaining and operating the state highway system and the state ferry system, and works in partnership with various other entities to maintain and improve local roads, railroads, airports, and multi-modal alternatives to driving. WSDOT system responsibilities include 18,600 state highway lane-miles; more than 3,600 bridge structures, including the four longest floating bridges in the United States; 23 ferry vessels active in the largest vehicle-ferry system in the world carrying 23 million ferry passengers annually; and a staff of more than 6,800 full-time employees.
- The Department of Licensing (DOL) licenses and regulates the approximately six million drivers and identification card holders, registers the approximately seven million vehicles and vessels, and collects \$3 billion annually in transportation revenue. DOL also provides other services which are not related to transportation, and which are financed by non-transportation dollars.
- The Washington State Patrol (WSP) provides a variety of traffic law enforcement services through its approximately 1,900 employees, approximately 650 of whom are highway troopers. These services include motor vehicle equipment standards, commercial vehicle enforcement, vehicle identification, traffic investigations, roadside assistance, and ferry security. Because the WSP also provides a variety of non-transportation related services, it receives approximately 75% of its budget from the omnibus transportation budget and 25% from the omnibus operating budget.

A number of smaller transportation agencies and committees are also funded through the transportation budget including the Transportation Improvement Board (TIB), County Road Administration Board (CRAB), Traffic Safety Commission, and the Joint Transportation Committee.

Transportation appropriations in the 2011-13 biennium total \$9.86 billion. Of that amount, 68% is for capital purposes and 32% is for operating purposes.

Transportation Revenue Sources

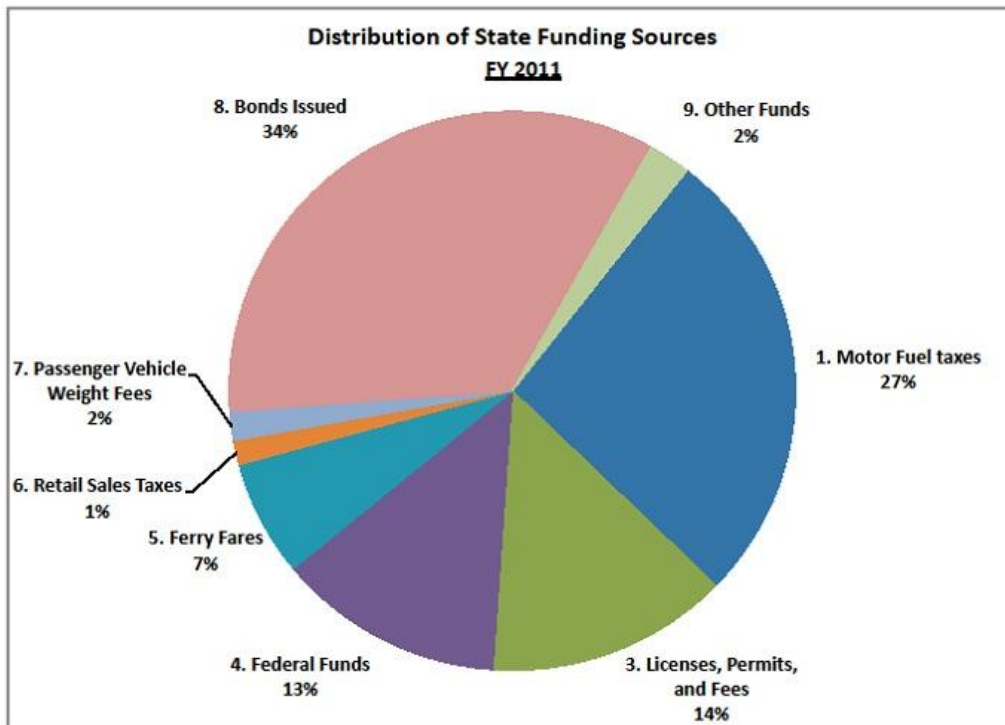
The revenues available for transportation purposes can be classified into four categories:

- state funds (including taxes and fees),
- bonds,
- federal funds, and
- local funds.

These funds are appropriated through the omnibus transportation budget. The amounts distributed by statute directly to cities and counties are not appropriated through the budget (and are not included in

chart totals). The sources of transportation funds are displayed in the pie graph below and are estimated at \$7.4 billion for the 2009-11 biennium.

Figure 15



Motor Vehicle Fuel Tax

Washington State has a 37.5 cent per gallon tax on gasoline and diesel fuels as of July 1, 2008.

Motor vehicle fuel tax increases since 1990	
1990	22 cents (effective 4/1/90)
1991	23 cents (effective 4/1/91)
2003	28 cents (effective 7/1/03)
2005	31 cents (effective 7/1/05)
2006	34 cents (effective 7/1/06)
2007	36 cents (effective 7/1/07)
2008	37.5 cents (effective 7/1/08)

In 2003, the Legislature enacted a gas tax increase of five cents per gallon as part of the “Nickel Package”, with the proceeds dedicated to the debt service on \$2.6 billion in bonds for state highways and ferry projects authorized in that same package. In 2005, the Transportation Partnership Act utilized a similar approach, with a gas tax increase of 9.5 cents per gallon. Of that amount 8.5 cents per gallon was dedicated to debt service on \$5.1 billion in bonds for state highway and ferry projects, and one cent was distributed to cities and counties.

Of the current 37.5 cent tax, 11.95 cents is distributed to local governments, either directly or through grants distributed by the TIB and the CRAB. The remaining 25.55 cents is retained by the state and appropriated in the transportation budget.

Vehicle Licenses, Permits, and Fees

License, permit, and fee revenues are primarily generated from the \$30 vehicle license fee and the combined license fee paid by trucks (commonly called the gross weight fee). Other fees include title fees, vehicle inspection fees, and special permit fees. These licenses, permits, and fees are the second largest source of state funds for transportation, with funds going to the motor vehicle fund, the Washington State Patrol, and the multimodal account, among others.

Motor Vehicle Excise Tax

Following the passage of I-695 in 1999, the Legislature repealed the MVET in 2000, including the MVET for state transportation purposes.

Just prior to the passage of I-695, the MVET was significantly modified by Referendum 49, which was approved by the voters in 1998. Prior to the passage of Referendum 49, MVET was projected to provide approximately \$200 million for the Washington State Ferry (WSF) system, and approximately \$320 million for other state transportation activities in the 1999-01 biennium. After the passage of Referendum 49, WSF was projected to continue to receive approximately \$200 million in the 1999-01 biennium, while other state transportation purposes were expected to be funded with almost \$500 million in MVET revenue – a significant increase. This increase did not occur due to the passage of I-695 and subsequent legislative repeal of the MVET.

Ferry Fares

Ferry passengers pay a toll (fare). The fares vary significantly for different routes and seasons. Currently, the fares cover approximately 65% of state ferry operating costs. Ferry fares for the 2011-13 biennium generated over \$300 million to support the ferry system.

Driver Licenses

The DOL collects fees to cover costs associated with licensing drivers. In recent years, a portion of these funds have been used to fund other transportation purposes. The fees that generate the greatest amount of revenue are driver license fees and the sale of drivers abstracts. Other license fees include motorcycle and commercial drivers' license endorsements. These funds support DOL's licensing program, as well as a variety of programs funded from the highway safety account, including the Washington State Patrol.

Vehicle Sales Tax

The 2003 new revenue legislation created a 0.3% sales tax on used vehicle purchases. These revenues, along with the rental car sales tax, are deposited in the Multimodal Transportation Account, and generate most of the funds used for non-highway purposes, as well as funds for highway projects and debt service on bonds.

Rental Car Sales Tax

Washington State has a 5.9% sales tax on rental cars. In terms of flexible revenue sources, the rental car tax is the second largest contributor to the Multimodal Transportation Account, which is used to fund both highway and non-highway transportation projects.

Vehicle Weight Fees

In 2005, the Legislature imposed motor vehicle weight fees of \$10, \$20 or \$30 per vehicle, depending on weight; and \$75 per motor home. The weight fees contributed \$110 million in 2011-13, and the motor home fee raised about \$11 million.

Other Revenue

Other revenue sources include interest earnings on fund balances, aircraft fuel taxes, ferry concessions, speeding fines in school zones, sales of WSDOT-owned right-of-ways, and transfers from existing fund balances.

State Transportation Resources by Year (1994-2011)

In FY 1994, the state transportation funding totaled \$1.5 billion; in FY 2011 the total was \$3.8 billion. The table below summarizes the state's fund sources, and the revenues for 1994 and 2011.

State Fund Source	FY 1994 \$ in millions	FY 2011 \$ in millions
1. Motor Fuel taxes	\$419.6	\$1,003.6
2. MVET	\$152.3	\$0.0
3. Licenses, Permits, and Fees	\$244.9	\$520.0
4. Federal Funds	\$459.6	\$486.1
5. Ferry Fares and Tolls	\$72.2	\$252.1
6. Retail Sales Taxes	\$2.6	\$52.6
7. Passenger Vehicle Weight Fees	\$0.0	\$62.7
8. Bonds Issued	\$35.0	\$1,290.3
9. Other Funds	\$139.4	\$90.5
TOTAL	\$1,525.6	\$3,757.9

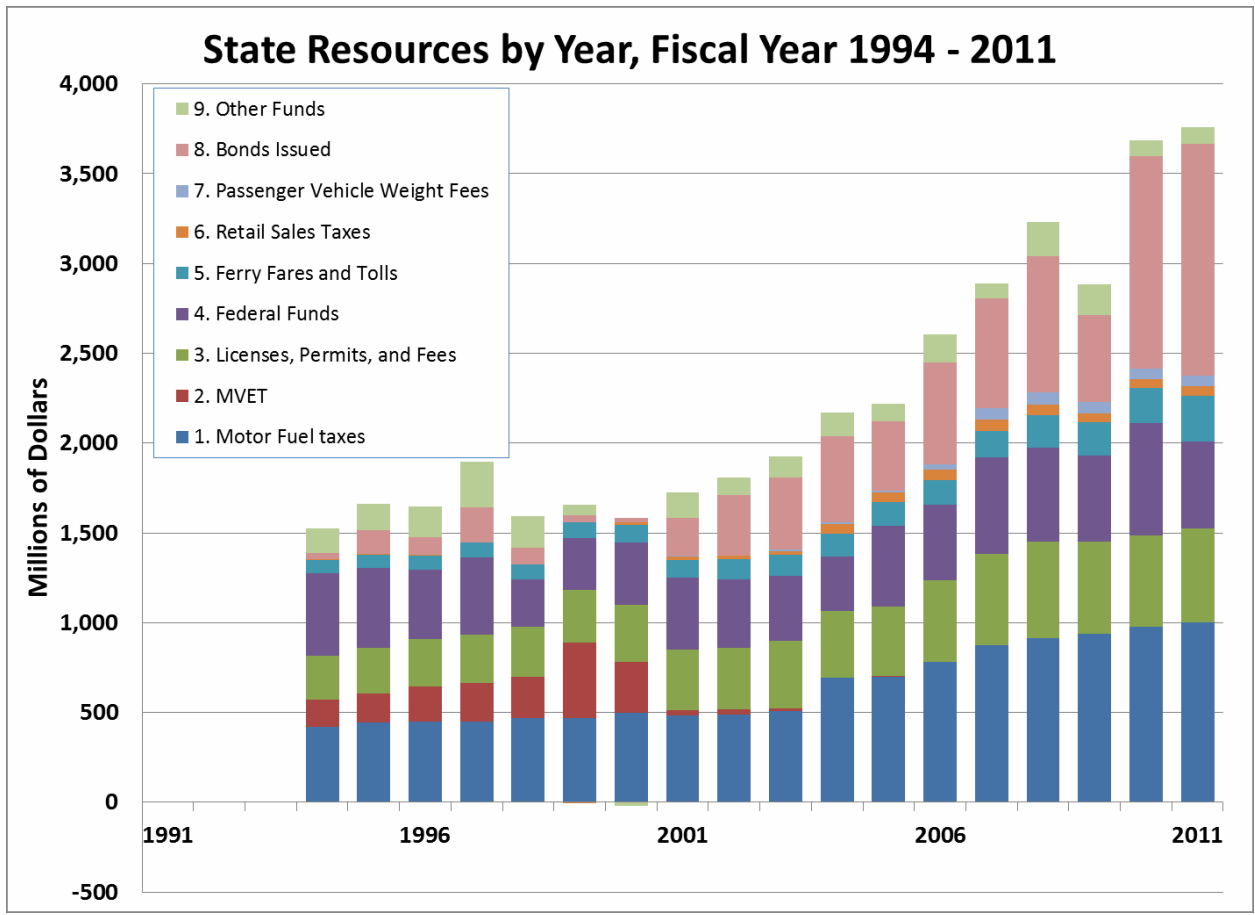
Observations

- State transportation funding grew by an average of 5.4 percent from fiscal year 1994 to 2011.
- The biggest changes in state transportation funding from 1994 to 2011 included:
 - repeal of the MVET in 2000
 - significant ferry fare increases after MVET was repealed
 - the enactment of special sales tax increases (on rental cars and new motor vehicle sales) after the MVET was repealed.
 - 14.5 cent increase in the gas tax, a penny of which was dedicated to cities and counties
 - the utilization of bonds in the latter part of the period
 - tolling implemented on the Tacoma Narrows Bridge and SR 167

Ferry fare rate increases	
1994	6.0%
1998	2.3%
1999	4.4%
2001	22.9%
2002	13.6%
2003	7.7%
2004	5.4%
2005	6.3%
2006	6.0%
2007	2.5%
2009	2.5%
2011	2.5%
2012	3.0%

- Just prior to its repeal, the MVET represented about a quarter of state transportation funding in FY 1999 (\$420 million of a total \$1.6 billion).
- The MVET was historically a much smaller proportion of state transportation revenue than it was for transits. In FY 1994, for example, MVET was about 10 percent of all state funds, but 30 percent of transit funds (calendar 1994).
- The MVET represented 20% of the ferry system's revenues at the time of its repeal. To replace some of that lost revenue, ferry fares were increased substantially. Fare revenues totaled \$148.8 million in FY 1993-1995, and \$294.5 million in FY 2009-11, a 98% increase. Since the loss of the MVET, fares increased between 42% and 127%, depending on the route.
- Bonds represented just 2 to 3 percent of state resources in the 1990s; in FY 2011, bonds represented 34 percent of state resources.
- The State's non-bond resources decreased by 9 percent from FY 1999 to 2002.

Figure 16



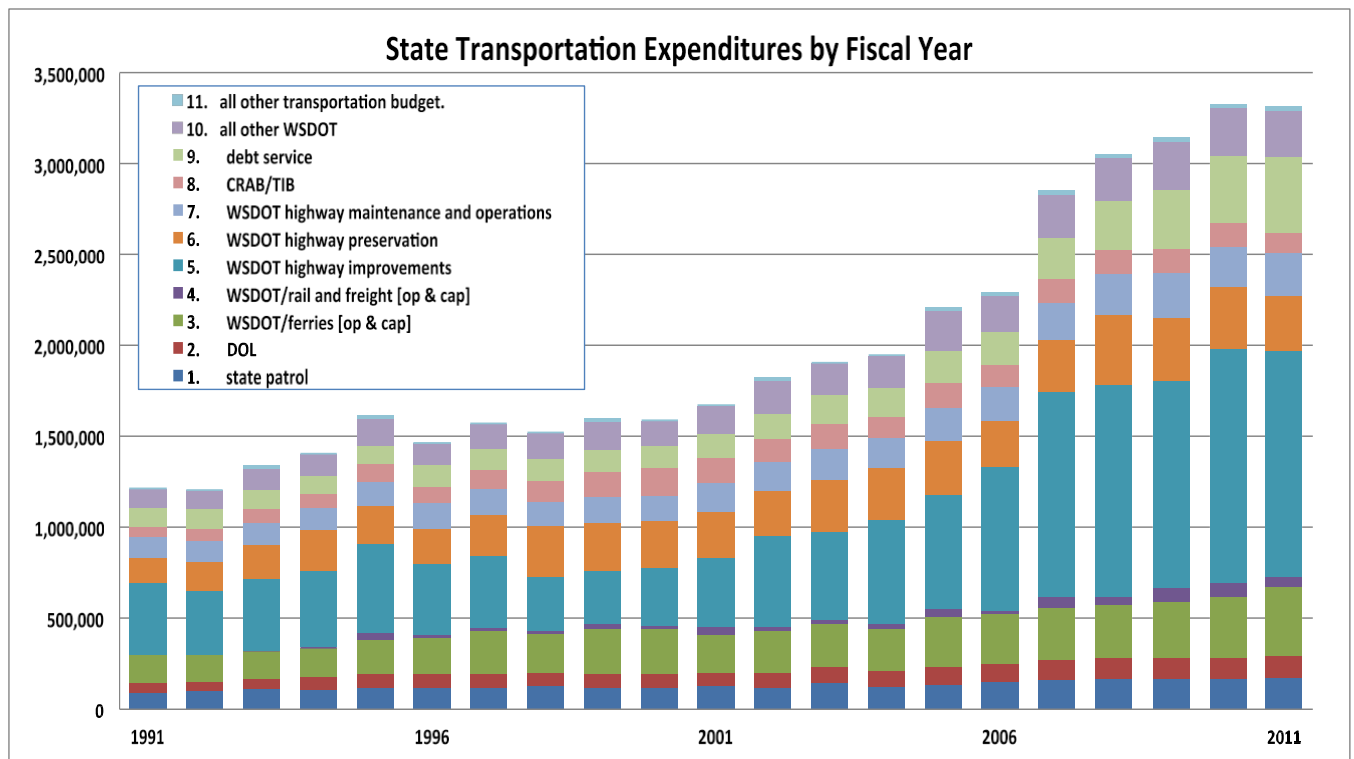
NOTE: This graph begins with FY 94, because data from FY 1991-1993 was unavailable.

State Transportation Expenditures by Year (1991- 2011)

Figure 17 shows state transportation expenditures by programmatic area from 1991 to 2011. In 1991, total expenditures were \$1.2 billion; in FY 2011, expenditures were \$3.3 billion, representing average annual growth of 5.2 percent.

The state transportation budget funds the State Patrol, the Department of Licensing, WSDOT ferries, rail and freight programs; highway improvements and preservation; highway maintenance and operations and toll operations programs; the County Road Administrative Board; the Transportation Improvement Board; debt service, and other smaller programs.

Figure 17



Observations

- The biggest change over the period was in highway improvements and debt service, reflecting the amount of bonds issued previously.
- In the mid 1990s, highway improvements were roughly a quarter of the budget and debt service was about \$107 million, or about 9 percent of all expenditures.
- In FY 2011, highway improvements constituted over 37 percent of the expenditures, and debt service, at \$421 million, represented about 13 percent of expenditures.

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Comparing Funding and Expenditures for Transit Systems and the State Transportation Programs

Figures 18 and 19 compare the growth in funding and expenditures for transit agencies and for state transportation programs, 1994 - 2010.

Figure 18 compares of funding growth for the state and transit agencies. Each line represents the cumulative growth from 1994 (with the line for transit agencies based on the calendar year and the line for the state based on the state fiscal year). So, for example, the state funding (green line) had increased by more than 100 percent (doubling) by FY 2008. Two separate series are shown for transit agencies, one with Sound Transit included and one without. The one without Sound Transit indicates growth across a consistent set of agencies over the time period.

Figure 19 shows a similar comparison, but for expenditure growth.

Observations

- To some extent, transit and state transportation funding serve different functions. Except for Sound Transit, local transit agencies spend the largest share of their funds on operations. The State transportation budget, by contrast, is weighted more heavily toward capital, primarily in the highway program. These functions can be complementary, for example, additional transit service may reduce the need to build more lane miles. And transit buses operate on state highways.
- Sound Transit has had a profound effect on the total amount of transit funding statewide, in terms of growth. Total funding growth between 1994 and 2010 is 260 percent, whereas total transit funding growth excluding Sound Transit is about 120 percent, less than half the growth rate.
- Excluding Sound Transit, the growth in funding and expenditures for transit agencies and the state is relatively similar. Transit agencies have slightly higher funding growth until 2010, when the state's funding growth surpassed that of transit agencies. Expenditures tracked vary closely. Sound Transit's funding and expenditure growth is much greater than the rest of the transit agencies and the state.
- The shape of the curves in the graph show year to year growth picked up for the state, due to issuance of bonds for the Nickel and TPA programs in the 2000's. For transit agencies, the growth curve was more consistent, year over year.
- The expenditure growth graph shows somewhat similar patterns to that of the funding growth. However, there are at least a couple of things to note:
 - Transit agencies show lower cumulative growth rates for expenditures than funding, while for the state the rates are very similar. This suggests that the state spends nearly all of its incoming funding, while transit agencies save some (via reserves) of the incoming funding.
 - The expenditure curves for transit agencies are "lumpier". This suggests that there may be years in which the capital outlays are rather significant relative to the overall budget, and in other years when capital outlays are less significant.

Figure 18

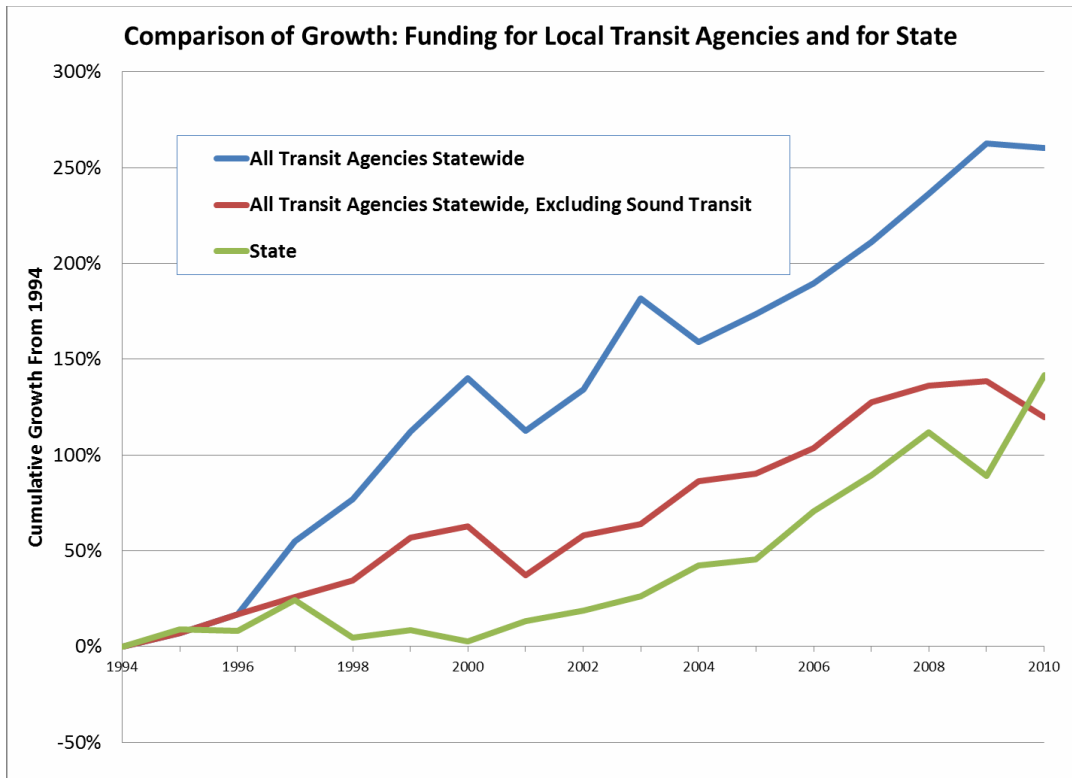
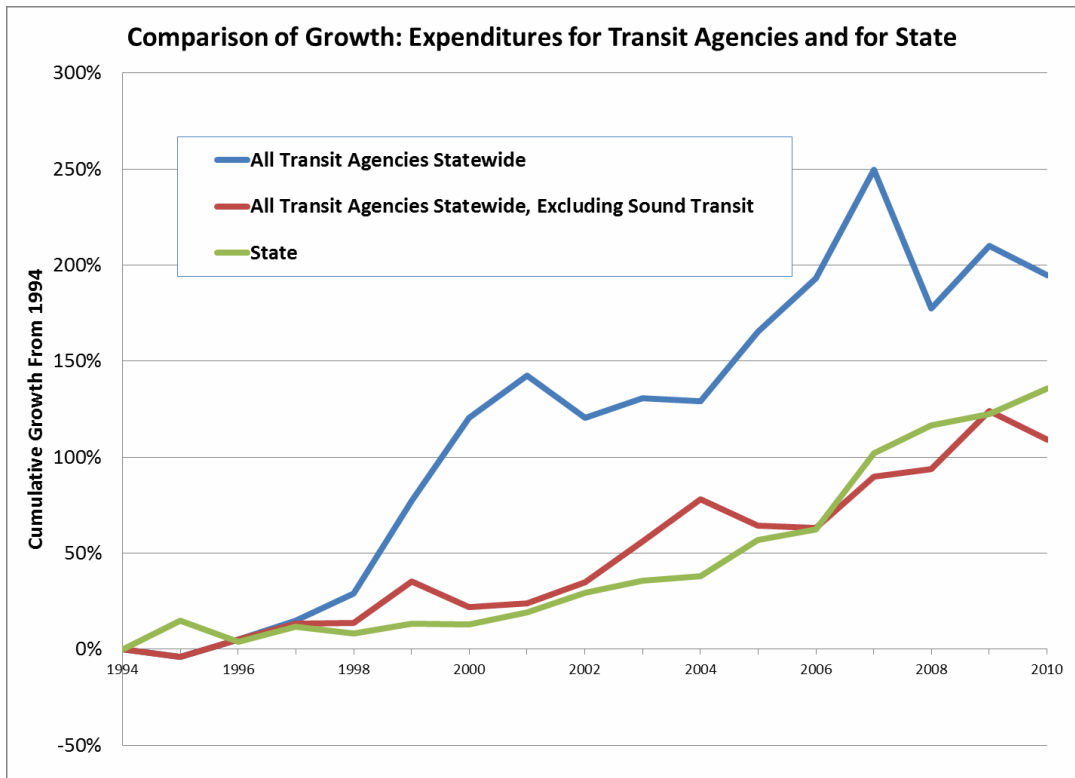


Figure 19



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Case Studies of Five Transit Agencies

This study analyzes transit fiscal health by aggregating data from groups of transit agencies in rural areas, small urban areas, and large urban areas. For some comparisons and analysis in the study, King County Metro and/or Sound Transit data are presented separate from the other three categories.

In some cases, aggregation can mask differences among various transit agencies. To better characterize issues and trends for individual transit agencies, case studies of five individual transit systems are provided. Three of these case studies briefly describe the agency, outline its changes and challenges since the early 1990s, and include graphs of overall funding and expenditures and reserves by year. These agencies are Grays Harbor Transit, a rural transit system; Ben-Franklin Transit, a small urban transit system; and Pierce Transit, a large urban transit system

The other two case studies are of KC Metro and Sound Transit. These two agencies historically hold the largest amount of reserves of all the state's transit agencies. So in addition to the agency background, the case study includes a more extensive description of their reserve categories, policies and trends.

Ben Franklin Transit Case Study

Ben Franklin Transit (BFT) was established in 1981 as a public transportation benefit authority (PTBA), with the ability to levy a 0.3 percent sales tax within the service area, which mainly covered the Tri-Cities area.

BFT provides public transportation services in Franklin and Benton counties; its service area has a population of 210,000, and includes the Tri-Cities (Richland, Kennewick and Pasco), Benton City, Prosser, Finley and West Richland. The service area includes Tri-Cities Airport, Pasco Amtrak and Greyhound stations; Grapeline service to Walla Walla; People for People service to Yakima; Columbia Basin Community College in Pasco, WSU-Tri-Cities, Battelle and other North Richland business locations, and ten park and ride lots.

BFT employs over 250 staff (full-time-equivalents) and offers fixed route services as well as taxi feeder routes, Dial-A-Ride regular and paratransit services, and vanpools.

BFT is governed by a ten-member Board of Directors made up of one Benton County Commissioner, two Franklin County Commissioners, and one Council Member each from the cities of Benton City, Prosser, Kennewick, Pasco, Richland, and West Richland. A non-voting union representative also serves on the board.

Major events in the history of Ben Franklin Transit

Vanpool service was added via contract with the Benton Franklin Council of Governments in 1982 and became a direct service of BFT in 1984. The vanpool program almost doubled the agency's operational area, and includes commuters in two states (Washington and Oregon), eight counties, and twelve cities. The federal Department of Energy is the main customer of the vanpool program. Vanpool fares cover some of the capital costs, plus insurance and operating costs, but not administrative costs. With over 300 vans, BFT has one of the largest vanpool programs in the state.

Service area expansion. Benton City and Prosser were added to the BFT service area via public vote in 1997.

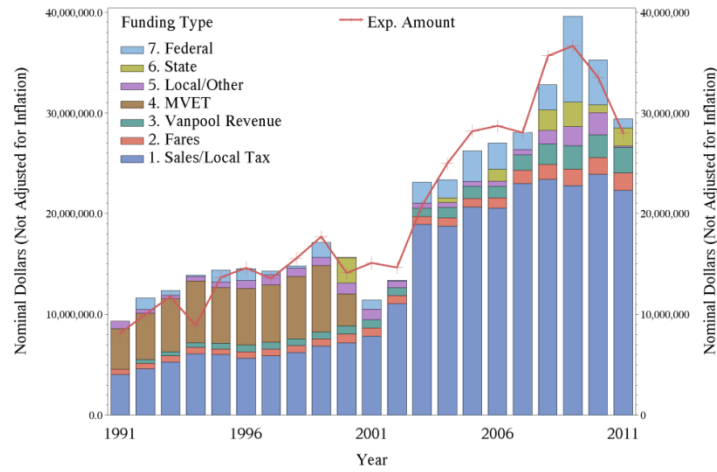
MVET repeal. With the repeal of the motor vehicle excise tax (MVET) in 2000, BFT lost 45% of its revenues. The agency responded with service reductions of around 15 percent, and by drawing down reserves as a temporary stop-gap measure.

Sales tax votes. The system operates with a 0.6 percent local option sales tax. A public vote to increase sales tax by 0.3 percent for BFT failed in 2001 but passed in 2002, increasing the total taxing authority to 0.6 percent and restoring funds lost through the MVET repeal. Service was restored after this new revenue stream was enacted.

As shown in Figure 20, after several years of relatively flat expenditures and revenues, expenditures and local revenues begin to climb in 2002 after the sales tax increase passed.

Figure 20

Overall Funding v Expenditures by Year, For Ben Franklin Transit
Amounts Shown are Nominal (Not Adjusted for Inflation)

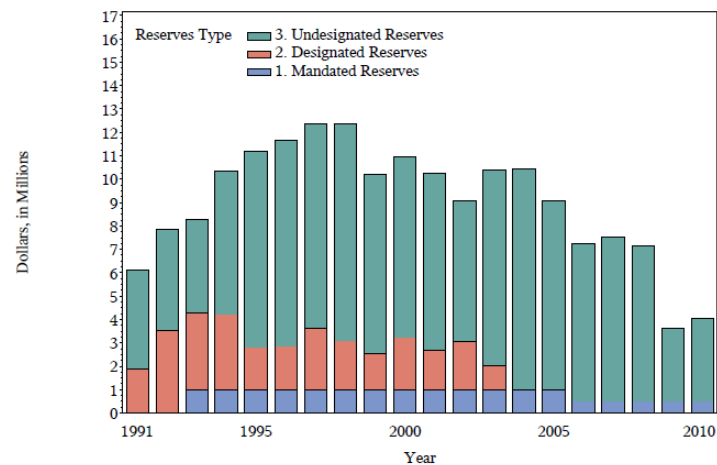


Service area expansion. In 2005, voters of Finley approved annexation into the BFT service area.

Reserves. Since 1999, BFT reserves have been trending downward, and in 2010 stand at less than half of the 1999 reserve amount (see Figure 21.) Reasons the reserves have been drawn down include stop-gap funding when the MVET was repealed, vehicle purchases, and beginning in 2009, an expansion and modernization of facilities in which reserves were used as the local match funding for federal funds.

Figure 21

Reserves by Year, For Ben Franklin Transit
Subgrouped by Reserves Category - Amounts Shown are Nominal (Not Adjusted for Inflation)



Growth drives additional planning requirements. Beginning in 2013, BFT will be considered a “big urban” system, rather than a “small urban” system, as its service population has risen above the 200,000 threshold. This new designation requires additional planning work and will have an as yet undetermined effect on federal funds received.

Grays Harbor Transit Case Study

The Grays Harbor Transit Authority (GHT) was established as a County Transportation Authority by resolution of the County Commission in November of 1974, and received voter approval of a 0.3% sales tax in Grays Harbor County to support the system. GHT is governed by a six-member Board of Directors, as required by statute. Board members are the three Grays Harbor county commissioners, the mayors of Aberdeen and Hoquiam, and a mayor selected by all the other mayors in Grays Harbor County.

GHT's service area covers all of Grays Harbor County and its population of approximately 73,000 residents. In addition to intra-county service, GHT provides service to Olympia and Centralia on eight fixed routes, as well as Dial-A-Ride regular and paratransit service, and vanpools. Unique to a County Transportation Authority is authority to provide ambulance service, with voter approval. GHT provides about \$200,000 annually to local emergency medical services training.

Major Challenges for Grays Harbor Transit

MVET Repeal. The repeal of the MVET in 1999 cost GHT nearly 40% of its annual revenue (\$2.2 million). In response, GHT sought and received voter approval of a 0.3% increase in the sales tax rate in 2000, bringing its sales tax to 0.6%. At the same time, GHT began to apply for and receive a federal section 5311 operating grant. As shown in Chart A below, these two additional sources of funding allowed the system to continue to receive roughly the same level of funding as before repeal of the MVET.

Reserves. Since 2000, GHT's reserves have trended downward; at the end of 2011 they were \$3 million, and are projected to drop to \$2.1 million at the end of 2012. The Board of Directors has recommended that reserves hold at least two months of operating expenses, (\$1.2 million).

Vanpools. GHT began operating six vanpools in 2006, and has since expanded to its current fleet of 20. currently There is sufficient demand to expand the service, but GHT doesn't have enough maintenance resources to service an expanded fleet.

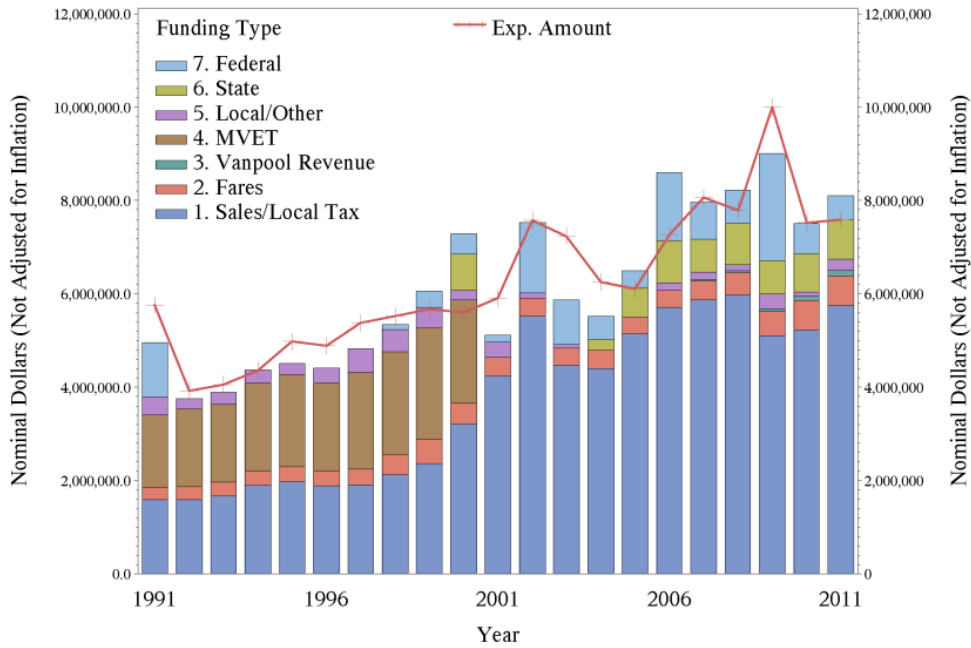
2008 Economic Downturn. In an effort to deal with economic downturn that began in 2008, GHT implemented a 16% service reduction in 2009. GHT also doubled fares in 2010 to \$1.00 per boarding for fixed route service and paratransit service. It is unclear whether existing service levels are sustainable with current revenues.

Sales Tax Fluctuations. The construction of the state route 520 floating bridge pontoons increased sales tax revenues to GHT in 2011 by \$400,000 - \$500,000. These additional tax revenues in 2011 caused \$300,000 - \$400,000 decrease in state sales tax disparity equalization funds* which GHT otherwise would have received in 2012. In 2012, sales tax collections for GHT are down by about \$500,000, or roughly 10%.

**Sales tax disparity equalization funds are appropriated by the state; the \$8.5 million program provides grants to transit systems serving small cities and rural areas whose sales tax collections are less than eighty percent of the average statewide per capita sales tax collections.*

Figure 22

Overall Funding v Expenditures by Year, For Grays Harbor Transportation Authority
 Amounts Shown are Nominal (Not Adjusted for Inflation)

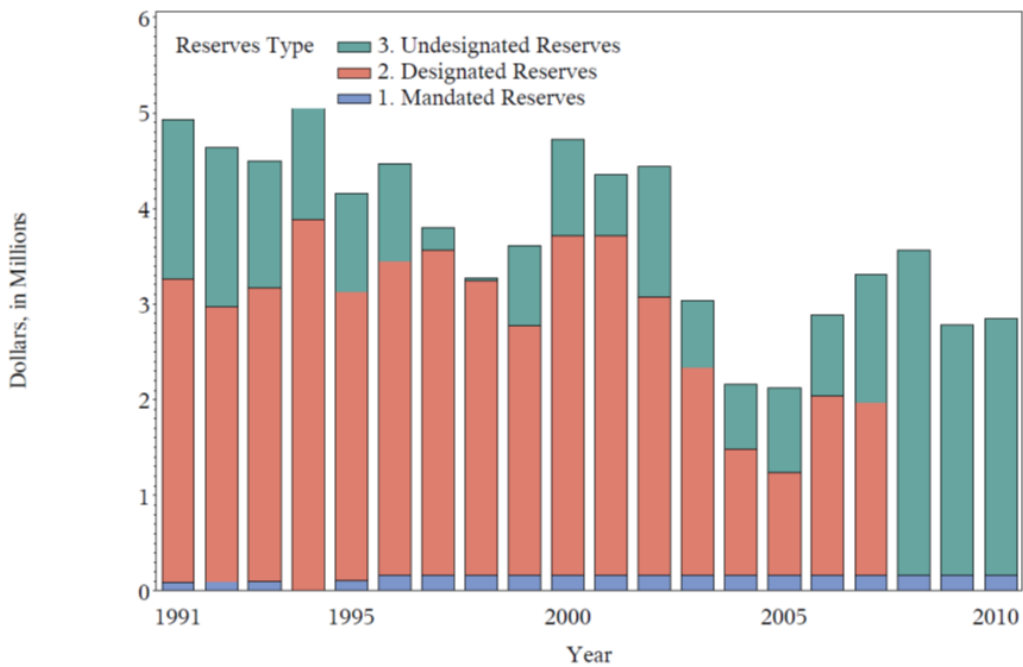


Produced by the Joint Transportation Committee and Legislative Committee Staff

Data Source: WSDOT Public Transportation Summary Reports, 1991-2011

Figure 23

Reserves by Year, For Grays Harbor Tr. Auth.
 Subgrouped by Reserves Category - Amounts Shown are Nominal (Not Adjusted for Inflation)



Produced by the Joint Transportation Committee and Legislative Committee Staff

Data Source: WSDOT Public Transportation Summary Reports, 1991-2010

King County Metro Transit Case Study

King County Metro Transit (KC Metro) was formed in 1991 as a county transit system, the only such system in the state. It is governed by the nine-member King County Council.

KC Metro serves an annual ridership of more than 100 million people within a 2,134 square mile service area. Its fleet of 1,300 vehicles includes standard and articulated coaches, electric trolleys, dual-powered buses, hybrid diesel-electric buses and streetcars. KC Metro serves riders who are disabled with accessible fixed route service (all KC Metro buses have wheelchair lifts or ramps and all routes and trips are accessible), as well as paratransit van service and a taxi scrip program.

KC Metro operates the largest publicly-owned vanpool program in the country; more than 5,000 people commute in 600 vans, making more than 2.9 million trips per year. The regional *Ridematch* system helps commuters form carpools and vanpools in seven counties by matching names in a computer data base.

KC Metro also operates a 1.3-mile electric bus tunnel under downtown Seattle, making stops at Convention Place, Westlake, University Street, Pioneer Square and the International District.

Challenges for King County Metro

Since 2009, KC Metro has experienced declines in its largest source of revenue, the local sales and use tax. Based on current projections by the King County Office of Economic and Financial Analysis, sales and use tax collections won't return to the 2008 levels until 2014.

To address the reduced sales and use tax collections, KC Metro has taken a number of steps to reduce costs and increase revenues. A plan was also put into place to utilize reserves to preserve service levels for as long as possible.

In 2010, a Regional Transit Task Force composed of King County community leaders and transit riders was formed to help KC Metro address the significant drop in revenues caused by the recession, at the same time demand for transit services remained strong. The Task Force developed a policy framework to guide future reductions or investments in the transit system.

The Task Force agreed that KC Metro should:

1. Develop a new set of performance measures (in addition to the existing measures) for public reporting.
2. Implement control costs and continue becoming more efficient, including implementing the recommendations of a 2009 performance audit.
3. Emphasize productivity, social equity, and providing value to all geographic areas of the county as KC Metro makes decisions about reducing or adding service. (This was a big change from the previous policy, which was to add or reduce service according to set percentages for the east, south, and west subareas of the county.)
4. Create clear guidelines for service allocations.
5. Base the service guidelines on a set of principles that includes transparency, measurability, flexibility, and integration with the regional transportation system.
6. Work with a coalition to pursue state legislation that would provide a long-term, more sustainable revenue base for transit.
7. Revise Metro's mission statement and create a vision statement

In 2012, KC Metro is faced with a situation where service levels are not sustainable with current revenue sources. By 2014, without new revenue sources, the one-time sources of funding will be depleted and service levels will begin to be reduced. The 2013 - 2014 budget recently adopted by the King County Council assumes a reduction of approximately 600,000 of annual bus service hours (17% of the current system) by the end of 2015.

The graphs below show actual results for the period of 2006 - 2011 and projected results (based on the 2013 - 2014 adopted budget) for 2012 - 2016.

Funding Sources

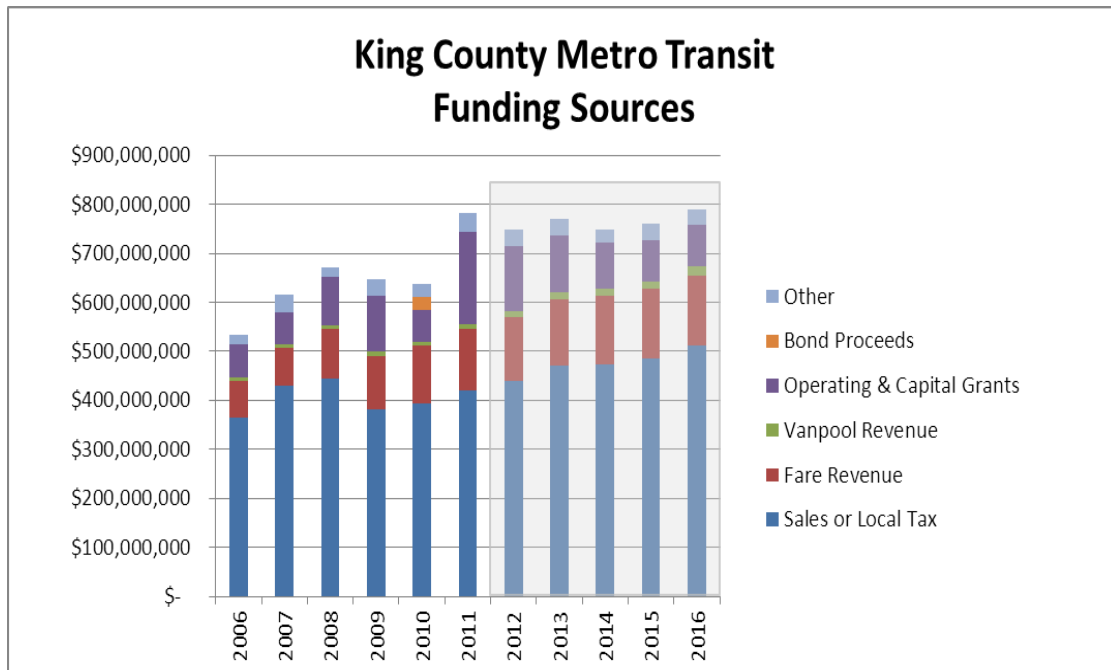
Sales and local taxes are KC Metro’s largest source of revenue. This includes a 0.9% sales tax (increased by voters in 1999 following the MVET repeal, and again in 2007), local property taxes, and a 24-month, \$20 congestion reduction charge authorized by the Legislature and imposed by King County Council in 2011. Sales and local tax revenues peaked in 2008, at approximately \$440 million or 67% of KC Metro’s revenues. As the recession took hold, sales and local tax revenues dropped, to a low of about \$390 million in 2009.

Grants reflect reimbursement from federal and state sources for project expenditures. The largest source is the federal 5307/5309 regional funding, which is largely a reimbursement for preventive maintenance or fleet acquisition costs. From 2009 - 2013, KC Metro received significant grant funding for the *RapidRide* program.

Fares are a significant source of funding for KC Metro. Between 2008 and 2011, four fare increases were approved, increasing fares by 80%; another is projected for 2014. Fare revenue grew from \$80 million in 2006 to \$130 million in 2011, and as a share of total revenue, from 15% in 2006 to nearly 17% in 2011.

Revenues from providing contracted services for Sound Transit Regional Express and Link Light Rail service are not included.

Figure 24



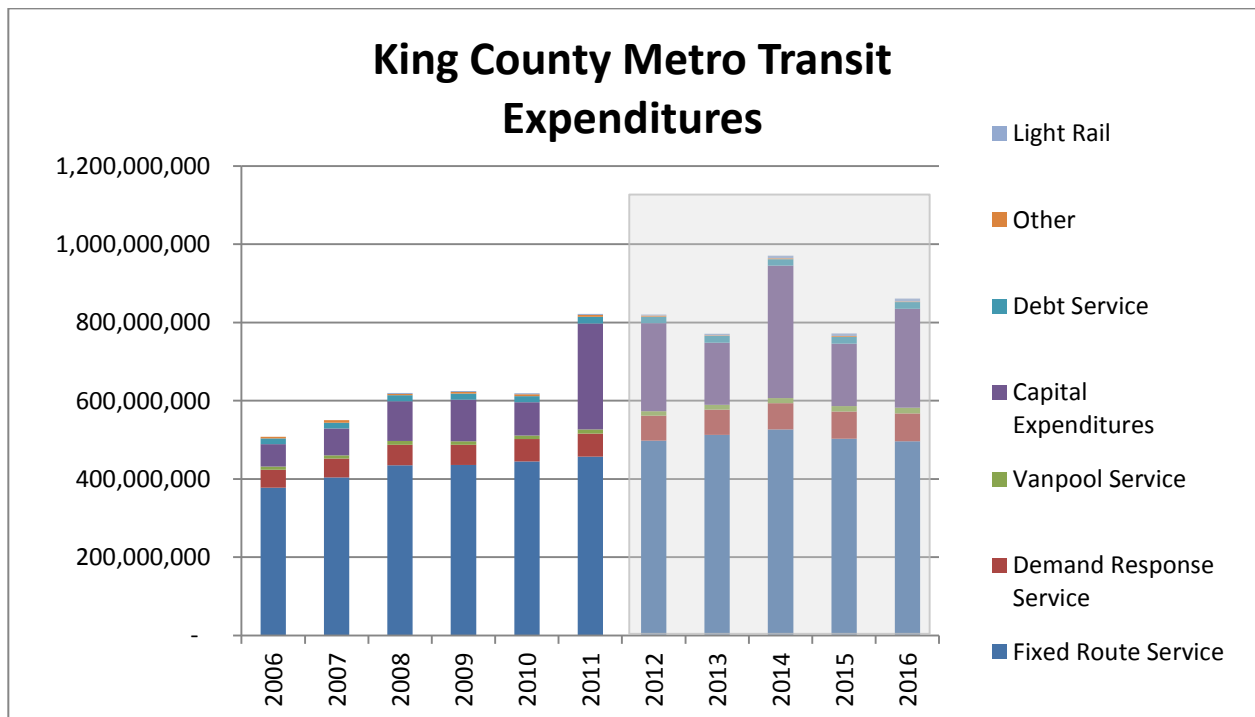
KC Metro Expenditures

Bus Service Levels. From 2006 through 2012, KC Metro bus service levels have increased by approximately 131,000 hours or 3.8%. About half of this service is related to Viaduct mitigation services funded by WSDOT, which will end in 2014. The balance of the increased service is associated with the *RapidRide* program, part of the Transit Now program approved by voters in 2007. The revenue declines associated with the recession have forced permanent deferral of the majority of Transit Now service (350,000 hours). The 2013 - 2014 budget recently adopted by the King County Council assumes a reduction of another 600,000 annual bus service hours (17% of the current system) by the end of 2015.

Capital Program - Fleet Replacements. Starting in 2010 - 2011, KC Metro began a planned fleet replacement cycle that continues through 2016. As a result of planned service reductions, more than 225 buses currently operating today will be removed from the fleet by 2015. Funds previously reserved for these capital replacements have instead been used to operate the bus service.

Capital Program – RapidRide. The *RapidRide* program includes significant capital investments in the six corridors where the service will operate. A significant portion of this investment is grant-funded. The expenditures are shown in the years 2009 - 2013.

Figure 25



KC Metro Reserves

Fund Structure. By ordinance, the King County Council requires KC Metro to report in the Public Transportation Enterprise Fund. This fund has four sub-funds, also defined by ordinance: Transit Operating, Transit Capital Program Reserve, Revenue Fleet Replacement, and Bond.

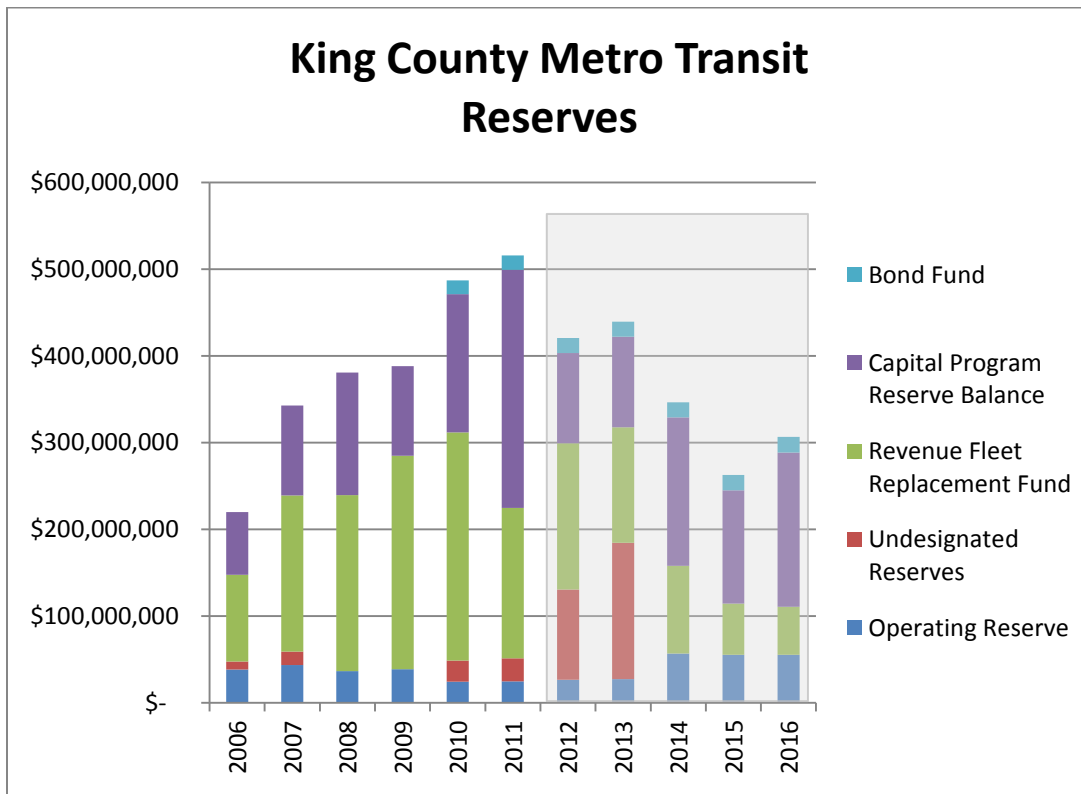
Definition of Reserves. King County defines reserves as cash and investments on hand at a given point in time. For the Public Transportation Fund, this is determined by looking at the cash and investments held by each of the sub-funds.

Target Fund Balances. The King County Council adopts fund management policies for the Public Transportation Fund that define the maximum fund balance to be maintained by each sub-fund.

- The **Transit Operating Sub-fund** balance represents an amount equal to 1/12th of the annual operating budget. These funds are intended to *“maintain sufficient cash flow requirements and to fund unforeseen emergency operating expenses”*. In 2012, KC Metro’s annual operating budget was \$650 million; 1/12th equals \$54.2 million. In response to the recession that began in 2008, the King County Council temporarily reduced the required operating target fund balance to 1/24th of the annual operating budget. From 2006 – 2011, the fund balance has been maintained at or slightly below the required amount.
- The **Revenue Fleet Replacement Sub-Fund** *“shall maintain a minimum balance sufficient to fund thirty percent of the projected fleet replacement costs for the entire revenue vehicle fleet.”* Funds are transferred annually from the revenue fleet replacement fund to the capital sub-fund to pay the local share of revenue for vehicle replacements purchased that year. If the sub-fund does not have sufficient fund balance to meet the target, funds are transferred from the Operating Sub-Fund. Prior to November 2011, there was no upper limit adopted for the sub-fund and a working assumption of 50% was used.
- **Transit Capital Program Reserves** *“will be maintained within the Capital Sub-Fund to provide the resources necessary to fund capital projects and project commitments contained in the six-year capital improvement program.”* Annually the King County Council provides authority for contractual commitments for expenditures that will occur in a future year (e.g., a bus contract); transit capital reserves are intended to reflect such future commitments. Prior to 2011, the capital program did not have a specific policy related to fund balance levels.
- The **Bond Sub-Fund** *“shall maintain a minimum balance sufficient to pay the following year’s net debt service and maintain sinking bond reserve requirements”*. Prior to 2011, Bond sub-fund requirements were included in the capital program. In 2012, KC Metro had \$17 million in debt service, mostly related to the construction of the downtown transit tunnel.
- **Undesignated Fund Balances.** When fund balances exceed the levels noted above, KC Metro deposits them in the **Revenue Stabilization Reserve** created by the King County Council in 2011. The Revenue Stabilization Reserve *“will be maintained within the Operating Sub-Fund and shall consist of all undesignated fund balances. Funds in the Transit Revenue Stabilization Reserve shall be used to moderate future fare increases and to mitigate the impact of cost increases and revenue declines. Any funds remaining in the reserve after the Operating Sub-Fund Balance is restored are subject to appropriation”*.

Funds in the Revenue Stabilization Reserve currently are being used to sustain service levels through mid-2014. After that time, 17% service reductions (600,000 hours) will begin.

Figure 26



Pierce Transit Case Study

Pierce Transit was created in 1979 as a municipal corporation providing public transportation in Pierce County. The Public Transportation Benefit Area Corporation (PTBA) is governed by a ten-member board, made up of nine elected officials from Tacoma, Lakewood, Puyallup, Fife, Gig Harbor, University Place, and Pierce County, and one non-voting union representative. Pierce Transit's current service area includes Tacoma and other large cities in Pierce County, as well as portions of unincorporated Pierce County. Connections with Greyhound, Sound Transit, Amtrak, and Intercity Transit are available within the service area.

Voters rejected Pierce Transit ballot propositions in 2011 and 2012 to increase the current 0.6 percent sales tax for transit to 0.9 percent. With the recent economic decline, Pierce Transit has implemented significant agency cut-backs and service reductions, and more are pending.

Major changes and challenges for Pierce Transit, 1991-2012

Americans with Disabilities Act. Pierce Transit nearly doubled demand-response services between 1991 and 1995, as mandated by the Federal Americans with Disabilities Act. The Act requires transit agencies to provide access to persons with special needs, three-quarters of a mile on either side of a transit corridor. Fixed route service hours increased slightly between 1991 and 1995. Costs for demand response service in 2010 represent about 20 percent of operating costs; the cost per trip is about \$43. Demographics are likely to increase the need for demand-response service.

Vanpool Growth. Since its initiation in 1992, Pierce Transit's vanpool program has grown from 158,000 trips in 1992, to a high of 846,000 trips in 2009.

Figure 27: Growth of Pierce Transit Services: Fixed Route, Demand-Response, Vanpool

	Fixed route		Demand-Response		Vanpool
	Revenue vehicle hours	Passengers	Revenue vehicle hours	Passengers	Passengers
1991	544,297	9,619,935	116,523	365,328	158,176
2010	563,200	14,008,679	201,962	445,970	825,212

Sound Transit (ST). Three years after voters approved the Sound Transit plan in 1996, ST began providing service in Pierce County. ST's express service connected some Pierce Transit hubs, and provided express service to King County, which Pierce Transit previously provided. This allowed Pierce Transit to reallocate resources to local routes and connections. Pierce Transit became a contractor providing ST services in Pierce County and on some routes in King County. ST provides downtown Tacoma's LINK light rail service, which in 2010 carried 873,000 riders and had operating costs of \$3.1 million. ST also provides commuter rail service to Pierce County residents.

I-695 and the repeal of the MVET. With the repeal of the Motor Vehicle Excise Tax (MVET) in 2000, Pierce Transit lost 40% of its revenue, nearly \$23 million.

Voters approve 0.3 percent sales tax increase. To replace the MVET, Pierce Transit voters approved an increase in the local option sales tax from 0.3 percent to 0.6 percent in 2002. This added approximately \$13 million in revenue in 2003, and by 2004, the higher tax revenues had nearly replaced what MVET revenues would have been before repeal.

Economic recession. In the early and mid-2000's, Pierce Transit experienced 5% to 6% annual growth in sales tax revenues; sales tax represented nearly 73% of their revenue. As a result, the economic recession had a significant impact on the agency. The decline began in late 2007; sales tax revenues dropped 12 percent in 2008 and an additional 7 percent in 2009. In 2010, sales tax revenues grew about three percent, but dropped again in 2011, by one percent. In 2007, the sales tax generated \$77.2 million for Pierce Transit compared with \$64 million in 2011. Revenues are forecasted to drop in 2012, in part due to boundary revisions discussed below.

Voters reject sales tax increase in 2011. In February, 2011, voters rejected a 0.3 percent sales tax increase, which was expected to generate about \$30 million a year for the transit agency.

Service reductions 2008 – 2012. Beginning with the economic downturn in 2008, Pierce Transit began reducing personnel and services. Prior to the February, 2011 election, the agency cut \$89 million including 8 percent service reductions, management cuts, and freezes in hiring and wages for non-representative employees. After the sales tax defeat in February, 2011, Pierce Transit implemented 35 percent fixed-route service cuts in two steps: a 20 percent cut in June of 2011, and another 15 percent cut in October of 2011. Fifteen routes were eliminated, including service to east Pierce County and the Key Peninsula, which represented less than 0.5 percent of Pierce Transit's total ridership. While service was cut by 35 percent in 2011, ridership is projected to decline by just 22 percent in 2012.

Boundary revision 2011 - 2012. In order to address the revenue shortfalls, Pierce Transit convened a Public Transportation Improvement Conference as outlined by RCW 36.57A.020 to consider a service area reduction. Orting, Bonny Lake, Buckley, Sumner, DuPont and portions of unincorporated Pierce County withdrew from Pierce Transit. The new, smaller PTBA became effective in May, 2012, and includes 70 percent of the Pierce County population. Pierce Transit's taxing authority in the areas that withdrew ended on October 1, 2012, resulting in a 12 percent reduction to Pierce Transit's sales tax revenues (\$8 million).

Voters reject a sales tax increase a second time in 2012. After shrinking the PTBA and implementing additional cut-backs, voters rejected a 0.3 percent sales tax increase in November, 2012. In response, the board is considering the elimination of evening, weekend and holiday service, and other service hours as shown below:

Figure 28: Pierce Transit, Recent and Projected Service Hours

	Year	Service Hours	
		Fixed-route	Demand- response
Actual	2007	570,819	199,325
	2008	600,858	204,007
	2009	586,199	212,439
	2010	563,200	201,962
	2011	451,502	192,400
Budgeted	2012	418,835	198,596
Dependent on financial scenarios & board direction	2013	417,035	196,000
	2014	196,535	201,000
	2015	196,535	205,000

Pierce Transit Reserves: Recent and Projected

Between 2000 and 2008, Pierce Transit reserves grew from \$43 million to a high of \$113.6 million in 2007. Since that time, reserves have dropped to \$87.9 million in 2011; the agency used reserves to help pay for expenditures that exceeded revenues since 2008.

Given voter rejection of the sales tax increase in November, 2012, reserves are likely to continue to decline as the agency implements cutbacks.

Note: Potential changes to future service levels and use of reserves projected in figures 28 and 29 are dependent on Pierce Transit Board decisions, and may be affected by other factors including economic conditions, system cost factors and other external considerations.

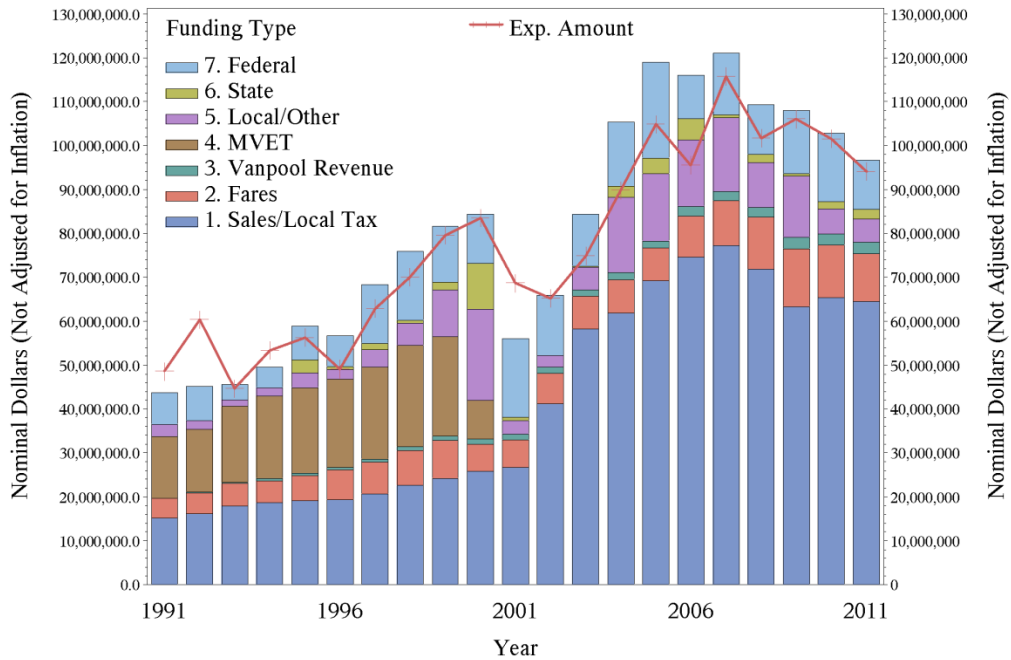
Figure 29: Pierce Transit Reserves (\$ in 1,000s)

	Year	Fund Type			Total
		Unrestricted	Designated	Mandated	
Actual	2007	59,678	48,866	5,024	113,568
	2008	69,962	35,315	3,007	108,274
	2009	68,392	25,367	2,441	96,200
	2010	65,244	25,690	3,028	93,962
	2011	59,398	25,717	2,789	87,904
Budgeted	2012	49,769	7,198	1,000	57,967
Dependent on financial scenarios & board direction	2013	21,288	7,067	1,000	29,355
	2014	22,568	7,067	1,000	30,635
	2015	18,499	7,067	1,000	26,566

Source: DOT/PT Projection Drafts

Figure 30

Overall Funding v Expenditures by Year, For Pierce Transit
 Amounts Shown are Nominal (Not Adjusted for Inflation)

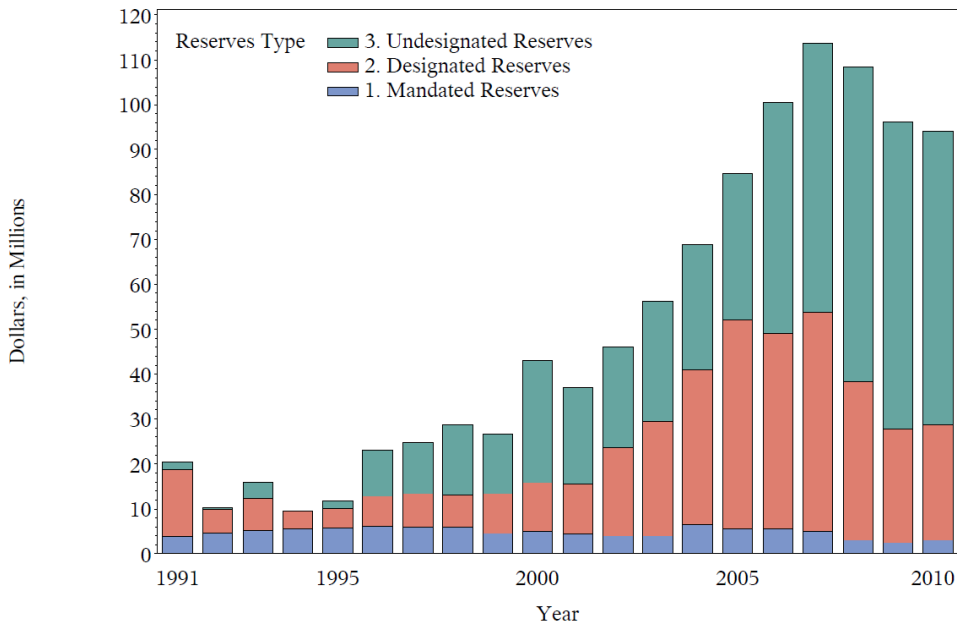


Produced by the Joint Transportation Committee and Legislative Committee Staff

Data Source: WSDOT Public Transportation Summary Reports, 1991-2011

Figure 31

Reserves by Year, For Pierce Transit
 Subgrouped by Reserves Category - Amounts Shown are Nominal (Not Adjusted for Inflation)



Produced by the Joint Transportation Committee and Legislative Committee Staff

Data Source: WSDOT Public Transportation Summary Reports, 1991-2010

Sound Transit Case Study

Sound Transit (ST) was formed in 1993 as a Regional Transit Authority (RCW 82.112), by action of the King, Pierce and Snohomish County Councils to provide new high capacity transportation services for the Central Puget Sound region. This includes regional express bus services contracted through Community Transit, KC Metro and Pierce Transit; light rail operations; and commuter rail operations.

Its eighteen-member governing board is composed of city and county elected officials appointed by county executives, and the Secretary of the Washington State Department of Transportation. ST boundaries include the most densely populated areas in the three-county area.

In November, 1996, voters approved the high capacity transportation plan and funding package, which included light rail in downtown Tacoma; 24 miles of light rail from Seattle to SeaTac; a 3.1 mile University extension; regional express bus service; and numerous HOV lane direct access ramps. Funding for this plan included a 0.4% local option sales and use tax and a 0.3% local motor vehicle excise tax (MVET). Though Initiative 776 revoked the MVET, the tax is still imposed since those revenues have been pledged for bond indebtedness.

In 2008, voters approved ST 2, which included a 36-mile extension of light rail; new Sounder trips between Seattle and Tacoma; and more express bus service. It is funded by a 0.5% local option sales and use tax.

ST is different in many ways than other transit agencies in Washington:

1. ST was created in 1996, while most large transit agencies existed prior to 1991 (the beginning of the fiscal analysis period used in this report).
2. The service area for ST's regional service includes the urban areas of the state's three most populous counties and largely overlaps with the service areas for the local transit agencies that provide local service: KC Metro, Community Transit, and Pierce Transit.
3. ST operates commuter and light rail services, in addition to commuter bus services, while other transit agencies primarily operate local bus service. As a result, ST's operating characteristics and metrics will in some ways be different than other transit agencies.
4. The ST district is divided into five geographic subareas, and revenues from each area are obligated to be spent on projects and services that benefit the subarea's residents.
5. ST's revenues represented 39 percent of the state's transit revenues in 2010.
6. Its program is focused primarily on a large capital program, with some transit operations; whereas other systems' focus is on operations, with a complementary capital program.
7. ST has the policy of using cash from current reserves first, followed by significant bonds to complete its capital program, while most other transit agencies is to use cash reserves for capital expenditures.
8. ST's bus operations are contracted through, Pierce Transit, Community Transit, and KC Metro, which also operates Central Link light rail services. Commuter rail services are operated through a contract with Burlington Northern Santa Fe, and railcars and locomotives are maintained under a contract with Amtrak. ST directly operates and maintains Tacoma Link. Most other state transit agencies operate their own service or contract with private operators rather than other governmental entities like ST does.

Funding Sources

Sales and local taxes are STs largest source of revenue. The sales tax was 0.4% from 1996 until voters in November 2008 approved an increase to 0.9%, the maximum statutory rate for ST, effective April 2009. In addition, the locally-imposed rental car tax, which mirrors the state rental car tax, generated \$2.0 million in 2011.

The national recession has impacted ST's ability to deliver its long-term capital program. Current projections for revenues through 2024 are 30% lower than assumed at the time the ST 2 ballot measure was approved in 2008. As a result, the ST Board has trimmed projects from the ST 2 project list in order to align expenditures with revenue.

Motor vehicle excise tax of 0.3% was approved by the voters in 1996. The ST authority for up to 0.8% MVET was repealed in 2002 by Initiative 776. However, because MVET monies had been pledged for bonds issued by ST, the current tax of 0.3% remains in effect until those bonds are retired in 2028. As of 2011, MVET provided 8% of total revenue, down from 14% in 2007.

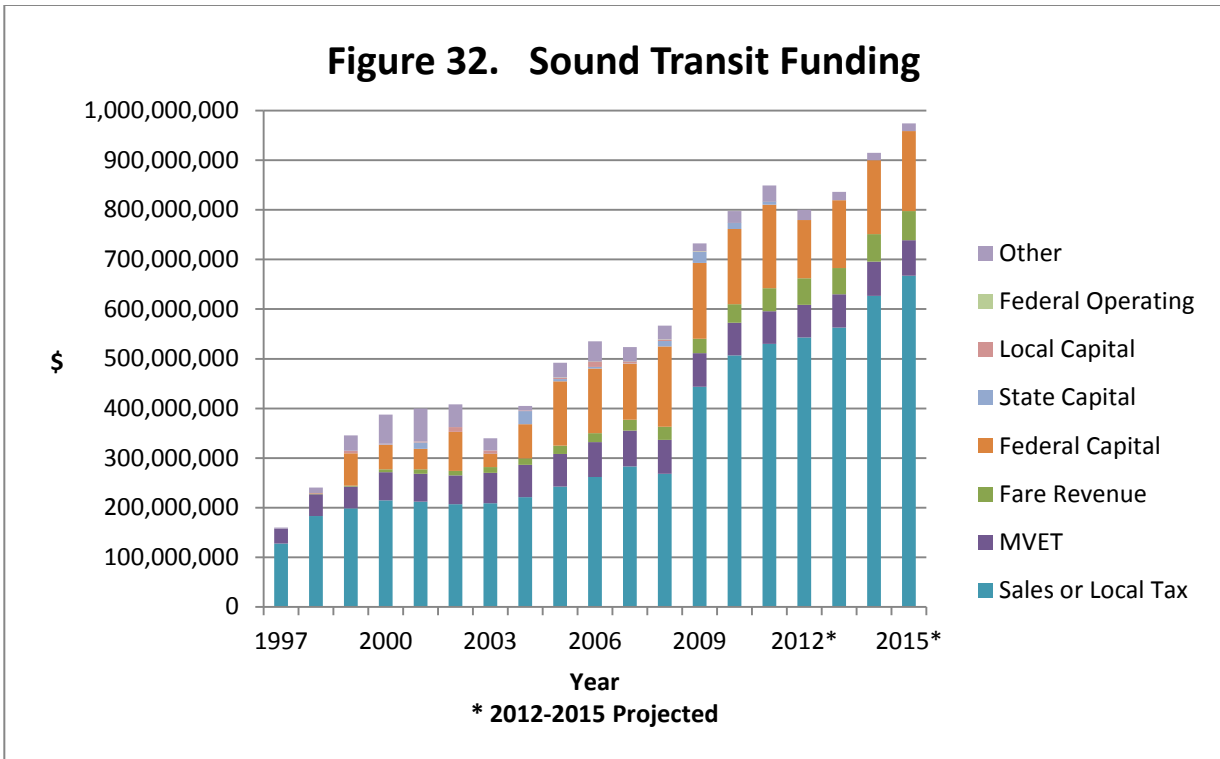
Grants represent significant funding source for ST, for the light rail capital program, but also for commuter rail and bus activities. Federal Transit Administration grants for New Starts and other programs are the largest source of grant monies; others include Federal Railway Administration grants, Federal Highway Administration funds, and some state mobility grant funds. Grants provided 21% of revenue in 2011, and are forecasted to decrease to 17% in 2015.

Fares generated about \$46 million in 2011. Link light rail fares constituted 26% of total fares, or \$12 million (up from \$9.6 million in 2010 and \$2.4 million in 2009, the year the Link line to SeaTac opened). For 2008 and earlier, the only light rail service in operation was Tacoma Link, and it was fare free. The Link light rail fare revenues will increase significantly as additional service comes on line in 2016, with forecasts of \$38 million in 2020.

Commuter rail fares were 18% or \$8.3 million of total fares, up from \$7.1 million in 2010 and \$7.7 million in 2009.

Bus fares were 26% of \$25.6 million of total fares, up from \$20.8 million in 2010 and \$18.9 million in 2009.

To maintain the ST Board's farebox recovery requirements, ST implemented fare increases in 2010 and 2011 on its bus and light rail services. The increased fares helped to cover rising operating costs related to maintenance requirements on an aging bus fleet, transit facilities, locomotives and rail cars.

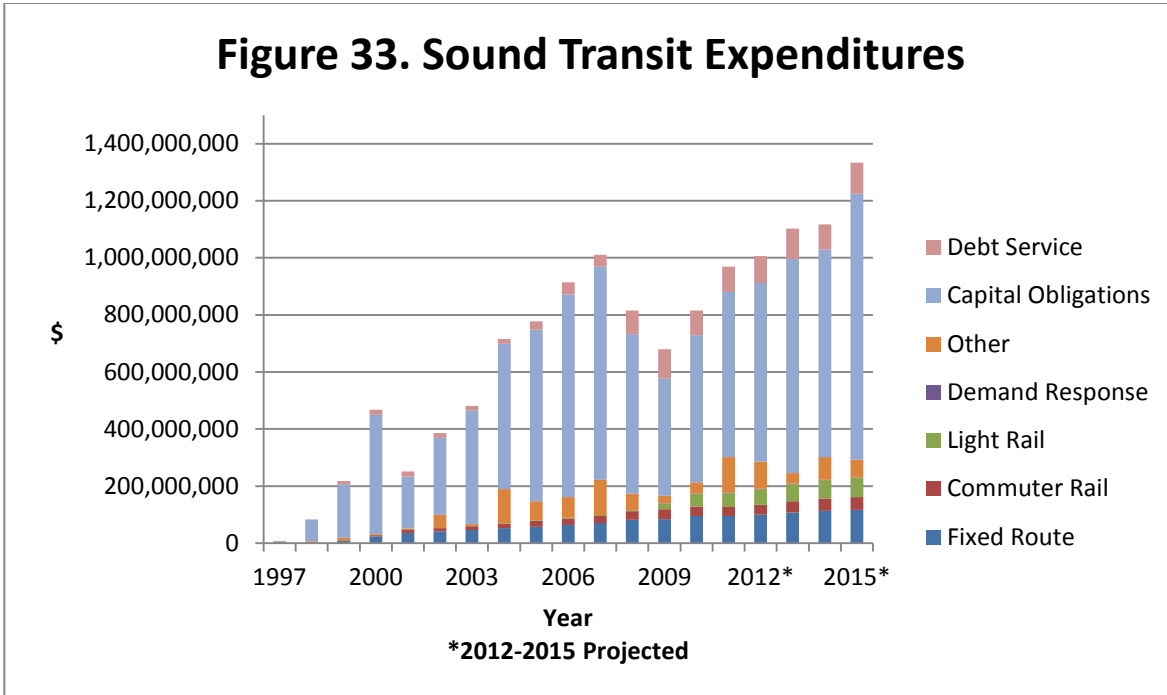


Sound Transit Expenditures

Sound Transit expenditures are primarily directed at developing large capital projects. Since 1996, as part of the Sound Move Plan, ST has developed commuter rail service from Everett to Lakewood, light rail in downtown Tacoma and between Sea-Tac airport and downtown Seattle (extending to the University of Washington and South 200th in SeaTac in 2016) and provided express bus routes and associated facilities for transit centers, park and ride lots and direct access HOV ramps – a \$3.9 billion program.

ST2 was approved by the voters in November 2008. It extends light rail from downtown Seattle east through Bellevue to the Overlake Transit area, north from the University of Washington to Northgate and Lynnwood, and south of Sea-Tac to Kent-Des Moines. It also includes additional commuter rail service to Lakewood, and extension of Tacoma’s Link light rail – a \$17.billion program.

Figure 33. Sound Transit Expenditures



In 2011, ST’s largest operating expense is the ST Express bus program, which costs \$94.8 million, or 45% of operation costs. Sounder commuter rail operating expenses were \$31.7 million or 15% of operations in 2011, and Link light rail was \$48.5 million, or 23% of operations.

Sounder commuter rail expenses will increase as service is expanded from Seattle to Tacoma, and from Tacoma to Lakewood.

Link operating expenditures have grown with the opening of the Seattle to Sea-Tac Link, and will grow further as the University Link, East Link and North Link lines are added and the service is extended south of Sea-Tac airport.

As ST provides additional service with the completion of its capital program, it will face increased maintenance costs on existing transit assets.

Sound Transit Reserves

By ST Board policy, ST categorizes reserves based on their intended uses. There are three principal categories, with subcategories, as described below:

Mandated Reserves

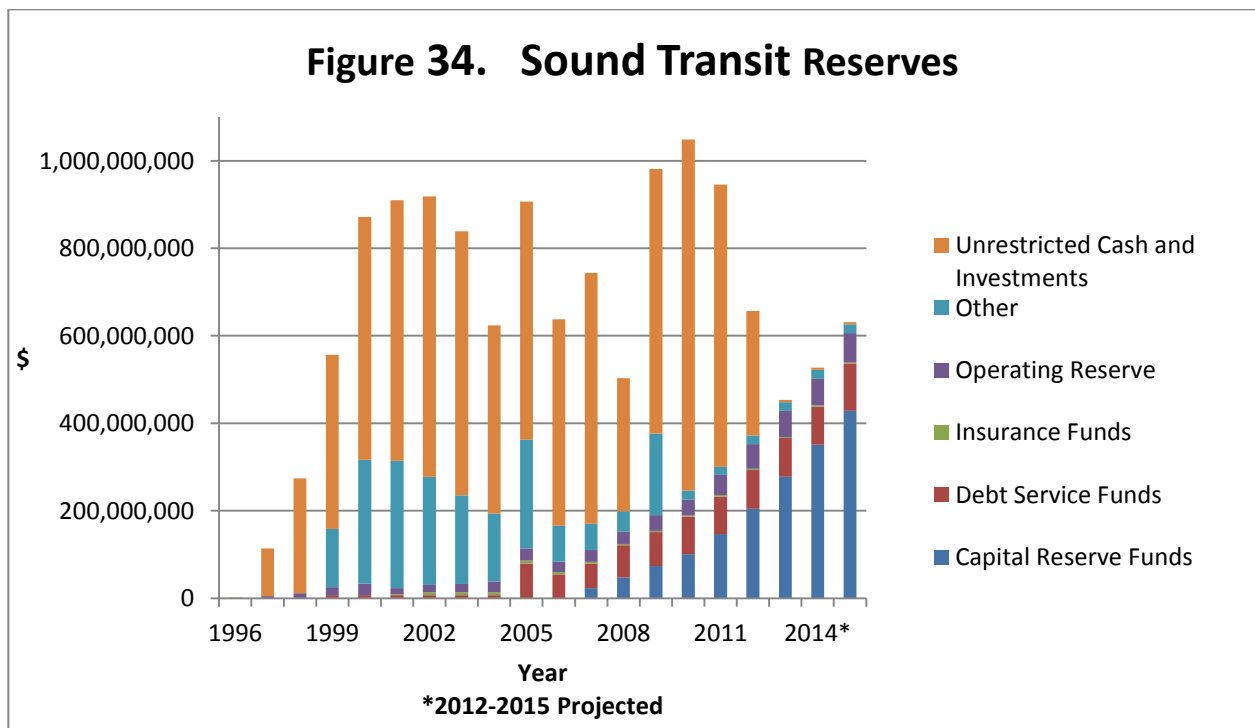
- **Debt Service Funds** insure coverage of ST debt obligations for the next year as required by bond covenants.
- **Insurance Funds** cover amounts required for self-insurance coverage based on actuarial analysis, and requirements established by the King County Dept. of Transportation.

Designated Reserves

- **Operating Reserve** is intended to maintain a two-month operation cost reserve for all of ST operations and maintenance expenses.
- **Capital Reserve** funds provide for the replacement of capital assets upon the end of their useful lives, ranging from ten to one hundred years. The reserve policy is to fund 77% of replacement costs from the capital reserve fund, at time of replacement. The other 23% is assumed to be covered by alternative fund sources.
- **Other** includes funds related to contractual requirements for the various construction projects. These requirements change throughout the capital program, as different projects and contractors have different requirements.

Unrestricted Cash and Investments

- This has been the largest category of reserves since the inception of ST and is anticipated to remain so through 2012. Its primary use has been to fund the next two years of capital expenditures and payments for contracts committed to operations and project construction. However, major changes to unrestricted reserves are expected as early as next year, as described below.



The following is intended to provide additional detail on use of funds within the “Unrestricted Cash and Investments” category of Sound Transit reserves.

The balance in this account in 2006 was \$471.8 million. Between 2006 and 2011, its balance has been as high as \$802 million and as low as \$304 million, demonstrating the use of this reserve fund to cover current capital and operating expenditures.

As currently forecast, the reserve fund will be insufficient to cover 2013 expenditures; as a result, ST will sell \$5 million in bonds to help cover capital costs. Bond sales will increase to \$293 million in 2014 and \$514 million in 2015 to pay for capital investments.

As additional bonds are sold, the amount required for debt service reserves will grow, and as a result ST will shift funds from unrestricted reserves into debt service reserves.

Additional pressure on unrestricted reserves will come from service expansion in 2016 with the opening of University Link, and again in 2023 with the opening of East Link and North Link. These service expansions will drive a need to increase operating reserves accordingly.

Furthermore, with the forecasted 30% decrease in tax revenues through 2024, ST will be forced to seek alternative loan sources (other than bonds) to cover the ST2 program. ST is currently applying for a federal TIFIA loan to cover the construction of East Link.

Figure 35. Expenditure of Sound Transit Reserves

	Capital Spent \$ millions	Purpose of Capital Expenditure—by Category of Use			O & M \$ millions
		Link light rail	Sounder commuter rail	ST Express Bus	
2006	\$664	Central & airport link, maintenance bases, vehicles	Phase 2 track improvements, N & S lines	Freeway Station, parking garages, transit centers	\$108
2007	\$670	Same as above	Same as above	Same as above	\$116
2008	\$574	Same as above	Same as above	Same as above	\$136
2009	\$303	Same + University and East Link	Tacoma to Lakewood	I-90 HOV lanes, freeway station, transit center	\$169 Link open
2010	\$466	University, East & South Link	Same as above plus easement purchase	Bus purchase, Freeway station	\$216
2011	\$645	Same as above	Same as above	Transit center, I-90 HOV lanes, bus purchase	\$213
2012	\$734	\$474 M, University, East, North, & South Link	\$182 M Tacoma to Lakewood, easements	\$24 M, I-90 HOV lanes	\$277
2013	\$865 \$3 M bonds	\$658 M Same as above	\$107 M, Complete Tacoma to Lakewood, Tukwila expansion	\$30 M, I-90 HOV lanes	\$294
2014	\$732 \$293 M bonds	\$593 M, Same as above	\$46 M, positive train control system	\$53 M, I-90 HOV lanes	\$305
2015	\$937 \$514 M bonds	\$749 M, Same as above	\$35 M, same as above	\$112 M, ST bus base	\$338
	Budgeted	Projected			