



PRELIMINARY REPORT

Leasing State Highway Right of Way to Sound Transit

Legislative Auditor's Conclusion:

Sound Transit leases portions of state highway property from WSDOT to build its light rail system. Sound Transit currently pays market value for the leases, but a proposed new Land Bank Agreement may reduce its costs by 57% through 2060. Both agencies would benefit from increased oversight of the Agreement.

JLARC to review Land Bank Agreement between WSDOT and Sound Transit

(SSB 5165, 2021)

Sound Transit is a regional transit authority serving King, Pierce, and Snohomish counties.

Sound Transit leases portions of state highway property from WSDOT for its light rail system.



Review to consider the cost to the state if lease rates are “discounted by the federal share of the funds that were used to acquire or improve the property originally.”

(SSB 5165, 2021)



Presentation Overview

What is the Land Bank Agreement?

Are lease rates market value?

How do the agencies administer the Agreement?

What are the costs of a proposed new Agreement?

Do other states charge market value?

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Land Bank Agreement creates a ledger to record transactions

Debits

Sound Transit leases highway ROW from WSDOT to develop **light rail** system.

Credits

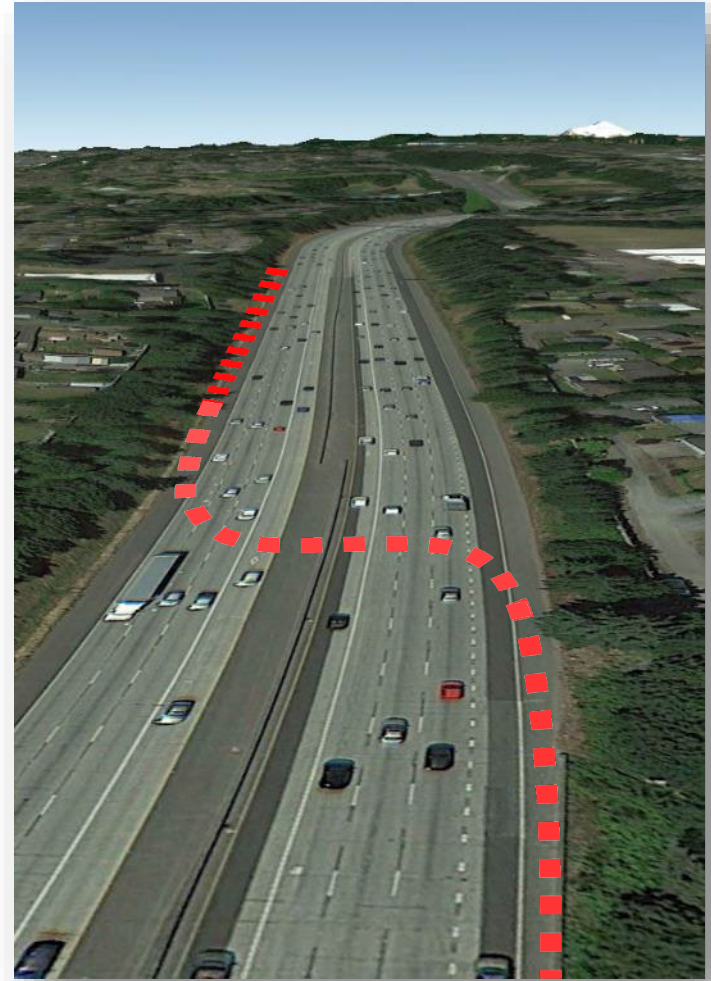
Sound Transit funds projects that provide a benefit to the highway system. Most of these projects are related to Sound Transit's **bus** system.

To date Sound Transit has offset all lease costs with credits. It has not paid cash. Additionally, Sound Transit conducts an annual forecast of the Land Bank balance. The terms of the Agreement prohibit a negative balance.

State and federal laws allow WSDOT to lease out unused portions of ROW for non-highway purposes

ROW refers to the highway corridor and includes space at grade, as well as above and below grade.

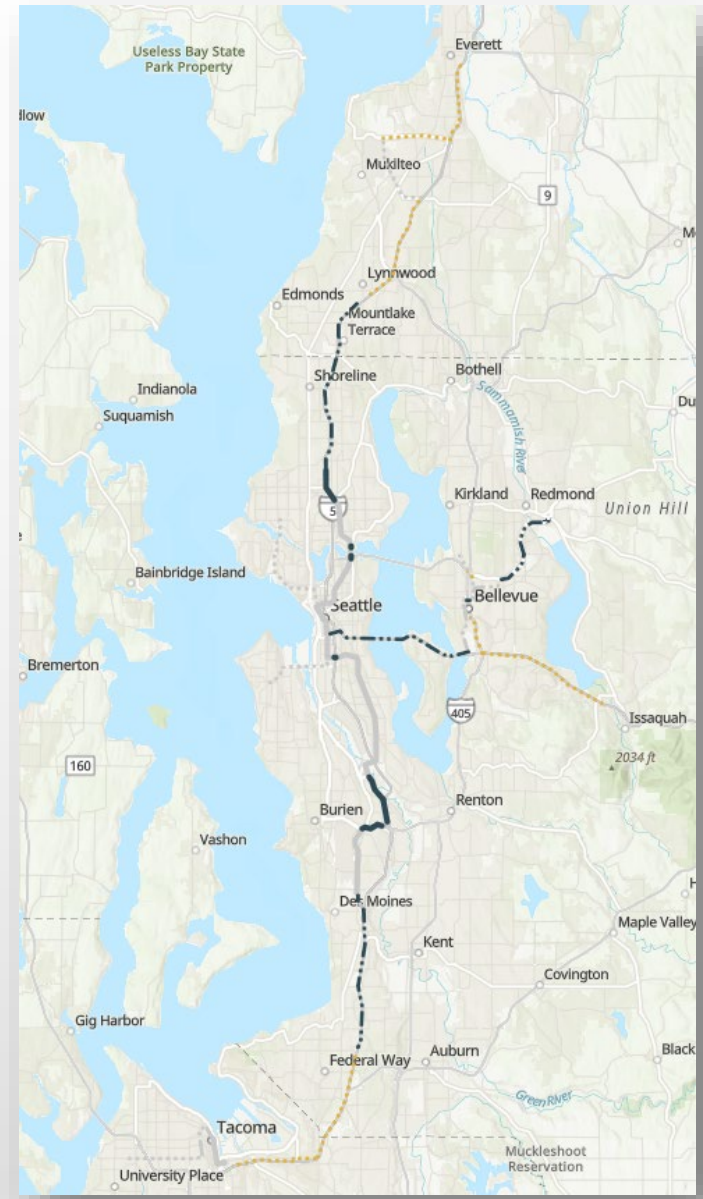
Sound Transit mostly uses the unimproved area next to highway shoulders to build light rail guideways. It uses the airspace above traffic lanes where the guideway crosses the highway.



20 active leases

Leases will cover approximately 57 miles of state highway when all currently planned light rail segments are built.

Lease costs total \$511 million to date.



Agencies work together

Sound Transit and WSDOT work together to ensure light rail projects are compatible with current and future highway needs.

Pre-design

WSDOT's planners determine whether corridor can accommodate light rail.

Design

Engineering consultants study whether the specific project footprint is compatible with highway needs.

Construction

WSDOT's inspectors visit project site to ensure it meets design and compatibility requirements.

The Federal Highways Administration must approve project plans and leases



Sound Transit has earned \$602 million in credits to offset its lease costs

Highway Improved (City)	Improvement Project Type	Credit Amount
I-5 (Federal Way, Lynnwood, Everett)	Transit/HOV ramps	\$79.7M
I-90 (Seattle, Mercer Island, Bellevue)	Transit/HOV ramps & lanes	\$293.7M
I-90 (Seattle, Mercer Island)	Floating bridge reinforcement	\$43.1M
I-405 (Renton, Kirkland)	Transit/HOV ramps	\$159.9M
Other highways (Bothell, Kenmore)	Transit/HOV lanes	\$22.7M
TOTAL		\$602.1M



Seattle Times



Sound Transit



Sound Transit



Sound Transit

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WAC and Land Bank Agreement require lease rates to be market value

2019 and 2021 transportation budgets required WSDOT to charge 100% of market value.

Proviso not included in the 2022 supplemental transportation budget.



Independent appraisers confirmed that WSDOT's lease rates are 100% of market value

JLARC retained appraisers with specialized experience in valuing ROW.

Appraisal methods and assumptions used to calculate lump sum lease amounts meet industry standards.



ROW appraisers cannot use traditional valuation methods

Right of ways are unique and there is little or no data available about sales or leases.

Instead, appraisers look at adjacent properties and identify comparable sales to those properties.

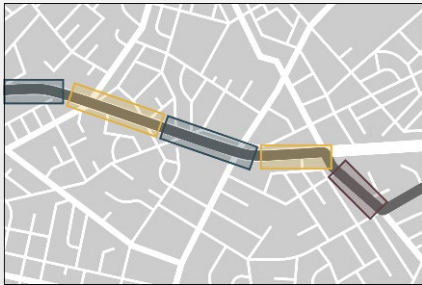
This approach is known as “across the fence” valuation.



“Across the fence” valuation has four basic steps

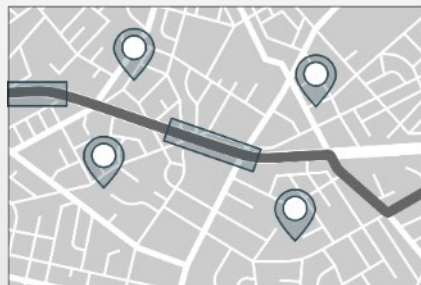
STEP 1

Divide corridor into segments and identify adjacent properties.



STEP 2

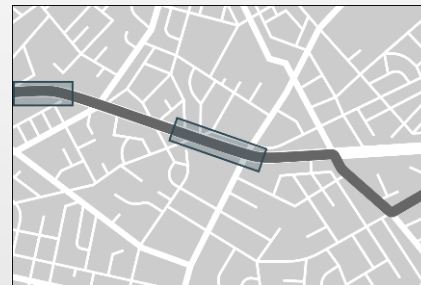
Research sales of comparable properties.



Avg cost/sq ft

STEP 3

Calculate segment value.



Segment square feet
x
Avg cost/sq ft

Segment 1 Value

STEP 4

Add segment values.

Segment 1 Value
+
Segment 2 Value
+
Segment 3 Value

Corridor Value

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Land Bank Agreement provides leasing template

Up to 40-year leases

Initial 20-year term with the option to extend for a second term.

Lease rates are market value

First 20 years are paid in advance as a lump sum payment.

Lease rate adjustments

After the initial 20-year term, WSDOT can reappraise the property every five years.



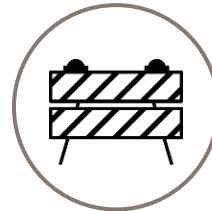


Sound Transit earns credits for funding highway improvements

Projects must benefit highway in one of two ways:



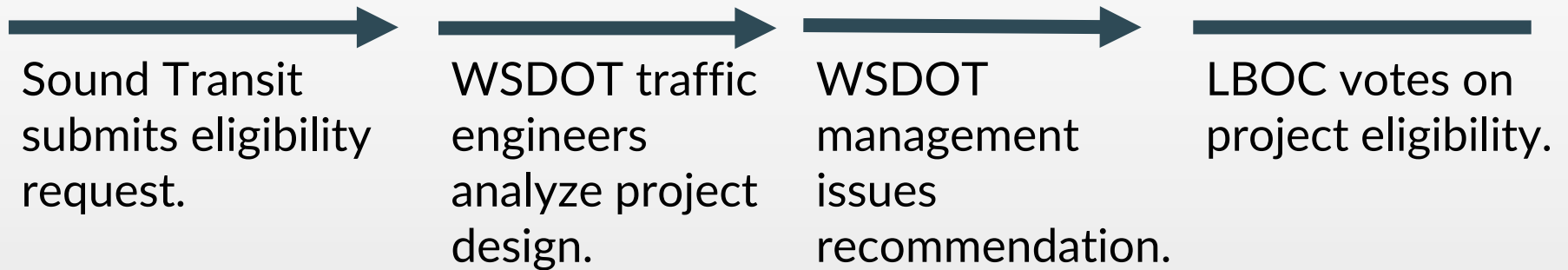
Increased vehicle mobility




Improved traffic safety

WSDOT's Land Bank Oversight Committee reviews credit requests

WSDOT created the Land Bank Oversight Committee (LBOC) in 2015 to review requests for Land Bank credit.





Sound Transit conducts annual forecast of Land Bank balance

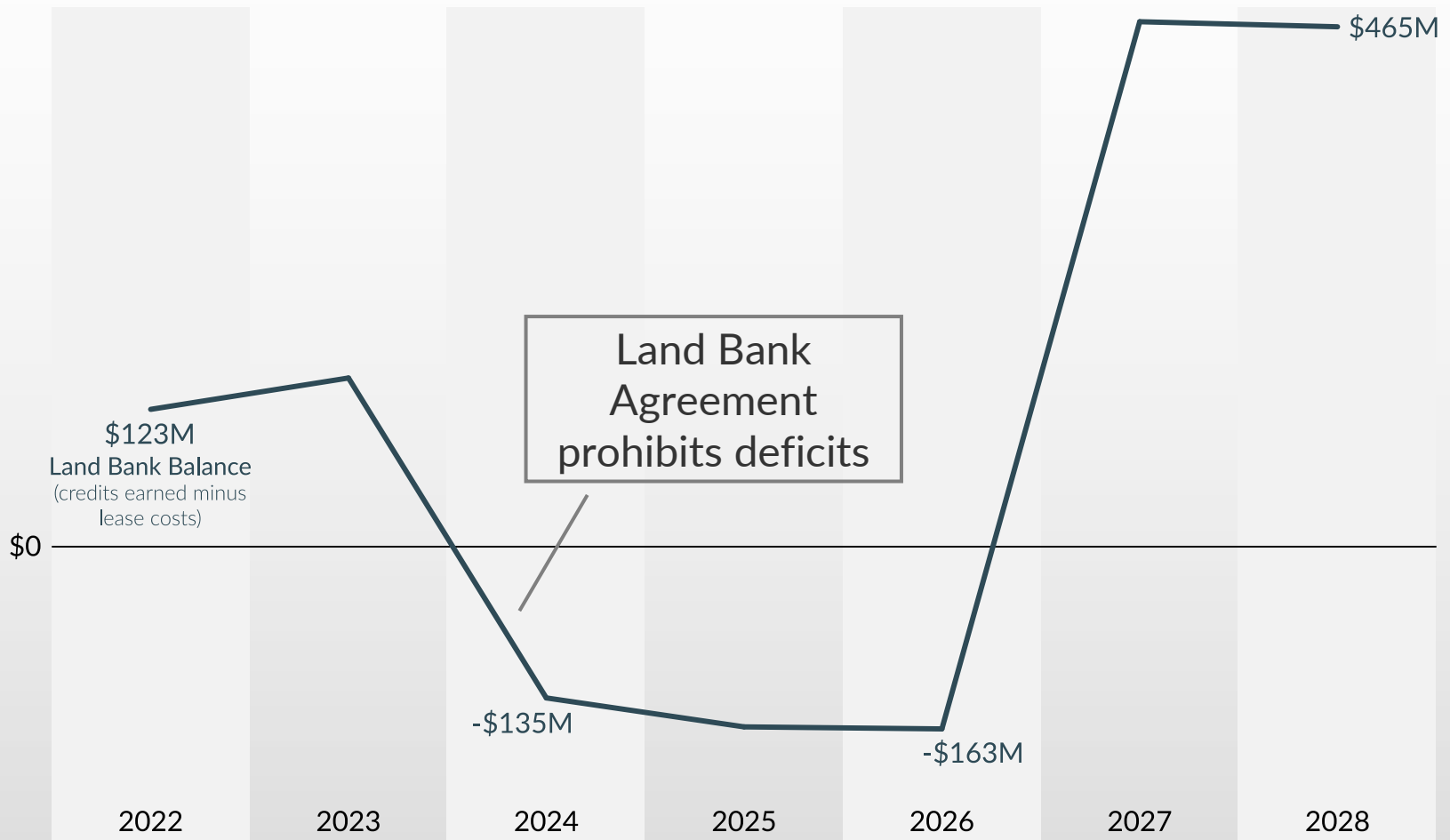
The forecast is completed as part of Sound Transit's long-range financial plan.

Current & future leases (debits)

Planned highway improvements (credits)

Economic indicators (e.g., ROW inflation)

Most recent forecast shows a negative Land Bank balance from 2024 to 2026



Land Bank Agreement no longer reflects current practice

Lease types

Temporary construction leases are now used for the construction period of each project.

Administrative procedures

Includes new accounting procedures and appraisal responsibilities.

Oversight Committee

Reviews and approves credit requests.



WSDOT and Sound Transit lack formalized interagency coordination

The Land Bank Oversight Committee includes only staff from WSDOT.

Sound Transit staff prepare the annual forecast of the Land Bank.

Sound Transit does not have its own internal committees or procedures.

Benefits of formal coordination include administrative efficiency and continuity.





Legislative Auditor's Recommendation

WSDOT and Sound Transit should strengthen internal oversight of the Land Bank Agreement and develop written procedures to jointly administer the Agreement.

As the agencies update the Agreement, they may consider:

- Establishing formal procedures for interagency collaboration.
- Incorporating new procedures in the new Agreement.
- Documenting when Oversight Committee votes are required.
- Establishing criteria for determining highway benefit.

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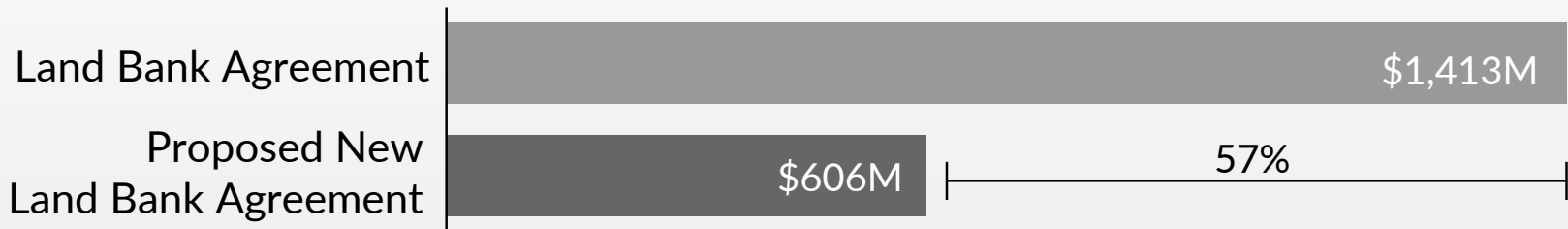
Do other states charge market value?

Proposed new Land Bank Agreement would reduce Sound Transit's ROW costs

The new Agreement is based on the terms proposed in a 2015 update that was never adopted.

	Current Agreement	Proposed new Agreement
Maximum lease Term length	40 years	75 years
Advance payment	First 20 years	First 50 years
Lease rates	100% of market value	15%-20% of market value

By 2060, the proposed new Agreement is forecast to reduce Sound Transit's ROW costs by 57%



Sound Transit could save \$569 million in cash under the new Agreement

Current Agreement: Sound Transit will owe \$569M from 2049 to 2060

New Agreement: No cash payments from 2027-2063



Impact of the new Agreement will depend on final terms and other factors

Future credits

Current forecast does not project any credits beyond 2027.

Future leases

Forecast does not include all planned light rail extensions.

Final terms

The agencies are still in negotiations on the new Agreement.

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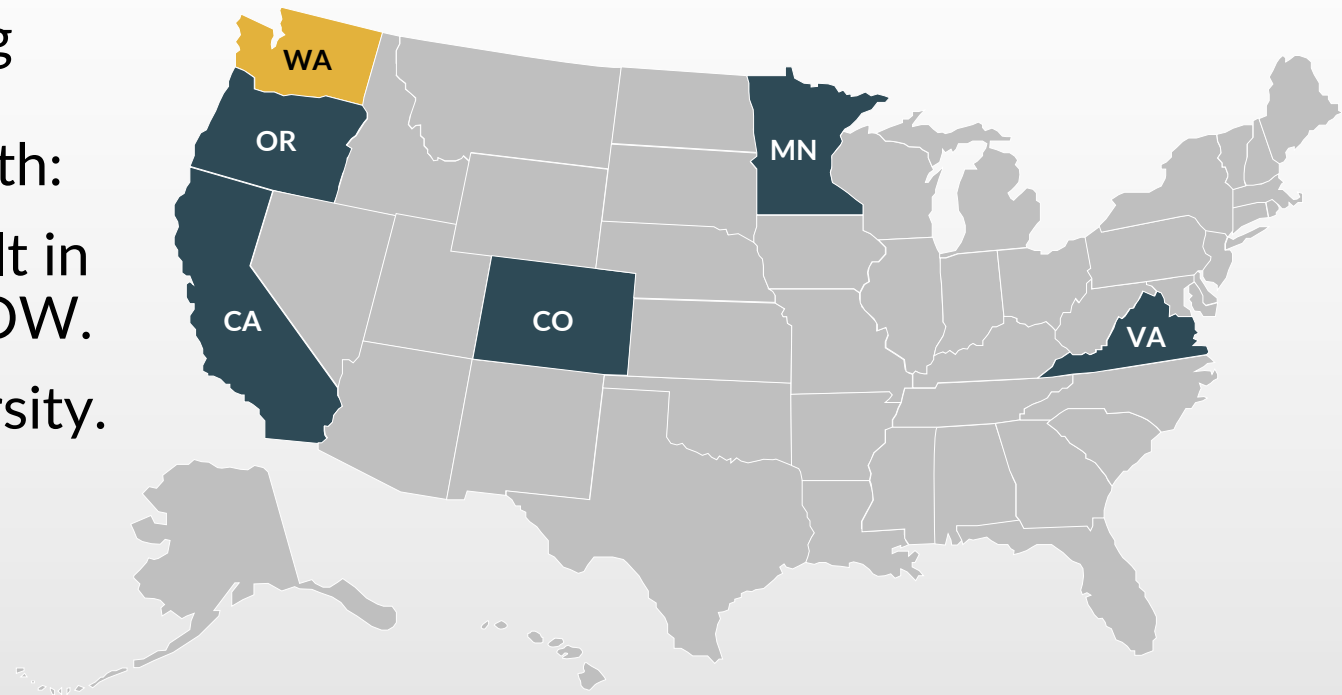
What are the costs of a proposed new Agreement?

Do other states charge market value?

JLARC Staff surveyed five states with light rail in highway right of way

To compare leasing practices, staff reviewed states with:

- Public transit built in state highway ROW.
- Geographic diversity.



Other states do not charge market value to use right of way

Federal law allows state DOTs to provide highway ROW free of charge.

California, Colorado, Minnesota and Virginia:

- Provide ROW free of charge.
- Do not conduct appraisals.



Oregon provides highway ROW to Portland's regional transit agency at a discounted rate

	Washington (Sound Transit)	Oregon (TriMet)
Enter agreements	<input checked="" type="checkbox"/> Leases	<input checked="" type="checkbox"/> Easements
Conduct appraisals	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Waive the federal share of costs	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Provide credits for highway improvements	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

Presentation Recap

Lease rates are set at market value.

Sound Transit offset its lease costs by funding projects that benefit highways. Sound Transit will likely have to pay cash for certain lease costs between 2024 and 2026.

Both agencies would benefit from increased oversight of the Agreement.

A proposed new Land Bank Agreement is forecast to reduce Sound Transit's ROW costs by 57% through 2060.

Other states do not charge transit agencies market value to use highway ROW.

A photograph of the Washington State Capitol building, featuring a large dome and classical architectural elements, set against a bright, slightly hazy sky. The building is partially obscured by a semi-transparent white overlay on the right side of the slide.

Legislative Auditor's Recommendation

WSDOT and Sound Transit should strengthen internal oversight of the Land Bank Agreement and develop written procedures to jointly administer the Agreement.

Next Steps

Proposed Final Report

January 2023

View the full report:

www.leg.wa.gov/jlarc



Video Summary



One Page Overview



Interactive Map



PDF Version



A photograph of the Washington State Capitol building, featuring a large dome and classical columns, set against a clear blue sky. The building is partially obscured by a semi-transparent white overlay on the right side of the page.

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