

## Appendix H: Financial Assessment

# SKAGIT COUNCIL OF GOVERNMENTS

## Financial Assessment for the Regional Transportation Plan

### INTRODUCTION

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#### PURPOSE

The purpose of this financial assessment is to understand the potential funding constraints and document assumptions used in the development of reasonably expected revenues for the 2016 RTP for Skagit County. The financial forecasts and assumptions are for planning purposes and in accordance with State and Federal law. These estimates have been developed to assist in project prioritization and planning, but are not intended to be precise forecasts. Exact funding levels are difficult to predict given the uncertainties of funding sources. The figures discussed in this report are estimates to be used for planning purposes; actual revenues are highly sensitive to local, state, and federal policy decisions; availability and competitiveness of grant funding; personal choices of residents; and other market forces.

Many of the funds discussed in this section may be used to fund the maintenance and operations of existing capital facilities or to construct new ones. However, as maintenance and operations costs of existing facilities increase faster than inflation, jurisdictions are confronted with difficult decisions regarding whether to fund these costs, at the expense of building new capital, or to adjust level of service standards. This report is intended to inform the RTP about its likely future financial position as it grapples with these decisions.

#### APPROACH

The information presented here begins with total future transportation revenue projections, including an estimate of General Fund contributions. From this total, funds already committed to bond payments have been removed, resulting in estimated available funds for expenditure. This total is then compared to estimated total maintenance expenditures on existing infrastructure, recognizing that a jurisdiction's first commitment is to maintain current infrastructure before building new. The remaining dollars are those estimated to be available for capital expenditures.

To develop these financial projections, historical transportation revenue and expenditure data were examined from annual reports available from the Washington State Department of Transportation, and from the individual jurisdictions, where available.

The reports available from WSDOT contain data submitted directly by each jurisdiction on an annual basis. This data represents all costs and revenues associated with transportation capital, maintenance, and operations programs in a given year, including traffic policing and the General Fund dollars used to support those services. The revenues and expenditures are submitted in categories created by WSDOT based on groups of

Washington State Budgeting, Accounting, and Reporting System (BARS) codes. Any revenues or expenditures attributed to those codes in the reporting year are submitted.

This data, combined with information and knowledge regarding the current economic and regulatory climate of each revenue and cost category, was used to project future revenue and maintenance spending levels. Estimated future revenues and expenditures have been projected for the 2016 to 2040 study time period.

Because this is a regional transportation plan, the revenues projected in this section are for the member jurisdictions of the Skagit Council of Governments including Skagit County, and the incorporated cities therein, Skagit Transit and WSDOT, organized into the following groups:

- Skagit County (unincorporated area) - County funds are considered separately from the cities/towns because County funds are raised through different methods of taxation and be bound by different restrictions.
- Cities/Towns - Cities and Towns are considered one group because they share a similar transportation revenue system. This group includes:
  - Anacortes
  - Burlington
  - Mount Vernon
  - Sedro-Woolley
  - Concrete
  - Hamilton
  - La Conner
  - Lyman
- Transit – Skagit Transit is treated separately from other areas due to specific revenue sources only available to transit.
- WSDOT – The Washington Department of Transportation is treated separately due to specific state only revenue and expenditures.

Some of the revenue and cost projections in this analysis are made on a per capita basis. For those projections, future population assumptions came from the population forecasts created for this plan and are essentially the same forecasts used by the County, Cities, and Towns for their Growth Management Act (GMA) plans. The difference is the forecasts for the RTP go out to 2040 while the GMA plans are out to 2036.

It is important to note that population projections for each city include boundaries that roughly approximate the current Urban Growth Areas (UGA) for those cities. This includes both current incorporated area, and unincorporated area that may be annexed by each city over time.

Conversely, as population is annexed into incorporated cities, the unincorporated areas loose that population. Therefore, although population is still projected to increase in the unincorporated areas over the study period, it is at a much slower rate than seen in recent history, which has implications for tax policy and total taxes collected.

Although total projected revenues for each group of cities may be sufficient to cover desired project costs as a whole, the location of the funding may not necessarily match the location of the project. Cities may therefore have a disparity of funding availability and funding need (i.e., one city may have excess funds, while another city may be short on funds to complete their project list). A regional discussion covering project partnerships may be necessary to address these disparities.

## HISTORIC TRANSPORTATION REVENUES AND EXPENDITURES

Transportation funding in the Skagit County region draws mainly from a few primary tax bases. These include motor fuels sales, retail sales, assessed property valuation, and vehicle registrations and licenses. In addition to taxes on these tax bases, transportation revenues are drawn from a combination of other sources, such as operating income and sources comprising city and county general funds.

Cities and counties support transportation investments from a wide variety of funding sources. The state Legislature has authorized a number of local option taxes that have, in many instances, proven to be difficult to implement. At the same time a number of tax-limiting initiatives and growing demands for general fund dollars have made local commitments to transportation a challenge to sustain.

Local transit authorities' primary source of funding is the sales tax. Local transit operators have been increasingly dependent upon the sales tax, which is a less stable source of revenue; rising and falling with other economic factors. The negative effects of relying on this volatile source of funding for transit operations have been clearly demonstrated during the depths of, and recovery from, the economic downturn experienced in 2008.

The Washington State Ferries has also been affected by the loss of Motor Vehicle Excise Tax as well as the declining purchasing power of the fuel taxes. The result is an increasing reliance upon tariffs (fares) for operations and state budget allocation for capital investments. The state highway program is heavily dependent upon fuel tax revenues, from both state and federal taxes.

Skagit Council of Governments (SCOG) has compiled a history of sources and uses of funds for city streets, county roads, public transit, state ferries, and state highways through 2013, from reports prepared by the state. Streets and roads data derive from the budget accounting and reporting system (BARS) account structure, which cities and counties follow in submitting reports to the state for all financial activities. The SCOG database for streets and roads dates from 2001. The public transit data are drawn from the annual public transit report prepared by WSDOT, based on input from each transit operator in the state.

State ferry and state highway data are drawn from county-level allocations for revenues and expenditures that are developed by WSDOT. WSDOT maintains a rolling ten-year history of these data.

Figures 1 and 2 show the historical revenue and expenditure information, from 2001-2013, for the primary elements of the transportation system. These data are reported by program area, or implementing authority. It is important to remember that program areas do not represent strict modal equivalents. For example, cities make investments in their street systems that accommodate transit requirements. A review of the data trends offers an understanding of current financial capacity and constraints relating to ongoing investments in transportation. On average, total transportation-related revenues grew by approximately 5% and expenditures remained flat with less than 1% growth annually between 2001 and 2013. It is important to note that not all revenues generated in Skagit County remain in Skagit County due to their statewide nature such as state motor fuels tax. Both revenues and expenditures have tended to decline over time for cities and towns. This may be due in part to the reliance on general funds to support the transportation programs which were strained during the recession. Conversely, Skagit Transit revenues and expenditures have increased with expansions to the Public Benefit District Boundary and increases in retail sales tax authority and state grants. County revenues and expenditures increased slightly over the time period as well.

The State program shows higher variability in expenditures which is due to the priorities set at the state level with Skagit County’s portion varying based on needs and priorities in other areas. Some of the revenues attributed to the State program through the motor vehicle fuel tax are received by cities and counties as grants and thus some double counting is included.

Figure 1: Transportation Revenues in Skagit County

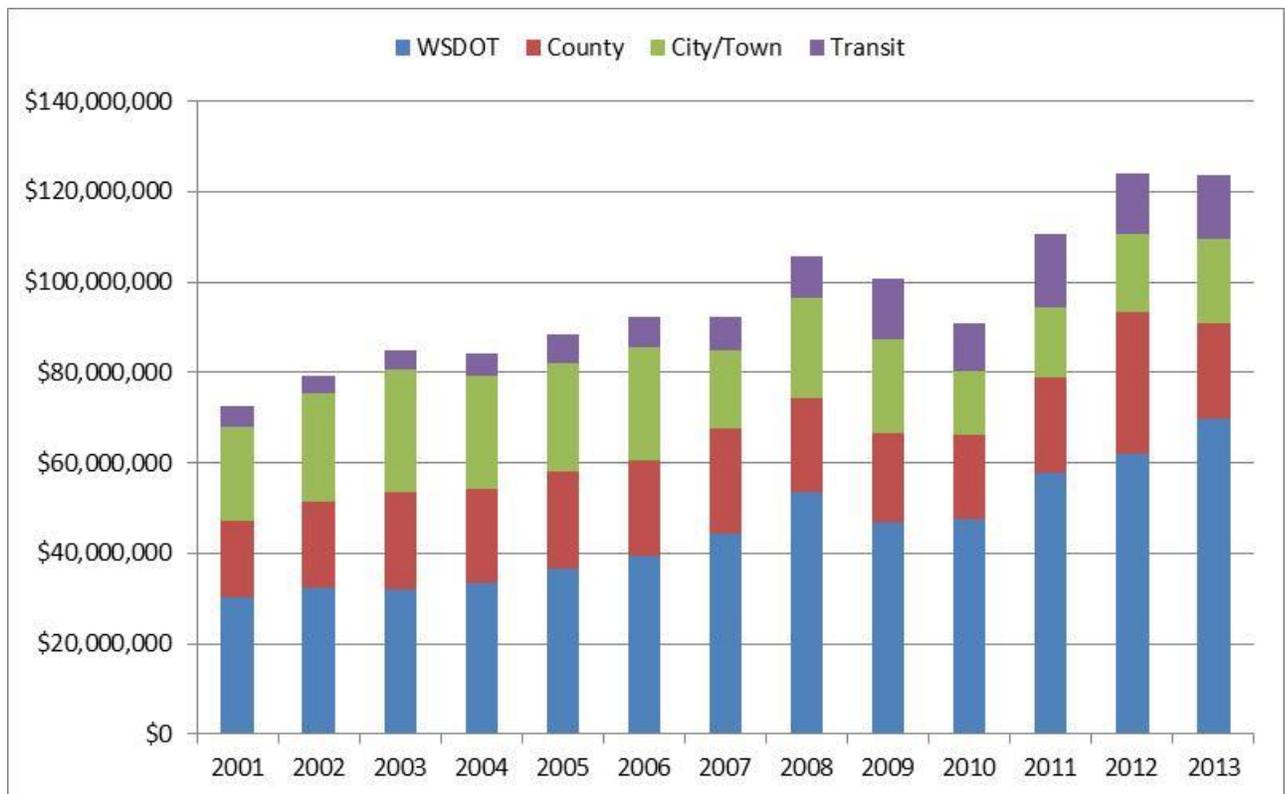
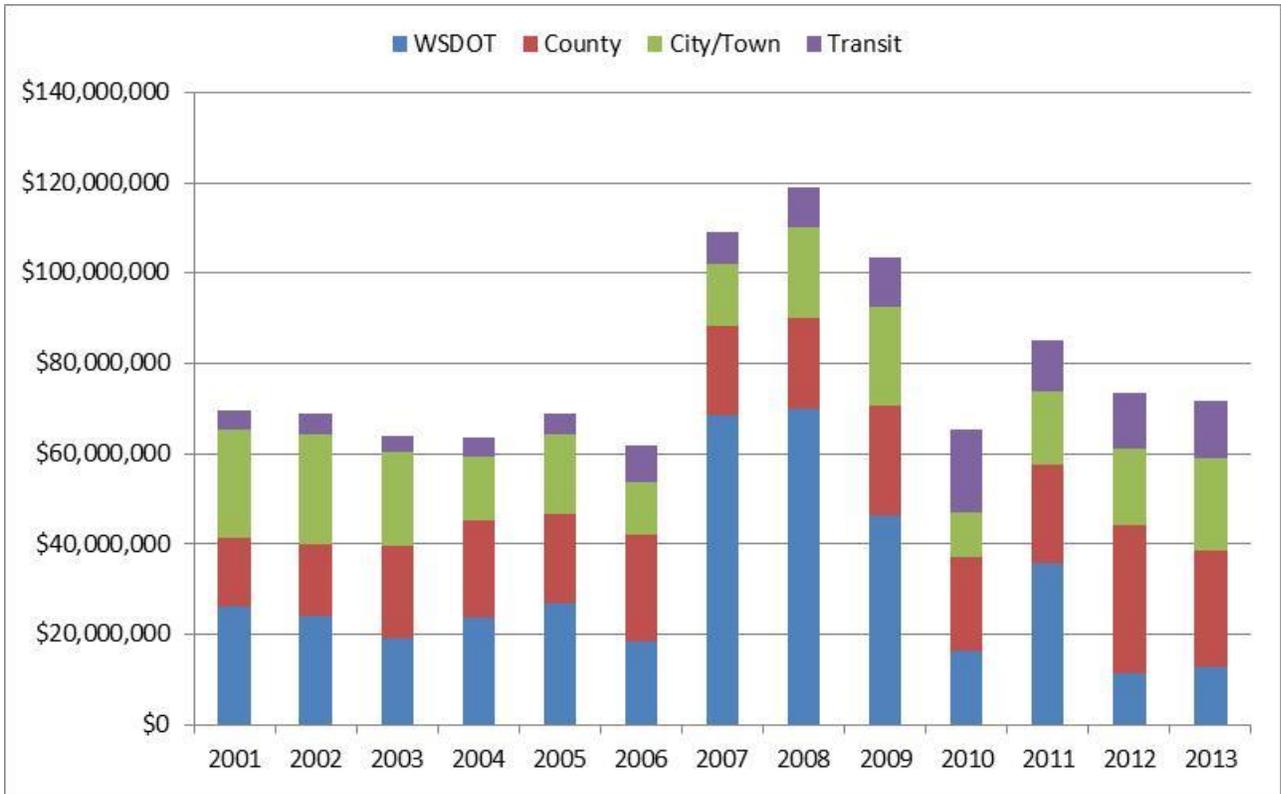


Figure 2: Transportation Expenditures in Skagit County



Figures 3 and 4 shows the transportation revenues and expenditures in constant 2015 dollars, taking into account inflation and buying power of the funds. From 2001 to 2013, the region’s transportation revenues increased by approximately 2% annually in constant dollars. County revenues did not increase over that time period and city/town revenues experienced an overall decline of approximately 3%. Skagit Transit increased 11% and WSDOT by 6%. Transportation expenditures show a similar pattern with Skagit Transit showing an increase, while WSDOT and City/Towns remain declined, and Skagit County increasing by 2%. Population growth during this period grew by an estimated 15,621 between 2000 and 2013, or approximately a 15% increase. In terms of per investment per person, the region is investing less in transportation now than in 2001.

Figure 3: Transportation Revenues in Skagit County in Constant 2015 dollars

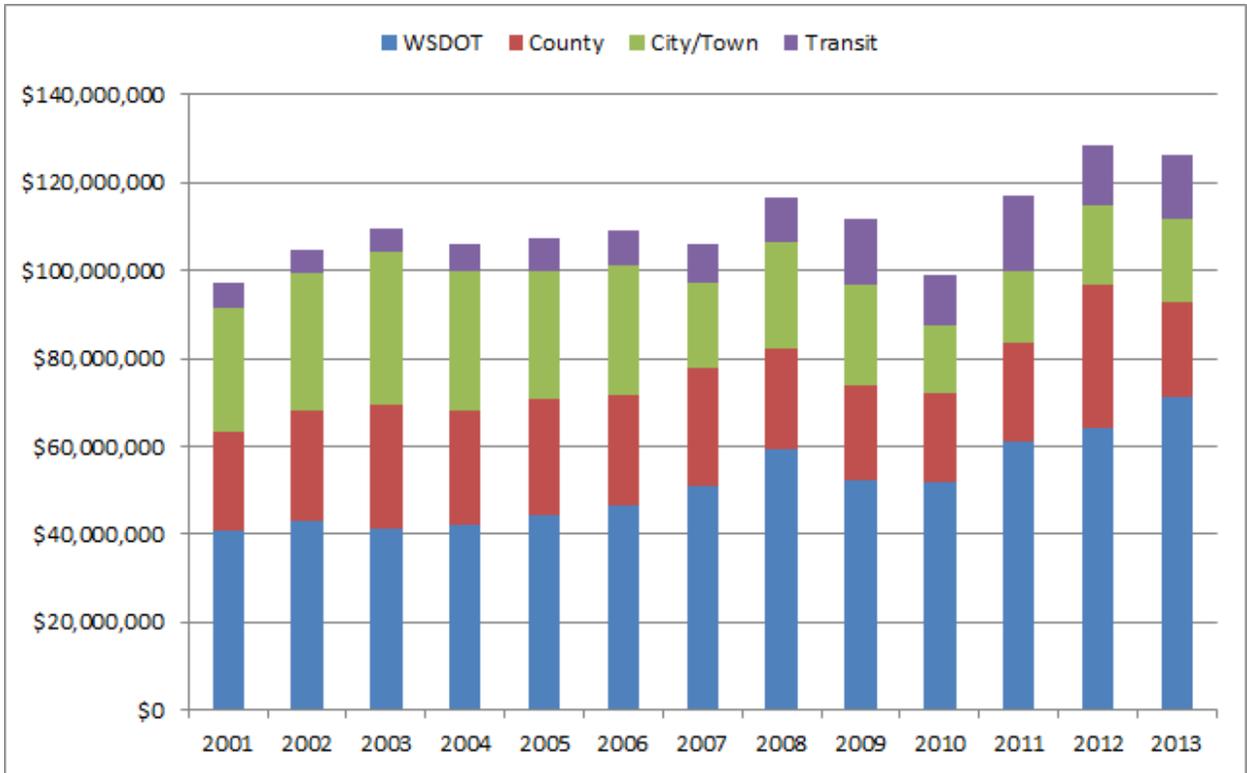
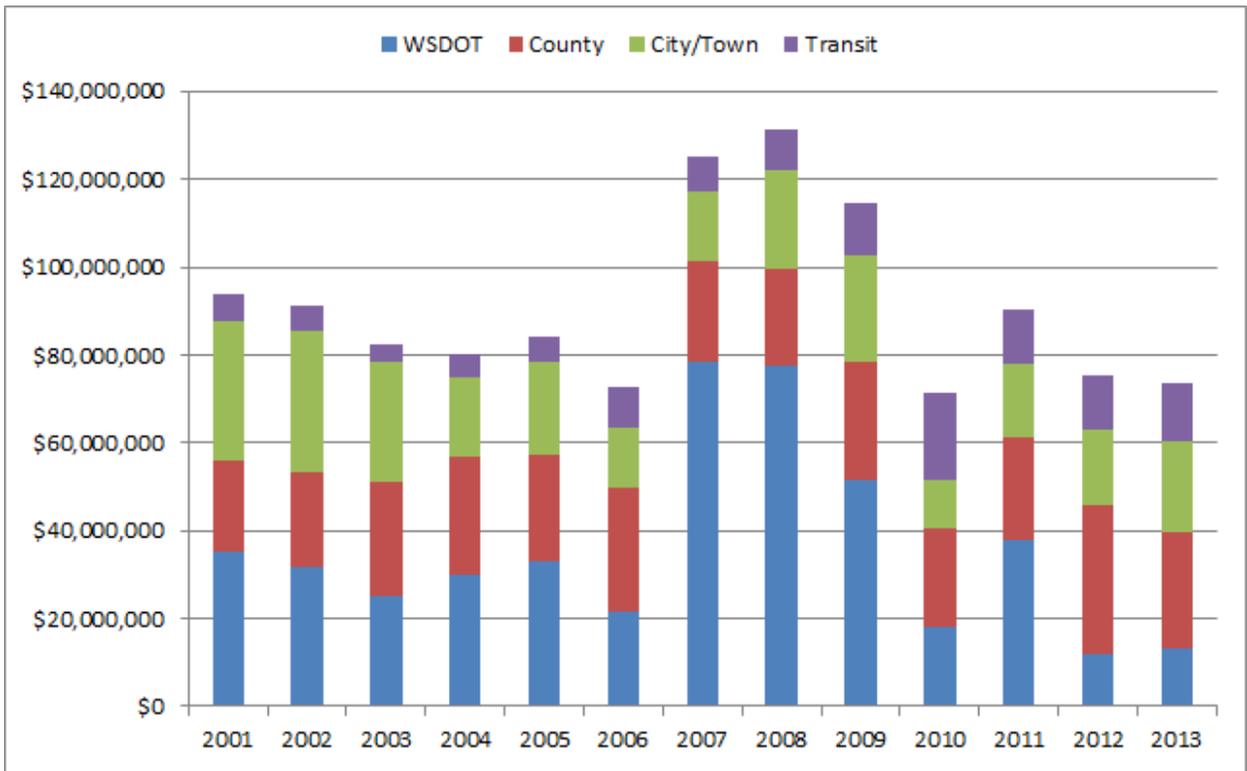


Figure 4 Transportation Expenditures in Skagit County in Constant 2015 dollars



Figures 5 and 6 shows the breakdown of transportation revenues in Skagit County by source, local, state or federal. Of the total revenues between 2001 and 2013, 35.3% was local, 44.0% state and 20.5% federal. The percentage varies from year to year, but over time state sources have become a larger share of the revenue.

Figure 5 Transportation Revenue by Source from 2001 to 2013 (percentage)

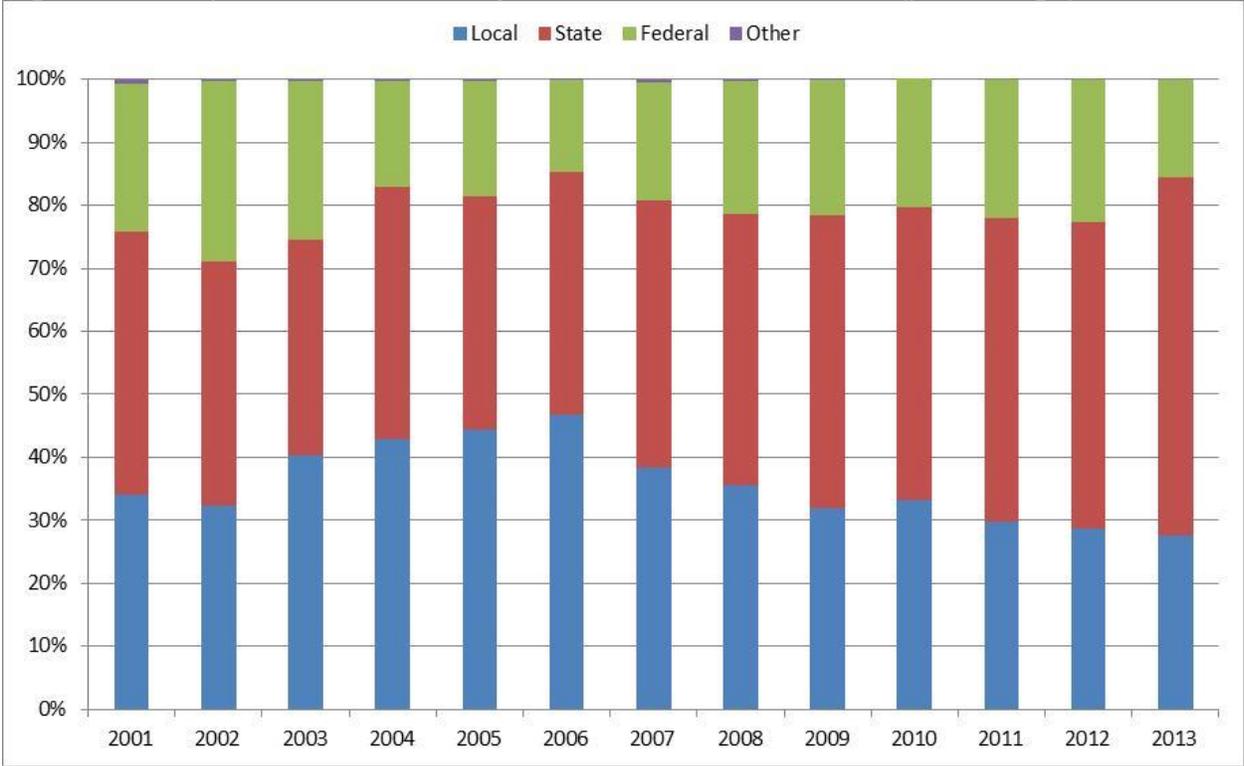


Figure 6 Total Transportation Revenue by Source (percentage)

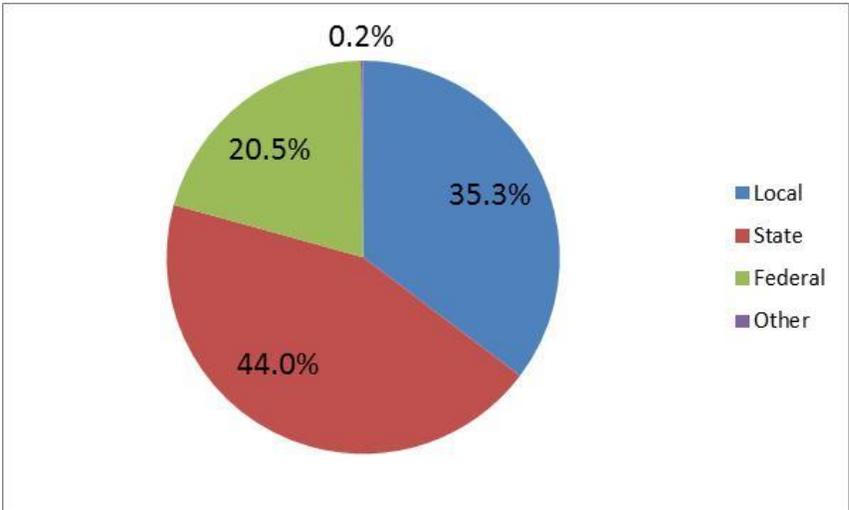


Figure 7 shows the variability that the expenditures can have by category in any given year with peaks in construction/capital in 2007 and 2008. Figure 8 shows that overall, the expenditures broke down to 45.1% for Construction/Capital, 42.7% for Maintenance, Preservation and Operations, and 12.2% was for Other/Debt Service.

Figure 7 Percentages of Transportation Expenditures by Category – 2001 to 2013

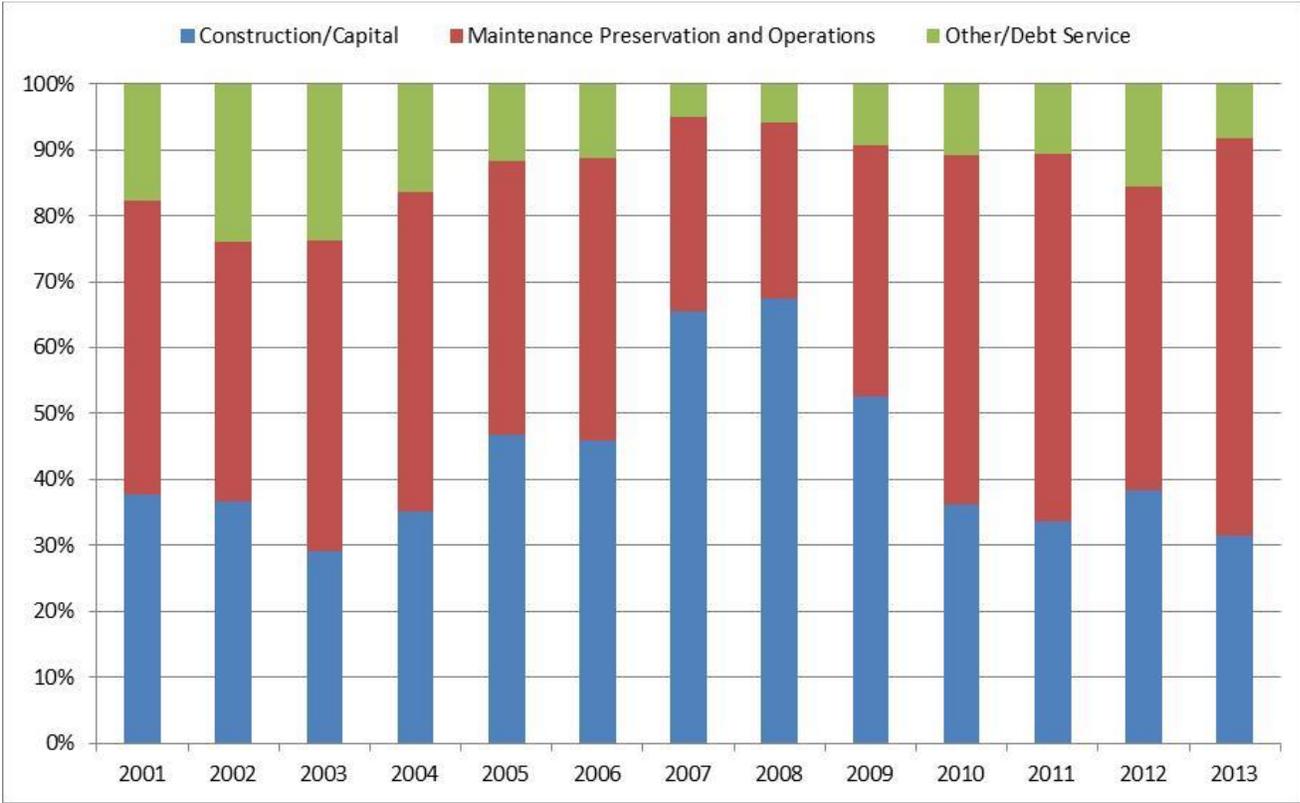
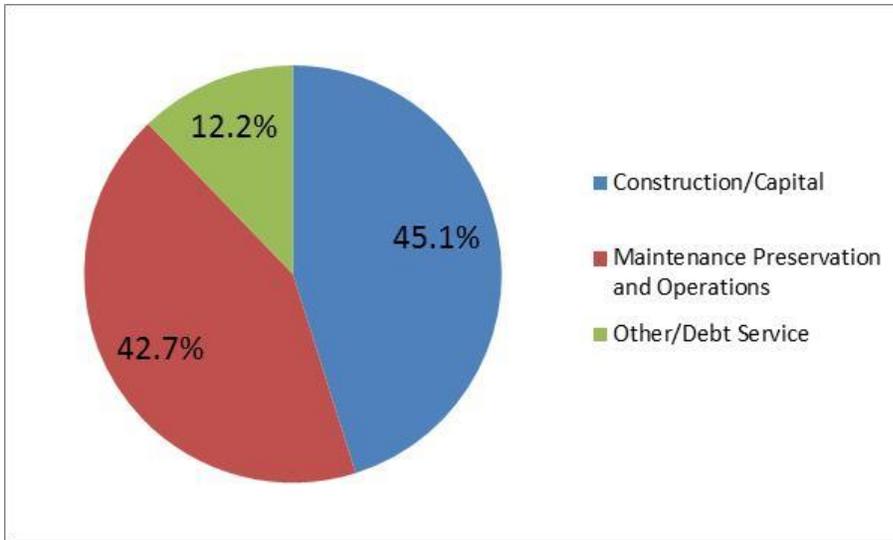


Figure 8 Overall Percentages of Transportation Expenditures by Category - 2001 to 2013



It is important to point out that the expenditure reporting by the various program areas do not all align to the terms we use in planning. For example, bus replacement purchases are treated as capital but in the planning process are treated as preservation due to replacing a previous bus to continue existing service and are not being used for expansion of the transit system rather used to maintain the existing system.

The data presented here can have significant variability, in particular in the transportation expenditures. This is in part due to the relatively small number of jurisdictions and population in Skagit County, but can also occur when one large transportation project spikes a given year of data, or when jurisdictions are banking funds while seeking additional funds to complete a project.

## SKAGIT RTP REVENUE FORECASTS 2016 TO 2040

It is worth repeating that these estimates are meant to assist in project prioritization (including appropriately sizing the total program) and planning. The numbers discussed in this report are estimates to be used for planning purposes; actual revenues are highly sensitive to local, state, and federal policy decisions; personal choices of residents; and market forces.

The revenue forecasts in this section are summarized and presented for two time periods, 2016-2025 (ten years), and 2026-2040 (fifteen years by program area which includes Transit, WSDOT, County and City/Town). The Current-law forecast shown in Table 1 is in constant 2015 dollars. Constant dollars adjusted value of currency used to compare dollar values from one period to another. Due to inflation, the purchasing power of the dollar changes over time, so in order to compare dollar values from one year to another, they need to be converted from nominal (current) dollar values to constant dollar values, in this case 2015.

Table 1 – Current-Law Revenue Forecasts

Program Area	Revenue (2015 Constant \$)		
	2016 to 2025	2026 to 2040	Totals
Transit	162,710,400	272,098,400	434,808,800
WSDOT	277,979,000	336,380,000	614,359,000
County	270,509,600	342,312,900	612,822,500
City/Town	161,483,500	221,759,800	383,243,300
<b>Totals</b>	<b>872,682,500</b>	<b>1,172,551,100</b>	<b>2,045,233,600</b>

The forecasts project approximately two billion dollars are available for all transportation needs from 2016 to 2040.

## FUNDING PROJECTIONS

These funding projections are considered a “current law” forecast, which are based on no new taxes or increase in tax rates above what exists in 2016. For example, the city and town program area includes revenues from Transportation Benefit Districts (TBD) at the current adopted rates for Anacortes and Sedro-Woolley. The allowed increases under state law or other cities implementing a TBD are not included in the forecast. Those may be considered as part of the financial strategy. Past trends were considered when making future projections, along with current knowledge of how each revenue is collected, what forces caused changes in the recent past, and what, if anything, is likely to cause it to change in the near future.

All the forecast assumptions created a rate of growth to apply to the observed historic revenue collected. Funding projections include the following revenues and assumptions:

### FEDERAL FUNDS

All program areas received federal funds which come primarily from the federal gas tax.

### ASSUMPTIONS

The growth rate for federal funds includes 2.9% increase per year from 2016 to 2020 based on the apportionments identified in the new federal transportation legislation, Fixing America’s Surface Transportation (FAST) Act. After 2020 no increases in federal funds are assumed.

### STATE MOTOR FUELS TAX (GAS TAX) AND STATE OTHER (LICENSE FEES)

Counties and cities receive a portion of the State Motor Vehicle Fuel Tax based on a formula. Washington State Department of Transportation (WSDOT) spending is appropriated biennially by the State Legislature. Future projects eligible for funding consideration are listed in the State Transportation Improvement Program (STIP), however no funding is guaranteed until projects are directly appropriated in the State budget. Historical spending data and spending projections from WSDOT were analyzed to estimate future WSDOT spending in Skagit County.

Context is important when considering the historical trend in WSDOT spending. Transportation projects funded by the State rely primarily on revenues collected

through the State Motor Vehicle Fuel (MVF) Tax (also called the gas tax). A portion of these revenues is returned to local jurisdictions via direct allocations based on standard formulas, and through competitive grants; the remaining portion funds WSDOT transportation projects. The gas tax has been increased in the past, the latest being in 2015. Much of the money generated from these increases was targeted to specific projects and are bonded into the future. The revenues available from the State's portion of the gas tax have been reduced to account for the statewide bonded and committed projects.

It is an important characteristic of the gas tax that it is a fixed rate per gallon of gas purchased. With a tax such as retail sales tax, which is based on a percentage of the purchase price of a product, rates of inflation are important to consider along with trends in consumption of goods. However, because the gas tax rate is fixed (currently \$0.445 per gallon, \$0.494 as of July 1 2016), future revenue estimates are based solely on changes in consumption of gas.

It is important to emphasize, for all of these State spending projections, that funding is not guaranteed until appropriated by the State legislature and approved by the Governor. Further, since this spending is subject to some discretion, historical spending may not be correlated to future spending. Also, this is done on a statewide level while the revenue and needs estimates are for Skagit County.

#### ASSUMPTIONS

A series of bills were passed in 2015 (Connecting Washington) that included an increase in the state gas tax rate. The new rates were included in the base and were grown based on the gas tax forecasted rate from Office of Financial Management (OFM). State other funds used the same methodology and assumptions, apply the new 2015 law and grow at the forecasted rate from OFM.

#### TRANSIT FUNDS

Skagit Transit receives some federal and state funds but the majority of their revenues are local. The primary source of the local funds is the voted approved rate to 4/10 of 1% tax on retail sales within the Public Transportation Benefit Area.

#### ASSUMPTIONS

Federal see above.

State funds are assumed to continue at the current amount.

Local funds are assumed to grow at the rate based on the growth rate of financial, services, and retail trade jobs in the county.

#### COUNTY LOCAL FUNDS

The Property Tax is collected by Skagit County specifically for transportation funding and accounts for a large portion of the County's transportation funds. These funds may be spent on transportation projects only in unincorporated County areas and are not available for city projects. In addition to the annual WSDOT reports, Assessor's reports

for each county were used to gather data on recent collections, historical changes in assessed value, and annual value of new construction activity.

#### ASSUMPTIONS

Due to the passage of Initiative 747 and reenactment by the State Legislature following the State Supreme Court's invalidation of the initiative, Property Tax increases are restricted to 1.0% of the previous year's revenues plus new construction. In inflation-adjusted terms, revenues from Property Tax are actually declining, since the 1.0% allowed increase does not keep pace with inflation (which hovers around 3.0%), or population growth. Because Initiative 747 became active in 2001, there is enough historical data to approximate the new trend in Property Tax Revenues since the 1.0% limit was instituted. However, some banked capacity has been used during this time, resulting in artificially-high revenue increases.

#### CITY/TOWN LOCAL FUNDS

Most of the cities and towns in the county have historically contributed some General Fund dollars to transportation financing. Recently the cities of Anacortes and Sedro-Woolley enacted local Transportation Benefit Districts (TBD).

#### ASSUMPTIONS

Local funds are assumed to increase at the rate of population growth for the incorporated areas. For the TBD the revenues collected by the districts have not shown up in the historical data. For the district funds information was obtained from each jurisdiction establishing the district and used the estimated revenues as a base. In the case of Anacortes some collection data was available. The population growth rates of Anacortes and Sedro-Woolley were applied to each city through the forecast period.

## TRANSPORTATION EXPENDITURES

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When considering revenues available for future transportation capital investments, we recognize that jurisdictions generally commit to funding maintenance of current infrastructure before building new capacity. Transportation maintenance spending is directly related to level of service standards, which are typically set at the discretion of the jurisdiction. Therefore, jurisdictions must continually make decisions regarding available funds, desired level of service, and balance other financial priorities.

In an attempt to help the region in the decisions that must be made regarding level of investment in transportation capital, future Maintenance, Preservation, Safety and Operations or basic need costs were estimated for the plan.

### LEVELS OF SERVICE

It is important to note that these cost projections include only the existing infrastructure, and do not include maintenance costs for the capital projects being funded in this plan. New capital projects will bring increased maintenance, preservation, and operations needs.

In addition, these basic need costs are based on current expenditure levels, or current levels of service, since we cannot make assumptions about changes in future levels of service. However, in cases where jurisdictions have been deferring necessary maintenance, or maintaining existing infrastructure at lower levels than desired, these estimates may understate the basic need costs future funding.

### METHODOLOGY

Historical spending trends were analyzed for the program areas and used as the basis of estimating the future basic needs. These cost projections are considered the “most likely” scenario considering recent historical trends and the current economic context of each expenditure category.

Historical trends were considered when projecting costs into the future, also taking into consideration current knowledge of how each category of cost is increasing over time, and what, if anything is likely to cause it to change in the near future. The resulting estimated cost was compared to information provided by some members regarding what they are projecting as basic needs for their jurisdiction. Jurisdictions were not able to provide complete information nor did all jurisdictions provide information, therefore needs were estimated for all program areas based on the historic information. The historic data was grown by a growth factor calculated on population growth for the respective program area. The future needs estimated were compared to the information provided by jurisdictions to provide a reasonableness check. If additional information is received the future estimated may be updated.

Significant capital expansion projects were added (over the estimate of basic needs) for each program area based on the projects lists included in the RTP. For example, the new maintenance and operations base for Skagit Transit and the Sharpes Corner project for WSDOT.

It is worth repeating that these estimates are meant to assist in planning. The numbers discussed in this report are estimates to be used for planning purposes; actual costs are sensitive to policy decisions and market forces. These estimates are expressed in constant 2015 dollars. Year of expenditure dollars are shown in Table 2.

The future needs in this section are summarized and presented for two time periods, 2016-2025 (ten years), and 2026-2040 (fifteen years by program area which includes Transit, WSDOT, County and City/Town).

Table 2 – Transportation Needs

Needs (2015 Constant \$)			
Program Area	2016 - 2025	2026 - 2040	Totals
Transit	\$156,049,500	\$272,255,900	\$428,305,400
WSDOT	\$225,188,100	\$430,852,000	\$656,040,000
County	\$304,188,700	\$370,096,800	\$674,285,500
City/Town	\$255,894,000	\$305,011,000	\$560,905,000
<b>Totals</b>	<b>\$941,320,300</b>	<b>\$1,378,215,700</b>	<b>\$2,319,535,900</b>

The revenue and needs above are described in constant 2015 dollars to assist in understanding the needs in today's financial terms. The RTP is a long range document and the revenues and expenditures (needs) can be looked at over that time period in terms of future year dollars or what is termed year of expenditure/receipt of those funds. Future year estimates for revenues were not discounted to 2015 dollars and revenues were inflated based on the price inflator forecast from Office of Financial Management and are shown in the tables below.

Table 3 – Current-Law Revenue Forecasts

Program Area	Revenue (Year of Expenditure \$)		
	2016 to 2025	2026 to 2040	Totals
Transit	180,483,400	373,764,300	554,247,700
WSDOT	307,263,000	458,429,700	765,692,700
County	299,048,100	467,094,500	766,142,600
City/Town	178,679,700	303,215,800	481,895,500
<b>Totals</b>	<b>965,474,200</b>	<b>1,602,504,300</b>	<b>2,567,978,500</b>

Table 4 – Transportation Needs

Program Area	Need (Year of Expenditure \$)		
	2016 to 2025	2026 to 2040	Totals
Transit	173,102,200	375,148,300	548,250,400
WSDOT	252,492,000	568,257,000	820,749,000
County	336,075,700	505,958,700	842,034,500
City/Town	282,681,100	415,780,600	698,461,700
<b>Totals</b>	<b>1,044,350,900</b>	<b>1,865,144,700</b>	<b>2,909,495,700</b>