

## **SOUND TRANSIT**

### **SUBSTITUTE RESOLUTION NO. R99-17**

#### **Criteria for Allocation of Excess Revenues BACKGROUND AND COMMENTS**

<b>Meeting:</b>	<b>Date:</b>	<b>Type of Action:</b>	<b>Staff Contact:</b>	<b>Phone:</b>
Finance Committee	6/3/99	Discussion	Jan Hendrickson	206-398-5097
Finance Committee	6/17/99	Possible Action		
Finance Committee	7/1/99	Possible Action		
Finance Committee	7/15/99	Possible Action		
Board of Directors	7/22/99	Approval		

#### **ACTION:**

Approval of Substitute Resolution No. R99-17 identifies criteria for the programming of collected local tax revenues that are in excess of the revenues projected by the original Sound Move financial plan.

#### **BACKGROUND:**

##### **Overview**

Sound Move forecasts sales tax and motor vehicle excise tax for each subarea annually for the initial Phase I ten-year period. Actual revenues collected during the ten-year period will undoubtedly vary from those projections. Some subareas may experience higher than originally forecast revenues, while others may experience lower than expected revenues. The Board will need to determine when, if ever, it will allocate local tax revenues in excess of Sound Move forecasts to program expenditures.

##### **Policy Background**

Sound Move Financial Policies (Sound Move Appendix B) anticipated that additional revenues might be realized. According to the Financial Policies:

“Since the subarea budgets will be included within the RTA’s general budget, adjustments to subarea budgets will occur every year as a step in the RTA’s annual budget adopting, which requires a two-thirds favorable vote of the RTA Board. Adjustments to subarea budgets can include additional priority projects and/or services within that subarea should funding become available. This adjustment process recognizes that some fluctuations in revenues and expenditures against forecasts will occur.”

In addition, the Board adopted “Criteria to Guide Evaluation of Proposals to Amend Sound Move” in July 1998. Under the resolution, if the Board is considering adding additional projects to Sound Move it may consider:

“identification of a reliable funding source to pay for the proposed plan amendment (e.g. surplus local tax revenues, commitment of local, state, federal, or private funds not otherwise available to Sound Transit; cost savings from completed projects in the same subarea).”

The Board can program identified excess revenues outside the annual budget cycle as it deems appropriate. If the proposed additional expenditure is adding additional service or elements to a project identified in Sound Move (or amendments to Sound Move) then the Board could most likely program those funds without a super-majority vote. However, if the increased expenditures would constitute a “Change to Sound Move,” the application of Resolution 98-22 would apply and a two-thirds majority would be necessary. For example, adding additional bus service to a route identified in Sound Move would likely not require a super-majority vote, while adding a new HOV ramp that was not included in Sound Move would require a super-majority vote.

## **Revenue Forecasts**

Forecasting revenue for the original Sound Move plan presented unique challenges. The RTA district boundaries do not conform to any existing economic or jurisdictional boundaries, and therefore the tax revenue estimates had to be created by proportioning existing taxing jurisdictional data. The unincorporated areas of the district provided a particular challenge in this regard. In addition, Sound Transit is the only entity other than the State of Washington to collect Motor Vehicle Excise Tax revenues based on the actual vehicle ownership within its district. (Municipalities get a share of state revenue based on their share of state population). Sound Transit Motor Vehicle Excise Tax revenues had to be estimated based on population, as no data existed on actual vehicle ownership within the RTA district. The forecast included in Sound Move were for ten-year totals (in 1995\$), on a consolidated district-wide basis only (assuming the same growth rate for each subarea).

Actual total agency revenues in 1997 were very close to the original Sound Move forecast (+0.8%). In August of 1997, Porter and Associates updated the revenue forecast, which was included in the 1998 Adopted Budget and Financial Plan. The forecast contained, for the first time, ten-year annual forecasts for each subarea (until then, forecasts had been on a consolidated basis only). Actual total revenues for 1998 for the entire agency were slightly stronger than forecast (about +6.0%). However, subarea revenue forecasts diverged somewhat from the subarea forecasts (please see attached detail). In general, the Snohomish, South King, and East King subareas had greater than Sound Move forecast revenues, while the North King and Pierce subareas had less than Sound Move forecast revenues.

The 1998 Adopted Budget and Financial plan revised the methodology for subarea revenue forecasts. The current revenue forecasts are based on regional economic forecasts by Dick Conway and Associates. Conway forecasts sales tax and MVET revenue growth rates for the tri-county area for a 10-year period. Sound Transit then proportioned those growth rates among the five subareas, based on the trend in regional growth during the past ten years. In general, growth trends result in higher growth being allocated to the suburban areas (Bellevue, South King, and Snohomish), and lower growth to Seattle and Pierce. These growth rates are then applied to the tax base for each subarea, as defined by actual revenue collections. The 1998 revenue forecast, unlike the original Sound Move forecast, was able to use actual revenue collection data from taxes the agency had collected in 1997 and 1998. As a result, staff now believes that the subarea distribution is more accurate than the original model.

## **Forecast Uncertainties**

While the agency’s revenue forecast has to date been tracking well vs. actual receipts, and while staff believes the subarea allocation has been reasonably refined, there are inherent risks in long-term economic forecasting. Any such forecast must make determination on interest rates, inflation rates, productivity growth, labor markets, exchange rates, foreign economic growth and many other economic variables. It is difficult to accurately forecast these variables for the current business cycle, but long-term

economic forecasts have the additional challenge of the forecasting of future business cycles and their respective duration.

The current forecast has higher downside risks associated with it than previous forecasts because of Boeing layoffs and the downturn in economies in Asia and Brazil. Both events could substantially impact Puget Sound economic activity, but at the time of the 1998 forecast it was too early to accurately assess such impact.

## **RELEVANT BOARD POLICIES AND PREVIOUS ACTIONS TAKEN:**

- ◆ Adoption of Sound Move, the Ten-Year Regional Transit System Plan (May 31, 1996) and Financial Policies
- ◆ Resolution No. R98-22, Approving criteria and a process to be used in making revisions to Sound Move.
- ◆ Resolution No. R98-49 Adopting the Fiscal Year 1999 Budget (November 12, 1998)

## **KEY FEATURES:**

The resolution requires that:

- Only local tax revenues forecast to be more than five percent in excess of the baseline revenue projection for the comparable period qualify for possible new programming.
- In addition, only qualified revenues that are in excess of the funds necessary to complete all Board approved projects and financing elements within a subarea, using current forecast-to-complete budgets, are available to be programmed.
- In conjunction with Sound Transit's annual budget process, the Executive Director will identify, and present to the Board, any new qualified excess revenues for programming.
- The Executive Director will, working with the relevant subarea groups and impacted jurisdictions, make recommendations regarding use of the funds during the budget process for Board consideration.

## **CONSEQUENCES OF DELAY:**

The Board could delay enactment of a formal policy on excess revenues. However, some subarea groups have expressed interest in enactment of a policy to further their planning efforts.

## **ALTERNATIVES:**

The Board could choose a range of less or more restrictive criteria for identifying excess revenues.

### Less restrictive criteria:

- The Board could program any additional revenues within a subarea, realized or forecasted, can be programmed.

### More restrictive criteria:

- No excess revenues could be programmed until after 2001, at which point the agency will have greater certainty on program costs and revenue forecasts.

**LEGAL REVIEW:**

The Legal Department has reviewed and approved this Background and Comments and the Resolution.

## **SOUND TRANSIT**

### **SUBSTITUTE RESOLUTION NO. R99-17**

Offered by Committee members Paul Miller and Rob McKenna:

A RESOLUTION of the Board of the Central Puget Sound Regional Transit Authority identifying criteria for the programming of collected local tax revenues that are in excess of the revenues projected by the original Sound Move financial plan.

WHEREAS, a regional transit authority ("Sound Transit") has been created for the King, Pierce and Snohomish counties region by action of their respective county councils pursuant to RCW 81.112.030; and

WHEREAS, on November 5, 1996, Central Puget Sound area voters approved local funding for Sound Move, the ten-year plan for regional high-capacity transit in the Central Puget Sound region; and

WHEREAS, Sound Move Appendix B Financial Policies state that adjustments to subarea budgets can include additional priority projects and/or services within that subarea should funding be available; and

WHEREAS, Resolution No. R98-22, established criteria and a process to be used in making revisions to Sound Move; and

WHEREAS, Sound Move Appendix A contains estimated 10-year tax revenues by subarea;

NOW, THEREFORE, BE IT RESOLVED that the Board of the Central Puget Sound Regional Transit Authority hereby establishes criteria for allocation of excess revenues as set forth hereto.

#### **Criteria for Allocation of Excess Revenues**

1. The attached schedule for the annual forecasted collection of local tax revenues, taken from Sound Move's original finance plan, is hereby adopted as the "baseline" Sound Move revenue projection (Exhibit #1).

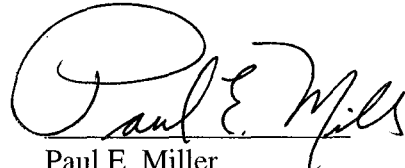
2. Local tax revenues forecast to be more than five percent in excess of the baseline revenue projection for a subarea for the comparable period qualify for possible programming.
3. Qualified revenues within a particular subarea must first be applied to meet short-falls in other revenues, including shortfalls in projected federal grants, or cost over-runs for Board approved projects or subarea financing elements within the subarea. In addition, only the forecast revenues that are in excess of the funds necessary to complete all Board approved projects and financing elements within a subarea, using current forecast-to-complete budgets, are available to be programmed by the Board for new projects and additional services; provided that any new projects and/or additional services not delay completion of existing Board approved projects.
4. Qualified excess revenues will only be programmed in the subarea that generated the revenue and such programming will be fully consistent with the principles of subarea equity as established in Sound Move, and be consistent with criteria established in Resolution No. R98-22 for revising Sound Move.
5. Qualified excess revenues do not have to be programmed by the Board, but can be left unallocated.
6. Programming of revenues can include, but is not to be limited to, expenditure for transportation capital or operating projects, reduction of planned subarea debt issuance, or allocated to other elements of subarea's ten-year financial plan, including necessary allocations for additions to reserves, system contingencies, and net transfers.
7. In conjunction with Sound Transit's annual budget process, the Executive Director will identify, and present to the Board, any new qualified excess revenues, as defined in section 1.0 and section 2.0 above, for programming. The Executive Director will, working with the relevant subarea groups and affected jurisdictions, make recommendations regarding use of

the funds during the budget process for Board consideration.

ADOPTED by the Board of the Central Puget Sound Regional Transit Authority at a regular meeting thereof held on the 22<sup>nd</sup> day of July 1999.

ATTEST:

Marcia Walker  
Marcia Walker  
Board Administrator

  
Paul E. Miller  
Board Chair

**Sound Move**  
**Baseline Subarea Revenue Forecast**  
**(\$000s, 1995\$)**

	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>Total</b>
Snohomish	23,330	23,880	24,448	24,939	25,431	25,956	26,451	26,985	27,519	28,060	257,000
North King	52,762	54,001	55,281	56,387	57,494	58,676	59,791	60,993	62,197	63,418	581,000
South King	32,149	32,904	33,683	34,357	35,031	35,751	36,430	37,162	37,895	38,639	354,000
East King	38,135	39,032	39,959	40,760	41,561	42,417	43,225	44,095	44,966	45,850	420,000
Pierce	33,386	34,179	34,998	35,705	36,413	37,169	37,882	38,651	39,419	40,198	368,000
<b>Total</b>	<b>179,762</b>	<b>183,997</b>	<b>188,369</b>	<b>192,147</b>	<b>195,929</b>	<b>199,970</b>	<b>203,779</b>	<b>207,885</b>	<b>211,996</b>	<b>216,165</b>	<b>1,980,000</b>