Transportation Funding:
Current Revenue Mechanisms and Funding Options

Executive Summary

A faltering economy in 2008-2009 created significant financial problems across for transit agencies across the nation. King County Metro and numerous other transit agencies were forced to cut jobs, increase fares, reduce programs and tap into reserves in order to maintain their budgets. The steep decline in King County sales tax revenue, will severely impact Metro's operating and capital budget on an ongoing basis, making it even more difficult to recover from the recession. Sales tax is the largest of Metro's current revenue sources, accounting for over 62% of Metro's 2010/2011 operating program revenues. The agency's reliance on this form of revenue makes Metro particularly vulnerable to economic conditions. When the economy weakens, employment levels and personal income can fall, leading to fewer purchases of goods and services, which ultimately results in less sales tax revenue. The limitations of a reliance on sales tax as a primary source of revenue has been reinforced through this experience. Sales tax not only fell short of original projections for 2009; less money was collected in 2009 than in 2008. By 2015, there is an estimated revenue gap of over $700 million based on actual and projected sales tax receipts.

In the 2009 budget, Metro worked to reduce costs and gain efficiencies to balance its budget. Actions included reducing capital program spending, reducing the fleet replacement fund to preserve Metro service, and implementing audit findings to achieve additional savings. An adequate and stable funding source for public transportation is needed to ensure that Metro can maintain a balanced, more predictable and sustainable budget. Given the financial situation Metro is facing, service reductions and the deferral of new investments are necessary in the near future. Without a reliable revenue source to generate sufficient revenue to pay for transit service operations, Metro will not be able to meet the demand for transit service that continues to grow in King County.

The information on the subsequent pages summarizes current and potential revenue options for Metro and the benefits, constraints, and potential for revenue generation of each source. Revenue sources are grouped into three categories:

- Metro's current authorized taxes and other revenue sources
- Revenue sources authorized by state law
- Potential revenue sources not currently authorized by state law

The discussion of current and potential sources is intended to facilitate an understanding of the limitations involved in securing new revenue options. These limitations are both those that Metro faces and those implicit in the new revenue sources themselves.

A new funding source needs to be large enough to sustain and expand the delivery of Metro services and stable enough to endure fluctuations in economic activity. Since many options for a new revenue source are limited by state law, there is no simple solution to alleviate Metro's budget issues that fits the above criteria. Therefore, the feasibility of implementing each of these sources must be considered. For a new revenue source to be put in place, it may have to have the support of both the voters and the Washington State Legislature.

Current Revenue Sources

Current revenue sources include those authorized by the State of Washington, such as sales and property taxes and other revenue sources such as transit advertising, grants and fares.

Current Funding Sources		
Revenue Source	**Benefits/Constraints**	**Revenue Generated**
Sales Tax - 59% of Metro's 2010/2011 operating program revenues *Metro collects the maximum allowable by state law, 0.9 percent sales tax.*	• Generates a significant amount of revenue. • Sensitive to economic fluctuations	Metro collected $382 million at a 0.9% tax rate in 2009. Annual average growth in sales tax: 1.6% Annual growth in cost per hour: 4% Sales tax growth does not keep pace with cost increases.
Fares -26% of Metro's operating revenues *Metro's authorizing legislation allows King County to fix rates, tolls, fares and charges.*	• Strongly tied to use; services with higher demand generate more revenue. • Does not grow with inflation or rising operating costs. • Increases generate more revenue; but may impact demand and have reduced financial gains in the long-term.	Metro collected $118.8 million in fares in 2009 from bus, Access and vanpool. Metro increased base fares by $1 from 2008-2011.
Federal and State Capital Grants - 12% of Metro's capital revenues *Formula grants provide a predictable annual appropriation for the region while discretionary grants are awarded through congressional appropriations and a competitive process.*	• Metro's primary funding issue is securing revenue for operating expenditures for which few federal capital grants provide funding • Susceptible to economic fluctuations • Additional requirements may add cost or time to projects	Metro receives an average of $60 million in formula grants annually. Competitive grant amounts vary per year, but most recently, Metro has received $43.5 million including Very Small Starts funding for RapidRide A and B Lines.
Other Revenue - 9% of Metro's operating revenues *Includes transit advertising revenue, state operating grants and non-grant funding of capital project including sales from land and partner funding of projects*	• Advertising generates significant revenue, but is subject to economic fluctuations • Advertising can impact rider comfort and service branding	Transit Advertising generated $28 million over the 2005-2009 contract period or an average of $7 million per year. Partnership funding accounts for $3.8 million of the 2010 budget

Current Funding Sources (Continued)		
Revenue Source	**Benefits/Constraints**	**Revenue Generated**
Property Tax – 2% of Metro's operating budget *R.C.W. 84.52.140 authorizes King County to impose a property tax levy of no more that 7.5 cents per $1,000 dollars assessed value* • First one-cent to be used to expand transit capacity on SR520 • Remaining 5.5 cents for any transit-related expenditure.	• Stable revenue source • Does not keep pace with general inflation or increases in the cost of service	King County enacted a 6.5 cents property tax, expected to generate $21 million in 2010.
Interest -1% of Metro's operating revenue *Public Transportation funds are held and invested by the County as part of the investment pool*	• Can fluctuate based on economic conditions • Rate of return is determined by the County investment pool rate of return	

Funding authorized by Washington State Legislature

These funding sources have been authorized by Washington State legislation. King County Metro does not currently collect any of the taxes or funding sources discussed in this section but could potentially utilize these sources in the future. Many of these sources can be used to support Metro operations, with the exception of the Local Option HOV tax, which provides capital support, and the Business and Occupation and Household Utility tax, which Metro is not eligible to collect.

Funding Authorized by the Washington State Legislature		
Revenue Source	**Benefits/Constraints**	**Potential Revenue Generated**
Transportation Benefit Districts RCW. 36.73 *Independent taxing districts that impose an array of fees or taxes to fund transportation improvements including:* • *Property Tax* • *Vehicle License Fee:$20 VLF may be imposed by majority vote of a governing board of a TBD* *Can provide support for Metro operations*	• Both property tax and a vehicle license fee are more stable sources than sales tax • Voter approval not required to implement vehicle license fee of $20 • Countywide TBD requires approval by 60% of the cities representing 75% of the incorporated population of an interlocal agreement. • Further analysis and clarification of TBD legislation is needed	A vehicle license fee of $20 would amount to $25 million annually in King County.
Commercial Parking Tax RCW 82.80.030 *Local governments may levy a tax on commercial parking lots* *Can provide support for Metro operations*	• Transportation related revenue source that can be used for operations • May encourage use of alternative modes of transportation • County tax may only be levied in unincorporated areas of a county, where pay for parking demand is low. • Changing legislation requires action by the Washington State Legislature and likely interlocal agreements between local jurisdictions and counties for distribution of this tax.	TBD

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Funding Authorized by the Washington State Legislature (Continued)		
Revenue Source	**Benefits/Constraints**	**Potential Revenue Generated**
Local option taxes for HOV Systems, RCW 81.100.060 RCW 82.80.030 *Two potential tax options are:* • *An MVET surcharge* • *Employer tax* *For HOV lane development, support of employer programs to reduce SOV use and commuter rail programs.*	• Reliable *capital* funding source • Limited use • Voter approval is required to implement the MVET surcharge or employer tax	With 1.1 mil employees in King County, a $2 tax would yield $22 million annually.
Business and Occupation (B&O) tax and Household and Utility Tax, RCW 35.95.040 *Transit districts are eligible to collect: with voter approval* • *B&O tax* • *Household/utility tax*	• *Metro is not eligible to collect these taxes* concurrently with sales tax. These taxes would not generate the same level of revenue as the current sales tax.	Not applicable

Potential Funding Options

All funding sources described below would require authorization by the Washington State Legislature for use by Metro. Most of these potential sources, with the exception of concurrency and impact fees, may provide support for Metro operations.

Potential Funding Options		
Revenue Source	**Benefits/Constraints**	**Potential Revenue Generated**
Tolls *A toll is a fee levied for the use of roads or bridges. Project-specific tolls, cordon tolling, congestion pricing and HOT lanes are among possible tolling schemes. Toll rates may be fixed or variable (based on the level of congestion).* *Can provide support for Metro operations*	• Relatively sustainable and stable revenue source with a direct connection to transportation. • May encourage a shift in travel behavior, provided transit, carpooling, walking and biking are competitive alternatives to driving. • How tolls are implemented and how revenues from tolls are distributed can be a contentious issue • Equity concerns: a toll would represent a higher proportion of the income of low-income individuals.	Based on a recent WSDOT estimate of $1.1 billion from tolls generated on SR520, if Transit were to receive 5% (5 cents for each dollar collected), Toll revenues would generate $55 million for transit.
Increase Transit Sales Tax Authority *Metro has reached the statutory maximum (0.9 percent) sales tax it can levy.* *Can provide support for Metro operations*	• Influenced by economic conditions and tends to grow with personal income. • Revenue often decreases during a recession, as people purchased fewer goods and service,	Each tenth of one percent increase in sales tax generates about $53 million per year, countywide.
Sales tax on Fuel *A sales tax on fuel could be imposed within King County only at either the existing sales tax rate (8.9%) or just the existing Metro sales tax rate (.9%).* *Can provide support for Metro operations*	▪ Robust revenue source that tends to grow over time ▪ Fuel taxes can be regressive unless revenues are used for transportation programs which benefit low income individuals • May face political and public approval challenges	Generates an estimated $28-40 million annually with a .9% sales tax rate for King County.
Payroll Tax *A fee or tax on those that benefit from improved transit commuting options, via a flat fee per employee or percentage of payroll* *Can provide support for Metro operations*	• Sensitive to economic conditions • May have a greater impact on small businesses and independent contractors.	TriMet, in Portland, OR, collects a 0.68 percent tax on payroll for agency operations, which generated $198 million in 2008-2009.
Vehicle License Fee (VLF), *Although authorized as an operating revenue source for a Transportation Benefit District, new authority would be required to include as a separate revenue source.*	• More reliable funding source than sales tax, but may not be enough to sustain transit service	A vehicle license fee of $20 would amount to $25 million annually in King County.

Potential Funding Options (Continued)		
Revenue Source	**Benefits/Constraints**	**Potential Revenue Generated**
Motor Vehicle Excise Tax (MVET) *An excise tax based on the value of an automobile; typically added onto vehicle registration fee* *Can provide support for Metro operations*	• Stable tax source that grows with income and is progressive, meaning cars with a higher value have a higher fee. • MVET is a contentious issue for voters.	In 2011, Sound Transit, which collects a 0.3% MVET, estimates $40 million in revenue in King County.
Vehicle Miles Traveled (VMT) tax *Users are charged based on their mileage* *Can provide support for Metro operations*	• May generate significant revenue and increase demand for transit service. • High transaction, technology and administration costs. • Issues with the collection and its potential threat to privacy.	TBD
Concurrency and Impact Fees *Fees assessed to developers by local governments against new development projects to recover the cost incurred by the government to provide the public facilities required to serve the new development*	• *Generally used for capital expenses* • May not make an appreciable contribution to ongoing operating expenses. • Sensitive to economic conditions, as fewer developments may be built during times of economic decline. • May limit real estate development and economic growth during a recession.	TBD
Carbon Tax *A tax on carbon dioxide emissions from fossil fuels.* *Can provide support for Metro operations*	• May be implemented as a revenue-neutral tax, where tax is returned to individuals and businesses through other tax reductions • Supports energy conservation and emissions reduction strategies • Some environmental groups believe a cap and trade system would be more effective.	TBD
Park and Ride Lot charges *Imposes a parking fee at park and ride lots.* *Can provide support for Metro operations*	• Raises revenue and manages demand • High administrative costs • May result in a loss of riders who currently use park and ride facilities.	Revenues could range from $850,000-$2.3 million depending on the parking rate and number of lots imposing the fee[1].

[1] Pay to Park Feasibility Report by King County Metro in 2006.