WASHINGTON RESEARCH COUNCIL

POLICY BRIEF

January 20, 1995

Paying for the RTA

PB 95-2

This is the second of a series of Policy Briefs examining the Phase 1 Proposal of the Central Puget Sound Regional Transit Authority (RTA). This brief focuses on the project's cost to local taxpayers.

RTA's funding needs

The transit plan involves three major transportation systems: commuter rail, light rail, and regional bus. Each component will require capital and operating funds. Table 1 (below) summarizes these needs, as estimated in the RTA Master plan. Between 1995 and 2010, capital expenditures are expected to total $5.2 billion and operating subsidies would be $840 million. (Throughout this brief we will ignore inflation and measure costs in 1995 dollars.) The full cost of Phase 1 is $6.7 billion. This includes, beyond the costs in Table 1, $360 million of operating expenses paid by riders, $190 million in interest, and an $85 million reserve. RTA estimates that, after completion, the Phase 1 system will require operating subsidies of $123 million per year.

To put these numbers in perspective, the $5.2 billion capital expenditure represents $2,238 for each current resident of the region, or over $5,525 for each household.

New local taxes

Under the RTA proposal, sales and use taxes would increase from 7.9 percent to 8.3 percent in the portions of the Regional Transit District within Pierce County and the City of Everett, and from 8.2 percent to 8.6 percent in the rest of the district. The motor vehicle excise tax (MVET) will increase from 0.22 percent of vehicle value to 0.25 percent. Table 2 (p. 2) presents estimates of the annual cost of these taxes to homeowning families of four. The median incomes of families in King, Pierce and Snohomish counties are $54,880, $48,244, and $50,615, respectively. Based on these figures, the median family would pay about $125 per year in King County, $118 a year in Snohomish County, and $107 in Pierce County.

Table 1

Costs of the Regional Transit Authority Phase 1 Proposal

(millions of 1995 dollars)

	Total Capital Expenditure 1995-2010	Total Operating Subsidy 1995-2010	Annual Operating Subsidy After 2010
Commuter Rail	674	192	19
Light Rail	4,505	348	72
Bus	50	300	32
Total	**$5,229**	**$840**	**$123**

Source: Central Puget Sound Regional Transit Authority. *The Regional Transit System Master Plan,* 1994. WRC Calculations.

Other funding sources

RTA expects federal grants, state grants, and private investments to pay for nearly one half of the project's capital costs. Table 3 (p. 3) shows the amounts that the plan expects from each of these sources.

There are two questions to be asked with respect to each of these sources: Are the expectations realistic? Does the money obtained from these sources ultimately come out of the pockets of local residents?

1301 5th Ave., Suite 2810 • Seattle, WA 98101-2603 • (206) 467-7088 • 1-800-294-7088 • FAX (206) 467-6957

Federal grants

The Master Plan projects that RTA will receive $1.12 billion from the U. S. Department of Transportation's New Starts program. Within the program, $325 million has already been set aside for RTA. These funds, however, are not guaranteed to RTA. (The money has been provisionally "earmarked" for RTA; it has not been "obligated.") In the past, President Clinton has recommended that the allocation be rescinded.

Table 2

Estimated RTA Taxes for a Homeowning Family of 4

(1995 dollars)

Income	Sales Tax	MVET	Total
20,000	44	25	69
30,000	55	32	87
40,000	65	38	103
50,000	75	43	118
60,000	85	47	132
80,000	104	56	160
100,000	122	63	185

Source: WRC Calculations.

Projections of the federal budget deficit suggest that all federal programs will be under tremendous pressure in future years. The most recent estimates from the Congressional Budget Office show the deficit declining to $176 billion in the current fiscal year and then climbing year by year to $351 billion in 2003. Moreover, the emphasis in federal funding for transportation has been shifting from categorical programs like New Starts, to block grants. With block grants, the federal government gives states fixed amounts of money, which they then spend as they choose. For both of these reasons, federal dollars for new rapid transit systems may be much harder to get in the future than was the case in the past.

New Starts is part of the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA). ISTEA brought a significant redirection of federal transportation policy. Senator Daniel Patrick Moynihan (D-NY), who played a key role in the law's development, said it "marks the transition from system building to system performance."

ISTEA pushed more decision-making responsibility to the states. Less money was provided for discretionary programs, under which officials of the Department of Transportation decide the projects to be supported, and more money was provided for formula programs where money goes directly to states which decide how it will be spent.

The New Starts program bucked this general trend: Congress directly chose the projects that would be funded. Two of the earmarks were for what has become the RTA project: $300 million for the Puget Sound Core Rapid Transit Project and $25 million for the Seattle Tacoma Commuter Rail Project.

Shortly after his inauguration in 1993, President Clinton initiated a *National Performance Review* under the direction of Vice President Al Gore. In his final report, presented to the President on Sept. 7, 1993, Gore recommended that the federal government "empower state and local governments" by consolidating a number of categorical grant programs into larger block grants.

Gore specifically recommended rescinding New Starts allocations that remain unobligated three years after the initial grant. This proposal was incorporated in President Clinton's 1995 budget. RTA's allocations survived the 1995 budget cycle, but it seems likely that Clinton will target New Starts again in the coming budget. With a new Congress favoring returning power to the states and aggressively seeking budget cuts, there is a good chance that RTA will lose the $300 million set aside for light rail.

As a fallback, RTA has identified three federal formula programs from which it might obtain funds: the National Highway System, the Surface Transportation Program, and the Congestion Mitigation and Air Quality Improvement Program.

State grants

RTA projects that it will receive on average $55 million in grants from the State of Washington in each year between 1995 and 2020. RTA hopes that the state will impose some new transportation taxes and that a portion of these taxes will be dedicated to RTA. In fact, the state Transportation Commission has proposed a package of tax increases. These include a 9 cent increase in the gas tax, a procedure for indexing the motor fuel tax against inflation, a 20 percent increase in the gross weight fees paid by truckers, and a 5 percent refinery tax. These tax increases have not been endorsed by the governor, and the Legislature is unlikely to support tax hikes of this magnitude. Any increase in transportation taxes would have to be approved by the voters in the November 1995 general election.

If the state does not adopt a new tax for RTA, the Master Plan indicates that RTA will apply for state grants from the Transportation Improvement Account and the Central Puget Sound Public Transportation Account.

Private Investments

RTA hopes that unspecified private sources will provide $288 million for construction. Of this total, only $108 million would be received during the actual period of construction. As they note, the assumption of this level of private funding "is somewhat aggressive." The Expert Review Panel, established by state government to monitor high capacity transit planning, has recommended that RTA provide to the voters examples of private participation in other rail projects. These examples should be carefully examined to determine the extent to which the private funds were applied to basic project expenses rather than to additions to the projects that would not have been included without the private contributions.

Table 3

Sources of Funding for Phase 1 Construction
(millions of 1995 dollars)

Local Funding	$2,941
Federal Grants	1,120
State Grants	880
Private Investment	288
Total	**$5,229**

Source: RTA. *The Regional Transit System Master Plan,* 1994. WRC Calculations.

Bonding

RTA will issue long term bonds to finance a portion of the construction of the Phase 1 system. This will allow construction to be completed more rapidly than would be possible under a strict "pay as you go" policy. RTA expects to end construction with $800 million in bonds outstanding. (With the inflation anticipated by the Master Plan, the debt at the completion of Phase 1 will be $1.445 billion in 2010 dollars.)

Conclusion

The uncertainty of federal, state, and private support makes it difficult to say how much the RTA proposal will eventually cost the typical taxpayer. The $100-$125 annual cost to the median family of the RTA local sales tax and MVET is misleadingly small.

RTA hopes that the state will impose other new taxes to help fund the project. A calculation of taxpayer burden ought to include these taxes. The cost of the Transportation Commission's package of taxes could easily exceed $100 for a family of four. Beyond that, it is highly likely that RTA will attempt to obtain funds from various state and federal transportation programs. These funds would otherwise pay for other transportation improvements within the region. Any improvement that is foregone as a consequence should properly be counted as cost of the proposal — economists call this an opportunity cost. On the other hand, if local taxes are raised to replace the funds preempted by RTA, these taxes ought to be counted as a cost of the project.

If construction proceeds according to plan, RTA will collect the full 0.4 percent sales tax and 0.3 percent MVET for 16 years. The rates would then presumably drop to levels necessary to cover operating subsidies and repay the bonds. If RTA gets less federal, state or private support than is called for by the plan, it will have three options: lengthen the construction timetable, issue more bonds, or return to the voters to request that their tax rates be increased. Under each of these alternatives, taxpayers pay more.

— *Kriss Sjoblom*