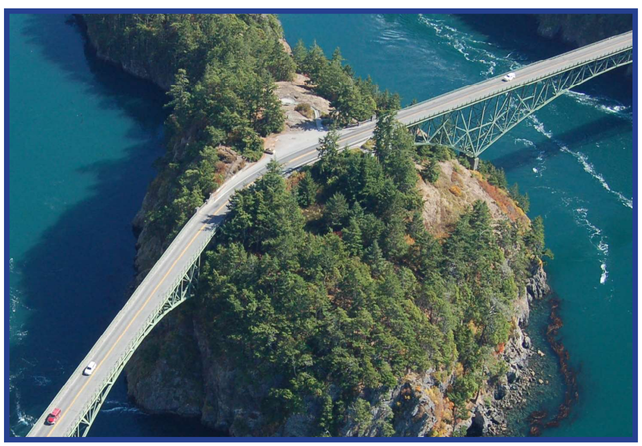
Section 7
Financial Constraints

Under federal law, Skagit 2045 must make reasonable financing assumptions, accounting for existing or new revenue sources which are reasonably expected to be available over the timeframe of Skagit 2045 (Title 23 USC 134). The regulations allow the Plan to identify how additional revenues could be generated to fund more projects or programs that are included in the Plan.

The federal metropolitan planning statutes state that the long-range metropolitan transportation plan and short-range transportation improvement program (TIP) must include a “financial plan” that “indicates resources from public and private sources that are reasonably expected to be made available to carry out the plan”. The purpose of the financial plan is to demonstrate fiscal constraint. These requirements are implemented by applicable federal transportation planning regulations for the metropolitan transportation plan, metropolitan transportation improvement program and Washington statewide transportation improvement program (STIP). These regulations provide, in essence, that a long-range transportation plan include only projects for which funding “can reasonably be expected to be available”.



Canoe Pass and Deception Pass Bridges

The fiscal constraint requirement is intended to ensure that metropolitan transportation plans, TIPs, and STIPs reflect realistic assumptions about future revenues, rather than being lists that include many more projects than could realistically be completed with available revenues. Given this basic purpose, compliance with the fiscal constraint requirement entails an analysis of revenues and costs. The basic question to be answered is:

“Will revenues (federal, state, local and private) identified in the TIP, STIP and metropolitan transportation plan cover the anticipated costs of projects included in the TIP, STIP, and metropolitan transportation plan, while also financing operation and maintenance of the existing system?”

If the projected revenues are sufficient to cover the costs, and the estimates of both revenues and costs are reasonable, then the fiscal constraint requirement has been satisfied. Ideally, the financial strategy that supports the metropolitan transportation plan should reflect “…the estimated costs of constructing, maintaining and operating the total (existing plus planned) transportation system”, including portions of the system owned and operated by local governments.

The financial component of Skagit 2045 provides a comparison of revenues and investment needs over the entire planning period, as an aid to determining if the region has the financial capacity to implement the Plan. Financial planning for the Plan has been built upon previous efforts to design a framework for measuring the region’s financial capacity, taking into account the unique circumstances of four program areas: (1) city streets; (2) county roads; (3) public transit; and (4) state highways and ferries.

This financial analysis is based on historical trends for revenues and expenditures, and current rules and regulations controlling transportation funding. The estimates are used to establish a likely range of revenues for regional transportation improvements and programs. The estimated revenues are only intended for planning purposes and are not intended to be precise forecasts, which is

Section 7: **Financial Constraints**

Train Platform at Skagit Station

consistent with the objectives of Skagit 2045. Actual revenues will be sensitive to policy decisions at the local, state, and federal level, economic and market forces, and individual choices. Further, estimated costs for projects are subject to the same influences. Additional detail for each revenue source is included in **Appendix J**.

To develop the fiscally constrained Plan, estimated costs of regional transportation improvement projects and programs are compared to available revenues. Because total improvement project costs exceed the estimated revenues, not all the proposed regionally significant projects can be funded with projected revenues. Those projects deemed the highest priority, and most likely to secure funding, have been included as fiscally constrained projects in Skagit 2045.

Chuckanut Park and Ride

The projects and programs are further divided into three categories:

1. Improvements identified as "**Funded Projects**" are included in the fiscally constrained Plan. These projects have already secured funding and are expected to be completed during the horizon of the Plan. Funded Projects may have fully committed funding to complete the project, or have partially committed funding to complete the project;

2. Improvements identified as "**Planned Projects**" are also included in the fiscally constrained Plan. Although funding has not yet been secured for these projects, they are expected to be

Time Periods

The financial analysis is summarized into two time periods to illustrate the likely funding program based on current assumptions:

- **2021–2030**: this period covers the short term time frame of Skagit 2045 and include time periods covered by local six-year transportation improvement plans and programs. Both funding levels and project lists are considered to be more committed during this time period due to project development timeliness; and
- **2031–2045**: this period covers the outer years of the Plan. Projecting revenues and costs more than 10 years is less reliable because rules, regulations, economic conditions and local priorities change. As Skagit 2045 is updated in the future, the data for these years will be refined.

completed during the Plan timeframe; and

3. Some improvements are identified as supporting the Skagit region's transportation needs, but are challenging to fund given current funding limitations. These projects are not likely to be funded during the Plan timeframe, and are therefore considered "**Illustrative Projects**" in Skagit 2045.

Consistent with federal requirements, revenues and project costs have been projected for 2021–2045 in terms of "year of expenditure dollars" and "constant 2020 dollars". This provides an apples-to-apples comparison of revenues versus costs.

Future Transportation Revenues

Skagit 2045 has to be financially constrained, which is a federally required component of the Plan where project and program costs must be accounted for and balanced with reasonably expected revenues over the life of the Plan. This balancing requires forecasting what transportation revenues are expected in the Skagit region over the life of the Plan, and comparing that to the transportation needs and investments included in Skagit 2045.

The starting point in the development of the Plan's financial strategy is an estimate of future revenues that will be available under current-law. When compared with Skagit 2045 investment costs, the estimated current-law revenues provide the basis for determining the scope of new revenue strategies in the Plan.

Forecasted revenues expected under the current set of laws and tax rates are shown in **Exhibit 7-1**, by program area, for the two time periods of the Plan. Approximately **$2.8 billion** in total revenue is forecast for the Skagit region during the Plan's timeframe.

Plan Investment Needs

Transportation investments included in Skagit 2045 are described in Section 5 of the Plan. Skagit 2045 contains investments that are covered under the Plan's financial strategy, or fiscally constrained plan, but the Plan also contains investments that are, as yet, unprogrammed and not covered by the financial strategy. The rest of this section focuses primarily on the fiscally constrained portion of the Plan. Programmatic estimates of the resources required to maintain and operate city, county, and transit programs have also been developed

Exhibit 7-1
Total Estimated Current-law Revenues (constant 2020 dollars)

Program Area	2021 - 2030	2031 - 2045	Totals
Transit	$156,500,800	$275,562,100	$432,062,900
WSDOT	$462,471,000	$820,899,400	$1,283,370,400
County	$270,413,800	$347,745,900	$618,159,700
City/Town	$209,375,200	$297,982,900	$507,358,100
Totals	**$1,098,760,800**	**$1,742,190,400**	**$2,840,951,100**

Exhibit 7-2
Total Estimated Constrained Costs (constant 2020 dollars)

Program Area	2021 - 2030	2031 - 2045	Totals
Transit	$240,079,400	$391,119,600	$631,199,000
WSDOT	$633,098,100	$917,397,200	$1,550,495,300
County	$372,539,500	$564,330,300	$936,869,800
City/Town	$302,222,100	$328,107,200	$630,329,300
Totals	**$1,547,939,100**	**$2,200,954,300**	**$3,748,893,300**

in a manner that reflects the timing of these investment needs. Estimated fiscally constrained costs in Skagit 2045 are included in **Exhibit 7-2**. These costs total approximately **$3.7 billion**.

Funding Options and Potential New Revenues

A comparison of Plan investment needs with current-law revenues provides a picture of the new revenue requirements across various transportation programs. New revenue requirements by program area are displayed in **Exhibit 7-3**. The revenue shortfall is approximately **$907 million** between the estimates for current-law revenues and constrained costs. A discussion of additional funding to generate revenues is included in next subsection.

Potential Funds

Potential funds include additional revenues that may be available to the local jurisdictions in the context of their current set of policies, but will depend on market forces and decisions made by local agencies.

Following are a few key funding considerations:

1. Jurisdiction Matters: Each entity – including Skagit County, cities and towns, ports, Indian tribes, Skagit Transit and WSDOT – has its own funding tools available, which are restricted by law and established policy. What mechanisms can be used to generate revenues for desired projects depends on the restrictions placed on the different categories of jurisdictions involved;

2. Current Funding Tools and Levels: Each jurisdiction should examine the current revenue mechanisms that are used and determine if there are adjustments that can be made to these tools to support transportation needs. These might include levy lid lifts (requiring voter approval), utility tax rate increases (some need voter approval, some do not), or a policy change in the prioritization of how general capital funds are used.

3. New Funding Tools: No SCOG member agency is currently using all funding mechanisms available to it. It is important to examine these other potential funding options and consider:

Revenue Generation

- How much revenue can be generated?
- How sustainable is the revenue source?

Implementation Feasibility

- What is required to put a new funding tool in place?
- Can it be passed by council action?
- Does it require voter approval?
- What is required on an ongoing basis to conform to law and/or policy?

4. Matching Funding Mechanism to Project Needs: Funding sources may have statutory restrictions. General Fund revenues may be used for multiple purposes, including capital procurement. For example, some

Exhibit 7-3
New Revenue Requirements (constant 2020 dollars)

Program Area	2021 - 2030	2031 - 2045	Totals
Transit	-$83,578,600	-$115,557,500	-$199,136,100
WSDOT	-$170,627,100	-$96,497,700	-$267,124,800
County	-$102,125,700	-$216,584,400	-$318,710,100
City/Town	-$92,846,900	-$30,124,300	-$122,971,200
Totals	**-$449,178,300**	**-$458,763,900**	**-$907,942,200**

revenues must only be used for capital projects, other revenues must only be used for maintenance or operations projects, and some revenues may be used for maintenance, operations or capital. Narrower still, some grants and loans may only be used on certain types of transportation projects that achieve specific goals.

It is important when considering the larger picture of transportation capital funding to match each potential project with the funding source that best fits its overall goals.

The following three revenue sources may be new funding options that governments in the Skagit region could consider. In some cases, tapping into these revenue sources requires policy changes implemented by individual jurisdictions, and some require voter approval:

1. **Local Motor Vehicle Fuel Tax** (applicable to counties): Established in 1998, the Local Motor Vehicle Fuel Tax allows Washington state counties to levy a local fuel tax, in addition to the state tax, upon approval from the county's legislative body and a majority of voters. This tax may be levied up to a rate equal to 10.0% of the state fuel tax rate and may be used for several transportation purposes, including: (1) maintenance, preservation and expansion of existing roads and streets; (2) new transportation construction and reconstruction; (3) implementation and improvement of public transportation and high-capacity transit programs; (4) planning, design and acquisition of right of way for transportation purposes; and (5) other transportation improvements.

2. **Real Estate Excise Tax** (REET) (applicable to counties and cities): Cities and counties are allowed to levy two portions of REET each at 0.25% of the full sale price of real estate. For those jurisdictions only levying the first 0.25%, the option remains to levy the second 0.25%. Because this funding may be used for different types of capital, and is not restricted to transportation capital only, it is up to the discretion of each jurisdiction as to how they chose to spend these funds. These funds are limited to capital expenditures only, and may not be used for maintenance and operations costs.

3. **Transportation Benefit Districts** (applicable to counties and cities): Chapter 36.73 RCW authorizes cities (see also RCW 35.21.225) and counties to form transportation benefit districts (TBDs), which are quasi-municipal corporations and independent taxing districts that can raise revenue for specific transportation projects, usually through vehicle license fees or sales taxes. Three TBDs have been established in Skagit County, in the cities of Anacortes, Mount Vernon and Sedro-Woolley.

Financial Strategy

A high priority for Skagit 2045 is to secure funding to maintain and operate our current assets and services. This priority includes securing near-term revenue to maintain local transit operations, federal requirements related to correcting fish-passage barriers, addressing a growing backlog of local maintenance and preservation needs, and capital preservation needs of state highway and ferry assets. Identified regionally significant projects within the fiscally constrained Plan represent only about 5% of the **$3.7 billion** estimated expenditures. Approximately 80–90% of planned investments are needed to simply maintain and operate the current system.

Traditional tax financing (gas tax, etc.) is expected to still play a central role in transportation finance, especially in the early years of the Plan.

As indicated in **Exhibit 7-3**, funding shortfalls are expected for all program areas.

Washington State Department of Transportation Program Area

For the Washington State Department of Transportation Program Area, it is important to keep in mind that the revenue estimates are based on the expected amount of state funds, which are primarily gas taxes, available to Skagit County. State funds are estimated based on the amount of taxes generated within Skagit County. The state program is prioritized, and the State legislature ultimately makes expenditure-distribution decisions based on a statewide perspective, making estimates for only 1 of the 39 counties a challenge.

To implement the fiscally constrained Plan, WSDOT is estimated to need an additional **$267.1 million** in revenues. Given the history of the State legislature, the most likely strategy will be an increase to state fuel taxes. Almost all of the shortfall is for programmatic needs such as maintenance, preservation, and environmental – which includes correcting fish-passage barriers. Considering past State legislative actions, it is reasonable to assume another one to three statewide packages similar to the 2015 Connecting Washington funding package to occur within the Skagit 2045 timeframe. Even with two or three packages, it is unlikely that all the programmatic needs would be met. WSDOT will continue to prioritize needs based on keeping state facilities in a state of good repair.

Skagit 2045 includes five replacement ferries at Anacortes, each of which costs nearly **$200 million**. Additionally, the Anacortes Ferry Terminal needs major preservation/replacement. These ferry investments total approximately **$1 billion**, of which little current-law revenue is identified to fund these needs. Therefore, these projects are not included in the fiscally constrained Plan. Funding decisions on ferries are made by the State legislature, and could be included in a new statewide transportation-funding package. Similar to state highways, it is likely some programs would be funded, such as the terminal preservation/replacement and some vessel replacements, though it is uncertain if any funded replacement vessels would serve Anacortes ferry routes.

Future statewide transportation-funding packages should address the significant shortfalls in the Washington state highway system to maintain a state of good repair, as well as address the shortfall in the Washington state ferry system. All of these needs have been documented in state plans.

Transit Program Area

The Transit Program Area is estimated to have a shortfall of approximately **$199.1 million** over the timeframe of the Plan. To address the transit shortfall, there are a couple viable local options to be considered: (1) voter approved retail sales tax; and (2) reduction of service levels and/or slower replacement vehicle schedule. Skagit transit has authority to increase the current sales tax of .04% if the Skagit Board of Directors and voters approve. Increasing the sales tax is the most likely revenue option available if the shortfall is significant. Reducing costs would entail reduction in service levels from today, as well as reduction in fleet size and vehicle replacement schedules below today's standards. Between these two options, the shortfall in the Transit Program Area could be addressed.

County Program Area

The County Program Area is estimated to have a shortfall of approximately **$318.7 million** over the timeframe of the Plan. Over half of the fiscally constrained needs for Skagit County are in preservation and maintenance. To address this shortfall, there are a couple viable local options to be considered: (1) property taxes (Road Levy); and (2) a transportation benefit district. A property tax is collected by Skagit County specifically for transportation funding, which accounts for a large portion of their transportation revenues. These funds may be spent on transportation projects only in unincorporated areas of Skagit County and are not available for city/town projects. A transportation benefit district can be formed by Skagit County, as has occurred in the cities of Anacortes, Mount Vernon and Sedro-Woolley. In addition, if the Washington state gas tax was to be increased, the amount going to the counties would also increase. Local options would not likely cover the expected shortfall, but some of the shortfall could be reduced by increasing the local share of the Washington state gas tax. This increase in local share for counties, cities and towns has been considered by the State legislature in previous transportation-funding packages.

In addition to raising revenues, Skagit County may choose to reduce investment needs for improvements by conducting less maintenance and preservation.

Cities and Towns Program Area

The Cities and Towns Program Area have an estimated shortfall at **$123 million** over the timeframe of the Plan. Similar to the County Program Area, cities and towns have local options that can help generate revenues for their transportation system. One of the most viable is the creation of a transportation benefit district. The cities of Anacortes, Mount Vernon, and Sedro-Woolley have created TBDs, and these TBD revenues are includes in estimates of current-law revenues. One option is for Burlington to also create a TBD. Depending upon when additional TBDs are created and fees established, or fees increased for existing TBDs, a range of potential new revenues for the Cities and Towns Program Area is estimated at $40–$60 million. The other current major source of local revenues for the transportation system are city and town general funds. Cities and towns could increase the contribution of general-fund dollars to the transportation system – which would most likely be used to provide local match for significant capital projects, once a grant is secured with a match requirement. Cities would also share in any increase to the Washington state gas tax, similar to the County Program Area.

For large capital projects, especially over **$20 million**, the most likely funding strategy will be a special grant, such as a federal Better Utilizing Investments to Leverage Development discretionary grant, or new programs in federal surface transportation laws. This strategy also applies to the County and WSDOT program areas.

Some combination of the above strategies will likely be used to address the shortfall in the Cities and Towns Program Area, along with deferring some maintenance and preservation needs and extending capital projects beyond the timeframe of the Plan. Candidates for deferment would be projects in the later part of Skagit 2045, and those larger projects that cannot secure grant funding. Maintenance and preservation needs would be addressed by a combination of reducing acceptable standards, creating TBDs, increasing general fund revenue support, and increases in local receipts from the Washington state gas tax.

It is important to note that Skagit County, and each city and town, make local decisions regarding general funds, TBDs, local funding increases and deferring projects based on the needs of their jurisdiction. There is no regional authority over these local decisions.

The State legislature should include significant increases to the local revenues in any future statewide transportation-funding package. Current levels of gas tax receipts to local governments do not keep pace with basic maintenance and preservation needs at the local level, nor do the current funding options available to local governments provided by Washington state law.