

July 7, 2009

TO: ATAC members, Olympia Transportation Mobility Strategy
FROM: Terry Moore, Nick Popenuk, Susan Davis
SUBJECT: OLYMPIA TRANSPORTATION MOBILITY STRATEGY
TASK 7, FUNDING TECHNICAL MEMORANDUM

1 BACKGROUND

The City of Olympia, Washington (City) engaged the services of the ECONorthwest consulting team to develop a Transportation Mobility Strategy (TMS). The team includes of three firms: ECONorthwest (ECO), Transpo Group, and Nelson/Nygaard. This document is ECO's product for Task 7, Funding, is a technical memorandum. It will ultimately be incorporated into the TMS as an appendix. This memorandum is one of four that accompany the main TMS report. The other three describe (1) Motorized Travel, (2) Transit, and (3) Non-motorized travel.

This memorandum evaluates funding sources for transportation projects in the City of Olympia for motorized and non-motorized travel modes. The background information and technical analysis included in this memorandum will be used to inform the recommendations that compose the TMS Report. This memorandum is not itself a recommendation or a strategy, but rather a stand-alone resource document and technical foundation for the conclusions and recommendations described in the TMS Report (Chapter 5, *Recommended Strategy*).

This memorandum has six additional sections:

2. **Framework** provides a context for thinking about transportation funding in Olympia, and describes the evaluation criteria for local funding sources.
3. **Overview of transportation funding in Olympia** describes how transportation is funded in Olympia.
4. **Current funding sources** describes the different funding sources that are currently used for transportation projects in the City, including a detailed evaluation of local funding sources.
5. **Potential funding sources** describes local funding sources that are allowed but are not currently used for transportation projects in the City of Olympia.

6. **Summary evaluation of funding sources** includes a matrix for evaluating current and potential local funding sources described in previous sections.
7. **Preliminary conclusions**

2 FRAMEWORK

2.1 SCOPE OF THIS EVALUATION

Projects to build and maintain regional transportation systems are funded through a mix of federal, state, and local sources. There are dozens of programs, each with their own requirements, and there are dozens of ways that revenue sharing and cooperation among multiple jurisdictions on individual projects can occur. The options for funding surface transportation projects in urban areas are many: identifying them and describing all their pros and cons, individually and in combination, is a challenge.

The evaluation of transportation funding in this memorandum is organized primarily by the level of government providing the source of revenue to support the transportation system: federal, state, and local. It describes the sources of transportation revenues, the jurisdiction with authority for allocating the revenue, and any restrictions that may apply. Identifying the sources of revenue and types of expenditures at each level of government adds layers of detail that can be confusing but that are important for estimating future funding available in Olympia for several reasons:

- The growth rate of future revenue will vary for each revenue source. The growth of revenue will depend on conditions affecting the ultimate source of that revenue and potential policy decisions by elected officials.
- Some transportation revenue sources have restrictions on their use. Transportation Impact Fees (TIF), for example, can only be used for projects to expand capacity of the transportation system to accommodate new development¹, while gas tax revenue can be used for a wide range of road-related expenditures, but cannot be used for transportation projects that are not clearly related to the roadway and motor vehicles. Tracking and forecasting revenue by source is important for knowing what types of future expenditures can be funded by each source.
- The current level of expenditures by type at each level of government reflects decisions to allocate revenues among competing demands, and are thus suggestive of likely future allocations of revenues. Typically budgeting processes are incremental, not zero-based: they start from last year's budget, try to maintain existing level of service with the existing level of expenditure (adjusted for inflation if possible), and decide whether certain functions merit a greater or lesser proportion of available revenue.

¹ Transportation Impact Fee revenue can specifically be used for projects on the six-year street facility list. For more information, see Appendix A of the City of Olympia 2009-2014 Capital Facilities Plan.

- Current expenditures on operation, maintenance, and preservation (OMP) provide a starting point for estimating future expenditures on this activity, and the level of future expenditures on OMP will affect the level of funding available for improvements to the system.

This memorandum describes revenues by source and expenditures by type for each level of government funding. The description of current revenues and expenditures is general: its purpose is to provide a context for understanding transportation finance in the City. Later sections of this memorandum will provide more detail about factors affecting the growth of future revenues, the amount each funding source is predicted to generate in 2009, restrictions associated with specific funding sources, and implications for transportation planning in the region.

2.2 FUNDING VERSUS FINANCING

In this memorandum we make a distinction between the terms “funding” and “financing,” which often get used interchangeably. Providing transportation facilities and services costs money, and somebody has to pay for these costs. The ultimate source of revenue for these costs is *funding*. Funding comes ultimately from households and businesses that pay taxes and fees that give the various levels of government money to build and maintain the surface transportation system, and to operate programs that improve mobility. Examples of funding mechanisms are tolls, fuel taxes, registration fees, impact fees, and property taxes. For each of these mechanisms one can determine who is paying. When the funds for transportation costs are borrowed and paid back over time, then these costs have been *financed*. Public agencies finance costs for the same reasons that households and businesses do – to reduce the current out-of-pocket costs by spreading out payments over time. But the ultimate source of funding for financed costs is not the financing instrument itself – e.g., bonds – but rather the revenue sources used to repay the borrowed funds.

Since financed costs must be paid back over time, financed costs cannot increase the total amount of funding available in a region over a long-term planning period. Financed costs merely make future funding available earlier, at the cost of the interest charged to borrow the funds. Financed costs actually decreases the level of future funding available for transportation by adding the cost of interest. This memorandum is primarily about funding, which is what it should be about for a transportation strategy. Funding provides some realism for what otherwise could become a wonderful but unachievable plan. Once a jurisdiction has some clear notion of where it plans to get funding (and that those plans, while perhaps optimistic, are not unlikely across the board), it can develop a strategy within the constraints of the potential funding. After that, it can move to the details of implementation and financing.

2.3 CRITERIA FOR EVALUATING LOCAL FUNDING SOURCES

The memorandum analyzes existing funding sources as well as other potential funding tools the City may choose to use in the future. We evaluated sources on the criteria of (1) legality; (2) efficiency, which consists of examining revenue capacity, stability and predictability, administrative ease, and flexibility of use; (3) fairness, e.g., who pays?; and (4) political acceptability.

2.3.1 Legality

All the benefits of a funding source are moot if the source is not legal or cannot become legal within the desired timeframe. We considered whether the source is allowed in Washington and permitted by Olympia's charter. All the existing sources and the potential new sources we examine in this report are legal or could become legal with a city charter amendment, so we do not discuss this criterion in the evaluation of local funding sources that follows. The real issue is whether the source has detailed and complicated legal requirements that would (1) raise the likelihood of legal challenge; (2) raise the likelihood that any legal challenge would actually be successful; or (3) reduce political acceptability by adding uncertainty and cost to the implementation process.

2.3.2 Efficiency

Under the heading of efficiency we consider whether a funding source is capable of raising a desired amount and type of revenue without excessive administrative cost. This criterion has two sub-criteria. In the analysis in this memorandum we do not address each of these sub-criteria separately: we only call them out if there is an obvious issue.

Revenue capacity, stability, predictability

Revenue capacity considers how much money the source can generate (setting aside temporarily the issue of political and public acceptability). Revenue stability considers whether the source is likely to avoid large fluctuations each year. The more stable a source, the more it can be assumed to contribute constant revenues over time. Revenue predictability is related: it considers whether the source is likely to be close to the forecasts other analysts or we might make, or whether it depends on too many assumptions that could turn out to be inaccurate.

Administrative ease and cost

How easy it would be for the City to implement or expand the funding source, in terms of administrative cost and capacity? Would new staff have to be hired? Would a new organizational structure or a new budget procedure have to be put in place? Would collection of the funds be an arduous task? The answers to these questions

depend in part on what administrative mechanisms are already in place that could be used at little marginal cost.

2.3.3 Flexibility of use

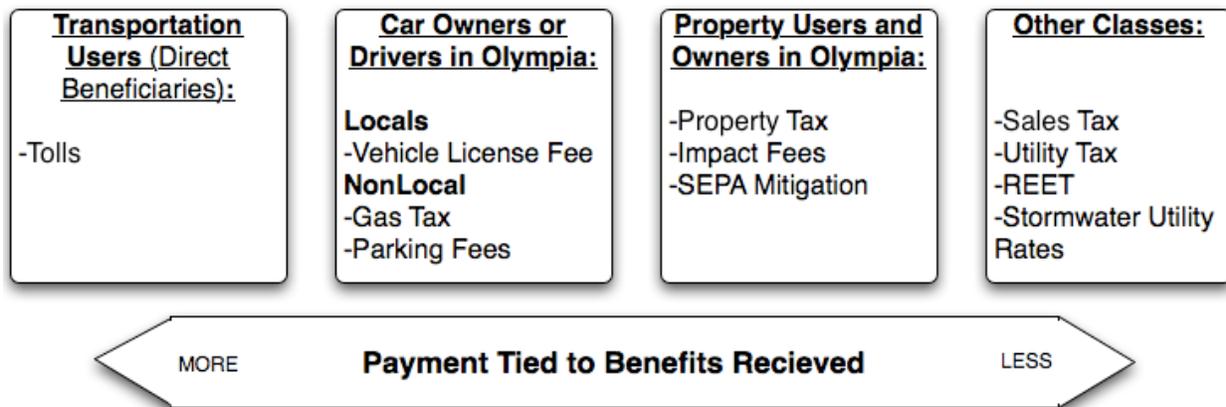
Revenue may be a little less useful to Olympia if its use is limited to certain types of projects. In general, flexibility is a positive attribute. If the revenue can be used for any transportation project (e.g., bike/pedestrian or motor vehicle, arterials or collectors, capital or OMP, there is a greater ability to channel funds to the use with the greatest net benefit at any point in time. The flip side is that if a revenue source is too flexible it can be difficult to “protect” it from other uses, transportation or otherwise.

As a practical matter, however, local jurisdictions have many ways to move funding around so that they can do what they want to do. For example, even though impact fees can only be used for projects required by growth, if such projects are not now being covered 100% by impact fees (e.g., if gas tax revenues are paying for some of those projects), increasing impact fees may free up other sources of funding that are more fungible (capable of being used for other things). Thus, our experience is that “flexibility” is rarely an important criterion in evaluating funding sources.

2.3.4 Fairness (who pays?)

Fairness, also referred to as equity, can be defined in many ways. In the context of transportation finance, the key question related to fairness is “who pays?” A standard definition of fairness in public finance is that the funding source ties the charges that fund the revenue source to the users who receive benefits from (or impose costs on) the transportation system. Using this definition, user charges like tolls are fairer than broader-based sources like general property taxes because the drivers using the transportation most are the ones paying most of the cost of the transportation improvement. Figure 1 illustrates this concept.

Figure 1. Illustrating a common definition of “fairness”: tying payments to benefits received or costs imposed



Source: ECONorthwest

The above definition of fairness relies on a standard assumption; namely, that it is best for people to pay for transportation improvements in proportion to the benefits they receive or the cost they impose. There are, however, other assumptions that could be made to support different definitions of fairness. Modified definitions of fairness allow for special treatment of certain groups (e.g., low-income families, the elderly, people with disabilities); the standard assumption is that these groups should not have to pay in direct proportion to the benefits they receive or the costs they impose. Property taxes and other taxes implement this alternative definition of fairness by charging people more if they own more valuable property or have higher incomes.

Sometimes the fairness principle of tying charges to benefits received or costs imposed is not implemented, but this is not due to an alternative definition of fairness. Sometimes all residents pay because all residents are deemed to benefit from a transportation improvement even if they do not use it (benefits include safe travel for others that they care about, greater access by customers or support networks, etc.). This is not very different from our original definition of fairness because it assumes that everyone pays because everyone benefits. In other cases it may simply be impossible or impractical to charge people in proportion to their benefits received or costs imposed, either because it is difficult to measure benefits and costs or because it is impossible to exclude use in the event of non-payment. These latter cases are examples where the need for administrative feasibility or legality means that the strict definition of fairness cannot be brought into practice.

2.3.5 Political acceptability

Political acceptability considers whether elected officials and the public at large are likely to support the funding source. This depends to a large extent on the issues above: if a revenue source is legal, efficient, and fair, then it should get political support from

the public, advisory groups, and decisionmakers. Sources that charge users from outside the city (e.g., federal and state sources, or county gas tax) are likely to be politically popular from the perspective of a local resident or business. Beyond this, however, estimating political acceptability is more of an art than a science.

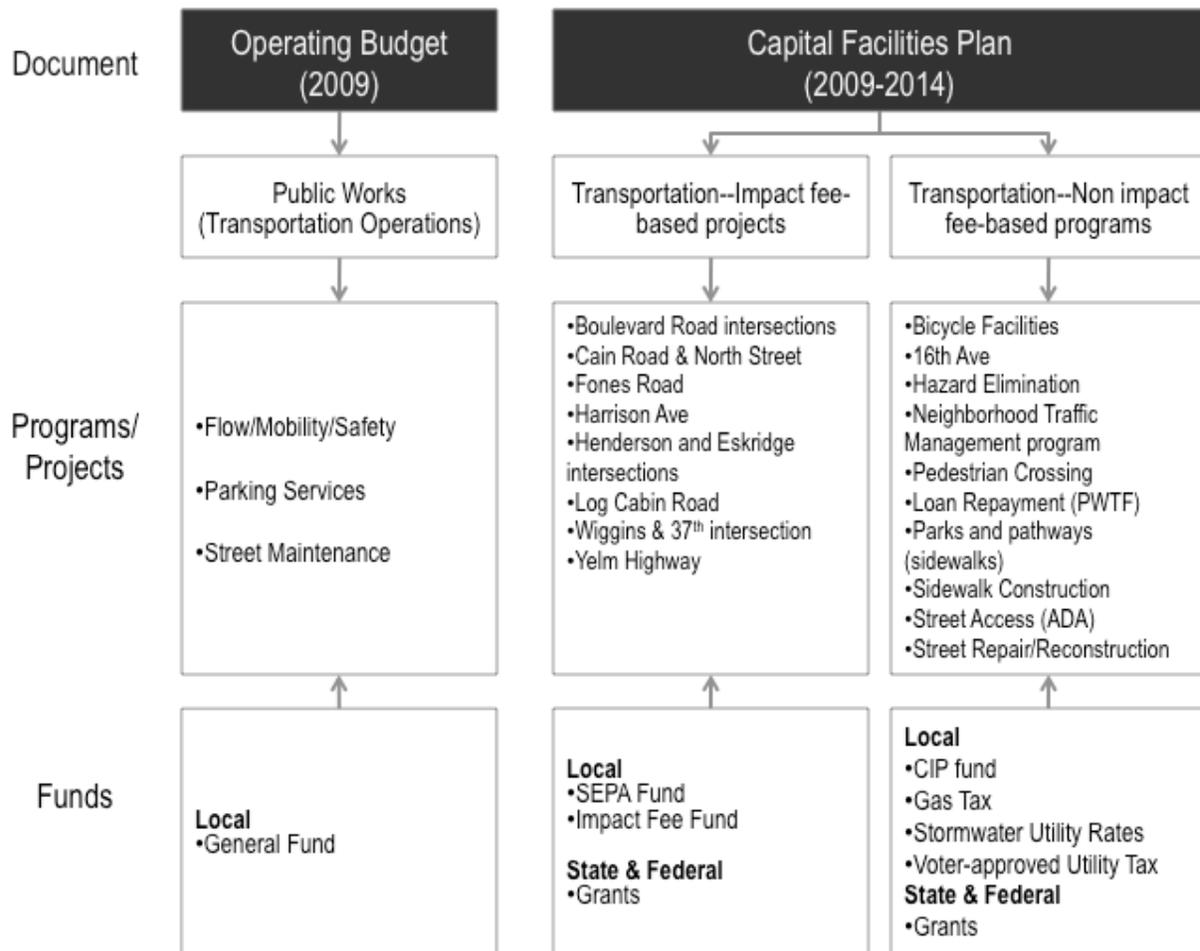
This criterion is typically viewed from the perspective of the jurisdiction doing the analysis. Thus, the political acceptance of getting the federal government to give grants to Olympia for its desired transportation improvements would be judged high, even though federal funding agencies might view its acceptability as low.

3 OVERVIEW OF TRANSPORTATION FUNDING IN OLYMPIA

The City's efforts to plan for and fund transportation programs and projects are summarized in two documents: (1) the Operating Budget Transportation Line of Business and (2) the Capital Facilities Plan (CFP).² Like other cities in Washington, Olympia's transportation funding comes from a mix of federal, state, and local sources. Figure 2 shows the transportation programs and projects in each document and funding sources that support those projects and programs.

² Though not listed here as a separate document, the annual Operating Budget includes a section identifying expenditures for the first year of the Capital Facilities Plan.

Figure 2. Transportation funding overview



Source: ECONorthwest, 2009. Information from City of Olympia 2009 Operating Budget and Capital Facilities Plan.

3.1 OPERATING BUDGET

The 2009 Operating Budget for the Public Works Department is approximately \$11 million. Public Works includes the Transportation Business Line, which has an operating budget of approximately \$6 million. Programs in the Transportation Line of Business are funded primarily by the General Fund. The General Fund is supposed to be used for the ordinary operations of the City. All General Fund revenues are commingled, but there are two revenue streams directly related to transportation: state-shared gas tax, and City parking revenue (including fines).

3.2 CAPITAL FACILITIES PLAN

The CFP is a six-year plan of capital projects with projected beginning and completion dates, estimated costs, and proposed methods of financing. The plan is reviewed and updated every year. The CFP is a planning document – it does not represent a financial commitment and is not a budget for expenditures. Capital facilities for transportation

are divided into two categories: (1) projects funded by impact fees, and (2) projects and programs funded by other sources. Expenditures for the first year of the CFP are incorporated into the annual operating budget.

Table 1 shows the first year planned expenditures for impact fee-based and non-impact fee-based projects in the CFP for the past five years and 2009.

Table 1. Operating Budget Capital Facilities Projects, First Year Planned Expenditures by Source of Funds, 2004-2009

Non-Impact Fee Projects						
Fund	Year					
	2004	2005	2006	2007	2008	2009
CIP	\$2,472,429	\$2,633,895	\$1,922,862	\$2,889,819	\$2,560,796	\$1,729,762
Grant	\$1,825,309	\$1,573,966	\$20,000	\$967,540	\$20,000	\$0
Gas Tax	\$275,000	\$275,000	\$275,000	\$275,000	\$275,000	\$575,000
Stormwater						
Utility Rates	\$150,000	\$0	\$0	\$0	\$0	\$450,000
Utility Tax	\$0	\$0	\$0	\$0	\$1,000,000	\$1,180,000
Mitigation fees	\$0	\$50,111	\$0	\$0	\$0	\$0
Schools	\$0	\$30,000	\$0	\$0	\$0	\$0
Other	\$0	\$0	\$250,000	\$0	\$0	\$0
Total	\$4,722,738	\$4,562,972	\$2,467,862	\$4,132,359	\$3,855,796	\$3,934,762

Impact Fee Projects						
Fund	Year					
	2004	2005	2006	2007	2008	2009
Impact fees	\$357,400	\$116,265	\$0	\$737,898	\$4,399,659	\$1,518,683
SEPA	\$0	\$23,760	\$0	\$562,655	\$571,374	\$137,243
Grants	\$0	\$669,200	\$0	\$5,015,268	\$3,992,993	\$3,517,283
GIM+	\$0	\$0	\$2,170,610	\$0	\$0	\$0
CIP	\$0	\$0	\$0	\$1,000,000	\$0	\$0
Total	\$357,400	\$809,225	\$2,170,610	\$7,315,821	\$8,964,026	\$5,173,209

Source: Olympia Adopted Operating Budgets, Capital Facilities Projects, 2004, 2005, 2006, 2007, 2008, and 2009
 Note: The actual amount fund expended is not reflected here; the amounts reflected are *planned* expenditures from each fund or grant and may not be the actual amount expended that year.
 Note: GIM+ is not defined, but is listed in the 2006 Operating Budget as the only funding source for impact fee-based projects that year.
 Note: Funding estimates for 2009 are based on the 2009 *Preliminary* Operating Budget
 Note: Stormwater Utility Rate expenditures of \$150,000 per year between 2004-2008 are not reflected in this table, as those expenditures were historically noted elsewhere in the City's budget.

Though the CFP proposes funding for six years, the Operating Budget shows the first year expenditures for capital facilities projects, which is the amount funded each year.³ Table 1 shows that total transportation expenditures average roughly \$8 million per year. Expenditures per year have fluctuated (\$5 million in 2004 and \$12.8 million in 2008).

³ For impact fee-based projects, the amount funded in the CFP is not necessarily the amount that is ultimately appropriated for that year. Because impact fees are used as leverage (matching funds) for state and federal grants, the amount appropriated from impact fees depends, in part, on the amount received in grants.

Table 1 shows that the majority of funding for non-impact fee-based projects has historically come from the CIP, followed by grants and other funds. The total amount of grant funding for non-impact fee-based projects has declined since 2004, while funding from the CIP has increased along with portions of the utility tax used to fund non-impact projects.⁴ Funding for impact fee-based projects increased from \$357,400 in 2004 to \$8.9 million in 2008, mainly due to increased funding from grants and impact fees.

The CFP includes a list of capital projects necessary to accommodate growth for the next six years, including estimated costs, and proposed funding sources. The 2009-2014 CFP estimates that:

- The total cost of non-impact fee projects for the next six years is approximately \$71 million. Current funding levels are not adequate to fund all listed projects within the 6-year timeframe. The CFP shows a funding level of \$25 million, of which \$13.5 million will be funded by the Capital Improvement Program (CIP), \$3 million will be funded by grants, and \$8.5 million will be funded by other local taxes (gas tax, utility tax, stormwater utility rates).⁵
- The total cost of impact fee-based projects for the next six years is approximately \$70 million. A portion of that \$70 million has already been obligated (approximately \$13 million). The CFP shows remaining funding is \$57 million, of which \$30 million is estimated to come from grants, \$26 million from impact fees, and \$185,000 from SEPA mitigation fees.

As a broad summary, the CFP shows about \$140 million of desired expenditures over six years, about \$23 million per year. It shows funding of about \$82 million, about \$13.5 million per year. Over the six-year period, the average difference between desired expenditures and identified funding is about \$9.5 million per year. That estimate probably overstates the problem because (1) costs are relatively easy to estimate (at least roughly) out into the future, (2) many revenue sources are relatively uncertain more than a couple years out, and (3) the average revenue is probably front-end weighted so that deficits in the first two years are smaller. Nonetheless, these numbers are the best we can construct, at this point, to give a sense of the magnitude of the funding issues.

4 CURRENT FUNDING SOURCES

This section of the report provides a description of the funding sources available for transportation projects in the Olympia region. It is organized by jurisdiction: federal, state, and local. We provide the greatest level of detail on local sources – those revenues that the City of Olympia has direct authority for collecting or allocating. Intercity Transit (IT), not the City of Olympia, has authority for funding public transit in the

⁴ The CIP is funded by the Real Estate Excise Tax (REET) and a portion of the Utility Tax.

⁵2009-2014 Capital Facilities Plan Introduction: Transportation (p. 19)

region. Because of this, we do not discuss transit funding sources in this document. For a description of transit funding, see Appendix C.

4.1 FEDERAL AND STATE SOURCES

In the Regional Transportation Plan (RTP) the Thurston Regional Planning Council (TRPC) projected the relative level of transportation funding the region could expect to receive from federal, state, and local sources between 2000 and 2015. The TRPC estimated only 9% of transportation funding would come from the federal level, 25% from the state level, and 66% would be raised locally.⁶ From 2016 to 2030, the TRPC forecasts state and federal funding will compose an even smaller share of transportation funding in the region.

Most state and federal funding for transportation in the City of Olympia is available through various grants. Grant funds awarded become new and additional revenue to the City, above and beyond revenue raised locally. Because of the competitive nature of grant processes, it is difficult to predict future funding amounts. Gas tax is the primary source of transportation funds at the federal and state levels. Neither the state, nor federal gas taxes are indexed to the rate of inflation. Without future tax increases, it is likely that inflation and increasing fuel efficiency will lead to decreasing purchasing power of gas tax revenues.

The City of Olympia applies for a variety of grants every year. These include federal programs like the Surface Transportation Program (STP) and state programs like the Urban Arterial Program (UAP). Grants are administered primarily by the Thurston Regional Planning Council (TRPC) and the state's Transportation Improvement Board (TIB). A complete list of the grants the City of Olympia has historically applied for can be found in *"Transportation Priorities and Grant Funding Opportunities"* (City of Olympia, 2007).

Grant programs have specific eligibility requirements, funding constraints, and application deadlines. The City compares grant opportunities against projects identified in the Capital Facilities Plan to determine which, if any, qualifies for grants and how well a project will rate. Many of the grant programs require a "local match" meaning a percentage of the funding will come from local funds. If grant funds are applied for and received, the grant-funded project may become a priority.

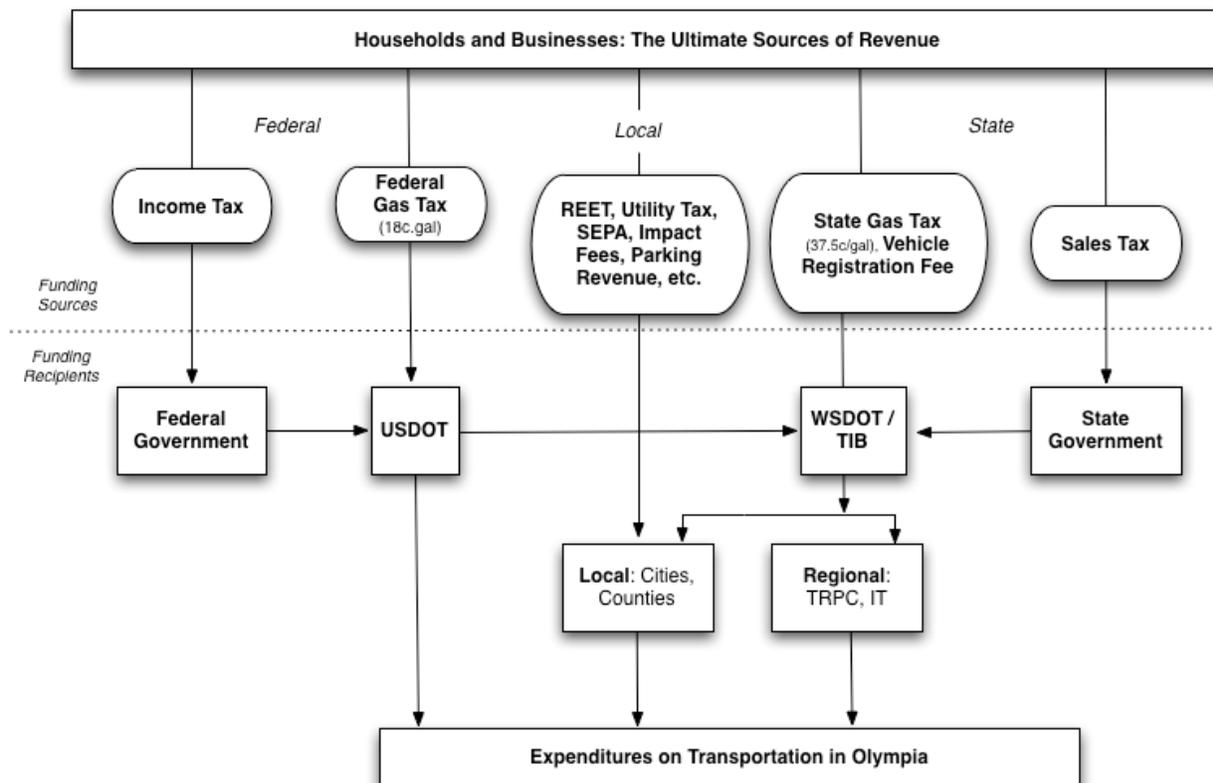
The State transportation budget for the 2007-09 Biennium is \$7.6 billion, including \$2.4 billion for operations, and \$4.9 billion for capital. The primary sources of state

⁶ The projected allocation of transportation funding is slightly different from statewide averages. The 2009 Washington Transportation Resource Manual estimates that currently about 70% of cities' transportation funding is generated from local revenue sources, 19% from state revenues, and 11% from federal sources.

funds are the fuel tax, licenses, permits and fees. Some state funds (like those supported by the state motor fuel tax) are restricted in use for only highway purposes by the 18th Amendment. Other funds are more flexible in their use.

Figure 3 shows how federal and state funds for transportation are allocated to projects in the City of Olympia.

Figure 3. State and federal transportation funding



Source: ECONorthwest

Federal and state funding sources clearly play an important role in paying for Olympia’s transportation system. Like many cities its size, Olympia is well informed about federal and state funding and is probably close to maximizing the amount of funding it receives from those sources. A lot of federal and state funding, however, comes to a city in ways that City does not control (e.g. through a formula determined by the state and by grants). Big funding outside of formula allocations is typically associated with the construction or maintenance of roadways that have some state ownership or significance (thus, usually arterials). Further, there may be significant changes in state and federal funding for transportation projects in the near future.⁷

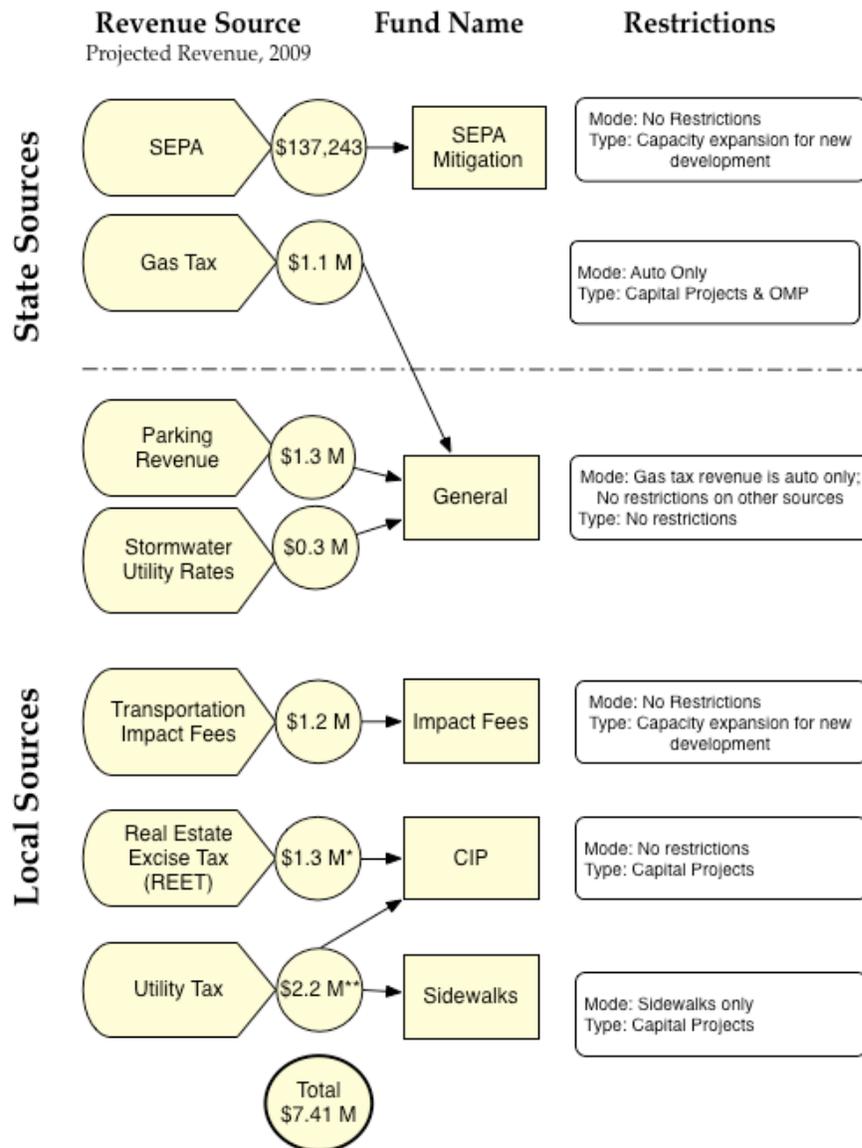
⁷ Through a request process, the City received \$1.2 million for an asphalt overlay project on Union Avenue between Capitol Way and Plum Street.

For our analysis we assume that the City of Olympia, with its partners at Thurston Regional Planning Council (TPRC) and Intercity Transit (IT), is doing what is efficient with respect to getting state and federal funding for larger projects, and that the success of the TMS and any increases in facilities and programs for non-motorized transportation is going to depend on local funding sources. The success of any funding strategy will depend largely on steps the City can take to raise and administer revenue from local sources. Our analysis therefore focuses primarily on existing local sources and potential future local sources. The next section describes current funding sources in Olympia, with a focus on local sources.

4.2 LOCAL SOURCES

To develop a Transportation Mobility Strategy, the City of Olympia must understand the funding sources available to it. While State and federal funds play an important role in transportation funding, the City has relatively little influence on future funding amounts. In this section, we examine local funding sources that can be collected and allocated at the City's discretion. Figure 4 summarizes the City's local funding sources.

Figure 4. Local transportation revenue sources and funds



Source: ECONorthwest. Budget data from City of Olympia 2009 Operating Budget and Capital Facilities Plan.

* City of Olympia 2009 Operating Budget does not include forecast of REET revenue; \$1.3 million is the amount of total REET collections in 2008. Not all REET revenue is dedicated for transportation uses.

**City of Olympia 2009 Operating Budget includes \$10.1 million in utility tax revenue, however only \$2.2 million is dedicated to the CIP Fund and sidewalks.

Note: City of Olympia 2009 Operating Budget does not include a forecast of Transportation Impact Fee revenue; \$1,128,246.29 is the total amount of impact fees collected in 2008. The amount of impact fees collected fluctuates per year, ranging from \$1.3 million in 2005 to \$471,000 in 2007.

4.2.1 General Fund

The General Fund is the City's primary operating fund. Some revenue streams are required to be accounted for in special funds; all other revenue streams are accounted for in the General Fund. The majority of the revenues are generated by property, sales, utility, business and occupation taxes, and state shared revenues. The General Fund is projected to have \$57.9 million in revenues in 2009. Since 2005, annual General Fund revenues have increased by \$6.19 million (about 2.9% per year).

The General Fund is primarily to be used for the ordinary operations of the City, including the Transportation Business Line within the Public Works Department. The 2009 Operating Budget for Public Works includes \$11 million in revenue from the General Fund. The Public Works Department includes the Transportation business line, with a 2009 operating budget of \$6.1 million. All General Fund revenues are commingled, but there are two revenue streams directly related to transportation: State-shared gas tax, and parking revenue (including fines).

State-shared gas tax

The State-shared gas tax (also referred to as the motor-vehicle fuel tax) is not technically a local funding source. We include it in this section, however, because the City has budgetary discretion for the portion of State-shared gas tax revenue it receives. The State of Washington imposes a motor fuel tax of 37.5 cents per gallon of gasoline.⁸ Tax revenue is shared between a number of programs and jurisdictions. The share to cities is 2.96 cents per gallon (\$192.8M in the current biennium). The share to counties is 4.92 cents per gallon (\$312.5M in the current biennium).⁹

Revenue allocated to cities is based on population. Cities and counties have decisionmaking authority for allocating state-shared motor fuel tax revenue. However, these revenues are restricted by the 18th Amendment for roadway uses, and cannot be used for stand-alone bike/ped/transit projects.¹⁰ The State retains decisionmaking authority for revenues not distributed to cities and counties.

The 2009 Operating Budget projects the City of Olympia will receive \$1,050,000 in State gas tax revenue. This is \$20,000 more than revenues received in 2008. State-shared

⁸ Motor Vehicle Fuel Tax includes a corresponding tax for diesel and other motor vehicle fuel sources.

⁹ Per RCW 47.30.050, local jurisdictions must spend 0.42% of the state-shared gas tax revenues on trails. These expenditures are limited to trails along existing highway rights-of-way and where the provision of a trail will increase motor vehicle safety.

¹⁰ Historically, State law required the City of Olympia to allocate \$275,000 per year in State-shared gas tax revenue to the Arterial Street Fund. That requirement no longer exists, and the City allocates \$275,000 per year to the transportation section of the CFP instead.

gas tax revenues for the City of Olympia have leveled off in recent years, growing an average of 1.6% per year from 2005 – 2009.

This slow growth is in contrast to recent increases in the statewide motor vehicle fuel tax rate. In 2003 the Legislature enacted the “Nickel” funding package, which increased the tax by 5 cents per gallon. In 2005 the Legislature enacted the Transportation Partnership Act (TPA) funding package, increasing the gas tax 9.5 cents per gallon (phased in over four years). These tax increases were used to fund a list of specific, predetermined capital improvement projects across the State. Additional tax revenues raised through these tax increases are used to pay debt service on these capital projects. When these bonds are paid off, it is likely that the State will create a new list of capital improvement projects to receive funding.

In future years, it is anticipated that the revenue from the state motor fuel tax that is shared with the City of Olympia and Thurston County will decrease in real (inflation adjusted) dollars. In the long-term, the rate of inflation, combined with increasing fuel efficiency of vehicles will outweigh increasing vehicle miles traveled (VMT). After the recent tax increases, Washington has one of the higher gas tax rates in the country, and the public’s appetite for future increases is probably low.

Based on the evaluation criteria outline in the previous section, the State-shared gas tax is relatively strong in all categories except flexibility:

- **Efficiency:** Barring future policy changes in State gas tax allocations, there is forecast to be little to no increase in revenue capacity for the City of Olympia. However, past revenue streams have proven to be relatively predictable and reliable, and the administrative system for collecting them is in place, so the administrative cost (not the political cost) of gaining more revenue via tax rate increases is small relative to the amount of money it could generate.
- **Flexibility:** State-shared gas tax is restricted by the 18th Amendment for roadway purposes, and cannot be used for stand-alone bicycle, pedestrian or transit projects.
- **Fairness:** Gas tax revenue is paid only by users of the transportation system, and the amount of tax paid is proportional to the amount of use. However, non-motorized users (e.g. bicycles and pedestrians) do not pay any tax. Also, the amount of fuel used is not directly proportional to the cost a user imposes on the system.
- **Political Acceptability:** Recent increases in the tax rate indicate political acceptability has been high. However, the public’s appetite for future increases in the tax rate is likely to be low.

Parking fees

Parking revenues, both from operations and fines, accrue in the General Fund. Each year, the City conducts an analysis of parking revenues and expenses to determine profits from parking operations. The first \$150,000 in profit (roughly, revenue remaining after expenses have been deducted) remains in the General Fund. This is parking operations contribution to general services. All profit in excess of \$150,000 is deposited into a special parking account, which is used only for parking purposes. The 2009 Operating Budget includes \$1,287,350 in Parking Services revenue for the Public Works Department.

Based on the evaluation criteria outline in the previous section, parking services revenue is relatively strong in all categories:

- **Efficiency:** Annual parking revenue has increased by \$160,000 (3.4% per year) from 2005 - 2009. The revenue source is relatively stable and predictable. The City has authority to increase capacity through rates charged for fines, meters, etc. The administrative system for collecting these fees is in place, so the administrative cost of gaining more revenue via tax rate increases is small relative to the amount of money it could generate.
- **Flexibility:** There are no legal restrictions on what parking revenues can be used for, which gives the City a lot of flexibility regarding what transportation projects or programs to support. Historically, the City has allocated the first \$150,000 in profit to the General Fund for overhead costs, and the remaining profit supports parking services.
- **Fairness:** Parking revenue is paid by roadway users. However, the amount paid by each user is not directly proportional to the level of use or the impact on the system. Drivers who park in private lots or do not regularly come to metered areas do not pay. One partial justification is that the metered areas are the heavily used and congested areas, so the drivers who are using and parking in that area are paying based on costs imposed. In general, people in most cities seem to accept their *current* level of parking fee: fairness and political issues arise when cities talk about big changes in parking programs or fees.
- **Political Acceptability:** As an existing revenue source, it is assumed parking fees/fines are politically acceptable. Increases in rates, or expansion of areas where parking fees are required may meet with some political resistance.

4.2.2 Transportation Impact Fee

Under the State Growth Management Act, new development may be required to pay for itself. The City of Olympia charges impact fees against newly-developing property with the intent of covering a portion of the costs of providing public infrastructure to serve that development. Impact fees can be collected and spent for roads, parks,

schools, and fire protection. Impact fee revenues can only be used for projects that are specifically identified as part of the impact fee calculation.

To establish the impact fee rate, the City creates a six-year street facility list, oriented to future growth. Projects on the list are necessary to meet adopted level of service standards for the next six years. Future trips are allocated to areas inside and outside the City limits using a traffic forecasting model.

The total amount that can be collected in impact fees is calculated by dividing the total cost of projects needed to accommodate new growth over the six-year timeframe by the total number of new vehicle trips expected to be generated by development in the City. Not all growth-related costs calculated for the six-year timeframe can be attributed to growth within the City. Therefore, the total cost of growth-related projects is multiplied by a percentage to derive the costs that can be attributed to growth in the City of Olympia.¹¹ That is the total amount the City is allowed to collect in impact fees. The total amount is then divided by the total number of new PM peak hour vehicle trips resulting from growth in the City and urban growth area, over the same time period, to derive a “cost per trip.” The City then calculates a fee for new types of development based on adjustments to the “cost per trip” amount to account for trip rate and length.¹²

Olympia adopted changes to the impact fee calculation in December 2008 and July 2009. The City will assess a “cost per trip” fee of \$2,559 as of August 1, 2009.

This method is standard and well accepted nationally, and legal in Washington. For various reasons, the City may choose not to fund all growth-impacted items with impact fees (either through lower fees or discounts in some areas). In these situations, the City is obligated to make up the difference. Fee payers may apply for credits that reduce the impact fees in exchange for transportation demand management operational improvements and physical improvements such as bicycle connections, carpool parking, and other transportation demand management measures.

Transportation impact fee revenue is relatively strong in fairness and political acceptability, but weaker on efficiency and flexibility of use:

- **Efficiency:** It is difficult to predict the amount of development that will occur in a six-year period, so it is difficult to predict impact fee revenue. Transportation impact fee revenue has fluctuated in recent years, ranging from \$1.3 million in

¹¹ The City currently multiplies the total costs attributed to growth by 44.51% to derive the percentage of costs that can be attributed to “city growth.” After July 2009, the total costs will be multiplied by 64%, thus increasing the total amount that can be collected in impact fees as well as individual impact fees charged for development.

¹² The City developed an impact fee schedule that adjusts the “cost per trip” to reflect differences in trip making characteristics for a variety of land use types. For example, a single-family dwelling generates 1.01 PM peak trips. The City adjusted for the rate and length of the trip and derived an adjustment factor of 1.17. This means the City would charge an impact fee for a single-family dwelling that is slightly more than the “cost per trip.”

2005 to \$471,000 in 2007. Impact fees can be increased if the number of trips generated by new growth increases or if there is an increase in the percentage of growth attributed to the City of Olympia. The City does not have authority to raise impact fees to pay for projects other than those that are necessary to accommodate anticipated development in the next six years. The administrative system for collecting these fees is in place, so the administrative cost of gaining more revenue via tax rate increases is small relative to the amount of money it could generate.

- **Flexibility:** Transportation impact fee revenue can only be used for projects to maintain level of service to accommodate new development in the next six years. It cannot be used to address existing deficiencies, nor can it be used for stand-alone bicycle, pedestrian, or transit projects.
- **Fairness:** In theory, transportation impact fees are calculated to charge new development in proportion to the costs they impose on the street system. In practice, individual users of the new roadway facilities may or may not pay in proportion to their use.
- **Political Acceptability:** As an existing revenue source, it is assumed that transportation impact fees are politically acceptable. However, one group of stakeholders (e.g. purchasers of new homes and commercial buildings) shoulders the entire initial burden of transportation impact fees.¹³ This makes them particularly opposed to fee increases.

4.2.3 Utility Tax

The City of Olympia charges a tax on the gross income of utility services, including telecommunications, natural gas, and electric utilities. The State of Washington allows municipalities to levy a 6% utility tax without voter approval. Any tax in excess of 6% requires voter approval. There are no statutory restrictions on utility tax revenue. In practice the 6% tax is allocated, 75% to the General Fund, 8.3% for parks maintenance, and 16.7% for capital facilities (transportation and parks). The 2009 Operating Budget forecasts the 6% utility tax will generate about \$6.8 million, with \$1.1 million allocated to capital facilities.

Voter-approved utility tax

In 2004, Olympia voters passed a 3% increase in utility tax (for a total tax rate of 9%). The 3% tax is restricted in use to parks (two thirds) and sidewalks and recreational use (one third). The tax for sidewalks is forecast to generate \$1.1 million in revenue for 2009.

¹³ Some of those costs may get backward or forward shifted to owners of the undeveloped property and buyers or renters or buyers of the new developed space. It depends on the elasticity of demand for built space. An analysis of fee incidence at this level is beyond the scope of our investigation.

The utility tax revenue is relatively strong in flexibility and political acceptability, and weaker on efficiency and fairness:

- **Efficiency:** The utility tax is a generally stable and predictable revenue source. However any increases in rate are subject to voter approval. The administrative system for collecting these fees is in place, so the administrative cost of gaining more revenue via tax rate increases is small relative to the amount of money it could generate.
- **Flexibility:** The base, 6% utility tax can be used for any purpose, including all modes of transportation, and non-transportation purposes. In practice, the City allocates 1% of the tax to the Capital Improvement Plan (CIP) Fund for transportation and parks improvements. The 3% voter approved utility tax (and any future increases) are restricted in use. Of the 3% voter approved tax, one third must be used for construction of sidewalks. No other transportation projects are eligible for funding from the 3% voter approved utility tax.
- **Fairness:** The utility tax is not a direct tax on users of the transportation system. The connection to transportation use or benefit is relatively weak.
- **Political Acceptability:** As an existing revenue source that has been expanded with voter approval, the reasonable presumption is that the utility tax is politically acceptable. But any future increases in utility tax are subject to voter approval, and Olympia's rate is now 50% above the level the City can levy without voter approval.

4.2.4 Real Estate Excise Tax (REET)

Excise tax is levied on the sale price of real property transfers. The City levies two separate REET of 0.25% each (0.5% total), in addition to the State REET of 1.28%. The City levies one REET of 0.25% for all capital needs, including transportation. The City levies another REET of 0.25% that can be used for only transportation and utility capital needs. These restrictions are established by the State Growth Management Act.

From 2000 to 2006, REET revenue grew from \$956,000 to \$2.7 million (19% per year). However, REET is a relatively volatile revenue source because it is dependent upon real estate sales that are subject to market cycles. REET revenue for the City of Olympia has decreased significantly in recent years, generating \$1.3 million in revenues in 2008 (less than half of revenues generated in 2006).

REET is relatively strong in political acceptability, and weaker on efficiency, and fairness:

- **Efficiency:** The local REET is at the maximum rate allowed by State law, and has no capacity for future rate increases. Additionally, REET is a volatile revenue source, making it difficult to forecast revenue streams in future years. The administrative system for collecting these fees is in place, so the administrative

cost of gaining more revenue via tax rate increases is small relative to the amount of money it could generate.

- **Flexibility:** REET may be used for transportation projects included in the six-year CIP. These REET funds may also be used for non-transportation capital projects for utilities, and other uses. REET may not be used for operations, maintenance or preservation of the transportation system, or for transit projects.
- **Fairness:** An efficient transportation system should have positive effects on the real market value of real property. However, the REET is not a direct tax on users of the transportation system. It is in the category of a property tax, and the relationship between the value of property and the benefits of or costs imposed on the cities transportation system is variable.
- **Political Acceptability:** As an existing revenue source, it is assumed that the REET is politically acceptable.

4.2.5 SEPA Mitigation Fees

The State Environmental Policy Act (SEPA) authorizes local jurisdictions to charge fees to mitigate transportation impacts of new development. SEPA fees are similar to Transportation Impact Fees. However, SEPA fees are collected for specific projects, and the funds can only be spent on the projects for which the fees were assessed. The amount of the fee is equal to the cost to mitigate a specific adverse impact identified in the environmental analysis of a project. As with impact fees, the funds cannot be spent on existing deficiencies and must be used to address impacts that are directly attributable to the development.

Although SEPA Mitigation fees are collected and spent locally, the City of Olympia does not have authority to increase the fee amount or to allocate the revenue for other purposes. Because, SEPA Mitigation fees are determined on a project-by-project basis, it is difficult to project SEPA revenue in the future.

SEPA mitigation fees are relatively strong in political acceptability and fairness, and weaker on efficiency and flexibility:

- **Efficiency:** SEPA mitigation fees are a volatile and unpredictable revenue source. The City does not have authority to increase revenue capacity by increasing fees greater than the amount necessary to mitigate specific transportation impacts related to major new developments. The administrative system for collecting these fees is in place, so the administrative cost of gaining more revenue via tax rate increases is small relative to the amount of money it could generate. However, fees collected for specific development projects may be small, and tracking these small amounts over a six-year timeframe can be burdensome.
- **Flexibility:** SEPA mitigation fees are inflexible, and can only be used to mitigate specific transportation impacts related to major new developments. Types of

projects eligible for funding from SEPA mitigation fees include roadways, bicycle, and pedestrian projects.

- **Fairness:** SEPA mitigation fees are relatively fair. They charge users (via developers) for the direct costs imposed on the transportation system for capital improvements to serve the new development.
- **Political Acceptability:** As an existing revenue source, it is assumed that SEPA mitigation fees are politically acceptable. However, one stakeholder group – developers – shoulders the entire cost of transportation impact fees and SEPA. This typically makes them particularly opposed to fee increases.

4.2.6 Stormwater Utility Fees

The City Storm and Surface Water Utility provides environmental management services to the public to minimize flooding, improve water quality, and protect aquatic habitats. There are about 14,200 customer accounts for stormwater utility service. The City charges these customers for the service. There are no statutory limitations on what this revenue can be used for. The City chooses to allocate some of this revenue to support bicycle and pedestrian projects. Frequently when bike lanes and sidewalks are constructed, a curb and stormwater management system are also installed. This significantly increases project costs. To offset these costs, the City has allocated \$150,000 of stormwater utility revenue to help support bicycle and pedestrian projects. In the current fiscal year, the City increased the allocation of stormwater utility revenue by \$300,000 for a total of \$450,000.

Stormwater utility revenues are relatively strong in political acceptability, efficiency, and flexibility, and weaker on fairness:

- **Efficiency:** Stormwater utility revenues are relatively stable and predictable. The City has authority to increase the rates to pay for additional transportation and stormwater related projects. The administrative system for collecting these fees is in place, so the administrative cost of gaining more revenue via tax rate increases is small relative to the amount of money it could generate.
- **Flexibility:** Stormwater utility revenues can be used for any projects (transportation or otherwise). However, past Council actions have limited expenditures on transportation to only bicycle and pedestrian projects with a stormwater component.
- **Fairness:** The current practice of using stormwater utility revenue for bicycle and pedestrian projects with a stormwater component does have a logical nexus between fund source and use to the stormwater revenues being used on bicycle and sidewalk projects are being used for the stormwater components of those projects. If the City chooses to allocate stormwater utility revenue for other transportation projects (e.g. highway maintenance), there would be a much weaker correlation between source and use.

- **Political Acceptability:** As an existing revenue source, it is assumed that stormwater utility rates are politically acceptable. However, rate payers may object to their stormwater charges being used for services not directly related to the mission of the Storm and Surface Water Utility.

5 POTENTIAL FUNDING SOURCES

The previous section describes existing transportation funding sources, and their potential for expansion. Those sources may not be sufficient to cover all of the potential and desirable transportation projects in the region. The City may want to pursue new funding sources to accomplish its goals. This section gives some examples.

Not on the list is one that most transportation economists recommend: tolling. We strongly support tolling in concept, but it is probably not practical technically or politically for a city the size of Olympia to pursue highway or congestion pricing independently. Tolling has come to bridges and it will probably come to key segments of the federal and state highway system within 10 years. When it becomes more common, and the state supports an integrated system of electronic tolling, Olympia may have options, but those seem 10 to 20 years out.

5.1.1 Commercial Parking Tax

The State of Washington allows local jurisdictions to implement a Commercial Parking Tax (RCW 82.80.030). The tax would be paid by commercial parking businesses, based on gross proceeds, the number of stalls, or the number of customers.¹⁴ Tax revenue could be used for all modes of transportation, and for capital projects, as well as efficiency, operations, and supporting functions. No jurisdictions in Thurston County levy a Commercial Parking Tax.

No forecast exists for potential Commercial Parking Tax revenue for the City of Olympia. The City could establish a rate, which was determined to be politically acceptable. The tax may be repealed by a voter referendum. Revenue would depend on the number of commercial parking facilities, total number of commercial parking stalls, and the rate established by the City. There are approximately 15 commercial parking lots in the City containing 819 parking stalls. Eleven parking lots are owned by Diamond Parking Service.

Commercial Parking Tax revenues are relatively strong in flexibility, and relatively weak in political acceptability:

- **Efficiency:** The City has authority to increase revenue capacity by establishing the tax rate. There are no current revenue projections for Commercial Parking Tax

¹⁴ Carpool, handicapped, and government vehicles are exempt.

revenue. However, revenue generated through this tax would be relatively stable and predictable. As a new funding source, ease of administration would be a concern.

- **Flexibility:** Commercial Parking Tax revenue is very flexible, and can be used for all modes and all types of transportation projects.
- **Fairness:** A Commercial Parking Tax is a tax on drivers in the City of Olympia, but it does not tax all drivers equally, and the amount of tax paid is not proportional to the benefits enjoyed or costs imposed on the system. Due to the number of commercial parking stalls, the city-wide tax per stall would have to be high enough to impact the City's revenues.
- **Political Acceptability:** Revenue sources that are not already in use tend to be less politically acceptable than existing sources. The Commercial Parking Tax could be particularly untenable for owners and users of commercial parking facilities.

5.1.2 Local Improvement Districts

A Local Improvement District (LID) is a special purpose financing mechanism that may be created by local governments to fund improvements in specific areas. Property owners who benefit from improvements are assessed at proportionate levels to pay for the improvements (hence, it is sometimes called a Special Benefits District). The City of Olympia could use LIDs to fund specific capital improvements for transportation. To establish an LID, the City would meet with property owners expected to benefit from a proposed transportation improvement. Once an agreement is reached on the portion of funding to come from the LID, the City would sell bonds to finance the project, and the bonds would be repaid through annual payments by affected property owners within the LID. While the City has used LIDs in the past, there are currently no existing LIDs in the City of Olympia.¹⁵ The amount of funding raised through LIDs would depend on the specific capital projects they would fund. Capital projects including all modes of transportation are eligible to receive funding from LIDs.

Local Improvement District revenues are relatively strong in flexibility, and relatively weak in political acceptability:

- **Efficiency:** The City has authority to establish new LIDs, in coordination with affected property owners. Because LIDs fund only specific projects, the revenue would not be stable nor predictable.
- **Flexibility:** LIDs can be used for all modes of transportation. But must be used for capital improvements.

¹⁵ Currently there are no local improvement districts (LIDs) in Olympia for transportation purposes. However, the City does have a water LID.

- **Fairness:** LIDs charge property owners within the district, and is not a direct fee paid by users of the system. However, the charges established by the LID must be proportional to the benefits individual property owners will enjoy.
- **Political Acceptability:** Revenue sources that are not already in use tend to be less politically acceptable than existing sources. The creation of LIDs usually requires extensively political outreach, to garner support from property owners who will be asked to pay for the capital improvement.

5.1.3 Motor Fuel Tax (Local Option for Counties)

A local option Motor Fuel Tax can be levied in addition to the State gas tax. The maximum tax rate is 3.75 ¢/gal. (equal to 10% of the State gas tax). This tax can only be levied countywide, and would be shared based among local jurisdictions and unincorporated areas based on population. This tax is technically not a “local” funding source, as it requires voter approval of Thurston County residents. However, the City could pursue this funding source collaboratively with other jurisdictions in the County. Tax proceeds are restricted in use by the 18th Amendment for roadway purposes, but can be used for both capital projects as well as maintenance, operations, and preservation (OMP). No local jurisdictions (counties) in Washington have implemented this tax.

The 2009 Washington Transportation Resource Manual estimates that a 3.75 ¢/gal local option motor fuel tax would raise \$5,379,000 for Thurston County. Revenues from this tax would be distributed to jurisdictions and unincorporated areas within the county based on population. According to the 2007 U.S. Census Population Estimates, 18.8% of Thurston County’s population lived in Olympia. A tax of 3.75 ¢/gal would raise approximately \$1,012,980 for the City of Olympia in 2009.¹⁶

The local option Motor Fuel Tax is relatively strong in fairness, and relatively weak in flexibility and political acceptability:

- **Efficiency:** If voters approved the maximum tax rate of 3.7 ¢/gal. in Thurston County, it could generate significant new revenue for transportation projects. State gas tax revenue streams have proven to be relatively predictable and reliable. Collecting the tax would not be difficult if the state would do it for a fee.
- **Flexibility:** Local option Motor Fuel Tax is restricted by the 18th Amendment for roadway purposes, and cannot be used for stand-alone bicycle, pedestrian or transit projects.

¹⁶ The 2009 Washington Transportation Resource Manual. notes that fuel tax collections at the county level are estimated from the county's share as a percentage of total state fuel gallons taxed at 3.75 cents per gallon. The state total is based upon November 2006 motor vehicle revenue forecast. The county's share is based upon current population estimates and forecasts provided by the Office of Financial Management. These estimates do not have non-highway use refunds and transfers, or administrative expenses subtracted

- **Fairness:** Local option Motor Fuel Tax revenue is paid only by users of the transportation system, and the amount of tax paid is proportional to the amount of use. However, non-motorized users (e.g. bicycles and pedestrians) do not pay any tax. Also, the amount of fuel used is not directly proportional to the cost a user imposes on the system.
- **Political Acceptability:** Recent increases in the State gas tax indicate political acceptability has been high. However, the public's appetite for future increases in the tax rate is likely to be low.

5.1.4 Transportation Benefit District

Local jurisdictions are authorized by the state to implement a Transportation Benefit District (TBD) to pay for the construction and operation roadways, transit, and other transportation management programs. With voter approval a TBD has the following revenue options: (1) a 0.2% sales and use tax with voter approval (maximum of 10 years unless reauthorized by voters), (2) motor vehicle license fee up to \$100 for vehicles under 6,000 lbs, (3) excess property tax levies¹⁷, (4) tolls on transportation facilities, (5) late-comer fees, (6) development fees, and (7) LID formation.

In 2008, the City established a Transportation Benefit District (TBD).¹⁸ The TBD has authority to charge an annual vehicle license fee, of up to \$20, for all motor vehicles owned within the City of Olympia.¹⁹ TBD revenues are relatively flexible, but must be projects that "improve the flow of traffic." The City currently interprets this requirement to allow capital projects, capacity expansion, safety improvements, and maintenance and preservation of roadways.

In 2007, TRPC calculated preliminary estimates of TBD revenue for all local jurisdictions in Thurston County. The revenue estimates were based on the maximum vehicle registration fee of \$20.²⁰ For the City of Olympia, TRPC estimated the fee could raise about \$635,000 in 2007. This was based on an estimated 31,728 licensed vehicles in the City of Olympia.

The Transportation Benefit District is relatively strong in flexibility and efficiency, and relatively weak in and political acceptability:

¹⁷ Excess (or Special)levy is a property tax imposed in excess of the 1 percent constitutional limit which must be voter approved. (2008 Legislative Guide to Washington State Property Taxes,).

¹⁸ Other jurisdictions we have worked with refer to this as a Transportation Utility District, emphasizing that transportation could be treated like most other utilities (water, sewer, electricity) and could charge a fee for the services it provides based on estimates how different user classes consume those services.

¹⁹ The City has established a board to manage the district and has set out priorities for funding, which include street repair/reconstruction, the Boulevard Road intersection improvements, and the Harrison Avenue project.

²⁰ With voter approval, the annual license renewal fee can go up to a maximum of \$100 (2009 Washington Transportation Resource Manual)

- **Efficiency:** Preliminary estimates from TRPC estimate the TBD could generate more than \$600,000 per year for the City of Olympia. After the fee is implemented, the annual change in vehicles licensed in the City should be relatively easy to predict, resulting in TBD revenue estimates that are stable and predictable. As a new funding source, ease of administration would be a concern.
- **Flexibility:** State law restricts TBD funding to projects that “improve the flow of traffic.” However, this requirement can be interpreted broadly, and allow a wide-range of transportation projects.
- **Fairness:** TBD fees would be paid by licensed vehicle owners in the City of Olympia. However non-motorized users (e.g. bicycles and pedestrians) do not pay any fee. The fee amount is not directly proportional to the cost a user imposes on the system. Non-local users of the transportation system would not pay any fee.
- **Political Acceptability:** The City has already established the Transportation Benefit District. However, an extensive public involvement process will be required to determine what amount of fee is politically acceptable, and what projects should receive funding.

6 SUMMARY EVALUATION OF FUNDING SOURCES

Table 1 summarizes the local funding sources (existing and potential) described above. There is no obvious absolute scale on which these sources could be measured. However, it is important that the City know how the sources compare to each other in relative terms. Table 2 starts the conversation on which sources have the greatest potential benefit for the City. Pluses indicate a funding sources that scores relatively high on a given criterion. Minuses indicate a funding source that scores relatively low on a given criterion. Zeros indicate that a funding source is relatively neutral on a given criterion.

Table 2. Summary of local funding sources

	Efficiency	Flexibility	Fairness	Political Acceptability
Existing				
State-shared gas tax	+	-	+	+
Parking Revenue	+	+	+	+
Impact fees	-	-	+	+
Utility Tax	-	+	-	+
REET	-	0	-	+
SEPA mitigation	-	-	+	+
Stormwater utility rates	+	+	-	+
Potential				
Commercial Parking Tax	0	+	0	-
Local Improvement Districts	-	+	0	-
Motor Fuel Tax (local option)	0	-	+	-
Transportation Benefit District	+	+	0	+

Source: ECONorthwest

Almost every funding source ranks high on some criteria and low on others: parking fees are the exception. Simply adding up the pluses and minuses in the matrix is not recommended, because (1) the sources are not scored on an absolute scale, and (2) people will place a different level of importance on each of the four criteria. For example, both impact fees and state-shared gas tax have a minus for flexibility. Impact fees can only be used for capital projects to accommodate new development. State-shared gas tax revenue can only be used for roadway purposes. But how significant are these restrictions if these are important and efficient, or if there is a backlog of projects that need funding?

The point of this matrix is not to definitively answer which funding sources are best, but to facilitate a conversation about the relative merits of each funding source available to the City. This technical memorandum on funding sources helps inform the recommendations and suggestions in the Transportation Mobility Strategy.

7 PRELIMINARY CONCLUSIONS

The broad conclusions of this evaluation are:

- Olympia, TPRC, and IT have a good grasp of state and federal revenue sources and are probably getting about what they can. Further funds from the economic stimulus package may trickle down to Olympia, but any such funds will probably go mainly to transportation projects already in transportation improvements plans of the state, TPRC, and IT.
- A summary of revenue and expenditures shows that over the last few years:

- Expenditures were \$9 to \$12 million
- Local revenue sources generated \$6 to \$7 million
- Grants received were \$0.3 to \$5 million
- About two-thirds of local transportation spending is funded by local revenue sources.
- Thus, it is likely that the funding issue for the TMS will be primarily about how much more the City might realistically be able to raise from local sources, and what the pros and cons of those different sources are.

This evaluation stops short of recommendations about funding because they depend on technical and political decisions about what projects and programs that the City thinks are beneficial (on net) and what it thinks tax- and fee-payers will be willing to pay to fund those projects and programs. We expect that the ATAC will be making recommendations about strategies and projects in the context of the funding situation, and that the TMS is the place where all the pieces will be reconciled.