SPOKANE REGIONAL LIGHT RAIL PROJECT

REPORT ON FINANCING AND MANAGEMENT OF A LIGHT RAIL SYSTEM FOR SPOKANE, WASHINGTON

Prepared For:
Spokane Transit Authority

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Contents

1.0 Report Purpose

The Spokane Region has the opportunity to invest in a Light Rail system (LRT) that will produce jobs, stimulate new development and dramatically expand transit service. After exhaustive study, the Spokane Transit Authority (STA) Board of Directors determined that a Light Rail Transit System is the best option for Spokane. That conclusion was based upon a detailed analysis of the conceptual design and costs of an LRT system and in comparison to other alternatives.

STA is now exploring the best way to pay for the construction and operation of LRT in Spokane. STA directed David Evans and Associates, Inc. (DEA) as the General Management and Engineering Consultant for the project to develop a Finance Plan for the preferred alternative. Because of the importance of this plan, DEA created a Project Team that included the best talent available to develop a financial strategy. The team includes:

David Knowles, DEA
Roy Koegen and Jason Whiteley, Koegen Edwards LLP
Peter Fortin, former City of Spokane Finance Director
Bill Starkey, Seattle-Northwest Securities Corporation
Michelle Giguere, Ball Janik LLC

This report describes the options available for funding the project and suggests a specific funding scenario to illustrate how the project could be financed. The report also includes information on how other transit agencies have funded and managed their systems.

2.0 Transit in Spokane

STA is the region's provider of transit services. STA operates within an area encompassing approximately 370.8 square miles of Spokane County which includes approximately 368,265 residents or 88.1 percent of the county population. STA provides a variety of transportation services, including fixed route, paratransit and rideshare services. The fixed-route fleet is comprised of 135 vehicles (125 buses; 3 streetcar replicas and 7 vans).

STA is a Public Transportation Benefit Area, authorized by state law to provide transit service within its boundaries. The boundaries roughly correspond to the urbanized portions of Spokane County including the Cities of Spokane, Spokane Valley and Liberty Lake. The STA is governed by a nine member Board of Directors comprised of elected officials from Spokane County and the cities within the service area.

Public Transportation Benefit Areas are authorized to impose a sales tax of up to .9% for operations and capital investment. Currently, STA is funded through a .6% sales tax which yields approximately $6.8 Million annually.

3.0 Light Rail in Spokane

3.1 Project History

The Spokane region has been exploring options for High Capacity Transit for over 30 years. The region is projected to experience sustained population and employment growth. The region's leaders recognize that a balanced transportation system will be needed to serve this growing population and to promote a compact, cost effective development pattern well into the future.

In 2000, the Spokane Regional Transportation Council (SRTC) and STA agreed to the joint development of the HCT project, thereby initiating the South Valley Corridor Project.

3.2 South Valley Corridor Study Purpose

Despite aggressive development of a traditional road network, the Spokane region has experienced a 300 percent increase in measured traffic congestion since 1990 with an estimated annual cost of $32 million. The economic region of Spokane and Kootenai Counties is expected to grow by at least 35% by 2025.

The question facing the region is not whether to grow, but how. There is widespread understanding among local leaders that a more compact development pattern will reduce the need for new roads and other expensive public services. There is also agreement that cities need strong centers. The new City of Spokane Valley is currently planning for a mixed use downtown that can serve as its business and civic center. The City of Spokane has worked aggressively to maintain the strength of its downtown.

Light rail would support these policy initiatives by stimulating development around station areas and providing more alternatives to the automobile as the primary means of transportation.

Accordingly, the South Valley Corridor Project has four purposes:

- Help implement the Spokane region's strategy to promote and encourage mixed and transit oriented land uses.
- Provide additional transportation mode choice in the South Valley Corridor to create an integrated balanced transportation system.
- Link important activity centers in the Spokane region to enhance regional mobility for the growing population and labor force by taking advantage of the available publicly owned former railroad right-of-way, which lies along the South Valley Corridor.
- Use integrated regional transportation planning as a catalyst for growth management and economic development. The issues are time-sensitive and need attention in the near term in order to respond proactively to growing regional populations and dynamic market forces.

3.3 Alternatives Evaluated

There were four basic alternatives developed for detailed consideration during the study process:

No Build Alternative: This baseline case helps define how the existing transportation system would operate to provide a comparison with the proposed alternatives.

Separate Track Light Rail Alternative: This alternative would provide a two track system between downtown Spokane and Liberty Lake using electric light rail vehicles. It is the most expensive of the alternatives studied with a cost of over $600 million.

Shared Track LRT Alternative: This would provide service using a single track, with passing tracks at select locations. The LRT vehicles would "share" the Union Pacific Railroad tracks between Fancher Road and Argonne Road. The shared track alternative would use Diesel Multiple Units or DMUs. A lower cost design option of this alternative is referred to as the "Single Track Design Option". It would lower costs by relying on single-unit diesel light rail vehicles, shorter passing tracks and scaled back park and ride facilities. This is the least expensive LRT alternative and the option designated as the preferred option by the Project Steering Committee.

Bus Rapid Transit Alternatives: The study evaluated several variations of Bus Rapid Transit (BRT). The basic BRT option would provide premium, enhanced bus service between downtown Spokane and STA's Liberty Lake Park and Ride facility. BRT would operate on existing roadways with enhancements to stations and terminal facilities. This is the least cost alternative.

4.0 Construction and Operations Costs

4.1 Construction

The Preferred Alternative—the Shared Track LRT Alternative-- has a construction cost of $263 million in 2006 dollars. This estimate is based upon the recently completed project risk analysis. This is less than the $300 million (2006 dollars) maximum project cost that was established by the Steering Committee.

Like all major construction projects, the Preferred Alternative will take several years to complete. Environmental Analysis, final engineering, right-of-way acquisition and construction will stretch over 8 years with opening day in 2014. This has two consequences that affect project financing. First, project costs are not incurred in a single year. They are spread over the full 8 years of the project. Payments from the financing source will not be required all at once, but in increments through the construction period.

The second consequence of a multi-year construction period is that the total cost of the project will increase, when costs are adjusted for inflation and re-calculated in the year of expenditure. The cost of the project, in year of expenditure dollars is estimated to be $381 million. This assumes a project start in 2007. See Figure 1.

Figure 1

Spokane Light Rail Cash Flow: Requirements & Resources									
Note: All data is in millions of year of expenditure (YOE) dollars.									
Year:	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**TOTAL**
Capital Costs:	**8**	**22**	**22**	**46**	**60**	**101**	**110**	**12**	**381**

The total project cost and the cash flow schedule will be important components of the overall financing for light rail. Expenditures that are spread over a number of years permit borrowing to occur in increments so that the borrowers maximum debt occurs for a shorter period of time. However, the total project cost (and total debt) are higher than it would be if the project could be built in a single year. In preparing a Finance Plan for the project, it will be important to consider all of the variables—the issuing jurisdiction's debt limits, interest rates, inflation rates, bonding terms and reliability of revenue sources.

4.2 Operations

The annual operation cost for the Preferred Alternative is estimated to be $6.5 million in 2006 dollars or $9.3 million in 2014. This operating cost estimate includes vehicle operators, fuel costs, maintenance and other similar operating components.

5.0 Funding Options

The majority of light rail systems that have been developed over the last 20 years have received Federal Transit Administration (FTA) grants in the range of 50% to 90% of total capital cost. FTA's current funding program is the New Starts program providing up to 60% of the cost of a qualifying project. The competition for these funds is intense and most program grants go to regions with substantial congestion. Moreover, the FTA does not give much weight to the impacts an LRT system can have on economic development and community livability which are significant benefits that LRT would produce in Spokane. Jurisdictions that receive funds often find that FTA's procedures are so cumbersome that there are few opportunities to save money through innovation and entrepreneurship. For those reasons, the Steering Committee has concluded that obtaining a large percentage of funding from FTA is unlikely and might not be cost effective.

Instead the Steering Committee has focused on developing a funding package with the following characteristics:

- Maximum local control
- Diversified funding sources that include local governments and the state of Washington
- Participation from property owners and business that have the most to gain from the construction of light rail.
- Additional sources of revenue beyond those currently being used to fund transit.

5.1 Local Funding Options Available

The Project Team undertook a thorough evaluation of all potential local funding sources. By intention, this initial analysis set aside issues related to ownership and management of the system. Utilizing some of these sources would require that an agency other than STA undertake operation of the light rail project. Some of the funding options may not be viable politically, but are included here for completeness. Figure 2 is a summary of all available sources as well as the statutory authority, projected annual revenue and amounts available [Not sure what "amounts available" is referring to?] associated with each source. (A detailed explanation of each funding source is included in the memorandum prepared by Koegen Edwards, LLP which is included in Appendix 1).

The evaluation included both the potential authority for collecting revenue, the source and the amount. Some sources, especially the sales tax, are available through multiple taxing authorities.

Public Transportation Benefit Areas

Public Transportation Benefit Areas (PTBA) are created by a city or county or combination thereof to provide public transportation services. STA is a PTBA. Under state law, a PTBA is authorized to design, construct and operate "transportation facilities." The governing body of a PTBA is comprised of representatives of the cities and counties within its jurisdiction.

Most PTBAs support their capital and operations requirements through a sales tax. In lieu of a sales tax, a PTBA has authority to levy an excise tax of $1 per month per housing unit and a business and occupation tax. All taxes require approval of a majority vote of qualified electors.

STA currently relies on a .6% sales tax. An additional .3% tax could be levied with a majority vote of STA qualified electors.

PTBAs are authorized to issue bonds and pledge revenues for their repayment. Non-voted general obligation bonds could be issued up to a maximum of .375% of assessed value within such district. Debt up to 1.25% of assessed value can be issued with a vote of 60% of district voters provided the total voters in the election exceeds 40 percent of the total voters in the last election. As applied to STA, these limitations mean that STA can issue up to $82 million without voter approval and up to $275 million with voter approval.

Transportation Benefit Districts

Transportation Benefit Districts (TBD) may be formed by a county or city either alone or in partnership with another local government. The TBD is an independent taxing authority which, in cases where the TBD is formed by more than one jurisdiction, is governed by interlocal agreement.

Upon voter approval, a TBD is authorized to impose the following taxes:

- A .2% sales tax for a maximum period of 10 years.
- An annual vehicle fee of up to $100 per vehicle.
- A development impact fee.
- Vehicle tolls on highways, streets and roads within the TBD.

A TBD may levy property taxes with a vote of 60% of district voters provided the total voters in the election exceeds 40 percent of the total voters in the last election. A TBD may also form local improvement districts to levy special assessments on properties specifically benefited by the TBD's transportation improvements. No vote is required for the formation of a local improvement district, though public hearings are required and property owners can petition the governing body to halt the formation.

TBDs are authorized to issue bonds and pledge revenues for repayment. Non-voter general obligation bonds may be issued up to a maximum of 1.5% of assessed value and voter approved bonds up to a maximum of 5% of assessed value. Assuming that the boundaries of the TBD are the same as STA's current boundaries, the maximum debt possible for a TBD would be $327 million for non-voted debt and $1.1billion for voted debt.

Cities and Counties [I would leave out any discussion of County Public Transportation Authorities or Metropolitan Municipal Corporations because they have no power to tax so long as STA continues to tax.]

Cities and counties have authority to design, construct and operate transportation facilities, including high-capacity transit systems. In addition to their general taxing power, cities and counties may raise revenue for transit purposes through a number of different transit-related sources including fuel taxes, commercial parking taxes, impact fees on new development and with limitations, tax increment financing. Cities and counties may incur non-voted debt up to a maximum of 1.5% of assessed value and voter-approved debt up to a maximum of 2.5% of assessed value.

Interlocal Cooperation

Under Washington's Interlocal Cooperation Act, two or more public agencies may work together to construct and operate a light rail system so long as each participating agency is authorized to construct such a system on its own. Such inter-agency cooperation presents a number of possibilities with respect to constructing, financing and operating a light rail system in Spokane. As an example, STA could work together with a TBD formed by Spokane County and the cities of Spokane, Spokane Valley and Liberty Lake to jointly finance, construct and operate a light rail system. Such an arrangement could combine STA's .9% high-capacity transit taxing authority with a TBD's higher non-voted debt capacity.

Supplemental Authority for High Capacity Transportation Systems

State law authorizes "transit agencies" to establish high capacity transportation service and provides for special taxing authority for those systems. The term "transit agencies" includes city-owned transit systems, county transportation authorities and PTBAssuch as STA. High Capacity Transit Systems are authorized to levy three different taxes, all of which must be authorized by voters. They are an employer tax of $2 per employee per month; a car rental sales tax of up to 2.172%; and a sales tax of up to .9%. The sales tax is in addition to the .9% authority available to PTBAs. [I would move this section to the place just after PTBAs (or even incorporate into PTBA) since STA is the entitythat would impose the tax and issue the debt.]

5.1.1 Most Feasible Options

The Project Team believes there are two funding options that deserve further evaluation. The first is a PTBA—STA. STA is the current provider of transit services in the region and therefore has institutional experience with transit. STA is governed by a Board of Directors from the constituent cities which ensures a variety of interests are represented. It also has existing authority under state law to ask for up to 0.9% in sales tax for operations and capital purposes (it currently assesses 0.6%) and an additional 0.9% sales tax under the High Capacity Transportation Systems Statute. One limitation of a PTBA, however, is its relatively low non-voted debt capacity of $82 million. Any debt in excess of $82 million would require a vote of 60% of district voters provided the total voters in the election exceeds 40 percent of the total voters in the last election (in addition to the majority vote required to increase the tax).

The second option is a Transportation Benefit District (TBD). A TBD has a higher debt limit—up to $1.1 billion—but a much lower sales tax limit. The sales tax authority is currently set at 0.2% with a maximum assessment term of 10 years. However, a TBD can impose a property tax. In addition, one of the benefits of a TBD is that it can create a local improvement district, a useful financing tool in some situations. A TBD is formed by the action of a county, city or combination thereof and is an independent taxing entity. In cases where the TBD is formed by more than one jurisdiction, it is governed by interlocal agreement.

As the Project moves forward, an important implementation item will be to consider the pros and cons of each of these funding authorities and whether the strengths of the different options can be combined in a single, interlocal solution. Some of the considerations will be technical; other considerations will be based on community opinion and the views of the cities and County.

5.1.2 Revenue Potential

Each of the available revenue sources was evaluated to determine revenue potential. The focus of the analysis was on the capacity of the source to support the capital costs of the project. The assumptions underlying this analysis are:

- STA's current bus operations continue to be supported through a 0.6% sales tax.
- The total capital cost to be financed is $263 million in 2006 dollars or $381 million in year of expenditure dollars.
- The calculation of supported capital cost of each source assumes phased debt issues.

Figure 2 summarizes the results of the analysis.

Figure 2

SPOKANE LIGHT RAIL CAPITAL FUNDING OPTIONS

FORM	LIGHT RAIL AUTHORITY	REVENUE SOURCE	VOTE REQUIRED TO UTILIZE REVENUE SOURCE	ESTIMATED ANNUAL REVENUE (2007)	SUPPORTED CAPITAL COST	NON-VOTED DEBT CAPACITY	VOTED DEBIT CAPACITY (Maximum Limit Includes Non-Voted Debt)
All options assume that sales tax funding for bus operations continues at .6%.							
STA/PTBA/High Capacity Transit System (Includes tax authority under RCW 81.104, High Capacity Transit System)	RCW 36.57A.080 & 35.58.2721 & RCW 81.104	.9 % sales tax (.6% already imposed)	Majority Vote to impose tax. Separate super majority to approve debt.	$13.6 M (based upon a .2% sales tax)	$250 M	0.375% / $82 M	1.25% / $275M
		$2 per month per employee*	Majority Vote	$4.3M (Estimate based upon non-government employment of 180,000)	$79M		
		2.172% car rental tax*	Majority Vote	$.5 M	$9M		
		Additional .9 percent sales tax*	Majority Vote	$6.8 M per 0.1%	Approx. $125M per .1%		

SPOKANE LIGHT RAIL CAPITAL FUNDING OPTIONS							
FORM	**LIGHT RAIL AUTHORITY**	**REVENUE SOURCE**	**VOTE REQUIRED TO UTILIZE REVENUE SOURCE**	**ESTIMATED ANNUAL REVENUE (2007)**	**SUPPORTED CAPITAL COST**	**NON-VOTED DEBT CAPACITY**	**VOTED DEBIT CAPACITY (Maximum Limit Includes Non-Voted Debt)**
Transportation Benefit District (formed by Board of County Commissioners)	RCW 36.73.015	.2 % sales tax (assumes current maximum of 10 years can be extended)	Majority Vote	$13.6M (TBD estimates assume same boundaries as STA.)	$250M	1.5% / $327 M	5%/ $1.1B
		$100 per vehicle per year	Majority Vote	$4.3 M (Estimate based on 438,000 vehicles in Spokane County @ $10/vehicle)	$79M		
		Impact Fee	Majority Vote	TBD (Amount of fee must be "reasonably related" to impact of development)		1.5% / $327 M	5%/ $1.1B
		Vehicle Tolls	Majority Vote	TBD			
		Property Taxes	Supermajority Vote	TBD			
		Local Improvement District	No vote	NA	$10M (Based upon a 1% assessment on assessed value within all LIDs of $1 Billion)		

SPOKANE LIGHT RAIL CAPITAL FUNDING OPTIONS							
FORM	**LIGHT RAIL AUTHORITY**	**REVENUE SOURCE**	**VOTE REQUIRED TO UTILIZE REVENUE SOURCE**	**ESTIMATED ANNUAL REVENUE (2007)**	**SUPPORTED CAPITAL COST**	**NON-VOTED DEBT CAPACITY**	**VOTED DEBIT CAPACITY (Maximum Limit Includes Non-Voted Debt)**
Port District (formed by majority vote)	Rail transfer and terminal facilities. RCW 53.08.020	Property tax of up to $0.45 per $1,000	No vote	$12 M	$220M	.25% / $65 M	.75% / 196 M
County	RCW 82.80.010(8) & 82.80.070	Fuel tax up to ten percent of the state fuel tax (approx. $.03 in 2006)	Majority Vote	$8.2 M	$150M	[This number is available and could be helpful to some sort of interlocal arrangement]N/A	[Same comment]N/A
County or City		Commercial Parking Tax and Parking Meter Surcharges	No vote	$ .5M (Based upon $5 per space per month on 7300 off street parking spaces in downtown and 5% increase in meter rates)	$9.0 M	N/A	N/A
		Impact Fees	No Vote	TBD			
		Tax Increment Financing **	No Vote	TBD			

SPOKANE LIGHT RAIL CAPITAL FUNDING OPTIONS							
FORM	**LIGHT RAIL AUTHORITY**	**REVENUE SOURCE**	**VOTE REQUIRED TO UTILIZE REVENUE SOURCE**	**ESTIMATED ANNUAL REVENUE (2007)**	**SUPPORTED CAPITAL COST**	**NON-VOTED DEBT CAPACITY**	**VOTED DEBIT CAPACITY (Maximum Limit Includes Non-Voted Debt)**
City		Local Improvement District	No Vote	N/A	$10M (Based upon a 1% assessment on assessed value within all LIDs of $1 Billion)	N/A	N/A

● * **These taxes may be imposed by STA, a city, a county transportation authority or a metropolitan municipal corporation.**

● ** **Tax increment financing may only be used for parking, terminal and park and ride facilities.**

5.2 Federal Funding Sources

The Steering Committee has concluded that Spokane Light Rail will not likely seek Federal Transit Agency New Starts Funding. However, there are two other sources of federal funds that are available and should be included in the overall funding package.

5.2.1 Section 5307 Formula Funds

FTA allocates these funds to the urbanized regions of the country based upon a mandated formula that focuses primarily on population. Within the Spokane region, the Spokane Regional Transportation Council (SRTC) allocates the 5307 program funds. It receives approximately $6.0 million annually, all of which is presently allocated to STA. These funds can be used for a variety of purposes including vehicle replacement, capital projects and preventive maintenance. STA uses these funds for preventive maintenance activities. Capital funding can be achieved through a bonding instrument called a Grant Anticipation Revenue Vehicle (GARVEE) bond. When applied to items like preventative maintenance, Section 5307 funds can effectively substitute for local funds that can then be used for other purposes such as operations support that are ineligible under the Section 5307 program.

5.2.2 Congressional Authorizations and Appropriations

Congress reauthorizes the existing statutory authority for funding highway and transit programs every 5 to 6 years. The current version of this law is SAFETEA-LU (Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users). The authorization process provides an important opportunity to secure project funding through policy changes to project eligibility; special "carve-outs" of existing programs and addition of funds into a program for a specific project.

Congress also adopts annual appropriations bills and these too provide an opportunity for project funding. The process for getting a direct appropriation for a project is complicated, competitive and political. In order to work effectively with the Congressional delegation, it is important to be aware of the Congressional schedule. The House and Senate Committees have adopted deadlines for the submission of appropriations requests by members. The members of the Washington Congressional delegation need to be informed of funding requests from their constituents well in advance of those deadlines.

The Congressional appropriations process can help the region tap into a number of federal programs that can be used to fund components of the light rail system. For example, Congress regularly "earmarks" funding for economic development projects. Because LRT can be an economic development tool, it is possible for one of the component costs, such as a light rail station serving an area with the potential for high employment.

The opportunity for federal funding will be greatly enhanced by a demonstration of general community support for the project and specific support from the business community, civic groups and elected officials.

Additional information on Congressional Authorizations and Appropriations can be found in the Memorandum from Michelle Giguere, Ball Janik , LLC, in Appendix 1.

6.0 Financing Alternatives

The fundamental question presented to the Project Team was this: Is it reasonable to believe that an acceptable financing plan can eventually be developed for the construction and operation of LRT. The Project Team determined that the answer to that question was "yes" and developed a model financing plan to illustrate its conclusion.

6.1 Criteria for a Decision

The Steering Committee has previously concluded that the financial plan should have the following characteristics:

- Maximum local control.
- Diversified funding sources that include the cities along the alignment and the state of Washington.
- Participation from property owners and businesses that have the most to gain from the construction of light rail lines.
- Use of additional sources of revenue beyond those currently being used to fund transit.

There are two other criteria that STA should consider in making its decision on a financial plan. The first is that a major portion of the funding should come from a single reliable source. The project will be financed through borrowing. A large reliable source of funding will reduce risk and borrowing costs

The second criteria is that the funding sources must be viewed by the public as balanced and fair. A financing plan that is viewed this way is a matter of judgment for the decision makers. There isn't a formula for creating the perception of balance and fairness. Taxing business and property owners who directly benefit will be part of convincing the public that the financing plan is fair. Re-allocating existing resources would be another signal [What does this sentence mean?]. Being creative in the identification of revenue sources would demonstrate "out of the box" thinking that could reinforce positive perceptions.

6.2 Illustrative Capital Finance Plan

The Finance Plan developed by the Project Team relies upon 9 separate funding sources. In developing this plan, the primary considerations were the Steering Committee Criteria, the adequacy of the funding source, the timing of its availability during the construction period and the likelihood for community support. The plan does not address which entity would impose the required taxes. In all likelihood the combined action of a number of jurisdictions would be needed. The preparation of a Finance Plan at this stage of project development is more art than science. There is no formula for the type and amount of funding; the Project Team used its best judgment to create a plan that was reasonable and achievable, based upon today's circumstances. Voter approval would be required for several of the funding sources, so future communications with the public about the project could lead to changes in the funding sources and amounts.

The capital requirement for the preferred alternative is $263 million in 2006 dollars. As shown in Figure 1, this converts to $381 million in year of expenditure dollars. Therefore the Finance Plan must be adequate to fund the capital cost of the project as well as provide a positive cash flow in each year of project development.

Figure 3 summarizes the Illustrative Finance Plan. Figure 4 provides detail on the allocation of revenues during project design and construction from 2007 to 2014. The sources and amounts are as follows:

Sales Tax: The majority of funding would be derived from a sales tax of 0.2%. This would generate adequate funding for $195 million in bonds and $65 million in direct cash contributions.

Section 5307 Formula Funds: This is the next most significant component with $31 million in GARVEE bonds and $36.8 million in direct cash contribution.

STA Savings: STA is currently experiencing greater revenue collection than is necessary to operate its current system. Some of this money is accumulating and could be used to support the project in the early years of development.

Tax Increment Financing: This is a tool that is relied upon in other states. Washington State has not had this tool available, but recent legislative changes have opened the door to its use in limited circumstances. A contribution of $10 million is assumed at the end of construction to provide time for the legislature and local governments to make the program available and workable.

Local Improvement District: The investment in LRT and LRT stations will create development opportunities and enhance property values for adjacent property owners. A local improvement district is a mechanism for benefited property owners to support a portion of the cost of the capital investment. The Project Team assumed a $10 million contribution based upon an analysis of each station area's potential benefits.

Other Federal Funds: The Spokane region is well positioned for additional support from its Congressional Delegation for this project. The Team assumed that a total of $18 million was reasonably achievable over the 7 year construction period.

Figure 3

Spokane Light Rail Capital Requirements & Resources	
Note: All data is in millions of year of expenditure (YOE) dollars.	
REQUIREMENTS	
Capital Costs	**381**
RESOURCES	
STA Savings	**10**
Sales Tax @0.2%	
Cash in Excess of Debt Service	**64.8**
Bond Receipts	**195.4**
Tax Increment Financing	**10**
Local Improvement Districts	**10**
FTA 5307 Funds or Equivalent	
Cash in Excess of Debt Service	**36.8**
Garvee Bonds	**31**
Interest Earnings on Annual Cash Balances	**5**
Other Federal Funds	**18**
Total Resources	**381**

Figure 4

Spokane Light Rail
Cash Flow: Requirements & Resources
Note: All data is in millions of year of expenditure (YOE) dollars.

Year:	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	TOTAL
RESOURCES													
STA Savings	2	3	5										10
Sales Tax @0.2%			13.6	13.6	13.6	13.6	13.6	13.6					
+ Sales Tax Growth			1.7	2.3	2.9	3.6	4.3	5.0					
-Debt Service					5.8	3.7	13.6	13.6					
Net Sales Tax Cash			15.3	15.9	10.7	13.5	4.3	5.1					64.8
Bond Receipts*				66.0		129.4							195.4
Tax Increment Financing							10.0						10.0
Local Improvement Districts							10.0						10.0
FTA 5307 Funds	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0					
-Debt Service		0.7	1.2	1.2	1.2	1.2	2.7	3.0					
Net 5307 Cash	6.0	5.3	4.8	4.8	4.8	4.8	3.3	3.0					36.8
GARVEE Bonds**		22.0					9.0						31.0
Interest Earnings on Cash Balance				1.0	1.0	1.0	2.0						5.0
Other Federal Funds			1.0	2.0	5.0	5.0	3.0	2.0					18.0
TOTAL RESOURCES													381.0
REQUIREMENTS													
Capital Costs	8.3	29.7	21.7	38.9	69.8	99.4	103.1	10.1					381.0

**Sales Tax Bonds: Two issuances of 30 year bonds at average interest rate of 5.7%. Semi-annual payments.*
***5307 Bonds: Two issuances of 15 year bonds at an average interest rate of 5.5%. Semi-annual payments.*

6.3 Illustrative Operations Finance Plan

Figure 5 summarizes the operating requirements and sources in year of expenditure dollars. The operating requirement is estimated to be $9.3 million in year 2014. This amount would be supported by farebox revenue, sales tax revenues and STA revenues that become available at the conclusion of construction.

Figure 5

Spokane Light Rail Operational Requirements & Resources	
Note: All data is in millions of year of expenditure (YOE) dollars.	
Operational Requirements	9.3
RESOURCES	
Farebox	1.8
Sales Tax	5.0
Other	2.5
TOTAL	9.3

7.0 Funding and Operation of Rail Systems in other Cities

7.1 Purpose of looking at other systems

Other cities in Washington and across the country are successfully operating bus and rail transit systems. One way to evaluate the funding and operation of a new LRT system for Spokane is to review the current experiences of other transit agencies. This information may also provide some guidance on which funding options to select.

Transit systems are managed and operated in a multitude of different ways across the United States. The history of the agency and the source of funding often influence the organization and structure. Local values and agency mission also play an important role. This section evaluates the management and operating characteristics of a select group of transit agencies in the western United States. Transit markets were selected that have similarities to the Spokane region. For comparison purposes, the evaluation also includes several agencies from Washington State, many of whom do not currently have light rail systems.

7.2 Cities reviewed

Sixteen agencies were evaluated in ten different locations. The agency's oversight, governance structure and funding sources were identified in a matrix (see Operation and Funding Matrix in Figure 5. The following cities and agencies were reviewed:

City	Agencies
Seattle/Tacoma Washington	Sound Transit Metro; Pierce Transit
Bellingham, Washington	Whatcom Transportation Authority
Bremerton, Washington	Kitsap Transit
Olympia, Washington	Intercity Transit
Portland, Oregon	TriMet
San Jose/Santa Clara County, California	Santa Clara Valley Transportation Authority
North San Diego County, California	North County Transit District
Phoenix, Arizona	Valley Metro/Regional Public Transportation Authority; Valley Metro Rail, Inc
Salt Lake City, Utah	Utah Transit Authority
Denver, Colorado	Regional Transportation District

7.3 Evolution of Transit Management and Operating Structure

Most of the agencies evaluated began with a mission to provide regional transit service to a defined area. For most communities, transit agencies predominantly provided only bus service operations, maintenance and planning. Mandates such as the Americans with Disabilities Act and air quality regulations have expanded transit agency missions over time, adding services such as paratransit, employee vanpooling, and air quality programs.

With the addition of expanded regional transit systems and rail transit in western U.S. cities, operation and management structures have evolved. While most agencies have merely expanded their planning and operations to respond to new regional transit demands, two of the agencies described below have evolved differently:

Sound Transit – Seattle, Washington

Bus service in the Seattle area has been provided for years in individual metro area counties. These include King County's Metro and Pierce Transit in the Tacoma area. While local bus service is still provided in these counties, in the early 1990s, the Washington Legislature authorized King, Pierce and Snohomish counties to create a single agency – the Central Puget Sound Regional Transit Authority (Sound Transit) – to plan, build and operate a high capacity transit system within the region's most heavily travelled corridors.

The law that created Sound Transit also authorized the agency to levy and collect voter-approved local option taxes to pay for building and operating a high capacity transit (HCT) system. These taxes include an employer tax, and a sales and use tax. Sound Transit is not authorized to levy property taxes to help pay for the regional transit system.

Sound Transit is governed by an 18-member Board of Directors. The Board consists of the Secretary of Transportation for the state of Washington and seventeen local elected officials who are appointed by the governing boards of the three metro counties. Each county has one representative per 145,000 population residing within the Sound Transit district. Currently there are ten representatives from King County, four from Pierce County and three from Snohomish County.

Valley Metro and Valley Metro Rail, Inc. – Phoenix, Arizona
The Regional Public Transportation Authority (the Authority) was established in 1985 along with the passage of a one-half of one percent sales tax increase to fund regional highway and public transportation improvements in Maricopa County, Arizona. The Authority was charged with developing a regional transit plan and operating a regional transit system for Maricopa County. In 1993, the Authority's Board of Directors adopted Valley Metro as the identity for the regional transit system. Valley Metro was chosen to give the region's buses a more recognizable identity and to help unify public transit systems in the County. Valley Metro procures regional bus, dial-a-ride and vanpool services; provides regional transit and capital planning support; coordinates the County's transportation demand management activities and provides general operational and administrative support to its members.

The Authority is governed by a twelve-member Board of Directors consisting of a member of the County Board of Supervisors and the mayors of the member municipalities. Any municipality in the County may join the Authority and have one elected official serve on the Board of Directors by committing a portion of its local transportation assistance funds (LTAF). LTAF consist of revenues from the Arizona Lottery.

A new entity for light rail --- In October 2002, the City Councils of Glendale, Mesa Phoenix and Tempe approved the formation of a public nonprofit corporation by the name of Valley Metro Rail, Inc. (VMR). Valley Metro Rail is a non-profit, public corporation overseeing the design, construction and operation of the light rail starter segment, as well as extensions to the project. The four cities currently participating in the light rail system – Phoenix, Tempe, Mesa and Glendale – are members of the Valley Metro Rail Board of Directors.

The Valley Metro Rail Board of Directors establishes procedures for the administration and oversight of the design, construction and operation of light rail, as well as receives and disburses funds and grants from federal, state, local and other funding sources. The Valley Metro Rail board has the power to enter into contracts for light rail design and construction, hire or contract for staff for the light rail project and undertake extensions to the system.

The Board is composed of the mayors of each of the participating cities, who each have three alternates. Board members will have weighted voting to ensure that cities investing more in light rail have a corresponding level of authority. However, no city will be allowed more than 50 percent of the vote. Weighted voting is recalculated annually.

Funding for the light rail project is 50% federal grants (FTA) and 50% local match. The required jurisdictional contribution for local match is determined by the lineal mileage of rail track in each jurisdiction. This rail governance organization structure is unique, offering an option that serves to separate the traditional bus transit services from the more complex rail transit program.

7.4 Governance

A majority of the transit agencies evaluated in this report have governing boards that are composed of elected officials from jurisdictions within the agency's service boundaries. Two agencies have notably different governance structures. TriMet in Portland, Oregon has a governing board composed of citizens from defined geographic areas within the three-county TriMet district. Board members are appointed by Oregon's governor.

Additionally, InterCity Transit in Olympia, Washington is unique for the state of Washington in that it is the only governing board with citizen members. InterCity's board consists of five elected officials and citizen members. InterCity Transit is governed by an eight member Board of Directors. Five of the members are elected officers. The five elected officers choose 3 citizen representatives.

Figure 6

Operation and Funding : Select Transit Agencies in the Western United States

Location	Transit Agency	Oversight	Governance Structure	Funding Source
Seattle/Tacoma, WA	Sound Transit	•Express bus • Light Rail and Commuter Rail, Planning, Operations, and Construction. (in urbanized areas of King, Pierce and Snohomish Counties, Washington)	• Special-purpose metropolitan municipal corporation. • 18-member board consists of the Washington State Secretary of Transportation and seventeen local elected officials. • Each county has one representative per 145,000 people residing within the Sound Transit District.	• Sales Tax • Rental Car tax • Motor Vehicle Excise Tax • Passenger Fares •Capital Grants (Federal) • Operating Grants (Federal)
Seattle, WA	Metro	• Bus • Paratransit • Vanpool • Regional ridematch systems (in King County)	• System is owned and operated by King County. • King County manages the program as a County service.	• Sales Tax • Operating Grants (Federal and State) • Payments from Sound Transit and King County Fleet fund, Road fund, and Airport fund to operate regional bus service in King County • Passenger fares
Tacoma, WA	Pierce Transit	• Fixed route buses • Paratransit • Vanpool services (for urbanized areas of Pierce County)	• Public Benefit Area Corporation, a municipal corporation • Nine-member Board of Directors composed of elected or appointed officials from Tacoma, Pierce County; Lakewood City Council; Puyallup/University Place; and a small city elected representative.	• Sales tax • Payment from Sound Transit to operate regional express bus service in Pierce County • Operating Grants (Federal) • Passenger Fares

Operation and Funding : Select Transit Agencies in the Western United States

Location	Transit Agency	Oversight	Governance Structure	Funding Source
Portland, OR	TriMet	• Bus Operations/Planning • Light Rail Operations/ Planning • Commuter Rail • Paratransit • Carpooling	• Municipal corporation • Governed by seven member Board of Directors, appointed by the State Governor. • Board members represent certain geographic areas within the three-county TriMet district.	• Payroll Tax • Capital Grants (State/Federal) • Operating Grants (State/Federal) • Passenger Fares
San Jose/Santa Clara County, CA	Santa Clara Valley Transportation Authority	• Bus Operations/Planning • Light Rail Operations / Planning • Commuter Rail • Paratransit • Regional congestion and air quality management • Highway projects • Multi-modal transportation planning	• Independent Special District • 12-member board of directors consisting of city and county elected and appointed officials	• Sales Tax • Capital Grants (State/Federal); • Operating Grants (State/Federal) • Passenger Fares
Vancouver BC	Translink / Greater Vancouver Transporation Authority	• Transportation Planning/Funding for all modes of transportation; • Operation of bus, rail, specialized shuttles, and ferry service; • Air Quality Planning and Management	• Created by British Columbia Vancouver Transportation Authority Act (GVTA Act) in 1998. • 15-member board of directors composed of mayors from four geographic areas in the greater Vancouver metro area	• Passenger Fares • Property Tax • Fuel Tax • Hydro Levy • Parking Sales Tax

Operation and Funding : Select Transit Agencies in the Western United States				
Location	**Transit Agency**	**Oversight**	**Governance Structure**	**Funding Source**
North San Diego County, CA	North County Transit District	• Bus service • Paratransit • Vanpool • Light Rail	• Transit district created by state law • Governed by nine-member Board of Directors, composed of elected representatives from incorporated cities and San Diego County within the district boundaries	• General Transportation Sales Tax • Special Sales Tax "Transnet" • Operating Grants (State/Federal) • Capital Grants (State/Federal) • Passenger Fares
Salt Lake City, UT	Utah Transit Authority	• Bus service • Light rail in Salt Lake County • Paratransit • Vanpool • Rideshare • Commuer Rail	• Created by the Utah Public Transit District Act of 1969. • Nine-member Board of Trusteees composed of elected officials from counties and cities located in its service area.	• Local option sales tax. Rate varies from county to county • Operating Grants (State/Federal) • Capital Grants (State/Federal) • Passenger Fares
Bellingham, WA	Whatcom Transportation Authority	• Transportation Planning/Funding for all modes of transportation; • Operation of bus, rail, specialized shuttles, and ferry service; • Air Quality Planning and Management	• Public Benefit Area Corporation, a municipal corporation • Nine-member Board of Directors composed of elected officials from jurisdictions located in its service area	• Sales Tax • Capital Grants (State/Federal); • Operating Grants (State/Federal) • Passenger Fares

Operation and Funding : Select Transit Agencies in the Western United States

Location	Transit Agency	Oversight	Governance Structure	Funding Source
Olympia, WA	Intercity Transit	• Bus • Paratransit • Vanpool Service • Connections to Sound Transit and Pierce Transit service	• Public Benefit Area Corporation, a municipal corporation • Eight-member Board of Directors composed of elected officials from jurisdictions located in its service area and at-large citizen appointments. InterCity Transit is the only transit system in WA with citizen members serving on its governing board.	• Sales Tax • Capital Grants (State/Federal); • Operating Grants (State/Federal) • Passenger Fares
Bremerton, WA	Kitsap Transit	• Bus • Paratransit • Vanpool Service • Worker/Driver subscription bus service • Pedestrian-ony ferry service	• Public Benefit Area Corporation, a municipal corporation • Nine-member Board of Commissioners is composed of elected officials from jurisdictions located in its service area.	• Sales Tax • Capital Grants (State/Federal); • Operating Grants (State/Federal) • Passenger Fares

Operation and Funding : Select Transit Agencies in the Western United States				
Location	**Transit Agency**	**Oversight**	**Governance Structure**	**Funding Source**
Phoenix, AZ	Valley Metro Rail, Inc.	● Oversight over design, construction and operation of the light rail starter segment and future extensions. ● Operations and maintenance of future light rail lines will be managed by private contractors.	● Non-profit, public corporation representing the four cities currently participating in the Phoenix area light rail system. ● Board of Directors is composed of the four mayors of each participating city. Board members have weighted voting to ensure that cities investing more in light rail have a corresponding level of authority.	● Current funding source for light rail construction is 50% Federal Grants (FTA) and 50% from participating cities. ● Proportionate share of the city contribution is determined by the number of track miles in each city. ● Local funding sources are Local Transportation Assistance Funds (proceeds of the Arizona Lottery) and sales tax.
	Regional Public Transportation Authority	● Bus Operations / Planning ● Shuttle Circulator System ● Vanpool program ● Regional rideshare program ● Clean air campaign	● A political subdivision of the State of Arizona ● Board of Directors composed of elected officials from jurisdictions members and one Mairocopa County supervisor.	● Local transportation assistance funds (proceeds from Arizona Lottery designated for public transit) ● Operating Grants (State/Federal) ● Capital Grants (State/Federal) ● Passenger fares ● Parking Sales Tax

7.5 Options Available for LRT Operations in Spokane

State law authorizes numerous governmental entities to operate transit systems, including high capacity transit systems.

Public Transportation Benefit Areas: A Public Transportation Benefit Area (PTBA) is an independent government unit with taxing authority that is formed by one or more local governments to provide transit service within a defined district. The governing body of a PTBA is comprised of elected officials of the local governments within the PTBA boundaries. Spokane Transit Authority is a PTBA.

Transportation Benefit District: A Transportation Benefit District is established by one or more cities or counties "for the purpose of acquiring, constructing, improving, providing and funding a transportation improvement within the district…." RCW 36.73.020. In 2005, the State Legislature expanded the definition of transportation improvement to include high capacity transportation. A TBD is an independent taxing entity which, in cases where the TBD is formed by more than one jurisdiction, is governed by interlocal agreement.

Cities and Counties: Cities and Counties have general authority to provide transportation services, including high capacity transit. Through inter-local agreement, a unit of local government could provide transit services outside of its jurisdiction.

These governmental entities can provide the services directly, or they could contract with another government or with a private for profit or non-profit organization. The contracting government's taxing authority would be needed to raise capital and operating funds, but the actual management and operation could be conducted by a private organization under contract. Portland Streetcar Inc. is an example of a non-profit group that builds and operates light rail under a contract with the City of Portland.

8.0 Implementation

Light rail projects require patience and persistence. These projects are complicated, require a major community investment and take many years to plan and build. At any given point in the development process, it isn't always possible to know exactly how to get the job done. Like a picture puzzle, all the pieces are there; the challenge is getting them all to fit together.

One of the pieces of that puzzle is paying for the construction and operation of the system. The finance plan set forth in this report illustrates the combination of resources that is reasonably achievable, given what we know today about the project and the authorized financial resources. This plan can be and should be refined as the project moves forward.

STA's primary objective at this point is to create a strong foundation for financing the project. The following actions are recommended to accomplish that objective:

Community Support: STA must continue and, if possible, accelerate its community outreach program. In particular, it is important to communicate with the Spokane Business Community about the benefits of light rail both to their businesses and the community at large. In other communities, the support of the business community has been essential for a successful financial strategy.

Build Case for Development Benefits: A local improvement district and or tax increment financing may be a part of the financing strategy. In other communities light rail systems have helped raise property values and stimulate development near station areas. Spokane does not have this experience. In addition, tax increment financing and local improvement districts are not widely used financial tools. Together these circumstances suggest that businesses will need to be educated about how they will directly benefit from the project. Otherwise there is a danger that they will not support the use of these two financial tools when the need arises.

State Legislative Changes: Some of the financial tools suggested in this report will require modest legislative changes in order to be usable for this project. For example, Tax Benefit Districts are currently limited to 10 years on the length of a sales tax. This is too short a time to be able to use it effectively for project financing. STA should work with its attorneys and state legislators to develop a proposal for necessary changes in advance of the time that funding needs to be in place.

Congressional Support: Developing support for the project must also include the Washington State Congressional Delegation. Congressional authorizations and appropriations can provide financial resources for the project. Getting these resources requires careful and persistent work with the delegation and the community. The state's Congressman and Senators will want to know that there is support from elected officials, the business community and citizen groups. They will also want to know that there is a viable financial plan in place. It is not too early to start communicating with the delegation about the project and keeping them continuously informed of the progress being made by STA.

Appendices

1 Ball Janik Memorandum (dated June 30, 2006)

2 Koegen Edwards Memorandum (dated June 27, 2006)