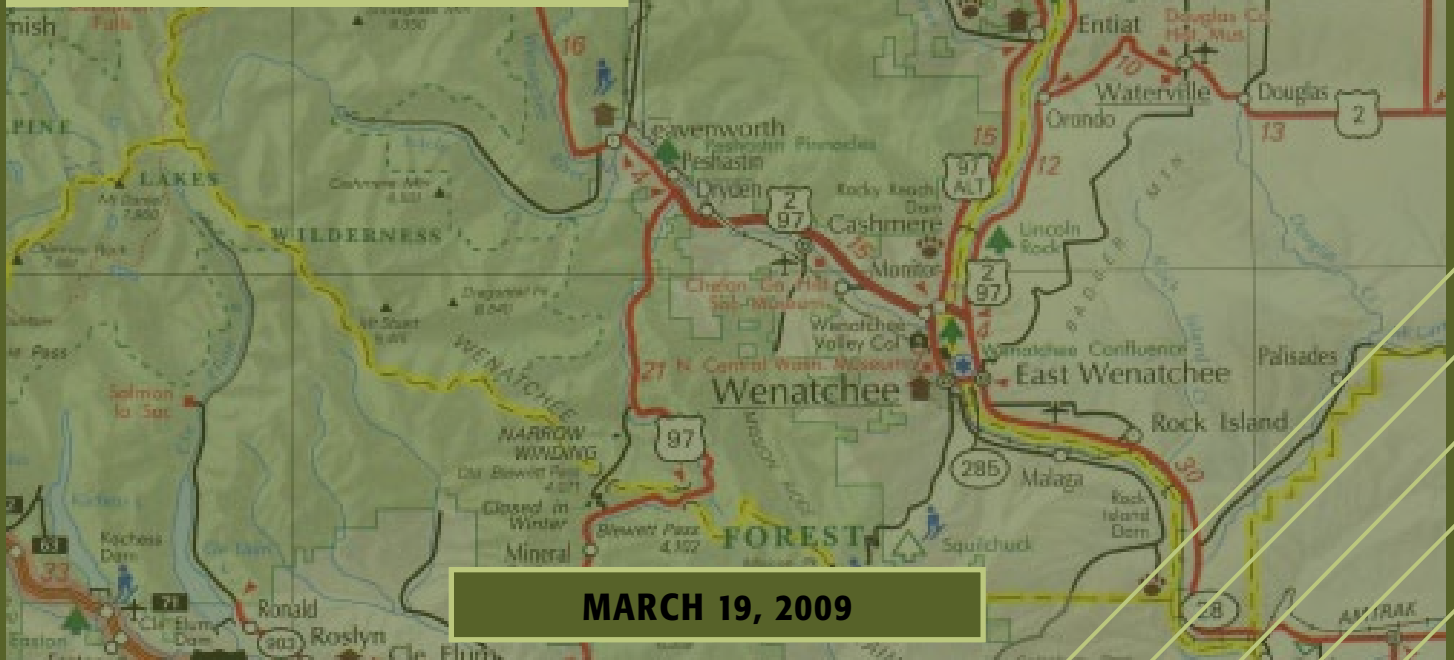




CHELAN COUNTY TRANSPORTATION FUNDING REPORT



MARCH 19, 2009



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CHELAN COUNTY TRANSPORTATION FUNDING REPORT

Executive Summary

PROJECT PURPOSE AND APPROACH

The purpose of this analysis is to examine Chelan County's funding situation as it seeks to build, replace, and maintain its transportation system. The County's significant growth has impacted the transportation needs in the County and made necessary an update of the County's Transportation Element. This update and the funding strategies will address the project areas of maintenance, administration, and facilities construction while incorporating the County's transportation funding goals as identified in Stakeholder and community meetings:

- Reserve regional funding sources for the preservation, maintenance, and operation of existing County-wide transportation facilities
- Direct funding sources to specific projects (or categories of projects) that best relate the costs of those projects to their primary beneficiaries
- Require new development to pay its fair share of expanding/upgrading transportation facilities in the County

In order to determine available funding for transportation expenditures, this analysis examines current County revenues and past trends in County transportation expenditures to estimate future funding needs. The Report then outlines potential strategies for increasing County funding and assesses each option's revenue impact and feasibility.

CURRENT COUNTY FUNDING

There are six main sources of revenues available for transportation projects in Chelan County: property tax; real estate excise tax (REET); local funding, such as permit fees; state fuel tax; state funds, primarily grants; and federal funds. **Exhibit ES-1** shows the Baseline revenue projections for each source over the 20-year study period. Each source is shown to decline in real terms due to the rate of inflation, with a total projected revenue of approximately \$171 million.

Exhibit ES-1: Chelan County Baseline Transportation Revenue Summary – 2008\$

Baseline	Total 2008-2012	Total 2013-2017	Total 2018-2022	Total 2023-2027	Total 2008-2027
Estimated Future Revenues					
Property Tax	\$ 27,259,254	\$ 25,034,259	\$ 22,145,149	\$ 19,589,460	\$ 94,028,121
REET	\$ 1,869,232	\$ 1,573,843	\$ 1,325,134	\$ 1,115,727	\$ 5,883,935
Other Local Fundi	\$ 384,359	\$ 414,064	\$ 446,064	\$ 480,538	\$ 1,725,026
State Fuel Tax	\$ 11,852,481	\$ 10,750,725	\$ 9,751,383	\$ 8,844,935	\$ 41,199,524
State Funds	\$ 2,782,071	\$ 2,523,461	\$ 2,288,891	\$ 2,076,125	\$ 9,670,547
Federal Funds	\$ 8,624,408	\$ 3,673,661	\$ 3,332,173	\$ 3,022,428	\$ 18,652,671
Total Estimated Available F	\$ 52,771,805	\$ 43,970,013	\$ 39,288,793	\$ 35,129,214	\$ 171,159,825

Source: Berk & Associates, 2008

Note: numbers may not add to total due to rounding

Exhibit ES-2 shows the projected transportation maintenance costs over the 20-year study period. Total costs are expected to be approximately \$187 million. Some funds are not available for maintenance expenses, including most grant funds, REET funds, and matching funds for grants. This leaves \$131 million available for maintenance compared to an estimated cost of \$187 million for the

Chelan County Transportation Funding Report
Executive Summary

study period, resulting in an estimated \$56 million shortfall to cover maintenance costs. This also leaves only \$40 million available for capital projects, and those dollars are heavily dependent upon grant awards (**Exhibit ES-3**).

Exhibit ES-2: Chelan County Transportation Maintenance Cost Projections – 2008\$

Chelan Co - Trend	Total 2008-2012	Total 2013-2017	Total 2018-2022	Total 2023-2027	Total 2008-2027
Estimated Maintenance & Operations Expenditures					
Maintenance	\$ 31,238,954	\$ 34,543,110	\$ 38,158,826	\$ 42,153,008	\$ 146,093,898
Administration	\$ 7,036,099	\$ 7,953,199	\$ 8,989,836	\$ 10,161,590	\$ 34,140,724
Facilities Construction & Maintenance	\$ 1,278,221	\$ 1,597,873	\$ 1,757,277	\$ 1,932,583	\$ 6,565,953
Total Estimated Costs	\$ 38,275,052	\$ 42,496,309	\$ 47,148,662	\$ 52,314,599	\$ 186,800,575

Source: Berk & Associates, 2008

Note: numbers may not add to total due to rounding

Exhibit ES-3: Estimated Shortfall in Capital and Maintenance Revenues – 2008\$

Baseline	Total 2008-2027
Estimated Future Revenues	\$ -
Property Tax	\$ 94,028,121
REET	\$ 5,883,935
Other Local Funding	\$ 1,725,026
State Fuel Tax	\$ 41,199,524
State Funds	\$ 9,670,547
Federal Funds	\$ 18,652,671
Total Estimated Available Revenues	\$ 171,159,825
Capital Only Funds	
REET	\$ 5,883,935
State Funds (Grants)	\$ 9,670,547
Federal Funds (Grants)	\$ 18,652,671
Est. minimum match for grants (20%)	\$ 6,000,000
Total Available for Capital	\$ 40,207,154
Total Available for Maintenance	\$ 130,952,671
Projected Maintenance Costs	\$ 186,800,575
Projected Maintenance Shortage	\$ (55,847,904)

Source: Berk & Associates, 2008

FUNDING STRATEGIES

Chelan County has several strategy options for addressing the transportation funding shortfall and meeting the funding goals identified above:

- **Make the Road Levy a Sustainable Long-Term Funding Source.** This can be done by using the Road Levy's "banked capacity" to fund projects in the short-term (which the County has elected to do in the 2009 budget) and by securing a voter-approved levy lid lift in the long-term to allow the levy to keep up with the rate of inflation and population growth.
- **Create a New Transportation Revenue Source – Transportation Benefit District.** A Transportation Benefit District may be established for the construction and operation of improvements to County roadways and for the reconstruction and upgrade of existing facilities, pedestrian and bicycle enhancements, or other regionally significant projects. Once established, the District has the authority to levy additional sales and use tax or motor vehicle license renewal fees to fund transportation projects.
- **Develop a Set of Growth-Related Funding Sources.** In order to ensure that new development helps pay for the growing demands on transportation, the County may implement Transportation Impact Fees, Planned Action Ordinances, and Latecomer Agreements.

CHELAN COUNTY TRANSPORTATION FUNDING REPORT

Table of Contents

- 1.0 Introduction..... 1
- 2.0 Transportation Revenue Projections..... 2
- 3.0 Transportation Maintenance Cost Projections..... 6
- 4.0 The Funding Gap..... 8
- 5.0 Strategies and Recommendations 9
- Appendix A: Potential Funding Alternatives..... 13

1.0 INTRODUCTION

1.1 Project Purpose

The purpose of this analysis is to examine Chelan County's funding situation as it seeks to build, replace, and maintain its transportation system. The County's significant growth has impacted the transportation needs in the County and made necessary an update of the County's Transportation Element. This update will result in a list of project priorities, particularly in unincorporated urban growth areas (UGAs) and local areas of more intense rural development (LAMRIDs) to be included in the 20-year planning period (2008-2027). The following analysis addresses the current revenues available for funding transportation expenditures, as well as strategies to meet any shortfalls.

1.2 Background

Based on the planning process that has included community visioning & Stakeholder Advisory Group discussions, the County has identified a broad range of transportation projects. Many of these projects can be distinguished by type:

- Maintenance and operations
- Reconstruction of existing facilities, and pedestrian and bicycle enhancements
- New or upgraded facilities to support new development

As the County develops a long-term funding solution to its transportation needs, it must balance multiple goals. Over the course of the planning process, three planning principles emerged that sought to guide future funding strategies:

- Reserve regional funding sources for the preservation, maintenance, and operation of existing County-wide transportation facilities
- Direct funding sources to specific projects (or categories of projects) that best relate the costs of those projects to their primary beneficiaries
- Require new development to pay its fair share of expanding/upgrading transportation facilities in the County

In addition, any funding strategy must balance those goals against developing a system of sustainable revenue sources that are feasible for the County to implement. This is even more pressing given the limited means counties have at their disposal for raising revenue. Over the past ten years, a combination of statewide initiatives and legislative actions has altered the landscape for local governments. The most sweeping changes have revolved around voters' decisions to (1) end the Motor Vehicle Excise Tax and (2) create strict limits on the growth of property taxes.

Across Washington State, the effect of these actions has varied by jurisdiction. Cities and local service providers, like counties, are facing increasing difficulty given their reliance on the two items listed above. Washington's counties are different from cities and special service districts in fundamental ways. These differences are brought into stark relief by considering the interplay of four factors:

- 1) Counties face strict limits on their taxing authority;
- 2) Counties are heavily reliant on property taxes (whose purchasing power is eroding due to I-747, explained in Section 2.3);
- 3) Counties face a long list of regional service obligations that are mandated by the state; and

- 4) Counties have a complex set of relationships with multiple constituencies
 - a. They collect *regional taxes* and provide *regional services* for all constituents in the county; and,
 - b. They collect *local taxes* and provide *local services* to unincorporated areas.

Given this combination of factors, Washington’s counties have found themselves squeezed between two positions. They have a long list of service obligations that are non-negotiable, they face structural erosion in their most important revenue source, and they have few statutory options for securing new revenue streams. As they look to the future, Washington’s counties face a fundamental, structural challenge—a challenge that will become increasingly unmanageable over time. Chelan County is no exception and this larger systemic issue is at the core of their long-term transportation funding issues.

2.0 TRANSPORTATION REVENUE PROJECTIONS

2.1 Approach

The projections in this analysis are based on a review of historical data in the County’s Public Works budget, as well as reports from the Washington State Department of Transportation (WSDOT) showing the County’s historical expenditures and revenues used for transportation funding. Funds were examined by revenue stream.

2.2 Summary of Baseline Projections

Based on revenue projections, approximately \$171 million will be available for transportation funding during the planning horizon. Due to statutory restrictions in funding, \$131 million is available for maintenance and operations leaving approximately \$40 million available for the reconstruction of existing facilities or development of new facilities.

There are six main sources of revenues available for transportation projects in Chelan County: property tax; real estate excise tax (REET); local funding, such as permit fees; state fuel tax; state funds, primarily grants; and federal funds. Each will be described in more detail below.

Exhibit 1 below shows the total Baseline revenue projections over the 20-year study period in five-year increments. These revenues are displayed in inflation-adjusted 2008 dollars. The table shows that there is an overall decline in the funds available for transportation in Chelan County, with each revenue stream not keeping up with the rate of inflation.

Exhibit 1: Chelan County Baseline Transportation Revenue Summary – 2008\$

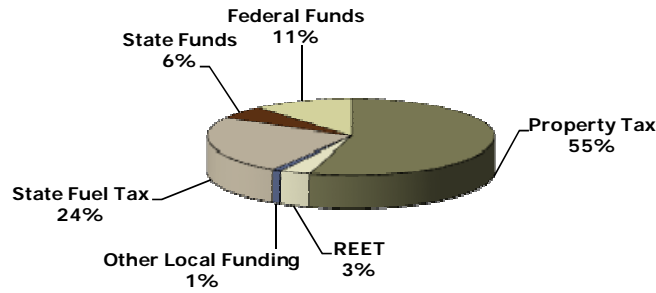
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Total Estimated Available F	\$ 52,771,805	\$ 43,970,013	\$ 39,288,793	\$ 35,129,214	\$ 171,159,825

Source: Berk & Associates, 2008

Note: numbers may not add to total due to rounding

Exhibit 2 below shows the expected distribution of the total projected revenues across the six revenue sources over the study period.

Exhibit 2: Chelan County Projected Transportation Revenue Distribution



Source: Berk & Associates, 2008

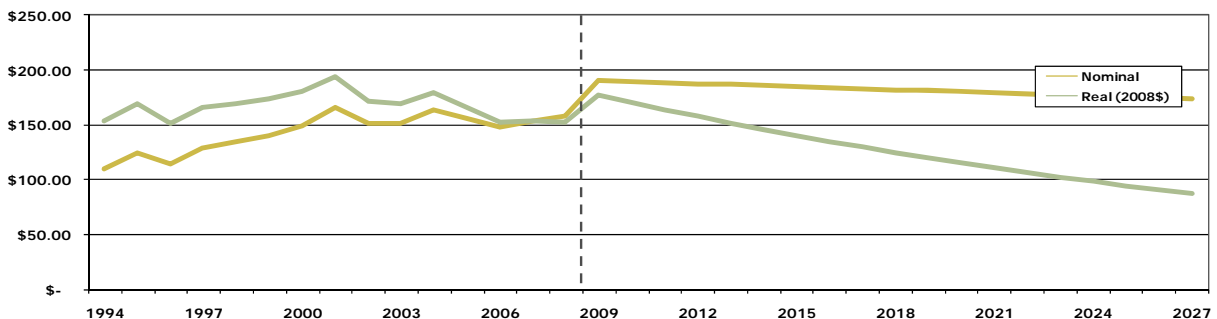
2.3 Property Tax Revenues

As evident in **Exhibit 2** above, property tax revenues through the County Road Levy make up the majority (55%) of available funds for transportation projects. However, with the passage of Initiative 747, which restricts property tax increases at 1%, lower than the estimated 3.5% rate of inflation, those funds are diminishing. Cities and counties are seeing a decline in total property tax purchasing power as a result of the I-747 cap. Up to 2008, the County had not used its entire legal limit, leaving it with some banked capacity. For its 2009 budget, the County has elected to use its banked capacity and levy the entire legal limit.¹

The amount of property tax collected through the Road Levy in Chelan County has been declining on a per capita basis at approximately 0.2% annually. In order to maintain this 1% increase limit as population increases, the per capita decline assumed in the future is 0.5%.

Exhibit 3 below shows per capita property tax for transportation in both nominal and “real” inflation-adjusted dollars. Historical data is shown to the left of the dotted line, and future projections to the right. The decline in per capita revenues since the institution of I-747 in 2001 is evident particularly in the inflation-adjusted numbers shown by the green line.

Exhibit 3: Chelan County Per Capita Baseline Projections - Property Tax for Transportation



Source: Berk & Associates, 2008

¹ While the County has the discretion to collect less than the full legal limit, it is assumed it will continue to collect the full legal limit of the Road Levy because of unmet need in maintenance and operation obligations.

2.4 General Fund Revenues

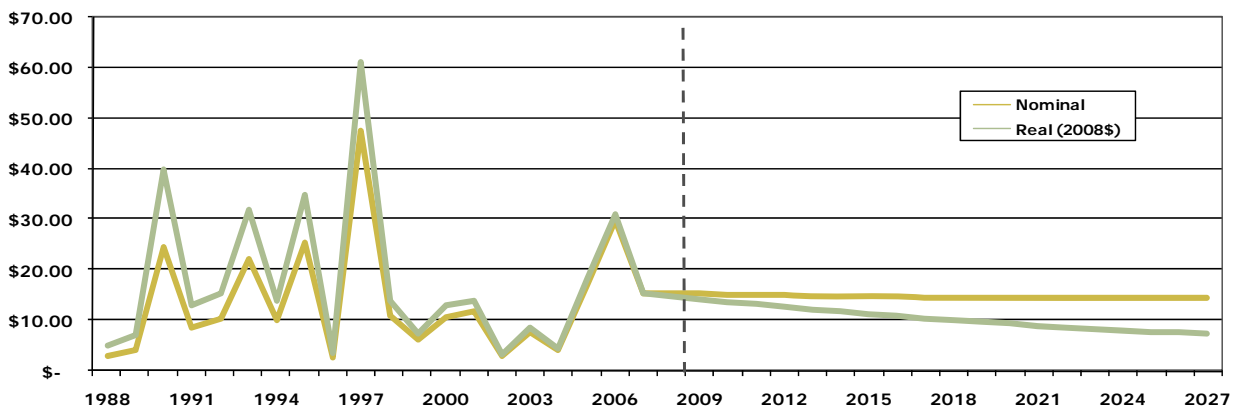
Historically the County's General Fund contributions to transportation capital have been sporadic. There has been no contribution since 2001. We are currently projecting no General Fund contributions in the future. The County may choose to contribute General Funds for particular projects, but given the recent history there is no basis on which to assume a reliable stream of General Fund dollars for transportation.

2.5 Other Local Funding

These dollars include REET funds, Leasehold Excise Taxes, Road Permits, payments in lieu of taxes, and others. Since 2005 the County has made a standing contribution of REET funds towards transportation. A \$400,000 annual commitment has been assumed into the future. Because these funds are not increasing to account for population growth or inflation, "real" per capita dollars are declining over time.

The remaining other funds in this category were approximately \$2.33 per capita in 2007 and \$2.40 in 2008. It is assumed that this per capita level of funding will continue into the future, increasing at the rate of inflation. **Exhibit 4** below shows per capita dollars in this category. It is evident in the green line that the inflation-adjusted per capita dollars are declining over time. Because total REET contributions are remaining constant in nominal dollars while population increases, the nominal per capita dollars (shown in the yellow line) are also decreasing very slightly over time.

**Exhibit 4: Chelan County Per Capita Baseline Projections –
Other Local Funds for Transportation**

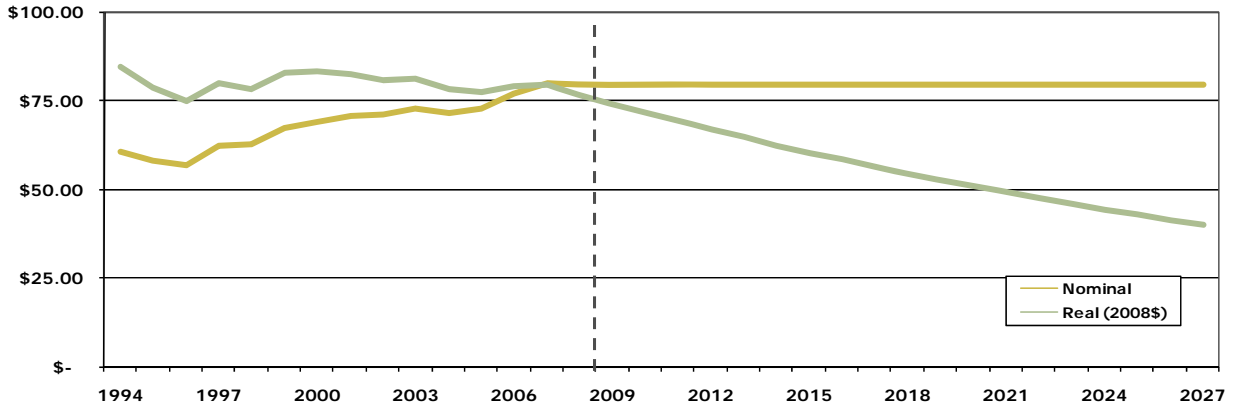


Source: Berk & Associates, 2008

2.6 State Motor Vehicle Fuel Tax

Although historical per capita fuel tax dollars have been increasing in nominal numbers, when adjusted for inflation it is clear that per capita revenues have been declining over time. This trend is becoming more pronounced in very recent history due to large increases in the price of gasoline. Taking into account the recent shift in behavior, we assume in this analysis that per capita spending will remain constant on a nominal basis, therefore decreasing in real dollars at the rate of inflation annually. **Exhibit 5** below shows the historical and projected data in real and nominal dollars.

Exhibit 5: Chelan County Per Capita Baseline Projections – State Fuel Tax



Source: Berk & Associates, 2008

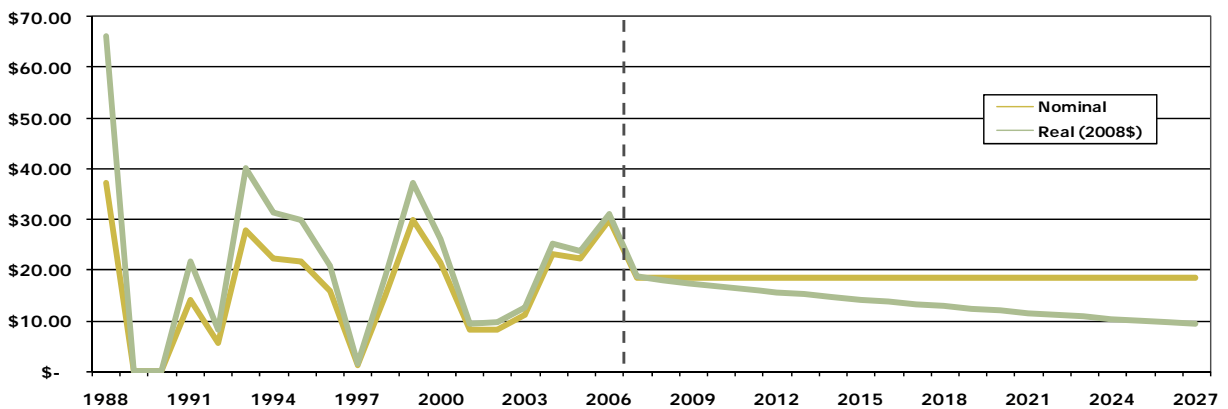
2.7 State Funds

This category is primarily state grants, but also includes the Reforestation Harvest Tax received by the County. State grants are primarily funded through the state Motor Vehicle Fuel Tax. As discussed above, revenues generated from the purchase of gasoline are declining over time, and are expected to do so more dramatically in the near future, leading to fewer available grant dollars. In addition, with the institution of Initiative 747, all state jurisdictions are seeing a decline in a significant source of general revenue. This is causing a higher demand for grant funding and greater competition between jurisdictions.

Since 1988, Chelan County has averaged \$18.62 per capita in state funds when adjusting for inflation. For this analysis we have assumed that the County will continue to receive this level of funding on a nominal basis, leading to a decline in “real” revenues at the rate of inflation.

Historical funding and future projections are shown in **Exhibit 6** below for state grants. Because these dollars are largely project-based, the projections shown here are likely to be higher than actual in some years, and lower in others.

Exhibit 6: Chelan County Per Capita Baseline Projections – State Funds



Source: Berk & Associates, 2008

2.8 Federal Funds

These funds include both federal grant revenues and the Federal Forest Yield regularly received by Chelan County. Historically, the Federal Forest Yield program had been funded through Federal timber sales. Recent revenue from this source has been sharply curtailed as the volume of timber sold annually from most of the Federal lands has decreased. In 2008, funding for this program was reauthorized until FY 2011 when the program will end. The Secure Rural Schools and Community Self-Determination Act of 2000, of which the Forest Yield Program is a part, is currently being lobbied in Congress for a reauthorization. Given this uncertainty, the analysis assumes 100% of estimated funding for 2008 with a 10% reduction for the following four years, with a final program year of 2011.

The federal grant portion of these funds has been treated similar to state grants. The average per capita grant revenues received by Chelan County have been \$29.68 annually, when adjusted for inflation. We have assumed this number to continue in nominal dollars into the future, causing real grant revenues to decline at the rate of inflation.

Exhibit 7 below shows the per capita funds expected from the combination of the Federal Forest Yield program (through 2012) and federal grant dollars.

Exhibit 7: Chelan County Per Capita Baseline Projections – Federal Funds



Source: Berk & Associates, 2008

3.0 TRANSPORTATION MAINTENANCE COST PROJECTIONS

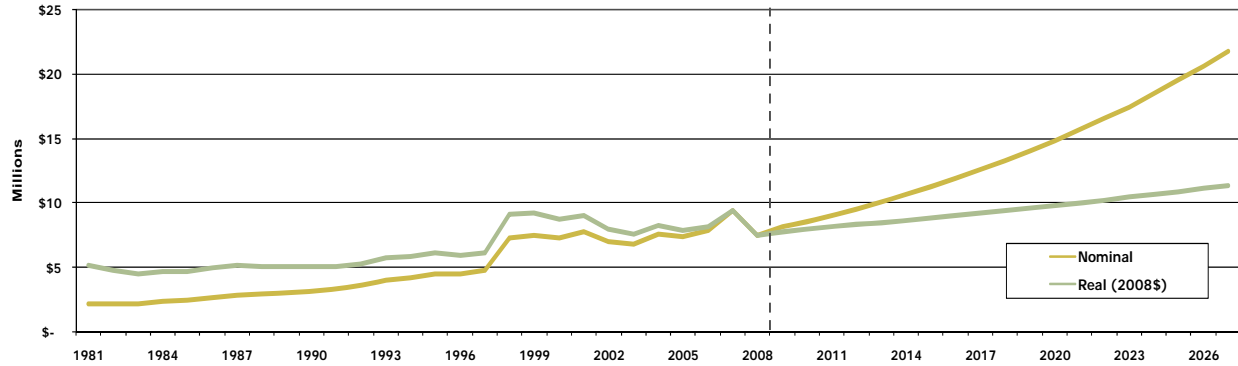
3.1 Approach

Data for this analysis comes from a review of the County’s historical Public Works budgets, detailing transportation maintenance and operations expenditures by category. The three main categories of expenditures by the County that emerged during the review are maintenance, administration, and facilities construction, and are included in this analysis.

3.2 Total Baseline Cost Projections

Exhibit 8 and 9 summarize the baseline cost projections for the three main expenditure categories for transportation maintenance and operations for the County (Maintenance, Administration, and Facilities Construction & Maintenance). These projections have been adjusted for inflation and are shown in 2008 dollars.

Exhibit 8: Chelan County Baseline Cost Projections



Source: Berk & Associates, 2008

Exhibit 9: Chelan County Transportation Maintenance Cost Projections – 2008\$

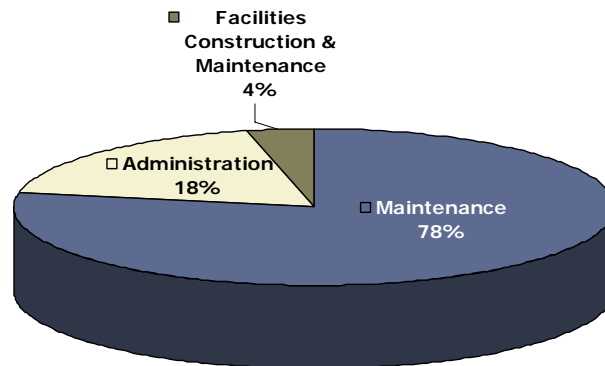
Chelan Co - Trend	Total 2008-2012	Total 2013-2017	Total 2018-2022	Total 2023-2027	Total 2008-2027
Estimated Maintenance & Operations Expenditures					
Maintenance	\$ 31,238,954	\$ 34,543,110	\$ 38,158,826	\$ 42,153,008	\$ 146,093,898
Administration	\$ 7,036,099	\$ 7,953,199	\$ 8,989,836	\$ 10,161,590	\$ 34,140,724
Facilities Construction & Maintenance	\$ 1,278,221	\$ 1,597,873	\$ 1,757,277	\$ 1,932,583	\$ 6,565,953
Total Estimated Costs	\$ 38,275,052	\$ 42,496,309	\$ 47,148,662	\$ 52,314,599	\$ 186,800,575

Source: Berk & Associates, 2008

Note: numbers may not add to total due to rounding

Exhibit 10 below shows the distribution of total projected maintenance and operations costs over the study period.

Exhibit 10: Chelan County Projected Transportation Maintenance Cost Distribution (Primary Categories - Based on Historical Trend)



Source: Berk & Associates, 2008

3.3 Maintenance Costs

Since 1981, per capita maintenance costs have been increasing in the County by 4.0% annually, which is more rapid than the inflation rate of 3.5% (implicit price deflator rate). This leads to the County having to use a larger portion of its funds each year to fund transportation maintenance. For this analysis we have assumed that maintenance costs as a whole will continue to increase at the historical rate of 4.0% per capita.

3.4 Administration Costs

The second-largest category of expenditure for transportation maintenance and operations is administration. These costs have historically been increasing at a per capita rate of approximately 4.5% annually. For this analysis we have assumed that this per capita rate will continue in the future.

3.5 Facilities Construction and Maintenance Costs

Chelan County also spends money on building new transportation facilities and maintaining those facilities each year. To account for occasional large expenditures in this category due to the building of a new facility, the average per capita expenditure of \$9.00 annually (adjusted for inflation) was used for future years. Because larger expenditures are project-based this is likely to overstate costs in some years and understate them in others. Historical expenditures have also generally been increasing at 3.9% annually, which was used for future cost growth.

4.0 THE FUNDING GAP

When comparing total available revenues for transportation capital and maintenance with expected maintenance costs over the 20-year study period, revenues fall short of paying for just the estimated maintenance costs, before even considering capital project costs. This makes sense when considering that the main revenues used for transportation are increasing at a relatively slow rate, while costs are increasing more quickly over time. Although spending is currently balanced, the increase in costs begins to outpace the increase in revenues in the very near term.

As discussed earlier, the total estimated transportation revenues for the study period are approximately \$171 million. These revenues are the total available for all capital and maintenance needs for the County for the next 20 years. However, some funds are not available for maintenance expenses, including most grant funds, REET funds, and matching funds for grants. The estimated \$30 million in grants, therefore, must not be counted towards maintenance costs, as well as \$6 million in REET funds and an estimated minimum of \$6 million in matching funds for grants. This leaves \$131 million available for maintenance compared to an estimated cost of \$187 million for the study period, resulting in an estimated \$56 million shortfall to cover maintenance costs. This also leaves only \$40 million available for capital projects, and those dollars are heavily dependent upon grant awards.

Exhibit 11 below helps to illustrate the imbalance in revenues and maintenance costs.

Exhibit 11: Estimated Shortfall in Transportation Capital and Maintenance Revenues

Baseline	Total 2008-2027
Estimated Future Revenues	\$ -
Property Tax	\$ 94,028,121
REET	\$ 5,883,935
Other Local Funding	\$ 1,725,026
State Fuel Tax	\$ 41,199,524
State Funds	\$ 9,670,547
Federal Funds	\$ 18,652,671
Total Estimated Available Revenues	\$ 171,159,825
Capital Only Funds	
REET	\$ 5,883,935
State Funds (Grants)	\$ 9,670,547
Federal Funds (Grants)	\$ 18,652,671
Est. minimum match for grants (20%)	\$ 6,000,000
Total Available for Capital	\$ 40,207,154
Total Available for Maintenance	\$ 130,952,671
Projected Maintenance Costs	\$ 186,800,575
Projected Maintenance Shortage	\$ (55,847,904)

Source: Berk & Associates, 2008

In order to bring maintenance costs in balance with projected revenues, as well as having funds available for capital projects, the County has a few options:

- Reduce levels of service for transportation maintenance
- Find ways of reducing costs for the maintenance performed
- Be aggressive in pursuing state and federal transportation grants where the County is competitive
- Consider policy changes that would increase future revenues and available funding. Specific mechanisms will be described in more detail in the following section.

5.0 STRATEGIES AND RECOMMENDATIONS

5.1 Approach and Framework

In order to assess the funding alternatives described in this Section, they must be evaluated in terms of the planning principles and goals of Chelan County, as well as their feasibility. The funding alternatives are screened across by how broadly the project benefits transportation facility users. The planning principles under this approach seek to:

- Direct funding sources to specific projects (or categories of projects) that best relate the costs of those projects to their primary beneficiaries
- Reserve regional funding sources for constructing, maintaining, and operating transportation facilities of county-wide significance
- Have new development pay its fair share of expanding/upgrading transportation facilities in the county

5.2 Strategies for Bridging the Funding Gap

In order to increase funding for transportation projects, the County should adopt an approach that:

- 1) Embraces the three planning principles identified above;
- 2) Addresses the need to preserve and maintain the existing transportation facilities by focusing on the sustainability of the County's major transportation revenue source; and
- 3) Creates new revenue sources available to fund new transportation projects.

Strategy #1: Make the Road Levy a Sustainable Long-Term Funding Source

Counties are dependent on the Road Levy to fund their transportation needs, and unlike other general service providers, cannot rely on growth in other revenue sources to off-set declines. Counties generally do not have statutory authority to levy new taxes. And, unlike special service districts, counties have a much more complex relationship with their constituencies as identified above.

The value of the Road Levy for the County is unmatched by any other revenue source. Since the passage of I-747, the County has seen the real per-capita value of the Road Levy decline at a rate of 3.2%. From a fiscal sustainability perspective, the County cannot allow the largest component of their transportation funding to decline in value relative to the rate of growth of their basic transportation needs. The County has a strong argument, if not difficult, to make to its constituents that they will need to restore the value of the Road Levy to levels that will sustain their base transportation needs; or choose, through their political processes, to reduce levels of services. The Road Levy can be addressed through two mechanisms:

- In the short-term, using the "banked capacity" in the Road Levy to increase transportation funding. The County currently has a total of approximately \$1.1 million in banked capacity that it could use with Commission discretion. For the 2009 budget year, the County Commission is acting to use it's the entire amount of its banked capacity.
- In the long-term, the County will need to secure a levy lid lift, or a series of lifts (with majority approval from voters in the county). Likewise, the amount of the levy lift will need to be sized to the amount of need. The County may choose either temporary or permanent levy lid lifts; however, given the ongoing needs, a voted permanent lift would be the preferable mechanism (voted on by unincorporated residents).

Funding Recommendation. The County should fund the additional preservation, maintenance, and operation needs from making the Road Levy a sustainable revenue source – leveraging grants and other local funding to maximize its value. The Road Levy may also need to support additional transportation needs outside of maintenance and operations to meet its other obligations (i.e. regional projects, share of impact fee projects, etc).

The Road Levy may not exceed \$2.25 per every \$1,000 of assessed value. The County's levy rate in 2007 was \$1.48 and declined to \$1.27 in 2008. An increase of the real per-capita value of the Road Levy at a rate of only 2% could generate an additional \$20 million over the planning period (2008\$). Under this scenario, the total levy would grow at a rate matching general inflation (3.5%).

Berk's previous projection sized the amount of maintenance and operations needs at approximately \$187 million over the 20 year planning period with a potential funding gap of \$56 million. The County would likely need to consider raising the levy to a level to meet its funding needs or choose not to fund all projects. In order to close the projected maintenance and operations funding gap, the Road Levy would need to grow at an approximate annual rate of 4.5% through levy lid lifts over the

planning horizon (the original estimate assumed annual growth rate of 1.5% based on historical trends).

Strategy #2: Create a New Transportation Revenue Source – Transportation Benefit District

In an effort to create a new revenue source suitable to funding new transportation facilities, the County may wish to create a Transportation Benefit District (TBD). A TBD may be established for the construction and operation of improvements to county roadways. The TBD may be used for the reconstruction and upgrade of existing facilities, pedestrian and bicycle enhancements, or other regionally significant projects.

While the County may create the TBD for just the unincorporated portions of the County, it may be beneficial to partner with the local incorporated jurisdictions through interlocal agreements on project funding. This may be desirable on three accounts:

- A county that creates a TBD (using the \$20 vehicle fee) must first attempt to impose a countywide fee to be shared with cities by interlocal agreement. If an interlocal agreement cannot be reached, the county is then authorized to create a TBD and impose the fee – but only in the unincorporated portions of the county.
- The County is increasingly home to regional tourist activities centered in Leavenworth, Wenatchee, and Chelan. These areas generate large volumes of taxable retail sales – sales that represent the spending of many individuals not living in Chelan County, but nonetheless whose activities strain the County's transportation network. Tapping this out-of-county revenue source will help off-set their impacts.
- The County's role as a local and regional service provider for transportation facilities supports these areas and commerce that takes place there.

Regardless of whether a County-wide TBD is feasible in the short-term, the County should pursue (at a minimum) a strategy to implement a TBD for the unincorporated areas.

Funding Recommendation. The County should fund the reconstruction and upgrade of existing facilities, as well as pedestrian and bicycle enhancements through the creation of a TBD. While the TBD allows for an array of funding options, including a property tax levy, it is suggested that the County TBD institute some combination of the following types of fees:

- **Sales and Use Tax.** Up to 0.2% with voter approval for up to 10 years – unless reauthorized by voters. A voter approved 0.2% sales tax increase could generate approximately \$700,000 per year for the unincorporated areas. Assuming a 2% rate of growth in the value of taxable retail sales collected, the 0.2% sales tax could generate an additional \$8.6 million over the planning period (2008\$). This number grows to \$37 million if the entire county is included in the TBD.
- **Motor Vehicle License Renewal Fee.** Up to \$100 annually, with voter approval – a jurisdiction may impose a \$20 fee without voter approval. A County Commission enacted \$20 vehicle license renewal fee could generate approximately \$0.6 million per year in the unincorporated areas. Assuming a 1% rate of growth in the number of licensed vehicles, a \$20 renewal fee could generate an additional \$8 million over the planning period (2008\$). This number grows to \$18 million if the entire County is included in the TBD. These figures revenues would be larger if the County pursued the levy of higher fees – up to a \$100 (with the required public vote).

Current projects for capital restricted revenues are estimated at \$40 million and the estimated need for these projects is anywhere from \$150 to \$291 million – leaving a gap of \$109 to \$250 million. The TBD could fund anywhere from \$8 million (\$20 fee in unincorporated areas) to \$140 million depending on the combination and magnitude of funding options pursued (countywide \$100 fee and 0.2% sales tax).

Strategy #3: Develop a Set of Growth-Related Funding Sources

Due to the expected shortfall in projected transportation funding revenue, it is imperative that new development pay its fair share of expanding/upgrading transportation facilities in the county. Along those lines, the County should enact a set of growth specific funding sources that can address – in part – the funding of these projects. By doing so, these funding sources can relate the costs of those projects to their primary beneficiaries (e.g. the residents and businesses living in these areas).

Funding Recommendation. The County should establish a set of growth related revenue mechanisms that account for new development impact on the transportation system. It can do this by instituting a County-wide transportation impact fee, and using the State Environmental Policy Act (SEPA) and developer mitigation for projects serving new growth.

For projects that are on the existing network, but where development may trigger new demands for facilities, the County should impose a County-wide transportation impact fee to account for those impacts. **Transportation impact fees** may be charged for development of specific transportation projects shown to be directly associated with new development. Impact fees may not be used to correct existing deficiencies. The imposing jurisdiction must also contribute funds to the included projects, which by statute cannot be funded 100% through impact fees. The fees are calculated based on a development's expected impact on the road system and the need for transportation improvements. Generally, this is done by basing the fees on the number of vehicle trips a development is expected to generate and each trip's proportional impact of the transportation improvement projects (alternatively can be charged on a per unit basis). Since these fees are contingent on impact, they can vary by jurisdiction of subareas of the county. The County will need to conduct a rate study to determine the fee to be charged on the projected 8,000 units of residential development and commercial development expected in the County over the planning period.

The County should also use planned action ordinances and/or Latecomer agreements for more locally-bound project needs. **Planned Actions** are a project specific action under the State Environmental Protection Act, in which an Environmental Impact Statement designates, by ordinance, those types of projects to be considered Planned Actions – spelling out mitigation measures that will be applied. These can be used to resolve existing deficiencies identified in the environmental review. These types of action are appropriate for small areas expecting a specific type of development and are located within an Urban Growth Area.

Latecomer Agreements allow property owners who have paid for capital improvements to recover a portion of the costs from other property owners in the area who later develop property that will benefit from those improvements. The period of collection may not exceed 15 years and is based on a pro rata share of the construction and contract administration costs of the particular project. The city or county must outline an area subject to the charges by determining which properties would require similar improvements. The improvement must be required for property development by city or county ordinance in order for the reimbursements to be assessed.

APPENDIX A: POTENTIAL FUNDING ALTERNATIVES

The following select funding alternatives are available to Chelan County to generate revenue for transportation projects. Each alternative has a brief description followed by a discussion of the potential revenue impacts.

1.0 TRANSPORTATION BENEFIT DISTRICT

A Transportation Benefit District (TBD) may be established for the construction and operation of improvements to county roadways. The following types of fees may be imposed:

- **Sales and Use Tax.** Up to 0.2% with voter approval for up to 10 years – unless reauthorized by voters
- **Motor Vehicle License Renewal Fee.** Up to \$100 annually, with voter approval – a jurisdiction may impose a \$20 fee without voter approval
- **Excess Property Tax Levies.** One-year maintenance and operation with voter approval or multi-year for general obligation bonds
- **Transportation impact fees on commercial and industrial buildings** (residential buildings are excluded). Commercial or industrial projects would receive a credit if a transportation impact had already been imposed in the county
- **Latecomer Agreements.** Latecomer Agreements allow property owners who have paid for capital improvements to recover a portion of the costs from other property owners in the area who later develop property that will benefit from those improvements.

Potential Revenue Impacts

Sales and Use Tax. A voter approved 0.2% sales tax increase could generate approximately \$700,000 per year. For example, a purchase of a television costing \$1,000 would be assessed an additional \$2 in sales tax under this scenario.

Vehicle License Renewal Fee. A commission enacted \$20 vehicle license renewal fee could generate approximately \$1.5 million per year. A voter approved \$100 fee could generate approximately \$3 million per year.

Excess Levies. A voter approved excess levy could generate funds dedicated to the repayment of general obligation bonds. These proposals to voters are typically presented in terms of a total dollar amount and the levy rate is determined by the assessed value in the district. For example, on a \$30 million voted excess levy, a single family home valued at \$250,000 would likely pay an additional \$80 per year in property taxes to retire the bonds.

2.0 IMPACT FEES

Impact fees may be charged for development of specific transportation projects shown to be directly associated with new development. Impact fees may not be used to correct existing deficiencies. The imposing jurisdiction must also contribute funds to the included projects, which by statute cannot be funded 100% through impact fees.

Potential Revenue Impacts. The goal of calculating traffic impact fees is to create fees based on a development's expected impact on the road system and the need for transportation improvements. Generally, this is done by basing the fees on the number of vehicle trips a development is expected to generate and each trip's proportional cost of the transportation improvement projects (alternatively can be charged on a per unit basis). Since these fees are contingent on impact, they can vary by jurisdiction. For example, for every \$1,000 in impact fees, \$8 million in revenue could be generated over the next 20 years, based on 8,000 new residential units expected to be built in unincorporated Chelan County.

3.0 LOCAL IMPROVEMENT DISTRICTS/ROAD IMPROVEMENT DISTRICT

Any jurisdiction may form a local improvement district (LID) and levy a special assessment on properties within the LID that would benefit from the improvement. These improvements include streets, parking facilities, park boulevards, and other public places along with local transportation systems, such as buses and railways, and the facilities necessitated by these systems. A city may levy a tax on the property within an area that will benefit from a specific capital project.

Road Improvement Districts are similar to LIDs, except they are specifically limited to road improvements in unincorporated areas. The County would initiate any RID funding program. Property owners that will benefit from the improvements would be assessed a special benefit assessment based on a proportionate levels determined during the formation of the district. This special benefit assessment would be used is paid by the property owned annually and typically over time (described in the formation petition). The County would have discretion in its financial contribution to the projects overall costs.

Potential Revenue Impacts. A LID/RID's special benefit assessment is determined during its formation and is assessed relative to the benefits the users derive from the improvements. For example, a LID in a commercial area funding right-of-way improvements might charge on the basis of commercial building square footage. If the LID funded \$1 million of improvements and there were 100,000 square feet of commercial square footage in the district, a property owner with 10,000 square feet of shop space might be assessed an additional \$100,000 (\$10/sqft).

4.0 ROAD LEVY

Every county in Washington State is eligible to collect a property tax road levy for the construction and maintenance of county roads and bridges. The levy may not exceed \$2.25 per every \$1000 of assessed value. The County's levy rate in 2007 was \$1.48. An increase of the levy rate would need to be passed by voters, since it would exceed the 1% cap on property tax increases.

Potential Revenue Impacts. A levy lid lift of the County's road levy from the current \$1.48, if approved by voters, would potentially generate a significant amount of revenue. For example, a \$0.50 increase to the County's road levy could generate approximately \$3.5 million a year. A single family home valued at \$250,000 would likely pay an additional \$125 a year in property taxes.

5.0 BONDS SUPPORTED WITH A LEVY LID LIFT

The County Commission may choose to pass a councilmanic bond up to their legal limit, which can provide funding through debt, but does not increase revenue. The County may also go to the public for a voter-approved bond with a levy lid lift. With approval, this provides funding through debt and also gives authority to increase property tax rates thereby increasing available revenue to pay the debt service.

Potential Revenue Impacts. A voter approved levy lid lift designated to pay back general obligation bond proceeds could generate additional funds. For example, on a \$30 million voted excess levy backed by a levy lid lift, a single family home valued at \$250,000 would likely pay an additional \$80 a year in property taxes to retire the bonds.

6.0 PLANNED ACTION ORDINANCE

Planned Actions are a project specific action under the State Environmental Protection Act in which an Environmental Impact Statement designates, by ordinance, those types of projects to be considered Planned Actions – spelling out mitigation measures that will be applied. This type of action is appropriate for small areas expecting a specific type of development.

Potential Revenue Impacts. A feature of a Planned Action is the level of flexibility and specificity that it may prescribe as mitigation for a development within a Planned Action area.

7.0 LATECOMER AGREEMENTS

Latecomer Agreements allow property owners who have paid for capital improvements to recover a portion of the costs from other property owners in the area who later develop property that will benefit from those improvements. The period of collection may not exceed 15 years and is based on a pro rata share of the construction and contract administration costs of the particular project. The city or county must outline an area subject to the charges by determining which properties would require similar improvements. The improvement must be required for property development by city or county ordinance in order for the reimbursements to be assessed.

Potential Revenue Impacts. Latecomer agreements are typically done on a pro rate share of the project cost plus administrative fees. For example, if a block-long installed sidewalk cost a builder \$45,000 to construct, adjacent developments that benefit from the sidewalk contract to reimburse the original owner \$15,000 to cover the cost of the improvement.