

MEMORANDUM

DATE: July 17, 2008
TO: Jon Pascal, The Transpo Group
FROM: Erica Natali
RE: Chelan County Transportation Plan – Draft Findings

This memo contains draft findings for the Chelan County Transportation Financing Plan. *These projections may change based on County feedback and further internal review.*

BASELINE TRANSPORTATION REVENUE PROJECTIONS

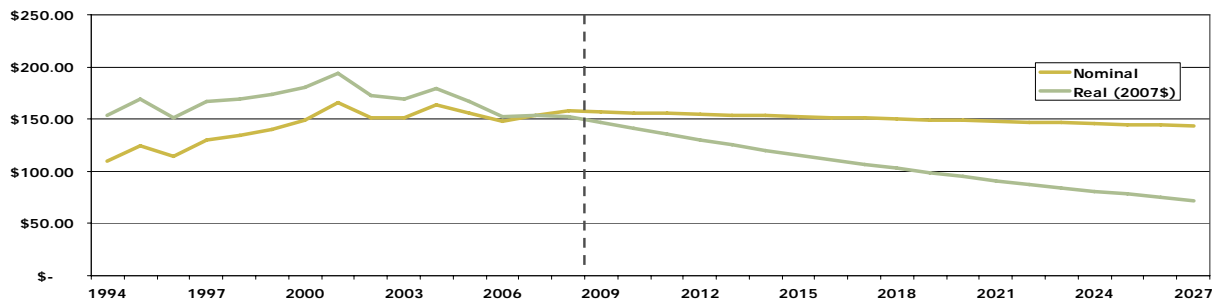
Projections are based on a review of historical data in the County’s Public Works budget as well as reports from WSDOT showing the County’s historical expenditures and revenues used for transportation funding.

Property Tax Revenues

Because Initiative 747 has restricted total Property Tax revenue increases at 1.0% annually, lower than the estimated 3.5% rate of inflation, cities and counties are seeing a decline in total Property Tax purchasing power. 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. Because of I-747, the total increase in revenues should not exceed 1.0% annually. In order to maintain this 1.0% increase as population increases, the per capita decline assumed in the future is 0.5%.

The chart 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.

Chelan County Per Capita Baseline Projections - Property Tax for Transportation



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.

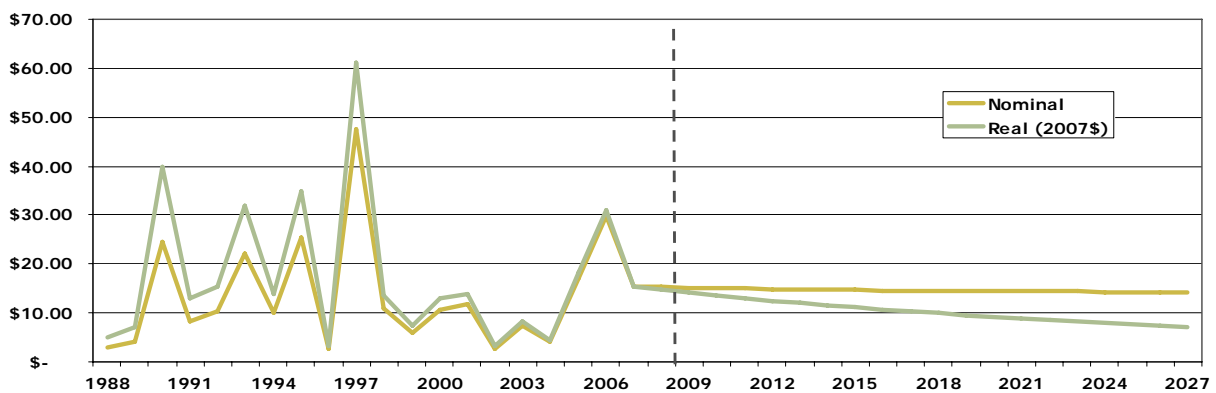
Other Local Funding

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.

The chart 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.

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



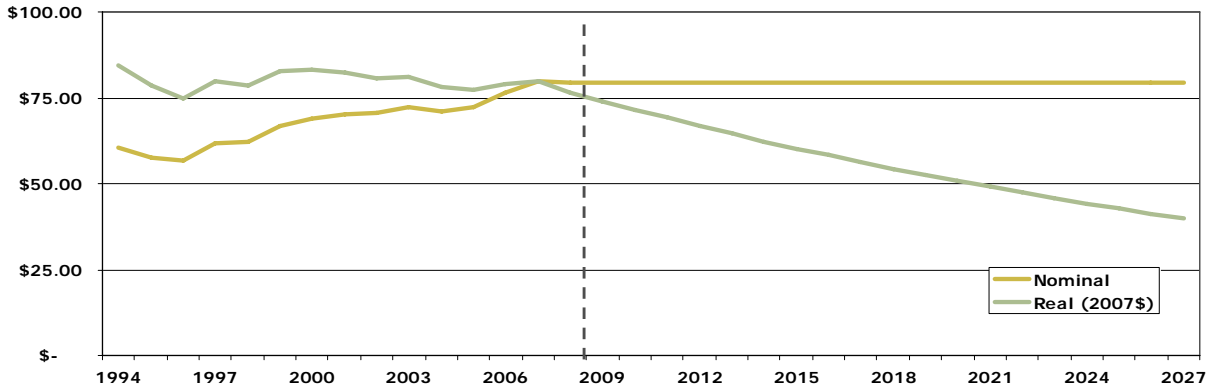
Motor Vehicle Fuel Tax

Although historical per capita gas 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.

The chart below shows the historical and projected data in “real” and nominal dollars.

Chelan County Per Capita Baseline Projections – State Fuel Tax



State Funds

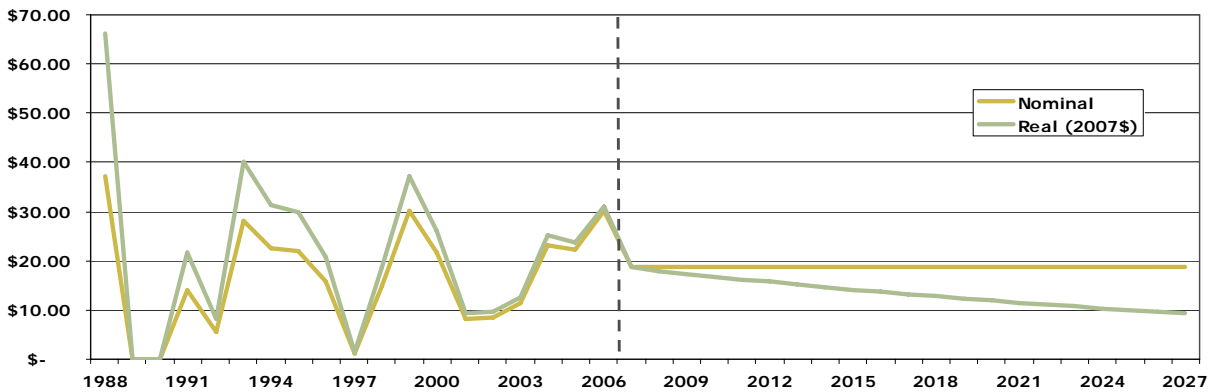
This category is primarily state grants, but also includes the Reforestation Harvest Tax received by the County.

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 the chart below for state grants. Because these dollars are largely project-based, the projections shown here are likely to be higher than actuals in some years, and lower in others.

Chelan County Per Capita Baseline Projections – State Funds



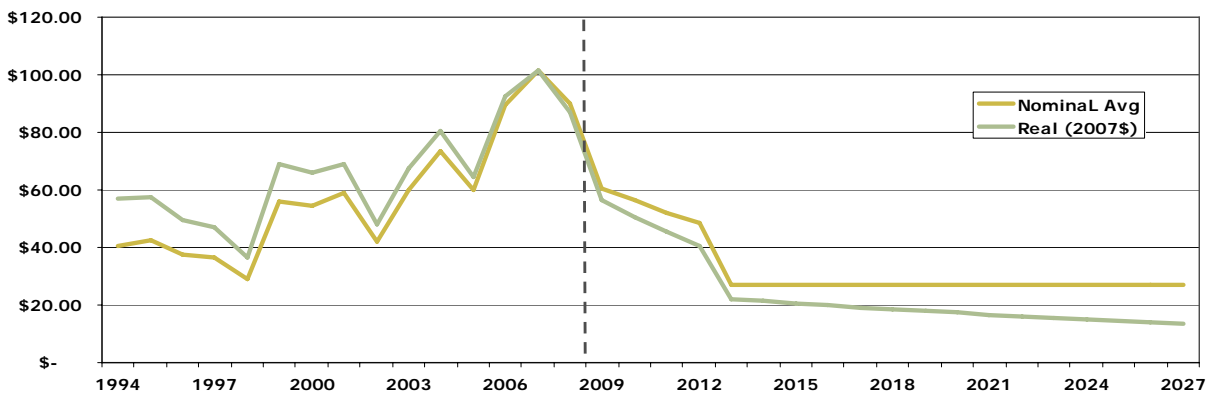
Federal Funds

These funds include both federal grant revenues and the Federal Forest Yield regularly received by Chelan County. The Federal Forest Yield program is currently being lobbied in Congress for some sort of continuation, but it appears likely that the program will end within five years. For this analysis we have assumed 100% of estimated funding for 2008 with a 10% reduction for the following four years, with a final program year of 2012.

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.

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

Chelan County Per Capita Baseline Projections – Federal Funds



Total Baseline Projections

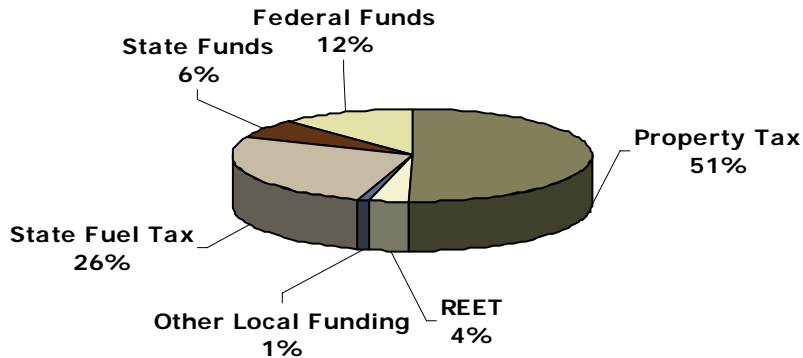
The table below shows the total Baseline revenue projections over the 20-year study period in five-year increments. These revenues are displayed in inflation-adjusted 2008 dollars.

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	\$ 23,341,288	\$ 20,647,558	\$ 18,264,700	\$ 16,156,840	\$ 78,410,386
REET	\$ 1,869,232	\$ 1,573,843	\$ 1,325,134	\$ 1,115,727	\$ 5,883,935
Other Local Funding	\$ 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	\$ 9,233,965	\$ 3,673,661	\$ 3,332,173	\$ 3,022,428	\$ 19,262,228
Total Estimated Available Revenues	\$ 49,463,396	\$ 39,583,312	\$ 35,408,345	\$ 31,696,594	\$ 156,151,646

The chart below shows the expected distribution of the total projected revenues over the study period.

Chelan County Projected Transportation Revenue Distribution



CHELAN COUNTY TRANSPORTATION MAINTENANCE COST PROJECTIONS

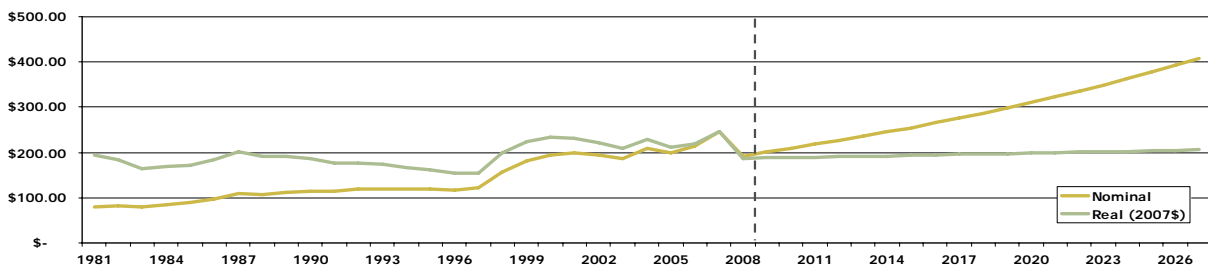
Data for this analysis comes from a review of the County's historical Public Works Budgets detailing transportation maintenance and operations expenditures by category. The three main categories of expenditures by the County are included in this analysis.

Maintenance Costs

Since 1981, per capita maintenance costs have been increasing in the County by 4.0% annually, which is more rapid than the approximate inflation rate of 3.5%. 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. The chart below shows historical expenditures to the left of the dotted line and projected future expenditures to the right.

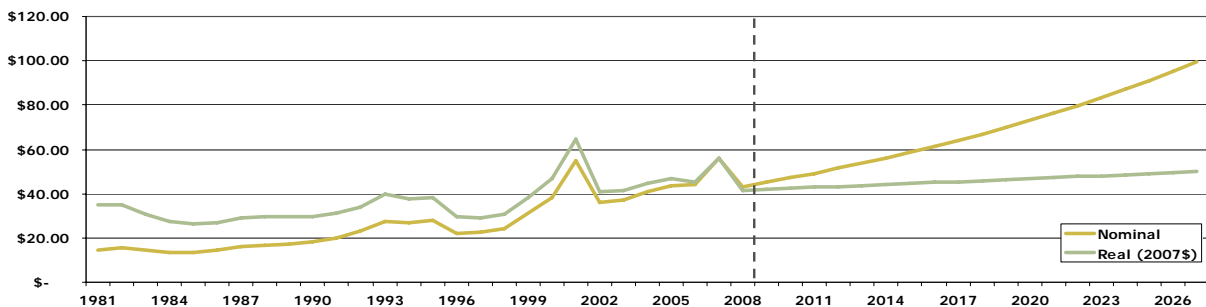
Per Capita Baseline Projections – Maintenance Expenditures



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.

Per Capita Baseline Projections – Administration Expenditures

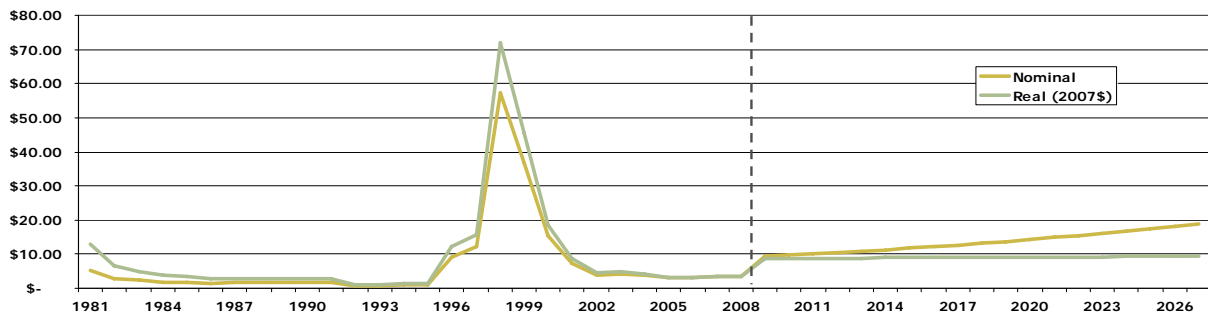


Facilities Construction and Maintenance Costs

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 have been increasing at 3.9% annually, which was also used for future cost growth.

The graph below shows historical expenditures in this category and future projected costs.

**Per Capita Baseline Projections –
Facilities Construction and Maintenance Expenditures**



Total Baseline Cost Projections

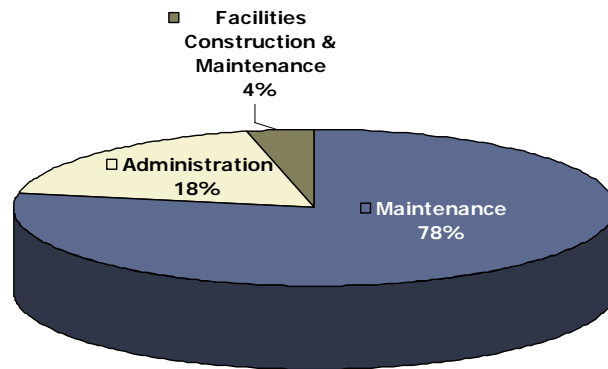
The table below summarizes the Baseline cost projections for the three main expenditure categories for transportation maintenance and operations for the County. These projections have been adjusted for inflation and are shown in 2008 dollars.

**Chelan County Transportation Maintenance Cost Projections – 2008\$
(Primary Categories - Based on Historical Trend)**

Chelan Co - Trend	Total 2008-2012	Total 2013-2017	Total 2018-2022	Total 2023-2027	Total 2007-2027
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

The chart below shows the distribution of total projected maintenance and operations costs over the study period.

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



DRAFT FINDINGS

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 \$15 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 must therefore 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 \$115 million available for maintenance compared to an estimated cost of \$187 million for the study period, resulting in an estimated \$71 million shortfall to cover maintenance costs. This also leaves only \$41 million available for capital projects, and those dollars are heavily dependent upon grant awards.

The graphic below helps to illustrate the imbalance in revenues and maintenance costs.

Estimated Shortfall in Transportation Capital and Maintenance Revenues

Available Revenues

Baseline	Total 2008-2027
Estimated Future Revenues	\$ -
Property Tax	\$ 78,410,386
REET	\$ 5,883,935
Other Local Funding	\$ 1,725,026
State Fuel Tax	\$ 41,199,524
State Funds	\$ 9,670,547
Federal Funds	\$ 19,262,228
Total Estimated Available Revenues	\$ 156,151,646
Capital Only Funds	
REET	\$ 5,883,935
State Funds (Grants)	\$ 9,670,547
Federal Funds (Grants)	\$ 19,262,228
Est. minimum match for grants (20%)	\$ 6,000,000
Total Available for Capital	\$ 40,816,710
Total Available for Maintenance	\$ 115,334,936
Projected Maintenance Costs	\$ 186,800,575
Projected Maintenance Shortage	\$ (71,465,639)

Maintenance Costs

Chelan Co - Trend	Total 2007-2027
Estimated Maintenance & Operations Expenditures	
Maintenance	\$ 146,093,898
Administration	\$ 34,140,724
Facilities Construction & Maintenance	\$ 6,565,953
Total Estimated Costs	\$ 186,800,575

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 grants where the County is competitive
- Consider policy changes that would increase future revenues and available funding. Some of the available funding mechanisms are the following:

- **Transportation Benefit District** – May be established for construction and operation of improvements to roadways, high capacity transportation systems, public transit, and other transportation management programs.

The following types of fees may be imposed: Sales and Use Tax (up to 0.2% with voter approval for up to 10 years), Motor Vehicle License Renewal Fee (up to \$100 annually, with voter approval), Excess Property Tax Levies (one year, voter approval, multi-year for GO Bonds), tolls, later-comer fees, development fees, or LID formation.

- **Impact Fees** – May be charged to development for specific projects shown to be directly associated with new development. They 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.

- **Local Improvement Districts** – A city may levy a tax on the property within an area that will benefit from a specific capital project.
- **Local Gas Tax** – May be levied by counties, up to 10% of the current state tax with voter approval for capital projects or maintenance costs.
- **Motor Vehicle Excise Tax** – May be levied by counties for a High Capacity Transportation Service (up to 0.8%).
- **Road Levy** – The County's levy rate in 2007 was \$1.48. It may legally levy up to \$2.25 per \$1,000 of assessed value. These funds may be used for capital projects or maintenance costs.
- **Bonds** – The County Council 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.

- **Latecomers Agreements** – Allows a property owner who has 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.