Section Seven:
Paying for the System – Financial Strategies

Financial Strategies support the ongoing stability of the transit system and ensure the financial integrity of the Public Transportation Fund. These strategies build upon existing policies that result in: prudent planning using appropriate assumptions to sustain transit service, pursuit of grants and partnerships to fund system activities, and to achieve an Operating Revenue to Operating Expense (OR/OE) target.

A central goal of King County Metro's financial planning activities is stability of the transit system and the financial integrity of the Public Transportation Fund. This goal is accomplished through prudent planning that uses reasonable economic assumptions along with specific programmatic plans to project future revenues, expenditures and resulting fund balances. Planning is done on an ongoing basis, and not just as part of the county's annual budget process.

Comprehensive financial planning, combined with ongoing forecasting, allows the system to respond effectively to change in the economic environment, without detrimental impacts to existing services. Anticipation of changes in financial conditions and forecasting beyond the current year enable the transit system to project sustainable levels of transit service and to accelerate or delay new service implementations based on these changing conditions.

Relationship of the Strategic Plan to the Financial Plan

This strategic plan is consistent with King County Metro's financial plan that covers 2006-2015. While this financial plan covers through 2015, only the period of 2006-2012 reflects adopted budget assumptions. When this strategic plan is updated in 2008, King County Metro's 10-year financial plan for the period of 2007-2016 will be available and included in the strategic plan.

The financial plan for 2006-2015 includes detailed revenue and expenditure assumptions. The basis for the plan is the 2007 adopted budget that was adopted in late 2006. This plan was revised in early 2007 to include the revenues and expenditures associated with the voter-approved *Transit Now* program. The revenue and costs to implement the *Transit Now* program were layered on top of the much larger baseline program.

Financial Planning Impacts of *Transit Now*

The *Transit Now* program is funded with 0.1 percent of one percent sales tax collected throughout King County. Over the ten-year period, the funding is assumed to cover the cost of implementing the service as well as constructing and/or acquiring the infrastructure necessary to support the service. The program is staged in a manner that by year ten of the program 100 percent of the revenue from the additional sales is supporting the ongoing costs of the service that was implemented.

The Next Ten Years

Despite the addition of sales tax revenue associated with *Transit Now*, the next several years will continue to present a significant challenge to King County Metro. As mentioned previously, revenue for the voter-approved *Transit Now* program will be expended to implement the improvements leaving the underlying program without more resources.

While the region is expected to experience growth in population and employment, the resulting sales tax revenue may not be sufficient to cover expenditure growth. For the past several years, King County Metro has experienced cost growth that has outpaced both revenues and inflation. Factors contributing to this situation are not anticipated to slacken over the next several years. Many of these cost areas are ones that King County Metro has limited ability to control. The price of diesel fuel per gallon has more than tripled in cost from 2001. Medical and retirement benefits continue to outpace inflation.

King County Metro has taken steps to try to stem the growth of expenditures as a way to preserve service levels. One response was to delay the implementation of service. This may still be necessary if costs continue to outpace revenues. In looking at this issue it is important to remember that the *Transit Now* program builds upon a baseline program that had limited service expansion. The baseline program was providing 190,000 hours of service over the ten-year period.

In order to preserve the baseline program, a key factor will be fare increases. The current financial plan assumes fare increases in 2008 and 2011. These fare increases are intended to recover inflationary cost growth and are a key element of the financial plan.

Future updates of the plan will incorporate changes from the current forecast, changing the phasing, quantity and types of both service and capital projects to best meet the goals of the plan within the resources that are available.

King County Metro Financial Planning Process

Planning is done on an ongoing basis, as well as part of the county's annual budget process.

Comprehensive financial planning, combined with ongoing forecasting, allows the system to respond effectively to change in the economic environment, without detrimental impacts to existing services. Anticipation of changes in financial conditions and forecasting beyond the current year enable the transit system to project sustainable levels of transit service and to accelerate or delay new service implementations based on these changing conditions.

Future updates of the plan will incorporate changes from the current forecast, changing the phasing, quantity and types of both service and capital projects to best meet the goals of the plan within the resources that are available.

A central goal of King County Metro's financial planning activities is stability of the transit system and the financial integrity of the Public Transportation Fund. This goal is accomplished through prudent planning that uses reasonable economic assumptions along with specific programmatic plans to project future revenues, expenditures and resulting fund balances.

Strategy F-1: Operating Revenue

> **Pursue a combination of farebox and other operations revenue to maintain a target bus operating revenue-to-operating expense ratio of at least 25 percent.**

Fare revenue is a significant source of financing for public transportation. Policies regarding fare revenues influence how much resources will be available to improve existing service. In addition, the fare structure influences demand for service, impacting both ridership and revenue. Local economic conditions impact ridership and the resulting fare revenue.

The current financial plan includes the assumption that there will be fare increases in 2008 and 2011 to keep pace with inflation and respond to increasing program costs. Decisions about the exact timing and amount of the fare increase will be determined during the county's annual budgeting processes.

Strategy F-2: Grants

> **Pursue grants to fund projects that have been identified as necessary to support system service priorities or maintain the system as outlined in this plan.**

Transit is dependent on continued funding from the Federal Transit Administration. In 2005, the Surface Transportation Act was reauthorized as the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) and included an increase in funding for the Puget Sound Region.

Federal funding is provided in a number of ways. The most significant funding is formula generated based on public transit services operated in the region. In addition, individual projects are submitted and receive funding through regional processes or confessional earmarks. New sources of funding are continually evaluated and when projects match with program requirements, grant requests are developed and submitted. Examples of new funding that has been explored include "Very Small Starts" funding for RapidRide implementation and the Urban Partnership program for funds to expand transit services across Lake Washington.

Opportunities for state funding of transit projects and programs has increased in recent years. This funding includes the addition of the Office of Transit Mobility that manages a statewide grant competition as well as funding for Vanpool and Access programs. Future funding awards will be contingent on appropriation levels and competitiveness of submitted proposals.

Strategy F-3: Financial Partnerships

> **Pursue opportunities for partnerships and economic development with communities, employers, other transit agencies, federal and state governments and vendors to expand resources to support transit services and supporting capital facilities. Explore the use of advertising to support shelter program expansion and enhancements.**

The Comprehensive Plan for Public Transportation (formerly known as the Long-Range Policy Framework) directs King County Metro to maximize the effectiveness of local public transportation funds by pursuing joint financing of service and capital projects. King County Metro establishes partnerships along many different avenues to leverage funds for service and capital investments. Partnerships range from cooperative efforts with jurisdictions and agencies to implement minor and major capital projects, to programs with employers to promote ridesharing and alternatives to driving alone. With the passage of voter-approved *Transit Now*, additional resources have been made available to leverage funding and improvements through partnerships.

Service Partnerships: *Transit Now*

As described under Service Strategy S-9, *Transit Now* sets aside resources to pursue partnerships with major employers and cities, potentially leveraging millions in additional funding from other sources to add new service in rapidly expanding employment centers. The King County Council has approved a set of priority criteria for selecting partnership proposals along with a process and schedule for seeking future partners. Two types of partnerships are authorized under *Transit Now*: direct financial partnerships and speed and reliability partnerships.

1) **Direct financial partnerships** - A public or private partner (or partners) contributes one-third of the fully-allocated cost of a new Metro Transit route or of new service on an existing Metro Transit route for at least five years and King County pays the other two-thirds.

2) **Speed and reliability partnerships -** One (or more) of 20 eligible cities commits to improving traffic operations on one or more of King County Metro's core service connections so that buses move at least 10 percent faster throughout the day. In return, King County Metro increases bus service in that city by 5,000 hours per year for each route that has gained 10 percent in speed.

Commute Partnerships

King County Metro also works to develop partnerships in the Puget Sound region to increase public transportation services, as described under Service Strategy S-9. Within such transportation partnerships, King County Metro works with employers, cities, neighboring transit agencies, business organizations and community groups to offer a full array of transportation services and assistance to employers. These partnerships also extend to private and public landowners that enter into agreements to provide leased land for park-and-ride use through King County Metro's leased lot program.

Transit-Oriented Development (TOD) Partnerships

King County's TOD program, as described under Capital Strategy, C-8, creates opportunities for King County to partner with jurisdictions and developers to leverage funding, enable transit facility improvements and increase transit ridership while increasing development of housing, jobs and other activities in close proximity to major transit facilities,

The TOD program is intended to increase transit ridership and to meet larger growth management goals by working with jurisdictions to develop transit-supportive land uses and activities and encourage concentration of growth in centers. This concentration of growth is intended to slow suburban sprawl, conserve natural resource lands, keep existing city and town centers vital and allow transportation to operate more efficiently.

Strategy F-4: Financial Management

Ensure the maximum benefit is derived from available transit revenues by:

- **focusing capital expenditures on projects that directly support service investments;**
- **refining capital improvement program expenditure assumptions to improve annual accomplishment rates;**
- **revising lifespan assumptions to reflect actual experience when planning for the replacement of the transit fleet and other equipment and facilities;**
- **increasing the amount of service in the operating program by reducing annual underexpenditure levels, and**
- **replenishing the Transit Fare Stabilization and Operating Enhancement Reserve to enable the operating program to respond to unforeseen revenue or expenditure circumstances.**