March 15, 2004

The Honorable Larry Phillips
Chair, Metropolitan King County Council
Room 1200
C O U R T H O U S E

Dear Councilmember Phillips:

Enclosed is a proposed ordinance that responds to the Council Proviso on the loss of Vehicle License Fee (VLF) Revenue in the Roads Capital Improvement Program (CIP).

In November 2003, the Washington State Supreme Court issued a decision upholding the constitutionality of Initiative 776 (I-776), which removed the County's ability to continue collecting the $15 Local Option Vehicle License Fee (VLF). The decision was retroactive to December 2002, the date the voter approved I-776 went into effect. The timing and fiscal impact to the County of the court's decision led the King County Council to adopt the 2004-2009 Roads Capital Improvement Program (CIP) with a spending plan reduction placeholder (i.e. contra) of $33.6 million. The amount of the contra equals the total VLF revenue the County had earlier expected to receive from the year 2003 through 2009. The Council directed the Executive and the Road Services Division to recast the CIP to reflect this loss of VLF revenue. The direction was by proviso in the County's adopted 2004 Budget Ordinance.

The loss of this important revenue source has a staggering impact on King County's Roads Capital Improvement Program – it is a direct loss of $33.6 million of VLF during the current 6 year period coupled with the loss of $17 million in grants and developer mitigation payments, and $61 million of the $120 million bond financing plan will not be issued due to the loss of VLF revenue. This $111.6 million dollars was earmarked for CIP projects that must now be removed/deferred from the current six-year CIP. This means beginning in 2004 there is a $111.6 million reduction to the $400 million 2004-2009 Roads CIP that was proposed by the Executive in October 2003 - it is a 28% reduction in the amount of roads capital improvements the County will be able to accomplish in the next six years.

Over the past several years, the County has exercised a strong partnering and leadership role in working collaboratively with cities and the State to jointly design and build critical improvements on regional arterial roadways. Such improvements often cross jurisdictional boundaries and are critical in sustaining the important network of roads that connect communities, citizens to their employment, and goods and services to their customers. The funding source used by King County to partner on regional arterial improvements was the County's share of the $15 Local Option VLF. This is the very funding that I-776 took away.

Background

Four years ago, through adoption of the 2000-2005 Roads CIP, the County set forth on a path to aggressively accelerate into the immediate six-year period the construction of needed major road capacity projects, some from as far as a decade out in the County's twenty year roads capital needs plan. The projects selected for acceleration were those for which the Division had already funded the environmental review and design using existing ongoing annual revenues. However, the costs of right-of-way acquisition and construction of these accelerated capacity projects remained beyond the ability of the County to fund within the annual ongoing revenue stream without seriously compromising its commitment to high priority safety and infrastructure preservation/modernization projects. Therefore, to support the acceleration strategy it was decided the necessary additional funding would be provided by the sale of $120 million in general obligation bonds. It was planned that these bonds would be sold in three increments of $40 million each in years 2002, 2004, and 2006.

Accelerating construction of these capacity projects, including the North SPAR, South 277th Street, and the intersection of 140th Avenue Southeast & Petrovitsky Road, was seen as an effective way to provide congestion relief to the urban unincorporated areas of King County. It also would enable the County to meet its Growth Management Act (GMA) goals by continuing to accommodate a reasonable rate of planned growth in the urban unincorporated areas. An added benefit was that getting these major road widening projects built sooner, rather than later, made good business sense. It was recognized the cost to complete projects in future years would increase over time due to inflation, and the cost to acquire the necessary right-of-way would continue to increase at a rate much greater than inflation because of rising land values. In other words, by building these projects sooner the County would be able to construct more of them within the available bond enhanced road dollars than would otherwise be possible. Capturing the savings realized by avoiding future inflation and growth in property values would result in more improvements on the ground now because capacity projects are much less expensive to build today than they will be in another ten to fifteen years.

Of the $120 million in funding assumed in the 2000-2005 Roads CIP to come from the sale of bonds, $40 million worth of bonds were sold in 2002. This initial incremental bond sale enabled the County to construct the very critical North SPAR, Northeast 124th Street and South 277th Street road capacity projects. The debt service on the initial $40 million bond sale is $3.7 million per year and the bond debt will be retired in 2016.

Policy Based Implementation of the 2004 Roads CIP Budget Contra:

To begin the process of recasting the CIP in response to the loss of the County's VLF revenue, it is necessary to focus on the basic transportation responsibilities of King County government and to reconcile those obligations and policy goals with the amount and type of funding available to pay for meeting them. The County has primary responsibility as the local government that provides maintenance, preservation/ modernization and safety improvements to roads and bridges located in the unincorporated areas. The funding for accomplishing these local road services primarily comes from the Unincorporated Area Road Levy coupled with other dedicated road revenues to the County's Road Fund.

The basic services focus on providing safe, reliable and efficient transportation facilities to the traveling public. It has been, and continues to be, the County's policy to consider safety and infrastructure preservation/modernization projects as the highest priorities for funding. In the adopted 2000 King County Comprehensive Plan and the Executive Proposed 2004 Amendments to the Plan recently transmitted to the Council, Policy T-402 states *"The essential maintenance, preservation, safety and operations costs of the transportation system should be funded prior to other costs for capital improvements so that existing investment is protected and current mobility is not degraded."*

After thoughtful consideration of the loss of the VLF revenue, I have determined the most responsible reduction to balance the 2004-2009 Roads CIP is to defer major work on all road capacity projects not already under construction. The deferral of these major projects in effect decelerates their construction back out into the next decade. My decision is based solely on the loss of the vital VLF revenue. Without VLF revenue we cannot responsibly take on the significant additional debt that would be necessary to continue the original strategy of accelerating major road capacity projects. The financial package supporting the proposed CIP reduces the reliance on bond financing. The decision to limit the additional borrowing to $19 million of the $80 million in the original proposal is based on two factors. In addition to the loss of the VLF fiscal capacity the reduced borrowing amount is influenced by the accelerated annexation schedule proposed in the 2004 budget. According to this strategy a significant share of the unincorporated area tax base may be annexed over the next several years. A reduced borrowing amount limits the debt burden that will fall on the remaining rural unincorporated area residents. Furthermore, it becomes critical that any level of future bonding be directed to the highest priority categories of projects, preservation/modernization of infrastructure and traffic and pedestrian safety

This approach is consistent with the Executive Recommended King County Comprehensive Plan 2004, which was transmitted to you earlier this month. The comprehensive plan proposes to move to one level-of-service standard in the urban area, instead of the current three, to recognize that the urban area is where growth is to be accommodated. The effect of this change is that a uniform level of congestion will be tolerated throughout the urban area. The proposed changes to the CIP, which are part of this transmittal, combined with the revisions to the comprehensive plan, will have a negligible effect on the available residential capacity of unincorporated King County. There is ample capacity in urban King County to accommodate growth targets, as demonstrated in the King County Buildable Lands Evaluation Report, 2002.

Impacts of the VLF loss and reduction to the Roads CIP will not result in any additional employee layoffs this year (2004). The Division has held positions vacant in anticipation of the CIP reduction. However, in the event we are unable to restore CIP funding soon, next year and in future years there will be a reduction in force.

I continue to strongly support the need to solve our traffic congestion problems now, not ten or twenty years from now. I sincerely hope this drastic downsizing of our Roads CIP is only temporary. It is vitally important that we quickly take steps to fill the huge hole in King County's road funding plan that the passage of I-776 has left in its wake. To that end, I have asked our Department of Transportation to provide me with their recommendations for replacing the critical local VLF roads dollars with an equally flexible on-going revenue source.

Additionally, I am proposing funding be restored to individually numbered projects, and to countywide projects, that address identified safety and preservation/modernization of infrastructure needs. To do otherwise, would be inconsistent with Council adopted County policies and highly irresponsible, both from a societal and fiscal standpoint. Safety projects address serious pedestrian and traffic safety issues – when dollars are scarce the safety of the hundreds of thousands of citizens who use our road corridors every year must not be unreasonably compromised. Likewise, we have a duty to the taxpayers of unincorporated King County to ensure we are spending their unincorporated area levy dollars wisely by protecting the multi-millions of dollars they have already invested in the aging system of roads and bridges. The temptation to reduce such basic preservation activities as pavement overlay in order to fund more highly visible lower priority projects must be resisted – while the annual pavement overlay program may not be politically attractive, it is critical in maintaining the structural integrity of our roadways far into the future. This is a case of paying a little now or paying a lot more at that point in the future when long stretches of heavily used roadways begin to crumble. As responsible custodians of the public's tax dollars and roads system it is incumbent upon us that we manage both wisely and for the long-term.

Finally, the loss of the flexible local VLF revenue has created an unexpected dilemma for a transportation project, which the County agreed to jointly fund with the City of Seattle. On February 2, 1998 the Council authorized the County to enter into an interlocal agreement with the City in order to jointly fund, through the shared payment of bond debt service, the West Galer Street Project. The project is located well within the City's boundaries. The merits of this transportation project relative to anticipated broader economic benefits across the County made it a worthwhile joint endeavor. The County was able to fund its share of the bond debt service from its VLF revenue. Now, without the local VLF revenue, the only legally allowable source of funds the County can tap into in order to continue to meet its fiscal obligation is the general fund.

As you may recall, the use of Road Fund dollars, including the revenue from the Unincorporated Area Road Levy, is limited by State law to county road purposes only. The only allowable diversion is for traffic enforcement activities. Payment of the County's share of the West Galer Street debt service with the County's Road Fund dollars would constitute non-allowable diversion. Non-allowable diversion is not a responsible option because it would immediately jeopardize other road dollars which the County receives from the State. In the changes to the 2004 Roads CIP, I am proposing the annual $257,000 West Galer Street Debt Service Payment project be cancelled, the corresponding amount be reduced from the Road Fund transfer to the Roads CIP, and that the Road Fund (operating) increase its annual payment to the King County Sheriff's Office to a total of $3,391,015 to off-set traffic enforcement costs. The resulting savings to the general fund would be used for the debt service payment for the West Galer Street Project. This situation underscores the important flexibility the County had in partnering with cities using the local VLF revenue. It also points out why it has been necessary to remove unspent dollars, which the County had previously committed to the cities of Issaquah (SE Issaquah Bypass), Newcastle and Renton (Coal Creek Parkway) and Bellevue (150th Ave SE). Replacing those lost VLF dollars with Road Fund dollars would constitute non-allowable diversion.

Changes to the 2004-2009 CIP:

In addition to county road funds and revenue anticipated from the sale of bonds, many of the road capacity projects in the 2004-2009 Roads CIP also have federal and state grants programmed and reflected as revenue on a project specific basis. This means the full dollar impact to the Roads CIP is significantly larger than just the $33.6 million of VLF that is lost. Also there is the emergent $2.0 million estimated cost to the Roads CIP of reimbursing the State for the cost of processing VLF refunds – this has been programmed in CIP project RDCW14 Project Formulation.

In total, the proposed project budget reduction to the 2004-2009 Roads CIP is $111,596,000, broken down as follows:

Category	Project change	Debt Service Change	Total Change
Added Capacity	(95,309,000)	(29,326,000)	(124,635,000)
Infrastructure Preservation/Modernization	3,476,000	9,947,000	13,423,000
Safety	2,102,000		2,102,000
Other	950,000	(1,536,000)	(2,486,000)
Total	(90,681,000)	(20,915,000)	(111,596,000)
Contra	33,600,000		33,600,000
Total Change With Negative Contra Restored	(57,081,000)	(20,915,000)	(77,996,000)

In making the necessary reduction to the Roads CIP, County policy direction ensures safety projects and infrastructure preservation/modernization projects have received the highest consideration. As a result you will notice that although a road capacity project has been deferred, there may now be a smaller project identified for a spot location within that same corridor. This is because when we add capacity to a roadway we also address any safety and infrastructure preservation/modernization needs that are known to exist within the stretch of roadway to be widened. For example, in addition to new added lanes the entire width of the roadway receives a new pavement surface; intersections that meet warrants are signalized; and sidewalks and bicycle lanes are constructed. Now that road capacity projects are being deferred beyond the current Six-Year Roads CIP the safety and preservation needs that were planned to be addressed will still remain, and so prudently must be addressed within the current six year time frame.

Safety and infrastructure preservation/modernization projects, both those that are individually numbered projects and those funded as countywide projects are programmed annually at a funding level intended to provide the most cost effective approach. When funding is deferred or reduced below the optimum level or optimal timing, the projects become much more extensive and expensive. For example, by deferring or reducing funding for the countywide overlay program, road locations that would have initially only required a straightforward overlay of the existing pavement, later will likely require repair of the subsurface or roadbed and may also require additional drainage work because the roadway continued to worsen in the ensuing years.

The proposed revision to the Roads CIP also proposes the addition of one emergent safety project, CIP #202004, Norman Bridge #112P. The Norman Bridge ceased to serve a roads purpose when it was replaced 20 years ago, and is now in imminent danger of structural failure. The bridge has only marginal capacity to sustain its own weight and no capacity to sustain any additional loads. Due to the extremely deteriorated condition of the bridge normal repair and maintenance techniques are not an option. Because of its current condition, County workers are

now being exposed to unusual hazards whenever inspection or work on the bridge and security fencing is required. The $700,000 appropriation request is for the removal of the bridge. An ordinance seeking authorization to accomplish removal of the bridge on an emergency basis will shortly be transmitted to Council.

If you have any questions or concerns, please contact Linda Dougherty, Division Director of the Road Services Division, at (206) 296-6590.

Sincerely,

Ron Sims
King County Executive

Enclosures

cc: King County Councilmembers
ATTN: Shelley Sutton, Policy Staff Director
Rebecha Cusack, Lead Staff, BFM Committee
Anne Noris, Clerk of the Council
Steve Call, Director, Office of Management and Budget
Harold S. Taniguchi, Director, Department of Transportation (DOT)
Linda Dougherty, Division Director, Road Services Division (RSD), DOT