Senate Transportation Committee

Proposed 2010 Senate Transportation Supplemental Budget Summary

Transportation Outlook

Washington state, along with the rest of the nation, continues to feel the negative impacts of the worldwide economic recession, including the continued decrease in dedicated transportation revenue. Since enactment of the 2009-11 biennial transportation budget, total revenues have declined approximately $168 million for the biennium and more than $551 million over the course of the existing 16-year transportation financial plan.

Although transportation projects, particularly mega-projects, have benefitted during the current biennium from project cost decreases due to a favorable bid climate, it is expected that over the 16-year plan the combined impacts of operating and capital program increases coupled with declining revenues will result in a roughly $1 billion deficit.

The decline in revenues, particularly the underlying 23 cent fuel tax, results in a deficit situation in six years for those accounts supporting various transportation projects and operating programs, including preservation and maintenance programs.

As was the case last year, ferry operating and construction accounts are projected to be in deficit within four years. However, the current finance plan does allow for the completion of four new Island Home class vessels within the funded timeframe. Design work on the future 144-auto ferries continues with approximately $10 million in federal funds.

Lastly, expected operating program savings of approximately $300 million over the life of the 16-year finance plan imposed in 2009 are materializing. However, the declining revenue environment resulting from a continuing economic slump will put core transportation activities such as preservation and maintenance of existing assets as well as public safety at risk in the not too distant future.

A brief summary of the financial viability of the 16-year project plan since the enactment of the 2005 Transportation Partnership Act starts on page 3 of these highlights.

Highway Construction Program

The Senate Transportation Committee's proposed 2010 supplemental transportation budget preserves the capital construction project schedule, as adopted during the 2009 legislative session. This includes the continued progression on mega-projects, such as the Alaskan Way Viaduct tunnel replacement and the SR 520 bridge replacement, and projects of regional significance. Of the 391 projects funded by the 2003 'Nickel' gas tax increase and the 2005 'TPA' gas tax increase, 241 projects have been completed, 54 are currently in the construction phase, and 21 are anticipated to be advertised for construction in the next six months.

The proposed budget reflects the current competitive bid environment and maintains the planned, unprecedented level of transportation project spending adopted last year for the 2009-11 biennium, which will continue to stimulate the economy and create jobs.

To help maintain the current project schedule, the proposed budget assumes the issuance of "Build America Bonds" authorized by the federal government through the federal American Recovery and Reinvestment Act of 2009 (ARRA), which results in favorable interest rates and a corresponding reduction in debt service payments over the course of the 16-year plan. Build America Bonds, issued in 2009 for transportation projects, saved taxpayers more than $62 million in debt service payments over the life of the bonds.

2009 Federal Stimulus Funds, High Speed Rail, and TIGER Grant Awards

Twenty-one projects funded with ARRA dollars have already been completed and 100% of the $340 million will have been obligated by the required March 2nd deadline. Achieving this milestone should make the state eligible for re-distributed ARRA funds from other states that failed to meet ARRA spending mandates.

The budget also reflects a $590 million federal grant awarded to Washington state for high speed rail infrastructure. The award will help improve the Pacific Northwest High Speed Rail Corridor, including projects to increase speeds and on-time performance, while reducing travel times and rail congestion.

Transportation Investment Generating Economic Recovery (TIGER) Grant awards totaling $35 million for US 395 through Spokane, known as the North Spokane Corridor, have also been received in 2010 and are appropriated in this supplemental budget. This augments over $500 million in state funding already committed to the corridor.

Maintenance Level Funding

The proposed budget makes minor course corrections to shore up current policy around public safety, asset maintenance, and service levels. The most significant adjustment made in the proposed budget is to provide additional funding of nearly $38 million for fuel cost increases impacting various transportation programs, primarily the state ferry system. To better address the difficulties in forecasting the price of fuel, the proposed budget adopts a short-term change in fuel price estimation technique as a first step toward mitigating price volatility, with the idea of additional refinement of price generating strategies, hedging, and surcharge proposals taking place in 2011 per 2009 legislative direction. Other maintenance level items in the proposed budget include utility cost adjustments, federal expenditure authority adjustments, and certain compensation adjustments.

Policy Level Funding

Estimated trooper attrition rates at the Washington State Patrol assumed in the 2009 transportation budget were higher than anticipated. Therefore, the proposed budget provides $3.6 million to restore a basic trooper class within the Patrol.

As an alternative to making costly ferry terminal improvements, Washington State Ferries is provided funding and authority to phase-in and establish a reservation system at a total cost of around $12 million over the next few biennia .

The proposed budget also adopts various items intended to maximize existing transportation revenue collection and decrease costs to the transportation system. For example, the proposed budget puts in place certain recommendations of the surplus property work group in order to maximize the sale of surplus WSDOT property, encourages selling advertising on the WSDOT Web site, and directs the Joint Legislative Audit and Review Committee to look at more efficient ways of addressing storm water cleanup costs. Additionally, the Joint Transportation Committee is directed to study whether various small grant-awarding agencies can operate more efficiently and distribute grants more effectively.

The transportation budget continues to target low cost options for maximizing congestion relief on the highway system. The 2010 budget includes operating expenditures for new electronic speed limit and lane status signs on I-5 in the Seattle area that will be activated this summer. Drivers will see varying speed limits and traffic alert information on the signs. The project is designed to improve traffic safety and highway efficiency in one of the state's busiest corridors, where collisions account for as much as 70% of congestion. Similar signs will be activated later on I-90 and SR 520.

A brief summary of the financial viability of the 16 year project plan since the enactment of the 2005 Transportation Partnership Act

2006 Session Supplemental Budget
- Revenue forecast remained essentially unchanged from original estimates used to support the Nickel and Transportation Partnership Packages' capital investment plans;
- Minor schedule changes and reallocation of state and federal funds supported by passage of the federal reauthorization act known as SAFETEA-LU. Capital cost increases of around $100 million are covered primarily by federal revenues; and
- Amended Capron Act to provide additional funds for operating the ferry system and stabilizing ferry fares.

2007 Session 07-09 Biennial Budget
- 16 year revenue forecast holds up despite near-term pressure from rising fuel prices. Forecast decrease in fuel prices in outer-biennia keeps overall revenue picture stable;
- Global construction boom raises demand for construction related commodities (steel, concrete, etc.,) and skilled labor. Construction cost inflation fuels $2 billion in costs increases to planned, 16-year capital construction estimates;
- Stable revenue forecast allows for increased bond authority to accommodate construction cost increases; and
- Provided additional fee revenue to support enhanced Washington State Patrol program funding.

2008 Session Supplemental Budget
- Increasingly volatile global crude oil market and surge in global demand for petroleum products pushes fuel prices to record levels. Forecast demand for fuel is sharply lower impacting both state and federal fuel tax revenue forecasts. These events coupled with federal legislation

increasing fuel economy standards eliminated approximately $1.5 billion in revenues from the 16-year financial plan;
- Construction cost inflation leads to further refinement in costs estimates adding approximately $300 million to the 16-year capital construction spending plan; and
- A continued decline in near-term and forecast global interest rates supports balancing of long-term financing plan.

2009 Session 09-11 Biennial Budget

- Declining fuel consumption and consumer demand amidst an economic recession has reduced forecasted transportation revenues by an additional $2.8 billion for the 16-year financial plan. Refined cost estimates, principally due to the completion of the ferry system's long range plan, of $2.1 billion must also be accommodated in the 16-year plan;
- The long term financial plan remains balanced for all of the major construction funds except the Puget Sound Capital Construction Account (which supports ferry capital expenditures); and
- Near term moderation of construction cost inflation, the state's strong credit rating, extension of borrowing terms, the delay of certain projects, and savings in operating expenditures allows the state to move forward with unprecedented levels of transportation capital spending for the 2009-11 biennium.

2010 Session Supplemental Budget

- Near-term fuel consumption and vehicle registration forecasts continue to decline. Since the development of last year's 2009-11 biennial transportation budget, transportation revenues are forecast to decline by an additional $550 million over the 16-year finance planning horizon. Capital construction inflation savings incorporated during the 2009 budget development cycle have been borne out by recent experience resulting in a relatively flat capital construction cost curve for the remainder of the biennium.
- Weakness in actual and forecast revenue collections results in structural account deficits in most transportation accounts within the next 4 to 6 years. Compounding the problem is the need to demonstrate fully funded finance plans supporting the 2003 and 2005 tax packages which are becoming increasingly reliant on out-biennia fund transfers from other transportation accounts.
- Expected operating program savings of approximately $300 million over the life of the 16-year finance plan imposed in 2009 are materializing. However, the declining revenue environment resulting from a continuing economic slump will put core transportation activities such as preservation and maintenance of existing assets as well as public safety at risk in the not too distant future.