Sound Transit Letter to Federal Transit Administration Indicates Intent to Violate Subarea Equity

By Tom Heller and the CETA Technical Team,

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Introduction

This report adds to an earlier CETA (Coalition for Effective Transportation Alternatives) analysis of program adjustments Sound Transit (ST) outlined in an October 2, 2003 letter to Federal Transit Administration as the likely ST response to a potential court decision curtailing the agency's future Motor Vehicle Excise Tax (MVET) revenue. That analysis dated October 7, 2003 reveals that Sound Transit's plans place the financial resources of East King County at risk from costs of projects in other subareas, particularly the Initial Segment light rail plan in North King and South King subareas.

This new analysis shows Sound Transit's outlined program adjustments to I-776 to be inconsistent with the agency's commitment to the principle of subarea equity.

Discussion

Sound Transit's letter of October 2, 2003 attempts to address questions of Chairman Istook concerning the agency's ability to finance the Initial Segment should Initiative 776 be held lawful by the Washington State Supreme Court. Prominent among those questions was a concern with whether Sound Transit would find a conflict between its commitment to the principle of subarea equity and its ability to finance the Initial Segment, should a court decision result in the loss of MVET tax revenues.

Sound Transit's response, submitted to FTA Administrator Jennifer Dorn in a letter dated October 2, emphasizes that "any reduction in MVET revenues stemming from I-776 would apply to all five subareas in the Sound Transit district."

Rather curiously, however, the subarea financial impacts presented by the agency in its letter to FTA quite clearly depart from the principle of subarea equity. Under subarea equity, one would expect that the financial impacts of a loss of MVET revenue would be distributed across the subareas in direct proportion to each subarea's share of MVET revenue losses. This is decidedly not the case in Sound Transit's response.

Specifically, the subarea shares of financial impacts are at odds with subarea shares of lost MVET revenues. Table A below presents the disparity for each subarea between its share of impact and its share of lost MVET revenue.

Table A: Comparison of Subarea shares, MVET revenue loss vs. I-776 financial impacts			
Subarea	Share of MVET revenue loss[1]	Share of financial impact[2]	Variance (Comment)
Snohomish	14.6%	17.8%	impact is greater than revenue loss
North King	27.7%	32.0%	" " greater " " "
South King	10.7%	11.2%	" " approx. same as " "
East King	26.7%	29.0%	" " greater " " "
Pierce	20.3%	10.0%	" " far less " " "
Subarea Totals[3]	100.0%	100.0%	

Notes:
1. data source: 2004-2025 MVET revenue forecast, Sound Transit financial plan (2003 Baseline v4)
2. data source: Sound Transit letter, October 2, 2003 to FTA
3. subarea totals only; table excludes impact to Regional Fund

The most notable disparity in Table A is that for the Pierce subarea. Sound Transit identified a $68 million potential financial impact from I-776, representing 10% of the total impacts assigned to subareas. Yet the Pierce subarea will account for 20.3% of Sound Transit's anticipated loss of MVET revenue. Thus, program adjustments to the Pierce subarea are only one-half the level the principle of subarea equity would require.

To counter-balance Pierce's substantially less-than-proportionate share of impacts, Sound Transit assigned to the other four subareas financial impacts in excess of their share of lost MVET revenues. The net effect is that the impact to the Pierce County subarea, in a sense, would be subsidized by larger-than-proportionate impacts assigned to the other subareas.

We find it significant that Sound Transit's letter offers no justification for this disproportionate treatment of subareas nor any explanation of how it squares with the agency's professed commitment to subarea equity.

If subareas were to shoulder financial impacts proportionate to the loss of the agency's MVET revenues under I-776, a significantly different distribution of program cuts would result. Table B presents these differences in its right-most column. Most notable is the <u>additional</u> $70 million financial impact that would fall on the Pierce subarea. (Note that these impacts are in accord with the principle of subarea equity -- where spending, as well as reductions in spending, are to reflect each subarea's tax receipts, or loss of tax receipts.)

Table B: Difference in Subarea financial impacts under subarea equity principle			
Subarea	Financial impacts ($M) in ST letter[1]	Impacts ($M) if comported with subarea equity [2]	Difference ($M)
Snohomish	121	99	-22
North King	217	188	-29
South King	76	72	-4
East King	197	181	-16
Pierce	68	138	70
Subarea Totals[3]	679[3]	679[3]	0

Notes:
1. per Column 1, Table 1 of Sound Transit October 2, 2003 letter to FTA
2. distributed per subarea share of expected MVET revenue losses (see Table 2 above)
3. total subarea impacts exclusive of $24 M impact to Regional Fund

Analysis

We believe that Sound Transit is forecasting its intent to shelter the Pierce subarea from the potential impacts of I-776. Such an objective could be -- and is-- simply accomplished by shifting the impacts of MVET revenue losses to other subareas. It appears Sound Transit's October 2 letter to the FTA laid the groundwork for such an effort, should I-776 be ruled constitutional.

What would serve as the motivation for such an effort? We believe the motive is contained in the fact that of all the five subareas, Pierce has the lowest level of program reserves (termed "unprogrammed financial capacity" in ST's letter) shown in Table 1, Column 2 of ST's letter to FTA. Only $2 million. Hence it has the least ability to easily absorb future revenue losses. Even with the less-than-proportionate, $68 million impact assigned it, the Pierce subarea would face the largest program adjustments of all the subareas. But if subarea equity had been followed and Pierce were assigned a proportionate share of impacts ($138 million), Pierce would face the need to undertake a much larger amount in program adjustments ($136 million) which would potentially devastate the Sound Move program in Pierce County.

While it is reasonable to expect Sound Transit staff to take any and all efforts to preserve the agency's mission in the face of challenges, we find it regrettable that they would be willing to abandon the agency's commitment to equity in the treatment of its component subareas in order to do so.

Conclusion

Sound Transit's response to the FTA and to Chairman Istook's questions is incomplete, as it is inconsistent with its pledge of subarea equity. Sound Transit assigns to other subareas (Snohomish, North King, South King and East King) $70 million in financial impacts that subarea equity requires be assigned to the Pierce subarea.

Sound Transit should be asked to clarify how it assigned shares of financial impacts to the subareas -- and explain how those shares accord with its commitment to subarea equity.

Note: Tom Heller can be reached by email at theller09@pngusa.net. The CETA Technical Team can be reached at 206-781-4475, or by email, jniles@alum.mit.edu.