Financial Advisory Panel Report

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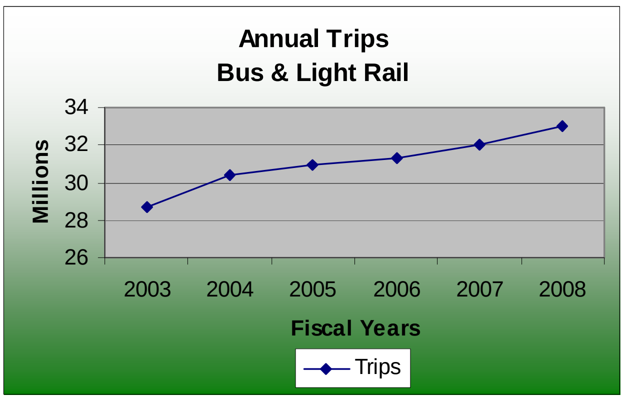
Financial Advisory Panel
Summary of Discussions to Finance the TransitAction Plan

Context

Sacramento Regional Transit District (RT) faces a confluence of circumstances that mandate a change in "business-as-usual." Revenues are falling due to economic conditions. Ridership is increasing to record levels, due in part to motor fuel prices. State financial support for transit is declining almost to the vanishing point. In addition, development continues to occur with a cursory acknowledgement to "future" transit service, in low-density communities with segregated land uses and cul-de-sacs. How does a public transit agency plan for the future in such an environment?



The debate has circled the issue for decades, with the result that RT has the authority in its organizing Act to seek property tax levies, and to receive revenues and the proceeds of bonds issued under sales tax initiatives. Of course, having the authority to do this is not sufficient. RT must also go to the voters for a ballot initiative to approve such financing mechanisms. But this begs the fundamental question: who should provide funding for public transit – users or the general public?

Advocates of "User pays" believe that public transit should be paid for by its users, transit riders, in the same way as highways are paid for by their users. This is not a true parallel, however, as most highway users only pay a portion of the cost of highway construction and maintenance through the motor fuel taxes and related vehicle excise taxes and fees. In some instances such as toll facilities, the percentage contributed by users is higher. But in no case does the automobile or truck user pay the ancillary cost of their transportation decision: air pollution, noise, congestion, traffic injuries and deaths. Public transit agencies in the U.S. and most other countries operate at a deficit. Transit riders contribute anywhere from 10 percent to 65 percent of daily operating costs through fares (user charges), and they, as members of the general public, contribute additionally through any of the public financing mechanisms such as sales, motor fuel, or property taxes. Transit users also do not pay for the environmental consequences of their trips, although these consequences are generally far less than those of auto trips.

Advocates of "Public pays" propose that, because public transit benefits everyone, including transit users, a generalized system of support such as a sales tax is appropriate in addition to fares. Public transit does provide benefits beyond simple transportation for its riders. Daily transit use saves the average rider over $3,600 per year in automobile ownership costs, [1] and it allows many to avoid additional costs such as downtown parking. Transit service also reduces congestion levels, air pollutants from personal travel, and energy costs.[2] Personal benefits to transit users include reduced stress levels, and increased discretionary income due to lower costs of transportation. These generalized benefits are not accounted for in the funding equation. To the same extent that motor vehicle use is not charged for the criteria pollutant or greenhouse gas emissions generated, public transportation is not credited with the avoidance of these societal costs.

It is on this basis that the following discussions took place between members of the Financial Advisory Panel, RT staff, and the consulting firm of Steer Davies Gleave (SDG). Between August of 2008 and February of 2009, the Financial Advisory Panel discussed a wide variety of options for funding RT's long-term investment plans. The consensus point of view in the conversations was that a more generalized, "public pays" approach would be a more appropriate and sustainable strategy for RT to follow. The members of the panel, a broad cross-section of legal, financial, and consulting expertise, are listed here:

Brian Williams Executive Director Sacramento Transportation Authority	**Peter Hathaway (now Matt Carpenter)** Director, Transportation Programs Sacramento Council of Government
Edward J. Fishman Partner, K&L Gates LLP	**Alan Wulkan** Founder/CEO InfraConsult LLC
Peter Ross Principal Ross Financial	**Jeff Boothe** Partner, Holland & Knight, LLP
Mortimer L. Downey Senior Advisor, Parsons Brinckerhoff	**Dee Brookshire** CFO Sacramento Regional Transit District (RT)

The panel was informed by RT and SDG of the current state of RT's finances, operations, and immediate plans. The subsequent conversation went into details about future revenues, the scale of investment plans being developed through the Transit Master Planning (TMP) process, and the likely financial shortfall that would result. This

[1] A person can achieve an average annual savings of $8,368 per year by taking public transportation instead of driving, based on today's gas prices and the average unreserved parking rate, according to the American Public Transportation Association's (APTA) "Transit Savings Report."
http://www.apta.com/media/releases/090107_transit_report.cfm

[2] A single person, commuting alone by car, who switches a 20-mile round trip commute to existing public transportation, can reduce his or her annual CO_2 emissions by 4,800 pounds per year, equal to a 10% reduction in all greenhouse gases produced by a typical two-adult, two-car household. "Public Transportation's Contribution to U.S. Greenhouse Gas Reduction," Science Applications International Corporation, September 2007.

shortfall must be resolved if the future investment plans are to be incorporated into the Metropolitan Transportation Plan 2035 (MTP-2035), and brought into the fiscally constrained Transportation Improvement Plan (TIP). The following section describes the revenue, investment, and funding gap analyses that formed the basis for discussion.

Overview of Funding Sources

RT Operating Revenues

Operating revenue totals $38.8 million, or 26.72% of total revenues in FY 2008. It consists of fares, contract services, advertising and other miscellaneous refunds, fees and charges.

- **Fares** are revenues from transit users. Farebox revenues have remained almost static (around $20 million per year) in the past, with the exception of FY 2006. Due to fare increases and restructuring of the fare system in September 2005, revenues increased from $21.1 million in FY 2005 to $29.9 million in FY 2008 (a 41.71% increase). Fare revenues accounted for about 20.5% of total revenues in 2008.
- **Contract services** are revenues paid by neighboring jurisdictions for transit services provided by RT. Approximately 80% of the $4.7 million in annual revenues come from two contracts – Folsom and Citrus Heights.
- **Other operating revenues**, $1.2 million annually, consist of advertising and miscellaneous refunds, fees and charges including developers' fees.

Operating revenues are the only sources of funding over which RT has control, although contract revenues based on TDA allocations are subject to fluctuations in sales tax revenues. The RT Board determines fare increases. In 2005, RT undertook a fare review study and as a result of this study, determined that fares will increase by 20% every five years (equals 3% annually). In FY 2009 the fares were increased substantially, in reaction to a reduction in State support, as well as diminishing sales tax revenues.[3] The average fare per trip was $0.84 in FY 2007 and $0.91 in FY 2008, and is budgeted to be $1.10 in FY 2009. Data in late 2008 indicates that the average fare for FY 2009 may exceed this amount.

Local and State Assistance

In FY 2008 RT received a total of $84.6 million, or 58% of total revenues, in assistance from local and State sources. Most of the funding, $55 million, was used for operating expenses, while the rest, $29.6 million, was applied towards capital expenditures.

[3] Fares were projected to increase at 20% every five years starting in FY 2011. However, RT was forced to move up its fare increase (of about 18%) to January of 2009, in reaction to a State economic and budget crisis.

As shown in Table 1, the largest revenue sources are Measure A and the Local Transportation Fund, which together account for 63% of local and state funding.

Federal Assistance

Federal formula grants are funds authorized by Congress in response to local and state agency applications for funding. The Federal government requires all projects that apply for federal funding to be included in the Metropolitan Transportation Improvement Program (MTIP), which is compiled by SACOG every two years. SACOG submits the MTIP to Caltrans which consolidates all regional TIPs and then submits them to the US Department of Transportation for approval.

TABLE 1 LOCAL AND STATE ASSISTANCE FOR YEAR ENDING JUNE 30, 2008

	Operating ($ Million)	Capital ($ Million)
Measure A	44.9*	.2
Local Transportation Fund	32.6	
State Transit Assistance	7	1.4
Flow-through	(1.4)[4]	
Development Charges		0.8
Public Transportation Account (STIP)		23.5
Transportation Congestion Relief Fund		1.6
Proposition 116		0
TOTAL	**83.1**	**27.5**

*-This figure includes $4.8 m carryover from prior years

RT received $22.8 million, or 15.7% of total revenues, from federal programs in FY 2008. $4.6 million were for capital expenditures. Table 2 shows the detailed federal grants and amounts received by RT.

[4] Since RT is nominated the “designated receiver” some funding flows through the agency to other smaller agencies.

TABLE 2 FEDERAL ASSISTANCE FOR THE YEAR ENDING JUNE 30, 2008

	Operating ($ Million)	Capital ($ Million)
Job Access Reverse Commute Program (3037)	0.72	
Large Urban Cities Program (5307)	17.3	0.6
Bus and Facilities Replacement Program (5309)	1.0	
Fixed Guideway Program (5309)	4.9	
STP and CMAQ		3.0
Federal Urban Aid		
TOTAL	**23.9**	**3.6**

Summary of Revenue Sources

As shown in Table 3, only 22% of revenues are under the direct control of RT. Close to half of total revenues are derived from local and state sales taxes. Some 18% of total revenues consist of federal and state funding which is dedicated to capital project funding. Additional federal assistance for operating purposes makes up 13% of total revenues. [5]

TABLE 3 SUMMARY OF REVENUE SOURCES

	$ Million	Proportion
RT Operating Revenue	38.8	22%
Sales Tax Funding: Measure A, LTF and STA	84.5	47%
Restricted to Capital Funding: Federal and State	31.1	18%
Other Federal Assistance	23.9	13%
TOTAL	**$178.3**	**100%**

[5] This is the result of using a portion of Federal capital funding for capitalized or preventative maintenance. The Federal policy was changed in the 1980's from one of providing operating and capital support to providing capital support only. To moderate the effect of this policy change, transit agencies were allowed to use a portion of Federal capital funds for capitalized maintenance.

The Investment Options

RT began its planning process with a broad outreach program, bringing in a wide variety of local stakeholders, partners, and the general public. To initiate the discussion, RT and its consultant SDG developed three distinct scenarios of investment, A, B and C. Scenario A was basically a status quo scenario, where only projects already under way or funded through existing means would be undertaken. Scenario B was the MTP-2035 investment strategy, based on a ¼-cent sales tax initiative to be pursued in 2012.[6] This plan was adopted by SACOG in 2007. Scenario C resulted from the public outreach program, and was very expansive, including a roughly nine-percent per year increase in bus service, as well as light rail and tram expansions to all quarters of Sacramento County and beyond. Table 4 shows these different investment scenarios.

TABLE 4 THE INVESTMENT SCENARIOS

	Scenario A	Ratio	Scenario B	Ratio	Scenario C	Ratio
Total Capital Investment [1]	$2,073		$3,405		$6,912	
Average Annual Operating Cost [1]	$208	10.0% [2]	$370	10.9%	$563	8.1%
Modelled Annual Ridership	39m	$5.33 [3]	84m	$4.40	109m	$5.16

1. Costs are in Millions of $2008.
2. The ratio of Operating Cost to total investment.
3. The total operating cost per trip.

This range of investment was taken back out to the public, via public workshops, meetings and an online survey. The general reaction was highly favorable to the greater investment scenarios – i.e., B, and C. These scenarios focused on support for the Regional Blueprint land use plan, increased passenger amenity, safety and security throughout the RT system, significant increases in public transit service, and increased connectivity of the system as a result. The following summarizes the public comment results.

The online survey and public discussions tested the most and least important factors/characteristics of transit service – 12 attributes were provided as options. The percentage next to each factor indicates its level of support among more than 2,000 respondents.

- **Most important:**[7]
  - Safe and secure services (65%)
  - Reliable and punctual services (64%)

[6] Actually, a ½-cent sales tax of which transit county-wide would receive ¼ cent.
[7] Percentage of respondents who thought these factors were most important.

- High frequency services (36%)
- Affordable fares (32%)
- Fast journey times (31%)

> **Least important:**[8]
- Easy for everyone to get on and off services (40%)
- Direct services so no need to transfer (39%)
- Friendly and helpful staff and drivers (35%)

However, this public input process did not address the issue of how to pay for the requested investments. A subsequent "Willingness to Pay" exercise was developed, to re-test the public's support for the levels of transit investment proposed. A significant proportion of the investments under consideration continued to gain wide support, though projects closer to the center of Sacramento (City and County) ranked higher. In fact, support continued although the willingness to pay exercise was disseminated at the height of the State budget impasse and the declaration of a worldwide recession. This resulted in the following conclusions:

1. The public continued to support a strong transit investment program
2. The "willingness to pay" exceeded the MTP-2035 investment scenario.

The anticipated shortfall in funding for the RT TransitAction Plan for the period 2008 to 2035, resulting from the public support for a comprehensive transit investment, was estimated at $6.9 billion in present value terms - an average shortfall of approximately $290 million per year (capital and operating costs taken together).

> This shortfall is based on the following key assumptions:
- RT pays for the capital expenditures related to projects within its member jurisdictions' service area (i.e. Sacramento County, Sacramento City and Rancho Cordova) and federal funding for some of those projects has been included based on the anticipated share of funding and competitiveness under the FTA New Starts program
- Capital projects in other communities are assumed to be paid for by a local contribution from the community where the project is located together with federal funding, and are therefore not included in the funding shortfall
- Operating costs for all projects planned in the TransitAction Plan will be paid for by RT. In return, RT receives all fare revenues and local shares of sales tax from those communities

[8] Percentage of respondents who thought this factor was least important to them. Not all respondents indicated an opinion on these factors.

Before such a shortfall in funding could be addressed, it became necessary to re-examine the basis of the planning effort. We knew how much people wanted us to do, but what could we afford to do in a systematic way if our resources were limited?

Tiered Investment Approach

Using a Multiple Account Evaluation method, looking at the four ranking criteria of Community, Environment, Economy, and Deliverability (equal weight given to each), RT ranked the projects identified in our public outreach to date. Some projects not only ranked highly with the public, but also in terms of cost-effectiveness, support for the Blueprint, and deliverability. Others ranked less highly, and depended upon specific land use and population outcomes under the Blueprint to make them cost-effective and deliverable. These projects were then arrayed in tiers, based on three funding potentials: the equivalent of a ¼-cent sales tax increment, all of which would be used for transit;[9] a ½-cent sales tax increment, which would be used entirely for transit; and a 1-1/2-cent sales tax increment, again for transit. The ¼-cent sales tax increment is equal to the ¼-cent sales tax revenue that would be provided to transit in the current MTP-2035. The following tables show the ranking order of all of the projects considered in the investment portfolio. They are organized as major extensions of light rail and streetcar as well as bus trunk lines and Bus Rapid Transit.

[9] In this case, "used for transit" means that RT will not be the sole beneficiary. Other transit providers in Sacramento County, such as Elk Grove, would also receive funds under the initiative.

TABLE 5 RAIL-BASED PROJECTS IN RANK ORDER

1	DNA Line
2	Downtown South Loop
3	Citrus Heights LRT
4	Elk Grove LRT
5	Downtown North Loop
6	Roseville LRT
7	Rancho Cordova 1-3
8	Citrus Heights - Rancho Cordova Streetcar
9	Rancho Cordova 4-5
10	El Dorado County LRT
11	Rancho Cordova 6-7

TABLE 6 HI-BUS AND BRT PROJECTS IN RANK ORDER

1	Riverside Boulevard	13	South Watt Avenue
2	Freeport Boulevard	14	Bradshaw Boulevard
3	Norwood	15	65th Street
4	Del Paso	16	Arden Way
5	Stockton Boulevard	17	Antelope
6	Fair Oaks	18	Greenback Lane
7	Jackson Highway	19	Sunrise Boulevard
8	Madison	20	Watt Avenue
9	Marconi	21	Hazel
10	El Camino	22	Easton Valley Parkway
11	Howe Avenue	23	Elkhorn Boulevard
12	Florin Road	24	Grant Line Road

A BRT Vehicle in Cleveland

Funding Strategies

Faced with this investment scenario, RT returned to the Financial Advisory Panel to discuss options for funding. A fundamental premise was that while RT would have to go to the public to seek a more stable, long-term funding source, it would first have to identify those resources that it could manage or enhance without the public's prior approval. The following table summarizes the types of revenues that were discussed by the Panel – many sub-types and variations are possible within each resource. In practical terms, RT only controls its fares, advertising revenue, and park-and-ride lots (which are currently not charging fees). All of the other revenue sources are controlled by the City or County of Sacramento, or the State.

TABLE 7 TYPES OF REVENUE MEASURES APPLICABLE TO RT

Revenue Source	Description
Fares	Increasing the costs of fares
Sales Tax	"Measure B" 0.5% increase
Road Pricing	
Regional Gas Tax	Counties have the power to levy a fuel tax on a county-wide basis as explained under the California Revenue and Taxation Code
Vehicle Levy	Levying a fixed fee on each vehicle at the time of annual licensing
Congestion Pricing	A Road Pricing mechanism that imposes road tolls on motorists
Parking Charges	Implementing parking charges on current free parking or increasing existing parking rates in urbanized areas
Community-Based Charges	
Special Taxes[10]	RT has the authority to levy special taxes for transit purposes
Development Charges	One-time charges on developers for new development projects
Access Fees	Annual charge to commercial and government properties near transit

The following table indicates the specific types of proposals under each of the categories that were discussed with the Financial Advisory Panel, as well as their potential annual revenue level. The ease of implementation/administration differentiates between measures that RT can implement on its own, and measures for which it needs to seek public approval, such as a ballot initiative, as well as those measures that must first be enacted legislatively and approved by voter referendum. As indicated above, RT has current authority to pursue a sales tax increment, and a special tax measure, within its charter. However, RT is dependent upon a 2/3 public vote at the ballot for either revenue source. These circumstances do not eliminate a revenue measure from consideration. Rather, they are a reminder that RT must work with its funding partners and the general public in pursuing them.

[10] RT is not authorized for a "property tax" per se. Passage of Proposition 13 eliminated property tax authority for transit systems statewide. However, RT does have the ability to levy a "special tax", with appropriate voter approval, which would not be subject to Proposition 13.

TABLE 8 REVENUE MEASURES CONSIDERED BY RT[i]

Revenue Source	Charge/Increase	Annual ($m)	Application	Ease of Implementation/ Administration
Fares	Double the average fare	$75m	Operating & Capital	Within RT authority –increase existing charge
Sales Tax	Additional ¼%	~$50m	Operating & Capital	Moderate/Hard - Process established (2/3 support needed) –increase existing
Regional Gas Tax	$0.05/gallon	~$30m	Capital Only	Moderate – increase existing charge, but need voter approval for new application of revenue
Vehicle Levy	$50 licensing fee per vehicle	~$60m	TBD	Difficult – increase existing charge, but likely need **legislation** for new application of revenue
Parking Charges	50% increase	$5m	TBD	Difficult – increase existing charge, but likely need **legislation** for new application of revenue
Special Tax	$100 per household	$95m	Operating & Capital	Moderate – institute special tax, but need voter approval for new application of revenue
Developer Charges & Access Fee[11]	Project specific	TBD	Capital Only	Possible but requires Partner support – increase existing charge on communities
Potential Annual Revenues		$315m		

There are current economic and societal factors that will tend to support, or militate against, one or another revenue measure. If RT both raises fares and institutes parking charges, ridership may be negatively affected and there will be significant environmental justice concerns. The City and County of Sacramento are having regular discussions to seek equity in the application of developer fees. Too great an imbalance between fees imposed by the City and County (or between counties) pulls development away from where the fees are highest.

[11] Mello-Roos districts were also discussed, but due to their geographic limitations and lack of flexibility (not used for operating funds, for example) they were omitted as impractical.

However, enactment of AB-32 in 2006 and SB-375 in 2008 mandates a new debate on pollution, global climate change, and land use. Recently published draft guidance from the California Air Resources Board (CARB) places the responsibility for achieving certain greenhouse gas emission goals on the Metropolitan Planning Organizations through their land use plans. This may provide the opportunity to undertake some of the revenue measures that seemed beyond possibility just a few years ago. These might include an emission-based vehicle registration fee, a vehicle-mile driven fee (at the pump), or even an emission-based "urban environment" fee, graduated to favor cars that both pollute less and use less overall energy. Revenues generated from these fees would be applied to mitigation measures for projects that increased vehicle miles of travel. Public transit services would be such a mitigation measure.

London's cordon pricing charge helped return Trafalgar Square to pedestrian use.

Congestion Pricing and Cordon Pricing (the London central city automotive fee) were also discussed with the Financial Advisory Panel, with the conclusion that Sacramento has insufficient congestion to make such a scheme workable today. For a congestion charge to work there must be sufficient congestion, and insufficient automotive alternatives, to actually change driver behavior. (London increased bus transit service significantly in conjunction with the Cordon Fee.) At the same time, some single-occupant drivers have to be willing to pay the charge due to their high perceived value of personal time or convenience. Sacramento will not be in that position for some years. Nevertheless, SACOG is studying the potential for implementing High Occupancy Toll or "HOT" Lanes in major corridors in Sacramento.[12]

Conclusions

Taking all of these circumstances into consideration, the Financial Advisory Panel did recommend pursuing a ballot initiative as the primary financing measure for RT's TransitAction Plan. To complete this recommendation, the Panel was faced with the following choices:

- Leave the funding prospect at Status Quo – i.e., an actual ¼-cent sales tax increase in 2012 as in MTP-2035
- Accelerate a sales tax increment (or its equivalent) of ¼-cent to 2010

[12] This would be the means for implementing a congestion pricing scheme, where single-occupant automobiles would be allowed to use HOV lanes for a fee that would vary by time of day, or even by congestion level, from as low as $1 to as much as $7 per use.

- Accelerate the sales tax increment or its equivalent and increase it to ½-cent

Under the Status Quo, the revenue would be insufficient to achieve the goals set out even in the MTP-2035. The State budget process has decimated transit funding in an effort to balance itself, proposing to eliminate the Transportation Congestion Relief Program (TCRP) which has been a significant source of funding to RT. The current Measure A sales tax program has experienced declines of 3% and 3.9% in 2007 and 2008. An even greater decline is projected for 2009. Current economic conditions indicate that sales tax revenue will not increase again before 2010. RT would thus largely replace its projected funding shortfall with such a measure, leaving some funds for increases in transit service, but not a large sum.

Accelerating the ballot initiative alleviates some of this pressure, though it places the ballot initiative itself in a difficult year. There is no certainty that the current economic crisis will be in substantial recovery in 2010, and the State has already proposed a full percent increase in the sales tax, to be voted on in May 2009. However, RT is planning progress on several projects that may provide public visibility in support of a ballot initiative. Also, if the initiative fails in 2010, RT can pursue it once again in 2012. In the 2008 election, over 70 percent of ballot initiatives in support of transportation programs nationwide were approved by voters.[13] Given the State's pursuit of a sales tax increase, to last between 2 years and 5 years, RT will have to consider other revenue initiatives to provide the funding needed to equal ¼-cent of sales tax increase.

Accelerating and increasing the sales tax increment or its equivalent to ½-cent for transit would provide between $80 million and $100 million per year in support of the RT TransitAction Plan. This would still not cover the over $7 billion funding shortfall identified in the scenario-based investment proposal. However, it would fully restore the current funding reduction from State sources, and fund a substantial increase in transit service, as described in the Tier 2 investment proposal, including necessary capital investment for new streetcar and light rail extensions *in time to influence ongoing land use discussions*.[14] This funding level would also assure the public of increased safety and security, improved connections, better public information, better system access, and ease of use by pedestrians, bicyclists, and others. While this level of funding was seen as the most appropriate for the TransitAction Plan, it will likely have to be pursued with a blend of sources, which may not include a sales tax.

A 1.5-cent sales tax increase was also discussed but eliminated as unrealistic. The people of Sacramento would not approve such a large measure at one time, following

[13] http://www.cfte.org/2008%20Election%20RESULTSPress%20Release.doc

[14] This is a critical consideration in the TransitAction Plan. A variety of transit investments will not be cost-effective if they are not supported by land use decisions. RT intends to base its transit guidelines on a Blueprint-supportive range of mixed-use development characteristics, including housing and employment densities within specific distances of light rail stations and major bus transfer facilities.

the State's latest increase in the sales tax rate, particularly without knowing precisely how it would be used.

A Phased Approach

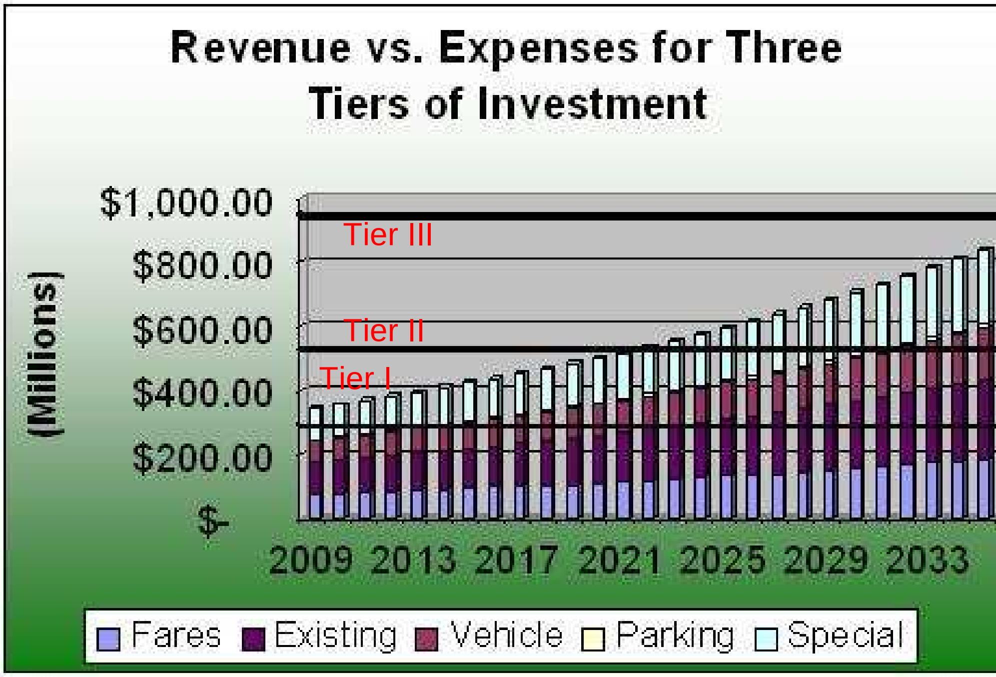
The Financial Advisory Panel did not stop there, however. The revenue from the likely ballot initiative will grow with the State's economy, but it will not grow sufficiently to finance more than the Tier 2 investment portfolio. This is a 30-year TransitAction Plan, intended to evolve as the Sacramento Region does. Consequently, the Panel advised that RT consider a staged financing plan, adaptable as the Sacramento Region's circumstances change. The first stage would be immediate, taking into account RT's available revenue sources and increasing them as much as possible. The general public will not respond positively to RT's request for funds unless RT proves it has maximized the resources under its own control.

- A ten-percent annual increase in fare revenue (based on the increase in fare recovery and in ridership) from 2010 forward yields over $75 million in revenue by 2020.[15]
- A $2 per day charge for park-and-ride usage system wide yields approximately $1.875 million annually. At a 3% increase per year this grows to $2.34 million per year net of expenses by 2020. RT would have to study the impact of this measure on transit system use, as ridership loss is likely.
- Advertising revenue, currently at $1.6 million per year, if grown with increases in service by about 4 percent per year, would reach $2.3 million per year by 2020.
- Finally, a county-wide sales tax increase of ½-cent (or its equivalent), of which RT would receive about 80 percent (other operators would receive the rest), would generate about $80 million today. If this increased at 3 percent per year, it would represent over $110 million in RT's budget by 2020.

All of these revenues taken together grow from approximately $123.5 million in 2010 to over $187 million in 2019. This is a substantial increase in RT's financial capacity, but it is likely to be overwhelmed by the growth in RT's service and demand for that service during the decade. This will mandate a new conversation between RT, its funding partners, and the general public. The Region of Sacramento will have continued to evolve, and congestion is likely to have increased significantly. Measures that were heretofore considered absolutely unfeasible will seem gradually more acceptable. Our transportation and home energy profiles will have changed, motor fuels as we know them will likely be inordinately expensive, and the shortage of critical resources such as clean water will make conservation and environmental stewardship paramount considerations.

[15] RT must achieve a 30% farebox recovery ratio, as directed in the New Measure A bond authorization, and should consider distance-based and premium service pricing as its service capability improves.

The following chart demonstrates the relative ability of these measure to support the tiered investment program outlined in the TransitAction Plan. The chart combines RT's current revenue expectations with the fare increase, household fee, and automotive fee, increased each year at 3.5 percent annual growth. This is compared with the three tiers of investment, represented as a constant (discounted present value) annual expenditure. The chart shows that the first phase ballot initiative can support the Tier I and Tier II investments, but that more will be required to pursue the Tier III projects.



Given the circumstance of a near-term sales tax increase, which takes the tax rate to one of the highest in the country at 8.75 percent, RT may be best positioned to base its ballot initiative on a combination of a special fee on households county-wide, and a vehicle registration fee. The two measures will require significant support from the State legislature, but there is time for appropriate legislation to be developed and passed prior to the placement of the initiative on the ballot in 2010. A $25 per vehicle registration fee, and a $70 per household fee, would raise the same amount of revenue as a ½-cent sales tax. This would produce the revenue necessary to fund the Tier 2 transit investment program in the near term.

However, the State sales tax increase is purportedly temporary. The May 2009 vote will determine whether the sales tax increase is for just two years, or for five. RT could plan a ballot initiative to perpetuate a portion of the State's tax increase, at ½-cent. This would potentially be likelier to succeed than a new revenue ballot measure, because the State's tax increase would be declining by ½-cent. It is generally easier to continue an existing measure than to institute a new one. This would, of course, be bound up with the same cautions as any other ballot measure – accountability, transparency, and a clear presentation of the investments to be supported by the ballot measure. The common thread between the successful ballot initiatives for transportation nationwide has been the public's understanding of exactly where the money is intended to go.

It will take 15 or 20 years for the beginning phases of the TransitAction Plan to build out. This is the point at which RT should begin the new conversation to secure a further revenue source. It should be an environmentally based fee, either levied on automobiles, or on households and businesses. The automotive fee, if implemented at the 2020 equivalent of $25 per vehicle, would generate over $32 million at that time.[ii] The fee would be raised or lowered based on the environmental performance of the vehicle and driver.

The household and business fee would be a "transit access fee" designed to support the transit agency for providing the service over time. If implemented in 2020, that fee would generate approximately $124 million in revenue annually over the entire County of Sacramento. However, it would not be collected from communities that chose not to have transit service, so the revenue may be significantly lower. But in this way, a transit access fee could form the basis for a dialogue between transit agencies and developers and their communities. If the development wishes to have effective transit service to reduce the transportation costs of its residents, it will provide a consistent and sustainable revenue stream for public transportation, on a similar basis to a "front foot benefit" or other utility charge.

Successfully pursuing this additional revenue would likely be sufficient to support the Tier 3 investment portfolio we have identified. In the interim, however, RT will have built a foundation for its service to grow from. In addition to supporting Transit-Oriented Development with its stakeholders and partners, RT will provide Development-Oriented Transit, fulfilling the balance of the equation in achieving a "lifestyle" rather than "lifeline" service. To pursue future revenue sources, as this plan envisions, will require that RT make its service into one that provides true and convenient transportation choices to the great majority of Sacramentans, so they use the service for any daily activity, almost without thought. Only by achieving this level of service excellence will RT be able to renew the conversation with the people of Sacramento, and plan the next major phase of transit investment in Sacramento's future.

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[i] One mechanism that was briefly discussed and may still have potential is the Transient Occupancy or Hotel tax. This has been used in places such as New Orleans (the RTA there has dedicated revenue from a hotel/motel room tax) or Reno, Nevada, where the revenues from such a fee supported bonds used for major transportation infrastructure. Much research and analysis would have to precede a proposal to institute such a funding mechanism.

[ii] This is a "pay at the pump" mechanism, which has been experimented with in Portland, Oregon, and which the State of Ohio is studying. Under this program, a fixed charge per mile would be assessed

against each car, based on its energy and emission profile. The baseline for the charge would be the current level of motor fuel tax that would be collected in the absence of the per-mile charge. That is, the per-mile charge substitutes for the motor fuel excise tax. Cars that have higher engine displacement, or higher horsepower, or higher fuel consumption, pay at a higher rate per mile, and cars that run on less fuel pay at a lower rate. Because the charge is documented with each fill up of the car's tank, the receipts provide evidence of the payment of the charge, and can be used for any economic adjustment through the tax code, for disadvantaged households. As motor fuels evolve, this charge can easily be changed to a "carbon" fuel tax, as issues of greenhouse gases and global climate change increase in political and environmental weight in the public debate.

Concerns have been raised about this mechanism. For example, 21 States still have constitutional restrictions on using motor fuel excise taxes for other than highway purposes. Thus, a per-mile charge that directly substitutes for a motor fuel excise tax would also be limited to highway purposes, unless the California constitution was changed. Some detractors have claimed that the per-mile charge and the in-vehicle electronics that make it possible constitute an invasion of privacy. This is the same claim that was raised with regard to electronic toll devices, and the tolling agencies have easily addressed the issue in implementation.

To take advantage of this revenue source, RT would have to rely on a statewide effort to amend the California constitution, institute the motor-vehicle mileage-based tax, and secure 2/3 approval by the public at the ballot box. This will require years of gradually increasing energy and environmental awareness on the part of the general public to have a reasonable chance of success.