

With or Without I-776, Seattle Light Rail Financing is Shaky, Threatening All Parts of the Puget Sound Region

By John Niles and the CETA Technical Team

Summary: The October 2, 2003 Sound Transit letter to FTA on the impacts of I-776 implementation illustrates why central Puget Sound citizens and their Congressional representatives should insist that Sound Transit and FTA issue a budget and funding plan for the complete 24 miles of Link Light Rail promised by this agency, before using hundreds of millions of Federal New Starts money to begin to build the 14 miles of Initial Segment.

Prelude: It is ironic that Sound Transit insists that the \$409 million remaining to be sent from Federal Transit Administration (FTA) as part of its \$500 million Federal New Starts capital construction grant is required to build the \$2.4 billion Link Initial Segment of light rail, while at the same time the local agency claims in a letter to FTA that a \$703 million voter-approved reduction in their funding would not be a problem. But that is what Sound Transit did.

The following is a response to this letter from the region-wide, pro-transit, non-partisan, grassroots opposition to this project, organized as the Coalition for Effective Transportation Alternatives (CETA). CETA describes a more cost-effective transit plan alternative at <http://www.effectivetransportation.org>.

The Washington State Supreme Court might soon uphold Initiative 776, severely curtailing Sound Transit's motor vehicle excise tax (MVET) revenues, perhaps even zeroing them out. Sound Transit's October 2 letter to the FTA's Administrator Jenna Dorn attempts to demonstrate how the agency can use the agency's remaining revenue stream to complete construction of its Initial Segment light rail project while not violating the subarea equity policy established in its ten-year Sound Move plan. Part of that remaining revenue stream would be the \$500 million in FTA New Starts funding – \$91 million already appropriated – through the Full Funding Grant Agreement (FFGA) currently pending before Congress.

Although the October 2 letter outlines actions the Sound Transit board could undertake to offset the loss of an estimated \$703 million in capital funds due to an unfavorable ruling on I-776, the letter also illustrates how thin the agency's finances are – even if I-776 were overturned and that \$703 million retained.

The agency's letter highlights the extraordinarily precarious financial position into which I-776 would place the agency's construction plans. Sound Transit's response to I-776 represents the equivalent of a high-wire act – indeed, a high-wire act without a net, for there would be no room left for error. Given the agency's demonstrated historical record of cost overruns, for example, this does not present a sanguine prospect. (Most recently, the Inspector General audit of July 7th reported a \$349 million – or 45 percent – increase in Sounder Commuter rail program costs over the past five years.)

Sound Transit's outlined course of action for coping with I-776 relies principally on depleting over one-half billion dollars of financial reserves that have been intended to help fund a Phase II series of transit investments, most notably the extension of Link light rail north from downtown Seattle to the University District and to Northgate. The agency's chair has proclaimed to the public on numerous occasions that

the agency has sufficient resources to construct the promised light rail line, ensuring voters that Sound Transit indeed could – and would – make good on their promise of a light rail line from Northgate to SeaTac.

A court ruling supporting I-776, however, would decimate these very reserves, the so-called unprogrammed financial capacity. As the agency's letter reports, this capacity would be almost entirely foregone should the court uphold I-776.

Sound Transit's letter outlines other additional actions the agency would take to respond to I-776. But these other actions, principally adjustments to planned future levels of commuter rail and express bus service, represent a small portion – a little over twenty percent – of the total dollar savings the agency outlines in its letter to FTA. Their very inclusion among necessary financial adjustments underscores the severity the loss of MVET revenues would have on Sound Transit's plans.

Table 1 of Sound Transit's letter summarizes the extent of financial adjustments the agency would take in response were I-776 upheld. But Table 1 lacks an important column, one that would make apparent the most serious consequences of the agency's response to I-776. Specifically, what is lacking is a column that reports, for each subarea, the unprogrammed financial capacity remaining if the actions outlined by Sound Transit were taken. If such a column were added to Table 1, it would show the following:

**Summary of Subarea Financial Impacts Through 2009 of
MVET Revenue Loss Due to I-776 (\$ millions Year of Expenditure)**

Subarea	1. Financial impact of I-776	2. Unprogrammed financial capacity	3. Possible net program cuts	4. Remaining unprogrammed financial capacity
Snohomish	121	89	32	0
North King	217	298	0	81
South King	76	47	29	0
East King	197	376	0	179
Pierce	68	2	66	0
Regional Fund	24	N/A	24	N/A
Total	703	812	151	260

Source: Table 1, Sound Transit letter to FTA (Oct. 2, 2003); column 4 is derived.

In three subareas (Snohomish, South King and Pierce), unprogrammed financial capacity is entirely eliminated by I-776, hence leaving NO room for error in delivering planned projects – nor any room for future Phase II enhancements. The North King subarea's funding cushion (reserve) would be reduced by 73%, to \$81 million. (This is a minuscule cushion when one considers that the North King subarea bears the vast majority of the financial burden for the light rail project, including both the Initial Segment and any future extensions north.) The East King subarea's funding reserve is whittled in half.

These subarea reserves were expected to be a down payment on extensions to the Initial Segment line, extensions originally promised as part of Phase I. The practical effect of the loss of these unprogrammed subarea reserves, beyond removing almost all room for error in constructing the Initial Segment and completing planned commuter rail and express bus projects, is that NO such extensions can credibly be

mounted by the agency – at least not without the assent of voters to raise their Sound Transit taxes beyond the current level, a dubious prospect at best.

This illustrates why, before granting federal New Starts money to begin construction of the 14-mile Initial Segment light rail line, FTA and Congress should insist that the agency produce and present to the citizens of the Puget Sound region for their approval a financial plan to complete the full Central Link light rail system the agency promised the region's voters in 1996. This issue needs resolution.

We believe that the capital cost of building the complete "Sound Move" light rail system (from S 200th in SeaTac to Northgate) is now nearing \$7 billion, of which we estimate \$4.3 billion has no identified funding source – and for which the agency has no plan. We question the wisdom of providing this agency a \$500 million federal grant while so many serious questions – and risks – remain unanswered.

Until a complete plan to complete "Sound Move" is presented, citizens of the region should insist that the federal government disapprove the FFGA application and prohibit the start of construction on the Initial Segment. Absent such a plan, but with the FFGA in hand, Sound Transit would build the Initial Segment come hell or high water, even if I-776 were upheld. Judging from their outlined course of action in response to I-776, the risk of not having enough money to complete the line – much less an extension north – seems irrelevant to the agency.

Certainly, I-776 poses a significant risk to the promises that Sound Transit made to the region. But wiping out virtually the agency's entire unprogrammed financial capacity cushion does not constitute a constructive response. The agency's aim is to preserve an already greatly compromised light rail line at any and all cost. Such a severe depletion of unprogrammed financial capacity to accomplish their central aim is reckless.

The course of action the agency has outlined in its letter to FTA reduces the chances of extending light rail beyond the Initial Segment from slim to none. With this course of action, the Initial Segment will be the first, last and only segment.

Furthermore, this recalcitrant stance by the agency places in jeopardy the promise of subarea equity. Sound Transit's response to I-776 would leave a total of only \$260 million in unprogrammed financial capacity remaining – again, that's total – in the five subareas. An executed FFGA for the Initial Segment – and the subsequent issuance by Sound Transit of over one billion dollars in bonds – would put all parts of the region on the hook for funding the Initial Segment. And since it provides the majority of that remaining \$260 million, the East King subarea would serve as the agency's single largest cushion against default.

That cushion, though, is razor slim – especially if I-776 is upheld. Hence, subarea equity hangs by only the slimmest of threads in the face of financial distress, a prospect heightened by such an inadequate financial cushion. A super-majority vote of the federated Sound Transit Board is all that is needed to remove East King's protection from the demands of light rail.

Should I-776 not be upheld, as Sound Transit hopes and anticipates, the financial picture is not much better. The North King and South King subareas, where light rail is being built, will have only \$245 million of unprogrammed financial capacity. With the need to finance \$4.3 billion in light rail extensions to Northgate and SeaTac yet looming ahead for those subareas, it's unlikely that taxpayers in the East King subarea can consider their \$376 million in unprogrammed financial capacity to be beyond the reach of light rail's costs.

Whether I-776 lives or dies, a Sound Transit high-wire act is the result. Certainly, the Initial Segment's financial viability, provided by the safety net of subarea unprogrammed financial capacity, is preserved if the Supreme Court squashes I-776. But the size of that safety net is far too small for any promised light rail extensions, given the cost of getting to Northgate and Sea-Tac and the complete absence of any funding to get there.

Citizens of the Puget Sound region should consider these risks – and ask FTA and Congress to view the present FFGA application within the full context of what this region's voters gave their assent to in 1996. While agency officials are fond of claiming where the money for the full light rail system will *not* come from (i.e. *not* the East King subarea), they have refused to say where the money *will* come from – and how much it will cost.

This funding problem is one of many problems with the Initial Segment. Recently, the Washington Policy Center reported that the Initial Segment's "highly recommended" rating was based upon an improper formulation of the no-build alternative bus system. And a dispute between Sound Transit and City of Tukwila over the design of the southern terminus light rail station at S 154th Street threatens to trigger a time-consuming Supplemental Environmental Impact Statement.

The Puget Sound region is now in an uneasy period of waiting for the Washington State Supreme Court to issue its ruling on I-776. Similarly, we await the court's decision on the Sane Transit case, which seeks a new vote on light rail. The region is also waiting for Sound Transit to announce its plans for extending Link light rail to Northgate and to SeaTac, at which time the agency's estimated costs of those extensions will first become public.

Rather than releasing the FFGA for execution and enabling the start of light rail construction in the midst of this period, the Federal Government should recognize that this period offers a golden opportunity to re-examine the entire justification for the highly controversial Central Link light rail project.

Based on the concerns above and those expressed by others, the FTA-sponsored oversight of Central Link to date is certainly open to legitimate questions. The FTA has not been a stern reviewer, nor an effective steward of Federal resources. Indeed, the role the FTA has played to date is amply revealed by the opening sentence of Sound Transit's letter, which sings sweetly to the FTA Administrator, "Thank you for your leadership and support of the Initial Segment of the Central Link light rail project."

FTA would better serve America and the Puget Sound region by calling a halt to the Central Link project. FTA would help everyone involved in the Link fiasco by instituting a top-to-bottom review of how fixed-guideway transit development in Seattle went so completely wrong that Sound Transit's first two attempts at an FFGA were abandoned, something not widely-known nor understood to the present day. The current third attempt of Sound Transit and FTA to gain an FFGA for this project lies under the shadow of a rare Congressional hold, and it should remain that way until all reasonable questions are answered, including those never addressed by the USDOT Inspector General.