

Capital Finance Report



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Pierce Transit Seeks Sales Tax Increase

On February 5th voters will be asked to approve a sales tax increase of 0.3 percent to benefit Pierce Transit. The agency currently imposes a 0.3 percent sales tax. The new tax increment would replace funding that Pierce Transit lost with the repeal of the motor vehicle excise tax in 2000. Without the additional funds, Pierce Transit will need to significantly reduce its level of bus service next year. With the tax increase the agency will be able to expand service.

Background

Pierce Transit is a public agency established to provide local transit services to a public transportation benefit area (PTBA) within Pierce County. The PTBA is located in the northwestern portion of the county, includes 18 of the county's 23 cities, and includes the majority of the county's population. (The cities not in the PTBA are Carbonado, Eatonville, Roy, South Prairie and Wilkeson.)

The agency provides three types of transit service: Fixed route buses, demand response shuttles for people with disabilities, and van pools. In 2001 the authority carried 14.8 million riders. Of these, 13.6 million rode on buses. The agency operates buses both under its own auspices and under contract with Sound Transit. Sound Transit routes accounted for 1.8 million of the bus riders in 2001.

Demand response shuttles carried 516,000 riders, while vanpools carried 656,000.

Pierce Transit was formed in 1979 as a municipal corporation when local voters approved a 0.3 percent local option sales tax for transit. The agency was eligible to match sales tax revenue with receipts from the motor vehicle excise tax (MVET). The sales tax and MVET have provided the bulk of Pierce Transit's operating revenue over its life.

MVET repeal

In November 1999 state voters approved Initiative 695, which repealed the state motor vehicle excise tax. After the initiative was ruled unconstitutional in Superior Court, the legislature itself voted to repeal the tax. (SB 6865)

About 30 percent of state MVET funds effectively went to local transit agencies. State law allowed (and actually still allows) local transit agencies to impose a 0.75 percent local MVET. The vehicle owner received a credit against the state MVET for the local tax paid so that that tax did not result in any additional burden. To be eligible to receive MVET funds the transit agency was required to raise an equal amount through the local sales tax.



Although neither I 695 nor SB 6865 repealed the local MVET explicitly, the state attorney general’s office advised that its repeal was implied because of the close relationship between the state and local taxes. As a result, the department of licensing stopped collecting the tax. Subsequently, a Thurston County Superior Court ruled that the local MVET had not been repealed. The judge stayed implementation of the decision pending appeal, however. A bill to repeal the local MVET is currently before the legislature. In addition, Tim Eyman’s new initiative, 776, would repeal the local MVET.

Transit sales tax rates

In the 2000 session, the legislature provided two measures of relief for local transit agencies. First, the state budget provided a total of \$80 million for

the agencies as a one-time bridge to help cope with the immediate effects of the MVET loss. Second, the legislature raised the upper limit on the sales tax authorized to transit agencies from 0.6 percent to 0.9 percent (nine cents on a ten dollar purchase).

The initial imposition of the transit sales tax and any increase in its rate requires the approval of local voters. Twenty-three local transit systems currently impose sales taxes in the state. Rates range from 0.1 percent for the Lewis and Cowlitz County PTBAs to 0.9 percent for the Snohomish County PTBA. In eight cases local voters have approved sales tax increases since the MVET was lost. (See Chart 1.)

On February 5th, Pierce Transit’s voters have the opportunity to make it the 9th transit agency to increase its sales tax rate. The Pierce Transit ballot

proposition would allow the agency’s board of commissioners to raise their sales tax rate from 0.3 to 0.6 percent. Currently seven other transit agencies impose rates of 0.6 percent or higher.

Revenues

Chart 2 shows the sources of Pierce Transit’s operating revenues in 1999, before the repeal of the MVET. That year, Pierce Transit had operating revenues of \$64.5 million. The MVET provided 35 percent of this, \$22.6 million. The sales tax provided a slightly larger share, \$24.2 million. Fares and advertising provided \$10.2 million; Sound Transit, \$3.2 million; and miscellaneous sources, \$4.2 million.

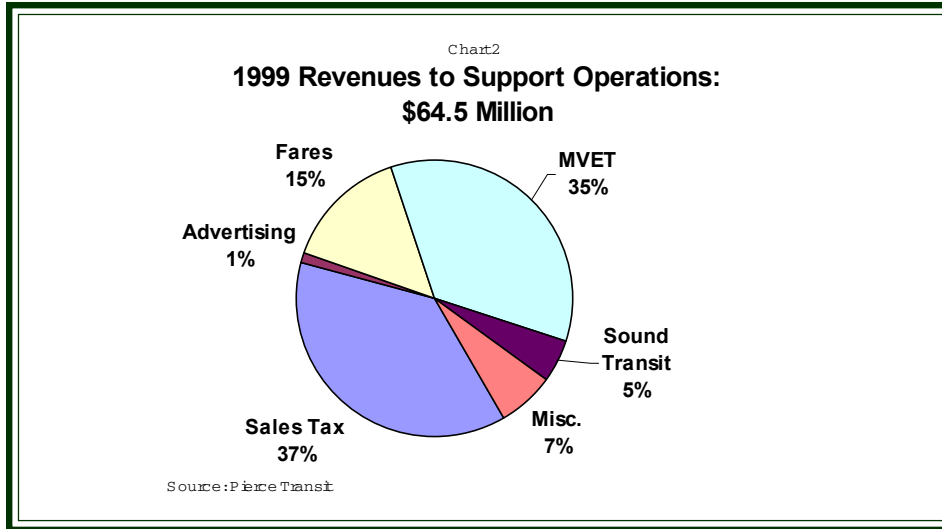
The revenue from Sound Transit deserves special note. That agency contracts with Pierce Transit to operate certain of Sound Transit’s ST Express

Chart 1

Local Transit Sales Tax Rates

	Rate		Rate
	1/1/2000	Increase	
Benton-Franklin PTBA	0.3%		0.3%
Chelan-Douglas PTBA	0.4%		0.4%
Clallam County PTBA	0.3%	0.3%	0.6%
Clark County	0.3%		0.3%
Cowlitz County PTBA	0.1%		0.1%
Everett	0.3%		0.3%
Grant County PTBA	0.2%		0.2%
Grays Harbor County	0.3%	0.3%	0.6%
Island County PTBA	0.3%	0.3%	0.6%
Jefferson County	0.3%	0.3%	0.6%
King County	0.6%	0.2%	0.8%
Kitsap County PTBA	0.5%	0.3%	0.8%
Lewis County PTBA	0.1%		0.1%
Mason County PTBA	0.2%	0.3%	0.5%
Pacific County	0.3%		0.3%
Pierce County PTBA	0.3%		0.3%
Skagit County PTBA	0.2%		0.2%
Snohomish County PTBA	0.6%	0.3%	0.9%
Spokane County PTBA	0.3%		0.3%
Thurston County PTBA	0.3%		0.3%
Walla Walla County PTBA	0.3%		0.3%
Whatcom County PTBA	0.3%		0.3%
Yakima (City)	0.3%		0.3%

Source: Department of Revenue



bus routes, and payment for that service appears as Pierce Transit operating revenue.

Operating expenses for 1999 came to \$62.9 million. For the year, the Pierce Transit added \$1.9 million to reserves.

Pierce Transit had significant reserves at the time that the MVET was repealed. In early 2000, the agency's board adopted a 3-year financial plan that used those reserves to cushion the fall in service levels. Locally-funded service (i.e. other than that funded by Sound Transit) was cut by 14 percent from the 1999 level.

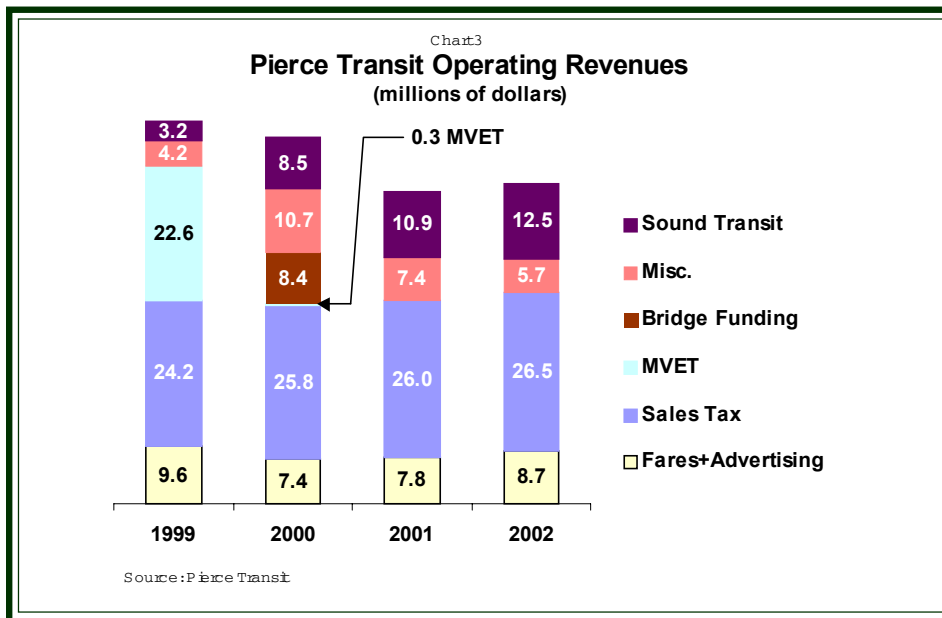


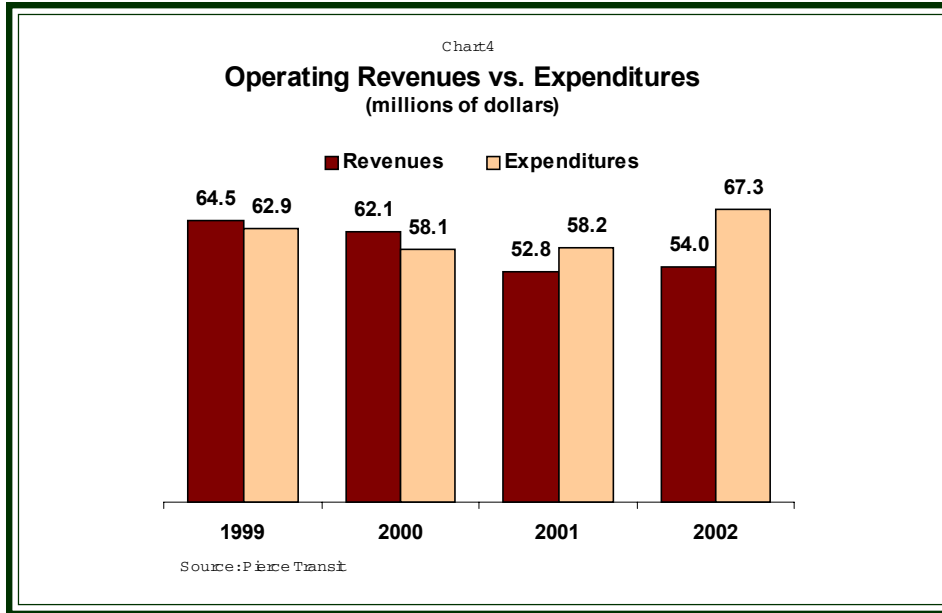
Chart 3 shows the evolution of the agency's mix of revenues evolved from 1999 to 2002. Sales taxes grew moderately as the local tax base expanded.

In 2000 the agency received \$297,000 in MVET. (These funds had been collected by the state department of licensing in 1999.) It also received \$8.4 million in "bridge" funding from the state.

Fare revenue fell by \$1.2 million from 1999 to 2000 as Pierce Transit cut service. Fare revenue for 2002 is boosted by the recent 25 percent fare increase.

The one source of Pierce Transit revenue that shows significant growth over the period is Sound Transit. This reflects the ramping up of ST Express bus service. This revenue is not available to support Pierce Transit's general operations. One of the benefits touted for the establishment of Sound Transit was that it would free up local transit agency resources to expand local service. The ramping up of ST Express has to a certain extent mitigated the loss of the MVET.

Projected revenues for 2002 are \$10.5 million less than 1999 revenues, a 16 percent decrease. Subtracting out the money received from Sound Transit, Pierce Transit's own revenue fell 32 percent, from \$61.3 million to \$42.1 million. In addition, inflation has increased the agency's costs over the period. We are unable to precisely quantify the extent of this; however, inflation measured by the Seattle CPI totaled 9.3 percent between 1999 and 2002 while the broader implicit price deflator for consumption expenditures (the index used to adjust the state government's spending limit) increased by 6.3 percent.



Expenditures

Chart 4 compares expenditures with revenues for the 1999-2002 period.

Expenditures for 2000 were \$3.8 million less than 1999, while expenditures for 2001 were \$66,000 above 2000. ST Express service represented an increasing share of operations.

As the chart indicates, Pierce Transit's operating expenses for 2002 are about \$9 million more than for 2001. Of this about \$2 million is due to increases in Sound Transit service, and \$600,000 is due to increases in local Pierce Transit service. Cost

increases account for most of the remainder. One notable cost increase was in medical premiums for Pierce Transit employees, which were up by 30 percent, or \$1.4 million.

Pierce Transit ended 1999 with about \$23.4 million in reserves. With the service cut and the \$8.5 million in bridge funding provided by the state, the agency was able to add \$4.0 million to reserves in 2001. For 2001 expenditures exceeded revenues by \$5.4 million, and for 2002 the budgeted expenditures exceed revenues by \$13.2. Forecast reserves at the end of 2002 are \$8.7 million. The minimal level of reserves needed with the current budget is about \$5 million.

The tax increase

Pierce Transit projects that without additional taxes or a service cut the deficit for 2003 would be \$13.1 million. Thus, without substantial additional revenues, the Pierce Transit will be unable to sustain current services in 2003. The agency has stated that without a tax increase, local bus service will need to be cut between 40 and 45 percent.

The 0.3 percent tax increase that the agency has requested would, it is forecast, provide an additional \$27.3 million in 2003. With the additional money the agency believes that it would be able to preserve current services, expand bus service by 5 to 11 percent over 6 years, expand demand response shuttle service by 17 percent, and increase the number of vanpools by 50 percent.

The basic countywide sales tax rate, to which transit taxes are added, is 7.8 percent. Each city imposes a 1 percent local sales tax; the county collects at this rate in unincorporated areas. Countywide, the county collects 0.1 percent for juvenile detention and jails, 0.1 percent for criminal justice, and 0.1 percent for the Zoo and other park purposes.

With the tax increase, the overall sales tax rate in the parts of Pierce Transit's taxing area that are also subject to Sound Transit's tax would be 8.8



Chart 5

Sales Taxes for Cities in the Pierce Transit Area if Proposition Passes

In the Sound Transit District: 8.8 percent	
Auburn	Orting
Bonney Lake	Pacific/Pierce
DuPont	Puyallup
Edgewood	Ruston
Fife	Steilacoom
Fircrest	Sumner
Lakewood	Tacoma
Milton/Pierce	University Place
Out of the Sound Transit District: 8.4 percent	
Buckley	Gig Harbor

percent. In the remainder of the area the overall rate would be 8.4 percent. The tax rates applying in various cities are shown in Chart 5.

Local sales tax increases cause concern for local retailers who fear that sales will be lost to stores in nearby jurisdictions.

With the Pierce Transit tax increase rates would not be out of line with rates in nearby King and Kitsap Counties.

In King County, the rate is 8.8 percent within the Sound Transit district and 8.4 percent elsewhere.

The current sales tax rate in Kitsap County is 8.5 percent. The parts of the Pierce Transit area that are west of Puget Sound and adjacent to Kitsap County would have a rate of 8.4 percent.

On the other hand, DuPont, which is in the Pierce Transit area with a tax rate of 8.8 percent, is near Thurston County where the sales tax rate is 8.0 percent.

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