

March 21, 2017

MEMORANDUM

To: Sustainability & Transportation Committee
From: Calvin Chow, Analyst; and Dan Eder, Deputy Director
Subject: Adequacy of Funds - Consolidated Streetcar Construction and System Operations

During budget deliberations last fall, Central Staff (CS) raised concerns about the lack of a long-term financial plan to pay for the Operating and Maintenance (O&M) costs of the future Consolidated Streetcar System (“System”). SDOT has since provided a two-page response dated 1/11/17 (attached) in which SDOT identified \$16.7 million in revenues that cover the System’s \$16 million per year O&M costs. While SDOT’s response is appreciated, it raises the following CS analyst questions:

1. How realistic are SDOT’s operating revenue assumptions in projecting \$16.7 million to fully cover the System’s anticipated annual costs?
2. Will the \$152 million in projected revenues fully cover the Construction of the City Center Connector Project costs?

BACKGROUND

As shown in Figure 1 the System will consolidate the existing South Lake Union and First Hill streetcar lines, with the yet to be constructed Center City Connector line. Figure 2 shows the operating plan for the consolidated System.

Figure 1: Streetcar Alignments



Figure 2: Consolidated Streetcar Operating Plan



The System is scheduled to be fully operational by 2020. SDOT intends to proceed with utility relocation along 1st Avenue and start the procurement process for the purchase of new street cars in 2017. The actual construction of the Center City Connector is scheduled to begin in 2018.

Table 1: System’s O&M Cost Summary per SDOT

Item	Item Detail	Annual Cost
Streetcar Operations	46 operators, 10 electro mechanics, 10 O&M supervisors, and 1 each train controller, maintenance chief, superintendent, + management / admin staff.	\$8,150,000
Power Systems O&M	Cost-allocated staffing for maintenance of overhead contact system, traction power, substations, etc.	\$920,000
Admin support	Financial management, training, insurance, etc.	\$1,770,000
Op materials & supplies	Office consumables; vehicle consumables; essential equipment, uniforms, gear, etc.	\$290,000
Direct Costs	City costs for fare inspections, platform and facility maintenance, utilities, program management, etc.	\$900,000
<i>Subtotal</i>		<i>\$12,030,000</i>
Grand Total	With conversion to year 2020 and a contingency of +/-10%	\$16,060,000

Table 2: Revenue Sources to Pay System’s O&M Costs

	Description	Annual Revenue
1	Fare Box Revenues - ORCA, Pay Stations and Passes	\$9,000,000
2	Federal Transit Authority (FTA) Fixed Guideway Funding	\$600,000
3	Vehicle and Station Sponsorship	\$1,000,000
4	Sound Transit Funding and Carry Forward for First Hill Streetcar	\$5,000,000
5	Metro and Amazon Contribution for SLU Operations	\$1,055,000
	Grand Total	\$16,655,000

QUESTIONS/CONCERNS

1. **How realistic are SDOT’s operating revenue assumptions in projecting \$16.7 million to fully cover the System’s anticipated annual costs?** The revenue sources listed in Table 2 may not fully cover the System’s annual O&M costs (Table 1) because:
 - a. Sound Transit currently provides a defined \$5 million per year payment to the City to operate the First Hill Streetcar¹ that continues only through 2023. Item 4 in Table 2 assumes the \$5 million per year payment provided by Sound Transit for the First Hill streetcar (in lieu of pursuing a First Hill light rail station) will continue indefinitely. However, Sound Transit’s obligation for annual operations funding terminates at the

¹ Sound Transit provided funding for the First Hill streetcar in lieu of pursuing a First Hill light rail station. Amendments to this agreement were authorized in 2014 by Ordinance [124601](#).

end of 2023.² Unless Sound Transit agrees otherwise, the City would need to allocate at least \$5 million in additional annual resources to continue operating the First Hill Streetcar whether as a separate streetcar line or as part of the consolidated streetcar system beginning in 2024.

- b. SDOT’s plan for funding transit operations anticipates the System will achieve a 56% fare box recovery rate. SDOT further estimates that the combined streetcar system will carry 30,000 weekday riders, and generate \$9 million of fare revenue to support operations. For comparison, the South Lake Union Streetcar carries approximately 2,300 weekday riders and generated \$892,365 of fare revenue in 2015.³

Item 1 in Table 2 anticipates \$9 million in annual revenues from “Fare Box Revenues.”

As shown in Table 3 below, this assumption is significantly higher than the fare box recovery of other comparable transit services, as well as higher than both the actual fare box recovery on the South Lake Union streetcar and the estimated fare box recovery on the First Hill Streetcar.⁴ Since both streetcar segments would become part of the consolidated streetcar system, that means the 1.2 mile Center City Connector would need to achieve an extraordinary fare box recovery rate to achieve its 56% recovery rate.

Table 3: Fare Box Recovery Summary

System	Fare Box Recovery	Source
Future Consolidated Streetcar System (with Center City Streetcar)	56%	Projected in 2020 by SDOT in its FTA Small Starts Grant Application (October 2015).
Sound Transit Link Light Rail	37%	Actual in 2016 from an email communication from Sound Transit Operations Business Manager Brian Scott (2/16/2017).
South Lake Union Streetcar	32%	Actual in 2015 from SDOT’s Streetcar Biannual Report (August 2016).
King County Bus Service	31%	Actual in 2015 from King County Metro’s 2015 Strategic Plan Progress Report (June 2016).
First Hill Streetcar	20%	Estimated in 2020 by SDOT in its FTA Small Starts Grant Application (October 2015).

² Funding for the First Hill streetcar was included in Sound Transit’s voter-approved ST2 plan; the voter-approved ST3 plan did not include funding for future streetcar operations.

³ Ridership from 3Q2016 APTA Ridership [Report](#) (reported under Light Rail-King County). Revenue from SDOT Streetcar Biannual Report, August 2016.

⁴ SDOT has yet to report first-year fare box recovery on the First Hill streetcar line, but included an estimate in its FTA grant proposal.

Fare box recovery is one of the standard metrics used in the transit industry to measure system performance. It is a simple ratio of earned fare revenues to operating costs. It is important to note that transit fare revenue is split between transit agencies in the central Puget Sound region as part of a revenue sharing agreement. For example, when a passenger pays her fare to ride on the First Hill Streetcar and then transfers to a King County Metro bus, the fare revenue from that trip is split between the two transit agencies. Even though the full fare is *collected* by the First Hill Streetcar, the City of Seattle and King County Metro *split* this fare revenue since the passenger's trip involved more than one mode. Each agency counts only the fare revenue earned (a portion of the total fare paid for so-called "linked trips") towards the fare box recovery ratio.

If the combined streetcar system were only to achieve 37% fare box recovery, equal to the rate for Sound Transit's Link Light Rail, the consolidated streetcar system would recover about \$5.9 million. This would result in a \$3.1 million shortfall in SDOT's operating plan.

- 2. Will the \$152 million in projected revenues fully cover the construction of the City Center Connector Project costs?** The adopted 2017-2022 CIP anticipates the \$152 million of City Connector capital costs will be funded through a variety sources (see Table 4 below). To date, SDOT has spent \$11 million on design and environmental review of the project's \$69 million in secured funding.

The project has an additional \$82 million in remaining unsecured funding. The source for \$7 million has yet to be identified; and more significantly the \$75 million FTA grant has not yet been executed. While this FTA funding was included in the previous administration's proposed budget for Fiscal Year 2017, the President's proposed budget for Fiscal Year 2018 (released on March 16, 2017) appears to eliminate the FTA grant program that would provide funding for the streetcar. It remains to be seen what level of FTA funding (if any) will be authorized by Congress for this project. Without this federal funding, it is not clear that the project can or should move forward.

Council may wish to consider imposing a proviso mid-year (either through the 1st Quarter Supplemental or through separate legislation) that restricts SDOT's appropriations for utility relocations on 1st Avenue until there is clarity on federal funding for the project.

Table 4: Center City Connector Capital Funding*

Total Projected Capital Cost	\$152 million
Secured:	\$69 million
Spending to date	\$11 million
City Funding (Bonds)	\$45 million
Utility Contributions	\$13 million
Unsecured:	\$82 million
FTA Grant Funding	\$75 million
To be determined	\$7 million

* Totals may not sum properly due to rounding

NEXT STEPS

Central Staff will continue to research current performance data on the existing streetcar lines for context, and explore financial issues and questions with SDOT and the City Budget Office.

Please let us know if you have any questions.

Attachment - SDOT Response Dated 1/11/17

cc: Kirstan Arestad, Central Staff Director