



Date: September 30, 2021  
To: Seattle City Councilmembers  
From: Sam Zimbabwe, Director, Seattle Department of Transportation (SDOT)  
Kyle Butler, Financial Policy & Funding Strategic Advisor  
Kris Castleman, Finance & Administration Division Director  
Subject: Response to Section 4 of Ordinance 126327 re: Vehicle License Fee bond financing list

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As part of the 2021 budget review process, the City Council passed [Ordinance 126234](#) authorizing a \$40 VLF fee (including a new \$20 fee). In this ordinance, the Council expressly intended that SDOT “develop a spending plan for the additional vehicle license fee revenue after a transparent, inclusive, and public stakeholder engagement process.” In addition, the Council passed a budget proviso that stated “Of the appropriation in the 2021 budget for the General Purpose BSL in Finance General, \$3.6 million is appropriated solely for transportation purposes and may be spent for no other purpose. Furthermore, none of the money so appropriated may be spent until authorized by future ordinance. Council anticipates that such authority will not be granted until the Seattle Department of Transportation has presented a spending plan for the additional vehicle license fee revenue after conducting a transparent, inclusive, and public stakeholder engagement process.” In May 2021, Council passed [Ordinance 126327](#), sponsored by Councilmember Pedersen, lifting the proviso and appropriating the new Vehicle License Fee (VLF) funds consistent with a 2021 spend plan developed in partnership with community stakeholders as intended by the City Council per Ordinance 126234.

Through our outreach process, we heard from equity stakeholders, labor representatives, transportation advocacy groups, and the public that this ongoing resource should be prioritized to address some of our most pressing maintenance needs, including safe streets, sidewalks, bridges, active transportation, and planning for the future. In addition to appropriating the VLF funds, Section 4 of Ordinance 126327 required SDOT “to provide to Council a list of transportation projects that could be funded by \$100 million of bond financing in 2022.” This memorandum responds to the Section 4 requirement, and the list is included in Attachment A.

### **VLF funding in the Mayor’s 2022 Proposed Budget and Capital Improvement Program**

The 2022 Proposed Budget continues the 2021 VLF spend plan and allocates \$7.75 million in the categories established through our outreach with community stakeholder groups in the winter and spring of 2021. Unlike bond funds, which are restricted to capital investments that meet certain city and state requirements for tax-exempt debt financing, the VLF funds can support a wide range of transportation activities and can be used for programs that are not eligible for other types of public funds due to legal restrictions. The 2022 Proposed Budget honors the VLF community outreach process and focuses spending on the priority areas of Equity, Safety, Maintenance, and Climate Change Mitigation. Funding plans for the proposed VLF spending are listed below and details are in Attachment B.

### 2022 Vehicle License Fee Spend Plan

- \$2.3 million for improving sidewalk safety
- \$2.2 million to the Vision Zero program
- \$1.9 million investment in SDOT's bridge maintenance program
- \$800,000 for maintenance of the active transportation network
- \$550,000 for a citywide Seattle transportation plan and transportation funding package preparations

Continuing the 2021 VLF spend plan into 2022 reflects SDOT's intent to continue the use of the \$20 VLF increment for these categories to support ongoing and regular programming, similar to how the initial \$20 VLF has been allocated since 2011. This regular ongoing allotment enables SDOT to plan for multiple years and leverage grants and other funds. Note that a significant focus of this proposed spending is in the areas of basic maintenance and asset preservation. If these resources were to be directed to other purposes, these critical functions would only be further underfunded.

### **Further additions to bridge maintenance in 2022 budget**

The 2022 Proposed Budget also includes \$6.425 million in enhanced capital maintenance investments in bridges:

- The 2022 budget adds \$5.25 million and an additional \$1.175 million in 2023 of Real Estate Excise Tax (REET) to replace and upgrade mechanical and electrical components of the University, Ballard, and Spokane bridges and support repairs to the 4<sup>th</sup> Avenue South Bridge (also known as 4<sup>th</sup> Over Argo Bridge) to help ensure and preserve these vital connections between our bodies of water for transit, vehicular, pedestrian, and bicycle traffic.

### **Response to Ordinance 126327 Section 4**

Ordinance 126327 Section 4 calls for SDOT to:

- Provide Council a list of transportation projects that could be funded by \$100 million in bond financing in 2022.
  - The list shall include a title, short description, and cost estimate for each project
  - The list should identify the anticipated schedule of capital expenditure by project to inform when bond issuance would be necessary.
  - The project list shall identify a minimum of \$75 million of bridge maintenance and bridge repair projects.
  - The project list shall be delivered to Council in writing by September 30, 2021.

SDOT has developed a project list meeting these criteria and included it in this transmittal (see Attachment A in the appendix.)

### **City Debt Management Policy**

It is important to point out that, while debt financing can be an important tool for capital funding, there are both policy and legal constraints that limit the types of projects that are eligible for this financing approach. Debt financing has inherent tradeoffs that are closely regulated by City debt management policies to ensure that bonding is used prudently and that debt payments do not overburden future

budgets. To assure that debt funds long-term investments, City policy states that debt may only fund capital improvements that last longer than the term of the bond. City debt management policy only allows debt financing in cases where a project generates revenues over time that are used to retire the debt, when debt is an appropriate means to achieve a fair allocation of costs between current and future beneficiaries, or in emergencies. Moreover, the total cost of bonding should also be factored into decisions to issue debt, including interest costs and fees, which represent an opportunity cost of foregone future work. A \$100 million bond issuance in 2022 would cost approximately \$169 million over a 20-year term, consuming 100% of \$20 VLF revenues through 2042. Additional information about bonding considerations is included in Attachment C. Finally, City debt financing policies advise against encumbering revenues and incurring interest too far in advance of notice to proceed on project construction. To comply with City debt policy, bond issuances must be timed for the year that the expense will be incurred based on an achievable delivery timeline.

### **Bond-eligible projects**

Given the considerations above, projects on the list are limited to capital projects with an estimated useful life of at least 20 years. SDOT's Roadway Structures engineers and Finance team developed the bond-eligible project list for bridges by assessing investments in our existing infrastructure that would extend asset life and could be delivered with bonded funds. The non-bridge projects were drawn from programs across SDOT, with a focus on projects that demonstrated alignment with the goals of Equity, Safety, Maintenance, and Climate Change Mitigation that were identified as the community's top priorities in the VLF's stakeholder outreach process in early 2021.

This bond-eligible project list includes bonding for both design and construction, and the schedule includes the timing of those phases. The current project cost estimates have been made at the concept planning stage based on the information that is currently known and design work may reveal needs for significant revisions to cost estimates.

The list assumes that other existing capital projects in the Capital Improvement Program will continue as planned, so the bonded project budgets and timelines were developed factoring in projected SDOT staff capacity and include funding for additional project management capacity within SDOT.

### **Anticipated schedule**

The \$100 million bond eligible list includes estimates on timing of project expenditures. A capital program of this size takes years to develop and implement and SDOT does not have \$100 million in new bond-eligible projects ready to fund in 2022. The schedule of projects in this list reflects the time necessary to evaluate alternative delivery methods, design, and construct these capital projects, along with the relative timing of when the investments in SDOT's assets would be most beneficial from an asset management perspective.

Planning project expenditures over the next five years is necessary for project delivery, and it also allows SDOT time to evaluate potential federal grant opportunities. Federal and state grant opportunities are structured in cycles that award funds in future years so grant applications made in 2022 will be seeking grant funds for 2023-26. While final passage of the Bipartisan Infrastructure Bill passed by the Senate last month would create new programs and enhance existing ones, nearly all Federal transportation

funding will continue to be awarded through the same competitive regional, state, and discretionary USDOT competitive processes under which we have operated for several decades. Most of these programs will continue to require projects meet a minimum threshold of readiness for funding eligibility. In most cases, projects that are eligible and competitive for Federal funding have achieved a substantial level of environmental review and analysis, including public engagement and preliminary engineering and design.

### **Opportunity for a comprehensive funding approach**

The Levy to Move Seattle expiration in 2024 provides an opportunity, in upcoming years, to have a broad community conversation about future transportation needs, vision, and a comprehensive funding strategy. SDOT's 2022 budget proposal includes funding for development of the Seattle Transportation Plan which funds a new citywide transportation plan that integrates our transportation modes (including pedestrian, bike, transit, and freight) into a single plan to address the City's key priorities: equity, climate action, safety, and stewardship. In alignment with the Comprehensive Plan update, we will work with community to create a vision for how our streets achieve mobility, access, and public space needs. These planning efforts will identify future project and program priorities; and develop integrated funding strategies to meet the capital and maintenance needs of Seattle's transportation network; and inform a potential transportation funding package to replace the expiring Levy to Move Seattle (2024).

Committing VLF funds to debt service for \$100 million in bond issuances would limit future funding package options as we consider how to address the expiration of the Levy to Move Seattle. As an example, tackling larger projects like the replacement or major rehabilitation of the Magnolia or Ballard bridges was not possible within the \$100 million of this VLF bond-eligible project list and would require a funding strategy that considers all possible sources. Adding debt commitments for the VLF now would constrain future funding options as we address the next generation of transportation needs.

### **Appendix:**

#### **Attachment A – Bond-eligible project list responsive to Section 4 of Ordinance 126327**

[VLF Bond Eligible Project List 9.30.21.xlsx](#)

#### **Attachment B – 2022 Vehicle License Fee Spend Plan**

 [Attachment B - 2022 Vehicle License Fee Spend Plan.docx](#)

#### **Attachment C – Bonding Considerations**

 [Attachment C - Bonding Considerations.docx](#)