

The Rail Transit Initiative: Financing Rail Expansion in the Metropolitan

A Business Viewpoint

1/29/08

TTARA: Texas Taxpayers and Research Association

- Non-profit membership organization supporting sound economic, fiscal and public policy in Texas
 - Took current form with the affiliation of the Texas Association of Taxpayers and the Texas Research League in 1996.
- Involved in Texas public finance since 1951.
- Membership includes every line and form of business operating in every part of the state.

TTARA:

- We review, analyze and research legislation and executive actions that have an impact on the taxpayers of the state—particularly the business taxpayers.
- We were instrumental in passage of the 2% cap on local sales taxes and have opposed every attempt to breach it since and will continue to do so.
- We did not show up at the last minute.

Statewide Organizations on Issue :

- Support of Lifting the Cap:
 - Texas Transit Association
 - Texas Municipal League
- Opposed to Lifting the Cap:
 - Texas Taxpayers and Research Association
 - Texas Association of Business
 - Texas Association of Manufacturers
 - Texas Retailers Association
 - American Electronics Association
 - Association of Electric Companies of Texas
 - Texas Public Policy Foundation
 - Center for Public Policy Priorities
 - Americans for Prosperity



The Metropolitan Transportation Plan

Rail Recommendations Dependent on Regional Transit Initiative Funds

Legend

- Existing Service, Programmed Projects and Projects Under Development
- Projects Pending Alternative Funding
- Existing Rail Corridors
- Highways

Fort Worth CBD



Dallas CBD



Corridor specific design and operation characteristics for the Intercity Passenger, Regional Passenger and Freight Rail Systems will be determined through capacity evaluation and ongoing project development. Refined rail forecasts are necessary to determine technology and alignment in Future Rail corridors.

All existing railroad rights-of-way should be monitored for potential future transportation corridors. New facility locations represent transportation needs and do not reflect specific alignments.

Institutional structure being reviewed for the region.

The need for additional rail capacity in the Dallas CBD, Fort Worth CBD, DFW International Airport, and other inter-modal centers will be monitored. A grade separation is needed for the Dallas CBD second alignment.



239 Rail Miles in Jeopardy



North Central Texas
Council of Governments
Transportation

What will 239 miles of rail cost to build and operate?

- Total Capital - \$4.82 B (in 2006 \$)
- Annual O&M - \$90.9 M (in 2006 \$)
- Required annual funding - \$190 M

*Annual Debt Service costs are dependent on both the timing and amount of issuance, which is dependent on annual revenues

*DART estimate as of October 2007

RTI: How Does the Financial Plan Work?

<u>Sources</u>	<u>Millions</u>	<u>Comments</u>
Sales Taxes	\$5,464	\$190 M base (2006), 5% annual growth
Grant Revenues	\$1,195	15% of capital expenditures
Operating Revenues	\$154	15% of operating Costs
Debt Issuances	\$3,200	6% interest rates, 30-year term
Interest Income	\$463	6% interest rate earned on average annual cash balance
<u>TOTAL SOURCES</u>	<u>\$10,475</u>	
<u>Uses</u>		
Capital Costs	\$7,968	\$4.82 B in 2006\$, inflated to YOE at 4% per year
O&M Costs	\$1,026	\$90.9M in 2006\$, inflated to YOE at 3% per year
Debt Service Costs	\$1,235	Based on timing and amount of issuances
<u>TOTAL SOURCES</u>	<u>\$10,230</u>	
<u>Ending Cash Balance</u>	<u>\$246</u>	

The data represents total sources and uses of funds from Oct 1, 2009 - Sep 30, 2025

Regional Transit Initiative

Section 1

(Guiding Principles)

Sales Tax Use Options



(At Least .05 Percent Must be Dedicated to Transit.)

Business Principles to Guide Process:

- Regional transit development should:
 - Maximize use of existing statutory authority.
 - Minimize duplication of functions and expenses.
 - Minimize detrimental impact on regional economy.
- Financing of regional development should not restrict the State's ability to address statewide needs.
- Methods used in the Metroplex should be (and will be) model for other regions.

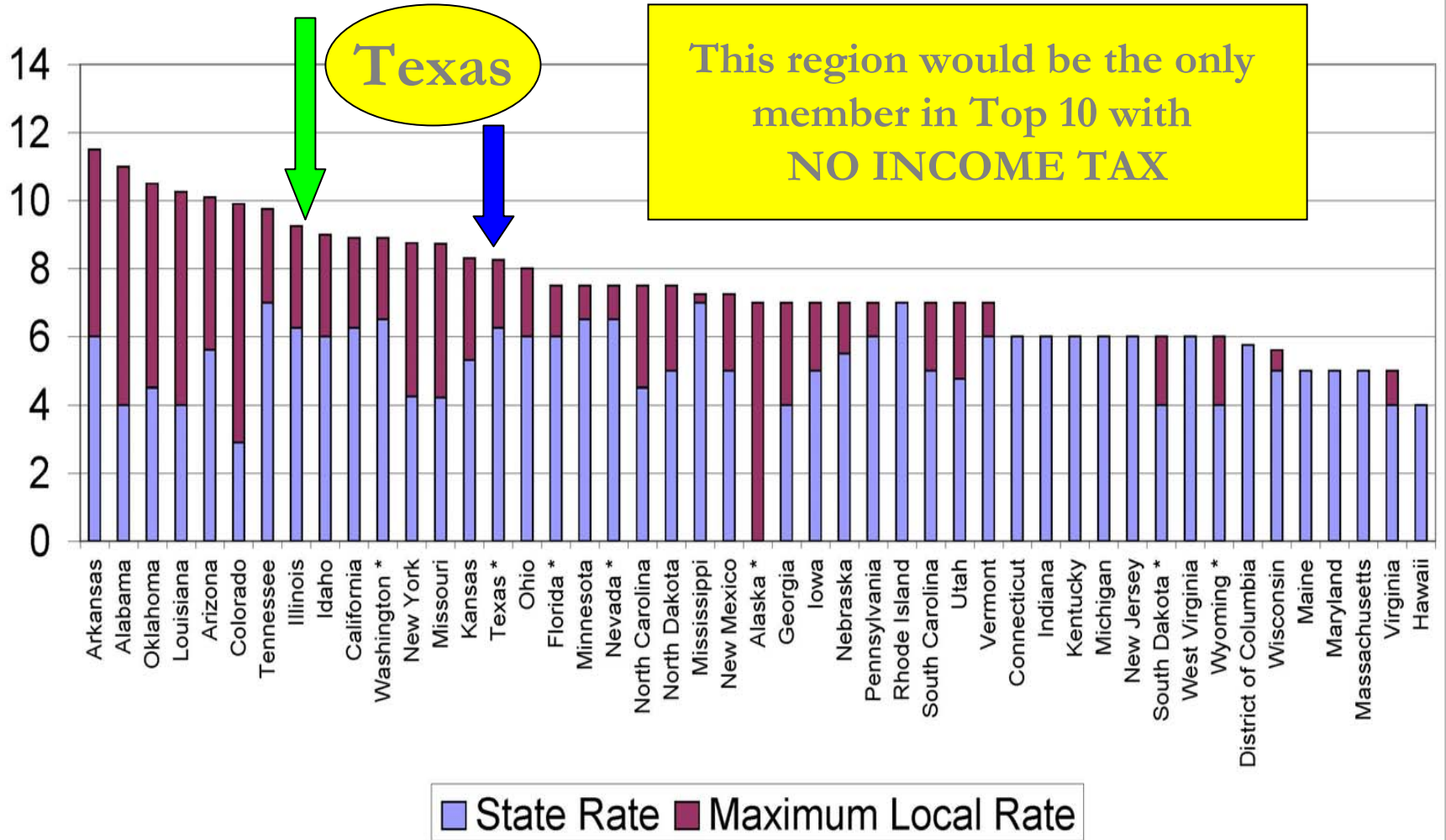
How Does the Plan Stack Up?

- Regional increase in sales tax cap:
 - Does not make maximum use of existing statutory authority.
 - Does little to reduce duplication of functions and expenses.
 - Creates substantial detrimental impact on regional economy.
 - Is unlikely to work as proposed and is not necessary.
- Regional increase in sales tax rate would restrict the State's ability to address statewide needs.
- Increase in sales tax cap in the Metroplex would quickly become the standard for other regions.

Why is the sales tax option wrong:

- Its bad for the local economy:
 - It would make the region less competitive with other parts of the state and nation.
 - Current sales taxes are among highest in nation
 - 9.25% rate would be 8th highest in nation
 - 9.25% rate would be higher (initially) than other parts of Texas
 - Approximately 1/2 of sales tax is collected on business purchases making Metroplex costs higher than other areas in Texas.
 - Metroplex would have the highest sales tax of any place without a personal income tax

State and Local Sales Tax Rates



Why is the sales tax option wrong:

- Its bad for the State's economy:
 - The combined state and local sales tax rate is 15th highest in the country.
 - Most states above Texas also have personal income taxes.
 - Approximately 50% of the sales tax is collected on business-to-business transactions.
 - The new franchise tax will be the 2nd highest direct business tax in the country.
 - Nearly 1/3 of the State's economy is located in the Metroplex.

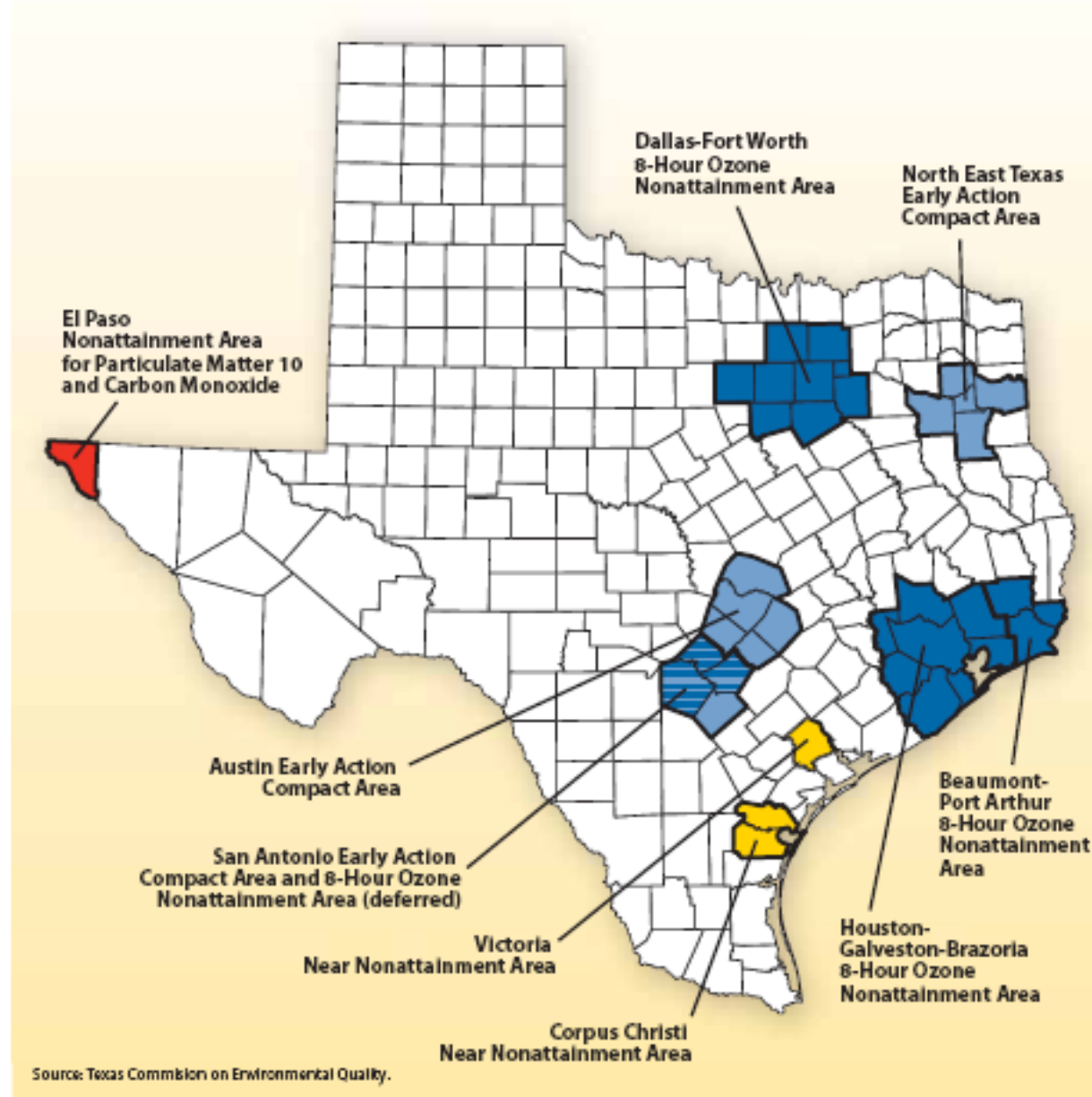
Why is the sales tax option wrong:

- It is bad for the State's fiscal system:
 - The state derives 61% of its general revenue tax collections from the sales tax.
 - It gets 70% of its general revenue taxes from the sales tax and the new franchise tax.
 - There are many competing demands on the sales tax (and the franchise tax):
 - Property Tax reduction (swap)
 - Public Education
 - The sales tax is and should remain the state's primary tax.
 - The sales tax rate is the only real option open to the state – other than a personal income tax.

Why is the sales tax option wrong:

- While the proponents of this plan describe it as a local issue, it is not.
 - There are 10 transit authorities in the state that operate under 5 different chapters of the Transportation Code.
 - Nearly all of them face similar problems.
 - They are all subject to the 2% cap on local sales taxes.
 - There are 1386 other jurisdictions subject to the same 2% cap.

Texas' Nonattainment and Near Nonattainment Areas Under the Clean Air Act



Why is the sales tax option wrong:

- It probably won't work as presented (I):
 - Debt service on \$3.2 billion (6%/ 30 years) exceeds the projected yield of the sales tax
 - \$232.5 million P&I vs. \$190 million estimated yield from the sales tax (Proponents)
 - Interest rate would need to be less than 4.25% for \$190 to service debt.

Why is the sales tax option wrong:

- It probably won't work as presented (II):
 - The sales tax option requires essentially every city in the region chooses to enact transit taxes at the maximum allowable rates.
 - If all 181 cities in the 10 county region imposed the maximum transit tax allowed, the sales tax would raise \$294 million more than now.
 - However, \$60 million would have to come from the 102 cities not in any transit corridor.

Regional Transit Initiative

Section 1

(Guiding Principles)

Sales Tax Use Options



Why is the sales tax option wrong:

- The “sales tax option” is really not about financing transit, it is about giving cities in the region access to greater ability to levy sales taxes.
 - The Legislature has authorized local option sales taxes for 12 non-transit purposes, all within 2% cap.
 - The majority of counties and cities passing resolutions supporting sales tax are either outside the proposed rail network or provide no new money to the transit system.
 - Current transit cities would gain access to more than \$500 million per year in local tax potential under the sales tax option.

What other choices are there?

- Increased borrowing flexibility.
- Create new statutory authority and flexibility for entry into existing transit authorities.
- Make use of existing authorities to create transit authority “sub-regions”.
- Encourage contracting with public and private entities for transit services and expansion.
- Maximize proprietary income of transit agencies.