



**Legislative Department
Seattle City Council
Memorandum**

Date: September 18, 2014

To: Tom Rasmussen, Chair
Mike O'Brien, Vice Chair
Jean Godden, Member

From: Dan Eder and Ketil Freeman, Council Central Staff

Subject: Council Bill 118218 - Amendments to the First Hill Streetcar Funding and Operating Agreement

Background

In 2009, through [Ordinance 123118](#), the Council authorized the Mayor to execute a funding and cooperative agreement (Agreement) with Sound Transit to implement the First Hill streetcar connector project (Project). The Agreement sets out the scope of the Project and establishes duties and responsibilities for constructing and operating the Project for the term of the Agreement, which is November 5, 2009 to December 31, 2023.

Under the Agreement Sound Transit provides capital and capped operating contributions to the Project, and the City owns the Project facilities and vehicles and has responsibility for operating the Project for the term of the Agreement, subject to some reversionary rights by Sound Transit. Farebox revenue from the Project is retained by Sound Transit. Operating costs in excess of Sound Transit's capped contribution are the City's responsibility during the term of the Agreement.

Construction of the Project is nearing completion. Although the start date of passenger service is uncertain due to delay in delivery of the streetcars, service could begin as early as the first quarter of 2015.

Proposed Amendments to the Agreement

Amendments proposed by the Mayor would provide the City with greater operational control over the Project. Substantively, the amendments would transfer fare-related responsibilities to the City and clarify Sound Transit's responsibility for providing operating subsidy for the term of the Agreement. The proposed amendments related to fares come with downside risk to the City as well as a potential upside.

Specifically, under the current Agreement the City would receive greater operating subsidy from Sound Transit but would not receive fare revenue. With the proposed amendments, the City would retain fare revenue but would receive less operating subsidy, which would be reduced by a negotiated credit based on a forecast of Sound Transit's foregone fare revenue. Thus, over the term of the Agreement, in the event that fare revenue is less than forecasted, the City would be worse off than under the current Agreement. If fare revenue is greater, the City would be better off.

Fare revenue is difficult to forecast accurately. SDOT estimates the Net Present Value (NPV) of the fare revenue stream for the term of the Agreement to be approximately \$9.5M. For context, actual revenue

from the South Lake Union streetcar has remained lower than initially forecast during development of that project.

Proposed fare-related amendments are summarized and contrasted in the table below.

		Current Agreement	Proposed Amendments
1.	Who sets fares?	Sound Transit	City
2.	Who keeps fares?	Sound Transit	City
3.	How much operating subsidy would the City receive from Sound Transit?	An annual amount for the term of the agreement based on a 2014 NPV of approximately \$47M.	An annual amount for the term of the agreement based on a 2014 NPV of approximately \$39M. ¹
4.	Who enforces fares?	City, in compliance with an enforcement Sound Transit's enforcement policies	City, not subject to Sound Transit policies

¹ Compared to the current Agreement the proposed amendments would lower Sound Transit's operating subsidy by \$7.5M in NPV. This is the negotiated value of fare revenue (\$7.3M in NPV) and revenue for Sound Transit's administrative costs (\$0.2M in NPV) that Sound Transit would forego under the proposed agreement.