

Washington State  
Legislature  
**JOINT  
TRANSPORTATION  
COMMITTEE**

# Implementing Alternative Transportation Funding Methods



## Policy Initiatives Funding Data



July 30, 2009

Cedar River Group  
Berk & Associates  
Fehr & Peers  
Nelson\Nygaard

# PURPOSE

- Joint Transportation Committee (JTC) directed to conduct a comprehensive analysis of mid-term and long-term transportation funding mechanisms and methods. (Transportation Budget)
- Objectives
  - Analyze the feasibility and practicality of implementing funding methods identified in the JTC's 2007 Long-Term Transportation Financing Study and other approaches.
  - Examine the effect of existing and emerging funding, energy, environmental, and mobility policy objectives.
  - Principal objective – identify specific steps to begin implementing viable mid-term and long-term transportation funding approaches.
  - Focus on state imposed and collected transportation taxes and fees.

# SCOPE AND SCHEDULE

## Phase One: Policy Initiatives and Data Collection

- **How might policy initiatives influence the nature of the transportation system and implementation of funding methods and financing strategies?**
  - Federal, state, and local funding policies and initiatives
  - Energy, environmental, and mobility policies and initiatives
  - Update revenue projections
  - Review funding needs
- **How viable are funding methods and financial strategies in light of energy, environmental, and mobility goals?**
  - Update transportation funding data from the 2007 study
  - Identify additional data or research needs
  - Initial analysis of viability of funding methods

# SCOPE AND SCHEDULE

## **Phase Two – Objectives, Criteria and Implementation Strategies**

- **What evaluation criteria do policy makers want to use to prioritize and narrow funding method alternatives?**
  - Develop alternatives for Committee consideration that:
    - Clarify policy choices
    - Separate strategies and tactics
    - Legal requirements – i.e., 18<sup>th</sup> amendment
    - Clearly define the criteria
    - Identify financial criteria
  - Committee discussion and select evaluation criteria

**Schedule: Sept. 9, 2009 : JTC Committee Meeting**

# SCOPE AND SCHEDULE

- **What practical steps could the legislature and agencies take to implement alternative medium-term and long-term funding methods?**
  - Identify alternative implementation strategies for high priority funding method alternatives
  - Assess federal and other funding studies underway
  - Screen implementation alternatives – using evaluation criteria
  - Work program to take high priority implementation alternative(s) to an operational level through implementation, scaled testing, or other means
  - Develop scope and budget

**Schedule Sept. 30 and Nov. 9: JTC Meetings**

**Draft Preliminary Report – November 6, 2009**

**Final Report – December 31, 2009**

# TEAM

- **Consultant Team**

- Cedar River Group
- Berk & Associates

- Nelson/Nygaard
- Fehr & Peers

- **Staff Work Group**

- Joint Transportation Committee
- House Transportation Committee
- Senate Transportation Committee
- Commerce Department
- Department of Ecology
- Department of Licensing
- Department of Revenue
- Office of Financial Management

- Puget Sound Regional Council
- Washington Association of Cities
- Washington Association of Counties
- Washington Public Ports Association
- WA State Dept. of Transportation
- WA State Transportation Commission
- Washington Transit Association

# 2007 LONG-TERM FINANCING STUDY

- **Motor Fuel Tax Viability**
  - Forecasted a 23% reduction by 2030 in purchasing power, caused by improved fuel economy, inflation, and increase in vehicle miles traveled (VMT)
- **Bond Financing**
  - Reviewed anticipated bonding to support Nickel and Transportation Partnership Act (TPA)
  - Bond repayments will be an increasingly large part of WSDOT's expenses with fuel tax revenues pledged to bond repayments
- **Local Government Transportation Funding**
  - Reviewed motor vehicle fuel tax distribution and local funding methods

# 2007 LONG-TERM FINANCING STUDY

- **Alternative Funding Methods Recommended**
  - All user-based funding sources

Medium Term (5-15 years)	Long-Term (10-15 years)
• Sales tax on fuel	• Replace fuel tax with VMT fee
• Index fuel tax	Local option VMT fee
• More tolling	• Vehicle weight-mile tax
High occupancy tolling (HOT) Lanes	• Regional development impact fees
Extend bridge tolling	
Area tolling	
• Expand local sources	
Local option tax (RTID)	
• Container charges	



# POLICY INITIATIVES: FUNDING

- **Three policy areas:**
  - Performance based transportation funding
  - Integrating energy, environmental, and mobility policies through user-based transportation funding and pricing
  - Providing sufficient, sustained funding
- **Federal**
  - Three major commissions
  - Administration major proposal anticipated in 18 months
- **State/Local**
  - Legislative initiatives
    - Tolling
    - Climate Change
  - Puget Sound Regional Council
    - Traffic Choices Study/Transportation 2040 Environmental Impact Statement

# PERFORMANCE BASED FUNDING

- **Federal**

- Make federal transportation policy more performance-driven
- Reduce number of federal programs (from 108 programs to 6-10)
- Goals
  - Economic growth
  - National connectivity
  - Metropolitan accessibility
  - Energy security and environmental protection
  - Safety

- **State**

- State adopted goals in 2007 session (RCW 47.04.280)
  - Preservation
  - Safety
  - Mobility
  - Environment
  - Stewardship

# USER BASED FUNDING AND PRICING

- **Two funding goals – sometimes conflicting and circular**
  - How much: raise sufficient funds
  - How: send pricing signal which may affect how much is needed and priorities
  - Motor fuel tax - started as a user fee – proxy for use of the system
- **Federal**
  - Recommendations move to a user-based funding system that integrates energy, environmental and transportation policies through pricing from reliance on motor fuel tax
  - Send price signal – how funds are raised is as important as how much
  - Gas taxes' reliability as a proxy for transportation-system use has declined with increased fuel efficiency, hybrid-electric vehicles, and alternative fuels
  - Most likely – mode neutral VMT fee

# USER BASED FUNDING AND PRICING

- **State of Washington**

- Tolling

- Adopted policy guidelines that set goals for tolling as revenue generation and system management
    - Tacoma Narrows Bridge – 2007
    - SR 167 HOT Lanes – 2008
    - 520 Floating Bridge – decision in 2009 session
    - Five other project studies – directed in 2009 session

- Climate Change, Energy Policy and Transportation Funding

- Framework for reducing greenhouse gas (GHG) emissions (RCW 47.01.440)
    - Includes benchmarks for reducing daily per capita VMT

	2008	2020	2035	2050
% reduction		18%	30%	50%
Daily VMT/capita	31 miles	25.5 miles	22 miles	15.5 miles

# USER BASED FUNDING AND PRICING

- **Climate Action Team Report (2008)**
  - Gas tax dependent revenues and VMT reduction goals at cross purposes
  - Recommend shift to user-based funding - users and beneficiaries pay for their transportation choices and receive the benefits
  - Recommend changes to tolling policy
    - Add VMT and GHG emission reduction as a third objective in tolling policy
    - Allow use of toll revenue for transit, carpooling and other sustainable traveling patterns
    - Consider system-wide rather than project by project tolling
    - Washington State Transportation Commission set toll rates to encourage drivers to make fewer, shorter trips, use less polluting vehicles, and reduce single occupant vehicles (SOV)
- **Puget Sound Regional Council**
  - One of six policy goals of Transportation 2040: Make costs of transportation more explicit to user
  - Five alternatives – vary from limited to system-wide tolling, with systemwide reducing daily VMT per capita the most (16% compared to 5% )

# SUFFICIENT, SUSTAINED FUNDING

- **Federal**

- Dependent on motor fuel tax - 88% of Federal Highway Trust Fund
  - Current tax – 18.4 cents per gallon /diesel 24.4 cents per gallon – last increase in 1993
- Funding gap: Estimated at \$400 billion (2010-15) or \$2.3 trillion (2010-35)
  - FFY 2008 – \$8 billion transferred from general fund to Trust Fund
  - FFY 2009 – estimated \$15 -\$20 billion more required
- Recommendations to close gap immediately
  - Increase tax –10% gasoline tax, 15% diesel
  - Index tax to CPI or Producer Price Index for Highway Construction

# SUFFICIENT, SUSTAINED FUNDING

- **State – Total Funds 2009-25: \$37.6 billion**

Fund Source	% 2009-25
Motor Fuel Tax – 37.5 cents	49%
Bond Sales	18%
Bond Payments	-31%
Licenses, Permits, & Fees	23%
Federal Funds	16%
Ferry Fares	10%
Tolling	4%
Vehicle Sales Tax	3%
Miscellaneous	7%

# SUFFICIENT, SUSTAINED FUNDING

- **Fuel Tax Forecast**

- Lower in June forecast by \$342.7 million or 1.3% over 16 years
- Fuel consumption per capita dropped 10% from FY 1999 to FY 2008
- Total fuel consumption dropped 1% between FY 2007 and FY 2008

- **Funding Gap**

- 16-year financial plan across all funds \$1.65 billion deficit in FY 2023-25
- Excluding surpluses in tolling accounts, deficit grows to \$1.96 billion
- Largest contributor to the deficit – Washington State Ferries

- **Issues for Final White Paper**

1. Tolling – Review how tolling projects are reflected in the 16-year plan
2. Need – Review Washington State Transportation Plan/Ferries Plan
3. Transit – Climate Action Team recommended state review its role in transit funding



# SUFFICIENT, SUSTAINED FUNDING

- **Local Governments**

- **Counties:** County Road Property Tax Levy accounts for 43% of county road revenue in 2007. Most counties are not currently using full levy capacity.
- **Cities:** General fund sources account for majority of city transportation funding. Transportation priorities compete with other city service priorities, such as public safety, parks, etc.
- **Transit:** Local taxes (mostly sales and use) provided 65% of total revenues for transit agencies statewide in 2007. Some transit agencies are at full levy capacity (King County Metro Transit, Community Transit at 0.9%) or near capacity (Kitsap Transit at 0.8%).
- **Other Local Jurisdictions:** Ports and Transportation Benefit Districts (TBDs) use a combination of taxes, fees, and other revenues. King County Ferry District receives operating revenues through a property tax levy.

- **Issues for Final White Paper**

1. **Use of local taxing methods: Why local governments are not fully utilizing available funding methods.**
2. **Need: Review local funding needs.**

# FUNDING METHOD ALTERNATIVES

- **Existing funding sources**
  - Motor fuel tax: index (federal/state)
  - Heavy vehicle use tax: index (federal)
  - Licenses & permits: feebates for fuel efficient, low-emitting vehicles
  - Ferry fares: fuel surcharge/pricing options
  - MVET: re-instate percentage based MVET (value, vehicle characteristics)
  - Tolling: modify tolling policies to include transit, extend use, system-wide
  - Vehicle sales tax: extend sales tax exemptions for hybrid/alternative fuel
- **Existing/emerging federal authorizations for states**
  - Interstate tolling: allow for net new capacity, for reconstruction, for congestion relief in metropolitan areas
  - National Infrastructure Bank: fund large and transformative projects
    - Cross state and local jurisdictions
    - Integrate sector and policy goals (i.e., land use and transportation)

# FUNDING METHOD ALTERNATIVES

- **Emerging User Based Revenue Sources**
  - VMT Fee: Transition from fuel tax to fee for vehicle miles traveled (federal/state)
  - Vehicle weight mile fee: Similar to VMT fee for freight (federal/state)
  - Container fees (federal/state)
  - Sales tax on motor vehicle fuel: Possible use for transit (state)
  - Carbon pricing/cap and trade: Federal/state
- **Emerging Revenue Sources Other than User Based**
  - Customs duties: Support freight investments (federal)
  - Exported fuel tax: Considered but not adopted by legislature (state)

# ENERGY, ENVIRONMENTAL, MOBILITY

- **Themes**

- Fuel economy: Likely to increase
- Use of alternative fuels: Increased by advances in vehicle technology
- VMT: State policies aim to reduce daily per capita VMT
  - Success uncertain
  - Governor 2009 Executive Order – Review VMT benchmarks
  - VMT polices could change demands on transportation system

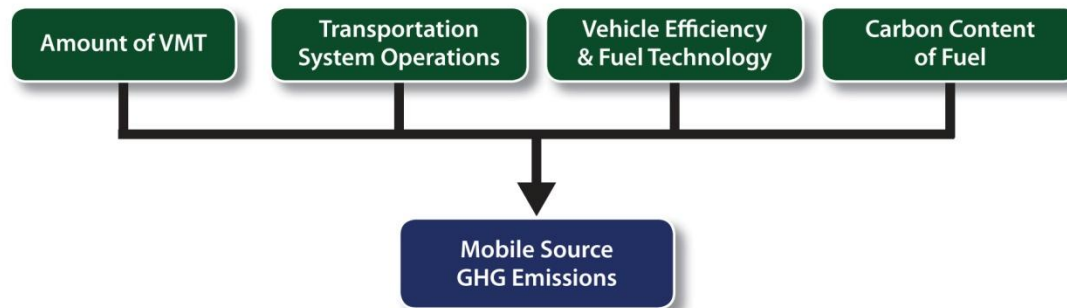
- **Energy Trends**

- Rising oil prices – could influence fuel economy, vehicle technologies, use of non-auto modes
- Rising fuel economy: New standards would increase industry standard to 35.5 miles per gallon (mpg) by 2016
  - New standards would further reduce motor fuel tax income
- Increased use of alternative fuels: Some forecasts – hybrids 15% of new sales by 2015/70% by 2040 and 30% fuel cells
  - Consider ways to capture revenue from new, non-taxed, fuel sources

# ENERGY, ENVIRONMENTAL, MOBILITY

- **Environment/Climate Change**

- 46% of GHG emissions from transportation
- Ways to manage: travel speeds, vehicle fuels, reduce VMT



- **VMT Growth and Projections**

- Benchmarks: Reductions in daily per capita VMT
- Actual VMT may grow even if daily per capita VMT is reduced
  - PSRC projects drop in daily per capita VMT but overall growth in VMT
- WSDOT updating its forecasts

# ENERGY, ENVIRONMENTAL, MOBILITY











- **Mobility**

- Congestion: expected to continue
- Tolling: projects have shown promise in improving efficiency of roadway usage
- Non-auto modes (bike, etc.): May be affected by VMT reduction goals

# How Trends Could Affect Viability of Funding Methods

- Fuel economy increases
- Advances in vehicle technology increase use of alternative fuels
- State policies reduce per capita VMT
- VMT reductions change the demands on the transportation system



- Conventional fuel taxes 
- Taxing alternative fuels 
- Tolling select facilities 
- VMT fees 
- Local option taxes 
- Container fees 
- Weight-mile fees 
- Pay-as-you-go insurance 
- Feebates 
- Parking charges 

# FUNDING DATA UPDATE FROM 2007 STUDY

- Motor vehicle fuel tax (incl. special taxes)
  - Decreasing consumption forecasts have led to 20-year forecasts that are \$1.7B less than what was assumed in 2007
- Indexing the motor vehicle fuel tax
  - This could generate an additional \$8.5B over the 20-year period (down from \$9.8B projected in 2007)
- Sales tax on fuel (6.5%)
  - This could generate an additional \$16.5B over the 20-year period (down from \$16.9B projected in 2007)
  - Effects of decreasing fuel consumption are mostly offset by higher fuel cost projections in the near-term
- VMT-based alternatives
  - The 2007 study assumed a VMT tax would replace the motor vehicle fuel tax in the long-term
  - Tax rates could be set to be revenue neutral with gas tax



# NEXT STEPS

## Next meetings

- Evaluate funding methods
- Discuss alternative funding approaches and implementation steps