

Washington State
Legislature
**JOINT
TRANSPORTATION
COMMITTEE**

Implementing Alternative Transportation Funding Methods



Draft Final Report



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Purpose

- Joint Transportation Committee (JTC) directed to conduct a comprehensive analysis of mid-term and long-term transportation funding mechanisms and methods (Transportation Budget)
- 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
- Include review of local jurisdiction transportation taxes and fees

2007 LONG-TERM FINANCING STUDY

- **Alternative Funding Methods Recommended**

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	Transition between medium- & long-term dependent on how quickly fuel tax erodes and development of technology to collect VMT fees
Area tolling	
• Expand local sources	
Local option tax (RTID)	
• Container charges	

Trends Affecting Transportation Funding Methods

Energy

- State motor fuel consumption per capita decreased each year since 1999
 - 2009 first time total motor vehicle fuel consumption declined
- Nov. 09 forecast for 2009-25 time period \$1.6 billion less than 2007 forecast
- Adoption of new CAFÉ standards will further accelerate fuel tax erosion

Climate Change

- Benchmarks to reduce per capita VMT being reviewed
- WSDOT revising VMT forecast methodology - revised forecast in June 2010
- Attainment of benchmarks not assumed in funding method analysis

Congestion

- Issue in urban areas that state is addressing in part through pricing
- Funding methods should include some that can be selectively applied

Federal

- New funding method proposal anticipated in 18 months
- Federal Commissions recommend VMT fee/Opposed by administration

EXISTING STATE FUNDING SOURCES

Transportation 16-Year Financial Plan 2009-25

Fund Source	% 2009-25	% excluding bond sales, federal funds, interest
Motor Fuel Tax – 37.5 cpg*	38%	52%
Licenses, Permits, Fees, Abstracts*	21%	28%
Bond Sales	14%	
Federal Funds	12%	
Ferry Revenues	7%	10%
Tolling (TNB & SR 167)	3%	4%
Vehicle Sales Tax	3%	4%
Miscellaneous/Interest	2%	2%
Total Funds	\$46.7 billion	\$34.1 billion
* Net of local distributions		

Characteristics of State Revenue Sources

Dependent on flat rate revenues that do not grow with inflation

- 80% of direct revenue from fuel tax and licenses, permits, fees

Legislative action required to set rates

- Rates set by statute
- Except tolls and fares set by Washington State Transportation Commission which are subject to legislative direction

18th Amendment restrictions

- Fuel tax and vehicle registration fees limited to highway purposes

Legislative restrictions

- Legislature has further restricted taxes and fees
- Fees must be levied for a particular purpose and used for that purpose

Vehicle Owner Costs

Under current law, owners will pay substantially less in 2025 than in 2009

- Result of improving fleet fuel efficiency

Owners will pay even less in purchasing power

- Rates are flat

Reduction in vehicle owner payments has a \$10 billion effect on transportation revenues

Differential in state taxes and fees paid by different types of vehicle owners is substantial

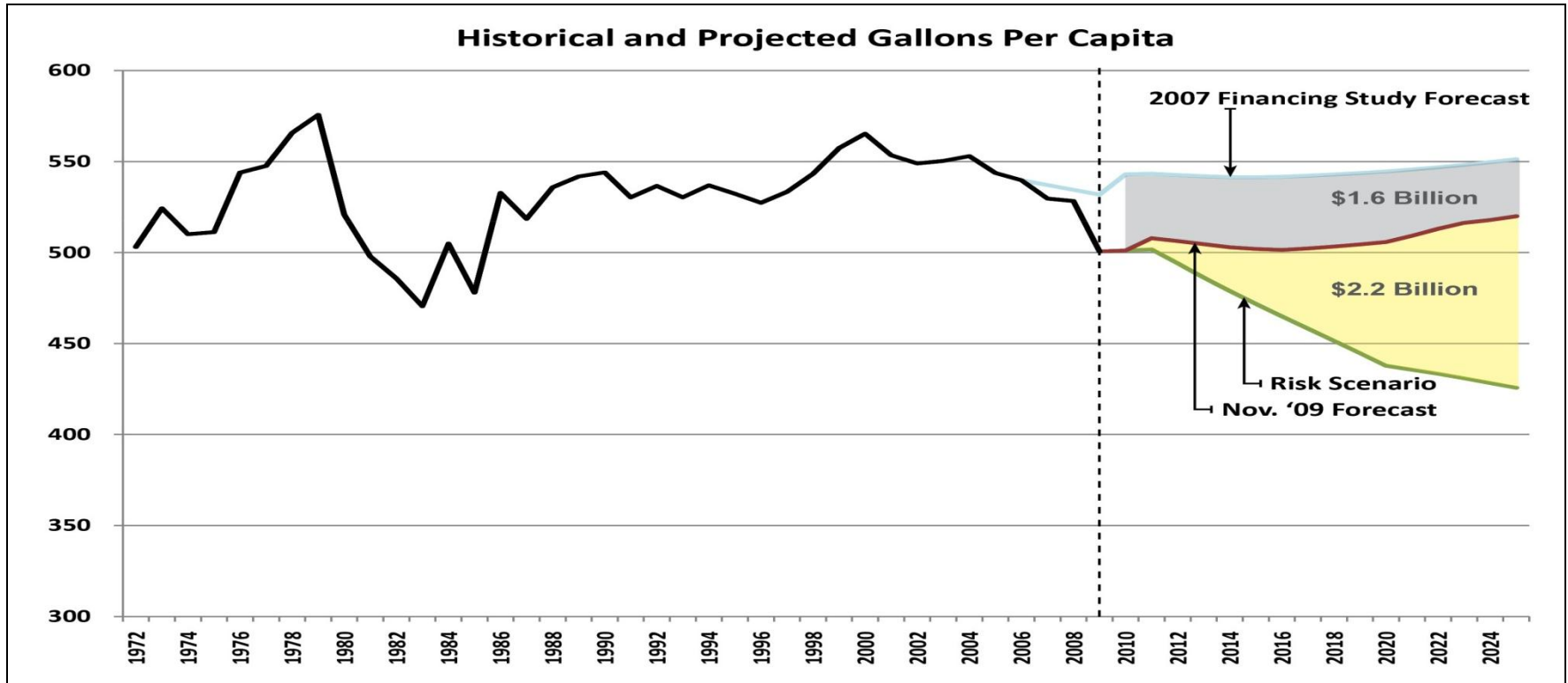
- In 2009, electric car owners pay 82% less than SUV owners

State Fees and Taxes by Vehicle Type

Summary of Annual Baseline Transportation Taxes/Fees for All Vehicle Types (mid-level usage)

	2009	2014	2019	2025	% Change 2009-2025	% Change 2009 Purchasing Power
Compact Car	\$197	\$189	\$179	\$175	-11%	-45%
Mid-Size Sedan	\$272	\$260	\$246	\$241	-12%	-45%
Light Trucks (SUVs / Pick-ups)	\$437	\$414	\$390	\$379	-13%	-46%
Hybrid	\$151	\$146	\$140	\$137	- 9%	-43%
Electric Car	\$77	\$76	\$76	\$76	-0.4%	-37%
Motorcycle	\$138	\$133	\$127	\$124	-10%	-44%
Freight (Medium)	\$1,694	\$1,605	\$1,503	\$1,456	-14%	-46%
Freight (Heavy)	\$2,865	\$2,737	\$2,589	\$2,523	-12%	-45%

Consultants' Risk Scenario



Based on:

Implementation of Café standards

More fleet turnover into electric/hybrid vehicles

Could have developed risk scenarios on other factors (i.e. higher fuel prices)

Evaluation Framework

Goal: Package of funding tools that the legislature could consider to meet transportation funding objectives

- **Revenue Stream:** Provide a stream of revenue commensurate with transportation system funding needs.
- **Public Benefits/Reflects Use:** Provide a clear purpose and policy rationale linked to transportation system use, economic development, and other state policies and goals.
- **Equitable:** Funding burden is geographically equitable and equitably allocates the costs to those who benefit.
- **Local:** Allows for viable local transportation funding options that recognize the distinct needs of different local systems.

Evaluation Criteria

- Two thresholds – Is the funding method an appropriate state level fee or tax and does it have a nexus with transportation?
- Eighteen criteria to meet the four objectives

State Funding Methods Reviewed

Fuel	Fuel	Vehicle
Motor fuel tax options	Barrel Fee	Retail Sales & Use Tax
<ul style="list-style-type: none"> • Index • Set increases • Vary by county* • Add gross receipts tax • Add petroleum company tax • Elim. sales tax exemption ** • Add special assessment fee 	Exported Fuels Tax	<ul style="list-style-type: none"> • Change rate • Eliminate trade-in credit • Extend to parts & labor *
	Electric Vehicle Fuel	
	Driver	
	Driver Licenses	* Infeasible due to SUTTA
	<ul style="list-style-type: none"> • Rates 2012 purchasing • Index • Increase license years 	Vehicle Fees
*Infeasible - uniform rates		<ul style="list-style-type: none"> • Rates 2012 purchasing • Index • Modify weight fees
**Must include local sales taxes	Vehicle	<ul style="list-style-type: none"> • Extend in-lieu of fee
	Motor Vehicle Excise Tax	
	Tax on Auto Premiums	Tire Fee Modifications

State Funding Methods Reviewed

Use	Use	Transportation System
Tolling/Congestion Pricing	Cascade Amtrak	Access Management
<ul style="list-style-type: none"> • Expand tolling • Expand revenue uses • Zone-based/cordon tolls 	<ul style="list-style-type: none"> • Operations funding • Capital funding 	<ul style="list-style-type: none"> • Rates 2012 purchasing • Index
Vehicle Miles Traveled (VMT)	Off Road Use	• Modify
<ul style="list-style-type: none"> • State-wide • Truck mileage weight fee 	<ul style="list-style-type: none"> • Rates 2012 purchasing • Index • \$ to Off-Road Account 	Reflect impact Extend to interstates
Ferries		Transportation Business
<ul style="list-style-type: none"> • Operations funding • Capital funding 		Business Licenses
		<ul style="list-style-type: none"> • Rates 2012 purchasing • Index

Implementation Recommendations

Recommendation 1: Provide funding for DOL to begin upgrading its computer systems, consider building costs into fee structure.

Recommendation 2: Consider costs & benefits of allowing vehicle owners to make periodic rather than lump sum payments.

Recommendation 3: If index fees and/or fuel tax the legislature should

- Set base fees
- Use the CPI as the basis for an annual change
- Round driver and vehicle fees to nearest whole dollar

Recommendation 4: Review fees to determine:

- When rates were last adjusted
- What an inflation adjusted 2012 rate would be
- Any discretionary restrictions

State Funding Methods Recommended (2010-27)

Fuel	Use	Vehicle
Motor Fuel Tax Options	Tolling/Congestion Pricing	Retail Sales & Use Tax
<ul style="list-style-type: none"> • Index • Set increases • Add special assessment fee 	<ul style="list-style-type: none"> • Expand tolling • Expand revenue uses 	<ul style="list-style-type: none"> • Change rate
Driver	Ferries & Cascade Amtrak	Vehicle Fees
<ul style="list-style-type: none"> • Rates 2012 purchasing • Index 	<ul style="list-style-type: none"> • Operations funding • Capital funding 	<ul style="list-style-type: none"> • Rates 2012 purchasing • Index • Modify weight fee • Extend in-lieu of fee
Access Management Program	Off-Road Use	Tire Fee
<ul style="list-style-type: none"> • Modify • Rates 2012 purchasing • Index 	<ul style="list-style-type: none"> • Rates 2012 purchasing • Index 	Business Licenses
		<ul style="list-style-type: none"> • Rates 2012 purchasing • Index

Medium Term (5 Year Action Recommendations)

Action 1. Maintain viability of licensing & permit fee revenues by adopting legislation to increase fees to 2012 purchasing power & indexing in CPI. **Revenue: \$3.8 billion 2009-25**

Action 2. Maintain short- and medium-term viability of fuel tax by indexing the tax to the CPI and *choose one of the two options to set declines in per capita fuel consumption:* a) increase the tax rate annually or add a transportation assessment fee to the retail price of fuel.

Revenue: Index: \$4.4 – \$6.6 billion 2009-25

Increase 1 cpg annually: \$3.4 – \$3.9 billion 2009-25

Assessment fee: \$4.1 - \$4.6 billion 2009-25

Action 3. Adopt in lieu of .fees for electric & other high mileage vehicles.

Revenue: \$1.0 to \$271 million 2009-25

Medium Term (5 Year Action Recommendations)

Action 4. Extend tolling applications. *Revenue: TBD*

Action 5. Secure WSF capital through: 1) capital surcharge on fares; 2) directing additional Capron refunds to Ferries capital; 3) directing additional licensing fee revenue to capital; and/or 4) rebalancing fuel tax distribution between capital and operations.

Revenue: Capital surcharge: \$200 million 2009 -25

Capron refunds: \$ 50 million 2009-25

Fees/fuel tax to capital: TBD

Action 6. Review Amtrak Cascades Service funding & increase fares and/or add capital surcharge. *Revenue: \$30 million 2009-25*

Action 7. Expand WSDOT Access Management Program to require entities that impact state or interstate highways to mitigate the impact.

Revenue: From developer mitigation actions

Longer Term Recommendations

If fuel tax erosion accelerates increase reliance on vehicle fees.

Action 8. Modify weight fees (\$30) by eliminating registration deduction on passenger vehicles & adjust truck weight fees

Revenue \$3.8 billion 2009-25

Action 9. Add tire fee for transportation that extends to new vehicles with a higher fee for studded and larger tires. **Revenue \$133 million 2009-25**

Action 10. Increase transportation sales and use tax rate from 0.3% to 0.5% on the vehicle sales. **Revenue \$400 million 2009-25**

To improve mobility in urban congested areas.

Action 11. Allow the use of toll revenues and/or ferry fares to provide corridor specific transit service improvements.

Revenue: TBD

Impact of Actions On Mid-Size Vehicle Owner

Mid-size vehicle owner pays in 2009: \$272 per year
Inflation adjusted value of \$272 in 2025: \$437 per year

Action	Total Annual Fees 2025 Mid-Size Vehicle
Action 1. Fees increase to 2012 purchasing power & index	\$297
Action 2.	
a. Index fuel tax	\$329
b. 1 cpq annual increase	\$304
c. Special assessment on fuel (2%)	\$295
Action 3. Adopt in-lieu of fees	Electric --\$77 to \$188
Action 8. Weight fee increase \$30	\$332
Action 9. Tire fee	\$242
Action 10. Vehicle sales & use tax increase to 0.5%	\$248

Other 2007 Recommended Fees

VMT Fee

- Recommend await federal or interstate action
- Recent federal study of states showed:
 - States waiting for federal action
 - Implementation of simple systems (i.e. self-reporting or odometer reading) easy to have fraud
 - Better & consistent collection requires federal leadership

Sales Tax on Motor Vehicle Fuel

- Would benefit general fund unless specifically directed to transportation
- Special assessment fee more targeted approach

Local Transportation Funding Methods

County Roads

- Road levy – 43% of funds
 - Limited by \$2.25 per \$1,000 AV & Initiative-747 1% limit
 - 96% of capacity used

City Streets

- No dedicated transportation funding source
- Compete with other general city funding needs

Transit

- Sales or Other Local Taxes– 64%
- Fares – 11%

State Funding Actions Affect Cities and Counties

Fuel Tax

- Current law cities and counties receive distributions of state fuel tax
- Island and San Juan counties receive Capron distributions on 23.0 cpg
- Fuel tax change distributions to cities and counties

Local Distribution: Index: **\$1.4-\$2.2 billion 2009-25**

Increase 1 cpg annually: \$1.0-\$1.3 billion 2009-25

Capron: Index: **\$27-41 million 2009-25**

Increase 1 cpg annually: \$21-\$24 million 2009-25

Licenses

- Island and San Juan counties receive Capron distributions on motor vehicle registration fees

Capron: 2012 & Index: **\$18 million 2009-25**

Local Funding Actions

Action 1. Increase, when funding permits, state funding for grant programs

Action 2. Authorize cities to create street maintenance utilities

Action 3. Allow TBDs to impose license fees up to \$100 by councilmanic vote and provide flexibility in the use of the funds

Action 4. Amend authority for counties to impose fuel tax to allow a set rate and to provide councilmanic authority

Action 5. Transfer the increased sales tax limit and employer taxes authorized for RTID to transit

Action 6. Authorize a local MVET in addition to or in lieu of transit systems' current local option sales tax authority.

Action 7. Provide transit systems a local option vehicle license fee similar to TBDs.