County Transportation Revenue Study

JTC Presentation
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WSAC WASHINGTON STATE ASSOCIATION of COUNTIES

WSACE WASHINGTON STATE ASSOCIATION OF COUNTY ENGINEERS

Outline

- Introduction
- Transportation Revenues and Challenges
- Transportation Funding Needs
- Summary of Findings and Recommendations

Introduction

Study Purpose

- County fuel-tax study dollars
- BERK and Associates
- Understand county transportation funding sources and expenditures.
- Assess funding gap, emerging issues, and future needs.
- Recommend potential funding options.

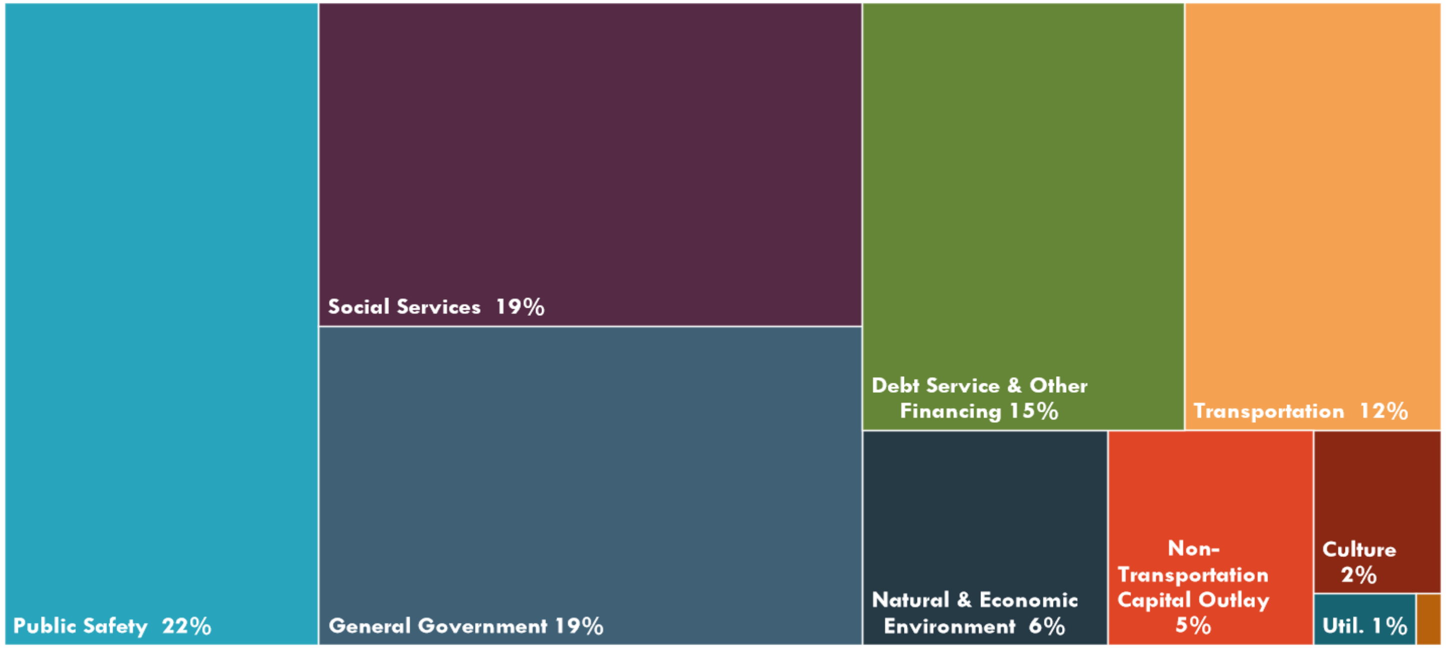
Sources

- **Research.** RCW research and information from CRAB, MRSC, JTC, SAO, WSAC.
- **Data analysis.** County-reported aggregate level data from SAO and WSDOT.
- **Interviews.** In-depth case studies of counties to provide context and describe challenges that different counties experience.

Counties provide a broad range of services

- As **agents of the state,** counties provide felony-level criminal justice services.
- As **regional providers**, may provide emergency management, regional transportation planning, parks services, human services.
- Counties provide **local government services** for residents living in unincorporated areas, including law enforcement, construction/ maintenance of roads and bridges.

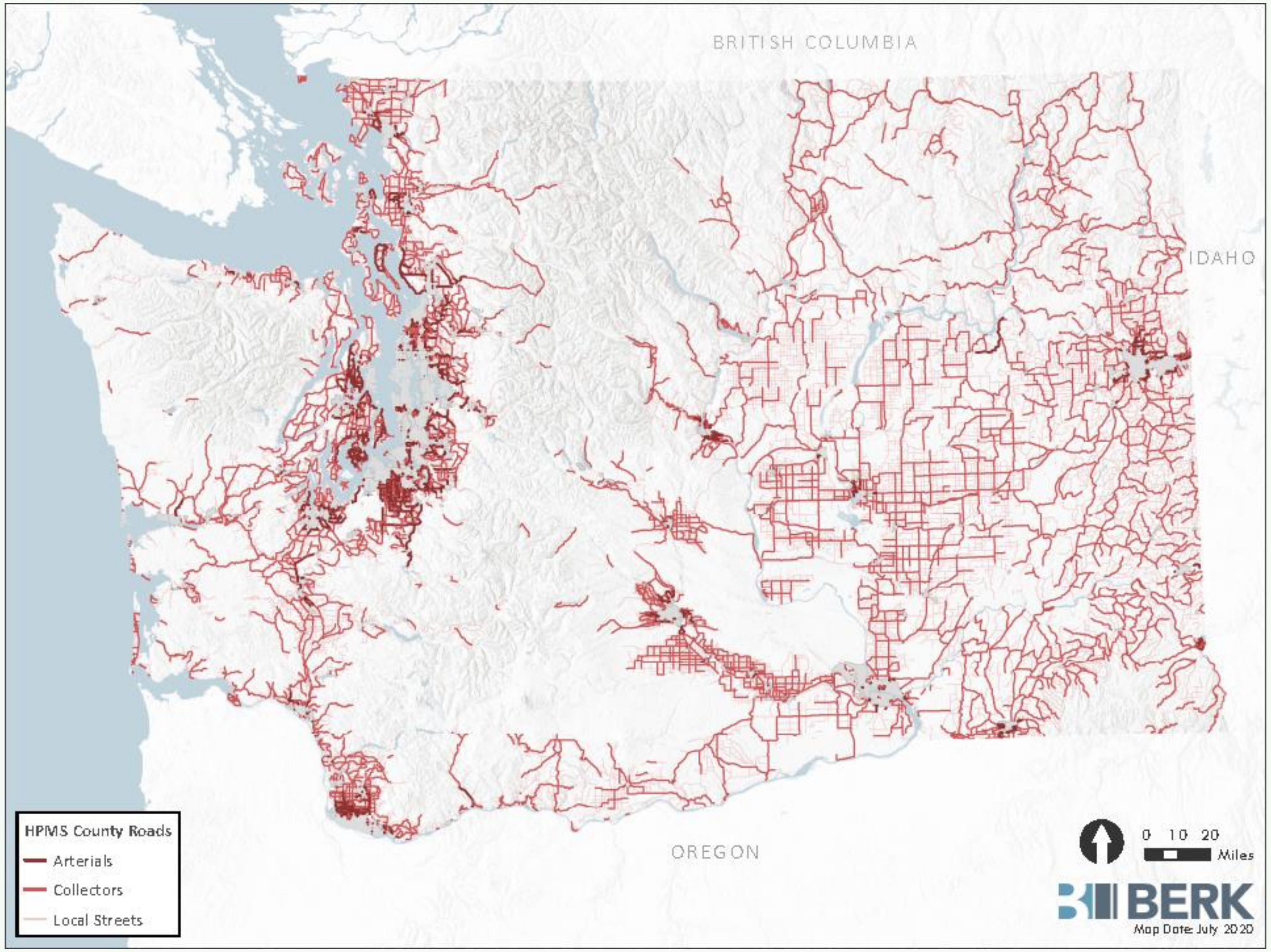
County Expenditures in Washington: Governmental Funds Only, 2018



Note: Shows governmental funds only (non-proprietary funds); includes debt service, capital projects, depreciation. Transportation includes capital outlay expenditures in transportation.
Sources: SAO Financial Intelligence Tool (FIT), 2018; BERK, 2020.

County Roadway Responsibilities

- **39,000** centerline miles
- **59%** of Washington roadways
- **45%** of Washington bridges
- Counties are diverse
  - From eastern to western Washington
  - From rural to urban and from low to high population density, among counties and within the same county



County Transportation Revenues

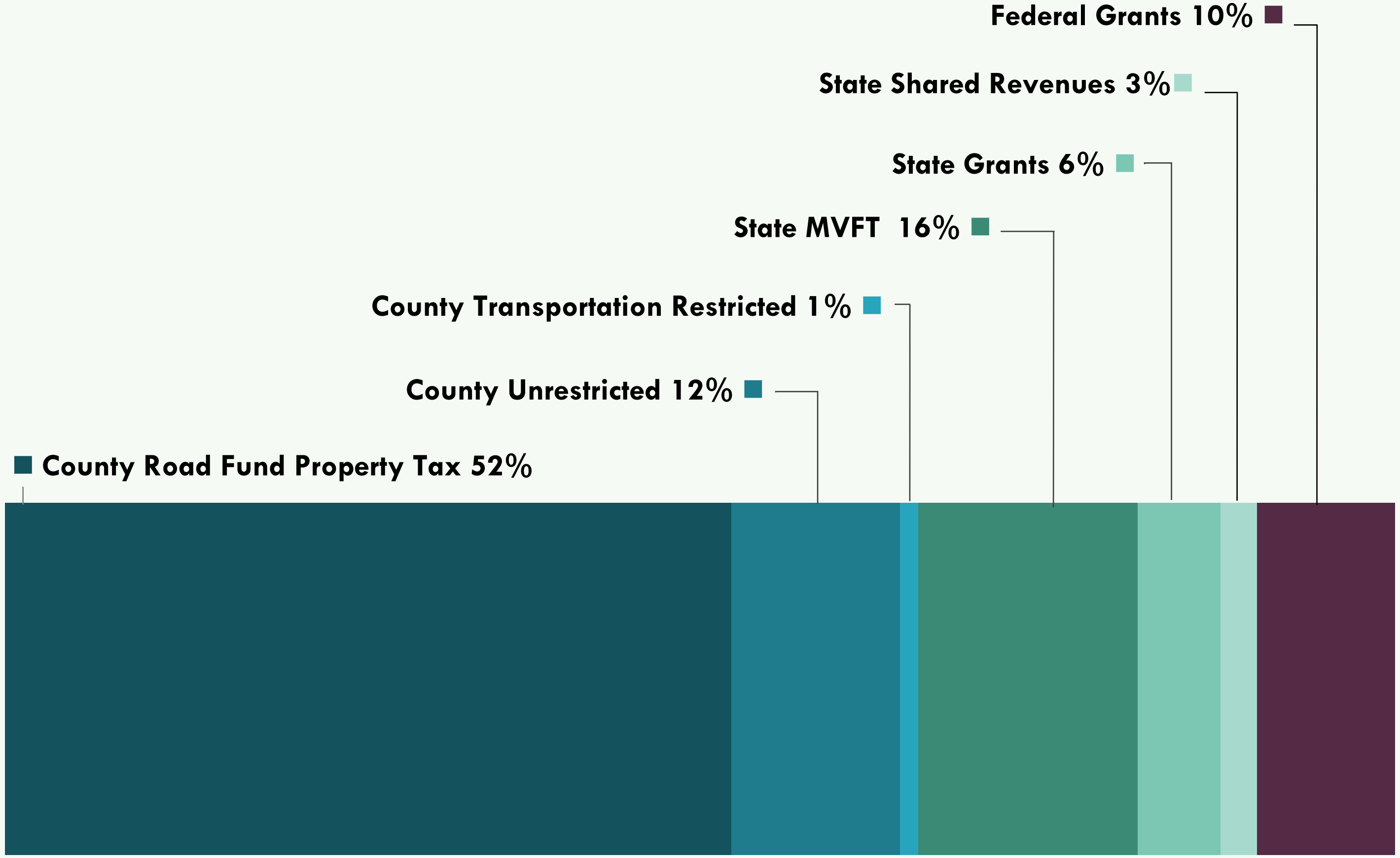
Funding Mix

Most funding for county roads come from county sources.

Total county transportation revenues average $932 million per year (2020$).

- **65%** from County
- 25% from State
- **10%** from Federal

County Transportation Funding Sources, 2014-2018 Average



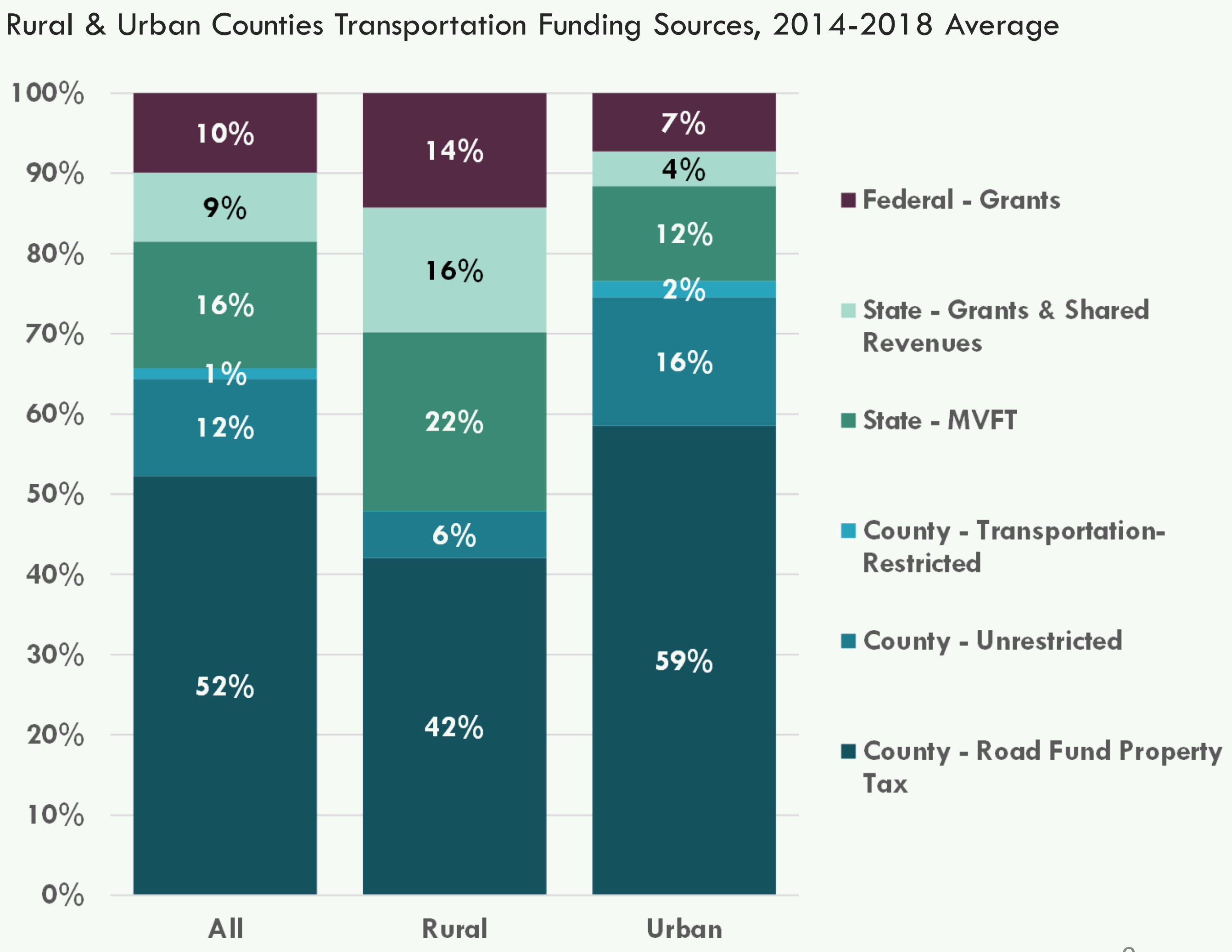
County Needs Vary

Rural Counties

- More reliant on state gas tax, state grants, and federal grants.

Urban Counties

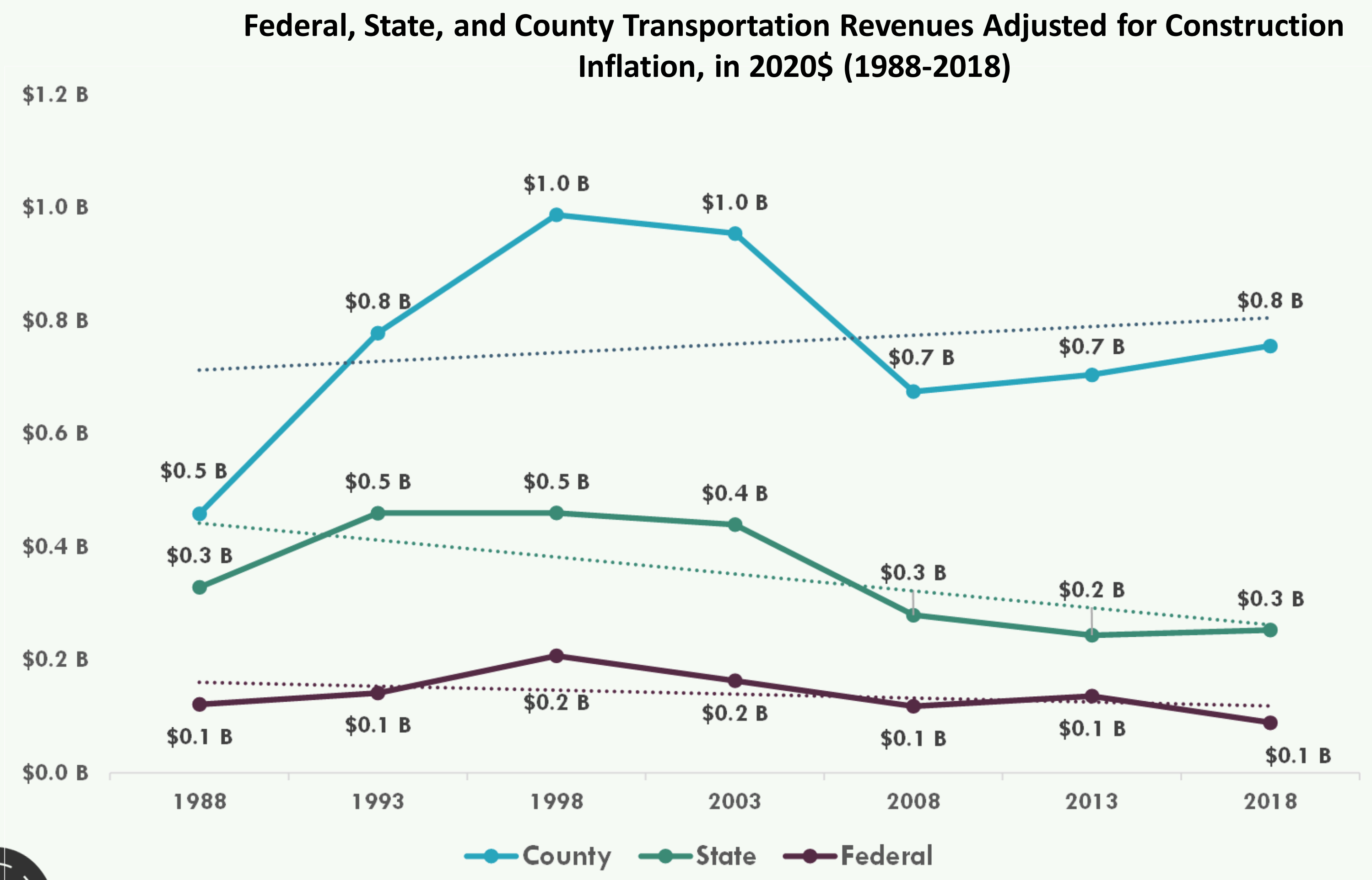
- More reliant on road fund property tax.



Federal, State, and County Transportation Revenues

- Over the past 30 years, county investments have **increased**, while state and federal investments have **declined**.

- Counties now receive close to $.5 billion less in revenue than we did 22 years ago.

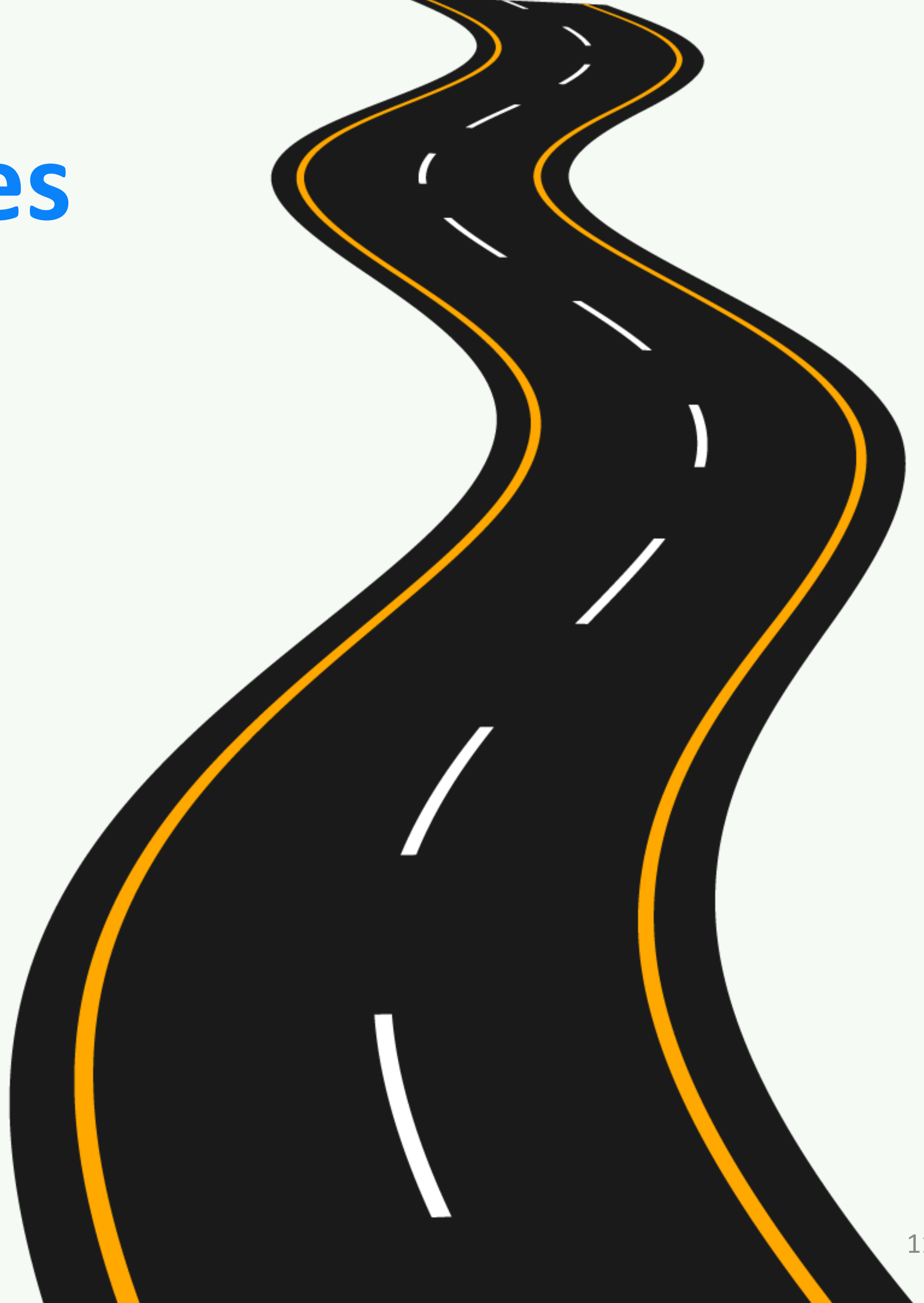


Sources: WSDOT City Streets and County Roads Merged History, 1988-2018; WSDOT Cost Construction Index, June 2019; BERK, 2020.

County Revenue Sources

Federal Sources

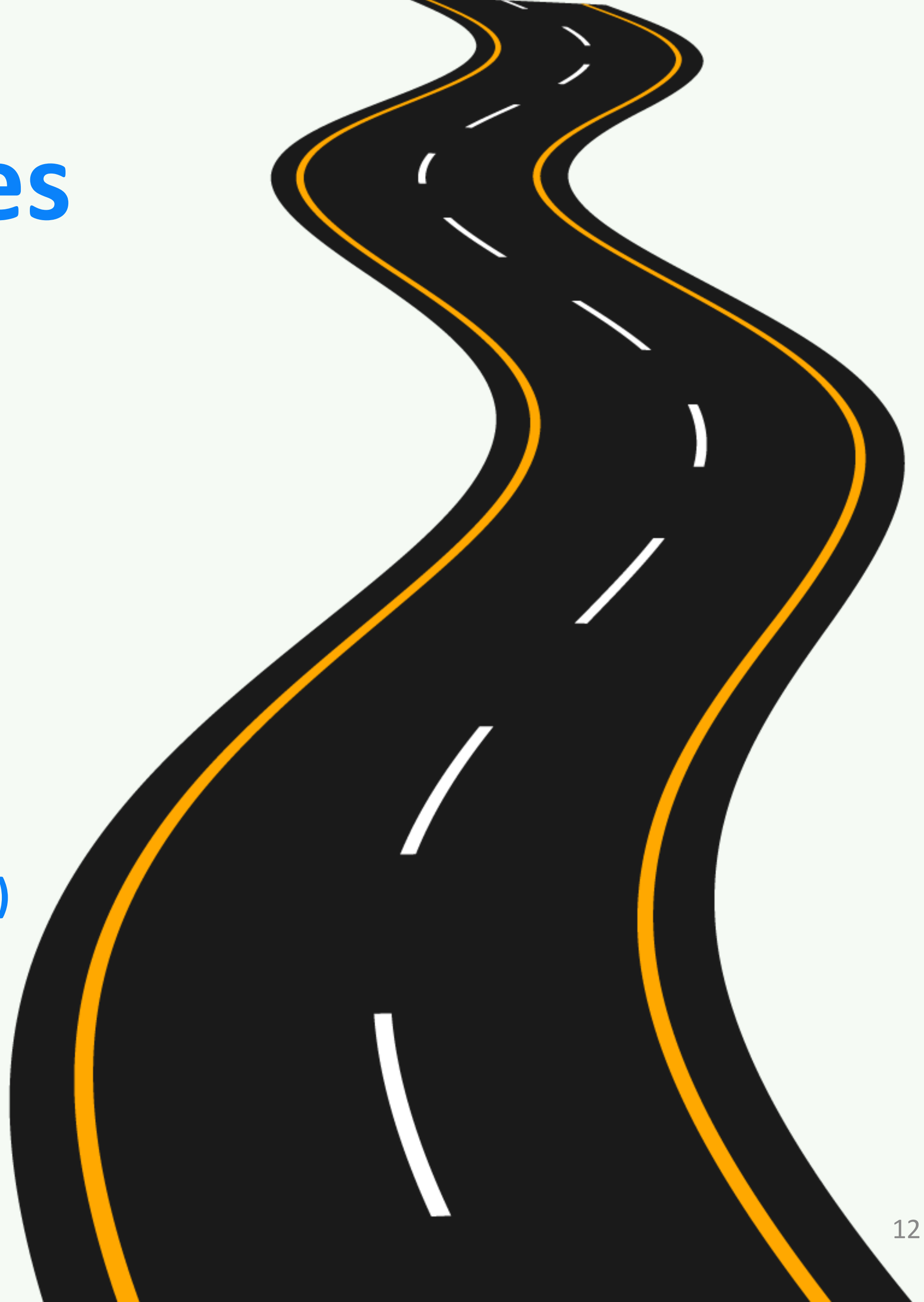
- Federal Highway Administration/ FAST Act Federal Aid
- Federal Discretionary Funds
- Federal Timber Sales/Secure Rural Schools
- Payments in Lieu of Taxes



County Revenue Sources

State Sources

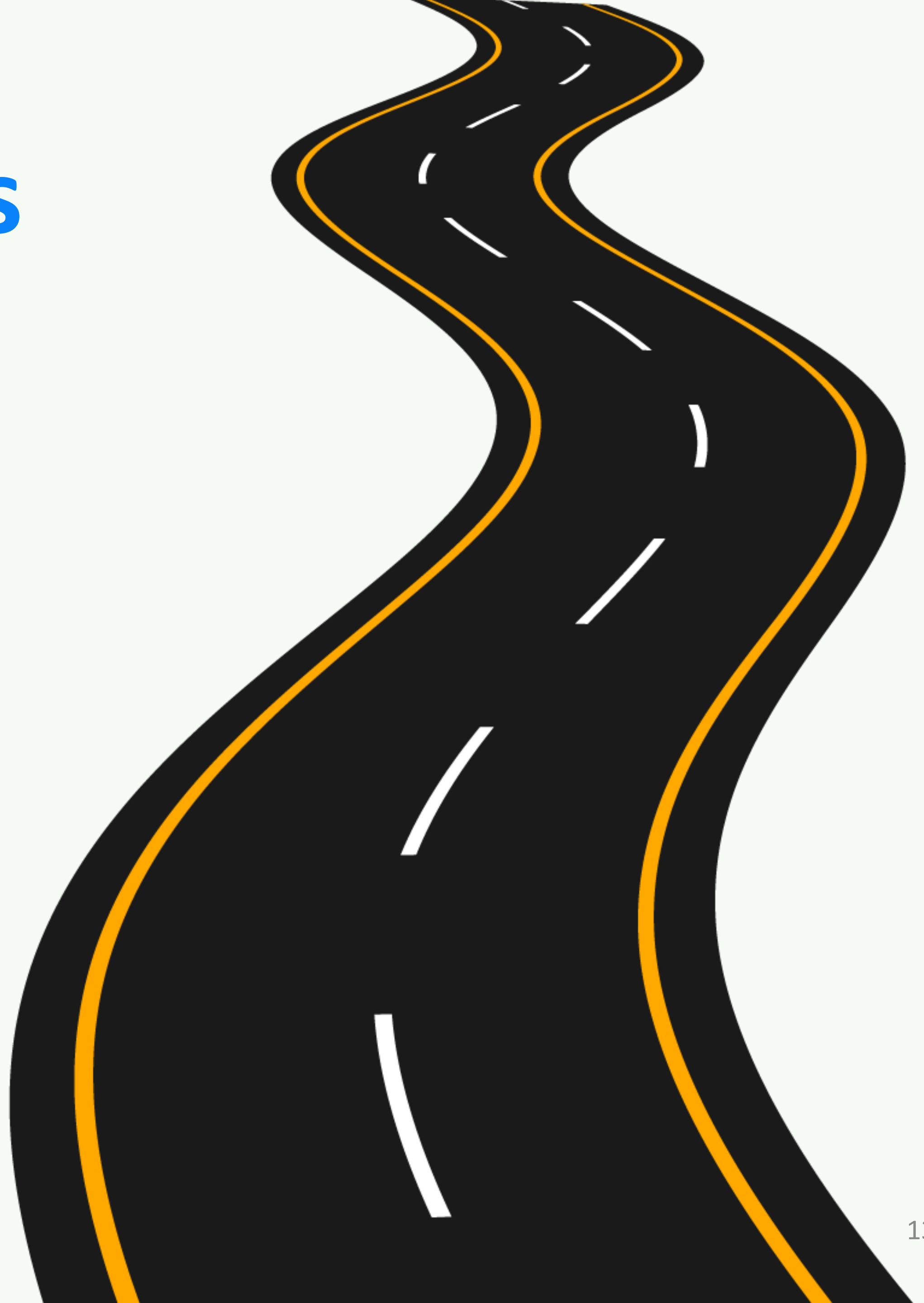
- Local Project Appropriations for Transportation Projects
- State Motor Vehicle Fuel Tax (MVFT)
- Multimodal Funds and Additional MVFT
- Capron Refunds
- County Arterial Preservation Program (CAPP)
- Rural Arterial Program (RAP)
- Freight Mobility Strategic Investment Board (FMSIB) Grants
- Transportation Improvement Board (TIB) Grants
- WSDOT Local Programs



County Revenue Sources

Local Unrestricted Funds

- Property tax (current expense levy)
- Retail sales and use tax
- Real estate excise tax (REET 1)
- REET 2
- REET 3
- Lodging tax
- Other excise taxes
- Unlimited tax general obligation (UTGO) bonds
- Limited tax general obligation (LTGO) bonds



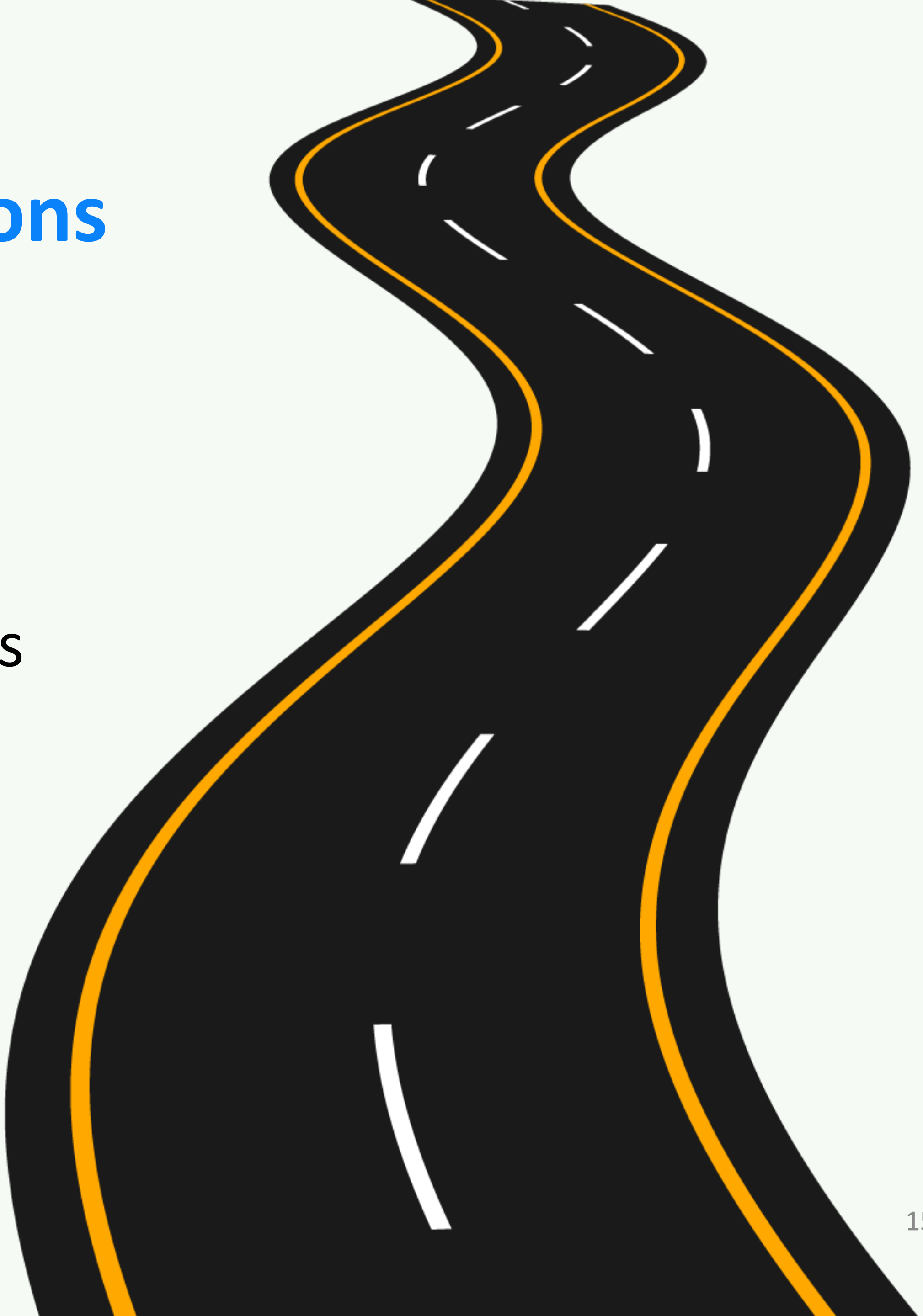
County Revenue Sources

Local Restricted Funds

- Property tax road fund levy
- Local improvement district (LID)
- Road improvement district (RID)
- Transportation impact fees
- Transportation benefit district (TBD)
- Border area motor vehicle fuel tax
- Local option motor vehicle fuel tax
- Commercial parking tax
- Local options for high occupancy vehicle systems

Limitations to local revenue options

- Some local funding options are not applicable or feasible in some counties.
- Need for **voter approval**
- Limited **effectiveness** in certain locations
- Limited **eligibility** in certain locations
- **Overlap** with other taxing authorities



County Transportation Revenue Challenges

Overview of Revenue Challenges

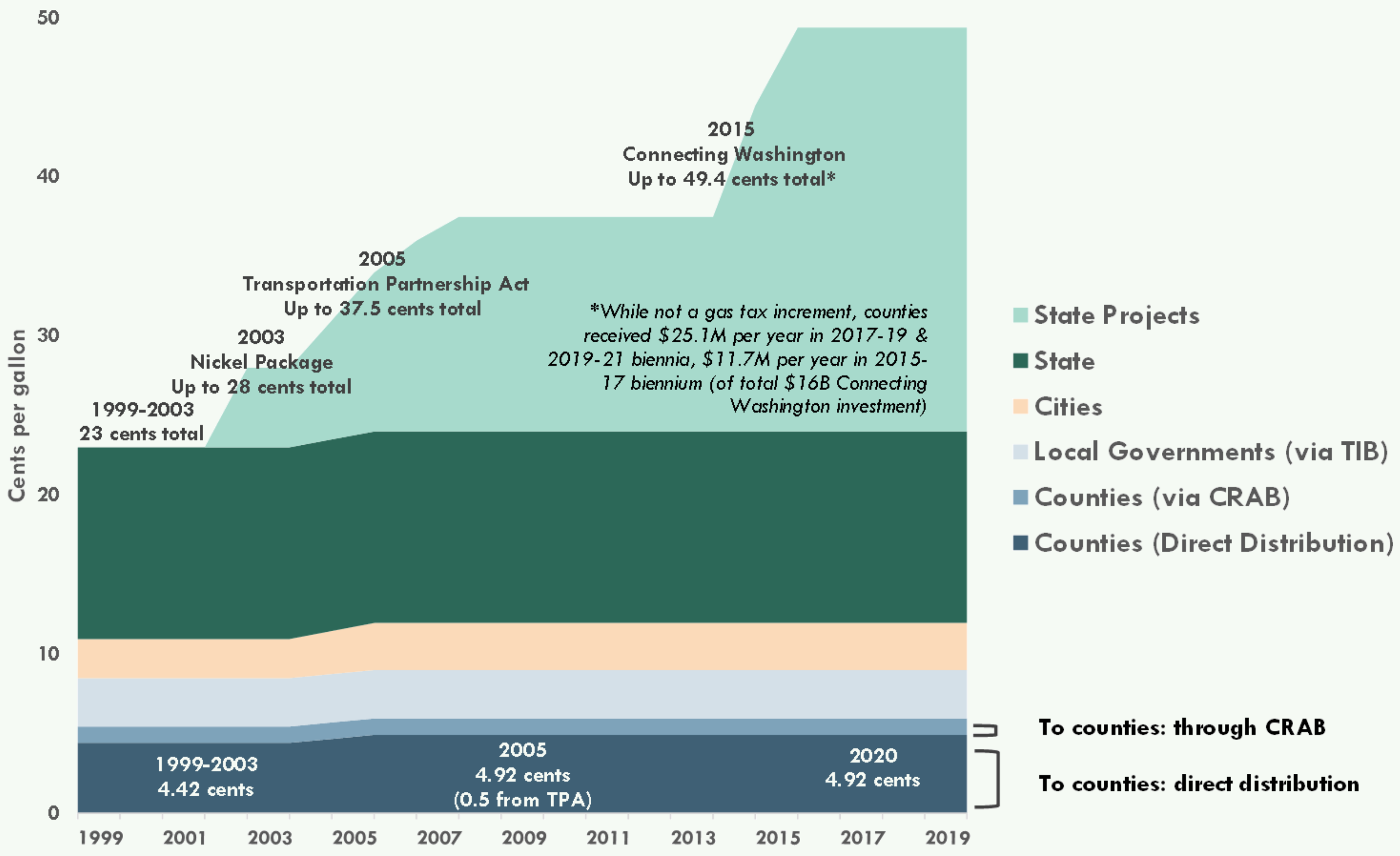
- County transportation funding is supported by two key revenue sources:
  Motor vehicle fuel taxes (gas tax)
  County road fund property taxes

- Both these sources have structural limitations.

Declining Share of Gas Tax Allocations

- County allocations of gas tax have remained **relatively constant** in cents per gallon.
- Increases in state gas tax have mostly been directed toward **specific state projects.**
- Therefore, the county share of the gas tax **has declined**.

State Gas Tax Distribution by Recipient, 1999-2020 (cents per gallon)



Sources: RCW 46.68.090; JTC, 2019; BERK, 2020.

Reduced Property Tax Base

- Counties may only levy road fund property taxes in **unincorporated areas,** which can be reduced through **annexations and incorporations.**
- **Growth Management Act** has facilitated this trend by requiring counties to designate urban growth areas where growth can occur and mandating comprehensive planning by cities within their urban growth areas.
- Counties **have lost high-revenue areas** to incorporation and annexation while retaining lower-tax revenue areas.
- As a result, counties might increase property tax rates, which increases the **tax burden for remaining unincorporated residents.**

Sources: RCW 35.13.005; RCW 35A.14.005

1% Property Tax Limit

- Road fund property tax revenues are constrained by:
  - Statutory maximum of **$2.25 per $1,000 of assessed value.**
  - **1% property tax levy limit** on growth of property tax revenue.

- Inflation typically exceeds 1%.
  - This means counties **lose revenue in real terms**, unless new construction makes up for inflation and population growth.

- Rural counties are **particularly challenged**, since they see less construction of new, high value properties than dense urban counties.

Sources: Washington State Economic and Revenue Forecast Council, "Washington State Economic and Revenue Forecast: Volume XLII, No. 1," February 2020, https://erfc.wa.gov/sites/default/files/public/documents/publications/feb20pub.pdf.

Funding Needs

Counties Face Rising Costs

- **Dramatically Rising Gravel Costs**

  Increase maintenance costs for thousands of miles of gravel roads in remote areas.

- **State and Federal Environmental Regulations**

  Examples: removing fish passage barriers, restricting placement of gravel pits, and mitigating impacts to critical species.

- **Replacing Aging and Deficient Bridges**
  - A bridge replacement may cost $20 - $30 million, with limited grant opportunities.

North Fork Bridge

County Transportation Expenditures

Programmatic costs

Administration & operations
Day-to-day costs of running transportation systems and programs.

Maintenance
Regular work to maintain condition of transportation system.

Capital costs

System preservation
Keep infrastructure in state of good repair by follow asset management practices and minimizing lifecycle costs.

System improvement
Enhance the existing system through new construction.

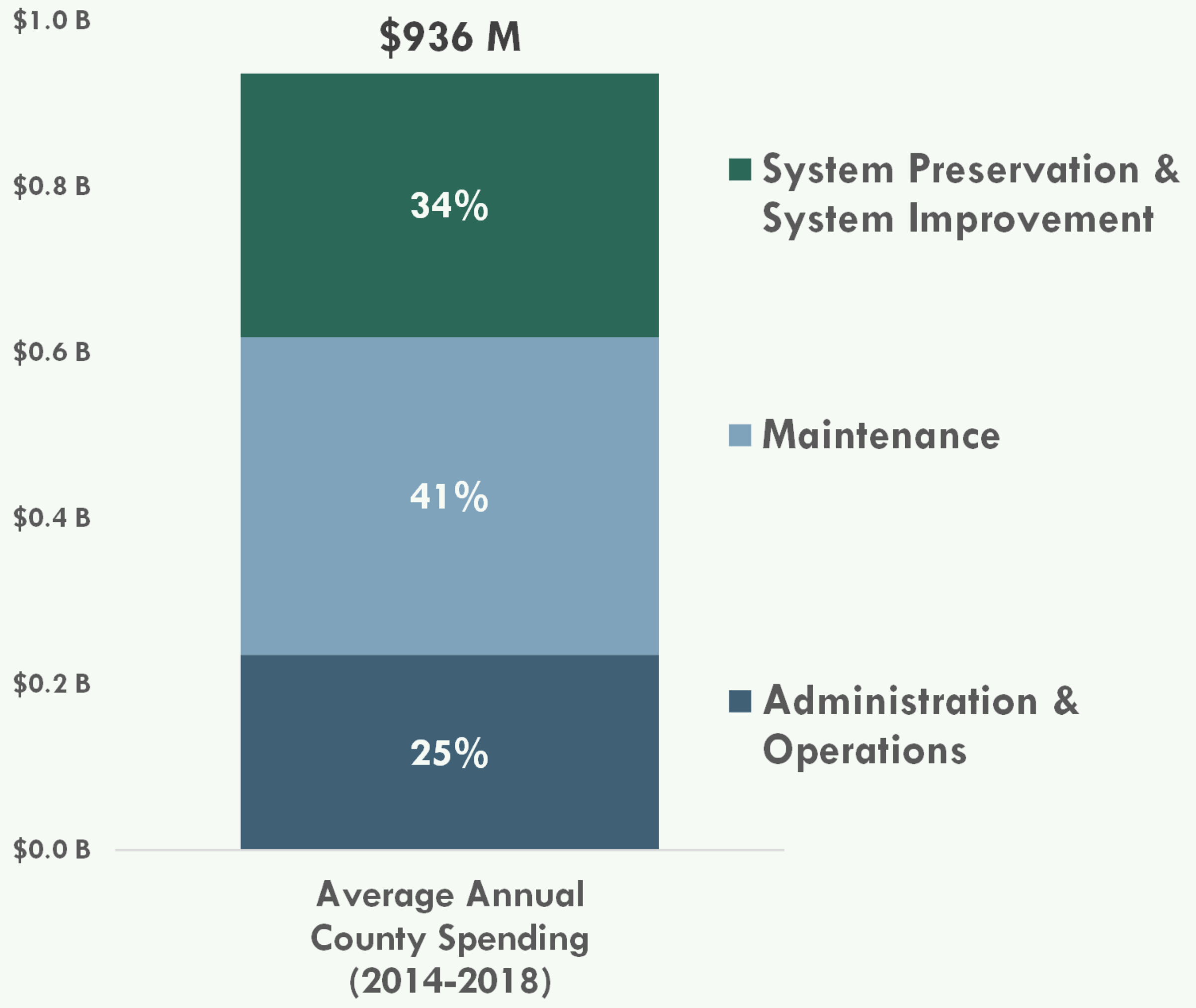
Bituminous Surface Treatment in Progress

Adams County

Spending Levels

- County transportation spending levels averaged a little over **$0.9 billion annually** between 2014 and 2018

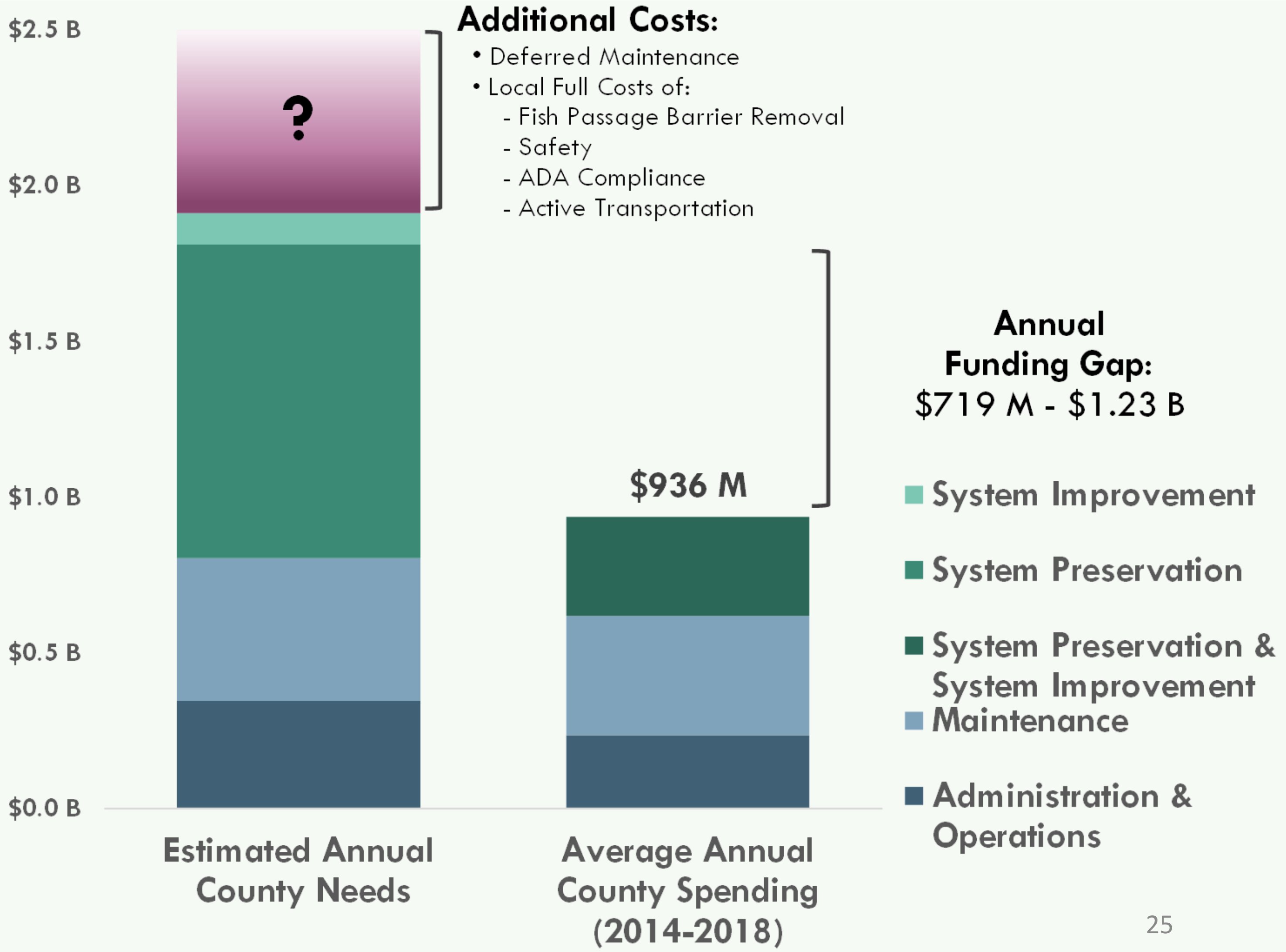
County Transportation Expenditures (2020$)



Estimated Funding Gap

- We estimate the annual funding gap for county transportation needs is between **$719 million and $1.23 billion, <u>BUT</u>**

- This gap does **not include:**
  - Deferred road maintenance
  - Full investment costs for fish passage barrier removal, safety, ADA compliance, and active transportation



Not Included: Deferred Maintenance

- Delayed investments that **reduce the effective lifetime of assets.**
- **Challenging to quantify** impacts of deferred investments:
  - Historical spending does not capture the backlog.
  - Costs compound over time.
  - Levels of service decline.
- We estimate that total road deferred maintenance costs for all counties are roughly between **$4.7 billion and $6.3 billion.**
  - This is **five to six times** total annual county transportation expenditures.

Crack seal
$5,000/mile

Chip seal
$40,000/mile

Overlay
$300,000/mile

Reconstruction
$1.5M/mile

Not Included: Fish Passage Barrier Removal

- State faces federal court order to address State-owned culverts and other fish barriers in Western Washington.
- Counties with fish passage barriers are **planning for anticipated future costs.**
- **A complete inventory is still needed** for a full picture of county investment needs.
- Washington Dept. of Fish and Wildlife has estimated the cost to counties is at least **$4.7 billion**.

Hunter Point Road

Thurston County

Not Included: Safety, ADA, Active Transportation

- The extent that standards for safety, ADA, and active transportation are already embedded into programming and budgeting, and therefore into the baseline data we use to estimate needs and gap, **varies by county.**
  - Preservation and system improvement related investments are included in base estimate, but specific projects to address system gaps are not.
- **Safety**
  - No full inventory of safety needs, but in 2019, 30 counties requested **$79 million** in funding through Local Road Safety Plans to WSDOT's County Safety Program.
- **ADA**
  - Full implementation of ADA Transition Plans may include costs other than transportation, such as access to government buildings and services.
- **Active Transportation**
  - Included in some projects based on standards set by local jurisdictions.

Summary of Findings & Recommendations

Summary of Findings

- Counties face **structural revenue challenges** to two key revenue sources, the county road fund property tax and state gas tax**:**
  - Declining share of gas tax allocations.
  - Reduced tax base from annexations and incorporations.
  - Property tax one percent limit.
  - Property tax road fund diversions and shifts.
- Meanwhile, county transportation departments face **rising costs**:
  - Deferred maintenance costs.
  - Increasing gravel costs.
  - Environmental regulations.
  - Costs to replace bridges at the end of their lifespan.

Summary of Findings

- The annual base funding gap for county transportation programmatic and capital needs is **$719 million to $1.23 billion.**
  - This gap is around **half of county needs** for programmatic and capital expenses**.**
- Beyond this base funding gap:
  - **Deferred maintenance.** Total road deferred maintenance costs for all counties are roughly **$4.7 billion and $6.3 billion**—around five to six times annual transportation expenditures across all counties.
  - **Fish passage barrier removal.** At least **$4.7 billion.**
  - **Investments in safety, ADA, and active transportation.**

Recommendations

1. **Increase investment for preservation and maintenance.**
   - Targeted investments in the Rural Arterial Program (RAP) and the County Arterial Preservation Program (CAPP)

2. **Implement a federal fund exchange program.**

3. **Increase the county share of the gas tax** and ensure any state alternative to the gas tax preserves revenue sharing with counties and maintains requirements that funding be invested for transportation purposes.
   - Any replacement to the gas tax needs to have 18th amendment protections.

4. **Expand or enhance local county transportation funding options.**

Thank You

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