



# IMPLEMENTING ALTERNATIVE TRANSPORTATION FUNDING METHODS



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WASHINGTON STATE LEGISLATURE  
Joint Transportation Committee

**FINAL REPORT**  
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## Executive Summary

The 2009 legislature directed the Joint Transportation Committee (JTC) to conduct a comprehensive analysis of mid-term and long-term transportation funding mechanisms and methods. The study analyzes the feasibility and practicality of implementing funding methodologies identified in the JTC's 2007 *Long-Term Transportation Financing Study*, as well as other methods identified by the committee, staff, and consultants. The **principle objective** is to identify specific steps for the legislature and agencies to begin implementing viable mid-term and long-term transportation funding approaches. While the primary focus is on state imposed and collected transportation taxes and fees, the report also includes a discussion of local funding options.

### 2007 Long-Term Transportation Financing Study

The JTC's 2007 study recommended that, over the next 15 years, Washington State replace its fuel tax – which provides 38 percent of the state's transportation funding - with alternative funding methods. In the medium term (next 5 to 15 years) the study recommended that the state continue to rely on the fuel tax, but make it more viable by indexing it to the consumer price index (CPI). The study also recommended that, in the medium term, the state add a sales tax to fuel sales, impose additional tolls, expand local funding options, and consider a container charge. In the long term (next 10 to 15 years), the study recommended replacing the fuel tax with a vehicle miles traveled (VMT) fee, including a local-option VMT service fee; adding a vehicle weight-mile tax; and imposing regional development impact fees.

#### 2007 Long Term Financing Study Funding Methods Recommendations

Medium-Term (5-15 years)	Long-Term (10-15 years)
<ul style="list-style-type: none"> <li>• Sales tax on fuel</li> <li>• Index fuel tax</li> <li>• More tolling                             <ul style="list-style-type: none"> <li>○ High Occupancy Tolling (HOT) Lanes</li> <li>○ Extend bridge tolling</li> <li>○ Area tolling</li> </ul> </li> <li>• Expanded local sources                             <ul style="list-style-type: none"> <li>○ Local option tax (RTID)</li> </ul> </li> <li>• Container charges</li> </ul>	<ul style="list-style-type: none"> <li>• Replace fuel tax with Vehicle Miles Traveled (VMT) fee</li> <li>• Supplement VMT fee with a local-option VMT service fee</li> <li>• Vehicle weight-mile tax</li> <li>• Regional development impact fees</li> </ul> <p style="color: red; font-weight: bold; margin-top: 10px;"><i>Transition between medium &amp; long-term dependent on how quickly the fuel tax erodes and the technology to collect VMT fees can be developed.</i></p>

Since 2007, the legislature has taken action with regard to two of the study's recommendations.

*Tolling* has commenced on the Tacoma Narrows Bridge and State Route 167, and the legislature has adopted a tolling policy, authorized tolling on the 520 Floating Bridge, and directed the Washington State Department of Transportation (WSDOT) to conduct studies of five additional potential tolling applications and report to the legislature in the 2010 session.

*Container fees* were the subject of a 2009 JTC study that found that container fees set at \$30 or greater would have a significant diversion effect, causing freight traffic to move away from Puget Sound ports.

Another significant development is that King, Pierce, and Snohomish county voters in November, 2007 rejected the proposed formation of a Regional Transportation Investment District (RTID).

## Trends Affecting State Transportation Funding Methods

Developments since 2007 in energy, climate change, congestion, and federal policy were reviewed to inform this funding method analysis.

*Energy.* Since 2007 motor vehicle fuel consumption per capita has continued the decline that started in FY 1999. In FY 2009, for the first time, total motor vehicle fuel consumption declined over the previous year. The November 2009 forecast of motor vehicle fuel revenues is \$1.6 billion lower over the 2009-25 16-year plan period than was forecast in 2007. The adoption of the new Corporate Average Fuel Standards (CAFÉ) that mandate higher levels of new vehicle fuel economy may further accelerate the erosion of revenues from the motor vehicle fuel tax.

*Climate change.* Current state climate change related laws establish benchmarks for reductions in daily VMT per capita. As ordered by the Governor, benchmarks are being reviewed to determine whether, with the advent of electric cars and other low emission vehicles, VMT is a reasonable proxy for the transportation system's contribution to greenhouse gas (GHG) emissions. Until this review is completed and WSDOT refines its projection of total annual VMT in June 2010, attainment of the daily per capita VMT benchmarks should not be assumed in making transportation funding decisions.

*Congestion.* Congestion is a significant issue for the state's urban areas and the state has begun to use pricing strategies (e.g., on SR 167 HOT lanes, proposed SR 520 toll rates) to reduce congestion. The state's medium- and long-term funding methods should include methods that can be selectively applied in urban areas to address congestion.

*Federal.* At the federal level, the current administration is not expected to propose a long-term transportation funding method for 18 months. Although three federal commissions have endorsed use based fees to replace the federal fuel tax, in particular a vehicle miles traveled fee, the administration has indicated that it will not consider such a fee. State decisions on long-term funding methods should assume current federal funding methods until the administration or Congress develops a new policy.



## Washington State Funding Methods

The state legislature adopts a biennial budget and develops a 16-year financial plan. State transportation funding for the 2009-25 16-year financial plan is shown below.

### State Transportation 16-Year Funding and Direct Revenue

Source	2009-25 Totals (billions)	% 2009-25 Funding	% 2009-25 Direct Revenue*
Motor Vehicle Fuel Tax – 37.5 cents per gallon**	\$17.7	38%	52%
Licenses, Permits, Fees & Abstracts**	\$9.7	21%	28%
Bond Sales	\$6.4	14%	
Federal Funds	\$5.7	12%	
Ferry Revenues	\$3.4	7%	10%
Tolling (Tacoma Narrows Bridge/SR 167)	\$1.5	3%	4%
Vehicles Sales Taxes	\$1.2	3%	4%
Miscellaneous	\$1.1	2%	2%
<b>Total Funds/Revenue</b>	<b>\$46.7 billion</b>	<b>\$46.7 billion</b>	<b>\$34.1 billion</b>

\*Excludes bond sales, federal funds, and interest which are not direct revenues. \*\* Revenues exclude local distributions

#### State Transportation Funding

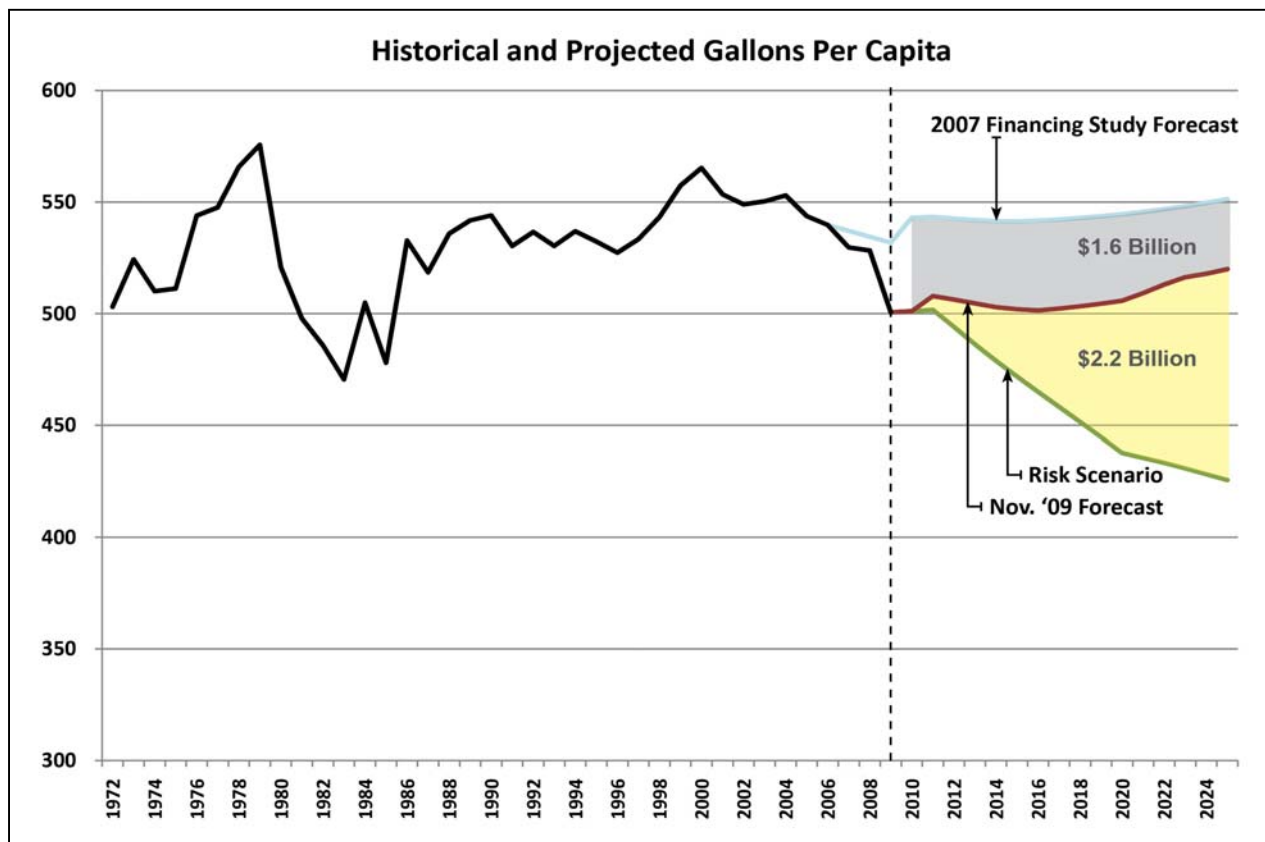
- *The state is dependent on flat rate revenues that do not grow with inflation.* Eighty percent (80%) of the state's direct transportation revenues are from fuel taxes and licenses, permits, fees and abstracts which have flat rates that do not grow with inflation.
- *Legislative action is required to set rates.* With the exception of tolls and ferry fares, transportation tax and fee rates are set by state law and require legislative action to be changed. Toll and ferry fares are set by the Washington State Transportation Commission (WSTC) subject to legislative direction.
- *The use of funds is restricted by the 18<sup>th</sup> amendment and legislative action.* The 18<sup>th</sup> amendment restricts the use of motor vehicle fuel taxes and vehicle registration fees to highway purposes. The legislature has imposed additional restrictions on the use of most transportation revenues, in part because fees must be imposed for specific purposes.

#### Vehicle Owner Impact

- *Under current law vehicle owners will pay substantially less in 2025 than they do in 2009.* As a consequence of higher fuel efficiency and the flat rates of the fuel tax, licenses and permits, vehicle owners, except electric car owners, will pay 9 to 14 percent less in taxes in 2025 than they pay in 2009. Adjusted for inflation, so that the taxes and fees paid would purchase as much in 2025 as in 2009, owners will pay 37 to 46 percent less.
- *The reduction in vehicle owner payments has a \$10 billion effect on transportation revenues.* If taxes and fees were adjusted to maintain purchasing power, revenues would increase by approximately \$10 billion over the 16-year plan.
- *The differential in state taxes and fees paid by different types of passenger vehicle owners is substantial.* For example, electric car owners pay 82 percent less than SUV owners in transportation fees and taxes.

## Risk Scenario

There are a number of factors that could adversely affect the state's motor vehicle fuel tax revenue between now and 2025, such as higher than forecasted increases in motor vehicle fuel prices, declines in vehicle miles traveled per capita, or increased state-wide fleet fuel efficiency. The consultants have developed one risk profile based on implementation of the CAFÉ standards and greater market penetration of electric and hybrid vehicles, but a similar risk profile could be developed based on the other factors noted above. Overall under the consultants' risk analysis, the total potential drop in fuel taxes is \$2.2 billion or approximately 10 percent over the 16-year plan compared to the November forecast, which is in addition to the \$1.6 billion drop between the 2007 forecast and the November 2009 forecast.



## Evaluation Framework

The goal of this analysis is to **develop a package of funding tools** that the legislature can consider. It is not anticipated that any one funding method will meet all of the state's objectives.

Two threshold criteria have been applied to every funding method. They are: 1) whether it is an appropriate state level fee or tax; and 2) that it has a nexus to transportation. The threshold criteria screen out general funding methods, such as an income tax or a general sales tax.

Four objectives and associated evaluation criteria are in the framework.

*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.

## State Funding Methods Reviewed

Funding methods that met the threshold criteria were grouped into whether they are applied to fuel, vehicles, drivers, transportation related businesses, transportation system use, or the general transportation system. As shown below some were found to be infeasible due to requirements of the Streamlined Sales and Use Tax Agreement (SSUTA), a multi-state agreement that governs the application of sales and use tax in the state, and were not considered further.

### Funding Methods Reviewed

Fuel	Use	Vehicle
<p><b>Motor fuel tax options</b></p> <ul style="list-style-type: none"> <li>• Index</li> <li>• Set increases</li> <li>• Vary by county*</li> <li>• Add gross receipts tax</li> <li>• Add petroleum company tax</li> <li>• Eliminate sales tax exemption**</li> <li>• Add special assessment fee</li> </ul> <p><b>Barrel Fee</b></p> <p><b>Exported Fuels Tax</b></p> <p><b>Electric Vehicle Fuel</b></p> <p>*Infeasible uniform rate requirement ** Must include local sales taxes</p>	<p><b>Tolling/Congestion Pricing</b></p> <ul style="list-style-type: none"> <li>• Expand tolling</li> <li>• Expand revenue uses</li> <li>• Zone-based/cordon tolls</li> </ul> <p><b>Vehicle Mile Traveled (VMT) Fee</b></p> <ul style="list-style-type: none"> <li>• State-wide</li> <li>• Truck mileage weight fee</li> </ul> <p><b>Ferries</b></p> <ul style="list-style-type: none"> <li>• Operations funding</li> <li>• Capital funding</li> </ul> <p><b>Cascade Amtrak Service</b></p> <ul style="list-style-type: none"> <li>• Operations funding</li> <li>• Capital funding</li> </ul> <p><b>Off-Road Use Fee</b></p> <ul style="list-style-type: none"> <li>• Rates 2012 purchasing power</li> <li>• Index</li> <li>• Revenue to Off-Road Account</li> </ul>	<p><b>Retail Sales &amp; Use Tax</b></p> <ul style="list-style-type: none"> <li>• Change rate</li> <li>• Eliminate trade-in credit</li> <li>• Extend to parts &amp; labor*</li> </ul> <p><b>Rental Vehicle Sales Tax</b></p> <ul style="list-style-type: none"> <li>• Change county options**</li> </ul> <p><b>Vehicle Fees</b></p> <ul style="list-style-type: none"> <li>• Rates at 2012 purchasing power</li> <li>• Index</li> <li>• Modify weight fees</li> <li>• Extend in lieu of fee to electric</li> </ul> <p><b>Motor Vehicle Excise Tax</b></p> <p><b>Tire Fee</b></p> <ul style="list-style-type: none"> <li>• Add fees for transportation</li> </ul> <p><b>Tax on Auto Insurance Premiums</b></p> <p>* Infeasible due to SSUTA ** Consider with local options</p>
Driver	Transportation Business	Transportation System
<p><b>Driver Licenses</b></p> <ul style="list-style-type: none"> <li>• Rates at 2012 purchasing power</li> <li>• Index</li> <li>• Increase license years Index</li> </ul>	<p><b>Business Licenses</b></p> <ul style="list-style-type: none"> <li>• Rates at 2012 purchasing power</li> <li>• Index</li> </ul>	<p><b>Access Management Fees</b></p> <ul style="list-style-type: none"> <li>• Rates at 2012 purchasing power</li> <li>• Index</li> <li>• Modify <ul style="list-style-type: none"> <li>• Reflect impact</li> <li>• Extend to interstates</li> </ul> </li> </ul>



## Implementation Recommendations

The analysis found that there were four implementation issues that potentially affected more than one of the funding methods. The consultants' recommendations that cross funding methods are:

**Recommendation 1.** The legislature should provide funding for the Department of Licensing (DOL) to begin upgrading its computer systems, with consideration given to paying for the system upgrades by building the cost into the fee structure.

- DOL's computer system is antiquated and in need of replacement at an estimated cost of \$38 million. The project should take approximately four years, assuming no major changes in business rules, which could extend the schedule and the cost.

**Recommendation 2.** The legislature should explore the costs and benefits of allowing vehicle owners to make periodic payments of annual vehicle fees rather than one lump sum payment, particularly if fees are substantially increased. This analysis should be conducted in conjunction with a review of the DOL computer systems.

- Fees collected on an annual basis pose a hardship for some taxpayers. Considerations in determining whether to allow periodic payments include lending of credit, staffing costs, and DOL computer system issues.

**Recommendation 3.** If the legislature decides to index fees or taxes, the legislature should set base fees, use the consumer price index (CPI) as the basis of an annual change, and have driver and vehicle fees rounded to the nearest whole dollar.

- States use many different indexes for changing fees or the motor vehicle fuel tax. The CPI is the easiest for the public to understand. Fees should be rounded to the nearest whole dollar to avoid very complicated fees.

**Recommendation 4.** Existing DOL, WSDOT, and Washington State Patrol license, fee, permits and abstract rates should be reviewed to determine when the rates were last adjusted, what an inflation adjusted rate would be, and what discretionary restrictions have been placed on use of the fees. If the legislature elects to adjust fees annually by the CPI, the legislature should authorize the affected agencies to make the adjustments.

- The state earns 28 percent of its direct transportation revenues from fees, some of which have not been adjusted for many years. A comprehensive review will help inform legislative decisions.

## State Funding Method Recommendations

The consultants found that the funding methods shown below best met the criteria established in the evaluation framework:

Fuel	Use	Vehicle
<b>Motor fuel tax options</b> <ul style="list-style-type: none"> <li>• Index</li> <li>• Set increases</li> <li>• Add special assessment fee</li> </ul>	<b>Tolling/Congestion Pricing</b> <ul style="list-style-type: none"> <li>• Expand tolling</li> <li>• Expand revenue uses</li> </ul> <b>Ferries &amp; Cascade Amtrak</b> <ul style="list-style-type: none"> <li>• Operations funding</li> <li>• Capital funding</li> </ul> <b>Off-Road Use Fee</b> <ul style="list-style-type: none"> <li>• Rates 2012 purchasing power</li> <li>• Index</li> </ul>	<b>Retail Sales &amp; Use Tax</b> <ul style="list-style-type: none"> <li>• Change rate</li> </ul> <b>Vehicle Fees</b> <ul style="list-style-type: none"> <li>• Rates at 2012 purchasing power</li> <li>• Index</li> <li>• Modify weight fees</li> <li>• Extend in lieu of fee to electric</li> </ul> <b>Tire Fee</b> <ul style="list-style-type: none"> <li>• Add fees for transportation</li> </ul>
Driver	Transportation Business	Transportation System
<b>Driver Licenses</b> <ul style="list-style-type: none"> <li>• Rates at 2012 purchasing power</li> <li>• Index</li> </ul>	<b>Business Licenses</b> <ul style="list-style-type: none"> <li>• Rates at 2012 purchasing power</li> <li>• Index</li> </ul>	<b>Access Management Fees</b> <ul style="list-style-type: none"> <li>• Rates at 2012 purchasing power</li> <li>• Index</li> <li>• Modify                             <ul style="list-style-type: none"> <li>• Reflect impact</li> <li>• Extend to interstates</li> </ul> </li> </ul>

### Action Recommendations

All recommendations are described as potential action items because decisions on which funding methods to adopt cannot be made without reference to specific projects or programs the legislature is trying to fund. Recommendations are made for the medium term (within five years) and for the longer term. The consultants have made seven medium term recommendations for actions that the legislature could consider. However, none of them can be fully considered without knowing what investments the legislature intends to fund. For example, if the legislature wants to fund something that is not eligible for 18<sup>th</sup> amendment restricted funds, then there will be potentially less interest in funding methods that are restricted by the 18<sup>th</sup> amendment.

### Medium Term Actions

**Seven actions** are recommended for consideration by the legislature in the medium term. Additional revenues from 2012 to 2025 that would be generated by each action are shown in the table below. For motor vehicle fuel tax revenue and in-lieu of fees, the table shows the revenues under the consultants' risk scenario and under the Transportation Resource Forecast Council (TRFC)'s November forecast. For all other funding methods the revenue projections are the same under the November forecast and the consultants' risk scenario.

***Maintain the viability of license and permit fee revenues***

**Action 1.** The legislature could adopt comprehensive legislation to increase fees to 2012 purchasing power, and index them to the CPI to maintain purchasing power. If this action is taken, the legislature could also provide authorization through the budget process to the affected agencies to modify the fees annually, and direct the resulting Capron<sup>1</sup> refunds to the Ferries Division of WSDOT (WSF).

***Maintain the short- and medium-term viability of the fuel tax***

**Action 2.** The legislature could index the tax to the CPI to maintain its purchasing power *and choose one of the two following options* to off-set declines in per capita consumption: a) increase the tax rate annually; or b) add a transportation assessment fee to the retail price of motor vehicle fuel. Any resulting Capron refunds could be directed to WSF.

***Adopt in-lieu of vehicle fuel tax fees for electric and other high mileage vehicles***

**Action 3.** Consistent with fees adopted for natural gas and propane powered vehicles, the legislature could adopt in-lieu-of fees for electric and other high mileage vehicles.

***Extend tolling applications***

**Action 4.** The legislature could fund additional projects with tolls.

***Secure WSF capital funding***

**Action 5.** To secure capital funding for Ferries, the legislature could, in addition to increasing and indexing the motor vehicle fuel tax: impose a capital surcharge on ferry fares; direct any additional Capron refunds to the Ferries capital account; distribute a portion of license fees to the Ferries capital account; and re-balance the distribution of the motor vehicle fuel tax between the Ferries operations and capital accounts.

***Review Amtrak Cascades Service funding***

**Action 6.** The legislature could do the following to increase revenues supporting Amtrak Cascades service: a) review farebox recovery and increasing fares to cover a greater portion of operating costs; and b) impose a capital surcharge on fares to help finance needed but unfunded capital improvements.

***Revise the WSDOT Access Management Program***

**Action 7.** The legislature could consider expanding WSDOT's access management program to require entities that impact state or interstate highways to mitigate that impact.

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<sup>1</sup> Under RCW 46.68.080 a portion of vehicle license fees and fuel taxes collected by the state are remitted to San Juan and Island counties. These distributions are referred to as Capron refunds after Victor Capron a member of the legislature.

**Medium-Term Action Revenues 2009-25 16-Year Financial Plan**

Revenue (billions)	State Funds Current Law (billions)	Local (billions)	Vehicle Owner Mid-Size (in 2025 @11,500 miles per year) 2009 pay \$272 = 2025 \$437 inflation adjusted
<b>Action 1. Maintain the viability of license and permit fee revenues</b>			
<b>Increase &amp; index</b> \$3.8 Risk & Nov. forecast	\$1.0 – Motor Vehicle Fund \$0.5 – Multimodal Fund \$0.2 – Nickel & TPA \$1.3 – State Patrol \$0.7 – Ferry Operations \$0.1 – Ferry Capital	\$18 million Capron	\$297
<b>Action 2. Maintain the short and medium-term viability of the fuel tax</b>			
<b>Index</b> \$4.4 Risk \$6.6 Nov forecast	\$1.1-\$1.7 Motor Vehicle Fund \$1.6-\$2.4 Nickel & TPA \$0.1-\$0.1 Ferry Operations \$0.1-\$0.1 Ferry Capital \$0.1-\$0.1 Other	\$1.4 - \$2.2 Distributed \$27 - \$41 million Capron	\$329
<b>1 cpg annually</b> \$3.9 Risk \$3.4 Nov. forecast	\$0.9-\$1.0 Motor Vehicle Fund \$1.2-\$1.4 Nickel & TPA \$0.1-\$0.1 Ferry Operations \$0.1-\$0.1 Ferry Capital \$0.1-\$0.1 Other	\$1.0 - \$1.3 Distributed \$21 - \$24 million Capron	\$304
<b>2% assessment</b> \$4.1 Risk \$4.6 Nov. forecast	Fund allocation TBD		\$295
<b>Action 3. Adopt in-lieu of vehicle fuel tax fees for electric and other high mileage vehicles</b>			
\$271 million- Risk \$1.0 million – Nov.			Electric cars change from \$77 to \$188
<b>Action 4. Extend tolling applications</b>			
TBD – Five WSDOT studies due to the 2010 legislature.			
<b>Action 5. Secure WSF capital funding</b>			
Capital surcharge 10%		\$200 million – Ferry Capital	
Capron		\$ 50 million – Ferry Capital	
Fees		TBD	
Fuel Distribution		TBD	
<b>Action 6. Review Amtrak Cascades Service funding</b>			
Fare or surcharge@ \$1.00		\$30 million reduce subsidy or provide capital funds	
<b>Action 7. Revise the WSDOT Access Management Program</b>			
Funds from developer mitigation actions			

### Longer Term Actions: Shift from Motor Vehicle Fuel Tax Revenues

The medium term recommendations continue the state's reliance on fuel taxes, but this is not viable in the longer term. Revenues from the fuel tax could erode more quickly than estimated in the November forecast or in the consultants' risk analysis as a result of changes in fleet composition, fuel prices, climate change policy, or in VMT per capita. If there is an accelerated erosion of the fuel tax, the consultants recommend that the legislature consider the following actions.

#### ***Increase reliance on vehicle fee revenue***

**Action 8.** The legislature could adjust vehicle weight fees by \$30.00, by eliminating the registration fee deduction for passenger vehicles and raising truck weight fees a corresponding \$30.00.

**Action 9.** The legislature could add a tire fee for transportation that extends to new vehicles and is higher for studded and larger tires.

#### ***Increase the transportation sales and use tax on motor vehicles***

**Action 10.** The legislature could raise the additional sales and use tax on motor vehicles (tax is in addition to the state sales tax of 6.5 percent, which goes to the general fund) to 0.5 percent from the current 0.3 percent.

### Longer Term Actions: Mobility

Mobility is an issue in the urban parts of the state. The legislature has authorized variable pricing as a way to address congestion. The legislature could also consider allowing tolls or ferry fares to be used to provide corridor specific transit service improvements.

**Action 11.** The legislature could consider allowing toll revenues and/or ferry fares to be used to provide corridor specific transit service improvements.

Revenue (billions)	State Funds Current Law (billions)	Local (billions)	Vehicle Owner Mid-Size (in 2025 @11,500 miles per year) 2009 pay \$272 = 2025 \$437 inflation adjusted
<b><i>Actions 8 and 9. To shift from fuel tax, increase reliance on vehicle fees</i></b>			
<b>Weight fee</b> \$3.8	\$3.8 Multimodal		\$332
<b>Tire Fee</b> \$133 million	Legislative direction		\$242
<b><i>Action 10. To shift from fuel tax, increase sales and use tax on motor vehicles</i></b>			
\$0.4	\$0.4 Multimodal		\$248
<b><i>Action 11. To reduce urban congestion, consider allowing toll revenues/ferry fares to be used for corridor specific transit service improvements.</i></b>			
Revenues to be determined.			

## 2007 Study Funding Methods

The consultants recommend against pursuing at this time the following proposals made in the 2007 study:

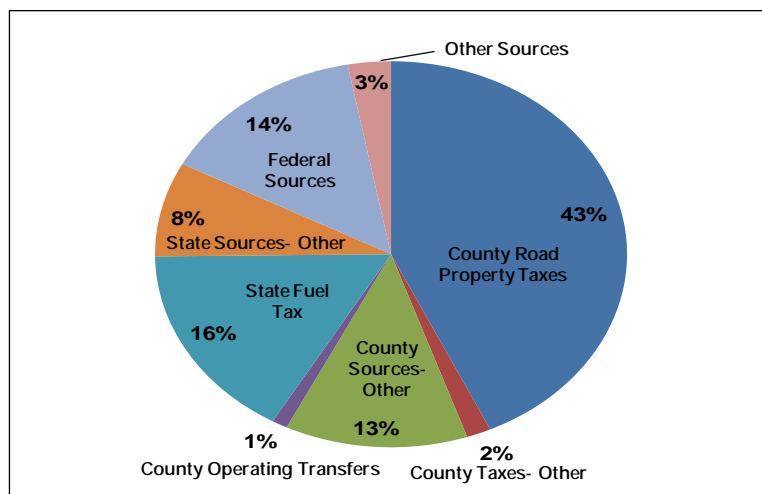
*VMT Fee.* The consultants recommend that the legislature consider a VMT fee only if the federal government adopts a VMT fee or if there is a multi-state agreement. It is very difficult for an individual state to implement a VMT fee. A June 2009 National Cooperative Highway Research Program study notes that four of six states considering a VMT fee have concluded that implementation has to be done at the federal level. A state that decides to implement a VMT on its own would have a high risk of fraud from individuals claiming miles driven in another state. The study also found that self-reporting or odometer checking as a way to collect a VMT fee would be subject to abuse and fraud.

*Sales Tax on Motor Vehicle Fuel.* A sales tax on motor vehicle fuel would generate General Fund revenue unless there was a specific legislative direction to fund transportation.<sup>2</sup> A special assessment fee applied at retail to fuel sales could be designated for a specific transportation purpose.

## Local Funding Methods

*Counties.* In 2007, the total amount of county road revenue generated was \$887 million. Counties receive 4.92 cents per gallon (cpg) of the state motor vehicle fuel tax, which is distributed by formula based on mileage, needs, resources, and population. The county road levy is subject both to the 2.25 per \$1,000 assessed value limit and the levy limit established in RCW 84.55.0101. Counties are currently using 96 percent available road levy capacity.

### 2007 County Road Revenues, Percentage by Source



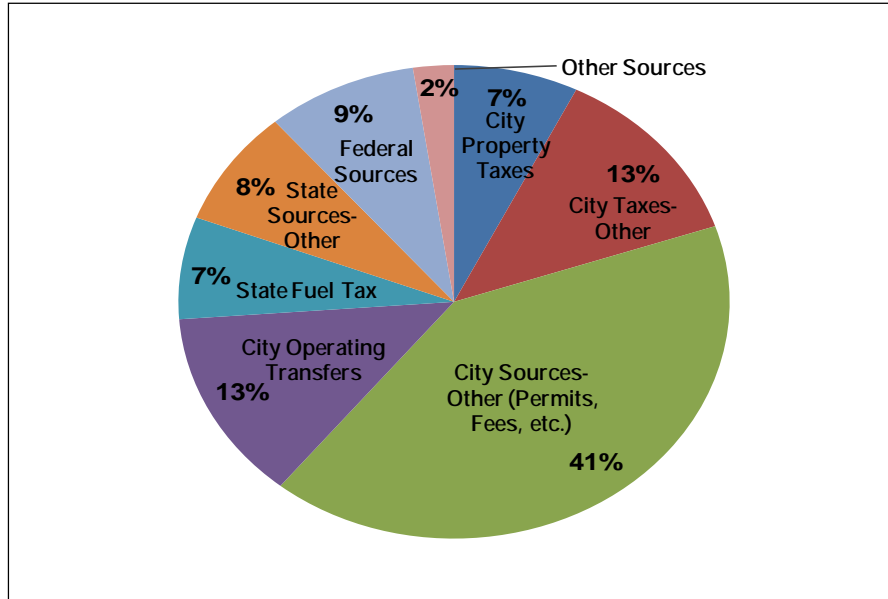
Source: WSDOT- 2007 FHWA reporting of federal form #536

<sup>2</sup> If the sales tax exemption on motor vehicle fuel were removed, the new legislation would also need to address the distribution of the sales tax revenue to ensure it went to transportation.



*Cities.* In 2007, total city transportation revenues equaled \$1.3 billion. As shown in the chart below, cities are largely reliant on general purpose taxes (i.e., sales and use taxes, real and personal property taxes) for transportation investment. Cities do not have a dedicated revenue source for streets, so transportation investments compete with other general fund needs. Cities receive 2.96 cpg of the state motor vehicle fuel tax, which is distributed on a per capita basis.

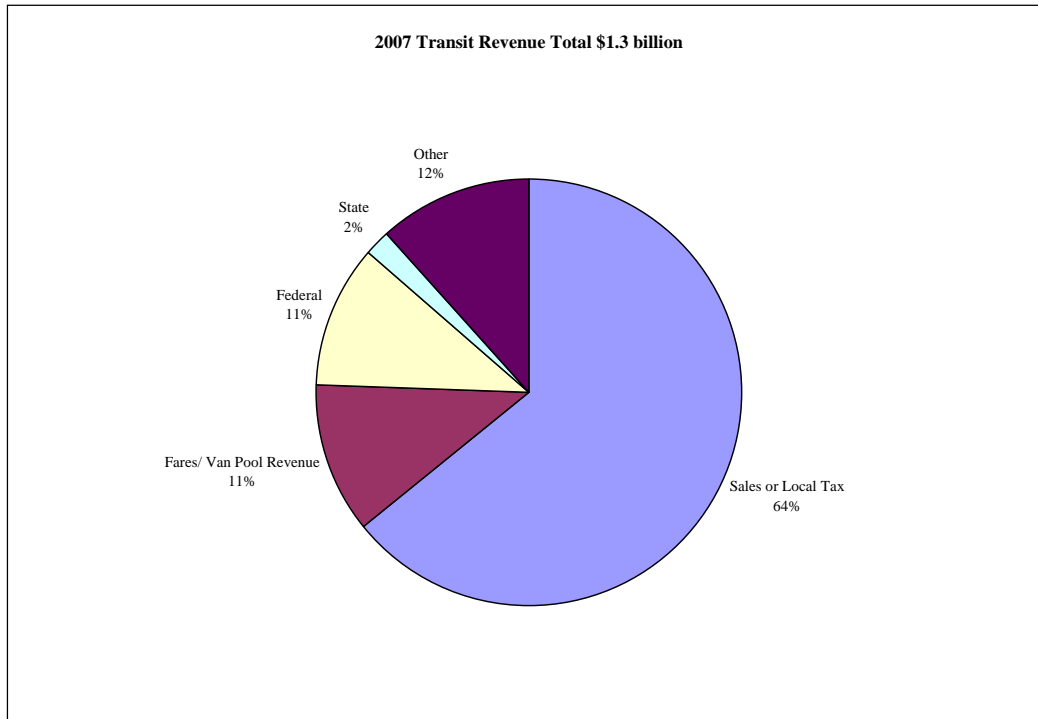
### 2007 City Transportation Revenues, Percentage by Source



Source: WSDOT- 2007 FHWA reporting of federal form #536

*Special purpose districts – transit.* Washington State has 28 transit districts, including Sound Transit. In 2007, the 27 transit districts other than Sound Transit had capital and operating revenues of \$1.3 billion. Local governments are authorized to levy a sales and use tax of up to 0.9 percent for transit. King County METRO and Community Transit, which between them had 68 percent of all transit passenger trips in 2007, levy the maximum 0.9 percent rate, and Kitsap Transit, with 2 percent of all transit passenger trips, levies 0.8 percent.

### Transit Systems Excluding Sound Transit 2007 Revenue Sources



Source: Summary of Public Transportation 2007

*Reasons why local funding options are not being fully used* fall under four categories: 1) there may be significant hurdles, such as voter approval requirements, associated with implementing a funding mechanism; 2) the funding mechanism may be restricted in its use or applicability (i.e., funding mechanisms may be geographically or use restricted); 3) implementation of a funding mechanism may require a high level of inter-jurisdictional cooperation and coordination, which may be difficult to obtain (local option motor vehicle and special fuel tax); and 4) in the case of transportation benefit districts, the mechanism has only recently (May 2008) become available as a funding tool for all cities and counties.

*Local Government Funding Options: Increased State Funding.* Options considered for local government include: increased state funding from already mandated distributions if the legislature increases the fuel tax or fees; increasing the distribution percentages; distributing some fee revenue to local jurisdictions; and increasing funding of state grant programs.

*Local Government Funding Options: Jurisdiction Discretion.* Options reviewed include: for cities, allowing the creation of a street maintenance utility; for both cities and counties, modifications to existing transportation benefit district and motor fuel taxing authorizations; for counties, allowing all counties to impose the same total rental vehicle sales tax as King County; and for transit, transferring taxing opportunities made available to the RTID to transit, and allowing local option motor vehicle excise tax and vehicle license fees.

## Local Government Funding Recommendations

The consultants make the following recommendations to address local government funding needs.

**Action 1.** Increase, when funding permits, state grant programs from the Transportation Improvement Board, the County Road Administration Board, the Freight Mobility Strategic Investment Board, the Public Transportation Division of WSDOT, and WSDOT Highways and Local Programs.

**Action 2.** Authorize cities to create street maintenance utilities to provide a dedicated funding source for street maintenance and preservation.

**Action 3.** Amend the authority for Transportation Benefit Districts to impose license fees so that a fee of up to \$100 can be imposed by a councilmanic vote and provide flexibility in what the funds can be invested in.

**Action 4.** Amend the authority for local governments to impose an additional motor vehicle and special fuel tax, establish the rate as cents per gallon rather than as a percentage of the state motor vehicle fuel tax, and provide councilmanic authority to impose the tax, which would be similar to the existing border area motor vehicle and special fuel tax.

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

**Action 6.** Authorize a local option motor vehicle excise tax 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 the Transportation Benefit District authority.

In the longer term the legislature could consider additional state funds distribution to local jurisdictions and additional rental car tax authority.

### Summary of Recommendations

Implementation Recommendations	Medium Term (5 years) State Funding Actions	Longer Term (16 year plan) State Funding Actions*	Local Government Funding Actions
1. Fund Department of Licensing computer system upgrade, with consideration of building the upgrade costs into the fee structure.	1. Comprehensive legislation to increase fees to 2012 purchasing power & index them to the CPI.	8. Increase weight fees.	1. Increase state grant programs.
2. Explore costs & benefits of allowing vehicle owners to make periodic rather than lump sum vehicle fee payments.	2. Index the fuel tax to the CPI and either a) increase the rate annually or b) add a special assessment fee.	9. Add tire fee.	2. Authorize cities to create street maintenance utilities.
3. If indexing fees & taxes, set base, use CPI for an annual change, and have driver and vehicle fees rounded to the nearest dollar.	3. Adopt in-lieu-of fees for electric and other high mileage vehicles.	10. Increase additional sales & use tax on motor vehicle sales.	3. Amend how Transportation Benefit Districts can impose license fees.
4. Comprehensive review of existing license, fee, permits, and abstract rates for legislative review.	4. Extend tolling applications	11. Allow toll revenues and/or ferry fares to be used for transit.	4. Amend how locals can impose an additional fuel tax.
	5. Secure WSF capital funding through a capital surcharge, Capron refunds & distributing license fees to capital account.		5. Transfer RTID taxing authority to transit.
	6. Review Amtrak Cascades farebox recovery & potential capital surcharge.		6. Authorize local option MVET for transit.
	7. Revise WSDOT Access Management Program.		7. Allow local option vehicle license fee for transit.

\*VMT fee could be considered if there is federal or multi-state action.

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# IMPLEMENTING ALTERNATIVE TRANSPORTATION FUNDING METHODS STUDY DRAFT FINAL REPORT

## I. PURPOSE

The 2009 legislature directed the Joint Transportation Committee (JTC) to a comprehensive analysis of mid-term and long-term transportation funding mechanisms and methods. Elements are to include existing data and trends, policy objectives, performance and evaluation criteria, incremental transition strategies, and possibly, scaled testing (ESSB 5352 (204) (1)).

This study analyzes the feasibility and practicality of implementing funding methodologies identified in the JTC's 2007 *Long-Term Transportation Financing Study*, as well as other methods identified by the committee, staff, and consultants. The **principle objective** is to identify specific steps for the legislature and agencies to begin implementing viable mid-term and long-term transportation funding approaches. While the primary focus is on state imposed and collected transportation taxes and fees, the report also includes a discussion of local funding options.

### 2007 Long-Term Transportation Financing Study

The JTC's 2007 study recommended that, over the next 15 years, Washington State replace its fuel tax – which provides 38 percent of the state's transportation funding - with alternative funding methods. The study found that the fuel tax was becoming less viable as a funding method as vehicles become more fuel efficient and as inflation erodes the purchasing power of the flat 37.5 cents per gallon (cpg) fuel tax rate.

In the medium term (next 5 to 15 years) the study recommended that the state continue to rely on the fuel tax, but make it more viable by indexing it to the consumer price index (CPI). The study also recommended that, in the medium term, the state add a sales tax to fuel sales, impose additional tolls, expand local funding options, and consider a container charge.

In the long term (next 10 to 15 years), the study recommended replacing the fuel tax with a vehicle miles traveled (VMT) fee, including a local-option VMT service fee, adding a vehicle weight-mile tax, and imposing regional development impact fees.

### 2007 Long Term Financing Study Funding Methods Recommendations

Medium-Term (5-15 years)	Long-Term (10-15 years/)
<ul style="list-style-type: none"> <li>• Sales tax on fuel</li> <li>• Index fuel tax</li> <li>• More tolling                             <ul style="list-style-type: none"> <li>○ High Occupancy Tolling (HOT) Lanes</li> <li>○ Extend bridge tolling</li> <li>○ Area tolling</li> </ul> </li> <li>• Expanded local sources                             <ul style="list-style-type: none"> <li>○ Local option tax (RTID)</li> </ul> </li> <li>• Container charges</li> </ul>	<ul style="list-style-type: none"> <li>• Replace fuel tax with Vehicle Miles Traveled (VMT) fee</li> <li>• Supplement VMT fee with a local-option VMT service fee</li> <li>• Vehicle weight-mile tax</li> <li>• Regional development impact fees</li> </ul> <p><b><i>Transition between medium &amp; long-term dependent on how quickly the fuel tax erodes and the technology to collect VMT fees can be developed.</i></b></p>

Since 2007, the legislature has taken action with regard to two of the study's recommendations:

- *Tolling.* RCW 47.56.830, adopted in the 2008 legislative session, designates the legislature as the only entity with the authority to impose tolls on the state highway system and establishes policies for tolling. Tolling commenced on the Tacoma Narrows Bridge in 2007 and on State Route 167 High Occupancy Toll (HOT) Lanes in 2008. In the 2009 session, the legislature authorized tolling for the 520 Floating Bridge and directed the Washington State Department of Transportation (WSDOT) to conduct studies of five additional potential tolling applications and report to the legislature in the 2010 session.
- *Container Fees.* In 2007, the Washington State Senate introduced Senate Bill 5207 that would have created a freight congestion relief account funded through a \$50 container fee with "container" defined as a twenty-foot equivalent (TEU). In response to strong opposition to this bill, the Senate instead directed the JTC to study container fees and other freight funding mechanisms. In January 2009, the JTC published its *Freight Investment Study*, which found that container fees set at \$30 or greater would have a significant diversion effect, causing freight traffic to move away from Puget Sound ports. The analysis was not sufficiently sensitive to predict the diversionary effects of container fees below \$30. No additional legislative action has been taken.

Another significant development is that King, Pierce, and Snohomish county voters in November, 2007 rejected the proposed formation of a Regional Transportation Investment District or RTID. At the same time, voters approved a capital measure for Sound Transit.

## II. TRENDS AFFECTING TRANSPORTATION FUNDING METHODS

This section reviews energy, climate change, and mobility trends as well as federal policies that inform the state's transportation funding methods. The consultants found that:

- *Energy.* Energy policies, particularly the new Corporate Average Fuel Standards (CAFÉ) that mandate higher levels of new vehicle fuel economy, will accelerate the erosion of the fuel tax.
- *Climate change.* Current state climate change laws establish benchmarks for reductions in daily vehicle miles traveled (VMT) per capita. The benchmarks are being reviewed to determine whether, with the advent of electric cars and other low emission vehicles, VMT is a reasonable proxy for the transportation system's contribution to greenhouse gas emissions (GHG). Until this review is completed and WSDOT refines its projection of total annual VMT in June 2010, attainment of the daily per capita VMT benchmarks should not be assumed in making transportation funding decisions.
- *Congestion.* Congestion is a significant issue for the state's urban areas and the state has begun to use pricing strategies to reduce congestion. The state's medium and long-term funding methods should include methods that can be selectively applied in urban areas to address congestion.
- *Federal.* At the federal level, the current administration is not expected to propose a long term transportation funding method for 18 months. Although three federal commissions have endorsed use based fees, in particular a vehicle miles traveled fee, to replace the federal fuel tax, the administration has indicated that it will not consider such a fee. State decisions on long-term funding methods should assume current federal funding methods until the administration or Congress develops a new policy.

### A. Energy

The 2007 JTC study stated that the transition between medium and long-term funding sources would be dependent in part on how quickly the fuel tax erodes. The major trends in energy, including rising oil prices, rising vehicle fuel economy, use of alternative fuels, and the advent of electric vehicles will accelerate the erosion of the fuel tax.

- *Rising oil prices.* Economists forecast that oil prices will continue to increase over the next 10-20 years as we reach the end of peak production and actual extraction becomes more difficult. US government forecasting entities, including the Department of Energy (DOE), forecast that fuel prices will rise due to increasing demand from developing economies like China and India and the depletion of petroleum reserves. The Washington State fuel price March 2009 forecast also anticipates rising gasoline retail prices, peaking at \$4.69 per gallon in FY 2020.
- *Rising fuel economy/new CAFÉ standards.* In May 2009, President Obama accelerated fuel economy standards by ordering the corporate average fuel economy standard to increase by 5 percent each year, building on the 2011 standard through 2016. This means an industry standard of 35.5 miles per gallon (mpg) by 2016, an average increase of eight mpg per

vehicle compared to current requirements. Specifically, the new standards would require an average mileage standard of 39 mpg for cars and 30 mpg for trucks by 2016.

- *Increasing use of alternative fuels.* As conventional fuel prices increase, many see an opportunity for the introduction of advanced vehicle technologies that rely on alternative fuels. Some forecasts place hybrid vehicle technologies (which use a combination of electricity with either biofuels or conventional motor fuels) at roughly 15 percent of the new vehicle market in 2025 increasing to 70 percent by 2040.<sup>3</sup> These forecasts also estimate that fuel cell technologies would make an appearance by 2040, constituting 30 percent of the new vehicle market.
- *Increased market penetration by electric vehicles.* Washington State is encouraging the introduction of electric vehicles. In the 2009 session, the legislature adopted 2SHB 1481 (Chapter 459, Laws of 2009 – codified in multiple chapters) to encourage the transition to electric vehicle use and to expedite the establishment of a convenient, cost-effective, electric vehicle infrastructure. In 2010, Seattle will become one of the first cities where Nissan sells electric vehicles. The vehicles are anticipated to be able to exceed highway speed limits, go 100 miles on a charge, and recharge in four to eight hours using a 220-volt line. The City of Seattle will help make the vehicles viable by, among other actions, assisting in the development of a charging network and creating charging stations.

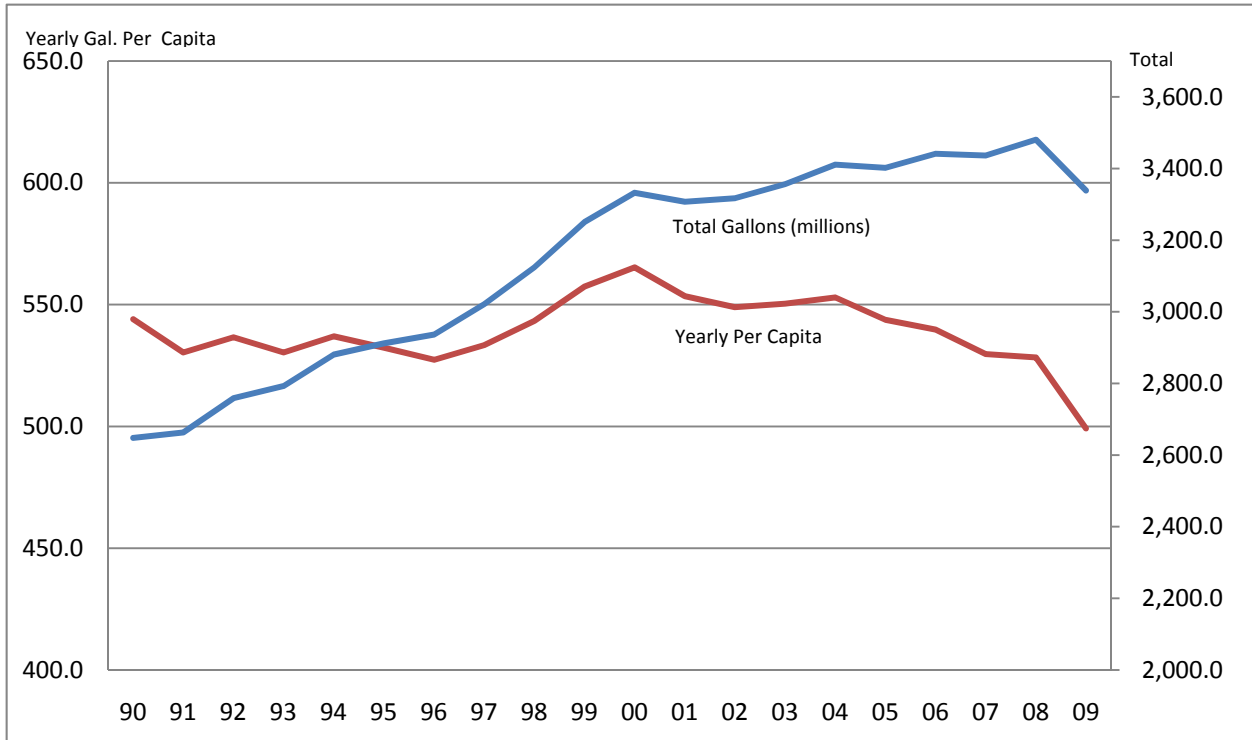
Since the 2007 study, the consumption of motor fuel per capita has dropped in Washington State as a result of increasing vehicle fuel efficiency and increasing gasoline costs. In FY 2009 total motor fuel consumption dropped, with a 1 percent reduction between FY 2008 and FY 2009. Per capita consumption has declined each year since FY 1999, with a total drop of 10 percent between FY 1999 and FY 2009 from 5570 gallons per capita to 499 gallons per capita.

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<sup>3</sup> The Fuel Tax and Alternatives for Transportation Funding: Special Report 285 (Transportation Research Board, 2006)



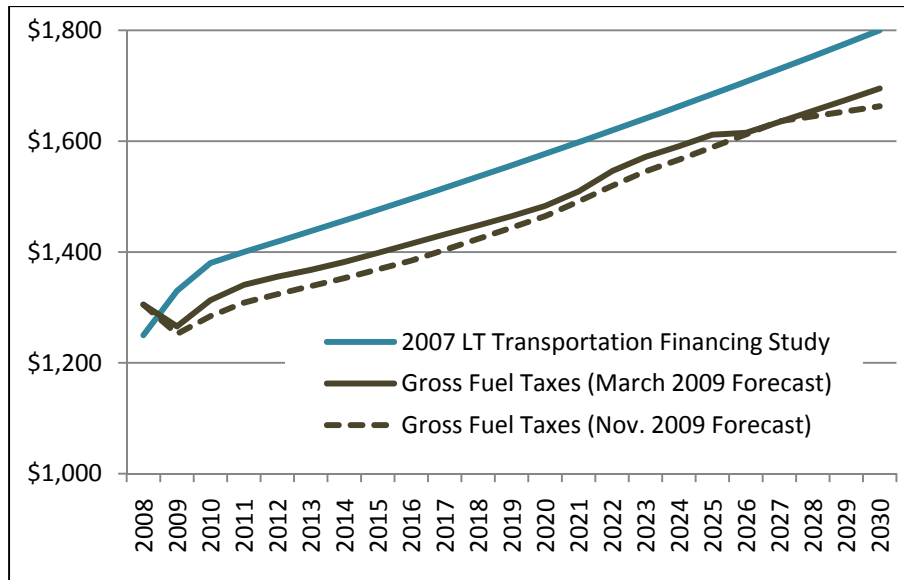
**Exhibit 1.  
Washington State Fuel Consumption FY 90 to FY 09**



The declines in per capita fuel consumption are reflected in a faster erosion of fuel tax revenue than was anticipated in the 2007 study. The March 2009 Transportation Revenue Forecast Council (TRFC) projections assume moderate and gradual changes in consumption trends based on fuel prices and increasing fuel efficiency of the fleet but did not account for the May 2009 change in CAFÉ standards. Even so, the March forecast projects estimated motor fuel tax revenue decreasing relative to 2007 assumed levels. This change represents a decrease in revenues of \$1.2 billion over the 2010-2025 16-year period, with purchasing power continuing to decline. Using the November 2009 forecasts, the picture continues to worsen, resulting in a \$1.6 billion decrease in projected fuel tax revenues from the 2007 forecast over the 16-year financial plan period.

**Exhibit 2.**  
**Projected Gross Motor Fuel Tax Revenues – Year of Expenditure Dollars**

(\$ millions)



**B. Climate Change**

RCW 47.01.440 (ESHB 2815) adopted in 2008 creates a framework for reducing greenhouse gas (GHG) emissions, including reducing emissions from the transportation sector<sup>4</sup> by establishing benchmarks for reductions in daily passenger car<sup>5</sup> VMT by residents over 18 years old. The benchmarks, starting from a 2008 base of 31 daily VMT per capita, are: 18 percent reduction by 2020; 30 percent by 2035; and 50 percent by 2050.

The Governor’s May 2009 Executive Order on Climate Change requires that: the VMT benchmarks be reviewed to determine whether reductions in VMT are an appropriate measure of the transportation sector’s contribution to GHG emissions; and an estimate of VMT.<sup>6</sup>

- *Measuring transportation sector’s contribution to GHG emissions:* RCW 47.01.440 was adopted prior to the new CAFÉ standards and advances in electric and no-emission vehicle technologies. If vehicles have no or very low emissions, then the amount of VMT would not affect GHG emissions. The Governor’s Executive Order mandates an evaluation of potential changes to the VMT benchmarks as appropriate to low- or no-emission vehicles.

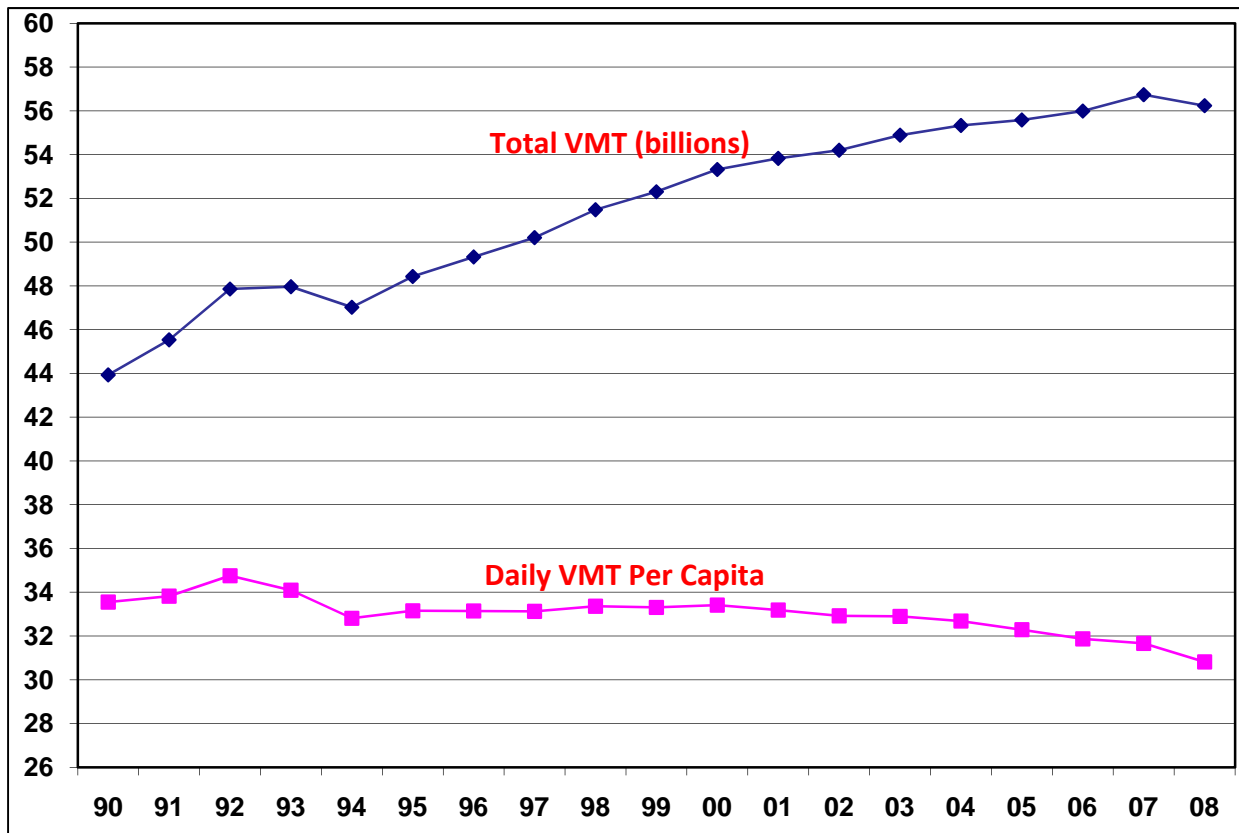
<sup>4</sup> Washington State has one of the nation’s lowest GHG emissions profiles because most of the state’s energy generation is from hydropower rather than coal or other high carbon sources. As a consequence, the transportation sector contributes 46 percent of the state’s GHG emissions as compared to the national average of 28 percent from the transportation sector.

<sup>5</sup> The state benchmarks are for vehicles under 10,000 pounds, which are primarily passenger vehicles.

<sup>6</sup> The Governor’s Executive Order 09-05 directs the Secretary of WSDOT to “in consultation with the Departments of Ecology and Commerce, and in collaboration with local governments, business, and environmental representatives, estimate current and future state-wide levels of vehicle miles traveled, evaluate potential change to the vehicle miles traveled benchmarks established in RCW 47.01.400 as appropriate to address low- or no-emission vehicles, and develop additional strategies to reduce emissions from the transportation sector. Findings and recommendations from this work shall be reported to the Governor by December 31, 2010.”

- *Estimating current and future state-wide levels of VMT.* WSDOT has established a workgroup to review its methodology for forecasting VMT. WSDOT anticipates a revised VMT estimate for the June 2010 revenue forecast. The workgroup is analyzing, among other things:
  - *VMT and gasoline consumption:* Until February 2008, when WSDOT completed its last forecast, the VMT forecast was based on the growth rate in gasoline consumed. Changes in vehicle miles traveled will not necessarily track with changes in gasoline consumption as vehicles become more fuel efficient or use little or no gasoline.
  - *Total annual VMT.* As shown in the exhibit below, while state per capita VMT has been dropping, total annual VMT increased until 2008 when it dropped for the first time.

**Exhibit 3.**  
**State VMT and Daily VMT Per Capita 1990-2008**



Source: WSDOT – reporting of VMT and Washington population/ Cedar River Group calculation of daily VMT per capita

### C. Mobility

Congestion is a major issue for urban areas. The Texas Transportation Institute's 2009 Urban Mobility Study found that Seattle is the 19<sup>th</sup> most congested urban area in the nation, with the average driver wasting 43 hours and 30 gallons of motor fuels per year sitting in traffic. The report also includes statistics for the Spokane urban area, where drivers spend an average of 9 hours and consume 5 gallons of gasoline annually while stuck in traffic.

Transportation funding methods can serve two potentially circular, and sometimes conflicting, purposes. The first purpose is to raise sufficient funds to support transportation system operating and capital needs. The second purpose is to affect the behavior of transportation users – which in turn may affect the type and size of operating and capital needs.

Since the 2007 study, the state is using funding methods to reduce congestion in urban areas:

- *Tolling policy.* The state's tolling policy in RCW 47.56.830 allows variable pricing, with the rates "set to optimize system performance, recognizing necessary trade-offs to generate revenue."
- *SR 167 High Occupancy Vehicle Toll (HOT) lanes.* The legislature authorized a four year congestion pricing pilot project for the SR 167 HOT lanes starting in 2008. The pilot has improved traffic flow and reduced congestion.<sup>7</sup>

Funding methods that reduce congestion are applicable in congested urban areas, but are not applicable in those parts of the state that do not have high levels of congestion.

## D. Federal Policies and Funding

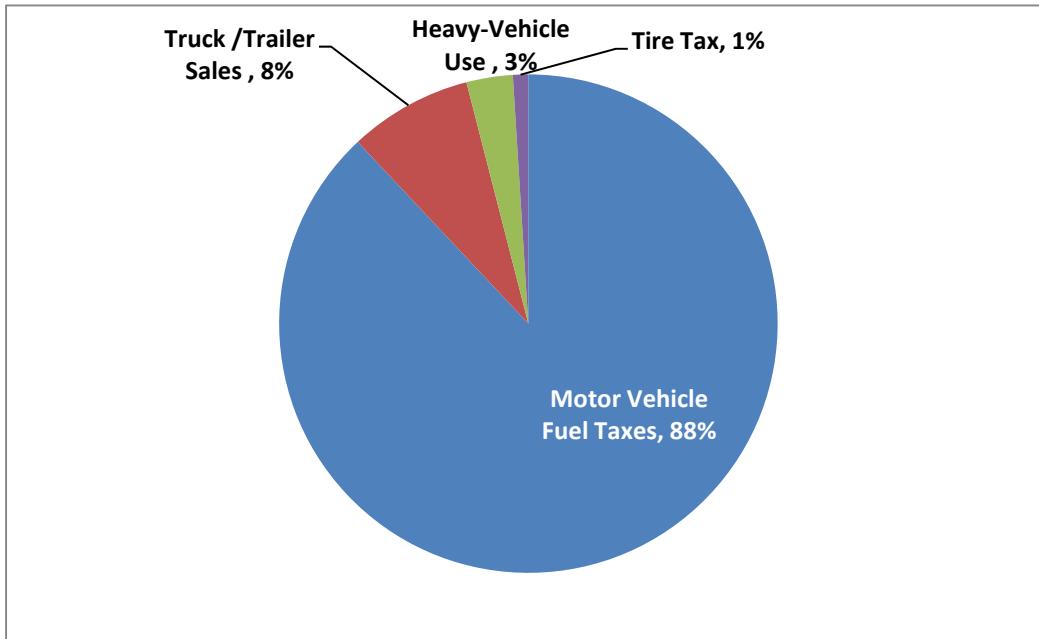
The state's funding methods are affected by: current federal funding methods, which to an even greater extent than the state rely on fuel taxes; shortfalls in the Highway Trust Fund (HTF); and recommendations from federal panels that would, if implemented, alter federal funding methods. The federal government is filling the shortfalls in the HTF while the administration develops its recommendation for long-term funding methods. Federal actions on cap and trade are not anticipated to have much, if any, effect on transportation funding.

- *Federal transportation funding methods.* For Federal Fiscal Years (FFY) 2005 through 2008, 88 percent of federal transportation revenues came from fuel taxes. The federal gasoline tax is 18.4 cents per gallon (cpg) and was last increased in 1993. The majority of the tax (15.44 cpg) is dedicated to the Highway Account in the HTF, which funnels approximately \$33 billion a year to the states. The remaining 2.86 cpg goes to the Mass Transit Account, which helps support transit systems in Washington and other states. For diesel fuel, the tax rate is 24.4 cpg with 21.44 cpg allocated to the Highway Account and 2.86 cents to the Mass Transit Account. The remaining 12 percent of federal revenues came from truck related taxes, including a truck and trailer sales tax, a truck tire tax, and a heavy vehicle use tax.

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<sup>7</sup> Washington State Department of Transportation, SR 167 High Occupancy Toll (HOT) Lanes Pilot Project, May 3, 2008-December 31, 2008 Eight Month Performance Summary, January 7, 2008.

**Exhibit 4.**  
**Sources of Highway Trust Fund Revenues FFY 2005-2008**



Source: General Accountability Office, *Highway Trust Fund: Options for Sustainability and Mechanisms to Manage Solvency*, June 25, 2009.

- *Shortfalls in the Highway Trust Fund.* In FFY 2008, \$8 billion was transferred from the General Fund to the HTF to make up for shortfalls in tax receipts. The balance of the HTF has declined in recent years because, as planned in the Safe, Accountable, Flexible, Efficient Transportation Equity Act – A Legacy for Users (SAFETEA-LU), outlays from the account have exceeded expected receipts over the authorization period. When SAFETEA-LU was passed in 2005, estimated outlays from the Highway Account programs exceeded estimated receipts by \$10.4 billion which would have drawn the account balance down from \$10.8 billion to \$0.4 billion. This left little margin for error. The weak economy and high motor fuel prices affected the motor fuel tax, truck sales, use tax and other sources of HTF funding, resulting in the need for the FFY 2008 cash transfer.<sup>8</sup> In August 2009 Congress approved an additional transfer of \$7 billion transfer for FFY 2009 (HR 3357).
- *Recommended federal funding policies and methods.* Since the 2007 study, three federal level commissions have issued final reports exploring options for federal transportation funding.<sup>9</sup> The federal commissions have recommended that the nation shift from its current reliance on fuel taxes to support transportation to a user-based funding system that integrates energy, environmental, and transportation policies through pricing. The commissions have recommended a national mode-neutral vehicle miles traveled fee, with

<sup>8</sup> General Accountability Office, *Highway Trust Fund: Options for Improving Sustainability and Mechanisms to Manage Solvency*, June 25, 2009, p. 4.

<sup>9</sup> The three federal commissions and their reports are: National Transportation Policy Project, *Performance Driven: A New Vision for U.S. Transportation Policy*, June 2009; National Surface Transportation Infrastructure Financing Commission, *Paying Our Way: A New Framework for Transportation Finance*. February 2009; and National Surface Transportation Policy and Revenue Study Commission, *Transportation for Tomorrow: Report of the National Surface Transportation Policy and Revenue Study Commission*, December 2007.

recommendations that the federal government invest in research on implementing such a fee, and other fees that reflect system use. "Ideally, user fees should capture diverse elements of use including miles traveled on roadways, vehicle weight or number of axles, contribution to congestion, and emissions."<sup>10</sup>

- *Current administration.* The Obama administration has not yet made a recommendation on a long-term federal funding strategy and it is not clear whether the administration will endorse the recommendations of the commissions to impose a vehicle miles traveled fee. In March 2009, the US Department of Transportation issued a written statement that: "The policy of taxing motorists based on how many miles they have traveled is not and will not be Obama administration policy."<sup>11</sup> The administration anticipates making recommendations on long-term transportation financing in the next 18 months.<sup>12</sup>
- *Cap and trade.* One policy initiative at the federal level that has garnered considerable attention is the concept of developing a cap and trade program for GHG emissions. An evaluation of the potential effects of a GHG cap and trade program on VMT found that such an institutional framework would have little effect on driving if cap and trade prices are not set high enough, given the inelasticity of vehicle travel to price fluctuations. Since likely carbon fees would be relatively small compared to overall fluctuations in conventional fuel prices (which have varied from \$2 per gallon to over \$4 per gallon in the past few years), many speculate most of the benefits of a cap and trade program would be realized outside the transportation sector.<sup>13</sup>

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<sup>10</sup> Ibid., p. 94. A similar recommendation is included in National Surface Transportation Infrastructure Financing Commission, *Paying Our Way: A New Framework for US Transportation Policy*, February 2009, p. 8.

<sup>11</sup> CNN.com edition, Transportation agency: Obama will not pursue mileage tax, Feb., 20, 2009.

<sup>12</sup> Administration Proposal for Stage 1 Reauthorization.

<sup>13</sup> Cost Effective GHG Reductions Through Smart Growth and Improved Transportation Choices (Center of Clean Air Policy, 2009)



### III. WASHINGTON STATE FUNDING METHODS

Major state agencies supported by the state transportation budget are: WSDOT, the Washington State Patrol, the Department of Licensing, the County Road Administration Board, the Freight Mobility Strategic Investment Board, the Traffic Safety Commission and the Transportation Improvement Board. The State also distributes motor vehicle fuel taxes and some licenses and permit fees to local jurisdictions.

This section reviews the state's current funding methods. The consultants found that:

- *The state is dependent on flat rate revenues that do not grow with inflation.* Eighty percent (80%) of the state's direct transportation revenues are from fuel taxes and licenses, permits, fees and abstracts which have flat rates that do not grow with inflation.
- *Legislative action is required to set rates.* With the exception of tolls and ferry fares, transportation tax and fee rates are set by state law and require legislative action. Tolls and ferry fares are set by the Washington State Transportation Commission (WSTC) subject to legislative direction.
- *The use of funds is restricted by the 18<sup>th</sup> amendment and legislative action.* The 18<sup>th</sup> amendment restricts the use of motor vehicle fuel taxes and vehicle registration fees to highway purposes. The legislature has imposed additional restrictions on the use of most transportation revenues.
- *Risk.* There is substantial risk that, as a result of the new CAFÉ standards, the motor vehicle fuel tax revenues will erode faster than projected. The consultants risk scenarios indicates a potential drop of \$2.2 billion or 10 percent in motor vehicle fuel tax revenues.
- *Vehicle owner costs.* As a consequence of higher fuel efficiency and the flat rates of the fuel tax and licenses and permits, vehicle owners, except electric car owners, will pay 9 to 14 percent less in taxes in 2025 than they pay in 2009 in 2025 dollars. Adjusted for inflation, so that the taxes and fees paid would purchase as much in 2025, owners will pay 37 to 46 percent less.
- *Policy considerations.* There are three policy considerations for the legislature:
  1. *Differential in state taxes and fees paid by different types of passenger vehicle owners.* For example, electric car owners pay 82 percent less than SUV owners in transportation fees and taxes.
  2. *2025 purchasing power of vehicle owner payments.* If taxes and fees were adjusted to maintain purchasing power, revenues would increase by approximately \$10 billion over the 16-year plan.
  3. *Household budget.* While taxes and fees are a significant cost to vehicle owners, they represent approximately 0.5 percent of the average household budget in the Seattle area.

## A. Nickel and TPA

In 2003 and 2005 the State raised the motor vehicle fuel tax<sup>14</sup> and other fees and charges to support two WSDOT capital programs: the 2003 Nickel Funding Package and the 2005 Transportation Partnership Act Funding Package. Both funding packages invest in highway, rail, ferry, transit and freight projects across the state. The motor vehicle fuel tax is currently 37.5 cpg, of which 23 cpg is the base rate, 5 cpg supports the Nickel program and 9.5 cpg is for the Transportation Partnership Program.

**Exhibit 5.**  
**Taxes and Fees for the 2003 Nickel and 2005 TPA Packages**

Tax	Nickel Package 2003	TPA Package 2005
Motor Vehicle Fuel Tax	<ul style="list-style-type: none"> <li>5 cpg</li> </ul>	<ul style="list-style-type: none"> <li>9.5 cpg</li> </ul>
Fees	<ul style="list-style-type: none"> <li>15% increase in gross weight fees on heavy trucks</li> <li>\$20 license plate retention fee</li> </ul>	<ul style="list-style-type: none"> <li>Passenger vehicle weight fee</li> <li>Light truck weight fee</li> <li>Annual motor home fee of \$75.00</li> <li>Identicals - \$5.00 increase</li> <li>Driver Instruction Permit - \$5.00 increase</li> <li>License reinstatement after suspension or revocation \$55.00 increase</li> <li>DUI hearings - \$100.00 increase</li> </ul>
Sales Tax	<ul style="list-style-type: none"> <li>0.3% increase in motor vehicle sales tax</li> </ul>	

The Nickel gas tax increase will sunset when the bonds issued against the revenue expire, currently estimated to be 2053. The other components of the Nickel funding package as well as the TPA increases do not expire.

## B. Funding Sources and Direct Revenues 2009-2025 16-Year Financial Plan

The State legislature adopts a biennial budget and develops a 16-year financial plan. The exhibit below shows the sources of state transportation funding, excluding distributions to local jurisdictions, for the 2009-25 16-year financial plan. Based on the March 2009 revenue forecast (the forecast in effect when the legislature adopted the budget) total funding from all sources is \$46.7 billion, of which 38 percent is from the motor vehicle fuel tax, 21 percent from licenses, fees, permits, and abstracts, 14 percent from bond sales, 12 percent from federal funds, 7 percent from ferry revenues (primarily fares), 3 percent from sales and use taxes on the sale and rental of vehicles, 3 percent from tolls collected from the Tacoma Narrows Bridge and SR 167, and 2 percent from interest (\$423 million) and other sources. If only direct revenue is considered, which excludes bond sales, federal funds and interest, the motor vehicle fuel tax accounts for 52 percent of all state transportation direct revenue and licenses, permits, fees and abstracts 28 percent. The remaining 20 percent of direct revenue is from Washington State Ferries, tolling on the Tacoma Narrows Bridge and SR 167, vehicle sales and use taxes, and other miscellaneous sources.

<sup>14</sup> The motor vehicle fuel tax referenced here includes the special fuel tax which applies to other combustible motor vehicle gases and liquids such as biodiesel, propane, natural gas, and butane.

**Exhibit 6.**  
**State Transportation 16-Year Funding and Direct Revenue**

Source	2009-25 Totals (billions)	% 2009-25 Funding	% 2009-25 Direct Revenue*
Motor Vehicle Fuel Tax – 37.5 cpg**	\$17.7	38%	52%
Licenses, Permits, Fees & Abstracts**	\$9.7	21%	28%
Bond Sales	\$6.4	14%	
Federal Funds	\$5.7	12%	
Ferry Revenues	\$3.4	7%	10%
Tolling (Tacoma Narrows Bridge/SR 167)	\$1.5	3%	4%
Vehicles Sales Taxes	\$1.2	3%	4%
Miscellaneous/Interest (\$0.4 billion)	\$1.1	2%	2%
<b>Total Funds/Revenue</b>	<b>\$46.7 billion</b>	<b>\$46.7 billion</b>	<b>\$34.1 billion</b>

\*Excludes bond sales, federal funds, and interest which are not direct revenues.

\*\* Excludes revenues distributed to local governments.

**C. Characteristics of State Revenue Sources**

The major sources of state revenues – fuel taxes and licenses, permits, fees and abstracts – are set fees that do not respond to inflation. With the exception of tolls and ferry fares, where rates are set by the Washington State Transportation Commission (WSTC) subject to legislative direction, all other taxes and fees, with some minor exceptions, are set by state law and require legislative action. The use of state revenue sources is constrained by the 18<sup>th</sup> amendment to the Washington State Constitution, under which expenditures of motor vehicle fuel taxes and motor vehicle registration fees are limited to highway purposes, and by legislative restrictions.

- *State dependence on flat rate revenues:* Eighty percent (80%) of direct state transportation revenue is from the motor vehicle fuel tax and licenses, permits, fees and abstract charges all of which have set rates. These revenue sources, therefore, respond to changes in population, use of fuel, vehicle ownership, or other factors but do not respond to inflationary cost increases. The only transportation funding methods that respond to inflation are the vehicle sales and uses taxes, which are an additional<sup>15</sup> 0.3 percent on the sale or lease of automobiles and an additional 5.9 percent on vehicle rentals. These sales and use taxes respond to the increased cost of vehicles and of vehicle rentals. Ferry fares and toll rates are set by the WSTC, subject to legislative direction. The 16-year financial plan assumes 2.5 percent annual fare increases for ferries, an increase in the toll rate for the Tacoma Narrows Bridge to \$4.00 for electronic toll collection in the 2009-11 biennia (which was not enacted by the WSTC), and toll increases in the outer biennia.
- *Legislative action required.* With the exception of tolls and ferry fares, all other taxes and fees with few exemptions are set by state law and require legislative action to change the rate. Tax increases are subject to Initiative 960, passed by the voters in 2007. Initiative 960

<sup>15</sup> The sales and use tax that goes to transportation is in addition to the state sales tax of 6.5 percent which goes to the state's general fund.

requires that OFM determine the ten-year cost to taxpayers of any proposed legislation that would raise taxes, impose new fees, or increase current fees and communicate the most up-to-date analysis to each member of the Legislature, the news media, and the public through email. This process was initiated in the 2008 session. Under the initiative, legislative decisions to increase fees are subject to majority rule, while legislative decisions to increase taxes are subject to two-thirds approval.

- *18<sup>th</sup> amendment restrictions.* The 18<sup>th</sup> amendment to the state constitution limits the use of motor vehicle license fees and motor vehicle fuel taxes to highway purposes and specifically excludes from the restriction vehicle operator's license fees, excise taxes imposed on motor vehicles in lieu of a property tax, or fees for certificates of ownership, or other taxes or fees not levied primarily for highway purposes.

All fees collected ...as license fees for motor vehicles and all excise taxes collected ... on the sale, distribution or use of motor vehicle fuel and all other state revenue intended to be used for highway purposes, shall be... placed in a special fund to be used exclusively for highway purposes ... construed to include:

- (a) The necessary operating, engineering and legal expenses connected with the administration of public highways, county roads and city streets;
- (b) The construction, reconstruction, maintenance, repair and betterment of public highways, county roads, bridges and city streets; including the costs and expense of ... policing by the state of public highways ... and operation of ferries which are a part of any public highway...

Provided, that this section shall not be construed to include revenue from general or special taxes or excises not levied primarily for highway purposes, or apply to vehicle operator's license fees or any excise tax imposed on motor vehicles or the use thereof in lieu of a property tax ..., or fees for certificates of ownership of motor vehicles. (1943 House Joint Resolution No. 4, p. 938. Approved November, 1944)

- *Legislative restrictions.* The legislature has further restricted the use of fees to specific purposes. Fees, as distinguished from taxes, are required to be established for specific purposes and use restricted to those purposes. For example, toll revenues from an eligible facility are restricted by RCW 47.56.830 to "construct, improve, preserve, maintain, or operate the eligible toll facility." Revenues from individual licenses, fees, and permits are directed by state law to specific sub-accounts for special purposes, an example of which is revenue from motorcycle endorsements and permits directed to the motorcycle safety education account.

## D. State Funds/Accounts

The state has two primary transportation funds, the motor vehicle fund and the multimodal fund, both of which have numerous sub-accounts which restrict the use of funds.

- *Motor vehicle fund:* The motor vehicle fund was established for the purpose of supporting highway and highway-related programs and all accounts in the fund are subject to the 18<sup>th</sup> amendment restrictions. Rail, transit, and air transportation may not be financed with motor vehicle fund dollars. The motor vehicle fund has 19 accounts.
- *Multimodal transportation fund:* This fund is used for general transportation purposes with revenues and accounts that are not subject to the 18<sup>th</sup> amendment. As a result, revenues from this fund can be used for rail, transit, and air transportation and other non-highway purposes as well as for highway purposes. This fund has 24 active accounts.

## E. Risk Assessment

There are a number of factors that could adversely affect the state's motor vehicle fuel tax revenues, such as higher than forecast increases in motor vehicle fuel prices, declines in vehicle miles traveled per capita, or increased state-wide fleet fuel efficiency. The consultants have developed one risk profile based on implementation of the new CAFÉ standards and greater market penetration of electric and hybrid vehicles, but similar risk profiles could be developed based on other factors.

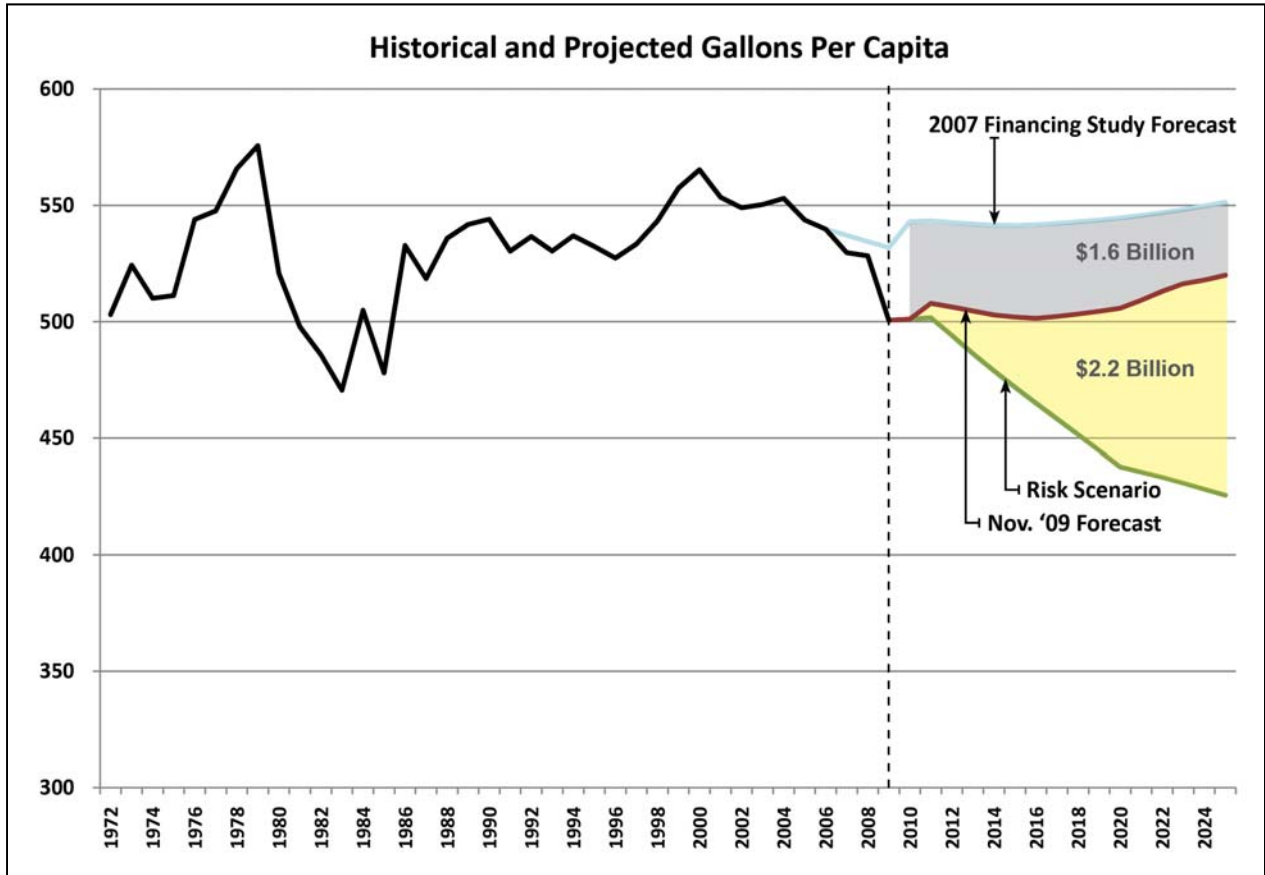
As shown in the exhibit below, the March forecast was adopted prior to the change in the CAFÉ standards and assumes a continuation of the historical gallons per capita consumption of motor vehicle fuels. The November forecast incorporates fuel efficiency assumptions that account for the change in CAFÉ standards, and consequently shows a lower gallons per capita projection than the March forecast.

The consultants' risk scenario differs from the November forecast because in addition to incorporating the newly updated CAFÉ standards, it also assumes a shift from compact cars into hybrid and electric vehicles such that 5 percent and 10 percent of the total fleet is comprised of electric and hybrid vehicles respectively. In addition, the risk scenario assumes that vehicle miles traveled per capita and other variables affecting fuel consumption remain constant over time. This is an important point, as VMT per capita was lower in 2009 than it had been in nearly 20 years. The consultants' risk scenario locks in this low level of VMT per capita and holds it constant over the 16-year period.

The methodology resulting in the consultants' risk profile utilizes fuel efficiency and fleet characteristics exclusively to generate a more pessimistic fuel consumption scenario. A number of additional factors could lead to further declines in fuel consumption or offset the declines shown in the risk scenario. Under this scenario, total revenues from the motor vehicle fuel tax would be \$19.4 billion including distributions to local jurisdictions over the 16 year plan, a reduction of \$2.2 billion or 10 percent compared to the November TRFC forecast.

In 2007 when the JTC commissioned the *Long-Term Transportation Financing Study*, gallons per capita projections were noticeably higher than current projections. As referenced in Exhibit 2, a \$1.6 billion 16-year decrease in motor fuel tax revenue projections between the 2007 study and the November 2009 TRFC forecast highlights the significant revenue impacts that result from decreasing consumption.

**Exhibit 7.  
Risk Scenario**



**F. Vehicle Owner Costs**

The consultants have estimated the cost to vehicle owners of state transportation fuel taxes, licenses and permits, and sales and use tax by representative vehicle types at different levels of vehicle use. The calculations do not include tolls or ferry fares which apply only to users of the tolled facilities.

The consultants analyzed six different passenger vehicle types and two truck types as shown in the exhibit below. Each passenger vehicle type was analyzed assuming low use (8,000 miles per year), medium use (11,500 miles per year) and heavy use (15,000 miles per year). The medium trucks were analyzed assuming 13,500 miles per year for the low use, 27,000 for medium use, and 45,000 for high use and the heavy trucks for 13,000, 32,500, and 65,000 miles per year respectively.

**Exhibit 8.  
Vehicle Scenario Assumptions**

Vehicle Type	Weight (lbs)	Miles Per Gallon (2009) Fleet average	Miles Per Gallon (2025) Fleet average	Miles Per Gallon % Increase
Compact	<4,000	30.0	36.1	20%
Mid-Size Sedan	4,001 – 6,000	21.0	25.3	20%
SUVs/Pick-ups	6,001 – 8,000	12.0	14.5	20%
Hybrid	<4,000	45.0	54.2	20%
Electric	<4,000	230.0	277.0	20%
Motorcycle	<4,000	55.6	60.2	20%
Freight (Medium)	22,001 – 24,000	7.0	8.4	20%
Freight (Heavy)	40,001 – 42,000	5.7	6.8	20%

Over time, increasing vehicle fuel efficiency will result in decreasing fuel tax revenue. In addition, because the fuel tax and all licenses, permits, and fees are flat rates, the taxes paid lose purchasing power against inflation. As a consequence, vehicle owners will pay less in taxes and fees in 2025 than they are paying in 2009 before adjusting for inflation and even less in terms of purchasing power. For example, the average owner of a mid-size sedan will pay \$241 in 2025 compared to \$272 in 2009, which is 12 percent less. To maintain \$272 in purchasing power in 2025, the vehicle owner would need to pay \$437. By paying only \$241 in 2025, the owner is in terms of purchasing power paying 45 percent less in 2025 than in 2009.

**Exhibit 9.  
Summary of Annual Transportation Taxes/Fees for All Vehicle Types  
(Mid-Level Usage)**

Vehicle Type	2009	2014	2019	2025	% Change 2009-25	% Change 2009 Purchasing Power
Compact	\$197	\$189	\$179	\$175	-11%	-45%
Mid-Size Sedan	\$272	\$260	\$246	\$241	-12%	-45%
SUVs/Pick-ups	\$437	\$414	\$390	\$379	-13%	-46%
Hybrid	\$151	\$146	\$140	\$137	- 9%	-43%
Electric	\$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%

This analysis raises policy issues for the legislatures' consideration including:

- *Differential costs between passenger vehicle types.* As shown in the exhibit below, an electric car owner in 2009 pays 82 percent less than the owner of a light truck or SUV in transportation taxes and fees and 80 percent less in 2025.

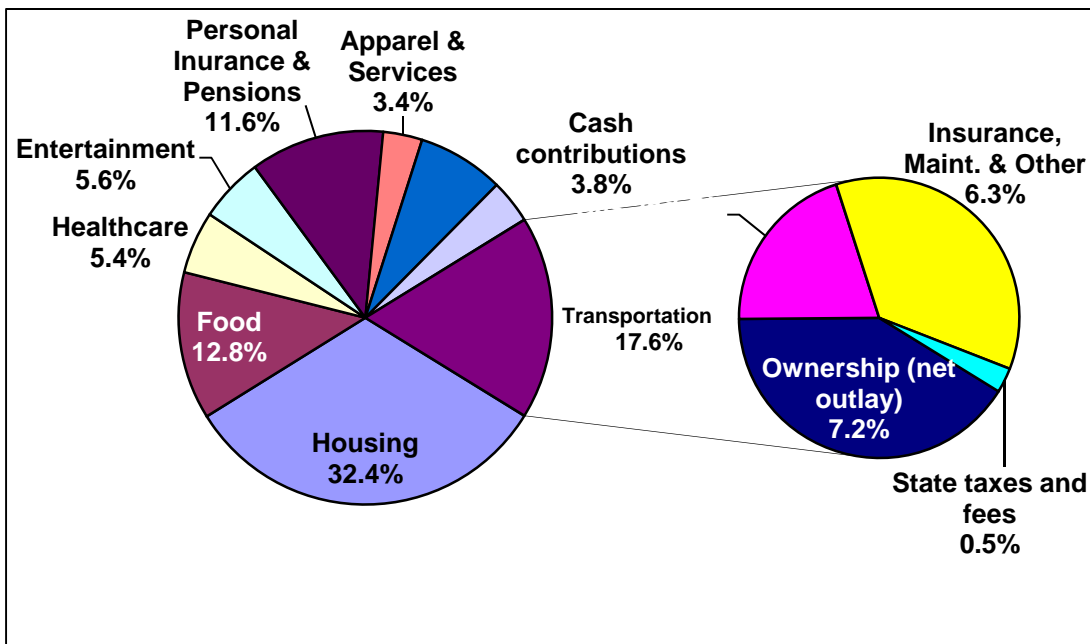


**Exhibit 10.  
Passenger Vehicle State Transportation Taxes & Fees**

Passenger Vehicle Type	2009 State Taxes & Fees	% compared to highest	2025 State Taxes & Fees	% compared to highest
SUVs/Pick-ups	\$437		\$379	
Mid-Size Sedan	\$272	-38%	\$241	-37%
Compact	\$197	-55%	\$175	-54%
Hybrid	\$151	-65%	\$137	-64%
Motorcycle	\$138	-68%	\$124	-67%
Electric	\$77	-82%	\$77	-80%

- *Purchasing power 2025.* If taxes and fees were adjusted to maintain 2025 purchasing power, revenues would increase by approximately \$10 billion over the 16-year plan.
- *Impact on household transportation budgets.* State transportation taxes and fees, while significant, represent a relatively small portion of a household budget. Based on data from the Bureau of Labor Statistics, for 2004-05 for the Seattle Standard Metropolitan Statistical Area, which encompasses most of the four county area of Pierce, King, Snohomish and Kitsap counties, transportation is approximately 17.6 percent of a household budget, with state transportation taxes and fees for one standard sedan approximately 0.5 percent.

**Exhibit 11.  
State Transportation Taxes & Fees as Percent of Household Budget  
(Seattle SMSA 2004-5)**





## IV. EVALUATION FRAMEWORK

The goal is to **develop a package of funding tools** that the legislature can consider. It is not anticipated that any one funding method will meet all of the state's objectives.

Two threshold criteria have been applied to every funding method. They are: 1) is it an appropriate state level fee or tax; and 2) that it has a nexus to transportation. The threshold criteria screened out general funding methods, such as an income tax or a general sales tax, from consideration.

Four objectives and associated evaluation criteria are included in the framework:

- *Revenue stream.* Provide a stream of revenue commensurate with transportation system funding needs. Evaluation criteria are: the potential revenue from the funding method; whether the funding method is responsive to inflation, population change, and economic growth; whether it is stable and predictable - particularly in view of projected and potential changes in VMT, energy sources, and energy prices; whether administration is easy for the public to understand and comply with; whether collection is cost-efficient; and whether the funding method is compatible with current or potential federal funding methods.
- *Benefits/reflect use.* Provide a clear purpose and policy rationale linked to transportation system use, economic development, and other state policies and goals. Evaluation criteria are: is the funding method linked to a particular transportation service or facility so taxpayers clearly understand the benefit received; does the funding method reflect use and vary by how much, when, and/or where an individual uses the transportation system; is it available to fund a full range of transportation choices or is it restricted by the 18<sup>th</sup> Amendment to the Washington State Constitution or by existing law; does it positively affect transportation system performance and other state policies and goals by, for example, reducing congestion or greenhouse gas (GHG) emissions; and does it create and grow system connections by reducing barriers between transportation modes.
- *Equitable.* Funding burden is geographically equitable and equitably allocates transportation costs to those who benefit. Evaluation criteria are: do the costs to individual taxpayers reflect the benefits they receive from the transportation service or facility; do these same costs reflect the impact the user has on the transportation service or facility; do the costs reflect geographic variations in the state, including such things as access to multi-modal transportation choices, needs, highway types, and levels of use; and what is the cost impact on low tax base communities and would they be disproportionate.
- *Local.* Allows for viable local transportation funding options that recognize the distinct needs of different local systems. Evaluation criteria are: does the funding method provide a revenue stream that could, by legislative authorization, be distributed to local systems; does it provide an opportunity for the legislature to authorize viable local options; and does it promote continuity of the transportation system by reducing inter-jurisdictional barriers.

The evaluation framework is summarized in the exhibit below.

## Exhibit 12. Evaluation Framework

<b>GOAL: Develop a package of funding tools that the legislature can consider to meet transportation funding objectives.</b>			
<b>THRESHOLD CRITERIA: Does the funding method meet the following two criteria? If not, it will not be evaluated.</b>			
<ul style="list-style-type: none"> <li>❖ The funding method is an appropriate state level fee or tax.</li> <li>❖ The funding method has a nexus with transportation.</li> </ul>			
<b>OBJECTIVES</b>			
<p><b>Revenue Stream</b></p> <p>Provide a stream of revenue commensurate with transportation system funding needs.</p>	<p><b>Public Benefit - Reflects Use</b></p> <p>Provide a clear purpose and policy rationale linked to transportation system use, economic development and other state policies and goals.</p>	<p><b>Equitable</b></p> <p>Funding burden is geographically equitable and equitably allocates the costs to those who benefit.</p>	<p><b>Local</b></p> <p>Allows for viable local transportation funding options that recognize the distinct needs of different local systems.</p>
<b>EVALUATION CRITERIA BY OBJECTIVE</b>			
<p><b>Revenue Stream</b></p> <ul style="list-style-type: none"> <li>❖ Revenue potential</li> <li>❖ Responsive to inflation &amp; growth</li> <li>❖ Stable &amp; predictable</li> <li>❖ Administration</li> <li>❖ Collection cost</li> <li>❖ Federal compatibility</li> </ul>	<p><b>Public Benefit - Reflects Use</b></p> <ul style="list-style-type: none"> <li>❖ Link to transportation service or facility</li> <li>❖ Reflects use</li> <li>❖ Available to fund a full range of transportation choices</li> <li>❖ Positively affects transportation system performance &amp; other state policies &amp; goals</li> <li>❖ Creates and grows system connections</li> </ul>	<p><b>Equitable</b></p> <ul style="list-style-type: none"> <li>❖ Costs reflect user benefits</li> <li>❖ Costs reflect user impact</li> <li>❖ Costs reflect geographic variation</li> <li>❖ Cost impact on low tax base communities</li> </ul>	<p><b>Local</b></p> <ul style="list-style-type: none"> <li>❖ Provides revenue stream that could support local systems</li> <li>❖ Provides an opportunity for viable local options</li> <li>❖ Promotes continuity of transportation system</li> </ul>

## V. ALTERNATIVES AND IMPLEMENTATION OVERVIEW

This section reviews the funding methods considered as part of this study and provides an overview of implementation considerations. This section includes recommendations to:

- Upgrade the Department of Licensing computer systems
- Explore allowing periodic rather than annual lump sum payments of fees
- Use the Consumer Price Index for an annual indexing of fees or taxes if the legislature decides to index
- Conduct a comprehensive review of existing DOL, WSDOT, and Washington State Patrol licenses, fees, permits and abstract rates.

Funding methods that met the threshold criteria were grouped into whether they are applied to: fuel; vehicles; drivers; transportation related businesses; transportation system use; or the general transportation system. An initial screening was discussed at a JTC meeting. Four funding methods were dropped from this study based on the initial screening: vehicle engine and displacement fee; advertising; container freight fee; and varying driver's license fees by VMT.

**Exhibit 13.  
Funding Methods Reviewed**

Fuel	Use	Vehicle
<p><b>Motor fuel tax options</b></p> <ul style="list-style-type: none"> <li>• Index</li> <li>• Set increases</li> <li>• Vary by county*</li> <li>• Add gross receipts tax</li> <li>• Add petroleum company tax</li> <li>• Eliminate sales tax exemption**</li> <li>• Add special assessment fee</li> </ul> <p><b>Barrel Fee</b></p> <p><b>Exported Fuels Tax</b></p> <p><b>Electric Vehicle Fuel</b></p> <p>*Infeasible due to uniform rate requirement</p> <p>** Must include local sales taxes</p>	<p><b>Tolling/Congestion Pricing</b></p> <ul style="list-style-type: none"> <li>• Expand tolling</li> <li>• Expand revenue uses</li> <li>• Zone-based/cordon tolls</li> </ul> <p><b>Vehicle Mile Traveled (VMT) Fee</b></p> <ul style="list-style-type: none"> <li>• State-wide</li> <li>• Truck mileage weight fee</li> </ul> <p><b>Ferries</b></p> <ul style="list-style-type: none"> <li>• Operations funding</li> <li>• Capital funding</li> </ul> <p><b>Cascade Amtrak Service</b></p> <ul style="list-style-type: none"> <li>• Operations funding</li> <li>• Capital funding</li> </ul> <p><b>Off-Road Use Fee</b></p> <ul style="list-style-type: none"> <li>• Rates 2012 purchasing power</li> <li>• Index</li> <li>• Revenue to Off-Road Account</li> </ul>	<p><b>Retail Sales &amp; Use Tax</b></p> <ul style="list-style-type: none"> <li>• Change rate</li> <li>• Eliminate trade-in credit</li> <li>• Extend to parts &amp; labor*</li> </ul> <p><b>Rental Vehicle Sales Tax</b></p> <ul style="list-style-type: none"> <li>• Change county options**</li> </ul> <p><b>Vehicle Fees</b></p> <ul style="list-style-type: none"> <li>• Rates at 2012 purchasing power</li> <li>• Index</li> <li>• Modify weight fee</li> <li>• Extend in lieu of fee to electric</li> </ul> <p><b>Motor Vehicle Excise Tax</b></p> <p><b>Tire Fee</b></p> <ul style="list-style-type: none"> <li>• Add fees for transportation</li> </ul> <p><b>Tax on Auto Insurance Premiums</b></p> <p>* Infeasible due to SSUTA</p>
Driver	Transportation Business	Transportation System
<p><b>Driver Licenses</b></p> <ul style="list-style-type: none"> <li>• Rates at 2012 purchasing power</li> <li>• Index</li> <li>• Increase license years</li> </ul>	<p><b>Business Licenses</b></p> <ul style="list-style-type: none"> <li>• Rates 2012 purchasing power</li> <li>• Index</li> </ul>	<p><b>Access Management Fees</b></p> <ul style="list-style-type: none"> <li>• Rates 2012 purchasing power</li> <li>• Index</li> <li>• Modify <ul style="list-style-type: none"> <li>• Reflect impact</li> <li>• Extend to interstates</li> </ul> </li> </ul>

## Implementation

There are implementation issues that affect an array of these funding alternatives, including;

- *Department of Licensing Computer System.* The Department of Licensing (DOL) collects the fuel tax, most licenses, fees, permits, and abstract charges, and provides information that supports the Washington State Patrol and, through license plate recognition, tolling. The DOL computer system is antiquated and in need of replacement. A new vehicle system would cost approximately \$30 million and a new fuel tax system an additional \$8 million. Fundamental changes in funding methods would likely increase the cost of system replacement. Costs of improving the system can be recouped either by state financing or vendor financing. Some vendors are willing to provide a system with payment from per transaction fees. DOL estimates that complete replacement of these systems would take approximately four years.

**Consultant Recommendation 1:** The legislature should provide funding for DOL to begin upgrading its computer systems, with consideration given to paying for the system upgrades by building the cost into the fee structure.

- *Periodic payments.* The state has historically renewed license tabs on an annual basis, including the collection of any local fees such as the motor vehicle excise tax collected by DOL for Sound Transit. The motor vehicle fuel tax is upon removal from the terminal rack, with the fuel tax included in the price of fuel at the pump. If, over time, the motor fuel tax declines and is replaced by any form of payment that requires a single annual payment this could create a hardship for taxpayers. If the state allows periodic payments (either quarterly or monthly) it would be easier for some taxpayers to comply. Issues that would have to be addressed in making periodic payments possible include: compliance with Article 5 of the state constitution which prohibits the state from lending its credit; computer system support; and potential extra staffing costs for DOL and county agents.

**Consultant Recommendation 2:** The legislature should explore the costs and benefits of allowing vehicle owners to make periodic payments of annual vehicle fees rather than one lump sum payment, particularly if fees are substantially increased. This analysis should be conducted in conjunction with a review of the DOL computer systems.

- *Indexing.* Eighty percent (80%) of the states' direct transportation revenues are from flat rate taxes and fees. Indexing fees and taxes is an alternative that applies to fuel, vehicle, driver, transportation business, and system funding methods. If the legislature should decide to index any of these fees and taxes, issues arise as to which index to use, how often to adjust rates, rounding, and whether to establish a floor.
  - *Index.* Ten (10) states index their motor vehicle fuel tax rate, with two using the consumer price index, four the wholesale fuel price index, and one each using the producer price index, the average wholesale cost of fuel, the retail price of fuel, or alternative fuels sold. California indexes its driver and vehicle licenses and permits to the California Consumer Price Index. A federal study recommended that the federal fuel tax, which is not indexed, be indexed to the transportation construction cost index.

- *How often to index.* California adjusts its driver and vehicle licenses and permit fees annually. Of the 10 states that index the motor vehicle fuel tax, five do it annually, four semi-annually, and one quarterly.
- *Rounding.* When adjusting licenses and permit fees, California rounds to the nearest dollar. If the CPI adjustment is \$.49 or less the fee does not change. If \$.50 or more the fee is adjusted to the next dollar.
- *Floor.* The legislature should establish base fees as a floor below which rates will not drop.

**Consultant Recommendation 3:** If the legislature decides to index fees or taxes the legislature should set base fees, use the CPI as the basis of an annual change, and have driver and vehicle fees rounded to the nearest whole dollar.

- *Reviewing fees, licenses, permits & abstracts.* The consultants found three issues with the existing vehicle, driver, business, and other fees, licenses, permits and abstracts charges.
  - *Fee adjustment.* Because fees are not indexed, many of them have not been increased to keep pace with inflation. Some significant changes were made to fees in 2005 and some fees were adjusted in 2007. Many fees have not been adjusted for ten or more years, including a few that have not been adjusted since their adoption in the 1940s and 1950s.
  - *Accounts.* Under the 18<sup>th</sup> amendment motor vehicle registration fee revenues are restricted to highway purposes. The legislature has directed some fees to motor vehicle fund accounts that are not motor vehicle registration fees (i.e. vehicle dealer fees) thereby restricting the use of these revenues to highway purposes.
  - *Initiative 960 compliance.* If the legislature decides to increase fees or index them, compliance with initiative 960 will require that the legislature grant that authority each biennium to DOL or other affected agencies.

**Consultant Recommendation 4.** Existing DOL, WSDOT, and Washington State Patrol license, fee, permit and abstract rates should be reviewed to determine when the rates were last adjusted, what an inflation adjusted rate would be, and what discretionary restrictions have been placed on use of the fees. If the legislature elects to adjust fees annually by the CPI, the legislature should authorize the affected agencies to make the adjustments.

- *Streamlined Sales and Use Tax Agreement.* The Streamlined Sales and Use Tax Agreement (SSUTA), a multi-state agreement, governs the application of sales and use tax in the state.
  - *Additional sales tax limitation.* The state has imposed an additional sales and use tax on vehicle sales and leases and on the rental of motor vehicles. Section 308 of SSUTA exempts additional sales and use taxes on motor vehicles from the general requirement that the sales and use taxes be uniformly applied. Section 308 states that: “[n]o member state shall have multiple state sales and use tax rates on items of personal property or services . . . . The provisions of this section do not apply to sales or use taxes levied on electricity, piped natural or artificial gas, or other

heating fuels delivered by the seller, or the retail sale or transfer of **motor vehicles**, aircraft, watercraft, modular homes, manufactured homes, or mobile homes.” Extending the additional sales and use tax to parts and labor, which was considered in the study, would violate the SSUTA. Violations of the SSUTA by a member state could result in sanctions, including expulsion, by the SSUTA Governing Board.

- *Local sales tax base.* If the sales and use tax is extended to motor vehicle fuel, it must include both state and local sales tax. SSUTA Section 302 states that “the tax base for local jurisdictions shall be identical to the state tax base unless otherwise prohibited by federal law. This section does not apply to sales or use taxes levied on the retail sale or transfer of motor vehicles, aircraft, watercraft, modular homes, manufactured homes, or mobile homes.”

## VI. STATE FUNDING METHOD ANALYSIS

This section reviews funding methods organized by whether the tax or fee is applied to:

- fuel
- vehicles
- drivers
- transportation businesses, or
- use of the system, or the general transportation system.

For the major viable funding options, the potential increase in revenue over the 16-year legislative financial plan is provided. For potential adjustments to the motor vehicle fuel tax, there are two projections provided. The upper bound is based on the TRFC's November forecast and the lower bound is based on the consultants' risk scenario. The vehicle owner impacts are based on the expected improvements in fuel efficiency for each of the representative vehicle types and show how each major funding option changes the expected 2025 taxes and fees. These 2025 tax and fee levels can then be compared with the no action and constant purchasing power estimates.

### A. Fuel

The motor vehicle fuel tax will, even under the consultants' risk scenario, remain a significant revenue source during the 16-year plan period. The options considered for fees and taxes applied to fuel include: re-structuring the motor vehicle fuel tax, a barrel fee, an exported fuels tax, and applying a tax to electricity used by vehicles.

#### 1. Restructure Motor Vehicle and Special Fuel Taxes

Seven options were reviewed to restructure the fuel tax. Appendix A includes a review of state motor vehicle fuel tax rates.

- *Index:* Index the full 37.5 cpg fuel tax to the CPI and adjust annually.
- *Set increases.* Increase the rate by a set amount each year. The analysis assumes a 1.0 cpg increase each year.
- *Add a gross receipts tax as a percentage of the wholesale price of motor vehicle fuel.* Connecticut applies a 7.53 percent gross receipts tax on the wholesale price of motor vehicle fuel. In Washington State, wholesalers are subject to the business and occupation tax at the rate of 0.484 percent. Any new and additional gross receipts tax on the wholesale price of fuel should be separately imposed on the wholesaler to avoid any conflict with existing business and occupation tax deductions. Affected taxpayers would be the 83 licensed gasoline distributors and 116 licensed diesel distributors in the state.<sup>16</sup>
- *Add a petroleum company tax as a flat rate to the wholesale price of motor vehicle fuel.* New York has a 16.4 cpg petroleum business tax applied on the wholesale price. This tax

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<sup>16</sup> Joint Legislative Accountability and Review Committee, Preliminary Report: 2008 Full Tax Preference Performance Reviews, p. 89.

would be administered by DOL in association with the motor vehicle fuel tax which is collected when fuel is delivered to the terminal rack from a refinery, pipeline, or barge.

- *Eliminate the sales tax exemption for fuel.* Ten (10) states add sales tax to retail purchases of motor vehicle fuel ranging from 2 percent to 7 percent, or 4 to 8 cpg. Sales tax is applied to the retail price after state and/or federal excise taxes are deducted in four states. One state adds a sales tax only in areas where mass transit systems exist. Washington state sales and use tax revenues are deposited in the General Fund, which absent legislative action, would be the distribution of sales and use taxes applied to fuel sales. The Joint Legislative Review and Audit Committee's (JLARC) *2009 Full Tax Preference Performance Review Report* recommended that the fuel tax exemption remain in place. The Report also found that a sales and use tax on motor vehicle fuel would not be subject to the 18<sup>th</sup> amendment. To minimize collection costs DOR recommends that the sales tax be directly reflected in the metered pump price.
- *Add a special assessment fee.* Vermont has a motor fuel infrastructure assessment – 2 percent of the average retail price of motor vehicle fuel. To distinguish the fee from a tax, the fee must be limited to use for a specific purpose. A special assessment fee would not be subject to the 18<sup>th</sup> amendment.

#### **a. Implementation**

*From an implementation standpoint, the most straightforward alternatives to restructure the motor vehicle and special fuel tax are indexing and/or set increases in the flat rate.* Indexing would allow the fuel tax to grow with inflation and increasing the flat fee would offset declining motor vehicle fuel consumption per capita.

A *special assessment fee* similar to the Vermont infrastructure assessment is the next most practical option. It would be a new fee and therefore more difficult to implement than modifying the existing motor vehicle fuel tax. The fee, unlike the motor vehicle fuel options, would not be subject to the 18<sup>th</sup> amendment and could be clearly distinguished from taxes that benefit the General Fund. The legislature would have to designate the purposes of the special fee and limit the use of the funds to that purpose.

*The application of a tax to the wholesale price of motor fuel* is less practical than adjusting the current motor vehicle tax rates because it would be a new tax. Ultimately such a tax would be reflected in the retail price.

*Extending the sales and use tax to motor vehicle fuel* by eliminating the current exemption would not benefit the state's transportation funds unless the legislature took specific action to direct additional tax revenue to transportation. Transit agencies that receive local option sales tax revenues would benefit from the extension of the sales and use tax to motor vehicle fuel.

#### **b. Revenues and Impact on Vehicle Owners: Indexing**

Indexing the motor vehicle fuel tax using the CPI starting in 2012 would increase revenues from the amount forecasted in the TFRC's November forecast by \$6.8 billion and in the consultants' risk scenario by \$4.4 billion. By 2025 the indexing scenario would increase the gas tax rate from 37.5 cpg to 57.0 cpg.



Exhibit 14 below presents the results of the indexing scenario in terms of the estimated increase in revenues, the distribution of these revenues (assuming current distribution formulas), and the impact on vehicle owners.

The state funds that would receive the largest distributions from indexing to the CPI are the motor vehicle fund and the Nickel and TPA accounts. The ferry accounts that have deficits at the end of the 2023-25 biennium would receive in the risk scenario \$80 million or 66 percent of the \$128 million needed to balance the operations account and \$64 million or 7 percent of the \$936 million needed to balance the capital account.

Local jurisdictions would receive distributions of \$1.4 billion under the existing distribution formula in the risk scenario or \$2.2 billion using the November forecast consumption estimates. In addition, San Juan and Island counties would receive an additional \$27 million or \$41 million in Capron refunds. Vehicle owners would under this scenario pay less in 2025 adjusted dollars than they are paying in 2009.

#### **c. Revenues and Impact on Vehicle Owners: Annual Increases in motor vehicle fuel tax**

Increasing the motor vehicle fuel tax by 1 cpg each year from 2012 through 2025 would increase revenues from the amount forecasted in the TFRC's November forecast by \$3.9 billion and in the consultants' risk scenario by \$3.4 billion. By 2025 an annual 1 cpg increase would result in a gas tax rate of 51.5 cpg.

Exhibit 15 presents the results of a 1 cpg annual increase scenario in terms of the estimated increase in revenues, the distribution of these revenues (assuming the additional monies are distributed using the current \$0.375 formulas) and the impact on vehicle owners.

Similar to the CPI indexing scenario, with current fuel tax revenue distribution ratios, the state funds that would receive the largest distributions from a 1 cpg annual increase are the motor vehicle fund and the Nickel and TPA accounts. The ferry accounts that have deficits at the end of the 2023-25 biennium would receive in the risk scenario \$61 million or 48 percent of the \$128 million needed to balance the operations account and \$49 million or 5 percent of the \$936million needed to balance the capital account.

Local jurisdictions would receive distributions of \$1.1 billion under the existing distribution formula in the risk scenario or \$1.3 billion using the November forecast consumption estimates. In addition, San Juan and Island counties would receive an additional \$21 million or \$24 million in Capron refunds.

Vehicle owners would under this scenario pay less in 2025 adjusted dollars than they are paying in 2009.

#### **d. Revenue and Impact on Vehicle Owners: Special Assessment**

Adding a special assessment fee of 2 percent on the average retail price of fuel starting in 2012 would increase revenues from the amount forecasted in the TFRC's November forecast by \$4.6 billion and in the consultants' risk scenario by \$4.1 billion. The 2 percent assessment would likely result in an additional \$0.07-\$0.08 cpg, depending upon the retail price of fuel.

Exhibit 16 presents the results of a 2 percent special assessment on fuel in terms of the estimated increase in revenues, the distribution of these revenues (assuming the additional monies are distributed using the current \$0.375 formulas) and the impact on vehicle owners.

Unlike other fuel tax and fee scenarios, the special assessment would not be subject to the 18<sup>th</sup> amendment, and the legislature would have to designate fund distribution specifically.

Vehicle owners would under this scenario pay less in 2025 adjusted dollars than they are paying in 2009.

**Exhibit 14.**  
**Revenue Yield, Distribution, and Driver Impacts, Index Fuel Tax (CPI)**

REVENUE SOURCES	CURRENT SITUATION			INDEX GAS TAX TO CPI (REVENUE DISTRIBUTED IN PROPORTION TO \$0.375)			
		Total Expected Revenue FY 2009-2025		Incremental Revenue FY 2009-2025			
	Current Policy	TRFC Projection (Nov. 2009)	Risk Scenario (Higher Fleet Turnover)	Scenario Assumptions	Year Started	TRFC Projection (Nov. 2009)	Risk Scenario (Higher Fleet Turnover)
<b>Fuel Use (Net)</b>	<b>\$0.375/ gallon</b>	<b>\$21,629M</b>	<b>\$19,392M</b>				
Index	N/A			CPI	2012	\$6,630M	\$4,404M
Regular Increase (annual)	N/A						
Special Assessment fee	N/A						
<b>Vehicle and Driver Fees</b>							
Drivers License Fee	\$25 every 5 years	\$599M	\$599M				
Commercial Drivers & Other Drivers License Fees	\$55 every 5 years	\$803M	\$803M				
Registration Fee (passenger)	\$30	\$2,558M	\$2,558M				
Passenger Weight Fee	\$10/\$20/\$30	\$962M	\$962M				
Combined License/Weight Fee		\$3,040M	\$3,040M				
Sales and Use Tax	0.30%	\$677M	\$677M				
		<b>\$30,266M</b>	<b>\$28,029M</b>			<b>\$6,630M</b>	<b>\$4,404M</b>
<b>REVENUE DISTRIBUTION (under current law)</b>							
Motor Vehicle Fund		\$7,979M	\$7,393M			\$1,738M	\$1,155M
Multimodal Fund		\$1,694M	\$1,694M				
Nickel & TPA Accounts		\$8,239M	\$7,433M			\$2,387M	\$1,586M
State Patrol		\$2,415M	\$2,415M				
Highway Safety Fund		\$1,402M	\$1,402M				
Ferry Operations		\$619M	\$578M			\$121M	\$80M
Ferry Capital		\$312M	\$280M			\$96M	\$64M
Other State Funds Combined		\$589M	\$544M			\$133M	\$88M
<i>Fund Allocation To Be Determined</i>							
<b>State Level Transportation Total</b>		<b>\$23,249M</b>	<b>\$21,739M</b>			<b>\$4,475M</b>	<b>\$2,972M</b>
Cities & Counties (excl. Capron) Transit		\$6,847M	\$6,134M			\$2,115M	\$1,405M
Capron distribution to counties		\$171M	\$157M			\$41M	\$27M
<b>Local Jurisdictions Total</b>		<b>\$7,018M</b>	<b>\$6,290M</b>			<b>\$2,156M</b>	<b>\$1,432M</b>
<b>GRAND TOTAL</b>		<b>\$30,266M</b>	<b>\$28,029M</b>			<b>\$6,630M</b>	<b>\$4,404M</b>
<b>Estimated Impacts by Vehicle Type</b>							
<b>Total Annual Transportation Taxes and Fees Paid in Revenue Categories Shown Here *</b>							
	<b>Current</b>	<b>No Action</b>		<b>No Action Purchasing Power Adj.</b>	<b>Current Scenario</b>		
	<b>2009</b>	<b>2025</b>	<b>vs SUV/Pick-up</b>	<b>2025</b>	<b>2025</b>	<b>vs SUV/Pick-up</b>	
Compact	\$197	\$175	46%	\$316	\$237	44%	
Mid Size	\$272	\$241	63%	\$437	\$329	62%	
SUV/Pick-up	\$437	\$379	100%	\$701	\$534	100%	
Hybrid	\$151	\$137	36%	\$242	\$179	33%	
Electric	\$77	\$77	20%	\$123	\$85	16%	
Motorcycle	\$138	\$124	33%	\$221	\$162	30%	
Freight: Medium	\$1,694	\$1,456	n/a	\$2,718	\$2,081	n/a	
Freight: Heavy	\$2,865	\$2,523	n/a	\$4,598	\$3,447	n/a	
<i>* Assumes 11,500 miles per year on passenger vehicles and fleet composition/fuel efficiency included in the Risk Scenario</i>							

**Exhibit 15.**  
**Revenue Yield, Distribution, and Driver Impacts, \$0.01 Annual Increase in Fuel Tax**

REVENUE SOURCES	CURRENT SITUATION			REGULAR ANNUAL GAS TAX INCREASES - \$0.01 PER YEAR (DISTRIBUTED IN PROPORTION TO \$0.23 MOTOR FUEL TAX)			
		Total Expected Revenue FY 2009-2025		Incremental Revenue FY 2009-2025			
	Current Policy	TRFC Projection (Nov. 2009)	Risk Scenario (Higher Fleet Turnover)	Scenario Assumptions	Year Started	TRFC Projection (Nov. 2009)	Risk Scenario (Higher Fleet Turnover)
<b>Fuel Use (Net)</b>	<b>\$0.375/ gallon</b>	<b>\$21,629M</b>	<b>\$19,392M</b>				
Index	N/A						
Regular Increase (annual)	N/A			\$0.01	2012	\$3,948M	\$3,379M
Special Assessment fee	N/A						
<b>Vehicle and Driver Fees</b>							
Drivers License Fee	\$25 every 5 years	\$599M	\$599M				
Commercial Drivers & Other Drivers License Fees	\$55 every 5 years	\$803M	\$803M				
Registration Fee (passenger)	\$30	\$2,558M	\$2,558M				
Passenger Weight Fee	\$10/\$20/\$30	\$962M	\$962M				
Combined License/Weight Fee		\$3,040M	\$3,040M				
Sales and Use Tax	0.30%	\$677M	\$677M				
		<b>\$30,266M</b>	<b>\$28,029M</b>			<b>\$3,948M</b>	<b>\$3,379M</b>
<b>REVENUE DISTRIBUTION (under current law)</b>							
Motor Vehicle Fund		\$7,979M	\$7,393M			\$1,035M	\$886M
Multimodal Fund		\$1,694M	\$1,694M				
Nickel & TPA Accounts		\$8,239M	\$7,433M			\$1,421M	\$1,216M
State Patrol		\$2,415M	\$2,415M				
Highway Safety Fund		\$1,402M	\$1,402M				
Ferry Operations		\$619M	\$578M			\$72M	\$61M
Ferry Capital		\$312M	\$280M			\$57M	\$49M
Other State Funds Combined		\$589M	\$544M			\$79M	\$68M
<i>Fund Allocation To Be Determined</i>							
<b>State Level Transportation Total</b>		<b>\$23,249M</b>	<b>\$21,739M</b>			<b>\$2,665M</b>	<b>\$2,280M</b>
Cities & Counties (excl. Capron) Transit		\$6,847M	\$6,134M			\$1,259M	\$1,078M
Capron distribution to counties		\$171M	\$157M			\$24M	\$21M
<b>Local Jurisdictions Total</b>		<b>\$7,018M</b>	<b>\$6,290M</b>			<b>\$1,284M</b>	<b>\$1,098M</b>
<b>GRAND TOTAL</b>		<b>\$30,266M</b>	<b>\$28,029M</b>			<b>\$3,948M</b>	<b>\$3,379M</b>
<b>Estimated Impacts by Vehicle Type</b>							
<b>Total Annual Transportation Taxes and Fees Paid in Revenue Categories Shown Here *</b>							
	<b>Current</b>	<b>No Action</b>		<b>No Action Purchasing Power Adj.</b>		<b>Current Scenario</b>	
	<b>2009</b>	<b>2025</b>	<b>vs SUV/Pick-up</b>	<b>2025</b>		<b>2025</b>	<b>vs SUV/Pick-up</b>
Compact	\$197	\$175	46%	\$316		\$219	45%
Mid Size	\$272	\$241	63%	\$437		\$304	62%
SUV/Pick-up	\$437	\$379	100%	\$701		\$491	100%
Hybrid	\$151	\$137	36%	\$242		\$167	34%
Electric	\$77	\$77	20%	\$123		\$83	17%
Motorcycle	\$138	\$124	33%	\$221		\$151	31%
Freight: Medium	\$1,694	\$1,456	n/a	\$2,718		\$1,904	n/a
Freight: Heavy	\$2,865	\$2,523	n/a	\$4,598		\$3,186	n/a
<i>* Assumes 11,500 miles per year on passenger vehicles and fleet composition/fuel efficiency included in the Risk Scenario</i>							

**Exhibit 16.**  
**Revenue Yield, Distribution and Driver Impacts**  
**Special Assessment Fee on Fuel**

REVENUE SOURCES	CURRENT SITUATION			SPECIAL ASSESSMENT FEE APPLIED TO GASOLINE AND DIESEL FUEL			
	Total Expected Revenue FY 2009-2025			Incremental Revenue FY 2009-2025			
	Current Policy	TRFC Projection (Nov. 2009)	Risk Scenario (Higher Fleet Turnover)	Scenario Assumptions	Year Started	TRFC Projection (Nov. 2009)	Risk Scenario (Higher Fleet Turnover)
<b>Fuel Use (Net)</b>	<b>\$0.375/ gallon</b>	<b>\$21,629M</b>	<b>\$19,392M</b>				
Index	N/A						
Regular Increase (annual)	N/A						
Special Assessment fee	N/A			2.0%	2012	\$4,591M	\$4,075M
<b>Vehicle and Driver Fees</b>							
Drivers License Fee	\$25 every 5 years	\$599M	\$599M				
Commercial Drivers & Other Drivers License Fees	\$55 every 5 years	\$803M	\$803M				
Registration Fee (passenger)	\$30	\$2,558M	\$2,558M				
Passenger Weight Fee	\$10/\$20/\$30	\$962M	\$962M				
Combined License/Weight Fee		\$3,040M	\$3,040M				
Sales and Use Tax	0.30%	\$677M	\$677M				
		<b>\$30,266M</b>	<b>\$28,029M</b>			<b>\$4,591M</b>	<b>\$4,075M</b>
<b>REVENUE DISTRIBUTION (under current law)</b>							
Motor Vehicle Fund		\$7,979M	\$7,393M				
Multimodal Fund		\$1,694M	\$1,694M				
Nickel & TPA Accounts		\$8,239M	\$7,433M				
State Patrol		\$2,415M	\$2,415M				
Highway Safety Fund		\$1,402M	\$1,402M				
Ferry Operations		\$619M	\$578M				
Ferry Capital		\$312M	\$280M				
Other State Funds Combined		\$589M	\$544M				
<i>Fund Allocation To Be Determined</i>						\$4,591M	\$4,075M
<b>State Level Transportation Total</b>		<b>\$23,249M</b>	<b>\$21,739M</b>			<b>\$4,591M</b>	<b>\$4,075M</b>
Cities & Counties (excl. Capron) Transit		\$6,847M	\$6,134M				
Capron distribution to counties		\$171M	\$157M				
<b>Local Jurisdictions Total</b>		<b>\$7,018M</b>	<b>\$6,290M</b>				
<b>GRAND TOTAL</b>		<b>\$30,266M</b>	<b>\$28,029M</b>			<b>\$4,591M</b>	<b>\$4,075M</b>
<b>Estimated Impacts by Vehicle Type</b>							
<b>Total Annual Transportation Taxes and Fees Paid in Revenue Categories Shown Here *</b>							
	<b>Current</b>	<b>No Action</b>		<b>No Action Purchasing Power Adj.</b>	<b>Current Scenario</b>		
	<b>2009</b>	<b>2025</b>	<b>vs SUV/Pick-up</b>	<b>2025</b>	<b>2025</b>	<b>vs SUV/Pick-up</b>	
Compact	\$197	\$175	46%	\$316	\$209	47%	
Mid Size	\$272	\$241	63%	\$437	\$295	67%	
SUV/Pick-up	\$437	\$379	100%	\$701	\$439	100%	
Hybrid	\$151	\$137	36%	\$242	\$233	53%	
Electric	\$77	\$77	20%	\$123	\$160	36%	
Motorcycle	\$138	\$124	33%	\$221	\$149	34%	
Freight: Medium	\$1,694	\$1,456	n/a	\$2,718	\$1,697	n/a	
Freight: Heavy	\$2,865	\$2,523	n/a	\$4,598	\$2,881	n/a	
<i>* Assumes 11,500 miles per year on passenger vehicles and fleet composition/fuel efficiency included in the Risk Scenario</i>							

## 2. Barrel Fee

A barrel fee imposed on motor vehicle fuel and motor diesel fuel to be used in the state would be collected at the wholesale level. If the barrel fee is \$1.00, and if costs are passed through to retail sales, the resulting cost increase at retail would be 2.4 cpg or the equivalent of that increase in the motor vehicle fuel tax.

### a. Implementation

Implementation of the fee will require DOL to issue rules, which will require support from the Attorney General. As noted in a fiscal note to a 2009 House bill that proposed a barrel fee, “the rules are expected to be fairly controversial and somewhat complicated.”<sup>17</sup> A barrel fee would need to be for a specific purpose and would not be subject to the 18<sup>th</sup> amendment.

### b. Revenues and Impact on Vehicle Owners:

At \$1.00 per barrel, a barrel fee would generate \$1.3 billion over the 16-year plan, assuming the fee was added in 2012. If the fee were indexed to the CPI and rose annually, the total generated would be \$1.6 billion over the 16-year plan.

## 3. Exported Fuels Tax

Under existing state law (RCW 82.36.300 and RCW 82.38.180) motor vehicle fuel taxes paid on gasoline or special fuels that are exported from the state are refunded. Three states impose an exported fuels tax. Tennessee imposes an export tax of 1/20<sup>th</sup> of 1 cent per gallon on petroleum products which are stored in the state and are subsequently exported. Texas requires licensed suppliers to collect either the Texas tax or the destination state’s tax on fuel exported from the state. Florida collects its motor vehicle fuel tax on purchases of fuel by exporters from terminal suppliers who are not licensed to collect taxes in states of destination.

As proposed in HB 2277 in the 2009 session, the exemption for exported fuels would be eliminated and the state would provide a credit to the exporter for the difference between Washington’s fuel tax rate and the fuel tax rate in the importing state’s fuel tax if the rate is less than Washington’s. This proposal was structured in this manner in order to meet federal interstate commerce clause laws.

### a. Implementation

Implementation of the fee will require the DOL to collect data on every state importing Washington fuel; recognize its fuel tax rates, amount of fuel imported, and the rate difference between Washington State’s fuel taxes and the importing state’s fuel taxes. Tax returns would need to be modified for out of state fuel importers and new forms would be required for Washington State fuel dealers exporting fuel to other states. DOL would have to modify its fuel tax system to collect the exported fuels tax, which would add costs to the replacement of the new system.

One issue with removing the exception is that it would have to meet interstate commerce restrictions. JLARC’s tax preference study recommended retaining the exemption for exported fuel but the Citizen’s Commission for Performance Measurement of Tax Preferences, which reviews

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<sup>17</sup> Bill 1614 HB Fiscal Note, p. 2.

JLARC staff recommendations, recommended the legislature consider whether to modify this exemption in light of the US Supreme Court decisions subsequent to enactment of this exemption.<sup>18</sup>

#### **b. Revenue and Impact on Vehicle Owners**

Total revenue from an exported fuels tax over the six-year period from 2009-15 was estimated in the fiscal note to HB 2277 in the 2009 session at \$3.0 billion. While this tax is charged at the business level and would apply to fuel that is exported out-of-state, the tax would increase the cost of doing business in Washington and these costs will be passed on to consumers. Given that the specific fuel being taxed will be consumed outside of Washington, it is unclear the degree to which this tax would be passed on to Washington drivers. If the additional cost of the tax is spread over all of the gallons produced by local refineries, then some of the cost would likely be paid by Washington drivers.

### 4. Electric Vehicle Fuel

For natural gas and propane vehicles Washington State imposes an additional license fee in lieu of the special fuel tax. This rate does not apply to Plug-in hybrid electric vehicles (PHEV) or electric vehicles.

Taxing the electricity used by electric vehicles is possible if the use is separately metered. A recent US Department of Energy study suggests that charging stations will most likely be separately metered as a way for utilities to encourage off-peak charging by providing significant discounts in the evening hours or charging a significant premium during peak hours. For example, Pacific Gas & Electric (PG&E) in northern California offers a special, discounted rate for plug-in and other electric vehicle customers, the "Experimental Time-of-Use Low Emission Vehicle rate". In single-family and multi-family residential settings this "typically requires the addition of a second meter that monitors the energy use of the electric vehicle separately from the household load."<sup>19</sup>

#### **a. Implementation**

The Department of Revenue (DOR) administers the state utility tax. An additional tax on separately metered electricity could be collected, but collecting on some other basis such as by charging unit would be difficult. The largest issue with implementing a tax on electricity used to power electric vehicles is the rapidly evolving technology associated with these vehicles. The following technologies would complicate the collection of a tax on electricity use:

- *Vehicle-to-grid technologies.* Researchers are developing "vehicle-to-grid" technologies that allow a two-way connection between the PHEV and the local utility grid. While the vehicle is plugged in and not in use, the utility could take advantage of the extra electrical storage capacity in the vehicle batteries to help meet peak electricity demand, provide grid support services, or respond to power outages. PHEV owners could get "paid" by the utility for use of their vehicles, which would only be used when

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<sup>18</sup> Joint Legislative Audit and Review Committee, *2008 Full Tax Preference Performance Reviews Report 09-03*, January 2009.

<sup>19</sup> *Ibid.*, p. 20.

needed and without negative effects on the vehicle battery's state of charge. Google.org's Recharge IT program is demonstrating vehicle-to-grid technologies.<sup>20</sup>

- *Pricing intelligence technology.* There are several ways to monitor the electricity usage by a PHEV. Most references cite either a separate electric plug or smart charger as the source of information that can be transmitted to the electric provider (and hence to a taxing authority). The intelligence could also be in the vehicle itself, tied to the charger unit. In this case, there would need to be a process to transmit the relevant electricity information from the vehicle or to store it securely for later processing
- *Off-the-grid recharging systems.* Research has been done to tie plug-in hybrids to alternative recharging systems. One of the more notable examples is to have plug-in hybrids recharged from rooftop photovoltaic systems. Such systems would have virtually zero emissions, but would be very problematic to tax. Presumably there could be other off-the-grid systems tied to wind, hydro or equivalent technologies. The consultants could not find information about the extent to which this off-the-grid approach to PHEV recharging could penetrate the market.

A fee on electric vehicle fuel could be subject to the 18<sup>th</sup> amendment which states: All excise taxes collected by the State of Washington on the *sale, distribution or use of motor vehicle fuel* shall be paid into the state treasury and placed in a special fund to be used exclusively for highway purposes. If a charge on metered electricity were to be regarded as an excise tax on the sale, distribution, or use of motor vehicle fuel, it would be subject to the 18<sup>th</sup> amendment.

#### **b. Revenue and Vehicle Owner Impact**

Taxing electricity used by vehicles does not appear to be a practical alternative given the rapidly evolving technology. Potential revenue and vehicle owner impacts have not been calculated.<sup>21</sup>

## **B. Vehicles**

Options for state funding methods that impose taxes or fees on vehicles are: increasing the retail sales and use tax on motor vehicles; modifications to motor vehicle fees; a motor vehicle excise tax; a tire tax; and a tax on auto insurance premiums.

### **1. Retail Sales and Use Tax on Motor Vehicles**

With passage of the Nickel program, effective July 1, 2003 the state imposed an additional<sup>22</sup> retail sales and use tax of 0.3 percent on every retail sale, lease or transfer of a motor vehicle, other than retail car rentals which are subject to the retail car rental tax. The tax is imposed on the net purchase price of the vehicle (i.e. net of trade-in value in accordance with RCW 82.08.010) and charges for all extra features added to the vehicle prior to delivery to the buyer or lessee. It does not apply to amounts charged for post-sale/delivery equipment and installation, sale of trailers, amounts charged for repairs of motor vehicles, and to sales of motor vehicles not subject to sales tax (i.e. sales to carriers engaged in interstate commerce, sales to the U.S. government). Until January 1, 2011, the additional retail sales and use tax does not apply to the sale of new

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<sup>20</sup> U.S. Department of Energy, *Energy Efficiency and Renewable Energy*, August 12, 2008.

<sup>21</sup> As a local option, it should be noted that while cities can impose utility taxes counties cannot.

<sup>22</sup> The tax is in addition to all other state sales and use taxes.



passenger cars, light duty trucks, and medium duty passenger vehicles which utilize hybrid technology and have a US Environmental Protection Agency estimated highway gasoline mileage rating of at least 40 miles per gallon.<sup>23</sup>

Proceeds from the additional retail sales and use tax are deposited in the multimodal transportation account.<sup>24</sup>

Two options to restructure the sales and use tax were considered:

- *Increase the rate.* This analysis shows the effect of increasing the additional sales and use tax rate to 0.5 percent.
- *Eliminate the trade-in credit.* RCW 82.08.010 applies sales tax to “the total amount of consideration, except separately stated trade-in property of like kind”. (Section (1)(a) Eliminating the trade-in credit would be applicable to the 6.5 percent state sales tax as well as to the additional sales tax that funds transportation.

#### **a. Implementation**

The sales and use tax is currently collected. Increasing the rate and/or eliminating the trade-in credit would not affect the collection method.

#### **b. Revenue and Impact on Vehicle Owners**

The 16-year plan assumes revenues of \$717 million from the additional sales and use tax based on the March forecast or \$677 million in the November forecast. Increasing the tax to 0.5 percent would generate an additional \$412 million if the increase started in FY 2012 and eliminating the trade-in credit would generate an additional \$787 million in transportation funds.

All revenues would benefit the multimodal fund. Vehicle owners would pay less in 2025 than they are paying in 2009 under this scenario.

The exhibit below shows the revenue, distributions, and impacts on vehicle owners of increasing the sales and use tax to 0.5 percent from 2012 through 2025.

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<sup>23</sup> Washington State Department of Revenue, *Special Note Motor Vehicle Sales and Use Tax Rate Increase*, June 17, 2003 and RCW 82.08.020.

<sup>24</sup> Proceeds from the state retail sales and use tax of 6.5 percent are deposited in the general fund.

**Exhibit 17.**  
**Revenue Yield, Distribution and Driver Impacts**  
**Raise State Special Sales Tax on Vehicle Sales from 0.3% to 0.5%**

REVENUE SOURCES	CURRENT SITUATION			INCREASE STATE SPECIAL SALES AND USE TAX FROM 0.3% TO 0.5%			
	Total Expected Revenue FY 2009-2025			Incremental Revenue FY 2009-2025			
	Current Policy	TRFC Projection (Nov. 2009)	Risk Scenario (Higher Fleet Turnover)	Scenario Assumptions	Year Started	TRFC Projection (Nov. 2009)	Risk Scenario (Higher Fleet Turnover)
<b>Fuel Use (Net)</b>	<b>\$0.375/ gallon</b>	<b>\$21,629M</b>	<b>\$19,392M</b>				
Index	N/A						
Regular Increase (annual)	N/A						
Special Assessment fee	N/A						
<b>Vehicle and Driver Fees</b>							
Drivers License Fee	\$25 every 5 years	\$599M	\$599M				
Commercial Drivers & Other Drivers License Fees	\$55 every 5 years	\$803M	\$803M				
Registration Fee (passenger)	\$30	\$2,558M	\$2,558M				
Passenger Weight Fee	\$10/\$20/\$30	\$962M	\$962M				
Combined License/Weight Fee		\$3,040M	\$3,040M				
Sales and Use Tax	0.30%	\$677M	\$677M	0.5%	2012	\$412M	\$412M
		<b>\$30,266M</b>	<b>\$28,029M</b>			<b>\$412M</b>	<b>\$412M</b>
<b>REVENUE DISTRIBUTION (under current law)</b>							
Motor Vehicle Fund		\$7,979M	\$7,393M				
Multimodal Fund		\$1,694M	\$1,694M			\$412M	\$412M
Nickel & TPA Accounts		\$8,239M	\$7,433M				
State Patrol		\$2,415M	\$2,415M				
Highway Safety Fund		\$1,402M	\$1,402M				
Ferry Operations		\$619M	\$578M				
Ferry Capital		\$312M	\$280M				
Other State Funds Combined		\$589M	\$544M				
<i>Fund Allocation To Be Determined</i>							
<b>State Level Transportation Total</b>		<b>\$23,249M</b>	<b>\$21,739M</b>			<b>\$412M</b>	<b>\$412M</b>
Cities & Counties (excl. Capron) Transit		\$6,847M	\$6,134M				
Capron distribution to counties		\$171M	\$157M				
<b>Local Jurisdictions Total</b>		<b>\$7,018M</b>	<b>\$6,290M</b>				
<b>GRAND TOTAL</b>		<b>\$30,266M</b>	<b>\$28,029M</b>			<b>\$412M</b>	<b>\$412M</b>

Estimated Impacts by Vehicle Type							
Total Annual Transportation Taxes and Fees Paid in Revenue Categories Shown Here *							
	Current	No Action		No Action Purchasing Power Adj.	Current Scenario		
	2009	2025	vs SUV/Pick-up	2025	2025	vs SUV/Pick-up	
Compact	\$200	\$175	46%	\$321	\$179	46%	
Mid Size	\$278	\$241	63%	\$445	\$248	64%	
SUV/Pick-up	\$442	\$379	100%	\$710	\$387	100%	
Hybrid	\$155	\$137	36%	\$249	\$143	37%	
Electric	\$83	\$77	20%	\$132	\$86	22%	
Motorcycle	\$140	\$124	33%	\$224	\$127	33%	
Freight: Medium	\$1,705	\$1,456	n/a	\$2,736	\$1,471	n/a	
Freight: Heavy	\$2,898	\$2,523	n/a	\$4,651	\$2,570	n/a	

\* Assumes 11,500 miles per year on passenger vehicles and fleet composition/fuel efficiency included in the Risk Scenario

## 2. Motor Vehicle Fees: Passenger Vehicles and Motorcycles

Passenger vehicle and motorcycle owners pay annual registration and weight fees, recurrent license plate replacement fees, and non-recurring fees for replacement tabs, duplicate registrations, and other transfer fees.

- *Annual fees.* Passenger vehicle owners pay an initial registration and annual license tab, title, and weight fees. Most passenger vehicle owners pay an annual fee of \$43.75 for a 4,000 pound car, \$53.75 for a 6,000 pound car, or \$63.75 for an 8,000 pound car.<sup>25</sup> In addition to the fees outlined below, sub-agent fees of up to \$4.00 may be applied if filing at any licensing office except a county auditor. Additional fees are imposed by local governments in some areas.
  - *Registration/annual license tab fee:* RCW 46.16.0621 establishes the motor vehicle registration and license tab renewal fee of \$30.00 annually “for motor vehicles, regardless of year, value, make, or model.” The fee applies to owners of passenger cars, motorcycles, motor homes, for-hire vehicles (six or less passenger capacity), taxicabs, and other vehicles listed in the RCW.
  - *Filing and service fees:* RCW 46.01.140(4) establishes a filing fee of \$3.00 and a servicing fee of \$0.75.
  - *Annual weight fee:* An annual vehicle weight fee for passenger cars was established in 2005 with passage of the TPA. The weight fee is due at the initial registration and with each annual renewal. Most passenger vehicles pay a net<sup>26</sup> weight rate for vehicles that are 4,000 pounds (\$10.00), 6,000 pounds (\$20.00) or 8,000 pounds (\$30.00). The vehicle weight fee is imposed “to provide funds to mitigate the impact of vehicle loads on the state roads and highways and is separate and distinct from other vehicle license fees. Proceeds from the fee may be used for transportation purposes, or for facilities and activities that reduce the number of vehicles or load weights on the state roads and highways.” (RCW 46.17.010 (4)).
  - *Annual natural gas or propane license fee in lieu of special fuel tax.* RCW 82.38.075 establishes an annual license fee in lieu of the special gas tax on natural gas or propane fueled motor vehicles. The fee schedule, which is indexed to the motor vehicle fuel tax rate, is based on the weight of the vehicle with most passenger vehicles paying an additional \$140.63 per year. DOL is authorized to collect a \$5.00 handling charge for each license. Owners of natural gas or propane powered vehicles are required to display a decal issued upon payment of the annual fee. These fees are in addition to the passenger vehicle weight fees.
  - *Ride-sharing vehicle special plates fee:* In accordance with RCW 46.16.023 ridesharing vehicles pay an initial \$25.00 license plate fee in addition to the basic

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<sup>25</sup> Higher weight fees imposed for passenger vehicles over 8,000 pounds.

<sup>26</sup> For weights of 4,000 pounds, 6,000 pounds, and 8,000 pounds the weight fees are \$40.00, \$50.00 and \$60.00. For passenger cars, the registration fee (currently \$30.00) is deducted from the weight fee so the resulting net weight fees are \$10.00, \$20.00, and \$30.00.

registration fee in lieu of sales and use tax. There is also a \$10.00 transfer fee for such plates.

- *Specialized plates.* Personalized plate fees are charged an additional amount, including \$40.00 for the initial plates, \$30.00 for the annual renewal, \$10.00 for the state wildlife account, \$2.00 for the wildlife rehabilitation fee, and \$10.00 for transfer fees.
- *Recurring Fees:* Passenger vehicle owners pay a license plate replacement fee every seven years and an additional reflectorized plate fee.
  - *License plate replacement & reflectorized plate fee.* RCW 46.16.233 provides for the periodic replacement of license plates with “frequency of replacement established in accordance with empirical studies documenting the longevity of the reflective materials used to make license plates.” DOL requires the replacement of plates every seven years. In addition, RCW 46.16.237 requires the payment of an additional \$2.00 per plate as a reflectorized plate fee. The fees for plate replacement are \$10.00 per plate and \$2.00 per motorcycle plate. The plate reflectivity fee is \$2.00 per plate. Owners are also required to pay an additional \$3.75 in fees, including \$3.00 filing fee, a \$0.50 DOL services fee, and a \$0.25 license plate technology fee. The total fee is \$27.75 for a vehicle with two plates, \$7.75 for a motorcycle, and \$15.75 for trailers and vehicles with one plate.
  - *Retention of license plate number fee.* In addition, owners can pay an additional \$20.00 to retain the same license plate number.
- *Non-recurring fees.* State fees collected on a non-recurring basis from passenger vehicle owners range from \$0.50 for replacement tabs to \$15.00 for a change in certificate of ownership.

The exhibit below summarizes the fees charged to passenger vehicle owners, where revenues are deposited, and when the fees were last modified.

**Exhibit 18.  
Summary of Passenger Vehicle Fees**

Fee	Rate	Account	Transportation Fund	Rate Last Modified
<b>Annual Fees</b>				
Registration/Annual License Tabs	\$30.00	\$20.35 State Patrol \$2.02 Ferry Operations \$7.63 Motor Vehicle	Motor Vehicle	2000
Filing Fee	\$ 3.00	County agent/DOL		2000
Servicing Fee	\$ 0.75	\$0.50 DOL Service \$0.25 License plate technology	Motor Vehicle n/a	2003
Weight Fee	\$10- \$30.00	\$3 million/yr – Freight Mobility Rest - Multimodal	Multimodal	2005 (TPA)
Natural Gas/Propane Vehicle Fee	\$140.63	Motor Vehicle	Motor Vehicle	1983 <sup>27</sup>
Ridesharing License Plate Fee	\$25.00	Motor Vehicle	Motor Vehicle	1987
Specialized Plates - Initial	\$40.00	Wildlife	n/a	
Specialized Plates - Annual	\$30.00	Wildlife	n/a	
Specialized Plates – Transfer	\$10.00	Motor Vehicle	Motor Vehicle	
Specialized Plates – Wildlife Rehab	\$2.00	Wildlife	n/a	
<b>Recurrent Fees</b>				
License Plate Replacement – Car <sup>28</sup>	\$10.00/plate	Motor Vehicle	Motor Vehicle	2005 (TPA)
License Plate Replac- Motorcycle	\$2.00/plate	Motor Vehicle	Motor Vehicle	2005 (TPA)
Retention of Same Number	\$20.00	Multimodal	Multimodal	2003 (Nickel)
<b>Non-Recurrent Fees (also pay filing fees in addition)</b>				
Replacement Tabs	\$0.50	Motor Vehicle	Motor Vehicle	
Duplicate Registration	\$1.25	Motor Vehicle	Motor Vehicle	
Duplicate Title	\$5.00	Motor Vehicle	Motor Vehicle	
Title Transfer	\$5.00	Motor Vehicle	Motor Vehicle	
Fee to Change Name	\$5.00	Motor Vehicle	Motor Vehicle	
Certificate of Ownership	\$5.00	Nickel	Motor Vehicle	2003 (Nickel)
Certificate of Ownership – if previously registered in another state	\$15.00	Motor Vehicle	Motor Vehicle	2002
Inspection with Certificate	\$65.00	Motor Vehicle	Motor Vehicle	2002

<sup>27</sup> Indexed to the fuel tax

<sup>28</sup> Also charged at the same time \$4.00 reflectivity fee (\$2.00 per plate); \$3.00 filing fee; \$0.50 DOL service fee; and \$0.25 license plate technology fee.

Four options were reviewed for passenger vehicles licenses and fees:

- *Increase rate.* The analysis is based on increasing rates to 2012 purchasing power.
- *Index fees.* Annual indexing to the CPI. Appendix A lists California licenses that are subject to indexing.
- *Eliminate registration deduction for weight fee.* This would have the effect of increasing the weight fees on passenger vehicles by \$30.00.
- *Extend in lieu of special gas tax fee to electric vehicles and other high mileage vehicles.*

#### **a. Implementation**

Fees are collected by DOL. Study recommendations regarding improvements to the DOL computer system and allowing taxpayers to pay on a recurring basis are relevant to these fees. None of the options analyzed would modify DOL's business rules and could be implemented as the computer system is replaced.

#### **b. Revenue and Impact on Vehicle Owners**

Passenger vehicle registration fees are anticipated to generate \$2.6 billion in revenue in the 16-year plan. Modifying the rates and indexing them to keep pace with inflation would increase total revenues by \$1.6 billion or approximately 60 percent. Modifying the passenger vehicle weight fees would generate an additional \$455 million. Revenue generated by extending the in-lieu of fee to electric vehicles and other high mileage vehicles would generate modest revenues under the November forecast, but much larger revenues under the consultants' risk scenario, given the additional market penetration of electric and high mileage hybrid vehicles that it assumes.

Raising the in-lieu of fee would narrow the gap between electric vehicles and other vehicle owners' contribution to transportation funding.

The revenue distribution and vehicle owner impacts are summarized in Exhibit 22 (at the end of Section C), where a scenario is presented where all driver and vehicle fees are brought up to 2012 purchasing and then indexed. The only local jurisdiction revenues from licensing fees are the Capron refunds of vehicle licensing fees. The legislature has not, as it has with the fuel tax, capped the amount of these Capron refunds to San Juan and Island counties.

### 3. Motor Vehicle Fees: Trucks

Truck fees include the combined license fee, trailer fee, tow truck capacity fee, proportional registration plates and fees, farm truck fees, and overweight fees.

- *Combined licensing fee.* Vehicle owners registering trucks with gross weight of 4,000 pounds or more, commercial trailers, and prorated vehicles (vehicles engaging in interstate commerce) pay a combined license fee. RCW 46.16.070 provides that, in lieu of all other vehicle licensing fees and in addition to the mileage fees for buses and stages, a license fee by weight is to be collected for each truck, motor truck, truck tractor, road tractor, tractor, bus, auto stage, or for hire vehicle with seating capacity of more than six. The fees range from \$40.00 per year for a 4,000 pound truck to \$3,402.00 per year for a 105,500 pound truck. There is a reduced schedule for logging trucks weighing 42,000 pounds or more. Farm vehicles, that are exempt from property tax in accordance with RCW 84.36.630, can apply for a reduced fee – which is the fee in effect on May 1, 2005 - if the owner attests that the vehicle is used primarily for

farming purposes. RCW 46.16.135 allows vehicle owners of trucks weighing more than 12,000 pounds to pay a monthly combined licensing fee if they are licensing the truck for less than a year. In addition to the pro-rated combined licensing fee, there is a \$2.00 fee for each monthly period the vehicle will be used and an additional \$2.00 administration fee. Prorate trucks, which are those used in interstate commerce, pay a proportionate share of the combined licensing fee based on miles driven in Washington state.

- *Trailer fee.* Commercial trailers and pole trailers pay an annual license fee of \$36.00 and a \$36.00 fee is applied to trailers registered in combination with power units above 40,000 pounds.
- *Tow truck capacity fee.* Tow trucks pay a capacity fee of \$25.00 per year, plus a \$30.00 vehicle registration fee plus \$3.75 filing and license service fee. Tow trucks do not pay the combined license fee. (RCW 46.16.079)
- *Proportional registration plates and fees.* In addition to the proportionate share of the combined license fee, prorate trucks that are registered in Washington state pay an apportioned plate fee, cab card, validation tab, and transaction fee. The apportioned plate fee is a one-time fee of \$10.00 for vehicles required to display two apportioned plates and \$5.00 for vehicles required to display one plate. A cab card is a one-time fee of \$2.00 for each vehicle and an annual validation year tab fee of \$2.00. (RCW 46.87.090) DOL is authorized to collect a transaction fee of up to \$10.00 each time a vehicle is added to the Washington state fleet and each time the proportional registration of a Washington-based vehicle is renewed. DOL's rate is \$4.50.
- *Farm vehicle fees.* Farm vehicles which make incidental use of the public roads are required by RCW 46.16.025 to have an identification decal. A one-time licensing fee of \$5.00 is charged for the decal. Motor trucks, truck tractors, and tractors owned and operated by farmers must pay a gross weight fee annually. Payment for the special license is on the declared gross weight at the amounts established in 46.16.070 less \$23.00, divide the difference by two and add \$23.00. (RCW 46.16.090) As an alternative to the monthly combined licensing fee, motor trucks, truck tractors, and tractors owned and operated by farmers may, as an alternative to the first partial month of the license registration, operate the vehicle using a farm vehicle trip permit if the license gross weight does not exceed 80,000 pounds for a combination of vehicles, nor 40,000 pounds for a single-unit vehicle with three or more axles. Up to four permits may be authorized per year. Each permit costs \$6.25.
- *Special permit fee for oversize/overweight fees.* Overheight, overlength, overwidth, and overweight vehicles using state highways are subject to a special permit fee administered by WSDOT for each movement. There are special fee rates for farm vehicles and for logging trucks.
- *Trip permits.* A trip permit fee is required for vehicle owners temporarily moving an unlicensed vehicle. The permit is generally used by commercial drivers who do not enter Washington frequently enough to use a prorated license. RCW 46.16.160 allows the permits for three consecutive days, with no more than three such licenses for a single vehicle during a 30-day period, except for recreational vehicles which are limited to two permits in a one-year period. The total cost of a trip permit fee is \$20.00, \$1.00 filing, \$15.00 administrative fee, \$1.00 excise tax, and \$5.00 surcharge.

- *Special fuel trip permit.* RCW 82.38.100 authorizes a special fuel single trip permit that is applied to special fuel users temporarily entering the state for commercial purposes. The three day permit is collected in lieu of the special fuel tax otherwise assessable for importing and using special fuels in Washington. The fee is \$25.00, including a \$1.00 filing fee kept by county auditors or licensing agents, a \$10.00 administrative fee, a \$9.00 excise tax, and a \$5.00 surcharge.
- *Fee in lieu of special fuel tax.* Natural gas and propane trucks also pay a weight based fee in lieu of the special fuel tax.

The exhibit below summarizes the fees charged to trucks, where revenues are deposited, and when the fees were last modified.



**Exhibit 19.  
Summary of Truck Fees**

Fee	Rate	Account	Transportation Fund	Rate Last Modified
Combined licensing fee	Varies	\$2.00 auditor after	Motor Vehicle	2005
Trailer fee	\$36.00	22.360% State Patrol	Motor Vehicle	
Gross weight fee on farm vehicles	Varies	3.375% Ferry Ops	Motor Vehicle	1995
Farm vehicle trip permits	Varies	5.237% Nickel	Motor Vehicle	2005
		11.533% TPA	Motor Vehicle	
		Remaining 59.495% Motor Vehicle		
Farm license fee	\$16.00	Motor Vehicle	Motor Vehicle	1953
Farm vehicle trip permit	\$ 6.25	Motor Vehicle	Motor Vehicle	2005
Farm implement	Varies	Motor Vehicle	Motor Vehicle	1995
Monthly combined licensing	\$ 2.00	Motor Vehicle	Motor Vehicle	
Proportional plates & fees	Varies	Motor Vehicle	Motor Vehicle	
Special permit/over	Varies	Motor Vehicle	Motor Vehicle	1995
Log truck overweight	\$50.00	Motor Vehicle	Motor Vehicle	1953
Trip permit	\$20.00	\$16.00 Motor Vehicle \$3.00 Highway Safety \$1.00 General Fund	MV/General Fund	2002
Special fuel trip permit	\$25.00	\$5.00 State Patrol \$20.00 Motor Vehicle	Motor Vehicle	2000

Three options were reviewed for truck licenses and fees:

- *Increase rate.* The analysis is based on increasing rates in 2012 to 2012 purchasing power.
- *Index fees.* Annual indexing to the CPI. Appendix A lists California licenses that are subject to indexing.
- *Increase weight fee.* Increase by \$30.00 to equalize with passenger cars if registration fee deduction on passenger vehicle weight fees is eliminated.

**a. Implementation**

The fees are current fees and the changes would not result in new business rules for DOL. The change could be made while the DOL computer system is under revision.

**b. Revenue and Impact on Vehicle Owners**

The current fees on trucks are anticipated to generate \$3.0 billion in revenue over the 16-year plan. If rates were increased in 2012 to 2012 purchasing power and then indexed annually and weight fees were increased by \$30.00, an additional \$985 million would be generated during the 16-year plan period. The revenue distribution and vehicle owner impacts of these changes are combined with other fee changes and summarized in Exhibit 22 (at the end of Section C).

#### 4. Motor Vehicle Fees: Recreational Vehicles

Recreational vehicle fees include camper registration fees, the motor home weight fee, and recreational or single axle trailer fee. The original registration for a camper is subject to a \$4.90 fee and annual renewals are \$3.50. (RCW 46.16.505) With passage of the 2005 TPA, RCW 46.17.020 established a motor home weight fee of \$75.00 per year and RCW 46.16.086 established a \$15.00 annual fee for single-axle trailers of 2,000 pounds or less used for personal use.

The exhibit below summarizes the fees charged to recreational vehicle owners, where revenues are deposited, and when the fees were last modified.

**Exhibit 20.  
Summary of Recreational Vehicle Fees**

Fee	Rate	Account	Transportation Fund	Rate Last Modified
Single axle trailer fee	\$15.00	\$2.00 auditor after 22.360% State Patrol 3.375% Ferry Ops  5.237% Nickel 11.533% TPA Remaining 59.495% Motor Vehicle	Motor Vehicle	2005
Camper registration	\$4.90 1 <sup>st</sup> \$3.50 renewal	TPA	Motor Vehicle	1975
Motor home weight	\$75.00	TPA	Motor Vehicle	2005

Three options were reviewed for recreational vehicle licenses and fees:

- *Increase rate.* The analysis is based on increasing rates in 2012 to 2012 purchasing power.
- *Index fees.* Annual indexing to the CPI.
- *Increase weight fee.* Increase by \$30.00 to equalize with passenger cars if registration fee deduction on passenger vehicle weight fees is eliminated.

##### **a. Implementation**

The fees are current fees and the changes would not result in new business rules for DOL. The change could be made while the DOL computer system was under revision.

##### **b. Revenue and Impact on Vehicle Owners**

The recreational vehicle and motor home weight fee is anticipated to generate \$83 million in revenue over the 16-year plan. If rates were increased in 2012 to 2012 purchasing power and then indexed annually thereafter an additional \$37 million would be generated during the 16-year plan period. The revenue distribution and vehicle owner impacts of these changes are combined with other fee changes and summarized in Exhibit 22 (at the end of Section C).

## 5. Motor Vehicle Excise Tax

The annual state motor vehicle excise tax (MVET) was repealed in the 2000 legislative session in response to a 1999 voter initiative. In the 1997-99 biennium the state collected \$1.6 billion in motor vehicle excise taxes with a rate of 2.2 percent of the vehicle value (depreciation was statutorily defined), except for trucks over 40,000 pounds which were charged 2.78 percent of the value. Revenues generated were distributed as follows: transit districts 25 percent, state general fund 20 percent, state transportation fund 16 percent, ferry system operating and capital 11 percent, and, cities and counties 14 percent each. Total MVET revenues in the 1997-99 biennium for state transportation related purposes was \$396 million dollars. Voter approval of Referendum 49 in 1998 reduced MVET rates, and the transfer of funds to the General Fund was eliminated after the 1997-99 biennium. One year later in 1999, Initiative 695 was approved by the voters and the MVET was eliminated in the 2000 legislative session.

Sound Transit imposes a 0.3 percent of value motor vehicle excise tax, which was kept in place when the MVET was repealed because bonds had been pledged against the revenues. The tax is administered by DOL and collected when a vehicle is first purchased and with the annual tab renewal. DOL uses the first published base Manufacturer's Suggested Retail Price (MSRP) of a vehicle for Sound Transit tax purposes.

The WSTC's 2009 *Long-Term Ferry Funding Study* recommended that the legislature consider reinstating a state motor vehicle excise tax of 0.21 percent to close the Washington State Ferries capital cap and eliminate administrative transfers of \$1.1 billion in the 2009-2030 time period from the motor vehicle and multimodal accounts to the Puget Sound ferries capital account.<sup>29</sup> Prior to its repeal, the MVET provided the majority of WSF's capital funds. Recognizing the difficulties of implementing a state-wide tax to pay only for WSF's capital needs, the WSTC further recommended "that a multimodal funding package be developed with a portion of tax revenues allocated to various programs, including ferries, streets and highways, local transit, etc."<sup>30</sup>

Three states have a vehicle personal property tax similar to the MVET: California, Kansas, and Virginia.

- *California*: California bases its vehicle licensing fees on a percentage value of the automobile, which is in addition to the annual \$34.00 registration fee. In May 2009 California increased the rate on automobiles, commercial vehicles under 10,001 pounds, motorcycles, and trailer coaches to 1.15 percent of the vehicle market value or vehicle purchase price amortized over eleven years. The previous rate of 0.65 percent remains in effect for commercial vehicles over 10,001 pounds.
- *Kansas*: Kansas counties and the Unified School Districts of Kansas assess property taxes on personal property, including motor vehicles. The Kansas constitution governs the assessment and taxation of personal property, one subclass of which is motor vehicles. Motor vehicles are taxed based on 30 percent of their assessed value, with individual county mill rates then applied to that value. Motor vehicles are appraised by counties based on state guidelines.

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<sup>29</sup> Washington State Transportation Commission, *Long-Term Ferry Funding Study*, February 2009, p. 4-3.

<sup>30</sup> *Ibid.*, p. ES-11.

- *Virginia*: Virginia's cities, counties, and towns are allowed to impose a vehicle personal property tax on automobiles, trucks, buses, motorcycles, motor homes, trailers, semi-trailers, and boats. The assessment is done by counties, with for example Arlington County basing its assessment on values in recognized vehicle pricing guides, such as the N.A.D.A. Used Car Guide. In 1998, the Commonwealth of Virginia revised the state statutes to provide property tax relief by exempting the first \$20,000 of assessed value of cars, panel trucks, pick-up trucks, and motorcycles that are owned or leased by an individual and used for non-business purposes.

The option reviewed is:

- *State-wide MVET*. Consistent with the WSTC recommendation, a motor vehicle excise tax to meet Ferries' capital or other multi-modal needs as determined by the legislature was reviewed. The rate is assumed to be 0.21 percent.

#### **a. Implementation**

In 2006, the Legislature passed SB 6247 providing for the uniform administration of locally imposed motor vehicle excise taxes. For the reasons cited above, Sound Transit was not transitioned to the new administration and depreciation schedules. Currently, Regional Transportation Investment Districts (RTIDs) under Ch. 36.120 RCW, counties for the purpose of High Occupancy Vehicle lane development under Ch. 81.100 RCW, and certain Public Transportation Benefit Areas (PTBAs) authorized to implement passenger-only ferry service under Ch. 36.57A RCW are the only jurisdictions authorized to implement a MVET. The maximum rate for RTIDs is 0.8 percent, for counties for HOVs is 0.3 percent, and for PTBAs, 0.4 percent. The maximum rate in an RTID for both RTID and HOV purposes is 0.8 percent and this MVET authority is limited to King, Pierce and Snohomish counties. Under the provisions of SB 6247, the tax is to be administered by DOL at a rate not to exceed 1 percent of the taxes collected. Unlike the previous MVET, initial vehicle value is defined as 85 percent of MSRP for all taxable use classes other than heavy and medium truck. Initial value for heavy and medium trucks is defined by last purchase price. Two new market based, vehicle depreciation schedules were also created.

An MVET is relatively easy for the public to comply with, but as the initiative that led to its repeal shows it has been difficult for the public to accept. However, the issues that led to the repeal of the previous MVET were seemingly addressed by the Legislature in 2006 via SB 6247. MVET revenues are not subject to the 18th amendment and are available to fund a variety of transportation choices.

#### **b. Revenue and Impact on Vehicle Owners**

At 0.21 percent, the MVET over a 22-year period is projected to raise \$4.2 billion, per the 2009 *Long-Term Ferry Funding Study*.

### 6. Tire Fee

The State of Washington collects a fee of \$1.00 for the retail sale of new replacement tires, the proceeds of which are deposited in the Waste Tire Removal Account in the Wildlife and Natural Resources Fund. RCW 70.95.521 as amended by the 2009 legislature provides that expenditures from the Waste Tire Removal Account may be used for the cleanup of unauthorized waste tire piles, measures that prevent future accumulation of unauthorized waste tire piles, and road wear related maintenance on state and local public highways. The legislation also requires that the state

treasurer transfer any cash balance in excess of \$1 million from the waste tire removal account to the motor vehicle account for the purpose of road wear related maintenance on state and local public highways.

Thirty-nine (39) states have a tire fee. Most states use the fee to support tire recycling or clean-up efforts. Three states use the tire fee to fund transportation. New Jersey has a \$1.50 tire tax imposed on the sale of new tires, with approximately 80 percent of the revenue available for appropriation to the Department of Transportation to support snow removal operations. Pennsylvania charges a \$1.00 tire tax on the sale of all tires in the state and all revenues are used to fund mass transit. New Mexico adds a \$1.50 tire recycling fee to each vehicle registration and directs \$1.00 of it to fund the Department of Transportation. Six states use the revenues generated in part or in whole for the general fund.

Twenty-eight (28) states including Washington collect the tire fee at retail. State tire fee rates collected at retail are shown in Appendix A. Of the 28 states that collect a tire fee at retail, approximately half apply the fee to tires that are sold as part of a new car sale and five charge a higher fee for truck or studded tires.

A tire fee is not subject to the 18<sup>th</sup> amendment. As currently directed by the legislature, transportation uses of the tire replacement fee are limited to road wear related maintenance on state and local public highways.

Options reviewed include:

- *Increase tire replacement fee to support transportation.* The tire replacement fee could be increased with the increment used to support road wear related maintenance on state and local public highways or for other transportation purposes designated by the legislature. If increased by \$1.00, the fee would be at or below the fee level for passenger cars in 10 states. The fee could be indexed to inflation.
- *Add a fee to the sale of vehicles with new tires.* The tire replacement fee could be expanded to include a fee for the sale of tires that are sold as part of a motor vehicle as is done in approximately 50 percent of the states that collect a tire fee at retail.
- *Charge a higher tire fee for truck and studded tires.* Charging a higher tire replacement fee for larger tires would reflect their greater impact on road maintenance.

#### **a. Implementation**

The tire fee is currently collected by the Department of Revenue. Collection costs would not increase if the fee were modified, but collection would have to be expanded to include car dealers if the fee were modified to include tires sold as part of a motor vehicle.

#### **b. Revenue and Impact on Vehicle Owners**

The current \$1.00 tire replacement fee is expected to generate \$86 million over the 16 year plan (assuming passenger vehicles replace an average of one tire per year). Raising this fee by \$1.00, would generate an additional \$86 million for transportation. Including a \$1 per tire fee to the sale of new vehicles could generate approximately \$15 million over the 16 year plan, and charging a

higher fee for truck tires<sup>31</sup> (\$5.00 versus \$1.00) could raise an additional \$32 million over the 16 year plan.

## 7. Tax on Auto Insurance Premiums

RCW 48.14.020 imposes a 2 percent tax on insurance premiums in lieu of the state business and occupation tax. Revenue from the tax on casualty and property premiums, including auto coverages, is distributed to the state general fund.

The legislature could consider an additional special tax on auto insurance premiums to fund transportation, much as it has done with the additional 0.3 percent sales tax on vehicle sales. Such a tax would not be subject to the 18<sup>th</sup> amendment.

### a. Implementation

The legislature would have to consider the potential impact on Washington state insurers of an increase in the insurance premium tax. Most states, including Washington, have a retaliatory provision in their insurance licensing laws. "As a consequence of the individual states' power to enact non-uniform licensing insurance laws and each state's interest in protecting its own domestic companies, most states have enacted "retaliatory" licensing provisions. These provisions basically state that if domestic insurers of state X are subjected in state Z to (taxes) in excess of what state X imposes on state Z's domestic companies, then the requirements of state Z will be in state X to state Z's domestic companies." <sup>32</sup>

Potential retaliation against Washington state insurers was an issue when SB 5296, a bill that would have added a \$2.00 surcharge on some insurance policies to fund emergency management, was considered by the 2007 legislature.<sup>33</sup> This same concern would apply to an additional tax on auto insurance premiums. A review of other state insurance premiums indicates that Washington State is at the mid-point in its insurance premium tax, increasing the risk of retaliatory action against Washington state insurers. (See Appendix A for other state insurance tax rates.)

The insurance premium tax is administered by the State Insurance Commissioner. There would be some minor additional administration costs to collect a differential fee for auto insurance premiums.

### b. Revenue and Impact on Vehicle Owners

In 2007, total auto insurance premiums in the state were \$4.25 billion. If an additional 0.3 percent tax were imposed on auto insurance premiums it would have net \$12.7 million in 2007.<sup>34</sup> Further analysis was not done because of the implementation issues involved with this tax.

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<sup>31</sup> States that have a differential tax on truck tires have different thresholds for determining whether a tire is subject to a higher tax. See Appendix A for a review of specific tire fee applications.

<sup>32</sup> Lencsis, Peter, *Insurance Regulation in the United States: An Overview for Business and Government*, 1997, p. 31.

<sup>33</sup> Senate Bill Report SB 5296, 2007.

<sup>34</sup> Washington State Office of the Insurance Commissioner, Annual Report Appendix A, Recapitulation of All Insurance Written in Washington State, p. A1.

## C. Drivers

Driver fees include driver licenses, identification cards, permits, endorsements, and special licenses. In addition, DOL charges for driver records or abstracts provided to drivers and/or insurance companies.

- *Driver licenses/identification cards.* Regular, enhanced, restricted, and special driver licenses are issued for five year terms. Enhanced licenses can be used as a form of identification for border crossings. DOL also issues identification cards that do not allow the user to drive.
  - *Original state drivers license or identification card.* Forty-five dollars (\$45.00), including \$20.00 knowledge and/or driving test and \$25.00 license fee. If the knowledge or drivers test is taken more than one time, there is an additional \$20.00 fee. There is a \$15.00 additional fee for an enhanced driver license. An identification card is \$20.00.
  - *Driver or identification card renewal:* Twenty-five dollars (\$25.00), or if more than 60 days late \$35.00. A license can be extended for up to 12 months while the driver is out of state for \$5.00. There is an additional fee of \$15.00 to upgrade to an enhanced license from a regular license. Identification card renewal is \$20.00. Renewal for an enhanced license is \$40.00.
  - *Restricted or special licenses:* One hundred dollars (\$100.00) for occupational/restricted license. There is a fee of \$100.00 for an ignition interlock license plus \$20.00 per month for each month an ignition interlock is installed on the vehicle; a \$75.00 fee for a reissued driver license after suspension or revocation/\$150.00 after alcohol related suspension or revocation, in addition to all other licensing fees; and a \$50.00 fee for a probationary license after a DUI conviction or deferred prosecution
  - *Changes to license:* There is a fee of \$15.00 to replace a lost or stolen regular or enhanced license or identification card and of \$10.00 to change the name, address or photo on a regular or enhanced license or identification card
- *Instruction (Learners) permit.* An instruction permit, valid for one year, costs \$20.00, which includes two attempts to pass the knowledge exam. Additional knowledge exams have a fee of \$20.00. There is a fee of \$20.00 to renew an instruction permit, of \$15.00 to replace a lost or stolen permit and of \$10.00 to change the name, address or photo on the permit.
- *Motorcycle endorsement.* An endorsement permit is \$15.00, which includes the endorsement knowledge test. Only one renewal of the permit is allowed. The original endorsement is \$25.00 which includes a \$5.00 application fee and \$20.00 photo fee. Additional tests are \$5.00. Renewal endorsement is \$25.00 in addition to a regular driver license.
- *Commercial driver license (CDL).* A CDL permit is \$10.00, with each general or endorsement knowledge test taken an additional \$10.00. The skills test is \$100.00 or if driving for Head Start or the Early Childhood Education and Assistance Program, \$75.00. A hazardous materials endorsement is \$10.00, plus \$89.25 for fingerprinting and background check. A CDL endorsement can be added to a Washington driver license for

\$40.00 or a driver can pay \$55.00 to transfer an out-of-state CDL endorsement to Washington. There is a \$55.00 fee for renewing a CDL endorsement or \$80.00 with CDL and motorcycle endorsements.

- *Agriculture permits (under 18 Years old).* Forty dollars (\$40.00) including \$20.00 for one knowledge test and one driving test. Additional knowledge or driving tests are \$20.00. Renewals are \$15.00. Drivers are required to have passed the driver licensing examination in addition to obtain an agriculture permit.
- *Abstracts.* DOL charges \$10.00 for abstracts, which are copies of driving records.

The exhibit below summarizes driver fees, where revenues are deposited, and when the fees were last modified.

**Exhibit 21.  
Summary of Driver Fees**

Fee	Rate	Account	Transport Fund	Rate Last Modified
Driver license – original, renewal	Varies	Highway Safety	Multimodal	2000
Driver license - permit	Varies	Highway Safety	Multimodal	2006
Driver license - duplicate	\$15.00	Highway Safety	Multimodal	2002
Exam fee	\$20.00	Highway Safety	Multimodal	2005
Extension fee	\$ 5.00	Highway Safety	Multimodal	
Late renewal penalty	\$25.00	Highway Safety	Multimodal	2000
Occupational license	\$100.00	Highway Safety	Multimodal	2004
Enhanced license	\$15.00	Highway Safety	Multimodal	2007
Identicards	Varies	Highway Safety	Multimodal	2005
Motorcycle endorsements	Varies	Motorcycle Safety	Multimodal	2002
Agricultural permits	Varies	Highway Safety	Multimodal	2005
Reinstated licenses	\$75.00	Highway Safety	Multimodal	2002
Reinstated DUI licenses	\$150.00	37% Multimodal 63% Impaired Driving	Multimodal	2005
Ignition interlock monthly fee	\$20.00	Ignition Interlock	Multimodal	2009
Commercial – original, renewal	Varies	Highway Safety	Multimodal	2005
Commercial - permit	Varies	Highway Safety	Multimodal	2002
Abstracts of driver records	\$10.00	50% Highway Safety 50% State Patrol Highway	Multimodal	2007

Three options were reviewed.

- *Increase fees.* Sixteen states, including Washington, issue and renew licenses for five years, charging between \$8.00 and \$50.00, for the license fee. Three states charge more than the \$25.00 charged by Washington. See Appendix A for a list of state driver license fees for those states that issue licenses for five years. In this analysis, license fees are assumed to increase to 2012 purchasing power in 2012.



- *Index Fees.* Annual indexing to the CPI. Appendix A lists California licenses that are subject to indexing.
- *Increase the number of years.* Increasing the number of years a license is valid has the advantage of reducing administrative costs. Of the 18 states that offer a license of greater than 5 years, 11 vary the length of the license issued by the age of the licensee with shorter terms for young and senior drivers.

### **1. Implementation**

Fees are collected by DOL. None of the options analyzed would modify DOL's business rules and therefore could be implemented as the computer system is replaced.

### **2. Revenue and Impact on Vehicle Owners**

Driver license fees are anticipated to generate \$1.4 billion in revenue in the 16-year plan. Adjusting these fees in 2012 to 2012 purchasing and indexing them to the CPI going forward would raise an additional \$687 million from 2012-2025.

The exhibit below presents the revenue distribution and vehicle owner impacts of these changes to the driver fees and those discussed previously for the fees on passenger vehicles and trucks. This scenario assumes that all driver and vehicle fees are brought up-to-date and are indexed to the CPI going forward. The total revenue gained from this scenario over the 16-year plan (2009-2025) is approximately \$3.8 billion.

Assuming current distribution formulas, the largest share of the new revenues would go to the TPA and Nickel accounts (\$1.35 billion) followed by the Motor Vehicle Fund (\$1.0 billion), the Highway Safety Fund (\$687 million), the Multimodal Account (\$455 million), the State Patrol Fund (\$165 million) and the Ferry Operations Account (\$115 million). It is noteworthy that the Ferry Capital Account, which has the largest deficit in the 16-year financial plan does not receive any funding from driver and vehicle fees.

The only local beneficiaries in this scenario are San Juan and Island counties which would receive \$18 million in new fee revenues through the Capron distribution formula.

In the scenario vehicle owners would pay less in 2025 than they pay in 2009 in 2025 dollars by approximately 40 percent.

**Exhibit 22.**  
**Revenue Yield, Distribution and Driver Impacts,**  
**Bring All Fees Up-to-Date and Index to CPI**

REVENUE SOURCES	CURRENT SITUATION			BRING FEES UP TO DATE - CPI ADJUSTMENT ON LICENSE, REGISTRATION, AND WEIGHT FEES - THEN INDEX THEM GOING FORWARD (\$1.00 ROUNDING)			
		Total Expected Revenue FY 2009-2025		Incremental Revenue FY 2009-2025			
	Current Policy	TRFC Projection (Nov. 2009)	Risk Scenario (Higher Fleet Turnover)	Scenario Assumptions	Year Started	TRFC Projection (Nov. 2009)	Risk Scenario (Higher Fleet Turnover)
<b>Fuel Use (Net)</b>	\$0.375/ gallon	\$21,629M	\$19,392M				
Index	N/A						
Regular Increase (annual)	N/A						
Special Assessment fee	N/A						
<b>Vehicle and Driver Fees</b>							
Drivers License Fee	\$25 every 5 years	\$599M	\$599M	\$34	2012	\$356M	\$356M
Commercial Drivers & Other Drivers License Fees	\$55 every 5 years	\$803M	\$803M	\$68	2012	\$331M	\$331M
Registration Fee (passenger)	\$30	\$2,558M	\$2,558M	\$41.00	2012	\$1,661M	\$1,661M
Passenger Weight Fee	\$10/\$20/\$30	\$962M	\$962M	\$12/\$25/\$37	2012	\$455M	\$455M
Combined License/Weight Fee		\$3,040M	\$3,040M	23%	2012	\$985M	\$985M
Sales and Use Tax	0.30%	\$677M	\$677M	No Change	2012		
		<b>\$30,266M</b>	<b>\$28,029M</b>			<b>\$3,788M</b>	<b>\$3,788M</b>
<b>REVENUE DISTRIBUTION (under current law)</b>							
Motor Vehicle Fund		\$7,979M	\$7,393M			\$1,001M	\$1,001M
Multimodal Fund		\$1,694M	\$1,694M			\$455M	\$455M
Nickel & TPA Accounts		\$8,239M	\$7,433M			\$165M	\$165M
State Patrol		\$2,415M	\$2,415M			\$1,347M	\$1,347M
Highway Safety Fund		\$1,402M	\$1,402M			\$687M	\$687M
Ferry Operations		\$619M	\$578M			\$115M	\$115M
Ferry Capital		\$312M	\$280M				
Other State Funds Combined		\$589M	\$544M				
<i>Fund Allocation To Be Determined</i>							
<b>State Level Transportation Total</b>		<b>\$23,249M</b>	<b>\$21,739M</b>			<b>\$3,770M</b>	<b>\$3,770M</b>
Cities & Counties (excl. Capron) Transit		\$6,847M	\$6,134M				
Capron distribution to counties		\$171M	\$157M			\$18M	\$18M
<b>Local Jurisdictions Total</b>		<b>\$7,018M</b>	<b>\$6,290M</b>			<b>\$18M</b>	<b>\$18M</b>
<b>GRAND TOTAL</b>		<b>\$30,266M</b>	<b>\$28,029M</b>			<b>\$3,788M</b>	<b>\$3,788M</b>
<b>Estimated Impacts by Vehicle Type</b>							
<b>Total Annual Transportation Taxes and Fees Paid in Revenue Categories Shown Here *</b>							
	<b>Current</b>	<b>No Action</b>		<b>No Action Purchasing Power Adj.</b>	<b>Current Scenario</b>		
	<b>2009</b>	<b>2025</b>	<b>vs SUV/Pick-up</b>	<b>2025</b>	<b>2025</b>	<b>vs SUV/Pick-up</b>	
Compact	\$197	\$175	46%	\$316	\$221	50%	
Mid Size	\$272	\$241	63%	\$437	\$297	67%	
SUV/Pick-up	\$437	\$379	100%	\$701	\$443	100%	
Hybrid	\$151	\$137	36%	\$242	\$184	42%	
Electric	\$77	\$77	20%	\$123	\$124	28%	
Motorcycle	\$138	\$124	33%	\$221	\$171	39%	
Freight: Medium	\$1,694	\$1,456	n/a	\$2,718	\$1,635	n/a	
Freight: Heavy	\$2,865	\$2,523	n/a	\$4,598	\$3,062	n/a	
<i>* Assumes 11,500 miles per year on passenger vehicles and fleet composition/fuel efficiency included in the Risk Scenario</i>							

## D. Transportation Related Businesses

Transportation fees and taxes are applied to dealer, tow truck operators, manufacturers, and wreckers, and transporter licenses (collectively called Group IV business licenses); taxis; and driver training schools.

- *Group IV Business Licenses.*
  - *Dealer/manufacturer business license.* Vehicle dealers and manufacturers are required by RCW 46.70.061 to have permits. Snowmobile dealer fees are imposed by DOL under its rule making authority in RCW 46.01.110 and off-road vehicle dealers by RCW 46.09.080. Annual fees for the permits range from \$25.00 to \$750.00.
  - *Tow truck operator fee.* Operators of tow truck businesses are required by RCW 46.55.030 to have an annual registration for the business and a permit for each tow truck. Before issuing the annual permit, the applicant is required to submit an inspection certificate from the State Patrol. Annual and renewal fees are the same. The annual fee is \$100.00 for the tow truck business and \$50.00 per truck in addition to the normal registration fee.
  - *Transporter license fee and plate fees.* Businesses that deal in transportation of vehicles owned by owners, such as driveaway and towaway services, are required by RCW 46.76.040 and RCW 46.76.050 to pay an annual license and plate fee. The fee does not apply to motor freight carriers licensed under RCW 81.80. The original license is \$25.00, renewals are \$15.00 per year, and there is a fee of \$3.00 per set of plates.
  - *Hulk haulers, scrap processors, wrecker license fees.* Businesses that transport destroyed vehicles or parts (hulk haulers), that recycle salvage vehicles through baling and shredding (scrap processors), and that dismantle vehicles for the purpose of selling second-hand parts (wreckers) are required by RCWs 46.79.060 and 46.80.060 to have special license plates. Fees are in addition to regular license plates and are \$25.00 for the original plates and \$3.00 for additional plates with the same license number.
- *Taxis.* Owners of for-hire or taxi businesses and vehicles are required by RCWs 46.72.030, and 46.72.070 to have a one-time business permit, if the city or county in which they operate does not license taxis, and an annual certificate for each vehicle. The one-time permit is \$20.00 and the annual certificate per vehicle is \$20.00.
- *Driver Training.* Driver training schools and driving training instructors are required to be licensed by the state. RCWs 46.82.130 and 46.82.320 allow DOL to establish the original application and renewal fees for driver training schools and instructors.

The exhibit below summarizes the fees charged to transportation businesses, where revenues are deposited, and when the fees were last modified.

**Exhibit 23.  
Summary of Business Fees**

Fee	Rate	Account	Transportation Fund	Rate Last Modified
<b>Group IV Business Licenses</b>				
<b>Vehicle Dealer/Manufacturer</b>				
Dealer – Principal place	\$750 original \$250 renewal \$ 25 transfer	Motor Vehicle	Motor Vehicle	2002
Dealer - Subagent	\$100 original \$ 25 renewal	Motor Vehicle	Motor Vehicle	2002
Dealer – Temp subagent	\$125 original \$ 25 renewal	Motor Vehicle	Motor Vehicle	2002
Manufacturer	\$750 original \$250 renewal \$ 25 transfer	Motor Vehicle	Motor Vehicle	2002
Off-Road Dealer	\$ 25 original \$ 25 renewal	Motor Vehicle	Motor Vehicle	1990
Snowmobile Dealer	\$15.00	Motor Vehicle	Motor Vehicle	1990
<b>Tow Truck Operator</b>				
Business	\$100	Motor Vehicle	Motor Vehicle	1985
Per truck additional	\$ 50	Motor Vehicle	Motor Vehicle	1985
<b>Transporter</b>				
License	\$25 original \$15 renewal	Motor Vehicle	Motor Vehicle	1947
Per set of plates	\$ 3	Motor Vehicle	Motor Vehicle	1947
<b>Hulk Haulers, Scrap</b>				
Original plates	\$25	Motor Vehicle	Motor Vehicle	1971
Additional same number	\$ 3	Motor Vehicle	Motor Vehicle	1971
<b>For Hire</b>				
Permit (one-time)	\$20	Highway Safety	Multimodal	1993
Annual certif. per vehicle	\$20	Highway Safety	Multimodal	1993
<b>Driver Training</b>				
Instructor (2 year license)	\$150 original \$100 renewal	Highway Safety	Multimodal	2006
Training school	\$500 original \$250 renewal	Highway Safety	Multimodal	2006
Training school branch	\$250 original \$125 renewal	Highway Safety	Multimodal	2006
Background check	\$35.25	Highway Safety	Multimodal	2006

Two options were considered for transportation business fees.

- *Increase fees.* Increase fees in 2012 to 2012 purchasing power

- *Index fees.* Index to CPI

## 1. Implementation

Fees are collected by DOL. None of the options analyzed would modify DOL's business rules and either option could be implemented while the DOL computer is replaced.

## 2. Revenue Potential and Impact on Vehicle Owners

The Group IV business license fees are anticipated to generate \$20.7 million in the 16-year plan period, of which 77 percent is from the dealer license fees, 10 percent each from the tow truck and wreckers' fees, and 2 percent from transporter fees. Taxi and driver training school revenues are not identified separately in the forecasts.

If the Group IV business license fees were increased and indexed, an additional \$7.2 million in revenue could be generated.

These license fee increases would have an indirect impact on vehicle owners.

## E. Use

The options considered for fees and taxes applied to use of the system are: tolling and congestion pricing; vehicle miles traveled fees; ferry revenues; Amtrak Cascades Service revenues; and off-road use fees.

### 1. Tolling

Tolling commenced on the Tacoma Narrows Bridge in 2007 and on State Route 167 High Occupancy Toll Lanes in 2008. In the 2009 session, the legislature authorized tolling for the 520 Floating Bridge and directed WSDOT to conduct studies of five additional potential tolling applications and report to the legislature in the 2010 session.

- *Allowed uses of toll revenue.* RCW 47.56.830, adopted in the 2008 legislative session, requires that all revenues from an eligible toll facility must be used only to construct, improve, preserve, maintain, manage, or operate the eligible toll facility on or in which the revenue is collected. Expenditures of toll revenues are subject to appropriation and must be made only:
  - To cover the operating costs of the eligible toll facility including necessary maintenance, preservation, administration, and toll enforcement by public law enforcement within the boundaries of the facility;
  - To meet obligations for the repayment of debt and interest on the eligible toll facilities, and any other associated financing costs including, but not limited to, required reserves and insurance;
  - To meet any other obligations to provide funding contributions for any projects or operations on the eligible toll facilities;
  - To provide for the operations of conveyances of people or goods; or
  - For any other improvements to the eligible toll facilities. (Section 4.(2))
- *Variable pricing.* RCW 47.56.830 allows variable pricing, with the rates "set to optimize system performance, recognizing necessary trade-offs to generate revenue." Variable

pricing is anticipated on the SR 520 Bridge. WSDOT has a four year congestion pricing pilot project - SR 167 High Occupancy Vehicle Toll (HOT) lanes. For a toll that varies based on the level of congestion, single occupant vehicles can use the high occupancy vehicle lanes. HOT lanes began operating in May 2008, with a single HOT lane running in each direction of SR 167 for approximately nine miles between Renton and Auburn. The legislature has directed WSDOT to study additional HOT lanes in the I-405 corridor as a possible next step to implementing the I-405 Corridor Master Plan and connecting I-405 to the SR 167 HOT lanes - thereby creating a north-south Eastside Corridor Express Toll Lane System and a bypass to I-5.

Three options for tolling were reviewed:

- *Expand tolling implementation.* The state legislature has requested studies of tolling for the Alaskan Way Viaduct, Columbia River Crossing, Interstate 405 Two High Occupancy Toll (HOT) Lanes, State Route 167 Corridor, and 509 Corridor for presentation in the 2010 session. The WSTC's *Comprehensive Tolling Study* in 2006 recommended other potential tolling applications including, I-90 Bridge, I-5, I-5 in Lewis County, Snoqualmie Pass, the SR 704 Cross Base Highway, and statewide truck tolling.
  - *Interstate tolls.* Segment tolls could be used to toll parts of extended systems, such as I-5, to support repaving or other projects. As the segment is improved, the toll could be removed and placed on another section of the interstate. Twenty-four (24) states have toll facility agreements with the Federal Highway Administration. Toll facility agreements allow states to impose tolls on segments of the interstate highway system. Many states have multiple agreements. Washington state does not have any federal toll facility agreements. Federal law allows pilot projects to toll to support interstate system construction (no more than three) and interstate system reconstruction and rehabilitation pilots (no more than three).
- *Expand allowed uses of toll revenue.* The Washington State Climate Action Team's report to the 2009 legislature recommended allowing the use of tolling revenues for public transit, carpooling, and other more sustainable travel patterns.<sup>35</sup> The legislature could consider allowing either HOT lane toll revenue or highway/bridge facility toll revenue to be used to fund corridor specific transit service improvements.
  - *HOT lane toll revenue expanded use.* In San Diego, revenue from the I-15 HOT lanes is used to fund corridor transit service improvements. When the HOT lanes were started in 1997, State legislation required that revenues be used for transit improvements in the I-15 corridor. Consequently, a new express bus service, named Inland Breeze, was funded from the project revenue to improve transportation accessibility and service along the I-15 corridor.<sup>36</sup>
  - *Highway and bridge toll revenue expanded use.* The federal government allows the use of excess toll revenues<sup>37</sup> from highways constructed with federal funds for

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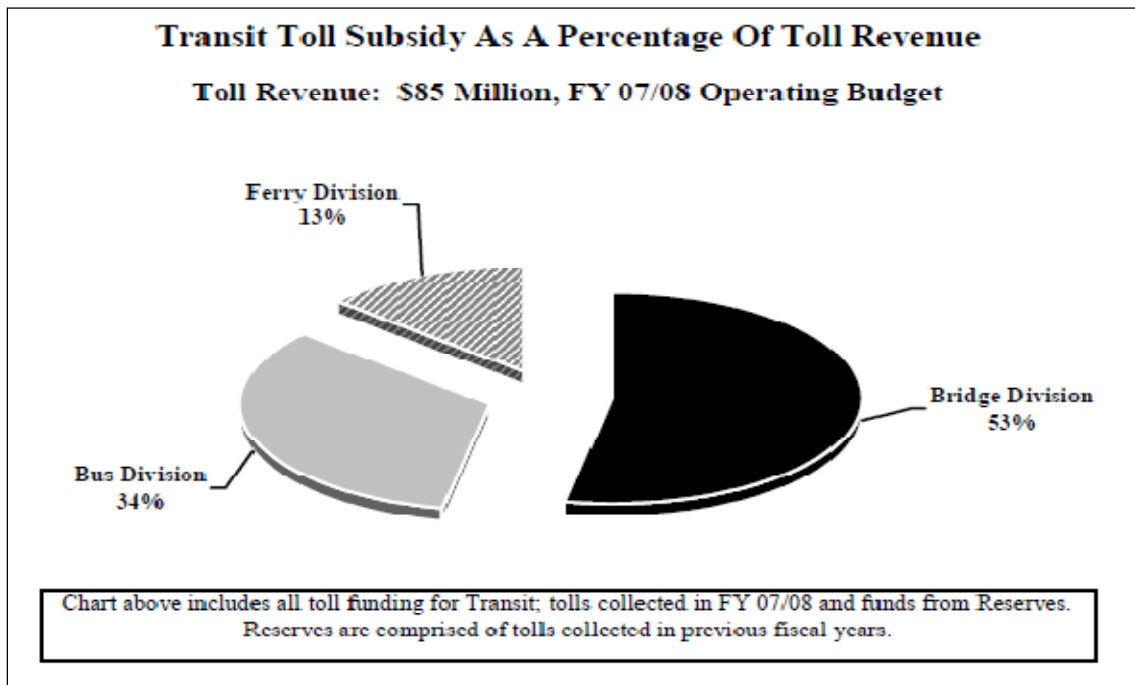
<sup>35</sup> Washington State Department of Commerce and Washington State Department of Transportation, *Leading the Way: Implementing Practical Solutions to the Climate Change Challenge*, November 2008, p. 4.

<sup>36</sup> Supernak, Janucz, HOT Lanes on Interstate 15 in San Diego: Technology, Impacts and Equity Issue, 2005.

<sup>37</sup> Excess revenues are toll revenues beyond those needed for debt service, reasonable return on private investment, and operation and maintenance.

transit if the state certifies annually that the highway is being fully maintained. Pennsylvania Turnpike Act 44 revenues are used to fund rural and urban transit agencies. In California, two bay area transportation districts use bridge tolls to support transit. The Bay Area Toll Authority operates seven Bay area toll bridges. Each year, approximately \$475 million in total revenue is generated by the bridge tolls, with net revenues from the bridge operation used to fund bus, ferry, and light rail transit. As shown in the exhibit below, of the bridge tolls collected in FY 2007-08 by the Golden Gate Bridge, Highway & Transportation District, the bridge division received 53 percent, the bus division 34 percent and the ferry division 13 percent.

**Exhibit 24.**  
**Golden Gate Bridge, Highway & Transportation District**  
**Toll Revenues to Transit & Ferries**



Source: <http://www.goldengate.org/toll/index.php>

- *Zone tolls or cordon tolling.* Zone-based or cordon tolling occurs when drivers are charged a toll to enter a particular area, such as a downtown area. Zone tolls are in effect in London, Singapore, and Stockholm. Extensive use of tolling that would in effect be a zone or cordon toll is being reviewed by the Puget Sound Regional Council in its work on *Transportation 2040*.
  - *London.* In 2003, when cordon pricing for those driving into London from 7:00 a.m. to 6:30 p.m. Monday-Friday was introduced the portion of total trips made into central London by private auto was already low (12 percent) due to an abundance of alternatives and congestion. Within a few months auto traffic was reduced by 20 percent with congestion decreasing by 30 percent. The toll rose to 8 pounds in 2005 with minimal effect on traffic levels – 3 percent additional reduction. The zone was expanded westward in 2007 (and hours changed to 7:00 a.m. to 6:00 p.m.)

with traffic in the extension zone dropping 10-15 percent in the first three months compared to 2006 and congestion down 20-25 percent. The overall response has been positive with businesses noting the benefits of increased productivity and faster delivery times due to reduced congestion. Some smaller retailers that relied on customers driving in have had a negative reaction.<sup>38</sup> In FY 2007/2008 137 million pounds in net revenue was invested in improving London transit. By law, all net revenue raised has to be invested in improving transit in London.

## 1. Implementation

The cost of collecting tolls is relatively high when compared to administering taxes such as the motor fuel tax. For the Tacoma Narrows Bridge costs related to tolls were 47 percent of revenues collected in FY 2008. In its first eight months of operation, HOT lane tolls on SR 167 did not cover costs.

WSDOT has issued a Request for Proposals (RFP) for the development of an All Electronic Toll Collecting (AETC) system and for a centralized customer service center that would service the needs of all WSDOT highway tolling operations. A recent study by the JTC: *Independent Review of Toll Operations Cost for the Washington State Department of Transportation, Report of the Expert Review Panel* September, 2009, reviewed the costs and made recommendations for modifications to the RFPs, many of which are being incorporated by WSDOT.

## 2. Revenue

Tolling is a potentially large source of revenue with, for example, 94.2 percent of the Tacoma Narrows Bridge capital costs as well as 100 percent of its operating costs covered by tolls.<sup>39</sup> The 16-year plan anticipates tolling revenues of \$1.5 billion from the Tacoma Narrows Bridge and SR 167, with the majority of funds from the Bridge tolls. Additional revenues from tolling will depend on the studies currently underway by WSDOT and on legislative decisions. It is anticipated, but not reflected in the 2009-25 16-year financial plan, that tolls on the Alaskan Way Viaduct will provide no more than \$400 million of the capital cost for the project and that SR 520 bridge tolls will support \$1.2 billion in capital costs.

Tolling has been authorized as a local option for cities to fund bridges (RCW 35.74.05), for counties to fund transportation benefit districts (RCW 36.73), and for regional transportation improvement districts (RCW 36.120). No local option tolls have been implemented.

### 2. Vehicle Miles Traveled (VMT) Fee

A vehicle miles traveled (VMT) fee has been recommended as a preferred method of replacing the federal reliance on the motor vehicle fuel tax for transportation funding and was recommended as a primary long-term funding method in the 2007 JTC *Long-Term Transportation Financing Study*. It has also been the subject of a pilot study in Oregon and is the subject of a University of Iowa study in cities in six states, including California, Idaho, Iowa, Maryland, North Carolina, and Texas. VMT fees are to be imposed in the Netherlands by 2014 and in Denmark by 2016.

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<sup>38</sup> Sources: Lichtman, Todd, London Congestion Pricing Implications for Other Cities, and 2006 Annual Report.

<sup>39</sup> Washington State Transportation Commission, Washington State Comprehensive Tolling Study Final Report—Volume 2, Background Paper #7: Tacoma Narrows Bridge Toll Policy, 2006, p. 7-6.



An important consideration for a VMT fee is that it be implemented in a manner that encourages the use of low emission vehicles. “A simple VMT fee would provide no incentives for customers to buy vehicles with higher fuel economy ratings because the fee would depend only on mileage. Concern about a lack of incentives for reducing carbon emissions is one reason that some observers caution against a premature commitment to plan for the full substitution of the gas tax with user-based fees.”<sup>40</sup>

Two options were considered:

- *State-wide VMT fee.* As discussed below, this option is difficult to implement without federal or regional action.
- *Truck VMT fee.* Weight distance truck tolls would be a limited application of a VMT fee and would also have implementation problems, though fewer than a full VMT fee. VMT fees for trucks are now used in Germany, Switzerland and Austria. The Netherlands plans to implement a VMT fee for trucks in 2011 and Denmark in 2014. Appendix A includes a table of state truck weight-mile taxes. In Oregon, trucks pay a weight-mile tax instead of fuel tax. Illinois has a VMT weight tax as an optional tax for trucks that drive low miles and are only operated in the state of Illinois. In Kentucky, New Mexico and New York, trucks pay a mileage fee in addition to fuel tax. The fuel tax rate for diesel is less than the rate for gasoline in Kentucky and New York.<sup>41</sup> None of the states that impose a weight mileage fee index the rate.

#### a. Implementation

Implementation is the major issue with a VMT fee. While a truck VMT fee would be less problematic to implement, it will raise resistance from truckers and is likely to lead to greater truck costs.<sup>42</sup>

- *Public acceptance.* Drivers who live in non-urban areas who drive long distances and have limited access to transit or other multi-modal transportation options express reservations about the equity of a VMT fee.<sup>43</sup> A 2006 poll of California voters found that while 40 percent of likely voters thought that what people pay in taxes and fees for transportation projects should take into account how much people drive, of 14 funding methods polled the least favored, with 23 percent in favor, was replacing the 18 cpg fuel tax with a 1cent/mile mileage fee.<sup>44</sup> Perceptions of privacy problems are also a significant barrier to public acceptance.<sup>45</sup>

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<sup>40</sup> National Transportation Policy Project, *Performance Driven: A New Vision for U.S. Transportation Policy*, June 2009, p. 95 and p. 99.

<sup>41</sup> In Idaho the legislature repealed its truck weight-mileage fee based on a court ruling that Idaho's system discriminated against interstate trucking companies by having reduced weight-mile tax for natural resource commodities. These commodities included: farm (not for hire), logs, pulpwood, stull, poles, piling, rough lumber, ores, ore concentrates, sand and gravel, and livestock

<sup>42</sup> National Cooperative Highway Research Program, Transportation Research Board of the National Academies, *Implementable Strategies for Shifting to Direct Usage-Based Charges for Transportation Funding*, p. xvii.

<sup>43</sup> Texas Transportation Institute, *Feasibility of Mileage-Based User Fees: Application in Rural/Small Urban Areas of Northeast Texas*, Oct. 31, 2008, p. 8.

<sup>44</sup> Mineta Transportation Institute, *Transportation Funding Opportunities for the State of California*, Oct. 2006, Appendix A. Survey Results and p. 11 of the Executive Summary.

<sup>45</sup> National Cooperative Highway Research Program, Transportation Research Board of the National Academies, *Implementable Strategies for Shifting to Direct Usage-Based Charges for Transportation Funding*, p. xvii.

- *Federal.* Although an interstate agreement is theoretically possible, it is very difficult for an individual state to implement a VMT fee. States would like the federal government to take the lead to prevent multiple incompatible systems.<sup>46</sup> In a June 2009 National Cooperative Highway Research Program study, four states said they assumed implementation would have to be done at the federal level. Changes involving new technology built into new vehicles or roadway changes would clearly need to be federal – or alternatively perhaps a major market state such as California could set the standards all other states could follow. A state that decides to implement a VMT on its own would have a high risk of fraud from individuals claiming miles driven in another state. According to the National Cooperative Highway Research Program study, no state is interested in being first to implement a VMT fee but are rather interested in being part of a larger system.<sup>47</sup>
- *Collection.* There have been several studies of how to collect a VMT. The basic options are self-reporting, odometer reading, pay at the pump, or in-vehicle equipment.
  - *Self-reporting.* The American Association of State Highway and Transportation Officials (AASHTO) has recommended that if a VMT fee is to be part of the long-term solution to federal transportation funding, that Congress in the short term should consider developing a simple highway user fee option based on self-reporting of annual vehicle miles traveled that could be collected along with annual vehicle registration fees.<sup>48</sup> While possible at the federal level, there are several drawbacks to a state implementing a self-reporting system. The National Cooperative Highway Research Program study concluded that self-reported odometer readings were too difficult to enforce.
    - *Vehicle miles driven outside of Washington State:* Unless the fee was attached to all vehicle miles driven, there would be no way for the state to audit the reported mileage and, as noted above, there is the potential for fraud from people claiming to have driven out-of-state miles.
    - *Vehicles sold or transferred out of state:* The state would have to develop a way to secure reports on vehicles that were sold out of state that included a final odometer reading.
  - *Odometer reading.* The state could consider reading odometers, which would be difficult in those areas of the state that do not have emission inspection requirements and would require extending the inspection infrastructure beyond 2015 when emission inspections are scheduled to be phased out.
    - *Assumed annual mileage with optional odometer readings.* This would have lower operations costs and user burden, but would provide minimal pricing flexibility.
  - *Pay at the pump.* This method was tested in Oregon and was found to be a reasonable way to collect a VMT fee. Minnesota is planning a pilot project on pay

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<sup>46</sup> Ibid., p. xvii.

<sup>47</sup> Ibid., p. 36

<sup>48</sup> American Association of State Highway and Transportation Officials, *Finance and Funding Legislative Recommendations*, 2008, p. 5.

at the pump. The drawback is charging a VMT fee at the pump for electric vehicles or other vehicles that use little or no fuel.

- *On-Board technology/global positioning system (GPS)*. A University of Iowa study is examining ways to use on-board technology combined with GPS technology to determine vehicle miles traveled and the associated fee. Participants are being billed with varying degrees of information. At one extreme the billing statement will show the vehicle's total mileage and fees for travel during the statement cycle and at the other the statement will include complete trip detail for all travel during the statement cycle.

#### **b. Revenue**

Assuming implementation in 2012, revenue from a VMT of 1 cent per mile is estimated at \$8.9 billion over the 16-year plan period. There is uncertainty in the forecast because WSDOT is revising its VMT forecasting methodology and does not anticipate having a new forecast until the June 2010 revenue forecast.

### 3. Ferry Revenues

At the end of the 2009-25 16-year financial plan, Washington State Ferries accounts have a combined deficit of \$1,064 million, of which \$936 million or 88 percent is from the capital account and \$128 million or 12 percent is from the operations account. The capital gap is anticipated to grow even larger in the period immediately following 2025 due to fleet replacement needs.<sup>49</sup>

Options considered include those that could increase operations funding and those that could increase capital funding. Capital funding options could be further restricted to the creation of a special account for vessel replacement which is WSF's most urgent capital need.

- *Operations Funding Options*

- *Increase rates to increase farebox recovery*. Farebox recovery is the total operations cost divided by revenues from fares, concessions and other earned income. Ninety-eight percent (98%) of WSF's operations income is from fares. Farebox recovery is anticipated to average 76 percent over the 16 year plan period, assuming annual fare increases of 2.5 percent.
- *Fuel surcharge*. A fuel surcharge would protect WSF's operating budget when fuel prices increase beyond those assumed in the biennial budget. The current legislative financial plan does not include an assumption that WSF would implement a fuel surcharge. The legislature provided the following direction to WSF and the WSTC in the 2009-11 transportation budget (ESSB 5352): "If (WSF) proposes a fuel surcharge, the department must evaluate other cost savings and fuel price stabilization strategies that would be implemented before the imposition of a fuel surcharge." (Section 223 (3)) "If the commission considers implementing a ferry fuel surcharge, it must first submit an analysis and business plan to OFM and either the JTC or the transportation committees of the legislature." (Section 205 (6))

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<sup>49</sup> See Implementing Alternative Transportation Funding Methods: Draft White Paper on Policy Initiatives, p. 4041.

- *Adaptive management options.* RCW 47.60.290 requires WSF to consider, when developing fare proposals, options for using pricing to level vehicle peak demand and to increase off-peak ridership. Options that WSF has identified that might be used in the medium term that could meet this legislative direction including:
  - *Differential vehicle and passenger fare increases.* The 2009-11 transportation budget (ESSB 5352) states that the WSTC “may only approve ferry fare rate changes that have the same proportionate change for passengers as for vehicles.” (Section 205, (1))
  - *Additional seasonal surcharge for July and August* – which was considered and not adopted by the WSTC in setting fares effective Oct. 2009
  - *Small car discounts*

Options that WSF has identified that might be used in the long-term that could meet this legislative direction are:

- *Time of day pricing for vehicles*
- *Progressive pricing for larger vehicles*
- *Modifications to frequent vehicle customer prices*
- *Variable pricing for routes within travel sheds*
- *Non-resident pricing.* Vehicles registered with out-of-state licenses could be charged an additional toll.
- *Reservation surcharge.* If a vehicle reservation system is implemented, it is anticipated that it will not utilize a surcharge. A non-refundable deposit would be applicable for no-shows.
- *Capital Funding Options*
  - *Capital surcharge on fares.* RCW 47.60.290 states that if WSF’s operating revenues are used to support capital, the support must be specifically identified in fares. A capital surcharge could be used to fund vessel replacement.
  - *Naming rights vessels.* The 2009 transportation budget (ESSB 5352) stated that the WSTC may name state ferry vessels consistent with its authority to name state transportation facilities under RCW 47.01.420. When naming or renaming state ferry vessels, the commission shall investigate selling the naming rights and shall make recommendations to the legislature regarding this option. WSTC is currently reviewing naming options and potential revenues
  - *Special purpose lottery.* Lottery proceeds currently go to the Education Construction Account, the General Fund, the Economic Development Reserve Account, the Problem Gambling Account, the Exhibition Center Account (Qwest Field), and the Baseball Stadium Account - King County (Safeco Field). Distributions to the Baseball Stadium account will stop when the bonds are retired, which may be as soon as 2012 but no later than 2016. Distributions to the Exhibition Center Account will stop when the bonds are retired, or December 31, 2020, whichever comes first. A lottery to support vessel construction could be a

special purpose lottery, additional distribution, or replace retiring distributions to the baseball stadium and the exhibition center accounts.

## 1. Implementation

There are no implementation issues associated with these potential revenue sources, assuming legislative authorization.

## 2. Revenue

- *Operating revenue.* Increasing fares by 3.5 percent per year rather than the 2.5 percent per year anticipated in the 16-year plan would generate \$42 million more revenue over the 16-year plan period and a fuel surcharge would generate an additional \$104 million. A reservation surcharge would generate an additional \$13 million. The adaptive management options are intended to be revenue neutral.
- *Capital revenue.* A 10 percent capital surcharge on all fares implemented in the fall of 2010 through 2025 would generate an additional \$200 million over the 16-year plan period.

## 4. Amtrak Cascades Service

Amtrak Cascades train service is funded by the states of Washington and Oregon, Amtrak, Sound Transit, the Province of British Columbia, the United States and Canadian federal governments, railroads, other participating organizations and agencies, and fare-paying passengers.

Washington does not have a dedicated fund source for rail, with operating and capital funding coming from the multi-modal account.

Washington is one of 14 states to provide funds to Amtrak for intercity passenger rail service. California funds its passenger rail Amtrak subsidy through its sales tax on gasoline and diesel and three states, like Washington, rely on their multi-modal funds which do not include gas tax revenues. Some states, including Oklahoma, Oregon, Illinois and New York use the general fund to support passenger rail, much in the way that Washington State transit agencies are reliant on local option sales tax revenue. Some states that do not restrict gas tax proceeds to highway uses, such as North Carolina, use general highway funds for the Amtrak subsidy. Appendix A includes a list of states that fund Amtrak service.

- *Operations:* Amtrak Cascades serves 466 route miles between Eugene, Oregon, and Vancouver, B.C. Amtrak provides operating funds for one daily round-trip route, Oregon provides funding for two round-trips between Portland and Eugene, and Washington, through WSDOT, provides for four roundtrips between Seattle and Portland. Amtrak uses five trains for daily operations, two owned by Amtrak and the remainder by Washington State.<sup>50</sup> A second round-trip between Seattle and Vancouver B.C. started August 19, 2009 and will run as a pilot project through the Winter Olympics and Paralympics in 2010. Ridership on Washington State funded trains was 521,000 or 67 percent of total Cascades ridership.<sup>51</sup>

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<sup>50</sup> Washington State Department of Transportation, *Gray Notebook* June, 2009, p. 38.

<sup>51</sup> Washington State Department of Transportation, *Amtrak Cascades 2008 Performance Report*, p. 2.

In Federal Fiscal Year (FFY) 2008, state-supported Amtrak Cascades trains had a farebox recovery of 54 percent. Total taxpayer subsidy for Washington state-supported Amtrak Cascades trains (4 round-trips) was \$14.6 million in FFY 2008.<sup>52</sup> State support is the total program costs minus operational revenue received from tickets, food, and other services.

The 2006 Washington State Long-Range Plan for Amtrak Cascades assumes that farebox recovery will increase, averaging 75 percent over the next 20 year period, and assumes fares rise only with inflation and to meet projected operating costs.

- *Capital.* Capital funds for Cascades service from Portland to Seattle are provided by BNSF Railway Company, the State of Washington, Amtrak, non-Amtrak federal funds, Sound Transit and the Federal Transit Administration, and Oregon (from Union Station to the Columbia River). Between 1994 and 2007, the State of Washington made \$124 million in capital investments, which represented 17 percent of a total of \$717 million in Cascades capital investments. The largest investment, of \$284 million or 40 percent of the total was in capacity improvements between Everett and Tacoma made by Sound Transit and the Federal Transit Administration to fund improvements related to Sounder commuter-rail service.<sup>53</sup>

The Pacific Northwest Rail Corridor (Eugene, Oregon to Vancouver BC) is one of the 11 federally designated high speed rail corridors. The American Recovery and Reinvestment Act (ARRA) passed by Congress in February 2009 includes \$8 billion of federal funding for high speed rail, providing funds for the first federal investments in high speed passenger rail outside the northeast corridor.

In August 2009, WSDOT submitted grant applications for \$440 million in federal funding for Track 1 projects, which are ready to go projects that can be completed within two years of obligation and have independent utility. Track 1 projects can be 100 percent federally funded. If approved, these projects would allow for the addition of one round-trip per day between Seattle and Portland.

Track 2 projects, which are also eligible for 100 percent federal funding, are high speed rail corridor projects that bring a benefit greater than the sum of individual parts. Applications for Track 2 projects were submitted Oct. 2, 2009. Track 2 projects are anticipated to allow for the addition of 3 more round-trips per day for a total of four more per day with the Track 1 applications.

Options reviewed include:

- *Increase fares to increase farebox recovery.* Fares are established in collaboration between Amtrak and WSDOT, with WSDOT having the final determination on the state supported trips. Fares have been established primarily based on market analysis undertaken by Amtrak. Revenue is estimated based on a "revenue neutral policy, which means that revenue estimates reflect no change in price except adjustments for inflation and change in operation cost."<sup>54</sup> Projected increases in farebox recovery are the result of

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<sup>52</sup> *Gray Notebook*, December 31, 2008, p. 29.

<sup>53</sup> *Ibid.*, p. 10-3.

<sup>54</sup> Washington State Department of Transportation, *Amtrak Cascades Mid-Range Plan*, December, 2008. p. 7-8.

increased ridership and do not reflect price adjustments as service and on-time reliability improves with projected capital investments.

- *Add a capital surcharge to fares.* Much like WSF capital funding options, a capital surcharge could be added to Amtrak Cascades passenger fares.

**a. Implementation**

Fares are collected by Amtrak and are part of the costs included in the subsidy calculations.

**b. Revenue**

The revenue estimates are based on the current four round-trips subsidized by WSDOT. Additional round-trips that may result if the Federal AARP funding is approved are not included. If fares are increased, it would reduce WSDOT's subsidy of Amtrak service. For each 1 percent increase in fares, WSDOT's subsidy would decrease by 1 percent.

Revenue estimates for a capital surcharge assume a \$1.00 surcharge per passenger ticket and are based on the ridership estimates included in the 2006 Long-Range Plan for Amtrak Cascades. Under this scenario, the capital surcharge could generate approximately \$30 million over the 16-year plan.

**5. Off-Road Use Fee**

The current off-road vehicle use permit fee applies to all off-road vehicle owners. The fee is \$18.00 for an annual permit, \$7.00 for a 60-day temporary permit, and \$10.00 for a transfer fee. The rate was last raised in 2004.

Eighty-two percent (82%) of the biennial \$3.1 million from the fee is deposited in the Non-highway and Off-Road Vehicle Activities account in the Outdoor Recreation Account in the Wildlife and Natural Resources Fund and administered by the Department of Natural Resources. Eighteen percent (18%) is deposited in the motor vehicle account, with the revenue intended to cover DOL's administrative costs.<sup>55</sup>

Two options have been identified for further analysis:

- *Increase and index the off-road use fee.* The off-road use fee was last modified in 2004.
- *Dedicate all revenues to the non-highway and off-road vehicle activities account.* If 100 percent of the fees were devoted to the non-highway and off-road vehicle activities account, motor vehicle funds would be reduced by \$4.5 million over the 16-year plan period.

**1. Implementation**

The off-road use fee is already collected. There would be no implementation issues.

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<sup>55</sup> RCW 46.09.170 states: The moneys collected by the department under this chapter shall be distributed from time to time but at least once a year in the following manner: The department shall retain enough money to cover expenses incurred in the administration of this chapter: PROVIDED, That such retention shall never exceed eighteen percent of fees collected. The remaining moneys shall be distributed for ORV recreation facilities by the board in accordance with RCW 46.09.170(2)(d)(ii)(A).

## 2. Revenue

The impact on the motor vehicle fund is relatively small. If the fees are doubled, motor vehicle funds would increase by \$4.5 million over the 16-year plan period. If indexed, motor vehicle funds would increase by an additional \$2.7 million. If the registration and renewal fees are increased, the number of temporary use permits may increase, which could affect overall revenues.

## F. Transportation System: State Access Permits

The state has authorized local governments to assess impact fees, which are charges assessed by local governments against new development projects that attempt to recover the cost incurred by government in providing the public facilities required to serve the new development. Impact fees are only used to fund facilities, such as roads, schools, and parks, that are directly associated with the new development. They may be used to pay the proportionate share of the cost of public facilities that benefit the new development; however, impact fees cannot be used to correct existing deficiencies in public facilities. In Washington, impact fees are authorized under the Growth Management Act (RCW 82.02.050 - .100), as part of voluntary agreements under RCW 82.02.020, under the Local Transportation Act (RCW 39.92.040), and as mitigation for impacts under the State Environmental Policy Act (SEPA - Ch. 43.21C RCW). GMA impact fees are only authorized for public streets and roads; publicly owned parks, open space, and recreation facilities; school facilities; and fire protection facilities in jurisdictions that are not part of a fire district.<sup>56</sup> Several cities and counties in Washington have assessed road impact fees. Impact fees are generally allowed to be used for other transportation modes, such as transit, bicycle and pedestrian improvements as long they are tied to a road or street project.

The state does not itself impose impact fees, yet many developments have an impact on state owned highways. No state is currently imposing transportation impact fees for their own use; however, some regional impact fee programs include funding for state highways.

Pennsylvania requires off-site road improvements through its highway permit approval process. WSDOT can also, as part of its access management permit process, require off-site improvements.

- *Pennsylvania Highway Occupancy Permits (HOP)*. A highway occupancy permit issued by the Pennsylvania Department of Transportation is required for developments that affect interstate highways, US routes, or state highways in Pennsylvania. Highway occupancy permits are typically issued to utility companies, municipal authorities, developers and builders, and private citizens. The Pennsylvania Department of Transportation has the authority to require off-site road improvements through its highway occupancy permit approval process that may be needed to mitigate the traffic impact of a particular land development.<sup>57</sup> The Federal Highway Administration reviews all permit requests that affect interstate highway access.

As part of the HOP process, applicants may be required to identify impacts of the proposed access on the transportation system in the surrounding area, and identifying mitigations to

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<sup>56</sup> Municipal Services and Research Center of Washington, *Transportation Impact Fees*.

<sup>57</sup> Pennsylvania Department of Transportation, *Transportation Impact Fees: A Handbook for Pennsylvania's Municipalities*, March 2009, p. 4.,



offset that impact through development of a Transportation Impact Study (TIS) or a Transportation Impact Assessment (TIA). The Pennsylvania Department of Transportation uses the TIS or TIA to provide direction to the applicant on needed improvements.<sup>58</sup> TISs are required for all highway occupancy permit applications where any one of the following characteristics is met: the site is expected to generate 3,000 or more average daily trips or 1,500 vehicles per day; during any one hour time period, the development or redevelopment is expected to generate 100 or more vehicle trips (new trips if a redevelopment) entering or exiting the development; or in the opinion of the Department, the development or redevelopment is expected to have a significant impact on the highway safety or traffic flow.

- *Washington Access Management Permit.* RCW 47.50 regulates access to state highways through a WSDOT administered access management program. There are four categories of permits required, with Category II (1,000 to 1,500 vehicle trips per day) and III (1,500 - 2,500 vehicle trips per day) permits requiring the submittal of traffic data and analysis. The traffic analysis may be required to include information “to determine the need for off-site related roadway and geometric improvements and mitigation requirements.”<sup>59</sup>

WSDOT is authorized by RCW 47.50.050 to establish a fee for access management permits for state highways that is “nonrefundable and shall be used only to offset the costs of administering the access permit review process and the costs associated with administering the provisions of this chapter (on access management)”. Current fees were set by WAC in 1999 and are shown in the exhibit below.

**Exhibit 25.  
Access Management Permit Fees**

	Fee	Cost
<b>(a)</b>	<b>Category I base fees for one connection.</b>	
(i)	Field (agricultural), forest lands, utility operation and maintenance	\$50
(ii)	Residential dwelling units (up to 10) utilizing a single connection	\$50 per dwelling unit
(iii)	Other, with 100 AWDVTE* or less	\$500
(iv)	Fee per additional connection point	\$50
<b>(b)</b>	<b>Category II base fees for one connection.</b>	
(i)	Less than 1,000 AWDVTE*	\$1,000
(ii)	1,000 to 1,500 AWDVTE* . . . . .	\$1,500
(iii)	Fee per additional connection point . .	\$250
<b>(c)</b>	<b>Category III base fees for one connection.</b>	
(i)	1,500 to 2,500 AWDVTE* . . . . .	\$2,500
(ii)	Over 2,500 AWDVTE* . . . . .	\$4,000
(iii)	Fee per additional connection point . .	\$1,000
<b>(d)</b>	<b>Category IV base fee per connection. .</b>	
		\$100

WAC 468-51-070 \* Average weekday vehicle trip ends

<sup>58</sup> Pennsylvania Department of Transportation, Policies and Procedures for Transportation Impact Studies Related to Highway Occupancy Permits, January 28, 2009, p.1.

<sup>59</sup> WSDOT, Highway Access Management Guidebook, 2002, p. 4-12.

The option reviewed is to revise the access management program and fees.

- *Increase and index fees.* The fees have not been adjusted since 1999. They could be increased and then indexed.
- *Expand mitigation requirements.* The requirements for traffic analysis and mitigation could be expanded to encompass impacts on the highway.
- *Interstates.* WSDOT could, similar to Pennsylvania, seek to coordinate access and impacts from developments that affect interstate highways.

### **1. Implementation**

The program is currently administered by WSDOT. An expanded program would require outreach by WSDOT for the public to understand and comply with the permitting process.

### **2. Revenue**

Access fees are anticipated to generate \$150,000 per biennium or \$1.2 million over the 16-year plan period. Increasing the fees and indexing them could generate a nominal amount of additional revenue depending upon specific fee increase schedules.

The larger financial benefit may come from requiring entities that affect state and interstate highways to mitigate their impacts.

## VII. STATE FUNDING METHOD RECOMMENDATIONS

The consultants' recommendations on state transportation funding methods are intended, consistent with the evaluation framework, to provide the legislature with a package of funding tools that reflect four objectives:

- *Revenue stream.* Provide a stream of revenue consistent 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 options that recognize the distinct needs of different local systems.

The consultants recommend that the legislature consider seven medium-term actions and that other funding methods be considered in the longer term as the impact of energy, climate change, mobility, and federal policies are determined. A VMT fee should be considered if the federal government adopts that funding approach and establishes national standards for collection or if a coalition of states address the issue.

### A. Recommended Funding Tools

Of the funding methods reviewed the consultants recommend the legislature consider those shown in the exhibit below for the 2009-27 16-year financial plans.

**Exhibit 26.  
Recommended Funding Methods - 2009-27 Financial Plans**

Fuel	Use	Vehicle
<b>Motor fuel tax options</b> <ul style="list-style-type: none"> <li>• Index</li> <li>• Set increases</li> <li>• Add special assessment fee</li> </ul>	<b>Tolling/Congestion Pricing</b> <ul style="list-style-type: none"> <li>• Expand tolling</li> <li>• Expand revenue uses</li> </ul> <b>Ferries &amp; Cascade Amtrak</b> <ul style="list-style-type: none"> <li>• Operations funding</li> <li>• Capital funding</li> </ul> <b>Off-Road Use Fee</b> <ul style="list-style-type: none"> <li>• Rates 2012 purchasing power</li> <li>• Index</li> </ul>	<b>Retail Sales &amp; Use Tax</b> <ul style="list-style-type: none"> <li>• Change rate</li> </ul> <b>Vehicle Fees</b> <ul style="list-style-type: none"> <li>• Rates 2012 purchasing power</li> <li>• Index</li> <li>• Modify weight fees</li> <li>• Extend in lieu of fee to electric &amp; other high mileage vehicles</li> </ul> <b>Tire Fee</b> <ul style="list-style-type: none"> <li>• Add fees for transportation</li> </ul>
Driver	Transportation Business	Transportation System
<b>Driver Licenses</b> <ul style="list-style-type: none"> <li>• Rates 2012 purchasing power</li> <li>• Index</li> </ul>	<b>Business Licenses</b> <ul style="list-style-type: none"> <li>• Rates 2012 purchasing power</li> <li>• Index</li> </ul>	<b>Access Management Fees</b> <ul style="list-style-type: none"> <li>• Rates 2012 purchasing power</li> <li>• Index</li> <li>• Modify <ul style="list-style-type: none"> <li>• Reflect impact</li> <li>• Extend to interstates</li> </ul> </li> </ul>

## B. Medium Term (5 Year) Actions

All recommendations are described as potential actions items because decisions on which funding methods to adopt cannot be made without reference to specific projects or programs the legislature wants to fund. However, For example, if the legislature wants to fund something that is not eligible for 18<sup>th</sup> amendment restricted funds, then there will be potentially less interest in funding methods that are restricted by the 18<sup>th</sup> amendment.

Seven actions are recommended for immediate consideration by the legislature. These actions are designed to conform to the evaluation framework.

*Revenue stream.* Eighty percent (80%) of the state's direct transportation revenues are from the motor vehicle fuel tax and from fees and licenses applied to vehicles, drivers, transportation businesses, off-road use, and access permits. The legislature could maintain the viability of these funding methods by:

- Indexing them to grow with inflation.
- Increasing the motor vehicle fuel tax rate or adding a special assessment fee to motor vehicle fuel retail sales, either of which would offset declines in per capita motor vehicle fuel consumption.
- *Public benefit/reflect use.* The following actions would relate funding to transportation system use.
  - Extend tolling applications to additional projects.
  - Develop funding sources for WSF capital which could include a capital surcharge, directing Capron refunds to the Ferries capital account, distributing a portion of license fees to ferries capital account; and re-balancing the distribution of the motor vehicle fuel tax between the ferries operations and capital accounts.
  - Review Amtrak Cascade service operations and capital funding.
  - Revise the WSDOT access management program to mandate that entities impacting the state highways or interstates mitigate their impact.
- *Equitable.* The legislature could impose in-lieu of fees on electric vehicles and other high mileage vehicles to distribute more of the costs of the transportation system to these vehicle owners.
- *Local.* Under current distribution formulas, counties and cities would receive additional revenues from increases to the motor vehicle fuel tax. Island and San Juan counties would receive additional Capron distributions.

### 1. Maintain the viability of licensing and permit fee revenues

The consultants have recommended a review of all transportation related licenses, permits, fees, and abstract charges. Once that review is complete, the legislature could adopt comprehensive legislation to increase fees to 2012 purchasing power and index them to maintain future purchasing power. If the legislature took that action, then the affected agencies could be given authorization by the legislature through the budget process to adjust the fees annually. In changing

the vehicle registration fees, the legislature could consider capping the Capron refunds at the existing fee levels and directing revenues from the increased fee amounts to support ferries.

**Action 1.** The legislature could adopt comprehensive legislation to increase fees to 2012 purchasing power and index them to the CPI to maintain purchasing power. If this action is taken, the legislature could also provide authorization through the budget process to the affected agencies to modify the fees annually, and direct the resulting Capron refunds to WSF.

## 2. Maintain the short and medium term viability of motor vehicle fuel tax revenues

The motor vehicle fuel tax will, even under the consultants' risk scenario, remain a significant revenue source during the 16-year plan period. To maintain its viability as a revenue source the tax could be structured to maintain its purchasing power and to offset decreases in per capita motor vehicle fuel consumption. To achieve these two objectives the legislature could:

- *Index the motor vehicle fuel tax.* Indexing would allow the motor vehicle fuel tax to grow with inflation *and*,
- *Increase the tax by a flat rate.* Increasing the flat rate would offset declining motor vehicle fuel consumption per capita *or*
- *Add a transportation assessment fee.* An assessment fee would increase revenues from the sale of motor vehicle fuel by adding a percentage based assessment to the retail price of fuel and would offset declining motor vehicle fuel consumption per capita.

In making these changes, the legislature could consider capping the Capron refunds at the 23.0 cpg rate, which is consistent with the legislature's decision to direct the Nickel and TPA Capron refunds to the Ferry operations account. A transportation assessment fee would not be subject to the 18<sup>th</sup> amendment.

**Action 2.** The legislature could index the tax to the CPI to maintain its purchasing power *and choose one of the two following options* to off-set declines in per capita consumption: a) increase the tax rate annually year; *or* b) add a transportation assessment fee to the retail price of motor vehicle fuel. Any resulting Capron refunds could be directed to WSF.

## 3. Adopt in-lieu of vehicle fuel tax fees for electric and other high mileage vehicles

The legislature could, as it has for natural gas and propane vehicles, take action to increase the amounts paid by owners of electric and other high mileage vehicles. The legislature could apply the in-lieu of fee on a graduated basis to all vehicles that get over a base number of miles per gallon.

**Action 3.** Consistent with fees adopted for natural gas and propane powered vehicles, the legislature could adopt in-lieu of fees for electric vehicles and other high mileage vehicles.

#### 4. Extend tolling applications

The legislature has authorized tolling on the 520 Bridge and requested studies of five more potential tolling applications to be presented during the 2010 session. The legislature could, consistent with the WSTC's 2006 tolling study, continue to review tolling to fund specific projects.

**Action 4.** The legislature could fund additional projects with tolls.

#### 5. Secure WSF capital funding

If the legislature took action to increase and index the motor vehicle fuel tax and licenses, permits and fees, Ferries' operations account would gain \$195 million under the consultants' risk scenario or \$236 million under the November forecast, which is more than sufficient to offset the \$128 million needed to balance the operations account in the 2009-25 financial plan.

The Ferries capital account would gain \$64 million under the consultants risk scenario or \$96 million under the November forecast of the \$936 million needed.

The most significant problem for Ferries is to fill the remaining at least \$840 million capital funding gap and to secure a source of capital funds to meet the vessel replacement needs that start in the years immediately following the 2023-25 biennium. The consultants recommend that to fill the capital funding gap the legislature could consider:

- *Capital surcharge on ferry fares.* A 10 percent surcharge on all fares starting in the fall of 2010 would generate \$200 million over the 16-year plan period.
- *Direct additional Capron refunds to Ferries' capital account.* Capron refunds from the TPA and Nickel fuel tax have been directed to Ferries' operations account to help keep fares low. Given the urgency of the capital funding situation, the legislature could consider directing any additional Capron refunds to the capital account. If recommendations were implemented to increase and index motor vehicle fuel taxes and vehicle registration fees, the resulting Capron refunds that could be distributed to the Ferries capital account would be \$45 million in the consultants' risk scenario or \$59 million in the November forecast over the 16-year plan period.
- *Distribute licensing fees to Ferries' capital account.* As the legislature considers adjustments to the fees and permits, it could consider distributing some portion to Ferries capital. For example, the \$30.00 vehicle registration fee is distributed \$20.35 to the State Patrol, \$2.20 to Ferry Operations, and \$7.63 to the motor vehicle fund. If the fee is increased and indexed, the portion going to Ferry operations could be capped and the increase directed to the capital account.
- *Change motor vehicle fuel tax distributions between Ferries' operations and capital accounts.* Historically Ferries' capital requirements were largely met by MVET funding. The distribution of the motor vehicle fuel tax between Ferries capital and operations accounts has not changed since the loss of MVET funding.

**Action 5.** To secure capital funding for Ferries, the legislature could, in addition to increasing and indexing the motor vehicle fuel tax: impose a capital surcharge on ferry fares; direct the additional Capron refunds to ferries capital account; distribute a portion of license fees to ferries capital account; and re-balance the distribution of the motor vehicle fuel tax between the ferries operations and capital accounts.

## 6. Review Amtrak Cascades Service funding

Amtrak Cascades service has a farebox recovery of 54 percent, which is projected to increase to 75 percent over the next 20 years. All of the remaining operations funding is from WSDOT. The consultants recommend that the legislature consider working with Amtrak to increase rates to reflect improved service from projected capital investments and consider a capital surcharge to help finance capital costs.

**Action 6.** The legislature could do the following to increase revenues supporting Amtrak Cascades service: a) review farebox recovery and increasing fares to cover a greater portion of operating costs; and b) a capital surcharge on tickets to fund needed but unfunded capital improvements.

## 7. Revise the WSDOT Access Management Program

In addition to revising and increasing the permit rates, the legislature could consider authorizing a broader access management program that would require entities that impact state or interstate highways to mitigate that impact.

**Action 7.** The legislature could consider expanding WSDOT's access management program to require entities that impact state or interstate highways to mitigate that impact.

## C. Longer-Term Actions: Shift from Motor Vehicle Fuel Taxes

The medium term recommendations continue the state's reliance on the motor vehicle fuel tax. There are scenarios under which the motor vehicle fuel tax will be reduced even more quickly than projected in the consultants' risk analysis. Section II of this report reviewed the energy and climate change policies that could affect motor vehicle fuel consumption per capita. Key information that the legislature will need to consider regarding the longer term viability of the motor vehicle fuel tax include:

- *Fleet composition.* The consultants' risk scenario assumes relatively modest changes in the composition of the fleet. If there is a much larger increase in electric vehicles or other high mileage vehicles, then fuel consumption per capita could drop at an even faster rate than projected in the risk analysis.
- *Fuel prices.* The consultants' risk analysis assumes the fuel prices projected in the November forecast. If fuel prices increase over the projection, then fuel consumption per capita will decline as will motor vehicle fuel revenues.
- *Climate change.* The consultants have not included any projected impact from a state policy to reduce VMT. If the Governor's mandated review of VMT goals results in concerted state action to reduce VMT per capita, motor fuel consumption per capita would drop faster than projected in the risk analysis.

In the longer term the legislature should consider the potential of shifting more rapidly from reliance on the motor vehicle fuel tax. The consultants recommend the following considerations in that eventuality.

## 1. Increase reliance on vehicle fee revenue rather than motor vehicle fuel tax revenue

If fleet composition, the VMT forecast, climate change policies, or other developments in fuel pricing or vehicle technology accelerate the erosion of the motor vehicle fuel tax (or in the event the legislature elects not to index, increase, or add a special assessment to the motor vehicle fuel tax), the legislature could consider increasing the share of transportation revenues generated by fees.

Fee adjustments that would be relatively easy to implement are:

- *Weight fee.* Passenger vehicle weight fees are reduced by the registration fee, while truck weight fees are not. If the registration fee were not offset and truck weight fees were raised by a corresponding \$30.00, the state would gain \$3.8 billion in revenue over the 16-year plan period.

**Action 8.** The legislature could adjust vehicle weight fee by \$30.00, by eliminating the registration fee deduction for passenger vehicles and raising truck weight fees a corresponding \$30.00.

- *Tire fee.* Adding a tire fee for transportation that extends to new vehicles and is higher for studded and larger tires would generate \$133 million in revenue over the 16-year plan period.

**Action 9.** The legislature could add a tire fee for transportation that extends to new vehicles and is higher for studded and larger tires.

## 2. Increase the transportation sales and use tax on motor vehicles

Increasing the additional sales and use tax on motor vehicles is another strategy to help shift the balance of transportation revenues away from the motor vehicle fuel tax. If the rate were raised to 0.5 percent from 0.3 percent, the state would gain \$400 million in additional revenue over the 16-year plan period.

**Action 10.** The legislature could allow toll revenues and/or ferry fares to be used to provide corridor specific transit service improvements.

## D. Longer Term Recommendations: Mobility

As discussed in Section II mobility is a significant issue for the urban areas of the state. The state is using variable pricing as part of tolling to address mobility issues. Other funding methods that the legislature could consider include:

- *Expanding use of toll revenue.* The legislature could consider allowing the use of toll revenue from HOT lanes or from bridge/highway tolls to be used to improve transit connections in a particular corridor and/or to improve connections to state transportation facilities such as ferries and park and ride lots.



- *Expanding use of ferry revenue.* The legislature could also consider allowing the use of fares collected from ferry walk-on passengers to be used to improve transit service to ferry terminals. Part of WSF's inability to shift passengers from driving on the ferry to walking-on, which makes better use of peak auto deck space, is the lack of transit service connections.

## **E. Other Funding Methods Recommended in the 2007 Study**

### 1. VMT Fee

The consultants recommend that the legislature consider a VMT fee only if the federal government adopts a VMT fee or if there is a multi-state agreement VMT fee. As discussed in the section on VMT, most states are awaiting federal action and a recent federal study determined that self-reporting, odometer reading, or other low technology ways to implement a VMT would most likely be subject to abuse and fraud.

### 2. Sales Tax on Motor Vehicle Fuel

A sales tax on motor vehicle fuel would require specific legislative action to benefit transportation. The consultants recommend consideration of a special assessment fee rather than the sales tax.

## VIII. LOCAL JURISDICTION TRANSPORTATION FUNDING

In Washington State, local transportation systems rely on a blend of federal, state, regional, and local funding mechanisms and shared responsibilities. This section:

- Identifies the local jurisdictions responsible for planning, operating, managing, and maintaining transportation systems.
- Describes funding sources and mechanisms available for local jurisdiction investment in transportation.
- Assesses the current local transportation funding system, including identifying the current use of available funding mechanisms and key policy trends affecting the system.
- Makes recommendations for state legislative action that could assist local jurisdictions.

### A. Local Responsibilities in Transportation

In Washington State, a host of local jurisdictions, including general purpose governments and more specialized transportation entities, are responsible for the provision of transportation systems.

#### 1. General Purpose Government

- *Counties.* Washington's 39 counties are responsible for managing 39,828 miles of roads, approximately 3,264 bridges, and four ferry systems in the unincorporated areas of the state. The Washington State County Road Administration Board (CRAB) sets standards and provides oversight and technical assistance to the counties' road departments. Counties budget on calendar years not the state fiscal year.
- *Cities and Towns.* Washington's 281 cities and towns are responsible for 16,421 miles of streets and approximately 676 bridges within incorporated municipalities of the state. Cities and towns budget on calendar years not the state fiscal year.

#### 2. Special Purpose Districts

Special purpose districts are limited purpose local governments separate from a municipal or county government. The legislature has enabled more than 80 different special purpose districts, including several related to transportation and transit systems.

- *Ports.* Ports are municipal corporations of the state that are formed with a simple majority approval of voters within the proposed district's boundary. An elected board of port commissioners sets policies for the port. Ports are engaged in economic development and transportation programs. Specific transportation programs include marine shipping, operation of rail facilities, strategic truck corridors, fishing terminal development, commercial and recreational marina development, and air transport, and other goods movement activities. There are 75 public port districts in 33 Washington counties. The largest port districts in the state are the Ports of Seattle, Tacoma, Vancouver, Everett, Longview, and Bellingham.

- *Ferry Districts.* A county legislative authority can establish a county ferry district to operate passenger-only ferry service within the district, according to RCW 36.54.110. King County established a County Ferry District in May 2008.
- *Transportation Benefit Districts (TBDs).* TBDs are quasi-municipal corporations and independent taxing districts formed solely for the purpose of acquiring, constructing, improving, providing, and funding transportation improvements within the district's boundaries. Under RCW 36.73 cities or counties may form TBDs and may include other cities, counties, port districts or transit districts through interlocal agreements. The members of the legislative authority (city or county) proposing the TBD is the governing body of the TBD. There are ten existing TBDs in the state: Point Roberts (Whatcom County), Liberty Lake (near Spokane), Ridgefield (Clark County), Des Moines, Lake Forest Park, Edmonds, Olympia, Prosser, Sequim, and Shoreline.
- *Public Transportation Systems.* Public transportation systems are locally controlled special-purpose governments formed to provide public transit services. In Washington, there are 28 operating systems, using seven different governance structures.
- *Regional Transportation Investment Districts.* RCW 36.120 authorizes the formation of a special district to plan and finance improvements to highways of statewide significance in the King, Pierce, and Snohomish County region. A Planning Committee was formed in 2002 to develop plans for improvements. The plan was then adopted by the counties. In November 2007, voters rejected the plan and the RTID was not formed.

## B. Current Local Jurisdiction State and Local Funding Sources

Local jurisdictions have a toolbox of different funding mechanisms and sources available for transportation systems. Given the number of different jurisdictions, funding mechanisms, and limitations associated with those mechanisms, local transportation funding is complex. Some jurisdictions receive transportation funding from the state through direct distributions or grants. In addition, each local jurisdiction has available mechanisms to generate revenue for transportation purposes. Generally the funding mechanisms in place fall into one of the following categories:

- *State grants.* In addition to the direct distributions of the motor vehicle fuel tax and the Capron refunds discussed in the section on state funding methods, the state also has grant programs through the Transportation Improvement Board, the Freight Mobility Strategic Investment Board, the County Road Administration Board and the Public Transportation Division of WSDOT.
- *Local option taxes.* Local option taxes are “taxes that vary within the state, with revenues controlled at the local or regional level, and earmarked for transportation-related purposes”.<sup>60</sup>
- *General purpose funds,* available to counties, cities, and towns.
- *Fees and fares,* including mechanisms such as vehicle license fees, impact fees, and farebox revenues.

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<sup>60</sup> Todd Goldman and Martin Wachs, “A Quiet Revolution in Transportation Finance: The Rise of the Local Option Transportation Taxes,” *Transportation Quarterly* Vol. 57, No.1 Winter 2003, pp. 19-32.

- *Other miscellaneous revenue*, such as bond proceeds or advertising revenues.

## 1. General Purpose Government

Counties, cities, and towns, as general purpose governments, are eligible for state funding sources that are in addition to the state motor fuel tax and Capron distributions discussed in the section on state funding methods

### **Exhibit 27. Additional State Transportation Funding Sources Available to Counties and Cities**

Funding Source	Counties	Cities
<b>Transportation Improvement Board</b>		
Urban Arterial Trust Account	x	x
Transportation Improvement Program	x	x
Small Cities Account Programs		x
<b>Freight Mobility Strategic Investment Board</b>		
Freight Mobility Strategic Investment Program	x	x
<b>County Road Administration Board</b>		
County Arterial Preservation Program ( <i>0.45 cpg of state motor vehicle fuel tax, distributed according to percentage of arterial lane miles</i> )	x	
Rural Arterial Program ( <i>0.58 cpg of state motor vehicle fuel tax, distributed on rural land area and mileage of paved rural arterials and collectors</i> )	x	

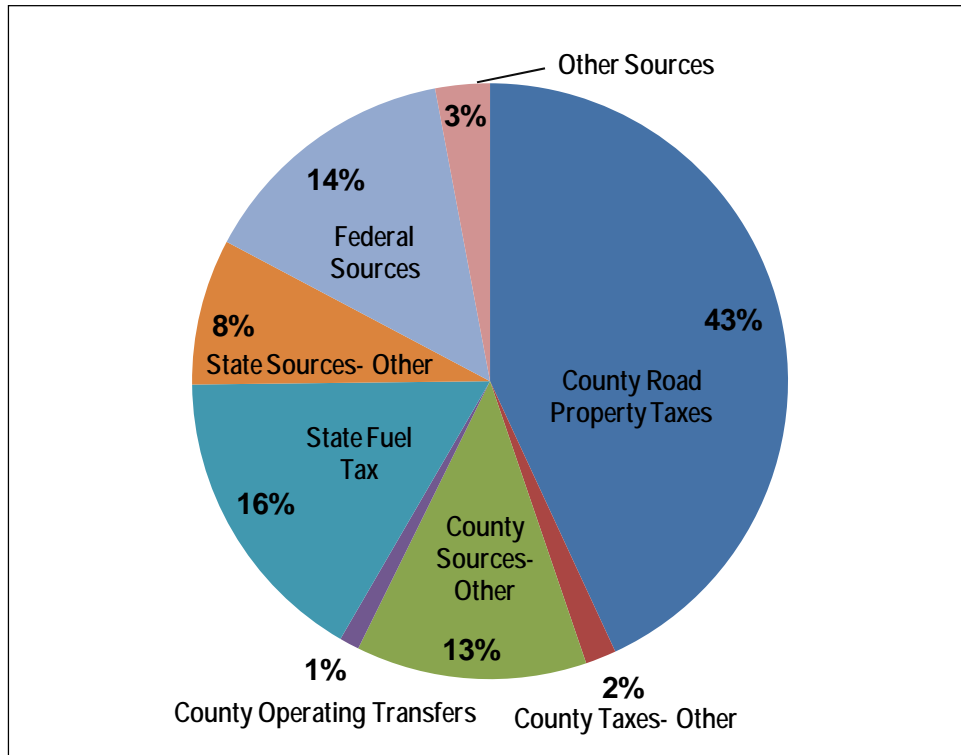
Source: Berk and Associates, 2009

#### **a. Counties**

In 2007, the total amount of county road revenues equaled \$887 million. The exhibit below shows the percentage of funding by source. Total revenues generated by the counties, including taxes, licenses, permits, financing proceeds, and other fees and miscellaneous funding (but not operating transfers), equaled 57 percent of total funding. The largest single source for county road revenue is the county road property levy at 43 percent of total funding

It is important to note, however, that transportation is one of several competing needs (others, for example, include law and justice, mental and public health, etc.) and may not be the highest priority

**Exhibit 28.**  
**2007 County Road Revenues, Percentage by Source**



Source: WSDOT- 2007 FHWA reporting of federal form #536

Washington's 39 counties are authorized to levy the following taxes for transportation, shown in the exhibit below.<sup>61</sup>

<sup>61</sup> Transportation Resource Manual, 2009: Washington State Department of Revenue

**Exhibit 29.**  
**Transportation Tax Options and Fees Available for Counties**

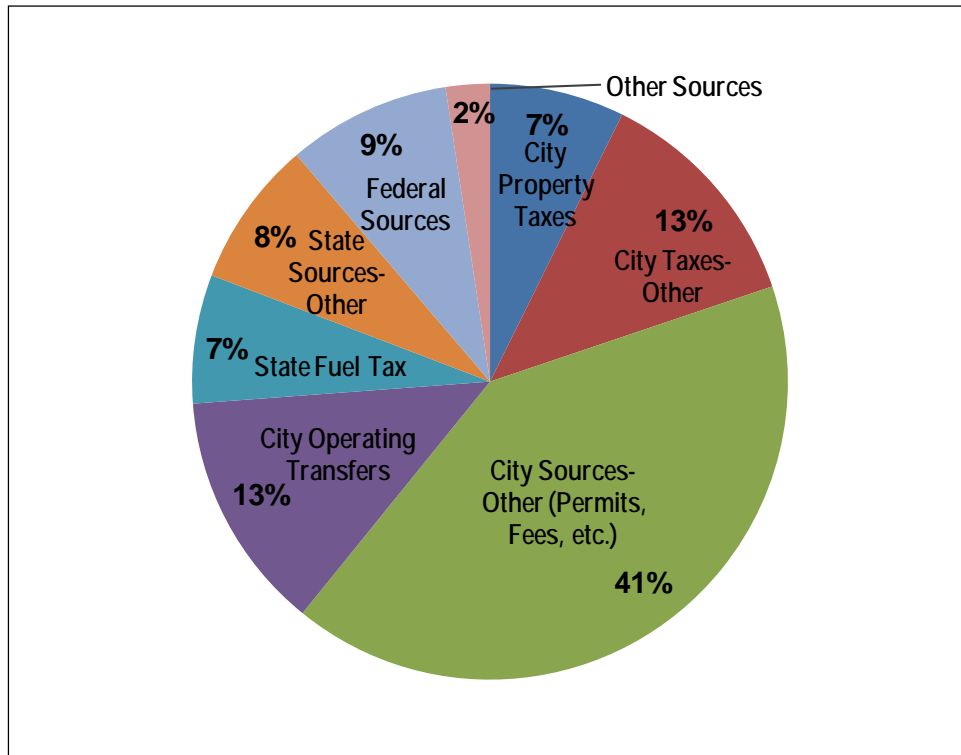
<b>Funding Method</b>	<b>Allowable Purpose</b>	<b>Rate</b>	<b>Current Use</b>
<b>Property Tax</b> (RCW 36.82.040)	County roads and bridges in unincorporated areas	Up to \$2.25 per \$1,000 AV	All counties Rates vary by county
<b>Motor Vehicle and Special Fuel Tax</b> (RCW 82.80.010)	“Highway purposes” (18 <sup>th</sup> Amendment)	10% of the state fuel tax (3.75 cpg)	Not enacted, requires voter approval. Defeated twice in Snohomish County.
<b>Commercial Parking Tax</b> (RCW 82.80.030)	General transportation purposes	No rate set	No counties have enacted this tax.
<b>Local Option Taxes for High Occupancy Vehicle Systems</b> (RCW 81.100.030, 81.100.060)	HOV lane development and HOV program support	<ul style="list-style-type: none"> <li>• Motor Vehicle Excise Tax up to 0.3%</li> <li>• Employer Tax up to \$2 per employee per month</li> </ul>	Only King, Pierce, and Snohomish are eligible. Not enacted.
<b>Real Estate Excise Tax</b> (RCW 82.46.10)	“Public works” capital projects (including streets)	<ul style="list-style-type: none"> <li>• Dependent on size, GMA, and use: 0.1%, 0.3%, 0.5%</li> </ul>	All counties have imposed the basic rate and most GMA counties have imposed the GMA rate.
<b>Impact Fees</b> (RCW 82.02)	Facilities (roads, schools, parks, etc) new development/capacity only	<ul style="list-style-type: none"> <li>• Varies by project.</li> </ul>	Varies by project.
<b>Transportation Benefit District (TBD) Funding Mechanisms</b> (RCW 36.73)	Roadways, high capacity transportation systems, public transit, and other transportation management programs	<ul style="list-style-type: none"> <li>• Up to \$100 license fee with voter approval <i>or</i></li> <li>• Up to \$20 license fee councilmanic or voter approved</li> <li>• Sales tax</li> <li>• Tolls</li> <li>• Property tax</li> </ul>	Not enacted by any county (acting as the TBD legislative authority).

Other transportation revenue sources include SEPA mitigation, utility assessments, timber harvest tax, and timber sales.

**b. Cities**

In 2007, the total amount of city transportation revenues equaled \$1.3 billion. The exhibit below<sup>62</sup> shows the percentage of funding by source. Total revenues generated by the cities, including from taxes, fees, permits, licenses, financing proceeds, and other fees and miscellaneous funding (but not operating transfers), equaled 61 percent of total funding. Other city sources, such as charges for goods and services and financing proceeds, account for 41 percent of total transportation revenue.

**Exhibit 30.  
2007 City Transportation Revenues, Percentage by Source**



Source: WSDOT- 2007 FHWA reporting of federal form #536

Cities have the authority to levy certain transportation taxes, as shown in the exhibit below, but unlike counties which have the county road tax, do not have a dedicated revenue source for streets.

<sup>62</sup> WSDOT, 2007.

**Exhibit 31.  
City Transportation Taxes**

<b>Funding Mechanism</b>	<b>Allowable Purpose</b>	<b>Rate</b>	<b>Current Use</b>
<b>Commercial Parking Tax</b> (RCW 82.80.030)	General transportation purposes	No rate set	SeaTac, Bainbridge Island, Bremerton, Mukilteo, Tukwila, Seattle
<b>Border Area Motor Fuel Tax</b> (RCW 82.47.020)	For street maintenance in cities and towns within 10 miles of the Canadian border	Up to \$0.01 cpg	Cities of Sumas, Blaine, Nooksack, and Point Roberts TBD
<b>Real Estate Excise Tax</b> (RCW 82.46.10)	“Public works” capital projects (including streets)	Dependent on size, GMA, and use: 0.1%, 0.3%, 0.5%	Several cities across the State have enacted REET
<b>Impact Fees</b> (RCW 82.02)	Facilities (roads, schools, parks, etc) new development /capacity only	Dependent on size, GMA, and use: 0.1%, 0.3%, 0.5%	Varies by project
<b>Transportation Benefit District (TBD) Funding Mechanisms</b> (RCW 36.73)	Roadways, high capacity transportation systems, public transit, and other transportation management programs	<ul style="list-style-type: none"> <li>• Up to \$100 license fee with voter approval</li> <li>• Up to \$20 license fee councilmanic or voter approved</li> <li>• Sales tax</li> <li>• Tolls</li> <li>• Property tax</li> </ul>	Ten existing in the state: Point Roberts, Liberty Lake, Ridgefield, Des Moines, Lake Forest Park, Edmonds, Olympia, Prosser Shoreline, and Sequim
<b>Bridge Tolls</b> (RCW 35.74.05)	May build and maintain toll bridges and charge and collect tolls, subject to toll rate approval by the WSTC if the toll or change in toll would have a significant impact on a state facility		None

Cities can use a variety of general purpose taxes and fees for transportation funding. Available general purposes taxes cities can choose to use for transportation funding include:

- Retail sales and use taxes
- Real and personal property taxes
- Other licenses



- Other fees and taxes<sup>63</sup>

Cities are reliant on these general purpose funds for transportation investment. In 2007, Washington cities spent eight percent of their operating and special funds budgets on transportation – or \$339.2 million.<sup>64</sup> It is important to note, however, that transportation is one of several competing needs (others, for example, include law and justice, fire and emergency, etc.) and may not be the highest priority.

## 2. Special Purpose Districts

As limited purpose governments, transportation and transit-related special purpose districts have the authority to levy specific taxes and/or impose fees and fares to raise transportation revenue. Each local jurisdiction has a number of sources from which to raise revenue for transportation, identified in Exhibit 33.<sup>65</sup>

Washington State has 28 transit districts, including Sound Transit. In 2007, the transit districts other than Sound Transit, received \$1.3 billion in operating and capital revenue, of which 64 percent was from sales and other local taxes.

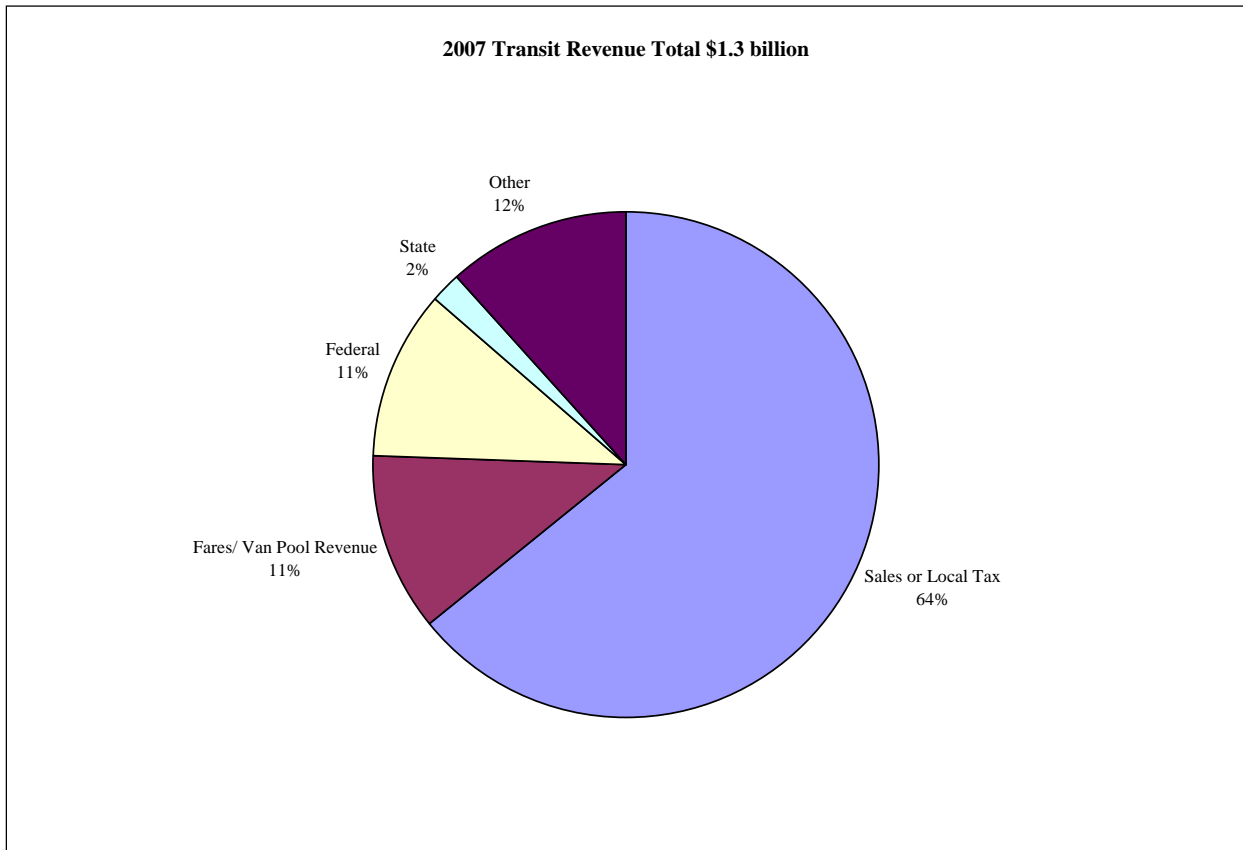
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<sup>63</sup> Transportation Resource Manual, 2009.

<sup>64</sup> Association of Washington Cities. City Transportation 101 Presentation to the Senate Transportation Committee January 21, 2009.

<sup>65</sup> Transportation Resource Manual, 2009 and Cambridge Systematics *Long-Term Financing Study*, 2007.

**Exhibit 32.**  
**Transit Systems Excluding Sound Transit 2007 Revenue Sources**



Source: Summary of Public Transportation 2007

King County METRO, which had 62 percent of all transit passenger trips in the state in 2007, Community Transit, which had 6 percent, and Sound Transit are the only transit agencies that have used the maximum 0.9 percent sales tax authority. Kitsap Transit, which had 2 percent of passenger trips in 2007, has a local option sales tax of 0.8 percent, with other transit agencies ranging from 0.2 percent to 0.6 percent.

**Exhibit 33.**  
**Available Funding Sources for Transportation Special Purpose Districts**

Funding Mechanisms				
Jurisdiction	Taxes	Fees, Assessments, and Fares	Bonds	Other
Ports <i>(Title 53 RCW)</i>	<ul style="list-style-type: none"> <li>Property tax levy up to \$0.45 per \$1,000 AV</li> </ul>	<ul style="list-style-type: none"> <li>User fees</li> <li>Tolls on bridges or tunnels</li> </ul>	<ul style="list-style-type: none"> <li>Bond proceeds</li> </ul>	<ul style="list-style-type: none"> <li>Interest income</li> <li>Federal grants</li> <li>Operating revenues</li> </ul>
Ferry Districts	<ul style="list-style-type: none"> <li>Annual ad valorem property tax of up to \$0.75 per \$1,000 AV, counties &gt; 1.5 million population \$.15 (RCW 36.54.130)</li> <li>Voter- approved annual excess property tax (RCW 36.54.140)</li> </ul>			
TBDs <i>(RCW 36.73)</i>	<ul style="list-style-type: none"> <li>Border Area Motor Vehicle Fuel and Special Tax <i>(enacted in Point Roberts TBD)</i></li> <li>Local Option Taxes: <ul style="list-style-type: none"> <li>Single-year, voter approved excess property tax levies</li> <li>Multi-year voter approved levies for bond redemption</li> <li>Voter approved sales tax up to 0.2%</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Voter-approved motor vehicle license renewal fee up to \$100 (or up to \$20 without voter approval if TBD-wide, RCW 36.37) <ul style="list-style-type: none"> <li>\$20 fee enacted in six cities</li> <li>\$100 fee not enacted</li> </ul> </li> <li>Voter approved sales tax up to 0.2% (Ridgefield &amp; Sequim)</li> <li>Voter-approved vehicle tolling (administered by WSDOT)</li> <li>Late-comer fees</li> <li>Commercial and industrial development fees</li> </ul>	<ul style="list-style-type: none"> <li>General Obligation Bonds</li> </ul>	<ul style="list-style-type: none"> <li>Gifts and donations</li> <li>Grants</li> <li>LID formation</li> </ul>
Public Transportation Systems	<ul style="list-style-type: none"> <li>Local Option Taxes (requires voter approval): <ul style="list-style-type: none"> <li>Sales and use tax up to 0.9%</li> <li>Utility tax: <i>(only City of Pullman authorized)</i></li> <li>PBTAs may use motor vehicle excise tax (up to 0.4% on renewals); sales and use tax (up to 0.4%) for passenger ferries with voter approval</li> </ul> </li> <li>High capacity transportation taxes (requires voter approval) (RCW 81.104.140—81.107.170) <ul style="list-style-type: none"> <li>Sales and use tax up to 0.9-1% (depending on whether criminal justice tax also applied in county)</li> <li>Employer tax up to \$2 per month per employee (RCW 81.100.030)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Farebox and pass revenues</li> <li>Ferry tolls (PBTAs for ferry service)</li> </ul>	<ul style="list-style-type: none"> <li>Revenue bonds</li> </ul>	<ul style="list-style-type: none"> <li>Federal and state grants</li> <li>Contracts for service to community colleges, universities</li> <li>Pass programs for schools</li> <li>Advertising revenues</li> <li>Leasing revenues</li> <li>Other, including sales of maintenance services, rental of vehicles and parking lots, etc.</li> </ul>
RTIDS <i>(not in use)</i> <i>RCW 36.120</i>	<ul style="list-style-type: none"> <li>Sales and use tax up to 0.1%</li> <li>MVET up to 0.8%</li> <li>Local option fuel tax at 10% of state fuel tax rate</li> <li>Parking tax</li> <li>Employer tax up to \$2 per month per employee</li> </ul>	<ul style="list-style-type: none"> <li>Vehicle registration fees up to \$100 per year</li> <li>Toll on facilities identified by Improvement Plan and approved by State</li> </ul>		

### 3. Other Alternate Funding Mechanisms Available

In addition, the following mechanisms are also available for transportation funding.

- *Local Improvement Districts (LIDs)*. LIDs are a special purpose financing mechanism that can be created by local governments (cities, counties, port districts, water districts, transportation benefit districts, and others) to fund improvements in specific areas, as authorized under RCWs 36.94.220, 36.94.300, 35.43, and 35.56. LIDs assess a tax on property owners who benefit from the improvements. LIDs can be initiated by a local government or by petition from property owners. The improvements must directly benefit nearby property owners.
- *Road Improvement Districts (RIDs)*. Similar to LIDs, RIDs are a special purpose financing mechanism that can be initiated by the counties to fund road improvements in unincorporated areas (RCW 36.88).
- *Value capture*. Value capture is a method to help pay for a new piece of infrastructure, such as a road, by assessing a property that will benefit from the new infrastructure. The assessment levied on the affected properties tries to “capture” some portion of the increase in value that results from the new infrastructure. Local Revitalization Financing (LRF), as enacted in the Laws of 2009, Chapter 270, is the latest tool developed by the state. Other past Tax Increment Financing (TIF) mechanisms include the Local Infrastructure Financing Tool (LIFT) and the Community Revitalization Financing (CRF). Cities, towns, counties, and port districts are eligible to submit applications on a first-come basis on September 1, 2009.<sup>66</sup>

## C. Assessment of the Local Funding Transportation System

While many local funding mechanisms for transportation exist, not all are used to the same extent, if they are used at all. This section summarizes the current use of these tools by jurisdiction, and in particular, highlights mechanisms that are under-used and not used, as well as particular restrictions that may factor into their rates of use.

### 1. Counties

- *Property tax/road levy*. All counties use the property tax levy (road levy), which is the counties' largest single revenue source for local transportation. The road levy is collected only in the unincorporated parts of counties and revenues must be expended in these areas. As shown in the exhibit below, counties are maximizing their use of the road levy tax, with 96 percent of available capacity used. County road levy collections are limited by both the \$2.25 per \$1,000 AV limit and the 1 percent limit (RCW 84.55.0101). As a result, counties are generally limited in their ability to tap unused capacity at a councilmanic level and where they might wish to exceed the 1 percent levy growth limit they must seek voter approval. Twenty-nine (29) of the 39 counties divert a portion of their road levy taxes to other uses, primarily traffic policing expenses, which is permitted by state law and is similar to the state's use of transportation revenues to fund the Washington State Patrol.

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<sup>66</sup> Foster Pepper. Comparison of Tax Increment Financing in Washington.

**Exhibit 34.**  
**County Road Levy Assessment (Tax Year 2009)**

COUNTY	ROAD LEVY RATE	DISTRICT ROAD LEVY	ROAD LEVY DIVERTED	ROAD LEVY SHIFTS TO COUNTY CURRENT EXPENSE FUND			BANKED CAPACITY (Unused Legal Capacity)		Percent of Road Levy Capacity Used	Road Levy Per Capita
				LEVY RATE	DISTRICT LEVY	PERCENT SHIFTED	Total	Available		
Adams	1.42	1,285,496	yes	0.00	0	0.0%	0	0	100%	146.83
Asotin	0.98	855,735		0.00	0	0.0%	600,000	600,000	59%	65.78
Benton	1.75	4,849,397	yes	0.17	460,720	8.7%	277,500	277,500	95%	138.65
Chelan	1.21	6,246,133		0.00	0	0.0%	400,000	400,000	94%	200.49
Clallam	1.12	6,212,691	yes	0.00	0	0.0%	0	0	100%	150.28
Clark	1.31	30,286,269	yes	0.19	4,480,000	12.9%	0	0	100%	143.94
Columbia	1.89	759,176	yes	0.24	95,000	11.1%	0	0	100%	614.72
Cowlitz	1.76	8,571,837	yes	0.00	0	0.0%	1,303,000	1,303,000	87%	204.14
Douglas	1.61	3,884,857		0.00	0	0.0%	0	0	100%	182.47
Ferry	2.25	1,099,137	yes	0.00	0	0.0%	303,000	0	100%	161.76
Franklin	1.79	2,749,680		0.00	0	0.0%	0	0	100%	194.94
Garfield	1.58	220,397		0.00	0	0.0%	29,000	29,000	88%	304.00
Grant	2.10	7,565,877	yes	0.00	0	0.0%	0	0	100%	185.23
Grays Harbor	1.86	4,930,441	yes	0.00	0	0.0%	0	0	100%	174.81
Island	0.61	7,654,735	yes	0.00	0	0.0%	0	0	100%	141.94
Jefferson	0.74	2,895,318	yes	0.17	678,401	19.0%	218,500	218,500	94%	144.01
King	1.59	83,470,166	yes	0.00	0	0.0%	0	0	100%	243.23
Kitsap	1.11	22,823,067	yes	0.07	1,438,344	5.9%	0	0	100%	133.94
Kittitas	1.08	4,628,507	yes	0.02	84,998	1.8%	442,000	442,000	91%	256.28
Klickitat	1.41	2,952,766		0.00	0	0.0%	0	0	100%	217.92
Lewis	1.75	9,366,990	yes	0.00	0	0.0%	90,500	90,500	99%	205.62
Lincoln	1.68	1,335,889	yes	0.31	250,001	15.8%	0	0	100%	280.06
Mason	1.28	8,195,798	yes	0.15	965,751	10.5%	0	0	100%	171.33
Okanogan	1.47	3,806,546	yes	0.00	0	0.0%	0	0	100%	156.10
Pacific	1.46	2,708,653	yes	0.00	0	0.0%	0	0	100%	187.91
Pend Oreille	1.07	1,116,533	yes	0.00	0	0.0%	549,500	549,500	67%	113.87
Pierce	1.41	57,371,887	yes	0.00	0	0.0%	0	0	100%	150.14
San Juan	0.40	2,940,100	yes	0.07	545,990	15.7%	425,500	425,500	89%	209.41
Skagit	1.25	10,445,791	yes	0.14	1,199,781	10.3%	1,405,000	1,405,000	89%	209.27
Skamania	1.26	1,312,378		0.00	0	0.0%	101,000	101,000	93%	155.04
Snohomish	1.13	51,316,065	yes	0.00	0	0.0%	0	0	100%	156.32
Spokane	1.16	15,137,601	yes	0.10	1,325,614	8.1%	8,743,500	8,743,500	65%	112.04
Stevens	1.66	4,325,556		0.00	0	0.0%	292,000	292,000	94%	126.76
Thurston	1.03	16,227,062	yes	0.16	2,500,000	13.3%	0	0	100%	116.73
Wahkiakum	1.05	410,104		0.26	99,997	19.6%	5,000	5,000	99%	116.34
Walla Walla	2.09	4,613,943		0.00	0	0.0%	0	0	100%	271.57
Whatcom	1.29	16,099,767	yes	0.06	706,541	4.2%	1,172,000	1,172,000	93%	190.11
Whitman	1.93	1,937,709	yes	0.00	0	0.0%	0	0	100%	308.31
Yakima	2.04	12,291,244	yes	0.00	0	0.0%	0	0	100%	137.90
<b>GRAND TOTAL</b>		<b>424,901,298</b>			<b>14,831,138</b>	<b>3.4%</b>	<b>16,357,000</b>	<b>16,054,000</b>	<b>96%</b>	<b>166.46</b>
<b>Number of counties:</b>										
That divert road levy funds			<b>29</b>							
That use the levy shift			<b>14</b>							
Counties with banked capacity			<b>17</b>							
Counties with useable capacity			<b>16</b>							
Counties at their legal limit			<b>23</b>							
Source: Department of Revenue, Local Property Tax Data for All Counties, 2009										

- No counties have implemented:
  - *Fuel tax*, which requires voter approval and is limited to highway purposes. The fuel tax increase failed twice in Snohomish County.
  - *Commercial parking tax*.
  - *Local option taxes for high occupancy vehicle (HOV) systems*. HCT taxes are available to regional transit authorities (RTA) in King, Pierce, and Snohomish Counties and transit agencies in Thurston, Clark, Kitsap, Spokane, and Yakima Counties for the development of HCT, commuter rail, and feeder transportation systems.

## 2. Cities

- *General purpose taxes*. All cities rely on a combination of general purpose taxes and fees for most of their transportation funding.
- *Commercial parking tax*. Six cities have implemented the commercial parking tax.
- *Border area motor vehicle fuel and special fuel tax*. This is a transportation option limited to cities, towns, and TBDs within ten miles of an international border. Four cities have enacted this tax.
- *Bridge tolls*. No cities have enacted bridge tolls.

## 3. Special Purpose Districts

Not all special purpose districts authorized by statutes are in frequent use, as highlighted below.

- *Regional transportation investment district*. RTID is the only transportation-related special purpose district not being used. Only the King, Snohomish, and Pierce county region was authorized under state statute to form a RTID. In addition, the statute requires voter approval for an RTID plan. In November 2007, voters rejected the RTID Planning Commission Plan.
- *Transportation benefit districts*. There are ten TBDs formed in the state. RCW authorizes cities, towns, and counties to form TBDs, with the restriction that no TBDs could be formed in King, Pierce, or Snohomish County prior to December 1, 2007.
- *Special purpose districts*. Some SPDs are, by their nature, restricted in use. For example, all counties can form a County Ferry District for the limited use of operating ferries. Only King County has established a County Ferry District.
- *Public transportation systems*. These systems have several local option taxes available for use but some are not used as frequently.
- *Utility taxes*. The City of Pullman is the only public transportation system levying a utility tax, equivalent to 0.314 percent sales tax.<sup>67</sup>
- *Local option taxes for high capacity transportation*. Only the RTA in King, Pierce, and Snohomish counties has enacted a HCT tax.

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<sup>67</sup> Transportation Resource Manual, 2009.

## D. Why Local Funding Options Are Not Being Fully Used

Reasons why local transportation funding mechanisms are not fully used fall under four main categories, each explored in greater detail below.

### ***1. There may be significant political hurdles associated with implementing a funding mechanism.***

Political considerations in the use of local transportation funding mechanisms are two-fold: (1) voter approval may be an explicit requirement of enacting a funding mechanism; and (2) the public's negative reaction and the subsequent political ramifications to an increase in taxes or fees factor into the decision to use a local mechanism.

First, many local funding mechanisms require voter approval to increase taxes or fees for transportation funding. As indicated in earlier sections, examples of mechanisms requiring voter approval include most local tax increases and the license fee of over \$20.00 up to \$100.00.

Voter approval for a tax increase is difficult to obtain for a number of reasons. Geography can affect the likelihood of voter approval for transportation taxes. As has been noted in past statewide ballot measures, some parts of the state are more likely to accept tax increases than others. Local jurisdictions in parts of the state with a history of not approving tax increases may be less likely to even consider tax increases as a realistic option.

In addition, local jurisdictions may not have the internal resources to prepare for and implement an effective voter campaign and, particularly for some smaller jurisdictions, the revenue to be gained may not be commensurate with the costs of the election. There are, however, examples across the state where local jurisdictions have received voter approval for transportation funding. For example, King County Metro Transit and Community Transit in Snohomish County are at full capacity of the sales tax rate (0.9%) for transit funding, which required voter approval.

Second, even if voter approval is not technically required, raising local taxes and fees is politically costly. There is a general hesitancy to raise taxes and fees because it is a politically undesirable action to take. In addition, the revenue generated by the mechanism may be small, not be considered worth the political and extra administrative/implementation costs, and may not fully fund a program.

Third, local funding mechanisms, such as a voter approved property tax, or sales tax, often give priority to other local government purposes such as public safety.

### ***2. The funding mechanism may be restricted in its use or applicability.***

Transportation funding mechanisms may be limited in their use by design or may be less applicable to a jurisdiction's local market conditions.

First, some funding mechanisms are designated for use by specific jurisdictions. Examples include the border area motor fuel tax, authorized for cities and towns within ten miles of the Canadian border; local option taxes for HOV systems, authorized for King, Pierce, and Snohomish Counties (with voter approval); and local option taxes for RTIDs, authorized for King, Pierce, and Snohomish Counties (with voter approval).

Second, the funding mechanism may require funding be used for particular purposes. For example, revenue generated from the local option motor vehicle and special fuel tax for counties is designated for highway purposes as defined by the 18<sup>th</sup> amendment, which includes the construction,

maintenance and operation of city streets, county roads, and state highways, and the operation of ferries. Impact and mitigation fees, while not limited to transportation uses, can only be employed for public improvements for specific development projects. Likewise, LID and RTID assessments must benefit the properties assessed. The total assessment cannot be greater than the demonstrated benefit.

Third, local conditions may make a funding mechanism less desirable, effective, or applicable. A County Ferry District is only applicable to counties where there is a demand for ferry service. The commercial parking tax is a local funding tool that makes sense in areas where there is market for paid parking. In the state, there are a limited number of urban areas where this market for commercial parking exists. No counties have implemented the commercial parking tax. Another rural and urban difference can exist in the case of transit; lower demand for transit in rural areas makes it more difficult for transit agencies to receive voter approval needed to use local transit option taxes.

For local jurisdictions near the borders of Oregon and Idaho, the use of local sales tax may be less desirable than in other parts of the state because of lower sales tax rates in Idaho and no sales tax in Oregon. Local jurisdictions may be less inclined to use the sales and use tax as a transportation funding mechanism because of the closeness of these other markets. In addition, when local sales tax options are used in those areas, the revenues generated may be lower than expected because of access to these other low-sales tax or no sales tax markets.

***3. Implementation of a funding mechanism can require a high level of inter-jurisdictional cooperation and coordination, which may be difficult to obtain.***

Coordination between local jurisdictions is required to implement some funding methods, including:

- The local option motor vehicle and special fuel tax requires greater coordination between a county and cities. Counties are authorized to enact the tax that will benefit all jurisdictions within the county. Gas tax revenues are distributed to the county and the cities contained in the county on a weighted per capita basis.
- Cities and counties are authorized to form TBDs through interlocal agreements. These TBDs may contain multiple jurisdictions, including port and transit districts, but all jurisdictions must approve the TBD formation.
- Formation of a RTID in the King, Pierce, and Snohomish County area requires the vote of the county councils.

***4. In the case of TBDs, the mechanism has only recently become available as a funding tool.***

TBDs, under the current authority, are a new tool for cities and towns. The effective dates in which a local jurisdictions could first form a TBD varied as follows:

- July 2007: All counties except King, Pierce, and Snohomish counties
- December 2007: All counties, including King, Pierce, and Snohomish counties
- January 2008: All counties and cities within all counties except King, Pierce and Snohomish counties



- May 2008: All cities and counties<sup>68</sup>

Given the short time that this tool has been available for use, it is not surprising that there are not more TBDs in existence as of August 2009. In fact, given the short time line, there has been a lot of activity around TBDs. Eight of the ten TBDs in existence were formed under the new authority. The City of Sequim's TBD was narrowly defeated by the voters.

## E. Local Funding Alternatives

### 1. State Funding

One of the options available to the legislature is to increase direct and/or grant funding for general purpose governments and for special districts. Increased state funding would reduce the reliance on local option taxes and provide a comprehensive approach to the local transportation funding needs.

#### a. General Purpose Government

- *Distribution of motor vehicle fuel tax.* As discussed in the section on state funding mechanisms, recommendations to index the motor vehicle fuel tax will benefit cities and counties which receive distributions from the motor vehicle fuel tax with total additional distributions of \$1.4 billion under the consultants' risk scenario and \$2.2 billion using consumption estimates in the November forecast.
- *Increase cpg distribution of motor vehicle fuel tax.* Counties receive 4.92 cpg of the state's motor vehicle fuel tax and cities 2.96 cpg. The legislature could increase the cpg of the motor vehicle fuel tax distributed to local jurisdictions. For each 1.0 cpg increase, the local jurisdictions would receive an additional \$1.1 - \$1.3 billion (including revenues received through the urban and rural arterial trusts, TIB, and the county arterial preservation accounts).
- *Distribute other state revenues.* The state could consider distributing some of its other revenue to counties and cities. In the section on state funding method recommendations, the consultants identified fees that might be increased in the longer term, particularly if motor vehicle fuel per capita erodes more quickly than projected. These same funding mechanisms could be enacted with the goal of sharing a portion of the increased revenues with local jurisdictions. For example, if weight fees are increased the resulting \$3.8 billion in additional state revenue could be apportioned in part to local jurisdictions. Non 18<sup>th</sup> Amendment restricted funds, such as the weight fees, would enable cities and counties to invest in multi-modal solutions.
- *Increase grant programs.* Cities and counties would benefit from increased state funding for the Transportation Improvement Board, the County Road Administration Board, the Freight Mobility Strategic Investment Board, the Public Transportation Division of WSDOT, and WSDOT Highways and Local Programs

#### b. Ports

- *Increase grant programs.* Ports would benefit from increased funding for the Freight Mobility Strategic Investment Board.

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<sup>68</sup> Washington State Association of Counties, 2007.

### c. Transit Districts

- *Increase grant programs.* As shown in Exhibit 32 transit districts other than Sound Transit received 2 percent of their funding from the state in 2007. In the 2007-09 biennium WSDOT awarded 97 public transportation grants totaling \$33 million through its Public Transportation Division. State funds provided \$14 million and federal funds \$19 million.
- *Expand use of toll revenue.* As discussed in the section on state funding method recommendations, the legislature could authorize the use of HOT Lane toll, bridge/highway toll, and/or ferry fares for specific corridor transit service.

## 2. Cities Local Options

Cities and towns transportation funding issues stem from the lack of a dedicated funding source for street maintenance and the need to compete with other general purpose government needs.

- *No dedicated fund source.* Cities and towns have no dedicated fund source for street preservation and maintenance.
- *Reliance on general fund.* Cities and towns rely heavily on their general fund for transportation. Increasingly, transportation must compete with other essential services such as fire and police for general fund dollars.

Legislative actions that could provide additional local option taxing authority to cities are:

- *Street maintenance utility authority.* In 1995 the State Supreme Court ruled that the state authorized street utility fee was unconstitutional in a case involving the City of Seattle's residential street utility fee. The court found that the fee as it then existed was actually a property tax and as such was unconstitutional. In Oregon city street utility fees, unlike the fee as it existed in Washington, are based on land use and trip generation, and can only be used for maintenance. Fees are typically collected monthly with utility bills. The Association of Washington Cities joined by several individual cities, is designing a street maintenance utility option for Washington State that would be used for "curb-to-curb" basic street maintenance and preservation and would be based on land use and trip generation.<sup>69</sup>

## 3. Counties Local Options

While counties have a dedicated source of transportation funding in the road levy property tax, limitations have effectively capped that fund source at existing levels. Small counties in particular are limited in their ability to raise additional funds from property taxes given their small land value.

Legislative action that would make existing county option funding more useable are:

- *Transportation Benefit Districts.* TBDs formed by counties are authorized to collect up to a \$100.00 license fee with voter approval or up to a \$20.00 license fee with councilmanic authority. A modification that would increase the likelihood of this authority being used is:
  - *Allow councilmanic authority for a \$100.00 license fee.* This would eliminate the distinction between a councilmanic versus voter approved license fee authority.

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<sup>69</sup> Association of Washington Cities, *Street Utility A New Local Option for Cities*, September 2009.

- *Expand the eligible funding uses.* TBDs can now only be created to support roadways, high capacity transportation systems, public transit, and other transportation management programs. Other potential uses might include commute trip reduction measures and county ferries.
- *Motor Vehicle and Special Fuel Tax.* Counties are authorized by RCW 82.80.010 to impose with voter approval an additional county fuel tax of up to 10 percent of the state fuel tax rate or 3.75 cpg. The tax has been proposed twice in Snohomish County and both times it was defeated. Modifications that could increase the likelihood of this authority being used are:
  - *Clarify the tax rate.* There is a concern that some voters believe they are being asked to approve a rate of 10 percent of the retail price of fuel rather than 10 percent of the state fuel tax rate. Amending the language to state a specific cost per gallon could clarify exactly what voters are being asked to approve. This would be similar to the existing border area motor vehicle and special fuel tax which is authorized up to 0.1 cpg.
  - *Councilmanic authority.* The legislature could consider giving counties some limited councilmanic authority to impose an additional motor vehicle and special fuel tax.

Legislative action that could add to existing county option funding is:

- *Rental Vehicle Sales Tax.* The state imposes an additional<sup>70</sup> 5.9 percent sales tax on the retail rental of vehicles, exempting vehicles rented or loaned to customers by automobile repair businesses while the customer's vehicles are under repair and vehicles licensed and operated as taxicabs. Revenues generated by the additional 5.9 percent sales tax are deposited in the multimodal fund.<sup>71</sup> Local jurisdictions are authorized to impose additional<sup>72</sup> rental vehicle sales taxes as shown in the exhibit below. Only one of the authorizations is for transportation related purposes. The state could permit counties other than King County to impose an additional motor vehicle rental sales tax of 2 percent for transportation.

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<sup>70</sup> Additional to the state sales and use tax of 6.5 percent.

<sup>71</sup> Revenues from the 6.5 percent sales and use tax on rental vehicles are deposited in the General Fund.

<sup>72</sup> Rates allowed are in addition to otherwise authorized local option sales and use taxes.

**Exhibit 35.  
Local Jurisdictions Additional Motor Vehicle Rental Sales Tax  
Authorizations**

Jurisdiction	Max. Rate	Rates in Effect	RCW/Allowed Use
Regional Transit Authority/Transit Agencies <sup>73</sup>	2.72%	0.8% (Sound Transit)	RCW 81.104.160 High capacity transportation service
King County Stadium Tax	2.00%	2.0%	RCW 82.14.360 Baseball stadium
Counties	1.00%	1.0% - Franklin, Pierce, King & Spokane counties	RCW 82.14.049 Amateur or youth sports Sports facilities

4. Ports Local Options

Ports are supported by property taxes and revenue from leases and operations. Ports spend transportation dollars in association with rail which is privately owned. Although the Ports have not identified additional local option authority needs, they are interested in increasing support for freight infrastructure including rail, strategic truck corridors, and other freight projects.

5. Transit Local Options

For transit districts the largest funding need is for operations. As noted by the Washington State Transit Association in a report to the 2009 legislature, 2008 was a year of change and challenges for most of Washington State's transit systems with sales tax revenues declining in response to economic conditions, and rising fuel costs and ridership. Transit systems are, at best, maintaining service levels by drawing down some reserve levels, raising fares, and/or deferring capital projects. "Almost every system in the state will face reductions in the 2010-14 timeframe if the economy does not improve or if new revenue is not found."

Local funding options that the legislature could consider to increase funding for transit are:

- *Increase sales tax limit.* The legislature authorized an additional 0.1 percent sales tax authority for the Regional Transportation Investment District. The legislature could consider transferring that authority to fund transit systems.
- *Employer tax.* The legislature also authorized an employer tax of up to \$2.00 per month per employee for the Regional Transportation Investment District. The legislature could consider transferring that authority to fund transit systems.
- *Motor vehicle excise tax.* Prior to the passage of I-695, transit agencies received MVET revenue as a match against local option sales tax revenues. The legislature could consider authorizing a local option MVET in addition to or in lieu of transit system's current local option sales tax authority.

<sup>73</sup> Local option taxes for high capacity transportation are available to regional transit authorities in King, Pierce, and Snohomish counties and transit agencies in Thurston, Clark, Kitsap, Spokane, and Yakima Counties for the development of highway capacity transportation, commuter rail, and feeder transportation systems. Only the Sound Transit RTA in King, Pierce, and Snohomish counties has enacted a high capacity transportation tax.

- *Vehicle license fee.* Transportation benefit districts currently have the authority to impose a local license fee which can be shared with local transit systems, but this is only at the discretion of the city or county that forms the TBD. The legislature could consider providing transit systems a local option vehicle license fee similar to the TBD authority.

## F. Local Funding Recommendations

Cities and counties will, under existing state law, receive increased distributions from the state if the legislature indexes and/or increases the state motor vehicle tax rate. Depending on those decisions and the magnitude of the consequent distributions the state could also consider the following actions:

### 1. Medium-Term

In the medium term the legislature could consider:

**Action 1.** Increase, when funding permits, state grant programs from the Transportation Improvement Board, the County Road Administration Board, the Freight Mobility Strategic Investment Board, the Public Transportation Division of WSDOT, and WSDOT Highways and Local Programs

**Action 2.** Authorize cities to create street maintenance utilities to provide a dedicated funding source for street maintenance and preservation.

**Action 3.** Amend the authority for Transportation Benefit Districts to impose license fees so that a fee of up to \$100 can be imposed by a councilmanic vote and provide flexibility in what the funds can be invested in.

**Action 4.** Amend the authority for counties to impose an additional motor vehicle and special fuel tax to establish the rate as cents per gallon rather than as a percentage of the state motor vehicle fuel tax and provide councilmanic authority.

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

**Action 6.** Authorize a local option motor vehicle excise tax 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 the TBD authority.

### 2. Longer-Term

In the longer-term the legislature could consider additional state funds distribution to local jurisdictions and additional rental car tax authority.



## APPENDIX A. OTHER STATES: FEES AND TAXES

This appendix contains supplementary information on other state fee and tax rates.

### 1. MOTOR VEHICLE FUEL TAX RATES

Options	Other States
<b>Index</b>	
CPI	Florida and Maine (annually)
Wholesale fuel price	<i>Kentucky</i> (portion adjusted quarterly but not more than 10% annually) <i>North Carolina</i> (adjusted January & July – set at 17.5 cpg + 7% of the average wholesale price) <i>Pennsylvania</i> (annually) <i>West Virginia</i> (annually, 2009 suspended)
Producer Price Index	<i>New York</i> (adjusted annually)
Average Cost of Fuel	<i>Nebraska</i> (adjust every six months)
Index Retail Price of Fuel	<i>Georgia</i> (adjust every six months)
Index to Alternative Fuels Sold	<i>Iowa</i> – (adjusted annually based on ethanol sales)
<b>Vary by Type of Motor Fuel</b>	
Higher rate for diesel	<i>National average Gasoline</i> – 21.72 cpg <ul style="list-style-type: none"> <li>• Diesel – 22.62 cpg</li> </ul> <i>17 states higher diesel rates</i> <ul style="list-style-type: none"> <li>• 18.4 cpg to 0.75 cpg higher</li> <li>• 1 state lowers diesel fuel rate for light trucks or exempt vehicles</li> </ul> <i>25 states same rates</i> <i>5 lower diesel rates</i> <ul style="list-style-type: none"> <li>• 4.0 cpg to 1.0 cpg lower</li> </ul> <i>Federal</i> – 6 cents higher
Lower rate for gasohol or other special fuels	National average per gallon: <ul style="list-style-type: none"> <li>• Gasoline – 21.72 cpg</li> <li>• Gasohol – 21.54 cpg</li> </ul> <i>3 states lower</i> <ul style="list-style-type: none"> <li>• range 1.7 cpg to 2.5 cpg lower</li> </ul> <i>47 states same</i>

Options	Other States
<b>Vary by Type of Vehicle</b>	
Increase rate for carriers	<p>5 states surcharge for carriers</p> <ul style="list-style-type: none"> <li>Arizona: 9 cpg on road tractors, truck tractors, trucks gross weight over 26,000 pounds or more than 2 axles or a passenger carrying vehicle that seats more than 20.</li> <li>Kentucky: 3.6 cpg on gasoline and 8.4 cpg on special fuels for commercial carriers.</li> <li>Ohio: 3 cpg surcharge for commercial vehicles.</li> </ul>
<b>Set Increases</b>	
Increase by a set amount annually	Ohio: 2 cents over 6 years
<b>Sales Tax</b>	
Extend sales tax to gasoline, diesel, and special fuel retail purchases	<p>10 states add sales tax to retail purchases</p> <ul style="list-style-type: none"> <li>Range 2% to 7% or 4 to 8 cpg</li> <li>Sales tax applied to retail price after state and/or federal excise taxes deducted in 3 of the states.</li> <li>Virginia – only in areas where mass transit systems exist</li> </ul>
<b>Special Assessment</b>	
Motor fuel infrastructure assessment	<p>Vermont</p> <ul style="list-style-type: none"> <li>2% of retail price before federal or state excise tax based on average retail price.</li> </ul>
<b>Gross Receipts Tax</b>	
Institute gross receipts tax on fuel sales.	<p>Connecticut</p> <ul style="list-style-type: none"> <li>7.53% gross receipts tax on wholesale price of gasoline.</li> </ul>
Add gross receipts tax on per gallon basis	<ul style="list-style-type: none"> <li>New York adds 16.4 cents per gallon for petroleum business tax</li> </ul>

\*Source: NGA Center for Best Practices/Federal Highway Administration

## 2. State Tire Fees Collected At Retail

State with Tire Fee Applied at Retail	Is Fee Also On New Vehicles	Rate (per tire)
Alabama	No	\$1.00
Alaska	No	\$2.50 \$5.00 studded tires
Arkansas	Yes	\$2.00 \$5.00 Rim size greater than 20" & a load rating of "E" or higher



State with Tire Fee Applied at Retail	Is Fee Also On New Vehicles	Rate (per tire)
Arizona	Yes	2% up to \$2.00 New cars - \$1.00
California	Yes	\$1.75
Colorado	Yes	\$1.50
Connecticut	No	\$2.00
Delaware	Yes	\$2.00
Florida	Yes	\$1.00
Georgia	No	\$1.00
Illinois	No	\$1.00
Indiana	No	\$2.50
Kansas	Yes	\$0.25
Kentucky	No	\$1.00
Louisiana	Yes	\$2.00 passenger vehicles/light trucks \$5.00 medium truck \$10.00 Off-road
Maine	No	\$1.00
Missouri	Yes	\$0.50
Nevada	No	\$1.00
New Jersey	Yes	\$2.50
New York	Yes	\$2.50
North Carolina	No	2% sales tax on tires with bead diameter less than 20" 1% bead diameter > than 20"
Oklahoma - & on cars when first registered in the state except IRP	Yes	\$1.00 17" rim \$2.50 17.5 to 19.5" rim \$3.50 > than 19.5" rim
Pennsylvania	Yes	\$1.00
South Carolina	No	\$2.00
Tennessee	No	\$1.00
Utah	Yes	\$1.00 (tires rim size 24" and less)
Virginia	Yes	\$1.00
Washington	No	\$1.00

### 3. Insurance Premium Tax

State	Insurance Premium (on casualty insurance)
Alabama	3.6%
Alaska	2.7%
Arizona	1.9% (2009), 1.8% (2010), 1.7% (2011), 1.6% (2012), 1.5% (2013)
Arkansas	2.5%
California	2.35%
Colorado	1.0% (domestic); 2.0% (foreign)
Connecticut	1.75%
Delaware	2.0%
District of Columbia	1.7%
Florida	1.75%
Georgia	2.25%
Hawaii	4.265%
Idaho	1.7% (2009), 1.5% (2010)
Illinois	0.9%
Indiana	1.1% (2009), 1.0% (2010)
Iowa	1.0%
Kansas	2.0%
Kentucky	2.0%
Louisiana	3.0%
Maine	2.0%
Maryland	2.0%
Massachusetts	2.28%
Michigan	1.25%
Minnesota	1.0%-2.0% (based on total assets)
Mississippi	3.0%
Missouri	2.0%
Montana	2.75%
Nebraska	1.0%
Nevada	3.5%
New Hampshire	1.5% (2009), 1.25% (2010), 1.00% (2011)
New Jersey	2.0%
New Mexico	3.003%
New York	2.0%

State	Insurance Premium (on casualty insurance)
North Carolina	1.9%
North Dakota	1.75%
Ohio	1.4%
Oklahoma	2.25%
Oregon	6.6% of net income (excise tax)
Pennsylvania	2.0%
Rhode Island	2.0%
South Carolina	1.25%
South Dakota	2.5%
Tennessee	2.5%
Texas	1.6%
Utah	2.25%
Vermont	2.0%
Virginia	2.25%
Washington	2.0%
West Virginia	3.0%
Wisconsin	Lesser of 7.9% of net income or 2% of gross premiums
Wyoming	0.75%

\*Unless noted otherwise, since more states require payment of taxes based on prior year's premiums, tax rates are for 2008 (payable in 2009).

#### 4. State Driver License Fees

##### State Five Year Driver, Non-Commercial License Fees

State: Five Year Driver License, Non-Commercial	Fee
Alaska	\$20.00
Colorado	\$21.00
Delaware	\$25.00
Georgia	\$20.00 (or 10 years for \$35.00)
Iowa	\$20.00 (2 years under 18 or 70+)
Maryland	\$45.00 initial \$30.00 renewal
Massachusetts	\$50.00

State: Five Year Driver License, Non-Commercial	Fee
Nebraska	\$24.00
North Carolina	\$20.00
Rhode Island	\$31.50
South Carolina	\$12.50 (only for 65+)
South Dakota	\$8.00 initial \$20.00 renewal
Tennessee	\$17.50
Utah	\$30.00 initial (under 21) \$25.00 (over 21) \$25.00 renewal (under 65), \$13.00 over 65
Washington	\$45.00 initial \$25.00 renewal
West Virginia	\$13.00

### 5. California Fees Subject to Indexing

	2004 Base Rate	2009 Rate	% Change
<b>Driver Fee</b>			
Driver License (Class C or M) Original and Drive Test Retake Fee	\$ 5.00	\$6.00	20%
Driver License Commercial or Non-Commercial Firefighter Renewal	\$34.00	\$40.00	18%
Duplicate Non-Commercial Driver License or Name Change for Non-Commercial and Commercial Fee	\$19.00	\$22.00	16%
Identification Card Fee	\$20.00	\$24.00	20%
Identification Card Reduced Fee	\$ 6.00	\$7.00	17%
Driver License Five Year Fee	\$24.00	\$28.00	17%
Driver License (Class C or M) Original Application Fee	\$24.00	\$28.00	17%
Driver License Renewal or Change of Class Fee	\$24.00	\$28.00	17%
Transaction fee for info/services provided to private industry partners	\$3.00	\$4.00	33%
<b>Vehicle Fee</b>			
Vehicle Registration Related			
Off Highway Vehicle California Highway Patrol Fee	\$ 3.00	\$4.00	33%
California Highway Patrol Fee	\$ 3.00	\$4.00	33%
Duplication Certification of Ownership Registration Card and Equipment ID Card Fee	\$15.00	\$18.00	20%
Duplicate & Substitute Plates & Equipment Identification Plate Fee	\$15.00	\$18.00	20%
Equipment Identification Renewal Plate Fee	\$15.00	\$18.00	20%

	2004 Base Rate	2009 Rate	% Change
Moped Original or Transfer Fee	\$15.00	\$18.00	20%
Non-Resident Daily Commuter Permit Service Fee	\$15.00	\$18.00	20%
Non-Resident Registration and Re-Registration Service Fee	\$15.00	\$18.00	20%
Off Highway Vehicle Planned Non-Operation Fee	\$15.00	\$18.00	20%
Off Highway Vehicle Transfer Duplicate Ownership, Identification Plate, Tab and Sticker Fee	\$15.00	\$18.00	20%
Off Highway Vehicle Transfer of Ownership Penalty Fee	\$15.00	\$18.00	20%
One Trip Permit Fee	\$15.00	\$18.00	20%
Partial Vehicle License Fee	\$15.00	\$18.00	20%
Partial Year Registration Fee	\$15.00	\$18.00	20%
Planned Non-Operation Fee	\$15.00	\$18.00	20%
Permanent Trailer Identification Paper Title Fee	\$15.00	\$18.00	20%
Pre-Judgment Attachment Fee	\$15.00	\$18.00	20%
Salvage Certificate Fee	\$15.00	\$18.00	20%
School Bus (Privately Owned) Fee	\$15.00	\$18.00	20%
School Bus (Education or Nonprofit Purpose) Fee	\$15.00	\$18.00	20%
Special Equipment Originals and Renewal Service Fee	\$15.00	\$18.00	20%
Special Equipment Transfer Fee	\$15.00	\$18.00	20%
Special Identification Plate Service Fee	\$15.00	\$18.00	20%
Special Transportation Identification Device Fee (for motorcycle)	\$15.00	\$18.00	20%
Title Only Fee	\$15.00	\$18.00	20%
Non-Repairable Vehicle Certificate Fee	\$15.00	\$18.00	20%

## 6. State Truck Weight Fees

State	Weight Mileage Fee Rate	Diesel & Gasoline Fuel Tax
Illinois	<ul style="list-style-type: none"> <li>Registration option only for trucks that drive low miles and that drive only in the state</li> <li>Allows a guaranteed number of miles (5,000 to 7,000 miles depending on weight)</li> <li>Per mile cost for miles driven in excess of the guaranteed amount ranges from 2.6 cpg to 27.5 cpg depending on truck weight</li> </ul>	<ul style="list-style-type: none"> <li>20.1 cpg for gasoline</li> <li>22.6 cpg for diesel</li> </ul>
Kentucky	<ul style="list-style-type: none"> <li>2.85 cents per mile for all vehicles having a combined gross weight or licensed weight in excess of 59,999 pounds.</li> </ul>	<ul style="list-style-type: none"> <li>18 cpg for diesel</li> <li>21 cpg for gasoline</li> </ul>

State	Weight Mileage Fee Rate	Diesel & Gasoline Fuel Tax
New Mexico	<ul style="list-style-type: none"> <li>Rates based on a full-haul or one-way haul basis</li> <li>Rates vary from a low of 0.734 cents per mile for a one-way haul rate for a gross weight truck of 26,001-28,000 pounds to a high of 4.378 cents per mile for a full haul rate for a gross weight truck of 78,001 to 80,000 pounds</li> </ul>	<ul style="list-style-type: none"> <li>22.875 cpg for diesel</li> <li>18.875 cpg for gasoline</li> </ul>
New York	<ul style="list-style-type: none"> <li>Varies based on weight and whether the taxpayer is using a laden or non-laden calculation method.</li> <li>Rates vary from a low of 0.04 cents per mile for non-thruway travel for unloaded weight to 5.85 cents per mile for laden trucks with gross weight of 78,001 to 80,000 pounds. After 80,000 pounds a 0.03 cents per mile per ton and fraction thereof is added to the fee</li> </ul>	<ul style="list-style-type: none"> <li>22.65 cpg for diesel</li> <li>24.4 cpg for gasoline</li> </ul>
Oregon	<ul style="list-style-type: none"> <li>Rates for trucks from 26,001 gross weight to 80,000 pounds range from a low of 0.4 cents per miles to a high of 13.16 cents per mile</li> <li>Rates for trucks over 80,000 pounds, vary by the number of axles (5 to 9 or more) with rates ranging from a low of 11.62 cents per mile to a high of 18.51 cents per mile</li> </ul>	<ul style="list-style-type: none"> <li>No diesel fuel tax</li> <li>24.0 cpg for gasoline</li> </ul>

## 6. State Amtrak Service Funding

State	Funding Source – Passenger Rail
California	<ul style="list-style-type: none"> <li><i>Sales taxes on diesel and gasoline</i> – largest source. State Public Transportation Fund <ul style="list-style-type: none"> <li>Pays Amtrak annual subsidy</li> </ul> </li> <li>Motor vehicle fuel taxes – capital projects in the state transportation improvement plan – State Highway Fund</li> <li>Voter approved bonds <ul style="list-style-type: none"> <li>Highway Safety, Traffic Reduction, Air Quality and Port Security Bond - 2006</li> <li>Passenger Rail and Clean Air Bond Act - 1990</li> </ul> </li> </ul>
Illinois	<ul style="list-style-type: none"> <li><i>General fund</i> <ul style="list-style-type: none"> <li>Pays Amtrak annual subsidy</li> </ul> </li> </ul>
Maine	Not available
Michigan	<ul style="list-style-type: none"> <li><i>Comprehensive Transportation Fund (Multi-modal fund)</i> <ul style="list-style-type: none"> <li>Pays Amtrak annual subsidy</li> </ul> </li> </ul>

State	Funding Source – Passenger Rail
Missouri	<ul style="list-style-type: none"> <li>• <i>Multi-modal operations fund</i> <ul style="list-style-type: none"> <li>○ Pays Amtrak annual subsidy</li> </ul> </li> </ul>
New York	<ul style="list-style-type: none"> <li>• <i>General state revenues – rail service preservation program</i> <ul style="list-style-type: none"> <li>○ Pays Amtrak annual subsidy</li> <li>○ \$20 million annually for passenger and freight rail capital projects</li> </ul> </li> <li>• <i>Voter approved bonds</i> <ul style="list-style-type: none"> <li>○ Rebuild and Renew New York Transportation Bond - 2005</li> <li>○ Transportation Capital Facilities Bond - 1967</li> </ul> </li> <li>• <i>Multi-modal program – funded by bond sales by the New York Thruway Authority or the New York State Dormitory Authority</i></li> </ul>
North Carolina	<ul style="list-style-type: none"> <li>• <i>Transportation Highway Fund</i> <ul style="list-style-type: none"> <li>○ Pays Amtrak annual subsidy</li> </ul> </li> </ul>
Oklahoma	<ul style="list-style-type: none"> <li>• <i>General fund</i> <ul style="list-style-type: none"> <li>○ Pays Amtrak annual subsidy</li> </ul> </li> </ul>
Oregon	<ul style="list-style-type: none"> <li>• <i>General fund</i> <ul style="list-style-type: none"> <li>○ Pays Amtrak annual subsidy</li> <li>○ Related Thruway motor coach service</li> </ul> </li> </ul>
Pennsylvania	<ul style="list-style-type: none"> <li>• <i>Rail Passenger Operating Program</i> <ul style="list-style-type: none"> <li>○ Funds Amtrak payment</li> </ul> </li> <li>• <i>State bonds - capital</i></li> </ul>
Texas	<ul style="list-style-type: none"> <li>• <i>Not available</i></li> </ul>
Vermont	<ul style="list-style-type: none"> <li>• <i>Gas Tax, Department of Motor Vehicle fees, &amp; Misc. Sources</i> <ul style="list-style-type: none"> <li>○ Funds Amtrak payment</li> </ul> </li> </ul>
Washington	<ul style="list-style-type: none"> <li>• <i>Multi-modal fund</i> <ul style="list-style-type: none"> <li>○ Funds Amtrak payment</li> </ul> </li> </ul>
Wisconsin	<ul style="list-style-type: none"> <li>• <i>Passenger Rail Assistance Program – Transportation Fund</i> <ul style="list-style-type: none"> <li>○ Pays Amtrak annual subsidy</li> </ul> </li> <li>• <i>State bonds - capital</i></li> </ul>





## **APPENDIX B. WORKGROUP AND AGENCY COMMENTS**

This study was supported by a staff workgroup that provided technical expertise throughout the course of the consultants' work and the JTC's review. Their work was invaluable in the conduct of this study.

Members of the staff workgroup represented the following agencies.

Joint Transportation Committee	Commerce Department
House Transportation Committee	Office of Financial Management
Senate Transportation Committee	Puget Sound Regional Council
Washington State Department of Transportation	Washington Association of Cities
Department of Licensing	Washington State Association of Counties
Department of Revenue	Washington State Transportation Commission
Department of Ecology	Washington State Transit Association



## Washington State Association of Counties

206 Tenth Ave SE, Olympia WA 98501-1311  
(360) 753-1886 / Fax: (360) 753-2842 / Web: [www.wacounties.org/wsac](http://www.wacounties.org/wsac)

December 14, 2009

Senator Mary Margaret Haugen  
Representative Judy Clibborn  
Joint Transportation Committee  
3309 Capitol Blvd SE  
PO Box 40937  
Olympia, WA 98504-0937

Dear Senator Haugen and Dear Representative Clibborn,

The Washington State Association of Counties (WSAC) thanks the Joint Transportation Committee (JTC) and committee staff for providing counties the opportunity to participate in the development of the "Implementing Alternative Transportation Funding Methods" study and to provide these comments. In particular we want to thank you for rescheduling your recent JTC meeting to coincide with the WSAC Fall Legislative Conference and providing the opportunity to the make a presentation to the joint committee.

The study provides an overview of the various options to address current and transportation funding shortfalls facing both the state and local transportation agencies. The study is well done and should help guide the legislature in considering alternatives. The study recognizes the importance of local government transportation funding with alternatives to consider.

As was mentioned in our recent presentation to the JTC county roads make up a significant portion of the statewide transportation system. Counties, up until recently, have seen significant increases in the costs for materials and equipment to maintain and improve roads while at the same time having limited-to-no growth in the primary sources of revenue - county road levy and motor vehicle fuel tax. While the legislature has been responsive to local needs by providing local options, counties have found these options difficult to implement as noted by the consultant in the report.

With the above in mind, counties request that the legislature give priority to revenue options that:

1. Benefit all counties around the state in a balanced and equitable manner,
2. Provide local options that are more flexible, easy to implement and capable to meet local needs and,
3. Ensure statewide revenue options also make provisions to share resources with counties that cannot practically raise revenues at the local level.

We are also concerned that existing resources not be reduced or diluted by shifting funds to other programs or adding new responsibilities without new resources. In particular, we are concerned that recommendations to shift CAPRON funds to the ferry system could impact those counties that receive a share of these funds.

We have also provided additional technical comments under separate cover to the consultant for the final draft of the report.

Again, WSAC wants to thank the Joint Transportation Committee chairs and members for conducting this study and for including local governments in the continuing discussion. You can count on counties to be actively involved as the transportation funding discussion moves forward and we look forward to working with the legislature and other transportation partners in developing and maintaining Washington State's transportation system.

Sincerely,

Merrill Ott  
President, WSAC

Cc: Gene Baxstrom  
Kathy Scanlon

WASHINGTON STATE  
**Transit**  
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December 30, 2009

Senator Mary Margaret Haugen, Co-chair  
Representative Judy Clibborn, Co-chair  
Joint Transportation Committee  
3309 Capitol Blvd SE  
PO Box 40937  
Olympia, WA 98504-0937

Dear Senator Haugen and Representative Clibborn:

Thank you for incorporating the Washington State Transit Association's comments into prior drafts of the alternative transportation funding method report. We appreciate the opportunity to provide comments on the final version and have several concerns with the report that we would like to share with you.

As stated on the first page of the report, the primary objective of the analysis is to identify specific steps for the legislature and agencies to begin implementing viable mid-term and long-term transportation funding approaches. WSTA understands that this report is limited to revenue generation rather than transportation funding priorities, and towards that end, the study sets forth four objectives and associated criteria that became the framework for the analysis. The first objective was that the stream of revenue be commensurate with the transportation system funding needs. The criteria that flowed from that objective included the potential revenue from the funding method; whether that funding was responsive to inflation, population change, and economic growth; and other factors relating to the method.

Herein lies the problem – the criteria focused on the revenue and not the demand that sculpts the system's needs. The report took into account the growing impact of hybrid and electric cars but ignores increasing transit-ridership trends, the sustainable communities' movement, and an aging population that needs transit for access. With the trends touched on in the report, such as climate change and congestion, the state transportation system needs are changing, as are appropriate funding methods. Eighteenth amendment restricted revenues are now less attractive than revenues that can fund a comprehensive system that will lower per-capita vehicle miles traveled (VMT) and addresses corridor congestion.

Public transportation benefits our state economy, improves regional mobility, provides access to those who need it, and connects communities. Public transit agencies and the State can work together to improve provide a comprehensive state transportation system that responds to new demands. For example, with state benchmarks for reductions in daily VMT, the State reliance on transit systems to provide more service is increasing. When the State increases tolls or creates High Occupancy Toll (HOT) lanes as a demand management tool, the State needs transit capacity to offset the impact.



When discussing the funding needs for the state transportation system, it is vital to recognize the extensive state human services and congestion mitigation obligations that Washington's public transit systems have assumed, without commensurate funding. For example, when the State cut its Adult Day Healthcare funding, transit systems took on that State responsibility. Public transit systems exist in nearly all urbanized areas of the state and provide some level of service to nearly 85 percent of the population of the state. Where these systems exist, they provide the vast majority of Medicaid transportation, rehabilitation transportation, welfare to work transportation, adult day health care transportation, Older Americans Act transportation and a variety of other federally-mandated services. We have estimated that if public transit did not exist, that it would cost the state at least \$200 million annually to replace these services and meet its various federal- and state-level obligations.

In addition, public transit systems throughout this state move truly significant numbers of individuals through highly-congested or nearly-congested corridors. Absent these transit services, the state would face even greater levels of delay, road maintenance, and the need for even larger road facilities. Transit's current services have already reduced the scale of the backlog of road facilities and, considering the cost projections for new facilities, provide highly cost-effective alternative capacity.

The revenue options should reflect the increasing role of public transportation in responding to the evolving state transportation system needs, with the State and transit systems working together as partners. Historically, Washington State provided approximately 40 percent of local public transportation systems' revenue. As noted in the report, transit districts used to receive the largest share (25 percent) of state motor vehicle excise tax (MVET) revenue (about \$99 million for the 1997-99 biennium). Today, the State provides less than 3 percent of public transit revenues. Transit systems have been able to make up a portion of that revenue loss through increases to fares, local sales taxes, and use of reserves – all in spite of increased operating costs. State revenue is critical to the continuing delivery of transit services. The funding method recommendations should take into account these new transportation system demands, particularly those involving transit services.

WSTA appreciates participating with you in this endeavor, and our frustrations regarding this report have more to do with the scope of the mission rather than the methodologies involved in its creation. Its narrow parameters do not allow it to view the changing nature of the transportation system. However, below are several points we would have liked to see in the report:

- A state imposed MVET, while considered as a funding source for ferries, should be given more consideration as a funding source for transit. In 2000, the ferry system lost 11 percent of the MVET revenue, while the transit systems lost 25 percent of the MVET revenue. Even as applied to ferries the study is ambiguous concerning its recommendations regarding a state imposed MVET.
- The tolling recommendations are laudable but do not generate sufficient revenue for transit operations. The study listed two state funding sources/options for transit: (1) increased grant funding, and (2) expanded use of toll revenue to fund corridor specific transit. The recommendation to increase grant programs does not address the source of the funding or that the funding is for capital projects and not operations.
- Local option funding for transit systems are useful, but, as noted in the report, are not viable for many transit systems in border or rural areas. Specifically, the issue of "stacking" of local option taxes is not fully developed – if one jurisdiction imposes a local option tax, then another jurisdiction that shares the same tax base has a harder time passing its tax measure.

WSTA looks forward to working on these matters with you and fully appreciates all your work in compiling this impressive transportation document. Thank you for your consideration.

If you have questions or would like to discuss this letter in more detail, please feel free to contact Michael Shaw at 206-595-6108 or me at 360-786-9734.

Respectfully,



Geri Beardsley  
Executive Director

Cc: Kathy Scanlan, Cedar River Group  
Gene Baxstrom, Joint Transportation Committee