WASHINGTON POLICY CENTER

LEGISLATIVE MEMO

Washington Policy Center's Recommendations on a Transportation Tax Package

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Policy Recommendations:

1. Taxes and fees paid by drivers should not subsidize other modes of transportation
2. Do not create a state-level tax or fee to fund local transit agencies
3. Stop diverting existing transportation taxes and fees to pay for non-highway purposes
4. Expand capacity, fix chokepoints and do not restrict new resources to just maintaining the existing system
5. Reduce unnatural cost drivers that make transportation projects more expensive

Introduction

Late in a second special legislative session, House and Senate leaders are pushing different transportation tax proposals. People in Washington have continually voiced opposition to tax increases in the past, and officials should focus on the needs of the public when proposing another. WPC has compiled five policy recommendations that lawmakers should include in any legislation that is funded by a tax increase, to ensure any new transportation bill improves mobility and serves the public interest.

Since the 1991–1993 legislative biennium, Washington's transportation budget has grown nearly 250%, from $2.1 billion every two years, to $7.2 billion every two years.[1] Some of the revenue growth stems from two motor vehicle fuel tax increases in 2003 and 2005. Washington state's gas tax rate is currently 37.5 cents per gallon.

These transportation taxes and fee hikes do not count the various local increases that officials have imposed. Particularly in King County, where taxpayers have experienced six significant increases in sales, property and motor vehicle excise taxes to pay for public transit.[2]

Before state leaders ask people to pay more, WPC offers the following recommendations to consider when deliberating a tax increase on drivers, based on our study "A Roadmap for Mobility."

Taxes and Fees Paid by Drivers Should Not Subsidize Other Modes of Transportation

Drivers pay most of the taxes and fees that fund the state's transportation obligations. Nationally and in Washington state, the highway system was constructed largely on the philosophy that users would pay. This user-fee theory successfully built 7,000 miles of roadway and allows Washingtonians to drive nearly 60 billion miles per year, producing industry, mobility, economic freedom and a higher quality of life for everyone. Over the years, however, more of the taxes and fees paid by drivers are being used to subsidize other modes of transportation and non-highway purposes.

1 "Washington State Fiscal Information, Transportation Budget, Statewide Summary, 1991–1993 legislative biennium, 2011–2012 legislative biennium," Office of Financial Management, viewed November 2012, at www.fiscal.wa.gov.

2 1996 Sound Transit phase 1, 2000 King County Metro Sales Tax increase, 2006 King County Metro Sales Tax increase, 2007 King County Ferry District property tax increase, later transferred to King County Metro, 2008 Sound Transit phase 2, 2011 King County Metro car tab tax increase.

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Applying a multi-modal approach to a transportation tax package is important, but the hands of government should not dig into the pockets of drivers to subsidize these other modes. Drivers have their own infrastructure needs and the taxes and fees they pay should fund road, highway and bridge improvements. Likewise transit users, bicyclists and rail passengers should fund their own infrastructure needs or rely on local, general tax support. Historically, the primary funding source for local transit agencies has always been sales taxes. Sales taxes apply to the broader public to support transit operations.

This same philosophy is precisely why gas taxes are protected by the 18th Amendment to the state constitution, which limits the use of gas tax revenue exclusively to roads and highways, benefiting the driving public who pays the tax.

Raising transportation-related fees, raising the sales tax on the sale of vehicles and using roadway tolls, all to subsidize other travel modes are examples of how this practice is unfair and siphons revenue paid by drivers that should instead fund roads that reduce traffic congestion and improve safety.

All transportation taxes and fees paid by drivers should be used for highway purposes only, while alternative travel modes should be funded by their own users, which reduces the public subsidy, or through local options that apply to the general public, like sales taxes.

Do Not Create a State-level Tax or Fee to Fund Local Transit Agencies

Public transit is a local function with its own tax base and the state's role should be limited to granting local tax authority, not creating a new state level funding source. A common myth among public transit agencies and the transit lobby is that they are underfunded and need state money to further subsidize transit operations.

Public transit is not underfunded in Washington state.

In fact, the final report of a 2011 state study, *Indentifying the State Role in Public Transportation*, concluded that in public transportation funding: "There is no common definition of 'unmet need' and there is no one source of information. Many observations are anecdotal and often do not have a strong data or rationale basis supporting the unmet need observation."[3]

There are 31 public transit agencies in Washington and they collected $2.05 billion in total revenues in 2010.[4] To put this in perspective, in 2010 the state collected about the same amount ($2.09 billion) from the three major revenue categories (taxes, fees and miscellaneous) that fund the state's entire transportation budget.[5] The primary funding source for the 31 transit agencies is a local option sales tax. Washington state's primary transportation funding source is the motor vehicle fuel tax (the gas tax).

A transportation funding package in 2013 should not include a dedicated, state-level funding source for public transit. Transit agencies are not underfunded and they have their own tax authority. Furthermore, transit officials should learn to become more efficient before asking taxpayers for more money. The state already cannot keep pace with funding its current transportation infrastructure needs — infrastructure needs that serve the majority of daily person trip demand. Any new transportation revenue source at the state level should be used to pay for existing obligations or to expand highway capacity; it should not be diverted to new commitments, such as public transit.

Stop Diverting Existing Transportation Taxes and Fees to Pay for Non-highway Purposes

Before asking voters for higher taxes and fees, lawmakers should reform policies that divert current transportation revenues and fees to non-highway purposes.

Most officials claim the state's transportation system is underfunded and that current revenues

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3 "Identifying the State Role in Public Transportation, Final Report," Washington State Legislature Joint Transportation Committee, January 2011, p. 6, at www.wstc.wa.gov/Meetings/AgendasMinutes/agendas/2011/January18/documents/011811_BP5_StateRolePublicTransportation.pdf.

4 "Summary of Public Transportation, 2010," Washington State Department of Transportation, November 2011, p. 11, at www.wsdot.wa.gov/publications/manuals/fulltext/m0000/TransitSummary/2010PTSummary.pdf.

5 "Data For Actual Revenues From AFRS," provided by officials at the Legislative Evaluation and Accountability Program Committee (LEAP), June 2011.

cannot keep pace with simply preserving the system we have. In 2010, the major transportation funding sources (taxes, licenses, permits, fees and tolls) brought in $2.09 billion in state transportation funding.[6] Most of this revenue was paid by drivers and it should have gone to support the growing backlog of highway infrastructure needs. Yet, through various policies created by the legislature, state officials shifted more than $200 million to non-highway purposes last year alone:

- $28.14 million to Indian tribes
- $114 million to the multi-modal account
- $62 million to general government programs

Each year, drivers pay about $204 million in various transportation taxes and fees that state officials then divert and spend on non-highway purposes. Annually, this amount is equivalent to about seven cents per gallon in the state gas tax rate.

These other projects may be important, but they should have their own funding sources, particularly paid by the user-group who benefits from the program or service. Drivers have their own infrastructure needs that are not currently being met. Lawmakers should stop diverting current revenues to subsidize other non-highway purposes, and use the money they already have before asking drivers to pay more.

Expand Capacity, Fix Chokepoints and Do Not Restrict New Resources to Just Maintaining the Existing System

If lawmakers are going raises taxes and fees on drivers and spend political capital to pass a transportation funding package, they should identify specific projects that fix chokepoints, expand capacity and ultimately reduce traffic congestion.

In 1982, drivers traveled about 14.6 million miles per day on highways in the Seattle region.[7] By 2010, the amount of driving doubled to about 29.9 million miles per day in the same region.[8] Yet while the amount of travel demand on the regional highway system has doubled in the last 30 years, the amount of freeway capacity has not.

The Seattle region had 1,345 miles of freeway lanes in 1982.[9] In 2010, the region had 1,874 freeway lane miles.[10]

Transportation leaders rely on drivers to fund most of the state's transportation budget and all of the state's highway system. In fact, drivers are now being forced to subsidize local transit agencies across Washington, despite a growing list of unmet road and bridge infrastructure needs.

But with anti-car policies that mandate reduced driving targets, increased driving taxes and fees and replacing valuable auto lanes with transit and bicycle-only restrictions, drivers are paying more and receiving less.

The plan to replace the Highway 520 floating bridge does not add any new general-purpose lanes. The deep bore tunnel that will replace the Alaskan Way Viaduct actually reduces the number of existing automobile lanes from six to four, which guarantees more traffic snarls in Seattle and on Interstate 5. Sound Transit officials also plan to remove the reversible center lanes across the I-90 bridge, which a Washington State Department of Transportation study shows will increase traffic congestion.

This means officials plan to reduce the supply of unrestricted highway lanes around Seattle in the next 20 years, despite population estimates that show an increase of more than one million new residents.

If drivers are going to pay more in higher transportation taxes and fees, it should be in exchange not only for projects that maintain the current system, but also for projects that reduce traffic congestion.

Reduce Artificial Cost Drivers That Make Transportation Projects More Expensive

One of the more significant obstacles to building transportation infrastructure in Washington is the ever rising costs of projects.

6 "Data For Actual Revenues From AFRS," provided by officials at the Legislative Evaluation and Accountability Program Committee (LEAP), June 2011.

7 "2011 Annual Urban Mobility Report, Performance Measure Summary, Seattle Washington," Texas Transportation Institute," September 2011, at mobility.tamu.edu/files/2011/09/seatt.pdf.

8 Ibid.

9 Ibid.

10 Ibid.

As state transportation leaders discuss the possibility of seeking higher transportation revenues, there is another side to the funding equation that lawmakers must address before they obligate drivers to higher taxes and fees — the inflated costs of projects.

In the broadest sense, there are generally two drivers of costs in transportation projects: natural and artificial. Natural cost drivers occur as a result of normal economics. They include inflation, material expenses and higher costs for new technologies.

Artificial costs are from policies created by government officials that inflate expenses on public works projects. These policies are implemented for reasons that are unrelated to actually building a project. These unnatural cost drivers include:

- Prevailing wage rules
- Imposing state sales taxes on state projects
- Inefficient permitting, environmental compliance
- Requiring expensive mass transit improvements on highway projects.

For example, the existing Washington State Route 520 Evergreen Point Floating Bridge spans Lake Washington and connects the cities of Seattle and Bellevue. It was built in 1963 and had a price tag of about $245 million in today's dollars; the price of the replacement will be about 19 times higher. Granted, the project scope of the current replacement is much larger, but officials have already spent more money ($400 million) on planning and design than the total cost of building the first bridge, once adjusted for inflation.

On August 1, 2007, the Interstate 35 Bridge in Minneapolis collapsed, tragically killing 13 people and injuring 145 others. Investigators concluded the bridge failed from a design flaw. Within hours of the collapse, Minneapolis officials pledged to rebuild the bridge.

Remarkably a new, state-of-the-art, ten-lane bridge opened on September 18, 2008, just 414 days after the old one fell. The new bridge cost under $300 million. Officials were able to rebuild the I-35 Bridge so quickly and cheaply because they controlled risk.

Funding was secured up front. Permitting and environmental reviews were streamlined. Officials used a design/build, public-private partnership, which allowed design and construction to occur simultaneously. Instead of bogging down in a debate on adding expensive light rail, which transit supporters strongly lobbied for, officials included two additional general purpose lanes and suggested they could be replaced by a high-capacity transit system at some point in the future. This allowed the project to move forward without costly delays. Officials also created up to $27 million in financial incentives if the contractor completed the project early, and they imposed penalties for delays.

Fortunately, Washington transportation officials use some of these same techniques here, but they face structural policies put in place by both federal and state lawmakers that artificially drive costs higher, however well intentioned they may be.

Studies show that imposing federal prevailing wage rules on transportation projects unnecessarily increases labor costs by 22% and boosts total project costs by about 10%.[11]

Washington State Department of Transportation (WSDOT) officials are required to pay state sales taxes on state transportation projects. This means valuable transportation revenue (paid by drivers) is drawn out of the transportation budget and deposited into the state's general fund, and is then used to pay for non-highway projects like social services, education and general government funding. WSDOT officials estimate that project delivery costs could be reduced up to 8.5% if their projects were exempt from state sales taxes.[12]

The Federal Highway Administration (FHWA) estimates a typical Environmental Impact Statement took an average of 2.5 years to

11 "The Federal Davis-Bacon Act: The Prevailing Mismeasure of Wages," Sarah Glassman, Michael Head, David Tuerck, and Paul Bachman, The Beacon Hill Institute at Suffolk University, February 2008, at www.beaconhill.org/bhistudies/prevwage08/davisbaconprevwage080207final.pdf.

12 "Sales Tax Implications for WSDOT Project Delivery Cost," Washington State Department of Transportation, at www.wsdot.wa.gov/NR/rdonlyres/E6270D1D-6337-4744-B3C2-DD43A4E1175A/0/SalesTax.pdf.

complete in the 1970s.[13] Today it takes 6.5 years.[14] And according to the FHWA, complex highway projects now take an average of 13 years to complete.[15] Only a fraction of that time is spent on construction.

Then there is the business of requiring expensive mass transit on highway projects. One of the most significant cost-contributors of the Columbia River Bridge project in Vancouver is the addition of light rail. Building light rail across the Columbia River would cost about $1 billion, which increases the total cost of the project by 30% — not to mention the millions in additional annual operating expenses that will burden local taxpayers indefinitely. Yet light rail would only serve somewhere between 3 and 9% of all trips that cross the bridge.

Deliberately increasing costs by 30% to serve less than 10% of people who cross the bridge (most of whom are already served by inexpensive buses) creates unnecessary costs and risks, and establishes a very large gap between public costs and public benefits.

Instead of a system based on politics and process, lawmakers need a system focused on project delivery, results and performance — one that leverages public funds by using all financial tools available and limits unnecessary cost drivers.

If lawmakers want to rebuild trust with taxpayers and pass a comprehensive transportation funding package, they should also tackle the cost side of public works projects when they consider increasing fees and taxes.

13 "PEL – A Path to Streamlining And Stewardship," Gina Barberio, Rachael Barolsky, Michael Culp, and Robert Ritter, U.S. Department of Transportation, Federal Highway Administration, April 2008, at www.fhwa.dot.gov/publications/publicroads/08mar/01.cfm.

14 Ibid.

15 Ibid.

Edited by Bob Pishue, director, Center for Transportation

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