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LEGISLATIVE MEMO

SB 6586, to impose a mileage tax on owners of electric and hybrid vehicles

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Key Findings

1. **Senate Bill 6586 would require the Washington State Transportation Commission and state Department of Licensing (DOL) to create a plan for implementing a mileage tax (or per-mile charge) on electric, hybrid, and state-owned fleets by December 1, 2021.**

2. **The legislation seems premature given the artificial cost-drivers officials impose on transportation projects. These should be eliminated before imposing a new tax on the public.**

3. **Owners of electric vehicles pay $150 each year as a gas tax offset. If lawmakers feel that is too low, they should consider raising it, rather than imposing a new and administratively costly tax to replace it.**

4. **The state should not consider variable rates based on various "policy levers." They should resist the urge to layer the charge with additional social objectives.**

5. **Any per-mile charge should be protected under the state constitution's 18th amendment, which protects money for highway purposes only.**

6. **To increase public trust, lawmakers should reduce artificial cost-drivers in transportation, and take preliminary steps to ensure any per-mile charge directly benefits and protects the drivers who pay it.**

Introduction

Members of the Washington State Transportation Commission (WSTC) sought and received a $3.8 million federal grant to explore the idea of imposing a mileage tax on Washington state residents. If implemented, a mileage tax would require drivers to pay a tax for every mile they drive, rather than paying a tax on every gallon of gas they purchase at the pump.

The year-long Road Usage Charge (RUC) Pilot Project was completed in 2018. I was one of 2,000 volunteer participants and submitted my mileage information through a GPS-enabled transponder that was installed in my car, as well as an odometer reading. The purpose of the pilot was to explore the feasibility of getting the public to accept paying a per-mile tax rather than a per-gallon gas tax. The tested rate was 2.4 cents per mile, based on the average driver getting 20 miles per gallon.

The WSTC produced a final report on the proposal and voted in support of 16 policy recommendations that were sent to the legislature for consideration.[1] One recommendation was that there be a "start-up phase" that includes "a limited number of vehicles to facilitate further testing and system improvements."[2] Specifically, the Commission advised that such a phase could include electric and hybrid vehicles, as well as state-owned vehicles.

Shortly after, Senate Bill 6586 was introduced. This Legislative Memo reviews this bill and whether it would represent good policy.

1 "Road Usage Charge Assessment Final Report," Washington State Transportation Commission, January 13, 2020, at https://waroadusagecharge.org/final-report/.

2 Ibid.

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Bill summary

Senate Bill 6586 would require the WSTC and state Department of Licensing (DOL) to create a plan for implementing a mileage tax (or per-mile charge) on electric, hybrid, and state-owned fleets by December 1, 2021. The plan should include mileage reporting options, recommended rates, options for variable pricing based on vehicle or "other policy levers," recommendations for payment methods and statutory changes, and a governance structure with DOL as the lead agency that would operate and administer the charge.

The bill directs that by July 1, 2024, these three categories of vehicles would be subject to the mileage tax, which would be based on rates "specified in subsequent legislation or the rates established by the Transportation Commission."[3] The money would be deposited into the Motor Vehicle Fund.[4]

Lastly, the bill would repeal the current transportation electrification and hybrid electrification fees when this new tax would be imposed on July 1, 2024.

Bill analysis

We have several concerns with this proposal. It is premature given the lack of discussion about reducing artificial cost-drivers in transportation construction. It does not consider possible adjustments that can be made to the existing gas tax offset paid by drivers of electric vehicles. It directs state agencies to consider variable pricing. Lastly, it deposits money into the state Motor Vehicle Fund rather than requiring legislators to provide stronger constitutional protection of revenues.

3 Senate Bill Report SB 6586," Washington State Legislature, February 10, 2020, at http://lawfilesext.leg.wa.gov/biennium/2019-20/Pdf/Bill%20Reports/Senate/6586%20SBR%20TRAN%2020.pdf?q=20200211203245.

4 Revised Code of Washington 46.68.070, Washington State Legislature, accessed February 11, 2020, at https://apps.leg.wa.gov/rcw/default.aspx?cite=46.68.070.

Policymakers should reduce artificial cost-drivers in transportation projects before imposing a new tax

Senate Bill 6596 is premature given the lack of discussion about reducing artificial cost drivers that lawmakers impose on transportation projects. This problem should be addressed before lawmakers impose a new tax on the public.

Government officials often demand efficiency, compliance, and accountability from taxpayers, yet do not hold themselves to the same standard. As a result, taxpayers are being asked to financially "keep pace" with a broken, artificially expensive transportation funding system.

Statewide and municipal data reflects skyrocketing costs. Some officials like to argue that indexing taxes to inflation would allow revenue to keep pace with the rising costs of construction, yet costs are soaring far beyond inflation. According to transportation researcher Dr. Bill Eager, between 2003 and 2007, WSDOT's Construction Cost Index (CCI) rose over 12 percent, nearly twice the national rate. Looking at just the City of Seattle's CCI, between December 1995 and July 2015, construction costs increased by 75.5 percent.

Artificial costs result from policies created by government officials that needlessly inflate expenses on public works projects. These policies are implemented for reasons unrelated to actually building a project. Artificial cost drivers include prevailing wage rules, the state charging itself sales tax on some transportation projects, apprenticeship requirements, inefficient permitting, environmental compliance, public money diverted to art projects, and requiring mass transit to be included in highway projects (like light rail on State Route 520).[5]

Eliminating artificial cost-drivers and making the state's transportation dollars go farther should be the first step in tackling

5 "Legislative Memo: How to Reduce the Cost of Highway Projects," by Bob Pishue, Washington Policy Center, February 2014, at http://www.washingtonpolicy.org/library/docLib/Pishue_-_Reduce_Artificial_Cost_Drivers.pdf.

funding needs — not an afterthought. Adopting regulatory reforms that promote public-private partnerships, end prevailing wage rules, streamline inefficient permitting, and trim environmental regulations are a good place to start.

These common-sense policy reforms would help free up public money for highway purposes and traffic congestion relief, where the traveling public demands it the most.

Policymakers could adjust the gas tax offset already paid by EV owners instead

Owners of electric vehicles do not pay a state fuel tax, but they do pay a total of $225 in fees each year on car tab renewals. Of that total, $150 is intended as a gas tax offset. On average, Washington drivers pay $289 each year in state fuel tax.[6] If lawmakers feel that the rate of $150 is too low compared to what other drivers pay, they could consider increasing the electric vehicle fee rather than imposing a new and administratively costly tax.

It should be noted that some older plug-in hybrids have a travel range less than modern all-electric vehicles and so consume gasoline when the battery is drained. Drivers of those vehicles are still charged the full spectrum of electric vehicle fees in addition to the state fuel tax they pay. Officials at the WSTC and DOL should consider equitable, different rates for such vehicles.

Variable pricing schemes and other "policy levers" should not be explored in the study

SB 6586 would require WSTC and DOL officials to produce a study on how to impose a mileage tax on electric vehicles, hybrids and state-owned fleets. One of the required elements of the study is that they explore options for "variable rates…ensuring vehicles are paying for their proportional impact on road preservation and maintenance costs, climate emission impacts, fuel efficiency, or other policy levers that the legislature may want to consider."

The term "policy lever" in relation to variable rates/pricing/tolling could refer to other ways the state has previously identified using per-mile charges – namely to reduce driving.[7] A study done for the Washington State Department of Transportation in 2010 found that "variable, real-time pricing… accomplishes two complementary objectives: it encourages a reduction in vehicle travel and it generates revenue that can be used to fund transportation alternatives to personal vehicle use."[8]

Though it is reasonable to study variable rates for different types of vehicles, it is not appropriate to consider variable rates based on "policy levers" like this. If the road usage charge is intended to replace the gas tax, it should replicate the features of a gas tax. Lawmakers should resist the urge to layer the charge with additional social engineering objectives.

Any per-mile charge should be constitutionally protected under the 18th amendment

Senate Bill 6586 would direct revenue from per-mile charges to the Motor Vehicle Fund. Though money in the fund is protected for highway purposes only, future legislatures could easily strike this account and replace it with a different account and divert money to non-highway projects. For the money to be protected with the higher level of certainty as the gas tax is, it is critical that any per-mile charge explicitly be protected under the state constitution's 18th amendment, which protects public money for highway purposes only.

Conclusion

The sponsors of SB 6586 assume the state is ready for a mileage tax. Yet there has not been

6 "WA RUC FAQs," Washington State Road Usage Charge, 2019, at https://waroadusagecharge.org/faqs/#customcollapse-0-4.

7 "Impacts of VMT reduction strategies on selected areas and groups," by Daniel Carlson and Zachary Howard, Washington State Transportation Center (TRAC) of the University of Washington, December 2010, at https://www.wsdot.wa.gov/research/reports/fullreports/751.1.pdf.

8 Ibid.

any sincere public discussion about reducing the state's inflated transportation costs before the public is asked to pay a new tax.

Nor has there been any consideration of ways to extend the life of the existing gas tax. Officials should make the case to the public about why it might need to be increased and which road and bridge projects, including maintenance and preservation, that tax increase could fund. This applies to the gas tax offset that owners of electric vehicles and some hybrids pay as well, which is subject to the same adjustments.

Rather than speculating about whether drivers are paying enough to keep up with the state's high spending and then campaigning to impose a new tax, public officials should stop and develop a thoughtful plan about how they can be more responsible with the money people currently pay. Given the current viability of the gas tax, there is time to do that.

As transportation technology advances, an honest public conversation about replacing the gas tax is reasonable and important. To increase the public trust that will be required for this policy shift, policymakers should take meaningful steps to reduce artificial cost-drivers in transportation, take steps to ensure any per-mile charge directly benefits the public, and provide an 18th amendment guarantee to protect the drivers who pay it.

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