

## POLICY NOTE

### Key Findings

1. In an unusual move, the state Office of Financial Management (OFM) has sent a sharply-worded letter to the legislature regarding the new transportation budget.
2. The OFM letter raises valid questions, but it completely overlooks the many budget problems that were created by the Governor's own Executive Orders.
3. A further problem is that state officials have not updated the Highway System Plan since 2007.
4. Repealing wasteful mandates, ending the diversion of transportation funds to non-highway programs, and increasing the cost-effectiveness will deliver the best value to the public.
5. A further benefit will be to re-build public trust in how our state's Department of Transportation is funded and managed.

# OFM letter raises important questions about the proposed highway budget but fails to see the main source of Washington's transportation problems

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## Introduction

The state Office of Financial Management (OFM), which reports to Governor Inslee, has sent a sharply-worded letter to the chairmen and ranking members of the Legislature's Transportation Committees. In the letter state officials express "significant concerns with the House and Senate transportation budgets" that are now under consideration.

The letter is noteworthy because it is surprising that OFM would speak out so critically so late in the legislative session considering the House and Senate transportation budget proposals are largely in alignment as to size and the cost of major line items. This Policy Note reviews the transportation budget proposals and presents OFM's objections.

## Background

Even most of the minor line items in the House and Senate proposals appear easily reconcilable. The major differences are about how they propose to cover the cost. The Senate proposes to raise \$1.4 billion in the 2013-2025 biennium through the sale of bonds, which may not be prudent given the state's existing high level of debt, revenue uncertainty and rising interest rates.

The House balances its budget proposal by assuming WSDOT delays over one billion dollars of construction and highway preservation projects. That underspending would allow the legislature to assume the unspent funds will be available for other stuff. The bottom line is that neither the House nor Senate budget assumptions are good public policy.

The OFM letter raises a number of valid questions, but it completely overlooks how many of the budget problems can be traced back to policies enacted at the Governor's request and implemented by the Governor's own Executive Orders.

The problems the Legislature is wrestling with did not suddenly pop-up out of nowhere. Many of our transportation problems have been apparent to state officials for a decade. This raises the question of why they have made so little progress despite large increases in state revenues through higher taxes and fees imposed on the public.

## OFM's objections

The OFM letter points out that highway preservation and maintenance are underfunded. This is true, but this fact is not a recent discovery. State transportation budgets have been focused on other policy goals, neglecting needed maintenance, for many years.

The letter also mentions that the Legislature substantially increased preservation and maintenance funding in 2022, but lawmakers did not address why WSDOT officials have failed to complete many of the funded projects.

This failure is partly due to the ongoing effects of the Governor's draconian mandate response to COVID, which caused staff to leave (some willingly, others not) and WSDOT's ongoing difficulty in filling vacancies. The Governor should take steps to allow the WSDOT employees he dismissed to return to work.

The letter touches on underfunding for Washington State Ferry's (WSF) hybrid-electric ferries. In the wake of WSF's failure to reach agreement with Vigor Industries on construction of the ferries the legislature is poised to pass HB 1846. That bill would initiate a more competitive procurement process and encourage proposers to submit a more economical ferry design.

The bids will not be opened until late this year so we do not know to what extent the hybrid-electric ferry program is underfunded (as it may well be), but the OFM letter makes no mention of the Governor's Executive Order that led WSF on this prolonged and costly quest for a zero-carbon emission fleet by rejecting proven and reliable ship propulsion.

Had WSF simply ordered additional conventionally-powered ferries under a then-existing contract at least one new ferry would already be in service. Now it seems the blame is being shifted to the legislature for trying to solve the problem and lower costs by moving WSF to a more competitive procurement process that will deliver better service to the public.

OFM takes issue with the ambitious list of highway projects and complains the projects have not been prioritized and may not all be deliverable on schedule. That is a curious criticism since state law directs WSDOT to prepare a State Highway System Plan that "identifies program and financing needs and recommends specific and financially realistic improvements..." One problem is that WSDOT officials have not updated that plan since 2007. That plan used to be the starting point for the legislature's transportation budget, but with nothing current to go on development of the transportation budget has become a back-room exercise in sausage-making in which nobody is even sure what the recipe is.

If OFM is taking the position WSDOT cannot deliver the funded projects, then the question the Administration should answer is what is needed to get the job done. I also wonder why OFM's skepticism doesn't extend to the many costly non-highway projects in the budget. The House and Senate budgets propose doling out hundreds of millions of dollars to cities, counties, and transit agencies. It is not like all of the intended recipients of those funds have a good track record of staying on time and within budget for their projects. Was there a transparent prioritization process for those expenditures, or are these purely political decisions?

The OFM letter says that, "...many of the projects are only partly funded or are aspirational." That is a strange criticism considering the long list of aspirational initiatives state agencies have been pursuing in response to the Governor's Executive Orders. Those Executive Orders are long on aspiration but sketchy when it comes to cost and performance to benefit the public.

### **Possible solutions to the budget dilemma**

Preparation and adoption of the State transportation budget is the legislature's responsibility.

Lawmakers are under no obligation to satisfy, or even respond to, OFM's concerns. But if the legislature is inclined to address the basic funding shortfall OFM has identified it has the following options:

- Cut more highway projects from the budget. This seems to be where the OFM letter is headed, and it would be in line with the Governor's initial transportation budget proposal. It has the obvious downside that communities around the state would not get the high-priority highway projects they were promised. It would also leave unanswered how WSDOT proposes to meet the need for highway system improvements in our fast-growing state.
- Cut other items from the budget. The transportation budget is no longer just about highways, ferries and the State Patrol. The House and Senate budgets both divert nearly \$650 million to various non-road transit projects. The need for those projects is questionable given the decreasing demand that was evident even before COVID lockdowns caused a dramatic fall-off in ridership. Refocusing the budget on the state's core road and highway responsibilities, as the public has been promised, is a good start.
- Shift revenue from the general fund to transportation. This has been done in the past, and a bill was introduced in this session that would have shifted the sales tax on automobiles to the motor vehicle account where it would be used to fund transportation projects. That proposal is not popular with the legislators who would rather spend sales tax money on non-transportation programs, but the option does exist if transportation is a high enough priority.
- Re-prioritize Climate Commitment Act funds. The Senate budget proposes to spend more than \$700 million in revenue generated by the Climate Commitment Act. These funds would be spread across a smorgasbord of programs and projects including "Green Transit Grants", "EBike Programs", "Ultra-High Speed Rail", "Transit Coordination Grants", "Bike/Ped Grant Program", "Guemes Ferry", "Connecting Communities Grants", "18 and Under Free Fare Policy", and so on. The list does not include any state highway projects because under current law Climate Commitment Act funds cannot be used for that purpose no matter how much a highway project improves system efficiency or safety. Of course, the legislature wrote the law, so they can always make an exception.



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- Lastly, the legislature could find another new source of revenue. This is not a good solution because Washington State residents already pay one of the nation's highest gas taxes, high prices for license tabs, vehicle weight fees, and starting this year a carbon tax on fuel. It isn't obvious that loading more taxes and fees on transportation, especially if they are regressive, is an effective way to advance State policy goals (might be unpopular too).

## Conclusion

The letter from OFM is unusual and it raises legitimate issues regarding the problems with the legislature's transportation budget proposals, but it neglects to identify the root causes of the budget problems or offer solutions that would enable WSDOT to deliver the highway projects needed to improve mobility for Washington citizens. Repealing wasteful mandates, ending the diversion of transportation funds to non-highway programs, and increasing the cost-effectiveness of how project are built will deliver the best value to the public while meeting our state's growing mobility needs. This approach will have a further benefit – helping to re-build the public's trust in how our state's Department of Transportation is funded and managed.