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Policy Brief

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$30 Car Tab Initiative Threatens Highway Improvements, Handcuffs State and Local Governments

Initiative 695, dubbed by its authors the "$30 Car Tab Initiative," does two things, both unreasonable. First, it repeals the Motor Vehicle Excise Tax (MVET), replacing it with a single $30 license tab. Second, it makes every tax and fee increase – state and local – subject to voter approval.

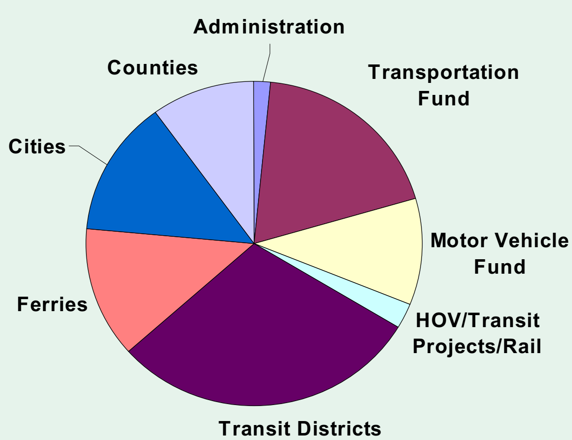
In other words, it would gut transportation investment and impose an asinine restraint on representative government. Backers of I-695 are gathering signatures now.

Last year, I-695's sponsors floated the "No Car Tax" initiative, which failed to get the signatures required to qualify for the November ballot. The $30 MVET credit in Referendum 49 provided a responsible alternative. When the credit was linked to using MVET money for transportation projects – no gas tax hike required – the plan was compelling. R-49 garnered 57 percent of the vote.

I-695 undoes R-49.

MVET Repeal. The consequences of MVET repeal cannot be overstated. I-695 would remove about a third of state funding for transportation, which includes a fourth of all transit funding, slash ferry spending, and rescind about $360 million in local government assistance, including public health and criminal justice funding. Passage of the initiative would effectively kill the six-year, $2.2 billion transportation package made possible by R-49 and currently under consideration in Olympia.

1999-2001 MVET Distribution
($1,522 Million)



In a state without an income tax, the MVET is a significant revenue source. A January 1999 report by the Washington State Department of Transportation (WSDOT) pegs MVET revenue for the 1999-2001 biennium at $1.5 billion (projected to reach $1.7 billion for the 2001-2003 biennium), with about 75 percent of the money dedicated to transportation. (See chart.) That's three times the $500 million reserve projected for the general fund at the close of the 1999-20001 biennium.

The initiative sponsors play down the fiscal consequences, citing the "incredible" (rarely is the word used so aptly) economic impact of plowing saved tax dollars back into the economy and the availability of the general fund surplus. If that's not enough, they say, the state can "prioritize spending."

The reasoning is fallacious. First, while tax reductions do stimulate the economy, this one is not likely to have much, if any, positive effect. While some of the tax savings will result in increased consumption subject to Washington state and local taxes, some will not, being spent out of state or on exempt purchases, invested or saved. The impact on manufacturing, job growth, or capital investment would be negligible or negative – particularly when considered in relation to the public investment that would be sacrificed.

"... the initiative applies unusual definitions with sweeping consequences. Virtually any revenue increase by any unit of government would have to be endorsed by the voters."

Numerous studies have agreed on the high rate of return realized from investment in transportation infrastructure, as the Washington Research Council pointed out previously ("Transportation's Role in the State Economy," PB 97:1). That's precisely the investment threatened by I-695.

With respect to the general fund surplus, there is none. Passage of R-49 handled the surplus and left a prudent balance. Under the most likely projections for 1999-2001 general fund spending, reserves will amount to about $525 million, about 5 percent of annual spending and just one-third the lost MVET revenue. Emergency reserve funds are not surplus.

Voter Approval for Tax Hikes. I-695 also says, "Any tax rate increase imposed by the state shall require voter approval." Here the initiative applies unusual definitions with sweeping consequences. Virtually any revenue increase by any unit of government would have to be endorsed by the voters.

"State" is defined as "the state itself and all its departments and agencies, any city, county, special district, and any other political subdivision or governmental instrumentality of or within the state." "Tax" includes fuel taxes; license, permit, and impact fees; and "any monetary charge by government." (Including photocopies at the library?)

Constraining the growth in state government and holding taxes in check is a worthy objective, one not seriously advanced by I-695. Five years after the voters limited state spending through Initiative 601, tax cutters should be expected to do more than wave their hands and call for unspecified efficiencies and priority-setting.

Whatever the proponents' intent, the effect of I-695 would devastate state transportation systems and impose an unprecedented and unwise burden on state and local governments and the taxpayers that rely on them. It's a reckless and clumsy approach to tax and spending limitation and bad public policy.