

With New Revenue Package, the Transportation Budget Balances Through 2027–29

Briefly

To address transportation budget revenue and cost challenges, the Legislature increased transportation taxes and fees. New revenues include the first gas tax increase since 2015 and increases to the retail sales and use taxes owed on several transportation-related transactions. Additionally, beginning in 2027–29, 0.1% of state sales and use tax collections is dedicated to the multimodal account instead of the general fund–state.

The enacted 2025–27 transportation budget appropriates \$15.458 billion from all funds. Of that, \$5.376 billion is for improvements. Despite the adoption of a new revenue package, the funding is used mainly to shore up existing projects rather than begin new ones. Planned spending for some projects over time is increased in this budget, and other projects are delayed compared to the plan in the 2024 supplemental.

The 2025–27 transportation budget balances through 2027–29, which is a shorter time frame than normal. However, adjusted for inflation, resources are expected to slowly decline beginning in FY 2030. The revenue package adopted this year does not solve Washington’s transportation funding challenges beyond four years, and gas taxes are expected to decline over time (especially adjusted for inflation).

The 2024 supplemental transportation budget balanced over just four years, through 2025–27.

(Although the transportation budget is only required to balance over two years, it has traditionally balanced over a longer time period, as it involves long-term capital projects. For example, the 2023–25 biennial budget balanced over six years. Previous budgets typically balanced over even longer time frames.) Then the March 2025 transportation revenue forecast estimated that transportation revenues would be \$709.8 million lower through 2027–29 than anticipated when the 2024 supplemental was enacted.

In December, nonpartisan Senate staff estimated that the cost of existing transportation projects was expected to increase, resulting in estimated shortfalls in the major transportation accounts totaling \$519.5 million in 2025–27, \$2.386 billion in 2027–29, and \$3.689 billion in 2029–31 (Gamble and Moore 2024).

To address these revenue and cost challenges, the Legislature increased transportation taxes and fees, made transfers from the operating budget, and delayed some projects.

Increased Transportation Taxes and Fees

ESSB 5801 increases many transportation taxes and fees. Chief among them: the first gas tax increase since 2015. Altogether, the fiscal note for the bill estimates that it will increase state revenues by \$746.2

Table 1: Transportation Revenue Increases (Dollars in Millions)

	2025-27	2027-29
Motor vehicle fuel and special fuel taxes	\$370	\$555
Retail sales and use taxes	\$169	\$237
Vehicle weight fees	\$96	\$154
Speed safety camera system violations	\$41	\$86
Tire fees	\$29	\$43
Driver fees	\$17	\$26
Other vehicle fees	\$13	\$17
Credit card recovery fee	\$7	\$11
Luxury aircraft tax	\$5	\$8
Other	\$0	\$1
Total	\$746	\$1,139

million in 2025–27 and \$1.139 billion in 2027–29. (See Table 1.) Some of the taxes and fees will be automatically increased in the future.

Motor Vehicle Fuel Tax and Special Fuel Tax.

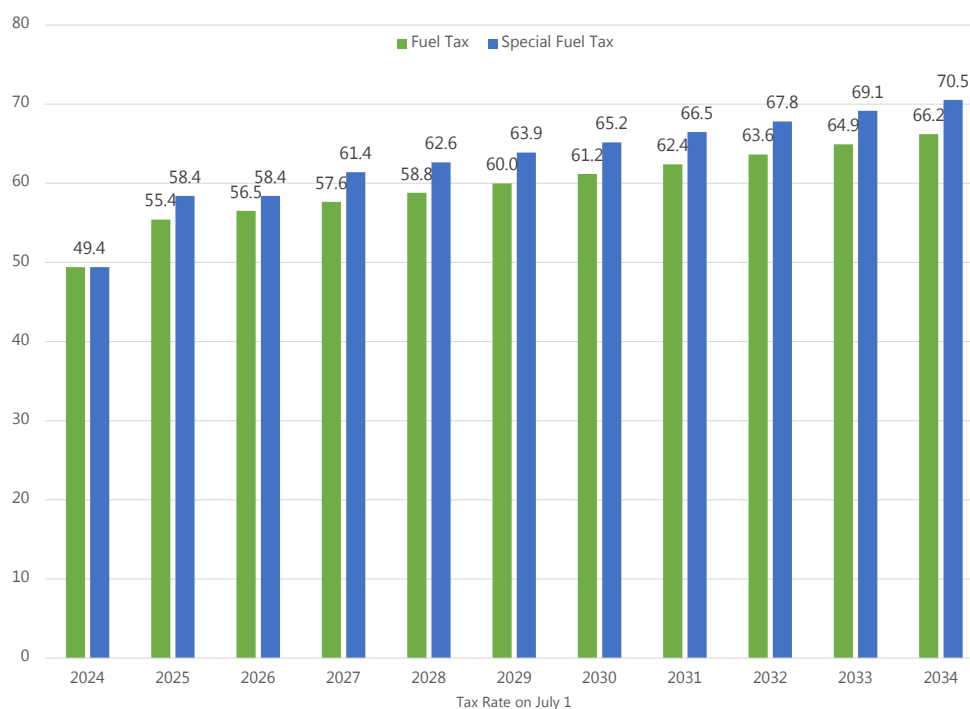
Previously, the state motor vehicle fuel tax was 49.4 cents per gallon. The tax for special fuel (e.g., diesel) was also 49.4 cents per gallon. ESSB 5801 adds a differential rate for special fuel and increases both rates. On July 1, 2025, the motor vehicle fuel tax rate increased by 6 cents to 55.4 cents per gallon and the special fuel tax rate increased by 9 cents to 58.4 cents per gallon. Beginning July 1, 2026, the motor vehicle fuel tax rate will be increased by 2% annually. (This is the first

time the gas tax rate has been scheduled to increase automatically.) On July 1, 2027, the special fuel tax rate will increase to 61.4 cents per gallon. Beginning July 1, 2028, the special fuel tax rate will be increased by 2% annually. Chart 1 shows the estimated impact of ESSB 5801 on fuel tax rates.

Chart 2 (on page 3) shows fuel tax revenue history and the current forecast. Although fuel tax rates will be increased annually going forward, inflation-adjusted revenues are expected to peak in FY 2029. (The forecast assumes that gas consumption will decline every year.)

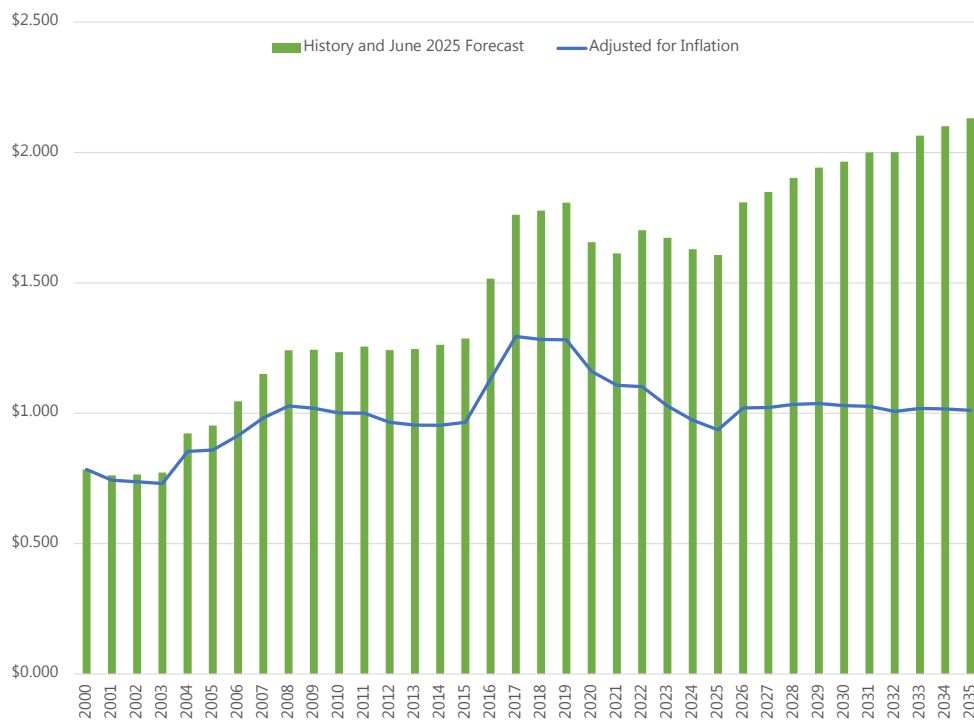
Retail Sales and Use Taxes. ESSB 5801 increases the retail sales and use taxes owed on several transportation-related transactions. Together, they are estimated to increase revenues by \$169.5 million in 2025–27 and \$237.0 million in 2027–29.

Chart 1: Estimated Fuel Tax Rates Under ESSB 5801 (Cents per Gallon)



- The additional sales tax rate for retail car rentals is currently 5.9%. Beginning Jan. 1, 2026, the rate will increase to 11.9%. Beginning Jan. 1, 2027, the rate will be set at 9.9%.
- A new additional sales tax rate of 9.9% is imposed on peer-to-peer car sharing transactions, beginning Jan. 1, 2027. (Peer-to-peer car sharing occurs when the owner of a car authorizes another person to use it through a peer-to-peer car shar-

Chart 2: Gross Fuel Tax Revenues (Dollars in Billions)



0.5% watercraft excise tax), beginning July 1, 2026.

- A new additional sales tax of 8% is imposed on the sale of motor vehicles if the selling price plus trade-in exceeds \$100,000, effective Jan. 1, 2026. The tax will be imposed on the portion of the price that exceeds the deduction amount. For fiscal year 2026, the deduction amount is set at \$100,000; each year thereafter, the deduction amount will be increased by 2%. Commercial vehicles, vehicles that weigh over 10,000 pounds (other than motor homes), farm tractors and other farm vehicles, off-road vehicles, nonhighway vehicles, and snowmobiles will be exempt.

Other. Other revenue changes in the bill include:

- Increased passenger vehicle weight fees (on Jan. 1, 2026 and Jan. 1, 2029) and other vehicle license fees by weight (on Jan. 1, 2026, and then increased annually by 2% beginning July 1, 2026). (The increases vary by weight. For example, the fee for a 6,000-pound passenger car is currently \$45. That will increase to \$65 on Jan. 1, 2026, and to \$75 on Jan. 1, 2029, which is 67% higher than the current fee.)
- Increased filing fees for vehicle registration (from \$4.50 to \$6) and titles (from \$5.50 to \$6.50), service fees for title changes (from \$15 to \$18) and registration renewals (from \$8 to \$11), the abandoned recreational disposal fee (from \$6 to \$8), and fees on the sale of new replacement vehicle tires (from \$1 to \$5) effective Jan. 1, 2026.
- Increased fees for driver's licenses and identicards, effective Oct. 1, 2025 (and will be automatically increased going forward). (The fees are currently \$9 per year issued. They will increase to \$10 per year issued, and then every three years they will increase by another \$1 per year issued.)
- A new luxury aircraft tax of 10% on the sale of noncommercial aircraft if the selling price exceeds \$500,000, effective April 1, 2026.

ing program, which is defined in statute as "a business platform that connects vehicle owners with drivers to enable the sharing of vehicles for financial consideration.")

- Currently, the additional sales tax on the retail sale of motor vehicles is 0.3%. Effective Jan. 1, 2026, the tax will increase to 0.5%.
- A new additional sales tax of 0.5% is imposed on the purchase of recreational vessels (which are already subject to the

- Washington State Ferries must recoup at least 3% in credit card costs related to collection of ferry fares through a transaction fee, effective March 1, 2026.
- A penalty for the first violation of the speed safety camera system in highway work zones.

Transfers To and From the Operating Budget

Traditionally, the operating, transportation, and capital budgets have been developed separately. However, with the structural funding challenges in the transportation budget, the Legislature has been shifting some operating budget funds to the transportation budget in recent years:

- The 2015 Connecting Washington revenue package included transfers from the general fund–state (GFS) to the connecting Washington account totaling \$518 million through FY 2031.
- The 2022 Move Ahead WA revenue package included annual transfers from the GFS to the move ahead WA flexible account (\$1.258 billion total through FY 2038) and a one-time transfer of \$2 billion from the GFS to the multimodal account in FY 2022. (Of the annual transfers from the GFS, \$403 million represented the estimated amount of sales taxes paid on Move Ahead WA construction projects.)

This year, the operating budget faced a four-year \$8.6 billion maintenance level shortfall (WRC 2025). To help balance the operating budget, the Legislature transferred \$609.3 million in transportation budget funds to the operating budget in 2025–27.

Then, in 2027–29, \$609.4 million will be transferred from the GFS to the multimodal account. Additionally, beginning July 1, 2027, 0.1% of state sales and use tax collections will be deposited permanently in the multimodal account instead of the GFS. The fiscal note for 2SSB 5802 estimates that this will increase transportation revenues by \$607.8 million in 2027–29. (This figure accounts for interactions with ESSB 5814, which expands the sales tax to more services.)

The New Resources are Used Mainly for Existing Projects

The 2024 supplemental transportation budget appropriated \$14.553 billion from all funds for 2023–25 (including both operating and capital appropriations). The enacted 2025 supplemental reduces those appropriations by \$1.234 billion; revised 2023–25 appropriations total \$13.319 billion.

The enacted 2025–27 budget appropriates \$15.458 billion from all funds. Of that, \$5.376 billion is for improvements. Despite the adoption of a new revenue package, the funding is used mainly to shore up

Table 3: Transportation Budget Impact of Transfers To and From the Operating Budget
(Dollars in Millions)

	<u>2025-27</u>	<u>2027-29</u>
Temporary transfer from multimodal account to GFS	-\$226	\$0
Temporary transfer from PWAA to GFS (instead of to move ahead WA account)	-\$114	\$0
Temporary elimination of GFS transfer to move ahead WA flexible account	-\$114	\$0
Accelerated sales tax deferral payments	-\$155	\$0
Temporary transfer from GFS to multimodal account	\$0	\$609
Dedicate 0.1% of state sales and use tax rate to the multimodal account	\$0	\$608
Total	-\$609	\$1,217

Table 4: Total Planned Project Spending by Budget (Dollars in Millions)

	<u>2024 Supp.</u>	<u>2025-27</u>	<u>Increase</u>
I-5 Columbia River bridge	\$3,420	\$5,380	\$1,960
Fish passage barrier removal	\$4,096	\$5,222	\$1,126
Hybrid electric ferry vessel construction	\$1,006	\$1,269	\$263
US 395 North Spokane Corridor	\$1,057	\$1,303	\$247
I-90 Snoqualmie Pass widening to Easton	\$605	\$832	\$227
SR 167/ SR 410 to SR 18 congestion management	\$135	\$357	\$222
SR 167/ SR 509 Puget Sound Gateway	\$2,667	\$2,820	\$153

existing projects rather than begin new ones. Planned spending for some projects over time is increased in this budget, and other projects are delayed compared to the plan in the 2024 supplemental. (The project lists show appropriations for

2025–27, estimated appropriations for 2027–29, and estimated appropriations for unspecified future biennia.)

Some examples of project delays in the 2025–27 budget include:

- SR 18 widening: Planned spending is reduced by \$235.0 million in 2025–27 and \$225.0 million in 2027–29 but increased by \$506.8 million in unspecified future biennia.
- SR 3 widening in the Gorst area: The budget shifts \$57.1 million of planned spending into unspecified future biennia.
- I-5 corridor improvements in the Nisqually Delta: The budget shifts \$41.2 million of planned spending into unspecified future biennia.

Some examples of planned spending increases for specific projects are shown in Table 4. The biggest increases are for the Columbia River bridge and fish passage barrier removal.

The 2024 supplemental included \$1.627 billion in 2023–25 for highway maintenance and preservation (11.2% of total appropriations). As revised by the 2025 supplemental, 2023–25 appropriations for highway maintenance and preservation total \$1.611 billion (12.1% of total appropriations). These figures decrease in the 2025–27 budget, which appropriates \$1.559 billion for highway maintenance and preservation (10.1% of total appropriations). That said, the budget plans to increase funding for highway preservation by \$200 million in 2027–29. Additionally, it shifts \$129.5 million in previously planned preservation funding forward from unspecified future biennia to 2027–29.

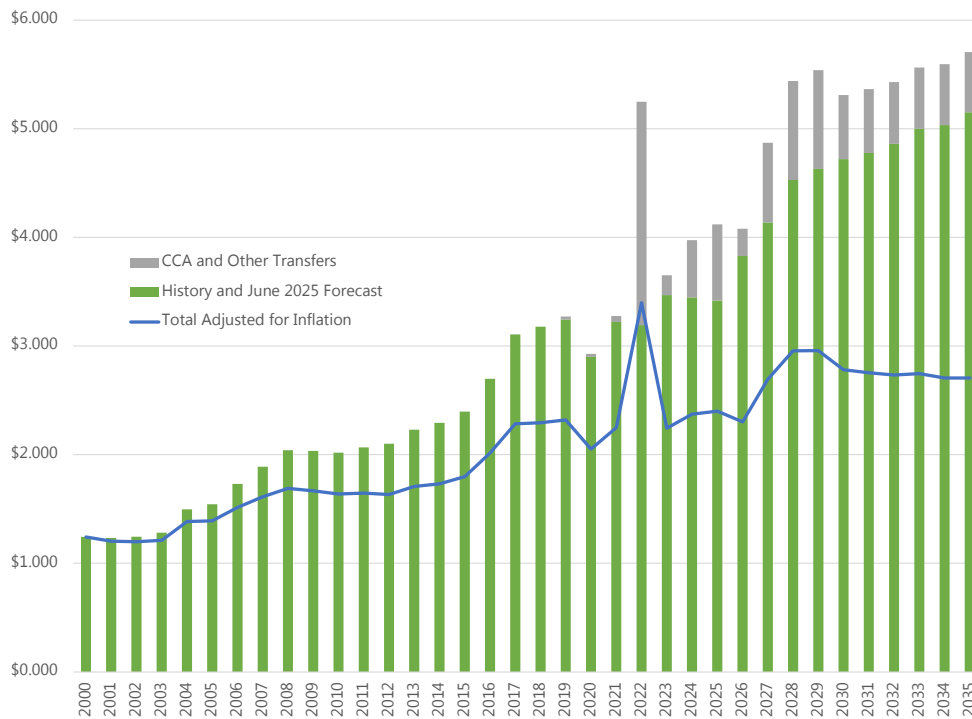
The Budget is More Sustainable in the Near Term

With ESSB 5801 and 2SSB 5802, resources for the transportation budget increased by \$136.8 million in 2025–27 and \$2.356 billion in 2027–29. Consequently, the 2025–27 transportation budget balances through 2027–29.

In addition to the new revenues and transfers, the June transportation revenue forecast increased compared to March. Transportation revenues are now expected to be \$280 million higher through 2027–29 than anticipated when the 2025–27 budget was adopted.

In March, transportation revenues (excluding carbon emission allowance auction proceeds and transfers) were expected to increase by 10.6% from 2024 to 2035. (They were expected to *decrease* by 12.5% over this period when adjusted for inflation.) Now, with the new tax increases, transportation revenues are forecasted to increase by 49.4% from 2024 to 2035. (They are expected to increase by 18.7% over this period when adjusted for inflation.)

Chart 3: Transportation Revenues (Dollars in Billions)



At the same time, though, transportation resources (including carbon emission allowance auction proceeds and transfers) are expected to drop in FY 2030 (the first year of 2029–31), with the end of the scheduled transfers from the GFS to the multi-modal account in 2027–29. (See Chart 3.) Adjusted for inflation, resources are expected to slowly decline thereafter. (From 2030 to 2035, inflation-adjusted resources are forecasted to decrease by 2.7%.)

Whether current revenues

will be sufficient to fund planned projects after 2027–29 is unknown.

Comment

Although the revenue package adopted this year has largely stabilized transportation revenues (adjusted for inflation) for the next decade, they are not expected to grow. Further, the anticipated slow decline in inflation-adjusted resources comes even with the dedication of 0.1% of the sales tax to transportation and even though the gas tax rate will automatically increase each year.

It's not clear how much future construction cost growth could erode the revenue gains over the next several years. Further, if gas consumption declines faster than expected, revenue decreases could accelerate. We have argued that the Legislature may need to "rethink how transportation revenue is generated in a future with fewer gas-powered vehicles" (WRC 2023).

The revenue package adopted this year does not represent such an appraisal, but it will help to patch over transportation funding challenges in the meantime.

References

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- Washington Research Council (WRC). 2023. "[The Transportation Budget, Transportation Revenues, and Long-Term Funding Challenges](#)." SR 23–01. Nov. 6.
- . 2025. "[The Band-Aid Budget: \\$9 Billion in New Taxes and \\$7 Billion in Savings, But No Lasting Solutions](#)." PB 25–03. July 17.