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Projected Shortage in Road Funds Makes It Likely Gas Tax Issue Will Come Up Again

A bill to raise the state gasoline tax from 18 to 25 cents a gallon (SB 6464) is all but dead for the current session of the Legislature. However, statistics cited by the Department of Transportation make it likely the bill will be resurrected in some future session.

According to the department, there will be enough funds to pay for road projects that now are planned through June 30 of 1989, while some shortfall is expected in the 1989-91 biennium.

But by the 1991-93 biennium, the department says, unless there is an increase in taxes or other revenue there will be virtually no funds for the capacity improvement program and a shortfall in the funds necessary to match federal programs for preservation and safety of roads and bridges.

If the tax increase is proposed again, the issues that dominated this year's debate are likely to resurface. Those issues include what gas tax revenues should be spent on, who pays and who benefits, and how Washington compares with other states in funds collected for highway spending.

Here's a look at those and other issues:

Constitutional Limits on Spending

The gasoline tax is a "user fee" in that it funds the construction, improvement and maintenance of roads, streets and highways by charging those people and businesses who use them. The state constitution requires that gas tax receipts be used "for highway purposes."

Some opponents of the gas tax increase feel that gas taxes also should be available for light rail or other commuter transportation projects. However, the constitution doesn't allow that, so an amendment would have to be approved before gas tax receipts could be used to fund light rail or other transportation alternatives.

A bill that would have put such an amendment before the voters was introduced this session but was never heard. There are at least two forms that a constitutional amendment could take:

- One would end the practice of earmarking gas tax revenues for highway spending. The revenues would go into the general fund instead, and transportation programs would compete against education and social services for appropriations from the same pot of money.

Opponents of such a constitutional change argue that earmarking funds for capital intensive projects such as highways — which require years to plan, engineer, and construct — is necessary to avoid the political pressures of election years. Others say that earmarked funds encourage over-spending and spending that is not responsive to current needs.

Unlike Washington, several states treat transportation as a general fund appropriation. A better understanding of the experience of these other states will be important to serious consideration of this option.

- Another option for constitutional amendment would be to change "for highway purposes" to "for commuter transportation purposes" or something similar. This option would require a definition of "commuter transportation" — could it include air and waterborne transport, for example. And it would require rethinking of which sources of revenues ought to be reserved for these expanded purposes. Should those sources include the motor vehicle excise tax (MVET), for instance? What about imposing a tax on airplane fuel or passengers, or a user fee on the Columbia River?

Who Pays and Who Benefits?

Also at issue is who pays and who benefits from transportation spending, both in terms of highway users and geographic collection and distribution of funds.

There seems to be general agreement that the bigger and heavier the vehicle, the greater the wear-and-tear on the road. Beyond this, it is difficult to establish the extent to which larger vehicles, primarily trucks, are paying their "fair share" to maintain the roads.

Because the data are not recorded in sufficient detail, it's difficult to determine whether counties and cities receive project funding in amounts similar to what they contribute to the motor vehicle fund in gas tax revenues. According to unpublished estimates by the state Department of Transportation, urban counties, particularly those in the Puget Sound region, historically have received less than they have contributed in state and federal transportation fuel taxes.

Also, in some counties there is a requirement that developers contribute to part of the cost of building or improving roads if their activities increase road use. SB 6464 would have given preference to projects with such local or private contributions.

Defining State and Local Responsibility

Most transportation projects are funded from a combination of federal, state and local sources. Historically, counties and cities have been able to divert to other programs local funds that otherwise would have been used for road projects. This results in greater state subsidy of local projects than the state might intend. Redefinition of jurisdictional and financial responsibility for roads and highways is being studied.

How Washington Compares

States have different ways of supporting highway-related spending. Not only do some require highway projects to compete with areas of general fund spending, but many states use many different sources of revenue to fund their highway work. As a result, relevant comparison of states is awkward.

In Washington, gas tax revenues support the bulk of the state's highway program. That's why it isn't surprising the state appears high when compared with states that pay for highways from a number of different revenue sources. However, with such caveats in mind, comparisons can be helpful in understanding the issues. Here are three common comparisons which, taken together, help place Washington's highway programs in a national perspective:

1. Looking at gasoline taxes only on a **per gallon basis** (excluding diesel and gasohol), Washington and Colorado were tied for seventh as of January 1, 1988 at 18 cents a gallon. Georgia was the lowest at 7.5 cents and Montana and Wisconsin highest at 20 cents per gallon.

2. When **other state and local taxes collected at the pump** are added, such as retail sales taxes, Washington drops a couple of places, depending on the price of the gas.

Neither of these rankings accounts for other revenue sources used for highways, such as license fees, other taxes, tolls and lottery revenues, and the rankings reflect only one point in time. Several states have additional gas tax increases already on the books which go into effect in the next six to twelve months. According to the Highway Users Federation, 14 states increased highway revenues, including the gas tax, in 1987, and 32 states are expected to consider increasing motor fuel taxes this year.

3. **Highway spending also can be measured as a share of personal income.** According to the Research Council's annual publication, *How Washington Compares*, **using that measure puts Washington 32nd in spending** for the construction, maintenance, and operation of highways, streets, and related structures. In 1985-86, state and local governments spent $15.85 per $1,000 of personal income. That's down from 1984-85, when Washington was 21st. Because highway spending is capital intensive, large projects in a particular year can cause volatile spending patterns over time.

How Are Gas Tax Revenues Forecast?

The main reason cited for raising the gas tax is that anticipated revenues are not sufficient to meet future project demand.

Gas tax revenues are forecast by the Department of Licensing in cooperation with a task force of affected state agencies, including the Department of Transportation, the Office of Financial Management, the State Patrol, and the Revenue Forecast Council.

These forecasts assume lower levels of fuel consumption, due to more fuel efficient automobiles, and a lower level of return on this state's federal gas tax payments than it has experienced in recent years, due to completion of several major interstate projects.

No Added Potholes for a Couple of Years

So, where does this leave us? Based on the November forecast for the state motor vehicle fund the transportation budget for the 1987-89 biennium is balanced ... that is, state officials expect there will be enough funds to pay for projects anticipated through June 30 of 1989.

In the 1989-91 biennium some shortfall is expected, primarily in the capacity improvement program, while most maintenance and preservation projects will be funded. And, due to the capital nature of the spending, if transportation revenue in a given biennium is a bit lower than necessary, the department can delay projects to balance the budget.

However, based on current revenue forecasts, the department projects a real problem in the 1991-93 biennium. It expects virtually no funds for the capacity improvement program and a shortfall in the funds necessary to match federal programs for preservation and safety of roads and bridges. According to Department of Transportation sources, that's when the potholes could start getting bigger.

For more information, call Elaine Ramel or Barbara Cellarius at 357-6643 in Olympia.