WASHINGTON RESEARCH COUNCIL

POLICY BRIEF

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# Governor's transportation plan: the cost factor

## Overview

Gov. Lowry has proposed $937 million in tax and fee increases over the next two years to pay for a broad range of transportation improvements. The economic impact of this plan must be taken into consideration. The plan would raise fuel taxes to among the highest in the nation. Heavy new costs on motor carriers could result in lower, rather than higher, state revenue collections, higher costs for some goods and services and a loss of businesses. The governor's proposal to apply the sales tax to gasoline also raises concerns about constitutionality and the integrity of the state's transportation fund.

Washington motorists may be looking at a 22 cent per gallon increase at the gas pump if the governor's transportation plan is approved. In his "Keep Washington Moving Plan," released on March 22, Gov. Mike Lowry proposed a comprehensive tax package and fee increases to pay for an ambitious list of transportation projects in the state.

The financing plan includes a 12 cent increase in the gas tax over the next three years, a redefinition of retail sales subject to the sales tax to include gasoline, and an increase in trucking fees. The governor projects that approving the program would raise $937 million in state revenue in the next two years.

Motor carriers would also be looking at increases in fees and taxes that would translate to some of the highest in the nation. This could result in reduced fuel purchases in Washington state, as operators are induced by high prices to purchase fuel in other states. Other economic effects would include shifts by businesses to other means of delivering goods, and potential loss of businesses especially sensitive to transportation costs. Tax collections could also be affected if higher taxes and fees encourage tax avoidance by motor carriers.

**Program Goals**

The stated purposes of Gov. Lowry's plan are to provide jobs for the state economy and to solve current and future transportation problems. The Puget Sound area has the fifth worst traffic problems in the country, behind Los Angeles, San Francisco, Miami and Washington, D.C. According to the governor, traffic congestion costs Washington businesses more than $1 billion a year in lost productivity due to delays in delivering goods, services and people.

The Washington state Department of Transportation anticipates an additional increase of 67 percent in miles driven on Washington highways from 1991 and 2012. "Arterials are like arteries," said Lowry when he submitted his proposal. "What we have is cholesterol coming."

Lowry's plan proposes to fund projects across the state that would "aid commerce, create jobs and move commuters more effectively." The projects envisioned include:

• Providing matching state dollars for regional transit projects. These include a bus-and-rail transit plan in the Puget Sound area, costing about $9.3 billion, and the expansion of the Portland MAX system to Vancouver.

• Accelerating construction and completion of the state's high-occupancy vehicle (HOV) lanes.

• Upgrading AMTRAK's rail beds between Vancouver, British Columbia and Vancouver, Washington.

• Improving rural roads, particularly in eastern Washington, to help agricultural products reach the market.

• Repairing the First Avenue South Bridge in Seattle and Highway 18 between Auburn and I-90 in East King County, and improving Spokane's North-South bypass.

• Maintaining and upgrading existing highways, roads and streets.

**Financing Sources**

The governor proposes three main sources at the state level to pay for the plan, raising about $922 million in the next biennium.

• Increase the gas tax 5 cents per gallon in fiscal year (FY) 1994 and another 5 cents in FY 1995. This would bring in an estimated $370 million in the next two years. An additional 2 cents per gallon gas tax would be levied between July 1, 1997 and June 30, 2003.

• Extend the state's 6.5 percent sales tax to include all motor vehicle fuels. This would raise an estimated $465 million.

• Raise combined license fees on trucks to generate about $87 million.

Cities and counties would be authorized to extend their local-option sales taxes to fuel sales. (Local taxes include a 0.5 percent sales tax in the City of

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Seattle and a 0.5 percent tax in King County.) This would raise an additional $87 million.

In order to receive matching funds for their regional transportation plans, voters in King, Pierce and Snohomish counties and cities must first approve an increase of 0.4 percent in their local-option sales tax.

"The cost is substantial," Lowry acknowledged, "but not nearly as much as if we don't do it."

Not everyone agrees. Rep. Jeannette Wood (R-Woodway ), a member of the House Transportation Committee, said, "Many of the projects that would be funded by the gas tax increase are worthy, but the tax increases that will be proposed, taken together, are just too much for Washingtonians to afford." Some eastern Washington legislators argued that they already pay higher gas prices and have a higher driver/population ratio than western Washington, and will therefore be harder hit by increases in the gas tax.

Rep. Tim Sheldon (D-Hoodsport) expressed concern to the governor at a March 22 Transportation Committee hearing that rural families would be hit harder than urban dwellers. His constituents, he said, tend to drive pick-up trucks and travel rural roads, resulting in poorer gas mileage and higher costs than for those who own economical cars and do most of their driving on the freeway. Rep. Sheldon said these costs could potentially amount to $600 annually, a large burden on low-income families.

A February report by the Washington, D.C.-based Tax Foundation, "*The Price of Mobility: Gasoline Taxes in America*," found, after analyzing current federal and state gasoline tax burdens on individuals over a range of income brackets, that "the gasoline tax hits poor and middle-income Americans the hardest." Families with incomes under $10,000, according to the report, pay 3.21 percent of their total income in federal and state gasoline taxes, while those earning more than $200,000 pay only 0.17 percent of their income.

**Constitutional issues raised**

Concerns have also been raised about the prudence of earmarking sales tax revenue to transportation purposes, as the governor proposes to do. Amendment 18 to the Washington Constitution, adopted in 1943, requires that all monies from motor vehicle fees and excise taxes on motor vehicle fuel be "placed in a special fund to be used exclusively for highway purposes." The governor hopes to avoid a conflict with the legal ban on using money in this fund for other than highway purposes by depending on new sales taxes on gasoline, rather than constitutionally protected motor vehicle fees and fuel taxes, to pay for public transit projects.

**Future budget constraints will invite attempts to divert the gasoline sales tax to other programs. . . The integrity of the transportation fund will be constantly at risk.**

**Total combined trucking fees and taxes of $7,271 currently place Washington 6th highest in the nation.**

This tool, however, is a double-edged sword. If the new sales tax is not constitutionally restricted to highway uses, it cannot truly be restricted to transportation uses either. Future budget constraints will invite attempts to divert the gasoline sales tax to other programs, just as interest in the state transportation fund will be shifted to the general fund this year to help close a projected deficit. The integrity of the transportation fund will be constantly at risk, and state funds for local transportation projects constantly in doubt.

**How Washington compares now**

As of January 1992, Washington's 23 cents/gallon tax on gasoline ranked fifth highest among the 50 states. Ahead of Washington were Rhode Island and Connecticut at 26 cents each, Maryland at 23.5 cents and Nebraska at 23.4 cents.

Washington's tax on diesel fuel is 10th highest in the nation, below New York (33.7 cents), Pennsylvania (28.4 cents), Illinois (27.6 cents), Indiana (27 cents), Vermont and Rhode Island (26 cents), Nevada (24.5 cents), Ohio (24 cents) and Nebraska (23.8 cents).

**Fuel prices would rise sharply**

If the transportation plan were to pass, Washington state would have the highest gas tax in the nation at 45 cents per gallon. It would also join eight other states that tax motor vehicle fuel under the sales tax.

The total tax increase for the ordinary motorist would be 22 cents per gallon. The higher gas tax would account for 12 cents of the increase. The other 10 cents, based on an estimated FY 1993 gasoline price of $1.25 per gallon, would accrue from the extension of the sales tax at both the state and local levels to gasoline.

The Washington Department of Transportation projects that the average gasoline price of all grades and services in FY 94 will be $1.30. Gov. Lowry's plan would raise gas prices to $1.53 per gallon when his proposed 12-cent gas tax increase is added to King County's 8.2 percent state and local sales tax.

That estimate excludes any increase in the federal gas tax, which stands now at 14 cents per gallon. President Clinton's proposed energy tax would add an estimated 7.5 cents per gallon, boosting the price at the pump to $1.62 per gallon.

Consumers of diesel fuel would see an increase of 44.1 cents per gallon under the governor's plan.

**Costs to Motor Carriers**

Under current law, any Washington state licensed truck or tractor-trailer rig exceeding 6,000 pounds empty scale weight must pay a gross vehicle weight (GVW) license registration fee. The trucker must pay an additional annual 2.2 percent excise tax levied on the value of the vehicle and a trailer registration fee as well. According to data compiled by the Paragon consulting firm for the Research Council, Washington registration and weight fees for an 80,000 pound truck are currently $3,585. This compares to fees of $2,951 in California, $132 in Idaho and $320 in Oregon. (Idaho and Oregon do not have weight fees).

Gov. Lowry's transportation proposal would increase GVW fees by 50 percent. The current GVW fee of $1,158 would increase $759, raising Washington's total registration and weight fees to $4,344.

Total combined trucking fees and taxes of $7,271 currently place Washington 6th highest in the nation, behind Arizona, Oregon, New York, Kentucky and Montana. According to Paragon, the total tax and fee burden on Washington motor carriers is roughly equivalent to those in Idaho ($7,084) and California ($6,933). The average Washington trucker, however, would be looking at an increase of 57 percent if the governor's proposal were adopted. This increase translates to a total of $11,399, slightly less than Oregon's $11,960, now 2nd highest in the nation.

Paragon notes that estimates of total taxes and fees may vary depending on the source. The fuel tax is generally calculated on a national fuel consumption figure of 5.7 miles per gallon. Washington's figures, however, are usually based on a 5.0 miles per gallon figure, due to the high number of logging trucks operating on back roads rather than interstate highways, where mileage is somewhat better.

An increase in fees and taxes on this scale could reduce the competitiveness of smaller trucking companies.

According to Paragon,

> Small carriers typically buy fuel from a retailer, such as a key-card fuel depot or truck stop. Larger motor carriers buy wholesale fuel directly from jobbers who deliver larger volumes of fuel to the carrier's privately-owned and operated fuel depot. The pump price paid by a small carrier at a truck stop can be up to 20 cents per gallon greater than the volume wholesale price paid by large motor carriers. With such a price disparity, a small carrier with only 10 five-axle tractor-trailer rigs (logging 80,000 miles annually) will pay $2,634 more annually in retail sales tax on fuel purchases. Under the traditional cents-per-gallon motor vehicle fuel tax, both the small and large carrier, when buying equal amounts of fuel, would have paid an equal amount in taxes.

**Economic Impacts**

In-state sales of goods and services to motor carriers and fuel tax collections by the state are likely to decline if the additional fees and taxes proposed by the governor are adopted. There are at least four reasons for the projected decrease.

***Tax avoidance.*** Interstate motor carriers pay the state's motor carrier fuel use tax under a system of self-reporting. Operators are required to record and report fuel purchases and miles traveled within Washington. On the basis of these reports, the fuel use tax is then computed at a rate of 23 cents per gallon, and paid quarterly to the state Department of Licensing.

Washington state is also a party to the International Fuel Tax Agreement (IFTA). Under this system interstate carriers register in their "base," or home, states, and report all interstate mileage and diesel fuel usage, as well as taxes paid at the pump in various states, to their base states. Each base state then redistrib-

## Comparative Diesel Fuel Tax Rates

**as of March 1993**

| | State Deisel Fuel Tax (Cents per gallon) | Retail Sales Tax on Diesel Fuel (Percent) | Total State Diesel Fuel Tax (Cents per gallon) |
|---|---|---|---|
| **Washington** | 23 | None | 23 |
| **Idaho** | 21 | None | 21 |
| **California** | 17 | 8.5% = 8.7 Cents[1 2] | 25.7 |
| **Oregon** | None[3] | None[3] | None[3] |

[1] Based upon diesel price of $0.817 (Average pump-price of $1.248 per gallon, less $0.201 federal fuel tax and $0.23 state fuel tax).

[2] California state sales tax of 5% plus 3.5% local-option "transaction tax" levied by larger cities such as San Francisco. This tax is not levied as a "use-tax."

[3] Oregon levies a ton/mile tax based upon weight. A 5 axle tractor plus trailer rig with an average weight of 80,000 pounds would pay 14.55 cents per mile. Additional axles reduce the levy. Additional weight, in 2,000 lb. increments, increases the levy. With an average 6-miles-per-gallon fuel efficiency, the Oregon ton/mile tax is equivalent to a gas tax of 87.3 cents per gallon of fuel consumed.

## Tax & Fee Burdens for Typical Motor Carrier

| | MVET/REG or License | Tonnage | Other | State Fuel Taxes | Sales Tax on Fuel | Weight-Distance Tax | Total | Price per Mile |
|---|---|---|---|---|---|---|---|---|
| **Current Washington** | $2,067 | $1,518 | $6.75 | $3,680 | – | – | $7,272 | 0.0909 |
| **Proposed Washington** | $2,067 | $2,277 | $6.75 | $5,280 | $1,769 | – | $11,399 | 0.1425 |
| **Idaho** | $132 | – | – | $3,360 | – | $3,592 | $7,084 | 0.0886 |
| **California** | $1,522 | $1,429 | – | $2,720 | $1,262 | – | $6,933 | 0.0867 |
| **Oregon** | $320 | – | – | – | – | $11,640 | $11,960 | 0.1495 |

utes tax revenues to other IFTA-member states according to the actual mileage traveled in each state.

Based on experience in other states, the collection rate for these self-reported taxes is likely to drop as the tax rate increases. A high differential between fuel taxes in Washington and in neighboring states increases the incentives for motor carrier operators to "cheat" the system by failing to make accurate reports of miles traveled and fuel purchased in the state. It also substantially increases the incentive for trucks to fill up in another state, such as Idaho, and transport freight through Washington without ever buying fuel here.

**Based on experiences in other states, the collection rate for self-reported taxes is likely to drop as the tax rate increases.**

The loss of fuel tax revenue to the state is only the first result of this tax avoidance practice. It would also result in a considerable loss to truck stop operators in sales of ancillary products such as cigarettes, snacks and meals, and to the state in sales tax revenue. One eastern Washington operator reports that he sells about 20 cents of these products to truckers for every gallon of fuel that they purchase.

The Connecticut legislature rolled back that state's high diesel fuel tax in 1991 after reports from truck stop operators that they were losing business to competitors in the three bordering states because of the differentials in fuel prices. A consultant has reported to the Connecticut General Assembly that "after the decrease of diesel fuel taxes from 22 cents per gallon to 18 cents. . . sales at truck stops on the major highways have increased, generating additional sales tax revenue in excess of $1 million."

***Reduced demand***. As with most goods and services, as fuel prices rise, consumption is likely to decrease.

A February 1993 study by Price Waterhouse conducted for the American Legislative Exchange Council found "significant cross-border activity" in items subject to state excise taxes (including cigarette, alcoholic beverage and gasoline taxes) in the New England states as a result of tax disparities. Price Waterhouse determined that states that maintain low excise taxes can increase their revenue bases by attracting consumers from bordering states. "The revenue gains achieved by a state with low excise taxes," Price Waterhouse said, "necessarily come at the expense of the states that have increased their tax rates in order to raise more revenue."

Although the effect can be expected to be greater in New England, where mileage between state borders is so much shorter, the long-distance fuel capacity of interstate motor carriers makes it likely that higher prices would mean lower consumption of fuel here as well.

***Shifts to other modes of delivery***. Higher fees and taxes will be passed on to the consumer through higher transportation costs. Some companies may find it more cost-effective to ship their goods through air and rail freight rather than motor carriers.

***Loss of new business***. Washington state is geographically disadvantaged. Businesses need not locate within the state if the state is not the primary source of raw materials or the primary market for finished products. Nor is it necessary for trucks to travel through the state to reach other states. Uncompetitively high trucking fees and taxes, combined with high fuel taxes, may deter new business from locating in the state, or cause existing employers to leave for lower-cost locations.

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## Comparative Registration & Weight Fees

**for an 80,000 lb Truck**

| | Current Registration and GVW Fees | Plus 50% Increase | Total Registration and GVW Fees |
|---|---|---|---|
| Washington | $3,585[1] | $759[1] | $4,344 |
| Idaho | $132[2] | N/A | $132 |
| California | $2,951[3] | N/A | $2,951 |
| Oregon | $320[4] | N/A | $320 |

[1] $3,585 includes 2.2% annual excise tax on truck valuation, $42.75 in trailer registration fees and $1,518 gross vehicle weight (GVW) licensing fees. The governor's 50% increase applies to only the $1,518 GVW fee. [2] License fee with no weight fee. [3] License fee of $1,522 and GVW fee of $1,429. [4] License fee with no weight fee.