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Initiative 745: Paved with Good Intentions

BRIEFLY

Proponents of Initiative 745 set out a clear goal: 90 percent of state transportation funds should be spent on roads.

In this, the first of three briefs on I-745, we provide an overview of the initiative and consider how it might affect current transportation spending. The next two briefs will examine the hurdles it faces in the legislature and its implications for transportation and transit programs.

Part 1 of 3

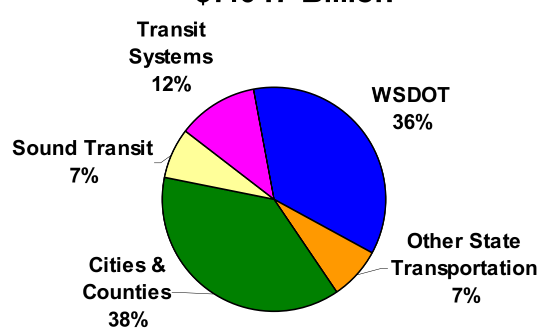
An Overview of I-745

Initiative I-745 would do three things: redirect transportation spending; require performance audits of transportation agencies; and exempt road construction and maintenance from the sales tax.

Of the three primary objectives, the reshuffling of transportation expenditures carries the greatest impact. The initiative sets out to make road and lane construction and maintenance the "top priority" for the transportation system. The initiative directs the legislature to assure that no less than 90 percent of "transportation funds" are spent on "new roads, new lanes on existing roads, improvements to the traffic carrying capacity of roads, or maintenance of roads." We'll call that "roads."

While the goal seems clear, achieving it may be difficult, perhaps impossible without either a major infusion of new roads spending or substantial disruptions in our current transportation system. And, in the end, the outcome could be as unsatisfactory to those who embrace I-745 as to those who oppose it.

Estimated 1999-01 Transportation Spending: $7.047 Billion



Source: Washington State Office of Financial Management

The initiative defines "transportation funds" as "government funds spent for transportation purposes," and lists several examples. Exempted from the definition are federal money earmarked for non-road expenditures, user fees (like bus or ferry fares), school transportation, and airport or port district funds.

Drawing on a Superior Court brief filed by backers of the initiative, the Office of Financial Management (OFM) – the state budget office – assumes that the 90 percent target is a statewide goal. Various units of government – cities, counties, transit districts – could apply the funds in different proportions, but overall, 90 percent of the money would have to be spent on roads.

Transportation Funding and I-745. To understand the impact, it's necessary to look at current spending. State fiscal analysts have determined that about $7.047 billion of transportation spending for the 1999-2001 biennium would have been affected by the initiative, i.e., all non-exempt transportation funds. The accompanying pie chart breaks out the spending by government.

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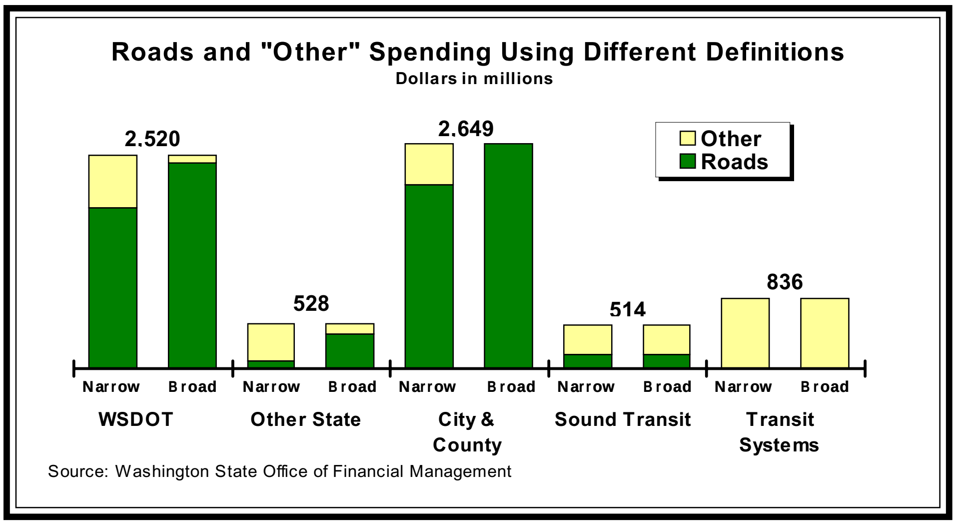
(A number of adjustments are required to bring everything together, such as converting calendar years to fiscal years, estimating biennial spending from annual data, and using revenues as a surrogate for expenditures in some cases. The estimate is close, but not perfect.)

Once the universe of affected spending is determined, additional assumptions are required to allocate the dollars between roads and "other," which includes transit systems. State analysts use two approaches to calculate how much of current spending fits the initiative's intent. (See bar chart.)

Using a narrow definition, they find that about $4.326 billion, or 61 percent of total affected spending, is spent on roads. A broader definition brings the total of road spending to $5.657 billion, or 80 percent.



The narrow definition excludes ferries, transportation planning and management from roads. The ferry system accounts for $264 million of the roughly $1.33 billion difference; the state patrol, $229.4 million.

The broader definition, which treats "roads" as the 18th Amendment to the State Constitution treats the term "highway purposes," appears reasonable. Nonetheless, there's surely room for disagreement.

For the biennium, about $836 million will be spent on transit, reflecting the loss of Motor Vehicle Excise Tax (MVET) funding. Prior to passage of I-695, which repealed the MVET, transit spent nearly twice as much, according to the Washington State Transit Association.

Of the $514.4 million state analysts show being spent by the Central Puget Sound Regional Transit Authority (Sound Transit), about $170.1 million is classified as roads spending under either definition. That leaves $344.2 million as "other" or transit spending. In the case of the Sound Transit, the budget analysts used revenues as a surrogate for expenditures.

A critical assumption by OFM: "For the purposes of fiscal analysis, it is assumed that revenues approved by voters for specific purposes other than highway use could be shifted to roads." This assumption implies that transit funding may be diverted from bus systems to pay for roads.

Budget analysts may have little choice but to assume that the money can be moved, but the courts would disagree. In another brief in this series, we'll examine the problems with the assumption, but for now let's consider its implications.

Ninety percent of $7.047 billion is $6.343 billion. To reach that level, under the narrow definition of roads spending, an additional $2.016 billion would have to be spent. Under the broader, and more likely, interpretation, and additional $685.7 millions would be required.

With transit spending, including Sound Transit, totaling $1.18 billion, a shift of $685.7 million would represent the loss of about half the current funding level for transit systems. All of the transit money shown is generated by local taxes. (The Washington State Transit Association says that although King County's Metro system received nearly one-quarter of its revenue from fares, in most systems the fare box generates less than eight percent. WSTA says federal money amounts to less than two percent of system revenues.)

Transportation Audits. The initiative requires the state auditor to conduct performance audits on "each transportation agency, account, and program," with the first reports "submitted to the legislature and made available to the public" by the end of 2001. The audits are to be paid for from transportation funds. Currently, the auditor does not conduct performance audits. No cost estimate is available. After the first year, audits are at the discretion of the state auditor.

Sales Tax Exemption. I-745 would exempt from the sales and use tax road materials and labor used in the construction or maintenance of publicly owned roads, streets and highways. Currently, application of the sales and use tax increases the cost of transportation projects. The tax revenues collected on these projects goes into the general fund, amounting to a shift of revenues from roads projects to general state purposes.

Passing the exemption would reduce state general fund revenues by about $42 million annually. Statewide, local governments could lose about $11 million in sales tax collections. OFM notes that the exemption may also result in the loss of about $50 million in annual collections paid by contractors on federal projects.

Other Provisions. According to I-745, Sound Transit must spend its money within its boundaries. The initiative further specifies that the transportation element of the comprehensive plans required under the Growth Management Act be up-dated to reflect the passage of I-745. Finally, the initiative directs that its provisions be "liberally construed."

Comments. Transportation finance and administration has come to involve an inordinate degree of complexity. And the status quo, deservedly, has few defenders.

Initiative 745 outlines a number of goals with which many transportation analysts and advocates agree conceptually: road building should be a higher priority, the sales tax on transportation projects should be reduced or removed, performance audits can identify achievable efficiencies.

Yet, many of those involved in transportation debates over the past several years also express concern that passage of the initiative will frustrate much of the progress made so far to achieve these goals. Beginning with the 90 percent target for roads, they say, the initiative lacks clarity, assuring months of wrangling in the legislature. And, they argue that allocating the allowable spending across various units of local, regional, and state government – and different agencies and operating units within those governments – invites difficult and contentious debate.

Initiative proponents counter that the fix may actually be simple: just increase roads spending, using available revenues. Making the pie larger, spending all of the new money on roads, will bring transportation spending in compliance with the 90 percent mandate.

In later policy briefs, we'll examine these arguments in more detail.

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