

# Washington Research Council

= Public Policy Brief =

May 1990

## Package gets transportation improvements rolling

After several years of unsuccessful attempts, the legislature this year approved a transportation revenue package that will raise about \$1.1 billion over the next five years for state and local transportation system improvements.

The 1990 supplemental transportation budget provides about \$156 million more for transportation programs (see table below), which will bring total transportation spending during the 1989-91 budget period to \$2.2 billion — 13 percent more than the 1987-89 budget. Funding for the supplemental budget was made available by approval of the transportation revenue package, which is anticipated to generate \$167 million during the remainder of the 1989-91 biennium.

### New Budget Benefits Big Projects

Of the \$2.2 billion total transportation budget, about \$1.7 billion — approximately 80 percent — will go to the Washington State Department of Transportation, giving it a 9 percent budget increase over 1987-89.

More than half of the department's \$92 million increase is earmarked for state highway (category C) projects, including three big-ticket items: a new north-south corridor through

Spokane, replacement of Seattle's First Avenue South Bridge and widening of State Route 18, which links Interstates 5 and 90 between Auburn and North Bend. With the budget boost, the department's category C budget jumped from a 1989-91 base of \$36 million to \$91 million, a 154 percent increase.

The supplemental budget provides about \$10 million for the state ferry system. The new money will go towards operation of the new passenger-only ferries, as well as additional ferry service enhancements.

The County Road Administration Board will receive about \$19 million (13 percent of supplemental budget) to add to its \$25 million 1989-91 base budget, a 77 percent increase and 192 percent more than it received for 1987-89. And the Transportation Improvement Board will add \$41 million (27 percent of supplemental budget) to its \$51 million 1989-91 base budget, an increase of 81 percent and 50 percent more than it received for the previous budget period.

### Funds for Local Governments

Big winners under the transportation revenue legislation include local governments, who say they have been

### Transportation Budget

(dollars in millions)

	1989-91				1989-91 Total	
	1987-89	Original	Suppl.	Total	Pct Change from: 1987-89	Original
Department of Transportation	\$1,596.8	\$1,656.9	\$91.5	\$1,748.4	9.5%	5.5%
4R (Category A)	190.0	206.0	1.1	207.1	9.0	0.5
Interstate (Category B)	565.6	530.0	0.0	530.0	(6.3)	0.0
State Highways (Category C)	86.6	35.8	55.0	90.8	4.8	153.8
Bridge Replacement (Category H)	50.7	60.0	0.6	60.6	19.6	1.1
Highway Maintenance	173.6	191.9	0.1	191.9	10.6	0.0
Marine (Ferries)	230.4	281.4	9.8	291.2	26.4	3.5
State Aid	120.5	131.6	2.0	133.6	10.9	1.5
Other	179.4	220.2	22.9	243.1	35.5	10.4
County Road Administration Board	15.3	25.2	19.5	44.6	192.2	77.4
Transportation Improvement Board	61.5	51.0	41.3	92.3	50.0	81.0
Washington State Patrol	150.6	170.0	0.7	170.7	13.3	0.4
Department of Licensing	103.4	104.2	1.4	105.7	2.2	1.4
Other Agencies	12.5	19.6	1.2	20.8	65.8	6.1
<b>Total</b>	<b>\$1,940.1</b>	<b>\$2,026.8</b>	<b>\$155.6</b>	<b>\$2,182.4</b>	<b>12.5%</b>	<b>7.7%</b>

Note: Supplemental budget has been adjusted for governor's vetos.

Source: Legislative Transportation Committee.

## Transportation Revenue Package

- **A 5-cent hike in the 18-cent-per-gallon gas tax** (see graph on right). Four cents of the tax went into effect April 1. The fifth will take effect April 1, 1991, making the total state tax 23 cents per gallon. Fuel tax receipts will account for about \$650 million, or 59 percent, of the revenue increase for the next five years.

Here is the way the current 4-cent tax increase is being divided:

- 1 cent to the transportation department.
- 0.50 cent to cities.
- 0.30 cent to counties.
- 0.25 cent to the Rural Arterial Program, which pays for construction and reconstruction on rural county arterials based on competition between counties in each of five state regions.
- 0.45 cent to the newly created County Arterial Preservation Program, which gives each county money for rural and urban county arterial preservation based on its total number of paved arterial miles.
- 1.5 cents to the Transportation Improvement Board, a state agency that furnishes state matching money for local and regional road-improvement projects.

The April 1991 penny increase will be split between transportation department capacity improvement projects on state highways (0.75 cent) and counties (0.25 cent).

- **A 40 percent increase in gross weight fees on trucks** beginning Sept. 1, with money going to the motor vehicle fund. The change, which accounts for about 10 percent of the increased revenue, is expected to raise about \$108 million by 1995 for transportation construction programs. The average cost per year for a tractor/semi-trailer is expected to climb from about \$1,080 to \$1,500 as a result of the increase.

- **Creation of a transportation fund** for transportation department construction programs.

Unlike the motor vehicle fund, which the state constitution's 18th Amendment earmarks for highway purposes, the new fund will be available for diverse transportation needs. With legislative approval, it can be used across jurisdictions and by all modes of transportation such as transit, motor vehicles, bicycles and rail. The transportation fund will get its money primarily from changes in the motor vehicle excise tax, the surcharge motorists pay yearly to renew their license tabs.

- **Excise tax changes** account for about \$342 million — 31 percent of the revenue increases. These include:

- Addition of a 0.2 percent surtax to the motor vehicle excise tax beginning Sept. 1, which will raise about \$238 million by 1995.
- Revenue-neutral modification of the depreciation schedule used to determine vehicle excise taxes.
- Permanent allocation of the 0.1 percent portion of the motor vehicle excise tax earmarked for the state ferry system. That's the same level as the temporary allocation which was due to expire in December.

The ferry system was originally intended to be self-sustaining when the state took over the system in the 1950s, however over time the state's contribution to the system has increased. In fiscal year 1987-88, ferry fares represented about 50 percent of ferry system spending, down from 93 percent in fiscal year 1977-78.

- Reduction of motor vehicle excise tax money available as matching funds to local public transit districts from 1 percent to 0.89 percent beginning Jan. 1, 1993. Money from the reduced rate will go into the new transportation fund.

In addition, transit funds which go unmatched by transit districts will be moved from the state general fund to the transportation fund July 1, 1991.

According to estimates by the Legislative Transportation Committee, the change could affect nine of the state's 21 transit districts, diverting about \$57 million that would otherwise go to transit districts into the transportation fund between 1993 and 1999. The systems potentially affected are those in King, Pierce, Snohomish, Thurston, Whatcom, Kitsap, Spokane, Cowlitz and Douglas counties. Undistributed funds will be earmarked for transit improvements such as high-occupancy vehicle lanes, high-capacity transportation systems and transit's share of money for Transportation Improvement Board projects.

- Local authority to raise money for local road work through a voter-approved fuel tax of up to 10 percent of the state rate. This 2.3 cent boost could raise gas taxes in certain localities to 25.3 cents per gallon by 1991.
- County government authority to impose a vehicle registration fee of up to \$15, subject to referendum.
- City and county government authority to levy a commercial parking tax, subject to referendum.
- City government authority to impose a street utility charge on businesses of up to \$2 per employee each month or \$2 per household each month. No vote is required, nor is the tax subject to referendum.

hard-pressed in recent years to pay for transportation maintenance and improvements. Local projects will get \$430 million over the next five years from a fuel tax increase. The 1990 Legislature also authorized local-option transportation taxes — some of which already are being considered by city and county governments — and funding sources for high-capacity public transportation in some larger counties.

A clause in the revenue bill states that the legislature intends that local governments not use the additional transportation revenues to replace, divert or loan any revenues currently being used for transportation purposes to non-transportation purposes.

Whether local governments will refrain from siphoning off local-options transportation money for other financially pressing local needs is debatable, said Ernest Geissler, executive director of the County Road Administration Board.

Legislators may have to take firmer action if the problem arises, but if money for criminal justice and other local programs is quickly found, that's unlikely to develop, he said.

While the package is welcomed by transportation proponents, most agree the extra money will do little more than maintain Washington's current transportation system.

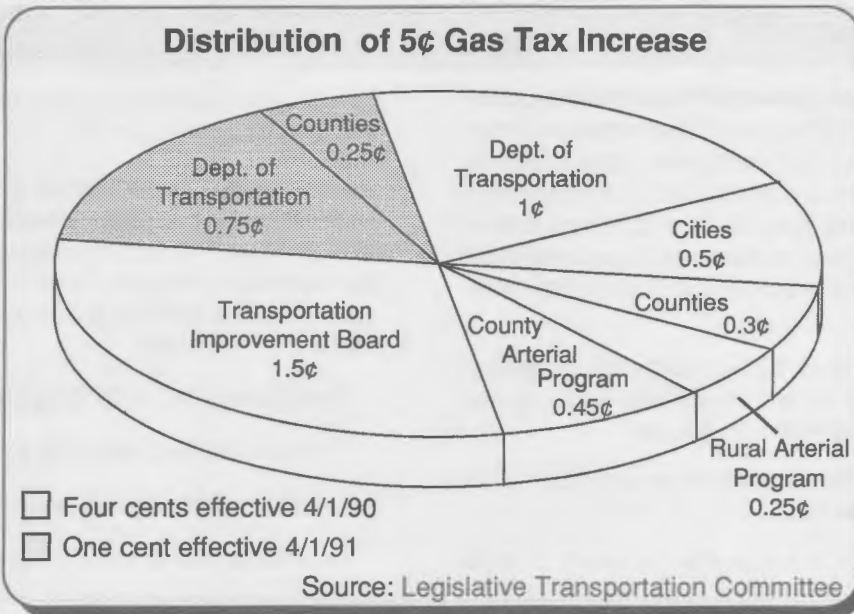
"We're still in quicksand, but there has been a reprieve," Gov. Booth Gardner said in March as he signed the package into law. "This keeps us from drowning."

"It sustains the present level of congestion," said transportation department Secretary Duane Berentson of the package, which supplies no new money for interstate highways.

Representatives of the trucking industry and independent gas station retailers said they are concerned over the package's potentially negative effect on their industries.

### What's in the New Package?

The transportation revenue package includes changes in the state gas tax, motor vehicle excise tax and gross weight fees for trucks, as well as authorizes local-option taxes for transportation purposes. It also creates a new "Transporta-



tion Fund," which is not covered by the highway-purposes mandate of the motor vehicle fund. These are detailed in the box on page 2, see **Transportation Revenue Package**.

### Money for Mass Transportation

A companion bill to the transportation revenue package includes local-option revenue sources to help pay for high-capacity transportation system planning and development, rail freight

service and inter-city passenger systems. These local options are detailed on page 4, see **High-Capacity Transportation Options**.

### Package Will Maintain Status Quo

In 1989, the Legislature passed a \$2 billion "no new taxes" 1989-91 budget for transportation agencies. That budget level was only 4 percent higher than spending in 1987-89 and well below the 1987-89 state general fund operating budget increase of 20 percent. Because federal matching money requirements dictate where some transportation money is spent, the budget passed in 1989 resulted in a spending reduction of

nearly 60 percent for state highway projects.

Rick Daniels, public affairs administrator for the transportation department, said the new revenue package will go far in relieving a backlog of

projects — some of them considered crucial for traffic safety — that stacked up in recent years.

"We're in a position where we won't lose ground," he said. "Seven hundred miles of the 7,000 mile state road system are so congested that they're at an unacceptable level of service. We'll be able to hold that level of service for five years ... You'll see congestion reduced if the projects get done, but other (congested areas) will crop up."

The state's road preservation program also will stay on track, and counties will be able to use the new Arterial Preservation Program to repair and resurface county roads, Daniels said.

### Counties, Cities to Benefit

Geissler, whose County Road Administration Board works closely on traffic issues with other county organizations, said

## High-Capacity Transportation Options

• **For accelerating development of the high-occupancy vehicle system**, King, Pierce and Snohomish counties were authorized to levy two taxes, with voter approval. This system development may include high-occupancy vehicle lanes, park-and-ride lots, bus turn-outs, advertising programs, van pool vehicle purchases and other options. The counties are authorized to levy the following taxes:

- An employer tax of up to \$2 per month per employee, with credits allowed for employers who adopt agreements to increase vehicle occupancy.
- A surcharge of up to 15 percent on the basic state motor vehicle excise tax.

High-occupancy vehicle funds may be used to retire

bonds until the year 2000 and, with voter approval, may be used for commuter rail.

• **For planning, construction and operation of high-capacity transportation service** by transportation agencies in King, Pierce, Snohomish, Thurston, Clark and Spokane counties three local-option taxes were authorized. The local options, which all require voter approval, include the following:

- An employer tax of up to \$2 per employee per month.
- A sales-and-use tax of up to 1 percent.
- A motor vehicle excise tax of up to 1 percent.

These taxes may also be used to back bonds.

he was pleased with the package. The board will get about \$19 million for local construction and improvement projects.

"It's not enough to do everything, but politically, it's as much as could be done now," he said. "It's a whole lot better than last year."

In Eastern Washington, it will help pay for extensive reconstruction of deteriorating rural arterials. Abandonment of about half the rail lines east of the Cascades and a consequent shift of farm commodity transport from rail to truck has strained rural roads that weren't built for heavy trucks, he said.

In Western Washington, the entire arterial system needs rebuilding and supplementing to handle traffic generated by rapid urban development, he said.

Funding the Transportation Improvement Board was crucial, Geissler said. The board will award matching money to local and regional projects on the basis of a point system which favors cooperation between city, county and transportation agencies. The approach should spur greater efficiency in regional traffic planning and help eliminate a previous hodgepodge of uncoordinated local projects, he said.

Dan Rude, deputy executive director of the improvement board, said his board has a list of 156 projects around the state and a budget of about \$41 million for the remainder of the 1989-91 budget cycle. About 87 percent of the board's money will be distributed according to the point system, while the remainder will go to small cities for road-widening, structural safety and other transportation projects.

Stan Finkelstein, acting executive director of the Association of Washington Cities, said the most attractive element for

cities is the local-option city street utility tax, which doesn't require a vote and isn't subject to referendum.

Several larger cities around the state, including a number of King County cities, are considering this option because it allows them to tailor the tax to their specific traffic improvement needs, he said.

### Not Everyone Happy with New Package

While many applaud the transportation package, it has not gained universal favor.

Washington Transit Association Executive Director Steve Lindstrom labeled reductions in the motor vehicle excise tax-match rate to transit systems "troubling."

"We consider ourselves part of the solution to the problems of congestion and isolation around the state," he said.

The organization is troubled for several reasons, he said.

First, the reduction continues a precedent of reducing the amount of motor vehicle excise tax for transit systems which began in 1987, when the legislature cut transit's yield from 1 percent to 0.96 percent for systems in King, Pierce, Snohomish and Thurston counties to fund the Rail Development Commission. This reduction drops transit's portion of excise tax revenues to 0.89 percent.

Second, because of the earlier reduction, the pending cuts fall inconsistently among nine potentially affected transit districts, Lindstrom said. Of the \$57 million which will revert to the transportation fund by 1999 under excise tax revisions, \$52 million will come from reductions to transit systems

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**— Steve Lindstrom, Washington Transit Association**

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servicing the state's three most populous counties — King, Pierce and Snohomish. However, the fourth-largest transit district, Spokane, will lose only \$400,000, he said.

"We wonder why if the Legislature thinks we get too much that they didn't make across-the-board cuts," Lindstrom said.

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***"If county councils propose (the local-option excise tax), AUTO will fight it."***

**— Tim Hamilton, Automotive United Trades Organization**

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Finally, most of the transit improvement money in the transportation fund is earmarked for capital improvements and all of it is subject to a complicated and time-consuming application process that promises to encumber efficient operation of local transit districts, he said.

But, he added, the package does several good things for public transit. Although the transportation fund application process presents a constraint, the money eventually will benefit transit systems by widening some roads, providing bus turn-outs, building high-occupancy vehicle lanes and improving other common transit problems, Lindstrom said. Transit systems are signed on as partners in 28 projects transportation improvement projects statewide, the largest being Tacoma's \$8 million Commerce Street Transit Center, Lindstrom said.

### **Border Gas Dealers, State, May Lose**

Tim Hamilton, executive director of Automotive United Trades Organization (AUTO), which represents many of the approximately 2,100 independent gas retailers in Washington, found few positive aspects to the legislation.

Motorists buy gas where its cheapest and profit margins already are slim, so a penny's price difference per gallon often makes or breaks independent dealers while only negligibly affecting national companies such as Exxon, Hamilton said.

As a result, higher gas taxes will "clobber" independent retailers in border areas such as Asotin or Clark counties, where drivers can travel a few miles to Oregon or Idaho and still save a few cents. That means the state loses money, too, he said.

The same situation may result if and when local governments impose optional gas taxes, he said. For instance, if King County voters opt for a local gas tax, drivers may cross to Snohomish or Pierce counties for fuel.

"If county councils propose (the local-option excise tax), AUTO will fight it," he said.

There's no reliable way to estimate revenue losses to the state, and it will take about 60 days to see a large trend in gas business going over state borders, Hamilton said. However, since the gas tax was imposed April 1, "we're getting many calls from merchants who've seen a direct, distinct drop in (customer) volume," he said.

### **State Truckers May Be at a Disadvantage**

Washington truckers also expect to be hurt by the new legislation.

Calling the legislature's multi-level transportation funding system "a bad idea," Marty Sangster, executive vice president of the Washington Trucking Association, said, "We're not reluctant to pay our fair share, but we do believe that with the local options, it will lead to inequitable taxation."

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Tax and fee changes hit in-state truckers with a triple-whammy, he said. Along with 40 percent higher weight fees, individual truckers and trucking firms will be paying the higher motor vehicle excise tax like other vehicle owners, any local-option taxes that are imposed in their locale and the higher fuel tax. Truckers are especially concerned they'll be unable to determine overhead costs with all the local options that could be imposed, he said.

"Obviously, we'll have to pay and will unfortunately have to increase the cost of our service," he said. "That puts us at a disadvantage with other transportation modes. If its cheaper to go by rail or with a trucker from Idaho, we'll probably lose business."

***For those interested in transportation finance, the Research Council has a special report on the topic. To order a copy, contact the Council office at (206) 357-6643.***

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