WashACE

COMPETITIVENESS BRIEF

Washington Alliance for a Competitive Economy

CB 05-06 June 21, 2005

Another Step Forward on Transportation

THE BOTTOM LINE

With the 2005 Partnership Package, the state takes a necessary step forward with respect to the transportation funding gap.

Over the long term, the capacity added and preserved will prove vital to the state economy. In the short term, the construction program will create 8,800 net jobs per year, on average, over the next ten years and better than 14,000 net jobs in the peak year.

The Washington Alliance for a Competitive Economy (WashACE) has repeatedly identified transportation as a critical competitiveness issue and called for the state to increase its rate of investment in transportation infrastructure. We are not alone.

In its 2000 report, the Blue Ribbon Commission on Transportation found the state needed to spend $150 billion on transportation from 2001 to 2020 but that existing revenue sources would provide only $55 billion, leaving a gap of $95 billion. The Commission recommended filling half of the gap with new revenues and half with a combination of aggressive efficiencies, traffic demand management, and telecommuting and other emerging technologies.

In 2001, Governor Locke's Competitiveness Council concluded that "the most important competitive investment the state of Washington can make is to improve its transportation infrastructure with secure long-term funding and efficient operations. Washington citizens currently lose $2 billion per year because traffic congestion wastes time and fuel and causes shipping delays."

In our 2005 Competitiveness Agenda, we observed:

> Transportation improvements have failed to keep up with population growth and increased commercial activity. Congestion increases shipping costs, demoralizes commuters, and reduces productivity. For too long, infrastructure initiatives have been deferred. We must act today to assure tomorrow's economic opportunities.

From this followed two WashACE recommendations: the state should increase highway capacity for better industrial freight mobility and find regional solutions to highway capacity constraints.

This year the legislature has taken an important step forward, passing the 2005 Transportation Partnership Funding Package (ESSB 6103),which will directly increase transportation spending by $8.4 billion over the next 16 years. The package responds to our recommendations: It will provide economically significant improvements in freight mobility and support local efforts to rebuild and expand critical highways in the central Puget Sound region.

PREVIOUS STEPS

The Blue Ribbon Commission on Transportation was correct when it concluded that part of the transportation funding gap could be filled with a combination of efficiencies, demand management and technol-

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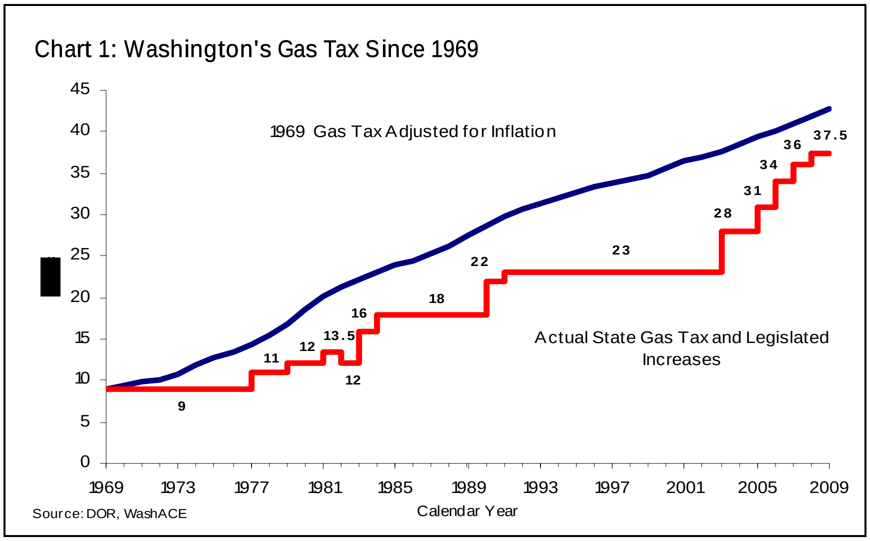
ogy. But such steps alone will not be sufficient. More money is needed. The state's primary source of funding for highway investments is the gasoline tax, which traditionally is set as a fixed number of cents per gallon. Over time, inflation erodes the value of that tax. The effect of inflation is shown in Chart 1, which compares the evolution of gas tax rates since 1969 with what the rates would have been had the 1969 rate simply been indexed to inflation. Even with the tax hikes included in the Partnership Funding Package, the gas tax rate in 2009 will be below that of 1969 adjusted for inflation.



The 2003 Legislature enacted a number of measures to enhance accountability in the Washington State Department of Transportation (WSDOT), hoping that this would increase the public's confidence that transportation dollars would be wisely spent. (We discuss several of these measures below.) The legislature also passed ESHB 2231 raising the gas tax by 5 cents per gallon, increasing truck weight fees, and imposing an additional 0.3 cents per dollar on vehicle purchases. With bonding, these revenues will fund $4.2 billion in additional transportation spending, dubbed the "Nickel Package," over ten years.

The Blue Ribbon Commission recognized that sufficient state money would not be available to fully fund the highway improvements needed in the central Puget Sound and other regions and therefore recommended that the state grant these regions new transportation authority, flexibility, and revenue options. Likewise, WashAce has called for regional solutions to highway capacity constraints.

Along these lines, the 2002 Legislature established the Regional Transportation Improvement District (RTID) to provide a mechanism for the residents of King, Pierce and Snohomish Counties to tax themselves to fund transportation investments of regional significance. The 2005 Transportation Partnership Funding Package is explicitly crafted to work with RTID and will provide a state match to locally raised funds in order to complete several critical projects.

PARTNERSHIP FUNDING PACKAGE

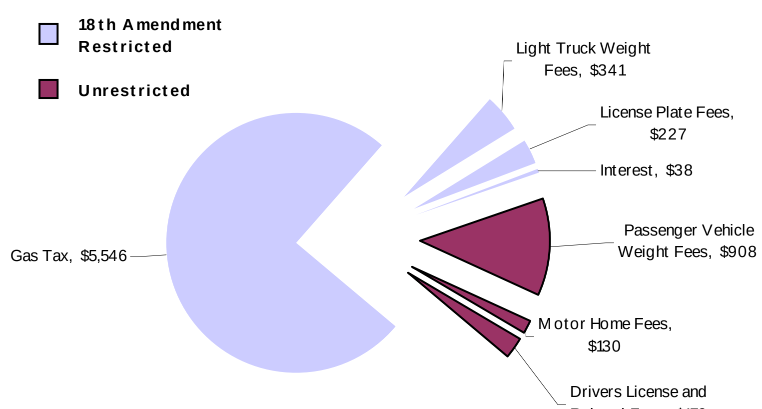
The package generates new revenue from three sources: increased fuel tax, vehicle weight fees, and licenses and permits. Altogether the anticipated new revenues total $7,369 million over 16 years. About 83 percent of this revenue is restricted by the 18th amendment to the state constitution, which allows proceeds from the gas tax and vehicle license fees to be spent only for "highway purposes," including automobile ferries. (See Chart 2.)

Gas tax. The motor fuel tax, which applies to gasoline, and the special fuels tax, which applies to diesel, will increase from 28 cents per gallon to 37 ½ cents per gallon, in annual steps of 3 cents, 3 cents, 2 cents, and 1 ½ cents on July 1 of 2005, 2006, 2007 and 2008, respectively. Over 16 years, the increases are projected to generate $5.5 billion.

Weight Fees. The state currently collects annual weight fees on vehicles with gross vehicle weight of 8,000 pounds or greater. The system of weight fees is extended to lighter trucks and to cars and other light passenger vehicles. For vehicles up to 4,000 pounds the fee is $10 per year; for those between 4,000 and 6,000 pounds, $20 per year; and for those between 6,000 and 8,000 pounds, $30. In addition, owners of motor homes will pay a flat $75 per year.

The fees on light trucks are expected to generate $341 million over 16 years. Legislative analysts believe that these funds will be restricted to highway purposes by the 18th Amendment. The fees on cars, SUVs, and motor homes will generate $1,038 million, which analysts believe will not be restricted by the 18th Amendment.

Chart 2: Partnership Package Revenue FY 2006 to FY 2021
(millions of dollars)



Source: WSDOT

Licenses and permits. The package also raises a number of fees associated with driver and vehicle licensing.

The license exam fee increases from $10 to $20. Fees for Identicards, learners' permits and agricultural driving permits go from $15 to $20; the cost of a commercial driver's license goes from $20 to $30; and the cost of reinstating a suspended license goes from $20 to $75. The fee for a hearing to contest a DUI suspension increases from $100 to $200. The revenue from these fee increases is projected to be $179 million over 16 years. This money is not restricted by the 18th Amendment.

The reflectorization fee goes from 50¢ to $2 per plate. The fee for replacing a plate goes from $3 to $10. The license fee for personal-use trailers drops from $30 to $15. Together these changes will add $227 million over 16 years. This money is restricted by the 18th Amendment.

All these increases are said to bring the fees charged more closely into line with the state's costs of providing the associated services.

Bonding. The funding plan authorizes the state to issue $5.1 billion in bonds, with interest and principal to be paid from gas tax receipts. Debt service on these bonds comes to roughly $4 billion over 16 years. Because the debt service will be paid from the gas tax, the bond proceeds are restricted by the 18th Amendment.

Overall, the package will fund $8.4 billion of additional transportation spending (net of interest payments) over the next 16 years.

PARTNERSHIP FUNDS FOR CITIES AND COUNTIES

One half cent of the increase in the gas tax is allocated to cities and counties, to be distributed based on population. Over 16 years, this will amount to $602 million. In addition, WSDOT analysts project that $80 million will be available over this period in grants through County Road Administration Board and the Transportation Improvement Board.

The package provides $58 million for the Safe Routes to Schools program, $330 million for grants to transit agencies, $55 million for paratransit, $172 million for other multimodal improvements, $12 million for commute trip reduction tax credits, $4 million for performance audits and $2 million for the Regional Transportation Improvement District, which is working to craft a local funding plan in the central Puget Sound region.

PARTNERSHIP PROJECT LIST

Most of the money raised by the 2005 funding package will pay for 274 projects that the legislature identified on its Transportation Partnership Project List. These projects are grouped in seven broad categories shown in Chart 3. In a short report such as this it is not possible to give more than a cursory overview. For more detail, consult the list posted on the WSDOT web site at http://www.wsdot.wa.gov/Projects/Funding/2005/.

At Risk Structures $2.98 billion. This category accounts for the largest share of spending and includes 30 projects. The project receiving the greatest level of funding in this category is the Alaskan Way Viaduct, in Seattle, which is allocated $2 billion. The Alaskan Way Viaduct carries more than 110,000 vehicles per day and is a critical link to Central Puget Sound ports. Recent studies have concluded that the Viaduct could collapse in the event of another earthquake. Loss of the roadway would devastate the region, with economic ripples felt quickly throughout the state and country. The project involves reconstructing the seawall separating central Seattle from Puget Sound and either rebuilding the existing viaduct or replacing it with a tunnel. The estimated cost of the former alternative is $2.7 to $3.1 billion; for the latter $3.4 to $4.1 billion. Funds beyond the $2 billion provided through the 2005 package must be generated locally by the RTID.

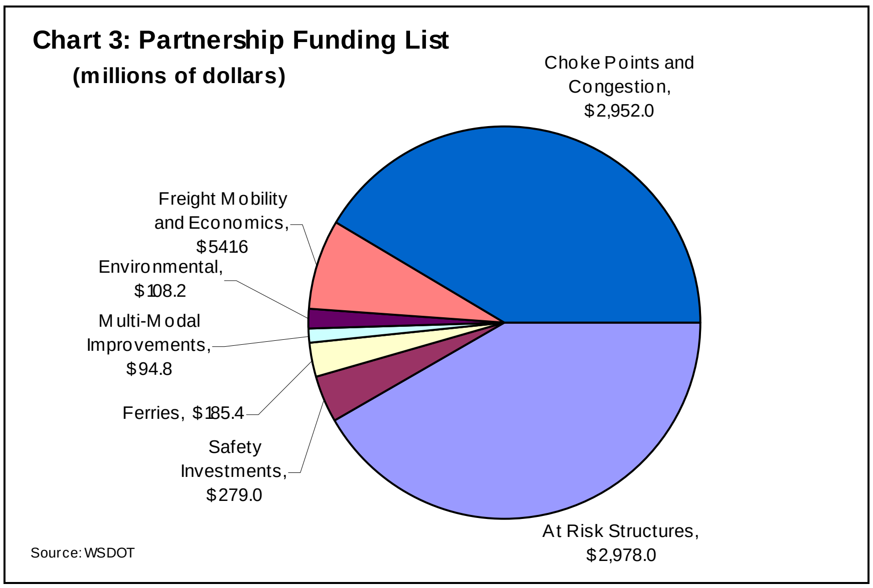


Chart 3: Partnership Funding List (millions of dollars)

The second largest allocation under at risk structures is $500 million towards the replacement of the SR 520 floating bridge. This project is estimated to cost $1.7 to $2.0 billion for a four-lane replacement and $2.6 to $2.9 billion for a six-lane replacement. The 2003 Nickel funding package provided $52 million towards the project. Remaining funds will need to be provided through the RTID.

If RTID voters do not approve a local funding package by January 2007, the legislature intends to reprioritize funding "so that complete and functioning transportation projects can be constructed in a reasonable time." (ESSB 6103, p. 8)

Two additional projects retrofit bridges in the state's two highest-risk seismic zones, both of which are in the Central Puget Sound region. In the high risk zone, 113 bridges will be retrofitted at a cost of $57 million, while in the moderate risk zone, 59 bridges will be retrofitted at a cost of $30 million. Twenty-six projects replace other bridges statewide, at a cost of $391 million.

Safety Investments, $279 million. The plan funds 106 projects targeted towards improving safety. These projects will remove dangerous roadside objects, install guardrails, build passing lanes, illuminate county road intersections, build interchanges, widen roads and build sidewalks.

These projects will fix problems at 52 specific locations, install 73 miles of cable median barrier, and add 25 lane miles of roadway. WSDOT estimates that these investments will reduce the number of injury accidents by around 1,100 annually.

Ferries, $185.4 million. The plan funds four projects: construction of a new automobile/passenger ferry, improvements to the Bainbridge Island and Port Townsend terminals, and preservation of the Fauntleroy terminal.

Multi-Modal Improvements, $94.8 million. This grouping includes eight passenger and commuter rail projects. The state will overhaul the trains used on the Amtrak Cascades service, improve tracks at Seattle's King Street Station, build high speed crossovers near Chehalis and Napavine, construct and upgrade track near Lakewood, build temporary commuter rail stations at Stanwood and Mukilteo, and provide additional rail line capacity near the Canadian border to accommodate customs and security needs and reduce delays.

Environmental, $108 million. This category encompasses 21 projects designed to reduce environmental impacts of previous highway construction projects. Included are the removal of barriers that prevent the passage of fish, control of storm water runoff, mitigation of river bed erosion that threatens adjacent roadways, and construction of noise walls.

Freight Mobility and Economics, $542 million. This grouping includes 35 projects designed to improve the movement of truck and rail freight. The largest investment in this category, at $387.7 million, will construct a new six-lane section on I-90, east of Snoqualmie Pass, incorporating a tunnel and/or new bridges to reduce the risk of avalanche closures. The second largest project, at $24.6 million, will improve the interchange at I-82 and Valley Mall Boulevard near Yakima.

Choke Points and Congestion, $2.95 billion. This grouping includes 69 projects. Ten of these projects, $922 million total, are along I-405. The plan provides $152 million for preliminary design and right-of-way purchase for the North Spokane Corridor. The plan also provides $50 million for design and environmental impact statement preparation for a new Columbia River crossing at Vancouver.

These projects will add 125 lane miles of new roadway, replace 27 older bridges, fix problems at 48 specific high accident locations and reduce the number of injury accidents by about 2,000 per year.

ECONOMIC IMPACT

The economic impact of government spending has three components: the drag imposed by the tax levied to pay for the spending, the push provided by the spending itself, and the value to the private economy of the public goods or services the spending buys. By improving the state's transportation infrastructure, the investments funded by the 2005 Transportation Partnership Funding Package will certainly have a positive impact on the state's economic vitality in the long run as a result of the improved mobility of goods and people that they provide. In the short and medium run, the construction activity that the package funds will give the economy a boost.

Modeling the first two effects is relatively straightforward. The third effect is generally harder to quantify. With respect to the 2005 Transportation Partnership Funding Package, the first two effects dominate in the short to medium run. We have used the Washington Research Council-REMI model of the Washington State economy to estimate the balance of these two impacts over the next ten years.

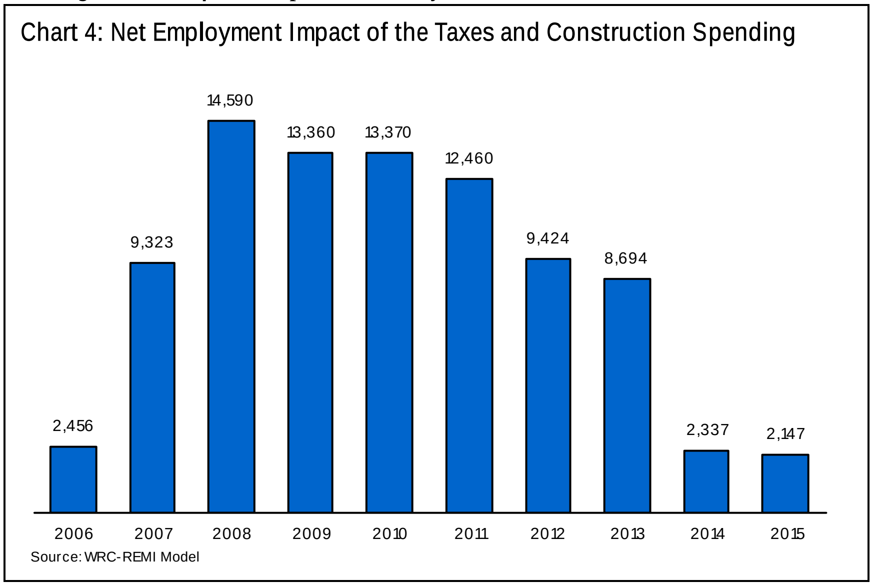


Chart 4 shows the net job impact of the package on employment. The effect builds, with 2,500 jobs gained in FY 2006, 9,300 in 2007, and 14,600 in 2008. The four peak years are FY 2008 to FY 2011, with job gains averaging around 13,500 per year. As the investment program tails down, the job gains are lower, but the program still shows a positive impact on employment in 2015. Over ten years, the average annual gain is 8,800.

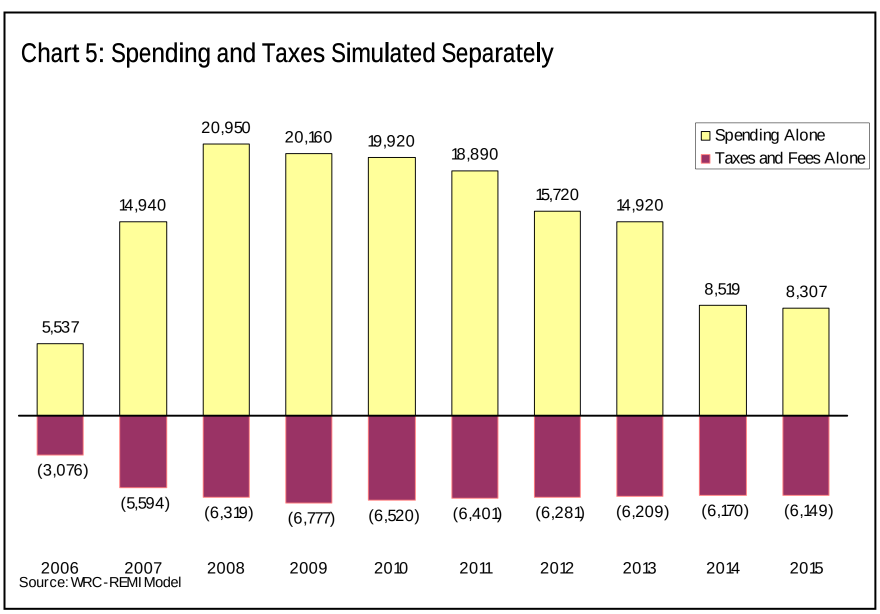
Chart 5 shows the results of simulating separately the impacts of the tax and fee increases, and the spending program. In FY 2009, when full phased in, the taxes and fees alone reduce employment by 6,800, although their impact declines slowly thereafter. By itself, the spending would add 20,950 jobs in 2008.

One reason that the positive impact of the spending is so much greater than the negative impact of the taxes and fees is the use of debt to fund much of the spending. Over the ten-year period simulated, spending exceeds taxes and fees collected by about $3.2 billion. After the projects have been completed the taxes will continue, of course, and debt service will absorb a share of the proceeds. This will be a drag on that economy. At that time, however, the economy will enjoy the services of the transportation infrastructure that the investment program has created, an effect not captured in our modeling.

ACCOUNTABILITY

Following the defeat of Referendum 51in November 2002, WSDOT intensified efforts to be transparent and accountable. The department's web site now provides extensive information on performance. (http://www.wsdot.wa.gov/accountability/default.htm.)

The Legislature specifically directed WSDOT to improve its system of project control, reporting and management. A key piece of this effort is to increase the level of legislative and public access to information on management performance. In response, the department has restructured its project control and reporting system. A guide to the system's new policies and procedures, as well as quarterly reports, is available at the department's Project Control and Reporting office web page (http://www.wsdot.wa.gov/projects/PCR).



In 2003, before enacting the Nickel Package, the Legislature established the Transportation Performance Audit Board (TPAB). The TPAB is charged with conducting performance measure reviews (evaluating how state transportation agencies use their performance measures to assess the results or outcomes of their activities) and performance audits (assessing whether agencies or programs are complying with statutory intent or budget direction).

This January, the TPAB completed a pre-audit review of WSDOT's capital project management procedures and a review of environmental permitting processes for transportation projects and streamlining efforts in Washington State, with a comparison to successful streamlining strategies employed in other states. The Board also completed performance measure reviews of WSDOT's highway and ferry programs, the Department of Licensing's transportation programs, and the Washington State Patrol's transportation programs. Under the provisions of the 2003 law establishing the TPAB, reviews and audits were to be conducted through the Joint Legislative and Audit Committee. This year that provision was changed to grant the TPAB authority to direct performance audits. The Board, to the greatest extent possible, is to use private consultants to conduct these audits.

The Legislature provided $4 million this year to fund performance audits

This year, also, the Legislature passed a bill to make the Secretary of Transportation a Gubernatorial appointee, a reform recommended by the Blue Ribbon Commission. (ESB 5513)

A primary source of information on WSDOT performance is the Department's quarterly publication *Measures, Markers and Mileposts,* commonly called the Grey Notebook (http://www.wsdot.wa.gov/accountability/graynotebook/default.htm).

Building on the work of the Blue Ribbon Commission on Transportation and its own Benchmark Committee, the Washington State Transportation Commission adopted a system of performance benchmarks in 2003. These are reported in the Grey Notebook. The Grey Notebook also provides extensive information on the projects funded by the 2003 Nickel Package.

The Grey Notebook for the first quarter of 2005 reports that as of March 31, 12 projects authorized by the Nickel Package have been completed. Of these, eight were completed early, three on time, and only one late. Six came in under budget, five on budget, and only one over. Planned budgets for these twelve projects totaled $40,078,000, while actual spending was $39,560,000.

DISCUSSION

State transportation spending has become more accountable and efficient in recent years. Further improvements are certainly possible, and WashACE continues to push for them. But the transportation funding gap is far too great to be bridged simply through greater efficiencies.

With the 2005 Partnership Package, the state takes a necessary step forward. Over the long term, the capacity added and preserved will prove vital to the state economy. In the short term, the construction program will create 8,800 net jobs, on average, over the next ten years and better than 14,000 net jobs in the peak year.

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