December 2019

Economic Sense - Twenty-Fifth Edition

Dedicating Motor Vehicle State Sales Tax Revenue to Transportation

A realistic proposal to address structural infirmities in our transportation financing system and improve the lives of Washingtonians

Bottom line up front:

Our transportation system is failing us.

Washingtonians spend too much time in traffic on increasingly poorly maintained roads, and the two primary taxes financing the system (car tabs and gas tax) are either anathema to voters or a declining source ill-equipped to finance a 21st century system.

A new approach is needed.

Dedicating the sales tax on motor vehicles to transportation for congestion relief and safety projects, in a phased-in approach, is a common-sense realistic proposal that would address the infirmities of the current funding system and improve the lives of Washingtonians, providing over $30 billion in funding for transportation over the next 20 years.

A) Transportation is troubled in our state

Washingtonians face an unfortunate trifecta:

- Transportation congestion that is amongst the worst in the nation, with Puget Sound residents spending on average over 135 hours a year in traffic due to congestion;[1]

- A distressing percentage of roads in poor condition -- a recent report found that Washington has double the national average of road miles in poor shape, ranking us 43rd worst in the country;[2]

- A financing system for which the two largest sources of revenue, gas tax and car tabs, are ill-prepared for the future. Car tabs were just slashed by voters, part of a twenty-year consistent message from the public on the issue.[3] The gas tax, with increasing fuel-efficiency and the rise of hybrid/electric cars, is a declining long-term revenue source, absent increases in the tax rate.[4]

A new approach is needed.

B) A New Approach: Dedicate sales tax on motor vehicles to transportation

1. <u>The Proposal</u>

- Dedicate existing 6.5% state sales tax on motor vehicles to transportation budget
    - Phase in over 10 years (annual increments beginning on July 1, 2020)
    - Revenues would be a cash source for transportation and could not be bonded
    - Revenues would be put into a new "Congestion Relief and Safety" account
        - Spending would be for congestion relief and safety projects, with funds going to roads and transit in accordance with historical spending percentages

2. <u>The Policy Appeal</u>

This new approach would be:

- A growing revenue source that keeps up with the transportation needs of the state without requiring future tax increases;

- Popular with the public, as it uses an existing revenue source that has a clear nexus;

- A progressive revenue source -- rather than the gas tax or its close cousin the "pay-per-mile" tax proposal, which are regressive in nature and hit the poor and working class disproportionately, the sales tax on motor vehicles generates proportionately more revenue from those who are well-off;

- Focused on congestion relief and safety, the two highest priorities of our system, with funding going to both transit and road projects.

C) How Much Are We Talking About? Over $30 billion across 20 Years

The proposal would generate over $30 billion during the next 20 years for transportation.[5] To put this in perspective, it is nearly double the amount of revenue generated by the 11.9-cent gas-tax increase package passed in 2015.[6]

D) Is this Affordable for Operating Budget?

With all these pros -- and the clear need for a new approach to financing transportation, the only real question is: "Can this be done without harming the services provided to people in the operating budget?"

The answer is yes:

- Short term - Costs of the proposal are less than new revenue bump since adjourning 2019 session

  Since the 2019 session ended, revenue projections for this biennium alone are up by $850 million. The proposal, *for this biennium and the next combined*, would divert less than that amount.[7]

- Medium term - A huge long-term cost is coming off the operating-budget books

  In FY 2027, state government's unfunded pension liability, which presently costs state taxpayers $1.5 billion in each budget cycle ($1.2 billion in the General Fund-State),[8] will finally be paid off. This cost to the operating budget will simply evaporate.

  This means a $1.5 billion revenue stream, or almost 2/3rds the price tag of this proposal fully implemented, could be diverted to transportation without any harm in services or impact at all to the operating budget.

- Long term - Operating-budget revenues will more than double over next 20 years

  As seen in Appendix A, the modeling of this proposal's impact on the operating budget shows:

  - The state budget is forecast to have enough revenues in each future biennium to grow faster than population + inflation; and

  - After 20 years, even after this shift, operating-budget revenues will have more than doubled from $51 billion to $115 billion.[9]

Finally, one additional safeguard: if the economy goes into recession while the shift is occurring, the legislation provides that the "step-up" in phased-in funding is suspended during that time.

Conclusion

A new approach to transportation funding is needed.

Dedicating the sales tax on motor vehicles to transportation for congestion relief and safety projects, in a phased-in approach, is a common-sense realistic proposal that addresses the infirmities of the current funding system and will improve the lives of Washingtonians.

Footnotes

1. Business Insider, using an INRIX report, found that Seattle-area drivers lost 138 hours a year in "congested traffic", which ranked 4th highest in hours lost. Time lost was measured per capita from the difference between traffic at the busiest and least busy commuting times each day. https://www.businessinsider.com/us-cities-with-most-traffic-2019-2019-2 See more here: https://www.forbes.com/sites/jimgorzelany/2019/02/11/here-are-the-u-s-cities-suffering-the-worst-traffic-congestion/#262d6a7e6e36

2. Washington State Economic Climate Study (Economic & Revenue Forecast Council, Sept. 2019), p. 22. Cites Federal Highway Administration which found that 6.3% of Washington interstate miles were in poor condition, up from 1.5% in 2000. This is more than twice the national average and ranks 43rd worst in nation. https://erfc.wa.gov/sites/default/files/public/documents/publications/climate2019.pdf

3. Initiative 976 passed 53% to 47% in November 2019. https://results.vote.wa.gov/results/20191105/State-Measures-Initiative-Measure-No-976.html Twenty years earlier, voters approved a similar measure (I-695) lowering car tabs by a 56-44% margin. https://ballotpedia.org/Washington_Voter_Approval_for_Tax_Increases,_Initiative_695_(1999)

4. Nov. 2019 Transportation Forecast, p. 4. Over the next 10 years, annual motor vehicle fuel consumption is expected to grow from 3,654 million gallons to 3,866 million gallons, a 5.8% increase. Because 5.8% growth in 10 years is less than forecasted inflation, the state portion of the gas tax should therefore be viewed as a funding source in decline. https://www.ofm.wa.gov/sites/default/files/public/budget/info/transpo/Nov2019VolumnII.pdf

5. See Appendix A below, third column.

6. Source: Senate Transportation staff. See also: https://www.seattletimes.com/subscribe/signup-offers/?pw=redirect&subsource=paywall&return=https://www.seattletimes.com/seattle-news/transportation/lawmakers-release-16-billion-transportation-plan-has-119-cent-gas-tax/

7. The Legislature adjourned in April 2019. Since then, the quarterly revenue forecast for the 2019-21 biennium increased by $102 million in June, $447 million in September, and $299 million in November.

8. Source: State Actuary's Office, 12/2/19 email.

9. See Appendix A below, final two columns.

Appendix A - The Chart

Fiscal Estimate of Dedicating Car Sales Tax Revenue to Transportation						
FY	NGFS Revenue Forecast	Revenues Diverted to Transpo Under Bill	Revenues after Bill	Biennial Revenues after bill		
2021	$26,309	$120	$26,189	$51,432		
2022	$27,125	$244	$26,881			
2023	$28,029	$375	$27,654	$54,535	6.0%	
2024	$29,290	$523	$28,768			
2025	$30,608	$683	$29,926	$58,694	7.6%	
2026	$31,986	$856	$31,130			
2027	$33,425	$1,043	$32,382	$63,512	8.2%	*- Plan 1 UAAL comes off books*
2028	$34,929	$1,246	$33,683			
2029	$36,501	$1,465	$35,036	$68,719	8.2%	
2030	$38,144	$1,701	$36,443			100% to Transpo
2031	$39,860	$1,778	$38,082	$74,525	8.4%	
2032	$41,654	$1,858	$39,796			
2033	$43,528	$1,941	$41,587	$81,383	9.2%	
2034	$45,487	$2,029	$43,458			
2035	$47,534	$2,120	$45,414	$88,872	9.2%	
2036	$49,673	$2,215	$47,458			
2037	$51,908	$2,315	$49,593	$97,051	9.2%	
2038	$54,244	$2,419	$51,825			
2039	$56,685	$2,528	$54,157	$105,982	9.2%	
2040	$59,236	$2,642	$56,594			
2041	$61,901	$2,761	$59,141	$115,735	9.2%	

**Forecast = November 2019 NGFS revenue forecast through FY 23, grown by 4.5% thereafter*

*** Bill Proposal = Car Sales Tax transferred to Transpo in 10% incremements, beginning in FY 21*

Base assumption of $1.25 billion in sales tax revenue in FY 23, courtesy of DOR, grown by 4.5% thereafter