ECONOMIC SENSE

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An Easy Road to a Better, Bipartisan Transportation Package

Bottom line up front

The legislative majority's "Move Washington Forward" transportation proposal is powered with regressive taxes and fees and a constitutionally dubious export fuel-tax proposal that has caused significant interstate friction. Lawmakers should scrap both and instead dedicate half of the revenue from motor-vehicle sales to transportation purposes – permanently.

State government's operating budget is historically flush, with a projected $15 billion four-year surplus. Half of the tax revenue from motor-vehicle sales totals $1.9 billion over the four-year outlook, essentially equivalent to the $2 billion already pledged to transportation in Senate Bill 5974.

By replacing this one-time $2 billion transfer with an ongoing revenue source, lawmakers can eliminate the controversial new fuel tax as well as a proposed hike in local sales and utility taxes, and state-imposed fees, all of which disproportionately impact working families and lower-income Washingtonians.

This sensible approach also has the benefit of giving the state's transportation budget a growing, progressive and ongoing source of revenue to support 21st-century needs.

A. Infirmities in 'Move Washington Forward'

The infirmities of the majority's new transportation proposal have become apparent since its unveiling February 8.

1. Export Fuel-Tax Proposal Results in Threats of Retaliation

The proposal relies on $2 billion from charging a new 6-cent tax on fuel exported out of state. This attempt to tax non-residents who never set foot in Washington is precisely what the Commerce Clause in the U.S. Constitution was established to prevent.

Not surprisingly, the governors of Oregon, Alaska and Idaho have come out vociferously against this proposal. They are threatening, if SB 5974 is enacted, to pursue retaliatory tax policies against Washington residents.

This fuel tax is constitutionally dubious, unbecoming and wholly unnecessary.

2. Proposed Sales, Utility, & Fee Increases are Regressive

The majority's proposal also includes over $2 billion in state-level fee increases, plus proposed local sales- and utility-tax increases that would cost Washingtonians additional billions of dollars. These include:

- 2% Local Utility-Tax Hike (not voter-approved)

SB 5974 would authorize a 2% local utility-tax hike on natural gas and steam energy. Considering local utility taxes are already 6% through most of the state, this translates to a 33% increase in the tax for these services, *which truly have no nexus at all to transportation*.

- 0.1% Sales-Tax Hike (not voter-approved)

SB 5974 would authorize a regressive, 0.1% sales-tax hike within the Transportation Benefit Districts (TBDs) existing through much of Western Washington and in parts of Eastern Washington.

While the 6.5% state sales tax hasn't been raised in decades, residents of Washington have seen local sales-tax rates escalate. Here's a sample of how total sales-tax rates have changed in certain cities in just the past 5 years:

	2017 (1st Qtr)	2022 (1st Qtr)	5 Yr Change
Lynnwood	9.80%	10.50%	0.70%
Edmonds	9.80%	10.40%	0.60%
Mountlake Terrace	9.80%	10.40%	0.60%
Woodway	9.80%	10.40%	0.60%
Tacoma	9.60%	10.30%	0.70%
Seattle	9.60%	10.25%	0.65%
Bellevue	9.50%	10.10%	0.60%
Federal Way	9.50%	10.10%	0.60%

Five years ago Chicago had the highest sales-tax rate of any major city in the country: 10.25%. Seattle and Tacoma trailed far behind, not even making the top 5 on the list.

Today, Tacoma has the highest sales-tax rate of any major U.S. city, while Seattle is tied with Chicago for the #2 spot.

If imposed statewide, this 0.1% tax increase would – without the consent of voters – add $200 million to the annual tax burden of Washington residents.

- **<u>Over $2 billion in new fees</u>**

Apart from the significant local-tax increases authorized in SB 5974, the bill contains fee increases – on license plates, and driver's licenses, and other charges that can be assessed in relation to vehicle sales – projected to generate just over $2 billion over 16 years.

People won’t be able to avoid these costs, which would fall upon virtually all residents and disproportionately harm those with lower incomes.

At a time when inflation is at 40-year highs, imposing new regressive taxes and fees that will disproportionately harm working families, seniors on fixed incomes, and lower-income residents is extremely problematic.

3. No Sound Footing for Transportation, Moving Forward

The fundamental infirmity with Washington's transportation approach is that the state gas tax is ill-suited to support the needs of a 21st-century transportation system. In a world where vehicles are increasingly fuel-efficient, a flat tax rate that relies on fuel consumption does not provide enough revenue.

Although this infirmity is familiar to lawmakers, the majority's proposal doesn't address it. Instead, the bulk of SB 5974's revenue would come from a patchwork of one-time funding sources (a $2 billion transfer from the 2021-23 operating budget, and $3.4 billion in federal funds); a highly suspect export fuel tax (another $2 billion); and a series of flat state-level fee increases (yet another $2 billion).

For too long the state has put off establishing a 21st-century revenue source to help support Washington's transportation needs. The Move Washington Forward proposal does not move Washington forward in that respect.

B. An Easy Fix

As legislators, we have a historic and unprecedented opportunity to put transportation on a better path.

Over $10 billion in additional revenues have been added to the forecast since we adjourned last session with an already historically robust operating budget. When combined with lower caseloads and revenues left unspent, the surplus is $15 billion.

The majority's proposal relies on a $2 billion one-time transfer from the current operating budget. For approximately the same amount of money, viewed in terms of the 4-year budget outlook, the Legislature could instead approve a policy that permanently dedicates half of the tax revenue from motor-vehicle sales to the transportation budget.

Doing so would provide an estimated $13 billion for the transportation budget over the same 16-year term as the Move Washington Forward proposal, with no greater ongoing impact on the operating-budget balance sheet than what's authorized in SB 5974.

FY	1/2 MV Sales Tax to Transpo *(Dollars in Millions)*		
23	$611		
24	$635		
25	$661	$1,907	
26	$687		
27	$715		*Hit to operating budget over 4 yr outlook;*
28	$743		*Underlying D proposal is for $2 B*
29	$773		*general fund to Transpo over 4 yr outlook*
30	$804		
31	$836		
32	$870		
33	$904		
34	$941		
35	$978		
36	$1,017		
37	$1,058		
38	$1,100		
16 Yr Total	**$13,335**		

** Assumes 4% annual growth rate in revenue source; historically, state revenues grow at 4.5% rate*

Source: Based on DOR fiscal note estimate for SB 5449 (2021)

If there's concern whether the operating budget could afford this policy change, here's a question legislators can ask themselves:

**   Did you believe, heading into the 2022 session, that there was already enough revenue available to support an ample and sustainable operating budget?*

Any legislator who answers "yes" – and considering the surplus was at $10 billion before the 2022 session convened, that should be a majority – ought to support a move of tax revenue from motor-vehicle sales.

It's an easy road to a better, bipartisan transportation package because the math is easy: The February 2022 revenue forecast pushed state-revenue projections up *so high* that half of the tax revenue from vehicle sales could be moved to transportation annually without *ever* dipping into the amount of revenues the budget was forecast to receive heading into this session.

That point bears restating:

The February 2022 revenue forecast increased state revenues so much that dedicating 50% of tax revenue from motor-vehicle sales to transportation can happen on an ongoing basis without touching the revenues the state budget was expected to have coming into this session.

Conclusion

Legislators have a historic opportunity to take bipartisan action that addresses the infirmities in the "Move Washington Forward" proposal, while also putting the state's transportation system on stable financial footing capable of addressing 21st-century needs.

We should embrace this opportunity for the better of all of our state.

Footnotes

1. ESSB 5974, sec. 201-06.
https://lawfilesext.leg.wa.gov/biennium/2021-22/Pdf/Bills/Senate%20Bills/5974-S.E.pdf?q=20220218123947
2. https://mynorthwest.com/3355118/washington-gas-export-tax-unacceptable-oregon-governor/; https://twitter.com/GovDunleavy/status/1494473801400156160
3. ESSB 5974, sec. 406
4. Id., sec. 407
5. https://dor.wa.gov/get-form-or-publication/forms-subject/local-sales-use-tax-rates-alphabetical-city#2017
6. https://taxfoundation.org/sales-tax-rates-by-city-2021/#:~:text=Among%20major%20cities%2C%20Tacoma%2C%20Washington,highest%20rate%20of%2010.25%20percent.
7. http://leap.leg.wa.gov/leap/Budget/Detail/2022/sthtRevenuSummary-MoveAhead-020822.pdf
8. Id.
9.

	19-21 (Last Biennia)	21-23 (Current Biennia)	23-25 (Next Biennia)
When 2021 Session Adjourned	$52.3	$57.0	$60.7
February 2022 Forecast	$53.1	$61.7	$65.4
Change	$0.8	$4.7	$4.7

10. In addition to above, caseloads are down $2 billion, plus roughly $3 billion in unspent federal stimulus funds and revenues transferred from the constitutional rainy-day fund into a new account but unspent.
11. http://leap.leg.wa.gov/leap/Budget/Detail/2022/sthtRevenuSummary-MoveAhead-020822.pdf
12. The February 2022 revenue forecast raised fiscal year revenue projections by just shy of $700 million a year in each of FY 23-25, or more than the cost of dedicating 1/2 of sales tax on motor vehicles to the Transportation budget. (This doesn't even take into account the FY 22 revenue increase in the February forecast.)