Washington State Transportation Commission

December 31, 2012

2013 Revenue Proposal

STATE OF WASHINGTON
TRANSPORTATION COMMISSION
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December 31, 2012

The Honorable Members
Senate Transportation Committee
PO Box 40482
Olympia, Washington 98504-0482

The Honorable Members
House Transportation Committee
PO Box 40600
Olympia, WA 98504-0600

Dear Honorable Members:

Please find enclosed the Washington State Transportation Commission's Transportation Revenue Proposal for your consideration during the 2013 legislative session.

The State of Washington has invested significantly in system improvements over the last ten years but has fallen behind in maintaining and preserving the existing transportation system. Over the next ten years, the Commission believes we should first focus on maintaining what we have and secondly, continue to invest in critical projects that improve our economic competitiveness, build on our state's stellar safety record, and smooth connections between home, school, work, shopping and recreation.

We encourage and support all efforts to move transportation investments and improvements forward.

If you have any questions or would like more information, please contact our Executive Director, Reema Griffith at 360.705.7070. Thank you for your consideration.

Sincerely,

Dan O'Neal, Chairman
Washington State Transportation Commission

Washington State Transportation Commission

Commissioners

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Dan O'Neal

Vice-Chairman
Tom Cowan

Members
Charley Royer
Philip Parker
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Executive Director
Reema Griffith

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2013 Revenue Proposal

Foreword

Across the state, our transportation network is at the tipping point of failing to meet our basic needs. While the state has invested significantly in system improvements over the last 10 years, we have fallen behind in maintaining and preserving the existing transportation system. In the next 10 years, our first focus must be on maintaining what we have. Then, we must continue to invest in critical projects that improve our economic competitiveness, build on our state's stellar safety record, and smooth connections between home, school, work, shopping and recreation.

While it is neither easy nor simple to get new revenue in these difficult economic times, we must push ahead. The cost to maintain what we have is less than the cost over time of doing nothing.

To address our future needs and shrinking revenues, the Washington State Transportation Commission (WSTC) is recommending a gas tax increase, a motor vehicle excise tax, a gross weight fee increase, and some efficiency and cost-saving measures as part of a 10-year, $7.670 billion transportation investment package. This proposal builds on the work started by the *Connecting Washington* Task Force, which identified a constrained funding need of $21 billion for maintenance, operations, preservation and capital improvements statewide. Of the $21 billion, *Connecting Washington* targeted $10 billion for maintenance, preservation, and operations for transit, cities, counties and the state. An additional $11 billion funded capital improvements over the next 10 years.

In developing this proposal, the WSTC reviewed current expenditures of counties, cities, transit agencies, the Washington State Department of Transportation (WSDOT) and considered the recommendations identified in the *Connecting Washington* Report.

The guiding principles of this $7.67 billion WSTC revenue proposal are:

1. **Maintain what we have.**
2. **Finish what we have started.**
3. **Keep the proposal simple and achievable.**

The WSTC proposal meets a significant portion of the maintenance and preservation needs for cities, counties and the state, provides a pathway to completing many large capital projects, provides new state revenue for transit, and includes accountability measures to ensure that new dollars are spent effectively and efficiently. However, this proposal does not address all the funding needs identified in the *Connecting Washington* report.

Bicyclists and motor vehicles travel across the I-90 bridge between Seattle and Mercer Island

Washington State
Transportation Commission

2013 Revenue Proposal

Funding for Maintenance and Preservation

The Washington State Transportation Commission (WSTC) recommends a 10-cent increase in the state gas tax phased in over six years.

- A five-cent increase would occur in the first fiscal year (FY 2014) followed by a one-cent increase per year for five years through FY 2019.
- This gas tax increase should not be leveraged for bonds but should be used strictly for maintenance, operations, and preservation of our current transportation system on a cash flow basis.
- The 10-cent increase is estimated to raise approximately $2.55 billion over the next 10 years.
    - o Addresses approximately 32 percent of the funding need identified by *Connecting Washington*.
    - o Once fully implemented, provides about 15 percent more than 2010 expenditures for maintenance, operations, and preservation.
- The phased-in approach of the gas tax increase responds to the price sensitivity of drivers and the operational capacity of the state, counties, and cities to effectively utilize additional revenue.
- This 10-cent increase in the gas tax, once fully implemented after the initial six-year period, is estimated to cost the average driver an additional $60 per year, bringing their total annual cost in state gas taxes up from the current $225 to $285 per year. (Estimate based on driving 12,000 miles per year in a car averaging 20 miles per gallon.)

  The distribution of the revenues generated from the 10-cent increase over 10 years is below:

Total State and Local:	**$2.550**	**billion**
State:	**$1.453**	**billion**
WSDOT Highways	**$1.163**	**billion**
WSDOT Ferry Operations	**$290**	**million**
Local:	**$1.096**	**billion**
Counties through CRAB	**$416**	**million**
Cities through TIB	**$680**	**million**

State Portion Distribution

The WSTC recommends allocating 57 percent of the gross distributable revenue to WSDOT for highways and ferries and 43 percent to counties and cities.

- This allocation to WSDOT is based on historical data of daily vehicle miles traveled, indicating a 57 percent share on the state system and 43 percent on city streets and county roads.
- Of the total daily vehicle miles traveled on streets and roads, counties represent 38 percent and cities represent 62 percent.

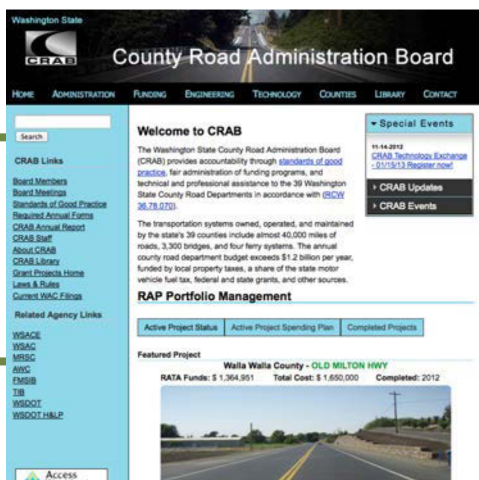
The WSTC further recommends 80 percent of the WSDOT allocation be spent on maintenance and preservation of the highway system and 20 percent be devoted to Washington State Ferries for maintenance, operations, and preservation. In determining this recommendation, the WSTC relied upon historical expenditure data for highway and ferry purposes to arrive at the 80/20 split.

Local Portion Distribution

The WSTC recommends the county and city portion of the maintenance and preservation funding be allocated through the County Road Administration Board (CRAB) and the Transportation Improvement Board (TIB) to maximize the use of the funds and institute expenditure reporting on state tax revenues. CRAB should receive 38 percent of the local portion and TIB should receive 62 percent, based on the allocation described above.

The WSTC further recommends:

- Current levels of spending by local governments on maintenance, operations and preservation not be diminished or substituted with these new revenues. Any new revenues allocated to cities and counties through CRAB and TIB must be additive to current spending levels and should be reported and monitored annually.
- Both CRAB and TIB should utilize their current programs and monitoring processes to ensure the funding allocated to cities and counties is effectively distributed and monitored to ensure full accountability and transparency of expenditures.
- TIB should continue its practice of requiring an increasing scale of compulsory match, based on a measure of value (such as assessed property tax value), for all allocations of new funds. In the case of very small cities, TIB should have the discretion to determine if a match will be required according to the agency's current standards and practices.



Funding for Capital Improvement Projects and Transit

The WSTC recognizes there are unfinished projects that the 2003 Nickel and 2005 Transportation Partnership Act (TPA) revenue packages have partially funded, several corridor projects that have been started but not finished, and several mega projects that have no funding available. In order to complete the projects from the previous revenue packages, make progress on other significant capital projects, and to help address the funding shortfall faced by transit agencies, including the high cost of providing special needs transportation, the WSTC recommends:

- A motor vehicle excise tax (MVET) be established and the revenues dedicated to improvement projects and transit.
- To address freight mobility needs, the WSTC recommends an increase in the gross weight fee for trucks over 10,000 pounds with the revenues dedicated to freight projects.

Key points on the MVET:

- The MVET would not be bonded and should be used primarily for capital projects on a cash flow basis, with 10 percent allocated to fund transit needs. We recommend the MVET be sunset after 10 fiscal years of collection.
- It would be levied on the market value of a vehicle, but would be different from the previous MVET in that it would be dedicated to transportation purposes and would utilize the publicly accepted vehicle depreciation schedule currently in RCW 82.44.035.
- The MVET would be assessed one year after the purchase of a new vehicle, rather than at the time of the purchase.
- The MVET would be capped at a maximum of 2.0 percent, with 1.5 percent authorized for the state and 0.5 percent authorized as a local option for counties and cities. [1]
- The WSTC recommends that the Legislature enact the 1.5 percent MVET in FY 2015, or beginning one fiscal year after the new gas tax increase.

Estimated revenue of the MVET:

- An MVET of 1.5 percent is estimated to generate revenue of more than $500 million per fiscal year.
- This level of MVET would address approximately 42 percent of the capital need identified in the *Connecting Washington* report over the next 10 years.
- Of this $500+ million per year, approximately 90 percent, or approximately $450 million is assumed to be used on a cash flow basis for WSDOT capital improvement projects.
- The remaining 10 percent or approximately $50 million per year ($500 million over the 10-year period) is dedicated to transit agencies. These funds should be allocated through the Washington State Department of Transportation.

Key points on the gross weight fee increase:

- A gross weight fee increase of 15 percent would be applied to all trucks having a gross weight of 10,000 pounds or more.
- The revenue generated from this fee increase would be appropriated to the Freight Mobility Strategic Investment Board for freight projects.

Estimated revenue from the gross weight fee increase:

- A gross weight fee increase of 15 percent on all trucks weighing more than 10,000 pounds is estimated to generate $110-$120 million over the next 10 years or roughly $11-$12 million per fiscal year.

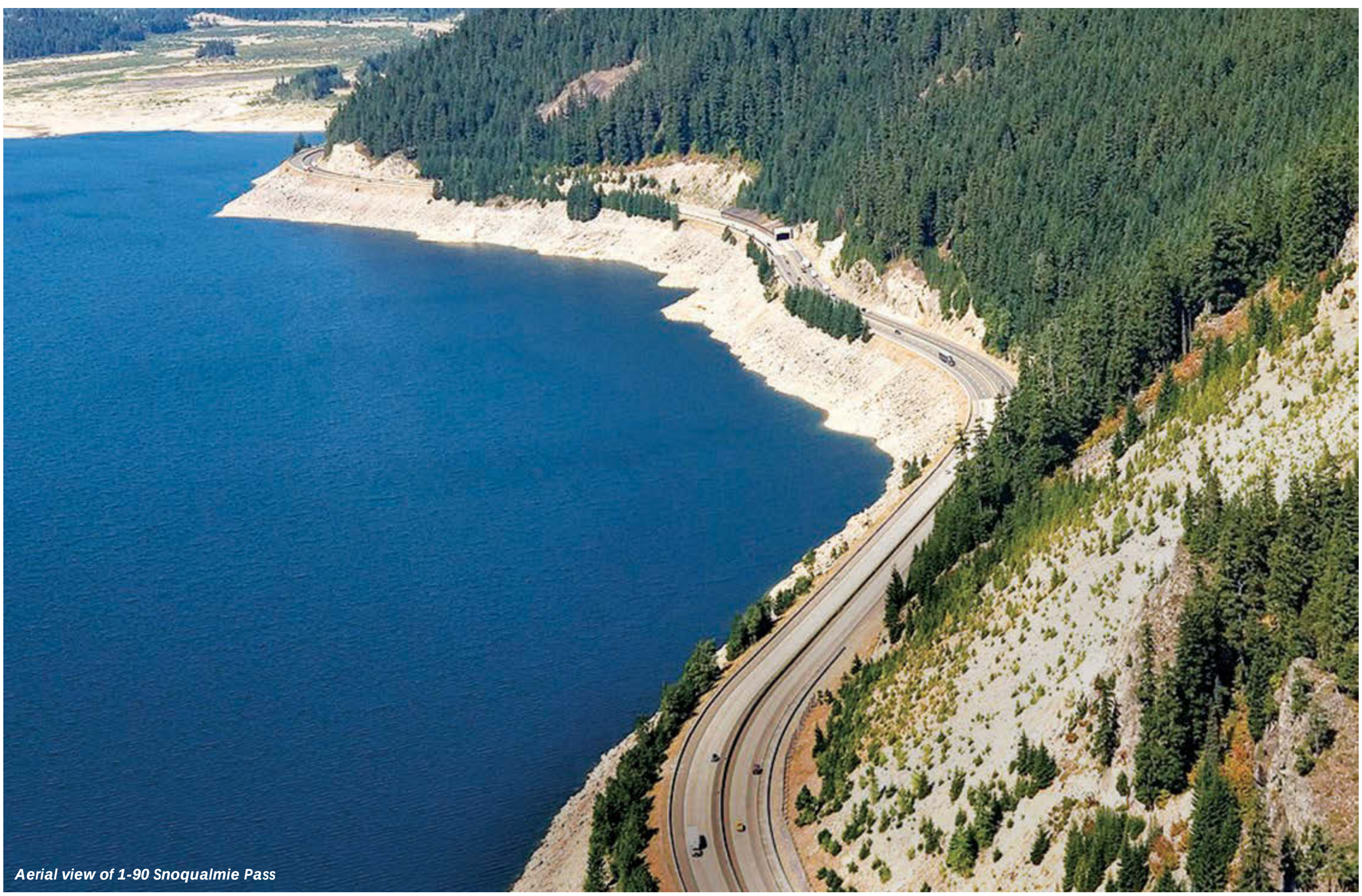
Freight mobility on SR 18

NOTE: *1. For new vehicles purchased from dealerships, the MVET tax would be waived for the first year. The MVET would start in the second year of the life of a new vehicle. The tax would be levied on the vehicle's value based on the depreciation schedule in RCW 82.44.035 starting at 81 percent of the original purchase price and following the depreciation schedule thereafter.*

Below is a short list of some of the uncompleted corridor projects that the WSTC recommends be funded from this revenue package: [2]

	Unfunded Need:
Transportation Improvement Projects (Short List):	**$9.546 billion**
Projects remaining from the Nickel and TPA package list	**$400 million**
Short list of uncompleted corridor projects	**$9.146 billion**
Partially funded and completed corridor projects	**$3.446 billion**
SR 520	$1.4 billion
US 395 NSC	$1.3 billion
1-90 Snoqualmie Pass East	$386 million
HWY 12	$360 million
Unfunded mega/corridor projects:	**$5.7 billion**
CRC (WA Contribution)	$450 million
SR 509	$1.2 billion
SR 167	$1.5 billion
I-405	$2.55 billion

Source: WSDOT 2012



Aerial view of 1-90 Snoqualmie Pass

NOTE: *2. This short list of projects exceeds the estimated project proceeds from the MVET revenues as presented in this proposal. It is assembled to suggest focus on those uncompleted corridor projects that have the most significant impact on congestion, freight mobility, safety, and commerce statewide.*

Additional Policy Efficiencies

The WSTC recommends that, in addition to raising revenue, the state should identify additional areas in which efficiencies can be gained and expenses lowered. The WSTC recommends the Legislature focus on the following three actionable items to facilitate efficiencies and reduce costs:

1. **Prohibit the use of studded tires:** This action will reduce the impact to our road surfaces caused by the use of studded tires. Given the tire industry now offers alternative traction enhancing tires, the use of studded tires is outdated and causes unnecessary damage to our roads. It is recommended that the elimination of studded tires be phased in over a five-year period. One year after its enactment dealers/retailers should no longer sell studded tires. Five years after its enactment all studded tires should no longer be in use on roads, streets, or highways in Washington State.

2. **Right sizing project design:** The state must continue its work towards identifying a process that can accurately assess project design options so they are "right sized" for the funding available and achieve the desired outcomes. While this type of assessment occurs at times, the broader application and advancement of this approach must continue. To do so, the following must occur broadly on a consistent basis:

    - Projects must appropriately and efficiently address a given need and desired outcome as compared to the related cost of not doing so.
    - Project design alternatives must be compared to better assess cost/benefit trade-offs and outcomes.
    - Investment proposals/projects and their costs must be assessed against the goals and policies contained in the Washington Transportation Plan (WTP) and in the statutory policy goals to ensure investments are both strategic, efficient, and result in the achievement of desired outcomes/goals for the system statewide.

    - For project designs that are improperly "sized" given the desired outcome and available funding, alternative approaches in design must be presented that result in a better cost/benefit ratio and overall goal achievement.
    - WSDOT should provide the Legislature and Governor with annual reports on such project trade off assessments.

3. **Non-Highway Public Private Partnerships:** The Commission recommends the Legislature implement the recommendations made by the WSTC in their 2011 report to the Legislature titled: "Best Practices Review of Washington State Public Private Partnership Programs and Laws for Non-Toll Facility Projects". (For the full report visit the WSTC website: **www.wstc.wa.gov**)

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