January 14, 2015

The Honorable Jay Inslee
PO Box 40002
Olympia, Washington 98504-0002

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

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

Dear Governor Inslee, Honorable Members of the Senate and House Transportation Committees:

The Washington State Transportation Commission has developed the enclosed Transportation Revenue proposal for your consideration during the 2015 Legislative session.

This proposal recognizes that the state has invested significantly in system improvements over the last ten years, but has fallen behind in maintaining and preserving the existing state and local transportation system. Over the next ten years, we should focus first on maintaining what we have, while continuing 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 and we hope you find our suggestions and ideas in this revenue proposal helpful to that end.

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

Sincerely,

Anne E. Haley, Chairman
Washington State Transportation Commission
Commissioners

Chairman
Anne Haley

Vice-Chairman
Joe Tortorelli

Members
Dan O’Neal
Jerry Litt
Charles Royer
Mary Riveland
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Executive Director
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2015 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 should be on maintaining what we have, while continuing to invest, as possible, 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.

This is the right time to increase fuel taxes as fuel prices are low and the need for more revenue to address our deteriorating transportation infrastructure is great. The cost to maintain what we have is far less than the cost over time of doing nothing. We simply cannot afford to deliberate any longer. By delaying the decision to invest in our transportation infrastructure today we are leaving a heavy burden for our children and grandchildren. Like our forebears, we need to think long term and exercise leadership and foresight to secure our state’s future. To achieve this, the Washington State Transportation Commission (WSTC) recommends a fuel tax increase, re-establishing a motor vehicle excise tax, a gross weight fee increase, and some efficiency and cost-saving measures as part of a ten-year, $9.470 billion transportation investment package.

This proposal considers the work of recent legislative sessions as well as the 2011 Connecting Washington Task Force that identified a constrained funding need of $21 billion for maintenance, operations, preservation and capital improvements statewide. Of this $21 billion, Connecting Washington Task Force targeted $10 billion for maintenance, preservation, and operations for the state, counties, cities and transit. The remaining $11 billion is designated for capital improvements.

Furthermore, it is important to note that the Washington State Department of Transportation (WSDOT) has been working for many years to remove fish passage barriers. The U.S. District Court has determined that the State of Washington’s treaty-based duty to preserve fish runs requires the state to repair or replace culverts that impede salmon migration. A federal court injunction, issued March 2013, requires the state to significantly increase the effort for removing state-owned culverts that block habitat for salmon and steelhead by 2030. To be in compliance with this federal injunction, WSDOT estimated it will need to correct an average of 30 to 40 culverts per year, beginning in 2015 and extending through 2030. The estimated cost to comply with the federal court injunction is $150 million per year for a total of $2.4 billion. Clearly, this work cannot be accomplished in one package, but the roadmap has been laid before us. We now need to proceed down the path.

Lastly, this proposal urges that bonds not be issued against these new revenue streams. In the prior transportation packages, the state fuel tax was increased by 14.5 cents. Of which, 13.5 cents of those revenues were fully leveraged to issue bonds funding approximately 421 capital improvement projects. As a result of fully bonding the revenue stream from these tax increases, none of that revenue is available to the State now or in the foreseeable future to pay for needed maintenance, preservation, or improvement projects.

As reported by the Office of the State Treasurer, “In FY 2014, debt service on bonds issued to finance these projects totals 104% and 72% of the state’s share of the revenues from the 2003 and 2005 gas taxes. Current projections show that issuing all of the bonds for the legislatively directed list of projects means debt service would exceed fuel tax revenues generated by the 2003-2005 taxes by more than 15 percent.”
To stabilize funding for transportation, the State needs to return to cash flow funding and pay for projects as we go. By not bonding these new revenue streams the State will ensure we have more revenue in the future to pay for future expenses. This will provide a more stable revenue stream on an ongoing basis to pay for transportation infrastructure.

In developing this proposal, the WSTC reviewed current expenditures of WSDOT, counties, cities and transit agencies and considered the recommendations of the Connecting Washington Task Force. Additionally, the WSTC considered the Voice of Washington State (VOWS) Survey data from 2011-2013.

The guiding principles of this $9.470 billion WSTC revenue proposal are:

1. Maintain what we have.
2. Finish what we have started.
3. Keep the proposal simple and achievable.
4. Do not incur further debt; work on a cash flow basis

The WSTC proposal meets a significant portion of the maintenance and preservation needs for the state, counties, and cities, identifies a pathway to completing many large capital projects, provides new state revenue for transit, and includes recommended accountability and efficiency measures to ensure that new dollars are spent effectively.
2015 Revenue Proposal

Funding for Maintenance and Preservation

From 2011 through 2013, the Voice of Washington State (VOWS) survey panel has consistently ranked maintenance and preservation of the current system as the top transportation priority across the state. Furthermore, the 2013 VOWS (consisting of 5,673 valid surveys) revealed that a strong majority (59%) agreed that the state needs additional transportation revenue. Of the respondents, 60% supported “raising some transportation taxes and fees to increase funding for those transportation elements they feel are important.” Taking this into consideration, the Washington State Transportation Commission (WSTC) recommends a 15-cent increase in the state fuel tax phased in over 2 years.

- A 10-cent increase would occur in the first fiscal year (FY 2016) followed by a 5-cent increase FY 2017.
- This fuel 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; these expenditures are restricted to 18th Amendment purposes.
- The 15-cent increase is estimated to raise approximately $4.350 billion over the next 10 years, addressing 54% of the funding need identified by the Connecting Washington Task Force.
- The two year phased-in approach takes advantage of the current lower fuel price environment and seeks to generate revenue for speedier investments.
- The 15-cent increase in the fuel tax, once fully implemented, is estimated to cost the average driver an additional $90 per year, bringing their total annual cost in state fuel taxes up from the current $225 to $315 per year. (Estimate based on driving 12,000 miles per year in a car averaging 20 miles per gallon.)

The WSTC recommends the following distribution of the revenues generated from the 15-cent increase over 10 years:

<table>
<thead>
<tr>
<th>Total State and Local:</th>
<th>$4.350 billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>State:</td>
<td></td>
</tr>
<tr>
<td>WSDOT Highways</td>
<td>$2.480 billion</td>
</tr>
<tr>
<td>WSDOT Ferry Operations</td>
<td>$1.984 billion</td>
</tr>
<tr>
<td>Local:</td>
<td></td>
</tr>
<tr>
<td>Counties through CRAB</td>
<td>$1.870 billion</td>
</tr>
<tr>
<td>Cities through TIB</td>
<td>$1.160 billion</td>
</tr>
</tbody>
</table>

State Portion Distribution

The WSTC recommends allocating 57% ($2.48 billion) of the gross distributable revenue to WSDOT for highways and ferries.

- The allocation to WSDOT is based on historical data of daily vehicle miles traveled statewide, indicating a 57% share on the state highway system.

The WSTC further recommends 80% of the WSDOT allocation be appropriated for maintenance and preservation of the highway system and 20% be designated for Washington State Ferries for maintenance, operations, and preservation. The WSTC relied upon historical expenditure data for highway and ferry purposes to arrive at the recommendation of the 80/20 split.
Local Portion Distribution

The WSTC recommends allocating 43% ($1.87 billion) of the gross distributable revenue to counties and cities.

- The allocation is based on historical data of daily vehicle miles traveled statewide, indicating a 43% share on county roads and city streets.

The WSTC further recommends this funding to counties and cities be allocated through the County Road Administration Board (CRAB) and the Transportation Improvement Board (TIB) to maximize the use of the funds and build on their oversight of county and city expenditures of state tax revenues. CRAB should receive 38% of the local portion for distribution to counties and TIB should receive 62% for distribution to cities, based on the information below.

- Of the total daily vehicle miles traveled on roads and streets, counties represent 38% and cities represent 62%. While TIB serves all cities and the urban unincorporated part of counties, for the purpose of this revenue distribution, the entire 62% share is intended for cities. As an aside, counties have a property taxing authority that, by statute, is dedicated solely to roads.

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 counties and cities 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 that the funds allocated to counties and cities are effectively distributed and monitored for 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 Paratransit

The WSTC recognizes there are unfinished projects that the 2003 Nickel & 2005 Transportation Partnership Act (TPA) revenue packages have partially funded, several corridor projects that have been started but not finished, and several megaprojects that have no funding available. In order to complete the projects from the previous revenue packages, make progress on other significant capital projects, and 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 re-established and the revenues dedicated to specific improvement projects and paratransit services.

- An increase in the gross weight fee for trucks over 10,000 pounds with the revenues dedicated to transportation infrastructure improvements that will enhance the movement of freight to address freight mobility needs.

Key points on the MVET:

- The MVET should not be bonded and should be used primarily for capital projects on a cash flow basis, with 10% allocated to fund special needs transportation statewide. We recommend the MVET should be subject to sunset after 10 fiscal years of collection.

- The MVET should be levied on the market value of a vehicle, but would be different from the previous MVET in that it would be dedicated exclusively to transportation purposes and would utilize the publicly accepted and currently utilized vehicle depreciation schedule in RCW 82.44.035.

- The MVET should be assessed one year after the purchase of a new vehicle, rather than at the time of the purchase.

- The MVET should be capped at a maximum of 2.0%, with 1.5% authorized for the state and 0.5% authorized as a local option for counties and cities.

1 Washington State Transportation Commission
The WSTC recommends that the Legislature enact the 1.5% MVET in FY 2017, or beginning one fiscal year after the proposed fuel tax increase.

Revenue and Distributions from the MVET:

- A statewide MVET of 1.5% is estimated to generate revenue of more than $500 million per fiscal year.
- This level of MVET addresses approximately 40% of the capital need over the next 10 years as identified by the Connecting Washington Task Force.
- Of this $500 million per year, approximately 90%, or $450 million, should be used on a cash flow basis for WSDOT capital improvement projects.

The remaining 10% or approximately $50 million per year ($500 million over the ten-year period) should be dedicated to transit agencies specifically for special needs transportation services. These funds should be allocated through the Public Transportation Division in WSDOT.

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% of the original purchase price and following the depreciation schedule thereafter.

Key points on the gross weight fee increase:

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

Revenue from the gross weight fee increase:

- A gross weight fee increase of 15% 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.

Below is a short list of major uncompleted projects that the WSTC considers to be of high importance to the State of Washington.

### Transportation Improvement Projects (Short List)

<table>
<thead>
<tr>
<th>Projects remaining from the Nickel and TPA package list:</th>
<th>$400 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shortlist of Uncompleted Corridor Projects below:</td>
<td>$9.146 billion</td>
</tr>
<tr>
<td>Partially funded and Incomplete Corridor Projects:</td>
<td>$3.446 billion</td>
</tr>
<tr>
<td>SR 520</td>
<td>$1.40 billion</td>
</tr>
<tr>
<td>US 395 NSC</td>
<td>$1.30 billion</td>
</tr>
<tr>
<td>I-90 Snoqualmie Pass East</td>
<td>$386 million</td>
</tr>
<tr>
<td>US 12</td>
<td>$360 million</td>
</tr>
<tr>
<td>Unfunded Mega/Corridor Projects:</td>
<td>$5.70 billion</td>
</tr>
<tr>
<td>I-405</td>
<td>$2.55 billion</td>
</tr>
<tr>
<td>SR 167</td>
<td>$1.50 billion</td>
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<tr>
<td>SR 509</td>
<td>$1.20 billion</td>
</tr>
<tr>
<td>I-5 CRC (WA Contribution)</td>
<td>$450 million</td>
</tr>
<tr>
<td>Federal Court Injunction:</td>
<td>$2.4 billion</td>
</tr>
<tr>
<td>Culvert and Fish Passage</td>
<td></td>
</tr>
<tr>
<td><strong>GRAND TOTAL:</strong></td>
<td><strong>$11.946 billion</strong></td>
</tr>
</tbody>
</table>
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.

NOTE 3. The cost estimates in this table come from WSDOT 2012 Capital Project estimates. The $400 Million of projects remaining from the Nickel and TPA represents approximately 19 projects scheduled for FY2023 and beyond that may not have adequate funding to complete the assumed scope of work. The $450 million cost estimate for the I-5 CRC (WA contribution) comes from the assumed WA State equity contribution based on the 2012 project design and has not been updated or changed. The Culvert & Fish Passage amount represents WSDOT's estimated cost to comply with the federal court injunction as of 2013.

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 four actionable items to facilitate efficiencies and reduce costs:

1. **Phase out the use of studded tires**: This action will reduce the impact to road surfaces caused by the use of studded tires. WSDOT calculated the damage to the state transportation network by studded tires at $18-$27 million per year. To provide some perspective, this is nearly the equivalent of 1 cent of the gasoline fuel tax. Abrasion and rutting damage on state routes, especially the interstates, due to higher speeds and volumes leads to significant safety issues, such as ponding and water on the roadway, hydroplaning, excessive road spray and auto-pilot/steering problems.

   The tire industry now offers alternative traction enhancing tires. The use of studded tires is outdated and causes unnecessary damage to highways, roads and streets. The **WSTC recommends that the elimination of studded tires be phased in over a 4 year period. One year after its enactment dealers and retailers should no longer sell studded tires. Five years after its enactment all studded tires should no longer be in use on highways, roads and streets in Washington State.**

2. **Expand project right sizing/practical design**: The state must continue its work towards expanding and enhancing a practical design process which can accurately assess and compare project design options so they are “right sized” for the funding available and achieve the desired outcomes on a broad scale (i.e., not just evaluating improvements in the immediate location but in relation to the connecting system and impacts to the broader community and regional area).

   While this type of assessment is occurring in pockets, **the broader application and advancement of this approach must continue so that it is in use for all capital investments** (highways, roads, streets, bridges, ferry terminals, etc.). Some specific actions that should be incorporated into this expanded application include:

   - Project costs must be assessed against 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 and goals for the system statewide and the state’s economy.
   - WSDOT should provide the Legislature, the Governor, and the WSTC with annual reports on the trade-offs of assessments and outcomes.


   - Amend the law to provide different project selection criteria, project development tools, review processes and final approvals for non-toll projects.
   - Require WSTC oversight of PPP projects that would permanently dispose of state land or assets, and for PPP projects that could significantly bind future legislative appropriations.
   - Streamline the project review and approval process for non-toll PPPs by giving the WSTC discretion in areas that result in increased efficiencies and cost savings.
   - Subject to the oversight, review and approval of the WSTC, authorize the WSDOT to carry out a pilot PPP project allowing experimental use of innovative project delivery and contracting techniques for a small number of non-toll or non-highway PPP projects.
Furthermore, the WSTC recommends the Legislature evaluate the merits of non-highway public-private partnerships for projects that can benefit the State by partnering with the private sector, such as potential ferry terminal replacements and park-and-ride facilities.

For the full report visit the WSTC website: www.wstc.wa.gov.

4. **Open ferry vessel construction to out-of-state bidding and place design work responsibilities with the successful vendor.** To expand the competitive environment for ferry vessel construction, the WSTC recommends future vessel acquisitions should be open to contractors nationwide, but should require the incorporation of costs that contractors in Washington State must pay to ensure a level playing field and comparability between bids. All vessel design requirements and expectations should be provided by WSDOT to ship builders. They will then come forth with vessel designs and delivery processes that address the state’s requirements and apply the latest industry innovations and efficiencies.