Washington Research Council

Policy Brief

October 9, 2019 PB 19-14

I-976: Reversing Transportation Taxes and Fees

Briefly

I-976 would limit annual state and local vehicle license fees to $30, revoke the authority for transportation benefit districts to impose vehicle fees, repeal the state motor vehicle sales tax, revoke Sound Transit's authority to impose a motor vehicle excise tax (if possible to do so under the terms of its bonds), and specify that any motor vehicle excise tax be calculated based on the vehicle's Kelley Blue Book value.

The Office of Financial Management estimates that, over six years, I-976 would reduce state revenues by $1.923 billion and local revenues by $2.317 billion. In 2019–21 alone, state revenues would be reduced by $478 million. Much of the state revenue reduction would accrue to the multimodal account, which funds projects including public transportation, rail, and cycling. There would also be significant impacts to the motor vehicle account and other accounts that pay for road projects and repairs. Sound Transit's revenues would decrease by $328 million a year, and local transportation benefit district revenues would decline by $58 million a year.

Providing for the transportation of people and goods is a vital role of government. The significant funding reductions that would result from I-976, at both the state and local levels, would require lawmakers to rewrite transportation budgets—putting many projects and programs at risk.

Initiative 976 would restore the $30 car tab and repeal certain motor vehicle excise taxes and other local fees. Certified as an initiative to the Legislature in January 2019, the Legislature did not act on I-976 during the 2019 session. Thus, it will be on the November ballot.

I-976 Details

I-976 would limit annual state and local vehicle license fees to $30, revoke the authority for transportation benefit districts to impose vehicle fees, repeal the state motor vehicle sales tax, repeal certain motor vehicle excise taxes (MVET), and specify how to value vehicles for MVET purposes.

License Fees. Under I-976, annual state and local license fees could not be more than $30 a year for motor vehicles weighing 10,000 pounds or less. (But additional annual license charges would be allowed if approved by voters after the effective date of I-976.) Currently, for example, owners of passenger cars pay a $30 license fee plus a weight fee that ranges from $25 to $72 (collections from the weight fee go to the freight mobility multimodal account and the multimodal transportation account). Beginning in FY 2022, the weight fee will increase by $10 (and collections from this increase will go to the multimodal transportation account). These weight fees would be repealed under I-976. Similarly, license fees for light duty trucks are based on weight, starting at $53 and increasing to $93 for vehicles weighing 10,000 pounds—these fees would drop to $30. (License fees for snowmobiles and commercial trailers would also be reduced.)

Because electric vehicles don't use gas, and thus don't contribute to road maintenance through the gas tax, electric vehicles are currently subject to both regular vehicle registration fees and special electric vehicle registration renewal fees. Under I-976, the fees specifically for electric vehicles would be reduced from $100 to $30. I-976 would also repeal a second, $50 electric vehicle registration renewal fee that is currently deposited in the multimodal transportation account and motor vehicle fund. (As the Office of Financial Management points out, a new, $75 transportation electrification fee was adopted in E2SHB 2042 after certification of the initiative—it would not be affected by I-976 (OFM 2019).) Under current law, the renewal fees for electric vehicles will expire at such time as a vehicle miles traveled fee or tax is enacted; I-976 would repeal that language.

Transportation Benefit District (TBD) Fees. Transportation benefit districts may impose annual vehicle fees of up to $100 (other sources of revenue are authorized as well—see the box below). Sixty-two TBDs across the state currently collect vehicle fees. Under I-976, they would no longer be allowed to do so. (In Seattle, the TBD vehicle fee is $80, of which $60 was approved by voters in 2014 to fund transit service to, from, and within the city.)

State Sales Tax. Under current law, a sales tax of 0.3 percent is levied (on top of the regular state sales tax) on the selling price of motor vehicles. Collections are directed to the multimodal transportation account. This additional sales tax would be repealed under I-976.

Local Motor Vehicle Excise Taxes (MVET). Under current law, certain public transportation benefit areas (PTBA) may levy an MVET of up to 0.4 percent, if approved by voters, to provide passenger-only ferry service. I-976 would revoke that authority. The authority was originally enacted in 2003 when the Washington State Ferry System proposed eliminating passenger-only ferry service from Seattle to Bremerton and Seattle to Vashon (House 2003). According to the Office of Financial Management (OFM), no PTBAs are currently using this authority (OFM 2019).

Also, under current law, certain regional transit authorities (effectively, Sound Transit) providing high capacity transportation service may impose certain

Transportation System Terms

High Capacity Transportation System: A "system of public transportation services within an urbanized region operating principally on exclusive rights-of-way, and the supporting services and facilities necessary to implement such a system, including interim express services and high occupancy vehicle lanes, which taken as a whole, provides a substantially higher level of passenger capacity, speed, and service frequency than traditional public transportation systems operating principally in general purpose roadways" (RCW 81.104.015).

Public Transportation Benefit Area (PTBA): Counties and regions are allowed to create PTBAs to provide public transportation (RCW 36.57A.020). Passenger-only ferry service may be provided by a PTBA on Puget Sound (RCW 36.57A.200). Certain PTBAs are authorized to impose a motor vehicle excise tax of up to 0.4 percent in order to provide ferry service (RCW 82.80.130).

Regional Transit Authority (RTA): Two or more counties of at least 400,000 people each may establish an RTA "to develop and operate a high capacity transportation system" (RCW 81.112.030).

Transportation Benefit District (TBD): Cities and counties may establish a TBD to fund transportation improvements in the district (RCW 36.73.020). The TBD may impose:

- A sales and use tax of up to 0.2 percent, if approved by voters.
- A vehicle fee of up to $100 per vehicle, if approved by voters. (But the TBD's governing board may impose a fee of up to $20 without voter approval. After two years, the $20 fee may be increased to $40 without voter approval. After another two years, the $40 fee may be increased to $50 without voter approval.)
- Fees on construction or land development.
- Tolls, if approved by voters. (RCW 36.73.040)

Collections from these taxes and fees may be used to acquire, construct, improve, provide, and fund "a transportation improvement within the district that is consistent with any existing state, regional, or local transportation plans and necessitated by existing or reasonably foreseeable congestion levels" (RCW 36.73.020).

taxes if approved by voters. These include employer taxes, property taxes, sales taxes, and MVETs. The MVET rate may not exceed 0.8 percent (not including MVETs approved before July 15, 2015). Currently, Sound Transit's MVET rate is 1.1 percent (0.3 percent was approved by voters in 1996 and 0.8 percent was approved in 2016) (ST n.d.).

I-976 would repeal Sound Transit's ability to impose an MVET. Because Sound Transit has pledged MVET collections to bonds, unilaterally repealing the MVET could run afoul of the state Supreme Court ruling that such a repeal cannot impair contractual obligations (Pierce County v. State, see below). Thus, I-976 would first require Sound Transit to "fully retire, defease, or refinance any outstanding bonds" to which MVET revenue has been pledged, if it is possible under the terms of the contract to do so. The fiscal impact statement from OFM states that whether this is possible is "unknown" (OFM 2019). If it can be done, the MVET authority would be repealed.

If I-976 is approved but Sound Transit can't retire, defease, or refinance its outstanding bonds by March 31, 2020, Sound Transit would retain its ability to levy an MVET. The maximum MVET rate, however, would be reduced from 0.8 percent to 0.2 percent (not including MVETs approved before July 15, 2015).

Vehicle Valuation. Motor vehicle excise taxes are levied on the value of the vehicle. Currently, values are determined based on the manufacturer's base suggested retail price or the latest purchase price of the vehicle, multiplied by a percentage that depreciates over time (RCW 82.44.035). The initiative would require any motor vehicle excise tax to instead be calculated based on the vehicle's Kelley Blue Book value.

Fiscal Impacts

OFM estimates that, over six years, I-976 would reduce state revenues by $1.923 billion and local revenues by $2.317 billion (OFM 2019). This would affect several different transportation accounts and many projects across the state. It would also affect the capacity of these governments to use bond financing to build capital projects, leading to significant impacts on long-term financial plans.

State Revenue Impacts. I-976 would reduce state revenues by $478.1 million in 2019–21, $680.5 million in 2021–23, and $764.0 million in 2023–25. This includes the impacts of reducing license fees for vehicles under 10,000 pounds, electric vehicles, commercial trailers, and snowmobiles, as well as the impact of repealing the 0.3 percent sales tax on vehicle sales.

Table 1 shows how these reductions are spread across accounts. The multimodal account, which funds projects including public transportation, rail, and cycling, would bear about 74 percent of the total

Table 1: State Revenue Impacts (Dollars)

	2019-21	2021-23	2023-25	Six-Year Total
Multimodal Account	($356,154,600)	($525,992,300)	($601,974,800)	($1,484,121,700)
Motor Vehicle Account	($73,433,575)	($93,430,600)	($98,689,250)	($265,553,425)
State Patrol Highway Account	($25,577,900)	($31,416,300)	($31,579,200)	($88,573,400)
Transportation Partnership Account	($13,192,700)	($16,204,100)	($16,288,100)	($45,684,900)
Nickel Account	($5,990,700)	($7,358,100)	($7,396,200)	($20,745,000)
Puget Sound Ferry Operations	($1,572,800)	($1,931,900)	($1,942,000)	($5,446,700)
Rural Arterial Trust Account	($741,863)	($1,643,700)	($2,628,375)	($5,013,938)
Transportation Improvement Account	($741,863)	($1,643,700)	($2,628,375)	($5,013,938)
Snowmobile Account	($687,500)	($898,400)	($904,200)	($2,490,100)
Total	**($478,093,501)**	**($680,519,100)**	**($764,030,500)**	**($1,922,643,101)**

state revenue reduction in 2019–21. Because the multimodal account is funded mainly via the sales tax and motor vehicle license fees, I-976 would essentially wipe this account out. Enacted 2019–21 appropriations from the account are $353.3 million; I-976 would reduce its 2019–21 revenues by $356.2 million.

Revenues to important accounts funding highway projects and programs would also decrease significantly. For example, in 2019–21, revenues to the motor vehicle account would decrease by $73.4 million, revenues to the transportation partnership account would decrease by $13.2 million, and revenues to the nickel account would decrease by $6.0 million.

Table 2: TBD Fees and Collections

TBD	Fee amount	FY 2018 Collections	TBD	Fee amount	FY 2018 Collections
Seattle*	$80	$31,939,313	Kelso	$20	$195,050
Spokane	$20	$2,985,293	Moses Lake**		$188,615
Tacoma*	$20	$2,941,814	Grandview	$20	$179,308
Vancouver	$40	$2,555,945	Fife	$20	$161,434
Olympia	$40	$1,708,397	Toppenish	$20	$146,975
Everett	$20	$1,499,439	Orting	$20	$135,155
Lynnwood*	$40	$1,131,036	Normandy Park	$20	$115,620
Des Moines	$40	$918,908	Black Diamond	$20	$104,663
Shoreline*	$40	$833,768	DuPont	$20	$97,419
Lakewood	$20	$821,928	Prosser	$25	$97,396
Burien	$20	$767,493	Buckley	$20	$96,548
Edmonds	$20	$700,144	Wapato	$20	$76,705
Wenatchee	$20	$621,601	Granite Falls	$20	$74,369
Bremerton	$20	$568,514	Eatonville	$20	$55,282
Longview	$20	$537,273	Zillah	$20	$52,925
Richland***	$20	$495,183	Kalama	$40	$50,411
University Place	$35	$479,810	Bridgeport	$20	$41,323
Bainbridge Island	$20	$431,184	Mabton	$20	$35,442
Lake Forest Park	$40	$429,261	Royal City	$20	$31,759
Maple Valley	$20	$396,348	Yakima***	$20	$30,136
Mercer Island	$20	$375,880	Soap Lake	$20	$24,611
Kenmore	$20	$355,950	Kittitas	$20	$22,433
Anacortes**		$345,569	Roy	$20	$17,563
Covington	$20	$333,777	Electric City	$20	$15,503
Mountlake Terrace	$20	$331,214	Carbonado	$20	$14,751
Battle Ground	$20	$279,932	Wilkeson	$20	$12,593
East Wenatchee	$20	$249,282	Elmer City	$20	$6,415
Enumclaw*	$20	$245,421	George***	$20	$79
Port Orchard	$20	$224,057	Ridgefield***	$20	
Sedro-Woolley	$20	$208,712	Washougal***	$20	
Edgewood	$20	$197,594			
Snoqualmie	$20	$196,317	**Total**		**$58,186,839**

Notes:

*TBD imposes a sales tax as well as a license fee

**TBD replaced its license fee with a sales tax either during or since FY 2018

***TBD enacted a license fee during or since FY 2018

Revenues to the state patrol highway account would decrease by $25.6 million.

Local Revenue Impacts. OFM estimates that I-976 would reduce local revenues by $2.317 billion over six years. The state revenue estimates are based on the June 2019 transportation revenue forecast prepared by the state's Transportation Revenue Forecast Council. No such forecast exists for local revenue. Thus, OFM bases its estimate of the local revenue impact of I-976 on the simple assumption that, if the initiative fails, revenue in future years will be equal to the amount received in 2018. (Actual revenues will fluctuate over time with the economy and number of vehicles on the road.) Additionally, this estimate assumes that the Sound Transit bonds can be defeased, so that Sound Transit would no longer be able to levy an MVET.

In FY 2018, Sound Transit's revenue from the MVET was $328.0 million. The estimate assumes that Sound Transit's revenues would decrease by this amount in each year going forward, for a six-year reduction of $1.968 billion. According to the Seattle Times, "The agency says it would lose even more money due to higher borrowing costs and delays. In total through 2041, Sound Transit estimates a financial impact of $20 billion" (Groover 2019).

Revoking the authority of TBDs to impose vehicle fees is estimated to reduce revenues by $58.2 million a year (and by $349.1 million over six years). (Note that the estimate is based on FY 2018 collections; some fees were enacted either during or since that period and some fees were repealed either during or since then.)

Projects Affected

I-976 would reduce state and local revenues by $1.250 billion in 2019–21. That would certainly have an impact on planned transportation projects across the state, but it is not clear which projects are specifically at risk. Rejiggering project plans would fall to the Legislature, cities, and Sound Transit.

The potential loss of state funding in 2019–21 represents 9.8 percent of the enacted 2019–21 transportation budget. As noted above, the multimodal account would bear the brunt of the reduction in revenues. That account provides funding for the regional mobility grant program, special-needs transit, the rural mobility grant program, and other transit, pedestrian, and bicycle projects. These programs could be cut if I-976 passes, or funding could be transferred from elsewhere—displacing other projects.

Moreover, I-976 would directly reduce funding for highway projects and programs. The initiative would reduce 2019–21 funding for the motor vehicle account by $73.4 million. For example, the 2019–21 transportation budget provides $74.9 million from the motor vehicle account for highway preservation programs, including for preservation of structurally deficient bridges. The budget also provides $92.5 million from the motor vehicle account for highway improvement programs, including for work on the I-5/Columbia River Bridge project and the US 101/East Sequim Corridor Improvements project (in Clallam County).

Similarly, under I-976, the transportation partnership account would be reduced by $13.2 million in 2019–21. For 2019–21, for example, $13.7 million is appropriated from the account to replace the structurally deficient Spokane River East Trent Bridge (in Spokane County). The transportation partnership account is also used for projects like the Alaskan Way Viaduct replacement and the SR 520/Bridge Replacement and HOV project. The nickel account would be reduced by $6.0 million under the initiative. For example, in 2019–21, $5.0 million is appropriated from the account for the I-405/I-90 to SE 8th St widening project in King County. Funds from the nickel account are also used for projects like the Alaskan Way Viaduct replacement and I-405/SR 522 to I-5 capacity improvements (in King and Snohomish counties).

For Sound Transit, 2018 MVET collections represented 14.8 percent of Sound Transit's total revenues and financing (ST 2018). That's a significant chunk that could delay or eliminate planned, voter-approved projects.

Meanwhile, TBD vehicle fees fund local transportation projects across the state. For example, in 2017–2018, Tacoma TBD collections were used mainly for road maintenance (including paving) (Tacoma TPD 2016). Wenatchee uses its collections for street preservation (Wenatchee 2018). And Richland is using its license fee collections for street preservation and to help fund the Duportail Bridge project (Richland n.d.).

Background

We've been here before. In 1999, the MVET ranked fourth among state tax sources in Washington (DOR 2001). That year, voters approved I-695, which repealed the 2.2 percent state MVET and replaced it with a $30 license fee (WRC 2002). I-695 was held to be unconstitutional in 2000 by the King County Superior Court because it violated the single subject rule. (The state Supreme Court later affirmed the trial court (Amalgamated Transit Union Local 587 v. State).) In response, the Legislature repealed the state MVET in 2000 (SB 6865). (Some local MVETs were still allowed.)

In 2002, voters approved I-776. It required $30 license fees and repealed the local option MVET for high capacity transportation services (WRC 2002). In 2006, the state Supreme Court held that the provision repealing the local option MVET was unconstitutional because it "impermissibly impairs the contractual obligations between Sound Transit and the bondholders" (Pierce County v. State). I-976 attempts to get around the Pierce County v. State decision with the conditional formulation of its MVET repeal, which takes effect only if Sound Transit's obligations can be altered.

The authority for Sound Transit to levy a 0.8 percent MVET was enacted in 2015

(2ESSB 5987). That bill specified that such MVETs must use the vehicle valuation method that existed on Jan. 1, 1996, until Sound Transit repays bonds to which MVETs had previously been pledged. (That will happen in 2028 (OPR 2019).) Sound Transit's valuation schedule led to a lawsuit heard by the state Supreme Court on Sept. 10, 2019.

Comment

If approved by voters, I-976 would significantly disrupt planned transportation projects. Reductions in funding are aimed at Sound Transit, state accounts that fund highway needs and public transportation, and local TBDs. State voters should consider that local voters have approved many of the taxes and fees that would be repealed under I-976 (though some were approved by local government councils).

Most reports by state and local governments indicate that more funding for transportation is needed, not less. While we may quibble about which projects deserve to be funded, there's no denying that adequately funding transportation is a vital role of government.

I-976 would indiscriminately reduce funding for this critical public service. If the initiative passes, instead of working to solve our state's transportation challenges, lawmakers would spend the next several years debating which projects to cut and trimming financial plans. New road projects, road maintenance, and public transportation are expensive, but they are necessary. People need to get to work and goods need to get to market if our economy is to run smoothly. I-976 would impede those goals.

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(206) 467-7088
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