

A stylized graphic of a road with a dashed yellow center line and solid blue outer lines, curving upwards and to the right against a light green background.

WASHINGTON STATE ROAD USAGE CHARGE

Steering Committee Meeting



Washington State
Transportation Commission

March 14, 2019
SeaTac Airport,
SeaTac, Washington

WELCOME AND INTRODUCTIONS

- Steering Committee member self-introductions

Joe Tortorelli
WA RUC Steering Committee Chair,
Washington State Transportation
Commission

PUBLIC COMMENT PERIOD

- Please try to keep all comments limited to 5 minutes or less

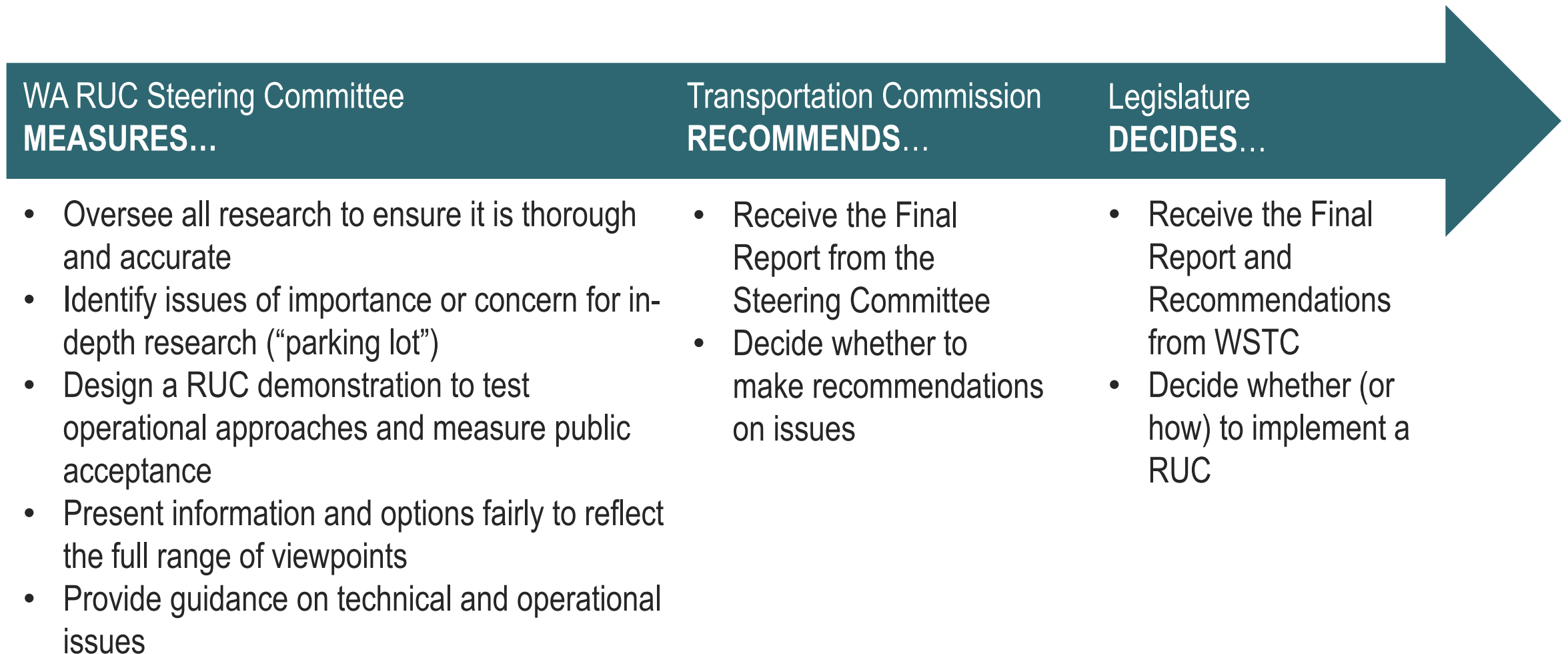
RECAP OF DIRECTION PROVIDED BY STEERING COMMITTEE

Jeff Doyle
Project Manager
D'Artagnan Consulting

- Developmental steps and decisions taken
- Decision-making for remaining Steering Committee meetings

DEVELOPMENTAL STEPS & DECISIONS TAKEN

ROLES IN DEVELOPING THE PROJECT AND FINAL REPORT



ISSUES ARE ADDRESSED WHEN SUFFICIENT DATA EXISTS

Before the pilot:

- How to operationalize the RUC mileage reporting approaches
- Whether and how to charge out-of-state drivers
- Exemption from RUC charges
- Refunds of RUC charges

Anytime:

- RUC compatibility with tolls
- Commerce Clause impacts on RUC
- 18th Amendment impacts on RUC
- Per-mile rate setting
- Motor fuel tax bond requirements
- Permanent exemptions from RUC
- Use or dedication of RUC revenue
- Rate-setting basis for time-based permit
- Interoperability of RUC with other states

After the pilot:

- Whether and how best to use private sector service providers
- Drivers' reaction to the proposed RUC system
- Public understanding and acceptance of a RUC system
- State IT needs to support RUC
- Institutional roles in implementing a RUC system
- Transition strategy: which vehicles would pay RUC, and when

PRE-PILOT DECISIONS

For the pilot, the Steering Committee has already addressed the following “policy parking lot” issues:

- ✓ Which RUC mileage reporting concepts should be tested in the pilot, and how will they be operated?
- ✓ Will out-of-state drivers participate in the pilot test, and if so, how will that be done?
- ✓ What kind of mileage will be exempt from RUC during the pilot test?

Once data and results from the pilot test are validated, the Steering Committee might make findings and recommendations on these issues for a future RUC system.

FINDINGS & DECISIONS THROUGH NOVEMBER 2018

Use of RUC revenue:

- ✓ Plausible uses of RUC revenue range from most flexible (can be used for any transportation purpose, whether state or local) to most restrictive (return-to-source, where funds are returned to jurisdictions where miles were traveled).
- ✓ Since RUC is intended to replace the gas tax, RUC revenue should be restricted by Amendment 18 in the same manner as the gas tax.
- Specific recommendations regarding how RUC revenues should be distributed are beyond the scope of the Steering Committee's charge from the Legislature.

Grey font: Steering Committee decision requested

FINDINGS & DECISIONS THROUGH NOVEMBER 2018

Refunds for non-highway uses:

- ✓ During a transition period away from the gas tax, continue gas tax refunds for any tax paid on motor fuel used for non-highway purposes.
- ✓ In addition, during this transition period, continue direct distributions to current recipient accounts (marine, non-highway/ORV, snowmobile and aeronautics) from gas tax revenues.
- ✓ In the longer run, after a transition away from the gas tax to RUC is complete, the Legislature will need to decide whether to continue or how to calculate amounts to be distributed to those accounts.

FINDINGS & DECISIONS THROUGH NOVEMBER 2018

Restricting RUC expenditures to highway-related purposes under Amendment 18:

- ✓ There are three ways RUC can be restricted to highway-related expenditures under the state constitution: (1) by amending the constitution to specifically add RUC; (2) by structuring, implementing and managing RUC as a mileage-based Vehicle License Fee; or (3) by declaration of legislative intent to restrict the revenues and placing them in a protected special fund in the state treasury (Motor Vehicle Fund).
- ✓ Since RUC is intended to eventually replace the gas tax, RUC should be made subject to Amendment 18, just like the gas tax.
- ☐ To what extent would future bond issuances be enhanced by structuring RUC as a constitutionally-restricted revenue source – specifically as a mileage-based VLF?

Grey font: Steering Committee decision requested

FINDINGS & DECISIONS THROUGH NOVEMBER 2018

Privacy protections in a RUC system:

- [Do participants value having a choice of their mileage reporting method as a means of enhancing their personal privacy?].
- ✓ However, reliance on alternative mileage reporting options alone is insufficient. Additional privacy protections specifically tailored for RUC should be enacted in law by the Legislature. A model RUC privacy policy is provided.
- ✓ Additional protections should not conflict with other data privacy and protection laws, especially practices of the Washington Department of Licensing, since most of the data required to implement RUC is already managed by DOL (and in some cases, subject to federal law).

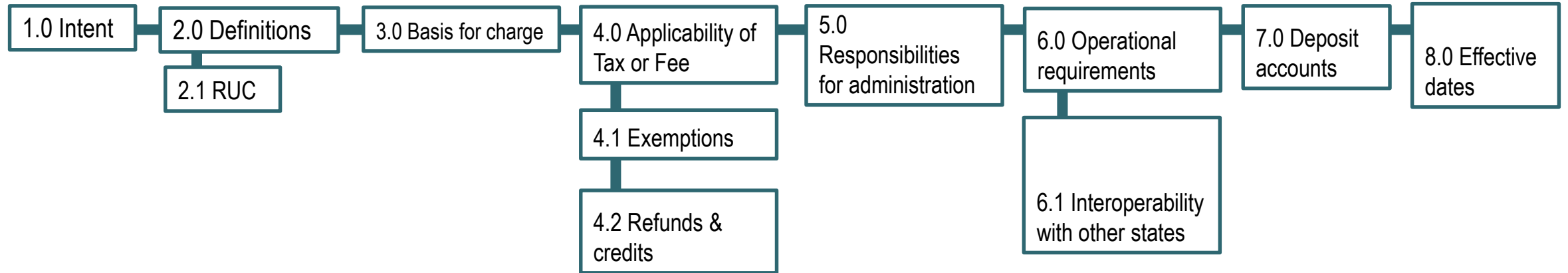
Grey font: Steering Committee decision requested

FINDINGS & DECISIONS THROUGH NOVEMBER 2018

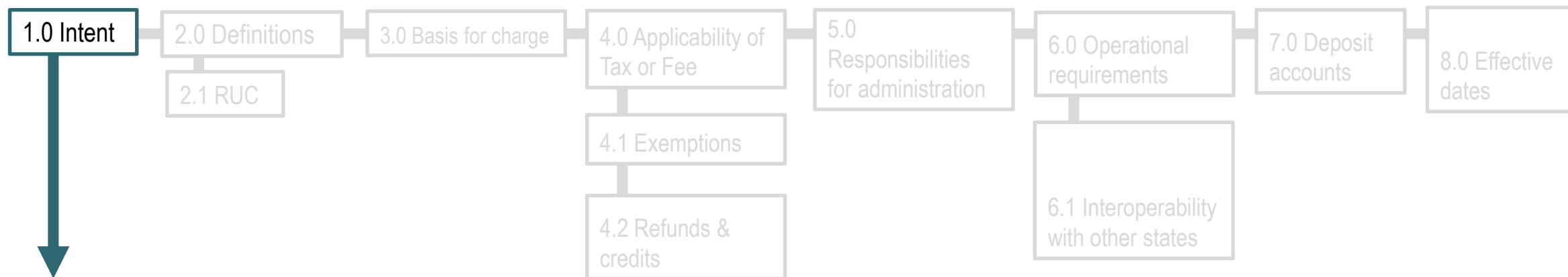
Compatibility of RUC and the Good-to-Go toll system:

- ✓ During a transition period to RUC, the two systems should strive for collaboration.
- ✓ Other possible synergies – a single, unified bill for RUC and tolling, or a singled, unified account for both, or a single, unified service provider – may bring benefits to drivers in the long run, but adds complexity and the potential for confusion and errors and should be avoided during a transition to RUC.
- ✓ Regardless of the degree of compatibility sought or achieved, RUC and tolling serve distinct policy purposes and these distinctions should be maintained.

CONTEXT FOR STEERING COMMITTEE'S FINDINGS & DECISIONS



FINDINGS & DECISIONS



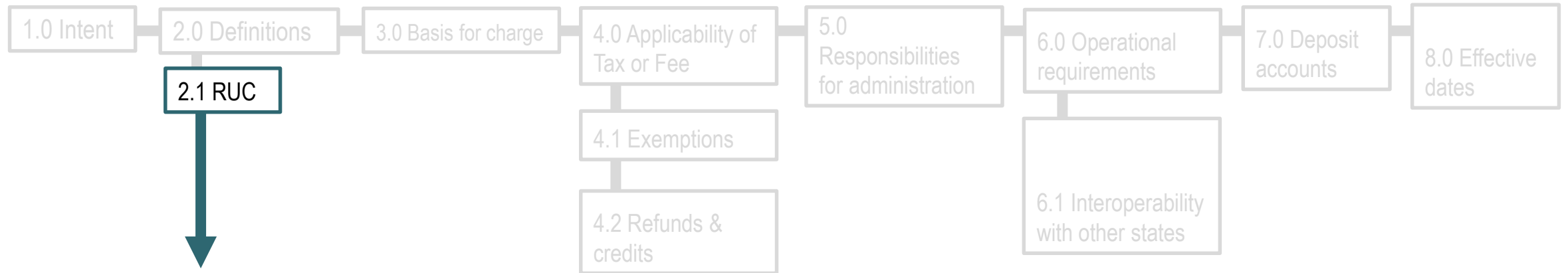
What is the vision for RUC as an eventual replacement for the gas tax over a period of time?

- Transition strategy: September 2019*

Should RUC revenues to be used exclusively for highway purposes?

- ✓ Since RUC is intended to eventually replace the gas tax, use of the revenue should be similarly restricted.

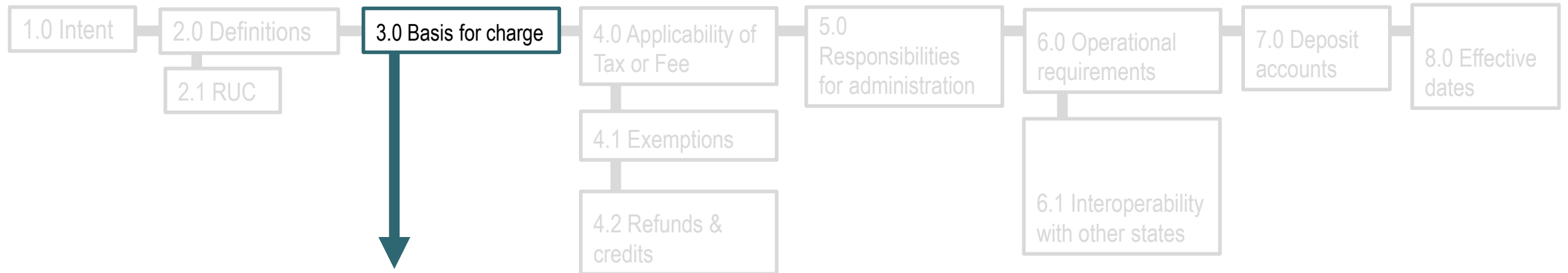
FINDINGS & DECISIONS



Should RUC be administered as a tax, or structured, implemented and managed as a vehicle license fee?

- ✓ RUC should be subject to Amendment 18 restrictions.
- RUC should be structured, implemented and managed as a mileage base vehicle license fee – March 2019.
- As a mileage-based vehicle license fee, RUC revenue can be pledged to secure future highway-related bonds – March 2019.

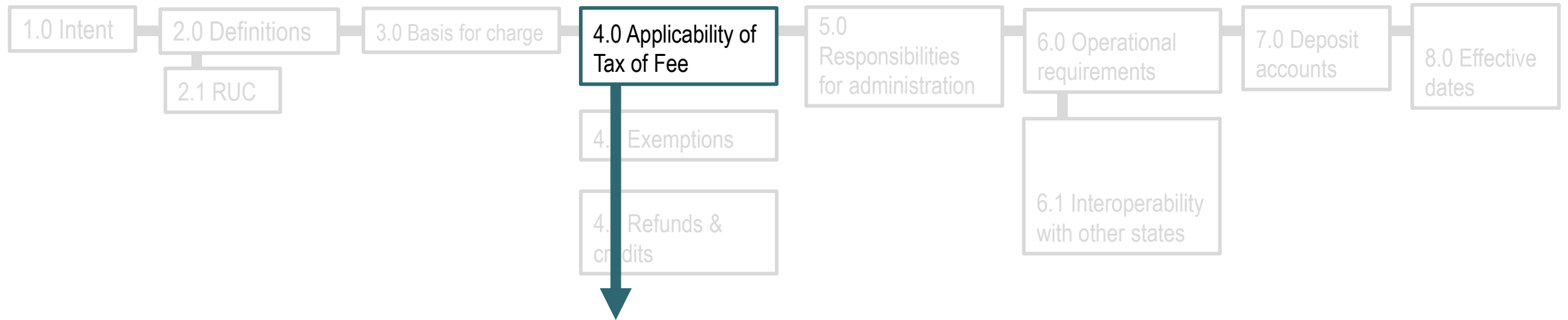
FINDINGS & DECISIONS



How will the fee be assessed -- for each exact mile (or fraction) driven, or based on mileage “brackets” (similar to how vehicle weight fees are applied), or based on a period of time?

- Rate-setting in a RUC system – March 2019*
- Rate-setting basis for time-base permit – March 2019*
- Driver reaction to the proposed RUC system – June 2019*

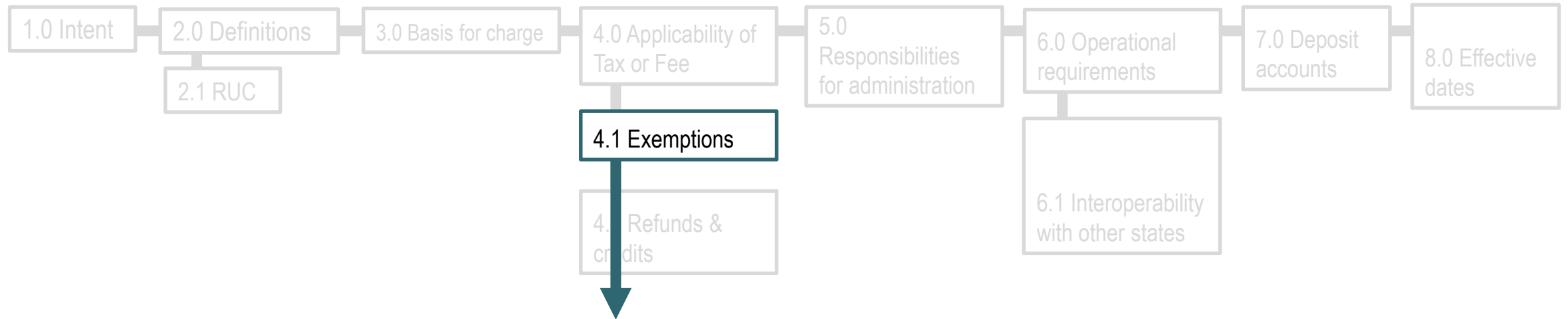
FINDINGS & DECISIONS



Who will be required to pay RUC?

- Interstate Commerce Clause considerations: out-of-state drivers may not be discriminated against in the application of RUC – *March 2019*
- Out-of-state drivers – June 2019*
- Transition strategy – September 2019*
- Vehicles subject to RUC – September 2019*

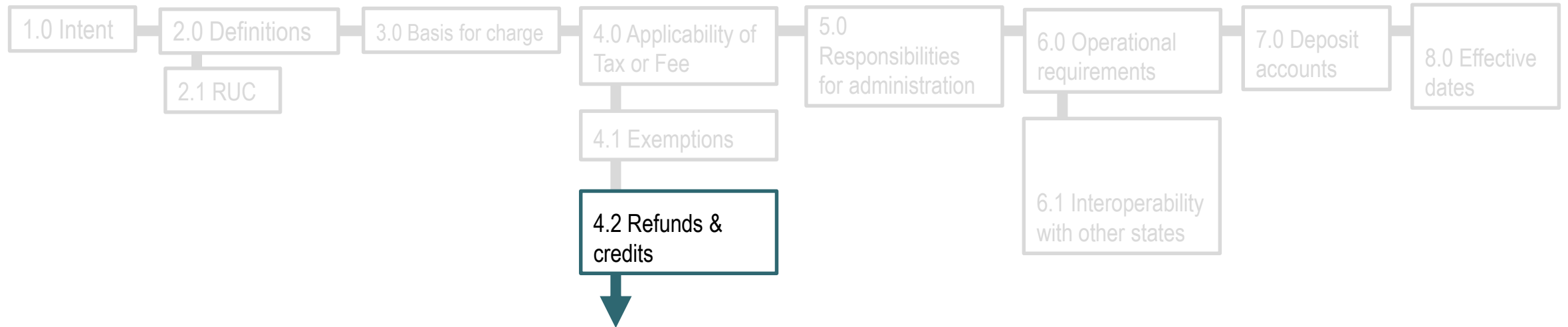
FINDINGS & DECISIONS



Who will be exempt from RUC?

- Permanent exemptions from RUC – May 2019*
- Out-of-state drivers – June 2019*
- Transition strategy – September 2019*

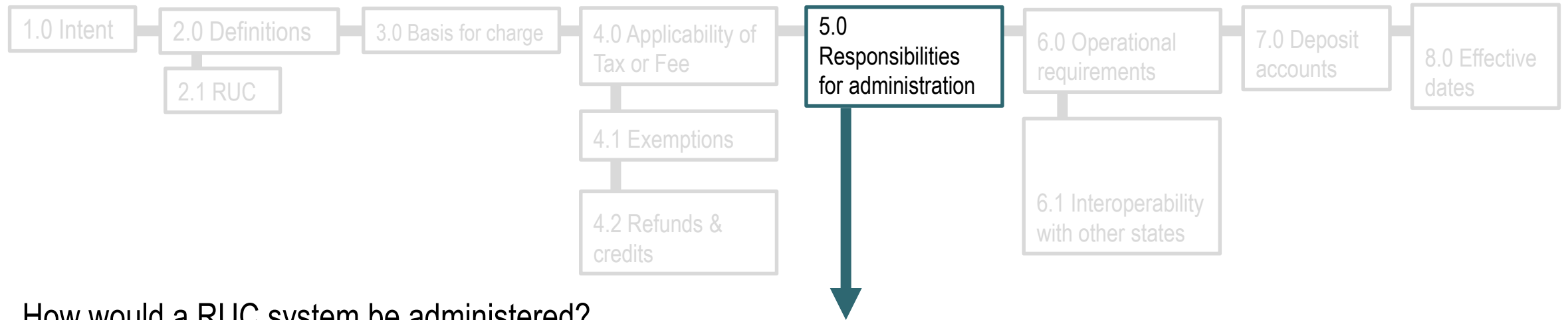
FINDINGS & DECISIONS



Who will be entitled to refunds and credits?

- ✓ *Refund policies that currently apply to the gas tax should be continued throughout a transition to RUC.*
- ❑ *Out-of-state drivers – June 2019*
- ❑ *Transition strategy – September 2019*

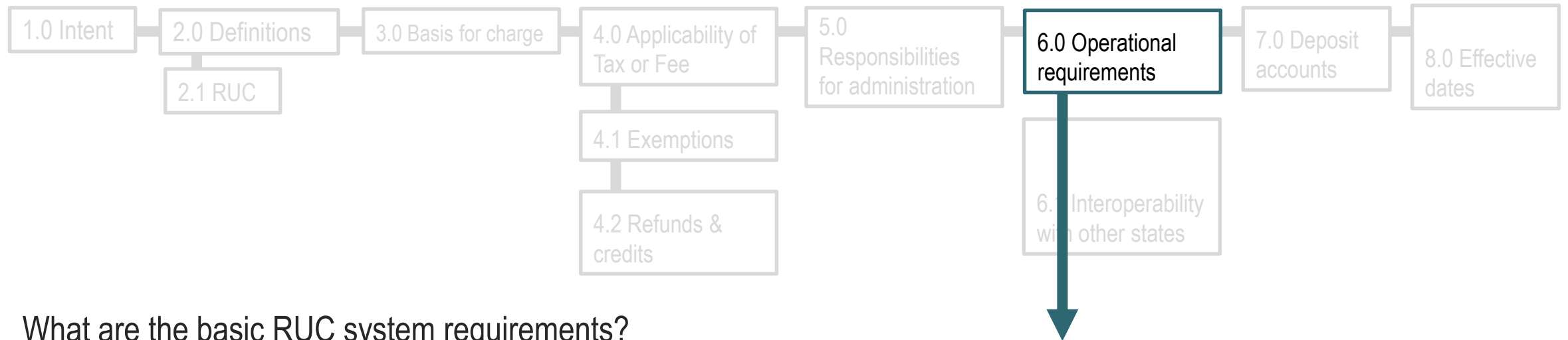
FINDINGS & DECISIONS



How would a RUC system be administered?

- Rate-setting: the Legislature should establish an initial per-mile fee, and require WSTC to recommend fee adjustments at regular intervals – March 2019
- Use of private sector account managers – May 2019*
- State information technology needs – May 2019*
- Driving reaction to the proposed RUC system – June 2019*
- Institutional roles in implementing any future RUC system – June 2019*

FINDINGS & DECISIONS



What are the basic RUC system requirements?

- ✓ *Model privacy policy for RUC in Washington: choice of reporting methods alone is insufficient to protect driver privacy; the state should enact privacy protections specific to a RUC system in Washington.*
- ✓ *RUC compatibility with GoodToGo toll system: RUC and the GoodToGo toll system should collaborate – but not merge any functions. RUC and tolling should continue serving separate and distinct policy purposes.*
- ❑ *State IT needs – May 2019*
- ❑ *Driver reaction to the proposed RUC system – June 2019*

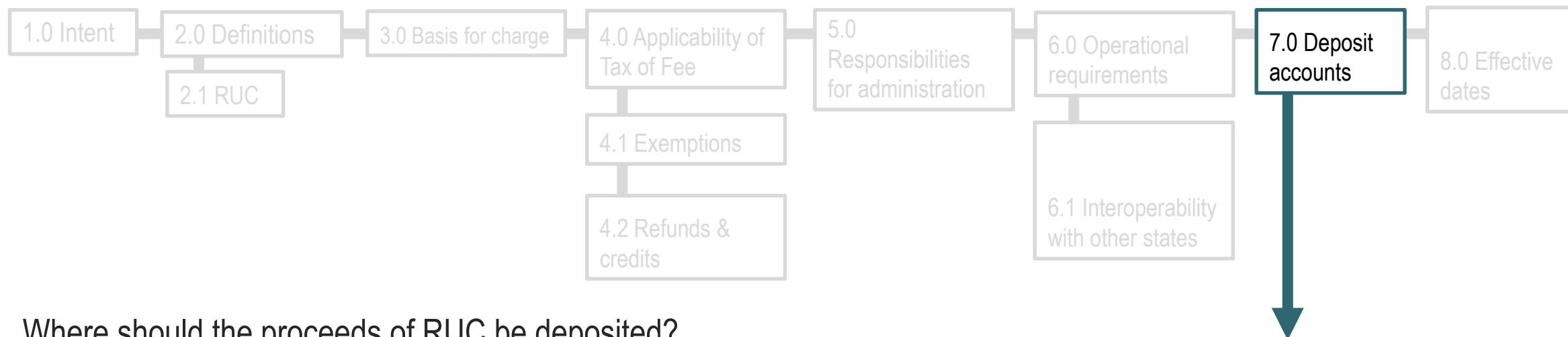
FINDINGS & DECISIONS



How will RUC be applied to cross-state travel?

- ❑ Interstate Commerce Clause considerations: out-of-state drivers may not be discriminated against in the application of RUC – *March 2019*
- ❑ *Interoperability with other states: whether and how to charge out-of-state drivers – June 2019*
- ❑ *Transition strategy – September 2019*

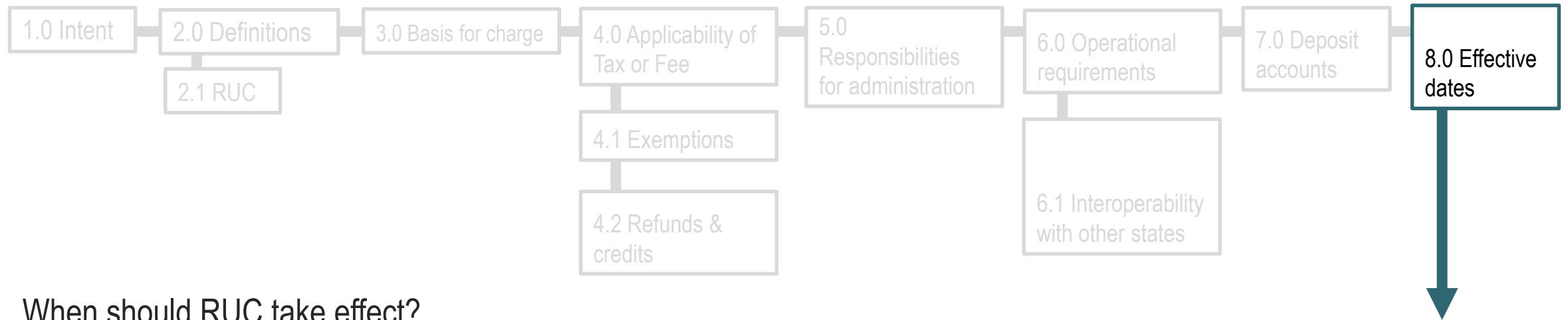
FINDINGS & DECISIONS



Where should the proceeds of RUC be deposited?

- ✓ *RUC should be restricted to highway purposes (as is the gas tax it's intended to replace), and proceeds deposited in the constitutionally-protected "special fund" (motor vehicle account).*
- ✓ *How RUC proceeds are distributed or invested among qualified highway-related programs is a policy decision for the legislature, not the Steering Committee.*
- ✓ *RUC should be structured as a Vehicle License fee to better enable future borrowing against RUC revenue.*
- ✓ *Refund policies that currently apply to the gas tax should be continued.*

FINDINGS & DECISIONS



When should RUC take effect?

- Motor fuel tax bond requirements: a complete transition away from the gas tax to RUC cannot happen until 25 years from the date of last issuance of bonds that are secured by the gas tax. – March 2019
- State IT needs - May 2019*
- Public understanding and acceptance of the proposed system – June 2019*
- Transition strategy – vehicles subject to paying RUC – September 2019*

DECISION-MAKING FOR REMAINING STEERING COMMITTEE MEETINGS

Jeff Doyle
Project Manager
D'Artagnan Consulting

2019 STEERING COMMITTEE POLICY WORK PLAN SCHEDULE

March 14, 2019 SC meeting

- ✓ Motor fuel tax bond requirements
- ✓ Legal issue: Interstate Commerce Clause
- ✓ Per-mile rate setting process and roles
- ✓ Rate setting basis for time-based permit

May 2, 2019 SC meeting

- Permanent exemptions from RUC
- Equity issues in a RUC system
- Use of private sector account managers
- State information technology (IT) needs

June 27, 2019 SC meeting

- Driver reaction to the proposed RUC system
- Public understanding and acceptance of the proposed system
- Institutional roles in implementing any future RUC system
- Interoperability with other states
- Impact on EV adoption

September 10, 2019 SC meeting

- Transition strategy - vehicles subject to paying RUC
- Review and discussion of findings
- Discussion of technical or operational recommendations
- Review of draft report

EFFECTS OF THE COMMERCE CLAUSE ON STATE-LEVEL RUC COLLECTIONS

Jim Whitty
D'Artagnan Consulting

- Four-factor test
- Application of test to 9 RUC scenarios
- Areas to watch

THE COMMERCE CLAUSE OF US CONSTITUTION

Article 1, section 8:

The Congress shall have power** to lay and collect taxes, impost and excises, to pay the debts and provide for the common defence and general welfare of the United States, *

To regulate commerce** with foreign nations, and **among the several states**, and with the Indian tribes; *

**** **To make all laws which shall be necessary and proper for carrying into execution the foregoing power**, and all other powers vested by this Constitution in the government of the United States, or in any department or officer thereof.*

JUDICIAL INTERPRETATION OF COMMERCE CLAUSE

- Grants to Congress sole authority to regulate interstate commerce
- When Congress is silent, the *dormant Commerce Clause* restrains states from regulating or taxing interstate commerce
- Protects national economy

CONSTITUTIONAL RIGHT TO TRAVEL

The Supreme Court has long held that persons in the United States have the right to travel freely across state borders.

Crandall v. Nevada, 6 Wall. 35, 48 (1868)

THE 14th AMENDMENT

Amendment XIV:

**** No state shall make or enforce any law which shall abridge the **privileges or immunities** of citizens of the United States; no shall any state deprive any person of life, liberty, or property without **due process of law**; nor deny to any person within its jurisdiction the **equal protection** of the law.*

FOUR FACTOR TEST OF *COMPLETE AUTO*

- Nexus
- Fair apportionment
- Non-discrimination
- Fair relationship

COMPARISON OF COMMERCE CLAUSE & DUE PROCESS CLAUSE

	Commerce Clause	Due Process Clause
Purpose	Protect national economy	Fairness for the individual
Nexus.	Substantial nexus	Minimal nexus
Fair Apportionment	Avoid multiple taxation & require fair apportionment to local activities	Avoid multiple taxation & require fair apportionment to local activities
Non-discrimination.	Non-discrimination	Non-discrimination
Relationship.	Fair relationship to the extent of taxpayer's contact with the State	Rational relationship to the state and intrastate values of the enterprise

APPLICATION OF COMMERCE CLAUSE TO RUC SCENARIOS

RUC SCENARIOS

1. Residents pay RUC based on miles driven within state; nonresidents pay Washington fuel tax
2. Residents pay RUC based on miles driven within a state under full replacement of fuel tax; nonresidents pay Washington fuel tax
3. RUC paid by residents on all miles driven
4. RUC paid by all drivers (residents and nonresidents) in Washington
5. RUC with a credit, offset or rebate for excise fuel tax paid in Washington
6. RUC with manual reporting by all drivers in Washington
7. RUC with wireless, electronic reporting by all drivers in Washington
8. RUC with multiple rates for vehicles with differing characteristics
9. RUC with different enforcement approaches amongst driver classes

OVERALL CONCLUSION

- All scenarios for RUC systems and policies seem to meet the ***nexus***, ***fair apportionment*** and ***fair relationship*** factors of *Complete Auto* case
- Possibilities for failing dormant Commerce Clause and Due Process Clause primarily relate to the ***non-discrimination*** factor

OBSERVATION

The Supreme Court has often referenced a tax based on miles traveled as a fair way to treat interstate commerce:

- A “**charge per mile of highway use**” is fair. *American Trucking Associations, Inc. v. Scheiner* (1987)
- A **tax on highway use** by interstate motorists based on per-gross ton-mile does not impose an unconstitutional requirement. *Continental Baking Co. v. Woodring* (1932)
- “Less discriminatory alternatives are available ... not the least of which are ... **a per-mile tax on all vehicles.**” *Chemical Waste Management, Inc. v. Hunt* (1992)

APPLICATION OF *COMPLETE AUTO* TO SCENARIO 1

- Residents pay RUC based on miles driven within a state and nonresidents pay Washington fuel tax
- Conclusion: Should not violate the dormant Commerce Clause

APPLICATION OF *COMPLETE AUTO* TO SCENARIO 2

- Residents pay RUC based on miles driven within a state under full replacement of fuel tax; nonresidents pay Washington fuel tax
- Conclusion: Should not violate the dormant Commerce Clause, unless the average fuel tax amounts paid, on per-mile basis, by nonresident drivers are significantly higher than the RUC per-mile rate paid by resident drivers

APPLICATION OF *COMPLETE AUTO* TO SCENARIO 3

- RUC paid by residents on all miles driven
- Conclusion: Should not violate the dormant Commerce Clause

APPLICATION OF *COMPLETE AUTO* TO SCENARIO 4

- RUC paid by all drivers (residents and nonresidents) in Washington
- Conclusion: Should not violate the dormant Commerce Clause

APPLICATION OF *COMPLETE AUTO* TO SCENARIO 5

- RUC with a credit, offset or rebate for excise fuel tax paid in Washington
- Conclusion: May violate the dormant Commerce Clause if nonresident motorists are not afforded the same opportunity to offset, credit or receive a rebate for fuel tax paid in Washington, or possibly in another state if the lost opportunity is considered burdensome

APPLICATION OF *COMPLETE AUTO* TO SCENARIO 6

- RUC with manual reporting by all drivers in Washington
- Conclusion: Should not violate the dormant Commerce Clause

APPLICATION OF *COMPLETE AUTO* TO SCENARIO 7

- RUC with wireless, electronic reporting by all drivers in Washington
- Conclusion: May violate the dormant Commerce Clause if the electronic reporting method or compliance technology places an extraordinary cost on out-of-state business relative to local businesses

APPLICATION OF *COMPLETE AUTO* TO SCENARIO 8

- RUC with multiple rates for vehicles with differing characteristics
- Conclusion: Should not violate the dormant Commerce Clause with rate structures that have a rational basis related to a declared public purpose rather than simply a tax on doing business in the state, but annual flat taxes should be applied with caution

APPLICATION OF *COMPLETE AUTO* TO SCENARIO 9

- RUC with different enforcement approaches among driver classes
- Conclusion: Should not violate the dormant Commerce Clause under a practical enforcement regime, but enforcers should be cognizant of potentially imposing discriminatory processes against nonresident drivers

COMPARISON OF RUC SCENARIOS

	Scenario	Nexus	Fair Apportion	Fair Relation	Non-discrimination
1	Residents pay RUC on all miles; nonresidents pay fuel tax	Passes	Passes	Passes	Passes unless RUC and fuel tax rates diverge substantially
2	Residents pay RUC based on in-state miles; nonresidents pay Washington fuel tax	Passes	Passes	Passes	Passes unless RUC and fuel tax rates diverge substantially
3	Residents pay RUC on <u>all</u> miles	Passes	Passes	Passes	Passes
4	Residents and nonresidents pay RUC on Washington miles	Passes	Passes	Passes	Passes
5	Credit, offset, or rebate fuel tax paid in Washington	Passes	Passes	Passes	Passes unless nonresidents not afforded same opportunity
6	Drivers report RUC manually	Passes	Passes	Passes	Passes
7	Drivers report RUC electronically	Passes	Passes	Passes	Passes unless compliance burdens nonresidents more than residents
8	RUC rates vary based on vehicle characteristics	Passes	Passes	Passes	Passes unless rates have no rational basis or declared public purpose
9	RUC enforcement approaches vary by driver class	Passes	Passes	Passes	Passes unless enforcement regime discriminatory for nonresidents

CAREFUL WATCH AREAS

Most RUC scenarios should not run afoul of the dormant Commerce Clause because the charged item (mileage) is entirely within a state's boundaries.

Five areas for a “careful watch” as states adopt RUC policies and systems:

1. Separation of RUC rates from fuel tax rates
2. RUC and gas tax rates must have rational basis and declared public purpose
3. Offsetting, crediting or rebating fuel tax paid within the state exclusively to resident drivers;
4. Requiring non-resident drivers to use an electronic reporting method or compliance technology that places an extraordinary cost on out-of-state businesses relative to local businesses;
5. Imposing a RUC enforcement regime that discriminates against non-resident drivers

STRAWMAN: FINDINGS & DECISIONS FOR MARCH 14, 2019

Commerce Clause implications on a state RUC system:

- Most scenarios for collecting RUC would not violate the Commerce Clause.
- However, there are five specific areas that should be kept in mind in crafting how RUC might be applied and collected, especially from out-of-state drivers.
- A future RUC system in Washington should ensure it does not unreasonably discriminate against drivers from out-of-state.

BREAK

PILOT EVALUATION ACTIVITIES

Allegra Calder
BERK Consulting

- High-level results from Participant Survey #3 (pilot completion)

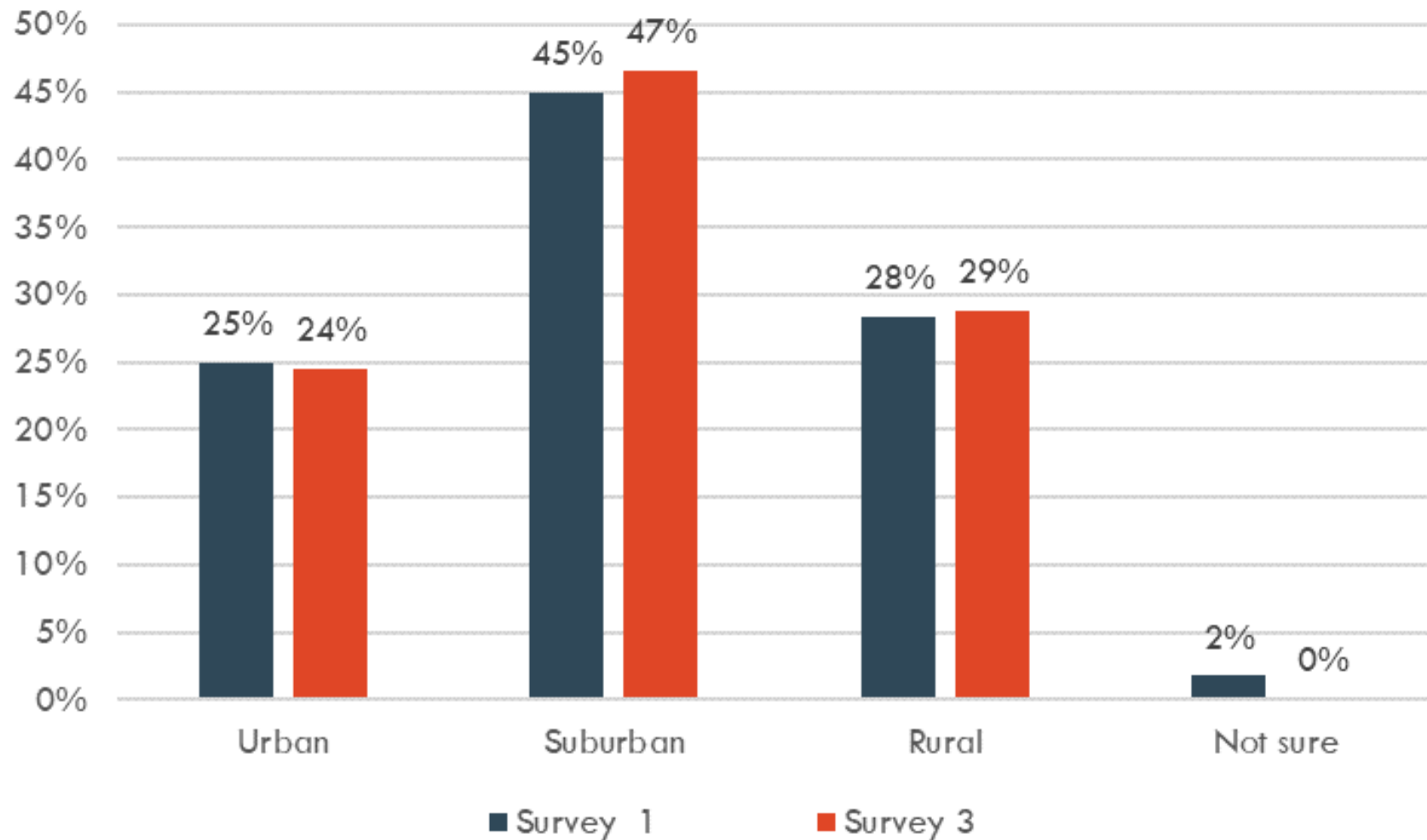
FINAL PARTICIPANT SURVEY #3

Allegra Calder
BERK Consulting

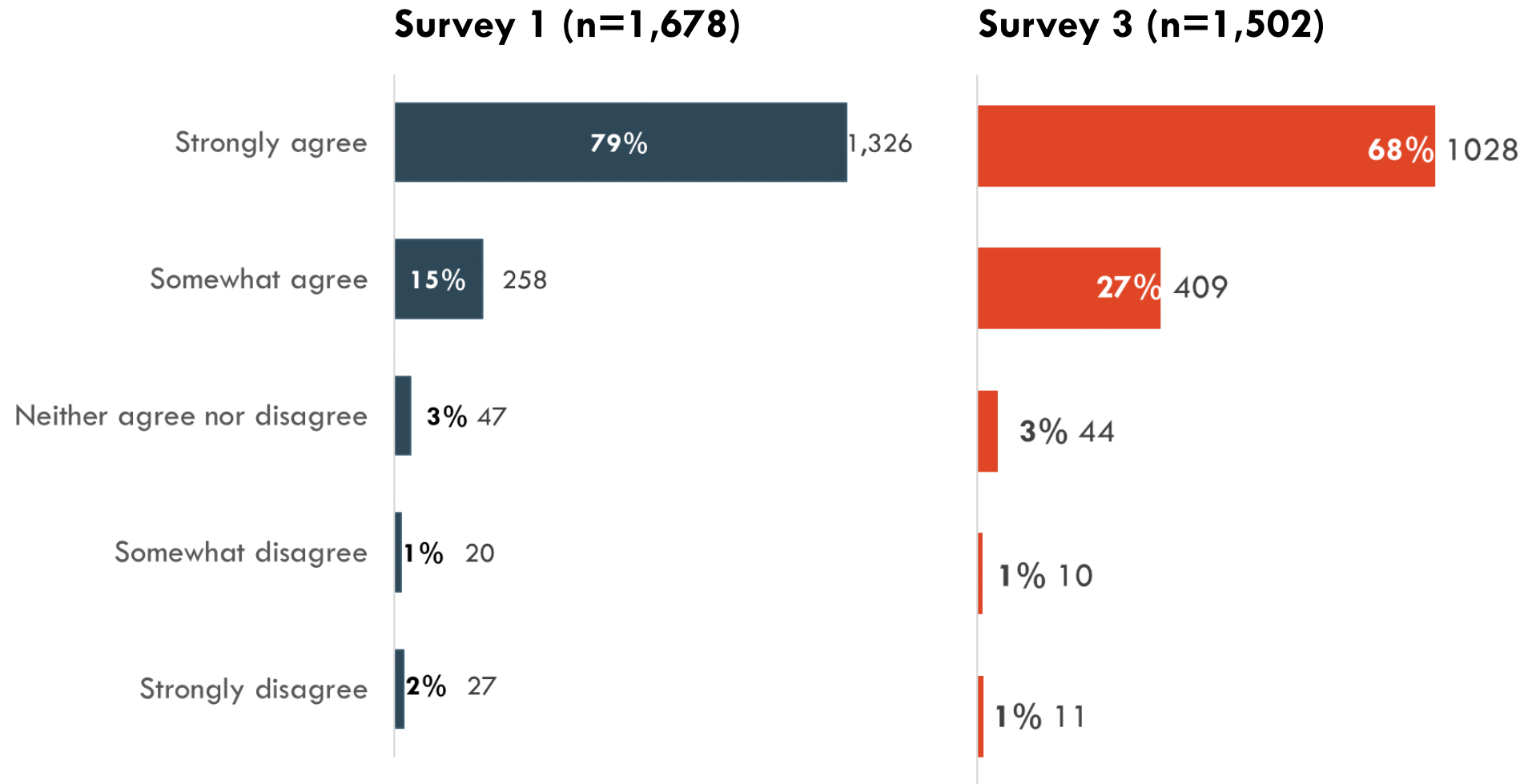
Participant Surveys – Response Rates

	Survey 1			Survey 2			Survey 3		
	Invited	Completes	Rate	Invited	Completes	Rate	Invited	Completes	Rate
General	1,952	1,621	83%	2,052	1,547	75%	1,957	1,469	75%
VIPs	96	48	50%	54	22	41%	52	22	42%
Total	2,048	1,669	81%	2,106	1,569	75%	2,009	1,491	74%

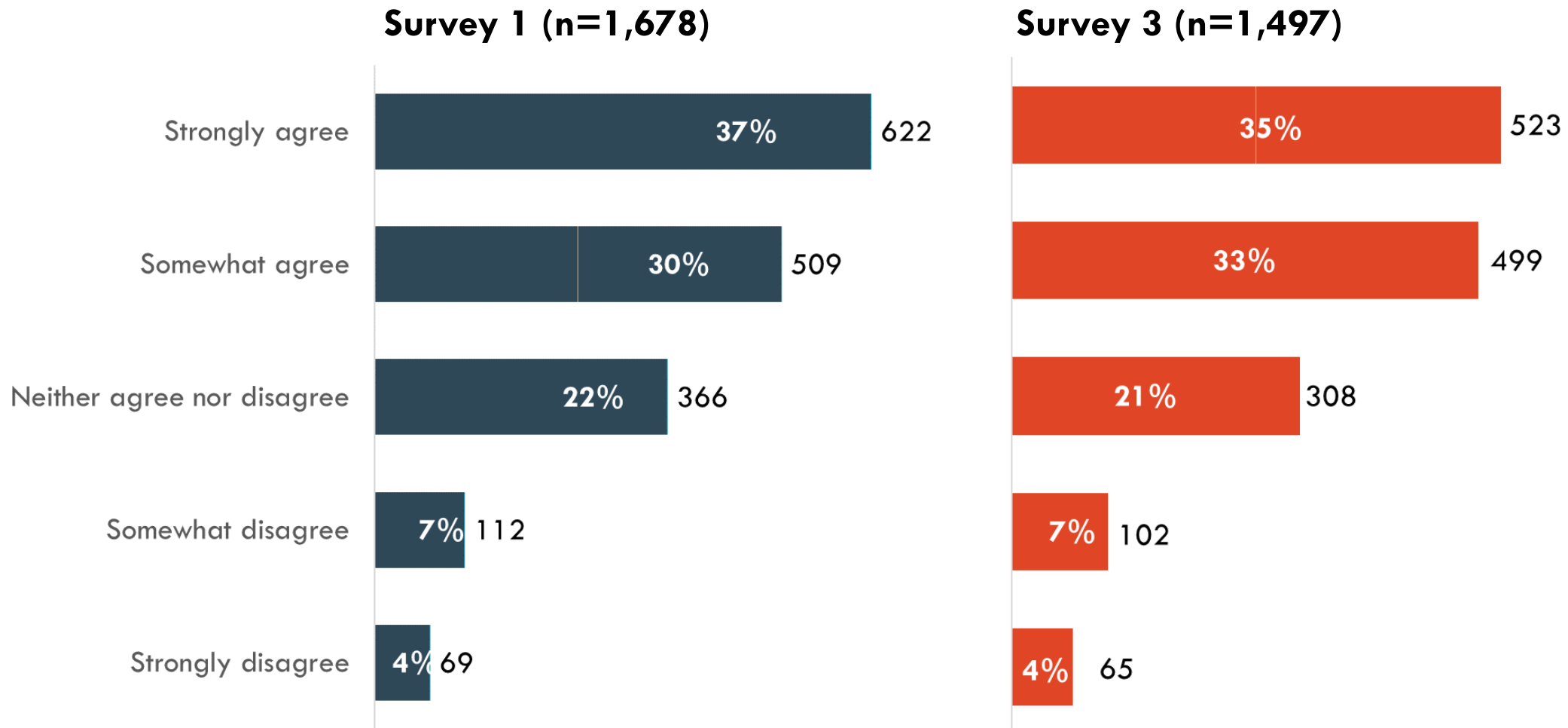
How would you describe where you live?



Washington State needs to ensure adequate funding is available to keep our transportation infrastructure safe, effective, and properly maintained.

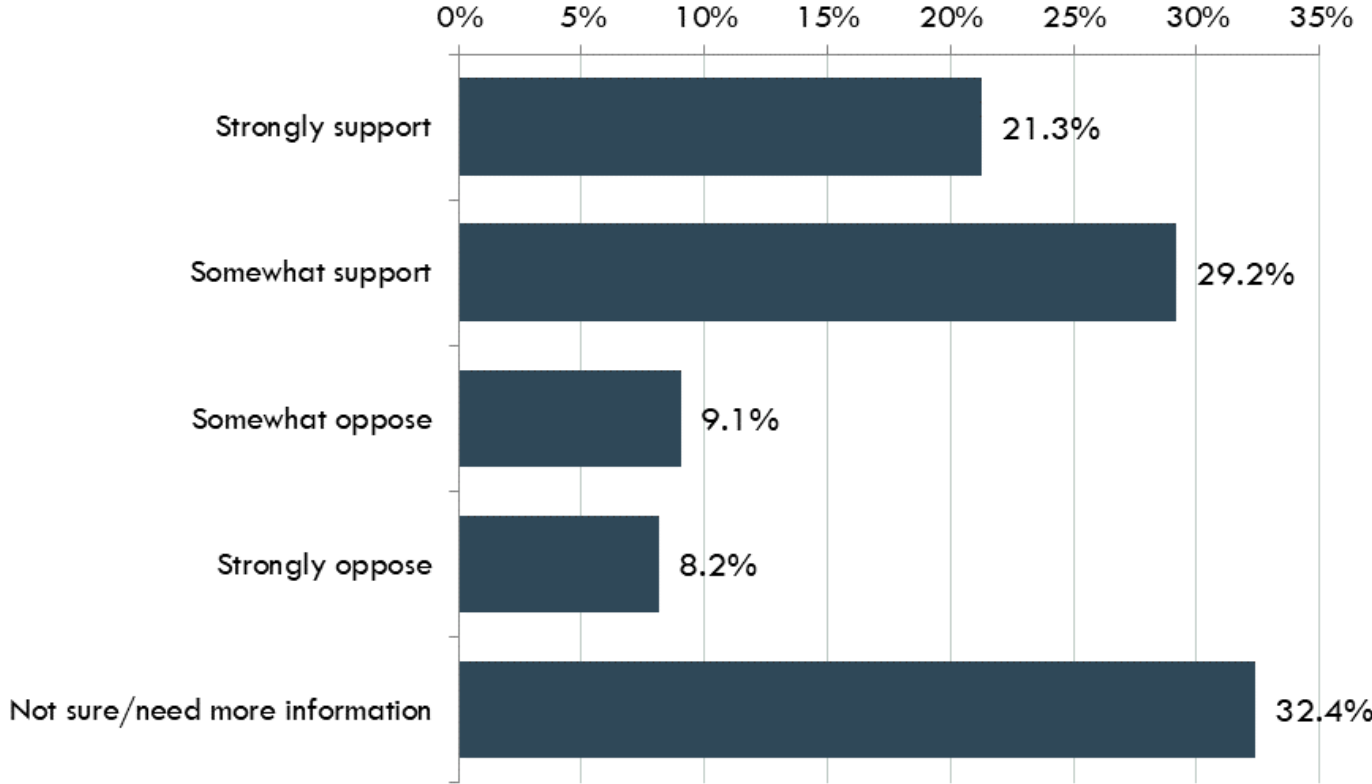


Washington State needs to find an alternative to the gas tax to adequately fund our transportation infrastructure.

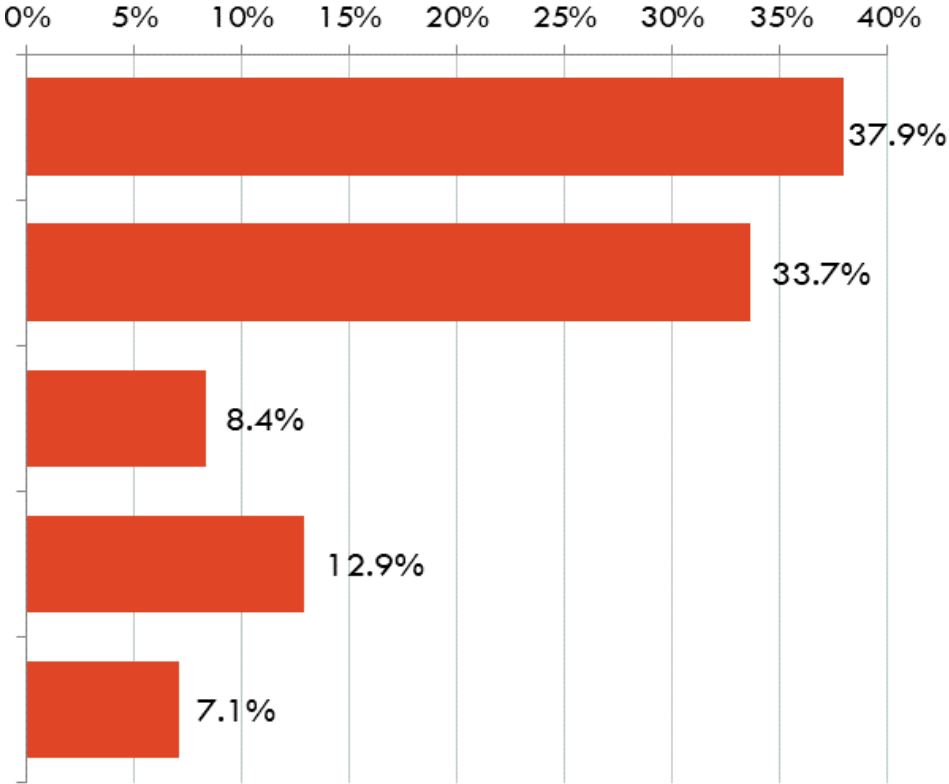


At this point, how do you feel about implementing a RUC as a replacement to the gas tax to fund transportation infrastructure?

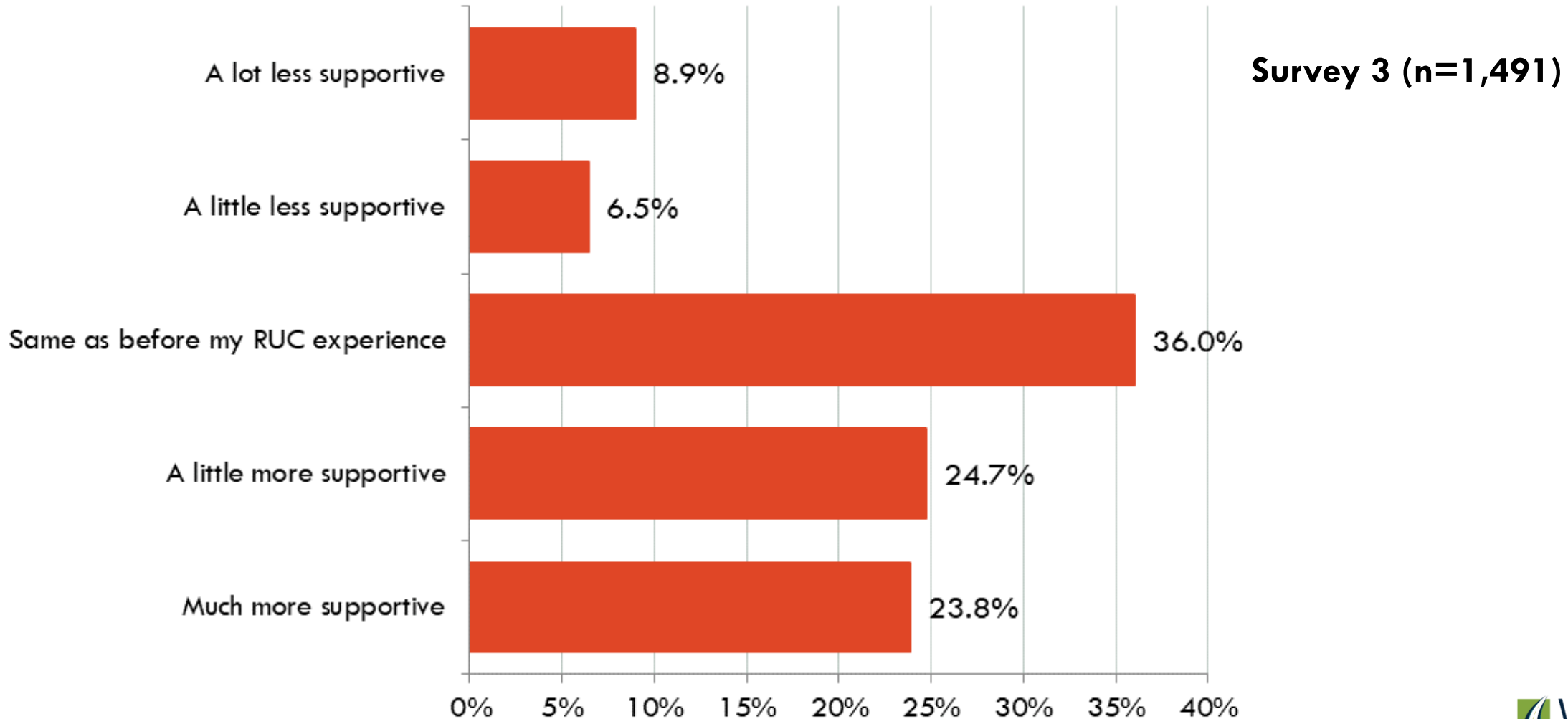
Survey 1 (n=1,683)



Survey 3 (n=1,468)



Based on your experience in the pilot, how has your attitude towards a road usage charge system changed?

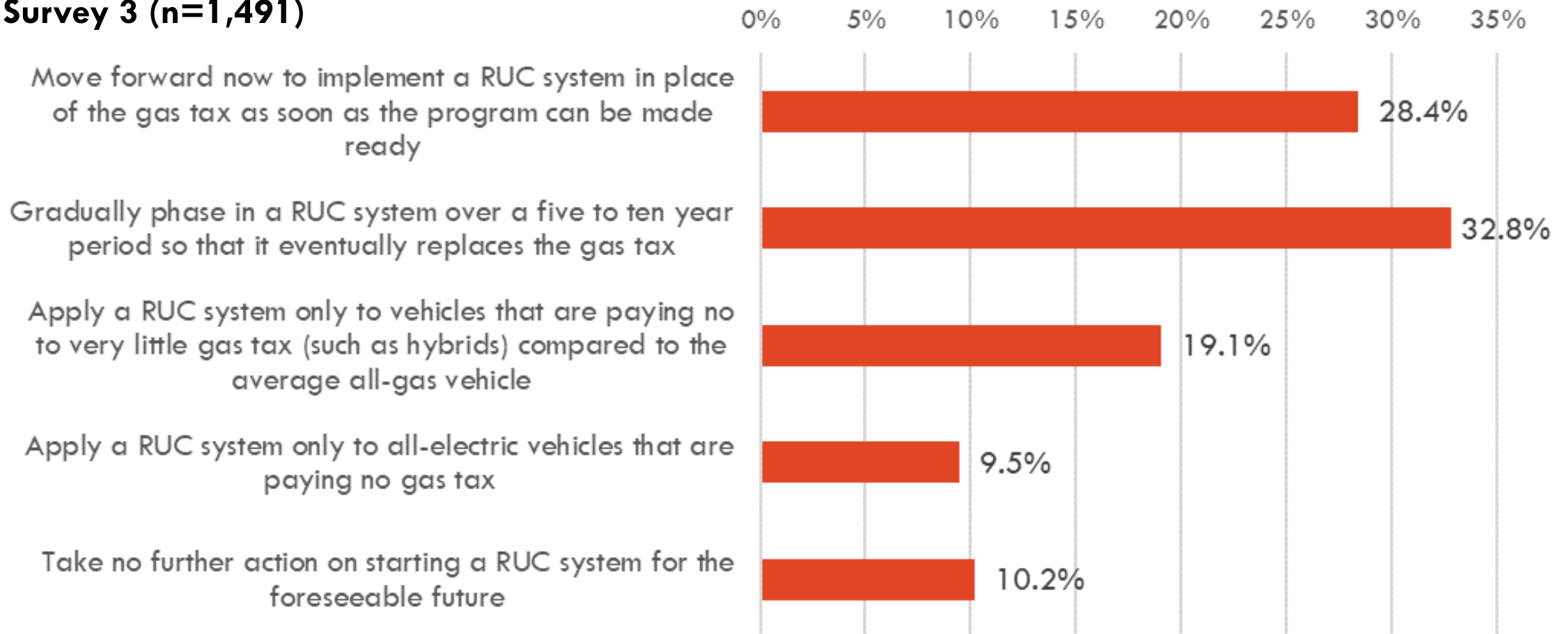


Thinking about a potential RUC system, how would you rate the importance of the following issues?

	% responding "Very Important"			
	Survey 1	Survey 2	Survey 3	Change
Privacy: My personal and driving information cannot be sold to any organization or shared with entities without my consent.	81%	90%	90%	↑
Simplicity: It is easy to participate in and not time-consuming to comply with.	69%	79%	79%	↑
Data security: It provides the highest level of data security possible and drivers can obtain information that clearly outlines the security measures.	72%	77%	75%	↑
Transparency: Clear information is available on the rate and how it is set, as well as RUC system operations.	74%	74%	70%	↓
Cost-effectiveness: The RUC is efficient for the State of Washington to collect, administer, and enforce.	60%	67%	65%	↑
Equity: All drivers pay their fair share based on how much they use the roads and regardless of vehicle type.	58%	60%	61%	↑
Enforcement: It is easy to enforce, and costly to evade.	48%	57%	58%	↑
User options: It provides choices to drivers for how they report their miles.	42%	58%	52%	↑
Charging out of state drivers: Visitors to the state pay for their use of WA roads.	30%	43%	40%	↑

Which of the following represents your advice to elected officials as they consider next steps in implementing a RUC system statewide:

Survey 3 (n=1,491)



Survey 3: Qualitative Questions

- What additional comments, if any, do you have about “adequate funding for WA transportation” or “finding an alternative source to the gas tax” that you would like to share?
- If your attitude (*towards a potential RUC*) has changed, please provide any information on the reasons for this change.
- How do you define fair?
- What additional comments, if any, do you have about implementing a road usage charge system as a replacement to the gas tax in WA?
- Do you have any final comments on your RUC pilot experience?

MOTOR FUEL TAX BOND REQUIREMENTS & RUC

Jeff Doyle
D'Artagnan Consulting

- MVFT bonds already issued
- Future issuance of highway-related bonds
- Options to pledge RUC for repayment of highway-related bonds

OBJECTIVES OF THIS PRESENTATION

For today, we aim to answer these two primary questions:

- How can the gas tax be reduced or repealed while MVFT bonds are outstanding that specifically pledge repayment from gas tax revenue?
- How can RUC be structured to enable future revenue to be bonded at rates comparable to MVFT bonds, without being constrained by the constitutional debt limit?

Order of presentation:

1. Sobering news, followed by
2. A promising option.

EXISTING MVFT (GAS TAX) BONDS

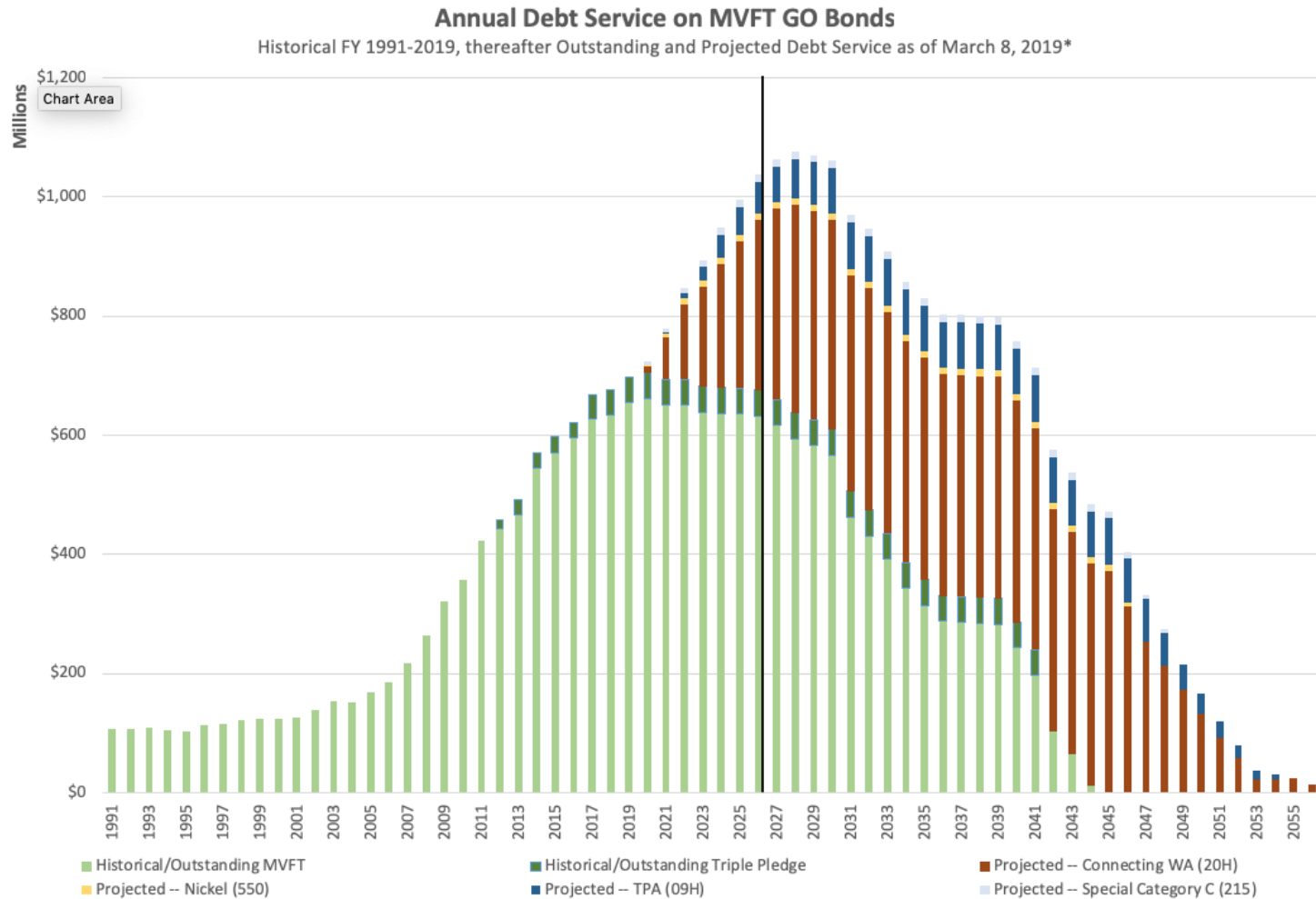
LEGAL REQUIREMENTS TO MAINTAIN SUFFICIENT GAS TAX REVENUES

Legislative bond authorizations:

“Proceeds of these excise taxes are hereby pledged to the payment of any bonds and the interest thereon issued under the authority of sections 1 through 6 of this act, and the legislature agrees to continue to impose these excise taxes on motor vehicle and special fuels in amounts sufficient to pay, when due, the principal and interest on all bonds issued under the authority of sections 1 through 6 of this act [Transportation Partnership Act]”

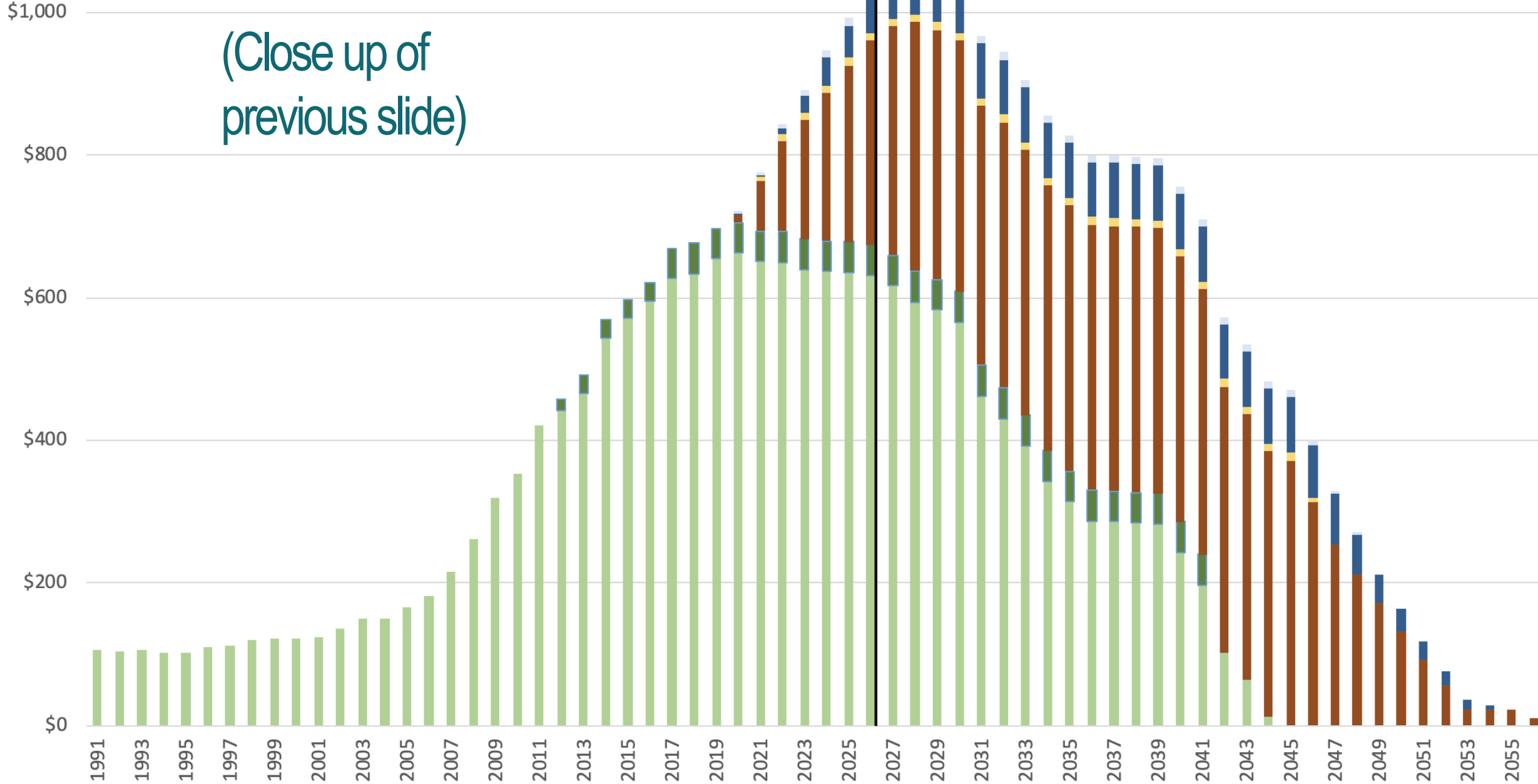
Covenants made to bond purchasers: legally-binding contracts between the State of Washington and bondholders contain these same requirements.

HISTORICAL (1991 -) AND PLANNED DEBT SERVICE ON MVFT BONDS



*Debt service projections are based on the Governor's 2019-21 Proposed Transportation Budget with adjustments for unissued bonds in the current biennium.

(Close up of previous slide)

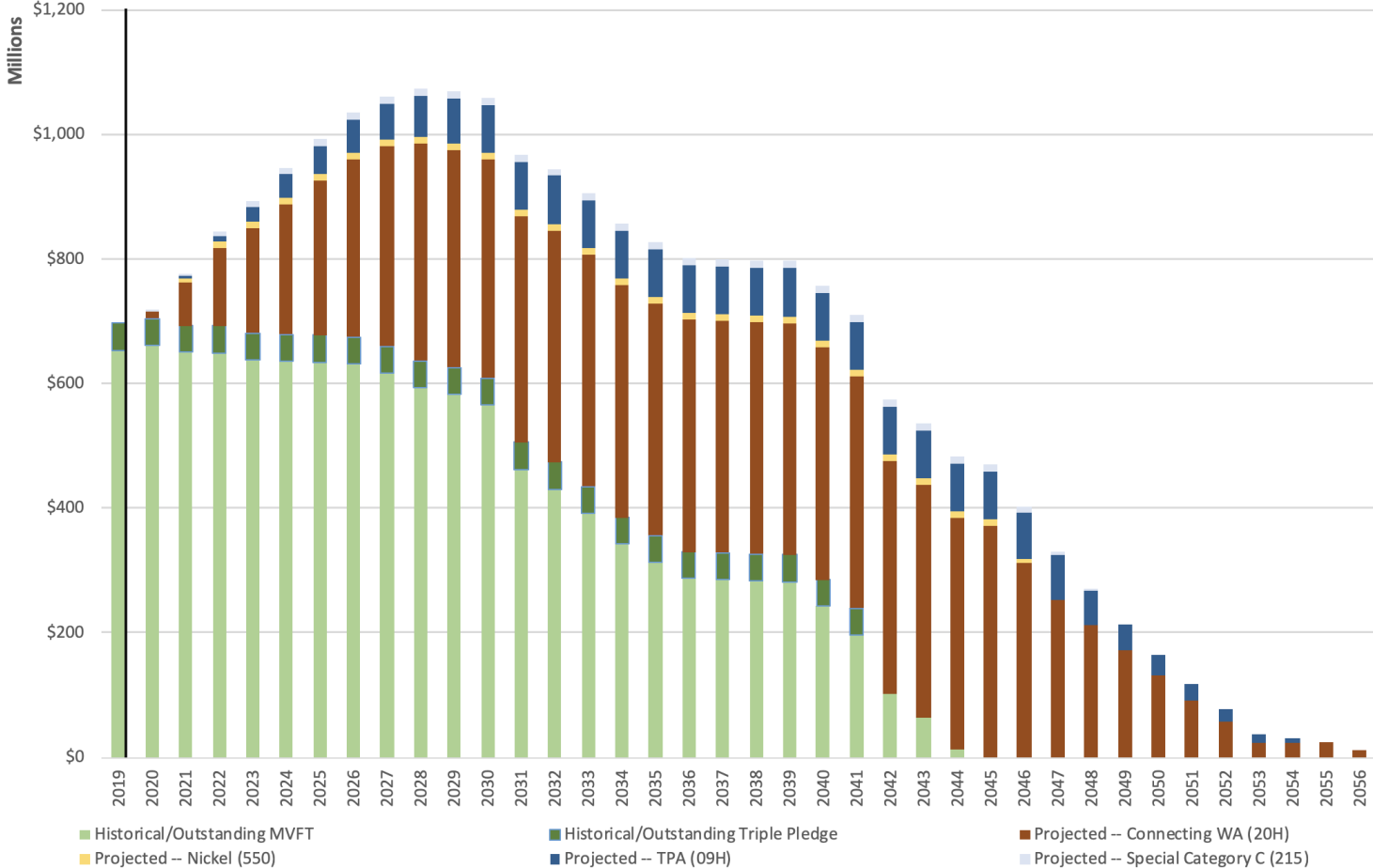


- Historical/Outstanding MVFT
- Historical/Outstanding Triple Pledge
- Projected - Connecting WA (20H)
- Projected - Nickel (550)
- Projected - TPA (09H)
- Projected - Special Category C (215)

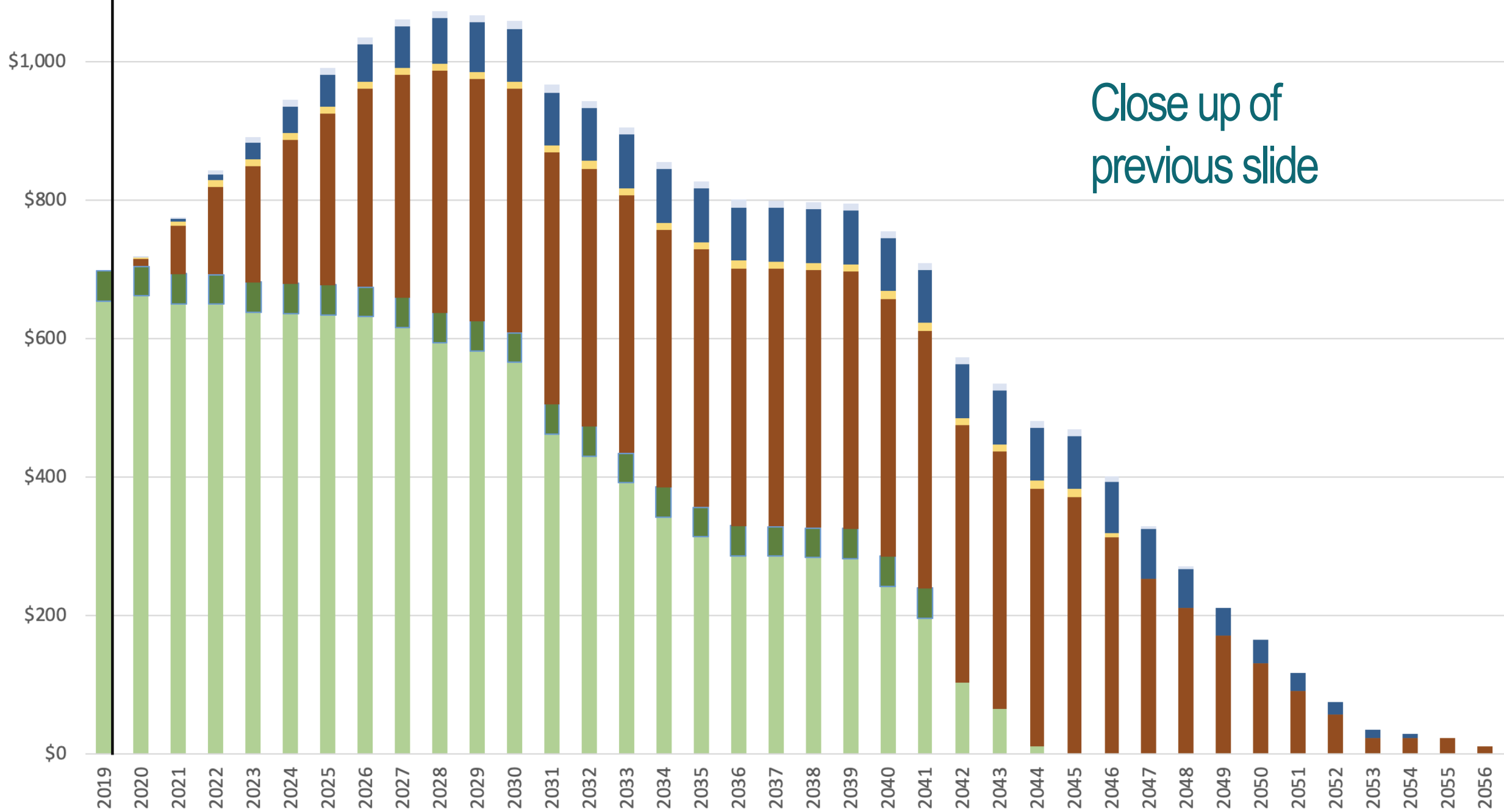
2019 THROUGH 2056: OUTSTANDING & PROJECTED ANNUAL DEBT SERVICE

Annual Debt Service on MVFT GO Bonds

Historical FY 2019, thereafter Outstanding and Projected Debt Service as of March 8, 2019*



*Debt service projections are based on the Governor's 2019-21 Proposed Transportation Budget with adjustments for unissued bonds in the current biennium.



■ Historical/Outstanding MVFT
 ■ Historical/Outstanding Triple Pledge
 ■ Projected – Connecting WA (20H)
 ■ Projected – Nickel (550)
 ■ Projected – TPA (09H)
 ■ Projected – Special Category C (215)

ORIGINAL IDEAS (~2014) TO REPEAL AND REPLACE THE GAS TAX

Impose RUC in lieu of the gas tax, and use RUC revenue to repay the outstanding MVFT bonds?

If the gas tax is repealed (or reduced below the level required for the repayment of MVFT bonds), it violates Art. VIII, Section 1 (g), legislative bond authorizations, and specific bond covenants each requiring the gas tax to remain in place in sufficient amounts to pay debt service until the bonds are retired.

Short-term refinancing of existing MVFT bonds and replace them with new bonds secured only by RUC revenue?

Transaction costs, higher interest rates, uncertainty around how much revenue RUC will provide in the early years, and legal complications make this option cost prohibitive.

GAS TAX RELIANCE: BASIC CONCLUSIONS

- The gas tax cannot be fully repealed while MVFT bonds secured by it are still outstanding.
- OST typically issues 25-year bonds with a 10-year call. Therefore, it would be at least 10 to 25 years before the gas tax could be repealed in its entirety, as measured from the last bond issuance pledging the gas tax.

SCHEDULED & FUTURE ISSUANCE OF HIGHWAY-RELATED BONDS

THE WASHINGTON CONSTITUTION'S DEBT LIMIT PROVISIONS (ARTICLE VIII, SECTION 1)

What it is:

- The Washington Constitution limits the State's aggregate maximum annual debt service to a six-year rolling average that cannot exceed 8.25% of general state revenues.

How it works:

- State-issued bonds backed by the full faith and credit of the state (i.e., General Obligation, or GO) are subject to this debt limit.
- However: debt obligations payable from specific types of transportation revenue are excluded from the debt limit, including:
 - Motor vehicle fuel tax revenue (gas tax)
 - Fees collected by the state as license fees for motor vehicles (Vehicle License Fees)

MANAGING THE STATE'S CAPITAL NEEDS WITHIN THE DEBT LIMIT

- Agencies, the Legislature and OST are constantly monitoring and managing how to meet the state's capital construction needs while staying compliant with the debt limit.
- Capacity under the state debt limit is reserved for “Various Purpose” projects -- not transportation projects.

EXEMPTIONS FROM THE DEBT LIMIT

- License fees on motor vehicles (Vehicle License Fees – VLF)
- Excise taxes on the sale of fuel for motor vehicles (Motor Vehicle Fuel Tax – gas tax)
- (Other stuff not relevant to transportation financing)
- Revenues derived from a fee or charge on a specific project or facility

FUTURE RUC BONDS: BASIC CONCLUSIONS

Unless RUC is structured and implemented as an exempt revenue source (e.g., a Vehicle License Fee), either:

A) RUC bonds backed by the state full faith & credit will count against the debt limit.

This is contrary to current state fiscal policy, and likely to be rejected by the legislature.

...OR...

B) RUC revenue bonds may be too costly to issue, relative to expected net proceeds.

RUC revenues derived as “a fee or charge on a specific project or facility” (i.e., the public roadway network in the state) can be issued outside of the debt limit, but cannot be backed by the state’s GO or repaid with general state revenues. Without this additional pledge, these stand-alone RUC bonds will have much higher borrowing costs and significant reserve requirements.

OPTIONS FOR MOVING FORWARD: EXISTING & FUTURE BONDS IN A RUC SYSTEM

MOST FEASIBLE APPROACH: STRUCTURE, IMPLEMENT AND MANAGE RUC AS A VEHICLE LICENSE FEE

How this would work:

- The current vehicle license fee could be modified to provide a variable rate structure based on vehicle mileage in a year.

Notes:

- This approach was first identified by the Office of the State Treasurer during their September 2014 presentation.
- As a vehicle license fee, RUC revenue would be subject to Amendment 18, which restricts expenditures to highway-related purposes.
- Amendment 18 only restricts expenditures – it does not restrict the amount or manner in which a vehicle license fee is calculated.
- As pointed out by the Treasurer's Office, this approach could have advantages if RUC revenue is pledged for bonds in the future.

BLUEPRINT FOR FUTURE HIGHWAY-RELATED BONDS: *CONNECTING WASHINGTON*

The *Connecting Washington* bond authorization (RCW 47.10.889):

- At the time of passage in 2015, the Legislature was aware of potential increases in vehicle fleet MPG in the coming years.
- In anticipation of potential future changes to transportation funding, the *Connecting Washington* bond authorization requires both the MVFT (gas tax) and Vehicle License Fees to be pledged for the repayment of highway-related bonds.
- Allowing both the gas tax and VLFs to be used to repay bonds provides flexibility to accommodate changes in future transportation revenue streams.

OTHER OPTIONS AND STRATEGIES

Next best alternative: Once RUC is an established, reliable and robust revenue source, issue stand-alone RUC revenue bonds to finance highway-related projects and programs.

- Without state GO backing, the bonds will be more costly to issue.
- Net proceeds for highway-related projects will be reduced due to higher issuance costs.

SUMMARY OF CONCLUSIONS

STRAWMAN: FINDINGS & CONCLUSIONS

- The state gas tax cannot be repealed until all MVFT bonds have been retired.
- The soonest the gas tax could be fully repealed is estimated to be at least 10 to 25 years from the most recent MVFT-secured bond issuance.
- Over time, as debt service payments on MVFT bonds eventually tapers off, reliance on gas tax collections can also taper down. This is a future policy decision up to the Legislature.
- The Connecting Washington bond authorization provides a blueprint for how the state could transition from reliance on the gas tax to RUC (and other VLFs) in the future.
- If RUC is structured, implemented and managed as a mileage-based Vehicle License Fee (as anticipated by the Connecting Washington bond approach), RUC can also be pledged for the repayment of bonds outside of the state debt limit, just as the gas tax is today.

BREAK: WORKING
LUNCH

COMMUNICATIONS ACTIVITIES: NEXT STEPS FOR 2019

Ara Swanson
EnviroIssues

COMMUNICATIONS: NEXT STEPS FOR 2019

Ara Swanson
EnviroIssues

OVERARCHING COMMUNICATIONS GOALS



Inform and educate the public.



Recruit participants into the pilot project from across the state.



Generate broad understanding for the pilot project.



Cultivate balanced and accurate media coverage.



Assess public opinion before and throughout the course of the pilot.

2019 COMMUNICATIONS ACTIVITIES – OVERVIEW

- Finalize and implement communications plan to support evaluation and reporting
- Analyze communications received to-date
- Summarize best practices and lessons learned
- Share updates with the Steering Committee

2019 COMMUNICATIONS GOALS AND ACTIVITIES



GOAL: Communicate pilot process, driver experience, Steering Committee progress, results and next steps

- ➔ Produce and distribute video to tell the story of the pilot experience using footage taken during fall 2018 case studies
- ➔ Send e-newsletters following Steering Committee meetings and in advance of activities the public can participate in (webinar, etc.)
- ➔ In-person and virtual roadshow to communicate draft/final report (speaking engagements and briefings with interest groups, lunch and learn events, webinar)

2019 COMMUNICATIONS GOALS AND ACTIVITIES



GOAL: Leverage media to share results and next steps

- ➔ Proactive engagement at pilot milestones
- ➔ Continue to respond to media inquiries and foster relationships with target publications

2019 COMMUNICATIONS GOALS AND ACTIVITIES



GOAL: Analyze and summarize communications shared with the help desk for additional insights to inform final report

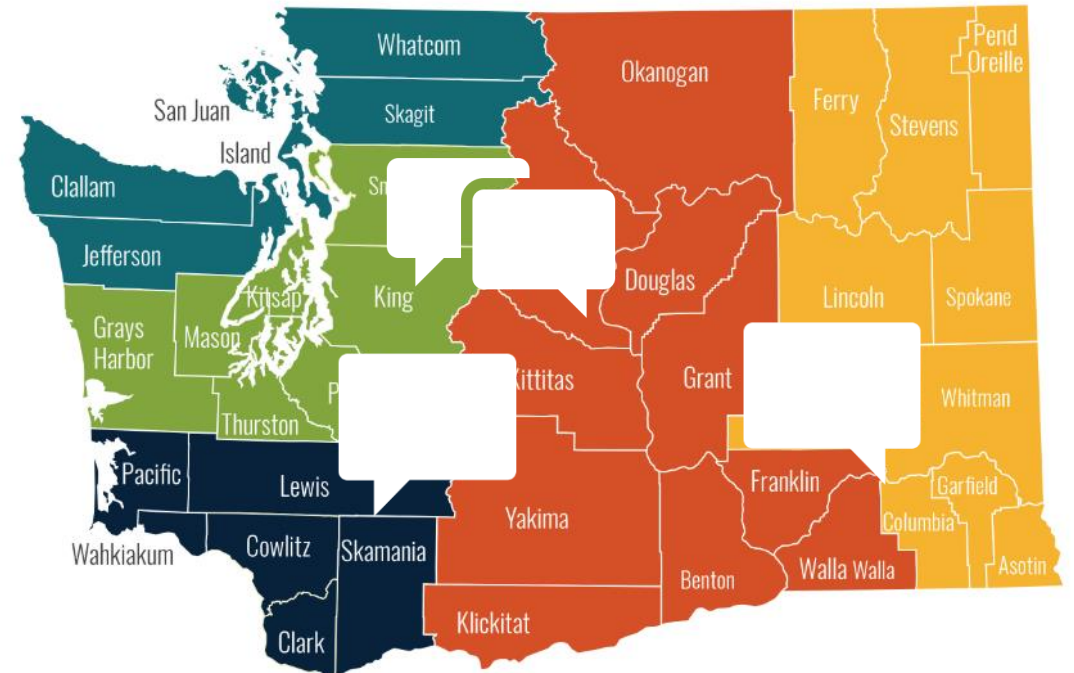
- ➔ Review comments received through emails and calls to the help desk
- ➔ Prepare summary of comments to complement results of surveys and focus groups
- ➔ Provide recommendations and lessons learned from the help desk to inform final report and recommendations

COMMUNICATIONS SUMMARY



Analysis will include a deeper dive into feedback shared with the Help Desk. Topics we're looking into:

- ➔ **Topics and questions received by region and mileage reporting method**

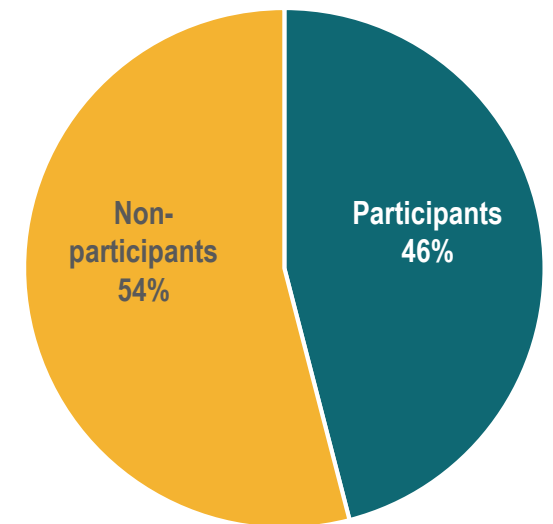


COMMUNICATIONS SUMMARY



Analysis will include a deeper dive into feedback shared with the Help Desk. Topics we're looking into:

- Who we heard from:
 - **1,945** communications received from **1277** individuals (587, or **46 percent**, were participants)
 - 587 of the more than 2,000 participants (**29 percent**) contacted help desk, but were **more likely than non-participants to contact us more than once**

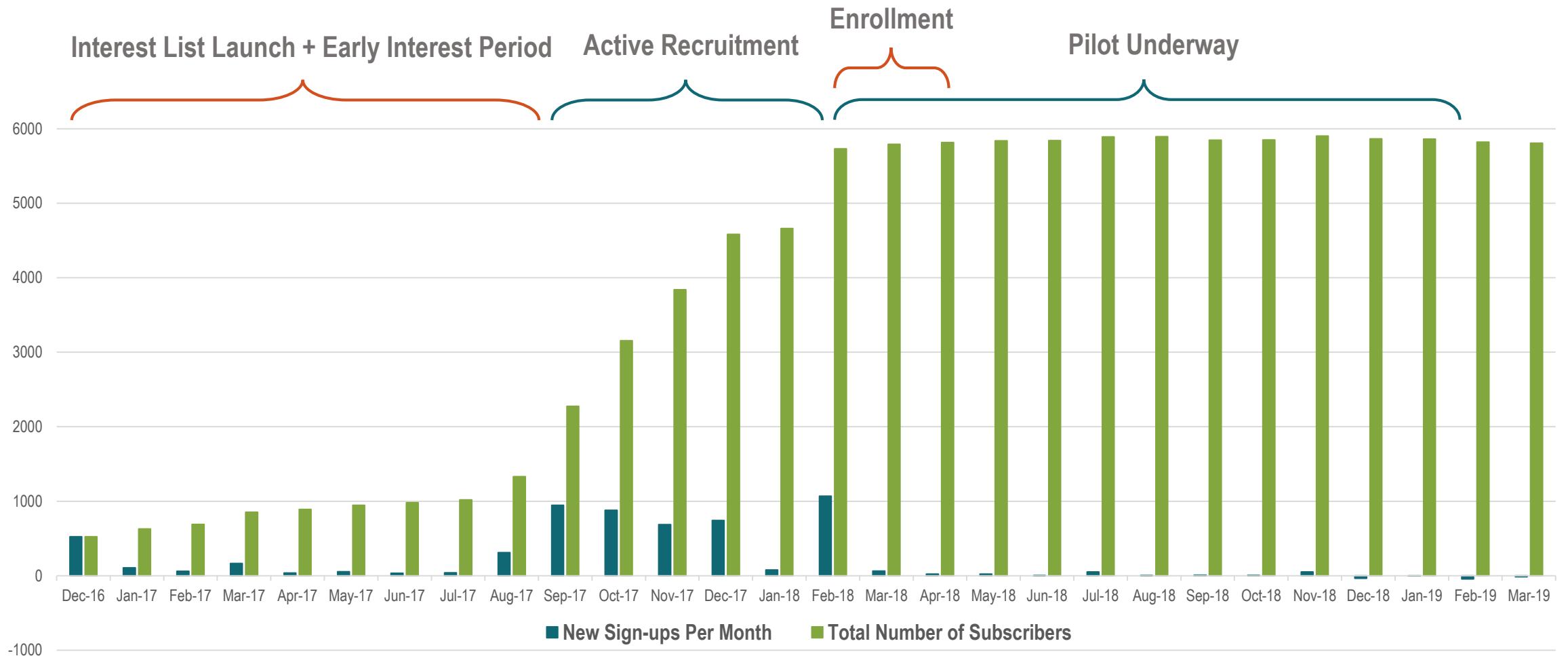


INCOMING COMMUNICATIONS (FREQUENCY)
























Total incoming communications: 1,945

INTEREST LIST GROWTH



Data as of March 8, 2019

2019 COMMUNICATIONS ACTIVITIES TIMELINE

	2019										2020	
	March	April	May	June	July	August	September	October	November	December	January	
Steering Committee meetings											 <i>Final report</i>	 <i>Legislative report</i>
Email updates												
Media outreach												
Video												
Webinars												
Roadshow, briefings												

PER-MILE RATE SETTING: CRITERIA, PROCESS & ROLES

Matthew Dorfman
D'Artagnan Consulting

- General rate-setting in a RUC system
- Specific rate-setting approach for a Time Permit
- Committee discussion

RUC AND RATE SETTING

Matthew Dorfman
D'Artagnan Consulting

AGENDA

- Introduction
- **Rate Setting Step 1: Define RUC Products**
- **Rate Setting Step 2: Per-mile Rate Setting**
- **Rate Setting Step 3: Time-based Rate Setting**
- **Rate Setting Step 4: Determine Exceptions**

INTRODUCTION: PURPOSE OF A RUC

- The purpose of a RUC fundamentally impacts its rate structure
- Possible purposes of a RUC
 - Revenue only (like gas tax): flat rate for light vehicles (heavy vehicles excluded)
 - Manage congestion: rate must vary by time and location
 - State charges only or local charges too: rate must vary by location
- Legislature and Steering Committee have stated the purpose of RUC is revenue

INTRODUCTION: SHOULD A RUC BE STRUCTURED AND ADMINISTERED AS A TAX OR A FEE?

- Tax vs. Fee may affect which body (legislature or agency) has power to determine how rates are set (or set rates directly)
- At a high level, taxes are for general purposes, fees are for specific purposes
- Taxes may have a higher bar for legislative passage
 - Oregon: RUC is tax, requiring 3/5 majority in both chambers to enact
 - Utah: RUC is a fee, offered as an option in lieu of higher registration fees for alternative fuel cars

INTRODUCTION: RUC RATE GOVERNANCE

- Setting taxes generally constitutionally limited to legislature
- Setting fees can be delegated to an agency, often with boundaries:
 - Maximum range
 - Maximum change/delta

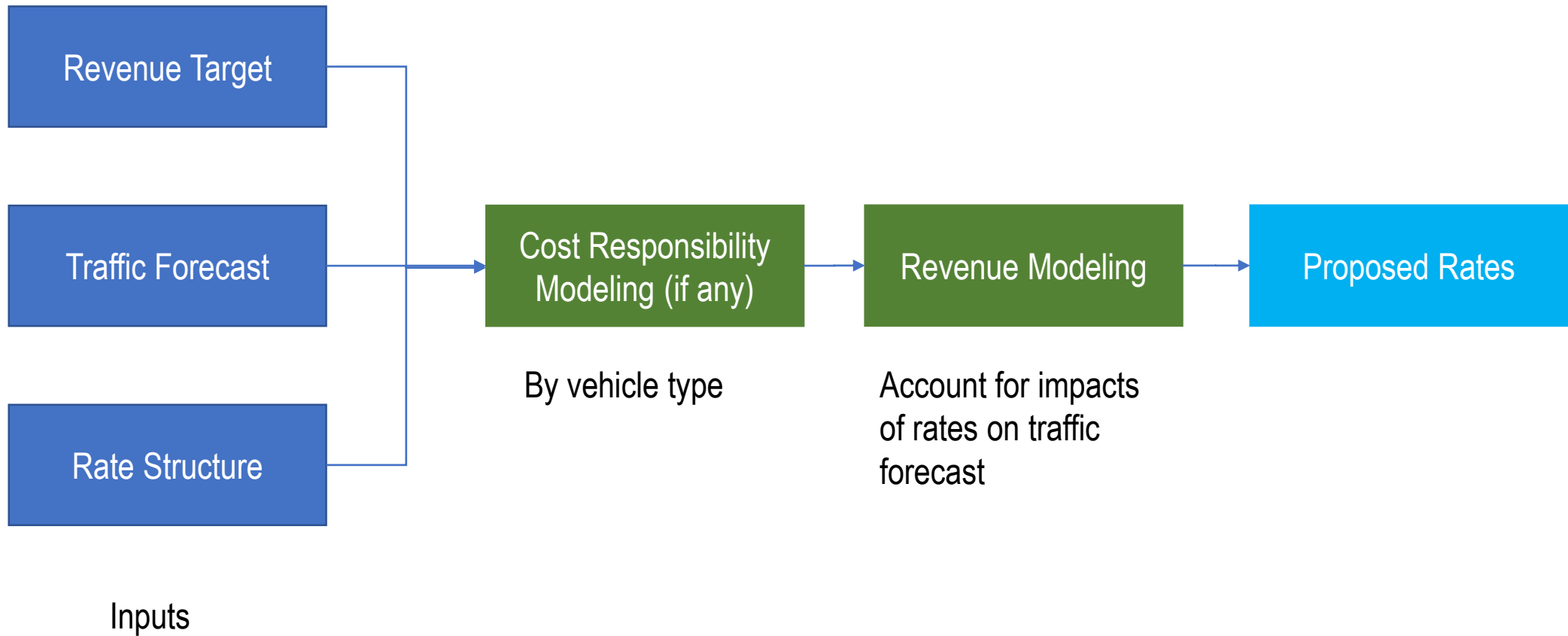
RUC PRODUCTS

- **Post-pay mileage charge** (Plug-in devices, Odometer Reading, MileMapper). Rates can vary by vehicle type and can exempt certain types of mileage
- **Pre-pay mileage charge** (mileage permit). Rates can vary by vehicle type, differ from post-pay mileage rate, and be offered in various blocks
- **Pre-pay time-based charge** (time permit, not offered in pilot). Rates can vary by vehicle type and be offered in multiple lengths of time

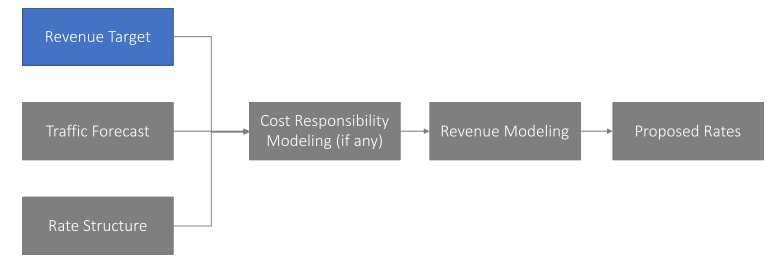
PER-MILE RATE DETERMINATION: RUC POLICY OBJECTIVES IMPACTING RATE SETTING

- **Sustain revenues**
 - Main reason for exploring RUC
- **User pays**
 - Main policy feature of both gas tax and RUC
 - Steering Committee has captured this as “all users should pay a fair share”
- **Revenue neutrality**
 - Steering Committee has inferred from its legislative directive to study RUC as a possible gas tax successor that it also remain revenue-neutral with the gas tax
 - RUC business case analyses and the pilot assumed revenue neutrality

PER-MILE RATE DETERMINATION: PROCESS

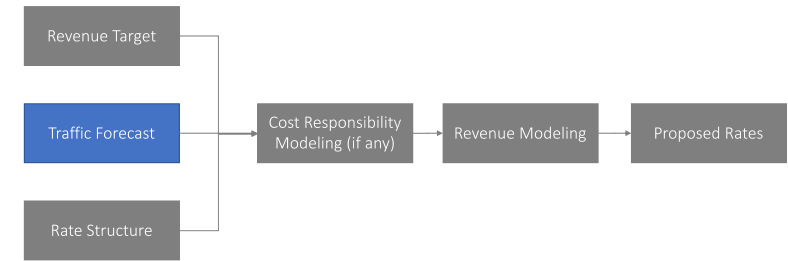


PER-MILE RATE DETERMINATION: OPTIONS FOR REVENUE TARGET SETTING



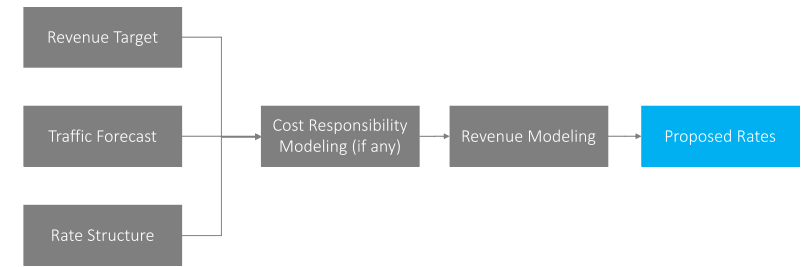
Rate setting approach	Options for revenue target setting
Revenue neutrality	<ul style="list-style-type: none"> Forecast gas tax revenue, assume no erosion due to fuel efficiency, include admin costs of RUC Forecast gas tax revenue, assume vehicles subject to RUC pay the fuel tax as the average MPG vehicle, include admin costs of RUC
Revenue targets	<ul style="list-style-type: none"> Set RUC-based portion of highway budget Set road revenue portion of highway Set total highway budget
Cost responsibility	<ul style="list-style-type: none"> Set road revenue portion of highway Set total highway budget
User acceptability	<ul style="list-style-type: none"> No specific options.

PER-MILE RATE DETERMINATION: TRAFFIC FORECASTING FACTORS



- Population changes, including demographics
- Changes in the vehicle fleet
- Inputs into the costs of driving, such as fuel prices
- Economic growth

PER-MILE RATE DETERMINATION: RATE REVIEWS



- Rates should be reviewed and updated at regular intervals to account for several factors:
 - Inflation
 - Changes in traffic forecasts
 - Changes in revenue targets/needs

RATE SETTING FOR A TIME-PERMIT

TIME PERMIT RATE SETTING

1. Understand Target Audiences

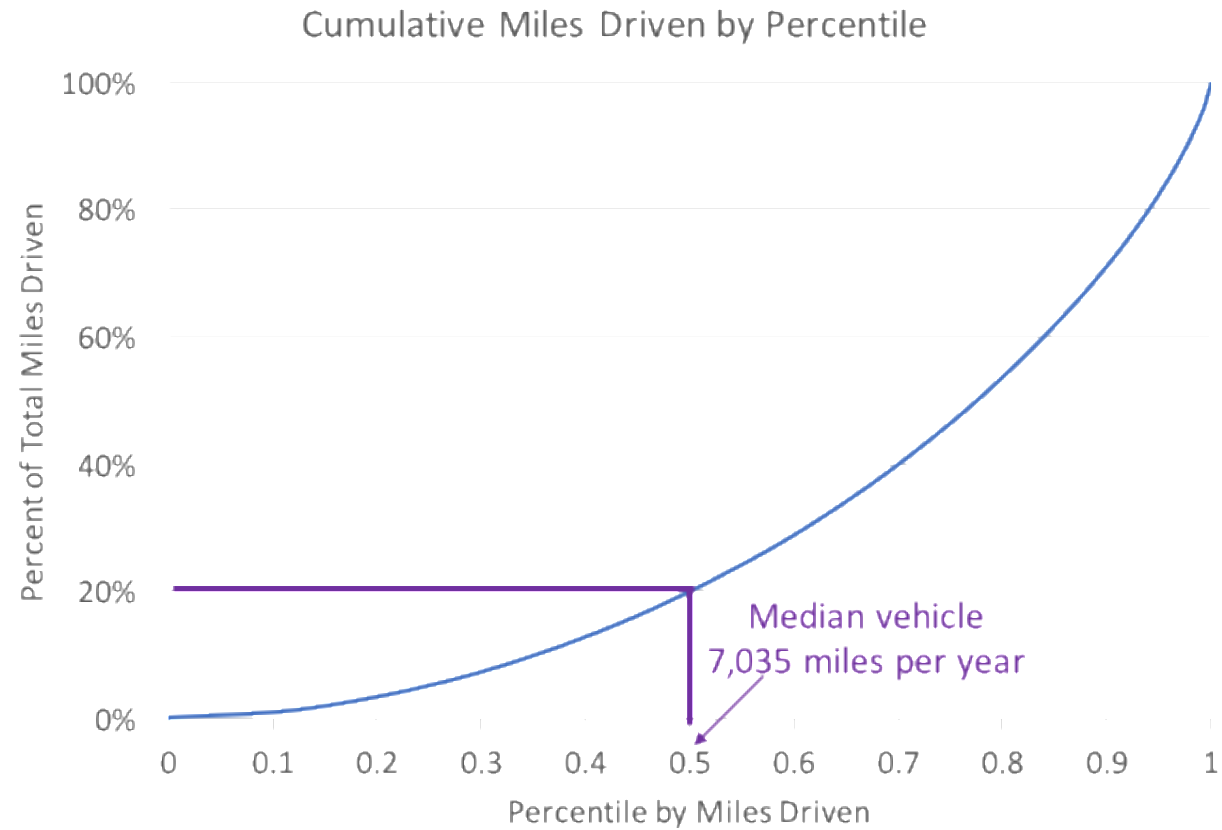
- State Residents
- Visitors

2. Select lengths

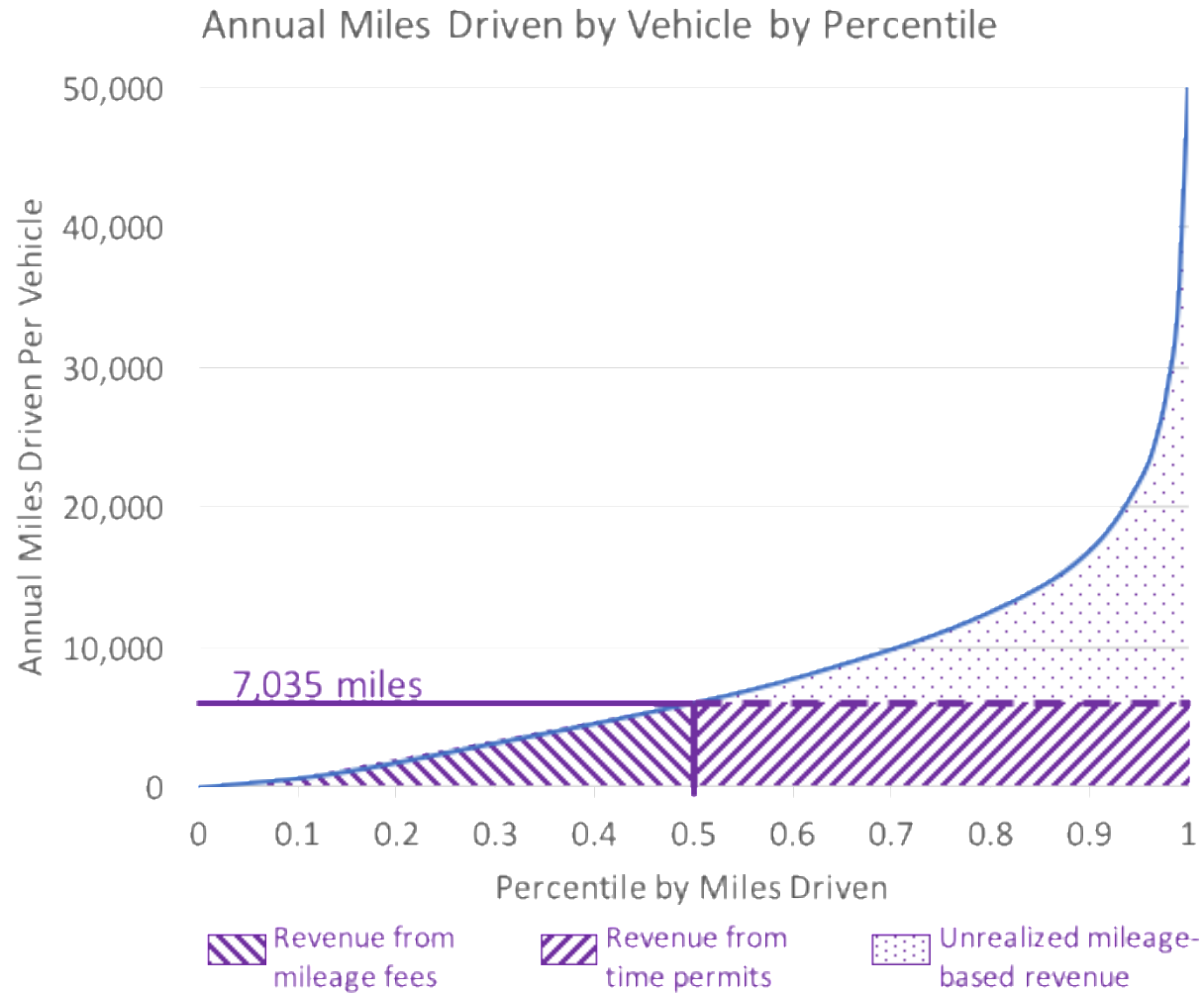
3. Set Rates

- Choose high percentile of driving to prevent overuse (see next slides)
- Multiply by per-mile rate
- Prorate for shorter permits

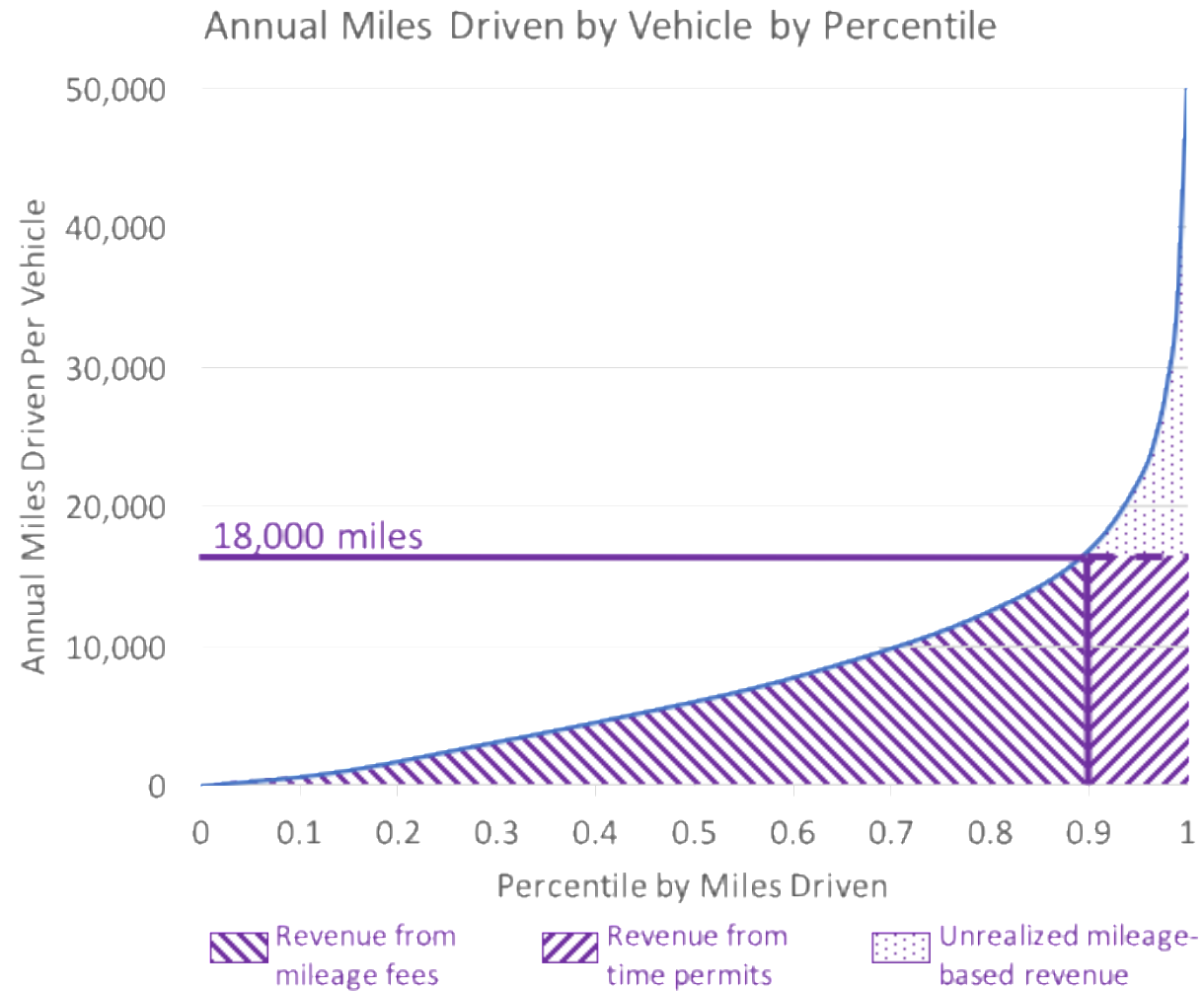
TIME PERMIT RATE SETTING: CUMULATIVE WASHINGTON MILES DRIVEN BY PERCENTILE



TIME PERMIT RATE SETTING: REVENUE IMPACTS OF TIME PERMIT AT 50TH PERCENTILE



TIME PERMIT RATE SETTING: REVENUE IMPACTS OF TIME PERMIT AT 90TH PERCENTILE



TIME PERMIT RATE SETTING: TIME PERMIT PRICES AND REVENUE LOSS IMPACTS

Percentile	Annual Mileage Driven in WA at Percentile	Time Permit Equivalent Price at \$0.024 per mile	Upper Bound of Unrealized Revenue
50 th	7,035	\$169	40%
66 th	10,000	\$240	16%
90 th	18,000	\$432	9%
98 th	30,000	\$720	2%

EXCEPTIONS: EXEMPTIONS

- Exemptions are miles driven in state that are not charged RUC
- Exemptions reduce total revenue and must be considered in rate-setting process
- Vehicle-based exemptions
 - Vehicles not intended for use of public roads (agricultural)
 - No other exemptions recommended
- Mileage exemptions
 - Out-of-state
 - Private roads
 - Off-road

EXCEPTIONS: RUC REFUNDS

- Refunds can be made when prepaid RUC is not used for chargeable travel, also reduce revenue, and must be considered in rate setting
- Refunds for unused permits
 - Time Permits: only when vehicle destroyed
 - Mileage Permits: in case of vehicle sales/move out of state
- Refunds for travel in exempted areas with non-location-based methods
 - Drawbacks: cumbersome process, expensive to run, subject to fraud
 - Alternatives:
 - Standard deduction
 - Supplementary smartphone app
 - Deduction for people who live on private roads

EXCEPTIONS: FUEL TAX REFUNDS

- Approach varies by mileage reporting method
- Time permit: no refund possible/desirable
- Odometer Reading / apps:
 - Fuel consumption can be based on EPA fuel economy
 - Refund = fuel consumption x average fuel price
- Mileage permit:
 - Fuel consumption can be based on EPA fuel economy
 - Refund can never be negative
- Plug-in device
 - Measure for most vehicles
 - Use EPA fuel economy for remaining vehicles

EXCEPTIONS: FUEL TAX REFUNDS

- Issue: what if driver purchases most fuel out of state
- Especially problematic for people living at near state borders
- May not be an issue for drivers not earning a net refund
- Problem: Low fuel efficiency vehicles get a unjustified payout
- Solutions:
 - Offer no net refunds
 - Do not apply RUC to low fuel efficiency vehicles

(DRAFT) OUTLINE OF STEERING COMMITTEE'S FINAL REPORT

Jeff Doyle
Project Manager
D'Artagnan Consulting

- Handout: Top-level outline
- Committee member discussion

(HANDOUT: OUTLINE OF FINAL REPORT)

COMMITTEE DISCUSSION

THANK YOU!

Questions? Contact: Reema Griffith, Executive Director
Washington State Transportation Commission
griffir@wstc.wa.gov
360-705-7070

Consultant support provided by:

