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USE OF ROAD USAGE CHARGE REVENUE

WA RUC

Use of Road Usage Charge Revenues |

CONTENTS

1 INTRODUCTION

This paper examines alternative approaches for using revenues from a road usage charge (RUC). Should the Legislature enact RUC, it must specify allowable uses for the revenue collected in legislation. This paper serves as an input to deliberations and decision making; therefore, it does not put forward any preferences or recommendations.

This paper does not assume any constitutional, statutory, or regulatory constraints on possible alternatives. A companion paper addresses legal issues associated with use of RUC revenues, specifically those emanating from the 18th Amendment to the Washington constitution. Instead, this paper focuses on the range of policy possibilities.

The choice of how to use RUC revenues is a policy decision about the *application* of RUC, not the mechanism itself. However, the RUC Steering Committee may choose to make recommendations to the Commission about both the application and the mechanism of RUC.

We present two dimensions of decisions the Legislature will confront related to the use of RUC revenues.

- The Legislature must decide the types of expenditures allowable for RUC revenues, and specify them in statute
- The Legislature must specifically decide whether and how to treat funding of existing “non-highway” recipients of gas tax revenues under a long-term transition away from gas taxes and toward RUC

Following this section, Section 2 summarizes the current collection and allocation of transportation revenues in Washington. Section 3 presents a range of alternatives for using RUC revenues, from flexible to narrow, and arguments for and against each one. Section 4 presents the existing non-highway recipients of state gas tax revenues and the alternatives for addressing their needs under a RUC system. Section 5 summarizes the two key dimensions and the alternatives available to the Legislature.

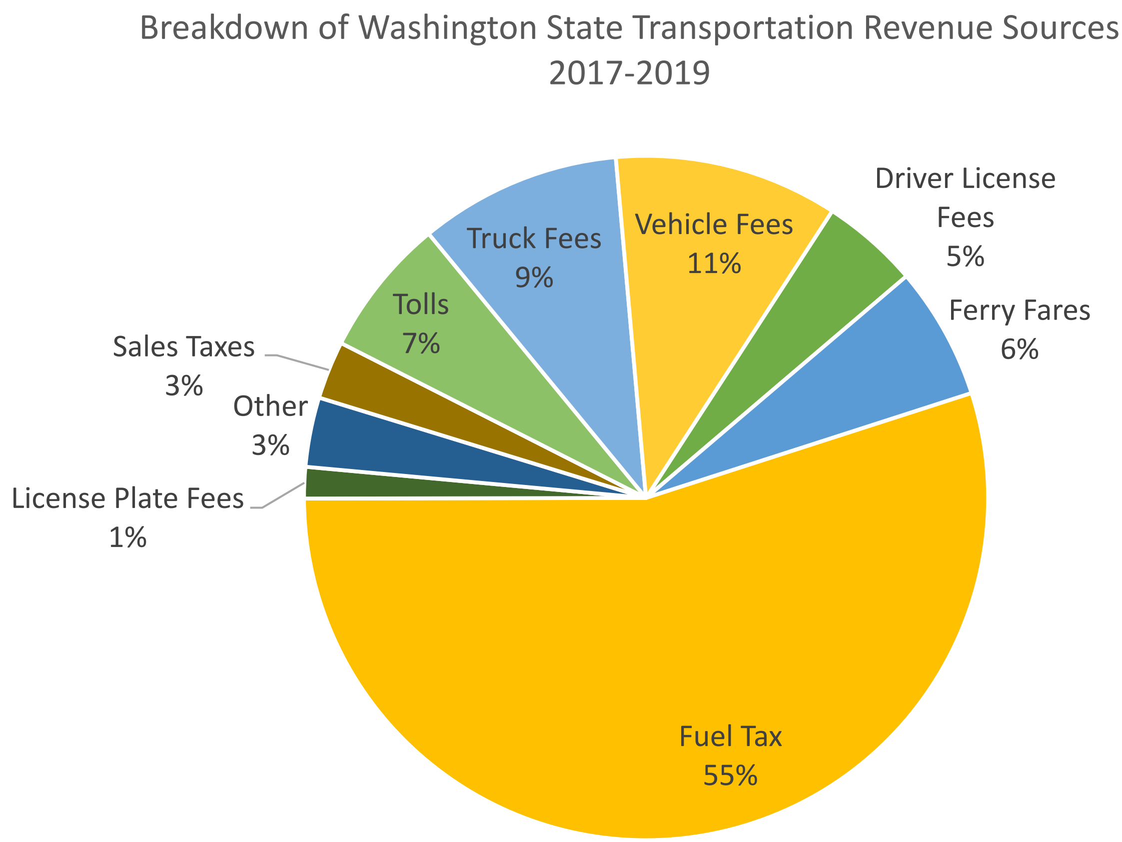
2 SOURCES AND USES OF WASHINGTON TRANSPORTATION REVENUE

This section summarizes sources and uses of state transportation revenues in Washington. The federal government and local governments (counties, cities, and special purpose agencies such as transit authorities) also collect some revenues from transportation users and allocate funds to transportation uses; however, since the state has little authority over the sources and uses of those funds, they are treated separately for this paper.

2.1 Sources of transportation revenue in Washington[1]

For the 2017-2019 biennium, the State of Washington estimates it will collect approximately $6.2 billion in revenues from transportation-related taxes and fees. The pie chart below summarizes the components of this revenue total. Fuel taxes compose the majority of state revenues, at 55%.

[1] All information in this section is drawn from data in the January 2017 *Transportation Resource Manual* of the Washington Joint Transportation Committee.



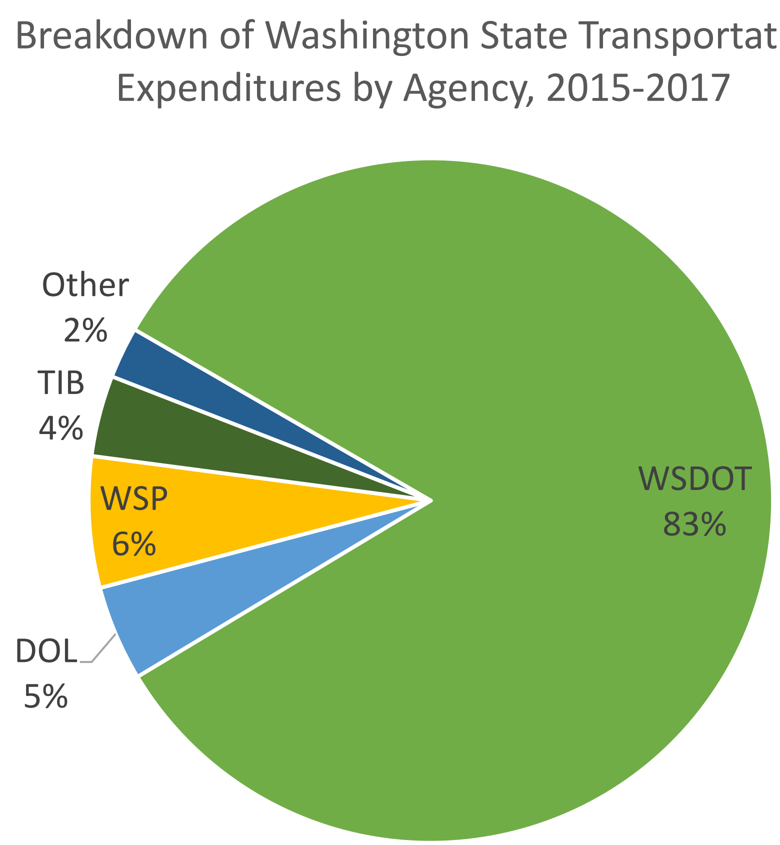
The federal government also collects revenue from Washington residents and businesses through transportation taxes, including federal fuel taxes and heavy vehicle taxes. For the 2015-2017 biennium, the federal government attributed just over $1.5 billion of federal transportation revenue to Washington.

Local governments in Washington also collect revenue from Washington residents and businesses through transportation taxes and fees, including transit fares and vehicle excise taxes. Although no authoritative source of data exists, we estimate the aggregate amount derived from transportation-specific local government taxes and fees at approximately $2.3 billion per biennium. This includes about $1.2 billion in property tax road levy, $600 million in transit farebox collections, and $150 million in Sound Transit motor vehicle excise tax.

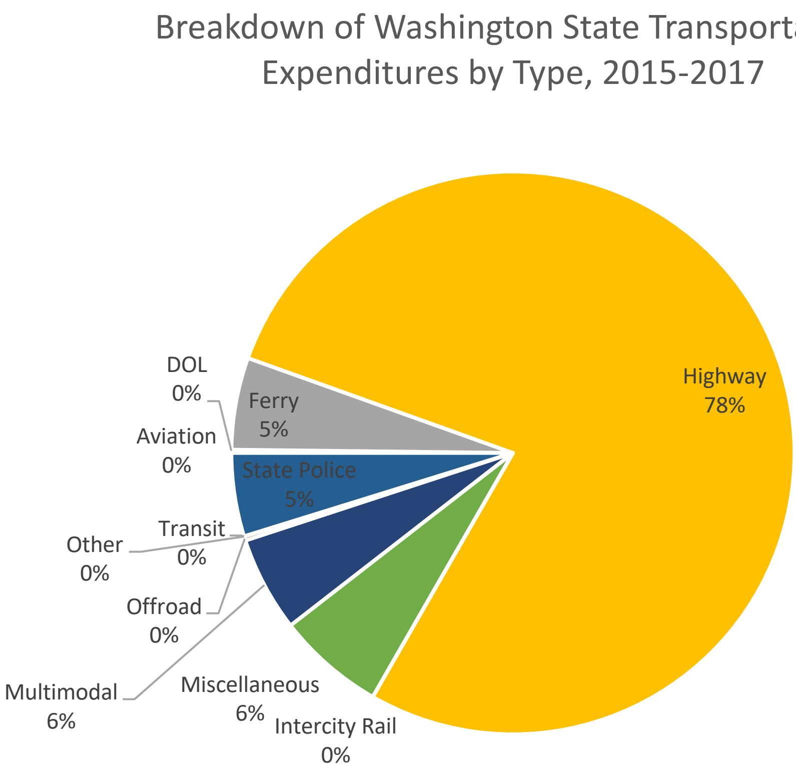
Local governments in Washington also collected revenue from sales taxes, property taxes, and other taxes and fees. Although local governments devote a substantial portion of these general fund revenues to transportation uses, they do not constitute transportation revenue sources. Likewise, the federal government has allocated over $60 billion of general fund revenues to the Highway Trust Fund over the past 15 years. By contrast, the state government has not recently devoted any general fund revenues to transportation, relying exclusively on revenue from assessing taxes and fees on transportation consumption and assets as described above.

2.2 Uses of transportation revenue in Washington

The chart below summarizes expenditures by agency, showing the majority (83%) of state transportation revenues expended by the Washington State Department of Transportation (WSDOT). Washington State Patrol (6%), Department of Licensing (5%), and Transportation Improvement Board (4%) are the only other agencies receiving more than 1% of revenue.



The chart below summarizes expenditures in Washington (including state and federal funds, but not local funds), by type of expenditure. With the majority (78%) of state expenditures devoted to highway uses (which includes expressways, roads, and streets, including county and city facilities),[2] 5% to ferries, 5% to state police. Arguably close to 90% of expenditures support highways directly or indirectly. A further 6% of expenditures support a multi-modal transportation funding program, with another 6% for the WSDOT miscellaneous account, which represents cost-reimbursable expenditures by the agency.



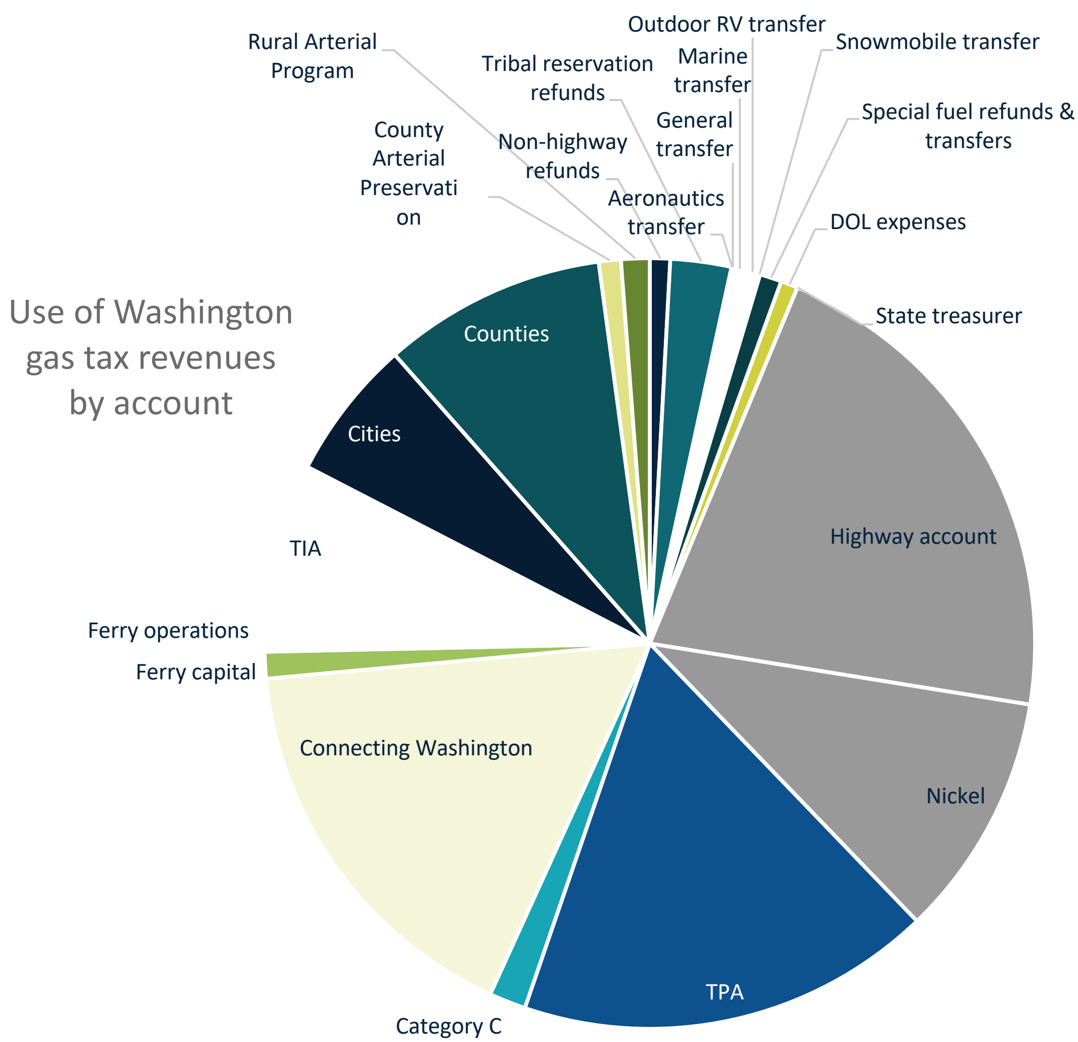
Nearly all transportation revenues collected by the state feature a constitutional and/or statutory restriction on usage. Likewise, nearly all transportation expenditures by the state derive from a constitutional and/or statutory specification on allowable sources for the expenditure. As discussed in the companion paper on the 18th Amendment and RUC, the Washington constitution specifically restricts revenue from fuel taxes and vehicle license fees to highway purposes. Other sources of revenue such as driver license fees are restricted to specific uses by statute. Federal funds are restricted by federal law, primarily to highway projects, with funding directed by the state, and to transit capital projects, with funding directed by local agencies. Local government revenues and expenditures feature

[2] Throughout this paper, the term “highway” refers to all public roadways in the state.

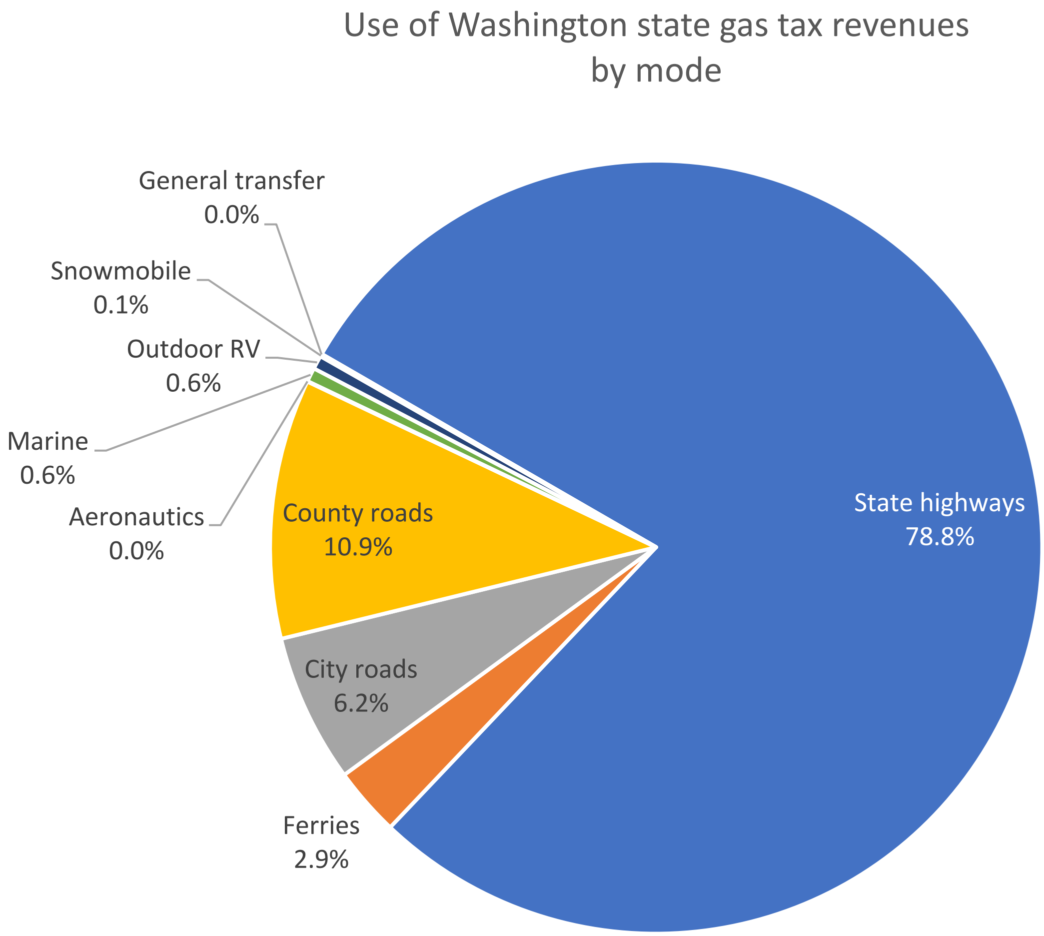
fewer restrictions, with general taxes (property and sales taxes) constituting the primary sources of revenue for expenditures at the local level.

2.3 Uses of the state gas tax in Washington

Since the Legislature indicated its intent for RUC as a potential replacement for gas taxes, we explore in detail the current uses of state gas taxes. The chart below illustrates the breakdown of how the state expends gas tax revenues.



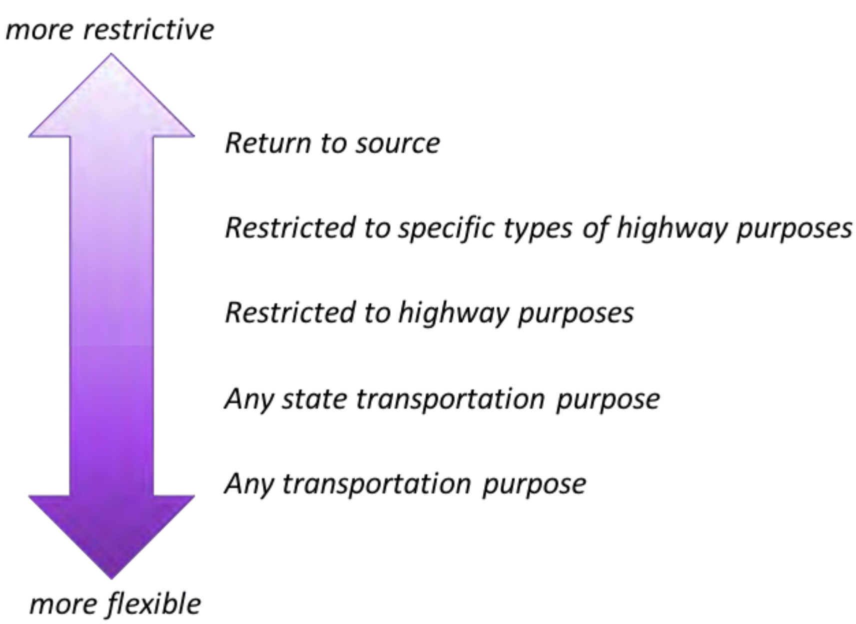
The chart below summarizes expenditures of gas tax revenues in fewer categories, by mode rather than by account.


Use of Washington state gas tax revenues by mode
General transfer 0.0%
Snowmobile 0.1%
Outdoor RV 0.6%
Marine 0.6%
Aeronautics 0.0%
County roads 10.9%
City roads 6.2%
Ferries 2.9%
State highways 78.8%

3 ALTERNATIVES FOR ALLOCATION OF RUC REVENUE

This section presents alternatives for allocating RUC revenue. The alternatives are presented without any caveats about legal restrictions or other current policies that may dictate how revenues could or should be used. Although such restrictions may impact the ultimate choice of how to allocate RUC revenues, they do not constrain the exploration of policy possibilities.

A spectrum of potential alternatives to allocate RUC revenue exists, ranging from more flexible to more restrictive. The most flexible use of RUC revenues is to dedicate them to transportation with no use limitation placed on it. The most restrictive use of RUC revenue is to “return to source,” which would be the theoretical extreme case of allocating funds precisely back to the road segments from which they were collected. The current approach for allocating state fuel taxes (for which the Legislature has indicated its intent to use RUC as a potential replacement revenue source), is to restrict expenditures to highway purposes, per the 18th Amendment to the state constitution. This approach lies somewhere between the two extremes. The graphic below summarizes the range of potential approaches.



3.1 Restrict RUC revenues to any transportation use

Under this alternative, RUC would be allocated by the Legislature to any transportation use, at all levels of government within Washington, including local transportation agencies (cities, counties, and transit agencies) and statewide needs. This approach uses RUC as a revenue source for multi-modal investment decisions, which consider all forms of transportation (highways, transit, rail, and non-motorized forms) as part of an overall analysis, planning, and decision making process, rather than as distinct modes analyzed separately and budgeted individually.

Arguments For	Arguments Against
Could invite support for RUC by stakeholder groups advocating for transit, rail, and non-motorized modes	Spending RUC revenues on local and non-highway transportation would erase state precedent and upset motorists who see the Legislature's original intent of RUC as a potential gas tax replacement
Using RUC revenues for non-motorized modes to reduce emissions could offset the potential perception that removing gas taxes incentivizes fossil fuel consumption	RUC would require higher rates to generate enough revenue to address needs beyond highways; if rates remain commensurate with the gas tax and revenues are allocated to other modes, fewer funds would be available for roads, leading to underinvestment and greater backlogs of maintenance needs
Increasing revenues for a multi-modal investment account allows the Legislature and state agencies to conduct a more holistic trade-off analysis when considering investment alternatives (e.g., roads, transit, rail, highways, non-motorized)	Using RUC for non-highway purposes, especially at the local level, could put pressure on state and local officials to reduce other taxes to offset the new contribution from state RUC revenues
Local agencies would have less pressure to devote local general source revenues to transportation uses	This use of RUC revenues would require a restructured evaluation and prioritization process for comingling funds from across modes and levels of government.

3.2 Restrict RUC revenues to any state transportation use

Under this alternative, RUC would be allocated by the Legislature to any transportation use, at the state level. This approach uses RUC as a revenue source for multi-modal investment decisions, but to a much lesser extent than in the first option since most multi-modal investments presently occur at the local level. Nonetheless, the state would need to consider multiple modes of transportation (highways, inter-city rail, rural transit, and non-motorized modes) as part of an overall analysis, planning, and decision making process, rather than as distinct modes analyzed separately and budgeted individually. Many of the arguments for and against this approach, presented in the table below, are similar to those presented in the first alternative.

Arguments For	Arguments Against
Could invite support for RUC by stakeholder groups advocating for transit, rail and non-motorized modes, although the state-level investments are modest compared to local levels	Spending RUC revenues on non-highway transportation would erase state precedent and upset motorists who see the Legislature's original intent of RUC as a potential gas tax replacement
Using RUC revenues for non-motorized modes to reduce emissions could offset the potential perception that removing gas taxes incentivizes fossil fuel consumption	RUC would require higher rates to generate enough revenue to address needs beyond highways; if rates remain commensurate with the gas tax and revenues are allocated to other modes, fewer funds would be available for roads, leading to underinvestment and greater backlogs of maintenance needs
Increasing revenues for a multi-modal investment account allows the Legislature and state agencies to conduct a more holistic trade-off analysis when considering investment alternatives (e.g., roads, transit, rail, highways, non-motorized)	Using RUC for non-highway purposes could put pressure on state officials to reduce other taxes to offset the new contribution from state RUC revenues
The transport modes supported by state spending do not require substantial amounts of investment, so the impact of using RUC to support them would be modest	This use of RUC revenues would require a restructured evaluation and prioritization process for comingling funds from across modes and levels of government.

3.3 Restrict RUC revenues to highway purposes

This is the current approach to allocating gas tax revenues. Under the 18th Amendment to the Washington constitution, revenues from fuel taxes are specifically restricted to highway purposes (including state, county, and city highways, bridges, roads, and streets). The Legislature also directs gas tax revenues to various highway-oriented accounts in statute. Some "edge cases" have also been adjudicated in the courts as discussed in the companion paper on the 18th Amendment. Section 4 discusses a few exceptions to the highway use requirement.

Arguments For	Arguments Against
Emphasizes RUC as a revenue tool and focuses policy discussion around the mechanism rather than the use of revenues	Some existing non-highway recipients of gas taxes may lose their nexus and thus justification for receiving revenues (see Section 4 for more discussion)
Preserves status quo; if RUC proves a more sustainable revenue source, current recipients of gas tax revenues would receive more sustainable revenue over time than they do under current policy	Comparing the revenues from RUC with existing spending approaches and formulas could highlight the existing inequity between urban and rural areas, causing concern about funding formulas (namely, that rural areas receive more funding for highways than those highways produce in usage fees)
Opportunity to tie rate setting to highway needs more directly given the relationship between road usage and resource (revenue) needs	In relying purely on existing mechanisms, this approach does not take advantage of information inherent in RUC revenues that could potentially inform investment decisions

3.4 Restrict RUC revenues to specific types of highway users or expenditure categories

This approach is similar to the status quo, but would be more restrictive in that it ties RUC revenues to a specific category of highway spending rather than highway purposes generally. The Legislature could choose many specific uses at its discretion. For example, it could dedicate RUC revenues exclusively to maintenance and operations, or exclusively to capacity improvement projects. Alternately, it could choose to dedicate revenues to a class of vehicles; for example, if the Legislature only applies RUC to electric vehicles (EVs), it could dedicate some or all of the RUC revenues to infrastructure around public EV charging stations.

Arguments For	Arguments Against
Could remove potential for lack of clarity around the use of RUC revenues by prescribed a specific category of allowable highway uses	Some existing non-highway recipients of gas taxes may lose their nexus and thus justification for receiving revenues (see Section 4 for more discussion)
Opportunity to tie rate setting to a specific category of highway needs (such as basic maintenance and operations) more directly given the relationship between road usage and certain categories of needs	Assumes additional revenue sources (such as the gas tax and vehicle registration fees) remain in place to fund other highway purposes, which sets up a potential longer term and potentially ongoing debate about how to fund those other purposes as gas tax revenues decline
Despite increased specificity, this approach preserves the user pay principle of the status quo	Establishes expectations and assumptions about the use of RUC revenues that may be difficult to overcome in the future should the revenues grow and exceed the budget needed for its prescribed use and/or become desirable to allocate to other uses

3.5 Return RUC revenues to source

The most restrictive possible use of RUC revenues is the concept of allocating revenues specifically to the facilities from which they were collected, or "return to source." Conceptually, this approach is similar to tolling in that it applies revenue collected on a specific facility, corridor, segment, or part of the network to maintenance and improvements in that very facility, corridor, segment, or part of the network. The specificity with which the state chooses to define the geographies could vary. A coarse level would be to return revenues to districts within the state. A fine level would be to return revenues to segments of the state, county, and city road networks, for example mile by mile. A middle ground would be to return revenues to counties.

This approach requires information about the number of miles traveled and amount of revenue collected in each geographic sub-unit so that the funds collected can be applied precisely back to the location they were collected from drivers. With the RUC reporting methods being tested in WA RUC, only slightly over 50% of volunteers chose a reporting method with GPS which would technically allow information to be collected at the level of detail necessary to support returning revenue to source. Furthermore, the state is not allowed to access the information for individuals, so obtaining this information would require exceptions for aggregated information about the amount of road usage by location, unless the state relied on traditional traffic count methods for the information.

Potential Arguments in Favor	Potential Arguments Against
The potential exists in theory to better align resources to needs, although with less flexibility	This approach would very likely result in decreased highway investment in most rural areas, as sparsely traveled areas of the network cannot muster sufficient resources from RUC alone to make meaningful investments in roadways
This approach tends to focus investments on congested bottlenecks where the majority of revenues would be generated	Unless a corridor viewpoint is taken, this approach could result in the loss of long-distance linkages with neighboring states as the focus turns inward to a local perspective; an exception could be heavily traveled freight corridors which generate sufficient revenues for adequate maintenance
This approach would increase levels of spending in urban and suburban areas of the road network given that such areas currently receive less funding than they contribute; this could improve the likelihood of addressing congestion and mobility challenges in urban and suburban areas	Lesser potential for development in remote regions; on the other hand, should the sub-units be carefully designed such that re-investment balances the needs of urban/high-density and rural/low-density areas within each sub-unit, then investments could be balanced to sustain the network as a whole
Some regions with high volumes of through traffic would see windfalls, such as densely-traveled corridors	Absent protections for rural areas, this approach could force smaller and more rural authorities to rely on general revenues for transportation to make up for low volumes and low RUC revenues relative to current gas tax allocations, putting pressure elsewhere on municipal budgets

4 EXISTING NON-HIGHWAY RECIPIENTS OF GAS TAX REVENUE UNDER A RUC

Regardless of the type of expenditures to which the Legislature decides to allocate revenues under a potential RUC, another issue the Legislature must confront is how the allocations align relative to existing non-highway recipients of gas tax revenues. The gas tax currently provides revenue to a variety of uses as summarized in the table below (the table does not include gas tax revenues allocated to cover collection costs or refunded for non-highway uses).

Expenditure category of gas tax revenue	Amount (2015-2017 biennium) (millions)
State highways, bridges, roads, streets	$2,429
Ferries	$89
County highways, bridges, roads, streets	$335
City highways, bridges, roads, streets	$192
Aeronautics	<$1
Marine	$18
Outdoor recreational vehicles	$18
Snowmobiles	$2
General fund	$1

State, county, and city highways, bridges, roads and streets. The logic of using gas tax revenues for state, county, and city highways is straightforward given that the revenues are collected on fuel consumed by road users on those facilities. A similar logic applies to RUC to justify use of RUC revenues for highway purposes.

The other expenditure categories also have a nexus with gas taxes as explained below. By contrast, most of them have little or no obvious nexus with a potential RUC. The remainder of this section explores possibilities for addressing these expenditure categories under a RUC policy.

Aeronautics. Under the gas tax, a small amount of tax is collected on gasoline used in light aircraft (unlike larger planes and commercial aircraft, which use jet fuel, which is taxed at a different rate and for a different purpose). This provides a nexus for expending some gasoline taxes on aviation purposes. Under RUC, there would be no such nexus, except for possibly the amount of mileage driven by vehicles on airport properties, assuming RUC would apply to miles on such property. The amount of usage by such vehicles likely would be much smaller than the amount currently allocated to aeronautics, which represents taxed gasoline used in light aircraft.

Marine. As with aviation, the nexus for marine expenditures is the use of tax-paid (and non-refunded) gasoline in vessels. A similar nexus would not exist under a RUC, except for possibly the amount of mileage driven by vehicles on port and marine-oriented properties and off road. The amount of road usage by such vehicles would generate far less revenue than currently devoted to marine uses.

Outdoor recreational vehicles. Consumers of gasoline off-road may apply for and receive a refund for the associated gas taxes they paid. Many do not apply for these refunds, so the Legislature provides a small amount of gas tax revenue to support expenditures related to off-road vehicle use. Under a RUC, there could be a similar nexus to support off-road uses. For drivers who choose to report and pay RUC for all miles traveled, they would not benefit from exemptions or refunds for miles driven off road or on private property. Assumptions about the quantity of such travel could be used to justify allocating a portion of RUC revenues for expenditures in support of off-road vehicle usage, as is done under the gas tax today.

Snowmobiles. Many consumers of gasoline in snowmobiles do not apply for refunds of gas taxes paid, so the Legislature provides a small amount of gas tax revenue to support expenditures related to snowmobiles. Such a nexus would not exist with RUC given that snowmobiles would not be subject to RUC.

Given that the gas tax is likely to remain in place for at least a decade or more during a transition period, RUC (and its smaller nexus with these non-highway expenditures categories) represents a low risk to these programs in the short term. The impact is further limited if RUC only applies to specific classes of vehicles, with the gas tax remaining in place for other classes. In the longer term, should the state move away from gas taxes, and regardless of what replacement revenue sources it pursues (e.g., RUC, sales taxes, vehicle fees), these existing non-highway recipients of gas tax revenues will face reduced funding.

5 SUMMARY

Should the Legislature pass RUC legislation, it must prescribe the use of revenues collected. In formulating this aspect of RUC policy, there are two dimensions to address: (1) what types of expenditures should RUC revenues support, and (2) should expenditures of RUC revenues address existing recipients of gas tax revenues who no longer have nexus.

For the first dimension, this paper has summarized a range of options. The Steering Committee may choose to make recommendations, indicate a preference, or simply forward the alternatives to the Commission for consideration. Ultimately the decision is for the Legislature. From most restrictive to most flexible, the alternatives are:

- Return RUC revenues to source
- Restrict RUC revenues to specific highway purposes
- Restrict RUC revenues to any highway purposes, consistent with gas tax uses
- Allow RUC revenues to be spent on any state transportation purpose
- Allow RUC revenues to be spent for any state or local transportation purpose

For the second dimension, this paper has summarized a range of constituencies whose nexus is reduced or eliminated in a transition from gas tax to RUC. As long as the state continues to collect gas taxes during a transition period (at least one decade) in a gradual transition to RUC for some or all types of vehicles, the non-highway recipients of gas tax revenues may continue to receive funding by that existing mechanism. In the longer term, these constituencies will see reduced revenues should the state eliminate the gas tax by choice or should consumers cease to consume and pay taxes on gas. They include the following:

- Aeronautics account
- Marine account
- Recreational accounts for off-road and non-highway vehicles
- Snowmobile account

The Steering Committee may choose to make recommendations, indicate a preference, or simply forward the information to the Commission for consideration regarding whether to use RUC revenues to address reduced gas tax revenues of these non-highway recipients, and if so whether to restrict the allocation of RUC revenues to these accounts to the extent a nexus exists, as is done with the gas tax today. The choices are:

- Ensure existing recipients of gas tax funds remain whole by allocating RUC revenues to them
- Ensure existing recipients of gas tax funds continue to receive funding commensurate with their nexus under a RUC, which in all cases would be substantially lower than under the gas tax
- Do not consider allocating RUC revenue to non-highway use accounts for which no nexus exists, or the nexus is negligible