

Washington State Road Usage Charge Steering Committee

Meeting #12

Meeting Notes | November 17, 2014

Attendees

Steering Committee Members

Charles Royer, Chair, WSTC Commissioner
Sandy Swartout, Alliance of Automobile Manufacturers
(on behalf of Curt Augustine)
Representative Judy Clibborn
Scott Creek, Washington Trucking
Don Gerend, City of Sammamish Councilmember
Anne Haley, WSTC Commissioner
Tom Hingson, Washington Transit Association
Roy Jennings, WSTC Commissioner
Senator Curtis King
Representative Linda Kochmar
Pat Kohler, Department of Licensing (DOL)
Sharon Nelson, Appointed by WSTC
Janet Ray, AAA
Neil Strege, Business Roundtable
Ted Trepanier, INRIX
Brian Ziegler, Pierce County Public Works

Washington State Transportation Commission Staff

Noah Crocker
Reema Griffith
Paul Parker

Consultants

Jeff Buxbaum, Cambridge Systematics
Paul Sorensen, Cambridge Systematics
Jack Opiola, D'Artagnan Consulting
Travis Dunn, D'Artagnan Consulting
Steve Morello, D'Artagnan Consulting
Allegra Calder, BERK Consulting

Other Presenters

Ellen Evans, Treasurers Office
Tonia Buell, WSDOT

Other Attendees

Jeff Doyle, D'Artagnan Consulting
Jeff Finn, Plug In America
Roshini Durand
Mary Fleckenstein, Joint Transportation Committee
Colleen Gants, PRR
Maggie Humphries, PRR
Mark Matteson, House Transportation Committee
Jackson Maynard, Republican Caucus
Dana Quam, House Republican Caucus
Andrew Russell, House Transportation Committee
Carl See, DOL
Tony Sermonti, DOL

NOTE: As presentation materials are available on the Washington State Road Usage Charge website (<https://waroadusagecharge.wordpress.com/meetings/>), this meeting summary focuses on the discussion and not the presentation content.

Italics reflect comments or questions from the Steering Committee while bullets denote consultant team or presenter responses.

Agenda Overview and Introductions

Charles Royer, Steering Committee Chair, welcomed the group and Committee members introduced themselves. Charles reviewed the purpose of the meeting and discussed the agenda.

Public Comment

Charles Royer offered the opportunity for public comment, but there was none.

ConOps Revisions

Charles Royer noted that we are in a good place. While implementation won't be easy, there is a compelling case for further study and several key questions are probably best answered through a demonstration. It may also be time to start a more public conversation about why we are considering a road usage project. Oregon has a demonstration program starting in July 2015 and California will start one or before January 2017. There may be an opportunity to take advantage of synergies and save time and money.

Jeff Buxbaum of Cambridge Systematics summarized the next steps after this last Steering Committee for this phase of work. He noted that the consultant team is looking for Steering Committee direction on the report and the work plan; and the questions that need to be answered in a next phase of work.

Jeff turned it over to Jack Opiola of D'Artagnan Consulting to discuss the ConOps revisions. He noted that they received 104 comments from WSDOT, DOL, Commission staff, and Steering Committee members. Many comments requested details that are not typically included in a ConOps. Jack presented responses for six comments and referred the Steering Committee to the detailed response-to-comments document that addresses all 104 and was sent out in advance.

Discussion

I'm concerned about using rate setting to address policy objectives related to energy, environmental, and congestion management goals.

- Last year the goal was a sustainable revenue source, but there were 13 guiding principles, including alignment with other policy objectives. We are currently dealing with the method of collection. Once you get to rate setting, you have the choice to incorporate these other goals. There is no recommendation in the ConOps to address environmental or energy goals. Our paramount goal is replacement of or supplement to the gas tax.

If we say let's put this off until rate setting, I'm similarly concerned that when we bring this forward it may appear that we will micromanage how people drive and it will be dead on arrival. This will come to the Legislature and we will deal with it there.

- Would it be better to say that it will be aligned in subsequent policy discussions?

The original premise was that a road usage charge should be aligned with other policies. That's all. I think we are reading too much into this.

The Governor will have some ideas about the policy objectives, and legislators will have ideas about climate and other issues. We haven't had any information from the Governor's office at this point – this is key missing information.



Looking at #3, I'm not sure that a paper phase makes sense (this referred to a suggestion that the first phase focus on Method B—odometer reading).

- At the end of last phase, the Committee was clear about wanting a system that gives people choice. We've pursued all three (and added a fourth) this year. Scott's comment was why not keep it simple and just use a paper system. If you want to do only one, let's talk about it.

Method A already exists and is used for electric vehicles.

I thinking going too far down the road with C, could limit opportunities for partnership with Oregon or California.

We have said from day one that this will be about choice. To only go out with one option, would be too difficult and not helpful.

Charles Royer noted that the point has been made that the Committee still prefers choice.

Jack Opiola noted that item #4 addresses keeping the gas tax for a variety of reasons, but remains something that should be discussed.

The other reasons to keep it is because we are talking about vehicles less than 10,000 pounds

I don't believe that decreasing the fuel tax would increase tourists. People go to California in droves and I don't think people understand how much they are paying in gas tax.

Don't we also need to the gas tax to pay debt service?

The challenge is that it will seem like double taxation. Annual or quarterly payments versus pay at the pump may make the tax seem much higher.

We know that people don't want to pay more taxes, but we won't know more until we do a demonstration.

Pat Kohler of DOL commented on #5. The DOL current system doesn't support periodic billing (quarterly or monthly) - noting that the system would need to be changed in order to handle the different methods.

Am I right that the cost estimates don't account for DOL administrative costs?

- No, it's included in financial estimates. The modelling is agnostic as to who would run a road usage charge but all costs are in there, including upgrades to information technology. The cost of a transaction turned out to be \$4, which is the same as DOL's actual costs for a subagent.

Since we are making changes in DOL's infrastructure, is there something off the shelf that we could use?

- As of July, there will be vendors operating in Oregon, but there will still be considerable need for customization.

Financial Analysis Revisions

Travis Dunn presented the results of the revised financial analysis focusing on a higher-level summary of the outcomes. The full report and appendices provide all the details. He noted that there are a lot of different opinions about what will happen in the future with respect to fuel economy and vehicle miles travelled so a range was used. Washington's fuel economy is below the national average, which we speculate to be at least in part due to the fact that Washingtonians hang on to their vehicles for longer than the national average. The consultant team created four economic scenarios and analyzed 11 policy alternatives under each scenario.

Discussion

Are there policy drivers you can point to in the clusters that take off steeply and then grow gradually?

- Yes, policy alternatives 2, 6, and 7 are a registration/ renewal transition while the others are title-based or model-year transitions, which are slower. Transition differences are the biggest driver.
- The other difference is that if more people choose method C, the costs to collect are higher.

Did you factor in the \$100 charge on all electric vehicles?

- We didn't include registration fees, but penetration of electrics is very low at 2% or less.

If you were to peg this (the amount of gas tax increase needed to achieve the same amount as the road usage charge) to an index, which one would you choose?

- It's not an index for inflation, this is the amount of gas tax that you would need to raise if you did not want to do a road usage charge. It is best characterized as indexing the gas tax to fuel economy.
- If you were going to index the gas tax, you'd have to think through your objectives – what are you trying to achieve? Do you want to maintain the amount you collect now or raise the amount?

Hybrids and electrics are already approaching 4% penetration, so I think the incentive is there. You have a road usage charge right now for electrics but it's a flat fee and not based on distance travelled.

Am I right that for light vehicles, we would have to raise gas tax 1.2 cents per year until 2043? By 2043 the gas tax would be about 71.1 cents.

- Correct.

Have you taken into account the significant price drops in the oil market and if so, has this shifted any of the scenarios?

- The Energy Information Association (EIA) puts out a monthly energy assessment that looks at recent trends. Changes are incorporated into forecast updates in May. The most recent update accounted for increased production from the Eagle Ford in Texas and Bakken in North Dakota, which are the largest contributors to energy production growth in the U.S. EIA also predicted a decline in energy prices through 2020 as part of its Reference Case. Vehicle purchasing decisions in EIA's miles per gallon forecast account for energy prices.
- Recent data from the auto industry shows a shift away from more fuel-efficient vehicles. However, when you start talking about savings from gas tax on a monthly basis, it's the price of a cappuccino. Consumer spending in the local economy is the thing that increases as fuel prices decrease.

Is adoption of alternative fuels (compressed natural gas (CNG), liquefied natural gas (LNG) etc.) included?

- Alternative fuels for light vehicles is primarily electric/hybrid. Heavy vehicle trends show about 10% of heavy fleet will be powered by CNG and LNG by 2043. This was factored in, but Washington State does not currently tax CNG or LNG so there is no fuel tax revenue from that source.

Timing around implementation is important. Where will technology will be next year versus 5 or 10 years out? Maybe you buy a few years with a gas tax increase to gain an easier/cheaper implementation.

- Great point. We see that telematics are moving into lower end vehicles and with more embedded systems, the cost of collection will decrease. Our analysis is conservative, so we haven't attempted to account for decreases due to technology.

Are trucks under pressure to become more fuel efficient?

- In general, the trend is an increase in fuel economy because there are now CAFE standards for medium and heavy vehicles. Medium duty truck had standards as of 2012, heavy as of 2013 and both last through 2018. The other trend is alternative fuels. There is no tax on this fuel aside from a decal charge of about \$250 annually for the heaviest trucks. If there were an increase in the number of these vehicles, you'd have fuel tax erosion here as well.

Report from the Treasurer's Office

Ellen Evans provided an update on the motor vehicle fuel tax outstanding debt service. She noted there are \$7 billion in bonds outstanding and debt service has been reduced significantly. Over \$1 billion was refunded on October 15, saving about \$172 million in debt service. Since Treasurer McIntire took office in 2009, they have been monitoring the portfolio very closely and have saved the state almost \$1 billion in debt service. Ellen noted that it would be unconstitutional to repeal the gas tax and problematic due to the amount of debt still outstanding.

Last time, members asked: how long are we locked into this gas tax mode? We have outstanding low rate federal Build America Bonds. However, there is no call option so they go out for a very long time. Municipal bonds are typically financed so they can be refinanced 10 years from call the date. The Internal Revenue Service only allows one advance refunding opportunity. In 2024, a large portion of the debt will be paid off. We can shorten it somewhat, but we can't make it go away.

Discussion

When you refinance at a lower rate, does the term get extended?

- No, the bond has the same maturity.

If you look at changing the gas tax and using road usage charge as the revenue, is there a cost to using a different revenue source?

- Existing debt would stay in place, but you could create a new pledge that would be backed by both a road usage charge and gas tax revenues. The cost would be in legal fees to write the documents.

Is there something we avoid so that as we transition we don't make it worse?

- Existing debt is still there and has to be taken care of first. The timing of a transition and decision to leverage new revenues should come at a time when you think you will have more revenues. We believe it is best to be conservative about what share of revenues are leveraged and with the timing around bonding so that it is a meaningful new revenue pledge.

Any idea what the bond market thinks about road usage charges?

- I don't know of any bonding that has been done on them. In the scenario I'm describing they would also be backed by the gas tax and general obligation bonds behind that. The bond market is conservative and they don't believe projections. They cut projections to make sure they get the bonds paid back.
- Oregon doesn't leverage their gas tax so they have not looked into this.

Would it be important for road usage charge to be constrained by the 18th amendment?

- The bond market isn't concerned about restrictions, but others in this state would be. It probably would be restricted. If there is a new pledge backed by road usage, gas tax and GO, a lot of existing restrictions would probably be applied as well.

Remaining Questions Discussion

Jeff Buxbaum introduced the topic noting that a lot of questions have been added to the parking lot over the years. However, three large topics include: How to operationalize the four road usage charge methods; how will people react to the proposed road usage charge system; and public understanding and acceptance of a proposed system.

Jeff then asked the Committee the following: Within the context of what you want to recommend to the Commission and the Legislature, and considering what might generally be accomplished in the next biennium, and considering that the Steering Committee and Commission seems inclined to have the next phase include a demonstration, are these the right questions to create a work plan around?

What is the difference between the last two?

- One is more operational and one is more ideological.

The Legislature actually decided not to do a lot of public outreach so that we could develop the answers we needed. But we envisioned this as the point that we start to go out there and do outreach and transition to a pilot. We are right where we thought we would be.

I feel there is consensus that we should try to do something that is real, but the major question for me is which agency is going to take on this demonstration. The Legislature can't take this on alone.

We have an environment that is different than our neighbors. I'm not sure how quickly we could actually implement so I'm concerned about educating people ahead of being able to do something. Can we even do this in the next 10 years?

I have some of the same concerns. If we go out and say that we are going to look at a road usage charge and still have a gas tax, my constituents will say you are taxing me twice. Let's see what results California and Oregon get and not do this ourselves.

This will be Oregon's third demonstration. The first one failed because they didn't provide options. We need to do a demonstration because Oregon and California are different states with different ways of doing things so I think we need to test this here. We are missing information that can come from a pilot.

Why not just do a flat fee like Don is willing to pay and then index the gas tax. This is just too convoluted to try to explain.

The public will accept new things if they are messaged properly. If it was up to me, I'd choose a few counties and ask for volunteers. As long as we don't disrupt debt service, we can try something.

We did something similar in Seattle with recycling. I never believed the numbers that were cited and asked for proof. Once we started, people were asking for boxes because they wanted to participate. We hit the wave of a behavior change and I think we may be at one again. If that is true, then something on a small scale combined with opinion research and the Governor weighing in on this, combined with good research would be the smarter way to go. We'd need a price and we'd need to be able to answer some of these tough questions.

Reema Griffith commented that the Commission has a Voice of Washington Survey open now that asks about road usage charge. Several people have called in asking why it's being talked about. Once you talk them through the reasons it really helps calm them down and they begin to understand. Some have asked about when it will be tested and when the public will know more.

If I understand the Treasurer's presentation, you have to continue to service debt and the only way to do it is through the gas tax. How do you have the conversation about having a split mode for a long time? This is a different conversation.

The revenue won't be there so you have to talk to people about how we are going to make up the difference. If people try this other thing, you should refund them the gas tax.

- No matter how we look at transition, we will be stuck in a situation where some people pay gas tax and others pay a road usage charge.

Jack Opiola outlined the characteristics of a large and a smaller representational jurisdiction test. A statewide test would include 5,000 – 10,000 participants and would have to go beyond a biennium.

I like the middle choice because it fits with what we wanted to do and should give us enough information.

What is the cost estimate?

- There are a lot of procurement options – do it alone, partner with Oregon and/or California, etc. Knowing that you would want to do a medium size test would help us put some parameters around it.

I'm changing my view about how fast we need to move forward because of the bonding issue. This makes coordination with another state possible and might save us money. We don't need to rush to get out there if we need to wait 10 years to pay off the bonds. This is the difference between us and the other states.

A manual process won't test the entire concept of a road usage charge due to limitations and it won't fully reveal resource and staffing implications. If we go with an Oregon model or test components of it, it won't test our full business model. I do think there may be purchasing power with a multi-state RFP.

Additional revenue comes from electric and hybrid vehicles. If we want to do a pilot we should do it for the state of Washington so we know what we want to do. We need to know what the citizens of Washington think.

I'm hearing that we are doing another study and that concerns me.

Work Plan Parameters

Jeff Buxbaum opened up the afternoon discussion by clarifying some of the concerns discussed at the end of the morning session. He noted that under all the financial scenarios analyzed involving a transition to road usage charge, the amount of fuel tax revenues collected would still be adequate to cover the debt service. Although there are other uses for fuel tax money (e.g., projects and maintenance), debt payments would be covered. He also noted that keeping the fuel tax in place is a mechanism for out of state drivers to pay.

Jack Opiola noted that the consultant team needs guidance on the following key questions.

- How to operationalize the four road usage charge methods
- How will people react to the proposed road usage charge system
- Public understanding and acceptance of a proposed system

Parts of some of the other questions could also be included in this upcoming phase, such as:

- Interoperability with other states
- Interoperability with existing toll collection systems
- Upgrades to the State's IT system

Jack outlined three prongs of a work plan – demonstration; public attitude assessment; and public communications and engagement. He outlined a four-step process for a demonstration.

Jack then opened it up for Steering Committee comment.

Discussion

From Oregon's experience do we have information on how much they have spent, how they chose sample size, representativeness etc. are there lessons to be learned?

- Yes, the first test was very successful in many respects. The failure that was noted is related to feedback that the government did not give people a choice and the one method that was chosen had a GPS component. We saw it in Minnesota where only one technology was chosen that worked with cell phones – there was a glitch that then caused the technology to be called into questions.
- Oregon used about \$7 million for the first test (largely covered by federal grant). The second was around \$3.5 million but it went beyond a test and included the rural/urban study, and other components. The actual test was only 50 people and was probably around \$1 million.

Those are really small numbers. Did it give them enough information?

- They thought so. It gave them feedback on technologies and billing. They already had confidence that they could handle billing and accounting from the first test. This time they actually collected the money.

I was one of the participants and my 1999 Ranger had a dongle that didn't work in the test. I also didn't get charged anything, but I learned a lot from it and thought it was a very valuable for me. Most medium sized cities have cable channels and a paucity of content so you could definitely spread the word that way.

- Oregon has used participants as spokespeople.

Charles Royer noted that lessons learned and discussion in this Committee have shown that a single test doesn't make sense, we need to test all four methods across a sample of regions in the state – urban, rural, and border community.

You may also want to look at income as well.

Is state-wide harder to do?

- No, but it's a much larger test. If the odometer reading method was selected this would be a much greater challenge statewide.

It can't really be a random sample if people are going to volunteer.

Agreed, but you may not need a statistically valid sample in the pilot, you just need a wide range of characteristics.

It was recommended that the Commission work with the consultants to provide guidance.



Jeff Buxbaum summarized the discussion noting that there is interest in a state-wide pilot representing urban, rural, and border communities, and recognizing that you need some concentration to implement and measure all four methods. Survey elements should be statistically valid and VOWS may work for this. Finally, we will want to measure attitudes as people get more and more information to see if and how they change.

If we decide to do a demonstration, my opinion would be talk to Oregon and California but do your own demonstration. However, it depends on the cost and whether we can find the money to do it.

Are there ways to go beyond the biennium?

- Yes, there are ways to do that. With an approval of a work plan we can build in decision points.

You have to realize that we have major constraints. Between the McCleary decision (\$3.35 billion in 2015-17) and now Initiative 1351 (\$4.7 billion through 2013) we don't have any money.

Multi-jurisdiction Evaluation Update

Tonia Buell of WSDOT's Public Private Partnership Office gave a presentation on the Study of Inter-jurisdictional Road Usage Charge Issues done for the Western Road Usage Charge Consortium by D'Artgagnan Consulting.

Discussion

The report really looks at it from the agency/state point of view, do you plan to look at it from the customer point of view?

- Each policy alternative includes disadvantages and advantages and many are from the customer perspective.

The shadow charge seems to make the most sense if you do it amongst all states and come to an agreement.

- The only issue is where the money comes from for contributing states. In some cases, it would have to come from the general fund.

Next Steps and Adjourn

Jeff Buxbaum of Cambridge Systematics described next steps to the Committee. Comments on Con Ops should be submitted by Friday (November 21). Any new ideas need to be commented on before December 9, when the draft report will be discussed with the Transportation Commission. A check-draft report will come out on Monday, December 1. A draft of the work plan chapter draft should go out to this group next week.