WASHINGTON GAS TAX INCREASE PACKAGE:

It Passed, Will We Spend It Wisely?

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In July of 2015, the Washington State Legislature approved a historic package to provide operating and capital funding for transportation infrastructure. The package is estimated to generate over $16 billion for the next 16 years. A portion of the funding will come from an 11.9 cent gas tax increase which will generate $6 billion of the $16 billion package (other sources include a host of vehicle registration fees federal funds, bonds, and more).

Promising news

Kudos to our lawmakers! We should be proud that Washington State is among the first eight states in the nation to approve a recurring revenue package. Washington State transportation infrastructure is in critical need of additional funds for the following reasons:

- Gas tax revenues are declining.
  - Taxes have not kept pace with inflation
  - High-efficiency vehicles consume less fuel
  - Vehicle miles traveled (VMT) will decline (2014 WSDOT study)
  - Public transportation and transit will reduce vehicle use
- Washington's economy depends heavily on trade (more than any state in the U.S.), requiring a reliable infrastructure system for effective freight mobility.
- With over 80,000 miles of state highways, county roads and city streets, Washington must have a solid strategy for continuous preservation and maintenance.

A closer look at this new revenue package reveals some surprising findings, which are the subject of this article.

New projects vs. maintenance and preservation of existing infrastructure
Washington State must spend more money on the preservation and maintenance of our infrastructure that is on the verge of deteriorating. This includes infrastructure that has been evaluated by the ASCE Report Card as C- for bridges, D+ for roads, and D+ for transit. These poor grades indicate **that Washington has a lack of planned and guaranteed funding and inadequate maintenance across the board**. The majority of our infrastructure system was built within 45-65 years ago and is now nearing the end of its useful life.

The Washington State Transportation Commission (WSTC)[1] offers policy guidance and recommendations to the Governor and the legislature. A WSTC letter, dated January 14, 2015, to the Governor emphasizes a key area: maintenance and preservation of infrastructure. WSTC's 2015 Revenue Proposal [1]discusses this issue and recommends that **48%** of the new funds be allocated to preservation and maintenance:

"While the state has invested significantly in system improvements over the last 10 years, we have fallen behind in maintaining and preserving the existing transportation system….of this $21B (now only $16 billion), Connecting Washington Task Force targeted $10B for maintenance, preservation, and operations for the state, county, and cities and transit…."

Yet, the new $16 billion package has allocated less than **1%** for preservation and maintenance, while Capital Improvement Projects (CIPs) will consume 55% of this new package.

There's more startling news: CIPs consume 74% of the whole budget for just six major projects along I-5, I-90, and I-405, leaving only $2.5 billion for other WSDOT and local road construction and replacement projects.

Below is a quote from WTP 2035 Report[1], a document prepared by WSTC, WSDOT, State's Metropolitan Planning Organizations (MPOs), and Regional Transportation Planning Organizations (RTPOs) that provides guidance and recommendations for the Washington transportation system:

"Several very significant capital expansion and replacement projects are under way, promising to improve future mobility in critical corridors, but also consuming a large percentage of available funding and financing capacity. Generally, there is insufficient funding available to address both known and unanticipated future transportation needs, as too large a percentage of authorized funding streams are committed to specific projects/programs and to debt services."[1]

Cash flow spending vs. borrow and spend

In my previous *APWA Reporter* articles and presentations, I make my position clear in regards to funding strategies: Do not borrow money without a solid study and repayment plan. A thorough analysis must be performed to assure that the financial costs and benefits of debt financing, weighs the costs of borrowing against the economic, safety, and mobility benefits of completing the project sooner than would be possible with pay-as-you-go funding.

Let's start with a quote from WSTC 2015 report:

"In the prior transportation packages, the state fuel tax was increased by 14.5 cents. Of which, 13.5 cents of those revenues were fully leveraged to issue bonds funding approximately 421 capital improvement projects. **As a result of fully bonding the revenue stream from these tax increases, none of that revenue is available to the State now or in the foreseeable future to pay for needed maintenance, preservation, or improvement projects. By not bonding these new revenue streams the State will ensure we have more revenue in the future to pay for future expenses. This will provide a more stable revenue stream on an ongoing basis to pay for transportation infrastructure.**"

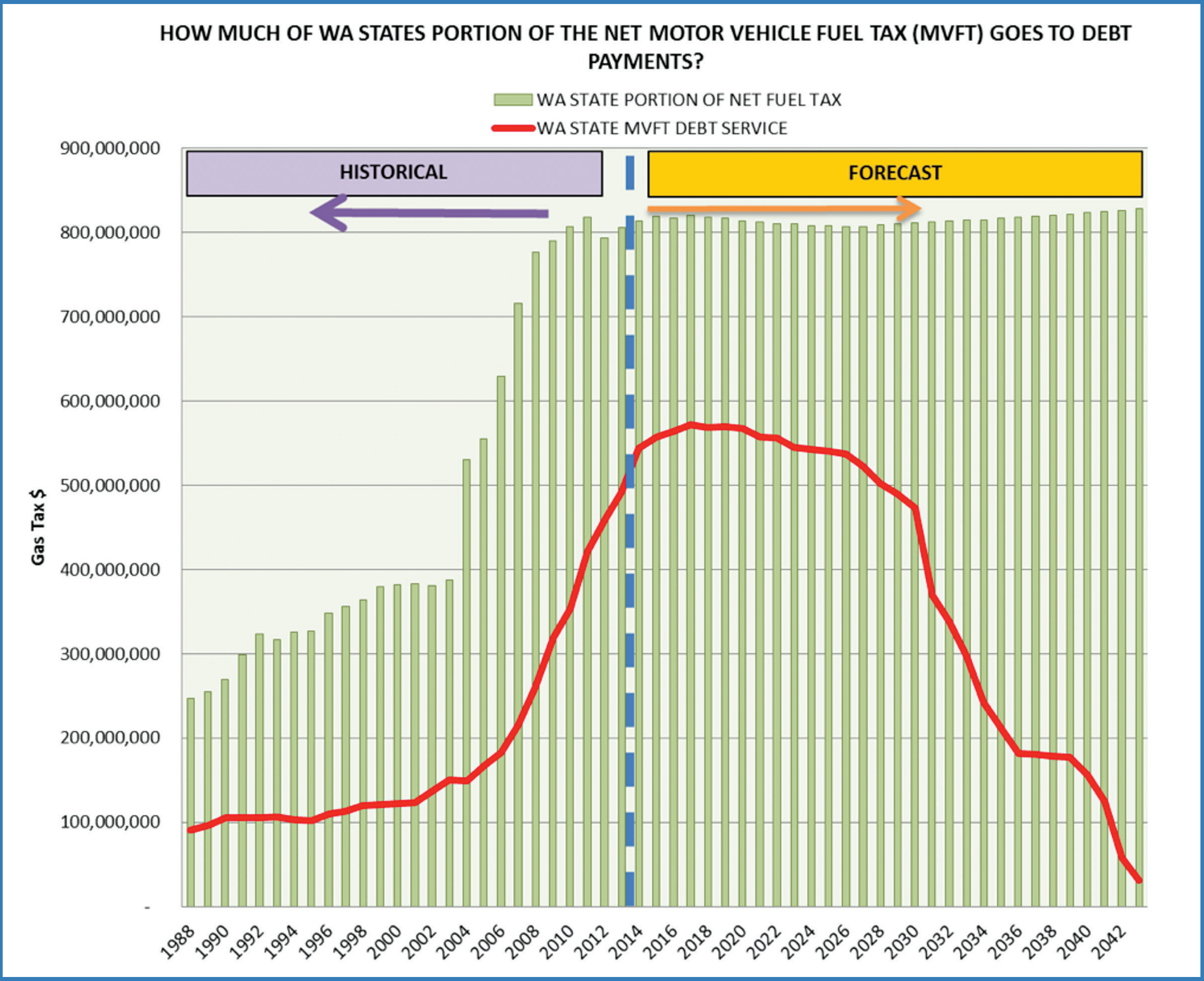
Did you know that over the next 13 years, approximately 70% of Washington State's current net portion of the fuel tax revenue is obligated to pay for the long-term debt from financing past transportation projects? See visual graph below.

Approved bonds for the new package

Eighteen percent ($2.9 billion) of the new $16.1 billion package will pay interest and principal on already-built projects. Perhaps the most disappointing news is the approved SB 5989 that allows for **NEW** debt services of **$ 5.3 billion**, in addition to what we are so far obligated to pay *(so the red line on the chart above will never go down as shown around year 2028)*. We are putting the future generation in debt to pay an estimated $4.1 billion of **just interest** money for the next 30 years. Will this plunge the State into the deepest debt in history? A credit debt that will take a generation and decades of interest payments – money **that should be spent on roads and transit instead?**

Accepting, adapting to, and implementing changes

The more we build and widen the corridors, the more vehicles will appear! Previous and lengthy construction projects along I-405 are a demonstration of this reality. New technology and innovation is here and it's up to us to learn, adjust, and implement new approaches. To ensure a more sustainable and effective transportation system, transportation funding should be made neutral, placing transit and road funding on an equal footing. Associated regulations and guidelines should have the flexibility to include multimodal solutions (in addition to vehicle lanes), such as dedicated transit lanes; bike lanes; sidewalks; transit cutouts and stops; and/or traffic calming measures. The new funding package allocates over 10% of the money to transit, vanpool and mobility grants, bike paths, and pedestrian walkways. This is not enough for future



need, but it is a very promising start! The package will also give authority to Sound Transit and Community Transit for expansion and sales tax measures.

With less than 3% of this new package distributed to cities and counties while they own over 70% of the road miles in Washington State, local agencies need to be more conscious about cost efficiency/prevention by using innovative methods and adopting sustainable approaches in preserving, maintaining, and building their infrastructure. Kudos to the Washington Transportation Improvement Board (TIB) for not only improving their own efficiency by launching Performance Management Dashboard in 2007, but also for encouraging cities and counties to start their own out-of-the-box thinking. In the process of competing for fund eligibility, public agencies will get 15 points for sustainable approaches such as low impact development, low energy or solar lighting, on-site pavement recycling such as FDR/CIPR/HIPR, and other sustainable criteria.

A fundamental cultural shift is upon us

Sponsored by FHWA, the International Technology Scanning Program (ITSP) has completed over 80 scans visiting international public agencies faced with similar challenges to learn about innovative technologies and practices. The useful information was used to formulate a new strategy for U.S. public agencies to consider adopting and implementing:

"The facilitated discussions provided the U.S. scan delegates with an opportunity to learn from agencies that had already experienced difficult financial situations and emerged with strong support for road maintenance and renewal among agency leadership, elected officials, and the general public. The challenges they faced and the lessons they learned while evolving their practices led some key findings:

- ✓ Pavement management is integrated into an asset management culture that supports agency business processes and long-term financial responsibilities.
- ✓ Agencies help elected and appointed officials be better stewards of transportation assets.
- ✓ Investment priorities are known and stakeholders are held accountable for their actions.
- ✓ Efficiency and value drive program delivery approaches.

It is promising that our latest $16 billion revenue package includes innovative and sustainable approaches. However, don't we all need to make a fundamental cultural shift in order to bring the long-term strategy of financial planning to a local level? Don't we need to effectively manage our infrastructure, while communicating risks and deferred liabilities for underfunded maintenance and replacement of our largest asset, the transportation network? Isn't it about time to develop long-term financial planning collaboratively with government officials, who should be held accountable for the way public funds are used to preserve and maintain our infrastructure?

We own over 80,000 miles of roads in the State, most nearing the end of their life expectancy, and yet, with little allocated money left to maintain, preserve and make them safer. Don't we owe it to ourselves and future generations to create an immediate plan of action?

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1 *http://wstc.wa.gov/*

2 *http://international.fhwa.dot.gov/scan/*