

# HOUSE BILL REPORT

## HB 2660

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**As Reported by House Committee On:**  
Transportation

**Title:** An act relating to transportation revenue.

**Brief Description:** Addressing transportation revenue.

**Sponsors:** Representatives Clibborn, Ryu, Moeller, Finn, Billig, Eddy, Fitzgibbon and Moscoso;  
by request of Governor Gregoire.

**Brief History:**

**Committee Activity:**

Transportation: 1/24/12, 2/6/12, 2/7/12 [DPS].

**Brief Summary of Substitute Bill**

- Imposes a \$1.50 fee on each barrel of petroleum products used for transportation purposes, dedicates the proceeds to 18th Amendment purposes, and places the proceeds in the Motor Vehicle Account.
- Divides the proceeds between the state, which receives one-half of the proceeds, and the cities and counties of the state, which each receive one-quarter of the proceeds.
- Creates the State Transportation Operations and Maintenance Account (Account) in the Motor Vehicle Fund, which receives the state portion of the proceeds of the barrel fee, and restricts the use of funds in the Account to operations and maintenance of roads, highways, and ferries.

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### HOUSE COMMITTEE ON TRANSPORTATION

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 16 members: Representatives Clibborn, Chair; Billig, Vice Chair; Liias, Vice Chair; Eddy, Finn, Fitzgibbon, Hansen, Jinkins, Johnson, Ladenburg, Moeller, Moscoso, Reykdal, Ryu, Takko and Upthegrove.

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

**Minority Report:** Do not pass. Signed by 13 members: Representatives Armstrong, Ranking Minority Member; Hargrove, Assistant Ranking Minority Member; Angel, Asay, Klippert, Kristiansen, McCune, Morris, Overstreet, Rivers, Rodne, Shea and Zeiger.

**Staff:** David Munnecke (786-7315).

**Background:**

Connecting Washington.

In July 2011 Governor Gregoire convened the Connecting Washington Task Force (Task Force), which consisted of 31 members representing business, local government, labor, and environmental interests, with the purpose of creating a 10-year strategy to maintain and improve the state's transportation system. As part of its final report, the Task Force made the following findings:

- The transportation system is the backbone of Washington's economy, providing the vital connections that link our homes to our work places and carry our products to market.
- Our state's population is projected to grow by more than 28 percent during the next decade, placing greater demands upon our transportation system.
- At the same time the demands on our transportation system are growing, we are losing the purchasing power we need to maintain and improve the system.
- Past actions by the Legislature have provided funding to finance critical construction projects, but there is not enough ongoing funding for maintenance and operations, or for future improvements.
- Without additional funding, the quality of our transportation system will decline.

As part of its final report, the Task Force also made the following recommendations:

- The Legislature adopt a 10-year strategy to make transportation investments that will strengthen our economy and protect and create jobs. The investments should be guided by the following principles: (1) preserve existing transportation systems and services; (2) improve mobility for people and commerce; (3) enhance the safety and efficiency of the transportation system; and (4) provide community and environmental improvements that help attract, keep, and expand private businesses and a highly skilled work force.
- The Governor and Legislature select specific investments to meet the following performance objectives: (1) *System Preservation* – Investments to repair and maintain our statewide system of roads, streets and bridges, and to operate and maintain ferries and transit services; (2) *Strategic Mobility Improvements* – Investments in projects and services that will relieve congestion in specific corridors, improving the movement of people and goods; (3) *System Efficiency* – Investments that improve connections among modes (e.g., rail-truck, ferry-transit, car-transit), enhance speed and reliability, and improve the cost effectiveness of our existing transportation system; and (4) *Safety* – Investments that reduce fatalities and serious injuries across all modes.
- An investment of \$21 billion in state funding be made during the next 10 years to preserve the transportation system and make strategic investments in the corridors that hold the key to job creation and economic growth.

- The Legislature consider the potential funding options identified in the final report to pay for the needed investments. The options fall into two categories: fee increases that could be enacted by the Legislature by a simple majority vote; and increases in taxes that require either a two-thirds vote of the Legislature or a majority vote of the people.
- The Legislature expand the funding options that can be enacted at the local level to support the transportation system.
- The state begin planning now for a transition to more sustainable funding sources for transportation. This could include mechanisms such as a direct user fee that is based on miles traveled, wear-and-tear on the roadways, or other direct impact upon the transportation system, allowing the system to be managed and funded as a statewide transportation utility, with rates based upon use.
- That state and local transportation agencies ensure accountability for their performance in meeting these objectives by: (1) improving coordination; (2) developing performance management systems that improve the functioning of the transportation system, streamline decision-making, and reduce costs; (3) tying resource allocations and grant programs to quality standards; and (4) developing clear and concise metrics to measure progress and provide the Legislature and the public with the means to monitor the performance of the transportation system as a whole.
- The Legislature to act now on these recommendations.

#### 18th Amendment.

The 18th Amendment to the Washington Constitution requires that the state's motor vehicle fuel taxes, which are currently 37.5 cents per gallon, vehicle licensing fees, and all other state revenue intended to be used for highway purposes be deposited into the Motor Vehicle Fund. Monies in that fund may only be spent for highway purposes, which are defined to include expenditures on construction, preservation, maintenance, operation, and administration of highways and ferries. Other transportation funding is not restricted by the 18th Amendment. Often referred to as "multimodal" or "flexible" funding, these monies may be spent for any transportation purposes.

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#### **Summary of Substitute Bill:**

The intent section states that the barrel fee constitutes a dedicated source of funds for operating and maintaining the state's highway and ferry system. The intent section also states that the barrel fee constitutes revenue intended to be used for highway purposes under the 18th Amendment and is specifically placed in the Motor Vehicle Fund for highway purposes.

#### Barrel Fee.

A barrel fee of \$1.50 is imposed on every person who refines petroleum products used for transportation purposes in this state. The barrel fee is imposed to mitigate the impact of the transportation of oil on state roads and highways and the use of petroleum products for transportation purposes on public roads or on Puget Sound. "Used for transportation purposes" is defined as a source to propel motor vehicles on public roads, a source for the delivery of petroleum products, and an ingredient or component of substances used to operate, build, repair, improve, or maintain public roads.

The proceeds of the barrel fee may only be used for maintaining and operating the transportation system. The proceeds of the barrel fee are divided between the state, which receives one-half of the proceeds, and the cities and counties of the state, which each receive one-quarter of the proceeds. The proceeds of the barrel fee may not be used for the general support of state government and constitutes revenue intended to be used for highway purposes under the 18th Amendment to the Washington Constitution.

Accounts.

The State Transportation Operations and Maintenance Account (Account) is created, and the Account receives the state's portion of the proceeds of the barrel fee. Expenditures from the Account may only be spent for 18th Amendment purposes and may only be used for the operations and maintenance of state roads and highways and state ferries.

**Substitute Bill Compared to Original Bill:**

The substitute bill limits the \$1.50 barrel fee to petroleum products refined and used in the State of Washington as: (1) a source to propel motor vehicles on public roads; (2) a source for the delivery of petroleum product; and (3) an ingredient or component of substances used to operate, build, repair, improve, or maintain public roads. The substitute bill also requires one-half of the proceeds of the barrel fee to be divided equally between the cities and counties of the state pursuant to the same distribution formulas used for motor vehicle fuel taxes, with the other one-half of the proceeds remaining with the state. The requirement that \$25 million from the proceeds of the barrel fee be used annually for storm water retrofit projects is removed.

The substitute bill removes the increases to the passenger vehicle weight fee and the large truck license fee, and eliminates the studded tire and electric vehicle fees. It also eliminates the local revenue options and the Transit Service Mitigation Account.

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**Appropriation:** None.

**Fiscal Note:** Available on original bill. New fiscal note requested February 9, 2012.

**Effective Date of Substitute Bill:** The bill takes effect on October 1, 2012.

**Staff Summary of Public Testimony:**

(In support) This bill is the package that came about due to the Connecting Washington Task Force (Task Force), and it focuses on maintenance and preservation. It provides funding by increasing some fees and creating a barrel fee. Improving transportation is economic development, and it creates and supports jobs.

This legislation is a starting point for the conversation about transportation funding. The package is based on the principle that the first priority should be to take care of what is already there, and the funding is prioritized for the most critical needs. This is important

enough that it should be done by the Legislature through fee increases. Individuals already pay a lot of fees, so the Governor wanted to expand the universe of fees available, which is why the barrel fee was proposed. The Department of Licensing is ready to collect the new revenue that the bill will generate.

The Task Force was very focused on maintenance and operations. There are needs that are unmet under this bill, but this is the beginning of the process of funding transportation, not the end. It was important to put a package on the table, and this bill is thus appreciated. The Task Force identified over \$50 billion in needs and this bill is just a start. But if not this legislation, then what legislation, and if not now, then when? Without this bill there will be no contracting by the state in 2013.

The Washington State Department of Transportation supports this bill. Transportation creates jobs through both the construction of the system and the efficient movement of people and goods that it makes possible. Maintenance of the system has always been supported, and more revenue is needed to continue to maintain the system at the current level. This bill keeps the current ferry routes, protects current investments, keeps bridges open for freight, addresses storm water, and provides resources for transit. Long-term grants are a better source of funding for transit.

The Washington State Patrol (WSP) has had its budget reduced by over \$24 million, or 7 percent, over the last several years. Capital funding has declined, while a variety of projects are needed, and the operations staff has been reduced by 21 FTEs. The WSP is authorized for over 600 troopers, but not all of these troopers are funded. The WSP needs 56 more troopers, and this proposal would keep the WSP whole. This bill is needed to maintain public safety.

Recent surveys have shown that there is strong support on the part of the public for maintenance and operations funding. There needs to be sufficient funding to respond to changing circumstances in the transportation system. Without this bill, ferry routes will go away, and the state of the roads will worsen. Business confidence is necessary and this bill will help to provide it.

Transportation is a fundamental responsibility of government, and it is critical to the state's future. The funds raised by the bill should be used for operations and maintenance, but the funds should also be expended to design the next set of necessary projects. The state needs to have a capital funding package that helps with freight movement. If State Route 509 had been built out 25 years ago, the state would have saved billions on expanding Interstate 5.

It is very difficult to create a new refinery due to both the costs and the need to find a suitable location, so it is likely that the barrel fee would apply to all the refineries in the state for the foreseeable future.

Companies, hospitals, and other organizations are all in favor of funding for the Columbia River Crossing (CRC). The cost of goods and services are effected by transportation because transportation is the lifeblood of commerce. The CRC is the largest economic development project in southwest Washington, and it would replace a 100-year-old bridge and earthquake

hazard. It is time to move forward and find funding for the CRC, which is the heart of the economic system in the area. It is a red light on the interstate and it needs to be removed.

It has been 10 years since the elimination of the motor vehicle excise tax (MVET), and this bill finally provides dedicated revenue for operations and maintenance of the ferry system. Losing a ferry run is like losing a bridge in a community. We need new funding regardless of what the increase might be.

The skill gap in the construction trades in Washington is huge, and we need more construction projects in order to fill it. Funding for these construction projects is a necessity, and attaching a \$1.50 fee to a barrel of oil will not have a significant effect on the price.

(In support with amendment) The bill is a good starting point, but it needs to be modified to address the division of the revenues, the two-thirds vote to raise the vehicle fee, the language allowing for the MVET, and the effect on counties with refineries.

The cities are interested in proportionality. They would like a direct distribution of revenue, as well as the local options. Only 4 percent of funding goes to the Transportation Improvement Board, and this should be increased. The cities are concerned about the two-thirds vote for the vehicle fee and the expenditure of the MVET proceeds.

This bill is an important first step. Both the state and the locals need to maintain the transportation system, and freight movement needs to be considered alongside the movement of people.

(In support with concerns) Transportation Choices supports this first step by the Governor towards maintaining the transportation system. However, this proposal needs to be modified since it is not balanced and the multimodal funds are directed to nontransit uses. The challenges faced by transit need to be met, and this bill is a good start. Everyone needs good roads and good transit.

Storm water needs to be addressed, and not doing so has dire consequences. The barrel fee is an appropriate funding source and has been upheld elsewhere. The nexus to the expenditures is there, but it could be modified to make it clearer.

There are concerns about the lack of pedestrian and bicycle funding in the bill. Only 1 percent of transportation funding has gone to bicycles and pedestrians over the last 10 years.

The Task Force focused on attracting new jobs and keeping current jobs. An integrated transportation system is key to this as is the creation of transportation corridors. The backbone of the system is damaged, which may lead to deteriorating roads and bridges. The Governor's request is critical to maintaining the state portion of the system, but more needs to be done for the locals.

(With concerns) The automobile dealers want to participate in the discussion regarding this bill. The dealers are opposed to fee increases on initial registration, and are opposed to the MVET language.

King County appreciates the focus on maintenance, and approves of the local funding approaches. However, there are concerns that the MVET funding would be used for only state and city roads. Also, the current requirements for city and population approvals give 4 percent of the population of King County the ability to block a MVET proposal.

Most of the fees in this proposal are paid by drivers, but the money is spent on other uses. Transit is not underfunded. Transit receives \$2 billion in sales tax revenue every year. This is more than the state receives in gas tax, but transit only makes up 3 percent of the trips.

There is an urgent need for transit funding in the state. More than \$200 million per year in funding is needed. The transit agencies are concerned about the diversion of fees to the roads and about the MVET as a funding source.

The Automobile Association of America is concerned about the interpretation of the 18th Amendment in this bill, and the fact that vehicle miles traveled taxes and tolls are considered to be outside the 18th Amendment.

(Opposed) The state needs to preserve the current system, and give the local jurisdictions the authority to raise money as they see fit. However, the nonmotorized funding needs to be increased, since it does a better job of economic development.

The bill should have more funding committed to transit. Students are some of the primary users of transit service, and want more money for transit, bikes, and pedestrians. University of Washington (UW) pass holders took more than 10 million transit trips last year, and it is the most popular transportation choice. Transportation policy needs to be forward thinking, and this bill is not. The UW, Washington State University, and Western Washington University students have all imposed fees on themselves to fund transit. This bill should increase transit, bike, and pedestrian funding, and give locals more options.

This bill would double the tax burden on a key Washington industry. The Governor said in her State of the State address that trade is booming, and petroleum is Washington's third largest trade good. Forty percent of the petroleum products produced in the state are exported, and this bill would put Washington at a disadvantage. This bill imposes a tax, not a fee.

The state cannot impose a fee on out-of-state people, airplanes, and off-road users and use it on Washington roads. Fuel purchased by Alaska Airlines is often bought in Washington, and the aviation fuel should be exempt from this fee pursuant to federal law, which forbids it. A barrel fee was voided in Hawaii on this basis.

The amount of revenue assumed in this bill is the equivalent of an 8-cent gas tax increase. It will put oil and gas distributors out of business. The bill is misdirected. Oil companies make their profits overseas, and this bill puts the onus on the wrong part of the system. It is farfetched and unrealistic.

Initiative 1053 requires a two-thirds vote on a tax. The voters have said they did not want any tax increases, and if they rejected a 2-cent soda tax then they will not want this. As to the MVET, I thought that was gone forever.

The lack of investment in the 1990s has led to the current problems with the system, and screwed up the roads. The current system is a hamster wheel and it needs to be overthrown.

**Persons Testifying:** (In support) Representative Clibborn, prime sponsor; Jennifer Ziegler, Office of the Governor; David Dye, Washington State Department of Transportation; John Batiste, Washington State Patrol; Alan Haight, Department of Licensing; Philip Parker, Washington State Transportation Commission; Michael Groesch, Microsoft and American Council of Engineering Consultants; Paul Roberts, Everett City Council; Duke Schaub, Association of General Contractors, Keep Spokane Moving, and Transportation Partnership; Ginger Metcalf, Columbia River Crossing Coalition; Paul Montague, Identity Clark County; Tim Schauer, Vancouver Chamber of Commerce; Eric Fuller, Columbia River Economic Development Council; Patty Lent, City of Bremerton; Walt Elliott, Kingston Ferry Advisory Committee; Terry Tilton, Washington State Building and Construction Trades Council; Jared Ross, Washington and Northern Idaho District Council of Laborers; John Adams; and Joe Daniels, City of SeaTac.

(In support with amendment) Scott Merriman, Association of Counties; Ashley Probart, Association of Washington Cities; and Doug Levy, City of Renton.

(In support with concerns) April Putney, Futurewise; Mo McBroom, Washington Environmental Council; Bruce Wishart, Sierra Club; Bill Bryant, Port of Seattle; and Sara Franklin, Amalgamated Transit Union Local.

(With concerns) Scott Hazlegrove, Washington State Auto Dealers Association; Harold Taniguchi, King County Department of Transportation; Mike Ennis, Washington Policy Center; Geri Beardsley, Washington State Transit Association; and Dave Overstreet, Automobile Association of America.

(Opposed) Chuck Ayers, Cascade Bicycle Club; Alicia Halberg and Sarah Rand, Associated Students of the University of Washington; Greg Hanon, Washington States Petroleum Association; Dave Ducharme, Washington Oil Marketers Association; Tim Eyman, Voters Want More Choices; Tim Hamilton, Automotive United Trades Organization; John Worthington; and Megan Lawrence, Alaska Airlines.

**Persons Signed In To Testify But Not Testifying:** None.