



POLICY BRIEF: IMPACTS OF INITIATIVE 976

March 2020

Executive Summary:

In November 2019, Washington voters passed Initiative 976 - concerning motor vehicle taxes and fees. The measure had multiple components including repealing the authority to impose certain vehicle taxes and fees, limiting annual motor vehicle license fees to \$30, and making it so vehicle taxes are based on Kelley Blue Book value.

After the initiative passed, [Governor Inslee took immediate action](#) directing the Washington State Department of Transportation to postpone projects not yet underway, and asked other state agencies that receive transportation funding to defer non-essential spending. After the initiative passed, the House and Senate transportation committees started grappling with how to address the immediate shortfall in funding. One of the buckets in the transportation budget that was anticipated to receive a significant impact is the multimodal account, which is where active transportation programs such as safe routes to school, public transit and bike/pedestrian grant programs are funded. Any reduction in funding for these programs has been a particular concern to health and prevention advocates.

A lawsuit was quickly filed against the initiative by the City of Seattle, King County, the Washington State Transit Association, Association of Washington Cities, and others. While a King County Superior Court judge recently dismissed most of the lawsuit, the injunction on implementation of I-976 is still in place.

While we are still awaiting the final 2020 transportation budget from the legislature, the proposed House and Senate transportation both used a series of transfers, underspent funds, and other short term fixes to balance the the budget this session. The chairs of both the House and Senate transportation committees acknowledged that their proposals were not long term solutions, and that much work lies ahead to figure out how to address the shortfall in funding that results from the passage of the initiative.

The extent of the long-term impacts of the measure are still to be determined, but it is widely acknowledged that the impact will be significant and the outcomes of decisions by the courts and legislature are anticipated to not only have an impact on the state transportation budget, but also the operating budget and the broader political landscape in Olympia in the 2020 session and beyond. There is also a direct impact on local transportation revenue options, and there will be a ripple effect on other funding sources obtained by leveraging state dollars.

This brief provides an overview of I-976 as passed by voters in Washington; a summary of the short-term approach to the transportation budget in the 2020 session; and the potential long-term impact on state transportation programs in Washington, including funding for the multimodal account given its importance for transportation programs that relate to health and prevention.

Overview of Initiative 976

Initiative overview

Initiative 976 started as an [Initiative to the legislature](#) that was filed in March 2018. The initiative had hearings in the House and Senate Transportation committees during the 2019 legislative session, but the legislature did not take action. It was then put forward to voters on the ballot for the November 2019 general election. I-976 passed with a statewide vote of 53% in favor and 47% opposed. The measure passed in all but six counties: Island, Jefferson, King, San Juan, Thurston, and Whatcom. The initiative passed most counties with well over 60% of voters supporting the initiative.

The initiative is commonly known for the reduction in car tabs down to \$30. While this is one component, the measure had broader impact beyond car tabs. Table 1 provides a summary of the revenue sources impacted by I-976 for FY20 to FY 25. The impact of these changes to revenue sources is estimated at more than \$4 billion over that period, including \$1.9 billion for the state and \$2.3 billion for local projects.

Table 1: Estimated State Revenue Impacts of Initiative 976, FY20-25¹

State Revenue Source	2019-21	2021-23	2023-25
Passenger & Other Vehicle Weight Fees - Elimination of \$25-\$72 fee & FY 2023 \$10 increase	(\$267.1 mil)	(\$403.2 mil)	(\$474.1 mil)
License Fee by Weight for Light Duty Trucks - \$53-\$93 fees reduced to \$30	(\$113.7 mil)	(\$139.7 mil)	(\$140.4 mil)
Sales & Use Tax on Vehicles - Elimination of 0.3% additional tax	(\$80.8 mil)	(\$112.4 mil)	(\$117.4 mil)
Electric Vehicle Fees - \$150 fees reduced to \$30	(\$6.8 mil)	(\$13.1 mil)	(\$19.9 mil)
Motor Home Vehicle Weight Fee - \$75 fee eliminated	(\$8.2 mil)	(\$10.4 mil)	(\$10.5 mil)
Snowmobile Registration Fees - \$50 fee reduced to \$30	(\$0.7 mil)	(\$0.9 mil)	(\$0.9 mil)
Commercial Trailers Registration Fee - \$34 initial fee reduced to \$30	(\$0.6 mil)	(\$0.8 mil)	(\$0.8 mil)
Total State Revenue Impacts	(\$478.1 mil)	(\$680.5 mil)	(\$764 mil)

Potential Fiscal Impacts of Initiative 976

Potential Impact on the State Transportation Budget

One of the most significant impacts of I-976 will be to the state transportation budget. Table 2 provides a summary of the different state transportation accounts and what was estimated to be the potential fiscal impact of I-976 on these different accounts over six years, as determined by the Office of Financial Management. These state accounts provide funding for the Washington State Department of Transportation, Washington State Patrol, and local municipalities among others. The combined fiscal impact to these state accounts was estimated at \$1.9 billion over six years. The impact in revenue for these accounts in the current supplemental budget alone (FY20-21) was estimated at over \$450 million.

¹ Office of Program Research, *House Transportation Committee 2019 November Forecast & I-976*, <https://app.leg.wa.gov/committeeschedules/Home/Document/207822#toolbar=0&navpanes=0>

Table 2: Potential Six-Year Fiscal Impact by State Transportation Account, FY20-FY25²

<i>State Highway Funding</i> <ul style="list-style-type: none">• Motor Vehicle Account: (\$265.6 mil)• Transportation Partnership Account: (\$45.7 mil)• Nickel Account: (\$20.8 bil)	<i>Local Highway Funding</i> <ul style="list-style-type: none">• Rural Arterial Trust Account: (\$5 mil)• Transportation Improvement Account: (\$4.3 mil)
<i>Ferry Operating Funding</i> <ul style="list-style-type: none">• Puget Sound Ferry Operations: (\$5.5 mil)	<i>Washington State Patrol</i> <ul style="list-style-type: none">• WSP Highway Account: (\$88.6 mil)
<i>Multimodal Funding</i> <ul style="list-style-type: none">• Multimodal Account: (\$1.5 bil)	<i>Snowmobile Funding</i> <ul style="list-style-type: none">• Snowmobile Account: (\$2.5 mil)

Potential Impacts to Active Transportation Programs

In looking at these various accounts, the largest impact is clearly anticipated to be on the multimodal account. The multimodal account funds many transportation investments and programs and is not subject to the 18th Amendment to the Washington State Constitution, which restricts the expenditure of gas tax and vehicle license fees deposited into the motor vehicle fund to “highway purposes.” This account funds all modes of transportation projects, including public transportation, rail, special needs transportation, safe routes to schools, and bicycle/pedestrian projects. The latter programs are of particular importance to the health and prevention community as they are the major funding sources within the state transportation budget for active transportation and promoting active living for children, youth and adults.

In their statement the Office of Financial Management estimated that during the 2019-21 biennium the impact of I-976 on the multimodal account would be a reduction of \$356.2 million (65.8% reduction in biennial revenues for the multimodal account), and in the 2021-23 biennium it would be a reduction of \$526 million (84.8% reduction in biennial revenues for the multimodal account).

While the amount of funding provided to the active transportation programs is fairly small within the multimodal account, it means small cuts to the programs will have a significant impact. In the 2019-21 transportation budget passed by the legislature, the Pedestrian & Bike Projects was funded at \$28.3 mil, the Pedestrian & Bicycle Safety Program was funded at \$18.3 mil, and the Safe Routes to Schools grant program was funded at \$11.4 mil. A reduction of 65% to 85% to any of these programs would leave very little resources to build infrastructure or ensure safe means to access active transportation.

Potential Impact on the State Operating Budget

Attention has largely been focused on the impact of I-976 on the transportation budget, for obvious reasons. However, there is also a potential for some level of impact on the state operating budget. This impact is much more difficult to quantify, but with the stoppage or delay of transportation projects there is a potential impact on the sales tax from dollars not spent on materials for projects, and the business & occupation tax from vendors who could lose business revenue and therefore not pay as much back to the state.

² Office of Financial Management, *Fiscal Impact Statement for Initiative 976*, <https://ofm.wa.gov/sites/default/files/public/budget/ballot/2019/FiscalImpactStatementInitiative976-093019.pdf>

Local Impacts

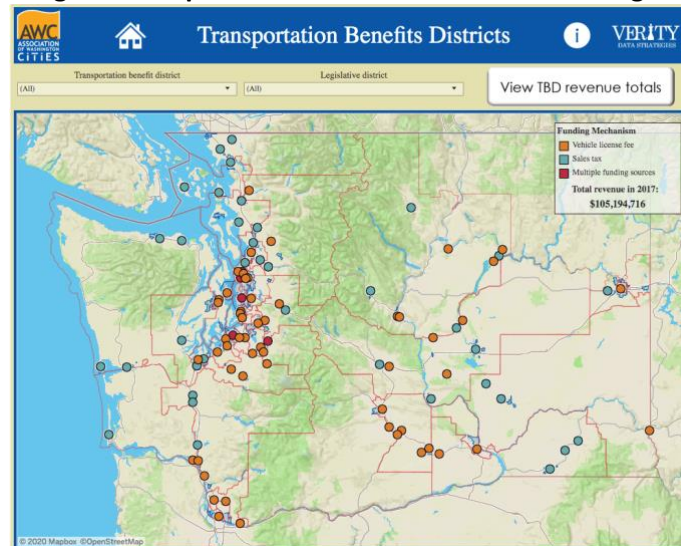
The largest potential impact of Initiative 976 is not limited to just the state budgets; there is a direct as well as indirect impact on local municipalities. Local revenue sources impacted by I-976 include³:

- Repeal of local authority to impose a passenger-only ferry tax;
- Repeal of Sound Transit's authority to impose a motor vehicle excise tax (MVET) of 0.8%
- Reduction in MVET funds for Sound Transit by decreasing the MVET rates from 0.8% to 0.2%;
- Specifying that the Sound Transit MVET be calculated based on Kelley Blue Book vehicle value instead of the manufacturer's suggested retail price;
- Elimination of Transportation Benefit Districts (TBDs) authority to impose vehicle license fees

The estimated direct revenue loss to local governments is estimated at \$2.3 billion. Of that amount, nearly \$2 billion is a loss in revenue from Sound Transit and the remaining \$349 million is revenue lost by the repeal of authority for TBDs to impose vehicle fees (aka car tabs).

TBDs are quasi-municipal corporations and independent taxing districts that have been able to raise revenue for specific transportation projects. This is typically done through vehicle license fees or sales taxes. Over 100 cities in Washington have formed TBDs to establish funding options for transportation needs in their communities.

Image 1: Transportation Benefit Districts of Washington⁴



Under I-976, TBDs no longer have the authority to impose vehicle license fees, which leaves sales taxes as the remaining revenue source option through TBDs. Prior to the passage of I-976, about [60% of TBDs imposed vehicle license fees](#).

Beyond the specific local impacts directed under the measure, there are also ripple effect impacts. Local municipalities often leverage funding they receive through the state budget as match dollars when applying for private and other public funding opportunities. Without those state dollars, or a significant

³ Transportation Revenue Forecast Council, *November 2019 Transportation Economic & Revenue Forecasts, Volume III: Alternate Forecasts Tables*. <https://www.ofm.wa.gov/sites/default/files/public/budget/info/transpo/Nov2019VolumnIII.pdf>

⁴ Association of Washington Cities, *Transportation Benefits Districts Dashboard* <http://datadatadata-awcnet.opendata.arcgis.com/pages/tbds>

reduction in them, many local municipalities will be at risk for losing current funding with a match requirement or be unable to have the match dollars to apply for future funding opportunities.

Initial Responses to Initiative 976

Both opponents and proponents of I-976 were quick to respond with a range of action including a directive from the Governor to defer projects, a lawsuit filed against the initiative, and legislative proposals to address the funding shortfall created by the initiative.

Directive from Governor Inslee

Immediately following the passage of I-976, Governor Inslee released a statement⁵ directing the Washington State Department of Transportation (WSDOT) to postpone projects that are not yet underway. He also asked other state agencies that receive transportation funding, including the Washington State Patrol and Department of Licensing, to defer non-essential spending while the impact of the initiative was reviewed.

Following Governor Inslee's directive, Washington Secretary of Transportation released a [delayed projects list](#), which includes construction projects that were scheduled to go out for advertisement in the next six months, state funded local agency projects, rail grant projects, and public transportation grant projects with no executed agreements.

The Governor's original directive was further built on in his proposed supplemental transportation budget where he directed WSDOT to use the following guiding principles⁶:

- Maintain safety in our transportation system by continuing work on preservation and other related projects.
- Mitigate impacts on people who rely on transit, such as vulnerable individuals and seniors.
- Continue to meet legal obligations such as maintaining progress on fish passage barrier removal.
- Maintain matching funds from nonstate sources, when possible.

Lawsuit Against I-976

After the passage of I-976, a coalition of cities, counties and transit agencies filed a [lawsuit](#) challenging the legality of the initiative. The lawsuit argues that the initiative violates the constitution, misleads voters on the true nature and impact, violates the rule that local matters should be decided locally, violates due process, privileges and immunities, and several other allegations. The plaintiffs are asking that the initiative be ruled unconstitutional and be prevented from being implemented.

Plaintiffs filed an injunction to stop the initiative from going into effect while the case was being heard. The injunction was granted, which temporarily stopped the initiative from going into effect on December 5, 2019 until a ruling was made on the lawsuit. This means the state and local governments continue to collect car tabs and other fees based on pre-976 levels.

On February 12th, King County Judge Marshall Ferguson released a ruling rejecting most of the arguments that I-976 was unconstitutional, including claims that it contained too many subjects, wrongly rolled back local taxes with a statewide vote, and misled voters with the ballot title. However, Ferguson did not rule on two other claims: one about the directive that the state use Kelley Blue Book to

⁵ November 6, 2019. *Governor Inslee Statement on I-976*, <https://www.governor.wa.gov/news-media/inslee-statement-i-976>

⁶ Governor Inslee's Proposed Transport Budget and Policy Highlights, https://ofm.wa.gov/sites/default/files/public/budget/statebudget/highlights/budget20/2020_Transportation.pdf

calculate car-tab taxes, and another dealing with the city of Burien, which has sold bonds to be paid back with car-tab tax revenue it collects. On both issues, the state and other defendants said they needed time to gather information. The judge has said either side can bring these issues back for more argument. Because the ruling does not address all the claims by the plaintiffs, the initiative remains on hold.

Republican Response to I-976

Sen John Braun (R) has stated that the people voted and they clearly want \$30 car tabs and he put forward a proposal to make \$30 car tabs happen. In December, Sen Braun prefiled [SB 6041](#), *Dedicating the state sales tax on motor vehicles to transportation improvements*. The proposal would annually move a portion of the existing vehicle sales tax revenue into a new fund. According to the bill, an additional funding source not subject to bonding would “offer greater flexibility and efficiency in addressing transportation infrastructure needs.” Braun has stated that this would provide an estimated \$30 billion for transportation investments over the next 20 years. Opponents to the bill have stated that this would take dollars away from other important operating budget priorities. The bill was referred to Senate Ways & Means but was never scheduled for a hearing.

House and Senate Proposed 2020 Supplemental Budgets

From the onset of the 2020 legislative session, there was a lot of speculation about how the legislature would address the funding shortfall created by the passage of I-976. The House and Senate released their proposed 2020 supplemental transportation budgets on February 24th and 25th respectively. Both budgets utilized one-time transfers, adjustments, and the usage of underspent dollars due to deferred or cancelled projects to balance their respective budgets.

Neither proposal made the extensive cuts that were anticipated, and still believed by many to be coming in the long-term. The chairs of both Transportation Committee chairs were clear in their statements about the budget proposals that they do not address the ‘larger, long-term transportation budget crisis’. The longer-term solutions are left to the legislature to address in the next session. This path is well summarized in the [statement](#) from House Transportation Chair Representative Jake Fey: “There were a number of moves in this budget designed to reduce and mitigate the harm of Initiative 976. Some may see this budget proposal and point to it as evidence that the revenue cuts aren’t so bad. I want people to be aware that this proposal tries hard to prevent short-term damage. Lawmakers will have to deal with the long-term problems in revenue losses next session when we write a new two-year budget.” Senate Transportation Chair Senator Steve Hobbs echoed these sentiments in his [statement](#), saying: “We had to get creative to make sure the state’s priorities were met. Moving money around like this is something that can only be done once. We are looking at a significant budget shortfall in January [2021] without new revenue.”

Conclusion

The gap in resources available for critical transportation programs, including those dedicated to improving access to active transportation, is a significant challenge that faces the legislature during the 2020 legislative session and beyond. The chairs of the House and Senate Transportation Committees have both released proposals for the 2020 supplemental budget that use a series of short-term fixes to address the immediate shortfall. While some have been holding out to see if the court case would be won, the recent ruling by the King County Superior Court reduced those odds. It remains unclear what all the implications will be with the passage of I-976, but we can expect to see this issue continue into the 2021 session and the legislature continues to be faces with the long-term significant shortfall in funding.

Resources

[Dashboard of Transportation Benefit Districts](#), Association of Washington Cities

[Delayed Projects List](#), Washington State Department of Transportation

[Fiscal Impact Statement for Initiative 976](#), Office of Financial Management

[Governor Inslee's Proposed Transport Budget and Policy Highlights](#)

[House](#) and [Senate](#) Bill Analysis for the 2019 Legislature

[Senate 2020 Supplemental Transportation Budget Proposal](#)

[House 2020 Supplemental Transportation Budget Proposals](#)

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