

Tuesday, February 2, 2010

Olympia's Next Big War -- A Steep Hike in Oil Taxes for Puget Sound Cleanup

Could Balance the Budget, Raise Price of Gas, Reduce Money for Roads – Will Pit Greens Against Business



By Erik Smith
Staff writer/ Washington State Wire

OLYMPIA, Feb. 2.—The stage is set for the next battle royal in the state Legislature – over a plan to triple the state’s hazardous-waste cleanup tax and eventually use the proceeds to combat pollution in Puget Sound.

The tax would raise nearly \$350 million a year, the bulk of it to be paid by the state’s oil refiners, and ultimately, by everyone who buys gasoline or diesel at the pump. The proposal is backed by the state’s environmental groups and city and county lobbying organizations. And to make the idea irresistible to the cash-strapped state Legislature, they’re suggesting that lawmakers keep most of the money – at least for the first couple of years. The money would be precisely enough to balance the state’s budget this year.

The proposal promises to touch off war at the statehouse. The state’s oil industry, business groups and transportation interests have been getting ready for battle ever since the proposal surfaced in a different form last year. This year’s plan has been a hot topic of speculation in the Capitol’s hallways and offices and in Olympia watering holes. Now that details have finally started to emerge, opponents say money for the Legislature is a new twist. But it’s still a hidden gas tax and cause for alarm.

Behind the conflict is a new federal push for water-pollution efforts that eventually will force city and county governments to spend billions of dollars on stormwater-drainage projects, most of it in the urban Puget Sound area. Though none seem to question the need, the problem is paying for it.

The state doesn’t have the money and local governments aren’t eager to hike property taxes. Environmental groups have been looking for a way to hand the tab to the oil industry. They argue that petroleum products are the single largest cause of water pollution, and just as important, it has the ability to pay.

Opponents say the case is unproven, and a whopping new tax on oil will hurt industry, motorists, and road-construction projects statewide. They also point out that industry is paying big money for cleanup already and not a dime is getting there – and the same thing might happen again.

Could Balance This Year's Budget

There aren't many specifics just yet. Bills are still being drafted and will probably be introduced sometime in the next week or so, said Clifford Traisman, lobbyist for the Washington Environmental Council and the Washington Conservation Voters. Sen. Ed Murray, D-Seattle, is expected to introduce the legislation in the Senate, and Rep. Timm Ormsby, D-Spokane, in the House.

But one of the key selling points for the concept is that the Legislature would get a big cut of the tax for the first few years – perhaps as much as 70 percent, or \$240 million. That's a tempting figure for a Legislature that faces one of the worst budget crises in state history. This year's \$2.6 billion shortfall is just the start – next year's projections are in the \$4 billion to \$7 billion range.

Meanwhile, by a curious coincidence, the state needs to find exactly \$240 million to balance its budget this year. Gov. Christine Gregoire discussed her latest budget plans with reporters at a news conference Monday, announcing that the state will receive \$435 million in one-time aid from the federal government. Once all her other cuts and maneuvers are enacted, the state is left with a gap of \$240 million. Meaning that the tax-hike proposal offers lawmakers a way out of their immediate budget troubles.

Essentially a Tax on Oil

Most of the money from the tax increase would come from the oil refiners of Puget Sound. The proposal would triple the state's hazardous-substances cleanup tax, which currently generates \$114 million a year. The tax is paid by all Washington businesses that import hazardous substances, but in essence it is a tax on the oil business, which is by far the largest importer. The refiners pay 83 percent of the tax, about \$94 million a year.

Longtime voters may recall that the tax was created by a hotly contested 1987 initiative advocated by the state's green groups, under the rallying cry, "make the polluters pay." The trouble is that lately not much of that money has gone toward cleanup. Since 2009 lawmakers have used the Model Toxics Control Act account to plug holes in the state budget – some \$260 million worth so far.

Traisman said the tax-increase proposal will contain a strict schedule for the amount that would be spent on cleanup.

"We will not support any legislation that does not contain a significant down payment for stormwater projects," he said. "It wouldn't be a theoretical. The money would have to be in the budget for us to deal with this legislation. It will be our job to hold everybody's feet to the fire."

Somebody has to pay for stormwater projects, he said, and an increase in the hazardous waste cleanup tax will have less impact on the average citizen than an increase in property taxes.

As Much as Six Cents a Gallon

The money has to come from somewhere, though – your local gas station, for instance. Opponents say the plan could raise gas prices as much as six cents a gallon, if oil companies can find a way to pass the full amount on to consumers. Because of the competitive nature of the oil business, refiners may have to eat some of the cost. But whatever consumers don't pay will be subtracted from jobs and industry investment, said opposition campaign spokesman Dave Fisher.

"Tripling the MTCA tax by a quarter-billion dollars a year would have a huge economic impact that would be felt at the pump, or in lost employment, or both, at a time when the economy can't absorb the hit," he said.

Opponents have spent the last year getting ready for the fight, and they're loaded for bear. Gas taxes are one of the most jealously guarded sources of tax revenue in Washington, and they are

the only one that is protected by the state constitution. Washington's 18th Amendment says gas-tax money can only be spent for highway and ferry projects. And whenever lawmakers even think about raiding the account – as they did with the cleanup money – oil, transportation and business interests leap to the defense.

Last year the environmentalists and local-government groups pushed a \$1.50-a-barrel charge for most gasoline and diesel fuel sold in the state. Their bill passed the House but foundered in the Senate because it sounded suspiciously like a gas tax. Last year's plan was "clearly an 18th Amendment issue," said Senate Transportation Chairwoman Mary Margaret Haugen, D-Camano Island, one of the Legislature's staunchest defenders of gas-tax funds. This year's proposal might be less so – but she noted that industry never has challenged the Model Toxics Control Act on 18th Amendment grounds. "It would be very interesting to see," she said.

Even before this year's gameplan became clear, the opposition was laying the groundwork. Last November state Rep. Doug Ericksen, R-Ferndale sounded the alarm with a telephone town-hall meeting, and hundreds of oil-refinery workers called in. The formal opposition campaign – Stop Washington Hidden Gas Taxes – launched well before the session, and has a website with Facebook and Twitter.

This year's plan might be heading in a new direction, but it's still a gas tax in disguise, Fisher said. Transportation interests are worried that an increase in gas prices will make it harder to raise gas taxes next year for new road construction, he said.

Fisher pointed out that the Department of Ecology has been unable to quantify the amount of Puget Sound pollution that comes from oil – which makes the case for oil's additional financial responsibility a bit hazy.

And he said environmental groups might be a bit too trusting if they expect the Legislature to keep its mitts off cleanup-tax money in the future. Certainly its track record isn't promising, he said.

"Who knows what the Legislature is ultimately going to do?" he asked.

Great Appeal to Legislature

For now, word about the plan is just starting to filter through the Capitol. Some lawmakers say it has plenty of appeal. Ormsby said additional revenue for the Legislature could help save environmental programs that are on the chopping block this year. "I think it's a great idea," he said.

Two weeks ago Senate Majority Leader Lisa Brown, D-Spokane, said she was dubious that any stormwater plan would win support this year. But in a meeting with reporters last Thursday, after the general-fund-revenue element became known, she appeared to be warming to the idea. "The details could get changed in the process, but definitely the view makes sense for polluters to pay for cleanup," she said. "There's a big backlog of projects, from the Puget Sound to the Spokane River."

But she pointed out that there is no way to ensure future legislatures won't grab the money again. "Every legislature is going to write its own budget, and there are not many ways to get guarantees in place," she said.