Virginia’s Transportation Funding Solution
HB 2313(2013)

Senator John Watkins
National Conference of State Legislatures
May 3, 2013
After more than a decade of legislative efforts, Virginia’s 2013 General Assembly adopted legislation providing a dynamic long-term transportation funding solution.

About $850 million annually when fully implemented (2018) from a combination of new and existing revenue sources.
- Includes $200 million from existing GF sources by year 2018.

Over an additional $500 million annually for regional “self-help” packages in Hampton Roads and Northern Virginia.
- Responds to concerns that regions don’t receive a fair share of highway funding compared either to their infrastructure needs or proportion of tax contributions.
  - $220 million annually in Hampton Roads.
  - $325 million annually in Northern Virginia.

Final legislation is a compromise between Governor’s proposal to eliminate motor fuel taxes and a variety of Senate bills to increase them.
Virginia’s Transportation System: Air, Land, Sea and Space

Department of Transportation
- 126,529 lane miles
- 19,381 bridges and structures
- 7 tunnels
- 2 toll facilities
- 51 rest areas / welcome centers
- 114 commuter parking lots

Department of Rail and Public Transportation
- 193 million passenger trips
- 178 million tons of freight
- 27,000 jobs

Department of Aviation
- 66 public airports
- 49 million passenger trips
- 3,400 registered aircraft
- 259,000 jobs

Virginia Port Authority
- 7 commercial facilities
- 1.9 million TEUs
- $41.1 billion revenue
- $1.2 billion local taxes
- 343,000 jobs

Motor Vehicle Dealer Board
- 4,439 automobile dealers
- 19,000 licensed salespersons

Department of Motor Vehicles
- $2.1 billion revenue
- 5.5 million licensed drivers
- 7.8 million vehicle registrations
- 74 customer service centers
- 13 weigh stations
- 2,000 jobs

Commercial Spaceflight Authority
- 2 launch pads
- 10 scheduled launches

Population
- 8.1 million

FY13 Appropriation
- $4.9 billion
Efficient Transportation is Vital to Economic Competitiveness

• Virginia hosts two of nation’s most congested regions – Northern Virginia and Hampton Roads.
  - Estimated annual economic loss of $3.7 billion.
  - Impacts business productivity and ability to attract employers.

• Virginia slipped to the 3rd “Top State for Business” in CNBC annual rankings last year.
  - Ranked 33rd in terms of transportation & infrastructure.

• S&P cautions that infrastructure costs may increasingly fall to state and local governments in light of federal cut-backs.
  - Sequestration likely to result in reduced federal revenues for highways and mass transit, absent a federal tax increase.
Why Act Now?

- The perfect storm...
  - Increasing number of high-cost, high-priority infrastructure projects could not be accommodated.
    - Metro’s Silver Line extension to Dulles Airport.
    - Tunnel and bridge projects in Hampton Roads.
    - Necessary reconstruction of I-81, I-64 and I-95.
  - Limited public tolerance for an increasing reliance on toll supported projects.
  - Governor, in search of a legacy, was willing to play a bold leadership role – and take criticism from both sides of the political spectrum.
  - Bipartisan legislative approach to crafting a compromise that included both new revenue and existing general funds.
What Was Tried First?

- **Public-Private Partnerships**
  - Virginia’s Public-Private Transportation Act had been utilized to develop more than $8.1 billion in transportation infrastructure over the past 5 years.
  - Almost $3.0 billion in PPTA projects in 2012 alone.

- **Tolls**
  - Proposed both for new capacity, often as share of costs of PPTAs, and increasingly, for the maintenance of existing assets.

- **VDOT Reform**
  - Governor McDonnell, as with preceding administrations, conducted a series of financial and performance audits of VDOT prior to seeking additional funding.

- **Use of Bonds/Debt**
  - Programs adopted to leverage state cash for bonds within existing debt capacity limits and to utilize federal bond programs (FRANs and GARVEEs).
## Additional Statewide Revenues for Transportation

<table>
<thead>
<tr>
<th>($ in millions)</th>
<th>2014</th>
<th>2018</th>
<th>5-Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Replace Cents Per Gallon at Pump (gasoline and diesel)</td>
<td>$(871.1)</td>
<td>$(938.2)</td>
<td>$(4,528.6)</td>
</tr>
<tr>
<td>3.5% tax at rack on gasoline (wholesale price)</td>
<td>$ 412.0</td>
<td>$ 501.6</td>
<td>$ 2,358.7</td>
</tr>
<tr>
<td>6% tax at rack on diesel (wholesale price)</td>
<td>$ 214.3</td>
<td>$ 303.1</td>
<td>$ 1,323.2</td>
</tr>
<tr>
<td>$64 Registration Fee for Alt. Fuel Vehicles</td>
<td>$ 6.5</td>
<td>$ 10.9</td>
<td>$ 42.6</td>
</tr>
<tr>
<td>Increase titling tax from 3.0% to 4.15%</td>
<td>$ 184.0</td>
<td>$ 246.5</td>
<td>$ 1,118.5</td>
</tr>
<tr>
<td><strong>Net Impact - User Fees</strong></td>
<td>$(54.4)</td>
<td>$ 123.9</td>
<td>$ 314.4</td>
</tr>
<tr>
<td>Increase General Sales and Use Tax 0.3%</td>
<td>$ 265.8</td>
<td>$ 336.3</td>
<td>$ 1,541.7</td>
</tr>
<tr>
<td>MFA: Share for Transp. - Sales Tax at 5.3%</td>
<td>$ 145.9</td>
<td>$ 184.5</td>
<td>$ 846.1</td>
</tr>
<tr>
<td>Increase Share of Existing SUT to HMOF by 0.175% (.50 to .675)</td>
<td>$ 49.0</td>
<td>$ 198.2</td>
<td>$ 699.1</td>
</tr>
<tr>
<td><strong>Net Impact - Other Fees</strong></td>
<td>$ 460.7</td>
<td>$ 719.0</td>
<td>$ 3,086.9</td>
</tr>
<tr>
<td><strong>Grand Total - Statewide Programs (ex. regional)</strong></td>
<td>$ 406.4</td>
<td>$ 842.9</td>
<td>$ 3,401.5</td>
</tr>
</tbody>
</table>
What was Achieved?

- Eliminates the transfer of state construction funding to maintenance programs.
  - More than $500 million of additional revenue to the Highway Maintenance and Operating Fund by FY 2017.
  - Results in an equivalent amount of funding retained in the Transportation Trust Fund to be distributed according to the existing construction formulas.

- Establishes dynamic funding for Intercity Passenger Rail, Mass Transit and debt service programs.

- Provides dedicated regional revenues through taxes imposed by the State rather than local option.
  - Use of regional planning district boundaries, population, and travel metrics allows for regions to “grow” into enhanced taxing structure.
Driving Forces

- **Address the shortcomings of a 30-year old excise tax based funding model.**
  - Motor fuels excise tax growth forecast was stagnant.
    - Increasing CAFE standards.
    - Increasing use of alternative fueled vehicles.
    - Reduced purchasing power relative to inputs.
  - Sales and use tax on gasoline and on general purchases is value-based and thus has inherent growth factor allowing revenues to keep pace with inflation.

- **Retain nexus to transportation system user-fees through fuel and vehicle based taxes.**
  - Eliminates Virginia’s current 17.5 cents per gallon gas tax.
  - Replaces it by:
    - Adding a 3.5% motor fuel tax at rack,
    - Adding a 6% diesel tax at rack (reflects higher wear and tear on roads from heavy trucks); and
    - Increasing the motor vehicle titling tax from 3% to 4.15%.
Driving Forces

- **Need for all vehicles to help pay for road maintenance.**
  - Increases current registration fee for electric vehicles from $50 to $64, and expands the fee to hybrid vehicles.
  - As experiments with Vehicle Miles Traveled taxes continue, this is a step towards user fees based on vehicle weight and fuel economy.

- **Need to provide a dedicated funding for Mass Transit and Intercity Passenger Rail Fund (IPROC).**
  - IPROC Fund created in 2011 but had no dedicated funding stream.
    - Virginia is the first to dedicate a state revenue stream for Amtrak services.
  - Dedicates a portion of the 0.3% increase in the general sales tax to support rail and transit projects in the Commonwealth (0.125%)
    - Distributed 40% for rail, 60% for transit
    - Approximately $50 million/year for rail
    - Approximately $80 million/year to transit
Driving Forces

• Reflects compromise on use of existing General Fund revenues for transportation.
  - Increases the share of the existing general sales and use tax dedicated to transportation from 0.50% to 0.675% when fully phased in (FY 2017).
  - Transfers additional 0.05% each year in FY 2014, 2015 and 2016, with an additional 0.025% transferred in 4th year.

• Utilize potential “new” revenue from Marketplace Fairness.
  - Provides that majority of revenues anticipated to be generated by the Marketplace Fairness Act (MFA) be utilized for transportation.
    • Retains traditional “local option” sales tax for localities, as well as share dedicated to public education; remainder will go to transportation.
  - Includes a trigger that if MFA is not adopted by January 1, 2015, the tax at the rack will be increased to 5.1%, and general fund transfers to HMOF frozen at 2015 levels.
    • Also includes a “double-trigger” that if MFA is subsequently adopted, original provisions go back into effect.
## Distribution of Revenues: Maintenance First

<table>
<thead>
<tr>
<th>Revenue Source</th>
<th>HMOF</th>
<th>TTF</th>
<th>PTF</th>
<th>DMV</th>
<th>Mass Transit</th>
<th>Intercity Rail</th>
<th>Local</th>
<th>K-12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales Tax on Fuels</td>
<td>80%</td>
<td>15%</td>
<td>4%</td>
<td>1%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$64 Alt Vehicle Reg. Fee</td>
<td>100%</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase MVSUT</td>
<td>100%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase SUT</td>
<td>58%</td>
<td></td>
<td></td>
<td></td>
<td>25%</td>
<td>17%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Existing SUT</td>
<td>100%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MFA</td>
<td>58%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>18%</td>
<td>24%</td>
</tr>
</tbody>
</table>
### Hampton Roads Regional Plan

- Revenue derived from additional general and motor fuels sales taxes.
- Funding can only be used for construction projects on new or existing roadways, bridges and tunnels.
  - Priority given to projects that reduce congestion.
- Projects approved by the Hampton Roads TPO.

#### Revenue Sources

<table>
<thead>
<tr>
<th>Source</th>
<th>2014</th>
<th>2018</th>
<th>5-Year Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.7% Local SUT</td>
<td>$115.2</td>
<td>$145.8</td>
<td>$668.4</td>
</tr>
<tr>
<td>2.1% Regional Motor Fuel Tax</td>
<td>$60.4</td>
<td>$76.3</td>
<td>$352.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$175.6</strong></td>
<td><strong>$222.1</strong></td>
<td><strong>$1,020.6</strong></td>
</tr>
</tbody>
</table>
Northern Virginia Regional Plan

- An additive mix of revenue sources for a larger region.
  - Northern Virginia had a regional motor fuels sales tax since 1986.
- 70% of revenues are dedicated to regional projects; 30% returned to localities for transportation projects.
- Projects approved by the Northern Virginia Transportation Authority.
  - Urban or Secondary road construction,
  - Capital projects that reduce congestion; and
  - Public transportation and mass transit capital.

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<tbody>
<tr>
<td>0.7% Local SUT</td>
<td>$214.1</td>
<td>$270.8</td>
<td>$1,241.7</td>
</tr>
<tr>
<td>$0.15/$100 Grantors</td>
<td>$  33.5</td>
<td>$ 33.5</td>
<td>$   167.5</td>
</tr>
<tr>
<td>2% Hotel Tax</td>
<td>$  24.9</td>
<td>$ 31.2</td>
<td>$   143.4</td>
</tr>
<tr>
<td>Total</td>
<td>$272.5</td>
<td>$335.5</td>
<td>$1,552.6</td>
</tr>
</tbody>
</table>
The Road Ahead...

- Refining the alternative fuel vehicle registration fee.
  - “Double” impact of the registration fee on diesel-hybrids.
  - Fee viewed by some as a “tax on virtue”.

- Uncertain Impact of Marketplace Fairness Act.
  - Potential effort to freeze in place additional gas taxes, if Congress fails to pass MFA by January 2015.

- Additional Bond Authorizations.
  - With a growing debt service fund, additional authorizations will now be possible.

- Composition of State and Regional Oversight Bodies.

- Project Selection and Return on Investment Criteria.