Bringing Virginia's Transportation Funding Up to Speed

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John W. Lawson
Chief Financial Officer

Virginia Enacts Legislation to Enhance Transportation Revenues

After more than a decade of legislative efforts, Virginia's 2013 General Assembly adopted legislation providing a dynamic long-term transportation funding solution.

At the time it was projected to generate over $800 million a year once fully implemented (2018) from a combination of new and existing state revenue sources.

Includes $200 million from existing General Fund (GF) sources by 2018.

Additional $500 million annually for regional "self-help" packages

History

Transportation funding in Virginia has historically been provided from user fees or taxes

- Motor Fuels Tax
- Motor Vehicle Sales Tax
- Vehicle Registration

Gas tax first implemented in 1923 - 2 cents per gallon

State Gas Tax was last increased in 1986 to $17.5 cents per gallon

Other Funding Sources

Federal Highway Administration

- Single largest source
- Nearly 20 percent of budget

Tolls

- Provide for debt service on bonds issued to constructed tolled highways and bridges
- Typically removed once debt is retired

Bond Programs

- Special tax districts and corridor development programs
- Programs adopted to leverage state and federal revenues to support for bonds

Public-Private Partnerships

- Virginia's Public-Private Transportation Act had been utilized to develop mega projects
- Construction of new capacity and maintenance over life of concession

1986 Special Session

The 1986 Special Session provided new revenues for transportation by increasing existing sources

- Increased the Motor Fuels Tax
- Increased the Motor Vehicle Sales and Use Tax
- Increased Motor Vehicle Registration Fees

Increased the Retail Sales and Use Tax by 0.5 percent

- Dedicated to transportation
- First dedication a traditionally general fund revenue source

Established formulas for distributing capital funds

- Highways
- Mass Transit
- Ports
- Airports

Subsequent Transportation Initiatives

2000
- Virginia Transportation Act of 2000
- Established an indirect GARVEE program and provided general fund assistance
- Included long list of specific projects

2005
- 2005 Transportation Initiative included in Budget
- Directed the use of $848 million towards transportation investments
- Included $350 million of General Fund dollars

2007
- HB 3202 created $3.0 billion capital projects bond program
- Dedicated new revenues to transportation
- Created regional authorities to address transportation needs

2011
- Created a direct GARVEE bond program
- Accelerated the use of the Capital Projects Bond program

New Revenue Model Needed

Needed to 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

Components of a Solution

A sales tax based solution would be tied to the economy

Inherent growth factor allowing revenues to keep pace with inflation

A sales tax on motor fuels would retain the nexus to transportation system user-fees

Recognition that transportation is a core function of government and should be funded by typically general fund revenue sources

Compounding Factors

Uncertainty of future of federal revenues

Aging infrastructure and growing congestion

Rising costs of materials and energy reduce the buying power

No funding through the 1986 formula for highway construction since 2009

The Statewide Solution

Eliminated the 17.5 cents per gallon gas tax

Replaced the excise tax with a Sales Tax on Motor Fuels

- **A 3.5% gas fuel sales tax at rack**
- **A 6% diesel sales tax at rack (reflects higher wear and tear on roads from heavy trucks)**

Increased the motor vehicle titling tax from 3 percent to 4.15 percent phased four year implementation

The Statewide Solution

Recognized the importance of transportation as a core function of government, providing additional funding from traditional general fund revenue sources.

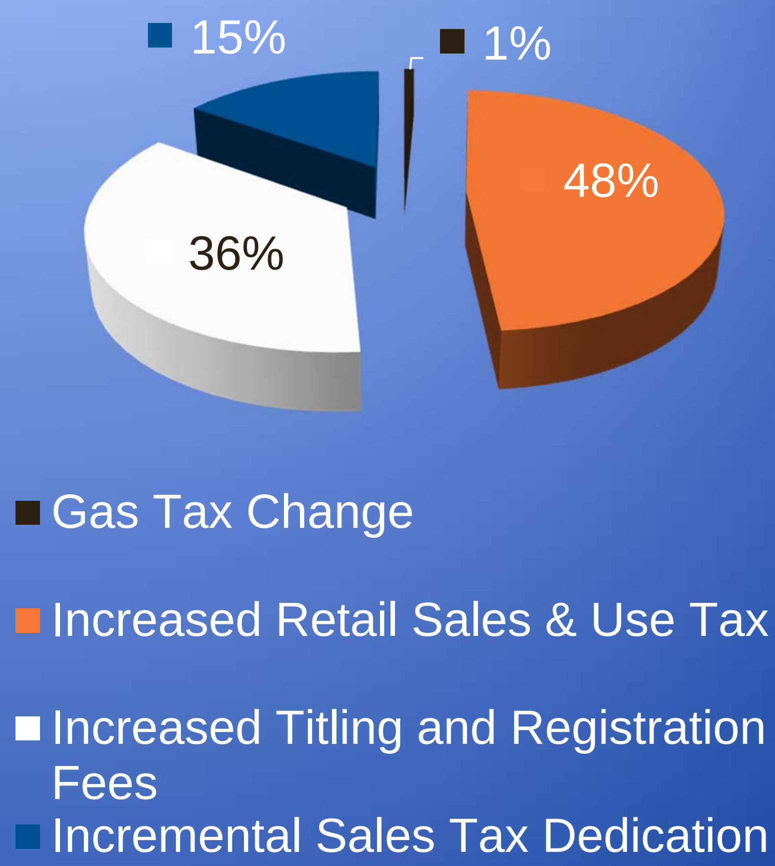
Increases the share of the existing retail sales and use tax dedicated to transportation from 0.50% to 0.675% when fully phased in (FY 2017)	Transfers additional 0.05% each year in FY 2014, 2015 and 2016, with an additional 0.025% transferred in fourth year	Increases the retail sales and use tax from 5.0% to 5.3%, dedicating the increase to transportation

Chapter 766 of the 2013 Acts of Assembly Additional Funding

Expected to provide over $800 million a year once fully implemented

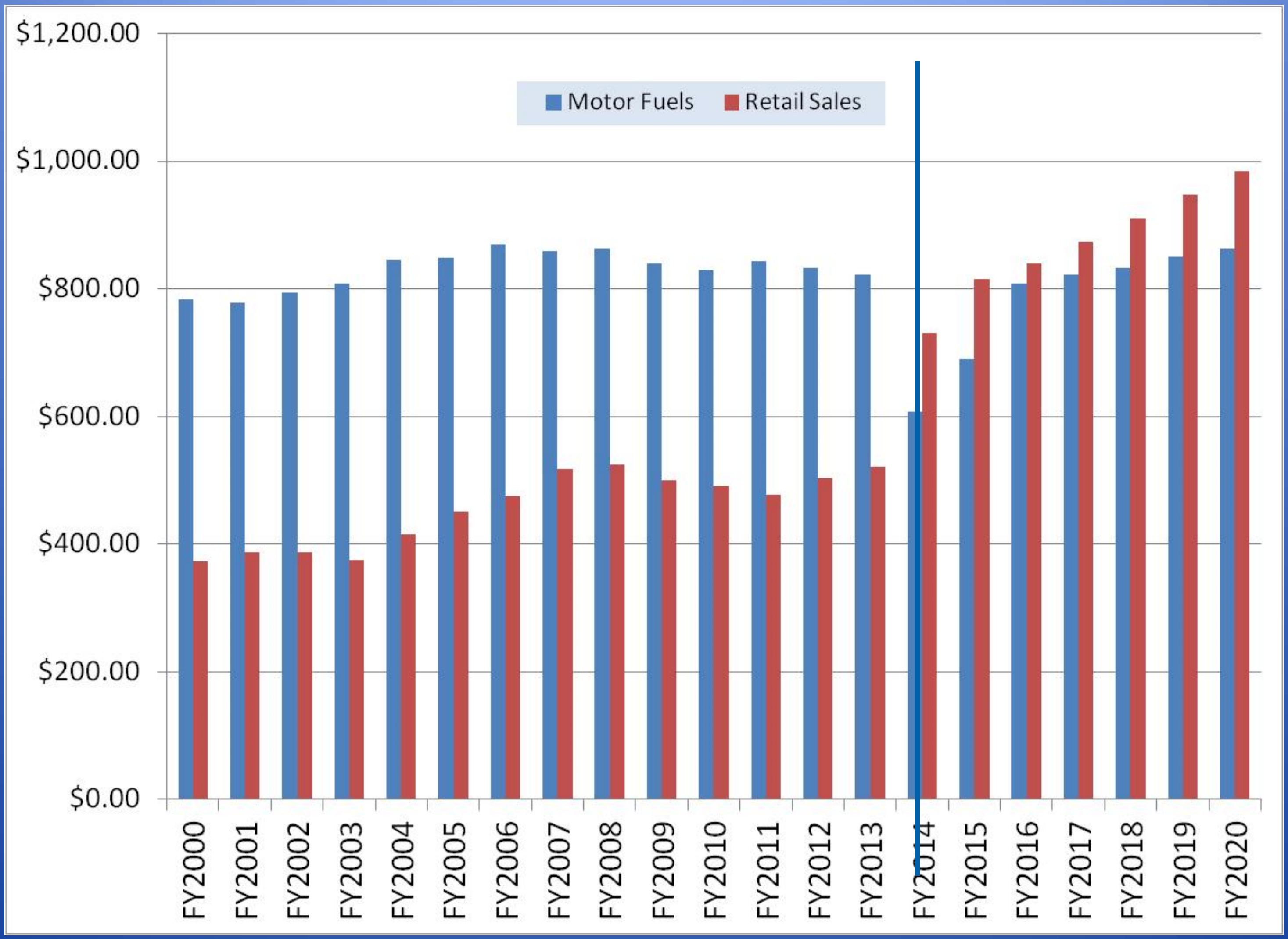
Represents a 17% increase in transportation funds

Retail Sales & Use Tax becomes largest revenue source



Motor Fuels Tax vs. TTF Share of the State Retail Sales and Use Tax Comparison

In Millions



Prepared for Future Sales Taxes

Utilize potential “new” revenue from Marketplace Fairness.

- Directs the majority of revenues generated by the Marketplace Fairness Act (MFA) to be utilized for transportation.
- Includes a trigger that if MFA is not adopted by January 1, 2015, the tax will be increased to 5.1%, and general fund transfers to HMOF frozen at 2015 levels.
- Long-term expected to provide additional $50 million annually for transportation

Regional “Self-Help” Solution

A portion of the sales and use tax revenues from MFA (5.3%) will be distributed to the localities

- **Local Sales Tax – 1/2% for any purpose**
- **Local Sales Tax – 1/2% for Transportation**

The Chapter also generates revenues specifically for Hampton Roads and Northern Virginia and future Planning Districts that meet specific transportation related criteria

- **Hampton Roads**
  - 0.7% local sales tax
  - 2.1% Sales Tax on Fuel
- **Northern Virginia**
  - 0.7% local sales tax
  - Regional congestion relief fee - $0.15 per $100
  - Transient occupancy tax – 2%

Transit and Rail

Provides a dedicated funding for Mass Transit and Intercity Passenger Rail Fund (IPROC).

- **Dedicates a portion of the 0.3% increase in the general sales tax to support rail and transit projects in the Commonwealth (0.125%)**
  - 60% for transit
  - 40% for rail
- **IPROC Fund created in 2011 but had no dedicated funding stream.**
- **Approximately $80 million/year to transit and $50 million/year for rail**

New Money!
Problem Solved?

Year following the passage of additional transportation funding:

- Realization that it will not address all wants or needs
- Debate resumed about how to distribute the funds

Determined need to formally prioritize the use of funds to obtain best value

HB 2 of the 2014 General Assembly requires implementation of a prioritization methodology by June 2016

The prioritization process must be objective and quantifiable

- Congestion mitigation
- Economic development
- Accessibility
- Safety
- Environmental Quality

Summary

Virginia has moved away from a cents per gallon motor fuels tax in favor of a sales tax on motor fuels and the use of retail sales & use tax revenues to support transportation

The new revenues will address the state maintenance fund deficit and provide funding for construction

The construction program will be increased by nearly 50 percent, with significant efforts focused on bridge and pavement rehabilitation

Revenues are now dedicated to IPROC and mass transit

Hampton Roads and Northern Virginia are provided dedicated revenues to address the special transportation needs of those areas

A formal prioritization model will be implemented to ensure the best use of available revenues