Virginia's Transportation Funding Solution HB 2313(2013)

Virginia Association of Counties
Summer Meeting

Jason Powell, Legislative Fiscal Analyst
Senate Finance Committee

August 16, 2013

HB 2313: Virginia Adopts Enhanced Revenue Stream for Transportation

- 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.

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 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

FY14
<u>Appropriation</u>
$4.9 billion

<u>Population</u>
8.1 million

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

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

Commercial Spaceflight Authority
- 2 launch pads
- 10 scheduled launches

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

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.
  - 2013 - Dropped to 5th overall, but rose to 21st in 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

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

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%.

Wide Ranging Financing Proposals Considered

- **SB 717** (Watkins)
  - Apply 5.0% sales tax to motor fuels and retain excise tax.
  - Apply sales tax to certain transportation services.
  - Eliminate certain tax credits.
  - Amend income tax structure to lower threshold.
- **SB 1340** (Saslaw)
  - Increase motor fuels tax by $0.10.
  - Increase general sales and use tax by 1 percent.

Final legislation was a compromise between the Governor's proposal to **eliminate** motor fuel taxes and a variety of Senate bills to increase them.

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

Revenue Source	HMOF	TTF	PTF	DMV	Mass Transit	Intercity Rail	Local	K-12
Sales Tax on Fuels	80%	15%	4%	1%				
$64 Alt Vehicle Reg. Fee	100%							
Increase MVSUT	100%							
Increase SUT	58%				25%	17%		
Existing SUT	100%							
MFA		58%					18%	24%

Hampton Roads Regional Plan

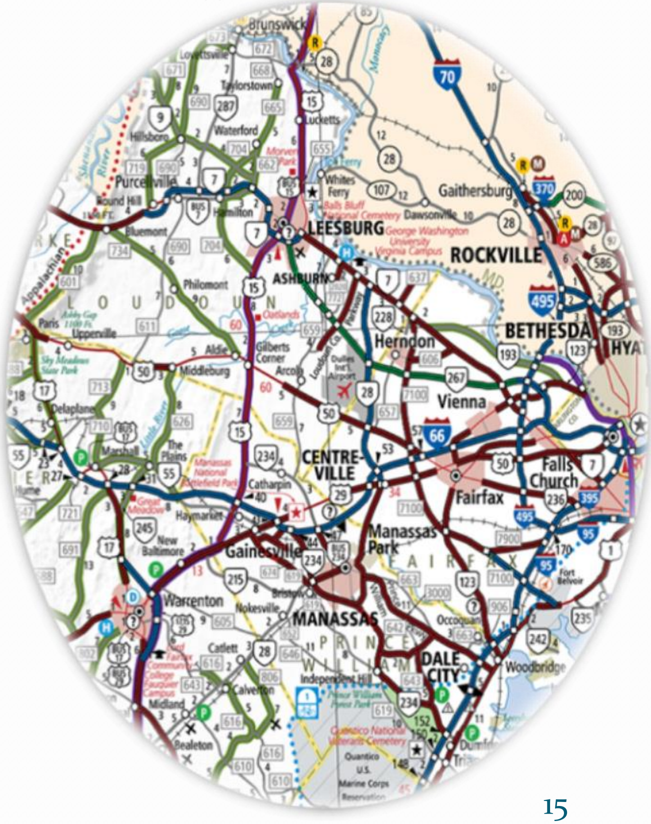
- Revenue derived from additional general and motor fuels sales taxes.
- Funding can only be used for construction projects on new or existing roadways, bridges and tunnels.
  - Priority given to projects that reduce congestion.
- Projects approved by the Hampton Roads TPO.

($ in millions)	2014	2018	5-Year Total
0.7% Local SUT	$115.2	$145.8	$ 668.4
2.1% Regional Motor Fuel Tax	$ 60.4	$ 76.3	$ 352.2
Total	**$175.6**	**$222.1**	**$1,020.6**

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.

($ in millions)	2014	2018	5-Year Total
0.7% Local SUT	$214.1	$270.8	$1,241.7
$0.15/$100 Grantors	$ 33.5	$ 33.5	$ 167.5
2% Hotel Tax	$ 24.9	$ 31.2	$ 143.4
Total	**$272.5**	**$335.5**	**$1,552.6**



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.
- Appropriateness of metrics for the levy of regional transportation taxes.
- Additional Bond Authorizations.
  - With a dynamic revenue stream for debt service fund, additional authorizations will now be possible.

The Road Ahead…

- Defining State and Local Roles and Responsibilities.
  - Composition of state and regional oversight bodies.
  - Devolution of secondary roads.
  - Defining corridors of statewide significance.
- Project Selection and Return on Investment Criteria.
- Alignment of funding formulas to sustain multimodal investments.
  - Addressing the competing needs of road, rail, mass transit, ports, air and space.
- Appropriate use of toll financed improvements beyond interstate investments.
- Impact of stagnant or declining federal funds.

Contact Information

Jason Powell
Legislative Fiscal Analyst
jpowell@sfc.virginia.gov