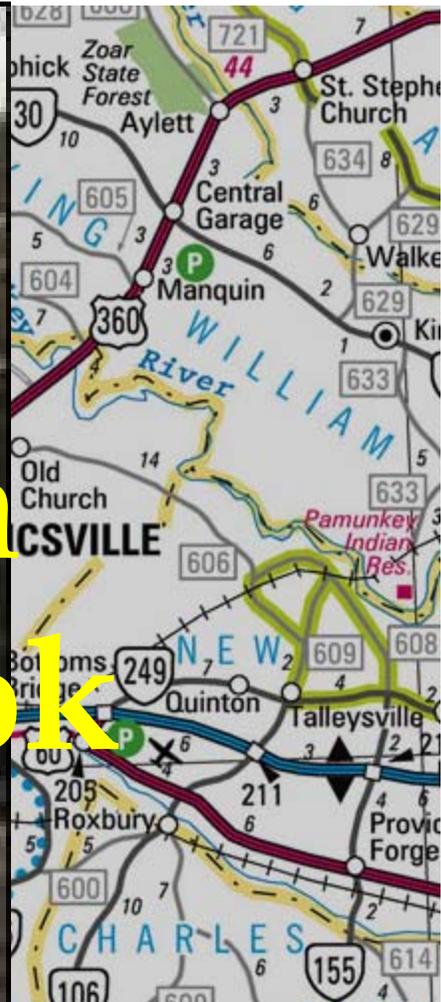
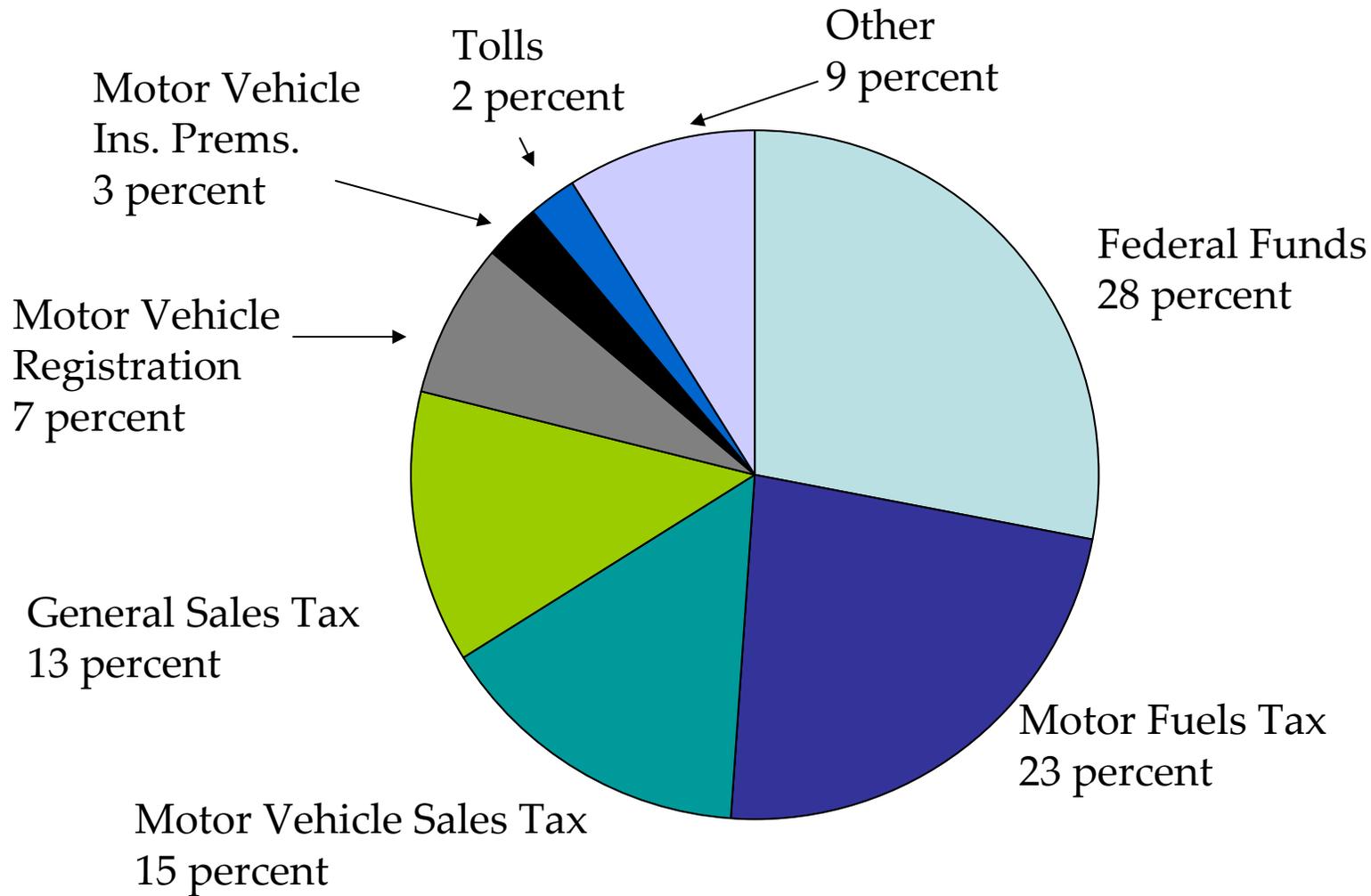


Transportation Revenue Outlook

FY2009-2014



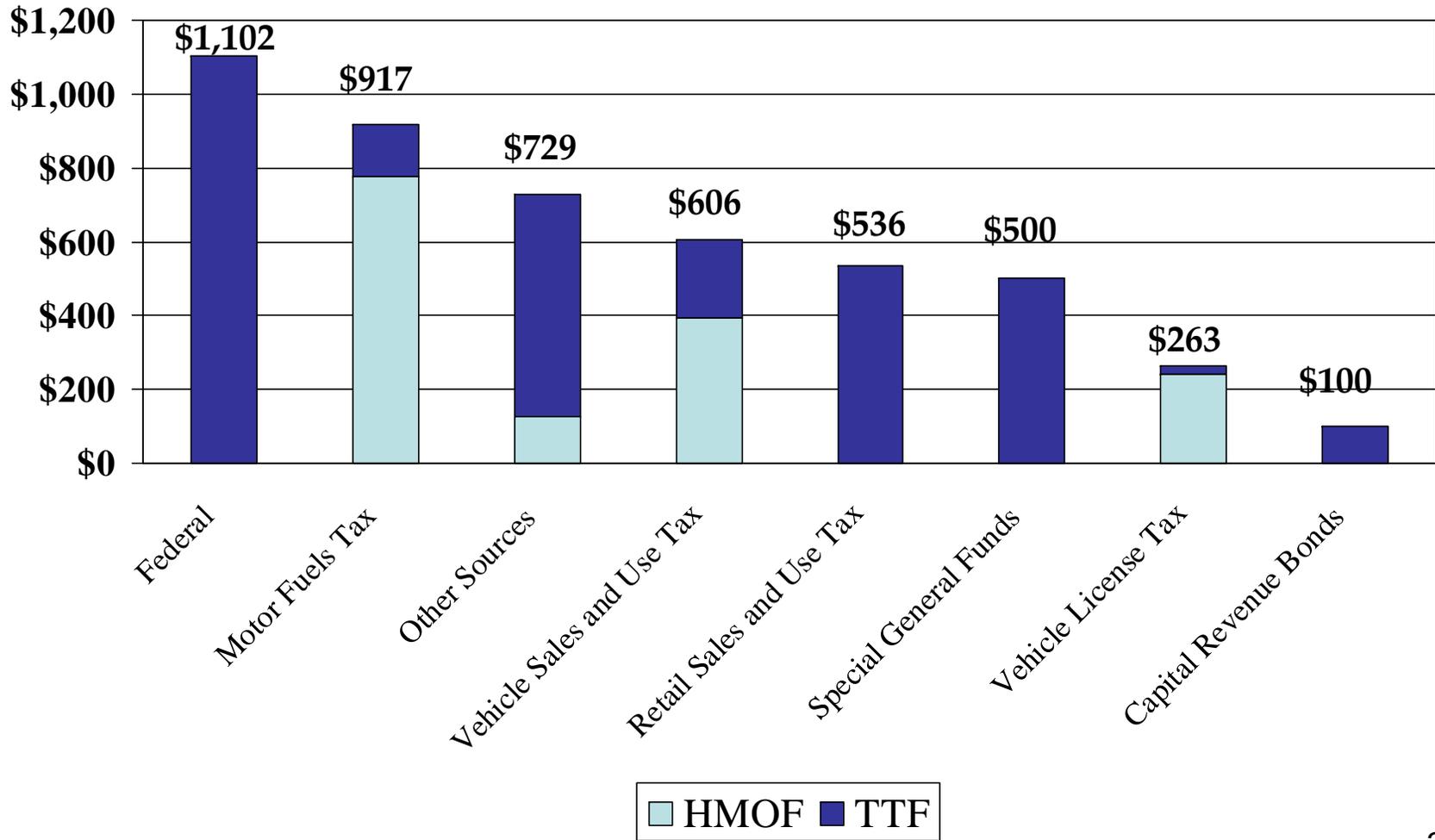
Virginia's Transportation Revenue Sources (FY08 Total \$4.8 Billion)



FY08 Transportation Revenues

\$4.8 Billion Total

(\$ in millions)



Major State Revenue Sources

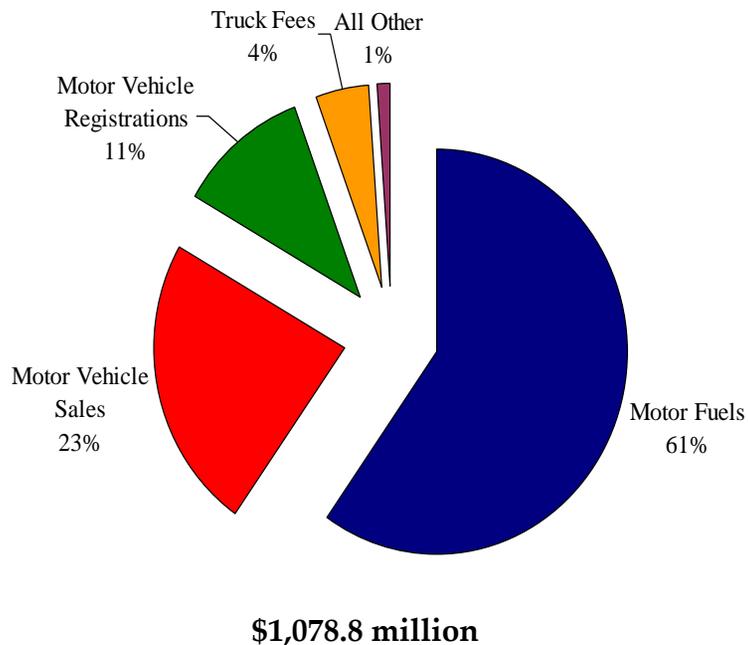
	<u>FY 2008 Revenue Estimate</u>
State Motor Fuels Taxes (17.50 cents per gallon) Every 1 cent generates about \$59 million	\$903.5 million
Motor Vehicle Sales and Use Tax (3 percent) Every 1 percent generates about \$200 million	\$568.3 million
State General Sales and Use Tax (1/2 percent) Every 1 percent generates about \$1 billion	\$517.8 million
Motor Vehicle Registration Fee (\$39.50) \$29.00 goes to highways, transit, & other transportation Every \$1 generates about \$7 million	\$253.1 million
Other Sources	\$360.7 million
Recordation tax (beginning in FY 2009)	\$45.9 million
Insurance premium tax	\$139.5 million
Tolls	\$93.1 million

Use of Debt for Transportation Funding

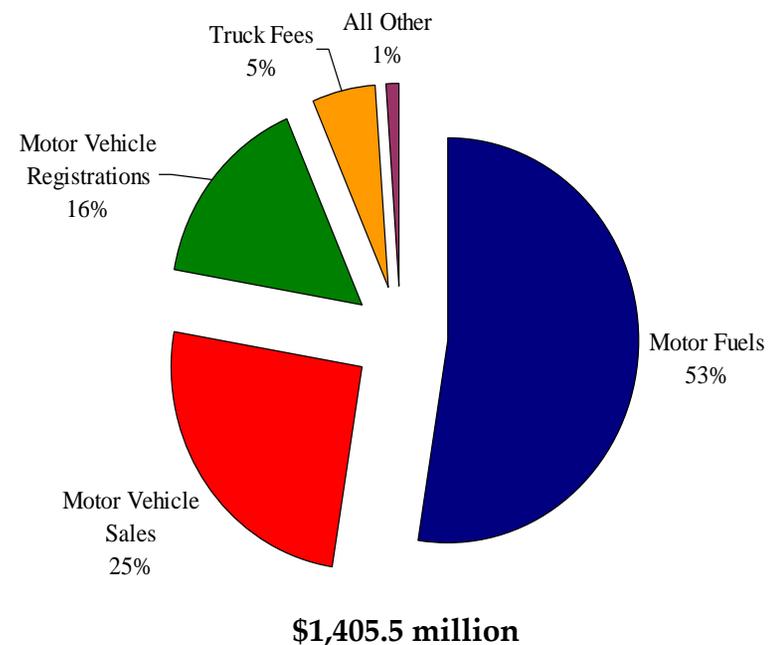
- Debt has played an increasing role in highway funding in Virginia over the last 20 years.
 - Supported by both general and non-general funds
- Debt service for outstanding obligations has grown from \$68 million in 1998 to \$243 million in 2008.
 - Debt service increased to \$271.4 in 2009
 - Projected to increase to \$413.6 million by 2014
- Currently \$3.9 billion in unissued transportation debt instruments.
 - Includes HB 3202 (2007) authorization
- National municipal bond market is constrained.

Highway Maintenance and Operating Fund Revenue Components 1998 compared to 2008

Components of HMOF Revenues – FY98
Percent Share of Total



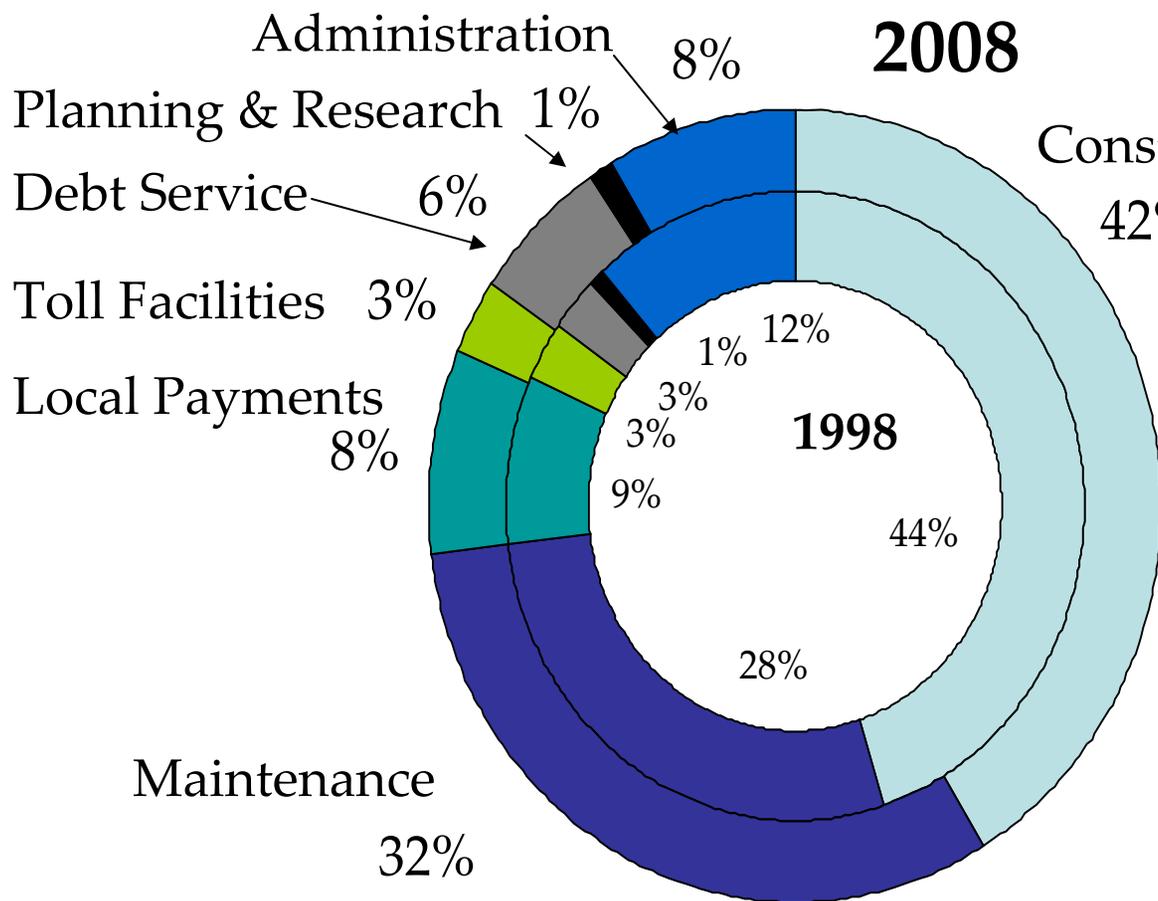
Components of HMOF Revenues – FY08
Percent Share of Total



- Growth has been based primarily on vehicle values and sales volume.
- Relative value of motor fuel tax revenues has declined.

10-Year VDOT Expenditure Trends

(Percent of Total Budget)



- Percent of total annual expenditures for new construction reduced
- Maintenance fastest growing expenditure
- Administration expenditures reduced by one-quarter
- Debt service doubled

Virginia's Highway Funding Priorities

- Federal and state law dictate spending priorities and the distribution of VDOT's budget (FY08).
 - Debt service - \$263.4 million
 - Other state agencies/support payments - \$45.4 million
 - Maintenance - \$1.6 billion (VDOT highways, 2 counties, cities)
 - Operations and administration - \$375.5 million
 - Toll roads - \$95.1 million
 - Earmarks and special financing programs - \$583 million
 - Interstate, primary, secondary, urban construction projects (systems construction) - \$1.0 billion
- Virginia is the only state in the nation with greater expenditures for maintenance than construction.

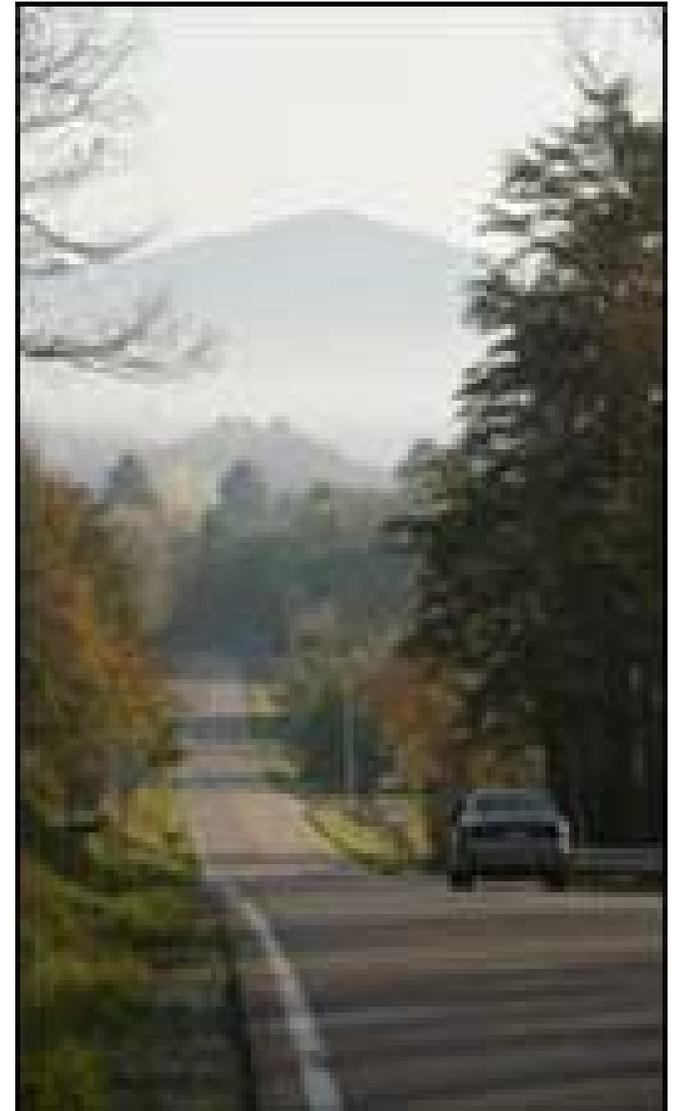
FY08 Surface Transportation Expenditures by District

(\$ in millions)

District	VDOT Maintenance	Locality Payments	Rail & Public Transportation	Highway Construction
Bristol	\$137.1	\$ 11.8	\$ 4.8	\$ 97.4
Culpeper	73.6	6.3	8.5	53.5
Fred'burg	82.8	2.1	12.4	57.9
Hampton Rds	155.3	140.7	45.9	215.4
Lynchburg	77.1	20.6	7.5	51.2
NoVA	187.6	33.2	217.6	410.2
Richmond	172.6	62.1	23.9	137.7
Salem	132.1	30.2	11.9	93.9
Staunton	110.8	18.8	25.8	86.5
Statewide	128.7	N/A	N/A	157.8
Total	\$1,257.6	\$325.7	\$358.3	\$1,361.5

Return on Transportation Investments

- Reason Foundation 2006
National Comparison
 - Rural Interstate 1st
 - Urban Interstate 28th
 - Rural Primary 16th
 - Urban Primary 22nd
 - Fatality Rate 16th
 - Deficient Bridges 22nd
 - Narrow Lanes 45th
- Overall Cost Effectiveness Rating 16th
 - Increase of 2 positions from 2005
- Illustrative of challenges facing both regions of high population density as well as large rural areas.



Shortfalls in Highway Maintenance Funding

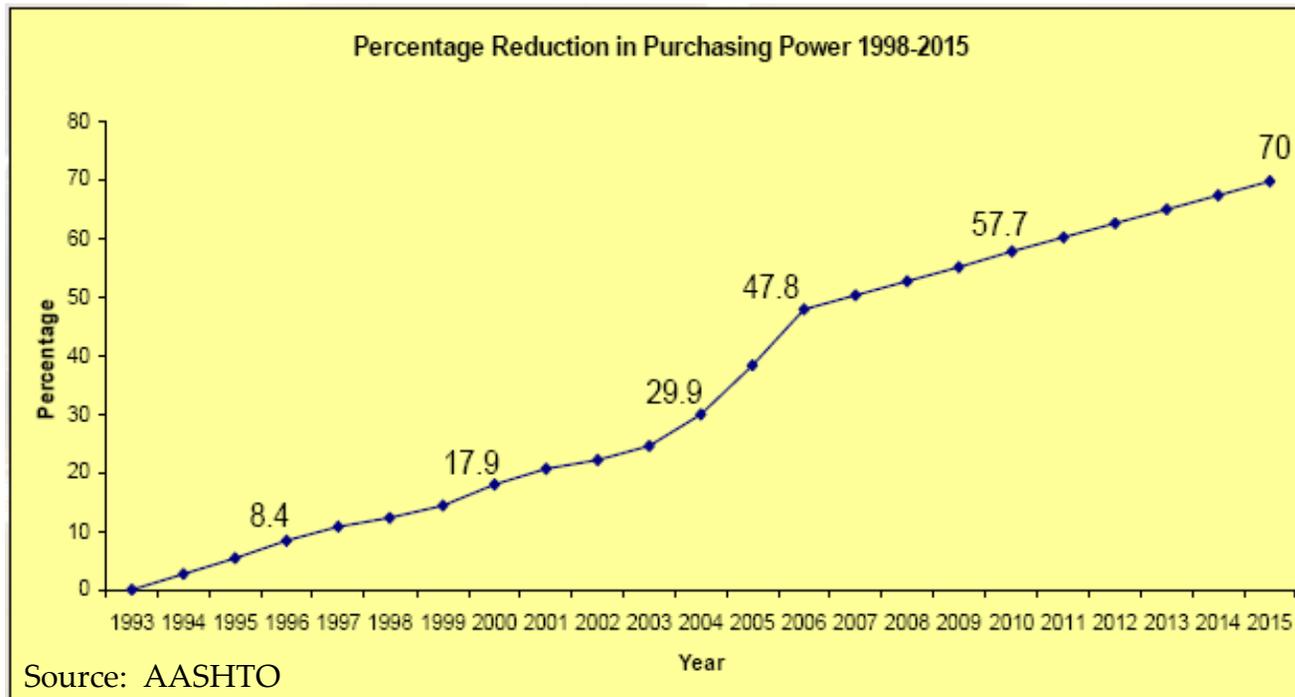
- When the cost of maintenance exceeds dedicated revenues, funds are transferred from the TTF to the HMOF.
 - First maintenance deficit occurred in FY02
 - Since FY02 more than \$1.0 billion transferred from construction program
 - FY09 maintenance deficit is \$385.0 million
 - Maintenance deficit projected at \$574.5 million in FY14

- This deficit results in reductions to the secondary and urban highway construction programs.

Fiscal Year	HMOF Shortfall (\$ in millions)
2002	\$ 3.6
2003	\$ 147.2
2004	\$ 56.9
2005	\$ 244.6
2006	\$ 186.2
2007	\$ 286.3
2008	\$ 260.6
2009*	\$ 385.0
2010*	\$ 386.3
2011*	\$ 430.8
2012*	\$ 469.6
2013*	\$ 503.5
2014*	\$ 574.4
*Projected as of June 2008. Source: VDOT Financial Planning	

Impact of Inflation on Transportation Revenues

- Since 1986, the purchasing power of Virginia's gas tax revenues has eroded 95 percent due to inflation.
 - 17.5 cent per gallon in 1986 has purchase power equivalent to 8 cents
- Using a baseline of 1993, value of a static gas tax continues to deteriorate at about 4.5 percent per year.



Impact of Inflation on Transportation Expenditures

- The cost of highway and street construction materials was up 22.2 percent in September 2008 compared to the same month last year.
- Inflation, as measured by CPI, increased 4.9 percent.
- Between 2003 and 2008, the price of highway and street construction materials increased 76.5 percent.

Highway & Bridge Construction Input Prices						
Percent Price Change						
	09/07 to <u>09/08</u>	08/07 to <u>08/08</u>	07/07 to <u>07/08</u>	09/06 to <u>09/07</u>	09/05 to <u>09/06</u>	09/04 to <u>09/05</u>
Highway & Street Construction	22.2	22.4	21.4	6.2	5.6	16.0
Asphalt Paving & Block Mfg.	43.4	36.4	26.7	2.1	31.9	9.6
Cement	-1.7	0.5	0.0	5.1	11.2	12.2
Concrete Block & Brick	3.8	3.0	2.8	3.1	8.0	7.9
Construction Sand, Gravel & Stone	6.9	7.0	7.0	7.9	9.8	7.3
Iron & Scrap Steel	47.9	100.1	110.5	21.0	5.1	-4.2
Ready Mix Concrete	3.3	2.1	2.6	3.4	10.4	12.0
CPI	4.9	5.4	5.6	2.8	2.1	4.7
Source: ARTBA						

State Transportation Revenues Declining Since 2007

- State revenue estimates last official revision in June 2008
 - Reduced revenues by \$1.1 billion between FY2008-13
 - Loss of Abusive Driver Fees
 - General economic downturn
 - Resulted in a 44% annual reduction in state construction formula allocations
- Revenue sources have continued to deteriorate due to economic conditions
 - November 2008, total anticipated reduction of \$2.1 to \$2.6 billion between FY2009-14

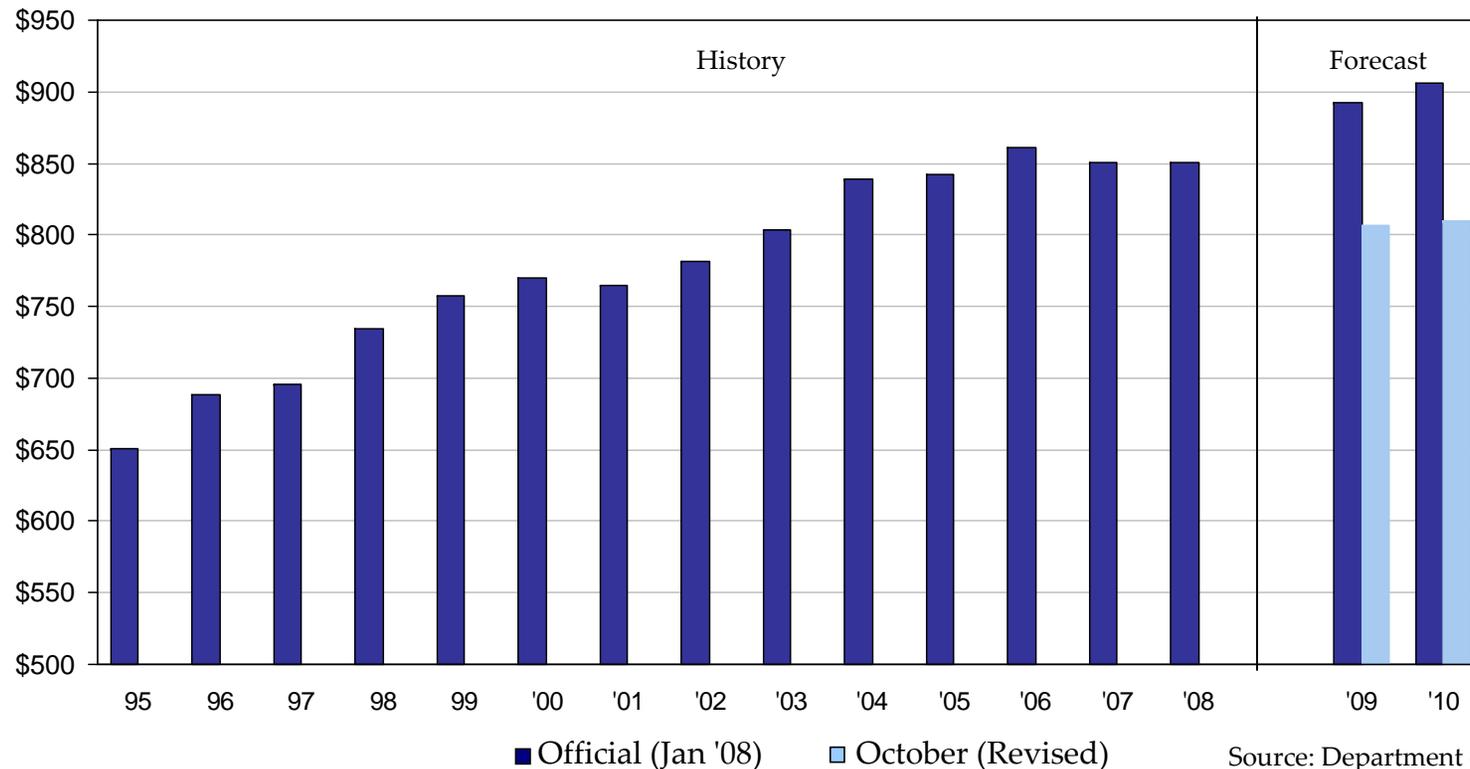
Factors Affecting Transportation Revenues

- Population growth
 - Trend toward slower growth since 2000 census
- Economic growth
 - Demand for motor fuels, particularly diesel, is driven by economic activity
 - At least a 3-quarter recession is expected in FY09, and a sluggish recovery could begin in the second half of FY10
- Fuel prices
 - From July 2004 to July 2008, gasoline prices increased 103%, prices have moderated since July
- Vehicle mix and driving habits
 - There has been a significant movement to smaller vehicles over the past 3 years that is expected to accelerate

Fuel Tax Collections

Motor Fuels Tax Collections, FY95 – FY10

\$ in Millions

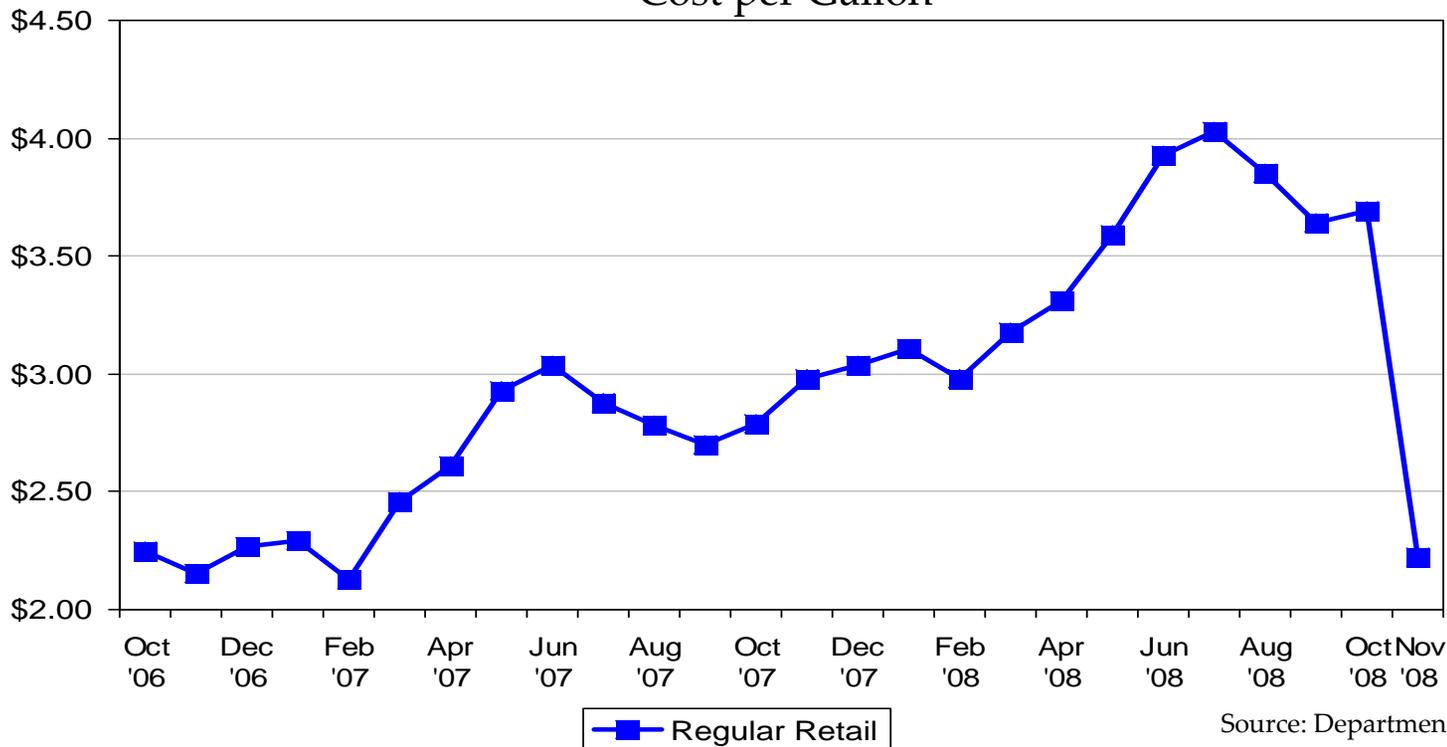


Source: Department of Taxation

- Similar to FY01 recession, however fuel prices are significantly more volatile
- Since FY95, the average annual percent change in motor fuels tax collections is 2.1%. Over the last four years, the average annual growth has been 0.3%

Gasoline Prices

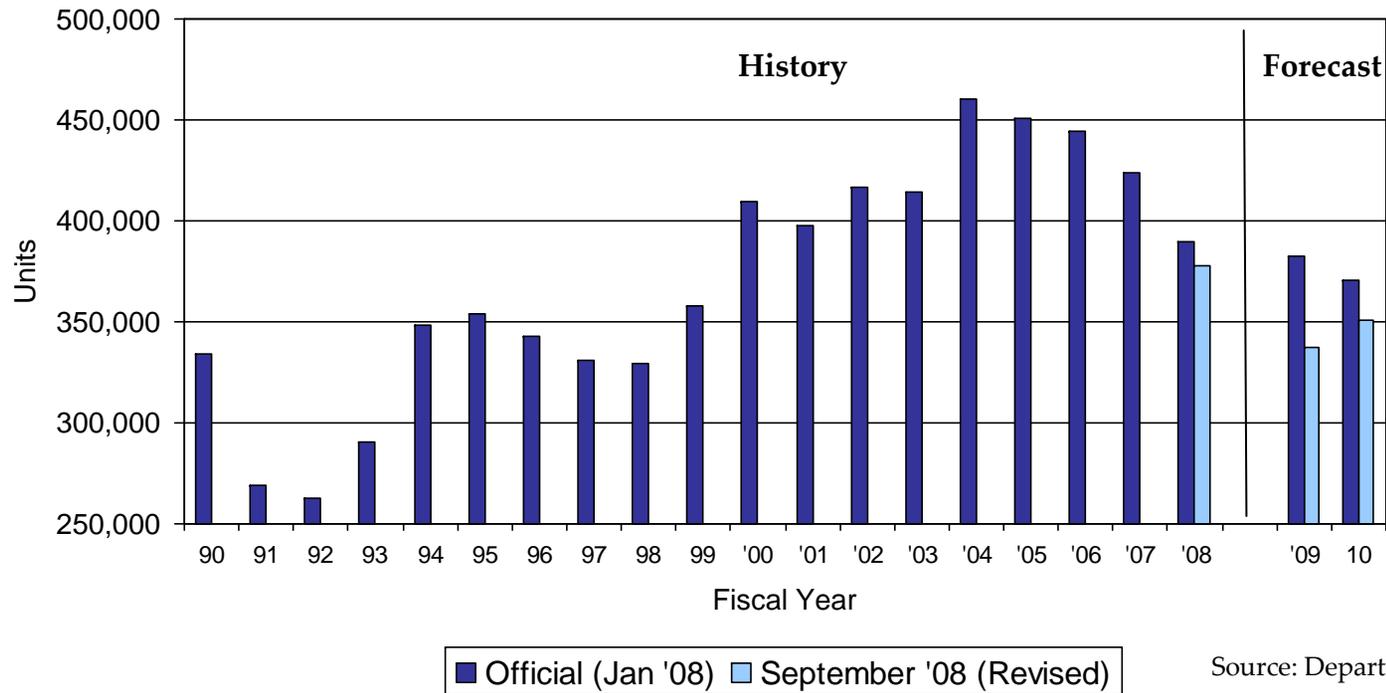
Regular Retail Gasoline Prices, Monthly
October 2006 to November 2008
Cost per Gallon



- Gasoline prices are expected to continue seasonal swings, surging in the spring and moderating in the fall

New Car Sales

Virginia New Car Sales
Fiscal Year 1990 - 2010



- Sales volume declining since 2005
- New vehicles sales in fiscal year 2009 expected to fall to levels not seen since the mid-1990's

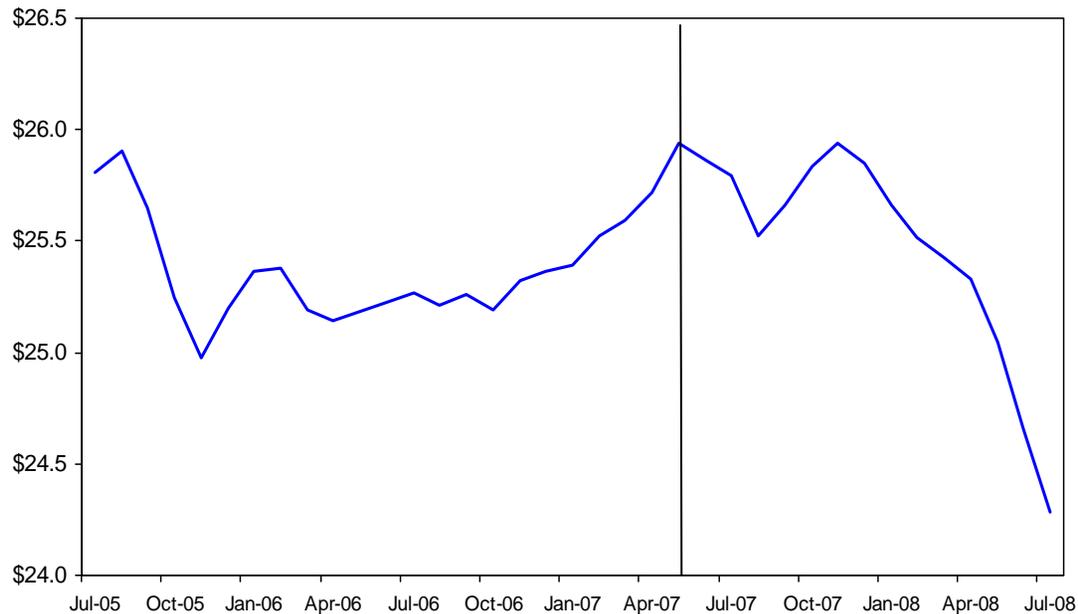
New Vehicle Values

Average Price of a New Vehicle 2005-2008

Year-over-Year Percent Change

Seasonally-adjusted 3-month moving average

Thousands
of Dollars

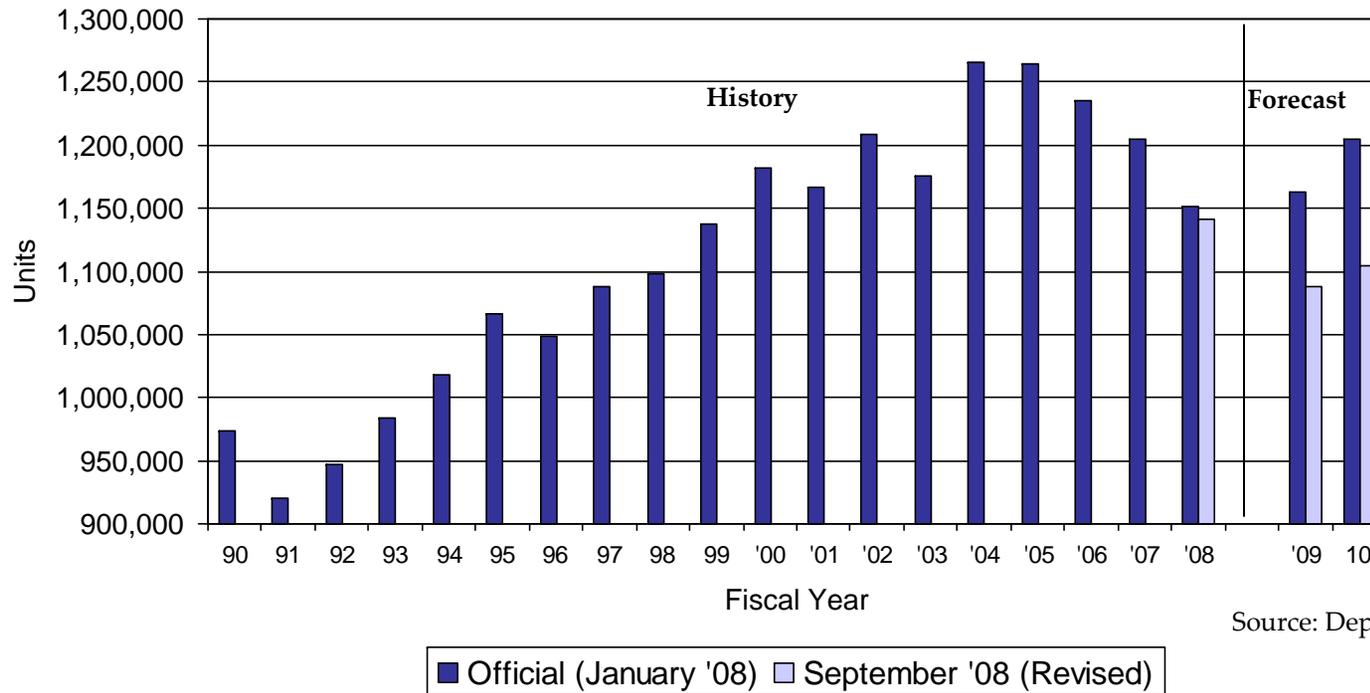


Source: Department of Taxation

- The average price of a new vehicle has significantly declined to spring-2003 levels

Used Vehicle Sales

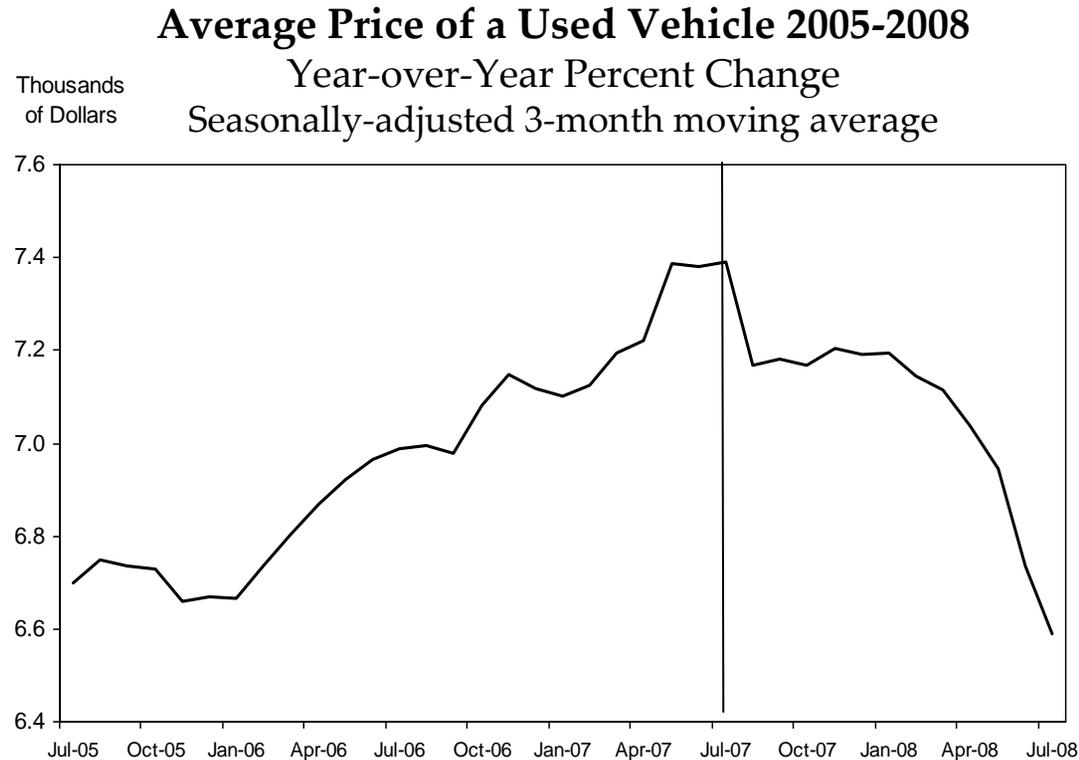
Virginia Used Car Sales
Fiscal Year 1990 - 2010



Source: Department of Taxation

- Sales declining since 2005
- Current used car sales at late-2003/early-2004 levels and are projected to drop to late-1990's levels

Used Vehicle Values

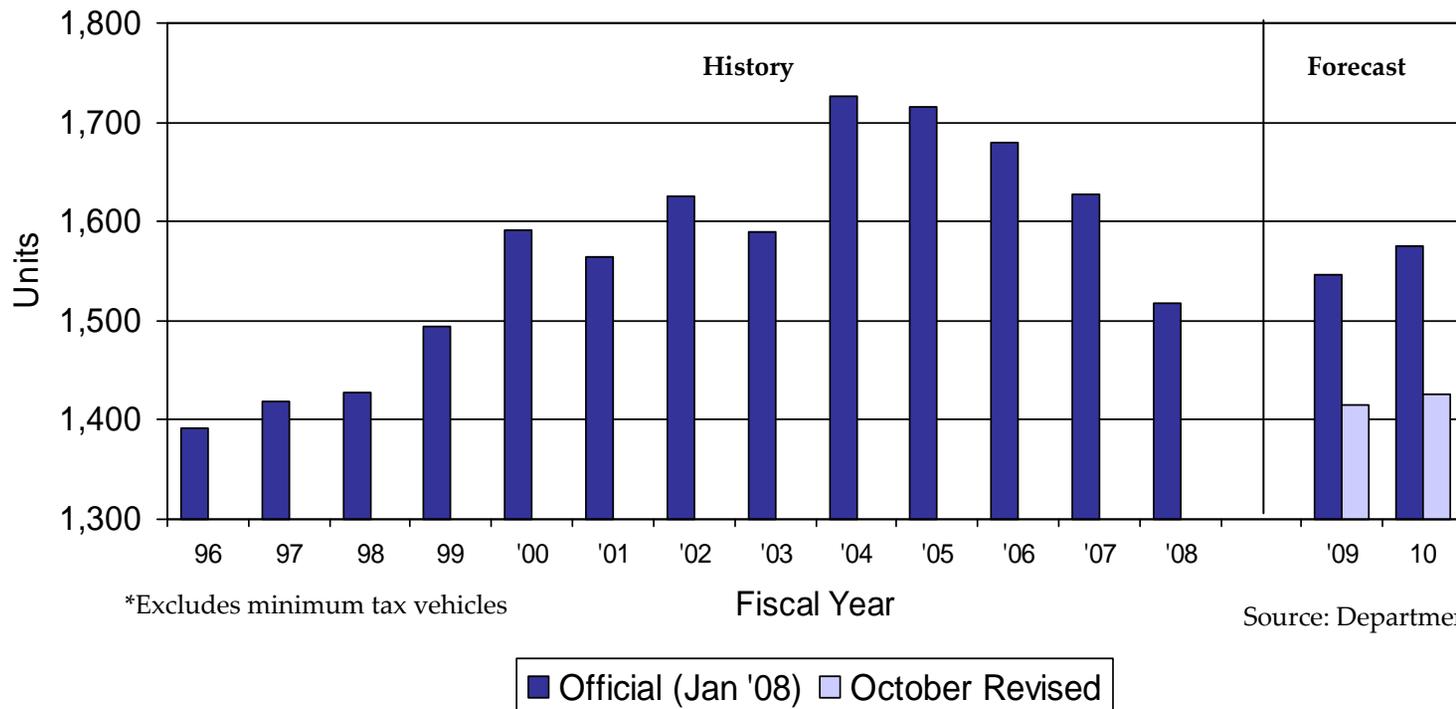


Source: Department of Taxation

- As with volumes, used vehicle prices have fallen to early-2005 levels
- Lower new vehicle prices are depressing prices of used vehicles

Total Vehicle Sales

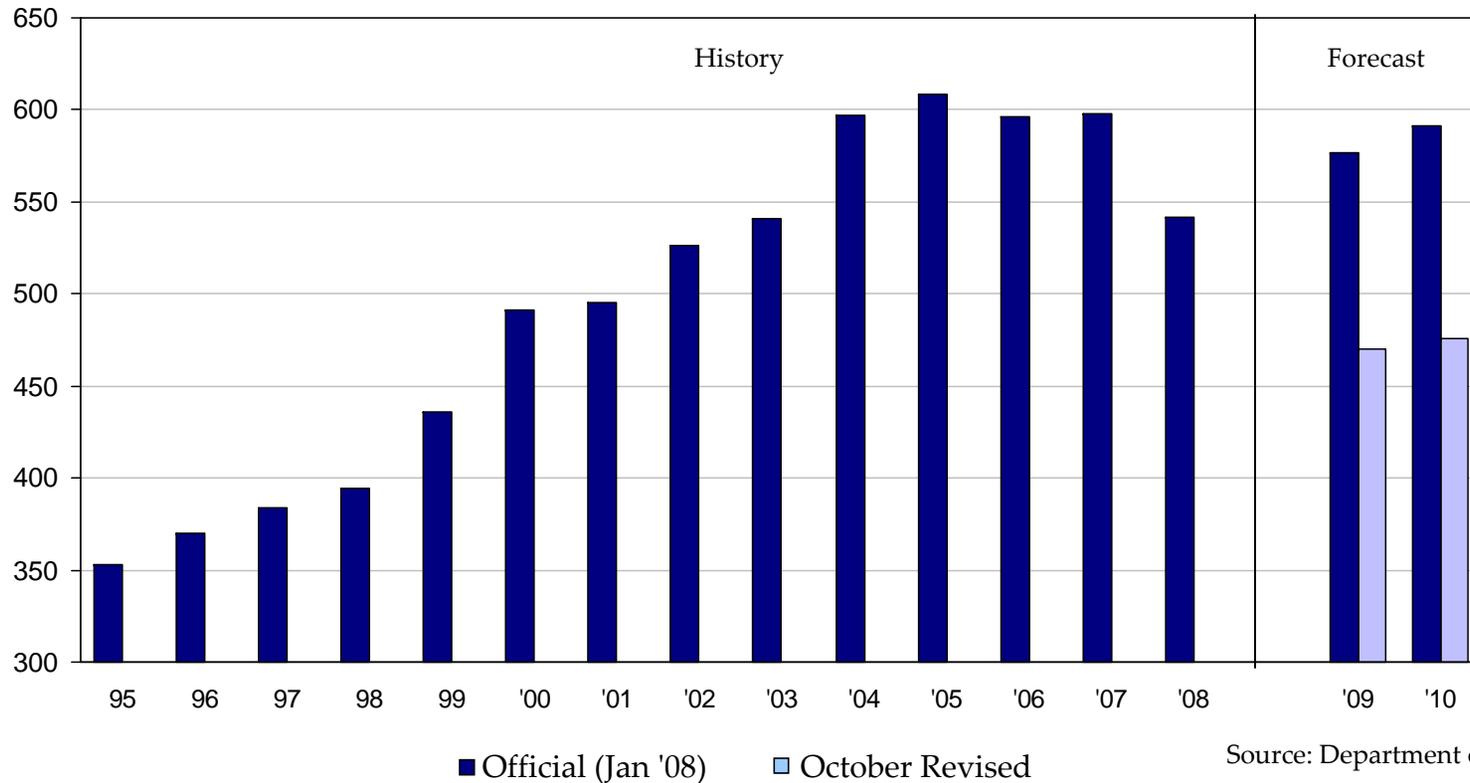
Virginia Total Vehicle Sales*
 Fiscal Year 1996 - 2010
 (Thousands of Units)



- Car sales have continued to decline another 6% through November

Motor Vehicle Sales Tax Collections

Motor Vehicle Sales Tax Collections, FY95 – FY10
Millions of Dollars



- Tight credit conditions and high fuel costs have reduced total motor vehicle sales tax collections to levels seen ten years ago

Federal Funding is Uncertain

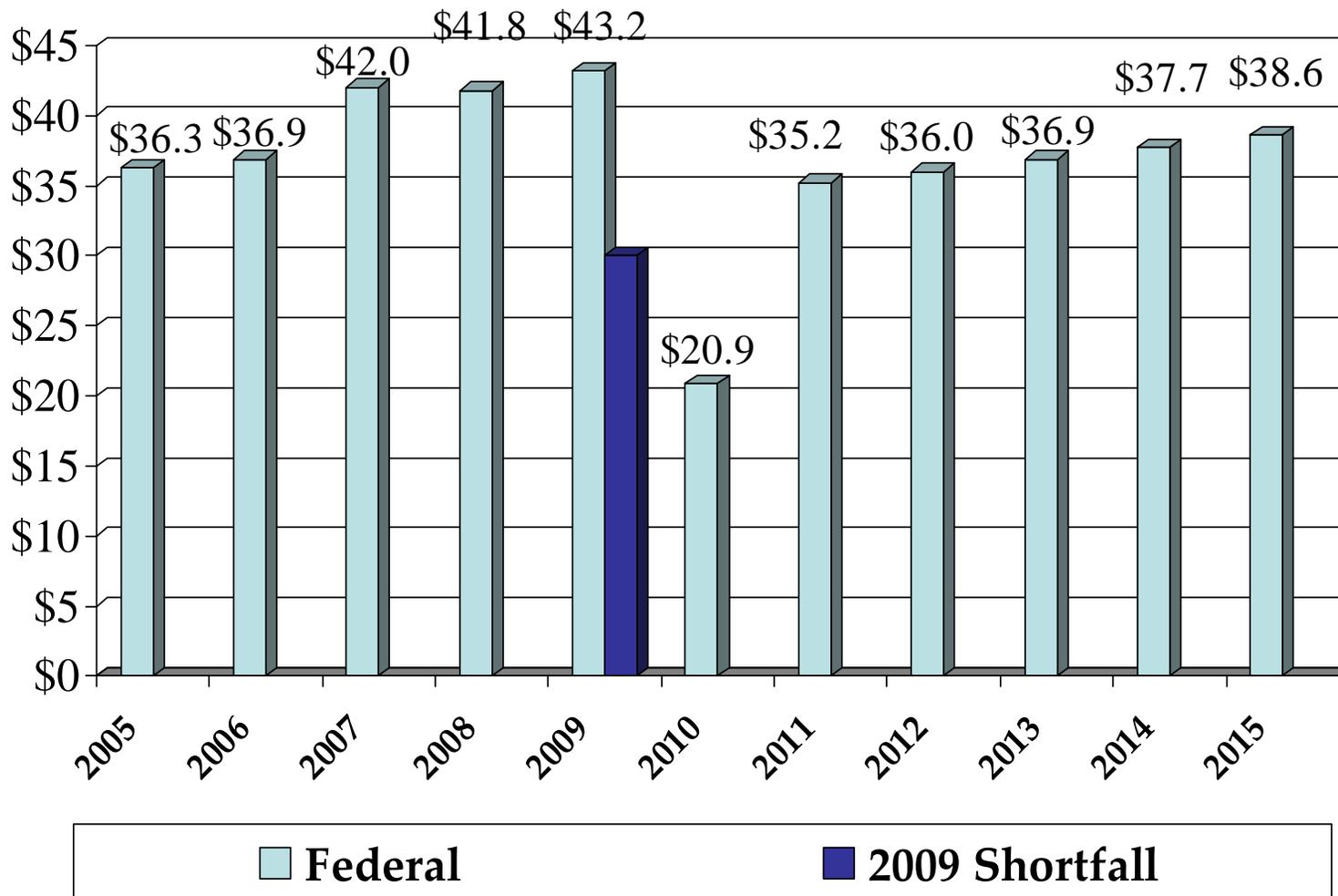
- Expiration of SAFETEA-LU at end of federal fiscal year 2009
 - Developing the next transportation legislation will be a difficult task
 - New Administration
 - First Session of new Congress
 - Funding source issues, expiration of federal gas tax
 - Investment issues nationally
- Federal revenue troubles are forecasted
 - U.S. Treasury's forecast for FY 2008 indicates that the highway program faces a serious funding crisis beginning in fiscal year 2009
 - Emergency Transfer of \$8 billion in September 2008
 - Shortfall of \$20.3 billion projected in 2010

Virginia's Projected Federal Fund Reductions

- Anticipate decrease in federal funds between 15 and 20 percent per year for the next six years
 - FY09 between \$93 and \$216 million
 - FY10 between \$105 and \$216 million
- Potential for reductions of \$588 million to \$1.09 billion over next six years
- Federal Funds are 28% of total revenues and 34% of new construction revenues

Immediate and Future Federal Funding Concerns

Actual and Projected Federal Transportation Trust Fund Revenues
FY2005 – FY2015
(\$ in Billions)



Bottom Line

- State and federal revenue sources are projected to decline for the near term and slowly increase in the future.
- Over the next six years, State revenue collections are being reduced by \$1.5 billion as compared to the official forecast.
 - \$245.8 million in 2009
 - \$283.7 million in 2010
 - \$989.0 million between 2011-2014
- Federal revenues also expected to decline
 - \$93 to \$216 million in 2010
 - \$105 to \$216 million in 2011
 - Between \$588 million and \$1.1 billion between 2010 and 2014
- Estimated total reductions between \$2.1 and \$2.6 billion over six years.
- Reductions are in addition to \$1.1 billion from June 2008.

Conclusion

- Deteriorating transportation revenues and highway maintenance deficit will continue to diminish funds for highway construction.
- Federal government's commitment to sustained transportation funding is uncertain.
 - Potential for Congressional earmarking of “ready-to-go” projects
- Structural changes underway at Virginia's transportation agencies.
- Revenue models and allocation formulas may need to be changed to address evolving funding challenges.

Appendixes

Commonwealth Transportation Funds

Estimated Revenues (in millions)
Approved June 20008

	Fiscal Year						Total
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	
State Transportation Revenues							
HMOF	\$ 1,486.3	\$ 1,515.0	\$ 1,541.7	\$ 1,576.4	\$ 1,618.8	\$ 1,627.4	\$ 9,365.6
TTF	988.8	1,027.1	1,059.8	\$ 1,094.8	\$ 1,134.1	\$ 1,157.3	\$ 6,461.9
PTF (From TTF)	159.5	164.8	174.0	\$ 179.9	\$ 186.7	\$ 193.9	\$ 1,058.8
Local and Other Revenues	460.4	375.7	359.3	\$ 325.1	\$ 337.4	\$ 395.7	\$ 2,253.7
Total	3,095.0	3,082.6	3,134.8	\$ 3,176.2	\$ 3,277.0	\$ 3,374.3	\$ 19,140.0
% growth from prior year	0.00%	-0.40%	1.70%	1.30%	3.20%	3.00%	
Federal Revenues	1,149.9	1,016.7	1,016.5	\$ 1,031.4	\$ 1,046.5	\$ 1,061.7	\$ 6,322.8
% growth from prior year	4.40%	-11.60%	0.00%	1.50%	1.50%	1.50%	
Total Revenues	4,245.0	4,099.3	4,151.4	\$ 4,207.6	\$ 4,323.5	\$ 4,436.1	\$ 25,462.8
% growth from prior year	1.10%	-3.40%	1.30%	1.40%	2.80%	2.60%	
Other Financing Sources							
Capital Improvement Bonds	425.0	300.0	200.0	\$ 300.0	\$ 300.0	\$ 300.0	\$ 1,825.0
Total Revenues and Other Financing Sources	\$ 4,670.0	\$ 4,399.3	\$ 4,351.4	\$ 4,507.6	\$ 4,623.5	\$ 4,736.1	\$ 27,287.8
% growth from prior year	-2.70%	-5.80%	-1.10%	3.60%	2.60%	2.40%	

Commonwealth Transportation Funds

Estimated Allocations (in millions)
Approved June 2008

	Fiscal Year						
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>Total</u>
Debt Service	\$271.4	\$283.2	\$291.1	\$314.2	\$341.8	\$413.6	\$1,915.2
Other Agencies & Transfers	43.0	43.1	43.7	44.2	44.8	45.3	264.1
Highway Maintenance & Operations	1,687.8	1,729.6	1,795.6	1,865.3	1,937.7	2,014.7	11,030.7
Tolls, Admin & Other Programs	465.9	480.8	492.0	506.9	517.2	527.3	2990.0
Public Transportation & Rail	838.9	566.5	491.0	471.4	466.3	469.9	3,304.1
Ports and Aviation	61.8	63.4	64.5	66.4	69	70.5	395.6
Earmarks & Special Financing	317.1	359.0	340.6	439.8	459.0	464.5	2379.9
Highway Systems Construction	984.1	873.7	832.9	799.5	787.8	730.2	5,008.1
Total	\$4,670.0	\$4,399.3	\$4,351.4	\$4,507.6	\$4,623.5	\$4,736.1	\$27,287.8

Final FY08 Transportation Fund Revenues

	Fiscal Year 2008			
	<u>Forecast</u>	<u>Actual</u>	<u>\$ Variance</u>	<u>% Growth</u>
Motor Fuels Tax	\$ 883.5	\$ 851.2	\$ (32.3)	0.1 %
Motor Vehicle Sales Tax	568.3	541.7	(26.6)	(9.3)
Motor Vehicle License Fee	253.1	242.1	(11.0)	42.9
International Registration Fee	64.5	74.1	9.6	37.2
Retail Sales Tax	517.8	524.9	7.1	1.5
Interest Earnings	43.5	62.1	18.6	15.2
Miscellaneous	77.9	78.1	0.2	7.9
Total	\$ 2,408.6	\$ 2,374.2	\$ (34.4)	2.6 %

- Adjusted for the additional revenues resulting from House Bill 3202 (2007), actual FY08 CTF collections were \$47.5 million less than FY07 collections.
 - Increased Registration Fees \$87.2 million
 - 1.5 Cent Increase in Excise Tax on Diesel \$17.5 million
 - Increase Weight Limit Violation Fee \$2.1 million

FY09 Commonwealth Transportation Fund Revenue Collections

(through September)

	Fiscal Year 2009			
	<u>Collections</u>	<u>% Growth</u>	<u>% Forecast</u>	<u>Variance</u>
Motor Fuels Tax (1)	\$ 155.5	(1.5) %	(5.2) %	3.7 %
Motor Vehicle Sales Tax (2)	133.8	(15.7)	(12.7)	(3.0)
Motor Vehicle License Fee	64.2	2.5	(1.2)	3.7
Retail Sales Tax	132.4	(1.1)	0.0	(1.1)
Priority Transportation Fund (3)	107.8	#	#	#
All Other	24.3	(10.0)	2.0	(12.0)
Highway Maintenance Fund	\$ 292.6	(7.8) %	(5.9) %	(1.9) %
Tranportation Trust Fund	\$ 325.4	44.4 %	10.1 %	34.3 %
Total CTF	\$ 618.0	13.9 %	0.6 %	13.3 %

Notes:

(1) Includes aviation and road tax

(2) Includes rental tax

(3) Includes motor fuels floor stock tax and insurance premiums tax

as there were no collections for insurance premiums tax in the CTF in fiscal year 2008, comparisons between fiscal year 2009 and 2008 may not be appropriate.

- Adjusting for the new revenue sources in FY09 (insurance premiums and recordation tax), total CTF collections are down 7.3 percent and TTF collections are down 5.4 percent through September as compared to the annual forecast declines of 6.7 percent and 6.4 percent, respectively.

2009 Forecast Revenue Reductions

(\$ in millions)

	FY09	FY10	FY11	FY12	FY13	FY14
Motor Fuels Tax	\$ (86.1)	\$ (95.4)	\$ (104.7)	\$ (111.8)	\$ (114.5)	\$ (103.4)
Priority Transportation Fund *	(7.2)	(14.9)	(16.3)	(14.6)	(13.8)	(13.1)
Motor Vehicle Sales Tax	(106.7)	(115.3)	(87.9)	(72.1)	(77.5)	(56.4)
Retail Sales Tax	(15.3)	(29.1)	(34.9)	(32.1)	(26.5)	(16.4)
Motor Vehicle License Fee	(19.0)	(21.3)	(17.7)	(15.0)	(13.0)	(13.5)
International Registration Fee	2.2	0.1	(2.1)	(4.2)	(6.4)	(8.6)
Recordation Tax (3 cents)	(4.5)	(8.6)	(8.0)	(7.8)	(7.9)	(8.7)
All Other	(9.2)	0.9	6.6	5.2	4.0	4.3
Highway Maintenance Fund	\$ (164.0)	(182.8)	(170.7)	(166.1)	(171.8)	(151.2)
Transportation Trust Fund	(81.8)	(100.8)	(94.4)	(86.3)	(83.8)	(64.6)
Total CTF	\$ (245.8)	\$ (283.6)	\$ (265.0)	\$ (252.4)	\$ (255.6)	\$ (215.8)

The October forecast is based on the August 2008 Global Insight alternative outlook and the corresponding Virginia state forecast developed by the Department of Taxation and incorporates input from the GABE and the GACRE.

** The Priority Transportation Fund is primarily composed of insurance premiums tax.*

2009 Revised Forecast Growth Rates

	FY09	FY10	FY11	FY12	FY13	FY14
Motor Fuels Tax	(5.2) %	0.5 %	1.6 %	1.5 %	2.3 %	2.2 %
Priority Transportation Fund *	661.5	(1.6)	5.2	4.8	4.6	4.6
Motor Vehicle Sales Tax	(13.2)	1.2	7.4	7.5	4.5	3.3
Retail Sales Tax	0.0	2.6	4.1	5.1	5.4	5.3
Motor Vehicle License Fee	(1.2)	1.1	1.8	1.7	1.4	0.2
International Registration Fee	(7.2)	0.0	0.0	0.0	0.0	0.0
Recordation Tax (3 cents)	n/a	0.0	0.0	0.0	0.0	0.0
All Other						
Highway Maintenance Fund	(5.9)	0.7	2.9	2.9	2.6	2.0
Transportation Trust Fund	10.1	2.3	4.4	4.3	4.1	4.0
Total CTF	0.6 %	1.4 %	3.6 %	3.5 %	3.3 %	2.9 %

The October forecast is based on the August 2008 Global Insight alternative outlook and the corresponding Virginia state forecast developed by the Department of Taxation and incorporates input from the GABE and the GACRE.

* The Priority Transportation Fund is primarily composed of insurance premiums tax.