Bumps in the Road: Funding Solutions, Governance Challenges

Senate Finance Committee Annual Meeting

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If you can heal the symptoms…

- After more than a decade of legislative effort, the 2013 General Assembly adopted HB 2313 providing a long-term, state and local funding solution for Virginia's transportation programs.
  - Primary focus on mitigating maintenance "crossover" funding demands that will total approximately $4.0 billion before fully eliminated.
- Estimated, at passage, to generate about $850 million annually when fully implemented (2018) from a combination of new and existing revenue sources.
  - Assumes $185 million from Congressional passage of Marketplace Fairness Act.
  - Includes $200 million from existing GF sources by 2018.
  - Primary reliance on Sales Tax revenues as some softening is occurring.
- Over $500 million annually for regional "self-help" packages in Hampton Roads and Northern Virginia.
  - Responds to perceptions that regions don't receive a fair share of highway funding compared to their infrastructure needs or proportion of tax contributions.
    - $220 million annually in Hampton Roads.
    - $325 million annually in Northern Virginia.

…but not affect the cause

- Governance and distribution formulas remain an area of ongoing executive-legislative and urban-rural tensions.
  – Project selection and prioritization issues.
  – Roles, responsibilities, and composition of state and regional boards.
  – Challenges of autonomy *v*. flexibility.
  – Nascent development of reliable, "peer-reviewed" congestion mitigation models.
- Costs of secondary and urban programs, resulting from population increases and local zoning decisions, continue to drive expenditures.
  – Secondary and urban roads account for 98 percent of growth in past 20 years.
  – Classification systems are outdated and state reimbursements are less than actual local expenditures.
  – Revitalizing local construction funding generates long-term state maintenance costs.

Addressing funding challenges was difficult, governance challenges will require negotiated solutions.

Investment Impact will Take Years to Realize

- Rating agencies cited the passage of HB 2313 as a “credit positive” action.
  - Bond sales in past two years generated $206.3 million in proceeds above par.
  - November 2013 sale of $274 million in GARVEE bonds generated additional market premium revenue of approximately $33 million.
- Multiple national professional organizations have recognized Virginia’s investment as a national model.
  - Congressional testimony on HB 2313 was provided in September 2013.
- Investments in transit and rail programs will help meet demands of significant ridership increases.

However…

- Virginia hosts two of the nation’s most congested regions.
- Virginia slipped from the 3rd “Top State for Business” to 5th in CNBC annual rankings last year.
  - Rose from 33rd to 21st in terms of transportation & infrastructure.
  - Acknowledge that the effects of the new revenue are not immediate.

What Was Achieved?

- Reduces supplemental state funding to the maintenance program by $2.1 billion over the forecast horizon. Eliminates the transfer of state construction funding to maintenance programs by FY 2017.
  - More than $500 million of additional annual revenues to the Highway Maintenance and Operating Fund.
  - Results in an equivalent amount of funding retained for construction to be distributed according to statutory distribution formulas.

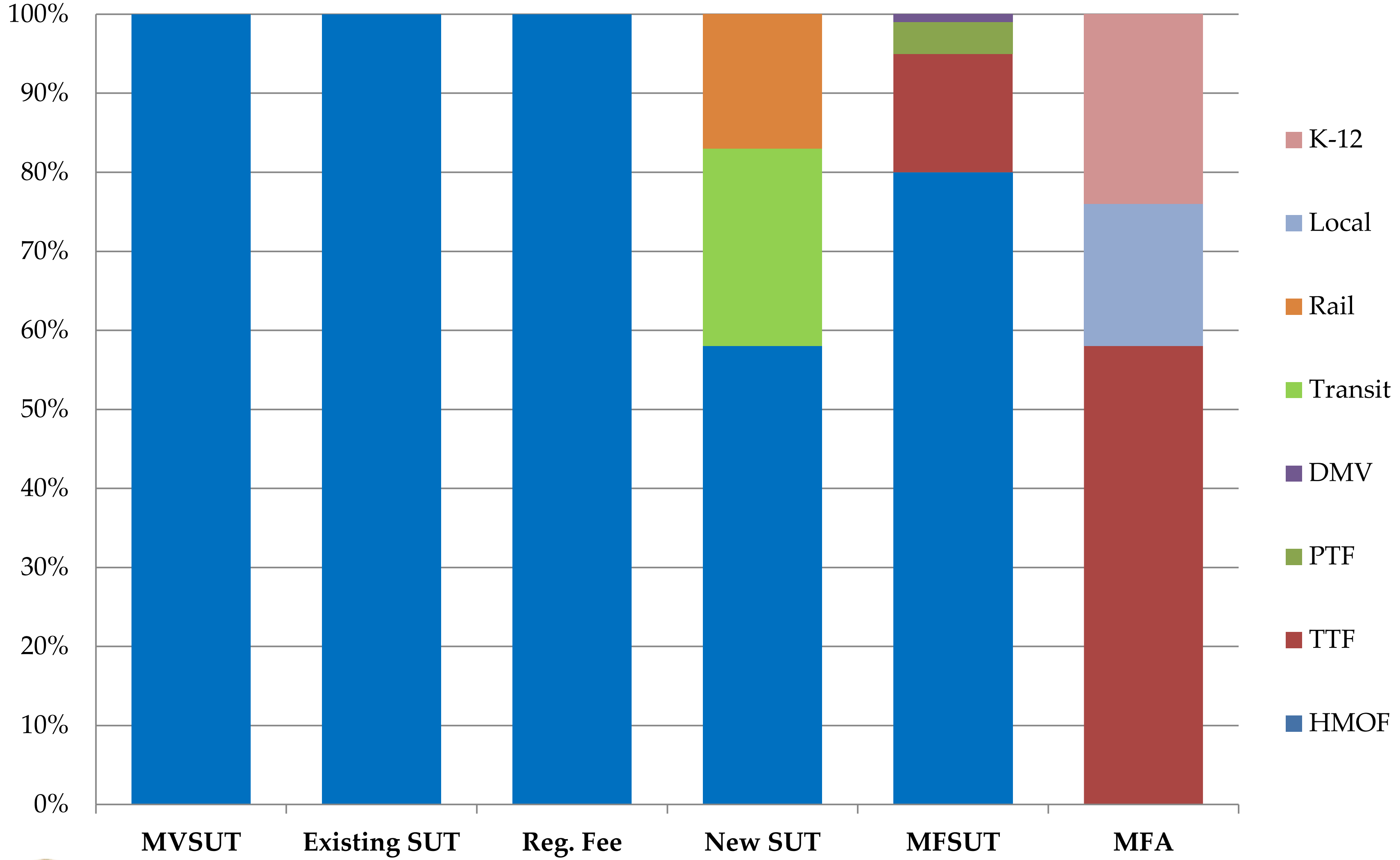
November 2012

	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	Total
"Crossover"	$433.5	$419.3	$451.4	$474.8	$501.0	$523.7	$2,803.8

June 2013

	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	Total
"Crossover"	$412.3	$217.0	$65.8	$ --	$ --	$ --	$695.0

How was this accomplished: Maintenance First



Driving Forces Behind Legislation

- Address the shortcomings of a 30-year old excise tax funding model.
  - Motor fuels excise tax growth forecast was stagnant.
    - Increasing fuel economy standards.
    - Increasing use of alternative fueled vehicles.
    - Reduced purchasing power relative to inputs.
  - *Ad valorem* taxes on motor fuels are value-based and thus have inherent growth factors allowing revenues to better keep pace with inflation.
- Retain nexus to transportation system user-fees through fuel and vehicle based taxes.
  - Adding a 3.5% motor fuel tax at rack,
  - Adding a 6% diesel tax at rack,
  - Increasing the motor vehicle titling tax from 3% to 4.15%; and
  - Increasing and expanding the alternative fueled vehicle registration fee to $64.

Key to Success: Compromise

- Compromise on the use of new and existing sales tax revenues results in almost $250 million redirected from GF programs for the FY14-16 biennium.
  - Levied an additional 0.3% statewide sales tax for transportation purposes.
  - Increased 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).

	FY 13	FY 14	FY 15	FY 16	FY 17
Total Sales Tax Rate	**5.0%**	**6.0%**	**6.0%**	**6.0%**	**6.0%**
Local Sales Tax Rate	1.0%	1.0%	1.0%	1.0%	1.0%
Regional Sales Tax Rate	--	0.7%	0.7%	0.7%	0.7%
State Sales Tax Rate	4.0%	4.3%	4.3%	4.3%	4.3%
Transportation*	**0.5%**	**0.85%**	**0.9%**	**0.95%**	**0.975%**
K-12	**1.25%**	**1.375%**	**1.375%**	**1.375%**	**1.375%**
GF – Unrestricted*	***2.25%***	***2.075%***	***2.025%***	***1.975 %***	***1.95%***

* Assumes Congressional passage of Marketplace Fairness Act.

Forecast Revenues Exceed Programmed Expenditures

($ 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**

Congressional Passage of Marketplace Fairness Act Would Result in Almost $380 Million of Additional Transportation Revenue

Current Six-Year Planning Revenue Estimate

	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	Total
MFA	--	--	--	--	--	--	--
GF Transfer	$ 49.0	$ 101.7	$ 101.7	$ 101.7	$ 101.7	$ 101.7	$ 557.5
Additional 1.6% Wholesale	--	$ 89.6	$ 220.4	$ 225.2	$ 229.2	$ 233.0	$ 997.7
Total	**$ 49.0**	**$ 191.3**	**$ 322.1**	**$ 326.9**	**$ 330.9**	**$ 334.7**	**$ 1,555.2**

Additional revenues that would be generated for Transportation programs

	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	Total
MFA	$ 144.6	$ 164.1	$ 170.8	$ 177.5	$ 183.6	$ 189.9	$ 1,030.5
GF Transfer	$ 49.0	$ 101.7	$ 158.4	$ 191.8	$ 198.2	$ 204.8	$ 903.9
Total	**$ 193.6**	**$ 265.8**	**$ 329.2**	**$ 369.3**	**$ 381.8**	**$ 394.7**	**$ 1,934.4**

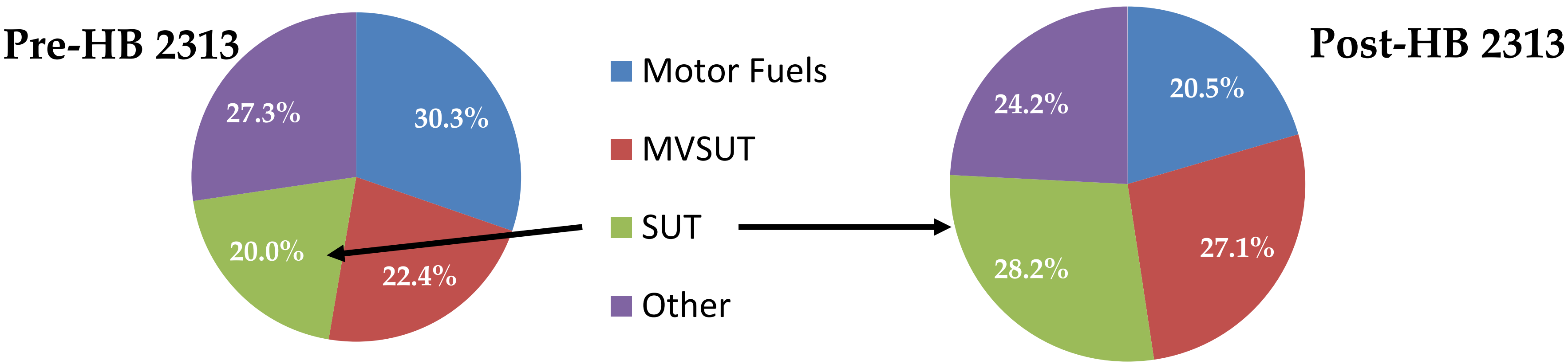
Net Change	**$ 144.6**	**$ 74.5**	**$ 7.1**	**$ 42.1**	**$ 50.9**	**$ 60.0**	**$ 379.2**

Uncertainty Around the Fate of Marketplace Fairness Persists

- The legislation (S. 743/H.R. 684) passed the Senate in May 2013 and is currently stalled in the House of Representatives.
  - House Judiciary Chairman Goodlatte provided seven guiding principles to passage of this legislation in September.
  - Hearings, presumed to occur this Fall, are not yet scheduled.
- Motor fuel tax rates will be increased to 5.1%, and general fund transfers to HMOF frozen at 2015 levels if MFA fails to pass by January 1, 2015.
  - Also includes a “double-trigger” that if MFA is subsequently adopted, original tax provisions go back into effect.
- This “known unknown” in funding sources requires conservative assumptions for programming of expenditures and further complicates forecasting for both Commonwealth Transportation Fund and General Fund revenues.

Statewide Funding Model Shifts Majority of State Transportation Revenues to Sales Taxes

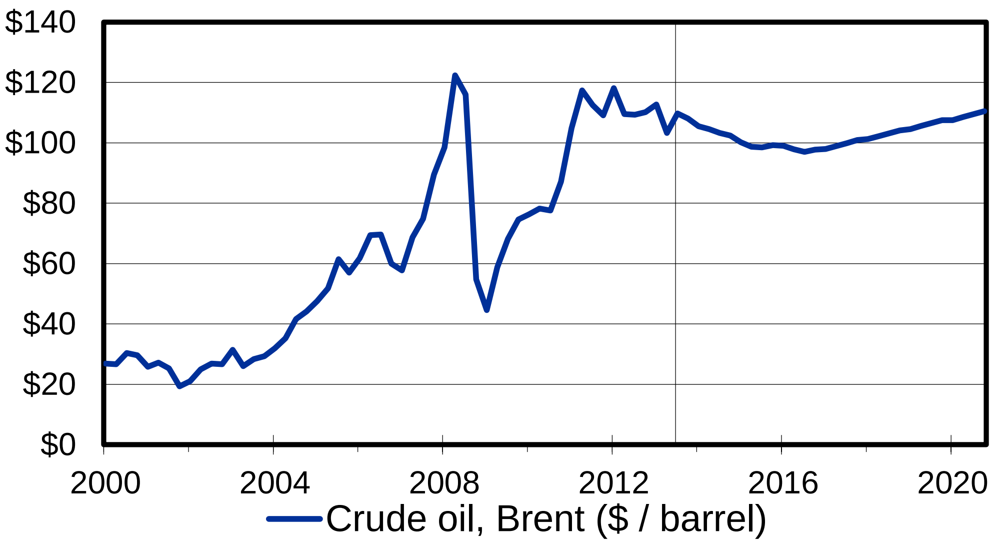
- General and motor vehicle sales taxes now account for 55.3 percent of state generated transportation revenues.

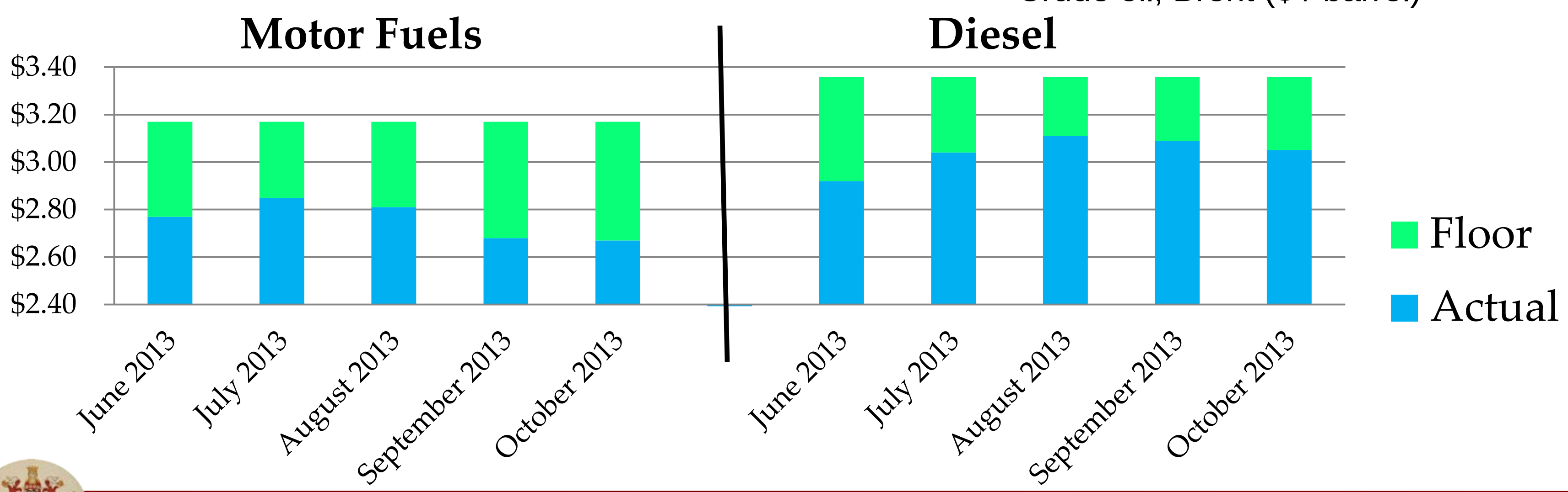


- Sales tax collections – about 20% of general fund revenues - have fallen 3.7 % through October, trailing the annual estimate of a 1.0 % decline.
  - Effect of federal government shutdown on sales in Northern Virginia and Hampton Roads will be reflected in the months ahead.
  - Sensitivity of sales tax revenues to general economic conditions <u>increases the difficulty</u> of forecasting Commonwealth Transportation Fund revenues.

Motor Fuels Sales Tax Collections: Revenue "Floor"cast

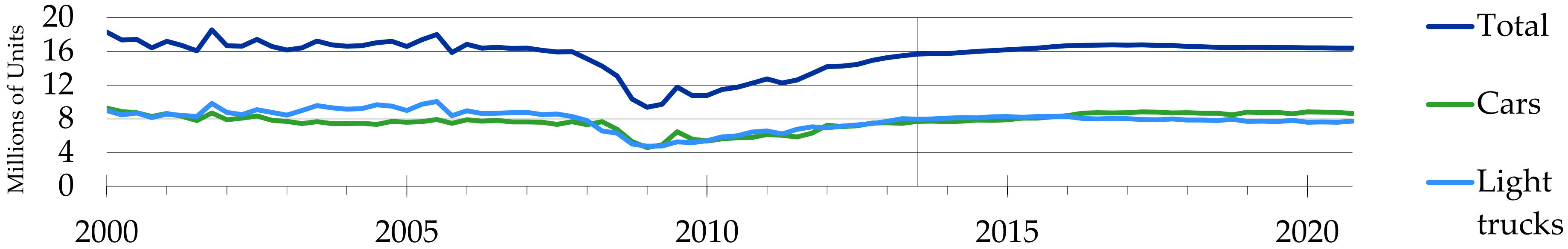
- Includes a hard floor of February 20, 2013 for calculating motor fuels sales tax, mitigating negative fluctuation in forecast revenues.
  - Calculated at 11.1 cpg for motor fuels and 20.2 cpg for diesel.
- Wholesale motor fuel prices have **dropped** 30 cpg and unlikely to substantially increase.
  - In order for the tax rate to rise above the floor, prices would have to exceed the floor rate for a sustained period.





Vehicle Related Taxes and Fees are Strong, Opportunities for Refining Collection Process Exist

- Revenues from the increased motor vehicle sales tax and vehicle registration fees are one of the strongest performing revenue sources.
  - Vehicle sales dropped in September but exceeded forecast in October.
  - Enhanced registration fees are performing to forecast of approximately $6.5 million.



- Refinements to both the vehicle registration fee and diesel passenger vehicle rebate process may help improve public acceptance of the HB 2313 taxing structure.
  - Fee viewed by some as a “tax on virtue”.
  - “Double” impact of enhanced registration fees on diesel-hybrids.
  - Concerns over “tax neutrality” for diesel passenger vehicles could be addressed through discounts on vehicle registration.
- As states experiment with Vehicle Miles Traveled taxes, this is Virginia’s step towards user fees based on vehicle weight, fuel type, and fuel economy.

Collaborate to Compete: Risks and Rewards of Regional "Self Help" Components

- Fundamentally changed regional funding sources, roles, and responsibilities to create a *de facto* "four-tiered" system.
  - Uses of regional planning district boundaries, population, and travel metrics to allow for regions to "grow" into enhanced taxing structure.

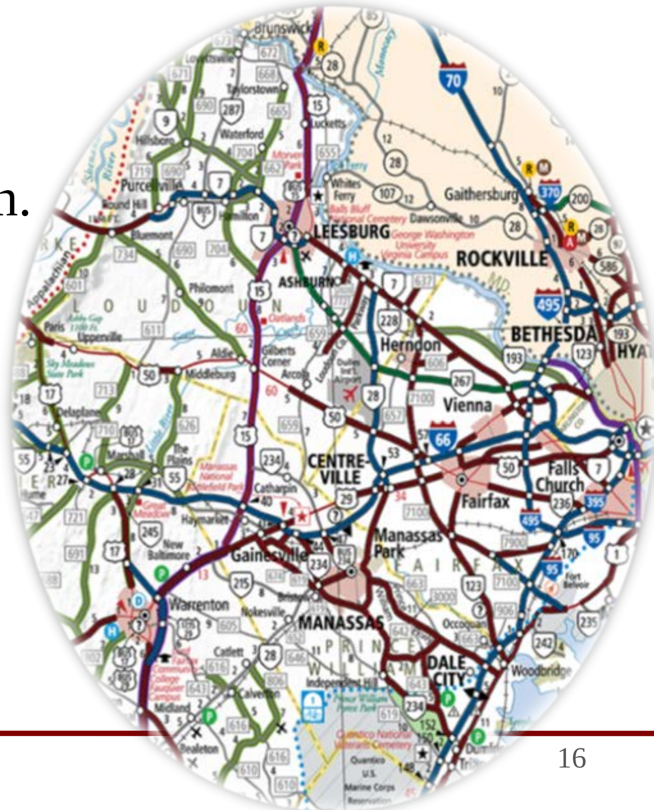
	Grouping	State Responsibility	Local Responsibility
Tier 4	Northern Virginia	Regional Gas Tax, Sales Tax, Transient Occupancy, Grantor's Tax, Maintenance	Local MOE, Local Share, Local Tax, Project Prioritization, Debt
Tier 3	Hampton Roads	Regional Gas Tax and Sales Tax	Local MOE, Limited Project Applicability, Maintenance
Tier 2	Cities and Towns + 2 counties	Annual direct payments to localities for construction and maintenance	Project selection, Investment in excess of state payments
Tier 1	Counties	Direct Construction and Maintenance	Limited to Matching Fund programs

- Defining boundaries of regional PDC's -- an executive function -- could allow Governor to reclassify regions in order to trigger regional tax structure.
  - Richmond region has been addressing several proposals to realign responsibilities of MPO and the Richmond Metropolitan Authority.
  - Appropriateness of metrics for the levy of regional transportation taxes will likely continue to be subject to legislative review.

Northern Virginia Regional Plan: Tier 4

- An additive mix of state and local revenue sources and responsibilities for a more densely populated region.
  - 70% of revenues are dedicated to regional projects.
  - 30% returned to localities for transportation projects.
- Regional 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.
- First quarter collections total approximately $47 million.

	FY 14	FY 18	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**



Northern Virginia Provisions Ensure Over $290 Million in Annual Local Investment

Commercial and Industrial (C&I) Funding or Equivalent

Jurisdiction	C&I	Annual Amount*
Alexandria	No	$ 11.2
Arlington	Yes	$ 23.8
Fairfax City	Yes	$ 1.0
Fairfax	Yes	$ 50.5
Falls Church	No	$ 1.1
Loudoun	No	$ 31.7
Manassas	No	$ 1.7
Manassas Park	No	$ 0.2
Prince William	No	$ 8.2

Maintenance of Effort

Jurisdiction	MOE Base*
Alexandria	$ 35.5
Arlington	$ 63.8
Fairfax City	$ 4.7
Fairfax	$ 147.3
Falls Church	$ 0.8
Loudoun	$ 14.5
Manassas	$ 1.0
Manassas Park	$ 0.1
Prince William	$ 25.5

*Amount in millions.

Northern Virginia: Opportunities Realized

- Bond validation suit brought by the Authority against itself to verify ability to sell bonds.
  - Initial challenges were targeted at project selection and upheld by the court.
  - Appeals window has expired and the ruling is final in perpetuity.
- Staffing and administration of the Authority required regional cooperation and coordination across many entities and local governments.
  - Each regional entity reports to separate oversight board with responsibility.
  - Staff time for the Authority has been donated by local governments and others.
  - Administrative and organizational items expected to be settled this December.
- HB 599 (2013) requires investments in Northern Virginia projects to be prioritized based on a reliable, peer-reviewed, congestion reduction model.
  - All state and regional projects selected for funding in the Northern Virginia District will be ranked by congestion reduction by 2015.

Hampton Roads Regional Plan: Tier 3

- 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.
- First quarter collections total approximately $27 million.

	FY 14	FY 18	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**

Hampton Roads: Opportunities Outstanding

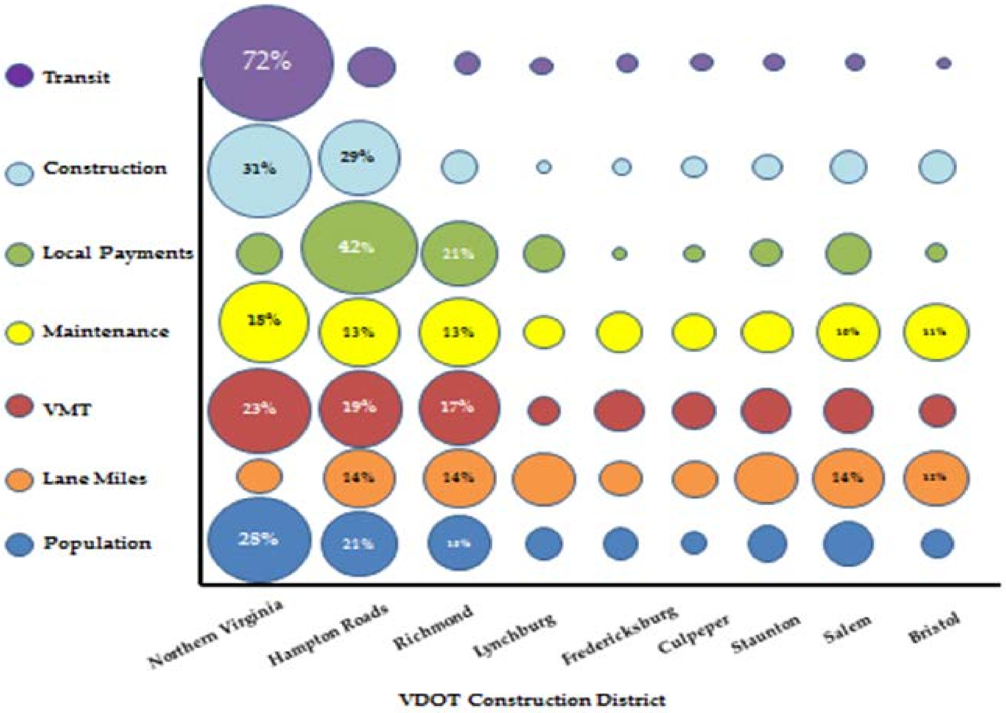
- Hampton Roads, following the failure of HB 3202 (2007), sought legislation eliminating its regional Transportation Authority.
  - Roles and responsibilities were transferred to the MPO.
- Because of the nature of regional planning responsibilities of the MPO, implementation roles continue to evolve.
  - No single entity responsible for reporting jurisdictional Maintenance of Effort for Hampton Roads localities.
- Allowable expenditures and lack of debt authority constrains how projects are selected and funded.
  - Expenditures in Hampton Roads include only roads and bridges.
  - Transit expenditures are excluded, yet services are critical to regional mobility.
  - Hampton Roads MPO is not authorized to issue debt against this revenue.
- Future sessions will likely see legislation addressing regional governance, allowable expenditures and borrowing capacity.

The Road(s) Ahead: Governance and Growth

- Project selection and financing is the prerogative of the executive branch and differences of legislative opinion will continue to occur.
  – Route 29
  – Route 460
  – Downtown / Midtown Tunnel
  – Western Bypass / Bi-County Parkway
  – Dulles Metro
  – Coalfields Expressway

- VDOT Districts and Commonwealth Transportation Board representation is largely based on 1920s framework.
  – Despite increase in size, largely not reflective of underlying demographics.
  – Limited relationship to transportation corridors, planning districts, or MPO’s.

- Population, congestion, and growth in local roads drive most expenditures.
  – Some secondary roads carry more than 50,000 vehicles daily.
  – Some primary roads carry fewer than 500 vehicles daily.



The (Toll) Road Ahead…

- Appropriateness of toll-financed improvements was upheld by the Virginia Supreme Court in November.
  - Use of this financing model may likely increase.
- SR 60 (2013) directs the Finance Committee to assess options for mitigating the impact of tolls on low-income individuals.
  - Most toll discount programs are directed at frequency of use or geographic location.
  - Only one national example of income based threshold, a Pilot Project using USDOT funds in Los Angeles.
  - Presents *"Slippery Slope"* policy questions including parameters for defining an aggrieved class as well as the appropriate level of public subsidies in the finance model.
  - Several implementation challenges, including income validation and constrained use, also exist.

Virginia's Toll Facilities	
• Chesapeake Bay Bridge Tunnel	• Chesapeake Expressway
• Boulevard Bridge	• Powhite Parkway
• Downtown Connector	• Downtown Expressway
• Pocahontas Parkway	• Coleman Bridge
• Dulles Toll Road	• Dulles Greenway
• Jordan Bridge	• I-95 / I-495 HOT Lanes
• Elizabeth River Tunnels	• Route 460

Total Project Cost = Public Subsidy + (Toll Rate * Term)

The (Rail and Transit) Road Ahead…

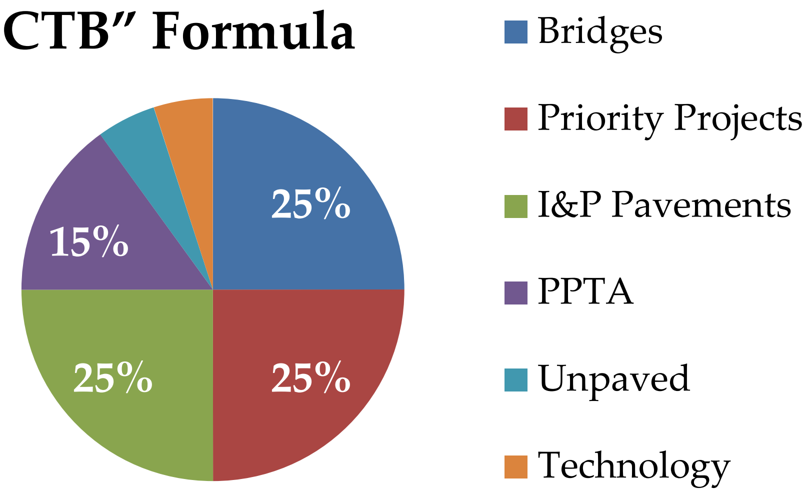
- HB 2313 dedicates a portion of the 0.3 percent increase in general sales tax to support rail and transit projects in the Commonwealth (0.125%).
  - Distributed 40 percent for rail, 60 percent for transit.
  - Approximately $50 million / year for rail.
  - Approximately $80 million / year for transit.
- Virginia has been recognized as a national leader in establishing a robust Intercity Passenger Rail program.
  - Other states may lose Amtrak services.
  - Virginia is poised to expand Amtrak Virginia service to Roanoke.
- Virginia ridership on state sponsored Amtrak grew 10.3 percent in the last fiscal year.
  - Ridership on state sponsored lines has **doubled** since inception.
- Additional funding for Virginia transit programs triggered provisions of separate legislation (SB 1140) implementing performance driven funding for transit programs.

Statutory Provisions Limit the Return of "Local" Formula Funding

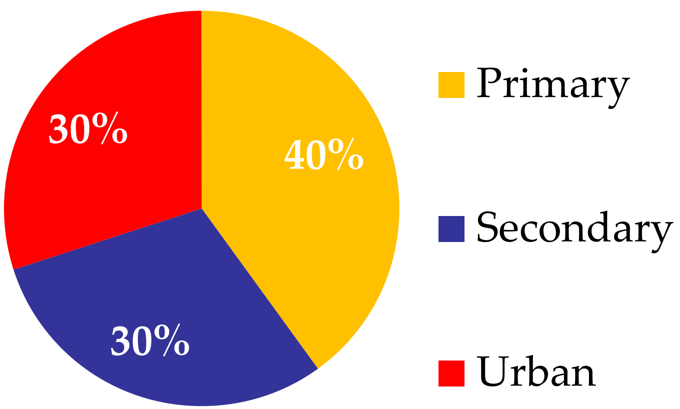
- *Code* changes in 2012 established a new distribution formula for "the first $500 million" in construction funding available after maintenance and administrative expenses through FY 2020.
  - The "CTB Formula" delays "local" funding by 3 years and $1.9 billion.

	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	Total
"CTB" Formula	--	--	--	$ 78.4	$ 97.9	$ 118.4	$ 294.7
Construction	$ 34.4	$ 287.9	$ 436.3	$ 500.0	$ 500.0	$ 500.0	$ 2,258.6

"CTB" Formula



Construction Formula



Current Funding Formulas Do Not Address All Funded Modes

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
Appropriation
$4.9 billion

Population
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
- 2 completed launches
- 8 scheduled launches

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

If you can heal the symptoms, but not affect the cause…

- General Assembly leadership addressed a decades long funding challenge – the cross-over of designated construction funds to the maintenance program – it must not wait as long to address governance challenges.
- Defining state and local roles and responsibilities remains a challenge in need of a negotiated solution, there will be winners and losers.
  - Composition of state and regional oversight bodies.
  - Devolution of secondary roads remains a perennial policy decision.
  - Defining corridors of statewide significance drives long-term construction investments.
- Annual $500 million "off-the-top" discretionary formula may – or may not -- be needed, but unwinding the programmed expenditures will be challenging.
- Project selection is primarily an executive function and quantifiable project selection criteria are difficult to establish.
  - HB 599 is narrowly drawn to Northern Virginia and will not be fully in-place until 2015.
  - Extensive commitment of transportation bond revenues to long term mega-projects.
- Alignment of funding formulas to sustain multimodal investments is critical.
  - Balancing the competing needs of an evolving multimodal network of road, rail, mass transit, ports, air, and space transportation programs remains a challenge.
  - Construction formula allocation changes could be "piloted" using Marketplace Fairness Act revenues.

Contact Information:

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Appendix:
How Sales Tax Distribution Works

	FY 13	FY 14	FY 15	FY 16	FY 17
TTF	0.5%	0.5%	0.5%	0.5%	0.5%
HMOF Step*	--	0.05%	0.10%	0.15%	0.175%
HMOF	--	0.174%	0.174%	0.174%	0.174%
MTTF	--	0.075%	0.075%	0.075%	0.075%
IPROC	--	0.051%	0.051%	0.051%	0.051%
Sub-Total Transportation	**0.5%**	**0.85%**	**0.9%**	**0.95%**	**0.975%**
K-12 School Age	1.125%	1.125%	1.125%	1.125%	1.125%
K-12 Composite Index	0.125%	0.25%	0.25%	0.25%	0.25%
Sub-Total K-12	**1.25%**	**1.375%**	**1.375%**	**1.375%**	**1.375%**
Game Protection	Up to $13m	Up to $13m	Up to $13m	Up to $13m	Up to $13m
GF - Unrestricted	***2.25%***	***2.075%***	***2.025%***	***1.975%***	***1.95%***
State Sales Tax Rate	4.0%	4.3%	4.3%	4.3%	4.3%
Regional Sales Tax Rate	--	0.7%	0.7%	0.7%	0.7%
Local Sales Tax Rate	1.0%	1.0%	1.0%	1.0%	1.0%
Total Sales Tax Rate	**5.0%**	**6.0%**	**6.0%**	**6.0%**	**6.0%**

* Assumes Congressional passage of Marketplace Fairness Act.