

# Virginia Transportation 2013

Updated as of 4/10/13

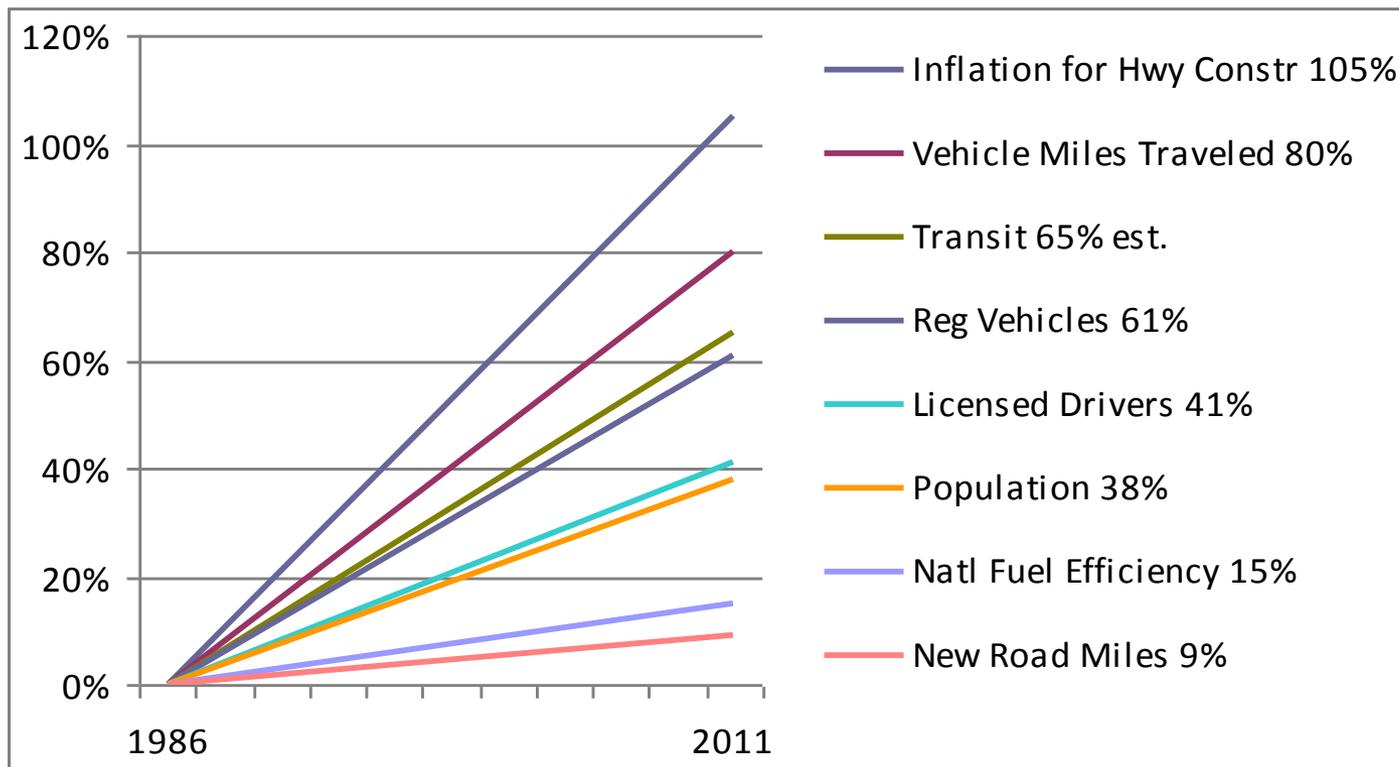
## Getting Back on Track

Delegate Vivian Watts, Virginia Secretary of Transportation & Public Safety 1986-90

# We've Waited 27 Years

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The last time Virginia increased state transportation funds was 1986.  
Since then:



# Need

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- To meet identified **maintenance** and **construction** needs, study after study has found we must have a minimum of **\$20 billion in new money over the next 20 years.**
- In addition, Virginia's 67 **Transit** systems' needs are crucial, especially in Northern Virginia.
  - Metrorail **deaths due to 40-year-old technology**
    - \$6 billion just to meet Federal Transit Administration safety standards
  - Costs \$2 million per car to have 8-car trains during rush hour

Blue (Rosslyn)	Green	Green	Green	Green	Green	Green
Orange/ Dulles Rail	Yellow	Green	Yellow	Red	Red	Red

Green	Congested (<100 people per car)
Yellow	Highly Congested (100-120 people per car)
Red	Exceeds Capacity (>120 people per car)

# The Cost of Inaction

- For the 2<sup>nd</sup> year the DC Region has been ranked the **most** congested in the nation.
  - Commuters spend 67 extra hours a year tied up in traffic at a cost of \$1398 in time and fuel.
  - NV rush “hour” is 7 hours.
- Hampton Roads rush hour is 4 hours and costs the average commuter \$877 a year.
- Richmond rush hour is 2.5 hours and costs the average commuter \$581 a year.

# Break-through

**The 2013 General Assembly finally passed a package for new transportation funding that will total \$1.3 billion by 2017 (FY18).**

## **Driving forces of the long overdue break-through included**

- ▶ Everything else had been tried, including pushing borrowing to the limit.
- ▶ Lack of maintenance statewide got rural legislators to the table.
- ▶ Virginia lost its rank as the best place to do business solely because of congestion in the urban crescent.
- ▶ The Governor acknowledged the need for new funding; however,
- ▶ Wide criticism of the Governor's proposal to do away with the gas tax brought legislators together, determined to hammer out a bi-partisan, economically sound solution

# Proposal: End Gas Tax

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**Virginia's gas tax is currently in the bottom 10 among states** –

- 17.5-cents / gallon. (NV also pays a 2.1% wholesale gas tax for Metrorail and VRE)

Nevertheless, the Governor wanted to end the gas tax and replace it with a sales tax. He cited a growing number of fuel-efficient cars.

- **Fact:** Only 91,000 of the 5.4 million cars registered in Virginia are alternative fuel vehicles...less than 2%. It will be 2025 before auto manufacturers must meet new federal (CAFÉ) standards to double gas mileage. It is not a crisis!

**The Wall Street Journal's** lengthy, highly critical editorial stated

“...**the gas-tax-for-sales-tax swap violates the user pays principle of sound tax policy**...Motorists who benefit most from the roads would pay almost nothing...will lead to more driving and more gridlock—the opposite of what Mr. McDonnell says he wants to achieve...”

**30% of road users are not Virginia residents.**

## Compromise:

# Replace ¢ per gallon with % of price

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The 17.5¢ / gal tax will be replaced with a percent tax on the wholesale price. Starting in July, this will be 3.5% and increase to 5.1% January 2015.\*

- The initial 3.5% will cut the gas tax by about 30%, but whether the price drops by 4¢ - 5¢ a gallon depends on oil companies.
- 5.1% tax on the wholesale price will keep the gas tax where it is today

The wholesale tax on diesel will be 6%

Large trucks will pay more compared to cars than they do currently  
Diesel car owners can get a rebate for the additional tax.

The advantage of a percent tax is that, over the years, it keeps up better with inflation and the cost of road construction and maintenance. A floor is in place, representing today's price of regular gas, to keep revenue from falling.

(\*If Congress acts before 2015 to allow states to tax internet sales, the wholesale tax will stay at 3.5%.)

## Compromise:

# Sales Tax

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The proposed **statewide sales tax increase** on non-food items was cut back to just 0.3%

- It **goes to statewide maintenance, transit, and intercity rail**

The additional sales tax the Governor had proposed was limited to a regional transportation tax of 0.7%

- It **must stay where it is raised** in N Virginia and in Hampton Roads.

However, **the full state sales tax will now apply to vehicle sales**

- The increase will be phased-in from the current 3% rate to 4.15% by July 2016

**A portion of the sales tax currently going general government services** (principally, education, Medicaid, public safety) **is diverted to transportation.**

- The General Fund diversion is capped at \$102 million in 2015, unless new sales tax revenue comes from Congress acting to allow internet sales to be taxed.

# New: Regional Control

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Northern Virginia will gain major control over dealing with congestion.  
An estimated \$300 million a year will be raised in Northern Virginia  
and **STAY\* in Northern Virginia**

- a 0.7% sales tax on non-food items will raise \$200 million (FY18)
  - Total tax will be 6% as it is in MD and DC
- a 0.015% tax on real estate sales paid by seller, \$30 million
- a 2% tax on hotel rooms, \$32 million
- local funding based on commercial/industrial real estate, \$51 million

70% is for regional projects to reduce congestion or increase transit capacity.  
30% is returned to the county or city where it was raised to tackle their most  
pressing transportation needs (excluding maintenance and administration.)

NV's share of state transportation funds will not be reduced.

\*The Virginia Constitution requires that taxes must be uniform for an identified need. Since the General Assembly enacted these taxes because of the region's extraordinary transportation problems, it is unconstitutional to ever spend the money outside of Northern Virginia or for any other purpose.

# Transit

The package contains **major funding** for transit (FY18)

- Over **\$140 million of the new 0.3% state sales tax** will go to Transit and Intercity Rail statewide. This fixed portion will grow annually.
- By 2018, there will be a **\$24 million increase over the current \$130 million** transit receives from transportation funds statewide.
- The state will contribute \$300 million to finance **rail to Dulles**.
- **NV Regional funding** also can be a significant source of support:
  - The over \$200 million a year that will finance regional projects can help finance capital investments that increase Metro and VRE capacity or that extend service (as determined by the 9 counties and cities of NV Transportation Authority: Arlington, Alexandria, City of Fairfax, Fairfax, Falls Church, Loudoun, Manassas, Manassas Park, Prince William)
  - The counties and cities are free to use their new money for any form of transit, as long as it funds capital not operating.

# Alternative Fuel Vehicles

- No matter how it's powered, every car or truck on the road takes up space and contributes to maintenance needs. Virginia has been a leader in trying to fairly price road use by relating alternative fuel taxes to the gas tax.
- However, technology is rapidly changing. The proposal to simply increase the annual fee paid since 2000 by electric cars from \$50 to \$100 and to extend it to hybrids and alternative fuel vehicles wasn't fully considered.
- The increased fee was reduced to \$64. However, we need to look at ALL issues of fairness, such as
  - Should we treat van and truck business fleets different from cars?
  - Should a vehicle, which now has to pay a \$64 annual fee, get a rebate for the fuel it actually consumes, as do diesel cars?
  - Are we treating fuel actually consumed and taxed versus a fee for road use appropriately across technologies: natural gas, electricity, hydrogen, ethane, methane, solar, diesel and gas hybrids, etc?

# To be determined Local Road Projects

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It'll be three years before the full amount of state funding for local road construction and improvements is available.

- Vehicle sales and wholesale gas taxes are being phased-in.

Even more critical, the local road funding formula is the **last** item to be funded in the state transportation budget:

- After statewide maintenance
- After commitments to large projects, such as matching federal interstate funds and funding rail to Dulles

By 2017, state money for construction should almost double from the current \$320 million to \$625 million.

It's been 4 years since localities have gotten any money for local road improvements. It's not clear how much will become available after state priorities are funded; however, it is very important to engage now in the 6-Year Planning process to get projects ready for action.

# What They're Saying

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Is the package perfect? Definitely not. Out-of-state drivers shouldn't have been left out by not raising the gas tax. I am concerned that there may not be enough state funds to adequately address local road improvements. Equal treatment of all alternative fuel vehicles needs to be resolved. However:

“... As legislators of both parties emphasized, it represents the kind of painful trade-offs that politicians in Washington ought to copy for the sake of the common good...The deal was struck only because of political sacrifices and arm-twisting by leaders and negotiators from both parties, including four from Fairfax: Dels. Dave Albo (R) and Vivian Watts (D) and Sens. Dick Saslaw (D) and Janet Howell (D).”

Washington Post: 2/23/13 Robert McCartney

It was gratifying to be part of “working out the nitty-gritty details” as noted by the bill’s House floor leader (W Post) and to be “known in Richmond as the ‘transportation expert’ ...and recognized for my “years of tireless advocacy for transportation funding that set the stage for this year’s success” (Fairfax Chamber of Commerce)

*Vivian*

# Background Information

# Virginia Overview

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## In 2011, State-managed funds included

- Highway Maintenance and Construction - \$4.7 billion
  - 3<sup>rd</sup> largest state highway network behind NC and TX
- Rail and Public Transit - \$467 million
  - Guaranteed 14.7% share of 1986 Special Session
- Ports - \$37 million
  - Guaranteed 4.2% share of 1986 Special Session
- Aviation - \$22 million
  - Guaranteed 2.4% share of 1986 Special Session

## Over 80% of highway construction and maintenance is performed by the private sector –

VDOT has 7,500 full time staff, compared to 10,380 in 2001. The lowest level since 1965.

# Public / Private Partnerships

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- Virginia is a leader in public/private partnerships; therefore, **few profitable opportunities left.**
- Projects have required 70 years of **increased cost to driving public** to pay for a return on investment to the private sector
- VDOT professional participation and **oversight is critical**
- Must have state money in partnership
  - **Little public leverage** over construction impacts.
  - Assumptions for NV **HOT Lanes require very significant public funding of busses** and commuter feeder lots.
  - State money **crucial to reduce tolls.**
- High HOV use in NV **may end up requiring state subsidy** to private investors.

# Borrowing

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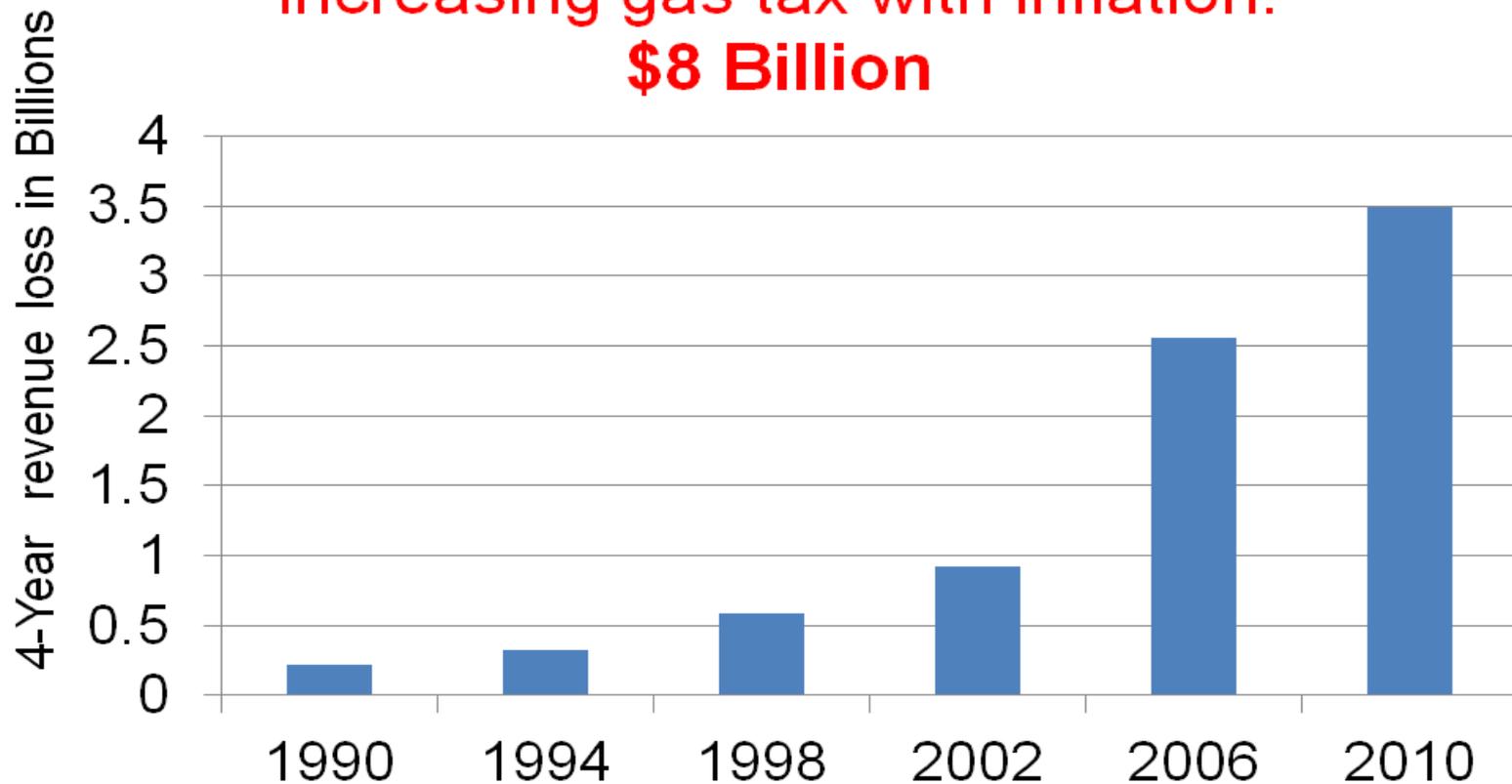
- To raise \$1.8 billion of debt approved in 2011, **this Administration will absorb over 80% of Virginia's transportation debt service capacity** from 1/3 of the Insurance Premium Tax **for the next 25 years.**
- While this borrowing spurred construction, the next 4 Governors will shoulder the cost of those projects by paying off the bonds.
- Despite our AAA rating, we **can't borrow more without diverting additional General Funds** for debt service or coming up with a new source of revenue.

Note: Prior use of 1/3 of the Insurance Premium Tax to pay back transportation bonds was for 10-year bonds not 25-year bonds

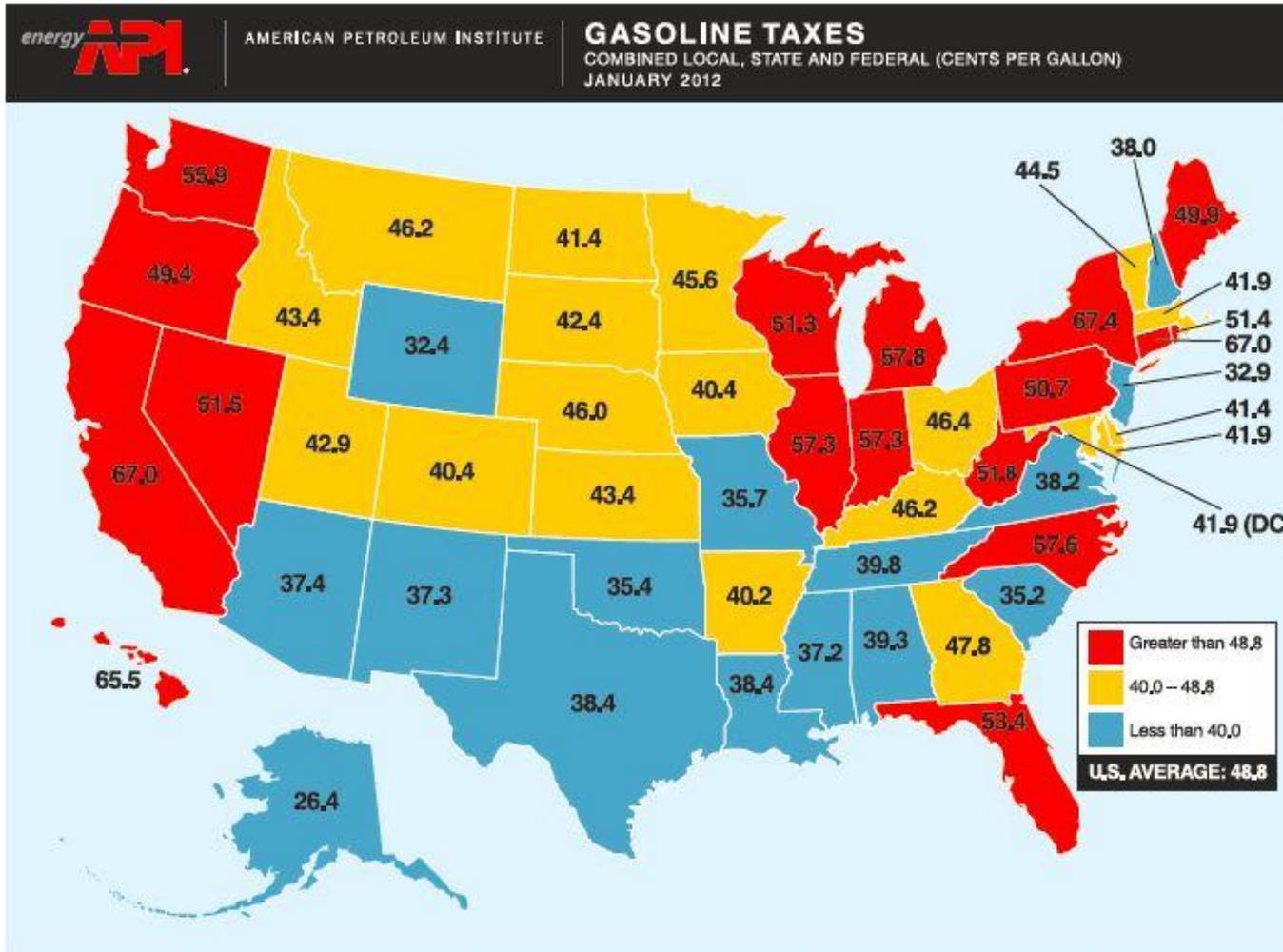
# Indexing the Gas Tax

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Total Lost Revenue (est.) from not increasing gas tax with inflation:  
**\$8 Billion**



Gas tax rates below include the 18.4-cent federal tax, state per gallon taxes and state excise taxes. For Virginia the 38.2 cents is made up of: 18.4 cents/gal federal + 17.5 cents/gal state + 2.1 cents/gal in NV for transit



Difference  
 Between VA and  
 bordering states

NC	19.2
WV	13.6
TN	8.0
MD	3.7
DC	3.7

Footnotes – 2/26/2013

Contact Delegate Vivian Watts (Sec of Transportation & Public Safety 1986-90)  
804-698-1339 (Richmond) or 703-978-2989 (Home) or vwatts@erols.com

Slide 2:

Highway Construction CPI – U.S. Bureau of Labor Statistics / Producer Price Index Industry Data / Material and supply inputs to highway and street construction

VMT (vehicle miles traveled) – Virginia DMV / Virginia Motor Statistics (1975-2010) / TSS03 (9/20/2011). 1987 data reduced by the ratio of the 2002 change in estimating methodology.

Registered Vehicles, Licensed Drivers, Population – Virginia DMV / Virginia Motor Statistics (1975-2010) / TSS03 (9/20/2011).

Transit, Road Lanes – Transit estimate is 65% based on 2006 data. Road lane estimate based on 1980 and 2006 data

Fuel Efficiency – *American Economic Review* 2012, pg 3368-3367, C.R.Knittel, MIT

Slide 5:

Multiple studies over last decade. See Virginia Statewide Multimodal Lang-Range Plan released November 2004.

Slide 19: Indexing the Gas Tax

Every 4 years revenue was increased by the U.S. Bureau of Labor Statistics / Producer Price Index Industry Data / Material and supply inputs to highway and street construction.