Addressing Virginia’s Transportation Needs: A 3-Step Process

Delegate S. Chris Jones
Southern Legislative Conference
July 19, 2015
2013: 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.

- Statewide package was expected to generate about $850 million annually when fully implemented (Year 5) from a combination of existing and new revenue sources:
  - Included $200 million from existing GF sources by year 2018.

- Generated an additional $500 million annually for regional “self-help” packages for both Hampton Roads and Northern Virginia:
  - Reflected long-standing concern in those areas that they don’t receive a fair share of highway funding compared either to their needs or their proportion of tax contributions:
    - $175 million annually in Hampton Roads
    - $325 million annually in Northern Virginia

- Final legislation was a compromise between Governor’s proposal to eliminate motor fuel taxes and a variety of Senate bills to increase those taxes.
Virginia’s Transportation System: Air, Land, Sea and Space

Department of Transportation
- 4th largest system in nation (state maintains local roads)
- 126,529 lane miles
- 19,381 bridges & 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 registered vehicles
- 74 customer service centers
- 13 weigh stations
- 2,000 jobs

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

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

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

Department of Rail and Public Transportation
- 193 million passenger trips
- 178 million tons of freight
- 27,000 jobs

FY15 Appropriation
$5.8 billion

Population
8.1 million

Commercial Spaceflight Authority
- 2 launch pads
- 10 scheduled launches
Efficient Transportation is Vital to Economic Competitiveness

- The Commonwealth is home to two of the nation’s most congested regions – Northern Virginia and Hampton Roads
  - Cost to citizens and businesses in lost time, money and safety
  - National studies have estimated annual economic loss of $3.7 billion to these regions
- Impacts business productivity and Virginia’s ability to attract employers
- S&P cautioned that costs of maintaining infrastructure and expanding capacity may fall to state and local governments in light of federal cut-backs
- Increasing unreliability of federal revenues for highways and mass transit
- Increasing number of high-cost, high-priority projects could not be accommodated within the pre-existing revenue stream
  - 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
Why Did Virginia Act in 2013? The Perfect Storm...

- There had been longstanding agreement that unmet transportation needs existed, but there hadn’t been agreement on how best to address those needs.
- As a static cents per gallon levy, motor fuels tax receipts, which had not increased since 1986, had lost purchasing power.
  - We were “losing” just by standing still.
- Limited public tolerance for an increasing reliance on toll supported projects.
- Understanding that public-private partnerships could address some projects, but wasn’t viable to address all needs.
- Governor was willing to play a 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 Were the Goals?

- **Eliminate the transfer of state construction funding to maintenance programs**
  - Virginia’s “maintenance first” policy meant that more than $500 million of “construction” revenue was being transferred to the highway maintenance and operating fund.
  - Goals was to eliminate this “cross-over” and fully fund maintenance.
  - This would result in an equivalent amount of funding retained in the Transportation Trust Fund for construction projects.

- **Establish funding for Intercity Passenger Rail (previously unfunded), growing Mass Transit programs, and support debt service programs**

- **Provide dedicated regional revenues in two most congested regions**
  - Taxes imposed by the State rather than depending on local option taxes that might result in intra-regional disagreements and disparity.
  - Use of regional planning district boundaries, population, and travel metrics allows for regions to “grow” into enhanced taxing structure.
What Else Was Tried First?

- **Public-Private Partnerships**
  - Virginia’s Public-Private Transportation Act is a national model for financing transportation facilities and has been utilized to develop more than $8.1 billion in transportation infrastructure over the past 5 years.
  - In 2012 alone, Virginia entered financial close or construction of almost $3.0 billion in PPTA projects.

- **Tolls**
  - Proposed both for new capacity, often as share of costs of PPTAs, and increasingly, for the maintenance of existing assets.
  - Finding limited public tolerance for tolling.

- **VDOT Reform**
  - Governor McDonnell conducted a series of financial and performance audits of VDOT prior to seeking additional funding.
  - Concern that agency was inefficient and not effectively utilizing existing revenues.
  - Lack of accountability/impact in project selection.

- **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: HB 2313

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

- These sources were chosen to provide funding sources for transportation that grow with the economy
  - Cents-per-gallon Motor fuels taxes were stagnant
    - Increasing CAFE standards
    - Increasing use of alternative fueled vehicles
    - Reduced purchasing power because gas tax based on cents per gallon
  - Sales and use tax on gasoline and on general purchases is percentage-based and thus has inherent growth factor allowing revenues to keep pace with increased costs

- Sources retain nexus to transportation system usage
  - Eliminated the 17.5 cents per gallon gas tax
  - Replaced 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%
What Forces Drove the Choice of Solution?

- **Reflected compromise on use of existing GF for transportation**
  - 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)
  - Transfers additional 0.05% each year in FY 2014, 2015 and 2016, with an additional 0.025% transferred in 4th year
  - In total, 0.9% of Virginia’s 4.3% general state sales tax is dedicated to transportation (VA also has 1% local sales tax)

- **Utilized potential “new” revenue from Marketplace Fairness Act**
  - Provided that majority of revenues anticipated to be generated by the Marketplace Fairness Act (MFA) be utilized for transportation
    - Retained traditional “local option” sales tax for localities, as well as share dedicated to public education; remainder would go to transportation
  - Included a trigger that if MFA was **not** adopted by January 1, 2015, the tax at the rack was increased to 5.1%, and general fund transfers to maintenance were frozen at 2015 levels
    - Also includes a “double-trigger” that if MFA is subsequently adopted, original provisions go back into effect
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

<table>
<thead>
<tr>
<th>($ in millions)</th>
<th>2014</th>
<th>2018</th>
<th>5-Year Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.7% Local SUT</td>
<td>$214.1</td>
<td>$270.8</td>
<td>$1,241.7</td>
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<tr>
<td>$0.15/$100 Grantors</td>
<td>$ 33.5</td>
<td>$ 33.5</td>
<td>$  167.5</td>
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<tr>
<td>2% Hotel Tax</td>
<td>$ 24.9</td>
<td>$ 31.2</td>
<td>$  143.4</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$272.5</strong></td>
<td><strong>$335.5</strong></td>
<td><strong>$1,552.6</strong></td>
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Hampton Roads Regional Plan

- Unlike Northern Virginia, region previously had no regional funding or regional transportation authority
- Revenue derived from additional general and motor fuels sales taxes – original estimates proved a bit high as gas prices have fallen
  - Unlike statewide tax, there is no “floor”
- Funding can only be used for construction projects on new or existing roadways, bridges and tunnels
  - Priority given to projects that reduce congestion

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<th>2018</th>
<th>5-Year Total</th>
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</thead>
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<tr>
<td>0.7% Local SUT</td>
<td>$115.2</td>
<td>$145.8</td>
<td>$ 668.4</td>
</tr>
<tr>
<td>2.1% Regional Motor Fuel Tax</td>
<td>$ 60.4</td>
<td>$ 76.3</td>
<td>$ 352.2</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$175.6</strong></td>
<td><strong>$222.1</strong></td>
<td><strong>$1,020.6</strong></td>
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Ancillary Impacts of Regional Funding

- **Northern Virginia**
  - Bond validation suit brought by the Authority against itself verified Authority’s ability to sell bonds
    - Initial challenges were targeted at project selection and upheld by the court
    - Appeals window 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
  - House Bill 599 – also passed in 2013 – requires investments in Northern Virginia projects to be prioritized based on a reliable, congestion reduction model – set stage for statewide process

- **Hampton Roads**
  - Legislation led to the creation of a Transportation Accountability Commission in this region – there had been no such entity outside the TPO previously
  - 2014 legislation addressed regional governance issues and borrowing capacity, following the Northern Virginia model
What Was Left Unaddressed in 2013?

- While additional funding was provided, no changes were made to the allocation formula originally instituted in 1985 nor were changes made to the project selection process.

- Over the years piece-meal changes had been made to allocations, resulting in a “spaghetti bowl” of distribution requirements, but without sufficient funding, it was impossible to generate consensus on how the formula should be changed.
  - Everyone viewed themselves as potential losers.
  - Changes had been so infrequent that even minor losses were seen as untenable because assumed to be model for next 20+ years.

- Another complicating factor was concern about VDOT having too much latitude in the project selection process – wanted to ensure some objectivity was put in place before the program structure was changed.
Project Prioritization Development Process

2014 Session:
- General Assembly adopted legislation (House Bill 2) requiring the Commonwealth Transportation Board to develop a quantitative process to prioritize transportation investments
- Implementation delayed until July 1, 2016 to allow time to develop procedures and appropriate weightings for each region of the state
- Legislation outlined the 5 basic considerations to be included, and required that highest weight be given to congestion mitigation in the 2 largest urbanized areas

Public Outreach:
- Commonwealth Transportation Board held 27 hearings on the Six Year Improvement Program and the “House Bill 2” prioritization requirements
- Stakeholder sessions held in each of the 9 VDOT districts in 2015
- Individual meetings with every MPO
- Numerous presentations at stakeholder and association conferences

Products Developed:
- Application Process
- Weighting Frameworks
- Evaluation Measures
### Project Prioritization Factor Weightings

#### Factor Weighting Framework – March 2015

<table>
<thead>
<tr>
<th>Factor</th>
<th>Congestion Mitigation</th>
<th>Economic Development</th>
<th>Accessibility</th>
<th>Safety</th>
<th>Environmental Quality</th>
<th>Land Use</th>
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<tbody>
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<td>Category A</td>
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<td>10%</td>
<td>10%</td>
<td>10%*</td>
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<tr>
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<td>15%</td>
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<td>15%*</td>
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<tr>
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<td>30%</td>
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<tr>
<td>Category D</td>
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<td>20%</td>
<td>30%</td>
<td>10%</td>
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#### Adopted Factor Weighting Framework – June 2015

<table>
<thead>
<tr>
<th>Factor</th>
<th>Congestion Mitigation</th>
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<th>Accessibility</th>
<th>Safety</th>
<th>Environmental Quality</th>
<th>Land Use</th>
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<tbody>
<tr>
<td>Category A</td>
<td>45%</td>
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<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>15%</td>
</tr>
<tr>
<td>Category B</td>
<td>15%</td>
<td>20%</td>
<td>25%</td>
<td>20%</td>
<td>10%</td>
<td>10%</td>
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<tr>
<td>Category C</td>
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<td>10%</td>
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<tr>
<td>Category D</td>
<td>10%</td>
<td>35%</td>
<td>15%</td>
<td>30%</td>
<td>10%</td>
<td></td>
</tr>
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HB2 Implementation – Moving Forward

- Board to utilize the prioritization process for a 1st round of projects in the FY17-23 Six Year Improvement Program next spring
  - $500M for High Priority Projects
  - $500M for Construction District Grants

- Call for projects opens on August 1 for two month period
  - VDOT and DRPT staff available to assist project sponsors
  - Information will be made available on website to assist project sponsors with identification of potential projects

- Evaluations will take place from October to January

- Issues still to be addressed include:
  - Frequency of project solicitation and updates to Six-Year Improvement Program
  - Developing list of recommended projects
  - Co-mingling of funds between programs
  - Smart roadway and unpaved roads set-asides
  - Process for consideration of modifications to the HB2 prioritization process
This winter I introduced, and the General Assembly adopted, House Bill 1887 which updated and simplified the distribution of transportation funding:

- Ensures we know how funds are parceled out
- Returns more money back to our local governments

Passed House 94-1 and Senate 35-4

Legislation merged the best portions of the two “old” formulas

What we called the “Commonwealth Transportation Board Formula” was adopted as a temporary measure in 2012:

- Concentrated all funding at the statewide level which helped address key priority projects and focus on aging bridges and pavements
- Conversely, it eliminated most funding for local roadway needs
2015 Session: Replacement of Outdated Funding Allocation Formulae

- The “40-30-30 Formula” was the long-standing allocation formula adopted by the 1985 General Assembly
  - 40% to “primary” roads – essentially major arterials
  - 30% to “county” roads
  - 30% to “city” roads
  - Provided funding for local needs, but cut the pie into so many slices that everyone received only a crumb
- House Bill 1887 replaced BOTH formulas
- Establishes a new formula effective FY 2021
  - Delayed date selected to minimize disruptions and ensure no project was removed from the already-adopted Six Year Program (FY 2015-2020)
- Sets aside funding “off the top” for debt service and specialized state and federal programs
All remaining state and federal funds are distributed as follows:

- 45% to “State of Good Repair” Program – essentially major reconstruction projects
- 27.5% to “High Priority Projects” Program – statewide competition
- 27.5% to Construction District Grant Program – each of 9 VDOT districts receives portion, localities within each region compete for funding

Largest percentage of funding goes to State of Good Repair Program, dedicated to major rehabilitation of Interstate and principal arterial pavements, and rehabilitation/replacement of all structurally deficient bridges

- Commonwealth Transportation Board to develop a priority ranking system to distribute funds to each district
  - Based on number, condition and cost to rehab lane miles
  - Number, condition and cost to rehab structurally deficient bridges
- None of the 9 districts can receive less than 5.5% or more than 17.5% of the funding
HB 1887 Construction Allocation Formula

- High Priority Projects Program is a statewide discretionary program allocated by the Transportation Board to projects of statewide or regional significance
  - Multi-modal
  - All projects must meet an identified needs in the long-range plan and be evaluated and scored under the House Bill 2 process
  - No specific regional subdistribution requirements

- Construction Districts Grant Program provides a separate pool of funding for each of the nine VDOT districts
  - Commonwealth Transportation Board selects projects within each district
  - To be funded a project must:
    - Be submitted by a local jurisdiction within the district
    - Meet an identified long-range plan need or a safety deficiency
    - Be evaluated and scored under the House Bill 2 process
  - Districts do not compete against each other, but no locality within a district is guaranteed funding in any given year
Other Components of HB 1887

- To generate the widespread support for the formula changes, a number of other items were included in the legislation, including:
  - Creating a more independent Commonwealth Transportation Board by removing Governor’s ability to replace members without cause
  - Address a transit capital funding shortfall resulting from the failure of Congress to adopt the Marketplace Fairness Act
  - Adds language requiring any fixed-guideway transit projects to be evaluated under the same framework as highway projects to ensure a level playing field
  - Redirecting funding from the state’s toll facilities revolving account to the Infrastructure Bank, reflecting the shift from state-funding and managed toll roads to greater use of P3s
This past winter I also introduced, and the General Assembly adopted, House Bill 1886 which reforms the way Virginia evaluates potential P3 programs and greatly increases accountability for project decision-making.

While Virginia has a long and often successful history with P3s, the Commonwealth also faced a couple of high-cost failures in recent years.

The bill:

- Establishes the Transportation Public-Private Partnership Advisory Committee, made up of both executive and legislative members.
- Group determines whether a project meets the finding of public interest and to report such determination to the General Assembly prior to the contract.
- Requires certification of the finding by the Secretary prior to the execution of a final comprehensive agreement.
- Requires VDOT to establish a process for identifying high-risk projects and procurement processes and guidelines for such projects to ensure that the public interest is protected.
- Passed House 97-1 and Senate 40-0.
Outstanding Issues

- Balancing the competing needs of an evolving multi-modal network remains a challenge, especially when the major regions of the state differ so dramatically
- Establishing appropriate level of long-term reliance on bond programs
- Addressing high cost projects – balancing cash flow needs with additional cost of capital associated with public-private partnerships
- Effectively calculating the value of risk in complex projects like HOT lanes
- Consideration of devolution of local roadways from state to local control
- Maturation of new regional transportation authorities and defining state vs. regional roles