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

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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

FY15
Appropriation
$5.8 billion

Population
8.1 million

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

Virginia Port Authority
- 7 commercial facilities
- 2.4 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

- 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

($ 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 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 **<u>not</u>** 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

($ 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**

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

($ 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**

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

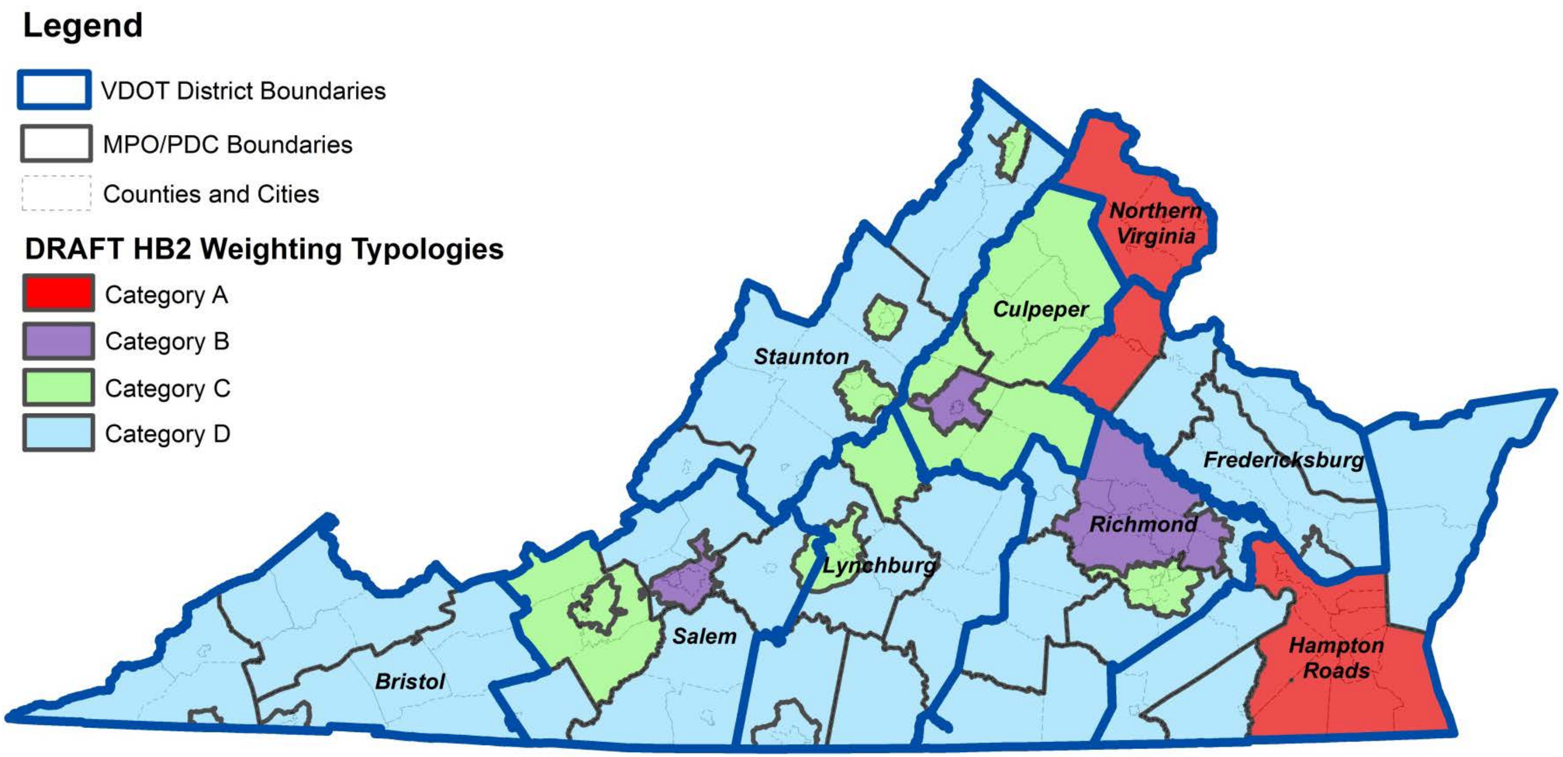
Factor Weighting Framework – March 2015

Factor	Congestion Mitigation	Economic Development	Accessibility	Safety	Environmental Quality	Land Use
Category A	35%**	10%	25%	10%	10%	10%*
Category B	15%	20%	25%	15%	10%	15%*
Category C	10%	20%	30%	30%	10%	
Category D	10%	30%	20%	30%	10%	

Adopted Factor Weighting Framework – June 2015

Factor	Congestion Mitigation	Economic Development	Accessibility	Safety	Environmental Quality	Land Use
Category A	45%	10%	10%	10%	10%	15%
Category B	15%	20%	25%	20%	10%	10%
Category C	15%	25%	25%	25%	10%	
Category D	10%	35%	15%	30%	10%	

Factor Weighting Categories by MPO and PDC (Recommended)



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

2015 Session: Replacement of Outdated Funding Allocation Formulae

- 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

HB 1887 Construction Allocation Formula

- 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

2015 Session: Reform of P3 Process

- 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