COMMONWEALTH of VIRGINIA

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April 9, 2008

MEMORANDUM

TO: Governor Timothy M. Kaine
General Assembly Members
Local Governments

FROM: Pierce R. Homer PH

RE: Spring 2008 Transportation Finance Overview

As reported to you on February 25, the official six-year forecast for the Highway Maintenance and Operating Fund and the Transportation Trust Fund has been reduced by $1.1 billion from one year ago. Attachment A illustrates that the bulk of the reductions results from the abusive driver fee repeal, reduced gas tax receipts, and declining sales and use tax collections.

Statutory reforms you adopted in 2003 assure that only official revenue forecasts are used for six-year planning purposes.

This six-year forecast reflects the reality of continued high fuel prices (leading to long-term lower consumption, and lower fuel tax revenue) and a slow recovery for consumer spending. As official forecasts, these six-year projections are identical to those underlying the recently adopted biennial budget bill.

Last week, the General Assembly leadership, the Hampton Roads delegation, and the Northern Virginia Transportation Commission received briefings on the attached overview of transportation finance, highway maintenance, transit, rail, environmental and land-use issues.

Please contact me with any questions (804) 786-8032.

Attachments: (2)

Copy: House Appropriations Staff
Senate Finance Staff
Virginia Association of Counties
Virginia Municipal League

Spring 2007 vs. Spring 2008
Revenue Reductions

Transportation Revenue Reductions (in millions)								
	FY08	FY09	FY10	FY11	FY12	FY13	FY14	TOTAL
HMOF and TTF	**(78.6)**	**(176.8)**	**(200.4)**	**(200.3)**	**(195.8)**	**(140.8)**	**(116.0)**	**(1,108.7)**

	FY08	FY09	FY10	FY11	FY12	FY13	FY14	TOTAL
Highway Maintenance and Operating Fund	**(41.8)**	**(122.9)**	**(143.6)**	**(147.9)**	**(142.8)**	**(103.5)**	**(97.0)**	**(799.5)**
Abusive Driver Fees	0.0	(61.9)	(65.4)	(65.4)	(65.4)	(65.4)	(65.4)	(388.9)
Fuels Tax	(9.0)	(24.0)	(39.1)	(43.1)	(45.0)	(26.4)	(19.8)	(206.4)
Motor Vehicle Sales and Use Tax	(24.5)	(29.6)	(33.0)	(34.4)	(27.5)	(8.3)	(9.7)	(167.0)
Recordation Tax (1 cent)	0.0	(2.4)	(2.6)	(2.6)	(2.7)	(2.9)	(2.8)	(16.0)
Motor Vehicle License Fees	(9.6)	(4.8)	(2.1)	(0.5)	0.4	1.7	2.4	(12.5)
Miscellaneous	(0.6)	(0.9)	(1.1)	(1.3)	(1.5)	(1.6)	(1.5)	(8.5)
Road Tax	1.9	0.7	(0.4)	(0.7)	(1.2)	(1.1)	(1.1)	(1.9)
IRP	0.0	0.0	0.1	0.1	0.1	0.5	0.9	1.7

	FY08	FY09	FY10	FY11	FY12	FY13	FY14	TOTAL
Transportation Trust Fund (all modes)	**(36.8)**	**(53.9)**	**(56.8)**	**(52.4)**	**(53.0)**	**(37.3)**	**(19.0)**	**(309.2)**
Retail Sales and Use Tax	(18.2)	(26.3)	(29.6)	(30.2)	(30.4)	(23.9)	(21.4)	(180.0)
Motor Vehicle Sales and Use Tax	(13.2)	(15.9)	(17.8)	(18.5)	(14.8)	(4.4)	(5.2)	(89.8)
Interest Earnings	(9.1)	(15.8)	(9.6)	(6.7)	(8.1)	(9.5)	7.8	(51.0)
Recordation Tax (2 cents)	0.0	(4.7)	(5.2)	(5.2)	(5.3)	(5.6)	(5.6)	(31.6)
Aviation Fuels Tax	(1.2)	(1.2)	(1.4)	(1.5)	(1.7)	(1.9)	(2.1)	(11.0)
Road Tax	0.2	0.0	(0.1)	(0.3)	(0.4)	(0.4)	(0.4)	(1.4)
Motor Vehicle License Fees	(0.2)	0.3	0.5	0.7	0.6	0.8	1.0	3.7
Rental Tax	0.3	0.0	0.2	0.4	0.7	1.0	2.3	4.9
Motor Fuels Tax	4.6	2.2	0.2	0.2	0.3	3.3	4.2	15.0
Insurance Premiums	0.0	7.5	6.0	8.7	6.1	3.3	0.4	32.0

*Source: Virginia Department of Taxation

COMMONWEALTH *of* VIRGINIA

Office of the

SECRETARY *of* TRANSPORTATION

Transportation Funding in Virginia – a Snapshot

Spring 2008

dmv www.dmvNow.com

Virginia Department of Aviation

DRPT Virginia Department of Rail and Public Transportation

MVDB Motor Vehicle Dealer Board COMMONWEALTH OF VIRGINIA

Virginia Port Authority

VDOT Virginia Department of Transportation

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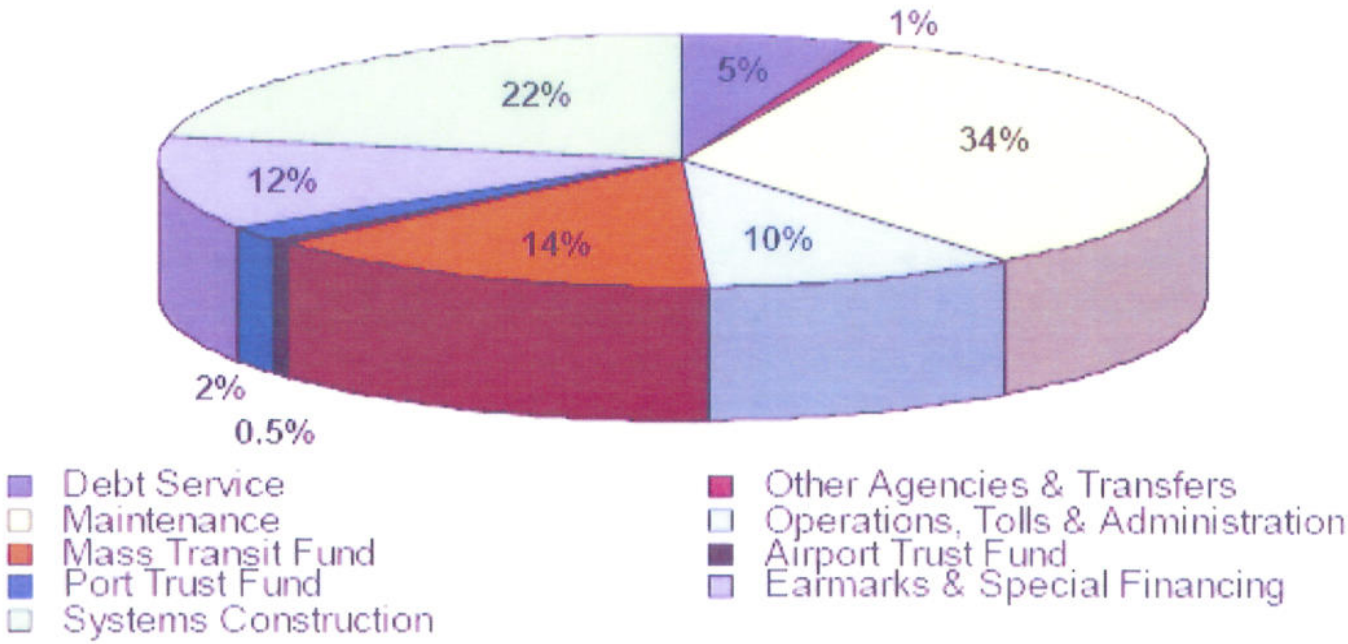
Commonwealth Transportation Fund – All Modes - $4.8 Billion in FY 2008



Focus today is on highway and transit funding – surface transportation accounts for 96.5% of all spending

FY08 Surface Transportation Spending Snapshot

(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			157.8
Total	**$1,257.6**	**$325.7**	**$358.3**	**$1,361.5**

Surface Transportation Revenues

- Highway, transit and rail needs are funded by a combination of federal and state resources – the majority are user fees or have a closely related transportation nexus

- In FY 08, 28% of surface transportation funding – the largest source – is federal funding from the Federal Highway Administration (FHWA) and the Federal Transit Administration (FTA) – rules are set by Congress once every 6 years with annual appropriation.

  - 11% dedicated to highway maintenance
  - 11% to transit, including commuter rail
  - 78% to highway construction

Surface Transportation Revenues, cont'd

- 66% of surface transportation revenues are from a wide array of state user fees and taxes:
  - Motor fuels tax – 23%
  - Motor vehicle sales tax – 15%
  - General sales and use tax – 13%
  - Motor vehicle registration fees – 7%
  - Insurance premium tax – 3%
  - Other – 3%
  - Tolls – 2%

- The final 6% of surface transportation revenues are locality contributions and are for a variety of purposes such as revenue sharing, urban match, coal severance, social service programs, etc.

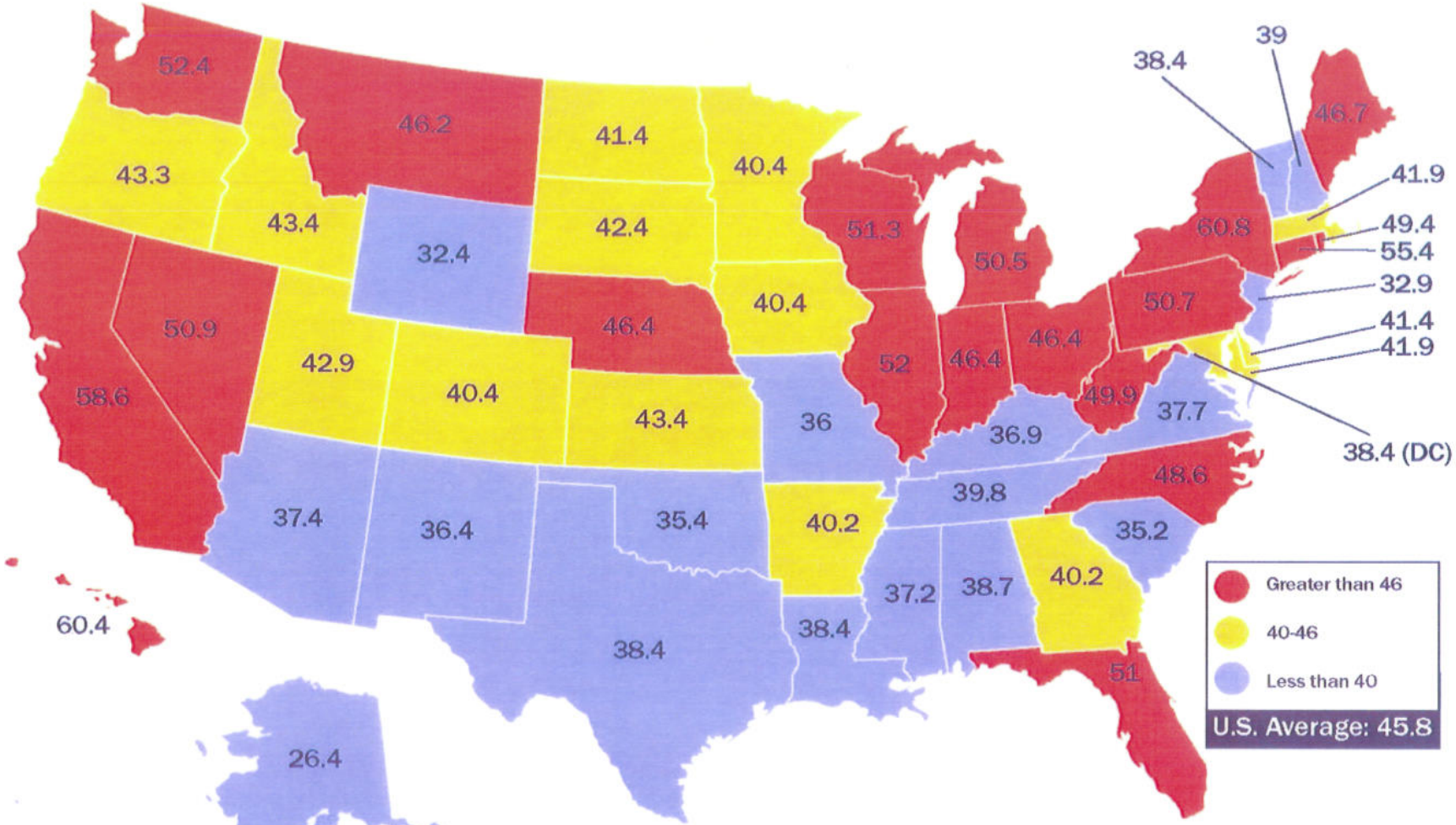
Surface Transportation Revenues

	FY 2008 Transportation Estimate
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 $10 generates about $70 million	$253.1 million
Other Sources Recordation tax ($45.9 million beginning in FY 2009) Insurance premium tax ($139.5 million) Tolls ($93.1million)	$360.7 million

Gasoline Taxes

Combined Local, State and Federal (Cents per gallon)

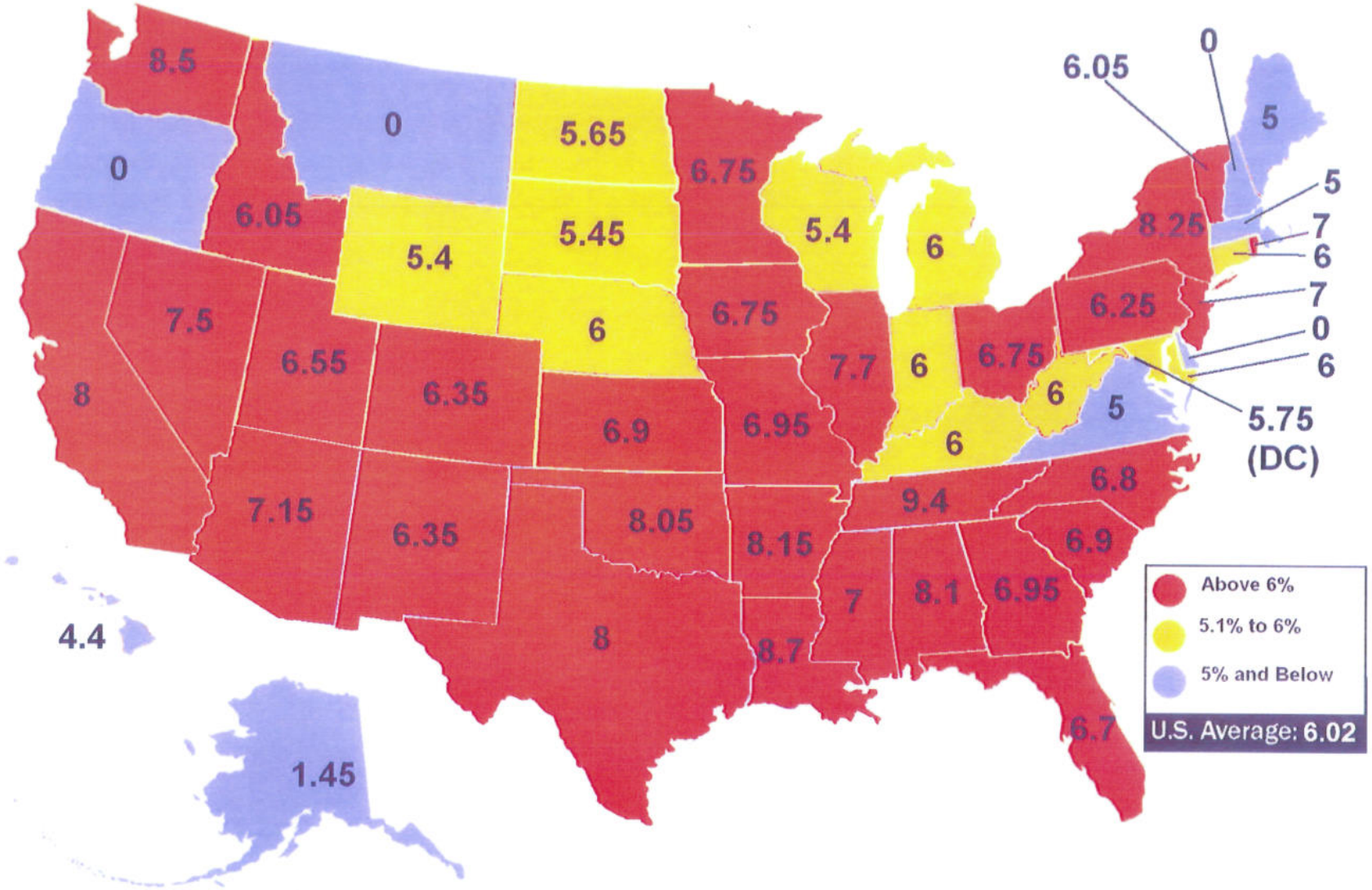
MARCH 2007



Virginia's Gas Tax – 17.5 cents state tax; 18.4 cents federal tax; 1.8 cents for leaking underground storage tanks & est. NOVA regional tax

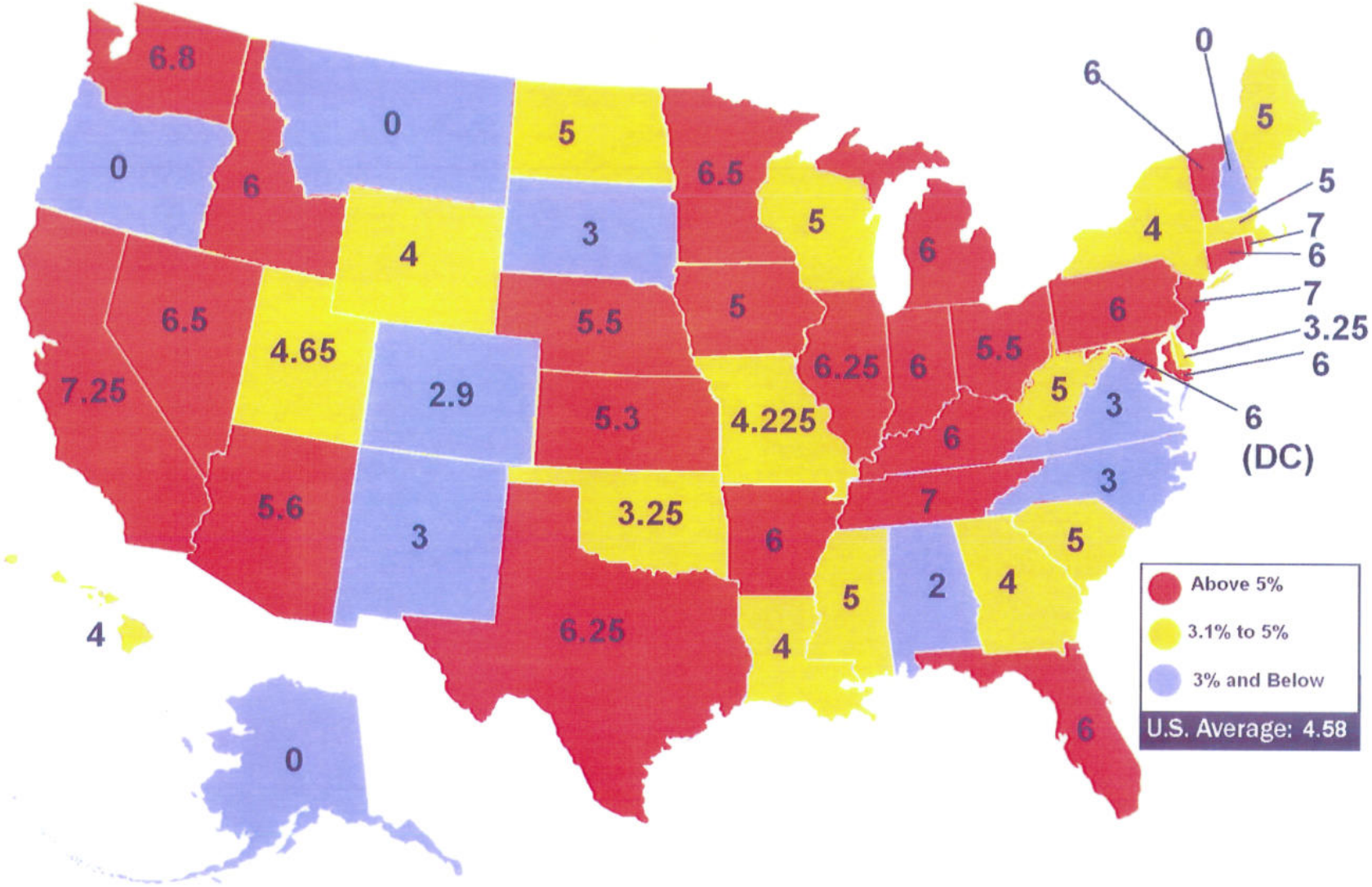
Retail Sales and Use Tax

Combined state and average local sales and use tax rate



Motor Vehicle Sales Tax Rate

State motor vehicle sales tax rate



Funding Virginia Highways

- By law, maintenance and operation of existing highways is the first funding priority
  - VDOT highways, two counties, and urban streets

- When the cost of maintenance and operations exceeds dedicated revenues, there is a "maintenance deficit" and funds are transferred from the construction fund (transportation trust fund or TTF) to the maintenance fund (highway maintenance and operating fund or HMOF)
  - First maintenance deficit in FY2002
  - FY09 maintenance deficit is $388 million
  - Maintenance deficit exceeds $575 million in FY14

- Maintenance deficit is a major factor in declining highway construction program

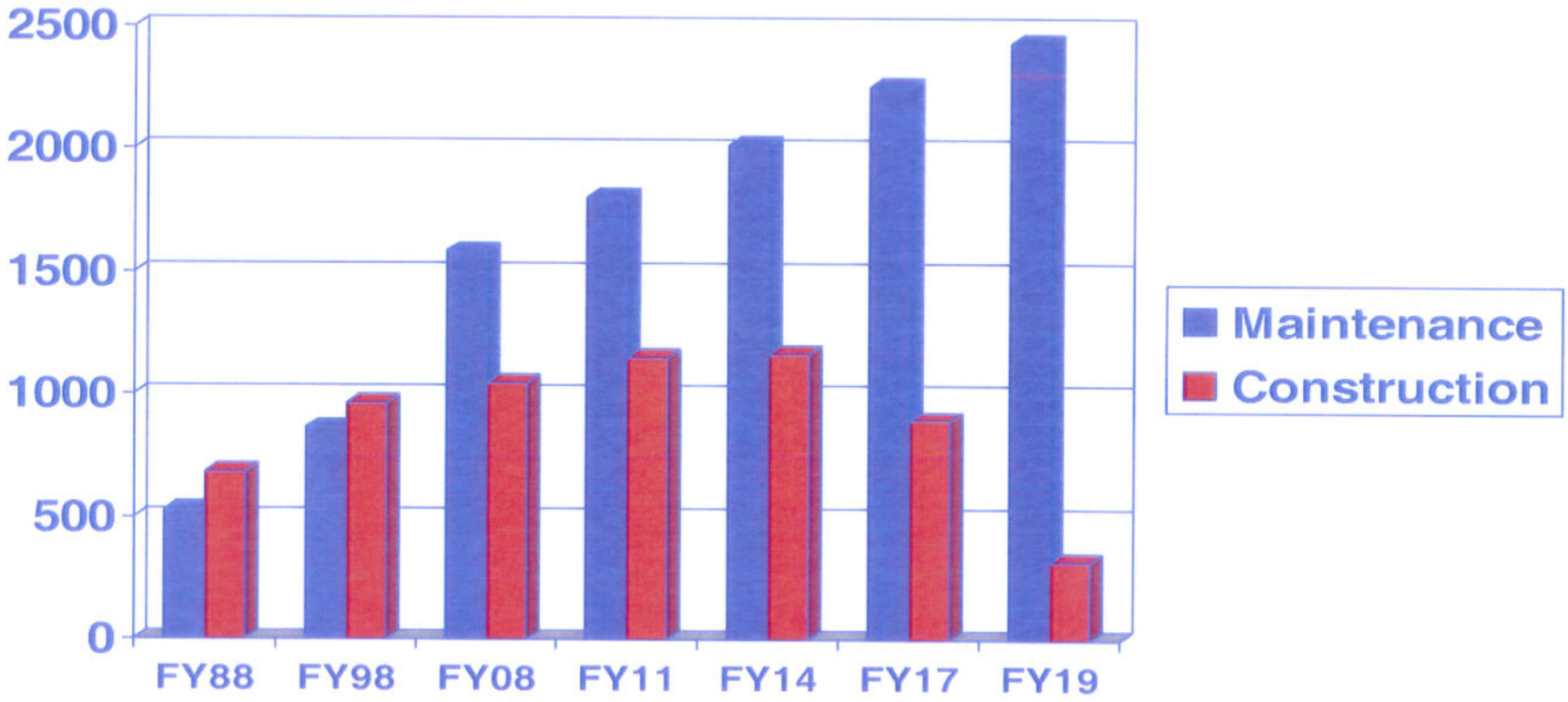
Impact of Maintenance Deficit on Highway Construction by District

(in millions)

	FY08	FY09	FY10	FY11	FY12	FY13	FY14
Bristol	($19.5)	($28.8)	($28.8)	($32.1)	($34.9)	($37.4)	($42.6)
Culpeper	(16.6)	(24.6)	(24.5)	(27.3)	(29.8)	(31.9)	(36.3)
Fredericksburg	(18.1)	(27.0)	(27.0)	(30.1)	(32.8)	(35.2)	(40.2)
Hampton Roads	(53.8)	(80.3)	(80.0)	(89.5)	(97.6)	(104.6)	(119.4)
Lynchburg	(19.3)	(28.6)	(28.5)	(31.8)	(34.7)	(37.2)	(42.4)
NoVA	(49.6)	(74.1)	(73.9)	(82.6)	(90.0)	(96.5)	(110.1)
Richmond	(37.9)	(56.5)	(56.3)	(62.9)	(68.6)	(73.5)	(83.9)
Salem	(25.5)	(38.0)	(37.9)	(42.3)	(46.1)	(49.4)	(56.3)
Staunton	(20.3)	(30.1)	(30.0)	(33.6)	(36.5)	(39.1)	(44.6)
TOTAL	($260.6)	(388.1)	(387.0)	(432.3)	(471.1)	(504.9)	($575.7)

- In FY08, maintenance deficit exceeded total funding available for the statewide secondary construction program
- In FY11 maintenance deficit will exceed both the statewide secondary and urban construction program

Future of Highway Maintenance & Construction Funding



State Funding Formulas for Highway Construction

The statutory state highway construction formulas result in the following distributions AFTER MAINTENANCE AND OPERATIONS ARE FUNDED

- Population, land area, and vehicle miles of travel are the key state formula factors

Construction District	Primary	Secondary	Urban	Percent of Systems per District
BRISTOL	4.65%	2.29%	0.79%	7.73%
CULPEPER	3.88%	2.04%	0.69%	6.61%
FREDERICKSBURG	4.19%	2.58%	0.23%	7.00%
HAMPTON ROADS	2.98%	2.00%	15.80%	20.77%
LYNCHBURG	4.12%	2.13%	1.46%	7.71%
NORTHERN VA	6.10%	8.72%	3.30%	18.12%
RICHMOND	6.06%	5.15%	3.12%	14.32%
SALEM	4.68%	2.86%	2.71%	10.25%
STAUNTON	3.34%	2.25%	1.91%	7.49%
TOTAL	40.00%	30.00%	30.00%	100.00%

Highway Construction State Formula Factors

	Population % (urban/secondary)	Land Area % (secondary)	VMT % (all systems)
Hampton Roads District	22.0%	14.2%	19.3%
Northern Virginia District	27.0%	3.4%	22%

Federal Funding for Highway Construction

- For federal transportation funds, funding formulas and program requirements are weighted towards population and designated projects and corridors

- All must be matched with state dollars
  - First call on state formula funds are match to federal funds typically 80/20 match
  - Required Federal Match in FY 2008 - $208 million

- Major federal highway programs - $1.1 billion in FY 2008:

  Federal Earmarks

  Interstate Maintenance (IM) - major rehabilitation and replacement of existing NOT NEW capacity

  National Highway System (NHS) – interstates, primary, and major highways

  Bridge – only for the structure, inspections

  Surface Transportation Program (STP) – distributed on federal rules, including population

  Equity Bonus to balance appropriation to each state, distributed according to state Appropriation Act

  Congestion Mitigation and Air Quality (CMAQ) - distributed to urban areas based on air pollution

  Highway Safety Improvement Program (HSIP) – needs based distribution under federal rules

Future Federal Funding is Uncertain

- 2009 is a critical year for federal transportation funding
  - Next 6-year reauthorization
  - Planned spending will exceed cash available and no reductions have been made
  - Recissions or reimbursement delays possible
  - Six year plan assumes little growth in federal revenues over current level

- National Surface Transportation Infrastructure Financing Commission findings and recommendations –
  - System demands are outpacing investments
  - System maintenance costs are competing with necessary expansion
  - Fuel tax is no longer sufficient at current rates
  - More direct user charges
  - Need intelligent investments to improve system operations

Federal Rules Drive Virginia Highway Construction Program

- To build a highway construction project today, federal funds must be used because they comprise most of the available construction funding

- Four steps to any project:

	Average Timeframe
1. Environmental requirements (solution selection and permitting) (close to 70 regulations from more than 25 agencies)	9-36 months
2. Design of the selected solution	12-30 months
3. Right of way acquisition/utility relocation	6-30 months
4. Construction	3-36 months

Federal Environmental Review Process – Environmental Impact Statements

• Scoping/Identification of Needs	4 to 7 months
• Develop Solutions/Public input	6 to 9 months
• Develop Draft EIS/FHWA Approval	6 to 17 months
• Public Hearings/CTB Approval	5 months
• Develop Final EIS	5 months
• FHWA Review and Record of Decision	5 months

*Average timeframes, actual timeframes vary based on project and regulatory agencies

- State Environmental Review Process (SERP) exists for 100% state-funded projects

Funding For Rail and Transit Programs

- **Rail and transit are essential elements of surface transportation**
- **Public transportation program reimburses localities and authorities based on the level of local capital and operating expenditures**
  - In FY08 42% of transit operating costs will be reimbursed by the Commonwealth
  - In FY08 65% of capital costs will be reimbursed by the Commonwealth
- **Rail preservation program focuses on the maintenance of shortline railways in Virginia**

Recent Funding for Rail and Transit Programs

- In 2005 General Assembly created Rail Enhancement Fund - $25m annually for private rail capital
  - Rail Enhancement Fund focuses on capital investments, public benefits in private railroads and on public/private partnerships, not formulas
- In 2007 General Assembly dedicated 2 cents of statewide recordation tax - $35 million annually for transit operations using the formula
- In 2007 bond authorization with at least 24.3% dedicated – $730 million during the next ten years for transit capital using a maximum of 80% contribution from the bonds and rail enhancement fund/rail preservation programs

Integrating Transportation and Land Use

- Significant progress on land use reform
  - Traffic Impact Analysis
  - Demand Management
  - Local/State Partnership
  - Transfer of Development Rights
  - Urban development areas
  - Access Management
  - Subdivision Streets
  - Road Impact Fees
  - Conditional Zoning
  - State and Regional Performance Measures
  - Urban Transportation Service Districts

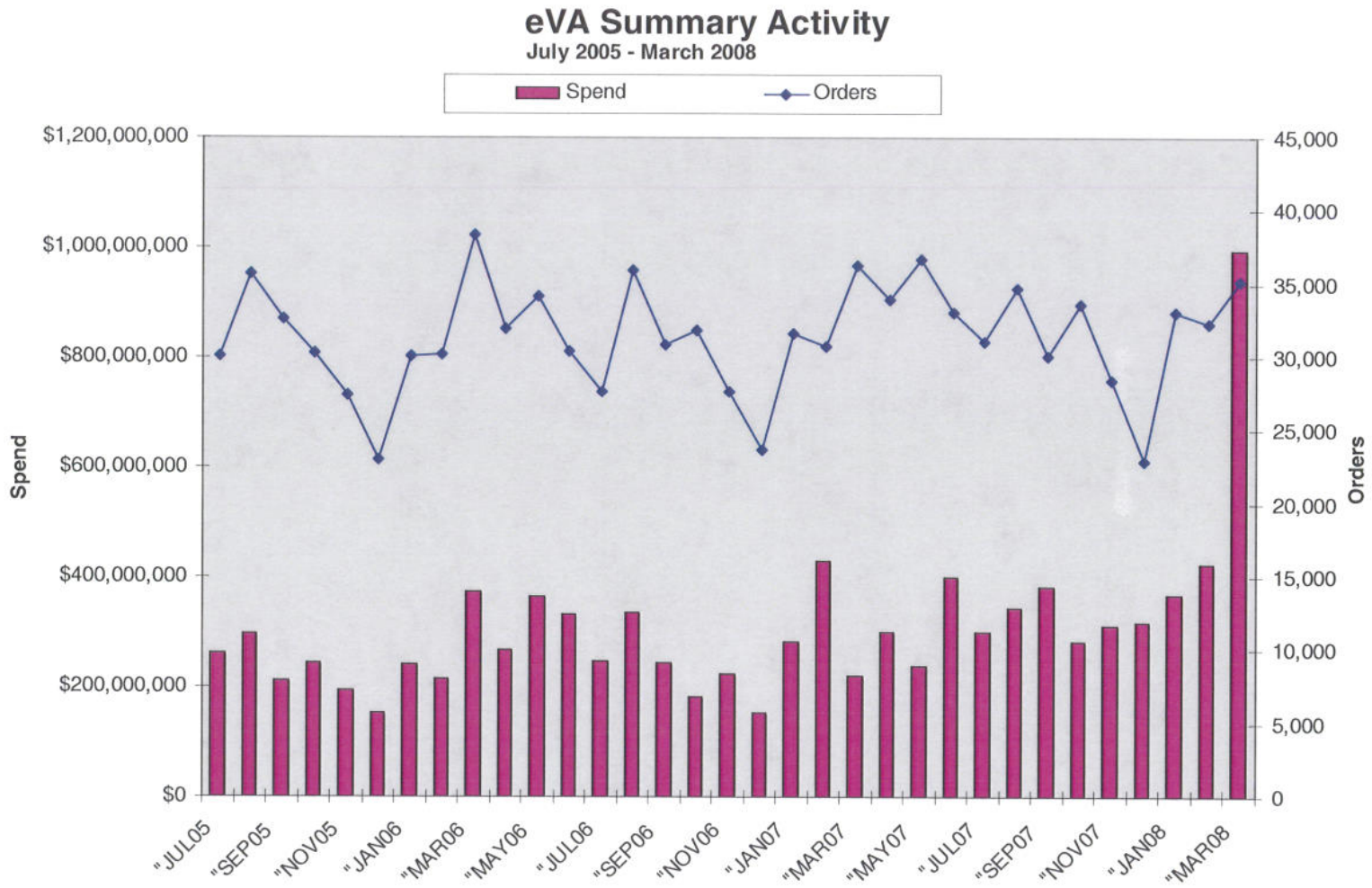
Conclusion

- Highway maintenance deficit will continue to diminish funds for highway construction
- Federal governments commitment to sustained transportation funding is uncertain
- Commonwealth is taking steps to improve coordination between transportation and land-use planning, including demand management

Electronic Procurement Program
Weekly Update

April 4, 2008

Performance Trend



Note: Spike in March 08 is due to VDOT, which has a transaction count almost double the norm for VDOT and there is an extra 236 million going to road construction projects. Also several of the universities reporting about 40 to 50 million more in spend probably due to year end spending.

Summary Statistics

	April to Date	FY08 Total to Date	Cumulative Program Since FY02
Orders	5,272	287,032	1,713,335
Spent	$145 Million	$3.9 Billion	$16 Billion

DMBE SWAM Certified & eVA Registered Vendors

Category	Past Week	Current Week	Change
Small	10,906	10,985	+79
Women	1,979	2,004	+25
Minority	2,687	2,715	+28
Total	15,572	15,704	+132

Electronic Procurement Program
Weekly Update

April 4, 2008

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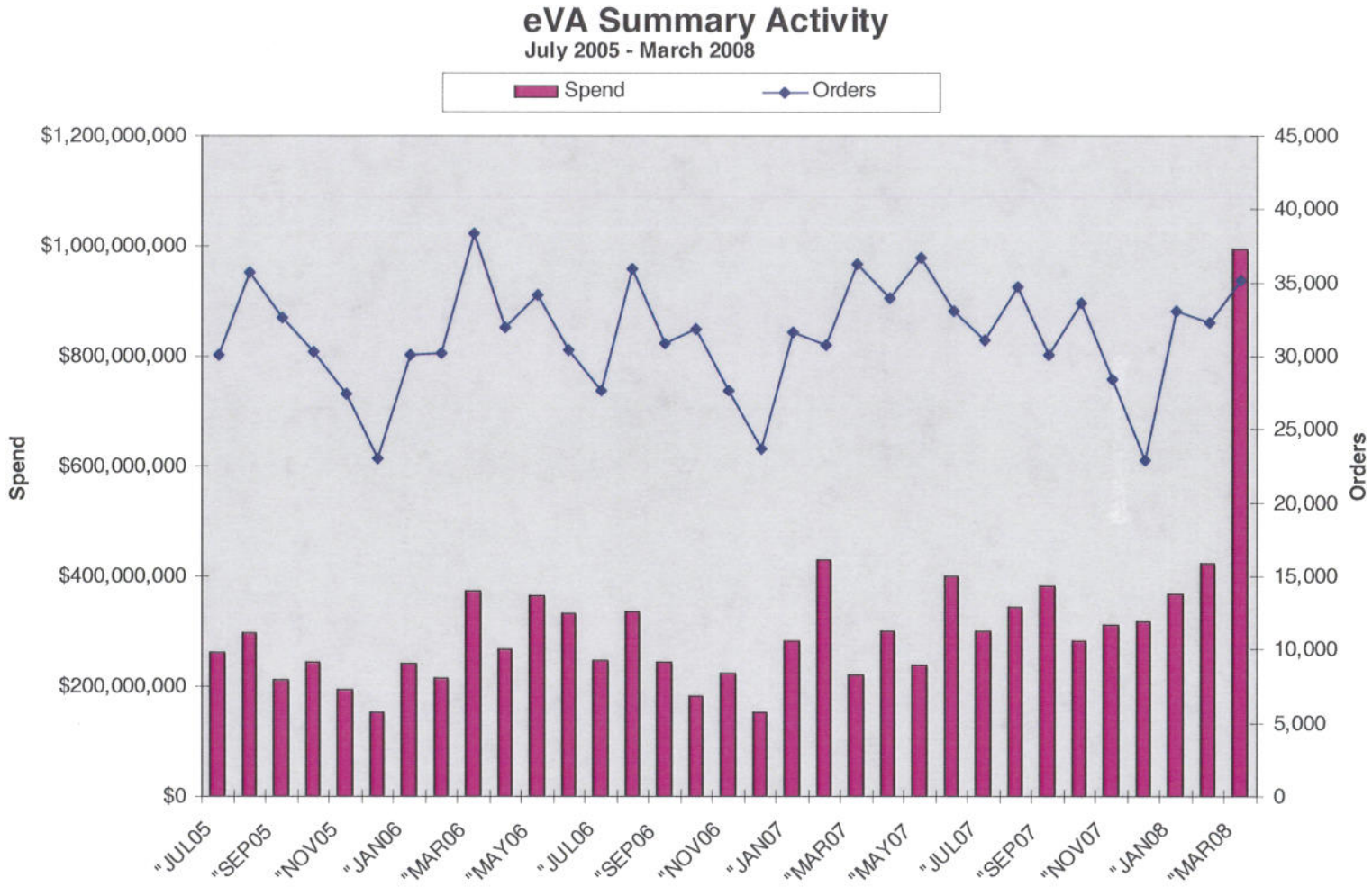

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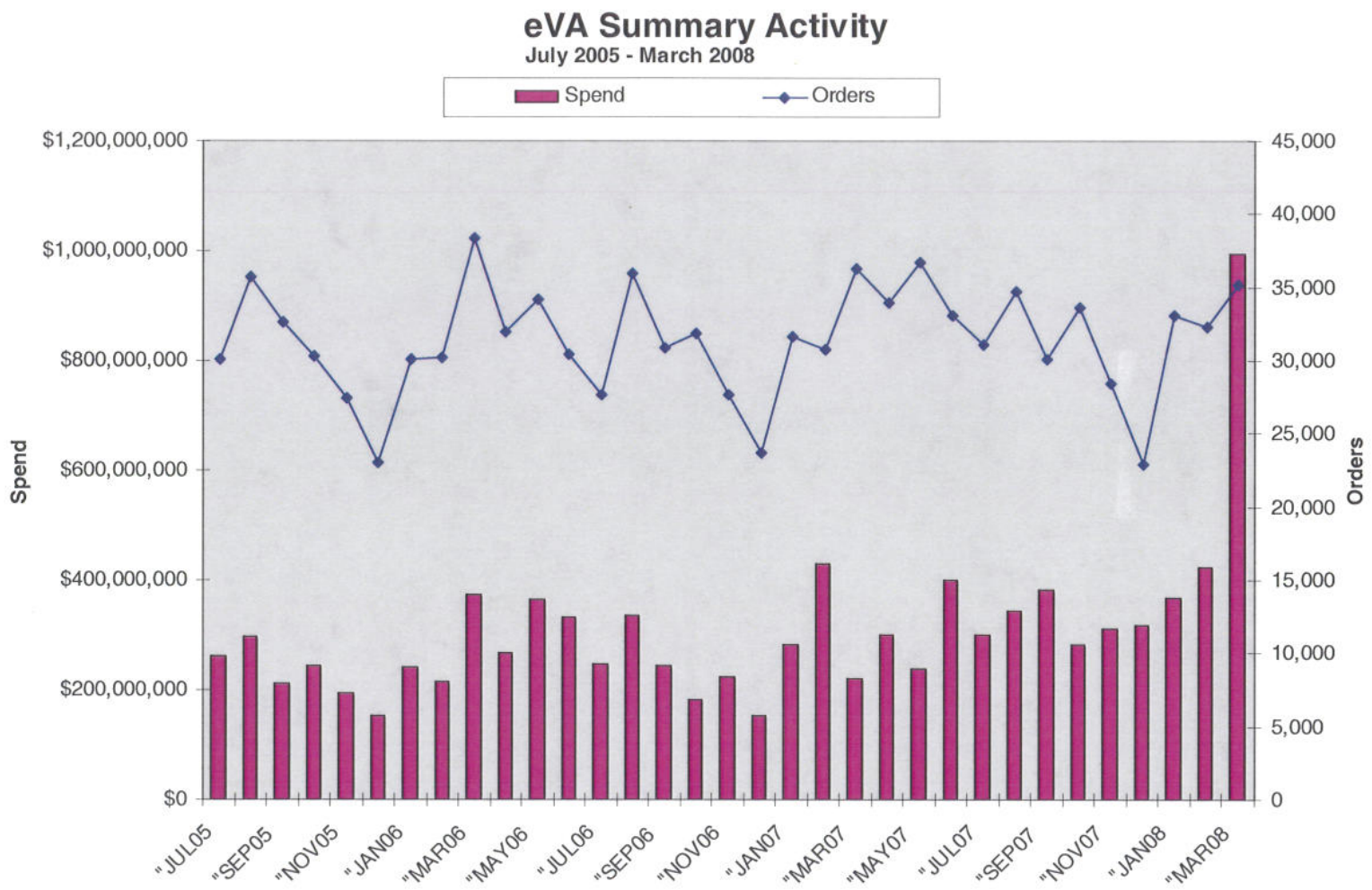

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