



# Transportation Funding: Paying for Performance

To:  
CTB Workshop  
September 16, 2009

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By:

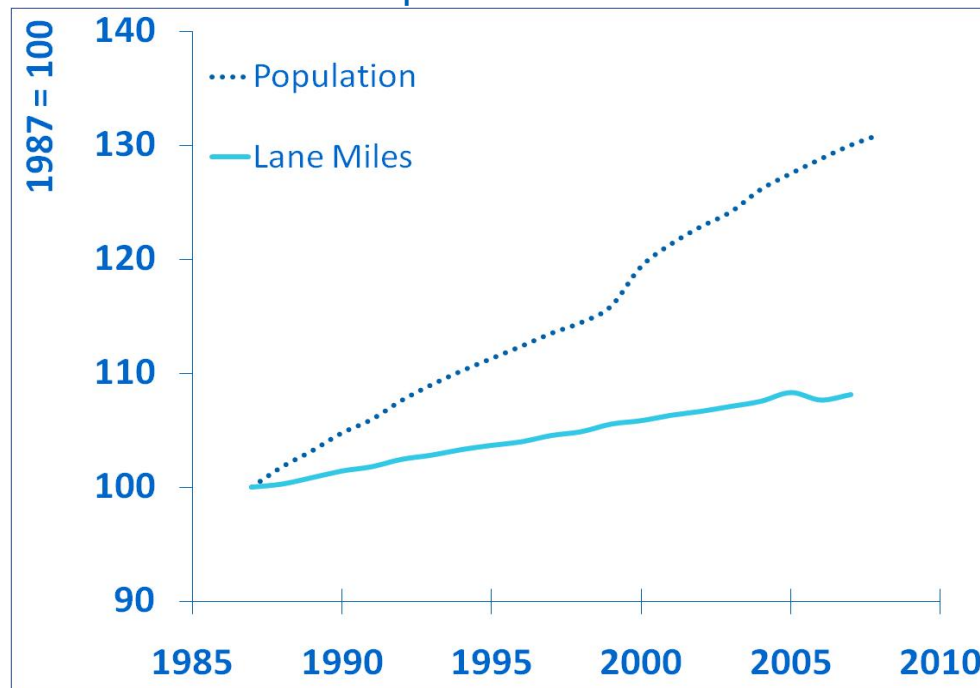


## The future of state funding for all transportation modes in Virginia

- **How did we get to where we are today?**
  - Purchasing power of key Commonwealth transportation revenue sources
  - Increased use of debt financing to fund major projects
- **How will alternative funding futures affect transportation?**
  - Level of state-controlled expenditures relates to system performance
- **What Options Are Available to Address These Issues?**
  - New Public Private Partnerships
  - New and Enhanced Revenue Sources

## The transportation system is increasingly stressed.

- Increasing population increases travel demand
- Project costs increase faster than inflation and population
  - Increased urban population growth means increased real estate costs
  - Greater environmental compliance increases costs

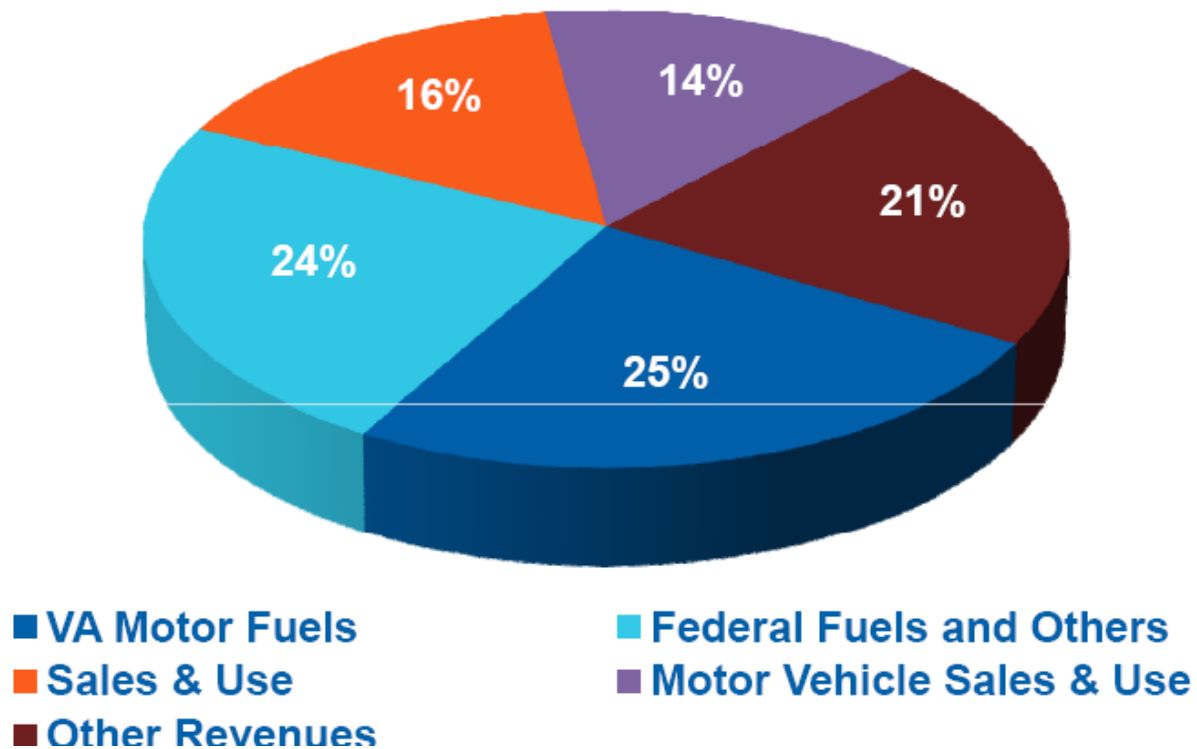


**Result: Capacity per capita decreases for highways and also for transit**

# CTF Revenues

79% of CTF revenues come from 4 sources.

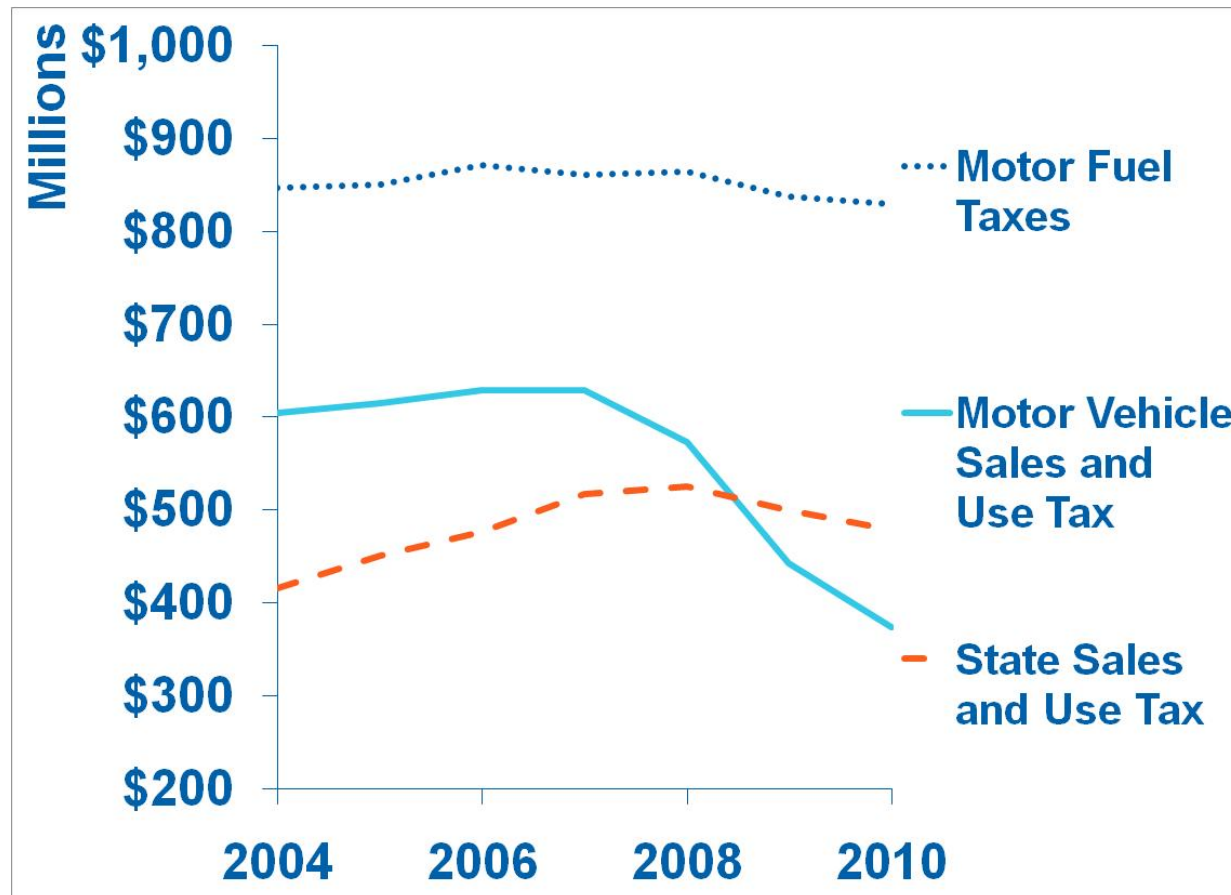
Per Gallon Fuel Taxes	Ad Valorem Sales Taxes
VA Fuel Tax Federal Gas & Diesel Taxes	Motor Vehicle Sales & Use Tax Sales & Use Tax



## CTF Revenues

Economic conditions affect revenue sources differently.

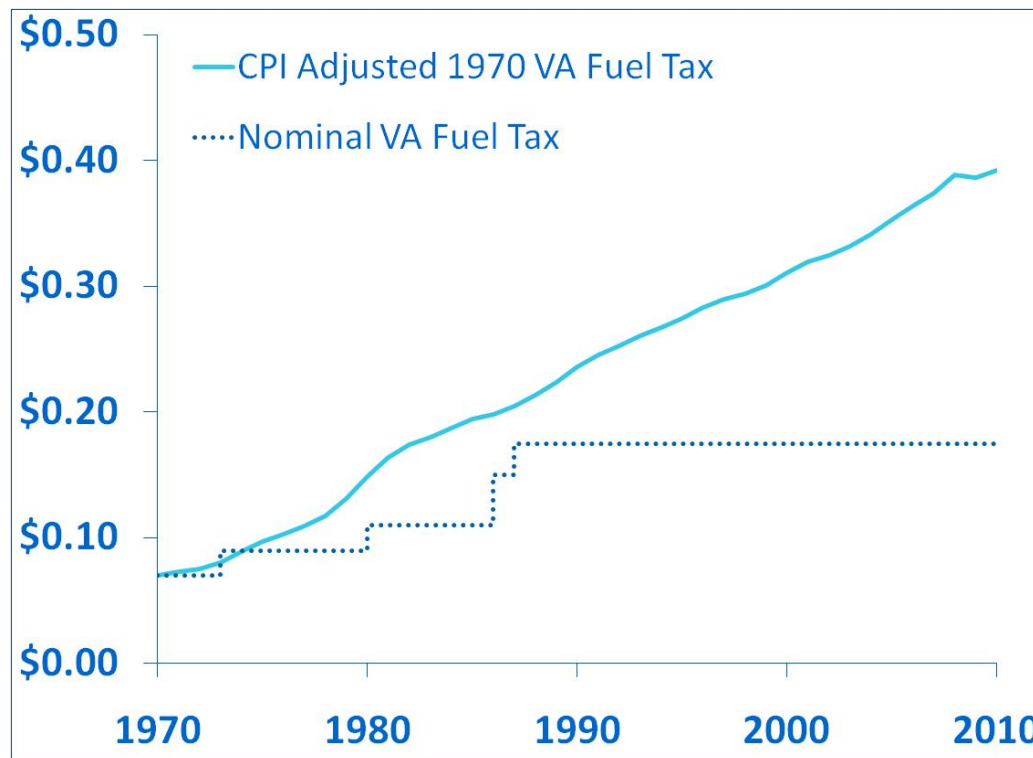
- The value of general sales and fuel purchases have changed less than the value of vehicles sales in the current recession



## Historical Gas Tax

Fuel taxes are the largest source of transportation revenues.

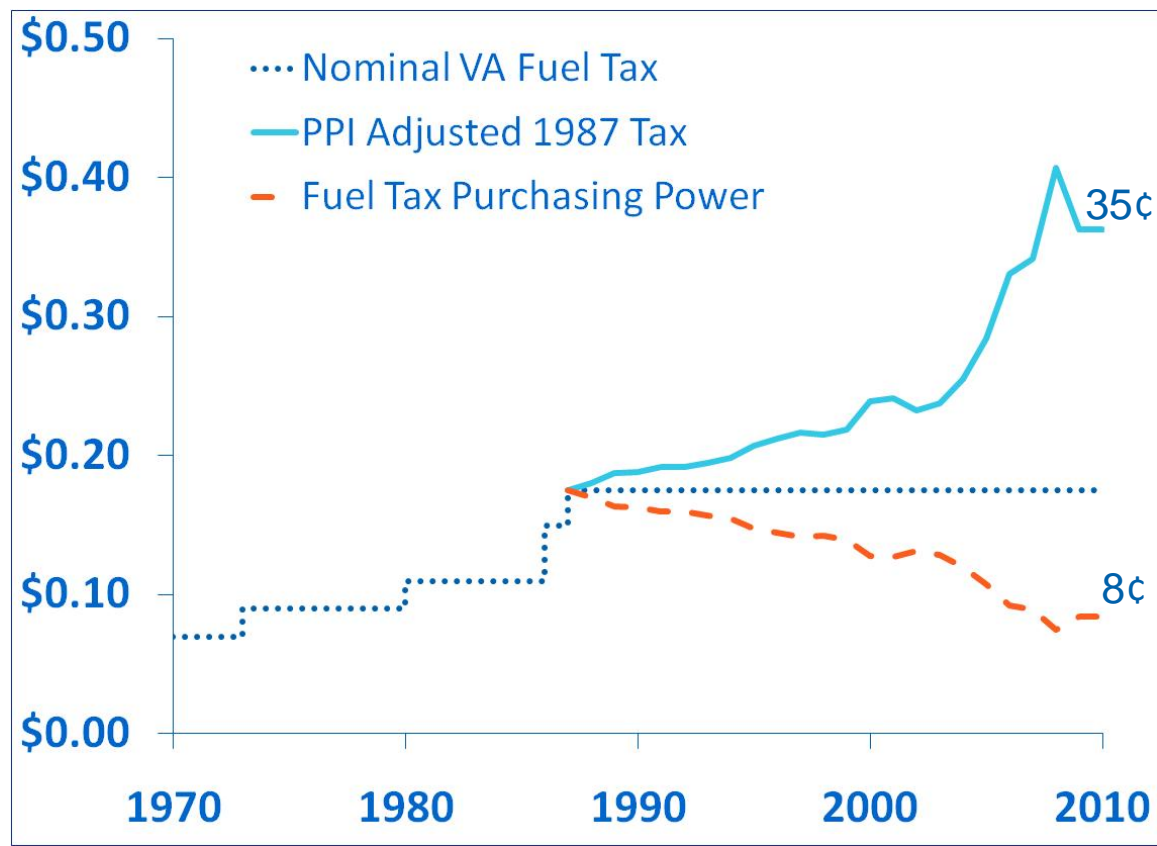
- FY 2010 estimates are that the state motor fuels tax comprises 35% of state-levied transportation revenues and 25% of total revenues
- The 7¢ 1970 tax is equivalent to 39¢ in today's dollars (CPI adjusted)
- The value of the current gas tax is 55% less than the 1970 tax



## VA Gas Tax Has Not Kept Pace with Costs

The construction purchasing power of the per gallon state gas tax has eroded since the last tax increase in 1987.

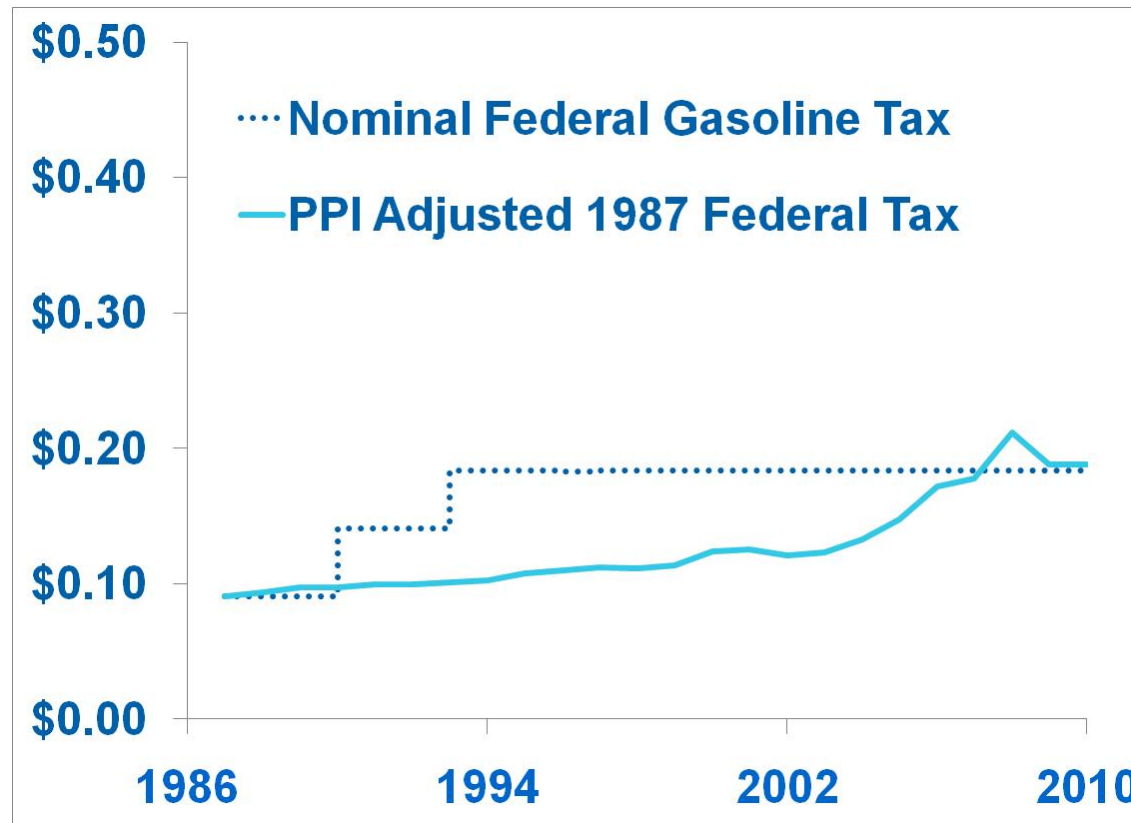
- In 1987 the state gas tax rose from 15¢ to 17.5¢ per gallon
  - Several states have converted to ad valorem fuel taxes



## Federal Gas Tax Has Kept Pace with Costs

By contrast, the federal gasoline tax has increased twice since 1987 and is now equivalent in purchasing power to the 1987 tax rate.

- Two federal commissions recommended indexing fuel taxes to inflation

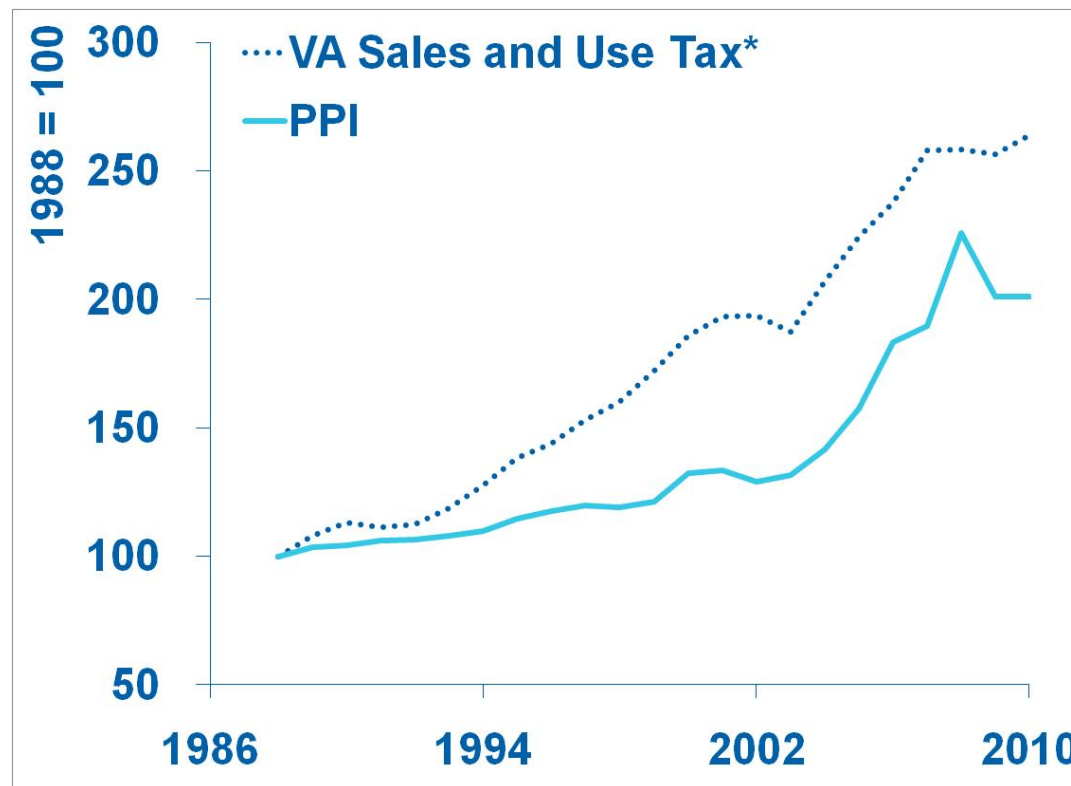




## Sales Tax Revenues Kept Pace with Costs

Revenues from the state sales and use tax have increased faster than construction costs.

- A portion of the sales and use tax is dedicated to transportation
- Sales tax revenues increase in proportion to price levels

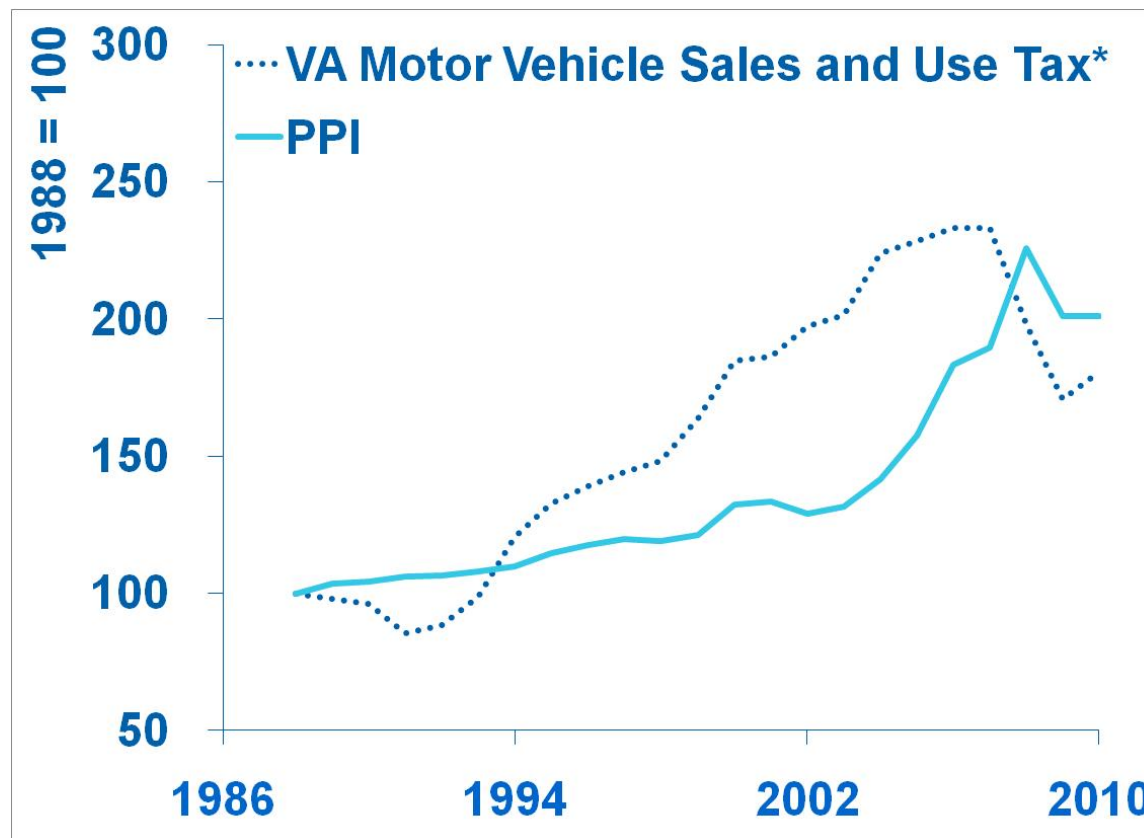


\*2008-2010 values are FY budget estimates

## Motor Vehicle Sales Tax Revenues Kept Pace with Costs

Revenues from the motor vehicle sales and use tax have also increased faster than construction costs.

- Motor vehicle sales tax revenues increase in proportion to price levels



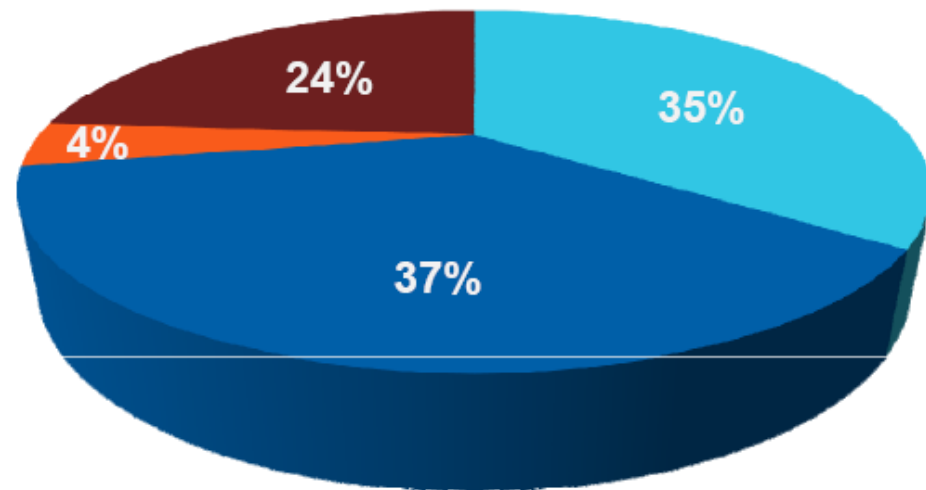
\*2009-2010 values are FY budget estimates

Federal, state, and local funds are distributed to each transportation agency.

These funds comprise most highway spending but only a portion of funds spent by other modes

- Transit agencies receive farebox revenues, some local funds, and some federal funds directly
- The port's largest revenues are from operations, but it also receives direct federal funding
- Air operations receive local and federal funding directly

FY 2010 Budgeted CTF Revenues



- Highway Maintenance & Operating Fund
- Transportation Trust Fund
- Priority Transportation Fund
- Federal Funds

Since the early 1990s methods of financing transportation have changed.

- **Pay-as-you-go financing of construction projects has been replaced by debt financing for large projects**
  - Complex projects like the Dulles Metrorail extension and the Capital Beltway HOT lanes could not be completed by pay-as-you-go
- **Debt financing reduces price variability from construction inputs and permits faster project completion**
  - Interest from debt financing increases project costs
  - Projects completed early begin accruing benefits earlier
- **Debt financed projects are vulnerable to economic conditions that dictate the availability of capital**
  - Need for public sector guarantees on private partners' debt rise when capital is scarce, or the cost of financing can rise beyond a profitable level

## Virginia's Financing Methods

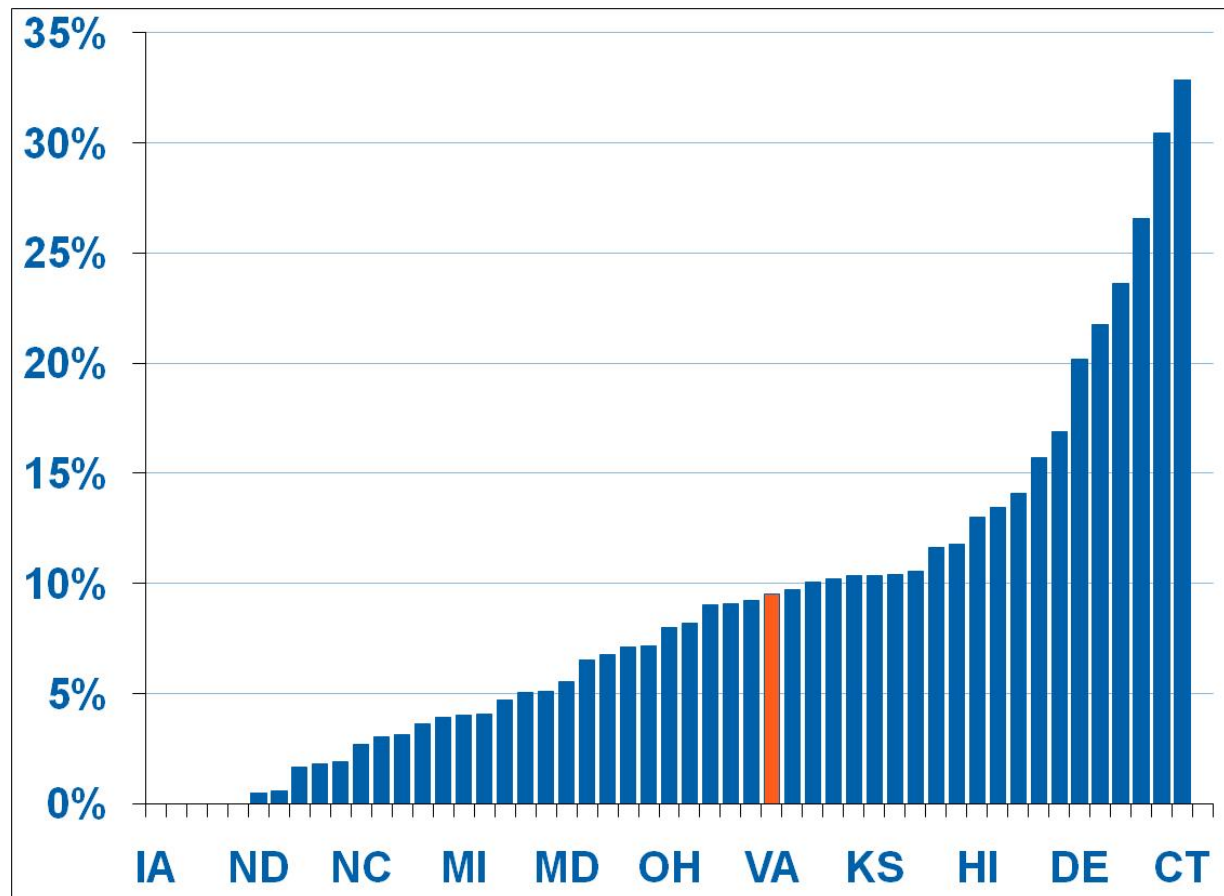
**ISTEA, TEA-21 & SAFETEA-LU provided state DOTs opportunities to explore alternative financing practices, & VA took full advantage.**

- **VA has raised \$1.1 billion through Federal Revenue Anticipation Notes (FRANS)**
  - These bonds are issued against anticipated payments to the state from FHWA
- **VA and TX lead in use of Transportation Infrastructure Finance and Innovation Act (TIFIA) loans for private firms investing in the state's transportation infrastructure**
  - 3 of the 12 active credit agreements are for projects in VA
- **VA participated in the original DOT pilot program enabling states to start State Infrastructure Bank (SIB) revolving loan funds**
  - The fund currently has \$36.5 million available to lend to private transportation partners
- **VA used a 63-20 Corporation to finance the Pocahontas Parkway**
  - Used tax-exempt bond financing, and traded lease rights for private funding
- **VA supported Capital Beltway Funding Corp's Private-Activity Bonds for HOT lanes**
  - Public bonds to finance construction; private operators to repay cost from tolls

## Debt Financing

Transportation funding is supported by debt financing in most states.

- Virginia is approaching 10% of total expenditures for debt service



## Alternative Funding Methods

Nationwide VA and other states are using alternative funding methods.

Classification	Strategies	VA Experience
Innovative Management of Federal Funds/Policies	Advance Construction Partial Conversion of Advance Construction Tapered Match Flexible Match Toll Credits	Yes Yes Yes Yes Yes
Debt Financing	Grant Anticipation Revenue Vehicles (GARVEEs) Private Activity Bonds Credit Enhancements	Yes (FRANs) Yes Yes
Credit Assistance	Section 129 Loans SIBs TIFIA Loans	No Yes Yes
User Fees	Tolls Vehicle Miles Travelled (VMT) Fees Congestion Pricing	Yes No No (Coming Soon)
Value Capture	Joint Development Tax Increment Financing Special Benefit Assessment Districts	Yes Yes Yes
Alternative Delivery	Availability Payments	No

# Public Private Partnerships

The PPTA of 1995 enabled transportation agencies to engage the private sector at all levels of the project process:

Development → Design → Construction → Operation & Maintenance

- VA has been a nationwide leader in implementing transportation projects with private partners taking responsibility

Project	Construction Complete	Private Investment	Concession Agreement
Route 28	√	Tax District	
APM/Maersk Terminal	√	Equity & Risk	
Coalfields Expressway		Equity & Risk	
Pocahontas Parkway	√	Equity & Risk	√



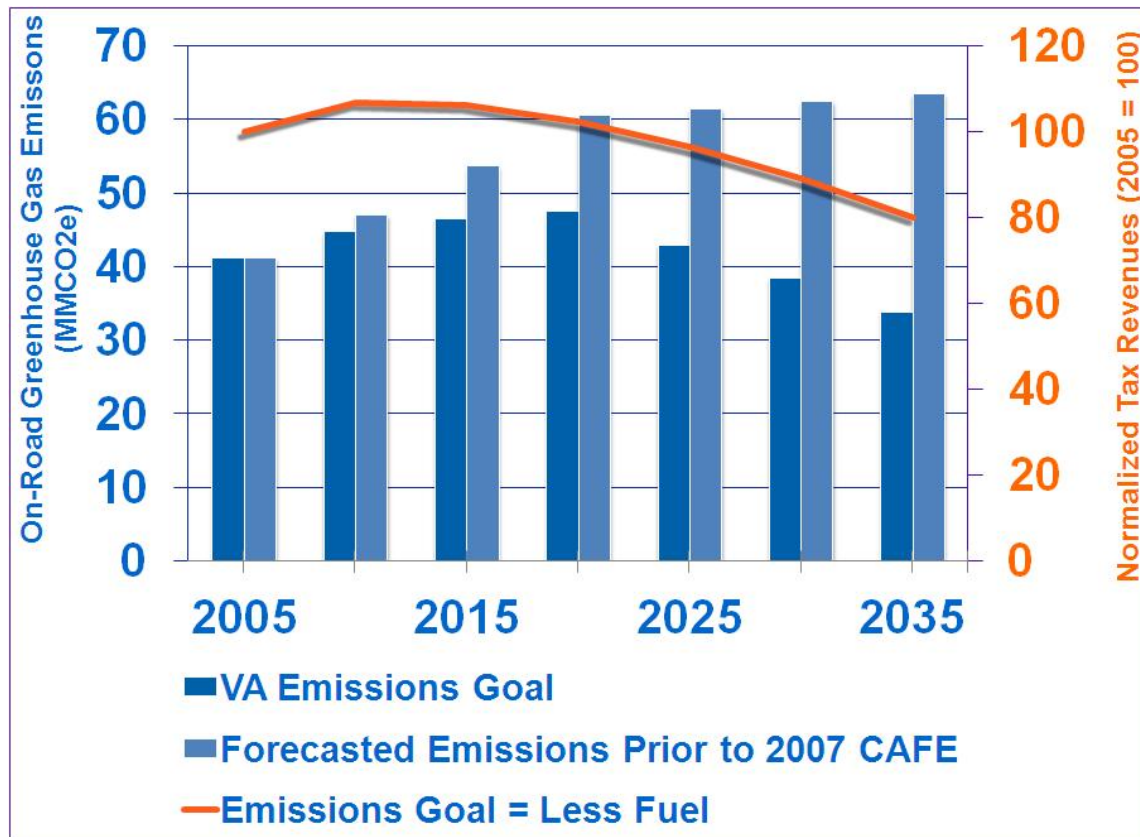
## Public Private Partnerships

Project	Construction Complete	Private Investment	Concession Agreement
Jamestown 2007	√		
Route 288	√	Pavement Risk	
Route 58	√	Risk	
Heartland Corridor		Equity & Risk	
Dulles Rail		Tax District & Risk	
I-495 HOT Lanes		Equity & Risk	√
I-395 HOT Lanes		Equity & Risk	
Downtown/Midtown Tunnels & MLK Extension			
Route 460			

## Uncertainty in the Future

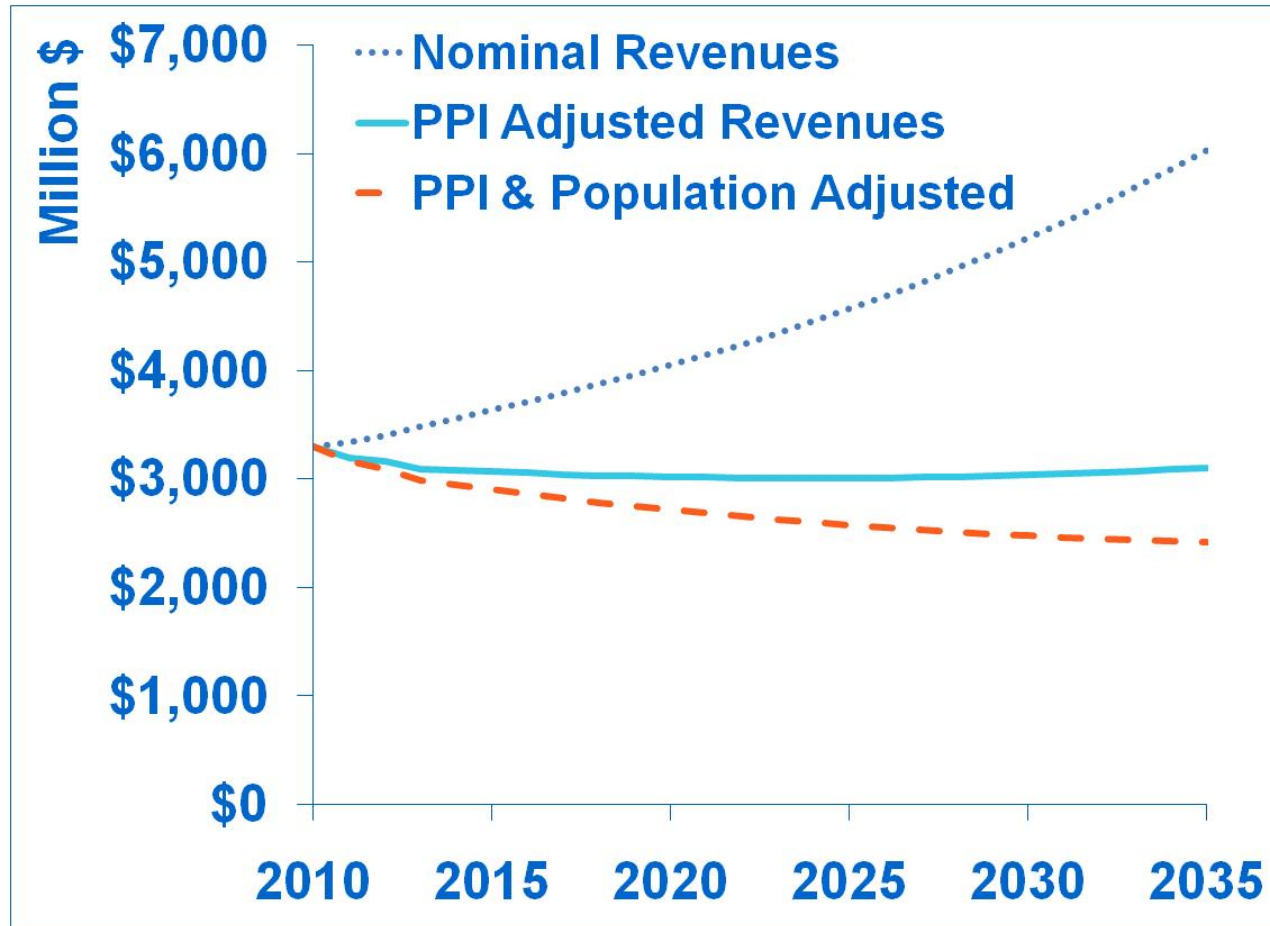
The revenue forecasts do not consider all the uncertainty surrounding funding sources in the future.

- More stringent fuel efficiency standards and measures to achieve global warming targets will reduce fuel tax income



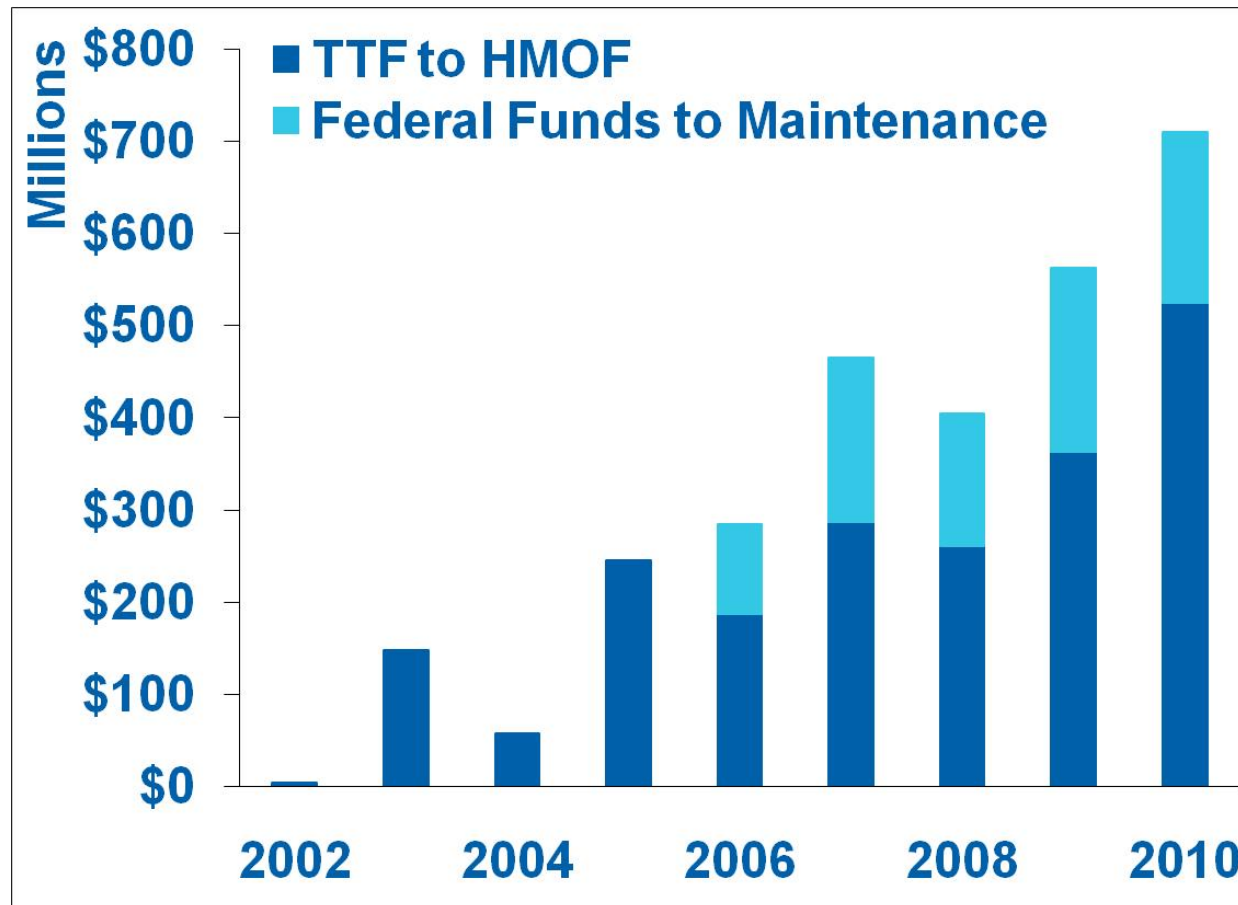
# Revenue Forecast and Purchasing Power Decline

The revenue forecast declines when considering population and inflation.



## Increasing Share of Funds to Maintenance

VDOT has increasingly had to transfer funds from construction to maintenance since 2002.



The revenue forecast shows that funding will decline relatively, but how does that affect Virginians?

- Fluctuations in funding affect multimodal performance measures identified by VTRANS
  - **Safety and Security**
  - **Preservation and Management**
  - **Mobility, Accessibility and Connectivity**
  - **Environmental Stewardship**
  - **Economic Vitality**
  - Program Delivery
  - Coordination of Transportation and Land Use
- The performance measures in **bold red** are most directly affected by available funding
- Each agency's impact on system performance is measured through these measures
- The system performance impact of funding can be identified through analytic tools and agency strategic priorities

## Hypothetical Scenarios

The impacts of alternative funding scenarios on the multimodal performance measures are analyzed. Scenarios are strategic visions, not programmatic allocations.

- **Sustain 2007 Performance (Baseline Scenario)**
  - Funding levels to maintain performance letter grades in the 2007 Transportation Performance Report are determined
- **Business as Usual**
  - The performance impacts of the relative decline in funding under current conditions are identified
- **Additional Scenarios Being Developed**
  - Additional funding based on TTF allotments
  - Additional funding based on alternative allotments
  - Others of interest

## 2007 System Performance

Scenarios are analyzed within the framework of the performance measures identified in the 2007 Transportation Performance Report

Performance Measure	2007 Grade
<b>Safety and Security</b>	<b>C</b>
<b>System Maintenance and Preservation</b>	<b>C</b>
<b>Mobility, Connectivity and Accessibility</b>	<b>B</b>
<b>Environmental Stewardship</b>	<b>C</b>
<b>Economic Vitality</b>	<b>B</b>
Program Delivery	B
Coordination of Transportation & Land Use	B
<b>Overall Performance</b>	<b>B</b>

# Investment Outlook Story Board

Each performance measure receives a year 2035 grade to indicate overall performance.

- Outcomes from each performance measure are averaged with a weighting to get an overall grade for each of the five measures listed below:

GOAL	Business As Usual	SUSTAIN 2007
Safety & Security	C	C
System Maintenance and Preservation	D	C
Mobility, Connectivity and Accessibility	B-	B
Environmental Stewardship	C	C
Economic Vitality	C+	B
<b>Preliminary Overall Performance</b>	<b>C-</b>	<b>C+</b>
<b>Budget Over BAU (Preliminary 2010 \$)</b>		<b>\$0.8-1.9B</b>



# Questions/Comments?