Addressing Transportation Funding
House Appropriations Committee
Secretary Sean T. Connaughton
January 17, 2011
Virginia’s Transportation System is Critical to our Economy

Nearly 2 million jobs in tourism, manufacturing, transportation, warehousing, agriculture, forestry, mining, retailing and wholesaling are fully dependent on the state’s transportation network.

59% of total output, 28% of Gross State Product, and 34% of jobs are from freight-related industries.

178 million tons of freight move by rail in the Commonwealth.

The Port of Virginia sustains 343,000 jobs and generates $41 billion in revenues, $13.5 million in payroll, and $1.2 billion in local tax revenues.

Virginia’s transportation system gives Virginia a critical advantage in today’s and tomorrow’s domestic and global economy.
Virginia’s Transportation System Needs Investment

Over $4 billion has been cut from the Six-Year Improvement Program in recent years.

Almost a quarter of Virginia’s roads are congested – 11 of the nation’s worst bottlenecks.

Washington, D.C./NOVA region has the nation’s second longest commutes.

Growth in motor fuel tax revenues are decreasing with the introduction of alternative fueled vehicles.

Virginia assumes operational and maintenance costs of all intercity passenger rail in 2013 – no funding source.

Many of Virginia’s most critical projects will cost billions of dollars.
What We Have Done Thus Far

Applied to toll I-95 – estimated to generate $60 million per year.

Issued $492 million in Capital Project Revenue Bonds.

Conducted four audits of VDOT operations and are implementing recommendations that identified $1.4 billion in ways to leverage existing resources.

VDOT issued $1.1 billion in construction and maintenance contracts by the end of December.

Announced a proposal to pump $4 billion of resources into transportation over the next three years.
Funding Transportation

Transportation revenues, while beginning to rebound with the economy, are insufficient to address the growing transportation needs.

Construction prices have fallen dramatically due to competition and the state of the economy.

Interest rates are at historic lows for our AAA bond rated state.

Right now is the best opportunity to get roads built in modern Virginia history.

Differing opinions on providing long term sustainable transportation revenue during a weak economy.

The Governor is approaching transportation funding needs in phases over the term of his administration.
The first phase of the Governor's transportation vision focuses on maximizing all available resources and programs to get projects initiated during one of the most favorable road building periods in Virginia history.

The Governor's agenda for this initial phase, when fully implemented, would pump $4 billion into road, transit and rail projects in the Commonwealth over the next three years, dramatically speeding up congestion-reducing efforts and increasing job-creation and economic development efforts statewide.
Governor McDonnell’s
Transportation Agenda

Key components of the omnibus transportation bill carried by Speaker Howell and Senator Wampler:

• Identify the planned direction of up to two percent of the projected general fund revenue growth over five percent to transportation.

• Create a "Virginia Transportation Infrastructure Bank" (VTIB) to multiply transportation dollars.

• Dedicate two-thirds of General Fund Surplus to the VTIB.

• Authorize the use of Direct GARVEE bonds – plan to issue $1.1 billion.

• Accelerate the sales of the bonds authorized in 2007 to maximum of $600 million per year.

• Increase the availability of Revenue Sharing funds.

• Establish the Intercity Passenger Rail Operating and Capital Fund.
Governor McDonnell’s
Other Components of the Transportation Agenda

Other funding components of the Governor’s Transportation Agenda

- Pass a constitutional amendment to permanently protect the Commonwealth Transportation Funds from transfers to the General Fund. (Delegate Oder)

- Retain 0.25% of discretionary sales tax generated within Hampton Roads and Northern Virginia for transportation improvements in those regions. (Delegate Rust and Senator McWaters)
General Fund Revenue Growth

Establishes the intent of the Governor to dedicate a maximum of two percent of the projected general fund revenue growth over five percent to transportation.

In years where projected general fund revenue growth is at least five percent greater than the projected general fund revenue growth of the proceeding year, up to two percent of the general fund growth may be dedicated to the Transportation Trust Fund (TTF).

As a core service, transportation would receive a portion of the general fund growth while still providing additional funding for other core functions of government such as education and public safety.
Virginia Transportation Infrastructure Bank (VTIB) – The Need

Both the public and private sector need assistance in the form of direct low interest loans and grants to build transportation facilities.

The federal Transportation Infrastructure Finance and Innovation Act (TIFIA) program provides Federal credit assistance in the form of direct low interest loans, loan guarantees, and standby lines of credit to finance surface transportation projects.

The TIFIA program is limited and over subscribed. None of Virginia’s projects were approved for TIFIA funding during the last application period.

VTIB is Virginia’s answer to provide a revolving loan fund for low interest rate loans and grants to localities, transportation and transit authorities, and private sector partners.
Virginia Transportation Infrastructure Bank (VTIB)

VTIB will provide loans to localities, transportation planning organizations and private entities for the purpose of financing transportation projects.

VTIB will provide grants, not exceeding 20% of the amount of funds deposited into the VTIB, to localities to finance transportation projects.

The VTIB will be governed by a board of nine

- The Secretary of Transportation shall be the Chairman
- The Secretary of Finance shall be the vice-Chairman
- The Director of DRPT and the Commissioner of VDOT will each appoint two (2) members
- The State Treasurer
- The Governor shall appoint two (2) members
Virginia Transportation Infrastructure Bank (VTIB)

The VTIB Board will:

- **Determine the criteria for approval of a grant or loan.**
  - Generally, the project must be of local, regional or statewide significance, and it must meet the goal of generating economic benefits, improving air quality, reducing congestion, and/or improving safety through enhancement of the state transportation network.

- **Set the interest rate and repayment terms.**

- **Set all policies and regulations for the administration program.**
Virginia Transportation Infrastructure Bank (VTIB)

VTIB will be capitalized with $150 million from the FY 2010 general fund surplus and $250 million from audit-identified funds.

The privatization of the retail operations of the Alcohol Beverage Control could generate an additional $300 million to go into the VTIB.

The goal is to provide a total of $1 billion to VTIB by the end of the administration.

VTIB loans could support a number of important PPTA transportation projects currently under consideration that were denied TIFIA:

- Dominion Blvd. in Chesapeake needs $150 million that includes a loan of $130 million and a grant of $20 million.
- Midtown / Downtown tunnel applied for $600 million in TIFIA funding.
- I-95 / 395 project applied for $331 TIFIA funding.
General Fund Surplus

This proposal would direct two-thirds of any general fund surplus to the VTIB.

Currently, two-thirds of any general fund surplus that is not restricted, committed, or assigned for other usage for nonrecurring expenditures is dedicated to the TTF.

The legislative change moves transportation up in priority by placing designations for transportation directly behind those for the constitutionally mandated Revenue Stabilization Fund deposits.

Further, it would dedicate these one-time deposits to the VTIB to leverage funds to support many different road, rail, and transit projects throughout the Commonwealth.
The Governor’s plan does not seek to increase the current authorized $1.2 billion revolving debt authorization.

A Grant Anticipation Revenue Vehicle (GARVEE) is a term for a debt instrument that has a pledge of future Title 23 Federal-aid funding. There are two types of GARVEEs: Indirect and Direct

The Virginia Transportation Act (VTA) of 2000 authorized the issuance Federal Highway Reimbursement Anticipation Notes (FRANs).

FRANs are indirect GARVEEs
- Not related to specific federal projects.
- Supported by pledge of all federal revenues.
- No impact to Virginia’s debt capacity.

The current FRAN authorization is a revolving $1.2 billion.
- Have issued $1.1 billion.
- $395 million outstanding at end of FY 2010 to be fully repaid by FY 2016.
- The debt service is provided out of the federal reimbursements of qualifying TTF expenditures.
- The TTF is made whole by the Priority Transportation Fund (PTF).
Direct GARVEEs
An Alternative to FRANs

Key characteristics of Direct GARVEEs:

- Must finance a specific federal-aid project.
- Federal revenues related to an approved debt-financed federal-aid project provides for the debt service.
  - Any needed state match could be provided using available toll credits.
- No state funds needed to pay debt service.
- No impact to Virginia’s debt capacity.

The collection of federal revenues from the approved debt-financed federal-aid project provides for the debt service direct GARVEEs, both principal and interest.

This allows the federal revenues to be collected over the life of the bonds instead of over the construction period.
Direct GARVEEs – Planned Use

Key components of the Governor’s plan to use GARVEEs:

• Code changes to permit the sale of direct GARVEEs.
• GARVEEs would fall under the existing FRAN debt capacity model.
• No request to increase the current $1.2 billion of FRAN debt authorization.
• Current revolving authorization allows the issuance of $1.1 billion of direct GARVEEs by 2014.
• The term of the direct GARVEEs would be limited to 20 years.
Direct GARVEEs – Planned Use

Utilization of toll credits and private investments will provide for state match which eliminates the need for any state funds.

- Toll credits are based on expenditures by a tolling authority for capital improvements to build, improve, or maintain public highway facilities that carry vehicles involved in interstate commerce.
- Most federal transportation programs are 80% federally participating and require a 20% state match.
- The earned toll credits are used to increase the 80% federal participation rate up to 100%, thereby eliminating the need to provide state funds for matching purposes.

If the full $1.1 billion of direct GARVEEs were issued by the CTB, the maximum debt service amount would be approximately $109 million a year.

- Virginia’s FFY 2010 obligation limitation was $955 million and is expected to grow.
- The full debt service amount of $109 million represents 11% of the FFY 2010 federal funding.
Accelerate the Sale of CPR Bonds

The Governor’s plan does not seek to increase the current CPR bond authorization amount.

Chapter 896 (HB 3202) of the 2007 Virginia Acts of Assembly authorized the issuance of $3 billion of Commonwealth of Virginia Capital Projects Revenue Bonds (CPR).

- Annual sales limited to $300 million
- 20% dedicated to Transit Capital
- 4.3% dedicated to Rail Capital
- Balance to be used to provide for federal match, enhance the Revenue Sharing Program and Statewide and Regional Projects

Total authorization was increased to $3.18 billion to replace $180 million of general funds provided in 2007 and subsequently taken.
Accelerate the Sale of CPR Bonds
Planned Use

The Governor’s transportation proposal increases the annual sales limit to $600 million a year.

Accelerating the CPR bond sales will provide $1.8 billion in proceeds over the next three years (FY 2011, 2012 and 2013).

Current PTF funding can support the needed debt service.

All previous commitments in the six-year improvement program will be met.

In this construction climate of low prices and interest rates, it makes good business sense to accelerate the use of these bonds to take advantage of the market conditions and provide needed transportation projects.
Debt Service for the CPR Bonds

The debt service for the CPR bonds is provided by the PTF.

The main revenue source is one-third of the taxes collected on insurance premiums.

The PTF also receives a portion of the fuels tax attributable to the additional fuels taxes collected due to taxation at the rack and the fund retains its interest earnings.

Actual PTF revenues in FY 2010 were $152 million.

Including $50 million of the Transportation revenues in excess of forecast that was deposited into the PTF in FY 2011, annual PTF funds available for debt service between FY 2011 and FY 2017 are estimated to average $225 million.

Average debt service support over the same period is estimated to be $176 million.
## PRIORITY TRANSPORTATION FUND

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<td><strong>Total Revenue</strong></td>
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<td><strong>154.5</strong></td>
<td><strong>160.0</strong></td>
<td><strong>166.6</strong></td>
<td><strong>173.4</strong></td>
<td><strong>178.6</strong></td>
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<td>Prior balance</td>
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<td>62.9</td>
<td>60.0</td>
<td>67.1</td>
<td>62.3</td>
<td>33.6</td>
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<td><strong>Total Other Funds</strong></td>
<td><strong>-</strong></td>
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<td><strong>62.9</strong></td>
<td><strong>60.0</strong></td>
<td><strong>67.1</strong></td>
<td><strong>62.3</strong></td>
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<td><strong>Total Revenue and Other Funds</strong></td>
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<td><strong>226.6</strong></td>
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<td>FRAN Debt Service Support</td>
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<td>Projected CPR Debt Service w/ $600m sales</td>
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<td>30.0</td>
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<td><strong>Total Debt Service</strong></td>
<td><strong>151.8</strong></td>
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<td><strong>Balance</strong></td>
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<td>$62.9</td>
<td>$60.0</td>
<td>$67.1</td>
<td>$62.3</td>
<td>$33.6</td>
<td>$29.9</td>
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Expand Revenue Sharing Program

The Revenue Sharing program leverages state transportation funding through a 50/50 matching of state and local funds.

The current program is limited to a $1 million cap per project and $50 million program maximum.

The Governor’s proposal removes these program limits.

This will increase the availability of Revenue Sharing funds to localities to address their transportation needs.

The CTB will set the size of each year’s Revenue Sharing program after considering local interest.

While difficult to predict, we are hopeful to generate $100 million in new projects per year.
The Governor’s proposal creates an Intercity Passenger Rail Capital and Operating Fund to be used to support capital and operating expenses associated in intercity passenger rail.

Virginia currently operates two Amtrak intercity regional passenger trains – Lynchburg and Richmond to the northeast corridor – with planned extensions to Norfolk.

Under section 209 of the federal Passenger Rail Investment and Improvement Act, the Commonwealth will assume responsibility for operational and capital funding of these two trains, as well as two trains from Newport News to Washington and two from Richmond to Washington in 2013.

Currently, there is no fund or funding source for passenger rail in the Commonwealth.

Without additional funding the Commonwealth will be forced to cease operating intercity passenger rail and/or reevaluate its transportation funding to meet these needs.

This proposal is the first step in continuing to fund this vital service.
Constitutional Amendment to Protect the Commonwealth Transportation Fund

The revenues dedicated to transportation by the Code of Virginia should not be used for other purposes.

HJR 511 establishes that the General Assembly shall maintain permanent and separate Transportation Funds.

- All revenues dedicated to Transportation Funds by general law in effect on January 1, 2012 shall be provided for Transportation.
- Transportation Funds shall only be used for purposes of financing, acquiring, constructing, improving, maintaining, and operating transportation systems in the Commonwealth.
- Transportation Funds may be borrowed for other purposes.
  - By a vote equal to or greater than two-thirds plus one of the members voting in each house.
  - Any amount borrowed shall be repaid, with reasonable interest, not later than the end of the fourth full fiscal year following the effective date of the borrowing.
Dedicate Portion of Sales Tax to Northern Virginia and Hampton Roads

This component of the Governor’s Transportation agenda would dedicate 0.25% of the discretionary sales tax generated in Northern Virginia and Hampton Roads to transportation in these regions.

It will generate a combine $140 million a year for transportation improvements in those regions.

Revenues generated in Northern Virginia will be dedicated to the Northern Virginia Transportation Authority and revenues generated in Hampton Roads will be dedicated to the Hampton Roads Transportation Planning Organization, both for projects contained in the Commonwealth Transportation Board’s Six-Year Improvement Program.
Summary

The Commonwealth must invest additional funds into its transportation system today to take advantage of tomorrow’s opportunities.

There is no silver bullet” for tackling these challenges – this will be a multi-year, bipartisan effort.

The infusion of over $4 billion dollars in transportation will put people to work, improve our economy, reduce congestion and improve the transportation network. It will also pave the way for long term sustainable revenue.