



# Transportation Financing in Virginia

---

Commonwealth Transportation Board  
Budget and Finance Committee

June 19, 2002



# Transportation Financing

---

- What gives us policy guidance on transportation resources?
- How do we determine how much in transportation resources we have to allocate and spend?
- How do we make decisions on how we plan to spend our transportation resources?
- What are our immediate financial management challenges?



# Transportation Resource Policy

---

What gives us policy guidance on transportation resources?



# Transportation Resource Policy

---

Use of transportation revenues is primarily directed by:

- Code of Virginia
- The Appropriation Act
- Virginia Transportation Act of 2000 (VTA)
- Federal Law



# Title 33 of the Code of Virginia

---

- CTB is responsible for allocating transportation revenues in the Transportation Trust Fund (33.1-12)
- §33.1-23.1 requires programs be funded in the following order:
  - Maintenance
  - Payments to localities
  - Administration and operations
  - Highway construction



# The Appropriation Act

---

- Appropriation Act overrides any other State law
- Appropriates revenues for expenditure
- Based on official state revenue forecast
- Establishes spending authority for all transportation programs
- Establishes staffing levels
- Along with Code of Virginia, the Appropriation Act sets forth policy direction on how resources must be spent



## The Appropriation Act (cont'd)

---

- Examples of policy and resource guidance include:
  - Integrates federal transportation funding requirements in TEA-21 and state funding formulas
  - Use of highway construction funding for mass transit capital and operating
  - Route 58 Development Fund
- Tab 1 is a copy of transportation section of the FY 2003-2004 Appropriation Act (Chapter 899 of the 2002 General Assembly)



# Virginia Transportation Act

---

- Enacted by 2000 General Assembly
- The VTA (Tab 2) was enacted to address project deficits and funding gaps in the 2000 Six-Year Program
- Established a Priority Transportation Fund (PTF) with certain revenue sources deposited to it
  - “Tax at the Rack” – change in how motor fuels are collected
  - One-third estimated revenue from insurance license tax
  - Actual revenues above forecast in both HMO and Construction Fund





## Virginia Transportation Act (cont'd)

---

- Authorized \$800 million in FRANs at any one time to finance the next phase or complete financing on 121 specific projects
  - For many of these projects, funding needs were identified by VDOT, DRPT, local governments
- For both project lists, spending could be modified within the list and within the District to address cash flow needs



## Virginia Transportation Act (cont'd)

---

- Distribution of projects was not based on the existing allocation formula; rather, by perceived funding gaps around the state
- Represents a legislative consensus on where funding should be directed
  - Also looked at mass transit, rail, ports, and highway projects as one



# Federal Law

---

- Federal highway authorizations occur every six years
- Current authorizing legislation, TEA-21, is set to expire after Federal FY2003
- Federal law stipulates how federal-aid funding is distributed among types of roadways, for what purposes the funds can be used, and in many cases, how the funding must be distributed across the state



# Federal Law

---

- Required distribution of federal funds
  - Interstate Maintenance (IM)
  - National Highway System (NHS)
  - Surface Transportation Program (STP)
    - Enhancement (10%)
    - Safety (10%)
    - Population (50%)
  - Bridge
  - Congestion Mitigation and Air Quality (CMAQ)
  - Minimum Guarantee



# Forecasting Resources

---

How do we determine how much in transportation resources we have to allocate and spend?



# Revenue Sources

---

## Major State Transportation Revenue Sources

		<u>FY2003 Est.</u>
• <b>Motor Fuels Taxes (17.50 cents per gallon)</b>		
- HMOF (Highway Maintenance and Operating Fund)	14.85 cents	\$692.2 mil.
- TTF (Transportation Trust Fund)	2.50 cents	\$117.5 mil.
- DMV (Department of Motor Vehicles)	0.15 cents	
• <b>Motor Vehicle Sales and Use Tax (3 percent)</b>		
- HMOF	2 percent	\$279.7 mil.
- TTF	1 percent	\$151.5 mil.
• <b>Motor Vehicle License Fee (\$28.50)</b>		
- HMOF	\$16.00	\$135.8 mil.
- DMV	\$4.00	
- TTF	\$3.00	\$18.5 mil.
- General Fund/EMS/Rescue Squad	\$4.00	
- State Police	\$1.50	
• <b>State General Sales and Use Tax (4.5 percent)</b>		
- TTF	0.5 percent	\$403.8 mil.



# Revenue Forecasting

---

- Revenue estimates for the major state revenue sources are prepared by Department of Taxation
- Duplicates process used to forecast General Fund revenues
- Economic models used to project revenues (key factors in model include gallons of gas, licenses sold, etc.)
- Department of Taxation provides national and state economic scenarios
- VDOT prepares federal revenue estimates based on FHWA computation tables



## Revenue Forecasting (cont'd)

---

- Until July 1, DMV prepared transportation forecast while TAX prepared general fund forecast. Function has been consolidated at TAX to ensure consistency
- Official revenue estimates are basis for VDOT annual program amounts
- Important to note that revenue forecasting is not a VDOT process although VDOT provides forecasts of taxes and fees we administer





# Cash Forecasting

---

- Forecast revenue receipts and expenditures for the major funds
  - State sources based on official revenue estimates
  - Federal revenue collections forecasted using construction expenditure projections and planned federal participation
  - Expenditures based on program budget levels and historical spending patterns, except construction
  - Construction expenditures computed from Department's advertisement schedule



## Cash Forecasting (cont'd)

---

- Determine if planned program can be supported by cash expected to be available, by fund
- Make plan adjustments as needed
- Repeat the above two steps periodically throughout the year
- Most recent forecast indicates cash balances will remain tight in FY03, with improvement beginning in FY04 and beyond



## Cash Forecasting (cont'd)

---

- Cash balances as of June 18, 2002:
  - HMOF - \$29.9 million
  - TTF - \$480.2 million
  - Construction Fund - \$180.0 million
    - Priority Transportation Fund - \$121.3 million
    - FRANs - \$163.1 million
    - Toll Facilities Revolving Account - \$15.8 million



# Allocating Resources

---

How do we make decisions on how we plan to spend our transportation resources?



# Administrative Budget Process

---

- Begins with State biennial base budget process
  - Appropriation Act sets parameters of administrative process

## Administrative and Support Services

- Provides administrative oversight as well as non-construction operating and general expenses
- Critical to effective and uniform implementation of transportation services statewide. Program includes:
  - General Management and Direction – 792 FTEs
  - Computer Services – 153 FTEs
  - Physical Plant Services – 44 FTEs; 3,400 facilities
- FY03 budget: \$113.9 million



# Budget Process (cont'd)

---

## Construction Management

- Provides non-project specific general management and overhead expenses that directly support the highway construction program
  - 809 FTEs
- FY03 budget: \$72.8 million



# Airports and Ports

---

- Annual State TTF revenue allocations to airport fund and port fund are specified in §33.1 of the Code
  - 2.4% to airport fund
  - 4.2% to port fund
- These annual allocations are formula-driven in accordance with §33.1
- CTB has no flexibility or discretion in making them
- For FY03:
  - Airport Fund: \$17.1 million
  - Port Fund: \$29.7 million



# Mass Transit (DRPT)

---

- Annual State TTF revenue allocation to mass transit fund is specified in §33.1 and §58.1-638
  - 14.7% for mass transit
- Annual allocation is formula driven in accordance with §33.1
  - Sub formulas within §58.1-638 outlines how the Mass Transit Fund must be further subdivided between capital, operating, and promoting mass transit
- CTB has no flexibility or discretion in making the allocations for capital and operating
- FY03 Mass Transit Fund: \$99.4 million





# Rail and DRPT Administration

---

- Guidance on rail funding is in Appropriation Act, VTA, and the Rail Access Program
- DRPT administration is paid from the HMO
  - No authority for Mass Transit Fund to finance administrative costs
- FY03 total funding to DRPT: \$138.4 million



# System Construction Allocations

---

Remaining 78.7% of State TTF revenues, as well as federal revenues, for highway construction activities

- FY03: \$1,493.5 million for construction program
- Specific funding for identified projects or programs including debt programs, revenue-sharing, access programs, and federal demo projects
  - FY03: \$538.3 million
- FRANs proceeds and other VTA funding
  - FY03: \$347.0 million



## System Allocations (cont'd)

---

- FY03: \$608.2 million available for interstate, primary, secondary, and urban construction
- §33.1 requires construction funds be distributed as follows:
  - Required federal interstate match
  - 5.67% for unpaved secondary roads
  - 40% for primary system
  - 30% for secondary system
  - 30% for urban system
- Funding provided for each system is further allocated by highway construction district and locality



# Interstate System

---

- Interstate federal funds are allocated per §33.1 and Appropriation Act
- Act provides that National Highway System (NHS) funds are, for state formula matching purposes, treated as interstate and allocated accordingly
- CTB has discretion to distribute Federal interstate funds and required state match based on statewide project needs (no required sub-allocation by district or formula)



# Primary System

---

- §33.1 requires primary share (40%) be distributed by formula to each construction district based on:
  - 70% by primary vehicle miles of travel (VMT)
  - 25% by primary lane miles
  - 5% needs factor
- CTB has discretion to allocate funding to specific primary projects within each district



# Secondary System

---

- §33.1 requires secondary share (30%) be distributed by formula to each county based on:
  - 80% by population
  - 20% by land area
- Project distribution is done by respective county boards of supervisors in consultation with VDOT
- §33.1 also establishes percentage and method for distributing unpaved secondary road funds
- CTB has no discretion in these allocations



# Urban System

---

- §33.1 requires the urban share (30%) to be distributed by formula to each city and town based strictly on population
- Project distribution is done by each individual city/town council in consultation with VDOT
- CTB has no discretion in these allocations
  
- Summary of each district's total construction allocations in program is best "total picture"



# Financial Management Challenges

---

What are our immediate financial management challenges?





# Revenue Changes in FY2003

---

Revenue Aligned Budget Authority (RABA) adjustments

- When actual federal revenue collections are lower than estimated, RABA requires reduction in state apportionments
- For FY2003, official federal apportionment tables project \$116 million less in federal funding due to RABA adjustments
- This reduction is reflected in final program
- If President signs bill restoring RABA, plan will be modified to reflect the additional federal funding



## Revenue Changes (cont'd)

---

### State Revenue Outlook

- Transportation revenues are in line with the current estimate (Tab 3)
- General Fund revenues, which have been revised downward twice since December, are still expected to miss the estimate by at least \$150 million
- How the Governor will address this continuing GF revenue decline is unknown at this time



# FRAN Allocations

---

- The 2002 General Assembly expanded use of FRANs to all projects listed in the VTA and increased authorization to \$1.2 billion
  - In FY2003 \$317 million in FRANS must be used as one-to-one substitute for the highway construction share of state sales and use tax and distributed by formula



# FRAN Allocations

---

- Enactment 6 of the VTA requires that FRAN debt service be proportional to the amount of FRAN proceeds allocated to each district
  - Final plan allocates debt service using percentage share of FRANS provided to each construction district in the VTA for highway projects only
  - No debt service or FRANS are allocated to urban system
  - No debt service allocated to mass transit or rail
  - Interstate and primary systems are carrying full burden of required debt service payments
- Six-Year Program assumes \$658.5 million in new FRANS sold in FY 2003-2008



## FRAN Allocations (cont'd)

---

- For FY2003, FRAN debt service (\$70.7 million) is paid from Priority Transportation Fund
  - No district's allocations will be impacted by FRAN debt service payments in FY2003
- For FY2004-2008, \$375.9 million in assumed FRAN debt service payments is allocated from the nine districts' primary allocations and the total interstate system allocation
  - Debt service requirements grow each year as more FRANS are sold and less PTF revenue is assumed



# Completing Financing on Projects

---

- Funding requirements on completed and underway projects continue to impact Six-Year Program
  - Projects were started before any funding was available
  - Except for the interstate system, funding is limited to each district's or locality's allocations
- Six-Year Program allocates \$301.0 million to completed projects



# Completing Financing on Projects (cont'd)

---

- While still reducing amount available for new construction, impact to interstate system is mitigated because CTB allocates interstate funding by project, not by district so the total interstate program finances the deficit (not just an individual district)
- However, primary, secondary, and urban systems are impacted by district and locality
- Same standards have been applied to all – completing financing on completed and underway projects must be priority for funding
- Goal is to bring allocations back in line with statutory and policy guidelines



# Monitoring Expenditures

---

- Critical that VDOT effectively manage all expenditures to maintain positive cash flow and ensure that program budgets are not exceeded
- Analyzing all available financial data and reports to determine what financial management tools are available and what are needed
  - Existing financial reports
  - New financial reports
  - Dashboard – one shot view of project budgets, spending, and estimates





# Cost Estimating

---

- Two most critical issues are cost estimating and debt management.
- Report to 2002 General Assembly indicated estimated cost of construction projects at contract award were 117% higher than anticipated
  - Based on review of certain projects advertised over six months in 2001 -- when expanded to include projects from last three years, estimated cost increases were 86% higher than original estimates
- Commissioner has convened work group to review and analyze project estimating process
  - Final report expected this fall



# Debt Management

---

- FRAN debt service issue is one of many
- Work needs to be done on many levels, including technical, funding utilization, appropriate use and long-term policy
- Plan to address all levels simultaneously with policy recommendations by December 2002