Transportation Funding and Responsibilities in Virginia's Cities and Counties

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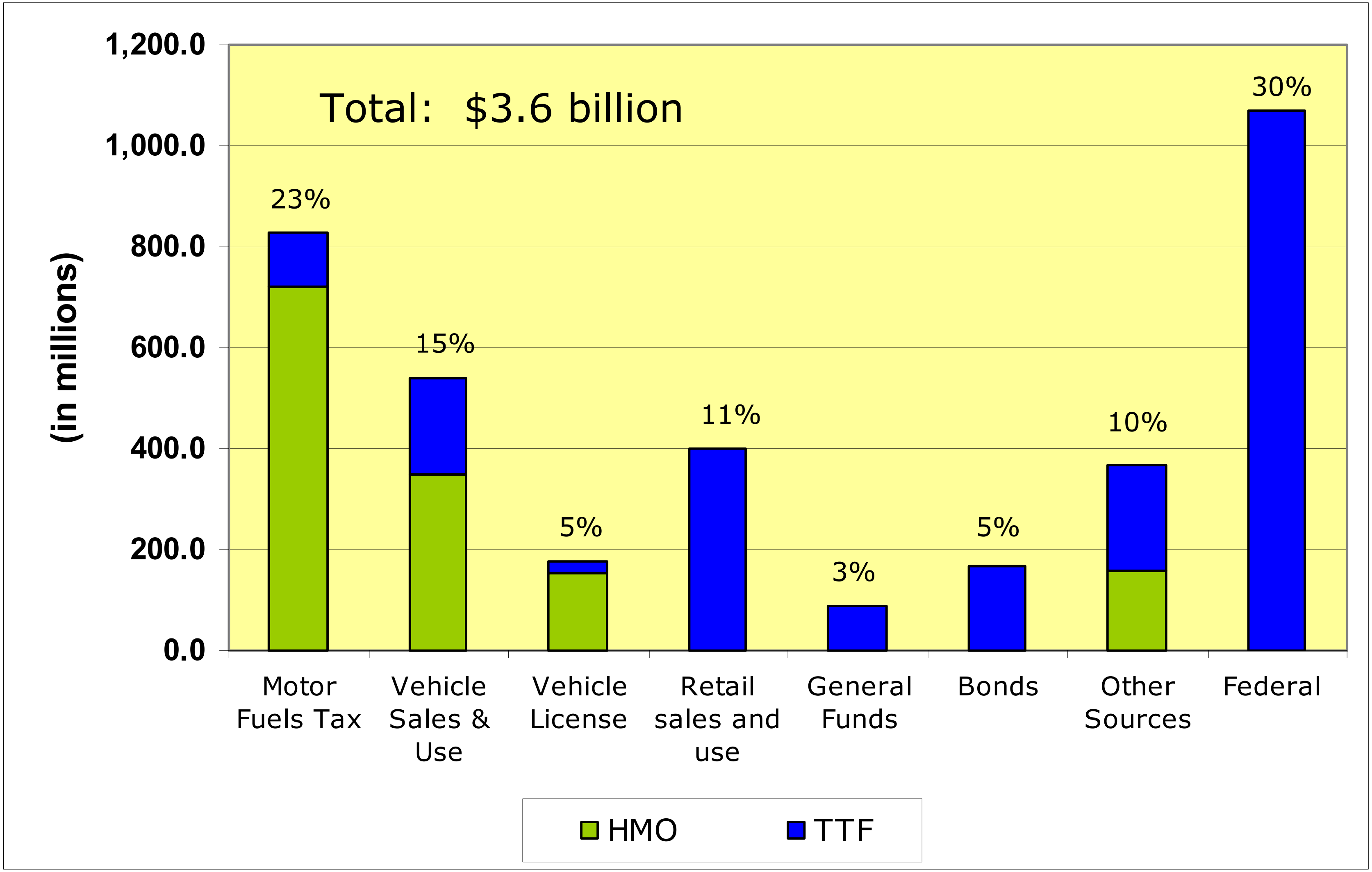
Transportation Finance in Virginia

- Titles 33.1 and 58.1 of the *Code of Virginia* set out transportation revenues and how they are allocated
- VDOT is a non-general fund agency, financed largely through transportation user fees levied at both the state and federal level
- State transportation funds are divided into two primary pots: the Highway Maintenance and Operating Fund (HMOF) and the Transportation Trust Fund (TTF)
- The HMOF contains all transportation revenue sources imposed prior to 1986
  - Largest sources include gasoline tax, motor vehicle sales and use tax, and vehicle registration fee
  - These funds are used for VDOT operations, administration and maintenance

Transportation Finance in Virginia

- 1986 Special Session on transportation approved revenue increases for transportation, and created the Transportation Trust Fund (TTF) to fund capital improvements to highways, ports, airports and public transportation
  - TTF is made up of revenue increases approved in 1986, and includes: ½ cent general sales and use tax, 1% additional tax on motor vehicle sales, 2.5 cent increase in gasoline tax and $3.00 increase in vehicle registration fee
  - TTF revenues are allocated among the transportation modes as follows:
    - 2.4% Aviation
    - 4.2% Ports
    - 14.7% Public Transportation
    - 78.7% Highways
- Total VDOT budget for FY 2004 – including revenues from State, federal and other sources – is $3.6 billion
  - VDOT budget includes funding transferred to the other modes of transportation
  - Largest component of revenues is federal apportionments ($1.1 billion)
  - Largest state sources are:
    - Motor fuel taxes ($829.7 million)
    - Motor vehicle sales and use tax ($539.6 million)
    - ½ cent general sales and use tax ($398.0 million)

FY 2004 Transportation Revenues by Source



Source: Virginia Department of Transportation

Allocation of Revenues

- VDOT funding is not distributed using one formula – separate formulas allocate:
  - Funds to highways and other modes of transportation (TTF distribution formula)
  - Federally funded programs (NHS, STP, CMAQ, bridge)
  - State funds for the various VDOT roadway systems (primary, secondary and urban system formulas)
- As a result, within VDOT's "systems construction" program (i.e., primary, secondary and urban road construction program), federal funding formulas and state allocation formulas are intertwined

FY 2004 Transportation Budget

	(in millions)	Percent of Total
Budgetary reserve (FY 03 revenue shortfall)	$50.0	1.4%
CTB debt service payments	247.3	6.7%
Other agencies and general fund	125.8	3.4%
Maintenance (including local assistance)	1,141.5	31.2%
Operations & administration	217.0	5.9%
TTF Allocations to non-highway modes	224.4	6.1%
Earmarks, toll, & other special financing	710.8	19.4%
Interstate construction	317.7	8.7%
Primary, secondary & urban construction	622.1	17.0%
TOTAL BUDGET	$3,656.6	

Source: Virginia Department of Transportation

Maintenance Funding

Code Sets Maintenance as Priority

- The *Code of Virginia* requires the Commonwealth Transportation Board (CTB) to allocate reasonable and necessary funding for highway maintenance, including maintenance payments to localities, prior to funding construction projects. Section 33.1-23.1 of the *Code of Virginia* states:

  "The CTB shall allocate each year from all funds made available for highway purposes such amount as it deems reasonable and necessary for the maintenance of roads…"

- Until past two years, the Highway Maintenance and Operating Fund sources produced sufficient revenues to finance maintenance and other operational activities
  - FY 2004-2009, $407 million of TTF revenues are anticipated to be used for maintenance
  - This amount exceeds total estimated TTF revenue growth

- VDOT maintenance includes two major categories:
  - Financial assistance to localities – includes payments to cities and towns for "urban" system roadways, and payments to Arlington and Henrico counties
    - Urban system includes local streets as well as primary extensions within city/town boundaries
  - State system – includes the Interstate, primary and secondary systems
    - Secondary system is made up of local roads within county boundaries
    - Virginia one of only 4 states that maintain local county roads

State Control of Local County Roads

- 1932 General Assembly passed what became known as the "Byrd Road Act" creating the secondary system of State highways
- All counties were given the option to place their roads under the management (and funding) of VDOT
  - 4 counties originally opted out of the system
  - Today, local roads in all counties except Arlington and Henrico are part of the State secondary system
- Basis for creating the secondary system was to:
  - Benefit from economies of scale
  - Eliminate duplication of effort (staff, facilities and equipment) by state and local road agencies
  - Take advantage of VDOT's higher technical capacity
- Cities and towns with population 3,500 or greater retained responsibility for the maintenance of roads within their jurisdictions

Maintenance of State System of Roads

- State maintains Interstate, primary and secondary roads
- No statutorily set methodology for distributing VDOT maintenance funds
  - Historically, maintenance allocations have been set based on prior year expenditures, increased to reflect inflation and any identified special needs
  - VDOT currently conducting an internal study of maintenance costs to help develop more analytical method to set future adjustments
- Current FY 2004-2009 VDOT financial plan includes assumption of 4 percent annual growth in state maintenance expenditures
  - Total state maintenance funding projected to increase from $879.0 million in FY 04 to $1,069 million in FY 09
  - Secondary system portion of maintenance expenditures also projected to increase 4 percent annually
    - $370.1 million in FY 04
    - $450.3 million in FY 09

Maintenance in Cities and Towns

- Funding for roadway maintenance in cities and towns with populations greater than 3,500 is set out in Section 33.1-41.1 of the *Code of Virginia*
- *Code* directs VDOT to make quarterly payments to each city and town based on a variable per moving-lane-mile rate, depending on the type (function) of roadway
- Base rates established in 1985 were:
  - $7,787 per moving-lane-mile on principal and minor arterials
  - $4,572 per moving-lane-mile for collector roads and local streets
- Language stipulates that VDOT use an index of statewide maintenance costs (MCI) to adjust rates annually to reflect changes in costs for labor, equipment and materials used on roads and bridges

Maintenance in Cities and Towns

- In recent years localities have expressed concern that MCI did not reflect actual cost increases because the mix of items used in the index was outdated and payments were not increasing as quickly as VDOT's own maintenance expenditures
  - VDOT's Transportation Research Council undertook study in 1999 – supported notion that MCI didn't necessarily reflect actual costs
  - 2002 and 2003 Appropriation Act language authorized CTB to study issue and make necessary adjustments
  - As a result, since FY 2003 VDOT has been adjusting payments at same rate as the increase in VDOT's state maintenance program in lieu of using the MCI
- VDOT's FY 2004-09 financial plan assumes city street payments will increase 4 percent annually (the same rate as VDOT's own state maintenance activities) over next six years
  - $226.1 million in FY 2004
  - $275.1 million in FY 2009
- As a result of cumulative adjustments, rates for FY 2004 are:
  - $14,040 per moving-lane-mile of arterial, $8,243 per lane mile for moving-lane-mile of local and collector roadways

Differences Between City and County Roads

- Cities believe their streets are harder to maintain than the average VDOT maintained (county) road because of heavier traffic, sidewalks, and more concentrated utility and drainage systems
- City of Richmond expenditures in FY 2000:
  - 40% on street lighting (energy and maintenance)
  - 39% on roadways (streets, roads and sidewalks)
  - 15% on traffic control (signals, signs, pavement markings)
  - 2% on bridges
  - 4% on drainage (curbs, gutters, inlets, ditches, storm pipes)
- Another substantial difference between cities/towns in the urban system, and counties that withdraw from the secondary system, is that cities/town maintain what are called "primary extensions"
  - In counties VDOT retains controls of primary roads even if county opts out of secondary system

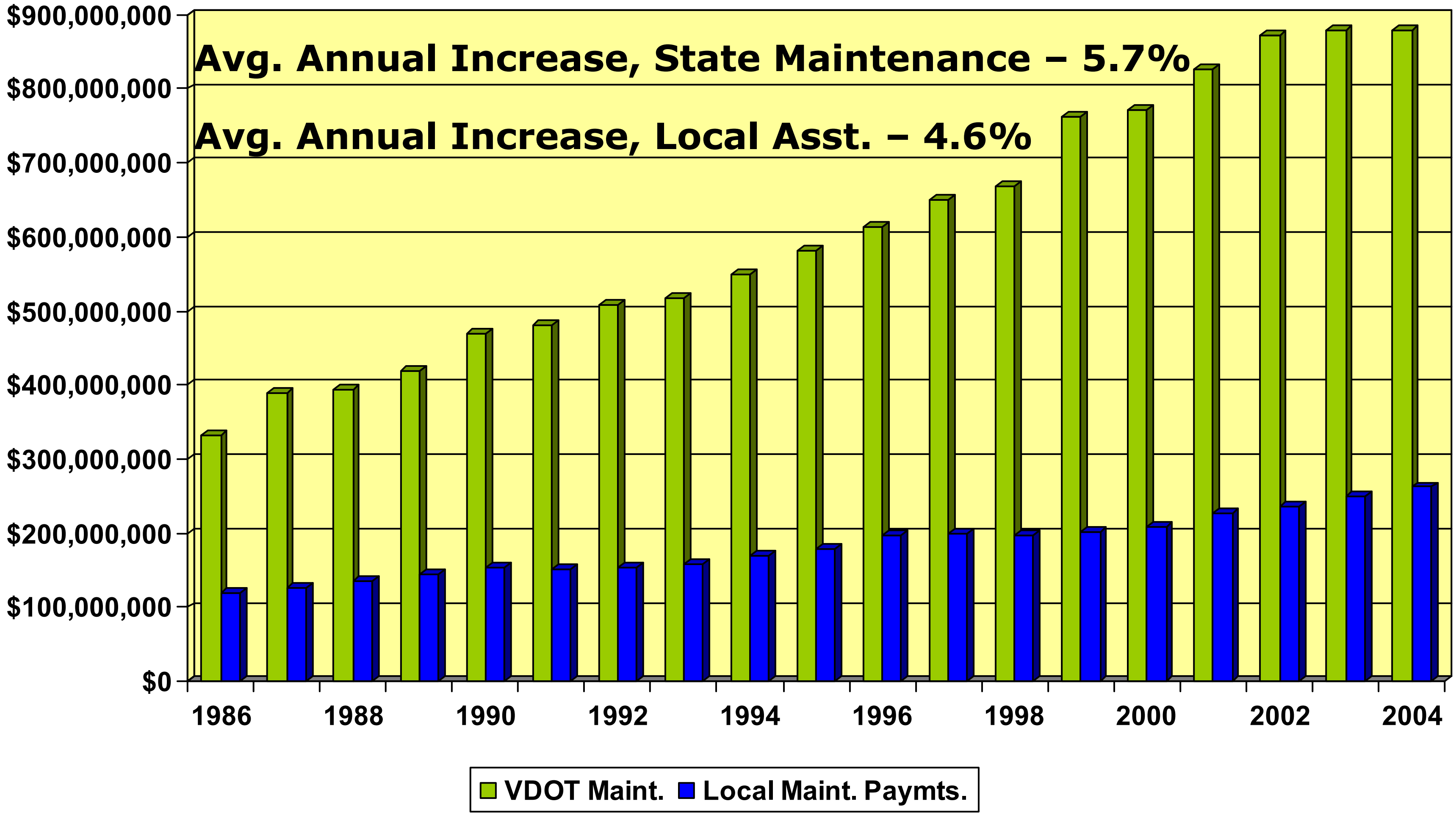
Maintenance for Counties Which Have Opted Out of State System

- Section 33.1-23.5:1 of the *Code* sets out a formula for payments to Arlington and Henrico counties for maintenance of their roadways
- Established in 1985, the formula includes a base rate per lane mile of roadway (which differs for the two counties) that is adjusted annually to reflect increases in cost from the time base rate was set
  - Original rates were: $3,616 per lane mile for Henrico and $7,201 for Arlington
  - Unlike allocations to the cities and towns, the rates for counties that have withdrawn from that state system do not differentiate between arterials and lower classes of roadways

Maintenance for Counties Which Have Opted Out of State System

- 2002 Appropriation Act language also allowed payments to Arlington and Henrico to be evaluated
  - VDOT adjusted base rate for Henrico based on Virginia Transportation Research Council study
  - Rates for both counties are being updated annually at same rate as VDOT’s maintenance program – 4 percent
- VDOT’s FY 2004-09 financial plan assumes maintenance payments to Arlington and Henrico will increase from:
  - $36.3 million in FY 2004
  - $44.2 million in FY 2009
- FY 2004 allocations are:
  - $13,055 per lane mile for Arlington
  - $7,589 per lane mile for Henrico

Allocations for Highway Maintenance and Financial Assistance to Localities: FY 1986-2004



Construction Funding

VDOT Construction Funding

- Funds for VDOT's highway construction program in FY 2004 total $1.65 billion
- Less than 60 percent of the total construction program is distributed to "systems construction" – un-earmarked projects on the Interstate, primary, secondary and urban systems
  - Non-systems construction priorities which must be met first include:
    - Debt service payments -- $247.3 million
    - Earmarked projects (federal demonstration projects, Woodrow Wilson Bridge) -- $525.5 million
    - Toll facilities -- $60.8 million
    - Construction management -- $72.4 million

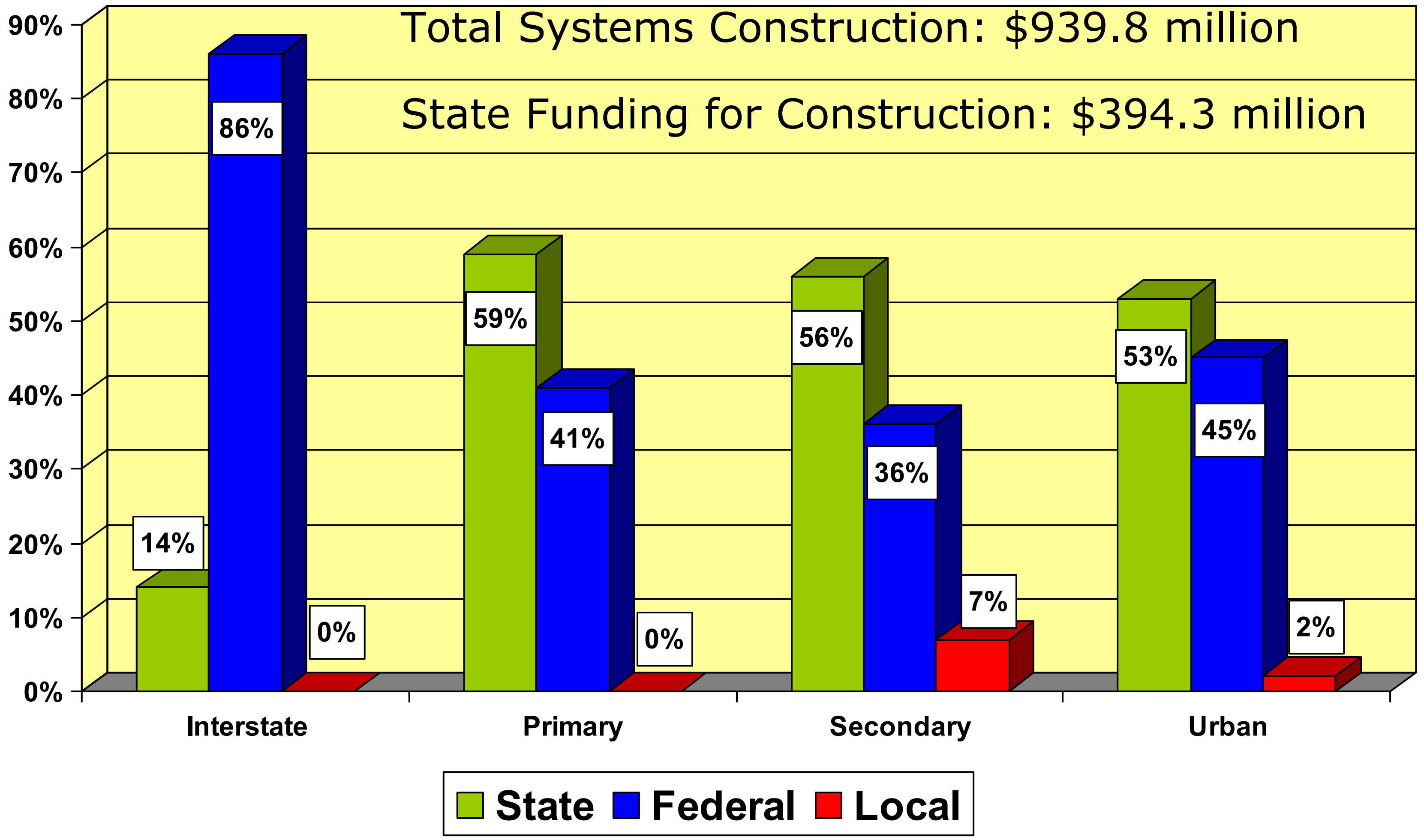
VDOT Construction Funding

- After other requirements construction program requirements are met first, $939.8 million remains in FY 2004 for state-selected projects in the Interstate, primary, secondary and urban systems, which is distributed as follows:
  - Interstate: $317.7 million
  - Primary: $215.7 million
  - Secondary (including unpaved roads): $227.4 million
  - Urban: $178.9 million
- Only $394.3 million of the $939.8 million is state funding
- Thus, a large proportion of systems construction funding now is financed with federal funds, even on the local road systems
  - Overall, less than 42 percent systems construction funds are made up of state revenues

State Construction Funding

- Thus only $394.3 million is distributed in FY 2004 through the state construction formula described below
- Section 33.1-23 of the *Code of Virginia* directs State highway construction funds to be allocated:
  - First, any required Interstate match
  - Then, 5.67 percent of remainder to unpaved roads
  - Of the remainder,
    - 40 percent to the primary system
    - 30 percent to the secondary system
      - 80 percent distributed by population, 20 percent by land area
    - 30 percent to the urban system
      - 100 percent distributed by population

Systems Construction Allocations by Funding Source



Project Selection, Management and Construction on Local Systems

- Although VDOT maintains and constructs secondary system roads, project selections are made at the sole discretion of county boards of supervisors
  - Separate local secondary Six-Year Improvement Programs (SYIP)
  - No local matching requirement
- In contrast, although urban system roads are maintained by cities and towns, urban construction projects are included in the VDOT SYIP and require CTB concurrence
  - Construction project selections made by city/town council resolution
  - Reflects need for coordination/interconnectedness given that urban system localities responsible for primary system extensions
  - *Code* requires a 2 percent local match
  - Urban localities have option to use urban construction funds for "4-R" maintenance projects
- Traditionally VDOT has administered construction of projects on both systems

Local Administration of Urban System Projects and Funding

- Two pieces of legislation were enacted by the 2003 General Assembly that provide urban localities the option of taking on additional authority over the urban construction program
- SB 852 allows urban funds to be expended by a locality for design, land acquisition and construction of projects
  - This provides a mechanism to increase local participation in project development and implementation
- SB 1222 authorizes urban localities to receive direct payment of urban allocations in equal quarterly amounts if they choose to take over responsibility for their construction program
  - Under legislation, allotments are to be reduced by the amount of federal-aid construction funds scheduled to be expended by VDOT in the locality
  - Careful implementation required to avoid cash flow problems for VDOT
  - To date, Hampton, Newport News, Virginia Beach and Richmond have expressed interest in participating

Authority to Withdraw from State Secondary System

- Section 33.1-84.1 sets forth the process by which a county could take over responsibility for its local roads, as follows:
  - County Board of Supervisors must pass resolution requesting to resume responsibility for secondary highways
  - VDOT Commissioner may then enter into an agreement with the respective county to take over *any portion* of the state secondary system
  - Could include planning, constructing, maintaining and operating such highways
  - Agreement would specify equipment, facilities, personnel and funding to implement the transfer
- Legislation approved by the 2001 General Assembly
- To date, no county has taken advantage of the authority

Pros and Cons of Local Control

- Interest in taking over local roads driven by:
  - Greater local control over a program that often includes local funding
  - Better coordination of land use and transportation development
  - Improved responsiveness, accessibility and accountability of road program administrators to the citizens of the locality
  - Increased flexibility to move funds between activities – such as maintenance and construction – as need arises
- Although no counties have taken over any portion of responsibility for local roads, interest has been expressed by a number of the larger urban counties
  - Evaluation of costs involved has discouraged use of this provision
  - Also local concern that public has higher expectations for locally provided services

Local Funding for Transportation

- All local governments can dedicate a portion of their general revenues for transportation
  - Many localities issue their own bonds for transportation improvements
  - According to the Auditor of Public Account's annual report, $542 million in local revenues was dedicated to maintenance and construction in FY 2002
- The Commonwealth Transportation Board allocated $46 million in local revenues for transportation projects in FY 04, including
  - Revenue sharing
  - Right-of-way fees
  - 2% required urban match

Local Revenue (continued)

- Title 58.1-1720 authorizes a 2 percent additional sales tax on gasoline in the Northern Virginia Transportation District and the Potomac Rappahannock Transportation District
  - FY 2002 revenues totaled:
    - $18.4 million for NVTC (reduced from $21.2 m. in FY 2001)
    - $8.9 million for PRTC
- Title 58.1 of the *Code of Virginia* gives certain localities the right to have local income tax for transportation purposes
  - By referendum
  - Northern Virginia localities and city of Norfolk

Different Needs Among Localities

- Cities face aging infrastructure
  - High replacement costs for major components of system
  - Have public pressure to provide additional amenities
- Urbanizing counties face own set of problems
  - Issue mainly is expansion of system – more pressure on construction than maintenance
- Rural counties have yet a different set of needs
  - Still trying to address adequate access issues
  - Paving unpaved roads
  - Building 4-lane roads

Summary – Maintenance

- VDOT maintains roads in all counties except Arlington and Henrico
  - *Code* provision exists to allow counties to take over their secondary roads; this has not been utilized to date
- Cities and towns maintain all roads within their boundaries except for the Interstate System
  - Allocations made to urban system localities based on system size
- Funding for state maintenance has grown more quickly than funding provided to localities
  - Attempt has been made to address this differential; since FY2003 VDOT has increased payments to localities at the same rate as it increased its own maintenance budget

Summary – Construction

- VDOT plays primary role in administering local construction projects on both the secondary and urban systems
- Recently enacted legislation provides mechanism for urban system to play larger role in managing and administering projects
  - 4 cities working with VDOT to evaluate the potential
- *Code* also provides counties the ability to take on responsibility for all or any part of the secondary road system (including maintenance)
  - No county has chosen to do so