

**Transportation Funding Options Report**  
*Charlottesville-Albemarle Metropolitan Planning Organization, Virginia*  
*October 10, 2005 (excerpts)*

## **Recommended Actions**

### **(1) Revenue Sharing**

The City and County should allocate the maximum funds in annual budgets for revenue-sharing projects. Under current State allotments, \$1 million allocated by each locality would generate \$4 million in total funding when matched by the State (e.g., City -\$1 million + County -\$1 million + State -\$2 million match). This revenue source is available to all Virginia Cities and Counties and has increased from \$500,000 to \$1 million. (The full amount may not be available in every year, because this is a competitive application process.) The Southern Connector is an example of a project that could be implemented using this funding if state funding continues to remain available.

### **(2) Public-Private Partnerships**

The region should seek PPTA opportunities where appropriate and take advantage of this available funding source. Hillsdale Drive Extended is an example of a project for which PPTA funding might be utilized.

### **(3) Proffers**

The City and County should maximize effectiveness of proffers with new development and re-development proposals, and coordinate proffered improvements with other funding sources. Community Development Authorities should be considered as proffers where appropriate.

### **(4) Community Development Authorities**

Community Development Authorities should be created in applicable project areas to implement specified public transportation projects.

### **(5) Value-added revenue**

Area-specific value-added revenue could include allocating any future increase in property and sales taxes collected for certain districts at the consent of those property owners. In this event, businesses only (not residents) would be taxed, and only on the increase in value of property or increased revenue due to the transportation improvements. For example, using mechanisms such as a PPTA or CDA2, the additional tax revenues generated as a result of the Hillsdale Drive Extended project could conceivably produce up to \$28 million (per the 29H250 economic analysis).

### **(6) Other local funding efforts**

Other local funding efforts should focus on creating bondable streams of revenue so that needed projects can be built sooner rather than later. This is especially important due to project construction inflation factors and increasing right-of-way costs. This could be achieved through increased allocations of general funds from the City and County (e.g., increases resulting from rising real estate property tax revenue and increased sales tax revenue from new retail development) to transportation projects.

## **(7) Transportation Districts**

This report supports the creation of a Transportation District (as allowed under Virginia Code 15.2) using the existing structure of the MPO Policy Board with policymaker representation from the City and County as well as VDOT Culpepper District representation. The geographic boundaries of the Transportation District should be the City and County boundaries. Such a District could be funded using mechanisms such as those set forth in the next section on Recommended Funding Options, or with a contract whereby the City and County agree to fund the transportation district out of their general revenues.

## **(8) Special Legislation**

The localities should seek legislative authority to develop additional revenue streams for a Transportation District from among the options explained below.

## **Funding Options Requiring Legislative Approval**

The following two options could provide revenue to service bonds issued by a City/County Transportation District, but would each require legislative approval. Of the two, the Working Group recommends that the City and County seek legislative authority for a local sales tax of ½ cent dedicated to transportation. The imposition of a sales tax or gas tax should be contingent on being approved by the voters in local referenda, and would cease (e.g., after 10 or 20 years unless further action is taken, i.e., a sunset provision).

### **(1) Sales Tax**

Institute an incremental local sales tax, e.g., ½ cent, which would generate approximately \$10 million a year. The incremental sales tax revenue could support either a bonding or 'pay-as-you-go' scenario as follows:

- a. revenue could support debt service of \$110 to \$120 million assuming a 20-year bond issued at 5%. The bond proceeds could be used to fund the recommended Transportation District and build the entire priority list. This would require legislation and a referendum.
- b. The incremental sales tax could also be used by the Transportation District to fund projects as revenues are realized, creating a pay-as-you-go scenario. Using the ½ cent sales tax, \$10 million would be generated per year. This option would not require a bond issue thereby saving in interest expense. Given the time required to implement projects the funds would be available to meet construction schedules. A 10 year sunset is assumed to deliver the listed priority projects (i.e., the authority to collect the additional tax would lapse automatically after 10 years, unless renewed by referendum).
- c. These two options could be a blend of bondable projects and pay-as-you-go.

### **(2) Gas Tax**

Institute an incremental local gas tax to generate bondable revenue. Assuming a 20-year bond issue at 5%: 4 cents would generate sufficient revenue to support

approximately \$24 million in transportation bonds; 8 cents, \$48 million; 12 cents, \$72 million. This option may not be feasible in the current political and economic climate. It would also not raise the necessary funds to construct the entire priority project list identified by the MPO.

All options presented are expected to be combined as appropriate, utilizing a variety of funding mechanisms. While not recommended, another alternative is to do nothing new to raise funds, and rely on current funding sources - and the constraints those present. This would mean a much longer time frame within which priority projects could be constructed (especially since inflation in project costs can sometimes exceed the pace at which funding is accrued for individual projects).

## **Vehicle-Related Revenue Sources**

Vehicle-related revenue sources are fee-based and may be viable methods of funding transportation facilities. The fees should be assessed for stability, adequacy, predictability, responsiveness to inflation and road usage, flexibility, appropriateness of dedication for transportation, point of taxation and number of taxpayers, compliance and administrative costs, potential for tax evasion, equity by income class, relationship to economic efficiency, ease of implementation and political acceptability. The following is a list of the vehicle-related revenue sources and a brief summary of each.

- Tolling of Transportation Facilities
- Value Pricing (High Occupancy Toll and Vehicle Lanes)
- Vehicle Miles Traveled (VMT) Fees
- Weight Distance Fees
- New Vehicle and Parts Sales Tax
- Vehicle Property Fees
- Alternative Fuel Taxes
- Enhanced Vehicle Registration Fees
- Vehicle Use Fees
- Emission Fees
- Carbon or Btu Tax or Ad Valorem Tax on Fuels

### ***Tolling of Transportation Facilities***

Widely used in the United States and around the globe, tolling was used primarily on new facilities for which debt was issued for construction. Tolling is now being applied both to new transportation facilities and existing highway facilities for the purpose of leveraging financing for new improvements to that facility as well as construction of new facilities. Tolls can vary by the time of day and by vehicle type, although this method of toll management is seldom used today. While toll rates can be set at any level, toll collection technology could minimize many inconveniences caused by tollbooths. Toll fees are primarily responsive to usage and would not be responsive to inflation unless action is taken by the tolling authority to periodically adjust toll rates. Toll pricing has the advantage of being equitable among vehicle classes and can encourage efficient use of roads rather than road expansion. Until 1991, tolling was restricted on federal highways,

but can now be used on federal highways, with the exception of interstates, although several existing interstate segments have toll facilities, such as I-75 in Florida from Ft. Lauderdale to Naples, I-95 in New Hampshire, and the Chesapeake Bay Bridge-Tunnel on U.S. Highway 13.

### ***Value Pricing (High Occupancy Toll and Vehicle Lanes)***

Creation of High Occupancy Toll (HOT) lanes as a part of new construction and retrofitting existing freeways with High Occupancy Vehicle (HOV) lanes with HOT lanes could be used as a new revenue source. HOT lanes have the effect of both congestion management and generation of additional revenues. The tolling of HOV lanes introduces value pricing concepts and allows the traveling public to make the choice of congestion-free commuting. Revenues from HOT lanes can be collected with today's electronic toll collection technology, license plate recognition systems or conventional toll collection procedures. This revenue-producing method encourages efficient use of our road systems, with traffic reductions and increased vehicle speed in congested areas during peak periods, and increases in traffic during non-peak periods. The rates would be easy to adjust. The cost of compliance will include not only the cost of activities of paying the fees and the costs associated with recording and collecting the fees but also on-vehicle and roadside equipment costs necessary to determine the fees. Additionally, this revenue source would be volatile since changes in congestion would impact the revenue stream and could also affect the level of fees. However, value pricing is becoming popular internationally and has been implemented in parts of France, Norway, Singapore and Canada, as well as the United States.

### ***Vehicle Miles of Travel (VMT) Fees***

A viable means of transportation revenue is to assess a fee for annual miles traveled. The technology exists today to accurately measure travel as is currently done in the trucking industry using hub-odometers. In the future other meters can be developed to accurately measure VMT. This fee would provide a stable rate of growth and could be responsive to inflation if it is indexed. The cost of administration and compliance would be more expensive than motor fuel taxation, however. Underreporting of mileage may also occur if vehicle owners are required to report their mileage. Alternative to metering vehicles include annual readings of the odometer during the vehicle registration period, smart-card use, and implementation of mandatory transponders. Issues to be resolved using this method of revenue collection are trucking industry opposition, costs to implement monitoring systems and fees proportionate to vehicle type and actual transportation system use. Costs associated with compliance and fee administration would be higher for VMT fees than for similar costs associated with motor fuel taxes due to the change in the point of taxation from motor fuel suppliers to vehicle owners and the increase in enforcement costs relating to vehicle miles of travel.

### ***Weight Distance Fees***

Use of the weight-distance fees is a revenue source and is a variation of the VMT fee. Mainly relegated to the multi-axle trucking industry, expansion to all vehicles could be a new source of transportation revenue. Similar to VMT Fees, vehicles would be assigned a category with a corresponding cost per mile driven and paid as a user fee. Factors weighted on contribution to congestion, deterioration caused to facilities and

involvement in highway accidents (resulting in increased congestion) would determine the actual cost per mile charged each vehicle category. A fee based on these factors would be an equitable revenue stream.

### ***New Vehicle and Parts Sales Taxes***

Some states levy a sales tax on vehicle sales at the time of vehicle registration. The proceeds from these taxes, which are responsive to inflation, could be deducted for transportation purposes. The fee could have substantial cyclical fluctuations, however. The sales tax revenues on new vehicles are directly related to the economy while the sales tax revenues on parts would be inversely related to the economy. The cost of compliance would be minimal. States currently collecting these fees, as general sales tax, but not using it solely for transportation, may redirect this revenue source to transportation, which would require revision to existing legislation and may need to secure a revenue source to replace funds formerly used for general revenue purposes. Attachment A provides a comparison of the characteristics of new vehicle sales taxes and several other types of transportation-related fees. A sales tax on vehicle parts with the proceeds to be used for transportation purposes could also generate additional transportation revenues.

### ***Vehicle Property Fees***

Vehicle property fees, similar to real property taxes, are personal property taxes based on mileage rates that are applied to the value of the motor vehicles, based on a depreciating scale (i.e. NAPA Blue book Values). The fees could be collected annually at the time of vehicle registration. Although this tax would be relatively easy to apply, it does not properly reflect transportation system usage since this is a value-based tax. This type of fee may be difficult to implement, especially if registration fees and license fees are currently collected. Vehicle property fees are currently collected in Kansas.

### ***Alternative Fuel Taxes***

Alternative Fuel Vehicle (AFV) use is growing at an average annual growth rate of 23%. Growth has been encouraged through the Alternative Motor Fuels Act of 1988, the Clean Air Act Amendments in 1990, and the Energy Policy Act of 1992. As use of petroleum based fuels decline and is offset to a degree by consumption of alternate fuel sources, the current philosophy of subsidies and reduced tax rates for alternative fuels should be addressed. Restructuring the taxation of alternative fuels may offset a significant portion of the eventual decline in petroleum based motor fuel tax collections. Existing inefficiencies in mileage and additional costs of AFVs may be lessened as technology is focused on alternative fuels as a viable energy source. The tax structure for liquid alternative fuels (methanol, ethanol, and liquid petroleum gases) would be similar to the current taxation on petroleum-based fuels and would be relatively easy to implement since these are delivered to consumers in a similar manner to petroleum based fuel. The tax structure for other alternative fuels such as natural gas and electricity would require a new tax structure.

### ***Enhanced Vehicle Registration Fees***

Vehicle registration fees generally are based on vehicle price, weight, or a flat fee. The fee may be reviewed for its responsiveness to inflation, equity among income classes

and adequacy, resulting in an enhanced vehicle registration fee. If the fee is based on current price, then it is responsive to inflation and is not regressive. If a flat fee is applied, it is recommended that the fee be indexed to inflation to eliminate erosion of its value. Vehicle registration fees are levied at the time that a vehicle is purchased and, typically, annually with a clarification on the vehicle tag. Fees paid at these times are easy to implement and enforce, and are not easily evaded.

### ***Vehicle Use Fees***

Currently, vehicle use fees are levied by the federal government on trucks with gross vehicle weights or gross combination weights exceeding 55,000 lbs. These fees have been applied to other vehicles in the past. Vehicle use taxes were applied to automobiles for seven or fewer passengers between January 1, 1919 and June 30, 1926 and to all vehicles between February 1, 1942 and June 30, 1946. The federal government could expand this fee to again include light vehicles. It would be a stable revenue source and can be indexed for inflation. These fees may be based on weight, value or other variables. Vehicle use fees differ from VMT fees and Weight-Distance fees because the latter fees factor in distance in the calculation to determine the fee. Since the vehicle use fee does not take into consideration the distance traveled, the fees are easier to implement and enforce and not easily evaded.

### ***Emission Fees***

An annual emission fee on vehicles can be based on a vehicle's emission characteristics or a combined vehicle's emissions characteristics and miles of travel. However, this would not be a stable revenue source due to the continued tightening of emission standards on vehicles.

### ***Carbon or Btu Tax or Ad Valorem Tax on Fuels***

These taxes would be based on carbon or energy content or the value of the fuels used and would be applied to all uses of the fuels, including transportation and heating. The Clinton Administration proposed this type of taxation in 1993, but none of the proceeds from the collections were going to be deposited into the transportation trust fund accounts. This type of tax does not reflect cost responsibility and diversions from transportation could be a potential problem.

## **Non-Vehicle-Related Revenue Sources**

A number of transportation financing options that are not vehicle related are also available to supplement, but not replace, vehicle-related fees. Non-vehicle related revenue sources may also be viable methods of funding transportation facilities. The following is a list of the non-vehicle related revenue sources and a brief summary of each.

- Leasing of Air Space and Right-of-Way
- Public-Private Partnerships
- Private Transportation Facilities
- Privatization of Interstate Rest Areas
- Road Branding

### ***Leasing of Air Space and Right-of-Way***

This is a new area under consideration across the country for items such as fiber-optic cables, cell-phone towers, and possibly even use of air space over the existing right-of-way for buildings or other facilities. The potential source of revenue in these areas could be significant but they can vary considerably from roadway to roadway. The major advantage is adding revenues to the transportation program by using existing transportation assets. A disadvantage includes developing a new program that would raise major issues associated with setting fair rules for competition, soliciting and evaluating proposals, and managing and administering the various programs that may be developed.

### ***Private Transportation Facilities***

Private venture may propose to build, operate and manage transportation facilities or operate and manage leased transportation facilities built with public funds. There are many variations of private transportation facility ownership and operations and include BOOT (Build-Own-Operate-Transfer), BOT (Build-Operate-Transfer), and BTO (Build-Transfer-Operate) types of projects. Non-profit and private corporations have been established that develop and implement toll roads and bridges and have been given specific tools, including the ability to issue tax-exempt revenue bonds. These corporations perform the same functions as expressway and bridge authorities. This type of arrangement should be considered a source of capital assets and not an additional source of cash for highway fund use. These facilities may address capacity issues and allow transportation agencies to direct traditional funding sources to other transportation needs.

### ***Privatization of Interstate Rest Areas***

Leasing rest stop areas could bring additional revenues for transportation. Currently there are Federal laws and state laws that prohibit leasing Interstate rest areas. It might be extremely difficult to pass legislation, especially federal legislation, to allow leasing of concessions at rest areas due to opposition of existing service station and restaurant owners located at existing interchanges. It would require legislative action by Congress and security might be a problem.

### ***Road Branding***

Road branding would allow segments of roadway to be named for individuals or businesses that are willing to pay a fee for the privilege, much like stadium naming rights. Proceeds from the fee could be dedicated for transportation purposes. The fee would require legislative action.

**SOURCE:** <http://www.tjpd.org/pdf/fundOpt/FundOptionsReport.pdf>