

The Future of Transportation Funding

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Dr. Tom S. Witt

Director, WVU Bureau of Business
and Economic Research

Overview

- History of Highway Financing
- Principles of Highway Public Finance
- National Trends Affecting Highway Infrastructure Financing
- Current and Potential Federal Highway Transportation Financing Policies
- West Virginia Highway Finance and Options
- Concluding Remarks

History of Highway Financing

- Early U.S. history individuals and companies constructed turnpikes and collected tolls
- First major toll road-Philadelphia and Lancaster Turnpike built in 1790s
- Pennsylvania Turnpike-first major modern tolled limited access highway 1940
- U.S. Interstate Highway System
- Recent efforts at privatization

Principles of Highway Public Finance

- Highways as a quasi-public good
- Criteria used to evaluate revenue sources
 - Efficiency
 - Equity
 - Administrative costs
 - Stability

Types of Highway Taxes/Fees

- First tier-entry fee to system. Designed to cover fixed operation
 - Registration and privilege taxes
- Second tier-cover construction costs
 - Motor fuel excise taxes
- Third tier-tracks operation and maintenance costs
 - Weight-distances and axle-weight-distance taxes and fees
- Other-benefits received principle

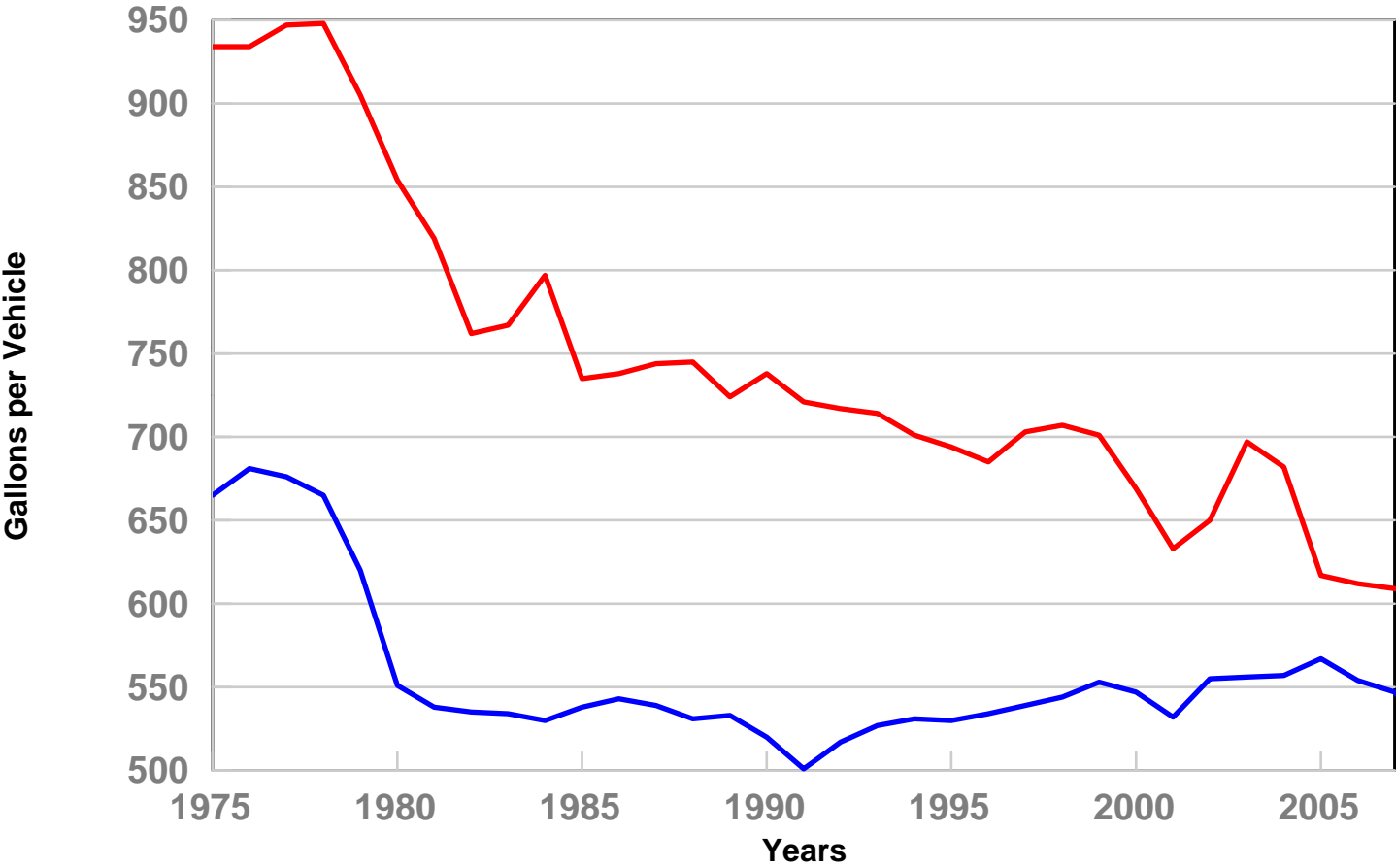
Most States Find User Taxes and Fees Inadequate

- Comparative analysis shows other revenues used to finance highways
 - General fund revenues at state level
 - Local revenues including sales, income and special fees
 - Miscellaneous revenue streams including tolls
- West Virginia one of four states with centralized financing, planning, construction and maintenance of highway system

National Trends Affecting Highway Infrastructure Financing

- Fuel efficiency of vehicles has increased dramatically
 - Passenger vehicles rose from 13.8 mpg in 1976 to 22.5 mpg in 2007
 - CAFE standards call for increases to 39 mpg by 2016
- VMT travel increased until 2005 and has dropped off
- Significant decline in fuel use per vehicle

Changing Characteristics of U.S. Vehicles From 1975-2007: Fuel Consumption (Gallons per Vehicle)



— Passenger Cars
— Van, Pickup Trucks and SUVs

Regulatory and Technology Threats to Traditional Highway Financing

- CAFÉ Standards
 - 2007 Bush signed Energy Independence and Security Act-set forth goal of 35 mpg by 2020
 - 2009 Obama proposed new goal of 35.5 mpg by 2016 (39 mpg for cars and 30 mpg for trucks).
- Development of Alternative Fuel Vehicles
 - Toyota and Honda leadership
 - Nissan Leaf (100% electric)

Federal Highway Financing Uncertain

- Reauthorization of Federal Highway Trust Fund in limbo-SAFETEA-LU extended five times since it's expiration on September 30, 2009
- Cash for clunkers in 2009 results in lower fuel tax revenues long term
- ARRA funds as stop-gap financing
- Obama urgent call for transportation investment
- Longer term
 - Increase in motor fuel excise tax?
 - Shift to vehicle miles traveled (VMT) tax?

West Virginia State Road Fund

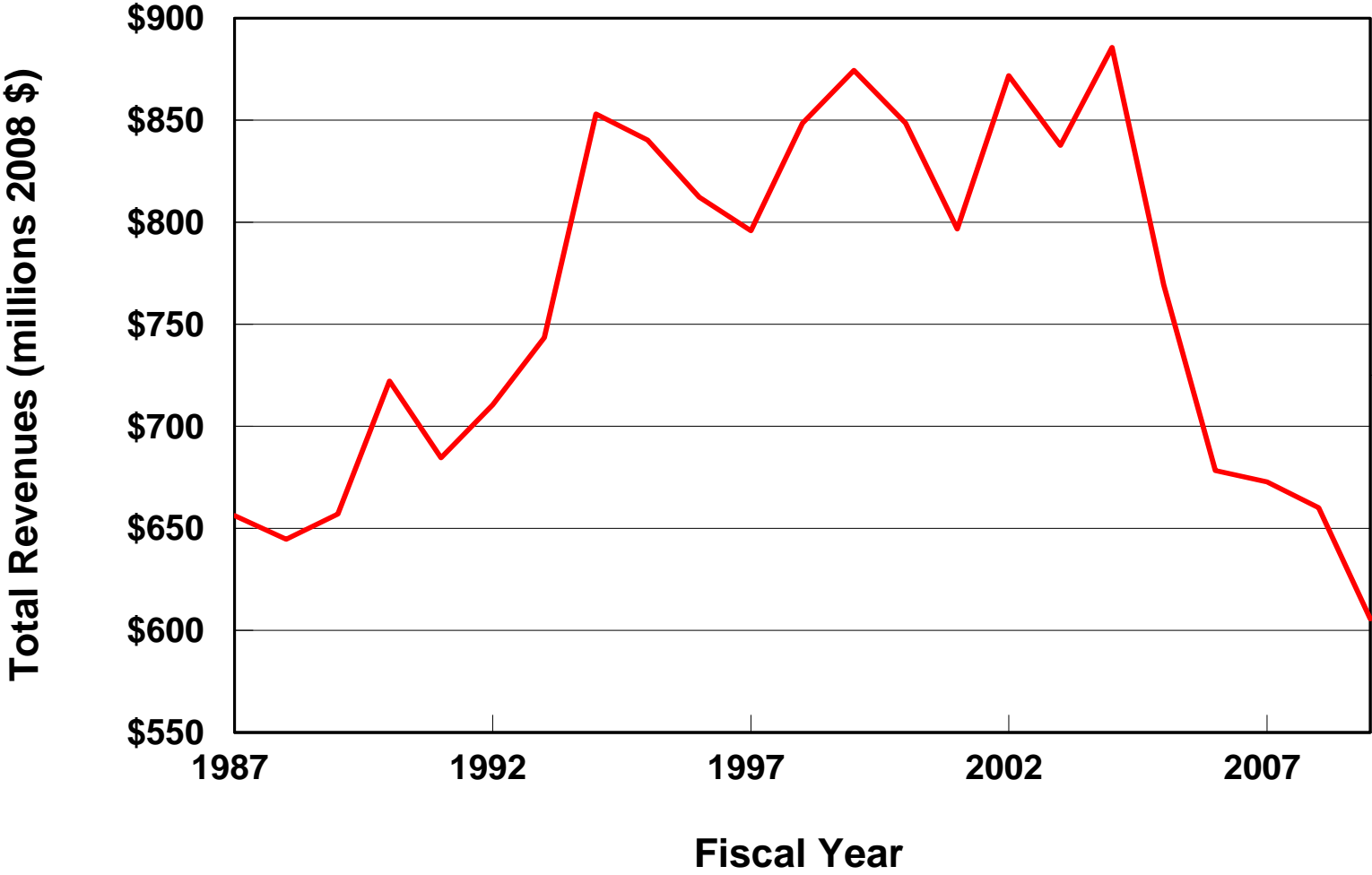
Major State Revenue Sources

- Motor Fuel Excise Tax
- Sales (Privilege Tax)
- Registration Fees

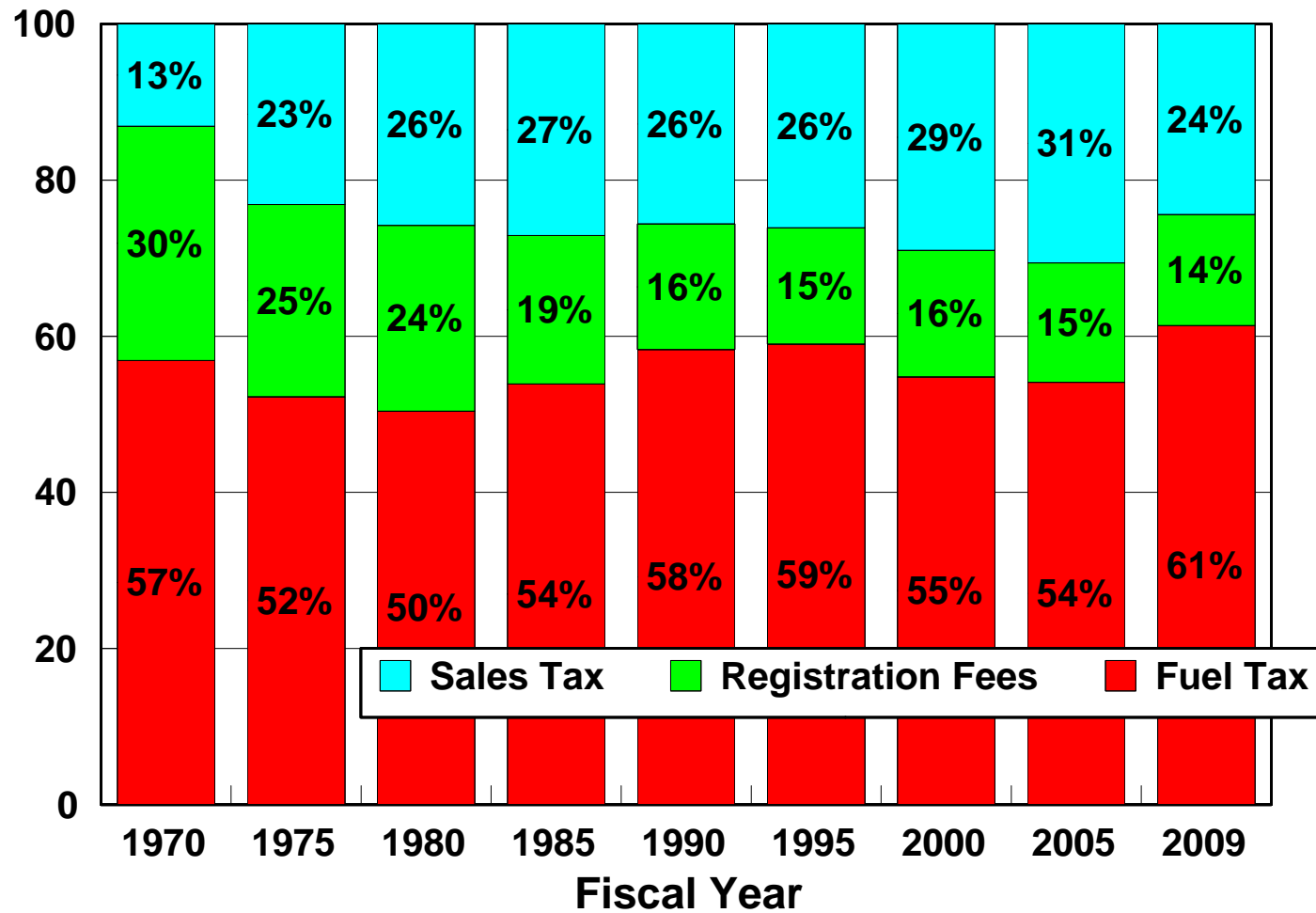
West Virginia State Road Fund

- Major tax revenues in nominal terms have generally increased over time until recently
- Adjusting for inflation there has been a significant decline in real revenues since FY2004
- The decline is equivalent to losing one-third of the value of dedicated tax revenues
- In FY1970 registration fees were more important
- In latter years sales tax more important since indexed to vehicle values; however, recent declines in vehicle purchases made motor fuel taxes more important

**Figure A-8 West Virginia State Road Fund Total Revenue
Inflation Adjusted for Fiscal Years 1987-2009 (2008 \$)**



Percentage of West Virginia State Road Fund Tax Revenue per Source in Selected Fiscal Years 1970-2009



**West Virginia Motor Fuel Taxes Paid per Vehicle Annually
by Motor Fuel Tax Rate and Fuel Efficiency**

Annual Miles Driven	Year	WV Motor Fuel Tax Rate per Gallon	Miles per Gallon						
			10	15	20	25	30	35	40
10,000	2001	25.65	\$256.50	\$171.00	\$128.25	\$102.60	\$85.50	\$73.29	\$64.13
	2002	25.35	253.50	169.00	126.75	101.40	84.50	72.43	63.38
	2005-2006	27.0	270.00	180.00	135.00	108.00	90.00	77.14	67.50
	2007	31.5	315.00	210.00	157.50	126.00	105.00	90.00	78.75
	2008-2012	32.2	322.00	214.67	161.00	128.80	107.33	92.00	80.50
12,000	2001	25.65	\$307.80	\$205.20	\$153.90	\$123.12	\$102.60	\$87.94	\$76.95
	2002	25.35	304.20	202.80	152.10	121.68	101.40	86.91	76.05
	2005-2006	27.0	324.00	216.00	162.00	129.60	108.00	92.57	81.00
	2007	31.5	378.00	252.00	189.00	151.20	126.00	108.00	94.50
	2008-2012	32.2	386.40	257.60	193.20	154.56	128.80	110.40	96.60
14,000	2001	25.65	\$359.10	\$239.40	\$179.55	\$143.64	\$119.70	\$102.60	\$89.78
	2002	25.35	354.90	236.60	177.45	141.96	118.30	101.40	88.73
	2005-2006	27.0	378.00	252.00	189.00	151.20	126.00	108.00	94.50
	2007	31.5	441.00	294.00	220.50	176.40	147.00	126.00	110.25
	2008-2012	32.2	450.80	300.53	225.40	180.32	150.27	128.80	112.70

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Motor Fuel Excise Tax Options

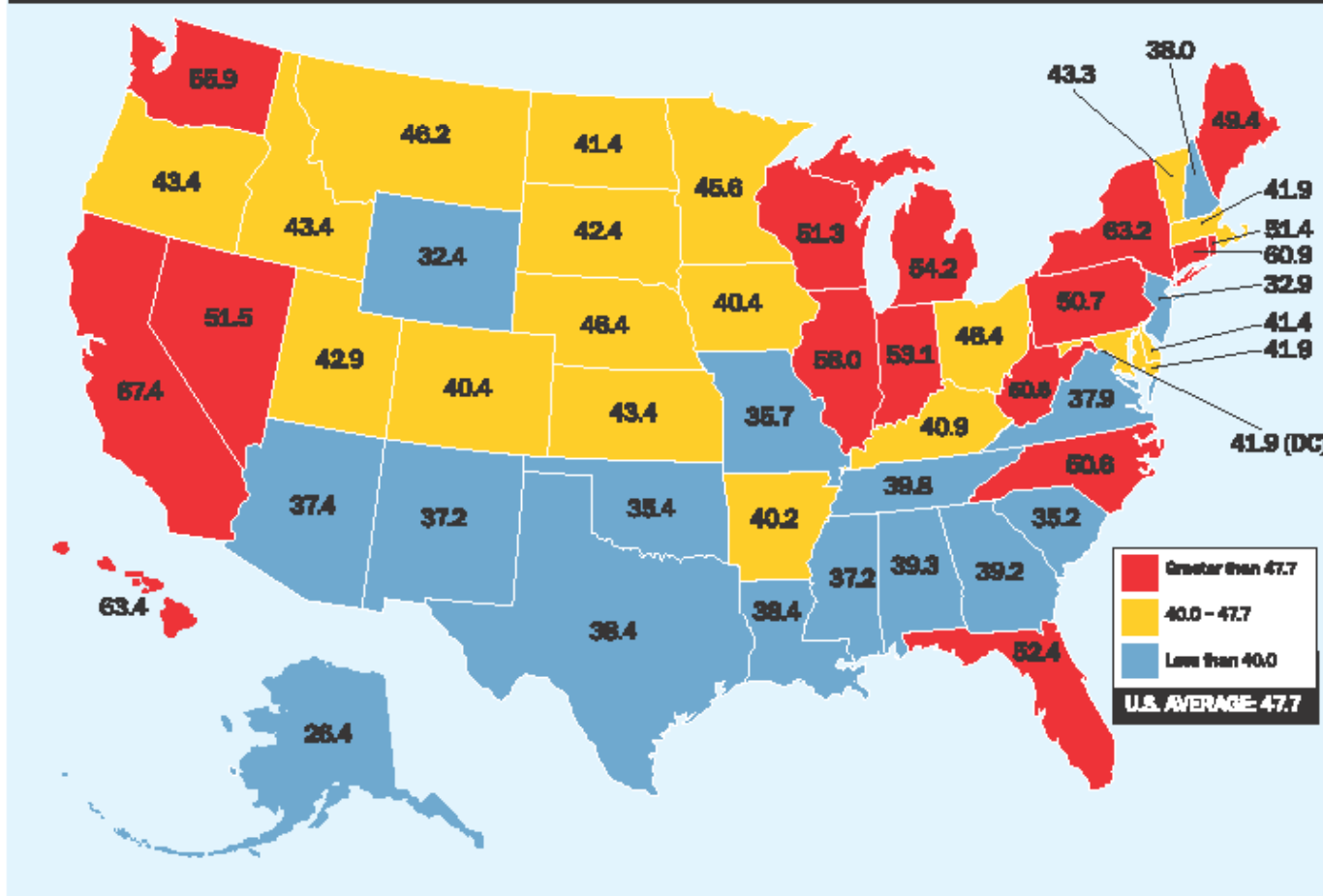
- Increase tax rate
- To reduce volatility in collections, change reporting date to 20th of the month
- To provide parity and equity with other consumer sales tax, wholesale rate could be increased to six percent



AMERICAN PETROLEUM INSTITUTE

GASOLINE TAXES

COMBINED LOCAL, STATE AND FEDERAL (CENTS PER GALLON)
JULY 2010



Sales Tax Options

- Increase tax rate to six percent, comparable to the consumer sales and use tax
- Recognizing more fuel efficient vehicles/alternative fuel vehicles, will not contribute 'fair share' to SRF, enact surcharge sales tax of 0.5 to 1.0 percent on vehicles with fuel efficiency above a predetermined level.

Registration Fees and Options

- Many have not changed for 20 or more years
- In 1970 provided 30% of total, now only contributing 14% of dedicated tax revenues
- Some, like drivers licenses, are below surrounding states
- No penalty for late registration
- Require significant increase in rates and index to inflation
- Consider special registration fees for high mpg vehicles or vehicles using alternative fuels. This will insure 'equity' of contribution with other vehicles

Other Options

- Tolling
- Bonding with retirement through dedicated sales or property taxes
- General revenue fund transfers
- Public-public partnerships
 - Expanded local options besides wage tax
 - Incent voter approval through creation of matching \$\$ in SRF guaranteeing additional funds

Concluding Remarks

- Establishment of state primacy in highway construction and maintenance outgrowth of the Great Depression
- WV one of four states with centralized finance and operational control
- Given current and future outlook for state resources, the time may have come for the establishment of a new partnership between local and state government regarding financing of the highway system.
- The lack of significant 'financial innovation' will result in the defacto abandonment of parts of the current highway network and an increase in private costs to motorist from highway damage