Virginia's Road to the Future

Frequently Asked Questions

1. **Why is Governor McDonnell proposing a major overhaul in how Virginia funds transportation during his last year in office?**

   Since 2002, the Virginia Department of Transportation has transferred over $3.3 billion in funds from the highway construction share of the Transportation Trust Fund (TTF) to the Highway Maintenance and Operating Fund (HMOF). Instead of funds for construction going to building new roads, they are being used simply to patch potholes and repave existing roads. These transfers – referred to as crossover – are principally caused by the declining value of Virginia's gas tax. In 1986 dollars, the 17.5 cents per gallon gas tax is worth approximately 8 cents today. The lack of an inflation factor, the introduction of alternative fuel vehicles into the marketplace and growing CAFE standards simply mean the Commonwealth is collecting less revenue from each vehicle traveling our roadways. Additionally, federal mandates on passenger rail and growing demand for transit service necessitate additional investment in these congestion reducing transportation alternatives.

   Put simply, Virginia's current transportation revenues do not add up to a safe, efficient and sustainable transportation network. The time to replace our archaic transportation funding system is now.

2. **Won't converting to the sales tax as the primary source of revenue for transportation disproportionately impact Virginians to the benefit of out of state travelers?**

   Despite claims to the contrary, there is no evidence to support the claim that 30% of gas tax revenues are paid by out-of-state drivers. Because the gas tax is paid at the rack, not the pump, there is simply no way to track who is purchasing fuel from a retailer. Neither the Department of Motor Vehicles, who administers the gas tax, nor the retailers and wholesalers have such data.

   However, the Virginia Center for Transportation Innovation and Research (VCTIR) has developed reasonable proxies that can serve as a rough estimate of the percentage of gas tax revenues collected from out-of-state drivers. First, 2012 data indicates that 9.6% of all traffic convictions involved out-of-state drivers. Second, out-of-state drivers constitute 9.1% of vehicle miles traveled (VMT) in Virginia.

   - In 2011, Virginia DMV reports that there were 6,584,632 registered passenger vehicles in Virginia.
   - In the same year, VDOT's Traffic Engineering Division (TED) estimates that there were 77,067,660,000 vehicle miles traveled by passenger vehicles on Virginia's roadways.

- The average annual mileage per vehicle is estimated at 10,640 based on national vehicle registration and VMT data as evaluated by the U.S. Energy Information Administration and the National Household Travel Survey.
- By multiplying the number of registered vehicles in Virginia by the average annual mileage, one can determine that 70,060,484,480 of the 77,067,660,000 vehicle miles traveled in Virginia were traveled by Virginia residents.
- Comparing in-state versus out-of-state VMT, one can determine that out-of-state drivers constitute 7,007,175,520, or 9.1%, of the vehicle miles traveled in Virginia.

According to a 2007 Virginia Tourism Corporation report, approximately 9.1% of all sales and use tax revenue are derived from out-of-state residents. When the 9.1% out-of-state vehicle miles traveled are compared to existing gas tax revenues and future revenues generated by increasing the sales and use tax, **the proxy shows that out-of-state drivers will pay more, and the Governor's plan does not disproportionately impact Virginians.**

<u>FY 2014:</u>

	Revenue Impact	**% Paid by Out-of-State**	**$ Paid by Out-of-State**
Gas Tax Revenue	($684,100,000)	9.1%	($62,253,100)
0.8% SUT Increase	$708,700,000	9.1%	$64,491,700

<u>FY 2018:</u>

	Revenue Impact	**% Paid by Out-of-State**	**$ Paid by Out-of-State**
Gas Tax Revenue	($713,800,000)	9.1%	($64,955,800)
0.8% SUT Increase	$896,700,000	9.1%	$81,599,700

3. There is a direct nexus between the gas tax and roads. What's the nexus between the sales tax and roads?

An adequate transportation network is a critical component of creating and sustaining a robust economy. Every facet of personal and private business depends on an effective and efficient transportation network. Our children can't get to school; the sick and elderly can't get to the medical care they need; and, our businesses can't move their goods without an adequate network of roads, rail, airports and seaports. Further, almost every good on which the sales tax is imposed at one point or another moves via at least one, if not more, components of Virginia's transportation network. If we want to sustain and grow our economy, we must replace our archaic transportation funding system with one that is tied to economic output. By tying transportation to economic growth, we can ensure that transportation has the adequate revenues necessary to support our burgeoning economy.

Further, while there is more of a direct nexus between roads and the gas tax, that nexus begins to break down when you consider that gas tax revenues also go to funding transit, airports, and seaports. Given that the economy is dependent on an adequate transportation network, and sales tax revenues are an output of the economy, there is more broadly a closer nexus between funding transportation as a whole through the sales tax than there is with the gas tax.

4. **Increasing transportation's share of the sales and use tax from 0.5% to 0.75% will take money from education, public safety and other core functions of government.**

   Transportation is a core function of government: our children can't get to school; the sick and the elderly can't get the medical care they need; and, our businesses can't move their goods without an adequate transportation system. The $49 million in additional sales tax commitment for transportation in FY 2014 represents less than three-tenths of one percent of the entire FY 2014 general fund revenues.

   Further, because the revenues from the sales and use tax grow with economic activity, the additional sales and use tax revenue dedicated to transportation does not come from the base, but rather comes from year over year growth. In fact, transportation's additional share represents less than 10% of the growth every year.

Fiscal Year	2014	2015	2016	2017	2018
Total GF Revenues Net of $49.0M for Transportation	$17,037.1	$17,865.7	$18,519.9	$19,250.7	$19,943.3
$ Change from Previous Year		$828.6	$654.2	$730.8	$692.6
Total GF Support for Transportation	$49.0	$101.7	$158.4	$219.2	$283.2
$ Change from Previous Year		$52.7	$56.7	$60.8	$64.0
% of Change for Transportation		6.4%	8.7%	8.3%	9.2%

   In other words, the Governor's plan does not take funds from any other core function of government, and the budgets for public education, public safety, and other core areas of government will continue to see significant growth year over year.

5. **Why should people who don't have cars or drive pay more for the goods they consume when they don't use Virginia's roads?**

   All Virginians, whether or not they drive and/or own a car, benefit from Virginia's transportation networks. The additional revenues generated by the Governor's plan to replace the gas tax with a 0.8% sales tax won't be allocated to just roads. A portion of the revenues will be dedicated to Virginia's growing demand for transit and improving Virginia's airports and seaports, as well as building and maintaining Virginia's roads. In fact, over the first five years of the plan, funding for transit will grow by over $500 million.

6. **How will eliminating the gas tax and increasing the sales and use tax impact Virginia's competitiveness?**

   Even with the 0.8% increase in the sales and use tax, Virginia's sales tax rate will remain below all of our neighboring states. The District of Columbia, Kentucky, Maryland, and West Virginia all impose a 6% sales and use tax, while North Carolina's rate varies between 6.75 and 7.5% and Tennessee's rate is 7%.

7. **Won't retaining the diesel fuel tax and increasing the sales tax disproportionately impact Virginians who use diesel fuel for non-highway vehicles such as tractors and recreational vehicles?**

   Virginians who purchase diesel fuel for off-road purposes will not be affected. There are two types of diesel fuel: dyed diesel, which is not taxed at the rack, and undyed diesel, which is taxed. Undyed diesel fuel is used principally by the trucking community, and to power tractors, boats and other watercraft, and taxis. Virginians who purchase undyed diesel fuel for off-road uses are eligible for a refund on the tax paid for that fuel. In FY 2012, $11.3 million was refunded to Virginians.

8. **Diesel passenger vehicles are more fuel efficient, and retaining the diesel fuel tax while also increasing the sales tax will discourage people from purchasing diesel fueled passenger vehicles.**

   Currently, there are 6,584,632 registered passenger vehicles in Virginia of which only 36,231 of these vehicles operate with diesel. Consequently, only 0.6% of all registered passenger vehicles in Virginia operate with diesel fuel.

9. **What is the basis for assuming Virginians will see a reduction in the price they pay at the pump by eliminating the 17.5 cents per gallon tax on gasoline?**

   According to the 2011 National Petroleum News MarketFacts Industry Survey, nationally the vast majority of retailers – over 70% - own five or less retail locations.

   The respondents to the survey pointed to tobacco, beverages, and other convenience store items as the most important sources of their profits. Their chief concern – with 60% of respondents ranking it most important – was the price of fuel.

   Given that the sale of gasoline is a highly competitive market, it is reasonable to assume that these small business owners will reduce the price per gallon to remain competitive and incentivize customers to stop at their locations.

10. What impact does a decline in gas prices have on consumer spending?

When gas prices decrease, consumers not only have more money in their wallets, but consumer confidence is boosted. More money and higher confidence equate to more consumer spending, spending which is subject to Virginia's sales and use tax. In 2011 Deutsche Bank estimated that a national 1 cent-per-gallon increase in the price of gas translates to a $1 billion increase in household energy spending -- money that consumers would otherwise be spending on other goods and services. By the same reasoning, every 1 cent per gallon decrease in prices leads to a $1 billion reduction in household energy spending.

As gas prices fall in Virginia under the Governor's Plan, consumers will be likely to spend more on other products and goods, thereby increasing sales and use tax revenue collections beyond current projections.

11. How will the Governor's plan impact the storage tank fee?

The storage tank fee is a 0.006 cents per gallon fee levied on gasoline, aviation gasoline, dyed and undyed diesel fuel, blended fuel and heating oil. In FY 2012, it generated $32.6 million to help clean up abandoned or leaking petroleum tanks and other spills. Given the important role this fee plays in protecting Virginia's environment, the Governor's plan leaves this fee unchanged.

12. Will eliminating the state-imposed gas tax impact the locally imposed motor vehicle fuels sales tax on gasoline in Northern Virginia?

No. The localities that are part of the Northern Virginia Transportation District and the Potomac and Rappahannock Transportation Commission impose a 2.1% sales tax on gasoline. The revenues generated by this additional sales tax remain in the localities where the tax is levied. Currently, only fuels that are subject to the statewide motor fuels tax are subject to the local sales tax on gasoline. The Governor's proposed legislation makes statutory amendments to ensure that the localities within the transportation districts will continue to collect the local sales tax.

13. Governor McDonnell has stated that 68% of diesel fuel in Virginia is consumed by interstate trucks. How can you determine the percentage of diesel consumed by specific vehicles, but not the percentage of gasoline?

Interstate trucks are required to register under the International Fuel Tax Agreement (IFTA). This agreement allows a carrier to register and pay motor fuel road taxes in the carrier's home or base state for all participating jurisdictions. Because of IFTA, it can be determined how much diesel fuel is consumed by Virginia based and non-Virginia based carriers. For FY 2012, Virginia based IFTA carriers purchased 152.6 million gallons in Virginia, or 24% of the total. Non-Virginia based IFTA carriers purchased 486 million gallons in Virginia, or 76% of the total.

To determine how much of the diesel fuel tax revenues come from the trucking community, divide the revenue from 2012 IFTA reported gallons ($118.0 million) by the total diesel collections ($174.7), which equals 68%.

14. Why is Governor McDonnell proposing the $100 alternative fuel vehicle fee on all alternative fuel vehicles, when natural gas vehicles already pay an equivalent rate tax?

As announced, the Governor’s transportation plan would impose a $100 fee on all alternative fuel vehicles. However, pursuant to § 58.1-2249 (A) of the Code, natural gas vehicles pay an equivalent rate of 17.5cents/gas gallon equivalent. Therefore, the Governor’s introduced legislation will only levy the $100 fee on those vehicles that are not subject to the cents/gas gallon equivalent tax. The revised proposal will principally impact electric vehicles and hybrid electric vehicles, which pay little to no gas tax.

While the Governor’s plan repeals the 17.5 cents per gallon state gas tax, drivers will still be responsible for paying the 18.4 cents per gallon federal gas tax. The federal gas tax also includes a cents/gas gallon equivalent. Federal gas tax revenues constitute one of Virginia’s largest sources of transportation funding, with Virginia receiving approximately $1 billion per year. This additional fee on electric and hybrid electric vehicles will help ensure that these vehicles continue to contribute to Virginia’s transportation networks.

15. What is the Marketplace Equity or Fairness Act and what assurances do we have that it will actually pass before July 1?

The Marketplace Equity or Fairness Act would grant states meeting specified simplification requirements the authority to compel remote sellers to collect sales tax for the state into which sales are made. The General Assembly addressed this issue last year though the so-called “Amazon legislation” (SB 597); however, the provisions were contingent upon the adoption of federal legislation. The Marketplace Equity or Fairness Act is not a tax increase; these are revenues that Virginia should already be collecting.

While there are no assurances that the legislation will be enacted early in the 113th Congress, the legislation is supported by the National Governor’s Association, the National Council of State Legislatures and a bi-partisan group of congressional representatives.

Even without the revenues from the Marketplace Equity or Fairness Act, Governor McDonnell’s plan will generate almost $600 million per year in additional funding for transportation by FY 2018.