

**REPORT OF THE
JOINT SUBCOMMITTEE STUDYING
THE PLANNING, ALLOCATION AND USE
OF HIGHWAY FUNDS
TO
THE GENERAL ASSEMBLY OF VIRGINIA**



HOUSE DOCUMENT NO. 23

**COMMONWEALTH OF VIRGINIA
RICHMOND
1980**

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EXECUTIVE SUMMARY

During 1979 the Joint Subcommittee was unable to obtain a clear understanding either of just what Virginia's highway needs are, or of what amount of revenues—however those might be divided—would be needed to attempt to satisfy those needs. The reemergence of a not insignificant shortage of gasoline has altered the driving habits not only of Virginians, but of others passing through the Commonwealth as well. It yet remains to be seen how much of this alteration will prove to be long-enduring, and how much of it merely transitory. Uncertainty of oil supplies, with their resultant disturbance of driving patterns have upset traffic projections and revenue collections. Continued reduction in motor vehicle use - particularly private automobile use - will probably require the Department of Highways and Transportation to reconsider, its estimates of the Commonwealth's highway needs.

The Joint Subcommittee feels it would be unwise, given these uncertainties, to make any recommendations at the present either (1) for altering the amount or structure of motor fuel taxes, or (2) for altering the various formulas under which highway fund revenues are apportioned to construction and maintenance of Virginia's road systems. Further: General Assembly review of highway fund taxes and their allocation may be more profitable at a time when availability and price of gasoline, and driving habits, have once again become more stable.

RECOMMENDATIONS

The Joint Subcommittee recommends to the General Assembly:

1. That no revision of the formulas by which highway maintenance and construction funds are distributed be undertaken at the present time;
2. That a reevaluation of the appropriateness of these formulas be considered when gasoline prices and availability, and driving patterns in and through Virginia, have restabilized;
3. That the highway construction and maintenance needs of Virginia be reevaluated by the Highway and Transportation Department in order to ensure that, in a period of declining revenues and rising costs, the most urgent needs receive the highest priority; and
4. That the General Assembly give serious consideration to such proposals as the Governor, with the advice of the Highways and Transportation Commission, may put forward to ensure that highway fund revenues do not fall below a level necessary to maintain existing roads and carry out essential construction projects.

FINDINGS

1. If there is an urgent need in regard to highway funds which must be addressed by the General Assembly, that urgent need involves the volume of highway fund revenue much more than it involves the formulas by which such funds are distributed. Briefly put, the most critical issue of the moment is the size the highway fund "pie," not the way the "pie" is being "sliced."
2. Whether the current provisions of State law regarding distribution of highway fund revenues are adequate and equitable cannot be determined at a time when the volume of total highway fund revenues - and the adequacy of those funds to meet minimum needs - is uncertain. Further pursuit of highway fund formula revisions prior to a restabilization of driving patterns and highway fund revenues is likely to prove futile.
3. Declining highway fund revenues and simultaneously rising highway maintenance and construction costs will necessitate, absent a wholesale revision of the levels and sources of highway fund revenue generation, the production of a "bare bones" plan for road maintenance and construction by the Highways and Transportation Department. As the Department's ability to satisfy all needs declines, the citizens of Virginia must be assured that those needs which are most urgent are given commensurate attention.
4. The Highways and Transportation Commission has considered and transmitted to the Governor

several alternative strategies for minimizing highway fund revenue shortfalls over the next few years. The Joint Subcommittee finds it inappropriate for this body to preempt the Governor in the matter of choosing among these - or other - alternatives. The people of Virginia would be better served by the consideration by the full General Assembly of whatever proposal the Governor may make on the basis of data and advice available to him.

BACKGROUND

The 1978 Session of the General Assembly commissioned the present study by its passage, on February 6, 1978, of House Joint Resolution No. 172 (see Appendix II). A joint subcommittee composed of members of the House of Delegates Committee on Roads and Internal Navigation and members of the Senate Committee on Transportation was formed to carry out the Assembly's charge (see Appendix C for a list of Joint Subcommittee members).

In its report to the 1979 Session of the General Assembly (1979 House Document No. 25), the Joint Subcommittee presented 6 findings:

1. That the statutory method of city and town street payments is no longer adequate and should be revised;
2. That the method of allocating State funds for city bridge maintenance is insufficient and should be changed to provide additional assistance to cities;
3. That the rate of progress in secondary road construction has declined over the past several years and should be accelerated;
4. That the interest earned by the Department of Highways and Transportation's cash balances should be returned to the Department to be spent in the highway system;
5. That the Department of Highways and Transportation should be required to provide the Subcommittee and the General Assembly with recommendations and programs to address the urgent needs of the entire system in an adequate and timely manner; and
6. That the present study should be continued in order to consider all aspects of funding and expenditures for highways.

All but one of these concerns were addressed by the Assembly in one way or another.

House Bill No. 602 (Chapter 84 of the 1979 Acts of Assembly) amended Code §§ 33.1-41, 33.1-44, and 33.1-80(i) to increase city street payment from \$1,500 per moving lane mile to \$2,200 per moving lane mile, (ii) to decrease the city share of city/State construction projects from 10 percent to 5 percent, (iii) to increase State payments to certain towns for street maintenance from \$1,600 per moving lane mile to \$2,200 per moving lane mile, (iv) to provide an automatic "escalator" for city and town street payments, and (v) to create a fund to be used for the accelerated paving of unpaved secondary roads. The bill became effective July 1, 1979.

Senator Bird introduced a measure (Senate Bill 570) which would have returned to the highway fund interest earned on cash balances of the Department of Highways and Transportation. The bill was defeated in the Senate Finance Committee.

On December 20, 1978, the Department of Highways and Transportation transmitted to members of the Subcommittee a compilation of 1978 highway needs across the Commonwealth. This analysis, including an examination of the time required to complete projects under conditions of fluctuating revenues and costs, has since been updated on a "sampling" (rather than all-inclusive) basis by the Department.

Continuation of the Joint Subcommittee to the end of 1979 was provided for with the passage of House Joint Resolution No. 272 (see Appendix III). No action, however, was taken on the Subcommittee's recommendation concerning city bridge maintenance.

RECENT JOINT SUBCOMMITTEE ACTIVITIES

During 1979 the Joint Subcommittee held two meetings on July 31 and December 14. On these two occasions Highways and Transportation Commissioner Harold C. King and members of the Department of Highways and Transportation staff sought to persuade the Joint Subcommittee with the inadequacy of financial resources available for highway maintenance and construction.

Speaking on the subject of current highway needs (not including new highway construction), Mr. King indicated at the Joint Subcommittee's July 31 meeting that his Department's annual budget of approximately \$750 million will prove woefully inadequate. To illustrate his point, he discussed a study prepared by his planning and research staff. This study focused on the minimum amounts necessary to bring four counties up to established standards: Chesterfield County, \$411 million; Washington County, \$145 million; Fairfax County, \$857 million; and Botetourt County, \$97 million. He estimated present Statewide maintenance needs could be as much as \$30 to \$40 billion, only a small fraction of which can be met.

By the Joint Subcommittee's December 14 meeting the situation, in the Department's view, had certainly not improved. The Department's representatives stressed two major points: (1) that vehicle miles traveled per month in 1979 have, on the whole, declined in comparison to 1978, and (2) that highway fund revenues in 1979 have not only lagged behind projections, but in many instances have been below 1978 levels. It was explained that other factors, most notably rapidly rising fuel and asphalt prices and a succession of several exceptionally severe winters, had further reduced the "real dollar" size of those highway fund revenues which are being generated.

The Joint Subcommittee was informed by the Highways and Transportation Department that it was being forced either (1) to reduce construction contract awards, or (2) to reduce maintenance. It was Highway and Transportation Commissioner King's feeling that the only prudent choice was to reduce construction as much as possible in order to meet the full maintenance needs of all State highways. To reduce maintenance for the sake of construction, would, he felt, tend to jeopardize the not inconsiderable investment already made in existing roads. Commissioner King's views are supported by the Joint Subcommittee.

Figures presented by the Highways and Transportation Department, if accurate, indicate a dramatic revenue shortfall for meeting the needs of even this "mimimum construction" program: the shortfall for fiscal year 1979-80 was estimated at \$52.9 million; for fiscal year 1980-81 at \$141.5 million; and for fiscal year 1981-82 at \$213.3 million. If current construction levels were to be maintained, these shortfall figures would be, respectively, \$52.9 million, \$164.0 million, and \$288.8 million.

As possible methods of overcoming this anticipated shortfall, the Highways and Transportation Department has developed six alternative strategies. (See Appendix I.) These alternatives had been presented by the Department to the Highways and Transportation Commission, it was reported, and the Commission has referred all six to the Governor without its endorsement of any one particular alternative.

The Joint Subcommittee feels, at the present time, that it would be inappropriate to attempt to choose among these alternatives—or recommend some other plan. The Joint Subcommittee recommends that the General Assembly await the Governor's recommendation on the matter of making good these shortfalls, reserving its Constitutional right to accept, reject, or modify such proposal as the Governor may make.

Respectfully submitted,

William P. Robinson, Sr. (Chairman)
Daniel W. Bird, Jr. (Vice-Chairman)
Herbert H. Bateman
Earl E. Bell
Orby L. Cantrell
V. Earl Dickenson
Joseph T. Fitzpatrick
Virgil H. Goode, Jr.
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William T. Parker
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Appendix I.

STATE HIGHWAY MAINTENANCE AND CONSTRUCTION FUND

ALTERNATIVES FOR ADDITIONAL REVENUE

I. Alternative: Increase the current per gallon tax on motor vehicle fuel.

Section 58.711 of the Code of Virginia authorizes a tax of 9¢ on each gallon of motor fuel. For the fiscal year 1978-79 this tax produced approximately \$286.2 million. Therefore each additional 1¢ in tax applied to the 1978-79 sales tax would have produced \$31.8 million.

II. Alternative: Apply an advalorem tax to the wholesale price (68¢/gal) of fuel in lieu of the current 9¢/gal tax.

The current 9¢/gal tax is equivalent to a 13.2% advalorem tax on fuel at the wholesale level assuming the current wholesale price is 68¢/gal (68¢ x 13.2% = 9¢). As the price of gasoline rises, the tax per gallon would increase, e.g.

<u>Wholesale Price</u>	<u>Additional Revenue</u>
68¢ x 13.2% = 9.0¢/gal.	-0-
75¢ x 13.2% = 9.9¢/gal.	\$ 28.6 mil.
80¢ x 13.2% = 10.6¢/gal.	50.9 mil.
90¢ x 13.2% = 11.9¢/gal.	92.2 mil.
\$1.00 x 13.2% = 13.2¢/gal.	133.6 mil.

III. Alternative: Apply a 4% sales tax to the pump price of motor fuel.

Currently motor fuel is exempt from the State's 4% sales tax. If this exemption is removed, the 4% sales tax would produce:

<u>Pump Price</u> (Including 9¢ State and 4¢ Fed. Tax)	<u>Additional Revenue</u>
\$1.03/gal. x 4% = 4.12¢/gal.	\$131.0 mil.
1.10/gal. x 4% = 4.40¢/gal.	139.9 mil.
1.25/gal. x 4% = 5.00¢/gal.	159.0 mil.

IV. Alternative: Apply a 4% sales tax to the wholesale price of fuel.

If the 4% sales tax is applied at the wholesale level rather than at the retail level proposed above, the tax would produce:

<u>Wholesale Price</u>	<u>Additional Revenue</u>	
68¢ @ 4%	2.7¢/gal.	\$ 86.5 mil.
75¢ @ 4%	3.0¢/gal.	95.4 mil.
80¢ @ 4%	3.2¢/gal.	101.8 mil.
90¢ @ 4%	3.6¢/gal.	114.5 mil.
\$1.00 @ 4%	4.0¢/gal.	127.2 mil.

V. Alternative: Increase the current per gallon "Road Tax" on motor vehicle fuel.

Currently there is a 2¢/gal. Motor Carrier Road Tax assessed on fuel used in Virginia by property carriers. For the fiscal year the road tax produced \$6.2 million. Each additional 1¢ of

the tax would have produced \$3.1 million.

VI. Alternative: Increase the motor vehicle sales and use tax.

Currently there is a 2% sales tax assessed on the sale price of motor vehicles (no allowance for trade-ins). For the fiscal year 1978-79 this tax produced \$72.3 million. An additional 1% would have produced \$36.2 million; increasing the rate to the same level (4%) as the State Sales Tax would have produced an additional \$72.3 million.

Appendix II.

HOUSE JOINT RESOLUTION NO. 172

(1978)

Authorizing a joint committee of the House of Delegates Committee on Roads and Internal Navigation and the Senate Transportation Committee to conduct a study of the use of highway funds to maintain secondary roads and urban streets.

Agreed to by the House of Delegates, February 16, 1978

Agreed to by the Senate, March 6, 1978

WHEREAS, every citizen in this Commonwealth who operates a motor vehicle pays gasoline taxes which accrue to the credit of the Virginia Highway Maintenance and Construction Fund; and

WHEREAS, these citizens also pay registration and licensing fees which accrue to the credit of this Fund; and

WHEREAS, the State Highway and Transportation Commission has great flexibility in determining the level of funding maintenance needs of the secondary roads system throughout the Commonwealth; and

WHEREAS, the State Highway and Transportation Commission is restricted by §§ 33.1-41 and 33.1-43 as to the funds it provides for the maintenance of city and town streets; and

WHEREAS, these city and town maintenance payments have not been changed since nineteen hundred seventy-three while inflation has averaged nine per centum a year since nineteen hundred seventy-three, thereby reducing the ability of cities and towns to maintain their streets with the above mentioned per mile maintenance payments; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That a joint committee of the House Roads and Internal Navigation Committee and the Senate Transportation Committee is authorized to conduct a study of the construction, maintenance and other maintenance allocations of the Virginia Highway Maintenance and Construction Fund to examine the allocations made to counties, cities and towns for maintenance of their roads to determine the most equitable means of distribution of these funds among the various localities.

The joint committee shall be comprised of eleven members, six of whom shall be appointed by the Speaker of the House of Delegates from the membership of the House Roads and Internal Navigation Committee and five of whom shall be appointed by the Senate Committee on Privileges and Elections from the membership of the Senate Transportation Committee.

All agencies of the Commonwealth shall cooperate with the joint committee in its study.

The joint committee shall report its findings and recommendations to the General Assembly no later than November one, nineteen hundred seventy-eight.

Appendix III.

HOUSE JOINT RESOLUTION NO. 222

(1979)

Authorizing a Joint Committee of the House of Delegates Committee on Roads and Internal Navigation and the Senate Transportation Committee to continue its study of the planning, allocation, and use of all highway funds.

Agreed to by the House of Delegates, February 21, 1979

Agreed to by the Senate, February 16, 1979

WHEREAS, every citizen in this Commonwealth who operates a motor vehicle pays gasoline taxes which accrue to the credit of the Virginia Highway Maintenance and Construction Fund; and

WHEREAS, these citizens also pay registration and licensing fees which accrue to the credit of this Fund; and

WHEREAS, the State Highway and Transportation Commission has great flexibility in determining the level of funding maintenance needs of the secondary roads system throughout the Commonwealth; and

WHEREAS, in nineteen hundred seventy-eight the General Assembly created the Joint Committee of the House Roads and Internal Navigation and Senate Transportation to Study Highway Allocations by passing House Joint Resolution No. 172; and

WHEREAS, the Joint Committee has submitted an interim report but needs additional time to complete its study of the Highway Maintenance and Construction Fund and review a report from the Department of Highways and Transportation on the total transportation needs in the Commonwealth; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That a Joint Committee of the House Roads and Internal Navigation Committee and the Senate Transportation Committee is authorized to continue its study of the planning, construction, and maintenance allocations of the Virginia Highway Maintenance and Construction Fund.

The Joint Committee membership shall continue as originally appointed and any vacancies filled in the same manner as the original appointments.

All agencies of the Commonwealth shall cooperate with the Joint Committee in its study.

The Joint Committee shall report its findings and recommendations to the General Assembly no later than December one, nineteen hundred seventy-nine.

Appendix IV

MEMBERS OF COMMITTEE

House

William P. Robinson, Sr.
Orby L. Cantrell
V. Earl Dickinson
William T. Parker
Earl E. Bell
A. Victor Thomas

Senate

Omer L. Hirst
Virgil H. Goode, Jr.
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