Transportation Funding Outlook

House and Senate Committees on Transportation

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Outline

1. Overview of Transportation Funding
2. Vermont Transportation Revenue Forecast
3. What Other States Have Done

Transportation Funding

- **Nationwide, transportation has traditionally been funded by "user fees."**
  - Fuel taxes
  - Licensing and registration fees
  - Sales and use taxes on vehicle purchases and rentals
  - Airports, transit and railroads = fares and ticket surcharges (plus subsidies)
  - Miscellaneous revenues with a nexus to transportation (tolls, oversize permits, civil traffic fines, administrative fees, etc.).
- **But "user fees" may not keep pace with growing costs of infrastructure needs**.
  - Revenue base/number of payors may not grow at a rate that keeps up with purchasing power.
  - Are all "users" paying? Vehicle owners/operators bear most of the cost of maintaining surface transportation, but not in perfect proportion to usage. Vehicle owners/operators are also not the sole beneficiaries of the transportation system.
  - Generally less expensive to maintain or repair rather than replace. Short term decisions impact long term costs.
  - Costs generally increase over time. Pay a lot now, or pay a lot more later.
  - Life cycle of assets – need to repair/replace infrastructure that is obsolete or at end of useful life
  - Increased non-federal match requirements to draw down IIJA funds
  - Cost of doing business increases over time – payroll, construction costs, materials, energy, etc.
- **Although some strategies are commonly used, every state's funding strategy and transportation needs are unique.**
  - Every state is different – demographics, geography, economic trends, travel patterns, climate, etc.
  - In some states, the need to manage growth/congestion could be a higher priority. In other states, the need to draw down federal funds and maintain aging infrastructure could be a higher priority.
  - Every state taxes motor fuels in some way and charges registration fees….but the amounts and the structures can vary.

The Issue

Bottom Line Up Front: Vermont's Transportation and TIB Fund revenues in years beyond FY 2023 are not expected to be sufficient to pay for the projected transportation "needs" facing the state from the higher match requirements from IIJA and other base growth factors.

- AOT expects that beginning in FY 2024, there will be a shortfall of $41.0 million between needs and forecasted available funds.
- By FY 2026, the shortfall is projected to be $58.3 million.
- AOT estimates assume "JTOC" transfer ends in FY 2023 (per Govrec). If the "JTOC" transfer remains in place, the gap increases by $20.25 million each year.

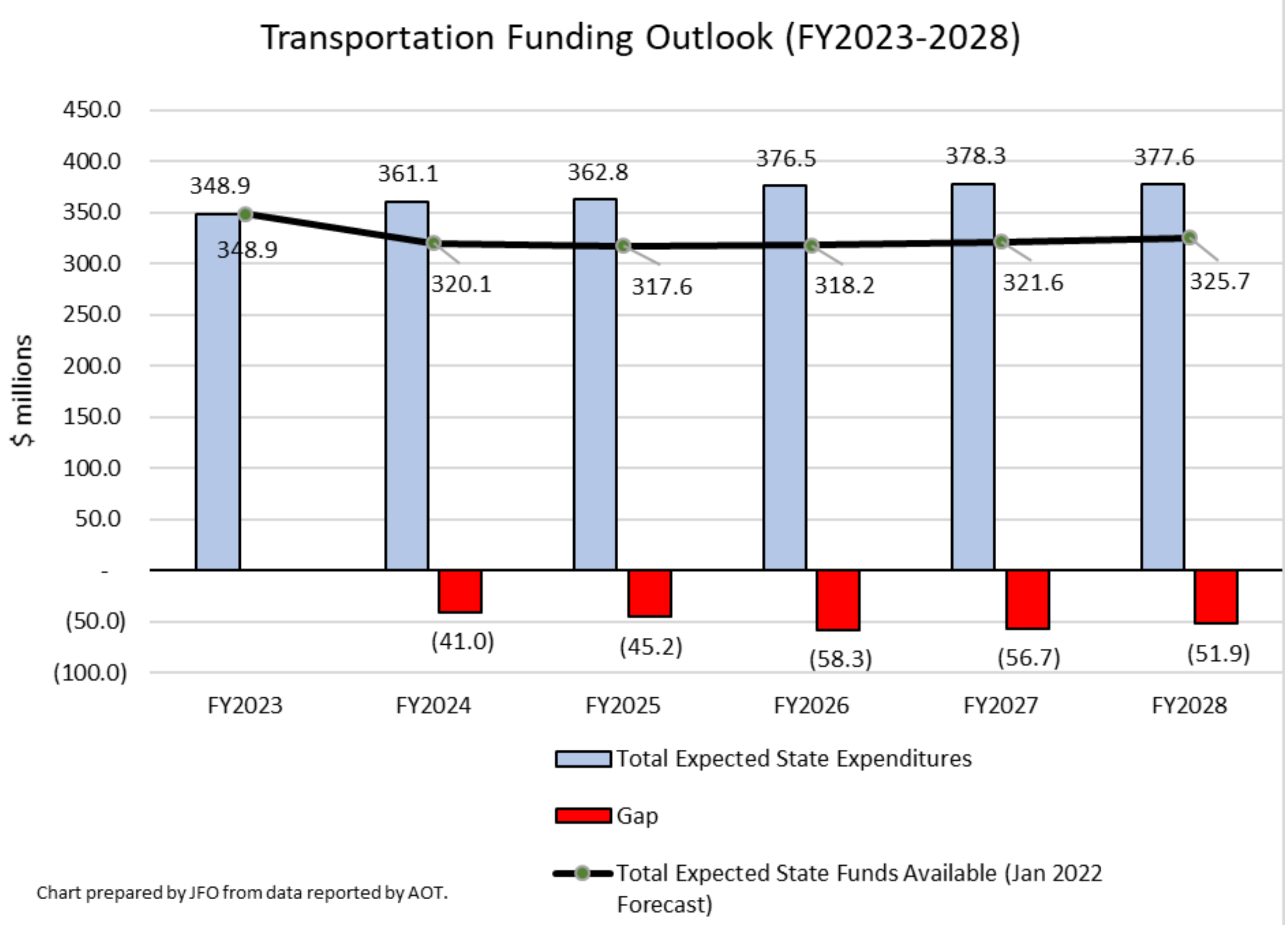


Chart prepared by JFO from data reported by AOT.

Key Questions

How does Vermont maximize the investment opportunities presented by IIJA?

- Must meet higher non-federal match requirements.
- Use federal funds rather than 100% state funds…while fully expending all available federal dollars
- Try to reduce costs/improve efficiencies….but inflation and supply chain challenges will likely increase costs near term.

How does Vermont close the projected transportation gap in the years ahead?

- Revenue projections are flat and costs are likely to increase. Gas consumption likely to continue declining in the future.
- More money into the T-Fund? More expenses paid by other funds?

How does Vermont ensure that climate change priorities and core infrastructure needs are both funded?

- A flaw in the existing auto-centric “user pays” model is that encouraging lower fuel consumption and Vehicle Miles Traveled may support climate priorities but create transportation funding challenges to the state. How to make sure all “users” pay equitably?
- Fortunately, IIJA contains dedicated funding streams for climate reduction strategies and EV charging.
- But, these funding streams add to the fiscal pressures facing the T-Fund due to non-federal match requirements.
- How to pay for other climate investments that are not eligible for FHWA funding, considering the other pressures on the T-Fund?

“Traditional” Funding Strategies

- **Motor fuel taxes** – Every state levies per gallon taxes, sales taxes, or combinations. The more you drive, the more you pay (in theory).

- **Vehicle registration fees and taxes** – Every state collects some form – flat, based on vehicle value (ad valorem), weight-based, etc.

- **Sales taxes** on vehicle purchases, or diversion of general sales tax revenues for transportation purposes.

- **Bonds** – Most states have the authority to issue bonds for transportation but usage varies. Bonds are not “new” revenue and require a payback mechanism.

- **Tolls** – Some states implement tolls, but tolling is not appropriate in all situations. Tolling requires sufficient vehicle traffic to justify administrative expense and ideally fewer toll-free vehicular alternatives. Tolling existing federal-aid infrastructure poses other complications.

- **Transfers** of revenue or expenses from other funds

- Inspection fees, license fees, rental car taxes, vehicle excise taxes, miscellaneous revenue.

- Some states have regional taxes to support regional transportation (real estate transfer tax, sales tax, registration surcharges).

“Non-Traditional” Funding Strategies

- **Debt financing:** Makes more dollars available in the near term but does not add more “revenue.”
    - GARVEE – borrow against future federal-aid funds
    - Private Activity Bonds
    - SIBs
    - Debt financing often requires a source of capitalization and a source of payback revenue. They are not appropriate for all projects.

- **Congestion Pricing:** Requires congestion to price and (ideally) viable alternatives to single-occupancy vehicular travel.

- **Public Private Partnership**: May lead to streamlined project delivery but often requires pledge of future revenue sources.

- **Vehicle Miles Traveled:** Pilot programs explore VMT strategies but require technological advancements and significant federal coordination to scale up. IIJA contains funding for further study. Strong potential for long term gas tax replacement.

- **Potential to monetize carbon emissions?**

- **Don’t confuse “financing” with “funding”**
    - Financing = timing of when/how funds are made available for expenditure (and subsequently paid back)
    - Funding = the amount of available funds to make investments
    - <u>Financing</u> solutions are not necessarily long term structural <u>funding</u> solutions.

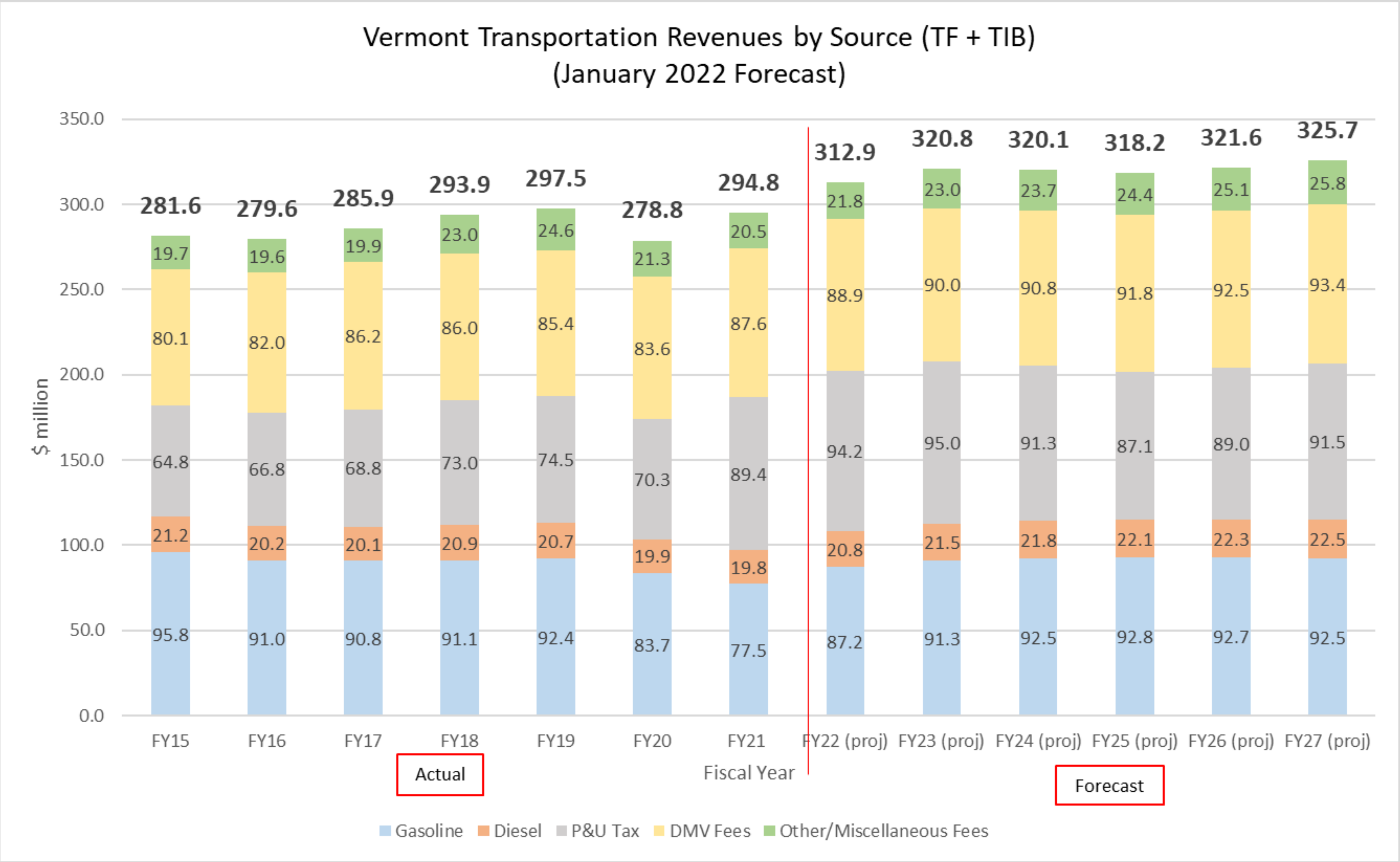
VT Transportation Funding

- Combined state transportation revenues are projected to be relatively flat in future years. Compound Annual Growth Rate FY23-27: +0.38%

- Gasoline revenues expected to rebound from pandemic, but significant growth is not expected in future years.

- P&U Tax grew significantly during pandemic. Some of that growth is expected to level off but mostly remain in future years.

- **Vehicle inventory, inflation/prices, and travel patterns could pose risks to the forecast.**

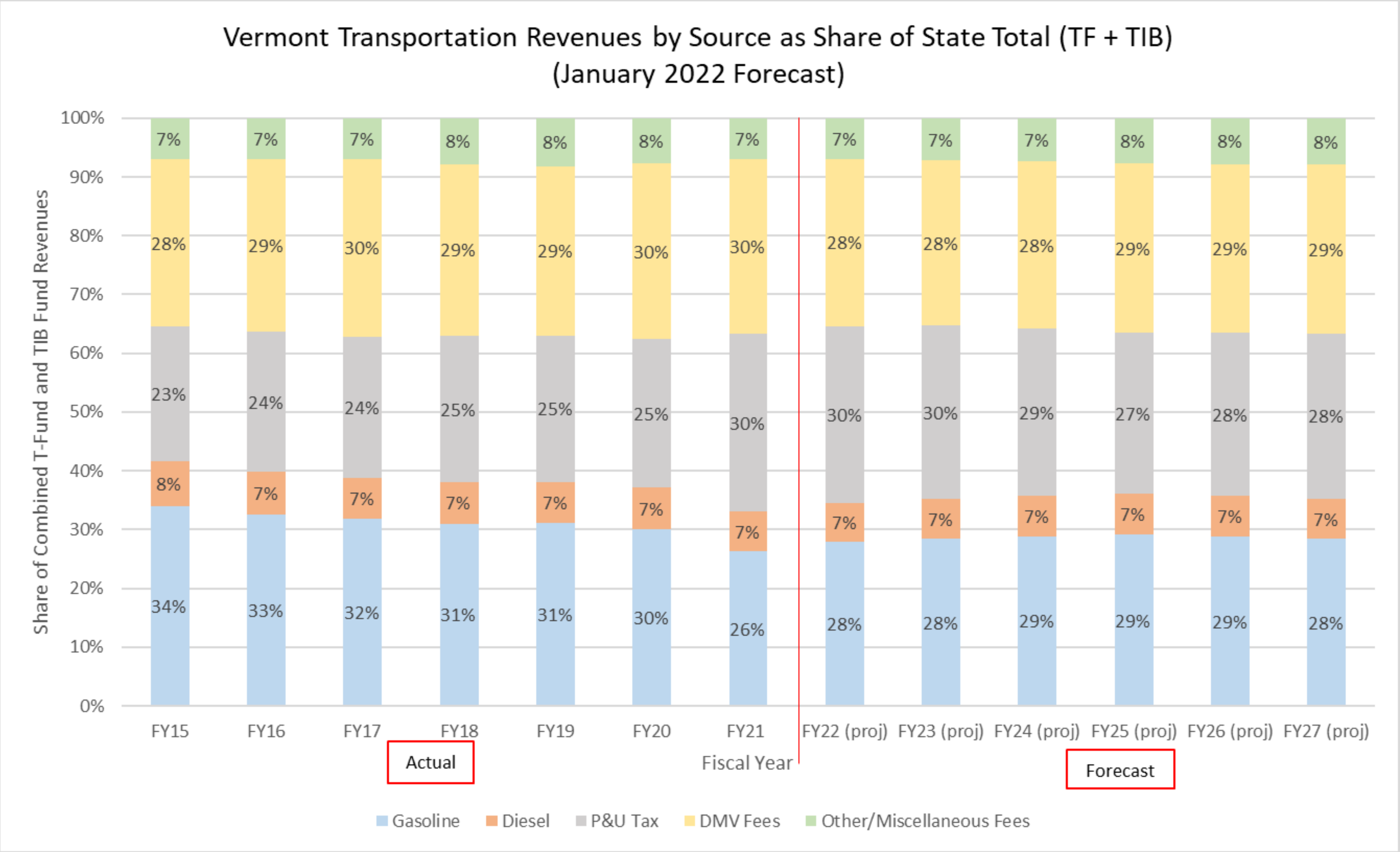


VT Transportation Funding

- **Motor fuels have become a diminishing contributor to the state's transportation revenues over recent years.**
  - More efficient vehicles
  - Less travel (pandemic)

- **Meanwhile, Purchase & Use Tax has become a growing revenue source to the Transportation Fund.**
  - Federal stimulus funds/consumer purchasing power
  - Higher prices for new and used vehicles

- Fees were most recently increased in [Act 159 of 2016](#).



What Other States Have Done

There is increasing recognition that the gas tax will not keep pace with the needs of the future. But there are no easy fixes.

- How can states offset the declines in gas tax revenue from lower consumption in the near-term?
- What will be its long-term replacement?

- **Most states have increased motor fuel taxes.** Although alternatively powered vehicles are gaining market share, gas and diesel will be sold for the foreseeable future – but the downward trend in consumption is likely to continue. Vermont most recently adjusted its gas tax in FY2013.
- **Most states have also adjusted registration and licensing fees.** Vermont sets these fees through periodic fee bills, the most recent was passed in FY2016.
- **Fees on electric and hybrid vehicles** to approximate lost gas tax revenue.
- **Sales tax changes.**
- **Changing how expenses/revenues are dedicated to transportation**
- **Bonds**
- **Public-Private Partnerships**
- **Tolls/Congestion Pricing**
- **Vehicle Miles Traveled pilot programs**
- **Miscellaneous smaller revenue changes**

Key considerations:

Revenue Stream: Revenue generation potential, sustainability, flexibility.
Implementation: Appropriateness for state use, ease of implementation and administration
Economic Efficiency: Incentivizes efficient use of system, consistent with state goals and policy
Equity: User and beneficiary equity, equity across income groups, geographic equity