

Vermont's Transportation Funding Outlook

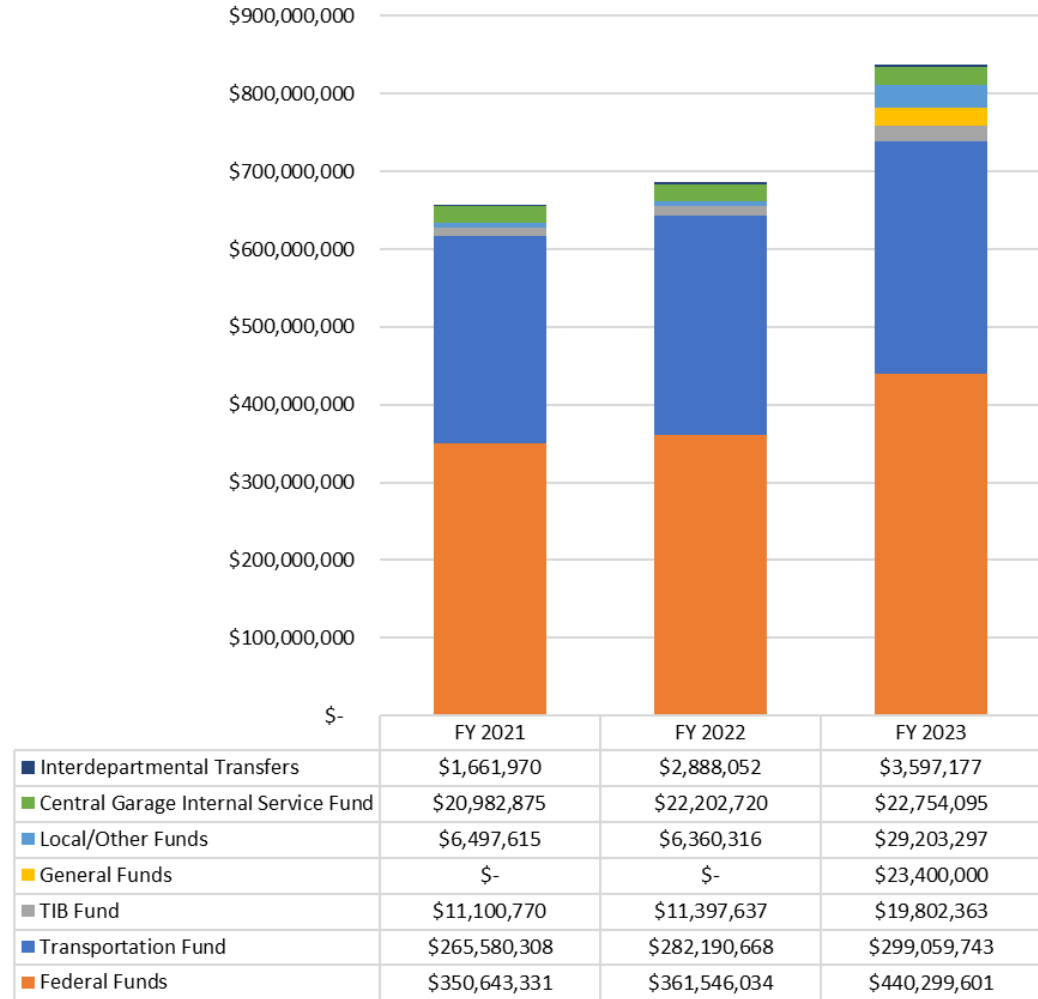
Senate Committee on Finance
Chris Rupe, Senior Fiscal Analyst
April 13, 2023



How does Vermont pay for transportation?

- Like other states, VT funds its transportation program through a mix of state, local, and federal funds.
- Federal formula funds comprise the majority of the State’s transportation program and typically require a match (often 80% federal/20% non-federal, with exceptions).
- Not all AOT activities are federally eligible. For example, DMV and Maintenance are mostly paid for with state funds.
- State funds come primarily from “user fees” paid by vehicle owners/drivers and are deposited into the **Transportation Fund (T-Fund)**.
 - The T-Fund is the primary state funding source for AOT, and also supports the VT State Police and some other programs.
 - A second, sub-fund – the **Transportation Infrastructure Bond Fund (TIB Fund)**, supports longer-lasting projects through a dedicated assessment on gas and diesel. TIB Funds are currently used on a “paygo” basis but can also pay debt service on TIB Bonds.
- Unlike many states, VT funds its transportation program mostly on a pay-as-you-go (“paygo”) basis with minimal borrowing or alternative financing arrangements.

Vermont Agency of Transportation Appropriations
(As Passed)



The “Problem”

- **The vast majority of federal transportation funds come to states through formula – but states are also eligible to apply for numerous competitive grants.**
 - State incurs the cost, then the feds reimburse their share (typically 80%, with exceptions).
 - Federal funds come from Federal Highway Trust Fund (mainly gas and diesel taxes), plus transfers and supplemental appropriations from federal general funds.
- **Federal transportation funds are authorized through multi-year bills (e.g. MAP-21, FAST Act, IIJA/Bipartisan Infrastructure Law).**
 - IIJA = 5 year authorization (from FFY2022-2026).
 - Includes formula and competitive funds (both of which must be matched).
- **IIJA represents a roughly 30% increase in core federal formula funds for VT, and a 50% increase when considering the new NEVI and Bridge Programs included in IIJA.**
- **While the IIJA presents a tremendous opportunity to invest in Vermont’s infrastructure, it also presents a significant challenge:**
 - IIJA funds are not “free” – most require a non-federal match to draw down.
 - More IIJA funds available = more match needed
 - Revenue forecast expects Vermont’s state transportation revenues to be almost “flat” in future years and inadequate to maximize the IIJA funds.

Table 2: Vermont Anticipated Federal Highway Formula Apportionments Under IIJA (\$ millions)

Core Highway Trust Fund Formula Programs	FAST Act (FFY2016-2020)	IIJA (FFY2022-2026)	Difference
National Highway Performance Program	602.6	756.9	154.3
Surface Transportation Block Grant	301.7	368.2	66.5
Highway Safety Improvement Program	60.2	79.7	19.6
Rail-Highway Grade Crossing Program	5.9	6.1	0.3
Congestion Mitigation & Air Quality Program	61.4	67.2	5.7
Metropolitan Planning	10.9	14.4	3.5
National Highway Freight Program	32.3	36.6	4.3
Carbon Reduction Program	0	32.8	32.8
PROTECT Program	0	37.3	37.3
	1,074.9	1,399.2	324.3
General Fund Supplemental Programs			
Bridge Formula Program	0	225.0	225.0
National Electric Vehicle Infrastructure	0	21.2	21.2
GRAND TOTAL	1,074.9	1,645.5	570.5

Note: FAST Act operated under 1-year extension in FFY2021.

Vermont also receives funds from the FAA and FTA for airports and public transit, respectively. VT also receives funds from FMCSA (motor carrier enforcement) and FRA (railroad projects)



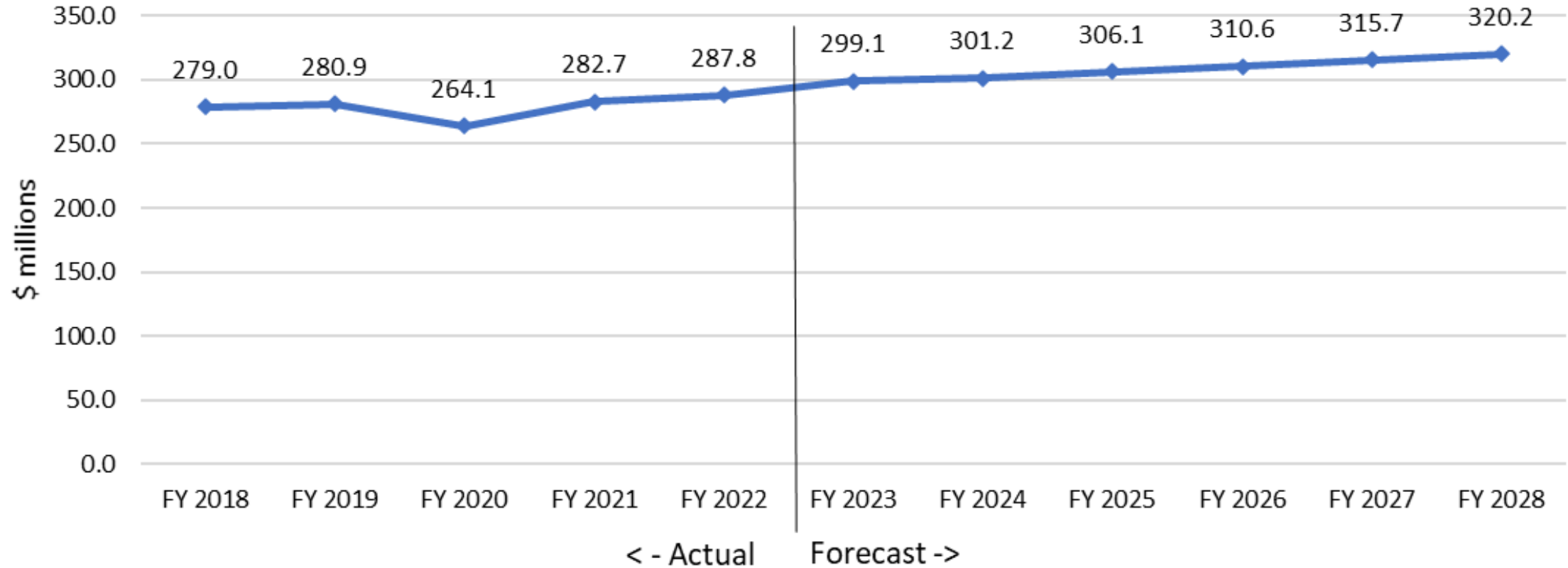
Where does the State money come from?

- VT generates transportation revenue from **motor fuel taxes, taxes on vehicle transactions, license and registration fees, and miscellaneous other sources.**
- AOT uses these funds to match federal funds, operate DMV, grant to municipalities, and maintain the transportation system.
- T-Fund and TIB Fund revenues are projected to be relatively flat in future years. Gasoline expected to decline, P&U to increase.
- January 2023 forecast downgraded the T-Fund by -\$1.0 million and TIB Fund by -\$1.8 million (-\$2.8M impact)
- Combined, the funds are forecasted to grow by 1.13% annually (on average) from FY2023 through FY2028.
- **Will costs grow by 1.13% annually?**

Vermont Transportation Revenue Forecast (January 2023)												
\$ million												
Revenue Source	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	Forecast CAGR
	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	FY2023-2028
Gasoline Tax and Assessment (MFTA)	78.2	77.8	71.0	67.3	71.9							
Jul-22						78.2	76.0	76.1	76.2	76.9		
Jan-23						74.2	73.3	73.1	72.5	71.9	71.0	-0.88%
Forecast Change						-4.0	-2.7	-3.0	-3.7	-5.0		
Diesel	18.9	18.6	17.9	17.9	18.3							
Jul-22						18.8	18.9	19.1	19.4	19.6		
Jan-23						18.7	18.8	19.0	19.3	19.5	19.7	1.05%
Forecast Change						-0.1	-0.1	-0.1	-0.1	-0.1		
Purchase & Use Tax	73.0	74.5	70.3	89.4	91.4							
Jul-22						94.2	96.2	99.0	102.1	105.3		
Jan-23						97.3	98.8	101.9	105.1	108.7	112.2	2.89%
Forecast Change						3.1	2.6	2.9	3.0	3.4		
DMV Fees	86.0	85.4	83.6	87.6	86.0							
Jul-22						87.8	88.6	89.9	90.9	92.1		
Jan-23						87.8	88.6	89.9	90.9	92.1	93.1	1.18%
Miscellaneous Revenue	23.0	24.6	21.3	20.5	20.3							
Jul-22						21.1	21.7	22.2	22.8	23.5		
Jan-23						21.1	21.7	22.2	22.8	23.5	24.2	2.78%
Total Transportation Fund Revenue - July 2022	279.0	280.9	264.1	282.7	287.8	300.1	301.4	306.3	311.4	317.4		
Total Transportation Fund Revenue - January 2023						299.1	301.2	306.1	310.6	315.7	320.2	1.37%
Forecast Change						-1.0	-0.2	-0.2	-0.8	-1.7		
TIB Gasoline Assessment (MFTIA)	12.9	14.6	12.7	10.2	15.1							
Jul-22						21.6	19.7	20.4	20.8	21.4		
Jan-23						19.8	17.3	16.2	16.4	16.9	17.2	-2.78%
Forecast Change						-1.8	-2.4	-4.2	-4.4	-4.5		
TIB Diesel Assessment and Other	2.0	2.1	2.0	1.9	1.9							
Jul-22						2.0	2.0	2.1	2.1	2.1		
Jan-23						2.0	2.0	2.1	2.1	2.1	2.1	0.78%
Total TIB Fund Revenue - July 2022	14.9	16.6	14.7	12.1	17.1	23.6	21.7	22.5	22.9	23.5		
Total TIB Fund Revenue - January 2023						21.8	19.3	18.3	18.5	19.0	19.3	-2.42%
Forecast Change						-1.8	-2.4	-4.2	-4.4	-4.5		
Total State Transportation Revenue - July 2022	293.9	297.5	278.8	294.8	304.9	323.7	323.1	328.8	334.3	340.9		
Jul-22						323.7	323.1	328.8	334.3	340.9		
Jan-23						320.9	320.5	324.4	329.1	334.7	339.5	1.13%
Forecast Change						-2.8	-2.6	-4.4	-5.2	-6.2		



January 2023 Transportation Fund Revenue Forecast



Projected Funding Gap

- In 2022, AOT expected a funding gap would emerge beginning in FY 2024 (~\$31M)
 - Represents the gap between projected T-Fund revenues and the Agency’s estimate for their future costs – including drawing down anticipated federal IJIA funds.
- In January 2023, AOT revised its analysis to reflect an expected funding gap between available state match and need of **\$10.95 million in FY 2024, \$33.3 million in FY 2025, and \$34.8 million in FY 2026 (totaling \$79 million)**.
 - That \$79 million would leverage federal funds to result in approximately \$420.5 million of total investment.
 - Includes known and expected competitive grants, plus anticipated formula funds.
- **Administration’s Proposal:**
 - FY 2024 budget balances through a \$10.9 million one-time General Fund transfer to the T-Fund, plus \$20.7 million of T-Fund reversions of unspent appropriations.
 - FY 2024 Govrec reserved \$68.2 million of General Funds for transfer to the T-Fund in FY 2025 and FY 2026 to meet state matching requirements for federal IJIA funds in those years.
 - House budget did not reserve the \$68.2 million of General Funds proposed by the Governor.
- In addition to the match requirements, AOT expects “base” costs to increase by roughly \$7 million/year.
- **There is currently no plan to close the funding gap beyond FY 2026.**

Federal Match Gap FY2024 – FY2027

	Actual 2021	Appropriation 2022	State Fiscal Year			Estimate 2026	Estimate 2027
			STIP 2023	STIP 2024	STIP 2025		
IJIA: Core Highway Programs	248,648,616	268,875,131	270,674,848	276,723,044	282,904,300	290,082,986	301,684,292
IJIA Act: General Fund Bridge Program	-	-	45,000,000	47,001,980	48,035,819	49,236,714	-
IJIA Act: General Fund Electric Vehicle Program	-	-	4,243,152	4,243,152	4,243,152	4,243,152	-
IJIA: Sub-Total:	248,648,616	268,875,131	319,918,000	327,968,176	335,183,271	343,562,853	301,684,292
Public Transit:	-	-	-	-	16,981,191	17,413,301	-
INFRA Competitive Program Minimum:	-	-	-	-	-	50,000,000	-
Bridge Competitive Program Minimum:	-	-	-	-	50,000,000	-	-
Congressional Earmarks:	-	-	-	960,000	5,000,000	5,000,000	-
Rail Competitive Grants:	-	-	-	-	33,333,333	33,333,333	-
Airport Improvement Program:	-	-	-	-	10,000,000	10,000,000	-
Total Federal Funding:	248,648,616	268,875,131	319,918,000	328,928,176	450,497,795	459,309,487	301,684,292
State Match Required	38,605,939	43,048,159	58,710,557	60,364,083	82,674,237	84,230,314	55,324,271
State Match Available	38,605,939	43,048,159	58,710,557	49,438,103	49,330,970	49,480,336	50,320,336
State Match Surplus/(Deficit)	-	-	-	(10,925,980)	(33,343,268)	(34,749,978)	(5,003,935)
FY24 Governor's Rec. General Fund Transfers	-	-	-	10,925,980	33,343,268	34,749,978	-
Adjusted Surplus/(Deficit)	0	0	0	0	0	(0)	(5,003,935)

January 2023



^Chart from VTrans testimony to House Transportation Committee, January 25, 2023.



Options – Keep More T-Funds Available for Transportation?

- The vast majority of T-Fund dollars are appropriated to the Agency of Transportation.
- Other appropriations and statutory transfers:
 - Appropriation to BGS for Information Center maintenance/operations
 - Pay Act and 27th payroll costs for AOT
 - Debt Service for transportation-related G.O. bonds
 - State Police “JTOC” Appropriation
 - Transfer to Central Garage Fund
 - Transfer to Recreation Trails Fund
 - Transfer to Downtown Fund
 - Net of transfers to/from other funds (e.g. 12% of motorboat registrations, transfers to/from TIB fund).
 - Transfers to/from the T-Fund Stabilization Reserve to maintain its balance at 5% of prior year appropriations.
- **Non-AOT costs could be shifted off the T-Fund and onto other funding sources to make more T-Funds available for transportation.**
 - **JTOC/State Police Appropriation: \$20.25 million**
 - **BGS Info Center Appropriation: \$4.2 million**
 - **Transfer to Downtown Fund: \$0.5 million**
- **BUT – doing so effectively shifts the cost to another fund without inherently adding more dollars into the mix.**

Transportation Fund Operating Statement

	FY2021 Final	FY 2022 Final
Revenues		
Current Law Revenues	282,714,986	287,846,728
Prior Year Refund of Expenditures	27,288	530,210
New Revenue	0	0
Federal Reimbursements	0	18,081,251
Est. Reversions	0	0
Current Year Reversions	1,360,563	0
Direct Applications & Reversions	0	0
Total Revenue	284,102,837	306,458,188
Carry forward balance	24,162,691	28,594,984
Total State Funds	308,265,528	335,053,172
Appropriations		
AOT Appropriations	254,180,308	282,190,668
Waterfall appropriations	0	0
Information Centers	3,911,594	3,911,594
Pay Act / FY11 27th Payroll	3,911,750	4,250,000
Transportation Debt Service	540,918	521,606
JTOC Appropriations	13,350,000	20,250,000
Contingent Approps / Ex Receipts	0	0
Other appropriations	12,300,000	0
Current Year Reversions/Rescissions	(4,949,317)	(3,933,027)
Net Budget Adjustments	(3,376,240)	0
Total Appropriations	279,869,013	307,190,841
Pre-Transfer balance	28,396,515	27,862,331
Transfers		
Transfer (to)/from General Fund		
Transfer (to)/from Downtown Fund	(523,966)	(4,023,966)
Transfer (to)/from Central Garage Fund	(1,005,358)	(1,428,431)
Transfer (to)/from Other Reserves	0	0
Transfer (to)/from Recreational Trail Fund	(370,000)	(370,000)
Transfer (to)/from Other funds	(51,007)	(4,708,271)
Transfer (to)/from Stabilization Reserve	2,148,800	(1,988,675)
Transfer (to)/from Vision Reserve	0	0
Transfer (to)/from Bond Reserve	0	0
Closing Recon Entries	0	0
Transfer (to)/from Bridge Fund	0	0
Net Transfers	198,469	(12,519,343)
Ending Balance	28,594,984	15,342,989
Bond Reserve	0	0
Stabilization Reserve Balance	11,936,748	13,925,423
5% Maximum Balance	11,936,748	13,925,423
Reserve Balance vs Maximum	0	0



Options – Keep More Transportation Revenue in the T-Fund?

- The vast majority of transportation tax/fee revenue currently remains in the T-Fund to support transportation – but there are some exceptions.
- Existing non-transportation uses of transportation revenue:
 - P&U Tax:
 - Currently 2/3 of total revenue to Transportation Fund, 1/3 of total revenue to Education Fund
 - Expected to generate \$49.4 million to the Education Fund (FY 2024)
 - **Unless the “hole” is filled in the Ed Fund by some other funding source, reducing the P&U revenue to the Ed Fund would increase costs to property tax payers.**
 - Gasoline Tax:
 - 11.345 cents remain in the T-Fund
 - 0.38 cents to the DUI Enforcement Special Fund
 - 0.375 cents to Fish & Wildlife/Forests, Parks, and Recreation
 - Approximately \$2.2 million annually is diverted to the other funds.
 - In the absence of other revenue sources, reducing the allocation to the other funds would create revenue shortfalls in those funds.
 - Motorboat Registration Fund:
 - 12% to Transportation Fund (approximately \$140,000 annually)
 - 10% to Department of Public Safety, 34% to Fish and Wildlife, 17% to DEC for aquatic nuisance control, 7% to AAFM for mosquito control, 20% to DEC for aquatic nuisance control grants.
 - In the absence of other revenue sources, reducing the allocation to other funds would create revenue shortfalls in those funds.
 - Motorboat Registration Fund is very limited as a possible funding source - approximately \$1.2 - \$1.3 million of annual revenue.
- **Modifying the current allocations of these revenue sources would have implications to the other special funds that currently receive the money!**



Options – Generate More State Transportation Revenue?

- Gasoline tax revenue has declined over time and is expected to keep declining in the future. \$0.01 = \$2.9 million
- Diesel tax revenue is relatively stable over time but is a relatively minor revenue source. \$0.01 = \$670,000
- P&U tax revenue has been growing over time, but higher interest rates and the possibility of economic contractions in the future may hinder collections. Either the tax rate could be adjusted, or the \$2,075 maximum charged to vehicles >10,099 lbs could be increased (typically done in fee bills).
- **Electric vehicles:**
 - Language was proposed by AOT for inclusion the FY 2024 T-Bill, was included in H.479 as passed by House.
 - Administration-proposed Mileage Based User Fee for all-electric vehicles is under planning and expected to take effect in FY 2025. Flat fee for Plug-in Hybrids is proposed to take effect in FY 2025 at 1.75x the registration fee for conventionally powered vehicles.
 - These fees are proposed by the Administration to be “revenue neutral” and roughly replace the foregone gas tax revenue.
 - At current vehicle adoption rates, less than \$1M would be generated annually. This will increase in future years as EV adoption increases, but gas tax revenue will be declining at the same time.
 - Per kWh fees at public charging stations could capture revenue from out-of-state EV drivers, but implementation is complicated and unlikely to generate much \$ in the current environment relative to the cost of implementation.
- **Adjust existing transportation fees, which have not been adjusted since 2016 (for FY 2017).**
 - High revenue generation potential
 - Ease of administration – systems are already in place
 - Inflation has been high since 2017, which has significantly eroded the purchasing power of the existing fees.



Inflation

- Most transportation fees were last adjusted in 2016 to take effect for FY 2017 (July 1, 2016).
- Inflation has been particularly high in recent years, which is significantly eroding purchasing power.
- Inflation can be tracked by various indices:
 - **CPI and PCE track the cost of goods and services that consumers typically purchase.**
 - CPI - tracks the average change in prices for a defined basket of consumer goods and services.
 - PCE – tracks a wider range of consumer expenses, reflects changes in consumer behavior.
 - **PPI reflects changes in prices received for an industry’s output sold to another industry (wholesale prices).**
 - **State and Local Government deflator – reflects changes in the prices of goods and services related to government spending and investment.**
 - **FHWA National Highway Construction Cost Index – reflects price changes associated with highway construction costs nationally (not regionally).**

	<u>Consumer Price Index(CPI)- All Urban Consumers</u>	<u>Personal Consumption Expenditures (PCE)– Chain-Type Price Index</u>	<u>Producer Price Index (PPI) – All Commodities</u>	<u>Government Consumption Expenditures – State and Local Deflator</u>	<u>FHWA National Highway Construction Cost Index</u>
<i>July 2016</i>	240.101	104.218	187.700	105.983	1.68
<i>December 2022</i>	298.990	124.809	257.876	138.958	2.55
Change	24.53%	19.76%	37.39%	31.11%	51.79%



Inflation

- How would the most common transportation fees change under the various inflationary indexes?
- *Assumes all fees are rounded up to the nearest whole dollar.*

	Current Fee	Consumer Price Index(CPI)- All Urban Consumers	Personal Consumption Expenditures (PCE)– Chain-Type Price Index	Producer Price Index (PPI) – All Commodities	Government Consumption Expenditures – State and Local Deflator	FHWA National Highway Construction Cost Index
		24.53%	19.76%	37.39%	31.11%	51.79%
Operator’s License (2 Yr)	\$32.00	\$40.00	\$39.00	\$44.00	\$42.00	\$49.00
Operator’s License (4 Yr)	\$51.00	\$64.00	\$62.00	\$71.00	\$67.00	\$78.00
Pleasure Car Registration (1 Yr)	\$74.00	\$93.00	\$89.00	\$102.00	\$98.00	\$113.00
Pleasure Car Registration (2 Yr)	\$136.00	\$170.00	\$163.00	\$187.00	\$179.00	\$207.00
Inspection Sticker	\$6.00	\$8.00	\$8.00	\$9.00	\$8.00	\$10.00



Inflation

If the transportation fees that primarily accrue to the T-Fund that had not been adjusted since 2016 were adjusted by 19.8%.....(and rounded)

- **Approximately \$22.2 million additional revenue (all funds) annually.**
 - \$21.5 million additional revenue to the Transportation Fund
 - Approx. \$600,000 additional revenue to the Ed Fund
- **Fee adjustments in H.479 are proposed to take effect January 1, 2024, resulting in a partial year of revenue in FY 2024 (approx. \$8 million).**
 - Delay in implementation intended to avoid conflicts with the ongoing implementation of the DMV Core Modernization project.
- **Fees are not perfectly linear, so expect a range of error from year to year (+/- 10% is a reasonable variance to expect).**

Assumes all fees rounded up to the nearest whole dollar (except for weight-based registrations, which are not rounded). Based on FY 2022 fee unit data.

Excludes ATV, motorboat, and snowmobile fees which primary accrue to funds other than the Transportation Fund.

Estimates may be revised subject to additional data from DMV.

Excludes any adjustments to fees that were most recently revised prior to 2016.



Considerations for Legislators

- Fees are a way of capturing revenue for a service or function provided to, or the regulation of, specified classes of individuals or entities (in this case, primarily road users and individuals who process transactions with DMV).
- Fees paid are based on the type and number of transactions, not on income.
 - Amount paid bears *some* relationship to income to the extent that higher earners are more likely to register/transact more vehicles.
 - Multiple vehicles per household
 - Motorboats, snowmobiles, ATVs
 - Remember that higher earners are likely to pay more in P&U tax if they buy more expensive vehicles.
 - Some fees are paid primarily by businesses, not individuals.
- The average person pays fees infrequently (annually or every few years).
- Fees paid by the average person are not directly based on road usage, but they are a means of capturing revenue broadly across most users.
- Fees are set by the Legislature. Some fees bear a proportional relationship to impact/usage of the transportation system (e.g. truck registration fees, overweight permits).
- Fees do not just cover DMV's administrative costs. Fees also support the maintenance, operation, and regulation of the State's transportation network that those who pay the fees directly utilize and benefit from.
- Fees can be set with a greater degree of flexibility than excise taxes.
 - Discounts for 2 year vs. 4 year licenses
 - Reduced or waived fees for people with disabilities, veterans, etc.
 - Higher fees for heavier vehicles
- **Limited value in comparing many fees state by state. Fees alone do not reflect the total cost of owning/operating a vehicle.**



Questions?

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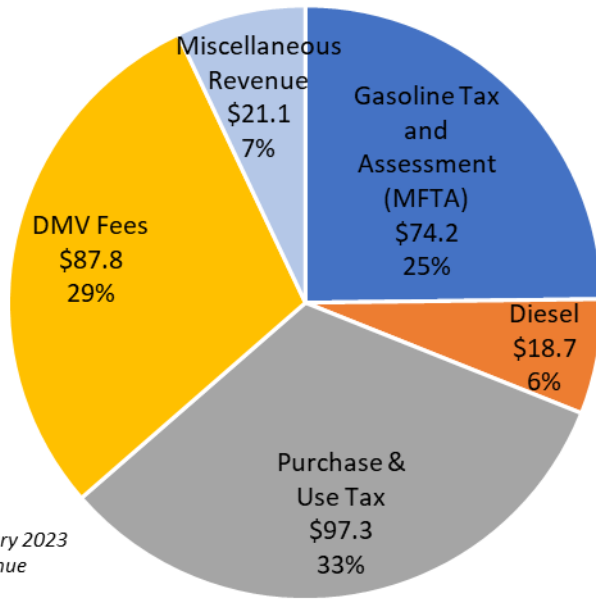
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Transportation Fund Revenues (FY23 Forecast)

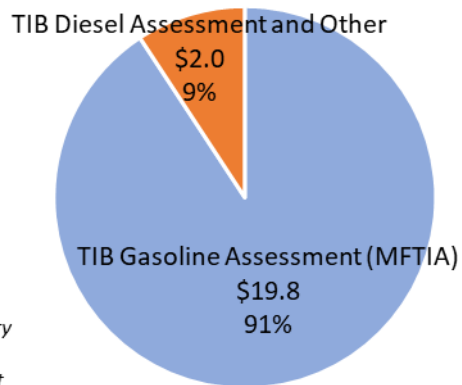
\$299.1 million total



Data from January 2023 Consensus Revenue Forecast

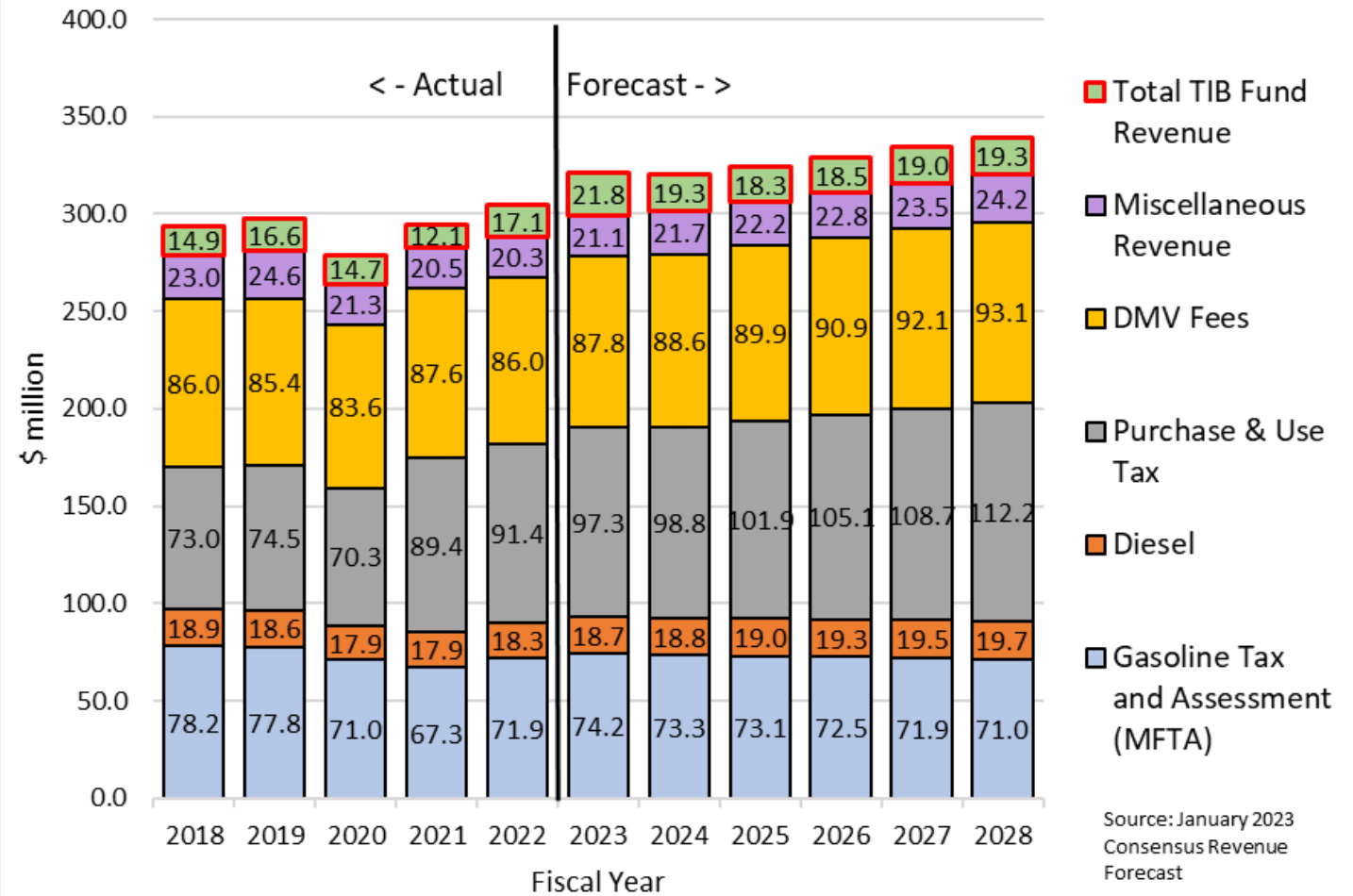
TIB Fund Revenues (FY23 Forecast)

\$21.8 million total



Data from January 2023 Consensus Revenue Forecast

Vermont Transportation and TIB Revenue Forecast (January 2023)



Source: January 2023 Consensus Revenue Forecast

