

Vermont Legislative Joint Fiscal Office

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ISSUE BRIEF

Transportation Issues for 2011 Session

— **Increased spending:** Transportation spending has increased substantially over the past few years due to:

- (1) the new Transportation Infrastructure Bond (TIB) fund revenue and related bonding as well as revenue from DMV fee increases;
- (2) ARRA federal stimulus funds; and
- (3) favorable annual federal formula funding under temporary continuing resolutions.

— **Transportation Fund Revenue:** After declining from \$225 million in February 2008 to \$203 million July 2009, 12 month rolling Transportation Fund revenues have recovered to \$213 million as of September 2010 but that is only \$3 million above the level on June 2006 prior to increases in DMV fees in July 2006 and again in July 2009.

The bulk of TF revenue is fee-for-gallon or transaction based (DMV fees), neither of which over the past 10 years has kept pace with either cost inflation or vehicle-miles-traveled. The only price sensitive component of TF revenue is the Motor Vehicle Purchase & Use tax which peaked at \$88 million in April 2004 on a rolling 12 month basis and then declined \$23 million over the next 5 years before bottoming out at \$65 million in July 2009. Since then P&U revenue has recovered to \$70 million as of September 2010.

In short, the TFund's per gallon taxes and DMV fees are stable and reliable but basically flat to very slow growing with P&U tax revenue being the wild card.

— **TIB Fund revenue:** The TIB fund was launched in FY10 and raised \$14.7 million (with the diesel assessment being phased in). With all the assessments now effective, FY11 revenue is projected at \$18 million. The 2% TIB assessment on the retail price of gasoline is obviously sensitive to gasoline prices. TIB revenue is dedicated to the debt service of TIB bonds and to the extent not needed to cover debt service, to long lived transportation infrastructure projects. To date, a total of \$13.3 million of TIB bonds have been authorized and issued. The total amount of TIB bonds which could be issued depends on market conditions but is estimated to be in the range of \$70-\$80 million.

— **Federal Reauthorization:** The most important transportation issue for Vermont is how Congress deals with the long overdue, multi-year transportation reauthorization bill. The last federal bill was guided through Congress by Senator Jeffords and Vermont did very well (Vermont receives around \$1.30 in federal funds for every \$1 in federal fuel taxes paid by Vermonters). There are 3 reasons to be less confident about how Vermont will be treated in the next federal reauthorization: (1) based on past experience, states losing a key conference committee member have experienced lower funding levels even when overall funding has increased, (2) big "payor" states (those receiving less than \$1 in funding for every \$1 sent to

Washington) have ramped up the pressure to narrow the differential between payor and payee states and (3) the federal transportation trust fund is not at all healthy.

— **Conclusion**: The recent increase in transportation spending has certainly helped but as with the rest of the country, Vermont still faces long term transportation infrastructure problems. The problem with state revenues, apart from the volatile P&U tax, is that the sources are slow growing and tend to lag both inflation and growth in vehicle miles travelled. On the federal front, any increase in funding requires new tax revenue; and even if funding is increased, it is possible that Vermont's share may not change or even decline.