

Running on Empty

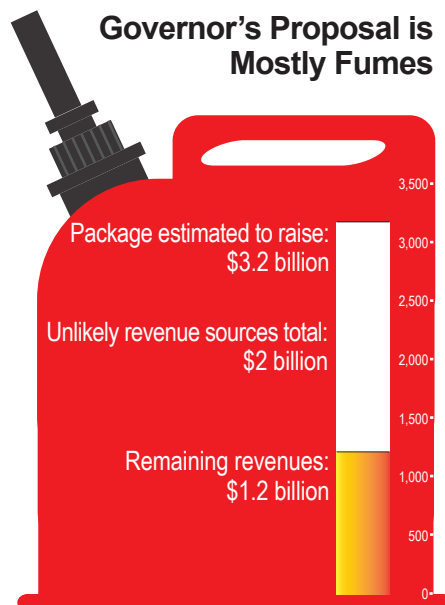
Transportation Proposal Can't Raise the Resources to Keep Virginia Moving Forward

By Laura Goren, Sara Okos, Sookyung Oh and Michael J. Cassidy

The governor's proposal to address Virginia's transportation crisis has two major flaws under its hood. It derives more than two-thirds of its revenue from sources that are tentative, at best. And, even assuming the plan is approved as the governor envisions, it falls far short of what Virginia needs to repair and maintain existing roads, bridges and other infrastructure that businesses rely on to get their goods to market and that commuters need to get to work, school and other places.

Over 60 percent of the \$3.2 billion in new resources fueling the governor's proposal would come from two sources: the diversion of existing sales tax revenue and the diversion of new revenue generated from proposed federal legislation, known as the Marketplace Equity Act, that would allow Virginia to tax online sales. Both face extremely uncertain political futures. If they fail to pan out, the plan stalls, leaving the governor's proposed solution out of gas.

Sales Tax Diversion: For the third consecutive legislative session, Governor McDonnell is attempting to divert a larger share of the state's sales and use tax from the general fund to



Source: TCI analysis of Governor's press release (January 8, 2013)

transportation. Similar proposals have been defeated twice already, raising serious doubts about the likelihood of approval in 2013. Without this piece of the package, the additional resources devoted to transportation would be roughly \$811.5 million less than the governor is requesting by 2018.

Marketplace Equity Act: The governor's proposal also relies on passage of this controversial piece of federal legislation. If it is passed by Congress, Virginia could require out-



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of-state online vendors to collect and remit sales taxes on purchases made by Virginians, which it is barred from doing now. But the proposal has faced vocal opposition from business groups and has yet to garner sufficient support for passage. In addition, given the strong opposition to any tax increase by many members of Congress, it is unlikely that the Marketplace Equity Act would be enacted without some other offsetting tax cut provision which would significantly reduce the tax collections Virginia would see. Without this piece of the governor's package, overall funding for transportation under the plan would decline by almost \$200 million in 2014 alone, and over \$1.1 billion by 2018.

The removal of both of these unlikely revenue sources from the governor's proposal drops its estimated revenue by almost \$2 billion over five years.

Unmet Transportation Needs: Even if you leave in the revenue from the sales tax diversion and the Marketplace Equity Act, the governor's proposal falls short of addressing Virginia's transportation woes. The state needs an additional \$1.76 billion over the next two years alone to repair and maintain our existing transportation system at the level required in the state's performance targets, according to the Virginia Department of Transportation (VDOT). The governor's proposal raises just \$950 million in revenue over the next two years. And without the sales tax diversion and Marketplace Equity Act components, it falls short by \$1.39 billion and covers just 21 percent of the funding VDOT has estimated it needs over the next two-years.

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Unlikely Revenues

Components of Governor's Transportation Proposal (FY 2014-2018, millions of dollars)	5-Year Total	Share of total
Marketplace Equity Act (online sales tax collection)*	\$1,156.6	36.3%
Increase existing sales tax commitment from .5% to .75% over 5 years*	\$811.5	25.5%
Replace gas tax with .8% nongeneral sales tax increase (excludes food, but 17.5 cents/gallon tax on diesel retained)	\$607.0	19.0%
\$15 increase in registration fees	\$547.0	17.2%
\$100 alternative fuel vehicle fee	\$66.6	2.0%
TOTAL	\$3,188.7	100%

* Considered an unlikely revenue source.

Source: TCI analysis of Governor's press release (January 8, 2013)