

Written Testimony

Of

The Honorable Sean T. Connaughton, Secretary of Transportation

Commonwealth of Virginia

Before

The Committee on Environment and Public Works

United States Senate

On

The Need to Invest in America's Infrastructure and Preserve

Federal Transportation Funding

September 25, 2013

Secretary Connaughton Bio

Sean T. Connaughton is Secretary of Transportation for the Commonwealth of Virginia serving in the cabinet of Governor Bob McDonnell. As Secretary, he oversees seven state agencies with more than 9,700 employees and combined annual budgets of \$5 billion.

Connaughton was named U.S. Maritime Administrator by President George W. Bush in 2006. As Maritime Administrator, he was head of the Maritime Administration, U.S. Department of Transportation, and responsible for the daily management of that agency and its promotional programs for the marine transportation industry. Connaughton was appointed by the President and confirmed by the Senate.

Prior to joining the McDonnell administration, he served as Corporate Vice President, Government Affairs for the American Bureau of Shipping, one of the world's leading ship and marine classification societies.

Connaughton is a graduate of the U.S. Merchant Marine Academy and served in the U.S. Coast Guard as both a commissioned officer and as a civil servant in the Office of Marine Safety, Security, and Environmental Protection. After gaining a Master's degree from Georgetown University, he joined the American Petroleum Institute, representing companies involved in the energy and marine transportation industries, during which time he also earned a law degree from George Mason University.

As a lawyer in private practice he specialized in maritime and international law. He has appeared before the United States Supreme Court and is a member of the Virginia Bar Association and the District of Columbia Bar Association. He served in the U.S. Naval Reserve from 1986 until retiring in 2006. He is a graduate (with honors) of the U.S. Naval War College.

Connaughton was elected Chairman At-large of the Prince William County (Va) Board of Supervisors in 1999 and overwhelmingly reelected in 2003. Connaughton served on numerous regional boards and commissions, including the Metropolitan Washington Council of Governments and the Northern Virginia Transportation Authority. In 2004, he was recognized by the National Association of Counties with its Distinguished Service Award for his efforts on workforce development.

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**The Need to Invest in America's Infrastructure
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Madam Chairman and distinguished members of the Committee thank you for the opportunity to appear today to discuss the need to invest in America's infrastructure and, in particular, what states such as the Commonwealth of Virginia are doing to address this difficult challenge.

Introduction

The Virginia General Assembly, lead by Governor Bob McDonnell, earlier this year enacted the first comprehensive transportation funding reform legislation in Virginia in nearly 27 years. Not since 1986 – when the General Assembly increased the motor fuels tax to 17.5 cents per gallon – had the legislature taken such bold steps to help fund our transportation infrastructure. The 2013 legislation – entitled *Virginia's Road to the Future* – not only provides approximately \$1.5 billion in additional funding per year for Virginia's roads, bridges, rails, transit systems, airports and seaports, but it fundamentally alters how Virginia pays for its infrastructure by tying future revenues to funding streams that grow with economic activity.

Background

The Virginia General Assembly last raised the Commonwealth's motor fuels tax to a rate of 17.5 cents per gallon during a 1986 Special Session. The legislature also enacted a one-half percent increase in the sales tax and imposed and increased several other taxes and fees to help fund transportation infrastructure. In increasing the motor fuels tax, the legislature opted for a flat, fixed-rate excise tax and chose not to annually adjust the tax to account for inflation – a

practice commonly referred to as indexing. Since 1986, Virginia's transportation funding streams have remained largely unchanged, despite numerous attempts to provide additional revenues.

Due in large part, but not solely, to the lack of indexing, the value of our gas tax was declining. Today, a tax of 17.5 cents per gallon equates to approximately 8 cents per gallon once adjusted for inflation to 1986 dollars. In other words, the purchasing power of Virginia's motor fuels tax has declined by approximately 54 percent. At the same time the costs of constructing and maintaining our infrastructure have grown dramatically. Fuel prices have continued to rise, and the price for materials such as asphalt binder – an oil based derivative utilized for paving – have grown by nearly 350 percent.

Further exacerbating this decline are the current and future increases in Combined Average Fuel Economy (CAFE) Standards and the growing popularity of alternative fuel vehicles. As vehicles continue to become more fuel efficient, the data in Virginia demonstrates that, despite annual increases in the number of registered vehicles and the number of vehicle miles traveled on our roadways, we have not seen a corresponding increase in motor fuels tax revenues.

Until this past session of the General Assembly, the motor fuels tax served as the Commonwealth's single largest source of funding, with 85 percent of the revenues dedicated to our Highway Maintenance and Operating Fund (HMOF). Virginia is a "maintenance first" state; that is, by state law we must utilize available revenues to maintain existing infrastructure before building new infrastructure. As a consequence, due to the aforementioned decline in the gas tax, since 2003 the Commonwealth Transportation Board (CTB) has transferred over \$3.3 billion in revenues from the Transportation Trust Fund (TTF) – which supports capital projects for roads, transit, airports and seaports – to the HMOF to supplement our maintenance budget and maintain our existing infrastructure. If left unaddressed, the amount transferred each year was projected to reach over \$500 million.

These transfers – referred to as "crossover" – were indicative of growing maintenance needs and inadequate revenues. Crossover reduced funding available for capacity expansion, major bridge and highway reconstruction, and safety improvements. In essence, we were

robbing Peter to pay Paul, and, if crossover transfers were left unchecked, we would have ultimately reached the point where the amount of construction funding spent on maintenance would have left Virginia with little or no money to meet federal matching requirements.

Against this backdrop, addressing the growing need to invest in Virginia's infrastructure has been among the top priorities – if not the top priority – of the McDonnell Administration. Since taking office, we conducted four separate audits of the Virginia Department of Transportation (VDOT) to improve efficiencies and focus, the most successful of which identified over \$1.4 billion in underutilized funds that have since been invested in projects. We utilized every available option to leverage our existing revenues, including issuance of approximately \$3 billion in state and federal bonds, expanding our state-local Revenue Sharing Program, creating a new state-funded infrastructure bank, and procuring over \$6 billion worth of public private partnership projects. We moved aggressively to invest in technology and active traffic management programs and dynamic tolling express lanes on I-95 and I-495. Further, we sought and received legislative approval for nearly 100 pieces of legislation aimed at improving agency operations, reducing costs, and streamlining programs. Additionally, we implemented new programs such as the Sponsorship, Advertising, and Vending Enhancement (SAVE) program and developed a naming rights program to generate additional revenues through our existing assets. We also proposed tolling Interstate I-95 under the Interstate System Reconstruction and Rehabilitation Pilot Program. Finally, VDOT is one of the only state agencies to undergo any significant personnel restructuring, having laid off over 1,000 personnel to right-size the agency to its current mission.

While these initiatives resulted in tremendous progress towards addressing the current transportation challenges facing Virginia, they did not, however, address the long-term challenges facing our revenues. In other words, we still needed to find a path forward that provided the dedicated, sustainable revenues necessary to ensure Virginia's continued economic prosperity and quality of life.

Virginia's Road to the Future

Early in his Administration, the Governor pledged that before leaving office he would submit comprehensive legislation to address Virginia's transportation funding crisis. Heading

into the fourth and final legislative session of his term in office, the Governor held true to his commitment.

The Governor's proposed solution had three fundamental elements. First, the Governor called for a reduction, if not a complete elimination, of Virginia's reliance on the motor fuels tax as the principal state source of transportation funding. Second, he called for tying future transportation funding to the state's far more sustainable sales tax. Third, and finally, believing transportation to be a true core function of government, he called for dedicating an increased portion of general fund revenues to help pay for our transportation infrastructure.

These fundamental principles were based upon the goal of providing a long-term solution to the challenges associated with the motor fuels tax while at the same time minimizing the impact on Virginia taxpayers. Unlike the motor fuels tax, the sales tax inherently accounts for inflation and reflects underlying economic activity. In fact, historical data show that sales tax revenue growth – even in years where it did not meet projections – grew at a steady rate annually while the motor fuels tax revenues did not. For example, in Fiscal Year 2013, sales tax revenue grew at slightly over three percent while motor fuels tax revenues actually saw a one percent decline.

The Governor's introduced legislation passed the Virginia House of Delegates largely unchanged. The Senate of Virginia, however, undertook a nearly wholesale rewrite of the legislation and passed a significant increase in the motor fuels tax along with several other tax and fee increases. Therefore, the legislation proceeded to a Committee of Conference.

Following negotiations between the House, the Senate and the Governor, the Committee of Conference put forward a proposed compromise, which was approved by over 60 percent of the legislature. Forty-four Republicans and 41 Democrats in both bodies of the General Assembly voted for final passage of the legislation. While the conference report differed from the legislation originally introduced, the compromise met the fundamental principles outlined by the Governor at the beginning of the legislative session.

Specifically, the legislation:

- Eliminated the Commonwealth's 17.5 cents per gallon excise tax on motor fuels and replaced it with a 3.5 percent sales tax on gasoline and a 6 percent sales tax on diesel fuel;
- Increased the statewide sales tax by 0.3 percent and dedicated the revenues to transportation;
- Imposed a \$64 alternative fuel vehicle fee;
- Increased the titling tax, or sales tax, on motor vehicle sales;
- Dedicated an additional 0.175 percent of existing general fund sales tax revenue to transportation;
- Dedicated any future revenues derived from the Marketplace Fairness Act to transportation; and
- Imposed additional taxes and fees in regions meeting certain population, registered vehicle, and transit ridership criteria.

The legislation will generate over \$6 billion in additional funding for transportation over the next six years. Revenues are specifically dedicated to roads, transit, intercity passenger rail, aviation, and the seaports. The legislation fundamentally alters how Virginia pays for its transportation infrastructure.

Benefits of Virginia's Road to the Future

The long-term benefits for the Commonwealth of Virginia generated by this year's transportation funding reform are enormous. First and foremost, the additional revenues will eliminate maintenance crossover transfers. Further, the additional \$6 billion will grow Virginia's overall modal Six-Year Financial Plan to \$33.2 billion, with \$11.9 billion dedicated to highway maintenance, \$9.2 billion dedicated to construction, and \$3.1 billion dedicated to mass transit. The sales tax now becomes the single largest source of Virginia transportation funding, while the gas tax falls to number four.

Additionally, the regional taxes and fees, which based on current criteria will apply in Northern Virginia and Hampton Roads, will enable some of Virginia's most congested regions to address their top priorities. The Texas Transportation Institute ranked the Northern Virginia/Washington, D.C. metropolitan area as the most congested region in the nation, and

Hampton Roads is in the top 25. *Virginia's Road to the Future* will provide approximately \$300 million per year and \$150 million per year, respectively, in addition to other funding to address this congestion.

The legislation also benefits Virginia's economy. According to a recent economic impact analysis conducted by Chmura Economics of Richmond, *Virginia's Road to the Future* will generate up to \$8.1 billion in economic impact and annually sustain 10,133 jobs. Further, with the establishment of a dedicated funding stream for passenger rail, Virginia is now the first state in the nation to provide funding for the provisions of Section 209 of the Passenger Rail Investment and Improvement Act.

Perhaps most immediately important to Virginia's citizens, the reduction in the gas tax – approximately 6.4 cents per gallon – is leading to lower prices at the pump. According to AAA, the average price for a gallon of regular unleaded fuel in Virginia was \$3.38 per gallon, 21 cents below the national average of \$3.59 per gallon as of August 30, 2013. That is 6 cents – nearly equal to the reduction in the gas tax – below our national average as of August 30, 2012. In other words, the growing difference between the state average and the national average demonstrates the positive impact reducing the gas tax has had on gas prices in Virginia. Virginia now has the lowest gas tax rate in the continental United States and some of the lowest gas prices in the country.

Why Virginia Was Successful

Virginia was successful in passing funding legislation this year for a number of reasons. First, we had pursued and implemented numerous reforms, improved efficiency, reduced costs, and maximized our ability to leverage existing resources. However, even with these initiatives, it was clear that additional revenues were still needed to maintain and expand our infrastructure.

Second, due to the various reforms implemented during the first three years of the Governor's term in office, we were able to build public trust in Virginia's transportation leadership and program. Public trust bred confidence that additional revenues would be managed and invested wisely. That confidence led to political will and public support to pass legislation.

Third, the legislation, as introduced as well as enacted, addressed both current and long term problems across all modes of transportation and in all regions of the Commonwealth. We introduced concepts and proposals that were out of the box and caused a reevaluation of previously held positions. The legislation embodied the spirit of compromise and good public policy. There is not a single person involved in this legislation who agreed with every element of it, but they supported it because it addressed the Commonwealth's statewide and regional transportation problems today and into the future.

Finally, it took leadership. That leadership was demonstrated by the Governor and those voting for the legislation in the House of Delegates and the Senate. Leadership was also exhibited by the public, businesses and stakeholders who stepped forward to support the legislation getting passed. Many put their political and professional futures on the line in order to address this critical issue.

Conclusion

This year's historic transportation funding compromise is a tremendous, long-term step towards addressing the growing infrastructure challenges facing Virginia. However, unless Congress acts on the challenges facing the Highway Trust Fund, the impact of Virginia's historic achievement as well as actions in other states will be diminished. Our nation's transportation infrastructure has long been a partnership between the states and the federal government. Moving forward, it is imperative that Congress maintain this partnership and take steps to ensure the ongoing viability of the Highway Trust Fund, while maintaining the flexibility brought about by MAP-21.

We very much recognize that there is no silver bullet to addressing investment in our nation's infrastructure. The solutions that are working in Virginia may not work in other states, and the options available to the states may not be available to Congress. One common thread, however, is the need to craft solutions that address the challenges, can pass the legislature, and can be signed by the executive. The future economic competitiveness of our nation depends on it.

Madame Chairman and members of the committee, thank you again for the opportunity to be here today. I look forward to our continued partnership as we work towards providing the infrastructure network our great nation demands and deserves.