Virginia's Highway System & Contractors: Deteriorating Roads & An Industry's Fight for Survival

Old Dominion Highway Contractors Association (January 2010)

- Inadequate maintenance funding has resulted in increased pavement deficiencies on Virginia's highway system. In 2009, about 20% of interstate highways, 25% of primary roads and more than 30% of secondary roads in Virginia have deficient pavement. If trends continue, by 2011 about 40% of Virginia's secondary roads and 79% of the entire system will be substandard.

- Steep declines in quarry and asphalt production and employment illustrate the magnitude of the lost highway contracting work in recent years (see charts on page 2). According to DMME data for the last three years, aggregate production in Northern and Central Virginia has fallen about 20 million tons or 40% and man-hours worked have fallen by more than 1.6 million hours, greater than 50%. Production, jobs and man-hours worked in 2009 were at or below 1986 levels. VAA data reveals state asphalt production has declined by about 7 million tons or 50% over the last four years to below 1986 levels. About 2000 direct asphalt industry jobs have been lost over the same period, a nearly 50% reduction, with 2009 employment falling to lowest level in 32 years.

- Statewide, the construction industry lost more than 27,000 jobs between September 2008 and September 2009 according to Dr. Stephen Fuller of George Mason University. These job losses are second only to the nearly 29,000 professional and business service jobs lost during the same period, many of which are attributable to the decline of the construction industry.

- More than $4.6 billion has been cut from Virginia's six-year transportation program since Spring 2008. Using the industry accepted standard of 42,000 jobs created for each billion dollars spent, this loss of funds cost Virginia's economy more than 200,000 jobs.

- Increased reliance on bonds to finance road construction in Virginia has drained a significant portion of VDOT funds to debt service. VDOT estimates that by 2013 its annual debt service budget will be $263.8 million and will exceed its construction budget by nearly $40 million.

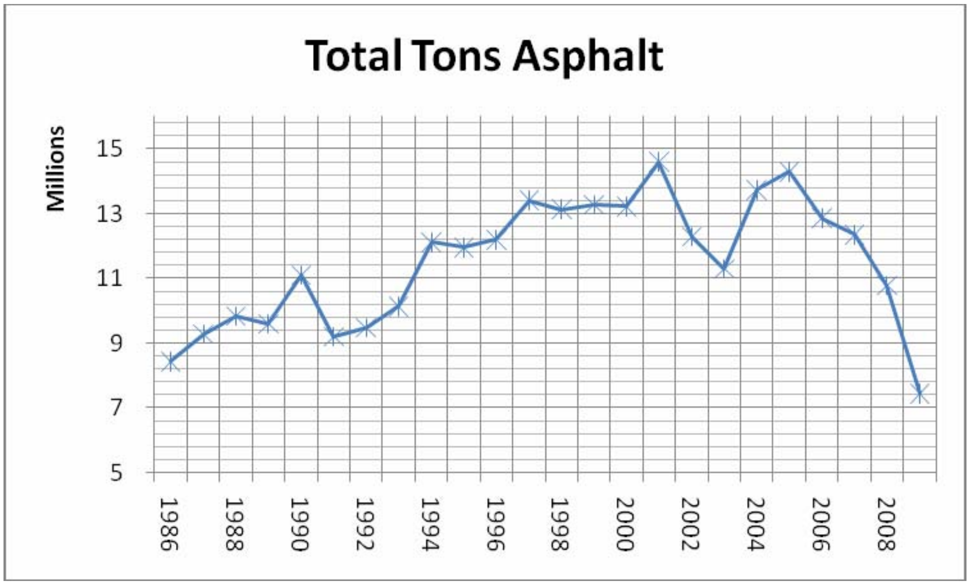
- Growing maintenance needs coupled with declining revenues have forced an ever-larger portion of construction funds to be transferred to maintenance. This "maintenance deficit" has grown from $3.6 million in FY 2003 to $712 million in FY 2010.

- Recent experience demonstrates that the traditional, competitive low-bid process offers Virginia significant purchasing power in the current economic climate. For example 22 federally-funded asphalt overlay projects procured by VDOT in the first 9 months of 2009 had an estimated value of $77.16 million but were awarded for bids totaling only $43.49 million, a savings of 44%.

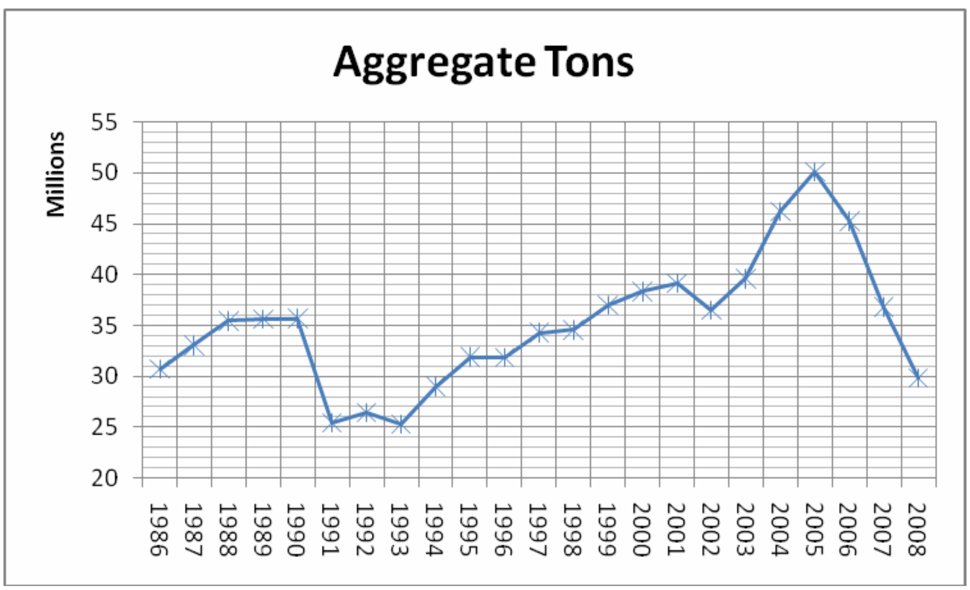
- The $695 million of federal stimulus funds for Virginia transportation projects provided a welcome one-time cash infusion but represent only 16% of Virginia's total stimulus funding.

- Immediate highway funding needs are enormous. It will take at least $1billion just to stabilize deficient pavements and $3.7 billion to replace structurally deficient bridges. At least $1 billion a year in new funding is required to meet these needs and restore recent cuts to Virginia's road construction program.

- A funding package based on four principles is needed to meet these needs. First, those using the system should pay proportionally. Second, funding mechanisms must operate efficiently and with low administrative costs. Third, funding sources should apply to out-of-state drivers who use our highway system. Fourth, funding must be statewide in scope to meet needs that exist across the Commonwealth. One funding plan which meets these standards is attached (see page 3).



Asphalt Production for Virginia Statewide



Aggregate Production for Northern and Central Virginia

The Old Dominion Highway Contractors Associations recommends adoption of a statewide transportation funding plan to generate at least $1 billion per year in new, sustainable revenues as follows:

- **Increase the motor fuels tax by 10 cents to 27.5 cents per gallon and dedicate these new revenues to the Highway Maintenance and Operating Fund (HMOF)**

  This will generate about $500 million per year for highway maintenance in Virginia at an average cost to Virginia drivers of about $60 per year or $5 per month.[1] Due to inflation, the purchasing power of the gas tax has been reduced by 95% from 17.5 cents per gallon in 1986 to 8 cents per gallon in 2008.

- **Increase the combined state and local sales and use tax by one-half percentage point to 5.5% and dedicate these new revenues to the Transportation Trust Fund (TTF)**

  This will generate about $500 million per year for transportation construction activities in Virginia. We recommend at least 20% of the new highway construction funds be dedicated to secondary and urban road construction funds because, due to budget cuts and match requirements for federal formula funds, **no** state formula dollars are currently available for secondary or urban construction projects. This proposal would increase the average sales taxes paid by Virginia residents by about $56 per year or $4.67 per month.[2]

- **Index the gas tax to increase once every two years at the start of each new biennium by an amount equal to the consumer price index increase for the previous two year period but not to exceed a 3.5% increase**

  This will allow for a minimal increase in the gas tax during periods of inflation to account for increases in highway maintenance and construction costs once every two years. VDOT reports that since 2002 the "maintenance deficit" (which requires the transfer of construction funds to maintenance) has risen from $3.6 million in FY 2002 to $260 million in FY 2008 and is projected to grow to $503 million by FY 2013. The proposed 3.5% cap would limit any gas tax increase to about 1 cent per gallon once every two years which would produce an additional $50 million annually.

- **When economic conditions improve and general fund surpluses are realized, appropriate to the TTF 20% of any end of fiscal year general fund surplus**

  This proposal would generate about $20 million per year.[3] As a core service of Virginia state government it is reasonable for transportation to share with education, health, law enforcement and the environment any surplus revenues available at the end of each fiscal year. Since surplus revenues are only realized after all budgeted expenses for each fiscal year have been paid, it is appropriate to use a portion of such revenues to fund one-time investments in transportation capital improvements.

We also support additional transportation funding for the Northern Virginia and Hampton Roads regions if it is part of a statewide package similar to that endorsed above. This additional funding should be produced from a combination of new regional fees and taxes and the appropriation of a modest percentage of the growth in general fund revenues generated from these two regions. These regional funds would supplement the increased revenues Northern Virginia and Hampton Roads would realize from our proposed statewide funding package.

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[1] The U.S. Environmental Protection Agency reports that cars and light duty trucks for model year 2007 had an average fuel economy rating of about 20 miles per gallon and are driven an average of 12,000 miles per year. This equates to an average consumption of 600 gallons of fuel per year or $60 per year at 10 cents per gallon.

[2] The Tax Foundation reports that in 2006 with a 5% sales tax state and local governments in Virginia collected $564 per capita in general sales taxes. Increasing the tax rate to 5.5% would increase that number by 1/10th or $56.40 per year.

[3] Based on the most recent 15-year average surplus of $102 million per year with short-fall years (including FY 2007-2009) counted as zero. Money committee staff reported in February 2007 that 50% of 12-year average equaled $64 million.