

2012 State Legislative Agenda



Hampton Roads Partnership:

Providing leadership to focus on the strategic issues that will improve Hampton Roads' competitive position in the global economy.

Hampton Roads, America's First Region

HAMPTON ROADS PRIORITY ITEMS:

- **Capitalizing the Intercity Passenger Rail Operating and Capital Fund**
- **Creating the Virginia Federal Facilities and Defense Industry Caucus**

HAMPTON ROADS 2012 LEGISLATIVE AGENDA **Capitalizing the Intercity Passenger Rail Operating and Capital Fund**

Issue Summary

Section 209 of the federal Passenger Rail Improvement and Investment Act of 2008 (PRIIA) requires that states assume 100% of the operating cost and 25% of the capital equipment costs for all existing Amtrak service of 750 miles or less, and all new high-speed rail service, by October 2013.

The Commonwealth of Virginia currently hosts six such round trip trains, and is actively working to add additional service. Without a dedicated and sustainable revenue source to support these new costs, existing passenger rail service is potentially in jeopardy, and funding new infrastructure and operating costs to support new service would be difficult.

In 2011, Governor McDonnell proposed and the General Assembly passed legislation creating an Intercity Passenger Rail Operating and Capital Fund. However, the Fund has no current revenue source.

Proposal

Increase the current rental car tax from 10% to either 14% or 15% and use those revenues to capitalize the Fund.

Background

There are six current round trip trains that will require a new source of state funding as a result of the provisions in PRIIA Section 209:

- Two Amtrak trains from Newport News to the Northeast Corridor (NEC)
- Two Amtrak trains from Richmond to the NEC, with the aspiration to extend to Norfolk
- One state-funded train from Lynchburg to the NEC
- One state-funded train from Richmond to the NEC, to be extended to Norfolk by 2013

The Department of Rail and Public Transportation (DRPT) estimates that the total operating needs for these trains between FY 2011 and FY 2012 is \$276 million. Furthermore, funding for capacity improvements to bring up the second and third extensions to Norfolk has yet to be allocated.

Additionally, the state is studying expansion of service from Lynchburg to Roanoke and Bristol, and Lynchburg to Richmond. There is currently no viable funding mechanism to construct the capacity necessary to operate this service, nor to operate it.

Freight and intercity passenger rail are the only transportation modes that do not receive dedicated funding from the Commonwealth Transportation Trust Fund. There are numerous ongoing and one-time funding streams that have been used for rail development in recent years, but the primary source has been the Rail Enhancement Fund (REF). Enacted by Governor Warner and the General Assembly in 2005, the REF is a dedicated funding source for rail projects that is generated from a 3% set-aside of the 10% tax on rental cars. The revenue produced by the REF is approximately \$20 to \$25 million annually.

By statute, the REF is a capital infrastructure program that requires a 30% private or local match. As a result, it is often difficult to fund passenger rail projects from the REF, as cash-constrained local governments are unable to contribute substantial amounts to expensive capacity expansion projects. And the REF may not be used to support operating expenses.

Amending the statute to allow more flexibility in the REF, either by eliminating the 30% match or allowing it to be accessed for operating costs, would be short-sighted. The significant advances made by the Commonwealth in rail network development have been a direct result of DRPT maximizing scarce public resources by leveraging funds other than REF. As a result, state funds have been used to advance critical freight projects such as Norfolk Southern's Heartland and Crescent Corridors, the CSX National Gateway and numerous rail improvements at the Port of Virginia, including the Commonwealth Railway and Norfolk International Terminal expansion. Hampton Roads' reliance on an efficient freight network to alleviate highway congestion requires the continued availability of dedicated funding for freight-related projects.

Discussion/Data

The concept of using rental car taxes to support rail transportation in Virginia is well-tested, sound and easily collectible, and lends itself well to address shortfalls in passenger rail operating costs and, potentially, capital improvements intended solely to expand passenger rail.

According to 2010 data, ten other states dedicate all or a portion of rental tax revenue for transportation purposes. Thirty-three states currently levy taxes on rental cars; fifteen of those states, including Virginia, tax rental cars at either the 10% , 11% or 12% rate. Only Nevada (12.85%), Minnesota (13.075%), Texas (15%) and Arkansas (16%) charge higher rates.

There is no data available to determine what percentage of car renters are in-state vs. out-of-state, so I would be hesitant to push this as a tax on non-Virginians. A random sampling of rental rates charged at Virginia airports in November 2010 showed 31% of the total cost of renting a car was taxes, surcharges and fees.

Decision

According to DRPT projects, a 4% increase to the rental car tax would generate an additional \$27-\$33 million in annual revenues for the Fund. If revenue collection (at the \$30 million level) was initiated in 2012, operating costs associated with all current service plus the three Norfolk trains would be covered through the 2021 horizon, with a \$29 million surplus for potential capacity expansion. The projected annual operating costs will begin exceeding projected annual revenues in 2017.

HAMPTON ROADS 2012 LEGISLATIVE AGENDA **Creating the Virginia Federal Facilities and Defense Industry Caucus**

The mission of the Virginia Federal Facilities and Defense Industry Caucus is to increase Virginia General Assembly members' and state agencies' awareness and understanding of the issues facing Virginia's legislative districts that host federal facilities or have concentrations of private businesses focusing on the Federal sector.

The main objectives of the Caucus are:

- To build a venue for General Assembly members to discuss issues that impact the legislative districts hosting federal installations and ancillary defense industries;
- To improve awareness regarding these issues across the Commonwealth and strategize appropriate measures for addressing potential issues that impact the Commonwealth's federal and defense industry;
- To build coalitions of support to increase efforts for the United States defense industry supporting national security; and
- To promote the creation of sufficient and necessary funding of activities to protect and expand Virginia's national defense capabilities.