WEST VIRGINIA HIGHWAYS
Revenues and Expenditures

Sources of Revenue

Traditionally, highway user revenues have been classified by type or Astructure.@ First Structure Taxes are fixed fees that are independent of the amount of highway use, and may be considered as Aentry@ fees for the highway system. Prime examples of these taxes are vehicle registration fees, vehicle titling fees, vehicle privilege tax, and driver licensing fees. Second Structure Taxes are fuel taxes, generally measure distance travelled. Taxes on gasoline, diesel fuel, gasohol and special fuels are the greatest source of highway revenue, both nationally and at the State level. Third Structure Taxes are vehicle usage taxes, which are use-related fees intended to reflect vehicle weight, as well as distance travelled, thus also reflecting the costs associated by highway use. Weight-distance taxes, tire taxes, and tolls are examples of these taxes.

The Federal Government and the State of West Virginia are the two primary sources of highway funds for the WVDOH. However, the amount of highway funding provided by each of these sources is dependent on the revenues generated from a variety of factors, such as the use of motor fuel and collection of motor vehicle fees. Highway revenues also may be affected by State and national economic conditions and world events, population and vehicular travel. A significant increase in motor fuel and motor vehicle tax and fee revenues may reflect positive economic growth trends. Any future change in motor fuel availability, consumption rates or price, without changes to the tax rates or structure, will have a significant impact on future tax revenue collections.

Federal-aid Revenue

The Federal-aid highway program is a federally assisted, State-administered program which distributes Federal funds to the States for the construction and improvement of urban and rural highway systems. This program is administered by the Federal Highway Administration (FHWA) as a grant-in-aid program, and is financed from the proceeds of motor fuel (the current Federal gasoline tax is $0.183 per gallon; the Federal diesel fuel tax is $0.243 per gallon) and other highway-related excise taxes deposited in the Federal Highway Trust Fund (HTF), which was established by the **Highway Revenue Act of 1956** and is not a part of the General Revenue Fund of the Federal Government. In April 1983, the **Highway Revenue Act of 1982** created the Mass Transit Account within the Highway Trust Fund. This Act provided that the equivalent of one cent per gallon of the motor-fuel taxes would be deposited in the Mass Transit Account for transit system capital expenditures.

Most of the excise taxes credited to the HTF are not collected by the Federal Government directly from the consumer. Instead, these taxes are paid to the Internal Revenue Service (IRS) by the producer or importer of the taxable product, with the exceptions of the tax on trucks and trailers, which is paid by the retailer, and the Federal use tax, which is paid by the heavy vehicle owner. As a result, figures depicting taxes paid into the HTF by West Virginia (and all other states) are estimates of what is paid by users in the State and do not mean that these taxes actually were collected in the State. These estimates are made on the basis of motor vehicle registrations and State motor-fuel tax collection data.

In accordance with the Internal Revenue Code, user taxes are deposited in the General Funds of the US Treasury and the amounts equivalent to these taxes are then transferred on paper to the HTF. Transfers are made at least monthly on the basis of estimates by the Secretary of the Treasury and later adjusted on the basis of actual tax receipts. Amounts in the HTF in excess of current expenditure requirements are invested in public debt securities and interest from these securities is credited to the HTF.

An important characteristic of the HTF is that it was established to operate on a Apay-as-you-go@ basis, which means that the it must contain enough money to make reimbursements. To ensure that the highway account remains solvent, unfunded authorizations (unpaid commitments in excess of amounts available in the HTF) at the end of the federal fiscal year (September 30) in which the apportionment is to be made must be less than the revenues anticipated to be earned in the following 24-month period. This control mechanism is known as the Byrd Amendment (which was modified in 1982), so named for Senator Harry Flood Byrd of Virginia, who was the chairman of the Committee on Finance during the development of the Federal-Aid Highway Act of 1956. The transit account of the HTF is subject to a similar control mechanism, the Rostenkowski Amendment (for Representative Dan Rostenkowski of Illinois), which is identical to the Byrd Amendment with the exception that outstanding commitments are compared to estimated income for the following 12 months, instead of 24.

Most federal-aid funds are apportioned to the states in accordance with certain formulas and procedures that give weight to population, area, mileage, relative costs (needs), and the percent share of prior (fiscal year 1987 to fiscal year 1991) apportioned funds (apportionment formulas for certain highway programs are depicted in Figure III-1, following page III-3). When funds are distributed by apportionment, every state is assured of receiving some portion of the amount distributed (known as a Aminimum apportionment@), with the exception of the Interstate Construction and Interstate Substitution programs, which are based on the cost of completion. Once an apportionment is made to a state, it cannot be retracted (other than by lapsing), except by a Congressional action. Federal-aid funds are apportioned by year, and a Agrace period@ in expending the funds is permitted to allow the State time for orderly planning, budgeting, and execution of its highway program. At the time of an apportionment, which is generally made on the first day of the federal fiscal year (October 1), the FHWA issues certificates denoting the exact amount of each apportionment. These certificates officially notify the states of the opportunity to request the Federal Government to obligate funds in the various categories, thereby promising to pay the states at a later date. It is important to note that a new line of credit or an addition to unused lines of credit previously provided are what is apportioned to a state--not cash. Although apportionments are made to the states, Congress frequently mandates provisions that require a state to further distribute the funds within the state, by "earmarking" certain sums which may be used only for specific purposes.

Some funding categories do not contain a legislatively mandated apportionment formula. Usually, these categories are referred to as discretionary programs. When no *formulas in law* exist, funds may be distributed to the states by using "allocations." In most cases, allocated funds are divided among the states using *administratively determined formulas* and/or criteria provided in law. If a state receiving an allocation does not use it within a specified period of time, it can be withdrawn and reallocated to other states.

An "obligation" is a commitment of the Federal Government to reimburse a state for the federal share of a project's eligible cost. This commitment usually is made when the plans, specifications, and estimate (PS&E) is approved. For most programs, apportioned or allocated funds are matched by a state on an 80 percent Federal share to a 20 percent state share basis. A project need not be completed before a state begins to receive reimbursement. In fact, depending upon the type of project, the time period elapsing from obligation to reimbursement may vary from a few days to several years; however, the final reimbursement payment is made after completion of the project. In West Virginia, any State-maintained highway on which federal-aid monies are expended remains under the administrative control of the WVDOH.

The Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA) provided authorizations from the Highway Trust Fund for more than 35 highway-related programs. The largest portion of these funds was authorized for the following major federal-aid highway programs:

- ***Interstate Construction (IC)***–for nationwide completion of the Interstate System; funds are apportioned on the basis of the relative federal share of the cost to complete the system; West Virginia's Interstate System was completed in 1988
- ***Interstate Maintenance (IM)***–finances projects to rehabilitate, restore, and resurface the Interstate System; reconstruction is eligible if capacity is not added, although high-occupancy-vehicle (HOV) and auxiliary lanes may be added; funds are apportioned on the basis of Interstate System lane-miles and the vehicle miles traveled (VMT) on the Interstate System
- ***National Highway System (NHS)***–for projects on all major roads in the nation; currently consists of all Interstate System and principal arterial routes
- ***Highway Bridge Replacement and Rehabilitation (HBRR)***–provides funding for any deficient bridge on a public road; may also fund bridge painting, seismic retrofitting, and calcium magnesium applications
- ***Surface Transportation Program (STP)***–may be used for any roads (including NHS) that are not functionally classified as local or rural minor collectors; after these funds are distributed to the

states, each state must set aside ten percent for safety construction activities, such as hazard elimination and rail-highway crossings, and ten percent for transportation enhancement activities, which encompass a broad range of environmental, historic and scenic projects
e***Congestion Mitigation and Air Quality Improvement (CMAQ)***–funds transportation projects in non-attainment (based on the Clean Air Act) areas for ozone and carbon monoxide that will contribute to meeting the attainment of national ambient air quality standards

In addition to funds from the Highway Trust Fund, West Virginia also receives funds from the National General Revenue Fund for use on the Appalachian Development (APD) Highway System. This system of multi-lane, high speed, partial-access controlled highways (known as AAppalachian Corridors@) is intended to provide service to areas which have the potential for economic development, but where commerce and communication have been inhibited by a lack of adequate access. These funds are apportioned among the thirteen states within the Appalachian Region (as defined by Congress) on the basis of the federal share of the cost to complete each state=s portion of the system to the cost to complete the entire system. These funds are administered by the Appalachian Regional Commission (ARC) and are matched by a state using an 80 percent federal to 20 percent State ratio. Figures III-2 and III-3, following page III-3, depict the federal appropriation levels for ARC funding relating to West Virginia since the inception of the federal Appalachian Program. Historically, West Virginia has received a large portion of the national total, due primarily to the fact that all 55 West Virginia counties are included within the Appalachian Region--the only state to be defined by Congress as entirely AAppalachian.@

State Revenue

West Virginia is one of only four states (Delaware, North Carolina and Virginia are the others) with no county or township ownership of highways. Additionally, West Virginia is one of only five states (Alaska, Georgia, New York and Rhode Island are the others) that has no statute that provides for the sharing of State-collected highway-user tax revenue with local governments for road and street purposes, in the form of grants-in-aid and shared revenue. Consequently, as prescribed by the tax structure of West Virginia, the proceeds collected from certain State taxes and fees (e.g., State motor fuel taxes, the privilege tax) have been designated for the exclusive use of the WVDOH; the distribution of State motor vehicle taxes is depicted in Figure III-4, following page III-6. These "dedicated" revenues are deposited into the State Road Fund, the WVDOH operating fund, for expenditure on *State-maintained* highways. The State Road Fund is considered a special revenue fund of the State and consists of funds that are not a part of the State's General Fund. However, the State Legislature may make funds available to the WVDOH from the State's General Fund and/or authorize the sale and issuance of road bonds outstanding from previous voter-approved bond referendums. The potential revenue sources of the WVDOH are further described as follows (some taxes do not apply to certain vehicle types and organizations; these exemptions are not described in this report):

- ***Automobile Privilege Tax***–tax imposed upon the privilege of effecting the certification of title of a motor vehicle in the amount equal to five percent of the value of the vehicle at the time of such certification; the value of the vehicle is determined as either 1) the actual purchase price or consideration of the purchaser, if the vehicle is new, or 2) the present market value at the time of transfer or purchase, if the vehicle is used
- first enacted in 1935 (at two percent of vehicle value); increased to five percent in 1971
- administered by the Commissioner of the Division of Motor Vehicles
- ***Motor Vehicle Certificate of Title and Registration Fees***–certificate of title indicates ownership of a vehicle; registration fees are based on a vehicle's classification, defined in West Virginia as follows:

Class A–passenger vehicles, and trucks with a gross weight of no more than 8,000 pounds, other than those operated for compensation

Class B–trucks with a gross vehicle weight (gvw) of more than 8,000 pounds, truck tractors, or road tractors, other than those operated for compensation

Class C–all trailers and semitrailers, except those operated for compensation and except house trailers and trailers or semitrailers designed to be drawn by Class A motor vehicles and having a gvw of less than 2,000 pounds

Class E–trucks, truck tractors, or road tractors operated for transportation of property for compensation, but exempt from the operating jurisdiction of the Public Service Commission (PSC) of West Virginia (must have statement of exemption from the PSC)

Class G–motorcycles

Class H (Buses)–motor vehicles operated regularly for the transportation of persons for compensation under a certificate of convenience and necessity or contract carrier permit issued by the PSC

Class J (Taxicabs)–motor vehicles operated for transportation of persons for compensation by common carriers, not traveling a regular route, or between fixed termini

Class K–trucks, truck tractors, or road tractors operated for transportation of property for compensation under a certificate of convenience and necessity or a contract carrier permit issued by the PSC

Class L–all trailers and semitrailers used for transportation of property for compensation

Class R–camping and house trailers

Class S–Special Mobile Equipment as defined by WV State Code

Class T (Boat Trailers)–trailers or semitrailers of a type designed to be drawn by Class A vehicles and having a gvw of less than 2,000 pounds

Class V (Antique)–any motor vehicle more than 25 years old, owned *solely* as a collectors item and for participation in club activities, but in no event to be used for general transportation

Class X (Farm Truck)–farm trucks with a minimum gvw of more than 8,000 pounds and a maximum gvw of 64,000 pounds, used *exclusively* in the conduct of farming business, or engaged in the production of agricultural products

Amateur Radio Station Operator–private passenger cars *only*

efirst registration enacted in 1917

eadministered by the Commissioner of the Division of Motor Vehicles

e***Driver License Fees and Permits***–operator=s and commercial driver=s license and instruction (learner=s) permit fees are imposed as a means to verify that a person has successfully passed all appropriate parts of the driving examination and is qualified to operate a motor vehicle upon a public highway

efirst licenses issued in 1917

eadministered by the Commissioner of the Division of Motor Vehicles

e***International Fuel Tax Agreement (IFTA)***–fuel tax reciprocity agreement among the United States and Provinces of Canada; a single fuel tax license and credential is issued by a motor carrier=s base state, which allows travel into all IFTA member states without further registration; after balancing liabilities and credits for all other states on tax return, carrier pays only a net amount to the base state; IFTA tax applies only to qualified vehicles: 1) those with two axles and gross vehicle weight (gvw) or registered gvw of 26,001 pounds or more, 2) those with three or more axles, regardless of weight, or 3) those used in combination exceeding 26,000 pounds gvw

eWest Virginia became a member of IFTA in December 1994

efirst registration year for West Virginia-based motor carriers was 1996

eadministered by the State Tax Commissioner

e***Motor Carrier Road Tax***–tax imposed upon every intrastate motor carrier with a vehicle with seats for more than nine passengers, and road tractor, tractor truck or truck having more than two axles; tax is based upon each gallon of gasoline and special fuel, including diesel and other motor fuels, used in the carrier=s operations in the State; the carrier is credited with the amount of gasoline tax paid on gasoline purchased in the State and is entitled to a refund of any excess of such credit over the amount of road tax due:

efirst enacted in 1959

eadministered by the Commissioner of the Division of Motor Vehicles e***Gasoline and Special Fuel Excise Taxes***–taxes imposed upon every distributor, producer, retail dealer, importer or user, based on the quantities of all gasoline or special fuel sold or used in the State; tax must be paid as the material is withdrawn from storage tanks and sold (the distribution and provisions regarding the disposition of State motor fuel taxes are depicted in Figures III-5 and III-6, following page III-6):

efirst enacted in 1923
eadministered by the State Tax Commissioner
ecurrent tax is $0.205 per gallon
e***Wholesale Motor Fuel Tax***–Consumers Sales and Service Tax on the sale of gasoline and special fuel, generally at the wholesale level by distributors and importers; the average wholesale price of gasoline and special fuel is determined annually on the basis of sales data supplied by distributors and from other information; the average wholesale price is the single statewide average wholesale price per gallon, rounded to the third decimal, exclusive of State and federal excise taxes, but not less than $0.97 per gallon, times the rate of five percent:
efirst enacted in l983
eadministered by the State Tax Commissioner
ecurrent tax is equivalent to $0.0485 per gallon, the minimum amount to be collected, resulting in a total State gasoline tax of $0.2535 per gallon
e***Special Fees and Permits***–fee imposed for motor vehicle operators, such as nonresidents maintaining temporary and recurrent (or seasonal) residence in the State in connection with employment, business profession or occupation, who are not required to pay the Aregular@ licensing fee
e***Sale of Bonds***–the State Legislature may authorize the issuance and sale of bonds outstanding from previous voter-approved road bond amendments
efirst bond amendment passed in 1920
eadministered by the Governor, upon the recommendation of the Commissioner of the Division of Highways
e***Special Highway Fund***–fund established to account for monies received by the WVDOH from the West Virginia Parkways, Economic Development and Tourism Authority (WVPEDTA) as reimbursement, in the amount of $83 million, of State Road Fund dollars used to match federal Interstate funds expended to upgrade the West Virginia Turnpike to Interstate highway standards; fund is available only for construction, improvement and repair of roadways within 75 air miles of the West Virginia Turnpike
e***General Fund Appropriation***–the General Fund is the primary revenue fund of the State and consists of revenues from various sources, such as consumer sales tax, personal income tax, and many others; monies from the General Fund may be appropriated to the WVDOH by the Legislative branch of State Government
e***Investment and Interest Income***–the West Virginia Board of Investments (BOI) is

authorized to invest in obligations of the US Treasury and US government agencies, authorized State and municipal bonds, certificates of deposit collateralized with banks located in the State of West Virginia, and certain other bonds

e***Miscellaneous Revenues***–includes all other sources of revenues for the WVDOH.

The amount of revenue each of these sources provided to the State Road Fund for WV Fiscal Year 1996 is shown in Table III-1, page III-8.

Highway Bonds

A bond is a written promise to repay borrowed money on a definite schedule, usually at a fixed rate over the life of the bond. Almost all highway bonds are municipal bonds, which are those issued by the State (or a local governmental body) to finance various projects and expenses. Additionally, the interest income earned from municipal bonds (including highway bonds) is exempt from federal tax. Consequently, the saving that this federal tax exemption affords to State and local issuers lets them borrow more cheaply than other issuers. Historically, the sale of highway bonds has been a popular means of financing highway projects. Although the Idaho Territory issued Awagon road@ bonds as early as 1890, Massachusetts was the first state to use bonds to borrow funds for highway purposes, in 1893; since that time, every state except Nebraska and Wyoming has issued highway bonds.

Municipal bonds are usually issued in denominations or multiples of $5,000, which is the bond=s par (or face) value that is paid when the bond reaches maturity. Bonds most often are structured so that the life of the bond is equal to the usual life of the facility to be financed; the term of financing for a very long-term project, such as a highway or bridge facility, generally is limited to 20 or 30 years. Every bond has a coupon rate, which is the interest rate stated on the bond and payable to the bondholder, usually on a semiannual basis. Bonds also have a yield rate, which is the effective rate of return to the investor determined by the price the investor paid for the bonds, the coupon rate, and the maturity date. The price and yield of highway bonds fluctuates due to activity in other credit markets, overall economic activity, inflation, and Federal Reserve policy.

Three categories of highway bonds exist: general obligation bonds, revenue bonds, and hybrid bonds. General obligation bonds are backed by the Afull faith and credit@ of the issuing government, which implies that all sources of State revenue, unless specifically limited, may be used to pay debt service on this type of bond. Revenue bonds are backed by a specific source of revenue, usually linked to the particular function for whose support the bond is being issued; consequently, highway and bridges may be financed by revenue bonds that are backed by tolls, concessions, and direct fees. Hybrid bonds are those with characteristics of both general obligation and revenue bonds. A history of the highway bond issues of the State of West Virginia is depicted in Figure III-7, following page III-7.

TABLE III-1
West Virginia Division of Highways: Revenues
Year ended June 30, 1996

SOURCE	COMBINED REVENUE
Taxes	
Gasoline and Motor Carrier	$203,854,656
Wholesale Motor Fuel	$64,385,227
Automobile Privilege Tax	$120,454,751
License, Fees and Permits	
Motor Vehicle Registrations and Licenses	$75,551,806
Special Fees and Permits	$3,041,296
Sale of Bonds	$0
Federal Aid	
Interstate Highways	$34,910,293
Appalachian Highways	$91,951,664
Other Federal-aid Programs	$160,158,534
General Fund Appropriation	$0
Investment and Interest Income	$10,056,328
Miscellaneous Revenues	$18,960,986
TOTAL	$783,325,541