

**AGENCIES OF THE SECRETARY
OF TRANSPORTATION**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2006**

APA

**Auditor of
Public Accounts**
COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

This report discusses the financial activities of all agencies reporting to the Secretary of Transportation. These agencies are the Departments of Transportation, Motor Vehicles, Rail and Public Transportation, Aviation, the Motor Vehicle Dealer Board, and the Virginia Port Authority.

The transportation agencies oversee land, air, and water transportation in the Commonwealth of Virginia (Commonwealth). Responsibilities include collecting revenues from taxes, licenses, and vehicle registrations to fund operations; developing and maintaining highways, ports, and airports; and assisting in the development of private and local rail and mass transportation, highways, ports, and airports.

Our audit of these agencies for the year ended June 30, 2006, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- instances of noncompliance with applicable laws and regulations tested as required and reported under Government Auditing Standards; and
- internal control matters that require management's attention and corrective action included in the section entitled "Comments to Management" under the heading Internal Control and Compliance." Recommendations that include the items listed below, which are the more significant issues.
 - the Department of Motor Vehicles should obtain assurance over security of its information system infrastructure.
- risk alerts are issues beyond the corrective action of management and require the action of either another agency, outside party or the method by which the Commonwealth conducts its operations. The following matter represents a risk to the Department, but the Department must rely on Virginia Information Technologies Agency (VITA) to address the risk.
 - Obtain Assurance of Infrastructure Security

- TABLE OF CONTENTS -

AUDIT SUMMARY

COMMENTS TO MANAGEMENT

COMMONWEALTH TRANSPORTATION FUND

DEPARTMENT OF TRANSPORTATION

DEPARTMENT OF MOTOR VEHICLES

DEPARTMENT OF RAIL AND PUBLIC TRANSPORTATION

DEPARTMENT OF AVIATION

PORT AUTHORITY

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND
ON INTERNAL CONTROL OVER FINANCIAL REPORTING

DEPARTMENT OF TRANSPORTATION RESPONSE

DEPARTMENT OF MOTOR VEHICLES RESPONSE

DEPARTMENT OF RAIL AND PUBLIC TRANSPORTATION RESPONSE

AGENCY OFFICIALS

APPENDICES

APPENDIX A: PLANNING FOR TRANSPORTATION PROGRAMS

APPENDIX B: TRANSPORTATION FUNDING

APPENDIX C: CTF SCHEDULE OF SOURCES AND USES

APPENDIX D: HMO AND TTF REVENUE FORECAST

APPENDIX E: TOLL AND BOND SPECIAL REVENUE SOURCES AND USES

APPENDIX F: MAJOR STATE TRANSPORTATION REVENUE SOURCES

APPENDIX G: CTF FLOW OF FUNDS

APPENDIX H: SUMMARY OF CONTRACTOR PAYMENTS VERSUS VDOT INCURRED
EXPENSE

COMMENTS TO MANAGEMENT

Risk Alert

During the course of our audits, we encounter issues, which are beyond the corrective action of management and require the action of either another agency, outside party, or the method by which the Commonwealth conducts its operations. The following matter represents a risk to the Department of Transportation (Transportation), but the Department must rely on VITA to address the risk.

DEPARTMENT OF TRANSPORTATION

Obtain Assurance of Infrastructure Security

The Commissioner has responsibility for the security and safeguard of all of Transportation's information technology assets, systems, and information. Over the past three years, the Commonwealth has moved the information technology infrastructure supporting these databases to VITA. In this environment, VITA and the Commissioner clearly share responsibility for the security of Transportation's information technology assets, systems, and information and must provide mutual assurance of this safeguarding.

Transportation has provided VITA with all the documentation required to make this assessment. However, VITA has not been able to provide Transportation with assurance that they can provide hardware and software configurations that satisfy these requirements and appropriate controls to secure information technology assets, systems, and information.

Therefore, Transportation cannot fulfill their responsibilities stated in the state policy, which will put its information technology assets, systems, and information at risk. As such, VITA needs to provide assurance to Transportation that appropriate security is available to meet Transportation's information security requirements.

Efficiency Issues

During our audits, we observe agency practices, processes, or procedures, which we believe management should consider for review to either improve efficiency, reduce risk, increase accuracy, or otherwise enhance their operations. These matters do not require management's immediate action and may require the investment of resources to provide long term benefit.

DEPARTMENT OF TRANSPORTATION

Improve Controls over Data Systems Reliability

Transportation uses a number of information systems to manage daily operations. Central to these systems is the agency's Financial Management System (FMS). Other systems include the Inventory Management System (IMS), Trns*port, and Fuel Management System (AFMP) and others that feed data into FMS for monitoring, reporting, and payment operations. The systems exchange information, however the completeness and accuracy of information between systems depends heavily on the reconciliation process.

One of the most critical internal control practices that an enterprise performs in order to identify misstatements and ensure accuracy in their financial records is account and system reconciliation. There are three fundamental objectives of performing efficient and timely reconciliations between systems.

- To ensure that both systems contain the same information
- To ensure each system reflects accurate information
- To identify errors or deficiencies so that they may be corrected for the current period and prevented in future periods

Transportation does have a required reconciliation process between the Commonwealth Accounting and Reporting System (CARS) and FMS. Transportation has also identified the need for reconciliations between FMS and both IMS and AFMP, which Transportation has recently implemented.

The Financial Management System also feeds information into CARS, which is the Commonwealth's official accounting record. The reconciliation between these two systems is cumbersome due to the number of transactions. The volume of transactions is not the primary cause for the reconciliation difficulties, but the manual effort required by Transportation to record transactions in FMS.

Transportation must manually record their revenue transactions since there is no automated mechanism to record these entries. Although the reconciliation is overly complex due to the nature of the systems, the process does provide sufficient mitigating controls over the manual revenue recording process, however, the process is not timely.

Transportation has identified a number of deficiencies within the Financial Management System, and has begun addressing some of the system reconciliation needs. In a study to determine the feasibility of an upgrade to this system, Transportation determined that the total cost to fix the issues would require a system upgrade and could cost approximately \$30 million.

The Commonwealth is pursuing a state-wide enterprise resource planning system for all agencies, Transportation has decided that it would not be beneficial to pursue its system upgrade and has instead devoted the funds they will have available for the upgrade to the state-wide Enterprise Resource Planning (ERP) effort. When defining deliverables and implementing the future statewide Enterprise Application system, Transportation should consider its needs to easily reconcile all of its supporting systems that will continue in use.

Internal Control and Compliance

DEPARTMENT OF MOTOR VEHICLES

Improve Controls over Terminated Employees

The Department of Motor Vehicles (Motor Vehicles) does not timely remove system access for terminated employees. Once an employee terminates at a customer service center, it is the responsibility of the supervisor or section manager to send the necessary paperwork to central office requesting the removal of systems access. Motor Vehicles uses a termination check-off list; however, supervisors or section managers must use a separate form to remove systems access for terminated employees. The agency does not have a process in place to periodically review access to their system.

Motor Vehicles should amend the agency's termination checklist to include the required notification regarding the removal of system access. Additionally, Motor Vehicles should incorporate a periodic review of system access, looking for terminated employees, and checking the reasonableness of access for current employees.

Provide Assurance of Infrastructure Security

The Commissioner at Motor Vehicles has responsibility for the security and safeguarding of all databases, information, and information technology assets. Over the past three years, the Commonwealth has moved the information technology infrastructure supporting these databases and information to the VITA. As part of this transfer, the agencies also transferred many of the staff who had the expertise to advise the agency heads on these matters.

Since VITA has assumed responsibility for the information technology infrastructure, the agency heads must have VITA provide assurance that their infrastructure provides the safeguards to protect information and databases required by state policy. We believe that the agencies cannot solely ensure that their data has the proper level of security to protect it from unauthorized changes, disclosure, or loss now that these resources and authority have been shifted to VITA.

The agency heads need to evaluate the agencies' capabilities for determining the level of assurance needed from VITA. Since the agencies retain ownership and maintain the application systems and databases that gather information, the agencies' internal staff has full responsibility for access controls to these systems. If these systems operate in a shared environment, the provider of the shared services would need to assure the agency heads of the adequacy of those controls. This shared environment is the same as the mainframe data center operation that VITA and its predecessors offered.

While the agencies and VITA have entered into a detailed memorandum of understanding (MOU) that defines service level responsibilities in this shared environment, the current MOU does not address the security levels required by the individual agencies. For the secure transmission of information to and from the database, the agency heads must address whether the agencies have the expertise to assess this issue. Inherent within this question is whether the agencies have the resources to maintain the level of expertise capable of adapting to the changing infrastructure environment.

There are two potential approaches to this issue. The first assumes the agencies have the expertise and the resources to understand the changing infrastructure and can therefore specifically address all security needs. The second approach requires that the agencies explain in detail, to VITA, the security needs for each of their systems and databases along with what access controls they currently provide. VITA then must provide the agency heads assurance that the infrastructure provides the level and depth of security necessary to meet state policy.

Each agency should continue developing an MOU with VITA to define the security levels required for their data and require that VITA provide, at least annually, written assurance so the agency heads can fulfill their responsibilities related to security requirements.

DEPARTMENT OF RAIL AND PUBLIC TRANSPORTATION

Comply with Federal Transit Administration Reporting Requirements

Federal Transit Administration Circular C5010.1C, Chapter 1.5.f. Report Due Dates, states “Urbanized area formula and capital program financial status reports (FSR) and milestone/progress reports are due to FTA within 30 days after the end of each calendar quarter, i.e., by January 30, April 30, July 30, and October 30. All state recipients of planning assistance must submit their reports annually. In individual cases, FTA may grant extensions of report due dates. FTA may withhold payments when it does not receive reports as agreed.” OMB Circular A-133 Compliance Supplement, page 4-20.500-4 states that direct recipients are to submit status reports electronically through FTA’s electronic grants management system (TEAM).

Management failed to ensure that the reporting of federal funds, expenses, and project Milestone Reports were completed and filed within the required due dates. Although the Department of Rail and Public Transportation (DRPT) does monitor the submission of these reports and has detailed procedures for ensuring their accuracy and completion, the deadline for filing required reports was not met during the 2006 fiscal year. The reporting deadline to FTA is the last day of the month following the end of the quarter. The Federal Transit Agency, Office of the Inspector General brought this condition to the attention of DRPT management in June, and controls have since been put in place to ensure that all required reports are submitted on time or an extension is received from the FTA.

COMMONWEALTH TRANSPORTATION FUND

This report includes all agencies reporting to the Secretary of Transportation: the Departments of Transportation, Motor Vehicles, DRPT, Aviation, the Motor Vehicle Dealer Board (Dealer Board), and the Virginia Port Authority (Port Authority). These six agencies employ over 12,000 people with a combined annual budget of approximately \$4.3 billion.

The Agencies of the Secretary of Transportation oversee land, air, and water transportation in the Commonwealth. Their responsibilities include collecting revenues from taxes, licenses, and vehicle registrations to fund operations; developing and maintaining highways, ports, and airports; and assisting in the development of private and local rail, mass transportation, highways, airports, and ports. In addition to reporting to the Secretary of Transportation, Transportation and DRPT also report to the Commonwealth Transportation Board (the Board) who provides direction and review of statewide transportation projects.

The CTF is a group of special revenue funds used to account for all revenues designated for highway operations, maintenance, construction, and related activities, excluding toll facilities. The 1986 Special Session of the General Assembly established the current transportation-funding framework. This framework includes the collection and allocation of transportation revenues. The Virginia Transportation Act (VTA), enacted by the 2000 General Assembly Session, changed the allocation funding process to accelerate some high priority projects and get delayed projects back on schedule.

This report presents highlights of current subject matter for each of the transportation agencies during fiscal year 2006. Appendix A of this report will discuss the Transportation Planning and Budget cycle while Appendix B will discuss Transportation funding for the fiscal year ended June 30, 2006.

Developing A Multi-Modal Transportation System

Vtrans2025

The Commonwealth Transportation Board, as directed by the 2002 Virginia General Assembly, developed a multimodal long-range transportation plan with a statewide focus. The legislation called for the development of a plan in three phases and identifies specific deliverables for each phase. This plan, titled VTrans2025, is a combined effort of the four primary state transportation agencies: Aviation, DRPT, the Port Authority, and Transportation. VTrans2025 is a formal planning effort that analyzes the future trends and needs of highway motorists, rail and transit passengers, freight shippers, airline travelers, cyclists, and pedestrians.

The VTrans2025 Policy Committee developed the plan. The committee includes management from the four modal agencies, Commonwealth Transportation Board members, representatives from the Virginia Aviation Board and the Port Authority Board of Commissioners, and the Secretary of Transportation's Office. A VTrans2025 Technical Committee, chaired by the Secretary's Office and composed of planning staff from each of the four modal agencies, prepares the plan and other products associated with VTrans2025.

The final VTrans2025 report addressed a number of transportation needs and recommended a number of alternatives for meeting the needs of the citizens of the Commonwealth. Recommendations included the following:

- Increased transportation funding overall;
- a larger investment in transit systems;
- increased support for railroad capital improvements and operating assistance;
- protecting transportation revenues from being spent in other programs;
- coordinating land use decisions between state, local, and regional planners; and
- improving connectivity by prioritizing projects that connect major roads

As the VTrans2025, report focused on the policy aspects of Transportation planning, recommendations addressed broad issues and did not contain specific deliverables as to how the participating transportation agencies would meet the recommendations.

Inter-Modal Office of the Secretary of Transportation

In 2002, the General Assembly enacted legislation establishing the Inter-modal Office in the Secretary of Transportation Office to advocate multimodal planning solutions as part of the six-year improvement program. The Inter-modal Office was to create a means of integrating the strategic plans of all Transportation Agencies to promote the achievement of a functional multi-modal transportation system across the Commonwealth.

Although each Transportation agency has representation in the central policy planning activities, such as the VTrans2025 study. The Transportation agencies, once policy is set, act independently with respect to operational planning. Central operating plans for acquisition and construction are performed by each Transportation Agency independently of one-another. The Commonwealth Transportation Board later reviews and adopts these operating plans in the form of a six-year improvement plan.

Upon adoption of the six-year improvement plan by the Commonwealth Transportation Board, and passing of the Appropriation Act by the General Assembly, Transportation Agencies plan and budget independently based on their statutory requirements. Although intermodal policy planning may be effective because Transportation Agencies have conflicting mission statements and strategic objectives, inter-modal operational planning is difficult.

DEPARTMENT OF TRANSPORTATION

Transportation builds, maintains, and operates the Commonwealth's roads, bridges, and tunnels. The Commonwealth has the third largest state-maintained highway system in the United States with an annual budget of approximately \$3.6 billion. Transportation maintains over 57,000 miles of interstate, primary, and secondary roads and distributes state funds to help maintain over 10,000 miles of urban streets. Transportation not only maintains roads, but also maintains more than 12,600 bridges, four underwater tunnels, two mountain tunnels, three toll roads, one toll bridge, four ferry services, 41 rest areas, and 107 commuter parking lots. Transportation has approximately 9,000 employees, making it one of the three largest state agencies in the Commonwealth.

Systems Assessment

Transportation utilizes a number of various information systems to manage daily operations. Central to these systems is the agency's Financial Management System (FMS). Other systems include the Inventory Management System (IMS), Trns*port and Fuel Management System (AFMP) feed data into FMS for monitoring, reporting, and payment purposes.

Transportation has identified a number of deficiencies within the FMS. In a study to determine the feasibility of an upgrade to this system, Transportation determined that the total cost to fix the issues identified through an upgrade of the current system was approximately \$30 million. In light of the Commonwealth's pursuit of a state-wide Enterprise Resource Planning system for all agencies, Transportation decided that it would not be beneficial to pursue this system upgrade and has instead devoted the planned funds they would have available for the upgrade to the State-wide Enterprise Resource Planning (ERP) effort.

Maintenance and Asset Management

The Asset Management Division is developing an improved means of assessing the Commonwealth's highway maintenance needs. The development of the asset management system has allowed Transportation to identify the unmet needs of the Commonwealth highway infrastructure and develop a usable budget to maintain current asset conditions statewide. Future goals of the system include development of a means to track actual performance against those unmet needs requirements. This is an improvement over the historical approach to budgeting maintenance needs.

In the past, budgeting for highway maintenance occurred by applying an inflationary index to historical maintenance expenses. The process did not take into account actual needs. In order to address deficiencies in the budgeting process for highway maintenance, Transportation developed the Asset Management System (AMS) to collect and evaluate data on highway assets across the Commonwealth.

The AMS provides a number of tools to assist management in planning, budgeting, implementing, and monitoring maintenance work efforts. The first version of AMS contains six modules.

- Random Condition Assessment (RCA): This module allows users to collect inventory and asset condition data on various sections of transportation infrastructure across the state. Users quantify condition assessments so that they can perform a quantitative analysis during the budgeting process.
- Needs-Based Budget (NBB): This module accepts inputs from the existing bridge management system (AASHTO Pontis[®]) as well as from the RCA and runs a series of simulations to determine the total unmet needs across the state relative to maintenance. For 2006, this amount exceeds \$3 billion.

Transportation stratifies the total unmet needs into varying degrees of necessity based on available data. The final budget amount reflects those needs required to maintain highway assets at their current condition as well as gradually reduce the backlog of maintenance needs. This is the amount Transportation estimates it needs annually for its maintenance budget.

- Planning Module: This module allows users to project anticipated asset performance based on current asset condition and planned maintenance investments.
- Work Accomplishments and Monitoring: This tool enables users to record maintenance work activities and associated costs against the needs based budget generated at the beginning of the year and allocated across the Transportation districts.
- Inventory module: This module collects and stores highway asset inventory and condition data.
- Analysis Tools: This module contains tools to evaluate the data collected in the first five modules as well as obtaining feedback from the Transportation community regarding maintenance practices and other asset management related topics.

AMS does not have every asset recorded in the database. Transportation will model additional assets into AMS over time, which will help increase the accuracy of the maintenance budget. Future versions of AMS will include additional modules along with interfaces with existing Transportation systems. The management team has made an effort to implement the system in small steps to ensure the accuracy and user acceptance of each of the modules before adding additional features. The system is providing a centralized data repository of information on the status and estimated costs of maintaining the roadway infrastructure of the Commonwealth.

Lease of the Pocahontas Parkway

Transurban has entered into a 99-year lease for the Pocahontas Parkway with the Pocahontas Parkway Association and Transportation. Transurban agreed to and paid \$491.5 million to pay off all of the outstanding debt obligations of the Pocahontas Parkway Association, as well as an additional \$48 million to Transportation to pay outstanding loans, which covered operating expenses, incurred by Transportation, but remained un-reimbursed.

Transurban has effectively agreed to manage the Parkway within the limits of Transportation policy as set forth in the agreement. The agreement includes a fee schedule of graduated toll increases. The Amended and Restated Comprehensive Agreement between Transportation and Transurban provides that the Transportation may terminate the agreement at any time after the 40th anniversary of the agreement date when it is determined that such action is in the best interest of the Commonwealth.

If Transportation elects to exercise this right, it must repay to Transurban out-of-pocket and allocable costs incurred by Transurban as a direct result of the termination. The agreement also includes a payment of an amount equal to the greater of the following.

- The fair market value of Transurban's interests as determined by an independent appraiser, taking into account projected cash flows and costs for the remainder of the agreement's term had it not been terminated; or
- The sum of Transurban's outstanding debt and interest, any prepayment penalties, and an amount that would cause the project to yield a 10.5 percent rate of return as of the termination date.

Public-Private Partnerships

Overview

The Virginia Public-Private Transportation Act of 1995 (PPTA) authorizes the Commonwealth, its local governments, or other public agencies to enter into agreements allowing private entities to develop, design, construct, maintain, and/or operate transportation facilities if they determine that private involvement would provide the facilities in a timely and cost-effective manner. The PPTA permits private entities to submit unsolicited proposals, as well as proposals solicited by public entities.

The PPTA has a four-phase submission and evaluation process. The first phase is the submission of a conceptual proposal for a prequalification review conducted by an Initial Review Committee. Phase two includes the review and approval or rejection of the conceptual proposal by the Commonwealth Transportation Board. Phase three of the evaluation process consists of scheduled submission of a detailed proposal for evaluation and recommendation by the Public-Private Transportation Advisory Panel. Finally, phase four is the selection of the proposal by the Commonwealth Transportation Commissioner.

To assure opportunity for full and open competition, the receiving agency must publish notice of receipt of any unsolicited conceptual proposal, after which other private entities may submit competing conceptual proposals for the agency's consideration. Transportation issued these implementation guidelines to facilitate the selection of transportation privatization projects.

Commonwealth Transportation Board has approved the following active PPTA projects.

- Route 28 corridor improvements
- Dulles Metro-Rail extension
- Capital Beltway (I-495) HOT Lanes
- Coalfields Expressway
- Route 58 corridor improvements
- Interstate 95/395 HOT Lanes

Dashboard

Transportation continues to monitor and modify the Dashboard system as a way to increase transparency of Transportation's performance. The website tracks all active contracts under construction or ready to advertise for construction, with daily updates. It displays project contract status in one of four phases: advertisement, construction contract deadlines, construction contract award amount, or construction contract work orders. Each phase shows status via a stoplight-style system of green, yellow, and red lights. Green stands for on time and on budget, yellow for in risk of falling behind in one or both, and red for critically behind schedule or over budget.

Dashboard receives its information from Transportation's Data Warehouse, most of which comes from the PPMS, Trns*Port, and Cost Estimating systems. These are systems used by project managers to assist in estimating costs and managing individual projects. This application serves as a communication tool for Transportation. Transportation has implemented online Project Dashboard monthly video conferences with districts to discuss the status of individual construction projects and work information.

The Construction module of the Dashboard allows users, internal and external, to look up particular construction contracts that may relate to a construction project. The measurement of performance is a contract and not the project as a whole. The performance of individual contracts measures the original contract amount with engineering estimates to complete the work within the scope of that contract. When the inspector's estimate to complete, current contract amount, or cost of work to complete exceeds the award amount by less than three percent, the contract has a green status. If any of those three criteria exceeds the award amount by three percent - nine percent, contracts have a yellow status. A contract exceeding the award amount by ten percent or more has a red status.

Transportation typically uses a project number or UPC to identify projects from cradle to grave. This UPC is the constant identifier from the projects inception in the six-year improvement plan until project's completion. There are large project, which Transportation divides into several UPC's in order to more effectively manage individual phases or portions of phases. It is important to note that the Dashboard reflects only contractor payments and not the total cost of any particular project.

Camp 30 Acquisition

In April 2006, Transportation entered into several agreements with Fairfax County and the Fairfax County Economic Development Authority to plan, design, finance, and construct several joint public use facilities on adjoining land owned by the Commonwealth and Fairfax County commonly referred to as Camp 30, which is bounded by Interstate Route 66, West Ox Road, and the Fairfax County Parkway in Fairfax County. These facilities will include a Public Safety and Transportation operations center, a forensic facility, a bus operations facility, a Commonwealth administration building, and a Transportation road maintenance facility.

The Fairfax County Economic Development Authority issued bonds totaling \$96,515,000 to fund the Transportation's portion of the construction costs. Transportation will make payments to the Authority to cover the debt service of the bonds through 2026.

DEPARTMENT OF MOTOR VEHICLES

Motor Vehicle's mission is to promote security, safety, and service through the administration of motor vehicle and tax-related laws. Administration of Motor Vehicles includes but is not limited to driver licensing services; vehicle registration services; disabled parking placards; hauling permits; motor carrier permit and inspections; and record services. Tax-related issues include administration of the Personal Property Tax Relief Act and commercial fuels tax collection. To perform these and other services, Motor Vehicles provides numerous customer service centers throughout the Commonwealth and Internet web site services, all supported by just under 2000 employees with an annual appropriations budget of \$246 million.

Systems Assessment

Traffic Records Electronic Data System (TREDS)

Motor Vehicles has a joint project with Transportation and State Police to implement an electronic system to record all reportable vehicle crashes in the Commonwealth. The current process primarily uses paper to record accidents from the time the law enforcement writes the report until Motor Vehicles images the report onto microfilm. The data resides in a mainframe system and requires data entry by Motor Vehicles staff. Law enforcement personnel and agencies handle paper copies of some critical reports multiple times and do redundant data entry.

The system known as TREDS will try to eliminate the inefficiencies in paper work and make the process automated for Motor Vehicles, law enforcement, Transportation, and the court system. The project started in 2005 with an anticipated completion date in the second quarter 2009. The project is currently on schedule to meet this implementation date and has a current cost estimate is \$4.3 million.

A re-evaluation of the project budget conducted in August 2006 identified a \$1 million gap and requires additional funding. This revision along with the project plan will require VITAs' review and approval, which should occur before the end of 2006. Once implemented, all parties involved anticipate a combined annual savings of \$2,980,000.

Integrated Systems Redesign

Motor Vehicles is in the early stages of a project to replace and reengineer their Customer Service System (CSS). This new system will transform three major business areas; driver services, vehicle services, and motor carrier, into a more modern and user-friendly system. The project is currently in the first phase (Project Initiation and Business Requirements) of a three phase approach. The agency is currently working on defining the scope, goals, objectives and vision of the system, as well as performing a business process analysis, identifying communications channels, and securing funding for the duration of the project.

The goal is to replace the CSS system, which consists of over 12 information technology systems used to process transactions and maintain customer records. The new system will be more flexible and secure to allow for easier changes to accommodate legislation, new technology, and customer demands. The estimate for the project is \$32.6 million and will take approximately five to six years to complete.

Real Id

In May 2005, Congress passed the REAL ID Act that creates national standards for the issuance of state driver's licenses (DL) and identification cards (IDC). The Act, which becomes effective May 11, 2008, requires Motor Vehicle agencies to verify source documents before issuing a DL/IDC. Additionally, Motor Vehicle agencies can accept only certain documents and facilities must meet security standards established by the U. S. Department of Homeland Security, and employees who issue the DL/IDC credential must undergo criminal background checks and receive intensive fraudulent document training. Persons presenting DL/IDC documents as proof of identity issued by states not in compliance with Act will not have access to federal agencies and airplanes. The Governor created a REAL ID taskforce, chaired by the Commissioner of Motor Vehicles, which studied the costs and service impacts of REAL ID. They issued their report findings in December, 2005.

The report issued by the taskforce identified the issues that the Commonwealth and Motor Vehicles would have to address while implementing this program. The biggest issue identified was the cost of implementation, which ranges from \$35 million to \$169 million of up front costs, and between \$1 and \$63 million for reoccurring annual costs.

Motor Vehicles currently does not have a plan in place to implement this new system due to the federal government not issuing interim regulations. Motor Vehicles anticipates the Federal Government interim regulations in early 2007. Based on the delayed issuance of regulations from the federal government and the stringent requirements Motor Vehicles anticipates, the agency expects difficulties in meeting the federal deadline of May 2008. It is important to note that the Act does allow the U.S. Department of Homeland Security to grant states an extension. However, the Federal Government has not issued the criteria for meeting the extension requirements.

Centralized Licensing

The Centralized Licensing program will change the process in which Motor Vehicles issues driver's licenses and state ID cards. A private company will process all licenses at a centralized location and mail them to customers within a DMV predetermined timeframe. By centralizing this process, it will allow Motor Vehicles to compare photographs of applicant's to photographs the agency already has on record among other added security controls. This will help reduce the likelihood that someone is obtaining a false ID.

Motor Vehicles issued the original request for proposal (RFP) in May 2005, which a private contractor helped to develop. Motor Vehicles decided to cancel the RFP in June 2006 due to allegations regarding the performance of the private contractor. Motor Vehicles believed that the cancellation of the RFP was essential in order to preserve the objectivity of the solicitation process. Motor Vehicles developed a new scope without the help of any private entity and issued a new RFP in July 2006. The Agency hopes to finalize a contract with a private company to perform centralized licensing by June 2007.

Cost Model

Motor Vehicles is constantly updating and refining the agency's Activity Based Costing Model. The primary person, who performed this task, transferred to a different division within the Motor Vehicles during fiscal year 2006. Motor Vehicles hired a new specialist in September 2006 to oversee the Cost Model. During the transition time between the two employees, Motor Vehicles did not have the resources to update the Cost Model. Motor Vehicles is currently working to update the Cost Model for fiscal year 2006 and will present the Cost Model to the Executive Staff in early 2007. Additional information related to Motor Vehicles' Cost Model is located in the Appendix A of this report.

Personal Property Tax

Senate Bill 5005 of 2004 Special Session I of the General Assembly amended the Personal Property Tax Relief Act. The changes set a statewide cap of \$950 million. In February 2006, the Auditor of Public Accounts issued a certification of each locality's pro rata share of the \$950 million. The certification used the actual tax year 2004 personal property tax relief payments made to each locality.

Motor Vehicles must reconcile reimbursement payments to the localities' submissions reimbursement through September 15, 2006 for delinquent taxes. Motor Vehicles will have all reconciliations done by June 30, 2007. After this time, Motor Vehicles will no longer have a role in the Personal Property Tax Relief Program.

DEPARTMENT OF RAIL AND PUBLIC TRANSPORTATION

DRPT is primarily responsible for determining the present and future needs for rail and public transportation throughout the Commonwealth. This task also includes economic feasibility of providing public transportation, transportation demand management; ridesharing facilities and services; and the retention, improvement, and addition of passenger and freight rail transportation in the Commonwealth. They accomplish this by developing and implementing programs; coordinating research, planning, and policy analysis efforts with Transportation, and developing standards to evaluate all public transportation activities in the Commonwealth.

Additionally, DRPT maintains liaisons with state, local, district, and federal agencies or other entities, private and public, having comparable responsibilities for passenger and freight rail, transportation demand management, ridesharing, and public transportation programs at various service levels. This includes coordinating efforts with other entities and managing public, freight rail, and passenger transportation grant programs.

Dulles Metro-Rail Project

In March 2006, there was the signing of a memorandum of agreement between the Commonwealth and the Metropolitan Washington Airports Authority (MWAA) to take over operation of the existing Dulles Toll Road and to complete the Dulles Corridor Metro-Rail project. The agreement guarantees that all revenues generated by the Dulles Toll Road will support transportation improvements within the corridor, including the Metro-rail extension and roadway improvements. Under the agreement, the MWAA will continue to consider private proposals for the operation of the toll road and pursue innovative congestion management strategies, including High Occupancy Toll (HOT) lanes.

A final agreement will develop the details of the arrangements between the Commonwealth and MWAA and should occur before the end of the calendar year of 2006. The full transition of management should occur from January through June of 2007. Until that time, the DRPT will remain responsible for project management of the extension.

Rail Enhancement

In 2005, the General Assembly passed legislation creating the Rail Enhancement Fund. The Rail Enhancement Fund provides new money for the development of rail infrastructure in the Commonwealth and will fund projects found to have a public benefit that is equal to or greater than the public investment, and which require the use of Rail Enhancement Funds for timely completion.

The Rail Advisory Board and the Director of DRPT will develop recommendations for a strategic program of projects, which will use the fund to incorporate into a passenger and freight rail improvement program. Early projects are project with a quick implementation. In future, the focus will be implementing those projects that are part of a six-year strategic passenger and freight improvement program. The Rail Advisory Board will review the program of projects and may recommend amendments to include additional short and long-range projects.

All projects receiving funds from the Rail Enhancement Fund must include a minimum of 30 percent cash or in-kind matching contribution from a private source, which may include a railroad, a regional authority, a local government source, or a combination of such sources. For fiscal year 2006, the Commonwealth Transportation Board allocated \$21.7 million to fund rail enhancement projects.

DEPARTMENT OF AVIATION

The Department of Aviation (Aviation) plans and promotes air transportation in the Commonwealth; licenses aircraft and airports; and funds local airport planning, development, and improvements. Aviation consists of the Director's Office and four divisions: Airport Services, Communication and Education, Flight Operations and Safety, and Finance and Administration. Aviation provides financial and technical assistance to eligible sponsors for the planning, development, promotion, construction, and operation of airports and aviation facilities. It administers applicable provisions of the Code of Virginia, plans for the development of a state aviation system – airports and landing areas. Aviation also provides air transportation services to the Governor, the Legislature, and state agencies.

VIRGINIA PORT AUTHORITY

The Virginia Port Authority (Port Authority) is the Commonwealth's agency for international transportation and maritime commerce. The Port Authority's major activities are developing the Commonwealth's ports through cargo solicitation and promotion throughout the world; developing water transportation facilities; maintaining ports, facilities, and services; providing public relations, and domestic and international advertising; and providing security services. To deliver these services, the Port Authority has offices in five cities in the United States and five foreign countries. A Board of Commissioners composed of 12 members manages the Port Authority. The Commonwealth Transportation Board only oversees the allocations to the Commonwealth Port Fund.

The agency owns four general cargo terminals in the Commonwealth that enables them to foster and stimulate the commerce of the Commonwealth ports. This includes promoting the shipment of goods and cargo through the ports, seeking to secure necessary improvements of navigable tidal waters within the Commonwealth, and performing any act or function that may be useful in developing, improving, or increasing the commerce, both foreign and domestic, of the Commonwealth ports.

Virginia International Terminals, Inc. (VIT), a separately incorporated nonprofit corporation, operates all of the marine terminals owned by the Port Authority. VIT is a discrete component unit of the Port Authority and other independent auditors audit its financial statements. Virginia Port Properties, Inc. (VPP), also a separately incorporated nonprofit corporation, manages all foreign leases on behalf of the Port Authority. The activities of VPP are subject to an annual financial audit of the Port Authority performed by the Auditor of Public Accounts. As such, any financial data provided below does not include Port Authority transactions.

The Port Authority does not receive General Fund appropriations, but generates revenue from port operations (i.e., special revenues). In fiscal year 2006, the Port Authority and VIT generated \$229 million in operating revenue. Of this special revenue, the Port Authority used \$226 million for operations, including general operating expenses, certain debt service expenses, and some acquisition, construction or improvements of major capital facilities. The Port Authority used the remaining revenue to fund required increases in reserve accounts and transferred a portion back to VIT for additional capital needs.

Since the Authority is a component unit of the Commonwealth, the related financial activity is not included in this report. We issue a separate report on the financial statements of the Port Authority. The report may be accessed through our website, www.apa.virginia.gov.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

November 30, 2006

The Honorable Timothy M. Kaine
Governor of Virginia
State Capital
Richmond, Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

We have audited the financial records and operations of the **Agencies of the Secretary of Transportation** for the year ended June 30, 2006. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of the Agencies of the Secretary of Transportation financial transactions as reported in the Comprehensive Annual Financial Report for the Commonwealth of Virginia for the year ended June 30, 2006 and test compliance for the Statewide Single Audit. In support of this objective, we evaluated the accuracy of recorded financial transactions on the Commonwealth Accounting and Reporting System and in these Agencies' accounting records, reviewed the adequacy of these Agencies' internal control, and tested compliance with applicable laws, regulations, contracts, and grant agreements, and reviewed corrective actions of audit findings from prior year reports.

Audit Scope And Methodology

The Agencies of the Secretary of Transportation's management have responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures.

We performed audit tests to determine whether controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

- Revenue and Receivables (taxes, vehicle registrations, licenses)
- Transportation Trust Fund Activity (collections, allocation, expenses)
- Long-Term Debt
- Federal Grants and Contracts
- Expenses and Payables, including Payroll

We performed audit tests to determine whether these Agencies' controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of Agency operations. We tested transactions and performed such other auditing procedures, including budgetary and trend analyses.

Audit Conclusions

We found that the Agencies of the Secretary of Transportation properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System or other agency financial system. These Agencies record their financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System and other Agency financial systems.

We noted certain matters involving internal control and its operation and compliance with applicable laws and regulations that require management's attention and corrective action. These matters are described in the section entitled "Comments to Management" under the Internal Control and Compliance heading.

These Agencies have taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this letter.

EXIT CONFERENCE AND REPORT DISTRIBUTION

We discussed this report with management at each agency during exit conferences held between the weeks of December 11, 2006 and January 1, 2007. Management's responses have been included at the end of this report.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS



COMMONWEALTH of VIRGINIA

DEPARTMENT OF TRANSPORTATION
1401 EAST BROAD STREET
RICHMOND, VIRGINIA 23219-2000

David S. Ekern, P.E.
COMMISSIONER

January 16, 2007

Mr. Walter J. Kucharski
Auditor of Public Accounts
P.O. Box 1295
Richmond, VA 23218

Dear Mr. Kucharski,

This clean financial audit for the Department of Transportation (VDOT) is another demonstration of the tremendous strides in performance the Department has made in the last five years. The audit demonstrates that the financial controls and processes that have been put in place the past five years do indeed withstand changes in leadership.

I want to assure you that VDOT will continue its journey and focus on accountability and performance. The areas of risk and improvement the audit mentions will be focused upon in the coming years.

I thank you and your staff for all of your assistance and guidance during this review.

Sincerely,

A handwritten signature in cursive script that reads "David S. Ekern".

David S. Ekern, P.E.
Commissioner

c: Ms. Barbara Reese



COMMONWEALTH of VIRGINIA
Department of Motor Vehicles
2300 West Broad Street

D. B. Smit
Commissioner

Post Office Box 27412
Richmond, VA 23269-0001
866-DMV-LINE or
800-435-5137

January 10, 2007

Mr. Walter J. Kucharski
Auditor of Public Accounts
P. O. Box 1295
Richmond, VA 23219

Dear Walt:

Thank you for this opportunity to respond to your latest audit of the Commonwealth Transportation Fund, Agencies of the Secretary of Transportation for the fiscal year ended June 30, 2006. Attached are the corrective actions we have developed in response to your findings. As you can see, most of the activity is already underway.

Please let me know if you have any questions or concerns.

Sincerely,

A handwritten signature in black ink, appearing to be "D.B. Smit".

D. B. Smit

Enclosure

**Department of Motor Vehicles
Response and Corrective Action Plan
Commonwealth Transportation Fund Agencies of the
Secretary of Transportation
For fiscal year ended June 30, 2006**

APA Finding – Improve Controls over Terminated Employees

DMV Corrective Action Plan:

A termination listing has been provided to the security director that covers all of calendar 2006 to ensure all terminated employees' access has been removed. In addition, the termination listing will be forwarded to ITS from HRO on a semi-monthly basis from this point forward.

The HRO 13 and 14 (termination checklists) will be updated by February 15, 2007, to include a cross reference to the ITS 61 form (system access form) and each other to ensure all supervisors have a cross-walk to make sure all notification is made for a terminated or transferred employee. Communication will be made to all of DMV for this change in the DMV newsletter.

The ITS 61 form will be updated by February 15, 2007, to include a cross-reference to the HRO forms. We will also implement an automatic cut-off of logons that have been inactive for 90 days.

A full review of all system access and user accounts will be completed by March 30, 2007. This review will involve all managers within DMV. With this review we will ensure system access is at the appropriate level for the employee to perform his/her duties. A report documenting the review and remedial action taken will be maintained for review by the APA.

Responsible Executives: Dave Burhop, Chief Information Officer
David Mitchell, Deputy Commissioner for Administration
Karen Chappell, Deputy Commissioner for Operations

Completion Date: March 30, 2007

APA Finding (called a risk alert) – Provide Assurance of Infrastructure Security

DMV Corrective Action Plan:

We will provide to the Virginia Information Technology Agency (VITA) a document that lists our expectations for various security functions. We anticipate this to be an on-going process in the short-term as we clearly determine and document what services, to include security, will be provided by VITA/NG.

Responsible Executive: Dave Burhop, Chief Information Officer
Completion Date: January 31, 2007 (for the initial document from DMV)



COMMONWEALTH of VIRGINIA

DEPARTMENT OF RAIL AND PUBLIC TRANSPORTATION

1313 EAST MAIN STREET, SUITE 300

P.O. BOX 590

RICHMOND, VA 23218-0590

Matthew O. Tucker
Director

(804) 786-4440
FAX (804) 786-7286
VIRGINIA RELAY CENTER
1-800-828-1120 (TDD)

December 28, 2006

Mr. Walter J. Kucharski
Auditor of Public Accounts
P. O. Box 1295
Richmond, Virginia 23218

Dear Mr. Kucharski,

We appreciate the opportunity to work with you and your staff during the fiscal year 2006 audit. Over the past few years, the Department of Rail and Public Transportation (DRPT) has made great strides in implementing a strong internal control structure. Our control structure will continue to be stressed in the coming year as the Department of Accounts' ARMICS initiative is carried out and as we implement a performance measurement process for our grantees.

Your audit noted that DRPT should ensure that it meets the FTA quarterly report due dates for financial and milestone reports. DRPT does monitor its federal grants and the associated projects. In the past, the quality of the reports has been emphasized at the expense of the timeliness of submission, as the FTA had not previously cited this as a problem. Attached is the corrective action plan that we have developed and implemented in response to your finding. Please let me know if you have any questions or concerns.

Sincerely,

A handwritten signature in black ink that reads "Matt O. Tucker".

Matthew O. Tucker

The Smartest Distance Between Two Points

www.drpt.virginia.gov

Department of Rail and Public Transportation
FY 2006 APA Report - Response and Corrective Action Plan

APA Finding - Comply with Federal Transit Administration Reporting Requirements

Management Plan for Corrective Action:

1. Each division director will certify by the 27th of the month of submission to the CFO that all required federal milestone reports have been submitted or extensions have been granted by the FTA.
2. The controller will ensure that all required federal financial status reports are completed by the 25th of the month of submission or the FTA has granted extensions.
3. The Budget Manager will ensure that all financial status reports are reviewed and submitted by the end of the month of submission.
4. The Agency Director will be notified by the CFO of any failures to comply.

Responsible Position: Chief Financial Officer

Estimated Completion Date: January 15, 2007

SECRETARIAT OFFICIALS

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Pierce R. Homer

Department of Transportation
David S. Ekern, Commissioner

Department of Motor Vehicles
Demerst B. Smit, Commissioner

Department of Rail and Public Transportation
Matthew O. Tucker, Director

Department of Aviation
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Bruce Gould, Executive Director

Virginia Port Authority
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TRANSPORTATION PLANNING AND BUDGET

Transportation Project Development

The Agencies of the Secretary of Transportation plan, construct, maintain, and regulate the use of the transportation infrastructure of the Commonwealth. Although the Agencies of the Secretary of Transportation take a principal role in the project planning process, there are other parties, who take interest and participate in the process. The Transportation planning process includes the General Assembly and Governor, citizens, local officials, Metropolitan Planning Organizations, and Planning District Commissions.

Metropolitan Planning Organizations

The Federal-Aid Highway Act of 1962 created the federal requirement for urban transportation planning largely in response to the construction of the Interstate Highway System and the planning of routes through and around urban areas. The Act required, as a condition attached to federal transportation financial assistance, that transportation projects in urbanized areas of 50,000 or more in population use a continuing, comprehensive, urban transportation planning process undertaken cooperatively by the states and local governments.

The Commonwealth has 11 operating metropolitan planning organizations that work to support the Commonwealth's transportation planning process.

- Blacksburg-Christiansburg-Montgomery Area MPO
- Central Virginia MPO (Lynchburg)
- Charlottesville-Albemarle MPO
- Fredericksburg Area MPO
- Hampton Roads Planning District Commission
- Harrisonburg-Rockingham MPO
- Richmond Area MPO
- Roanoke Valley Area MPO
- Tri-Cities Area MPO (Petersburg)
- West Piedmont PDC (Danville MPO)
- Winchester-Frederick MPO

These regional groups develop Transportation Improvement Programs, using citizen advisory groups and public meetings to finalize the local Transportation Improvement Program (TIP). The MPOs submit their TIPs to Transportation, which then combines all local TIPs with the Six Year Improvement Plan to become the Statewide Transportation Improvement Program, which is in turn submitted to the Federal Highway Administration and Federal Transit Agency for approval of federal funding.

Planning District Commissions

Where Metropolitan Planning Organizations have a legislative requirement to exist in support of funding and planning needs for transportation, Planning District Commissions (PDCs) do not. They exist because localities have recognized the need to address community planning issues. In 1968, Virginia was divided into planning districts based on the community of interest among its counties, cities and towns. A Planning District Commission is a political subdivision of the Commonwealth chartered under the Regional Cooperation Act by the local governments of each planning district. As such they are a creation of local government encouraged by the state.

Planning District Commissions are made up of elected officials and citizens appointed by member local governments. The Commission selects an Executive Director responsible for managing daily operations. The Commonwealth has 21 Planning District Commissions:

- Accomack-Northampton
- Central Shenandoah
- Commonwealth Regional Council
- Crater
- Cumberland Plateau
- George Washington Regional Commission
- Hampton Roads
- Lenowisco
- Middle Peninsula
- Mount Rogers
- New River Valley
- Northern Neck
- Northern Shenandoah Valley
- Northern Virginia
- Rappahannock-Rapidan
- Region 2000
- Richmond Regional
- Roanoke Valley – Alleghany
- Southside
- Thomas Jefferson
- West Piedmont

Virginia's PDCs provide a variety of technical and program services to member local governments. General duties of the PDC's include:

- Conduct studies on issues and problems of regional significance;
- identify and study potential opportunities for local cost savings and staffing efficiencies through coordinated local government efforts;
- identify mechanisms for the coordination of state and local interests on a regional basis;
- implement services upon request of member localities;
- provide technical assistance to state government and member localities;
- serve as a liaison between localities and state agencies as requested;
- review local government aid applications as required by applicable law;
- conduct strategic planning for the region as required by applicable law;
- develop regional functional area plans as deemed necessary by the commission or as requested by member localities; and
- assist state agencies, as requested, in the development of sub-state plans.

Public Hearing

The Public Hearing is one of the tools used by the citizenry of the Commonwealth to provide input for transportation planning. Such hearings are advertised to attract attendance from local citizens. Public Hearings can be initiated by local governing bodies, local planning organizations (such as Metropolitan Planning Organizations or Planning District Commissions), local citizenry, or by the applicable state agencies. Hearing notices are given by publication in local newspapers. Depending on the subject matter or what body is requesting the hearing, written notice of the time and place of the hearing is given, not less than thirty days prior to the hearing, to the governing body of the county, city, or town in which the issue is most pertinent. Transportation will also publish notice of the time and place of for public hearings in applicable newspapers and on their web site. At the conclusion of any public hearings, Transportation is to summarize and report back the results to all participating parties.

The Code of Virginia calls for the requirement for public hearings in numerous instances. The Code of Virginia items mentioned here primarily address transportation and planning issues. The code calls for the public of the Commonwealth's involvement on issues such as:

- Location of routes (§ 33.1-18);
- allocation of primary and interstate construction funds (§ 33.1-23.2);
- transfer of infrastructure from primary to secondary systems (§ 33.1-35);
- secondary highway six-year planning (§ 33.1-70.01);
- agreements for construction and operation of toll facilities (§ 33.1-228.1);
- and, creation of a new district (§ 33.1-410).

Commonwealth Transportation Fund Budget Development

Once a project proceeds through the public hearing phase, the Commonwealth Transportation Board can approve a project for inclusion in the six-year improvement plan and the budget process. The budget process analyzes transportation needs with the availability of transportation funds within the Commonwealth Transportation Fund (CTF).

Both state and federal revenues are funding sources for the CTF. State revenues consist of various taxes and fees that support the primary transportation funds. There are also several direct sources of revenues including federal funds, debt, toll revenues, reimbursements from localities, and public-private transportation arrangements.

The Department of Taxation (Taxation) prepares revenue estimates for the major state revenue sources. Taxation bases this forecast on economic models used to project revenues using key factors including national and state economic scenarios. This process is the same method used to forecast General Fund revenues. In addition, Transportation prepares the federal revenue forecast based on federal highway apportionment tables. The 2006 forecast of HMO and TTF revenues, prepared by Taxation, is included in Appendix D.

Taxation provides two CTF forecasts: the standard and an alternative. The purpose of these forecasts is to provide two distinct perspectives of the national economy with the alternative outlook typically being the more conservative forecast. Taxation subscribes to national economic forecasts, which provide information for several regions and international industries, including state governments. The Governor's Advisory Board of Economists and the Advisory Council on Revenue Estimates recommend the choice of the standard or alternative outlook to the Governor in independent assessments.

The budget development process consists of two phases: revenue forecast and cost estimation. Because the CTF is special revenue funded, the success of transportation incentives is dependent upon reliable forecasts and accurate cost estimations. Overly optimistic forecasts or inaccurate project cost estimations can lead to cash flow and project completion issues. This section reviews the state and federal revenue forecasting methodology and accuracy over time. We also look at the methods to estimate maintenance and construction costs over time and the historical impact of forecast and cost estimation accuracy.

Revenue Forecasting

Taxation has responsibility for forecasting all major sources of tax revenue for the CTF. Taxation estimates most of the revenue sources tied to fuels taxes and user fees. Taxation also forecasts sales tax revenue for the one-half cent dedicated to Transportation. Transportation is responsible for forecasting revenues from transportation related activities.

In developing the revenue estimate, Taxation considers a number of factors and variables, including motor fuel prices, vehicle prices, personal income, motor fuel consumption, motor vehicle sales, new taxable titles, and vehicle registrations. Based on a combination of these factors and trends in transportation revenue collections, Taxation estimates what they believe to be the best projection to the Secretary of Finance for approval. Typically, the revenue estimates released in December of each fiscal year reflect estimates for the current fiscal year and six years beyond.

Each December, the Governor, the Secretary of Finance, and Taxation, release their formal revenue estimate for the Commonwealth, including the CTF related revenues. This estimate becomes the basis of all transportation appropriations. The transportation agencies, the Commonwealth Transportation Board, and the General Assembly use the results of this forecast in the development of the agencies' budgets.

Forecasting Accuracy

The Transportation agencies budget on an annual, biennial, and six-year basis using these revenue estimates. The accuracy of the estimates can influence decisions as to how much and which construction and maintenance work is scheduled and accomplished each year and throughout the six-year improvement program. As previously noted Taxation, and Transportation collect and forecast revenues that support transportation. All of these estimates are part of the annual budgeting process for the Commonwealth.

As illustrated in Table 1, transportation revenues from state taxes and fees have steadily increased and the revenue forecasts have been accurate. However, as Table 2 illustrates, total actual revenues lagged behind total forecasted revenues for at least four of the last five years. This variance is primarily due to the disconnection between federal apportionment and reimbursement illustrated in Table 3. Revenue estimates are prepared using the total forecasted revenues; however, due to the project planning lifecycle have exceeded actual collections in recent years.

Table 1

State Taxes and Fees Revenues

Year	Highway Maintenance Fund		Transportation Trust Fund		Total Commonwealth Transportation Fund		Variance
	Forecast	Actual	Forecast	Actual	Total Forecast	Total Actual	
2001	\$1,171.8	\$1,180.4	\$728.5	\$750.5	\$1,900.3	\$1,930.9	1.6%
2002	1,175.9	1,226.3	739.9	749.4	1,915.8	1,975.7	3.1%
2003	1,292.8	1,256.1	756.3	744.9	2,049.1	2,001.0	(2.4%)
2004	1,285.0	1,334.6	773.4	799.7	2,058.4	2,134.3	3.6%
2005	1,357.6	1,357.3	837.2	846.5	2,194.8	2,203.8	0.4%
2006	1,349.9	1,383.0	903.6	912.9	2,253.5	2,295.9	1.9%

Source: Department of Taxation
In millions

Table 2

Other Transportation Revenues **

Year	Highway Maintenance Fund		Transportation Trust Fund		Total Commonwealth Transportation Fund		Variance
	Forecast	Actual	Forecast	Actual	Total Forecast	Total Actual	
2001	\$5.7	\$11.5	\$ 862.1	\$ 638.2	\$ 867.8	\$ 649.7	(25.1%)
2002	22.7	15.1	1,053.1	1,062.3	1,075.8	1,077.4	0.2%
2003	-	13.6	779.1	783.8	779.1	797.4	2.3%
2004	-	13.4	1,241.0	763.8	1,241.0	777.2	(37.4%)
2005	-	29.4	877.0	620.4	877.0	649.8	(25.9%)
2006	-	37.4	1,190.6	665.1	1,190.6	702.5	(41.0%)

* Other revenues include federal grants and contracts, receipts from localities, and toll and miscellaneous revenues

Source: Department of Taxation

In millions

Table 3

Federal Grants and Contracts Revenues

Year	Highway Maintenance Fund		Transportation Trust Fund		Total Commonwealth Transportation Fund		Variance
	Forecast	Actual	Forecast	Actual	Total Forecast	Total Actual	
2001	\$5.7	\$11.5	\$ 765.7	\$537.9	\$ 771.4	\$549.4	(28.8%)
2002	22.7	15.1	952.4	948.8	975.1	963.9	(1.1%)
2003	-	13.6	669.4	678.3	669.4	691.9	3.4%
2004	-	13.4	1,068.8	639.2	1,068.8	652.6	(38.9%)
2005	-	29.4	764.8	456.0	764.8	485.4	(36.5%)
2006	-	37.4	1011.3	480.8	1011.3	518.2	(48.8%)

Source: Department of Taxation

In millions

Project Priorities and Transportation Planning

The transition from revenue estimation to a budget of transportation projects involves a two-step process. These steps include the statutory allocations of the revenues, discussed later, and the development of transportation project priorities.

The development of transportation project priorities occurs with the help of MPOs, PDCs and the public hearing process; and includes making a long-term assessment of transportation needs in the Commonwealth and then converting these needs into projects. The long-term process, VTrans2025, intends to provide a long-term assessment of transportation needs through 2025 and set priorities to address those needs. The six-year improvement program is the mechanism that the Commonwealth Transportation Board uses to schedule and program projects. However, the operating plans for Highways, Mass Transit, and Rail are generated independently by the various Transportation agencies and is then pulled together when adopted by the CTB.

Cost Estimation

The second phase of the budgeting process is the projection and estimation of program costs. While consideration of all costs is important, CTF program activity is primarily project-oriented. Therefore, accurately estimating project costs is critical to budget development and monitoring.

Project cost estimation is a process of determining the amount of materials and predicting other costs that are required to complete a project. It should serve as a means to connect the planning of projects to their execution. In the initial stages, the ability to link potential costs to high level project planning helps to determine the viability of a project. It also provides a means to develop exact specifications and guidelines for projects. Having this ability allows transportation agencies to conduct project advertisements to potential contractors, as well as develop a level of expectation for results. Transportation agencies should use project cost estimation as the link between project execution and budget formulation not only for a particular project, but for transportation as a whole.

Cost Estimation at Transportation

Project cost estimation is in a period of transition at Transportation. Over the past 20 years, the tools used to project costs evolved from contract management systems to actual unit cost estimation. In the 1980s, Transportation began using a cost estimation software package called Trns*Port. This system helps manage projects during various phases of the planning and construction process. With modifications made over time, the system currently has the ability to use historical construction data from Transportation, as well as industry standard costs to develop project cost estimates. In order to produce a reliable estimate, Trns*Port requires detailed engineering and project specifications be used. With this information, the system can supply unit cost estimation for projects including such items as traffic control barrels and tons of concrete. The major weakness to Trns*Port is its inadequate usefulness as a long-range planning tool.

The Commonwealth Transportation Board uses the six-year improvement program as a long-range funding plan for the Commonwealth's transportation system. The six-year improvement program shows the distribution of both actual current year and anticipated five-year allocations for a six-year period to items such as public transportation, and highways. It also includes funding for the interstate, primary, urban, and secondary systems, public transportation, and other federal and state transportation programs.

The six-year improvement program is the implementation plan for all roadway construction projects in the Commonwealth. The Board revises the plan annually to establish construction project priorities throughout the state. When Transportation incorporates a project into the six-year improvement program, plans are often incomplete, full right-of-way costs are not determined, extraordinary engineering requirements are not considered, and other design issues are not completed. Since Trns*Port requires detailed project plans to produce a reliable estimate, this system cannot reliably be used to help estimate project costs and budget needs.

In response to the Auditor of Public Accounts recommendation that Transportation ensure that expected project payouts are in line with expected revenues, Transportation developed a construction project-scoping program that analyzes projects by function instead of by project detail. This system, the Project Cost Estimation System (PCES), takes into account, at the beginning of a project, the estimated levels of service on the roadway and project components instead of individual details. PCES has been integrated with the suite of project management software that Transportation utilizes, including PPMS and Trns*port.

Cost Estimation at DRPT, Port Authority, and Aviation

Due to their smaller size, DRPT, Port Authority, and Aviation do not maintain large planning and engineering staffs. Planning of projects occur on a case-by-case basis. These agencies frequently contract with architectural and engineering firms to develop project cost estimates. For example, when the Port Authority decides to undertake a project, they provide the firms with general specifications. The firms conduct the extensive work, deciding material usage and labor needs. They provide the Port Authority with the final specifications to decide if the project is feasible. If so, the Port Authority will issue a request for proposal for the project. The goal is that the bids will be under the original estimate, and they often meet that goal. Most importantly, when the Port Authority receives project proposals, they already have an estimate of project costs.

Cost Estimation at Motor Vehicles

While Motor Vehicles is not a project-oriented agency, its operational costs can have an impact on the funds available for transportation projects. In November 2003, the Auditor of Public Accounts issued a special report on cost analysis at Motor Vehicles, which included recommendations for improving costing and budget estimation processes at the agency. The Auditor of Public Accounts issued a second report the following year detailing Motor Vehicles plan to address these issues, including a new cost accounting structure.

Motor Vehicles used the 2003 APA Cost Study as a guide when developing their own Cost Model. The Agency separated the model into six major functions; Driver Services, Vehicle Services, Tax Services, Motor Carrier, Information Services, and Transportation Safety. These six functions were then broken down into their major revenue producing activities. Motor Vehicles calculated direct costs, indirect overhead, and transaction volume for each activity to produce a cost per item. The cost per item for each of the activities is the major product of the cost model.

The agency Management is using the cost model information to aid in decision-making. The current goals of the cost model are to help management identify ways to eliminate unnecessary activities, select low-cost activities, and reduce time or effort required to perform an activity. The cost model will constantly be changing to keep up with the changes and reorganizations at Motor Vehicles.

Six-Year Improvement Program

The six-year improvement program is the mechanism the Commonwealth Transportation Board uses to schedule and program projects. It outlines the Board's plan to distribute available funds for public transit, rail, and prioritized highway construction projects in the current fiscal year and for the following five fiscal years. Currently, Transportation is operating under the 2007-2012 six-year improvement program.

The six-year improvement program has two phases for highway projects: development and construction. Projects in the development phase are in the planning stage and funding is not yet available for their construction. Projects in the construction phase have enough funding to begin building within the next six fiscal years. The six-year improvement program gives priority to those projects that address critical safety and mobility issues and environmental compliance. Most projects in the construction phase have a sufficient commitment in the revenue stream to assure their full funding by the year of completion.

Once the Board completes and approves the six-year improvement program, the Department records the plan into the Financial Management System (FMS). Project managers are to use the information provided by FMS to track project expenditures; however, the system is not used to provide any controls to prevent a project from exceeding its approved budget. Rather, it is the responsibility of individual project managers to ensure actual expenditures are within the approved budget.

The current six-year improvement program (2007-2012) as revised June 29, 2006 allocates over \$7 billion to study, design, or build highway infrastructure as well as to study, design, or build new public transit infrastructure and provide operating assistance to existing transit systems over the six-year period beginning July 1, 2006. For the current year, the Programming division of VDOT has classified SYIP funding sources in more detail on an individual project basis. This differs from the previous practice of accumulating funding in a lump sum and allocating funding to projects from that sum. This process allows tracing funding sources down to the individual project level.

Oversight and Control

Commonwealth Transportation Board

The General Assembly established the Board as the State Highway Commission in 1906. Its original mission was to advise the counties, who at that time had responsibility for their roads, on planning, funding, and administrative issues. Today, the Board is primarily responsible for locating routes, approving major construction contracts, creating traffic regulations, naming highways, and administering and allocating funding.

The Governor appoints, and the General Assembly confirms, the 17 members of the Board. Although the geographic district structure is the basis for appointment of nine members, state law assigns all members their duties on a broader basis; that is, they are to represent the state as a whole, not solely the districts from which they are appointed. The Secretary of Transportation serves as Chairman of the Board and the Commonwealth Transportation Commissioner acts as Vice-Chairman. The Director of DRPT also serves as a non-voting member. The Governor selects one member from each of the state's nine highway construction districts and five members as at-large members. State law limits Board members to two successive four-year terms; however the Governor may appoint a member to complete an unexpired term who is still eligible to serve two full terms.

The Code of Virginia specifies the legal powers and duties of the Board. The legislation contains 16 specific powers and duties, which include:

- Location of routes;
- Approval of all construction contracts;
- Coordination of the planning for financing of transportation needs as provided in Section 33.1-23.03 of the Code of Virginia;
- Administration, distribution, and allocation of funds in the TTF as provided by law;
- Approval of all maintenance contracts equal to or greater than \$250,000; and
- Recommendation of Transportation projects to the General Assembly for their consideration at the next session of the General Assembly.

The Code of Virginia also requires the Board to conduct a comprehensive review of statewide transportation needs in a statewide transportation plan outlining an inventory of all construction needs for all systems. The Board establishes goals, objectives, and priorities based upon this inventory, covering a 20-year planning horizon in accordance with federal transportation planning requirements. The General Assembly has clearly expressed their intent that the Board establish objective criteria for project selection and prioritization, and maintain a statewide transportation focus.

Rail Advisory Board

The Rail Advisory Board consists of nine members appointed by the Governor for terms of four years. One of such appointees shall be an at-large member of the Commonwealth Transportation Board. The Board has the following responsibilities.

1. Developing recommendations for presentation to the Commonwealth Transportation Board to propose allocations of funds from the Rail Enhancement Fund.
2. Identifying, developing, and advocating projects and policies to enhance the quality and utility to the public of rail transportation in the Commonwealth.
3. Advising the Director and the Department on any other matters pertaining to transportation in the Commonwealth.

Aviation Board

It is the function of the Aviation Board to provide a means of citizen access to the Department of Aviation. Along with citizen access, the Board monitors the policies and activities of Aviation and has access to all departmental information. The Board monitors policies and programs of the Department of Aviation in order to educate the public and elicit public support of agency activities. The Board also has an advisory capacity in relation to the Governor and the Agency Director on matters regarding the Commonwealth's aviation policies and programs.

The Aviation Board is also responsible for public oversight of the Commonwealth's aviation industry. They promulgate regulations necessary to promote and develop safe aviation practices, facilities and personnel, and allocate funds to localities for aviation development.

Motor Vehicle Dealer Board

Dealer Board regulates motor vehicle dealers and salespersons. The Dealer Board's regulatory powers and responsibilities include testing, issuing licenses and certificates to dealers and salespersons, developing regulations, conducting inspections, and responding to complaints concerning licensed dealers and salespersons. The Dealer Board can invoke disciplinary actions including, but not limited to, revoking licenses or certifications and assessing civil penalties for regulatory violations.

A 19-member board governs operations and sets dealer and salesperson fees that support daily activities. The Motor Vehicles Commissioner serves as Chairman. The Commissioner of Agriculture and Consumer Services also serves on the Dealer Board. The Governor appoints the remaining members to staggered terms. Dealer Board members represent franchised and Independent dealers, the rental and salvage industries, and consumer interests.

The Dealer Board employs 20 full-time and four part-time staff who investigate dealer compliance and complaints against dealers; process dealer applications and renewals; respond to consumer complaints; monitor advertising; and perform other administrative and supervisory functions.

Motor Vehicle transaction Recovery Fund

The Dealer Board also administers the Motor Vehicle Transaction Recovery Fund to compensate consumers who have judgments against licensed dealers or salespersons for violations of regulations or fraudulent activity related to a vehicle transaction. The fund is restricted from use for any other purpose. The Code of Virginia limits recovery to retail purchasers of vehicles and to licensed or registered dealers or salespersons who pay into the fund.

To finance this fund, newly licensed dealers pay \$250 annually for three years. After three years, annual fees are no longer required. Dealers located in another state who want to sell to wholesale auctions in Virginia pay \$60 annually. In addition, dealers and salespersons may pay individual annual fees ranging from \$10 for a salesperson to a maximum of \$100 for a dealer. The Code of Virginia sets maximum fee amounts while granting the Dealer Board the authority to suspend or reinstate fees. For the past four years, revenues have exceeded claim payments in the Motor Vehicle Transaction Recovery Fund. The last transfer to the General Fund was made in fiscal year 2003 in the amount of \$4.2 million.

Table 5

Motor Vehicle Transaction Recovery Fund Activity

Balance at July 1, 2004	\$ 513,296
Fiscal year 2005	
Revenue	228,418
Claim payments	(80,886)
Transfers	<u>2,217</u>
Net increase	149,749
Fiscal year 2006:	
Revenue	248,930
Claim payments	<u>(164,829)</u>
Net increase	84,101
Balance at June 30, 2006	<u>\$ 747,146</u>

Port Board of Commissioners

A Board of Commissioners composed of 12 members provides oversight for the Virginia Port Authority. The Commissioners consist of 11 citizens appointed by the Governor in addition to the State Treasurer who is an ex-officio member of the Board. While the Commissioners remain on the Board at the continuing pleasure of the Governor, they serve staggered five-year terms. Commissioners may serve a maximum of two consecutive terms.

The Authority's major activities are developing water transportation facilities; providing security services; maintaining ports, facilities, and services; providing public relations and domestic and international advertising; and, with offices in the United States and several foreign countries, developing Virginia's ports through cargo solicitation and promotion throughout the world.

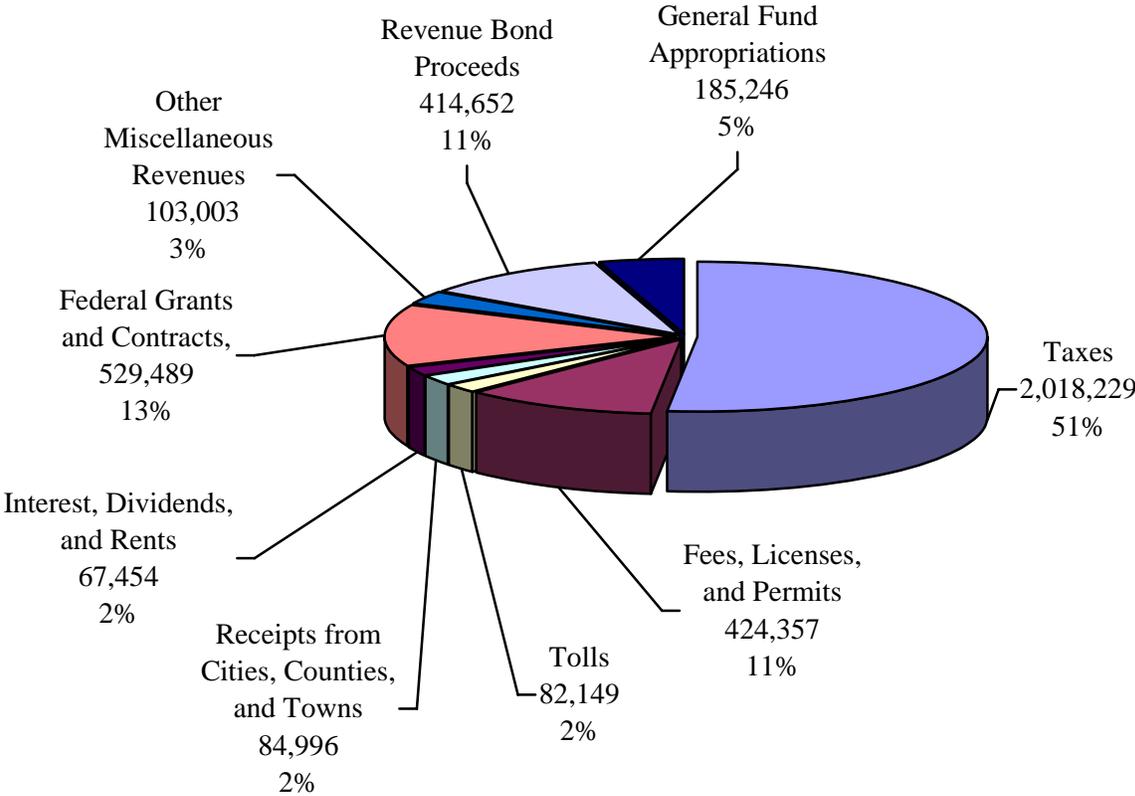
The Board of Commissioners also appoints the chief executive officer of the Authority, who is not a member of the Board, and who shall serve at the pleasure of the Board. The Board sets the Executive Director's compensation.

TRANSPORTATION FUNDING

Source of Funds

In general, Commonwealth Transportation has three primary revenue-funding sources, and the ability to issue debt, that supports the Commonwealth's transportation agencies and their activities. In fiscal year 2006, these sources generated over \$3.9 billion in transportation funding (excluding port authority revenue).

2006 CTF Revenue Sources



*Other miscellaneous expenses include airport assistance, planning and regulation; capital outlay projects; environmental monitoring; and regulation of professions and occupations.

In thousands

Taxes and Fees

The sources are specific transportation user fees and taxes, such as fuels tax, motor carrier fees, vehicle titling fees, collected by Motor Vehicles; a half-cent state sales-and-use tax, which are dedicated to transportation needs and collected by the Department of Taxation. Motor Vehicles is the primary collector of funding to support transportation programs. Motor Vehicles funds its operations by retaining a portion of revenues collected and obtaining federal grants for agency-specific programs. The percentage of collections kept by Motor Vehicles varies by operations and purpose of collections. The Code of Virginia establishes the distribution and use of funds. In addition, the Governor's Budget and actions of the General Assembly may also restrict and limit Motor Vehicles' use of the collections retained. The amount retained by Motor Vehicles is approximately 8 percent of every dollar collected in each of the past two fiscal years.

The fuels tax collection process at Motor Vehicles generates over \$870 million in revenues. This money fund Highway, Rail and Transit, Airport, and Port Acquisition and Construction and Maintenance. Motor vehicle registration fees, vehicle title fees, driver license fees, record fees, and reserved license fees are the primary collections, which in turn produce the highest sources of revenue for operations. Motor Vehicles places its portion of the revenue in a special fund titled, "Motor Vehicles Special Fund." Management uses the resources out of the Motor Vehicles Special Fund to administer the programs and to meet statutory requirements. Motor Vehicles' major expenses are personal services, postage, information technology, telecommunications, license plates, equipment, and plant rentals.

Federal Appropriations

Federal Transportation Funds are the second major source of funding for the CTF. These federal funds assist in providing for construction, reconstruction, improvement of highways and bridges on eligible federal highway routes, and for other specific purposes as awarded by FHWA. In fiscal year 2006, federal transportation revenues were \$529.5 million or 13.5 percent of the total revenues allocated for transportation funding in the Commonwealth compared to \$502.3 million (13.2 percent) in 2005.

The Federal-Aid Highway Program is a reimbursable program, and as such, the federal government only reimburses for costs actually incurred each year. Federal funding consists of two basic types: Highway Trust Funds (HTF) and earmarks. The Federal Highway Administration (FHWA) distributes HTF based on a formula established by the federal government. The HTF also contains other discretionary funds for Transportation and Rail and Public Transportation projects. On the other hand, earmarks are grants for specific amounts dedicated to specific programs or projects, but are still reimbursements of incurred costs. These grants generally require matching contributions by the Commonwealth to receive actual FHWA reimbursement.

FHWA allocates federal funds through apportionments. These apportionments act as lines of credit; and Transportation may draw upon these funds as federally-assisted projects are developed. Assignment of federal funds through apportionment occurs before Transportation submits actual expense reimbursement requests. Apportionments must be obligated to projects within the normal four-year obligation period before they expire. If they expire, Transportation will not be able to use the funds. Historically, Virginia uses all its available apportionments.

The current apportionment of federal transportation dollars are governed by federal legislation known as SAFETEA-LU (Safe, Accountable, Flexible, Efficient Transaction Equity Act - A Legacy for Users), passed in August 2005. Included in this legislation (Public Law 109.59) was a series of tables, by federal fiscal year, which estimate the amount of federal transportation apportionments and earmarks each state could expect. SAFETEA-LU establishes an annual federal-to-state obligation and accompanying limitation, for limiting highway spending each year. Limitations are set-aside each year, for certain programs. These limitation set-asides do not expire if the state does not use the fund by the end of the fiscal year, but instead carry over into future years. The portion of the limitation set-aside for research and technology programs may also carry over, but only for three years. This balance accumulates with the current year apportionment.

New to this legislation are several programs that promote private investment in Transportation. Pilot programs increase state flexibility to use tolls, not only to manage congestion, but to finance infrastructure improvements as well. To help close the gap between highway infrastructure needs and resources available from traditional sources, SAFETEA-LU includes provisions that enhance innovative financing. Private Activity Bonds provide states the opportunity for new sources of investment capital to finance transportation infrastructure system. The Transportation Infrastructure Finance and Innovative Act (TIFIA) program provides Federal credit assistance to nationally or regionally significant surface transportation projects. The Act also expanded the benefits of State-Infrastructure-Bank programs to all states and U.S. territories, allowing all entities to enter into cooperative agreements with the Secretary of Transportation and to establish infrastructure revolving funds eligible to be capitalized with Federal transportation funds authorized for fiscal years 2005 - 2009.

Bond Proceeds and Interest

Transportation also uses various debt to finance roads and issues debt instruments in accordance with the Constitution of Virginia. Most of Transportation's debt has a dedicated revenue stream used to pay debt services with a significant portion of debt secured by future federal reimbursements and is referred to as Federal Highway Reimbursement Anticipation Notes (FRANS) – Securitized Federal Reimbursements.

Transportation constructs and operates a number of toll road facilities within the Commonwealth. The construction of these facilities typically occurs by issuing debt in which Transportation operates as the fiscal agent. Toll revenues support debt service on these projects, once complete. We discuss the individual projects later in this report. Transportation also enters into agreements with special districts to enhance transportation systems within the geographical boundaries of these districts. Following is a discussion of these districts and their financing.

Transportation Debt - June 2006

Program	Outstanding Debt	Fiscal Year	
		2006 Debt Service	Year Paid Off
Oak Grove Connector	\$ 24.2	\$ 2.3	2022
Powhite Parkway Extension	27.2	-	2011
Coleman Bridge	34.8	-	2026
Dulles Toll Road	39.2	-	2016
Route 28	104.8	33.7	2032
NOVA Transportation District Program	310.3	34.3	2027
Route 58 Corridor Program	546.5	54.9	2026
FRANS	<u>869.1</u>	<u>218.9</u>	2015
Total	<u>\$1,956.1</u>	<u>\$344.1</u>	

Source: VDOT
In millions

Transportation's bonds fund a variety of diverse projects, including State Route 28, the U.S. Route 58 Corridor, the Northern Virginia Transportation District Program and the Oak Grove Connector (Chesapeake). All of these projects represent specific geographical areas with identified transportation project needs and the citizens and governing bodies were willing to commit a portion of current and future revenue streams to fund these projects.

The State Route 28 bonds are limited obligations of the Commonwealth that require payments of debt service from a local dedicated revenue stream not controlled or imposed by Transportation. A special tax, recommended by the State Route 28 Highway Transportation Improvement District to the localities, imposes a tax on individuals and businesses in the District. In addition, the locality allocations as well as any other legally available money from the TTF are additional sources to pay debt service on the bonds.

The U.S. Route 58 Corridor Revenue Refunding Bonds, Series 2002B, depend on future appropriations, requested by the Transportation Board, of the recordation tax collected in the U.S. Route 58 Corridor Development Fund, which is a component of the TTF. Secondary sources for debt service include other legally available funds from the TTF and appropriated from the General Assembly. These bonds fund projects to upgrade and improve U.S. Route 58 over the length of Virginia.

The Northern Virginia Transportation District Program Bond Act of 2003 authorizes the Northern Virginia Transportation Authority to issue bonds in an aggregate principal amount not to exceed \$1 billion to complete and implement certain transportation projects included in the approved plan. The plan includes the following construction projects:

- Route 15 Leesburg Town Line
- Fairfax County Parkway
- Route 1/Route 123 Interchange
- Route 123 Widening Occoquan, Occoquan River Bridge and improvements in Fairfax County
- Route 7 Loudoun and Fairfax counties
- Route 28 Parallel Roads and 625 interchange improvements in Loudoun
- Route 234 Bypass

The debt service will come from several revenue sources, including dedicated state and local revenues, such as the state recordation tax collected in the affected cities and counties and the public right-of-way use fees collected in Fairfax, Loudoun, and Prince William.

The Oak Grove Connector is 2.5-mile 4-lane limited access roadway that connects I464 to VA-168. The official opening of the Connector occurred in July 1999. Transportation Program Revenue Bonds financed the construction of the Oak Grove Connector. Sources for debt service include state recordation tax and local revenues collected in the city of Chesapeake and local general revenues.

Federal Highway Reimbursement Anticipation Notes are secured by and payable solely from funds appropriated for such purpose by the General Assembly, the source of which is expected to be limited to federal highway reimbursements received from time to time by the Commonwealth. This debt does not relate to a specific geographical area. Transportation issues FRANS to finance various capital transportation projects throughout the Commonwealth pursuant to the Virginia Transportation Act of 2000 (VTA). The notes have a ten-year maturity and commit future appropriations of future Federal Highway Administration reimbursements.

Debt Issuance Policy

The purpose of the Board's debt policy is to establish the level of indebtedness the Commonwealth Transportation Board can reasonably expect to incur without jeopardizing its existing credit ratings and to ensure the efficient and effective use of debt financing of the Board's transportation infrastructure development program. As such, the Board uses the debt policy with the approved budget, the six-year improvement program, and the official revenue forecast.

Transportation's Innovative Finance and Revenue Operations division, along with the Public Resources Advisory Group (a private financial advisor) and Department of Treasury staff, worked to develop the debt management policy and capacity model. The overall intent of the policy is to ensure that the Board debt maintains its current credit rating. The policy will also guide Transportation and the Board in determining the timing, size, and debt structure of future FRAN issues.

Toll Revenue

Toll facilities provide a portion of Transportation's revenues and arise from the operation of three major toll facilities located in Northern Virginia, Central Virginia, and Hampton Roads. The facilities are the Omer L. Hirst – Adalard L. Brault Expressway (the Dulles Toll Road), the Powhite Parkway Extension Toll Road, and the George P. Coleman Bridge. These toll revenues pay the debt service on bonds issued to construct the facility and fund daily operations. Appendix E has a detailed sources and uses information.

Miscellaneous Sales and Fee Revenue

Transportation accumulates revenues from other sources in addition to the revenues discussed above. These include toll revenues, reimbursements from localities, public/private partnerships, the General Fund, and debt.

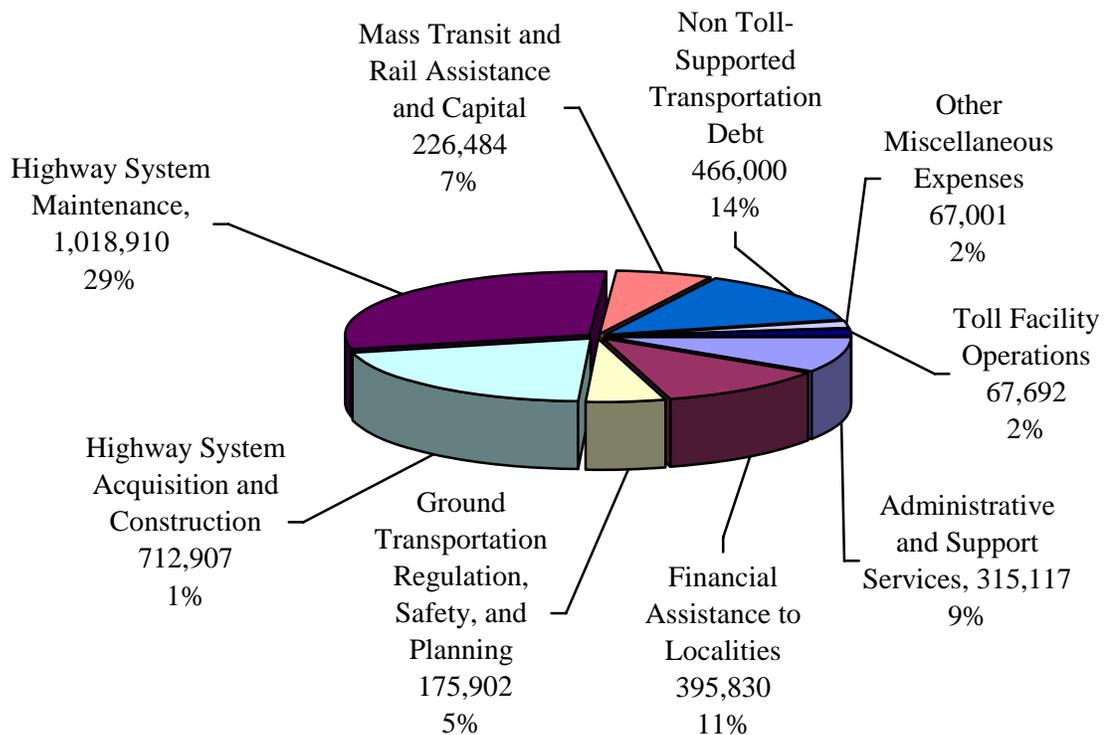
Localities provide reimbursements for participation projects. Participation projects occur when Transportation performs construction or repair work for localities, which must pay a certain percentage of the construction costs.

Aviation receives the majority of its funding from the 2.4 percent of the TTF allocation to the Commonwealth Airport Fund. Aviation's other primary revenue sources are from the collection of aviation fuels taxes and Virginia aircraft sales and use taxes. These revenues, in addition to the TTF allocation, pay Aviation's administrative expenses and provide funding to local airport improvements, maintenance, airport system planning, regulation, and safety.

Allocation and Use of Funds

In fiscal year 2006, the agencies under the Secretary of Transportation, excluding the independent Port Authority, spent over \$3.4 billion, or 10.7 percent of the \$31.9 billion statewide annual operating budget. Maintenance and construction of highways were the largest uses of these funds.

2006 CTF Program Uses



*Other miscellaneous expenses include airport assistance, planning and regulation; capital outlay projects; environmental monitoring; and regulation of professions and occupations.

In thousands

Transportation Trust

After funding maintenance expenses as discussed above, the Code of Virginia requires the allocation of the remaining funds for the administration of Transportation and the construction program. To establish the TTF for construction, the General Assembly dedicated certain revenue streams to a special non-reverting fund in 1986. These revenues were increases in existing taxes and fees, with the increase dedicated to the TTF. The largest of these revenue sources, the one-half cent state sales and use tax increase, represented a new source of funding for transportation, while the other tax and fee increases represented increases in existing transportation sources. Unlike the HMO, which is dedicated to highways, the TTF allocates funds to all modes of transportation in Virginia.

Transportation acts as the fiscal agent of the TTF and allocates the revenues as provided in the Code of Virginia. Transportation allocates these revenues before allocating any funds for the highway system. The process begins with the official revenue forecast for transportation revenues. Once received, Transportation determines the allocation amounts to the various modes using these percentages.

In addition to the 78.7 percent of the TTF, Transportation allocates its federal apportionment to constructing, reconstructing, and improving the interstate, primary, secondary, and urban road systems. The allocation of the construction formula funds is as follows.

40 Percent Primary System - Allocated to each of the nine construction districts based on primary roads by weighted factors of 70 percent for vehicle-miles traveled, 25 percent for lane miles, and 5 percent for the primary road need factor.

30 Percent Secondary System - Allocated to each of the counties based on population and land area by factors weighted as 80 percent for population and 20 percent for land area.

30 Percent Urban System - Allocated to cities and towns by population.

Highway Maintenance and Operation

The HMO fund was originally the Commonwealth's only highway fund. The 1986 General Assembly session created the TTF specifically to fund construction improvements for all modals. The HMO's primary function is the funding of highway system maintenance and Transportation's general and administrative expenses.

HMO Fund allocations provide road maintenance funding, while TTF allocations primarily support road construction. Transportation receives an allocation of 78.7 percent of the TTF revenues collected. The remaining 21.3 percent of TTF allocations provide funding for the Mass Transit, Port, and Airport Funds. Transportation also receives a substantial portion of its highway funding from the Federal Highway Administration (FHWA) in the form of federal grants. Bond revenues primarily come from Federal Revenue Anticipation Notes and several refunding bonds.

The Code of Virginia requires the full funding of highway maintenance before the funding of construction. The Board must allocate reasonable and necessary funding for maintenance of roads within the interstate, primary, and secondary systems, city and town maintenance payments and counties that have withdrawn or elect to withdraw from the secondary system. For fiscal year 2006, the Board approved \$1.5 billion for Transportation maintenance spending, including a \$284.9 million distribution to localities for maintenance activities, in 2005; the total budget for maintenance was about \$1.3 billion.

While the Code of Virginia prioritizes the maintenance of the existing state highway infrastructure over other activities, including construction, it does not establish specific guidelines relating to the condition of the highway system or any funding. Transportation is responsible for determining and allocating funding needs for Highway Maintenance.

Under the current budget process, the Asset Management Division has the responsibility of allocating funds within the maintenance program. Previously, the Maintenance Program Leadership Group (MPLG) that includes all nine District Maintenance Engineers and a few others had the decision-making authority over the maintenance budget; however, that responsibility has shifted to the Asset Management Division. The MPLG now acts as an advisory group to them. The districts submit their budgets to the Asset Management Division who compiles and makes the initial decision to approve or reject the total budget. The Division then forwards the total budget to the Commissioner and the Board for final approval.

In the past few years, the transfer of TTF funds to the HMO has reached a point known as “Crossover.” This is the amount of construction funding required to support the funding needs of the HMO fund.

Highway Construction

The prioritization of activities funded is loan repayments, highway maintenance and operations, aviation, mass transit, ports, support to other state agencies, administration, upkeep of the Transportation’s buildings, and certain other activities. The funding allocation for Motor Vehicles’ operations occurs before the transfer of revenues to the CTF. For fiscal year 2006, non-federal Highway construction expenditures totaled \$282.8 million compared to \$522.5 million in 2005. Federal highway construction expenditures totaled \$430.1 million compared to \$450.9 million in 2005.

Substantial variations in construction expenses from year to year exist due to the nature of construction activities. Timing of projects can cause significant fluctuations in construction spending from year to year. Because of this, more focus exists on the allocation process in the SYIP to ensure the allocation of money for spending, not necessarily actual expenses.

Priority Transportation Fund

The Virginia Transportation Act of 2000 (VTA) established the Priority Transportation Fund (PTF), a component of the TTF. Revenues directed to the PTF come from a variety of new and existing revenue sources, including revenues generated by a change in the Virginia Fuels Tax Act, TTF, select revenues in excess of forecasts, and any other appropriations that the General Assembly and Governor may provide. Required deposits to the PTF include the following:

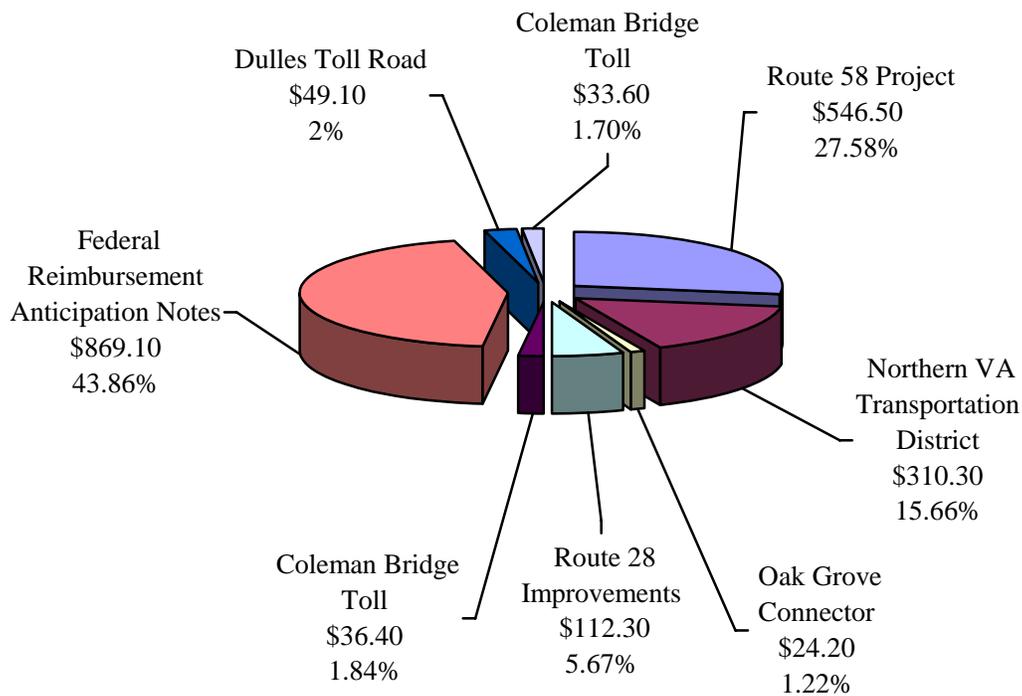
- additional revenues attributable to the Virginia Fuels Tax Act;
- Transportation Trust Fund, construction and mass transit portion, and Highway Maintenance Operating Fund in excess revenues over official estimates; and
- any other appropriations provided by the General Assembly and Governor.

During fiscal year 2006, the PTF received \$145 million in General Funds, \$28.5 million from the Highway Construction Fund, and \$20 million in additional revenues attributable to the Virginia Fuels Tax Act. Transportation spent \$107 million on PTF projects in fiscal year 2006 and transferred approximately \$141.3 million to fund FRAN debt service per Chapter 951 in the 2005 Acts of Assembly, and \$33.6 million was transferred to the Department of Rail and Public Transportation.

Toll and Bond Funds

Transportation has special funds to account for toll operations and special projects that have unique debt service obligations, which we describe below. Appendix E contains an analysis of 2006 activity in these funds and any new bond issues pursuant for these projects, we discuss in the Bond Proceeds Section above. As of the end of year 2006, total bond bonds outstanding for Transportation were \$1.98 billion, allocated as follows:

2006 Transportation Bonds Payable Outstanding



In millions

Route 58 Corridor Development

The Virginia General Assembly established the Route 58 Corridor Development Program in 1989 to enhance economic development potential across this largely rural portion of the state. Initial work occurred in Henry County and construction improvements will continue to move westward through the Salem and Bristol Districts.

Northern Virginia Transportation District

Section 33.1-221.1:3 of the Code of Virginia established a Program for Northern Virginia Transportation District Projects. The Commonwealth Transportation Board makes annual allocations to this district.

Oak Grove Connector Project

The Commonwealth Transportation Board had originally set up separate allocations and funding for the “Oak Grove Connector”, which extends from the I-64 / I-464 interchange to Battlefield Boulevard and Kempsville Road in Chesapeake. Although this project is completed, there remains payment of debt service through this fund.

Route 28 Project

In 1987, the Virginia General Assembly gave localities the authority to create special tax districts to finance transportation improvements. Fairfax and Loudoun Counties and Route 28 landowners formed the first transportation improvement district in the Commonwealth. The two counties enacted a special levy of twenty cents per one hundred dollar valuation on all commercial and industrial property inside the 10,204-acre district. Bonds funded the construction, and Commonwealth guaranteed the debt service, which the Route 28 tax pays.

In September 2002, under the authority granted by the Public Private Transportation Act, VDOT, The Clark Construction Group, Inc. and Shirley Contracting Company, LLC signed the Route 28 Corridor Improvements Comprehensive Agreement that provides a combined commitment of approximately \$200 million in improvements over the next four years. Construction plans include a total of ten interchanges and widening Route 28 to eight lanes. Funding will come from the district’s tax revenues. The revenues will support the sale of tax-exempt bonds, which have the moral obligation of both Fairfax and Loudoun Counties.

Coleman Bridge Project

Completion of the construction and improvements of the Coleman Bridge occurred in 1996. This fund remains to track toll revenue and remaining debt service from the improvements.

Federal Highway Reimbursement Anticipation Notes

FRANS have a dedicated revenue stream to pay debt services and unlike other debt, this debt does not relate to a specific geographical area. Transportation issues FRANS to finance various capital transportation projects throughout the Commonwealth pursuant to the Virginia Transportation Act of 2000 (VTA). The notes have a ten-year maturity and commit future appropriations of future Federal Highway Administration reimbursements.

Hirst-Brault (Dulles) Expressway

The Dulles Toll Road Fund pays the debt service and manages the receipt of toll revenue. On March 27, 2006, Governor Kaine announced an agreement with the Metropolitan Washington Airports Authority to assume responsibility for the Dulles Toll Road as well as completing the Dulles Corridor Metrorail Project.

Powhite Parkway Extension

The Powhite Parkway fund manages toll receipts debt service.

Mass Transit Assistance

DRPT receives 14.7 percent of the TTF and allocates this share according to the Code of Virginia, Section 33.1-23.03:2. DRPT transfers these funds to aid the mass transit systems throughout the state using the following allocation:

- 73.5 percent for urban and non-urban areas that fund public transportation systems for operating related expenses such as administration, fuels, lubricants, tires, maintenance parts, and supplies under a distribution formula using total operating expenses;
- 25.0 percent for capital purposes based on eligible capital expenses less any federal assistance received. Capital expenses include items such as replacement buses or rail cars, stop signs, and construction of terminals and stations; and
- 1.5 percent for special projects such as ridesharing, experimental transit, and technical assistance. Ridesharing programs are to support existing or new local and regional Transportation Demand Management programs. Experimental funds assist communities in preserving and revitalizing public or private public transportation service by implementing innovative projects for one year of operation. Technical Assistance supports planning or technical assistance to help improve or initiate public transportation services.

During 2006, DRPT spent \$196.4 million on mass transit assistance throughout the Commonwealth.

Railway Assistance

DRPT also grants federal and state funds to Railway Companies across the Commonwealth to assist in capital acquisitions as well as some limited operating assistance. In 2006, DRPT provided \$9.2 million to Railroads compared to \$3.7 million in 2005. In addition to this funding, the new Rail Enhancement Fund provided an additional \$1.9 million of support for the Railroads.

Marine Port Operation and Security

The Port Authority receives 4.2 percent of the TTF, which funds the majority of the Port Authority's capital projects. The Port Authority also uses the TTF revenue for operational maintenance, related to capital projects, but not capitalizable; aid to local ports; payments in lieu of taxes to localities; and debt service payments related to capital projects. The Port Authority's capital projects essentially include maintaining and expanding the existing ports, wharfs, and related facilities.

In fiscal year 2006, the Port Authority received revenues of \$37.8 million from the TTF through the Commonwealth Port Fund and generated \$229 million in revenue between Port Operations and Virginia International Terminals, Inc. With this revenue and remaining funds from fiscal year 2005, the Port Authority incurred \$224 million in operating expenses. Funds remaining in the Port Fund at the end of each fiscal year do not revert to the Commonwealth, but remain with the Port Fund for future needs. The Port Authority is not included in the financial analysis as a significant portion of their revenue and expenses come from a Component Unit.

Since the Authority is a component unit of the Commonwealth, the related financial activity is not included in this report. We issue a separate report on the financial statements of the Virginia Port Authority. The report may be accessed through our website, www.apa.virginia.gov.

Airport Assistance

Aviation receives 2.4 percent of the Commonwealth's TTF and follows the statutory requirements for its allocation. By statute, Aviation must commit 40 percent of those funds as entitlement payments to air carrier airports, 40 percent to air carrier and reliever airports on a discretionary basis, and 20 percent to general aviation airports on a discretionary basis.

Air carrier airports, with the exception of those owned or leased by Metropolitan Washington Airport Authority, receive an allocation of funds based upon the percentage of enplanements for each airport to total enplanements at all carrier airports, with a maximum of \$2 million and a minimum of \$50,000 per year. Air carrier, reliever, and general aviation airports must apply for discretionary funds. Aviation evaluates, prioritizes, and submits recommendations for allocation of the discretionary funds to the Virginia Aviation Board for final revision and approval. The Aviation Board allocates the discretionary funds and carries forward any uncommitted funds from the current fiscal year to the next fiscal year for future projects.

AGENCIES OF THE SECRETARY OF TRANSPORTATION
SUMMARY FINANCIAL INFORMATION
SOURCES AND USES
For Fiscal Years 2006 and 2005

	Department of Aviation		Department of Motor Vehicles	
	2006	2005	2006	2005
Sources:				
Revenue (net of refunds):				
Taxes	\$ 29,828,200	\$ 29,845,765	\$ 1,188,159,694	\$ 1,168,706,535
Fees, licenses, and permits	590,540	574,518	385,439,170	377,491,596
Tolls	-	-	-	-
Service, property, and recycling sales	672,581	439,055	225,462	185,199
Receipts from cities, counties, and towns	-	-	-	-
Fines and assessments	1,351	727	30,009,134	30,401,103
Interest, dividends, and rents	914,150	565,283	264,574	130,181
Federal grants and contracts	24,957	267,488	11,222,195	16,706,677
Other miscellaneous revenues	128,341	50,204	929,925	728,402
Revenue bond proceeds	-	-	-	-
General Fund appropriations	44,067	44,067	-	-
Appropriations from prior year receipts	302,660	-	-	-
Total sources	32,506,847	31,787,106	1,616,250,155	1,594,349,692
Net transfers in/(out)	(1,243,203)	(2,668,188)	(1,388,036,734)	(1,374,295,700)
Total funds available for use	\$ 31,263,644	\$ 29,118,918	\$ 228,213,421	\$ 220,053,992
Uses:				
Expenses (net of refunds):				
Administrative and support services	\$ 810,966	\$ 848,807	\$ 57,797,094	\$ 50,000,388
Air transportation planning, regulation and maintenance	4,054,549	4,058,608	-	-
Airport assistance	26,398,129	20,766,445	-	-
Capital outlay projects	-	-	434,597	876,432
Environmental monitoring and evaluation	-	-	-	-
Financial assistance to localities	-	-	35,050,024	34,518,686
Ground transportation regulation	-	-	120,405,115	110,345,563
Ground transportation system planning	-	-	-	-
Ground transportation system safety	-	-	10,713,334	11,327,419
Highway system acquisition and construction	-	-	-	-
Acquisition and construction through bond proceeds	-	-	-	-
Highway system maintenance	-	-	-	-
Land management	-	-	324,500	390,250
Mass transit assistance	-	-	-	-
Debt service, principal, and interest	-	-	-	-
Public transportation acquisition and construction	-	-	-	-
Rail assistance	-	-	-	-
Regulation of professions and occupations	-	-	-	-
Toll facility operations	-	-	-	-
Total uses	\$ 31,263,644	\$ 25,673,860	\$ 224,724,665	\$ 207,458,739

Source: Commonwealth Accounting and Reporting System

APPENDIX C

Department of Rail and Public Transportation		Department of Transportation		Motor Vehicle Dealer Board	
2006	2005	2006	2005	2006	2005
\$ 141,082,115	\$ 113,201,247	\$ 658,934,619	\$ 644,307,429	\$ 223,008	\$ 214,938
3,079,217	2,972,362	33,517,844	32,309,028	1,729,933	1,697,286
-	-	82,149,386	58,522,008	-	-
-	-	16,328,044	6,853,130	-	-
149,839	544,595	84,846,043	84,464,890	-	-
8,274	4,451	200,568	44,382	-	-
4,619,141	822,196	61,601,971	28,560,400	53,769	33,789
42,049,487	33,295,587	476,193,360	452,050,964	-	-
455,979	-	53,676,432	52,159,396	-	-
-	-	414,652,146	347,828,244	-	-
200,000	-	185,002,289	317,439,911	-	-
-	-	-	-	65,216	-
191,644,052	150,840,439	2,067,102,701	2,024,539,782	2,071,925	1,946,013
111,048,004	88,064,362	1,250,344,206	1,321,272,025	(109,569)	(186,100)
\$ 302,692,056	\$ 238,904,801	\$ 3,317,446,907	\$ 3,345,811,807	\$ 1,962,356	\$ 1,759,913
\$ 1,473,153	\$ 1,492,821	\$ 254,414,451	\$ 222,285,395	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	22,287,700	17,941,752	-	-
-	-	11,863,229	11,105,117	-	-
-	-	360,779,514	279,823,458	-	-
-	-	-	-	-	-
2,293,641	2,613,271	19,499,469	20,472,788	-	-
-	-	21,821,601	11,625,238	-	-
-	-	712,906,656	973,429,946	-	-
13,899,598	6,648,354	237,805,176	114,164,678	-	-
-	-	1,018,910,402	1,026,502,232	-	-
-	-	843,689	747,932	-	-
196,400,579	151,551,984	-	-	-	-
-	-	235,149,420	221,108,850	-	-
18,902,854	17,306,351	-	-	-	-
11,180,476	7,441,389	-	-	-	-
-	-	-	-	1,962,357	1,654,777
-	-	46,837,887	41,238,594	-	-
\$ 244,150,300	\$ 187,054,169	\$ 2,943,119,194	\$ 2,940,445,979	\$ 1,962,357	\$ 1,654,777

AGENCIES OF THE SECRETARY OF TRANSPORTATION
SUMMARY FINANCIAL INFORMATION
SOURCES AND USES
For Fiscal Years 2006 and 2005

APPENDIX C

	Secretary of Transportation		Total Commonwealth Transportation	
	2006	2005	2006	2005
Sources:				
Revenue (net of refunds):				
Taxes	\$ -	\$ -	\$ 2,018,227,636	\$ 1,956,275,914
Fees, licenses and permits	-	-	424,356,703	415,044,789
Tolls	-	-	82,149,386	58,522,008
Service, property and recycling sales	-	-	17,226,088	7,477,384
Receipts from cities, counties and towns	-	-	84,995,882	85,009,486
Fines and assessments	-	-	30,219,326	30,450,663
Interest, dividends and rents	-	-	67,453,605	30,111,849
Federal grants and contracts	-	-	529,489,999	502,320,716
Other miscellaneous revenues	-	-	55,190,677	52,938,001
Revenue bond proceeds	-	-	414,652,146	347,828,244
General Fund appropriations	-	-	185,246,356	317,483,978
Appropriations from prior year receipts	-	-	367,876	-
Total sources	-	-	3,909,575,680	3,803,463,032
Net transfers in/(out)	622,287	613,672	(27,375,008)	32,800,071
Total funds available for use	\$ 622,287	\$ 613,672	\$ 3,882,200,672	\$ 3,836,263,103
Uses:				
Expenses (net of refunds):				
Administrative and support services	\$ 622,287	\$ 613,672	\$ 315,117,952	\$ 275,241,083
Air transportation planning, regulation and maintenance	-	-	4,054,549	4,058,608
Airport assistance	-	-	26,398,129	20,766,445
Capital outlay projects	-	-	22,722,297	18,818,184
Environmental monitoring and evaluation	-	-	11,863,229	11,105,117
Financial assistance to localities	-	-	395,829,538	314,342,144
Ground transportation regulation	-	-	120,405,115	110,345,563
Ground transportation system planning	-	-	21,793,111	23,086,058
Ground transportation system safety	-	-	32,534,935	22,952,657
Highway system acquisition and construction	-	-	712,906,656	973,429,946
Acquisition and construction through bond proceeds	-	-	251,704,773	120,813,032
Highway system maintenance	-	-	1,018,910,402	1,026,502,232
Land management	-	-	1,168,189	1,138,182
Mass transit assistance	-	-	196,400,579	151,551,984
Debt service, principal, and interest	-	-	235,149,420	221,108,850
Public transportation acquisition and construction	-	-	18,902,854	17,306,351
Rail assistance	-	-	11,180,476	7,441,389
Regulation of professions and occupations	-	-	1,962,357	1,654,777
Toll facility operations	-	-	46,837,887	41,238,594
Total uses	\$ 622,287	\$ 613,672	\$ 3,445,842,447	\$ 3,362,901,196

Source: Commonwealth Accounting and Reporting System

COMMONWEALTH OF VIRGINIA - DEPARTMENT OF ACCOUNTS
HIGHWAY MAINTENANCE AND OPERATING FUND
AND TRANSPORTATION TRUST FUND REVENUES
STATEMENT OF REVENUE ESTIMATES AND COLLECTIONS
For Fiscal Years 2006 and 2005 (in thousands)

Revenue:	Fiscal Year	As a Percentage	June	
	2006 Estimate	of Total Fund	Fiscal Year 2006	Fiscal Year 2005
Motor fuel taxes	\$ 845,800	24.56	\$ 142,776	\$ 136,987
Priority transportation fund	20,000	0.58	2,000	2,000
Motor vehicle sales and use tax	636,600	18.48	60,395	60,088
State sales and use tax	474,900	13.79	42,775	44,090
Motor vehicle license fees	169,200	4.91	16,588	16,431
International registration plan	58,600	1.70	9,590	12,154
Interest earnings	25,700	0.75	15,841	5,011
Miscellaneous taxes, fees, and revenues	22,700	0.66	2,683	(981)
Total state taxes and fees	\$ 2,253,500	65.43	\$ 292,648	\$ 275,780

Source: Department of Taxation

APPENDIX D

Percentage of Change	Year-To-Date		Percentage of Change	Percent Annual Growth Required By Estimate
	Fiscal Year 2006	Fiscal Year 2005		
4.2	\$ 870,414	\$ 849,489	2.5	(0.4)
0.0	20,000	20,000	0.0	0.0
0.5	628,689	615,261	2.2	3.5
(3.0)	476,259	449,867	5.9	5.6
1.0	169,315	164,451	3.0	2.9
(21.0)	60,570	60,720	(0.2)	(3.5)
216.1	38,648	17,641	119.1	45.7
373.5	32,019	26,460	21.0	(14.2)
6.1	\$ 2,295,914	\$ 2,203,889	4.2	2.3

COMMONWEALTH OF VIRGINIA - DEPARTMENT OF ACCOUNTS
HIGHWAY MAINTENANCE AND OPERATING FUND
AND TRANSPORTATION TRUST FUND REVENUES
STATEMENT OF REVENUE ESTIMATES AND COLLECTIONS
For the Fiscal Years 2006 and 2005 (in thousands)

Revenue	Fiscal Year 2006 Estimate	As a Percentage of Total Fund
Highway maintenance and operating fund:		
Motor fuel taxes (includes road tax)	\$ 725,500	21.07
Motor vehicle sales and use tax	395,200	11.47
Motor vehicle license fees	147,900	4.29
International registration plan	58,600	1.70
Miscellaneous taxes, fees, and revenues	22,700	0.66
Total state taxes and fees	1,349,900	39.19
Other revenues:		
Federal grants and contracts	-	-
Transfer (to)/from transportation trust fund	186,200	5.41
Total highway maintenance and operating Fund	1,536,100	44.60
Transportation trust fund:		
Motor fuel taxes (includes aviation and road taxes)	120,300	3.49
Priority transportation fund	20,000	0.58
Motor vehicle sales and use tax (includes rental tax)	241,400	7.01
State sales and use tax	474,900	13.79
Motor vehicle license fees	21,300	0.62
Interest earnings	25,700	0.75
Total state taxes and fees	903,600	26.24
Other revenues:		
Federal grants and contracts	1,011,300	29.36
Receipts from cities/counties	70,400	2.04
Toll revenues (includes Route 28)	88,700	2.58
Miscellaneous revenues	20,200	0.59
Total other revenues	1,190,600	34.57
Transfer (to)/from highway maintenance and operating fund	(186,200)	(5.41)
Total transportation trust fund	1,908,000	55.40
Total highway maintenance and operating fund and transportation trust fund	\$ 3,444,100	100.00

* Percentage is greater than 1,000 percent
Source: Department of Taxation

APPENDIX D CONTINUED

June			Year-To-Date			Percent Annual
Fiscal Year	Fiscal Year	Percentage of	Fiscal Year	Fiscal Year	Percentage of	Growth
2006	2005	Change	2006	2005	Change	Required
						By Estimate
\$ 124,458	\$ 117,137	6.2	\$ 751,972	\$ 730,370	3.0	(0.7)
37,512	38,618	(2.9)	390,170	395,924	(1.5)	(0.2)
14,514	14,370	1.0	148,250	143,867	3.0	2.8
9,590	12,154	(21.1)	60,570	60,720	(0.2)	(3.5)
2,683	(981)	373.5	32,019	26,460	21.0	(14.2)
188,757	181,298	4.1	1,382,981	1,357,341	1.9	(0.5)
8,334	3,136	165.8	37,421	29,360	27.5	(100.0)
-	-	-	186,199	194,977	(4.5)	(4.5)
197,091	184,434	6.9	1,606,601	1,581,678	1.6	(2.9)
18,318	19,850	(7.7)	118,442	119,119	(0.6)	1.0
2,000	2,000	-	20,000	20,000	-	-
22,883	21,470	6.6	238,519	219,337	8.7	10.1
42,775	44,090	(3.0)	476,259	449,867	5.9	5.6
2,074	2,061	0.6	21,065	20,584	2.3	3.5
15,841	5,011	216.1	38,648	17,641	119.1	45.7
103,891	94,482	10.0	912,933	846,548	7.8	6.7
44,852	43,640	2.8	480,822	455,987	5.4	121.8
4,021	687	485.3	48,840	25,635	90.5	174.6
11,071	14,758	(25.0)	113,439	111,551	1.7	(20.5)
6,225	(398)	*	22,018	27,191	(19.0)	(25.7)
66,169	58,687	463.1	665,119	620,364	7.2	91.9
-	-	-	(186,199)	(194,977)	4.5	4.5
170,060	153,169	11.0	1,391,853	1,271,935	9.4	50.0
\$ 367,151	\$ 337,603	8.8	\$ 2,998,454	\$ 2,853,613	5.1	20.7

2006 VDOT MAJOR DEBT SERVICE FUNDS
SCHEDULE OF SOURCES AND USES
(In thousands)

	Route 58 Project	Northern VA Transportation District	Oak Grove Connector
Sources:			
Toll revenue	\$ -	\$ -	\$ -
Highway permit fees, fines and penalties	-	5,768	-
Interest revenue	2,274	4,922	75
Receipts from cities, counties, & towns	-	816	1,500
Other miscellaneous revenue	17	17	1
Proceeds from sale of bonds	66,401	20,797	24,302
Receipts from trustees	72,291	25,082	24,246
	-	-	-
Borrowed from other funds	-	-	-
Net transfers in/(out)	52,000	29,481	1,042
Total funds available for use	192,983	86,883	51,166
Uses:			
Capital outlay projects	-	-	-
Debt service payments	54,945	34,287	2,339
Toll facility operations	-	-	-
Advanced refunding payment to escrow	66,248	20,746	24,237
Payments to trustees	67,274	22,344	24,304
Total uses	188,467	77,377	50,880
Surplus/(deficit) of sources over uses ^(Note A)	\$ 4,516	\$ 9,506	\$ 286

Source: Commonwealth Accounting and Reporting System

Note A -This reflects only current year activity, any deficit reflected was absorbed by beginning fund balance and was appropriated through adjustments by Department of Planning and Budget. It is important to note that the Powhite Parkway Fund carries a negative fund balance of \$42.2M and receives cash flow assistance from other funds.

APPENDIX E

Route 28 Improvements	Coleman Bridge Toll	Federal Reimbursement Anticipation Notes	Dulles Toll Road	Powhite Parkway Toll
\$ -	\$ 6,378	\$ -	\$ 65,670	\$ 10,102
-	-	-	-	-
73	143	9,927	3,617	221
33,690	-	-	-	-
0	10	241	60	-
-	33,314	263,476	4,637	-
7,531	-	228,040	-	-
-	-	-	-	-
-	40,321	-	2,000	46,820
-	(38,218)	132,466	(10,041)	(609)
41,294	41,948	634,150	65,943	56,534
-	-	-	974	-
33,696	-	218,948	-	-
-	5,268	-	34,260	10,874
-	-	-	-	-
7,530	33,314	415,622	4,637	-
41,226	38,582	634,570	39,871	10,874
\$ 68	\$ 3,366	\$ (420)	\$ 26,072	\$ 45,660

MAJOR STATE TRANSPORTATION REVENUE SOURCES

Gasoline Motor Fuels Taxes

Highway Maintenance and Operating Fund	\$1.1486
Transportation Trust Fund	.0250
Department of Motor Vehicles	<u>.0014</u>
Total (per gallon)	<u>\$1.1750</u>

Motor Vehicle Sales and Use Tax

Highway Maintenance and Operating Fund	2.00%
Transportation Trust Fund	<u>1.00%</u>
Total	<u>3.00%</u>

Motor Vehicle License Fee

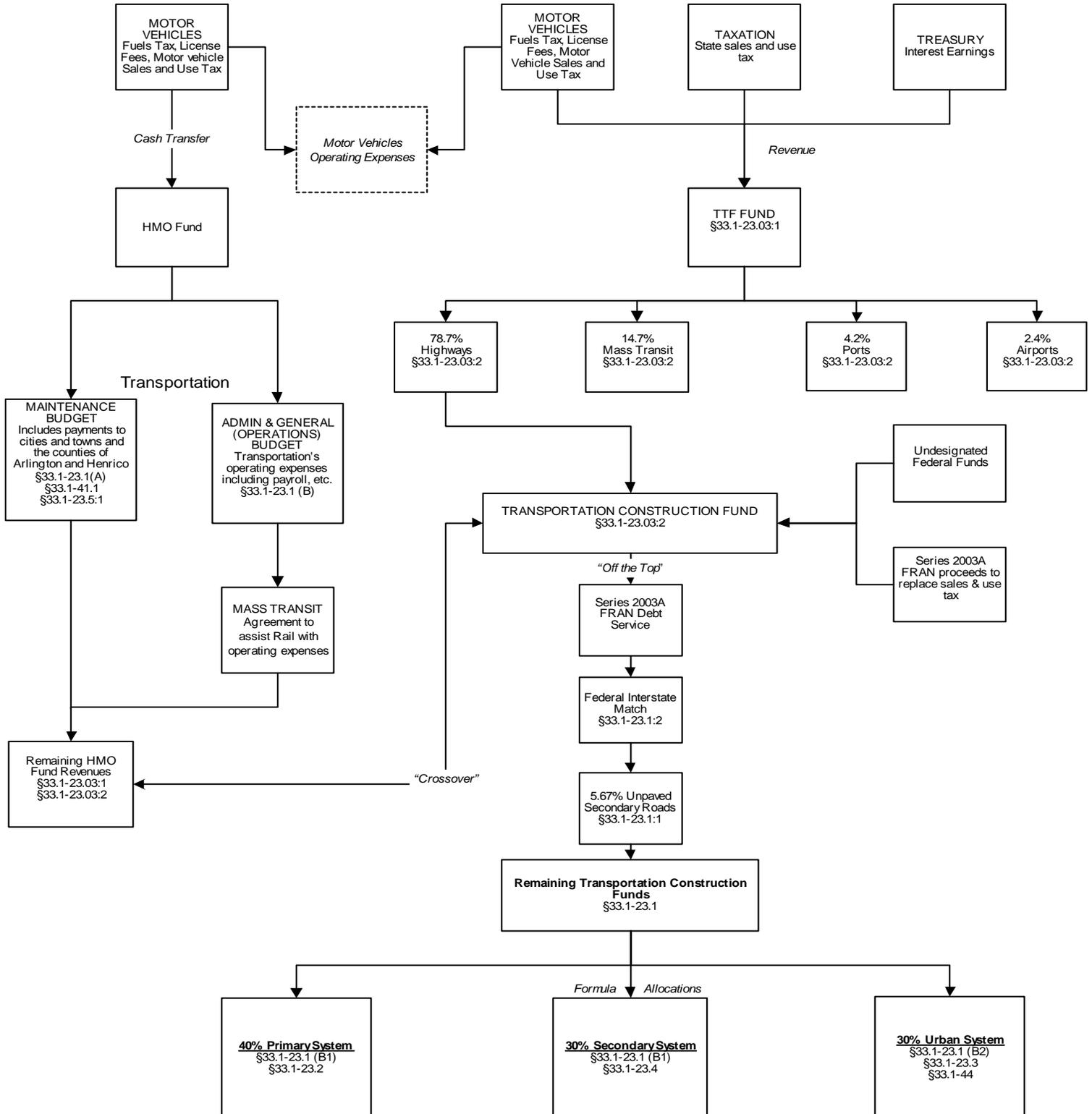
Highway Maintenance and Operating Fund	\$16.00
Department of Motor Vehicles	4.00
Transportation Trust Fund	3.00
General Fund/Emergency Management Services/Rescue Squad	4.00
State Police	1.50
Jamestown/Yorktown Foundation	<u>1.00</u>
Total	<u>\$29.50</u>

State General Sales and Use Tax

Transportation Trust Fund	.5%
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COMMONWEALTH TRANSPORTATION FUND FLOW OF FUNDS

Highway Maintenance and Transportation Trust Funds



DEPARTMENT OF TRANSPORTATION
SUMMARY OF CONTRACTOR PAYMENTS VERSUS
TRANSPORTATION INCURRED EXPENSE
(In thousands)

APPENDIX H

	Local				Total	
	Construction	Maintenance	Assistance	Administration		
Contract/Vendor Payments ¹	\$ 805,449	\$ 781,067	\$ 8,320	\$ 138,161	\$ 1,732,997	59%
Pass-Through/Debt Service ²	275,113	20,780	352,295	1,655	649,843	22%
VDOT Incurred ³	116,651	284,755	165	158,708	560,279	19%
Total	\$ 1,197,213	\$ 1,086,602	\$ 360,780	\$ 298,524	\$ 2,943,119	100%

	Local			
	Construction	Maintenance	Assistance	Administration
Contract/Vendor Payments	67%	72%	2%	46%
Pass-Through/Debt Service	23%	2%	98%	1%
VDOT Incurred	10%	26%	0%	53%
Total	100%	100%	100%	100%

Source: Commonwealth Accounting and Reporting System

Notes

- 1- Contract/Vendor Payments consist of all expenses charged to continuous charges, contract commitments, equipment, plant and property improvements, and supplies and materials expenditure codes.
- 2- Pass-Through/Debt Service payments include charges to obligations and transfer payment expenditure codes.
- 3- VDOT Incurred payments include charges to personal services expenditure codes.