Peer-to-Peer Car Rental Impact on Transit & Rail

Virginia Transit Association

Legislation: SB 735 (Newman) and HB 1539 (J.Jones)

One of the newer 'disruption' trends in transportation follows a similar model to Airbnb, which allows someone to rent out a room or their entire home using a digital marketplace. Peer-to-peer car rentals do something similar by allowing citizens to "rent out" their vehicles to others using an app based digital marketplace.

Between 2013 and 2018, Airbnb's worldwide revenue rose from $250 million to $2.9 billion, while the three top hotel chains' (Marriott, Hilton, and InterContinental) worldwide revenue grew only 62 percent.[i] A 2018 study found that for every 1 percent increase in Airbnb properties there was a .02 percent decrease in the average price of a hotel room[ii] which would lead to overall decreased hotel revenue and taxes. In Virginia, Airbnb hosts made $104 million in 2018[iii]. Assuming that no hotel taxes were collected (2018 was the year that localities started to partner with Airbnb to collect said taxes) by Airbnb plus the reduced price of a normal hotel room, Virginia's localities would've lost at least $10 million in annual revenue.

If the Airbnb model is moved to the car rental industry, the impact on Virginia's transportation funds could be significant.

Background from Virginia Association of Counties:

> *At the request of the Chairman of the Senate Transportation Committee, DMV convened a workgroup of stakeholders to examine several issues that were addressed in legislation that was introduced during the 2019 General Assembly Session, including insurance coverage for peer-to-peer rental services; consumer protections; and taxation of peer-to-peer rental companies. VACo is participating in the stakeholder group.*
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> *<u>How Peer-to-Peer Vehicle Rentals Work</u>*
> *Peer-to-peer rentals involve a vehicle owner listing a vehicle for rent through an electronic marketplace, which sometimes provides the insurance, dispute resolution, or other services, but is not involved in the physical exchange of the vehicle. A prospective renter reviews vehicle selections offered on the marketplace platform and selects a vehicle. The rental platform facilitates the transaction between owner and renter, who then make arrangements for the renter to obtain the vehicle and keys and to return the vehicle after use.*

How much is the current motor vehicle rental tax generating and where is it going?

The motor vehicle rental tax in Virginia is 10 percent with 4 percent split among the Rail Enhancement Fund, Washington Metro Area Transit Authority, and the Transportation Trust Fund.

Another 4 percent is given back to the localities where it is generated, and the remaining 2 percent is directed to the general fund for debt service.

In the current FY 2020-2025 Six-Year Improvement Program (SYIP) the motor vehicle rental tax (MVRT) is anticipated to generate $259.6 million in revenue for the Commonwealth. Half of that is directed to Rail Enhancement Fund (REF), 25 percent is directed to Washington Metropolitan Area Transit Authority (WMATA), and 25 percent goes to the Transportation Trust Fund (TTF) of which the Mass Transit Fund (MTF) receives 14.7 percent of that funding[iv].

SYIP Transportation Fund	SYIP Revenue from MVRT	MVRT Annual Revenue
REF	$127.8 million	$21.3 million
WMATA	$64.9 million	$10.8 million
MTF via TTF	$9.5 million	$1.6 million
Total MVRT revenue for rail and transit:	$202.2 million	$33.7 million

Aside from the dedicated revenue for WMATA and money transferred to the MTF, nearly $82 million of the MVRT funding passing through the REF is directed in the SYIP to fund Virginia's portion of the Long Bridge expansion project.

Current proposals and their impacts

The current proposals included in SB 735 and HB 1539 would reduce the MVRT on peer-to-peer vehicles overall from 10 percent to 4 percent (SB735) or 6 percent (HB1539).

	Current Rate	HB 1539	SB 735
Transportation	4 Percent	2 percent	1 Percent
Localities	4 Percent	2 Percent	2 Percent
State Police -STARS	2 Percent	2 Percent	1 Percent
	10 percent	6 Percent	4 percent
Revenue Generated Today	$108.2 million	$64.9 million	$43.3 million

The obvious worst-case scenario for this would be the **reduction of state funding for transportation, specifically rail and transit of $25.3 million annually** if every car rental transitioned to a peer-to-peer app. However, there are some serious secondary impacts.

Over the last five years, Virginia's transit agencies have received an average of $1.07 of federal transit funding for every state dollar invested. Reducing revenue from our Mass Transit Fund which is passed along to our transit agencies could **reduce our federal transportation funding.**

It is generally accepted that if dedicated revenue to WMATA from the MVRT was reduced because of a decline in MVRT collections there would be two ways to address the shortfall. The first is that WMATA may be held whole by diverting other Northern Virginia transportation (NVTC) revenue to fill the gap. The second is that the reduction may be passed on to WMATA which in return will trigger Maryland and DC to reduce their funding further impacting Metro's budget. The **additional negative financial impact would be over $28.7 million annually** in reduced funding from Maryland, DC, and the federal government.

The next potential impact is the reduction of potential federal matching funds for Long Bridge. At this time, we can estimate that the REF's dedicated funding for the Long Bridge expansion project may be matched by 50 percent federal funds. Reducing the REF's Long Bridge funding could result in a **potential loss of $20.4 million in federal matching grants for the project**.

The final potential impact comes from local governments who would see their contributions from the MVRT cut in half. Over the last five years, local governments have contributed an average of $199 million annually towards the operation of Virginia's transit systems. Most of this funding comes from their general funds. While there is not a direct correlation between a locality's contributions to public transportation and the money they receive from the MVRT, it goes without saying that if their general fund revenues dropped by $22 million annually there would be reverberations across multiple programs. Depending on a localities ability to absorb the negative financial hit would determine the overall impact to their local transit agency. **If half of the decline in local government MVRT revenue was passed along to our transit agencies, it would result in a net reduction of funding of $64.9 million over the course of the current SYIP.**

While this is considered by us to be a worst-case scenario, nonetheless the potential financial impacts should not be taken lightly. Especially given the continued decline of gasoline tax revenue combined with the ever-increasing vehicle miles traveled on our roadways, any reduction in direct funding for our transportation system must be avoided at all costs.

Proposed changes:

- For taxation purposes, treat peer-to-peer vehicles like other motor vehicle rentals in the Commonwealth of Virginia.

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[i] https://www.citylab.com/life/2019/05/heres-how-much-airbnb-is-lowering-hotel-prices-and-occupancy/590485/
[ii] https://www.sciencedirect.com/science/article/abs/pii/S0261517718302772?via%3Dihub
[iii] https://wina.com/news/064460-virginia-airbnb-hosts-earn-more-than-104-million-in-2018/
[iv] http://syip.virginiadot.org/reports/247/12-FY20-FINAL-DRPT.pdf