

City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 13, 2007

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: BUDGET MEMO #53: STATE TRANSPORTATION FUNDING SUMMARY

The State transportation bill (HB 3202) passed on April 4th includes a number of new transportation funding initiatives at the State, regional and local levels. These initiatives, and the actions required by City Council, if any, are described in the following memorandum.

Northern Virginia – Local Options

The options that need City Council action to implement are (1) a local increase in the motor vehicle registration fee, (2) a local increase in the commercial real estate property tax rate, and (3) local development impact fees.

(1) Motor Vehicle Registration Fee

The only transportation funding item that could immediately be enacted by City Council and that could have an impact on the FY 2008 budget is HB 3202 authorization for the City to increase its motor vehicle registration fee by \$10 effective July 1, 2007. If the City were to enact this fee increase through the FY 2008 add/delete process (or enact in June), the annual revenue increase would be approximately \$0.9 million annually. Acting before the end of June would allow this \$10 increase to be billed with the personal property tax bills in August, and these funds would become available starting in FY 2008.

This additional revenue could be used as the City's local match to draw down federal grant funding for construction of the Potomac Yard/Braddock Road corridor bus rapid transit system. The Federal Transit Administration (FTA) recently announced a bus and bus facilities grant program, through which \$438.2 million is available nation-wide on a competitive basis. In order to obtain a grant, the City would be required to identify a 20 percent local match. Local revenues in the amount of \$0.9 million could leverage up to \$4.5 million, if awarded to the City by FTA. This additional revenue could also be set aside in a transit contingency, with the actual use decided by Council at a later date.

State transportation legislation also allows for the Northern Virginia Transportation Authority (NVTA) to increase the motor vehicle registration fee regionally by \$10. If both options are enacted at the maximum allowable level, the impact on owners of typical passenger vehicles in Alexandria would be a \$20 increase from the current level of \$25 to \$45 per vehicle.

(2) Commercial Real Estate Property Tax

HB 3202 authorizes the City to increase its real estate tax rate on commercial properties (excluding apartments) by up to 25 cents per \$100 of assessed value effective January 1, 2008. The rate, if increased, could be formally set by Council as early as May 2008. The revenue could begin to be collected in June 2008. Based on the January 2007 assessment, each one cent increase in the commercial real estate property tax rate would generate approximately \$0.9 million annually with the maximum 25 cent rate raising a potential \$22.5 million annually.

If and when Council wishes to proceed with this option, staff will need significant lead time to prepare to administer this tax option. Some of the issues that will need to be resolved include valuation of certain commercial properties separate from residential properties in mixed-use structures (such as condos/apartments over office/retail) and the apportionment of vacant properties between commercial and residential uses. The level of General Fund resources required by Finance and Real Estate Assessments in order to support this effort has not yet been determined, however, Real Estate estimates that additional staffing (some temporary and some permanent) would be needed. The City's real estate tax billing software would also need modification.

(3) Development Impact Fees

The final option that is now allowed is authorization for the City to levy a commercial/residential impact fee on new development in order to generate revenue to fund road improvements benefitting the new development. Impact fees may not be assessed for road repair, operation or maintenance. The feasibility of this option for the City, if any, will be further studied, as while the City is now eligible to assess impact fees, it is not clear that there is a geographic area subject to new development where this new fee could be applied.

Northern Virginia – Regional Options

In addition to these local options, State legislation included the following additional regional transportation funding that do not require City Council action. HB 3202 would allow the Northern Virginia Transportation Authority (NVTA) to raise over \$300 million annually beginning in FY 2009 (and partial year funding in FY 2008 depending on the implementation date) through a combination of regional fees that could include any or all of the following:

- 2 percent motor vehicle rental tax
- 2 percent lodging tax

- \$10 vehicle safety inspection fee
- 1 percent initial vehicle registration fee
- 5 percent sales tax on labor or services on motor vehicle repairs
- \$10 regional registration fee
- 40-cents grantor's tax (levied on home sales)

The rates and timing of the fees will be set by NVTA. The amount of revenue collected from each jurisdiction is required to be spent on projects that benefit that jurisdiction. Sixty percent of the revenue for these fees will be allocated to projects by NVTA, with at least \$50 million dedicated to Washington Metropolitan Area Transit Authority (WMATA) capital and at least \$25 million dedicated to Virginia Railway Express (VRE) operating and capital. Forty percent of the revenue will be distributed to the jurisdictions to be allocated to transportation projects at their discretion. If NVTA enacts all of the tax and fee options available to it, Alexandria could receive roughly \$20 million annually according to some estimates. This estimate will be verified as all ramifications of the bill are studied. The members of NVTA met on Thursday, April 12 to discuss next HB 3202 and its implications for Northern Virginia. They agreed to set up 5 working groups to review questions and examine financial, legal, project implementation, public outreach, and organizational issues. These working groups are to report back by June 1, 2007.

Statewide Transportation Funding

In addition to authorizing the local and regional funding options listed above, HB 3202 and the State budget bill include increased statewide transportation funding to be apportioned to the localities through the Northern Virginia Transportation Commission (NVTC) and the Virginia Department of Transportation (VDOT) Six Year Improvement Program (SYIP).

Funding at NVTC is provided by the State for the localities to pay a portion of their transit operating and capital costs. In the FY 2008 proposed budget, the City plans to use \$13.4 million in NVTC revenues (a pre-budget and pre-HB 3202 amount) to fund a portion of its \$19.7 million WMATA operating subsidy.

Funds provided through the VDOT six-year plan are apportioned by the Commonwealth Transportation Board (CTB) based on requests from the localities and the amount of funding available from the State. As discussed in Budget Memo #27, a December estimate from the State indicated that the City could expect to receive \$12.3 million from FY 2008 to FY 2013, which is 40 percent of the \$18.4 million the City had requested and therefore leaves a \$6.1 million funding gap.

The amounts available to the City from NVTC and VDOT can be expected to increase as a result of statewide transportation funding increases approved in the State budget bill and HB 3202. The direct impact on the City is difficult to determine at this time due to the formula-based nature of the statewide allocations. Staff will continue to analyze the impact and bring forth information and options and they become available. Statewide funding increases include:

- \$500 million statewide from a one-time General Fund transfer, including \$20 million for WMATA rail cars, \$15 for VRE rail cars and \$19 million for statewide bus purchases.
- \$67 million statewide from dedicating 3 cents of the existing state recordation tax to transportation, of which two-thirds (approximately) would be for transit.
- \$22 million statewide from a diesel fuel tax increase.
- An increase in the percentage of non-recurring General Fund surplus used for statewide transportation from one-half to two-thirds.
- Increased transportation funding for increases in abusive driver fees and increased penalties for overweight trucks.