City of Alexandria, Virginia

MEMORANDUM

DATE: MARCH 3, 2008

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: BUDGET MEMO #14: POTENTIAL IMPACT OF THE LOSS OF NVTA REVENUES IN THE PROPOSED FY 2009 BUDGET AND FY 2009-2014 CIP

As described earlier to you in Budget Memo #7, Northern Virginia Transportation Authority (NVTA) revenues were included in the City's FY 2009 proposed budget in both the Operating Budget and Capital Improvement Program. These revenues can no longer be relied upon as a result of the February 29, 2008 decision of the Virginia Supreme Court invalidating the levying of new taxes and fees by the NVTA as an unconstitutional delegation of the General Assembly's taxing power to a non-elected body.

This budget memo will describe in additional detail the full potential impact of this decision. Including all projects in Alexandria scheduled to receive NVTA funding ***the impact is $18.4 million in FY 2009 and $55.4 million from FY 2008 through FY 2014.***[1] (See Attachment) We eagerly await and expect a response by the General Assembly that will provide these funds for vital transportation projects in Northern Virginia in a constitutionally permitted manner by General Assembly action. Nevertheless, this memo also will lay before you various options for responding to this situation should the General Assembly fail to act or provide less budgetary resources than the NVTA, either by reducing planned expenditures or raising these funds locally should that be deemed necessary by City Council. We plan on docketing the issue of the loss of this key transportation funding source and its impact for discussion at Council's March 11 legislative meeting.

I also should note here that on February 28, 2008, the Secretary of Transportation of the Commonwealth notified local officials that State funding to localities for transportation projects through the primary, secondary and urban construction allocations in the State Six-Year Improvement Program will be reduced approximately 44 percent statewide due to a reduction in

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1 The vehicle registration or "decal" fee, levied by the City itself under the authority of the same legislation delegating to the NVTA the authority to levy other taxes is shown as general revenue of $700,000 in the general fund budget (see p. 7-30 of the Proposed FY 2009 Operating Budget), and shown as a transfer out of the General Fund to the CIP. This tax is unaffected by the Supreme Court ruling. We had proposed that this amount be used for the Monroe Avenue pedestrian bridge in FY 2008 and for a portion of the costs of the Madison and Montgomery road reconstruction project in FY 2009. I suggest we reprioritize the latter if necessary.

statewide revenues for transportation. I will separately provide more detailed information on this new development to City Council, but our allocation of Urban system funds is shown to decline $3.1 million (46.8 percent) in FY 2009 and $12.8 million (44.2 percent) through FY 2013 compared to the previous plan. Programs that were planned to receive FY 2009 urban funding were the Eisenhower Widening and the King/Beauregard projects.

A. Potential Full Impact of the Loss of NVTA Revenues

The Supreme Court of Virginia decision affected only those taxes which the General Assembly had delegated the authority to raise to the NVTA. These taxes[2] were imposed beginning January 1, 2008, and expected to raise approximately $281.2 million a year and about $100 million in the last half of FY 2008.

The Alexandria share of this $281.2 million was estimated to be $16.2 million in FY 2009 or 5.8 percent of the total. Under the statute establishing this funding mechanism, 60 percent of these funds were to be managed by the NVTA and 40 percent allocated back to the jurisdictions to be used for transportation purposes. It is the 40 percent that was included in our budget estimates as special revenue from NVTA and described in Budget Memo #7. We estimated our share of the 40 percent local funds to be $2.2 million in FY 2008 and $6.5 million in FY 2009.

To recap from Budget Memo #7, ***the operating budget includes $1.7 million*** in 40 percent local funds from the NVTA in the Operating budget as special revenues. These NVTA funds are to be used for the following operating expenses:

- the planned King Street Trolley ($0.2 million in FY 2008 and $1.0 million in FY 2009),
- two new positions in the Department of Transportation and Environmental Services (a parking planner and a transportation planner) and additional transportation consultant services ($0.3 million in FY 2009), and
- New DASH operating costs ($0.4 million in FY 2009).

In addition to the $1.7 million in operating costs to be funded by NVTA 40 percent local funds, ***the capital budget also shows $5.8 million*** in NVTA revenue being used as a source of funding for the Capital Improvement Program (CIP) in FY 2009 (see p. 5-3 of the FY 2009 Proposed CIP).

- DASH bus fleet expansion ($1.0 million),

2 The taxes included a grantor's tax of $0.40 per $100, a 2 percent vehicle rental tax, a 2 percent transient occupancy tax, a $10 vehicle safety inspection fee, a $10 regional vehicle registration fee, a 1 percent initial vehicle registration fee, and a 5 percent sales tax on auto repairs. These taxes were levied not only in Alexandria, but in the Counties of Fairfax, Arlington, Prince William, and Loudoun, and the Cities of Fairfax, Falls Church, Manassas and Manassas Park.

- A contingent for Potomac Yard Metro Station Feasibility Planning ($2.5 million),
- King Street paving ($0.8 million),
- Washington Street paving ($0.8 million), and
- City matching funds for the new DASH bus facility ($0.7 million).

With the 60 percent portion of the taxes, the NVTA (depending on future federal legislation) planned to pay a portion ($8.5 million) of its revenues directly on behalf of the City of Alexandria to the Washington Metropolitan Area Transit Authority (WMATA), which operates the Metrorail and Metrobus systems for the costs of WMATA capital projects in Northern Virginia. These funds were intended to be a part of the $50 million a year "stable and reliable" funds intended to be provided by Northern Virginia as well as Maryland and the District of Columbia to WMATA as part of a proposed agreement with the federal government, which was in turn to provide an additional matching $1.5 billion in Federal funds over 10 years. The federal legislation was held up in the U.S. Senate last year and has not yet been approved.

NVTA also would hold 60 percent of the funds for transportation projects of regional significance that will benefit Alexandrians who travel both within and without City boundaries. Over time, 60 percent of such projects should be within Alexandria's borders. Three projects were to be funded in FY 2009 and FY 2010 in Alexandria with these NVTA 60 percent funds.

- $8.5 million in FY 2009 for the Alexandria portion of the Crystal City/Potomac Yard Transit Corridor (also known as the Bus Rapid Transit or BRT project) construction costs in FY 2009 as part of the $100 million bond issuance for a variety of regional projects. The debt service on this bond was to be paid for over many years with future 60 percent monies collected by the NVTA;
- $840,000 in FY 2010 for the King Street Metro Station Parking Lot Reconfiguration; and
- $560,000 in FY 2010 for Holmes Run Pedestrian and Bicycle Trail and Tunnel improvements.

The Attachment shows both the "40 percent" planned through FY 2014 and "60 percent" projects planned by NVTA through FY 2010. NVTA was to provide a total of $18.4 million in FY 2009 and $55.4 million over 7 years from the combination of these two funding sources.

B. Options for Responding to the Situation

The most desirable option for responding to the situation is to convince the General Assembly to find a way to correct the constitutional issue identified by the Virginia Supreme Court, and find a way to raise an equivalent amount of funding dedicated to transportation projects in Northern Virginia.

Should the General Assembly fail to act prior to City Council's adoption of an operating budget and CIP on May 5, 2008, the City Council will be faced with the following combination of options:

- Forego the transportation projects that would have been funded by the NVTA revenues;
- Reduce expenditures in other parts of the Proposed Operating Budget or CIP to provide funds for some or all of these transportation costs without raising total expenditures;
- Increase bonds to be issued to fund some or all of these transportation capital costs, which would have no affect on the FY 2009 operating budget, but will affect future operating budgets; and
- Raise taxes to pay for some or all of these transportation costs.

Forego Transportation Projects: This option has limitations because some commitments have been made and projects or activities that require funding are in progress. Among them are three priority projects/activities:

- $0.7 million as the City match for the DASH bus facility (just recently docketed and discussed with City Council on February 26, 2008);
- Funding for the operating costs of the planned King Street Trolley ($0.2 million in FY 2008 and $1.0 million in FY 2009), which is scheduled to start service later this month; and
- $0.3 million adjustment to maintain current DASH service levels.

Reduce Expenditures: This option has limitations because the operating budget is already being held to a 2.9 percent overall rate of growth and yet, as City Council knows, there is a highly competitive funding environment in FY 2009. Additional reductions would affect current service levels in the operating budget and require postponing or canceling more CIP projects.

- The proposed budget already contains $4.7 million in reductions to the City budget;
- An additional $7.3 million in expenditures could not be funded in the proposed budget and are proposed only in the alternative budget; and
- The CIP has $3.4 million in unfunded requests in FY 2009.

Increase Debt: As we discussed at the February 25, 2008 work session with City Council on the CIP, the proposed CIP already contemplates the issuance of a significant amount of debt -- $280 million through FY 2014. Although this debt can be accommodated within our debt policy

guidelines and still retain our AAA/Aaa bond ratings, the most constraining factor limiting our ability to issue additional debt is the impact it will have on future operating budgets. The average annual rate of growth in the operating budget devoted to debt service and cash capital funding for CIP projects is almost 9.0 percent over this period. This higher rate of growth may crowd out funding for other operating costs if the overall rate of growth in the total budget is held to significantly lower rates of growth than otherwise needed. Nevertheless, Council could consider issuing bonds for the cost of a multi-year capital project such as the $8.5 million needed for the Crystal City/Potomac Yard Transit Corridor project, if the debt service for those bonds were secured by a tax or taxes raised particularly for that purpose. With the additional revenue devoted to funding future debt service costs, the "crowding out" effect would not occur.

Raise Taxes: To repeat, we eagerly await and expect a response by the General Assembly that will provide these funds for vital transportation projects in Northern Virginia in a constitutionally permitted manner by General Assembly action. If the General Assembly does not act, the City has some options available to raise local taxes to pay for these projects:

- The commercial real estate tax option remains available for City Council to consider. State law authorizes a tax of up to $0.25 cents per $100 could be assessed on non-residential commercial and industrial property for transportation purposes. Each 1 cent would raise approximately $1.0 million annually for the City using CY 2008 assessments. For CY 2008 Arlington is proposing a commercial real estate tax rate increase of 12.5 cents in addition to a 3.4 cent general real estate tax rate increase. Fairfax County is proposing a commercial real estate tax rate increase of 12.0 cents. An Ad Hoc Committee appointed by City Council will shortly be presenting its analysis and recommendations on this source of funding.

- The regular real estate tax applicable to residential and commercial property could be raised. Each 1 cent would raise approximately $3.5 million annually. The proposed budget proposed no increase in this rate as City Council directed in its budget guidance. An increase of 2.0 cents would be needed to fund the Alternative Budget. An increase of 3.0 cents would be possible and still fall below the 5.0% growth limit established by City Council in its budget guidance last November.

- A meals tax increase from 3.0 percent to 4.0 percent would raise approximately $3.7 million annually. While there is no meals tax rate cap under State law, there is a 4.0 percent cap on a county meals tax. The Cities of Falls Church and Fairfax City and Arlington County have a 4.0 percent meals tax rate. Fairfax County does not have a meals tax. A budget memo providing more detail on this option will be forthcoming.

Attachment: Potential Impact of the Loss of NVTA Revenues

POTENTIAL IMPACT OF THE LOSS OF NVTA REVENUES

PROPOSED USES OF NVTA 40% FUNDING UNDER LOCAL CONTROL

NVTA 40% Projects	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	TOTAL (08/14)
Operating Projects								
King Street Trolley	$200,000	$1,000,000	$1,050,000	$1,102,500	$1,157,625	$1,215,506	$1,276,282	$7,001,913
Parking Planner		$120,000	$126,000	$132,300	$138,915	$145,861	$153,154	$816,230
Transportation Planner + Prof Services		$200,000	$200,000	$200,000	$200,000	$200,000	$200,000	$1,200,000
DASH New Operating Costs (service expansion)		$130,000	$136,500	$143,325	$150,491	$158,016	$165,917	$884,249
DASH Adjustments to Base Budget Increase		$276,565	$276,565	$276,565	$276,565	$276,565	$276,565	$1,659,390
DASH Bus Fleet Expansion		$1,020,000	$1,071,000	$1,124,550	$1,180,778	$1,239,816	$1,301,807	$6,937,951
Operating Subtotal	**$200,000**	**$2,746,565**	**$2,860,065**	**$2,979,240**	**$3,104,374**	**$3,235,764**	**$3,373,724**	**$18,499,732**
Capital Projects								
Contingent for Potomac Yard Metro Station Feasability Planning		$2,500,000	$2,500,000	$2,500,000	$2,500,000	$2,500,000	$2,500,000	$15,000,000
King Street Paving		$822,000						$822,000
Washington Street Paving*		$800,000						$800,000
Madison/Montgomery Paving**			$2,010,000					$2,010,000
Edsall Road Paving***				$615,250				$615,250
DASH Facility City Match		$671,662						$671,662
Transportation Initiatives TBD				$461,885	$895,626	$764,236	$626,276	$2,748,023
Carryover Balance to Next Fiscal Year	$1,966,667	$926,440	$56,375	$0	$0	$0	$0	$2,949,482
Capital Subtotal	**$1,966,667**	**$5,720,102**	**$4,566,375**	**$3,577,135**	**$3,395,626**	**$3,264,236**	**$3,126,276**	**$25,616,417**
Total 40% Uses	**$2,166,667**	**$8,466,667**	**$7,426,440**	**$6,556,375**	**$6,500,000**	**$6,500,000**	**$6,500,000**	**$44,116,149**

*Total project cost of $2.15M. (Balance from VDOT revenue sharing and other CIP project funds.)
**Total project cost of $4.4M (Balance from City CIP funds)
***Total project cost of $2,315,250 (Balance from City CIP funds)

PROPOSED USES OF NVTA 60% FUNDING UNDER NVTA CONTROL

NVTA 60% Projects	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	TOTAL (08/14)
Crystal City/Potomac Yard Transit Corridor Project*		$8,500,000						$8,500,000
King Street Metro Parking Lot Reconfiguration		$1,400,000	$840,000					$2,240,000
Holmes Run Trail/Tunnel			$560,000					$560,000
Total 60% Uses	**$0**	**$9,900,000**	**$1,400,000**	**$0**	**$0**	**$0**	**$0**	**$11,300,000**

* NVTA Plan called for funding this project through a bond issuance

GRAND TOTAL NVTA IMPACT

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	TOTAL (08/14)
NVTA TOTAL	**$2,166,667**	**$18,366,667**	**$8,826,440**	**$6,556,375**	**$6,500,000**	**$6,500,000**	**$6,500,000**	**$55,416,149**