

**Financial Working Group
Northern Virginia Transportation Authority**

MEMORANDUM

TO: Christopher Zimmerman, Chairman
Northern Virginia Transportation Authority

Members
Northern Virginia Transportation Authority

FROM: Scott K. York, Chairman
Financial Working Group
Northern Virginia Transportation Authority

SUBJECT: Report of Financial Working Group

Date: June 1, 2007

Response to Overarching Question: *How will NVTA implement/collect taxes and fees, establish financial systems, and sell bonds, if desirable?*

The Financial Working Group recommends that NVTA be highly transparent to the public, offering the widest benefit to meet Northern Virginia's transportation needs with the least amount of bureaucracy. In the area of financial management, we recommend that NVTA rely on a partnership among its local government members, the Virginia Department of Motor Vehicles (DMV), the Virginia Department of Taxation (TAX), and the Virginia State Police to administer the seven new NVTA taxes and fees authorized by HB 3202.

The goal is to rely on existing tax administration infrastructure and minimize the need for additional NVTA staff. Under this framework, NVTA can benefit from economies of scale and avoid creating additional layers of bureaucracy that will divert money from transportation projects. While NVTA will clearly need its own financial and accounting systems and staff, the Financial Working Group recommends that the actual administration of taxes and fees be outsourced.

Under this recommendation, NVTA's role will be to receive, account for and disburse transportation funds. The one direct role for NVTA in revenue administration will be in the area of issuing debt. The details of this overarching recommendation are discussed below.

Financial Working Group Recommendations:

Pending the public hearing or hearings, the NVTA will hold, the Financial Working Group recommends that certain staff work commence “in the background”. Specifically—

1. Direct the Financial Working Group to work with member jurisdictions and its regional organizations to begin the financial implementation of HB 3202 until such time NVTA has directed and hired appropriate staff or consultants to direct and manage NVTA’s budget and the collection and redistribution of revenues.
2. Begin the *process* of developing a scenario for providing a Chief Financial Officer (CFO) and staff accountant function. This does not necessarily envision an immediate appointment, but the Financial Working Group believes the lead time to develop a recruitment/procurement process which may take up to six months or longer. The Working Group recommends that the NVTA appoint a small group committee from the Human Resource departments of member jurisdictions to provide assistance in this matter and develop a recruitment plan for NVTA’s consideration. It is recommended that this committee report back with such plan at the July meeting. The NVTA may also seek short-term financial oversight from member jurisdictions, existing transportation agencies or possibly contract assistance from a financial consulting firm. It is recommended that the committee also report on these options. This report should include a discussion of potential costs. Any hiring of financial staff will require NVTA approval.
3. Authorize representatives of the Financial Working Group, to develop an estimate of start-up costs assuming initial, short-term, assistance from member jurisdictions and contract assistance from a financial consulting firm. This estimate should also assume the eventual migration to an NVTA management team. Though it might be fairly speculative, the estimate of start-up costs should be presented to the NVTA for approval initial planning purposes at the July 12, 2007, meeting. As part of this process, staff should develop a rough estimate of the amount and calendar of receipts if and when the seven new NVTA taxes and fees may be adopted. In order to do this, staff will need to make some assumptions concerning the adoption of these by NVTA.
4. Subject to a recommendation from the Legal Working Group, contract with the appropriate bond counsel and financial advisor to serve as interim debt managers in helping to put together the financing package to include in the bond sale and to develop a bond resolution for an initial small issuance. The small issuance will be used to support a bond validation suit, and will include a list of projects; a target bond amount; and a bond resolution for the NVTA’s consideration at the July meeting.

5. Authorize representatives of the Financial Working Group, with consultation from the Legal Working Group as may be necessary, to prepare a plan for procuring banking services and establishing separate bank accounts to deposit initial tax and fee revenues, until such time as a CFO is hired/procured and appropriate accounting software obtained by NVTA. In addition, the plan should include establishing separate accounts with the Virginia Local Government Investment Pool (LGIP) for interim investment of funds not otherwise needed in the short-term. Direct staff to present the banking and investment plan to NVTA for consideration and approval at the July 12, 2007, meeting.

As part of this recommendation, the Financial Working Group should also be authorized to prepare an application with the Internal Revenue Service for a Federal Employer Identification Number (FEIN). An FEIN is required to open bank and investment accounts. Furthermore, the Financial Working Group and the Legal Working Group should be directed to draft an MOU with a local government or existing transportation agency to allow the short-term tracking of NVTA taxes and fees in a local government or existing transportation agency's existing accounting system.

6. Authorize the Financial Working Group and the Legal Working Group to develop an interim MOU with a local government or existing transportation agency to utilize its existing computer system to account for NVTA's revenue. The Northern Virginia Transportation Commission (NVTC) has offered this option and the Financial Working Group is reviewing this as a measure for initial implementation. If this arrangement is workable, the Working Group will present this MOU to the NVTA at the July meeting.

An added recommendation is to authorize representatives from the Financial Working Group to work with appointed staff from the Purchasing departments and Information Technology departments of member jurisdictions to research procurement options of financial computer software capable of handling at least the receivable, disbursement and accounting needs of NVTA. In this recommendation, the Financial Working Group has a minimalist perspective and is not envisioning a massive financial system. These initial options would be given to NVTA for consideration by the financial management team at a future date. Clearly the short term needs may differ significantly from the long term software needs. Option costs may dictate whether an RFP for a financial management system will eventually need to be drafted.

7. Authorize representatives of the Legal Working Group, with consultation from the Financial Working Group as may be necessary, to draft a model MOU that can be used with member localities for the administration of NVTA's Transient Occupancy tax.

If MOU's cannot be achieved with each of the member localities, NVTA's only option would be to require individual hotels and motels to remit this tax directly to NVTA at such time as the tax may be adopted.

8. Authorize representatives of the Legal Working Group, with consultation from the Financial Working Group, to draft an MOU with Virginia's Secretary of Finance as may be needed for the administration of certain of NVTA's new taxes and fees (Motor Vehicle Rental tax; Sales Tax on Auto Repairs; and the Registration fees). As of the date of this report, the state is still debating implementation options concerning the Registration fees. The Financial Working Group recommends that NVTA pursue centralized collection of these fees. An update is expected to be available by the June 6, 2007, meeting.

9. Authorize representatives of the Financial Working Group, with consultation from the Legal Working Group, to develop guidelines with the State Police for the implementation of Safety Inspection fees. In the short-term, State Police has indicated it is unable to collect this fee for the transportation authorities and recommended that it direct Safety Inspection Stations to make direct payments to the NVTA's bank lockbox (guidelines would include specific remittance forms). In addition, State Police is willing to provide annual reports to NVTA for subsequent audit control.

In the long-term, State Police is about to undertake an upgrade to their present automation capabilities. The Deputy Secretary of Transportation has asked State Police to include the computer requirements necessary to support centralized collection on behalf of the transportation authorities in their design specifications. Given State Police's lack of present capabilities, and the promise of future automation to support NVTA, staff recommends the lockbox option as a prudent means to implement this tax without delay. The NVTA could request a written letter of intent from the state, memorializing their intent to include the regional Safety Inspection Fee requirements in their computer upgrade.

If this option is not amenable to the NVTA, direct the Financial Working Group to continue to explore other options, such as centralized collection by another state agency (Taxation for example). However, given the lack of current processes and the lack of consensus for another option, this option could delay implementation of this fee.

10. The Financial Working Group is still negotiating the administration of the NVTA registration fees (initial one-time 1% charge, plus \$10 annual charges) with the state. Progress is being made. The Working Group strongly recommends that the DMV be tasked with the central implementation of this fee. Absent that, the only other options would be for all member localities to collect this fee (which has a number of associated problems), or to simply not levy this fee (full-year revenue is estimated at \$80 million). Staff recommends that the Financial Working Group continue to pursue these discussions with the state, with the goal of minimizing local administration in favor centralized collection. The status of current discussions is presented below.

11. Authorize representatives of the Legal Working Group to draft resolutions for the adoption of NVTA's Grantor tax; Motor Vehicle Rental tax, Transient Occupancy tax, Safety Inspection fee, Auto Repair Sales tax, Regional Registration fee, and the Initial Vehicle Registration fee for NVTA and public review prior to any Public Hearing. By law, implementation of the Initial Vehicle Registration fee cannot occur before 1/1/2008.

12. Request the Public Outreach Working Group to develop a public hearing calendar that can solicit public input with all deliberate speed before adoption of any new taxes and fees. The state is in the process of establishing a web site concerning HB 3202 and may be of assistance in announcing such hearings. The state has offered to post NVTA information concerning HB 3202 on their website. Staff recommends the Public Outreach Working Group coordinate this. The web site can also include forms, guidelines and other implementation information.

13. Subject to adoption of any taxes and fees, direct the Financial Working Group to work with the state to develop guidelines that may be required to implement such taxes and fees and following the 60 day advance notice.

14. Request a written response from the Legal Working Group to Question 7 below, in the Financial Working Group's Report dated June 1, 2007. Specifically, NVTA should obtain confirmation that its administrative expenses, to include staff salaries, are allowed to be paid from the proceeds of the seven new NVTA taxes and fees. This response should be provided to the NVTA at the July 12, 2007, meeting. In advance of collecting the new tax and fee revenue, the NVTA should also deliberate other options to fund short term administrative start-up costs. Options include allocated contributions from member jurisdictions, and/or obtaining an anticipation loan from the Secretary of Finance as authorized by HB 3202. NVTA should direct the Financial Working Group to provide a recommendation when it returns with an estimate of start-up costs for NVTA's consideration of July 12, 2007.

Background:

On April 4, 2007, the General Assembly approved the Governor’s substitute for HB 3202 (Howell). This bill provides authority for the Northern Virginia Transportation Authority (NVTA) to implement seven different taxes and fees that collectively could raise more than \$300 million per year for transportation:

<u>Tax/Fee Authorized</u>	<u>Rate</u>	<u>Proposed Collection Agent</u>
Grantor’s Tax	40¢	Clerk of Circuit Court
Motor Vehicle Rental Tax	2%	Dept. of Motor Vehicles
Transient Occupancy Tax	2%	Member Jurisdictions
Safety Inspection Fee	\$10	Lockbox & State Police
Sales Tax on Auto Repairs	5%	Dept. of Taxation
Regional Registration Fee	\$10	Dept. of Motor Vehicles
Initial Vehicle Registration Fee	1%	Dept. of Motor Vehicles

The bill becomes effective July 1, 2007. This is the report of the Financial Working Group, tasked with developing recommendations for NVTA’s administration of the new funding stream.

Responses to Questions Submitted to Working Group:

1. *Is there any particular time, from a financial standpoint, that NVTA should or shouldn’t implement the new revenue sources?*

All seven new NVTA taxes and fees become legally eligible for enactment as of July 1, 2007. However, enactment clause 13 first requires that *“the Authority, the cities and counties embraced by the Authority, the Commissioner of the Department of Taxation, the Commissioner of the Department of Motor Vehicles, and other appropriate entities shall develop guidelines, policies, and procedures for the efficient and effective collection and administration of the fees and taxes authorized by this act for use by the Authority. The guidelines, policies, and procedures shall be made public at least sixty days prior to their implementation.”*

Aside from the 60 days advance notice, these seven taxes and fees do not need any other enabling legislation or ordinance. They simply need an affirmative vote by the NVTA, and the NVTA must then notify the Clerks of the House of Delegates and the Senate.

Following public hearings, if the NVTA votes to adopt these taxes and fees, the Financial Working Group recommends that the NVTA begin to exercise its new taxing authority immediately thereafter. This may help expedite the resolution of any legal challenges that may arise, and will begin the formation of capital to be used for transportation purposes. It may also help provide start-up funds depending on the resolution of Question 7 below.

There is no timing restriction on the following five taxes and fees, and the Financial Working Group recommends the immediate implementation of these, following the 60-day guideline notice: Grantor's tax; Motor Vehicle Rental tax; Transient Occupancy tax; Safety Inspection fee; and, Sales Tax on Auto Repairs.

The implementation of NVTA's Regional Registration Fee will depend on whether or not the DMV handles the administration of this process, something that the Working Group highly recommends. Staff is still discussing the details of this issue with the state, but conceptually they have agreed to handle the collection of the *annual* Registration Fee. Inasmuch as the initial one-time Registration Fee (1%) cannot be collected before January 1, 2008, staff believes it is prudent to delay implementation of the annual \$10 Registration Fee to the same date.

As noted, implementation of the Initial Vehicle Registration fee can not take place before January 1, 2008. This is because HB 3202 specifies that "*the fee authorized by this section shall not be imposed upon (i) vehicles registered prior to January 1, 2008 unless the ownership of the vehicle changes on or after January 1, 2008.*"

2. *What financial controls should NVTA establish before implementing the new taxes?*

NVTA should move quickly to hire a Chief Financial Officer, and possibly an initial accountant or procure these functions through a local government existing transportation agency or contractor. In the interim a financial consulting firm, familiar with transportation authorities or experience in authorities, should be retained while the search for financial staff is conducted. The NVTC and PRTC may also be of some assistance in the short-term.

Additionally, NVTA needs to purchase a receivable and disbursement accounting computer system or engage accounting services through a vendor or member jurisdiction. This will be crucial to the proper receipt and accounting for all revenues under HB 3202. In the meantime however, at a minimum, NVTA can create separate interest-bearing

bank accounts into which revenue can be deposited as soon as it becomes available. In tandem with this, the Northern Virginia Transportation Commission (NVTC) has offered to initially maintain an accounting of NVTA revenues in its existing accounting system. Depending on the number of monthly transactions, NVTC believes it can support NVTA needs in this regard on an interim basis. Other options will also be considered.

Generally accepted accounting standards need to be followed, similar to those used by all local governments. Clearly accounting for each stream of revenue and collections from all partner entities will be critical. All disbursements will of course also need to be tracked, presumably on a line item basis. As part of an annual audit requirement of its financial statements, NVTA should also establish an Audit Committee to procure qualified outside auditors and oversee this process. The establishment of this committee may be deferred until NVTA's financial management team is hired or upon contracting with a financial consulting firm, local government or existing transportation agency.

Beyond these general concepts however, the Financial Working Group recommends that the details of the budget and financial controls be left for the CFO and financial staff or contractor to develop for presentation to the NVTA. In developing these, it is recommended that NVTA staff utilize a financial consulting firm as referenced above, and consult with the State Auditor of Public Accounts. Once again, NVTC and PRTC may also be a helpful resource in this process.

There will undoubtedly be a need for a financial system, but this will entail a review of hardware/software options and procurement. In the short term, the Financial Working Group recommends that immediate banking relations be established to account for all funds transmitted to NVTA. This relationship should be arranged with a local Virginia banking institution and that any immediate expenditure is handled by designated co-signatories of NVTA members, at the direction of the NVTA board as a whole. It is also recommended that co-signatures be that of the NVTA Chairman and the Finance Chairman.

3. *How should NVTA implement the taxes and fees? (Contractor? Assistance from local governments? In-house staff? Other? What are the advantages and disadvantages of each?*

The goals should be transparency, efficiency and limited bureaucracy. The Financial Working Group recommends a partnership with NVTA between local government, the DMV and TAX to implement these taxes as noted below. If the NVTA simply becomes the recipient of funds collected by other entities, more money will actually go towards

direct transportation projects. Contractors are not appropriate as they lack the statutory authority and necessary infrastructure. That would also presumably be a more expensive option. The recommendations below utilize existing resources, authority and infrastructure:

GRANTOR'S TAX: HB 3202 already specifies that NVTA's \$0.40/\$100 consideration Grantor's tax shall be collected in the same manner as the existing Grantor's tax under Va. Code, §58.1-802. This means that the Clerk of the Circuit Court for each jurisdiction embraced by the NVTA must collect this fee from the seller of real estate at the time of a deed's recordation. Aside from proper notice to each respective Clerk, to include depository instructions, the NVTA needs to do nothing more than formally adopt this tax.

Whereas the Clerk normally retains an administrative fee of up to 5% under existing law, HB 3202 specifically precludes this fee relative to NVTA's tax (HB 3202, p. 30, line 1822). The new law requires the Clerk to "*return all fees collected*" to NVTA "*as soon as practicable.*" Though a Memorandum of Understanding (MOU) is not required by law, NVTA will want to coordinate with each Clerk in order to plan on the schedule of receipts from each locality. In one jurisdiction, for example, the Clerk presently deposits General Fund receipts once per week by paper check deposit to the County's bank account. That process would work well for NVTA. Other options such as ACH or electronic fund transfers to NVTA's bank account can also be explored.

MOTOR VEHICLE RENTAL TAX: HB 3202 already specifies that NVTA's 2% Motor Vehicle Rental tax "*shall be collected by the Department of Motor Vehicles*" and "*shall be implemented, enforced, and collected in the same manner that rental taxes*" are collected under existing law, Va. Code, §58.1-2402 (HB 3202, p. 34, lines 2079 – 2083).

Existing law requires dealers and rental agents to collect this tax from renters and to remit the fee to DMV by the 20th of the following month. DMV is required to subsequently remit this revenue to NVTA. HB 3202 specifies that the DMV shall recoup its "*direct costs of administration*" (HB 3202, p. 34, line 2076). For budgeting purposes, NVTA should confirm with DMV the estimated subtraction from rental fees for its costs.

Existing law also grants the DMV Commissioner the authority to issue rules and regulations in the administration of this fee; and, since the administration of this fee is actually specified in HB 3202, a separate MOU is not required. Aside from the statutory notice provisions, NVTA simply needs to notify the DMV upon formal adoption of the fee.

TRANSIENT OCCUPANCY TAX: HB 3202 simply authorizes the NVTA to impose a Transient Occupancy tax of 2% on transient occupants within jurisdictions embraced by the NVTA. Existing law limits this tax to “*any room or space that is suitable or intended for occupancy by transients for dwelling, lodging, or sleeping purposes*”, Va. Code, §58.1-3826. HB 3202 is otherwise silent as to the administration of this tax.

While hotels and motels could be required to remit this tax directly to the NVTA, the Financial Working Group recommends that this would be unwieldy and create unnecessary administrative bureaucracy for NVTA. It is estimated that there are over 200 hotels and motels within the member jurisdictions, all of which would be sending NVTA money on a regular basis.

In the alternative, the Financial Working Group recommends that it would be more efficient for each locality to collect NVTA’s 2% Transient Occupancy tax at the same time and in the same manner as it currently collects its own local Transient Occupancy tax. Instead of receiving money from over 200 hotels and motels, NVTA would instead receive this tax from its member jurisdictions. For the most part, localities already have the infrastructure and accounting processes in place to collect, track and remit these funds to NVTA tax. Only Manassas Park does not levy a Transient Occupancy tax, but there are no hotels or motels currently within Manassas Park.

The Financial Working Group recognizes that there could be some process and system changes in each member jurisdiction that could conceivably require some start-up costs. Consensus on these and on any possible reimbursement should be the subject of MOU discussions between the NVTA and each locality. The MOU should also specify whether the collecting jurisdiction, NVTA, or both, will notify hotels and motels once the new tax has been adopted by NVTA. Communication is essential to the proper collection of this tax. A time schedule for revenue distribution to the NVTA must also be specified. One jurisdiction, for example, currently receives its TOT payments from hotels and motels on a quarterly basis. Others may receive it on a monthly basis.

HB 3202 is silent in the area of MOU’s. NVTA’s Legal Working Group is reviewing the legal requirements and ramifications of an MOU of this type. If an MOU cannot be achieved between the NVTA and its member localities, the fall back implementation would be the direct receipt of funds from specific hotels and motels. Hotels and motels would in this case be required by law to remit these funds directly to NVTA, or perhaps to a contract bank lockbox as may be directed. This option is less attractive however because it will increase administrative overhead for NVTA, creates an additional layer of bureaucracy, and raises enforcement issues.

Presumably, if and when any member jurisdiction conducts an audit of its own TOT, NVTA would likewise benefit as may be applicable. In this regard, the Legal Working Group should probably add reference in the MOU to the Secrecy of Information Act, Va. Code §58.1-3, and stipulate NVTA's understanding that it would be bound by this requirement of law.

SAFETY INSPECTION FEE: HB 3202 is unfortunately silent on the administration of this fee. According to the Virginia State Police, there are more than 684 authorized inspection stations located in Northern Virginia. Based on this, the Financial Working Group's preliminary recommendation was that NVTA work with the state in order to centralize the collection of this fee and to minimize the administrative burden on NVTA. While this remains the Working Group's recommendation, staff recommends that this should be broken down into short-term and long-term options.

Under existing law, inspection stations keep the preponderance of the current fee. For instance, in the case of most motor vehicles, the inspection fee is \$16. Of this amount, \$15.50 is retained by the inspection station, and \$0.50 is transmitted to the Department of State Police based on an *annual* billing process, Va. Code, §46.2-1167(3).

In the effort to leverage existing resources, the Financial Working Group's long-term goal is to have the NVTA inspection fee also sent in its entirety to the State Police. The inspection stations would have to segregate and report the NVTA funds separately from the State Police revenue. Optimally, the State Police would subsequently transmit these funds to NVTA.

Unfortunately, the State Police adamantly believes it does not have the capability at this time to support NVTA's immediate need. For example, according to the State Police, they presently have 7 employees hand-filing 7.5 million inspection receipts per year. These receipts subsequently generate a billing invoice to each station. This is done on an annual basis (i.e., stations will be billed this May for inspections done in the prior year). In the long-term however, it appears the state may be able to support NVTA's needs because the State Police is about to embark on a major automation project for the administration of Safety Inspection Fees. The Deputy Secretary of Transportation has asked that the State Police include the requirements for the Safety Inspection Fee of the transportation authorities in the computer design specifications. While the NVTA should probably obtain a written letter of intent on this subject, future automation should make the long-term goal achievable.

In the short-term, the state recommends that the State Police direct Safety Inspection Stations to make direct payments to the NVTA's bank lockbox. In addition, the State

Police is willing to provide annual reports to NVTA for subsequent audit control. As long as there is commitment to migrate future administration to centralized collection under the State Police, staff recommends that this short-term solution is a prudent way to expedite implementation of this NVTA fee. Working through the State Police, each station would be given direct depository information for the NVTA \$10 fees. These would be deposited at regular intervals and tracked by location. Summaries will need to be maintained per station for future audit and reconciliation upon receipt of the annual reports from the state. Member jurisdictions or contract support may need to assist in this audit/reconciliation process until a centralized function can be achieved. Staff would prefer the reports at least quarterly if the state can provide this information.

Under existing law, the State Police Superintendent is already authorized to “*designate, furnish instructions to, and supervise official inspection stations*”, and the Superintendent “*shall adopt and furnish to such official inspection stations regulations governing the making of inspections required by this chapter*”, Va. Code, §46.2-1163). For stations found to be out of compliance in the collection of NVTA’s fee, the State Police can suspend their ability to issue inspection certificates until full payment is received. This provides a significant enforcement tool.

Though HB 3202 is silent on the matter, the Financial Working Group recognizes the state may seek to recoup administrative costs from the NVTA inspection revenue. At present, the state’s \$0.50 fee is contributing towards the automation upgrade. Though staff does not have a formal project time table, the State Police estimate project completion in about three years.

Other than this, the state does not currently have any other established process for collecting the Safety Inspection Fee. Other short-term collection options might be assigning this to another state agency, such as the Department of Taxation, but the state has not expressed an inclination to do so thus far.

SALES TAX ON AUTO REPAIRS: HB 3202 specifies that NVTA’s 5% retail sales and use tax on labor or service charges in the repair of motor vehicles “*shall be administered and collected in the same manner and subject to the same penalties as provided for the local retail sales tax*” authorized by, Va. Code, §58.1-605 (HB 3202, p. 29, line 1725).

Existing law, Va. Code, §58.1-605(D), states that any local sales tax “*shall be administered and collected by the Tax Commissioner in the same manner and subject to the same penalties as provided for the state sales tax.*” In short, this means that once NVTA’s tax is Auto Repair Sales tax is properly adopted, dealers and auto repair

facilities will need to collect this service sales tax from consumers and remit it to the Department of Taxation. The State Treasurer will remit the appropriate revenue to NVTA on a monthly basis (HB 3202, p. 29, lines 1721 – 1722). NVTA will not need to monitor or enforce collections among the individual businesses within this region. That will be the responsibility of TAX as it monitors and enforces the collection of the state local sales tax. Should any Commissioner of the Revenue or other tax official participate in local sales tax audits, NVTA would also presumably benefit as may be applicable.

Businesses are normally able to retain administrative fee, or discount, for their role in collecting sales tax. This is determined as a percentage against the first 3% of the state's sales tax, Va. Code, §58.1-622. The balance is remitted to the state. This is different for NVTA's Auto Repair Sales tax. HB 3202 specifically prohibits the dealer's discount in calculation of NVTA's tax (HB 3202, p. 29 and 30, lines 1724 and 1794). The law does, however, allow TAX a "subtraction of the direct costs of administration by the Department" from NVTA's receipts (HB 3202, p. 29 and 30, lines 1719 and 1789).

TAX will need to determine the amount of this direct cost subtraction. There will also need to be a discussion between NVTA and TAX as to how businesses will be informed about the new sales tax requirement once formally adopted. Presumably, TAX will handle these notice requirements, subject to direct cost reimbursement from NVTA receipts. Inasmuch as this process is codified by statute, there is no need for a formal MOU on this matter.

REGIONAL REGISTRATION FEE: HB 3202 allows the NVTA to impose an "additional" license fee of \$10 for each vehicle within the region that is otherwise "subject to state registration fees under this title." Although HB 3202 is silent on the administration of this fee, the Financial Working Group recommends that the DMV collect this fee on behalf of the NVTA at the same time it collects the state's registration fee. The Financial Working Group recommends that this would be the most efficient administration, as well as the least labor intensive process. The DMV could presumably just add \$10 to its existing state registration fee and segregate this money to a separate fund to be remitted to the NVTA. The DMV already offers a comparable service to localities in the collection of their decal fees, Va. Code, §46.2-756.

Representatives from NVTA's Financial Working Group have been meeting with the state's Revenue Work Group on this matter. As of this report, the state has indicated its willingness for the DMV to collect this fee as part of the normal renewal process for the state registration. This is very positive as it will handle the bulk of vehicles.

A question still under discussion is how to handle vehicles moving in from other Virginia jurisdictions that still have a current state registration; and, how to handle the \$10 fee on first time registrations.

On vehicles moving in from other Virginia jurisdictions, the DMV may not find out about the change until it is time for the owner to renew their state registration. What often happens today is that the DMV will mail a renewal form, the citizen will pay the fee, and the citizen will cross out their old 'garage location' and write their new location on the form. In such cases, the DMV would not have collected the correct registration amount (in cases where the NVTA fee should have been added). The state is also very leery about getting the DMV into an "after-the-fact" billing scenario where it would try to properly collect the NVTA fee with a supplemental bill.

Since vehicles moving into any jurisdiction have local registration requirements, the suggestion was raised that the localities could collect the NVTA fee if a vehicle moved in to a member jurisdiction and the state had not yet collected the tax. Staff is concerned that the decentralized administration of this fee, even if just for intra-state vehicle moves, will lead to even greater problems. For example, all localities would have to undergo significant programming changes, some more than others. Since many registrations are filed online or by mail, localities would also have to create billing routines to collect these NVTA fees. This, combined with local billing cycles, will undoubtedly create the perception that the \$10 fee is a local charge of each specific jurisdiction (this is an even bigger problem with the 1% initial registration fee). For that matter, if the normal billing cycle is utilized, this fee might be billed on an annual basis, rather than on a monthly cycle that would occur at the state level.

These concerns aside, staff is mindful of the DMV's dilemma. It can only properly bill the NVTA fee if it has accurate garage information. Again, this is a timing problem that primarily surrounds intra-state move-in of vehicles. Staff has proposed an alternative to the state that is still under consideration.

Once a vehicle moves into a member jurisdiction from another Virginia locality, local staff could check online DMV records to validate the garage jurisdiction listed in the state records. If the garage jurisdiction has not been changed, the local tax officials would simply update DMV's records to reflect a move into the NVTA jurisdiction. No fees would be collected at that point. Rather, DMV's record would now show the proper jurisdiction so that the correct amount could be billed up-front the next time the owner's registration came up for renewal. Depending on whether the registration renewal spanned one or two years, the DMV would need to collect either \$10 or \$20 to remit to NVTA. Some jurisdictions already have this online DMV capability today. The state

would need to ensure that the appropriate staff in all NVTA member jurisdictions have this authority.

This clearly would entail some workload on the part of localities, along with DMV's authorization to allow tax officials in all member localities to update garage jurisdictions. However, data integrity is in everyone's best interest, and the data entry workload should be relatively minor compared to workload associated with collecting the NVTA registration fees at the local level. If the state agrees to this process, implementation of this fee could commence relatively quickly.

Administration by DMV would mitigate the chance of erroneous registration fees being charged to vehicle owners solely due to migration between the member jurisdictions of the NVTA. This is also preferable to local administration since the alternative would give the impression that this registration fee is actually a separate charge of the individual localities, rather than a regional fee of the NVTA. DMV administration also eliminates the timing problem, since most local decal fees are due October 5th, and NVTA's fees would quite likely have to be linked to this billing process if administered locally. Since the billing process starts as early as June in some cases, there is not enough time to link NVTA's fee to this year's local bills. Accordingly, if localities administered this, implementation would probably be delayed. It also leaves unanswered the question as to what happens if any jurisdiction refused to collect these fees for the NVTA. The NVTA does not have the capability to collect these fees directly. The administrative overhead and computer system necessary to implement an annual registration fee for all of the vehicles in this area would be mammoth. This makes dealing with a central state agency all the more important.

HB 3202 is also silent on costs associated with implementation, but the Financial Working Group assumes DMV would need to recoup any associated costs from the NVTA revenue, and discussions need to be held with DMV to determine these costs. This is consistent with Va. Code, §46.2-756.

As noted, this issue is still under discussion with the state. Hopefully an update will be available by the NVTA meeting on June 6, 2007.

INITIAL VEHICLE REGISTRATION FEE: HB 3202 does not specifically state that NVTA's one-time registration fee shall be collected by the DMV. However, this is strongly inferred by the statute, and the Financial Working Group recommends that NVTA seek the DMV's administration of this fee.

This fee is a one-time registration fee on any vehicle registered within localities embraced by the NVTA and “*for such vehicles subject to the state registration fees under this Title.*” Moreover, the fee shall be 1% of the value of the vehicle- which shall be the same basis as used to determine the “*motor vehicle sales and use tax*” already collected by the DMV (HB 3202, p. 26, lines 1537 – 1543).

Both the state and localities have vehicle registration requirements; and, HB 3202 authorizes the NVTA fee to be “*assessed at the time the vehicle is first registered in the county or city embraced by the respective Authority by the owner of the vehicle.*” The Financial Working Group interprets this statute to mean the registration fee can be charged one time per owner upon registration within *any* locality embraced by the NVTA (for example, the fee can only be charged once if the vehicle is initially registered in Arlington County, but not again upon initial registration in Fairfax County simply because the owner moved from one jurisdiction to the other). This administration is facilitated if the fee is collected by the DMV upon initial registration with the state. The DMV already requires owners to list the garage jurisdiction of every vehicle being registered. Given their centralized data base, DMV is best positioned to ensure the fee is only charged one-time per owner.

Fortunately, after a number of meetings, the state has indicated its willingness to collect the initial one-time registration fee in most cases. In most cases, the fee will be collected upon the purchase of a new or used vehicle when the garage jurisdiction is a member locality within the NVTA. This may be a dealer sale, or sale between individuals (“casual sales”). On dealer sales, the state hopes to work through the Motor Vehicle Dealers’ Association so that this fee is collected by the dealer at the time the vehicle is purchased. This would become part of the normal “tag and titling” charges and enables the new owner to drive the car off the lot without having to go to DMV. To this extent, it is a customer service function of the dealer. This concept is still under discussion however as the DMV needs to reach consensus with the dealers. As for casual sales, the DMV would collect the NVTA 1% charge at the time the car is registered with the state. This would also be true for vehicles moving into Virginia from another state.

Like the annual registration fee, the real difficulty comes from vehicles moving intra-state from one jurisdiction to another. For example, if a vehicle moved from Fauquier to Prince William County, the owner would owe the one-time 1% NVTA registration fee. However, unless the owner went to DMV to change their registration, the DMV may not receive notification until the registration is renewed at a subsequent date. Again, DMV is very concerned in this scenario about getting into a supplemental billing process for the transportation authorities.

Staff recommends that the same information update solution proposed above for the annual registration fee will work for the one-time registration fee. Localities simply need to update the garage jurisdiction for the DMV records on intra-state vehicle moves, so the DMV can properly bill the NVTA fees at the time of the next registration renewal. Although this will delay the receipt of some NVTA registration fees, staff recommends this is far less onerous than the alternative of collecting this fee at the local level.

Local collection is fraught with difficulties. For example, the NVTA would get registration receipts from each jurisdiction, rather than consolidated receipts from DMV. Also, given the transient nature of this area, and the lack of another central data base, vehicle owners would inevitably be charged erroneous registration fees as they migrate between jurisdictions. Furthermore, localities could incur significant programming costs as they would need to uniformly capture DMV's existing cost basis that is used to determine the state sales tax. They would also need to program a receivable system to apply, collect, track and remit the new 1% NVTA fee. On the contrary, the programming changes for DMV may hopefully be as simple as changing the state sales tax factor from 3% to 4%, and segregating NVTA's 1% add-on fee to a separate fund. Finally, if localities have to administer this fee, it will give the connotation that this is an individual fee of the separate jurisdictions, rather than a regional charge of the NVTA.

Since HB 3202 is silent on implementation procedures, it is also silent on administrative costs. DMV would presumably need to recoup its administrative costs from this revenue, and these cost estimates need to be determined by the state. Again, this matter is still under review by the state. Hopefully staff will have an update by NVTA's meeting on June 6, 2007

Two side issues came up in discussion of the registration fees. Staff is simply presenting these for the NVTA's reference. First, assuming both a Hampton Roads Transportation Authority and the NVTA adopted the one-time registration fee, each authority would be allowed to impose this tax. In this scenario for example, if a person moved into the Hampton Roads Transportation Authority, and subsequently moved into an NVTA jurisdiction, both authorities would be authorized to collect the 1% fee at the time the vehicle moved into each specific authority. This is provided by statute. If the NVTA wanted to explore any deviation from this scenario, the matter would need to be referred to the Legal Working Group.

The other issue concerns charging the annual registration fee (\$10) and the initial registration fee (1%) at the same time upon initial registration. Based on the wording of the statute, both fees can clearly be collected at the same time (with the annual fee continuing to be collected each year thereafter). If the NVTA wanted to explore any

deviation from this—such as only collecting the initial fee upon registration, and treating the annual fee as a ‘renewal’ charge— the matter would need to be referred to the Legal Working Group. It should be noted that this latter issue would also decrease registration fees by some amount, and representatives from the Hampton Roads area expressed concern during state meetings that this alone may make any deviation untenable.

With all of these seven new tax and fees, citizens will invariably have questions and complaints. The Financial Working Group assumes that to a large extent, these would be directed to the administering agent for the specific tax. Aside from this, it may be reasonable to assume that the existing tax officials in each member jurisdiction can also help respond to inquiries from citizens of each respective jurisdiction. Policy and NVTA expenditure questions would presumably be forwarded to the executive staff to be appointed by the NVTA. This may be an area for further discussion by NVTA’s Public Outreach Working Group or the Organizational Working Group.

4. *What guidelines, policies and procedures should be established to ensure the efficient and effective collection and administration of NVTA’s fees and taxes; and, how should coordination with various revenue collection points, e.g., DMV, Clerk of the Circuit Courts, local Commissioners of the Revenue, Treasurers, and other tax officials be undertaken?*

See response to Question 3 above. Also, Deputy Secretary of Transportation, Barbara Reese, has already convened a state Revenue Work Group to include representatives from DMV, TAX and others to discuss the implementation of HB 3202. On May 10, 2007, the NVTA appointed representatives from its Financial Working Group to coordinate with the state’s work group. NVTA’s Financial Working Group also met with the Commissioners of the Revenue and local Treasurers on May 23, 2007, to discuss implementation issues.

5. *What steps need to be taken to establish an annual budget process?*

See the response to Question 2 above. The Financial Working Group recommends that the annual budget be developed with input from an NVTA Chief Financial Officer and accounting staff or consultant, with input from the Auditor of Public Accounts and other governmental accounting and budget experts. The initial accumulation of capital via the seven new NVTA taxes and fees can begin in the meantime however as long as the funds are collected and deposited into separate accounts.

6. *What is necessary for NVTA to establish a procurement policy?*

The Financial Working Group recommends that this also be deferred until a CFO and NVTA legal staff are hired or procured. Generally however, the Working Group recommends that NVTA follow the provisions of the Virginia Public Procurement Act, Va. Code, §2.2, Chapter 43. Local government Purchasing Agents will also be an excellent resource for the NVTA in this regard.

7. *How will NVTA's administrative and legal expenses be paid in the short term and long term?*

This is a matter that should be reviewed by NVTA's Legal Working Group. Under existing law, Va. Code, §15.2-4833 provides that the NVTA "*shall employ a Chief Executive Officer and such staff as it shall determine to be necessary to carry out its duties and responsibilities under this chapter.*" Existing law also specifically states how the NVTA is to pay for its administrative expenses:

"The administrative expenses of the Authority, as provided in an annual budget adopted by the Authority, to the extent funds for such expenses are not provided from other sources, shall be allocated among the component counties and cities on the basis of the relative population, as determined pursuant to §15.2-4834. Such budget shall be limited solely to the administrative expenses of the Authority and shall not include any funds for construction or acquisition of transportation facilities and/or the performing of any transportation service" (Va. Code, §15.2-4835).

The allocation provision is only applicable if "*funds for such expenses are not provided from other sources.*" The NVTA is of course going to receive significant revenue from the seven new taxes and fees, but HB 3202 specifically states that "*all moneys received by the Authority and the proceeds of bonds issued pursuant to §15.2-4839 shall be used by the Authority solely for transportation purposes benefiting those counties and cities that are embraced by the Authority*" (HB 3202, p. 8, lines 444 – 446; and, enactment clause 21, p. 42, line 2572). In order to use any of this revenue to fund administrative expenses, the Legal Working Group would have to determine that NVTA administrative expenses are in effect "transportation purposes."

The Financial Working Group believes that the salaries and expenses of staff necessary for the enactment of this legislation should in fact qualify as "*transportation purposes.*" If the Legal Working Group agrees, then the immediate adoption of the new NVTA taxes and fees will provide start-up funds, as well as cover long-term expenses.

If NVTA's Legal Working Group determines otherwise, then the existing statute concerning NVTA administrative expenses would still be controlling— in which case both short and long-term administrative expenses of the NVTA would need to be allocated among the member localities on the basis of population. It should be noted that the 13th enactment clause of HB 3202 states that “the Secretary of Finance may authorize an anticipation loan for purposes of meeting the requirements of this enactment” (HB 3202, p. 42, lines 2532-2533). This would include start-up costs.

8. *How will the amount raised by each of the seven NVTA taxes/fees and the two local taxes be tracked by jurisdiction?*

Based on the proposal in Question 3 above, it should be relatively easy for NVTA to track receipts for the Grantor's tax and the Transient Occupancy tax. Like the two local taxes, these revenue categories would be administered and remitted directly by each locality. Reporting requirements should be a part of any MOU that may be established. As for the rest, NVTA will need to work with TAX to ensure adequate point-of-sale reporting is provided for the Auto Repair Sales tax; with the DMV to ensure receipts are tracked by location for the NVTA registration fees; and, with the State Police concerning the location of Safety Inspections. This is important based on the revenue distribution formula specified in Va. Code, §15.2-4838.1 (HB 3202, p. 8, beginning line 443).

9. *How will funding transfers to WMATA and VRE occur? (Lump-sum payment each year? Individual project approval by NVTA? Other?)*

The Financial Working Group recommends that these decisions be deferred until NVTA's Chief Administrative Officer, Chief Financial Officer, financial staff or consultant are hired or contracted. This question is also being considered by the Project Implementation Working Group.

10. *What processes will NVTA use to determine when tolling is an appropriate financing method?*

The Financial Working Group recommends that these decisions be deferred until NVTA's Chief Administrative Officer, Chief Financial Officer and financial staff are hired or contracted.

11. *What additional policies/methodology are needed for calculating the 40 percent revenue distribution to the jurisdictions; and, what format should be used for the annual report each jurisdiction is expected to make concerning how funds have been spent?*

The revenue distribution formula specified under HB 3202 is rather specific. Also, HB 3202 requires that “each locality shall provide annually to the Northern Virginia Transportation Authority sufficient documentation as required by the Authority showing that the funds distributed under this subsection were used as required by this subsection” (HB 3202, p. 8, lines 462 – 464). The Financial Working Group recommends that further details concerning the documentation and implementation of be deferred until NVTA’s Chief Administrative Officer, Chief Financial Officer and financial staff are hired or contracted.

12. *Is it desirable for NVTA to obtain federal grantee status? If so, what is necessary to obtain it?*

The Financial Working Group recommends that these decisions be deferred until NVTA’s Chief Financial Officer and accounting staff are hired or contracted. Certainly, the member localities can provide resource assistance in reviewing the details of this process at the appropriate time. For reference, PRTC and NVTC do have federal grantee status, as does Metro. The VRE does not have federal grantee status individually.

13. *Are there any financial issues that also have legal implications and should be discussed jointly with the legal work group?*

More are bound to arise, but at this time, the additional legal issues concern the drafting of MOU’s (see Transient Occupancy tax, Question 3 above); and, the payment of NVTA administrative expenses (Question 7 above), to include vendor contracts.

14. *Is there an off-the-shelf accounting system that NVTA can procure to address financial matters?*

In all probability there is an off-the-shelf accounting system that NVTA can procure. There are most likely a number of such systems. Member jurisdictions or existing transportation agencies may also be able to provide short-term support to NVTA’s accounting needs.

The most prudent course of action may be for the NVTA to issue a Request-for-Proposal (RFP) in order to solicit competitive bids for this type of system. The Financial Working Group recommends that such an RFP be deferred until NVTA's Chief Financial Officer and accounting staff are hired or contracted. Depending on the outcome of the Legal Working Group's review of question seven, the member localities will need to fund this acquisition, or the NVTA could seek an anticipation loan from the Secretary of Finance. Certainly, the member localities can provide resource assistance in developing an RFP at the appropriate time. NVTC/PRTC may also be a resource in this regard.

Another option is to contract with a vendor providing such services. Handling this by contract would provide the time to adequately determine the exact type of system to procure and whether this system needs to be a true accounting system or an accounting and collection system. This decision will be determined later, once all agreements are in place regarding the process of collections. However, the Financial Working Group believes there are vendors that may provide a short-term solution to NVTA's accounting system. A key requirement of any system will be the capability to track each category of receipts by jurisdiction in which the monies are collected.

15. *What policies and procedures need to be in place for NVTA to consider issuing bonds?*

In the short-term, the Financial Working Group is mindful that the Legal Working Group recommends filing a bond validation suit in order to quickly resolve legal challenges that may arise concerning the implementation of HB 3202. In order to file a bond validation suit however, NVTA must actually have some project or projects for which it desires to issue debt. The issuance does not have to occur at this point; NVTA simply needs to show the "intention" to issue bonds and they can be contingent upon a future revenue stream sufficient to cover the debt service. Based on this, it is recommended that the NVTA direct the Financial Working Group to return at the July meeting with a small issuance proposal, perhaps in the range of \$50 - \$100 million. The proposal should include a project or list of projects to be developed by the Interim Technical Committee; a target bond amount; and, a proposed bond resolution.

As a precursor to this, NVTA's Financial Working Group will need the assistance of bond counsel and a financial advisor. To accommodate this need, the Financial Working Group recommends that the NVTA contract directly with the appropriate bond counsel and financial advisor, subject to the recommendation of the Legal Working Group, for the initial bond resolution. A number of jurisdictions already use the same bond counsel and financial advisors.

Beyond this, the Financial Working Group recommends in the long-run that the creation of debt policies and procedures be deferred until NVTA's Chief Administrative Officer, Chief Financial Officer, financial staff, and legal staff are hired or contracted. However, the following is based on consultation with local bond advisors and is provided for reference:

The Authority should implement policies and procedures for managing debt including overarching policies for maintaining a high quality debt program and detailed guidelines for debt issuance. The policy will guide decisions on all debt issued by the Authority and also assist the Authority in realizing debt service savings and efficiencies. Specifically, the policies will assist in the following:

- Guide the Authority and its managers in policy and debt issuance decisions
- Maintain appropriate capital assets for present and future needs
- Promote sound financial management
- Establish and protect quality credit ratings
- Ensure legal use of the Authority's debt issuance authority
- Promote cooperation and coordination with other stakeholders in the financing and delivery of services
- Evaluate debt issuance options
- Coordinate with the Finance Departments of the NVTA member jurisdictions the issuance of overlapping debt that would affect the local jurisdiction.

The provisions for debt policies and procedures are outlined below:

- I. Debt management policies
 - a. High level debt policy statement, e.g.,
 - i. Achieve lowest cost of capital
 - ii. Ensure high credit quality
 - iii. Assure access to capital markets
 - iv. Preserve financial flexibility
 - b. Goals and objectives
 - c. Debt affordability criteria
 - i. Debt service coverage requirements (senior and subordinate liens)
 - ii. Debt vs. paygo
 - iii. Reserves and liquidity levels
 - d. Bond structure
 - i. Term
 - ii. Capitalized interest
 - iii. Debt service structure (level, matched to useful life, etc)

- iv. Call provisions
 - v. Derivative structures
 - e. Types of debt
 - i. Long-term
 - ii. Short-term
 - iii. Lease purchase
 - iv. Variable rate
 - f. Refinancing outstanding debt
 - i. Thresholds for debt service savings
 - ii. Restructurings
 - iii. Term of refunding issues
 - iv. Escrow structuring
 - g. Use of Credit enhancement
 - i. Bond insurance
 - ii. Debt service reserves
 - iii. Letters of credit
 - iv. Other
 - h. Methods of issuance
 - i. Competitive sale
 - ii. Negotiated sale
 - iii. Private placement
 - i. Underwriter selection (if negotiated sale)
 - i. Selection process
 - ii. Underwriter's discount
 - iii. Evaluation of underwriter performance
 - iv. Syndicate policies
 - v. Designation policies
- II. Post Issuance Procedures (each issuance has monthly accounting overhead that will need to be addressed by NVTA financial management staff, or by a financial consulting firm with whom NVTA may contract. The need for due diligence is especially critical given that an issuance may cover projects in multiple jurisdictions, requiring considerable monthly coordination to correctly draw funds and maintain the transparency needed).
 - a. Arbitrage rebate compliance
 - b. Secondary market disclosure (Rule 15c2-12 compliance)
- III. Master Indenture of Trust/Trust Agreement Provisions
 - a. Flow of Funds
 - b. Selection of a Trustee/Fiscal Agent
 - c. Collection procedures
 - d. Reserve requirements

- IV. Additional bonds requirements
 - a. Revenue forecast guidelines
 - b. Growth rates
 - c. Time period for review of revenue generation and coverage
 - d. Feasibility consultants, as necessary

- V. Public notice(s)
 - a. Newspaper in each locality?
 - b. Timing
 - c. Number of postings

- VI. Public Hearing(s)
 - a. Timing
 - b. Number
 - c. Time allocated to each public speaker

- VII. Board authorization
 - a. Number of voting members required to approve
 - b. Delegation of authority to executive officer

16. *Is it appropriate/desirable for NVTA to receive a loan(s) from jurisdictions to fund initial administrative expenses related to new organization? If so, what is the appropriate amount?*

The Financial Working Group recommends this matter be deferred until NVTA's Chief Administrative Officer, Chief Financial Officer, financial staff, and legal staff are hired, or upon contracting with a financial consulting firm. The answer to this question is also dependent on the Legal Working Group's review of Question 7 above. Assuming administrative expenses can come from the new NVTA taxes and fees, there may or may not even be a need for "loans", depending on how quickly the new taxes and fees are adopted. Another source of funding may be an anticipation loan from the Secretary of Finance as provided for in enactment clause 13. For reference however, the following is based on consultation with local bond advisors:

A source of funding to provide for administrative expenses prior to the initial receipt of revenues would be advantageous to expeditiously establishing the Authority. The loan would be subject to the applicable debt management policies and procedures established by the Authority and the jurisdiction(s) providing the loan(s) would need to do so voluntarily. The Authority would either choose a loan from all member localities based on a contributory formula or a loan from a single locality. Under both options, the loan would be provided on

a reimbursable basis and staff/contractor levels would be determined by the Authority and the member localities. Provided below are some provisions to consider when structuring the loan(s).

- I. Form of debt, would follow NVTA Board authorization procedures above
- II. Jurisdiction(s) providing loan would have to be voluntary
- III. Written documentation of terms
- IV. What would these jurisdictions get in return? Interest earnings? Anything else?
- V. What magnitude is needed?
- VI. Jurisdiction(s) providing loan would have to agree to terms of the loan
- VII. How establish interest rate and other provisions (i.e., amortization, final maturity, prepayment options)?
- VIII. What is source of repayment? Future revenues?
- IX. Would it be senior or subordinate to any debt issued? Possibly treat it as an operating expense in flow of funds on future bond structure.

17. *What investment policies should NVTA establish?*

The Financial Working Group recommends the creation of investment policies be deferred until NVTA's Chief Administrative Officer, Chief Financial Officer, financial staff, and legal staff are hired or contracted. In the interim, available balances should be invested overnight in U.S. guaranteed paper only. The following is based on consultation with local bond advisors and is provided for reference:

Provided below is an outline of what an investment policy of the Authority would include. The Authority also may wish to consider the implementation of a banking policy.

- I. Statement of investment objectives
- II. Responsibility for investment decisions
- III. Establish standards of prudence
- IV. Document ethics and conflicts of interest
- V. Detail permitted investments
 - a. Portfolio diversification
 - b. Credit standards
 - c. Maximum maturity
 - d. Prohibited investments
- VI. Selection of brokers/dealers
- VII. Custody/safekeeping requirements
- VIII. Performance standards and benchmarks
- IX. Reporting requirements

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Attachment 1- Members of the NVTA Financial Working Group
Attachment 2- Matrix of NVTA's Seven New Taxes and Fees

cc: Chief Executive Officer/Chief Administrative Officer, Member Localities
Financial Working Group
Legal Working Group
Barbara W. Reese, Virginia Deputy Secretary of Transportation

Attachment 1-- Members of the Financial Working Group:

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William D. Euille, Vice Chair, City of Alexandria

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Attachment 2: Seven New NVTA Taxes and Fees:

<u>Tax/Fee Authorized</u>	<u>Rate</u>	<u>Proposed Administering Agency</u>	<u>Post 7/1/07 Implementation Date After 60 Day Notice</u>
Grantor's Tax	40¢	Clerk of the Court	Immediate
Motor Vehicle Rental Tax	2%	DMV	Immediate
Transient Occupancy Tax	2%	Member Localities	Immediate
Safety Inspection Fee	\$10	State Police or TAX	Immediate
Sales Tax on Auto Repairs	5%	TAX	Immediate
Regional Registration Fee	\$10	DMV	January 1, 2008 (to coincide with Initial Registration Fee)
Initial Vehicle Registration Fee	1%	DMV	January 1, 2008