

NORTHERN VIRGINIA TRANSPORTATION AUTHORITY

MEMORANDUM

TO: Chairman Martin E. Nohe and Members
Northern Virginia Transportation Authority

FROM: Michael Longhi, Chief Financial Officer

DATE: January 25, 2018

SUBJECT: Financial Analysis of the Governor's Proposed Biennium Budget/HB1319

1. Purpose. Present the Northern Virginia Transportation Authority (NVTA) an initial analysis of the Governor's Proposed Biennium Budget (and HB1319) impact on NVTA's Local Distribution Fund (30% distributions) and funding for the upcoming Six Year Program (SYP). This analysis was reviewed and discussed by the NVTA Finance Committee at their January 18th meeting. (Please note all figures in this analysis are preliminary and subject to change.)

2. Background.

- a. On December 18, 2017, Governor Terry McAuliffe, released House Document No. 1. This document is the Governor's proposed biennium budget for fiscal years 2019 and 2020. Page 396, item E. 1 through 4, of the document proposes additional funding for Washington Metropolitan Area Transit Authority (WMATA) and the Virginia Railway Express (VRE). A copy of this section of the proposed budget is attached as Appendix A.
- b. As it relates directly to the NVTA, the proposed budget calls for the following:
 - i. Increases in the Northern Virginia Transient Occupancy Tax and Grantors Tax.
 - ii. A diversion of 40% of NVTA's annual revenue through:
 1. A transfer of 35% of total NVTA revenue, to the Northern Virginia Transportation Commission (NVTC) for WMATA capital needs.
 2. A designation of 5% of total NVTA revenue for the capital and operating needs of VRE.
 - iii. Implementation of a gas tax floor. The gas tax floor has no direct impact on NVTA and therefore is not addressed in this analysis.

3. Current Analysis.

- a. The Commonwealth makes an independent estimate of the NVTA revenue. The NVTA use a collaborative revenue estimate process which involves the participation of all nine member jurisdictions.
- b. This analysis uses the NVTA Six Year Revenue Projections for FY2018-23, adopted by the Authority on October 12, 2017.
- c. The adopted NVTA FY2018-23 revenue projections form the basis for funding the Authority's first Six Year Program (SYP)

- d. Within the context of the six year revenue projections and SYP, this analysis looks at four areas:
- Impact of proposed increased TOT and Grantors tax rates.
 - Impact of the proposed 40% revenue diversion.
 - Summary of impacts on the Local Distribution Fund (30%).
 - Summary of impacts on the Regional Revenue Fund and PayGo supporting the Authority's Six Year Program (SYP)
- e. **Impact of the Proposed Increased TOT and Grantors Tax Rates:**
- i. Transient Occupancy Tax (TOT) revenue increases \$81.4 million over five of the six years in the projection period.
 - ii. Grantors Tax revenue increases \$155.5 million over five of the six years in the projection period.
 - iii. This results in total revenue increase of \$236.9 million.
 - iv. TOT and Grantors are the most volatile of the Authority's three taxes.
 1. Over the last 21 years in the four member counties, TOT has seen year to year increases of 41.6% and decreases of 15.8%. Also in the same counties, the Grantors Tax has seen year to year increases of 33.6% and decreases of 21.2%.
 2. This volatility makes these two taxes less reliable and predictable, raising the reliance on Sales Tax as an overall stabilizing force for NVTA's combined revenue streams when considering an 'off the top' diversion of 40% of total revenue.
 3. Because NVTA revenue is based on transactions within each members' jurisdiction, the impact of the rate increases will be uneven. For example, Manassas Park does not receive TOT tax revenue and therefore will experience a higher impact of the 40% diversion vs. other member jurisdictions, discussed next.
- f. **Impact of the Proposed 40% Revenue Diversion:**
- i. Total revenue currently projected over the six year period is \$2.1 billion (gross).
 - ii. The proposed increased TOT and Grantors tax rates, which total an additional \$236.9 million, raises the projection to \$2.3 billion (gross).
 - iii. The 40% diversion reduces total revenue available to the NVTA to \$1.5 billion (gross).
 - iv. Summary: While the two increased tax rates generate more revenue, the end result of the 40% diversion is that the Authority [and its members] will see a total revenue reduction of approximately \$562 million over the six year period, negatively impacting 30% distributions and limiting the upcoming SYP.

g. Summary of Impacts on the Local Distribution Fund (30%):

- i. The Local Distribution Fund sends 30% of revenues raised in a jurisdiction, back to that jurisdiction.
- ii. Actual 30% proceeds are completely dependent on the transactions within a jurisdiction.
- iii. Each jurisdiction has specific local economic factors which create differing strengths among the three NVTAs taxes applied through HB2313 and collected within each member jurisdiction.
- iv. With 40% of revenue diverted 'off the top' the impact on the 30% funds is disproportionate among jurisdictions.
- v. In the adopted revenue projections (FY2018/23), the Local Distribution Fund receives \$626.8 million for 30% distributions.
- vi. When including the proposed increased tax rates and the 40% diversion, the available funds decrease to \$458.2 million or a \$168.7 million reduction over the six year period.
- vii. This reduction is just for five of the six years in the SYP, since the proposed budget does not apply to FY2018. An additional \$31.3 million¹ would have been reduced from the 30% distribution if the proposed budget covered all years of the SYP, taking to total impact to \$200 million.
- viii. The Authority projects revenue at the locality level. The following is the impact of the proposed budget on each NVTAs jurisdiction's Local Distribution (30%) revenue, in millions, over the six year period (changes applied to FY2019/23):

Jurisdiction	Current Projection	Revised Projection*	\$ Change	% Change
Alexandria	\$42.5	\$32.0	-\$10.5	-25%
Arlington	\$75.2	\$57.6	-\$17.6	-23%
Fairfax City	\$15.1	\$10.5	-\$4.6	-31%
Fairfax County	\$270.0	\$197.7	-\$72.3	-27%
Falls Church	\$6.0	\$4.2	-\$1.8	-30%
Loudoun	\$119.3	\$86.4	-\$32.9	-28%
Manassas	\$10.3	\$7.0	-\$3.3	-31%
Manassas Park	\$3.0	\$2.1	-\$0.9	-30%
Prince William	\$85.5	\$60.7	-\$24.8	-29%
Totals	\$626.8	\$458.1	-\$168.7	

Notes: *Increased tax rates, less 40% diversion
The impact on the five towns within the Authority; Dumfries, Herndon, Leesburg, Purcellville and Vienna has not been calculated. However, as town distributions are a subset of the county 30% distribution, the impact will be negative.

¹ This figure is updated from the impact presented to the Finance Committee.

h. Summary of Impacts on the Regional Revenue Fund and PayGo Supporting the Six Year Program (SYP)

- i. The PayGo level for the SYP has not been finalized at this time as the NVTA Finance Committee is still reviewing several factors and has not made a recommendation to the Authority.
- ii. The informal PayGo conceptual level for SYP discussion purposes has been approximately \$1.5 billion.
- iii. Using the same modeling, and accounting for the proposed two increased tax rates as well as the 40% diversion, including the impact on interest earnings, taper amounts and carryforward, result in PayGo availability for the SYP under the Governor’s proposed budget of approximately \$1.116 billion.
- iv. The model results of the impact of the Governor’s proposed budget/HB1319 are presented in Appendix B.
- v. The proposed budget/HB1319 start in FY2019. However, NVTA’s SYP starts with FY2018. FY2018 offsets the overall impact of the proposed budget on the SYP through:
 - 1. No diversion of 70% revenue in FY2018
 - 2. A carryforward of \$100 million from the withdrawn I66/Route 28 project in FY2018.
- vi. Current (unofficial) PayGo for the SYP: \$1.511 billion
PayGo net of proposed budget changes: \$1.116 billion
Reduction in PayGo for the SYP: \$ -395 million
- vii. Impact Assessment on a full SYP
Current (unofficial) PayGo for the SYP: \$1.511 billion
PayGo net of proposed budget changes: \$1.116 billion
Five of Six years Impact: \$ -395 million
Equivalent FY2018 Diversion Impact: \$ -73 million
Eliminate I66/Route 28 Carryforward: \$ -100 million
Full SYP Impact: \$ -568 million

Attachments:

Appendix A: House Document No. 1. Proposed biennium budget for the fiscal years 2019 and 2020, page 396, item E. 1 through 4

Appendix B: Governor’s Proposed Budget/HB1319 – PayGo Determination

House Document No. 1. Proposed biennium budget for the fiscal years 2019 and 2020, page 396, item E. 1 through 4,

E. To provide an appropriate level of funding for the Washington Metropolitan Area Transit Authority and the Virginia Railway Express, the following actions shall be taken:

1. Notwithstanding § 33.2-2510, Code of Virginia, thirty-five percent of the revenues received by the Northern Virginia Transportation Authority shall be transferred to the Northern Virginia Transportation Commission and made available for capital needs of the Washington Metropolitan Area Transit Authority; and
2. Notwithstanding § 33.2-2510, Code of Virginia, five percent of the revenues received by the Northern Virginia Transportation Authority shall be used by the Authority solely to fund capital and operating needs of the Virginia Railway Express.
3. To enhance the revenues of the Northern Virginia Transportation Authority:
 - a. The regional congestion relief fee authorized under § 58.1-802.2, Code of Virginia, is increased from \$0.15 to \$0.25 for each \$100 of value of property sold; and,
 - b. The regional transient occupancy tax authorized under § 58.1-1742, Code of Virginia, is increased from two percent to three percent;
4. The regional tax rate of 2.1 percent applied on the sale of fuels by wholesalers to retail dealers authorized under § 58.1-2295, Code of Virginia, shall have a price floor identical to the price floor that exists in the statewide sales tax on fuel, as determined by the Commissioner pursuant to § 58.1-2217, Code of Virginia. The increase in revenues provided to the Northern Virginia Transportation Commission from this provision shall be dedicated for capital improvement needs of the Washington Metro Area Transit Authority.

Scenario: NVTA I-66 OTB Project Withdrawn
 Governor's Proposed Budget
 Declining Future Year Carryover
 Last Three Year Taper at 5%, 10%, 15%

PROJECTED REVENUE								
	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	Six Year Totals	
Sales	\$ 253,421,494	\$ 258,926,224	\$ 265,846,393	\$ 272,982,830	\$ 280,453,992	\$ 288,142,662	\$	\$ 1,619,773,594
TOT	\$ 30,218,980	\$ 31,034,154	\$ 31,748,477	\$ 32,570,413	\$ 33,330,749	\$ 34,159,837	\$	\$ 193,062,611
Grantors	\$ 44,616,624	\$ 45,167,888	\$ 45,819,213	\$ 46,377,477	\$ 47,043,160	\$ 47,614,206	\$	\$ 276,638,568
Total	\$ 328,257,098	\$ 335,128,266	\$ 343,414,083	\$ 351,930,721	\$ 360,827,901	\$ 369,916,705	\$	\$ 2,089,474,773
70%	\$ 229,779,968	\$ 234,589,786	\$ 240,389,858	\$ 246,351,504	\$ 252,579,531	\$ 258,941,694	\$	\$ 1,462,632,341
30%	\$ 98,477,129	\$ 100,538,480	\$ 103,024,225	\$ 105,579,216	\$ 108,248,370	\$ 110,975,012	\$	\$ 626,842,432

GOVERNOR'S PROPOSED BUDGET/HB1319								
	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	Six Year Totals	
Sales	\$ 253,421,493	\$ 258,926,225	\$ 265,846,393	\$ 272,982,830	\$ 280,453,992	\$ 288,142,662	\$	\$ 1,619,773,595
TOT	\$ 30,218,980	\$ 46,551,231	\$ 47,622,716	\$ 48,855,620	\$ 49,996,125	\$ 51,239,754	\$	\$ 274,484,425
Grantors	\$ 44,616,624	\$ 75,430,373	\$ 76,518,084	\$ 77,450,387	\$ 78,562,077	\$ 79,515,724	\$	\$ 432,093,269
Total	\$ 328,257,097	\$ 380,907,829	\$ 389,987,193	\$ 399,288,836	\$ 409,012,194	\$ 418,898,140	\$	\$ 2,326,351,289
Net of Diversion	40%	\$ 328,257,097	\$ 228,544,697	\$ 233,992,316	\$ 239,573,302	\$ 245,407,317	\$	\$ 1,527,113,612
Regional Revenue Fund	70%	\$ 229,779,968	\$ 159,981,288	\$ 163,794,621	\$ 167,701,311	\$ 171,785,122	\$	\$ 1,068,979,528
Local Distribution Fund	30%	\$ 98,477,129	\$ 68,563,409	\$ 70,197,695	\$ 71,871,990	\$ 73,622,195	\$	\$ 458,134,084

PAYGO DETERMINATION								
70%Gross Revenue	\$ 229,779,968	\$ 234,589,786	\$ 240,389,858	\$ 246,351,504	\$ 252,579,531	\$ 258,941,694	\$	\$ 1,462,632,341
Gov. Proposed Reduction	\$ (0)	\$ (74,608,498)	\$ (76,595,237)	\$ (78,650,193)	\$ (80,794,409)	\$ (83,004,475)	\$	\$ (393,652,813)
+Fund Interest Income	\$ 5,530,000	\$ 5,530,000	\$ 5,530,000	\$ 5,530,000	\$ 5,000,000	\$ 4,500,000	\$	\$ 31,620,000
-Gov. Interest Reduction	\$ (0)	\$ (3,318,000)	\$ (3,318,000)	\$ (3,318,000)	\$ (3,000,000)	\$ (2,700,000)	\$	\$ (15,654,000)
+Est. Rev. Carryforward	\$ 11,314,885	\$ 6,500,000	\$ 5,000,000	\$ 4,000,000	\$ 3,000,000	\$ 2,000,000	\$	\$ 31,814,885
-Gov. Carryforward Adj.	\$ (0)	\$ (3,900,000)	\$ (3,000,000)	\$ (2,400,000)	\$ (1,800,000)	\$ (1,200,000)	\$	\$ (12,300,000)
+CoVA Interest	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$	\$ -
-Existing Debt Service	\$ (5,549,950)	\$ (5,549,950)	\$ (5,549,950)	\$ (5,548,450)	\$ (5,547,500)	\$ (5,550,000)	\$	\$ (33,295,800)
+I-66 OTB \$100m Carryover	\$ 100,000,000						\$	\$ 100,000,000
-SYP/CRRRC Tech Support		\$ (160,000)		\$ (160,000)		\$ (160,000)	\$	\$ (480,000)
-LTB Interim Tech Support			\$ (150,000)				\$	\$ (150,000)
-TransAction Update			\$ (3,500,000)				\$	\$ (3,500,000)
Subtotal	\$ 341,074,903	\$ 159,083,338	\$ 158,806,671	\$ 165,804,861	\$ 169,437,622	\$ 172,827,219	\$	\$ 1,167,034,613
Taper Factor	1.000	1.000	1.000	0.950	0.900	0.850		
Taper Amount				\$ 8,290,243	\$ 16,943,762	\$ 25,924,083	\$	\$ 51,158,088
PayGo Amount Available	\$ 341,074,903	\$ 159,083,338	\$ 158,806,671	\$ 157,514,618	\$ 152,493,859	\$ 146,903,136	\$	\$ 1,115,876,525

NORTHERN VIRGINIA TRANSPORTATION AUTHORITY**MEMORANDUM**

TO: Chairman Martin E. Nohe and Members
Northern Virginia Transportation Authority

FROM: Mayor Parrish, Chairman – NVTA Finance Committee

DATE: January 26, 2018

SUBJECT: Finance Committee Report of the January 18, 2018 Meeting

1. **Purpose:** To provide the Northern Virginia Transportation Authority (NVTA) with a report of NVTA Finance Committee activities.
2. **Background:** The Finance Committee last met on January 18, 2018. The next meeting is scheduled for February 15, 2018 at 1:00PM. The following summarizes the January 18th meeting:
3. **Action Items:**
 - a. **Meeting Schedule for the Next 12 Months** – The Committee agreed to continue the practice of meeting on the third Thursday of the month at 1PM. Meetings will only be called in July, August or December if required by the needs of the Authority.
 - b. **Budget Transfer for Communications Program** – The FY2018 operating budget included funding for communications functions with the flexibility to obtain the services on a contract or direct hire basis. During the budget development process a preference for a direct hire was expressed. The position was filled through a direct hire and the budget transfer moves the approved funding into the personnel budget classifications. Additionally, the transfer takes savings from the renegotiation of service contracts to fund the position on a full time basis. The Committee agreed unanimously to recommend Authority approval of the budget transfer.
4. **Discussion Items:** Due to pressing schedule commitments on the part of many Committee members, the Committee Chair reordered the agenda to first review and discuss Item VII Financial Analysis of the Governor’s Proposed Biennium Budget/HB1319.
 - a. **Financial Analysis of the Governor’s Proposed Biennium Budget/HB1319.** The Committee reviewed and discussed an analysis prepared by NVTA staff addressing the impact of the Governor’s proposed budget. The analysis was undertaken in the context of the Authority’s upcoming Six Year program (SYP) addressing impacts on:
 - i. **Local Distribution Fund (30%):** A reduction of \$168.7 million to the projected FY2019/23 distributions, net of the tax increases proposed in the budget.
 - ii. **Regional Revenue Fund (70%):** The immediate impact on the SYP would be a reduction in available funding of \$395 million, reducing projected funding from \$1.511 billion to \$1.116 billion. Note, this is the impact assessed only on 5 of the SYP six years, since the proposed budget is for FY2019.

- iii. Full Six Year Impact:** The analysis noted the proposed budget is effective in FY2019. However, the NVTA SYP includes FY2018. Equalizing for this one year difference the negative impact on the two areas noted above increase:
1. **Local Distribution Fund (30%):** Reduction would be increased by \$31.3 million¹, making the total reduction over six full years approximately \$200 million.
 2. **Regional Revenue Fund (70%):** FY2018 has significant carryforward from the withdrawn I66 Route 28 Project. Adjusting for the carryforward and applying the budget provisions to FY2018 results in additional reductions of \$173 million, making the total reduction over six full years approximately -\$568 million. Thus reducing PayGo for the SYP from 1.5 billion to .940 billion.
- iv. Closed Session:** The Committee met in closed session as authorized by Virginia Code section 2.2-3711.A.8, for the purpose of consultation with, and the provision of legal advice by the Authority's legal counsel concerning House Bill 1319 now pending in the General Assembly and its potential effects on current and planned NVTA projects, policies and practices, including previously approved and future NVTA bond financings.
- b. Remaining Discussion Items:** The remaining discussion items were deferred until the next committee meeting.

¹ This figure is updated from the impact presented to the Finance Committee.