

Virginia Department of Rail &
Public Transportation

Transit Capital Revenue Estimation Study

March 31, 2017



PRESENTATION OVERVIEW

- **Objectives of the Study**
- **Principles for Selecting Revenue Sources**
- **Evaluation and Estimation Methods**
- **Evaluation and Estimation of Revenue Sources**
- **Illustrative Funding Packages**

OBJECTIVES OF THE STUDY

- **Identify potential revenue sources that could address Virginia's transit capital funding needs**
- **Assess the viability of these sources according to revenue assessment evaluation criteria**
- **Identify potential revenue sources that could fill the funding gap estimated for DRPT's transit capital spending**

UPDATED PRINCIPLES FOR SELECTING REVENUE SOURCES, BASED ON FEEDBACK FROM REVENUE ADVISORY BOARD

- 1. Focus on transit capital funding**
- 2. Pursue a package of multiple revenue sources**
 - Spread lower rate increases across multiple sources so no single source is overburdened
- 3. Consider both statewide and regional sources**
 - Use regional sources to – in part – address regional transit funding needs
- 4. Ramp up revenues gradually to address future needs**
- 5. Focus on revenue sources for which a rate increase is most feasible**
 - Consider duration since most recent increase
 - Consider sources with comparatively low rates
- 6. Prepare a range of options for General Assembly consideration**

METHODS – REVENUE EVALUATION

→ Reviewed 4 categories of revenue sources:

- Existing revenue sources used to fund transit capital projects in Virginia
- Revenue sources used in Virginia to fund other transportation capital projects, excluding transit, which could be partially reallocated or be increased for transit
- Revenue sources currently used in Virginia to fund other needs (e.g. Grantor's tax)
- Revenue sources not currently used in Virginia (e.g. Internet Sales Tax)

→ Promising revenue sources are presented with detailed information and evaluation to facilitate review, with ratings attributed for each criterion:

- = High
- ◐ = Medium
- = Low

REVENUE EVALUATION CRITERIA

Factor	Description	Rating
Revenue potential	Amount of funding source may yield for transit programs	<input checked="" type="radio"/> High <input type="radio"/> Medium <input type="radio"/> Low
Keep pace with inflation	Source keeps pace or is correlated with general price inflation	<input checked="" type="radio"/> Indexed and/or keeping pace with inflation <input type="radio"/> Sometimes keeping pace with inflation <input type="radio"/> Not indexed / not keeping pace with inflation
Equity	Proportionate impact across income levels	<input checked="" type="radio"/> Progressive (consistent with incomes) <input type="radio"/> Neutral <input type="radio"/> Regressive (higher burden on lower incomes)
Nexus with beneficiaries	Correlation with beneficiaries of transit programs	<input checked="" type="radio"/> Directly related to the beneficiaries <input type="radio"/> Some relation <input type="radio"/> No relation
Stability / predictability	Annual stability and predictability	<input checked="" type="radio"/> Generally stable/predictable <input type="radio"/> Varies but generally predictable <input type="radio"/> Relatively unpredictable/volatile
Administration	Administrative, collection and enforcement costs	<input checked="" type="radio"/> Already collected at some level / low cost <input type="radio"/> Moderate administration and collection costs <input type="radio"/> Costly new administration and collection mechanisms required

WEIGHING REVENUE EVALUATION CRITERIA: SURVEY OF REVENUE ADVISORY BOARD MEMBERS

Factor	Description	Average Grade
Revenue potential	Estimated amount of revenue for funding the region's transit program	9.5
Stability / predictability	Annual predictability	8.5
Keep pace with inflation	Extent to which the revenue source keeps pace or is correlated with general price inflation	7.7
Nexus with beneficiaries	Extent to which the revenue source relates to the beneficiaries of transit in the region	6.3
Administration	Administrative and collection costs	4.7
Equity	Proportionate impact across income levels	4.2

Grades: 10 = highest; 1= lowest

LONG LIST OF REVENUE OPTIONS

→ The review started with a long, rather exhaustive list of revenue options used in Virginia or elsewhere in the U.S. to fund transportation or other needs:

- Airport use excise tax
- Alcohol tax
- Amusement taxes
- Building permit tax
- Dedicated value added taxes
- Energy & utilities taxes
- Fertilizer/pesticide taxes (agricultural chemicals)
- Hotel excise tax
- Disposal tax surcharge
- Improvement district tax
- Insurance premium taxes
- Litter control tax
- Marine facilities tax
- Marine fuels tax
- Restaurant/prepared food tax
- Tax on marine vessels
- Tax on personal watercraft (personal property)
- Vehicle titling tax
- Licensing and recreational fee
- Local aquifer protection fee
- Tobacco tax
- Voluntary "check off" designating a portion of state income taxes to go towards identified item
- Access rights fee
- Bicycle registration fee
- Construction fee
- Connection fee
- Commercial and industrial property tax
- Property tax
- Fuel Tax
- Hospitality tax
- Mortgage transaction fee
- Real estate transfer tax
- Recordation Taxes
- Rental car taxes
- Sales and use tax
- Toll increase/implementation
- Special regional transportation taxing districts
- Payroll Tax
- Road branding / providing advertising space on public facilities
- Local water/wastewater utility user fee
- Fees for trucks servicing the port
- Inspection/monitoring/testing fee
- Off and/or on-street parking space fee
- Project investment fee
- Septic system impact fee
- Solid waste disposal fee (tipping fees, septage/sludge fees)
- Special permitting fees
- State public water supply withdrawal fee
- Transportation/Infrastructure fee for non-profits/governmental organizations whose property is not subject to property taxes
- Utility rights application fee
- Vehicle registration fee for public colleges/universities
- Vehicle use fees based on mileage (payable w/ state inspection)
- Well permit/pumping fee
- Container truck surcharge
- Development of public-private partnerships
- Leasing of air space and right-of-way
- Lottery and/or casino revenue / dedicated lottery
- Tourist tolls on roadways as part of toll system
- Traffic violation revenues - percentage
- Cap and Trade
- Driver license fee
- HOT Lanes
- Franchise fee
- Taxes on Certain Transportation and Transmission Companies
- Petroleum Business Tax
- Tire Tax
- Occupational license tax
- Dedicate portion of commercial and/or residential real estate taxes or impose a separate special tax district
- Increase sales tax base to include more services - dedicate extra revenue to transportation
- Impact fees / proffers for new development
- Car registration fees
- Car tax (personal property)
- Head tax (based on # of employees)
- Impact fees / proffers / contributions for new development
- Income tax for localities with the proceeds dedicated to transit
- Joint Development
- Naming rights

SHORT LIST OF REVENUE SOURCES ASSESSED (1/2)

- The most appropriate 18 sources were selected for assessment
- Some of these sources make sense at statewide level, some at regional level, some at both levels
- Sources are presented by group: retail, vehicle-based, real estate-based, other

Vehicle-based
Sources

Source	Statewide	Regional
Retail Sales and Use	✓	✓
Motor Vehicle Sales and use	✓	
Motor Vehicle License Fee	✓	
Motor Vehicle Rental Tax	✓	✓
Motor Fuels Sales Tax	✓	✓
Drivers License Fees	✓	
Toll Implementation	✓	✓
Tax on Auto-Repair Labor	✓	

SHORT LIST OF REVENUE SOURCES ASSESSED (2/2)

Real Estate-
based Sources

Source	Statewide	Regional
General Property Tax		✓
C&I Property Tax		✓
Deed/Mortgage Recordation Tax	✓	✓
Real Estate Transfer Tax	✓	✓
Hospitality Tax		✓
Personal Income Tax	✓	
Insurance Premium Tax	✓	
Communication Sales Tax	✓	
Utility Bill Fee		✓
Tobacco/Cigarette Tax	✓	

SUMMARY OF ASSESSMENTS FOR EACH SOURCE (1/2)

Source	Revenue potential	Keeps pace with inflation	Equity	Nexus with beneficiaries	Stability/ Predictability	Administration
Retail Sales and Use	●	●	○	◐	◐	●
Communication Sales Tax	●	○	◐	◐	●	●
Motor Vehicle Sales and use	◐	●	◐	◐	◐	●
Motor Vehicle License Fee	●	◐	○	◐	●	●
Motor Vehicle Rental Tax	○	○	◐	○	○	●
Motor Fuels Sales Tax	●	○	○	◐	○	●
Drivers License Fees	◐	○	○	◐	●	●
Toll Implementation	◐	◐	○	○	◐	◐
Tax on Auto-Repair Labor	●	●	◐	◐	◐	◐

SUMMARY OF ASSESSMENTS FOR EACH SOURCE (2/2)

Source	Revenue potential	Keeps pace with inflation	Equity	Nexus with beneficiaries	Stability/ Predictability	Administration
Property Tax	●	◐	◐	◐	◐	◐
C&I Property Tax	●	◐	◐	◐	○	●
Deed/Mortgage Recordation Tax	○	◐	◐	◐	○	●
Real Estate Transfer Tax	○	◐	◐	○	○	●
Hospitality Tax	◐	●	●	○	○	◐
Personal Income Tax	●	●	●	○	○	●
Insurance Premium Tax	●	●	◐	○	◐	●
Utility Bill Fee	◐	◐	○	○	●	◐
Tobacco/Cigarette Tax	●	○	◐	○	◐	●

MOST PROMISING REVENUE SOURCES SELECTED FOR ESTIMATION

→ Virginia:

- Funding Transit Capital Projects
 - Deed & Mortgage Recordation Tax
 - Insurance Premium Tax
 - Motor Vehicle License Fee
 - Motor Vehicle Sales and Use Tax
 - Retail Sales and Use Tax
 - Priority Transportation Fund*
 - Communication Sales Tax*
 - Motor Fuels Sales Tax*
- Not Funding Transportation
 - Real Estate Transfer Tax (Grantor's)
- Not in Use
 - Internet Sales Tax

→ Regional:

- Funding Transit Capital Projects
 - Real Estate Transfer Tax (Grantor's)
 - Retail Sales and Use Tax
 - Motor Fuels Sales Tax*
- Not Funding Transportation
 - Utility Bill Fees

* Additional revenue source suggested by the Revenue Advisory Board

REVENUE ESTIMATION METHODOLOGY

- **Time Period:** FY 2018 through FY 2027
- **Unit:** Year-of-Expenditure (YOE) dollars (inclusive of inflation)
- **Data Sources (detailed in slides 24-26):**
 - Virginia Department of Taxation
 - Northern Virginia Transportation Authority
 - Hampton Roads Transit
 - U.S. Census
 - U.S. Bureau of Labor Statistics
- **Growth rates:** Compound Annual Growth Rates (CAGRs) based on FY2018-2022 forecasts used to extend estimates through 2027
- **Revenue Increases:** 5-15% on existing rates, dedicated to transit capital

ESTIMATION SUMMARY - STATE

State sources ranked by average annual revenue raised

State Sources	Existing State Tax Rate	Increased Tax Rate	Growth Rate	Average Annual Revenue Estimated
Retail Sales Tax	4.3% ¹	0.25%	1.03%	\$338.1m
Motor Vehicle Sales and Use Tax	4.15%	0.5%	1.05%	\$119.3m
Deed & Mortgage Recordation Tax	\$0.25/\$100 ²	\$0.05/\$100	0.5% ³	\$73.2m
Insurance Premium Tax	2.25%	0.25%	5.53%	\$70.0m
Motor Vehicle License Fee	\$40.75	\$5.00	0%	\$36.7m
Internet Sales Tax	-	0.25%	6.07% ⁴	\$24.1m
Real Estate Transfer Tax	\$0.05/\$100 ⁵	\$0.01/\$100	0.5% ³	\$6.8m

1: 4.3% is the state rate, effective total rate is 5.3% statewide, and 6% In NoVA and Hampton Roads; tax rate is 2.5% statewide for food

2: Effective rate is \$0.33 /\$100 of deed and mortgage value for most jurisdictions (option of 1/3 additional local rate)

3: Conservative 0.5% growth used to replace negative observed CAGRs

4: Only 2014-2018 data available, CAGR based on that time series

5: Effective rate is \$0.10/\$100 of deed value (5 cents state rate, 5 cents local rate), \$0.15/\$100 congestion relief fee makes the rate \$0.25/\$100 in NoVA

Note: Additional sources suggested by Revenue Advisory Board, Priority Transportation Fund, Communication Sales Tax and Motor Fuels Sales Tax, currently being estimated.

Data Sources as summarized in slide 24.

ESTIMATION SUMMARY - NORTHERN VIRGINIA

Northern Virginia sources ranked by average annual revenue raised

Northern Virginia Sources	Existing Regional Tax Rate	Increased Tax Rate	Growth Rate	Average Annual Revenue Estimated
Retail Sales and Use Tax	0.7% ¹	0.30%	2.64%	\$122.6m
Utility Bill Fees	-	\$12/yr	1.32%/1.66% ²	\$12.0m
Real Estate Transfer Tax	\$0.15/\$100 ³	\$0.02/\$100	0.83%	\$6.1m

1: Tax rates for retail sales tax are as follows:

- 0.7% is the NoVA Regional rate
- Effective rate statewide: 5.3%
- Effective rate in NoVA and Hampton Roads: 6%
- Tax rate is 2.5% statewide for food

2: Residential Growth Rate/Commercial Growth rate

3: \$0.15/\$100 is NoVA Congestion Relief Fee, coupled with the statewide rate of \$0.10/\$100, the effective rate is \$0.25/\$100 in NoVA

Note: An additional source suggested by Revenue Advisory Board, adding a floor to the Motor Fuels Sales Tax, currently being estimated.

Data Sources as summarized in slide 25.

ESTIMATION SUMMARY – HAMPTON ROADS

Hampton Roads sources ranked by average annual revenue raised

Hampton Roads Sources	Existing Regional Tax Rate	Increased Tax Rate	Growth Rate	Average Annual Revenue Estimated
Retail Sales and Use Tax ¹	0.7% ²	0.30%	1.03%	\$47.3m
Real Estate Transfer Tax ¹	-	\$0.02/\$100	1.00%	\$1.4m

1: Revenue sources for Hampton Roads are being included per recommendation of the Revenue Advisory Board. Hampton Roads Transit provided revenue estimates for the Real Estate Transfer Tax and data underlying the Retail Sales and Use Tax estimate.

2: Tax rates for retail sales tax are as follows:

- 0.7% is the Hampton Roads Regional rate
- Effective rate statewide: 5.3%
- Effective rate in NoVA and Hampton Roads: 6%
- Tax rate is 2.5% statewide for food

Note: Utility Bill Fees and the addition of a floor to the Motor Fuel Sales Tax are currently being estimated.

Data Sources as summarized in slide 26.

GENERAL APPROACH TO DEFINE FUNDING PACKAGES

- **Size potential combinations of funding sources to meet projected transit capital investment needs**
- **Separately address regional and statewide needs, to provide a menu of potential combinations**
- **Adjust funding packages to reflect Capital Program Prioritization Methods**

ILLUSTRATIVE FUNDING OPTIONS CURRENTLY DEVELOPED

Based on feedback from the Revenue Advisory Board, we are currently developing:

→ Statewide Funding Options:

- Adjust rates for selected statewide revenues sources
- Dedicate additional statewide funds entirely to transit capital
- Ramp up revenues gradually as annual funding needs grow
- Dedicate a share of the Priority Transportation Fund to transit capital projects beginning 2025

→ Regional Funding Options:

- Adjust rates for selected regional sources in Hampton Roads and Northern Virginia
- Dedicate additional regional funds entirely to transit capital
- Establish a floor for the regional Motor Fuels Sales Tax, similar to the statewide floor

NEXT STEPS

- **Present new funding packages that apply additional sources and revised approaches suggested by Revenue Advisory Board**
- **Gather feedback from Board on the new funding packages, specifically:**
 - Ramp up statewide revenues using a direct allocation of PTF funds to transit capital beginning in 2025
 - Split of revenues between statewide and regional sources

APPENDIX

DISCLAIMER AND LIMITATIONS

WSP | Parsons Brinckerhoff has conducted research and employed analytical methodologies it deems appropriate to develop underlying assumptions and to prepare this document. We have relied on the accuracy of the information available and provided by the Commonwealth of Virginia Direction of Rail and Public Transportation (DRPT) and by other local, state, and regional agencies – both written and oral – in basing our findings. We have not independently verified information provided.

This presentation contains certain analysis and projections concerning anticipated future events and such analysis and projections reflect various assumptions. These assumptions may or may not prove to be correct. Actual results and events will likely vary from the projections contained in this report, and such variations could be material. Analysis, estimates, and projections of future events rely on numerous assumptions and judgments, and are only predictions and are not guarantees of future events or included assumptions. They involve risks and uncertainties, and are affected by circumstances that can change quickly. Many of these risks and uncertainties are beyond our ability to control or predict and the realization of any of them could have a material adverse effect on outcomes. We believe forward-looking analysis contained in this presentation are reasonable; however, forward-looking analysis is reflected as of the date they are made.

ABBREVIATIONS

- **CPR:** Capital Project Revenue Bonds
- **HMOF:** Highway Maintenance Operations Fund
- **IPROC:** Intercity Passenger Rail Operations and Capital program
- **MTTF:** Mass Transit Trust Fund
- **NoVA:** Northern Virginia
- **NVTA:** Northern Virginia Transportation Authority
- **PTF:** Priority Transportation Fund
- **TTF:** Transportation Trust Fund

STATE REVENUE ESTIMATION DATA SOURCES

Revenue Source	Forecasts Used	Estimates	Growth Rate Used
Retail Sales and Use Tax	2018-2022: VA Department of Taxation	2023-2027: WSP Parsons Brinckerhoff	2018-2022 VA Department of Taxation – Observed Growth Rate
Insurance Premium Tax	2018-2022: VA Department of Taxation	2023-2027: WSP Parsons Brinckerhoff	2018-2022 VA Department of Taxation – Observed Growth Rate
Motor Vehicle License Fee	2018-2022: VA Department of Taxation	2023-2027: WSP Parsons Brinckerhoff	2018-2022 VA Department of Taxation – Observed Growth Rate
Motor Vehicle Sales and Use Tax	2018-2022: VA Department of Taxation	2023-2027: WSP Parsons Brinckerhoff	2018-2022 VA Department of Taxation – Observed Growth Rate
Internet Sales Tax	2014-2018: VA Department of Taxation	2019-2027: WSP Parsons Brinckerhoff	2014-2018 VA Department of Taxation – Observed Growth Rate
Deed & Mortgage Recordation Tax	2018-2022: VA Department of Taxation	2023-2027: WSP Parsons Brinckerhoff	Conservative Growth Rate - WSP Parsons Brinckerhoff
Real Estate Transfer Tax	2018-2020: VA Department of Taxation	2021-2027: WSP Parsons Brinckerhoff	Conservative Growth Rate - WSP Parsons Brinckerhoff

NORTHERN VIRGINIA REVENUE ESTIMATION DATA SOURCES

Revenue Source	Forecasts Used	Estimates	Growth Rate Used
Retail Sales and Use Tax	2018-2023: NVTA	2024-2027: WSP Parsons Brinckerhoff	2018-2022 NVTA – Observed Growth Rate
Utility Bill Fees	No forecasts used	2018-2027: WSP Parsons Brinckerhoff	2010-2014 Census Households and Businesses - Observed Growth Rate
Real Estate Transfer Tax	2018-2023: NVTA	2024-2027: WSP Parsons Brinckerhoff	2018-2022 NVTA – Observed Growth Rate

HAMPTON ROADS REVENUE ESTIMATION DATA SOURCES

Revenue Source	Forecasts Used	Estimates	Growth Rate Used
Retail Sales and Use Tax	No forecasts used	2018-2027: WSP Parsons Brinckerhoff on behalf of Hampton Roads Transit	2018-2022 VA Department of Taxation – Observed Growth Rate (State Rate)
Real Estate Transfer Tax	No forecasts used	2018-2027: WSP Parsons Brinckerhoff on behalf of Hampton Roads Transit	1% Conservative Growth Rate