

Virginia Department of Rail &
Public Transportation

Transit Capital Revenue Estimation Study

March 8, 2017



PRESENTATION OVERVIEW

- **Objectives**
- **Principles for Selecting Revenue Sources**
- **Evaluation and Estimation Methods**
- **Evaluation and Estimation of Revenue Sources**
 - **Statewide Sources**
 - **Northern Virginia Sources**

OBJECTIVES

- **Gather feedback on principles for selecting revenue sources**

- **Identify potential revenue sources that could fill the funding gap estimated for DRPT's transit capital spending**
 - Gather feedback on the evaluation of potential revenue sources
 - Share estimation of potential revenue sources

PRINCIPLES FOR SELECTING REVENUE SOURCES

- 1. Pursue a package of multiple revenue sources**
 - Spread lower rate increases across multiple sources so no single source is overburdened

- 2. Consider both statewide and regional sources**
 - Use regional funds to - in part - address Northern Virginia transit funding needs

- 3. Consider transit capital funding within context of other transportation revenue needs**
 - Dedicating new funding to transit capital makes a lower rate increase possible
 - Linking to other transportation funding needs may facilitate approval

- 4. Focus on revenue sources for which a rate increase is most feasible**
 - Consider duration since most recent increase
 - Consider sources with comparatively low rates

METHODS – REVENUE EVALUATION

→ Reviewed 4 categories of revenue sources:

- Existing revenue sources used to fund transit capital projects in Virginia
 - Statewide
 - Northern 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 MATRIX

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 predicable <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 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

SOURCES EVALUATED

→ 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
- Not Funding Transportation
 - Real Estate Transfer Tax (Grantor's)
- Not in Use
 - Internet Sales Tax

→ Northern Virginia:

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

EVALUATION SUMMARY - STATE

Source	Revenue potential	Keeps pace with inflation	Equity	Nexus with beneficiaries	Stability/Predictability	Administration
Retail Sales and Use Tax	●	●	○	◐	◐	●
Insurance Premium Tax	●	●	◐	○	◐	●
Motor Vehicle License Fee	●	◐	○	◐	●	●
Motor Vehicle Sales and Use Tax	◐	●	◐	◐	◐	●
Internet Sales Tax	●	●	○	○	◐	◐
Deed & Mortgage Recordation Tax	○	◐	◐	◐	○	●
Real Estate Transfer Tax	○	◐	◐	◐	○	●

Sources are ranked by evaluation results

EVALUATION SUMMARY - NORTHERN VIRGINIA

Source	Revenue potential	Keeps pace with inflation	Equity	Nexus with beneficiaries	Stability/Predictability	Administration
Retail Sales and Use Tax	●	●	○	◐	◐	●
Utility Bill Fees	◐	◐	◐	◐	●	◐
Real Estate Transfer Tax	○	◐	◐	◐	○	●

Sources are ranked by evaluation results

METHODS – REVENUE ESTIMATION

- **Time Period:** FY 2018 through FY 2027
- **Unit:** Year-of-Expenditure (YOE) dollars (inclusive of inflation)
- **Data Sources:**
 - Virginia Department of Taxation
 - Northern Virginia Transportation Authority
 - 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 (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

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

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

EVALUATION AND ESTIMATIONS OF REVENUE SOURCES – STATEWIDE

RETAIL SALES AND USE TAX - STATE

Factor	Description and comments	Rating
Revenue potential	Very large tax base - could be expanded if exemptions were reduced	●
Keep pace with inflation	Strongly correlated with inflation	●
Equity	Regressive	○
Nexus with beneficiaries	Weak nexus outside of metro areas, where most residents benefit from transit	◐
Stability / predictability	Depends on economic activity	◐
Administration	Already exists	●

RETAIL SALES AND USE TAX - STATE

→ Current Revenue:

- Tax Base: Retail sales (food and non-food)
- Current State Rate: 4.3%*, 2.5% for food sales
- Current Transit Capital Share: For both rates, 0.5% goes to TTF, 14.7% of TTF goes to MTTF, 25% of MTTF goes to transit capital; additional share of 0.075% to MTTF on non-food tax, of which 25% goes to transit capital.
- Current FY18 Revenue: \$44.1m for transit capital
- Other Uses: 0.225% for transportation (HMOF, IPROC), General Fund

Revenue Increase	
New Effective State Rate	4.55% / 2.75%
Additional Transit Capital Share	0.25% / 0.25%
Average Annual Revenue	\$338.08m
Total Additional Revenue (FY18-FY27)	\$3,380.82m

*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

INSURANCE PREMIUM TAX - STATE

Factor	Description and comments	Rating
Revenue potential	Very large tax base	●
Keep pace with inflation	Strongly correlated with inflation	●
Equity	Somewhat regressive (depending on the type of insurance)	◐
Nexus with beneficiaries	Weak	○
Stability / predictability	Depends on economic activity	◐
Administration	Already exists	●

INSURANCE PREMIUM TAX - STATE

→ Current Revenue:

- Tax Base: Insurance premium income
- Current State Rate: Premium income taxed at 2.25%
- Current Transit Capital Share: 20-40% of 1/3 of revenues are dedicated to the PTF (backing CPR bonds)
- Current FY18 Revenue: No direct revenue, transit capital bonds sun-setting in 2019
- Other Uses: General Fund

Revenue Increase	
New Effective State Rate	2.50%
Additional Transit Capital Share	0.25%
Average Annual Revenue	\$69.99m
Total Additional Revenue (FY18-FY27)	\$699.93m

MOTOR VEHICLE LICENSE FEE - STATE

Factor	Description and comments	Rating
Revenue potential	Very large tax base	●
Keep pace with inflation	A flat fee would not keep pace with inflation without deliberate annual increases	⦿
Equity	Regressive if flat fee	○
Nexus with beneficiaries	Drivers benefit indirectly from transit through improved travel options, but mostly in metro areas	⦿
Stability / predictability	Depends on car ownership, which is relatively stable	●
Administration	Existing mechanism at state and local level	●

MOTOR VEHICLE LICENSE FEE - STATE

→ Current Revenue:

- Tax Base: Annual vehicle registrations
- Current State Rate: Minimum rate of \$40.75
- Current Transit Capital Share: \$3 per registration to the TTF, resulting in \$0.11 for transit capital
- Current FY18 Revenue: \$0.8m for transit capital
- Other Uses: \$26 to HMOF

Revenue Increase	
New Effective State Rate	\$45.75
Additional Transit Capital Share	\$5.00
Average Annual Revenue	\$36.72m
Total Additional Revenue (FY18-FY27)	\$367.17m

MOTOR VEHICLE SALES AND USE TAX - STATE

Factor	Description and comments	Rating
Revenue potential	Medium to moderate tax base	⊖
Keep pace with inflation	Strongly correlated with inflation	●
Equity	Somewhat progressive, because it is based on a percentage of car value	⊖
Nexus with beneficiaries	Drivers benefit indirectly from transit through improved travel options, but mostly in metro areas	⊖
Stability / predictability	Cyclical with the economy	⊖
Administration	Already exists	●

MOTOR VEHICLE SALES AND USE TAX - STATE

→ Current Revenue:

- Tax Base: Vehicle sales
- Current State Rate: 4.15%, or \$75 for vehicles below \$1,807 in value
- Current Transit Capital Share: 1% goes to TTF, 14.7% of TTF goes to MTTF, 25% of MTTF goes to transit capital
- Current FY18 Revenue: \$8.1m for transit capital
- Other Uses: 3.15% dedicated to HMOF

Revenue Increase	
New Effective State Rate	4.65%
Additional Transit Capital Share	0.50%
Average Annual Revenue	\$119.25m
Total Additional Revenue (FY18-FY27)	\$1,192.52m

INTERNET SALES TAX - STATE

Factor	Description and comments	Rating
Revenue potential	Large tax base	●
Keep pace with inflation	Strongly correlated with inflation	●
Equity	Regressive	○
Nexus with beneficiaries	Weak	○
Stability / predictability	Depends on economic activity	●
Administration	Already exists for some online retailers	●

INTERNET SALES TAX - STATE

→ Current Revenue:

- Tax Base: Internet sales not currently captured by retail sales tax
- Current State Rate: Internet sales tax does not currently exist, taxable online sales are taxed at the state rate of 4.3%
- Current Transit Capital Share: Tax does not currently exist
- Current FY18 revenue: \$0 for transit capital

Revenue Increase	
New Effective State Rate	4.3%
Additional Transit Capital Share	0.25%
Average Annual Revenue	\$24.11m
Total Additional Revenue (FY18-FY27)	\$241.07m

DEED & MORTGAGE RECORDATION TAX - STATE

Factor	Description and comments	Rating
Revenue potential	Limited tax base when real estate markets are not dynamic	○
Keep pace with inflation	Based on property/mortgage values that are somewhat correlated with inflation	●
Equity	Somewhat progressive if based on percentage of property/mortgage value	●
Nexus with beneficiaries	Weak nexus outside of metro areas, where most residents benefit from transit	●
Stability / predictability	Depends on real estate sales, which are cyclical	○
Administration	Already exists	●

DEED & MORTGAGE RECORDATION TAX - STATE

→ Current Revenue:

- Tax Base: Value of deed and mortgage recordations
- Current State Rate: 25 cents per \$100 of value (\$0.25/\$100)*
- Current Transit Capital Share: 3 cents per \$100 to transit, including 1 cent dedicated to transit capital
- Current FY18 Revenue: \$15.1m for transit capital
- Other Uses: General Fund

Revenue Increase	
New Effective State Rate	\$0.30/\$100
Additional Transit Capital Share	\$0.05/\$100
Average Annual Revenue	\$73.19m
Total Additional Revenue (FY18-FY27)	\$731.92m

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

REAL ESTATE TRANSFER TAX (GRANTOR'S) - STATE

Factor	Description and comments	Rating
Revenue potential	Limited tax base when real estate markets are not dynamic	○
Keep pace with inflation	Based on property values that are somewhat correlated with inflation	●
Equity	Somewhat progressive if based on percentage of property value	●
Nexus with beneficiaries	Weak nexus outside of metro areas, where most residents benefit from transit	○
Stability / predictability	Depends on real estate sales, which are cyclical	○
Administration	Already exists	●

REAL ESTATE TRANSFER TAX (GRANTOR'S) - STATE

→ Current Revenue:

- Tax Base: Deed value of property transfers
- Current State Rate: 5 cents per \$100 of deed value (\$0.05/\$100)*
- Current Transit Capital Share: No revenues currently flow to transit capital
- Current FY18 Revenue: \$0 for transit capital

Revenue Increase	
New Effective State Rate	\$0.06/\$100
Additional Transit Capital Share	\$0.01/\$100
Average Annual Revenue	\$6.76m
Total Additional Revenue (FY18-FY27)	\$67.59m

* 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

EVALUATION AND ESTIMATIONS OF REVENUE SOURCES – NORTHERN VIRGINIA

RETAIL SALES TAX - NORTHERN VIRGINIA

Factor	Description and comments	Rating
Revenue potential	Very large tax base - could be expanded if exemptions were reduced	●
Keep pace with inflation	Strongly correlated with inflation	●
Equity	Regressive	○
Nexus with beneficiaries	In large metro areas, most residents benefit from transit	◐
Stability / predictability	Depends on economic activity	◐
Administration	Already exists	●

RETAIL SALES TAX - NORTHERN VIRGINIA

→ Current Revenue:

- Tax Base: Retail sales in NVRTA Jurisdictions
- Current Northern Virginia Rate: 0.7%*

Revenue Increase	
Total Effective Regional Rate	1%
Additional Transit Capital Share	0.3%
Average Annual Revenue	\$122.62m
Total Additional Revenue (FY18-FY27)	\$1,226.16m

*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

UTILITY BILL FEES - NORTHERN VIRGINIA

Factor	Description and comments	Rating
Revenue potential	Limited if low fee	⦿
Keep pace with inflation	Can be correlated with inflation	⦿
Equity	Can be regressive if all consumers pay equal fee, less regressive if percentage fee	⦿
Nexus with beneficiaries	In large metro areas, most residents benefit from transit	⦿
Stability / predictability	Fairly stable over time (depends on utilities)	●
Administration	Fees already exist for other purposes	⦿

UTILITY BILL FEES - NORTHERN VIRGINIA

→ Current Revenue:

- Tax Base: Residential and commercial utility accounts
- Current Northern Virginia Rate: \$0 for transit – other local and state utility bill fees exist

Revenue Increase	
Total Effective Regional Rate	\$1/mo
Additional Transit Capital Share	\$1/mo
Average Annual Revenue	\$12.00m
Total Additional Revenue (FY18-FY27)	\$119.97m

REAL ESTATE TRANSFER TAX - NORTHERN VIRGINIA

Factor	Description and comments	Rating
Revenue potential	Limited tax base when real estate markets are not dynamic	○
Keep pace with inflation	Based on property values that are somewhat correlated with inflation	●
Equity	Somewhat progressive if based on percentage of property value	●
Nexus with beneficiaries	In large metro areas, most residents benefit from transit	●
Stability / predictability	Depends on real estate sales, which are cyclical	○
Administration	Already exists	●

REAL ESTATE TRANSFER TAX - NORTHERN VIRGINIA

→ Current Revenue:

- Tax Base: Deed values for property transfers in NVTAs jurisdictions
- Current Northern Virginia Rate: 15 cents per \$100 of deed value*

Revenue Increase	
Total Effective Regional Rate	\$0.17/\$100
Additional Transit Capital Share	\$0.02/\$100
Average Annual Revenue	\$6.08m
Total Additional Revenue (FY18-FY27)	\$60.78m

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