

Working Group Report on Infrastructure Financing for County Facilities



Montgomery County,
Maryland

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**THE WORKING GROUP ON INFRASTRUCTURE FINANCING
FOR COUNTY GOVERNMENT FACILITIES**

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OVERVIEW

The County Council requested the Working Group¹ on Infrastructure² Financing for County Government Facilities to provide recommendations regarding the policies and strategies that the County should pursue to secure stable and equitable long-term sources for financing County infrastructure and renovation projects.

We recommend a combination of five approaches to provide additional resources to meet needs.

1. Obtain state authorization for a local option motor fuel excise tax, motor fuel sales tax, or motor vehicle registration fee.
2. Enact a new local excise tax on non-residential commuter parking spaces.
3. Increase the recordation tax rate.
4. Increase the rates and coverage of impact taxes for financing “new capacity” projects.
5. Endorse the Council’s decision to maximize the use of general obligation debt to a level that maintains the AAA rating.

In addition to these specific recommendations, we recommend that the County actively pursue opportunities for establishing public/private partnerships or privatizing County assets. Because these are opportunistic ventures, dependent on the economy, site conditions, and initiatives from private entrepreneurs, it is difficult to establish revenue estimates. Such uncertainties do not diminish the Working Group’s enthusiasm for encouraging such opportunities.

These recommendations favor options that maintain the County’s AAA bond rating; balance the equities among payers and beneficiaries; can be implemented this fiscal year; have relatively low administrative costs; and do not substantially conflict with other County goals.

In the course of our work, we reviewed previous reports and information regarding the County’s estimated infrastructure needs, existing commitments as documented in the adopted capital improvements program, the County’s infrastructure financing policies and techniques, and “smart practices” that other jurisdictions have implemented.

Our analysis did not evaluate the full range of political considerations inherent in making revenue choices. The Group’s work did involve some discussion of the feasibility of obtaining

¹ County Council Resolution 16-252 adopted July 19, 2007.

² County Government infrastructure includes transportation, police, fire, emergency medical, libraries, recreation, and other general government facilities and information technology assets. This analysis excludes infrastructure operated by the Montgomery County Public Schools, Montgomery College, the Housing Opportunities Commission, the Washington Suburban Sanitary Commission, or the Maryland-National Capital Park and Planning Commission.

state or County approval for certain statutory or ordinance changes, or the likelihood of opposition from various stakeholder groups. However, our recommendations have the primary goal of securing stable and equitable long-term funding sources and represent a collective judgment regarding revenue enhancements that best meet our evaluation criteria.

We recognize that various stakeholder groups will resist our recommendations. This is a natural outgrowth of the charge made to the Working Group, which was, in part, to identify new or higher fees, charges, or general taxes. Our intention was to provide several options so that the Council could, after hearing from stakeholders, make the policy choices it will pursue for financing future infrastructure requirements.

ESTIMATED CAPITAL REQUIREMENTS

The estimated maintenance backlog and known requirements for software systems, transportation, and public safety total \$2 billion (in 2007 dollars).³ These unprogrammed requirements exceed by 200 percent the \$978 million approved in the FY 2007-2012 capital improvements program (CIP). See Appendix A for an overview of the adopted CIP.

If the County were to fund this \$2 billion requirement over a 15-year period, the annual funding need would be \$135 million. The Working Group's objective was to identify sources and techniques that could meet this funding level. We recognize that additional sources may be required to meet future needs.

Each of these requirements is summarized below and in Table I.

Maintain existing infrastructure (\$557 million). As infrastructure ages, its maintenance becomes an ever increasing budgetary requirement. In 2006, the backlog of capital maintenance needs for County facilities was estimated to be \$137 million; about 60 percent of this backlog was for transportation facilities. Beyond this maintenance backlog is an unbudgeted need for \$28 million annually to fund the estimated cost of replacing existing infrastructure.⁴ This \$557 million estimate includes a 15-year annual requirement to replace infrastructure (\$420 million).

Maintain or replace software systems (\$165 million). Funding these systems will require \$165 million.⁵ They represent the County's financial management backbone. The absence of these funds will result in a "replace on failure" strategy.

³Since determining the budget requirements for County infrastructure was beyond the Working Group's scope of work, we relied upon three reports previously presented to the Council: 1) *The Second Report of the Infrastructure Maintenance Task Force* (March 2006), 2) *Risks and Consequences: Long Range Planning and Funding of Major Information Technology Systems* (July 2007), and 3) transportation infrastructure needs highlighted in a memorandum to the Management and Fiscal Policy Committee (April 2007). It does not include the strategic plans of all agencies. Those plans identify infrastructure without cost estimates.

⁴ *The Second Report of the Infrastructure Maintenance Task Force*, March 2006.

⁵ Memorandum to the Management and Fiscal Policy Committee, July 26, 2007. This report includes only requirements for County departments.

Meet the demand for new County-built and operated transportation facilities (\$1 billion).⁶ This estimate excludes the state's responsibilities for the interstate network, Metro, state roads, or new mass transit facilities.

Meet the infrastructure needs of public safety departments (exceeds \$300 million).⁷ This minimum requirement is an estimate based solely on available studies and cost estimates.

Table I: Estimated Infrastructure Requirements (millions \$)

<i>Infrastructure Maintenance</i>	\$557
<i>Information Technology Systems</i>	\$165
<i>Transportation</i>	\$1,000
<i>Public safety</i>	\$300
	<hr/>
	\$2,022

Source: Three reports referenced in footnote 3.

FINANCING THE CAPITAL PROGRAM

About 80 percent of the cost of County Government projects is financed by general obligation bonds and current revenue. Intergovernmental sources and development charges comprise 10 and 7 percent respectively. This funding pattern is different than that for all County Agencies which receive greater levels of intergovernmental assistance (the school system receives state funds and has a separate impact tax). Table II summarizes this pattern.

Table II: Financing the FY 2007-2012 CIP

	<i>All Agencies</i>	<i>County Govt.</i>	<i>All Agencies w/o County Govt.</i>
<u>Total Funding</u>	<u>\$2.9 billion</u>	<u>\$978 million</u>	<u>\$1.922 billion</u>
<i>Bonds</i>	52.6%	66.0%	46.0%
<i>Current Revenue</i>	17.3%	14.6%	18.6%
<i>Intergovernmental</i>	16.9%	9.9%	20.4%
<i>Development</i>	7.8%	6.9%	8.2%
<i>Other</i>	5.4%	2.6%	6.8%

Source: Adopted FY 2007-2012 CIP

Table II excludes any infrastructure that is fully paid for by development. If those amounts were available, both total funding and the percentage paid by development would be higher. Data is not available to determine how much higher.

⁶ Memorandum to the Management and Fiscal Policy Committee, April 19, 2007. The cost to complete the Council's 10 Year Transportation Plan for County, state, and private sources is \$5 billion.

⁷ Estimate provided by Linda McMillan, Council Senior Legislative Analyst.

COUNTY OPERATING REVENUES

While the County has a broad range of operating revenue, several points are relevant for this analysis.

- About 70 percent of County operating revenues come from local taxes; an additional 19 percent come from intergovernmental sources.
- Residential property owners and individual taxpayers pay about 84 percent of the County's total taxes of \$2.9 billion. Non-residential properties and businesses pay about 16 percent.⁸
- The County receives about \$40 million in state Transportation Trust Fund revenue for funding operating expenses. Highway users contribute about 91 percent of the state Trust Fund revenues that are distributed to local governments.⁹

Appendix B provides additional details.

PAYERS AND BENEFICIARIES

In terms of who pays for and who benefits from various County programs, several points are relevant for this analysis. Our recommendations seek to address these various points.

County taxpayers subsidize 77 percent of the cost for street and road operations¹⁰. This rate exceeds those for WMATA (43 percent) and state highways (9 percent). In fiscal year 2008, the County subsidy for streets and roads totals \$120 million. Our recommendations would reduce this level of county taxpayer subsidy.

The share of total County taxes paid by non-residential properties and businesses declined five percentage points (from 21 to 16 percent) between fiscal years 1986 and 2008.¹¹ This decline (equivalent to \$140 million in fiscal year 2008) likely reflects the greater share of County revenues coming from the personal income tax. The Working Group believes that 16 percent is at the lower end of the range for the share of local taxes paid by the non-residential sector. Our recommendations would increase the share paid by non-residential users.

About 185,000 (37 percent) of the County's 500,000 at-place jobs are held by non-County "in-commuters." These beneficiaries are not sharing the costs for road and public safety infrastructure with resident employees, businesses, the general population, and property owners. Our recommendations attempt to increase the share paid by non-resident commuters.

⁸ Estimated by the Department of Finance from FY08 data.

⁹ Motor vehicle fuel taxes (34 percent); titling fees (32 percent); registration fees (16 percent); the corporate income tax (9 percent); rental car tax (1 percent); and miscellaneous motor vehicle fees (8 percent). Before the creation of the Transportation Trust Fund in 1971, corporate income tax revenue was used to make debt service payments for the Maryland Port Authority.

¹⁰ FY08 Approved Operating Budget.

¹¹ Estimated by the Department of Finance.

infrastructure with resident employees, businesses, the general population, and property owners. Our recommendations attempt to increase the share paid by non-resident commuters.

The demand for additional road capacity derives from both existing and new development. The evolution of existing neighborhoods can increase the commuter demand for highways. When empty-nester retirees sell their homes to younger two-worker families, the demand for highway capacity can increase in the absence of any new development. If commercial buildings become more intensively used, the demand for transportation capacity will increase. Our recommendations recognize these neighborhood changes.

SEVEN EVALUATION CRITERIA

The Working Group enumerated seven criteria that each member would use to evaluate our options. In making their choices, members applied their individual judgment and weighting to each criterion to determine which financing sources to recommend.

1. Maintain the County's AAA bond rating.
2. Provide an adequate, stable, and long-term revenue stream.
3. Create an equitable balance between payers and beneficiaries. Each group of beneficiaries should pay its fair share. Research to support allocating benefits shares among resident and non-resident users, businesses, property owners, and the general population is not available. The Working Group assumed that users are the major beneficiaries of County services and facilities. For projects that add infrastructure capacity, both new developments and new owners of existing properties will be the main beneficiaries.
4. Be collectable. The long-term cost of collecting the revenue should be reasonable relative to the revenue collected.
5. Be timely. The County should begin to collect revenue in fiscal year 2009.
6. Be implementable. The measure should be legally feasible.
7. Be consistent with other County goals. Examples of these goals include protecting affordable housing, contributing to achieving air quality standards, reducing the demand for Single Occupancy Vehicles and enabling the County to remain regionally competitive.

FIVE RECOMMENDATIONS

The Working Group focused on identifying both innovative financing techniques and additional sources of revenue.¹² We offer five specific recommendations. While not unanimous, our package does represent a consensus among a majority of members. Appendix C summarizes the revenue potential associated with these recommendations.

1. **Obtain state authorization for a local option motor fuel excise tax, motor fuel sales tax, and/or motor vehicle registration fee.**¹³ Northern Virginia localities obtained state authorization to levy a 2 percent sales tax on motor vehicle fuels and local registration.

Obtaining this authority would:

- Provide a stable and long-term revenue stream.
- Create a more equitable balance between payers and beneficiaries. Localities could increase the share paid by users of the transportation system. Some revenue could be provided by “in commuters.”
- Be collectable at a relatively low cost.
- Be consistent with other County goals.

The disadvantages of this option include:

- Obtaining state authorization in a timely fashion, if ever.
- Providing an adequate level of revenue at a rate acceptable to the general public. To raise \$75 million per year would require a motor fuel excise tax of 15-cents per gallon, or an annual motor vehicle registration fee of \$100, and/or a 6 percent motor fuel sales tax. For perspective, if the state were to approve a 5 cent increase in the excise tax for its Transportation Trust Fund, the County would receive about \$4 million annually.

2. **Enact a new local excise tax on non-residential commuter parking spaces.** Institute a County excise tax on non-residential parking spaces that are available for use Monday thru Friday from 6:00 AM to 10:00 AM. Park & Ride and Metrorail station parking would be exempt. The first 20 spaces at a facility could be exempted. The tax would be levied on the property owner who could pass it on to parking space users.

¹² Reallocating existing resources was not included in the mandate.

¹³ Under the existing formula, the County receives only 2.4 percent of transportation user fees and taxes (although considerably more goes for state facilities within the County). Thirty percent of the state’s Transportation Trust Fund revenues are allocated to local governments. After allocating the City of Baltimore’s share, the state allocates the balance of the 30 percent share to the counties on the basis of vehicle registrations and vehicle miles traveled.

For example, the rate per space could be 10 cents per hour or \$1 per day (\$250 annually). Assuming a range of 250,000 to 350,000 spaces (500,000 people work in the County), the estimated yield would be \$62 to \$88 million annually. Assuming the mid-point of this range, annual revenue would be \$75 million which would be earmarked for transportation.¹⁴

In our region, D.C. has a 12 percent sales tax on parking charges. Fairfax County is considering a 25 cent property tax increase (89 cents to \$1.14) on commercial property. The revenue raised in Virginia would be dedicated to transportation.

This option would:

- Provide an adequate, stable, and long-term revenue source.
- Be timely since it can be enacted by local statute.
- Create a more equitable balance between payers and beneficiaries. Everyone using a parking space is using the roadway system. This tax is a means of having those users pay a greater share of the cost for highway infrastructure and operations.
- In terms of who would pay the tax, three outcomes would likely result.
 - a) Employers could pass on the cost to employees who use the parking spaces. Thus, those who benefit from highways would pay; many of the 185,000 non-County “in-commuters” would be included.
 - b) If employers bear the cost, the tax could modestly help address the 5 percentage point shift in tax burdens from non-residential to residential taxpayers that has occurred over the past 20 years (from 21 percent non-residential to 16 percent).
 - c) Owners of other commercial spaces could pass on this cost to their customers, depending on competitive market conditions.
- There will be some initial start-up costs plus annual collection and auditing expenses. The County could use a self-reporting system coupled with rigorous auditing and stiff penalties for under-reporting. Relative to revenue potential, these costs would be modest.

¹⁴ Parking at a Metro station costs \$4 per day or \$1,000 per year. There is an additional charge of \$45 per month or \$540 per year for a reserved space. All-day parking at a County parking district facility in Bethesda is \$8.25 and \$5.00 in Silver Spring. Monthly rates are \$95 in Bethesda, \$85 in Silver Spring, and \$65 in Wheaton. Carpool discounts apply to all County rates.

- This tax may contribute to achieving other County goals to reduce demand for Single Occupancy Vehicle travel (by encouraging carpools or transit) and to maintain air quality standards.
- Some of this revenue could be leveraged to securitize additional debt. Every \$1 million in a revenue stream can be the source of payment for \$8.7 million in bonds, based upon certain financial assumptions.

The main disadvantage of this option would be the difficulty in achieving acceptance by the business community and the general public. Businesses that provide employee parking may view this tax as a competitive disadvantage to locating in the County. If commuters were to use on-street parking spaces, parking restrictions could be required in residential communities near employment centers.

3. ***Increase the recordation tax from \$6.90 to \$9.40 and continue a \$50,000 exemption.***¹⁵ Based upon fiscal year 2008 estimates, this increase would raise \$37 million annually. These additional revenues could be earmarked for transportation projects.

This option would:

- Provide an adequate and long-term revenue source.
- Create a more equitable balance between payers and beneficiaries. It would include those residents and businesses that place a demand on County infrastructure when they move into or within the County, but do not occupy a new development. It would provide a benefit-based funding source for streets and roads similar to that used for financing school projects.
- The County's closing costs are in the mid-range for neighboring jurisdictions. The District of Columbia and Maryland's taxes at closing are higher than those in Northern Virginia. Table III provides the details for a \$500,000 transaction.

Table III

<i>Jurisdiction</i>	<i>Recordation & Transfer Costs</i>
Montgomery	\$10,605
Baltimore City	\$14,780
Baltimore County	\$12,390
Prince George's	\$11,700
Howard	\$10,000
Frederick	\$8,500
Northern Virginia	\$2,167
District of Columbia	\$14,500

Source: MNCPPC staff

¹⁵ The revenue generated by \$2.50 of the current \$6.90 rate is dedicated to school capital costs and Montgomery College technology needs.

- An increase of \$2.50 would raise the tax paid for a \$500,000 house by \$1,125; the recordation and transfer taxes would total \$11,730.
 - In 13 Maryland jurisdictions, recordation rates exceed \$6.90; seven have rates of \$10/\$1,000.
 - This increase can be implemented by local resolution and would have insignificant administrative cost.
 - The \$50,000 exemption helps mitigate the impacts on low and moderate priced housing. The County could consider indexing this exemption for inflation.
 - Although more susceptible to market fluctuation than other sources, it would be one of several revenues, and its contribution to greater equity argues in its favor.
4. ***Increase the rates and coverage of current impact taxes for “new capacity” projects.***
This recommendation has two components:

- a) Increase the impact tax rates for transportation.
- b) Expand the coverage of impact taxes to other program areas (for example, public safety, storm drains, libraries, and recreation).

These options would:

- Create a more equitable balance between payers and beneficiaries. Since some level of benefit for “new capacity” projects accrues to current residents and businesses, the cost recovery should not be 100 percent. New facilities provide necessary public uses (for example, new roads are used by public safety vehicles) and can enhance the value of existing properties. The Working Group did not have any research to support a precise split for allocating benefits.
 - Be collectable at a relatively low cost.
 - Be timely since it can be enacted locally.
 - No precise revenue estimate is available. Greater equity is the goal here.
 - This increase may affect the County’s housing affordability issue, depending upon market conditions.
5. ***Endorse the Council’s decision to maximize the use of G.O. debt to a level that maintains the AAA rating.*** General obligation bonds have the lowest interest and administrative cost of any debt financing technique and should be used to the maximum extent feasible. The County limits its debt service costs to 10 percent of general fund revenues. The County is currently below that level of debt in FY08.

The Working Group believes that there is value in encouraging public/private partnerships and examining privatization opportunities. The County has not taken full advantage of the public/private partnership option. The County's successes in this area, as notable as they may be, occur when the County has specifically solicited proposals: Bethesda Metro Center, Downtown Silver Spring, the Conference Center, and Garage 49 in Bethesda are clear successes. The revenue generated from these projects principally comes from an increased tax base over time. In addition, the County may obtain needed facilities or amenities more quickly if they are partially funded by the private sector.

The perception of some in the County's business community is that it needs to wait until the County initiates specific requests for expressions of interest or requests for proposal. Merely soliciting proposals when the County sees a role for the private sector ignores potential opportunities that may be uncovered by the private sector. In an "open for business" environment, the County would welcome unsolicited proposals from the private sector that would achieve a mutually desired result.

In Virginia,¹⁶ the private sector has initiated a number of partnership opportunities with proposals that have led to advancing a potential extension of the Metrorail system to Dulles Airport and adding high-occupancy toll lane capacity to its highways. Successful examples in the metropolitan area include a number of joint developments involving Metro stations (such as Ballston and the current proposal for the Silver Spring Transit Center).

Nationally, high value land at transit transfer centers, park and ride lots, or other county facilities is often attractive for public/private joint development or co-location of convenience services. While not all opportunities will generate large amounts of funding for the County in the short term, over the longer term they should lead to increased tax revenues for the County as property values increase.

The County also has salable assets. The private sector values revenue streams and would pay the County for the assets that produce revenue. The County's liquor control operation and public parking garages were mentioned by some Working Group members as revenue producing industries operated by the private sector in most jurisdictions.

The Working Group recommends that the County put additional focus, through internal and external resources, on outreach for public/private initiatives.

OPTIONS FOR FURTHER STUDY AND CONSIDERATION

This section briefly describes eight additional options that we recommend the County study for possible future implementation. Appendix D summarizes other options that we are not recommending. The chart in Appendix E summarizes the complete list of 25 options we examined.

¹⁶ Appendix F provides a summary of the implementation guidelines for Virginia's Public Private Transportation Act of 1995, as amended.

1. Tax vehicle miles of travel. Oregon has completed a successful pilot program demonstrating a "vehicle miles traveled" fee as a possible replacement for the gas tax. The County could discuss this approach with the Maryland Department of Transportation (the County could serve as a pilot jurisdiction). The Urban Land Institute's infrastructure report deemed this option to be problematic as a short term solution. Oregon appears to have worked out the kinks to a large extent. This is a longer-term opportunity that has little short-term benefit.
2. Congestion pricing (toll existing roadways). Congestion pricing would create tolls that vary in price depending upon congestion levels. This technique is in place around London where existing roads were tolled. New York City is considering measures similar to London's. Maryland plans to implement congestion pricing for the Inter-County Connector (ICC). While this option is a means to control demand using price, it also produces revenue. There are federal barriers to tolling existing lanes in the interstate system. Since most travel in the County is on state roads, implementation would require a partnership with the state.
3. Maximize the use of federal funds for High Occupancy Toll (HOT/High Occupancy Vehicle (HOV) lanes. The County should look for ways to maximize federal funds under funding from the Federal Transit Administration for running Ride-On buses in new HOV lanes. The current federal formula gives much higher funding for the first service in an HOV lane than for the cost of running basic service. When the ICC opens and lanes are added to I-270/495, Ride-On should consider being the first to add basic service levels in these lanes. The first service adds between \$30,000 and \$66,000 per segment mile, and \$0.56 and \$1.67 per vehicle mile, to the federal allocation. It is not uncommon for service that costs \$50,000 per year to lead to an agency receiving \$500,000 in federal funding. If such revenue flows to Ride-On, it can cross-subsidize other services, reduce the draw on County funding, or allow new services to be introduced. In addition, the County should ensure that existing express Ride-On service that runs in areas where dedicated bus or HOV lanes are available is fully reported to the federal government as such, and that no currently available funds are missed.
4. Pass-through tolls. This is a program initiated by the Texas Department of Transportation and has worked for a few counties in that state. Road/transportation projects slated for the County in the state Consolidated Transportation Program could be accelerated using this approach. Essentially, the County and Maryland Department of Transportation (MDOT) would agree to a minimum and maximum amount of annual funding per vehicle mile traveled and MDOT would pay this amount annually to the County. The roads would not be tolled. The payment would largely offset the debt service on bonds issued by the County. In order to create a marketable security, the County could use its general obligation bonds or it could issue limited tax bonds, whereby a limit could be set on ad valorem revenues available. The chief benefits are that projects are done faster (because the County finances on its own without having to wait for MDOT) but recovers most of the cost of the project over time (which could be recycled in a revolving fund), MDOT's scarce cash flow resources are stretched, and the County can likely earn self-supporting credit for the proportion of debt service funded by state payments (thus avoiding negative

owned by WMATA and the sale of 15,000 square feet of WMATA-owned property to the developer.

7. Create Special Taxing/Assessment districts. To capture the benefits associated with enhanced real estate development partially attributable to improvements in transportation corridors, several jurisdictions have created special assessment districts. Commercial real estate deriving a special benefit from a nearby capital improvement is assessed a special

fee which is used to cover debt service for the improvement. The special assessment charge typically cannot be more than the cost of the improvement. Frequently, the assessment is apportioned on the basis of the front footage of the land, although other valuations such as the land area or the value of the property benefited are also used. In order to fully realize the benefits of special districts, the funds from those districts should avoid being in competition for the fund needed for infrastructure outside of special districts.

Benefit assessment districts have been used to finance transit improvements in Denver, Seattle, Minneapolis, and Miami as well as highway improvements in Northern Virginia. The assessment rate can be levied uniformly on all commercial property owners within the benefit assessment district or on a graduated rate based on distance from a rail station.

In the case of Northern Virginia, a special taxing district was developed for the development of Route 28, after a referendum established it. It has constrained powers (a limited cap on taxation), but it has access to the Commonwealth's credit and powers of eminent domain. The Route 28 District has generated between \$4 million and \$8 million annually since 1989, which facilitated the development of several interchanges.¹⁷ A special taxing district will also partially fund Metro-Rail to Dulles Airport. The graduated rate, which was used in Denver for the 16th Street Benefit Assessment District, recognizes that benefits of a transit project are related to proximity to the project. Accordingly, the assessment rate is highest for the properties nearest to the transit station and lowest for those at the district boundaries.

We recognize that some special districts tax all of the property within a district. This is generally done where the need for additional infrastructure is from existing deficits in the supply of infrastructure and the need to accommodate new growth. Other districts tax only the new development within a district. This is generally done where the need for the new infrastructure is anticipating the needs of new development. It is our belief that both types of districts may be applicable in the County.

8. Examine opportunities for enacting or modifying user-based charges to improve equity without disadvantaging low-income users. Third party reimbursement exists for certain County provided services, e.g., ambulance transport. These reimbursements should be sought. In addition, County transaction fees should fully cover costs, including appropriate administrative expense.

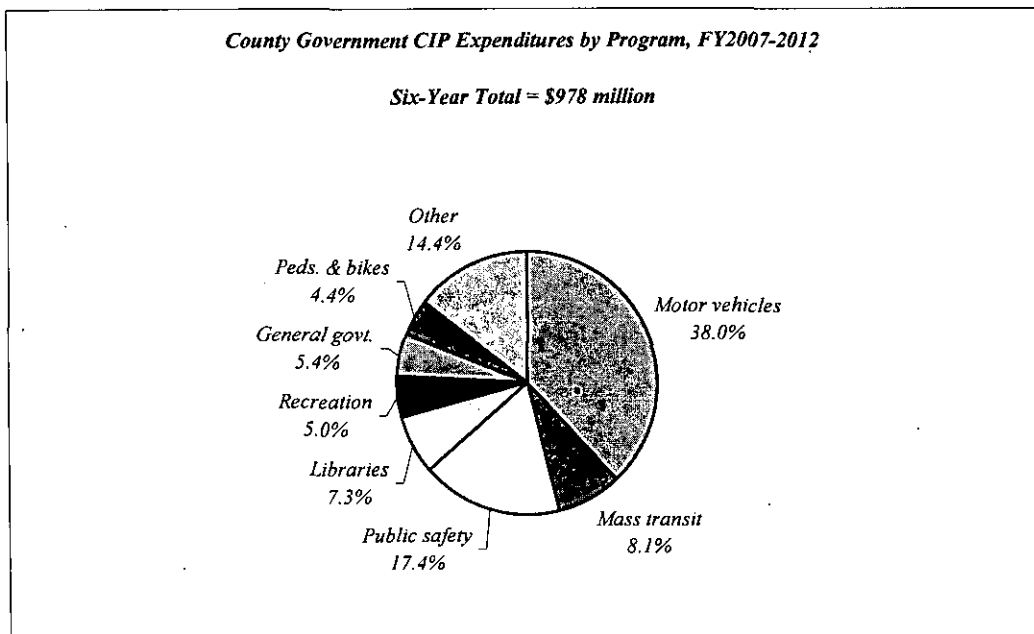
¹⁷ Northern Virginia Transit Funding Resource Guide (Revised, September 2003), p. 77. Resource on-line at: <http://www.thinkoutsidethecar.org/pdfs/September%2029,%202003%20Revised%20Transit%20Funding%20Resource%20Guide.pdf>

APPENDIX A

FY 2007-2012 CAPITAL IMPROVEMENTS PROGRAM DATA

The FY 2007-2012 capital program for County Government projects totals \$978 million. The following chart indicates the funding level effort for major programs.

- Two-thirds of the expenditures are earmarked for transportation and public safety projects (50 percent for roads, bridges, mass transit, bikeways, and pedestrian facilities; 17 percent for public safety).



APPENDIX A (continued)

Within the \$978 million, \$850 million is programmed for transportation and public safety infrastructure. Some 60 percent of transportation and public safety infrastructure is designated for “new capacity” projects; 40 percent is for maintenance

Transportation & Public Safety Capital Programs, by Category, FY 2007-2012

	<i>Adds Capacity</i>	<i>No Capacity</i>	<i>Total</i>	<i>% Adds</i>
Transportation				
<i>Roads</i>	\$280.5	\$57.8	\$338.3	82.9%
<i>Traffic Improvements</i>	\$29.6	\$29.4	\$59.0	50.2%
<i>Bridges</i>	\$0.0	\$16.8	\$16.8	0.0%
<i>Maintenance</i>	\$0.0	\$143.8	\$143.8	0.0%
<i>Subtotal</i>	\$310.1	\$247.8	\$557.9	56.0%
<i>Bikeways & Peds.</i>	\$10.4	\$41.6	\$52.0	20.0%
<i>Mass Transit</i>	\$72.7	\$14.0	\$86.7	83.9%
Total Transportation	\$393.2	\$303.4	\$696.6	56.5%
Public Safety				
<i>Fire</i>	\$53.3	\$18.2	\$71.5	74.6%
<i>Police</i>	\$57.8	\$0	\$57.8	100.0%
<i>Corrections</i>	\$0	\$29.0	\$29.0	0.0%
Total Public Safety	\$111.1	\$47.2	\$158.3	70.2%
Total Transportation & Public Safety	\$504.3	\$350.6	\$854.9	59.0%

Source: Montgomery County Office of Management and Budget

APPENDIX B
OPERATING REVENUE DATA

County Operating Revenue, by Major Source, FY 2008 *		
Source	Estimated Revenue (millions \$\$)	Percent of Total Revenue
<i>Property taxes</i>	\$1,208	29.5%
<i>Income tax</i>	\$1,287	31.4%
<i>Transfer tax</i>	\$121	3.0%
<i>Recordation tax</i>	\$105	2.6%
<i>Energy taxes</i>	\$120	2.9%
<i>Other excise taxes</i>	\$51	1.2%
<i>Total Taxes</i>	\$2,892	70.5%
<i>User charges</i>	\$355	8.7%
<i>Intergovernmental</i>	\$770	18.8%
<i>All other</i>	\$83	2.0%
TOTAL REVENUE	\$4,100	100.0%

Source: Montgomery County Department of Finance
* excludes Liquor Control and CATV funds

Montgomery County Tax Revenue, FY 2008, Residential and Non-residential Shares *					
Source	Estimated Revenue (millions \$\$)	Percent Residential	Percent Non-residential	Residential Revenue	Non-residential Revenue
<i>Property tax</i>	\$1,208	71.3%	28.7%	\$861	\$347
<i>Income tax</i>	\$1,287	100.0%	0.0%	\$1,287	\$0
<i>Transfer tax</i>	\$121	86.2%	13.8%	\$104	\$17
<i>Recordation tax</i>	\$105	89.8%	10.2%	\$95	\$11
<i>Energy taxes</i>	\$120	27.5%	72.5%	\$33	\$87
	\$2,841	83.8%	16.2%	\$2,379	\$461

Source: Montgomery County Department of Finance

* excludes the Telephone, Hotel/ Motel, and Admission & Amusement excise taxes.

APPENDIX C

Potential Sources for Financing County Infrastructure

<i>Option</i>	<i>Potential Annual Revenue (millions \$\$)</i>	<i>Rate Increase Required</i>
<i>Seek a local option motor fuel excise tax, motor fuel sales tax, or motor vehicle registration fee</i>	\$75	15-cents/ gallon excise tax; \$100/ year registration fee; 6 percent sales tax
<i>Enact a non-residential commuter parking tax</i>	\$75	\$1 per day (\$250/ year)
<i>Increase the recordation tax</i>	\$37	\$2.50 per \$1,000
<i>Increase impact taxes</i>	\$7	50% increase for transportation
<i>Total Revenue Potential</i>	\$194	

APPENDIX D

Options Not Recommended for Adoption

State administered motor vehicle taxes and fees

Increase the 23.5 cent per gallon state excise tax. The state could increase this tax on each gallon of motor fuel sold in the County. It is a uniform state tax and its proceeds are earmarked for the state Transportation Trust Fund. State law determines the County's share of that tax. A gallonage tax does not increase with inflation or with the price of gas. A gallonage tax is subject to declines as fuel efficiency improves. Under current state formulas, a portion of the increased tax would flow to each County.

Enact a state sales tax on motor vehicle fuels. The advantage of an ad valorem tax over the gallonage tax is that revenues will increase with the price of gasoline. Northern Virginia jurisdictions are authorized to impose a two percent retail sales tax on motor fuels.

Increase state motor vehicle registration fees. Many counties and transit systems use both annual and one-time vehicle registration fees to fund transportation expenditures. In Maryland, the state imposes these fees and revenues are earmarked for the state Transportation Trust Fund. The Seattle area and a number of counties in Virginia levy annual registration fees of \$25 to \$50 per vehicle, in addition to the statewide fee. Maryland's current fee for regular passenger vehicles (under 3700 lbs. shipping weight) is \$128 every two years.

Other Taxes and Fees

Obtain state authority for a local option sales tax. A number of transportation and facility programs have been successfully funded by supplemental local sales taxes ranging from 0.25 percent to 1.0 percent. Some of the most successful programs combined highway, local street, and public transit improvements in a single package (Orange County, California's Measure M 0.5 percent sales tax is a good example); others are solely for public transit (e.g., Denver, Miami). In the Seattle area, careful attention has been paid to sub-areas of the county that require different infrastructure solutions, and sub-area equity is tracked. Thus, taxes collected in one part of the county are specifically re-invested in the same area.

The basic lessons from the successful referenda are to include extensive public outreach, to be very specific about what projects would be built, to provide for oversight, and to demonstrate that existing funds already available to the projects would not be diverted to other uses.

Obtain state authority to increase transfer tax rates. This tax is collected when the title of real property is transferred from one owner to another. The rate varies with the type of property being transferred, but is 1 percent for most property. The Finance Department estimates that FY08 transfer tax revenues will be \$120 million. Since this tax applies to many of the same

transactions covered by the locally controlled recordation tax, the Working Group is recommending that the Council increase the recordation tax rate.

Obtain state authority for a local option payroll tax. This would tax the 500,000 at-place workers in the County, including the 185,000 daily “in-commuters. Portland’s Tri-Met transit system is more than 50 percent funded with a 0.63 percent payroll tax paid by employers. To the extent that it would include non-residents, it would be viewed as a commuter tax. It would be a disincentive for employers with highly paid employees to locate in the County.

Obtain state authority for a local option payroll tax per employee. This is an excise tax on the number of employees that avoids the issues associated with a payroll tax. It would be a disincentive to large employers from locating in the County. A per-employee tax is somewhat more linked to the cost of providing access to improved transportation than a payroll based tax. Both taxes would allow the County to recover revenue from out-of-County users of County resources.

Increase the property tax rate above the current 90 cents per \$100. While there is no legal limit on property tax rates, there is a practical limit as well as a Charter limit. At least seven Council members must approve the rates for the next fiscal year if the rates are projected to result in property tax revenue on existing real property that exceeds the property tax revenue in the current fiscal year by more than the rate of inflation.

Increase fare box recovery from County bus service (Ride-On). The bus fare for the Ride-On bus system, by policy, is equal to the Metrobus fares. The general taxpayer pays about 85 percent of the costs of the County’s system. While increasing the fare would produce more revenue, ridership would be expected to decline (for every 10 percent increase in fares, ridership is estimated to decrease 3 percent). Increased fares on buses that provide Metrorail access would likely decrease rail ridership, which would increase the Metrorail subsidy. However, if the WMATA Board raises fares and the County were to follow suit on the Ride-On system, the farebox recovery could increase somewhat.

Rent advertising space on County vehicles. Renting more advertising space would generate a very limited amount of supplemental revenue. Advertising on public vehicles often generates concerns about public space pollution. First amendment issues can arise if the content of such ads is controlled.

Financing Techniques

The Working Group examined several techniques for leveraging existing revenue streams. While these approaches can help cover an immediate and non-recurring need, in the long run they finance current expenses by committing future operating revenue.

Tax increment financing. Tax increment districts obtain funds from increases in property tax revenues that arise from a new infrastructure project. These districts differ from benefit

assessment districts in that they use the diversion of regular tax revenues rather than additional fees. Tax increment financing is based on regularly recurring taxes, participation of all district taxpayers, and assessments based on property values (although sales tax revenues have also been used as a basis for assessment). The incremental increase in tax revenue over a designated base year is diverted into a special fund, which can be used for debt service or for reimbursing municipalities or private financial institutions.

Bond future revenue streams. This technique allows the immediate use of bond proceeds for infrastructure. The bonds would be paid back from a dedicated stream of revenue. For example, the funds annually anticipated from the Maryland Transportation Trust Fund could be pledged to bond holders. Every \$1 million in revenue can back the issuance of \$8.7 million in bonds.

Transportation Options

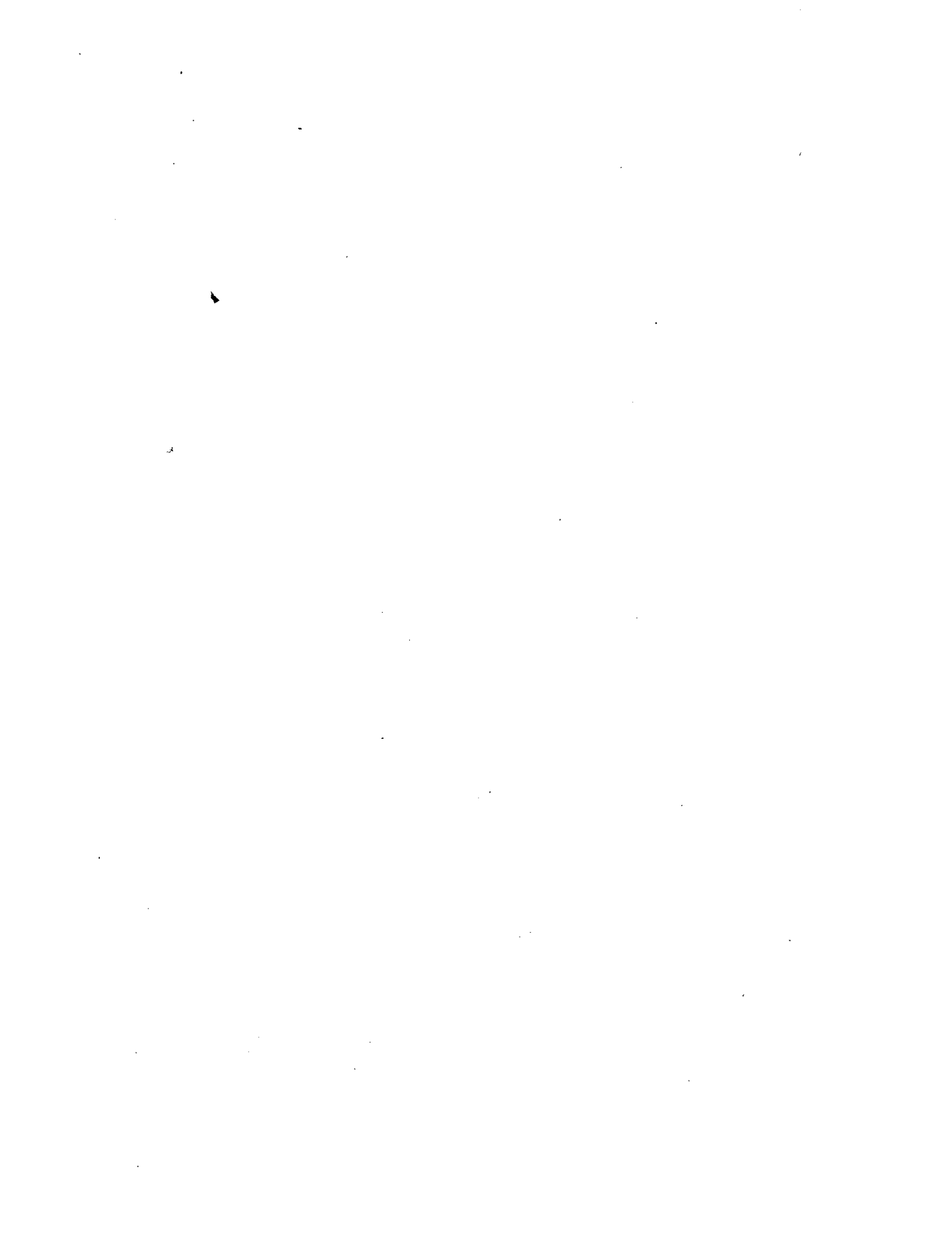
APPENDIX E

Options	Adequate & Long-Term Source	Fairness Allocation of Financial Burden	Collectability (Admin Cost & Simplicity)	Legal Feasibility	Time Frame for Implementation	Contributes to Other County Goals
Capital / Operating Budgets						
<u>Motor vehicle fuel tax</u>						
Increase State Excise Tax	One-Cent = \$.7 to \$.8 M	State Highway Users	Excellent	State Statutory Change	Good	All Excellent
Enact State Sales Tax	1% = \$1.9 to \$2.2 M	State Highway Users	Very Good	State Statutory Change	Good	Reduce Demand for SOV Travel; Protect Air Quality
Allow Local Option	One-Cent = \$4.8 M 1% = \$12 M	County Highway Users; Some In-Commuters	Excellent	State Statutory Change	Fair	Remain Regionally Competitive; No Effect on Affordable Housing
<u>Motor Vehicle Registration Fees</u>						
Increase State Fees	\$1 = \$17 K	State Highway Users	Excellent	State Statutory Change	Good	Excellent
Allow Local Option	\$1 = \$700 K	County Highway Users; No In-Commuters	Excellent	State Statutory Change	Fair	Excellent
<u>County Excise Tax On Non-Residential Commuter Parking Spaces</u>						
	\$1/Day = \$75 M	County Highway Users or County Businesses; Many In-Commuters	Fair/Poor	Local Statutory Change	Very Good	Excellent
<u>Tax Vehicle Miles of Travel in the County</u>						
	One-Cent/Mile = \$75 M	County Highway Users; Many In-Commuters	Poor	State Statutory Change	Poor	Excellent
	One-Cent/Mile = \$15 M	County Highway Users; In-Commuters	Poor	State Statutory Change	Poor	Excellent
<u>Increase Fare Box Recovery for Ride-On</u>						
	2 x Fares = \$5.2 M	Ride-On Users Pay (State Pays None Metro Subsidy)	Excellent	No Statutory Change	Excellent	Poor
<u>Rent Advertising Space on County Vehicles</u>						
	Average \$2,000 per Bus	Paid Advertisers	Excellent	Free Speech Issues	Excellent	Visual Pollution
Capital Budget						
<u>Maximize Use of Federal Funds for HOT/HOV</u>						
		Federal Highway Users Fund	Excellent	No Statutory Change	Good	Excellent
<u>Pass-Through Tolls (Technique)</u>						
	No New Revenue	Existing Revenues	Fair	State Statutory Change	Fair	Pre-Funds State Obligations
<i>*Open attitude to Public/Private Partnerships</i>						

APPENDIX E (continued)

General Use Options

<i>Options</i>	<i>Adequate & Long-Term Source</i>	<i>Fairness Allocation of Financial Burden</i>	<i>Collectability (Admin Cost & Simplicity)</i>	<i>Legal Feasibility</i>	<i>Time Frame for Implementation</i>	<i>Contributes to Other County Goals</i>
<u>Capital / Operating Budgets</u>						
<u>Increase Existing Tax Rates</u>						
Property [@ 90 cents]	One-Cent = \$14.5 M	All Property Owners [71% Residential]	Excellent	Local Resolution	Very Good	No Effect
Recordation [@ \$6.90 per \$1,000; Exempt \$50K]	\$1 = \$15 M	New/ Changed Ownership [90% Residential]	Excellent	Local Resolution	Excellent	Housing Affordability Effects
Transfer [@ 1%]	0.5% = \$60 M	New/ Changed Ownership [86% Residential]	Excellent	State Statutory Change	Good	Housing Affordability Effects
<u>Fees/Fines/New Transaction Fee for Service</u>						
<u>Lease/Sell County Property and Assets</u>						
Lease Excess Space			Fair	No Change	Good	
Lease or sell development rights			Fair	No Change	Good	
Sell Parking Facilities			Fair	Bond Issues	Good	
Create Liquor Enterprise Partnership	One-Time Revenue		Excellent	Bond Issues	Good	Reduces Future Options
<u>Local Option General Sales Tax</u>						
<u>County Payroll Tax</u>						
Percent of Payroll	0.5% = \$22.6 M	All County Taxpayers	Excellent	State Statutory Change	Poor	Regional Competition Effects
Per Employee	0.25% = \$65 M	Increases Share of County Taxes Paid By the Non-Residential Sector	Fair	State Statutory Change	Poor	Regional Competition Effects
	\$100 Per Worker = \$50 M	Increases Share of County Taxes Paid by the Non-Residential Sector	[Start-Up Costs Plus Annual Collection and Audit Costs]	State Statutory Change	Poor	Regional Competition Effects
<u>Capital Budget</u>						
<u>Maximize Use of G.O. Debt</u>						
Exclude Special Taxing Areas from Charter Limits	\$300 M Over Six Years: \$15 to \$135 M annually	All County Taxpayers (Present & Future)	Excellent	No Statutory Change	Excellent	No Effect
<u>Bond Revenue Streams</u>						
Create Special Taxing/Assessment Districts	\$8.7 M for Every \$1 M of Revenue	All County Taxpayers (Present & Future)	Excellent	No Statutory Change	Excellent	No Effect
<u>Development Taxes</u>						
Increase Impact Tax Rates on Roads & Schools	\$1.45 M for Every \$1000 per Dwelling Unit for Trans.	New Development Finances New Capacity	Excellent	Local Resolution	Excellent	Regional Competition Effects
Recover 100% Cost of New Capacity	\$1.55 M for Every \$1000 per Dwelling Unit for Schools	Some General Benefit from New Capacity Projects	Excellent	Local Resolution	Excellent	Regional Competition Effects
Recover 75% Cost of New Capacity	\$1 M for Every \$1 per Square Foot of Non-Residential	New Development Finances New Capacity	Very Good	Local Resolution	Excellent	Regional Competition Effects
Expand Impact Taxes to Other Programs		All Development Helps Finance New Capacity	Very Good	Local Resolution	Fair	Regional Competition Effects
Enact Development Excise Tax		District Helped/County Hurt	Good	Local Change	Poor	Regional Competition Effects
<u>Tax Increment Financing</u>						



APPENDIX F

The Commonwealth of Virginia Public-Private Transportation Act of 1995, (as amended) Implementation Guidelines, Revised October 31, 2005

1.0 Introduction

The Public-Private Transportation Act of 1995, as amended (the Act, or PPTA) is the legislative framework enabling the Commonwealth of Virginia, local governments, and certain other public entities as defined in the Act, to enter into agreements authorizing private entities to develop and/or operate qualifying transportation facilities. These implementation guidelines are for the Department of Transportation, the Department of Rail and Public Transportation, the Department of Aviation, the Department of Motor Vehicles, the Virginia Port Authority and other transportation agencies of the Commonwealth (all referred to herein as “the Department”). Appendix A lists the Department’s Rights and Disclaimers. Links to the Act and relevant sections of the Virginia Freedom of Information Act (FOIA) are identified in Appendix B.

1.1 Department Authority

When the term “Department” is used in these guidelines, decisions to be made by the Department are at the direction of the Department’s Administrator or his/her designee. For example, the Commonwealth Transportation Commissioner is the Department Administrator for the Department of Transportation. These guidelines may be used by other responsible public entities, including local governments and transportation authorities, if adopted in accordance with pertinent laws and regulations of the authority having jurisdiction.

1.2 PPTA Goals and Principles

The goal of these guidelines is to specify a PPTA process that is consistent, transparent, stable and that encourages and supports a climate for private sector innovation and investment to address specific transportation needs of the Commonwealth. The Act provides for procurement procedures consistent with either “competitive sealed bidding” or “competitive negotiation.” The Department may not use procedures consistent with competitive negotiation unless the Department provides a written determination to the Secretary of Transportation that such procedures are advantageous to the Department and to the public based on (1) the probable scope, complexity, or urgency of a project; (2) risk sharing including guaranteed cost or completion guarantees, added value, or debt or equity investments proposed by the private entity; or (3) an increase in funding, dedicated revenue source or other economic benefit from the project that would not otherwise be available. Written approval of the procurement process is required by the Secretary of Transportation before the Department Administrator may sign an interim and/or a comprehensive agreement.

Proposals should avoid the creation of state-supported debt; however, should a proposal include such debt, procedures to secure specific, project-level approval by the Governor, General Assembly, the Department of Planning and Budget, the Department of the Treasury, and any other appropriate entities must be included in the proposal. Furthermore, a clear alternative if such approval is not achieved must also be detailed.

Proposals must include specific actions that share cost and/or risk between the parties beyond those commonly obtained through the competitive bidding or competitive negotiation process, including but not limited to, one or more of the following:

- Direct capital investment;
- Dedicated revenue sources such as tolls or special tax districts;
- Lower project cost;
- Decreased delivery time due to pooling of funding resources;
- Project cost guarantees;
- Project schedule guarantees; and
- Product quality warranties.

Proposals must fully disclose all public sector financial commitments, including any federal, state, regional or local public funds. Proposals must also identify the development of user fees or any long-term public sector commitments including, but not limited to, operations and maintenance costs.

Proposals should reflect the Commonwealth's policy of multimodal and intermodal solutions to transportation problems;

Proposals must support and promote the overall transportation goals and priorities as identified in the appropriate state, regional, or local transportation plans. Proposals that do not support and promote the overall transportation goals and priorities of the Department, or fail to provide substantial justification to alter these goals and priorities, will be returned promptly to the proposer to avoid the unnecessary expenditure of both public and private funds;

Proposals must be in compliance with or specify how it will satisfy all applicable state and/or federal laws and regulations including the National Environmental Policy Act (NEPA) of 1969;

Proposals will be evaluated in conjunction with a structured opportunity for public participation as set forth in these guidelines;

Proposals should reflect the goals of transparency and accountability and, therefore, should contain confidential information only when necessary to provide information to the Department for evaluation of the proposal. All information will be made public unless its release would clearly and adversely affect the financial interest of the public or the private entity, or the bargaining position of either entity, as determined by the Department in its sole discretion;

To strengthen the integrity of the procurement process under the Act, as a condition of submitting a proposal, the proposer must agree to limit all communications regarding the proposal within the Executive Branch, including advocacy efforts, to the individuals or entities designated in these guidelines and/or any solicitation documents. The goal of this condition is to ensure the integrity of the procurement process.

Operators proposing projects shall be held strictly accountable for representations or other information provided regarding their qualifications, experience or other contents of their proposals, including all specific aspects of proposed plans to be performed by the operator.

2.0 Executive Summary

The following are procedural guidelines for the evaluation and possible implementation of proposals received under the PPTA by the transportation agencies of the Commonwealth. Other responsible public entities (cities, counties, transportation authorities, etc.) are invited to

use or adopt the same or similar guidelines in order to provide the greatest degree of uniformity and consistency in the application of the Public-Private Transportation Act of 1995, as amended. Throughout this document, references to the "Department" include the Virginia Department of Transportation, the Department of Rail and Public Transportation, the Department of Aviation, the Virginia Port Authority, the Department of Motor Vehicles, and other transportation agencies of the Commonwealth. Reference to "responsible public entities" or "public entities" includes all state transportation agencies, local governments and regional authorities that have the power to develop and/or operate the qualifying transportation facility.

The Public-Private Transportation Act of 1995, as amended, allows both solicited and unsolicited project proposals. The major steps involved in evaluating, selecting, and implementing the projects are similar for both solicited and unsolicited proposals. It is anticipated that the private sector may identify prospective projects. State agencies and responsible public entities are empowered and encouraged to solicit proposals generally or for specific projects. Public and private entities may also propose innovative financing methods, including the imposition of user fees or service payments under the provisions of the Act. Financing arrangements may include the issuance of debt, equity or other securities or obligations. A proposer may enter into sale and leaseback transactions and secure any financing with a pledge of, security interest in, or lien on, any or all of its property, including all of its property interests in the qualifying transportation facility. While procedures incorporated in these guidelines are consistent with those of the Code of Virginia § 2.2-4301, per § 56-573.1 the selection process for solicited or unsolicited project proposals is not subject to the Virginia Public Procurement Act (§ 2.2-4300 et seq.).