

EXHIBIT NO. 1

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# ***An Analysis of the Proposed 0.5 Cent Regional Transportation Sales Tax***

**Prepared by:**

**The Budget and Fiscal Affairs Advisory Committee  
for the Alexandria City Council  
at the Request of the Mayor of the City of Alexandria**

***June 15, 2002***

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## Introduction

In mid May the Mayor requested that the Budget and Fiscal Affairs Advisory Committee (BFAAC) provide its analysis of the proposed 0.5 cent regional sales tax for transportation purposes in Northern Virginia to City Council by June 15, 2002. This proposal, to be put before the region's voters next November, is the result of many years of analysis and political negotiation in Richmond. It represents a delicate compromise between the Governor and the General Assembly to meet the rapidly growing transportation needs of Northern Virginia in a time when the fiscal health of the Commonwealth is in turmoil.

BFAAC has completed the following analysis in the time available that focuses on the fiscal impact of the proposed sales tax on the City of Alexandria. Our analysis

1. Describes in summary fashion the proposed transportation sales tax proposal;
2. Lists the specific projects that offer potential benefits to Alexandria and Alexandria's residents;
3. Offers an opinion on whether the increased sales tax is a fair deal for Alexandria, and analyzes who would be paying the tax in Alexandria; and
4. Describes the long-term fiscal impact on Alexandria of passing or not passing the referendum.

## Summary

BFAAC believes that the proposed regional transportation sales tax is advantageous to the fiscal health of the City for a number of reasons:

- Alexandria would pay and receive a fair share of the revenues raised by this tax.
- The impact on Alexandrians would be ameliorated because non-residents would pay a significant portion of the sales tax collected in Alexandria.
- Low income Alexandrians would be less impacted by a regional transportation sales tax that excludes grocery food sales than they would be by other ways to raise such revenues locally to pay for such projects, primarily by increasing City real property taxes.
- The pressure on future City Capital Improvement Program budgets would be reduced by the availability of this funding source.
- Such a sales tax would diversify the revenue sources available to the City enabling it to weather hard economic times more successfully.
- Regional approaches to raising revenues are to be favored because they avoid the destructive, interregional tax competition that otherwise may discourage taxes needed to pay for necessary public goods and services.

For lack of time and expertise, BFAAC only examined the fiscal benefits, costs and impact to Alexandria. BFAAC has not attempted to evaluate the transportation or environmental merits of the individual projects designated in the legislation establishing this proposed sales tax. In Appendix A, however, we are providing a summary of some of the pros and cons attributed to the proposed sales tax and related transportation projects that have been advanced by its proponents and opponents. BFAAC includes these pros and cons as part of this report without any attempt to verify or analyze the relative merits of these arguments.

## Description of Regional Transportation Sales Tax Proposal

In April, the General Assembly approved and the Governor signed legislation for a Northern Virginia transportation sales tax referendum. The referendum will place before the voters a proposal for specific transportation improvements to be funded by a 0.5 cent increase in the sales tax rate in a defined geographic area of Northern Virginia. The following are some of the key aspects of the proposal:

1. **Geographic Area** -- The area included is Northern Virginia Planning District 8 (comprised of the counties of Arlington, Fairfax, Loudoun and Prince William; and the cities of Alexandria, Fairfax, Falls Church, Manassas and Manassas Park).
2. **Tax Rate** -- The sales tax rate would increase by 0.5 cents to 5 cents per dollar. Generally, the current sales tax rate is 4.5 cents (3.5 cents allocated to state; 1 cent allocated to locality).<sup>1</sup>
3. **Imposition of Tax** -- As with the existing sales tax, the new tax would apply to the sales price of tangible personal property and to the cost of certain services. The new tax would also apply to increase the existing use tax, which is generally imposed on the cost price of tangible personal property brought into Virginia for use or consumption. The additional tax will be collected in the usual manner along with the existing tax. Unlike the existing 1cent local option sales tax and a portion of the state 3.5 cent sales tax, the new 0.5 cent tax would not apply to food purchased for human consumption. "Food purchased for human consumption," means "food" as defined for Federal food stamp purposes-- generally food to be consumed at home, excluding alcoholic beverages, tobacco and ready-to-eat hot food. In this paper, "food for human consumption" is referred to as "grocery food."
4. **Enactment** -- An election will be conducted on Tuesday, November 5, 2002 in the Northern Virginia cities and counties in the geographic area. To pass, the proposal must secure support of a majority of those voting. Majority support in each jurisdiction is not required.
5. **Effective Date** -- If the measure passes, it would become effective and the additional 0.5 cent sales tax would be levied as of July 1, 2003.
6. **The Projects** -- The legislation specifies 24 projects to be constructed and the amount of bonds authorized for each. Of the 24 projects, five are directed toward projects or programs located entirely within Alexandria, with an estimated bond authorization of \$190.5 million (out of \$2.75 billion total for the 24 projects). All of the projects specified in the legislation and their authorized bond amounts are shown in Appendix B.

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<sup>1</sup> The existing sales tax currently exempts grocery food (see #3 for definition of grocery food) from 0.5 cent of the 3.5 cent state sales tax. This exemption is scheduled to increase to 2.0 cents of the 3.5 cents state sales tax under current law.

7. **Governing Body** -- The taxes paid under this proposal would be deposited by the Tax Commissioner in a special fund and distributed to the newly created (by separate legislation) Northern Virginia Transportation Authority (NVTA). The NVTA is responsible for preparing and implementing an overall regional transportation plan.

*Membership:* The NVTA consists of 16 members:

- The chief elected official of each of the nine cities and counties or a designee who is an elected official;
- Two members of the House of Delegates who reside in different jurisdictions of the region appointed by the Speaker of the House;
- One member of the Senate who resides in the region appointed by the Senate Committee on Privileges and Elections;
- Two citizens who reside in different jurisdictions of the region appointed by the Governor, including a member of the Commonwealth Transportation Board and a person with significant experience in transportation planning, engineering or management; and
- The Director of the Virginia Department of Rail and Public Transportation and the Commonwealth Transportation Commissioner (non-voting).

*Decision-making:* Decisions of the NVTA require a quorum and a super-majority vote. A quorum is defined as a majority of the representatives of the cities and towns. In all cases, there must be an affirmative vote of two-thirds of the representatives of the cities and counties present and voting, which must include at least two-thirds of the population in the region. The two-thirds population provision, however, cannot be used by a single jurisdiction to veto a project in another jurisdiction.

*Authority:* Under the proposal, NVTA is authorized to issue bonds to finance the projects specified. To the extent that the tax moneys generated exceed the amount needed to pay annual debt service on the bonds issued to support the projects plus other costs, the NVTA may use the excess to pay its own expenses, use up to 15 percent of the excess for transit operational costs and use any remaining funds for the projects. The NVTA may also issue anticipation notes and refunding bonds.

8. **The Bonds** -- The NVTA may issue at one time or from time to time bonds in an aggregate principal amount of \$2.8 billion to finance the designated projects. The principal and interest on the bonds are to be repaid from the NVTA funds, including the 0.5 cent tax revenues. The terms and structure of the bonds will be determined by the NVTA. The interest on the bonds will be exempt from tax by any Virginia jurisdiction.

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9. **Revenue Projections** -- Projections on a 20-year time horizon show that the revenue from the 0.5 cent additional sales tax will be sufficient to cover the costs of the specified projects and debt service on the bonds and still have funds available to finance "pay-as-you-go" projects, with a balance left over at the end of 20 years.<sup>2</sup>

**Available Funds 2002-2023**

Bond Proceeds	\$2,800,000,000
Pay-as-you-go	1,391,942,000
Interest earnings	<u>134,898,000</u>
Subtotal	\$4,326,840,000
Ending balance	<u>700,000,000</u>
<b>Total potential project funds</b>	<b>\$5,027,364,000</b>

10. **Time Tax in Effect** -- The 0.5 cent additional sales tax will end when two conditions are met: (1) all the projects are completed and (2) the principal and interest on all bonds have been paid. Based on current projections, the earliest it appears that these conditions might be met is 40 or more years after the tax is first implemented.

**Projects of Potential Benefit for Alexandria and Alexandrians**

Of the \$2.75 billion in designated projects included in the proposed referendum, approximately \$190.5 million would benefit Alexandria directly by funding five projects within the City's boundaries, as shown in Table 1 below.<sup>3</sup> Several of these Alexandria projects were mentioned in the City's 2003-2008 Capital Improvement Program (CIP) as upcoming, but unfunded needs, such as the full City obligation to the Washington Metropolitan Area Transit Authority (WMATA) infrastructure renewal program (\$21.5 million of unfunded needs) and the construction of the DASH maintenance facility (\$20 million of unfunded needs).

<sup>2</sup> A forecast by the Virginia Department of Taxation estimated that the proposed 0.5 cent regional sales tax would generate approximately \$140 million of revenues in its first full fiscal year of tax collections (FY 2005), which would subsequently increase by 5% per year. The Commonwealth's financial advisor, Public Resources Advisory Group, used that estimate to develop a funding program based on the proposed tax. In an April 4, 2002 letter to the Virginia Secretary of Transportation, SalomonSmithBarney reviewed that funding program and opined that it is "based on reasonable assumptions and the proposed sales tax bonds should be marketable in the contemplated amounts and over the projected time period."

<sup>3</sup> Estimates of Alexandria's share of designated funds are based on information provided by City staff, except that BFAAC has estimated that one half of the Route 1 Transit Improvements would accrue to Alexandria projects.

**Table 1. Alexandria Projects Designated in the Proposed  
Transportation Authority Bond Authorization**

<b>Project</b>	<b>Alexandria Share</b>	<b>Included/referenced in 2003-2008 CIP?</b>
Route 1 Transit Improvements	\$37.5 M	
Eisenhower Valley Highway and Transit Improvements	\$25 M	
Metrorail Infrastructure Replacement Program	\$43 M	Yes
Urban System Improvements*	\$60 M	Yes
Alexandria Transit Capital and Facilities (DASH)	\$25 M	Yes
<b>Total Alexandria Project Funding</b>	<b>\$190.5 M</b>	

\*"Urban system" refers to roads, such as Route 1 in Alexandria, designated under the Federal Highway Act that are located in independent cities or towns over 3500 population. These funds can be spent on improvements to any road that is more than 30 feet in width. They also are available for mass transit projects and operations.

In addition to projects that are within the City's geographical limits, several other projects designated in the proposed referendum will likely directly affect those who live or work in Alexandria. For example, the referendum includes improvements to I-95/I-395 such as expanding the number of High Occupancy Vehicle (HOV) lanes on I-395 inside the Beltway from two to three lanes and constructing an additional lane on the 14<sup>th</sup> Street Bridge, improvements to the Van Dorn St. interchange of the Beltway, transit funding for Columbia Pike/Route 7, and improved bus service on the Route 1 Corridor.

### **The Proposed Regional Transportation Tax Is a Fair Deal for Alexandria**

The fairness and equity of any tax are difficult to address because they involve subjective judgments. The proposed 0.5 cent regional transportation sales tax is no exception. BFAAC's analysis in this regard seeks to answer four basic questions:

1. Would Alexandria pay a fair share of the sales tax in Northern Virginia compared to its population and per capita income?
2. Would Alexandria pay more or less in taxes than it receives in benefits?
3. Would non-residents pay a significant portion of the sales tax paid in Alexandria?
4. What would be the effects of the 0.5 cent sales tax on low income residents in Alexandria?

**Alexandria would pay a fair share of the tax approximately proportional to its share of the total population and perhaps even less on a per capita income basis.**

Alexandria constitutes 7.1 percent of the population of the region covered by the tax and would be expected to contribute approximately 7.7 percent of increased sales tax revenues—about \$10.4 million a year initially. That amounts to about \$81 per year per resident in Alexandria. This compares with a cost of about \$74 per year per resident on average throughout the region covered by the tax.

The slightly higher per person cost of this tax in Alexandria reflects several demographic and economic facts. First, Alexandria attracts a higher proportion of tourists and business travelers than the rest of Northern Virginia who pay sales taxes in Alexandria. Second, Alexandria has a net inflow of workers from other jurisdictions. Those who work in Alexandria during the daytime, but live elsewhere, pay sales tax on goods and services purchased during the day. The 2000 Census taken in April of 2000 showed 76,584 employed Alexandria residents. October 2001 economic statistics from the Virginia Employment Commission showed 92,012 people employed in Alexandria. Tourism in Alexandria and the increased daytime population in Alexandria—these two facts mean that the actual cost per resident may be lower than the regional average. And the higher per capita income in Alexandria means that the cost of the tax as a percentage of annual per capita income would be lower in Alexandria.

Another explanation for the slightly higher amount of sales taxes that would be paid per person is that Alexandria has a per capita income level that is equal to or higher than all but two of the other eight neighboring jurisdictions in Northern Virginia.<sup>4</sup> This relative prosperity of Alexandrians can be expected to increase sales tax revenue when measured on a per capita basis. But the higher per capita income in Alexandria also means that the cost of the tax as percentage of annual per capita income would be generally lower in Alexandria. For instance, the per capita annual cost of the sales tax in Alexandria of \$81 would be equal to 0.22 percent of annual per capita income. Table 2 below shows the relative share of per capita income that would be paid on a per capita basis by each of the nine Northern Virginia jurisdictions. Alexandria's percent of per capita income is tied for the 3<sup>rd</sup> lowest of the nine jurisdictions.

**Table 2. Sales Tax Revenue Per Capita as a Percent of Per Capita Income**

Jurisdiction	Sales Tax Revenue as % of Per Capita Income <sup>5</sup>	Jurisdiction	Sales Tax Revenue as % Of Per Capita Income
Fairfax Co.	0.19%	Manassas City	0.30%
Arlington Co.	0.20%	Manassas Park City	0.35%
Alexandria City	0.22%	Falls Church City	0.41%
Prince William Co.	0.22%	Fairfax City	1.06%
Loudoun Co.	0.28%		

<sup>4</sup> Alexandria's per capita income as measured by the 2000 census was \$37,645. Of the other Northern Virginia jurisdictions voting on the regional transportation sales tax referendum, only the City of Falls Church (\$41,052) and Arlington Co. (\$37,706) were higher. The other jurisdictions were lower – Fairfax Co. (\$36,884), Loudoun Co. (\$33,630), Fairfax City (\$31,247), Prince William Co. (\$25,641), City of Manassas (\$24,453), and City of Manassas Park (\$21,048).

<sup>5</sup> The sources for the data for these calculations are as follows: Sales tax revenue estimates for FY 2001 by jurisdiction are from City staff; 2000 decennial census population estimates; and 2000 decennial census per capita income.

**Alexandria would receive the same or more in benefits than it would pay in taxes.**

If all the designated projects are funded within 20 years and the cost estimates and relative shares shown in Table 1 are accurate, Alexandria would receive \$190.5 million for designated projects within our borders. This amount is 6.9 percent of the total amount of designated projects. Approximately \$2.28 billion in funding would be available for additional undesignated projects. If Alexandria received a similar 6.9 percent of that amount, it would receive an additional \$158 million more for projects exclusively within our borders. Thus, the direct investment in Alexandria transportation projects would be approximately \$348 million. This amount can be compared to the City's share of the 20 year cost of the sales tax to be paid. Current estimates are that \$4.411 billion will be collected regionally over the next 20 years if the tax increase is approved. Alexandria's share of that, assuming that the 7.7 percent share now estimated remains constant, would be \$340 million—almost exactly equal to estimated projects within Alexandria.

When one also considers other improvements to be funded for regional transit and highway projects outside of Alexandria but within Northern Virginia (such as the total improvements to Metrorail Infrastructure, I-395 (Shirley Highway), the beltway, Virginia Railway Express (VRE), as well as Route 1 and Route 7/Columbia Pike in nearby Fairfax Co.), Alexandrians appear to be receiving a net benefit in transportation systems available to them both locally and regionally.

**Non-residents would pay a significant proportion of the sales tax paid in Alexandria.**

The sales tax in Alexandria would apply to a number of types of purchases—many of which are paid by non-residents. Table 3 below shows the expected percentage of the sales tax revenue in Alexandria raised in different types of purchases<sup>6</sup>:

**Table 3. Percentage of Sales Tax Revenue in Alexandria by Type of Purchase**

Type of Purchase	% of Transportation Sales Tax Revenue in Alexandria	Type of Purchase	% of Transportation Sales Tax Revenue in Alexandria
Retail Sales and Misc.	22%	Automobiles	5%
Restaurant Food and Other	20%	Lumber/Fuel	5%
General Merchandise	19%	Machinery/Equipment	4%
Furniture	11%	Alcohol	0.5%
Hotels	7%	Unidentified	0.4%
Apparel	6%		

<sup>6</sup> These data were provided to BFAAC by City staff based on sales tax revenue segments in calendar year 2001 in Alexandria.

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Non-residents are the primary purchasers or significant purchasers of several of these goods or services. If one assumes that all the hotel sales, one half of the restaurant tax, and one quarter of the retail sales tax are paid by non-residents, approximately 22% of the sales tax to be collected in Alexandria would be paid by non-residents. That would mean that of the \$340 million collected in Alexandria over 20 years, non-residents would pay about \$75 million. The Alexandria Convention and Visitor's Association estimated that in FY 2000 visitors to the City spent \$470 million on lodging, meals, retail shopping, recreation and transportation. The potential revenue stream over 20 years of a 0.5 cent sales tax on this amount, assuming a 5 percent average annual growth rate, would be \$78 million. Of course, Alexandrians also would pay sales taxes in other Northern Virginia jurisdictions as we shopped and dined elsewhere. But given Alexandria's strong tourist industry and hotel and restaurant business sector and the net inflow of workers during the daytime to the City, it would seem reasonable to assume that Alexandria would collect more from non-residents than its citizens would pay elsewhere in Northern Virginia.

**The effects on low income residents in Alexandria would be minimized by the exclusion of grocery food sales from the 0.5 cent sales tax increase, and the effects on low income residents would be more pronounced if property taxes were increased to raise a similar amount.**

A significant proportion of the income of low income residents is paid for grocery food. For example, the national poverty rate is set on the assumption that the poor pay disproportionately more, approximately one third, of their income on food. Although economists would say a sales tax is not as progressive as a graduated income tax, a sales tax that excludes grocery food is considerably more progressive than one that does not.

In any event, the regional sales tax proposal does not presently compete with a progressive income tax in the City's tax structure. It is the real property tax that constitutes the primary method available to raise City revenue under current Virginia law. Approximately 50% of Alexandria's general revenues are raised by the real property tax. A regional sales tax, especially one excluding grocery food sales, would be considered more progressive than a real property tax increase. BFAAC has previously provided City Council with data that demonstrates that there is not necessarily a correlation between household income and the value of real property owned. Furthermore, it can be assumed that real property taxes are effectively passed on to renters as well by the property owners. Thus, BFAAC believes it is fair to say that if funds need to be raised for these transportation projects in Alexandria, it is more equitable and fair to do so by imposing a regional sales tax, excluding grocery food sales, than by raising Alexandria real property taxes.

### **What would be the long term fiscal impact on Alexandria of passing or not passing the referendum?**

Two types of long term negative fiscal impacts would affect Alexandria if the referendum did not pass.

**1. A number of capital improvement projects would have to be funded from City revenues instead of the regional sales tax.**

As BFAAC noted in its April 2002 report to the Council, “significant future needs exist in the transportation area.” City transportation planners advised BFAAC that there are 112,000 cars registered in the City and 85,000 to 90,000 licensed drivers. By 2020 the population in Alexandria is projected to increase to 144,000—a 12% increase over the 2000 population. The number of cars registered in the City and licensed drivers could increase by the same 12 percent, while the miles of roadway in Alexandria will stay essentially the same. So even without any increased through traffic originating in other jurisdictions and bound to or through Alexandria, our roadways will be even more crowded.

Approval of the referendum and its initial project list would reduce pressure on future City CIPs by financing several known future City transportation-related capital needs that are as yet unfunded. By accessing another source of revenue, the City may be in a better position to not only meet these transportation needs, but also more readily finance other pressing capital needs in the City, such as expansion or relocation of the Police Department or construction of new high school facilities. The City may also be able to reprogram funds to support other transportation projects, such as traffic calming or signal synchronization, because other transportation needs could be met with the sales tax revenue.

- The approved CIP does not identify \$21.5 million of financing to be required to pay the City’s projected share of WMATA capital improvements. The sales tax legislation proposes to designate \$43 million to Alexandria for the Metrorail infrastructure replacement program. That amount would not only cover the \$21.5 million shortfall, but also allow the City to use \$13.75 million in urban highway funds available from the cancelled King St. underpass project for other transportation purposes.
- The design, plans and budget for a new DASH bus facility costing up to \$20 million are not included in the approved CIP. The sales tax legislation proposes to designate \$25 million for DASH capital and facilities projects.
- Also, little funding was included in the approved CIP for road and transit improvements in the Eisenhower Valley (other than the Mill Road realignment project) pending a decision on the Eisenhower Connector. The sales tax legislation proposes to designate \$25 million for highway and/or transit improvements serving the Eisenhower Valley area (such as extension of the Eisenhower Ave. Metro station platform, widening of Eisenhower Ave., construction of a Mill Rd. connection to I-495, or construction of an Eisenhower Connector depending on the City’s decisions.)
- The other specific local Alexandria project designated in the sales tax legislation and not funded in the approved CIP is transit improvements in the Route 1/Potomac Yard area. Alexandria would share with Arlington County \$75 million for Metrorail and/or other high capacity transit services in that corridor.

## **2. The regional transportation sales tax affords an opportunity for revenue diversification that is needed by Alexandria.**

In BFAAC's April 2002 report to Council we said, "Without greater revenue diversification the City is especially vulnerable to any economic downturns that affect its housing market." We also noted that although the regional 0.5 cent sales tax "might assist the City with some spending needs, it would also increase the tax burden on Alexandria residents and possibly reduce their tolerance for City taxes and fees. This points out that the entire mix of tax revenues available to finance the needs of the City needs to be examined in a holistic manner."

BFAAC concluded that "For better control of its own revenue situation, BFAAC recommends that Alexandria begin to explore ways to bring greater diversity and equity to its revenue stream. The City is already working to increase the revenue it receives from development fees and sewer connection fees, but perhaps it's time to explore further other sources as well, including regional taxing authorities—not only for sales tax, but for income and user taxes."

SalomonSmithBarney, in an April 4, 2002 letter to the Commonwealth Secretary of Transportation noted, ". . . the Northern Virginia region incorporates the most diversified and strongest regional economy within the Commonwealth. The sales tax is the strongest single pledge compared to local income taxes or property taxes. Comparative tax trend data indicate less volatility than personal income taxes and greater growth rates . . ." Passage of this referendum would increase the diversity of revenue sources available to fund City transportation projects both by virtue of being a sales tax and being a regional tax. The City would be less subject to adverse economic downswings in the housing market and it could share in the region's economic strength.

## **Conclusion**

Alexandria faces considerable transit and roadway costs over the next 20 years. The choice the City faces is how pay for these costs, not whether to pay for them. The immediate proposal before the region's voters is whether to approve a regional 0.5 cent sales tax for transportation purposes. A regional sales tax (excluding grocery food sales) is a significantly better alternative than depending on the City's property tax to raise this revenue. It also is a better alternative than reducing other essential City services, many of which serve Alexandria's less affluent populations. Although some might prefer that the Commonwealth provide another source of funding for these transportation needs either through a regional income tax or state-wide taxes, that is not a choice before the voters in November. From a fiscal perspective, BFAAC recommends a regional sales tax increase as a preferable alternative to meeting Alexandria's future transportation needs for transit and roadway improvements.

## **Appendix A: Summary Listing of Pros and Cons of Regional Transportation Sales Tax Proposal**

BFAAC conducted a web-search of information on the regional transportation sales tax proposal and related subjects to develop the following list of pros and cons. We have divided these pros and cons into three general categories: (1) economic impact arguments, (2) quality of life and environmental arguments, and (3) procedural and tax policy arguments.

BFAAC includes these pros and cons as part of this report without any attempt to verify or analyze the relative merits of these arguments.

At the end of this appendix is a resource list that describes the organizations from which our report draws its materials and a bibliography of references reviewed to construct the list of pros and cons.

### **I. Pros and Cons**

#### **A. Economic Impact Arguments**

Will the local-option sales tax, and resulting transportation projects cause an economic boon, or bust?

#### **PROS**

- An integrated and efficient transportation system—public transit and highways—is essential to the continued economic prosperity of businesses and individuals. Conversely, the current transportation crisis threatens economic growth and the creation of good jobs.
- Local-option sales tax may have a negative impact on business location decisions if the local tax is higher than in neighboring jurisdictions, however, even with the half-cent increase, sales tax in Northern Virginia will be comparable to Maryland, and lower than Washington DC. In fact, it will be lower than nearly every state that has a sales tax.
- Unlike other states that have proposed a local-option sales tax, Northern Virginia's business community (the people who have helped make our region an economic powerhouse) supports this referendum as essential to fostering economic development.
- U.S. Department of Transportation was cited as saying that every dollar spent on highway improvements generates 6 times that amount in economic benefits. (CHECK THIS)
- Construction and engineering projects will create a wealth of new jobs and boost the regional economy.
- Bonds will not be the debt of the Commonwealth, or of local governments, and will therefore not affect Alexandria's double triple A bond rating.

## CONS

- Increasing sales taxes to higher levels in Northern Virginia than in the rest of the state will be harmful to our regional economy.
- Taxes and tax policy have a greater impact on where businesses locate than where people locate.
- The sales tax increase will boost Internet sales at the expense of local retailers.
- The sales tax increase will encourage more “black market” (unrecorded) sales.
- The sales tax increase will reduce Alexandrians’ disposable income.
- The \$5 billion that will be available over the next 20 years is insufficient given the astronomical cost of transportation projects. This isn’t nearly enough money to tackle the region’s traffic problems in a meaningful way.
- The listed projects lack accurate information about actual costs. In fact, project cost estimates are likely to be significantly understated, especially once the full scope of each project (including environmental issues and neighborhood concerns) is addressed.
- Cost estimates do not include enough funding for maintenance or operations.
- The competition for dollars will cause regional tensions and a scramble for newly available funds. (Local governments are likely to start squabbling to get their projects complete first.)

### B. Quality of Life and Environmental Arguments

Do residents agree that these capital projects are needed? Will they enhance our quality of life and the environment?

## PROS

- Tax increases will fund badly-needed highway construction projects and mass transit programs and help ease gridlock throughout congested Northern Virginia. Expanded transit or high occupancy vehicle (HOV) systems will take cars off the road, thus reducing pollution. In fact, sixty percent of the funds are earmarked for mass transit or HOV projects.
- Northern Virginia is close to running afoul of EPA’s Clean Air Act Standards, so it has no choice but to ameliorate traffic congestion or it will lose federal funds. An annual report will describe the Authority’s progress in reducing traffic congestion and improving air quality.
- Reduced congestion means Northern Virginians spend less time on the road, and more time at home with their families.
- Reduced congestion means a shorter commute, increasing worker productivity, and making it easier to attract workers and visitors to “inside the beltway” jurisdictions like Alexandria.
- Reduced congestion will accelerate rescue times and save lives.

## CONS

- New road projects will only increase development and suburban sprawl, cause more gridlock and create more pollution.
- The project list includes highway widening (in outer counties) that will facilitate unplanned growth, resulting in sprawl and over-development.
- Throwing a sprinkling of money at traffic problems without “smarter growth” won’t solve congestion problems.
- The sales tax hike puts transportation funding ahead of other important priorities—like education, health and safety concerns.
- The projects don’t have defined timetables, and the region will be swimming in red cones and concrete barriers for decades to come.

### C. Procedural and Tax Policy Arguments

Is a local-option sales tax the best way to fund Northern Virginia’s transportation program?

## PROS

- The legislation and referendum are in accord with the constitution of the Commonwealth of Virginia.
- Money for school construction is a statewide problem, whereas transportation issues are not—with a regional transportation solution, perhaps Richmond will now have an easier time increasing funding for education statewide.
- Along these lines, using a local-option sales tax to pay for education would further exacerbate disparities between richer jurisdictions in Northern Virginia and poorer jurisdictions downstate (and is therefore looked on with disfavor by the courts).
- Virginia has one of the lowest tax burdens in the nation.
- The (now defunct) Advisory Commission on Intergovernmental Relations did a survey in the mid 90s showing that the most hated tax is property tax, and the least disliked tax is the sales tax.
- Sales tax gives local governments a revenue source that grows with the community; sales tax revenue should also increase with inflation.
- Non Northern Virginians would pay a portion of the increased sales tax. Our entire region plays host to many tourists and business travelers—people who usually have more disposable income.
- Sales tax is more convenient to pay than property tax since it is paid in small sums throughout the year.
- Sales tax is broader based than property tax, so people who own little real property share more of the burden of supporting local government.

- Local income tax is the worst tax that can be implemented from a competitive standpoint.
- The pool of state and federal transportation funds is shrinking. Since it's currently unrealistic to expect Richmond (or Washington) to solve our region's transportation problems—we need to take matters into our own hands.
- This is the best way to speed up delivery of new transportation projects for the region. It would take substantially longer to complete the projects using existing state funding.
- Future needs total in the billions—an amount which can (realistically) be funded only through a combination of pay-as-you-go and long-term borrowing (bonds).
- There is no “Plan B”—no backup funding source for the new bus routes, rail lines and connector roads that many Northern Virginians say they want.

## CONS

- Voters need to be given more information about the projects to be funded, and they need more time to study the projects.
- There are Virginia constitutional problems with the legislation authorizing the referendum
- Project estimates and descriptions were prepared hastily in preparation for the referendum. In fact, the project list is a political list—a little something for everyone in hopes of getting the legislation to pass—rather than a well-thought out list of needs. There has been insufficient evaluation as to whether the projects will meet performance goals, including whether they will reduce congestion.
- We pay enough taxes already.
- Northern Virginia is the economic growth engine for Virginia, and sends substantially more in taxes to Richmond than it receives back in spending. This referendum lets Richmond continue to maintain this imbalance and walk away from its financial obligation to Northern Virginia, rather than returning a “fairer” portion of money to Northern Virginia, which the region could then use for its transportation needs.
- The state budget has soared in recent years. If the state would limit spending increases to the growth of population plus inflation there would be plenty of money to fund regional transportation needs.
- Low-income families will pay a greater portion of their incomes in sales tax than middle and upper income families.
- Families with children spend more on basic expenses than childless couples with comparable incomes, therefore they would be hit harder by an increase in sales tax.
- Sales tax, unlike property tax and income tax, is not a deductible expense.
- The “food” exemption (especially identifying ready-for-consumption prepared foods) makes collection logistically complex.
- Sales tax is concentrated on goods; however, the consumption of goods is growing more slowly than the consumption of services.

- Consumers, not businesses, pay the most in sales taxes, further tilting the city’s tax burden away from businesses.
- There is no guarantee that this measure will prevent future increases in property tax.
- An income tax would be less regressive.
- “Impact fees” (rather than sales tax) should be collected to accommodate new growth.
- The new Authority will be impossible to get rid of—Northern Virginians will be paying higher taxes in perpetuity.

## **II. RESOURCE LIST**

### **A. Organizational Web Sites**

*Alexandria Chamber of Commerce*, Resolution in Favor of the Transportation Sales Tax Increase.

*Fairfax County Taxpayers Alliance*, Press Releases, [www.fcta.org](http://www.fcta.org).

*Northern Virginia Coalition to Stop Sales Tax*, Press Releases, [www.stopsalestax.org](http://www.stopsalestax.org). Coalition Members include: Arlington County Taxpayers Association, Fairfax County Taxpayers Alliance, The Family Foundation of Virginia, Libertarian Party of Fairfax County, Libertarian Party of Prince William County, Loudoun Taxpayers for Accountable Government, National Taxpayers Union, Northern Virginia Republican Political Action Committee, Prince William Taxpayers Alliance, Republicans United for Tax Relief, Virginia Beach Taxpayers Alliance, and the Virginia Young Republicans.

*Piedmont Environmental Council*, Press Releases, [www.pecva.org](http://www.pecva.org).

### **B. Articles**

*10 Reasons to Vote "No" on the Northern Virginia Sales Tax Hike*, A joint statement from the Coalition for Smarter Growth, Virginia League of Conservation Voters, Piedmont Environmental Council, Virginia Chapter of the Sierra Club.

*The Journal of Loudoun County*, “Board Officially Backs Sales Tax Bill,” Comments from members of the Loudoun Board of Supervisors: Drew Hiatt (R-Dulles) and Chuck Harris (D-Broad Run), February 2002.

*The Washington Post*, “Warner Rolls Up His Sleeves for Sales Tax Vote,” Comments from Governor Mark Warner, Mame Reiley, William Lecos, and Robert Lederer, May 16, 2002.

*The Washington Post*, “Virginia Bites Off a Mouthful,” Comments from Del. John A. Rollison (R-Prince William County) and Professor Larry Sabato (UVA), May 19, 2002.

*The Washington Times*, “The Virginia Taxman Cometh,” Editorial, May 18, 2002.

### **C. General Information on Local-Option Sales Tax**

*City of Fairfax*, Taxation Task Force meeting minutes.

*Important State-Local Government Fiscal Issues*, by John L. Knapp, Research Director, Weldon Cooper Center for Public Service at the University of Virginia.

*The Sales Tax Clearinghouse*, <http://theSTC.com>.

*State Tax Notes*, [www.tax.org](http://www.tax.org), "The Politics of State Taxation: Battling Over Local-Option Taxes," by David Brunori, 2001.

### **D. Information from Other States**

*2020 Regional Transportation Plan (RTP)*, "The Long-Range Guide for Major Transportation Investments in Northeastern Illinois," [www.catsmpo.com](http://www.catsmpo.com).

*BusinessNewsNow.com*, "Pros, Cons of One-Cent Sales Tax Debated," Bonita Springs (FL) Area Chamber of Commerce.

*California Official Voter Information Guide*, "Arguments for and against Prop 42" (Transportation Congestion Improvements Act), November 2000.

*The Community Leader's Letter: News and Views for South Carolina's Grassroots Leaders*, "Yes' or 'No' on the Local-Option Sales Tax?" Q and A with Dr. Holley Ulbrich, Professor of Economics, Clemson University, Summer 1990.

*The Detroit News*, "Transit Tax Plans Draw Fire: While Many Favor SpeedLink, Few Agree on Ways to Fund It," March 17, 2002.

*Pros and Cons: Nonpartisan Analysis of MEASURE A: ½ Cent Transit Sales Tax*, Leagues of Women Voters of Santa Clara (CA) County, October 2000.

*Study of Leon County's One-Cent Local-Option Infrastructure Sales Surtax*, Florida Taxwatch, December 1999.

*Wording, Background, Yes or No Interpretation for Public Question No 1* (concerning the dedication of sales tax receipts for transportation systems), League of Women Voters of New Jersey Education Fund.

**Appendix B: Designated Projects in the Proposed Northern Virginia  
Transportation Authority Bond Authorization**

<u>Project</u>	<u>Amount</u>
Dulles Corridor Transit (Locality Share)	\$ 350,000,000
I-66 Improvements and Rail Extension (I-495 to Route 15)	\$ 300,000,000
I-95/I-395 Improvements and Transit Improvements	\$ 250,000,000
Route 1 Transit Improvements (Arlington and Alexandria)	\$ 75,000,000
Route 1 Improvements (Fairfax and Prince William)	\$ 150,000,000
Route 28 Improvements (Loudoun and Fairfax)	\$ 50,000,000
Route 28 Improvements (Prince William)	\$ 50,000,000
I-495 Improvements and Transit Improvements	\$ 200,000,000
Fairfax County Parkway	\$ 125,000,000
Gallows Road/Route 29 Interchange	\$ 25,000,000
Tri-County/Loudoun County Parkway	\$ 100,000,000
VRE New Railcar Purchase	\$ 100,000,000
Eisenhower Valley Highway and Transit Improvements	\$ 25,000,000
Route 234 Bypass/Route 659 Relocated	\$ 50,000,000
Metrorail Infrastructure Replacement Program	\$ 250,000,000
Secondary System Improvements (including unpaved roads)	\$ 150,000,000
Urban System Improvements	\$ 100,000,000
Route 7 Improvements (Loudoun)	\$ 100,000,000
Route 7 Improvements (Fairfax/Falls Church)	\$ 80,000,000
Regional Transit Capital	\$ 75,000,000
Alexandria Transit Capital and Facilities	\$ 25,000,000
Route 50/Columbia Pike Improvements	\$ 25,000,000
Columbia Pike/Route 7 Transit Improvements	\$ 75,000,000
Rail Safety Improvements (Manassas Grade Separations)	\$ 20,000,000
<hr/>	
<b>TOTAL BOND AUTHORIZATION</b>	<b>\$2,750,000,000</b>

19  
6-15-02

**ALEXANDRIA  
CHAMBER  
OF COMMERCE**

801 N. FAIRFAX ST.  
SUITE 402  
ALEXANDRIA  
VA 22314

PH 703.549.1000  
FX 703.739.3805

CITY MANAGER'S OFFICE  
www.alexandriabar.com  
ALEXANDRIA, VA

2002 MAY 20 A 11:47



May 20, 2002

Mr. Phil Sunderland  
City Manager  
City of Alexandria  
City Hall, Suite 3500  
Alexandria VA 22314

Accredited by the  
Chamber of Commerce  
of the United States of America

Dear Mr. Sunderland:

Recently, I sent you the Alexandria Chamber of Commerce's resolution regarding the transportation sales tax increase for Planning District Eight. The Chamber Board of Directors overwhelmingly passed the resolution on May 15, 2002. For your convenience, I am enclosing another copy of the resolution with the date it was passed.

If you have any questions about the Chamber's position on the transportation sales tax initiative, please do not hesitate to contact me at (703) 549-1000.

2002 ANNUAL  
CORPORATE SPONSORS:

Sincerely,

Bank of America

Jennifer Harper  
Director, Government Relations & Community Affairs



TOMAC YARD



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WE FOCUS ON VIRGINIA



Comcast





**ALEXANDRIA CHAMBER OF COMMERCE  
RESOLUTION**

**TRANSPORTATION SALES TAX INCREASE FOR THE CITY OF  
ALEXANDRIA AND THE NORTHERN VIRGINIA REGION  
May 15, 2002**

**Whereas**, the Alexandria Chamber of Commerce recognizes that business development, public safety, and local quality of life issues are in large part dependent upon a strong, progressive transportation infrastructure; and

**Whereas**, Alexandria is experiencing the culmination of decades of traffic congestion that has brought to the forefront a concerted need for viable transportation solutions on both a local and regional level; and

**Whereas**, the Commonwealth of Virginia is faced with a budget shortfall of nearly \$4 billion dollars, forcing it to reduce funding for local projects and causing Northern Virginia localities to take individual responsibility for necessary transportation improvements; and

**Whereas**, Alexandria is currently engaged in both long and short-term capital improvements designed to facilitate efficient transportation options, including road enhancements, bus and metrorail expansion, traffic mitigation programs, and infrastructure renewal projects; and

**Whereas**, transit projects, such as the King Street Underpass and certain street and pedestrian improvements, are important developments that have yet to receive dedicated City funding while future projects, such as the Duke-Eisenhower Connector, likely will pose an additional financial strain on the City; and

**Whereas**, a local sales tax increase for the Northern Virginia region will provide \$187.5 million in funding for specific Alexandria transportation projects, including the Duke-Eisenhower Connector and other Eisenhower Valley road/transit improvements, Route 1 metro/light rail construction, local urban system improvements, transit facility and equipment funding; and

**Whereas**, regional transportation projects that improve I-495, I-395/95, Van Dorn Street, and urban system improvements for cities and counties throughout Northern Virginia either directly or indirectly benefit Alexandria by further alleviating the region's looming transportation crisis; and

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Chamber of Commerce  
of the United States of America

2002 ANNUAL  
CORPORATE SPONSORS:

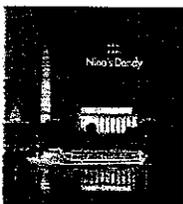
Bank of America

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LCOR

Comcast



**Whereas**, the Alexandria Chamber of Commerce acknowledges that an increase in the sales tax will not solve all of the region's transportation challenges, but provides a starting point for addressing long-term concerns; and

**Whereas**, the Alexandria Chamber of Commerce also acknowledges that transportation improvements must be implemented in a responsible and reasonable manner, properly balancing economic and population growth with environmental and community preservation;

**Now, therefore be it resolved**, that the Alexandria Chamber of Commerce endorses a 1/2 cent sales tax increase approved by public referendum in Planning District Eight with proceeds dedicated to specific transportation projects in Alexandria and throughout Northern Virginia.