Comment on Proposed Dulles Toll Road Toll Increases

Reston Citizens Association
Reston 2020 Committee
September 16, 2012

Summary

The proposed increases in Dulles Toll Road tolls and the forecast toll increases are grossly inequitable and will have serious adverse economic and tax revenue effects on the Dulles Corridor.

For regular Fairfax County toll road users, the proposed toll increases exceed the gains in forecasts of median household income growth over the period of the proposed rate increase through 2015 and beyond. Through mid-century, forecast toll increases will consume half of all real gains in household income of regular Fairfax users of the toll road.

If implemented, the toll hikes will force more than 40,000 vehicle trips off the toll road on to nearby state and local roads by 2015, including 10,000-15,000 trips in Reston, compounding congestion and adding to air pollution. By mid-century, more than 110,000 weekday vehicle trips per day will divert to local roads, adding to state and local road maintenance and improvement requirements. That could mean an extra 25,000-30,000 trips on Reston's streets, including more than 15,000 by Restonians.

Ultimately, the massive increase in tolls will slow the economic and tax revenue growth the construction of the Silver Line is meant to stimulate. While it is difficult to discern the short-term effects of the high tolls versus federal spending cutbacks and slow economic growth in limiting economic growth and tax revenues, it is clear they will have a long term impact.

- *For example, Fairfax residential property taxes may grow some seven percent per year <u>less</u> than expected in 2050 as a result of the slowing single-family housing demand along the Dulles Corridor.*
- *In the same way, developers will see higher vacancy rates and lower than expected rents as companies look elsewhere for more accommodating space for their businesses and their employees.*

We suspect that these combined impacts will undermine future County tax revenue flows by 5-10% from their potential without higher tolls as people and businesses chose to locate elsewhere, possibly outside the County or even the state. None of these adverse revenue impacts consider the additional $15-$20 billion in additional infrastructure costs, including financing, the County will face—and will require additional taxes on residents and businesses.

If, as the Reston Citizens Association has proposed, toll road users pay 25% of the Silver Line's construction costs plus the operations and maintenance costs for the toll road, their tolls would rise not higher than $2.85 by 2015 in contrast with the $4.50 toll MWAA proposes. Longer term, tolls would peak at about $8.00 circa 2040 versus the $18.75 peak in 2048 forecast by CDMS. In inflation-adjusted terms, the peak future toll under RCA's 25% proposal would be about $4.00 in 2012 dollars at 2.5% inflation. That is a toll rate Restonians and other toll road users can tolerate without causing serious

harm to household spending, gross diversions of traffic to local roads, or substantial losses in Fairfax County and state tax revenues.

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Dulles Toll Road users would pay no more than $2.85 full one-way toll in 2015 if they were paying 25% of Metro construction costs.

Proposed DTR Tolls & 25% Share Through 2015

Year	RCA Tolls @ 25% Share	MWAA Proposed Tolls
2012	$2.25	$2.25
2013	$2.60	$2.75
2014	$2.75	$3.50
2015	$2.85	$4.50

We welcome and strongly support MWAA's efforts as well as those of its financial partners—Fairfax and Loudoun counties—to find alternative financing sources and reduce the burden on toll road users.

- *While we doubt the federal government will provide TIFIA financing given its record of rejecting Silver Line construction funding proposals, we urge MWAA and its partners to move forward vigorously.*
- *We believe that the state of Virginia needs the prospective growth associated with the Silver Line to sustain future tax revenues. We believe that state contributions of about $130 million per year would bring down toll road users' share of the cost to 25 percent.*
- *In the absence of major new funding sources, we believe the "funding partners" need to re-negotiate their secret deal that stuck toll road users with three-quarters of all unfunded costs. We envision their shares of the cost rising as toll road users' share remains at 25 percent.*

We have a Silver Line construction financing crisis. MWAA and its "funding partners" must show leadership in bringing toll increases down to a level bearable by most toll road users, including absorbing more of the burden themselves.

We will support you any way we can in reducing toll hikes so they cover 25% of the costs of the Silver Line's construction. That begins by rejecting the proposed toll increases through 2015 and adopting the more limited increases proposed above.

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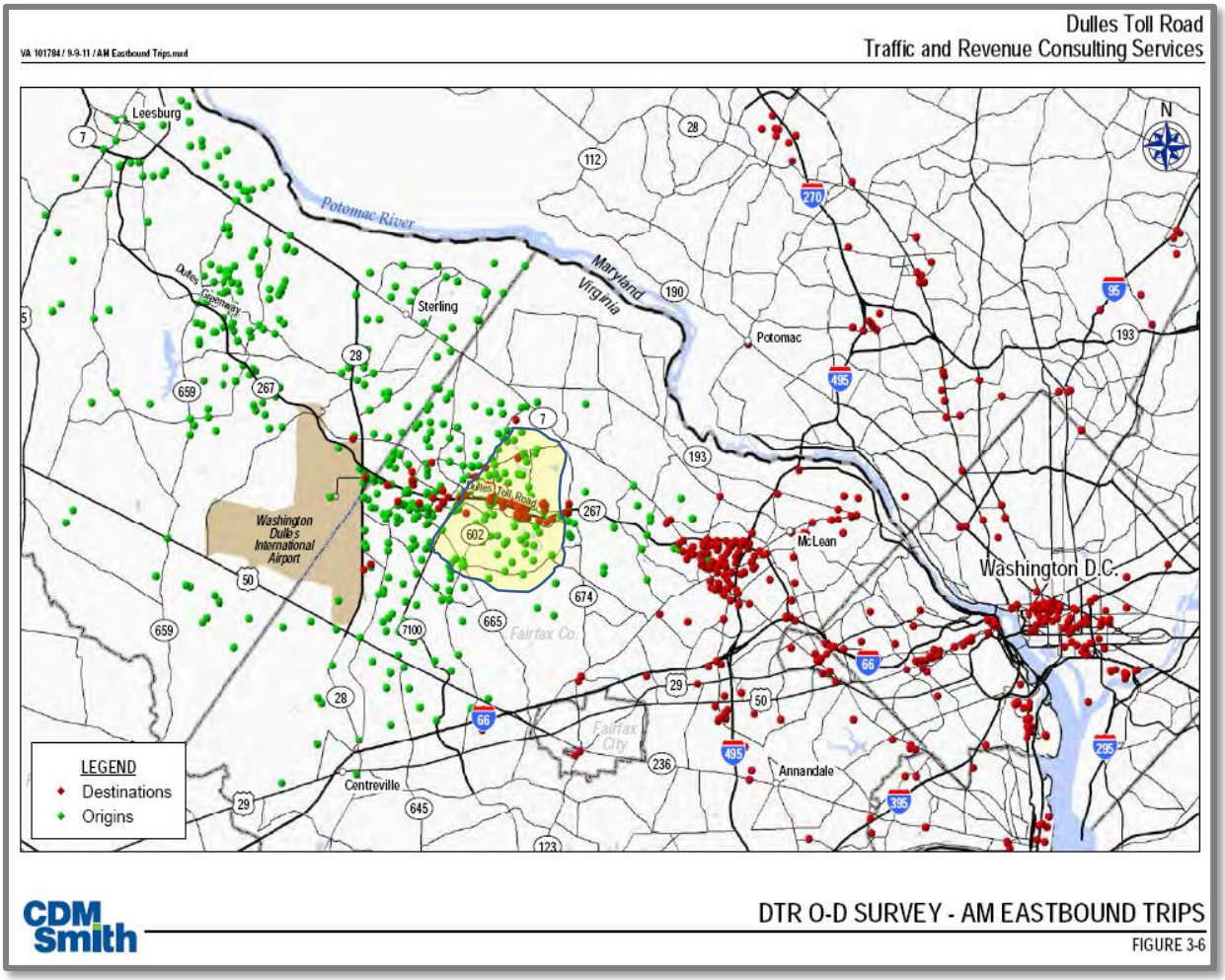
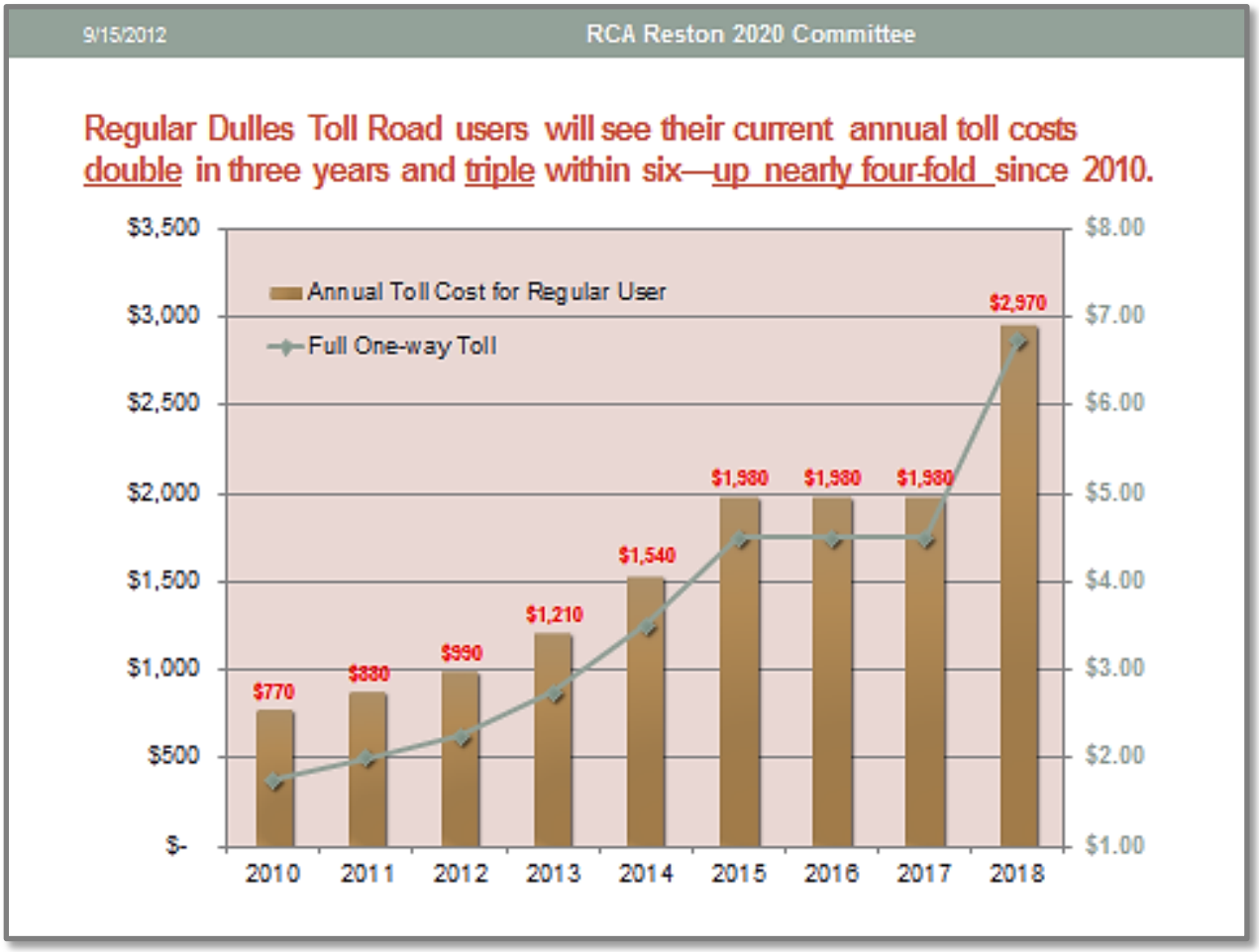
Impacts on Fairfax and Reston Households

At 45.3%, Fairfax County residents comprise the largest share of Dulles Toll Road users (followed by those from Loudoun County—27.3%) according to data collected by traffic and revenue forecaster CDM Smith (CDMS 2012). As suggested by the highlighted map below of DTR trip origins (green dots) from that report, Restonians account for about one-third of that Fairfax County traffic, or roughly 15%. Along with the neighboring Town of Herndon, they comprise the highest community source of morning toll road trips. In short, the people of Reston have a major financial stake in decisions made by the MWAA Board of Directors concerning the Dulles Toll Road.

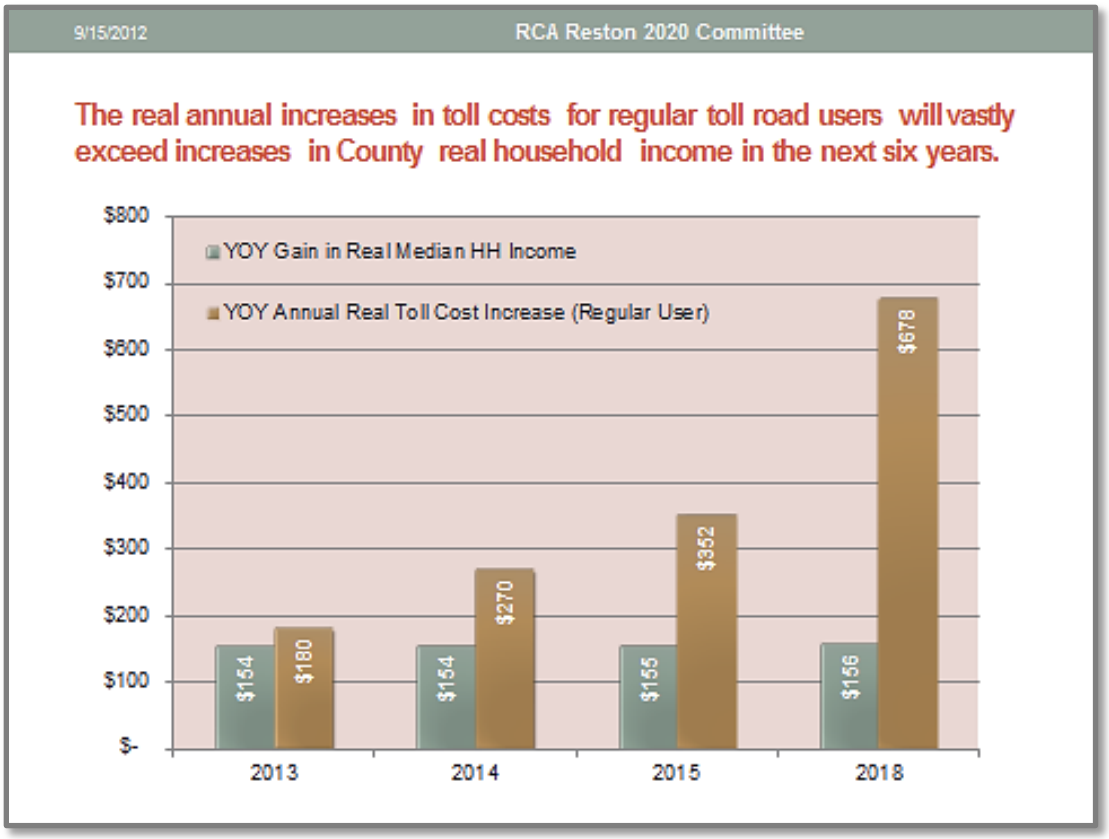


Drivers in Reston households who use the toll road regularly will be hard hit by the toll increases MWAA proposes or is forecast to levy over the next six years. These regular toll road users will see their toll costs double from $990 per year to 1,980 per year in 2015, and triple to $2,970 per year in 2018. By the

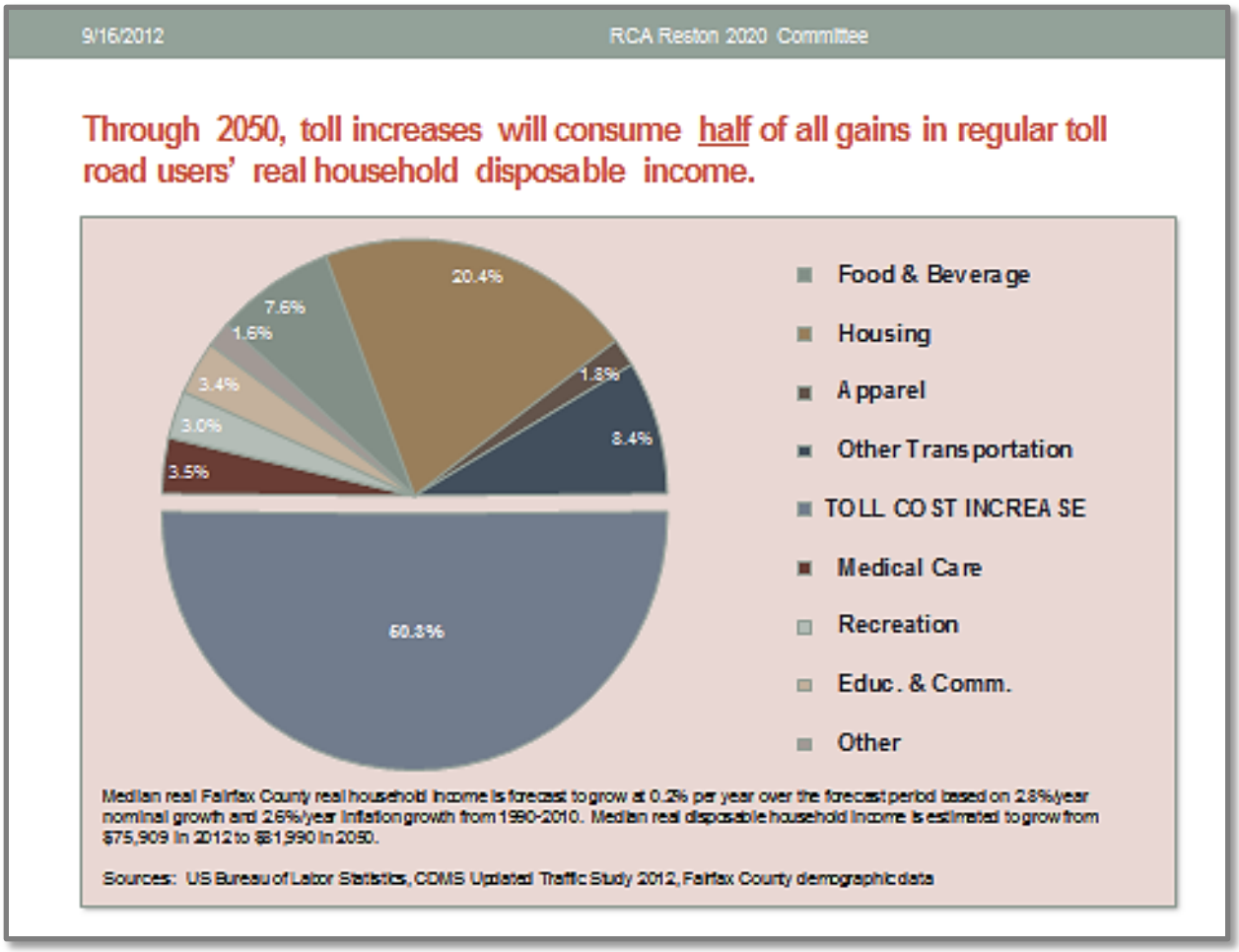
end of the decade, annual toll costs for a regular toll road user are forecast to nearly quadruple those experienced in 2010.



In fact, the proposed toll increases over the next three years and the forecast toll increase in 2018 will exceed the expected growth in real County disposable household income. As shown below, the increase inflation-adjusted toll costs for the regular toll road user will double the expected annual growth in disposable income in 2015 and quadruple that growth in 2018. In short, Restonians who use the toll road regularly can expect to be worse off financially than they are now despite annual increases in income. They will have less to spend on mortgages and rents, shopping, dining, college for their children, and their own health care, among other lost uses of funds.



The impact of abusive toll increases on regular toll road user households will continue through at least 2050 if MWAA follows through in implementing the tolls forecast by CDMS. Toll increases will consume one-half of the increase in the inflation-adjusted median disposable household income of regular Fairfax County toll road users. The obvious consequence of this impact on toll road users will be a reduction by half in household spending growth for all other purposes.



Driving Impacts

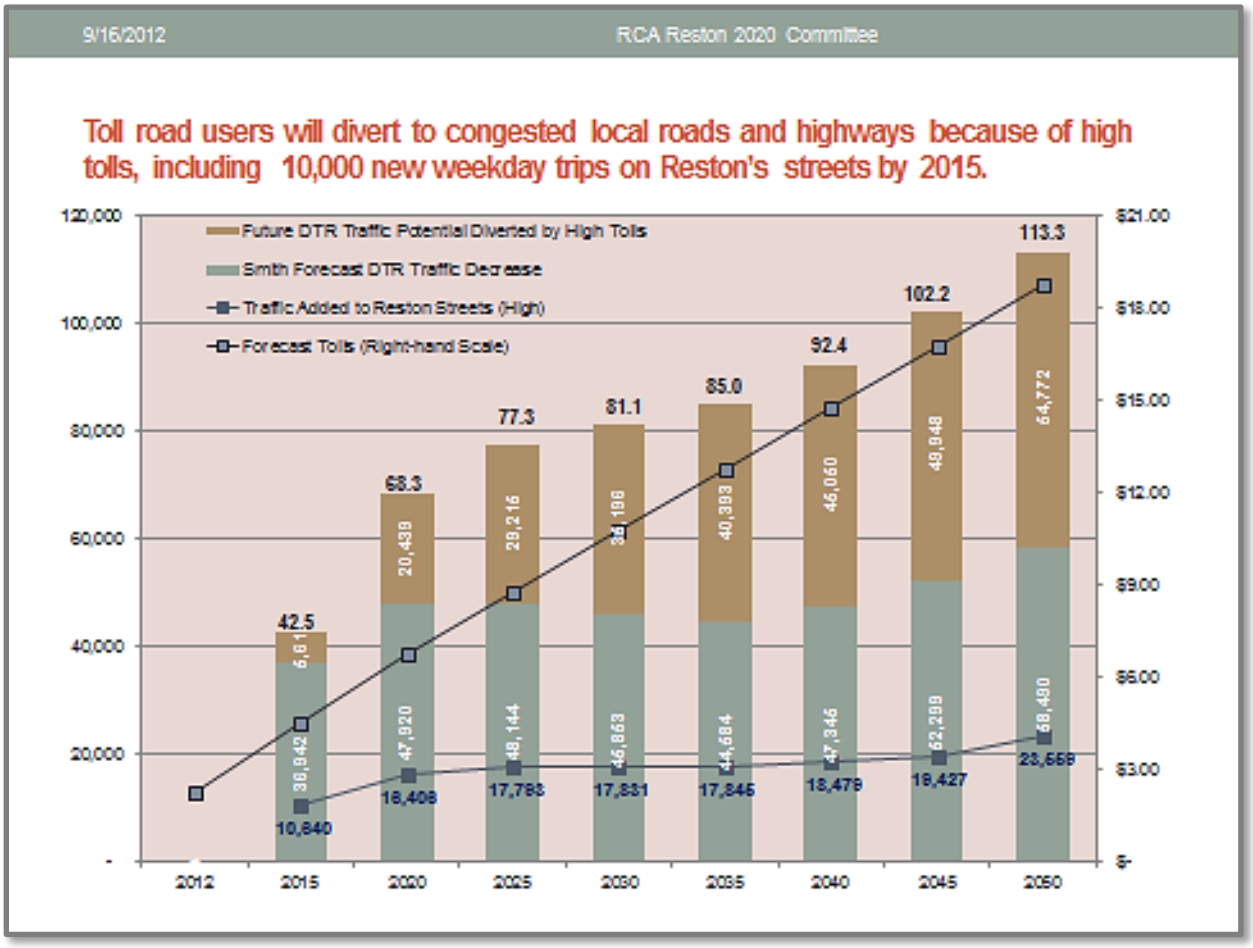
For many users, the toll increases will drive them to use alternative travel routes. The impacts of the toll increases are reflected in CDMS' analysis.

- While the CDMS study focuses on annual transactions, the changes in transactions in transactions can be calculated as a percent and applied to CDMS' DTR traffic survey in 2011 showing weekday traffic at 220,000 trips per weekday (see Figure 2-4: DTR 2011 Weekday Traffic Profile). With forecast transactions declining sharply when tolls double in 2015, we anticipate about 42,000 current toll road trips will divert to local area roads. Of those, about 6,000 diverted weekday trips will be by Restonians, and trips from other points to or through Reston will add 4,000-5,000 trips to Reston's streets.

- At the same time, the potential "primary market" for the DTR as defined by Renaissance Planning Group (RPG) in the CDMS 2012 study will increase as population and jobs increase over time. Using RPG's average annual jobs and population growth figures, and discounting them by 25% for the availability of other transportation options—including Metro—or not making a trip,

we expect an additional 5,600 trips will be added to local roads by 2015 if the proposed toll increases are approved.

- As shown below, these numbers grow to more than 110,000 diverted vehicle trips in 2050 if CDMS' forecast is accurate. The total daily traffic diverted from the DTR in 2050 by high tolls comprises one-third of the DTR's market volume potential (assuming lane capacity) at constant toll levels. For Reston, that could mean an additional 18,000-24,000 trips added to its streets each weekday, including 9,000 by Restonians.



The added traffic on the areas' state and local roads will see travel times and state and county road maintenance and improvements costs skyrocket at a time when the Washington Metro area has one of the worst commutes in the country and county and state road maintenance and improvement funds are extremely limited.

Economic and Fiscal Impacts

The impact of the high tolls, both as proposed through 2015 and forecast through mid-century, on economic growth and public tax revenues is more difficult to assess quantitatively, but it is certain.

Although the sums are relatively small, state and Fairfax County sales tax revenues will be directly affected by the requirement that residents spend their money on tolls rather than meeting other demands for goods. The additional money spent on tolls over the next three years resulting from implementation of the proposed toll increase is $220 million. The diversion of those funds will have at least a small impact in the next three years, and a more significant impact longer term.

- That's a prospective loss of up to $5 million in state sales tax revenues and more than $1 million for Fairfax County at current tax rates.
- As tolls escalate through mid-century and *if* sales tax rates remain constant, Virginia will lose more than $600 million in sales tax revenues and Fairfax County's losses will climb to $150 million or more as toll road users pour $17 billion into tolls.

Although these sales tax losses are small in relation to total state and county revenues, the increased tolls will affect state income tax and county property tax revenues as well. The key to those impacts is the adverse impact the tolls will have on residential demand growth in the Dulles Corridor. The high tolls will certainly deter families with children who are seeking a single-family home—the dwelling type with by far the highest valuation in Fairfax County--from moving to the Dulles Corridor. Moreover, the reduced demand growth will mean lower market appreciation for new and existing single-family homes. Although we can not definitely assess the impacts of these combined factors reducing home valuations for county property taxes, from the graph below showing a range of potential impacts, it appears they would lead to an eight percent slowing in prospective County residential real estate market growth and County property valuations—all other things being equal—with a likely loss of about $150-$250 million in tax receipts in 2010 dollars (more than a half-billion 2050 dollars), although that loss could be much higher.

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High tolls are likely to cost the county about $200 million in residential property taxes in 2050—roughly 8% of forecast property tax revenues.

Potential Fairfax County Tax Revenue Losses from Excessive DTR Tolls in 2050, *Millions of 2010 Dollars*

% Reduction in Tax Revenue Per Household from Reduced Appreciation	% Reduction in the Expected Growth of Households in 2050			
	0%	3%	5%	8%
0%	-0-	$86	$143	$229
3%	$86	$169	$225	$308
5%	$143	$225	$279	$361
8%	$229	$308	$361	$440

County residential property tax revenues for 2050 are projected to be $2,505.4 million in 2010 dollars, up from $2,030.9 million in 2010. The revenue impact assumes residential property taxes remain at the current millage rate ($1.075 /$1,000 assessed value). General property appreciation is expected to grow at the rate of inflation, hence, there is no real increase in the median home value by type.

Sources: Fairfax County 2013 Adopted Budget Plan, Trends and Demographics, and County demographic information.

We appreciate that this model of future residential property tax revenues is a simple one. We are even less able to forecast the impact of the high tolls on commercial real estate tax revenues as well as the variety of other tax streams that serve the county. We would expect that station-area commercial office and retail buildings will see significant growth in valuations, but that is quite likely to come at the expense of commercial real estate and businesses not in the station area.

Overall, we would expect something near a neutral result for business-related county tax revenue streams, not the large increases County officials are apparently expecting. Those who can benefit commercially from being near the stations will; those that cannot will see valuations erode. New businesses may avoid the Dulles Corridor based on their assessment that their employee and customer base will primarily be drivers, not transit users. Indeed, some may well chose to establish their business in other jurisdictions, even other states, all together to avoid the issue of the DTR's high tolls, a decision that could affect state income tax streams as well as county business-related tax receipts.

We suspect that these combined impacts will undermine future County tax revenue flows by 5-10% from their potential without higher taxes as people and businesses chose to other locations, possibly outside the County, to locate. The impact of high tolls on state revenues will likely also be adverse for the same reasons, but at a lesser rate.

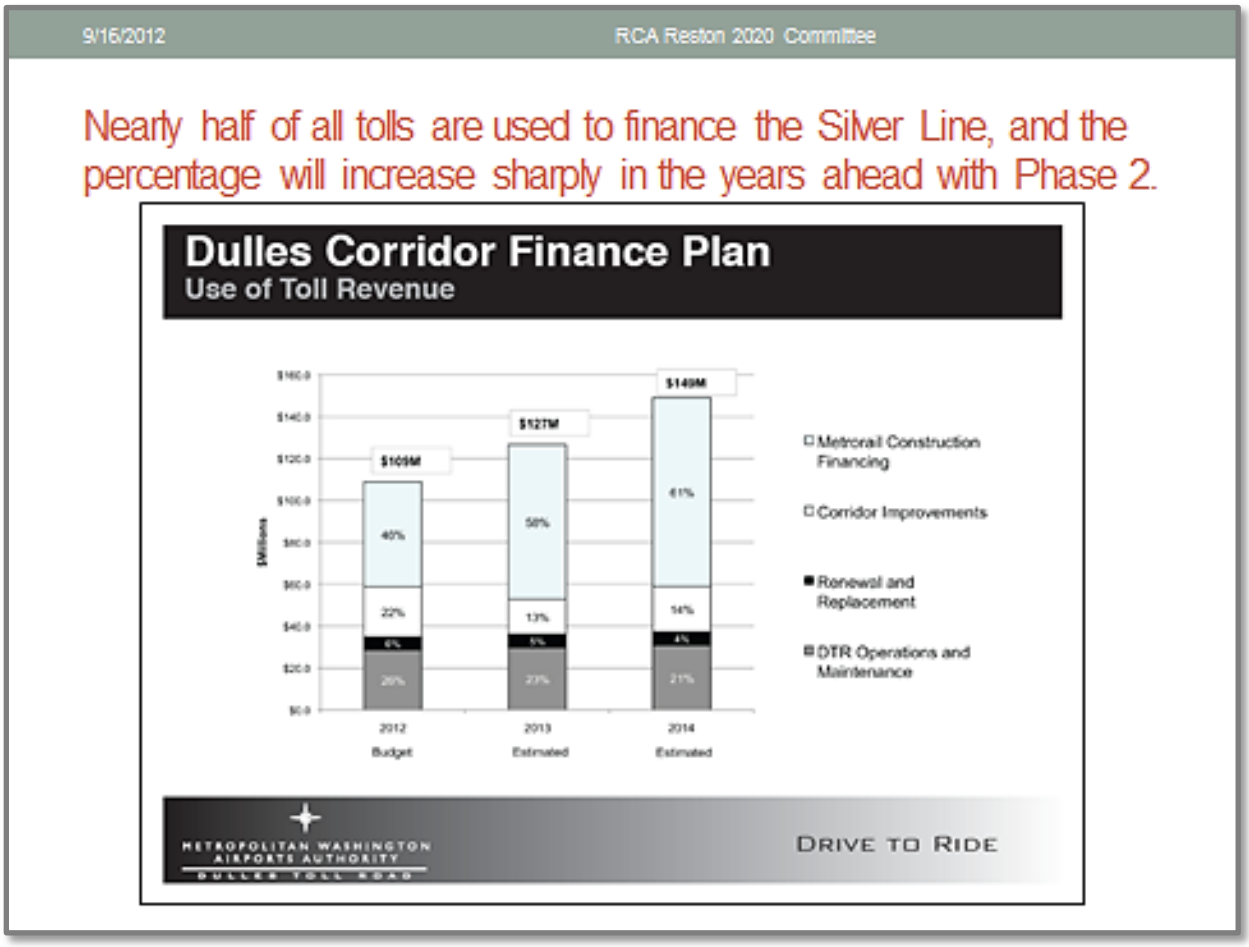
None of the above addresses the huge infrastructure costs accompanying the building of the Silver Line that only aggravates the impact of the DTR toll increases. For example, we already know that the transportation infrastructure in Tysons will cost $3 billion in 2012 dollars over the next 40 years. That's $5.5 billion in future dollars and doesn't include another $3 billion or more in financing costs. In addition, the county and Tysons business expect to pay more than $400 million for the construction of the stations there. That nine billion dollars in new costs will be funded largely by local taxes through arrangements with Tysons businesses and increases in county property taxes. Similar, if possibly smaller expenses are linked to Phase 2 Silver Line construction, including a special business tax district, needed infrastructure in Reston, and the County's agreement to build the Rt. 28 station and garage.

The sum of the added infrastructure development costs related to the coming of the Silver Line will quite likely exceed the $17 billion in financing toll road users are forecast to pay. Yet those costs will be spread over the 400,000 County households and 100,000 businesses as well as the developers who stand most to profit from the Silver Line's development. In contrast, the 90,000 and declining Fairfax County toll road users are being asked to carry the $17 billion financial burden of a rail transit line they are not using through tolls that will double in three years under the current proposal, triple in six, and climb eight-fold by mid-century if MWAA continues to rely on tolls to finance over half of Metrorail's construction cost.

Understanding the Options

If MWAA were not now spending nearly half of those toll dollars on financing for Phase 1 of the Metrorail line, the full cost of a one-way toll would not need to exceed $1.25—the full one-way toll in 2009—and annual costs for a regular toll road user would not exceed $550. Future growth in the toll would be subject only to inflation and reach about $3.35 in 2050. As it stands now, toll road users are forecast to face tolls of $18.75 in 2050, more than $15 of which will go toward paying off Metrorail construction debt. In short, regular toll road users are already paying a heavy premium to finance

Metrorail that promises only to get worse if toll road users are to pay for 54% of the construction of the Silver Line as planned.



We believe that toll road users should not be required to pay more than one-quarter of the cost of constructing the Silver Line. As outlined in the 2004 FEIS, Virginia and toll road users combined were expected to pay only 22.8% of the rail line's cost. We believe paying 25% of the line's cost is a sufficient premium to encourage those who can to use public transit while not driving excessive numbers of drivers to congested alternative routes. It is also consistent with the intent with the FEIS that launched the construction effort.

If, as the Reston Citizens Association has proposed, toll road users pay 25% of the Silver Line's construction costs plus the operations and maintenance costs for the toll road, their tolls would rise not higher than $2.85 by 2015 in contrast with the $4.50 toll MWAA proposes. Longer term, it would peak at about $8.00 circa 2040 versus the $18.75 peak in 2048 forecast by CDMS. In inflation-adjusted terms, the peak future toll would, under the 25% proposal, would be about $4.00 in 2012 dollars at 2.5% inflation. That is a toll rate Restonians and other toll road users can tolerate without causing serious harm to household spending, gross diversions of traffic to local roads, or substantial losses in Fairfax County and state tax revenues.

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We welcome and strongly support MWAA's efforts as well as those of its financial partners—Fairfax and Loudoun counties—to find alternative financing sources and reduce the burden on toll road users. The major sources of alternative funding are federal TIFIA financing—with much lower rates and deferred payment options—and Virginia transportation funding grants.

- Although we are skeptical that MWAA will receive federal TIFIA funding, we strongly encourage MWAA to pursue it relentlessly. Previous MWAA TIFIA loan applications have not met US Department of Transportation funding thresholds and, even with additional TIFA funds, we doubt this result will change. The Federal Transit Administration (FTA) told Virginia in 2009 that it would not provide any additional money beyond the $900 million it granted then to build the Silver Line because it was not cost-effective. We expect FTA will continue to use cost-benefit analyses, not financial need, as a core criterion in assessing MWAA's next TIFIA loan application.
- In contrast, Virginia needs the Silver Line to succeed so that the potential accompanying economic growth will generate much-needed state and county tax revenues. While we doubt that large sums will be forthcoming in any single fiscal year, our calculations indicate a continuing state contribution of about $130 million per year through 2050 to buy down the revenue bonds would reduce toll road users' share of construction costs to 25%.

There are also a number of other smaller sources of revenue that MWAA must pursue, including the following:

- Tolling the Dulles International Airport Access Highway (DIAAH), a limited access HOT lane to the airport.
- Assuming financial responsibility for the construction of the Metro station at Dulles airport, just as the counties have agreed to absorb those costs in their jurisdictions.

- Using aviation-related funds, including new charges, for Metrorail construction since a key goal of the construction is to bring passengers and employees to the airport.

Nonetheless, MWAA and its financial partners also need to re-think their financial agreement that sticks toll road users with over half of construction costs, including $17 billion in financing over four decades, on a declining number of toll road users. In contrast, in the 2004 Final Environmental Impact Statement (FEIS), the agreed on course was for the combination of Virginia state funds *and* DTR revenues to pay only 22.8% of the line's construction cost. In a spectacularly unethical secret agreement in 2007 (now being challenged in federal court), MWAA, Fairfax, and Loudoun agreed to keep their respective shares of Silver Line construction costs constant while shifting *all* the burden of missing state and federal funding to toll road users, even as the line's construction costs skyrocketed. This must be fixed in the absence of substantial alternative funding. In our view, the so-call "funding partners" should assume the costs of Silver Line construction not covered by a 25% share from toll road users and federal and state contributions.

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In the absence of alternative funding arrangements, including the option of a revised "funding partners" agreement, we believe work on Phase 2 should not proceed because of the gross inequity and adverse economic consequences of the current arrangement. Stopping construction temporarily until other funding sources or arrangements are found would drive the funding partners to act aggressively. For the time being, they are only taking basic steps to find new funding sources since they do not face substantial financial burdens under their secret deal.

We sincerely hope that the latter course of action is unnecessary, but we believe it is an essential option to spur the hunt for new funding. We are deeply concerned about the adverse impact of the drastic toll hikes envisioned for the DTR in both the short and longer term for Restonians, the County, and beyond.

We have a Metrorail financing crisis. MWAA and its "funding partners" must show leadership in bringing toll increases down to a level bearable by most toll road users, including absorbing more of the burden themselves.

We will support you any way we can in reducing toll hikes so they cover 25% of the costs of the Silver Line's construction. That begins by rejecting the proposed toll increases through 2015 and adopting the more limited increases proposed above.