Project Funding Strategies Utilized in Virginia

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Virginia is using or has used a number of funding approaches to support projects/priorities, including:

- Fees
- Dedicated taxes
- Special tax districts
- Tax exemptions
- State/local/authority debt financing
- Dedicated state funds
- Public/Private Partnerships
- Sale of public assets (e.g., carbon credits)
- Revolving loan funds
- Federal grants/private donations

What can we say about fees?

- The term “fee” normally has less of a negative connotation than “tax”.
- Fees typically support something people want (e.g., access to a park; obtain a license to conduct business, hunt, fish or drive a vehicle; attend higher education institutions; etc.)
- State agencies that rely on fees for their operations can use the revenues collected to build and maintain facilities.
- Fees work best when there is a nexus between the fee and the project/programs supported by the fee.
- One example: the state presently assesses a $20 recordation tax fee of which fifty percent of the revenue goes to the Virginia Natural Resources Commitment Fund.

How about dedicated taxes?

- The dedicated tax most people can relate to is the gas tax to support transportation funding.
- A portion of the sales tax is dedicated to transportation and K-12 education, as well as local governments.
- Like fees, taxes dedicated to particular purposes are often perceived as more acceptable than taxes going to the general pot.
- Dedicated taxes can be implemented at the local, regional and statewide levels of government.

What makes a tax district special?

- Special tax districts typically dedicate increased taxes in a given area for a particular purpose at the regional or local level of government.
- Regional special tax districts, for example, have been established for transportation initiatives in the Hampton Roads, Northern Virginia, and I-81 regions, where enhanced taxes are charged.
- Localities, for example, may collect additional hotel taxes in certain zones to support tourism
- Tax increment financing allows a special tax district to dedicate any additional taxes generated by the district, beyond what would have been projected, to support debt and/or improvements to the area.

Tax exemptions can be a form of financing

- Exempting certain property, projects, activities, and/or equipment from taxation can incentivize private investment without public expenditure.
- Exemptions can be full or partial and can be permanent or temporary.
- Most common examples are exemption from local property taxes.
- Currently, localities may offer property tax exemptions/reductions for:
    - Wetlands and riparian buffers and living shorelines
    - Certified stormwater management developments and property
    - Rehabilitation of historic properties
    - Land used for agricultural, forestry or open space

State/local/authority debt and you

- The state, local governments, and authorities created by the state have the ability to issue debt.
- Virginia has always been conservative in using state debt, with a present policy of using no more than five percent (rolling 10-year average) of state revenues for debt service of state-supported debt.
- Virginia has used state debt to support the purchase of natural areas/parks, fund water and wastewater projects, as well as support economic development projects.

We can dedicate state funds?

- Yes, the state's general fund can be used to address most every type of expense possible.
- General fund (GF) support already exists for the preservation of open space lands, and a portion of any GF year-end balances go to the Water Quality Incentive Fund.
- Historically, big investments from the general fund have been made for K-12 education, mental health, research and transportation.
- As always, there are many priorities looking for state general fund support.

Public/private partnerships do exist!

- Probably the most visible public/private partnerships are the express lanes and toll roads more recently built in Virginia. The tolls pay for the investment made by the private sector.
- Virginia has many other public/private partnerships where facilities have included or will include private investment, including dorms, dining halls, book stores, the new tech talent northern Virginia campuses of Virginia Tech and George Mason, among others.
- These projects work only if there is sufficient revenue or savings generated to “repay” the private investment; thus, demand for the use of the facilities generated by these projects must be robust.

Sale of public assets

- We’ve already talked about public private partnerships, which can involve the sale or long-term leasing of public infrastructure and facilities.
- A more unique approach is Virginia’s participation in the regional trade of carbon credits to help in managing CO2 air emissions (cap and trade).
- The proceeds from these sales are dedicated to the Virginia Community Flood Preparedness Fund and energy efficiency programs.
- Virginia has participated in cap and trade programs in the past for sulfur dioxide and nitrogen oxide air emissions.

Loans can revolve?

- Revolving loan funds, much like a bank, rely on loaning out money and using the repayment amounts, with interest or not, to loan out more funds.
- The starting capital for the fund can be provided by any governmental entity or private investment.
- One of the most well known Virginia programs is the Clean Water Revolving Loan Fund.
- This type of program works best with individual projects with the ability to generate income or which have a dedicated funding stream to repay the loan.

Federal grants and private donations can help leverage state and local funding

- We all know about the federal funding Norfolk received to help with its efforts to address sea level rise.
- Federal and private funding often requires matching funds, either from the state or locality.
- Private donations require concentrated effort to find and/or convince private entities to support a particular project or program and the funding is often one time or a limited period of time.
- Federal funding, too, is often only for a limited period of time, and the ability to get appropriate funding in the federal budget is an even greater effort.

Food for thought

- The diversity of projects on behalf of resiliency will likely require a diversity of funding options.
- Tailoring the appropriate funding approach to the appropriate project is always the challenge.
- State and local governments face many competing demands for limited financial resources.
- Unlike the federal government, state and local governments can only spend what they can raise.
- Raising fees and taxes, or issuing debt, can all have less than a positive response from the public and decision makers.
- Dillon Rule: Most local or regional actions require state authorization.

Virginia Coastal Resilience Master Plan
Finance Subcommittee Briefing
July 26, 2021

Robert Crum, Executive Director

Hampton Roads Planning District Commission

Hampton Roads Transportation Planning Organization

BACKGROUND

The Hampton Roads Region has self taxed itself to finance one of the largest interstate highway construction programs in the country

93% of the $5.3 Billion of road, tunnel and bridge projects are supported by local regional taxes

Could this model be an approach to fund our resiliency/sea level rise construction needs?

HAMPTON ROADS PDC PLANNING DISTRICT COMMISSION

the heartbeat of HAMPTON ROADS TPO TRANSPORTATION PLANNING ORGANIZATION

HAMPTON ROADS TRANSPORTATION FUND

Managed by Hampton Roads Transportation Accountability Commission (HRTAC)

Projects are identified and prioritized by the HRTPO "Project Readiness"

HRTAC develops financing plans for these projects

VDOT manages construction

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HAMPTON ROADS TRANSPORTATION FUND

Monies must be invested in Hampton Roads region on projects that provide for the highest congestion relief for our residents

HRTF can be used to fund roads, tunnels and bridges

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Hampton roads transportation fund

Additional Sales Tax – 0.7%

- $139.4M Revenue FY19

Additional Regional Fuels Tax – 2.1%

- $71.6M Revenue FY19

Combined revenues of $211M FY19

State Code requires HRTF funds to be invested on Hampton Roads highway, tunnel and bridge construction projects

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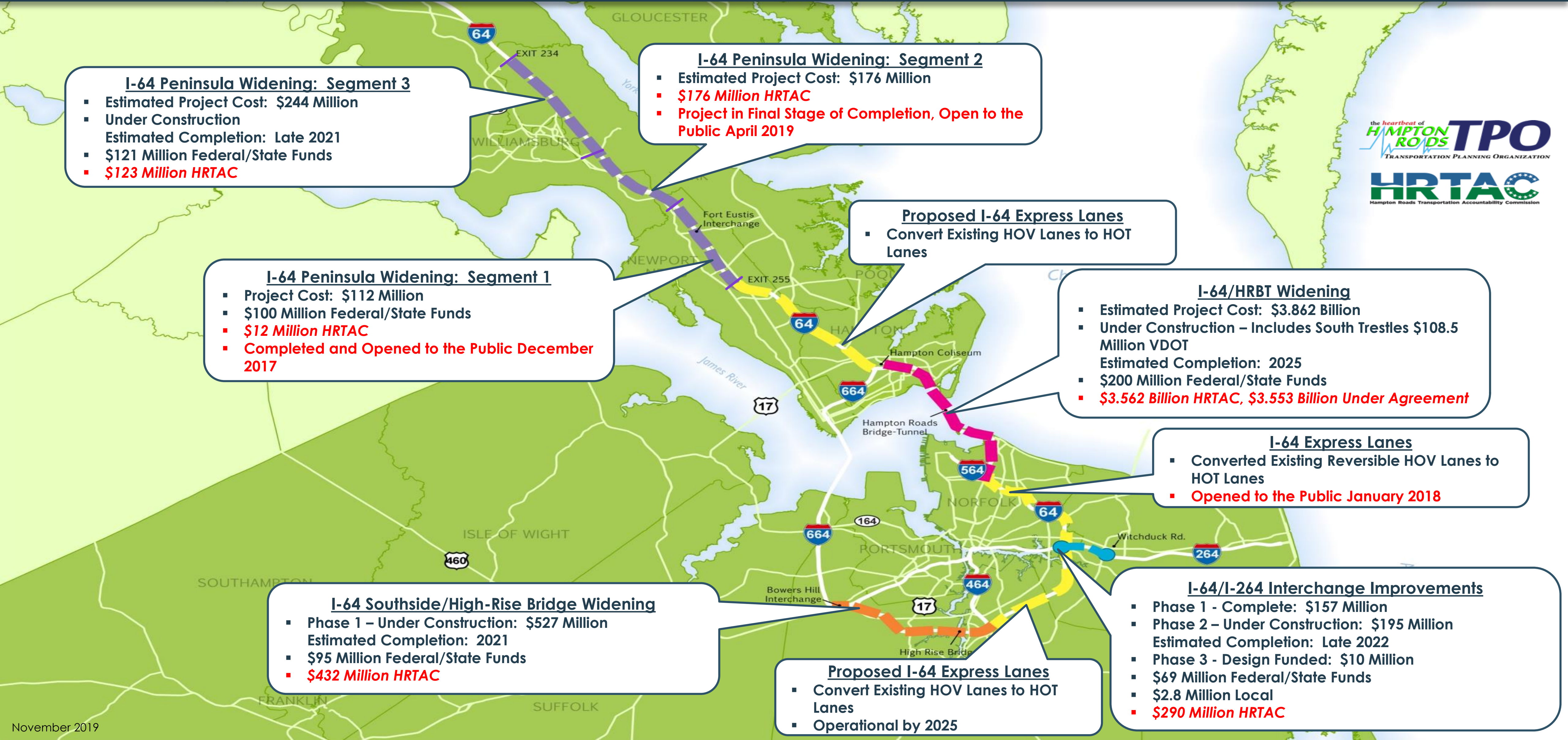
Hampton Roads Interstate Improvements Expected To Be Completed By 2025



I-64 Peninsula Widening: Segment 3
- Estimated Project Cost: $244 Million
- Under Construction
  Estimated Completion: Late 2021
- $121 Million Federal/State Funds
- *$123 Million HRTAC*

I-64 Peninsula Widening: Segment 2
- Estimated Project Cost: $176 Million
- *$176 Million HRTAC*
- Project in Final Stage of Completion, Open to the Public April 2019

I-64 Peninsula Widening: Segment 1
- Project Cost: $112 Million
- $100 Million Federal/State Funds
- *$12 Million HRTAC*
- Completed and Opened to the Public December 2017

Proposed I-64 Express Lanes
- Convert Existing HOV Lanes to HOT Lanes

I-64/HRBT Widening
- Estimated Project Cost: $3.862 Billion
- Under Construction – Includes South Trestles $108.5 Million VDOT
  Estimated Completion: 2025
- $200 Million Federal/State Funds
- *$3.562 Billion HRTAC, $3.553 Billion Under Agreement*

I-64 Express Lanes
- Converted Existing Reversible HOV Lanes to HOT Lanes
- Opened to the Public January 2018

I-64 Southside/High-Rise Bridge Widening
- Phase 1 – Under Construction: $527 Million
  Estimated Completion: 2021
- $95 Million Federal/State Funds
- *$432 Million HRTAC*

Proposed I-64 Express Lanes
- Convert Existing HOV Lanes to HOT Lanes
- Operational by 2025

I-64/I-264 Interchange Improvements
- Phase 1 - Complete: $157 Million
- Phase 2 – Under Construction: $195 Million
  Estimated Completion: Late 2022
- Phase 3 - Design Funded: $10 Million
- $69 Million Federal/State Funds
- $2.8 Million Local
- *$290 Million HRTAC*

I-64 Peninsula Widening

Segments 1 and 2 Complete

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I-64 Peninsula Widening Segment 2

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I-64 Peninsula Widening

Segment 3 - December 2021 Completion

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I-64 Widening Peninsula

Widening of I-64 on the Peninsula continues to work its way to Exit 234 west of Williamsburg – December 2021 Completion

Federal grant request for Segment 4 not successful

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High-Rise Bridge/I-64 Southside Widening

East Side of Elizabeth River; Looking northwest

High-Rise/I-64 Widening Southside

Project Includes Widening of I-64 south side from Greenbrier to Bowers Hill Interchange with new parallel bridge

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High-Rise Bridge I-64 South Side

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High-Rise Bridge/64 South Side
Late 2022 Completion

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I-64/I-264 Interchange Phase 2 Completion Fall 2021

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I-64/I-264 Interchange Phase III– Eastbound Interchange Improvements and Widening to Witchduck Road

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I-64/I-264 Interchange/Greenwich Road Flyover

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Hampton Roads Bridge Tunnel (HRBT) Expansion

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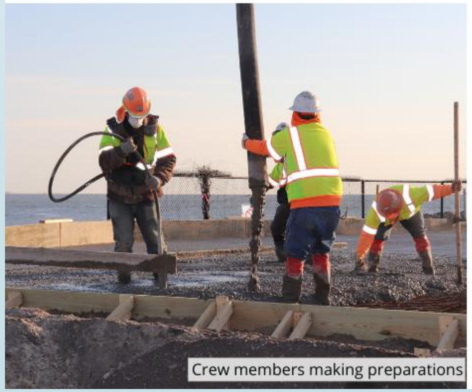
HRBT Expansion Project

Largest Roadway Project in History of Virginia at $ 3.8 Billion


Crane


Installing template H-piles


Crew members making preparations


Concrete site at night

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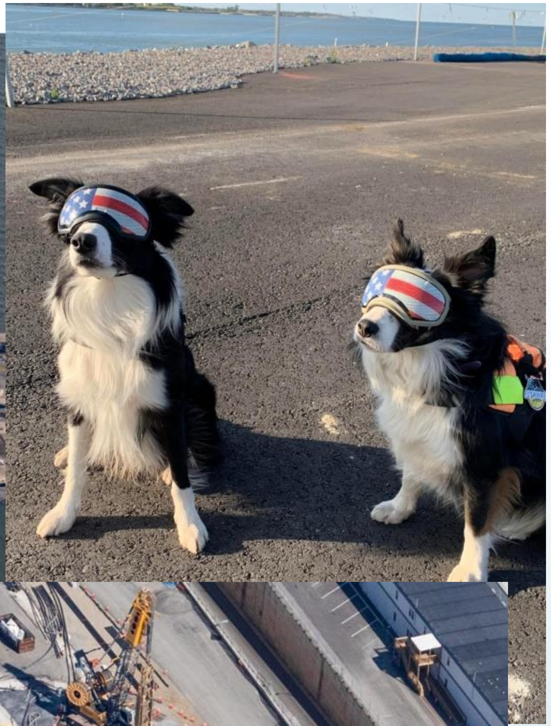
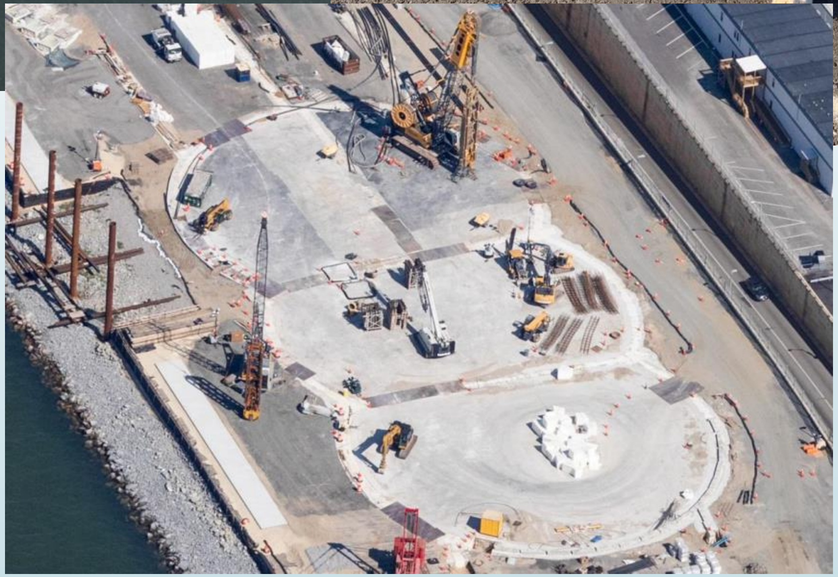
HRBT Project

Completion 2025





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IS THIS A VIABLE MODEL TO FUND RESILIENCY PROJECTS?

Dillon Rule Commonwealth – would require action by the General Assembly

By action of the General Assembly, HRTAC role has been expanded to also manage Hampton Roads Regional Transit Fund

Regional structure in place

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COULD THIS MODEL BE APPLIED TO RESILIENCY PROJECTS?

Framework would be similar, HRPDC could identify and prioritize projects. Accountability Commission would fund/finance projects

1 penny on the region's sales and use tax would generate around $185 Million Annually

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DEDICATED FUNDING SOURCE PROVIDES OPPORTUNITIES

Pay as you go with available revenues

Bonding capacity

Leverage Federal/State grants and loans

QUESTIONS?

Proposed TAC Finance Subcommittee Recommendations

A. Establish a Mechanism for Ensuring the State's Overarching Resilience Funding Priorities Are Taken into Account (Not Just Local)

B. Provide Funding for State Climate Adaptation Planning Staff

In order to effectively maintain, update and implement the Virginia Coastal Resilience Master Plan, the Commonwealth will need adequate staff. This staff could be placed under the supervision of the Special Assistant to the Governor for Coastal Adaptation and Protection and/or in one or more state agencies. They could coordinate with the Secretary of Natural and Historic Resources, the Secretary of Public Safety and Homeland Security, and other members of the Cabinet to ensure that both the natural and built environment are considered in climate adaptation planning. Functions of this staff would include:

- maintenance of a ***state website*** about climate adaptation planning
- continued ***operational support*** of the Coastal Resilience ***Technical Advisory Committee and its Subcommittees, or a newly-created state resilience authority*** (see developmentauthority.final1.pdf (wm.edu) for more information)
- coordination of the ***state's resilience project priorities*** with local or regional project priorities
- reviewing all ***state capital expenditure programs*** to ensure they require an assessment of the resilience of the selected project before funding is provided (see CCRFR-BrandedReport-Tourism-Report-FINAL.pdf (floodingresiliency.org), p. 22)
- serving as funding advisors for the four regions laid out in the Virginia Coastal Resilience Master Planning Framework (Hampton Roads, Rural Coastal VA, Fall Line North, Fall Line South). These positions would be responsible for:
    - Maintaining the ***Financing tab*** of the Coastal Projects Database by keeping funding sources, requirements, deadlines, etc. up to date and keeping their assigned localities apprised of critical changes and deadlines.
    - ***Assisting localities*** in determining appropriate funding mechanisms and grant/loan sources, assisting with writing grant applications and finding proposal partners, developing finance mechanisms, assisting with securing acceptable match for grants as required, tracking progress on funded activities, and assisting with implementation of these activities.
    - Maintaining the ***Projects tab*** of the Coastal Projects Database through continuous contact with their assigned localities. This would include annual re-prioritization of projects in their region based on what was funded and what has not yet been funded, but is still needed.

Funding for these positions could come from RGGI auctions or another source determined by the legislature.

C. Establish a Resiliency Revolving Loan Fund

In order to create an additional perpetual funding source for resiliency projects in Virginia, the Commonwealth could consider establishing a resiliency revolving loan fund to finance projects that fall outside of the scope of the Community Flood Preparedness Fund or, due to capacity constraints, cannot be funded from the Community Flood Preparedness Fund at a given time. The resiliency RLF could be modeled after the Virginia Airports Revolving Fund, which offers maximum application and loan flexibility to borrowers. The resiliency RLF could be established with a direct appropriation from the General Assembly or from another identified funding source. Loans made from the resiliency RLF could be used to meet matching requirements of other funding sources, to provide 'gap financing' needs for projects that have not identified 100% of the needed project costs from other sources, or to provide more flexibility in funding resilient elements of projects that are not otherwise resiliency projects. It also could establish an alternative fund in the event that proceeds derived from RGGI auctions significantly decline in the future.