Date of Meeting: October 11, 2016

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BOARD OF SUPERVISORS
FINANCE/GOVERNMENT OPERATIONS AND
ECONOMIC DEVELOPMENT COMMITTEE
INFORMATION ITEM

SUBJECT: **FY 2018 Budget Development – Local Gasoline Tax Revenue Outlook**

ELECTION DISTRICT: Countywide

STAFF CONTACTS: Erin McLellan, Management and Budget
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Joe Kroboth, III, Transportation and Capital Infrastructure
John Sandy, County Administration

PURPOSE: The purpose of this item is to present updated local gasoline tax revenue projections and begin a discussion on the impact of those projections on transit operations, future Metrorail operating and capital costs, and contributions to non-profit and other organizations as part of the FY 2018 budget development process.

BACKGROUND: This item is part of a series of service level issues being brought to the Board of Supervisors (Board) as part of the FY 2018 budget development process. It is meant to provide additional information on issues that need to be considered in advance of the Proposed Budget development so that they might be fully reviewed and so that the Board has time to engage in meaningful discussion at a time where distinct action is not required. There are currently several areas in which staff has identified critical issues that are affecting current or required service levels. This item will present those issues associated with local gasoline tax projections, diversion of local gasoline revenues to Washington Metropolitan Area Transit Authority (WMATA), and implications for County service levels.

ISSUES: In the FY 2017 Adopted Budget, the outlook for future local gasoline tax revenue was highlighted. It was further detailed in Item 16 on the Finance/Government Operations and Economic Development Committee's (FGOEDC) September 13, 2016, agenda. Beginning in FY 2015 and continuing through FY 2019[1], the County's local gasoline tax revenue is projected to come in on average $5.1 million lower than was estimated during the FY 2015 budget process.

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[1] In FY 2019, Loudoun County must divert its local gasoline tax revenue to the Washington Metropolitan Area Transit Authority for ongoing operating and capital costs of the Metrorail system.

The reduction in the gas tax revenue outlook is the result of the sustained reduction in petroleum prices that began in August 2014.

	FALL 2013 PROJECTION	ADOPTED	FALL 2016 PROJECTION
FY 2015	$11,532,000	$11,532,000	$8,727,144[2]
FY 2016	$12,004,000	$10,183,000	$6,915,700[3]
FY 2017	$12,631,000	$7,898,000	$6,912,000
FY 2018	$13,340,000	n/a	$7,710,000
FY 2019	$14,120,000	n/a	$8,490,000
FY 2020	$14,961,000	n/a	$9,260,000

For FY 2017 and the two preceding fiscal years, the “shortfall” in annual gasoline tax revenues has been covered by using unspent local gasoline tax revenues from previous years, including remaining and unneeded project balances. Thus far, the local gasoline tax shortfalls have not had an impact on operations and planned capital projects, but the flexibility of the revenue the County has previously utilized has diminished. The FY 2017 Adopted Budget used $2.8 million of local gasoline tax fund balance from completed projects to maintain current service levels, mostly in transit operations. Significant fund balance will not be available to supplement new revenues and fund the FY 2018 and FY 2019 budget needs.

Short-Term Impacts

Projected local gasoline tax revenues are not sufficient to fund all currently-funded programs for FY 2018. These programs include Loudoun County Transit (LCT), capital projects funding for the Towns of Leesburg and Purcellville, non-profit contributions, and various General Fund transfers for department operations. A summary of FY 2017 Adopted and FY 2018 Projected local gasoline tax uses can be found in the Fiscal Impact section of this paper. As mentioned earlier, the FY 2017 Budget uses approximately $2.8 million of local gasoline tax fund balance from completed projects to fund the appropriated $10.7 million of uses.

The Northern Virginia Transportation Commission (NVTC), of which Loudoun County is a member, administers the collection of Loudoun’s portion of the local gasoline tax. Funds are held by NVTC and transferred to the County upon request for reimbursement. Currently there is a balance in the account; however, given the volatility of fuel prices, the shortfalls of the prior fiscal years and the projected shortfall in FY 2017, staff does not believe this balance will remain for programming in the FY 2018 Proposed Budget.

Staff projects the Transportation District Fund will experience a $2.9 million shortfall in local gasoline tax in FY 2018 if expenditures for all programs are maintained at their current levels. To

[2] FY 2015 Actual
[3] FY 2016 Preliminary Actual

make up for this shortfall, the Board could supplement expenditures with local tax funding and/or reduce service levels in the following categories:

- *Contributions to Towns/Capital Projects:* The County has provided local gasoline tax to the Towns of Leesburg and Purcellville to fund capital projects. The Towns, given their populations, are responsible for the maintenance of their own roads. Contributions have been based on the proportion of the Towns' populations to the County's. A shortfall in gasoline tax revenue from the prior year is typically reduced in the following year's allocations to the Towns. Based on the County's projected population, staff has preliminarily projected the contributions to the Towns of Leesburg and Purcellville will be $788,000 and $144,000 respectively for FY 2018. The Board could consider whether it should contribute those funds to the Towns in FY 2018 given the projected shortfall in local gasoline tax revenues. Alternatively, it can identify another revenue source for the Towns. Beginning in FY 2019 upon the diversion of gasoline tax to WMATA payments, staff recommends the Board ceases its contribution to the Towns.

- *Non-Profit Contributions:* The FY 2017 Budget recommended that contributions to non-profits no longer be paid for with gasoline tax beginning in FY 2018. Those FY 2018 reductions would amount to $1.1 million. The Board should consider whether or not it wishes to continue funding these non-profit needs, and if so, to what level and through what revenue source.

- *Department Operations:* The FY 2017 Budget began the process of transitioning some expenditures previously covered by local gasoline tax revenue to local tax funding. Local tax funding replaced local gasoline tax funding for administrative support and grant matches within DTCI in the amount of $0.5 million. Use of local tax funding will also be proposed for FY 2018 for contributions to department operations for the Departments of General Services (for park and ride lot maintenance), Parks, Recreation, and Community Services (for Adaptive Recreation Program transportation), and Transportation and Capital Infrastructure (for bus promotion and advertising), which represents an additional decrease of $0.4 million.

While the above reductions are substantial, the majority of gasoline tax currently used for operations is for Loudoun County Transit (LCT). Gasoline tax supports $9.1 million of a total $21.6 million FY 2017 budget for the County's transit operations, which includes Metro Connection service, Long-Haul service, Local Fixed Route service, commuter services and employer outreach. Other revenue sources for LCT include fares (40%), grants (13%), advertising and other revenues (3%), and LTF (3%). Based on the Board's direction for the future of LCT (as presented in Item 18 of the October 11 FGOEDC agenda), the total budget for transit operations could expand or contract as the County incorporates Metrorail Station access into its transportation network. Staff estimates that approximately $8.6 million will be needed to cover LCT bus contracts and operations for FY 2018 at its current service level. While contracted service hour costs will increase for FY 2018, overall the gasoline tax needs of LCT are projected to decrease due to the rightsizing of the program's fuel budget.

Beginning in FY 2019, when all gasoline tax revenue will be diverted to WMATA for Metrorail operating and capital costs, the County will need to identify additional revenue sources to fund the above programs or administer service delivery changes to reduce revenue requirements. As discussed in Item 18, staff recommends such operational and funding decisions as well as the future service level provided by LCT should be discussed during a future Transit Summit.

Long-Term Impacts

Local gasoline tax revenue will likely not be sufficient to fully fund the operational and capital contributions to WMATA in the future. The County is required to contribute funds each year, and these costs were previously projected to be covered by gasoline tax and revenue growth in the General Fund due to development around the metro stations. In FY 2019, 18 months prior to the start of revenue service, the County will begin paying its annual operating contribution to WMATA, which is currently projected at $11.1 million. When revenue service begins in FY 2020, the County will commence its annual capital contributions, projected at $11.8 million. These projected contribution amounts were provided to the County by WMATA in 2012; staff anticipates they will be updated – and likely higher – as the actual payment dates approach.

To fill the gap between anticipated local gasoline tax revenue in FY 2019 and beyond, the Board could choose to debt finance the capital contribution to WMATA. This strategy was included as a placeholder in the FY 2017-FY 2022 Capital Improvement Program. While this option uses a portion of the County's debt capacity, it is a potentially viable way to fund this contribution and is used by some neighboring jurisdictions to fund their own capital contributions to WMATA. In addition to debt financing, there are some other ways the Board could address ongoing costs. Staff is currently evaluating options such as diverting the previously dedicated $0.02 of real property tax revenue for transportation projects from the CIP to WMATA capital payments. Staff continues to explore options and will be bringing this discussion back to the Board as part of the deliberations on the FY 2018 budget.

Proposed Regional Local Gasoline Tax Floor

The Board's proposed legislative program for the 2017 General Assembly includes support of a regional gas tax floor, which was highlighted in the 2016 session. The regional gasoline tax does not currently have a floor, or a certain threshold under which revenues cannot fall. Having a regional floor could help provide additional revenue to the County in times of otherwise low per gallon prices.

During the 2016 General Assembly Session, the Board supported a regional gas tax floor that was tied to the February 2013 price to which the state floor is set. The Board supported a mechanism that would adjust the price periodically based on gas prices and would ultimately stop once the price reached the February 2013 price. At its September 22, 2016, Business Meeting, the Board endorsed this concept for the 2017 General Assembly session.

FISCAL IMPACT:

The table below details the current service level of operational uses of local gasoline tax revenue in FY 2017 and the projected budget for maintaining those current service levels in FY 2018. The table also indicates the decision points the Board will be given in consideration of the FY 2018 Proposed Budget, which are also captured in the list below. Unless otherwise noted as being updated (*), the figures for FY 2018 are those included in the FY 2017 Adopted Budget.

- Loudoun County Transit: Local gasoline tax revenue in the amount of $7.7 million is projected for FY 2018. This amount will fund 90 percent of LCT's current service level needs in FY 2018. The Board could choose to allocate all available gas tax revenue to this service and supplement with local tax funding (LTF). Alternatively, the Board could decrease service levels to meet the gasoline tax revenue projection.

- Contributions to Towns: The Board could choose to terminate its local gasoline tax contributions to the Towns or fund these contributions with local tax funding.

- NVTC Administrative Fee: This is a minimal and required payment for FY 2018 and should come from gasoline tax revenue.

- Non-Profit Contributions: The Board could choose to determine if these contributions to non-profits should continue. If it chooses to continue the contributions, they could be funded with local tax funding. The Board could also incorporate this funding need (transportation) into the annual Non-Profit Grant Program, though the funding source would likely remain local tax funding.

- Department Operations: The Board could choose to replace the funding for these operations with local tax funding or not replace the funding and decrease the current service level.

Table 1. Uses of Local Gasoline Taxes for Current Service Level

CATEGORY	FY 2017 ADOPTED	FY 2018 PROJECTED	POLICY DECISION
LOUDOUN COUNTY TRANSIT			
Commuter Bus*	$5,209,746	$5,253,719	Fund with available gas tax revenue supplemented with LTF; or reduce service levels
Local Fixed Route*	$3,870,270	$3,314,856	
SUBTOTAL – LOUDOUN COUNTY TRANSIT	**$9,080,016**	**$8,568,575**	
CAPITAL PROJECTS			
Town Of Leesburg*	$587,462	$788,000	Evaluate contributions to Towns; or fund with LTF
Town Of Purcellville*	$106,022	$144,000	
NVTC Administrative Fees	$12,012	$12,613	Fund with available gas tax revenue
SUBTOTAL – CAPITAL PROJECTS	**$705,496**	**$944,613**	
NON-PROFIT CONTRIBUTIONS			
American Red Cross	$38,916	$38,916	Evaluate continued funding of non-profit groups; or fund with LTF
Every Citizen Has An Opportunity	$36,700	$38,700	
Loudoun Volunteer Caregivers	$168,510	$168,510	
Virginia Regional Transit	$332,243	$406,075	
Dulles Area Transportation Association	$12,000	$12,000	
SUBTOTAL – NON-PROFIT CONTRIBUTIONS	**$588,369**	**$664,201**	
DEPARTMENT OPERATIONS			
General Services – Park and Ride Lot Maintenance	$179,242	$218,984	Fund with LTF
PRCS – Adaptive Recreation Transportation	$135,000	$200,000	
DTCI – Advertising	$10,000	$10,000	
SUBTOTAL – DEPARTMENT OPERATIONS	**$324,242**	**$428,984**	
TOTAL EXPENDITURES	**$10,698,123**	**$10,606,373**	
Revised Local Gasoline Tax Revenue*	$6,912,000	$7,710,000	
Use Of Unused Project Balances	$2,800,123	$0	
TOTAL REVENUE	**$9,712,123**	**$7,710,000**	
PROJECTED SHORTFALL	**($986,000)**	**($2,896,373)**	

*Updated from FY 2017 Adopted Budget Document

The Department of Management and Budget will continue to update its local gasoline tax revenue projections in preparation of the FY 2018 Proposed Budget. Should the Board choose to continue funding the above programs at the current service level, staff will program $2.9 million in local tax funding for this purpose.