

A G E N D A

JAMES CITY COUNTY BOARD OF SUPERVISORS

READING FILE

May 22, 2007

FOR YOUR INFORMATION

Support Materials for Agenda Item No. H-1, Resolution Approving the Powers Granted to the Hampton Roads Transportation Authority

1. Editorial - "Taking the heat..." Daily Press 14 May 2007: A8
2. Editorial - "...passing the buck." Daily Press 14 May 2007: A8
3. Hampton Roads Transportation Authority Authorized Taxes and Fees table
4. Letter to Mr. Jesse T. Wallace, City Manager, City of Hampton from David P. Rose, Davenport and Company LLC

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... passing the buck

The transportation plan could add to the debt load of localities

Like households, localities have to keep their debt under control. They have to take on some, to pay for schools and other major projects. But go overboard, and their lenders do to them the equivalent of what credit card companies do to spendthrift individuals: lower their credit rating, hold the line on their debt load, hike the interest rate.

That makes it more expensive to borrow for things localities want to do — and that comes down hard on taxpayers, who have to come up with the cash for those higher interest payments. If it limits the ability to borrow, some local needs could go begging.

With that background, there's this to contemplate: If the regional transportation authority created by the General Assembly goes into business, it could have some effect on localities' debt load and costs.

Some effect. Possibly. Under some circumstances.

Those are the complexities and uncertainties that face localities as they decide whether to give the transportation authority a "yes" vote.

If enough do, the authority will levy new taxes to pay for six big projects, including widening Interstate 64 and a third crossing across the harbor. To jump start the projects, it will borrow money and repay it out of those new taxes and tolls.

Here's the problem: The agencies that rule the credit rating world will count a share of that debt among the obligations of the localities.

The devil of what that will mean will be in the details of how the authority does

business. If all goes as expected, localities won't be harmed by having credit rating agencies take that debt into account in determining how they can borrow and at what cost.

But things could get dicier if certain possibilities were to materialize — if the economy tanks and the revenue stream to pay off the bonds starts to dry up, or if enough member governments decided that the localities will take on a moral obligation to repay the authority's bonds, something they might do to lower the interest rate.

"Possibilities" and "might" and "some" are the most accurate prediction of how the authority's debt will affect localities, until the authority is formed and the economic future is revealed.

Having part of the authority's debt show up on their credit report is a concern for localities that are bumping up against their borrowing capacity. Newport News already has more than a half-billion dollars in debt, and that's putting pressure on the city budget and its taxpayers. Hampton has taken on considerable debt for projects like the convention center and is poised to add a lot more for schools and other projects; it watches its credit rating closely, especially since some of the debt for the new Coliseum Mall replacement project will count against its debt limit.

Newport News has already OK'd the authority; Hampton is unlikely to do so. But if the requirements to form the authority are met, all members will be bound by it, whether they voted for or against its implementation.

"Overlapping" debt is just one of the flaws that make the transportation authority a stinky deal. But because it's the only deal on the table for addressing major transportation needs, the region will be best served if local governments hold their nose and vote for approval. ■

by a pro-violence administration can do — move mountains, scale tall buildings, wipe out universities.

Let us now examine that simpering, mindless phrase: "Guns don't kill people, people kill people." Really? When was the last time you heard of a drive-by stoning? How about a mass garroting? A school massacre by knifing? Can't recall? Gee, neither can I.

The mass murders, the massacres and the drive-bys are done with guns, not knives or garrotes or ropes or darts or anything else.

And where, oh where, did this chronically mentally ill young man get his guns of choice? Yes: Fun-loving, gun-loving Virginia.

Let's consider changing our state slogan to: "Virginia is for gun lovers — Support your NRA."

Nancy Hecker
Newport News

Lost revenue

You are supposed to get a license for your dog in the city of Newport News. I used to purchase it at the Peninsula Society for the Prevention of Cruelty to Animals. I have gone to the SPCA about once a month since January, but the computer system has been "down" all year. The staff at the SPCA are apologetic, the city administrators know about the problem, but nothing has been done.

At this point, the city of Newport News needs every bit of revenue it can get.

Suzi Edwards
Newport News

Queen's visits

I appreciate the extent of your coverage of Queen Elizabeth II's visit and the events surrounding the Jamestown anniversary. One significant error in historic fact continues to be repeated: The last visit of the queen to Virginia was not 1957. She visited Virginia on the occasion of the Bicentennial in 1976 and, among other things, conducted one of her famous "walkabouts" on the lawn of the University of Virginia.

Larry Shriver
Yorktown

'No' to regional taxes

As a voting taxpayer, I become disappointed when elected leaders serve in a fiscally irresponsible

that address issues, the H Senate have into the han Roads local g of them app pate. Voters taxes for tra

Newport I ginia Beach c their residen fund their ha problems. Ne fund its mun retirement f cost citizens lars in taxes v point decades course the Ne Council imm the regional t way, they can "third crossir marine termi ers' dimes.

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Military

Reference J ter "Reward co Using the curr tables, which c www.dfas.mil/ ures he cites a adding togethe allowance for l the member is assigned to La Base); they are rently serving, are not adjuste personnel pay l

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I for one, hav proud service w 10 years of whic

EDITORIAL FEEDBACK

A PLACE TO PITCH

I enjoyed the May 7 editorial "Don't pitch it." Do you know where someone in Williamsburg can drop off some cell phones? I have several and would gladly donate them for a worthy cause.

E. A. Daniels

Editor's response: Verizon Authorized Agent Cellular Services, 1301 Jamestown Road in Williamsburg, accepts used cell phones; it donates them to a local battered women's shelter. ■

**HAMPTON ROADS TRANSPORTATION AUTHORITY
AUTHORIZED FEES AND TAXES**

Fee/Tax	Statutory Authority under Chapter 896	Amount	Frequency	Collection/Taxing Agency - Statutory Authority	Disbursement Method to the Authority
Regional Annual Motor Vehicle License Fee	\$46.2-755.1	\$10	At time of annual registration	DMV collects fees pursuant to standardized procedures under §46.2-756 and transfers to the State Comptroller	By guidelines developed with DMV under 14 th Enactment Clause
Regional Initial Motor Vehicle Registration Fee	\$46.2-755.2	1% of the value of the vehicle	One-time at initial registration. Imposed in the jurisdiction embraced by the Authority in which the vehicle is registered.	Locality §46.2-752; §46.2-756	By guidelines developed with the localities under 14 th Enactment Clause
Regional Motor Vehicle Inspection Fee	\$46.2-1167.1	\$10	Annual	Safety Inspection Stations §46.2-1167	By guidelines developed under the 14 th Enactment Clause
Motor Vehicle Repair Sales and Use Tax	§§58.1-605K1, 58.1-606H2	5% - labor and services, repair of motor vehicles	At the time of repair/service	Dept. of Taxation §58.1-605D; §58.1-606C	Dept. of Taxation - Special Fund with State Treasurer, transferred to the Authority monthly after subtracting direct administrative costs, § 58.1-605K2 §58.1-606H2
Regional Congestion Relief Fee (Additional Grantor's Tax)	§58.1-802.1	\$.40/\$100 of value (Grantor's pay)	Paid at closing	Clerk of Circuit Court §58.1-3803	As soon as practicable §58.1-802.1
Sales tax on fuel	§58.1-1724.3	2% of Retail price	At the time of purchase; tax to appear on fuel pump	Dept of Taxation §58.1-1724.2	Transferred on a monthly basis after subtracting direct administrative costs, §58.1-1724.6
Car rental fee	§58.1-2402.1	2%	At the time of rental	DMV §58.1-2402.1C	Transferred as appropriate to the Authority after subtracting direct administrative costs, §58.1-2402.1B

May 2, 2007

Mr. Jesse T. Wallace
City Manager
City of Hampton
22 Lincoln Street
8th Floor
Hampton, VA 23669

Dear Jesse:

In our capacity as Financial Advisory to the City of Hampton, you have asked Davenport & Company LLC (“Davenport”) to review the recently approved Legislation (HB3202) calling for the creation of a Regional Transportation Authority in the Hampton Roads area as well as northern Virginia. Specifically, you have asked that we review and comment on the letters dated April 20 and 23, 2007 from The PFM Group which address the sources of potential funding to support bonded indebtedness and the potential credit impact on the participating localities. The PFM Group has been retained by the Hampton Roads Planning District Commission to advise on potential financial related matters.

Davenport has, over the past several days spoken directly to the lead professional and primary author of the PFM letters, David Miller, Managing Director in their Orlando, Florida office as well as representatives of the three national rating agencies who currently review the City – Standard & Poor’s, Fitch and Moody’s. Finally, we have also been privy to a copy of the financial opinion from the City of Virginia Beach’s independent financial advisor, Chester Johnson of Government Finance Associates. Our review of the legislation and its potential credit impact can be summed up as follows:

First, debt of the proposed Hampton Roads Transportation Authority will be viewed as “overlapping debt” by all three rating agencies.

Second, to the extent the funding sources identified to meet the debt service of the proposed Hampton Roads Transportation Authority exclude any local option tax, then the debt will be viewed by all three rating agencies as having minimal, if any, impact on the local governments’ Debt Capacity; and

Third, if for any reason the proposed Regional Transportation Authority should either require or desire to place a Moral Obligation backing of the localities on any indebtedness to the issued, then, at least in the case of Moody’s, if not the other rating agencies as well, the debt will count as “direct” debt of the localities involved. For the City of Hampton this will most certainly serve as the basis for a downgrade given the level of new debt planned over the next 6 – 18 months.

In conversations with David Miller and after careful review of the myriad of “caveats” in his two memorandums, the following I believe can be fairly stated as The PFM Group opinion, which can be summarized as follows:

First, the Transportation Authority has yet to be formed and as such no Plan of Finance and corresponding legal documentation has been developed. Therefore, it is premature to speculate on the ultimate credit rating of any debt issued. However, The PFM Group does not envision the need for a Moral Obligation of the localities to issue any indebtedness because the revenue stream(s) should be more than sufficient to carry the phasing in of debt.

Second, no local option tax financing(s) have been incorporated into The PFM Group work to date involving any Transportation Authority financing. The Capital Plans do not contemplate this at this time. However, future decisions by a locality(s) could incorporate this tax since it was provided for in the Legislation. Therefore, the City will want to be cognizant of the decisions it makes down the road involving which “taxes” are dedicated to transportation projects.

Summary/Conclusion

Upon review of the Legislation and its potential impact on participating localities, Davenport believes that the nature of the overlapping debt should be “benign” to the localities as long as no Moral Obligation on any debt is required and local option taxes are excluded. Ultimately, the legal construct of any and all debt issuance will be the final determination to the rating agencies on exactly how the City of Hampton and your neighbors will be treated. We recommend that as Financial Advisor to you, any developments by a burgeoning Transportation Authority be closely monitored by Davenport and a regular dialogue with the rating agencies continue as this process unfolds. These two actions should help minimize any unforeseen surprises related to credit issues.

Sincerely,

/s/ David P. Rose

David P. Rose
Senior Vice President
Manager, Public Finance

cc: Karl Daughtrey
Mary Bunting
Jim Vacalis – City of Suffolk
Dennis Kerns – City of Suffolk
John McDonald – James City County
Sandy Wanner – James City County
Charlie Burgess – City of Poquoson
Jack Tuttle – City of Williamsburg
Phil Serra – City of Williamsburg
David Miller – The PFM Group
Art Collins – HRPDC