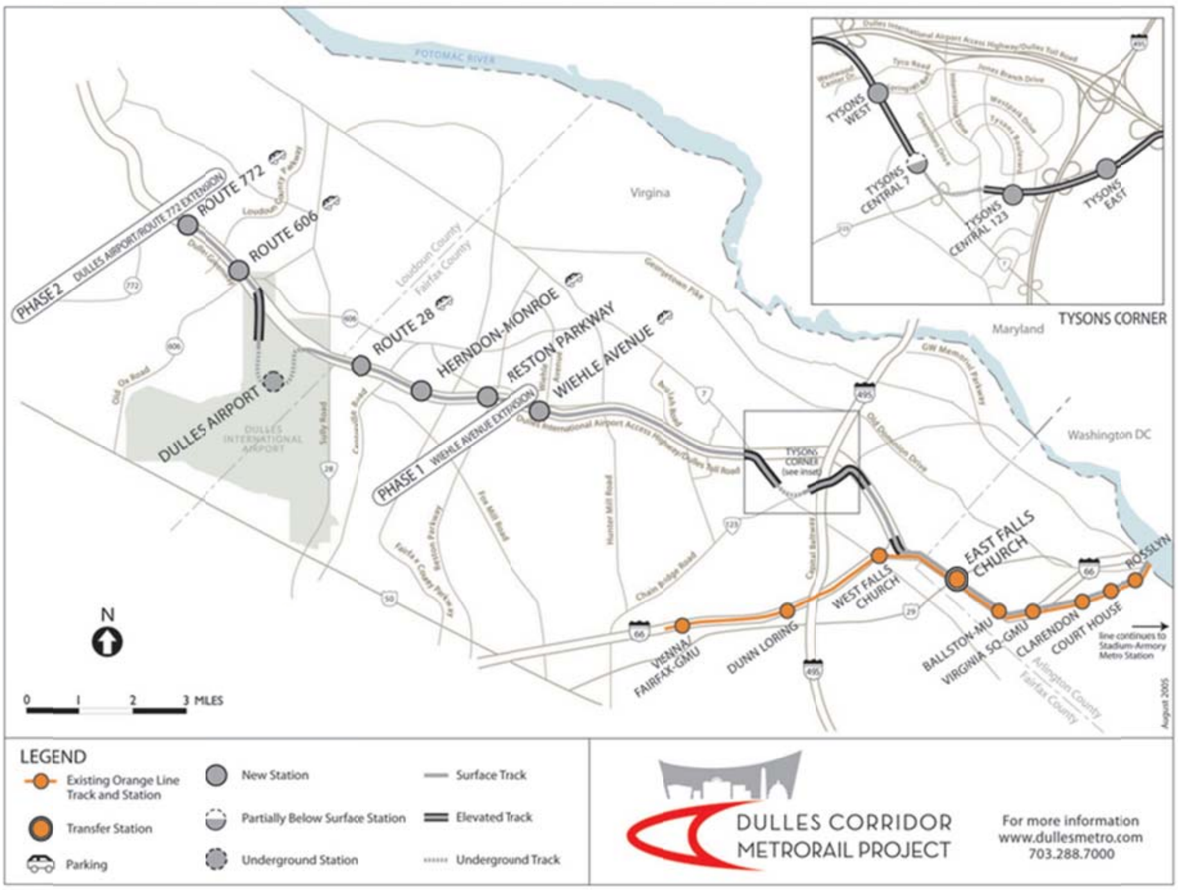
Fund 121
Dulles Rail Phase I Transportation Improvement District

Focus

Metrorail service is planned to be extended approximately 23 miles from an area east of West Falls Church station, along the median of the Dulles Connector Road (DCR) through Tysons Corner, then further out the Dulles International Airport Access Highway (DIAAH), through Dulles International Airport, to Route 772 in Loudoun County. The total cost of the Rail to Dulles Project currently is estimated to be between $5.8 billion to $6.5 billion. Due to financial constraints imposed by the federal government, the project is currently expected to be completed in two phases. The Phase I cost is approximately $2.64 billion for the segment from the Metrorail Orange line to Wiehle Avenue in Reston, including construction of five new stations.



The Phase I cost of $2.64 billion is being financed by the federal government, the Commonwealth of Virginia, Fairfax County, and revenue from the Dulles Toll Road (DTR). In March 2009, the Federal Transit Administration executed a Full funding Grant Agreement with Metropolitan Washington Airports Authority (MWAA) for $900 million for Phase 1 of the project. Fairfax County's share of Phase 1, $400 million is being financed from the Phase I Tax District; the remaining funding for Phase I is a combination of state and DTR funds.

The total project costs are expected to be shared by the federal government, the Commonwealth, Fairfax County, Loudoun County, MWAA, and operation of the Dulles Toll Road. It should be noted that the County's participation rate is determined on the basis of total project costs and sharing the cost of common features necessary to complete an operational line, such as soft costs, rail yards and power stations.

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The primary source of revenue to support construction of the rail line is expected to be tolls from the Dulles Toll Road. Control and operation of the Dulles Toll Road was transferred to MWAA on November 1, 2008. The local funding partners, Fairfax County, Loudoun County, and MWAA have entered into an agreement which specifies the level of funding responsibility for each partner; the Fairfax share is approximately 16.1 percent of total costs and approximately $400.0 million for Phase I. This is also the maximum permitted under the terms of the Phase I Tax District. Additionally, landowners in Phase II submitted a petition to the Board of Supervisors to form a Phase II tax district which would commit $330 million to the County's share of Phase II funding.

On January 21, 2004, a petition was filed with the Clerk to the Board of Supervisors (the Petition) by owners of commercial and industrial property (the Petitioners) asking the Board of Supervisors to create a Phase I Dulles Rail Transportation Improvement District (the Phase I District), as provided by Chapter 15 of Title 33.1 of the Code of Virginia, as amended (the Act). The Act is similar although not identical to the law that empowered the Board and the Board of Supervisors of Loudoun County to create the Route 28 Highway Transportation Improvement District (the Route 28 District) in both counties in 1988.

The Phase I District was approved and established by the Board of Supervisors on February 23, 2004, following a public hearing. The Phase I District is governed by a District Commission, consisting of four Board members and the Chairman of the Commonwealth Transportation Board (CTB) or his/her designee. The District Commission is advised by a District Advisory Board, composed of landowner representatives. This is the same basic governance structure used for the Route 28 Tax District.

Commercial and industrial property within the district created pursuant to the Act can be taxed to raise funds for transportation improvements in the district. Such a district can be created upon the petition of the owners of at least 51 percent, measured by land area or assessed value, of the real property located within the proposed district that is zoned or used for commercial or industrial purposes. The properties listed on the signature pages of the Petition constituted over 64 percent of such property located within the Phase I District, measured by assessed value.

Per the Code of Virginia § 33.1-435, properties zoned to permit multi-unit residential use but not yet used for that purpose and multi-unit properties primarily leased or rented to residential tenants or other occupants by an owner who is engaged in such a business are deemed to be in commercial use for purposes of the Act. But no other residential properties are subject to any tax that may be levied on behalf of such a district, even if they are within the boundaries of such a district.

The boundaries, as proposed by the Petitioners, encompass most if not all of the Tysons Corner Urban Center, commercial and industrial properties near the proposed Metrorail station at Wiehle Avenue, and the necessary DAAR right-of-way. The proposed transportation improvements include that portion in the Phase I District of the capital improvements described as the Locally Preferred Alternative (LPA) in a resolution of the Board of Directors of the Washington Metropolitan Area Transit Authority (WMATA), adopted on November 21, 2002.

The Petitioners will contribute up to $400.0 million of the County's share for Phase I through the imposition of a voluntary tax on commercial and industrial properties within the Phase I District. Included in the proposal is a provision for full coverage of the long-term financing costs for the County's net share of construction costs. At the maximum contribution, under the current plan, the total expected cost including interest costs over the life of the district to be provided by the tax on behalf of the Phase I District is approximately $882.5 million. As of December 2006, funds for the tax district are expected to fully fund the County's expected share of Phase I costs. Funding requirements in excess of the amount to be provided by the District are expected to be funded by other available revenue sources.

The plan as set forth in the Petition contains specific provisions regarding timing, tax rates, total costs, and percentage of costs to be paid with Phase I District revenue. The plan contemplates the establishment of a Revenue Stabilization Fund (RSF) with early collection of taxes commencing in FY 2005 to build reasonable reserves to help maintain the rate parameters in view of the cyclic pattern of changes in assessed value from year to year. It is anticipated that the RSF and perhaps other rate or coverage covenants will be required by rating agencies to achieve an investment grade rating on bonds issued that are supported by Phase I District tax revenues.

Under the terms of the petition, before any Phase I District revenues are committed the tax rate is capped at 22 cents per $100 of assessed value, and taxes collected accumulate in the RSF. If a federal Full Funding Grant Agreement (FFGA) for Phase I is not executed, then the owners of 51 percent of the commercial and industrial property within the Phase I District may petition for its dissolution, and individual property owners can ask for the return of taxes previously paid and accumulated in the RSF. The Federal Transit Administration (FTA) received the Full Funding Grant Agreement application on October 22, 2008 and approved it and forwarded it to the Secretary of the United States Department of Transportation and the Office of Management and Budget on December 19, 2008 for their approval. Secretary Peters, after reviewing the FFGA application with OMB, approved the FFGA on January 7, 2009, and forwarded it to Congress for their approval. The FFGA between the FTA and the Metropolitan Washington Airports Authority (MWAA) was executed on March 10, 2009.

Before committing Phase I District tax revenues, the District Commission must determine that the District's actual share of the financing will not exceed $400 million of construction funds for Phase I costs, and that a tax rate of no more than 29 cents per $100 of assessed value will be sufficient to meet the Phase I District's obligations at an assumed rate of growth in assessed value of 1.5 percent. If at the time the District Commission expects either of those parameters to be exceeded, then they must seek approval from the owners of 51 percent of the commercial or industrial property within the Phase I District before proceeding to commit the revenues.

However, once Phase I District revenues have been committed, allowing the financing to be put into place for the sale of bonds supported by those revenues, there is no "hard" cap on the Phase I District tax rate other than the statutory cap of 40 cents per $100 of assessed value. Thus there would be full latitude to set the tax rate up to the statutory maximum, if necessary, to meet the obligations of the Phase I District, e.g., if necessary to meet debt service requirements in the event assessed value growth rates cannot be sustained at 1.5 percent or greater.

On June 22, 2009, the Board of Supervisors approved preliminary bond documents for Phase I Dulles Rail Tax District financing and authorization of judicial proceedings to validate the bonds. It was determined that prior to the issuance of bonds by the Economic Development Authority, there should be a judicial determination of the validity of the bonds to ensure broad financial market acceptance of the bonds. The initial judicial review was completed at the Circuit Court level on August 28, 2009, at which time the County received a favorable ruling. On November 4, 2010, the Virginia Supreme Court affirmed the lower court ruling. On May 9 and 10, 2011, the bonds for the project were sold to provide the proportional share of project funding required in accordance with the funding agreement with the Metropolitan Washington Airports Authority and the County.

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Prior to the execution of the Full funding Grant Agreement between the Federal Transit Administration (FTA) and the Metropolitan Washington Airports Authority (MWAA) on March 10, 2009, the only construction work occurring on the Dulles Corridor Metrorail Project (DCMP) concerned the relocation of utilities along Route 7 and Route 123 in Tysons Corner. As of May 2011, the following construction activities are underway:

- Construction has been completed on three (3) rail bridges: 2 on the DCR and 1 on the Dulles International Airport Access Highway (DIAAH).

- Three guideway-building trusses have been employed on the DCR, Route 123, and crossing the Beltway. A guideway-building truss will be deployed along Route 7 late this year.

- The tunnel boring operation was completed in December 2010 ahead of schedule. A short segment of cut and cover tunnel at Routes 7 and 123 is the final portion of excavation necessary to complete the tunnel. The tunnel is now being outfitted with linings and will be outfitted with train control and fire suppression equipment next year.

- All five Phase I Stations are now under construction.

- For additional cost information about the Dulles Rail project, please see Fund 122, Dulles Rail Phase II Transportation Improvement District contained in Volume 2, Capital Construction and Other Operating Funds.

FY 2012 Funding Adjustments

The following funding adjustments from the FY 2011 Adopted Budget Plan are necessary to support the FY 2012 program. Included are all adjustments recommended by the County Executive that were approved by the Board of Supervisors, as well as any additional Board of Supervisors' actions, as approved in the adoption of the budget on April 26, 2011.

- **Debt Service Adjustments** **$11,650,000**
  An increase of $11,650,000 or 87.3 percent over the FY 2011 Adopted Budget Plan amount of $13,350,000 due to adjustments necessary to accommodate estimated debt service payments based on a projected Spring 2011 bond sale.

Changes to FY 2011 Adopted Budget Plan

The following funding adjustments reflect all approved changes in the FY 2011 Revised Budget Plan since passage of the FY 2011 Adopted Budget Plan. Included are all adjustments made as part of the FY 2010 Carryover Review, FY 2011 Third Quarter Review, and all other approved changes through April 12, 2011.

- **Carryover Adjustments** **$36,650,000**
  As part of the *FY 2010 Carryover Review*, the Board of Supervisors approved increased expenditures of $36,650,000 in Operating Expenses, to allow for construction payments to MWAA.

- **Third Quarter Adjustments** **$16,000,000**
  As part of the *FY 2011 Third Quarter Review*, the Board of Supervisors approved increased expenditures of $16,000,000 in Operating Expenses, to allow for construction payments to MWAA.

Fund 121
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FUND STATEMENT

Fund Type G10, Special Revenue Funds

Fund 121, Dulles Rail Phase I Transportation Improvement District

	FY 2010 Actual	FY 2011 Adopted Budget Plan	FY 2011 Revised Budget Plan	FY 2012 Advertised Budget Plan	FY 2012 Adopted Budget Plan
Beginning Balance	**$84,573,977**	**$60,120,525**	**$90,099,993**	**$63,868,264**	**$47,868,264**
Revenue:					
Real Estate Taxes-Current	$27,427,441	$22,431,463	$22,431,463	$22,436,338	$22,436,338
Interest on Investments	589,916	1,336,808	1,336,808	785,272	785,272
Total Revenue	$28,017,357	$23,768,271	$23,768,271	$23,221,610	$23,221,610
Total Available	**$112,591,334**	**$83,888,796**	**$113,868,264**	**$87,089,874**	**$71,089,874**
Expenditures:					
Debt Service	$0	$13,350,000	$13,350,000	$25,000,000	$25,000,000
Construction Payments	22,000,000	0	52,650,000	0	0
District Expenses	491,341	0	0	0	0
Total Expenditures	$22,491,341	$13,350,000	$66,000,000	$25,000,000	$25,000,000
Total Disbursements	**$22,491,341**	**$13,350,000**	**$66,000,000**	**$25,000,000**	**$25,000,000**
Ending Balance[1]	**$90,099,993**	**$70,538,796**	**$47,868,264**	**$62,089,874**	**$46,089,874**
Tax rate/per $100 Assessed Value	**$0.22**	**$0.22**	**$0.22**	**$0.22**	**$0.22**

[1] The ending balance has been fluctuating based on cash funding of constuction due to delays in the sale of bonds necessitated by legal challenges. Legal challenges to the sale of the bonds have been resolved and a bond sale is planned for May 2011.