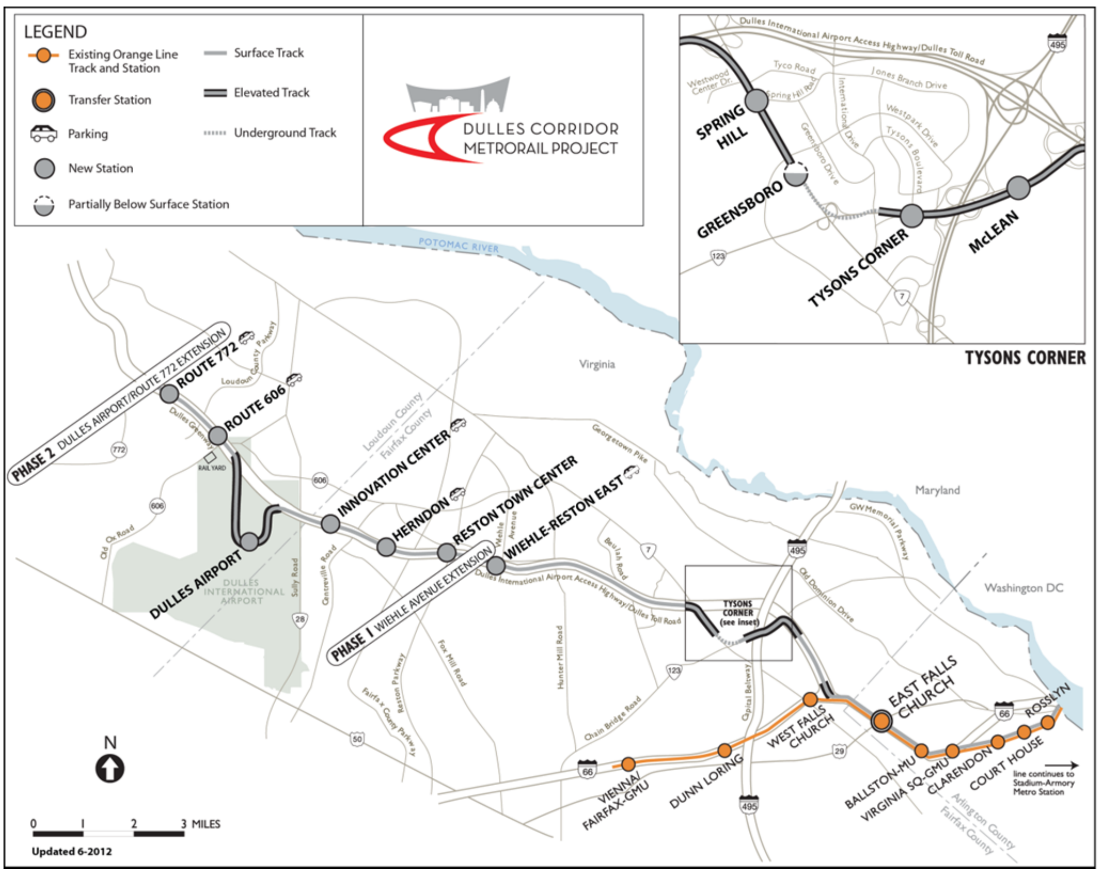
Fund 40110
Dulles Rail Phase I Transportation Improvement District

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 $5.9 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 $2.9 billion for the segment from the Metrorail Orange line to the Wiehle Avenue in Reston, including construction of five new stations. The names of the five stations in Fairfax County are as follows: McLean, Tysons Corner, Greensboro, Spring Hill, and Wiehle-Reston East and are noted in the below map.



The Phase I cost of $2.9 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 I of the project. A portion of Fairfax County's share of Phase I, $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.

Fund 40110
Dulles Rail Phase I Transportation Improvement District

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 $467.8 million for Phase I. The Phase I Tax District will cover $400 million of the County's total cost for Phase I. 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. 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 Wiehle-Reston East Metrorail station, and the necessary Dulles Airport Access Road (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 2013, funds from the tax district are expected to fund 86 percent 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 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 (EDA), 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.

Fund 40110
Dulles Rail Phase I Transportation Improvement District

On May 26, 2011, the EDA issued the first series of Phase I EDA bonds in the amount of $205.7 million which provided $220.1 million (includes bond premium) for the construction of the Phase I project. On October 10, 2012, the second and final Phase I EDA bond issue was issued in the amount of $42.4 million which provided $48.4 million (includes bond premium) for the construction of the Phase I project. These two issues together with an estimated $131.5 million in total equity contribution from taxes collected will fully fund the County's obligation of providing $400 million for Phase I of the project.

On April 10, 2012 the Fairfax County Board of Supervisors confirmed the County's participation in Phase II which has a projected cost estimate of approximately $2.8 billion. For additional cost and project information about the Dulles Rail project Phase II, please see Fund 40120, Dulles Rail Phase II Transportation Improvement District, contained in Volume 2, Capital Construction and Other Operating Funds.

As of November 2013, testing for Phase I was nearly complete. MWAA is going to set its opening date for the Silver Line in summer 2014. Crews are putting the finishing touches on construction of Phase I of the Dulles Corridor Metrorail Project. Additionally, completed activities provided by DCMP are as follows:

- Landscaping is complete along the guideway in the middle of Route 7 and on the sides of Route 123.
- Sidewalks are in place and heavy equipment used to build the rail system and realign Route 7 has been removed.
- New traffic signals are in place along the new alignment of Route 7.
- Pedestrian bridges and pavilions are in place to provide future customers with safe crossings across Route 7, 123, and 267 (Dulles Toll Road).

As part of the FY 2014 Adopted Budget Plan, there was joint concurrence from the Phase I Advisory Board as well as the Phase I Commission on the formal adoption of a Tax Rate Policy. Specifically, a series of criteria must be met to allow for a reduction in the tax rate that includes the following: maintaining targeted debt service coverage at 150 percent; historical debt service coverage will be at least 150 percent for two consecutive fiscal years before lowering the tax rate; and the tax rate will be lowered by no more than two cents in any given year provided coverage can still be maintained at 150 percent with the lower tax rate. For FY 2014, the tax rate decreased by $0.01 from $0.22 to $0.21 per $100 of assessed value and remains unchanged as part of the FY 2015 Adopted Budget Plan.

Fund 40110
Dulles Rail Phase I Transportation Improvement District

FY 2015 Funding Adjustments

The following funding adjustments from the FY 2014 Adopted Budget Plan are necessary to support the FY 2015 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 29, 2014.

♦ **Debt Service Adjustments** **$7,800**

An increase of $7,800 or 0.04 percent from the FY 2014 Adopted Budget Plan amount of $17,346,663 due to adjustments necessary to accommodate programmed debt service payments.

Changes to FY 2014 Adopted Budget Plan

The following funding adjustments reflect all approved changes in the FY 2014 Revised Budget Plan since passage of the FY 2014 Adopted Budget Plan. Included are all adjustments made as part of the FY 2013 Carryover Review, FY 2014 Third Quarter Review, and all other approved changes through April 30, 2014.

♦ **Third Quarter Adjustments** **($10,000,000)**

As part of the *FY 2014 Third Quarter Review*, the Board of Supervisors approved a funding decrease of $10,000,000 in expenditures due to construction invoices being received earlier than expected. This represents the final construction payment as part of the $400 million tax district contribution towards Dulles Rail Phase I of the Silver Line Project.

♦ **Carryover Adjustments** **$10,000,000**

As part of the *FY 2013 Carryover Review*, the Board of Supervisors approved an increase in expenditures of $10,000,000 due to anticipated construction payments to the Metropolitan Washington Airports Authority (MWAA). The Fairfax County share is approximately 16.1 percent of total costs. The maximum funding contribution permitted under the terms of the Phase I Tax District is $400 million. The cash payments and the Series 2011 and Series 2012 bonds will allow for the completion of the funding from the tax district. It should be noted that by making cash construction payments from the fund, financing costs are held to a minimum thereby reducing total taxes owed by the tax district.

Fund 40110
Dulles Rail Phase I Transportation Improvement District

FUND STATEMENT

Fund 40110, Dulles Rail Phase I Transportation Improvement District

	FY 2013 Actual	FY 2014 Adopted Budget Plan	FY 2014 Revised Budget Plan	FY 2015 Advertised Budget Plan	FY 2015 Adopted Budget Plan
Beginning Balance	$44,948,192	$29,117,616	$44,792,470	$42,273,926	$51,173,916
Revenue:					
Real Estate Taxes-Current[1]	$24,454,747	$23,828,109	$23,828,109	$23,828,109	$23,828,109
Interest on Investments	311,274	0	0	0	0
Total Revenue	$24,766,021	$23,828,109	$23,828,109	$23,828,109	$23,828,109
Total Available	$69,714,213	$52,945,725	$68,620,579	$66,102,035	$75,002,025
Expenditures:					
Debt Service	$16,545,474	$17,346,663	$17,346,663	$17,354,463	$17,354,463
Construction Payments	8,376,269	0	0	0	0
District Expenses	0	100,000	100,000	100,000	100,000
Total Expenditures	$24,921,743	$17,446,663	$17,446,663	$17,454,463	$17,454,463
Total Disbursements	$24,921,743	$17,446,663	$17,446,663	$17,454,463	$17,454,463
Ending Balance[2]	$44,792,470	$35,499,062	$51,173,916	$48,647,572	$57,547,562
Tax rate per $100 Assessed Value[1]	$0.22	$0.21	$0.21	$0.21	$0.21

[1] Per the joint recommendation from the Phase 1 Tax District Advisory Board and the Phase 1 Tax District Commission, the tax rate was reduced by $0.01 from $0.22 to $0.21 for FY 2014.

[2] The ending balance has been fluctuating based on cash funding of construction due to delays in the sale of bonds necessitated by legal challenges. Legal challenges to the sale of the bonds were resolved in early 2011 and a total of $205.705 million in bond were sold in May 2011. The second and final bond sale for the Phase 1 Tax District of $42.39 million were sold in September 2012. The ending balance includes the Residual Fund, the Debt Service Reserve Fund, and the Revenue Stabilization Fund.