REPORT OF THE
JOINT LEGISLATIVE AUDIT
AND REVIEW COMMISSION

REVIEW OF THE IMPACT OF STATE-OWNED PORTS ON LOCAL GOVERNMENTS

TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA

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Preface

Item 16N of the 1999 Appropriation Act directed the Joint Legislative Audit and Review Commission (JLARC) to examine whether the State provides adequate financial compensation to the localities that host the Virginia Port Authority's (VPA) terminal facilities. The VPA operates marine terminals in the cities of Newport News, Norfolk, and Portsmouth as well as an inland terminal located in Warren County. This report contains the staff findings and recommendations regarding the fiscal issues related to hosting these State-owned ports.

The State has made a substantial financial investment in the VPA's four terminal facilities, which has enabled them to generate significant employment, wage, and business development benefits for the Commonwealth as a whole. The host localities also receive employment and wage benefits from the ports. However, the business development benefits of the terminals' operations in the host cities are limited by the lack of undeveloped property. Localities that are in close proximity to the host cities enjoy much of the VPA-generated employment and business development benefits, without incurring the loss of taxable property.

Since the VPA terminals are State-owned, the host localities cannot levy local taxes on the facilities. Because the terminals are industrial in nature and located on valuable property, the host localities forgo more than $2.5 million annually in local tax revenue due to the tax-exempt status of these facilities. Moreover, expansions of the terminals continue to result in local revenue loss.

The host localities do receive reimbursement from the VPA for providing fire protection services to the terminal facilities. However, the host localities also provide other services, which are not recognized for reimbursement, that benefit the VPA's terminal operations.

This report addresses the issue of lost local revenue through the potential provision of additional reimbursement to the host localities, linked to the growing level of business activity at the ports. However, such an approach would have to be considered in light of its impact on other localities hosting State-owned property, as well as the potential impact on VPA's business operations.

On behalf of the Commission staff, I would like to express our appreciation for the cooperation and assistance provided during this review by staff from the VPA and the host localities.

Philip A. Leone
Director

December 21, 1999

JLARC Report Summary

Review of the Impact of State-Owned Ports on Local Governments

December 1999

Joint Legislative Audit and Review Commission

The Virginia Port Authority (VPA) is the State entity responsible for operating, developing, and marketing the State's three marine terminal facilities. These facilities are located in the cities of Newport News, Norfolk, and Portsmouth, as well as an inland terminal facility that is located in Warren County.

Prior to the State's acquisition and operation of these facilities, the marine terminals were owned and operated by the cities of Newport News, Norfolk, and Portsmouth. However, beginning in the early 1970s, the State purchased the three marine terminal facilities through the VPA and became responsible for their operations. Subsequently, based on a clear mandate and accompanying authority from the General Assembly, the VPA began the process of unifying the operations of these marine terminals. The VPA opened the Virginia Inland Port in Warren County in 1989.

Since unification, the cargo tonnage that has been shipped through the VPA's terminals has increased consistently. However, because the VPA facilities are State-owned, the host local governments are not allowed to levy approved local taxes against the terminals. Moreover, the scale and scope of the VPA's operations has led to concern by the host localities that the benefits they receive from the facilities do not outweigh the cost of hosting the terminal property.

Item 16N of the 1999 Appropriation Act directed the Joint Legislative Audit and Review Commission (JLARC) to study whether adequate compensation is provided to the host localities by the State to address the loss of local taxes or other revenues. Specifically, the mandate directs JLARC to "determine whether adequate compensation from the Commonwealth is provided to those localities considering the loss of taxes or other revenues that would inure to them ... were the properties not owned by the Commonwealth."

The primary findings of this JLARC review can be summarized as follows:

- The State has ensured that financial resources have been available to develop and sustain the operations of the VPA's terminal facilities, resulting in substantial employment and wage benefits for residents across the Commonwealth.

- Localities hosting the VPA terminals also receive employment, tax revenue, and business development benefits from the facilities' operations. The business development benefits from the terminals may be limited somewhat, however, by the fact that the three host cities are essentially fully developed.

- Substantial benefits that are attributable to the VPA's operations extend well beyond the boundaries of the host local governments, particularly to some localities in close proximity to the VPA host cities.

- Localities currently receive reimbursement for the provision of fire protection services through a service charge levied on the VPA property. However, other services provided by the local governments that benefit the VPA's terminals are not currently recognized for reimbursement.

- The host localities forgo a substantial amount of direct local tax revenue — about $2.5 million in real property tax revenue in 1999 — due to the fact that the VPA terminals are located on very valuable property and are exempt from local taxation.

- Additional reimbursement could be provided to the VPA host localities based on some measure of the business activity at each terminal. However, the potential impact on the VPA's current business environment must not be overlooked.

State's Investment in the VPA Terminals Has Maximized Benefits

The success of the VPA's terminal operations and the associated benefits are directly linked to the substantial investment — more than $480 million — made by the State since the marine terminals were acquired. In order to enhance the VPA's competitiveness with other ports, the State has ensured the availability of funding for important capital improvements such as cranes and necessary terminal expansions. Moreover, the State's support has enabled the VPA to have access to the bond markets that are essential to a capital intensive business like ports.

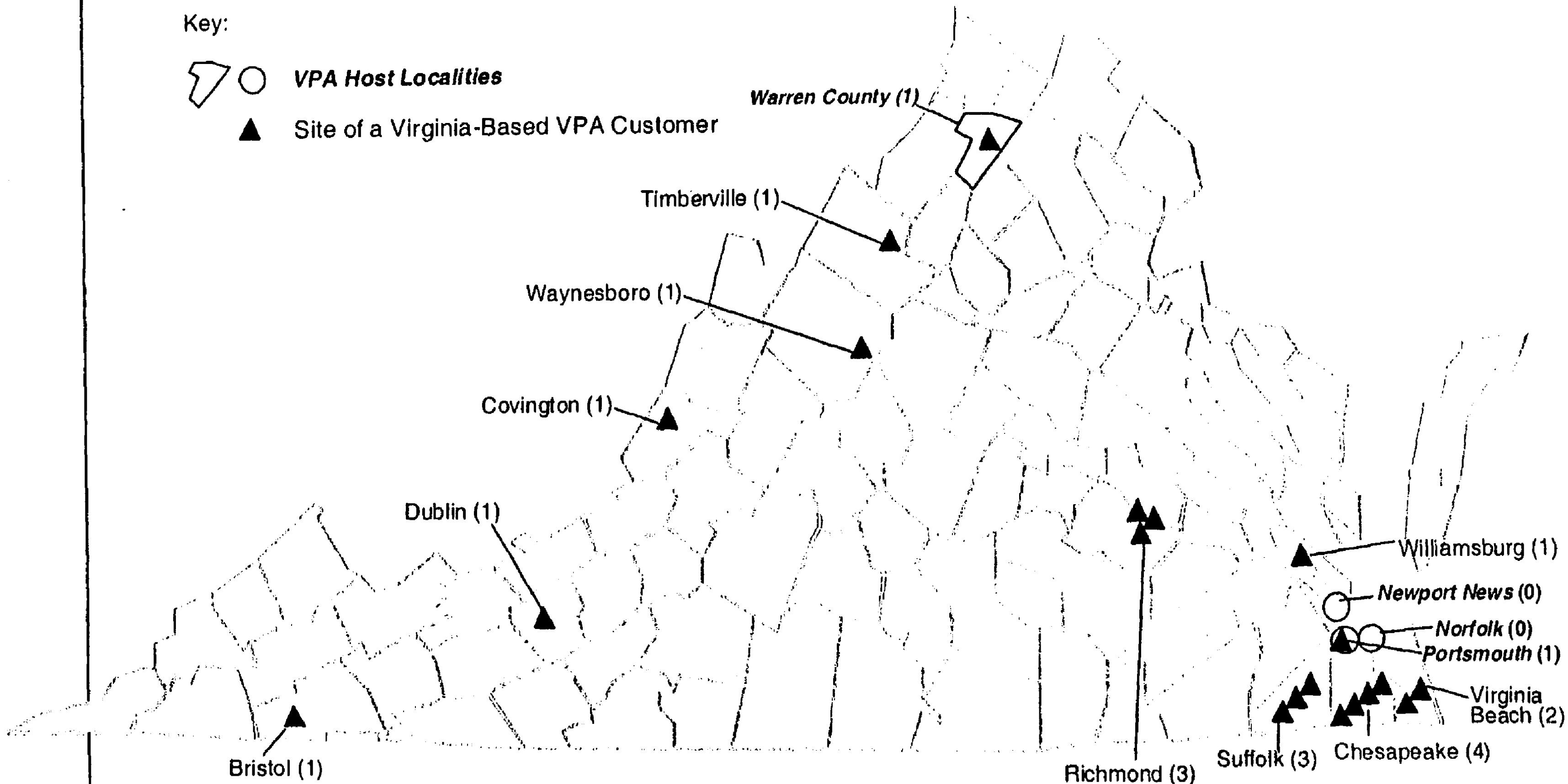
As a result of this support, the VPA has generated substantial benefits in terms of employment, wages, and State and local tax revenue. Specifically, analysis completed in September 1999 by the Martin Associates for the VPA found that in 1998 about $60.7 million in State and local tax revenue was generated by businesses linked with the port, while the total wage impact was approximately $584 million. In addition, an earlier study by Old Dominion University concluded that the State's rate-of-return on its investment in the VPA's terminals was more than 21 percent in 1995.

VPA-Generated Employment Benefits Extend to Other Localities in the Hampton Roads Region

According to the recently completed Martin Associates' study, VPA's terminal facilities generated more than 8,500 direct jobs in the Hampton Roads region in 1998. Approximately 39 percent of these jobs belong to individuals who reside in the cities of Norfolk, Portsmouth, and Newport News. However, more than 42 percent of the direct VPA-generated jobs in the Hampton Roads region belong to residents of the cities of Virginia Beach and Chesapeake. On the other hand, only 11.6 percent of the more than 8,500 VPA-generated direct jobs are held by residents of the cities of Newport News and Portsmouth.

In addition to employment benefits, approximately $24 million in local tax revenue was generated in selected localities in the Hampton Roads region by activity at the VPA's terminal facilities. Of that amount, approximately 43 percent, or $10 million, of the local taxes generated by the VPA's op-

Location of VPA's 20 Largest Virginia-Based Customers



Note: Based on tonnage that is shipped through VPA's terminals.

Source: Virginia Port Authority.

erations were received by the cities of Norfolk, Portsmouth, and Newport News. Conversely, the cities of Virginia Beach, Chesapeake, and Hampton received about 57 percent, or $14 million, of the local tax revenue generated in the Hampton Roads region by the VPA's operations. In fact, the cities of Virginia Beach and Chesapeake received a total of $12.5 million in local tax revenue in 1998, more than all of the VPA host cities combined.

VPA-Generated Business Development Benefits Extend Beyond Host Local Governments

The VPA terminals also support the host localities' economic and business development efforts by attracting businesses that may require the use of the ports. Host localities reported that the VPA's terminals are an important component in their economic and business development strategies. Yet, the potential economic and business development benefits of the VPA terminals may be limited, since the host localities are very developed and as a result are essentially "built out."

However, the economic and business development efforts of the jurisdictions that surround the VPA host localities clearly benefit from the proximity to the VPA's terminals. For example, the surrounding localities' economic development offices reported that the VPA's terminals were an important asset in their economic development efforts. Furthermore, while ten of the VPA's 20 largest Virginia-based customers are located in localities that are in close proximity to the VPA's marine terminals, only one is located in a host city.

Cost of Providing Direct Services to VPA's Terminal Facilities Reimbursed Through the Service Charge

Despite being tax-exempt property, the VPA's terminal facilities require the provision of some local governmental services. The *Code of Virginia* authorizes localities with State-owned property to be reimbursed for the provision of specific local government services. Localities hosting the terminal facilities are currently eligible to receive State funding for fire protection services.

Analysis conducted for this study determined that one host locality submitted a request to the VPA in the spring of 1999 that resulted in a smaller-than-required reimbursement for local fire protection services. Although this did not result in an overpayment, it still indicates that proper review by the VPA is necessary to ensure that the payments are completely accurate and neither more nor less than the required amount.

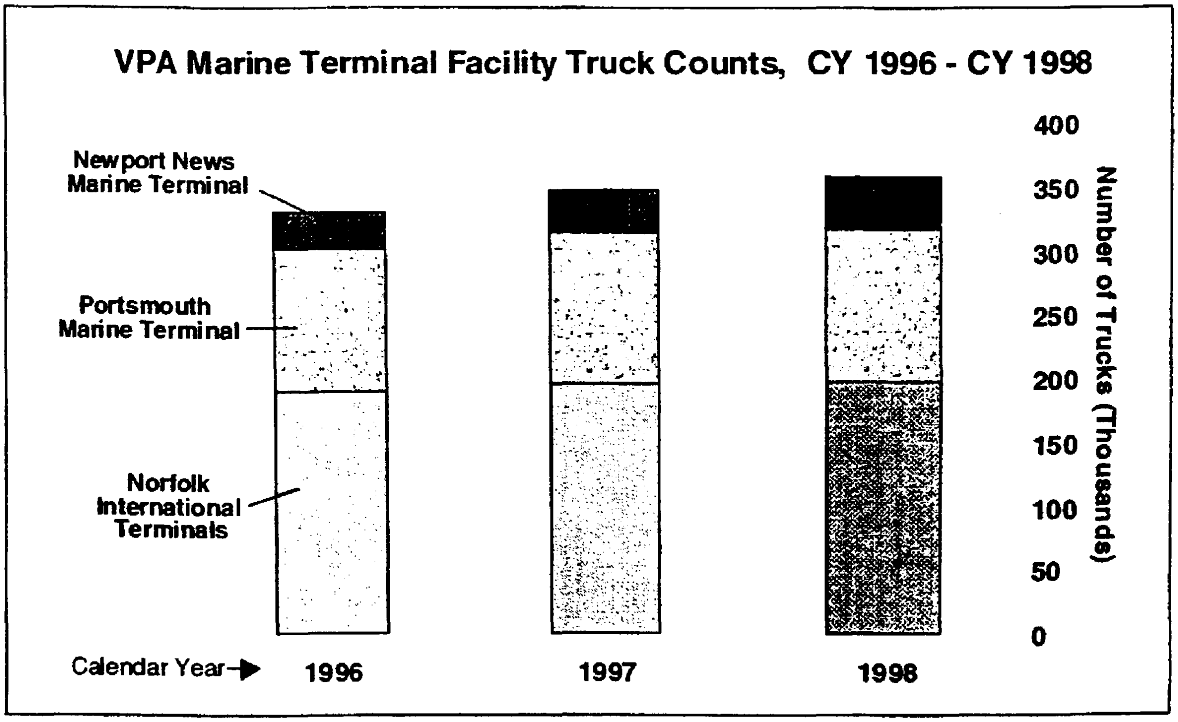
Recommendation. **The Virginia Port Authority should comprehensively review all local government submissions for reimbursement through the service charge for compliance with §58.1-3403 of the *Code of Virginia*. The Virginia Port Authority should formally report to the applicable local government any omissions or errors regarding the request for reimbursement.**

Local Costs Related to the VPA's Operations Could Be Recognized Through Service Charge Increases

At the present time, localities hosting VPA property are reimbursed only for fire protection services provided to the terminal facilities. However, this review determined that there are additional costs, related to local government services provided directly or indirectly to the VPA, that should also be considered for reimbursement through the service charge.

For example, the terminal facilities rely heavily on over-the-road trucks to transport the cargo containers and other cargo that are loaded and unloaded from ships. Many of these trucks use portions of the local road networks to reach the interstate highway system or traverse between VPA's terminal facilities.

In addition, VPA's terminal facilities benefit to some degree from the activities of the



host localities' police departments. While the VPA has its own police force, the local police departments provide some benefit to the VPA's facilities in terms of limiting unlawful activity from initially entering the property.

Finally, the value of local fire protection services provided to the VPA's terminals extends beyond the value of the land and buildings at each facility. If the General Assembly were to make a decision to implement all of these service-related recommendations in the manner presented in this report, the additional cost would range from approximately $111,000 to $928,000.

***Recommendation.* The General Assembly may wish to consider amending §58.1-3403 of the *Code of Virginia* to authorize local governments hosting Virginia Port Authority property to receive additional reimbursement based on the difference between local street and road maintenance expenditures and State funding received for local street and road maintenance expenditures related to the impact of trucks using the Port Authority's terminals.**

***Recommendation.* The General Assembly may wish to consider amending §58.1-3403 of the *Code of Virginia* to authorize local governments hosting Virginia Port Authority property to be reimbursed for some portion of local law enforcement expenditures.**

***Recommendation.* The General Assembly may wish to consider amending §58.1-3403 of the *Code of Virginia* to authorize localities to include the value of all Virginia Port Authority property in the reimbursement for local fire protection services.**

Opportunities for Limiting the Impact and Maximizing the Benefits of the Terminal Facilities

During this review, a number of potential opportunities were observed that could mitigate the impact of the VPA facilities on the host localities at a minimum of expense. Some of these options are based on current VPA practice and are simply presented to highlight the potential benefits they offer. For example, the VPA should continue to explore, and where possible implement, innovative methods to help limit the adverse impact of its business activities on the host localities. Furthermore, additional opportunities should be explored by the VPA for expanding the business development potential of the terminal facilities to increase the benefits for the host localities .

Recommendation. **The Virginia Port Authority should continue to identify and implement, where feasible and consistent with its strategic business objectives, techniques that minimize the adverse impacts of its business activities on localities with terminal facilities.**

Recommendation. **The Virginia Port Authority should continue to identify and, where feasible and consistent with its strategic business objectives, implement business development activities that enable host localities to more fully utilize the economic development potential of the terminal facilities.**

Fiscal Conditions of Host Localities Intensify the Impact of VPA's Terminals

The negative impacts of the VPA's tax-exempt property are compounded by the local fiscal conditions experienced by the host localities. For example, an analysis of revenue capacity for each host locality indicates that their per-capita revenue capacities were below the statewide average for all cities. In addition, all of the cities hosting VPA terminal facilities experienced revenue effort in excess of the average Virginia city during FY 1997. This indicates that, due primarily to their relatively low per-capita revenue capacity, they need to obtain increasing amounts of local revenue from existing sources.

Finally, all of the VPA host cities were classified as experiencing high fiscal stress during FY 1997 (see table below). The City of Norfolk was the most fiscally stressed locality in Virginia and the City of Portsmouth was the fourth most fiscally stressed locality. Moreover, the fiscal stress scores observed for VPA host localities in FY 1997 are not a recent occurrence. According to the fiscal stress indices prepared by the Commission on Local Government, the City of Norfolk has been the most fiscally stressed locality in Virginia since FY 1991. In addition, the cities of Portsmouth and Newport News have been classified as high fiscal stress localities since FY 1991.

Other Tax-Exempt Property Heightens the Impact of VPA's Terminal Facilities

The U.S. military has large bases, hospitals, and/or shipyards in all three VPA host cities. The size of these properties is not insignificant. In fact, the federal government owns almost 50 percent of the total value of real property in the City of Portsmouth.

Although the amount of federal property in each of the host cities exceeds the value of State-owned property, the practical result is that the impact of State-owned property in the host localities is intensified by the

VPA Host Localities' Fiscal Stress Index, Rank Score, and Classification, FY 1997

Locality	Index	Rank Score	Classification
Norfolk City	186.73	1	High Fiscal Stress
Portsmouth City	183.84	4	High Fiscal Stress
Newport News City	179.41	11	High Fiscal Stress
Warren County	160.64	93	Below Average Fiscal Stress

presence of the large holdings of federal property.

Local Revenue Impact of Hosting VPA's Tax-Exempt Terminal Facilities

A primary cost to local governments of hosting tax-exempt property is the inability to levy local real property taxes against the property. This burden is particularly noticeable in the case of the VPA because the tax-exempt marine terminals are located on valuable waterfront property that is used for industrial purposes. After accounting for the revenue from the service charge and the leasehold tax, the combined total real property tax revenue lost by the four host local governments exceeded $2.5 million in FY 1999.

Moreover, the industrial focus of the terminals also means that localities forego personal property taxes. The City of Norfolk estimated that the local revenue lost from the inability to tax equipment at Norfolk International Terminals exceeds $600,000 annually. The impact of the VPA tax-exempt property on the host localities is heightened further by the numerous expansions that have required the VPA to purchase additional property around some of its facilities. Since this property becomes tax-exempt upon acquisition by the VPA, these expansions have clearly impacted the host localities' local property tax revenue. The table below shows the proportion of tax-exempt property in the host localities that is VPA-owned.

Opportunities Exist to Address Local Revenue Loss and Future VPA Business Activity

In summary, there are revenue-related costs, primarily lost local tax revenue, that must be borne by the localities hosting the VPA terminal facilities. Moreover, these costs are imposed on three of the State's most fiscally stressed localities. While recommendations to revise the service charge reimbursement formula address the cost of local service provision, they do not address the issue of lost local revenue.

This issue could be addressed through the provision of additional reimbursement to the host localities beyond the service charge for State-owned, tax-exempt property. Such an approach would recognize the unique, industrial nature of the State-owned facilities, as well as link the funding to the growing level of business activity at each locality's terminal.

However, providing additional revenue based on the business activity at the VPA's terminals would likely not solve the structural issues that exist, such as the inability

Percentage of State Tax-Exempt and VPA Real Property Present in Host Localities Compared to the Average Virginia City and County Tax Year 1998

Locality	Percent of Total State Owned Tax-Exempt Property	Percent of VPA Owned Tax-Exempt Property
Portsmouth City	0.5%	0.44%
Norfolk City	3.5%	1.07%
Newport News City	1.7%	0.91%
Average City	**2.2%**	**N/A**
Warren County	0.6%	0.17%
Average County	**0.9%**	**N/A**

to rely solely on economic growth to address demands for services and infrastructures. In addition, while the recommendations issued in this report focused on localities hosting the VPA's terminals, they may also impact other localities hosting State-owned property.

This potential impact should be carefully considered before substantially altering the reimbursement methodology for State-owned property. A proper forum for addressing all of the structural and local fiscal issues that intensify the impact of tax-exempt, State-owned property would appear to be the Commission to Study Virginia's State and Local Tax Structure for the 21st Century.

A local revenue-sharing approach may afford an additional opportunity for addressing the manner in which the VPA-generated employment and local tax revenue are distributed across localities in the Hampton Roads region. The *Code of Virginia* currently authorizes localities to enter into revenue sharing agreements. This mechanism would enable the VPA host localities to receive more of the direct benefits and to continue to be strongly supportive of the VPA's business activities.

Recommendation. **The General Assembly may wish to direct the Commission to Study Virginia's State and Local Tax Structure for the 21st Century to review the impact of hosting State-owned, tax-exempt property on local government revenue sources and service provision.**

Recommendation. **With the assistance of the Hampton Roads Planning District Commission, the cities of Newport News, Norfolk, and Portsmouth should consider exploring the potential for adopting revenue sharing agreements consistent with §15.2-1300 through §15.2-1302 of the *Code of Virginia* with other localities in the Hampton Roads region that benefit from the operation of the Virginia Port Authority's terminal facilities.**

Issues for Consideration Regarding the Provision of Additional Revenue to Host Localities

If the provision of additional funding to the host localities is considered in order to minimize the costs imposed by the VPA's terminals, the potential impact on the VPA of any changes to its revenue stream should also be considered. In 1997, the VPA issued $98 million in bonds to be repaid entirely from revenue from the VPA's operations. However, because only port revenues back these bonds, any factors that could impact the terminals' revenue streams will likely be followed closely by the bond underwriters and rating agencies.

It should also be noted that in order to remain competitive, the VPA must continually invest in its facilities and capital equipment. Unless State general fund revenue were provided, the VPA would likely be required to finance the required improvements and additions to the facilities' capital equipment and infrastructure.

Recommendation. **To ensure that the Virginia Port Authority's revenues are used primarily to maintain its competitiveness, the General Assembly may wish to consider the use of general fund revenues to offset costs incurred by host localities.**

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I. Introduction

The port facilities that currently comprise the waterfront operations of the Virginia Port Authority (VPA) were established and in operation well before the creation of the current VPA. In fact, the State's involvement with the waterborne shipping industry in the Hampton Roads region was in place by the early 1900s. The nature and extent of the State's involvement in the development of the Hampton Roads ports has continually evolved, culminating in the unification of the three marine terminals in the Tidewater region under the administration and management of the VPA.

As an entity of the Commonwealth, the VPA terminal facilities are State-owned. Even though State-owned property is exempt from local taxation, local governments are still allowed to assess a service charge against the value of the property if certain criteria are met. The basis for exempting State-owned property from taxation and the local service charge is the *Constitution of Virginia*. The service charge was developed to reimburse localities for specific governmental services that they provide to State-owned, tax-exempt property.

This chapter presents background information concerning the VPA and its four terminal facilities. First the history of the development of the VPA is discussed. Second, the chapter reviews the existing terminal facilities and then presents a discussion of tax-exempt property and the local service charge. Finally, the chapter concludes with a discussion of the JLARC review and a summary of the report's organization.

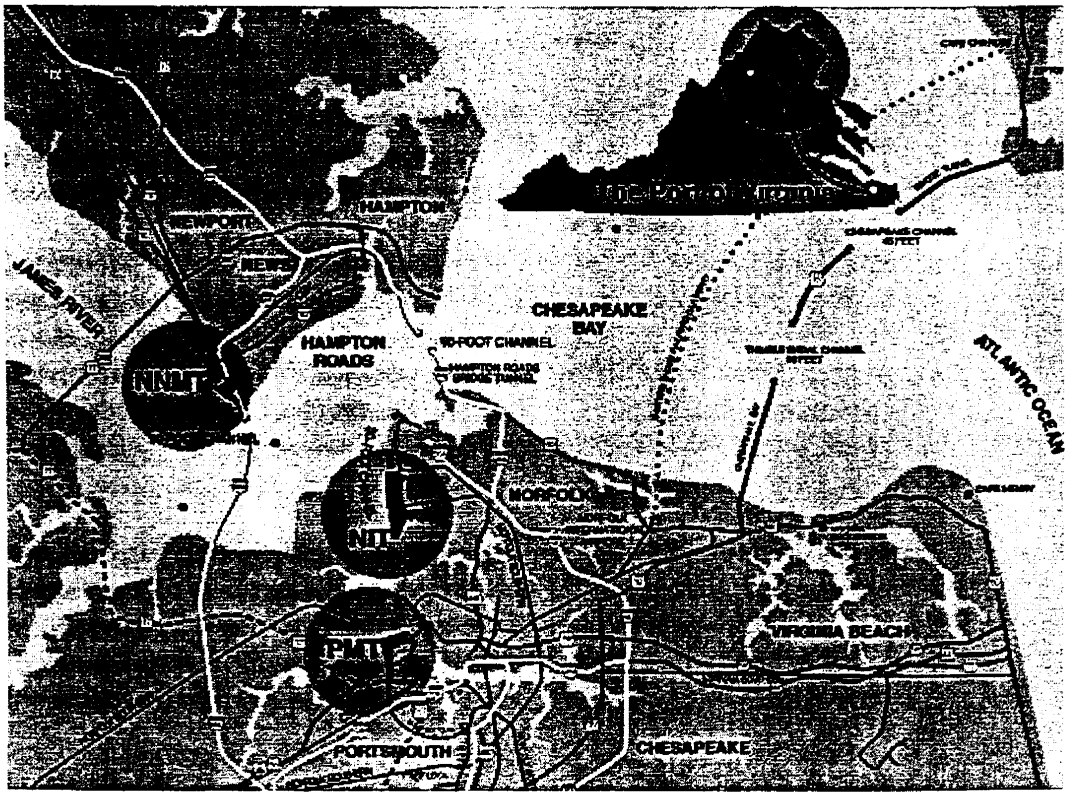
OVERVIEW OF THE VIRGINIA PORT AUTHORITY

The VPA is an entity of the Commonwealth of Virginia that reports to the Secretary of Transportation. The VPA is responsible for operating, developing, and marketing the State's three marine terminals that are located in the cities of Norfolk, Portsmouth, and Newport News, as well as an inland port that is located in Warren County. Figure 1 shows the location of the VPA terminal facilities.

The State's involvement in the ports in the Tidewater area is not a recent occurrence. Between 1920 and 1970, the Commonwealth created several State agencies that were responsible for overseeing port development. However, these agencies lacked both the funding and the ability to compete with other East Coast ports such as those in New York/New Jersey, Baltimore, Wilmington, and Charleston. In order to address this, the General Assembly created an independent State agency in 1970 and authorized it to unify the State-owned Hampton Roads general cargo terminals. Since unification, the Virginia Port Authority has become one of the largest ports on the east coast. In fact, between FY 1978 and FY 1998, the annual cargo tonnage at the VPA's marine terminals increased by about 250 percent, from 3.2 million tons to 11.2 million tons.

Figure 1

Location of the Virginia Port Authority Terminal Facilities



Key: NNMT=Newport News Marine Terminal NIT=Norfolk International Terminal;
PMT=Portsmouth Marine Terminal VIP=Virginia Inland Port

Source: Virginia Port Authority.

Overview of the Development of the State's Port Industry, 1922 to Present

It is important to note that the current Virginia Port Authority is the product of several different State and local port-related organizations that date back to at least the 1920s. The growth of the current VPA since 1922 was preceded by the establishment and abolishment of a number of different entities that were intended to promote the State's shipping business. This culminated in the 1960s with the development of cargo terminals by some Hampton Roads region localities and the subsequent enhancement of the VPA's role in these facilities in 1970. Major highlights of the State's involvement in the development of the current VPA are illustrated in Exhibit 1.

The Unification of Virginia's State-Owned Ports

According to the Virginia Port Authority, the 1983 operational unification of the State's three marine terminals was the single most important factor in the devel-

Exhibit 1

Chronology of Major Phases in the State's Involvement With the Port Industry, 1922 – Present

Year	Event
1922	The Hampton Roads Port Commission was created and served primarily as a study and advisory body and to facilitate the "unification of the railroad and steamship terminals serving the Hampton Roads district."
1926	The Hampton Roads Port Commission was abolished. The State Port Authority of Virginia had many of the functions of the Hampton Roads Port Commission, but was also granted certain supervisory and regulatory powers to enhance coordination of the local government port programs.
1952-1954	The Virginia State Ports Authority was established with a Board of Commissioners and an executive director who was appointed by the board. The Authority was authorized to obtain real property and issue revenue bonds for the "acquisition, construction, reconstruction or control of harbors, seaports and their port facilities." The Authority's ability to obtain real property and issue revenue bonds marked the organization's transition from coordinator of local government port programs to operator.
1964	The Peninsula Ports Authority of Virginia was established as a companion agency to the Virginia State Ports Authority. It purchased the Chesapeake and Ohio railway terminal in Newport News and constructed a pier that became operational in 1967.
1965	The City of Norfolk arranged to acquire the federally-owned marine terminal that was located in the city. Norfolk began the process to convert part of the terminal into a container berth.
1966	The Virginia State Ports Authority and the City of Portsmouth developed a plan to construct a marine terminal on a section of land that was used as a disposal area for material that was dredged from the Elizabeth River. Construction on the Portsmouth Marine Terminal began in 1966.
1970	Based in part on recommendations issued by the Breeden Commission study, the General Assembly renamed the Virginia State Ports Authority to the Virginia Port Authority (VPA) and changed the size and composition of the VPA Board of Commissioners. At this time, the process for unification of the port facilities began as the VPA was authorized to acquire port facilities from local political subdivisions.
1971	VPA acquired the Portsmouth Marine Terminal from the City of Portsmouth and the Newport News Marine Terminal from the Peninsula Ports Authority.
1972	VPA acquired the Norfolk International Terminal from the City of Norfolk.
1981	The General Assembly, based in part on recommendations issued in a study by the Virginia Legislative Council, implemented many substantive and important changes designed to unify the three VPA ports operating in the Hampton Roads area. Changes implemented by the General Assembly included changing the membership of the VPA's Board of Commissioners, providing a clear mandate to consolidate port operations, and providing the VPA with the authority to issue all port charges, regulations, and practices.

Exhibit 1
(continues)

Year	Event
1982	The VPA Board of Commissioners established the Virginia International Terminals (VIT) to operate the Norfolk International Terminals, the Newport News Marine Terminals, and the Portsmouth Marine Terminals.
1983	The operational unification of the Norfolk International Terminals, the Newport News Marine Terminal, and the Portsmouth Marine Terminal was completed.
1986	The Commonwealth Port Fund was established as part of the Transportation Trust Fund. Of the funds comprising the Transportation Trust Fund, 4.2 percent are allocated to the Commonwealth Port Fund.
1989	VPA's Virginia Inland Port was established in Warren County to provide a transfer facility linked by rail to the terminal facilities in Hampton Roads.
1996	General fund appropriations to the VPA were eliminated and replaced with terminal revenue from the VIT.
1997	VPA issued $98 million in port revenue bonds which will be repaid entirely from terminal revenues.

Source: JLARC staff analysis of various legislative study documents and Virginia Port Authority documents.

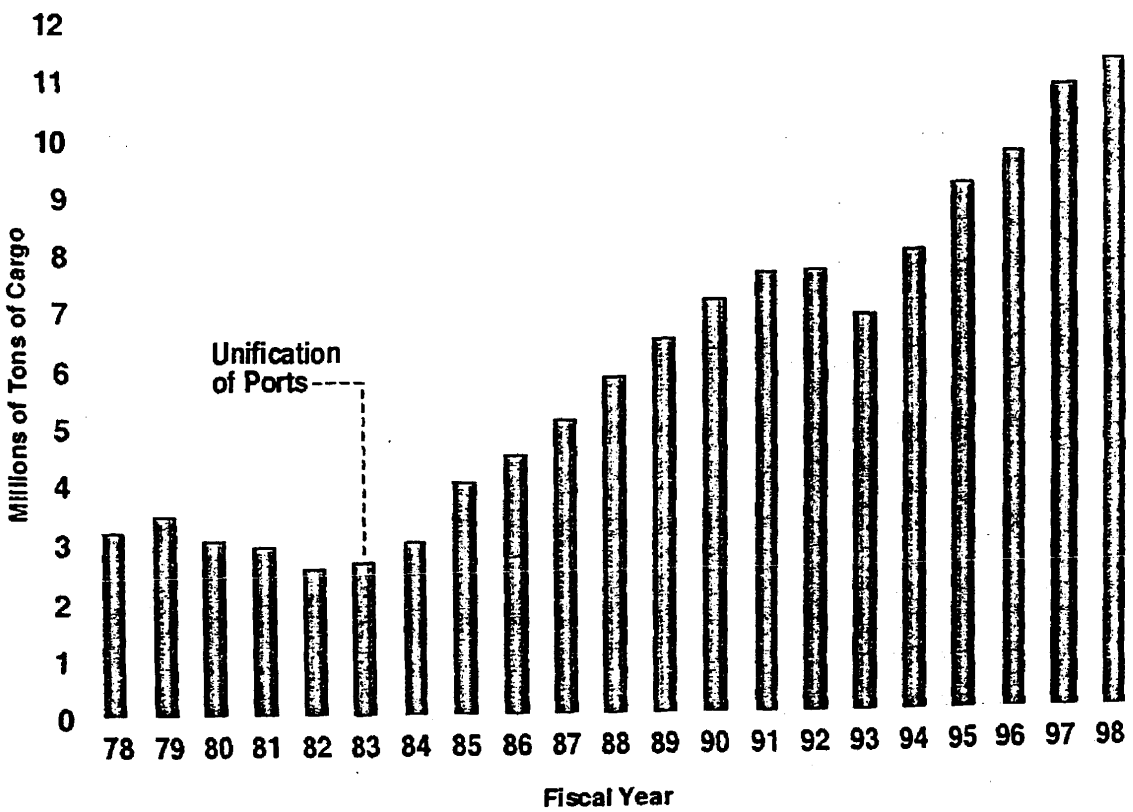
opment of the VPA. Unification enabled the VPA's marine terminals to grow physically as well as financially and to compete on a more equal basis with other east coast ports such as New York/New Jersey, Baltimore, and Charleston.

Before unification occurred, competing private companies operated the State's three general cargo terminals located in the cities of Newport News, Norfolk, and Portsmouth, which resulted in the sporadic, unsustained growth of these ports. Under this system of administration, profits were not reinvested back into the facilities because the terminals' private operators viewed capital investment and maintenance as the Commonwealth's responsibility. This style of administration proved to be ineffective because the independent operators apparently did not maintain the terminals appropriately and the VPA had difficulty controlling the activities of the operators. In addition, it was difficult for the individual ports to focus their marketing efforts outside of Virginia because the ports were essentially competing against each other instead of against out-of-state ports.

Upon unification, the ports became one operating entity, which allowed each of its facilities to be marketed for particular ship lines and commodities that were best suited for that particular terminal. Port unification also led to the development of the uniform use of equipment, facilities, and development funds. It should be noted that after unification, the VPA reinvested all excess profits back into the marine terminals. Since FY 1978, the annual cargo tonnage that has been shipped through the VPA's facilities has increased from 3.2 million tons to 11.2 million tons (Figure 2). Moreover,

Figure 2

VPA General Cargo Tonnage, FY 1978 - FY 1998



Source: Virginia Port Authority.

since the 1983 unification, increases in cargo tonnage have occurred almost on an annual basis.

Current Virginia Port Authority Terminal Facilities

The Virginia Port Authority currently owns and operates three general marine cargo terminals: Norfolk International Terminals (NIT), Portsmouth Marine Terminal (PMT), and the Newport News Marine Terminal (NNMT). As noted in the previous section, the VPA has experienced increased tonnage growth since the 1983 unification which has also required it to expand the size of its three terminals from a total of 704 acres to 1,171 acres. VPA's growth continued with the 1989 opening of the Virginia Inland Port located in Warren County.

Newport News Marine Terminal. NNMT consists of 140 acres and has two primary piers: Pier B and Pier C. The NNMT facility is capable of handling both breakbulk cargo and containerized cargo. Breakbulk cargo is cargo that is not packed in containers and consists of goods such as rubber, cocoa beans, automobiles, and heavy machinery. Containerized cargo consists of commodities that are placed in ocean-going containers that are generally either 20 or 40 feet in length.

Pier B has three berths that allow it to service three ships and Pier C has two berths and is capable of servicing two ships simultaneously. NNMT has four container cranes with varying capabilities. In addition, rail service is available on-site for breakbulk cargo. However, VPA is required to transport containerized cargo that is destined for rail transport to CSX or NS intermodal ramps that are located in either the City of Portsmouth or the City of Chesapeake.

Norfolk International Terminals. The NIT facility is the largest VPA terminal and consists of 811 acres located at the southern end of Naval Operating Base Norfolk. NIT has a wide range of facilities that allow it to handle different types of import and export shipments. The terminal has approximately two million square feet of on-site warehousing that is used to store goods such as cocoa beans and one million square feet of supplemental off-site warehousing. The terminal has 4,230 feet of wharf with four container berths that are serviced by seven container cranes. A new 1,500 foot container berth that will be serviced by three of the world's largest container cranes is expected to be operational by January 2000. In addition, the terminal has two large concrete piers that can accommodate eight ships unloading breakbulk cargo. NIT also has a fumigation plant that can store 228 hogsheads of tobacco as well as 300,000 cubic feet of cold storage warehouse space.

Portsmouth Marine Terminal. PMT consists of 219 acres and has three berths that are serviced by 11 cranes that can handle both container and breakbulk cargo. The terminal has approximately 200,000 square feet of warehouse space with two fumigation chambers. Sea-Land leases a 79-acre marine terminal that is adjacent to PMT from the VPA. This lease expires in 2005 and Sea-Land has an option to renew the lease for an additional ten years. This terminal was apparently the first operating container facility in Hampton Roads.

Virginia Inland Port. The Virginia Inland Port is the VPA's newest facility. It opened in 1989 and provides intermodal transportation service to markets in northern Virginia, West Virginia, Maryland, Pennsylvania, and eastern Ohio. The VIP has a port of entry designation by the U.S. Customs Service and is composed of 161 acres and more than 17,000 feet of on-site rail. It is approximately 220 miles inland from the VPA's Hampton Roads marine terminals and is located near the Town of Front Royal in Warren County.

The VIP is connected directly to a main rail line and the facility is in close proximity to both Interstates 66 and 81. Five-day-a-week rail service is available that links the VIP to the three VPA marine terminals in the Hampton Roads region. The Inland Port has a three-door, cross-dock warehouse facility for transferring cargo, and a maintenance building. U.S. Department of Agriculture inspections are conducted at this terminal and light fumigation facilities are also available.

Virginia Port Authority's Administrative Structure

Although the VPA is a State entity, it is transforming itself into an executive branch agency, with the approval of the Governor and the General Assembly, that has attributes that are very similar to a private business. This will allow the VPA to become more competitive with other major East Coast port facilities. As a result of its increasing independence from traditional State operating regulations, the VPA has gained greater flexibility in managing staff and in the procurement of goods and services.

VPA Governance and Management. Administrative responsibility for the VPA was formerly assigned to the Virginia Secretary of Trade and Commerce. However, in December 1995, the Governor signed an executive order that transferred administration of the VPA to the Secretary of Transportation. This was done in order to bring administration of all rail, road, and waterborne transportation-related agencies under the control of one cabinet secretary.

A 12-member Board of Commissioners governs the VPA. The Board consists of the State Treasurer and 11 other members who are appointed by the Governor. Each Commissioner is appointed for a term of five years and may not serve more than two consecutive terms. The *Code of Virginia* requires that only one Commissioner reside in either the City of Portsmouth or Chesapeake, only one reside in either the City of Norfolk or Virginia Beach, and only one reside in either the City of Newport News or Hampton. The Executive Director, who is appointed by the Board of Commissioners, is responsible for the daily operations of the VPA.

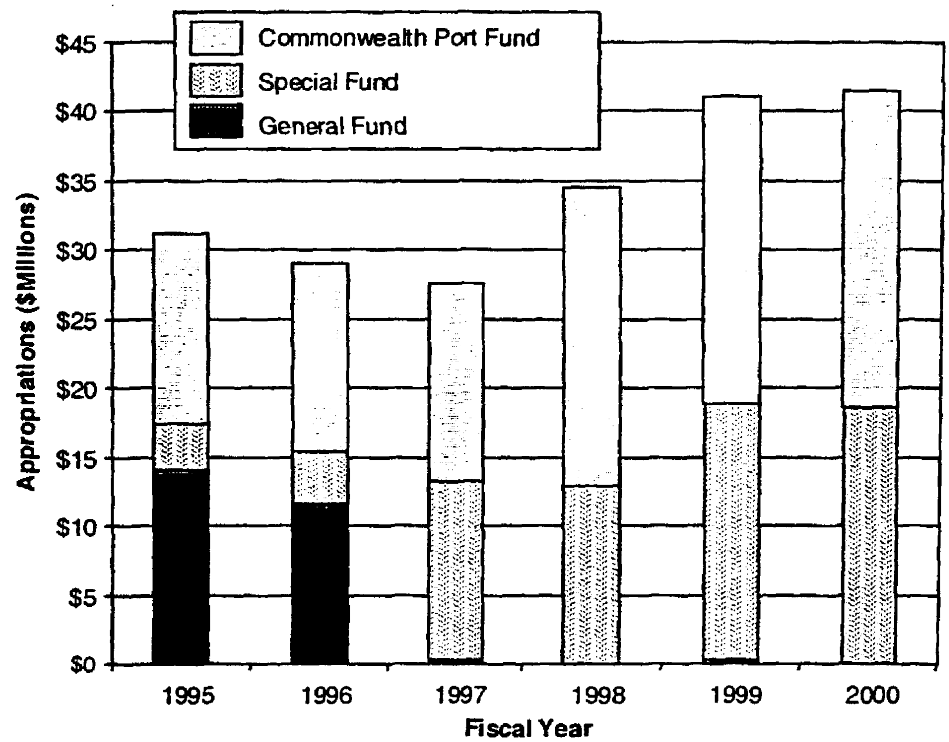
Funding of the VPA. Prior to July 1996, the VPA received an annual appropriation of approximately $12 million from the State's general fund to provide for its routine operating and administrative expenses. However, in FY 1997, the VPA's dependence on the general fund for routine operating expenses was eliminated. Instead, the VPA currently funds its operating budget entirely from revenue earned by its operating company, the Virginia International Terminals, Inc. (VIT). However, the VPA continues to receive funds from the Commonwealth Port Fund that are applied to capital improvements made at its terminal facilities.

The Virginia Transportation Trust Fund provides funding for the Commonwealth Port Fund. The Commonwealth Port Fund serves as a dedicated source of revenue that the VPA can use for its capital outlay projects, port maintenance programs, and debt service. According to the *Code of Virginia*, 4.2 percent of the Transportation Trust Fund revenues are dedicated to the Commonwealth Port Fund.

Figure 3 illustrates the VPA's funding, by source, between FY 1995 and FY 2000. This table indicates that starting in FY 1997, the VPA no longer received funding from the general fund. Special fund revenues represent revenues from the VIT that the VPA uses in place of general fund revenues.

Figure 3

Virginia Port Authority Appropriated Funding FY 1995 - FY 2000



Source: JLARC staff analysis of FY 1995 - FY 2000 Appropriation Acts.

Finally, reflective of the VPA's business activity at the marine terminals, the operating revenue projected for FY 2000 for the facilities is about $126.5 million. As of the end of FY 1999, outstanding bonds totaled more than $203 million. The annual debt service on these bonds exceeded $16.5 million.

VPA Staffing and Personnel. VPA staff are generally responsible for the overall management, physical security, financial management, legal oversight, marketing, and development of the four terminal facilities. In 1997, the General Assembly authorized an exemption for the Virginia Port Authority from the Virginia Personnel Act. The exemption required the VPA to develop and administer a compensation package for salaries and other fringe benefits. As a result, the VPA was authorized to develop its own personnel policies and procedures and to obtain an independent payroll system.

In 1997, the General Assembly also authorized the VPA to establish a retirement plan for its employees that is independent of the Virginia Retirement System (VRS). The plan became effective in July 1998 and all new VPA employees hired after that date are required to enroll in the VPA's retirement plan. VPA employees hired before July 1998 were given a one-time election to join the new VPA system or to remain in VRS. The VPA is required to contribute at least eight percent of an employee's annual salary into its own retirement plan.

VPA Procurement. According to the *Code of Virginia* (§62.1-132.6), the VPA is exempt from the Virginia Public Procurement Act. However, the *Code* also requires the VPA to ensure that its procurement implementation procedures provide both fairness and competitiveness in obtaining goods and services.

Virginia International Terminals Operate VPA's Terminals

The Virginia Port Authority created the Virginia International Terminals, Inc. in June 1982 as a nonprofit, independent corporation in order to operate and manage its cargo terminals. The VIT has a seven-member board of directors, six of whom each serve for a single six-year term. In addition, the VPA's Executive Director serves as a permanent member of the VIT Board. Because the Virginia Port Authority's Board appoints the VIT's directors and approves its budget, the VPA has complete control over the operating company. Moreover, the VIT's Articles of Incorporation require that two of its appointed directors reside or have their principal place of business in either the cities of Norfolk or Virginia Beach, two reside or have their principal place of business in either the cities of Portsmouth or Chesapeake, and two reside or have their principal place of business in either the cities of Newport News or Hampton.

The VIT is generally organized into four departments: operations, engineering and maintenance, financial services, and information systems. These departments are responsible for administering the daily operations of the VPA's four cargo terminals.

The Port Industry Is Very Competitive

The success of the VPA's management of its port facilities has come despite direct competition with numerous other port facilities on the east coast of the United States. The VPA competes primarily with the Atlantic Coast ports including the ports of: New York/New Jersey; Philadelphia; Baltimore; Wilmington, North Carolina; and Charleston, South Carolina. Despite the VPA's marketing efforts and outstanding location, these ports have advantages that may make them more attractive to some shipping companies than the VPA's terminal facilities. For example:

> *VPA staff noted that there is no large local market in Virginia that by itself would attract substantial amounts of maritime shipping business. As a result, the VPA facilities do not have a natural outlet for cargo and much of the cargo going through its facilities is from the Midwest. The VPA has attempted to build a business base in Virginia that attracts ships. However, Baltimore and New York/New Jersey have larger consumer bases that are closer to their respective ports.*

In addition, the ability of railroads and steamship companies to offer one rate for combined rail-water shipping service can overcome the VPA's excellent location and proximity to the Atlantic Ocean. Further, other ports like Charleston and Savannah have enhanced their container handling capacities, enabling them to more effectively compete with the VPA for that shipping business.

Competition to secure business is intense among most state-owned port facilities. As one VPA staff member noted:

> States are putting up substantial amounts of money to get new business, including existing VPA customers, to use their ports. This could eventually put VPA in the difficult position of cutting rates to recapture any lost business. For example, if the VPA lost business at $9 per-ton, then it would have to offer $8 per-ton in order to attempt to recapture that business.

However, the VPA has achieved a great deal of stability in its operations, which is a very positive feature in the port industry in terms of attracting and retaining business.

Future VPA Business Growth Will Require Development of a New Marine Terminal

With the general exception of the northern most portion of Norfolk International Terminals, the ability to expand the existing VPA terminal facilities in the Hampton Roads region is very limited. Even the ability to expand the terminal in the City of Norfolk is very limited. As a result, a potential site for the development of another marine terminal was identified. However, the development of a fourth marine terminal will be very costly for the VPA to undertake and it will require prudent financial management of existing revenues and debt.

At the present time, the potential expansion of Craney Island has been recognized by the VPA as a possible site for a fourth marine terminal. Currently, dredge material from the Hampton Roads area harbor and channel is deposited on Craney Island. A joint VPA and Army Corps of Engineers study is being conducted to determine whether an eastward expansion of Craney Island to extend its useful life through the construction of a fourth, 1,000-acre cell is feasible.

This fourth cell would not only extend the useful life of Craney Island, but it may also serve as a potential site for development of a new marine terminal for the VPA. This potential site would be near the existing shipping channel and it would provide ships using the facility the same easy access to the Atlantic Ocean that other VPA facilities offer. Nonetheless, if a new facility is eventually developed at this location, it will be costly. The VPA has estimated that the projected cost of developing Craney Island as the fourth marine terminal could total between $1.2 - $1.5 billion (1998 dollars).

TAX-EXEMPT PROPERTY AND THE LOCAL SERVICE CHARGE

As noted earlier, the basis of the VPA's property tax-exemption was established in the *Constitution of Virginia*. State-owned property is one of the classes of property that the *Constitution* exempts from local taxation. Statewide, both the total fair market value of exempt property and the amount of local property tax revenue that is lost due to property tax exemptions are substantial. Concerns about the impact of State-owned property on local tax revenues are not new and are reflected by discussions on this issue that occurred during the 1971 constitutional revision process. However, the service charge provision enables localities, including those hosting VPA facilities, to recoup some of the costs of governmental services provided to the State property.

Property Tax Exemption in Virginia

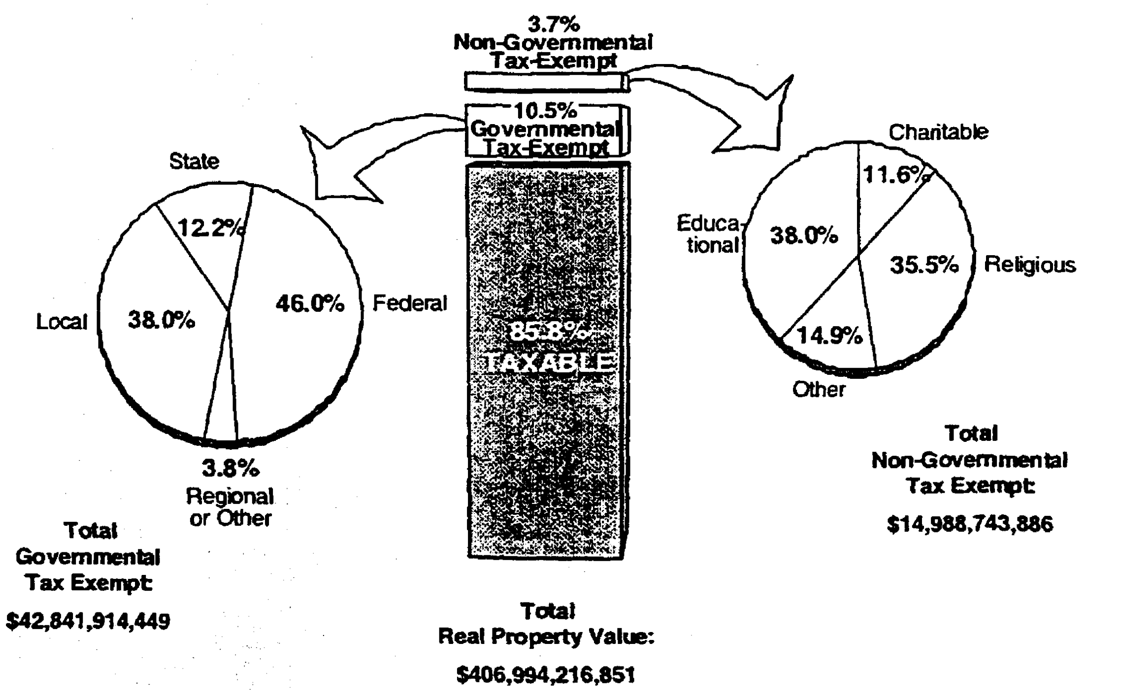
The property tax exemption has its basis in the *Constitution of Virginia*. Article X, Section 6 addresses the issue of exempting property from State and local taxation. A specific exemption for State and locally owned property is delineated in Section 6(a). Authority is also provided in this section for the General Assembly to authorize local governments to exempt, among others, religious, charitable, and historical classes of property.

The amount of property, both government and non-government, that is exempt from the application of the local real property tax is substantial (Figure 4). In tax year 1997, the total fair market value of real estate in Virginia was about $407 billion. As illustrated in Figure 4, about 14 percent or $58 billion of property statewide was exempt from the local real property tax. The majority of exempt property, about 11 percent of the total real property statewide, was classified as government-owned property with the remainder classified as non-government-owned real property.

The total amount of government and non-government-owned real property that is classified as tax-exempt varies significantly across Virginia's cities and counties. For example, Rappahannock County has only three percent of its real property exempt from taxation while the City of Lexington has slightly more than 56 percent of its real property exempt from local taxation. Figure 5 illustrates the ten localities with the highest proportion of real property that was tax-exempt in tax year 1997. It should be noted that two VPA host localities – the cities of Norfolk and Portsmouth – are among the top ten localities with the highest proportion of State and federally owned tax-exempt real property. For reference purposes, about 20 percent of the total real property in Richmond and 19 percent in Newport News are classified as tax-exempt.

Figure 4

Real Property Tax Classification, Tax Year 1997



Source: JLARC staff analysis of data from the Virginia Department of Taxation.

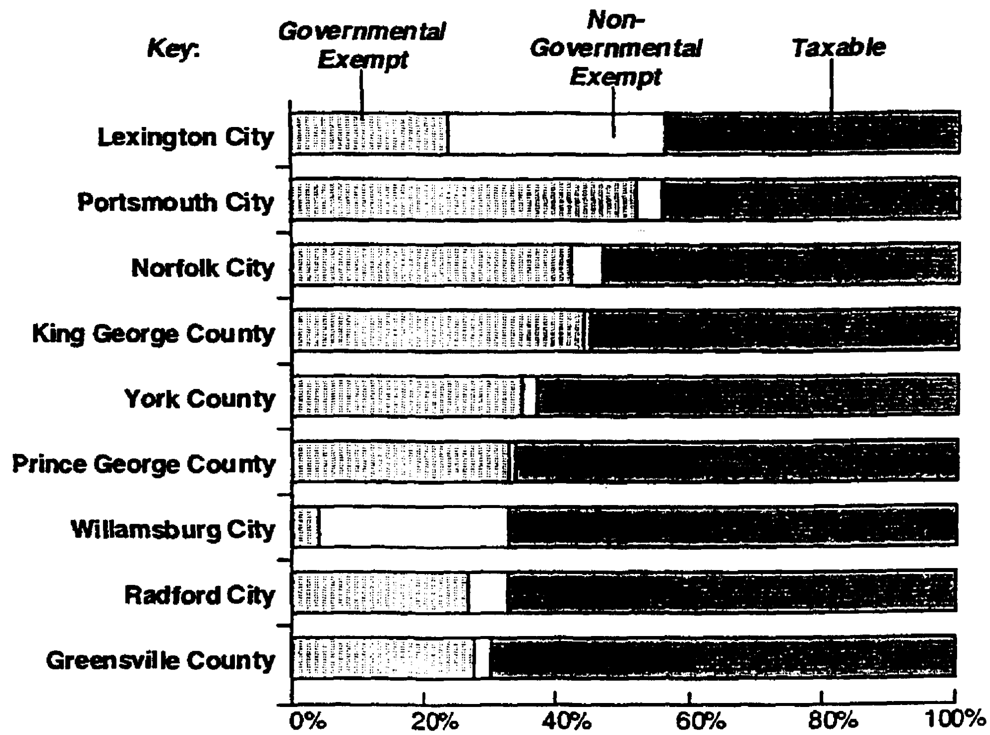
Local Property Tax Revenue Lost Due to Tax-Exempt Property

Statewide, the amount of property that is exempt from the local real property tax levy results in a substantial amount of lost revenue to local governments. For example, government and non-government real property tax exemptions resulted in a reported loss of real property tax revenue totaling about $624 million statewide in tax year 1997. Of this amount, cities lost about $344 million in property tax revenue, while counties lost about $280 million.

The amount of local property tax revenue lost due to property tax exemptions also varies significantly among individual localities. For example, Lunenburg County reported that it lost $29,000 in revenue due to property tax exemptions while Fairfax County reported that it had to forgo approximately $80 million in local property taxes due to property tax exemptions. In terms of municipalities, Clifton Forge City reported a total real property tax revenue loss of $180,000 while Norfolk City had to forgo almost $89 million in real property tax revenue due to government and non-government property tax exemptions.

Figure 5

Ten Localities with the Highest Percentage of Real Property That Is Exempt from Taxation, Tax Year 1997



State Average for Governmental Exempt: 11%

Source: JLARC staff analysis of data from the Virginia Department of Taxation.

The *Constitution of Virginia* Authorizes Local Service Charge on Tax-Exempt Property

Although certain property is classified as tax-exempt, it is not always free from an annual assessment or levy by local governments. The *Constitution of Virginia* states that the General Assembly can authorize localities to impose a service charge on tax-exempt property. More specifically, Article X, Section 6(g) of the *Constitution* states:

> The General Assembly may by general law authorize any county, city, town, or regional government to impose a service charge upon the owners of a class or classes of exempt property for services provided by such government.

Discussion surrounding the development of the 1971 *Constitution of Virginia* noted that the concept of a service charge on tax-exempt property was prompted by the desire to mitigate the financial burden of property tax exemptions on local governments.

Specifically, the Commission on the Constitutional Revision reported that some localities at that time had substantial amounts of real property exempt from taxation. For example, the Commission found that the City of Portsmouth had 49 percent of its real property exempt from taxation and that the percentage of exempt property in the cities of Richmond, Alexandria, and Lynchburg ranged from 20 to 27 percent.

To address this finding, the Commission subsequently proposed that the General Assembly authorize localities to impose a service charge on tax-exempt property (which included State-owned property) for very specific governmental services — police protection, fire protection, refuse collection, and public utility services. However, concern was expressed in debates during the constitutional revision process that some faculty members at the Virginia Military Institute and Washington and Lee University lived in institution-owned homes that were also exempt from local taxation. Yet, the children of the families who resided in these homes apparently used the city's public schools and the provision of public education was not one of the four services for which a charge could be assessed on the tax-exempt property.

The proposal to limit the service charge to the specific services of police and fire protection, sanitation collection, and utility services was ultimately rejected. As a result, the broader language currently used in the *Constitution* ("...for services provided by such government") was adopted apparently in recognition of the impact of the type of situation that existed in Lexington, Virginia. However, some of the debate on this issue indicates that there was support for a more expansive interpretation of the services that a service charge could include.

The Service Charge Methodology for Tax-Exempt Property

A 1980 legislative study reported that the State's service charge statute was enacted "...to give the City of Richmond, which is extremely limited in geographic size, some additional relief because of the large portion of its tax base which is exempt." At that time, the service charge rate was calculated by taking a locality's expenditures for police, fire, and sanitation services and subtracting any State or federal funding provided specifically for the provision of those services. To establish the actual rate to levy on the value of the tax-exempt property, the total expenditures for these services were then divided by the fair market value of all real estate within the locality, minus any real estate owned by the federal government.

Since the service charge was initially authorized, a number of changes to the provision have occurred. First, in 1981, State educational institutions, hospitals, and highways were totally exempted from the service charge (this mirrored the exemption provided for private educational institutions and not-for-profit hospitals). Second, a limitation was enacted that a local service charge could not be levied on State-owned property unless that property exceeded three percent of the locality's total value of real estate.

However, the 1982 General Assembly excluded the VPA property from the requirement that prohibited the levying of a service charge on State-owned property unless the total value of that property exceeded three percent of the total value of real property in the locality. This important provision enables a Virginia Port Authority host locality to assess the service charge regardless of whether the value of the property exceeds the three percent threshold or not. The current methodology used by local governments to determine the amount of the service charge is a relatively straightforward, four-step process and is illustrated in Exhibit 2.

JLARC REVIEW AND REPORT ORGANIZATION

Item 16N of the 1999 Appropriation Act directs the Joint Legislative Audit and Review Commission (JLARC) to "...conduct a comprehensive study of the fiscal impact of the operations of the ports of Virginia which are owned by the Commonwealth on the local governments where the ports operate." (Appendix A). In addition, the mandate states that the study is to review whether adequate State funding is provided to the host localities to compensate them for the impact of the facilities and the loss of local tax revenue.

Research Activities

A number of research activities were conducted during the course of this review. The research activities undertaken to address the study mandate included interviews, site visits, document reviews, and analysis of secondary data.

Exhibit 2

Service Charge Formula for State-Owned Tax-Exempt Property

Sequence	Methodology
Step I	As applicable, determine the total local expenditures for police, fire, and refuse collection and disposal. Education expenditures can be included for faculty and staff housing of an educational institution (All State or federal funding received for these services must be deducted from the applicable expenditures.)
Step II	Calculate the total value of real property in the locality minus the value of property owned by the federal government.
Step III	Calculate the service charge rate by dividing the total eligible expenditures in Step I by the total value of all non-federal real estate calculated in Step II.
Step IV	Multiply the service charge rate by the value of the applicable State-owned, tax-exempt property.

Source: JLARC staff analysis of the *Code of Virginia.*

Interviews. During the study, JLARC staff conducted interviews, either in person or by telephone, with staff from the following State agencies, local governments, and organizations:

- Commission on Local Government;
- Hampton Roads Shipping Association;
- National Conference of State Legislatures;
- City of Newport News;
- City of Norfolk;
- Old Dominion University;
- City of Portsmouth;
- Virginia Port Authority;
- Virginia Department of Transportation;
- University of Virginia's Weldon Cooper Center;
- Virginia International Terminals; and
- Warren County.

In addition, JLARC staff also met with the Secretary of Transportation to discuss issues related to the study.

Site Visits. JLARC staff made site visits to the VPA offices; the cities of Norfolk, Portsmouth, and Newport News; and to Warren County. In addition, JLARC staff conducted site visits to all four VPA terminal facilities in these localities to view the facilities' operations and interview staff. Moreover, JLARC staff reviewed areas surrounding the facilities in order to develop an understanding of the activities that are conducted at the marine terminals as well as the impact of the terminals' operations on the host localities.

Document Reviews. A number of different documents were reviewed during the study. They included the:

- Virginia Port Authority's *2010 Plan*;

- Virginia Port Authority's 1999 *Port Access Study*;

- Virginia Auditor of Public Accounts' *Comparative Report of Local Government Revenues and Expenditures*;

- Old Dominion University's 1995 *Economic Impact and Rate of Return of Virginia's Ports on the Commonwealth* study;

- Department of Taxation's *Annual Report* (1993-1998);

- Department of Taxation's *Virginia Local Tax Rates* (1993-1998);

- *Code of Virginia*;

- Hampton Roads Maritime Association's *1998 Annual Report*;

- Lyndon B. Johnson School of Public Affairs' *Port-Related State Programs and Federal Legislative Issues*; and

- Martin Associates' 1999 Report on *The Economic Impact of the Port of Virginia on the Commonwealth.*

Data Analysis. As required by the study mandate, JLARC staff estimated the costs and benefits that are attributable to the operations of the VPA terminal facilities. In order to accomplish this analysis, local revenues, tax-exempt property data, tax rates, local service charge payments, and economic development data were all examined. In addition, analysis was conducted on the local revenue capacity, revenue effort, and fiscal stress measures. This allowed JLARC staff to analyze some of the costs and benefits received by the host localities, the Hampton Roads region, and the Commonwealth as a result of the Virginia Port Authority's business activities.

Report Organization

This chapter provided an historical overview of the VPA as well as an overview of tax-exempt property in Virginia and the local service charge provision. Chapter II provides a review of the benefits that are associated with VPA's facilities and Chapter III reviews the reimbursement options for the local government services that are provided to the VPA's facilities. Finally, Chapter IV provides a discussion of the fiscal and structural issues that are related to hosting the VPA's property.

II. Review of Benefits Associated with Virginia Port Authority's Terminal Facilities

The Commonwealth of Virginia's substantial investment in the Virginia Port Authority's (VPA) four terminal facilities has helped them to become an international center of economic and business development. The Commonwealth's investment, in part, has enabled the VPA to experience sustained business growth that has generated substantial benefits for the State. Specifically, the VPA was directly responsible for generating more than one half-billion dollars in wages and approximately $61 million in State and local taxes for the Commonwealth during 1998 according to a 1999 study conducted for the VPA by the Martin Associates.

In addition, the VPA's terminals also benefit the cities of Norfolk, Portsmouth, and Newport News, and Warren County. The benefits that these localities receive include employment, wages, local business contracts, and the ability to leverage the presence of the terminal facilities in their local economic development programs. However, it appears that some Hampton Roads localities may benefit more than the host localities from the operation of the VPA's terminal facilities. For example, some adjoining localities receive more employment and tax benefits than do the VPA host cities. Moreover, a substantial number of the VPA's 20 largest Virginia-based customers are located in the jurisdictions that are in close proximity to the VPA host cities.

THE STATE'S INVESTMENT IN THE VPA HAS HELPED MAXIMIZE ITS BENEFITS

Until the early 1970s, the VPA's marine terminals in the Hampton Roads area were owned and operated by the cities of Norfolk, Portsmouth, and Newport News. The physical and financial growth of the three marine terminals were apparently limited during this time due to several factors including competition and limited capital investment.

However, after the VPA acquired the facilities, the State began making a substantial investment in the marine terminals. This direct and ongoing investment, as well as the State's backing of debt that was issued by the Virginia Port Authority, enabled the VPA to maintain and enhance its facilities and to acquire the capital equipment necessary to meet the changing requirements of the maritime shipping industry. This investment produced numerous benefits for the State including employment, wages, taxes, and business development.

The State's Investment in the VPA Has Been Substantial

The success of the VPA's terminals and the benefits that are associated with its operations are directly linked to the State's substantial investments that it made in the facilities since it acquired them in the early 1970s. More specifically, the State invested over $480 million in the VPA's marine terminals since it assumed ownership of them from the cities of Norfolk, Portsmouth, and Newport News (Table 1). In addition, the Commonwealth has invested approximately $17.5 million in developing the Virginia Inland Port that is located in Warren County.

The high level of investment made by the State in the VPA's terminal facilities represents the capital-intensive nature of the port industry. In order to improve the VPA's competitiveness with other ports, the Commonwealth has ensured that funding has been available for such capital improvements as new cargo cranes, straddle carriers, and rubber-tired gantry cranes. In addition, the State has invested in the VPA's terminal facilities' physical plant, which has allowed the terminals to handle cargo as efficiently as possible and thereby attract new businesses.

The impact of the State's unification on the terminal facilities and its subsequent investment has been substantial. For example:

> *An economist noted that the fact that the VPA's terminals are publicly owned is positive because the ports have had access to public backing that has allowed it to issue debt in order to make some of the substantial capital investments that are required by that type of business.*

Clearly, the State's investment in the facilities has substantially enhanced the VPA's operations as well as its competitiveness.

The VPA's Terminal Facilities Generate Substantial Economic Benefits for the Entire State

A 1999 economic impact study of the VPA's terminal facilities that was conducted by the Martin Associates for the VPA, determined that the economic benefits

Table 1

Total State Investment in VPA's Terminal Facilities, FY 1998

VPA Terminal Facility	Total State Investment
Newport News Marine Terminal	$88,013,923
Norfolk International Terminals	275,970,131
Portsmouth Marine Terminal	117,483,471
Virginia Inland Port	17,533,784
Total	**$499,001,309**

Note: Total State Investment includes acquisition costs.
Source: Virginia Port Authority.

generated for the State by the VPA's terminals included employment, income, and taxes. More specifically, the study reported that in 1998, the operation of the VPA's general cargo facilities generated approximately $61 million in Statewide tax revenues, $583 million in wages, and 164,000 jobs across the Commonwealth. In addition, the rate-of-return on the State's investment in the ports has been significant. An Old Dominion University study concluded that the State received a 21 percent rate-of-return on its investment in the cargo facilities during 1995.

The VPA's Operations Generate Substantial Employment, Income, and Tax Benefits. The 1999 Martin study concluded that the VPA's operations have a substantial impact on the Commonwealth's economy. Specifically, the study reported that in 1998, approximately 164,000 jobs in Virginia were related to the operations at the VPA's terminal facilities (Table 2). This indicates that almost four percent of the approximately four million individuals who are employed in all sectors of the State's economy hold jobs that are related to the VPA's cargo activity.

In addition to generating employment benefits for the Commonwealth, the Martin study also determined that the VPA's port operations generated a substantial amount of income and subsequent tax revenue for the State and local governments. More specifically, approximately $583 million in personal wages and salary income and about $61 million in State and local tax revenue were created by the VPA's operations during 1998. Of the $61 million in taxes, almost $30 million in tax revenues that included property, licensing, lodging, and admissions taxes were collected by local governments. According to the Martin study, this represents a substantial benefit to the Hampton Roads region because almost 80 percent of the local taxes, or $24 million, were collected by jurisdictions located in close proximity to the VPA's facilities.

According to the Martin study, the VPA's operations generated approximately 8,000 direct jobs, 4,000 induced jobs, 1,500 indirect jobs, and 150,000 related jobs in 1998. Direct jobs are generated by activities at the VPA's terminals and they could potentially be eliminated if the VPA was forced to reduce its operations. Two of the largest sectors of VPA-generated direct employment are the International Longshoremen Association (ILA) and the trucking industry (Table 3).

Table 2

Benefits that the Commonwealth Receives from the VPA's Operations 1998

Benefits	Impact
Employment	164,258
Personal Income	$583,500,000
State and Local Taxes	$60,700,000

Source: Martin Associates' *The Economic Impact of the Port of Virginia on the Commonwealth*, 1999.

Table 3

Distribution of Direct Jobs Generated by the VPA's Operations 1998

Employment Area	Jobs	Percentage of Total
International Longshoremen Association	2,777	32.6%
Trucking	2,656	31.2%
Terminal Operators	945	11.1%
Warehouse	399	4.7%
Agents	266	3.1%
Forwarders	231	2.7%
Ship Repair/Construction	146	1.7%
Other Employment Categories (*includes banking, law, government, VPA, rail, and pilots*)	1,105	13.0%
Total	**8,525**	**100%**

Note: Active, retired, and surviving spouses who receive benefits are included in the International Longshoremen Association employment data.
Source: Martin Associates' *The Economic Impact of the Port of Virginia on the Commonwealth*, 1999.

The data contained in Table 3 indicates that approximately 33 percent, or 2,777, of the direct jobs are held by members of the International Longshoremen Association. In addition, 31 percent, or 2,656, of the direct jobs are attributable to the trucking industry and 11 percent of the direct jobs are held by marine terminal operating company employees. Warehousemen account for approximately five percent of the VPA-generated direct employment. The remaining 13 percent of VPA generated jobs are found in stevedoring firms, railroad companies, tug towing companies, banking, law, and government.

The study also reported that over 4,000 induced jobs were supported by the VPA's activities in 1998. Induced jobs are directly supported by the local purchases made by individuals employed in direct jobs. If the VPA-generated direct jobs are lost from the economy, then the induced jobs that they support would also likely be lost. Induced jobs are typically found in restaurants, retail outlets, grocery stores, schools, and hospitals. In addition, the study also estimated that the local purchases for office supplies, equipment, utilities, communications, maintenance and transportation services that were made by firms dependent on the VPA's marine terminals supported about 1,500 indirect jobs.

Finally, the Martin study reported that almost 150,000 jobs throughout the Commonwealth are related to the operation of the Virginia Port Authority's terminal facilities. However, the study noted that their degree of dependence on the VPA is difficult to determine because these firms could import and export products through other ports. As a result, these jobs are not as dependent on the VPA's operations as are the direct, induced, and indirect jobs. Related jobs are normally found in manufacturing firms, chemical companies, tobacco farming, and alcoholic beverage, furniture, and agricultural retail outlets.

Rate-of-Return to the Commonwealth of the VPA's Marine Terminals. An economic impact study of Virginia's ports that was conducted by Old Dominion University in 1997, determined that the State received a 21 percent rate-of-return on its investment in the Commonwealth's cargo facilities in 1995 (Table 4). The rate-of-return analysis focused on the concept that the Commonwealth has the option at the beginning of each year of either selling its general cargo terminals or of allowing the VPA to continue to operate the facilities. Based on the results of this analysis, it appears that the VPA's operation of the general cargo terminals is clearly in the economic interests of the State.

SUBSTAINTIAL BENEFITS FROM THE VPA'S TERMINALS EXTEND BEYOND HOST LOCALITIES' BOUNDARIES

The analysis presented in this study suggests that the Virginia Port Authority's terminal facilities generate economic benefits for the host localities, the Hampton Roads region, the State, and even the federal government. These benefits include business recruitment and economic development assistance, local business service contracts, employment, wages, local tax revenues, and customs duties. However, it should be noted that substantial benefits also accrue to localities that are in close proximity to the host localities. In some instances, the benefits that neighboring Hampton Roads localities receive from the VPA's activities exceed those received by the host localities.

Table 4

Rate-of-Return from Commonwealth-Owned Port Facilities CY 1995

Total Benefit	$136,943,161
Total Cost	$26,930,808
Net Benefit (Total Benefits-Total Costs)	$110,012,353
Average Total Assets	$519,922,618
Rate of Return on Investment *(Net Benefit/Average Total Assets)*	21.2%

Source: Old Dominion University's *The Economic Impact and Rate of Return of Virginia's Ports on the Commonwealth 1995.*

This section briefly examines some of the benefits that accrue to localities in the Hampton Roads region from the operation of the VPA's terminal facilities. First, an examination of the direct employment benefits that the host localities and the surrounding Hampton Roads localities receive from the operation of the VPA's terminals is presented. Second, an analysis of the local tax revenue attributable to the VPA's operations is discussed. Third, a review of VPA's local business contracts and economic development activities related to the presence of the terminals is examined. Finally, a discussion of the factors that limit the host localities' ability to maximize the economic and business development potential of the VPA's terminals is presented.

VPA Generated Employment Benefits Extend to Other Hampton Roads Area Localities

One of the benefits that the host localities receive from the Virginia Port Authority is that some of their residents are employed as a direct result of the activities that are conducted at the VPA's terminals. As discussed, more than 8,500 direct jobs are generated by the operation of the VPA's terminal facilities. Approximately 39 percent of these jobs belong to individuals who reside in the cities of Norfolk, Portsmouth, and Newport News (Table 5). This represents an economic benefit to the host cities because these residents pay taxes and purchase goods and services from businesses that are located in those localities.

However, the surrounding jurisdictions receive more of the direct VPA generated employment benefits than do the three host cities. For example, approximately 61 percent, or 5,169, of the VPA-generated direct jobs are held by residents in other locali-

Table 5

Distribution of Direct Jobs Generated by the VPA's Operations 1998

Locality	Direct Jobs	Percentage of Total
Norfolk City	2,016	23.6%
Virginia Beach City	1,806	21.2%
Chesapeake City	1,753	20.6%
Other Localities	1,014	11.9%
Portsmouth City	724	8.5%
Newport News City	616	7.2%
Hampton City	375	4.4%
Suffolk City	221	2.6%
Total	**8,525**	**100%**

Note: "Other" includes all Virginia localities.
Source: Martin Associates' *The Economic Impact of the Port of Virginia on the Commonwealth*, 1999.

ties. More specifically, 42 percent, or 3,559, of the direct VPA-generated jobs in the Hampton Roads region belong to residents of the cities of Virginia Beach and Chesapeake.

As a result, the direct employment benefits of the VPA's operations are not entirely concentrated in the host localities, but are instead spread across localities that are in close proximity to the host localities. This is significant because the 8,525 directly employed individuals earn an average salary of $32,000. According to Martin Associates' staff, this is higher than the average salary earned by most Hampton Roads residents. However, the economic benefits of the higher paying VPA generated employment are not fully realized by the host localities.

It should be noted that the distribution of the VPA-generated employment by locality identified in the Martin study is consistent with a VPA locality of residence analysis conducted by JLARC staff. This analysis determined that 68 percent of the VPA and VIT employees resided in localities other than the host localities. This is consistent with the finding by the Martin study that indicates that 61 percent of all jobs directly related to the VPA terminal operations belong to residents outside of the host localities.

VPA's Operations Generate Local Tax Revenue for All Hampton Roads Localities

In addition to employment benefits, the Martin study reported that approximately $30 million in local tax revenues were generated by the business activity attributable to the VPA's terminal facilities. About 80 percent of this amount, or $24 million, was received by selected Hampton Roads localities. Approximately $10 million, or 43 percent, of the local taxes generated by the VPA's operations were received by the cities of Norfolk, Portsmouth, and Newport News (Table 6).

Table 6

Local Taxes Created by the VPA's Operations, by Locality 1998

Locality	Taxes	Percentage of Total
Virginia Beach City	$6,600,000	27.2%
Norfolk City	$6,300,000	25.9%
Chesapeake City	$5,900,000	24.3%
Portsmouth City	$2,300,000	9.5%
Newport News City	$1,800,000	7.4%
Hampton City	$1,400,000	5.8%
Total	**$24,300,000**	**100%**

Source: Martin Associates' *The Economic Impact of the Port of Virginia on the Commonwealth*, 1999.

However, the cities of Virginia Beach, Chesapeake, and Hampton received about $14 million, or 57 percent, of the local taxes generated by the VPA's operations. Moreover, it should be noted that the cities of Virginia Beach and Chesapeake received a total of $12.5 million in local taxes which is more than all three of the host cities combined received. This further suggests that the surrounding localities are actually benefiting as much, if not more, from the presence of the VPA's terminals than are the VPA host localities.

The above analysis suggests that localities other than the host cities receive a majority of the VPA's employment and local tax benefits. These employees earn wages in the VPA host localities, but they pay taxes and purchase goods and services in other Hampton Roads jurisdictions. As a result, a majority of the individuals employed in direct jobs created by the VPA's operations may spend a substantial portion of their incomes in localities other than the host localities. However, much of the costs of hosting the VPA's facilities are focused on the host localities.

VPA Purchases of Local Business Services Extend Beyond the Host Localities

In addition to employing residents of the cities of Norfolk, Portsmouth, and Newport News, the Virginia Port Authority purchases goods and services from businesses that are located in these jurisdictions. These goods and services include welding, construction, vehicle parts, machine repair, and fuel from businesses that are located in the host localities.

Local contracts help to stimulate business development and they contribute to further economic activity because in order for the businesses to provide contracted services to the VPA, they must purchase additional goods and services from other firms. This, in turn, promotes further economic activity that supports additional purchases of supplies, services, and labor throughout the local, regional, and State economies. According to the Martin study, businesses dependent upon the VPA's marine terminals made approximately $50 million in local purchases for office supplies, equipment, maintenance and repair services, and transportation services in 1998. These purchases supported approximately 1,500 indirect jobs during 1998.

The Martin study did not allocate the $50 million of purchases across the region's localities. Therefore, JLARC staff analyzed the purchases made in FY 1998 by the VPA. The data presented in Table 7 indicates that the VPA spent approximately $32 million in FY 1998 on contracts with businesses located in the host localities and in the cities of Virginia Beach and Chesapeake. The VPA contracted with local businesses to obtain construction and engineering services as well as other goods and services such as tires, vehicle parts, crane fuel, and transportation.

Of the total $32 million spent by the VPA on business contracts, $14 million went to businesses and firms in the three host localities. VPA's business contracts in the cities of Chesapeake and Virginia Beach totaled approximately $18 million. This

Table 7

VPA Business Contract Payments in the Hampton Roads Region, by Locality FY 1998

Locality	Goods and Services	Percentage
Chesapeake City	$14,101,952	43.5%
Norfolk City	$13,343,245	41.1%
Virginia Beach City	$3,882,733	12.0%
Portsmouth City	$893,396	2.8%
Newport News City	$217,908	0.7%
Total	**$32,439,234**	**100%**

Source: JLARC staff analysis of data from the VPA.

further suggests that some neighboring localities receive more economic benefits from the VPA's operations than do the host localities.

In any case, it is important to note that this data indicates that the VPA facilities benefit businesses and industries that are located in the host localities. For example, in FY 1999, the VPA spent approximately $1 million on businesses located in Warren County. More specifically:

> *Staff in Warren County reported that there were many indirect benefits associated with hosting the Virginia Inland Port. For instance, the Port contracts with local businesses for maintenance services, engine repair, and security services. In addition, a member of the local economic development authority who had operated a motel in the area noted that another small benefit was the occasional trucker who was in town to do business with the Inland Port and needed to rent a room. This was a particular benefit on a December night when demand for motel rooms was generally low.*

However, the data presented in Table 6 also illustrates a potential negative impact of the unification of the VPA's terminals that occurred in the early 1980s. Specifically, staff from the City of Newport News reported that at one time there were a number of support industries and services in close proximity to the Newport News Marine Terminal. However, with the unification, many of the support industries and services consolidated locations since all three ports were administered from the VPA headquarters in the City of Norfolk. The data presented in this analysis appears to support this finding, because about 41 percent of the VPA's contract payments were received by businesses located in the City of Norfolk during FY 1998.

The Federal Government Also Benefits from the VPA's Operations

In addition to the economic benefits that the State receives from the VPA's activities, the federal government also receives a direct economic benefit from the operation of the VPA's terminal facilities in the form of custom duties. A custom duty is placed on all cargo that is imported into the United States from a foreign country. The duty is based on the value and size of the particular imported product. In 1998, the Martin study reported that the federal government collected approximately $286 million in custom duties from the imported cargo that was shipped through the VPA's terminal facilities.

Economic and Business Development Benefits Extend Beyond the Host Localities

Economic and business development may be one of the most important benefits that results from the Virginia Port Authority's operations because some businesses may locate to certain jurisdictions due, in part, to their proximity to one of the VPA's marine terminals. This benefits the locality by increasing its employment and strengthening its tax base. All of the host localities reported that the VPA terminals were marketed as part of their business and economic development efforts. However, based on the data that was reviewed for this study, it appears that the business development efforts of the jurisdictions that surround the host localities may benefit as much, if not more, from the VPA's presence than do the host localities.

VPA's Terminal Facilities Support the Host Localities' Economic and Business Development. During the last few years, the Virginia Port Authority has become more directly involved in promoting local economic development through the recruitment of port-related businesses to Virginia. The VPA provides further benefits to the host localities because its staff will meet with businesses that are interested in locating to the host localities and it will provide prospective businesses with tours of the marine terminals. This allows interested businesses to observe how the VPA's terminals will economically benefit their companies through cost-effective transportation access to the global economy. For example:

> *The VPA allows local economic development groups to use the Virginia Inland Port's economic development center's state-of-the-art conference room for meetings and presentations with potential businesses that are interested in relocating to Warren County. Warren County officials have indicated that the ability to use the facility was very helpful in their economic development efforts.*

The host localities receive additional economic development benefits from the presence of the VPA because they market its terminals as part of their local economic development programs. In addition, the host localities try to attract firms to their jurisdictions that could benefit from having an immediate access to the VPA's facilities. For example:

Staff from the City of Portsmouth's Economic Development Office noted that their department considers the Portsmouth Marine Terminal to be a valuable economic development tool. In fact, businesses such as Lindab, Inc., Fornazor International, Arreffs Terminal, and Otto Gerdau located to Portsmouth in part due to the presence of the Portsmouth Marine Terminal.

* * *

The City of Newport News indicated that it views the Newport News Marine Terminal as an economic development asset and it markets the terminal as part of its local economic development program. According to staff in the Newport News Department of Planning and Development, the presence of the terminal has helped to attract companies such as Iceland Seafood Corporation and California Feather and Down to the City.

Finally, the VPA's economic development benefits are clearly evident in Warren County where the presence of the Virginia Inland Port has reportedly been a major factor in attracting several businesses to the county. For example:

Warren County officials reported that the presence of the Virginia Inland Port was an important factor in the decision of Family Dollar, Toray Plastics, Bering Truck, Pen-Tab Industries, and Ferguson Enterprises to locate to Warren County. Most of these businesses are clustered around the Inland Port and were established after it was in operation. According to the VPA, these businesses represent a $135 million investment to Warren County and they are projected to employ at least 700 workers.

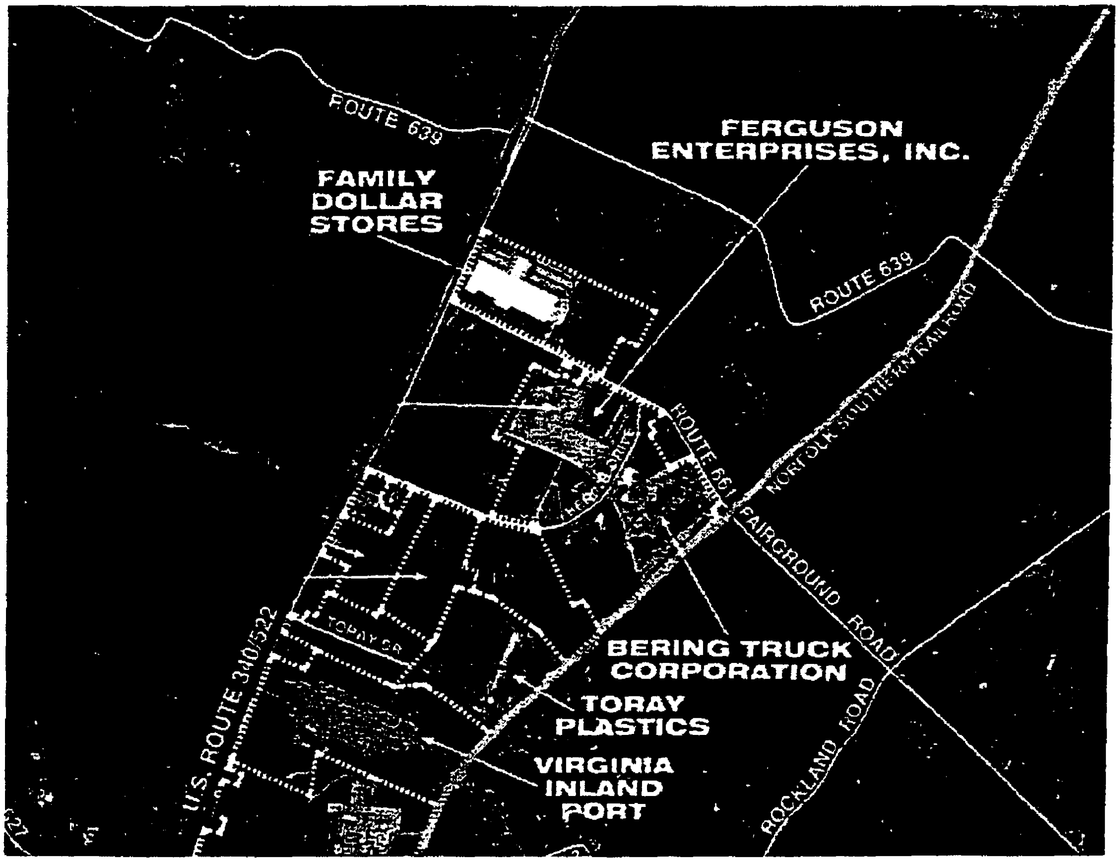
As illustrated in Figure 6, four of the VIP's customers are located in close proximity to the Inland Port. These businesses include Family Dollar, Ferguson Enterprises, Bering Truck, and Toray Plastics.

Surrounding Localities' Economic Development Efforts Clearly Benefit From the VPA's Terminal Facilities. Localities in the Hampton Roads region such as the cities of Chesapeake, Hampton, Virginia Beach, Suffolk, and York County all reported that the VPA is an important element in their economic development programs. According to these localities, the VPA shares information with them and assists them in marketing their localities to potential businesses. In fact, a staff member from the City of Hampton's Department of Development indicated that:

Hampton City has a good "marketing" relationship with several VPA staff members who are very helpful. The VPA provides Hampton City with marketing material and it has conducted tours of its facilities for Hampton-based businesses.

Figure 6

Proximity of Selected VPA Customers to the Virginia Inland Port



Source: Warren County Economic Development Authority.

In addition to Hampton City, Chesapeake City promotes the VPA in its economic development brochures and in a marketing video. According to an interview that was presented in the city's marketing video of the Chief Executive Officer of Dollar Tree Stores, the proximity to the port was a major deciding factor in that company's decision to locate to Chesapeake. Prior to locating in Chesapeake City, this company was located in the City of Norfolk, which lacked available land to accommodate Dollar Tree's growth. It should be noted that the Dollar Tree Stores is one of the VPA's largest Virginia-based customers. In addition, the City of Chesapeake markets the VPA in its economic development brochure. For example:

> The VPA is the largest intermodal facility on the U.S. east coast; it offers full-service including on-site rail and double-stack service to all major markets...Full service for international trade including a foreign trade zone, US Customs, freight forwarders, customs house brokers, and portside and public warehousing.

Clearly, the VPA is an important component of the host localities' economic and business development efforts. However, this review also suggests that the VPA is an economic development asset that extensively benefits both the State and the Hampton Roads region. For example, approximately half of the VPA's 20 largest Virginia-based customers are located in localities that are in close proximity to the VPA host cities (Figure 7). As illustrated in Figure 7, four of the VPA's largest Virginia-based customers are located in Chesapeake City, three are located in the City of Suffolk, two are located in the City of Virginia Beach and one is located in Williamsburg City. However, only two of the VPA's largest Virginia-based customers are actually located in a host locality – the City of Portsmouth and Warren County.

The impact of this is substantial. Many of these businesses are major employers in the localities in which they reside. For example, QVC, Inc. in the City of Suffolk employs approximately 800 workers and Dollar Tree Stores in the City of Chesapeake employs about 275 workers. As a result, these localities receive substantial benefits in the form of employment, wages, and taxes that are directly attributable to the VPA terminal facilities.

The "Built-Out" Nature of Host Local Governments Limits the VPA's Business Development Benefits

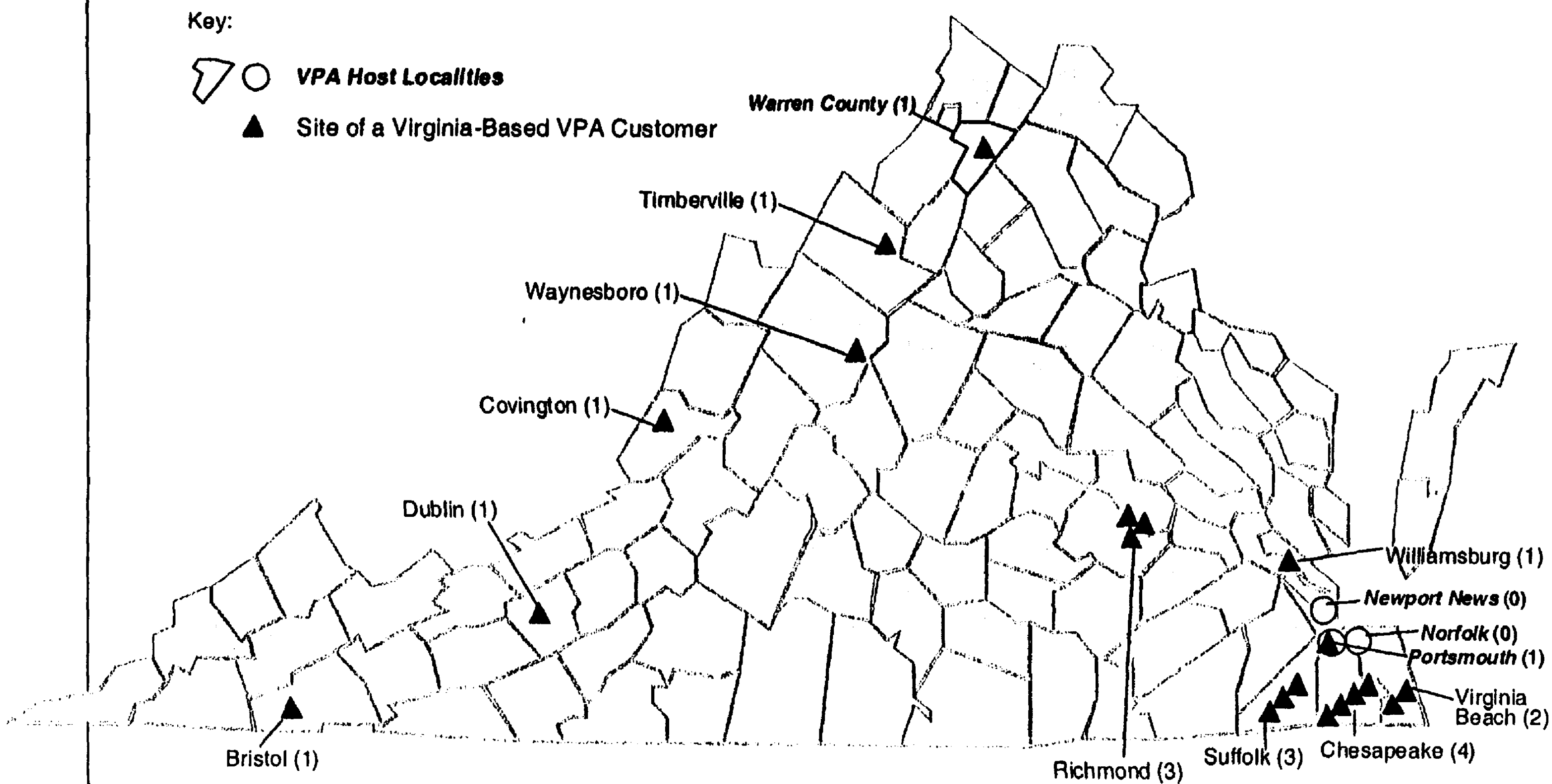
As discussed in the previous section, one of the benefits of hosting the VPA's port facilities is the ability to use the terminals in business development activities. Businesses such as manufacturers, distribution companies, or other commercial enterprises may rely on the ports for the movement and shipment of raw materials and finished products. In addition, other port-related businesses such as trucking companies or construction firms may locate to or establish offices in the proximity of the VPA's terminal facilities.

The cities of Norfolk, Portsmouth, and Newport News host businesses that are linked to the presence of the VPA's ports. However, manufacturing firms and distribution facilities normally require more property in one single undeveloped site than may actually be available in the host cities. As a result, some of the host cities have expressed concerns that their lack of large, developable single tracks of land limit their ability to utilize all of the potential business development benefits that are associated with the VPA's terminals.

To analyze this locality-specific factor, JLARC staff used local population density as one measure to assess the extent to which the host localities are "built-out" and as a result, lack undeveloped land. An analysis of local population density indicated that all three host cities had population densities greater than the average city in the State (Table 8). In the case of the City of Norfolk, the city's population density was more than 4,000 residents per square mile, exceeding the city average by more than 90 percent.

Figure 7

Location of VPA's 20 Largest Virginia-Based Customers



Note: Based on tonnage that is shipped through VPA's terminals.

Source: Virginia Port Authority.

Table 8

VPA Host Localities' Population Density Compared to Virginia City and County Averages

Locality	Persons Per Square Mile
Norfolk City	4,117
Portsmouth City	2,964
Newport News City	2,624
Average City	**2,115**
Warren County	136
Average County	**200**

Source: JLARC staff analysis of data provided by the Weldon Cooper Center at the University of Virginia.

This analysis suggests that the host cities may have population densities that limit the amount of developable land. As a result, this may be one factor that prevents the host cities from more fully benefiting from the presence of the VPA's terminal facilities in their business development efforts. For example:

> *The City of Portsmouth reported that it attempts to attract businesses that will work with the VPA's port facilities. Portsmouth City staff reported that the VPA is a great marketing asset for the City, but that the majority of businesses that would rely extensively on the VPA terminals are large distribution and manufacturing firms. However, Portsmouth is not in a position to attract them due to its lack of available undeveloped property.*

* * *

> *According to Norfolk's Economic Development Director, "Unfortunately, I am aware of only a few small firms related to Norfolk International Terminals that have located in Norfolk during my tenure with the City. Norfolk's difficulty, simply put, is that we do not have available land for businesses to locate to Norfolk, irrespective of what purpose may have interested them in our City. As a consequence, the type of companies that Norfolk can pursue is limited to office operations that do not require a substantial amount of land....I must admit my frustration at times when Hampton Roads Economic Development Alliance identifies a business prospect, only to have to 'pass' because 30 or more acres are required."*

Warren County, which hosts the Virginia Inland Port, has a population density that is below the population density of the average Virginia county. Warren County's ability to use the large amount of undeveloped land adjacent to the port is in contrast to the three host cities. Warren County has also attracted a number of large manufacturing and distribution centers that have located near the Inland Port, due to its presence of developable land. As a result, it appears that the host cities' lack of large tracts of undeveloped property is one factor that mitigates the potential business development benefits that are attributable to VPA's port facilities.

CONCLUSION

This chapter suggested that the VPA's operations generate benefits such as employment, wages, and taxes for the Commonwealth, the Hampton Roads region, and the host localities. For example, the Virginia Port Authority's operations generated approximately $61 million in tax revenues and $583 million in wages in the Commonwealth during 1998. In addition, the VPA plays an important role in economic development because it markets the host localities, the Hampton Roads region, and the State to prospective businesses.

However, the benefits of the Virginia Port Authority do not appear to be concentrated in the host localities. Specifically, a majority of the 8,525 direct jobs are held by residents who reside in localities that surround the host localities. In addition, only two of the VPA's largest Virginia-based customers are located in host localities. Thus, by these measures, some surrounding jurisdictions benefit more from the VPA's operations and economic benefits than do the host localities that are impacted by their loss of the real property tax base due to the VPA's terminal facilities.

III. Reimbursement for Local Government Services Provided to the VPA's Terminal Facilities

As discussed in the previous chapter, the State, the Hampton Roads region, and the localities that host the terminals benefit from the Virginia Port Authority 's (VPA) operations. Nonetheless, despite the benefits, the host localities do incur some costs associated with hosting these facilities. The first cost localities face is related to the governmental services provided to the VPA's marine terminal facilities. The *Code of Virginia* allows the host localities to be reimbursed for the cost of specific direct services provided to the VPA's terminal facilities. At the present time, the host localities are only reimbursed for the provision of local fire protection services.

However, this review has identified some additional costs unique to the VPA terminal facilities that could be considered for reimbursement through the local service charge. First, a substantial number of trucks hauling cargo containers use the local road networks upon entering and leaving the VPA's marine terminal facilities. Second, although the VPA has its own police force, local law enforcement efforts conducted outside of the VPA property benefit the terminals. In addition, the total value of VPA property on the terminal facilities could be included in the reimbursement for fire protection services. Finally, a discussion of some additional opportunities that the VPA could consider in order to limit the negative impact of its terminal operations on host localities are also presented.

COST OF PROVIDING LOCAL SERVICES REIMBURSED THROUGH SERVICE CHARGE

Despite being tax-exempt property, the VPA's terminal facilities require the provision of some direct local governmental services. The *Code of Virginia* generally authorizes localities with State-owned property to be reimbursed for police protection, fire protection, and refuse collection services. However, because the VPA maintains its own fully accredited police force and contracts for refuse collection services, localities hosting the terminal facilities are currently eligible to receive State funding for only fire protection services. In FY 1999, the amount of State funding provided to the host localities for fire protection services totaled almost $600,000.

Despite the limited applicability of the service charge to the VPA's terminal facilities, analysis conducted for this study determined that a more systematic and comprehensive review of the host local governments' request for reimbursement by the VPA is necessary. Specifically, one locality submitted a request in the spring of 1999 that placed an unnecessary cap on the reimbursement amount resulting in a smaller than required payment. Although the payment was less than required, proper review by the VPA is necessary to ensure that the payments are completely accurate and neither greater nor less than the required amount.

Service Charge on VPA Property Limited to Fire Protection Services

As discussed in Chapter I, the methodology used by local governments to determine the amount of the service charge that they submit to the State for reimbursement is a relatively straightforward, four-step process and is delineated in §58.1-3403 of the *Code of Virginia*. The methodology as it is used to calculate the service charge reimbursement for the three VPA facilities in the Hampton Roads region is illustrated in Table 9. The total amount billed in 1999 for the service charge on the VPA facilities by the three host localities was about $591,000.

The *Code* has a provision that allows localities to include expenditures for police and fire protection, refuse collection, and disposal services that they provide to State-owned property. However, because the VPA has a professional fully-accredited police force that provides 24-hour, seven days per week police coverage to the three marine terminals in the Hampton Roads region, expenditures for this local service are not reimbursed by the VPA. Moreover, the VPA also contracts for refuse collection and disposal, which can therefore not be reimbursed, to the host localities.

The data in Table 9 also illustrate how differences in the value of the VPA's property, as well as the value of non-federal government-owned property in each of the three localities, affects the service charge reimbursement. For example, the City of Portsmouth has the highest service charge rate due, in part, to the fact that the total value of its non-federal property is less than the other two localities. However, the City of Portsmouth receives the smallest service charge reimbursement payment because the Portsmouth Marine Terminal has the lowest assessed value of the three Hampton Roads region VPA facilities.

VPA Should Ensure Service Charge Reimbursements Are Accurate and Consistent with the *Code of Virginia*

The service charge authorized by the *Code of Virginia* is the only mechanism available for compensating host localities for the approved governmental services provided to eligible State-owned, tax-exempt property. The process for requesting reimbursement through the service charge is fairly straightforward for both the host local governments and the State entity responsible for paying the approved reimbursement.

In essence, the host localities calculate the amount owed by the State for the approved services provided and then they submit the request with any attached documentation. The responsible State entity reviews the submitted request for accuracy and compliance with the requirements in the *Code* and then approves the request for payment.

As discussed in the previous sections of this report, the service charge methodology that is applied to the VPA property is found in §58.1-3403 of the *Code*. This section identifies the services that can be included in the reimbursement payment and the methodology for calculating the amount that is owed to the local government. In

Table 9

Service Charge Reimbursement for VPA Property in the Cities of Newport News, Norfolk, and Portsmouth, 1999

Service Charge Methodology	Newport News Marine Terminal	Norfolk International Terminal	Portsmouth Marine Terminal
Local expenditures for fire protection *(VPA provides police protection and refuse collection to the port facilities)*	$15,248,661	$23,975,415	$11,405,478
Total value of all non-federal government-owned real property in the host locality	$7,242,219,230	$10,212,689,640	$3,408,845,180
Applicable service charge rate *(Determined by dividing the total expenditures for fire protection by the total value of all non-federal government owned real property)*	.002106	.002348	0.003346
Assessed value of VPA real property	$74,187,800	$145,527,760	$27,884,740
Service Charge Billed to VPA *(Multiply the service charge rate by the value of the VPA property)*	**$156,240**	**$341,642**	**$93,298**

Note: Warren County did not submit a service charge reimbursement request for the Virginia Inland Port to the Virginia Port Authority.
Source: JLARC staff analysis of data from the cities of Newport News, Norfolk, and Portsmouth.

addition, the statute requires that "in no event shall the service charge rate exceed the real estate tax rate of the county, city or town imposing the service charge."

During this analysis, JLARC staff reviewed the host localities' most recent service charge reimbursement submissions to the VPA. As a result of this review, JLARC staff determined that the City of Portsmouth was using the *Code's* service charge provision (§58.1-3401) that was applicable to non-State-owned, tax-exempt property to calculate the service charge on the VPA's Portsmouth Marine Terminal. Unlike the requirement for State-owned property that indicated that the service charge rate not exceed the local real estate tax rate, §58.1-3401 of the *Code* caps the service charge rate at no more than 20 percent of the locality's real property tax rate.

The result of the City of Portsmouth's application of the service charge methodology for non-State, tax-exempt property has been to calculate a lower than permissible reimbursement for the VPA's Portsmouth Marine Terminal. For FY 1998 and FY 1999, the City of Portsmouth's calculation using the 20 percent cap has reduced their reimbursement from the VPA by more than $28,000 (Table 10).

Table 10

Revenue Lost to the City of Portsmouth by Misapplication of Service Charge Methodology (FY 1998 and FY 1999)

	FY 1998	FY 1999
Amount Requested by Locality and Reimbursed by VPA	$52,253	$75,846
Amount Allowed by §53.1-3403 of the *Code of Virginia*	$63,524	$93,298
Difference	$11,271	$17,452

Source: JLARC staff analysis of data from the City of Portsmouth.

In effect, the City has been subsidizing a portion of the expected costs for the provision of fire and emergency rescue services to the Portsmouth Marine Terminal. Given the costs of providing fire protection by the host localities, it is very important that the reimbursement paid by the VPA be accurate and in compliance with the *Code of Virginia*.

Although the City of Portsmouth was responsible for submitting the request using the methodology for non-State property, it nonetheless indicates that a more rigorous and thorough review of the service charge reimbursement requests by the VPA is warranted. VPA staff have reported that its fiscal staff conducts reviews of the requests. Nonetheless, it does not appear that this specific situation was either identified or formally brought to the attention of the City of Portsmouth to enable them to revise the request to obtain the full reimbursement allowed by the *Code*. However, the City of Portsmouth has subsequently submitted a revised reimbursement request for FY 1998 and FY 1999 to the VPA for the additional $28,723.

To address this, the VPA should systematically review the service charge requests submitted by the local governments to ensure that they are in compliance with the requirements of §58.1-3403 of the *Code of Virginia*. If there are cases where the requests are not consistent with the *Code*, the applicable local government should be formally notified in instances of any types of omissions or problems. In addition, the VPA should review all host local government submissions for the most recent fiscal year to ensure compliance with the *Code* and make any adjustments necessary.

Recommendation (1). **The Virginia Port Authority should comprehensively review all local government submissions for reimbursement of a service charge for compliance with §58.1-3403 of the *Code of Virginia*. The Vir-**

ginia Port Authority should formally report to the applicable local government any omissions or errors regarding the request for reimbursement.

ADDITIONAL COSTS RELATED TO THE VPA'S OPERATIONS COULD BE RECOGNIZED THROUGH THE SERVICE CHARGE

As discussed in the previous section, the service charge is currently the only authorized mechanism for reimbursing localities for specific services provided on behalf of State-owned, tax-exempt property. At the present time, localities hosting VPA property are reimbursed only for fire protection services provided to the terminal facilities.

However, this review has determined that there are additional costs related to local government services provided directly or indirectly to the VPA that should also be considered for reimbursement through the service charge. For example, the host cities are responsible for maintenance of local streets and roads. Yet, the terminal facilities rely heavily on over-the-road trucks to transport cargo containers that are loaded and unloaded from ships. Many of these trucks use portions of the local road networks to reach the interstate highway system or traverse between VPA's terminal facilities.

In addition, VPA's terminal facilities benefit to some degree from the activities of the host localities' local police departments. While the VPA has its own police force, the local police departments provide some benefit to the VPA in terms of limiting unlawful activity outside the terminals and dealing with terminal truck traffic. Finally, the value of fire protection to the VPA's terminals extends beyond the value of the land and buildings at each facility. As a result, the State could recognize some of the substantial value of the capital equipment at each facility in the current fire protection reimbursement.

VPA-Related Truck Traffic Costs Could Be Recognized through the Service Charge

One of the results of the VPA's substantial growth in general cargo business handled by its terminals is an increase in port-related truck traffic. This is especially relevant as the volume of cargo container business, which is transported individually by trucks, has increased dramatically. Finally, despite relatively direct access to major interstate highways, trucks transporting cargo shipped through the VPA terminals still utilize roads in the host cities, especially the cities of Norfolk and Portsmouth.

Volume of Port-Generated Truck Traffic Is Substantial. One result of the VPA's success in increasing the volume of material shipped through its terminals is the large numbers of trucks needed to transport the cargo either to, from, or between the facilities. Cargo is also shipped either to or from its terminals via railroad or barge. However, the majority is shipped via over-the-road trucks.

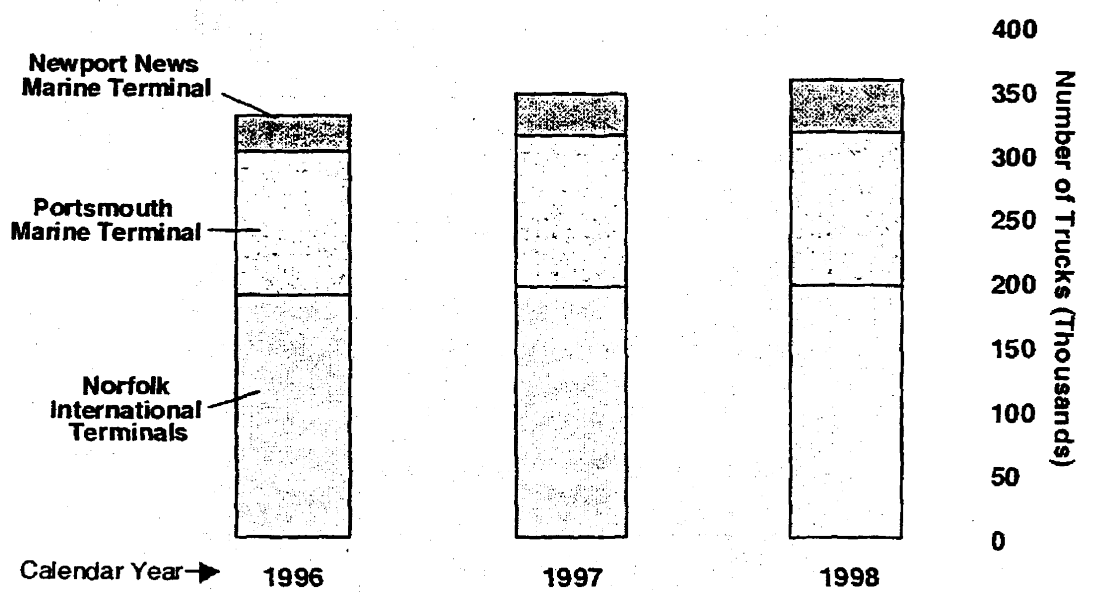
It was reported in the VPA's *1999 Port Access Study* that "...approximately 60 percent of the containerized cargo is moved by over the road trucks. Intermodal rail moves 20 percent and the remaining 20 percent is moved by barge." The fact that the majority of containerized cargo is shipped via truck is particularly noteworthy since containerized cargo is the most rapidly growing segment of the VPA's business. Since 1978, the number of tons of cargo moved via containers through the VPA terminal facilities has increased by more than 400 percent.

In 1998, slightly more than 350,000 trucks entered and left the three VPA marine terminal facilities (Figure 8). However, the impact of truck traffic on the individual terminals varies substantially between the host localities. For example, the terminal in the City of Norfolk generates the majority of truck traffic because the Norfolk International Terminals handles almost 50 percent of the cargo tonnage moved through the VPA's terminals on an annual basis.

Streets and Roads in Some Localities Utilized Extensively by Trucks Hauling Port Cargo. Most of the terminal facilities in the Hampton Roads region are within close proximity to the interstate highway system. For example, trucks leaving the Newport News Marine Terminal have access to I-664 within approximately one city block. In the City of Norfolk, trucks leaving the terminal have direct access to I-64 via Terminal Boulevard within approximately three miles. However, access from the Portsmouth Marine Terminal to the interstate system is not as straightforward. More specifically, to reach I-264 for destinations to the south, southeast, or southwest, routes

Figure 8

VPA Marine Terminal Facility Truck Counts, CY 1996 - CY 1998



Source: JLARC staff analysis of data from the Virginia Port Authority.

that run through the City provide the most direct access. Hampton Boulevard and the Mid-Town Tunnel represent the most direct route between the Portsmouth Marine Terminal and the Norfolk International Terminals.

The distance between Norfolk International Terminals and the Portsmouth Marine Terminal is only about six miles compared to the alternative and more circuitous routes using I-64 or I-664. Clearly, using Hampton Boulevard is the shortest, most direct route available. As a result, a number of over-the-road trucks hauling terminal cargo between the Norfolk International Terminals and the Portsmouth Marine Terminal utilize Hampton Boulevard. For example:

> *On a Thursday afternoon in July, JLARC staff drove from the main gate at Norfolk International Terminals to Portsmouth Marine Terminal via Hampton Boulevard. The trip took approximately 15 minutes and during that time ten trucks hauling cargo containers heading west from the Portsmouth Marine Terminal passed by on Hampton Boulevard.*

> *On a Tuesday afternoon in early August, JLARC staff drove from the Portsmouth Marine Terminal to the Norfolk International Terminals via Hampton Boulevard. During the approximately 15-minute drive, 15 trucks hauling cargo containers were counted heading east from the direction of Norfolk International Terminals toward the Portsmouth Marine Terminal.*

* * *

> *Staff from the City of Norfolk reported that in one 24 hour-period, the total traffic volume on Hampton Boulevard was approximately 41,000 vehicles. Of that number, approximately 550 vehicles were classified as trucks with 290 of these trucks driving from Norfolk International Terminals via Hampton Boulevard to the Mid-Town Tunnel.*

VPA staff reported that they try to have truck drivers leaving Norfolk International Terminals for Portsmouth Marine Terminal or destinations south of the City of Norfolk utilize routes other than Hampton Boulevard. However, because the route via Hampton Boulevard to the Portsmouth Marine Terminal is the most direct, voluntary compliance by truck drivers will likely be difficult to achieve.

Local Road Maintenance Costs for Some Host Cities Are Relatively High. One potential measure of the impact of truck traffic on the host cities is the relative cost of their road maintenance programs. Some of the host localities have reported that trucks, due to their weight and the weight of the cargo being transported, cause more wear and tear on existing roads. This results in more street maintenance and thus higher expenditures than would otherwise be required.

The State does provide significant funding to cities for the urban street maintenance program delineated in §33.1-41.1 of the *Code of Virginia*. Under this program, cities and towns with populations greater than 3,500 receive State funding for maintenance, construction, or reconstruction of local highways. The cities of Newport News, Norfolk, and Portsmouth received about $28.7 million in FY 1999 through this program. Funding is allocated on a per-lane mile basis as well as by road classification. The per lane mile amount in FY 1999 was $11,540 for principal and minor arterials and $6,776 for collector and local streets. While the *Code* does allow for maintenance cost inflation adjustments, it does not allow for adjustments based on type or volume of vehicles.

Analysis of data reported to the Auditor of Public Accounts for local expenditures in the functional area of street, highway, and bridge maintenance shows that the cities of Norfolk and Newport News have higher per-lane mile expenditures than the median per lane expenditure for all cities. The City of Portsmouth is the only host city that is below the median per-lane mile expenditure for cities (Table 11).

Despite hosting the VPA's Virginia Inland Port, Warren County is not included in this analysis. This is due to the fact that the State is responsible for maintaining all of the streets and roads in all counties except two (Arlington and Henrico counties). Therefore, any additional costs attributable to the more than 13,000 trucks that utilized the facility in calendar year 1998 would be borne by the State. Warren County staff confirmed that if there were any direct transportation-related costs attributable to the Virginia Inland Port they were not aware of them since the State was responsible for the county's road maintenance.

Road Construction Projects That Are Important to VPA Will Require Local Support. In addition to maintaining their local road systems, cities are also generally responsible for providing some financing of local road construction projects. The amount is typically two percent of the project's cost. Counties, on the other hand, are not required to contribute any local funding for approved road construction projects

Table 11

Host Cities Per-Lane Mile Expenditures for Maintaining Local Roads, FY 1998

Locality	Expenditure Per Lane Mile
City of Norfolk	$30,675
City of Newport News	$29,113
City of Portsmouth	$13,845
City Median	$23,877

Source: JLARC staff analyses of data from the Auditor of Public Accounts FY 1998 report *Comparative Report of Local Government Revenues and Expenditures.*

in their localities. As with road maintenance, the State is responsible for funding the entire cost of approved county road construction activities.

In addition to street maintenance, the State provides a substantial amount of funding for city road construction projects. The Virginia Department of Transportation (VDOT) reported that in FY 1999, the State provided the cities of Norfolk, Newport News, and Portsmouth either directly or indirectly with almost $50 million for highway construction projects. In addition, the State is responsible for maintaining the interstate highway system that is found in all of the three host cities.

Many projects that are of importance to the VPA in the City of Norfolk will require no local funding. For example, the two grade separations for the railroad tracks on Hampton Boulevard will be funded using the National Highway System Program which is a combination of federal and State funds. In addition, the dedicated freight corridor from I-564 to the VPA terminal in the City of Norfolk will be funded by national highway system revenue.

Nonetheless, one project that is of significant importance to the VPA may require a substantial amount of a host locality's State urban construction funding. This project is the Pinner's Point Interchange that will be located in the City of Portsmouth and is estimated to cost approximately $147 million. The significance of this project to the VPA is stated in the authority's *1999 Port Access Study*:

> The Pinner's Point Interchange has a direct impact on Portsmouth Marine Terminal as an improvement to the Intermodal Transportation System. The Virginia Port Authority believes this project should be expedited.

Once completed, it would enable traffic from the Portsmouth Marine Terminal to have more direct access to the Western Freeway and ultimately I-664.

The City of Portsmouth has already earmarked a substantial portion of its urban construction allocation to the Pinner's Point Interchange project. According to VDOT staff, through FY 2000, the City of Portsmouth has provided $6.3 million of its urban allocation. VDOT has projected that an additional $18.6 million will be provided by the City of Portsmouth during the FY 2001 through FY 2005 time period.

It should also be noted that the City of Norfolk has contributed $2.5 million of its urban allocation funds to this project despite the fact that it is located in the City of Portsmouth. City of Norfolk staff reported that this project, once completed, will also benefit residents of Norfolk because they will have more direct access to the Western Freeway. This contribution by the City of Norfolk reduced its funding available for road projects in the city while supporting a project that will benefit residents of other localities as well as the VPA.

Finally, the Pinner's Point Interchange was originally planned as a toll road. However, the City of Portsmouth has proposed leveraging funding from its future State urban construction allocations to repay the State Toll Facilities Revolving account. This type of funding arrangement is known as "shadow tolling." If the Commonwealth Transportation Board approves this concept, the City of Portsmouth would be committed to contributing at least an additional $50 million of its urban allocation funding. The City of Portsmouth reported that if the concept of "shadow tolling" for the Pinner's Point Interchange is approved, its urban construction allocation could be reduced by $4.6 million annually until 2017.

Additional Funding to Address Transportation-Related Costs Could Be Provided. The growth in business activity that the VPA has generated at its terminal facilities has been substantial. Yet, that growth, especially in containerized cargo, has meant that an increasing number of trucks are utilizing the roads and streets in the host localities. Because the State is responsible for all of the road construction and maintenance in counties, the cost impact of the truck traffic on Warren County is not as significant.

However, for the host cities some of the impact of port-related truck traffic is borne at the local level. The impact comes in the form of street and road maintenance and funding for road projects that are a direct benefit to both local residents and the terminal facilities. Yet, as discussed in Chapter II, the benefits-related to the VPA facilities are received by residents and businesses located far beyond the host localities.

To address the issue of costs related to VPA-generated truck traffic, the service charge formula could be changed to recognize some of the costs associated with VPA-generated truck traffic. However, the service charge rate is based in part on the assessed value of the VPA terminal facility in each locality. As a result, the City of Portsmouth would receive the smallest amount of additional service charge revenue, even though the volume of VPA-generated truck traffic from the Portsmouth Marine Terminal is substantially higher than from the Newport News Marine Terminal (Table 12).

The revised service charge depicted in Table 12 reflects the impact that the VPA's operations have on the cities of Norfolk, Portsmouth, and Newport News. The revised service charge formula would account for the difference between the amount spent by the host cities for local street and road maintenance expenditures and any funding that they receive from the State and federal governments to pay for these transportation-related costs.

To address this issue, additional reimbursement could be distributed based on some measure that accounts for the number of trucks actually utilizing each VPA terminal facility or the volume of material handled. This additional funding could then be distributed through either the service charge reimbursement formula, the urban street maintenance program, or the urban construction allocation program. This would ensure that those host localities experiencing the most VPA-related truck traffic would receive higher reimbursements to mitigate the cost of road maintenance or construction related to the additional truck traffic.

Table 12

Revised Service Charge Reimbursement Reflecting Difference Between Street Maintenance Costs and Urban Maintenance Funding, FY 1998

	Newport News	Norfolk	Portsmouth
Current Service Charge Reimbursement	$156,204	$341,642	$93,298
New Service Charge	$195,262	$471,441	$97,808
Increase	$39,058	$129,799	$4,510

Source: JLARC staff analysis of data from the Auditor of Public Accounts and the cities of Newport News, Norfolk, and Portsmouth.

***Recommendation (2).* The General Assembly may wish to consider amending §58.1-3403 of the *Code of Virginia* to authorize local governments hosting Virginia Port Authority property to receive additional reimbursement based on the difference between local street and road maintenance expenditures and State funding received for local street and road maintenance expenditures related to the impact of trucks using the Port Authority's terminals.**

Some Local Law Enforcement Expenditures Could Be Recognized Through the Service Charge

Another local government service that can be eligible for reimbursement through the service charge is police protection. However, §58.1-3403 of the *Code* requires that "the expenditures for services not provided for certain real estate shall not be considered in the calculation of the service charge for such real estate...." Because the VPA has an accredited police force that is available at each of its marine terminal facilities on a 24-hour, seven-day-a-week basis, the host cities do not include local police expenditures for reimbursement through the service charge.

The VPA reported that for fiscal year 1999, no local police services were requested by any of the three marine terminals in the Hampton Roads region. Nonetheless, two of the host cities' police departments reported calls for services to addresses on the marine terminals located in their localities. For example:

> *Between January 1995 and July 1999, the Portsmouth City Police Department recorded 153 calls for service at locations on the Portsmouth Marine Terminal. The specific reasons for the calls included: hit and run accidents, animal quarantine investigation, building check, hazardous material incident, stolen vehicle, wires down, and larceny. VPA staff reported that all of the addresses that the Portsmouth City Police*

Department received as the location to respond to the call were located on the Portsmouth Marine Terminal.

* * *

In FY 1999, the Newport News City Police Department reported a total of seven calls for service to the Newport News Marine Terminal. Reasons for the calls for service ranged from trespassing to an individual with a gun.

VPA staff noted that if the local police were called, they would either transfer the call to the VPA police dispatcher or the local police would turn around at the facility gate once they realized the address was on the VPA facility. It is not clear from this analysis what the final disposition of each of the calls for service was. However, it does indicate the potential for provision of some local police services to some of the VPA terminal facilities.

In addition, the VPA's operations have generated increased truck and automobile traffic on local roads and streets. This increased traffic could result in additional accidents and traffic violations that require the services of local law enforcement agencies. Moreover, VPA staff noted that local police officers are used to direct traffic when cruise ships dock at the Newport News Marine Terminal.

Moreover, the effects of local law enforcement efforts likely extend to the VPA terminal facilities despite the presence of the VPA police department. For example, in 1998, the cities of Norfolk and Portsmouth had crime rates that exceeded the average for all Virginia cities by more than 30 percent. Nonetheless, in 1996, 1997, and 1998, the VPA police department reported that there were no cargo-related thefts at its facilities. Moreover, in 1999, only three arrests were made at the Norfolk International Terminals and the Portsmouth Marine Terminal.

Proactive local law enforcement may contribute to the low cargo theft activity reported by the VPA. There is a substantial amount of cargo at the various VPA terminal facilities at any one time. Although the VPA police department clearly maintains excellent security within the facilities' perimeter, the extent to which local law enforcement agencies' activities help support VPA's efforts could be recognized in the form of additional reimbursement.

One option for reimbursing this expense would be through the local service charge. This would require localities to determine their local police expenditures and subtract any of the State funding received through the State support for the local law enforcement expenditure program ("599" funding) and any federal funding. In addition, the expenditures made by the VPA for its police department should be subtracted as well. Finally, the difference between the local police expenditures and the State grants and the VPA police expenditures could be adjusted further to ensure the value of the increased reimbursement does not exceed the value of the service to the VPA.

Data in Table 13 illustrate how recognizing varying percentages of the local law enforcement expenditures in the VPA service charge formula impact the reimbursement amount. For example, if a decision were made, due to the fact that the VPA has its own police force, to recognize only 25 percent of the net local law enforcement expenditures, the reimbursement would decrease substantially.

Recommendation (3). **The General Assembly may wish to consider amending §58.1-3403 of the *Code of Virginia* to authorize local governments hosting Virginia Port Authority property to be reimbursed for some portion of local law enforcement expenditures.**

All VPA Property Could be Recognized for Local Fire Protection Reimbursement Through the Service Charge

One local government service provided to the VPA terminal facilities that is currently reimbursed through the local service charge is fire protection. As discussed in Chapter I, the reimbursement amount provided to each locality is based in part on their expenditures for fire protection services and the value of the terminal's real property. In effect, the more valuable the property, the larger the subsequent reimbursement. This approach captures both the capital cost of the service to the locality as well as the value of that service to that particular property.

Table 13

Revised Service Charge Reimbursement Reflecting Difference Between Local Law Enforcement Expenditures and State/VPA Funding

	Newport News	Norfolk	Portsmouth
Current Service Charge Reimbursement	$156,204	$341,642	$93,298
Reimbursement Recognizing 100% of Net Local Law Enforcement Expenditures	$349,073	$733,111	$152,551
Reimbursement Recognizing 75% of Net Local Law Enforcement Expenditures	$300,856	$635,244	$137,738
Reimbursement Recognizing 50% of Net Local Law Enforcement Expenditures	$252,639	$537,377	$122,924
Reimbursement Recognizing 25% of Net Local Law Enforcement Expenditures	$204,421	$439,510	$108,111

Note: Illustrative reimbursement amounts also include current reimbursement for fire protection services.
Source: JLARC staff analysis of data from the Auditor of Public Accounts and the cities of Newport News, Norfolk, and Portsmouth.

For a majority of the State-owned property against which localities are eligible to levy the service charge, including only the value of the real property in the calculation is appropriate. Most State-owned property likely consists of land and buildings which are valued in the real property assessment process. The contents of a typical State office building are likely to be primarily office equipment and furniture. While office equipment and furniture are valuable, relative to the building's value it is likely to be insignificant.

Reflective of the heavy industrial focus of the VPA, however, the terminal and cargo handling equipment on VPA's terminal facilities is very valuable. For example, new cranes purchased by the VPA in 1999 reportedly cost approximately $5 million each. Moreover, each facility has a substantial number of existing cranes and terminal gear that is used to load and unload ships, stack containers, and move containers about the terminal facility. The net book value of this equipment by VPA terminal is illustrated in Table 14.

In addition to the value of terminal equipment at each facility, VPA's terminals are also used for short-term storage of both container and breakbulk cargo. At the Norfolk International Terminals, the cargo storage capacity of that facility is substantial. For example:

The VPA guide for the Norfolk International Terminals reports that there is 1,460,000 square feet of covered pier storage, 1,000,000 square feet of dry storage, and 300,000 cubic feet of cold storage. In addition,

Table 14

Net Book Value of Selected Non-Real Property on VPA Terminal Facilities, June 1999

	Newport News Marine Terminal	Norfolk International Terminals	Portsmouth Marine Terminal	Virginia Inland Port
Capital Equipment *(Heavy equipment such as cranes)*	$3,919,021	$13,896,540	$10,334,011	$254,564
Terminal Gear	$2,213,453	$6,272,894	$2,289,994	$115,360
Vehicles	$107,003	$550,601	$207,226	$46,703
Other *(Office furniture and information systems equipment)*	$32,570	$2,410,978	$92,887	$12,921
Total	$6,272,047	$23,131,013	$12,924,118	$429,548

Note: The non-real property values in this table are based on the net book value.
Source: Virginia Port Authority.

there is cargo container storage space for 23,930 twenty-foot equivalent units (TEUs).

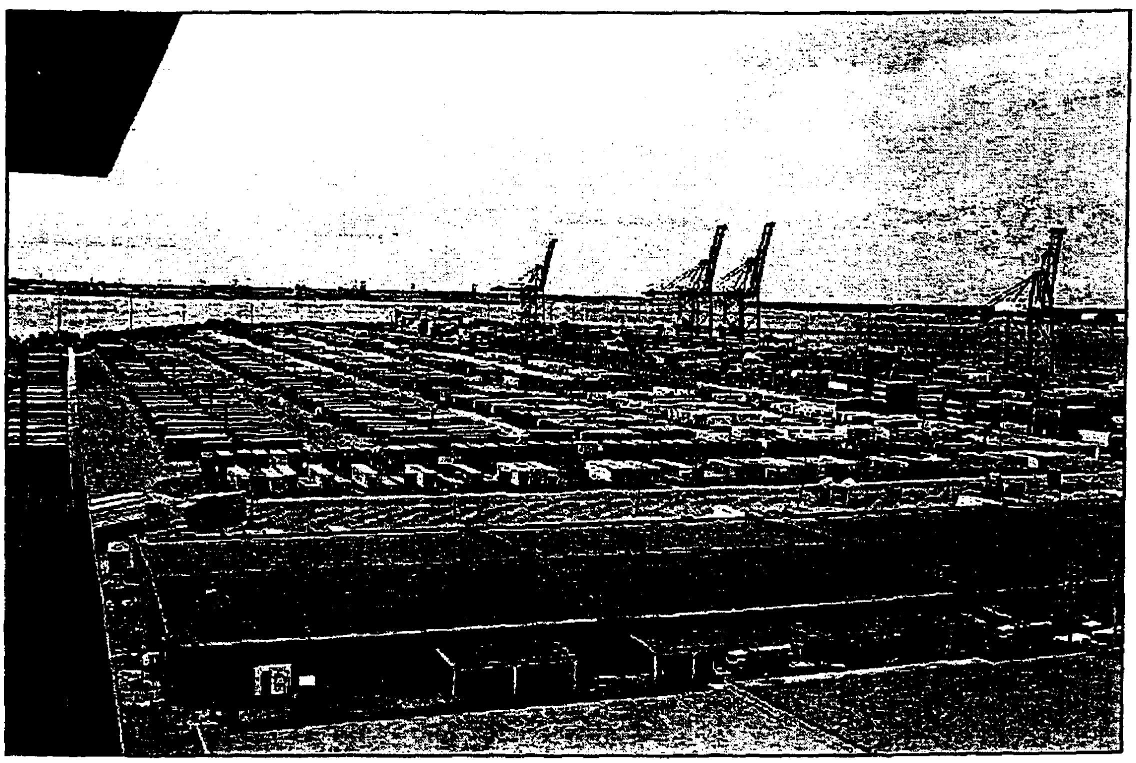
The extent of this capacity is exhibited in Figure 9, which depicts the container storage and pier equipment on only the south end of the Norfolk International Terminals. Clearly, at any one time, the value of the VPA terminal facilities extends beyond simply the assessed value of the buildings and real property.

Moreover, the value of the VPA's operations also extend beyond the physical boundaries of its terminal facilities. A large number of ships call at the VPA terminals carrying very valuable cargo. When they are moored at the terminal facilities, the local fire departments could be called in the event of a fire, hazardous material incident, or major injury or illness. For the period of FY 1996 through FY 1998, more than 2,500 ship movements on average were recorded at the VPA's three marine terminals. While moored at the VPA facilities, these ships would receive local fire protection services if necessary. Clearly, local fire departments are responsible for providing fire protection services to more than the real property and buildings at the VPA marine terminals.

Fire protection is also a service provision that may soon impact Warren County. At the present time, fire protection services in the county are provided by volunteer

Figure 9

Norfolk International Terminals



Source: JLARC staff photo.

departments. However, Warren County staff reported that the establishment of a fire station near the Virginia Inland Port staffed by paid professionals was under consideration. Although county staff noted that the presence of the Virginia Inland Port was not the primary reason for considering the establishment of a paid fire department, the VPA facility would be a beneficiary of that locally-funded service.

Including all of the net book value of the equipment and vehicles at the VPA facilities with the value of the real property in the service charge reimbursement would result in an increased reimbursement to all localities of about $111,000 (Table 15). The largest increases would accrue to the City of Portsmouth and the City of Norfolk due to the value of the equipment on those facilities, which is also reflective of the activity at those facilities.

Finally, if this option were implemented, a more comprehensive inventory of equipment should be completed. It is not clear from the equipment valuation data received for this study whether all of the property would be eligible for local taxation even if the terminals were not State-owned and tax-exempt. Therefore, the amount reimbursed under this option could be higher or lower than illustrated in Table 15.

Recommendation (4). **The General Assembly may wish to consider amending §58.1-3403 of the *Code of Virginia* to authorize localities to include the value of all Virginia Port Authority property in the reimbursement for local fire protection services.**

OPPORTUNITIES FOR LIMITING THE IMPACT AND MAXIMIZING THE BENEFITS OF TERMINAL FACILITIES

The previous sections of this chapter have addressed potential options for addressing the impact of the VPA port facilities on host localities and factors that should be considered concerning the impact on the VPA. However, during this review, a num-

Table 15

Revised Service Charge Reimbursement Reflecting the Net Book Value of VPA Real and Tangible Property for Fire Protection Reimbursement

	Newport News	Norfolk	Portsmouth
Current Service Charge Reimbursement	$156,204	$341,642	$93,298
New Service Charge	$169,410	$395,945	$136,540
Increase	$13,206	$54,303	$43,242

Source: JLARC staff analysis of data from the VPA and the cities of Newport News, Norfolk, and Portsmouth.

ber of potential opportunities were observed that could mitigate the impact of the VPA facilities on the host localities at a minimum of expense. Some of these options are based on current VPA practice and are simply presented to highlight the potential benefits they offer. For example, the VPA should continue to explore innovative methods to help limit the impact of its business activities on the host localities. In addition, opportunities for expanding the business development potential of the VPA terminals for the host localities should be pursued.

VPA Should Continue to Use Innovative Techniques to Limit Negative Impact of Terminal Business Activities

During this review, the VPA was involved in an attempt to purchase property located adjacent to the Portsmouth Marine Terminal. The impact on the City of Portsmouth of having this property become tax-exempt was discussed. Yet, in this particular situation, the VPA used some innovative techniques to mitigate the impact of this potential purchase on the City of Portsmouth.

Specifically, Doughtie's Food owns the property that the VPA recently made an offer to purchase. Apparently, the reason Doughtie's Food wanted to sell its facility was to consolidate its operations in another locality in the Hampton Roads region. However, the VPA used its offer to purchase the property as a mechanism for assisting the City of Portsmouth in its efforts to keep Doughtie's Food from leaving the City. For example:

> *According to VPA staff, they obtained two appraisals on the Doughtie's Food property. VPA offered the company the higher of the two appraisals. However, if the higher offer were accepted, the company would have to agree to select a new location that was within the City of Portsmouth.*

Moreover, VPA staff noted that the property was really two distinct parcels separated by a public road. VPA reported that it needs the parcel with the building because it is directly adjacent to a terminal container storage site. VPA will use that property to expand the container storage area at the Portsmouth Marine Terminal. However:

> *VPA staff reported that they do not have a need for the other parcel. Therefore, they reported that the VPA would be willing to sell this parcel at cost to a private individual or company, which would enable it to remain on the local property tax rolls.*

Although the potential purchase would make some more property in the City of Portsmouth tax-exempt, the VPA has made extensive efforts to minimize the impact on the City. As its cargo business continues to grow and places demands on the VPA to expand its facilities, the potential for expansion in the host localities may continue. Or, other business-related activities could impact the host localities. Therefore, the VPA should continue to explore all available opportunities as they have recently done with the City of Portsmouth to minimize the negative impact on the host localities. The VPA should also try to identify other business activities that they could, in a cost-effective manner, use to limit the impact on the host localities.

Recommendation (5). **The Virginia Port Authority should continue to identify and implement, where feasible and consistent with its strategic business objectives, techniques that minimize the adverse impacts of its business activities on host localities with terminal facilities.**

VPA Should Attempt to Identify Additional Business Development Opportunities in Host Localities

As discussed in Chapter II, the VPA has recently expanded its business development efforts in a manner that directly benefits local governments, the State, and the VPA. This includes the establishment of a VPA staff position whose responsibilities include local and State business development activities. Despite the VPA's efforts, there appear to be factors unique to the host localities that limit their ability to fully utilize the business development benefits that the VPA facilities clearly offer.

As a result, the VPA should continue to attempt to identify other activities that it could implement to enable the host localities to receive more benefits related to business and economic development from the marine terminal facilities. For example:

> *The Virginia Port Authority hosts a limited number of port calls from selected passenger ship cruise lines at the Newport News Marine Terminal. While the cruise ships use the Newport News Marine Terminal as a location to embark and debark passengers, it also presents an opportunity for passengers to potentially visit in the City of Newport News.*

A proposal had been developed to renovate space at one of the piers at the Newport News Marine Terminal for a new cruise terminal. However, due to VPA business considerations, the proposal to develop the cruise terminal was discontinued.

Clearly, the primary focus of the VPA business development efforts must continue to be on projects that benefit the VPA's core business objectives. However, there may be opportunities in the future that could benefit both the port and the host localities. As a result, the VPA should continue to attempt to identify these types of opportunities to better enable the host localities to maximize the benefits from the terminal facilities they support.

Recommendation (6). **The Virginia Port Authority should continue to identify and, where feasible and consistent with its strategic business objec-**

tives, implement business development activities that enable host localities to more fully utilize the economic development potential of the terminal facilities.

CONCLUSION

The cities of Norfolk, Portsmouth, and Newport News appear to receive certain benefits such as employment, local business contracts, and economic development assistance as a result of hosting the VPA's marine terminals. However, despite these benefits, the host localities do incur some costs that are associated with hosting these facilities. For example, the localities bear the cost of providing certain services to the VPA's port facilities.

This review has indicated that there are some local services that the VPA terminals benefit from that are not captured by the current reimbursement mechanism in the *Code of Virginia*. As discussed in this chapter, these services include the cost of maintaining local road networks used by trucks hauling cargo bound to or from the VPA's terminals. In addition, local police services provide some benefit to the terminal facilities. Finally, local fire protection services extend beyond the value of the land and buildings on the VPA's terminal facilities.

If the General Assembly were to make a decision to implement all of the recommendations in the manner presented in this chapter, the additional cost would range from approximately $111,000 to $928,000. These amounts could be greater or lesser depending on other policy decisions.

IV. Host Local Government Fiscal and Structural Issues Related to the VPA Property

The Virginia Port Authority (VPA) terminal facilities provide many benefits for the host localities in terms of employment, purchases of goods and services, and business development assistance. However, as discussed in Chapter II, substantial VPA-generated benefits accrue to the entire State as well as to the localities in close proximity to the VPA host localities. Yet, much of the costs associated with hosting the VPA terminal facilities are focused on a small number of host localities.

The current service charge reimbursement formula can be adjusted to increase host local government compensation for services provided on behalf of the VPA. However, a broader question is raised by the issue of whether the VPA host localities receive adequate compensation from the State "considering the loss of taxes or other revenue that would otherwise inure to them from the properties were the properties not owned by the Commonwealth."

The three cities hosting VPA's marine terminals are among the State's most fiscally stressed localities. The presence of large amounts of tax-exempt property in these particular localities intensifies their fiscal stress. Though VPA's properties are a relatively small proportion of the total tax-exempt property in these localities, they are part of a larger issue of State-local relationships which needs to be addressed in order to fully meet the study mandate.

This chapter presents a discussion of the host localities' fiscal conditions, including an analysis of revenue capacity, revenue effort, and local fiscal stress. In addition, the impact of governmental tax-exempt property is presented as well as the revenue impact of VPA property on host local governments. Finally, options for addressing the VPA tax-exempt property revenue impact and the structural issues facing the host cities are provided.

LOCAL FISCAL CONDITIONS OF HOST LOCALITIES EXACERBATE IMPACT OF VPA TERMINALS

Another factor that can compound the impact of the VPA terminal facilities on the host local governments is their local fiscal conditions. An examination of the host localities' local fiscal conditions revealed that they experienced fiscal conditions that likely increase the impact of the VPA's tax-exempt marine terminals. For example, the host cities experienced lower revenue capacities, higher revenue efforts, and higher fiscal stress scores than most Virginia cities. In addition, the host localities generally had higher property tax rates and lower revenue growth than the non-host localities. The results of these local fiscal indicators taken together suggest that the tax-exempt status of the VPA's facilities heightens the impact on the host local governments.

Cities Hosting VPA Terminal Facilities Have Relatively Low Revenue Capacities

Revenue capacity is an important aspect of a local government's fiscal condition because it is a measure of the revenue that a locality could obtain through the use of statewide average tax rates and non-tax revenue effort. Revenue capacity is a measure of each locality's potential ability to collect revenues that are needed to provide services. More specifically, revenue capacity is the amount of revenue that a locality could generate if it used statewide average rates of return from taxes, service charges, and other revenue-raising instruments. The methodology for calculating revenue capacity is described in Appendix B.

The fiscal position of a local government is particularly affected by the growth in its revenue base over time. If the revenue base does not grow at a particularly strong rate, then a local government is typically faced with raising taxes or reducing services. However, if a local government's revenue capacity exhibits strong growth, then it may be in a position to continue to provide existing levels of services without increasing its taxes.

The analysis of revenue capacity for each locality indicates that their per-capita revenue capacities were below the statewide average for all cities. Norfolk City's per-capita revenue capacity of $775 was more than 30 percent below the city average. The City of Newport News' per-capita revenue capacity of $850 was more than 20 percent below the city average. Portsmouth City's per-capita revenue capacity of $713 was approximately 50 percent below the city average (Table 16). Warren County had a per-capita revenue capacity that was slightly less than the county average.

Cities Hosting VPA Terminal Facilities Also Have Relatively High Revenue Efforts

Another local fiscal condition that can affect the impact of the tax-exempt VPA terminals on the host localities is local revenue effort. Revenue effort refers to the degree to which a local government uses its available revenue capacity. Revenue effort provides a means for examining and assessing local government tax levels over time and of comparing localities against each other. The methodology for calculating revenue effort is described in Appendix B.

A very high revenue effort indicates that a local government is utilizing a substantial level of available revenue capacity in order to provide local services. A locality with a high revenue effort has less flexibility in utilizing additional revenue bases in order to meet demands for government services. Moreover, a locality with a high revenue effort may be forced to reduce local services in the future as its need for local revenue increases.

Table 16

VPA Host Localities' Per-Capita Revenue Capacity Compared to the Average Virginia City and County FY 1997

Locality	Revenue Capacity Per Capita
Newport News	$850.55
Norfolk City	$774.65
Portsmouth City	$712.51
City Average	**$1,072.83**
Warren County	$1,114.41
County Average	**$1,172.86**

Source: Commission on Local Government.

All of the three cities hosting VPA terminal facilities experienced revenue effort in excess of the average city during FY 1997 (Table 17). The City of Norfolk's revenue effort was 1.57, which was about 28 percent greater than the average city. The City of Portsmouth had a local revenue effort that was approximately 18 percent above the average city's, while the City of Newport News was about 14 percent above the city average. On the other hand, Warren County's revenue effort was approximately three percent below the county average.

This analysis indicates that the host cities are using high levels of their available revenue capacity to provide local services. All of the cities with VPA facilities have below-average revenue capacities and above average revenue efforts. This indicates

Table 17

VPA Host Localities' Revenue Effort Compared to the Average Virginia City and County FY 1997

Locality	Revenue Effort
Norfolk City	1.5746
Portsmouth City	1.4443
Newport News City	1.3965
City Average	**1.2276**
Warren County	0.6857
County Average	**0.7046**

Source: Commission on Local Government.

that due primarily to their relatively low per-capita revenue capacity, they must attempt to obtain increasing amounts of local revenue from existing sources.

VPA Host Cities Also Experience High Fiscal Stress

Another important dimension with which to evaluate a locality's general fiscal condition is the composite fiscal stress index. Fiscal stress can be defined as a composite measure of a local government's fiscal conditions across a number of indicators that include revenue capacity, revenue effort, and median adjusted gross income. The composite fiscal stress index is a relative measure that is used to identify those localities that experience high fiscal stress compared to other local governments. The methodology for calculating local fiscal stress is described in Appendix B.

The data presented in Table 18 indicates that all of the host cities were classified as experiencing high fiscal stress during FY 1997. In fact, as measured by the fiscal stress score, the City of Norfolk was the most fiscally stressed locality in Virginia while the City of Portsmouth was the fourth most fiscally stressed locality. The City of Newport News was only slightly better, with a ranking of 11 out of 135 localities. In other words, 124 localities experienced lower fiscal stress than all three host cities. Warren County, on the other hand, experienced below average fiscal stress, with a ranking of 93 out of 135 localities.

The fiscal stress scores observed for VPA host localities in FY 1997 are not a recent occurrence. According to the fiscal stress index, the City of Norfolk has been the most fiscally stressed locality in Virginia since at least FY 1991. In addition, the cities of Portsmouth and Newport News have been classified as high fiscal stress localities since FY 1991. Between FY 1991 and FY 1997, Warren County was consistently classified as a locality experiencing below average fiscal stress.

Table 18

VPA Host Localities' Fiscal Stress Index, Rank Score, and Classification, FY 1997

Locality	Index	Rank Score	Classification
Norfolk City	186.73	1	High Fiscal Stress
Portsmouth City	183.84	4	High Fiscal Stress
Newport News City	179.41	11	High Fiscal Stress
Warren County	160.64	93	Below Average Fiscal Stress

Note: The localities' local fiscal stress score rank is based on a scale of 1 to 135. A locality with a rank score of 1 has the highest fiscal stress while a locality with a fiscal stress rank score of 135 has the lowest fiscal stress.
Source: Commission on Local Government.

High Real Property Tax Rates and Low Local Revenue Growth

In addition to the review of local revenue capacity, revenue effort, and fiscal stress, JLARC staff also analyzed the real property tax rates and local revenue growth of the host localities. This analysis indicates that the host cities' real property tax rates are higher than the average city's. In addition, despite these relatively high rates, the local revenue growth rate for the two host cities with the highest real property tax rates is lower than the average city's.

Host Cities Real Property Tax Rates Are High. It was anticipated that if the host localities' revenue capacity was generally low and revenue effort high, then some local tax rates should be high relative to other localities'. Because revenue from the real property tax is the largest source of locally-generated revenue, analysis was conducted of how the rate for this local tax for the host localities compares with other cities and counties and how that rate has changed over time.

Based on an examination of property tax rates, all of the host cities had real property tax rates in tax year 1998 that were greater than the average city (Table 19). Warren County's real property tax rate was slightly less than the county average. Further analysis revealed that between tax year 1994 and 1998, the City of Norfolk and the City of Portsmouth increased their property tax rates, but the City of Newport News did not increase its tax rate. However, the City of Newport News did increase its property tax rate from $1.20 to $1.24 in 1999.

Clearly, at least across the dimension of the real property tax and reflective of their high local revenue effort, the host localities appear to be in a position of having to raise the levy on their single largest source of local revenue in order to maintain their local fiscal resources. This is significant because hosting valuable tax-exempt property likely adds to this burden.

Table 19

VPA Host Localities' Real Property Tax Rates Compared to the Average Virginia City and County Tax Year 1998

Locality	Real Property Tax Rate Per $100 of Assessed Value
Norfolk City	$1.40
Portsmouth City	$1.36
Newport News City	$1.20
Average City	**$1.04**
Warren County	$0.68
Average County	**$0.69**

Source: JLARC staff analysis of Virginia Department of Taxation data.

Some Host Localities Experience Below Average Local Revenue Growth. Another dimension by which to evaluate a locality's overall fiscal condition is its ability to maintain or even increase its own locally-generated revenue. Localities that experience either average or above average growth in their local revenues would likely be in a better position to continue to fund at least the current level of services or even increase them. In contrast, localities that cannot adequately maintain local revenue growth likely have a more difficult time expanding services or even maintaining standard levels of service.

Despite relatively high real property tax rates, analysis of local revenue growth conducted for this review indicates that the local revenue growth for two of the cities hosting VPA terminal facilities for the FY 1993 through FY 1998 period was substantially below the average of all cities statewide (Table 20). For example, the City of Portsmouth's locally-generated revenues increased by approximately 18 percent, while the City of Norfolk's increased by about 25 percent. However, the City of Newport News and Warren County experienced locally generated revenue growth for this period that was substantially greater than that of the average city or county.

This analysis indicates that despite relatively high real property tax rates, some of the host local governments, particularly the cities, are having difficulty maintaining local revenue growth rates that are consistent with the growth rates of other local governments. This is particularly significant since both the national and State economies have experienced substantial growth during this period of time. This analysis indicates that hosting large tax-exempt property like the VPA terminal facilities limits the flexibility of local governments in dealing with this type of revenue-related issue.

Table 20

VPA Host Localities' Local Revenue Growth as Compared to the Average Virginia City and County FY 1993 - FY 1998

Locality	FY 1993 – FY 1998 Percent Change
Newport News City	51.3%
Norfolk City	24.6%
Portsmouth City	18.1%
City Average	**31.8%**
Warren County	86.5%
County Average	**36.4%**

Source: JLARC staff analysis of Virginia Auditor of Public Accounts data.

OTHER TAX-EXEMPT PROPERTY AND THE VPA TERMINAL FACILITIES

As discussed in the previous section, the fiscal conditions present in many of the host localities intensify the impact of the tax-exempt VPA terminals. In addition, other factors specific to many of the host localities intensify the impact of the VPA property. Specifically, some of the localities hosting the terminals also are home to significant holdings of federal property that far exceed the value of both the VPA property and the total value of State-owned property. The federal property by law is also tax-exempt and unavailable for localities to levy approved local taxes against. The percent of the total value of real property in some host localities being classified as tax-exempt is almost 50 percent.

VPA Port Facilities Are Valuable Property

Because the VPA's terminals are located on waterfront property with almost immediate access to the Chesapeake Bay and subsequently to the Atlantic Ocean, the intrinsic value of the property is high. Timely access to the Atlantic Ocean by the shipping industry is important due to the high cost of operating a large, oceangoing vessel. In addition, the industrial and commercial orientation of the terminals also adds value to the property.

Reflective of these characteristics, the total local government assessed real property value for the VPA terminals exceeds $250 million. Norfolk International Terminals, which is located in the City of Norfolk and is the largest of the VPA port facilities, has an assessed real property value of more than $145 million, or almost 50 percent of the total assessed value of the four VPA terminal facilities' real property (Table 21).

Table 21

Local Government Assessed Value of VPA's Terminal Facilities, 1999

Terminal Facility	Assessed Value
Newport News Marine Terminal	$74,187,800
Norfolk International Terminals	$145,527,760
Portsmouth Marine Terminal	$27,884,740
Virginia Inland Port	$2,963,600

Source: Data from the cities of Newport News, Norfolk, and Portsmouth and Warren County.

VPA Tax-Exempt Property Is Only a Small Proportion of Host Localities' Total Property Value

As discussed in the previous section, VPA's terminal facilities are valuable parcels of property. However, despite their value, relative to the total value of real property in each locality, the VPA terminals generally account for less than one percent of the total value of all local real property (Table 22). Only the value of the VPA terminal located in the City of Norfolk exceeds one percent of the total value of all real property in that city.

This trend continues for all State-owned property in the host localities. Only in the City of Norfolk does the value of State-owned property exceed the city average. This is due primarily to the fact that the City of Norfolk is also host to Old Dominion University and Norfolk State University. On the other hand, the value of State-owned property in Warren County is less than the county average.

Federal Property Compounds the Impact of the Tax-Exempt VPA Property

Although VPA's terminal facilities and other State-owned property account for a small proportion of the total property value in the host localities, other tax-exempt property, primarily federal tax-exempt property, substantially intensifies the impact of the tax-exempt status of the VPA property. Specifically, all three of the cities hosting the VPA marine terminal facilities are also host to a large federal government presence. In all three cities, the United States military has either a large base, hospital, or shipyard. For example, Naval Operating Base Norfolk is located in the City of

Table 22

Percentage of State Tax-Exempt and VPA Real Property Present in Host Localities Compared to the Average Virginia City and County Tax Year 1998

Locality	Percent of Total State Owned Tax-Exempt Property	Percent of VPA Owned Tax-Exempt Property
Portsmouth City	0.5%	0.44%
Norfolk City	3.5%	1.07%
Newport News City	1.7%	0.91%
Average City	**2.2%**	**N/A**
Warren County	0.6%	0.17%
Average County	**0.9%**	**N/A**

Source: JLARC staff analysis of data from the Virginia Department of Taxation and the cities of Newport News, Norfolk, and Portsmouth and Warren County.

Norfolk and the Portsmouth Naval Hospital and the Norfolk Naval Shipyard are located in the City of Portsmouth. The U.S. Army operates a major training command at Fort Eustis that is located in the City of Newport News.

The value of the property that these facilities occupy is substantial. In fact, almost 50 percent of the total value of real property in the City of Portsmouth is owned by the federal government. In the City of Norfolk, slightly more than 25 percent of the total value of real property is owned by the federal government. In the City of Newport News, the value of the federal government owned property is about five percent of the total real property value. Only about two percent of the real property in Warren County is owned by the federal government (Table 23).

As illustrated in Table 23, the magnitude of the federal government-owned property in the cities of Norfolk, Portsmouth, and Newport News is substantially greater than the presence of the State-owned property. However, the State-owned property in the host localities contributes further to the revenue challenges posed by the large holdings of tax-exempt federal property.

It must be noted that the federal government does provide some funding to mitigate the revenue impact of its tax-exempt property. The federal funding is designed to directly reimburse public school districts for the loss of tax revenue due to the presence of federal property. According to the federal government, this funding is intended to assist localities with meeting the basic educational needs of their students.

However, the funding provided is not nearly sufficient to reimburse for the loss of real property tax revenue. In FY 1998, the lost local property tax revenue from

Table 23

Percentage of Federal and State Tax-Exempt Real Property Present In Host Localities Compared to the Average Virginia City and County Tax Year 1998

Locality	Percent of Federal Owned Tax-Exempt Property	Percent of State Owned Tax-Exempt Property	Total Federal and State Tax-Exempt Property
Portsmouth City	46.5%	0.5%	47.0%
Norfolk City	25.1%	3.5%	28.6%
Newport News City	4.8%	1.7%	6.5%
Average City	**7.8%**	**2.2%**	**10.0%**
Warren County	2.3%	0.6%	2.9%
Average County	**3.3%**	**0.9%**	**4.2%**

Source: JLARC staff analysis of data from the Virginia Department of Taxation.

federal property in the three cities hosting VPA terminals totaled more than $92 million. In contrast, the federal impact aid totaled only about $7 8 million (Table 24) It should be noted that even though Portsmouth has the most federal property among the host cities in terms of real estate value, it received the lowest amount of federal impact aid

LOCAL REVENUE IMPACT OF HOSTING VPA'S TAX-EXEMPT TERMINAL FACILITIES

A key cost to local governments of hosting tax-exempt property is their inability to levy local real property taxes against the property This burden is particularly noticeable because the tax-exempt marine terminals are located on very valuable waterfront property that is used for heavy industrial purposes Because the local real property tax is the single largest source of locally generated revenue, the impact is clearly substantial

In addition, the industrial focus of the terminals also means that localities forego the ability to levy personal property taxes and the business license tax. Finally, the expansion of the terminal facilities, due to the tremendous growth in the cargo business, has also impacted the local governments by reducing their tax bases. Because some of the property acquired by the VPA was either commercial or industrial property, the loss of local tax revenue to the host localities has been substantial

Table 24

Value of Federal Property in the Cities of Norfolk, Portsmouth and Newport News And Lost Local Real Estate Revenue, FY 1998

Locality	Value of Federal Property	Forgone Real Estate Taxes	Federal Impact Aid Received
Norfolk City	$3,414,770,410	$47,806,786	$5,027,767
Portsmouth City	2,959,377,040	40,247,528	668,469
Newport News City	392,280,000	4,707,360	2,080,000
Total	**$6,766,427,450**	**$92,761,674**	**$7,776,236**

Note Warren County reported that it does not qualify to receive federal impact aid under current federal regulations

Source JLARC staff analysis of data provided by the Virginia Department of Taxation and the cities of Norfolk, Portsmouth, and Newport News

Tax-Exempt Status of VPA's Terminal Facilities Affects Local Property Tax Revenue

In addition to the cost impact of providing direct services to the VPA terminal facilties, the host localities' revenue base is also affected. The most direct impact is the inability of the host local governments to assess the local real property tax against the value of the VPA terminal facilities' property.

Service Charge Revenue and Other VPA-Related Revenue Does Not Entirely Replace Potential Local Property Tax Revenue. Because the average city in Virginia in FY 1998 collected more than 36 percent of its total local revenue through the tax on real property, property that is exempt from taxation can have a clear impact on local revenue resources. Since the real property tax is levied on the value of the property, the impact can be particularly evident when the parcel of tax-exempt property is very valuable. In the case of the VPA , the terminal facilities are very valuable. As a result, the potential local real property tax revenue is substantial, ranging from about $380,000 in the City of Portsmouth to slightly more than $2 million in the City of Norfolk (Table 25). The Virginia Inland Port in Warren County would generate about $17,800 in real property tax revenue based on its assessed value.

The lower potential real property tax revenue in Warren County relative to the host cities is reflective of two primary factors. First, the assessed value of the Virginia Inland Port is substantially lower than the terminal facilities in the Hampton Roads region. This largely reflects the differences in the cost of real property in a major metropolitan area compared to a more rural locality. Second, the real property tax rate in Warren County is more than 50 percent lower than the rates found in most of the three host cities.

While localities cannot levy their local real property tax against tax-exempt property, the service charge reimbursement provides some revenue to compensate them for local services provided to the property. The service charge reimbursement paid by the VPA to the host localities ranges from more than $93,000 in the City of Portsmouth to more than $340,000 annually in the City of Norfolk. However, similar privately-owned property in the City of Norfolk yields substantially more revenue. For example:

> *The Lambert Point coal pier which is in the City of Norfolk comprises approximately 361 acres. The real property has an assessed value of approximately $58 million. Norfolk Southern, which owns the facility, pays the City of Norfolk real property taxes of approximately $814,000 annually.*

As discussed earlier in this chapter, the differences in the amount of revenue provided through the service charge is a function of the assessed value of the VPA terminal facility, the total local expenditures for fire protection services, and the total value of all non-federal government property in each locality.

Table 25

Local Real Property Tax Revenue Loss Due to Virginia Port Authority Real Property, 1999

	Newport News Marine Terminal	Norfolk International Terminals	Portsmouth Marine Terminal	Virginia Inland Port
I. Assessed Value of VPA Property and Buildings	$74,187,800	$145,527,760	$27,884,740	$2,963,600
II. Local Real Property Tax Rate (*per $100 of Assessed Value*)	$1.24	$1.40	$1.36	$0.68
III. Potential Local Real Property Tax Revenue *(Multiply Step I by Step II)*	$919,929	$2,037,389	$379,232	$17,782
IV. VPA Service Charge Reimbursement	$156,240	$341,642	$93,298	$0
V. Host Local Government Leasehold/Other Revenue	$75,500	$74,100	$55,343	$0
VI. Total Real Property Revenue Loss *(Subtract steps IV and V from Step III)*	$688,189	$1,601,647	$230,591	$17,782

Note: Warren County does not submit a service charge reimbursement request for the Virginia Inland Port to the Virginia Port Authority.
Source: JLARC staff analysis of data from the cities of Newport News, Norfolk, and Portsmouth; Warren County; and the Virginia Port Authority.

The *Code of Virginia* also authorizes host local governments to collect leasehold tax revenue from businesses leasing tax-exempt property on the VPA terminals. The three host cities in the Hampton Roads region collected a combined total of slightly more than $200,000 of leasehold tax revenue in FY 1999. The Virginia Inland Port in Warren County does not lease any VPA property and as a result no leasehold tax revenue is available.

While some revenue from the tax-exempt VPA terminal facilities is collected by the host localities, the potential real property tax revenue that is lost to the host local governments is substantial. After accounting for the revenue from the service charge and the leasehold tax, the combined total property tax revenue lost by the four host local governments exceeded $2.5 million in FY 1999.

Impact of Real Property Tax Revenue Loss on Local Budgets Is Substantial. The loss of any property tax revenue in some localities can be particularly difficult for them to address. For example, in Virginia during FY 1998, about 36 percent of the typical city's local revenue and 44 percent of the typical county's local revenue was provided through the real property tax. Given the reliance on the real property tax for local revenue, any impact on that source will likely be noticeable.

This is even more relevant for the VPA host localities based on the fact that as a percentage of total local revenue, their real property tax revenue accounted for a smaller proportion than either the average city or county (Table 26). Because the percentage of total local revenue accounted for by the host local governments' real property tax is less than the typical city or county, this could indicate that these localities are having a difficult time maintaining consistent growth in real property tax revenue.

As a result, any reduction in local property tax revenue or constraints on the host localities' ability to levy the real property tax can directly impact their ability to maintain a source of local revenues that is consistent with other cities and counties. The ability to maintain an adequate local property tax revenue stream is critical to the provision of local government services since funding from the real property tax is the largest single source of the host cities' locally generated revenue.

Tax-Exempt Status of VPA Non-Real Property Also Affects Local Government Revenue Sources

As discussed in the previous section, the inability of the host local governments to levy the local real property tax on the VPA terminal facilities creates, in some cases, a substantial loss of local property tax revenue. Moreover, because the terminal facilities conduct industrial operations, there is a substantial amount of heavy industrial equipment and machinery. This includes the major capital equipment such as cranes and straddle carriers that are used to move containers and other shipboard

Table 26

Percentage of Host Local Governments' Local Revenue Received Through the Real Property Tax Compared to the Average Virginia City and County, FY 1998

Locality	Percentage of Local Revenue Generated Through Real Property Tax
Newport News City	30.4%
Norfolk City	32.2
Portsmouth City	34.6
City Average	**36.2**
Warren County	40
County Average	**43.5**

Source: JLARC staff analysis of data from the Auditor of Public Accounts FY 1998 *Comparative Report of Local Government Revenues and Expenditures.*

cargo. In addition there are trucks and cars that are used by terminal workers and operators. The net book value of this equipment which was discussed in Chapter III is more than $42 million.

However, as with the terminals' real property, the host local governments are unable to levy any approved local taxes on the State-owned equipment used on the facilities. Taxes that would likely be assessed primarily include the business personal property tax. In addition, some localities might also levy a business license tax on the terminals' revenues.

It is not possible with these aggregate data to completely and accurately determine what equipment would be subject to local taxation if the terminal facilities were not tax-exempt. However, because the value of some of the capital equipment such as cranes used to load and unload ships is significant, the revenue lost due to its exemption from taxation is also likely to be substantial. For example, staff from the City of Norfolk estimated that the local revenue lost from the equipment at Norfolk International Terminals could exceed $600,000 annually.

Clearly, the impact on the host localities is more than the loss of real property tax revenue. Given the focus of the VPA and the type of activity supported at its terminals, there is also a substantial loss of revenue from the inability of the local governments to levy approved taxes. Although Warren County is impacted to some degree, the impact is particularly noteworthy on the marine terminals located in the cities of Norfolk, Portsmouth, and Newport News.

Expansion of VPA's Facilities Also Impacts Host Local Governments

Another factor that impacts the host local governments is the expansion that has occurred at the various VPA terminal facilities. Since the VPA initially acquired the three terminal facilties in the Hampton Roads region, numerous property acquisitions to expand the facilities have been completed. For example, in the City of Portsmouth, almost 30 individual pieces of property have been acquired for use by the Portsmouth Marine Terminal while only four additional parcels of real property have been acquired to expand the Newport News Marine Terminal (Table 27).

Table 27

VPA Real Property Acquisitions in Host Localities

VPA Terminal	Additional Parcels of Property Acquired	Total Property Acquisition Cost
Newport News Marine Terminal	4	$8,394,000
Norfolk International Terminals	5	$58,963,500
Portsmouth Marine Terminal	30	$15,354,369

Source: Virginia Port Authority.

In the case of the Portsmouth Marine Terminal, the number of pieces of property acquired since the State obtained the original facility has been substantial. However, the impact in terms of lost local property tax revenue is highest in the case of the expansion at Norfolk International Terminals. While only five additional parcels have been acquired at the Norfolk facility, the total cost to the VPA of purchasing that property exceeded $58 million. Some of this property was also industrial property upon which the City of Norfolk levied real property taxes and other taxes prior to the VPA purchase.

The loss of property tax revenue from some of this property has been substantial due to its commercial nature. For example:

> *The Virginia Port Authority purchased three large parcels of property in the City of Norfolk from the Norfolk and Western Railway and Exxon Corporation between 1988 and 1992 in order to expand the operating capacity of Norfolk International Terminals. According to staff from the City of Norfolk, the lost local property tax revenue for the ten-year period from 1989 through 1999 due to the acquisition of the property by the VPA totaled about $8 million.*

In addition, expansion at the Portsmouth Marine Terminal has had an impact on local tax revenue in the City of Portsmouth. For example:

> *The Virginia Port Authority purchased a parcel of property adjacent to the Portsmouth Marine Terminal that had been used by a private business. The assessed value of that parcel of property, according to the City of Portsmouth is more than $3.3 million. Property of this value would have generated property tax revenues of $44,552 in fiscal year 1999. In addition, in 1996 which was the last year that this particular parcel of property was on the local tax rolls, the property owner paid $21,007 in personal property tax revenue to the City of Portsmouth."*

A proposed expansion at the Portsmouth Marine Terminal, if completed, could also impact the City's local revenue. Specifically, the Virginia Port Authority has offered to purchase the Doughtie's Food plant which is directly adjacent to the Portsmouth Marine Terminal. The total assessed value of the facility is slightly more than $3.5 million. If this property were to be purchased by the Virginia Port Authority and thus be exempt from local taxation, the revenue loss to the City of Portsmouth could total more than $118,000 in real property tax, business personal property tax, and machinery and tools tax revenue.

It must be noted that in 1983 the City of Portsmouth and the VPA agreed to a memorandum of intent that provided the terms by which certain additional property in the city might be acquired by the VPA. In addition, the memorandum also established an area outside of the then existing marine terminal that was known as the "port area." The memorandum of intent appears to acknowledge the potential growth needs of the VPA and that areas within the "port area" were likely to be acquired in the future. A portion of Doughtie's Food property is within the area defined as the "port area."

Clearly, the growth in business at the VPA terminal facilities has necessitated the expansion of the facilities. When this happens, however, the host localities are impacted in terms of revenue loss from sources that comprise a substantial portion of total local revenue. This may continue to be an issue to the host localities in the future as the VPA continues to develop and increase cargo traffic through the terminal facilities. Simply stated, because the host cities are essentially land-locked, every time VPA's terminals expand, property that is part of the cities' tax base shrinks.

Reimbursement Based on VPA Terminal Facility Activity Could Address Host Localities' Loss of Property

A mechanism is needed to distribute funding to the host localities on the basis of some measure of VPA's growing business activity. One example of a reimbursement methodology linked to a business activity would be a payment based on a per ton of cargo or per container of cargo handled at the VPA's terminal facilities. This option would enable localities to be reimbursed for any costs related to terminal activities not recognized through the service charge as well as offer a mechanism for addressing the cost of lost local revenue when the VPA expands.

For illustrative purposes, this proposal links reimbursement to the host localities on a basis of $0.50 per ton of cargo handled by the VPA terminal facilities. In calendar year 1998, reimbursement based on almost 9.5 million tons of cargo would have totaled almost $5 million. That is approximately ten times the total amount reimbursed in 1999 through the existing service charge.

To address both the impact of VPA's business activity and the revenue loss on host localities due to the facilities' tax-exempt status, JLARC staff developed a measure that reflects both the activity at each locality's VPA terminal and the relative value of each facility. For example, the $74.2 million value of the Newport News Marine Terminal is about 30 percent of the total value of VPA's three marine terminals (about $247.6 million). This terminal also accounts for about 10 percent of the total cargo tonnage handled by the VPA's marine terminals, for an average of slightly more than 20 percent. Under this formula, the City of Newport News would receive about $1 million of the available revenue from a $0.50 per ton assessment on VPA's marine terminal cargo tonnage (Table 28).

This approach would enable reimbursement to flow directly to the localities based on a measure of activity at each individual terminal facility and a measure of the relative property value of each specific terminal. Because the level of terminal activity is likely related to some degree to the service costs imposed on host localities, this

Table 28

Illustrative Funding Distribution Methodology Based on Tonnage of Cargo Shipped Through Each VPA Terminal Facility

	Newport News	Norfolk	Portsmouth
Revenue Distribution Factor	20.2%	56.6%	23.2%
$0.50/ton	$954,100	$2,673,369	$1,095,798
$0.25/ton	$477,050	$1,336,685	$547,899
$0.10/ton	$190,820	$534,674	$219,160
Current Service Charge Reimbursement	**$156,204**	**$341,642**	**$93,298**

Note: Cargo tonnage shipped through VPA's marine terminals in 1998 totaled 9,446,532. Based on $0.50 per ton charge, the total amount available for distribution is $4,723,266.
Source: JLARC staff analysis of data from the VPA and the cities of Newport News, Norfolk, and Portsmouth.

would ensure that those localities experiencing the largest activity-based impact from the ports receive the most funding. Such an approach would also begin to address the issue of the loss of local revenue due to the facilities' tax-exempt status and any local property loss due to any future expansion of the VPA's facilities.

Finally, the amount of revenue that is reimbursed through this type of mechanism would likely increase at the same rate as VPA's business activities. As a result, some decisions would need to be made about whether a minimum or maximum reimbursement amount should be imposed. Depending on the level of activity at the VPA, the amounts reimbursed in the future could exceed the costs of lost local revenues and the provision of direct services by the localities hosting the VPA's terminal facilities. However, business activity could decline, resulting in reimbursements that are less than the cost of lost local revenues and the provided services. Further, the source of such reimbursement would have to be carefully considered. Possible sources would include VPA's revenues or the State's general fund.

It should be noted that if this option were implemented, this would represent a dramatic departure from the current approach of reimbursing localities only for the costs of services provided to State-owned property. Moreover, it could provide precedence for other localities hosting State-owned property to obtain revenue based on some measure of the business activity occurring on that property.

Host Local Government Structural Issues Also Need to Be Addressed

The fiscal problems experienced by the cities of Norfolk, Portsmouth, and Newport News are part of a broader issue which affects many Virginia cities. The problems of these three localities may be exacerbated by the absence of VPA's port facility property from their tax rolls, but they are not unique. Unable to expand, many Virginia cities cannot depend solely on economic growth to address growing demands for services and infrastructure. Recognition of this dilemma has resulted in numerous studies over the years, including the recent creation of the Commission to Study Virginia's State and Local Tax Structure for the 21st Century.

An argument can be made for providing some form of reimbursement to the cities that host the VPA's terminal facilities. The ports operated by the VPA serve the Commonwealth as a whole, but the cost of hosting the facilities fall disproportionately to the cities in which they are located. Unfortunately, many of the applicable solutions are problematic under the current State and local tax structure and raise a number of factors that should also be considered. Specifically:

- Were the localities provided with State general funds as a direct offset for their loss of tax revenue, other localities hosting State property could make similar claims, further complicating State-local relations;

- Were the formulas governing reimbursement for services provided to the VPA revised, similar revisions and costs could be applicable to a wide range of State property in other localities;

- Were the localities given the authority to levy a tax or fee on the VPA, similar issues affecting other State agencies would need to be addressed (however, none of the affected localities has expressed an interest in reimbursement from terminal revenue);

- Were the cities hosting VPA's terminal facilities authorized to receive additional revenue to recognize the costs imposed on them, the issue of the extent to which Warren County should be recognized would need to be addressed; and

- Should the fact that the VPA terminals are revenue generating, industrial facilities change the structure currently in place to reimburse localities for hosting State-owned, tax-exempt property?

Other recommendations made in this report are necessarily made in the context of the current system of State and local taxation. Even full implementation of such recommendations, however, would not completely address the issues raised by the location of a major State economic resource in the three fiscally stressed host cities.

Addressing the structural and local fiscal issues that intensify the impact of the tax-exempt VPA terminal facilities extends beyond the mandate of this study. A more proper forum for these broader issues would be the Commission to Study Virginia's State and Local Tax Structure for the 21st Century. The resolution establishing the Commission noted that both cities and counties host property that cannot be taxed and that cities have a limited and stagnant tax base. Moreover, the Commission is charged with studying how the state and local tax structure should be changed to reflect current trends occurring in the State. As a result, issues raised by this study could be incorporated as part of the Commission's current review.

Recommendation (7). **The General Assembly may wish to direct the Commission to Study Virginia's State and Local Tax Structure for the 21st Century to review the impact of hosting State-owned, tax-exempt property on local government revenue sources and service provision.**

Regional Focus of VPA-Generated Benefits Could Be Addressed Through Revenue Sharing

This current review has determined that the VPA's terminal facilities generate benefits for the host localities. In addition, the VPA's activities also generate benefits for localities in close proximity to the three host cities. In fact, both the cities of Virginia Beach and Chesapeake individually receive more direct jobs and local tax revenue from the VPA's activities than do the host cities of Portsmouth and Newport News combined.

As a result, consideration could be given to some form of revenue sharing between the host localities and the non-host localities in the Hampton Roads region that receive substantial benefits from the VPA terminal activities. This would enable the cities of Norfolk, Newport News, and Portsmouth to receive an increased proportion of the VPA-generated benefits that they directly support through hosting the tax-exempt facilities. In addition, it would encourage the host localities to continue to be strongly supportive of the VPA's future business activities.

The *Code of Virginia* (§15.2-1300 through §15.2-1302) currently authorizes localities to enter into economic-growth sharing agreements that includes revenue sharing between localities. The situation with the distribution of the VPA-generated benefits in the Hampton Roads region may lend itself to some form of revenue sharing among the affected localities.

Recommendation (8). **With the assistance of the Hampton Roads Planning District Commission, the cities of Newport News, Norfolk, and Portsmouth should consider exploring the potential for adopting revenue sharing agreements consistent with §15.2-1300 through §15.2-1302 of the *Code of Virginia* with other localities in the Hampton Roads region that benefit from the operation of the Virginia Port Authority's terminal facilities.**

ISSUES CONCERNING ADDITIONAL REVENUE TO HOST LOCALITIES THAT AFFECT VPA

Options to minimize the impact of the VPA terminal facilities on the host localities have been presented for review and consideration. In addition, the potential impact on the VPA of any changes to its revenue stream must also be discussed. Because the VPA no longer receives State general fund support, unexpected and unplanned changes to its revenue stream could directly affect its ability to compete effectively with other ports.

In addition, the VPA's operating costs and much of its equipment and facilities' infrastructure improvements must be funded through terminal revenues. Moreover, a 1997 bond issue valued at $98 million was backed entirely by terminal revenues. Because equipment and facility improvements can directly impact a terminal's efficiency, the VPA's future competitiveness could again be impacted. Finally, should the VPA be in a position to develop a new marine terminal, the projected cost of that facility will require the VPA to be in a position to ensure terminal revenue is directed toward its future facility growth.

VPA's Operating Expenses and 1997 Bond Issue Are Funded Entirely Through Terminal Revenues

As discussed in Chapter I, general fund support for the VPA ended beginning in FY 1997. At that time, the general fund revenue that the VPA had relied on for its operating expenses was replaced by terminal revenue from its terminal operating company, the Virginia International Terminals. In FY 1996, the VPA's general fund appropriation totaled about $11.6 million. However, the VPA still receives revenues from the Commonwealth Port Fund that is funded through the State's Transportation Trust Fund. This funding is utilized primarily for capital-related expenditures and debt service.

Also significant is the VPA's 1997 sale of $98 million in revenue bonds. These bonds are to be repaid entirely from revenue from the VPA's terminal operations. Furthermore, these bonds do not:

> ... constitute a debt of the Commonwealth ... and neither the faith and credit nor the taxing power of the Commonwealth ... is pledged to the payment of the principal of the Series 1997 Bonds and the premium, if any, and the interest thereon or other costs incident thereto.

The sound business base that the VPA has established for the port facilities allowed these bonds to be issued pledging only the future revenues from the operations of its terminals. However, because only port revenues back these bonds, any factors that could impact the terminals' revenue streams could be followed closely by the bond underwriters and rating agencies.

Any increased reimbursements to the localities could directly impact the VPA's operations and the 1997 revenue bonds. Because taxes or service charges are typically categorized as operating expenses, they are payable before debt service. The resolution that was used to secure the 1997 revenue bonds noted that current expenses "...would include any taxes or service charges lawfully levied on the Port Facilities as of July 1, 1996."

Furthermore, the bond underwriters and insurers established requirements to direct and account for the flow of all funds received by the VPA. Specifically, only after terminal revenues "...exceeded its current expenses, debt service and amounts budgeted for renewals, replacement and pay-as-you-go capital expenditures..." and then accumulated in the revenue fund special account could any additional payments be made by the VPA. According to VPA staff, there was only about $9,000 in the revenue fund special account as of June 1999 and that it is not projected that any funding will be credited to this account during FY 2000 and FY 2001.

The potential impact of additional demands on terminal revenue that were not classified as current expenses as of July 1996 could have significant ramifications for the VPA. For example, the structured flow of terminal revenues was incorporated as part of the requirements in issuing the 1997 revenue bonds. This structure was adopted to protect bondholders and make the bonds more attractive in the market as well as to lower the cost of repayment for the VPA.

Therefore, any demands on revenues that were not anticipated prior to the underwriting of the bonds could potentially have negative results. For example, in the underwriting for the 1997 revenue bonds, it was reported that:

> Generally, rating agencies base their [bond] ratings on the information and materials so furnished and on investigations, studies and assumptions by the rating agencies. There is no assurance that a particular rating on the Series 1997 [port facilities revenue] bonds will be maintained for any given period of time or that it will not be lowered or withdrawn entirely if, in the judgement of the agency originally establishing the rating, circumstances so warrant. Any such change in or withdrawal of such rating could have an adverse effect on the market price of the Series 1997 Bonds.

In addition, in 1998, VPA's bond counsel determined that any factors that would affect the mechanisms designed to protect the bondholders could also have negative consequences on the revenue bonds. Specifically:

> It should be further understood that any effort to dilute the protections afforded to bondholders by the bond resolution and existing legislation will be carefully weighed by the rating agencies and credit analysts that publish ratings and reports on the VPA's terminal revenue bonds.

While the initial sale of these bonds has been completed, changes in the VPA terminal revenue streams can still have a negative impact on the bonds.

Finally, the potential impact on the VPA's operating environment and rate structure of any increased reimbursements to the host localities should also be discussed. According to VPA staff, the terminal charges to cover additional reimbursements would reportedly be impacted as follows:

- an additional reimbursement equal to $.50 per ton could add $7.50 per container in terminal charges,

- an additional reimbursement equal to $.25 per ton could add $3.75 per container in terminal charges, and

- an additional reimbursement equal to $.10 per ton could add $1.50 per container in terminal charges.

If additional reimbursements are provided to the host localities, the effect on the VPA's business activities and operating environment should be carefully considered.

Capital Intensive Nature of VPA's Business Requires Substantial Revenue

One factor that the VPA must continually address is the capital-intensive nature of the port industry. In order to increase productivity, the VPA must continually invest in new capital equipment that will both load and unload ships more quickly as well as more effectively manage container storage areas. Once the necessary equipment is procured, it must be properly maintained to ensure it will continue to function at its peak operating efficiency.

During the process of issuing its 1997 revenue bonds, the bond underwriters had an engineering firm conduct an analysis of the VPA's operations. At that time, the report noted that:

> Current and anticipated containerized cargo volumes are driving the need for increased storage and equipment acquisition in order for the VPA to retain market share and service new customers. The CIP [Capital Improvement Program] includes those improvements which are required in order to capture forecasted cargo growth of the VPA. These improvements will total $377,356,000 by the year 2007.

The VPA has more recently determined that the total capital requirements for its facilities total almost $420 million through 2020.

Access to the funding necessary to obtain modern terminal equipment appears to have a direct impact on a port's ability to both maintain and increase business. For example:

> *An economist noted that the VPA's purchase of several large and sophisticated Kone cranes in the 1980s significantly increased the port's*

productivity. Specifically, the purchase of these cranes enabled the VPA to become a real competitor with the New York / New Jersey port.

Equipment replacement is an ongoing requirement in the port industry because it is an important factor in increasing productivity. The VPA has identified $44.5 million in equipment replacement costs in the near future which includes new dockside cranes, gantry cranes, straddle carriers, and rolling stock (forklifts and yard tractors). It should also be noted that this amount only reflects replacement of existing equipment and not equipment needed for facility expansion or conversions.

The ability of the VPA to maintain and even increase its business in the future will continue to require a substantial investment in the facilities and equipment. While revenue is available through the Commonwealth Port Fund, the VPA must fund some of the improvements and acquisitions through terminal revenue and revenue bonds. As a result, consideration should be given to maintaining the flow of terminal revenues and ensuring that access to highly rated bonds is available to the VPA to enable it to remain competitive with other ports.

Finally, the host local governments also recognize the need to ensure that the VPA remains competitive in the industry. For example, one VPA host locality reported that regarding the issue of additional revenue to the host localities:

> We believe it is very important that financial compensation come from the [S]tate's general fund, not from VPA's revenues and certainly not from a fee levied on users of the [S]tate's port. To do so would be counterproductive to the Commonwealth's interests as it would place the port in a less competitive position in a very competitive industry.

Competitive pressures will likely require substantial funding to ensure the facilities and equipment maximize the ports' potential business capacity. With no State general fund revenue, VPA revenues will likely be required to provide for improvements and maintenance to the facilities' capital equipment and infrastructure in order for the port to remain competitive.

Recommendation (9). **To ensure that the Virginia Port Authority's revenues are used primarily to maintain its competitiveness, the General Assembly may wish to consider the use of general fund revenues to offset costs incurred by host localities.**

Appendixes

Appendix A

Study Mandate

Item 16 N - 1999 Appropriation Act

Fiscal Impact of Operation of Virginia Ports

The Joint Legislative Audit and Review Commission shall conduct a comprehensive study of the fiscal impact of the operations of the ports of Virginia which are owned by the Commonwealth on the local governments where the ports operate. The purpose of the study shall be to determine whether adequate compensation from the Commonwealth is provided to those localities considering the loss of taxes or other revenues that would otherwise inure to them from the properties were the properties not owned by the Commonwealth.

Appendix B

Methods for Estimating Revenue Capacity Per Capita, Revenue Effort, and the Fiscal Stress Index

Appendix B presents a discussion of the methodology used to calculate the local revenue capacity, revenue effort, and the fiscal stress index measures. These three measures are used to assess the local fiscal condition of Virginia's cities and counties and were used in this report. Currently, the Commission on Local Government (CLG) is responsible for annually calculating these fiscal measures for all cities and counties in the State.

LOCAL REVENUE CAPACITY PER CAPITA

An important dimension of a local government's fiscal condition is its revenue base. If the revenue base does not grow at a rate that is consistent with the demand for services, then the local government may have to increase taxes and user charges, or it may have to reduce the level of government services that it offers to its residents. Revenue capacity is a measure of each locality's potential ability to raise revenues that are required to provide services. It is the amount of revenue that a locality could generate if it used statewide average rates of return from taxes, service charges, and other revenue-raising instruments.

The revenue capacity measure is based on the representative revenue system approach developed by the U.S. Advisory Commission on Intergovernmental Relations. It was refined for use in Virginia by researchers at the University of Virginia in the late 1970s. During the 1980s, JLARC further revised and updated the revenue capacity measure. The CLG has continued to refine this measure.

Calculating the Per-Capita Revenue Capacity

In order to determine the revenue capacity per-capita for each jurisdiction, the CLG isolates six revenue-raising instruments that either directly or indirectly capture aspects of private-sector affluence that the jurisdiction can tap in order to finance its programs. The five specific revenue sources that are used to calculate the revenue capacity consist of the total true valuation of real estate, the aggregate true valuation of public service corporation property, the total number of registered motor vehicles, the adjusted number of registered motor vehicles, and the aggregate value of taxable retail sales. In addition, the total adjusted gross income of the resident population is included in the calculation as a proxy for other local government instruments used to generate revenues.

These revenue sources are multiplied by the statewide average rates of return for each instrument and the resulting products are then added together and divided by the jurisdiction's population. This process generates a per-capita statistic that measures the collections that the locality could receive from taxes, service charges, regulatory licenses, forfeitures, fines, and other potential revenue if the locality established statewide average tax levies (Exhibit 1).

Exhibit 1

Computing Revenue Capacity

Per-Capita Revenue Capacity

= [Total True Valuation of Real Estate] x [Statewide Average Tax Rate]
+ [Aggregate True Valuation of Public Service Corporation Property] x [Statewide Average Tax Rate]
+ [Total Number of Registered Motor Vehicles] x [Statewide Average Personal Property Tax Per Vehicle]
+ [Adjusted Number of Registered Motor Vehicles] x [Average License Fee]
+ [Aggregate Value of Taxable Retail Sales]
+ [Total Adjusted Gross Income] x [Statewide Average Yield Rate]

Locality Population

Example: Grayson County (FY 1997)

Per-Capita Revenue Capacity

= [$498,340,929] x [.$0.00935]
+ [$33,015,548] x [$0.00834]
+ [16,255] x [$225.25]
+ [15,098] x [$18.46]
+ [$276,170]
+ [$141,661,577] x [$0.02471]

Per-Capita Revenue Capacity Equals Revenue Capacity Divided by Population

= $12,651,613 = $766.76
16,500

Source: JLARC staff exhibit of Commission on Local Government data.

REVENUE EFFORT

Revenue effort refers to the degree to which a local government is able to tap its available revenue capacity. A very high revenue effort suggests that a local government is using a high degree of available revenue capacity in order to provide local services. A locality with a high revenue effort has less flexibility in utilizing additional tax sources as demands for local services increase. Local revenue effort indicates the degree that a locality is using its available revenue capacity. The revenue effort measure was also developed by the U.S. Advisory Commission on Intergovernmental Relations. JLARC staff updated the revenue effort measure during the 1980s.

A local government's revenue effort is equal to its actual tax revenues and other locality-specific revenue raising instruments divided by its revenue capacity. As with revenue capacity, this fiscal measure provides a basis for examining a locality's tax levels, assessing how tax levels change over time, and comparing localities against each other.

The concept of revenue effort indicates the extent that a particular locality can convert its revenue-generating potential into actual revenue through the levying of taxes and other funding instruments such as service charges, regulatory license fees, and fines. From a measurement perspective, the revenue effort assumes the form of an extraction/capacity ratio that indicates a jurisdiction's ability to obtain revenue in order to support public activities.

Calculating the Local Revenue Effort

A locality's revenue effort is equal to its actual local tax revenues and other locality-specific revenue-generating instruments divided by its revenue capacity. The revenue effort measure provides a basis for examining the tax levels for each city and county in the State and assessing how their tax levels changed over time. In addition, the revenue effort also provides a means for comparing localities against each other.

In order to determine a locality's revenue effort, CLG staff add the jurisdiction's revenues that it received from the real estate, public service corporation property, tangible personal property, motor vehicle license, and local-option sales taxes as well as the proceeds that it received from all other locally controlled revenue sources together. The resulting sum is then divided by the jurisdiction's total revenue capacity in order to produce its revenue effort (Exhibit 2).

It should be noted that the revenue effort level will always be positive and greater than zero. Moreover, it may also exceed one if the locality is using its resource bases at collection rates that surpass statewide average levels.

Exhibit 2

Computing Local Revenue Effort

Revenue Effort
= [Real Property Tax Revenue]
+ [Public Service Corporation Property Tax Revenue]
+ [Tangible Personal Property Tax Revenue]
+ [Motor Vehicle License Tax Revenue]
+ [Local Option Sales Tax Revenue]
+ [Other Local Revenue]
Revenue Capacity

Example: Grayson County (FY 1997)

Revenue Effort
= [$2,742,860.00]
+ [$192,037.00]
+ [$741,700.00]
+ [$135,501.00]
+ [$276,170.00]
+ [$3,559,988.00]

Revenue Effort Equals Actual Revenues Divided by Capacity

$$= \frac{\$7{,}648{,}256}{\$12{,}651{,}613} = 0.6045$$

Source: JLARC staff exhibit of Commission on Local Government data.

FISCAL STRESS INDEX

In 1983, JLARC developed a fiscal stress index that identified the local governments in the State that had relatively poor fiscal conditions across a number of indicators. The original stress index that was developed by JLARC measured stress across five indicators of local fiscal health – revenue capacity, change in revenue capacity, revenue effort, change in revenue effort, and resident income. The fiscal stress index is currently calculated on an annual basis by the CLG.

Measures of revenue capacity, revenue effort, and resident income provide reliable indicators of a local government's fiscal position. However, none of these measures alone is an adequate indicator of local fiscal condition. A local government that exhibits a pattern of stress across all indicators may more reliably be considered to have a poor fiscal condition. The local fiscal stress index is one measurement that accounts for stress across several indicators.

Calculating Local Fiscal Stress

The methodology currently used by the CLG to calculate the fiscal stress index entails the construction of a three-variable index. This index is based upon the jurisdiction's measurements that represent the level of revenue capacity per-capita during a specific fiscal year, the degree of revenue effort over the same fiscal year, and the median adjusted gross income for individuals and married couples in the relevant calendar year (Exhibit 3). Based on this calculation, the CLG assigns a relative stress score to all localities in the State that indicates the distance in standard deviation units that the jurisdiction's raw score is from the data distribution's mean.

In order to combine a locality's relative standing in terms of these three measurers into a single composite fiscal stress index, the raw scores for each measure are standardized. Standardization is achieved in two steps. First, each raw score is converted into a corresponding z-score. The z-score is a statistical transformation that represents the number of standard deviations that a raw score is from its mean value. The second step used in the process converts each z-score into a number that represents the fiscal stress score, which is positive in all cases. A composite fiscal stress index is then calculated for each locality by adding the relative stress scores across the three measures. The fiscal stress score is then used to identify those cities and counties that experience a high level of fiscal stress compared to other jurisdictions across the State.

Once the composite fiscal stress index scores are developed, CLG staff then numerically order and divide the values for all localities into a series of stress classes that are defined in accordance with the statewide mean and standard deviation statistics. Based on this ordering scheme, the localities are classified as experiencing either low, below average, above average, or high fiscal stress. It should be noted that the composite fiscal stress scores are not representative of the absolute fiscal strain experienced by cities and counties, but they do serve to identify the standing of the various jurisdictions relative to each other during a specified time frame.

Exhibit 3

Computing the Local Fiscal Stress Index

Fiscal Stress = Revenue Capacity Per-Capita, 1996/97
+ Revenue Effort, 1996/97
+ Median Adjusted Gross Income (All State Tax Returns), 1996

Example: Grayson County (1996/97)

Fiscal Stress Indicator	Raw Score	Stress Score
Revenue Capacity Per Capita, 1996/97	$766.76	59.27 (S1)
Revenue Effort, 1996/97	0.6045	50.62 (S2)
Median Adjusted Gross Income (All State Tax Returns), 1996	$17,482	58.88 (S3)

Composite Fiscal Stress Index Score
= S1+S2+S3 = 59.27+50.62+58.88 = 168.77

Source: JLARC staff exhibit of Commission on Local Government data.

Appendix C

Agency Responses

As part of an extensive data validation process, the major entities involved in a JLARC assessment effort are given an opportunity to comment on an exposure draft of the report. Appropriate technical corrections resulting from the written comments have been made in this version of the report..

Appendix C contains the following responses from:

- The Virginia Secretary of Transportation
- The Virginia Port Authority
- The City of Newport News
- The City of Norfolk
- The City of Portsmouth
- Mayor, City of Norfolk

OCT -8

COMMONWEALTH of VIRGINIA

Office of the Governor

James S. Gilmore, III
Governor

Shirley J. Ybarra
Secretary of Transportation

October 7, 1999

Mr. Philip A. Leone, Director
Joint Legislative Audit and Review Commission
Suite 1100, General Assembly Building
Richmond, Virginia 23219

Dear Mr. Leone:

Thank you for the opportunity to provide written comments on the exposure draft of the Joint Legislative Audit and Review Commission ("JLARC") report, *Review of the Impact of State-Owned Ports on Local Governments*("Report"), which we received on September 30. As you know, the Report contains a number of recommendations that could impact the Commonwealth and its citizens far beyond any potential impact on the Virginia Port Authority, important as that may be. We will be evaluating those recommendations following an opportunity to conduct a careful and reasoned review.

In the meantime, we appreciate your staff's recognition, reflected on pages 28-30 of the Report, of the investment ($500 million plus) that the Commonwealth has made in its port facilities and the significant benefits derived from that investment, particularly in the Hampton Roads area. (Pages 30-51 of the Report). Please allow me to note other additional investments by the Commonwealth in the port and in its supporting infrastructure.

- The Commonwealth has to date provided more than $15 million in General Fund support in order to fund the state's share of various joint state/federal dredging projects within the Norfolk Harbor and Channels. Those projects include the deepening of the outbound channel from 45 to 50 feet, construction of a 50 foot anchorage, and participation in the feasibility study in connection with a possible eastward expansion of the Craney Island Dredged Material Management Area (CIDMMA). (As you may know, more than 50 years ago the Commonwealth of Virginia deeded the bottom land to the federal government on which to construct the CIDMMA.)

- The Commonwealth, through the Commonwealth Transportation Board (CTB), provides millions of dollars for the maintenance and construction on the transportation network in the "host cities" where the three marine terminals are located (see the attached table). For the current fiscal year this amounts to $77.6 million. More specifically, the CTB has allocated millions of dollars in "statewide" funds (e.g. National Highway System, Surface Transportation, etc.) for highway projects that will provide improved access to allow the port to flourish. These projects are as follows:

1. Four traffic management projects on I-564 and I-664

2. The intermodal connector, Norfolk

3. Hampton Boulevard RR underpass at Greenbrier

4. Hampton Boulevard/International Terminal Boulevard interchange

5. Pinner's Point Interchange and Port Norfolk connector

Again, I appreciate the opportunity to provide comments on your draft report.

Sincerely,

Shirley J. Ybarra

Shirley J. Ybarra

cc: The Honorable James S. Gilmore, III
Mr. E. Massie Valentine, Jr.
Mr. Charles D. Nottingham
Mr. J. Robert Bray

TABLE 1

Commonwealth Transportation Board Allocation – Fiscal Year 2000

Jurisdiction	Construction [1]	Maintenance
Newport News	$13,718,000	$9,291,008
Norfolk	$19,263,000	$13,621,250
Portsmouth	$14,748,000	$7,014,367
Total	$47,729,000.00	$29,926,625.00

[1] Includes urban allocations, regional and statewide surface transportation program funds, national highway system funds and federal demonstration funds.

OCT -8

COMMONWEALTH of VIRGINIA

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J. Robert Bray
Executive Director

October 7, 1999

Philip A. Leone, Director
Joint Legislative Audit and Review Commission
Suite 1100, General Assembly Building
Richmond, Virginia 23219

Dear Mr. Leone:

Thank you for the opportunity to provide written comments on the exposure draft of the Joint Legislative Audit and Review Commission (JLARC) report, *Review of the Impact of State-Owned Ports on Local Governments*.

We believe that your staff, members of which visited and communicated with us on a number of occasions, used their best efforts to gather the background information necessary to present a factually accurate report involving what are clearly complex issues.

We appreciate the report's recognition of the significant challenges facing the Virginia Port Authority. Indeed, the section of the report headed "Issues Concerning Additional Revenue to Host Localities That Affect VPA" specifically and accurately notes some of the serious negative impacts on VPA's competitive position if there is any reduction in VPA's revenue stream.

In regard to the report's recommendations, those are of course policy issues that will no doubt be addressed by Secretary Ybarra and/or members of the Governor's staff.

With best regards, I am

Very truly yours,

J. Robert Bray
Executive Director

cc: The Honorable Shirley J. Ybarra
E. Massie Valentine, Jr.

Commonwealth of Virginia
Virginia Port Authority

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Norfolk, Virginia 23510
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J. Robert Bray
Executive Director

October 12, 1999
<u>VIA HAND DELIVERY</u>

Philip A. Leone, Director
Joint Legislative Audit and Review Commission
Suite 1100, General Assembly Building
Richmond, Virginia 23219

Dear Mr. Leone:

I am writing to add a supplement to VPA's earlier written comments on the exposure draft of the Joint Legislative Audit and Review Commission ("JLARC") report, *Review of the Impact of State-Owned Ports on Local Governments* ("Report").

That section of the Report headed "Reimbursement Based on VPA Terminal Facility Activity Could Address Host Localities' Loss of Property" suggests a mechanism to provide funding to the host localities through a $0.50 per ton surcharge on cargo handled through VPA facilities. This suggestion would add about $6,000 to a typical vessel call. Some of the ship lines call 52 times per year. That would of course result in increased costs of more than $300,000 on an annual basis. Such a result would no doubt cause grave harm to Virginia's competitive position. We respectfully ask that the Commission carefully consider this suggestion's ramifications when deliberating on the Report.

Thank you.

Very truly yours,

Robert R. Merhige, III

Robert R. Merhige, III
Deputy Executive Director and
General Counsel

Cc: Hon. Shirley J. Ybarra
E. Massie Valentine, Jr.
J. Robert Bray

City Of Newport News

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Office Of The City Manager

October 6, 1999

Mr. Philip A. Leone, Director
Joint Legislative Audit and Review Commission
Suite 1100 – General Assembly Building
Capitol Square
Richmond, Virginia 23219

Dear Mr. Leone:

Thank you for the opportunity to review the exposure draft for the study of the impact of state-owned ports on local government. We commend you and the JLARC staff who worked on this report for the objective and professional manner in which the information was compiled and presented.

It is clear that the unique impacts of marine terminal operations on host localities, and the significant statewide benefits realized from those operations, provide an appropriate basis for further legislative deliberation and action.

While we concur with the premise and purpose of most of your recommendations, I would like to offer several comments for consideration.

We believe Recommendations 2,3 and 4 address important aspects of marine terminal impacts that are critical to understanding the unique nature of port operations on our communities. Impacts on local road networks, along with the provision of effective public safety services are part of an overall relationship that needs to be recognized.

Recommendations 5 and 6 certainly speak to the potential of a stronger partnership between host communities and port authority operations, and we welcome the attention to this opportunity.

We do not believe the seventh recommendation, suggesting that the issues of port impacts be referred to the new commission for the study of Virginia's tax structure, would be productive given the unique nature of marine terminal operations. Any changes made as a result of this commission in the years ahead would certainly be reflected through statewide tax policies, and not directed specifically to port host communities.

The proposal that revenue sharing might begin between host communities and other jurisdictions that benefit from the port, made in Recommendation 8, is not one, we believe, that offers practical or politically realistic opportunities to address port impacts. It is one thing to propose such an arrangement prior to the development and success of an enterprise. It is quite another to initiate such a relationship after the fact.

Finally, we strongly agree with Recommendation 9, which identifies the state's general fund as the appropriate source for revenues to offset the impacts and costs incurred by host localities. There are significant economic benefits realized throughout the state from the operation and expansion of the marine terminals and port operations in the three host cities. We believe sharing these statewide benefits more equitably with the localities most impacted will help ensure the continuing growth and success of the port in the future.

Again, I want to thank you for giving us the opportunity to review this report. We believe it serves to define the important issues facing not only the host cities, but also the Virginia Port Authority. The actions we take to address these issues will have a direct affect on the success of our efforts to attract and support new economic activity in this region.

Sincerely,

Ed Maroney

Edgar E. Maroney
City Manager

Cc: The Honorable Shirley J. Ybarra
The Honorable Joe S. Frank
The Honorable Paul D. Fraim
The Honorable James W. Holley, III
Mr. J. Robert Bray

City of Norfolk
Office of the City Manager

OCT -7 1999

October 6, 1999

Mr. Philip A. Leone
Director, Joint Legislative Audit and Review Commission
General Assembly Building, Suite 1100
9th & Broad Streets
Richmond, VA 23219

Re: JLARC Report on Fiscal Impact of the State-Owned Ports on Host Localities

Dear Mr. Leone:

The City of Norfolk would like to commend your staff for its comprehensive and balanced report on the fiscal impact of the state-owned ports on host localities. We have discussed the Report with the other two cities and know that they concur. We believe the analysis accurately captures the reality of the port's operations and the impacts on the localities where the port operates.

We are particularly pleased with Recommendations #2, #3 and #4. These recognize that the state's port properties are unique by suggesting Code changes and associated funding to address the impact of truck traffic and the added law enforcement and fire protection requirements not captured under the current Code. Recognition of this uniqueness is absolutely critical to fairly understanding the realities of the port's operations and appropriate remedies.

We believe Recommendation #7, suggesting that the impacts of state-owned, tax-exempt property be reviewed by the Commission to Study Virginia's State and Local Tax Structure for the 21st Century, raises a more general issue for a later time, easily distinguishable from the port properties which are unique and impact only three localities (four, if Warren County is counted).

Recommendation #8 which suggests host localities pursue revenue sharing with adjacent localities, while well intended, is not feasible in our opinion. The Report documents very well the considerable benefits the ports provide adjacent localities; however §15.2-1300 through §15.2-2302 was more likely intended to facilitate joint recruitment of industry or collaboration on projects before the fact, such as sports arenas.

We concur with the recognition, expressed by Recommendation #9, that the state's general fund is the appropriate source from which to provide service charge payments to host localities. As we have previously said, to do otherwise is not in the Commonwealth's interests as it would place the port in a less competitive position in a very competitive industry.

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We note that the Martin study, commissioned by the VPA and referred to in the Report, confirms our findings regarding total state and local taxes from the port. However, Martin's findings of 4,121 employed by the port appears inflated, possibly by treating all longshoremen as full-time workers. The amount expended by the port for wages, $42.2 million as found in the VPA's annual audited report, suggests the number of jobs to be closer to 1300. This, of course, significantly reduces Martin's conclusions as to the local tax benefits received by host localities, although we all concur that there are benefits.

To summarize the City of Norfolk's position, we join with others in wanting the port to prosper. As documented in the Report, we have supported projects that benefit the port, including transportation projects with contributions from our urban allocation funds. However, we incur costs due to the port's presence, also well documented in the Report. The recommendations in the Report provide a guide to balancing these interests in ways equitable to all.

Again, on behalf of the Norfolk City Council, we want to commend you and your staff for a most comprehensive review of this complicated issue. We look forward to working with the General Assembly in the upcoming session to take action to modify the Code and associated funding to correctly compensate the host localities for their support of the port activities.

Sincerely,

Regina V.K. Williams

Regina V.K. Williams
City Manager

cc: The Honorable Shirley J. Ybarra
Mr. J. Robert Bray
The Honorable Paul D. Fraim
The Honorable Joe Frank
The Honorable James W. Holley, III

THE CITY OF
PORTSMOUTH

October 6, 1999

Mr. Philip A. Leone
Director
Joint Legislative Audit and Review Commission
General Assembly Building, Suite 1100
Capitol Square
Richmond, Virginia 23219

Dear Mr. Leone:

The City of Portsmouth would like to commend your staff for its comprehensive and balanced report on the fiscal impact of the state-owned ports on host localities. The City Managers of all three host cities in Hampton Roads have discussed the contents of the report and we concur in our major comments. We believe the analysis accurately captures the reality of the port's operations and the impacts on the localities where the port operates.

Overall, we feel the report is thorough and recognizes the unique impacts, both positive and negative, on the communities that host the port operations. The City of Portsmouth provided extensive information to JLARC staff, and much of this information has been incorporated into the report as appropriate. We concur with most of the recommendations, especially those that recognize the importance of the impacts of truck traffic, law enforcement, and fire protection on the host communities. We do have some specific comments, however, which I will share with you.

The chronology on pages 4 and 5 of the report are descriptive and provide an in-depth history at a glance of how the ports have evolved. It would be beneficial to include in this synopsis a dollar figure for the 4.2% allocated from the Transportation Trust Fund to the Commonwealth Port Fund beginning in 1986. This would give a better understanding of how much was actually allocated for the port fund. Also, in the 1996 section of the synopsis, it would be helpful to note why the general fund appropriation was eliminated and replaced with terminal revenue from the Virginia International Terminal.

Recommendation 7 states that the General Assembly may wish to direct the Commission to Study Virginia's State and Local Tax Structure for the 21st Century to review the impacts of hosting State-owned tax-exempt property. This recommendation is apparently based on the possibility that similar requests could be applicable to a wide range of state property in other localities. However, as we have previously stated, the

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operations of the Virginia Port Authority are unique. Most other operations of state government are involved, to one degree or another, in the provision of services to citizens, and most such operations are traditional, necessary functions of state government. On the other hand, the VPA, at the state's discretion, is operated as a profit-making business and does not provide any services to the residents of the Commonwealth. If the VPA were privately owned, it would be paying real estate, personal property, and machinery and tools taxes to the host localities. The only difference between a private port business and the VPA is that the VPA is a state agency. Recognition of the unique status of the port operations would prevent the broad application of this request to a wide range of state property. Therefore, I suggest that it may not be necessary to refer this matter to the Commission.

Recommendation 8 suggests that the three host localities in Hampton Roads should consider exploring the potential for adopting revenue sharing agreements with other localities in the region that benefit from the operation of the port facilities. While it might conceivably be possible for several jurisdictions to agree on revenue sharing in order to attract a desirable business to the region, this complicated process might require considerable time and effort to reach agreement. This places an unnecessary burden on the host localities.

Finally, as we have consistently stated, the City of Portsmouth concurs with Recommendation 9, which states that the General Assembly may wish to use general fund revenues to offset costs incurred by host localities. We fully recognize the need for the VPA to compete with port facilities located in other states, and we agree that additional payments to the host localities should come from some source other than VPA revenues, so that the VPA is able to continue the necessary investments in its plant and equipment.

To summarize the position the City of Portsmouth has consistently advocated, everyone wants the ports to prosper, no one more than the host localities. In fact, the host cities have supported projects such as transportation facilities that directly benefit the ports. An example is the Pinners Point Interchange, which both Portsmouth and Norfolk have supported through the use of a significant portion of their Urban Allocation funds. Moreover, the host cities do bear some costs due to the presence of the ports within their boundaries. The host localities do not receive property taxes or other revenues from the port, and if the port should acquire additional privately owned property, the host communities lose additional revenue. The host localities thus do not share in the growth of the port as they do with the growth of private businesses.

The City of Portsmouth believes that it is in the best interests of other Virginia localities to provide an incentive to the host cities by sharing more of the substantial revenue that is generated by the port. This additional revenue will complement our ongoing economic development efforts that are aimed, in part, at offsetting the high percentage of tax-exempt property in our city. This is equitable treatment for the host localities and will make them more likely to support port expansion. Therefore, the General Assembly should support the request of the three port host cities for increased service charge payments from the state's general fund and codify this action by amending the State Code, Section 58.1-3403.

Thank you for the opportunity to comment on your exposure draft. We look forward to continuing to work with JLARC on this important matter.

Sincerely yours,

Ronald W. Massie
City Manager

RWM/ces

cc: The Honorable Shirley J. Ybarra, Secretary of Transportation
City Council
Regina Williams, Norfolk City Manager
Edgar E. Maroney, Newport News City Manager

OCT 12

Remarks by Paul D. Fraim, Mayor of Norfolk
on behalf of
Norfolk, Portsmouth and Newport News
before the
Joint Legislative Audit and Review Commission
October 12, 1999

RE: Report on the Fiscal Impact of the State-owned Port on Host Localities

Good morning Mr. Chairman and Members of the Commission, I am Paul Fraim, Mayor of Norfolk, speaking on behalf of Portsmouth, Newport News and Norfolk.

I am here this morning to commend the staff of JLARC on a very thorough and balanced study on the fiscal impact of the state-owned port on host localities.

Apart from a few factual differences, this JLARC report confirms four points the host cities have been making.

First, the port is a significant economic asset to the state, providing $61 million in state and local tax revenues. The revenues coming to the state alone yield a 21% rate-of-return on the state's investment in VPA's total assets of $520 million.

Second, the port is well managed, successful and growing substantially, and everyone – including the host cities – wants that to continue.

Third, the economic benefits of the port, however, do not come to the three host cities as one might expect – half the tax revenue goes to the state treasury and of the local tax revenue produced, two-thirds goes to other localities. (pp. 31,37)

Fourth, the state's commercial port creates service costs and adverse impacts on the three host cities. These are not accounted for by the provisions of §58.1-3403 which were crafted to address conventional tax-exempt property, rather than property of a commercial nature.

We all agree on the first two points of the report, that the port is a significant economic asset to the state and that we all want the port's prosperity to continue.

I want to comment on the third and fourth points, which focus on local impacts.

- The JLARC report explains why most of the local tax revenue does not come to the three host cities –
  - 68% of the port's employees reside and pay taxes elsewhere. (p. 37)
  - And most of the port users, companies like Lillian Vernon and Dollar Tree, are based and pay taxes elsewhere. Only one of VPA's top 20 port users is located in a host city! This is critically important because most tax revenues (about 75%) come from port users, rather than from those working in the industry (stevedores, freight forwarders). And why are port users not located in the port cities? Because we are totally built out; there is no space for them. (pp. 47,48,49,50)

- The report reveals the local service costs and adverse local impacts of the port, not accounted for by current Code –
  - Street Maintenance. The port's substantial cargo growth (400% since 1978) has produced sizable truck traffic (currently about 1300 per day) on the host cities' streets. In addition to the inconvenience and irritation to residents, this significant truck traffic means increased street maintenance. §58.1-3403 does not account for this truck traffic impact, nor does the state's street maintenance allocation, which for cities is based on lane-miles rather than traffic volume. Norfolk, for example, spends $4 million/year more on street maintenance than reimbursed by the state and about 30% more than the average for Virginia cities. (pp. 61,62,64,65,68)
  - Street Construction. A portion of the host cities' allocation for street construction is used for projects associated with the port – nearly $60 million in Portsmouth over a twenty-year period and a portion of $46 million in Norfolk over a five-year period. §58.1-3403 does not account for this impact, nor does the state's street construction allocation, which for cities is based on population rather than traffic requirements. Moreover, non-allocation road funds the cities receive are almost exclusively directed to port-related projects. (pp. 66,67,68)
  - Police Protection. The host cities include no local expenditures toward service charges for police protection due to the port's accredited, full-time, on-site police force. Nonetheless, the cities' law enforcement activities have a demonstrable beneficial impact protecting the considerable amount and value of cargo located in the port's premises. (pp. 70,71)
  - Fire Protection. The service charge received by the host cities for fire protection is based on the port's real property value. But, unlike all other state tax-exempt property, the cities' protection extends well beyond real property – to the multi-million dollar value of the non-real property at the port, such as cranes, to the breakbulk and container cargo being stored temporarily, and to off-shore vessels in case of fire, hazardous materials incidents or major injury or illness. (pp. 74,75,76)

Mr. Chairman and Members of the Commission, your staff has done an excellent job documenting the unique characteristics of the state's port due to its commercial nature.

This report also reveals how the built-out character of the three host cities prevents us from enjoying the economic benefits one would expect from the port.

Your staff has devoted an entire section of the report to the weak fiscal condition of the three host cities. This is significant when an extensive amount of very valuable acreage is taken from the local tax rolls by the state.

This report points out that the three host cities also have considerable tax-exempt federal property (50% in Portsmouth and 25% in Norfolk) but that the federal government provides funding to assist the cities (nearly $8 million/year).

Mr. Chairman and Members of the Commission, as you all know better than I, every locality in our great state has its particular positives and negatives. Some are within local government's responsibility and some are within yours.

In my city, we have worked hard to improve our tax base – by our efforts to attract tourism, constructing the MacArthur Center shopping mall, and extensive redevelopment projects downtown, along the Chesapeake Bay and elsewhere.

And we have brought crime and violent crime down dramatically (14% and 36%, respectively, 1998 compared to 1997).

Portsmouth and Newport News can cite similar efforts and accomplishments.

But some things are beyond our responsibility and that's why this JLARC report and its recommendations are important.

We commend the staff for their work and we commend the report to you for your thoughtful reading and for your support in the next session of the General Assembly.

Thank you for your attention today.

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