



## Potential Funding Sources

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### FUNDING SOURCES

Successful coordinated transit systems are strategic about funding. They try to develop funding bases that enable them to operate reliably and efficiently within a set of clear goals and objectives, and according to both long- and short-range plans. Potential strategies for funding transit in Boone County are described below.

#### Capital Funding


A coordinated transit system for this region will continue to require capital funding for bus fleet procurement and for bus stops and shelters. The following strategies for funding capital development should be considered:



- Federal funding (along with any state match funds) should be maximized— within the existing 5310 and 5311 program, and through pursuit of Section 5309 discretionary grants (both through FTA channels and through direct Congressional earmark). Small transit systems often underachieve their potential for federal grant assistance because they assume they cannot compete in that arena. Close coordination with the Missouri Department of Transportation will help the transit systems be aware of opportunities and compete for funding.
- Planning for capital facilities should take into account long-range system development needs. Many transit systems outgrow their facilities quickly and face costly relocation and expansion needs because of inadequate space or other constraints.
- The transit financial management system should include specific provision for recapitalization of the fleet and of certain other capital investments. A sinking fund for capital replacement should be established and some amount of money from local funding sources should be set aside annually based on a recapitalization plan. Note that buses and certain other capital facilities purchased with federal cost participation (80 percent under SAFETEA-LU) are eligible for federal participation in the cost of replacement once they reach maturity (as defined in FTA rules based on vehicle mileage and age).

## Operations and Maintenance Funding

Over time, the primary financial requirement of a local or regional transit system will be funding routine operations and maintenance, including daily transit service, vehicle maintenance, and system administration. Labor represents about 75 percent of the costs of running a transit system with much of that going to drivers' salaries. The following strategies for funding operations and maintenance should be considered:

- Transit agencies, like highway agencies, require that most or all of their operations and maintenance funding come from dedicated sources so that they can undertake responsible planning and offer reliable, consistent service. Reliance on general fund appropriations from local governments should be avoided if possible. It is common for local and regional transit agencies in many states, including Missouri, to be dependent on annual appropriations from their constituent towns, cities, and/or counties. As a practical matter, this means it will not be possible to forecast future funding levels, given the exigencies of local government funding. Such a transit agency will be unable to undertake capital planning and will continually face potential service cutbacks. This, in turn, makes it difficult or impossible for the transit agency to enter into partnership arrangements with other agencies or with private entities.
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- It may be necessary to collect fares as part of system funding, but this is not an ideal source of revenue. Due to realities of our transportation system cost and financing structure, it is generally not possible to recoup more than 10 to 20 percent of operations and maintenance costs at the farebox in rural areas. Fare collection incurs costs for farebox maintenance, cash management, and auditing. Fare collection slows down vehicle boarding and increases operating costs by increasing the time required to run each route. Finally, fare collection deters ridership.
  - Operations and maintenance funding mechanisms should be designed explicitly to anticipate transit system growth. Successful rural and small urban transit systems around the United States are experiencing annual growth in ridership. It is important to be able to respond to such growth by increasing service levels to meet demand. This means that the ideal funding sources for operations and maintenance are those that have the flexibility to be increased or expanded as demand grows. Such flexibility will, in most cases, require voter approval, but the important consideration is that the need for growth has been anticipated and the potential for larger budgets is not precluded by the choice of a source of funding.

## Overall Service Considerations

There are also a few overarching considerations in developing a coherent transit system funding strategy including:

- Issues of funding and service equity are of paramount importance in designing funding systems. Informal systems based on annual appropriations and systems without specific accounting for the distribution of costs and benefits struggle with local elected bodies to find acceptable allocations of cost responsibility. This can become a significant barrier to transit system establishment and, later, to system growth.
- The strongest regional transit systems are those that make extensive use of partnerships. Examples include partnerships with private companies, partnerships with national parks or other major public facilities, and partnerships with adjacent jurisdictions. Partnership arrangements enable a transit system to broaden its base of beneficiaries, expand its funding source alternatives, achieve better governance, and improve public support.

## Potential Local and Regional Funding Sources

In Missouri, statutory municipalities and counties have the ability to fund transit through dedicated sales tax that is approved by the voters. The principal funding sources for local and regional transit systems in Missouri are described below.

- **General Fund Appropriations:** Counties and municipalities may appropriate funds for transit operations and maintenance and for transit capital needs. Funds to be appropriated come generally from local property taxes and sales taxes. Competition for such funding is tough and local governments generally do not have the capacity to undertake major new annual funding responsibilities for transit. Of the two major transit providers in Boone County, Columbia Transit currently receives no general fund appropriations from the city or county while OATS receives \$8,000 from the county and \$21,000 annually from the City of Columbia.
- **Advertising:** One modest but important source of funding for many transit services is on-vehicle advertising. The largest portion of this potential is for exterior advertising, rather than interior “bus card” advertising. The potential funds generated by advertising placed within the vehicles is comparatively low. Advertising on bus shelters has been used to pay for the cost of providing the shelter.
- **Voluntary Assessments:** This alternative requires each participating governmental entity (the cities and counties) and private businesses to contribute to



funding of the system on a year-to-year basis. This alternative is common for areas which provide regional service rather than service limited to a single jurisdiction. Advantages of this type of funding are that it does not require voter approval. However, the funding is not steady and may be cut off at any time.

- **Private Support:** Financial support from private industry can be a revenue source in providing adequate transportation services in Boone County. The major employers in Boone County are potential sources of revenue. These firms may be willing to help support alternative fuel vehicles or operating costs for employee transportation. Private industry is also a viable source of advertising revenue. OATS is an example of a provider which receives significant private support for capital purchases.
- **University of Missouri:** The University of Missouri currently helps support public transit in Columbia. The University funds campus shuttles operated by Columbia Transit. The University may be interested in supporting transit to the university from rural areas of Boone County. A student activity fee for transit allowing students to have unlimited rides is an excellent source of revenue. Open access provides a benefit to students. The University and Columbia Transit have begun discussions regarding University passes.
- **Transportation Impact Fees:** Traditional methods of funding the transportation improvements required by new development raise questions of equity. Sales and property taxes are applied to both existing residents and to new residents attracted by development. However, existing residents then inadvertently pay for public services required by the new residents. As a means of correcting this inequity, many communities nationwide, faced with strong growth pressures, have implemented development impact fee programs that place a fee on new development equal to the costs imposed on the community.

Previous work by LSC indicates that the levy of impact fees on real estate development has become a commonplace tool in many areas to ensure that the costs associated with a development do not fall entirely on existing residents. Impact fees have been used primarily for highways and roads, followed by water and sewer projects. A program specifically for mass transit has been established in San Francisco.

A number of administrative and long-term considerations must be addressed:

- It is necessary to legally ensure that the use on which the fees are computed would not change in the future to a new use with a high impact by placing a note restricting the use on the face of the plat recorded in public records.
- The fee program should be reviewed annually.
- The validity of the program, and its acceptability to the community, is increased if a time limit is placed on the spending of collected funds.

- Impact fee funds need to be strictly segregated from other funds.
- The imposition of a transportation impact fee program could constrain capital funding sources developed in the future, as a new source may result in a double payment.
- Impact fees should be collected at the time that a building permit is issued.
- **Lodging Tax:** The appropriate use of lodging taxes (occupancy taxes) has long been the subject of debate. Historically, the bulk of these taxes have been used for marketing and promotion efforts for conferences and general tourism. In other areas, such as resorts, the lodging tax is an important element of the local transit funding formula. A lodging tax can be considered as a specialized sales tax, placed only on lodging bills. As such, it shares many of the advantages and disadvantages of a sales tax. Taxation of this type has been used successfully in Park City, Utah; Sun Valley, Idaho; and Telluride and Durango, Colorado. A lodging tax creates inequities between different classes of visitors, as it is only paid by overnight visitors. Day visitors (particularly prevalent in the summer) and condominium/second home owners, who may use transit as much as lodging guests, do not contribute to transit. Chapter 67 Section 67.619 of the Missouri Revised Statutes discusses lodging taxes (Appendix R).
- **Sales Tax:** A sales tax currently exists for Columbia Transit. Sales tax is the financial base for many transit services in the western United States. The required level of sales tax would depend upon the service alternatives chosen. One advantage is that sales tax revenues are relatively stable and can be forecast with some degree of confidence although they do fluctuate with the economy. In addition, sales tax can be collected efficiently, and it allows the community to generate revenues from visitors in the area. This source, of course, would require legislative approval and a vote of the people to implement or increase the existing sales tax for transit. In addition, a sales tax increase could be seen as inequitable to residents not served by transit. This disadvantage could be offset by the fact that sales taxes could be rebated to incorporated areas not served by transit. Transit services, moreover, would face competition from other services which may seek to gain financial support through sales taxes.

The best and most versatile of the above long-range funding sources for local and regional transit services will most likely be a dedicated sales tax imposed by Boone County. This funding source offers a stable flow of revenue to operate the coordinated transit system. It will provide revenue for operations and local match for federal and state grants. Appendix R provides information on the use of sales tax for transit from the Missouri Revised Statutes.

## Federal Transit Funding Sources

On August 10, 2005 President Bush signed the Safe, Accountable, Flexible, and Efficient Transportation Equity Act-A Legacy for Users (SAFETEA-LU), providing \$286.4 billion in guaranteed funding for federal surface transportation programs over six years through FY 2009, including \$52.6 billion for federal transit programs—a 46 percent increase over transit funding guaranteed in the Transportation Efficiency Act for the 21<sup>st</sup> Century (TEA-21).

SAFETEA-LU builds on many of the strengths of rural transit's favorable treatment in TEA-21 and the Intermodal Surface Transportation Efficiency Act (ISTEA) (the two preceding highway and transit authorizations). Some of the desirable aspects of the rural transit program are brought into other elements of federal transit investment, and an increased share of the total federal transit program will be invested in rural areas under this new legislation.

Listed below are descriptions of federal funding programs which may be utilized in Boone County:

- **FTA Section 5309 Capital Improvement Grants:** These grants are split into three categories—New Starts, Fixed Guideway Modernization, and Bus and Bus Facilities. These funds were formerly apportioned directly by the FTA; however, Congress has earmarked these funds directly now for several years. There is no indication that this trend toward earmarking these funds will change. Columbia Transit and OATS are eligible for this program, and, in recent fiscal years, smaller urban and rural areas have received a greater share of these funds than in previous years.

SAFETEA-LU continues the longstanding guarantee that at least 5.5 percent of these discretionary grants be aimed at rural areas. Traditionally, Congress earmarks a far greater share of these grants for rural and statewide bus and facilities grants. Transit systems need to work diligently with their congressional representatives to obtain this grant funding.

- **FTA Section 5307 Public Transportation for Small Urbanized Areas:** Federal transit funding is currently provided through Public Transportation for Urbanized Areas. In small urbanized areas (under 200,000 population such as Columbia), funds are used for operating and nonoperating expenses. In large urbanized areas, funds cannot be used for operating expenses. Small urbanized areas have a 20 percent local match required for capital programs and a 50 percent match for operating expenditures.

- **FTA Section 5310 Capital for Elderly and Disabled Transportation:** FTA funds are available through the Section 5310 program. These funds are largely for vehicles and may be used to replace vehicles operated by agencies serving seniors and persons with disabilities.
- **FTA Section 5311 Public Transportation for Rural Areas:** Federal transit funding for rural areas is currently provided through the Public Transportation for Rural Areas program for nonurbanized areas. A 20 percent local match is required for capital programs and a 50 percent match for operating expenditures. This program has historically been the source of FTA funds for many rural areas in Missouri and, with the new SAFETEA-LU authorization bill, has seen a dramatic increase in funding level. OATS currently receives funding through this program. Many states are realizing at least twice the amount of 5311 funding under SAFETEA-LU. For federal fiscal year 2006, it is estimated that the State of Missouri will receive \$11,616,749 in FTA 5311 grant funding.
- **FTA Section 5312 Research, Development, Demonstration, and Training Projects:** The Secretary of Transportation may make grants or contracts that will help reduce urban transportation needs, improve mass transportation service, or help mass transportation service meet the total urban transportation needs at a minimum cost. The Secretary of Transportation may make grants to nonprofit institutions of higher learning:
  - To conduct research and investigation into the theoretical or practical problems of urban transportation.
  - To train individuals to conduct further research or obtain employment in an organization that plans, builds, operates, or manages an urban transportation system.

The grants could be for state and local governmental authorities for projects that will use innovative techniques and methods in managing and providing mass transportation.

- **FTA Section 5319 Bicycle Facilities:** These funds are to provide access for bicycles to mass transportation facilities or to provide shelters and parking facilities for bicycles in or around mass transportation facilities. To install equipment for transporting bicycles on mass transportation vehicles is a capital project for assistance under Sections 5309 and 5311. A grant under 5319 is for 90 percent of the cost of the project, with some exceptions.
- **Transit Benefit Program:** The “Transit Benefit Program” is a provision in the Internal Revenue Code (IRC) that permits an employer to pay for an employee’s cost to travel to work in other than a single-occupancy vehicle. The program is designed to improve air quality, reduce traffic congestion, and conserve energy by encouraging employees to commute by means other than single-occupancy motor vehicles.

Under Section 132 of the IRC, employers can provide up to \$100 per month to those employees who commute to work by transit or vanpool. A vanpool vehicle must have seating capacity of at least six adults, not including the driver, to qualify under this rule. The employer can deduct these costs as business expenses, and employees do not report the subsidy as income for tax purposes. The subsidy is a qualified transportation fringe benefit.

- **Job Access and Reverse Commute Program (JARC):** This program, funded through SAFETEA-LU, has an emphasis on using funds to provide work-related transportation for low-income workers. The list of eligible applicants includes states, metropolitan planning organizations, counties, and public transit agencies, among others. It is estimated that the State of Missouri will receive \$284,060 for small cities and \$800,000 for rural areas in JARC funding in FY 2006. A 50 percent non-Department of Transportation match is required; however, other federal funds may be used as part of the match. FTA gives a high priority to applications that address the transportation needs of areas that are unserved or underserved by public transportation.
- **FTA Section 5308 Clean Fuels Grant Program:** This program is made available to projects in the Bus and Bus Facilities program (Section 5309) and can be used in the procurement of equipment and facilities which use clean fuel technology such as bio-diesel and Compressed Natural Gas (CNG). This funding is only available to public transit operators in clean air nonattainment or maintenance areas in urban and rural areas.
- **Rural Transit Assistance Program (RTAP):** This program provides a source of funding to assist in the design and implementation of training and technical assistance projects and other support services tailored to meet the needs of transit operators in nonurbanized areas. RTAP has both state and national program components. The state program provides an annual allocation to each state to develop and implement training and technical assistance programs in conjunction with the state's administration of the Section 5311 program formula assistance program. The national program provides for the development of information and materials for use by local operators and state administering agencies and supports research and technical assistance projects of national interest.
- **FTA Section 5317 New Freedom Program:** This program is a new element of the SAFETEA-LU authorization with the purpose of encouraging services and facility improvements to address the transportation needs of persons with disabilities that go beyond those required by the Americans with Disabilities Act (ADA). To encourage coordination with other federal programs that may provide transportation funding, New Freedom Grants will have flexible matching share requirements. The State of Missouri has a FY 2006 allocation of \$157,112 in New Freedom Grant funding for the small urban areas and \$422,493 for rural areas.
- **Transportation and Community System Preservation Program:** This program is funded by the Federal Highway Administration to provide discretionary grants to develop strategic transportation plans for local governments and

communities. The goal of the program is to promote livable neighborhoods. Grants may be used to improve the safety and efficiency of the transportation system; reduce adverse environmental impacts caused by transportation; and encourage economic development through access to jobs, services, and centers of trade.

- **Other Federal Funds:** The US Department of Transportation funds other programs including the Research and Special Programs Administration (RSPA), and the National Highway Traffic Safety Administration's State and Community Highway Grants Program funds transit projects that promote safety.

A wide variety of other federal funding programs provide support for elderly and handicapped transportation programs. Some of these are currently being utilized in the region and others can be explored further, including the following:

- Retired Senior Volunteer Program (RSVP)
- Title IIIB of The Older Americans Act
- Medicaid Title XIX
- Veterans' Affairs
- Job Training Partnership Act (JTPA)
- Temporary Assistance for Needy Families (TANF)
- Developmental Disabilities
- Housing and Urban Development (Bridges to Work and Community Development Block Grants)
- Head Start
- Department of Energy
- Vocational Rehabilitation
- Health Resources and Services Administration
- Senior Opportunity Services
- Special Education Transportation
- Weed and Seed Program, Justice Department
- National Endowment for the Arts
- Rural Enterprise Community Grants, Agriculture Department
- Department of Commerce, Economic Development and Assistance Programs
- Pollution Prevention Projects, Environmental Protection Agency

## Funding Recommendations

LSC recommends that two major sources of funding be utilized to operate this service. These are:

## *Potential Funding Sources*

1. ***Dedicated Tax:*** A dedicated tax approved by the voters provides the most stable funding available to operate a transit system. We suggest a countywide sales tax to be considered for transit services. Surveys conducted earlier in this study did not show strong support for additional sales tax to fund transit. This does not necessarily doom any effort to obtain additional tax support. Developing a coordinated transit system and effective marketing will be essential in convincing the public of the need to provide additional taxation.
2. ***Federal Funding:*** FTA Sections 5307, 5311, and 5310 funding will be especially useful for funding both operational costs and capital costs of a coordinated service. Boone County will be eligible for these funds. We also recommend working closely with state officials and the Missouri Congressional delegation to earmark Section 5309 funding for the purchase of new buses and bus facilities. LSC also recommends the use of Section 5317 New Freedom funds for the program for new services beyond those required by the ADA. Having a coordinated service to meet the needs of persons with disabilities should meet the criteria for this new grant program.