



Institutional and Financial Alternatives

INTRODUCTION

One of the principal challenges facing any Montana transit system is developing a funding system that supports capital investment (buses, maintenance facility, etc.) and provides a stable source of revenue for operations and maintenance. Organizational and legal issues for multi-jurisdictional transit agencies further compound this challenge. This chapter provides an evaluation of funding and organizational alternatives for transit in Flathead County.

FUNDING SOURCES

Successful 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 systems in Flathead County are described below.



Capital Funding

The transit system for this region will 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, both within existing 5311 programs, and through pursuit of 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 Montana Department of Transportation (MDT) will help the transit systems be aware of opportunities and compete for funding.
- In general, the best use of federal discretionary grant funding is for capital needs since this is a highly speculative source of money that requires exten-

sive political effort at a level that is feasible only as a one-time or occasional undertaking.

- 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).

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:

- 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 Montana, 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 cut-backs. This, in turn, makes it difficult or impossible for the transit agency to enter into partnership arrangements with other agencies or with private entities. 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.
- 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 Montana, statutory municipalities and counties have only those powers to fund transit that are explicitly created by state statute. The principal funding sources for local and regional transit systems in Montana are described below.

- **General Fund Appropriations:** Counties and municipalities may appropriate funds for transit operations and maintenance and for transit capital needs. Money to be appropriated comes 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. Eagle Transit currently relies on funding from local communities, but receives no funding from Flathead County for general public transportation.

- **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 is essential to provide adequate transportation services in Flathead County. This financial support should continue even if an Authority is established to ensure that adequate service is provided. The major employers in the Flathead County area are potential sources of revenue. These firms may be willing to help support alternative fuel vehicles or operating costs for employee transportation.
- **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. However, this is not a likely source for transit funding in rural Montana.

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.
 - TIF funds need to be strictly segregated from other funds.
 - The imposition of a TIF program could constrain capital funding sources developed in the future, as a new source may result in a double payment.
 - TIF fees should be collected at the time that a building permit is issued.
- **Hotel Bed Tax:** The appropriate use of lodging taxes (a.k.a. occupancy taxes) has long been the subject of debate. Historically, the bulk of these taxes are 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.
 - **Sales Tax:** A sales tax could be held with funds to go to transit services. 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 a high degree of confidence. 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. 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.
 - **Property Tax for Special Transportation:** Section 7-14-111 of the Montana Code states that a county, urban transportation district, or municipality may, in addition to all other property tax levies authorized by law, levy up to one mill of property taxes to fund special transportation services for senior citizens and handicapped persons. The proceeds of the levy may be used to contract with public or private transportation providers for services to senior citizens and disabled individuals, or to augment or subsidize provisions for the transportation of senior citizens and disabled individuals provided by the public transportation providers.
 - **Urban Transportation District:** Section 7-14-201 provides authority for Montana counties to establish Transportation Districts. The Districts may be

created if the residents within the proposed district boundaries vote in favor of the measure. The District is administered by a transportation board. The board members are elected by the public during the general election process. The board has the power to establish, operate, improve, maintain, and administer the transportation district. The District shall primarily serve the residents within the boundaries, but may authorize service outside the District where deemed appropriate.

The District may borrow money by the issuance of general obligation bonds or revenue bonds or a combination thereof to provide funds for the District. A Transportation District could be created for the entire Flathead County or a designated area within the county.

- **Service Districts:** This funding option was authorized in 1985 by the State Legislature. This procedure requires the establishment of a special district, like a Special Improvement District or a Rural Special Improvement District or a Multi-Jurisdictional Service District. These districts would operate as the Transportation District mentioned previously. The structure of the funds is with bonds issued with the backing of local governments that would be used to cover the cost of the improvements. Revenue to pay for the bonds would be raised through assessments against property owners in the District.
- **Local Option Gas Tax:** State law allows for the establishment of a county-wide local option gas tax of up to two cents per gallon if the measure is approved by the voters in the county. A fund of this nature could provide for the implementation for recommended transit improvements contained in this plan. The primary advantage offered by such a mechanism is that only the users (both residents and visitors) of the transportation system are taxed. Fees paid by the individual users would vary according to their use of the transportation system.
- **Local College Funding:** A strategy successfully applied in several similar cities to generate transit revenues from campus communities is to levy a student activity fee for transit services or an established amount from the college general fund. An activity fee would have to be approved by a majority of students and would be applied each semester or quarter of school.

The revenue estimates for an activity fee are based on approximately 1,000 students enrolled each semester at the Flathead Valley Community College campus. If a \$5.00 fee was accepted, approximately \$5,000 would be generated each semester for transit service. An activity fee would not dip into the college's general fund. The additional funds would allow transit service for the college students, including more frequent service or possibly a night route.

The best and most versatile of the above funding sources for local and regional transit services is the Transportation District, which offers more options for funding sources and much greater flexibility in designing the boundaries and makeup of a multi-jurisdictional transit system.

Other Federal Funding Programs

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

TransADE Program

In April of 2001, the Montana State Legislature passed Senate Bill 448, which established the Transportation Assistance for the Elderly and Persons with Disabilities (TransADE) Program. This grant program provides funds for up to 50 percent of the transportation operating costs for the elderly and disabled throughout Montana. Eligible recipients are counties, incorporated communities, transportation districts, and non-profit organizations. Eagle Transit should have discussions with incorporated areas within the county to apply for this funding.

Surface Transportation Program (STP)

The funds from this program may be spent on any road that is functionally classified as a Collector or Arterial for urban streets or as a Major Collector or Arterial for rural areas. The type of projects may range from rehabilitation to new construction. These funds may also be used for transit projects.

Older Americans Act

Through the Administration on Aging's Title III-B program, funds are awarded on a formula basis to state and area agencies on aging for the purpose of providing supportive services for older persons, including the operation of multipurpose senior centers. Many area agencies on aging use these funds to help meet the transportation needs of older persons.

Rural Development Loan Fund

These loans finance business activities in rural communities and towns with a population of less than 25,000. Transportation facilities and other community development projects are among the eligible uses of borrowed funds. Some loans are made to direct borrowers; others are awarded to national and local nonprofit intermediaries. These intermediaries then make and service loans to individual borrowers.

Department of Commerce, Economic Development Administration

Grants support capital facilities in economically-distressed areas, including transportation facilities and infrastructure improvements. Funds also are available for planning and adjustment assistance in communities experiencing severe economic deterioration. Public bodies, private nonprofit organizations, and Indian tribes are eligible applicants.

Supportive Housing for Persons with Disabilities

This Department of Housing and Urban Development, Office of Housing program helps private nonprofit entities provide housing and necessary supportive services for low-income persons with disabilities. Transportation is among the supportive services that may be funded through this program.

Supportive Housing Program

The Supportive Housing Program provides a broad range of assistance for housing and related services for homeless persons. Transportation to link supportive housing residents with other necessary services may be funded. State and local governments, private nonprofit agencies, and community mental health associations are eligible to apply.

Office of Public and Indian Housing, Public Housing Drug Elimination Program

The Public Housing Drug Elimination Program (DEP) provides grants to reduce drug-related crime and criminal activities in and around public housing developments. Funds may be used to support transportation activities or services to reduce the incidence of drug-related crime and other criminal activities. Public and Indian housing authorities are eligible applicants.

Resident Opportunities and Self Sufficiency Program

Known as ROSS, this program links public and Indian housing residents to needed services by providing grants for supportive services, resident empowerment activities, and activities that assist residents in becoming economically self-sufficient. Transportation-related activities and services are allowable uses of this program's funds.

Department of Justice Weed and Seed Program

This program seeks to combat violent crime through a multi-faceted approach of crime prevention and community improvement strategies, including the improvement of facilities and services (such as those related to transportation) in high-crime areas. Much of Weed and Seed's activity is the provision of training and technical assistance to areas seeking to implement these strategies. In addition, the program funds local efforts being carried out by coalitions of community groups, local governments, and US Attorneys' offices.

Senior Community Service Employment Program

This program, authorized by Title V of the Older Americans Act, provides formula grants to states and grants to national nonprofit organizations for subsidized employment and related services for low-income elders. Transportation is among the services provided through this program.

Workforce Investment Pilot and Demonstration Programs

This is a program of demonstrations and innovations in providing job training services. Particular emphases are to initiate pilot projects operating in more than one state and to serve groups with particular labor market disadvantages. Transportation services that are part of these projects can be supported.

Workforce Investment Act Programs

The Workforce Investment Act (WIA) provides funding to state and local workforce development agencies for a variety of youth, adult, and dislocated worker employment and training services. States may use these funds to help provide transportation to training programs for program participants. State employment and training agencies receive these funds, which then are passed on to area workforce development boards, who allocate program resources according to local workforce development plans.

Veterans' Employment and Training Service, Homeless Veterans' Reintegration Project

This is a program of discretionary grants to local public and private nonprofit organizations to provide employment and training services that help urban and

Institutional and Financial Alternatives

rural homeless veterans reenter the workforce. Funds may be used to provide transportation, outreach, and other support services.

Department of Education, Federal TRIO Programs

TRIO is a program of outreach and support targeted to help disadvantaged students progress from middle school to college. TRIO's Student Support Services program provides supportive services to disadvantaged college students with the goal of helping these students successfully complete their studies. Grants are awarded to institutions of higher education, which then may provide a broad range of supportive services (including services to help students with disabilities overcome transportation or other access barriers) to eligible students.

Vocational Rehabilitation Grants

Vocational rehabilitation funds are distributed to state rehabilitation agencies on a formula basis to provide a full range of rehabilitative services. Funds may be used for transportation to these services.

Centers for Independent Living

This program provides support to local nonprofit centers for independent living, enabling them to provide training, counseling, advocacy, and supportive services to individuals with significant disabilities. Transportation services are provided through this program. These funds are only awarded to local nonprofit centers.

Temporary Assistance for Needy Families

States receive these formula grants, known as TANF, to provide cash assistance, work opportunities, and necessary support services for needy families with children. States may choose to spend some of their TANF funds on transportation and related services needed by program beneficiaries.

Head Start

Head Start is a program of comprehensive services for economically-disadvantaged preschool children. Funds are distributed to tribes and local public and nonprofit agencies to provide child development and education services, as well as supportive services such as transportation. Head Start funds are used to provide trans-

portation services, acquire vehicles, and provide technical assistance to local Head Start centers.

Developmental Disabilities Basic Support and Advocacy Grants

This program provides formula grants to state agencies serving the developmentally disabled for the purpose of enabling persons with developmental disabilities to become fully integrated into their communities. Funds are used to support the activities of state developmental disabilities planning councils, and to provide a variety of support services, including transportation.

Social Services Block Grants

Also known as Title XX, this program provides formula funds to state welfare agencies to provide social services, including transportation services, that help individuals reduce welfare dependency, achieve self-sufficiency, or forestall unnecessary use of institutional care. Since the advent of welfare reform in 1996, there has been a decline in federal support for this program.

Community Health Centers

This program supports primary health care centers in medically-underserved areas, migrant communities, public housing sites, and at organizations providing medical care to homeless persons. Funds may be used to provide transportation services as necessary to provide health care services. Private nonprofit and public health agencies are eligible applicants.

Rural Health Outreach and Research

Funds are provided for demonstration grants to expand or enhance the availability of health services in rural areas, and for applied research in the field of rural health services. Transportation services that improve the availability of rural health care can be funded through this program. Public agencies and private nonprofits are eligible applicants.

Medicaid

Medicaid is a program of medical assistance for qualified low-income persons and persons with disabilities. Under this program, states are required to arrange for

transportation of beneficiaries to and from medical care. Individual states determine how transportation costs are to be paid and which transportation providers are eligible program participants.

Corporation For National Service, National Senior Service Corps

The National Senior Service Corps provides volunteer and community service opportunities for older persons through three programs: the Foster Grandparent Program, the Retired Senior Volunteer Program, and the Senior Companion Program. In each of these, program funds may be used to support the transportation needs of program participants.

Funding Summary

Experience with transit systems across the nation underscores the critical importance of dependable (preferably dedicated) sources of funding if the long-term viability of transit service is to be assured. Transit services dependent on annual appropriations and informal agreements—such as those in Flathead County, Montana; Teton County, Wyoming; and Prowers County (SEATS), Colorado—have suffered from reduced ridership (as passengers are not sure from one year to the next if service will be provided), high driver turnover (contributing to low morale and a resulting high accident rate), and inhibited investment in both vehicles and facilities.

In addition, the advantages of financial stability indicate that a mix of revenue sources is prudent. The availability of multiple revenue sources helps to avoid large swings in available funds which can lead to detrimental reductions in service. As the benefits of transit service extend over more than one segment of the community, moreover, dependence on more than one revenue source helps to ensure that costs and benefits are equitably allocated.

Due to the small amount of state transit funding in Montana and the changes seen in the amount of federal funding, it is evident that transit funding problems must be addressed at the local level. The problem with most small or rural agencies is appropriating the local match for operating assistance. The state currently has a

surplus of 5311 funding; however, difficulties in locating the required local match have eliminated some agencies from taking full advantage of the surplus.

State funding and federal funding are not consistent. Only a strong local transit subsidy funding source will allow the many plans and proposals for transportation improvements to reach implementation with an assurance of ongoing operating funding. Though all of the options regarding local funding have drawbacks, it is clear that a hybrid of these alternatives will be necessary if the environmental goals of the area and the economic benefit of a comprehensive, convenient transit system are to be met.

ORGANIZATIONAL STRUCTURE

The identification of a cost-effective and geographically appropriate institutional form for the provision of transit is a key element in the improvement of public transportation services. This Plan approaches institutional alternatives from a practical standpoint rather than from a theoretical one. As the population in the region grows and changes, so will the demands upon the existing agencies.



An important objective of this study is to present recommendations for an institutional framework and a financing plan for public transit which are acceptable to the parties involved and which can be realistically implemented. With this goal in mind, the following discussion presents an analysis of the most appropriate alternatives and a basis for making a decision.

Eagle Transit is operated under Flathead County through the Area Agency on Aging (AOA). The AOA is the FTA grant recipient of Section 5311 Program Funds. The AOA works with both the AOA Board of Directors as well as the Transit Advisory Board for Eagle Transit, which is ultimately under the Authority of the Board of County Commissioners.

Criteria for the Institutional Structures

The history of transit organizations serving scattered urban areas and areas with low population densities indicated the following criteria should guide the selection of the institution for managing and improving operating transportation services in Flathead County. It should be an entity:

- whose structure is legitimate and whose policy-making actions are authorized and defensible;
- which can limit the exposure of the participants to suits and claims of liability;
- which can be responsive to the complete policy-making and management needs of the transit organization;
- which has political and financial support and can endure more than one year at a time; and
- which can annually perform proactive planning to improve the system, and effectively identify and implement improvements regularly and easily.

Transit services throughout the West have a variety of organizational homes, from independent agencies (Aspen and Crested Butte, Colorado), to transit districts (Utah Transit Authority or Missoula, Montana), to departments of a municipal government (Logan, Utah), to departments of county government, such as Summit County (Colorado), to nonprofit corporations (Mesa County, Colorado and Casper, Wyoming).

A **Department of County Government**, which reflects the current system, is one alternative to consider and has worked well in the past. The current transit system with Flathead County can contract with human service agencies or private entities to provide specified transportation services. Advantages to this type of organizational structure are that the county has an established name for providing transportation for the elderly and the disabled populations and the county system has the broadest possible tax base.

Urban Transportation Districts are complex organizations. The organizational structure is determined in part by statute and in part by the intergovernmental agreement creating the district. There is considerable flexibility to design an

organization that has the support of the member governments and the public. One significant advantage of the district is the capability to bring several municipalities and counties together in funding and operating a transit system.

Summary

Table X-1 ranks each institutional alternative according to four factors: legal capability, revenue generation capacity, administrative impacts, and political acceptability. Legal capability refers to the existence of statutory authority. Revenue generation capacity refers to the capability of funding sources to generate adequate funding levels relative to projected subsidy requirements. Administrative impacts refer to the level of effort involved in implementing a funding mechanism and the ability to provide coordinated service throughout Flathead County. Political acceptability refers to the likelihood of a given funding mechanism to be accepted by the public and the local, elected officials.

Table X-1 Institutional Alternatives Comparison Matrix				
Institutional Alternative	Legal Capability	Revenue Generation Capacity	Admin. Impacts	Political Acceptability
County Department	■	■	■	◐
Urban Transportation District	■	■	□	□
Legend: ■ = strong/acceptable ◐ = moderate/satisfactory □ = weak/unacceptable				
<i>Source: LSC, 2005.</i>				

As the table shows, the alternatives are permitted legally, with each alternative having the same authority to engage in certain activities related to revenue generation. The second column, Revenue Generation, shows that all of the alternatives have moderate or strong abilities to generate funding. The third column in the table indicates there would be some administrative impacts to providing transit under a new framework. The County Department is rated strongly because it is the existing system for Eagle Transit. The alternatives are rated as having moderate

Institutional and Financial Alternatives

or weak political acceptability, including the existing County Departments. As previously mentioned, the Urban Transportation District has political advantages such as coordinating multiple agencies into a single one, and disadvantages related to the strong powers.