

Financial and Institutional 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 the funding and organizational alternatives for transit within the Big Sky area.

FUNDING SOURCES

Successful transit systems are strategic about funding and attempt 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-range and short-range plans. Potential strategies for funding the transit system within the Big Sky area are described below.



Capital Funding


If the transit system in Big Sky were to be operated by the Transportation District, there would be a large capital investment which would need to take place for service to happen. Snow Express would require capital funding for bus fleet procurement and for improvements and additions of transit facilities (bus stop and other improvements). However, it may be beneficial for the area to continue to contract for service rather than incur the capital and administration needed by a transit system. The following strategies for funding capital development could be considered if the District were so inclined to pursue operating the system on their own.

Federal funding (along with any local match funds) could become available if service were to operate year-round, with the local match coming from within the existing Resort Tax Board program. Additionally, if Big Sky were to operate year-round service, federal funding may very well be a potential source of substantial funding leveraged through the Resort Tax local match.

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 will help Snow Express to remain aware of funding opportunities and compete for future 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 extensive political effort at a level that is feasible only as a one-time or occasional undertaking.

Planning for capital facilities, such as bus and bus facilities, in the next 15 to 20 years looks at the 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. Snow Express's financial management system should include specific provisions for fleet replacement and other capital investments if they do indeed seek to operate a general public system. A sinking fund for capital replacement should be established, and some amount of money from local funding sources should be set aside annually based upon a recapitalization plan. Note that buses and certain other capital facilities purchased with federal participation (80 percent under SAFETEA-LU) are also eligible for federal participation in the replacement costs once the buses and facilities reach maturity (as defined in the FTA rules).

Operations and Maintenance Funding

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

Snow Express realizes it may be necessary to collect fares as part of the transit system funding, but this is not an ideal source of revenue. Due to the realities of a transportation system's cost and financing structure, it is generally not possible to recoup more than 10 to 20 percent of operations and maintenance costs from the farebox revenues within resort areas. Fare collection itself incurs costs for farebox maintenance, cash management, and auditing. However, fare collection deters ridership. Many resort-type transit systems do not charge for rides. Snow Express currently does not charge fares; however, from limited survey information, passengers may be willing to pay a small (\$0.50 to \$1.00) fare per ride. It is not likely that a fare structure will occur in the near future. Implementing a fare is likely to decrease ridership.

Operations and maintenance funding mechanisms should be designed to anticipate transit system growth. It is important to be able to respond to such growth by increasing the service levels to meet the demand; however, this can be difficult when ridership may very well be determined by how much snow falls. 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 approval from the Resort Tax Board.

Overall Service Considerations

The issues of funding and service equity are of paramount importance in designing a strategy for future funding. Informal systems based upon annual appropriations, as well as systems without specific accounting for the distribution of costs and benefits, struggle to find acceptable allocations of cost responsibility. This can become a significant barrier to transit system establishment and, later, to system growth.

The strongest transit systems are those that make extensive use of partnerships. Examples include partnerships with private companies, with national parks or other major public facilities, and 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 Funding Sources

In Big Sky, the Big Sky Transportation District has the power to levy taxes to fund the transit system. Since the system does not operate year-round service, Snow Express is currently ineligible for federal funding through the Montana DOT or the Federal Transit Administration. Since Big Sky is not an incorporated entity, local funding must be dedicated from the Resort Tax Board annually. This is likely to remain the main source of local funding in the area. However, a variety of other local funding is available in Montana. These are described below.

Advertising

One modest but important source of funding for many transit agencies 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 are comparatively low. Advertising on bus shelters has been used to pay for the cost of providing the shelter.

Voluntary Assessments

The voluntary assessments alternative requires each participating entity and private business to contribute to the funding of the transit system on a year-to-year basis. This alternative is common with transit agencies that provide regional service, rather than service limited to a single area. The main advantage of voluntary assessment funding is 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 business is essential to providing adequate transportation services within Big Sky. The major employers in Big Sky are potential sources of revenue. These firms may be willing to help support the cost of alternative fuel vehicles or the operating costs for employee transportation. This may be a viable source if expanded employee service is to be offered from Bozeman.

Transportation Impact Fees

The traditional methods of funding the transportation improvements required by new development raise questions of equity. Sales taxes and property taxes are

applied to both existing residents and to new residents attracted by the development. However, existing residents then inadvertently pay for the 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 upon new developments equal to the costs imposed upon the community.

Previous work by LSC Transportation Consultants, Inc. indicates that the levy of impact fees on real estate development has become a commonplace tool in many regions to ensure that the costs associated with a development do not fall entirely upon the existing residents. Impact fees have been used primarily for highways and roads, followed by water and sewer projects.

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 by placing a note restricting the use on the face of the plat recorded in public records. The transportation impact 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 upon the spending of collected funds. Transportation impact fee funds need to be strictly segregated from other funds. Fees should be collected at the time that a building permit is issued. The imposition of such a fee program could constrain capital funding sources developed in the future as a new source may result in a double payment.

Lodging Tax

The appropriate use of lodging taxes (occupancy taxes) has long been the subject of debate. Historically, the bulk of lodging 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 a specialized sales tax placed only upon 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; Telluride, Colorado; and Durango, Colorado. A lodging tax creates inequities between different classes of visitors as it is only paid by overnight

visitors. The day visitors (particularly prevalent in the summer) and condominium/second home owners, who may use the transit system as much as the lodging guests, do not contribute to this transit funding source.

Sales Tax

A sales tax could be created to fund transit service. A sales tax is the financial base for many transit agencies throughout the United States. The required level of sales tax would depend upon the transit service alternatives chosen. The advantages are 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 allows the community to generate revenues from visitors to the area. The disadvantages are that a sales tax 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 the incorporated areas not served by transit. Another disadvantage is that transit agencies would face competition from other services which may seek to gain financial support through sales taxes.

Federal Transit Funding Sources

Through the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU), the federal government has substantially increased the transit funding levels for small urban and rural areas. In addition, changes in program requirements have provided increased flexibility regarding the use of federal funds. Following are discussions of the federal transit funding programs available for which Big Sky may become eligible if year-round general public transportation is offered.

FTA Section 5309 Capital Improvement Grants

FTA Section 5309 capital improvement grants are split into three categories: new starts, fixed guideway modernization, and transit vehicles and facilities. These funds were formerly apportioned directly by the FTA. For several years, however, Congress has earmarked these funds directly. There is no indication that this trend toward earmarking these funds will change. In recent fiscal years, smaller

urban and rural areas have received a greater share of these funds than in previous years.

FTA Section 5311

FTA funding for rural areas is currently provided through the Section 5311 Public Transportation for Rural Areas program. A 20 percent local match is required for capital expenditures, and a 50 percent local match is required for operating expenditures. These funds are segmented into “apportioned” and “discretionary” programs. The bulk of the funds are apportioned directly to rural counties based upon population levels. The program has historically been the source of FTA funds for many rural areas within Montana.

FTA Section 5312 Research, Development, Demonstration, and Training Projects

The FTA Section 5312 program provides funding for research, development, demonstration, and training projects. The Secretary of Transportation may provide 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 also provide grants to nonprofit institutions of higher learning to conduct research and investigation into the theoretical or practical problems of urban transportation and 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 may be provided to 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

FTA Section 5319 funds are used to provide improved access for bicycles to mass transportation facilities or to provide shelters and parking facilities for bicycles in or around mass transportation facilities. Installing equipment for transporting bicycles on mass transportation vehicles is a capital project which is eligible for assistance under FTA Section 5319. FTA Section 5319 grants provide funding for 90 percent of the project cost, with some exceptions.

Transit Benefit Program

The transit benefit program is a provision within the Internal Revenue Code 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 Internal Revenue Code, employers can provide up to \$105 per month to those employees who commute to work by transit or vanpool. A vanpool vehicle must have a 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. Employees do not report the subsidy as income for tax purposes since the subsidy is considered a qualified transportation fringe benefit.

Job Access and Reverse Commute Program

The Job Access and Reverse Commute program, funded previously through TEA-21, has an emphasis on using funds to provide transportation within rural areas that currently have little or no transit service. The list of eligible applicants includes states, metropolitan planning organizations, counties, and public transit agencies, among others. Of the \$124 million that was available for the program in fiscal year 2005, none was allocated to the State of Montana. A 50 percent non-Department of Transportation match is required, but 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 under-served by public transportation.

Transportation and Community System Preservation Program

The transportation and community system preservation program is funded by the Federal Highway Administration to provide discretionary grants for developing strategic transportation plans for local governments and communities. The goal of the program is to promote livable neighborhoods. Grant funds 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.

CMAQ Funding

These are Federal Highway Administration funds that are eligible to communities that are designated a non-attainment area. These funds per SAFETEA-LU can be transferred from FHWA to FTA for use on transit projects and programs. The program is to reduce air pollution within the non-attainment area. The funding is allocated by state, and the regional MPO section selects the projects that will be funded based on a competitive process for urban areas.

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 agencies that are dependent upon annual appropriations and informal agreements have suffered from reduced ridership (because passengers are not sure if service will be provided from one year to the next), high driver turnover (contributing to low morale and a resulting high accident rate), and inhibited investment in both vehicles and facilities. Such transit agencies include those in Teton County, Wyoming and Prowers County (SEATS), Colorado.

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, dependence upon more than one revenue source helps to ensure that costs and benefits are equitably allocated.

Due to the fact the Big Sky currently receives no state or federal transit funding, it is evident that transit funding problems must be addressed at the local level. State 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 short-term and long-range goals of the transit system and the community are to be met.

ORGANIZATIONAL STRUCTURE FOR GENERAL PUBLIC SERVICE

Before the first transit passenger can be served, before the first bus can be purchased, and before the first dollar of funding can be generated, an institutional structure must be developed to manage and operate the transit service. The identification of a cost-effective institutional form for the provision of transit is thus a key element in the improvement of public transportation services.

The Big Sky Transportation Development Plan approaches institutional alternatives from a practical standpoint rather than from a theoretical one. As the population in the area changes, so will the demands upon the existing agencies. Big Sky currently operates its transit service using dedicated resort taxes. The present organizational structure has managed to support the provision of transit service over the last few years, and it should be able to operate the system into the future. The current structure does reflect an ongoing, long-term commitment to the provision of transit service, but does not provide a dedicated long-term funding source. It is difficult to rationally plan for the long-term provision of transit service. The amount of service to be provided from one year to another is not known until funding sources are determined.

An important objective of this study is to present recommendations for an institutional framework and a financing plan for transit service 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. Alternatives look at both continuing Snow Express as a seasonal service as well as expansion to a year-round general public service.

Criteria for Institutional Structures

Transit services throughout the United States have a variety of organizational homes, from independent agencies (such as Huntington, West Virginia and Aspen and Crested Butte, Colorado) to transit districts (such as the Dawson County Transit District, Montana or Utah Transit Authority) to departments of a municipal government (such as Colorado Springs, Colorado or Logan, Utah) to departments

of county government (Summit County, Colorado) to nonprofit corporations (such as Mesa County, Colorado and Casper, Wyoming).

Based upon the history of transit organizations serving scattered urban areas and areas with low population densities, the following criteria should guide the selection of the institution for managing and operating improved transportation services within Big Sky.

The institutional structure should be an entity:

- whose structure is legitimate.
- 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 to endure more than one year at a time.
- which can annually perform proactive planning to improve the system, and can effectively identify and implement improvements regularly and easily.
- which has a full-time management/coordinator position that deals with all operational and administrative issues for transit, and works to improve the visibility of transit within the community through an aggressive marketing program.

Alternatives for the Big Sky Area

Transportation District

Transportation districts are complex organizations. The organizational structure is determined in part by statute and in part by the agreement creating the district. There is considerable flexibility in designing an organization that has the support of the public. One significant advantage of the district is the capability to bring several independent agencies and organizations together in funding and operating a transit system. The District must be approved by local residents which requires a significant grass-roots effort to rally support for public transportation.

Private Independent Agency

Private independent agencies, such as local resorts, are organizations which have considerable funding capability. Local resorts particularly have the means to market and raise substantial funds for operating transit systems. Several resort areas in the west operate their own transit systems, supported by various funding strategies, including lift ticket sales and lodging funds. However, these funds may vary slightly from year to year as they are dependent upon a successful tourism base. A private transit agency has some flexibility in terms of service areas. A privately-funded system may then only serve those areas which it deems appropriate in terms of serving the population which supports its business venture. Those areas outside the primary service area may then opt to contract for service to their business for example. This is not seen as a viable option in the Big Sky area as some businesses cannot afford to pay for service, yet may contribute to the tourism base. For example, a local hotel may not be able to budget for additional transportation costs to pay for service to their establishment, yet provide a service for those who may then use the ski areas.

Private transportation agencies must rely greatly upon themselves for establishing the overall funding base to provide that service. This is a great risk taken upon a single business or corporation. If however, several businesses can cooperate together, this can be successful.

Private Nonprofit Agency

Private nonprofit agencies—such as MesAbility, Inc. in Mesa County, Colorado—are agencies which provide either contract service or offer service under their own agency's programs. MesAbility—a private nonprofit organization—operates, under contract, Grand Valley Transit in Mesa County and specifically, Grand Junction Colorado. Private nonprofit agencies—such as senior coalitions, Area Agencies on Aging, mental health agencies, and other such centers or organizations which promote independence—are typical agencies which may provide transportation to clients. Typically, there are very few general public providers who fall into this category. This may not be an appropriate institutional alternative for the Big Sky resort area. There are no private nonprofit agencies identified in the area who would be willing provide transportation services.

Transportation Management Association (TMA)

TMAs have emerged over the past 20 years as public-private partnerships focused on managing transportation. Frequently, TMAs are established by employers seeking to reduce the cost of commuter transportation and provide transportation benefits to their employees. The strength of a TMA is the cooperative effort of multiple private enterprises and governmental entities. One example of a successful TMA is the Missoula-Ravalli TMA (MR TMA) operating in Missoula and Ravalli County, Montana. The main effort MR TMA is engaged in is ridematching and vanpool service. This type of organization is successful for organizing employee-related transportation initiatives.

The role of a TMA can vary widely. A TMA may function only as an advocacy group representing the members regarding transportation issues. Frequently, a TMA will provide rideshare matching services. Other services provided by a TMA may include parking management, carpool and vanpool formation, vanpool subsidies, operation of transit shuttles, coordination of transit services, and promotional activities. A major benefit of a TMA is the strength which comes from the cooperative efforts of a number of organizations, either public or private. Together, the entities are able to achieve actions which could not be accomplished individually.

Summary

Table IX-1 ranks each institutional alternative according to four factors:

- legal capability
- revenue generation capacity
- administrative impacts
- 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 the Big Sky area. Political acceptability refers to the likelihood of a given funding mechanism to be accepted by the public and the local elected officials.

Table IX-1 Institutional Alternatives Comparison Matrix				
Institutional Alternative	Legal Capability	Revenue Generation Capacity	Admin. Impacts	Political Acceptability
Transportation District	■	■	■	◐
Private Independent Agency	■	■	□	□
Nonprofit Agency	■	◐	□	□
TMA	■	□	◐	□
Legend:	■ = strong/acceptable ◐ = moderate/satisfactory □ = weak/unacceptable			
Source: LSC, 2005.				

The first column (legal capability) in Table IX-1 shows that all of 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 capacity) indicates that all of the alternatives have moderate or strong abilities to generate funding. The third column (administrative impacts) reflects that there would be various administrative impacts to providing transit under a new framework. A Transportation District is rated strongest because it is the existing system for Big Sky. Private and nonprofit agencies are rated as weak and unacceptable. All of the alternatives are rated as having moderate or weak political acceptability, including the existing district.

As previously mentioned, the Transportation District has political advantages such as coordinating multiple agencies into a single agency, and disadvantages related to the strong powers. At this time, LSC Transportation Consultants, Inc. recommends that Big Sky remain with the existing system of a Transportation District. This will aid if they plan to expand to regional service. The District can create a steady revenue stream for future services with board and voter approval.

However, the local resorts may find that the funding available through the District does not fully cover the costs of providing transportation to the area. The resorts may likely have to supplement the cost of providing transportation if it is to be successful.