



CHAPTER V

Financial Needs

INTRODUCTION

Chapter V provides an evaluation of the funding gaps and existing options for transit services within the study area. One of the principal challenges facing any transit service 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. An important objective of this study is to present recommendations for an institutional framework and a financing plan for public transit that are acceptable to the parties involved and that can be realistically implemented. With this goal in mind, the following discussion presents an analysis of the most appropriate financial alternatives and a basis for making a decision.

FUNDING GAPS

One of the main barriers to providing an increased amount of service is being able to fund it. The current operating budget for the KeyLine fixed-route system is approximately \$1,546,000. About seven percent of the budget is paid by fares. The remaining money comes from various funding sources, including state and federal grants, advertising, and property tax revenues. The advertising revenue makes up a very small portion of the total budget (less than one percent), with the majority (53 percent) coming from property taxes.

The proposed systems all have greater operating costs and some of them include expanding the fleet, thus increasing the capital cost as well. Table V-1 shows the operating costs over the next five years (using a 3.5 percent inflation rate) for the proposed systems, and the existing budget for comparison. Depending on the option that Dubuque decides to implement, the gap in funding for the first year is anywhere from \$1.38 million to \$3.75 million in terms of operating costs.

| Table V-1 Operating Cost Comparison | | | | | | |
|--|------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Option | Headway | First Year | Second Year | Third Year | Fourth Year | Fifth Year |
| Central Hub | 60 | \$3,715,111 | \$3,845,140 | \$3,979,720 | \$4,119,010 | \$4,263,175 |
| | 30 Peak, 60 Off | \$4,388,459 | \$4,542,055 | \$4,701,027 | \$4,865,563 | \$5,035,858 |
| | 30 | \$5,178,910 | \$5,360,172 | \$5,547,778 | \$5,741,950 | \$5,942,918 |
| East and West Hub | 60 | \$3,715,111 | \$3,845,140 | \$3,979,720 | \$4,119,010 | \$4,263,175 |
| | 30 Peak, 60 Off | \$4,388,459 | \$4,542,055 | \$4,701,027 | \$4,865,563 | \$5,035,858 |
| | 30 | \$5,178,910 | \$5,360,172 | \$5,547,778 | \$5,741,950 | \$5,942,918 |
| Central Hub Hybrid | 15 Peak, 30 Off | \$6,084,091 | \$6,297,034 | \$6,517,430 | \$6,745,540 | \$6,981,634 |
| | 30 | \$5,410,844 | \$5,600,224 | \$5,796,231 | \$5,999,099 | \$6,209,068 |
| | 30 Peak, 60 Off | \$4,752,034 | \$4,918,355 | \$5,090,498 | \$5,268,665 | \$5,453,068 |
| | Midday DR | \$4,398,146 | \$4,552,081 | \$4,711,404 | \$4,876,303 | \$5,046,974 |
| Taxi | Increased Demand | \$6,020,536 | \$6,231,255 | \$6,449,349 | \$6,675,076 | \$6,908,704 |
| Current Funding | | \$2,274,996 | \$2,354,621 | \$2,437,033 | \$2,522,329 | \$2,610,610 |

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 according to both short-range and long-range plans. Potential strategies for funding the transit services within the study area are described below.

Capital Funding

The existing and future transit services will require capital funding for vehicle procurement and transit facilities. The following strategies for funding the capital development should be considered.

Federal funding (along with any state matching funds) should be applied for, both within the existing Federal Transit Administration (FTA) Sections 5307, 5309, 5316, and 5317 programs and through the pursuit of discretionary grants from FTA channels and direct congressional earmarked funding. Small transit systems often underachieve their potential for federal grant assistance because they assume that they cannot compete in this arena. 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 vehicles and transit facilities) examines the long-range transit system's development needs. Many transit systems outgrow their facilities quickly and face costly relocation and expansion needs because of inadequate space or other constraints. The financial management system of any future organization overseeing the regional transit service should include specific provisions for fleet replacement and other capital investments. Note that buses and certain other capital facilities purchased with federal participation (80 percent under SAFETEA-LU) are also eligible for federal participation for replacement costs once the buses and facilities reach maturity (as defined in the FTA rules).

Operations and Maintenance Funding

The primary financial requirement of a local transit system is funding routine operations and maintenance including the daily transit service, vehicle maintenance, and system administration. Labor represents about 50 percent of the operating costs. Maintenance for KeyLine vehicles currently represents almost a third of the entire fixed-route budget. 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 to be dependent upon annual appropriations from their constituent towns, cities, and counties. As a practical matter, such appropriations mean that it will not be possible to forecast future funding levels given the exigencies of local government funding. A transit agency that relies upon such appropriations 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 private entities. Transit agencies, like highway agencies, require that most or all of their operations and maintenance funding comes from dedicated sources so that they can undertake responsible planning and offer reliable, consistent service.

Operations and maintenance funding mechanisms should be designed to anticipate transit system growth. Successful small urban transit systems around the country are experiencing annual growth in ridership. It is important to be able to

Financial Needs

respond to such growth by increasing service levels to meet the transit demand. This means that the ideal funding sources for operations and maintenance are those that have the flexibility to be increased or expanded as the transit demand grows. Such flexibility will, in most cases, require voter approval. The important consideration is that the need for growth has been anticipated and that the potential for larger budgets is not precluded by the choice of a specific funding source.

Local and Regional Funding Sources

General Fund Appropriations

Counties and municipalities may appropriate funds for transit operations, maintenance, and capital needs. Funds to be appropriated generally come from local property taxes and sales taxes. Competition for such funding is high and local governments generally do not have the capacity to undertake major new annual funding responsibilities for transit.

Local Transit Levy

The state of Iowa allows municipalities to levy a maximum of \$0.95 on every \$1,000 of assessed property value annually for transit usage. For FY 2009, the levy rate for Dubuque is approximately \$0.67 for every \$1,000 of taxable valuation. This yields \$1,253,638 for the year. The amount that Dubuque has levied for transit has increased each year since 2002, when the rate was \$0.27. At the current levy rate, this may be increased to \$1,291,000 for FY 2010. If the maximum allowable amount of \$0.95 was levied, this figure would rise to approximately \$1,839,000 for FY 2010.

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, since the potential funds generated by interior advertising are comparatively low. Advertising on bus shelters has also been used to pay for the cost of providing the shelters.

Hotel/Motel Tax

The appropriate use of lodging taxes (occupancy taxes) has long been the subject of debate. Historically, the bulk of lodging taxes has been used for marketing and promotion efforts regarding conferences and general tourism. In other areas, such as resorts, a 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. Taxation of this type has been used successfully in Park City, Utah; Sun Valley, Idaho; Telluride, Colorado; and Durango, Colorado. A lodging tax shares many of the advantages and disadvantages of a sales tax. A lodging tax creates inequities between different classes of visitors as it is only paid by overnight visitors.

Local College Funding

A strategy successfully applied in several similar cities to generate transit funding from college campuses is to levy a student activity fee for transit services or an established amount from the college general fund. An activity fee will have to be approved by a majority of the students and will be applied each school semester or quarter. The additional funds will allow increased transit service for the college students, including more frequent service or later service.

Another option that relates to local colleges is offering students a discounted pass. Offering discounts for college students increases their likelihood of riding more frequently. Students that reside on campus are often willing transit riders and this option may help boost ridership.

Federal Transit Funding

Through SAFETEA-LU, the federal government has substantially increased the transit funding levels for rural and small urban areas. Also, changes in the program requirements have provided increased flexibility regarding the use of federal funds. Following are discussions of the federal transit funding programs for which the regional transit service may be eligible.



FTA Section 5309 - Capital Improvement Grants

The FTA Section 5309 program is 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 and there is no indication that this trend toward earmarking the funds will change. In recent fiscal years, rural and small urban areas have received a greater share of these funds than in previous years.

FTA Section 5307 - Public Transportation for Urbanized Areas

The FTA Section 5307 program makes federal resources available to urbanized areas and to governors for transit capital/operating assistance and transportation-related planning in urbanized areas. An urbanized area is an incorporated area with a population of 50,000 or more that is designated as such by the US Department of Commerce - Bureau of the Census. Eligible purposes include planning, engineering design, and evaluation of transit projects and other technical transportation-related studies; capital investments in bus and bus-related activities such as replacement, overhaul/rebuilding, crime prevention, security equipment, and construction of maintenance/passenger facilities; and capital investments in new and existing fixed guideway systems including rolling stock, vehicle overhaul/rebuilding, tracks, signals, communications, and computer hardware/software. All preventive maintenance costs and some of the Americans with Disabilities Act (ADA) complementary paratransit service costs are considered capital costs.

For urbanized areas with a population of 200,000 or more, funds are apportioned and flow directly to a designated recipient selected locally to apply for and receive federal funds. For urbanized areas under 200,000 in population, the funds are apportioned to the governor of each state for distribution. However, a few areas under 200,000 in population have been designated as transportation management areas and receive apportionments directly.

Operating assistance is not an eligible expense for urbanized areas with populations of 200,000 or more. In these areas, at least one percent of the funding apportioned to each area must be used for transit enhancement activities such as

historic preservation, landscaping, public art, pedestrian access, bicycle access, and enhanced access for the disabled. In those areas with a population of less than 200,000, 50 percent of the funding allocated by the governor can be used for operations. For every dollar the agency uses for operations, the amount available for capital expenditures is reduced.

FTA Section 5316 - Job Access and Reverse Commute Program

The FTA Section 5316 Job Access and Reverse Commute (JARC) program, funded through TEA-21 and SAFETEA-LU, 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 (MPOs), counties, and public transit agencies, among others. A 50 percent non-Department of Transportation (DOT) match is required, but other federal funds may be used as part of the match. According to SAFETEA-LU, this funding is now allocated by the state rather than the FTA. The grants are for a one-year period. Therefore, an agency may submit for this funding every year.

FTA Section 5317 - New Freedom

FTA Section 5317 New Freedom funding is for states to provide formula grants for operating and capital expenses related to transportation services for the disabled. The program's primary purpose is to increase access beyond the standard ADA paratransit requirements. Public and private transportation providers are eligible for the funding. The formula for this funding is consistent with the rural formula funding calculation.

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 vehicles. Under Section 132 of the Internal Revenue Code, employers can provide up to \$110 per month to those employees who commute to work via transit or vanpool. A vanpool vehicle must have a seating capacity of at least six adults, not including the driver, to qualify. The

Financial Needs

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.

Under TEA-21 and SAFETEA-LU, the Transit Benefit Program has become more flexible. Prior to TEA-21, the program could only be provided in addition to the employee's base salary. With TEA-21 and SAFETEA-LU, the transit benefit program may be provided as before or can be provided in lieu of salary. In addition, the program may be provided as a cash-out option for employer-paid parking for employees. The Transit Benefit Program may not necessarily reduce an employer's payroll costs. Rather, it enables employers to provide additional benefits for employees without increasing total payroll expenses.

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.

Temporary Assistance for Needy Families

States receive Temporary Assistance for Needy Families (TANF) grants to provide cash assistance, work opportunities, and necessary support services for needy families with children. States may choose to spend some of their TANF funding on transportation and related services for program beneficiaries.

Head Start Program

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

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

Other Federal Funds

The US Department of Transportation funds other programs, including the Research and Special Programs Administration and the National Highway Traffic Safety Administration's State and Community Highway Grants Program (which funds transit projects that promote safety). A wide variety of other federal funding programs provide support for transportation programs for the elderly and handi-capped, including the following:

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

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

Financial Needs

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.

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.

In order to enhance their image as a sustainable city, Dubuque must have a transit system that is effective and reliable for its residents. To provide this service, there will be an increase in operating costs associated with expanded service. Additional fleet considerations may be required, which will also have associated costs. Funding opportunities exist that can make the additional service easier to afford for small communities.