Appendix D: Funding

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 in Bozeman 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, within the existing 5307 program, 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 Montana DOT 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 extensive 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 TEA-

21) 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 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. 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. Monies 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.

- ***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 Bozeman. This financial support ensures that adequate service is provided. The major employers in Bozeman 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 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.

- ***Lodging 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 implemented 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.

- ***Ad Valorem Property Taxes for Capital Projects:*** Counties are authorized (Sec. 39-13-103) to impose property taxes for specific capital projects with voter approval.

- ***Urban Regional Transportation District:*** Section 18-14-101of the Montana Statutes provides authority for Montana municipalities and counties to establish UTDs. UTDs are authorized to impose a property tax not to exceed an annual levy of one-half mill on the dollar of assessed valuation of the county or municipality property, with voter approval. Local governments have flexibility in designing the boundaries of UTDs, which may include all or a portion of the areas of participating jurisdictions. A UTD is a regional, multi-jurisdictional entity that becomes a separate subdivision of the state, but which operates pursuant to an intergovernmental agreement adopted by its member governments.

- ***Special Districts:*** Montana local governments also may create service districts or improvement districts (Sec. 18-12-101). In general, these districts are funded from fees or property taxes. In general, these districts are limited in their usefulness as mechanisms for funding transit systems, particularly in a multi-jurisdictional setting.

- ***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 12,000 students enrolled each semester at Montana State University (MSU). Currently, students pay $4.50 per semester for Bobcat Transit while faculty and staff pay $30.00 per semester. These fees generated $87,000 in Fiscal Year 2003. If a $9.00 fee was accepted, approximately $174,000 would be generated each year for transit service. An activity fee would not dip into the college's general fund. The additional monies 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 long-range funding sources for local and regional transit services will be the UTD. This funding source offers more options for funding sources and much greater flexibility in designing the boundaries and makeup of a multi-jurisdictional transit system between the Bozeman urban area and the county.

Federal Transit Funding Sources

Through the Transportation Equity Act for the 21st Century (TEA-21), the federal government has substantially increased transit funding levels for small urban and rural areas. In addition, changes in program requirements have provided increased flexibility in the use of federal funds. Following are discussions of federal transit funding programs available for which Gallatin is eligible.

- ***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. Gallatin is 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.

- ***FTA Section 5307 Public Transportation for Small Urbanized Areas:*** Federal transit funding is currently provided through the Public Transportation for Urbanized Areas. In small urbanized areas (under 200,000 population such as Bozeman), funds are used for operating and non-operating 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:*** In addition to the Section 5307 program, FTA funds are also potentially available through the Section 5310 Program. These funds are largely for vehicles and may be used to replace vehicles.

- ***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 non-urbanized areas. A 20 percent local match is required for capital programs and a 50 percent match 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. This program has historically been the source of FTA funds for many rural areas in Montana and could be used if public transportation is operated outside the Bozeman urbanized area.

- ***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.

- ***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 $200 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.

Under TEA-21, this program has been made more flexible. Prior to TEA-21, the transit benefit could only be provided in addition to the employee's base salary. With the passing of TEA-21, the transit pass may be provided as before, or can be provided in lieu of salary. In addition, the transit pass may be provided as a cash-out option for employer-paid parking for employees. To summarize, this program may not necessarily reduce an employer's payroll costs. Rather, it enables employers to provide additional benefits for employees without increasing the payroll.

- ***Job Access and Reverse Commute Program:*** This program, funded through TEA-21, has an emphasis on using funds to provide transportation in rural areas currently having little or no transit service. The list of eligible applicants includes states, metropolitan planning organizations, counties, and public transit agencies, among others. Of the $75 million available for the program in fiscal year 1999, 20 percent is set aside for small-urban areas. 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.

- ***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 DOT 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