



CHAPTER IX

Financial Alternatives

INTRODUCTION

Chapter IX provides an evaluation of the funding 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. Much of the funding decisions are closely tied to the institutional framework and coordination among the counties and cities who wish to pursue any type of regional service.



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 new transportation services for this area may require capital funding for bus or van fleet procurement, software, computers, and other administration capital, although some of this could be provided through various governmental entities. The following strategies for funding capital development should be considered:

- Federal funding (along with any state match funds) should be maximized—within 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 Colorado Department of Transportation 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.
- The 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 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 operating costs, with the majority of that amount going toward 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 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 an 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. 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 for transit systems. Fare collection incurs costs for farebox maintenance, cash management, and auditing. Finally, fare collection deters ridership. Employment/commuter services are typically the exception in that these services generally recoup a greater share of operational costs.

- 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

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 with the 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 transit systems are those that make extensive use of partnerships with private companies, national parks, other major public facilities, adjacent jurisdictions, and other agencies. Partnership arrangements enable a transit system to broaden its base of beneficiaries, expand its funding source alternatives, achieve better governance, and improve public support.

Local and Regional Funding Sources

In Colorado, statutory municipalities and counties have only those powers to fund transit that are explicitly created by a state statute. The principal funding sources for local and regional transit systems within Colorado are described below.

- **General Fund Appropriations:** Counties and towns/cities may appropriate funds for transit operations and maintenance and for transit capital needs. Funds to be appropriated come generally from local property taxes and sales taxes. Competition for such funding is tough and local governments generally do not have the capacity to undertake major new annual funding responsibilities for transit.

- **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. An advantage of this type of 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 industry may be a revenue source in providing a subsidy for transportation services in the area. The major employers in the region are potential sources of some revenue. These firms may be willing to help support alternative fuel vehicles or operating costs for employee transportation. Private industry is also a viable source of advertising revenue. Currently, several of Telluride’s major ski industry employers contract for services for employees. If the same benefit of transportation can be guaranteed, they may be willing to contribute to a larger and potentially safer system of 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.

LSC’s previous work has indicated that the levy of impact fees upon real estate development has become a commonplace tool in many regions to ensure that the costs associated with a new 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 program specifically for mass transit has been established in San Francisco.

A number of administrative and long-term considerations must be addressed. It is necessary to legally ensure the use on which the fees are computed will 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 are increased if a time limit is placed on the spending of

collected funds. Fees should be collected at the time that a building permit is issued. Transportation impact fee funds need to be strictly segregated from other funds.

- **Lodging Tax:** The appropriate use of lodging taxes (occupancy taxes) has long been the subject of debate. Historically, the bulk of these taxes have been used for marketing and promotion efforts for conferences and general tourism. In other areas, such as resorts, the lodging tax is an important element of the local transit funding formula. A lodging tax can be considered as a specialized sales tax, placed only on lodging bills. As such, it shares many of the advantages and disadvantages of a sales tax. Taxation of this type has been used successfully in Park City, Utah; Sun Valley, Idaho; and Telluride and Durango, Colorado. A lodging tax creates inequities between different classes of visitors, as it is only paid by overnight visitors. Day visitors (particularly prevalent in the summer) and condominium/second home owners, who may use transit as much as lodging guests, do not contribute to transit.
- **Sales Tax:** 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 or increase the existing sales tax for transit. In addition, a sales tax increase could be seen as inequitable to residents not served by transit. This disadvantage could be offset by the fact that sales taxes could be rebated to incorporated areas not served by transit. Transit services, moreover, would face competition from other services which may seek to gain financial support through sales taxes.
- **Rural Transportation Authority:** Colorado municipalities and counties have the authority to establish a Rural Transportation Authority (RTA) per CRS Section 43-4-603 of the Colorado statutes. Local governments have flexibility in designing the boundaries of the RTA, which may include all or a portion of the areas of the participating jurisdictions. The RTA 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.

The RTA is authorized to impose (with voter approval) a sales tax not to exceed one percent, a vehicle registration fee not to exceed \$10 per vehicle, and a visitor benefit tax on the lodging rates not to exceed two percent. A disadvantage is that in order to set up the RTA, it must be approved by voters within the RTA boundaries.

Conclusions

The best and most versatile of the above long-range funding sources for regional transportation services will most likely be some sort of dedicated tax imposed by

the local counties and/or municipalities. This funding source offers a stable flow of revenue to operate the transit system. It will provide revenue for operations and local match for federal and state grants.

In the short term, it is recommended that future planning for the regional services focus on funding from both the FTA and local government. The best and most versatile of the above funding sources for local and regional transit services is a combination of both lodging tax and property taxes. This lodging tax could be used in the future to expand the overall fund for transit service in the county. It would have the least impact on the level of taxes the residents of the area pay; however, most of this tax would be generated in San Miguel County.

At this time, it is recommended that the area continue to investigate the formation of an RTA. Sometime in the future the local governments could educate residents on the benefits for transit and then develop a dedicated funding source based on RTA revenues. For this to happen, the economic forecasts would need to indicate a dedicated source as well as to prove to residents that it can operate transit service in an effective manner.

Federal and State Transit Funding

On August 10, 2005 President Bush signed the Safe, Accountable, Flexible, and Efficient Transportation Equity Act - A Legacy for Users (SAFETEA-LU) providing \$286.4 billion in guaranteed funding for federal surface transportation programs over six years through FY 2009, including \$52.6 billion for federal transit programs—a 46 percent increase over transit funding guaranteed in the Transportation Efficiency Act for the 21st Century (TEA-21). Through SAFETEA-LU, the federal government has substantially increased the transit funding levels for rural and small urban areas. Also, changes in 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. Listed below are descriptions of federal funding programs which may be used in the area:



- **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. In recent fiscal years, smaller urban and rural areas have received a greater share of these funds than in previous years.

SAFETEA-LU continues the longstanding guarantee that at least 5.5 percent of these discretionary grants are to be aimed at rural areas. Traditionally, Congress earmarks a far greater share of these grants for rural and statewide bus and facilities grants. Transit systems need to work diligently with their congressional representatives to obtain this grant funding. Over the next four years, Colorado will receive more than \$18.6 million from the FTA Section 5309 program.

- **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 the United States and, with the new SAFETEA-LU authorization bill, has seen a dramatic increase in funding level. Many states are realizing at least twice the amount of 5311 funding under SAFETEA-LU. Over the next four years, Colorado will receive more than \$30.5 million from the FTA Section 5311 program.

As part of this program, 15 percent of all Section 5311 funds are required to be set aside for distribution for intercity services. These 5311(f) funds are required to support intercity or feeder services which tie directly into the national intercity bus network. As such, this could be argued that regional services would tie into the existing Greyhound Bus services. There are coordination aspects with Greyhound which would benefit the area, such as joint ticket sales and commissions from the sales of coordinated trips.

- **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 \$115 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 SAFETEA-LU, the Transit Benefit Program has become more flexible. Prior to TEA-21, the program was only 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 in lieu of salary, or 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.

- **FTA Section 5316 Job Access and Reverse Commute Program (JARC):** This program, funded through SAFETEA-LU, 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. 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. Colorado is programmed to receive \$7.8 million in FTA Section 5316 funding during the 2006 to 2009 period.
- **Rural Transit Assistance Program (RTAP):** This program provides a source of funding to assist in the design and implementation of training and technical assistance projects and other support services tailored to meet the needs of transit operators in non-urbanized areas. RTAP has both state and national program components. The state program provides an annual allocation to each state to develop and implement training and technical assistance programs in conjunction with the state's administration of the Section 5311 program formula assistance program. The national program provides for the development of information and materials for use by local operators and state administering agencies and supports research and technical assistance projects of national interest.
- **FTA Section 5317 New Freedoms Program:** This program is a new element of the SAFETEA-LU authorization with the purpose of encouraging services and facility improvements to address the transportation needs of persons with disabilities that go beyond those required by the Americans with Disabilities ACT (ADA). To encourage coordination with other federal programs that may provide transportation funding, New Freedoms grants will have flexible matching share requirements.
- **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.
- **Senate Bill 1 (SB-1):** This is a relatively new form of state funding which could be accessed to support capital facility and bus purchases. This funding

is a competitive source of funds which can be used for capital facility projects and bus purchases. The City of Montrose submitted an SB-1 Grant to the State of Colorado for approximately \$1.0 million in 2010. Due to the funding challenges and other grant applications, it may be unlikely that any of this amount is awarded, due to not having a system operating in the area as of yet.

- **Congestion Mitigation and Air Quality Program (CMAQ):** In 1990, Congress amended the Clean Air Act (CAA) to bolster America's efforts to attain the National Ambient Air Quality Standards (NAAQS). The amendments required further reductions in the amount of emissions, initiated more stringent control measures in areas that still failed to attain the NAAQS (non-attainment areas), and provided for a stronger, more rigorous linkage between transportation and air quality planning.

The CMAQ program, jointly administered by the Federal Highway Administration and the FTA, was reauthorized in 2005 under SAFETEA-LU. The program provides over \$8.6 billion dollars in funds to state DOTs, MPOs, and transit agencies to invest in projects that reduce criteria air pollutants regulated from transportation-related sources over a period of five years (2005-2009). Funding is available for areas that do not meet the NAAQS (non-attainment areas) as well as former non-attainment areas that are considered to be maintenance areas. The formula for distribution of funds considers an area's population by county and the severity of its ozone and carbon monoxide problems within the non-attainment or maintenance area.

- **Temporary Assistance for Needy Families:** States receive the 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.

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 elderly and handicapped transportation programs, 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 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.

Due to the large number of local agencies that apply for state/FTA funding in Colorado, dependence on state/FTA funding may not allow for a stable funding source for regional services in the area. Stable funding will be necessary to sustain any services or expanded started in the region. 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.

Grant Funding Cycle

The current CDOT funding cycle for federal funds is a two-year cycle of applications and awards. As mentioned, most programs have an operating match of 50 percent and an administrative match of 20 percent. Additionally, 10 percent of all the rural general public funds (Section 5311) are required to be set aside for intercity bus services and services which coordinate and tie into intercity bus services. If service can be devised to be able to leverage this funding, this could further off-set the local match depending upon the match requirements for service. In one such case, the State of Colorado is funding a Gunnison to Denver International Airport (DIA) service for a period of three years. At the end of those three years, it is up to the local municipalities to fund a greater share of the service.