



CHAPTER X

Financial Alternatives

INTRODUCTION

Chapter X provides an evaluation of the funding for transit services within the study area of north-central Montana. One of the principal challenges facing any tribal 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 multijurisdictional 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 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 future regional transit services will require capital funding for vehicle procurement and for possible 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 5310, 5311, 5316, and 5317 programs and through the pursuit of discretionary grants from

the 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 that arena. Close coordination with the Montana Department of Transportation will help Opportunity Link and the regional transportation providers remain aware of funding 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 (such as vehicles and transit facilities) examines the long-range transit 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 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 (87 percent under SAFETEA-LU) are also eligible for federal participation toward 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 or regional transit system will be funding the routine operations and maintenance including the daily transit service, vehicle maintenance, and system administration. Labor represents about 75 percent of the operating costs, with the majority of that amount going to drivers' salaries. The following strategies for funding operations and maintenance should be considered.

Reliance on general fund appropriations from tribal and local governments should be avoided if possible. It is common for local and regional transit agencies in many states (including Montana) to be dependent upon the 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 come from dedicated sources so that they can undertake responsible planning and offer reliable, consistent service.

The region may need to collect fares as part of the transit system funding, although this is not an ideal source of revenue. Due to the realities of a transit 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 rural areas. Fare collection itself incurs costs for farebox maintenance, cash management, and auditing. Fare collection slows down vehicle boarding and increases the operating costs by increasing the time required to run each route. Finally, fare collection deters ridership.

Operations and maintenance funding mechanisms should be designed to anticipate transit system growth. Successful rural, tribal, and small urban transit systems around the country are experiencing annual growth in ridership. It is important to be able to respond to such growth by increasing the 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 the potential for larger budgets is not precluded by the choice of a specific funding source.

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.

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The strongest regional 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

In Montana, statutory municipalities and counties have the power to fund transit according to state statute. The principal funding sources for local and regional transit systems in Montana are described below.

General Fund Appropriations

The counties, municipalities, and tribes may appropriate funds for transit operations, maintenance, and capital needs. The funds to be appropriated generally come from local property 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. Currently, only the Fort Belknap Reservation and Phillips County Transportation Authority receive funding for general public transportation services. The counties and communities within the region could appropriate funding for transit under state statute.

Sales Tax

A sales tax could be created to fund transit service. A sales tax is the financial base for many transit agencies within the western United States. The required level of sales tax will 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, a sales tax can be collected efficiently and allows the community to generate revenues from visitors to the area. The disadvantage is that a sales tax will require legislative and voter approval to implement. In addition, a sales tax 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 will face competition from other services that may seek to gain financial support through sales taxes. Any sales tax will have to be

approved by the residents of Blaine and Phillips Counties, as well as the State Legislature. Another consideration is the issue of tribal members and tribal-owned businesses paying the sales tax.

Property Tax for Special Transportation

Section 7-14-111 of the Montana Code states that a county, urban transportation district, or municipality may (in addition to all other property tax levies authorized by law) levy up to one mill of property taxes to fund special transportation services for senior citizens and handicapped persons. The proceeds of the levy may be used to contract with public or private transportation providers for services for senior citizens and disabled individuals, or to augment or subsidize provisions for the transportation of senior citizens and disabled individuals provided by public transportation providers.

Transportation Improvement Authority

Under Montana State Code 7-14-1001, any county or municipality may set up a Transportation Improvement Authority (TIA) to improve transportation facilities and systems within its jurisdiction. The communities' council members and/or county commissioners may vote for the institution of a TIA. The TIA has the right to operate and improve transportation facilities or systems, but does not have the right to levy a tax on the residents of the jurisdiction. The TIA does have the right to receive federal, state, and/or local funds by grant, loan, or donation. The TIA can be instituted across multiple municipalities and counties via approval by the commissioners/councils of the municipalities or counties. Appendix B details the code of the TIA alternative and presents the background information for the Phillips County TIA that operates the Phillip County Transit Service out of the City of Malta, Montana.

Urban Transportation District

Section 7-14-201 of the Montana Code provides counties the authority to establish an Urban Transportation Districts (UTD). The UTD may be created if the residents within the proposed district boundaries vote in favor of the measure. The UTD is administered by a transportation board, whose members are elected by the public during the general election process. The board has the power to establish, operate,

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improve, maintain, and administer the UTD. The UTD will primarily serve the residents within the UTD boundaries, but may authorize transportation service outside the UTD boundaries where deemed appropriate. The UTD may borrow money by the issuance of general obligation bonds, revenue bonds, or a combination thereof in order to provide transportation funding for the UTD.

Service Districts

The service district funding option was authorized in 1985 by the State Legislature. This procedure requires the establishment of a special district such as a special improvement district, rural special improvement district, or multijurisdictional service district. The service district will operate similarly to the UTD discussed previously. The funding structure consists of bonds issued with the backing of the local governments that will be used to pay for transit improvement costs. Revenue to pay for the bonds will be raised through assessments against property owners within the service district boundaries.

Local Option Gas Tax

Montana state law allows for the establishment of a countywide local option gas tax of up to two cents per gallon if the measure is approved by the county's voters. A fund of this nature could provide for the implementation of the recommended transit improvements contained within this plan. The primary advantage offered by this funding mechanism is that only the users (both residents and visitors) of the transportation system are taxed. Fees paid by the individual users will vary according to their use of the transportation system.

Private Support

Financial support from private industries and major employers could assist in providing adequate transportation services within the region. These firms may be willing to help support the cost of alternative fuel vehicles or the operating costs for employee transportation.

TransADE Program

In April 2001, the Montana State Legislature passed Senate Bill 448 which established the Transportation Assistance for the Elderly and Persons with Disabilities

(TransADE) Program. This grant program provides up to 50 percent of the operating funds for the transportation of seniors and the disabled throughout Montana. Eligible recipients are counties, incorporated communities, transportation districts, and nonprofit organizations.

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 also been used to pay for the cost of providing the shelters.

Voluntary Assessments

The voluntary assessments alternative requires each participating governmental 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 jurisdiction. The main advantage of voluntary assessment funding is that it does not require voter approval. However, the funding is not steady and may be discontinued at any time.

Conclusions

The best and most versatile of the above funding sources for local and regional transit services is the Urban Transportation District (UTD), which offers more options for funding sources and much greater flexibility in designing the boundaries of a multijurisdictional transit system. Consideration will need to be given to the issue of residents and businesses paying a tax. If a UTD is not possible, the next recommended option is the creation of a Transportation Improvement Authority (TIA). The TIA has no taxing power, but individual communities may levy a tax to fund the regional transit service.

Federal Transit Funding

Through 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 for which the regional transit service could 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, smaller urban and rural areas have received a greater share of these funds than in previous years.

FTA Section 5310 - Capital for Elderly and Disabled Transportation

FTA funds are also potentially available through the Section 5310 program, which provides capital for elderly and disabled transportation. These funds are largely for vehicles and may be used to replace the transit vehicles.

FTA Section 5311 - Public Transportation for Rural Areas

FTA funding for rural areas is currently provided through the Section 5311 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. This program has historically been the source of FTA funds for many rural areas within Montana. Over the next four years, Montana will receive more than \$27 million from the FTA Section 5311 program.

FTA Section 5311 (c) - Public Transportation on Indian Reservations

FTA Section 5311 (c) funding for Indian Reservations is a new program under SAFETEA-LU. Under this program, Native American tribes will not need local match to receive FTA funding. The funds for this program can be used either for capital or operations. The estimated total apportionment for this program is \$45 million during the years 2006 to 2009.

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, counties, and public transit agencies, among others. A 50 percent non-Department of Transportation 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. Montana is programmed to receive \$2 million in FTA Section 5316 funding during the years 2006 to 2009.

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. Montana is estimated to receive \$1.5 million in FTA Section 5317 funding during the years 2006 to 2009.

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 \$120 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.

Under TEA-21 and SAFETEA-LU, the transit benefit program has become more flexible. Prior to TEA-21, the transit benefit 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 the 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.

Bureau of Indian Affairs (BIA) Transportation Funding

Indian Reservation Roads (IRR) Program

IRR Program funds are allocated to the BIA area offices for the construction and improvement of roads, bridges, and transit facilities leading to and within Native American Indian Reservations or other Indian lands. An Indian tribal government may use up to 100 percent of their share of these funds for transportation planning activities.

The IRR Transportation Improvement Program (TIP) is a prioritized list (by year) of IRR-funded projects selected by Indian tribal governments through tribal TIPs or other tribal actions that are programmed for construction in the next three to five years. The IRR projects identified on the tribal TIP must be included in the IRR TIP without further action subject to air quality conformity determination. The IRR TIP is included in the Statewide Transportation Improvement Program (STIP) developed by each State Transportation Agency without further action. If an IRR

project lies within a metropolitan area, it must be included in the metropolitan area TIP without further action.

Indian Reservation Roads (IRR) Transportation Planning

Funding is available to Indian tribal governments for transportation planning on Indian lands. This is authorized by Title 23, USC, Section 204(j), which states “...up to two percent of funds made available for IRR for each fiscal year shall be allocated to those Indian tribal governments applying for transportation planning pursuant to the provisions of the Indian Self-Determination And Education Assistance Act” (PL 93-638, as amended).

Native American Housing Block Grant/Native American Housing Assistance and Self-Determination Act (NAHASDA) of 1966

NAHASDA is designed to provide federal assistance to Indian tribes in a manner that recognizes the right of tribal self-governance. NAHASDA reorganized the federal housing assistance to Native Americans by eliminating several separate programs of assistance and replacing them with a single block grant program, now known as the Indian Community Development Block Grant (ICDBG). This funding is for housing, land acquisition, roadways, water and sewer facilities, and economic development programs and projects.

Temporary Assistance for Needy Families (TANF)

States receive the TANF formula 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 tribes and 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 transportation service, acquire vehicles, and provide technical assistance to local Head Start centers.

Other Federal Funds

The United States 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 varying amount of state transit funding within Montana and the limited amount of federal funding, it is evident that transit funding 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.