

Financial and Institutional Alternatives

INTRODUCTION

One of the principal challenges facing any West Virginia transit system is developing a funding system that supports capital investment (buses, maintenance facility, etc.) and provides a stable source of revenue for operations and maintenance. Organizational and legal issues for multi-jurisdictional transit agencies further compound this challenge. Chapter XI provides an evaluation of the funding and organizational alternatives for transit within the Eastern Panhandle Region.

FUNDING SOURCES

Successful transit systems are strategic about funding and attempt to develop funding bases that enable them to operate reliably and efficiently within a set of clear goals and objectives, and according to both long-range and short-range plans. Potential strategies for funding the transit system within the Eastern Panhandle Region are described below.



Capital Funding


PanTran will require capital funding for bus fleet procurement and for improvements of the transit facilities (bus stops, bus shelters, etc.). The following strategies for funding capital development should be considered.

Federal funding (along with any local match funds) should continue to be maximized through pursuit of discretionary grants from the Federal Transit Administration (FTA) and Congressional earmarked funding; and within the existing FTA 5307, FTA 5309, FTA 5310, CMAQ, and Rail and Fixed Guideway Modernization Programs. 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 West Virginia Department of Transportation (WVDOT), Maryland Department of Transportation (MDOT), MARC (a division of MDOT), and the Hagerstown/Eastern Panhandle Metropolitan Planning Organization will help PanTran to 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 updating the PanTran bus facility in the next 15 to 20 years, looks at the long-range system development needs. Many transit systems outgrow their facilities quickly and face costly relocation and expansion needs because of inadequate space or other constraints. PanTran's financial management system should include specific provisions for fleet replacement and 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 upon a recapitalization plan. Note that buses and certain other capital facilities purchased with federal participation (80 percent under TEA-21) are also eligible for federal participation for the replacement costs once the buses and facilities reach maturity (as defined in the FTA rules).

Operations and Maintenance Funding

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

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 West Virginia) 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.

Though it may be necessary to collect fares as part of the transit system funding, fares are not an ideal source of revenue. Due to the realities of a transportation system's cost and financing structure, it is generally not possible to recoup more than 10 to 20 percent of operations and maintenance costs from the farebox revenues within 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 and small urban transit systems around the United States are experiencing annual growth in ridership, just as in the Eastern Panhandle Region. It is important to be able to respond to such growth by increasing the service levels to meet the 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. 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.

The strongest regional transit systems are those that make extensive use of partnerships. Examples include partnerships with private companies, national parks, adjacent jurisdictions, or other major public facilities. 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 West Virginia, statutory municipalities and counties have the power to fund transit which is explicitly created by a state statute. The principal funding sources for local and regional transit systems in West Virginia are described below.

General Fund Appropriations

Counties and municipalities may appropriate funds for transit operations, maintenance, and capital needs. Monies 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. Currently, PanTran does receive limited funding from communities throughout the Eastern Panhandle Region for general public transportation.



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 advertising placed within the vehicles are comparatively low. In addition, the advertising on bus shelters has 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 cut off at any time.

Private Support

Financial support from private industries is essential to providing adequate transportation services within the Eastern Panhandle Region. The major employers in the Eastern Panhandle Region are potential sources of revenue. These firms may be willing to help support the cost of alternative fuel vehicles or the operating costs for employee transportation.

Transportation Impact Fees

The traditional methods of funding the transportation improvements required by new development raise questions of equity. Sales taxes and property taxes are applied to both existing residents and to new residents attracted by the development. However, existing residents then inadvertently pay for the public services required by the new residents. As a means of correcting this inequity, many communities nationwide (faced with strong growth pressures) have implemented development impact fee programs that place a fee upon new developments equal to the costs imposed upon the community.

Previous work by LSC Transportation Consultants, Inc. indicates that the levy of impact fees on real estate development has become a commonplace tool in many regions to ensure that the costs associated with a development do not fall entirely upon the existing residents. Impact fees have been used primarily for highways and roads, followed by water and sewer projects. A program specifically for mass transit has been established in San Francisco, California. However, this is not a likely source for transit funding in rural West Virginia.

In implementing a transportation impact fee, a number of administrative and long-term considerations would need to be addressed. It is necessary to legally ensure that the use on which the fees are computed would not change in the future by placing a note restricting the use on the face of the plat recorded in public records. The transportation impact fee program should be reviewed annually. The validity of the program and its acceptability to the community is increased if a time-limit

is placed upon the spending of collected funds. Transportation impact fee funds need to be strictly segregated from other funds. Fees should be collected at the time that a building permit is issued. The imposition of such a fee program could constrain capital funding sources developed in the future, as a new source may result in a double payment.

Lodging Tax

The appropriate use of lodging taxes (occupancy taxes) has long been the subject of debate. Historically, the bulk of lodging taxes are used for marketing and promotion efforts for conferences and general tourism. In other areas, such as resorts, the lodging tax is an important element of the local transit funding formula. A lodging tax can be considered a specialized sales tax placed only upon lodging bills. As such, it shares many of the advantages and disadvantages of a sales tax. Taxation of this type has been used successfully in Park City, Utah; Sun Valley, Idaho; Telluride, Colorado; and Durango, Colorado. A lodging tax creates inequities between different classes of visitors as it is only paid by overnight visitors. The day visitors (particularly prevalent in the summer) and condominium/second home owners, who may use the transit system as much as the lodging guests, do not contribute to this transit funding source.

Sales Tax

A sales tax could be created to fund transit service. A sales tax is the financial base for many transit agencies throughout the United States. The required level of sales tax would depend on the transit service alternatives chosen. The advantages are that sales tax revenues are relatively stable and can be forecast with a high degree of confidence. In addition, sales tax can be collected efficiently and allows the community to generate revenues from visitors to the area. The disadvantages are that a sales tax would require legislative approval and a public vote in order to be implemented. In addition, a sales tax increase could be seen as inequitable to residents not served by transit. This disadvantage could be offset by the fact that sales taxes could be rebated to the incorporated areas not served by transit. Another disadvantage is that transit agencies would face competition from other services which may seek to gain financial support through sales taxes.

Transit Authority

Section 20-14-5 of the West Virginia Code provides West Virginia counties and cities the authority to establish transit authorities. The transit authority may be created if the residents within the proposed district boundaries vote in favor of the measure. The transit authority is administered by a transportation board. The board members are elected by the public during the general election process. The board has the power to establish, operate, improve, maintain, and administer the transit authority. A transit authority shall primarily serve the residents within the boundaries, but may authorize service outside the district where deemed appropriate. The transit authority may borrow money by the issuance of general obligation bonds, revenue bonds, or a combination thereof in order to provide funds for the district.



Federal Transit Funding Sources

Through the Transportation Equity Act for the 21st Century (TEA-21), 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 PanTran is eligible.

FTA Section 5309 - Capital Improvement Grants

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

FTA Section 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 PanTran fleet.

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

The FTA Section 5312 program provides funding for research, development, demonstration, and training projects. The Secretary of Transportation may provide grants or contracts that will help reduce urban transportation needs, improve mass transportation service, or help mass transportation service meet the total urban transportation needs at a minimum cost. The Secretary of Transportation may also provide grants to nonprofit institutions of higher learning to conduct research and investigation into the theoretical or practical problems of urban transportation and to train individuals to conduct further research or obtain employment in an organization that plans, builds, operates, or manages an urban transportation system. The grants may be provided to state and local governmental authorities for projects that will use innovative techniques and methods in managing and providing mass transportation.

FTA Section 5319 - Bicycle Facilities

FTA Section 5319 funds are used to provide improved access for bicycles to mass transportation facilities or to provide shelters and parking facilities for bicycles in or around mass transportation facilities. Note that installing equipment for transporting bicycles on mass transportation vehicles is a capital project which is eligible for assistance under FTA Section 5309. FTA Section 5319 grants provide funding for 90 percent of the project cost, with some exceptions.

Transit Benefit Program

The transit benefit program is a provision within the Internal Revenue Code that permits an employer to pay for an employee's cost to travel to work in other than a single-occupancy vehicle. The program is designed to improve air quality, reduce traffic congestion, and conserve energy by encouraging employees to commute by means other than single-occupancy motor vehicles. Under Section 132 of the Internal Revenue Code, employers can provide up to \$105 per month to those employees who commute to work by transit or vanpool. A vanpool vehicle must have a seating capacity of at least six adults, not including the driver, to qualify under this rule. The employer can deduct these costs as business expenses. Employees do not report the subsidy as income for tax purposes since the subsidy is considered a qualified transportation fringe benefit.

Under TEA-21, 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, the transit benefit program may also be provided in lieu of salary or as a cash-out option for employer-paid parking for employees. To summarize, 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 payroll.

Job Access and Reverse Commute Program

The job access and reverse commute program, funded through TEA-21, helps fund transportation within rural areas that currently have little or no transit service. The list of eligible applicants includes states, metropolitan planning organizations, counties, and public transit agencies, among others. Of the \$105 million that was available for the program in fiscal year 2003, \$990,000 was allocated to West Virginia. A 50 percent non-Department of Transportation match is required, but other federal funds may be used as part of the match. FTA gives a high priority to applications that address the transportation needs of areas that are unserved or under-served by public transportation.

Transportation and Community System Preservation Program

The transportation and community system preservation program is funded by the Federal Highway Administration in order 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.

Congestion Mitigation Air Quality (CMAQ) Funding

CMAQ funding through the Federal Highway Administration is eligible to communities that are designated as non-attainment or maintenance areas. The Eastern Panhandle Region is a non-attainment area. Per TEA-21, CMAQ funds can be transferred to the FTA for use on transit projects and programs in order to reduce air pollution within non-attainment and maintenance areas. The funding is

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allocated by the state and the regional MPO based on a competitive process for urban areas. From the years 1999 to 2001, West Virginia received a total of \$291,246. The funding can be used for capital (at 80 percent of total cost) and operations (at 80 percent for three years for transit pilot programs).

Following is a short list of the type of transit projects and programs that are eligible for funding.

- new express routes
- new shuttle services
- new routes or services to major activity centers
- financial incentives (reduced or free transit fares)
- ridesharing programs
- education and outreach programs
- implementation of clean fuels

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:

- Agriculture Department - Rural Enterprise Community Grants
- Department of Commerce - Economic Development and Assistance Programs
- Department of Energy
- Developmental Disabilities
- Environmental Protection Agency - Pollution Prevention Projects
- Head Start
- Health Resources and Services Administration
- Housing and Urban Development - Bridges to Work and Community Development Block Grants
- Job Training Partnership Act
- Justice Department - Weed and Seed Program
- Medicaid Title XIX
- National Endowment for the Arts
- Retired Senior Volunteer Program
- Senior Opportunity Services

- Special Education Transportation
- Temporary Assistance for Needy Families
- Title IIIB of The Older Americans Act
- Veterans' Affairs
- Vocational Rehabilitation

Funding Summary

Experience with transit systems across the nation underscores the critical importance of dependable (preferably dedicated) sources of funding if the long-term viability of transit service is to be assured. Transit agencies that are dependent upon annual appropriations and informal agreements have suffered from reduced ridership (because passengers are not sure if service will be provided from one year to the next), high driver turnover (contributing to low morale and a resulting high accident rate), and inhibited investment in both vehicles and facilities. Such transit agencies include those in Teton County, Wyoming and Prowers County (SEATS), Montana.

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 funding availability, which can lead to detrimental reductions in service. As the benefits of transit service extend over more than one segment of the community, dependence upon more than one revenue source helps to ensure that costs and benefits are equitably allocated.

Due to the fact the PanTran will soon receive no state transit funding and a limited amount of federal funding, it is evident that transit funding problems must be addressed at the local level. State funding and federal funding are not consistent. Only a strong local transit funding source will allow the many plans and proposals for transportation improvements to reach implementation with an assurance of on-going 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-term goals of the transit system and the community are to be met.

ORGANIZATIONAL STRUCTURE

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



The PanTran Transportation Development Plan approaches institutional alternatives from a practical standpoint rather than a theoretical standpoint. As the population in the Eastern Panhandle Region changes, so will the demands upon the existing agencies. PanTran operates its public transit service using a combination of FTA grants, contracts with other entities, passenger fares, and financial support. The present organizational structure has managed to support the provision of public transit service over the years and should be able to operate the system into the future.

The current structure does reflect an ongoing long-term commitment to the provision of transit service, but does not provide a dedicated long-term funding source. It is difficult to rationally plan for the long-term provision of transit service. The amount of service to be provided from one year to another is not known until the funding sources are determined. Therefore, it may be time for PanTran to become a legal transit authority with a dedicated funding source.

An important objective of this study is to present recommendations for an institutional framework and a financing plan for public transit, which are acceptable to the parties involved and which can be realistically implemented. With this goal in mind, the following discussion presents an analysis of the most appropriate alternatives and a basis decision-making.

Criteria for Institutional Structures

Transit services throughout the United States have a variety of organizational homes, from independent agencies (such as Huntington, West Virginia; Aspen, Colorado; and Crested Butte, Colorado) to transit districts (such as the Dawson County Transit District, Montana and Utah Transit Authority) to departments of a municipal government (such as Colorado Springs, Colorado and Logan, Utah) to departments of county government (such as Summit County, Colorado) to non-profit corporations (such as Mesa County, Colorado and Casper, Wyoming).

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

The institutional structure should be an entity:

- whose structure is legitimate.
- whose policy-making actions are authorized and defensible.
- which can limit the exposure of the participants to suits and claims of liability.
- which can be responsive to the complete policy-making and management needs of the transit organization.
- which has the political and financial support to endure more than one year at a time.
- which can annually perform proactive planning to improve the system, and can effectively identify and implement improvements regularly and easily.
- which has a full-time management/coordinator position that deals with all operational and administrative issues for transit, and works to improve the visibility of transit within the community through an aggressive marketing program.

Alternatives for the Eastern Panhandle Region

Department of County Government

The advantages to a department of county government organizational structure are that the county already has an established name for providing transportation for the elderly and the disabled populations and that the county system has the broadest possible tax base. The disadvantages of a county-operated system are that the elected officials have the final decision regarding the management, opera-

tion, and financing of transportation services (which may or may not be high priority) and may provide little long-term stability in transit service funding.

Urban (Mass Transit) Transportation Authority

Urban transportation authorities are complex organizations. The organizational structure is determined in part by statute and in part by the intergovernmental agreement creating the district. There is considerable flexibility in designing an organization that has the support of the member governments and the public. One significant advantage of the urban transportation authority is the capability to bring several municipalities and counties together in funding and operating a transit system. The urban transportation authority must be approved by the local residents, which requires a significant grassroots public education effort to rally support for public transportation.

PanTran's current organization structure is an urban transportation authority. The organizational structure has worked well in the past few years. The existing system has all but one of the general elements of an urban transportation authority—the ability to levy a tax in order to cover the operating costs of the transit system. PanTran's board would need to obtain voter approval from all of the areas in the region (Berkeley, Jefferson, and Morgan Counties) in order to apply the levy. As stated above, a significant grassroots public education effort would need to be conducted in order to obtain voter approval of PanTran creating a tax levy.

Intergovernmental Transit Agency

An intergovernmental transit agency is the last alternative presented for the Eastern Panhandle Region. The agency could be formed by PanTran; the cities of Martinsburg, Charles Town, Ranson, Harper Ferry; and Berkeley, Jefferson, and Morgan Counties. The governing board would have equal representation from each entity. This type of agency has been successfully implemented in other locations and would build upon the service already established by PanTran. If provided with a dedicated local funding source, the intergovernmental transit agency structure provides stability and helps ensure the continuation of transit service within the community. An intergovernmental transit agency would require cooperation from

each entity and voter approval in order to establish a dedicated local funding source to support the transit agency. PanTran itself would not levy a tax, but would have the members of the intergovernmental agreement levy taxes on behalf of the transit service.

Organizational Structure Summary

Table XI-1 ranks each institutional alternative according to four factors: legal capability, revenue generation capacity, administrative impacts, and political acceptability. Legal capability refers to the existence of statutory authority. Revenue generation capacity refers to the capability of funding sources to generate adequate funding levels relative to the projected subsidy requirements. Administrative impacts refer to the level of effort involved in implementing a funding mechanism and the ability to provide coordinated service throughout the Eastern Panhandle Region. Political acceptability refers to the likelihood of a given funding mechanism to be accepted by the public and the local elected officials.

Table XI-1 Institutional Alternatives Comparison Matrix				
Institutional Alternative	Legal Capability	Revenue Generation Capacity	Admin. Impacts	Political Acceptability
County Department	■	■	□	□
Urban Transportation Authority	■	■	■	◐
Intergovernmental Agency	■	◐	◐	◐
Legend:	■ = strong/acceptable ◐ = moderate/satisfactory □ = weak/unacceptable			
<i>Source: LSC, 2005.</i>				

The first column (legal capability) in Table XI-1 shows that all of the alternatives are permitted legally, with each alternative having the same authority to engage in

generation capacity) indicates that all of the alternatives have moderate or strong abilities to generate funding. The third column (administrative impacts) reflects that there would be various administrative impacts to providing transit under a new framework. An urban transportation authority is rated as the most acceptable because it is the existing system for PanTran. An intergovernmental transit agency is rated as having moderate administrative impact, while a department of the county is rated the weakest. All of the alternatives are rated as having moderate or weak political acceptability, including the existing urban transportation authority.

As previously mentioned, the urban transportation authority has political advantages such as coordinating multiple agencies into a single agency, and disadvantages related to the strong powers. At this time, LSC Transportation Consultants, Inc. recommends that PanTran remain with the existing organizational structure of an urban transportation authority. The urban transportation authority organizational structure would aid in PanTran's plans to expand to regional service. With voter approval, the urban transportation authority could create a steady revenue/funding source for the future transit services.