

Appendix VI: Federal, State and Local Financing Sources

This section outlines the range of potential Federal, State and local financing sources. It outlines traditional sources of funding used to fund capital and operating costs for transit projects, and new, non-traditional approaches being used throughout the country.

Traditional Funding Approaches

Transportation project sponsors in the United States utilize a variety of mechanisms to finance their project's capital and operating costs. Traditional methods used to fund intercity and commuter rail projects range from user fees (i.e., fare revenues) to taxation. As single sources are often times insufficient to cover a project's capital and operating costs, multiple sources are bundled to create funding packages. The following section describes each of these funding approaches and provides anecdotal examples of their application throughout the country.

Farebox

Farebox revenues are user fees generated directly by a transit system. Commuter rail systems in the United States reported farebox recovery ratios (the farebox revenue divided by total operating expenses) between 8% and 56% in FY2008, with an average recovery ratio of 38%. By comparison, Amtrak's FY2008 farebox recovery ratio was 52% for its long-distance routes.

Advertising/Sponsorship

Advertising and sponsorship arrangements are commonplace revenue streams for transit and passenger rail agencies. Potential for advertising revenue typically falls into two categories:

- The media value of the advertising on, within, and near the vehicles and/or facilities; and
- Concession agreements and rental fees on or near each of the proposed station stops for amenities like vending machines or automatic teller machines.

Sponsorship arrangements, which allow a private corporation to brand the transit system with its corporate name and/or logo, have also been used to finance transit systems. While this has typically been done for local systems such as streetcars, the same principles can apply to commuter and inter-city services. The TECO Line streetcar in Tampa is one such example where a private firm paid a lump sum to brand the system with its name. Other streetcars in Oregon and New Orleans sell naming rights for stations and individual cars.

Gas Tax

The motor vehicle fuel tax is the most prominent revenue stream for transportation and can be assessed at the local, state and federal levels. The Federal gas tax, which is currently set at 18.4 cents per gallon of gasoline and 24.4 cents per gallon of diesel, is the primary funding source for the Highway Trust Fund, which funds federally approved highway, roadway and bridge improvements. A smaller sub-account of the Highway Trust Fund, the Mass Transit Account, uses a portion of the gas tax revenue to fund public transportation projects. All 50 states impose motor vehicle fuel taxes, which averages 28.6 cents per gallon for gasoline and 27 cents per gallon for diesel. Georgia imposes a 7.5 cents per gallon tax for both gasoline and diesel.

In addition to fuel taxes assessed at the federal and state levels, fifteen states authorize local option motor fuel taxes, all of which define roads as an allowable use of funds generated. Local option fuel

taxes are increasingly common, and they are authorized by the state legislature. Nine states allow local option fuel taxes to be used for transit projects.

Property Tax

Property taxes are a principal source of funding for local governments. While primarily assessed at the local level, state governments may also levy property taxes. The rationale behind utilizing property taxes for transportation is predicated on the link between land values and accessibility. The more connected, or accessible, a parcel of land is to centers of economic activity, the greater its value will be.

Localities in all 50 states use property taxes to fund street improvements, both at the county and/or city level. However, local governments in only 14 states *specifically* utilize property tax levies for public transportation. Transit operations in other states are indirectly funded through property taxes via allocations from the general fund.

Special Taxation Districts

Special taxation districts, also known as Tax Allocation Districts (TADs) in Georgia and Tax Increment Financing (TIF) districts elsewhere, are specific geographic areas in which real estate parcels are assessed an extra levy in order to finance special projects. In order to establish a special assessment district, it must be demonstrated that the project directly and uniquely benefits the parcels in question. Special taxation districts are created to finance a wide range of projects, including public transportation. The Portland Streetcar is an example of a project which utilized tax increment financing for construction of a major transit capital investment.

Special-Purpose Local-Option Sales Tax (SPLOST)

Local option sales taxes are taxes imposed by a jurisdiction on itself for retail goods and services. Currently 33 states have authorized the use of local option sales taxes for transportation, though the manner in which the tax proceeds are allocated varies. Some states do not require funds to be earmarked, while others stipulate that specific projects must be designated as recipient of the generated funds. Georgia's version of the local option sales tax, known as the special-purpose local-option sales tax (SPLOST), authorizes counties to levy a 1% sales tax for capital projects.

Federal Funding

Intercity Rail Grant Programs

Recent federal intercity passenger rail initiatives, including the FY 2008/2009 DOT Appropriations Act and the Passenger Rail Investment and Improvement Act of 2008 (PRIIA), represent a substantial shift in the national passenger rail policy framework. These funding programs are detailed below.

FY 2008/2009 DOT Appropriations Act: The DOT Appropriations Act of 2008 and 2009 established a new program for joint Federal-State intercity passenger rail capital investment. By law, recipients must provide at least a 50% non-Federal match and qualify based on eligibility and evaluation criteria, including the stipulation that the project must be included in a State Rail Plan.

Passenger Rail Investment and Improvement Act of 2008 (PRIIA): The Passenger Rail Investment and Improvement Act of 2008 aims to strengthen the U.S. passenger rail system by investing in intercity routes and developing high-speed rail corridors. In addition to setting mandates

to improve Amtrak, the PRIIA tasks each state to develop a statewide rail plan which sets policy for both freight and passenger rail service. These plans are to dictate long-range investment goals and capital requirements for future passenger rail investment at the state level.

The PRIIA authorizes three new Federal intercity rail capital assistance programs:

Intercity Passenger Rail Service Corridor Capital Assistance Program (Section 301):

Eligible states, groups of states, Interstate Compacts, and public agencies are authorized as fund recipients under this capital assistance program. These funds may be used for financing the capital costs of facilities, infrastructure, and equipment required for operation of intercity rail services, with funding levels not to exceed 80% of the total capital cost. These grants are allocated on a competitive basis, and the first round of projects was selected in FY 2008. This state grant program was reauthorized in 2009 and extended, with approximately \$100 million available annually, through 2013.

High Speed Rail Corridor Development (Section 501):

The PRIIA also provides grant funding for high-speed passenger rail corridor development. Eligible corridors are those defined in the *Vision for High-Speed Rail in America* document published by the US DOT in April 2009, which includes a corridor between Atlanta and Macon. High-speed rail, as defined under this program, is “intercity rail passenger service that is reasonably expected to achieve operating speeds of at least 110 miles per hour.” Grants under this program can be used for the acquisition, construction, and improvement of rail facilities in support of high-speed rail development, so long as the project is defined in an eligible State Rail Plan.



Congestion Relief (Section 302):

This program provides 80% grants to States or to Amtrak to improve facilities, infrastructure, and equipment in an effort to address congestion along high-traffic routes. The same eligibility and evaluation criteria defined in Sections 301 and 501 apply to this congestion relief program.

FTA Section 5307

The Federal Transit Administration's Section 5307 Large Urban Cities (49 U.S.C. 5307) grant program provides capital and operating assistance for urban areas with populations between 50,000 and 200,000. The Federal share of the operating assistance may not exceed 50 percent. For urbanized areas with populations greater than 200,000, the funds may only be spent on capital expenses and preventative maintenance. Urban areas of any size may use Section 5307 funds for planning, engineering design and evaluation of transit projects and other technical transportation-related studies. Grant funding is distributed directly to areas with 200,000 population and over, usually through the local Metropolitan Planning Organization (MPO). Funds to urban areas with less than 200,000 in population are apportioned via the state's governor.

Funding is allocated at the Federal level via a formula process. For areas of 50,000 to 199,999 in population, the formula is based on population and population density. For areas with populations of 200,000 and more, the formula is based on a combination of bus revenue vehicle-miles, bus passenger-miles, fixed-guideway revenue vehicle-miles, and fixed-guideway route-miles as well as population and population density. The Federal share may not exceed 80 percent of the net project cost, with a few exceptions. The Federal share may be 90 percent for the cost of vehicle-related equipment needed for compliance with the Americans with Disabilities Act (ADA) and the Clean Air Act (CAA) or projects or portions of projects related to bicycles.

FTA Section 5309

The FTA Section 5309 Transit Capital Investment Program (49 U.S.C. 5309) contains three primary capital assistance programs: bus and bus facilities replacement, modernization of existing rail systems, and new fixed guideway systems, commonly referred to as the New Starts program.

Eligible recipients for 5309 New Starts funding include transit agencies at the state, regional, or municipality levels. In addition to guideway facilities and rolling stock, New Starts funds can be used for the purchase of right-of-way and ancillary facilities which support the transit corridor, such as park-and-ride lots.

New Starts funds are allocated on a discretionary basis through a competitive process. A project is eligible to be considered for New Starts funding after a thorough major capital investment planning and project development process has been completed. By statute, a local match of at least 20% is required in order to receive funding.

CMAQ

The Congestion Management and Air Quality Improvement Program (CMAQ) is jointly administered by the Federal Highway Administration (FHWA) and Federal Transit Administration (FTA).

FTA's Project Planning and Development Process



The program, originally created under the 1991 ISTEA transportation authorization and continued under subsequent reauthorizations, TEA-21 and SAFETEA-LU, provides over \$8.6 billion in funds over five years for State DOTs, MPOs, and transit agencies in an effort to reduce air pollution and traffic congestion in metropolitan areas. Eligible areas are either those that do not attain National Ambient Air Quality Standards or former non-attainment areas that are now in compliance (maintenance areas).

CMAQ funds are apportioned based on a formula that weighs air quality ratings and population density. The Federal share of CMAQ funding must not exceed 80%, with the remaining 20% to be matched by state and local governments. Eligible projects must be included in an MPO's long-range transportation plan and transportation improvement plan. For capital projects, it must be demonstrated that the transportation improvement will reduce emissions and congestion. CMAQ funds can also be used for transit operations expenses for new services. However, operating assistance is limited to the first three years of operations.

State Funding

General Funds

Transportation projects may be appropriated through a state's general fund on a project-by-project basis. The funds can come from a variety of sources including state sales and income taxes.

State Infrastructure Banks

The Georgia Transportation Infrastructure Bank or GTIB, established by House Bill 1019 in April 2008, is an infrastructure investment fund that provides financing to state, regional and local government entities to fund local transportation projects. Pursuant to O.C.G.A. § 32-10-120 *et seq.*, the GTIB operates under the authority of the State Road and Tollway Authority (SRTA) and was funded with an initial \$33.1 million. The GTIB may be utilized to finance capital costs for eligible roadway projects. However, transit projects are currently ineligible due to the fact that the primary funding source for the program is the motor fuel tax. Currently, state law mandates that all state fuel tax proceeds must only be allocated to road and bridge projects. Operating costs are not eligible for financing through the GTIB.

While Georgia state law currently prohibits GTIB funding for public transportation projects, future statutory amendments may provide funding that will allow a project such as passenger rail between Atlanta and Macon to utilize such funds. This approach has been used in other states such as Florida, where the Florida State Infrastructure Bank is being used to fund a portion of Orlando's SunRail commuter rail project.

Alternative Funding Approaches

Other Taxes

A variety of tax-based financing options exist for transportation and transit improvements, including taxes on parking, corporate payrolls, rental cars, and motor vehicles.

Parking Taxes

Some cities levy taxes on their parking facilities to generate funds for congestion, air pollution and sprawl mitigation measures. Parking taxes are best suited to dense, congested urban areas where parking is at a premium. Parking taxes have two primary benefits: (1) they generate a secondary

revenue stream to finance projects and (2) they change travel patterns by making single-occupant vehicle travel less cost-competitive against other modes.

There are two primary forms of parking taxes: commercial parking sales taxes, or *ad valorem*, and area, or per space, assessments. Commercial parking sales taxes require that parking vendors and/or private businesses track the sales of daily and monthly parking passes, and then pay a tax on those revenues on either a percentage or flat-fee basis. Some cities that impose this type of parking tax include San Francisco, Pittsburgh, Miami, Los Angeles, Chicago, and New York. In these cities, the tax rates range from 10 to 31 percent. While the proceeds from these funds typically are funneled into the cities' general funds, some municipalities, including San Francisco, opt to use parking tax proceeds for public transportation operating and capital needs.

The second form of parking taxes, the area or per-space tax, is similar to a property tax in that it imposes a fee based on the surface area size or number of spaces included in a parking facility. This approach is more common overseas. In Sydney, Australia, for example, a fee of AU\$800 per stall is assessed to parking facilities in the central business district. The proceeds are earmarked for transit capital expenses.

Payroll Taxes

Employer, or payroll, taxes are levied on a corporation's gross payroll within a transit district and are administered by a state agency. These taxes must be authorized at the state level, and are usually subject to voter approval at the local level. Georgia currently authorizes such taxes with local voter approval; however, no local governments in the state have imposed such legislation.

In Portland, Oregon, for example, all employers within the Tri-Met service area must pay a district rate of 0.006818 on all wages, bonuses, fees and payments to deferred compensation plans. These funds are wholly used for Tri-Met transit expenses. The Transit Authority of River City (TARC) in Louisville, Kentucky imposes a similar tax in the form of occupational license taxes. Like Portland, up to 1% of employers' total payrolls are subject to the transit tax, which is used to fund TARC capital and operating expenses. Because these taxes are applied to all workers regardless of place of residence, they are considered a "commuter" tax, thus rationalizing the dedication of these funds for public transportation.

Rental Car Taxes

Vehicle rental taxes or fees are common secondary taxes used in many cities to supplement existing general local and state sales taxes. States may authorize local implementation of rental car excise taxes, which are assessed on a percentage or flat-fee basis. For example, a city may choose to impose a 1% sales tax on the daily rental rate, or alternatively, a static rate such as \$2 per day regardless of the daily rental rate. Additionally, a state may choose to impose a *state* vehicle rental tax.

Seattle and Pittsburgh (Allegheny County) both assess vehicle rental taxes that are used for transit expenses. In Seattle, counties within the Sound Transit District assess a 0.008 percent tax on rental car rates in order to fund their regional light rail and express bus system. In Pittsburgh, a \$2 per day rental car tax is assessed in Allegheny County to fund the operating expenses for the transit authority, Port Authority of Allegheny County (PARC). The tax is estimated to generate approximately \$4 million annually. Additionally, legislation is currently pending in Miami that would impose a \$2 per day rental car tax to fund operations for Miami's commuter rail system, Tri-Rail.

Motor Vehicle Registration Fees and Excise Taxes

There are two primary types of motor vehicle taxes: flat, annual vehicle registration fees and *ad valorem* taxes. Annual vehicle registration fees are typically assessed as a simple flat fee per vehicle registered, while *ad valorem* taxes are variable based on vehicle make, model, year, and value, among other possible factors. In addition to the statewide annual vehicle registration fee collected in all states, many states, including Georgia, authorize a local option version of this tax. The allowable uses for vehicle registration fees vary among states, though many restrict the proceeds to transportation-related purposes. However, Georgia state law allows vehicle registration fees collected at the local level to be used for the general fund.

The state of Washington allows regional districts such as Sound Transit to assess motor vehicle excise taxes. The tax is collected annually from residents living within the Sound Transit district when renewing license plate 'tabs' or at the time of purchase of a new or used vehicle. The 0.3% excise tax is based on the value of the vehicle, which is set by the state legislature. Sound Transit uses proceeds from the motor vehicle excise tax to retire bond debt used to finance its new light rail system.

Community Improvement Districts / Transportation Development Districts

Community and Business Improvement Districts (CIDs/BIDs) are a form of public-private partnership whereby local businesses within a defined geographic area agree to impose a self-tax in order to finance infrastructure improvements or basic services, such as security or sanitation. In Georgia, state law authorizes the creation of CID's, which, when adopted by a 75% majority of business owners within a district, becomes a quasi-governmental entity with the ability to incur debt and assess taxes and fees to businesses.

Another form of Community Improvement District, the Transportation Development District (TDD), is a financing mechanism specifically focused on raising funds for transportation improvements within a district. TDD's are typically created on a project-specific basis to raise bonds for transportation improvements. The TDD has the authority to impose sales taxes, tolls, property taxes, and/or special assessments in order to retire bond debt. In many cases, TDD's use tax increment financing procedures to pay off debt.