

## **Appendix F**

### **Technical Memorandum #6:**

### **Funding Alternatives**



Technical Memorandum #6:

# FUNDING ALTERNATIVES

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## I. INTRODUCTION

Identifying new funding resources for existing or expanded transit services is a challenge faced by most large and small American public transit systems. Due to declining federal operating assistance, a soft economy, increased fuel costs, increased use of technology and expensive mandates (e.g. drug testing, Buy America Requirements, American with Disabilities Act), transit systems are increasingly finding themselves “tightening their belts” and “doing more with less.”

However, a recent wave of transit funding innovations, which focus on strategic partnerships, increased local funding and the identification of new, non-traditional funding sources, are providing some needed relief to increasing financial pressures. In response to potential local transit funding issues raised by the Iowa Quad Cities Alternative Analysis Study Advisory Committee, this document will explore how transit systems are typically funded and discuss the innovative methods public transit systems have employed to increase funding or reduce expenses. For this analysis, only programs and methods that could benefit Bettendorf Transit and Davenport CitiBus will be reviewed.

The methods and techniques documented here not only focus on increased transit funding, but in some cases, may create better operating efficiencies for the transit system. For example, by requiring developers to accommodate transit facilities and operations within their initial proposals, the cost of providing transit services may be reduced in the future. This can be accomplished by requiring development projects, both residential and commercial, to meet transit sustainability design standards. Still, other innovations may provide improved transit service to customers by increasing service frequencies on a more productive route and decreasing service on a poorly used route.

It is useful to understand the difference between funding and financing. Funding is the primary stream of revenue used to offset cost or to support various leveraging schemes. Finance is the means by which the primary revenue streams are manipulated to make funds available when needed or to reduce the costs of borrowing. By way of illustration, in the case of bonds issued against revenues from a tax dedicated to transit use, the revenue stream from the tax pledged as security for the bonds would be the “funding.” The bond proceeds, which concentrated the long-term tax revenues into several years to meet construction expense, would be the “financing.”

While this distinction is not always clear, it is useful to keep in mind. Many of the current so-called “innovative financing” techniques, while valuable in their own right, require underlying revenue streams to support them. The first and most difficult task facing transit systems is to establish a solid revenue stream or funding source.

## II. OVERVIEW OF EXISTING TRANSIT FUNDING

Funding sources dedicated to supporting transit activities are mostly comprised of passenger fares, other revenue related to transportation operations (e.g. from advertising and subscription services), revenue from special taxes dedicated to transit, and federal, state, and local government aid. However, in the last 15 years, private assistance through mutually beneficial partnerships is becoming more popular. Table 1 provides a typical breakdown of transit funding sources for American public transit systems.

**Table 1**  
**Typical Public Transit Sources of Funds (2000)**

Source of Funding	Percent
<b>Fares</b>	25
<b>Other Revenue from Transport Services</b>	3
<b>Federal</b>	Dedicated Fuel Tax Revenue
	General Fund
<b>State</b>	Dedicated Tax Revenue
	General Revenue
	Other Sources
<b>Local</b>	Dedicated Tax Revenue
	General Revenue
	Other Sources
<b>Total</b>	<b>~100</b>

Source: TRB Special Report 285: *The Fuel Tax Alternatives for Transportation Funding*, 2006.

Generally speaking, public transit systems use their funding to maintain financial support for three primary areas of transit activity. These areas include:

- **Operations:** To support general transit operations and the cost of administering transit services. Fare revenues, advertising, and parking fees are traditionally used to offset operating costs.
- **Capital:** To purchase rolling stock (vehicles), facilities, equipment, and maintenance.
- **Planning/Training:** To support intermodal transportation planning activities and provide funding for training for transit staff.

Each area of transit activity is subject to cost increases and may have a significant impact on the overall budget of transit agencies in any given year. For example, the condition or age of fleet vehicles and the need to replace them may place an undue burden on the overall transit budget.

### **Federal Transit Funding Origins**

National transit programs are funded primarily through the Highway Trust Fund (HTF). Tax receipts that are collected by the Federal Government are deposited in the Highway Trust Fund. Funds are then subdivided into their dedicated accounts or "earmarked" for expenditure on transportation purposes. The Mass Transit Account, created within the HTF in 1983, supports national transit activities. Currently, the gasoline tax of 18.4 cents per gallon allocates 2.86 cents per gallon to the Mass Transit Account. Table 2 identifies the Highway Fund Trust's allocation amounts and funding accounts.

**Table 2**  
**Highway Trust Fund Distribution of Federal Gas Taxes**

User Tax	Cents Per Gallon	Highway Trust Fund (HTF)		Fuel Storage Tanks	Deficit Reduction
		Highway Account	Transit Account		
Gasoline	18.4	15.44	2.86	0.1	-
Diesel Fuel	24.4	21.44	2.86	0.1	-
Special Fuels	18.3	12.0	2.0	-	4.3
Liquefied Natural Gas	11.9	10.04	1.86	-	-
Liquefied Petroleum Gas	13.6	11.47	2.13	-	-
Other Special Fuels	18.4	15.44	2.86	-	-
Compressed Natural Gas	4.3	3.44	0.86	-	-
Gasohol: 10% Ethanol	13.2	7.74	2.86	0.1	2.5
Gasohol: 7.7% Ethanol	14.40	8.93	2.86	0.1	2.5
Gasohol: 5.7% Ethanol	15.40	9.97	2.86	0.1	2.5

*Source: FHWA Office of Highway Policy Information, Highway Statistics 2002.*

## Federal Transit Grant Programs

Federal transit funding programs are authorized by law through the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU). This six-year transportation law provides funding for transit programs through the Highway Trust Fund. These programs are administered by the U. S. Department of Transportation's (U.S. DOT) Federal Transit Administration (FTA). Some highway funds, also known as "flexible funds," are administered through the Federal Highway Administration (FHWA). These flexible funds can be redirected to support transit activities.

There are a number of federal grant programs available that support transit services. Eligibility requirements and financial contributions from the grant recipient generally apply to all programs. To be eligible for federal funding, most projects must be included in the area's metropolitan and/or statewide plans and programs. In some instances, requirements of the National Environmental Policy Act (NEPA) must be met before funds are distributed. Other requirements of the various transit programs relate to right-of-way acquisition, wage rates, access by people with disabilities, and competitive procurement. Table 3 identifies conventional transportation programs and their eligible transit activities. U.S. DOT programs that may be used for supporting transit services include:

- **Section 5303:** Funds are distributed to Metropolitan Planning Organizations (MPOs) to assist with transit and multimodal planning activities. These funds provide financial assistance to MPOs to support the costs of preparing long-range transportation plans and financially feasible transit improvement projects.
- **Section 5307:** FTA's Urbanized Area Formula Program through which funds for capital replacement and expansion are distributed to transit operators and states.
- **Section 5309 (New Starts):** Project sponsors must address the FTA's New Starts Criteria which require that a project be based on the results of alternatives analysis and preliminary engineering, and must be supported by local financial commitment. Projects must also successfully compete for congressional earmarks.
- **Section 5310:** A capital assistance program that provides funding to purchase vehicles or services for persons who are elderly or with disabilities.
- **Section 3037 Job Access and Reverse Commute Grants (JARC):** Requires regional job access and reverse commute transportation plans developed by a coordinated transportation/human services planning process. Grant award criteria include the

percentage of the population that are welfare recipients, the need for additional services, coordination with state welfare agencies, and use of innovative approaches.

- **Small Starts Program:** Bus and rail transit projects that represent a “substantial” transit investment in a transportation corridor are eligible for Small Starts funding, if total project costs are less than \$250 million. Project sponsors go through a modified New Starts selection process with total federal participation capped at \$75 million under the new program. As the Small Starts Program is a new program, SAFETEA-LU requires FTA to issue regulations for the new program detailing planning and project development activities for transit properties seeking funding. FTA’s approach to these provisions is to develop an Advanced Notice of Proposed Rulemaking (ANPRM) process for the new program and to work with the transportation community to develop a fair and expedited review process.
- **Congestion Mitigation and Air Quality (CMAQ):** Project sponsors must demonstrate that the project will lead to a reduction in air pollutant emissions. Priority is given to projects in the State’s Implementation Plan for air quality. Funds must be used for projects within the boundaries of a non-attainment or maintenance area. CMAQ may be used for operating assistance during the first three years of a new transit service. In Iowa, the program is administered under the Iowa’s Clean Air Attainment Program (ICAAP).
- **Surface Transportation Program (STP):** A formula program through which funds are allocated to states and metropolitan areas for highways, transit capital, bus terminals and facilities.
- **National Highway System (NHS):** To be eligible for NHS funding, a transit project must serve the same corridor as a fully controlled access NHS highway, must improve the highway level of service, and must be more cost effective than a highway improvement.
- **New Freedom Program:** A new SAFETEA-LU program that will provide formula funding for new transportation services and public transportation alternatives beyond those required by ADA. The program includes mandated coordination of transportation services with other federal human service programs and provides financial assistance for associated capital and operating costs. Like the Small Starts Program, FTA will need to issue interim program guidance for administration of the New Freedom Program.

**Table 3**  
**Conventional Sources of Federal Transit Funding**

<b>Federal Transit Program</b>	<b>Type</b>	<b>Eligible Funding Activities</b>
<b>Section 5303</b>	Planning	Provides planning assistance to Metropolitan Planning Organizations on an 80% federal and 20% local funding match.
<b>Section 5307</b>	Capital	Funding for capital improvements, vehicles, maintenance and planning activities for urban transit systems on an 80% federal and 20% local funding match.
<b>Section 5309</b>	Capital	Provides discretionary funding for capital investments based on an 80% federal and 20% local funding match.
<b>Section 5310</b>	Capital	Funds are used to provide capital assistance to transit providers transporting elderly persons or persons with disabilities. Federal funding ranges between 80 and 83%, depending capital purchase type.
<b>Section 3037</b>	Operating	A discretionary funding program that provides 50% funding for programs that connects recipients of welfare and low-income individuals to employment opportunities.
<b>Small Starts Program</b>	Capital	A discretionary funding program capped at \$75 million dollars for transit projects that are \$250 million or less. Requires a 20% local match.
<b>Congestion Mitigation Air Quality</b>	Capital/ Operating	Funds that support projects that reduce emissions. Projects are funded on an 80% federal and 20% local funding match.
<b>Surface Transportation Program</b>	Capital/ Operating	Federal funds that can be used for transit purposes on an 80% federal and 20% local funding match.
<b>National Highway System</b>	Capital	Funding can be made available to transit projects that serve a NHS highway if the transit project improves the level of service and is more cost-effective than a highway improvement.
<b>New Freedom Program</b>	Capital	Funding available on competitive basis to transportation providers to serve persons with disabilities.

The FTA's funding for FY 2005 was \$40.1 million for Iowa. Approximately half of these funds, \$21 million, are directed to urban transit system operations. For comparison, Table 4 shows the FY 2006 funding levels for selected FTA programs for the states of Illinois, Iowa, Minnesota and South Dakota.

**Table 4**  
**FY 2006 SAFETEA-LU Estimated Funding For Selected Programs**

State	Urbanized (5307 and 5340)	Non-Urbanized Areas (5311 and 5340)	RTAP <sup>1</sup>	JARC <sup>2</sup>	Elderly and Persons with Disabilities (5310)	New Freedom
<b>Illinois</b>	224,097,235	11,936,168	162,384	5,903,405	4,376,022	3,457,907
<b>Iowa</b>	14,507,865	8,494,961	130,782	1,044,876	1,194,690	657,397
<b>Minnesota</b>	45,605,616	10,727,309	145,169	1,428,539	1,676,058	953,272
<b>South Dakota</b>	2,588,527	4,121,351	85,345	315,905	392,847	272,952

*Source: American Public Transit Association, January 2006.*

### Congressional Earmarks

In addition to transit programs that are defined by federal transportation law, congressional earmarks have also provided additional funding to transit systems. These additional funds traditionally provide capital and or planning assistance to develop transit systems. This type of funding tends to be a one-time infusion of funds to "jump start" transit projects or provide capital assistance to repair or replace aging facilities or infrastructure. This mechanism of transit funding is not the most reliable long-term funding strategy and may only come to fruition after many years and attempts.

### State of Iowa Transit Funding

The State of Iowa's primary source for funding transportation activities is the Road Use Tax Fund. The Road Use Tax Fund is comprised of revenue sources which include taxes on fuels; fees collected on vehicle registrations, titles, and driver licenses; and use tax collected on motor vehicle purchases and related equipment.

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<sup>1</sup> Rural Transit Assistance Program

<sup>2</sup> Job Access and Reverse Commute Program

The Road Use Tax Fund is restricted in its ability to pay for transit. Except for administrative costs, all vehicle registration fees, license fees, and motor vehicle fuel taxes are constitutionally dedicated to be spent solely for the construction, maintenance, and supervision of the State's public highways (Section 8, Article VII, Iowa Constitution).

The State of Iowa's transit activities are funded through the allocation of 1/20 of the first \$0.04 of the use tax on the sale of motor vehicles. In 2003, this funding source raised \$9.5 million and is the primary source of funding for the State Transit Assistance Program. Other funds have been appropriated by the Iowa Legislature (e.g. petroleum overcharge funds) for transit use.

According to Iowa's 1997 25-Year State Transportation Plan (Plan), transit services are estimated to cost an average of \$34.98 million (2005 dollars) per year to support. It is anticipated that a \$266.55 million (2005 dollars) deficit is projected from federal and state sources over the Plan's 25-year time frame. Figure 1 identifies the Plan's options to finance the anticipated transit operating and capital shortfall.

**Figure 1**  
**State Transportation Plan's Options for Financing Transit Shortfall**

- Increase user tax from 1/20 to 1/10 of first four cents.
- Dedicate a percentage to transit from Iowa's Clear Air Attainment Program.
- Addition of local option tax indexed to prices of all highway fuel.
- Transportation Head Tax: Employer assessed tax for employees using motor vehicles from transportation to and from work.

### **State of Iowa Transit Grant Programs**

The State of Iowa's public transit assistance is divided into two programs, the State Transit Assistance Program and the Capital Revolving Loan Fund. Each program is supported by different funding sources. However, all public transit programs are eligible to participate in each program.

- **State Transit Assistance (STA)** – Iowa public transit systems are eligible for STA funds. STA funding is derived from a dedicated portion (1/20th) of the first four cents of the use tax on the sale of motor vehicles and accessory equipment. These funds may be used for either operating or capital projects. Approximately 97 percent of the funds are allocated to transit systems, based on a statewide formula, taking into consideration transit system performance including revenue miles, locally determined income and rides per dollar of cost. In addition, up to \$300,000 of STA funds are set aside each year for technical training, statewide marketing campaigns, and other statewide projects to improve public transit in

Iowa. Statewide training through the Rural Transit Assistance Program (RTAP) is funded through STA funds.

- **Capital Revolving Loan Fund (AMOCO Loan)** – The capital revolving loan fund was created by the Iowa Legislature with funds from Iowa's portion of the federal government's settlement against Amoco. Iowa transit systems are eligible for loans under this program that encourage the use of energy conservation of transit capital projects. A project is eligible if it is a transit related capital project that has been approved for federal funding.

### **State Appropriations**

Like congressional earmarks, state appropriations can provide additional funding to transit systems. These additional funds traditionally provide operating, capital and/or planning assistance to develop transit systems. As well with congressional appropriations, this mechanism of transit funding should not be considered a reliable, long-term source of funding and in many cases, may take years to develop a politically acceptable funding package.

### **Local Transit Funding**

Local transit funding provides the greatest amount of operating funding to urban transit systems. Local transit funding is generally derived from fares, property tax levies, sales tax and other sources such as advertising and subscription services. Bettendorf Transit and Davenport CitiBus each received 68 percent of their respective operating funds from local sources in 2004. Table 5 identifies the sources of operating and capital funds for Bettendorf Transit and CitiBus as expended in 2004.

**Table 5**  
**Sources of Operating and Capital Funds Expended**

Type of Expense	Sources of Funding	Bettendorf Transit		Davenport CitiBus	
		Dollar Amount	Percent	Dollar Amount	Percent
Operating	Fares	\$35,112	4	\$379,402	11
	Local Funds	\$502,678	64	\$1,981,504	57
	State Funds	\$117,084	15	\$248,660	7
	Federal Funds	\$129,941	16	\$814,526	23
	Other	\$5,067	1	\$58,764	2
	Operating Total	\$789,882	100	\$3,482,856	100
Capital	Local Funds	\$120,454	17	\$364,750	21
	State Funds	\$0	0	\$0	0
	Federal Funds	\$588,099	83	\$1,387,001	79
	Other	\$0	0	\$0	0
	Capital Total	\$708,553	100	\$1,751,751	100

Source: 2004 National Transit Database.

### ***Transit Mill Levies***

The State of Iowa allows communities to support transit services by passing, through popular vote, a mill levy up to \$0.95 per \$1,000 of assessed value against property. Currently, the City of Bettendorf does not levy taxes against property to support Bettendorf Transit. Funding is allocated through general fund revenues. At this time the City of Davenport supports CitiBus with a mill levy of \$0.91 per \$1,000 of assessed value which raised \$2,769,893 in FY 2004.

### ***Iowa Local Option Sales Tax***

Local governments by majority voter support may adopt a Local Option Sales Tax (LOST) up to 1 percent, for property tax relief and other specified purposes. The Cities of Bettendorf and Davenport currently have the 1 percent LOST which went into effect on January 1, 1989. The LOST does not have a sunset date.

### **Iowa Capital Improvements Fund**

Any city may establish a capital improvements reserve fund for the purpose of accumulating moneys for the *financing* of specified capital improvements, or carrying out a specific capital improvement plan. The maximum allowable levy is \$0.675 per \$1000 of taxable property value. The question of the establishment of a capital improvements reserve fund and the time period and tax rate to be levied for the fund is subject to approval by a majority of voters (versus a 60 percent voter approval requirement to authorize general obligation bonds).

### **Vehicle Registration Fees**

In addition to current vehicle registration fee collections, counties are empowered under Iowa law (Sec. 423B.3) to charge a flat vehicle registration fee, per vehicle, to be used solely for public transit *or* shall be credited to the street construction fund of that city or the secondary road fund of that county. The county treasurer collects the fee and redistributes those funds to the communities that they were collected in and to the county for unincorporated areas. These monies are credited to the general fund. Currently, vehicle registration fees bring in approximately \$896,600 in revenues for Scott County's general fund. Scott County vehicle registration fee revenues are not allocated to support transit services at this time.

**Figure 2**

### **Article 10: General Powers**

The authority has the following general powers:

To own, operate, manage, or lease facilities within the territory of the authority. "Facility" means an airport, port, wharf, dock, harbor, bridge, tunnel, terminal, industrial park, waste disposal system, **mass transit system**, parking area, road, recreational area, conservation area, or other project beneficial to the territory of the authority as authorized by substantially identical laws of the states of Iowa and Illinois, together with related or incidental fixtures, equipment, improvements, and real or personal property.

### **Quad Cities Interstate Metropolitan Authority Compact**

The Quad Cities Interstate Metropolitan Authority Compact (Compact) gives the counties of Scott, Iowa and Rock Island, Illinois the authority to impose a local sales and services tax at the rate of one-fourth of one percent on gross receipt for the provision of joint facilities. Article 10 of the Compact (see Figure 2) identifies eligible projects, which include the ownership and operation of airport, port, harbor, bridge, tunnel, terminal, industrial park, waste system, mass transit, parking, road and recreational facilities. However, Compact language requires a referendum approving the creation of the authority must have been held before January 1, 1993.

### **III. ALTERNATIVE AND INNOVATIVE FUNDING**

An analysis of alternative and innovative funding sources and their ability to increase funding for transit services in the Iowa Quad Cities has been completed as part of the Iowa Quad Cities Transit Alternative Analysis. First, an examination of the ability to maximize existing funding sources will be explored. This review has been conducted within established organizational and authority structures for federal, state and local funding sources with their respective transit funding opportunities identified.

Second, a study of funding innovations employed by other transit agencies around the country to combat shrinking financial resources is presented. The intent is to show how public transit properties faced with the similar issues overcame their financial hurdles to increase their financial base. As these methods may be distinct in their ability to occur within unique operating, organizational and financial structures, their principles are, however, universal.

#### **Maximizing Existing Federal Funding Sources**

In 2003, Iowa contributed \$321.8 million to the federal highway account and \$60.9 million to the mass transit account. In return, Iowa received \$32.4 million through FTA's programs in the same year. This gap in federal funding is further emphasized with the decline of Iowa's portion of federal transit funding. In FY2002, Iowa ranked 34<sup>th</sup> in total FTA funding contrasted to FY2005's ranking of 38<sup>th</sup>.

To prevent Iowa's ranking slipping even further and to equalize the national transit funding playing field, a minimum transit funding guarantee is needed. A transit investment guarantee would be similar to the highway guarantee investment program where 95 percent of federal tax revenues generated from each state would be returned. If implemented, a transit fund guarantee program will benefit Iowa and could increase federal transit funding by approximately \$25 million.

Most local option transportation taxes that support transit operations tend to be unrestricted in duration. However, local option taxes raised for capital purchases tend to include a sunset clause. Some states, such as Washington, limit the use of local option taxes only to those projects or programs that have met certain land use or transportation planning requirements and are developed through an open and public process. Table 6 describes typical rates, per capita revenues and applicability to transit for each local option tax.

**Table 6**  
**Local Option Taxes for Transit**

Tax	Average Tax Rate	Typical Revenues Per Capita	Application to Transit
<b>Property</b>	5 Mills	\$30 - \$300	Strong
<b>Sales</b>	0.5%	\$40 - \$70	Strong
<b>Fuel</b>	\$0.05 per gallon	\$20 - \$35	Moderate
<b>Vehicle</b>	\$10 per vehicle	\$7 - \$8.50	Moderate
<b>Payroll</b>	0.25%	\$30 - 60	Weak

*Source: Local Option Transportation Taxes in the United States, University of California Berkeley, 2001.*

Communities within the State of Florida have taken advantage of their local authority to raise local option fuel taxes. Florida communities have the option of imposing \$0.12 in additional gas taxes to raise revenue for transportation projects. Also available to Florida communities is the authority to fund transportation investments through the Local Government Infrastructure Surtax, Toll Revenues, Bond Issues, Impact Fees, Municipal Services Taxing Units. These options have been made available due to explosive population growth in the State of Florida and the inability of state and local governments to keep pace with growing capital improvement demands using only federal and state tax allocations.

Specifically for transit purposes, Florida's Broward, Duval, Miami-Dade, Sarasota, and Volusia Counties, a Transit System Sales Tax may be imposed at a rate of up to 1%. Revenues may be used to develop rail transit systems and support new or existing adjacent bus services.

As another example, in 1979, the State of Illinois established the Regional Transportation Authority sales tax which allows Cook, DuPage, Kane, Lake, McHenry and Will counties to support transit services with sales tax revenues. All of the revenues go toward operations of the region's three major transit systems, Metra, Pace, and the Chicago Transit Authority. In 2000, \$471 million was collected (\$60 per district capita) for transit purposes.

## **Maximizing Existing State Funding Sources**

### ***Constitutionally Dedicated Transit Funding***

Under Iowa law, gas tax revenues are constitutionally dedicated to funding roadway planning, design, construction and maintenance activities. Currently, only 1/20 of the first \$0.04 of the use tax on the sale of motor vehicles is dedicated to transit. To increase statewide transit funding, many states have lifted the road-only restriction on the use of gas taxes and dedicate a percentage of the revenues to fund transit activities. Iowa's State Transportation Plan (1997) calls for raising the transit funding portion to 1/10 of the first \$0.04 for mass transit purposes. Using 2003 transit revenues as an example under this new formula, an additional \$9.5 million would be generated for transit purposes.

### ***Flexible Funding***

A Brookings Institute Study (2000) found only 1.62% of Iowa's total STP and CMAQ funds were transferred for transit purposes. These funds are available to support transit capital projects, including vehicles and facilities that are used to provide intercity bus service. In addition, these funds can be utilized for transit safety improvements, transit research and technology transfer. Specific to CMAQ funding, these funds can defray operating costs for new or expanded transportation services for up to three years.

From FY1992 to FY1999, approximately \$459.4 million in flexible funding was available to support multimodal transportation projects in Iowa. Of the \$459.4 million, only \$5.3 million was transferred to support transit activities. For comparative purposes, the national average of STP and CMAQ funds allocated to support statewide transit projects during the same timeframe was 8.95%. Even a modest increase of 2% in STP and CMAQ transfers, would have generated an additional \$11.3 million in transit project funding from FY1992 to FY 1999.

## **Maximizing Existing Local Funding Sources**

### ***Transit Mill Levy***

The City of Bettendorf does not levy taxes against property to support Bettendorf Transit. Currently, transit funding is allocated through general fund revenues. Should the City of Bettendorf implement the full transit levy in the future an additional \$1.2 million could be raised to support existing service. The City of Davenport supports CitiBus with a mill levy of \$0.91 per \$1,000 of assessed value, which raised \$2,769,893 in FY 2004. Should the City of Davenport impose the maximum mill levy, approximately \$121,700 in additional transit funding could be raised.

### ***Quad Cities Interstate Metropolitan Authority Compact***

Provisions within the Quad Cities Interstate Metropolitan Authority Compact, give the Counties of Scott and Rock Island the authority to impose a sales tax to support long-term, high-investment, regional projects. Transit facilities and services qualify for funding under the compact. In FY 2005, Scott County's taxable sales were \$2.2 billion. With a signed compact in place, Scott County could have generated approximately \$5.5 million in revenues for transit investments in FY 2005.

Compact language required a referendum to approve the creation of the authority to be held before January 1, 1993 in order for the Compact to be valid. As this did not happen, the State of Iowa and Illinois would need to pass identical legislation to reinstate the Compact.

As a long-term solution, Scott and Rock Island Counties should work to reenact the Compact when future regional transit needs between the two counties exceed existing funding resources.

### ***Regional Transit Districts***

Recent changes in Iowa law allow for counties to establish regional transit districts. Regional transit districts may levy taxes, capped to \$0.95 per \$1,000 assessed value, and issue general obligation and revenue bonds to support transit services. Under a Polk County plan, communities will assess residents with the new levy in lieu of paying a yearly allocation based on miles of service. The Iowa Quad Cities' transit systems could create a transit authority under the new law and raise can raise additional revenues for operations and capital.

### ***Vehicle Registration Fees***

Iowa law (Section 423B.3) permits counties to raise transit revenues through vehicle registration fees. Scott County uses this revenue stream to support the county's general fund. Using 2003 budget performance data, a \$1.00 increase in vehicle renewals alone would raise \$170,300 for transit services. More revenues could be realized if fees were also applied to title and security transactions. As current law states these funds may go to public transit *or* street construction funds in their entirety, a legal review will need to be conducted to explore if these funds could be divided among mass transit and roadway accounts.

### **Innovative State Transit Funding Methods**

Rather than waiting for increases at the federal level to materialize, many states have created innovative programs to increase transit funding. For example, the State of Florida has recently created a local version of the Federal Transit Administration's New Starts Program. Florida's New Starts Program, which is linked to progressive growth management policies, allows transit agencies to apply and compete for up to 50 percent of the costs for the non-federal share of federal New Starts projects.

The purpose of Florida's New Starts Program is to provide a steady source of local funding to communities participating in the federal New Starts Program. This reliable local funding stream will create a sound financial foundation for Florida transit projects. With this advantage, Florida's transit agencies will become formidable competition for national transit funding programs.

Other states have raised revenue from other non-traditional and innovative sources. For example, the State of Arizona participates in the multi-state Powerball lottery. Lottery revenues are distributed to Arizona cities and towns based on population. For those communities over 60,000, one-third of the revenues must be used for transit.

### **Innovative Local Transit Funding Methods**

There are a variety of ways to generate transit revenues at the local level. Many communities around the country employ a combination of sources to fund local transit operations and/or capital needs. Transit revenues have been raised through a combination of fuel, vehicle, property, sales, payroll and lodging taxes across the country.

**Table 7**  
**Selected Transit Tax Sources in the State of Illinois**

Tax Type	Tax Name	Allowable Rates	Area	Approval Procedure
Fuel	Public Transportation Tax	Maximum of 5% gross receipts	Metropolitan Chicago	Transit Agency Vote
Vehicle	Parking Tax	Varies	Metropolitan Chicago	Transit Agency Vote
Property	Mass Transit Levy	One-fourth percent property tax	Mass Transit Districts	Transit Agency Vote
Sales	Use and Occupation Tax	Three-fourths percent	Metropolitan Chicago	Transit Agency Vote

In 1981, the Metro East Transit District sales tax was established in St Louis, Missouri, to fund public transit operations. An additional ½ percent sales tax, approved by St. Clair County voters in 1993, provided the funding for a MetroLink light rail system extension through East St. Louis and into its suburbs. In all, the Metro East sales taxes raise \$20.6 million annually, or about \$40 per resident of the district.

The State of Minnesota allows for the creation of regional railroad authorities for the purpose of providing secure funding for regional transit projects. Currently, seven counties comprise the membership of the metropolitan regional railroad authority. Regional railroad authorities are allowed to levy a property tax in the same manner as other special taxing districts of up to 2 mills for transit purposes. Metropolitan regional railroad authorities raised revenues of approximately \$50 million between 2003 and 2006 to support regional transit activities.

### **Transit Supportive Land Use Planning Techniques**

Transit agencies are becoming actively involved in the development and implementation of new land use policies and programs that promote transit services as a tool to manage growth, conserve resources and promote transit use. So much so, that Congress mandates supportive transit land use to be in place as a major New Start project selection criterion for transit agencies when competing for capital investment funds. In many cities, progressive transit station zoning coupled with joint development partnerships have led to increased ridership, revitalized communities, and have created a needed income stream for transit agencies.

Transit agencies and city planners are working together to develop transit supportive land use and encourage development that provides benefits to the community and supports each organization's mission. At its core, transit oriented development (TOD - sometimes referred to as transit villages) often incorporates mixed-use development, which may include higher density residential space and shops; commercial buildings; entertainment facilities; offices; and public open spaces. These development elements are supportive of traditional downtowns like Bettendorf and Davenport's riverfront development vision. Generally speaking, the main characteristics of a TOD include:

- Buildings are close to the street and front ample pedestrians pathways;
- Ground floor activities are vibrant and include personal services, retail or commercial businesses;
- Transit users' needs in terms of comfort and safety are fully accommodated; and
- Auto use is minimal or highly discourage through the use of traffic calming design and/or congestion pricing.

To promote the development of TODs, sometimes a density bonus is granted to developers for increasing the density of their projects. The typical arrangement calls for the developer to contribute to a transit-related improvement in return for additional development rights or considerations, for example, additional building height. In return, the transit agency gains a specific transit facility or cost item, like bus shelters, which reduce the overall transit agency cost outlay.

## **Joint Development**

The term "joint development" can cover a wide range of agreements between a public transit agency and a private individual or company. Joint development can be defined as any formal arrangement between a public transit agency and a private party. These arrangements involve either private sector payments to the public agency, or the private sector sharing transit project capital costs in recognition of the enhanced real estate development or market potential generated by proximity to a transit facility.

There are generally two kinds of joint development: 1) revenue sharing, and 2) cost sharing. Revenue sharing usually involves leasing or selling air rights over a transit station or yard. A private developer agrees to construct a building in exchange for the right to lease the building, and pays the transit agency an annual fixed rental or rental based on a fixed percentage of the gross lease income. Cost-sharing usually involves joint public/private financing of a development project or contribution of right of way by the developer.

Developers and property owners wishing to have transit stations integrated with their commercial facilities are sometimes willing to share operating expenses and/or contribute to capital costs. Cost-sharing can substantially reduce the costs to the public of constructing selected elements of transit facilities. Typical cost-sharing arrangements include private developer funding of discrete elements of a transit stations/shelters, or the donation of right-of-way.

For example, in Cedar Rapids, Iowa, Five Seasons Transportation shares space with other tenants in their downtown ground transfer center. Five Seasons Transportation utilizes the facility as a transfer stop and houses their bus dispatching activities. The facility also houses intercity transportation carriers, a Montessori School and other private development.

In the Orlando area, the Seminole Town Center approached the City of Sanford about serving the site with transit. The developer annually contributes \$10,000 to the transit agency, LYNX, for the cost of the service.

### **Tax Increment Financing Districts**

Tax Increment Districts obtain funds from increases in ad valorem tax revenues that arise from a new infrastructure and/or development investment. Tax increment districts differ from benefit assessment districts in that they use the diversion of regular tax revenues rather than additional fees. Tax Increment Financing (TIF) is based on regularly recurring taxes, participation of all district taxpayers, and assessments based on property values. The incremental increase in tax revenues over a designated base year is diverted into a special fund, which can be used for debt service, revolving loan funds, or for reimbursing municipalities or private financial institutions.

Under Iowa Code § 403.19, TIF is a capital funding mechanism for municipalities to use to finance public improvement projects or to fund development incentives. TIF is based on the theory that making such improvements or attracting development will result in an increased property tax base for the municipality, and that incremental increase can then be used to finance the cost of the improvement or incentive. Before using tax increment financing to fund urban renewal projects a plan must be developed, the geographic boundaries identified, and assurances established that the project qualifies as an urban renewal project as defined by the Iowa Code.

The City of Dallas established a Tax Increment Financing Zone (TIRZ) to help fund infrastructure improvements needed for future redevelopment around the Dallas Area Rapid Transit's (DART) LRT stations. The TIRZ captures and reinvests the increase in property values within a  $\frac{1}{4}$ - to  $\frac{1}{2}$ -mile radius of the LRT station. These funds are used to improve street, water and sewer infrastructure and can be used for street lighting, parking structures, sidewalks and landscaping.

## **Public/Private Partnerships**

Transit systems can leverage their limited resources by forging new partnerships that can bring non-traditional sources of support (including cash, facilities and equipment, and in-kind services) that pay partially, or fully, for new services or facilities where it would not otherwise be feasible. Local governments and transit agencies are expanding their list of partners to include developers and property managers, employers, downtown businesses, colleges, public school systems, utilities, convention and visitor bureaus, sporting and special events managers, and various other entities.

For example, in the Quad Cities, downtown businesses could provide funds for supplemental lunch time service that would increase bus service and promote transit usage for lunch, shopping, and errands. Also, partnerships with riverfront attractions and downtown hotels and restaurants could provide funding for extended evening hours and Sunday service. Such a partnership with the transit agency and downtown business exists today in Tampa, Florida.

In Ames, Iowa, a unique partnership exists with a local university and the transit system. Ames' transit system, CyRide, partners with Iowa State University (ISU) to provide transportation to students. ISU students pay a mandatory "activity, services and building" fee that supports a variety of activities and services for all students. This fee provides several benefits such as student admission rates to concerts and athletic events and, unlimited use of CyRide. All students are charged a maximum of \$177 each fall and spring semester, and \$88.50 per summer semester.

Another example of public/private partnerships is Escambia County Area Transit in Pensacola, Florida. The transit agency entered into an agreement with two malls to underwrite the cost of transportation from the Pensacola Naval Air Station to the malls during the weekend and on nights when normal bus service was unavailable. Each mall splits all costs not covered by farebox revenues on a 50/50 basis. This premium service is provided at no cost to taxpayers and is available to the general public.

## **Capital Equipment**

To reduce equipment capital costs and the associated operating expenses, transit properties are learning to reduce their large bus fleet by replacing them with smaller vehicles. Atlanta's transit system, MARTA, is using smaller, "minibuses" to serve routes with declining ridership and areas consisting of new developments where ridership has the potential to grow. By moving to minibuses, MARTA saves money by running smaller vehicles, at peak times, which are more fuel efficient and are easier to maintain within their existing system.

In addition, MARTA is able to pay small bus drivers less because small bus drivers do not need to have a commercial driver's license to operate the 13-seat vehicle. Small bus operators earn \$12.96 an hour, compared with \$18.51 for a large bus driver, who must have a commercial driver's license. On one route alone, the annual operating cost decreased from \$513,000 to \$260,000 after employing the new buses and modifying service hours.

## **Fare Increases**

As a last resort, transit agencies many have to raise existing fares to help off-set rising transit costs. As this is the least popular method of raising revenues, transit patrons may be more willing to support a fare increase if they perceive a value by doing so. This is accomplished when transit patrons are afforded the opportunity to participate in the decision-making. By inviting transit patrons to sit at the decision making table, they are better able to understand the direct relationship of increased costs to transit service benefits.

For example, when the Twin Cities' Metro Transit system was planning to raise fares and modify existing services, transit riders were encourage to actively participate in town hall meetings to assist in the decision-making. In the end, patrons decided to modify lower performing routes to be more efficient and supported a fare increase which provides more frequent service on highly performing routes.

Any fare increase, however, will have a direct impact to ridership. Historically, transit systems imposing a ten percent increase of bus fares will see a 3 to 4 percent decrease in ridership.

### **III. CONCLUSION**

Transit agencies around the country are challenged with finding new and innovative ways to raise much needed revenue to support existing or future transit operations. This effort is no small chore as funding at all levels – local, state, federal – fluctuate due to market, demographic and economic conditions. Understanding the existing funding picture and potential opportunities, both at a micro and macro level, will help transit agencies in their financial planning.

Should Iowa's transit funding trends continue, transit agencies around the state may share in a shrinking pool of funding resources. However, there are funding opportunities to be found at the local level. The Cities of Bettendorf and Davenport have opportunities available to them. Additional transit funding resources can be realized by maximizing transit levies, reinstating the Quad Cities Interstate Metropolitan Authority Compact to meet future regional transit needs and by working with Scott County to raise transit revenues through the vehicle registration process.

In addition to raising local revenues, local transportation representatives can encourage increased “flexing” of federal Surface Transportation Program or Congestion Mitigation Air Quality funds to support transit activities.

Non-traditional and innovative funding techniques also hold promise for the Iowa Quad Cities' transit systems. There are many examples of transit agencies turning joint development opportunities into a source of non-farebox revenue, while others have translated joint development success into transit system expansion, attracting new riders and an improved market image among residents.

This review of existing and potential funding sources provides an overview of funding opportunities for Iowa Quad Cities' transit systems. This analysis identifies an additional \$5.7 million in local opportunities, alone. However, there is no one program or single source of funding that will solve all financial concerns. Transit systems will most likely need to rely on a combination of activities to reduce existing financial constraints and allow for increased transit services in the future.

A careful and thoughtful financial planning exercise will need to be conducted to adequately evaluate the potential financial benefits and risks of each opportunity. Each potential funding source will should be evaluated for its ability to meet short-term and long-term needs and potential impacts to other funding sources, specifically federal resources.