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Though the St. Louis region has advanced several proposals to dramatically expand or improve the region’s public transportation, the bottom line is that an overall shortage of funding presents significant challenges to transit expansion in St. Louis.

The purpose of this report is not to identify which of these possible transit projects are the “right” or “best” ones, or even to propose exactly how they should be funded.

Rather, it is to show a range of initiatives and funding alternatives that have been successfully deployed around the country, examine them earnestly and chart a clear and expeditious course for improved public transit throughout our community.

The economic prospects of the St. Louis region are directly related to the quality of access to transportation, which makes additional major investments in public transportation essential.

There are several significant transit expansion and service innovation proposals that have already received review and enjoy substantial support in the St. Louis region. Examples include the Northside/Southside light rail project, a St. Louis County light rail corridor and several options for new bus rapid transit (BRT) service, among others. Each project has its pros and cons. Light rail expansion could connect thousands more residents to opportunities and create new options for
development in the region, but it is also expensive. The BRT projects would provide new transit service at a lower price, but do not yet have the same track record of catalyzing new development or transformative change to nearby land uses.

The St. Louis region has done substantial planning to identify key transit projects that will offer more transportation options, improve access to opportunity and attract talent — and the thousands of jobs now relocating to be near that talent nationally.\(^1\) The region has also instituted local sources of transit funding and has utilized those sources to expand transit in advance of further state or federal funding. However, without the identification of a new source(s) of funding, the region cannot move forward with any major expansion to their transit network.

In recent decades, regions around the country that have built or expanded transit have looked primarily to the federal government for funding.

Some regions became experts in using the Federal Transit Administration’s (FTA) New Starts Program to build new transit. New Starts is set up to provide hundreds of millions of dollars for projects over multiple years. Through this program, FTA thoroughly analyzes how each project is expected to perform in terms of mobility improvement, environmental benefits, operational efficiencies, cost effectiveness, transit-oriented land use policies and economic development. Only projects that receive good ratings in these areas are funded. However, competition is stiff for New Starts funding; the program has a long and growing list of potential projects, and federal appropriators have not taken action to help the program keep pace with demand.

Some areas, like St. Louis, have self-funded transit projects to avoid the challenges and delays associated with relying on federal programs. But now the region is faced with the reality that no single regional entity has sufficient funding to “go it alone” on any of their planned major transit projects.

The truth is that one or two funding sources are rarely enough to make these projects happen. Many regions have successfully built new transit projects by creatively piecing together funding through a variety of sources from all levels of government, along with a variety of private sources.\(^2\) This strategy is becoming more common as governmental budgets are stretched and construction becomes more expensive.

Each project presents different options for funding sources. For example, rail projects are more likely to generate new development opportunities and increases in nearby property values, making it more effective to use techniques that capture part of that increased value to help fund the upfront costs of the project. Analyzing priority projects and the most effective funding options for each type of project can help a community decide which revenue sources they support and believe are most appropriate for the services they are seeking.

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1. Core Values: Why American Companies are Moving Downtown. Smart Growth America. 2015. [http://www.smartgrowthamerica.org/core-values](http://www.smartgrowthamerica.org/core-values)

The challenges St. Louis faces in securing adequate funding for transit are not unique. For example, the development pattern throughout the region is primarily designed for automobiles.

The current system does not do enough to connect people to opportunity or keep transportation affordable. While St. Louis ranks 19th in the country in terms of population, compared to other U.S. cities, it ranks only 68th in terms of transit coverage and access to jobs by transit.3 Only 24 percent of the region’s jobs are reachable by a 90-minute transit trip. This lack of transportation choices has helped raise the cost of transportation for everyone — the average household in the City of St. Louis spends 19 percent of its budget on transportation, and in the County that number rises to 23 percent, reducing the region’s overall affordability.4

Through all of this, the region’s light rail service, MetroLink, stands out. It has seen high levels of ridership since its opening in 1993. With just one-sixth of the revenue miles and one-tenth the vehicle revenue hours of bus service, MetroLink still carries more than half as many passengers as the bus system. Also, Metro has kept the operating expenses of running light rail below $10 per revenue mile, which ranks the 4th lowest of the top 50 transit systems with light rail.

Metro, the agency that operates bus and rail transit in the area, is itself an interesting agency. Unlike many other transit agencies across the country, Metro has a broader mission than simply operating

public transit. It oversees an airport, the Gateway Arch and Mississippi River attractions, and has recently been tasked with leading the region’s freight district. Metro’s broad mission can be both an advantage and a disadvantage. While the agency is not single-mindedly focused on transit, its leadership clearly sees economic development as an integral part of its duties, thus encouraging the agency to capture the development benefits of transit service and capitalize on support from many kinds of regional development stakeholders.

Currently, there are several major transit capital projects — like the expansion of MetroLink, the development of bus rapid transit and the St. Louis streetcar system — listed as “illustrative projects” in the region’s long-range plan, Connected 2045. All of these projects can only move forward if additional funding becomes available.

Whether these projects identified in the Connected 2045 plan are the best projects or not, the region needs a strong transit system and, designed well, these projects can bolster the entire transit system and build on the momentum created by MetroLink. As these specific projects are considered, understanding the broad range of options for funding them might make the decision easier.
The initial phase of the Hudson-Bergen Light Rail line in New Jersey was completed and opened in 2000 after a highly accelerated construction schedule under a design-build-operate-maintain (DBOM) contract.

**PRACTICES FOR SUPPORTING TRANSIT**

The chart below lists various methods for funding transit that have been utilized successfully across the country. Some of them involve ways to raise new money, whereas others represent methods of transferring risk or reducing costs.

Not every option in this chart would be appropriate for every region. Nor do these funding sources need to be considered separately. They are best thought of as a menu, items that can be and more often are being mixed and matched.

<table>
<thead>
<tr>
<th>Source</th>
<th>Funding Type</th>
<th>Funding</th>
<th>Benefits</th>
<th>Drawbacks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal</td>
<td>New Starts/Small Starts</td>
<td>Average New Starts award is $589 million. Average Small Starts award is $35 million.</td>
<td>Large grant awards help cover a substantial share of total project costs—lowering the total money that local communities must raise.</td>
<td>Competitive and lengthy application process that requires FTA evaluation and Congressional action.</td>
</tr>
<tr>
<td>Federal</td>
<td>TIGER</td>
<td>Average award $10-20 million.</td>
<td>Highly flexible, multimodal federal program that rewards innovative projects.</td>
<td>Highly competitive application process and small grant size.</td>
</tr>
<tr>
<td>Federal</td>
<td>Federal Loan Programs</td>
<td>Loan amount depends upon program rules and applicant’s credit rating and ability to repay. The size of a loan can go into the hundreds of millions, if not over a billion.</td>
<td>Federal government assumes risk and offers low cost financing with flexible repayment terms.</td>
<td>Must apply to USDOT, which can be lengthy, and in the case of the rail financing program, pay the credit subsidy. Loans are financing and not funding.</td>
</tr>
<tr>
<td>Source</td>
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<td>Drawbacks</td>
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</tr>
<tr>
<td>Federal</td>
<td>Flexible Highway Formula Programs</td>
<td>Transit is an eligible use for more than 20 percent of federal highway funds provided to states and large metro areas each year. Missouri receives over $200 million in these funds each year.</td>
<td>Flexibility of the certain highway funds allows state and local leaders to determine the best use of these dollars.</td>
<td>Transit projects must compete against highway projects for flexible funds.</td>
</tr>
<tr>
<td>Federal</td>
<td>Transit Formula Programs</td>
<td>The St. Louis region receives approximately $23 million a year in urbanized area apportionments.</td>
<td>Transit formula grants are consistent and predictable.</td>
<td>Expansion projects compete with maintenance and repair projects and funding is not large enough for major new projects.</td>
</tr>
<tr>
<td>Any Level</td>
<td>Transportation User Fees</td>
<td>Broad-based and generates robust revenue.</td>
<td>The traditional user-pays system is easy to collect and can be used to build a multimodal system. Missouri’s gas tax is on the low side compared to rest of the country and surrounding states.</td>
<td>Missouri’s constitution reserves these funds for highways.</td>
</tr>
<tr>
<td>Any Level</td>
<td>Bonding</td>
<td>Variable based on type of repayment source and credit rating of agency.</td>
<td>Avoids the wait for limited, oversubscribed grant funds, builds projects sooner and saves money.</td>
<td>Obligates future funding to pay off bonds.</td>
</tr>
<tr>
<td>State/Local</td>
<td>Sales Tax</td>
<td>Broad-based and generates robust revenue.</td>
<td>Sales taxes are a little less stable than property taxes but still provide a great deal of predictability.</td>
<td>Sales taxes are regressive—although this may be addressed by exempting certain items such as food.</td>
</tr>
<tr>
<td>State/Local</td>
<td>Business Licensing Fee</td>
<td>Generates low funding amounts.</td>
<td>Businesses contribute to transportation that brings workers to their jobs reliably. Useful to support operation of existing service.</td>
<td>Unlikely to raise enough for major projects.</td>
</tr>
<tr>
<td>Source</td>
<td>Funding Type</td>
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<td>Drawbacks</td>
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</tr>
<tr>
<td>State/Local</td>
<td>Property Tax</td>
<td>Broad-based and generates robust revenue.</td>
<td>Predictable, stable and progressive tax structure.</td>
<td>Tax is not linked to a specific project area or project beneficiaries.</td>
</tr>
<tr>
<td>State/Local</td>
<td>Payroll Tax</td>
<td>Broad-based and generates robust revenue.</td>
<td>Predictable, stable and progressive tax structure.</td>
<td>Requires support from business, taxed entities not related to user.</td>
</tr>
<tr>
<td>State/Local</td>
<td>Vehicle Fee</td>
<td>Moderate</td>
<td>Vehicle ownership rates are stable.</td>
<td>Regressive and Missouri currently dedicates such funds to highways only.</td>
</tr>
<tr>
<td>State/Local</td>
<td>Parking Fee</td>
<td>Variable depending on total number of spaces and travel demand.</td>
<td>Peak period travel demand is mostly stable, though riders are sensitive to price changes.</td>
<td>Regressive and free parking is the norm in the region.</td>
</tr>
<tr>
<td>State/Local</td>
<td>Value Capture</td>
<td>Variable depending on area affected and type of value capture used.</td>
<td>Those that benefit from the project in terms of development, property value and/or sales, contribute to its funding.</td>
<td>Under some value capture, funding may not flow until after the project is completed or may be a one-time fee.</td>
</tr>
<tr>
<td>State/Local</td>
<td>Tolling/Congestion Pricing</td>
<td>Robust</td>
<td>Toll revenues are steady—especially for established highways with predictable travel demand.</td>
<td>Regressive and Missouri currently dedicates such funds to highways only.</td>
</tr>
<tr>
<td>State/Local</td>
<td>Oil Extraction Fee</td>
<td>Variable depending upon oil production in state.</td>
<td>Fee is not directly paid by the consumer.</td>
<td>Missouri is not a major oil producer.</td>
</tr>
<tr>
<td>Private</td>
<td>Private Funding</td>
<td>Variable, based on interest from private sector.</td>
<td>Private sector shares in the cost and risk of the project.</td>
<td>Limited number of transportation projects are interesting to the private sector. May lose some control over project.</td>
</tr>
<tr>
<td>Targeting Funds</td>
<td>State Competitive Grant Program</td>
<td>Variable, funding awards vary by state and projects.</td>
<td>State grant funds lower the local funding necessary to meet federal matching requirements.</td>
<td>States often do not see urban transit as part of its mission.</td>
</tr>
<tr>
<td>Source</td>
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<tr>
<td>Targeting Funds</td>
<td>Multimodal Performance Measures</td>
<td>Not new money, targeting existing funds to highest value projects.</td>
<td>Doesn't require new funding but targets existing funding to projects based on likely benefits, not based on mode.</td>
<td>Requires change from a current system that has its own stakeholders.</td>
</tr>
<tr>
<td>Managing Projects</td>
<td>Design/Build/Operate/Maintain</td>
<td>Money-saving tactic, if designed so that risk is truly born by the private entity.</td>
<td>Risk shared with or assumed by private operator or project sponsor.</td>
<td>A limited number of transportation projects are interesting to the private sector. May pay a risk premium that is higher than public is willing to bear.</td>
</tr>
<tr>
<td>Managing Projects</td>
<td>Delegated Management</td>
<td>Cost saving tactic.</td>
<td>Cost-effectively support transit, particularly transit modes with which the region has little experience.</td>
<td>Can reduce operating costs, but not a way to raise substantial funding for capital projects.</td>
</tr>
<tr>
<td>Managing Projects</td>
<td>Transit Tax Credit</td>
<td>Low</td>
<td>Can boost transit ridership by encouraging employers to offer the credit.</td>
<td>Can improve funding for operations but not for capital.</td>
</tr>
<tr>
<td>Managing Projects</td>
<td>Rightsizing Projects</td>
<td>Cost-saving tactic.</td>
<td>Build less costly, more cost-effective projects overall, freeing funds for other priorities.</td>
<td>Have to compete with all transportation priorities and much of the funding saved may be from a source that is restricted to highway spending.</td>
</tr>
</tbody>
</table>

Each of the funding mechanisms from the graph above are discussed in the appendix, along with an example of how each has been applied successfully in regions across the country.
Funding Regional Transit Priorities

Which funding strategies might be appropriate for particular projects depends a lot on the type of project being considered. Increasingly, transit project sponsors across the country are combining multiple sources of funding in order to get projects built.

For example, the Kansas City Downtown Streetcar, which will cost more than $100 million to construct, is being funded with special obligation bonds from the City and other funds generated from a special sales tax assessment district approved by the voters. Additional funding was secured from FTA, the U.S. Department of Transportation’s (USDOT) extremely popular Transportation Investments Generating Economic Recovery program (TIGER) and contributions from area utilities for utilities relocation. When completed, streetcar service will be operated by a private company, Herzog Transit.

Denver’s Union Station, the hub of the entire region’s growing transit system that has been a powerful driver of downtown revitalization, was remodeled as part of a $500 million project. The project included the construction of light rail and commuter rail stations, a regional bus facility, the extension of bus and shuttle service, parking infrastructure and pedestrian access improvements.

To get it built, the local transit agency combined two federal loan programs and value capture with funds from the Federal Highway Administration (FHWA), FTA, Department of Homeland Security, the American Recovery and Reinvestment Act, the local transit agency, other state and local funds and land sales. It was the combination of these funds that made the project work: the federal loan programs relied on local sources of funding for repayment and the local sources of funding couldn’t have gone as far without the federal loan programs. Federal loans programs, like the Transportation...
Infrastructure Finance Innovation Act (TIFIA), allow repayment to be delayed without penalty for as many as five years until a project is mostly completed, providing time for the financial benefits of a project to begin accruing before repayments begin.

There are various transit expansions in the St. Louis region being considered and the funding mechanisms that might be most appropriate are just as varied. In this paper, funding options for two will be discussed: the Northside-Southside Light Rail Project and BRT from the City of Chesterfield to downtown St. Louis. These projects have been selected for analysis because they are unique in terms of size and structure. Their selection is not an endorsement of their merits.

To build Denver’s Union Station, the local transit agency combined two federal loan programs and value capture with funds from the Federal Highway Administration (FHWA), FTA, Department of Homeland Security, the American Recovery and Reinvestment Act, the local transit agency, other state and local funds and land sales.
Funding Options for Light Rail

The Northside-Southside light rail project is an example of one light rail project identified by the East-West Gateway Council of Governments as a priority transit project for the region.

This project is a new 17-mile light rail line that would stretch from North St. Louis County near St. Louis Community College and Florissant Valley into downtown St. Louis and then down I-55 to Bayless Avenue — connecting and impacting both St. Louis City and County. This project was estimated to cost approximately $1 billion in 2007, with recent estimates running as high as $2 billion. This is a very large project, but it could be divided into two to three segments.

Even in segments, this project is too big for some federal programs, including TIGER and Small Starts. However, FTA’s New Starts program regularly funds projects of this magnitude and is the program most communities and transit agencies traditionally turn to for funding major transit expansions. Unfortunately, New Starts funding has not kept pace with demand and currently Congress is considering cuts to the program. In order to secure funding, the local sponsor needs patience and a good amount of nonfederal funding for projects — usually about 50 percent. The law requires only a contribution of 20 percent, or $400 million, in nonfederal match, but with insufficient funding in New Starts overall and a high demand for funds, it is unlikely to receive complete funding from the program. Expecting the more recent standard 50 percent match would require $1 billion in nonfederal funds.

Another source of federal support is the TIFIA loan program. This program provides loans or lines of credit. TIFIA can be used to finance up to 49 percent of the cost of an eligible project, although USDOT has never allowed more than 33 percent of a project’s costs to be financed under this program to prevent one megaproject from eating up the bulk of the program’s funding. That means, with a $2 billion cost, TIFIA financing could provide up to $666 million. The TIFIA
program offers low interest loans with flexible repayment terms. Repayment can be stretched over as many as 35 years after a project is substantially completed with repayment beginning as late as five years after substantial completion of the project. To qualify for a TIFIA loan, the region needs to identify a stream of funds to pay back the loan.

The TIFIA financed portion of the project could be used as the nonfederal (i.e. state or local) match to the extent that it is repaid with nonfederal funds, with a goal of getting as close to a 50 percent local match as possible. Assuming a slightly lower 40 percent match, the region would need to find enough money to pay back a TIFIA loan over 35 years and an additional $134 million in up-front match.

Funding would be needed from St. Louis City and St. Louis County, federal programs and the State of Missouri. Each could contribute funds over several years to build up to this level, as a project of this magnitude would take several years to design and move through the New Starts and permitting processes. After the project is built, funding streams identified for the up-front match could be used to help pay back a TIFIA loan and support the operation and maintenance of the line.

State funding is crucial. There are federal programs the state manages that could be used to support a transit project like this. The federal Surface Transportation Program (STP) is flexible with very broad eligibilities, and the State of Missouri receives over $200 million per year in these funds. Because of its flexibility, however, STP funds are in heavy demand for a wide range of projects.

The Congestion Mitigation and Air Quality (CMAQ) Program is targeted to areas with air quality problems and for projects that will, as the name suggests, reduce congestion and improve air quality. The State receives around $20 million in these funds annually. These funds are limited to areas with air quality problems. Eight Missouri counties have been put on such a list by the U.S. Environmental Protection Agency including St. Louis County and the City of St. Louis. A pledge from the state’s STP and/or CMAQ funding would be one option for putting together the initial local match.
In terms of repaying a TIFIA loan, rail projects like Northside-Southside tend to generate property value increases, and a portion of that value increase could be earmarked toward repayment. With $666 million to pay back over approximately 30 years at the Treasury rate (currently approximately 3 percent), the region would pay approximately $35 million per year. This could be raised through a special assessment on property near (within ½ mile of) the eventual stations along the Northside-Southside line. However, to raise $35 million a year, a substantial assessment would need to be imposed, raising taxes by about 50 percent. Therefore, the region might consider a region-wide special property assessment, some hybrid of the two or combine this approach with other sources of funding.

A $2 billion project is very expensive and could be a challenge for the St. Louis region to undertake. Focusing on a smaller portion could make this project more manageable. Though the scope of the project would be smaller, the model of combining funding from New Starts and financing from TIFIA with nonfederal match from the local governments, federal funds and the state could still be applied.

In the case of a $1.2 billion segment, the region might seek $600 million from New Starts, finance $450 million from TIFIA and raise $150 million from local sources. This would provide a very competitive 50 percent nonfederal match and require the region to find a local source of funding of $23 million per year to repay a $450 million TIFIA loan.

The region could attempt to rely more heavily on New Starts, seeking $700 million in New Starts funding to combine with a TIFIA loan; requiring only $50 million to be raised in up-front funding. However, the region could stretch and raise more funds locally. It is important to recognize the way programs can be combined and partnerships formed — for all projects — to share the burden and make transformative projects more feasible.
The St. Louis region is also considering a couple of BRT projects. One is a 23-mile highway-running line along I-64 between the City of Chesterfield and downtown St. Louis. Stations would be more than a mile apart with a priority on moving buses quickly through the corridor. The cost is under $40 million, making this project significantly less complicated to fund.

A BRT project of this size could be built in the near term with a portion of the existing funding collected for transit through local sales taxes, by bonding, through state support or by using local/state funding in combination with the Small Starts Program or TIGER. Small Starts takes longer and requires significantly more analysis to get funding approved. It is not as competitive as TIGER and can fund a larger project — as much as $75 million of a project that is less than $250 million total.

The TIGER program is also one of the most competitive pools of transportation money — receiving 20 times more requests for funding than USDOT makes available in each round. However, no grant amount has been larger than $25 million in the last four rounds of funding. A strong project with a good local match (about 50 percent) would be quite competitive in TIGER5.

No matter the size of the project, forging productive partnerships with the State of Missouri and the metropolitan planning organization is extremely helpful. A significant hurdle to partnership with the State of Missouri is that most of its state transportation funding is derived from roadway user fees and vehicle fees that cannot currently be used to fund transit because a constitutional requirement limits these funds to highways. Twenty-one other states have similar constitutional restrictions and eight other states have statutory limitations on the use of gas tax revenues and/or vehicle registration fees.

5. Beth Osborne, a member of the team that authored this report, served as Deputy Assistant Secretary and Acting Assistant Secretary for Policy at USDOT from 2009-2014 and, in this capacity, managed the TIGER program through the first five rounds.
Most of these restrictions were put in place in the 1930s and 1940s when the nation was building out a roadway system. At the time, most communities were compact and easily walkable. Transit was plentiful and often privately run. In spite of the huge changes that have occurred in transportation and in the layout of communities between then and now, these restrictions remain.

In 2013 the state of Colorado removed a constitutional restriction that was similar to Missouri. Originally adopted in 1935, Colorado’s constitutional provision required that gas tax revenues and vehicle registration fees only be spent on highways and bridges. Later, the Colorado legislature had further defined the term “highway” in law to exclude local roads and improvements to highways for bicyclists and pedestrians.

Rather than try to remove the restrictive language in the constitution, advocates in Colorado instead pushed a bill (Senate Bill 48) to redefine the term “highway” in law to include new highway construction, highway safety improvements, highway maintenance and capacity improvements and other transportation-related projects. In 2013, Gov. John Hickenlooper signed Senate Bill 48 into law, opening up $250 million a year in state gas tax revenue to walking, biking and transit projects.

In Missouri, a list of projects for which highway user fees may be applied are enumerated in Article IV, Section 30(b), restricting funding to highways. However, the definition of “highway” in the constitution is quite broad: “any public thoroughfare for vehicles, including state roads, county roads and public streets, avenues, boulevards, parkways or alleys in any municipality.”6 “Thoroughfare” is a broad term that can be used to describe anything from a roadway to a waterway and does not appear to be defined elsewhere within the Missouri constitution. Further, the definition of “vehicle” within the constitution may be broad enough to include transit.

There are likely some laws that include more restrictive definitions of highways, but laws are easier to modify than a state constitution, as Colorado has shown. This report is not a legal brief and should not be relied on as legal advice. Undertaking a review of the constitution and laws surrounding this program would be a smart first step to help identify the hurdles and whether a strategy similar to Colorado is appropriate.

Even if this restriction is removed, there is often a cultural focus at the state level on highways because that was what state departments of transportation were formed to build. But with rapidly changing communities, demographics and transportation needs, it is important for states to broaden their approach and the way transportation funding is allocated, either through sharing more funds with local leaders (as Pennsylvania has) or using transparent and multimodal criteria to choose projects for funding (as Massachusetts has).7 In fact, many times the debate about providing state transportation agencies with additional funding includes reforms to ensure that the funding is applied to the types of projects that the public values.

6. Section 301.010.1
7. More information about these programs can be found in the appendix.
Next Steps

The good news is that the St. Louis region has already done a substantial amount of planning for future transit and has a wide array of potential funding options. However, the region has not yet developed the consensus needed to move forward with their transit projects and is still wrestling with complex issues surrounding Ferguson and the wider St. Louis community. As the region emerges from these challenges, opportunities associated with transit should come into sharper focus.

First, the region needs strong engagement from all the key stakeholders — elected leaders, civic leaders, business and labor leaders and interested citizens — to move forward.

Second, those stakeholders need to discuss and come to agreement about what they are trying to accomplish with their transit investments. Is the purpose to attract new talent to the region? Is it about providing a path to the middle class for people that do not have access to a car? Is it both of these goals and more? The projects chosen for expansion should further the goals identified and be designed with those goals in mind.

Third, when a transit priority is chosen, the region should put together funding from multiple sources and partners. All transit expansions benefit from support from all levels of government. In fact, nationally, few large expansions have ever taken place without all stakeholders joining in the effort.

Increased state participation is crucial. Cities that have strong transit systems almost always have some funding support from their states, including Los Angeles, Philadelphia and Salt Lake City. It is difficult to build a world-class transit system without state support.

The issue of transportation funding is likely to gain traction as the impending funding crisis in the State of Missouri draws closer. The Missouri Department of Transportation has warned people that in just two short years it will lack funding for the operations and maintenance of some highways, and may have to close bridges. A similar crisis point in transit led to a successful ballot initiative for more transit funding in St. Louis County in 2010. Transit advocates should consider what policy changes
at the state level would support a more multimodal program and seek those improvements as part of the debate over transportation funding needs.

Lastly, flexibility and innovation will be essential to this cause. There is no “right way” to build or fund new transit projects. Large projects can seem daunting, but as communities like Denver and Kansas City have learned, transformative ideas can become realities with support and funding from a wide variety of sources.

Whether St. Louis moves forward on a single, large, ambitious light rail project, a more modest BRT project, or something in between, the commitment to enhance transit as an essential investment in the future of the region is imperative. It will require creative champions and dedicated leaders, as well as broad-based community support.
Appendix: Methods for Funding Transit

19  New Starts/Small Starts
20  Transportation Investment Generating Economic Recovery (TIGER)
21  Federal Loan Programs
22  Highway Formula Programs
22  Transit Formula Programs
23  Transit Tax Credit
24  User Fee
25  Bonding
26  Sales Tax
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30  Value Capture
31  Tolling/Congestion Pricing
31  Oil Extraction Revenues/Fees
32  Private Funding
32  Competitive Grant Program
33  Multimodal Performance Measures
34  Design/Build/Operate/Maintain
35  Delegated Management of Transit
36  Rightsizing Projects
The Federal Transit Administration (FTA) provides capital funding to build, expand or improve the capacity of fixed-guideway transit systems through the New Starts and Small Starts programs. Capital funds are provided to those projects that successfully complete the application and review process. FTA formally provides an overall rating on each project and submits an annual report to Congress with funding recommendations. Congress retains final control over how much funding individual projects receive each year.

New Starts grant awards can total in the hundreds of millions but require a substantial non-federal financial commitment. The New Starts program is in high demand and can take many years to complete. Small Starts is designed for smaller projects — those requesting less than $75 million in federal funds and with a total capital cost of less than $250 million — and therefore has less rigorous requirements for funding. Small Starts is a newer program, but demand is rising.

Example

Many of the metropolitan regions with transit today—Atlanta, Dallas, Salt Lake City, Denver, Phoenix, and Minneapolis, to name a few—received significant federal money through the U.S. Department of Transportation New Starts program, which provides funding to cover the construction or expansion of fixed-guideway transit systems. In the Washington, DC, metro area the Silver Line combines federal New Starts funding with a local special property tax assessment and bonds supported by toll revenues from the Dulles Toll Road. Almost one-third of Phase 1 will be funded from a federal New Starts grant and formula funds, with the rest coming from local authorities and issued bonds.
TRANSPORTATION INVESTMENT GENERATING ECONOMIC RECOVERY (TIGER)

The TIGER program was initially created by Congress as part of the American Recovery and Reinvestment Act and has continued for six additional rounds through yearly federal appropriations. Through TIGER, the U.S. Department of Transportation awards funding for highway, transit, freight, port, bike/pedestrian and multimodal projects on a competitive basis. Winning projects typically demonstrate benefits in at least two to three of the primary criteria: improving safety, economic competitiveness, state of repair, community livability and environmental sustainability. Additionally, USDOT looks for projects that are innovative and have strong partnership, including a large non-federal funding match.

Congress requires a minimum grant size of $10 million to urban areas and $1 million to rural areas with a maximum of $200 million to any grantee. However, awards average about $12 million.

The program is extremely popular and wildly over-subscribed, resulting in only five percent of applications receiving funding in any round. Its popularity stems from the fact that TIGER is more flexible in terms of its project eligibilities than other federal programs and most state transportation programs as well. Additionally, TIGER funds can be awarded to any governmental agency, as opposed to federal formula dollars that go mostly to state departments of transportation and transit agencies.

EXAMPLE – TIGER

USDOT awarded a $10,300,000 grant to Metro Transit in St. Louis for the Central Corridor Transit Enhancement and Job Access Project to construct the new Cortex light rail station, expand the existing Central West End station and develop a bike trail to connect from the New Cortex station to the regional Great Rivers Greenway trail network. The project will expand transit capacity and provide greater access to opportunity in the region, particularly for disadvantaged populations. The TIGER award makes up almost 80 percent of the project, though such a large federal percentage is atypical for TIGER.
FEDERAL LOAN PROGRAMS

The Transportation Infrastructure Finance Innovation Act (TIFIA) and Railroad Rehabilitation and Improvement Financing (RRIF) are two federal programs that provide low-interest, flexible loan products with favorable terms. TIFIA loans are available to state or local governmental entities for projects of at least $50 million in size and can cover up to 49 percent of project costs (though USDOT has never loaned for more than 33 percent of project costs). Repayment can be deferred for five years, allowing for projects to ramp up, though repayment must have a dedicated revenue stream to repay the loan. The interest rate is fixed at the Treasury rate (which is currently below three percent), even if the loan is in a subordinate position to other project debts, protecting borrowers from expensive interest rate spikes.

Similarly, the Federal Railroad Administration’s RRIF program supports intercity passenger (including transit) and freight rail projects that improve public safety, increase capacity, promote economic development and competitiveness, or promote intermodal connections. Private railroads may apply directly without support of a local government. The borrower may also seek 100 percent of the project amount, though, unlike TIFIA, recipients must cover the cost of a loan “subsidy” — the amount of money set aside as protection against default, which reflects the loan’s riskiness.

EXAMPLE

FEDERAL LOAN PROGRAMS

Responding to population growth and increased demand for transportation choice, the Denver Regional Council of Governments developed FasTracks, an ambitious plan to open up several corridors with light rail, commuter rail and intercity passenger rail, bus rapid transit and more across the region. These networks would converge on a redeveloped Denver Union Station, a multimodal connection point, linking the rail systems as well as regional and intercity buses, shuttles, taxis, vans, and bicycle and pedestrian systems.

TIFIA and RRIF loans were secured specifically for the overhaul of Union Station, with revenue from special assessment districts, tax-increment financing and other value capture mechanism funding repayment. TIFIA and RRFF provided 62% of the $500 million price tag for the project.
HIGHWAY FORMULA PROGRAMS

Federal highway formula funds, under STP and CMAQ, can be allocated by a state or metropolitan planning organization (MPO) to transit projects through their planning processes. In fiscal year 2014, the State of Missouri received $172,659,102 in STP funds and $15,677,881 in CMAQ funds from the Federal Highway Administration.

EXAMPLE – FORMULA PROGRAMS

Denver’s FasTracks project is a major expansion of light rail transit lines across the region. Primary funding for these projects came from a dedicated regional sales tax approved by voter referendum in 2004. Additionally, the Denver Regional Council of Governments committed and programmed STP and CMAQ funds toward transit construction and station area planning.

TRANSIT FORMULA PROGRAMS

Most of the money that FTA provides to states and transit agencies goes out in the form of formula grants — urbanized area funding tends to go to transit agencies and rural area funding usually to state departments of transportation. Under MAP-21 there are several transit formula programs with specific aims. They include support for transit serving seniors and people with disabilities, buses and bus facilities, metropolitan planning for multimodal projects, specific funding for urbanized areas and more. In general, most formula funds are restricted to capital programs and cannot support operating expenses, particularly in large urban areas. However, the law defines much of the day-to-day maintenance work on existing systems as capital expenses.

However, most transit formula funds are used for smaller improvements — such as bus replacement, shuttle service or upgrades to maintenance facilities — not major transit expansions. The St. Louis region received $23,243,667 for FY 2015 through the urbanized area formula dollars, which is not enough to manage ongoing capital needs and support a major expansion project.

EXAMPLE – TRANSIT FORMULA FUNDS

Two universities in Missouri receive FTA funding assistance to provide campus transportation service. Southeast Missouri State University in Cape Girardeau receives formula funds for rural areas (known as 5311 funds). Southwest Missouri State University in Springfield receives formula funds for urbanized area (5309 funds) to provide shuttle bus service to transport students, faculty, staff and the general public around the school campuses.
TRANSIT TAX CREDIT

Transit riders may elect to allocate up to $130 of their paycheck tax-free each month for commuting on public transit. This benefit functionally reduces the cost of transit trips, incentivizing more people to choose this mode. Research by the RAND Corporation and ICF International found that benefits can increase ridership and revenue. However, many employers and transit agencies could do more in order to make this benefit better known, and more easily utilized.

EXAMPLE – TRANSIT TAX CREDIT

The Washington Metropolitan Area Transit Authority (WMATA) manages the SmartBenefits system, a simple online tool where employers can sign up to allow their employees to take advantage of tax benefit for transit commuting. Employers may also use the system to directly pay for employees transit use. These benefits are loaded onto a reusable plastic card that autofills with the benefit amount each month.

The federal government, the largest single employer in the area, offers the benefit, which WMATA attributes to boosting ridership. In a 2005 survey, the transit agency found 62 percent of respondents had their transit use paid for or subsidized by their employer. More recently, when the benefit cap was reduced, WMATA found their ridership declined, particularly affecting off-peak and discretionary trips.
USER FEE

For decades, states have funded a large portion of their transportation expenditures with motor fuel taxes. Some states allow city and county governments to tax fuel either on a per-gallon basis or through sales taxes. There are many ways to assess a tax on gasoline: 1) a flat per-gallon rate, 2) a flat rate, indexed for inflation or 3) a sales tax on gasoline. Nearly half of the states in the U.S., including Missouri, require through legislation or their constitution that taxes assessed on fuel be dedicated to road use only.

Fuel taxes, like all flat taxes or fees, are regressive, meaning they represent a higher percentage of income for individuals further down the earnings scale. Still politically, fuel taxes are a well-established revenue mechanism and generally accepted as a user fee. Increasing gas prices in 2008 made raising gas taxes a difficult political lift. However, with the fall in prices over the last few months, more states and local governments are looking at this source of revenue again, including Georgia and Iowa in early 2015.

Fuel taxes are a robust but declining source of revenue. For almost a century, fuel consumption grown year to year; but over the past decade, per capita driving has been on the decline. Combine that with rising fuel economy in vehicles and the future of gas taxes at all levels of government is less certain.

As a result, some areas are considering a per-mile tax on cars, often called a vehicle miles traveled (VMT) tax. In 2013, Oregon passed the first legislation in the United States to establish a permanent VMT tax system. Under this law, the state department of transportation may assess a charge of 1.5 cents per mile for up to 5,000 volunteer cars and light commercial vehicles beginning on July 1, 2015, and must issue a gas tax refund to those participants.

EXAMPLE – USER FEE

In 2013, the Clark County (NV) Board of Commissioners approved an ordinance that will index the fuel tax to inflation in Clark County, raising up to $700 million for critical transportation infrastructure projects throughout Southern Nevada. The ordinance went into effect on Jan. 1, 2014 and will last through Dec. 31, 2016, resulting in an approximate three cent increase per gallon of gas per year.

With that new funding, the region will begin construction in 2015 on the Flamingo Road Improvement project that will improve traffic flow, enhance pedestrian safety and add dedicated transit lanes.
There are several bonding mechanisms. General obligation bonds are secured by and repaid from the general tax revenues of the borrowing government. The government issuing the bond pledges its full faith and credit to investors. In effect, the government is promising to use its full powers of taxation to generate enough revenue to repay bondholders. The strength of the full faith and credit pledge makes general obligation bonds a low-risk investment. In exchange for the security that comes from such a powerful pledge, investors are willing to accept a lower interest rate.

Compared with other financing options, general obligation bonds are considered low-cost options. Governments are required to repay bondholders, even if their tax revenues fall. Most governments are limited in how much general obligation debt they can take on, affecting their ability to pursue future projects. The benefits of issuing a general obligation bond should be weighed against budgetary risks.

Revenue bonds are repaid from a specific source of funds, and the creditworthiness of a revenue bond is determined by the strength of the specific source of funds pledged toward repayment. Unlike general obligation bonds, bondholders do not have a general claim to government revenues, creating a riskier investment for investors but lower budgetary risk for governments, which is reflected in higher interest rates. Two main considerations drive the decision to issue a revenue bond: 1) the strength of the revenue source and 2) the desire to limit budgetary risk to other projects and programs.

Other bonding options include borrowing against anticipated formula funds from the federal government, such as Grant Anticipation Notes (GANs), which are backed by transit formula funds, or Grant Anticipation Revenue Vehicles (GARVEE) bonds, which are supported by highway formula funds. Still another option are Private Activity Bonds, which are tax-exempt bonds issued by a state or local government with the proceeds passed through to a private entity as part of a public-private partnership. The money raised by the private activity bond offering is used by the private entity to construct the project. And even though the private entity is responsible for repayment, the interest income earned by investors is not subject to federal income taxes.

**EXAMPLE – OBLIGATION BONDS**

In 2014, Rhode Islanders voted in favor of a $35,000,000 general obligation bonds to fund transit improvements in the state. The ballot measure was supported by a coalition of 63 businesses and nonprofit organizations and passed with 60 percent of the vote. Supporters argued that the funding, much of which will support a transit hub in Providence and overhauling state bus service, was crucial to continue economic growth in the state.

They also noted that the money could provide key matching funds to unlock opportunities for increased state and federal funding, particularly TIGER grants. This turned out to be true and the region won a $13 million grant from the TIGER program in 2014.
**EXAMPLE – REVENUE BONDS**

The Dulles Metrorail Extension Silver Line project, which extends the Washington Area Metrorail 11.7 miles to Tysons Corner in Fairfax County (VA), used revenue bonds to finance $1.5 billion, or about 50 percent, of the transit project. The Metropolitan Washington Airports Authority (MWAA) issued the revenue bonds, with revenue coming from the Dulles Toll Road. To help facilitate funding for the project, the Commonwealth of Virginia transferred operational control of Dulles Toll Road to the MWAA in 2006.

**SALES TAX**

Many local governments, including those in the St. Louis area, dedicate a portion of their local sales tax to transportation projects, including transit. These revenues can be used for capital expenses or repayment on municipal bonds, but the mechanism is especially effective when used for operation and maintenance expenses. A local sales tax can also serve as leverage when seeking state and federal loans and grants to make a comprehensive financing package. However, sales taxes are regressive, so successful plans should ensure that the negative impact on low-income families is mitigated.

**EXAMPLE – SALES TAX**

Phoenix, Arizona, included a 4/10 of a percent sales tax in its Phoenix 2000 plan, which was passed by voters with 65 percent of the vote. The tax has a lifespan of 20 years. The revenue generated funded the planned construction of a light rail network, as well as improvements and expansion to local bus service and bus rapid transit. The tax is the largest source of revenue, raising roughly $100 million annually. Currently, the city is considering raising that tax by 3/10 of a percent.
Business Licensing Fee

Most local and county governments require businesses that wish to operate within their jurisdictions to register and apply for a license. These entities may assess a tax or fee associated with issuing the license—often called an occupational license tax—for the privilege to operate a business, occupation, trade or profession. The fee may fund general activities or specific services, such as transit or schools. Connecting this fee to transit services ensures businesses bear a portion of transit costs, although a business license fee tend to produce a small percentage of funds unless high fees are imposed.

**Example - Business Licensing Fee**

The Transit Authority of River City (TARC) serves more than 15 million riders along 41 routes in the Greater Louisville area and Floyd and Clark Counties in southern Indiana. Originally established in 1974 by referendum as a 0.02 percent occupational tax, this tax supports 60 percent of TARC’s annual budget through the Mass Transit Trust Fund. The Louisville Metro Revenue Commission collects this tax from all businesses operating within the Louisville Metro area based on their gross receipts and distributes it to the Louisville Metro Consolidated Government, to Jefferson County and Anchorage School Boards, and to TARC.

Property Tax

Most local governments raise monies by levying a tax on real property, with the assessment based on the value of the land and any structures on it or improvements to it. One of the oldest and most widely used ways to raise funds, property taxes often comprise the largest share of a locality’s budget and provide fiscal flexibility. Funds raised through property tax assessments pay for a locality’s general activities, although a percentage of property taxes can be earmarked to support specific activities, such as transit.

**Example - Property Tax**

The Ann Arbor Area Transit Authority, which operates TheRIDE, in neighboring Ann Arbor and Ypsilanti, MI, provides nearly 300,000 service hours to more than 6 million riders annually. Almost 38 percent of TheRIDE’s FY15 operating budget ($14.6 million of $38.7 million) will be funded through property tax revenues earmarked from Ann Arbor (taxed at 2.056 millage) and City of Ypsilanti (taxed at 0.9789 millage), along with an additional 0.7 mills levied in the authority area for new buses.
PAYROLL TAX

Depending on state and local tax laws, payroll taxes can be imposed by a local, city, county or state authority. They can be used to fund transit and imposed only in a targeted area. Like all taxes, this revenue source fluctuates with economic conditions but is considered less volatile and more inelastic than the sales tax. Payroll taxes are considered a lagging revenue source, as payroll taxes typically decrease after an economic downturn has begun. Typically, the majority of payroll tax revenue is generated in urban/urbanized areas with high numbers of employers and jobs—necessitating agreement between multiple parties on equitable fund distribution. Common obstacles include budget process approval and anti-tax groups.

EXAMPLE – PAYROLL TAX

The 2003 Oregon Legislature provided the Portland-area TriMet Transit Authority with the power to increase the local payroll tax rate over 10 years to help pay for new transit service throughout two transit districts, the Tri-County Metropolitan Transportation District and the Lane County Mass Transit District. The rate increases annually by 1/100 of a percent. In 2013, the payroll tax rate was increased an additional 0.001095 percent due to the withdrawal of the Boring area from the TriMet District.

VEHICLE ASSESSMENT OR REGISTRATION FEE

Traditionally, states collect vehicle registration and annual license or tag fee. In addition, some states allow city and county governments the option of imposing an annual assessment based on the value of the vehicle.

The vehicle registration fee is the second most common (and robust) source of transportation revenues at the state level and score high marks for stability and equity. However, inter-jurisdictional fights over a vehicle registration fee are not unheard of—many states do not permit local jurisdictions to levy vehicle registration fees. Some states, like Missouri, also have statutory or constitutional limitations that limit the use of a vehicle registration fee only to road projects.

EXAMPLE – REGISTRATION FEE

In 2013 the county commission of Durham County, N.C. unanimously approved an extra $7 annual fee on vehicles registered in the county to support transit service. Half of this new revenue will fund transit service expansion and half will cover growing costs of existing service. In FY2014 this new fee raised $1,179,734.
PARKING FEE

Many transit facilities include parking, particularly for established commuter and light rail lines. Parking facilities can provide revenues beyond what is needed to maintain the lot or deck. Well-established systems with strong travel demand or regions with significant roadway congestion may provide the most robust revenues. Parking revenues can vary significantly depending on the total number of parking spaces and the average daily ridership.

The decision to raise parking fees to help support a new capital project should include a consideration of the potential impacts on ridership. Moreover, it is important to weigh the benefits and trade-offs devoting land to parking near transit stops, as it will limit the development of homes and businesses that can attract riders and make the most use of the transit investment.

Parking fees are reliable and stable but are sometimes critiqued as regressive. Equity issues can be addressed by providing good feeder bus service and affordable housing near stations so that low-income individuals do not have to drive to get there.

EXAMPLE – PARKING FEE

In 2007, USDOT gave the San Francisco Municipal Transportation Agency (SFMTA) $18.4 million for the purpose of implementing SFpark, a new parking management program which includes real-time information about parking availability and pricing for drivers, new parking meters that accept a variety of different payment methods, longer time limits for spaces and variable pricing based on location to redistribute parking demand.

Shortly after SFpark was enacted, voters approved Proposition A, which states that SFMTA will receive 80 percent of the annual revenues from the parking fees collected through SFpark. In FY2008, SFMTA received approximately $235 million from the parking fees (along with traffic violation fees), 30 percent of the total SFpark revenue for that year. A portion of these revenues is dedicated specifically to San Francisco’s Municipal Railway (Muni), a branch of SFMTA. In 2008, Muni’s total operating budget was $585 million, approximately $146 million, of which more than 25 percent came from parking fee revenues.
VALUE CAPTURE

Numerous studies have measured and documented a value premium for properties near transit. Public sector value capture strategies are an attempt to reclaim a portion of this value for purposes such as transit capital costs or operations, affordable housing or other improvements. Most of the strategies fall under a few broad categories.

One kind of value capture is tax increment financing, in which a community would assess an additional tax on the increased value of property after a project is completed. Another kind is a special assessment, which assigns a property tax to properties located within a defined zone around the transportation project. The additional taxes or fees may be assessed based on distance from the project, type of land use, total acreage or frontage along the transit line. Finally, development contributions are one-time fees levied on commercial or residential developments in order to cover a portion of the costs of new infrastructure, including streets, schools, utilities and parks.

The best value capture strategies typically involve new development or redevelopment of existing properties, incorporate multiple tools and leverage existing resources, and are maximized when value capture tools can be matched with the geographical area receiving the benefit. Value capture strategies that involve joint development can be limited by the inability to capture value from a large enough area — many joint development projects occur on a single site adjacent to a transit station, while the area that receives the benefit of transit is much more extensive.

EXAMPLE – VALUE CAPTURE

Kansas City’s new downtown streetcar is being financed by special property and sales taxes within a Transportation Development District, a defined area within approximately one-quarter mile of the new rail line. In 2012 a special mail-in vote approved an extra one cent in sales taxes within the district for 25 years along with special increased property tax rates. These special taxes levied in the district are in addition to taxes levied citywide. The city has issued bonds against this new revenue in order to finance the construction of the transit line. Transportation Development Districts are used across Missouri to fund a variety of highway and other transportation projects.

Once Kansas City passed the tax measures for the streetcar, they brought their project to the U.S. Department of Transportation’s TIGER program for the final increment of funding needed. The fact that Kansas City has used an innovative funding mechanism, raised the majority of the funding needed for the project locally and demonstrated strong local support for the project through strong passage of the tax district made the streetcar extremely competitive in the oversubscribed TIGER program. $20 million was awarded to Kansas City for their streetcar project in 2013.
TOLLING/CONGESTION PRICING

In congestion pricing, a toll is levied at a rate that varies by time of day or congestion level to optimize traffic on the tolled facility. Congestion pricing is generally implemented locally but state authorities may enhance local authority to ensure the funding can be applied to non-roadway transportation. The mechanism targets commuters but may optimize travel on the priced facility and can postpone the need to make costly expansions. Congestion pricing typically places its focus on major, regional facilities and thus can require approval by the agencies overseeing them. Coordinating the various authorities can be an obstacle.

EXAMPLE – CONGESTION PRICING

Minneapolis and St. Paul, Minnesota, opened their first high occupancy toll lanes converted from existing underused high occupancy vehicle lanes in 2005. The program, called MnPASS, was expanded in 2009. Solo drivers are charged a dynamic price between $0.25 and $8 depending on average speeds and volume of traffic (buses, carpools and motorcycles can use them for free).

By law, revenue generated must first pay for ongoing maintenance and capital expenses. The statute then further stipulates that half of the remaining funds be allocated to the Metropolitan Council for bus and other transit improvements. In 2013, MnPASS generated more than $2.1 million in total net revenue.

OIL EXTRACTION REVENUES/FEES

States and localities collect various taxes, royalties and fees from companies drilling for oil and gas. While rapid growth in energy boomtowns has strained existing infrastructure, these growing sources of revenue could provide funding to allow transportation service to catch up with demand.

EXAMPLE – OIL EXTRACTION

In 2014, Texas voters approved a constitutional amendment to redirect revenues from oil and gas extraction taxes from the state’s Economic Stabilization Fund (commonly known as the Rainy Day Fund) to the State Highway Fund. When Texas’s oil business was booming, this measure was projected to make more than one billion dollars available annually. Texas chose to earmark these funds for road construction only, but there was no legal requirement that the funding be constrained.
PRIVATE FUNDING
For decades, transportation agencies and local governments have built transit systems with a combination of federal, state, and local funds and bond financing. More recently, governments have started forming public-private partnerships (hereafter P3) as an alternative method for financing and delivering large projects. A P3 approach allows a private partner to provide money to cover a portion of project costs. Public-private partnership agreements allow a project sponsor a different way to tap into the financial resources of the private sector. Instead of the government project sponsor issuing a traditional public bond, the private partner comes up with the construction funding, either by issuing bonds, borrowing from banks or using its own investment capital. In exchange for providing financial capital, the private entity negotiates a return on their investment (which may be specific or variable). Often, this rate of return is higher than other forms of debt financing such as federal loan programs or bond markets.

EXAMPLE – PRIVATE FUNDING
The M-1 Rail Coalition in Detroit is building a 3.1 mile downtown streetcar system that will connect the downtown business district to Woodward Avenue with service every 7-10 minutes during peak periods. $88.75 million in funds were raised from private and philanthropic sources and leveraged to get $36.5 million in funds from the TIGER program.

COMPETITIVE GRANT PROGRAM
Communities have diverse needs and often have the most innovative solutions for meeting these needs. Yet too often local governments and other entities have little or no direct access to transportation funding. Some states are creating competitive grant programs to incentivize innovative, locally-driven solutions.

EXAMPLE – COMPETITIVE GRANT PROGRAM
In 2013, the Pennsylvania legislature passed new transportation funding legislation that included the creation of a new Multi-Modal Grant Program. When fully implemented, the program will award $144 million annually through the Department of Transportation and the Department of Community and Economic Development directly to local governments and private transportation providers. In 2014, the Pennsylvania DOT made the first round of awards to dozens of transportation and economic development projects, including several transit projects.

Many in the state credit the creation of this program with gaining the broad support needed to pass a larger state transportation funding package.
MULTIMODAL PERFORMANCE MEASURES

Some cities, MPOs and states are using performance measures to direct existing resources differently, relying on data to inform long-term and short-term investment decisions and link transportation performance to goals. Using performance measures to compare policy trade-offs and build public support provides a more transparent, efficient and goal-oriented approach to transportation planning and programming.

Commonly used performance measures focus on system performance, safety, access to opportunity, public health, environment and economics. These measures can be applied to alternatives analysis, project selection and long-term transportation planning. Transitioning from currently-used auto-centric measures, such as level of service, to more multimodal measures, such as auto-trip generation or multimodal level-of-service, favors a broader range of transportation choices.

EXAMPLE – MULTIMODAL PERFORMANCE MEASURES

Through an alternatives analysis in the development of its long-range transportation plan, WeMove Massachusetts, MassDOT compared the transportation performance of its system at historical funding levels versus a proposed new funding level, which would be approximately $900 million higher annually. As a result, MassDOT demonstrated that by 2040, the new funding level would generate 33 percent better performance for its transit fleet and expand access to 88,867 households that would be located within one-half mile of a rapid transit station.
Near the high end of the public-private partnership (P3) spectrum is design-build-operate-maintain (DBOM). This approach shifts almost all traditional public sector functions (except financing) over to a private partner. Under a DBOM agreement, the private sector not only takes responsibility for delivering a project, but also for ongoing operations for a period of time. This means that the P3 agreement must include long-term performance standards.

For a transit project, this may include specifying a minimum number of operating trains, frequency of service, station maintenance and even snow removal, among other requirements. A DBOM approach locks in contractual commitments that both the government and private partner must abide by for many years. With DBOM, the public sector is able to transfer the risk and responsibility for almost all aspects of project delivery and operations — but must also pay a premium for this benefit. Specific benefits include risk transfer, access to private capital, on-time completion, and greater expertise and technical capacity. Drawbacks include a higher cost and loss of public control.

**EXAMPLE – DBOM**

The initial phase of the Hudson-Bergen Light Rail line in New Jersey was completed and opened in 2000 after a highly accelerated construction schedule under a design-build-operate-maintain (DBOM) contract. New Jersey Transit had originally sought proposals for design and construction of the project but bids exceeded the allowable cost and timeline.

Construction of the first phase under traditional procurement was expected to take seven years. Instead, New Jersey Transit contracted with a construction consortium—21st Century Rail Corporation—for a fixed cost and guaranteed open date. Construction was completed in three-and-a-half years for a cost under the initial budget. The contract has been subsequently expanded to construct and operate the second and third phases of the line. 21st Century Rail Corporation operates the line, but New Jersey Transit owns the line and evaluates operation through a “quality service index.”
DELEGATED MANAGEMENT OF TRANSIT

Under “delegated management” contracts, private companies take over all transit functions, including day-to-day operation, maintenance, safety, capital planning and human resources. The private entity assumes commercial risk and all legal and safety responsibility and liability.

While this is not a capital funding strategy, it can be useful to consider for a transit expansion that is outside of the local transit agency’s area of expertise or if the transit agency is struggling financially. Ideally, this scenario allows a system to reduce costs by unlocking efficiencies in private management, while still being held accountable through the public agency board, which retains authority over broad policy.

EXAMPLE – DELEGATED MANAGEMENT

Still mired in the reconstruction after Hurricane Katrina, New Orleans’ Regional Transportation Authority (RTA) entered into a “delegated management” contract with Veolia Transportation. Under the agreement, Veolia provides all public transportation services and functions and reports directly to the RTA board of commissioners.

The board sets fares, develops operating budgets and approves the agency’s development plan, while Veolia handles daily administrative and operation tasks. In 2014 Veolia also entered into a similar contract with the Louisiana Department of Transportation and Development to manage the Algiers and Chalmette ferries as part of the city’s transit system.
RIGHTSIZING PROJECTS

Often when communities are presented with a transportation challenge, the solution is to rebuild the infrastructure, build something new, or build something to avoid that problem area all together. While alternatives are sometimes considered, often the preferred option is compared against a no-build alternative, leading the project sponsor to choose doing something over doing nothing. However, in today’s constrained budget environment, funding needs to go further than ever before.

One method of stretching finite resources is to review the list of transportation priorities to consider less expensive and more cost-effective alternatives that get similar benefits and maximize return on investment. Finding less expensive operational solutions to replace more expensive capital projects can free up funding for other priority projects that may not have an operational solution and might otherwise wait years for funding support. These less expensive solutions are less impactful to the community and environment, getting the projects to ground faster than the traditional larger project.

EXAMPLE – RIGHTSIZING PROJECTS

The Tennessee Department of Transportation (TDOT) had nine times more projects on its work plan than it had funding. As a result some beneficial projects ran the risk of falling through the cracks, while the service intent of others might be equally fulfilled through less expensive solutions. To counter this, TDOT developed more rigorous metrics for the measurement of broad project benefits representing their state’s transportation priorities and audited their list of projects to eliminate those projects no longer needed and to right-size the projects that could get most of the original benefits at lower cost.
PHOTOS

Cover. Top: Downtown St. Louis from the Arch. Flickr Creative Commons photo by George Thomas. https://www.flickr.com/photos/hz536n/4152672487/.


5. Hudson-Bergen Light Rail line, Jersey City, N.J. Flickr Creative Commons photo by Sean Marshall. https://www.flickr.com/photos/7119320@N00/1851224445/.


21. Inside Denver’s Union Station. Transportation for America photo by Rochelle Carpenter.


