

## Chapter 8

# Transit Funding Sources

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*This chapter provides an overview of the federal, state and local funding sources available for transit capital and operations.*

The availability of a sustained level of operating and capital funds is often the crux of any discussion regarding the provision of public service. Provision of a sustainable, permanent funding source has proven to be the single greatest determinant in the success or failure of transit service. A wide number of potential transit funding sources are available, particularly within California. The following discussion provides an overview of these programs.

### **Federal Funding Sources**

At the time this report was prepared, the Congress passed and the President signed the federal transportation reauthorization act for the Transportation Equity Act of the 21st Century (TEA-21). The new Act known as the Safe, Accountable, Flexible, and Efficient Transportation Equity Act - A Legacy for Users (H.R. 3) (SAFETEA-LU) covers the period of Fiscal Years 2005/06 through 2008/09. In this new bill, there is a substantial increase both the level of transit funding and the number of available funding programs. Following is a summary of federal transit funding programs in the new Act for which the City of Folsom is or may be eligible.

#### ***FTA Section 5307 Urbanized Area Formula Program***

The FTA 5307 Urbanized Area Formula Program is an important source of transit funding for urbanized areas and the cities within them. These funds are provided to urbanized areas under a variety of conditions based on the size of the urbanized area. Folsom is located in the Sacramento Urbanized Area, which has a population greater than 1,000,000 and therefore the most complicated and restrictive requirements.

The City of Folsom is one of 12 transit operators serving the Sacramento Urbanized Area. The Sacramento Regional Transit District is the designated recipient for the 5307 funds and seven of the operators have FTA 5307 funds programmed for the period of FY 2004/05 through FY 2006/07. Folsom is a signatory to a memorandum of understanding (MOU) between the Sacramento Area Council of Governments (SACOG) and the 12 transit operators serving the Sacramento Urbanized Area.

In FY 2005/06 the FTA 5307 apportionment for the Sacramento Urbanized Area was approximately \$16,839,851. Those funds were programmed by SACOG through the process outlined in the SACOG/transit operator MOU based on the recommendations of the Transit Coordinating Committee. The City of Folsom had a preventive maintenance project approved for FY 2004/05 in the amount of \$224,000. In that programming round, funds for FY 2005/06 in the amount of \$228,000 and FY 2006/07 in the amount of \$233,000 were also approved.

Preliminary information contained in the reauthorization bill indicates that the Sacramento Urbanized Area has been apportioned \$17,003,882 in FY 2005/06, a 0.97 percent increase. This apportionment grows to approximately \$20,404,683 in FY 2008/09.

### ***FTA Section 5308 Clean Fuel Grants Program***

The FTA 5308 Clean Fuel program is a discretionary grant program for clean fuel buses in air quality non-attainment and maintenance areas. Up to 25 percent of the funds nationwide can be used for “Clean Diesel” buses. While the Clean Fuels Grant Program was created in TEA-21 as a hybrid competitive formula program, all funding, including that provided in FY 2004/05 was transferred in the appropriations process to the Bus Discretionary (5309) program. Approximately \$43 million is available nationwide in FY 2005/06, which grows to approximately \$51.5 million in FY 2008/09.

### ***FTA Section 5309 Capital Program***

Funds available under the 5309 program are available under three categories: Fixed Guideway Modernization, New Starts (including a new Small Starts Program), and Bus and Bus Facilities. These funds were formerly apportioned directly by the FTA; however, Congress has earmarked these funds directly now for several years. In an urbanized area, the Metropolitan Planning Organization (MPO) and authorized recipient of FTA funds has to program all of the FTA Section 5307 funds before FTA Section 5309 funds can be expended – thus, it is imperative that all of the FTA Section 5307 funds (e.g. for preventive maintenance, ADA service, bus replacement or expansion, or other capital projects) before the FTA will allow access of the FTA Section 5309 funds apportioned by Congress.

Preliminary information contained in the reauthorization bill indicates that the Sacramento urbanized area has been apportioned \$3,761,356 in FY 2005/06, an increase of 26.3 percent over the FY 2004/05 apportionment of \$2,978,598. This apportionment grows to approximately \$5,048,610 in FY 2008/09.

SAFETEA-LU has apportioned approximately \$717,776,000 for bus and bus facility grants under the Section 5309 program for FY 2005/06, which grows to \$868,380,000 in FY 2008/09. The City of Folsom has received earmark funds under the 5309 program for the Folsom Rail Block project and other California transit programs similar to Folsom Stage Line have received funding through this source for bus replacement and expansion and maintenance facility improvements.

Obtaining these funds has been an extremely competitive process and all funds have been earmarked directly by Congress over the last several years. The City has been very successful in receiving earmark FTA 5309 funds that are being used to develop the Folsom Rail Block project. It is too early to tell if the earmarking process will continue to predominate under the SAFE TEA LU Program but the new bill contains a significant number of earmarks that cover about half of the discretionary funds available through FY 2008/09. If the City of Folsom officials decide to pursue these funds, a concerted lobbying campaign will need to be undertaken to gain support of the local congressional delegation.

### ***FTA Section 5310 Elderly and Persons with Disabilities Program***

FTA funds are also potentially available through the FTA Section 5310 Elderly and Persons with Disabilities Program, which are largely used to fund vehicle purchases in California. These funds have been available through Caltrans on an annual competitive basis. The SAFETEA-LU Bill apportions \$11,828,356 to California for FY 2005/06, an increase of 19.2 percent over the FY 2004/05 5310 apportionment for California. The apportionment for California increases to \$14,218,737 in FY 2008/09. These funds could be used for the purchase of buses and associated equipment used for the provision of services to the seniors and persons with disabilities.

### ***FTA Section 5316 Job Access and Reverse Commute Program***

Over the last several years the Sacramento region has been very successful in obtaining earmark funds for the FTA 5316 (formerly 3037) Jobs Access Reverse Commute Program. In FY 2004/05, SACOG the region received a total of \$2 million of earmark funds that are distributed to interested operators throughout the six-county region. The City of Folsom has not been an applicant for these funds in the past. The new SAFETEA-LU bill moves the JARC program from what has essentially been an earmark process to a formula funded program. SAFETEA-LU has apportioned \$743,089 of formula JARC funds to the Sacramento urbanized area in FY 2006 that grows to \$885,784. Based on the regional allocation methodology for past projects this is a significant decrease in the funds available and used in the Sacramento urbanized area. These funds will be programmed through the process contained in the SACOG Transit Operator Memorandum (MOU) of Understanding. Up to 10 percent of the funds may be used for planning, administration and technical assistance and starting in FY 2006/07 the projects must be in a locally developed human service transportation coordinated plan.

### ***FTA Section 5317 New Freedom Program***

SAFETEA-LU includes a new program, the Section 5317 New Freedom Program, a new formula grant program for capital and operating costs of services and facility improvements in excess of those required by the Americans with Disabilities Act. Funds are allocated based on a formula based on the population of persons with disabilities. These funds will be programmed through the process contained in the SACOG Transit Operator MOU. Up to 10 percent of the funds may be used for planning, administration and technical assistance and starting in FY 2006/07 the projects must be in a locally developed human service transportation coordinated plan. Preliminary information contained in the reauthorization bill indicates that the Sacramento urbanized area has been apportioned \$365,398 in FY 2005/06 and grows to approximately \$433,681 in FY 2008/09.

### ***Congestion Mitigation and Air Quality Improvement (CMAQ)***

The Congestion Mitigation and Air Quality Improvement program has provided another source of funding for many transit services across the country. This program, first authorized in ISTEA, reauthorized through TEA-21, is continued in SAFETEA-LU. This funding is available to metropolitan areas (including Sacramento) that are not in compliance with federal air quality standards regarding ozone or carbon monoxide. In the SACOG region CMAQ funds have been used for a variety of projects include the purchase of “clean air” buses and the operation of transit demonstration programs. CMAQ funds should be pursued to fund a clean air replacement buses. In FY 2004/05 the State of California was apportioned \$359,228,056 in CMAQ funds. Preliminary information indicates that SAFETEA-LU provides \$347,844,076 in FY 2005/06, a decrease of 3.2 percent, which grows to \$370,795,337.

## **State Funding Sources**

Following is a summary of the State transit funding programs for which the City of Folsom is eligible.

### ***Transportation Development Act***

The Transportation Development Act (TDA) is a state collected local sales tax. It has been a mainstay of funding for transit programs in California. The TDA provides two major sources of funding for public transportation: the Local Transportation Fund (LTF), which has been in existence since 1972, and the State Transit Assistance (STA) fund, which was instituted in 1980.

### ***Local Transportation Fund***

The major portion of TDA funds is provided through the LTF. A strong benefit of this source is that it is derived from the one-quarter cent sales tax, returned to the jurisdiction of collection. As such, it tends to increase both with inflation as well as with population growth. For the purposes of this plan we have projected that Folsom's TDA Local Transportation Fund revenue will increase at 6 percent per year. The returned funds must be spent for the following purposes:

- Two percent may be provided for bicycle facilities.
- The remaining funds must be spent for transit and paratransit purposes, unless a finding is made by the Transportation Committee that no unmet transit needs exist that can be reasonably met.
- If a finding of no unmet needs that are reasonable to meet is made, remaining funds can be spent on roadway construction and maintenance purposes.

In FY 2004/05, 77.7 percent of the LTF funds allocated to the City of Folsom were claimed for transit services – that amount grows to 82.6 percent in FY 2005/06. The City of Folsom received approximately \$2.4 million from this source in FY 2004/05 and has an apportionment of \$2.66 million in FY 2005/06. The LTF funds allocated to the City of Folsom will increase significantly with the construction of major new commercial sites in Folsom. The increase in these funds should be sufficient to fund needed improvements to the transit services

### ***State Transit Assistance***

In addition to LTF funding, the TDA includes a State Transit Assistance (STA) funding mechanism. The sales tax on gasoline is used to reimburse the state coffers for the impacts of the one-quarter cent sales tax used for LTF. Any remaining funds (or “spillover”) are available to the counties for local transportation purposes. In FY 2004/05, the City of Folsom received approximately \$117,532 from this source. In FY 2005/06, the apportionment of STA funds for the City of Folsom is \$197,317 that includes some additional allocations from the state, interest and the increase made available by the funding of Proposition 42 in the FY 2005/06 State of California budget. To be conservative, existing levels available to Folsom Stage Line are assumed to be unchanged over the five-year planning period.

## ***Sacramento Emergency Clean Air and Transportation (SECAT)***

The Senate Transportation Committee unanimously passed AB2511, creating the Sacramento Emergency Clean Air and Transportation (SECAT) program. The legislation directs \$50 million in funds approved in the state budget toward incentives to reduce polluting emissions from heavy-duty diesel truck fleets in the Sacramento nonattainment region. A total of \$70 million in funds will be available through SECAT, including \$20 million in Congestion Mitigation and Air Quality (CMAQ) funds approved by the Sacramento Area Council of Governments Board (SACOG) from the region's share of federal transportation funds.

Funds will be administered by SACOG in cooperation with the Sacramento Metropolitan Air Quality Management District (SMAQMD) within the Sacramento Federal Ozone Nonattainment Region. The six-county region includes all of Sacramento and Yolo counties and portions of El Dorado and Placer counties, eastern Solano County, and southern Sutter County. Public and private fleets based out of this region or spending a high proportion of road miles traveling through this region are eligible to apply for project funding to convert fleets to clean fuels, repowering of existing heavy-duty diesel vehicles, or fleet modernization (e.g. replacing an older truck with a newer, cleaner burning vehicle).

## **Local Funding Sources**

Following is a summary of the local funding sources available to the City of Folsom.

### ***Assembly Bill 2766 Vehicle Air Pollution Fees***

California Assembly Bill AB 2766 allows local air quality management districts to levy a \$2.00 to \$4.00 annual fee on vehicles registered in their district. These funds are to be applied to programs designed to reduce motor vehicle air pollution, as well as the planning, monitoring, enforcement, and technical study of these programs. Across the state, these funds have been used for capital local transit programs.

### ***Fare Revenue***

Farebox revenue is an important component in any transit program since the Transportation Development Act (TDA) funding source requires a 20 percent fare box recovery ratio on existing transit service. Under the current fare structure, and mix of services and with the assistance of exemptions for new service, the City of Folsom has been able to maintain the required farebox recovery ratio for four the last five years. In FY 2003/04, the farebox recovery ration fell to 17.94 percent. The exact farebox recovery ratio for FY 2004/05 will not be known until completion of the fiscal audit during the fall of 2005. With the extension of light rail to Folsom and the reconfiguration of local Folsom bus services, the City will once again be eligible for an exemption from the 20 percent farebox recovery requirement for the remainder of FY 2005/06 and all of FY 2006/07 and FY 2007/08. New service is eligible for an exemption from the TDA farebox recovery requirement the year of implementation and two full years (24 months) following the year of implementation. The proposed transit service plan included in Chapter 9 will qualify for this exemption. However, it is highly unlikely that the fare box requirement will be attainable without implementing a fare increase. Recommended modifications to the Folsom Stage Line fare structure are detailed in the Financial Plan included in Chapter 9.

### ***Advertising***

One modest but important source of funding for many transit services is on-vehicle advertising. The largest portion of this potential is for exterior advertising, rather than interior “bus card” advertising. The potential funds generated by advertising placed within the vehicles are comparatively low. The City of Folsom currently receives approximately \$28,000 per year from this source.

### ***Property Tax***

The property tax is an additional feasible source of subsidy for transit services. This tax can be relatively efficiently collected. In addition, property tax tends to be progressive – those most able to pay are those that tend to be impacted. The availability of this funding source in the foreseeable future, however, is very doubtful in light of voters’ traditional reluctance to increase this tax. The ability for a property tax to pass in a general election will only occur when a majority of area residents feel transit service provides a benefit to them individually.

### ***Sales Tax***

The City of Folsom could hold a citywide sales tax election with funds to go to transit service. Sales tax is the financial base for many transit services in California and the American West. The required level of sales tax would depend upon the service alternative chosen. One advantage is that sales tax revenues are relatively stable and can be forecast with a high degree of confidence. In addition, sales tax can be collected efficiently, and it allows the community to generate revenues from visitors to the area. This source, of course, would require a vote of the people to implement. In addition, a sales tax increase could be seen as inequitable to residents not served by transit. This disadvantage could be offset by the fact that sales taxes could be rebated to incorporated areas not served by transit. Transit services, moreover, would face competition from other services that may seek to gain financial support through sales tax.