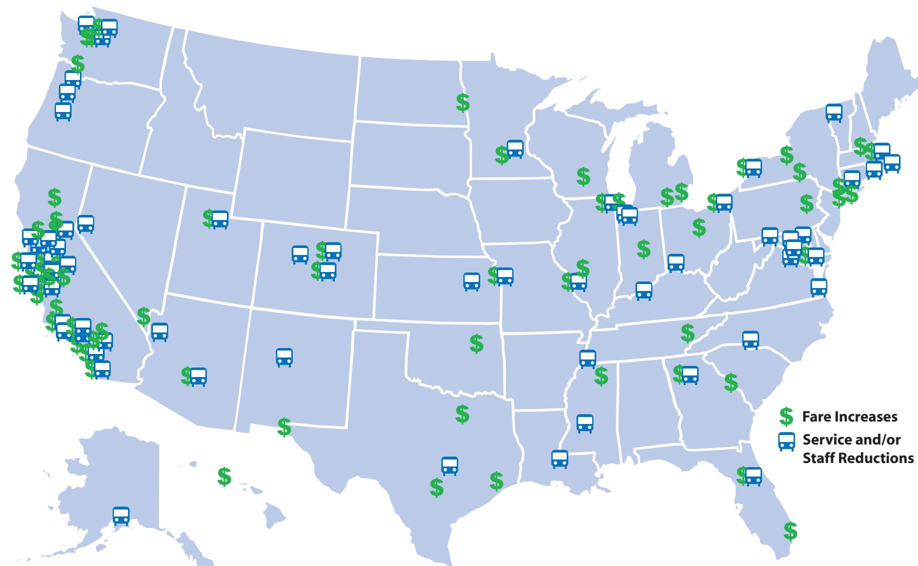
7 BEST PRACTICES

Financing Operations

PORTLAND, SAN FRANCISCO, TAMPA, WASHINGTON, D.C.

WHAT IS IT?

Transit operations include on-going expenses such as operator and administrative labor expenses, fuel/energy costs and vehicle and infrastructure maintenance. In contrast to capital funding, most financing for transit operations in urban areas is local. In Seattle, the primary local financing mechanism for transit operations is a local option sales tax that comprises 62% of King County Metro Transit's operating revenues. In Seattle and across the country, transit agencies have responded to declines in revenue with service reductions and fare increases (see map at right). Seattle voters have also passed several initiatives in recent years to fund specific sets of capital projects or service improvements through increases in dedicated transit sales taxes and limited duration sales taxes. As in other cities, declines in sales tax receipts have extended implementation timelines and/or decreased the scope of planned improvements.



In 2009, transit agencies responded to the economic downtown and declines in operating funding by increasing fares and reducing service and staff. This best practices section discusses both traditional and less widely used sources for financing transit operations.

Source: Transportation for America, Stranded at the Station, 2009

WHY DO IT?

Increased local funding for transit operations can be used to improve service frequency, hours of operation, or coverage. Increasing King County Metro operating funds has been identified as a top priority by Seattle leaders. Cities served by a regional transit provider may want to implement services that achieve goals differing from those prioritized by a regional transit agency. For example, a local jurisdiction may place more value on circulation in downtowns or short distance connections between urban neighborhoods. In addition, as congestion increases, additional buses and operators are needed to maintain even existing service levels. The reliance on sales taxes demonstrates the vulnerability of transit service to changes in economic conditions. Motivations for pursuing innovative local funding sources include:

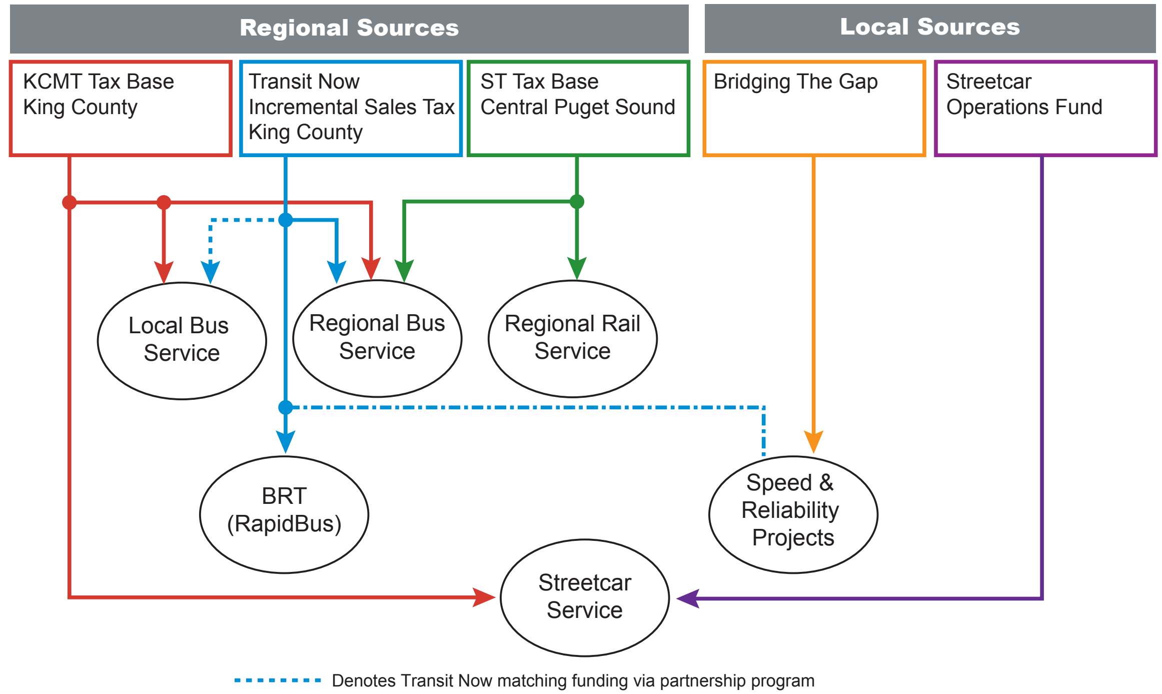
Constraints on existing funding sources. Many cities and regions, Seattle included, have dedicated taxes to fund transit, as shown in Figure 1. For transit operators in the Puget Sound, many of these taxes have reached their maximum allowed level and revenues have declined as a result of the economic downtown. The sales and use tax rate for King County Metro Transit is already 0.9%—the maximum allowed by state law within a Public Transportation Benefit Area (PTBA). In addition, King County's 40/40/20 rule limits the potential for new service investments in Seattle by requiring that 80% of new service investments be made in the South and East Subareas of the county. Other primary sources for funding transit operations are listed in Figure 1.

FIGURE 1 SOURCES OF PRIMARY TRANSIT OPERATIONS FUNDS

Source	Share of Total Transit Funding (Federal, State, and Local)[1]	Local Transit Operations Funding Examples
Fares	25%	All
Dedicated sales tax	16% (primarily local)	Seattle (King County Metro and Sound Transit), Chicago (RTA), Denver (RTD), San Francisco (Muni), Los Angeles (Metro)
General revenues	18% (primarily local)	San Francisco (Muni)
Dedicated fuel tax	14% (federal)	U.S.: Primarily federal Canada: Vancouver, B.C., Montreal, Toronto
Other sources	28%	Property tax: Minneapolis (Metro Transit), Vancouver, B.C. (Translink) Payroll tax: Portland, OR (TriMet), New York (MTA)

Source: [1] Share of total transit funding in 2000 based on analysis for TRB Special Report 235, The Fuel Tax and Alternatives for Transportation Funding, 2006.

FIGURE 2 ALLOCATION OF EXISTING SEATTLE TRANSIT REVENUES



Competition for local funds. Funds generated from current sources are already allocated to existing or planned services, as illustrated in Figure 2, making new local financing sources a critical means of enhancing or establishing new service in Seattle. The following list identifies current transit funding programs in the Seattle region:

- King County's 10-Year Transit Now program (0.1% sales tax) funds identified capital and operating improvements to "core" service as well as RapidRide.
- The City of Seattle's 9-year Bridging the Gap program (property tax, commercial parking tax, and an employee hours tax) funds transportation capital improvements, including transit speed and reliability projects. (Note: The City Council repealed the employee hours tax as of January 1, 2010, noting administrative complexities in collecting the tax and that the commercial parking tax generated more revenue than anticipated.[1])
- Sound Transit's ST2 program (0.5% sales tax increase to 0.9% total) funds capital projects including Link light rail, the First Hill streetcar and operation of commuter rail, light rail, and express bus service. Sound Transit funding also includes a motor vehicle excise tax and car rental tax.

1 Seattle Ordinance 123150; http://www.seattle.gov/rca/taxes/EmployeeHoursTax.htm

As in other regions (for example, Denver's FasTracks pf San Francisco's Measure K), voters in Seattle have demonstrated a willingness to support funding packages (listed above) for specific transportation improvements that have broad community support.

Stable and diversified funding base. Sales taxes are volatile and particularly prone to fluctuations based on economic conditions. Additional funding sources that capitalize on or capture the value of transit can create new, reliable streams of revenue.

Support competitiveness of transit. Speed and reliability improvements that increase transit efficiency (such as by transit priority features or traffic signal timing) or that make transit relatively less expensive compared to other modes can help Seattle achieve multiple goals.

WHO IS DOING IT?

Regional Transit Agency Contributions

Revenues from general transit revenue stream

To the extent a new transit service (e.g., light rail) overlays or replaces existing or planned future services, some portion of the operating cost can be transferred from the bus service that it replaces.

- Portland (OR) Streetcar: The regional transit agency for the Portland region, TriMet, is funded through a payroll tax; Oregon does not have a sales tax. TriMet contributes about two-thirds (58% in 2010) of streetcar operating funding net of fares (i.e., offset by fare revenue). This is approximately equivalent to the cost of bus service that would be required to serve new development along the streetcar alignment. Fares, sponsorships and advertising contribute about 9%. Fare revenue is low because much of the line operates in the downtown fareless rail zone, however the city is evaluating fare policy for its eastside streetcar extension, scheduled to open in late 2011.
- Seattle South Lake Union Streetcar: In 2010, King County Metro assumed responsibility for 75% of operating costs, offset (by fare revenue, which covers 37% of costs). [2] The city will then cover remaining costs, offset by sponsorship revenue and federal operating grants.

City General Fund

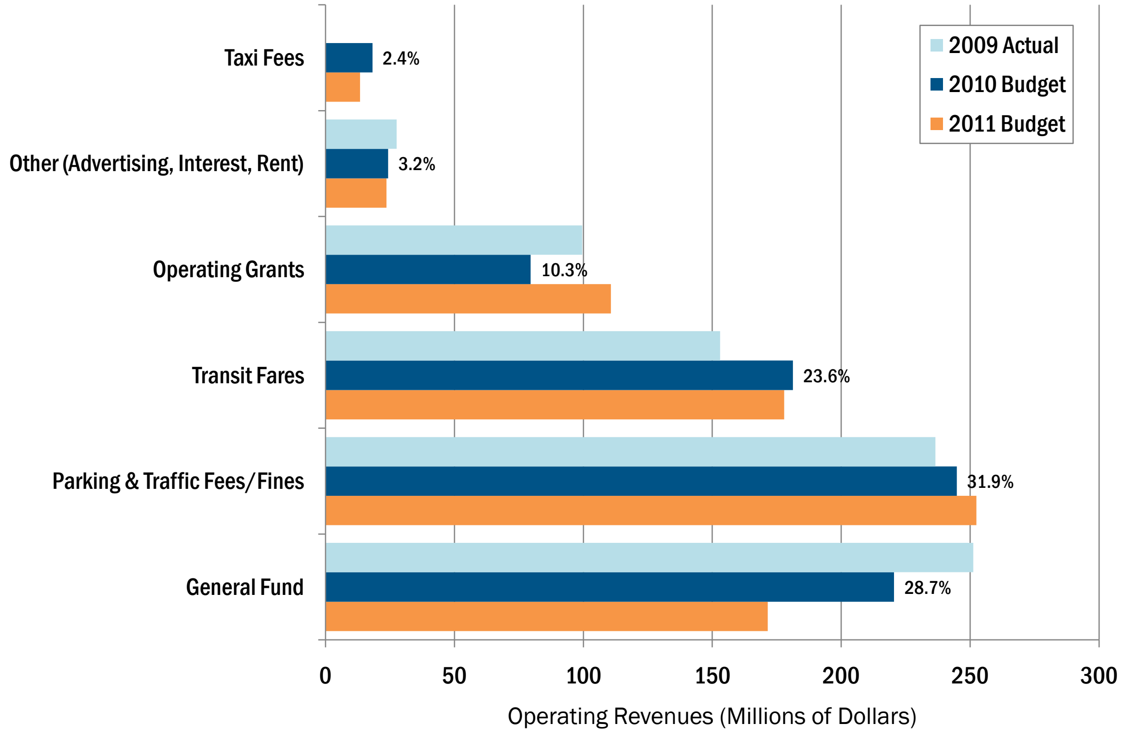
Funding from city general fund and general transportation revenues

General funds are important funding sources in cities that operate their own transit systems (such as San Francisco and Ottawa). General transportation revenues are also important in cities that are part of regional transportation districts but operate transportation services such as local streetcars or bus circulators (i.e., Washington D.C., and Portland).

- In San Francisco, where the Municipal Transportation Agency (MTA) is responsible for transit, parking, and traffic operations, the city's general fund will supply nearly 29% of operating revenue in 2010 (see Figure 3). Transportation-related fees and fines are replacing general funds in both absolute and percentage terms, including a new taxi fee. Part of the decline in general funds in 2011 is due to one-time general funds allocation to replace cuts in state operating assistance, which will be partially restored in 2011.

General transportation funding sources can include those listed in Figure 1 and sources such as parking revenues and impact fees as described below.

FIGURE 3 SAN FRANCISCO MTA OPERATING REVENUES 2009 - 2011



Source: SFMTA 2011-2010 Proposed Budget Book, April 2010

2 Seattle 2010 Proposed Budget; Draft Memorandum of Understanding, South Lake Union Streetcar Financing, http://www.cityofseattle.net/transportation/docs/slu18FINAL%20Financing%20Appendix%20C.pdf.

New parking meters installed under the SFpark program will include inceased time limits and pricing that adapts to demand.
Source: SFMTA

Parking Meter Revenues

Allocation of existing and new local revenues

Parking meter revenues help fund transit in a numbers of cities:

- San Francisco dedicates 80% of the total parking tax revenues collected by the City to support transit, the result of a 2007 ballot measure – doubling the previous 40% share allocated to transit. As shown in Figure 3, parking and traffic fees and fines comprise nearly 32% of the MTA operating budget. An increased share of parking revenues is expected to come from parking fees rather than fines under SFpark, a federally-funded pilot program that the city is implementing to test market-based pricing of the city's parking supply. Although the goal of the program is not to raise money, it may increase revenue due to increased prices, extended time limits, and flexibility of credit card payments.
- In Portland (OR), the City uses parking revenue to fund streetcar operations, which is run by the regional transit provider, TriMet. (See detailed case study.)
- In Washington, D.C., the Downtown Business Improvement District is advocating raising parking fees in peak periods and extending metering to Saturdays in parts of the city, using the revenues as a general source for new and improved transit service.[3]
- In Boulder, CO, parking revenues fund the ECOPass program that provides downtown employees and many residents with free transit passes. These revenues help to support a robust local bus system, which is run by the regional transit district (RTD), but carries special local branding and is designed for local circulation.

3 Downtown DC Business Improvement District, Getting From Here to There, http://www.downtowndc.org/_files/docs/leadershiptransportation.pdf

Portland (OR) Streetcar

Parking Revenue

Revenue from parking meters installed in the districts served by the streetcar, including the Pearl and South Waterfront Districts, is used to fund about a third of the streetcar's operating cost ($1.8 million budgeted for 2010). This use of revenue is justified by the streetcar's role in providing central city circulation and in helping open these areas for development, thereby generating parking meter revenue. City policy conditioned an additional $300,000 in annual operating support to a 9% increase in streetcar ridership within two years of the streetcar's extension to the South Waterfront.[1] The city's Transportation System Plan states that parking meter districts should "encourage the use of alternatives to the use of the automobile, and provide a funding source for transportation projects within the districts."

1 http://www.portlandonline.com/auditor/index.cfm?a=94581&c=38633.

Operating Endowment

One-time revenues (such as from land sales) or regular revenues steams (such as from the sale of naming rights or leases) can be used to create a fund that contributes to transit operating costs.

- Tampa (FL) created an endowment fund using proceeds from 10-year sponsorships for the TECO Line Streetcar, named after TECO Energy, which owned the historic streetcars in Tampa and purchased the naming rights for $1 million. Streetcar naming rights were sold for $250,000 and stop naming rights were sold for $100,000. Purchasers are eligible for a 50% state tax credit. Investment earnings and/or drawdown on the principal are used for operations. Tampa plans to renew the sponsorships after 10 years to replenish the endowment.
- Seattle established a South Lake Union Streetcar Operating Fund, to consist of both public and private sources. The city loaned initial operating funds which will be repaid from sponsorship revenue over time.
- King County's Transit Now program created a funding pool for matching financial contributions (or traffic improvements that improve speed and reliability) from private entities and cities. Over an 18-month period starting in September 2008, 14,000 service hours funded by partners leveraged 27,000 hours paid for with Transit Now funds. [4]

Sponsorships, Naming Rights, and Advertising

A number of streetcar and bus circulators have expanded upon traditional transit advertising revenues by allowing sponsorship of different elements of the system. While advertising is a traditional funding source for regional transit agencies, they have not made as extensive use of sponsorships and more innovative private funding opportunities as city-owned streetcar or circulator systems.

- Tampa's TECO Line Streetcar sells advertising (vehicles, farecards, and stations) and leases vehicles for private functions, in addition to sponsorships and naming rights (described above). However, in 2009 advertising and leasing (not including naming rights and sponsorships, used to fund its endowment) accounted for about 2.5% of total revenues. As part of an effort to increase advertising revenues, Tampa is considering a proposal to display messages and/or locations on flat-panel displays as the streetcar approaches an advertiser's location.
- Portland Streetcar (OR) solicits annual sponsorships at a rate of $25,000 per car, $6000 per stop, or $9000 for two stops, including audible announcements. Restaurants within 2 to 4 blocks of the route can also sponsor a listing in a brochure and streetcar map for $600 per year.
- Seattle South Lake Union Streetcar sponsorship revenues were about $500,000 annually in 2008 and 2009, although they are projected at $350,000 in 2010. Sponsors' names are featured at stops or on individual streetcars.

4 http://your.kingcounty.gov/kcdot/transitnow/partnerships.stm

Joint Development and Sale of Land or Development Rights

Joint development (in conjunction with transit facilities), land sales, or sale of development rights above transit maintenance bases are often used as part of the capital funding for transit projects. Encouraging development along a transit line helps increase ridership and fare revenue, but leases or sale proceeds could also be used to develop a revenue stream for transit operations in conjunction with an operating fund or endowment.

Cities including Los Angeles, Chicago, Tampa, and Seattle have used development rights associated with transportation maintenance facilities as mechanisms to fund transit projects. For example:

- In Tampa, a 10,000 square foot site at the TECO Line's southern terminus is reserved for future joint development. The Ybor City Station maintenance base (photo) was also built with future joint development in mind, including the second floor and a companion structure including a streetcar museum, offices, and retail.
- In Seattle, the maintenance base for the South Lake Union streetcar is on an about 32,000 square foot site with 9,000 square feet of usable space in the maintenance facility building, including 2,000 square feet of space located on a second level. An analysis conducted for the City of Seattle analyzed development potential for both commercial and residential development and concluded that selling residential development rights would have the highest yield, between $2.7 to $3.4 million.[5] The city plans to sell air rights and surplus property at the facility once the real estate market recovers.

Buildout of the second floor of the Tampa Streetcar maintenance facility is envisioned as a joint development opportunity.
Source: RailwayPreservation.com

5 South Lake Union Capitol Financing and Operating and Maintenance Plan, April 2005.

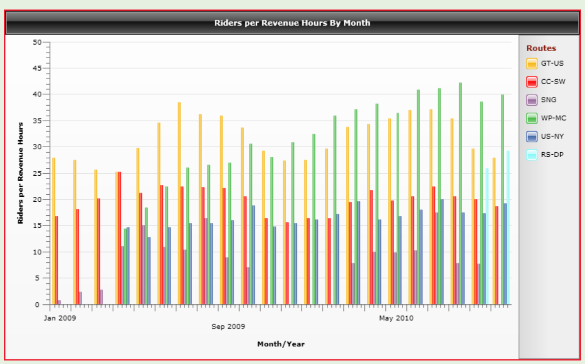
Washington, D.C. Circulator

City Transportation General Fund

The Washington, D.C. Circulator is a downtown circulator service owned by the Washington D.C. Department of Transportation (DDOT) in partnership with the regional Washington Metropolitan Area Transit Authority (WMATA), and operated by a private contractor. The circulator is funded through DDOT's general fund, consisting of revenues from a tax on parking, utility right-of-way fees, public space rental, parking meters, bus shelter advertising, and other sources.

The service uses "branded" buses and is designed to connect activity centers, filling gaps in other transit services. The initial system had two routes running east-west and north-south, contrasting with regional bus and Metro rail services that run radially from the city center to suburbs, but has since expanded to seven routes. Buses run every 10 minutes, including on weekends, with a fare of $1 per ride or $3 for a day pass. Unlike some other circulator services, it operates with limited stops.

Source: D.C. Circulator



Ridership has increased over time, with the most productive line carrying over 40 riders per hour of revenue service (range of 18 to 40 riders per hour in October 2010)

Source: http://circulatordashboard.dc.gov

Impact Fees

San Francisco's Transit Impact Development Fee (TIDF) and market-based parking pricing initiative (SFpark) are described in detail in the Transit Impact Fees and Transit First Policy best practices section.

San Francisco's Transit Impact Development Fee (TIDF) assesses a fee on all non-residential development in the city, recognizing transit's role and added value in serving development.[6] The fee is two-tiered currently $9.07 or $11.34 per square foot (indexed for inflation), based on the level of transit demand attributable to each of the six land use categories defined in the ordinance. The TIDF generates a modest amount of revenue to fund transit service improvements—slightly over $2 million collected in 2008 and nearly $120 million in fees and earned interest between 1981 and 2008.

Assessment Districts

An assessment district levies a fee on property owners benefiting from a transportation improvement. This is an additional operations funding source for Tampa's TECO Line Streetcar, however, use of such a Local Improvement District (LID) is not allowed for funding operations in Washington State. Transportation Benefit Districts (TBDs) are another type of assessment district, allowed in Washington State under a 2007 law.[7] In 2010, Seattle created a TBD and imposed a $20 vehicle registration fee, the maximum allowed without voter approval under the state law[8] A vehicle registration fee of up to $100 or other funding sources are permitted with voter approval.

Motor Fuel Taxes

Although all states have gas taxes and a number of states have local option gas taxes, 30 states prohibit their use for transit. An analysis of options for generating $1 million in local transit funding in Portland (OR) found that a gas tax had the least distorting economic effects (sales taxes were moderate).[9] A constraint affecting gas taxes is that they decline in value over time due to inflation (unless indexed for inflation, since gas tax increases are typically politically difficult) and due to increasing vehicle fuel efficiency. The limited examples of local fuel taxes used for transit include:[10]

6 http://www.municode.com/content/4201/14131/HTML/ch038.html

7 http://www.dol.wa.gov/vehicleregistration/localfees.html

8 http://www.seattle.gov/stbd/

9 James G. Strathman and Kenneth J. Dueker, Regional Economic Impacts of Local Transit Financing Alternatives, Transportation Research Record No. 1116, 1987

10 James G. Strathman and Kenneth J. Dueker, Regional Economic Impacts of Local Transit Financing Alternatives, Transportation Research Record No. 1116, 1987

- In Florida, local governments are authorized to enact a local option gas tax. Miami-Dade County has enacted such a tax.
- In both Montreal and Toronto, a portion of the provincial gas tax (1.5 cents per liter) is dedicated to transit.
- In Vancouver, B.C., Translink funding includes an 11.5 cent per liter fuel tax.

Congestion Pricing and Toll Revenue

As described in the Congestion Pricing best practices section, market-based road pricing can contribute to transit operating cost and has two primary benefits for transit operations:

- Pricing revenues can be used to fund increased levels of transit service.
- Alleviating congestion reduces transit travel times and operating cost, increasing the buying power of existing operating revenues.

These benefits have been demonstrated internationally (e.g. London) but have not yet been applied on a wide-scale in the U.S. The Seattle Variable Tolling Study[11] identified variable tolling as a potential transit revenue source.

Toll revenues have been used to fund transit operations in other states. There are restrictions for facilities receiving federal funding and in some cases their use is limited to the facility on which they were collected. The Washington State Legislature must authorize tolls and state law icludes a similar restriction[12]. Examples of more general use of toll revenues for operations include:

- In the San Francisco Bay Area, 18% of toll revenues on seven state-owned bridges is set aside for transit. This includes 5% of a 1988 toll increase targeted for transit operations and capital projects to relieve congestion. (However, since 2000 the state has funded this set-aside while making bridge improvements that are receiving federal funding.[13]) An additional toll increase in 2004 also funds regional transit operations. Tolls on the Golden Gate Bridge comprised 46% of operating revenues for the Golden Gate Transit District in the 2010 fiscal year. The district operates bus service over the bridge and ferry service between Marin County and San Francisco.
- In San Diego (CA), state law requires use of net toll revenue on the I-15 HOT Lanes (about $1.2 million or nearly 60%) to support transit in the corridor.[14]
- In New York, bridge and tunnel revenues contribute to Metropolitan Transportation Agency (MTA) transit programs.

11 http://www.cityofseattle.net/transportation/docs/FINAL%20Tolling%20Study%20report%20revised%206.25.10.pdf

12 http://apps.leg.wa.gov/rcw/default.aspx?cite=47.56.820

Other Private Sources

Bulk Sale of Passes. Bulk sales of streetcar-only passes yield about $3000 annually for the South Lake Union Streetcar.

Providing Contracted Service. To the extent that transit can alleviate the need for employer-provided transit service, required under commute trip reduction ordinances in the Seattle area, employers may be willing contribute toward operating costs. In San Francisco, which operates its own transit system, some private employers have even expressed interest in consolidating employer-provided shuttles using a city-provided service.[15]

13 Bay Area Toll Authority, http://bata.mtc.ca.gov/funded.htm

14 TCRP Report 129, Local and Regional Funding Mechanisms for Public Transportation, 2009.

15 Strategic Analysis Report, The Role of Shuttle Services in San Francisco's Transportation System, June 2010.

Emissions Credits

Los Angeles Metro generates Mobile Source Emissions Credits through the South Coast Air Quality Management District (SCAQMD) when it operates alternative fuel buses with engines cleaner than state requirements. These credits can be traded known as RECLAIM and sold in the district's emissions trading market.

Facility Leasing. Leasing portions of physical facilities to private operators is a revenue source for a number of large agencies. Boston and St. Louis offer examples of leasing telecommunications access rights (typically for fiber-optic cable) along rights of way; this can include free or reduced-cost use for the transit agency.

Federal

Federal funding is primarily for capital projects in urban areas. However several federal funding programs have some potential application for operations funding.

FTA 5307/5309. Seattle receives money from these programs for maintenance for the Monorail. These funds are allocated by the Puget Sound Regional Council (PSRC) using a formula based on the percentage of transit trips served.[16] A small share (less than 10%) of Seattle Streetcar operating revenues are derived from federal grants for preventative maintenance.

CMAQ (Congestion Mitigation and Air Quality). Funds under this program are limited to three years of operating support.

16 South Lake Union Capitol Financing and Operating and Maintenance Plan, April 2005.