Capital Funding and Finance

PORTLAND AND SAN FRANCISCO

WHAT IS IT?

Capital funding and finance is an important consideration in planning for the development of new transit services, especially those that have higher initial start-up costs such as light rail (LRT), streetcar, and Bus Rapid Transit (BRT) systems. Capital costs refer to those expenses associated with implementing service, including initial start-up costs for right-of-way (ROW) improvements, vehicle procurement, stop/station design and development, and construction of storage and maintenance facilities.

In general, streetcar and light rail trade higher capital costs for increased vehicle capacity and lower operating costs per passenger when compared to bus operations. BRT invests in ROW exclusivity and transit priority treatments in return for more reliable service. LRT and BRT can incur significant costs to fully develop station facilities while streetcar stations tend to cost less, in line with a high-amenity bus stop. Rail modes require unique maintenance facilities, necessitating additional land acquisition and construction costs.

WHY DO IT?

Transit agencies around the U.S. are increasingly focused on developing high-capacity, fixed-guideway transit lines to reduce per passenger operating costs over time and to promote walkable mixed use development in transit nodes and corridors. Federal Transit Administration (FTA) grant programs have historically funded major portions of local bus, BRT and LRT capital projects. In recent years, FTA has also supported streetcar capital costs—projects which previously had been funded primarily with local revenues and bonding. Recent adjustments to the FTA Small Starts evaluation criteria relax the emphasis on travel time benefits, opening the door for urban streetcar circulators to be more competitive. Common local funding for streetcar capital projects includes the use of Local Improvement Districts (LIDs) and/or Tax Increment Financing (TIF) to capture the anticipated benefits to adjacent property owners.

Muni used local funds to jumpstart its Third Street Light Rail Project.
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CAPITAL FUNDING SOURCES

As U.S. cities plan major transit capital investments such as streetcars, BRT or urban light rail projects, they are faced with a decision to pursue the lengthy federal funding process or use local funds to streamline planning and construction. Many successful projects have elected not to pursue federal funding and have used only local and state funds to build streetcar alignments. It is estimated that seeking FTA Small Starts adds as many as five years to the process required to move from preliminary design to revenue service. A local/state process could take from four to seven years, while an FTA process is likely to take 10 or more.

Federal Funding

Federal Transit Administration grants, including the folowing, are a primary source of transit capital investments.

- **Section 5307 Urbanized Area Grant Program:** Formula funding based on population density and provision of transit services
- **Section 5309 Bus, Bus Facility and New/ Small Starts Program:** Competitive grant program for large projects and vehicle procurements, often involving Congressional earmarks

The Small Starts Program was established in the last federal transportation spending bill – the Safe, Accountable, Flexible, Efficient, Transportation Equity Act–A Legacy of Users (SAFTEA-LU) for requests of less than $75 million in federal funding with a total project cost under $250 million. This new category was established to foster the development of less capital-intensive transit systems, such as BRT and streetcar systems. However, recent rulemaking to define the Small Starts application review process has been perceived as biased against streetcars as standards for cost effectiveness outweigh economic development and other benefits. This program is an expansion of the FTA New Starts Program, which is the capital funding program for major transit corridor infrastructure. The FTA funding process can be lengthy, taking seven to well over 10 years from initiation of an alternatives analysis to execution of a full funding agreement. Local match requirements are 20% of the project total cost, but in recent years the FTA has been pushing recipients to pay closer to a 50% local match.

REGIONAL TAX MEASURES

Regional tax measures are a potential source of funding for large-scale transit projects and for regions planning to expand transit infrastructure relatively quickly. Recent examples of major regional tax measures include:

- **FasTracks (Denver, Colorado):** The Denver-Aurora and Boulder metropolitan area is funding its 12-year, $6.5 billion public transportation expansion plan with a combination of federal appropriations, private contributions, and a region-wide sales tax increase. Denver area voters approved the sales tax increase in November 2004. The plan calls for six light rail and commuter lines to be opened between 2013 and 2016. It also includes the expansion of existing light rail stations, the addition of a bus-based rapid transit route, and the expansion of bus routes and parking facilities at rail facilities.
- **Sound Transit 2 (Puget Sound):** Snohomish, King, and Pierce county voters passed a measure increasing the regional general sales tax in July 2008. The measure is intended to raise $17.8 billion over 15 years to pay for a variety of transit improvements, including light rail, streetcar, and commuter rail expansion as well as additional service on commuter rail and express buses (see Overview of Existing Transit Services section for more information).
- **Measure R (Los Angeles):** In November 2008, Measure R was approved by Los Angeles County voters by a two-thirds majority. It approved raising county sales taxes by one-half cent over a 30-year period to fund $40 billion in transportation projects and improvements. This includes a variety of transit projects, such as rail and bus rapid transit lines and improvements on Metrolink commuter rail. L.A.'s Mayor Villaraigosa proposes leveraging the half-cent sales tax with federal guarantees and loans secured by future tax revenues. Those guarantees and loans would allow the Metropolitan Transportation Authority to build 12 major projects specified in the measure in just 10 years rather than the projected 30.

Measure R will raise sales tax in Los Angeles County to pay for a variety of transit projects, including improving Metrolink commuter rail service.

Image from Flickr user SP8254

Housing and Urban Development Funds

While not a traditional source of support for transportation projects, funds from the U.S. Department of Housing and Urban Development (HUD) have been used to support planning and design work on transit projects. HUD earmark funds require a local match.

Local Funding Sources

Many recent capital projects in the United States have relied largely, if not solely on local funding for construction and operation. In a number of cities around the country, avoiding complex requirements associated with federally funded construction projects has allowed for more cost effective and rapid construction and implementation of service. For this reason, many projects, such as Seattle's Bridging the Gap, have funneled federal earmarks to planning and design work rather than construction.

Local Improvement Districts (LIDs)

A local improvement district is a geographic area in which real property is taxed to defray all or part of the costs of a public improvement. The distinctive feature of a special assessment is that its costs are apportioned according to the estimated benefit that will accrue to each property. In Washington, local improvement districts are governed by Chapter 35.43 of the Revised Code of Washington (RCW). It is within the local jurisdiction's discretion to determine the benefits and benefit area of a project financed by a local improvement district.

The basic principle of a local improvement district is that it creates an assessment charge for thosed property owners who receive special benefits from an improvement beyond the general benefits received by

LIDs have been a primary funding source for several recent successful streetcar projects in the Northwest, including the Portland Streetcar and the South Lake Union Streetcar in Seattle.

Image from Flickr user Seattle Municipal Archives

all citizens of the community. In the case of streetcar this assessment would be tied to a unique transportation service and to the positive impact of streetcar on property values.

For example, the expansion of the Seattle streetcar network is anticipated to lead to positive changes in property values along the routes. Increased property valuation is expected from the enhancement of the local transportation network, connections with regional transit systems, improved neighborhood economics and livability, and increased property exposure and demand. These expected increases in property value can garner private sector support for the formation of a local improvement district or support the use of tax increment funding.

General Obligation Bonds (Property Tax Supported)

Bonds are a primary source of funds for constructing capital improvement projects. Voter-approved bonds are sold to fund street and other transportation projects. Transportation projects can be grouped in "bond packages," which go before the public for voter approval, or issued separately. General Obligation Bonds can be supported through the city's property tax base or through the transit district's tax base. Bonds can be backed with incremental increases in universally applied city taxes such as those on sales and property. However, it may be more politically acceptable to use a source that has a geographic or functional connection to the proposed alignment. Common sources include:

- Parking meters revenue
- Off-Street parking lots revenue

Page image from Flickr user The Courtyard

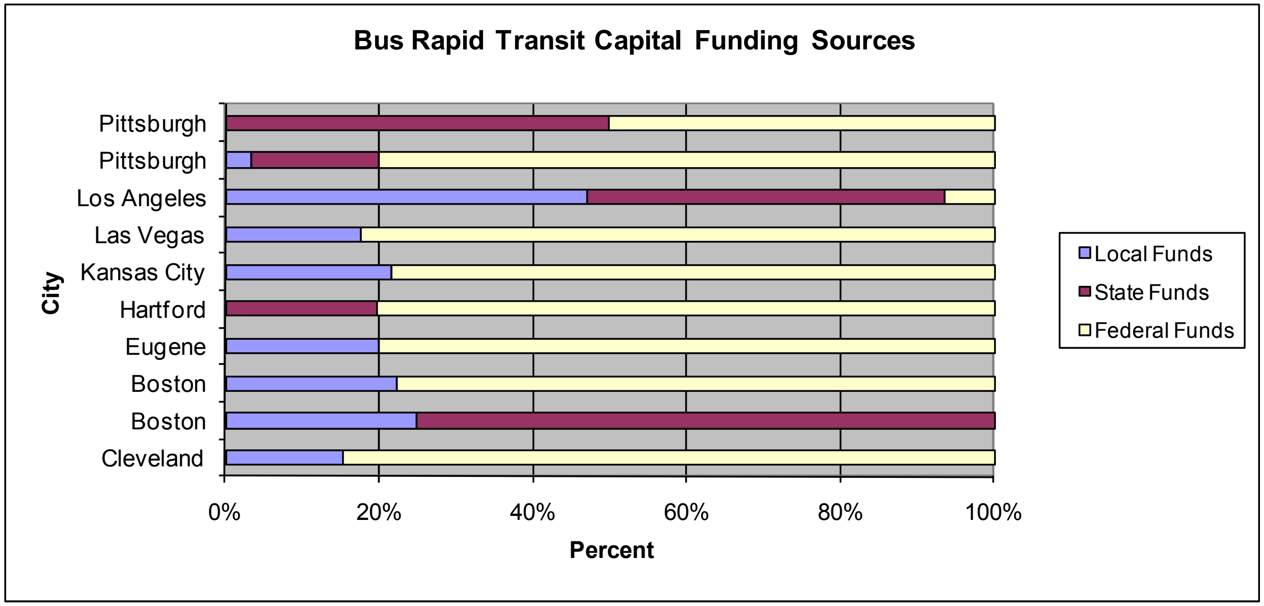
WHO'S DOING IT?

Capital funding varies substantially from state to state and even project to project. Whereas light rail and bus rapid transit projects generally use more traditional sources for capital financing, streetcar capital financing has more often been funded creatively using a variety of local funds.

Bus Rapid Transit

Bus rapid transit capital costs are typically split among local, state, and federal dollars. The percentages of each of these sources varies between projects, but federal funds often make up over 50% of capital costs. The graph on the right summarizes funding sources for various BRT projects.

Funding sources vary for BRT projects, but federal funds typically cover more than half of capital costs.
Image from Wikimedia commons, http://en.wikipedia.org/wiki/File:CAT_Irisbus_Civis.jpg

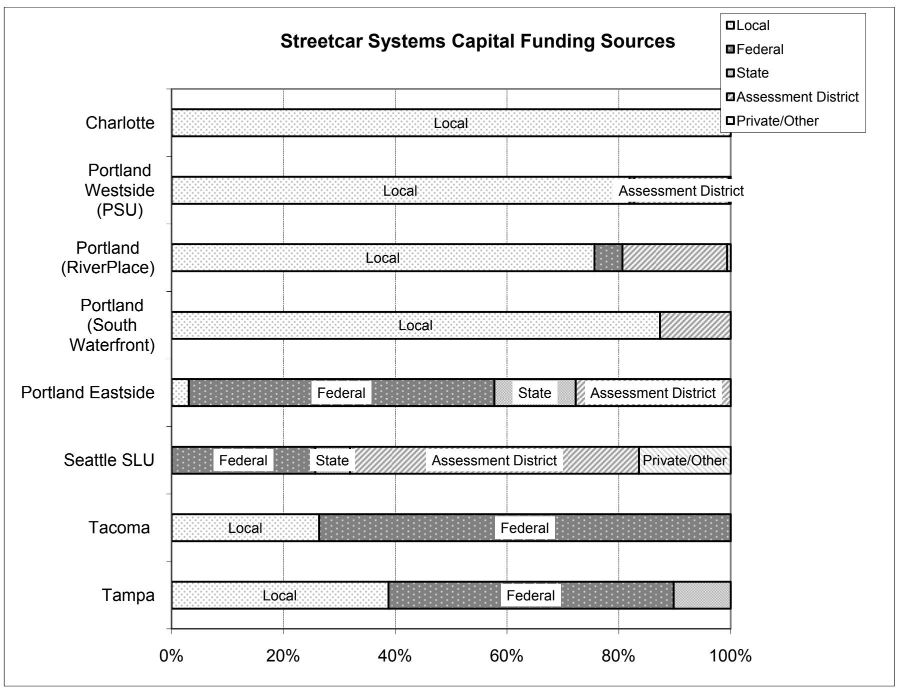


Streetcar Capital Funding

The following sections highlight innovative examples of capital funding in Portland, Oregon and San Francisco, California.

Portland Streetcar. Streetcar projects typically rely on a wide range of funding sources with strong variation even within different projects and phases in the same city. As mentioned, access to federal Small Starts funds are currently perceived as challenging for local circulator projects; however, "rapid streetcar" applications that utilize more aggressive right-of-way treatments will be strong candidates. Relying on local funding can avoid competition with other projects seeking federal funds or restrictions on their use. Key local sources of capital funds include local improvement districts (LIDs), tax increment financing (TIF), and parking revenue bonds.

Relative to the other modes, streetcar has the highest potential to attract funding from both the private and public sectors. The evolution of the Portland Streetcar provides an example of innovative local funding for streetcar development. Portland



Streetcar funding varies by city and project; Charlotte, Portland, Seattle, Tacoma, and Tampa have financed local streetcar projects using local funding sources.

Sources: Leland Consulting, Transit Agency Publications

CAPITAL FUNDING SOURCES FOR PORTLAND'S WESTSIDE AND EASTSIDE STREETCAR SYSTEM

	Westside Streetcar (in millions)	Eastside Loop (in millions)	Westside %	Eastside %
Local				
City Parking Bonds	28.6		27.7%	0.0%
Local Improvement District	19.4	15.5	18.8%	10.5%
Tax Increment Financing	21.5	27.68	20.8%	18.7%
City Funds-General Funds/Dept. Funds	5.5	6.11	5.3%	4.1%
Transportation Land Sale	3.1		3.0%	0.0%
Transportation Systems Development	2.5		2.4%	0.0%
Miscellaneous	5.6		5.4%	0.0%
Regional				
Regional Transportation Funds	10	3.62	9.7%	2.4%
State				
State Lottery Funds		20		13.5%
Federal				
Federal Transportation Funds	5	75	4.8%	50.6%
U.S. HUD Grant	1.95		1.9%	0.0%
Stimulus Funds		0.36	0.0%	0.2%
	103.15	148.27	100%	100%

Source: Portland Streetcar Inc.

Portland financed the construction of its Red Line MAX with a public-private partnership with Bechtel Enterprises.

Image from Flickr user Jason McHuff

relied on local funding sources in the three phases of its Westside Streetcar system and only applied for New Starts funding for the planned Eastside Streetcar loop.

The table below shows the capital funding sources for Portland's Westside (4.0 miles) and Eastside Streetcars (3.3 miles).

The Westside Streetcar utilized a variety of primarily local funding sources, including: city parking bonds (28%), tax increment financing (21%), and a LID (19%). Only about six percent of overall funding came from federal sources. The Eastside Streetcar, currently under construction, also used funds from an LID (10%), and tax increment financing (19%), but also took advantage of state lottery funds (14%) and federal transportation funds (50%).

Muni used local funds from the development of the Third Street light rail (Phase I) as the local match when applying for New Starts funding for Central Subway (Phase 2).

Image from Nelson\Nygaard

Light Rail Capital Funding

Light rail projects typically rely on a greater level of federal funding. The split between federal, state and local dollars varies between projects, but federal funds typically make up over 50% of capital costs. Many projects utilize FTA New Starts funding along with FTA 5307 regional formula funding, Surface Transportation Program (STP) flexible federal funding, and other federal sources.

Portland MAX Light Rail. The Portland Red Line MAX LRT offers an example of innovative financing for light rail construction. A light rail connection between downtown Portland and the airport had been part of regional transportation plans since the mid- 1980s but funding limitations kept the project from moving forward. In 1997, Bechtel Enterprises proposed a public-private partnership in which Bechtel, in return for development rights at LRT stations, would build the MAX extension along with three local government agencies—the Port of Portland, TriMet and the City of Portland. The private investment helped to extend light rail to the airport earlier than anticipated and resulted in the project not using any federal or state general fund dollars or additional local tax levies. The 5.5-mile extension opened in 2001, just four years after the initial proposal of the joint venture.

Third Street Light Rail Project. In San Francisco, Muni utilized local funds to jumpstart the development of the Third Street Light Rail Project, which connects the southeast sector of San Francisco to the rest of the city and regional transit connections. The project was divided into two phases. **Phase 1: Third Street light rail**, developed a surface line traveling north from King Street along Fourth Street, and **Phase 2: Central Subway**, will extend service using a new tunnel beginning near Bryant Street and continuing to Stockton and Clay Streets in Chinatown.

As Phase 2 involves the construction of a new subway tunnel, its budget is more than double the cost of Phase 1. Using local funding for Phase 1 allowed Muni to begin constructing the Third Street light rail more quickly and bypass the lengthy New Starts application process for this phase. This approach allowed Muni to demonstrate its commitment to the project as well as the project's viability. When it did apply for New Starts funding for Phase 2, the agency was able to use the local funds spent in Phase 1 for the local match requirement.

Most of the local funds used in Phase I came from Proposition B and K, local sales tax initiatives that raised money for transit, and regional bridge tolls. Federal funding sources included Section 5307 (Urbanized Area Formula Program), 5309 (Capital Program), and Surface Transportation funds. State funding came primarily from the Transportation Congestion Relief Program and State Transit Assistance funds.

FUNDING FOR THIRD STREET LIGHT RAIL PROJECT (MILLIONS)

	T-Third (Phase 1)	% of Total	Central Subway (Phase 2)	% of Total
Federal	$123.4	19%	$948.4	60%
State	$160.7	25%	$342.0	22%
Local	$364.3	56%	$287.9	18%
Total	$648.4		$1,578.3	