

## Chapter 6

# Potential Financial Resources

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The crux of any issue regarding the provision of public service is the matter of funding. Provision of a sustainable, permanent funding source has proven to be the single greatest determinant in the success or failure of transit service.

Experience with transit systems outside of large urban areas underscores the critical importance of a secure source or sources of local funding if the long-term viability of transit service is to be assured. Transit services dependent on annual appropriations and informal agreements suffer in the following manners:

- ▶ Passengers are not sure from one year to the next if service will be provided. As a result, potential passengers may opt to purchase a first or second car, rather than rely on the continued availability of transit service.
- ▶ Transit drivers are also not sure of having a long-term position. As a result, a transit system may suffer from high turnover, low morale, and a resulting high accident rate.
- ▶ The lack of a dependable source of financial support inhibits investment in both vehicles and facilities. Public agencies are less likely to enter into cooperative agreements if the long-term survival of the transit organization is in doubt.

To provide high-quality transit service and to become a well-established part of the community, a dependable source of funding is essential. Factors which must be carefully considered in evaluating financial alternatives include the following:

- ▶ It must be equitable – the costs of transit service to various segments of the population must correspond with the benefits they accrue.
- ▶ Collection of tax funds must be efficient.
- ▶ It must be sustainable – the ability to confidently forecast future revenues is vital in making correct decisions regarding capital investments such as vehicles and facilities.
- ▶ It must be acceptable to the public.

A wide number of potential transit funding sources are available, particularly within California. The following discussion provides an overview of these programs. This discussion will be developed in greater detail as analysis of operating and capital alternatives yield estimates of total future funding requirements.

### FEDERAL TRANSIT FUNDING SOURCES

Over the last few years, the Federal government has substantially increased transit funding levels for small urban and rural areas. In addition, changes in program requirements have provided increased flexibility in the use of federal funds.

#### FTA Section 5307 Urbanized Area Formula Program

A mainstay of transit funding for smaller cities across the country is the FTA's Section 5307 Urbanized Area Formula Program. These funds are provided to urbanized areas (as identified by the Census Bureau) with a population of 50,000 or more, and are for use throughout the

urbanized area. Following designation of El Dorado Hills as part of the Sacramento urbanized area, EDCTA will be eligible for FTA Section 5307 funds beginning in FTA Fiscal Year 2004 for services in El Dorado Hills. In FTA Fiscal Year 2001-02 (October 1, 2001 through September 30, 2002), a total of \$3,207,052,091 was available nationwide, of which \$518,704,526 was apportioned to California. EDCTA is currently working with SACOG to determine what FTA Section 5307 funds will be available for the area.

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

These grants are split into three categories: New Starts, Fixed Guideway Modernization, 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. If urbanized, a duly authorized recipient of FTA funds has to first program all of its Section 5307 funds before Section 5309 funds can be expended. In FTA Fiscal Year 2001-02, \$613,751,658 was available nationally for bus and bus facilities projects. These funds are extremely competitive, and all funds have been earmarked directly by Congress over the past several years. EDCTA has been allocated \$1,000,000 through this funding program for commuter buses.

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

FTA funds are also potentially available through the Section 5310 Elderly and Persons with Disabilities Program (largely vehicles), which is administered by Caltrans. Until recently, recipients of Section 5310 funding were restricted to non-profit organizations; with passage of the Intermodal Surface Transportation Efficiency Act (ISTEA) and subsequent Transportation Equity Act of the 21<sup>st</sup> Century (TEA-21), however, local governmental jurisdictions are also eligible for funding. FTA Fiscal Year 2001-02 apportionments totaled \$84,930,249 nationwide, of which \$8,077,729 was available in California. On an ongoing basis, EDCTA has been awarded 5310 funds for fixed-route and dial-a-ride vans.

### **FTA Section 5311 Nonurbanized Area Formula Program**

Federal transit funding for rural areas, such as El Dorado County, is currently provided through the FTA Section 5311 Nonurbanized Area Formula Program. A 20 percent local match is required for capital programs and a 50 percent match for operating expenditures. These funds, administered by Caltrans, are segmented into “apportioned” and “discretionary” programs. The bulk of the funds is apportioned directly to rural counties based upon population levels. The remaining funds are distributed by Caltrans on a discretionary basis, and are typically used for capital purposes. FTA Section 5311 funds budgeted for EDCTA operations in Fiscal Year 2001-02 totaled \$139,419. Nationwide, Section 5311 funds totaled \$27,911,737 in FTA Fiscal Year 2001-02 (\$10,428,595 in California).

### **FTA Section 5313(b) State Planning and Research Program**

The FTA also provides a total of approximately \$10,800,000 annually in funds to the state Departments of Transportation for use in statewide planning projects and planning support in nonurbanized area, as well as other research and demonstration projects. These funds are allocated to the states by population (with a minimum of 0.5 percent allocated to any one state), and require a 20 percent local match. This funding source is commonly used to fund transit plan studies.

### **Congestion Mitigation/Air Quality (CMAQ) ISTEA Funding**

A strong new source of funding for many transit services across the country has been provided by the Congestion Mitigation/Air Quality (CMAQ) program, authorized through ISTEA. This funding is available to metropolitan areas that are not in compliance with federal air quality

standards regarding ozone or carbon monoxide. As El Dorado County is not in attainment for these standards, CMAQ funding is available for local services.

## **STATE TRANSIT FUNDING SOURCES**

### **Transportation Development Act Local Transportation Funding (LTF)**

A mainstay of funding for transit programs in California is provided by the Transportation Development Act (TDA). The major portion of TDA funds are provided through the Local Transportation Fund (LTF). These funds are generated by a 1/4 cent statewide sales tax, returned to the county of origin. The returned funds must be spent for the following purposes:

- ▶ Two percent must be provided for bicycle facilities (barring certain findings).
- ▶ The remaining funds must be spent for transit and paratransit purposes, unless a finding is made by the Transportation Commission 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.

TDA-LTF funds allocated to the EDCTA program in Fiscal Year 2001-02 totaled \$849,650, which represents 25.3 percent of total LTF available to the EDCTC region.

## **STATE TRANSIT ASSISTANCE (STA) FUNDS**

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 1/4 cent sales tax used for LTF. Any remaining funds (or “spillover”) are available to the counties for local transportation purposes. Fiscal Year 2001-02 STA funding allocated to the EDCTA was approximately \$503,143.

## **Local Transit Funding Sources**

### **AB 2766 Vehicle Air Pollution Fees**

California Assembly Bill 2766 allows local air quality management districts to level a \$2 to \$4 per year 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 local transit capital and operating programs. EDCTA has never used these funds in the past.

### **Sales Tax**

A sales tax election could be held with funds to go to transit service. Sales tax is the financial base for many transit services in the 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 which may seek to gain financial support through sales tax.

## **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 voter’s 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.

## **CRC Student Activity Fee for the Bus Service**

A strategy successfully applied at transit agencies serving California college campuses to generate additional revenues is to levy a student activity fee for transit services. For instance, students at nearby California State University Sacramento, University of California at Davis, and California State University Chico pay a nominal semester activity fee of \$8.00, \$24.95, and \$41.00, respectively, in order to ride fare-free on the respective local public transit system. Students at UC Davis and Chico State use their valid semester student identification card as a bus pass. A colored sticker validates a student’s identification card at Sacramento State, with the sticker color changing each semester. At Santa Barbara City College, the colored sticker system is also used on student identification cards, with a per semester activity fee of \$15.50. Employees are also encouraged to use public transit; Santa Barbara City College provides bus passes for all interested employees at \$28.00 per year. Representatives from all of these colleges indicated this program helped to reduce traffic congestion in their area and alleviated parking congestion at their campuses.

According to discussions with EDCTA operations staff, a relatively small proportion of CRC students use EDCTA services. As such, an activity fee for free access to EDCTA services may not be appropriate at this time, unless parking or other constraints on campus make EDCTA services relatively more attractive.

## **Increased Passenger Revenues**

One option to increase funding would be to increase the passenger fares. This option is perceived as being equitable, in that the direct beneficiaries of transit service are required to pay. In addition, fares can be very flexible – they can be reduced for portions of the population (such as the elderly and handicapped) who are least able to pay. When the available supply of transit service is exceeded by demand, fares can ration service so those who most need the service (and are thus most willing to pay) are provided with service.

The major disadvantage associated with a fare increase is reduction of the attractiveness and convenience of transit service. If fares were raised, it is likely ridership would drop, possibly increasing the overall subsidy required to run the system. This funding alternative, moreover, would affect those most in need of transit service: the low-income who cannot afford a car.

A discussion of potential transit funding sources must include a look at fares. As fares make transit funding more equitable (those who directly benefit from the service pay at least part of the costs), a fare system has the advantage of increasing the political acceptability of transit. This advantage, however, does not consider the substantial benefits provided to others in the community such as commercial property owners who do not ride the system. In addition, by reducing the attractiveness of transit service, a fare policy works at cross purposes to many of the stated goals for transit with regard to increase in mobility and reduction of traffic and parking demand. Nonetheless, fare increases and changes to the existing fare structure over the long-term should be considered appropriate – particularly in the long-term – to account for increasing costs of providing service.

## **Contract Revenues**

Transit systems also often generate income through revenues associated with contracted services. EDCTA currently contracts with M.O.R.E and other agencies to provide specialized transportation services. EDCTA should continue to evaluate requests for service as agencies in the region wish to expand access to their programs.

## **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 with the vehicles is comparatively low. However, EDCTA is provided with bus shelters at no capital or maintenance cost through an advertising agreement with Orion Communications.

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